FISCAL FOCUS

State University Appropriations

Prepared by:
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November 2006

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November 2006

TO: Members of the House of Representatives

Appropriations to Michigan's 15 state universities total $1.46 billion for FY 2006-07, representing 15.8 percent of total state GF/GP appropriations. Decisions about state university appropriations, therefore, represent a key part of the annual state budget process.

This report includes an overview of current state university appropriations, a discussion of funding earmarks, a review of historical funding methods, and an analysis of appropriation and enrollment trends over the last two decades.

Kyle I. Jen, Senior Fiscal Analyst, is the author of this report. Jeanne Dee, Administrative Assistant, prepared the material for publication.

Please do not hesitate to call if you have questions about the information in this publication.

Mitchell E. Bean
Director

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INTRODUCTION

Over the last two centuries, 13 public universities have been established by the State of Michigan. Counting the University of Michigan's three campuses separately, there are 15 public four-year institutions of higher education to which the Legislature annually appropriates state funds for operational costs.[1]

Section 4, Article VIII of the Michigan Constitution of 1963 states the following:

> *The legislature shall appropriate moneys to maintain the University of Michigan, Michigan State University, Wayne State University, Eastern Michigan University, Michigan College of Science and Technology, Central Michigan University, Northern Michigan University, Western Michigan University, Ferris Institute, Grand Valley State College, by whatever names such institutions may hereafter be known, and other institutions of higher education established by law. . . .*

While this section establishes a mandate for the Legislature to appropriate funds to the 15 state universities, no constitutional or statutory provisions have been established to govern (1) the amount of funding to be appropriated or (2) the distribution of appropriations among the 15 universities. Decisions about university appropriation amounts are, therefore, made on a year-to-year basis by the Legislature.

This report provides an overview of state appropriations to state universities in Michigan, and addresses the following topics:

- Current university appropriations—both gross and per-student amounts.
- Funding earmarks or allocations for specific purposes within university appropriations.
- Methods used to adjust state university appropriations over the last two decades.
- Historical trends in university appropriations (total and university-by-university), enrollment figures, and per-student appropriation amounts.

Historical information in this report covers fiscal year (FY) 1983-84 to FY 2006-07. Although appropriation and enrollment data are available beginning in FY 1976-77, unusual budget adjustments made in the early 1980s make year-to-year funding comparisons problematic during that period.

Table 1 lists the 15 state universities, the abbreviations used in this report, and the year in which each university was founded.

[1] For the remainder of this report, the phrase "15 state universities" reflects the treatment of UM-Dearborn and UM-Flint as distinct institutions for purposes of the state budget process.

TABLE 1
Michigan's State Universities

University	Abbreviation	Year Founded*
Central Michigan University	CMU	1892
Eastern Michigan University	EMU	1849
Ferris State University	FSU	1884
Grand Valley State University	GVSU	1960
Lake Superior State University	LSSU	1946
Michigan State University	MSU	1855
Michigan Tech University	MTU	1885
Northern Michigan University	NMU	1899
Oakland University	OU	1957
Saginaw Valley State University	SVSU	1963
University of Michigan - Ann Arbor	UM-AA	1817
University of Michigan - Dearborn	UM-D	1959
University of Michigan - Flint	UM-F	1956
Wayne State University	WSU	1868
Western Michigan University	WMU	1903

**Source: Presidents Council, State Universities of Michigan*

CURRENT UNIVERSITY APPROPRIATIONS

The enacted version of the FY 2006-07 Higher Education budget includes $1.46 billion in appropriations for state university operations.[2] General Fund/General Purpose (GF/GP) revenue constitutes 99.4 percent of that amount; the remaining 0.6 percent is appropriated from the Merit Award Trust Fund—which receives a portion of Michigan's tobacco settlement revenue.

Merit award trust fund revenue ($9.5 million total for FY 2006-07) is appropriated to four universities: Central, Grand Valley, Oakland, and Saginaw Valley. These funding amounts were added based on a per-student funding floor in FY 2003-04 and have remained unchanged since then.

Table 2 shows the enacted FY 2006-07 appropriation for each of the 15 state universities. Support for the three universities with the largest appropriations—UM-Ann Arbor, Michigan State, and Wayne State—constitutes 57.3 percent of total operational support to the 15 universities.

TABLE 2
State University Operations Appropriations: Fiscal Year 2006-07

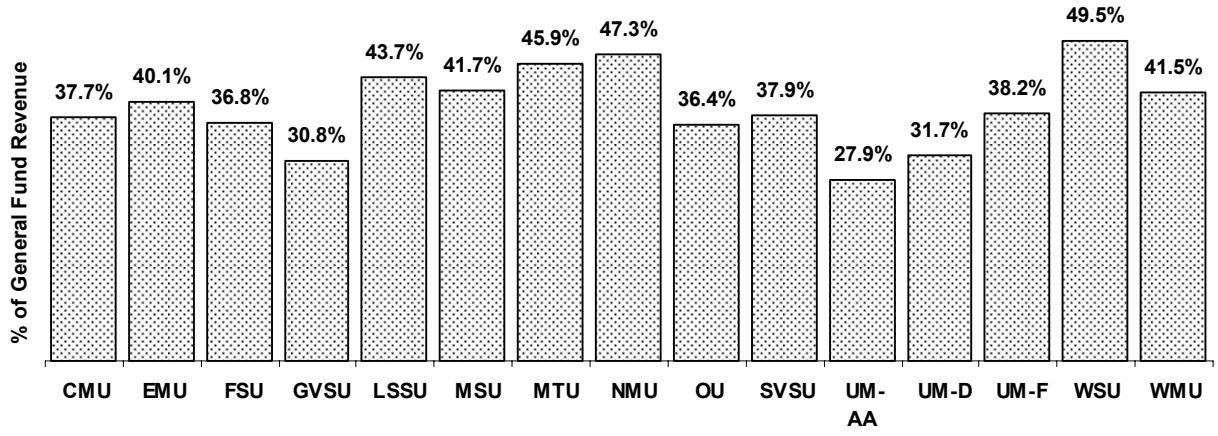
University	Appropriation	% of Total
UM - Ann Arbor	$325,796,300	22.3
Michigan State	292,185,500	20.0
Wayne State	220,033,000	15.0
Western Michigan	112,876,400	7.7
Central Michigan	82,383,700	5.6
Eastern Michigan	78,168,700	5.3
Grand Valley State	64,797,700	4.4
Oakland	52,409,000	3.6
Ferris State	50,045,100	3.4
Michigan Tech	49,219,300	3.4
Northern Michigan	46,399,400	3.2
Saginaw Valley State	28,874,500	2.0
UM - Dearborn	25,456,600	1.7
UM - Flint	21,520,300	1.5
Lake Superior State	12,928,400	0.9
TOTAL	**$1,463,093,900**	**100.0**

[2] The focus of this report is state funding provided to the 15 state universities for their general operations. Universities may receive additional funds through the Higher Education budget, Capital Outlay budget, and other areas of the state budget. Most notable are the appropriations to Michigan State for its Agricultural Experiment Station and Cooperative Extension Service (totaling $63.0 million in FY 2006-07); these funds are not reflected in the appropriation figures reported in this document.

The focus of this report is on state appropriations to state universities, rather than state university funding in general, but it should be noted that the extent to which the 15 state universities rely on the state appropriations to fund their operations varies significantly. Figure 1 illustrates each university's state appropriation as a percentage of its FY 2004-05 general fund revenue. This figure ranged from 27.9 percent to 49.5 percent, with an average figure of 37.2 percent. The vast majority of remaining general fund revenue at each university is generated from student tuition and fees.

FIGURE 1

FY 2004-05 State University Appropriations
As a % of University General Fund Revenue



Historically, university appropriation amounts have been compared on a per-student basis in order to account for the varying enrollment sizes of the universities. This calculation is based on an enrollment figure called fiscal year equated students (FYES)—a calculated equivalent of the number of full-time students at each university. The calculation of FYES varies by academic level:

- At the undergraduate level, FYES is equal to student credit hours divided by 30.
- At the master's level, FYES is equal to student credit hours divided by 24.
- At the doctoral level, FYES is equal to student credit hours divided by 16.
- At the professional level, FYES is based on student headcount.[3]

Except at the professional level, the calculation of FYES rests on the premise that instructional costs are a function of student credit hours, rather than student headcount (the number of individual students enrolled at the campus). For example: One undergraduate student taking 30 credit hours in an academic year equates to one FYES. Three students enrolled for 10 credit hours each also equate to one FYES. In both cases, the same amount of instruction is being provided by the university. On the other hand, some non-instructional costs (student services, for example) may correlate more closely to student headcount than to FYES.[4]

[3] More specifically, professional-level FYES is equal to headcount for the fall and winter terms, divided by two, plus one-half of spring and/or summer headcount. Professional-level programs include degree programs in medicine, osteopathic medicine, dentistry, optometry, pharmacy, veterinary medicine, and law.

[4] Universities with higher headcount-to-FYES ratios tend to be those universities with larger numbers of part-time students. State universities with the highest headcount-to-FYES ratios in FY 2004-05 were UM-Dearborn (1.39) and Wayne State (1.34). The ratio for all 15 universities was 1.15.

The calculation of appropriations per FYES is generally based on total FYES, including both in-state and out-of-state students and both undergraduate and graduate students. For any given budget process, the most recent enrollment data available are for two years prior to that budget year. For example, during the 2006 budget process the Legislature utilized FY 2004-05 FYES data to determine FY 2006-07 appropriation adjustments.

FYES data is collected through the Higher Education Institutional Data Inventory (HEIDI), a state database to which each state university annually submits enrollment, finance, and other institutional data. These data are subject to annual review and/or audit by the Auditor General.

Figure 2 (page 6) and Table 3 show appropriation-per-FYES figures for FY 2006-07. Per-FYES amounts range from $3,340 to $8,818; the weighted average across all 15 universities is $5,852.

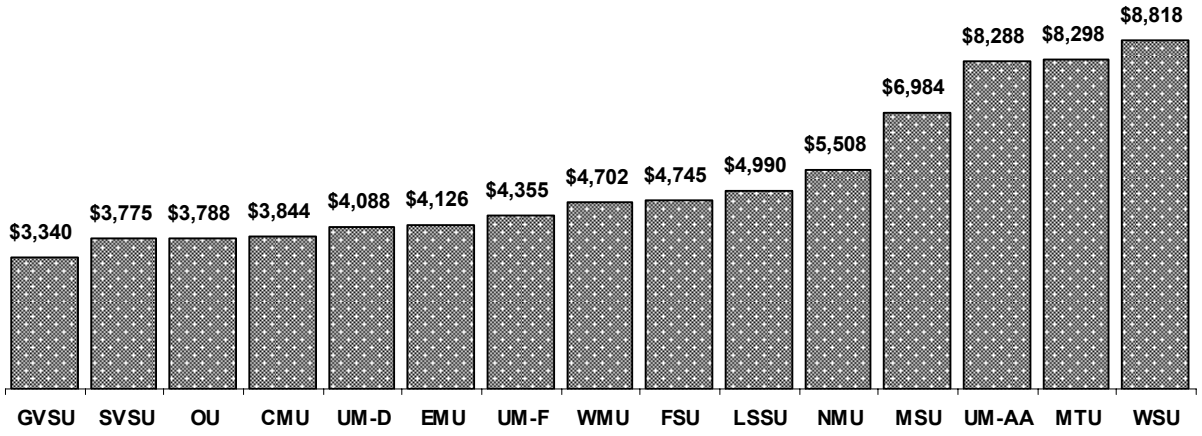
TABLE 3
State University Appropriations per FYES: Fiscal Year 2006-07

University	FY 2006-07 Appropriation	FY 2004-05 Total FYES	Appropriation per FYES
Wayne State	$220,033,000	24,953	$8,818
Michigan Tech	49,219,300	5,932	8,298
UM - Ann Arbor	325,796,300	39,311	8,288
Michigan State	292,185,500	41,836	6,984
Northern Michigan	46,399,400	8,424	5,508
Lake Superior State	12,928,400	2,591	4,990
Ferris State	50,045,100	10,548	4,745
Western Michigan	112,876,400	24,006	4,702
UM - Flint	21,520,300	4,941	4,355
Eastern Michigan	78,168,700	18,947	4,126
UM - Dearborn	25,456,600	6,227	4,088
Central Michigan	82,383,700	21,431	3,844
Oakland	52,409,000	13,834	3,788
Saginaw Valley State	28,874,500	7,649	3,775
Grand Valley State	64,797,700	19,400	3,340
TOTAL	**$1,463,093,900**	**250,030**	**$5,852**

The largest gap in the appropriations-per-FYES spectrum is between Michigan State and Northern Michigan. The four universities above this gap (Wayne State, Michigan Tech, UM-Ann Arbor, and Michigan State) tend to conduct more science- and engineering-related research, graduate-level instruction, and/or instruction in higher cost fields like engineering or health. Several of the other 11 universities, however, also exhibit some of these characteristics.

FIGURE 2

State University Appropriations per FYES
Fiscal Year 2006-07



Although some funding methods used in a given year may be based on FYES (as discussed later in this report), no permanent structure or guidelines exist with regard to what a particular university's appropriation per FYES should be, or how it should compare to the per-FYES appropriations of other universities.

APPROPRIATION EARMARKS

Sections 5 and 6 of Article VIII of the State Constitution of 1963 grant the governing boards of each of Michigan's state universities "control and direction of all expenditures from the institution's funds." As a general principle, state universities have fairly wide discretion in how they expend the funds appropriated to them by the state for operations.

There have been instances, however, when the Legislature has chosen to allocate a portion of university appropriation amounts for specific purposes. In recent years, this has been accomplished through budget bill boilerplate language; in some earlier years, the Legislature has included separate line items for specific purposes within universities' appropriations units.

There are two purposes for which all 15 universities have been allocated funds in recent years: the King-Chavez-Parks Program and the Indian Tuition Waiver Program.

King-Chavez-Parks Program

The King-Chavez-Parks (KCP) Program was created by the Legislature in 1986 for the broad purpose of increasing the participation of underrepresented minorities and disadvantaged students in postsecondary institutions. The program is governed by a series of boilerplate sections in the annual Higher Education budget act; no permanent statute has been enacted to govern the program.

The KCP program consists of six components. Funding for three of the components ($2.7 million total for FY 2006-07) is appropriated in stand-alone line items and awarded to postsecondary institutions on a competitive basis by the Department of Labor and Economic Growth: the Select Student Support Services Program, the College/University Partnership Program, and the Morris Hood, Jr. Educator Development Program.

Funding for the other three components is included in the 15 state universities' operations appropriations: the College Day Program, the Future Faculty Program, and the Visiting Professors Program. Total FY 2006-07 funding for these components ($2.5 million) equates to 0.2 percent of total state appropriations to state universities. Boilerplate language governing these programs provides that the amount allocated for each program from each university's appropriation be increased annually by the "percentage change applicable to every university in the calculation of appropriations."[5]

Indian Tuition Waiver Program

Public Act 174 of 1976 created this program, under which state universities and public and tribal community colleges are required to waive tuition costs for North American Indians meeting certain requirements. Until FY 1995-96, costs of this program were

[5] For a detailed listing of the amounts allocated from each university's appropriation for each KCP component, see the *Fiscal Year 2006-07 Higher Education Appropriations Report* available at http://www.house.mi.gov/hfa.

appropriated in a line item in the financial aid section of the annual Higher Education budget act. In response to a veto threat during the FY 1996-97 budget process, funding for this program was rolled into individual operations line items of the 15 state universities and 28 public community colleges—beginning in that budget year. Additionally, $100,000 was added to Northern Michigan's line item to be passed through to Bay Mills College (a tribal community college) for program costs incurred by the college; this funding was shifted to Lake Superior State's line item in FY 2004-05, and boilerplate language was added earmarking the funds for the pass-through to Bay Mills.

No boilerplate language exists to specifically allocate funds rolled into the universities' line items for the Indian Tuition Waiver Program. The universities have, however, continued to waive tuition pursuant to Public Act 174 of 1976.

Table 4 shows the amount of funds originally rolled into each university's line item, the amount of funds theoretically built into 2004-05 appropriations accounting for across-the-board appropriation adjustments since FY 1996-97, and the actual costs of the program in FY 2004-05. Actual costs of the program were approximately double the theoretical amount of funds allocated for the program in FY 2004-05—$5.0 million vs. $2.4 million. This difference is the result of both growth in the number of program participants and tuition increases adopted by the universities.

TABLE 4
State University Indian Tuition Waiver Costs: Fiscal Year 2004-05

		FY 2004-05		
University	Funds Rolled into FY 1996-97 Appropriation	*Theoretical Appropriation	Actual Costs	Difference
Central	$144,117	$149,340	$441,972	$292,632
Eastern	103,478	107,228	225,488	118,260
Ferris	156,380	162,048	241,383	79,335
Grand Valley	114,121	118,257	488,832	370,575
Lake Superior	276,146	286,154	631,079	344,925
Michigan State	313,968	325,347	701,369	376,022
Michigan Tech	58,509	60,630	170,110	109,480
Northern	264,054	273,624	512,244	238,620
Oakland	50,610	52,444	130,927	78,483
Saginaw Valley	37,266	38,617	90,932	52,315
UM-Ann Arbor	432,567	448,244	654,200	205,956
UM-Dearborn	58,541	60,663	102,218	41,555
UM-Flint	54,531	56,507	132,717	76,210
Wayne State	169,537	175,681	295,978	120,297
Western	111,851	115,905	206,850	90,945
TOTAL	**$2,345,676**	**$2,430,689**	**$5,026,299**	**$2,595,610**

**FY 1996-97 amount adjusted for annual across-the-board changes to university operations appropriations.*

In previous decades, the Legislature frequently appropriated funds to state universities for specific programs or purposes, and in some instances, boilerplate language was included to earmark the funds for those purposes. Currently, no boilerplate earmarks exist beyond those referenced above.

In FY 2005-06, language earmarking $5.6 million from Wayne State's appropriation for the Joseph F. Young, Sr. Psychiatric Research and Training Program was removed from the budget act, as funding for the program had been shifted to a federal source within the Community Health budget as part of FY 2004-05 executive order actions. Also in FY 2005-06, language associated with $500,000 added to Central Michigan's appropriation in FY 1995-96 (for the National Charter Schools Institute housed at the university) was removed—although the funding amount was retained in Central's appropriation.

Any expenditures by universities from state appropriations for purposes originally specified by the Legislature—other than King-Chavez-Parks and the $100,000 pass-through to Bay Mills College—are based on the universities' understanding and continued recognition of historical legislative intent.

HISTORICAL FUNDING METHODS

Over the last two decades, a wide range of methods has been used by the Legislature to determine year-to-year adjustments to state university appropriations. Table 5 summarizes the funding methods used to determine annual enacted appropriation amounts from FY 1984-85 to FY 2006-07.[6] In most (but not all) years, an across-the-board increase has been provided for all 15 universities, with one or more methods used to distribute additional funding increases.

TABLE 5

Funding Methods Utilized to Determine State University Appropriation Changes

	Across-the-Board Increase	Per-Student Funding Floor	Multiple/Tier Funding Floors	Funding Model	Student Equity Plan	Enrollment Growth	Program/Research Funding	Funding for New Facilities	Instructional Equipment Costs	Tuition-Based Changes	Across-the-Board Decrease	Flat Funding
FY 1984-85	X						X	X	X			
FY 1985-86	X						X	X	X			
FY 1986-87	X	X					X	X				
FY 1987-88					X	X	X	X				
FY 1988-89					X	X	X	X		X		
FY 1989-90	X				X	X	X	X		X		
FY 1990-91	X				X	X	X	X				
FY 1991-92	X					X	X	X				
FY 1992-93		X					X					
FY 1993-94												X
FY 1994-95	X		X									
FY 1995-96	X		X									
FY 1996-97	X		X				X					
FY 1997-98	X	X					X					
FY 1998-99	X	X										
FY 1999-00	X		X									
FY 2000-01	X		X									
FY 2001-02	X		X									
FY 2002-03												X
FY 2003-04		X									X	
FY 2004-05										X		X
FY 2005-06	X	X		X								
FY 2006-07		X		X								

NOTES: 1) Table reflects major components used to determine appropriation changes in each year; additional smaller adjustments have also been made in various years. 2) Table reflects methodology utilized for enacted version of budget; subsequent supplemental/ executive order adjustments are not reflected.

[6] The information in this section is based on a review of the Higher Education appropriations report compiled by the House and Senate Fiscal Agencies each year pursuant to an annual boilerplate language requirement.

Below are brief descriptions of the funding methods identified in Table 5:

- **Across-the-board increase:** Each university's appropriation is increased by the same percentage. (In some years early in the time period, the percentage increase was applied to a combined base of appropriation and tuition revenue.)

- **Per-student funding floor:** Universities with appropriation-per-FYES amounts below a certain threshold (for example, $3,775 in FY 2006-07) receive a funding increase to bring them up to, or closer to, that threshold.

- **Multiple/tier funding floors:** Appropriation-per-FYES thresholds are established for multiple groups of universities. These groups have been established based on either calculated instructional costs or institutional classifications published by the Carnegie Foundation.[7] Universities below the threshold for their group receive a funding increase to bring them up to, or closer to, their respective thresholds.

- **Funding model:** The funding model—with enrollment-, degree completion-, and research-based components—developed for the two most recent budget years.

- **Student Equity Plan:** A formula developed in the late 1980s based on a calculated state share of undergraduate instructional costs. Additional adjustments were made in some years for graduate-intensive universities.

- **Enrollment growth:** Universities receive a funding amount multiplied by the increase in their respective enrollments for the most recent year data are available. This method differs from a per-student funding floor in that funding increases are based on enrollment changes rather than total enrollment.

- **Program/research funding:** Funds intended for specific instructional programs or research purposes.

- **Funding for new facilities:** Funds to offset a portion of the costs of operating new facilities constructed on a university's campus.

- **Instructional equipment costs:** Funds for instructional equipment costs, distributed in proportion to instructional expenditure amounts.

- **Tuition-based changes:** Funds added for universities that have maintained low tuition levels. In one recent year, a portion of each university's appropriation was contingent on tuition increases being held below a specified threshold.

- **Across-the-board decrease:** Each university's appropriation is reduced by the same percentage.

- **Flat funding:** No changes are made to the appropriation amounts from the prior budget year.

[7] Historically, the Carnegie classifications have been based primarily on the amount of instruction a postsecondary institution conducts at the various instructional levels (undergraduate, master's, doctoral). Recently, the classifications have been revised to provide a more comprehensive description of institutions. For more information, see http://www.carnegiefoundation.org/classifications/.

The use of these different methods over time can be divided into five time periods:

- From FY 1984-85 to FY 1986-87, increases over an across-the-board increase were tied to fairly specific purposes—instructional programs, research, new facilities, and/or instructional equipment. In the first two years, a portion of the across-the-board increase was based on a combined base of appropriation and tuition revenue—with the intent of minimizing tuition increases.

- From FY 1987-88 to FY 1991-92, some funding increases were allocated for more specific purposes, but two methods tied to broader purposes were also utilized—funding increases based on enrollment growth and the Student Equity Plan—a model based on certain assumptions about the state's share of instructional costs.

- From FY 1992-93 to FY 2001-02, funding increases beyond an across-the-board increase were generally based on the funding floor concept. In some years, funding increases were based on a single floor for all 15 universities; in other years, multiple funding floors for different groups of universities were utilized.

- From FY 2002-03 to FY 2004-05, state funding to the universities was either declining or being held flat. Funding reductions were made on an across-the-board basis. In FY 2003-04, funds were distributed based on a single per-student funding floor to partially or wholly offset funding reductions for several universities. In FY 2004-05, flat funding was contingent on tuition restraint.

- In FY 2005-06 and FY 2006-07, the majority of funding increases were distributed through a combination of a per-student funding floor and partial utilization of the funding model included in the Higher Education budget as passed by the House of Representatives in each of those years.

The various funding methods used to determine appropriation adjustments from year to year have generally been incremental in nature—taking the prior-year appropriation amounts and making marginal changes based on one or more policy objectives. Over time, funding adjustments have tended to move from being based on more specific criteria (specific instructional programs, facility openings) to broader criteria (per-student funding floor, funding model). There have been occasional attempts to develop a more comprehensive funding model or formula for determining state university appropriation amounts. For example, the FY 1986-87 Higher Education budget act contained the following boilerplate language:

> *Sec. 43. It is the intent of the legislature that the executive recommendation and appropriations for the fiscal year ending September 30, 1988 be based upon a formula for determining the financial needs and the differences that exist among institutions due to variances in roles and missions, and programs providing special grants for unique purposes.*

Attempts to develop a comprehensive funding model have generally had a relatively small impact on enacted state appropriations, and have not resulted in the establishment of a permanent set of funding provisions. Examples of attempts to develop a more comprehensive funding model since FY 1983-84 include the following:

- In 1985, a task force composed of state budget staff and university representatives developed an Investment Needs Model based on cost comparisons with peer institutions in other states. This model was never utilized to a significant extent in the state budget.

- Beginning in FY 1987-88, the Student Equity Plan was developed by the Senate to equalize state funding for undergraduate instruction. The model was utilized to some extent in distributing funding increases for several years, but was not utilized after FY 1990-91.

- The funding tier method was developed in the mid-1990s based on calculated instructional costs. Universities with larger amounts of instruction in higher-cost areas and instructional levels were placed in tiers with higher funding floors. While the resulting tiers were referenced in budget bill language for a number of years, the amount of funding actually distributed based on the tiers was quite limited. The Higher Education budget act has not referenced funding tiers since FY 2002-03.

The use of a single per-student funding floor has a longer history—having been incorporated into the budget on and off from FY 1986-87 to FY 2006-07. This method is somewhat less comprehensive in that it provides a basis for determining funding amounts only for universities at the lower end of the per-FYES funding spectrum.

For FY 2005-06 and FY 2006-07, the House-passed budget bills utilized a funding model to allocate total university funding based on enrollment-, degree completion-, and research-based components. The result of the model was a funding amount for each university calculated independent of that university's prior-year appropriation amount.[8]

When this model was utilized, funding increases and decreases from existing amounts were capped at various percentage levels. In the final version of the FY 2006-07 Higher Education budget, funding increases were limited to 2.9 percent and there were no funding reductions. Additional funding increases for Pell Grant students and other items also moderated the final distribution of funding increases. Due to a per-student funding floor, two universities received increases of 5.0 percent or more; the range of increases for the other 13 universities was 2.5 percent to 3.4 percent.

Boilerplate language describing funding model calculations has been included in Higher Education budget bills for FY 2005-06 and FY 2006-07, but no permanent statutory provisions related to the model have been enacted. For the past two years, the model has been utilized only in House-passed versions of the budget and, to a lesser extent, in the enacted budget.

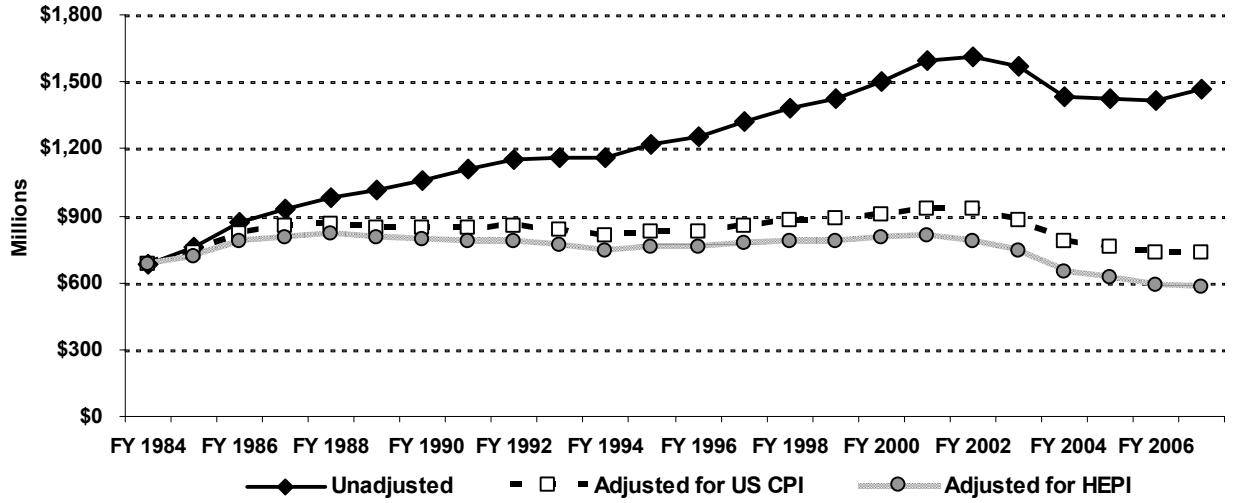
[8] Detailed technical explanations of the state university funding model calculations for FY 2005-06 and FY 2006-07 are available at http://www.house.mi.gov/hfa.

HISTORICAL TRENDS: TOTAL APPROPRIATIONS AND ENROLLMENT

Data on changes in state university appropriations since FY 1983-84 are provided in this section and the following section.[9] Appropriations are examined on an absolute basis and on a per-student basis. All per-student appropriation figures are based on FYES data from two years prior to the given budget year, reflecting enrollment information available to the Legislature when the budget was under consideration. Total state university appropriations and enrollment are discussed in this section; the following section analyzes differences in appropriation and enrollment changes among the 15 state universities.

FIGURE 3

State University Operations Appropriations



In FY 1983-84, state university appropriations totaled $681.8 million. As shown in Figure 3, the following changes in total appropriations have occurred over time:

- Appropriations grew substantially in FY 1984-85 and FY 1985-86 as the state recovered from the dual recessions of the early 1980s. Growth continued through FY 1991-92, at which time total appropriations reached $1.15 billion.

[9] Technical notes regarding appropriation figures utilized in these sections of the report: (1) Appropriation amounts reported are final year-to-date figures that account for executive order and supplemental actions. Note that information provided on funding methods was based on enacted appropriation amounts and did not reflect subsequent adjustments. (2) In earlier years, appropriation figures reflect the total of a university's main operations appropriation and other line items in a university's appropriations unit for King-Chavez-Parks, the Research Excellence Fund, and/or other purposes. (3) The 3.0 percent tuition restraint funds originally appropriated to universities in FY 2003-04 but actually paid at the beginning of FY 2004-05 are included in FY 2003-04 appropriation figures. This accounting of the funds better reflects the Legislature's intent when the budget was adopted.

- The recession of the early 1990s resulted in appropriations essentially being held flat in FY 1992-93 and FY 1993-94.

- Another period of growth ended in FY 2001-02, when total appropriations reached a peak of $1.62 billion. This represented an increase of 137.0 percent from FY 1983-84.

- During the recent period of state budget difficulties, total university appropriations declined by $195.7 million (12.1 percent) from FY 2001-02 to FY 2005-06. Some of this decrease was offset by an increase of $43.3 million (3.0 percent) for FY 2006-07.

Over the FY 1983-84 to FY 2006-07 period, total university appropriations have increased by 114.6 percent; this equates to an annualized growth rate of 3.4 percent. These figures are based on unadjusted appropriation figures. Figure 3 also shows total university appropriations adjusted for two inflation indexes:

- United States Consumer Price Index (US CPI)
  Although the US CPI is based on costs faced by consumers rather than higher education institutions, it is often utilized as a broad inflationary measure for budgetary and analytical purposes.

- Higher Education Price Index (HEPI)
  The HEPI—a measure of price inflation for goods and services purchased by higher education institutions—tends to rise more rapidly than the US CPI due to the high percentage of institutional expenditures tied to faculty and staff compensation.[10]

Adjusting for the US CPI, appropriations are slightly higher in FY 2006-07 than they were in FY 1983-84; the cumulative increase is 7.8 percent. Adjusting for the HEPI, appropriations are slightly lower in FY 2006-07 than they were in FY 1983-84; the cumulative decrease is 14.5 percent. Cumulative appropriations increases, then, have been roughly in line with inflationary pressures since FY 1983-84. The overall increase in total appropriations has been slightly above or slightly below inflation, depending on the precise measure of inflation utilized.

While appropriations to state universities have increased since FY 1983-84, state university enrollment has also increased. Figure 4 shows changes in total FYES from FY 1981-82 to FY 2004-05 (reflecting the standard two-year lag). Enrollment has followed a long-term growth trend, but has also tended to fluctuate inversely with economic trends:

- Total FYES declined from 206,284 in FY 1981-82 to 195,073 in FY 1984-85 as Michigan began to recover from the recessions of the early 1980s.

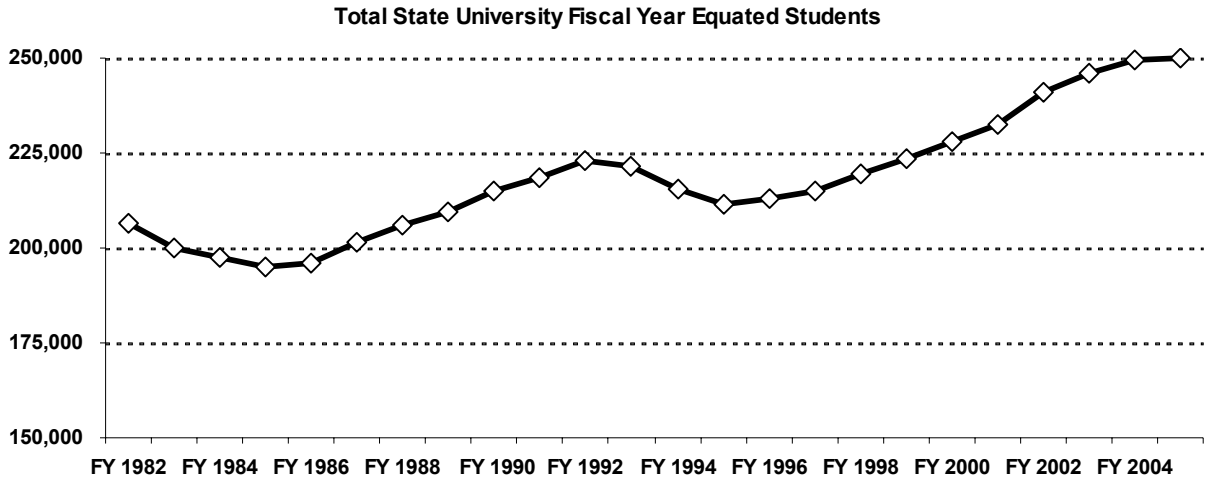
- Enrollment resumed an upward trend through the recession of the early 1990s. Total FYES reached a new peak of 222,788 in FY 1991-92.

[10] The FY 2005-06 and FY 2006-07 CPI figures and the FY 2006-07 HEPI figure utilized in these calculations are based on Consensus Revenue Conference and HFA projections; Higher Education Price Index data are available at http://www.commonfund.org.

- An enrollment decline occurred as the state recovered from the recession in the early 1990s. This decline ended in FY 1994-95 with total FYES at 211,683.

- Since FY 1994-95, total FYES has increased continuously, reaching a new peak of 250,030 in FY 2004-05. Growth was strongest from FY 2000-01 to FY 2002-03, coinciding with the most recent recession. Growth has moderated since FY 2002-03; the increase for FY 2004-05 was only 0.2 percent.

FIGURE 4



Over the FY 1981-82 to FY 2004-05 period, total FYES grew by 21.2 percent; this equates to an annualized growth rate of 0.8 percent.

The appropriation and enrollment trends detailed above indicate that the two figures tend to fluctuate inversely to one another. During recessions, a larger number of individuals have been inclined to enroll in postsecondary education due to more limited employment opportunities, while the ability of the state to increase funding to state universities has been constrained.[11]

Figure 5 (see page 18), which shows the annual percentage change in state university appropriations and FYES over time, illustrates this relationship. When enrollment is increasing, state funding tends to be decreasing or increasing at more moderate levels; when enrollment is decreasing, state funding tends to be growing at higher rates.

The appropriation and enrollment trends discussed above combine to create the data in Figure 6 (see page 18), which shows total appropriations per FYES since FY 1983-84.

[11] The inverse relationship between postsecondary enrollment and state funding is not unique to Michigan. See page 7 of "Recession, Retrenchment, and Recovery: State Higher Education Funding and Student Financial Aid," released in October 2006 and available at http://www.coe.ilstu.edu/eafdept/centerforedpolicy/.

FIGURE 5

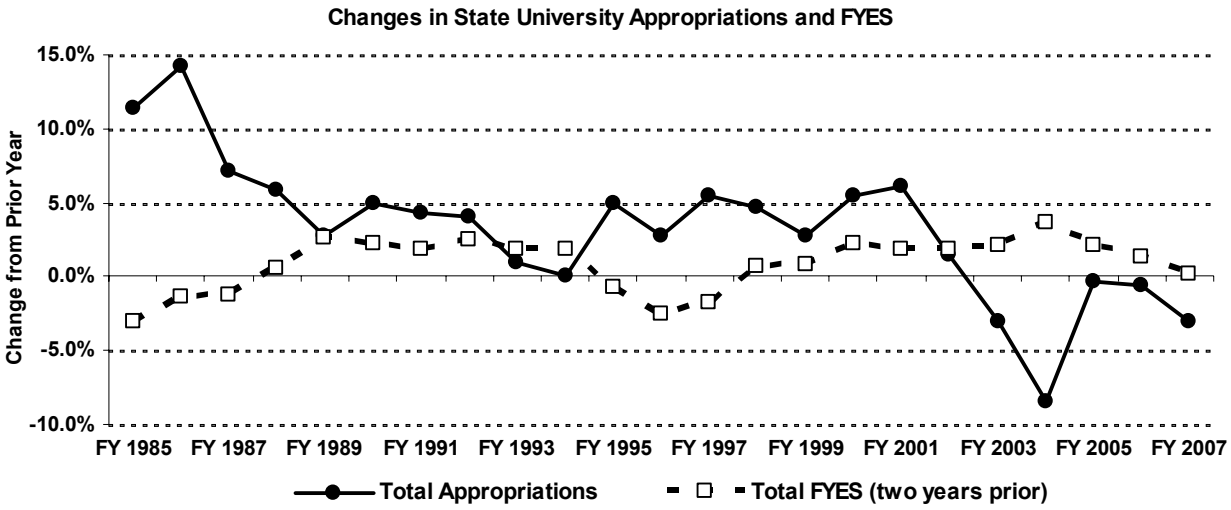
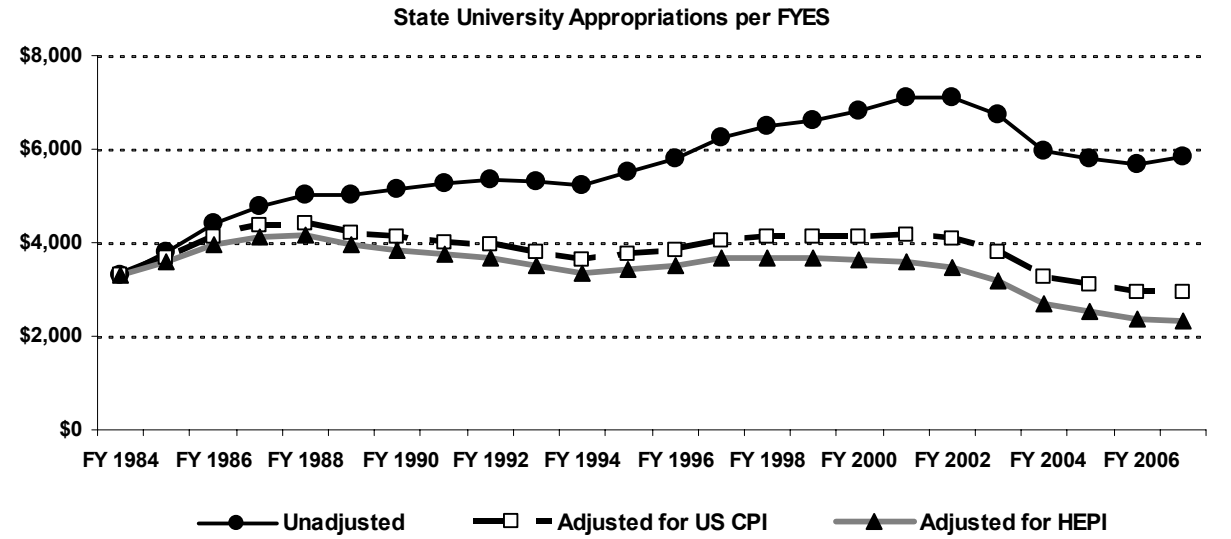


FIGURE 6



Because appropriations and enrollment figures tend to move in opposite directions, per-student appropriation trends are usually sharper than trends in absolute appropriation amounts. Examples of this are as follows:

- Growth in per-student appropriations was very rapid in the mid-1980s—growing by roughly 15 percent per year in both FY 1984-85 and FY 1985-86.

- While total appropriations were held flat during FY 1992-93 and FY 1993-94 budget difficulties, per-student appropriations declined in both those years due to enrollment growth.

- From FY 1994-95 to FY 1996-97, the combination of appropriations increases and enrollment declines resulted in per-FYES appropriation increases of more than 5.0 percent in each of the three years.

- From FY 2001-02 to FY 2005-06, appropriations fell more sharply on a per-student basis than on an absolute basis as enrollment increased over that period. Appropriations per FYES fell from $7,086 in FY 2001-02 to $5,688 in FY 2005-06—a decline of 19.7 percent compared to a decline of 12.1 percent over the same time period in absolute appropriations.

Over the FY 1983-84 to FY 2006-07 period, appropriations per FYES increased from $3,305 to $5,852, or 77.1 percent. This equates to an annualized growth rate of 2.5 percent—without accounting for inflation. Adjusting for the US CPI, this figure fell by 11.1 percent—from $3,305 to $2,939 in FY 1983-84 dollars. Adjusted for the HEPI, the figure fell by 29.5 percent—from $3,305 to 2,331.

Cumulative funding increases since FY 1983-84 have not kept pace with the combined impact of enrollment growth and inflationary pressures. Depending on the measure used, inflation-adjusted appropriations-per-FYES fell below the FY 1983-84 level in either FY 2002-03 or FY 2003-04, and have remained below the FY 1983-84 level in subsequent years.

HISTORICAL TRENDS: UNIVERSITY BY UNIVERSITY AMOUNTS

Changes in appropriation and enrollment amounts have varied across the 15 state universities over the last two decades. Table 6 provides historical data for each of the 15 universities. To simplify presentation, data are provided at five-year intervals rather than on an annual basis, and data are not adjusted for inflation. Because the time period covered by this report is 23 years, the first interval was shortened to three years (FY 1983-84 to FY 1986-87). The interval lengths also allow for analysis of relative changes during periods of increases and decreases in total appropriations and/or enrollment.

Data in Table 6 (see page 23) show considerable complexity, but a number of trends can be identified (again, enrollment data are lagged by two years for each time interval):

- **FY 1983-84 to FY 1986-87**
  This period had the highest level of growth in state university appropriations, even though enrollment was declining at most universities. As a result, appropriations-per-FYES grew at a robust rate of 44.2 percent over three years.

  Saginaw Valley was the only university to receive an appropriation increase substantially higher than the average increase of 36.3 percent. The university's increase of 56.3 percent appears to have been driven by funding increases for facility openings.

  Accounting for enrollment changes that ranged from a reduction of 15.1 percent to an increase of 14.9 percent, increases in appropriations per FYES ranged from 18.1 percent to 60.6 percent.

- **FY 1986-87 to FY 1991-92**
  During this period, both appropriations and enrollment grew at significant rates. Two universities received appropriation increases substantially above the 23.9 percent average—Grand Valley (41.5 percent) and Saginaw Valley (38.4 percent). These larger increases appear to have been tied to the Student Equity Plan and enrollment growth funding methods utilized during this time period.

  This period also marks the first of the remaining four periods in which both Grand Valley and Saginaw Valley experienced large enrollment increases; Grand Valley had increases of more than 25 percent in each of the four periods, and Saginaw Valley had increases of more than 18 percent in each of the four periods.

Fourteen of the 15 universities had enrollment increases over this five-year period, and these increases offset or moderated appropriation increases. The net result was changes in appropriations per FYES ranging from a 5.4 percent reduction to a 40.3 percent increase.

- **FY 1991-92 to FY 1992-97**

  Appropriations grew at modest rates during this period, while enrollment showed a slight net reduction. Grand Valley and Saginaw Valley again had the largest increases in both appropriations and enrollment, as funding floor-based adjustments became more prevalent.

  Ferris State experienced an 18.2 percent enrollment reduction, contributing to a 39.2 percent increase in appropriations per FYES. Increases for the other 14 universities in per-FYES appropriations ranged from 2.4 percent to 23.8 percent.

- **FY 1992-97 to FY 2001-02**

  This period included significant increases in both university appropriations and enrollment. Central Michigan (32.7 percent) and Grand Valley (40.5 percent) received the largest appropriation increases, due to funding increases above the annual across-the-board increases being distributed almost exclusively based on per-student funding floors (either a single floor or multiple funding floor tiers).

  Eleven of the 15 universities experienced enrollment increases, with Central Michigan, Grand Valley, Oakland, and Saginaw Valley all experiencing increases of more than 15 percent. Increases in appropriations per FYES ranged from 2.7 percent to 29.2 percent.

- **FY 2001-02 to FY 2006-07**

  This period is the only interval showing a net appropriation reduction, with total appropriations declining by 9.4 percent. Only two universities (Grand Valley and Saginaw Valley) received appropriation increases over the five-year period; Oakland's FY 2006-07 appropriation is flat compared to the FY 2001-02 amount. These three universities received funding increases offsetting budget reductions during this period largely due to per-student funding floor adjustments.

  Twelve of the 15 universities experienced enrollment increases during this time period, with six showing increases of 10 percent or more. All 15 universities experienced reductions in their appropriations per FYES, with reductions ranging from 2.8 percent to 27.1 percent.

Over the full period of FY 1983-84 to FY 2006-07, total university appropriations increased by 114.6 percent. The only two universities to receive an increase more than 40 percentage points above the average were Grand Valley (335.4 percent) and Saginaw Valley (268.8 percent). These two universities also experienced substantially greater enrollment growth than the other 13 universities—at 288.9 percent and 131.9 percent, respectively.

TABLE 6
State University Appropriations and FYES: Selected Fiscal Years from 1983-84 to 2006-07

Operations Appropriations (Thousands of Dollars)

							% Change					
	FY1984	FY1987	FY1992	FY1997	FY2002	FY2007	FY1984-FY1987	FY1987-FY1992	FY1992-FY1997	FY1997-FY2002	FY2002-FY2007	FY1984-FY2007
Central	$33,578	$45,675	$58,487	$67,820	$90,004	$82,384	36.0	28.0	16.0	32.7	(8.5)	145.3
Eastern	38,919	52,307	64,015	73,195	87,637	78,169	34.4	22.4	14.3	19.7	(10.8)	100.9
Ferris	24,891	33,339	40,983	46,693	55,520	50,045	33.9	22.9	13.9	18.9	(9.9)	101.1
Grand Valley	14,884	20,346	28,793	42,772	60,095	64,798	36.7	41.5	48.6	40.5	7.8	335.4
Lake Superior	6,530	8,643	10,550	11,986	14,269	12,928	32.4	22.1	13.6	19.0	(9.4)	98.0
Michigan State	136,991	187,273	231,831	267,661	325,982	292,186	36.7	23.8	15.5	21.8	(10.4)	113.3
Michigan Tech	24,200	33,124	40,565	45,823	55,242	49,219	36.9	22.5	13.0	20.6	(10.9)	103.4
Northern	24,010	32,020	39,253	44,166	52,013	46,399	33.4	22.6	12.5	17.8	(10.8)	93.3
Oakland	22,267	29,900	36,318	40,186	52,385	52,409	34.3	21.5	10.7	30.4	0.0	135.4
Saginaw Valley	7,830	12,242	16,943	21,372	27,393	28,875	56.3	38.4	26.1	28.2	5.4	268.8
UM-Ann Arbor	163,758	225,308	273,763	301,907	363,563	325,796	37.6	21.5	10.3	20.4	(10.4)	98.9
UM-Dearborn	10,575	14,518	18,478	22,182	27,993	25,457	37.3	27.3	20.0	26.2	(9.1)	140.7
UM-Flint	9,527	12,925	16,565	18,904	24,068	21,520	35.7	28.2	14.1	27.3	(10.6)	125.9
Wayne State	112,047	152,553	189,355	214,356	253,645	220,033	36.2	24.1	13.2	18.3	(13.3)	96.4
Western	51,777	69,276	85,440	103,764	125,677	112,876	33.8	23.3	21.4	21.1	(10.2)	118.0
TOTAL	**$681,783**	**$929,450**	**$1,151,338**	**$1,322,788**	**$1,615,486**	**$1,463,094**	**36.3**	**23.9**	**14.9**	**22.1**	**(9.4)**	**114.6**

Total FYES

							%Change					
	FY1982	FY1985	FY1990	FY1995	FY2000	FY2005	FY1982-FY1985	FY1985-FY1990	FY1990-FY1995	FY1995-FY2000	FY2000-FY2005	FY1982-FY2005
Central	16,166	15,422	16,755	16,614	19,438	21,431	(4.6)	8.6	(0.8)	17.0	10.3	32.6
Eastern	14,415	15,132	18,682	17,963	18,539	18,947	5.0	23.5	(3.8)	3.2	2.2	31.4
Ferris	12,250	10,871	11,323	9,264	8,527	10,548	(11.3)	4.2	(18.2)	(8.0)	23.7	(13.9)
Grand Valley	4,988	5,621	8,408	10,579	14,477	19,400	12.7	49.6	25.8	36.9	34.0	288.9
Lake Superior	2,214	2,440	2,854	2,817	2,779	2,591	10.2	17.0	(1.3)	(1.3)	(6.8)	17.1
Michigan State	39,811	36,863	38,580	36,009	39,455	41,836	(7.4)	4.7	(6.7)	9.6	6.0	5.1
Michigan Tech	8,505	7,250	6,328	6,365	6,109	5,932	(14.8)	(12.7)	0.6	(4.0)	(2.9)	(30.3)
Northern	7,783	6,609	6,885	6,650	7,133	8,424	(15.1)	4.2	(3.4)	7.3	18.1	8.2
Oakland	9,751	9,370	9,549	9,623	11,359	13,834	(3.9)	1.9	0.8	18.0	21.8	41.9
Saginaw Valley	3,298	3,385	4,298	5,295	6,271	7,649	2.6	26.9	23.2	18.4	22.0	131.9
UM-Ann Arbor	35,415	34,297	35,845	36,048	37,134	39,311	(3.2)	4.5	0.6	3.0	5.9	11.0
UM-Dearborn	4,852	4,521	5,313	5,491	5,773	6,227	(6.8)	17.5	3.3	5.1	7.9	28.3
UM-Flint	3,396	3,902	4,844	4,683	5,050	4,941	14.9	24.1	(3.3)	7.8	(2.2)	45.5
Wayne State	24,480	22,431	23,929	23,500	23,095	24,953	(8.4)	6.7	(1.8)	(1.7)	8.0	1.9
Western	18,960	16,960	21,188	20,781	22,833	24,006	(10.6)	24.9	(1.9)	9.9	5.1	26.6
TOTAL	**206,284**	**195,073**	**214,780**	**211,683**	**227,972**	**250,030**	**(5.4)**	**10.1**	**(1.4)**	**7.7**	**9.7**	**21.2**

Appropriations per FYES

							%Change					
	FY1984	FY1987	FY1992	FY1997	FY2002	FY2007	FY1984-FY1987	FY1987-FY1992	FY1992-FY1997	FY1997-FY2002	FY2002-FY2007	FY1984-FY2007
Central	$2,077	$2,962	$3,491	$4,082	$4,630	$3,844	42.6	17.9	16.9	13.4	(17.0)	85.1
Eastern	2,700	3,457	3,427	4,075	4,727	4,126	28.0	(0.9)	18.9	16.0	(12.7)	52.8
Ferris	2,032	3,067	3,619	5,040	6,511	4,745	50.9	18.0	39.2	29.2	(27.1)	133.5
Grand Valley	2,984	3,619	3,424	4,043	4,151	3,340	21.3	(5.4)	18.1	2.7	(19.5)	11.9
Lake Superior	2,950	3,542	3,696	4,255	5,134	4,990	20.1	4.3	15.1	20.7	(2.8)	69.2
Michigan State	3,441	5,080	6,009	7,433	8,262	6,984	47.6	18.3	23.7	11.2	(15.5)	103.0
Michigan Tech	2,845	4,569	6,410	7,199	9,043	8,298	60.6	40.3	12.3	25.6	(8.2)	191.6
Northern	3,085	4,845	5,701	6,641	7,292	5,508	57.1	17.7	16.5	9.8	(24.5)	78.6
Oakland	2,284	3,191	3,803	4,176	4,612	3,788	39.7	19.2	9.8	10.4	(17.9)	65.9
Saginaw Valley	2,374	3,616	3,942	4,036	4,368	3,775	52.3	9.0	2.4	8.2	(13.6)	59.0
UM-Ann Arbor	4,624	6,569	7,637	8,375	9,791	8,288	42.1	16.3	9.7	16.9	(15.4)	79.2
UM-Dearborn	2,179	3,212	3,478	4,040	4,849	4,088	47.4	8.3	16.2	20.0	(15.7)	87.6
UM-Flint	2,806	3,313	3,420	4,037	4,766	4,355	18.1	3.2	18.0	18.1	(8.6)	55.2
Wayne State	4,577	6,801	7,913	9,122	10,983	8,818	48.6	16.4	15.3	20.4	(19.7)	92.7
Western	2,731	4,085	4,033	4,993	5,504	4,702	49.6	(1.3)	23.8	10.2	(14.6)	72.2
ALL UNIVERSITIES	**$3,305**	**$4,765**	**$5,361**	**$6,249**	**$7,086**	**$5,852**	**44.2**	**12.5**	**16.6**	**13.4**	**(17.4)**	**77.1**

Grand Valley's appropriation and enrollment changes from FY 1983-84 to FY 2006-07 are particularly large. The university received the largest increase in its absolute appropriation amount over the 23-year period. Due to the fact that its enrollment nearly quadrupled over the same period, however, it also experienced the smallest increase in appropriations per FYES. This increase of 11.9 percent is substantially lower than the second lowest increase of 52.8 percent.

Two universities, Ferris State and Michigan Tech, experienced net enrollment declines over the 23-year period.[12] Partly as a result of those declines, those two universities also experienced the largest increases in appropriations per FYES (133.5 percent for Ferris, 191.6 percent for Michigan Tech).

Among the 11 universities not experiencing FYES reductions or FYES increases above 50 percent, a rough correlation exists between FYES increases and appropriation increases over the 23-year period. For example, UM-Flint—which had the third highest FYES increase—received an appropriation increase about 10 percentage points above the average, while Wayne State—which had the smallest FYES increase—received the second smallest appropriation increase. The relationship between enrollment increases and appropriation increases has not been precise; the result has been differential increases in per-FYES appropriation amounts.

In general, relative changes in appropriations per FYES have been driven much more by enrollment changes than by appropriation changes. The bulk of funding increases have been across-the-board or distributed fairly evenly, leading to a relatively narrow range of funding increases across the 15 state universities in a given year or time period. Enrollment, meanwhile, has fluctuated less uniformly across the universities.

Table 7 illustrates this statement. The table displays the 15 universities ranked by appropriations per FYES for the beginning and end years of the period covered by this report. Four universities shifted three or more positions in the rankings:

- Ferris State: shifted up eight positions
- Michigan Tech: shifted up five positions
- Saginaw Valley: shifted down three positions
- Grand Valley: shifted down 10 positions

The two universities that moved substantially down in the rankings are the two universities that experienced the largest enrollment increases over this period; the two that shifted up substantially are the two universities that experienced enrollment declines. While a small portion of shifts along the per-FYES appropriation spectrum may have been the result of funding adjustments tied to academic programs or functions, the bulk of such shifts have been driven by enrollment changes rather than appropriation changes.

[12] Ferris State's enrollment has reversed direction in recent years, showing the second highest increase from FY 1999-2000 to FY 2004-05.

TABLE 7
State University Appropriations per FYES: Fiscal Years 1983-84 and 2006-07

FY 1983-84			FY 2006-07		
1	UM-Ann Arbor	$4,624	1	Wayne State	$8,818
2	Wayne State	4,577	2	Michigan Tech	8,298
3	Michigan State	3,441	3	UM-Ann Arbor	8,288
4	Northern	3,085	4	Michigan State	6,984
5	Grand Valley	2,984	5	Northern	5,508
6	Lake Superior	2,950	6	Lake Superior	4,990
7	Michigan Tech	2,845	7	Ferris	4,745
8	UM-Flint	2,806	8	Western	4,702
9	Western	2,731	9	UM-Flint	4,355
10	Eastern	2,700	10	Eastern	4,126
11	Saginaw Valley	2,374	11	UM-Dearborn	4,088
12	Oakland	2,284	12	Central	3,844
13	UM-Dearborn	2,179	13	Oakland	3,788
14	Central	2,077	14	Saginaw Valley	3,775
15	Ferris	2,032	15	Grand Valley	3,340

CONCLUSION

The constitutional requirement that the Legislature appropriate funds to maintain Michigan's 15 state universities is met by a total of $1.46 billion in appropriations to those universities in FY 2006-07. These funds represent a sizable financial expenditure by the state. Excluding the small amount of restricted funds appropriated to the universities, the remaining $1.45 billion is equal to 15.8 percent of total state GF/GP appropriations for FY 2006-07.

The appropriation amounts for the 15 universities vary widely—from $12.3 million to $325.8 million on an absolute basis and from $3,340 to $8,818 on a per-FYES basis. With limited exceptions, the universities have fairly wide discretion as to how they expend the funds appropriated to them.

A wide range of funding methods has been utilized to determine state university appropriation adjustments over the last two decades in response to changing policy objectives. Over time, these methods have tended to shift from funding adjustments tied to specific purposes to funding approaches tied to broader measures of university enrollment or activities. Attempts to develop a more comprehensive funding method have not resulted in establishment of a permanent model for determining university appropriation amounts.

Total appropriations to state universities have more than doubled since FY 1983-84, but have not kept pace with the combination of inflation and enrollment increases over that period. Changes in total university appropriations and enrollment have tended to be inverse to one another, fluctuating as the state's economic situation changes.

In most years, the range of percentage changes in university appropriations has been fairly narrow, and relative changes in per-student appropriations have been driven more by enrollment changes than by appropriation changes. While universities with the largest enrollment growth have tended to receive the largest appropriations increases, per-student appropriations for those universities have tended to grow at lower rates.

Discussion and debate regarding the level and distribution of state university appropriations will continue in future budget years. This report provides historical context for that discussion.

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