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Fixing the Higher Education Funding System in Michigan

By Keerthana Sundar

Education has become a key component of the dialogue surrounding the revitalization of Detroit and the economic progress of Michigan. A lot can be said, and has been said, about Michigan's K-12 education system. Another important aspect is tertiary education and in recent years we have seen university tuitions and student debt rise to astronomical levels. This paper aims to analyze the funding of Michigan's public universities and offer suggestions to make university education more accessible and affordable.

Nationwide, higher education is the third largest item in state general fund budgets after K-12 education and Medicaid. In 2014, tertiary education account for about 9% of state general funding; about 50% as much as Medicaid spending and 25% of state K-12 education spending. Between 2008 and 2013, states have cut appropriation spending by more than 20% per full-time equivalent student in the median public institution. States have been forced to make difficult choices, especially since the recession, and have chosen to preserve mandatory spending programs like Medicaid and K-12 education.

At almost every Michigan university, tuition has more than doubled between 2003 and 2015 – some universities saw tuition go up by more than 150%. This increase far surpasses the inflation in the economy; if tuition had only been raised to keep up with inflation, tuition in 2015 would have only been about 20% greater than in 2003. Tuition at Michigan universities have also risen faster than the national Pell Grant – in 2003, the

average Pell Grant covered between 40-66% of tuition in Michigan universities but by 2015, the grant covered less than 40% of tuition at almost all the Michigan universitiesⁱⁱ.

State appropriations to public universities for operating costs have fallen by about 30% on a per-student basis between 2000 and 2014ⁱⁱⁱ. In 2012, university funding was slashed by 15%, about \$231 million, to deal with a projected budget deficit that year. Funding has increased every year since, but aggregate funding is expected to be below 2011 levels even in 2017. Harold Hovey, a longtime state budget analyst, has famously called public higher education the “balance wheel” for state budgets – he noted that when the economy was doing well states tend to fund higher education more and the opposite was observed during bad economic times. This comes from a perception of higher education as a flexible budget item due to higher education institutions’ ability to sustain themselves on other revenue streams such as tuition and fundraising, cut or slow increase of employee pay in economic downturns as they are not bound by state pay scales and modify program elements – and associated spending – in ways that are difficult for other government agencies.^{iv}

In Michigan, public university funds are divvied up in two main ways – most of the money goes to the universities as the “base” and additional money is split up based on certain performance metrics. There is no known formula for the “base” funding; the division of money was decided decades ago and the differences between the institutions have remained rather constant^v. Performance metrics used include graduation rates, percentage of students getting Pell Grants, percentage of the budget spent on instruction and many other items. However, in order for institutions to qualify for this funding, they have to stay under a tuition cap and in 2015, the cap was set at a

3.2% increase^{vi}. The cap and the performance funding was setup in 2012 by Governor Snyder to keep college education affordable. However, several Michigan public universities have foregone the performance funding to gain greater control over their tuition rates. In 2015, Oakland University chose to raise tuition by 8.48% (increasing tuition revenue by \$12 million) and declined the \$1.2 million from the state^{vii}. Eastern Michigan University made a similar calculation and chose to increase tuition above the cap and gain \$10 million in tuition revenue instead of the \$1 million in incentive money^{viii}. This suggests that this aspect of the funding system no longer works and is not effective in controlling costs and keeping higher education affordable for the masses.

A report by the Michigan League for Public Policy found that in 2014 62% of college graduates graduated with debt and student debt averaged \$29,450 which is the ninth highest average debt level in the country^{ix}. In the Midwest, Michigan college students pay the largest share of university expenses, at about 69%^x, and Michigan spends less per-student on need-based financial aid than most Midwest States^{xi}. This is in contrast with Michigan's position in the early-1990s when Michigan was in the top ten states in terms of need-based financial aid spending^{xii}. An additional issue for some college students is the lack of state financial aid for students who have been out of high school for more than 10 years^{xiii}. Both the Tuition Incentive Program and Michigan Competitive Scholarship are only eligible for students who start college within 10 years of graduating high school. While the Michigan Tuition Grant does not include such a stipulation, it is only available for students who attend a private not-for-profit institution. None of the three grant programs are available to students enrolled less than half-time

or who are in short-term occupational programs either^{xiv}. The lack of support for adult learners is potentially problematic as it effectively cuts a key Michigan demographic out of higher education and reduces opportunities to enhance skills and employability in an economy that is rapidly changing.

Cuts to Michigan's public universities are making higher education less affordable for many students. A highly-educated workforce is integral to Michigan's development and as a society we need to ensure that every student who wants tertiary education has access to high-quality and affordable higher education. Further, the state should be encouraging older students to attend and graduate college as well and support such students financially.

Literature Review

Higher Education is a salient issue for many Michiganders and much research has been done surrounding this issue and other local issues. Some of the literature suggests that Michigan higher education institutions should be given more financial support by the state government while some papers suggest that Michigan's institutions should be opened up to competitive forces to depress operational costs. The Michigan Public Policy Survey (MPPS), done by the Center for Local, State, and Urban Policy at the University of Michigan offers great insight into the issue to lay the groundwork. By understanding the thoughts and opinions of local government leaders in Michigan, we can lay the foundation for external research.

Before we think about the role of education in Michigan and local communities, it is important to understand how informed local governments are in this area and how

they think they rank in preparing their residents for the workforce. When local government officials were surveyed on how well-informed they thought they were regarding the workforce development efforts in their communities, 70% said they were at least somewhat informed' according to the Fall 2009 MPPS results. At the same time, only 27% of officials surveyed thought the workforce development efforts in their communities was excellent or good, according to the same survey. This suggests that a large majority of officials understand the status of workforce development in their local areas but do not think the status quo is effective or good enough. A lack of support for the status quo might suggest that officials will be amenable to changes to the system to improve workforce development efforts.

Education is a key part of any area's development as it equips the incoming workforce with the skills and knowledge necessary to contribute to the industries within the area and be productive members of society. In fact 76% of local government officials agree that developing a highly-educated workforce can be an effective strategy for improving the Michigan economy, according to a MPPS survey done in 2009. Among city officials, 93% agreed that a highly-educated workforce could be an effective strategy for improving the state economy. When asked if developing a highly-educated workforce can be an effective strategy for improving responders' local economies, only 56% of responders agreed – the lowest scores coming from township officials, and the highest scores coming from city officials who agreed with the statement to the tune of 80%. The trend seems intuitive as industries that require more specialized and educated labor tend to be found in cities rather than other areas. The high level of

support for a highly-educated workforce also signifies potential political will to institute reforms that would improve the quality and access of higher education in Michigan.

Most local government officials agree that an educated workforce is integral to Michigan's economy. It is then important to understand how Michigan is doing in terms of college enrollment. The MPPS surveys done in 2009 and 2012 give us some insight into this – in 2009, 37% of surveyed officials thought that students in their community were above average compared to others in the state in terms of college enrollment and in 2012 this dropped to 31%. Those who thought that students in their community were average compared to others in the state in terms of college enrollment was about 40% in both years. These findings suggest that in terms of college enrollment, the concentration of opinion seems to be that they are on par with the rest of the state, with less than a third of officials thinking they are above average – an interesting point to note is that the percentage of officials who thinks their community outperforms the state's average declined between the two survey years of 2009 and 2012.

Finally, we need to understand whether key decision makers in the state believe that a bachelor's degree is even beneficial. MPPS data from 2009 suggests that 78% of local officials believe that workers with a bachelor's degree can be at least somewhat successful in their local economies. When asked how successful they think workers with a bachelor's degree will be in ten years, 75% of surveyed officials thought they would be at least somewhat successful, in the same 2009 survey. In fact, local officials from both major parties think that spending on public services or infrastructure was the top budget surplus priority. From the graph below, we observe that there is bipartisan support for supporting and supplementing public services. The table shows us that 48% of

Republican officials think spending on public services is the top budget priority, among Democrats the figure is about 50% and about 58% of Independents think that spending on public services is the top priority. Budget surplus priorities for local officials show overwhelming support for public spending across partisan lines and it is plausible that the preferences of state officials might shadow those of local officials given the similar responsibilities and accesses to information they have. Hence, this might be an indication of the amenability of legislators and other decision makers to invest surpluses in public goods such as higher education rather than save or reduce taxes for constituents.

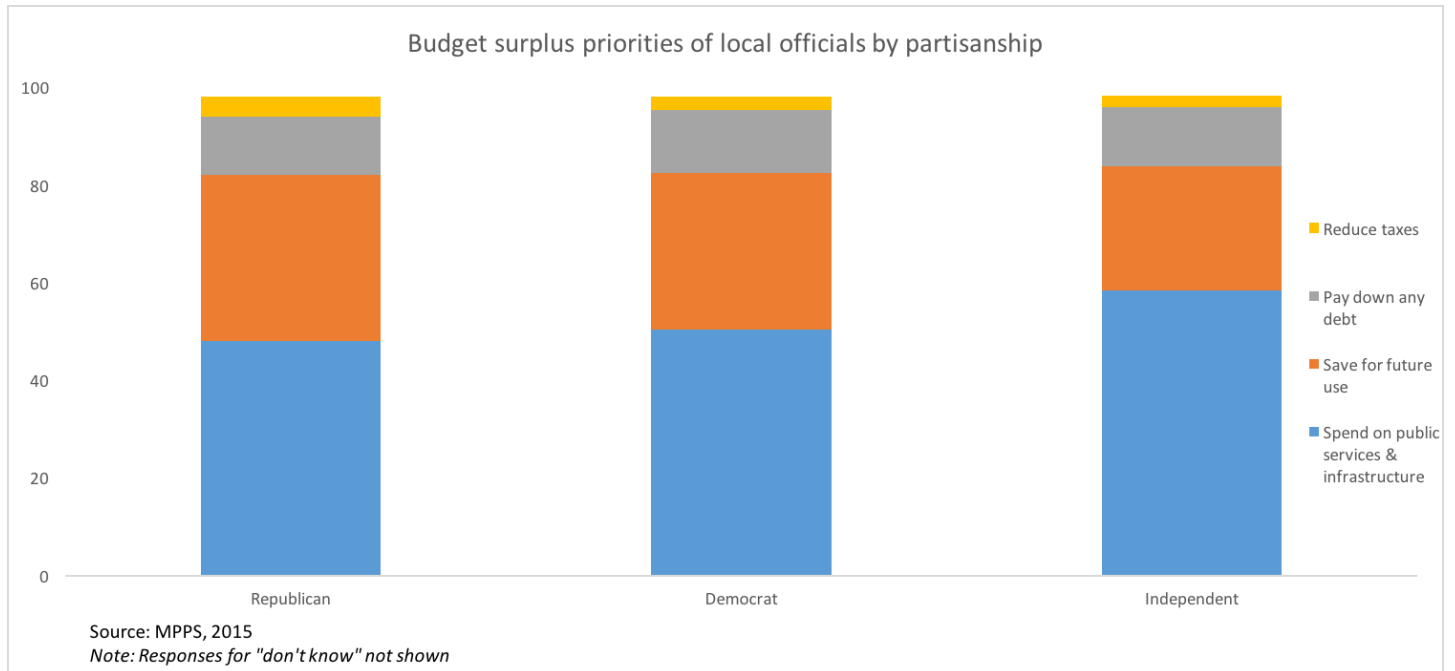
Table showing budget priority of local officials by partisan affiliation

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Budget surplus priority: Local official	3-point partisanship scale			Total
	Republica	Independe	Democrat	
Spend on public servi	48.00	58.38	50.39	50.34
Save for future use	34.00	25.43	32.03	32.07
Pay down any debt	12.00	12.14	12.89	12.24
Reduce taxes	4.17	2.31	2.73	3.50
Don't Know	1.83	1.73	1.95	1.85
Total	100.00	100.00	100.00	100.00

Source: MPPS, 2015

Graph showing budget priority of local officials by partisan affiliation



Source: MPPS, 2015¹

The main argument for increasing state appropriations for higher education is the fact that student tuitions have risen in recent years to cover the costs that were once covered by state appropriations. According to the University of Michigan's Office of the Vice President for Global Communications, in fiscal year 2017, state funding to the school will increase by 3%, however in the 1960s state appropriations made up about 80% of the institution's general fund budget that pays for the school's core academic

¹ Data from MPPS Spring 2015: Q13c. Regardless of whether or not your jurisdiction expects to have a budget surplus this year, in your opinion, what would be the highest priority for using any potential surplus (if it had one) according to the following groups or individuals? Do you think that they would prefer to spend the budget surplus on public services or infrastructure, save that money for future use, use it to pay down any debt your jurisdiction may have, or reduce taxes? You personally in your role as a local official would prefer to...

programs while in 2017, state appropriation will only make up 16% of the general fund budget^{xv}. Michigan cut 20% of inflation adjusted dollars for four-year public universities between 2005 and 2010, and only Rhode Island and New Mexico cut more^{xvi}. At Grand Valley State University, students pay about \$23,000 more than the median for the institution's peer group^{xvii}. Matt McLogan, the Vice President for university relations at Grand Valley State University said that "Grand Valley has essentially been privatized. It's publicly owned, but is no longer publicly supported in any way that people would recognize.^{xviii}" Michigan State University ranks 61 out of 69 peer schools in terms of the ratio of tuition to state support^{xix}. This trend can be observed across the board at all of Michigan's public universities suggesting that the burden of covering the costs at these institutions has increasingly fallen on the shoulders of students. As noted above, the Michigan League for Public Policy found that in 2014 62% of Michigan college graduates graduated with debt and student debt averaged \$29,450 which is the ninth highest average debt level in the country^{xx}.

John McHugh from Central Michigan University chose to look at the issue from a different angle. His 2007 paper, found that there was significant variation in total cost per resident student, ranging from \$8,268 at Saginaw Valley to \$23,329 at the University of Michigan – this variation was present even among the "non-research" institutions. McHugh suggests that while some of the cost differences can be attributed to different costs associated with different geographical areas, the variations were mostly a characteristic of institutions that were exposed to very weak competitive forces and lacked fiscal discipline. Furthermore, he suggests that in a more competitive free market environment, there would be less cost variation and that any deviation from the

mean would be due to different emphases on quality or affordability^{xxi}. The economist Richard Vedder wrote that individuals look for substitute when something becomes expensive – higher education in Michigan has become expensive. Vedder then discusses a few ways to change the current system – he suggests instituting more for-profit universities, distance learning and private certification of skills^{xxii}.

Policy Proposal

My policy proposals for the Michigan legislature, Board of Education and Board of Regents at the individual universities are:

1. Increase state funding for Michigan's public universities
2. Change the funding system to shadow the K-12 per-student funding system
3. Increase aid for adult college students

Increase state funding for Michigan's public universities

As stated above, Michigan state funding to its public universities have declined greatly. State appropriations to Michigan public universities for operating costs fell by about 30% on a per-student basis between 2000 and 2014^{xxiii}. In 2012, university funding was slashed by 15%, about \$231 million, to deal with a projected budget deficit that year. While funding has increased somewhat recently, they still do not match levels of funding prior to 2011. At the same time, some universities saw tuition go up by more than 150% suggesting that students have been bearing the burden of the slash in state appropriations. In the Midwest, Michigan college students pay the largest share of

university expenses, at about 69%^{xxiv}, and Michigan spends less per-student on need-based financial aid than most Midwest States^{xxv}.

Higher education is a good with positive externalities for the rest of the state and individuals who do not directly receive the education. A more highly-educated workforce attracts more high-skill jobs to the state and creates greater opportunities for both workers and small businesses in the state. In fact 76% of local government officials agree that developing a highly-educated workforce can be an effective strategy for improving the Michigan economy, according to a MPPS survey done in 2009. As such, the state has a responsibility to fund and support higher education. Hence, state appropriations in Michigan need to increase to cover a higher proportion of operating costs of public universities so that the burden of tuition and debt on in-state students is reduced.

Per-Student Funding

There are huge variations in per-student funding across Michigan's 15 public universities. There is an argument to be made that research institutions generate more positive externalities than non-research institutions and hence research institutions should be given more funding than non-research public universities. Hence, I propose dividing funding for institutions into two separate tiers – for research and non-research public universities. Within each tier though, funding should be equalized on a per-student basis so that every single public university student is valued the same by the state. There are reasons why per-student costs would differ across institutions – such as higher heating bills or snow removal costs in some areas over others, but these

territorial differences tend to be minor. Much of the discrepancy in per-student funding across institutions is due to the work of lobbyists and schools' spokespeople. As cited by McHugh, Central Michigan University lobbyist Kathy Wilbur suggested that public universities which benefit from the disproportional funding do not even try to justify it, they merely work to maintain the status quo².

Dismantling the established preferential treatment for some public institutions might be politically unpalatable for many legislators given the relationship-driven politicking in Lansing. However, the incentive should be that every public institution and public university student should be treated equally by the state – it is not the state's responsibility to pick “winners and losers” with regards to higher education. Furthermore, removing the cushion of extra appropriations for some institutions might breed greater fiscal responsibility and reduce operational costs.

Supporting adult students

As stated above, two of the three grant programs exclude individuals who have been out of high school for more than 10 years and the third is only for those attending private, not-for-profit institutions. Furthermore, none of the three programs are open to students who are enrolled less than part-time or who are in short-term occupational programs^{xxvi}. In 2010, the legislature got rid of many grant programs that were geared toward adult learners: the Part-Time Independent Student Grant, the Michigan

² Central Michigan University lobbyist Kathy Wilbur, conversation with CMU PSc 300 students during a “Day at the Capitol” field trip, Dec. 3, 2004.

Educational Opportunity Grant, the Michigan Nursing Scholarship and the state Work-Study program^{xxvii}.

Adult learners juggle employment, family and school and often have to enroll less than half-time or enroll in short-term programs due to other commitments and responsibilities. Furthermore, many adult students often have to work more hours to support themselves and hence are likely to receive lower grades and are more likely to drop out due to that. Not having financial support exacerbates this and discourages many adults from going to school and making themselves more employable. As such, the state needs to support adults who want to go back to school, especially when they are unable to do so because of financial responsibilities and constraints. The legislature can start by opening up the Tuition Incentive Program and the Michigan Competitive Scholarship to individuals who have been out of high school for more than 10 years and consider reinstating some of the other programs that were cut in 2010.

As Michigan aims to regain its economic position in the country and in the world, every demographic within the state matters – every individual should be given a chance to pursue higher education and make themselves better equipped for the workforce. In the long run, a more highly-educated workforce is what will attract jobs into the state. If we want to avoid generational gaps, it is important to encourage higher education across the board.

Conclusion

In an increasingly knowledge-based economy, access to and quality of higher education is becoming ever more important. Increasing state funding for public higher

education would allow universities to reduce their dependence on student tuition to cover operating costs, reducing student tuition. Lower tuition would allow more students to go to university and graduate with less debt. Equalizing per-student funding across the public universities would get rid of the vestiges of old political and relationship-based funding and allow the state to treat education at all public universities equally.

Furthermore, equalized per-student funding would encourage public institutions to closely monitor and minimize operating costs so as to keep in check the rapidly increasing operating costs at Michigan universities. Finally, supporting adult learners would improve employment opportunities for a key demographic of Michigan workers.

In unison, these suggestions will improve the skills and attractiveness of the Michigan workforce in the long-run. A more qualified workforce will attract businesses, jobs and growth opportunities to the state and local communities all over Michigan, and stimulate Michigan's economy going forward. Michigan used to be the center of the world's automotive and manufacturing sectors. With the evolution of the economy, it is time that we make changes to our higher education funding to equip Michigan's residents with the skills to compete and succeed in the new economy and restore Michigan's economic glory.

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