

State Notes

TOPICS OF LEGISLATIVE INTEREST

November/December 2005



State Funding for Higher Education: Is It Up or Down for FY 2005-06?

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The answer to the question of whether fiscal year (FY) 2005-06 State funding for Michigan's community colleges and universities is up or down from the FY 2004-05 funding levels depends on where you start. The original FY 2004-05 appropriations for Community Colleges and Universities were enacted in September 2004. On February 10, 2005, the Governor presented her FY 2005-06 budget. Included in the Governor's budget proposal were recommendations to adjust the FY 2004-05 appropriations because the State Treasurer had notified the Governor that actual State revenue for FY 2004-05 was below the revenue estimate upon which the appropriations were based.

Executive Order (EO) 2005-3, which proposed to reduce FY 2004-05 appropriations, was included in the Governor's budget presentation on February 10, 2005. The House Appropriations Committee approved the EO on February 17, 2005, but the Senate Appropriations Committee rejected the EO, forcing the Governor to submit a new EO. Executive Order 2005-7, which replaced EO 2005-3, was presented to a joint meeting of the House and Senate Appropriations Committees on March 23, 2005, and approved the same day. Executive Order 2005-7 cut each public community college and university by 1.75% and eliminated \$10.1 million in Higher Education funding for the Joseph F. Young, Sr. Psychiatric Research and Training Program (\$5.6 million) and the University of Detroit-Mercy Dental Clinics Grant (\$4.5 million), resulting in a total FY 2004-05 State General Fund/General Purpose (GF/GP) EO reduction of \$40.1 million.

During negotiations on EO 2005-7, there was an agreement to restore the 1.75% college and university operations reductions -- \$25.1 million for Higher Education and \$4.9 million for Community Colleges -- if sufficient revenue became available. Public Act 11 of 2005 included two triggers for the restoration of the funds:

- a) If the May 2005 consensus revenue estimate for FY 2004-05 combined GF/GP and School Aid Fund revenue were higher than the January 2005 consensus revenue estimate, then an amount up to \$30.0 million would be appropriated for State community colleges and universities. The revenue estimate did increase and \$13,794,200 was appropriated, on a pro-rata basis, for university operations, and \$2,705,800 for community college operations.
- b) If funds were not fully restored in May, and if there were an unreserved GF/GP balance at the close of FY 2004-05, then an amount, not to exceed a total of \$30.0 million, would be appropriated for State community colleges and universities. The final book-closing occurred on December 28, 2005, and there was sufficient revenue available to fully restore the EO 2005-7 college and university reductions. This meant an additional appropriation of \$11,286,200 for universities and \$2,213,800 for community colleges.

Even with all of the EO 2005-7 funds restored, there is a further complication when the fiscal years of each college and university are considered. The State fiscal year begins on October 1, and ends on September 30. Except for Wayne State University, which has the same fiscal year as the State, all of the colleges and universities have fiscal years that begin on July 1 and end on June 30. This would mean that when the book-closing restoration occurred in December

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2005, audit regulations would require those funds to be booked in the college's or university's 2005-06 fiscal year, while the State would be required to book the appropriation in the State's 2004-05 fiscal year. This creates the potential for the State and the schools to be using different bases upon which to calculate any funding changes between fiscal years. Tables 1A through 1D outline some possible ways to calculate the changes.

Table 1A: FY 2005-06 Enacted Change From FY 2004-05 Post EO Y-T-D					
Operations	FY 2004-05 Enacted Appropriation	FY 2004-05 Post EO 2005-7 Year-to-Date	FY 2005-06 Enacted	\$ Change From FY 2004-05	% Change From FY 2004-05
Universities	1,434,166,500	1,403,480,200	1,419,831,900	16,351,700	1.2%
Community Colleges	280,024,300	275,104,700	275,104,700	0	0.0%
Total	\$1,714,190,800	\$1,678,584,900	\$1,694,936,600	\$16,351,700	1.0%

Table 1B: FY 2005-06 Enacted Change From FY 2004-05 Y-T-D After May Restoration					
Operations	FY 2004-05 Enacted Appropriation	FY 2004-05 Year-to-Date After May Restoration	FY 2005-06 Enacted	\$ Change From FY 2004-05	% Change From FY 2004-05
Universities	1,434,166,500	1,417,274,400	1,419,831,900	2,557,500	0.2%
Community Colleges	280,024,300	277,810,500	275,104,700	(2,705,800)	-1.0%
Total	\$1,714,190,800	\$1,695,084,900	\$1,694,936,600	(\$148,300)	-0.01%

Table 1C: FY 2005-06 Enacted Change From FY 2004-05 Y-T-D After May & December Restorations					
Operations	FY 2004-05 Enacted Appropriation	FY 2004-05 Year-to-Date After May & Dec. Restorations	FY 2005-06 Enacted	\$ Change from FY 2004-05	% Change From FY 2004-05
Universities	1,434,166,500	1,428,560,600	1,419,831,900	(8,728,700)	-0.6%
Community Colleges	280,024,300	280,024,300	275,104,700	(4,919,600)	-1.8%
Total	\$1,714,190,800	\$1,708,584,900	\$1,694,936,600	(\$13,648,300)	-0.8%

Table 1D: FY 2005-06 Enacted Plus December 2005 Restoration Change From FY 2004-05 Y-T-D After May Restoration					
Operations	FY 204-05 Enacted Appropriation	FY 2004-05 Year-to-Date After May Restoration	FY 2005-06 Enacted + December 2005 EO Restoration	\$ Change From FY 2004-05	% Change From FY 2004-05
Universities	1,434,166,500	1,417,274,400	1,431,118,100	13,843,700	1.0%
Community Colleges	280,024,300	277,810,500	277,318,500	(492,000)	-0.2%
Total	\$1,714,190,800	\$1,695,084,900	\$1,708,436,600	\$13,351,700	0.8%



Table 1A compares the FY 2005-06 enacted State appropriations for Community Colleges and Universities (contained in Public Act 154 of 2005) with the FY 2004-05 year-to-date State appropriations that were in place after EO 2005-7. This comparison shows a 1.2% increase for Universities and no change for Community Colleges. Table 1B compares the FY 2005-06 enacted State appropriations with the FY 2004-05 year-to-date State appropriations that existed after the May 2005 portion of the EO was restored. This comparison yields a 0.2% increase for Universities and a 1.0% decrease for Community Colleges.

Table 1C compares the FY 2005-06 enacted State appropriations for Community Colleges and Universities with the FY 2004-05 year-to-date State appropriations that include both the May and December 2005 EO restorations. This comparison produces a 0.6% decrease for Universities and a 1.8% decrease for Community Colleges. Table 1D compares the FY 2005-06 enacted State appropriations plus the December 2005 portion of the EO restoration, with the FY 2004-05 year-to-date State appropriations that were in place after the May 2005 EO restoration. This comparison (which is most likely the one that colleges and universities will use in their own fiscal year financial reports) portrays a 1.0% increase for Universities and a 0.2% decrease for Community Colleges.

Conclusion

As the tables illustrate, due to the evolving nature of the State's fiscal situation during FY 2004-05, there are many different ways to measure the change in State appropriations from FY 2004-05 to FY 2005-06. Any of these measures are mathematically legitimate and can be used to determine whether FY 2005-06 State funding increased or decreased for Michigan's community colleges and universities. The next question will be: What level of FY 2005-06 funding will serve as the basis for building the recommendation for FY 2006-07? It is likely that the development of the FY 2006-07 budgets for Community Colleges and Higher Education will be interesting and complex.