



# Budget Briefing: Higher Education

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# Briefing Topics

- Funding Sources
- Appropriations Areas
- Major Budget Topics
  - Public University Data
  - Continuing Challenges for Higher Education Budget

# Higher Education Budget

- **Article VIII of the State Constitution addresses public universities:**
  - **Section 4** requires Legislature to appropriate funds to maintain Michigan 15 public universities
  - **Section 5** provides for elected boards of control for the University of Michigan, Michigan State, and Wayne State.
  - **Section 6** provides for appointed boards of control for remaining universities
  - **Sections 5 and 6** grant each university board “the control and direction of all expenditures from the institution’s funds.”
- **Annual Higher Education budget:**
  - Provides operational funds to the 15 public universities
  - Funds various financial aid programs
  - Supports several other university-related costs
  - Since FY 2011-12, has been enacted into compiled law as amendments to the School Aid Act.

# Key Budget Terms

**Fiscal Year:** The state's fiscal year (FY) runs from October to September. FY 2016-17 is October 1, 2016 through September 30, 2017.

**Appropriation:** Authority to expend funds. An appropriation is not a mandate to spend. Constitutionally, state funds cannot be expended without an appropriation by the Legislature.

**Line Item:** Specific appropriation amount in a budget bill which establishes spending authorization for a particular program or function.

**Boilerplate:** Specific language sections in a budget bill which direct, limit, or restrict line item expenditures, express legislative intent, and/or require reports.

**Lapse:** Appropriated amounts that are unspent or unobligated at the end of a fiscal year. Appropriations are automatically terminated at the end of a fiscal year unless designated as a multi-year work project under a statutory process. Lapsed funds are available for expenditure in the subsequent fiscal year.

Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

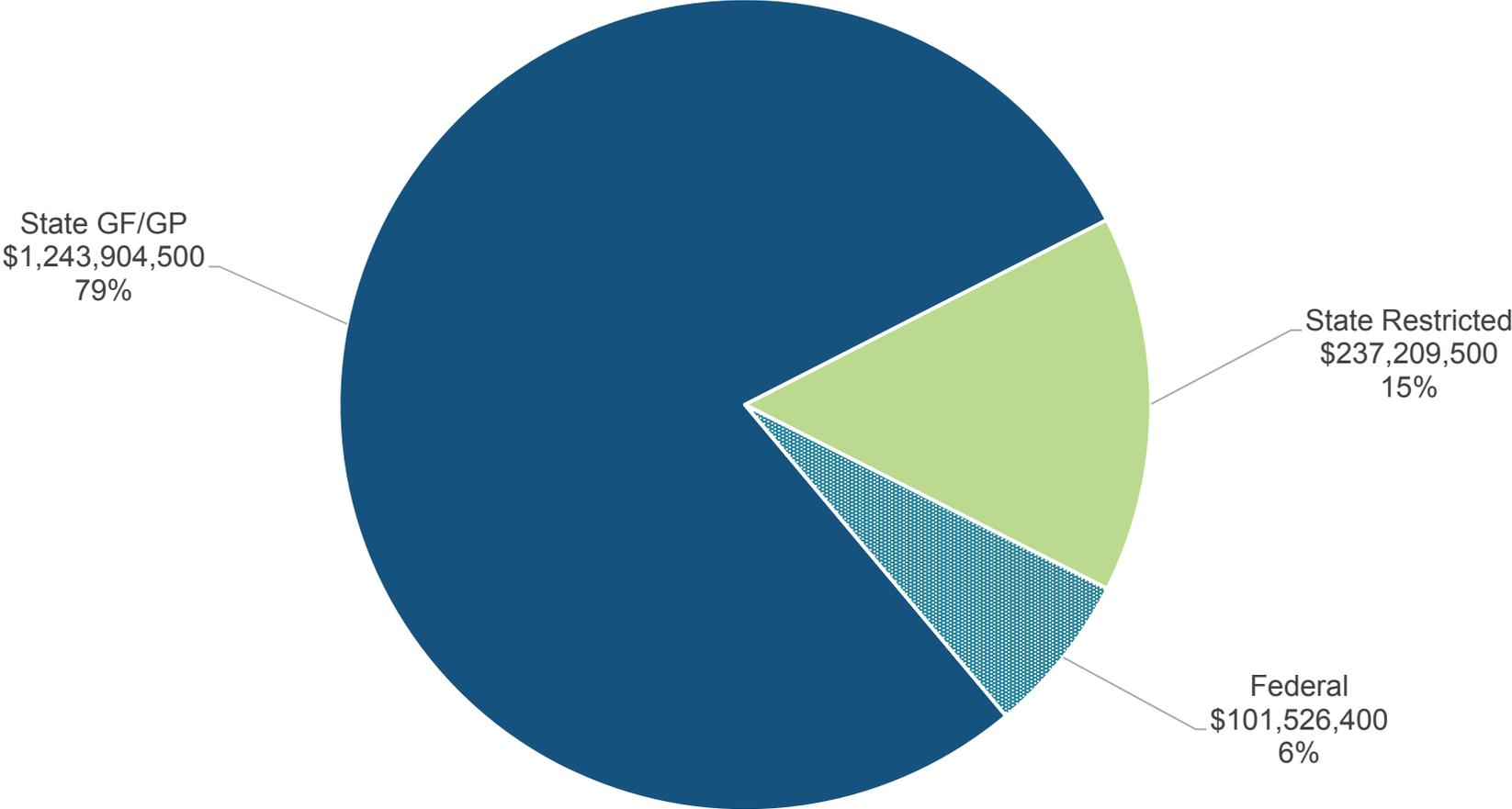
# Funding Sources

# FY 2016-17 Higher Education Budget

Fund Source	Funding	Description
Gross Appropriations	\$1,582,640,400	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	0	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$1,582,640,400	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	101,526,400	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	0	Revenue received from local units of government for state services
Private Revenue	0	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	237,209,500	State revenue restricted by the State Constitution, state statute, or outside restriction that is available only for specified purposes; includes most fee revenue
State General Fund/General Purpose (GF/GP) Revenue	\$1,243,904,500	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the Legislature

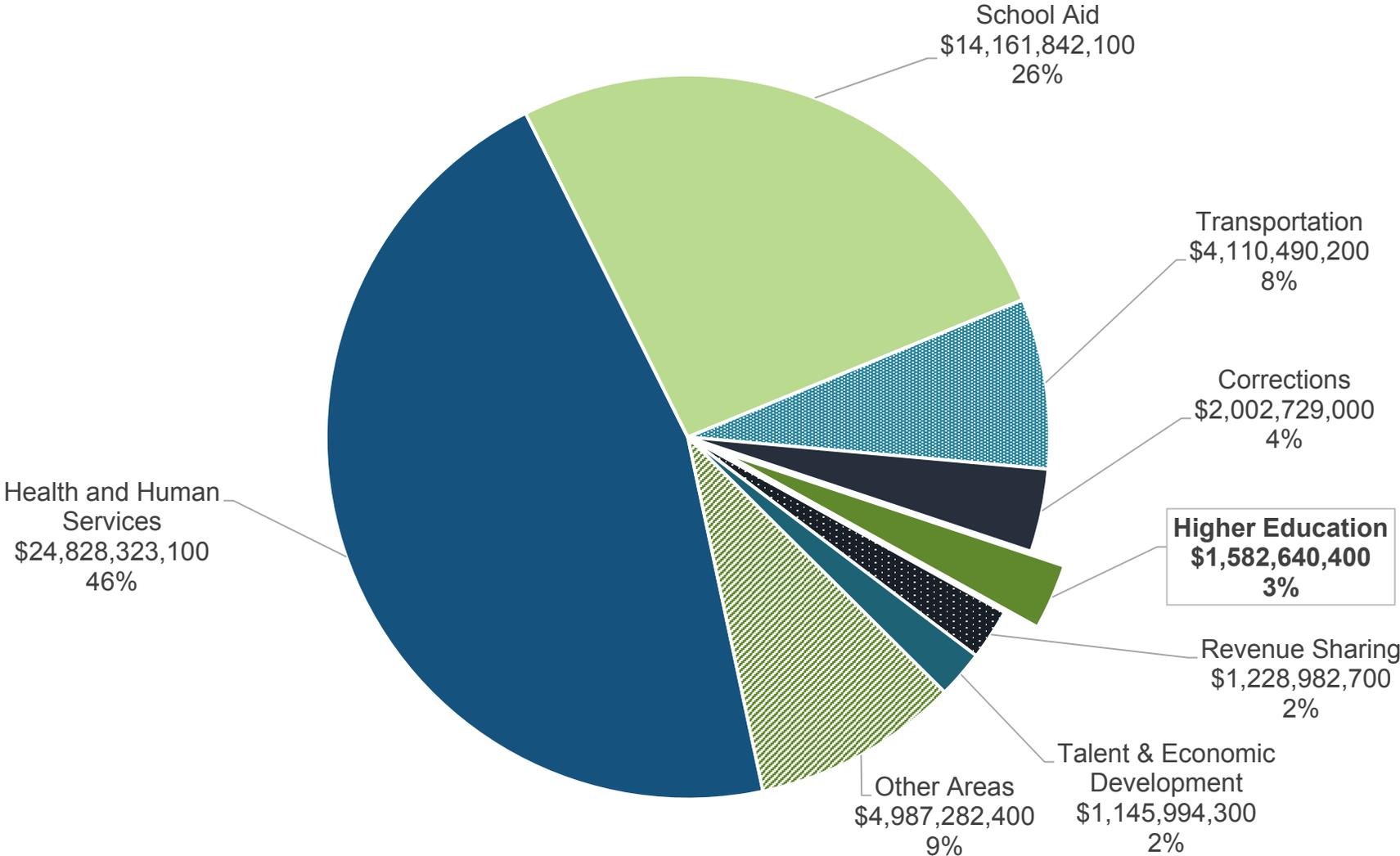
# FY 2016-17 Fund Sources

Nearly 80% of the **\$1.6 billion** Higher Education budget is funded with state General Fund/General Purpose money, the bulk of which is combined with \$237.1 million in School Aid Fund revenues to provide \$1.4 billion for university operations.



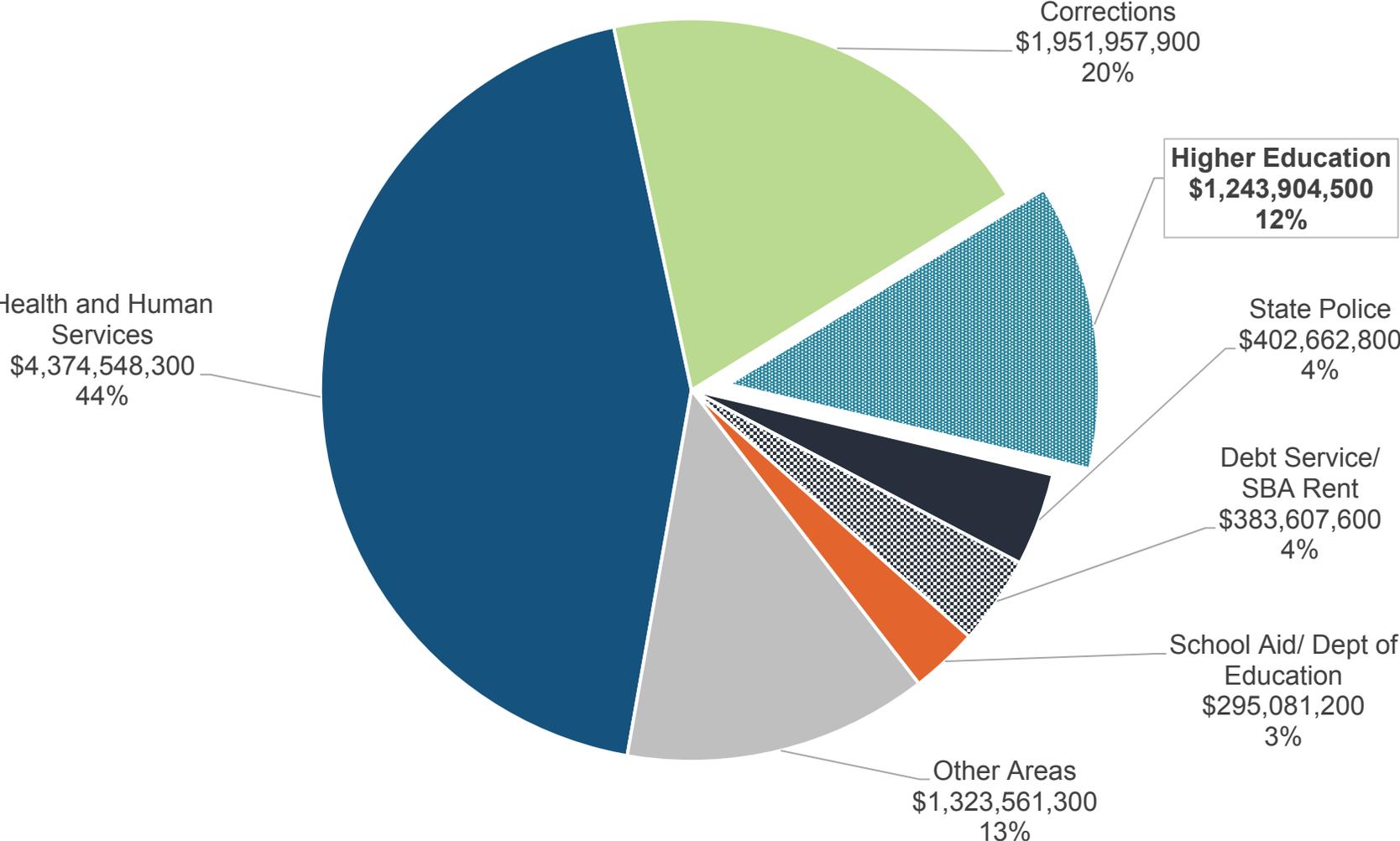
# Higher Ed Share of Total State Budget

The Higher Education budget represents about 3% of the **\$54.0 billion** state budget (adjusted gross) for FY 2016-17.



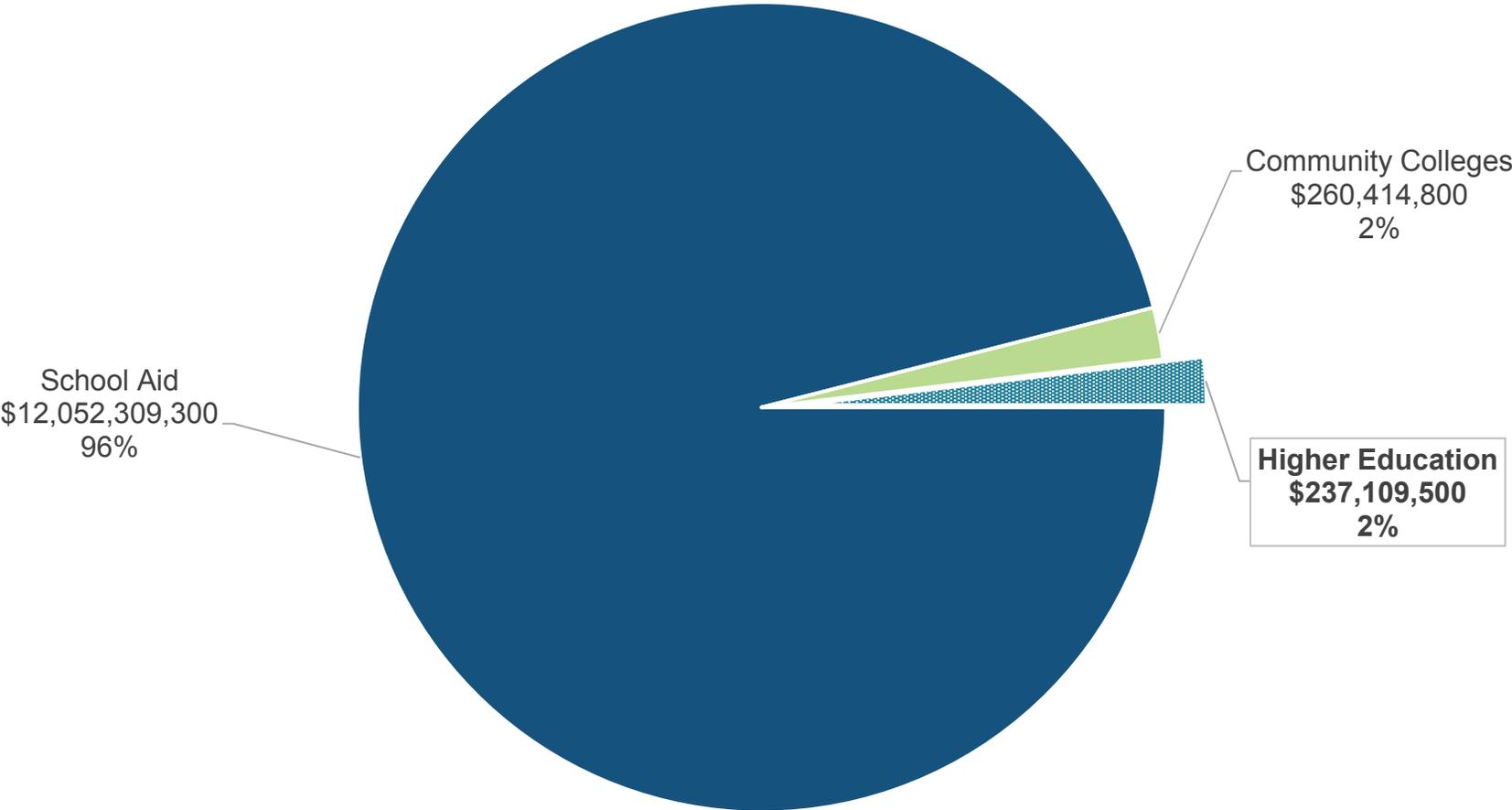
# Higher Ed Share of Total GF/GP Budget

While only 3% of the total state budget, the Higher Ed budget represents about 12% of the state's \$10.0 billion GF/GP budget for FY 2016-17.



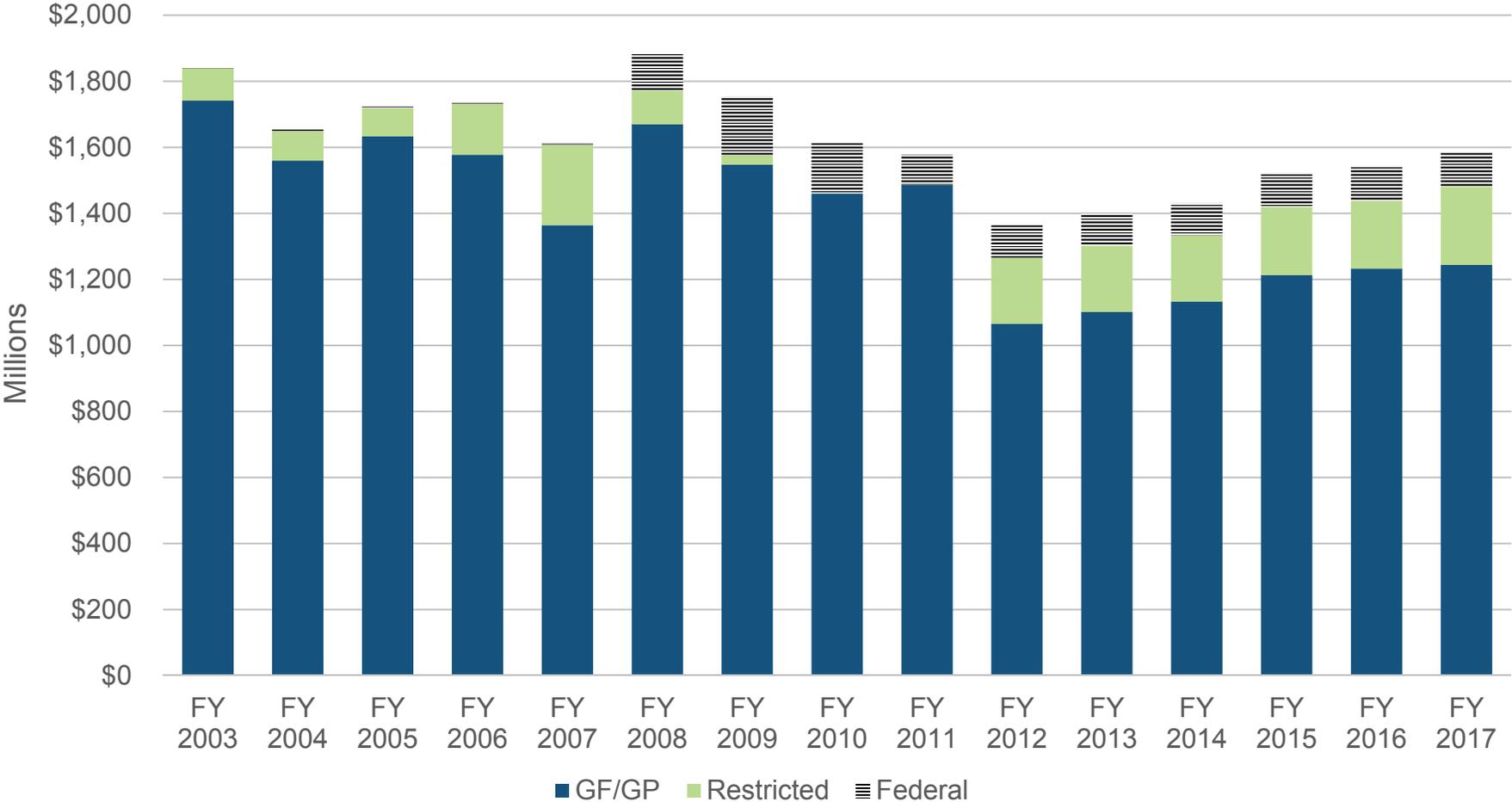
# Higher Education Share of School Aid Fund

The Higher Education budget receives about 2% of the \$12.5 billion in FY 2016-17 state School Aid Fund appropriations.



# Higher Education Funding History

While Higher Education appropriations have grown fairly steadily since FY 2010-11, they are still about 14% below the 15-year peak of \$1.9 billion in FY 2007-08. FY 2007-08 also was the first year that the State started using federal TANF funds to support financial aid programs.



# Appropriation Areas

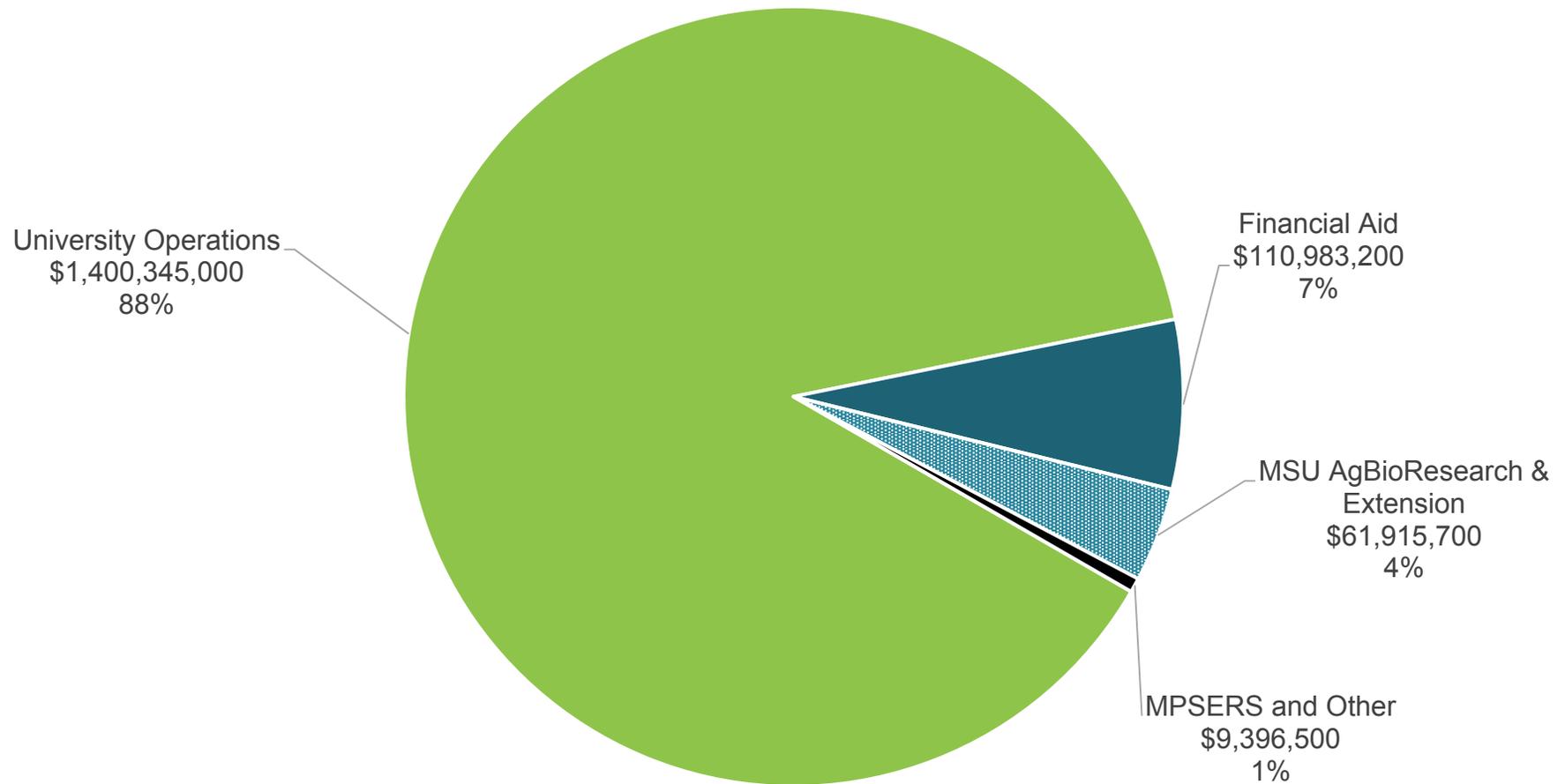
# Higher Education Appropriation Areas

The Higher Education budget funds:

- **Operational support** for the state's 15 public universities, consisting of separate appropriations for baseline (that is, prior-year) funding and FY 2016-17 performance funding increases.
- Support for the **AgBioResearch and Extension** programs at Michigan State University.
- **Financial aid programs** for students attending public or private colleges or universities in Michigan.
- Partial costs of university participation in **MPERS**, the Michigan Public School Employees' Retirement System.
- Various smaller items related to higher education, such as the King-Chavez-Parks program and the state's higher education database (HEIDI), as well as a one-time \$500,000 appropriation for MSU's Diagnostic Center for Population and Animal Health.

# FY 2016-17 Gross Appropriations

Nearly 90% of the Higher Education budget goes to funding public university operations.



# Major Budget Topics

# Michigan's Public Universities

University	Abbreviation	Founded
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 Technological 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

# University Operations Funding

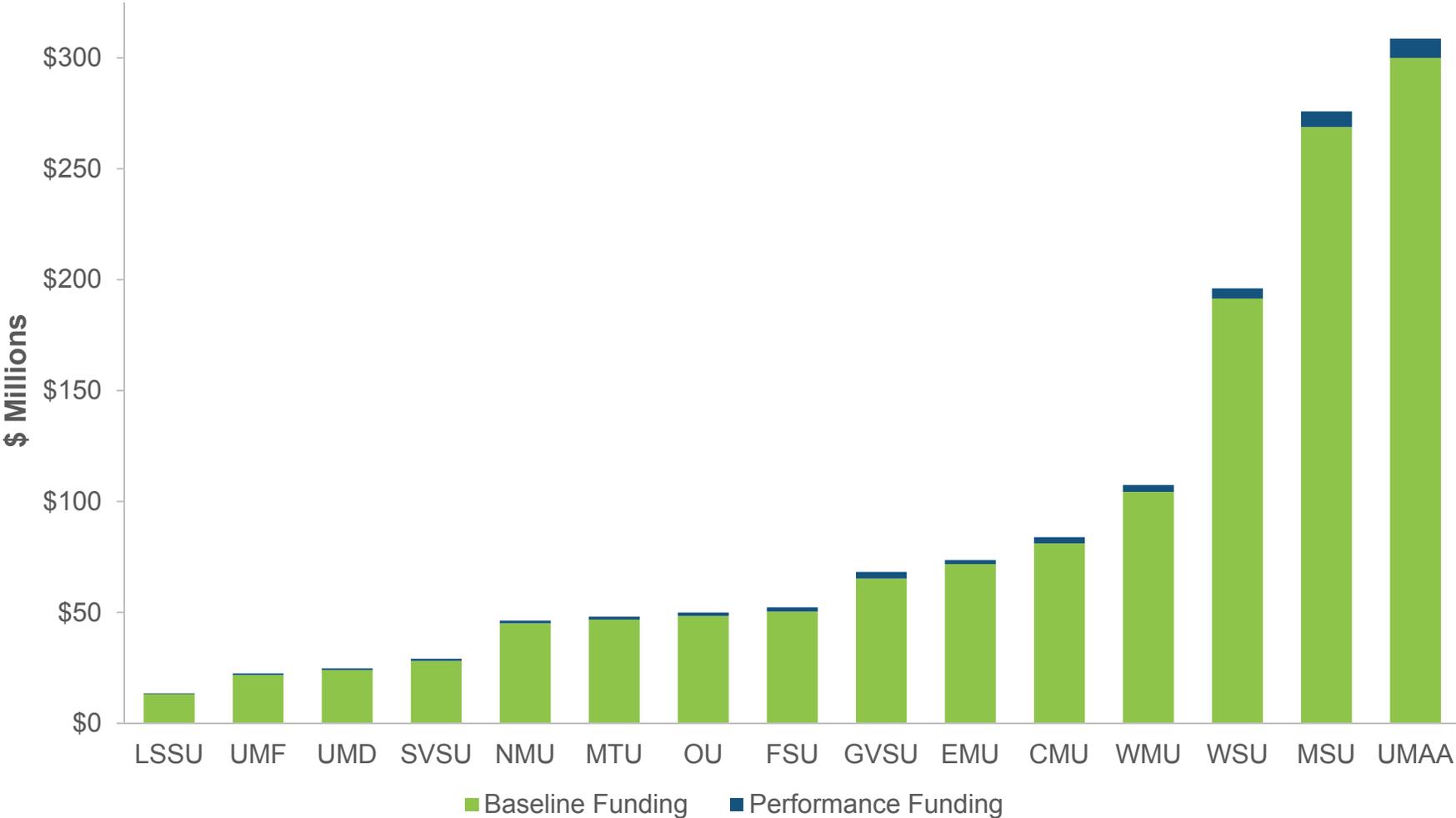
The Constitution does not specify how funding is to be distributed between universities.

The legislature annually appropriates funds for individual universities, a process that in recent years has included the use of a performance funding formula to allocate the total increase (or decrease) in state appropriations for university operations. The formula is specified in annual budget act language.

Each university's operations funding currently consists of a baseline amount, which is the total amount appropriated in the prior year, plus a performance funding adjustment.

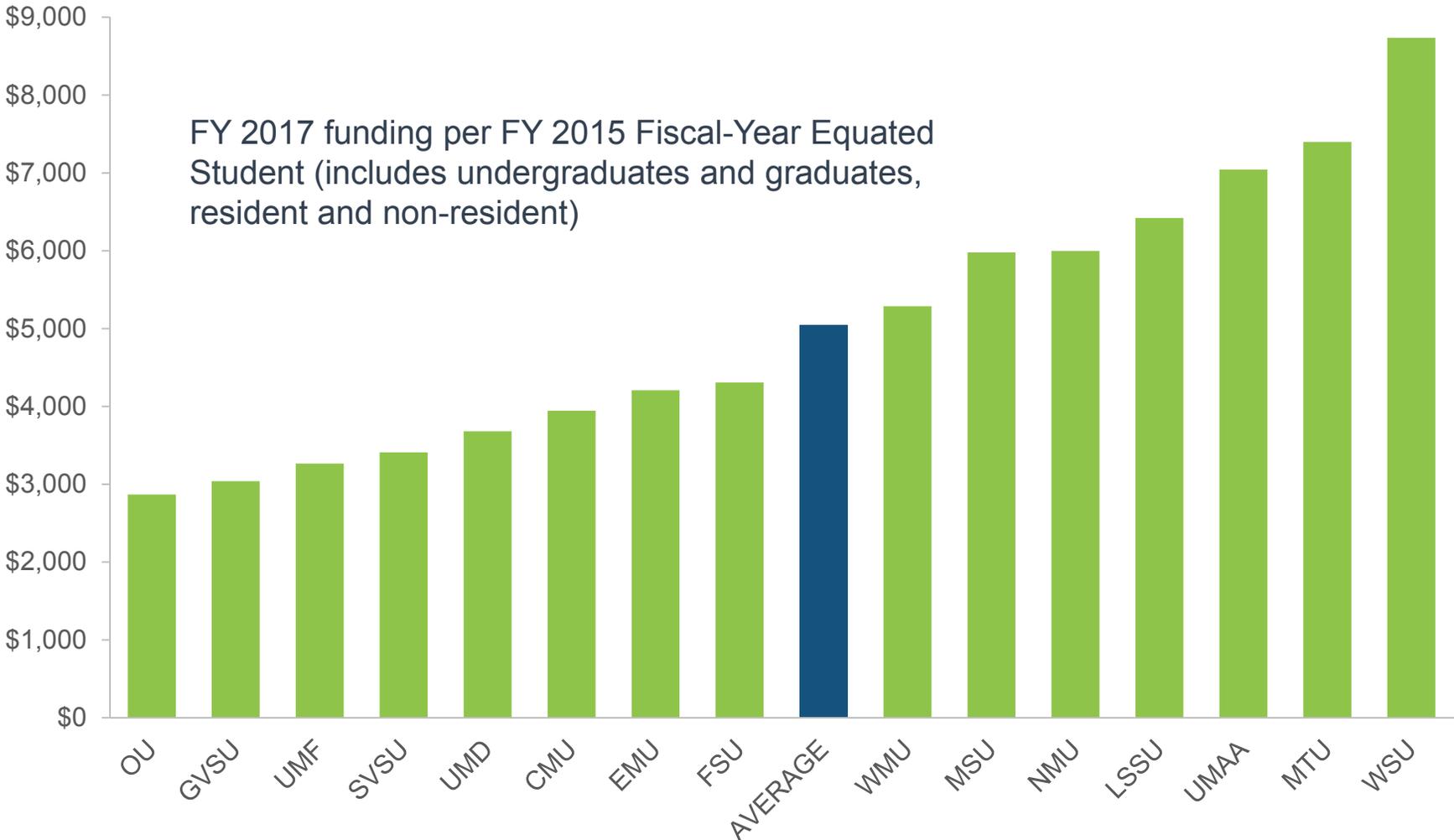
# FY 2016-17 University Operations Grants

Funding for university operations varies widely, ranging from \$13.6 million for LSSU to \$308.6 million for UMAA. Performance funding increases for FY 2016-17 range from \$360,000 for LSSU to \$8.7 million for UMAA. Total operations funding = \$1.4 billion.



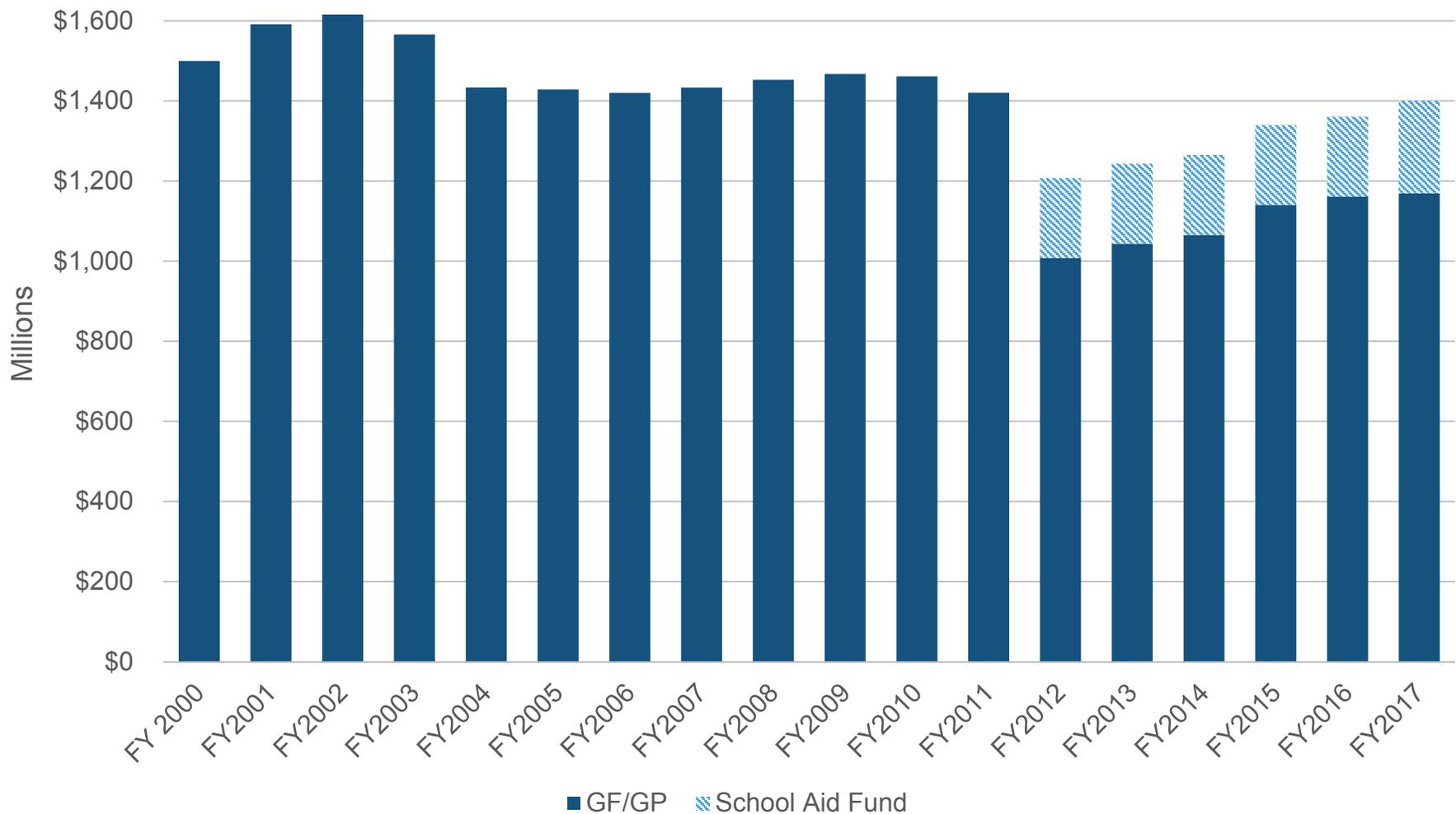
# University Appropriations per Student

To account for varying enrollments, funding for university operations often is compared on a per-student basis. The full-time equivalency for each student level is calculated by dividing the total credit hours in a given year by the number of credits considered to be full-time (30 for undergraduates).



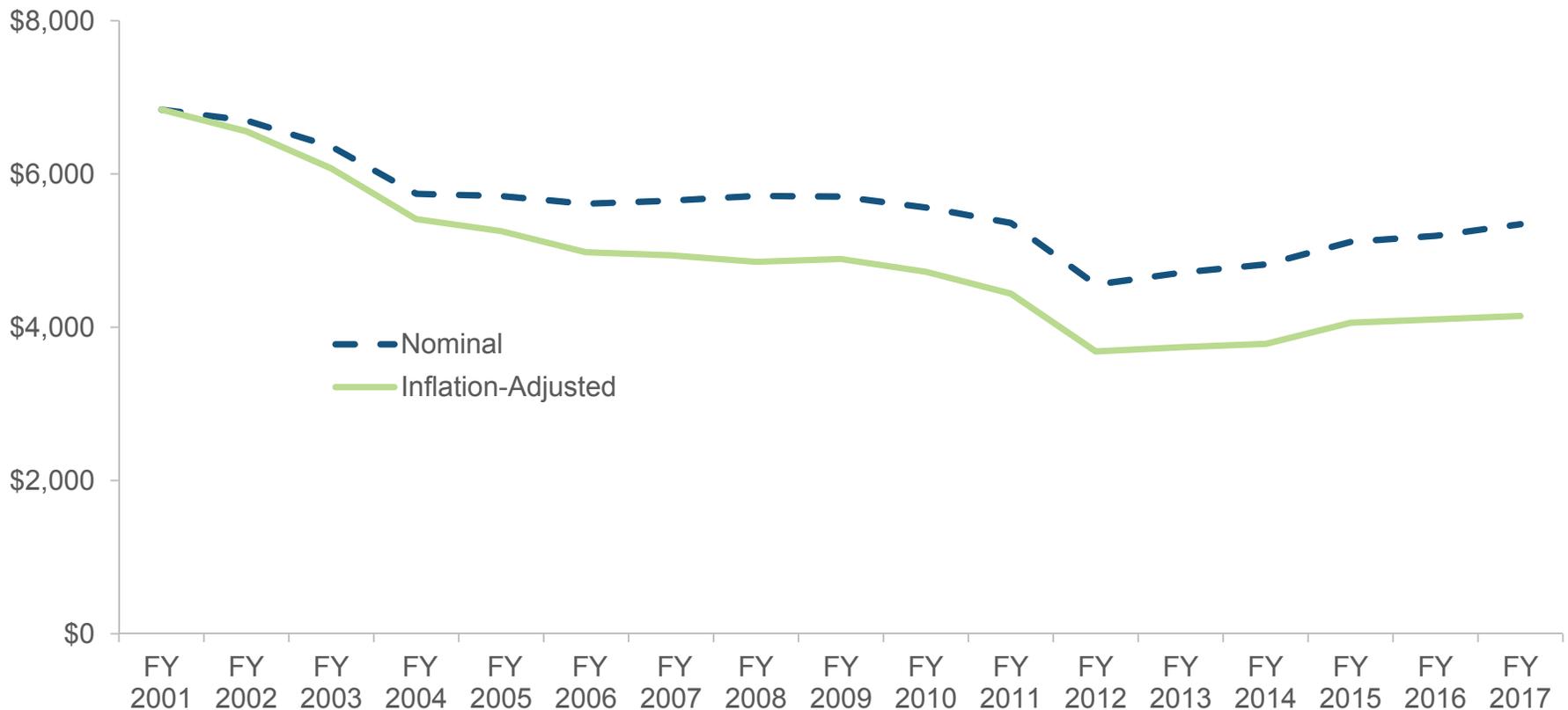
# Public University Appropriations

State support for public universities has increased by \$193 million (16%) since FY 2011-12, but remains \$215 million (13%) below the FY 2001-02 peak of \$1.6 billion.



# Historical University Appropriations per Fiscal Year-Equated Student (FYES)

Using the most recently available FYES data, total FY 2016-17 appropriations per FYES are about 22% lower than FY 2000-01's high of \$6,841 per FYES. Appropriations per FYES are about 39% lower on an inflation-adjusted basis.



FY 2015-16 and FY 2016-17 appropriations per FYES calculated using FY 2014-15 FYES.

# FY 2016-17 Performance Funding

Since FY 2012-13, funding increases have been based on a performance funding model that has undergone some modification each year. The formula specifies the percentage of total performance funding that is distributed under each of several metrics.

FY 2016-17 Formula Component	% of Performance Funding	FY 2016-17 Amount
Proportional to each university’s share of total operations funding in the baseline year of FY 2010-11	50.0%	\$19.9 million
Undergraduate degree completions in critical skills areas (generally STEM fields)	11.1%	\$4.4 million
Total R & D expenditures (applies to high-research universities only)	5.6%	\$2.2 million
Comparisons with Carnegie Classification peers or 3-year improvement, scored on four metrics:	33.3%	\$13.3 million
<ul style="list-style-type: none"> <li>• Six-year graduation rate</li> </ul>		
<ul style="list-style-type: none"> <li>• Total degree completions</li> </ul>		
<ul style="list-style-type: none"> <li>• Institutional support (i.e., administration) as a percentage of core expenditures</li> </ul>		
<ul style="list-style-type: none"> <li>• Percentage of students receiving federal Pell grants</li> </ul>		
<b>Total Performance Funding</b>	<b>100%</b>	<b>\$39.8 million</b>

# Performance Funding Conditions

Receipt of performance funding is conditioned on compliance with all of the following:

- Restraining resident undergraduate tuition and mandatory fee increases to 4.2% over the prior year.
- Certifying that the university participates in reverse transfer agreements with at least three Michigan community colleges.
- Certifying that the university's dual enrollment policy does not consider whether credits were used toward high school graduation.
- Actively participating in the Michigan Transfer Network.

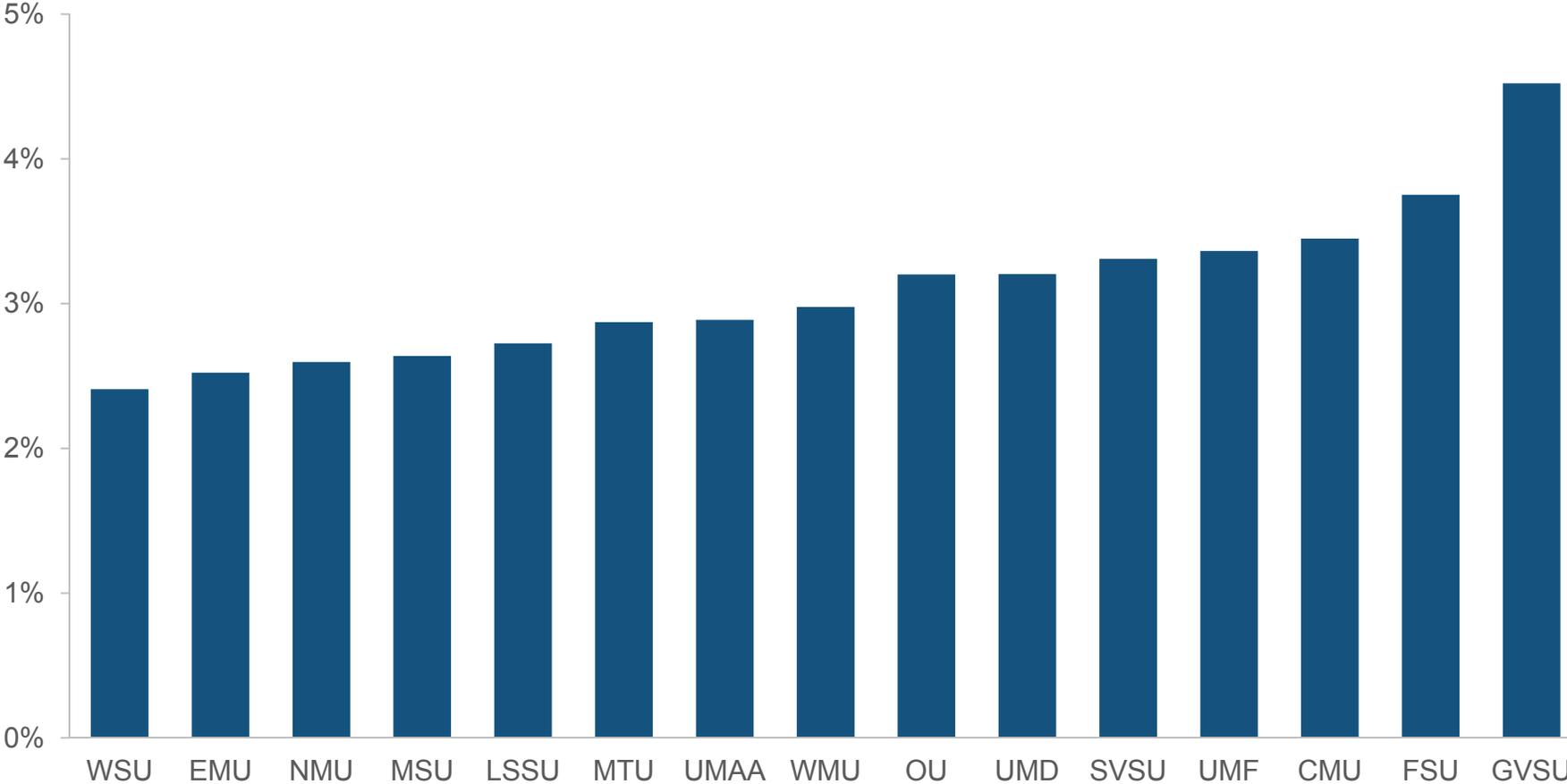
# Tuition Restraint Policies

Budget-based efforts to curb tuition increases have taken several forms. Under the budget act, performance funding forfeited by noncompliant universities is distributed to the other schools.

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Limit on resident undergraduate tuition/fee increases	7.1%	4.0%	3.75%	3.2%	3.2%	4.2%
Operations funding increase/(decrease) from prior year	(15.0%)	3.0%	1.8%	5.9%	1.5%	2.9%
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	\$20.1 million performance funding	\$39.8 million performance funding; new state-funded capital outlay approvals for FYs 2017-18 and 2018-19
Average unweighted tuition/fee increase	7.0%	3.4%	3.5%	2.8%	3.6%	3.9% (Preliminary)
Noncompliant universities	None	None	Wayne State	None	Eastern, Oakland	None (Preliminary)

# FY 2016-17 Performance Funding Increases

Total performance funding increase is 2.9% (\$39.8 million). Allocation under the performance funding formula, coupled with adjustments for six universities, resulted in individual increases ranging from 2.4% to 4.5%. In response to EMU and OU exceeding the tuition restraint cap in FY 2015-16, performance funding to those institutions was decreased by \$400,000 each, and \$200,000 was added to the formula-based increases for MSU, MTU, UMAA, and WSU.



# MSU AgBioResearch and Extension

A total of **\$61.9 million GF/GP** is appropriated to Michigan State University to operate two statewide programs, AgBioResearch and Extension, bringing both to FY 2010-11 funding levels.

- **MSU AgBioResearch: \$33.2 million**

- Agriculture research program conducted in on-campus laboratories and at 13 research centers across the state.

- **MSU Extension: \$28.7 million**

- Program jointly funded with counties to extend MSU's public service mission across the state in various program areas:
  - Agriculture
  - Business and Community
  - Family
  - Food and Health
  - Lawn and Garden
  - Natural Resources
  - 4-H and Youth

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

# Grants and Financial Aid

## Total Appropriation: \$111.0 million

- **Tuition Incentive Program (\$53.0 million)**

Associate's degree tuition for Medicaid-eligible students completing high school, and tuition assistance of up to \$2,000 for participants continuing on with a baccalaureate. Commencing in FY 2017-18, total awards at any one college or university limited to \$8.5 million annually.

- **Tuition Grant Program (\$35.0 million)**

Need-based awards to students attending independent colleges; FY 2015-16 awards of up to \$1,830 each, 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 qualifying ACT or SAT score and financial need; \$636 maximum award in FY 2015-16. (Use of SAT commences with graduating class of 2017; ACT continues in use for prior classes.)

- **Project GEAR UP (\$3.2 million)**

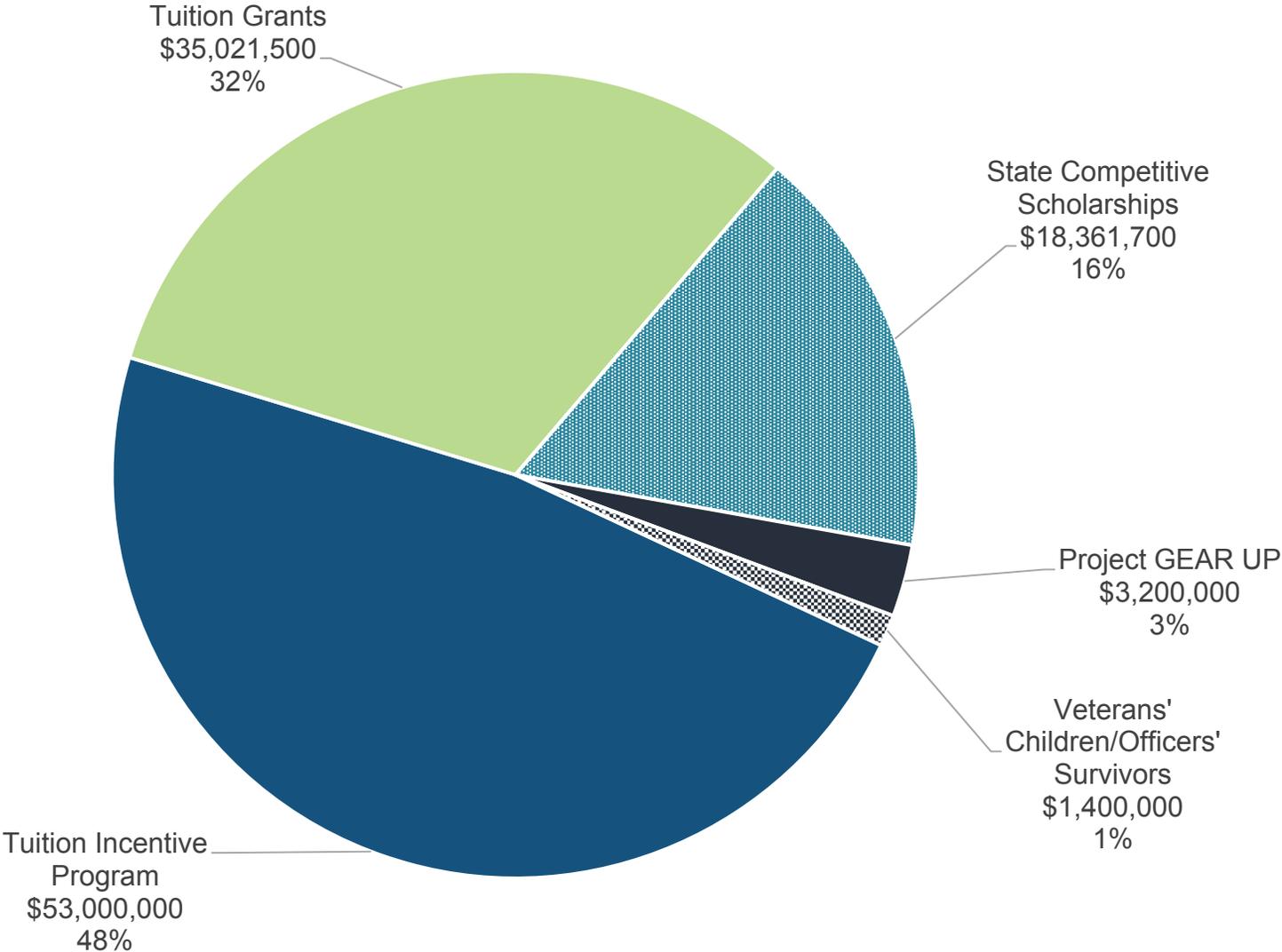
Federally funded awards target to students in urban school districts.

- **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.

# FY 2016-17 Financial Aid Appropriations

Almost half of the \$111.0 million appropriated for grants and financial aid goes to the Tuition Incentive Program.



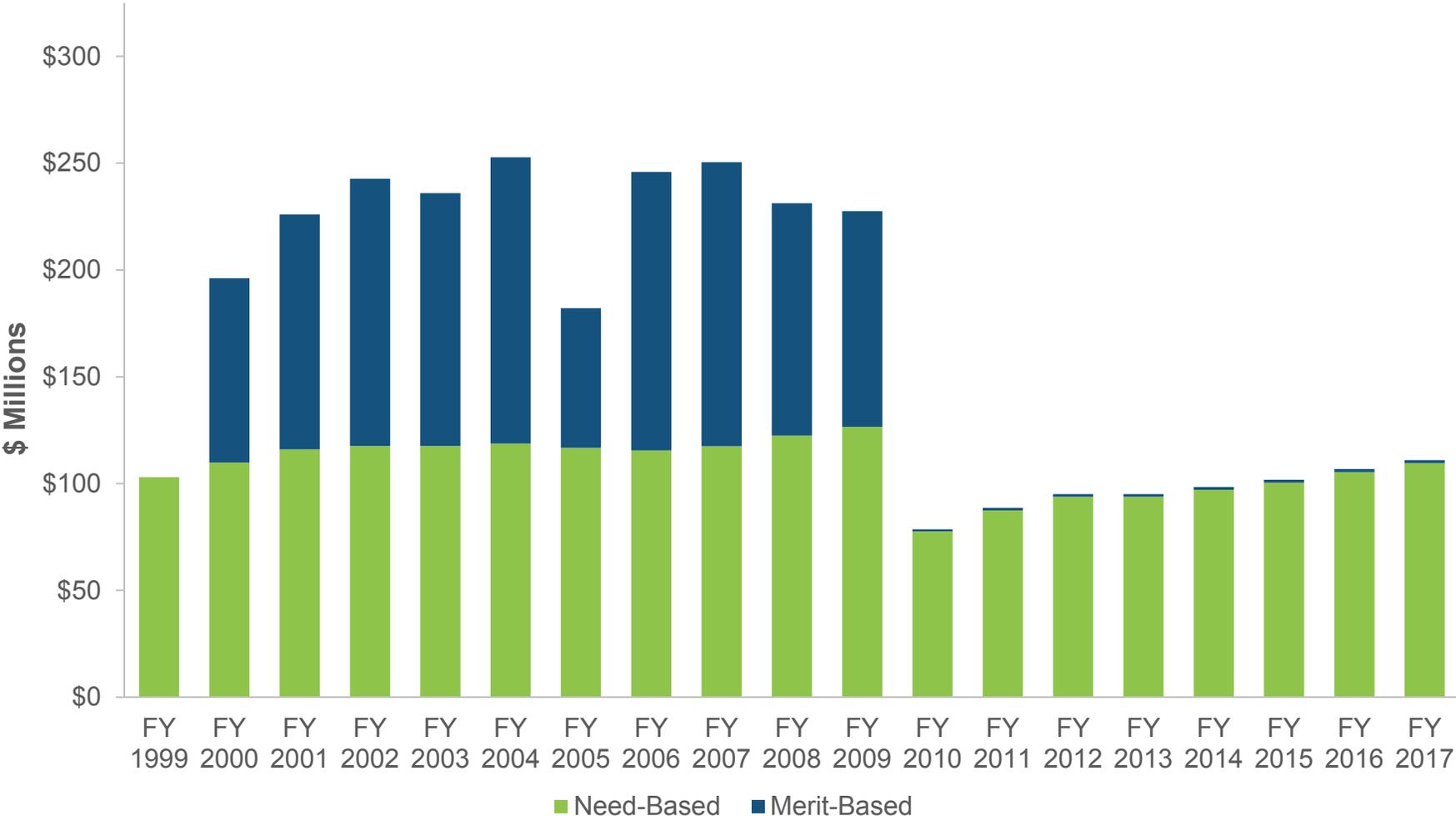
# Financial Aid Fund Sources

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	\$48,300,000	\$0	\$4,700,000	\$53,000,000
Tuition Grants	\$31,664,700	\$0	\$3,356,800	\$35,021,500
State Competitive Scholarships	\$18,361,700	\$0	\$0	\$18,361,700
Project GEAR UP	\$3,200,000	\$0	\$0	\$3,200,000
Veterans' Children/ Officers' Survivors	\$0	\$100,000	\$1,300,000	\$1,400,000
<b>TOTALS</b>	<b>\$101,626,400</b>	<b>\$100,000</b>	<b>\$9,356,800</b>	<b>\$110,983,200</b>

# Need-Based and Merit-Based State Financial Aid Programs

Funding for merit-based programs was virtually eliminated in FY 2009-10; the only remaining merit-based program is the \$1.4 million program for veterans' children and officers' survivors. Funding for need-based programs is \$17.0 million below the FY 2008-09 peak of \$126.6 million

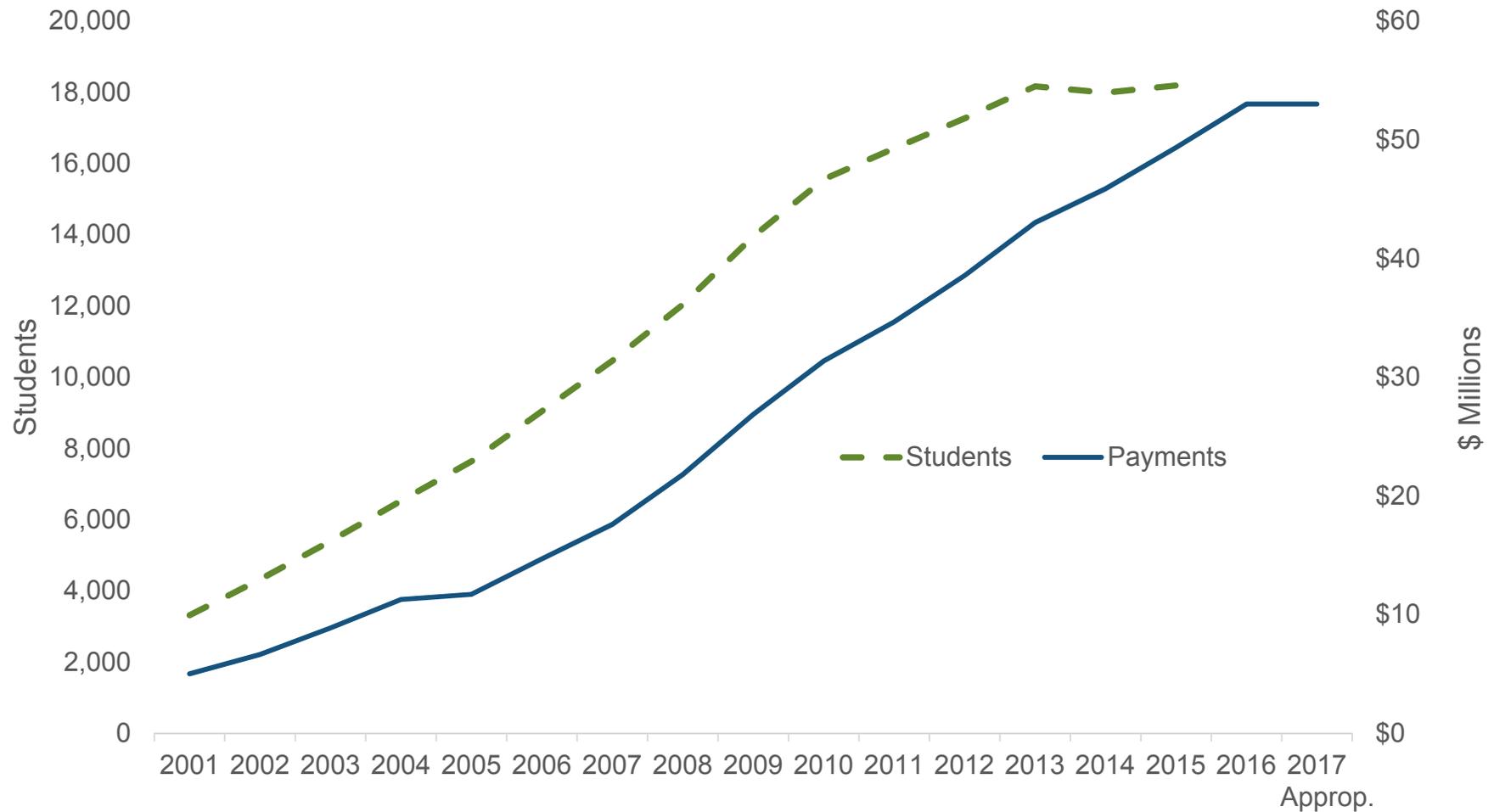


# Tuition Incentive Program (TIP)

- Established in FY 1986-87 as incentive for low-income students to complete high school and enroll in college. To participate, student must be Medicaid-eligible for 24 months within a consecutive 36-month period prior to high school completion.
- Program has two phases:
  - **Phase I:** Associate's degree tuition costs (at private institutions, limited to average public community college tuition)
  - **Phase II:** Up to \$2,000 total toward completion of a bachelor's degree
- Large potential pool of applicants: Department of Treasury sends about 280,000 letters to eligible students each year.
- Nearly three-quarters of the 15,600 Phase I students in FY 2014-15 were enrolled at community colleges. Number of students claiming Phase II awards was much smaller, at 2,589.
- Due to Medicaid caseload growth and increasing participation rates, and, more recently, increases in tuition costs, program costs have increased from \$5.0 million in FY 2000-01 to about \$53.0 million in FY 2015-16.

# Tip Participation and Expenditures

After years of steady growth, TIP participation has declined slightly in recent years, while costs have continued to grow due to tuition rate increases at colleges and universities.

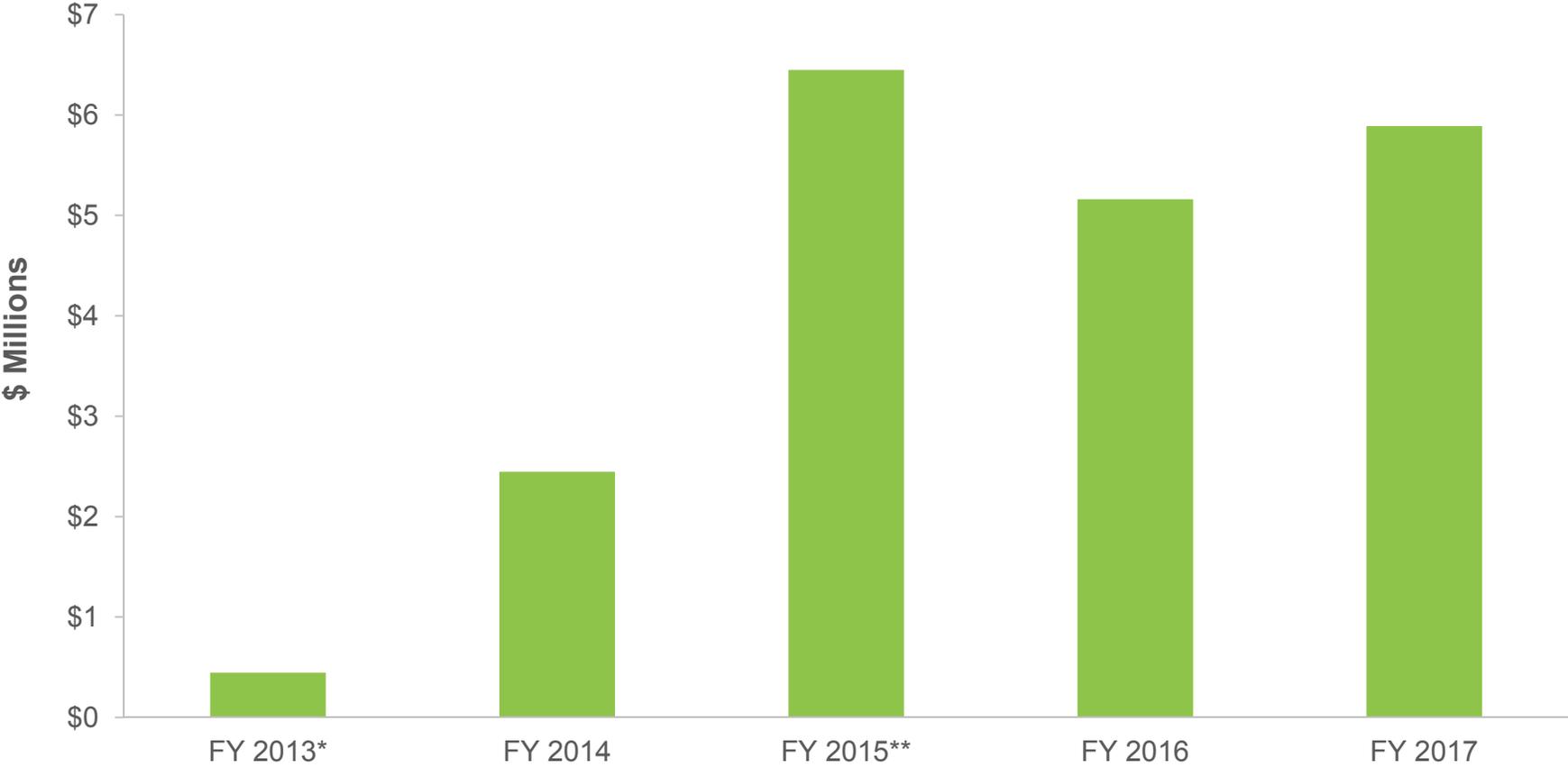


# Other State-Funded Programs

- **MPSERS Payments: \$5.9 million SAF**
  - Funds the difference between a newly enacted statutory cap on university payments into MPSERS and a university's unfunded accrued liability. Cap of 25.73% of applicable payroll was enacted by 2016 PA 136. Affects the seven universities with MPSERS employees: 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 provided within public university operations funding.
  
- **MSU Veterinary Diagnostic Laboratory: \$500,000 GF/GP**
  - One-time appropriation for MSU's Diagnostic Center for Population and Animal Health, which assists in identifying emerging animal and public health issues.
  
- **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: \$115,000 GF/GP**
  - Dues for interstate compact to realize economies of scale and provide other higher education-related assistance.

# MPERS Funding

Starting in FY 2015-16, state support for university MPERS costs has been based on the assumption that the six affected universities would pay no more than 25.73% of the unfunded employer liability, while the state would pay the rest. The employer contribution cap was enacted into law by 2016 PA 136.



\* FY 2013 funding designated for MPERS retiree health care  
\*\* FY 2015 funding included \$4.0 million in one-time funding

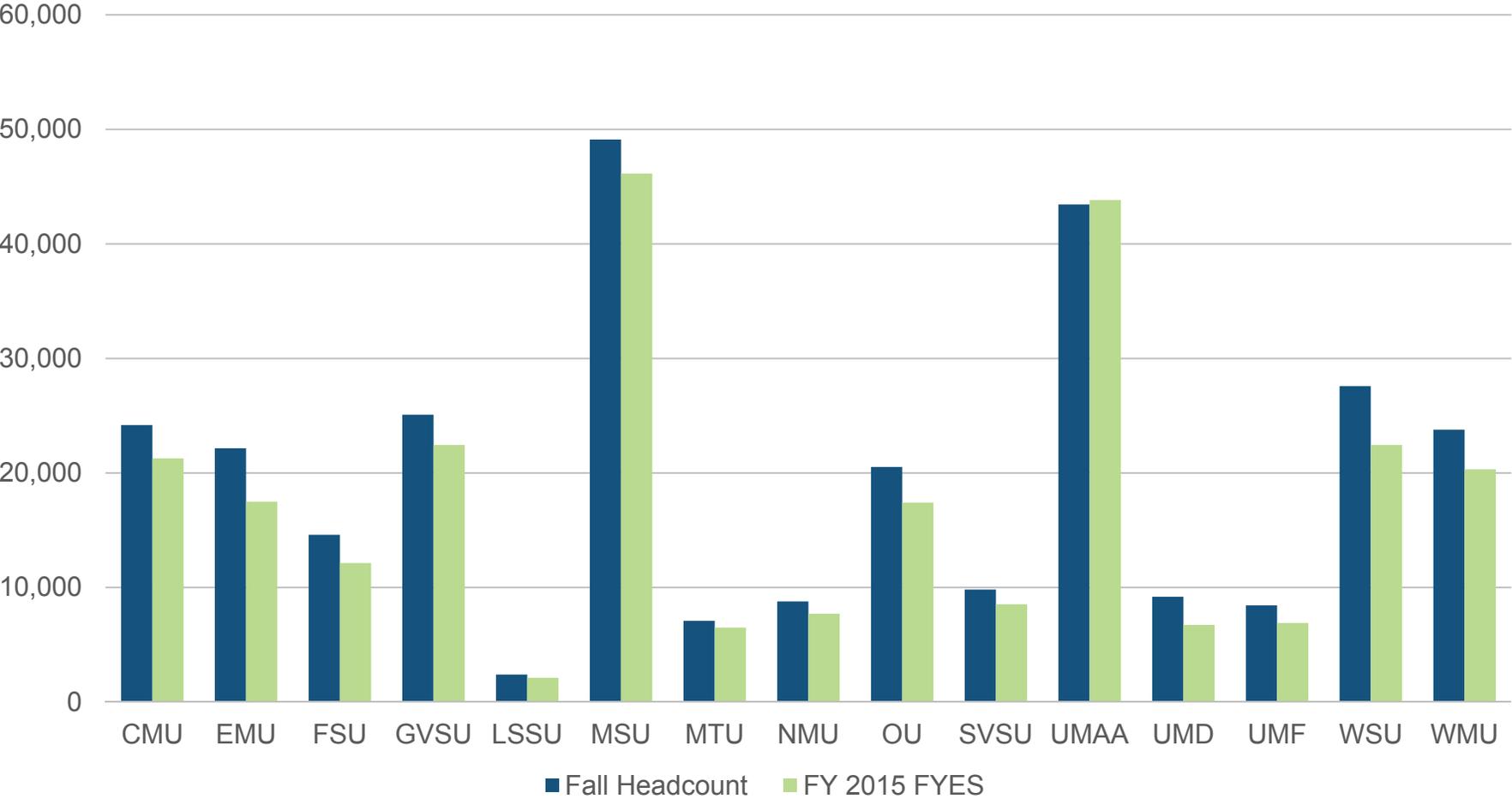
# Public University Data

# 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
  - **Fiscal Year Equated Students:** Calculated equivalent to the number of full-time students enrolled. The full-time equivalency for each student level is calculated by dividing the total credit hours in a given year by the number of credits considered to be full-time (30 for undergraduates).
- **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.

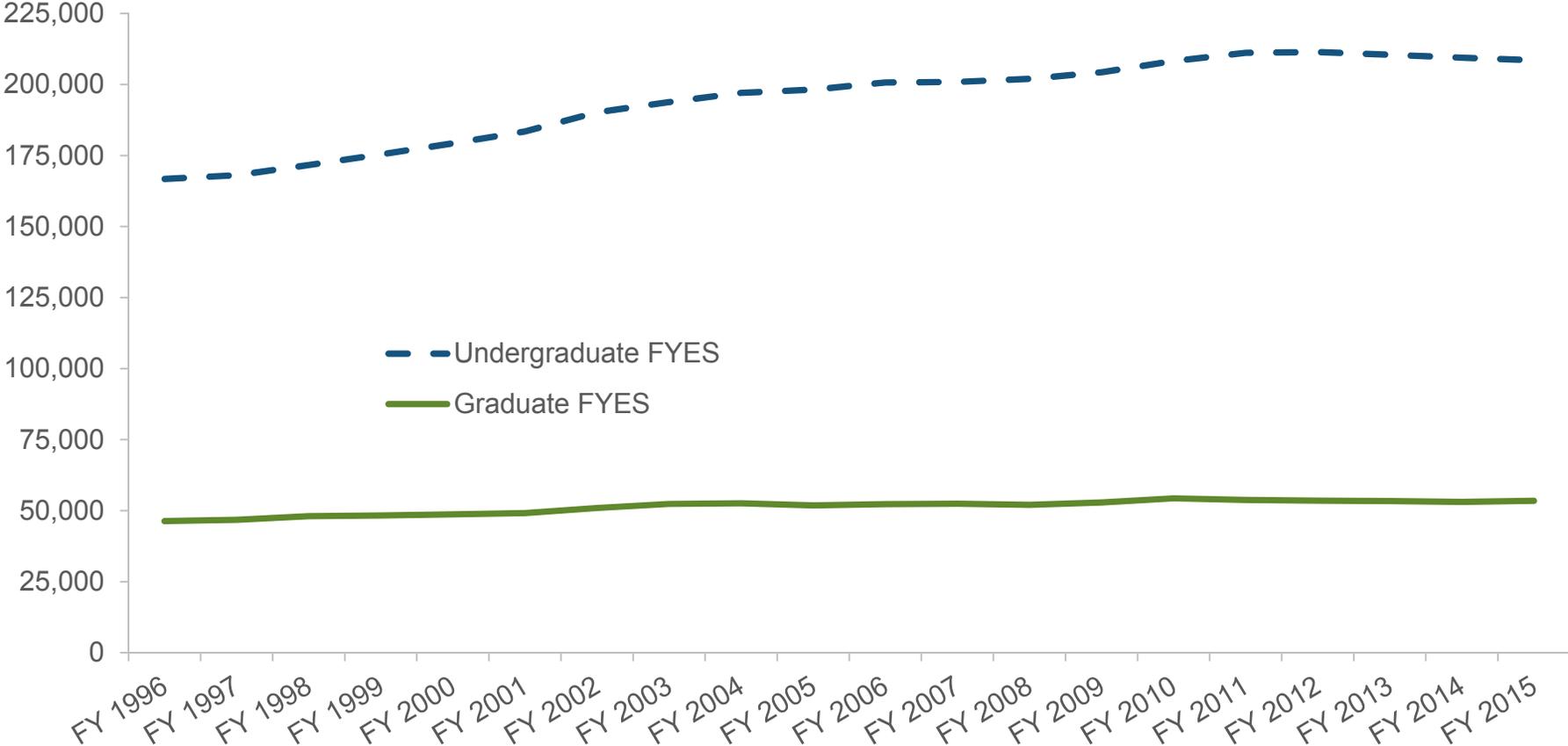
# FY 2014-15 Public University Enrollments

Fall enrollments range from about 2,400 for LSSU to over 49,000 for MSU. Numbers for fiscal-year-equated students (FYES) are a little lower, due to being a measure of the number of full-time-equivalent students.



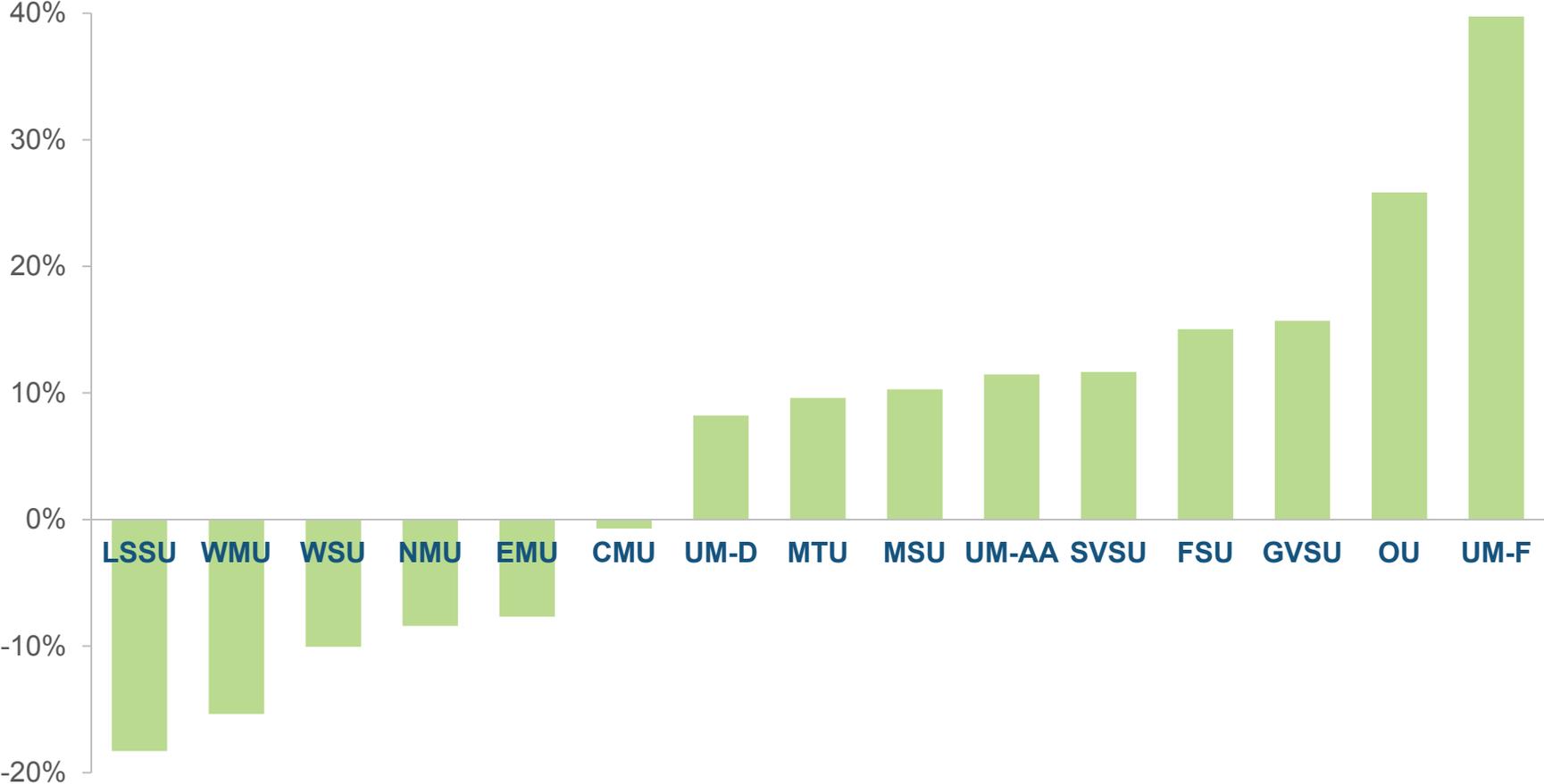
# Public University Enrollment History

After declining since FY 2009-10, undergraduate FYES increased slightly in FY 2014-15, but by only 380. Full-time undergraduate enrollment remains about 25% higher than it was twenty years ago, however.



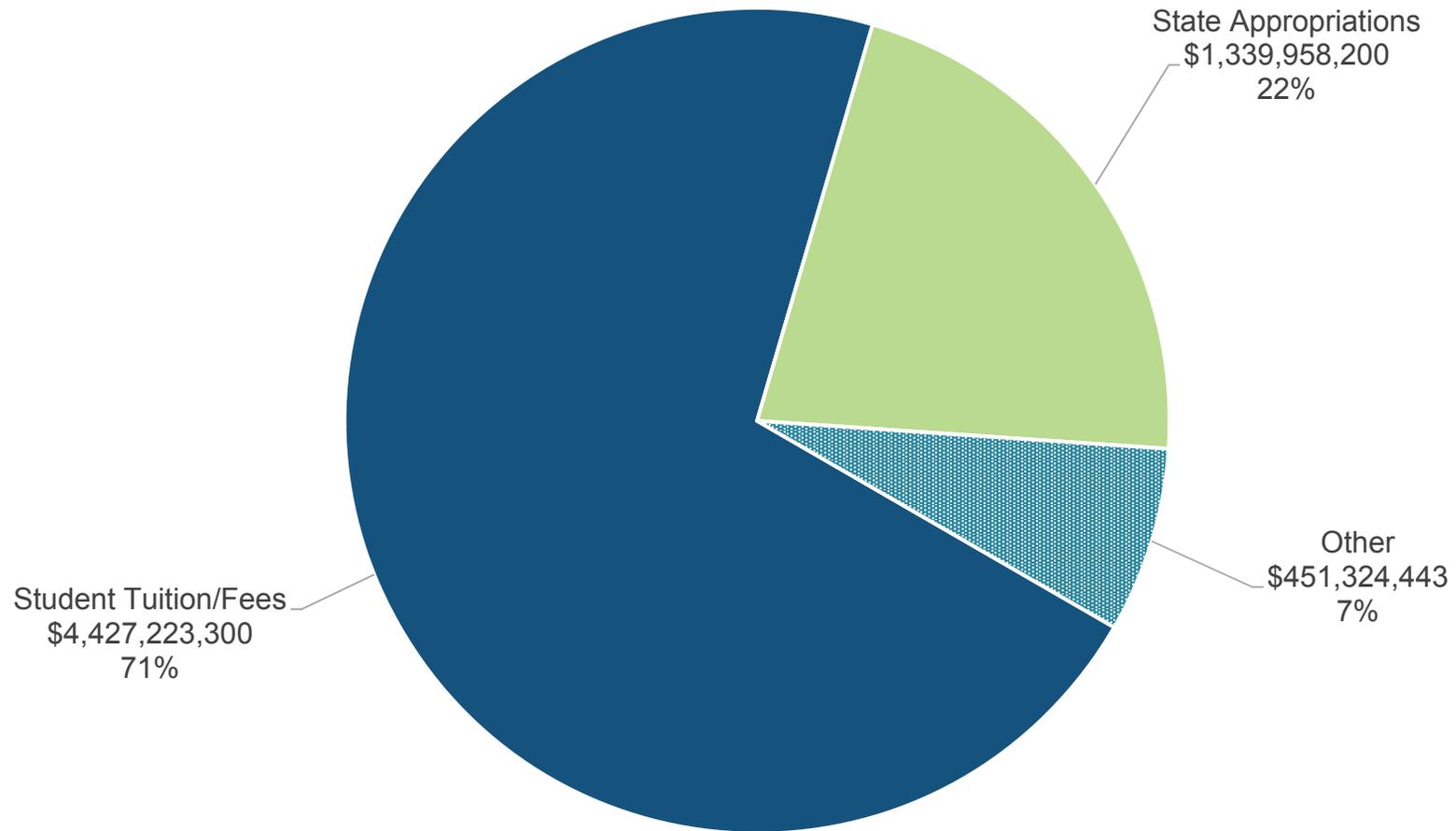
# University Enrollment (FYES): 10-Year % Change FY 2004-05 to FY 2014-15

Some public universities have grown rapidly in the past decade, while others are struggling with declining enrollments.



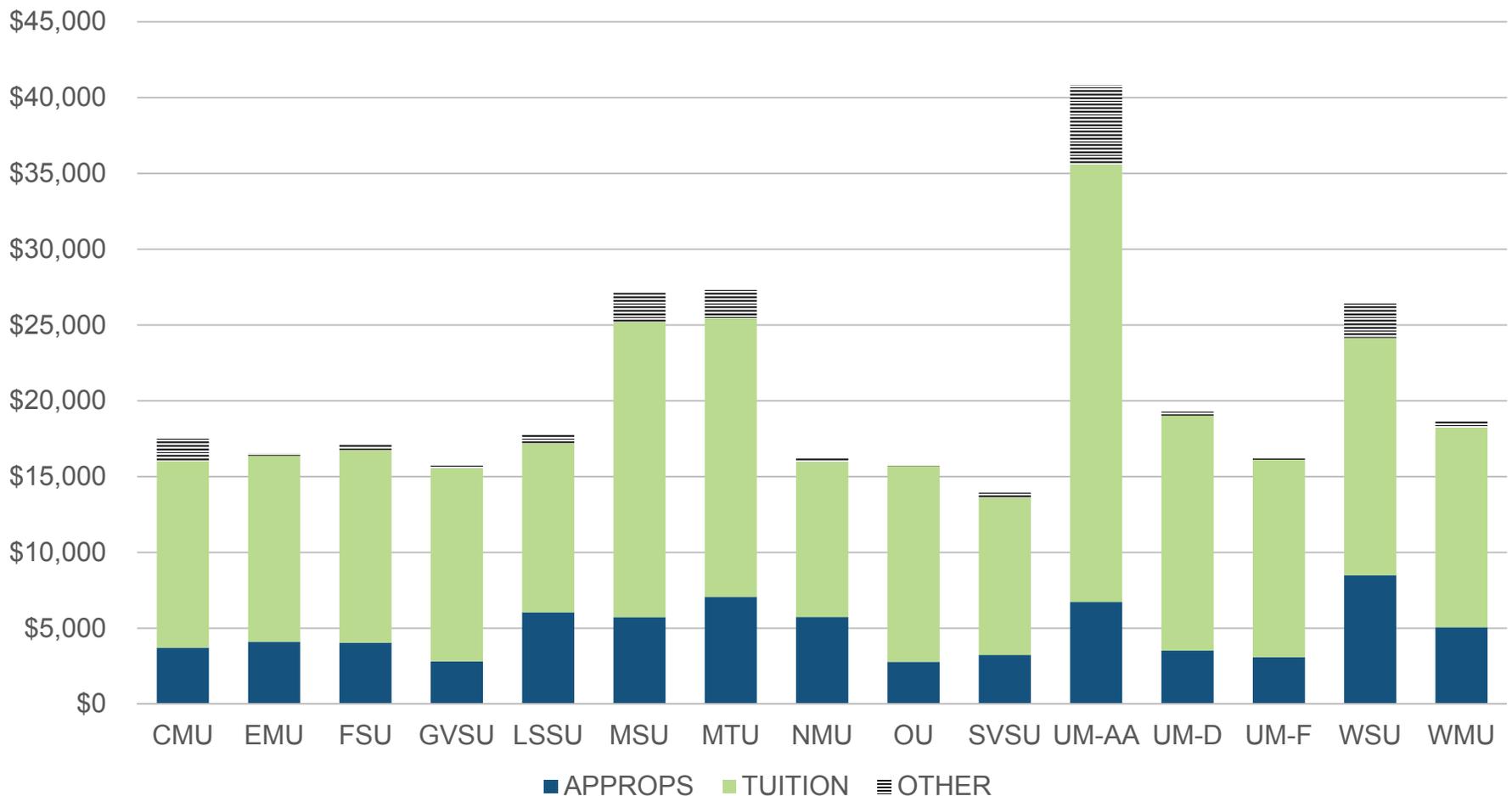
# Public University General Fund Revenue

Over 70% of public university general fund revenue comes from student tuition and fees, more than three times the 22% that comes from state appropriations.



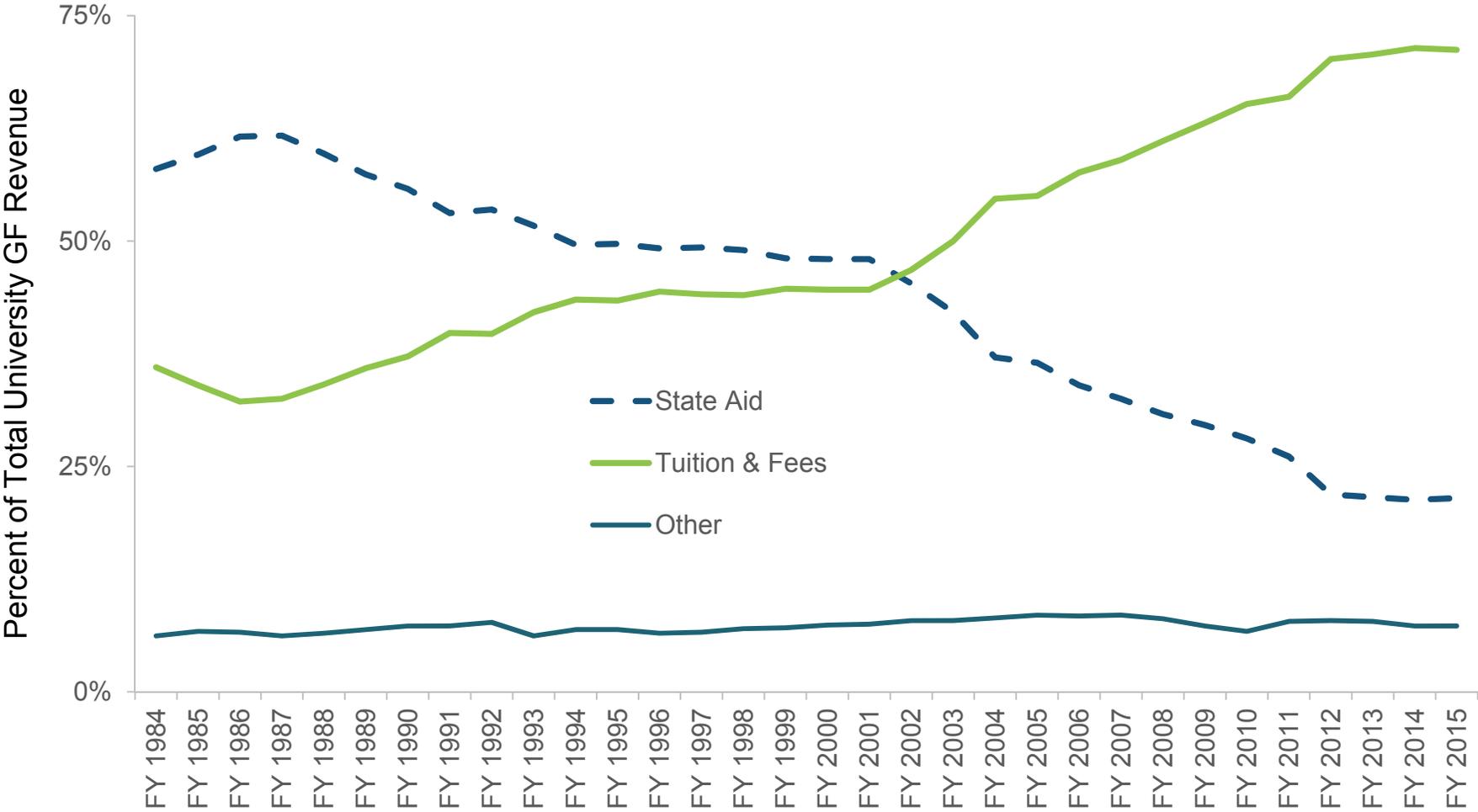
# FY 2014-15 Public University General Fund Revenue per FYES

In FY 2014-15, tuition and fee revenue per fiscal year-equated student ranged from \$10,233 at NMU to \$28,853 at UMAA. Total operating revenue per FYES ranged from \$13,970 at SVSU to \$40,810 at UMAA.



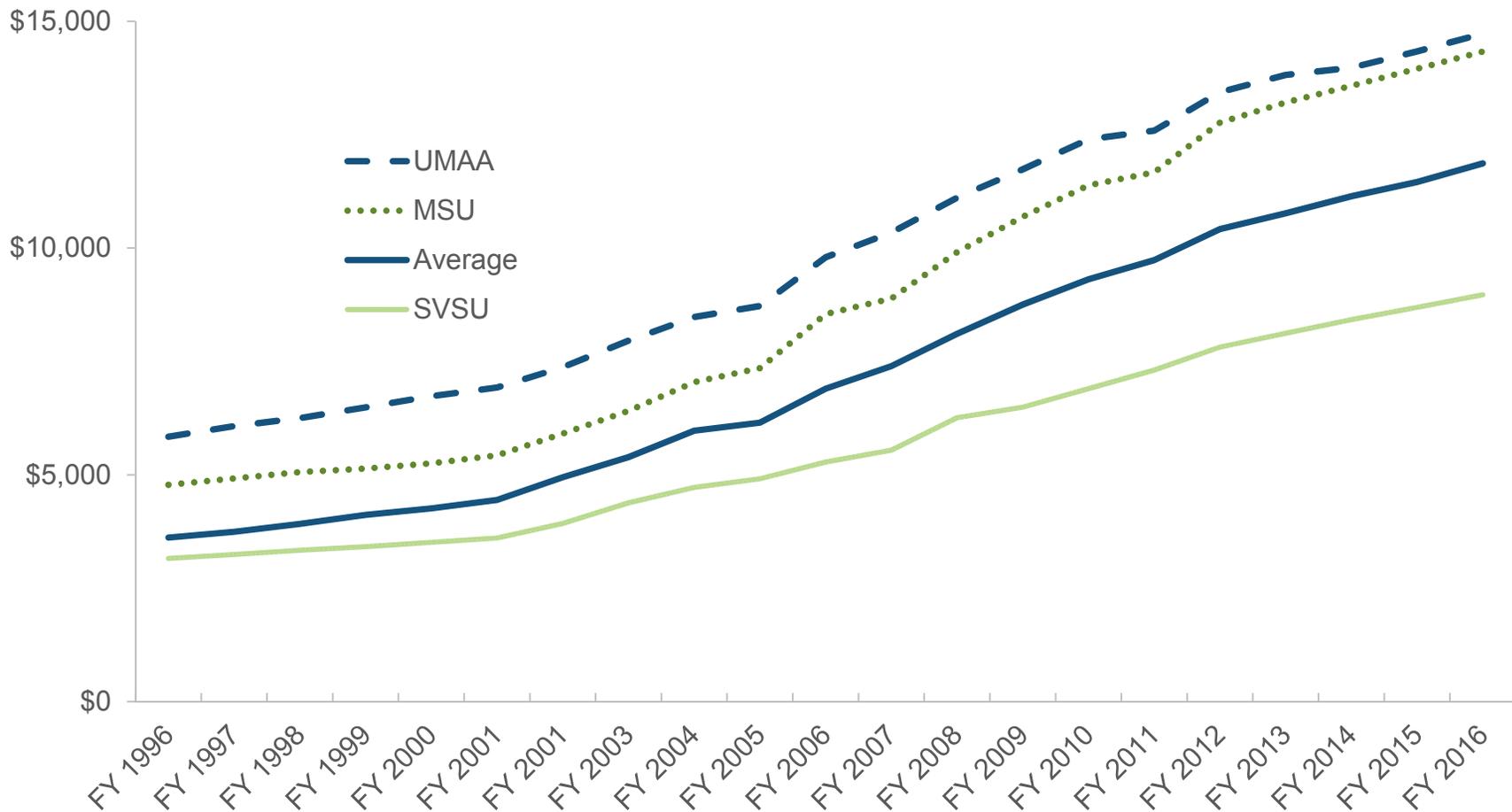
# Public University General Fund Revenue Source History

Since FY 2001-02, the percentage of university operating revenues generated by tuition and fees has been higher than that provided by state appropriations. Historically, the relative proportions of those two main funding sources have varied inversely.



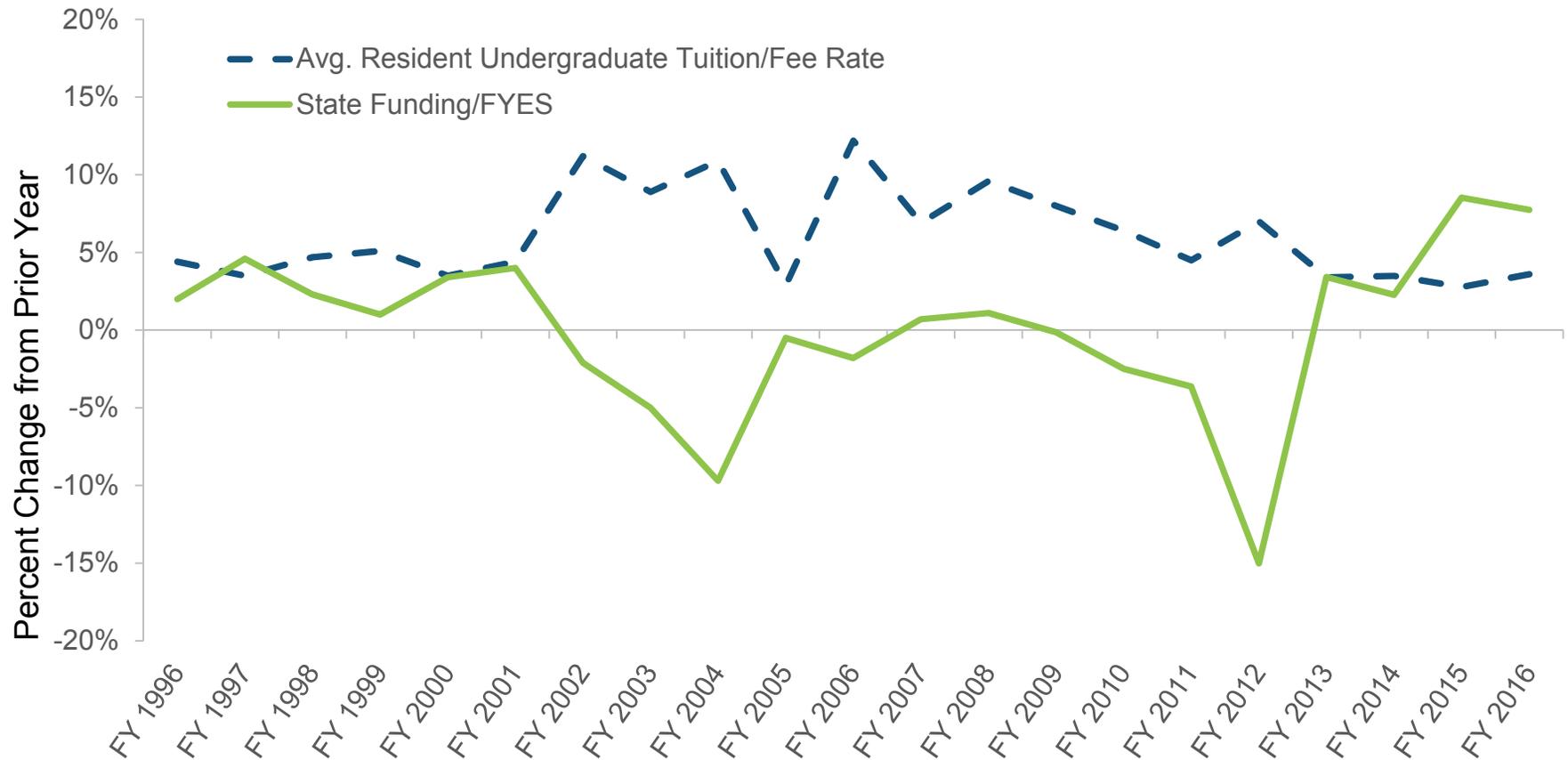
# Average Resident Undergraduate Tuition and Fee Rates

Average resident undergraduate tuition and fee rates have more than tripled in the past 20 years, increasing by 228%.



# Tuition Rates and State Funding: Annual Percentage Changes

Generally, tuition rates have grown more slowly in years when state funding increased.

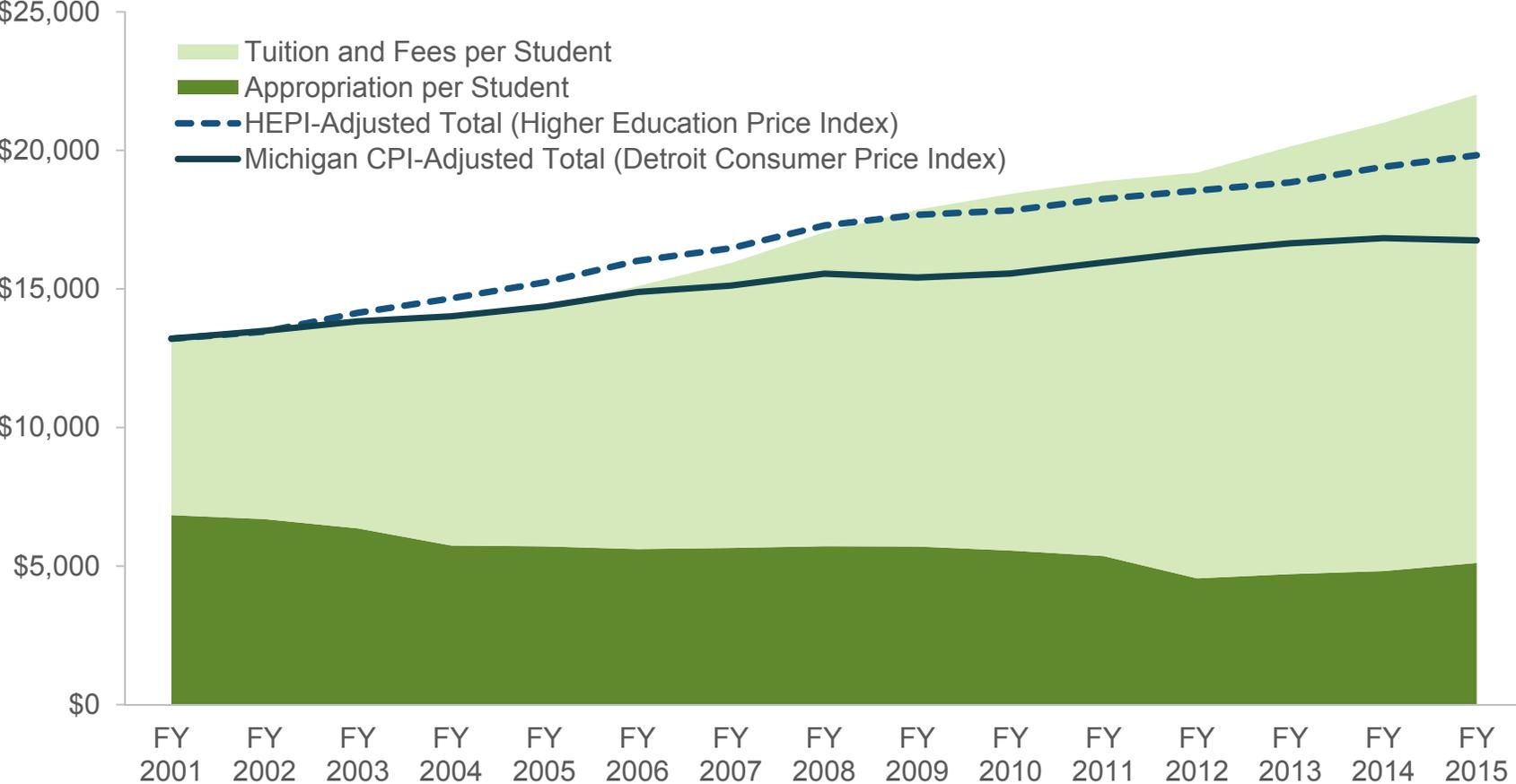


Notes:

1. Tuition restraint polices were in place for FYs 2005 and 2012 through 2016
2. FY 2016 state funding per FYES assumes FY 2015 numbers of FYES

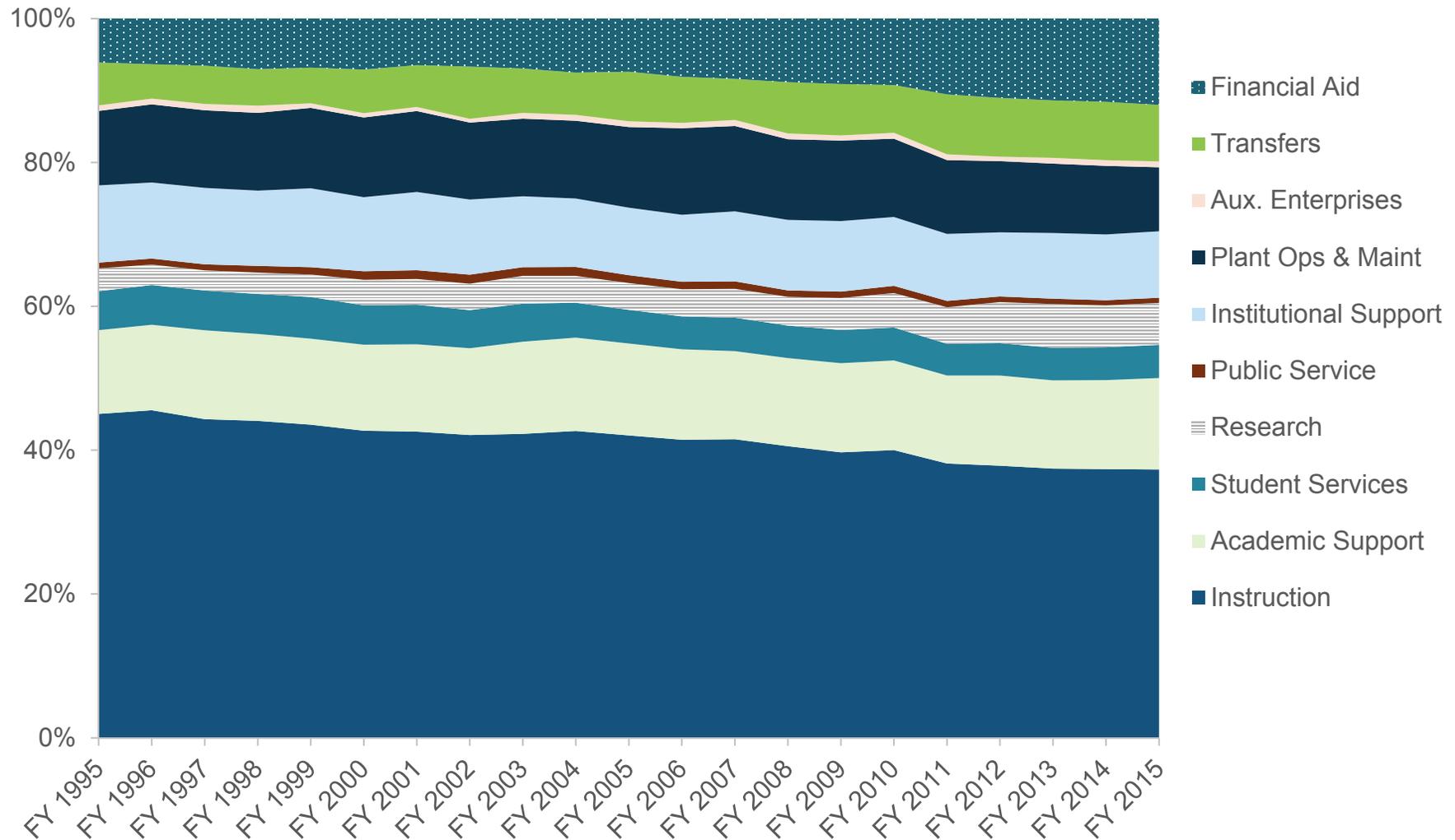
# University Operating Resources per FYES

Since FY 2011-12, growth in revenue per student has exceeded the rate of inflation.



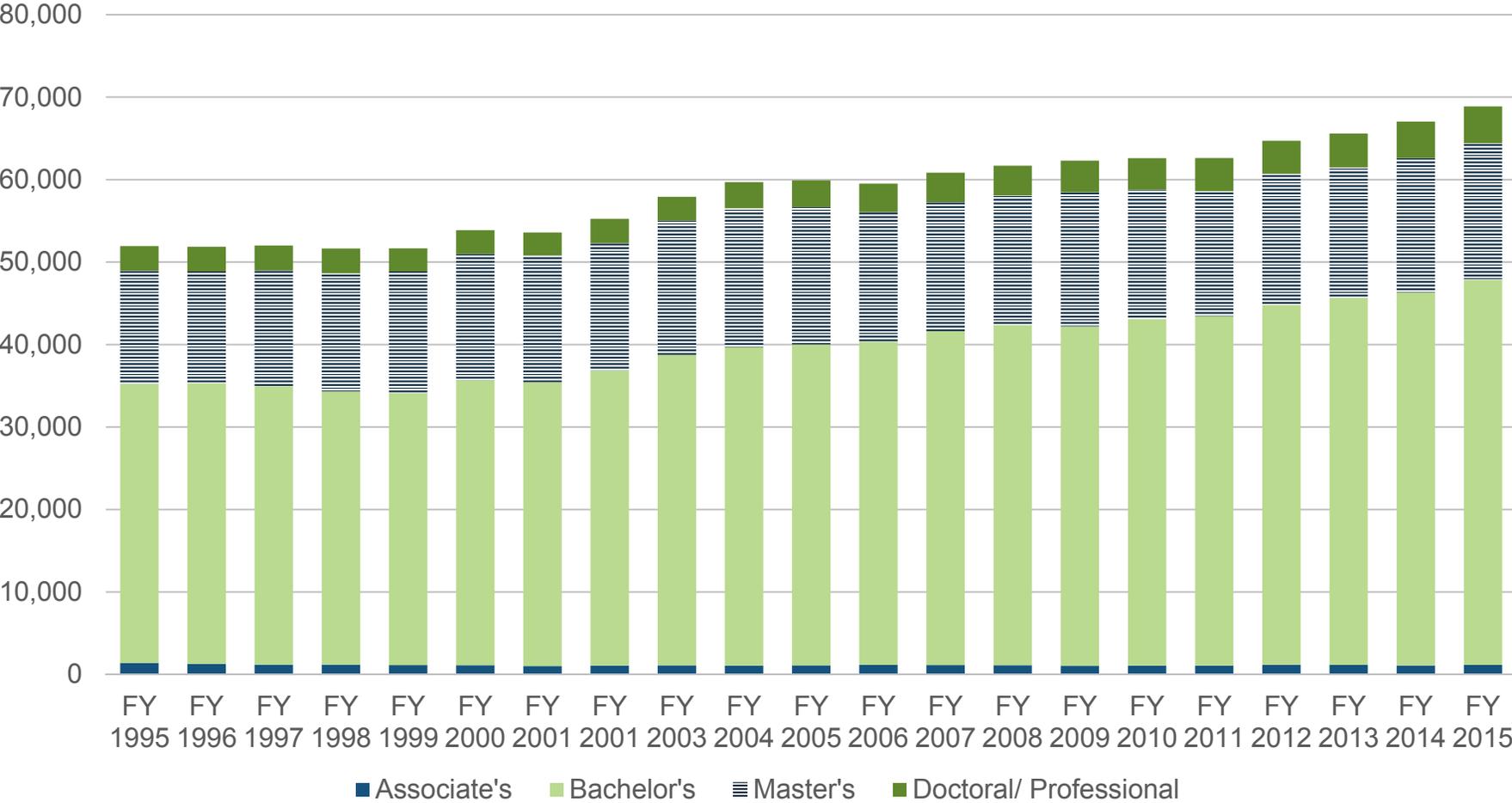
# Total Public University General Fund Expenditures by Category

Over the past 20 years, the percentage of university spending devoted to instruction has declined from 45% to 37%, while the percentage spent on financial aid has doubled, going from 6% to 12%. The budget shares of other spending categories have remained comparatively stable.



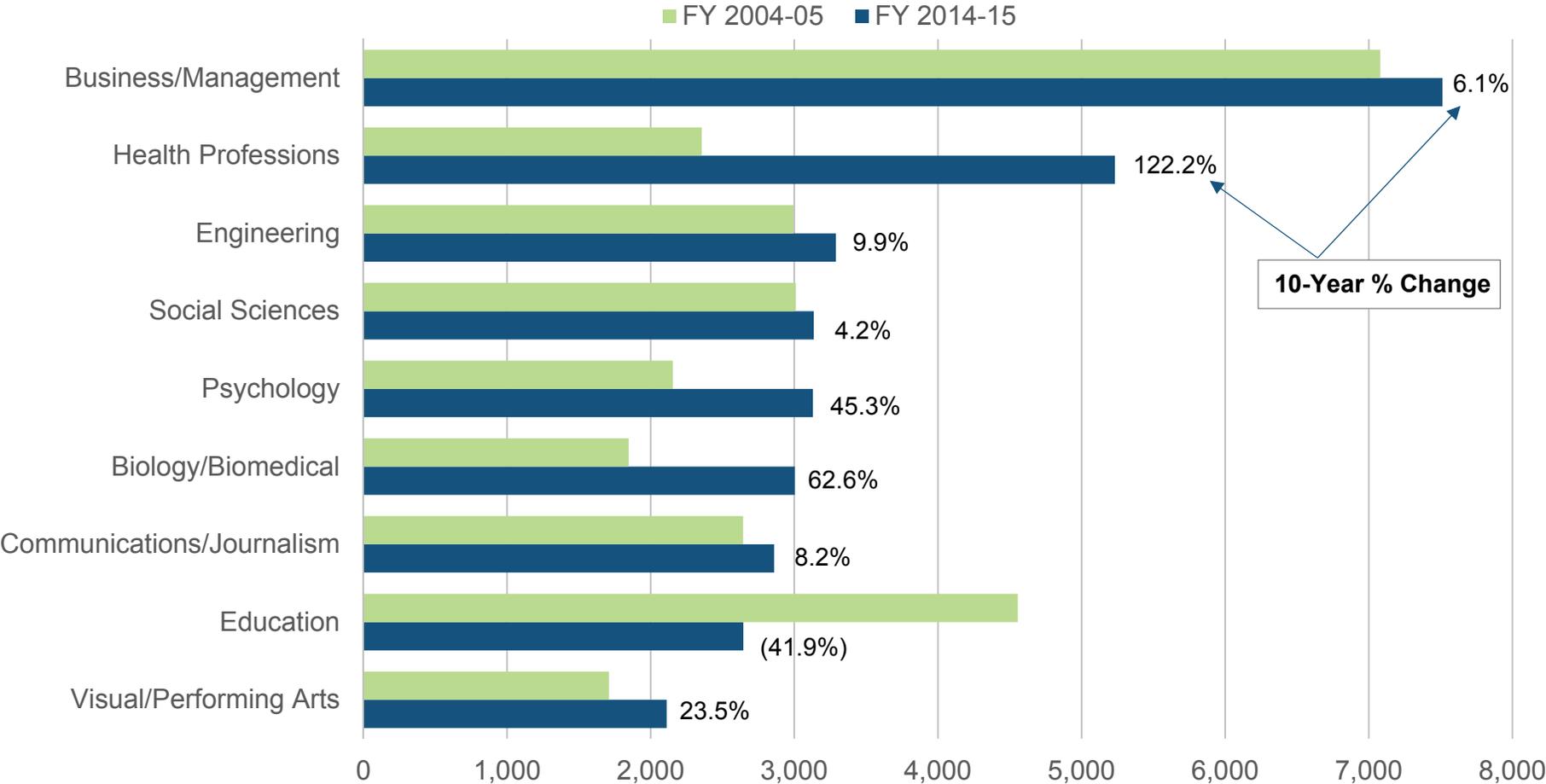
# Degree Completions at Public Universities

Over the last ten years, the numbers of degrees completed at public universities has increased by 15%, primarily due to increases of 20% in the number of baccalaureate degrees, and 37% in the number of doctoral degrees. About two-thirds of degree completions at public universities are for bachelor’s degrees, a proportion that has remained relatively stable over time.



# Major Bachelor's Degree Program Areas at Public Universities

While the total number of bachelor's degrees increased by 20% over the past decade, the numbers of degrees awarded in some areas – notably health professions – increased dramatically, while other fields, such as education, experienced significant declines. Nine fields of study account for about 60% of all baccalaureates.



# Continuing Challenges for Higher Education Budget

# 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 has continued to decline at many institutions.
- The number of students graduating from Michigan public high schools is projected to decline by 9% by June 2023 (National Center for Education Statistics, 2016).

## ○ Funding Mix

- Due to reduced state support and increasing reliance on tuition and fee revenue, a 5% increase in tuition revenue increases combined operating revenue by over 3.5%, while a 5% increase in state appropriations yields little more than a 1% increase in combined operating revenue.

## ○ Performance Funding

- Universities must balance performance goals (such as degree completions in critical skills areas) against cost control.

# For more information about the Higher Education budget:

## HFA Resources

<http://www.house.mi.gov/hfa/HigherEducation.asp>

## Contact Information

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