AAAC Meeting Minutes for February 9, 2018

Present from the AAAC (8-10am): Hsiao Hsin Sung Hsieh, Lissa Patterson, Seth Quidachay-Swan, Cathy Sanok, Kentaro Toyama (chair/notetaker), Ellen Wixted (grad representative).

Present from Provost's office (8:30-9:30am): Provost Martin Philbert, Vice Provost Amy Dittmar, Special Counsel Christine Gerdes.

Absent: Ketra Armstrong, Terri Conley, Pamela Davis-Kean, Gaurav Desai, Kevin Jiang (undergrad representative), Enrico Landi, Chris Lu, Kimberly Kearfott, Kristin Klein, Semyon Meerkov, Neil Marsh (SACUA liaison), Scott Piper.

University Budget Overview. Vice Provost of Academic and Budgetary Affairs, Amy Dittmar, presented slides overviewing the university budget. This took about 30 minutes, including Q&A.

- **Overview of university mission:** education, research, and serving common good
- **FY2018 budgeted revenue: $8.4 billion total**
    - More than half is from health system (U-M hospitals, etc.)
    - Sponsored research, direct – ~$900 million
    - Gifts and endowment distribution – ~$400 million
    - Other auxiliary (athletics, and other parts of the budget that are handled separately): ~$370 million
    - General fund – $2 billion (24% of total) – these are the funds the administration has the most influence over
        - Tuition/fees: $1.5 billion
        - State appropriated funds: ~$300 million
        - Research indirect costs: ~$240 million
    - Other – ~$150 million
- **Spending,** out of general fund (These were not broken down in the slides by magnitude, but we have asked for more details.):
    - Strategic initiatives, e.g., DEI, Academic Innovation, HAIL, strategic faculty hiring, bridge funding for units, etc.
    - Central services & units, e.g., CFO, Government Relations, Registrar, Admissions, SACUA, Advance, International Center, CAPS, other student support.
    - Central financial aid
    - Libraries and museums
    - Contingencies
- **Budget model:** U-M has a hybrid between pure "Responsibility Centered Management (RCM)" and more centralized model: Units keep what they earn for the most part, and are "taxed" on expenditures. (Most state appropriations go straight to the general fund.)
    - Current tax rate is 21.4%, applied across the board. (This is a "flat" tax that was applied starting 2013; prior to that there were three models applied to different units.)
    - Model is intended to make good tradeoffs between – having units be accountable for their spending; encouraging units to be "entrepreneurial" in starting programs; offering flexibility; offering stability and predictability.
        - Office of Academic and Budget Affairs attempts to optimize for the university as a whole, while deans seek to optimize for their own units.

- **State appropriations:** Declining nationwide; Michigan is near the bottom on various metrics. Since at least the 1970s, the university has handled declining revenue from the state with increased total tuition and strategies for cost containment.
- **Financial aid:** Focuses on increasing access for students from families of lower socio-economic means and middle-class families (i.e., up to $90K in income); and ensuring high-quality student body.
    - **69% of in-state undergrads** receive some form of financial aid versus 49% of out-of-state students
    - **Various initiatives:** HAIL scholarships, "Go Blue Guarantee" for families <$65K household income
- **Competition:**
    - U-M is third across U.S. universities in the number of top-ten ranked graduate programs (only UC Berkeley and Stanford have more).
    - U-M has strong faculty, and good record of retention.
- **Miscellaneous issues:**
    - Some people wonder whether university should go private. The major revenue benefit would be that it releases constraints on in-state tuition. That benefit is counter-balanced by explicit tie to state, to state appropriations, and to public mission.

Research Indirect Costs. We used about a half hour for discussion of research indirect costs.

- Why are research grants taxed at all? How are these funds used by the provost's office?
    - Research indirect costs are taxed for the same reason tuition is: In an RCM model, the university administration would not be able to do its job without taxing these forms of revenue.
    - The funds are pooled into a centralized "general fund," and administered as noted above.
    - Indirect cost recovery (ICR) goes back to units – "The university fully attributes revenue from ICR to units."
- Why do we have a flat tax versus one that is negotiated by or customized for each unit?
    - It was never completely customized. Model prior to 2013 had three broad options.
    - The flat tax was instated during Provost Martha Pollack's time. It was meant to increase stability/predictability and reduce administrative complexity for everyone.
    - It was instated with explicit promises to research institutes that there would be a periodic review. Such a review is taking place right now.
- What not differential rates for gifts and foundation grants (which tend not to allow indirect costs above 10% or 15%)?
    - The provost's office has been aware from the beginning that research institutes face challenges and also that there are challenges with a single rate for foundations and grants. A review of the current system is underway.
    - One explicit attempt to address the issue for foundations is the "Bicentennial Foundation Research Incentive" program: $5 million has been allocated to UMOR to provide to units as a way to offset low indirect costs of foundation funding.
- Other issues?
    - The administration has made accommodations to address various burdens of the "ax":
        - The flat tax is applied with a two-year lag, so that units have time to adjust. (Generally good for units when revenue is growing.)

    - Units are asked to project revenues out 5 years both for their own and for the administration's planning purposes.
    - Research institutes' taxes are capped at 35% of the units unrestricted sources.

After the meeting, through an email exchange, Vice Provost Dittmar provided the following breakdown of how the general fund is spent:

- Strategic Initiatives: 30.7%
- Central Services & Units: 35.4%
- Central Financial Aid: 20.8%
- Libraries & Museums (includes Rackham): 7.3%
- Capital renewal: 4.4%
- Contingencies: 1.7%