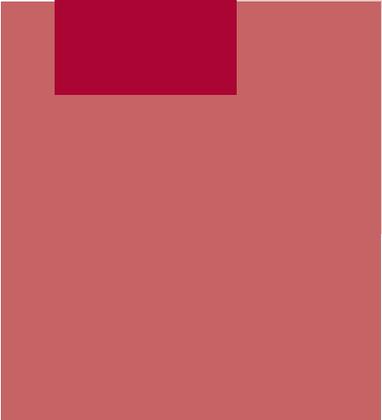


MICHIGAN'S HIGHER EDUCATION SYSTEM

A Guide for State Policymakers



Sponsored by Ferris State University and made available to all Michigan universities.

Prepared by Public Sector Consultants Inc.

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HISTORY OF HIGHER EDUCATION IN MICHIGAN

Michigan's tradition of public universities began in 1817—twenty years before Michigan became a state—with the founding of the University of Michigan in Detroit (the school was later moved to Ann Arbor). Today, Michigan is home to 15 public four-year universities with an enrollment of 284,500 students and 28 two-year institutions that enroll approximately 200,000 students. Exhibit 1 shows that public universities in Michigan are located in nearly all regions of the state.

The following are important dates in the history of public higher education in Michigan:

- 1817—University of Michigan founded
- 1849—Michigan Normal School founded (later became Eastern Michigan University)
- 1855—Agricultural College of the State of Michigan founded (later became Michigan State University)
- 1868—Detroit Medical College founded (later became Wayne State University)
- 1884—Big Rapids Industrial School founded (later became Ferris State University)
- 1885—Michigan Mining School founded (later became Michigan Technological University)
- 1892—Central Michigan Normal School founded (later became Central Michigan University)
- 1899—Northern State Normal School founded (later became Northern Michigan University)
- 1903—Western Michigan College founded (later became Western Michigan University)
- 1946—Lake Superior State University founded
- 1956—University of Michigan-Flint founded
- 1957—Michigan State University-Oakland founded (later became Oakland University)
- 1959—University of Michigan-Dearborn founded
- 1960—Grand Valley State University founded
- 1963—Saginaw Valley State University founded

EXHIBIT I
State Universities of Michigan



SOURCE: Presidents Council, State Universities of Michigan.

MICHIGAN'S PUBLIC UNIVERSITIES

CONSTITUTIONAL AUTONOMY

Under Michigan's Constitution, public universities have constitutional autonomy. Article VIII, Section III of Michigan's Constitution reads:

The power of the boards of institutions of higher education provided in this constitution to supervise their respective institutions and control and direct the expenditure of the institution's funds shall not be limited to this section.

Constitutional autonomy enables Michigan's public universities to govern in a manner that recognizes the benefits of having experts in higher education make governance decisions for the institutions. Constitutional autonomy was first granted to the University of Michigan in 1850. Delegates to the 1850 constitutional convention, in debating amendments to the state constitution, emphasized the fact that the University of Michigan had experienced poor enrollment and growth since its creation in 1837 because of continual political intervention in decisions being made by the Board of Regents. The delegates proposed that the Board of Regents have autonomy from the other branches of government. As other public universities were created and subsequent constitutions adopted by the people of the State of Michigan, constitutional autonomy was continued as the most effective and appropriate method of governance for public universities.

CONSTITUTIONAL AUTONOMY VERSUS UNIVERSITY SYSTEMS

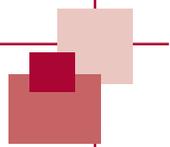
Constitutional autonomy is an essential component of the success of higher education in Michigan. While some states have organized their higher education institutions into a centralized, bureaucratic system, and other states have state boards of higher education, Michigan has successfully maintained the autonomy and independence of each public university. Proponents of such independence have emphasized that the absence of excessive state-level bureaucracy permits Michigan's public universities to govern more expeditiously and efficiently. They also note that autonomy is a distinct advantage for Michigan's public universities in recruiting and retaining university administrators who value and recognize the benefits of having decisions emanate from the campus community rather than from someone in an office in a distant city. Many current university presidents have stated that the independent nature of Michigan's higher education system was a contributing factor in their decision to pursue their position. Opponents claim that autonomy has resulted in the duplication of both professional and academic programs. While in the case of professional schools this may be true, the extent to which such duplication exists in other programs may be the result of market forces demanding these services in the local communities surrounding the institution.

RELATIONSHIP WITH THE LEGISLATURE AND GOVERNOR

Although Michigan's public universities have constitutional autonomy, the legislature works directly with the universities in determining appropriate levels of public funding, identifying opportunities for Michigan to establish need- and merit-based scholarship programs, and ensuring accountability for appropriations. Article VIII, Section IV of the Michigan Constitution directs public universities to give "an annual accounting of all income and expenditures by these educational institutions." Moreover, recognizing the importance of community and public input into the university decision-making process, Section IV requires that "formal sessions of governing boards of such institutions shall be open to the public." Thus, public universities continue to be accountable to citizens and their representatives.

Michigan's governor also plays an essential role in public universities by appointing the members of the governing boards of all state universities except the University of Michigan, Wayne State University, and Michigan State University, which have board members selected in statewide popular elections. Regardless of the selection process, all governing boards have eight members, serving staggered eight-year terms, with the university president serving as an ex-officio member of the board.

In addition, the State Board of Education is responsible for assisting in the "planning and coordinating" of education policies at Michigan's public universities, although the board is proscribed from exercising any "leadership or supervision" over such institutions. While court decisions have recognized that the board has no authority over higher education institutions, public universities work with the board in identifying important issues in higher education.



BENEFITS OF HIGHER EDUCATION

Public universities provide a series of benefits for all residents in Michigan. They generate significant economic activity, increase the skill level of Michigan's workers, provide increased cultural opportunities, produce a large number of K–12 teachers, increase the level of technology available to the state, and improve the quality of life for individuals and their communities.

ECONOMIC BENEFITS

The Michigan Economic Development Corporation estimated that in 1999 public higher education in Michigan generated a net economic effect of \$39 billion, or 12.6 percent of the state's economy. With state appropriations of \$1.5 billion, this means that the state realizes a benefit of \$26 for every \$1 of appropriation. The largest source of this benefit is the *education premium*, that is, the increased spending resulting from the higher wages earned by college graduates from the public universities. Further economic benefit results from spending by universities, faculty, students, staff, and visitors.¹

COMMUNITY BENEFITS

The presence of universities benefits their respective local communities. Universities increase the number of cultural and artistic offerings, can serve as catalysts creating demand for “hip” neighborhoods that attract highly skilled workers, and can generate economic development. In addition, the presence of a university is often a key characteristic of the ubiquitous lists of best places to live/work in America. While this is only a small list of the benefits of public universities, it is clear that these institutions represent a significant community benefit to the state.

TECHNOLOGICAL BENEFITS

The technological needs of a university increase the general level of technology in surrounding communities. This increase in technology can create additional economic benefits by attracting high-tech firms interested in both the availability of technology and the skilled workers the universities produce, in addition to providing the surrounding communities with better access to information technology infrastructure than they may be able to secure on their own. One example of this technological benefit is Merit Network Inc. (Merit).

With a history dating back to the infancy of computer networking, Merit was a pioneer in the development of computer networking and the Internet. Merit now operates a dial-in networking service that allows residents in cities across the state access to MichNet (the statewide computer network that provides access from com-

¹ For further information detailing the economic benefit of Michigan's public universities please see *The Economic Impact of Michigan's Public Universities*, May 2002, Michigan Economic Development Corporation.

puters and local area networks in Michigan to the worldwide Internet), increasing Internet access for residents in many areas. It is estimated that 95 percent of state residents can access MichNet with a local call as a result of Merit. Merit is now heavily involved in the Internet2 project, an effort to provide high-bandwidth, low-latency networking that will be able to serve the higher quality computer applications of business and education institutions in the future.

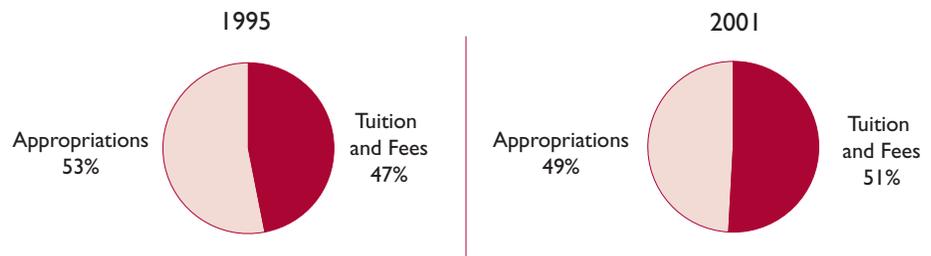
IMPORTANT ISSUES IN MICHIGAN PUBLIC HIGHER EDUCATION

PAYING FOR PUBLIC HIGHER EDUCATION

I. Level of State Funding—One Factor Affecting Tuition Levels

Higher education funding is a critical component of a public university's ability to provide quality, affordable education to all citizens in Michigan. As shown in Exhibit 2, as the level of state funding decreases, the average tuition for full year equivalent students (FYES) increases. State funding offers legislators a distinct choice between a public higher education system primarily supported by state tax dollars and a system that funds the majority of programs through tuition.

EXHIBIT 2
Tuition and Fees vs. Appropriations



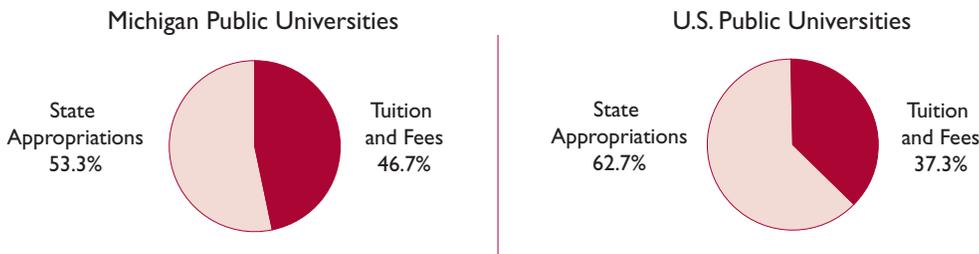
SOURCE: Presidents Council, State Universities of Michigan.

Decreasing state aid has contributed to increased tuition levels at all schools. Exhibit 2 shows that over the last five years the distribution between tuition and state appropriations has shifted toward tuition, increasing the cost of higher education for all students. Exhibit 3 shows that even in 1996, Michigan was well behind the national average in terms of the percentage of university general funds resulting from state appropriations.

According to a recent EPIC-MRA poll, 81 percent of Michigan residents believe that public universities in Michigan are not affordable. Data from the same survey reveal that Michigan residents overestimated tuition costs by an average of 28 percent. In addition, respondents expressed a strong preference (57 percent) for state funding as the primary source of funding for public universities (as opposed to tuition and fees borne by students and families). Furthermore, 45 percent of respondents believe that there is too little state funding provided for public colleges and universities in Michigan.

EXHIBIT 3

1996 Public University Tuition and Fees vs. Appropriations, Michigan and U.S. Average



SOURCE: Presidents Council, State Universities of Michigan.

Even in tight fiscal times, few respondents view the funding of higher education as discretionary spending that should be lowered in order to balance the state budget. When asked what their first choice was for budget cuts during tight fiscal times, 53 percent of respondents cited general government and 17 percent cited social programs. Only 2 percent of respondents believe that higher education should be the first program cut and only 7 percent believe that higher education should be the second program cut. Support of higher education is a widely held value in Michigan.

As previously mentioned, state appropriations remain the primary way for the governor or legislature to influence the decisions of university governing boards. This influence was exercised most recently during the 2001–2002 fiscal year, when the governor, the legislature, and the leaders of the public four-year universities negotiated a tuition increase of no greater than 8.5 percent or \$450 (whichever was higher) in exchange for no decrease in the level of state funding.

2. Tuition Levels and Affordability

Public universities are often the entry point for low-income families into the higher education system. Students from these families are often first-generation participants in higher education. Despite increasing tuition levels, the importance of public universities in providing this first-time access remains in large measure the result of relatively low tuition at state-supported schools. Exhibit 4 shows the tuition levels and appropriations for students at Michigan's public universities.

Even when comparing the recent tuition increases to the higher education price index (an adjusted consumer price index weighted to represent the cost structure of universities), Michigan's tuition continues to rise at a rate faster than inflation. If this rate of cost increases continues, Michigan's public universities may begin to price potential students out of the higher education market. It is therefore essential that these institutions hold cost increases to the same rate as the increases in the price of other goods and services, and that state appropriations keep pace with inflation in the price of these same goods and services.

EXHIBIT 4
2001–2002 Tuition and State Appropriations

	In-State Tuition	Out-of-State Tuition	State Appropriations
Central Michigan University	\$ 4,247	\$ 9,938	\$ 90,003,800
Eastern Michigan University	\$ 4,603	\$ 12,230	\$ 87,637,200
Ferris State University	\$ 5,188	\$ 10,408	\$ 55,520,300
Grand Valley State University	\$ 4,660	\$ 10,080	\$ 60,095,400
Lake Superior State University	\$ 4,334	\$ 8,312	\$ 14,268,700
Michigan State University	\$ 5,627	\$ 13,974	\$ 325,982,300
Michigan Technological University	\$ 5,887	\$ 13,165	\$ 55,241,600
Northern Michigan University	\$ 4,357	\$ 7,141	\$ 52,012,900
Oakland University	\$ 4,440	\$ 11,392	\$ 52,384,700
Saginaw Valley State University	\$ 3,608	\$ 7,410	\$ 27,393,300
University of Michigan-Ann Arbor	\$ 6,935	\$ 21,645	\$ 363,562,700
University of Michigan-Detroit	\$ 4,914	\$ 11,883	\$ 27,993,300
University of Michigan-Flint	\$ 4,328	\$ 8,430	\$ 24,068,100
Wayne State University	\$ 4,330	\$ 9,352	\$ 253,644,700
Western Michigan University	\$ 4,499	\$ 10,255	\$ 125,677,200

SOURCE: Public Sector Consultants Inc.

3. Affordability Becoming a Problem

According to the National Center for Higher Education and Public Policy, Michigan’s public universities rank very low in terms of their affordability. In 2002, the center gave Michigan a D+ for affordability. This was a decrease from Michigan’s 2000 score of C. The downgrade was a result of the following negative factors:

- Michigan families of all income levels must pay 26 percent of their yearly income for college expenses (before considering financial aid) at Michigan’s four-year public universities. Families in top performing states pay 18 percent.
- Michigan’s poorest families must pay 14 percent of their income to attend even the lowest cost public universities, compared to 8 percent of income for poorest families in top performing states.
- The average Michigan undergraduate borrows \$3,011 per year to attend a public university, compared to \$2,928 per year for undergraduates in top performing states.

These factors are a result of decreasing state aid to universities and a limited amount of state financial aid specifically targeted at low-income families.

4. Financial Aid

Michigan offers several financial aid programs intended to make college more affordable. The largest of these is the Michigan Merit Award Program, a merit-

based scholarship that rewards students for exceptional performance on the Michigan Education Assessment Program (MEAP) tests. This program grants a maximum of \$2,500 to students attending in-state institutions and \$1,000 to students attending out-of-state institutions. Critics of the program, such as the American Civil Liberties Union (ACLU), claim that the use of the MEAP test as the sole means of awarding monies discriminates against poor and minority Michigan residents, groups that traditionally score lower on the test. Other critics argue that the scholarships provide money to those families that can already afford college. Proponents respond that the scholarship is intended to be a merit-based award and therefore income should not be a consideration.

In FY 2000–2001, Governor Engler approved a new financial aid program named the Postsecondary Access Student Scholarship. This program is intended to assist Michigan students pursuing an associate’s degree at a community college, public university, or independent nonprofit college or university. To receive PASS assistance, students must be a Michigan resident; be enrolled in a program in existence as of January 1, 2000; be enrolled at least half-time at an eligible Michigan college or university; have scored at level 1 or level 2 on the MEAP test in reading, writing, mathematics, and science; and be eligible for a federal Pell Grant. If a student meets all the criteria, s/he is eligible for a PASS award for the equivalent of one year of full-time college. This award will be renewed contingent upon significant academic progress. If a student meets all criteria except for the MEAP requirement, s/he is eligible for a maximum PASS award of \$500 for the second year of college enrollment.

Michigan also offers the Tuition Incentive Program (TIP), a program designed to increase high school completion rates by offering to pay for the first two years of college and beyond for students who either graduate from high school or complete their GED by the age of 20. The program operates in two phases, with the first phase designed to pay costs related to completing either an associate’s degree or 80 semester hours (120 term hours) and the second intended to pay up to \$2,000 for further study. To qualify for TIP award a student must have had Medicaid coverage for 24 months within a consecutive 36-month period.

In addition to these specific programs, Michigan offers competitive scholarships for students attending public and private institutions. In an effort to increase competition and provide additional education choices for residents, Michigan also offers tuition grants for students attending private colleges and universities. In total, in FY 2002–2003, Michigan budgeted to spend more than \$247 million on financial aid. This represents nearly 13 percent of state spending on higher education. Exhibit 5 shows the breakdown of these funds.

WORKFORCE DEVELOPMENT

Universities contribute to the overall health of a state’s economy by producing highly skilled and educated workers. These workers can improve the competitiveness of firms and increase the state’s economic activity, while offering workers higher salaries. The

Michigan Economic Development Corporation (MEDC) estimates that increased economic activity resulting from the expenditure patterns of these highly skilled workers create an economic benefit of more than \$13 billion for the state economy. This is, by far, the largest category of economic benefit from Michigan's public universities.

In addition to increased wages and economic activity, a highly skilled workforce has become an essential component of site selection criteria for major industries. As the U.S. economy continues its move away from manufacturing and toward the service sector, the supply of skilled workers has fast become as essential as other traditional inducements to site location, such as property tax reductions and transportation options.

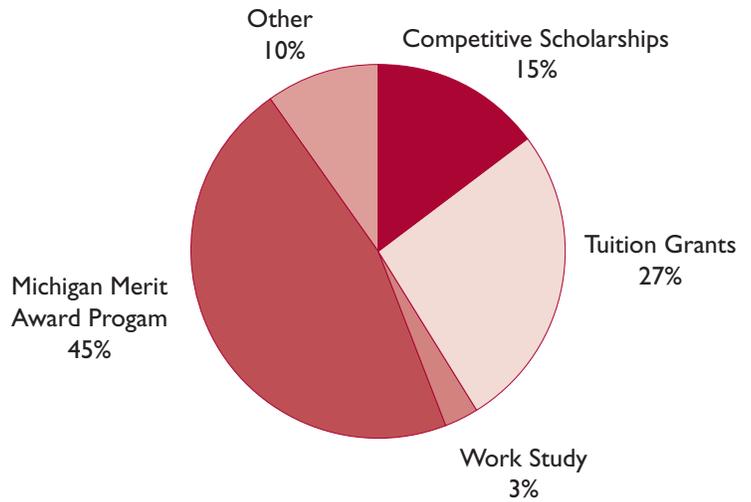
Michigan's secondary and postsecondary education providers are continually working to align workforce needs with academic program offerings, and in assisting young adults with their career decision-making. Movements like the Michigan Career Pathways system are becoming integrated into students' secondary and postsecondary experience. A Career Pathway is a system that creates well-marked "paths" of sequenced courses, which provide both focus and direction to a student's learning experience. This Pathway will then connect the student to postsecondary education and the world of work.

TECHNOLOGY TRANSFER

According to the recent benchmarking efforts by MEDC, Michigan has a relatively small number of spin-offs from its public universities. In 1999, there were only 28 in-state licenses resulting from research at public universities, contributing \$421,131 in licensing revenue. Furthermore, there were only 47 "start-ups" resulting from Michigan's public universities, which generated \$131,353 in licensing revenue. The largest source of economic benefit from technology transfer is generated by research at Michigan State University. It is estimated that research from MSU has generated more than 475 in-state jobs. MEDC believes that there are two reasons for the relatively low number of licenses and start-ups.

- The fees and royalties resulting from licenses are collected by companies that are located outside the state of Michigan.

EXHIBIT 5 Enacted State Grants and Financial Aid, FY 2002–2003 (\$247,000,000)



SOURCE: Senate Fiscal Agency.

- The revenues resulting from these start-up corporations will be realized in the long-term as these firms significantly expand.

While these are important factors to consider when evaluating the success of technology transfer, it is also clear that, even taking these factors into consideration, Michigan still trails its peer states in this category. Universities are embracing programs that could increase technology transfer and contribute to the overall well-being of the state. Harnessing the immense research capacity and production of these public institutions will benefit all state residents.

EFFICIENCIES IN ADMINISTRATION

Michigan's public universities are almost as complex to maintain as a city; most universities, for example, have their own police force and power plant. The students of Michigan Technological University make up almost 23 percent of the total population of the county, a number requiring significant resources and management expertise. With this complexity, Michigan's public universities have faced the same criticism leveled at other large institutions.

First, critics contend that universities are inefficient by design. Hiring faculty to teach seventeenth-century French history, critics complain, is not inherently connected to training skilled workers. There is a distinction, however, between inefficiencies in *design*—that is, teaching seventeenth-century French history in the first place—and inefficiencies in *delivery*—where a professor teaches only one section of one class each year. Many university activities cannot be defined with traditional measures of efficiency; increasing the students per professor or class—a traditional measure of efficiency—is the opposite of what the students desire from institutions of higher education. Furthermore, there is a significant value placed on educating Michigan's citizens in the liberal arts. Universities play a fundamental role as the conservators of history, as public forums for social debate, and as repositories for the arts and culture.

Critics accuse universities of being bloated bureaucracies that fail to institute cost control measures. This perception helps reinforce feelings of hostility toward tuition increases and requests for additional appropriations. Over the last several years, however, universities have instituted a number of programs to increase efficiency and cost savings. According to the President's Council of State Universities of Michigan, changes and efficiency programs included the following:

- The University of Michigan upgraded its student fee tracking services allowing them to collect \$1.7 million in overdue payments.
- Ferris State University entered into a partnership with Central Michigan University and Saginaw Valley State University for competitive bidding and contracting for office supplies. The estimated savings for FSU alone were approximately \$48,000.
- Michigan State University completed a renovation of its student health center that resulted in \$1 million in operational savings last year.
- Wayne State University has cut administrative budgets four times since 1998

for a total savings of \$18 million.

- Michigan State University increased the number of sessions taught by faculty members by 12 percent since 1993.
- Oakland University outsourced its bookstore and custodial service resulting in annual savings of \$336,000.

Michigan's public universities continue to identify and implement initiatives that will maximize every dollar received through appropriations and tuition revenue.

ROLE AND MISSION OF UNIVERSITIES

According to the 1986 Select Committee on Higher Education, higher education institutions in Michigan are charged with three primary missions: instruction, research, and public service. All other operations a higher education institution carries out—such as plant operations, financial aid, or student services—are in support of these primary goals. Within Michigan's higher education system, each university places different levels of emphasis on these primary goals. Some institutions spend a predominant amount of time and effort on technical research while others pride themselves on specific attention to undergraduate education. Allowing each institution to choose its level of emphasis is a result of Michigan's autonomous system of higher education, which encourages a market-based approach to allocate responsibilities of teaching, research, and public service among the universities.

RETIREE HEALTH CARE COSTS

As is the case in many sectors of the economy, the cost of health care, especially for retirees, is having a profound and detrimental effect on university budgets. Since 1996, the seven state universities participating in the Michigan Public School Employees Retirement System (MPERS) have seen their contribution costs increase by almost 40 percent. These cost increases are mandated by the state, and the seven participating universities have no control over them. Those institutions with smaller budgets must fund these increases wholly or in part through student tuition. At Ferris State University, for example, it takes a tuition increase of more than one percentage point to fund the annual MPERS cost increase.



CONCLUSION

High-quality, affordable public education is a valuable public good for Michigan residents. Higher education increases economic activity and promotes social mobility. Often, public universities serve as the only viable higher education option for numerous state residents, but issues of affordability and access can cause concern. Specifically, tuition levels in Michigan continue to rise at a rate greater than most measures of inflation. This creates a perception among a majority of Michigan residents that higher education—even at a public university—is simply too expensive to consider. If higher education in Michigan is to remain a realistic access point for first-generation students, affordability must be addressed. There are many actions that legislators, other state government leaders, and university officials can take involving state funding and financial aid that could increase access to public universities without drastically increasing the state’s total higher education appropriations.



FOR MORE INFORMATION

PUBLICATIONS

- *The Economic Impact of Michigan's Public Universities*
Written by SRI International on behalf of the Michigan Economic Development Corporation and the Presidents Council, State Universities of Michigan, May 2002. SRI Project #PDH 02-019. Available online at medc.michigan.org or www.pcsun.org.
- *Losing Ground: A National Status Report on the Affordability of American Higher Education*
Written by the National Center for Public Policy and Higher Education, May 2002. Available online at www.highereducation.org.
- *Measuring Up 2002: The State-by-State Report Card for Higher Education*
Written by the National Center for Public Policy and Higher Education, October 2002. Available online at measuringup.highereducation.org.
- *Report on Tuition and Fees: 2002-03*
Presidents Council, December 2002. Available online at www.pcsun.org.
- *University Investment Commission*
Written by Public Sector Consultants Inc. on behalf of the University Investment Commission, November 2002. Available online at www.pscinc.com or www.pcsun.org.

ORGANIZATIONS

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