Higher Education Funding

BACKGROUND

Michigan's 15 public universities and 28 community colleges fulfill a vital function: They play a central role in preparing the work force, giving graduates the means to earn a higher income than otherwise, and they contribute to the personal and intellectual development of the citizenry. Universities generally offer programs resulting in a four-year or post-graduate degree. Community colleges provide programs resulting in a two-year degree or non-degree certification. In total, Michigan's institutions of higher education schooled more than 330,000 fiscal year equated students (FYES) in FY 2000–01.

GLOSSARY

Fiscal year equated student (FYES)
The number of students attending an institution, adjusted for part-time enrollment—i.e., a student attending half time is counted as one-half FYES. Full-time enrollment is considered to be 30 semester-credit hours a year.

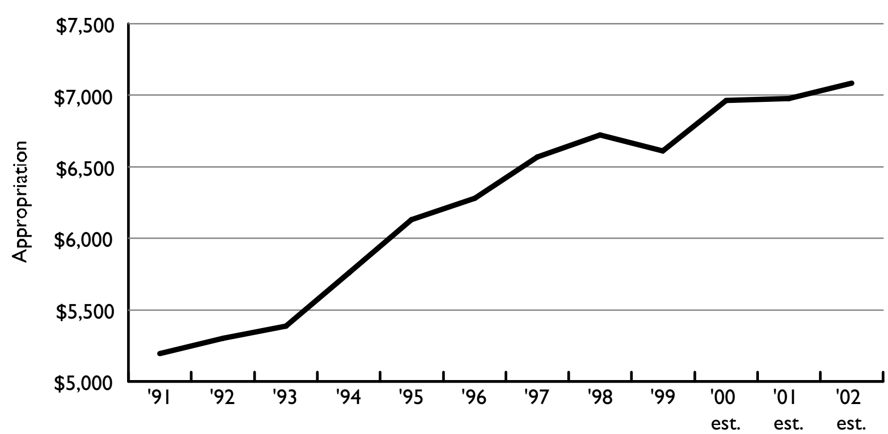
Headcount enrollment
The total number of students attending an institution either full or part time.

Universities

Michigan has 15 public four-year institutions of higher education, including the University of Michigan branch campuses in Dearborn and Flint. (Michigan also has 45 independent colleges and universities, but they do not receive state funds.) The Michigan Constitution grants public universities autonomy in all decisions regarding their operations and policies, but state government may exert indirect control via the appropriations process. State appropriations for universities come almost entirely from the General Fund. Unlike K–12 schools, universities have no "earmarked" funding from sales or other tax revenue, and, unlike community colleges, they cannot raise funds by levying a millage. This means that for their entire state appropriation, universities must compete against other parts of the state budget—and sometimes take a back seat to other state priorities.

State funding for public universities grew steadily throughout the 1970s and 1980s, nearly doubling. In the 1990s, growth continued but more slowly: In the last 12 years, from FY 1991–92 through FY 2001–02, General Fund appropriations for universities have increased by 46 percent, from \$1.3 billion to \$1.9 billion. Exhibit 1 presents the appropriation per FYES for this period.

EXHIBIT 1. State Appropriations per Fiscal Year Equated Student, Michigan Public Universities, FYs 1991–2002



SOURCE: House Fiscal Agency.

Annual increases in state support for universities varied during the 1990s. In the first few years of the decade, when the economy was in recession or pulling out of one, universities received minimal annual increases of about one percent. The situation had improved by FY 1999–2000, a year in which the U.S. and Michigan economies were enjoying the largest peace-time expansion in history. That year, universities received a 5 percent increase, well above the Detroit–Ann Arbor inflation rate of 3.4 percent. However, the economic weakness in 2001 led again to stagnant university appropriations—in FY 2001–02 they are slated to receive only a one percent increase over the previous year.

The appropriation for FY 2002–03 is $1.94 billion for state universities—again, only a marginal increase. Of this, $1.6 billion is recommended for the schools' general operations, $250 million for financial aid to students, and $73.6 million for various other purposes. In total, university funding will use approximately 21 percent of the state General Fund, the same as in FY 2001–02.

Community Colleges

Michigan has 28 community colleges, two-year institutions that confer an associate's degree. Their primary role is to provide general education, job training, and career and technical instruction at a reasonable cost. Community colleges also offer remedial programs for students lacking college entrance skills, opportunities for adults to continue their education, and a gateway for students not yet academically prepared or financially able to enroll at a university.

Approximately 417,400 attended a Michigan community college full- or part-time in FY 2000–01; fiscal year equated enrollment was 110,000. In the 1990s the FYES peaked at 130,500 (FY 1992–93) and bottomed out at 107,500 (FY 1997–98); in the last few years it has remained relatively stable.

Community colleges are governed by locally elected boards and have three major funding sources: property taxes, state aid, and tuition and fees. In FY 2000–01, property taxes and state allocations each contributed roughly one-third (with the edge going to the former), tuition and fees about one-quarter, and the balance came from such other sources as endowments and investment income (see Exhibit 2).

State funding for community colleges fluctuated throughout the 1990s. For example, in FY 1994–95 they received a 1.1 percent decrease, but they received increases above the inflation rate in four of the next five years. Like universities, community colleges have no earmarked source of state funding, and they tend to suffer when state revenues drop—for FY 2002–03, in an economic decline, a "continuation" budget for community colleges has been enacted, giving them just a 0.04 percent increase.

Unlike universities, community colleges are permitted, if voters approve, to levy a local property tax on residents in their tax district. In return, tax-district residents get a break on tuition: in-district tuition tends to be about 50 percent lower than out-of-district tuition. Growth in property tax revenue is restricted because a property's assessed value is prohibited from rising more than 5 percent or the inflation rate, whichever is less. Community colleges are able to increase their property tax revenue above the inflation rate only by raising the millage *rate*, which requires voter approval.

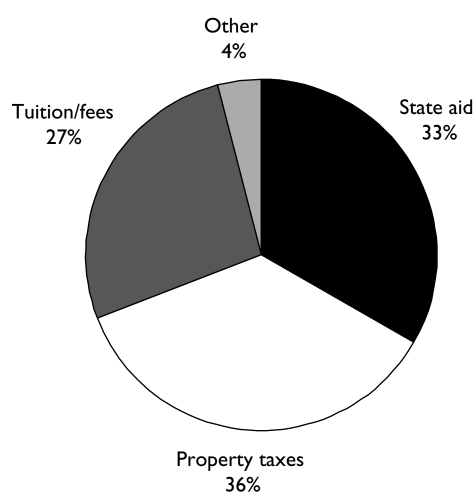
Tuition and Fees

Universities

The governing boards of Michigan universities annually set tuition and fees, and they are among the highest in the nation for public institutions. Tuition has risen rapidly over the last decade. From FY 1990–91 to FY 2000–01, average annual in-state tuition rose an average of about 8 percent, more than double that of inflation as measured by the Detroit–Ann Arbor cost-of-living index. The figures presented below are for undergraduate in-state students enrolled for 30 semester credits in FY 2000–01.

- The average tuition was $4,329.

EXHIBIT 2. Funding Sources, Michigan Community Colleges, FY 2000–01



SOURCE: Michigan Department of Career Development.

- The University of Michigan had the highest tuition: $6,513 for undergraduates.
- Michigan State University, the largest state school (40,000 FYES), had the second-highest tuition: $5,170.
- Saginaw Valley State University had the lowest: $3,607 (about 80 percent lower than UM's).

Community Colleges
As with universities, community college tuition has increased rapidly over the last decade. From FY 1990–91 to FY 2000–01, the in-district average rose an average of 4.1 percent a year. The figures presented below are per credit hour for FY 2001–02.

- For in-district students, tuition averages $53.87 per credit hour.
- For out-of-district students, tuition averages $79.70.
- Mott Community College, in Flint, has the highest in-district tuition: $61.15.
- Kalamazoo Valley Community College has the lowest in-district tuition: $43.25.

DISCUSSION

Universities

High tuition rates are a barrier to a university education for many low- and middle-income families. Also, the expense of a university education can force students to work part time (often delaying graduation until the fifth or sixth year), borrow money, and/or attend a less expensive school regardless of its reputation or curriculum offering in the student's chosen field.

As mentioned, state government is limited in how much it can directly control tuition increases, but for the last several years, legislators and governors have used the power of the purse to provide incentives to universities to keep tuition increases low. For example, the FY 2000–01 budget reduced, by 1.5 percent, state aid for any university that increased tuition by more than 4 percent from the previous fiscal year. In the FY 2002–03 budget, the legislature has addressed the issue by making an agreement with university leaders that total appropriations would not be reduced from the FY 2001–02 level if universities agree not to raise tuition by more than 8.5 percent or $425, whichever is greater. Even so, an 8.5 percent increase is a sizable hike and will exceed the inflation rate by more than 200 percent.

Supporters of increased state funding for universities point out that studies find a direct link between state appropriation levels and tuition/fee levels—when state funding goes down, tuition goes up and vice versa; they believe that the solution to high tuition is greater state support.

Those opposed to increasing university funding contend that higher education is big business, and, as in all businesses in this day and age, management must become leaner and production more efficient. Specifically, they call for privatizing such services as bookstores, food service, and health service and for redesigning course schedules to facilitate student graduation in four years. Some also call for ending faculty tenure, which they contend allows some low-performing but high-paid faculty members to undeservedly remain on staff. Some observers also are concerned by duplication of course offerings among colleges, and they call for better coordination statewide.

Supporters of higher university funding believe that to prepare students for the workplace of the 21st century, universities are under pressure to add technology and make other expensive improvements, thus the consumer price index no longer is the appropriate standard against which to measure tuition increases. They acknowledge that universities are not as efficient as businesses but argue that they should not be expected to be so, since efficiency sometimes comes at the expense of academic integrity and quality of education.

Community Colleges

While community colleges play a significant role in workforce training, some believe that they take a back seat to universities when it comes to state funding. They argue that while universities receive an average state appropriation per FYES of approximately $7,000, community colleges receive only about $3,300.

Community college supporters point out that in addition to being more affordable than universities, the colleges offer many advantages to their community that four-year institutions do not.

- Community colleges provide opportunities to those who do not participate in university education because of economic or social barriers, such as many minorities, single parents, people with disabilities, people with low income, and the educationally disadvantaged.
- They are geographically accessible. Ninety-five percent of Michigan residents live within commuting distance of a community college.

- Because they stress applied skills that lead directly to employment, community colleges are able to respond to the needs both of adults who need re-training as well as first-time learners.
- Community colleges offer customized or contract training—for example, firms contract with a community college to train employees in the specific skills that the companies need.

Rising costs, sometimes-stagnant state appropriations, and voter reluctance to increase millage rates leave community colleges with only the option of raising tuition if they wish to maintain or expand programs, and this can have the unfortunate effect of making a community college education less affordable to thousands of people. Community college advocates maintain that since such colleges were founded, their hallmark has been their ability to provide a good education at a reasonable cost. As the costs of attending four-year institutions skyrocket and as jobs require increasingly higher education/skill levels, supporters believe that it is imperative that community colleges remain affordable.

Currently, only 76 percent of the state's taxable value (the value on which property taxes are levied) is in a community college district, and some observers suggest that redistricting should be explored as a way to increase community college revenue. Redrawing existing borders so that every area of the state is in a community college tax district, proponents claim, would have several advantages: More local property tax revenue would be available to the two-year institutions; post-secondary education would become more accessible to all because there would be no need to charge out-of-district tuition; and eliminating the two-tiered tuition system (whereby in- and out-of-district students are charged different rates) would reduce administrative costs.

Redistricting is viewed with skepticism by those who fear that implementing it statewide might be an administrative and political nightmare because of the so-called Headlee amendment, which requires that any new taxes levied on a locality be approved by the affected voters. Moreover, because community colleges can levy taxes, every annexation of a locale not already in a service district would require the locale's voters to approve the annexation.

See also Career Development.

FOR ADDITIONAL INFORMATION

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