Overview of the University of Michigan General Fund Budget Model

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University of Arizona College of Medicine

UM-Ann Arbor General Fund Budget ($000)

<table>
<thead>
<tr>
<th></th>
<th>FY 2007 Budget</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State appropriation</td>
<td>325,796</td>
<td>25%</td>
</tr>
<tr>
<td>Tuition and Fees</td>
<td>777,367</td>
<td>60%</td>
</tr>
<tr>
<td>Indirect Cost Recovery</td>
<td>170,560</td>
<td>13%</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>21,325</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>1,295,048</td>
<td></td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schools and Colleges</td>
<td>742,762</td>
<td>57%</td>
</tr>
<tr>
<td>University Academic Units</td>
<td>47,715</td>
<td>4%</td>
</tr>
<tr>
<td>Research Units</td>
<td>4,684</td>
<td>0%</td>
</tr>
<tr>
<td>Academic Program Support</td>
<td>45,759</td>
<td>4%</td>
</tr>
<tr>
<td>Executive Officer and Service Units</td>
<td>228,417</td>
<td>18%</td>
</tr>
<tr>
<td>Financial Aid</td>
<td>90,120</td>
<td>7%</td>
</tr>
<tr>
<td>University Items</td>
<td>135,590</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>1,295,048</td>
<td></td>
</tr>
</tbody>
</table>
Components of School/College General Fund Budget Allocation

General Fund Supplement
- Support or decrement determined by the Provost

Activity-based revenues
- Tuition and registration fees
- Application fees
- Recovered indirect costs
- Interest paid on General Fund balances

Activity-based assessments and taxes
- OFA/Rackham financial aid
- Facilities costs
- General & Research taxes
- University Participation

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School/College Example

<table>
<thead>
<tr>
<th>Budgeted Projected Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Supplement</td>
</tr>
<tr>
<td>Tuition and Reg Fees</td>
</tr>
<tr>
<td>Application Fees</td>
</tr>
<tr>
<td>Recovered Indirect Costs</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>OFA/Rackham Financial Aid</td>
</tr>
<tr>
<td>Facilities Costs</td>
</tr>
<tr>
<td>General &amp; Research Taxes</td>
</tr>
<tr>
<td>University Participation</td>
</tr>
</tbody>
</table>

Net Funding $ 20,185,000

*Projected items are adjusted to actual after the close of the fiscal year
General Fund Supplement (GFS)

- Additional support provided to a unit beyond the net of the activity-based revenue and cost items
- When the activity-based model was implemented, the GFS was calculated as the residual needed to create the identical bottom line for a unit once all the revenue and cost items had been determined.
- GFS changes are based on deliberate additions or subtractions made by the Provost.

Tuition and Registration Fee Revenue

Goal is to attribute tuition and registration fee revenue to the schools and colleges in alignment with changes in their enrollment and instructional activity

Undergraduate
- Attributed 75% to the unit(s) of enrollment and 25% to the unit(s) of instruction
- Resident and Non-Resident tuition averaged such that all undergraduate units receive the university-wide residency mix, regardless of the unit's actual enrollment mix
- Differences in unit tuition rates are incorporated

Graduate
- Attributed 100% to the unit(s) of enrollment
Other Activity-Based Revenue Items

Application fee revenue is attributed to the unit to which a student applies.

Indirect cost recovery is attributed to the unit(s) where direct expenditures occur.

Imputed interest is calculated based on the unit’s monthly General Fund balance with the GF budget allocation adjusted to reflect the University’s flow of cash. The 90 day T-bill rate is the same as that paid on other operating fund balances.

OFA/Rackham Financial Aid Assessments

The costs of centrally awarded financial aid are attributed to units on the same basis as tuition.

The General Fund Rackham Aid budget is assessed at differing amounts for Rackham masters and doctoral students.
Facilities Costs

Facilities Costs are intended to:
- Provide financial incentives to optimize space utilization
- Benefit units with most efficient use of space
- Correspond to actual utilization of space

Plant Operations (Building Services, Routine Maintenance < $20K, Grounds & Landscaping, and Refuse/Recycling)
- Units are charged an amount per net assignable square footage
- The charge is building specific and based on average expenditures for the building at the time of the budget system implementation
- Assessments are incremented by the General Operating Program (if any) annually

Utilities (Natural Gas, Steam, Electricity, Water & Sewer)
- Units are charged for actual utility costs
- Buildings are separately metered so actual charges can generally be calculated for space occupied by a unit

Taxes

Taxes are intended to:
- Provide funding for key initiatives in activity-based units by re-allocation of resources among units
- Align support for non-activity based units with usage (expenditures are the proxy for measuring use)
- Foster predictability and simplicity to enable units to plan for annual changes in the assessments

Taxes are applied to an adjusted expenditure base
- Tax base is calculated with a two-year lag to enable planning
- Tax system provides incentives by excluding certain types of expenditures from the expenditure base

Different tax rates for different activities
- General Tax = 22%
- Research Tax = 9%
- Auxiliary-like activities = 2%
- University Participation (applied to all activities) = 2%
Year-end Adjustment

Several components of the Net Funding for activity-based units are based on projected amounts at the time the budgets are set.

These projected items are adjusted to actual at the close of the fiscal year:
- Tuition & Registration Fees
- Application Fees
- Indirect Cost Recovery
- General Fund Interest Income
- Central Financial Aid
- Utilities

Activity-based units receive a year-end adjustment report that shows the value of each of these items and then a transfer of funds is made either to or from the unit.

Non Activity-Based Unit budgets

- Budgets are developed through incremental budgeting
- Units typically receive a General Operating Program (GOP) increase -- usually less than the rate of wage growth
- Units also submit an annual budget narrative -- requests are evaluated and decisions made by the Provost in consultation with the President
GENERAL FUND BUDGET REVIEW:  
A STUDY OF PERCEPTIONS  

OCTOBER 2005  

COMMON THEMES
Financial Accountability

Positive:
Promotes better unit management and responsibility

Negative:
Impedes innovation due to the emphasis on financial returns

Communication and understanding

Positive:
Good Support from the Provost’s Office when needed

Negative:
Large variation in understanding
Model and system complexity

Positive:
Rational model

Negative:
Deemed too complex by some participants and difficult to master

Strategic Planning

Positive:
Encourages prioritizations and strategic allocation of resources

Negative:
Emphasizes short-term outlook and incremental changes in activities
General Fund Supplement/Base Structure

Positive:

Emphasizes incremental activities and thus, new initiatives

Negative:

Possible lack of connection between the base budget and the current cost structure

Transparency

Positive:

Understanding of own budget allocation

Negative:

Lack of transparency on the logic of own allocation and the overall university-wide allocation, lack of alignment of priorities
## Incentives

**Positive:**

Promotes independent operations, which develop the capacity to innovate and change

**Negative:**

Perverse incentives that encourage units to:

1. Develop self-serving behavior and avoid collaboration and inter-unit alignment, and
2. Retain or engage in less valuable activities or activities that are incompatible with mission/vision