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Update on university finances

To the University of Michigan Community,

The economic downturn that has gripped much of the world is taking its toll on universities as well, and many of our peer institutions are resorting to severe measures to cope with the crisis. U-M is also feeling the effects, and we are making some adjustments as outlined below, but at this point we don't anticipate having to take some of the harsh steps taken by others.

Because we have been dealing with the challenges of a declining state economy for several years now, we entered the broader downturn in a position of relative strength. Early on, we recognized the need to set priorities, cut costs, manage our investments wisely, adjust the endowment spending rule to reduce the effects of market swings, and boost fundraising, particularly in such areas as financial aid.

Over the last six years, we have reduced annual general fund costs by \$135 million, and we continue to search for ways to trim costs and work smarter across all of our operations as we position ourselves for the future. In recent months, we have taken the difficult but necessary steps to consolidate our central IT operations, restructure the University Press, discontinue the operation our public television station, cut back on non-patient care positions in the Health System, introduce a one-year waiting period for new employees to be eligible for retirement benefits, and increase the share of health benefit costs paid by employees. These changes alone should eventually lead to savings of over \$55 million annually and help mitigate cost increases. You can read more about efforts to control costs at our cost containment site, www.provost.umich.edu/budgeting/CostContain-2008.pdf and we invite you to send further suggestions to prudence@umich.edu.

Moving forward, we are monitoring U-M finances closely, including expenses, endowment payout, and liquidity, in order to ensure the University's long-term health and stability as well as to maintain the quality and accessibility of a U-M education. Although we expect to complete construction already under way, we may have to delay some proposed capital projects. Meanwhile, we are aggressively pursuing increased energy efficiency through our "Planet Blue" teams and by adopting new energy efficiency standards for all new construction and renovations. We are also implementing more cost effective and strategic purchasing practices, setting new space utilization standards, and exploring possibilities for outsourcing several services.

In making strategic choices and preparing our budget, our top priority is our students and the academic experience we provide them. We are well aware that these are hard times for students and their families, and we want to make sure a U-M education remains accessible. While we work to keep our costs under control and increase financial aid, we are also watching such indicators as student application and yield rates, student requests for emergency loan funds, and changes in students' ability to return to campus each semester.

Thanks to the generosity of our donors, we raised an additional \$545 million for financial aid during our recently completed capital campaign. Endowment funds donated for student support have been central to our ability to increase financial aid at a greater rate than tuition for the last 6 years. More help is on the way from the federal government. An estimated 22,000 U-M families will be able to take advantage of the \$2,500 tax credit made available through the American Recovery and Reinvestment Act of 2009. The Act also provides for an increase in the maximum Pell Grant by \$619 to \$5350. And an additional \$1.6 million will provide funding for about 440 more work-study jobs.

We are also looking beyond the downturn to lay the groundwork for the longer term. As an educational institution, our greatest assets are our faculty and staff, and it is critical that we remain competitive in attracting and retaining them even in these difficult times. We expect to stay on track with the plan to hire 100 interdisciplinary faculty over the next few years, strengthening our programs in emerging fields critical to career opportunities for our students and ultimately to the health of our economy and society.

Our research enterprise, which was at \$876 million last year, is expanding this year and we are pursuing the opportunities for further growth under rising federal research funding. As we win research grants, we enhance the work of our faculty, the educational experience of our students, and the financial stability and impact of the university.

No doubt, there will be more difficulties ahead, and we are prepared to make further adjustments as necessary. We are confident that by managing our finances carefully, and continuing to invest in the future, we will not only weather this storm, but we will emerge a stronger institution. In doing so, we will be better able to serve the needs of our students, and to help pave the way to a more robust economy for the state, the region and the nation.

President Mary Sue Coleman

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