

Michigan Public Higher Education: Recent Trends  
and Policy Considerations for the Coming Decade

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## Introduction

Michigan's postsecondary education system has evolved into a "comprehensive, high-quality, and quite autonomous system...whose diversity of institutions, enrollment, and breadth of programs rivals that of most other large states" (Peterson and McLendon, 1998, p.148-149). The last thirty years have been a particularly interesting and exciting time for public higher education in Michigan with the growth and refocusing of existing universities, legal cases that have significantly affected institutions of postsecondary education, and considerable challenges in financing public higher education. Looking forward there is considerable work to be done if Michigan hopes to continue to provide high quality higher education. The purpose of this chapter is to examine some of the more important events that shaped public higher education in Michigan over the past 25 to 30 years, and to look forward to where the state may be headed in the next decade.

## Facts About the State of Michigan

Michigan is a state of nearly ten million people, the eighth most populace state in the nation. Its largest cities are Detroit (951,270), Grand Rapids (197,800), Warren (138,247), Flint (124,943), Sterling Heights (124,471), Lansing (119,128), Ann Arbor (114,024), and Livonia (100,545). Three counties— Wayne, Oakland and Macomb— all of which are located in the southeastern part of the Lower Peninsula account for over 40 percent of the state's population. The racial mix of the state is 78 percent White, 14 percent African American, 2 percent Asian American, 1 percent American Indian, and 4 percent Latino/a (of any race; U.S. Census, 2000).

The state's population is projected to grow by only 3 percent from 2000 to 2015, well below the national rate of 13 percent. During the same period the number of high school graduates is projected to decline by 1 percent (Measuring Up, 2004). U.S. Census projections estimate that by 2015 Michigan will have a college age population (18-24 years) of 936,107 individuals, only 0.4 percent higher than the 2000 college age population of 932,137. The college age population is expected to decline between 2015 and 2025, and by 2025 the number of individuals in this age group will have declined by nearly 8 percent compared to 2000 (U.S. Census Bureau, 2002). The only age group projected to grow over this time period is those over 65.

Per capita income in Michigan is 20<sup>th</sup> (in 2001) at about \$29,500, but more disconcerting is that the income change relative to the average in the U.S. is negative (nearly 12 percent) and 47<sup>th</sup> among the states (Cherry Commission, 2004). In 1999, about 14 percent of households had incomes lower than the official poverty threshold of \$15,000 and individuals living in poverty comprised nearly 11 percent of the state's population and slightly more than 13 percent of Michigan's children (those under 18 years of age).

In 2000, approximately 28 percent of Michigan's population were enrolled in some type of educational institution. Children attending nursery, pre-school or kindergarten comprised nearly 12 percent of the state's population; children attending elementary and middle school made-up 44 percent of the population while teenagers attending high school were nearly 22 percent of the state's residents (U.S. Census Bureau, 2004).

Michigan's high school graduation rates are slightly higher than the 70 percent national average, but well below the best states that graduate nearly 90 percent of their

students. However, of the students who do graduate from high school, only about 30 percent are considered “college ready,” compared to over 50 percent in other states (Cherry Commission, 2004).

Currently, Michigan ranks 34th nationally in educational attainment in the United States (Cherry Commission, 2004). Among the population aged 25 to 34 years of age about 26 percent of Michigan residents hold a bachelor’s degree or higher, compared to about 27.5 percent in the United States as a whole (Cherry Commission, 2004). This should not be surprising since in the past Michigan residents could move from high school to the manufacturing industry into jobs that provided a standard of living well above the average of the typical high school graduate in other states. The days of this being a viable option are virtually gone as the auto industry continues to lose market share to foreign competition and with it the jobs that provided an avenue to the middle class for a generation (or more) of Michigan’s citizens. Given this change in the labor market options of individuals, and the increase in service sector jobs, many of which require a college education, participation in postsecondary education will become even more important for Michigan’s citizens in the coming years.

Regarding postsecondary education participation, Michigan ranks moderately well compared to other states. The state has about 650,000 (headcount) students enrolled in postsecondary education (i.e., public/private/2-year/4-year; Cherry Commission, 2004). About 39 percent of the state population between 18 and 24 years attends a postsecondary institution compared to nearly one-half in leading states (Measuring Up, 2002). However, there are significant gaps in postsecondary education participation among socioeconomic and racial groups, with low income and minorities attending and completing at much lower rates than their white and more affluent counterparts (Cherry Commission, 2004).

Michigan also lags behind the nation in the number of people holding college degrees. Nationally, about one-quarter of the population holds a four-year degree compared to about 23 percent in Michigan. About 45 percent of students entering Michigan’s colleges and universities do not complete a bachelor’s degree, and low-income and minority students do even less well on this measure. A recent report by Wayne State’s Center for Urban Studies (Metzger, 2005) found that Michigan’s college graduation rate ranks 35<sup>th</sup> in the nation, down 2 notches from its 2000 ranking. Michigan’s public NCAA Division I schools have six-year graduation rates as high as 84 percent at the University of Michigan-Ann Arbor, and as low as 38 percent at Eastern Michigan University (Chronicle of Higher Education, 2004).

One of the long-term impacts of gaps in educational participation and completion is that Michigan will be a less attractive place for businesses to locate, especially the so-called “knowledge-based industries.” Policy analysts in Michigan estimate that the state needs to increase postsecondary education enrollment to about 850,000 by 2015 in order to match participation rates of leading states in order to produce the *number* of educated individuals that will be necessary to fuel the Michigan economy in the future, and to prepare its citizens for the *types* of work that are likely to be available in the coming years.

### Michigan's Postsecondary Education System

Michigan has 109 institutions of higher education: fifteen public four-year institutions, thirty public two-year institutions (including one tribal community college), 56 private four-year institutions, and eight private two-year institutions. In this chapter we will provide a detailed examination of the fifteen public four-year universities (see Figure 1 for a geographical orientation) that include the three large research institutions: the University of Michigan at Ann Arbor; Michigan State University (MSU) located in Lansing, the state capitol; and Wayne State University (WSU). The University of Michigan at Ann Arbor is the state's flagship institution. The University of Michigan also has two branch campuses located in Dearborn and Flint, but these institutions have missions and profiles that more closely resemble the state comprehensive universities. Michigan State University, which was initially chartered as a land-grant institution, has evolved into a very large research-oriented university. Located in metropolitan Detroit, Wayne State University has a different profile than the typical research institution as it has traditionally served a large number of students from low-income and minority backgrounds, and in order to do so its tuition has often been set at levels to achieve this goal.

**Figure 1: Geographical Distribution of Michigan's Public Universities**



Source: Presidents Council, State Universities of Michigan

The state comprehensive universities include Ferris State University (FSU), Grand Valley State University (GVSU), Lake Superior State University (LSSU), Oakland University (OU), and Saginaw Valley State University (SVSU). These institutions have

varied missions but historically have focused on undergraduate education, although as we will demonstrate later in the chapter, some of these institutions are now more fully engaged in graduate education.

There is a group of institutions that began as “normal” schools or teaching colleges and are known by some as “Directional” institutions because of the geographic reference in their name (Ogren, 2005, p.2). These institutions include Central, Eastern, Northern, and Western Michigan Universities and although their focus remains teacher education, their missions are now more comprehensive than in the past.

Michigan is also home to one specialized institution of higher education, Michigan Technological University (MTU). True to its geographic location in the “Copper Country” of Michigan’s Upper Peninsula, MTU specializes in engineering and technology and is especially well-known for its programs in geological and mining engineering. With the exception of MTU located in Houghton, and its higher education neighbors Northern Michigan University 100 miles to the east, and Lake Superior State University (LSSU, a former branch of MTU) located on the eastern end of Lake Superior in Sault Ste. Marie, all of Michigan’s public universities are located in the Lower Peninsula.<sup>1</sup> Community Colleges

Although they are not the focus of this chapter, Michigan has a system of local community colleges and private colleges and universities. The community college system has 28 institutions that in 2000-01 enrolled over 400,000 citizens either full- or part-time. However, in FYE terms this equates to about 110,000, whereas in 1992-93 FYE enrollments peaked at about 130,000, and in the last few years FYE enrollments have remained relatively stable (Public Sector Consultants, 2003). Community colleges have three major funding sources: property taxes (36 percent), state aid (33 percent), and tuition and fees (27 percent) and these institutions spend about 46 percent of their budgets on instruction (MCCA, 2002). Similar to the public four-year universities, community colleges are negatively affected in times of state fiscal constraint, and they have also turned to raising tuition to generate additional revenues. From 1990–91 to 2000–01, the in-district community college tuition rose an average of 4.1 percent a year (Public Sector Consultants, 2003). Currently (in 2005), in-district students attending Michigan community colleges are paying an average tuition of about \$60 per contact hour, while out-of-district students are paying an average tuition of about \$100, and out-of-state students are paying almost \$122.

Community colleges have a potential source of increased revenue that their public and private four-year counterparts do not have: they can go to the voters to ask for an increase in local property taxes to support them. In fact, community college advocates have attempted to redraw some of Michigan’s tax districts in order to increase the potential for revenue from property taxes (Public Sector Consultants, 2003). However,

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<sup>1</sup> A great deal of additional information about these fifteen institutions can be found at <http://www.pcsun.org/universities.html>. For more information about community colleges visit the Michigan Community College Association website at <http://www.mcca.org/>. The private colleges do not have a website, but information about them can be obtained from Mr. Edward O. Blews, Jr. at [blewse@aol.com](mailto:blewse@aol.com).

this idea has gained little momentum given negative reactions from voters and some legal restrictions regarding the creation of new taxes.

Michigan is also home to over 30 private colleges and universities (this figure does not include religious seminaries). Private colleges and universities in Michigan enroll about 15 percent of the full-time-equivalent (FTE) enrollments in the state, and they pride themselves in the fact that they enroll about 19 percent of their students from underrepresented ethnic groups (Bracco, 1997). The majority of Michigan's private institutions have religious affiliations and there are no private universities or colleges with a national reputation similar to those of the University of Michigan and Michigan State University. Without considering the discounts often offered by these institutions, tuition varies sharply among private colleges and universities, ranging from a low of about \$11,000 to a high of over \$23,000.

## **Governance Issues**

### ***State Educational Governance***

Michigan is one of only two states (the other being Delaware) that is not governed by a "buffering" agency such as a coordinating or governing board (McGuinness, Jr., 1997). The decentralized system of institutional governance is often called a "Planning Agency" model (McGuinness, Jr., 1997) in that each of Michigan's public institutions has its own governing board and is responsible for negotiating appropriations with the legislature and the planning and management of the institution. (However, a single Board of Regents oversees all three of the University of Michigan campuses). All of the governing boards have nine members, which includes eight elected trustees and the institution's president who serves as an ex-officio member. The boards of the "Big Three" institutions (University of Michigan, Michigan State University and Wayne State University) are elected by the public in statewide partisan elections and serve eight-year terms. The Governor appoints the board members governing the rest of the public four-year institutions and each of Michigan's public two-year community colleges has a regionally elected governing board.

All of Michigan's four-year institutions have constitutional autonomy. Constitutional autonomy allows institutional governing board's total control of management and planning, free from state government impositions. Among the most important rights derived from their constitutional autonomy is the freedom to set tuition and the right to decide how their state appropriations will be spent. The University of Michigan was granted constitutional autonomy in 1850, making it the first institution in the country to be accorded such status. Delegates to the 1850 constitutional convention argued that the University had experienced poor enrollment and growth since its creation in 1817 because of continual political intervention (Peterson and McLendon, 1998). As other public universities were created and subsequent state constitutions adopted, constitutional autonomy was retained for public institutions because it was perceived as the most effective method of governance to protect against such political interference (Ferris State University, 2003).

Although each institution has its own governing board, they often interact with the State Board of Education. This Board also includes eight elected members who are chosen in statewide elections and like the public governing boards members serve for eight-year terms. The Governor also serves as the ninth member in an ex-officio, non-voting capacity. Depending on the make-up of the Board and the political realities of the

times, the Governor may have considerable control over the activities of the Board. For instance, in 2004 Governor Granholm was successful in having the Superintendent of the Board removed because of policy differences.

The Michigan Constitution of 1963 charters the State Board of Education to serve as the general planning and coordinating body for all public education, including higher education, and to advise the legislature regarding institutions' financial requirements. However, the scope of the power of the Board and the legislature has, at times, been unclear. The state Supreme Court has ruled on several occasions against the Board of Education's actions that conflict with the institutional autonomy of universities (see Peterson and McLendon, 1998, for details). Ironically, the State Board of Education has more authority over private postsecondary institutions than public institutions because the former operate under charters granted by the state. This legal arrangement has implications for planning and management of private institutions. For example, private institutions are required to present a petition to change their charter each time they want to add a degree program (Bracco, 1997).

In addition to the legal governance arrangements discussed above, the fifteen public four-year universities in Michigan have established a voluntary organization known as the Presidents Council. The Presidents Council began informally in the late 1940's when the presidents of Michigan's public colleges and universities began meeting to "discuss the challenges of a rapidly growing public higher education system" (Presidents Council, 2005). The Presidents Council was formally established in 1952 and today it is comprised of the presidents or chancellors of the fifteen public institutions. The Council's activities include taking positions on the state budget for higher education; monitoring legislation affecting higher education; collecting and disseminating cross-institutional data and reviewing academic programs; and lobbying before state agencies and the legislature on their members' behalf. The Council is managed by an executive officer, but the overall direction is provided by the chief executive officers of the state's public universities. An extensive committee structure of representatives from each campus provides attention to a variety of academic and policy issues and provides recommendations for consideration by the presidents and chancellors of the member institutions (Presidents Council, 2005). As evidence of its utility in providing comparative institutional data, some of the data and information provided below is a product of research done by the Presidents Council.

### **The Political Context**

Economic problems in the early 1980's led the new Governor James Blanchard (D) to embark "on a bold program of economic development. The governor and state legislature began to look increasingly to the state's research universities as an engine of economic growth and development and initiated a program of research grants intended to stimulate economic growth through university-based research and development initiatives" (Peterson and McLendon, 1998, p.161). From the start of his governorship in 1983 until about 1987 Blanchard increased state appropriations to higher education institutions. In fact, as the reader will see below, 1987 was the peak year for appropriations to public universities (in real dollars), but this funding source for institutions has either been flat or more recently on a downward trend.

In 1991 John Engler (R) was elected governor on an agenda of cutting taxes, downsizing government, creating jobs, and improving the quality of the public schools. A

recession early in his first term caused problems in trying to implement some of his agenda and posed funding problems for many of Michigan's public universities. For instance, in 1991 financial problems at Central Michigan University led to a freeze of clerical workers and faculty wages. As a result of the financial problems CMU employees went on strike and the faculty voted no confidence in President Edward Jakubauskas, resulting in his resignation a short time later. At Ferris State University, President Helen Popovich also received a no confidence vote because of financial problems within the school, but she managed to remain in office until 1994.

Even though appropriations for higher education were slightly lower during the first years of Engler's administration, he was able to increase student financial aid in his first budget. This reflected his free market philosophy of making financial aid portable by putting dollars in the hands of students and allowing them to choose an institution. It should be noted that in his first term Engler also increased state support to the growing community college sector in an effort to promote training for the labor market.

In 1994 Engler won a second term and he was bolstered by new majorities in both the Senate and House of Representatives, the first time the Republicans controlled both houses and the governorship for many years. At the same time citizens voted in a new Board of Regents for the University of Michigan, comprised of four Republicans and four Democrats. Given the split based on political affiliation, the Board was unable to reach an agreement to elect a new chair (Bracco, 1997). In October of 1995 Michigan's President James Duderstadt announced his resignation and Governor Engler took the opportunity to confront higher education's institutional autonomy by publicly accusing the University of Michigan's Board of Regents of having provoked Duderstadt's resignation. Others attributed the President's resignation to the internal strife on the Board and the subsequent inability of the Board to move on important issues. Regardless of the reasons for Duderstadt's resignation, Governor Engler took his exit and the internal strife on Michigan's Board as evidence of problems with elected boards of governors. As a result, Engler threatened to end the direct election of trustees to the Big Three (Michigan, Michigan State, and Wayne State) and to replace this system with one in which trustees were appointed by the Governor. Engler failed, however, to garner enough support for this proposal in the legislature and it is questionable whether he would have prevailed in the courts even if he was successful because of the constitutional autonomy granted to institutions.

In another clash between Engler and the higher education sector, the Governor vetoed state appropriations for Highland Park Community College, which forced the closing of this Detroit-based institution that had traditionally served a predominantly African American student body. Engler also engaged public universities on issues such as institutional affirmative action policies, same-sex domestic partnerships benefits, and insurance coverage for abortion procedures at university clinics and hospitals. On grounds of institutional autonomy granted by Michigan's constitution, the state Attorney General Frank Kelley (D) ruled unconstitutional a law cutting funds for public universities that extend benefits to domestic partners or provided insurance coverage for abortion procedures. However, a similar law that applied to community colleges was upheld because these institutions lack the constitutional status of their university counterparts.



The turn of the century brought a new governor to Michigan. Jennifer Granholm (D), who had been state attorney general under Engler. She took office in the midst of a downturn in the economy after the burst of the dot com bubble and the shock to the economy (and country) by the terrorist attacks of 9/11. Granholm's agenda was to diversify Michigan's economy by attracting knowledge-based industries, but she seems to realize that to do so Michigan must possess a workforce capable of staffing such industries. In 2004 she commissioned a group of academic, business, and labor leaders to consider what it will take to move Michigan toward a more diversified, knowledge-driven economy, and the role that postsecondary education will play in this process. The Lt. Governor's Commission on Labor and Economic Growth, also known as the "Cherry Commission," so named for her Lt. Governor who chaired the commission, recently finished their work and has made a number of recommendations that will promote the governor's agenda. As you will see later in the chapter, this report has important implications for postsecondary education in the state.

Regarding the governor's interaction with institutions of higher education, her first term has been a difficult one as large state budget deficits have been the norm. In order to balance the state budget, a legal requirement, Granholm has had to cut spending dramatically, and higher education has taken a particularly big hit. In order to gauge the public's sentiment about where to cut government spending Granholm held a series of town hall meetings around the state and she found little support for higher education. Citizens were more concerned with other budget items (K-12 education, Medicaid, and locking up criminals) so the governor took this as a sign of weak public support for higher education and acted accordingly. Not only have there been cuts during the typical budget cycle, institutions have also suffered mid-fiscal year rescissions. Recently the new governor played "Let's Make a Deal" with universities in which she promised to return mid-year rescissions (or a portion of them in some cases) if institutions would hold tuition increases to the rate of inflation. All of the public universities took the deal, thinking (or maybe hoping) there would be new funds available in the next budget cycle. Well the next budget cycle has arrived, and the state again has a large budget deficit. It is common knowledge that some institutions feel betrayed by the potential for more cuts and will no longer hold the line on tuition increases.

Notwithstanding the recent state budget problems and the subsequent cuts in state appropriations to postsecondary institutions, Governor Granholm has called on these institutions to play a more central role in preparing the state to compete in the coming decades. In her most recent State of the State message she said,

"Today, all children in Michigan—not many, not most—but all must grow up knowing that their education will not end in high school. Whether it is a four-year college degree, or a two-year associate degree, or other forms of technical training after high school, continued learning will be a requirement for all who seek a good-paying job in this new century."

## **Recent Issues Affecting Michigan Higher Education**

### ***Economics***

Typical of many Midwestern states, Michigan's tax base has been dependent on manufacturing. However, historically Michigan's tax revenue has been highly dependent

on one industry—automotive manufacturing. This was a real benefit to the state when the “Big Three” automakers (General Motors, Ford, and Chrysler) provided most of the cars for the world market (about 80 percent in 1950). But their share of the world automobile market has fallen to below 25 percent and their domestic market share has also dropped from about 90 percent in 1970 to less than 50 percent of the new car market today. The decline in the automotive sector has had a significant negative impact on Michigan’s economy and thus the tax revenue generation capacity of the state. Even though the service industry is now a large fraction of the state domestic product, the weakness in manufacturing produces weak revenue generation that transfers through to the higher education sector in the form of lower state appropriations (discussed in more detail later in the chapter).

Even though there appears to be a structural change taking place in Michigan’s economy, economic activity is also cyclic and the normal fluctuations in the business cycle have affected state funding for higher education over the last thirty years. For instance, during the severe recession of the late 1970’s and early 1980’s, the unemployment rate reached 15.6 percent (in 1982), its highest point in the modern era (see Figure 2). Since then Michigan has attempted to rely less on the manufacturing sector and is trying to make the switch to a more diversified economy.

**Figure 2: Trends in Michigan’s Unemployment Rate**



Source: Bureau of Labor Statistics

Notwithstanding attempts to diversify the State’s economy, some analysts believe Michigan is still too reliant on manufacturing, and in particular on the automotive industry, and there appears to be some consensus that there is a structural problem that has and will continue to produce insufficient revenues to finance state obligations. That

the problem is more than cyclic may be evident by the states most recent unemployment rate (February 2005) of 7.5 percent, the highest rate in the United States and over two points higher than the national average of 5.4 percent (Bureau of Labor Statistics, 2005). While other states have emerged from the decline in economic activity associated with the most recent recession, Michigan has experienced little in the way of employment and tax revenue growth. Continuing state deficits have posed a substantial problem for state policy makers as they struggle with the requirement of a balanced state budget. In order to balance the budget lawmakers have focused on state spending reductions, and postsecondary education has been targeted for reductions in the (nominal) rate of growth of state appropriations and more recently in real cuts to the funding provided to institutions of higher education.

The availability of funds for higher education has also been constrained as a result of the school finance reform undertaken in 1994 when voters approved Proposal A. This law cut local property taxes by more than two-thirds, placed an annual cap on property (taxable) value increases, and replaced this source of local school funding by increasing the state sales tax from 4 to 6 percent. Prior to Proposal A, school funding was comprised of 63 percent local funds and 37 percent state funds; following implementation of the provisions of Proposal A, school funding is now comprised of 21 percent local funding and 79 percent state/federal funding (Weill, et al., 2003; Michigan League for Human Services, 2004).

Even though Proposal A includes no General Fund requirement, each fiscal year since Proposal A's implementation, sizeable General Fund transfers have been needed to finance the School Aid Fund. Table 1 displays the extent of these transfers from the General Fund to the School Fund during the 1995-2003 period.

**Table 1: Transfers from General Fund to School Fund 1995-2003**

<i>Fiscal Year</i>	<i>Amount Transferred (millions)</i>
1995	\$667.9
1996	\$596.4
1997	\$277.9
1998	\$376.0
1999	\$419.6
2000	\$420.1
2001	\$385.2
2002	\$198.1
2003	\$380.1

Source: Michigan League for Human Services, 2004

The increased burden of financing K-12 education has negatively affected higher education funding as lawmakers have shifted discretionary funding from postsecondary education to help fund their new obligations to the K-12 system. By 2002, K-12 funding was commanding nearly 60 percent of the state's budget, with the remaining revenues going to such items as Medicaid and public safety (especially the prison system). The higher education sector's share of the general fund is now only about 12 percent, down from 23 percent as recently as 2000. (Michigan League for Human Services, 2004).

During her campaign in 2002, Governor Jennifer Granholm (D) promised not to raise taxes and expressed support for the school funding mechanism established by Proposal A, so a big change in the state financing system does not appear to be on the horizon. Thus, in the short run cutting spending, and by extension appropriations for higher education, would appear to be the short run strategy as the governor searches for remedies to Michigan's structural deficit problem (Weill, et al., 2003).

### ***Student Financial Aid Trends and Policies***

Between 1980 and 1985, student financial aid policies became quite controversial. Federal student aid declined during the 1980's, as funding began to switch from grants to loans. In an attempt to offset some of the reductions in federal support to students, states increased financial aid by about 44 percent, and institutional sources of aid increased by 65 percent (College Board, 1988). In addition to changes in governmental support, student aid programs were increasingly under public scrutiny due to the escalating default rates in the Guaranteed Student Loan programs. Although most institutions involved in the default loan scandal were private less than four-year (especially proprietary) institutions and community colleges serving urban populations, a growing distrust in the postsecondary system was undermining public support for student federal aid in general. On the other hand, concern with declining student aid and its impact on college access, especially for low income and minority students, was growing. Despite rising costs to students and reduced federal support, in the late 1980's Michigan's need-based aid declined slightly and merit aid programs for students were small or did not exist. In an attempt to deal with rising tuition and declining aid availability, then Governor James J. Blanchard (D) proposed that parents be allowed to purchase certificates redeemable for four year tuition at any of the state's fifteen public universities. This proposal resulted in the creation of the Michigan Education Trust (MET) in 1987, a program designed to address middle-class parents' concern about access to postsecondary education. The first program of its kind in the country (an IRS Section 529 pre-paid tuition program), the MET allows individuals to purchase contracts that guarantee a semester, year, or multiple years of tuition at Michigan public institutions. In the first year of its existence over 40,000 people signed up for the plan, and since then about 35,000 more have enrolled. For a variety of reasons, mostly related to rapid increases in tuition, a number of these pre-paid tuition programs have had solvency problems. Michigan's has been adjusted from time-to-time by changing contract criteria and tweaking the pricing to make sure it is actuarially sound. The assets currently invested in these contracts total about one billion dollars.

Michigan residents also have a Section 529 college savings plan available to them. The Michigan Education Savings Program (MESP), which began in 2000, offers tax free growth and these investments are tax deductible up to a \$10,000 limit for joint

filers and \$5,000 for those filing single. Those with family incomes below \$80,000 and who meet certain other criteria are eligible for a \$1 to \$3 matching grant. These investments are managed by TIAA-CREF and there are multiple investment options (with different degrees of risk) available. Morningstar investment group rates the program as one of the best in the country because of its diversification options, many age-based options, and low management costs.

In fiscal year 2000, Michigan's budget for student financial aid went up dramatically. The Michigan legislature—controlled by Republicans—approved a merit based scholarship program initially proposed by Governor Engler. Funds for the Michigan Merit Award Scholarship Program came from the tobacco lawsuit settlement. The lawsuit settlement payments funding the merit program amounted to more than \$1.1 billion during the 1998-2001 payment years. The merit program was fully operative in 2000 and in FY 2003 its budget allocation was about \$64 million (more on this below). However, if the program remains as is, the budget allocation could grow as more students become eligible.

The program awards \$2,500 to students attending in-state public institutions, and \$1,000 to those attending private in-state or any out-of-state institution. Scholarships are awarded to students who score at Level 1 (exceeds Michigan standards) or Level 2 (meets Michigan standards) on all four portions of a state-designed high school test (known as the MEAP). The MEAP tests are criterion-referenced and designed to measure knowledge of the state's curricular frameworks in four subject areas: mathematics, reading, science, and writing (Heller & Rasmussen, 2001). Over 195,000 students have qualified for a Michigan Merit Award scholarship since the program began in 2000.

In 2000 a coalition of groups headed by the American Civil Liberties Union of Michigan filed suit (*White et al. vs. Engler et al.*), alleging that the MEAP program violates Title VI of the Civil Rights Act of 1964, and the 14th Amendment to the U.S. Constitution because of the apparent racial disparities in the distribution of MEAP scholarships (Heller & Rasmussen, 2001).

Early in her first term Governor Granholm appeared to be committed to keeping the merit scholarship program. However, during recent state budget negotiations she has tried to change the program in order to help balance the state budget. Among proposed changes she offered for discussion with the Michigan legislature were adding 40 hours of community service to the academic eligibility criteria, reducing the award level by \$500, limiting awards to students attending in-state institutions, eliminating the \$500 supplement for students who exceed Michigan standards on the middle school MEAP tests, withholding the distribution of the award until after students finish two years of post-secondary education, and reducing the amount of Pell grants received from the \$2,500 award. The last two proposals were very controversial, since they would exclude most low income students from taking advantage of the merit award because they are likely to receive Pell awards that are larger than the MEAP maximum. At the time of the writing of this chapter none of the other proposals appeared to have traction with Republican legislators, who see the popular merit program as "theirs".

In January 2005, Governor Granholm approved legislation that will eventually replace the existing high school MEAP tests with a new test called the Michigan Merit Examination (MME), which will be ready for use in Spring 2007. Also, starting in academic year 2006, students will also need to do 40 hours of community service in order

to be eligible for the Michigan Merit Award. In addition to the monies allocated to fund the 2006 Michigan Merit Award, an additional \$2.6 million has been earmarked to support the transition from the MEAP to the new Michigan Merit Examination.

### ***Racial Conflicts and Affirmative Action***

During the late 1980's and early 1990's a number of issues pertaining to the racial climate at two of the Big Three campuses were evident. Racial tensions at Michigan State University and the University of Michigan increased, and some observers attributed the negative climate to affirmative action policies that were being used by these institutions. Because of the negative climate, the Board of Regents of the University of Michigan approved a new student conduct code that allowed expulsion sanctions for students who committed discriminatory acts on campus (Chronicle of Higher Education, 1988).

The University of Michigan's well publicized legal fight regarding its affirmative action policies also began in the late 1990's when two class-action lawsuits were filed against it alleging that racial preferences were given for undergraduate and law school applicants. The two cases, *Grutter v. Bollinger* involving the admissions policy of Michigan's law school, and *Gratz v. Bollinger* involving the admissions policy of the university's undergraduate College of Literature, Science, and the Arts were heard by the U.S. Supreme Court in 2003. The justices upheld the Michigan law school's admissions policies by a 5-to-4 vote, endorsing the claim that enrolling a racially and ethnically diverse student body provides educational benefits. In the *Gratz* case, the court ruled 6 to 3 against Michigan's undergraduate admissions policy because the majority of the justices ruled that the policy treated whole groups of applicants differently based solely on their race, and that the undergraduate admissions system was not tailored to achieve educational diversity. Since then Michigan, and other institutions around the country, have taken the ruling in the *Gratz* case to mean that the Supreme Court decisions allow the use of race as factor to achieve educational diversity, but the selection system must be targeted specifically toward this goal and a more holistic admissions approach is required. Changing to a more holistic approach in admissions has been very costly for the University of Michigan. They now require an essay as well as the traditional admissions criteria from the more than 20,000 undergraduate applications received during each admissions cycle, at the cost of an additional \$2 million to the University.

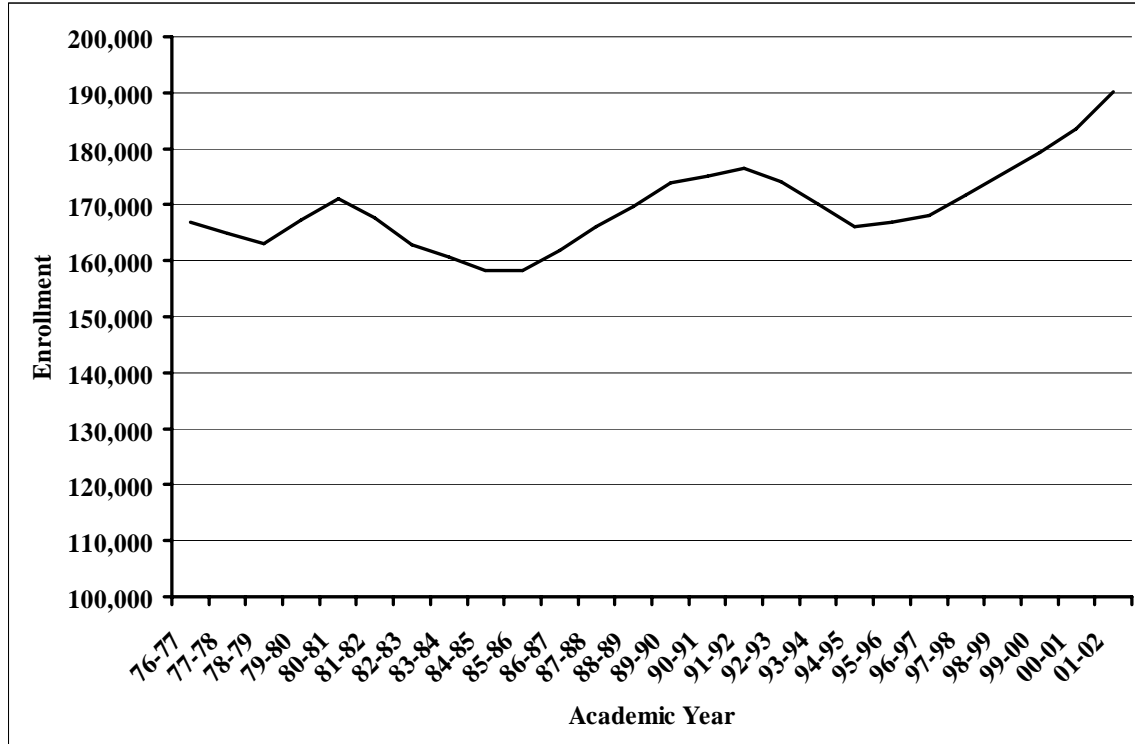
### **Trends in Michigan's Public Universities**

In the ensuing pages we examine some general trends in enrollment, tuition, faculty numbers and salaries, state appropriations, and student aid. Given the highly decentralized nature of Michigan's higher education system, obtaining comparative information on these institutions is very difficult. In other states that have state governing and coordinating board structures, comparative information is much easier to obtain. So the mere compilation of the information presented below is a major accomplishment. Information is culled from federal sources (e.g., IPEDS); state fiscal agencies (e.g., the HEIDI database, a state fiscal agency tool; state financial and policy reports), the Presidents Council, and institutional sources. Where possible we provide data beginning in the late 1970's or early 1980's and follow trends through the early 2000's. Our objective is to provide a profile of the public four-year higher education system in Michigan over the past 25 to 30 years.

### *Enrollment*

In Michigan's fifteen public universities total student enrollment (in headcounts) are at a record level at nearly 289,000 as of 2004. Although headcounts are interesting, in most cases we report full year equivalents (FYE's) given that there are substantial numbers of part-time students attending some of these institutions and this group is growing, and because FYE's are often used as a measure of instructional activity.

**Figure 3: Total FYE Undergraduate Enrollments at Four-Year Public Institutions**

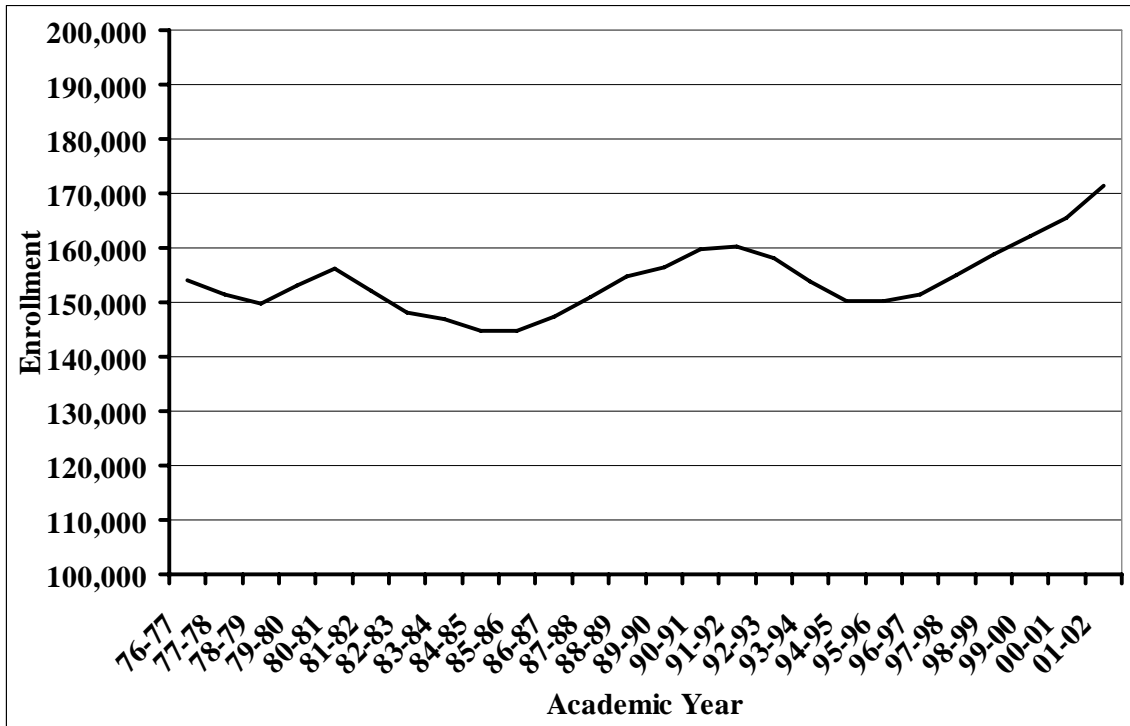


Source: HEIDI Database

The trend in total FYE enrollment for all fifteen of Michigan's public universities is shown in Figure 3. From the 1976-1977 to the 2001-2002 academic year, the total *undergraduate* (resident and non-resident) enrollment rose 14 percent, from just over 160,000 students to almost 190,000 students. After a slight decline in enrollment in the late 1970's, there was an increase that coincided with the severe recession in the early 1980's and yet another counter cyclical increase during the recession of the early 1990's. Since about 1995 undergraduate enrollments have increased at a fairly rapid pace.

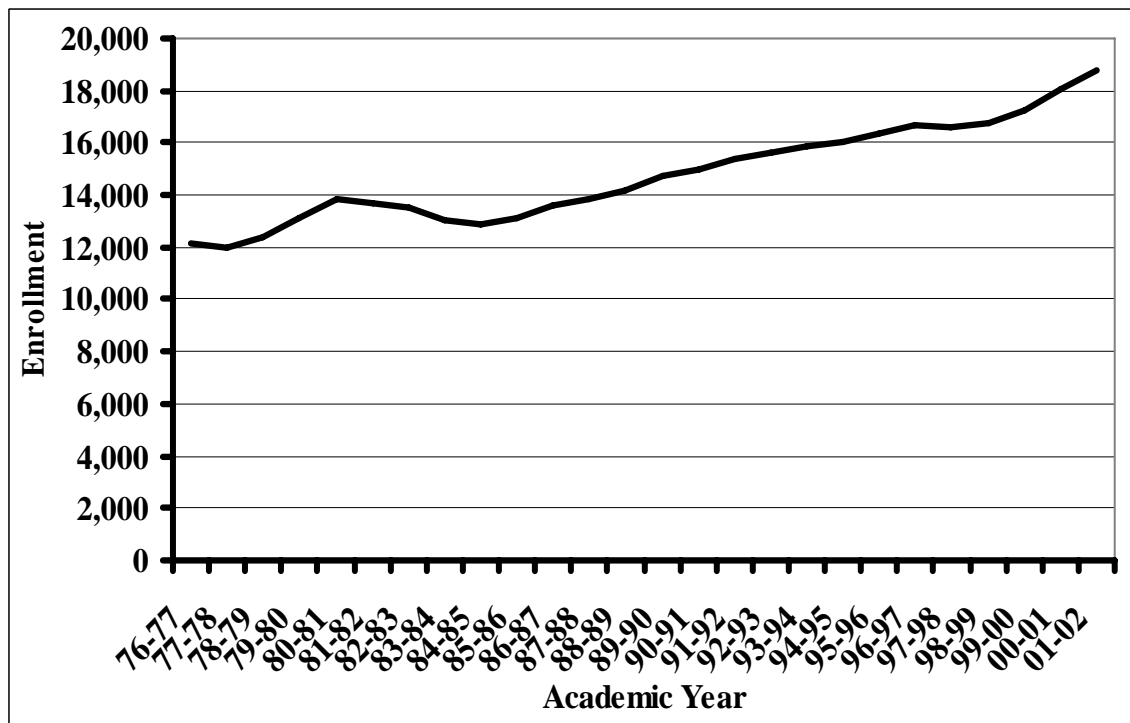
Resident FYE undergraduate enrollments are displayed in Figure 4 and exhibit a similar (though more pronounced because of scaling) pattern as that presented in Figure 3. It should be no surprise that the patterns are similar given the fact that resident student FYE enrollments are a large proportion of total undergraduate enrollments. Specifically, throughout the 1977 to 2002 observation period resident students accounted for at least 85 percent (in recent years) of undergraduate enrollments and as high as 90 percent in earlier years.

**Figure 4: Resident FYE Undergraduate Enrollment in Michigan's Public Universities**



Source: HEIDI Database

**Figure 5: Non-Resident FYE Undergraduate Enrollment in Michigan's Public Universities**



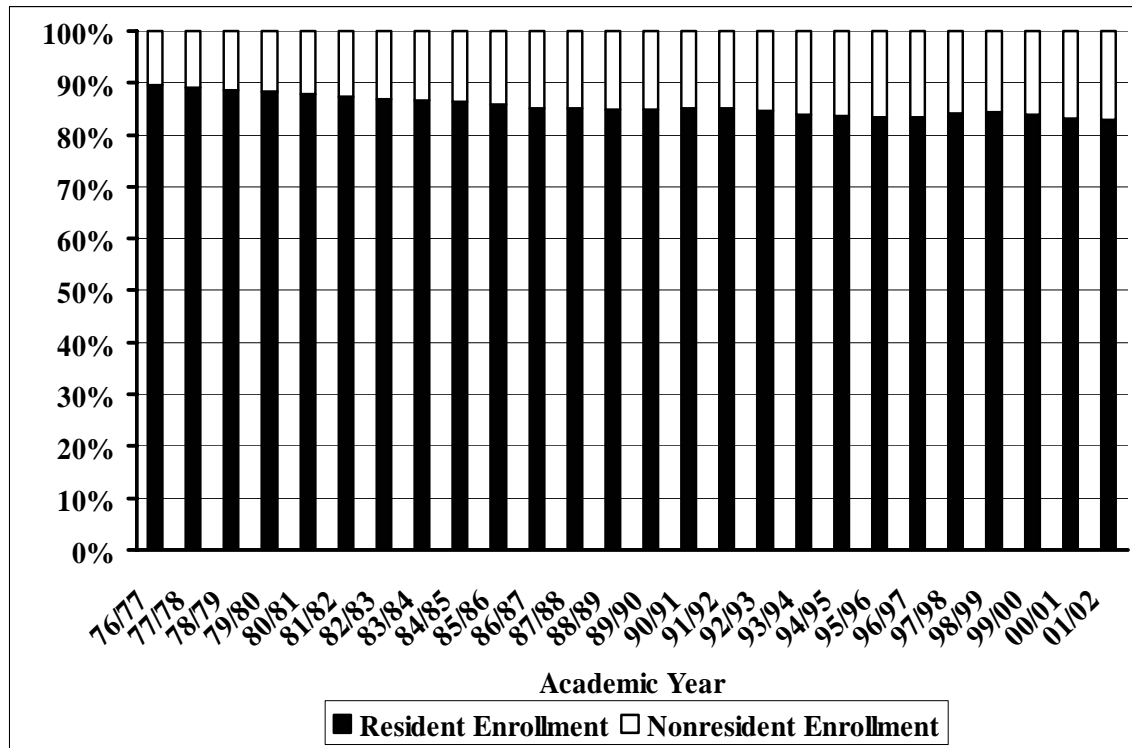
Source: HEIDI Database



Figure 5 displays non-resident FYE enrollments for all of Michigan's public universities over the same time period. Except for a slight decline in the early 1980's, non-resident enrollments have been increasing, and of late at a faster rate than in earlier years. This is not surprising given reductions in state appropriations as institutions find additional revenues by enrolling more out-of-state students who pay higher tuition.

The figures displayed above suggest that institutions have been increasing non-resident enrollments relative to the proportion of resident student enrollments. Figure 6 (below) provides more detail about this trend by examining the proportion of enrollments of resident and non-residents for the Big Three—Michigan State University, University of Michigan, and Wayne State University. As the figure demonstrates, non-resident enrollment at these institutions has been on the rise, increasing from about 10 percent of undergraduate enrollments in the late 1970's to almost 20 percent around the turn of the century.

**Figure 6: Resident & Non-Resident FYE Undergraduate Enrollment at the "Big Three" Institutions**



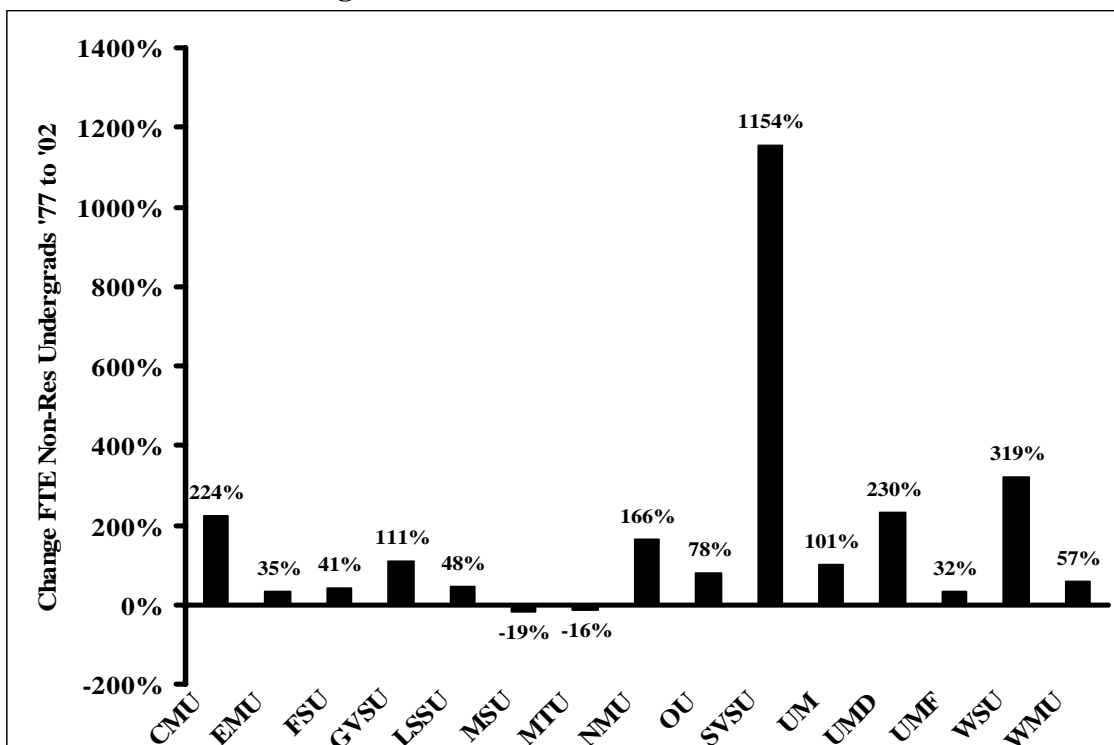
Source: HEIDI Database

We produced the above graph for each of the Big Three institutions (not displayed) and found that it is the University of Michigan-Ann Arbor and to a lesser extent Wayne State that is driving the increase in the percentage of non-resident Big Three undergraduate enrollments. The non-resident enrollment at Wayne State University made up about 2 percent of their student body in the 1976-1977 academic year, and that proportion increased to slightly less than 10 percent by the 2001-2002 academic year (but on a small base). Non-residents made up about 10 percent of the total undergraduate enrollment at Michigan State University in the late 1970's and this proportion has been

fairly constant over the past 25 years, declining slightly (to under 10 percent) in recent years. The non-resident proportion of total undergraduate enrollments at the University of Michigan-Ann Arbor campus accounted for about 20 percent in 1977-1978 but had increased to about 35 percent of the total undergraduate enrollment in 2001-2002.

Figure 7 shows the percentage change in FYE non-resident undergraduate enrollments over the past 25 years. Large percentage increases are found in some institutions as they search for sources of new tuition. Although the percentages are real, one must be careful in reading too much into the huge increase in Saginaw Valley State’s enrollments (n=301 in 2002), as the base from which they started in 1977 was very small (n=33).

**Figure 7: Percentage Change in Full-Year Equivalent Non-Resident Undergraduate Enrollments from 1977 to 2002**



Source: HEIDI Database

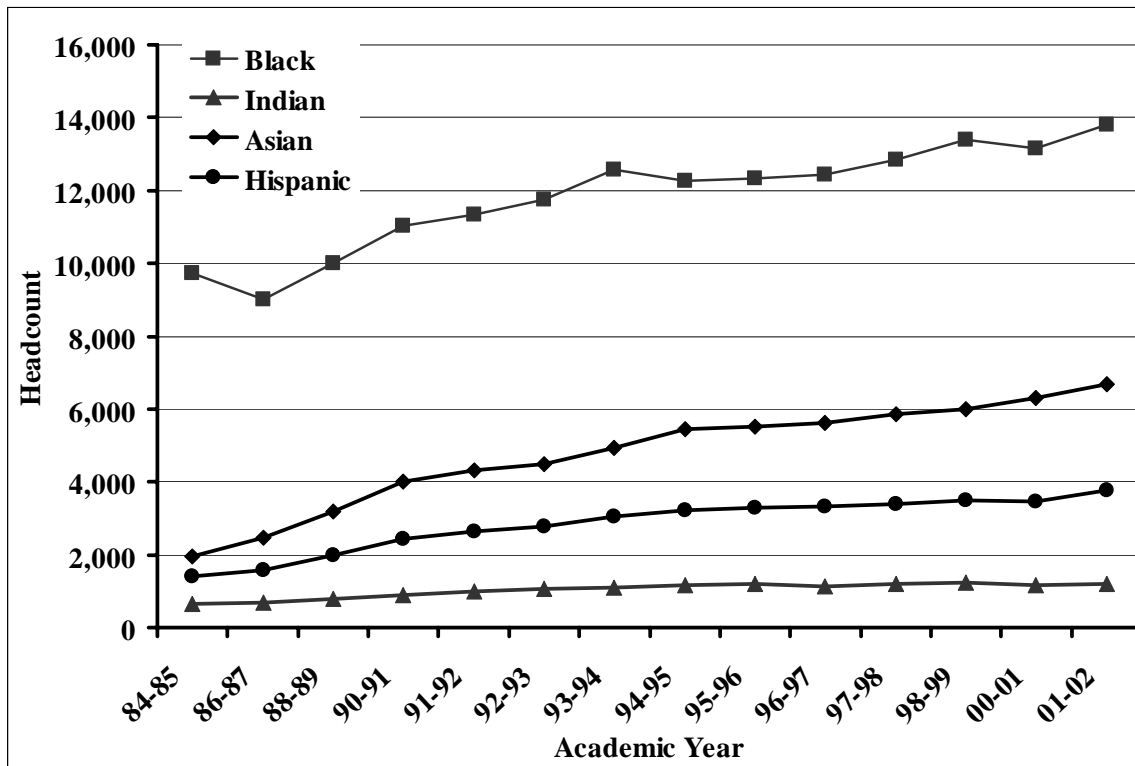
Compared to other public universities in the state, the Big Three consistently enroll the most undergraduate students. Michigan State continues to have the largest enrollments (around 33,000 FYE) however their numbers are actually slightly lower in 2001-2002 than in 1976-1977 academic year. Enrollment at the University of Michigan-Ann Arbor campus has been fairly constant over the observation period, increasing slightly from about 22,000 to 24,000 in recent years. Enrollment at Wayne State University, while consistently above the state average for all universities, has declined during the observation period from about 19,000 to about 14,000. This decline is attributable to a deliberate policy change in the mid 1990’s when they decided to focus more on graduate education and decided to reduce the number of undergraduates they serve. The non-resident student population at the Directional universities has consistently

been under 10 percent of their total enrollments during the 1976-1977 to the 2001-2002 academic year period. However, there has been a noticeable increase in the number of non-resident students these institutions have attracted.

The Comprehensive state universities serve the smallest proportion of non-resident undergraduates, typically attracting less than 5 percent of their undergraduates from outside of the state of Michigan. However, in recent years a number of the Directional and comprehensive universities have begun to look outside Michigan’s borders for undergraduates. For instance, Central and Northern Michigan Universities have increased their non-resident student enrollment by 224 and 166 percent (respectively) from a base of 146 and 377 students (respectively) in 1977. According to enrollment managers at Northern Michigan University, since the mid-1990’s they have made recruitment in Wisconsin and especially the urban areas of Illinois a high priority, and claim to have had substantial success in attracting students from these states.

Total undergraduate enrollments (in headcounts) by race/ethnicity have increased quite dramatically since the early 1980’s. African American enrollments are up to nearly 14,000 students and Asian student representation is nearing the 7,000 mark. Latino/a enrollments have also increased and are now approaching 4,000. The number of American Indians served has remained relatively flat, although this may change as tribes invest more of their gambling revenue into the education of their children.

**Figure 8: Undergraduate Headcounts by Race/Ethnicity**

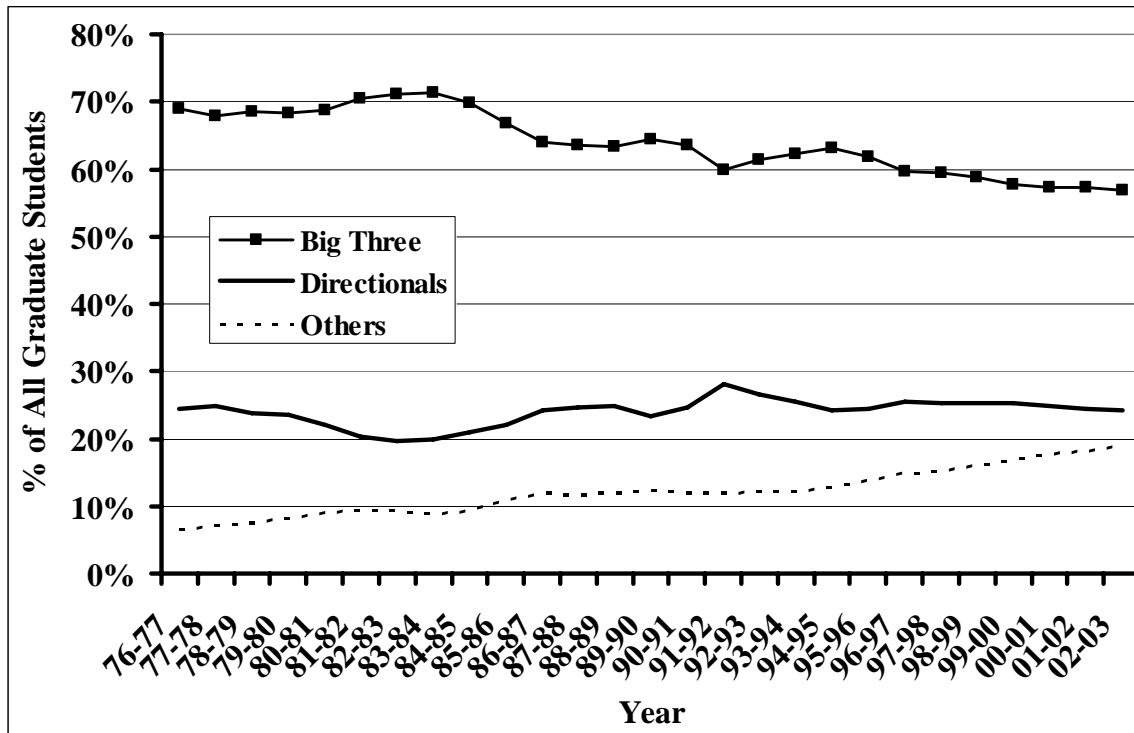


Source: IPEDS, Multiple Years

Graduate student enrollments have exhibited an interesting pattern over the last three decades. In the late 1970’s the Big Three enrolled about 25,000 (FYE) graduate

students. The number of graduate students educated by these institutions fell until the late 1980's and then began to rise until the mid 1990's and has remained relatively constant since then at about 22,000 students. A similar pattern emerges for the Directional institutions that now enroll about 10,000 graduate students. What is interesting is the increase in graduate student enrollments among the Comprehensive institutions. Since the mid 1980's when they enrolled about 2,500 graduate students, this sector of public higher education has seen a steady increase in the number and percent of all graduate students educated in Michigan's public institutions. Comprehensive institutions now enroll about 8,000 graduate students and have increased their share from about 7 percent of the total educated in public institutions to about 19 percent in recent years (see Figure 9).

**Figure 9: Share of State's Graduate Student FTE's by Institutional Type**



Source: HEIDI Database

***Tuition***

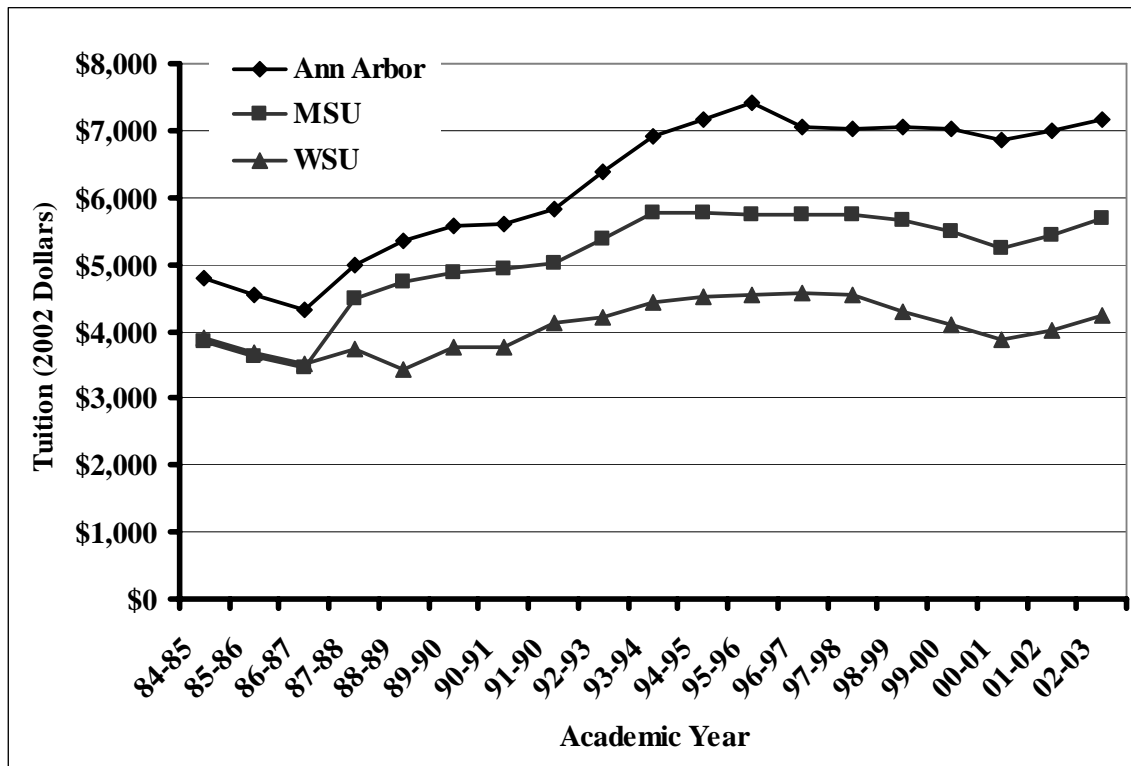
Not unlike other public universities in the country, in general tuition rates at the public universities in Michigan have been increasing. Data that tracks tuition back to 1984 from the Integrated Postsecondary Education Data Survey (IPEDS) was used to display tuition trends. These data have been adjusted using the Higher Education Price Index (HEPI) to reflect 2002 dollars. In-state undergraduate tuition averaged under \$3,500 in 1984 (adjusted to reflect 2002 dollars) and rose to about \$4,900 by 2002. Out-of-state tuition is generally 2 to 3 times higher than in-state tuition for each of the years, regardless of institution type.

Of the Big Three institutions, the out-of-state to in-state tuition ratio has been consistently the highest at the University of Michigan-Ann Arbor. The University of Michigan- Ann Arbor also has the highest in-state tuition of all the Big Three institutions.

As Figure 10 indicates, the gap between the three in terms of in-state tuition has widened. Michigan State University and Wayne State University had similar tuition rates in 1984, but by 2002 Michigan State University’s tuition was considerably higher than Wayne State’s resident tuition. For a period during the late 1990’s WSU’s real tuition for resident students actually decreased, but since then has rebounded. The University of Michigan’s in-state tuition has increased about 50 percent from 1984 to 2002 (but as we will see below, this has been coupled with increases in financial aid). Michigan State University’s tuition has increased almost as much as Michigan’s, about 48 percent during the same period.

Real out-of-state tuition at the Big Three institutions has pretty much tracked the in-state tuition patterns, however, to a more dramatic extent. From 1984 to 2002, the University of Michigan-Ann Arbor’s out-of-state tuition increased 53 percent, from about \$14,340 to about \$22,004. Michigan State University’s non-resident tuition increased 44 percent, from \$9,159 to about \$13,214. Finally, Wayne State University’s out-of-state tuition increased from the late 1980’s until the late 1990’s and has decreased slightly or remained constant since then.

**Figure 10: “Big Three” Resident Undergraduate Tuition**



Source: IPEDS, Multiple Years

Tuition at the Directional institutions is generally lower than that of the Big Three institutions. In-state tuition levels (in real terms) for all four Directional institutions were similar in 1984 at about \$3,000. The in-state tuition rates at each of the four institutions show a pattern similar to that of the Big Three: A decrease for a few years in the early to mid 1980’s, followed by a quite rapid increase that peaked in the late 1990’s and was

followed by a short period of decline. The period of decline coincides with these institutions holding constant their nominal rates, which results in a decline in the real value of their tuition rates as the general level of prices rise. Since 2000, these institutions real rates have again risen. Also interesting is the relative differences in tuition at each of the Directional institutions. The differences became more pronounced in the mid 1990's and by 2002 Western Michigan University had the highest real tuition at almost \$4,500; Eastern Michigan University's in-state tuition was slightly lower at about \$4,000, followed by Central Michigan at just under \$4,000; and Northern Michigan University had the lowest in-state tuition rate in 2002 at about \$3,500.

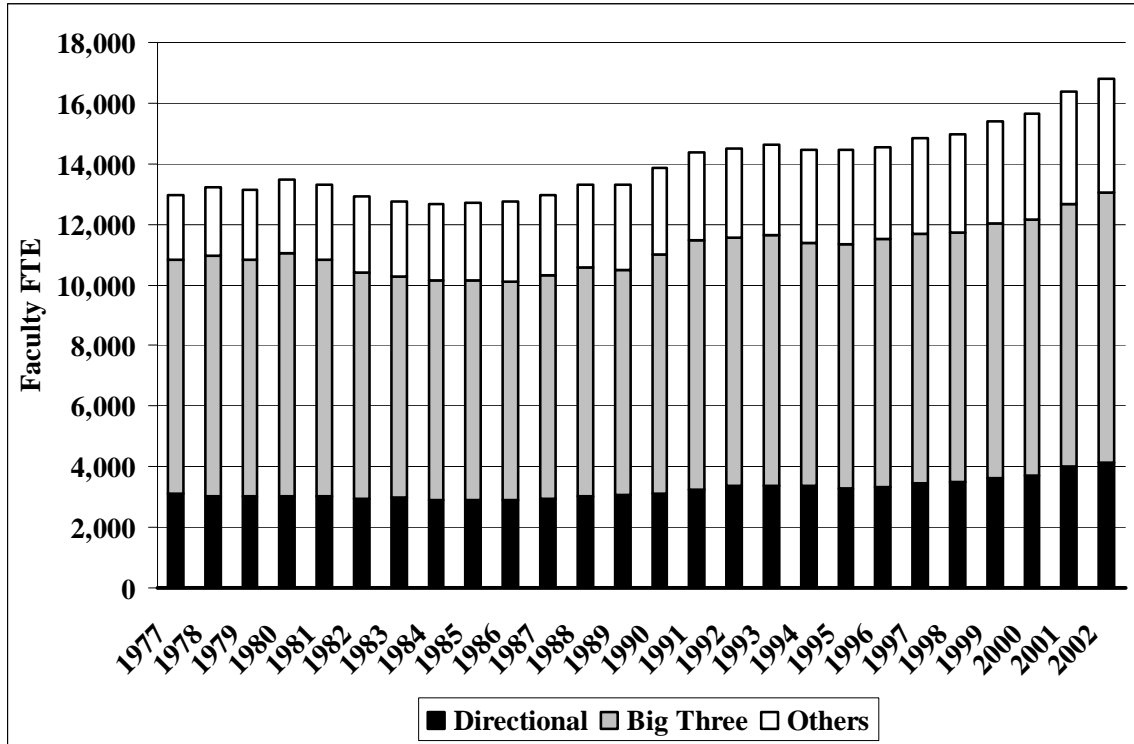
In real 2002 dollars non-resident tuition levels at the Directional institutions were between \$6,000 and \$8,000 in 1984. Similar to the in-state tuition rates the non-resident rates declined slightly from 1984 to 1986. At this point, the pattern of out-of-state tuition rates began to diverge within this group of institutions. Non-resident tuition rates at Central Michigan University, Eastern Michigan University, and Western Michigan University all underwent a period of increase that were almost exactly the same until about 1998, when Western Michigan's rates began to increase at a higher rate. By 2002, Western Michigan's out-of-state tuition was almost \$12,000, whereas the non-resident rates at Central and Eastern Michigan remained very similar at about \$10,000.

Trends in tuition at the Comprehensive institutions in Michigan are similar to the tuition trends at the Big Three and the Directional institutions. For both in-state and out-of-state tuition, the late 1980's saw increases. These increases continued until the mid-1990's, when rates started to decline for a short period. Ultimately, tuition levels in the period from 1984 to 2002 at Michigan's Comprehensive institutions increased. Real in-state tuition levels increased anywhere from 3 percent at Saginaw Valley State University to more than 60 percent at Grand Valley State University during this time period. The percent increases in out-of state tuition levels ranged from 9 percent at Saginaw Valley State University to over 50 percent at Michigan Technical University.

### ***Faculty***

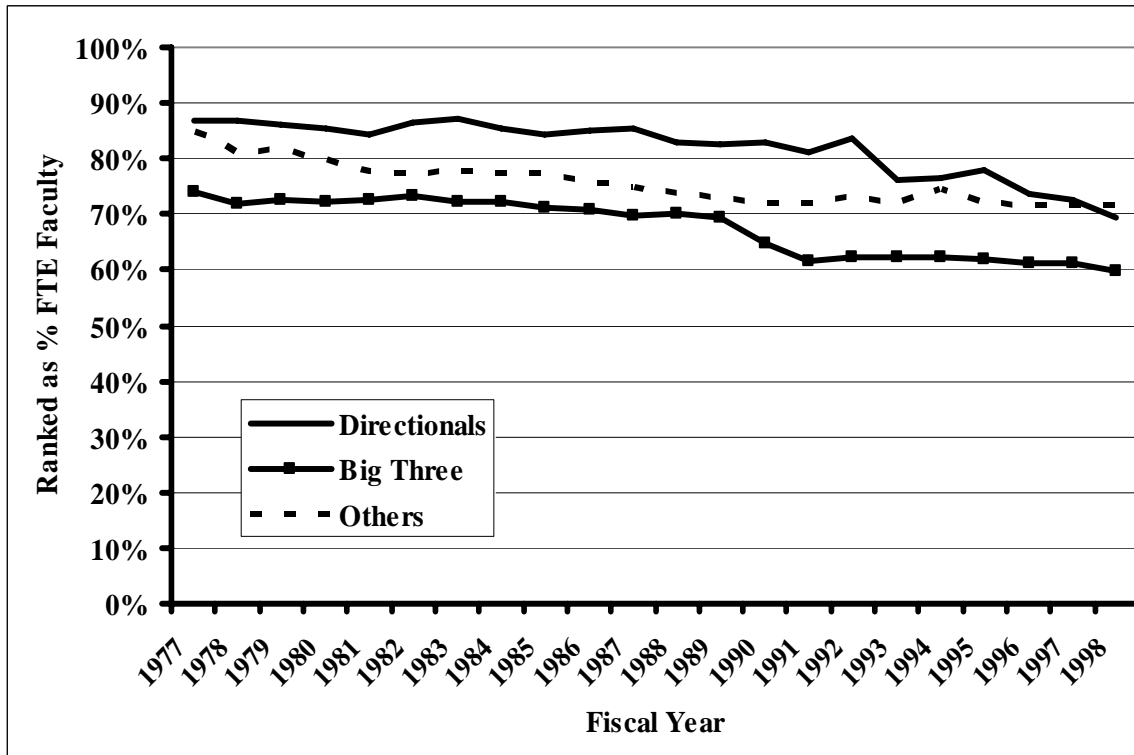
As one might expect, the trends in the number of faculty employed by institutions of higher education mirror the overall enrollment trends. Since the late 1970's, faculty FTE's have increased from about 13,000 to about 17,000 (see Figure 11). The Big Three institutions employ the largest number of faculty, though their share of all faculty has decreased relative to the other two types of institutions. Faculty at the Directional institutions have typically comprised about 13 percent of the total faculty in the public university sector during the observation period, yet the proportion of the total faculty in the Michigan higher education system that are employed in the Comprehensive institutions has increased to over 20 percent of the total. It is the latter group that has seen the largest increase in faculty numbers, however many of the new hires have been short-term hires or non-tenure track faculty (Prince, 2003).

**Figure 11: Trends in Faculty Numbers by Institutional Type**



Source: HEIDI Database

**Figure 12: Ranked Faculty as a Percent of FTE Faculty by Institutional Type**



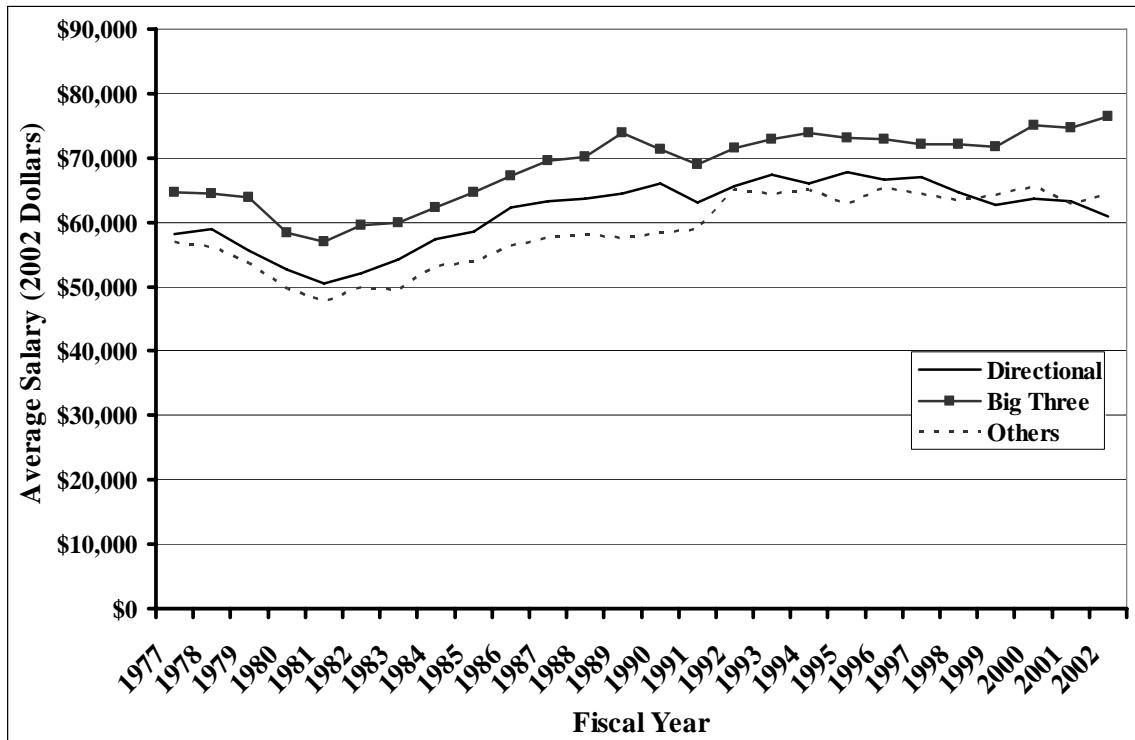
Source: HEIDI Database

Ranked faculty have declined as a percent of all faculty in all three institutional groups being examined (see Figure 12). In the late 1970’s ranked faculty accounted for over 70 percent of faculty in the Big Three institutions, but this percentage has declined to about 60 percent in recent years. This decline is almost solely due to declines in the percentage of ranked faculty at Wayne State University (not shown). Our analysis shows that institutions have increased their use of non-ranked faculty over the years, and Prince (2003) suggests that this is the case stating “Much of the growth in FTE faculty during this period, at both the major research universities and the other twelve institutions, was in the number of unranked faculty members” (Prince, 2003, p.23).

**Salaries**

Total faculty compensation (in 2002) dollars in Michigan’s fifteen public universities has increased from about \$800 million to about \$1.2 billion from fiscal year 1977 to the 2002 fiscal year, nearly a 50 percent increase. Though this increase seems dramatic, it is only slightly higher than the increase in faculty numbers over the same time period. Figure 13 displays the average faculty compensation (adjusted to 2002 dollars using the Detroit CPI) by institution type. Notice that the trends at each of the three types of institution are fairly similar to one another. In the early 1980’s there was a period of decline in faculty salaries that was followed by a period of increase from the mid-1980’s to the early 1990’s.

**Figure 13: Average Faculty Salaries by Institutional Type**



Source: HEIDI Database

During this time, the Big Three had the highest average faculty salaries, and the Directional and Comprehensive institutions had much more similar compensation levels.

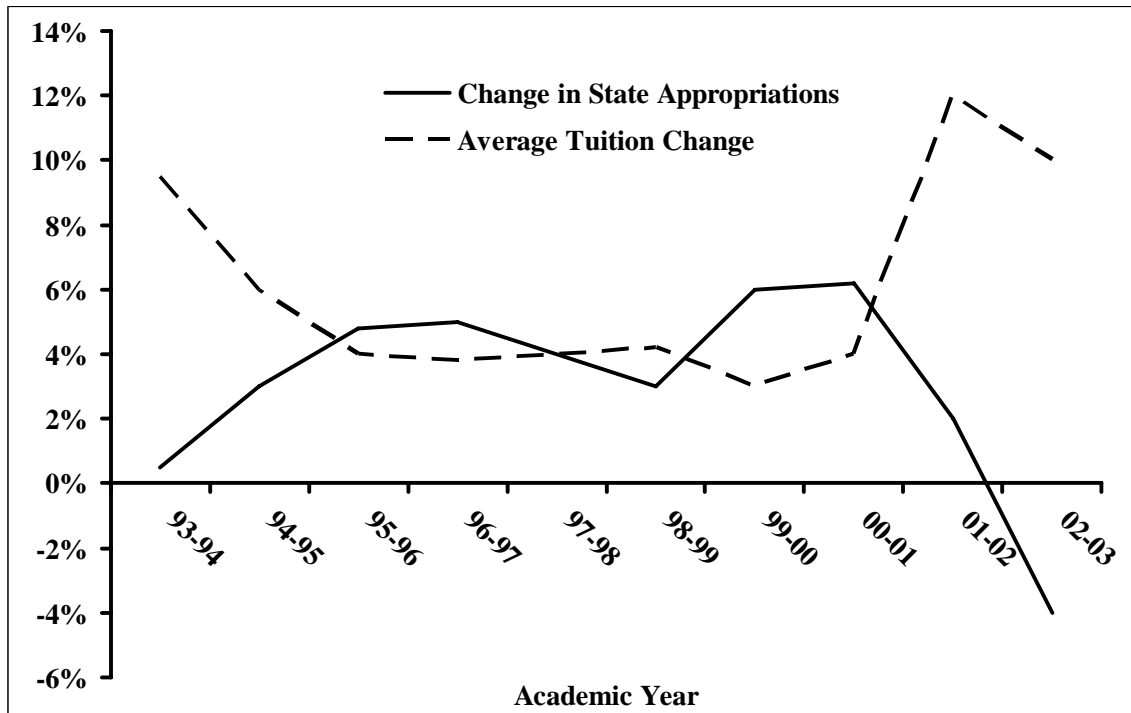


The gap between these two groups widened slightly throughout the late 1980's. In the early 1990's, the average compensation at the Comprehensive institutions experienced an increase, which brought the salaries at these institutions much closer to that of the Directional institutions. By 2002, the average faculty salary at the Big Three institutions was about \$75,000, compared to about \$64,000 at the Comprehensive institutions, and closer to \$60,000 at the Directional institutions. Undoubtedly these averages are affected by many factors, including disciplinary and academic rank differences among institutions, and the proportion of tenure and tenure-track faculty employed.

**State Appropriations**

As discussed earlier in the chapter, the recession of the late 1970's and early 1980's severely impacted the state budget and therefore state appropriations for higher education. Overall, Michigan appropriations for higher education declined in the early 1980's (in real and nominal terms). The noticeable spike in funding in 1983 is associated with a restoration of about \$80 million that had been cut from the budget in the previous year (Prince, 2003). In the mid 1980's state appropriations rose slightly, peaking in 1987. Indeed, when weighted by FYE students, state appropriations in 1987 were slightly larger than in recent years (Prince, 2003), that is, the trend has declined since 1987. The declining trend in state appropriations has been exacerbated in recent years as state budget deficits have negatively affected higher education appropriations.

**Figure 14: Relationship Between State Appropriations and Tuition**



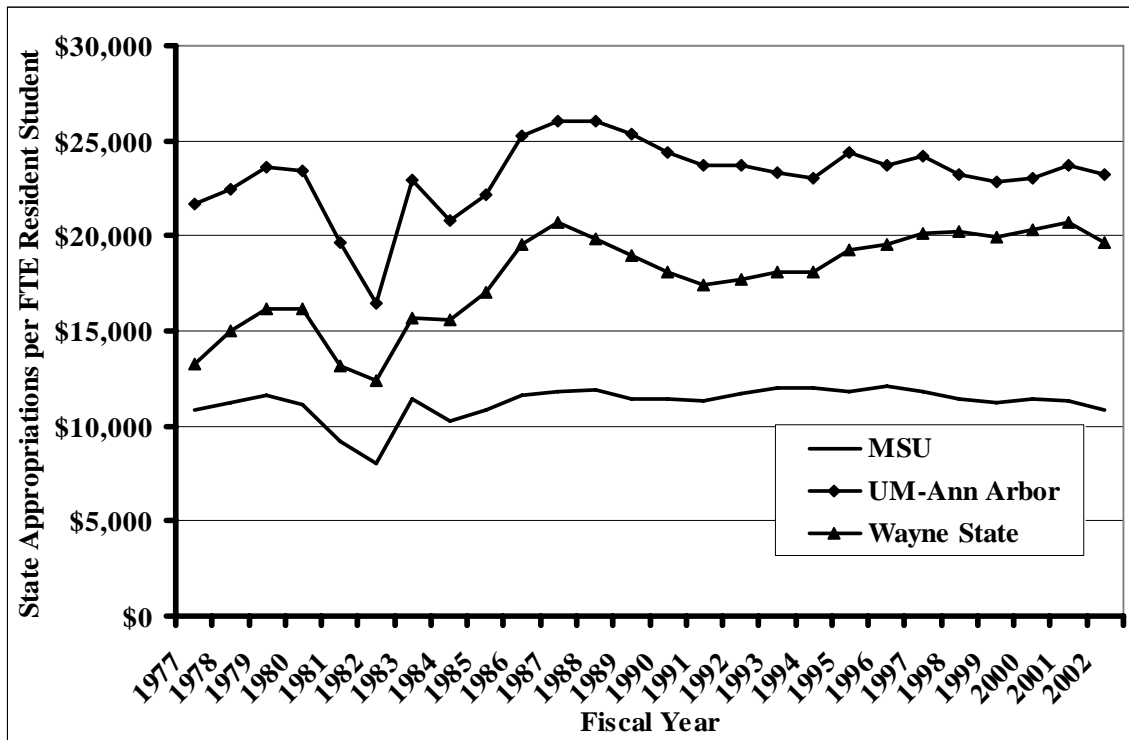
Source: Presidents Council, State Universities of Michigan

Michigan's public universities have dealt with these fiscal constraints by belt-tightening activities, increasing tuition rates, and enrolling more non-residents who pay two to three times more tuition than their in-state counterparts. Figure 14 displays the

important relationship between state appropriations and resident tuition levels. When state appropriations are reduced institutions make up for these losses in part by increasing tuition. Other strategies have also been used, however. In the mid 1990's some institutions (MSU in particular) were successful in maintaining funding by agreeing to keep tuition increases at or below the rate of inflation. This may have been a wise political strategy, at least in the short term, as other institutions (University of Michigan) who did not hold down tuition rates were widely criticized. Institutions that increased non-resident enrollments to make up for losses in state appropriations (in particular the University of Michigan) were also criticized and lost some political support within the state.

Regarding the University of Michigan, they have absorbed more than their share of cuts in appropriations during times of reduction. The contribution of state appropriations to their general fund has fallen from nearly 59 percent in 1978 to around 32 percent by 2002 (Prince, 2003). The university has made up for this loss in revenue by increasing indirect cost recovery revenue (research grants), as well as increasing tuition/fee revenues by increasing overall enrollments and the proportion of out-of-state undergraduate and graduated students. In comparison, state appropriations cover about 60 percent of Wayne State University's general fund, even while its undergraduate enrollment has fallen (by design) and its tuition levels have remained relatively constant. Revenue streams at Michigan State University have followed a pattern similar to the University of Michigan's, but about 45 to 50 percent of MSU's general fund is derived from state appropriations.

**Figure 15: Per Resident Student Trends in State Appropriations**



Source: HEIDI Database

Figure 15 illustrates that the University of Michigan-Ann Arbor has consistently had the highest level of state appropriations, even though they have experienced about a \$50 million reduction in recent years. In real terms the amount appropriated in 2002 was slightly less than the 1977 state appropriation. Conversely, Michigan State had a slightly higher appropriations level (in real terms) in 2002 than in 1977. Wayne State's appropriations, while experiencing some fluctuations, were about the same in 2002 as they were in 1977 (in real terms).

Appropriations made to the Directional institutions (in nominal and real terms, respectively) display patterns similar to those of the Big Three. Of these four institutions, Western Michigan University has consistently had the highest (nominal) amount appropriated at about \$120 million, and Northern Michigan has consistently had the lowest level of state appropriations, less than half of Western Michigan's funding levels. While the fluctuation in appropriations for each of these schools has been dramatic, in 2002 each was appropriated at least as much (in real terms), if not more, than they were appropriated in 1977.

Appropriation levels to the Comprehensive institutions in the state also exhibit patterns similar to those described above. The appropriations to Ferris State, Michigan Tech, and Oakland University have been consistently commensurate with the appropriations to the Directional institutions. Particularly noteworthy is the dramatic increase in appropriations to Grand Valley State University, especially since the mid 1990's. In nominal terms GVSU's state appropriations have increased six-fold and in real terms they have nearly doubled from 1977 to 2002. This is the most dramatic increase in state appropriations of all the Michigan public universities. Explanations for this increase in appropriations include the growth in this institution due to the increased demand for higher education in the western part of the state, and in recent years the institution has benefited from having legislators from this (mainly Republican) region who have very powerful positions in the House and Senate.

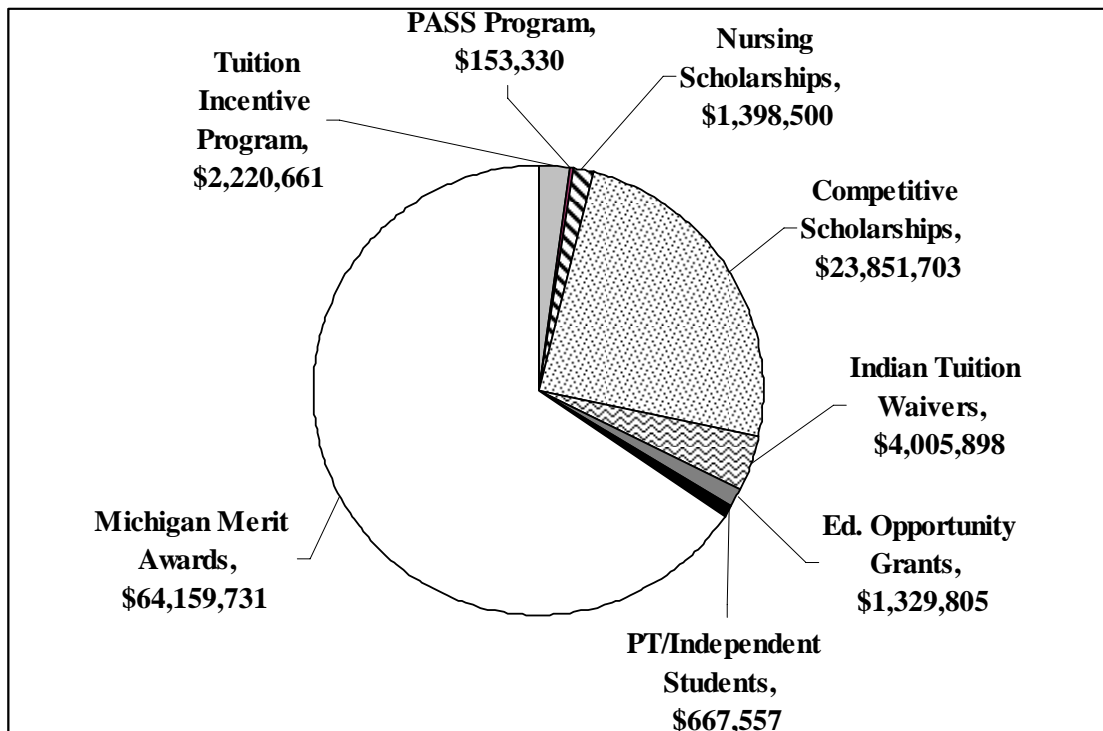
Another way to represent the distribution of state appropriations for the Big Three is by weighting the figures displayed above by the number of resident students served. When one does this we find that the University of Michigan-Ann Arbor has the highest state appropriation per student, followed by Wayne State, and then MSU. Although Ann Arbor's appropriations are the highest, they have experienced a significant decline beginning in the late 1980's. Conversely Wayne State's appropriations have increased since the early 1990's, in part due to the change in mission (discussed above) in which the institution now focuses more heavily on graduate student education.

### ***Student Aid***

Prior to fiscal year 2000-2001, most state financial aid was disbursed in the form of competitive scholarships that had a substantial need component. But beginning in FY 2001, the Michigan Merit Awards were available for students and nearly \$47 million was awarded that year which tripled state financial aid from the previous fiscal year. As displayed in Figure 16, by FY 2003 these merit-based awards were more than \$64 million, comprising about 65 percent of all state aid to students in Michigan's universities. This is a substantial change in what has historically been a nearly purely need-based program to what is now dominated by a large merit program.

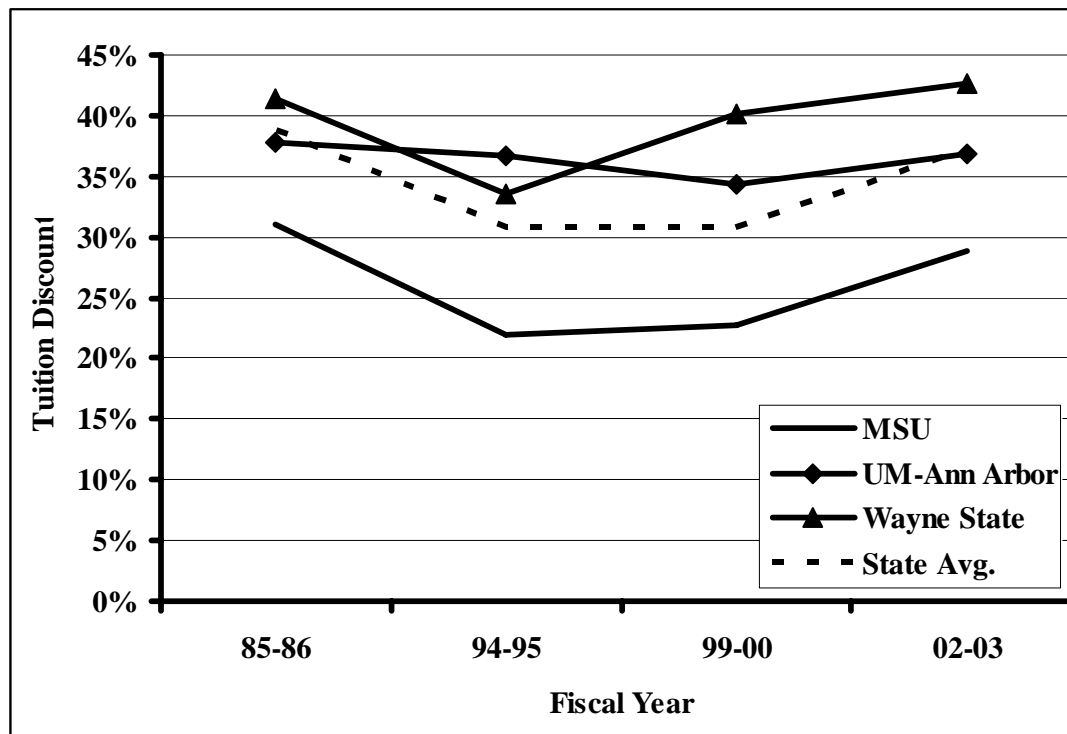
General fund expenditures from Michigan's universities for undergraduate financial aid have increased at an annualized rate of about 9 percent, from about \$35 million in FY 1986 to about \$161 million in FY 2003. The growth in this form of financial aid was greater than that of tuition over the same period, which grew at an annualized rate of 6.8 percent (Over the same period per capita personal income grew by 4.2 percent). The growth in aid over this period has been quite consistent across the fifteen institutions, starting from an average of \$220 in FY 1986 to \$828 (in nominal terms) by FY 2003, an annualized rate of about 8 percent. The state averages mask the substantial variation in the average amount for each institution, with a high of \$1,720 (in FY 2003) at the University of Michigan-Ann Arbor campus, more than double the state average. Whereas MSU provides \$622 about \$200 less than the state average, and the low average amount of aid being \$449 at Oakland University (Jen, 2004).<sup>2</sup>

**Figure 16: State Aid to Students in State Universities**  
Total=\$97,787,185



Source: House Fiscal Agency, 2004

<sup>2</sup> The University of Michigan's per student aid figure may be overstated because these figures are based on resident student enrollments and the Ann Arbor campus has substantially more non-resident students than other state universities (see Jen, 2004, Appendix A for more details).

**Figure 17: Trends in Tuition Discounting as Percent of Nominal Tuition**

Source: House Fiscal Agency, 2004

Figure 17 presents the average level of tuition discounting at Michigan's universities and detail is provided about these levels at the Big Three institutions. The discount is calculated by taking the difference between the posted tuition rate and the average amount of federal, state, and institutional aid provided by the institution (tax credits available are not included). From the mid 1980's to the mid 1990's the average discount declined from an average of about 39 percent to about 31 percent, then it was flat until the turn of the century. Since then the discount has steadily increased and the average in FY 2003 was about 37 percent, reflecting a state average tuition rate of \$5,570 and an average aid package of \$2,072 (in FY 2003). The average aid package at the University of Michigan-Ann Arbor in the same time period was \$2,928 on a "sticker price" of \$7,960, and their discount rate has remained relatively stable since the mid 1980's. Michigan State's (Wayne State's) average discount has increased in recent years and in FY 2003 their average aid package was \$1,865 (\$2,176) on a posted tuition of \$6,454 (\$5,104).

### Distinguishable Patterns

Enrollment growth over the past 25 to 30 years has been mostly in the Directional and Comprehensive universities. The former saw their enrollments grow from the end of the 1980's through the early 1990's whereas the latter's enrollment increases have taken place since the mid to late 1990's. Especially noteworthy are the large increases in resident student enrollments at Grand Valley State and Saginaw Valley State Universities. Although the Big Three's total enrollments have remained relatively constant (or declined slightly), the mix of enrollments at these institutions has changed

over time. Wayne State has, by design, increased the number and percentage of graduate students it serves (a more than 300 percent increase in graduate student enrollments from 1997 to 2002). The University of Michigan-Ann Arbor campus has increased the number of undergraduate students enrolled and increased its percentage of non-resident students. MSU's enrollment levels have remained fairly stable but the percentage of graduate students served has declined slightly over the past 25 years or so. Another evident pattern is the increase in the teaching of graduate students in the Comprehensive institutions. Comprehensive institutions now account for about 20 percent of graduate enrollments, up from 10 percent of all graduate students taught in the state in the early to mid 1980's.

In the early 1980's state appropriations declined sharply due to a severe economic recession in the state. After that there was a recovery in appropriations, leading to the peak in state appropriations in the late 1980's, and since then funding from the state has declined. The Big Three institutions have incurred the most dramatic declines since the peak in funding in 1987. In fact, in real terms the appropriations to the Big Three institutions in 2002 were lower than the levels of funding in the late 1970's. To compensate for decreases in appropriations, institutions have implemented a number of strategies including increasing funding from other sources (e.g., research), increasing tuition and non-resident enrollment, and decreasing their use of permanent, ranked faculty.

In the process of writing this chapter a pattern that has become quite discernable has emerged. Poor economic conditions lead to a decline in general fund revenues. Then policymakers have the unenviable task of figuring out how to balance the state budget year in and year out. Over the past 25 years they have done so in a number of ways, one of which is reducing the rate of growth in higher education appropriations, or in recent years actually cutting (in real terms) funding to universities. Reduced funding tends to lead to increased tuition at affected institutions and uses of enrollment management techniques that attempt to maximize net tuition revenue by enrolling more non-resident students or "leveraging" financial aid (a form of price discrimination). Raising tuition and/or increasing out-of-state enrollments are likely to produce negative reactions among legislators, who then threaten to or actually do carry out another round of appropriations cuts. This cycle appears to be very destructive and it is one that is not sustainable if Michigan wants to continue to have the high quality postsecondary system it is known for and will need if it wants to be competitive in the coming years.

### **Looking Forward**

Whether affordability is as big a problem as perceived by some higher education stakeholders, it is nonetheless one of the biggest challenges facing Michigan postsecondary education. Critics note that an average income family in Michigan needs to devote about 22 percent of its income to pay for college expenses (less financial aid) while attending a community college, whereas the national average is only 15 percent. Attending a public 4-year college requires about 32 percent of a Michigan family's income, but the national average is only one-half that at 16 percent. The state investment in need-based financial aid is low when compared with most states—it ranks 34<sup>th</sup> and the average loan amount that a Michigan undergraduate student borrows each year is \$3,011 (Measuring Up, 2004). So there is considerable pressure from legislators to hold down or even reduced the costs to families who aspire to public higher education in Michigan.

The problem is that the state is struggling to provide funding for a number of important social objectives, and higher education is not a high priority in some political circles.

Preparation for college is also seen as a critical issue since only 32 percent of Michigan students graduate from high school having the required coursework and minimal test scores for being admitted to a selective four-year college (Cherry Commission, 2004). Only 40 percent of Michigan high school students take at least one upper-level math course (e.g. Algebra or above) (Measuring Up 2004) and nearly 35 percent of all college freshmen need to take at least one remedial course (Cherry Commission, 2004). Notwithstanding such weakness in preparation, 80 percent of freshmen at four-year colleges return for their sophomore year (Measuring Up 2004), however, community college retention is relatively poor, and fewer than 20 percent of Michigan's full-time students at these institutions graduate within three years (150 percent of "normal" time; Cherry Commission, 2004). Four-year colleges have more success in graduating students; 54 percent of their students graduate within six years (also 150 percent of "normal" time) of college entrance (Measuring Up, 2004). If Michigan aspires to enter the knowledge-based economy they must do a better job of preparing their children for postsecondary education, and providing life-long learning for adults, so that the citizens of the state will be prepared for the jobs that will be available in the coming years.

### ***Launching the Knowledge-Based Economy in Michigan***

Regarding Michigan's ability to enter the knowledge-based economy, in the 2002 New Economy Index developed by the Progressive Policy Institute (PPI) Michigan ranked 23<sup>rd</sup> overall. The state ranked low (30<sup>th</sup>) in information technology jobs, but not surprisingly it ranks very high in the educational attainment of the manufacturing workforce (7<sup>th</sup>). The state is doing well both exporting manufactured goods (11<sup>th</sup>), and attracting foreign investment (14<sup>th</sup>), however, Michigan scores poorly (40<sup>th</sup>) in economic dynamism indicators, which are measures of entrepreneurship. Michigan ranks first in utilization of digital technologies by state governments, however, the aggregated score on the digital economy—which measures telecommunications, computing and internet usage—is only moderate at 23<sup>rd</sup>. Indeed, the state's low performance on digital economy indicators is due to lack of technology in most schools (36<sup>th</sup>). A positive sign is that Michigan industries invest high in research and development (10<sup>th</sup>), but according to this report the state does not have enough high-tech jobs (36<sup>th</sup>) (Atkinson, 2002).

To move Michigan ahead on the knowledge-based economy, and as mentioned above, in 2004 Governor Granholm appointed a bipartisan Commission chaired by Lieutenant Governor John D. Cherry, Jr. The "Cherry Commission" was charged with preparing a set of recommendations for 1) building a dynamic workforce of employees who have the talents and skills needed for succeeding in the 21st century economy; 2) doubling the percentage of Michigan citizens who attain postsecondary degrees or other credentials that link them to economic success, and 3) improving the alignment of Michigan's institutions of higher education with emerging employment opportunities in the state's economy.

The Cherry Commission identified three competitive advantages that make the state a likely candidate to develop a knowledge-based economy: 1) as noted above, a high level of R&D expenditures as percent of the Gross State Product; 2) a high percent of

science and engineering degrees granted each year; and 3) a high number of patents issued (Cherry Commission, 2004). The Commission divided their work into four areas: preparation, participation, completion, and economic benefits, providing recommendations in each of these areas.

The main recommendations of the preparation group are: 1) to develop rigorous high-school curriculum standards; 2) establish a new statewide test that measure students' performance against Michigan standards, and may also be used as a college entrance examination; and 3) refashion high-schools by implementing research-based reforms such as small schools, K-16 mergers, and thematic schools. The participation group made the following recommendations: 1) make postsecondary education the educational attainment standard; 2) organize community compacts for increasing postsecondary education by 5 percent annually over the next ten years; and 3) implement a new dual enrollment funding system in order to assure that 50 percent of Michigan students earn college credits while in high school (by 2015).

The completion group made the following recommendations: 1) ask postsecondary education institutions to produce an annual report of their efforts to enhance student completion; 2) expand the geographic coverage of Michigan postsecondary education institutions; and, 3) create (by 2006) a statewide transfer wizard to smooth the progress of transferring from two- to four-years institutions.

The economic benefits group made the following recommendations: 1) create K-16 partnerships for offering courses that help to develop entrepreneurial skills; 2) call Michigan businesses and foundations to fund scholarships for Michigan students, especially for those pursuing science and engineering degrees; and 3) channel investment into the Michigan Technology Tri-Corridor which extends from Detroit to Ann Arbor and westward to Grand Rapids (Cherry Commission, 2004). The state has provided incentive grants to fund high technology and life science related investments in this corridor. Not surprisingly the corridor is home to some of the most important higher education institutions in the state, and all three of the states large research institutions.

The Cherry Commission also identified several critical factors affecting participation in postsecondary education including 1) high school preparation, 2) financial problems encountered by students, 3) poor knowledge about how to navigate the higher education system, 4) geographic, physical, and cultural barriers to higher education, 5) low expectations among some citizens that diminish student aspirations and 6) increased demands placed on working adults (Cherry Commission, 2004). The Commission's recommendations addressed all but one of the barriers to access noted above: financial problems. Due to the state structural fiscal constraints, Michigan is not able to increase substantially financial aid for needy students. Thus, colleges and universities may have to channel institutional aid to serve such need. As noted above, the University of Michigan has taken the leadership in providing institutional aid to its students, especially students from low and middle income students. Recently the University announced another initiative to increase access to students from underrepresented groups. The program, named M-PACT, will commit \$3 million a year to need-based aid in order to reduce the loan burden of undergraduate resident students. The program has been seeded with \$9 million from private gifts, but the University will launch a major fundraising initiative to raise \$60 million in order to sustain this effort over time (Coleman, 2004). Although the University has been and continues to support



needy students, they are also reacting to aid policies that their private (e.g., Princeton, Harvard, Yale) and public peers (e.g., North Carolina, Berkeley) have implemented to make education at their institutions more affordable for needy students. Targeting more aid to needy students is a growing trend among elite institutions like those mentioned above. If this becomes the norm the question is whether other institutions in Michigan (and elsewhere) will have the financial resources to commit to this effort.

Another suggestion being floated in some policy circles is to create a multi-year strategy to achieve aggregate per-student appropriations that at least meet the average of the Great Lakes region and their competing states. Michigan's per-student average level of support is about \$1,000 lower than neighboring states and its close competitors. Combining increased public support with institutional savings will go a long way towards restraining tuition increases, increasing quality and expanding accessibility. However it is very unclear where the dollars to fund this proposal would come from.

Another recommendation of the Cherry Commission is for the State of Michigan to establish a unit record student tracking system in order to improve the information available about Michigan's institutions of education. This system will resemble those established in other states, such as Florida and Missouri. The system will contain information on students as they progress through the K-12 ranks and into the postsecondary education system. Also available will be information about social (e.g., welfare dependence, incarcerations) and labor market outcomes (e.g., occupation employed in, weekly earnings) for student after they leave our schools and universities. Establishment of this system may improve our collective understanding of the link between K-12 education and success in higher education and/or the labor market. Another benefit of establishing such a system is the ability to establish (with more precision) the social benefits of formal education because actual earnings is available rather than using proxies such as the average earnings differences between high school and college graduates. One of the criticisms of public higher education has been that they have not documented the benefits that accrue to the state by the provision of state subsidies to students and institutions. Such a system has the potential of improving our understanding of the return that accrues to the state from its support of postsecondary education. At the time of this writing it appears this system will be created in that there are funds now appropriated to this effort and a team of policy makers and academics are being assembled to design and implement the system (and the first author of this paper is part of this team).

It appears that Michigan's current leadership is committed to move the state from being dependent on manufacturing—especially the auto industry—and to take a lead position in the knowledge driven economy. For instance, state and academic policy makers appear interested in developing the capacity to compete in the area of life sciences research and manufacturing, and the state has provided tax credits and seed money for this effort. At the same time politicians realize that having a labor force educated in these areas is also necessary, so to be successful universities are ramping up their efforts in the area of life sciences. Whether this enterprise is a success will in many ways depend on the postsecondary institutions in the state, especially the Big Three, playing a critical role in training the scientists who will work in this area. However, the universities cannot do this alone, they will need to have continuing financial and political support from Lansing.

## Conclusions

Every decade the Presidents Council assembles a group of business and labor leaders to examine the state of Michigan's public universities. In 2002 this group was again convened and their effort culminated in a report. In this report the Commission Chairman Paul Hillegonds noted, "We must look beyond the current budget issues and find ways to make higher education available and affordable for more people in Michigan. The future growth of this state depends on our ability to remain competitive and that takes an educated workforce" (University Investment Commission, 2003). The Commission called for a long-term strategy to meet the challenge of building economic security and social progress in Michigan. In the report the Commission also proposed a new compact between the state and its public universities with shared responsibility for strengthening Michigan's world-class higher education institutions and achieving greater numbers of people with four-year degrees, especially in segments that are currently underrepresented in universities. The report also urged Governor Granholm to convene a statewide summit of university, political, business, labor and civic leaders to assist in fashioning a long-term higher education development strategy. The Cherry Commission was established to do so and as mentioned above has made a number of recommendations that are now being implemented in order to more closely align the economy of the state and the postsecondary sector. It seems that an alliance of labor, business, political, and academic leaders are quite serious about improving the state's capabilities to be competitive in the 21<sup>st</sup> century, and the postsecondary education system will play an important role in this process. Only time will tell, of course, whether there will be the financial and political wherewithal to make this plan a reality.

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