



## Chapter 10 Finances & Fundraising

### Goals

The University budget is built to reflect the institution's commitments to academic excellence and affordability. Managing the budget so as to meet these dual goals is a complex endeavor. Cost containment is important, both to allow for reallocation of resources due to projected slow revenue growth as well as to fund new investments in financial aid, faculty, academic programs, research, diversity and emerging priorities. Fundraising activity – in support of current activities and to build the endowment – makes vital contributions to the University's budget.

### Narrative

The revenue mix is evolving, especially as the academic functions rely increasingly on tuition and research funding to replace declining revenues from state appropriations. For example, the FY2018 state appropriation is roughly equal to the FY1998 appropriation, and that does not take into account the decreased buying power of today's dollars compared to 20 years ago.

As state support has declined, the University has been forced to raise tuition to support operations and financial aid, as well as trying to increase research grants and fundraising.

As part of the FY2018 budget, the U-M created the "Go Blue Guarantee," which funds up to four years of tuition for in-state undergraduate students with a family income less than \$65,000. (Students from families with incomes more than \$65,000 also receive aid, if not always full tuition grants.)

In November 2013, the University officially launched the Victors for Michigan fundraising campaign with a goal of \$4 billion. Through April, 2017, more than 340,000 donors have made gifts and pledges totaling \$4.07 billion.

The University manages its endowment to meet donors' expectations that their gifts will provide support to the University in perpetuity. The objective is to maintain and enhance the value of endowment gifts and to secure their future purchasing power.

### For More Information

Go Blue Guarantee  
([goblueguarantee.umich.edu](http://goblueguarantee.umich.edu))

Cost Cutting & Budget Update  
([publicaffairs.vpcomm.umich.edu/key-issues/cost-cutting-budget-update/](http://publicaffairs.vpcomm.umich.edu/key-issues/cost-cutting-budget-update/))

U-M Endowment Q&A  
([publicaffairs.vpcomm.umich.edu/key-issues/university-of-michigan-endowment/](http://publicaffairs.vpcomm.umich.edu/key-issues/university-of-michigan-endowment/))

Leaders & Best ([leadersandbest.umich.edu](http://leadersandbest.umich.edu))  
(U-M Giving web home)

 *Chart updated since the September 2017 edition.*

### Charts in Chapter 10


10.1.1 Breakout of FY2018 General Fund Budget for the Ann Arbor campus.

10.1.2 General Fund Revenue and Expenditure Budget Summary for Ann Arbor Campus, FY2008-18.

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 10.4.1 State of Michigan Appropriations to the U-M Ann Arbor Campus per Student, Adjusted for Inflation, FY2008-18.

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 10.6.2 Market Value of Endowment, U-M and Peers, 2017.

## Two-thirds of the U-M's annual General Fund budget directly supports academic activities.

### 10.1.1 Breakout of FY2018 General Fund Budget for the Ann Arbor campus.



**67.6 cents of each dollar for academic activities:** Instruction, Academic Advising, Libraries, Museums.

**9.9 cents for administrative services:** Admissions, Budgeting and Accounting, Central Human Resources, Central Information Technology, Legal Services.

**11.3 cents for facilities and risk management:** Plant Operations, Utilities, Insurance, Public Safety.

**11.3 cents for centrally awarded financial aid.**

SOURCE: Office of Budget and Planning

Note: total may not sum to 100 percent due to rounding.

### 10.1.2 Revenue and Expenditure Budget Summary for Ann Arbor Campus, FY2008-18.

Revenue Budgets	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
State Appropriation	320,156	329,908	316,572	315,148	268,803	273,057	279,109	295,174	299,431	308,639	314,589
Tuition and Fees	840,566	894,487	948,461	1,015,952	1,090,340	1,156,647	1,217,808	1,277,842	1,308,819	1,395,166	1,490,041
Indirect Cost Recovery	164,710	171,569	180,191	212,467	218,291	211,616	219,303	213,874	215,799	226,543	239,050
Other Revenue	22,230	12,830	9,785	9,678	9,603	7,820	7,920	8,020	9,700	9,595	10,095
<b>Total Revenues</b>	<b>1,347,661</b>	<b>1,408,794</b>	<b>1,455,010</b>	<b>1,553,245</b>	<b>1,587,037</b>	<b>1,649,140</b>	<b>1,724,140</b>	<b>1,794,910</b>	<b>1,833,749</b>	<b>1,939,943</b>	<b>2,053,775</b>

Expenditure Budgets by Unit											
Schools and Colleges	779,497	812,445	821,383	890,861	910,684	959,038	994,968	1,018,185	1,037,508	1,092,817	1,166,701
University Academic Units	49,475	57,640	59,294	59,543	60,468	62,000	63,995	66,003	67,841	69,059	71,685
Research Units	4,305	4,116	3,158	4,314	4,969	4,943	4,779	3,326	3,719	4,114	2,913
Academic Program Support	49,233	58,328	70,592	81,860	62,991	63,548	69,073	79,912	78,215	98,783	97,319
Capital Renewal Fund	-	-	-	2,507	16,566	30,300	41,894	44,905	46,064	47,693	49,128
Executive Officer and Service Units	233,298	234,949	238,196	240,365	245,712	248,989	256,646	259,499	265,767	275,801	292,000
North Campus Research Complex	-	-	11,341	15,324	20,342	6,888	12,298	14,403	16,462	15,006	16,103
Financial Aid	99,058	106,594	117,790	126,056	134,255	144,768	161,170	183,444	195,627	212,295	231,436
University Items	132,795	134,723	133,254	132,416	131,050	128,665	119,318	125,232	122,545	124,376	126,490
<b>Total Expenditures</b>	<b>1,347,661</b>	<b>1,408,794</b>	<b>1,455,010</b>	<b>1,553,245</b>	<b>1,587,037</b>	<b>1,649,140</b>	<b>1,724,140</b>	<b>1,794,910</b>	<b>1,833,749</b>	<b>1,939,943</b>	<b>2,053,775</b>

Table entries are dollars in thousands.

SOURCE: University of Michigan Office of Budget and Planning.



**In addition to the General Fund, the U-M Ann Arbor operating budget projects revenues and expenditures for three additional funds: Designated, Expendable Restricted, and Auxiliary Activities.**

**10.1.3 Breakdown by Funds of Revenue and Expenditure Budget Summary for Ann Arbor Campus, FY2008-18.**

Revenue Budgets	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General	1,347,661	1,408,794	1,455,010	1,553,245	1,587,037	1,649,140	1,724,140	1,794,910	1,833,749	1,939,943	2,053,775
Designated	140,075	143,420	134,770	136,270	137,490	137,540	143,190	172,489	195,081	196,170	201,890
Expendable Restricted	879,590	898,481	969,709	1,053,733	1,110,109	1,094,334	1,097,197	1,054,926	1,157,947	1,204,451	4,891,134
Auxiliary Activities	2,415,498	2,617,270	2,646,668	2,838,824	2,932,963	3,198,411	3,406,856	3,593,864	3,867,754	4,132,188	1,269,565
<b>Total Revenues</b>	<b>4,782,824</b>	<b>5,067,965</b>	<b>5,206,156</b>	<b>5,582,073</b>	<b>5,767,599</b>	<b>6,079,425</b>	<b>6,371,383</b>	<b>6,616,189</b>	<b>7,054,531</b>	<b>7,472,752</b>	<b>8,416,364</b>

Expenditure Budgets	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General	1,347,661	1,408,794	1,455,010	1,553,245	1,587,037	1,649,140	1,724,140	1,794,910	1,833,749	1,939,943	2,053,775
Designated	140,075	143,420	134,770	136,270	137,490	137,540	143,190	172,489	195,081	196,170	201,890
Expendable Restricted	879,590	898,481	969,709	1,053,733	1,110,109	1,094,334	1,097,197	1,054,926	1,147,647	1,189,451	4,845,345
Auxiliary Activities	2,359,287	2,581,993	2,641,130	2,773,513	3,015,247	3,239,005	3,495,268	3,638,271	3,937,359	4,062,275	1,254,565
<b>Total Expenditures</b>	<b>4,726,614</b>	<b>5,032,687</b>	<b>5,200,618</b>	<b>5,516,761</b>	<b>5,849,883</b>	<b>6,120,019</b>	<b>6,459,795</b>	<b>6,660,596</b>	<b>7,113,836</b>	<b>7,387,839</b>	<b>8,355,576</b>

Table entries are dollars in thousands.

SOURCE: University of Michigan Office of Budget and Planning, Office of Financial Analysis.

The total budget of the University of Michigan Ann Arbor is allocated to a wide range of activities, including instruction, research, administration, health care, student financial aid, student housing and athletics, among others. The revenue and expenditure budgets are divided into four main funds, which track broad campus activity groups.

The General Fund is used for operating purposes to support instruction, research, and public service; academic and other student services; operation and maintenance of the university's physical plant; and university-funded financial aid. Revenues for the General Fund come from State of Michigan appropriations, student tuition and fees, indirect cost recovery tied to sponsored grants and contracts, and other income. (See Table 10.1.2 for a breakdown of General Fund revenues and expenditures.)

The Designated Fund is similar to the General Fund in that both support the academic mission of the university, although the Designated Fund revenue sources differ substantially from those for General Fund. The major sources of income in the Designated Fund are departmental revenue for continuing education (non-degree granting), conferences and seminars, royalty income, endowment

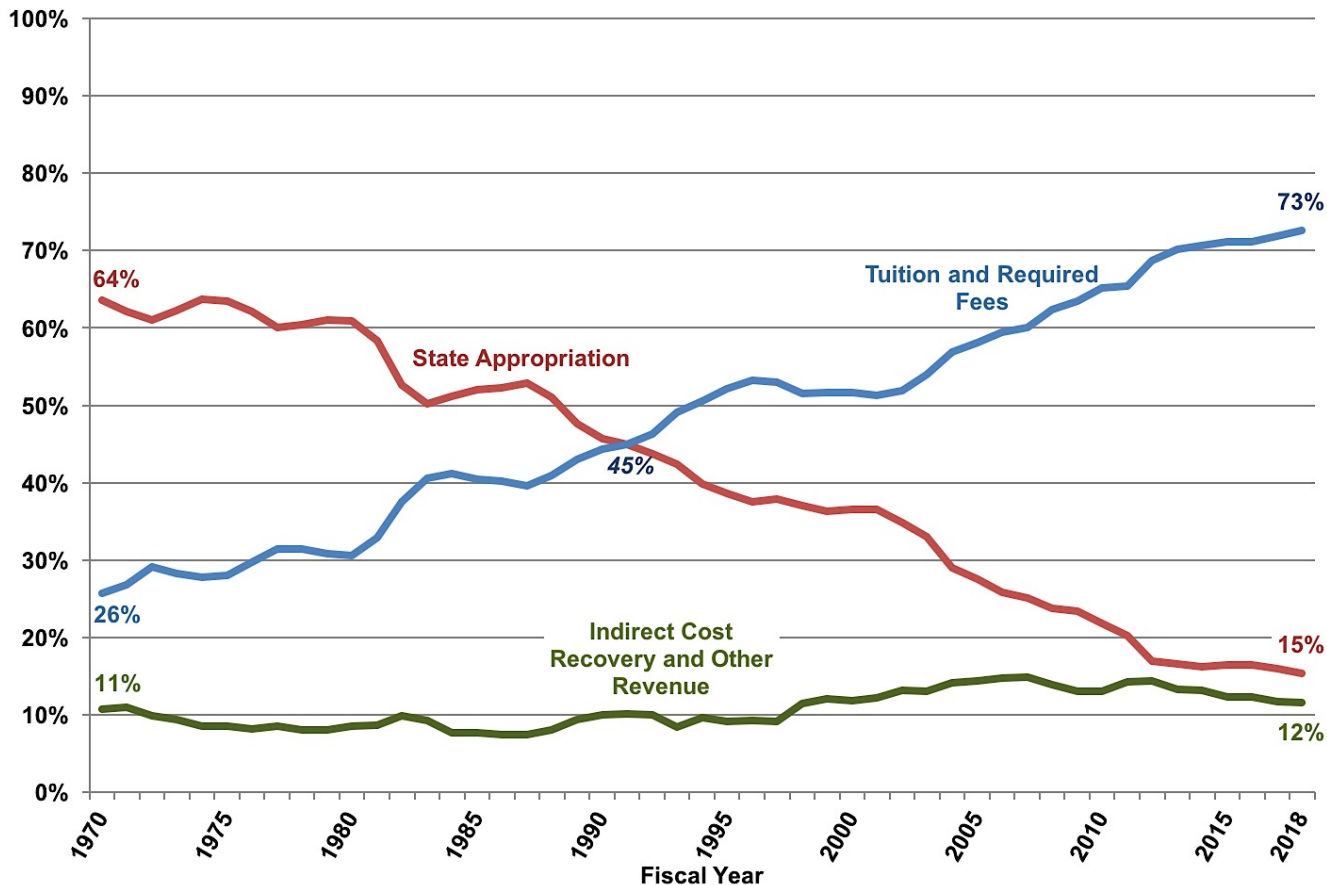
distribution from unrestricted endowments, publishing of teaching and research data, unrestricted gifts (President only), and investment income from the University Investment Pool for cash held in this fund.

The Expendable Restricted Fund includes spending for research and other sponsored activities, such as research, financial aid, instruction, etc., with the funds originating from the federal government, other governmental units, non-federal agencies, foundations and charitable organizations, gifts, and endowment distributions. These funds are restricted and may only be used for expenditures relating to the specific purposes as stated by the sponsor or donor.

The Auxiliary Activities Fund supports activities that charge customers for goods and services provided. Auxiliary units include the U-M Hospital and Health Centers, student housing, intercollegiate and varsity athletics, and parking.

The state appropriation's share of the General Fund has declined dramatically since 1970.

10.2 Relative Contributions to the University's General Fund by State Appropriations, Tuition and Fees, and Other Revenues<sup>1</sup>, FY1970-2018.



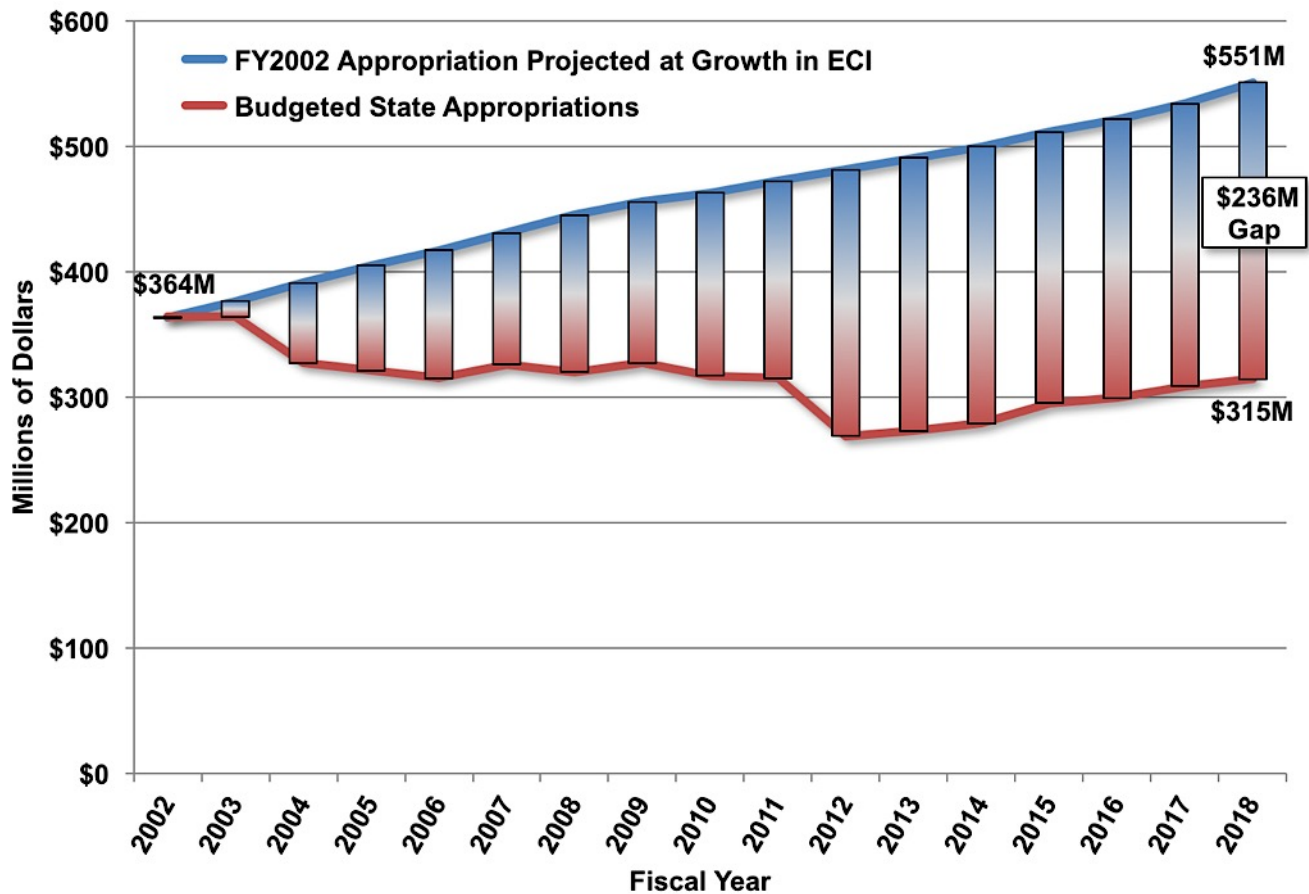
SOURCE: University of Michigan Financial Reports.

The state appropriation for FY2018 is \$314.6 million, and provides 15 percent of the General Fund revenues for the year. In FY1970, the state appropriation represented 64 percent of the Ann Arbor campus General Fund. By contrast, tuition and required fees for FY2018 are 73 percent of the General Fund; in FY1970, tuition was 26 percent of the General Fund. The crossover year was FY1991, when the State Appropriation and Tuition each provided 45 percent of the General Fund revenues.

<sup>1</sup> Prior to FY1969, indirect cost recovery was not included in the General Fund.

The gap between the purchasing power for the FY2002 state appropriation and the actual state appropriation has grown to \$236 million as of FY2018.

10.3 FY2002 State Appropriation Adjusted for Inflation and Projected Forward to Maintain Constant Value, Compared to Actual Annual State Appropriations, FY2002-18.



SOURCE: University of Michigan Financial Reports.

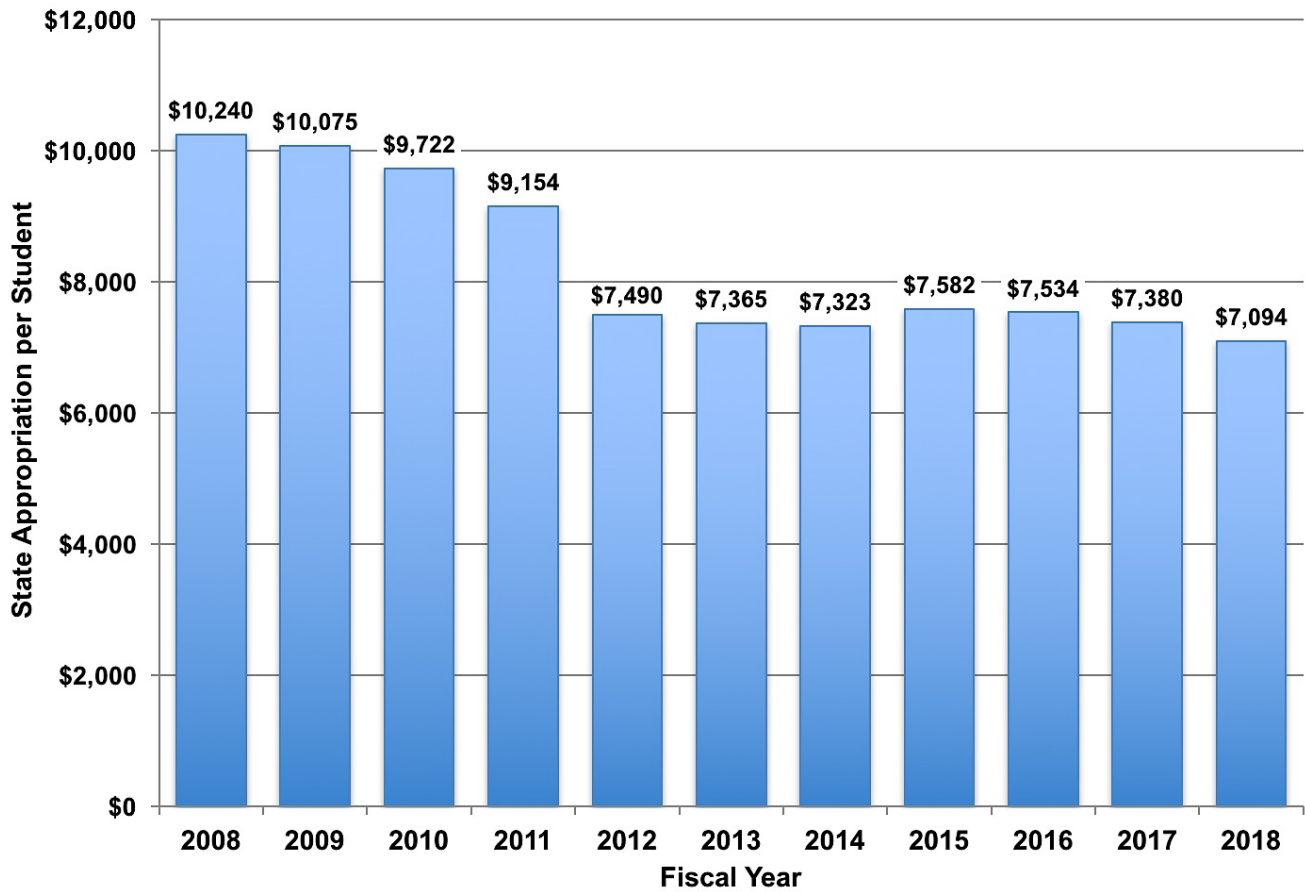
In actual dollars, the state appropriation for the Ann Arbor campus peaked at \$363.56 million in FY2002. Factoring in inflation<sup>2</sup>, the 2018 state appropriation for the Ann Arbor campus needed to be \$551 million to equal the 2002 appropriation’s purchasing power. The actual FY2017 state appropriation is \$314.6 million.

For historical context, the FY2018 state appropriation of \$314.6M is nearly equivalent to the actual FY1998 appropriation of \$314.5M.

<sup>2</sup> Based on the estimated Employer Cost Index for 2018.

State support per U-M enrolled student, when adjusted for inflation, is 31% lower than a decade ago.

★ 10.4.1 State of Michigan Appropriations to the U-M Ann Arbor Campus per Student, Adjusted for Inflation<sup>3</sup>, FY2008-18.



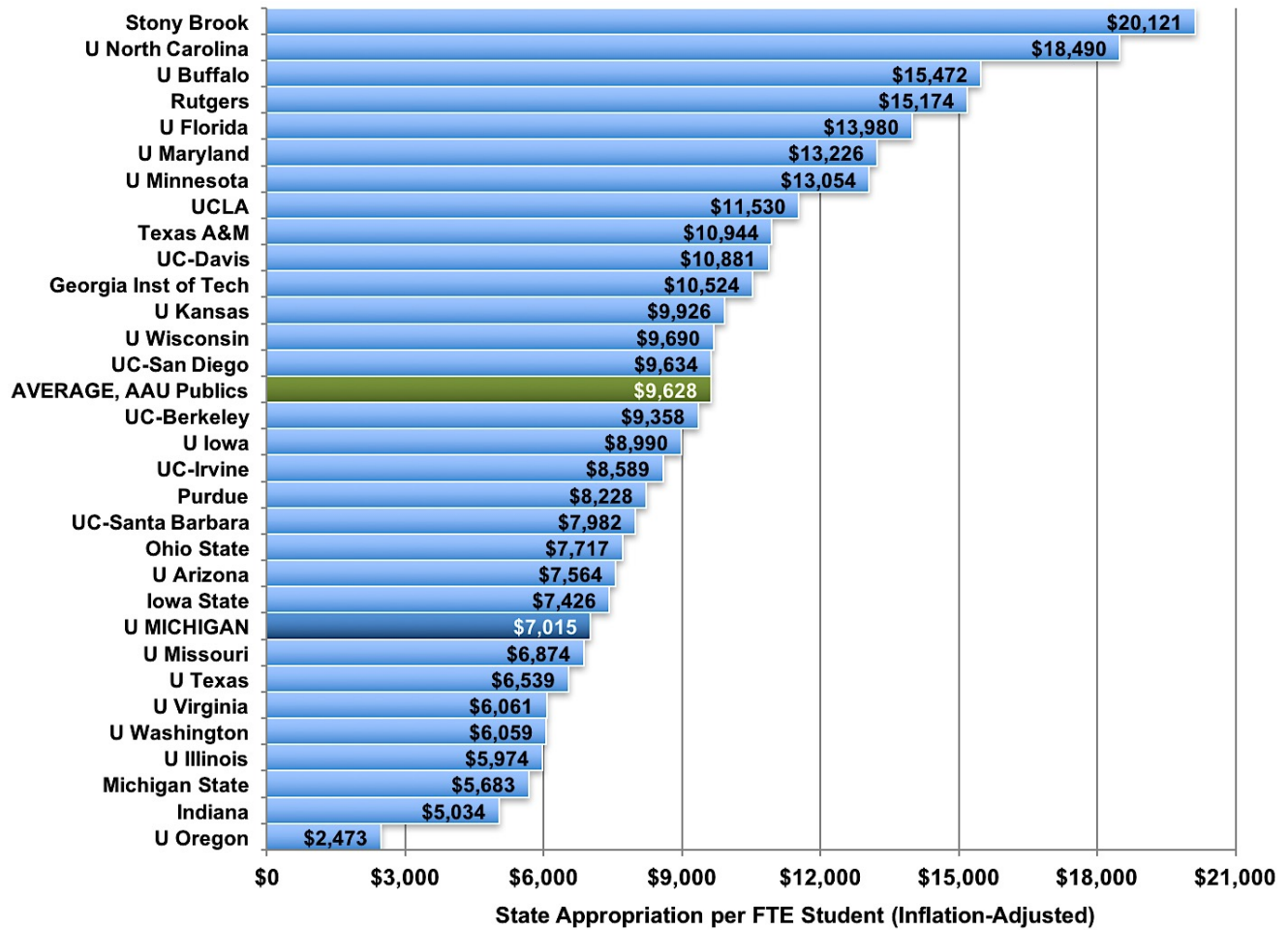
SOURCE: U-M Office of the Registrar, U-M Office of Budget and Planning.

This chart is based on the simple calculation of dividing the actual State of Michigan inflation-adjusted appropriation to the Ann Arbor campus by the official fall semester third-week enrollment count.

<sup>3</sup> Based on the estimated Detroit Consumer Price Index for FY2018.

Nearly three-quarters of AAU public universities receive more state support per student than the U-M.

10.4.2 State Appropriations per Full Time Equivalent Student to the U-M and AAU Public Institutions, based on Fall 2015 enrollment.



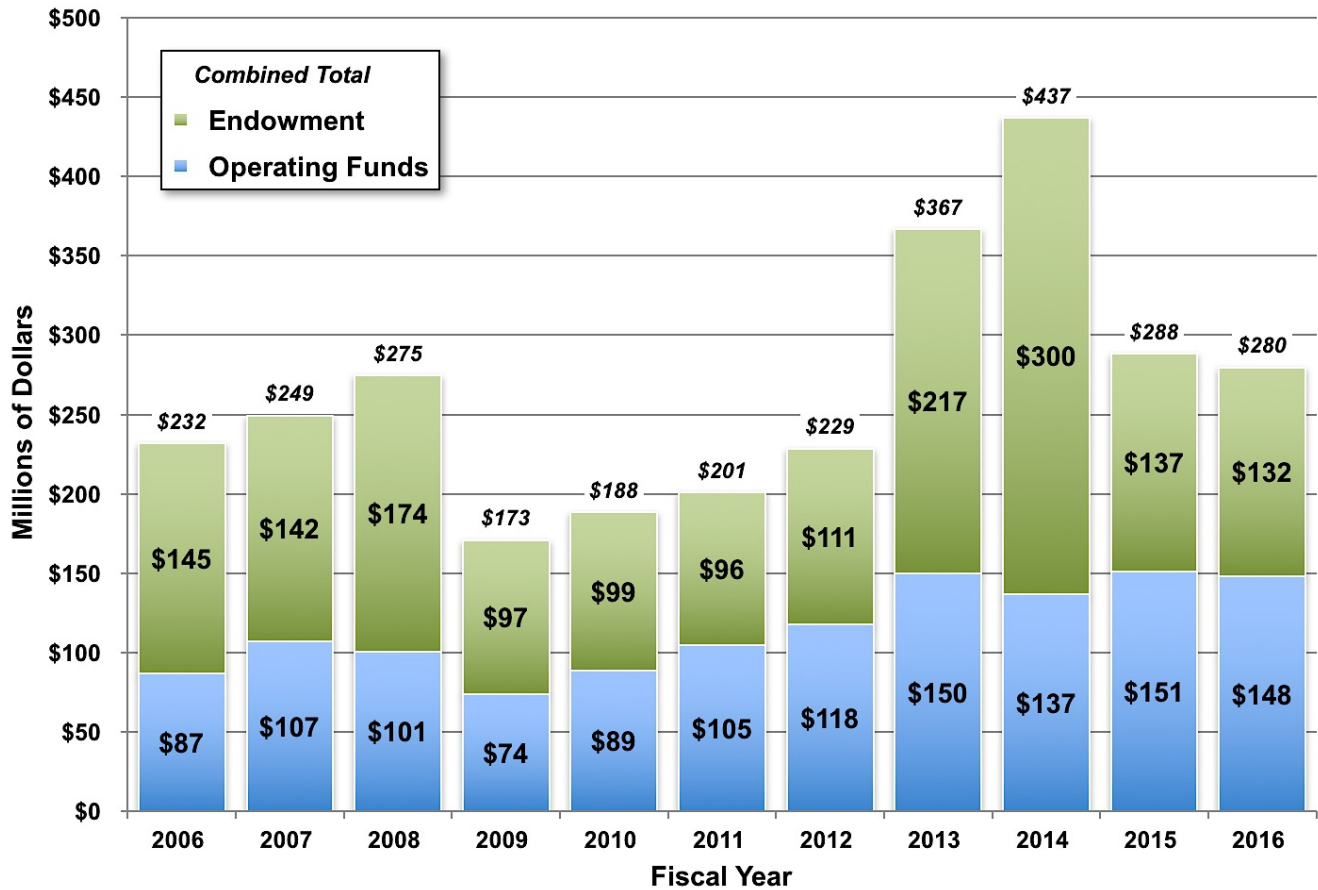
SOURCE: Integrated Postsecondary Education Data System (IPEDS), U.S. Department of Education.

The calculation of full time equivalent (FTE) students for each school uses IPEDS methodology of full-time headcount plus one-third of part-time headcount. Data on state appropriations for three AAU institutions – Pennsylvania State University, University of Colorado-Boulder and University of Pittsburgh – is not available for FY2015.



Gifts are an important source of revenue that supports many current and future academic activities and campus facilities.

10.5 Total Gifts to the University, by Gift Type, FY2006-16.



SOURCE: U-M Office of Development

A new major fundraising campaign, Victors for Michigan, was officially launched on November 7, 2013<sup>4</sup>. The campaign goal is \$4 billion, the largest goal in the history of public education. As of June 30, 2015, donors have made gifts and pledges totaling \$2.9 billion.

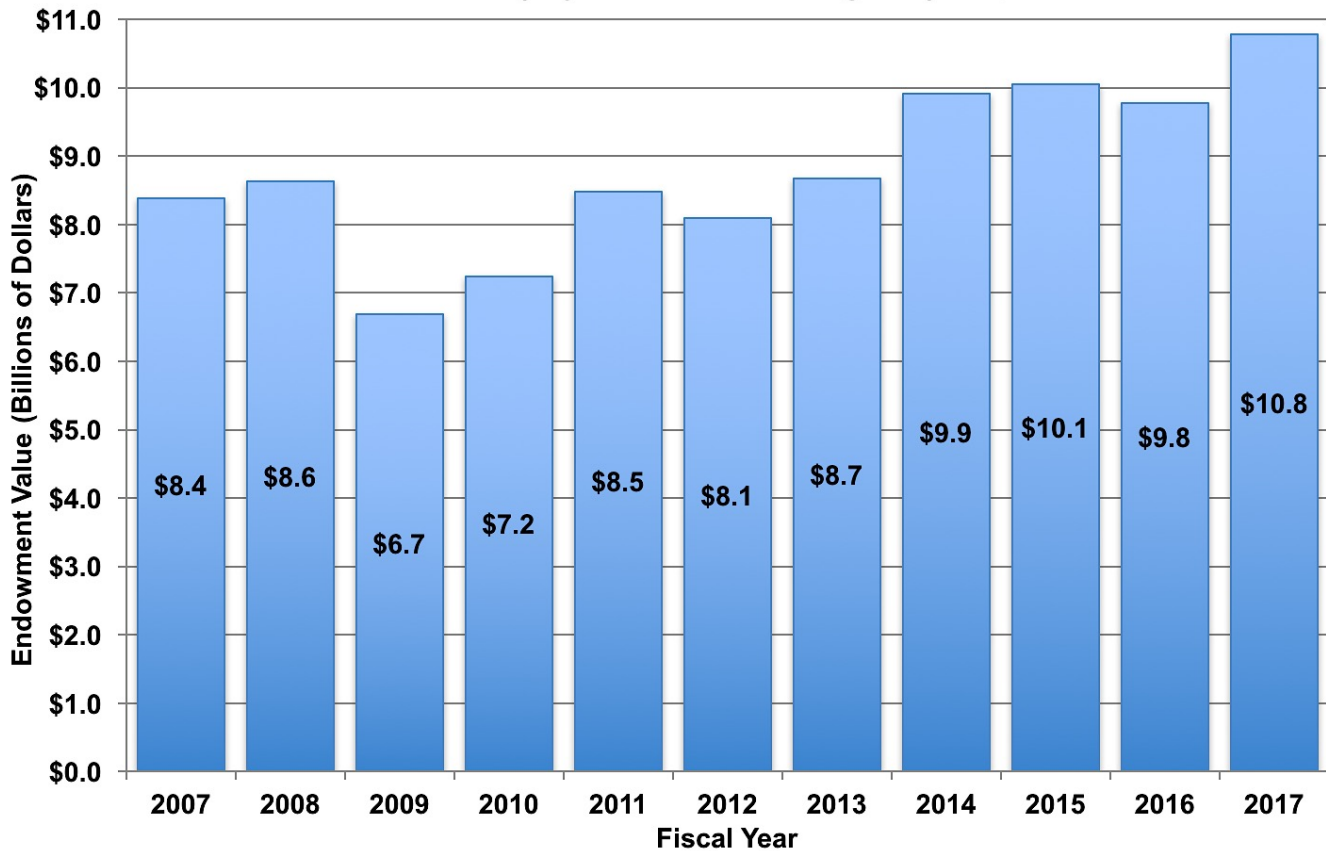
The University's previous capital campaign – The Michigan Difference<sup>5</sup> – raised \$3.1 billion in gifts and pledges from more than 364,000 donors between July 2000 and December 2008.

<sup>4</sup> “University launches Victors for Michigan campaign to raise \$4 billion,” *The University Record*, Nov. 7, 2013.

<sup>5</sup> “The Michigan Difference Campaign Celebration,” *The University Record*, Nov. 24, 2008.

The total value of the University of Michigan-Ann Arbor endowment has more than recovered from the losses experienced during the recession that started in 2008.

★ 10.6.1 Total Value of U-M Endowment, Ann Arbor Campus, Adjusted for Inflation<sup>6</sup>, 2007-17.



SOURCE: U-M Office of Financial Operations.

The University of Michigan’s endowment is essential to sustaining academic quality. Endowment funds are invested for the long-term, and earnings from those investments provide a guaranteed source of income to support in perpetuity professorships, student scholarships, innovative programs and learning opportunities. Donors who contribute to the endowment do so because they want to support the University and positively impact U-M students and academic programs now and in the future.

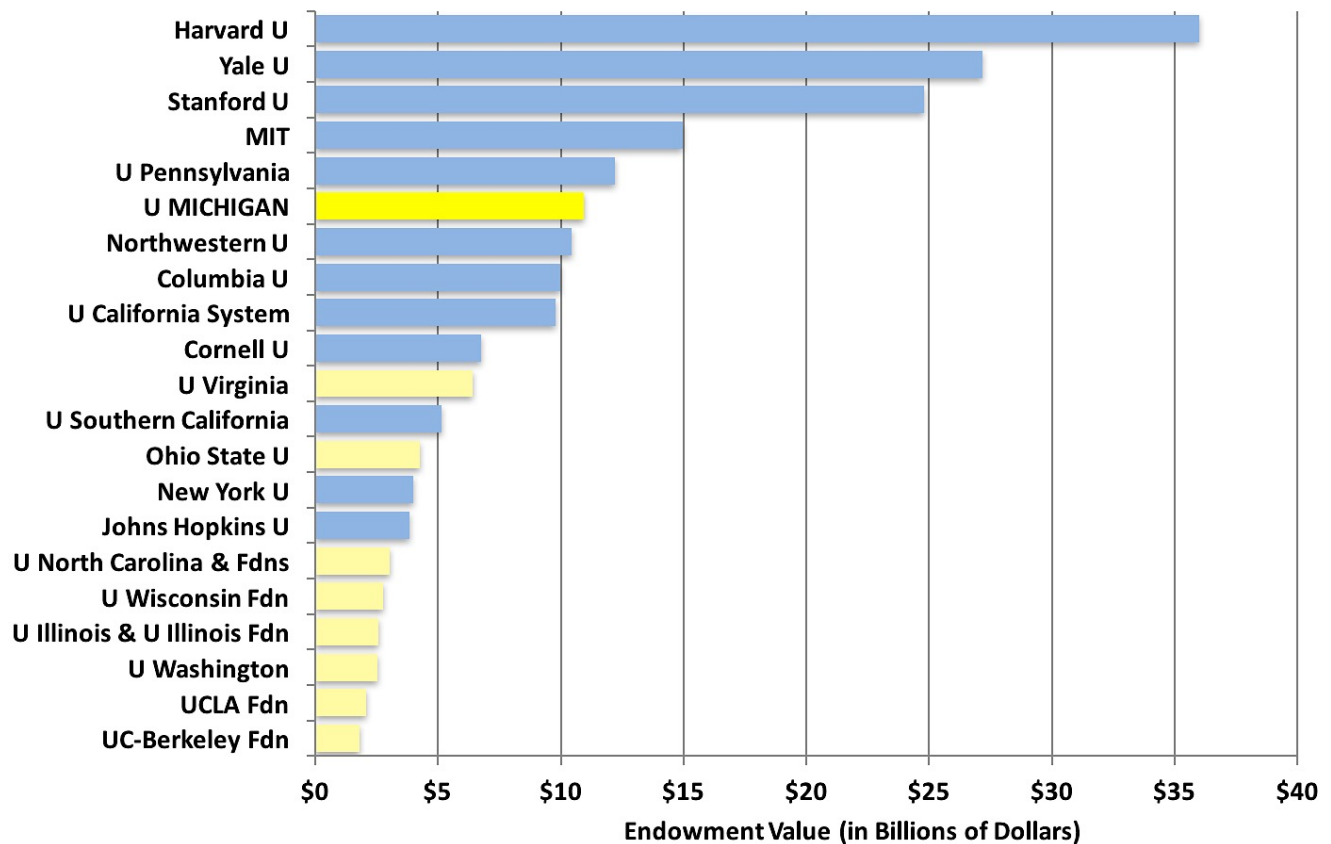
The decline in value for 2009 over 2008 corresponds to the sharp losses sustained by the stock and bond markets and recession that ensued, but the value has been reversed.

The value of the endowment funds shown in the chart is the value on June 30 of each year.

<sup>6</sup> Based on 2017 U.S. Consumer Price Index.

The U-M has the largest endowment among its public university peers.

10.6.2 Market Value<sup>7</sup> of Endowment, U-M and Peers, 2017.



SOURCE: 2017 NACUBO-Commonfund Study of Endowments.

The U-M endowment market value increased by 12.2 percent, to \$10.94B the end of FY2017 from \$9.74B at the end of FY2016. The value of North American college and university endowment funds increased an average of 12.2 percent during the 2016-17 budget year<sup>8</sup>, according to an annual survey of 818 institutions and higher education foundations by Commonfund and the National Association of College and University Business Officers (NACUBO).

Data for public universities are shaded in yellow; private university data are shaded in blue.

<sup>7</sup> The change in market value does NOT represent the rate of return for the institution’s investments. Rather, the change in the market value of an endowment from FY 2016 to FY 2017 reflects the net impact of withdrawals to fund institutional operations and capital expenses; the payment of endowment management and investment fees; additions from donor gifts and other contributions; and investment gains or losses. 2017 NACUBO-Commonfund Study of Endowments.

<sup>8</sup> “Endowments Rebound, but Is It Enough?” Inside Higher Ed., January 25, 2018.

