

**FISCAL YEAR 2012 OPERATING BUDGET REQUEST FOR
SUBMISSION TO THE STATE OF MICHIGAN, OFFICE OF THE STATE BUDGET**

A Recommendation

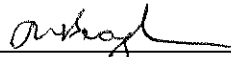
1. **Division and Department:** Finance and Administration, Office of Budget and Financial Planning
2. **Introduction:** Annually, Oakland University (University) submits its operating budget request for the following year to the State of Michigan. This process gives the University an opportunity to inform the State of its high priority operating needs as well as providing an update on the University's cost containment efforts. The Fiscal Year 2012 Operating Budget Request (Attachment A) includes:
 - An analysis of State funding per Fiscal Year Equated Student (FYES) with a recommendation for continued commitment to floor funding; and
 - a report on University cost containment efforts.
3. **Previous Board Action:** The Board of Trustees (Board) approved the Fiscal Year 2010 Operating Budget Request on October 30, 2008.
4. **Budget Implications:** The budget implications related to submission of the Fiscal Year 2012 Operating Budget Request are dependent on the State's ability to appropriate funds to meet the University's operating budget needs. State appropriations represent approximately 23% of the Fiscal Year 2011 budget.
5. **Educational Implications:** State appropriations provide funding for academic programs according to the Board approved General Fund Budget.
6. **Personnel Implications:** State appropriations provide funding for personnel according to the Board approved General Fund Budget.
7. **University Reviews/Approvals:** The Fiscal Year 2012 Operating Budget Request is prepared by the Office of Budget and Financial Planning and reviewed by the Vice President for Government Relations, Vice President for Finance and Administration and President.
8. **Recommendation:**
RESOLVED, that the Board of Trustees approves the submission of the attached Fiscal Year 2012 Operating Budget Request for Submission to the State of Michigan.

Fiscal Year 2012 Operating Budget Request for Submission
to the State of Michigan, Office of the State Budget
Oakland University
Board of Trustees Formal Session
December 9, 2010
Page 2

9. Attachments:

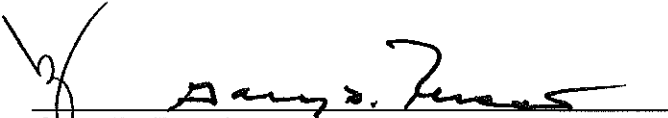
A. Fiscal Year 2012 Operating Budget Request

Submitted to the President
on 11/9, 2010 by



John W. Beaghan
Vice President for Finance and Administration
and Treasurer to the Board of Trustees

Recommended on 11/15/10, 2010
to the Board of Trustees for Approval



Gary D. Russi
President

ATTACHMENT A

OAKLAND UNIVERSITY FISCAL YEAR 2012 OPERATING BUDGET REQUEST

November 2, 2010

OAKLAND UNIVERSITY PROGRAM SUMMARY STATEMENT

Fiscal Year 2012 Operating Budget Request For Submission to the State of Michigan, Office of the State Budget

Background

Matilda Wilson, who in 1940 was appointed the State of Michigan's first woman lieutenant governor and who received an honorary law degree from Michigan State University in 1955, is the celebrated founder of Oakland University. She and her husband, Alfred Wilson, donated their 1,500-acre estate, its buildings and \$2 million to Michigan State University in 1957. Originally named Michigan State University – Oakland, the institution developed successfully over the next 13 years. In 1970, the Michigan Legislature recognized the maturity and stature of what would become Oakland University by granting it autonomy and governance by its own Board of Trustees.

Today, Oakland is home to more than 19,000 students (headcount) and is a nationally-ranked academic institution offering students a personal, high-quality education through flexible class schedules, new facilities, student services, classroom technologies, labs, internships, co-ops, research opportunities with corporate partners, and a large number of undergraduate and graduate degree and certificate programs. The Carnegie Classification of Institutions of Higher Education categorizes Oakland University as a "Doctoral/Research University." Produced by The Carnegie Foundation for the Advancement of Teaching, this classification reflects Oakland's strong commitment to graduate education through its doctoral programs, as well as to its extensive masters-level and undergraduate programs. The University offers students opportunities to work directly on research projects with expert faculty who bring current knowledge right to the classroom.

In 2008, Oakland finalized an affiliation agreement with William Beaumont Hospital to create the ***Oakland University William Beaumont School of Medicine (SOM)***; a historic partnership between two prominent institutions sure to have significant impact on the regional economy. The SOM will help address a national physician shortage and lead the way toward innovation in patient-centered medical education and research. The charter class of 50 students is currently being admitted and will begin classes in fall 2011.

The University's general fund revenues are dependent almost solely on a combination of State appropriations (23%) and tuition (76%). Only 1% of the University's FY2011 projected general operating revenues will come from other sources.

The University's evolution from a small, primarily undergraduate liberal arts institution to its current stature has been a dramatic and challenging transition. One of the most significant challenges has been managing the steady growth in enrollment with

resources that have increased at much slower rates. This trend is most notably highlighted by Oakland's appropriation per Fiscal Year Equated Student (FYES), which is currently well below the level it was 10 years ago.

Per FYES Funding Request

\$ 9,129,075

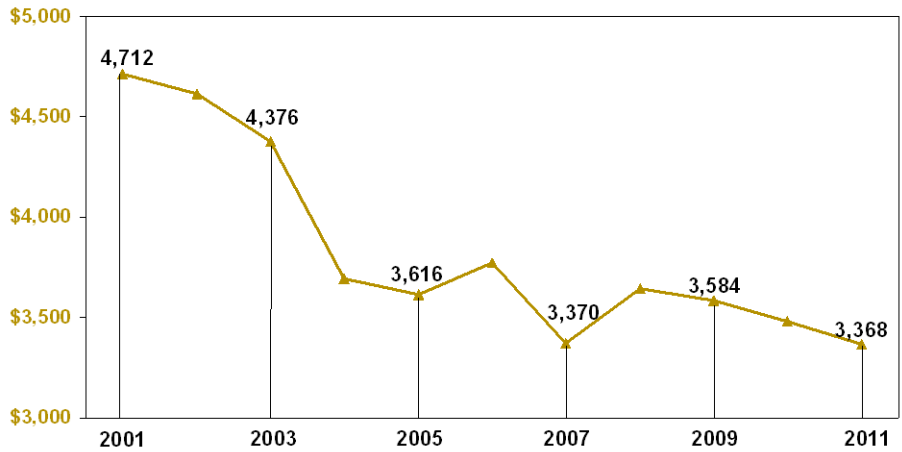
Oakland University is submitting the FY2012 Operating Budget Request to support a record enrollment that marks 16 consecutive years of enrollment growth. The University's sole request is to have its base appropriation per FYES increased to the recognized funding floor (per Public Act 203 of 2010, section 450 subsection 2) level of \$3,775 per FYES, with continued emphasis on lifting the per FYES floor and that it remain a core premise behind establishing minimum appropriation levels.

While the receipt of one-time, federal stimulus funding was helpful, it did not allow the University to address permanent base funding needs that have persisted for several years. From a planning standpoint, it has become increasingly difficult to support operations without sustainable, year-to-year funding support via legislative action that recognizes enrollment growth. Such funding commitments pave the way to meet the college graduate goals recommended by the Cherry Commission and ultimately advance the State in recovering from its lingering economic dilemma.

From a funding mechanism standpoint, Oakland continues to feel the effects of historical higher education funding patterns that have consistently left it with per FYES funding levels well below the State average. At a projected appropriation per FYES of \$3,368 for FY2011, Oakland's per FYES funding level is \$1,344 below what was realized in FY2001 and still substantially below the current State average of \$5,522 per FYES. Funding at the FY2001 per FYES level would equate to an additional \$21,322,560 in base appropriation for Oakland, while funding at the current State average would yield a \$34,173,210 base increase. The University's request of \$9,129,075, using the recognized funding floor, is well below both these amounts.

From a legislative standpoint, Oakland continues to support the tradition of keeping funding for all universities within the same legislative action. Oakland strongly advocates that public policy continue to recognize all fifteen public universities in one appropriation-funding bill to avoid dividing the universities into classes of institutions, sending a discouraging message ultimately and constraining the collective effort to increase the number of college graduates in Michigan. Establishing a practice to create a separate appropriation bill for specific universities will give students the impression that a select few schools and their students are held in higher regard by the State's legislative appropriation process. Further, accountability can be best encouraged, managed and maintained by implementing university specific benchmarks that track progress toward improvement, with noteworthy incentives that recognizes each universities progress against its own historical data.

Oakland University Appropriation per FYES



Oakland University's FY2011 appropriation per FYES is estimated to be \$1,344 per FYES less than the FY2001 level.

Oakland University continues to encourage a higher education funding structure that demonstrates fairness and equity in resource allocation. We applaud any effort by the Michigan Legislature and Governor to include such a strategy in higher education appropriation bills. For planning purposes, it is essential that universities be able to rely on a fair and equitable funding strategy that is applied consistently from year to year. Employing such a model to include a minimum per FYES funding level helps growing institutions deal with the pressure of providing access to higher education without jeopardizing quality.

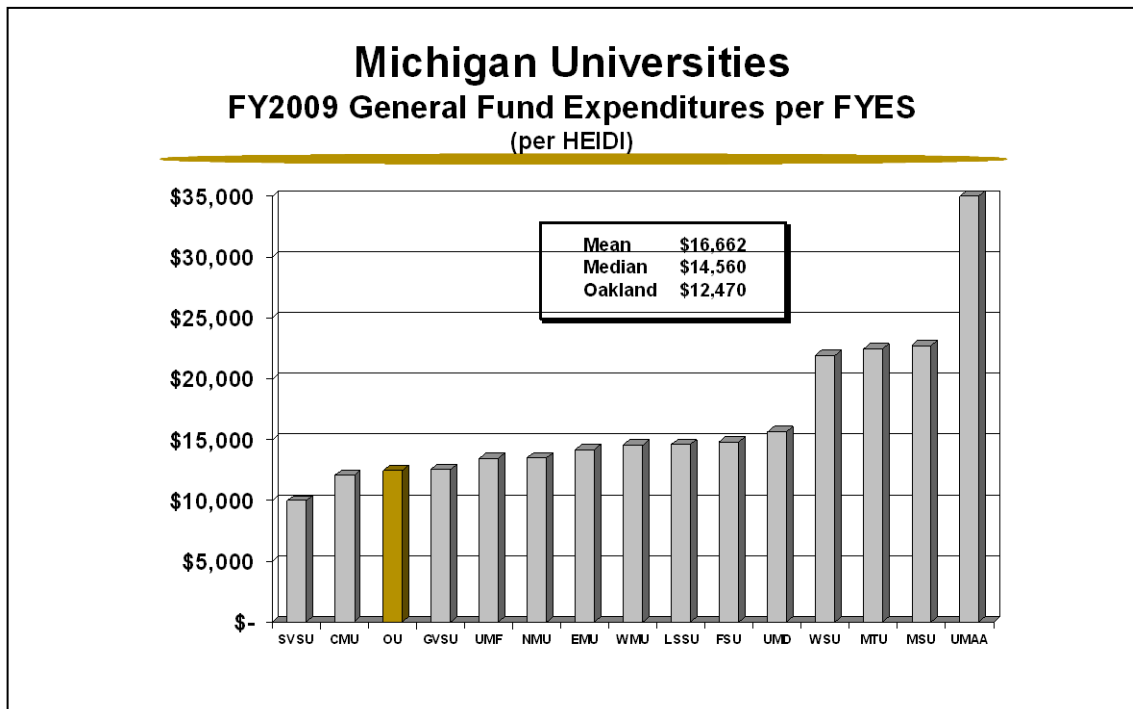
Oakland University Per FYES Funding Request

FY2010 Actual FYES	15,865
Current Per FYES funding floor	\$ 3,775
FY 2012 Appropriation at current funding floor	<u>\$ 59,890,375</u>
(Less) FY 2011 Appropriation	<u>(50,761,300)</u>
Appropriation Increase at funding floor	<u><u>\$ 9,129,075</u></u>

Oakland University Cost Containment Efforts

Oakland University has a longstanding record of cost control and expenditure management. A review of FY2009 HEIDI data reveals that Oakland remains one of the leanest run universities in the State, with a General Fund Expenditure per FYES level of

\$12,470 per FYES (see chart). Oakland is well below both the state average (\$16,662) and state median (\$14,560). Comparatively, this illustrates that Oakland is managing its costs very well, most notably during a period of sustained enrollment growth and infrastructure expansion.



Year-after-year enrollment increases at Oakland University have continued to create cost containment challenges. Continued growth in the number of students has made it necessary to increase the number of faculty and staff. Each year, however, faculty appointments are analyzed and re-aligned based on demand. Faculty compensation savings realized through attrition are re-allocated among the academic units before any new funding decisions are made. The same approach has been followed with other employee groups. Oakland has been able to avoid cost increases by redirecting human resources to areas most affected by growth. In addition, the University bargained and received significant employment group concessions in an effort to hold down operating costs. For example, in FY2010 all employee groups accepted a salary freeze and a new benefit plan structure, which combined will save the University millions. In FY2011 salaries were again frozen for all staff and limited to a 1% increase for faculty, allowing the University to continue to hold operating costs down.

Oakland University has taken action to control costs in a number of other areas over the last several years. These actions include organizational changes, process re-engineering, utility conservation programs, outsourcing, etc. In addition to these on-going cost containment initiatives, the University has responded to State funding cuts by implementing more than \$21 million in permanent and one-time budget reductions since FY2003. This combined cost containment and budget reduction effort amounted to more than \$42 million (see table below).

Cost Containment	Permanent	One Time	Total
	\$ 5,000,546	\$ 175,790	\$ 5,176,336
Benefit and Employment Changes	1,476,280	286,910	1,763,190
Re-organizations	4,739,196	1,624,258	6,363,454
Outsourcing and Partnerships	1,084,066	717,167	1,801,233
Process Re-engineering	854,618	830,417	1,685,035
Technology and Telecommunications	1,915,450	9,193	1,924,643
Utilities/Energy Conservation	952,360	1,287,549	2,239,909
Other Initiatives			
Total Cost Containment	\$ 16,022,516	\$ 4,931,284	\$ 20,953,800
Budget Reductions			
Faculty Salaries	\$ 1,176,682	\$ 595,320	\$ 1,772,002
Non Faculty Salaries	1,578,074	284,338	1,862,412
Fringe Benefits	1,171,302	238,671	1,409,973
Operational Costs	2,486,389	4,507,671	6,994,060
Other	4,252,000	4,764,400	9,016,400
Total Budget Reductions	\$ 10,664,447	\$ 10,390,400	\$ 21,054,847
Total Budget Reductions and Cost Containment	\$ 26,686,963	\$ 15,321,684	\$ 42,008,647

Oakland University continues to rigorously pursue opportunities to contain costs on a campus-wide basis. Academic Affairs routinely reviews academic programs to identify high-cost, low-degree producing programs for cost saving opportunities. The Pawley Institute for Lean Management Training, an endowed Oakland University program, is being used to help the campus community understand how to eliminate waste from its processes and become even more efficient.

Oakland University is a growing and vibrant campus that will continue to fulfill its mission and produce well-educated graduates ready to meet the demands of the global economy.