



Background Briefing

HIGHER EDUCATION

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December 2014

Higher Education

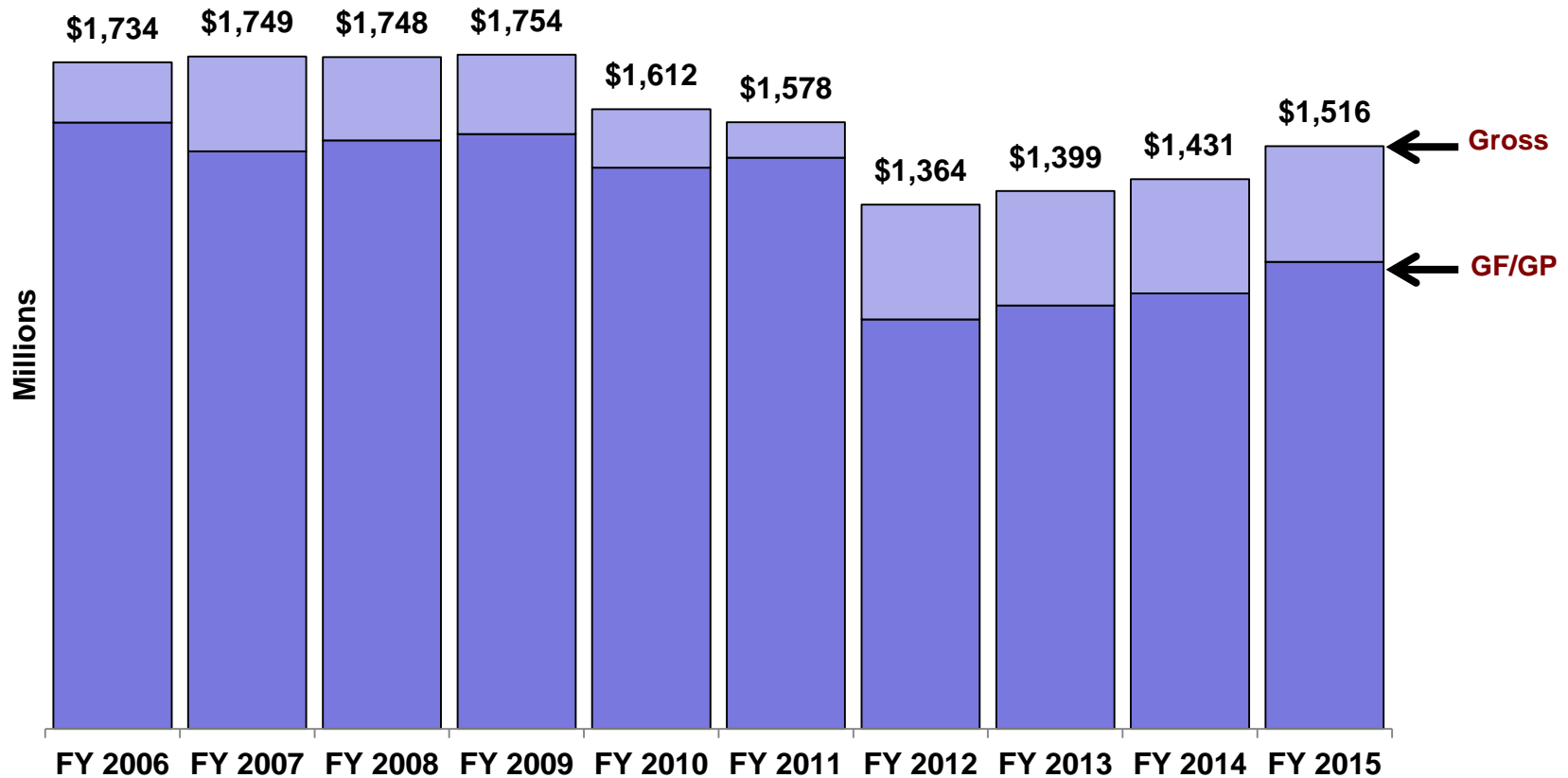
Article VIII of the State Constitution:

- **Section 4:** Requires Legislature to appropriate funds to maintain Michigan's 15 public universities.
- **Section 5:** Provides for elected boards of control for University of Michigan, Michigan State, and Wayne State.
- **Section 6:** Provides for appointed boards of control for remaining universities.
- **Sections 5 and 6:** Grants each university board "the control and direction of all expenditures from the institution's funds."

Beginning in FY 2011-12, the Higher Education budget has been enacted into law as part of the compiled School Aid Act, rather than as a standard one-year budget bill.

Higher Education: Gross Appropriations

FY 2014-15 Higher Education appropriations are \$217.9 million lower than they were in FY 2005-06 (12.6 percent, not adjusting for inflation).

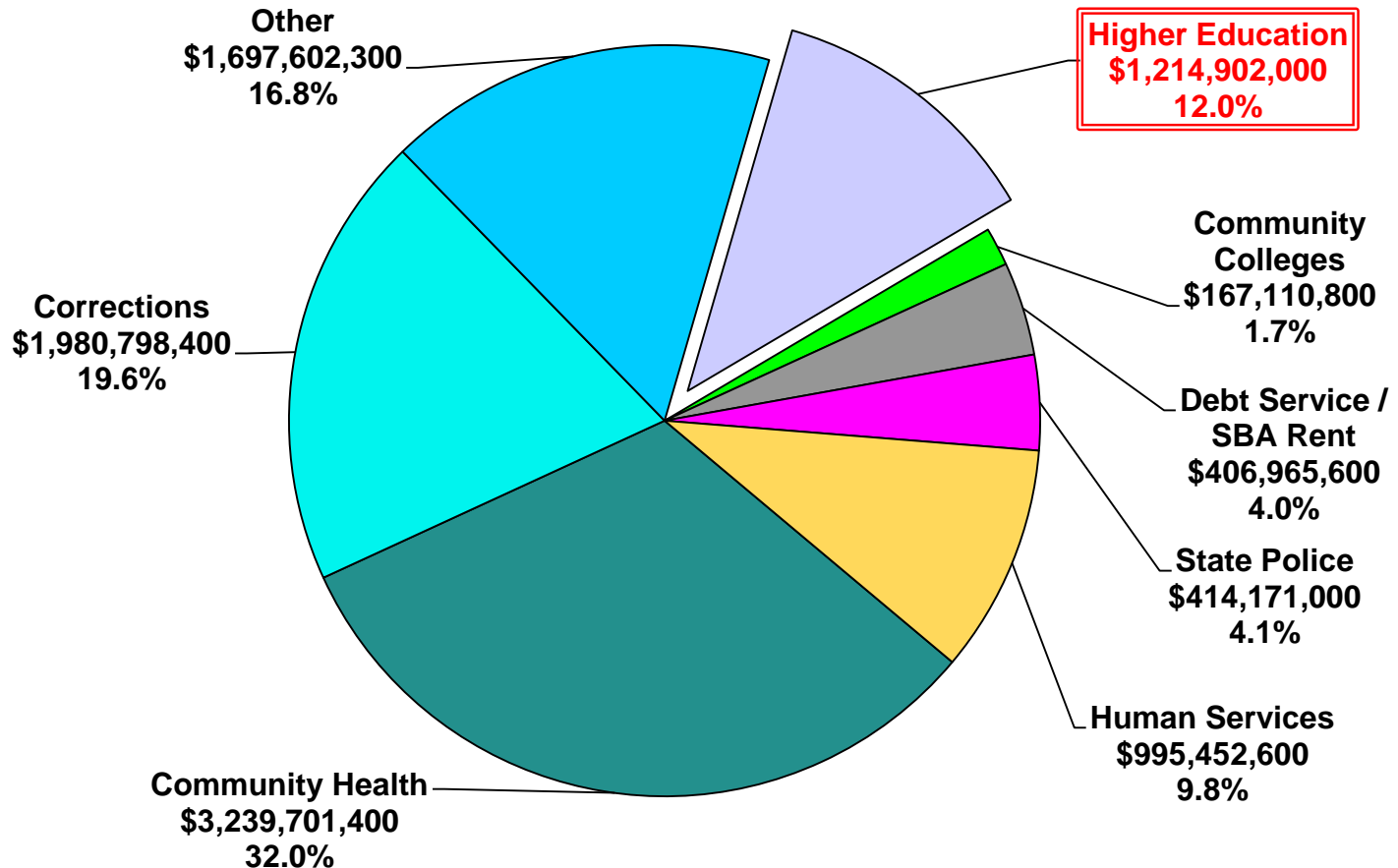


Note: Delayed payment in FY 2007 is shown in FY 2006, the year the funds were originally appropriated.

Higher Education Share of State GF/GP

Higher Education makes up 12.0% of the total state GF/GP budget

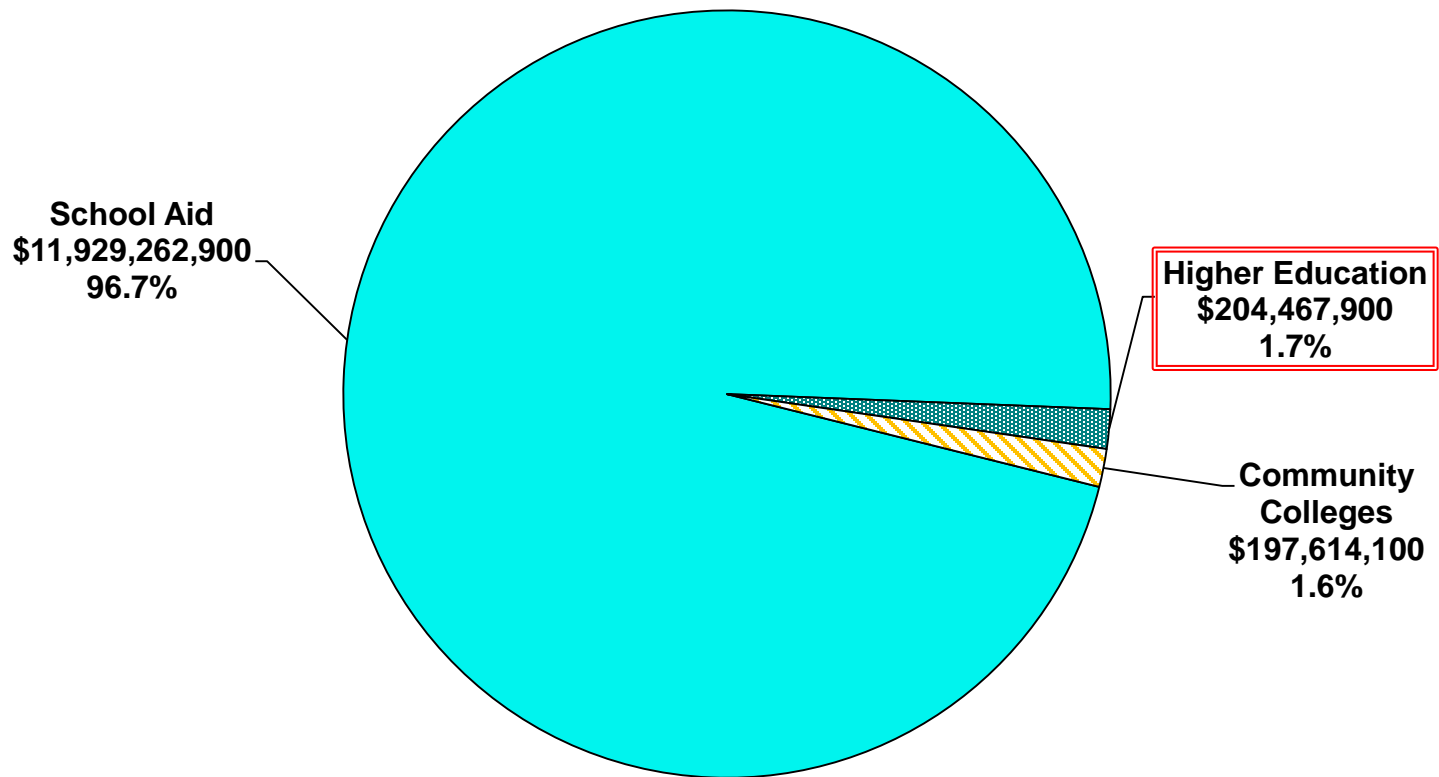
FY 2014-15 GF/GP Total = \$10,116,704,100



Higher Education Share of School Aid Fund

The Higher Education budget makes up 1.7% of total state School Aid Fund (SAF) appropriations.

FY 2014-15 SAF Total = \$12,331,344,900

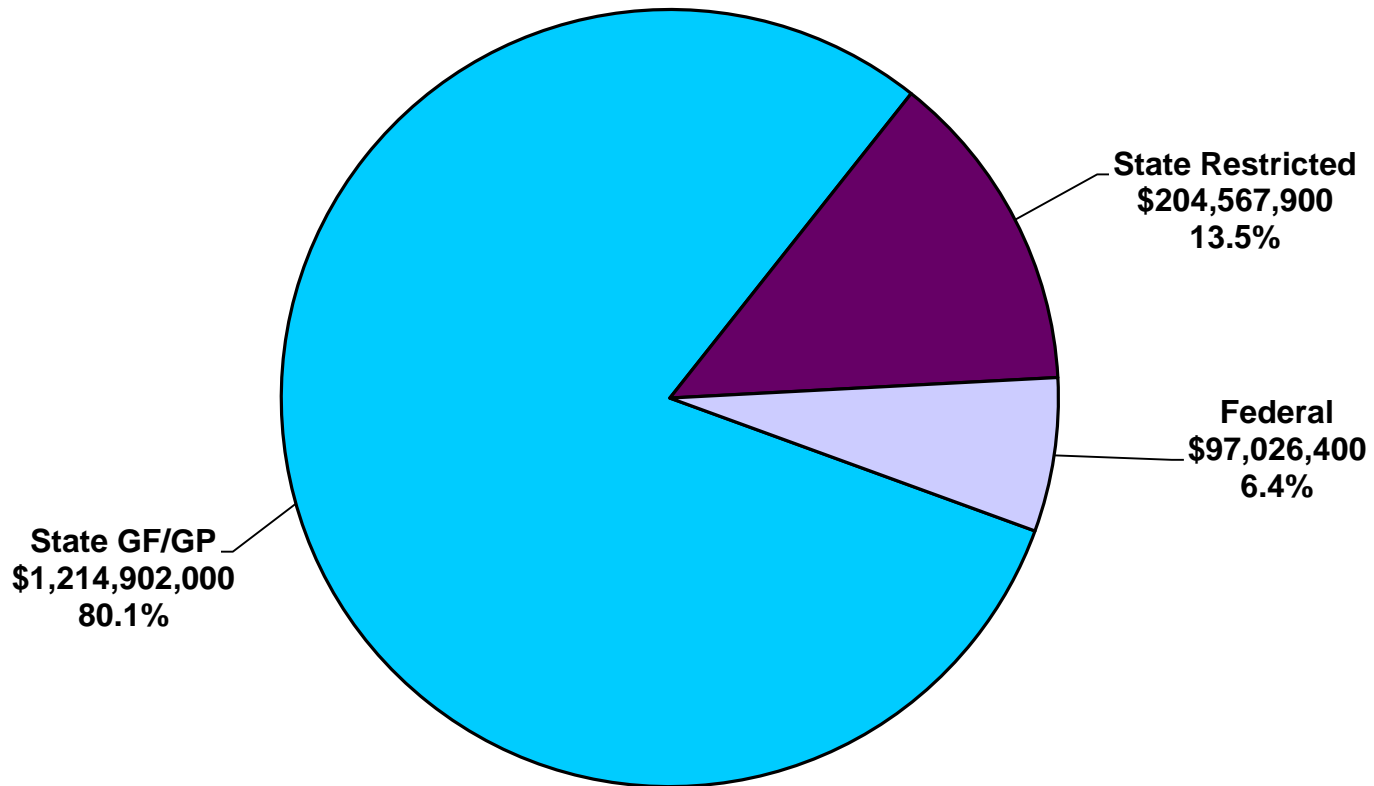


SOURCES OF FUNDING

Higher Education Funding Sources

Beginning in FY 2011-12, School Aid Fund revenue has been utilized to replace about \$200 million in GF/GP funding for public universities. Federal TANF funds have replaced most state funds for major financial aid programs.

FY 2014-15 Higher Education Budget = \$1,516,496,300



HIGHER EDUCATION APPROPRIATIONS

Higher Education Appropriations

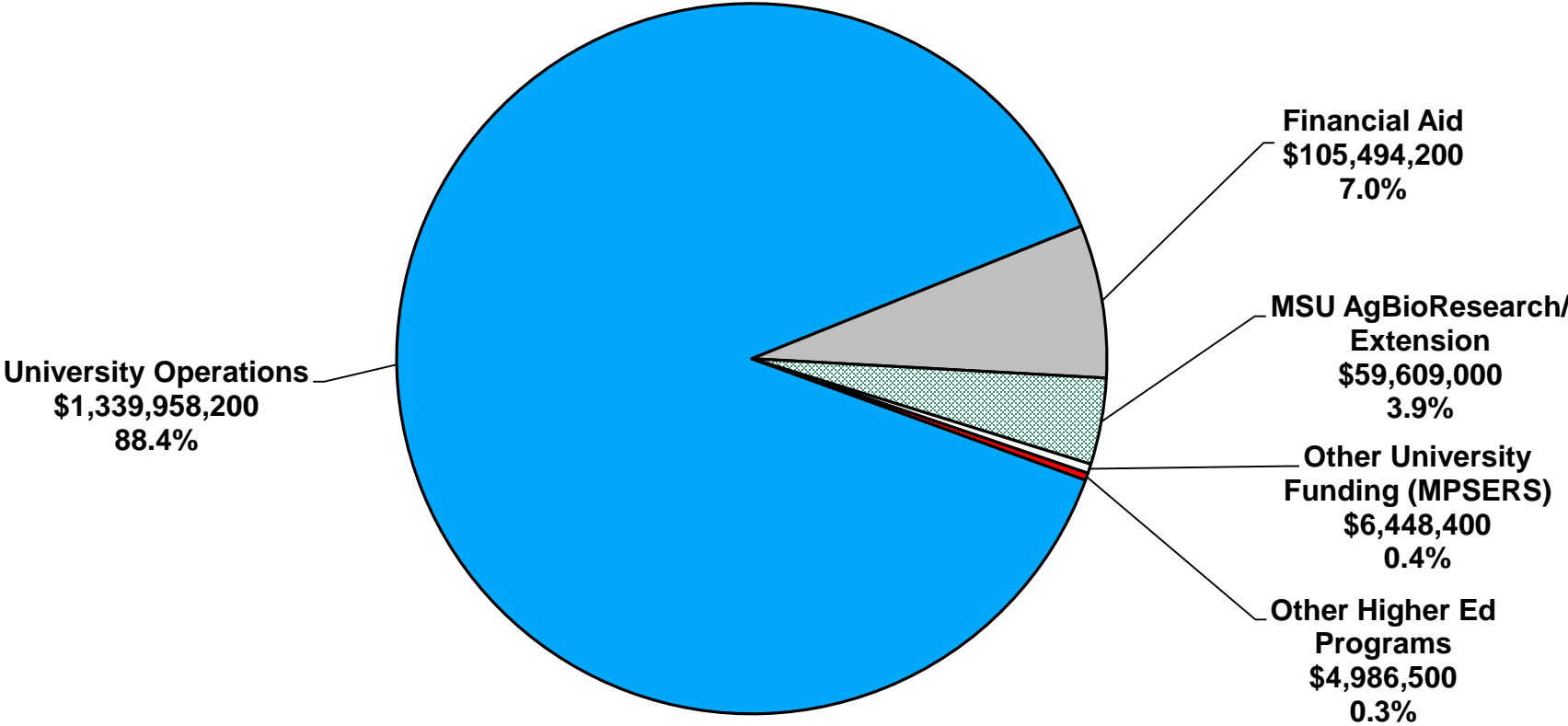
The Higher Education budget contains:

- **Operational support** to the state's 15 public universities, as well as financial support specific to performance funding, tuition restraint, and retirement cost reimbursement
- Support for the **AgBioResearch and Extension programs** operated by Michigan State University
- Funding for **financial aid programs** for students attending either public or private colleges/universities in Michigan
- Funding for various smaller higher education-related budget items

All but 7.4% of FY 2014-15 Higher Education funding is appropriated directly to the 15 public universities for operations or other purposes.

Higher Education Appropriations

FY 2014-15 Higher Education Budget = \$1,516,496,300



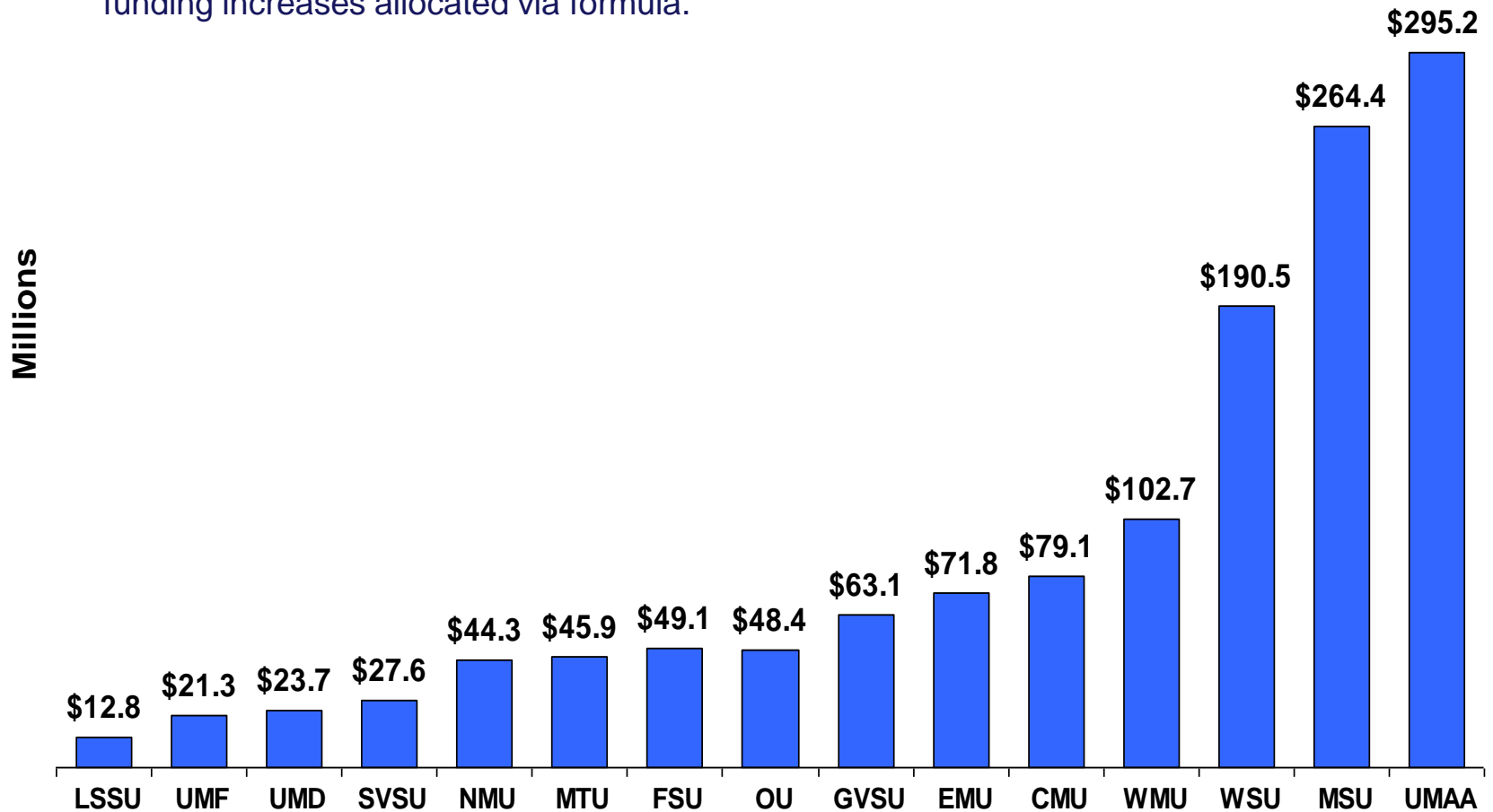
MAJOR BUDGET TOPICS

Michigan's Public Universities

<u>University</u>	<u>Abbreviation</u>	<u>Founded</u>
Central Michigan University	CMU	1892
Eastern Michigan University	EMU	1849
Ferris State University	FSU	1884
Grand Valley State University	GVSU	1960
Lake Superior State University	LSSU	1946
Michigan State University	MSU	1855
Michigan Tech. University	MTU	1885
Northern Michigan University	NMU	1899
Oakland University	OU	1957
Saginaw Valley State University	SVSU	1963
University of Michigan – Ann Arbor	UMAA	1817
University of Michigan – Dearborn	UMD	1959
University of Michigan – Flint	UMF	1956
Wayne State University	WSU	1868
Western Michigan University	WMU	1903

FY 2014-15 University Operations Grants

NOTE: Amounts include performance funding increases allocated via formula.



University Operations Funding

- No permanent constitutional or statutory provisions exist to govern distribution of funding to public universities. Decisions made on a year-to-year basis by the Legislature.
- Appropriations often calculated on a per-student basis to control for varying enrollments of universities. Calculation based on **fiscal year equated students (FYES)**:
 - $\text{FYES} = \text{credit hours} / 30$ (at undergraduate level)
 - Calculation usually made using total FYES (undergraduates + graduates; residents + nonresidents)
- Methods used over last decade to determine funding changes have included:
 - Across-the-board adjustments
 - Per-FYES funding floor
 - Allocations based on various activity/outcome measures: enrollment, degree completions, research funds, Pell Grant recipients
- Since FY 2012-13, funding increases have been based on a performance funding model, with some methodological modifications made to the model in FY 2013-14 and FY 2014-15. Language describing the formula is included in the annual budget act.

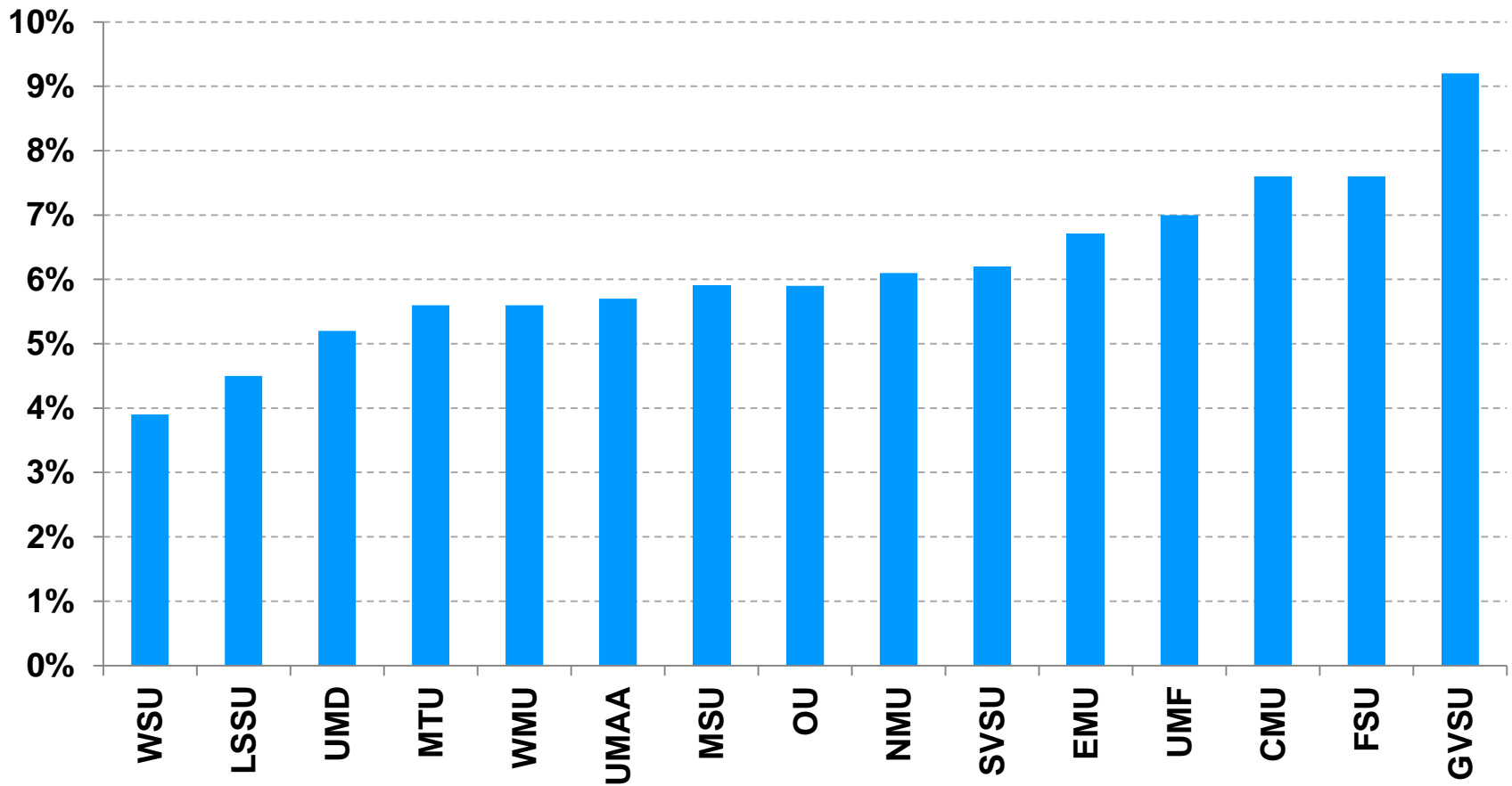
FY 2014-15 University Performance Funding

FY 2015's increase in operational support is allocated according to a performance-based formula consisting of several components.

Category	\$ Amount
• Undergraduate degree completions in Critical Skills Areas	\$8.3 million
• Total R&D expenditures: “research universities” only	\$4.1 million
• Comparisons vs. national Carnegie peers	
Six-year graduation rate	
Total degree completions (undergraduate/graduate)	\$24.9 million combined
Institutional support (as % of total expenditures)	
Students receiving Pell grants	
• Distributed proportionally to FY 2010-11 benchmark year	\$37.3 million
Total	\$74.6 million

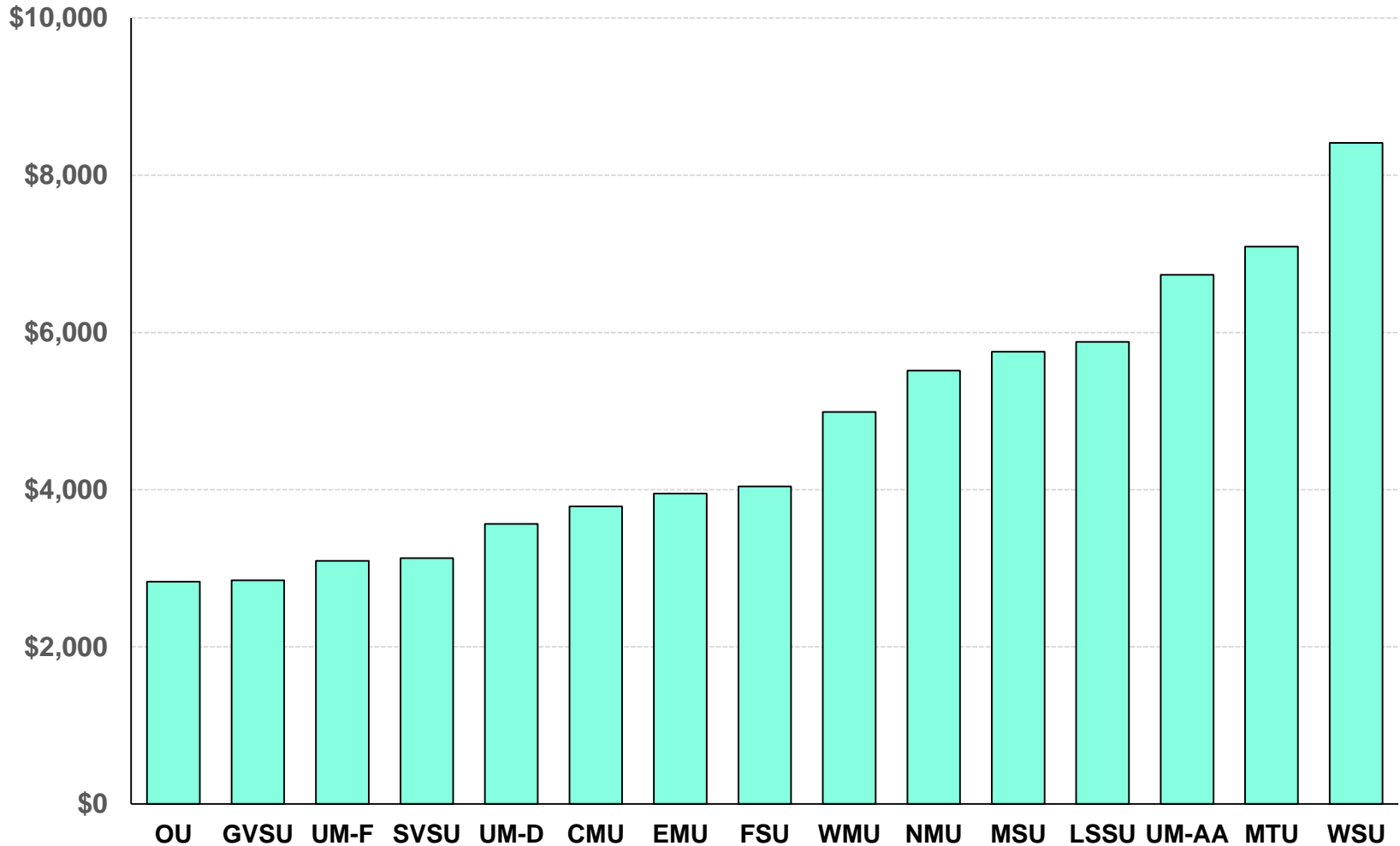
FY 2014-15 University Appropriation Increases

% Change from FY 2013-14, allocated via performance funding formula



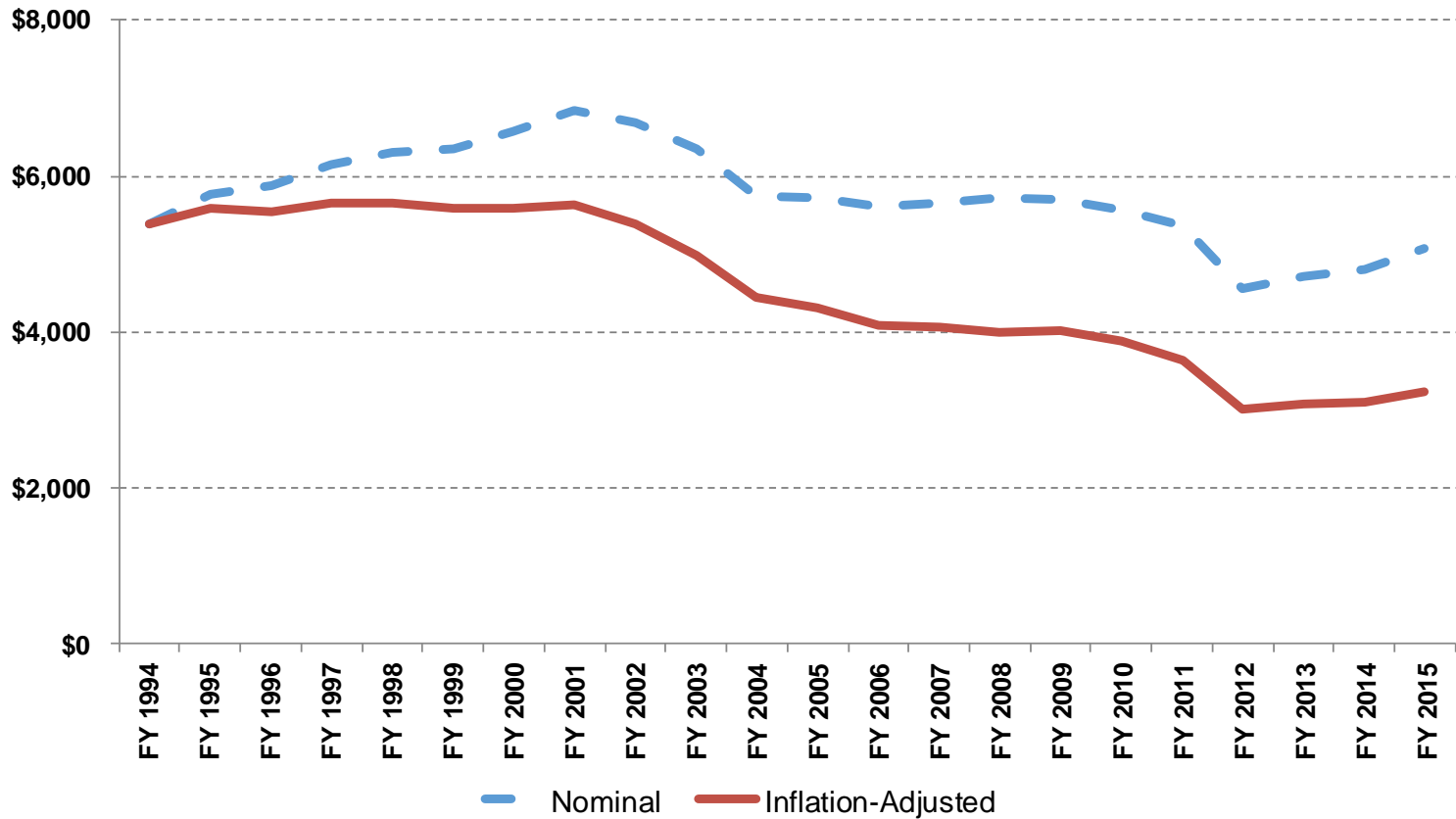
University Appropriations per Student

FY 2014-15 appropriations per FY 2013-14 FYES vary from \$2,830 to \$8,414.



Historical University Appropriations per Student

Total FY 2014-15 university appropriations per FYES are 25.7 percent lower than they were in FY 2000-01—or 42.6 percent lower on an inflation-adjusted basis.



Tuition Restraint Policies

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
Limit on Resident Undergraduate Tuition/Fee Increases	7.1%	4.0%	3.75%	3.2%
Total Funding for University Operations: Change from Prior Year	15.0% reduction (across-the-board)	3.0% (\$9.1 million) increase (varies by university)	1.8% (\$21.9 million) performance increase (varies by university)	5.9% (\$74.6 million) total performance increase (varies by university)
Funding Contingent on Tuition Restraint	\$83.0 million of remaining base funding	\$9.1 million incentive funding	\$21.9 million performance funding	\$74.6 million performance funding
Average Actual Tuition/Fee Increase	7.0%	3.4%	3.5%	2.8%
Noncompliant Universities	None	None	Wayne State	None

MSU AgBioResearch and Extension

An appropriation of **\$59.6 million GF/GP** is made to Michigan State University to operate two statewide programs:

- **MSU AgBioResearch: \$32.0 million**
Agriculture research program operated by MSU at 14 locations across state.

- **MSU Extension: \$27.6 million**
Program jointly funded by counties to extend MSU's public service mission across state in a variety of program areas:
 - Agriculture and Natural Resources
 - Children, Youth, and Family (including 4-H)
 - Community Economic Development

Michigan State receives additional funding for these programs from federal, private, and local sources.

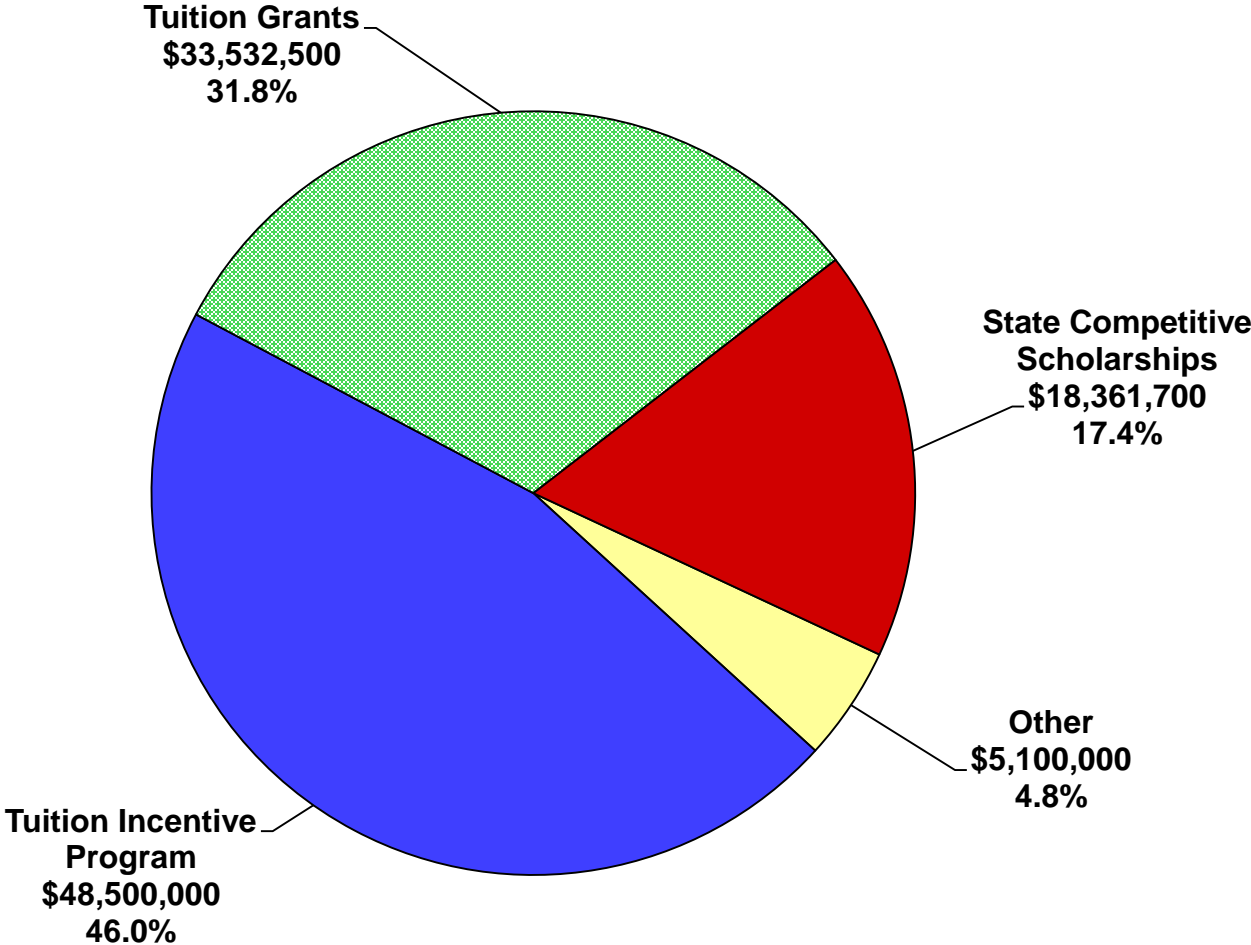
Grants and Financial Aid

Total Appropriation: \$105.5 million

- **Tuition Grants (\$33.5 million)**
Need-based awards to students attending independent colleges; FY 2014-15 awards of up to \$1,626, with total awards at Baker College and Davenport University capped at \$3.2 million each.
- **State Competitive Scholarships (\$18.4 million)**
Awards to students with both qualifying ACT score and financial need; \$676 maximum award for FY 2014-15.
- **Tuition Incentive Program (\$48.5 million)**
Payment of associate's degree tuition costs and up to \$2,000 for bachelor's degree for students eligible for Medicaid-eligible middle school and high school students.
- **Project GEAR UP (\$3.2 million)**
Federally funded awards targeted to students in urban school districts.
- **Children of Veterans and Officer's Survivor Tuition Grant Programs (\$1.4 million)**
Grants to children of deceased or disabled veterans and children of police officers and firefighters killed in the line of duty.
- **North American Indian Tuition Waivers (\$500,000)**
Supplements funding incorporated in operations grants to partially offset the costs of waiving tuition for North American Indians as required by 1976 PA 174.

Financial Aid Appropriations

FY 2014-15 Total = \$105,494,200



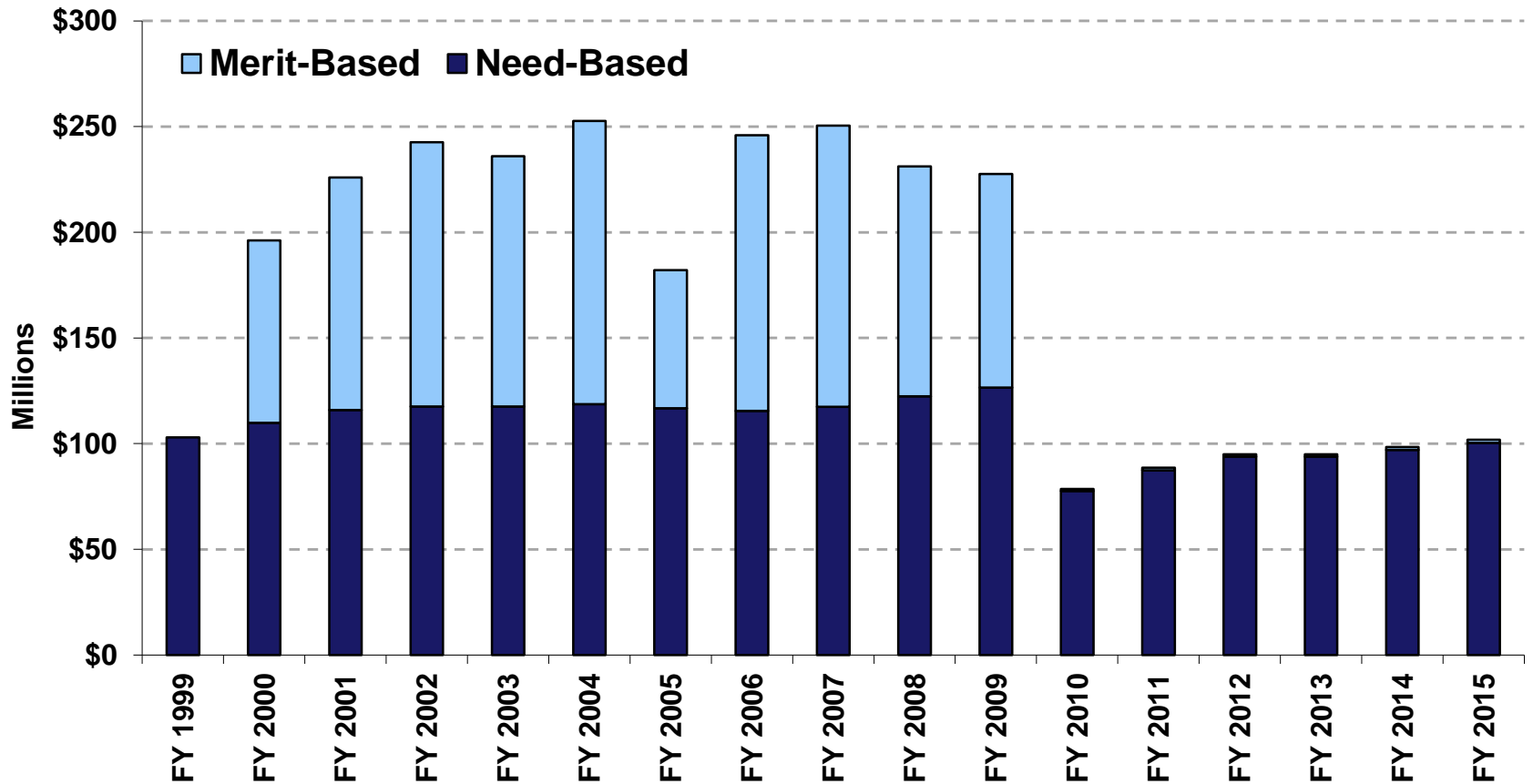
Financial Aid Fund Sources

In recent years, federal Temporary Assistance to Needy Families (TANF) funding has been used to support the three major state financial aid programs.

Program	Federal	Restricted	GF/GP	Total	%
Tuition Incentive Program	\$43,800,000	\$0	\$4,700,000	\$48,500,000	46.0%
Tuition Grants	\$31,664,700	\$0	\$1,867,800	\$33,532,500	31.8%
State Competitive Scholarships	\$18,361,700	\$0	\$0	\$18,361,700	17.4%
Project Gear-Up	\$3,200,000	\$0	\$0	\$3,200,000	3.0%
Veterans' Children/ Officers' Survivors	\$0	\$100,000	\$1,300,000	\$1,400,000	1.3%
Indian Tuition Waiver*	\$0	\$0	\$500,000	\$500,000	0.5%
TOTAL	\$97,026,400	\$100,000	\$8,367,800	\$105,494,200	100.0%

* Indian tuition waiver appropriation of \$500,000 is in addition to baseline funding incorporated in university operations appropriations

Changes in State-Funded Financial Aid by Category



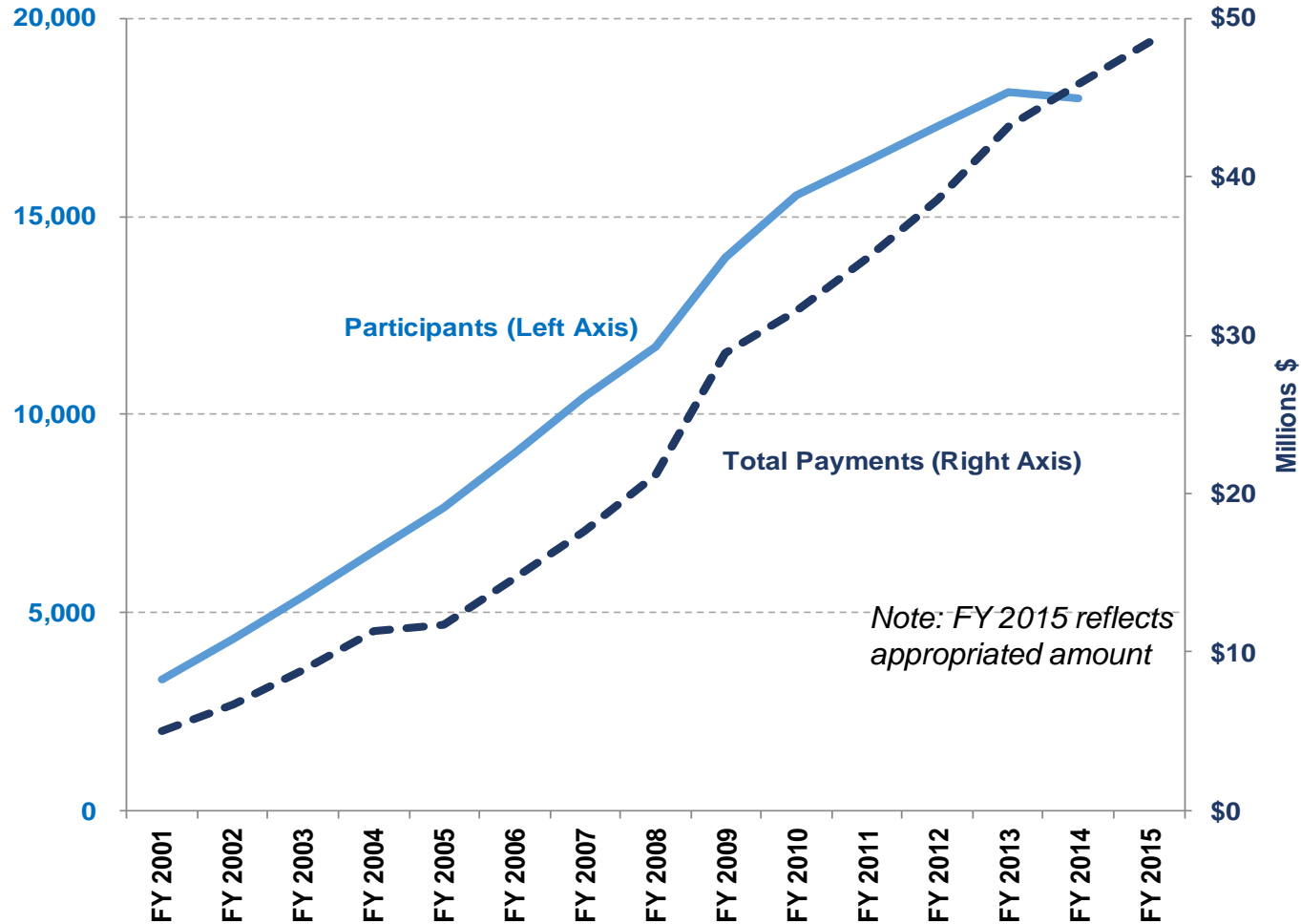
Note: Excludes federally-initiated and Indian tuition waiver programs

Tuition Incentive Program (TIP)

- Established in FY 1986-87 as incentive for low-income students to complete high school and enroll in college. Student's family must be Medicaid-eligible for 24 months within a consecutive 36-month period to enroll in program.
- Program has two phases:
 - **Phase I:** Associate's degree tuition costs (limited to average community college tuition rate for students at private institutions)
 - **Phase II:** Up to \$2,000 total toward completion of bachelor's degree
- Large potential pool of participants: Department of Treasury sends about 280,000 letters to eligible students each year.
- About 75% of Phase I students enrolled at community colleges. Number of students claiming Phase II awards is much smaller.
- Because of Medicaid caseload growth and increasing participation rates, program costs have increased from \$5.0 million in FY 2000-01 to projected \$48.5 million in FY 2014-15. About 18,000 students currently receive TIP assistance.

TIP Participation and Expenditures

After years of steady growth, TIP participation declined slightly in FY2014, when declines of 3.5% at community colleges and independent institutions were only partially offset by a 10% increase at state universities. Well over half of all TIP participants are at community colleges.



Other State-Funded Programs

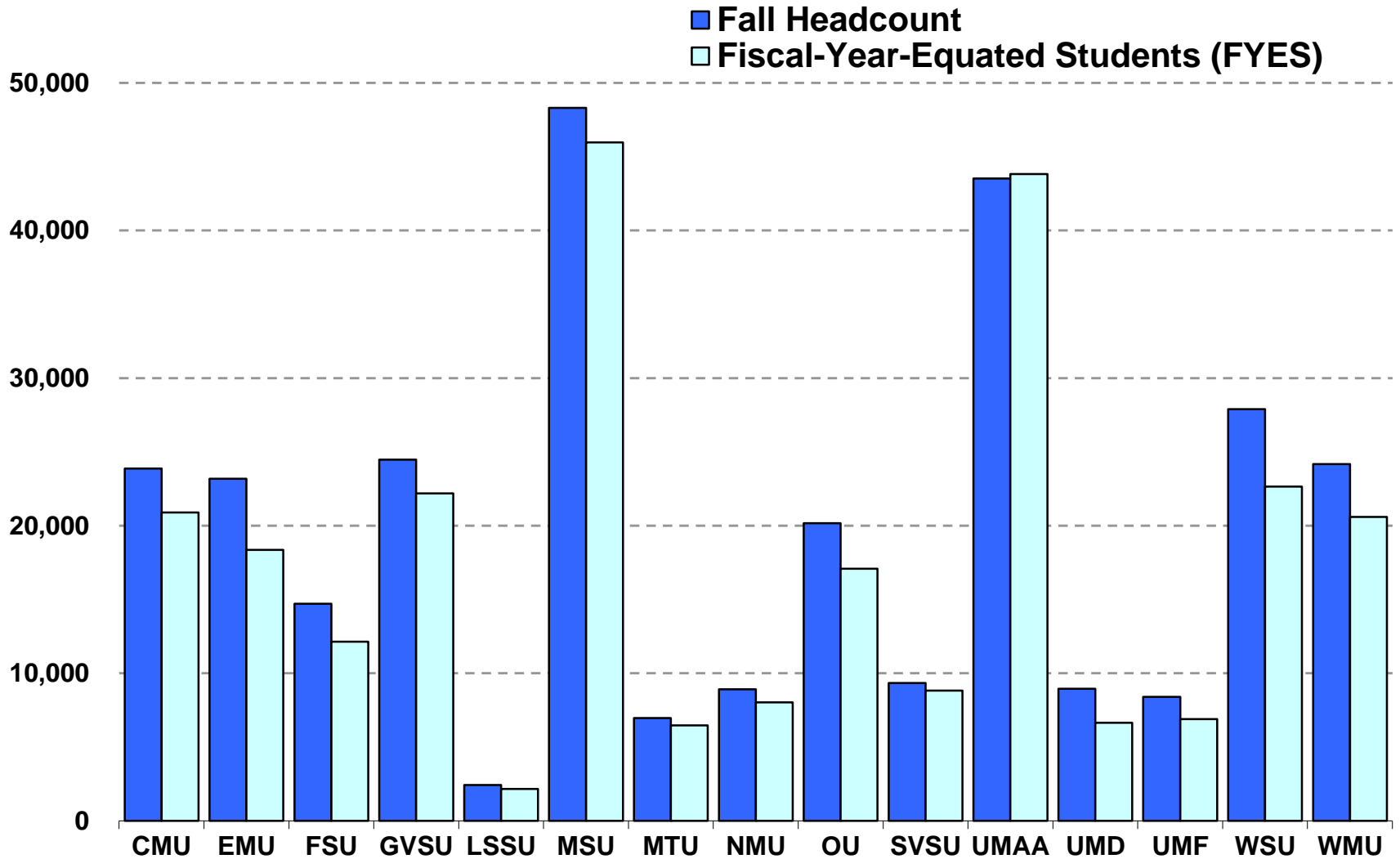
- **MPSERS Reimbursement: \$6.4 million Gross (GF/GP and SAF)**
Includes \$4.0 million in one-time appropriations. Partial reimbursement for retiree health care costs to seven universities with employees in Michigan Public School Employees' Retirement System (MPSERS): CMU, EMU, FSU, LSSU, MTU, NMU, WMU. Employees hired since 1996 do not enter MPSERS.
- **King-Chavez-Parks: \$2.7 million GF/GP**
Grant programs to increase participation of academically or economically disadvantaged students in postsecondary education. Additional funds allocated from public university base appropriations.
- **College Access Program: \$2.0 million GF/GP**
Grant to increase college readiness and participation through local college access networks, one-stop online portal, and other efforts.
- **Higher Education Database: \$200,000 GF/GP**
Maintenance of Higher Education Institutional Data Inventory (HEIDI), to which public universities submit enrollment and finance data annually.
- **Midwestern Higher Education Compact: \$95,000 GF/GP**
Dues for interstate compact to realize economies of scale and provide other higher education-related assistance.

PUBLIC UNIVERSITY DATA

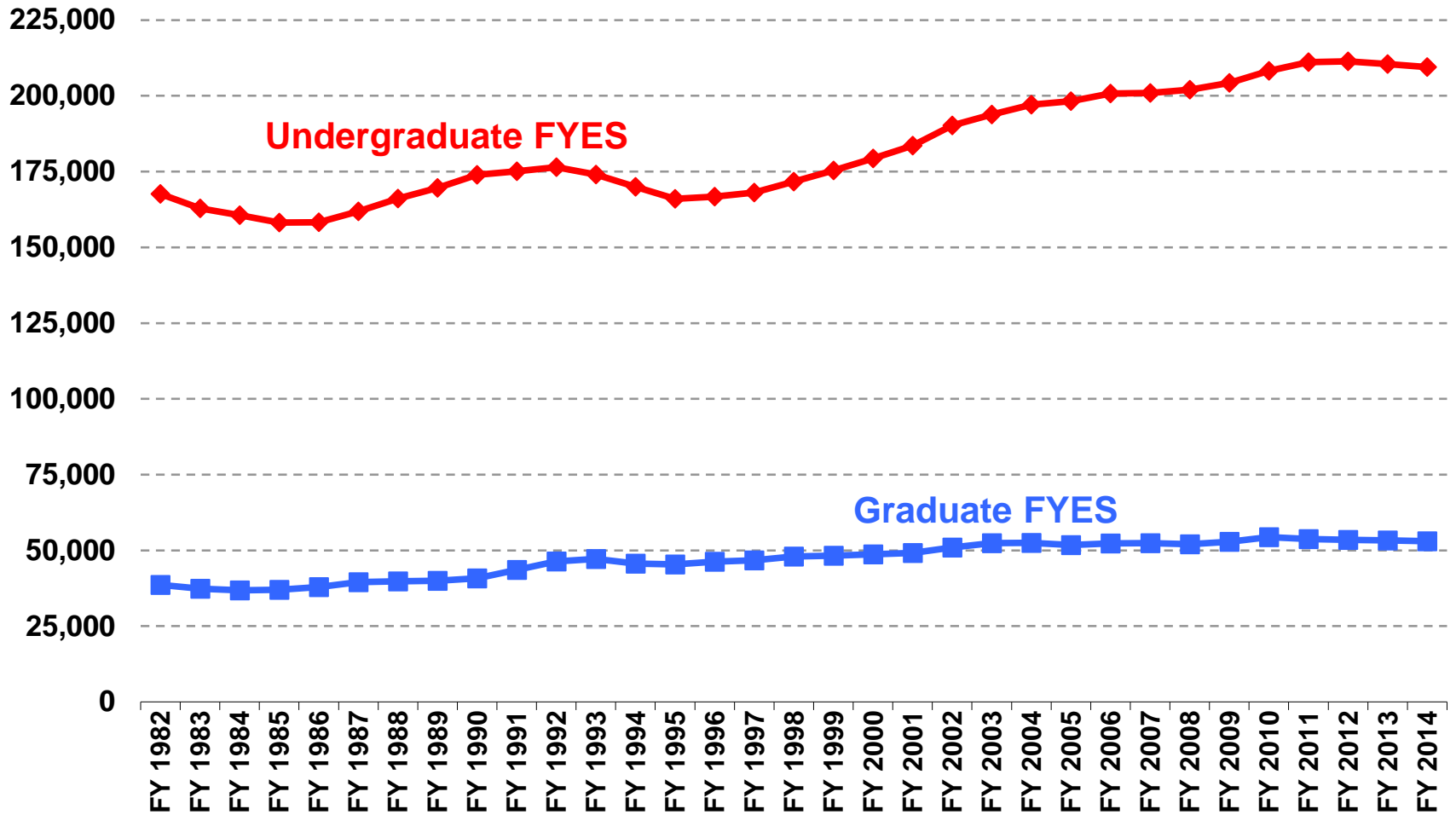
Key Data Definitions

- As required by statute and budget act provisions, the 15 public universities annually submit enrollment, finance, and other institutional data to the state's Higher Education Institutional Data Inventory (HEIDI).
- Enrollment definitions:
 - **Student Headcount:** Number of individual students enrolled for at least one class at a university.
 - **Fiscal Year Equated Students (FYES):** Calculated equivalent of the number of full-time students enrolled at a university.
- Finance definitions:
 - **Current Fund:** All revenue/expenditures for current operations—including auxiliary operations, such as hospitals and dormitories, and operations funded from restricted sources, such as research grants.
 - **General Fund:** Subset of current fund revenue/expenditures for instruction and related activities; nearly all general fund revenue received through state appropriations and student tuition/fees.

FY 2013-14 Public University Enrollments

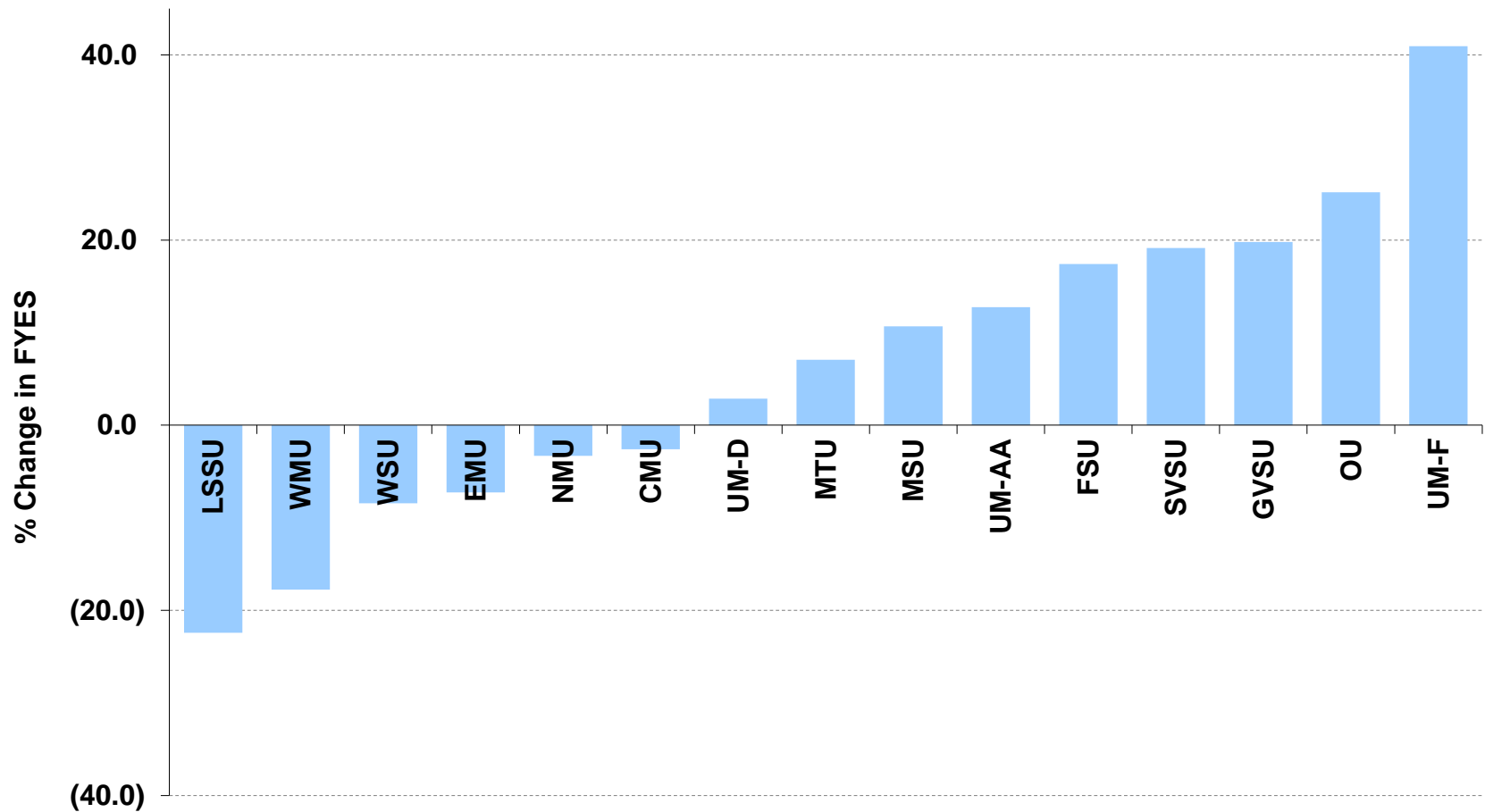


Public University Enrollment History



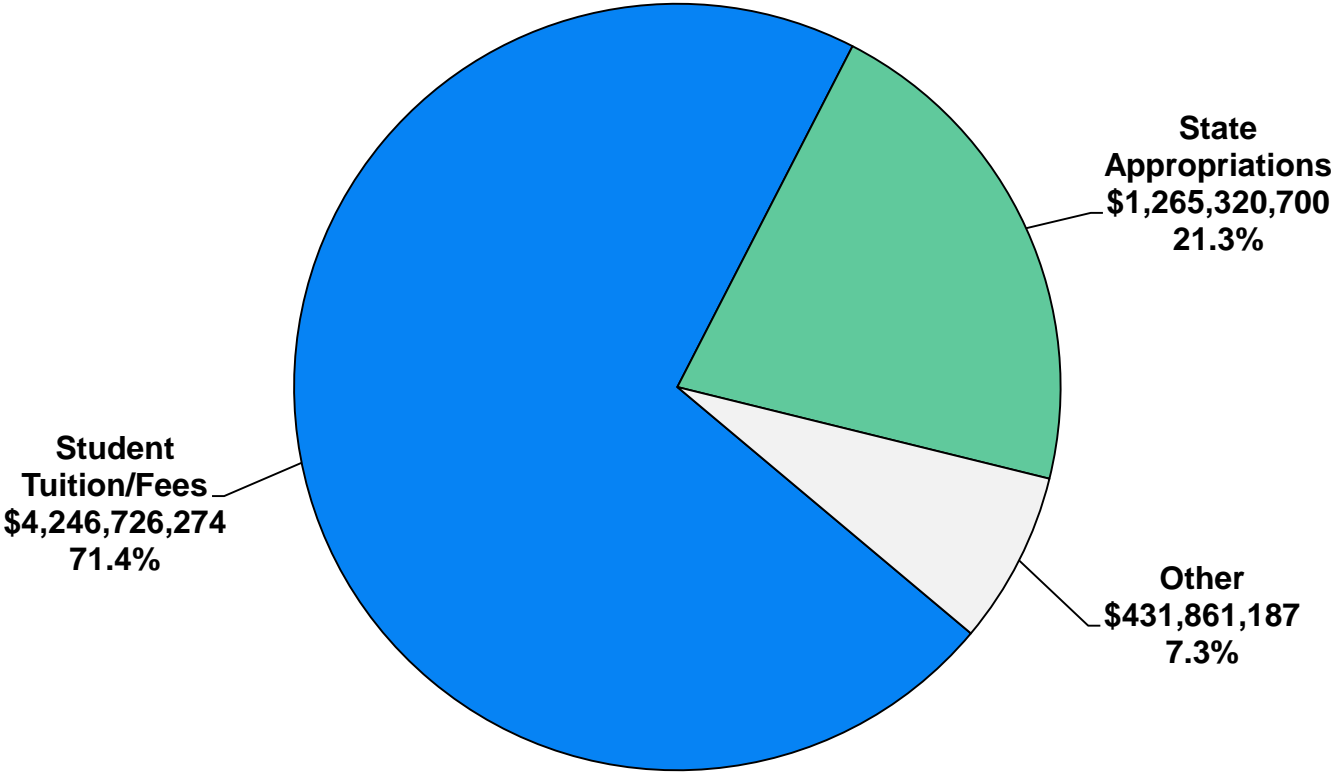
University Enrollment

% Change in FYES: FY 2003-04 to FY 2013-14

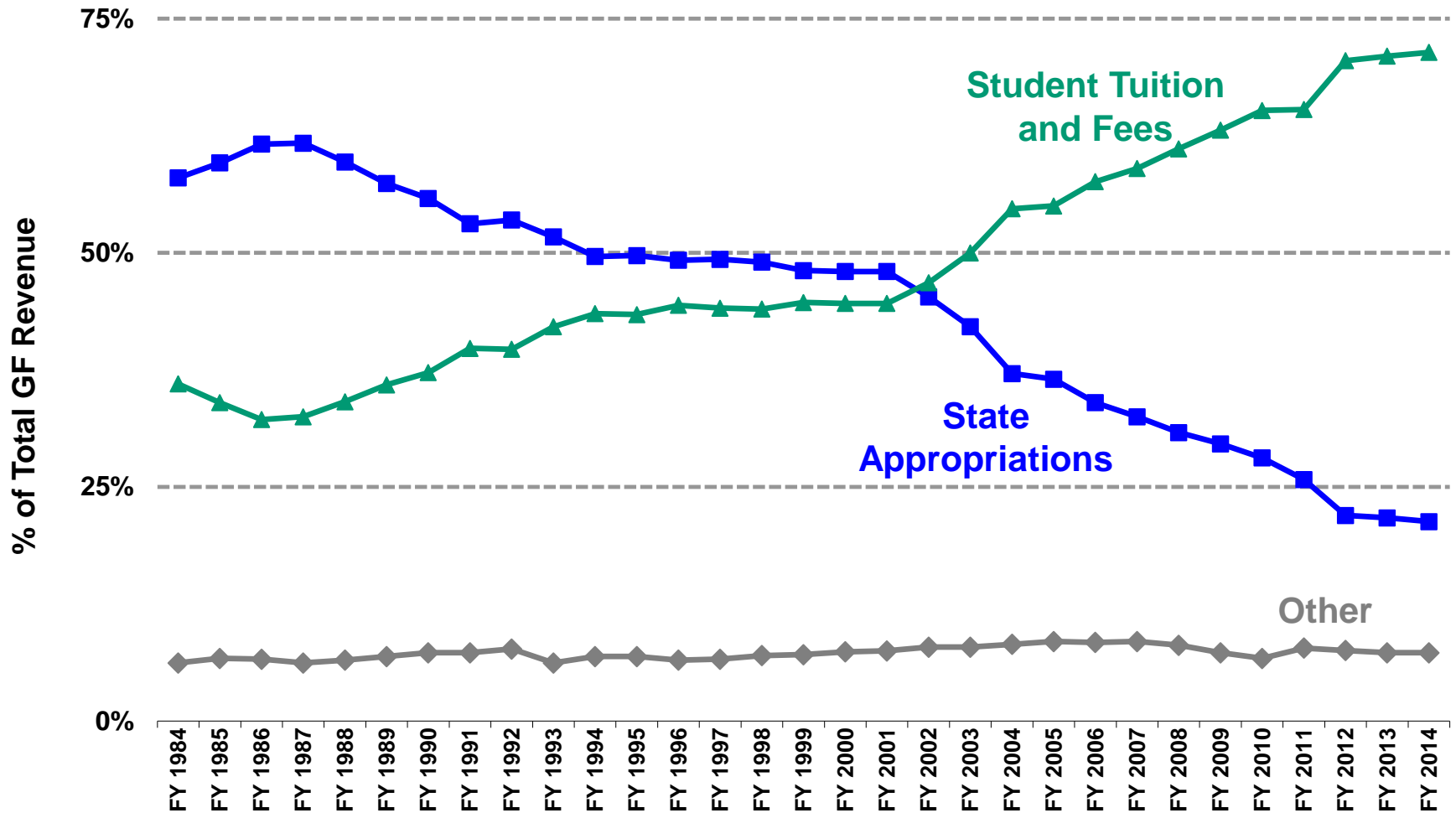


Public University General Fund Revenue

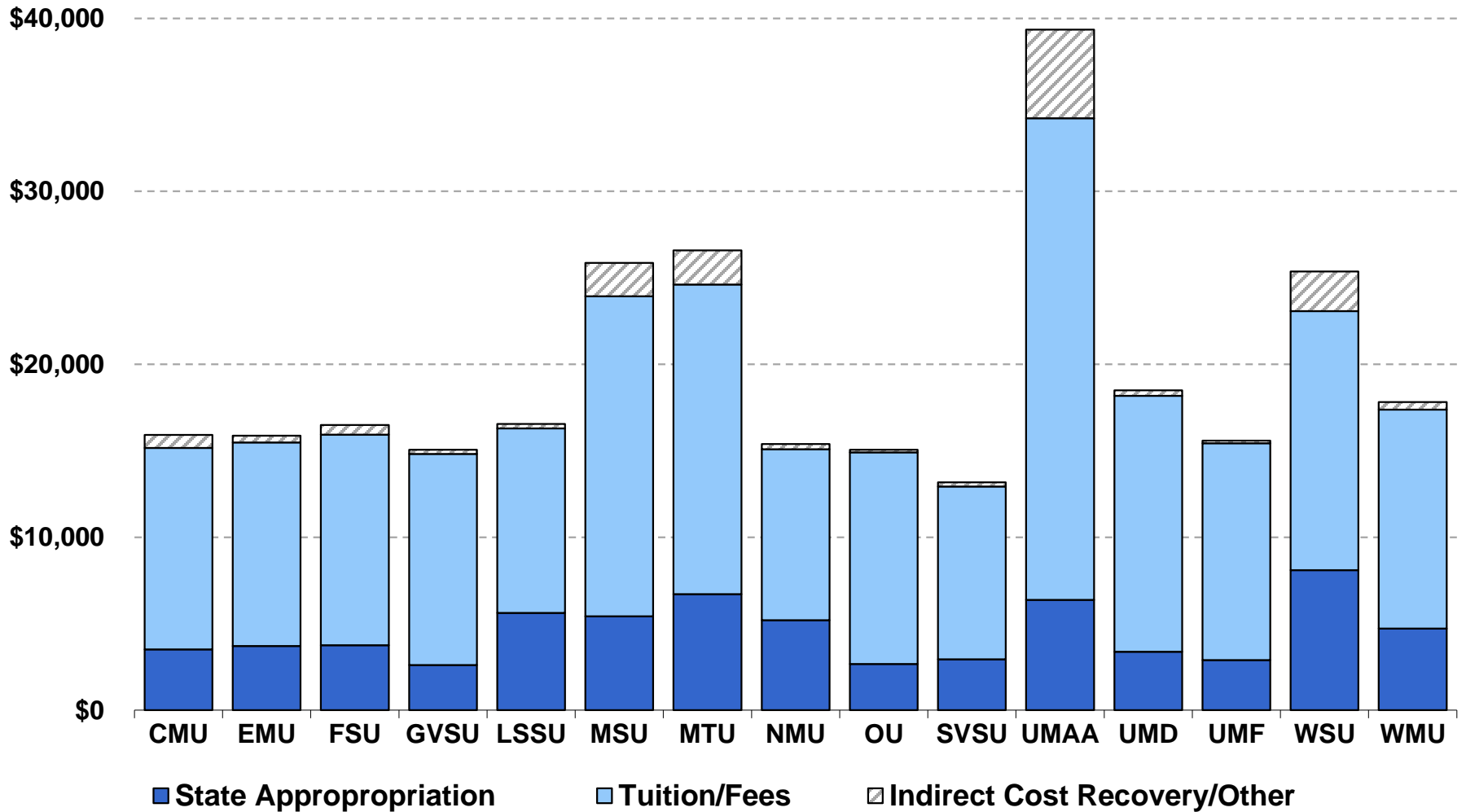
FY 2013-14 Total = \$5.9 Billion



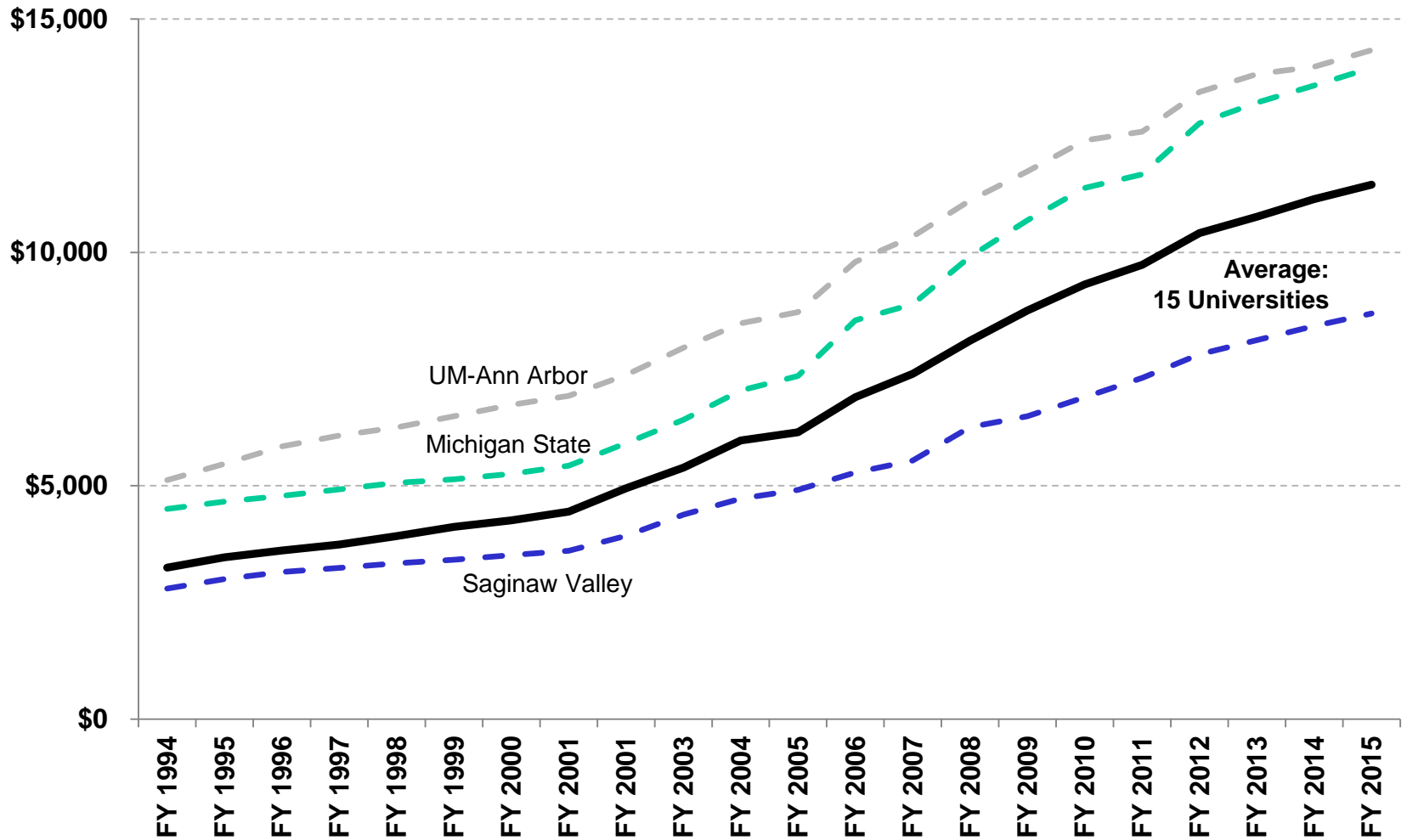
Public University General Fund Revenue Source History



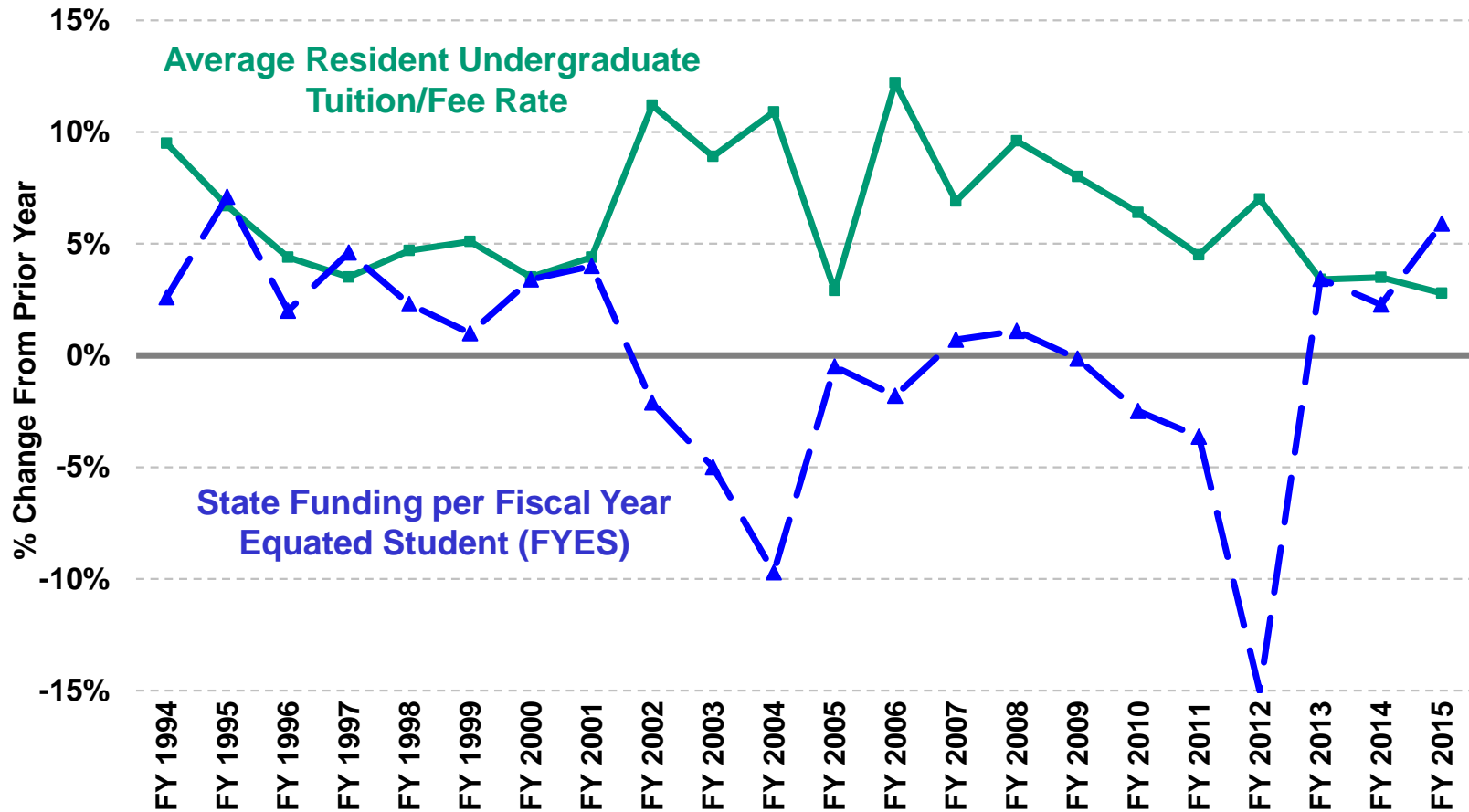
Public University General Fund Revenue per FYES: FY 2013-14



Average Resident Undergraduate Tuition and Fee Rate



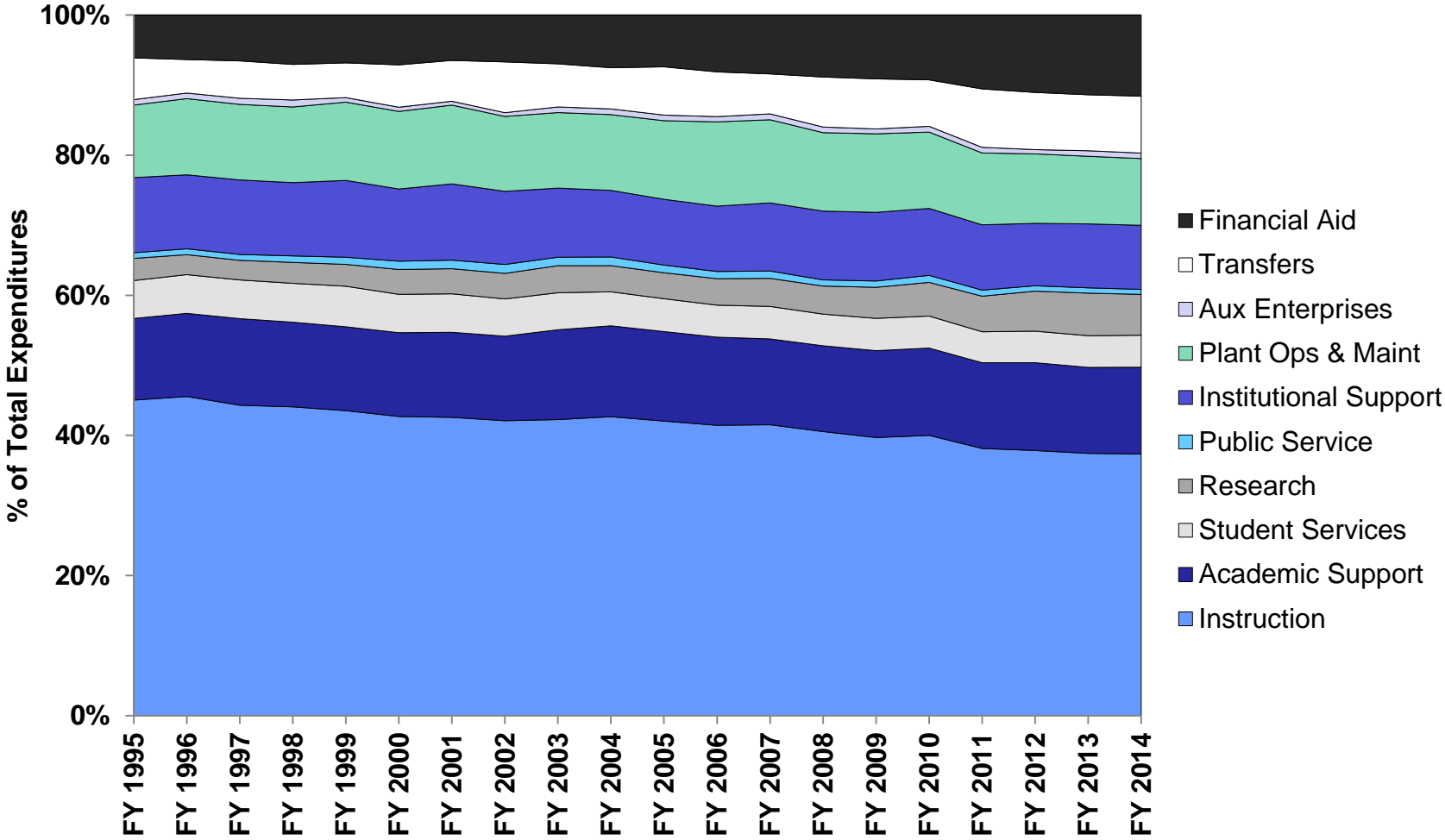
Tuition Rates and State Funding



Notes:

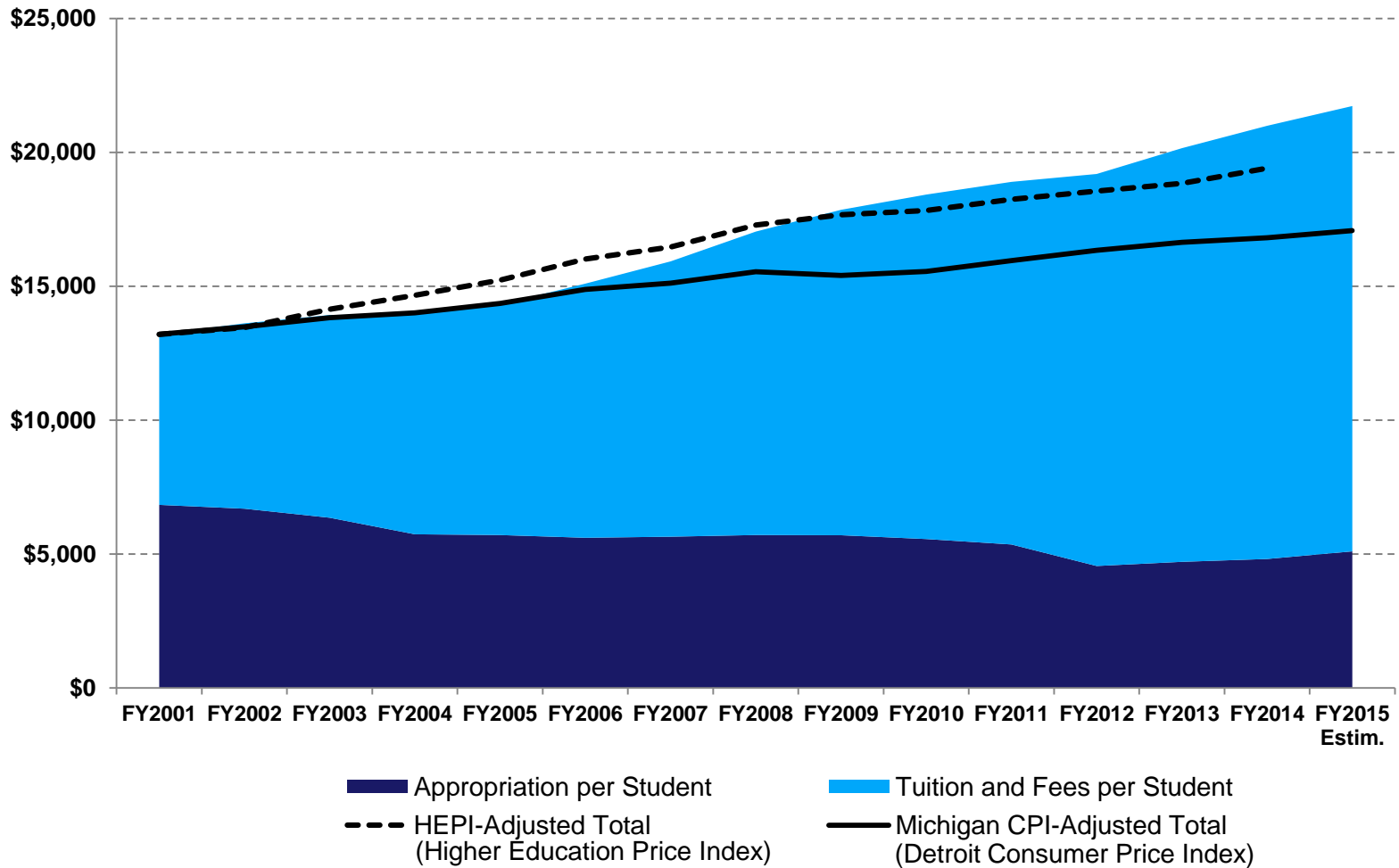
1. Tuition Restraint policies were in place for FYs 2005 and 2012 through 2015
2. FY 2015 State Funding per FYES assumes FY 2014 numbers of FYES

Public University General Fund Expenditures

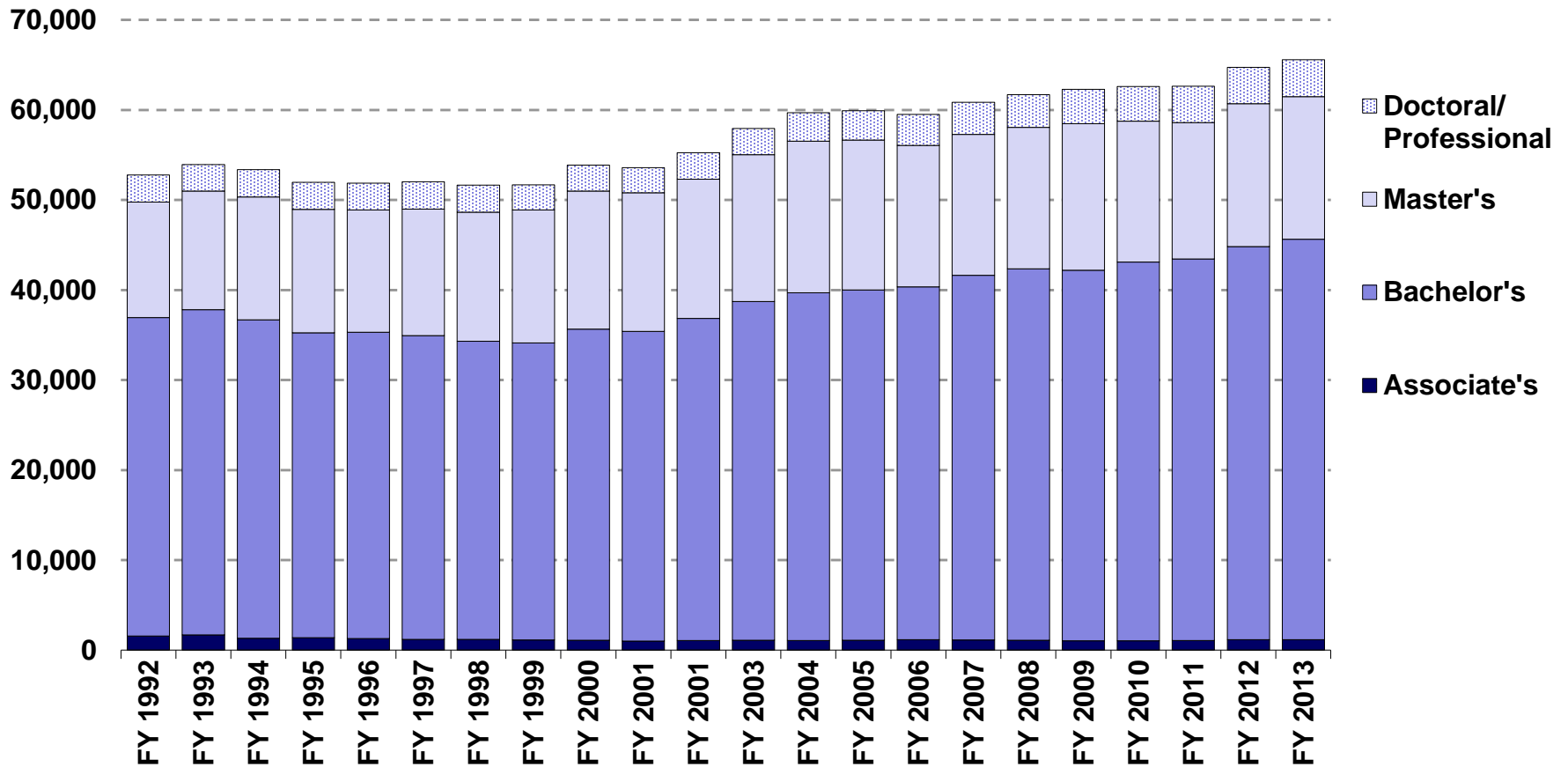


University Operating Resources per FYES

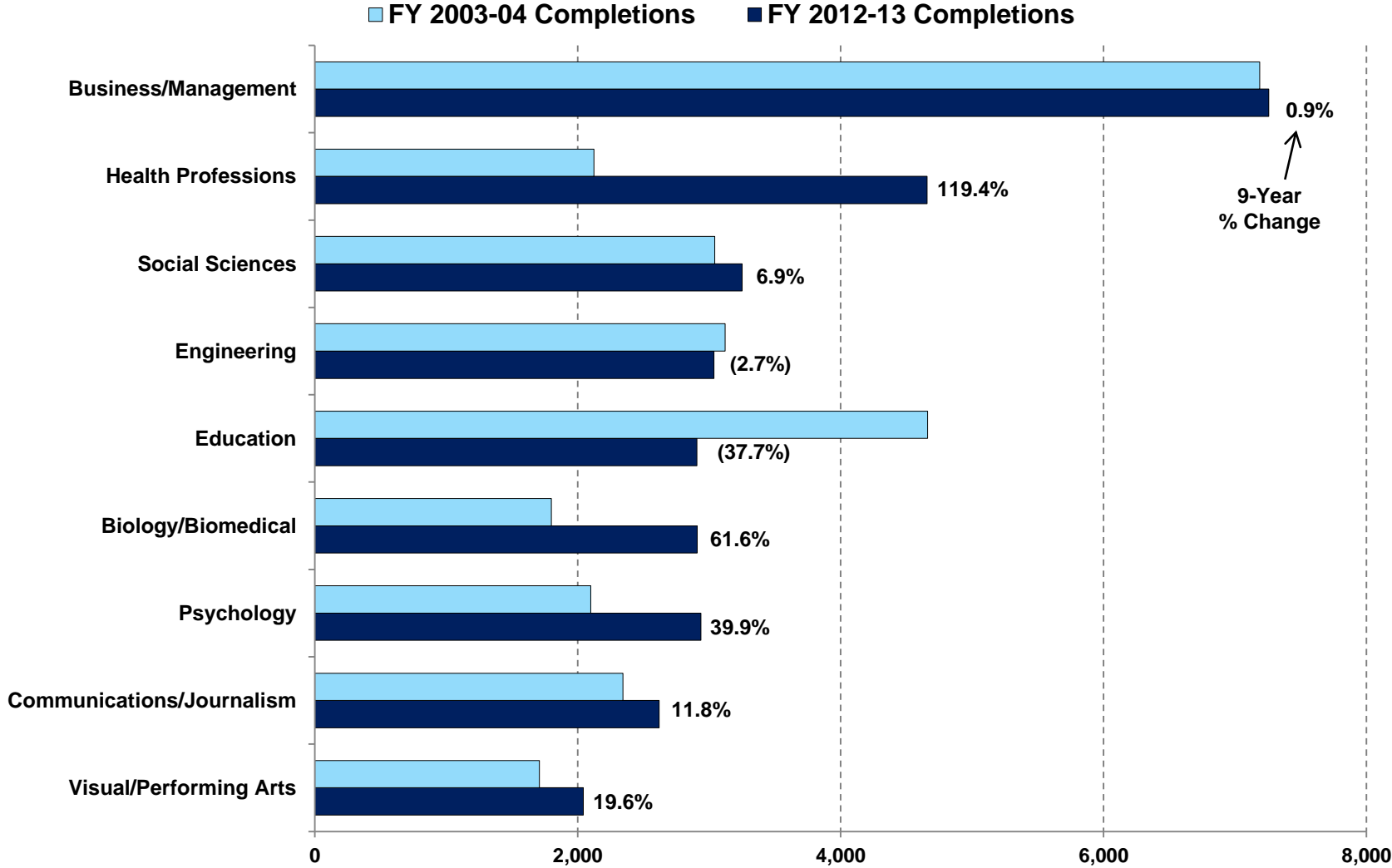
Since about FY 2012, growth in revenue per student has exceeded the rate of inflation.



Degree Completions at Public Universities



Major Public University Bachelor's Degree Program Areas



↑
9-Year
% Change

Major Challenges Going Forward

- **Declining Enrollment**
 - FY 2012-13 was the first year that total public university enrollment had fallen since FY 1994-95, and enrollment continued to decline in FY 2013-14.
 - The number of public high school graduates in Michigan is projected to decline by 19% from FY 2007-08 to FY 2020-21.
- **Funding Mix:** Due to reduced state support and an increasing reliance on tuition and fee revenue, a 5% increase in tuition revenue increases total operating revenue by more than 3.5%, whereas a 5% increase in state appropriations yields little more than a 1% increase in total operating revenue.
- **Performance Funding:** Universities must balance performance goals (critical skills area degree completion, for example) against cost control.
- For more information, see the HFA report “State Appropriations, Tuition, and Public University Operating Costs”:
http://www.house.mi.gov/hfa/PDF/HigherEducation/State_Appropriations_Tuition,and_Public_University_OperatingCosts.pdf

**For more information about the
Higher Education budget, contact:**

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