University Funding

BACKGROUND

Michigan has 15 public four-year institutions of higher education, including the University of Michigan branch campuses at Dearborn and Flint. (Michigan also has more than 60 independent colleges and universities that enrolled nearly 88,000 students last year, but these institutions do not receive state funds.) The Michigan Constitution grants to the public university boards of control autonomy in all decisions regarding the institutions' operations and policies, but state government has some indirect control via the appropriations process.

Michigan ranks tenth in the nation in the number of universities it supports. Nearly 5 percent of Michigan residents are enrolled in a public institution of higher education (community college or university), ranking it 14th among the 50 states. Headcount enrollment in Michigan universities was 259,414 in 1996 (most recent data available), 33,387 of which were first-time freshmen.

GLOSSARY

Fiscal year equated student (FYES)
Number of students enrolled in a university; adjusted for part-time enrollments—e.g., a student attending college half time is counted as one-half FYES. Full-time enrollment is 15 credit hours for an undergraduate and 12 for a graduate student.

Headcount enrollment
Number of people attending a university; each is counted regardless of whether full or part time.

State appropriations for universities come solely from the General Fund—unlike K–12 schools, universities have no "earmarked" funding from sales or other tax revenue. This means that for their entire appropriation, universities compete against other parts of the state budget—and sometimes must take a back seat to such competing needs as K–12 school improvements or additional prison capacity.

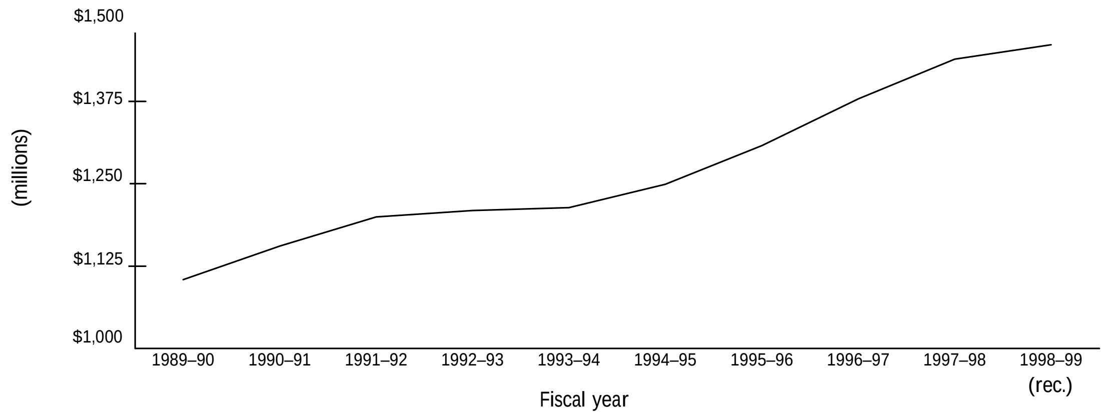
State Funding

In fiscal year 1997–98 the legislature appropriated $1.4 billion for the general operation of the state's 15 public universities, $116 million for financial aid to students, and $58 million for various other purposes—in total, 18.6 percent of the state General Fund/General Purpose budget.

State funding for public universities grew steadily throughout the 1970s and 1980s, nearly doubling during that period. However, there is debate about how well the universities are faring in the 1990s (see Exhibit 1; the FY 1998–99 figure is that proposed by Governor Engler and currently being considered by the legislature). On average, appropriations increased 3.3 percent annually from FY 1989–90 to FY 1996–97, while the inflation rate, measured by the Detroit–Ann Arbor inflation rate, has averaged 2.8 percent during the same period.

Exhibit 2 shows how the FY 1990–96 state appropriations growth compares to growth in Michigan personal income, the Detroit–Ann Arbor consumer price index (CPI), university tuition/fees, and the HEPI for the same period (the latter is the higher education price index, a widely used indicator of higher education expenditures—e.g., salaries, library materials, utility and other costs—produced by Research Associates of Washington, a private company). It shows

EXHIBIT 1. Total State Appropriations for Michigan Public Universities, FY 1990–1999



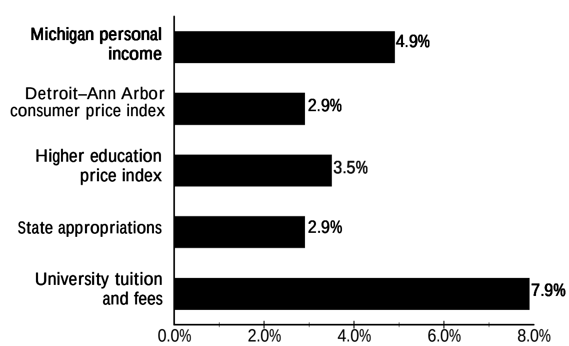
SOURCE: Senate Fiscal Agency.
NOTE: The figure for FY 1998–99 is not final; it is the governor's recommendation.

that (1) tuition increases have outpaced the growth rate of all other indicators, and (2) state appropriations have matched the consumer price index but not kept up with increases in higher-education costs.

Tuition and Fees

The governing boards of Michigan universities annually set tuition and fee rates, which are among the highest in the nation (see Exhibit 3). Tuition/fee rates vary widely: The highest FY 1997–98 in-state tuition ($5,878 at the University of Michigan) is about double that of the lowest ($2,986 at Northern Michigan University). Tuition/fee rates rose rapidly in recent years, but the rate of the growth has slowed, falling short of 5 percent a year since FY 1995–96. For example, in FY 1992–93, state universities hiked their tuition an average of almost 10 percent, with double-digit increases at four universities. By FY 1997–98, the pace had

EXHIBIT 2. Comparison of Average Annual State University Appropriations Growth to Other Indicators, FY 1990–1996



SOURCES: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Research Associates of Washington; and Michigan Senate Fiscal Agency.

EXHIBIT 3. Average Tuition and Fees, Public Universities, FY 1995–1996, Selected States

State	*Tuition and Fees*	*National Ranking*
Pennsylvania	$4,723	2
MICHIGAN	3,895	8
NewYork	3,714	11
Ohio	3,603	12
Illinois	3,352	15
Minnesota	3,216	17
Indiana	3,037	19
California	2,666	22
Wisconsin	2,614	24
Texas	1,820	46
Florida	1,787	47
UNITED STATES	$2,848	

SOURCE: State Fact Finder.

slowed considerably, with increases averaging only 3.5 percent and no university imposing a double-digit hike. However, even this exceeds the 1997 Detroit–Ann Arbor inflation rate of 2.5 percent.

The state has tried in various ways to help Michigan residents more easily afford tuition. Like many states, Michigan began an education trust program—the Michigan Education Trust (MET), founded in 1986—to help parents save for their children's tuition. Parents could make payments into the fund in return for guaranteed tuition for their child at a state public university. From 1988 to 1990 more than 40,000 MET contracts were purchased, but the program stopped accepting new applicants until 1995 due to concern that revenue from MET investments would not keep pace with rising tuition rates. The program resumed in 1995 but without a tuition guarantee, and in 1997, 1,950 persons applied for MET contracts.

Another state effort to make university education more affordable is a state income-tax tuition credit of up to $250 for four years. The credit is available only to those who pay tuition to universities that keep their increases below the rate of inflation. It was designed both to give tax relief to those paying tuition and to provide incentives to universities to keep their increases at or below cost-of-living increases.

DISCUSSION

Education Affordability

To fill the gap between state (and other) funding and expenditures, Michigan universities charge students tuition and fees. In recent years tuition/fee increases have exceeded increases in the CPI, HEPI, and Michigan weekly wage. These high costs force more students to work part time (often delaying graduation until the fifth or sixth year), borrow more money, and/or attend less expensive schools regardless of their reputation or curriculum offerings in the student's chosen field.

State government is limited in its ability to control tuition increases. The state constitution gives universities considerable autonomy, preventing the state from setting tuition/fee levels. Nevertheless, the state has tried for years to keep tuition low. The tuition tax credit is one such measure, but it has not yet proved to have an effect on tuition hikes. Critics of the tax credit also point out that the relief it provides—approximately 6 percent of the average in-state tuition and fees—is too low to make much difference in one's ability to pay tuition in Michigan.

Other more direct measures have been discussed. For example, a bill was introduced during the FY 1997–98 budget process that would have capped university state-funding increases at 3.0 percent unless the institution kept tuition hikes to 3.0 percent or less. Although the bill did not pass, the FY 1997–98 budget did use state appropriations as a tool to encourage low tuition, allocating an additional $5.4 million among universities that had shown restraint in raising tuition/fees.

Funding Adequacy

The primary issue dominating current public policy debate about higher education funding is whether enough state money goes to the universities. Several studies find a direct link between state appropriation levels and tuition/fee levels—when state funding goes down, tuition goes up and vice versa. This relationship leads many observers to attribute rising tuition to inadequate state funding.

Whether state appropriations for universities are seen as adequate depends on whether one compares them to the inflation rate, the cost of providing higher education, or other measures. Defenders of the current funding level assert that it has kept up with inflation throughout the decade and therefore is adequate. They contend that the best way to keep tuition/fees down is not to "throw more money at" the institutions but for the universities to tighten their belts and become more efficient.

Those opposed to increasing university funding contend that higher education is big business, and as in all business in this day and age, management must become leaner and production more efficient. Specifically, they call for privatizing such services as bookstores, food services, and health services and for redesigning course schedules to facilitate student graduation within four years. Some also call for an end to 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 among statewide programs.

Critics of the current state funding level believe that although state appropriations for Michigan universities have matched cost-of-living increases, they have not kept up with "cost-of-educating" increases, which rise about 0.6 percent a year. They point out 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 CPI no longer is the appropriate standard against which to measure appropriation 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.

Funding Equity

Funding equity among universities is another issue that can be expected to spur debate in coming years. Since FY 1981–82, university funds have been allocated through across-the-board increases (4.5 percent in the current year, FY 1997–98) along with miscellaneous—some say subjective—adjustments for special programs or individual university needs. The across-the-board approach is faulted for (1) rewarding schools that were financially well off in the late 1970s, just before it was adopted, and (2) failing to do right by universities that have grown significantly, expanded their programming, or added expensive technology since that time. Many feel that the miscellaneous additions to individual appropriations reflect lobbying and politics rather than true need or merit.

The across-the-board funding distribution has resulted in certain universities—Eastern, Grand Valley State, and others—being funded at a level consistently lower than others. For example, in FY 1995–96, state appropriations ranged from $3,445 per FYES at Grand Valley State to $8,990 at Wayne State—a difference of $5,545 per student. Even when schools of similar size, mission, and course offerings are compared, there are significant differences: At Northern Michigan and Eastern Michigan, the funding-per-FYES figures were $6,746 and $4,010, respectively—a difference of $2,736. Such disparities fuel criticism that the current system of allocating state funds to universities is subjective and unfair.

The legislature has tried to respond to these concerns. Introduced in the FY 1997–98 budget deliberations was a funding "floor," a minimum amount to be received by every university. The legislature set the floor at $4,290 per FYES for FY 1997–98, which resulted in Central Michigan, Grand Valley State, Saginaw Valley State, and Oakland universities receiving funding increases above what they otherwise would have. While there is no guarantee that a funding floor will be part of future budgets, the FY 1997–98 budget states that a "legislative goal" is to maintain a per student floor of $4,500 for universities offering master's degrees and $6,000 for those offering doctoral programs. (The legislative goal does not obligate future legislatures, but the current body hopes they will be guided by it.)

While the FY 1997–98 budget is thought to be a step in the right direction, there still was a spread of almost $5,500 per FYES between the highest and lowest university appropriation. To correct such funding disparities, many people would prefer an appropriation formula that considers the differences and needs of the various universities—e.g., enrollment changes or programs and degrees offered.

See also Community Colleges.

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