

kind. As a result, in some ways the administration actually sees state budget cuts as advantageous, because they justify unrestricted tuition hikes, which leads to further budget cuts and so on, in an unending cycle of privatization.

The administration's story about state defunding is just that—a story. It serves their interests because it absolves them of any responsibility and directs student and worker activism toward the state government instead of the administration itself. The counter-narrative we have presented here identifies the administration as a central protagonist in the privatization of the University. Even if the state were to increase funding to U-M, we can't trust the administration to use that money as we would want—to lower tuition or hire back the workers they've laid off, for example. Through its own decisions, the administration has come to have a vested interest in the status quo.

Notes

1. University of Michigan Public Affairs, "Understanding Tuition," June 2013. <http://www.vpcomm.umich.edu/pa/key/understandingtuition.html>
2. University of Michigan, "2013 Financial Report," p. 9. http://www.finance.umich.edu/reports/2013/pdf/UM_Financial_Report_2013-lowres.pdf
3. Based on a comparison between the financial reports from 2013 (see above note) and 2004, which is available here: http://www.finance.umich.edu/reports/2004/um_2004_financial_report.pdf
4. John W. Curtis and Saranna Thornton, "Losing Focus: The Annual Report on the Economic Status of the Profession, 2013-14," p. 7. <http://www.aaup.org/reports-publications/2013-14salarysurvey>
5. David Jesse, "Database: Compare Salary Increases for Administrators at 15 State Universities," *Detroit Free Press*, March 26, 2011. <http://www.freep.com/article/20110327/NEWS06/110325057>
6. Andrew Erwin and Marjorie Wood, "The One Percent at State U," May 21, 2014, p. 11. http://www.ips-dc.org/reports/one_percent_universities
7. Regents of the University of Michigan, issuance for General Revenue Bonds, Series 2014A and 2014B, February 12, 2014, p. 12.
8. Bob Meister, "They Pledged Your Tuition," October 11, 2009. http://cucfa.org/news/2009_oct11.php
9. Kellie Woodhouse, "University of Michigan Faculty Question Administrator Pay in Letter to the Board of Regents," *Ann Arbor News*, April 25, 2014. http://www.mlive.com/news/ann-arbor/index.ssf/2014/04/university_of_michigan_faculty_10.html
10. As Meister writes, "although tuition can be used for the same purposes as state educational funds, it can also be used for other purposes including construction, the collateral for construction bonds, and paying interest on those bonds. None of the latter uses is permissible for state funds."



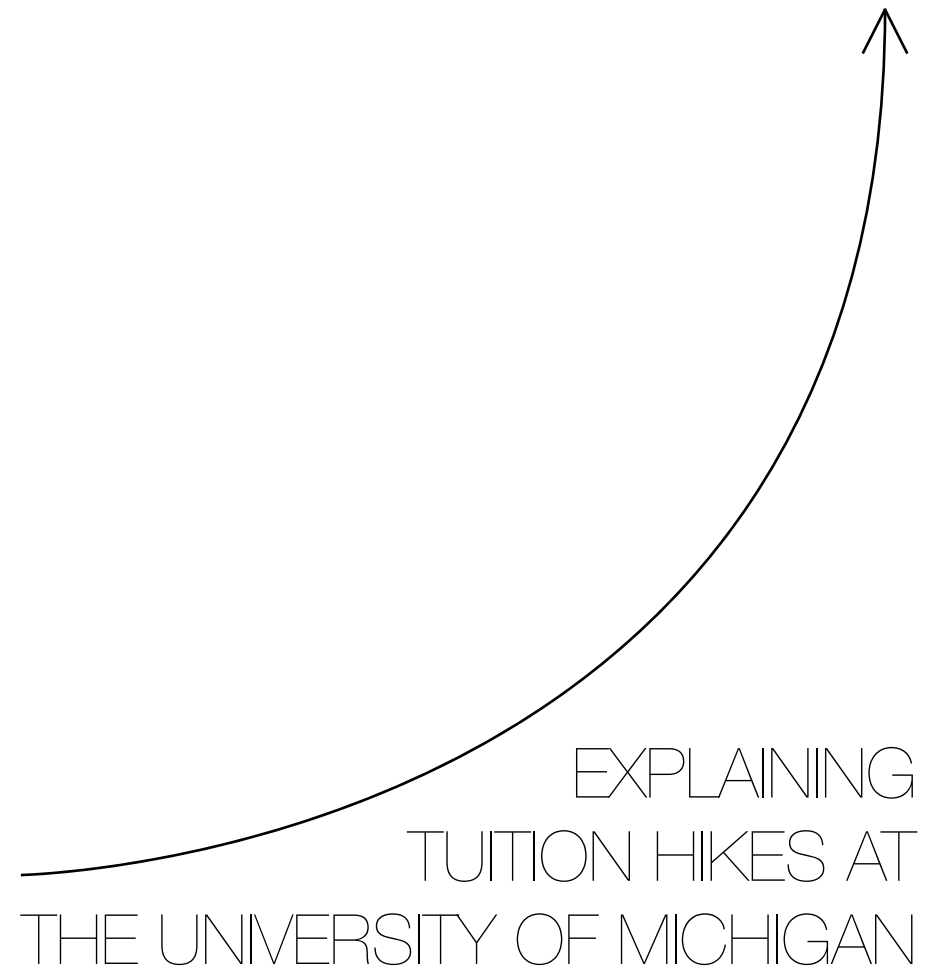
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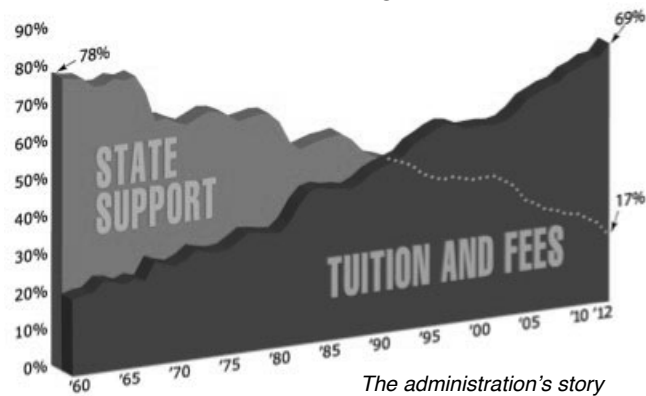
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WHY HAS TUITION GROWN SO MUCH AND SO FAST AT the University of Michigan? According to the administration, it has to do with "the long-term decline in state funding."¹ We're going to show you why this story is at best incomplete and at worst manipulative. It's true that since the 1970s politicians around the country have cut budgets for many social services, including public higher education. Using the chart on the following page, the administration argues that state funding made up 78% of U-M's general fund budget in the 1960s, but by 2012 this number had fallen to 17%. The chart suggests that tuition has increased to replace it, and the two streams are about equal.

So what's missing from the administration's story?

1 First, it's important to recognize that the university's budget is far more complex than the chart suggests. There's not just two streams of revenue into the university. The general fund only represents a small piece of the university's operating activities. As the pie chart on the next page indicates, other significant revenue sources include federal research grants (about \$1 billion), distributions from the endowment (about \$400 million), and gifts (about \$150 million).² Why is this important? It shows that, even when we take the state's budget cuts into account, **overall revenue at U-M is actually increasing significantly**. Over the last decade, for example, total revenue for operating activities (excluding the health system) has jumped from about \$2.2 billion to \$3.4 billion per year.³ During that same period, state funding fell by just \$41 million, while the revenue generated by student tuition increased by an astronomical \$466 million. Even if state funding had remained constant, there would still be a lot more money floating around in the system, and students are more than making up for the difference.



2 Second, the administration's story only tells us about the revenue side of the equation, the money coming into the university. **It completely leaves out expenditures**, where that money is being spent. The administration's chart would only make sense if expenditures had remained stable over time. But they haven't. Two non-instructional areas where expenditures have grown significantly are **administrative spending** and **interest payments** (also called debt service). A recent AAUP report shows that since 1975, the number of full-time executives at universities across the country has increased by 141% and full-time non-faculty professionals by an astonishing 369%, while the number of tenure-line faculty has grown by just 23%.⁴ This same process is happening at U-M—even during the recent financial crisis. From 2005-2010, administrative salaries at U-M increased by 27% while faculty pay increased just 18%.⁵ In May 2014, the Institute for Policy Studies released a report titled "The One Percent at State U" which ranked U-M among the **top five most unequal public universities**, based on "excessive executive pay, highest student debt, and large increases in low-wage and/or contingent faculty labor."⁶

Another expenditure that goes unmentioned in the administration's story is debt service. Since the University started debt-financing building construction in the 1990s, interest payments have become a growing share of its expenses. U-M doesn't have tens or hundreds of millions of dollars in cash sitting in a vault under the Fleming Building, so when they want to pay for a new building they borrow money at low interest rates by issuing construction bonds. If you look at the documentation from one of these bond sales, which is called a prospectus, you find the University's own projections of how much interest it is planning to pay out over the years. According to the most recent bond issuance, **U-M will pay over \$126 million in interest in 2014 alone**, and continue to pay over \$100 million a year through 2028.⁷ (Of course, if the University borrows any more money during now and then that projection will be extended.) What's even worse is that, as UC Santa Cruz professor Bob Meister has shown, the University achieves these low interest rates by **pledging student tuition as collateral** and demonstrating its ability to raise tuition at will. That means U-M is making students take on more debt at higher interest rates so its own debt can be paid off at lower rates.⁸

3 Third, **the University actually has a vested interest in weaning itself from the state**. Currently there are four main revenue streams into the University: state funding, federal research grants, the endowment, and tuition. The first three come with heavy restrictions. State funding, for example, generally has to be used for educational expenses only and is always subject to the will of fickle politicians. Federal research grants primarily fund specific research projects (including some overhead) and cannot be spent on anything else. The majority of the endowment is tied to specific targets chosen by the donors (an endowed chair, a special scholarship, a new building). **Student tuition is unique in that it comes with no restrictions whatsoever**, so it can be used for anything—interest payments, executive bonus pay,⁹ even venture capital-like "entrepreneurship" initiatives.¹⁰ Naturally, the administration prefers flexible sources of funding so it can spend the money however it wants, without oversight of any

OPERATING ACTIVITIES
EXCLUDING HEALTH SYSTEM AND
OTHER CLINICAL ACTIVITIES
TOTAL REVENUE \$3.425 MILLION

