



# THE SENATE FISCAL AGENCY

The Senate Fiscal Agency is governed by a board of five members, including the majority and minority leaders of the Senate, the Chairperson of the Appropriations Committee of the Senate, and two other members of the Appropriations Committee of the Senate appointed by the Chairperson of the Appropriations Committee with the concurrence of the Majority Leader of the Senate, one from the minority party.

The purpose of the Agency, as defined by statute, is to be of service to the Senate Appropriations Committee and other members of the Senate. In accordance with this charge the Agency strives to achieve the following objectives:

1. To provide technical, analytical, and preparatory support for all appropriations bills.
2. To provide written analyses of all Senate bills, House bills and Administrative Rules considered by the Senate.
3. To review and evaluate proposed and existing State programs and services.
4. To provide economic and revenue analysis and forecasting.
5. To review and evaluate the impact of Federal budget decisions on the State.
6. To review and evaluate State issuance of long-term and short-term debt.
7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.
8. To prepare special reports on fiscal issues as they arise and at the request of members of the Senate.

The Agency is located on the 8th floor of the Victor Office Center. The Agency is an equal opportunity employer.



Gary S. Olson, Director  
Senate Fiscal Agency  
P.O. Box 30036  
Lansing, Michigan 48909-7536  
Telephone (517) 373-2767  
TDD (517) 373-0543  
Internet Home Page <http://www.senate.michigan.gov/sfa>

## **ACKNOWLEDGMENTS**

The author would like to thank Pat Harper for preparing the tables and coordinating production of this report. In addition, special thanks are given to Jessica Runnels for providing valuable edits and comments.

**TABLE OF CONTENTS**

	Page
EXECUTIVE SUMMARY .....	1
INTRODUCTION .....	2
STATE AID AND TUITION .....	3
TUITION AND ENROLLMENT .....	4
CONCLUSION .....	6

## **EXECUTIVE SUMMARY**

Many states, including Michigan, are coming off nearly a decade of strong economic performance and robust revenue growth. This prosperity enabled state legislatures across the country to provide healthy funding increases to their institutions of higher education. Today, however, with sharply lower revenue collections, and continued demand for government services, most states are confronting severe budget shortfalls. Faced with these conditions, State legislatures often look to higher education as one of the few remaining “pots of money”, in order to cut spending and reduce appropriations. In short, the impact of this “boom-and-bust” cycle is that colleges and universities tend to fare well when times are good, yet may be seen as easy targets for cuts in times of declining revenue.

This paper will examine the impact that the Michigan Legislature’s funding decisions have had on this State’s community college system. The intent is to provide a better understanding of the outcome of both appropriation increases and appropriation reductions in terms of legislative policy objectives. The premise offered is that appropriation decisions for community colleges are different than those for other State agencies. While funding decisions for most State agencies are made in terms of changes in programs and services, funding decisions for community colleges tend to be less concerned with specific performance objectives or outcome measures.

Instead, the overriding policy objective for providing funding increases to community colleges has been to keep tuition low, while increasing access to college programs. Evidence to support this contention can be found in the relationship between State appropriations and tuition, and between tuition and enrollment. As the data will show, tuition increases tend to be more modest during periods of increasing State appropriations; when tuition remains stable, enrollments tend to increase.

During the current period of tight budgets, the Legislature will contemplate funding reductions for community colleges. If the primary goal of appropriation decisions is to keep tuition low and provide access to a college education, then history would indicate that reducing State appropriations may not meet this goal; that is, reducing appropriations may result in increased tuition and declining enrollments. It remains to be seen whether the debate surrounding funding decisions for higher education in general, and community colleges in particular, continues to be centered around these existing policy objectives, or whether new alternative policies governing State aid to higher education are considered.

## INTRODUCTION

For fiscal year 2003-04, Governor Granholm recently recommended reducing appropriations for the State's 28 community colleges by 6.7% below the level they will receive in the current year. Current-year appropriations for community colleges are 3.5% below what they received last fiscal year. State budget cuts to community colleges, however, are not unique; virtually all State agencies and programs have experienced, and will continue to see, reduced appropriations, due in large part to the ongoing slowdown in State revenue collections. What makes the reductions to community colleges unique, is the way in which the impact of these cuts is measured. This paper attempts to explain the effect that appropriation decisions have on community college programs, in order to provide some context for assessing the Governor's proposed funding reductions. This analysis also may help predict the impact of future appropriation decisions on community college operations.

When the Legislature deliberates spending decisions for most State agencies, there is typically a measurable and clearly defined outcome that each incremental change in appropriation has on a particular agency. For example, when spending reductions are contemplated for the Department of State Police, Department officials are able to translate those reductions into quantifiable outcomes, typically in terms of reduced troopers, fewer crime scenes inspected, or fewer criminals apprehended. Similarly, the Department of Corrections is able to articulate the impact on the prison population of each dollar lost; the Attorney General can provide the estimated number of positions that must be eliminated for each dollar of reduced appropriations; and so on.

Measuring the programmatic impact of State appropriations for community colleges is done differently. Appropriation decisions for community colleges historically have not been based on specific outcome measures or performance objectives. Unlike the impact on State Police or Corrections, it is less clear exactly what each additional dollar appropriated for community colleges buys in terms of measurable increase in program function. Similarly, when community colleges are faced with funding reductions, the specific impact that each dollar of reduction has on measurable program outcomes, is less clearly identifiable. This may be due to the autonomous authority granted institutions of higher education by the State Constitution. It also may be due, in part, to the fact that State appropriations make up only one of three main funding sources for community colleges; therefore, changes in State appropriations may have only a partial impact on programming. Additionally, actual funding allocation decisions are typically left to the individual college boards of trustees, elected by the voters in each college district.

Analyzing the impact of funding reductions on community colleges is further complicated by the perception that colleges are able to tap an alternative source of revenue, namely, tuition, when State funds become scarce. This "tuition revenue stream option" both eases the perceived pain of State aid reductions, and simultaneously frustrates those who would advocate spending reductions before tuition increases are implemented. In either case, the direct consequences of State appropriation reductions (or increases) on college programming are often not well understood.

What has been clear, at least for community colleges, is the Legislature's explicit and well documented objective to keep tuition increases low and to provide adequate public access to a college education. If there is an identifiable policy behind appropriation decisions for community colleges, it is that State support should help offset tuition increases and provide access to those who may not be able to afford tuition at a four-year institution.

The balance of this paper examines the relationships between State appropriations, tuition, and the way in which changes in tuition may affect college enrollment. The intent is to determine whether these relationships provide evidence that appropriation decisions support the policy objective of

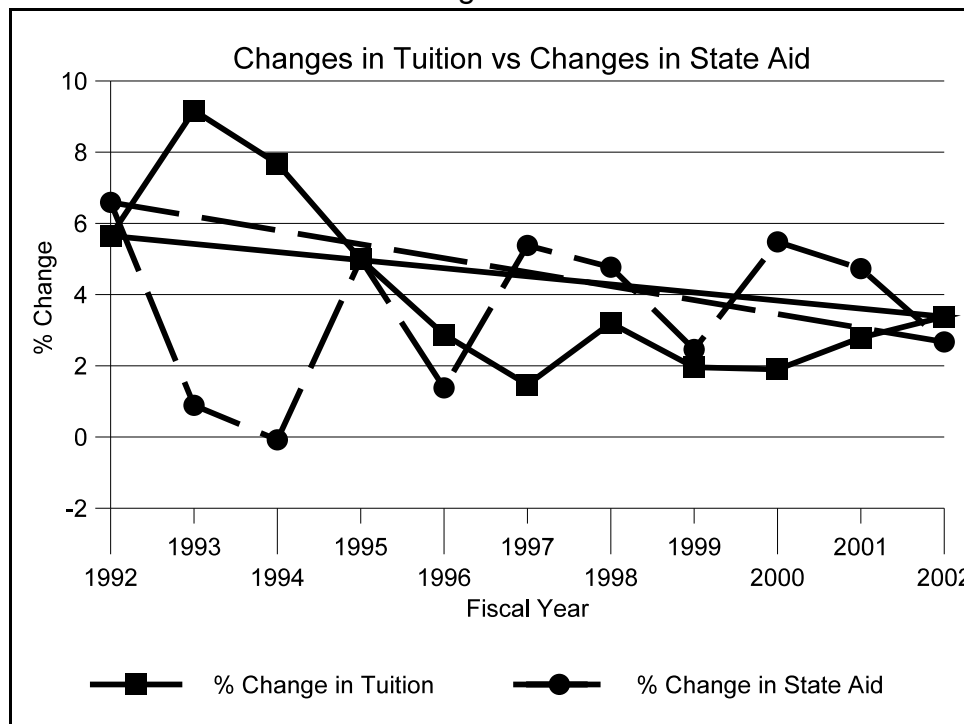
affordability and access within the community college system. This evidence then may be used to help predict the impact of current and future funding decisions on college operations.

### STATE AID AND TUITION

Keeping tuition low has been a clear and well stated objective of both the Executive branch and the Legislature in recent years. Both the enactment of the tuition tax credit (which provided an income tax credit to taxpayers attending a school that kept tuition below the rate of inflation) and former Governor Engler's frequent proposals to implement "tuition restraint" language in the annual appropriation bills (which attempted to reduce appropriations to schools that increased tuition beyond a certain amount) are examples of the State's goal to keep tuition increases low.

Decisions implementing this objective, in part, are supported by conventional wisdom that steep cuts in State appropriations will inevitably lead to large increases in tuition. High tuition in turn leads to reduced access to college programs, measured by lower enrollment. An examination of the data shows that to some extent, conventional wisdom may be right. Figure 1 depicts the annual percentage changes in State community college appropriations compared with annual changes in tuition.

Figure 1



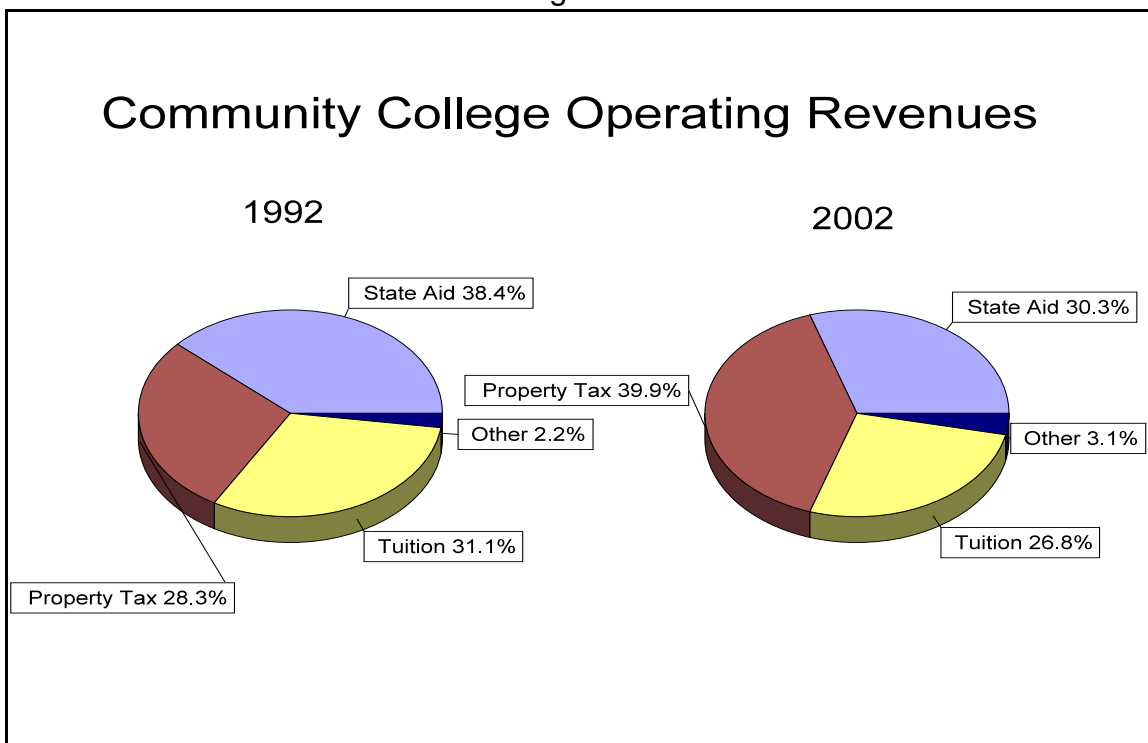
As the data indicate, in a general sense, tuition increases tend to be greater during times of relatively small increases in State appropriations. Similarly, when State appropriations are more generous, tuition increases seem to be more modest.

As Figure 1 shows, the Legislature's recent decisions to provide community colleges with relatively large increases in appropriations have had the effect of restraining tuition increases. Indeed, since 1995, annual increases in State funding for community colleges have averaged 4.0% while annual

tuition increases have averaged 2.8%. Conversely, between 1992 and 1995, when increases in State aid averaged 2.5%, tuition rose an average of 7.1% each year.

Tuition and State appropriations are only two of the three main revenue sources for community colleges, the other being local property taxes. (A small amount also is received from gifts, donations, etc.) As [Figure 2](#) depicts, in 1992, colleges received a little less than a third of their operating revenue from tuition. By 2002, tuition revenue accounted for a little over a quarter of all college funding<sup>1</sup>. As the data indicate, support from tuition revenue has not grown as fast as the growth in property tax or State aid revenue. In other words, while not necessarily a direct result of increases in State appropriations, the amount of money paid by students to support college programs, at least on a proportional basis, has decreased since 1992.

Figure 2



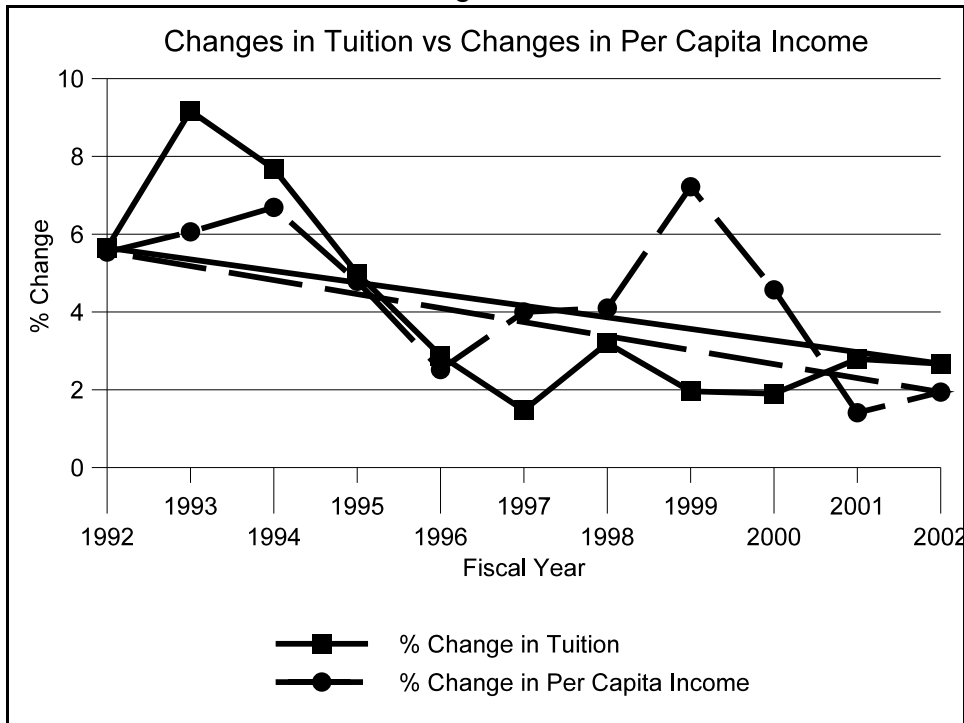
## TUITION AND ENROLLMENT

A clear goal of keeping tuition low is to make community college education affordable for more people. One way to measure college affordability is to examine the relationship between increases in tuition and increases in per capita income. As [Figure 3](#) shows, for the most part, since 1996, annual tuition increases have averaged less than annual increases in per capita income. In this sense, the Legislature's goal of keeping college affordable has been accomplished, as the recent cost of incremental college education has been below the growth of personal income.

---

<sup>1</sup> It is important to note that these proportions represent the average among the 28 community colleges. The current proportion of State aid ranges from a low of 17% at Oakland Community College, and to a high of 62% at Gogebic Community College. Clearly, reductions in State aid have a greater impact on colleges that receive a greater portion of their funding from the State.

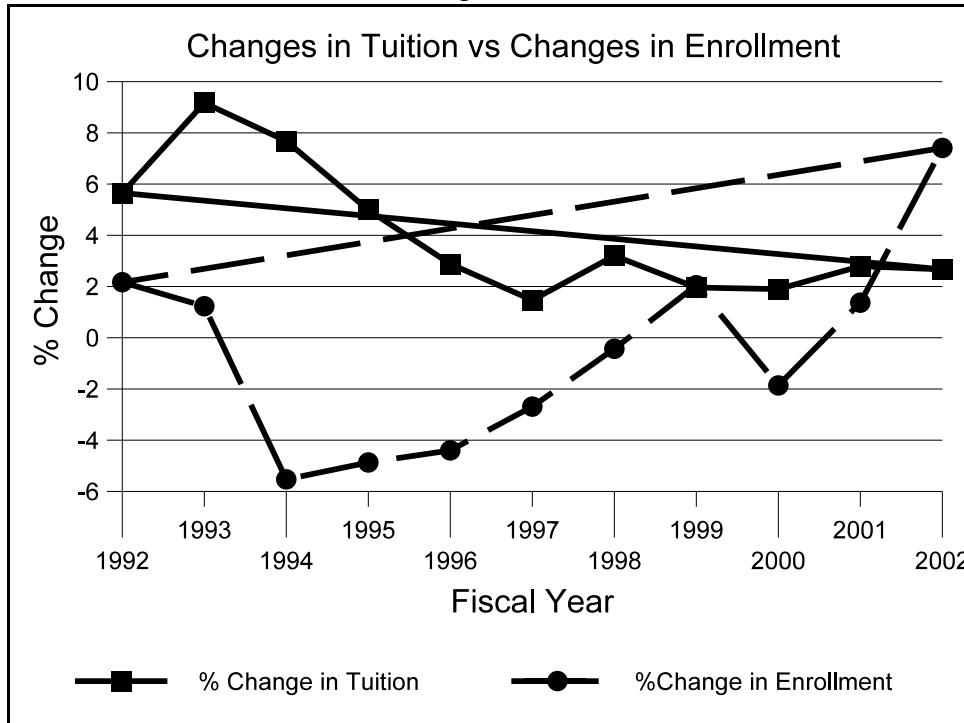
Figure 3



An objective related to affordability is that of increasing access for those individuals seeking a community college education. Ensuring access to college programs has been an articulated and well documented objective connected to legislative funding for many years. Since the early 1990s, various task forces, reports, and appropriation act statements have focused on the issue of expanding the geographic boundaries of community college districts in order to increase the availability of comprehensive college services to more students. This goal of increasing access has been not only a goal of the Legislature, but also part of the overall mission of the community college system. Community colleges are often seen as a “safety net” in higher education, providing a college education to anyone who wants it, regardless of income or academic credentials. In this sense, the notions of increasing access and keeping tuition low are intrinsically related: If tuition is low, more people will be able to afford a college education, which should lead to greater access measured in terms of increased enrollments.

While much has been written about the relationship between price (tuition) and access (enrollment), the intent here is not to debate economic theories of price elasticity. Instead, the task is to determine the effect of appropriation decisions on the policy objective of increasing access to college. If the decisions are successful, then enrollments should increase when tuition is low. Declining enrollments, on the other hand, would be expected during times of rising tuition.

Figure 4



As the data in [Figure 4](#) indicate, when the rate of tuition increases is high, the rate of enrollment growth declines. When tuition increases are more modest, enrollments seem to increase. Admittedly, there are other factors that may influence college enrollment, including changing demographics, economic conditions, and work force training issues. However, the data do seem to suggest that one potential impact of increasing State support for community colleges is lower tuition, which in turn leads to increasing enrollment.

## CONCLUSION

Arguably, unlike the appropriation process for other State agencies, the appropriation process for community colleges can be characterized as one that provides funds to community colleges with few strings attached under the assumption that the institutions will use the money wisely to educate students. Consequently, appropriation decisions rarely include debate about what each additional dollar of funding will achieve in terms of measurable outcomes. Similarly, in times of budget reductions, the measurable impact of reduced appropriations on college programs often is not well identified.

The data presented above, however, have made clear that past appropriation decisions can be explained in terms of two clearly stated policy objectives: keeping tuition affordable and increasing access to college education. As the State provided more money to community colleges, tuition remained stable. When tuition remained stable, enrollments seemed to increase. If the goals of State support for community colleges are to keep tuition low and to provide greater access, then there seems to be evidence that appropriation decisions have been successful in achieving these policy objectives. It remains to be seen whether the converse holds true, that is, whether State budget cuts will lead to increases in tuition, in turn producing declining college enrollments. If so, the drop-off in college enrollment would occur, ironically, just at the time when a slowing economy could benefit from a retrained and re-educated work force.