

Memo

Wayne State University Law School

To: Budget Committee

From: Michael J. McIntyre, chair

Subject: Tentative Response to President Noren's Strategic Initiatives

Date: November 21, 2009

Budget issues are at the heart of any sensible strategic plan. It is important, moreover, to face up early to budget constraints when constructing a strategic plan. The people involved in the plan need to know the revenues that might be available and the risk that some of those revenues may not be available. A genuine strategic plan also needs to set priorities for the various spending proposals so that only the most important items get funded if revenues are less than expected.

I have reviewed the budget materials contained in the slides that were posted on President Noren's Strategic Initiatives website (the slides have now been removed, presumably because of problems with the plan). The Budget Committee has not yet addressed the strategic plan. I intend to put the matter on our agenda for discussion at our next meeting (December 7, 2009). This memo is intended to give some background for that discussion.

A. Revenue Concerns

In my view, there are reasons to be concerned about the reliability of the following revenue assumptions either stated or implicit in President Noren's slides:

1. The slides implicitly assume that current revenues from the state and from other sources, such as the Detroit Medical Center (DMC), will remain constant for the 5-year period of the strategic plan. I think that we have reason to believe that these revenues will be down, perhaps by a rather large amount. President Noren has acknowledged as much in his recent presentation to the Academic Senate and in his discussion with deans. Yet, the strategic planning process, judging from the slides, has been unaffected by these doubts. Perhaps the slides were withdrawn to address this matter.

2. The slides assume that the Board of Governors (BOG) will approve substantial tuition increases, well in excess of the expected increases at other Michigan Universities (1.4 times the average dollar increases at U-M and MSU), for each of the next five years. Of course, I would not venture to give the Administration advice on what the BOG is currently willing to do --- President Noren has only to ask the members of the BOG to get that information. But I suggest that even if the BOG currently is supportive of these large tuition increases, it will have a great deal of difficulty sustaining that position for five years in the face of the almost certain negative reaction from the public and from political leaders in Lansing to large tuition increases intended to substantially expand projects and activities at the University. My guess is that most people outside the University will be disposed to believe that the educational institutions in the state should be retrenching and preserving their core functions in times of economic recession/depression (as MSU appears to be doing).

3. The slides assume, for revenue purposes, that the University can achieve the professed goal of 5/35,000 (increasing total enrollment in the University from 31,786 to 35,000 in five years). I believe that goal will be exceedingly difficult to achieve, at least based on the figures provided in President Noren's slides. I have raised some questions about the feasibility of reaching this goal with members of the administration and have received a positive response. I have already met with Dr. Howard Shapiro to go over some of the retention numbers, and some of my concerns with the retention numbers were allayed. At this point, however, I remain skeptical that the University, in five years, can go from having one of the worst retention rates among its peer institutions to one of the best. I am even more skeptical that the University will be able to increase the number of entering students while improving credential levels (as the slides promise) when the applicant pool from our traditional sources (tri-county high school graduates) is shrinking at an alarming rate. Of course, I'm prepared to be convinced that my concerns have been addressed in documents not yet made public.

4. The slides assume that the University will be able to generate private giving on the order of \$350 million over the next 5 years. That goal may be overly ambitious, given the difficult economic times. I am delighted that the Administration will be making a major effort at raising substantial private funds. I just believe it is somewhat premature to be planning how to spend money that at best is rather uncertain. In any event, at the present rate of payout on endowment, the additional revenue for annual spending would be around \$14 million per year — an important

addition to University funding but not nearly enough to fund a significant part of the President's strategic initiatives.

5. The slides assume that the University can increase net revenues from research by \$20 million a year. It appears that our rate of return on investment in research has been declining sharply in recent years. Revenues have been going up slowly, and costs have been going up sharply. People tell me that we will have to make major infrastructure improvements to make much progress on increasing research revenues in the face of declining or static Federal funding sources. Those improvements are unlikely to come on-line within the current five-year planning window. Currently, the University is seeking funding (\$185 million) from the State for its major proposed capital improvement project, the bio-medical building, with little hope of success in the near future.

6. The slides assume that \$25 million can be obtained from undisclosed reallocation of funds within the University. In my view, it is important for a University to engage in some reallocation of resources. In good times, that reallocation is done, relatively painlessly, by using new revenues primarily for high priority programs and activities. In hard times, the reallocation must be accomplished by cutting some good programs to fund what are perceived to be better programs. But that reallocation process should not be a black box. The Administration has an obligation to share with the groups with which it is required to consult, including the Budget Committee of the Academic Senate, its plans for reallocation (as was done in the past under President Irvin Reid).

B. Lack of Stated Priorities

The problems discussed above on the revenue side are only half the problem. The other half is the failure to prioritize the wish list being assembled by the various participants in the strategic planning process. Serious budgeting is about making choices, often difficult choices. Occasionally, an Administration has the opportunity to kill off a bad program or be dissuaded from embarking on a program almost certain to fail. The more common problem is to pick wisely among options when all of them have some serious appeal, at least to some significant elements in the University. Not even a resource-rich university can afford to fund all worthy programs or activities. They must make hard choices. Those choices are even harder in a resource-poor university like Wayne State. But they must be made, and they should be made as part of a consultative process.

I am concerned that the current strategic-planning process has not been designed to assign priorities to the various projects and activities that are being endorsed. If we find that revenues do not meet expectations, as I believe is likely, then only some subset of the items on the wish list coming out of the strategic-planning process can get funded. At that point, all of the consulting and informational meetings will become irrelevant. The Administration will set its own priorities at the last minute, as it is forced to present a budget to the Board of Governors. The result will be a contentious process at the Board level, with the groups facing major budget cuts expressing their displeasure, directly, as they did in 2007, or indirectly through their elected representative. Past experience suggests that the first casualty from a revenue shortfall will be the plans for increasing the number of tenured/tenure-track faculty.

C. Strategic Goals

In my view, the University has two strategic goals. One is strengthening and maintaining its undergraduate program. The second is to reverse the downward slide in its research program. President Noren's slides address the second strategic goal in many ways. The first goal, however, is mostly neglected.

Over the past three decades, the University has followed a silent strategic plan of diverting resources from undergraduate programs to enhance the reputation of the University as a center of research. That silent plan continues. The slides indicate that the University is expecting an increase in permanent revenues of around \$187 million. Most of that money (at least two-thirds) is expected to come from increases in undergraduate enrollment and tuition. Yet, only a small part of the revenue (roughly \$3 million, perhaps less) will be returned to support undergraduate education. Most of it will be siphoned off for other purposes.

The undergraduate program is not ignored. Some funds are slated to be spent to improve the historically low retention rate at Wayne. I believe that improved retention success is a moral necessity for the University, and the very recent trends on retention have been encouraging. The slides also propose that 105 new faculty positions be funded (21 positions per year for 5 years). It is unclear how many of these positions will be for tenured/tenure-track faculty teaching in the undergraduate program. My guess is less than half will be used to replace part-time faculty with tenured/tenure-track faculty, despite a major emphasis in the slides on achieving such a replacement.

Wayne's undergraduate program certainly could use additional tenured/tenure-track faculty. President Noren has repeatedly commented on the University's over-reliance on part-time faculty to teach our students. Adding 105 new faculty would represent an enormous commitment by the University. Still, it would not do much to reduce the dependence on part-time faculty.

According to the slides, Wayne State currently has 3.2 faculty members per 100 students. If the University adds 121 faculty members and 3,214 students, the ratio of faculty to students will improve only slightly. At Michigan State, there are 4 faculty members per hundred students. To achieve the ratio at Michigan State, Wayne State would need to add around 400 new tenured/tenure-track positions.

One might suggest that it is unrealistic to set a goal based on a comparison to Michigan State. After all, Michigan State is ranked in the top half of the second tier by U.S. News, whereas Wayne is mired in the fourth (bottom) tier. The comparison is invited by the slides, however, because Wayne students would be asked to pay tuition at the end of five years at the same rate (or higher) as Michigan State students. If our students are to be charged the same amount as Michigan State students, they may have some claim to equal benefits, including an equal faculty/student ratio.

In many respects, the University's historic silent strategic plan of shifting resources from the undergraduate program to other uses can be viewed as a success. True, the undergraduate program has languished, as evidenced by its low U.S. News ranking. Other parts of the University, however, have done rather well. I believe, nevertheless, that the University cannot continue with this silent plan. The reason is that the University is going to find itself in sharp competition with other Michigan universities and some out-of-state universities for a dwindling supply of undergraduate students. Unfortunately, the University is not well positioned to succeed in that competition.

At the heart of the looming problem for the undergraduate program is the sharp expected decline in the number of high school graduates in the tri-county area. Due to that decline, the University will be able to maintain its undergraduate enrollment at current levels (assuming no drop in credential levels) only by being able to recruit successfully in areas where its recruiting efforts have not been very successful in the past. I see little in President Noren's slides that would give us confidence that we can suddenly be a lot more successful recruiting outside the tri-county area. In terms of physical plant — classroom facilities, for example — we lag

well behind most of the Michigan regional colleges. Many students give great weight, in picking a university, to the university's national ranking, and our ranking is low. Our ratio of full-time faculty to part-time faculty is one of the worst in the state. Although most students outside the tri-county area will want to live on campus, our dormitories are already filled to capacity.

The slides implicitly recognize that there are problems lurking in attracting undergraduate students. The primary suggested solution is better advertising. The alternative, of course, would be a better product at a competitive price. In fact, however, the strategic plan offers a very modest improvement in the status quo and much higher tuition.

I worry that we have set up the undergraduate program for a major fall. If the undergraduate program does fall onto hard times, the entire strategic plan of the University will be in chaos. In my view, the strategic plan needs to be redesigned to reduce substantially the risks to the University's cash cow — its undergraduate program.