

State Notes

TOPICS OF LEGISLATIVE INTEREST

Summer 2014



Fiscal Year 2014-15 Higher Education Budget and Performance Funding **By Bill Bowerman, Associate Director**

Introduction

The fiscal year (FY) 2014-15 Higher Education budget represents the third year in recent times that Michigan has used performance measures to allocate funding increases to Michigan public universities. Part of Michigan's performance funding model is based on a performance tracking model developed for the Business Leaders for Michigan by the Anderson Economic Group, in consultation with the Presidents Council, State Universities of Michigan. The actual metrics used were selected through the legislative process. This article provides an overview of FY 2014-15 performance funding for Michigan's public universities.¹

Background

While the FY 2011-12 Higher Education budget included a 15.0% across-the-board reduction to university operations, it also included a statement of intent that in subsequent budget years State aid for public university operations would be allocated to each university based on performance funding. The performance funding would be designed to "incent universities to provide, in a cost-effective and timely manner, postsecondary opportunities for students that are both accessible and affordable and that result in a highly skilled workforce."²

Michigan's current version of performance funding originated in FY 2012-13. The FY 2012-13 budget process began with the Governor recommending that increases in funding for public universities be allocated based on four equally weighted factors: three-year average growth in the number of undergraduate completions, three-year average number of undergraduate completions in critical skills areas, three-year average number of undergraduates receiving a Pell grant, and compliance with tuition restraint. At about the same time, the Business Leaders for Michigan announced their recommendation that the State increase funding for Higher Education by \$1.0 billion over the next 10 years, along with their recommendation for performance funding metrics based on a comparison of Michigan universities with their Carnegie peers³. The Senate version of the FY 2012-13 budget proposed to distribute half of the funding increase in an across-the-board manner, one-quarter based on tuition restraint, and one-quarter based on eight metrics (graduation rate, retention rate, degrees and completions, advanced degrees, administrative costs, research and development, average cost of attendance, and Pell students) scored based on how each university performed relative to its Carnegie classification peers. The House version of the budget distributed funding increases based on undergraduate degrees/certificates, weighted for program length and critical skills areas (double weight). The Higher Education Conference Committee maintained the distribution for tuition restraint, included distributions for critical skills as well as research and development, and for 50.0% of the funding increase included in the Senate version of scoring for three metrics based on Carnegie classifications. The metrics used based on Carnegie peers included six-year graduation rates, total degree completions, and institutional support as a percentage of core expenditures (administrative costs).

¹ Appendix 1 describes formula data sources and terms used in the article.

² Section 266 of Public Act 62 of 2011.

³ The Carnegie Commission on Higher Education classification of colleges and universities is widely used in the study of higher education as a way to control for institutional differences.



Modifications have been made to the formula since FY 2012-13. In FY 2012-13, tuition restraint was based on a separate allocation of funding. Subsequently, tuition restraint has been a prerequisite for receiving any funding increase. Beginning in FY 2013-14, distributions based on Carnegie classifications have been weighted by undergraduate fiscal year equated students (FYES)⁴. Scoring for metrics using Carnegie classifications also changed in FY 2013-14. Modifications for FY 2014-15 include distributing half of the funding increase across-the-board, and adding a metric for the number of students receiving a Pell grant. Table 1 (attached) shows the impact that formula adjustments have had on each university over the three years that Michigan has used performance funding. The columns for each fiscal year represent the increase over the previous year's funding, the percentage change to the previous year, and the institution's increase as a percentage of total performance funding available in that year (e.g., in FY 2014-15 each university's share of the \$74.6 million increase). Table 1 lists performance funding distributions to each university from FY 2012-13 through FY 2014-15. As seen in Table 1, weighting by FYES and making tuition restraint a prerequisite instead of a separate allocation of funds had a measurable impact on several institutions.

Details on prerequisites and formulas used for performance funding over the last three fiscal years are contained in the Senate Fiscal Agency's analyses of House Bill 5372 of 2011-2012, and House Bills 4220 and 5314 of 2013-2014. The analyses are available on the Michigan legislative website.⁵

Michigan's FY 2014-15 Performance Funding Allocations

Pursuant to Section 265a of the State School Aid Act, a university must comply with tuition restraint in order to qualify for performance funding.⁶ For FY 2014-15, tuition restraint is set at 3.2%. A university also must certify by August 31, 2014, 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 (under which students enrolled in a four-year institution transfer credits to a community college for the purpose of attaining a degree, diploma, or certificate from the community college).
- 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 (which provides for the transferability of up to 30 semester credits from community colleges to baccalaureate colleges and universities to meet general education requirements at the participating institutions).

⁴ FYES for undergraduates is calculated by dividing the previous year's student credit hours by 30.

⁵ FY 2012-13: <http://www.legislature.mi.gov/documents/2011-2012/billanalysis/Senate/pdf/2011-SFA-5372-N.pdf>; FY 2013-14: <http://www.legislature.mi.gov/documents/2013-2014/billanalysis/Senate/pdf/2013-SFA-4228-N.pdf>; FY 2014-15: <http://www.legislature.mi.gov/documents/2013-2014/billanalysis/Senate/pdf/2013-SFA-5314-R.pdf>

⁶ Appendix 2 contains the language of Section 265a (MCL 388.1865a) as amended by Public Act 196 of 2014.



Table 2 provides a summary of FY 2014-15 funding increase distributions.

Table 2

Higher Education Appropriation FY 2014-15 Performance Funding Formula		
	Amount (millions)	Percent
Proportional to FY 2011-12 State Appropriations	\$37.3	50.0%
Critical Skills	8.3	11.1
Research & Development	4.1	5.6
Metrics scored based on Carnegie classifications and weighted by undergraduate FYES (includes six-year graduation rate, total degrees, administrative expenses, and Pell grants)	24.9	33.3
Total	\$74.6	100.0%

The components of the FY 2014-15 performance funding formula are described below.

Funding Proportional to FY 2010-11. The FY 2011-12 budget made a \$213.1 million (15.0%) across-the-board reduction in State funding to university operations. The budgets for FY 2012-13 and FY 2013-14 included increases of \$36.2 million (3.0%) and \$21.9 million (1.8%), respectively, for university operations. The increases in FY 2012-13 and FY 2013-14 were allocated entirely based on performance funding measures. The FY 2014-15 enacted budget includes a \$74.6 million (5.9%) increase for university operations. Due to the size of the increase, and the fact that the FY 2011-12 reductions were applied across-the-board, the FY 2014-15 formula allocates \$37.3 million (50.0% of the funding increase for university operations) proportional to FY 2010-11 State appropriations for university operations.

Critical Skills. Allocations under this part of the formula include total undergraduate degrees and certificates in Science, Technology, Engineering, and Mathematics (STEM), health, and skilled trades. Calculations are based on a two-year average, with completions weighted based on the length of time it normally takes to complete the degree or certificate. Data for this metric come from FY 2011-12 and FY 2012-13 reports submitted by universities to the Higher Education Institutional Data Inventory (HEIDI). The FY 2014-15 formula allocates \$8.3 million (11.1%) of the funding increase based on this metric.

Research and Development Expenditures. This part of the formula is based on research and development expenditures for universities with Carnegie classifications of research universities very high research (Michigan State, U of M-Ann Arbor, Wayne State), research universities high research (Michigan Tech and Western), and research universities doctoral research (Central and Oakland). The distribution of performance funding is based on the amount of expenditures on research and development. In FY 2011-12, a total of \$1,287,877,920 was reported to the Integrated Postsecondary Education Data System (IPEDS) by the above seven universities as research and development expenditures. The FY 2014-15 performance funding allotted under this portion of the formula is \$4.1 million (5.6% of the funding increase), resulting in an allocation of \$0.0032 for each dollar spent for research and development.



Metrics Scored Based on National Carnegie Peers. Michigan public universities are grouped into one of the following six Carnegie classifications:

- Very High Research Universities: Michigan State, University of Michigan Ann-Arbor, and Wayne State University.
- High Research Universities: Michigan Technological University and Western Michigan University.
- Doctoral Research Universities: Central Michigan University and Oakland University.
- Master's Colleges and Universities (Larger): Eastern Michigan University, Ferris State University, Grand Valley State University, Saginaw Valley State University, University of Michigan-Dearborn, and University of Michigan-Flint.
- Master's Colleges and Universities (Medium): Northern Michigan University.
- Baccalaureate Colleges (Diverse): Lake Superior State University.

A complete listing of classifications can be found on the Carnegie Foundation for the Advancement of Teaching website: <http://www.carnegiefoundation.org/>

For the metrics of six-year graduation rates, total degrees, institutional support as a percentage of expenditures, and students receiving Pell grants, scoring is based on how each university compares in that category with national Carnegie peers. A university receives points based on the following scale:

Top 20% nationally = 3
Above national median = 2
Improving over three years = 2

The scores for these four metrics are added and then weighted based on the number of undergraduate FY 2012-13 FYES. The total amount allocated for metrics based on Carnegie peer comparisons is \$24.9 million (33.3%) of the funding increase. The four metrics are described below.

Six-Year Graduation Rate. This metric represents the percentage of undergraduate students who enrolled six years earlier and completed a degree in six years or less. For the FY 2014-15 appropriation, the data used were based on FY 2010-11, which included students who first enrolled in academic year 2004-2005.

Total Degrees. This metric includes the number of undergraduate and graduate degrees awarded in FY 2010-11 in all program areas.

Institutional Support as a Percentage of Core Expenditures. This metric measures administrative costs as a percentage of core expenditures. Core expenditures include instruction, research, academic support, scholarships, student services, public service, maintenance and operation of facilities, administrative costs, and other expenditures. Universities are scored based on lower administrative costs as a percentage of core expenditures.

Pell Grants. Added in FY 2014-15, this metric is a measure of how accessible an institution is for low-income students. A Pell grant is Federal funding awarded to students with limited financial resources.



Table 3 (attached) provides details regarding the FY 2014-15 allocation of funding based on the performance funding criteria as described above.

Conclusion

The goals of Michigan's performance funding model include increasing the overall number of college graduates, increasing the number of degrees granted in critical skill areas, promoting research and development, and controlling the cost of a college education. Fiscal year 2014-15 will be the third year in which funding increases have been allocated based on performance funding. On a statewide basis, State appropriations in FY 2012-13 accounted for 21.6% of university general fund revenue, tuition and fees accounted for 70.7%, and other fund sources provided the balance of university general fund revenue (7.7%). Whether performance funding has a long-term impact on higher education will be determined to a large degree by the funding the State invests in higher education in the future.



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Table 1

**State Funding Increases for University Operations
FY 2012-13 through FY 2014-15**

	FY 2012-13			FY 2013-14			FY 2014-15		
	Performance Funding	Percent Increase	Percent of Performance Funds	Performance Funding	Percent Increase	Percent of Performance Funds	Performance Funding	Percent Increase	Percent of Performance Funds
Central	\$3,243,400	4.8%	9.0%	2,187,800	3.1%	10.0%	5,574,900	7.6%	7.5%
Eastern	1,847,600	2.9%	5.1%	808,700	1.2%	3.7%	4,495,700	6.7%	6.0%
Ferris	2,926,400	7.1%	8.1%	1,385,800	3.1%	6.3%	3,450,500	7.6%	4.6%
Grand Valley	2,758,600	5.2%	7.6%	2,387,500	4.3%	10.9%	5,312,500	9.2%	7.1%
Lake Superior	1,256,600	11.7%	3.5%	184,900	1.5%	0.8%	551,500	4.5%	0.7%
Michigan State	3,916,200	1.6%	10.8%	4,560,800	1.9%	20.9%	14,831,300	5.9%	19.9%
Michigan Tech	1,845,500	4.5%	5.1%	894,700	2.1%	4.1%	2,449,300	5.6%	3.3%
Northern	2,489,200	6.5%	6.9%	884,800	2.2%	4.0%	2,535,800	6.1%	3.4%
Oakland	1,819,100	4.2%	5.0%	687,500	1.5%	3.1%	2,712,500	5.9%	3.6%
Saginaw Valley	2,095,200	8.9%	5.8%	334,300	1.3%	1.5%	1,619,200	6.2%	2.2%
UM-Ann Arbor	5,353,400	2.0%	14.8%	5,076,000	1.9%	23.2%	15,941,400	5.7%	21.4%
UM-Dearborn	1,221,000	5.8%	3.4%	273,100	1.2%	1.2%	1,178,900	5.2%	1.6%
UM-Flint	1,764,200	9.9%	4.9%	411,600	2.1%	1.9%	1,399,500	7.0%	1.9%
Wayne State	1,361,400	0.8%	3.8%	0	0.0%	0.0%	7,121,500	3.9%	9.5%
Western	2,319,200	2.5%	6.4%	1,791,500	1.9%	8.2%	5,463,000	5.6%	7.3%
Total	\$36,217,000	3.0%	100.0%	\$21,869,000	1.8%	100.0%	\$74,637,500	5.9%	100.0%

Notes: In FY 2013-14 Wayne State University did not comply with tuition restraint and its performance funding was redistributed to other institutions pursuant to Section 265a of the State School Aid Act. Amounts listed for FY 2014-15 assume that all universities comply with the prerequisites for performance funding.



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Table 3: FY 2014-15 University Performance Funding

	Funding Proportional to FY11		Funding Proportional to Share of Total				Scored vs. National Carnegie Peers								Total Performance Funding	FY 2014-15 Enacted	% Change from FY14	% of Total Perf. Funding	
	\$0.0263 per dollar		\$556.56 per completion		\$ 0.0032 per dollar		\$13.63 per weighted point												
	50.0%		11.1%		5.6%		33.3%												
FY14 Current Law	FY11 State Approp.	Performance Funding	Critical Skills Undergrad Awards	Performance Funding	Research & Development Expenditures	Performance Funding	6-year Grad Rate	Total Degrees	Institut. Support as % of Expend.	Students Receiving a Pell Grant	Total Points	Total FY 2012-13 Undergrad FYES	FYES-Weighted Score	Performance Funding					
Michigan State	\$249,597,800	\$283,685,200	\$7,453,666	2,718	\$1,512,787	\$318,951,530	\$1,026,915	2	3	2	3	10	35,494	354,940	\$4,838,050	\$14,831,300	\$264,429,100	5.9%	19.9%
UM-Ann Arbor	\$279,232,700	316,254,500	\$8,309,406	2,743	\$1,526,631	\$714,903,000	\$2,301,744	3	3	2	2	10	27,905	279,050	\$3,803,622	\$15,941,400	\$295,174,100	5.7%	21.4%
Wayne State	\$183,398,300	214,171,400	\$5,627,231	661	\$367,605	\$153,453,343	\$494,067	0	0	0	3	3	15,470	46,410	\$632,597	\$7,121,500	\$190,519,800	3.9%	9.5%
Michigan Tech	\$43,473,800	47,924,200	\$1,259,181	927	\$515,753	\$56,380,000	\$181,524	3	0	2	2	7	5,165	36,155	\$492,815	\$2,449,300	\$45,923,100	5.6%	3.3%
Western	\$97,279,000	109,615,100	\$2,880,074	1,069	\$594,958	\$23,042,963	\$74,190	2	2	2	2	8	17,550	140,400	\$1,913,738	\$5,463,000	\$102,742,000	5.6%	7.3%
Central	\$73,540,100	80,132,000	\$2,105,422	693	\$385,414	\$9,894,583	\$31,857	3	3	3	3	12	18,660	223,920	\$3,052,167	\$5,574,900	\$79,115,000	7.6%	7.5%
Oakland	\$45,651,600	50,761,300	\$1,333,724	1,023	\$569,356	\$11,252,501	\$36,229	0	2	0	2	4	14,182	56,728	\$773,237	\$2,712,500	\$48,364,100	5.9%	3.6%
Eastern	\$67,275,400	76,026,200	\$1,997,545	664	\$369,553			2	3	2	3	10	15,616	156,160	\$2,128,556	\$4,495,700	\$71,771,100	6.7%	6.0%
Ferris	\$45,636,500	48,619,200	\$1,277,442	1,241	\$690,720			2	3	2	3	10	10,875	108,750	\$1,482,329	\$3,450,500	\$49,087,000	7.6%	4.6%
Grand Valley	\$57,823,500	61,976,400	\$1,628,394	1,299	\$722,722			3	3	2	3	11	19,751	217,261	\$2,961,401	\$5,312,500	\$63,136,000	9.2%	7.1%
Saginaw Valley	\$25,991,000	27,720,700	\$728,346	394	\$219,004			2	2	0	2	6	8,215	49,290	\$671,853	\$1,619,200	\$27,610,200	6.2%	2.2%
UM-Dearborn	\$22,510,400	24,726,200	\$649,667	374	\$207,873			2	0	0	2	4	5,894	23,576	\$321,355	\$1,178,900	\$23,689,300	5.2%	1.6%
UM-Flint	\$19,938,200	20,898,000	\$549,083	437	\$242,936			2	2	2	2	8	5,571	44,568	\$607,489	\$1,399,500	\$21,337,700	7.0%	1.9%
Northern	\$41,741,400	45,140,300	\$1,186,036	488	\$271,425			2	3	2	3	10	7,911	79,110	\$1,078,318	\$2,535,800	\$44,277,200	6.1%	3.4%
Lake Superior	\$12,231,000	12,694,200	\$333,533	173	\$96,319			0	2	0	2	4	2,231	8,924	\$121,640	\$551,500	\$12,782,500	4.5%	0.7%
TOTAL:	\$1,265,320,700	\$1,420,344,900	\$37,318,750	14,901	\$8,293,056	\$1,287,877,920	\$4,146,528	28	31	21	37	117	210,490	1,825,242	\$24,879,167	\$74,637,500	\$1,339,958,200	5.9%	100.0%

Scoring
 3 = Top 20% nationally
 2 = Above the national median
 2 = Improving over 3 years

- Notes:
1. Spreadsheet developed and designed by the State Budget Office, DTMB.
 2. The Business Leaders for Michigan (BLM)& Anderson Economic Group (AEG) is the source of all Carnegie-scored data. Methodology also provided by BLM/AEG. All data are from FY11, with growth compared to FY08, except Pell Grants, which compares FY11 to FY09.
 3. Funding proportional to FY11 provides an across the board increase.
 4. Data for critical skills awards are from HEIDI. Average of FY12 and FY13 reported data. Methodology from FY14 enacted formula.
 5. Data for research & development expenditures are from IPEDS from FY12. Methodology provided by BLM/AEG.
 6. Institutional support as a percentage of core expenditures measures administrative spending. A lower percentage yields a better score.

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Appendix 1

FORMULA DATA SOURCES AND TERMS USED

Integrated Postsecondary Education Data System (IPEDS)

IPEDS is a primary source for data on colleges, universities, and technical and vocational postsecondary institutions in the United States. Annual surveys are conducted by the U.S. Department of Education's National Center for Education Statistics. IPEDS collects information from colleges, universities, and technical and vocational institutions that participate in the Federal student financial aid programs. Institutions that participate in Federal student aid programs are required by the Higher Education Act of 1965 to report data on enrollments, program completions, graduation rates, faculty and staff, finances, institutional prices, and student financial aid.

Higher Education Institutional Data Inventory (HEIDI)

HEIDI is used by Michigan public universities to report financial and student information to the State of Michigan. Section 299 of the Management and Budget Act (1984 PA 431) requires the Office of the State Budget Director to establish, maintain, and coordinate the HEIDI database. Data for the Critical Skills metric are generated from HEIDI.

Business Leaders for Michigan (BLM)

Business Leaders for Michigan serves as a business roundtable for the State of Michigan. Business Leaders for Michigan is composed of the chairpersons, chief executive officers, or most-senior executives of the State's largest job providers and universities. Business Leaders for Michigan has advocated for increased State financial support for higher education as part of its plan to make Michigan a top-10 state for jobs and personal income.

Presidents Council, State Universities of Michigan

The Presidents Council, State Universities of Michigan serves as a forum for the presidents and chancellors of Michigan's 15 public universities. The Michigan Council of State College Presidents was formally established in 1952. The Presidents Council provides analysis of higher educational policy issues, serves as an information source for its member institutions, and advocates for higher education issues before the State Legislature.



Appendix 2

BOILERPLATE LANGUAGE

Section 265a (MCL 188.1865a) as Amended by Public Act 196 of 2014

Sec. 265a. (1) Appropriations to public universities in section 236 for fiscal year 2014-2015 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, 2014 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, 2014, 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) Proportional to each university's share of total operations funding appropriated in fiscal year 2010-2011, 50.0%.

(b) Based on weighted undergraduate completions in critical skills areas, 11.1%.

(c) 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, 5.6%.

(d) Based on 6-year graduation rate, total degree completions, and institutional support as a percentage of core expenditures, and students receiving pell grants, scored against national Carnegie Classification Peers and weighted by total undergraduate fiscal year equated students, 33.3%.

(5) For purposes of determining the score of a university under subsection 4) (d), 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 2015-2016 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.