

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

Spring 2016



### **Tuition Incentive Program** **By Bill Bowerman, Associate Director**

---

#### **Introduction**

The Governor's fiscal year (FY) 2016-17 budget recommendation includes a proposal to limit payments for the Tuition Incentive Program (TIP). This is the third attempt since FY 2010-11 to limit TIP costs, which have grown substantially over the last 15 years. The objective of TIP is to reduce the State's high school drop-out rate, specifically among low-income youths, by paying college tuition as an incentive to graduate high school. Unlike other State-created scholarship programs (e.g., Competitive Scholarships and Tuition Grants), there is no specific statutory authorization in the language that created TIP to prorate payments based on appropriations. The Department of Treasury has historically requested appropriation adjustments to reflect program demand. In the current fiscal year, there is a pending \$4.5 million supplemental appropriation for TIP that would increase funding from \$48.5 million to \$53.0 million.

The following provides an overview of TIP, the causes of increasing program costs, and previous attempts to limit payments. The Appendix to this article contains the current statutory language governing TIP.

#### **Background**

The Tuition Incentive Program is a financial aid program targeted toward low-income middle school and high school students. It was established in FY 1986-87 through language in the Department of Social Services appropriation bill. In FY 1992-93, the program was transferred to the Higher Education budget, which presently is codified in the State School Aid Act. The Program provides an incentive for students to complete high school and go on to college by pledging to pay tuition and fees for associate degree or certificate programs (Phase I), and also pay a total of up to \$2,000 at a four-year institution (Phase II) for the third and fourth year of four-year degree programs. Students in grades 6 through 12 who are Medicaid-eligible for 24 months in a 36-consecutive month period can qualify for TIP. The Department of Treasury reports that it annually sends out 280,000 applications to potentially eligible middle and high school students.

For Phase I costs, the following conditions apply:

- Payments for associate degree or certificate programs may not be made for more than 80 semester or 120 term credits for any individual student at any participating institution.
- For students enrolled at a Michigan community college, TIP will pay the current in-district tuition and mandatory fees (actual cost). For individuals residing in an area that is not included in any community college district, the out-of-district tuition rate may be authorized.
- For TIP recipients enrolled at a Michigan public university in a certificate or associate degree program, TIP will pay the lower division (freshman and sophomore) resident tuition and mandatory fees for the current year.
- TIP recipients enrolled at a Michigan independent, nonprofit degree-granting college or university, a Federal tribally controlled community college, or Focus: HOPE, receive mandatory fees for the current year *and a per-credit payment that does not exceed the average community college in-district per-credit tuition rate* as reported on August 1, for the immediately preceding academic year.



**Program Costs**

Annual appropriations for TIP in the late 1980s began at \$2.0 million, and were originally funded from the State General Fund. Since FY 2000-01, TIP expenditures have increased by 960%, from \$5.0 million to an estimated \$53.0 million in FY 2015-16.<sup>1</sup> Since FY 2007-08, the State has funded this program primarily with Federal Temporary Assistance for Needy Families (TANF) funds. Cost increases in FY 2013-14 and FY 2014-15 were funded from the State General Fund. The Governor's FY 2015-16 \$2.0 million recommended supplemental appropriation would be funded by TANF.

Most of the costs for TIP arise from Phase I payments. In FY 2014-15, TIP costs totaled \$49.3 million. Of that amount, Phase I costs accounted for \$47.1 million (95.5%), and \$2.2 million resulted from Phase II payments. Fiscal Year 2014-15 TIP students totaled 18,189, with 15,600 Phase I students and 2,589 Phase II students. While 11,533 Phase I students attended public community colleges at a cost of \$24.7 million, 2,014 Phase I students attending four-year public universities accounted for \$17.8 million in TIP payments. Table 1 provides a summary of these costs.

**Table 1**

<b>FY 2014-15 Tuition Incentive Program Costs</b>						
	<u>Phase I</u>		<u>Phase II</u>		<u>Total TIP</u>	
	Students	Costs	Students	Costs	Students	Costs
Two-Year Public Comm. Colleges	11,533	\$24,669,503	N/A	N/A	11,533	\$24,669,503
Four-Year Public Universities	2,014	17,832,479	2,041	1,751,222	4,055	19,583,701
Four-Year Private Colleges	2,053	4,617,208	548	471,000	2,601	5,088,208
<b>Total</b>	<b>15,600</b>	<b>\$47,119,190</b>	<b>2,589</b>	<b>\$2,222,222</b>	<b>18,189</b>	<b>\$49,341,412</b>

**Source:** Michigan Department of Treasury, Student Scholarships and Grants, 2014-15 Annual Report

The discrepancy in costs between public community colleges, public universities, and private institutions relates to the parameters contained in Section 256 of the State School Aid Act. While there is a limit on tuition payments for private institutions (a per-credit payment that does not exceed the average community college in-district per-credit tuition rate), TIP payments for students attending a Michigan public university are based on the lower division resident tuition and mandatory fees for the current year, with no limit. The FY 2015-16 average per-credit/contact hour cost (tuition and fees) at Michigan public community colleges is \$123.00.<sup>2</sup> The FY 2015-16 average per-credit cost for lower division resident tuition and mandatory fees at public universities is \$383.<sup>3</sup>

There are five universities that grant associate degrees or certificates that enable students to qualify for TIP funding (Ferris State, Lake Superior State, Michigan State, Michigan Technological, and Northern Michigan Universities). Table 2 illustrates the impact of TIP students attending Michigan public universities on TIP costs. From FY 2007-08 to FY 2014-15, TIP Phase I expenditures increased by 126.0%, from \$20.8 million to \$47.1 million. During that time period, Phase I payments to four-year public universities increased by \$12.3 million (223.2%), from \$5.5 million to \$17.8

<sup>1</sup> Includes Governor's recommended \$4.5 million FY 2015-16 supplemental for TIP.

<sup>2</sup> Senate Fiscal Agency survey of community college tuition and fee costs.

<sup>3</sup> Higher Education Institutional Data Inventory (HEIDI). TIP pays the actual lower division resident tuition and mandatory fees charged at the public university the Phase I student is attending. The average is listed as a point of reference for increasing tuition costs.



million. In FY 2014-15, public community colleges had 11,533 (73.9%) of Phase I TIP students with \$24.7 million (52.4%) of the costs; while public universities had 2,014 (12.7% of total) Phase I TIP students at a cost of \$17.8 million (37.8% of TIP Phase I costs).

### **Controlling Costs**

In FY 2010-11, Governor Granholm proposed eliminating Phase II of TIP and capping Phase I reimbursements to public universities at the average in-district community college tuition rate. The Legislature did not concur with the Governor. In FY 2013-14, Governor Snyder recommended that the language in the Higher Education budget be replaced with separate enabling legislation for TIP, and that beginning in FY 2014-15, amounts paid for Phase I students attending a public university be limited to 300% of the average statewide community college per-credit-hour cost. The Governor's proposed changes were not adopted by the Legislature.

The Governor's FY 2016-17 budget recommendation again attempts to limit rising costs of TIP by providing that, beginning in FY 2017-18, the Department of Treasury could not award more than \$8.5 million annually to eligible students enrolled in the same college or university. Ferris State University would be affected by the proposed cap. Ferris students accounted for over \$9.1 million in TIP payments (Phase I and Phase II) in FY 2014-15. Northern Michigan University was the next-highest public university at \$3.7 million.

### **Conclusion**

Since FY 2000-01, the cost of the Tuition Incentive Program has increased by 960%, from \$5.0 million to an estimated \$53.0 million in FY 2015-16. From FY 2001-02 to 2015-16, the average cost of lower division resident tuition and fees at Michigan public universities increased by 163.2%. During the same time period, the in-district tuition rate at community colleges increased by 95.1%. The Medicaid caseload, increasing tuition costs, and an increasing number of TIP students attending four-year public universities, all have an impact on TIP costs. Without some limitation on tuition reimbursements, or a proration authorization contingent upon available appropriations, TIP will have the potential to continue to increase significantly in the future.

**State Notes**  
TOPICS OF LEGISLATIVE INTEREST  
 Spring 2016



**Table 2**

<b>Tuition Incentive Program: Phase I Costs</b>								
	<b>FY 2007-08</b>	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>
<b><u>Two-Year Public Comm. Colleges</u></b>								
Costs.....	\$12,570,152	\$15,145,441	\$17,454,006	\$19,096,451	\$20,857,568	\$22,925,853	\$23,382,942	\$24,669,503
Students.....	8,619	10,109	11,026	11,310	11,626	12,024	11,599	11,533
<b><u>Four-Year Public Universities</u></b>								
Costs.....	\$5,517,681	\$7,510,257	\$9,181,512	\$10,129,465	\$11,555,916	\$13,407,981	\$15,898,290	\$17,832,479
Students.....	899	1,148	1,300	1,379	1,473	1,791	1,969	2,014
<b><u>Four-Year Private Colleges</u></b>								
Costs.....	\$2,760,429	\$3,157,575	\$3,637,090	\$4,203,714	\$4,374,450	\$4,822,291	\$4,398,105	\$4,617,208
Students.....	1,417	1,512	1,797	2,077	2,141	2,289	2,123	2,053
<b>Total</b>								
Costs.....	\$20,848,262	\$25,813,273	\$30,272,608	\$33,429,630	\$36,787,934	\$41,156,126	\$43,679,337	\$47,119,190
Students.....	10,935	12,769	14,123	14,766	15,240	16,104	15,691	15,600

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

Spring 2016



### APPENDIX: Section 256 of the State School Aid Act

Sec. 256. (1) The funds appropriated in section 236 for the tuition incentive program shall be distributed as provided in this section and pursuant to the administrative procedures for the tuition incentive program of the department of treasury.

(2) As used in this section:

- (a) "Phase I" means the first part of the tuition incentive assistance program defined as the academic period of 80 semester or 120 term credits, or less, leading to an associate degree or certificate.
- (b) "Phase II" means the second part of the tuition incentive assistance program which provides assistance in the third and fourth year of 4-year degree programs.
- (c) "Department" means the department of treasury.

(3) An individual shall meet the following basic criteria and financial thresholds to be eligible for tuition incentive benefits:

- (a) To be eligible for phase I, an individual shall meet all of the following criteria:
  - (i) Apply for certification to the department any time after he or she begins the sixth grade but before August 31 of the school year in which he or she graduates from high school or before completing a general education development certificate.
  - (ii) Be less than 20 years of age at the time he or she graduates from high school with a diploma or certificate of completion or completes a general education development certificate.
  - (iii) Be a United States citizen and a resident of Michigan according to institutional criteria.
  - (iv) Be at least a half-time student, earning less than 80 semester or 120 term credits at a participating educational institution within 4 years of high school graduation or completion of a general education development certificate.
  - (v) Request information on filing a FAFSA.
  - (vi) Must meet the satisfactory academic progress policy of the educational institution he or she attends.
- (b) To be eligible for phase II, an individual shall meet either of the following criteria in addition to the criteria in subdivision (a):
  - (i) Complete at least 56 transferable semester or 84 transferable term credits.
  - (ii) Obtain an associate degree or certificate at a participating institution.
- (c) To be eligible for phase I or phase II, an individual must not be incarcerated and must be financially eligible as determined by the department. An individual is financially eligible for the tuition incentive program if he or she was eligible for Medicaid from the state of Michigan for 24 months within the 36 months before application. The department shall accept certification of Medicaid eligibility only from the department of health and human services for the purposes of verifying if a person is Medicaid eligible for 24 months within the 36 months before application. Certification of eligibility may begin in the sixth grade. As used in this subdivision, "incarcerated" does not include detention of a juvenile in a state-operated or privately operated juvenile detention facility.

(4) For phase I, the department shall provide payment on behalf of a person eligible under subsection (3). The department shall reject billings that are excessive or outside the guidelines for the type of educational institution.

**State Notes**  
TOPICS OF LEGISLATIVE INTEREST  
Spring 2016

- (5) For phase I, all of the following apply:
- (a) Payments for associate degree or certificate programs shall not be made for more than 80 semester or 120 term credits for any individual student at any participating institution.
  - (b) For persons enrolled at a Michigan community college, the department shall pay the current in-district tuition and mandatory fees. For persons residing in an area that is not included in any community college district, the out-of-district tuition rate may be authorized.
  - (c) For persons enrolled at a Michigan public university, the department shall pay lower division resident tuition and mandatory fees for the current year.
  - (d) For persons enrolled at a Michigan independent, nonprofit degree-granting college or university, or a Michigan federal tribally controlled community college, or Focus: HOPE, the department shall pay mandatory fees for the current year and a per-credit payment that does not exceed the average community college in-district per-credit tuition rate as reported on August 1, for the immediately preceding academic year.
- (6) A person participating in phase II may be eligible for additional funds not to exceed \$500.00 per semester or \$400.00 per term up to a maximum of \$2,000.00 subject to the following conditions:
- (a) Credits are earned in a 4-year program at a Michigan degree-granting 4-year college or university.
  - (b) The tuition reimbursement is for coursework completed within 30 months of completion of the phase I requirements.
- (7) The department shall work closely with participating institutions to develop an application and eligibility determination process that will provide the highest level of participation and ensure that all requirements of the program are met.
- (8) Applications for the tuition incentive program may be approved at any time after the student begins the sixth grade. If a determination of financial eligibility is made, that determination is valid as long as the student meets all other program requirements and conditions.
- (9) Each institution shall ensure that all known available restricted grants for tuition and fees are used prior to billing the tuition incentive program for any portion of a student's tuition and fees.
- (10) The department shall ensure that the tuition incentive program is well publicized and that eligible Medicaid clients are provided information on the program. The department shall provide the necessary funding and staff to fully operate the program.