

State Notes

TOPICS OF LEGISLATIVE INTEREST

Fall 2013



FY 2013-14 Higher Education Appropriations and Tuition Restraint **By Bill Bowerman, Associate Director**

Introduction

The fiscal year (FY) 2013-14 Higher Education budget includes \$21.9 million allocated to universities based on performance funding criteria. Receipt of any performance funding is contingent upon several prerequisites, including tuition restraint. This is the third consecutive year in which some form of tuition restraint has been included in the Higher Education budget. It is the first year in recent times that a university has not complied with tuition restraint and forgone increases in State funding. If State aid continues to decline as a share of total university revenue, the ability of the State to limit tuition increases also will diminish. This article provides an overview of State appropriations for Higher Education and the impact of tuition restraint.

Background

While the last two years have included increases for university operations, budget reductions were predominant from FY 2002-03 through FY 2011-12, culminating in a 15.0% decrease to university operations in FY 2011-12. As shown in Table 1, the FY 2013-14 budget for university operations is \$350.2 million (21.7%) below FY 2001-02 appropriations.

As a result of cost increases and State aid reductions, universities have substantially increased tuition since FY 2001-02. In FY 2001-02, the average annual resident undergraduate tuition at Michigan public universities was \$4,928. In FY 2013-14, the average annual resident undergraduate tuition is \$11,142, a 126.1% increase over that time period (Table 2).

State aid as a share of statewide university general fund revenue decreased from 45.3% of university general fund revenue in FY 2001-02 to 21.9% in FY 2011-12. In FY 1981-82, State aid accounted for 59.0% of university general fund operating revenue.

Tuition Restraint

FY 2011-12. The FY 2011-12 Higher Education appropriation included a 15.0% across-the-board reduction to university operations. The budget also removed \$83.0 million from university operation line items and transferred those funds to tuition restraint appropriations for each university. Amounts withheld from each university were calculated using the average increase in tuition for that institution over a five-year period. Universities were required to keep FY 2011-12 increases for resident undergraduate tuition at, or below, 7.1%. All Michigan public universities complied and received their share of tuition restraint funding in FY 2011-12.

FY 2012-13. In FY 2012-13, \$9.1 million of a \$36.2 million increase for Higher Education was conditioned upon tuition restraint. Universities received a share of the \$9.1 million tuition restraint appropriation based on limiting resident undergraduate tuition increases to not more than 4.0%. All Michigan public universities again complied with the requirements of tuition restraint in FY 2012-13. The remaining \$27,162,800 was distributed based on a new performance funding model that included metrics for critical skill undergraduate degrees and certificates, six-year graduation rates, total degrees and completions, institutional support as a percentage of core expenditures, and research and development expenditures.

Table 1

State Appropriations for Higher Education ¹⁾							
Universities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Central	\$90,003,800	\$88,353,522	\$79,910,900	\$79,910,900	\$80,061,900	\$80,994,600	\$81,941,100
Eastern	87,637,200	84,993,688	77,295,800	77,295,800	76,140,600	76,955,400	77,774,100
Ferris	55,520,300	53,937,221	48,968,800	48,968,800	48,634,700	49,201,300	49,730,800
Grand Valley	60,095,400	57,992,024	57,904,100	57,904,100	61,129,900	62,603,400	63,387,500
Lake Superior	14,268,700	14,047,630	12,392,400	12,685,000	12,506,300	12,675,900	12,981,900
Michigan State	325,982,300	315,469,556	287,516,000	287,516,000	283,730,300	287,127,000	290,139,800
Michigan Tech	55,241,600	53,667,742	48,723,000	48,723,000	48,018,800	48,501,100	49,028,200
Northern	52,012,900	50,545,612	45,173,100	45,775,200	45,051,600	45,593,100	46,171,500
Oakland	52,384,700	50,551,147	48,106,100	48,106,100	50,685,700	51,378,000	51,932,900
Saginaw Valley	27,393,300	26,434,503	26,140,200	26,140,200	27,499,800	28,052,100	28,356,200
U of M-Ann Arbor	363,562,700	351,809,191	320,662,000	320,662,000	316,368,500	320,156,000	323,439,900
U of M-Dearborn	27,993,300	27,319,061	24,690,000	24,690,000	24,739,200	25,027,400	25,295,000
U of M-Flint	24,068,100	23,523,479	21,228,000	21,228,000	20,903,100	21,151,100	21,379,900
Wayne State	253,644,700	245,520,223	223,714,300	218,108,400	214,666,300	216,822,300	219,046,500
Western	125,677,200	121,778,193	110,847,100	110,847,100	109,695,200	110,973,200	112,122,000
Total Universities	\$1,615,486,200	\$1,565,942,792	\$1,433,271,800	\$1,428,560,600	\$1,419,831,900	\$1,437,211,900	\$1,452,727,300

Universities	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	Enacted FY 2013-14	FY 2013-14 Change to FY 2001-02	FY 2013-14 % Change to FY 2001-02
Central	\$82,760,500	\$82,436,000	\$80,132,000	\$68,108,900	\$71,352,300	\$73,540,100	(\$16,463,700)	-18.3%
Eastern	78,551,800	78,212,100	76,026,200	64,619,100	66,466,700	67,275,400	(20,361,800)	-23.2%
Ferris	50,228,100	50,017,100	48,619,200	41,324,300	44,250,700	45,636,500	(9,883,800)	-17.8%
Grand Valley	64,021,400	63,758,300	61,976,400	52,677,400	55,436,000	57,823,500	(2,271,900)	-3.8%
Lake Superior	13,111,700	13,059,200	12,694,200	10,789,500	12,046,100	12,231,000	(2,037,700)	-14.3%
Michigan State	293,041,200	291,841,700	283,685,200	241,120,800	245,037,000	249,597,800	(76,384,500)	-23.4%
Michigan Tech	49,518,500	49,302,100	47,924,200	40,733,600	42,579,100	43,473,800	(11,767,800)	-21.3%
Northern	46,633,200	46,438,200	45,140,300	38,367,400	40,856,600	41,741,400	(10,271,500)	-19.7%
Oakland	52,452,200	52,220,800	50,761,300	43,145,000	44,964,100	45,651,600	(6,733,100)	-12.9%
Saginaw Valley	28,639,800	28,517,700	27,720,700	23,561,500	25,656,700	25,991,000	(1,402,300)	-5.1%
U of M-Ann Arbor	326,674,300	325,347,400	316,254,500	268,803,300	274,156,700	279,232,700	(84,330,000)	-23.2%
U of M-Dearborn	25,548,000	25,437,100	24,726,200	21,016,300	22,237,300	22,510,400	(5,482,900)	-19.6%
U of M-Flint	21,593,700	21,498,900	20,898,000	17,762,400	19,526,600	19,938,200	(4,129,900)	-17.2%
Wayne State	221,237,000	220,329,200	214,171,400	182,036,900	183,398,300	183,398,300	(70,246,400)	-27.7%
Western	113,243,200	112,766,800	109,615,100	93,168,300	95,487,500	97,279,000	(28,398,200)	-22.6%
Total Universities	\$1,467,254,600	\$1,461,182,600	\$1,420,344,900	\$1,207,234,700	\$1,243,451,700	\$1,265,320,700	(\$350,165,500)	-21.7%

¹⁾ Amounts listed do not reflect FY 2003-04, FY 2004-05, FY 2006-07 or FY 2007-08 delayed payments or FY 2006-07 Michigan Public School Employees' Retirement System adjustment.

Table 2

Michigan Public University Annual Resident Undergraduate Tuition and Fees ¹⁾							
Universities	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
Central	\$4,247	\$4,747	\$5,228	\$5,375	\$5,868	\$6,638	\$7,343
Eastern	4,603	5,027	5,627	5,762	6,540	6,956	7,511
Ferris	5,070	5,417	6,044	6,190	6,740	7,200	7,875
Grand Valley	4,745	5,148	5,554	5,888	6,334	6,752	7,420
Lake Superior	4,334	4,758	5,604	5,736	6,306	6,733	7,271
Michigan State	5,952	6,454	7,044	7,352	8,685	8,887	9,910
Michigan Tech	6,101	6,591	7,440	7,610	8,194	9,660	10,579
Northern	4,357	4,780	5,210	5,334	5,858	6,184	6,759
Oakland	4,639	5,032	5,494	5,738	6,361	6,956	7,928
Saginaw Valley	3,927	4,382	4,724	4,913	5,282	5,543	6,258
U of M-Ann Arbor	7,075	7,960	8,481	8,722	9,798	10,341	11,112
U of M-Dearborn	5,088	5,521	6,047	6,215	6,957	7,516	8,110
U of M-Flint	4,376	4,786	5,312	5,761	6,441	6,948	7,392
Wayne State	4,680	5,104	5,693	5,840	6,948	7,350	8,450
Western	4,731	5,156	5,895	5,934	6,784	7,265	7,680
Unweighted Avg.	\$4,928	\$5,391	\$5,960	\$6,158	\$6,873	\$7,395	\$8,107

Universities	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 13-14 % Chng to FY 01-02
Central	\$8,190	\$9,248	\$10,065	\$10,740	\$10,950	\$11,220	164.2%
Eastern	8,091	8,399	8,399	8,705	9,048	9,386	103.9%
Ferris	9,000	9,480	9,930	10,440	10,710	10,988	116.7%
Grand Valley	8,400	8,845	9,314	9,958	10,330	10,716	125.8%
Lake Superior	7,925	8,315	8,795	9,395	9,671	9,991	130.5%
Michigan State	10,690	11,383	11,670	12,769	13,211	13,579	128.1%
Michigan Tech	11,616	12,278	13,007	13,911	14,448	14,861	143.6%
Northern	7,128	7,511	7,728	8,470	8,766	9,094	108.7%
Oakland	8,426	9,188	9,716	10,399	10,706	11,108	139.5%
Saginaw Valley	6,492	6,900	7,308	7,815	8,120	8,423	114.5%
U of M-Ann Arbor	11,739	12,400	12,590	13,437	13,819	13,977	97.6%
U of M-Dearborn	8,636	9,216	9,575	10,236	10,617	10,989	116.0%
U of M-Flint	7,825	8,332	8,656	9,243	9,574	9,907	126.4%
Wayne State	8,751	9,319	9,732	10,578	10,989	11,967	155.7%
Western	8,382	8,858	9,510	10,140	10,536	10,928	131.0%
Unweighted Avg.	\$8,753	\$9,311	\$9,733	\$10,416	\$10,766	\$11,142	126.1%

¹⁾ Tuition and fees as reported by universities in the Higher Education Institutional Data Inventory (HEIDI). Beginning in FY 2006-07, instructions required reporting based on four class levels to account for new tuition/fee structures at various universities. Rates are based on 30 credit hours and exclude course fees and other fees not paid by a majority of students at a given class level and refundable student fees.



FY 2013-14. As with FY 2012-13, the Governor again recommended tying a specific portion of the overall funding increase to tuition restraint. The enacted version of the budget, however, conditioned all of performance funding (\$21.9 million) on compliance with tuition restraint, which limits 2013-2014 academic year resident undergraduate tuition/fee increases to not greater than 3.75%. The FY 2013-14 budget basically continues metrics used in the FY 2012-13 budget; however, there were changes to distributions based on Carnegie classifications, i.e., scoring was changed and distributions are now weighted by the number of undergraduate fiscal year equated students. (For a more detailed explanation of performance funding metrics and prerequisites to receive this funding, please see the FY 2013-14 Higher Education Appropriations Report prepared jointly by the House and Senate Fiscal Agencies.¹) Fiscal Year 2013-14 performance funding measured as a percentage increase for institutions ranged from a 0.3% increase for Wayne State University to a 4.2% increase for Grand Valley State University. In order to qualify for performance funding, according to Section 265a of the State School Aid Act, a university must comply with tuition restraint and certify by August 31, 2013, that it complied with all of the following requirements:

- The university participates in reverse transfer agreements with at least three Michigan community colleges or has made a good-faith effort to enter into reverse transfer agreements.
- The university does not and will not consider whether dual enrollment credits earned by an incoming student were used toward his or her high school graduation requirements when determining whether the student may use those credits toward completion of a university degree or certificate program.
- The university participates in the Michigan Transfer Network created as part of the Michigan Association of Collegiate Registrars and Admissions Officers transfer agreement.

Section 265 and 265a are included in the Appendix.

All 15 Michigan public universities complied with the three requirements listed above; however, Wayne State University (WSU) exceeded the tuition restraint limitation. Tuition increases ranged from 1.14% (University of Michigan-Ann Arbor) to 8.9% (Wayne State University), as shown in Table 3.

Wayne State University's FY 2013-14 tuition and fee increase exceeds the tuition restraint limit of 3.75% by 5.15%. As shown in Table 4, WSU would have received a \$534,700 (0.3%) increase in State aid based on the performance metrics used for the FY 2013-14 Higher Education budget. In contrast, the 8.9% tuition/fee increase for WSU resident undergraduate students will generate an estimated \$15.0 million. The amount in excess of the 3.75% limit (from 3.75% to 8.9%) will generate approximately \$8.7 million.

Pursuant to Section 265a(2) of the State School Aid Act, any performance funding amounts that are not paid to a public university because it did not comply with any of the performance funding prerequisites, including tuition restraint, are unappropriated and reappropriated for performance funding to public universities that meet all of the performance funding prerequisites. The redistributed funds are to be appropriated in proportion to each university's FY 2013-14 enacted

¹ This report is located at the following link:
<http://www.senate.michigan.gov/sfa/Departments/DepartmentPublications/HigherEdAppropsReport2014.pdf>.

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performance funding appropriation amount. Table 4 shows the initial distribution of performance funding and the change resulting from WSU's noncompliance with tuition restraint.

Table 3

FY 2013-14 Resident Undergraduate Tuition/Fee Increases			
University	FY 2012-13 Tuition/Fees	FY 2013-14 Tuition/Fees¹⁾	Percent Change
Central	\$10,950	\$11,220	2.47%
Eastern	9,048	9,386	3.74%
Ferris.....	10,710	10,988	2.59%
Grand Valley.....	10,330	10,716	3.74%
Lake Superior	9,671	9,991	3.31%
Michigan State.....	13,211	13,579	2.79%
Michigan Tech	14,448	14,861	2.86%
Northern.....	8,766	9,094	3.74%
Oakland	10,706	11,108	3.75%
Saginaw Valley	8,120	8,423	3.73%
UM-Ann Arbor.....	13,819	13,977	1.14%
UM-Dearborn.....	10,617	10,989	3.50%
UM-Flint	9,574	9,907	3.48%
Wayne State.....	10,989	11,967	8.90%
Western	10,536	10,926	3.70%
Unweighted Average	\$10,766	\$11,142	3.49%

¹⁾ Tuition rates are based on Higher Education Institutional Data Inventory and requirements of Section 265 of the State School Aid Act. Amounts represent the average tuition/fees for resident undergraduates for four class levels (freshman, sophomore, junior, and senior) and are based on 30 credit hours.

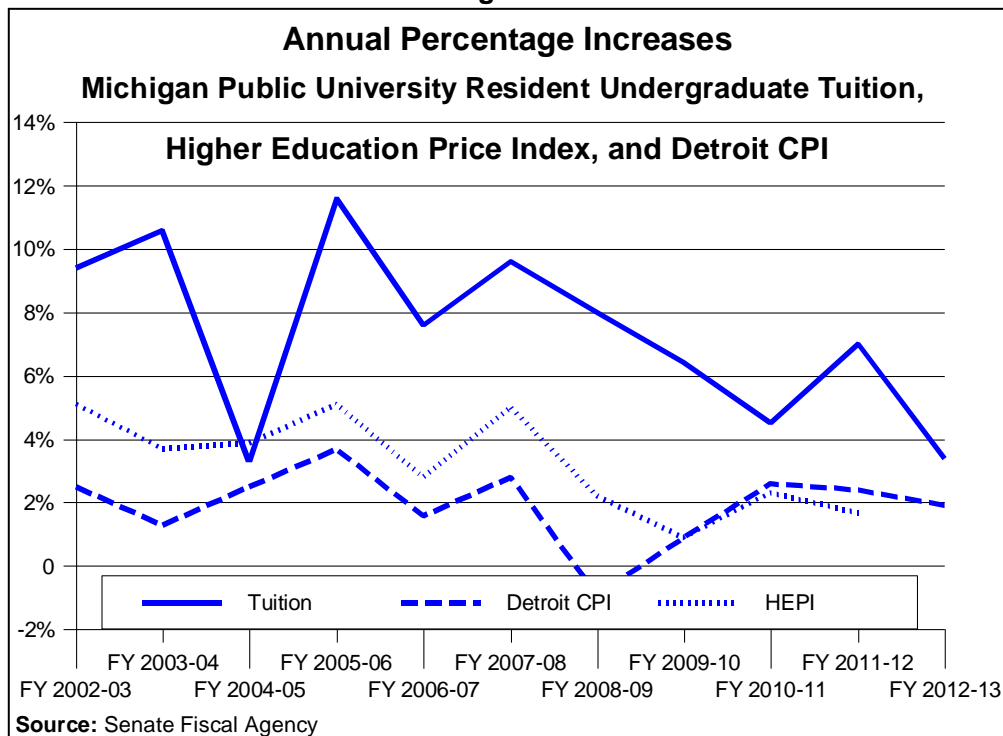
Table 4

FY 2013-14 Higher Education Performance Funding Allocations					
University	FY 2012-13 Appropriation	Performance Funding as Enacted	Redistribution of Forfeited Funds	FY 2013-14 Appropriation	Percent Increase
Central	\$71,352,300	\$2,134,300	\$53,500	\$73,540,100	3.07%
Eastern	66,466,700	788,900	19,800	67,275,400	1.22%
Ferris	44,250,700	1,351,900	33,900	45,636,500	3.13%
Grand Valley	55,436,000	2,329,100	58,400	57,823,500	4.31%
Lake Superior	12,046,100	180,400	4,500	12,231,000	1.53%
Michigan State	245,037,000	4,449,300	111,500	249,597,800	1.86%
Michigan Tech	42,579,100	872,800	21,900	43,473,800	2.10%
Northern	40,856,600	863,200	21,600	41,741,400	2.17%
Oakland	44,964,100	670,700	16,800	45,651,600	1.53%
Saginaw Valley	25,656,700	326,100	8,200	25,991,000	1.30%
UM-Ann Arbor	274,156,700	4,952,000	124,000	279,232,700	1.85%
UM-Dearborn	22,237,300	266,400	6,700	22,510,400	1.23%
UM-Flint	19,526,600	401,500	10,100	19,938,200	2.11%
Wayne State	183,398,300	534,700	(534,700)	183,398,300	0.00%
Western	95,487,500	1,747,700	43,800	97,279,000	1.88%
Total	\$1,243,451,700	\$21,869,000	\$0	\$1,265,320,700	1.76%

Even in years in which the State has imposed tuition restraint, tuition increases have exceeded the Detroit Consumer Price Index and the Higher Education Price Index (Figure 1).



Figure 1



Conclusion

This is the third consecutive year in which tuition restraint has been included in the Higher Education budget. The amount of State funding tied to tuition restraint compliance, and the tuition restraint limit, has varied over that time period. In FY 2013-14, Wayne State University made a decision that other universities may be compelled to follow in the future based on economic realities. State aid for university operations has decreased by \$350.2 million (21.7%) (not adjusted for inflation) since FY 2001-02, and now accounts for approximately 21.9% of university operations funding on a statewide basis. While the State's share of university general fund revenue ranges from 16.7% to 32.8% of total university general fund revenue, State aid accounts for less than 25.0% of revenue for 10 universities. The ability of the State to constrain tuition increases in the future will depend on the overall level of State funding for Higher Education and the universities' ability to generate more funds by increasing tuition.



Appendix:
FY 2013-14 Boilerplate Sections in Public Act 60 of 2013

Sec. 265. (1) Payments under section 265a for performance funding shall only be made to a public university that certifies to the state budget director by August 31, 2013 that its board did not adopt an increase in tuition and fee rates for resident undergraduate students after September 1, 2012 for the 2012-2013 academic year and that its board will not adopt an increase in tuition and fee rates for resident undergraduate students for the 2013-2014 academic year that is greater than 3.75%. As used in this subsection:

(a) Subject to subdivision (c), “fee” means any board-authorized fee that will be paid by more than 1/2 of all resident undergraduate students at least once during their enrollment at a public university. A university increasing a fee that applies to a specific subset of students or courses shall provide sufficient information to prove that the increase applied to that subset will not cause the increase in the average amount of board-authorized total tuition and fees paid by resident undergraduate students in the 2013-2014 academic year to exceed the limit established in this subsection.

(b) “Tuition and fee rate” means the average of full-time rates for all undergraduate classes, based on an average of the rates authorized by the university board and actually charged to students, deducting any uniformly-rebated or refunded amounts, for the 2 semesters with the highest levels of full-time equated resident undergraduate enrollment during the academic year.

(c) For purposes of subdivision (a), for a public university that compels resident undergraduate students to be covered by health insurance as a condition to enroll at the university, “fee” includes the annual amount a student is charged for coverage by the university-affiliated group health insurance policy if he or she does not provide proof that he or she is otherwise covered by health insurance. This subdivision does not apply to limited subsets of resident undergraduate students to be covered by health insurance for specific reasons other than general enrollment at the university.

(2) The state budget director shall implement uniform reporting requirements to ensure that a public university receiving a payment under section 265a for performance funding has satisfied the tuition restraint requirements of this section. The state budget director shall have the sole authority to determine if a public university has met the requirements of this section. Information reported by a public university to the state budget director under this subsection shall also be reported to the house and senate appropriations subcommittees on higher education and the house and senate fiscal agencies.

Sec. 265a. (1) Appropriations to public universities in section 236 for performance funding shall be paid only to a public university that complies with section 265 and certifies to the state budget director, the house and senate appropriations subcommittees on higher education, and the house and senate fiscal agencies by August 31, 2013 that it complies with all of the following requirements:

(a) The university participates in reverse transfer agreements described in section 286 with at least 3 Michigan community colleges or has made a good-faith effort to enter into reverse transfer agreements.

(b) The university does not and will not consider whether dual enrollment credits earned by an incoming student were utilized towards his or her high school graduation requirements



when making a determination as to whether those credits may be used by the student toward completion of a university degree or certificate program.

(c) The university participates in the Michigan transfer network created as part of the Michigan association of collegiate registrars and admissions officers transfer agreement.

(2) Any performance funding amounts under section 236 that are not paid to a public university because it did not comply with 1 or more requirements under subsection (1) are unappropriated and reappropriated for performance funding to those public universities that meet the requirements under subsection (1), distributed in proportion to their performance funding appropriation amounts under section 236.

(3) The state budget director shall report to the house and senate appropriations subcommittees on higher education and the house and senate fiscal agencies by September 17, 2013, regarding any performance funding amounts that are not paid to a public university because it did not comply with 1 or more requirements under subsection (1) and any reappropriation of funds under subsection (2).

(4) Performance funding amounts described in section 236 are distributed based on the following formula:

(a) Based on weighted undergraduate completions in critical skills areas, 22.2%.

(b) Based on research and development expenditures, for universities classified in Carnegie classifications as doctoral/research universities, research universities (high research activity), or research universities (very high research activity) only, 11.1%.

(c) Based on 6-year graduation rate, total degree completions, and institutional support as a percentage of core expenditures, scored against national Carnegie classification peers and weighted by total undergraduate fiscal year equated students, 66.7%.

(5) For purposes of determining the score of a university under subsection (4)(c), each university is assigned 1 of the following scores:

(a) A university classified as in the top 20%, a score of 3.

(b) A university classified as above national median, a score of 2.

(c) A university classified as improving, a score of 2. It is the intent of the legislature that, beginning in the 2014-2015 state fiscal year, a university classified as improving is assigned a score of 1.

(d) A university that is not included in subdivision (a), (b), or (c), a score of 0.

(6) For purposes of this section, "Carnegie classification" shall mean the basic classification of the university according to the most recent version of the Carnegie classification of institutions of higher education, published by the Carnegie foundation for the advancement of teaching.