Senate Fiscal Agency

State Notes

TOPICS OF LEGISLATIVE INTEREST
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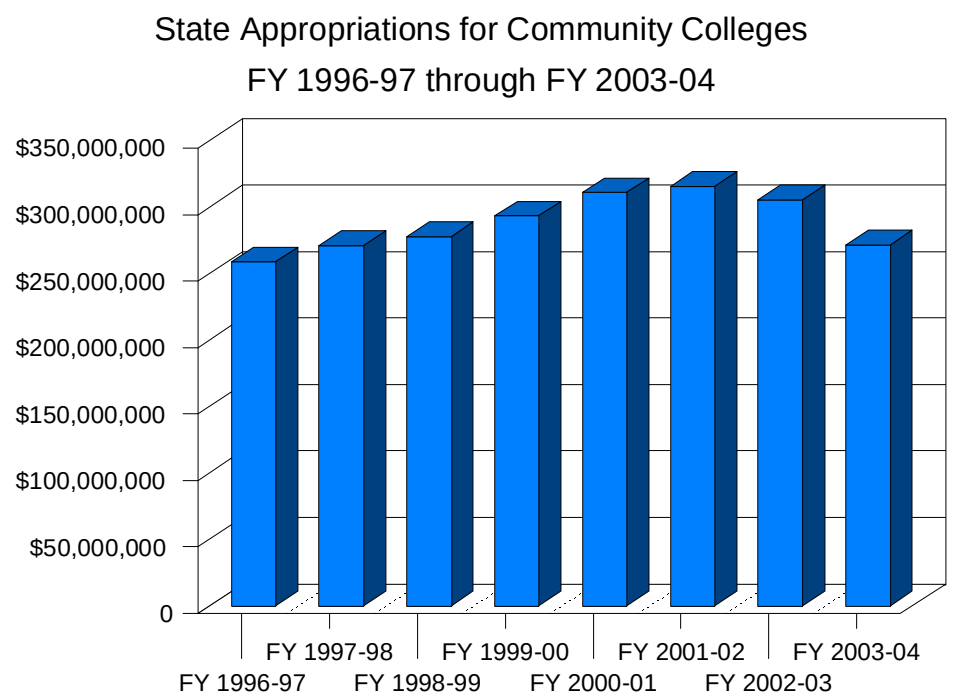
The Link between State Funding and the Commission on Higher Education and Economic Growth
by Mike Hansen, Chief Analyst

Governor Jennifer Granholm recently appointed 40 members to a new Commission on Higher Education and Economic Growth headed by Lt. Governor John Cherry. The Commission is charged with finding ways to double the percentage of people who get college degrees in order to propel Michigan to higher levels of economic growth. While the Commission has yet to meet, and therefore has yet to develop formal policy objectives, it appears that the emphasis will be on increasing college enrollments to serve both the State's manufacturing industries and the new technology-based businesses it hopes to attract.

The work of the Commission will be framed against a backdrop of decreasing State appropriations for the State's higher education system. State funding for community colleges, for example, is at its lowest level since fiscal year (FY) 1997-98, and has declined by 14% since its high in FY 2001-02 (Figures 1 and 2). At the same time, State policy-makers have enacted "tuition restraint" incentives that provide a 3% increase in State funding if schools agree to keep tuition increases below the rate of inflation. These constraints on college budgets are occurring, ironically, during a time of increasing college enrollments, up nearly 15% in the last three years (Figure 3).

Figure 1



Source: Senate Fiscal Agency

Figure 2

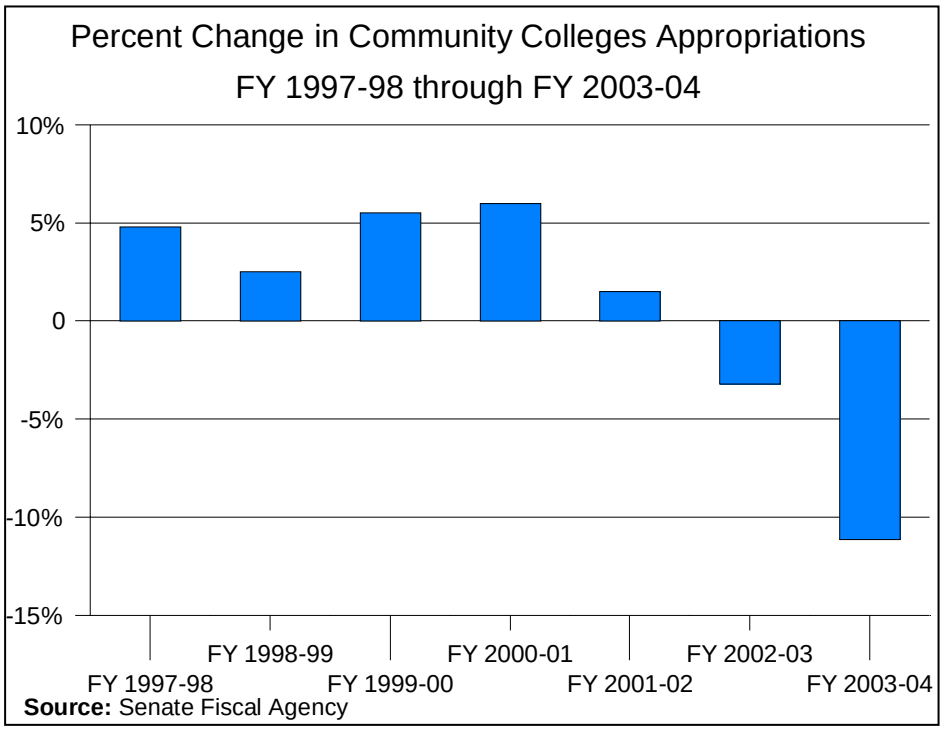
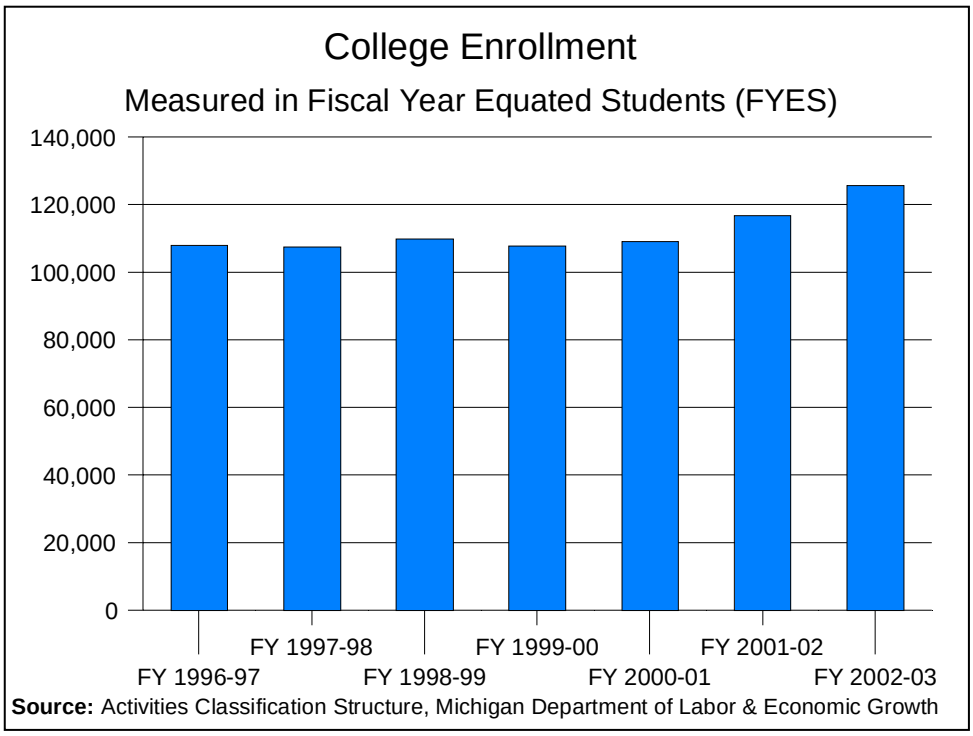


Figure 3



Since community colleges receive only approximately one third of their revenue from tuition, at some level there is a disincentive to increase enrollment, as each additional student brings with him or her only about a third of the cost of his or her education. This dilemma becomes more apparent during times of declining State financial support. Given this situation, colleges are often tempted either to cap enrollment (which tends to be an unpopular decision among locally elected college boards of trustees) or to reduce high-cost programs. In other words, if a college can teach freshman English for $4 per student contact hour, while it costs maybe $15 to teach computer assisted design (CAD) or dental hygiene, then the advice from college budget officers is to teach more English and less CAD as a way of saving money. Indeed, from a budgetary standpoint, a college acts rationally when it limits the availability of expensive programs, and increases the availability of less expensive programs. Ultimately, a program's cost structure, and the accompanying financial pressures of the institution, begin to dictate the type of curricula offered. The State's public policy interest of producing a workforce for high-skill, high-demand jobs takes a back seat to the demands placed on a school by a funding structure that favors teaching English over welding.

Data on program costs and enrollments tend to support such a shift in program offering decisions. Of the six general instructional categories, courses under the grouping Trade, Industrial, and Technical are the most expensive to operate (Table 1). Interestingly, these are the very classes that have seen a fairly significant decline in enrollment over the past three years. Similarly, General Education classes are among the least expensive to offer, and here, enrollments have increased. In addition, while the Health Occupations curriculum is relatively expensive, and enrollments in this category also have increased, anecdotal evidence suggests that nursing and related programs are being offered due to their high demand, with costs being offset (subsidized) by other, less expensive, programs. While these data do not suggest a direct cause and effect (i.e., the market might be influencing enrollment decisions), it is clear that under the current structure, the State "pays" the college the same whether it offers English or nursing. In this sense, then, there is no connection between the State's public policy objectives and State funding.

It remains to be seen whether the new Commission on Higher Education and Economic Growth addresses some of the financial constraints that may be dictating college course offerings. The linkage between public policy objectives of a well trained and well educated work force for Michigan's "advanced manufacturing and new technology based businesses" and the State's funding of these programs, needs to be better explored. The State's current funding structure does not advance such a correlation.

Table 1

Academic Programs Enrollment and Costs				
	2000-01	**2001-02**	**2002-03**	**% Change FY 2000-01 to FY 2002-03**
Enrollment				
General	58,934	64,732	69,709	18.3%
Business & Public Service	24,159	25,013	26,075	7.9
Trade, Industrial, Technical	9,102	8,247	8,034	(11.7)
Health Occupations	7,924	8,545	9,925	25.3
Developmental and Preparatory	8,279	9,761	11,400	37.7
Human Development	733	504	462	(37.0)
Total	109,131	116,802	125,605	15.1%
Costs / Contact Hour				
General	$5.09	$4.95	$4.89	(3.9)%
Business & Public Service	5.86	5.93	6.19	5.6
Trade, Industrial, Technical	8.02	9.09	9.36	16.7
Health Occupations	8.05	7.86	7.58	(5.8)
Developmental and Preparatory	4.1	4.74	4.62	12.7
Human Development	4.9	4.45	4.75	(3.1)
Total	$5.77	$5.77	$5.76	(0.2)%

Source: Activities Classifications Structure, Michigan Department of Labor and Economic Growth