



Pulling the Plug on Michigan's Future: Why Draining Resources Hurts Tomorrow's Workforce

An essential piece of Michigan's economic recovery must include an educated workforce. Budget decisions made by the Michigan Legislature, however, do not reflect this. State funding for colleges, universities and community colleges has been slashed. As a result, tuition has increased and it is harder for many in Michigan to attain a college education. This disinvestment in education is shortsighted and has long-term implications for the state.

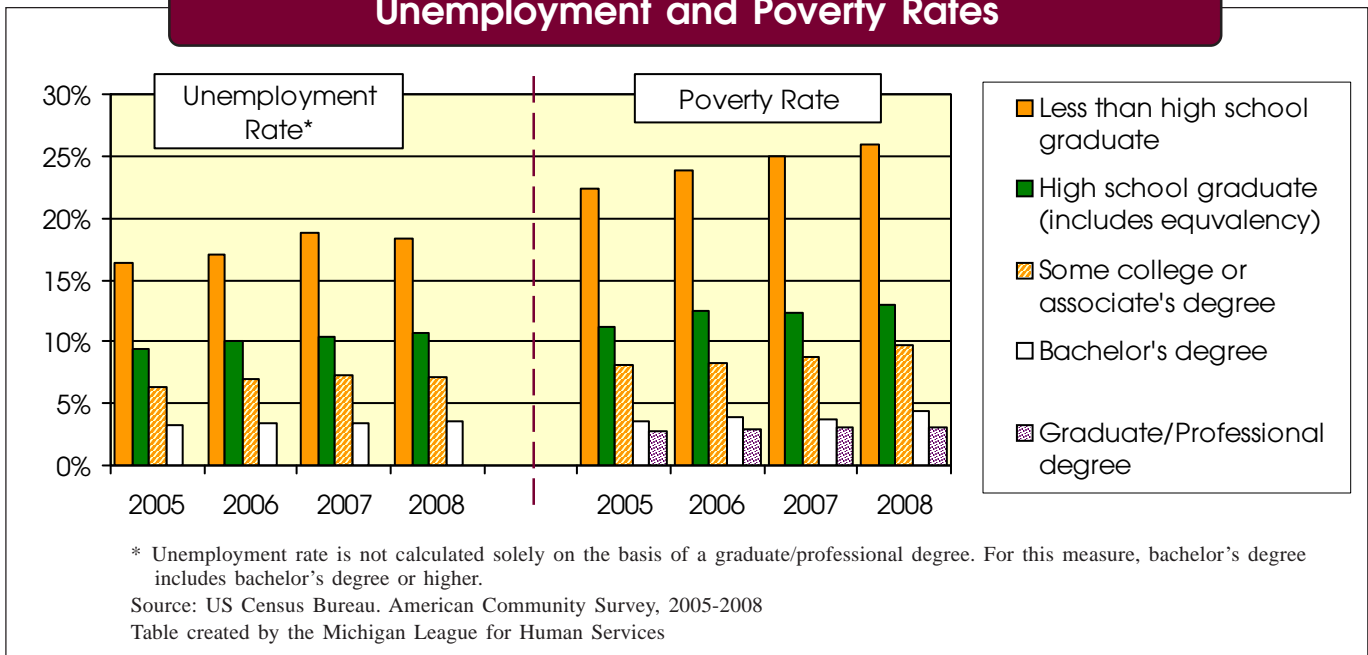
To successfully pull out of the lingering recession and to move the state forward on a path toward prosperity, Michigan must reverse its trend of disinvestment in higher education. Evidence across the country clearly demonstrates that the most prosperous states are those

with the highest educational attainment. As Michigan seeks to transform itself from a manufacturing-based economy to a knowledge-based economy, a highly educated and talented workforce is essential.

Education and training are also vital to finding jobs and attaining economic self-sufficiency, especially for those who have fallen into poverty, in part due to high unemployment. Individuals with higher levels of education, be it occupational training at a two-year institution or an advanced degree, are more likely to earn more and less likely to be unemployed.

As the chart below shows, unemployment and poverty rates have increased for individuals at all education levels in Michigan. However, education serves

Higher Levels of Education Correlate with Lower Unemployment and Poverty Rates



Educational Attainment Is Tied Directly to Higher Income

Educational Attainment	Median Earnings (25 years and over)				% Change (05-08)
	2005	2006	2007	2008	
Less than high school graduate	\$19,091	\$19,029	\$17,178	\$18,195	-4.7%
High school graduate (includes equivalency)	\$26,095	\$25,710	\$25,946	\$25,744	-1.3%
Some college or associate's degree	\$32,175	\$31,717	\$31,801	\$31,746	-1.3%
Bachelor's degree	\$45,928	\$45,808	\$47,033	\$46,629	1.5%
Graduate/professional degree	\$61,749	\$61,645	\$63,986	\$65,083	5.4%

Source: US Census Bureau. American Community Survey, 2005-2008

as a buffer to higher rates of unemployment and poverty. In addition, while individuals without at least a bachelor's degree have seen their income fall over the last four years, those who at least finished a four-year degree have actually seen their income rise, despite Michigan's current economic situation.

Higher Education Funding in Michigan

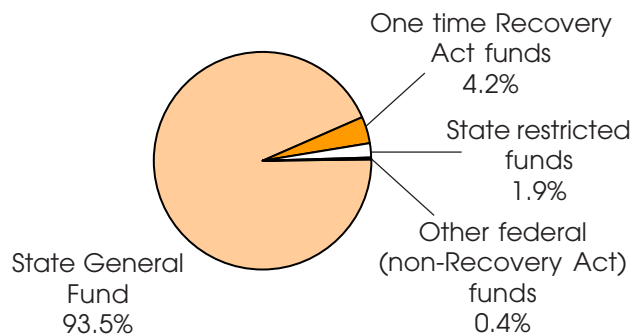
In Michigan, funding for community colleges and four-year public universities, along with financial aid, are included in two separate budget bills. These institutions are heavily dependent on state funding. Funding for two-year community colleges is provided in the Community Colleges budget. This budget is 100 percent General Fund, with more than 90 percent of state support going to community college operations.

In 2010, community college operating revenue came from the following sources:

- Tuition and fees: 34 percent
- State aid: 22 percent
- Property taxes: 39 percent
- Other: 5 percent

Funding for public four-year colleges and universities, as well as financial aid programs, are contained in the Higher Education budget. This budget relies on state and federal funding. Revenue sources for the Higher Education budget break down in the following manner for fiscal year 2010 (see chart):

Four-Year Public College and University and Financial Aid Budget Breakdown



Source: House Fiscal Agency, 2010

In 2009, public university operating revenue sources were:

- Tuition and fees: 63 percent
- State aid: 30 percent
- Other: 7 percent

Impact of Falling Appropriations

As the state's General Fund revenue fell, total funding for higher education (including community colleges and financial aid) declined as well, but at a higher rate. Between fiscal years 2002 and 2010, the state's General Fund declined 13 percent. During this same time period,

state funding for higher education programs fell 15 percent.¹

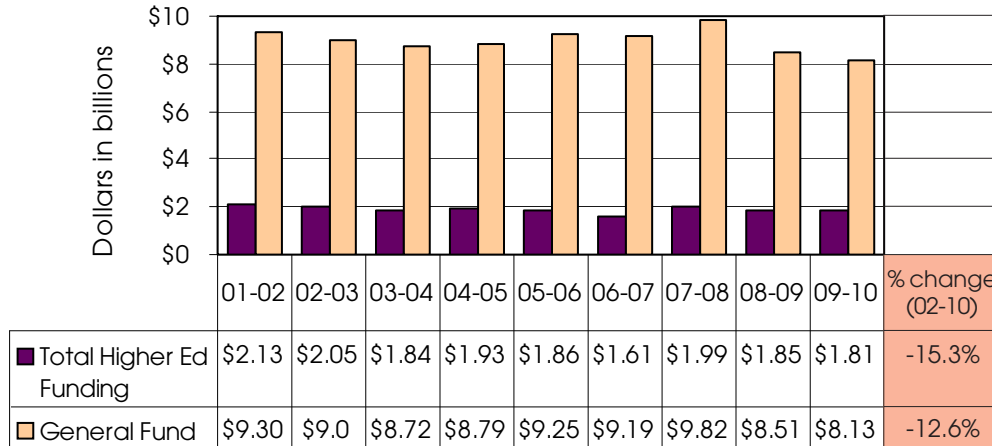
Total support to four-year colleges and universities per fiscal year equated student has declined by approximately one-fifth since fiscal year 2001 and by a third to

inflation adjusted state support to community colleges declined by approximately 7 percent, or 23 percent when adjusted for inflation.

With the reduction of state funding, in-district tuition rates rose faster than the rate of inflation. From 2002 to 2010, the average cost per credit hour increased 41 percent, from \$54 per credit hour to \$76 per credit hour.⁴

Although funding for community colleges was cut less than funding was to four-year public universities, or even held flat some years, tuition and fees have slowly made up an increasing share of community college operating revenue. This is due in large part to the fact that while state funding may be held flat, or given a

Funding to Two- and Four-Year Institutions Declines as the General Fund Declines (\$ in billions)



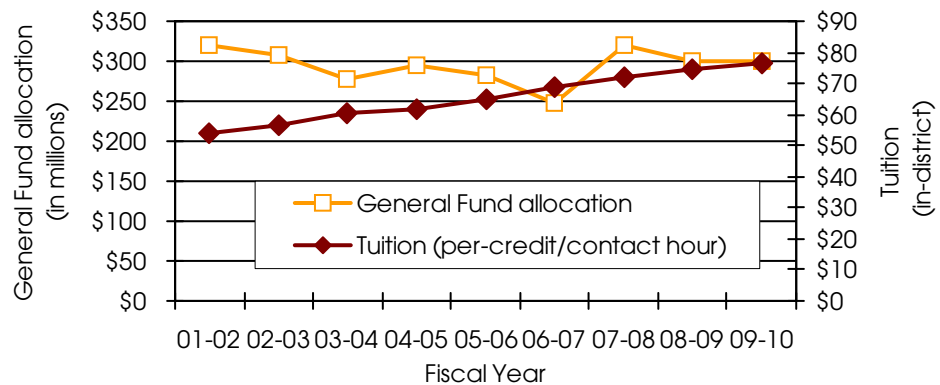
Source: Michigan Senate Fiscal Agency
Chart created by the Michigan League for Human Services.

community colleges.² This drop in state support is causing institutions of higher learning to take steps to rein in costs by increasing class sizes, reducing staff, and raising tuition rates.³

Community Colleges

Community colleges, while still more affordable for many students and families than four-year colleges and universities, increased tuition to compensate for declines in state aid. From fiscal year 2002 to fiscal year 2010, non-

Community College Tuition Rises 40 Percent As State Funding Declines



Source: Michigan House Fiscal Agency
Chart created by the Michigan League for Human Services.

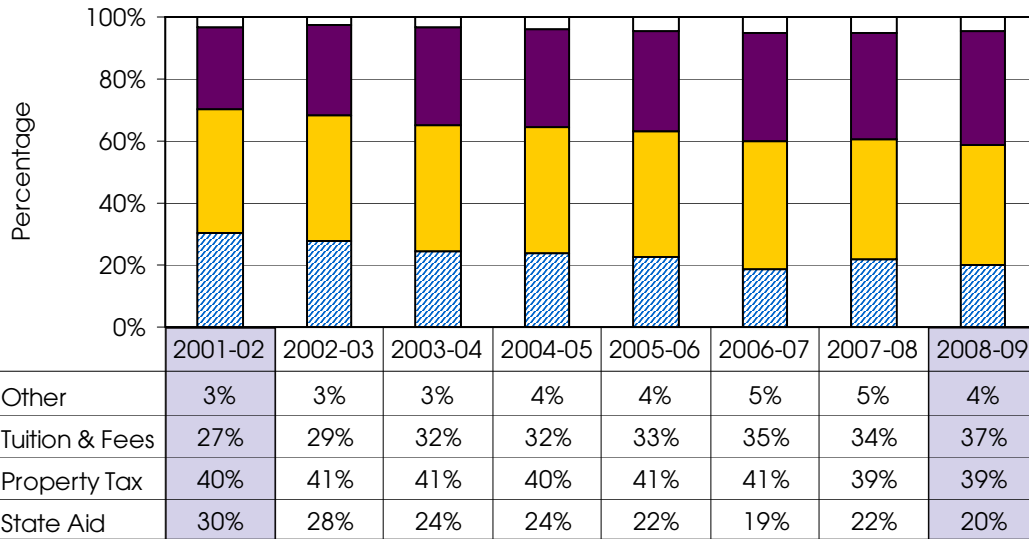
¹ Senate Fiscal Agency. (2009, 2010). Higher Education and Community Colleges Funding History tables.

² Fiscal year equated student (FYES) is the equivalent of the number of full-time students enrolled at a university and is equal to student credits divided by 30 at the undergraduate level for four-year institutions and 31 credits for two-year institutions.

³ It should be noted there are many things that factor into tuition increases such as, but not limited to: employee health care costs, energy costs, and differences in cost for differing types of instruction.

⁴ Wolf, M. (2010). *Background briefing: Community colleges*. Retrieved from the House Fiscal Agency.

As the Share of State Aid to Community Colleges Declines the Share of Tuition and Fees Increases



Activity Classification Structure Databook for Michigan Community Colleges, 2008-2009. Obtained from www.michigancc.net. Chart created by the Michigan League for Human Services.

and state aid was just under a third. Today, tuition and fees make up less than 40 percent of revenue, whereas state aid is only 20 percent.

Universities

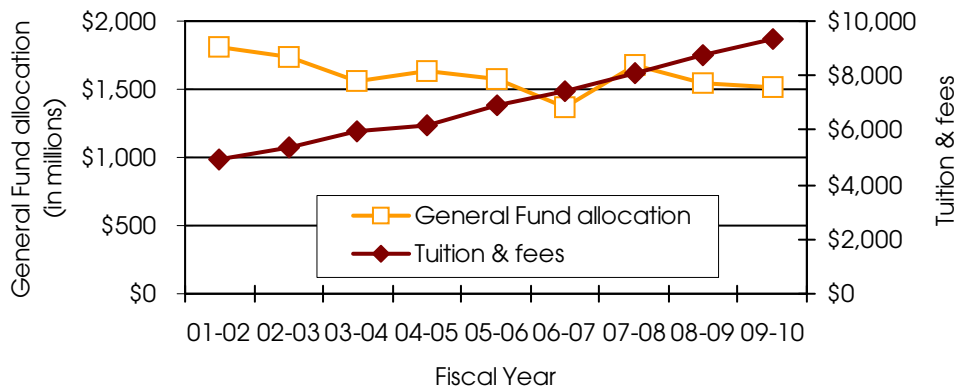
The story is even worse for Michigan's 15 public universities. Between fiscal years 2002 and 2010, state appropriations for universities and financial aid declined by 17 percent or 31 percent when adjusted to 2010

slight increase, it is not enough to compensate for rising energy or health care costs or costs related to different types of instruction.⁵

Courses in certain high-demand occupations are more expensive to offer than others. For example, Monroe Community College reports a licensed practical nurse course costs \$19 per student, per contact hour to teach, versus \$4 per student, per contact hour for social science courses.⁶ In fiscal year 2002, tuition and fees made up just over a quarter of community college operating revenue

dollars. This caused tuition and fees to skyrocket. Since 2002, average tuition and fees increased from \$4,948 per

General Fund Allocation to Universities and Financial Aid Declines While Tuition Rises



Source: Michigan House Fiscal Agency. Chart by Michigan League for Human Services

⁵ Funding to community colleges remained relatively flat in fiscal year 2004 and fiscal year 2005. After a decline in fiscal year 2006, there were three years of slight increases and funding was held flat in fiscal years 2009 and 2010.

⁶ For more information on community college costs in light of declining revenue, please see the Senate Fiscal Agency's analysis on community college revenue sources available at: <http://www.senate.michigan.gov/sfa/Publications/Notes/2009Notes/NotesMarApr09bb.pdf>

year for in-state students to \$9,311 in 2010.⁷ This is an increase of 88 percent in less than 10 years and was the 19th fastest-rising tuition rate increase in the country between 2002 and 2009.⁸

How Michigan Compares to Other States

Michigan's cuts to higher education funding have been among the deepest in the nation. According to research by the Grapevine Project at Illinois State University, between fiscal year 2006 and 2010 Michigan slashed funding for all degree-granting institutions by 9 percent, whereas the national average increased funding just over 7 percent. (See Appendix A).

However, between the 2005-2006 and 2008-2009 academic years, non-inflation adjusted tuition at Michigan's public four-year colleges and universities grew by 31 percent, well above the national average of just 18 percent. This is the 7th highest increase in the country. (See Appendix B). This is in contrast to the fact that Michigan's median, non-inflation adjusted household income grew by only 6 percent during the same period; the slowest rate of growth in the country.

Drastic Cuts to Financial Aid

As higher education and community college funding for operations and other programs dropped due to revenue shortfalls, funding for financial aid programs also declined. Coupled with soaring tuition, these cuts to financial aid are pushing a college education out of reach for some.

Financial aid represents just over 5 percent of the fiscal year 2010 Higher Education budget and program allocations break down in the following manner:

- Tuition Grants: 38 percent
- Tuition Incentive Program: 37 percent
- State Competitive Scholarships: 21 percent
- Other programs: 5 percent

Even in the face of rising tuition rates and falling incomes, Governor Granholm's 2010 budget recommended that six financial aid programs be combined into one need-based financial aid program called The College Access Grant Program, which would have resulted in a \$19 million reduction to need-based financial aid. While this did not happen, the final budget as adopted eliminated five programs completely, three of which were need-based, serving students who have the most to gain by continuing past high school (the need-based Michigan Work Study Program, Part-Time Independent Student Grants, and Education Opportunity Grants, as well as the Nursing Scholarship Program, and Michigan Promise Scholarship). Funding was reduced by half for State Competitive Scholarships and by 44 percent to the Tuition Grant Program⁹.

Cutting these programs resulted in a 64 percent reduction in state funding for financial aid from fiscal year 2010 to fiscal year 2009 alone. State funding for financial aid programs was reduced from \$218 million in 2009 to \$79 million in 2010. State support for need-based aid programs declined 39 percent between fiscal years 2009 and 2010 (from \$127 million to \$78 million).¹⁰ With the elimination of these three need-based aid programs in the 2010 Higher Education budget, the Legislature eliminated \$12 million in state financial aid programs and ended support for over 15,000 low-income Michigan students.

Even as Michigan's per capita income dropped and Michigan lost approximately 285,000 jobs in 2009 alone (the highest one-year job loss since the 1930s), Gov. Jennifer Granholm again recommended slashing more need-based financial aid in her 2011 budget. She recommended the total elimination of the Tuition Grant Program, which served over 35,000 in the 2009 fiscal year. This need-based program provides grants for students attending private colleges and universities. She also proposed cuts to the need-based Tuition Incentive Program by limiting tuition reimbursement for associate's degrees to no more than the average community college

⁷ Preliminary data indicate average in-state undergraduate tuition and fees for the 2010-11 academic year will be 4.5 percent higher than the 2009-10 academic year. More information may be found in the House Fiscal Agency's memo at: http://www.house.mi.gov/hfa/PDFs/FY11PrelimTuitionRate_Mem.pdf

⁸ This is according to data obtained by the College Board and the National Center for Education Statistics, whose tuition and fee calculations vary slightly from that of State of Michigan data but are standardized across states. According to these data, Michigan's tuition and fees have increased by 78 percent between 2002 and 2009.

⁹ For further discussion of financial aid programs eliminated or reduced in fiscal year 2010, please see Appendix C.

¹⁰ Jen, K.I. (2010, March). Background briefing: State financial aid programs. House Fiscal Agency.

tuition rate and eliminating aid for students seeking a bachelor's degree.

Ending these programs comes at a time when adults seeking to return to school, as well as traditional college students, need financial aid to counter rising tuition costs and falling household income. While the No Worker Left Behind program, which provides two years of tuition (up to \$5,000 per year) to adults seeking education and training in a high-demand field, exceeded expectations, there are long waiting lists and reduced state and federal support for the program. Adults needing remediation prior to attending an occupational training program, community college or four-year school are also impacted as state and federal funding for adult education programs dropped from \$96 million in 2001 to just \$37 million in 2010.

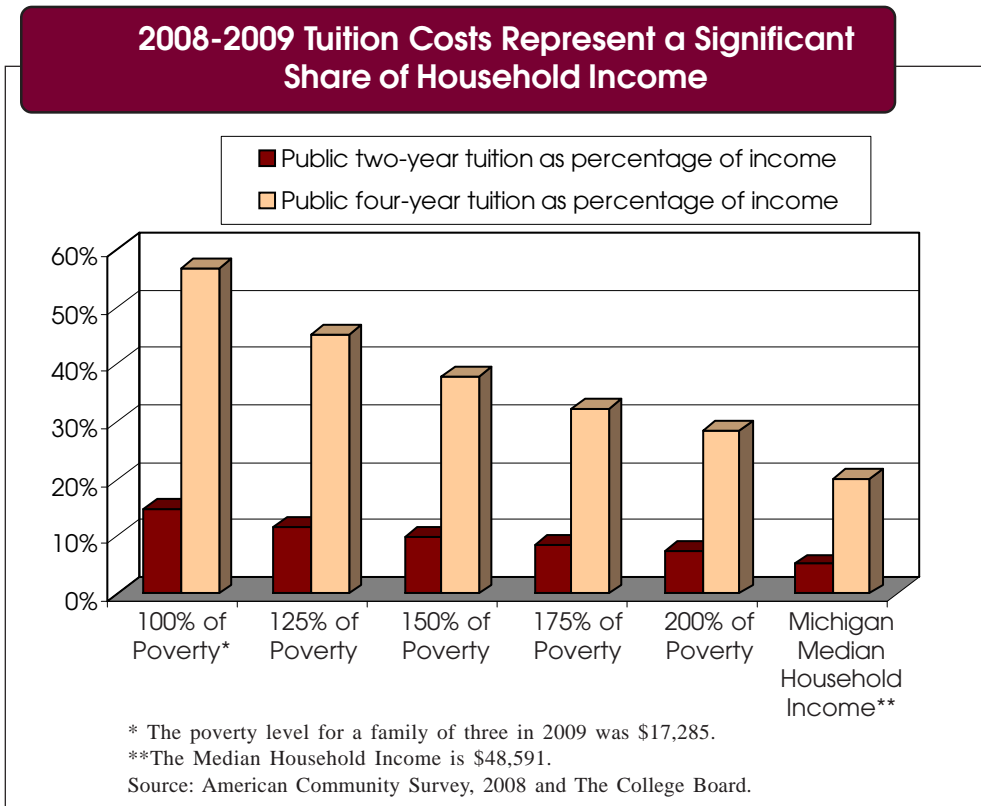
The situation is even worse for households at the poverty level. In-district community college tuition and fees for the 2008-2009 academic year represented 13 percent of their income. Average in-state tuition and fees for the same academic year at a four-year public college or university represented just over half of a household income at the poverty level. This is up from the 2001-2002 academic year when community college tuition consumed 12 percent of household income for a household at the poverty line and 35 percent of income at a public, in-state four year college or university.¹¹

Despite increases in tuition and reductions in state-based financial aid, enrollment at two- and four-year institutions is growing. Between fiscal years 2002 and 2009, enrollment at Michigan's community colleges

The Affordability of a College Education

As state support for higher education and financial aid declines, causing tuition to rise, it is more difficult for families to send children to college and for adults to return to school.

With increased tuition costs and reduced assistance from the state, tuition and fees are consuming an increasing share of a family's household income, which, when adjusted for inflation, has been on the decline. Michigan's median household income in 2008 was \$48,591. Based on that, tuition and fees at a public-four year university represented 20 percent of household income, up from only 10 percent of median household income in 2001. Two-year in-district community college tuition represented 5 percent of median household income, not a significant change from 2001.



increased by nearly 9 percent and in-state enrollment at public four-year colleges and universities increased almost 4 percent. This does not mean that funding cuts have not

¹¹ Tuition and fees also do not account for other expenses such as textbooks, room & board or transportation costs. According to the College Board, the average cost of books and supplies for the 2009-10 school year was approximately \$974 for both two-year and four-year students.

impacted students. What it does mean is that more students now have to finance their education through student loans.

According to data from the Institute for College Access and Success, students at four-year, degree-granting institutions are graduating with significantly more debt. On average, Michigan students in the graduating class of 2008 graduated with approximately \$22,000 in student loans, up from just over \$15,000 for the graduating class of 2001. This is the 12th highest debt load in the country.¹² Other troubling findings for Michigan graduates of four-year public colleges and universities include:

- Fifty-seven percent of graduates in 2008 completed school with student loan debt.
- Half of all first time, full-time freshmen received student loans in the 2007-2008 school year.
- Freshmen in the 2007-2008 school year borrowed nearly 90 percent more in loans than freshmen who borrowed in the 2000-2001 school year, with the average loan jumping from just over \$3,000 to just under \$6,000.

The story is just as distressing for students at two-year degree granting institutions:

- The number of full-time, first-time enrolling freshmen who took out student loans increased just over 450 percent between the 2000-2001 and the 2007-2008 academic years.
- The average amount these students took out in loans increased 30 percent between the 2000-2001 and 2007-2008 school years to just over \$3,000.

In addition to more students graduating with larger student loan balances, a program for Michigan students that made repayment affordable recently ended. On June 30, 2010 the Michigan Higher Education Student Loan Authority ended four of its interest rate subsidy programs.¹³ These programs allowed borrowers who paid a set number of payments on time to either have the interest rate on their loans drop to zero or be reduced over the repayment of the loan.

Moving Forward

Michigan needs a mix of solutions that includes revenue increases that would fund financial aid programs and help make college affordable again. On a school by school basis, some Michigan colleges and universities have implemented tuition guarantee policies that are usually cast aside as state aid declines. Michigan also promotes its prepaid, tax-deductible Michigan Education Trust program, which allows the pre-purchase of undergraduate tuition, at today's tuition rate, at any of Michigan's public colleges or universities.¹⁴

In addition to these policies and programs that attempt to help keep tuition costs low, there are several other changes, along with revenue increases, that can be made. Some of these changes were included in Lieutenant Governor's Commission on Higher Education and Economic Growth report, also known as the Cherry Commission report, named after Lt. Gov. John Cherry.

The Cherry Commission brought together a bipartisan group of state government officials, college and university presidents, lawmakers, and representatives from business, labor and recent college graduates. The Commission issued its report in 2004 with 19 recommendations regarding ways Michigan can strengthen its commitment to economic growth and education.¹⁵

Many of these recommendations have been implemented, such as establishing more rigorous standards for high school graduates to help prepare them for college and the establishment of new standardized tests for high school students. However, recommendations such as expanding dual enrollment opportunities for high school students and improving the transfer credit process have yet to be realized.

Allowing more high school students to take college level courses for college credit, while still in high school, will allow students to earn college credits at the current tuition rate, before an increase the following year. Streamlining the transfer credit process, particularly the

¹² Out of 48 states for which data are available.

¹³ Programs ended are: Prompt Pay Savings, Michigan Students First, Michigan Engineering Incentive, and Michigan Advantage Consolidation programs.

¹⁴ For more information, please see the Michigan Education Trust web site: www.michigan.gov/setwithmet..

¹⁵ For a complete discussion of these recommendations and to view the Commission's final report, please go to: www.cherrycommission.org

ability to transfer credits from two-year institutions to four-year institutions, will save students the cost of having to take the same course multiple times if it credits fail to transfer.

Conclusion

Education is the only way to prepare the state's future workforce for jobs in a knowledge-based economy. Increasingly, postsecondary education is seen as critical to attracting employers. Further, postsecondary education is now the ticket to jobs that pay family-sustaining wages.

Yet, despite the need to ensure that Michigan has a workforce that will make the state competitive, and provide good-paying jobs for the state's workers and their

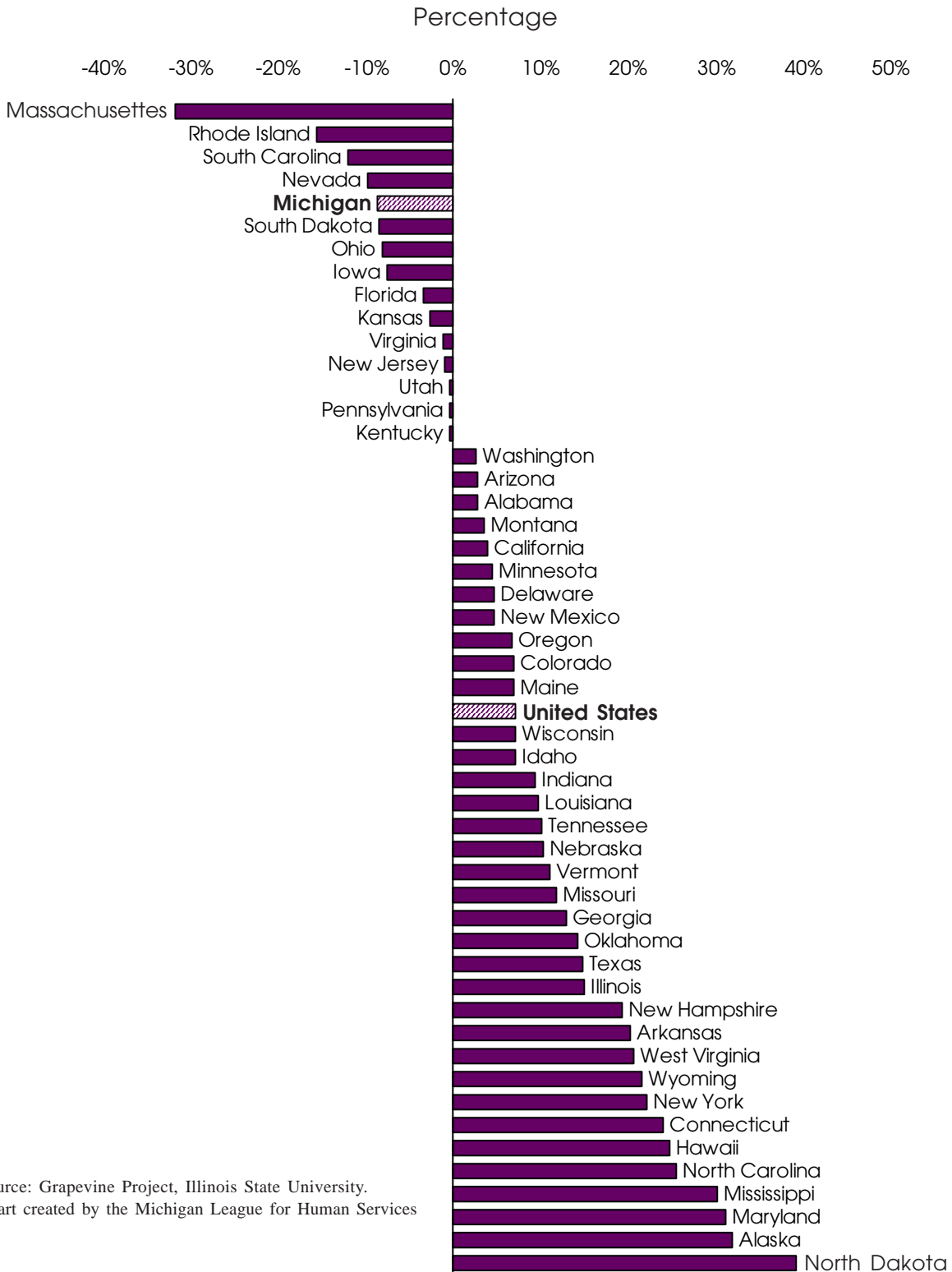
families, a decade of state budget deficits has resulted in cuts in education funding at all levels. Sadly, Michigan's cuts to higher education are among the highest in the nation.

The tuition increases that occurred as a result of funding cuts, coupled with reductions in financial aid, have placed postsecondary education out of reach for many young adults, as well as unemployed and low-income workers, and has saddled others with insurmountable debt.

Michigan is unlikely to see this trend reverse unless or until the state's revenue picture begins to improve. Michigan can't wait. Young adults, displaced workers and adults with low skills and educational levels can't wait. State policymakers must take steps now to ensure that the revenues exist to invest in Michigan's future.

Appendix A

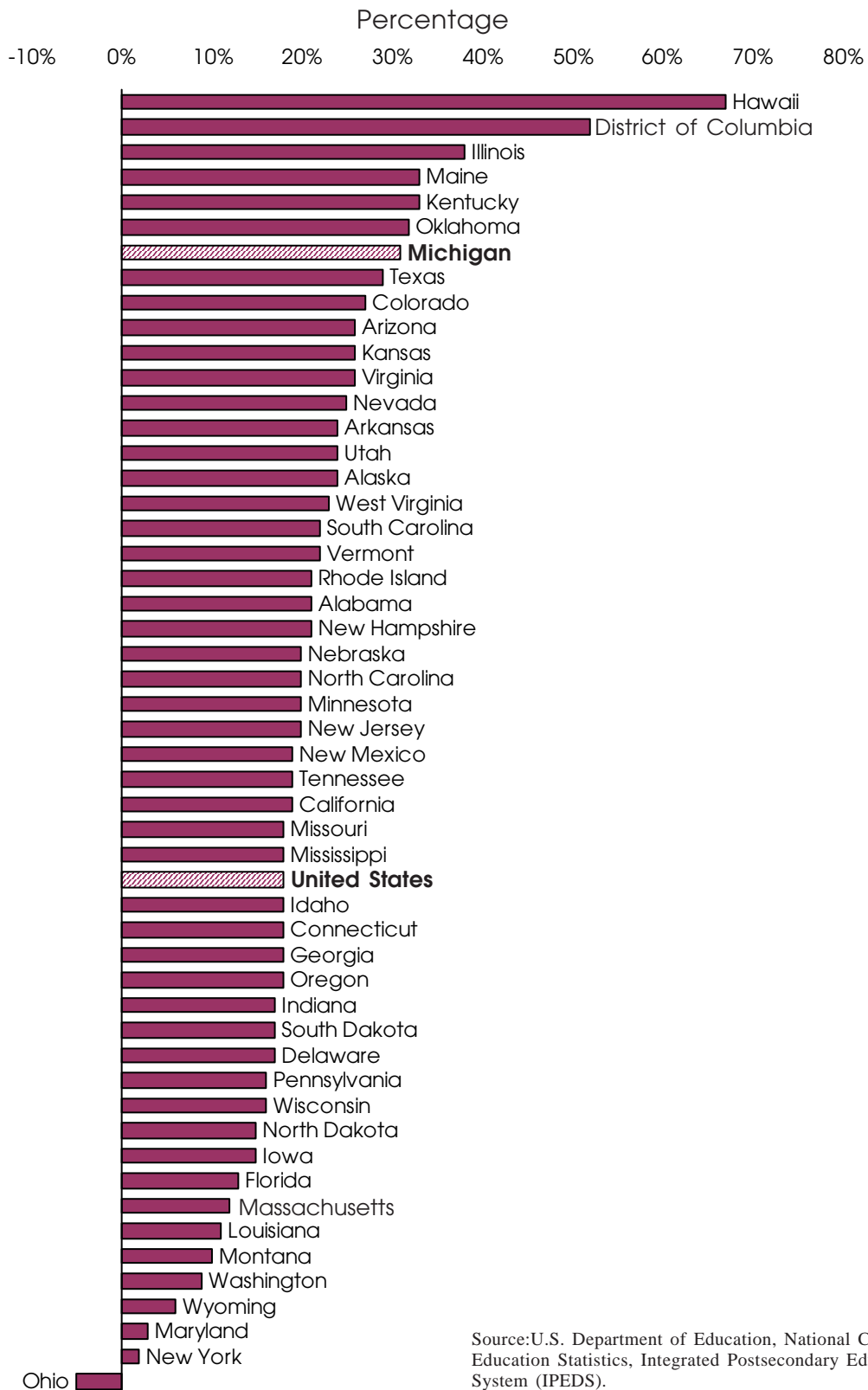
Michigan's Drop in Higher Education Funding From Fiscal Year 2006 to 2010 is One of the Nations's Highest



Source: Grapevine Project, Illinois State University.
 Chart created by the Michigan League for Human Services

Appendix B

Michigan's Four-Year Tuition Increases Rank 7th in the Nation Between the 2005-2006 and 2008-2009 Academic Years



Source: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS).

Chart created by the Michigan League for Human Services

Appendix C:

State Based Financial Aid Programs Eliminated or Reduced in Fiscal Year 2010¹

Financial Aid Programs Eliminated in Fiscal Year 2010

- **Michigan Promise Scholarship:** This merit-based program which started in 2006 replaced the Michigan Merit Award Program starting with the 2007 graduating class. To be eligible, students would have had to have taken the Michigan Merit Exam and enroll at an approved postsecondary institution within two years of high school graduation, complete postsecondary education within four years of first enrollment and maintain a cumulative GPA of at least 2.5. The maximum total amount awarded was \$4,000. The Executive Budget recommended this program be funded at \$140 million in fiscal year 2010. 69,963 students were recipients of this scholarship in fiscal year 2009.
- **Michigan Work-Study Program:** The work study program began in 1986 and was a need-based financial aid program that allowed on or off campus employment opportunities for students, with the jobs paying at least the current federal minimum wage. Program eligibility was limited to ten semesters. In fiscal year 2009, this program was funded at \$7.3 million. 5,449 undergraduates were recipients of this program in fiscal year 2009.
- **Nursing Scholarship Program:** This scholarship started in 2002 and was awarded to students enrolled in programs leading to a Licensed Practical Nurse (LPN) certification, a Bachelor of Science in Nursing (BSN), or Master of Science in Nursing (MSN). In exchange, the student would agree to become licensed in and practice nursing in Michigan within one year of program completion. Full-time students were eligible for \$4,000 per academic year, three-quarter time students for \$3,000 per academic year, and half-time students \$2,000 per academic year. In fiscal year 2009, this program was funded at \$4.25 million. \$1,546 received this scholarship in fiscal year 2009.

- **Part-Time Independent Student Program (also known as the Adult Part-Time Grant):** This need-based program began in 1986 and was for adult undergraduate students who had not graduated from high school within the last two years. Students were eligible for \$600 per academic year for not more than two 12 month periods. This program was funded at \$2.7 million in fiscal year 2009. 5,868 students received this grant in fiscal year 2009.
- **Michigan Education Opportunity Grants:** This need-based program also began in 1986 and was available to students who demonstrated financial need and would be enrolled at least part-time at a public postsecondary institution. Students were eligible for up to \$1,000 per academic year. This program was funded at \$2.1 million in fiscal year 2009 and 4,435 students were recipients.

Financial Aid Programs Drastically Reduced in Fiscal Year 2010

- **State Competitive Scholarships:** This program started in 1964 and requires that students demonstrate both merit and financial need. Students must have received a qualifying score on the ACT exam to demonstrate merit. In fiscal year 2010, the maximum award granted to students attending public institutions was decreased from \$1,300 to \$510 and overall funding for the program was cut by half to \$17.6 million.
- **Tuition Grant Program:** This need-based program began in 1966 and provides financial assistance to students attending a private, in-state degree granting institutions. Until fiscal year 2010, students were eligible for \$2,100 per academic year. In 2010, this amount was decreased to \$1,610 per academic year. Funding for the program was also reduced by 44 percent to \$31.7 million.

¹ Sources: Student Financial Services Bureau, Annual Report-2009. Michigan Department of Treasury (2008), *Paying for college: Student financial aid*. Jen, K.I. (2010). *Background briefing: Higher Education*. House Fiscal Agency.