



**Challenges and Implications:
Declining State Support of Michigan Public Higher Education**

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Executive Summary

Higher education is by far the most significant opportunity available to the average Michigan citizen for the improvement of his or her life. A university degree brings into view both career and personal goals that might be inconceivable without it. A vibrant future for Michigan is difficult to imagine without an educated population. In addition to enriching the cultural and social fabric of the state, a highly skilled workforce is absolutely necessary for Michigan to remain an economic leader. Each year, the state's fifteen public universities collectively generate \$26 of economic activity for each \$1 invested by the state. No other public investment realizes such a high rate of return. The public universities empower individuals, but they are also the most effective means by which Michigan can ensure a successful future for itself.

The strength of the public universities comes from many sources: outstanding alumni, gifted students, and the high degree of autonomy granted by the state's constitution. This autonomy gives each institution the flexibility to adapt its mission to best serve the needs of its students, community, and the state. At the same time, Michigan's universities work together in many ways to improve the accessibility and affordability of a college education. In this respect, Michigan is a model for other states and may well have the best public universities in the country.

Michigan's public universities are committed both in principle and practice to the sustained improvement of educational and economic opportunities in the state. However, their place in the state general fund budget makes them especially vulnerable to reductions when resources are low. The tremendous impact that higher education has on every person in Michigan makes it critical to focus on a longer-range vision. The fragile condition of state and university finances today makes this more challenging than ever:

- Only half of a public university education is supported by state funds
- Per-student funding is \$1,000 below peer states
- In the last decade, student enrollment has increased nearly 10%
- Student enrollment this fall is up approximately 4% over last fall
- Approximately 80% of university general funds costs are personnel-related
- Contractual obligations to personnel are locked in for the next few years
- Healthcare costs are rising by as much as 15 to 20% each year
- Pension costs are rising, especially for the seven institutions participating in MPSERS which has increased an average of 12% each year since 1996
- Other fixed costs such as utilities and insurance continue to rise
- The 3.5% mid-year FY '03 cuts are currently being incorporated without tuition increases
- State assistance is currently below FY '01 levels
- There is no further cut the universities can take without raising tuition, unless services and academic programs are seriously impacted

Continuing state revenue shortfalls inevitably mean further reductions in state appropriations. Following the cost-saving measures that have been taken during the past two fiscal years, current and future reductions will negatively impact students. As state budget decisions are made, it is important to remember that the public universities and their governing boards must have the flexibility to conduct frank discussions with all aspects of the university community, including students and their families, as they strike a delicate balance between the quality of their academic programs and the tuition they must charge.

Introduction

Michigan's 15 public universities are a tremendous asset not only to the students they educate, but to the entire state. Michigan's public universities enroll about 285,000 students, building their capacities and skills to shape their lives, their professions and their communities. Our universities are a powerful economic engine. They help anchor two legs of the "Technology Tri-Corridor" and are poised to provide the brainpower and facilities for the third. Collectively, Michigan universities have conducted over two billion dollars of sponsored research since 1996. Around the nation, Michigan's public universities are viewed as a model. Our state may well have the best collection of public universities in the country.

Michigan's universities' strength comes from many sources: outstanding alumni, gifted students, and the high degree of autonomy granted by the state's constitution. That autonomy provides each institution with the flexibility to adapt its mission to best serve the needs of its student body, region and the state. At the same time, Michigan's universities work together in many ways to improve the accessibility, affordability and quality of collegiate academic programs and services. Our universities are already a major force in ensuring that Michigan is "skating to where the puck is going," a reference to the importance of forward thinking espoused by the venerable hockey great Wayne Gretzky.

The public universities are economically intertwined with their communities and the state as a whole. The state-appropriated funds and tuition dollars received by the universities are in turn re-invested in Michigan employees, products and services. Campuses attract more than a million visitors each year, many thousands from out of state. In recent years, the commercialization of ideas through licensing and start-ups has been increasing. And statistics reinforce what is widely assumed – that people with a college degree have more earning power than those with only a high school diploma. These activities combined to turn a \$1.5 billion state investment into \$39 billion of economic activity in Michigan's economy during 1999, the latest data available.¹

But the benefits of a quality public higher education extend beyond economic impact. Equally important are the social and cultural enhancements and benefits that arise from an educated population. In particular, each campus has a tremendous presence in the community in which it is located. Many popular events, such as theatre, concerts and athletics, commonly take place on university campuses. Also, they provide many public services that are often taken for granted: public television and radio, access to athletic and meeting facilities, and community outreach programs. Higher education is a public good. Whether or not they are directly involved with a public university, all of Michigan's citizens live better than they would in its absence.

¹ "The Economic Impact of Michigan's Public Universities," SRI International (sponsored by MEDC and PCSUM), 2002.

In the last decade, the benefits of higher education have been even more widely recognized. Today, demand for a public university education has never been greater. Enrollments are up at nearly every university. The public universities currently enroll nearly 25,000 more students than five years ago, with less state funding, adjusted for inflation. While this increasing demand is a good sign for Michigan, it challenges the universities because it increases financial pressure at a time when state support is the weakest in recent history. With universities forced to pick up a greater percentage of general fund revenue from tuition, we run the risk of pricing a university education out of reach for many students.

Over the past 30 years, students have borne an ever-larger share of the total cost of their education at Michigan public universities. In 1972, the state covered about 3/4 of the cost of educating its public university students, supporting the principle of education as a public good. Unfortunately, state funding for higher education since then has not kept up with this goal. Today, the state contributes on average a little less than one-half of the cost of education, with student tuitions making up the rest. Per-student funding in Michigan is about \$1,000 below other Great Lakes and peer states. We are moving in the direction of taking the public out of public higher education.

The Belt Has Been Tightened

State support of the fifteen public universities has been significantly reduced. Not including any adjustment for inflation, state spending has been reduced by \$152 million between FY 2002 and FY 2004, which amounts to a 9.4 percent decline in the state's support of its universities.

The universities have strived in earnest to cut costs without sacrificing program offerings and quality. Over the past two years, the institutions have collectively implemented \$159 million in cost saving measures and have eliminated over 1,200 full time jobs.

Universities face many of the same challenges as the state government when reducing costs. Personnel-related expenses can comprise as much as 80 percent of a university's general fund budget. Pension, health care, and utility costs are difficult to contain. Also, most university employees, including a number of faculty and nearly all support staff, are members of the AAUP, AFSCME, MEA, UAW and other unions. A majority of the faculty is tenure-tracked. These contractual obligations can complicate cost-reduction efforts. Despite those hurdles, budget cuts and efficiencies have been and will continue to be made.

Since academic and research programs hold the highest priority, the universities have targeted the largest cuts toward the administrative side of the budget. They have made great strides to reduce costs in such categories as purchasing, utilities and health care. Yet cost cutting strategies continue. While approaches vary from campus to campus, the following are typical measures:

Administration

- Non-salary expenses such as employee travel, equipment purchases, and renovations have been curtailed.
- Many open faculty and staff positions are not being filled or have been eliminated altogether, and many universities have instituted strict campus-wide hiring freezes, despite increasing demand.
- Previously separate academic and administrative departments have been consolidated.
- Computer hardware replacement cycles will continue to be lengthened
- Aggressive commodity purchasing continues to be pursued.
- Migration from paper-based to computer-based information systems continues to be pursued.
- The seven participating institutions are seeking alternatives to the MPSERS pension program, whose cost has risen by an average of about 12% per year since 1996.
- The universities have founded the Michigan Universities Self-Insurance Corporation (MUSIC) to work toward containing the cost of insurance.
- The universities have entered into a partnership with the state to create the State of Michigan/Higher Education Purchasing Consortium, aimed at gaining efficiencies and savings in the purchase of a diverse array of commodities.
- Minimal salary and wage raises, often below CPI. In some cases, no raises at all.

Academic Programs

- Faculty productivity has increased as classroom demands have increased.
- Some degree programs have been eliminated.
- New degree programs have been funded by reallocation of resources from other programs.
- Academic partnerships with other institutions have been formed.
- Academic units have implemented budget reduction strategies.

Health Care

- Employees are paying a greater share of their health insurance premiums and higher co-pays.
- Health plans are being modified to control increases in premiums, including those for prescription drugs.
- The universities have united through the Michigan Universities Coalition on Health (MUCH) to increase their bargaining power when negotiating health insurance contracts.

Privatization

Private sector partnerships/outsourcing arrangements have been made in an effort to reduce costs and improve the level of service provided. Areas of privatization include bookstores, food service, office supplies, bus systems, vehicle fleets and

maintenance, custodial services, vending operations, and management of hosting facilities.

Energy

In recent years energy cost increases have outpaced many other components of university budgets. A wide variety of energy saving measures have been taken. These efforts run the gamut from “Turn off the Lights” programs to the use of alternative fuels to negotiating longer-term utility contracts. Some of the most common steps:

- Stricter lighting/temperature regulation in campus buildings
- Installation of low power light bulbs
- Close monitoring of utility use to identify problem areas
- Multi-year utility contracts that lock in lower prices

In an attempt to further curtail the increasing fiscal burden presented by increasing utility costs, the universities have developed a consortium with the state to investigate the bulk purchase of gas and electricity commodities.

Meeting Future State Financial Challenges

Michigan’s public universities are faced with the prospect of further reductions in state appropriations. As demonstrated in the preceding pages, the squeeze on administrative costs over the past two years means that the universities now have little ability to absorb major cuts without directly impacting the quality and quantity of academic program offerings. It is crucial that the universities’ current array of academic programs is protected, especially considering the surging demand for a university education and the importance to the state of having a skilled workforce. As previously mentioned, enrollments are up at most campuses, continuing a near decade-long trend of increasing enrollment. And based on national demographic trends, it is anticipated that college enrollments will continue to increase through 2012. Reduced state support has directly resulted in lower per-student spending. The combination of recent cuts in state support of public higher education, leaner institutional operations, and increasing student demand are forcing Michigan’s public universities to confront a complex and important issue: tuition rates.

State appropriations cuts have historically required a combination of internal cost adjustments and tuition increases to balance institutional budgets. Cost-saving measures such as restrictions on employee travel, reductions in student employees, and increases in co-pays for employees have already been implemented. Further measures will inevitably impact students negatively. Therefore, it is essential that the universities have the flexibility to strike a fine balance between the quality and availability of programs and tuition increases.

Michigan’s public universities have very different missions and funding models that require differing responses to budget pressures. There are wide variations in state

assistance per-student and tuition rates among the fifteen public universities, which reflect these different institutional missions. The Michigan constitution establishes university governing boards – both elected and appointed – responsible for the financial decisions, including tuition rates, of their respective institutions. The universities need to have the flexibility to make rational business decisions based on their individual institutional needs.

Given that state support now falls below FY 2000 funding levels, there are few if any cuts the universities can absorb without raising tuition, unless services and academic programs are seriously impacted. With the reduction in appropriations to the majority of the state's the universities of 6.7% for FY 2004, and a 3.5% in operating support implemented over the course of FY 2003, the end result has been a cumulative decrease in their state appropriations base over the preceding year of 9.4 percent. Compounding this with a conservative fixed cost increase of 4 percent, the universities have had to bridge a 13.5 percent chasm between their initial FY 2003 and 2004 general fund budgets. Despite the implementation of drastic cost reduction strategies, the universities raised their tuition rates for the fall 2003 semester by an average of 10 percent over the prior fall.

The magnitude of the aforementioned reductions in state support have not been seen since the early 1980s. The necessary reduction in faculty members has resulted in fewer course options, larger class sizes, and in some cases, the elimination of entire degree programs. Reduced staffs have resulted in longer turn around time and reduced effectiveness of important university functions like compliance, financial aid administration, and student services such as career advising and placement, to name a few.

The long-term damage to faculty retention, quality and reputation that could result from these kinds of cutbacks will require a serious future investment of time and money to repair. Unlike many other programs funded by the state, its public universities do not serve a captive constituency. Higher education is a very competitive market in which students can choose between thousands of colleges and universities in the nation. Michigan's most talented students eventually become the state's most talented workers; providing quality university programs will keep them in Michigan. If we fail to do so, the economy and quality of life for everyone in the state will surely suffer.

Which is a bigger deterrent to potential students, higher tuition rates or lower quality universities? In not so many words, this is a question that will be asked at public universities across the state as future decisions are made. Any tuition increase places difficult pressure on students and families. But this must be balanced by the commitment of the public university community — students, faculty, administrators and governing boards —to maintaining the quality of its academic programs.

As Michigan faces its latest budget crisis, it is important we not sacrifice our future. Governor Granholm's vision of the future is one where, as she remarked in her State of the State address, "Michigan doesn't just work hard, we work smart. We innovate."

Michigan's public universities could not agree more, and they are a critical part of that future. They are prepared to work closely with the administration and the Legislature to reach it.