

MEMORANDUM



DATE: March 2, 2010
TO: House Appropriations Subcommittee on Higher Education
FROM: Kyle I. Jen, Associate Director
RE: Tuition Incentive Program

The Tuition Incentive Program (TIP) is a state-funded financial aid program targeted toward low-income middle school and high school students. Students who certify as eligible for the program and go on to graduate from high school are eligible to have tuition costs reimbursed for associate's degree studies at a Michigan postsecondary institution. Over the last decade, expenditures for TIP have experienced roughly a six-fold increase—increasing from \$5.0 million in FY 2000-01 to the current amount of \$31.2 million for FY 2009-10.

The FY 2010-11 Executive Recommendation for the Higher Education budget includes a reduction in the appropriation for TIP from \$31.2 million to \$30.1 million. The proposed reduction of \$1.1 million is the net result of two adjustments:

- An increase of \$6.2 million for a projected increase in the costs of paying financial aid awards to students eligible under the program's current provisions.
- A reduction of \$7.3 million to account for savings under two proposed policy changes to the program.

This memo provides background information on TIP, examines the large increase in program expenditures in recent years, and provides information on the proposed policy changes to the program's provisions under the FY 2010-11 Executive Recommendation.

Program Background and Provisions

The Tuition Incentive Program was initially established in the FY 1986-87 Higher Education budget act. Since that time, the program's provisions have been renewed each year in the annual Higher Education budget act, with various revisions made over time. Beginning with FY 2000-01, administrative responsibility for the program was shifted from the Family Independence Agency to the Department of Treasury. The program does not have a permanent governing statute.

In recent years, funding for the program has been appropriated from a combination of Merit Award Trust Fund and GF/GP revenue. For FY 2009-10, only \$1.1 million is appropriated from GF/GP revenue; the remaining \$30.1 million is appropriated from the Merit Award Trust Fund (which receives a portion of Michigan's share of tobacco settlement revenue). The FY 2010-11 Executive Recommendation would fund the TIP appropriation entirely from Merit Award Trust fund revenue.

Section 310 of Public Act 132 of 2009 ([Attachment 1](#)) contains the provisions governing TIP for FY 2009-10. The program is open to students who certify as Medicaid-eligible for 24 months within a 36-month period between the 6th and 12th grades. Certified students who graduate from high school or earn a General Education Development (GED) certificate are then eligible for two phases of the program:

Phase I: Tuition/fee costs are paid for up to 80 semester credits leading to an associate's degree or certificate.

Phase II: Students are eligible for up to \$2,000 toward the costs of pursuing a bachelor's degree.

Given that the certification process for the program begins in the 6th grade, the program has historically been viewed as an incentive for low-income students to graduate from high school and enroll in college.

Other significant program provisions are as follows:

- Participants must be less than 20 years old at the time of high school graduation or GED completion and be both a U.S. citizen and Michigan resident.
- Under Phase I, in-district community college tuition/fees (out-of-district tuition/fees for students residing outside a college district) are paid. For students enrolled in an associate's degree or certificate program at a state university, lower division resident tuition/fees are paid. For students enrolled at an independent college/university, a tribal community college, or Focus: HOPE, an amount up to the average community college in-district tuition rate is paid.¹
- To be eligible for Phase II, a student must either (1) complete 56 semester credits or (2) obtain an associate's degree. Under Phase II, up to \$500 per semester for four semesters (\$2,000 total) is available for bachelor's degree coursework at a Michigan college or university. The coursework must be completed within 30 months of completion of Phase I requirements.
- The department is instructed to work closely with participating institutions to develop an application and eligibility process that will provide the highest level of participation and to ensure that the program is well-publicized and that potentially-eligible Medicaid clients receive information about the program.
- Institutions are required to ensure that all available restricted grants for tuition and fees are used prior to billing TIP for tuition/fee costs. Participants are required to have requested information on the Free Application for Federal Student Aid (FAFSA), which is the basis for federal Pell Grant and other financial aid awards.

The Department of Treasury indicates that Medicaid clients who are determined to be eligible to certify as TIP participants are notified of their eligibility. Approximately 183,000 letters are sent out to such clients each year; only about 20,000 recipients of those letters respond in order to certify as TIP-eligible.

TIP Payments by Institution/Sector

Attachment 2 shows TIP payments amounts by institution and sector for FY 2008-09. The vast majority of TIP payments were made for Phase I of the program—\$25.8 million was paid to 12,769 students enrolled at institutions in the three higher education sectors:

- 10,109 students attending community colleges received awards totaling \$15.1 million.
- 1,148 students enrolled in associate's degree or certificate programs at public universities received awards totaling \$7.5 million. Four public universities in Michigan offer associate's degree programs: Ferris State, Lake Superior State, Michigan Tech, and Northern Michigan. Michigan State offers certain certificate programs that are eligible for TIP Phase I enrollment.
- 1,512 students attending independent institutions received awards totaling \$3.2 million.

¹ Focus: HOPE is a civil and human rights organization in Detroit that offers a number of career preparation programs in the areas of information technology, manufacturing, and engineering.

Payments for Phase II of TIP—\$500 per semester toward completion of a bachelor's degree—totaled just \$1.0 million in FY 2008-09. This is due to (1) the more limited payment amounts under Phase II and (2) a relatively low number of students continuing from Phase I to Phase II. The number of Phase II participants was equal to just 9.3 percent of the number of Phase I participants. Over 80% of Phase II expenditures occurred at public universities.

Historical Expenditure Information

The table below shows the total number of awards and total payment amounts for TIP since the program was moved to the Department of Treasury in FY 2000-01.

Tuition Incentive Payment History *Totals for both Phase I and Phase II*

<u>Fiscal Year</u>	<u>Number of Awards</u>	<u>Total Payments</u>	<u>Average Payment</u>
2000-01	3,318	\$5,017,937	\$1,512
2001-02	4,325	6,641,827	1,536
2002-03	5,401	8,874,659	1,643
2003-04	6,529	11,281,722	1,728
2004-05	7,637	11,705,483	1,533
2005-06	9,046	14,694,653	1,624
2006-07	10,462	17,600,277	1,682
2007-08	12,041	21,798,128	1,810
2008-09	13,957	26,861,948	1,925
Annualized % Change	19.7	23.3	3.1

Over the nine-year period, total TIP payments grew at an annualized rate of 23.3%. This growth was driven mainly by an increase in the number of participating students. The number of TIP recipients more than quadrupled over the time period—growing at an annualized rate of 19.7%. The average payment amount, meanwhile, grew at an annualized rate of just 3.1%.²

The growth in the number of TIP awards and total payments amounts over the last decade correlates with growth of 52.6% in the state's Medicaid caseload over roughly the same time period. Additionally, participation rates have increased as the program has become more widely publicized.

Growth in program expenditures has been fairly evenly distributed across the three higher education sectors. From FY 2000-01 to FY 2008-09:

- Total payments at community colleges grew by 511.0%.
- Total payments at public universities grew by 318.2%.
- Total payments at independent institutions grew by 324.6%.

² The reduction in the average payment amount from FY 2003-04 to FY 2004-05 was the result of an effort by the Department of Treasury to limit payment of tuition/fee charges above standard per-credit hour tuition charges. Absent that administrative policy change, the annualized growth rate in the average payment amount over the full 8-year period would have been approximately 5-6%.

Proposed Policy Changes for FY 2010-11

The FY 2010-11 Executive Recommendation for the Higher Education budget proposes to make two policy changes to the provisions for TIP.

Limit Reimbursed Costs at Public Universities: *Estimated savings of \$6.2 million*

Currently, a student enrolled in an associate's degree program at a public university under Phase I of TIP is eligible to have the university's full lower division tuition/fee rate paid on his or her behalf. Under the proposed change for FY 2010-11, only the amount of the average in-district community college tuition/fee rate would be paid.

This proposed change would substantially reduce payments amount for students enrolled at public universities. The average Phase I payment amount for students at public universities in FY 2008-09 was \$6,542, with expected growth for FYs 2009-10 and 2010-11. Under the proposed change, the estimated maximum payment amount would be \$2,800.

This proposed change is estimated to save \$6.2 million for FY 2010-11. The savings would be realized from reductions in payments for students at the five public universities offering programs eligible for Phase I of TIP: Ferris State, Lake Superior State, Michigan State, Michigan Tech, and Northern Michigan. Total Phase I payments at those institutions would be reduced from an estimated \$9.0 million to \$2.8 million. It's also possible that, if the policy change were implemented, some TIP students who otherwise would have enrolled at a public university would instead enroll at a community college (where the full tuition/fee rate would be reimbursed).

Eliminate Phase II of Program: *Estimated savings of \$1.1 million*

Under the Executive Recommendation, Phase II of TIP would be eliminated. The current payments of \$500/semester toward completion of a bachelor's degree following completion of an associate's degree (or the equivalent amount of credits) would no longer be paid.

This proposed change is estimated to save \$1.1 million for FY 2010-11. In FY 2008-09, students at 50 public and private 4-year institutions received TIP payments under Phase II of the program.

In sum, the two proposed policy changes would result in estimated savings of \$7.3 million for FY 2010-11, offsetting the \$6.2 million in projected growth in program costs. The appropriation for TIP would be reduced from the current FY 2009-10 level of \$31.2 million to an FY 2010-11 amount of \$30.1 million.

Please call if you have questions about this topic.

Attachments (2)

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ATTACHMENT 1
FY 2009-10 Tuition Incentive Program Budget Bill Language
Section 310 of Public Act 132 of 2009

Sec. 310. (1) The funds appropriated in part 1 for the tuition incentive program shall be distributed as provided in this section and pursuant to the administrative procedures for the tuition incentive program of the department of treasury.

(2) As used in this section:

(a) "Phase I" means the first part of the tuition incentive assistance program defined as the academic period of 80 semester or 120 term credits, or less, leading to an associate degree or certificate.

(b) "Phase II" means the second part of the tuition incentive assistance program which provides assistance in the third and fourth year of 4-year degree programs.

(c) "Department" means the department of treasury.

(3) A person shall meet the following basic criteria and financial thresholds to be eligible for tuition incentive benefits:

(a) To be eligible for phase I, a person shall meet all of the following criteria:

(i) Apply for certification to the department before graduating from high school or completing the general education development (GED) certificate.

(ii) Be less than 20 years of age at the time of high school graduation or GED completion.

(iii) Be a United States citizen and a resident of Michigan according to institutional criteria.

(iv) Be at least a half-time student, earning less than 80 semester or 120 term credits at a participating educational institution within 4 years of high school graduation or GED certificate completion.

(v) Request information on filing a FAFSA.

(b) To be eligible for phase II, a person shall meet either of the following criteria in addition to the criteria in subdivision (a):

(i) Complete at least 56 transferable semester or 84 transferable term credits.

(ii) Obtain an associate degree or certificate at a participating institution.

(c) To be eligible for phase I or phase II, a person must be financially eligible as determined by the department. A person is financially eligible for the tuition incentive program if that person was Medicaid eligible for 24 months within the 36 months before application. Certification of eligibility may begin in the sixth grade.

(4) For phase I, the department shall provide payment on behalf of a person eligible under subsection (3). The department shall reject billings that are excessive or outside the guidelines for the type of educational institution.

(5) For phase I, all of the following apply:

(a) Payments for associate degree or certificate programs shall not be made for more than 80 semester or 120 term credits for any individual student at any participating institution.

(b) For persons enrolled at a Michigan community college, the department shall pay the current in-district tuition and mandatory fees. For persons residing in an area that is not included in any community college district, the out-of-district tuition rate may be authorized.

(c) For persons enrolled at a Michigan public university, the department shall pay lower division resident tuition and mandatory fees for the current year.

(d) For persons enrolled at a Michigan independent, nonprofit degree-granting college or university, or a Michigan federal tribally controlled community college, or Focus: HOPE, the department shall pay mandatory fees for the current year and a per-credit payment that does not exceed the average community college in-district per-credit tuition rate as reported on August 1, for the immediately preceding academic year.

(6) A person participating in phase II may be eligible for additional funds not to exceed \$500.00 per semester or \$400.00 per term up to a maximum of \$2,000.00 subject to the following conditions:

(a) Credits are earned in a 4-year program at a Michigan degree-granting 4-year college or university.

(b) The tuition reimbursement is for coursework completed within 30 months of completion of the phase I requirements.

(7) The department shall work closely with participating institutions to develop an application and eligibility determination process that will provide the highest level of participation and ensure that all requirements of the program are met.

(8) Applications for the tuition incentive program may be approved at any time after the student begins the sixth grade. If a determination of financial eligibility is made, that determination is valid as long as the student meets all other program requirements and conditions.

(9) Each institution shall ensure that all known available restricted grants for tuition and fees are used prior to billing the tuition incentive program for any portion of a student's tuition and fees.

(10) The department shall ensure that the tuition incentive program is well publicized and that potentially eligible Medicaid clients are provided information on the program. The department shall provide the necessary funding and staff to fully operate the program.

ATTACHMENT 2
Tuition Incentive Program - Fiscal Year 2008-09
Phase I and Phase II Payments

<u>Institution</u>	<u>Phase I</u>		<u>Phase II</u>	
	<u>Students</u>	<u>Dollars</u>	<u>Students</u>	<u>Dollars</u>
Alpena Community College	175	\$389,105		
Bay de Noc Community College	165	362,846		
Bay Mills Community College	13	29,065		
Delta College	603	1,008,799		
Glen Oaks Community College	47	70,569		
Gogebic Community College	62	116,878		
Grand Rapids Community College	675	1,173,478		
Henry Ford Community College	864	1,193,068		
Jackson Community College	181	366,624		
Kalamazoo Valley Community College	340	408,993		
Kellogg Community College	254	401,605		
Kirtland Community College	140	235,095		
Lake Michigan College	185	315,905		
Lansing Community College	522	832,034		
Macomb Community College	611	742,104		
Mid Michigan Community College	226	444,059		
Monroe County Community College	100	128,643		
Montcalm Community College	84	123,786		
Mott Community College	729	1,249,791		
Muskegon Community College	240	344,851		
North Central Michigan College	131	266,500		
Northwestern Michigan College	259	575,306		
Oakland Community College	725	762,967		
St. Clair County Community College	202	422,105		
Schoolcraft College	225	308,502		
Southwestern Michigan College	108	185,354		
Washtenaw Community College	299	406,426		
Wayne County Community College	1,862	2,158,314		
West Shore Community College	82	122,669		
SUBTOTAL: COMMUNITY COLLEGES	10,109	\$15,145,441	N/A	N/A
Central Michigan University	0	\$0	72	\$67,500
Eastern Michigan University	0	0	70	70,000
Ferris State University	531	3,484,887	96	76,000
Grand Valley State University	0	0	90	79,500
Lake Superior State University	158	1,138,821	26	21,000
Michigan State University	7	43,575	102	92,000
Michigan Technological University	116	878,670	30	27,500
Northern Michigan University	336	1,964,304	40	34,500
Oakland University	0	0	45	39,000
Saginaw Valley State University	0	0	45	36,500
University of Michigan - Ann Arbor	0	0	64	56,000
University of Michigan - Dearborn	0	0	52	46,000
University of Michigan - Flint	0	0	31	26,000
Wayne State University	0	0	104	99,500
Western Michigan University	0	0	70	61,100
SUBTOTAL: PUBLIC UNIVERSITIES	1,148	\$7,510,257	937	\$832,100

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Tuition Incentive Program - Fiscal Year 2008-09
Phase I and Phase II Payments

<u>Institution</u>	<u>Phase I</u>		<u>Phase II</u>	
	<u>Students</u>	<u>Dollars</u>	<u>Students</u>	<u>Dollars</u>
Adrian College	16	\$30,108	8	\$6,000
Albion College	0	0	4	3,000
Alma College	0	0	9	9,000
Andrews University	0	0	2	2,000
Aquinas College	38	73,584	13	12,000
Baker College of Allen Park	81	158,382	9	8,000
Baker College of Auburn Hills	60	114,978	7	6,800
Baker College of Cadillac	60	118,785	4	4,400
Baker College of Clinton Twp.	176	353,766	20	16,400
Baker College of Flint	202	421,649	8	5,600
Baker College - Graduate Studies	21	37,380	3	2,800
Baker College of Jackson	32	69,357	3	2,800
Baker College of Muskegon	247	529,549	6	6,800
Baker College of Owosso	140	303,424	3	2,000
Baker College of Port Huron	31	64,541	5	4,800
Cleary University	8	17,766	2	1,600
College for Creative Studies	0	0	1	875
Concordia University	8	17,001	3	2,500
Cornerstone University	34	76,510	13	10,000
Davenport University West-GR	105	159,209	12	12,500
Finlandia University	14	32,080	2	2,000
Grace Bible College	8	17,612	1	1,000
Great Lakes Christian College	15	36,982	3	1,500
Hope College	0	0	4	4,000
Kyper College	6	11,629	2	1,500
Lawrence Technological University	19	37,876	11	10,000
Madonna University	7	13,586	8	7,000
Marygrove College	58	121,639	10	7,500
Michigan Jewish Institute	6	12,096	0	0
Northwood University	55	178,164	25	19,200
Olivet College	0	0	9	7,000
Rochester College	10	23,902	5	4,900
Siena Heights University	17	37,506	12	11,500
Spring Arbor University	38	88,514	8	7,500
University of Detroit Mercy	0	0	10	8,500
Walsh College	0	0	6	3,600
SUBTOTAL: INDEPENDENTS	1,512	\$3,157,575	251	\$216,575
GRAND TOTAL	12,769	\$25,813,273	1,188	\$1,048,675

Source: Department of Treasury (12/7/09)