

**Summary: Executive Budget Recommendation
for Fiscal Year 2018-19
HIGHER EDUCATION**



Analyst: Perry Zielak

| | FY 2017-18 Year-to-Date as of 2/7/18 | FY 2018-19 Executive | Difference: FY 2018-19 Vs. FY 2017-18 | |
|--------------|--|-------------------------|--|------------|
| | | | Amount | % |
| IDG/IDT | \$0 | \$0 | \$0 | -- |
| Federal | 111,526,400 | 113,026,400 | 1,500,000 | 1.3 |
| Local | 0 | 0 | 0 | -- |
| Private | 0 | 0 | 0 | -- |
| Restricted | 238,443,500 | 385,688,300 | 147,244,800 | 61.8 |
| GF/GP | 1,279,254,500 | 1,160,217,900 | (119,036,600) | (9.3) |
| Gross | \$1,629,224,400 | \$1,658,932,600 | \$29,708,200 | 1.8 |

Notes: (1) FY 2017-18 year-to-date figures include mid-year budget adjustments through February 7, 2018. (2) Appropriation figures for all years include all proposed appropriation amounts, including amounts designated as "one-time."

Overview

The Higher Education budget, contained in Article III of the compiled School Aid Act, provides funding for operational support of the state's 15 public universities, the AgBioResearch and Extension programs operated by Michigan State University, various financial aid programs for students attending public and independent colleges and universities in the state, and several other smaller higher education-related programs.

| Major Budget Changes From FY 2017-18 Year-to-Date (YTD) Appropriations | FY 2017-18 YTD (as of 2/7/18) | Executive Change from YTD |
|--|--|--|
| 1. University Operations Funding | Gross \$1,428,345,000 | \$28,566,800 |
| Increases university operations funding by \$28.6 million School Aid Fund (SAF), a 2.0% increase. The increase is distributed under the performance funding formula, where 50% is allocated based on each university's share of operational funding appropriated in the baseline year of FY 2010-11, while the remaining increase is distributed based on other formula components (weighted completions, research and development spending, and comparison to Carnegie peers). Attainment of performance funding would be conditioned on restraining resident undergraduate tuition and fee increases to 3.8% or \$490 (set at 3.8% or \$475 in the current year). Projected funding increases for individual universities range from 1.5 to 3.1%. Also includes a fund shift of \$120.0 million from GF/GP to SAF. | Restricted 231,219,500 | 148,566,800 |
| | GF/GP \$1,197,125,500 | (\$120,000,000) |
| 2. Michigan Competitive Scholarship Fund Swap | Gross \$26,361,700 | \$6,000,000 |
| Increases funding for Michigan Competitive Scholarships by \$6.0 million in federal Temporary Assistance for Needy Families (TANF) funds. The scholarships are awarded to students with a qualifying ACT/SAT score and demonstrated financial need. The funding is taken from the Tuition Grant Program, due to higher than expected demand in Michigan Competitive Scholarships and lower participation in the Tuition Grant Program. Total funding for Michigan Competitive Scholarships would be \$32.4 million. | Federal 18,361,700 | 6,000,000 |
| | GF/GP \$8,000,000 | \$0 |
| 3. Tuition Grant Program Fund Swap | Gross \$38,021,500 | (\$6,000,000) |
| Decreases funding for the Tuition Grant Program by \$6.0 million in federal TANF funds. The program provides need-based tuition assistance to students at Michigan independent (i.e. private, non-profit) colleges and universities. The \$6.0 million reduction is transferred to Michigan Competitive Scholarships, due to higher than expected demand in Michigan Competitive Scholarships and lower participation in the Tuition Grant Program. Tuition Grant maximum per-student annual award amounts would increase from \$2,000 to \$2,100. Total funding for the Tuition Grant Program would be \$32.0 million. | Federal 31,664,700 | (6,000,000) |
| | GF/GP \$6,356,800 | \$0 |

| Major Budget Changes From FY 2017-18 Year-to-Date (YTD) Appropriations | | FY 2017-18 YTD (as of 2/7/18) | Executive Change from YTD |
|--|--------------|--|--|
| 4. Michigan Public School Employee Retirement System (MPERS) Rate Cap Costs | Gross | \$6,705,000 | (\$1,572,000) |
| Reduces funding by \$1.6 million SAF for the state's share of the universities' unfunded liability to MPERS. The state's share is the difference between the unfunded accrued liability to the system and the employer contribution cap of 25.73% of payroll for the seven universities with MPERS employees (Central, Eastern, Ferris, Lake Superior State, Michigan Tech, Northern, and Western). Total funding for the state share of MPERS would be \$5.1 million SAF. | Restricted | 6,705,000 | (1,572,000) |
| | GF/GP | \$0 | \$0 |
| 5. Tuition Incentive Program | Gross | \$58,300,000 | \$1,500,000 |
| Increases funding for Tuition Incentive Program by \$1.5 million in federal TANF funds, a 2.6% increase, which pays for Medicaid-eligible students' tuition costs for associate's degrees. Total funding for TIP would be \$59.8 million. | Federal | 58,300,000 | 1,500,000 |
| | GF/GP | \$0 | \$0 |
| 6. MSU Extension and AgBioResearch Programs | Gross | \$63,165,700 | \$1,263,400 |
| Increases funding for Michigan State's AgBioResearch program by \$678,300 GF/GP and Extension program by \$585,100 GF/GP, a 2.0% increase for both. | GF/GP | \$63,165,700 | \$1,263,400 |
| 7. MPERS Normal Cost Offset | Gross | \$419,000 | \$250,000 |
| Increases funding by \$250,000 SAF to reimburse universities for the normal cost increase for the second year of a two-year phase in to reduce the assumed rate of return for MPERS from 8% to 7.5%. Total funding for the offset would be \$669,000 SAF. | Restricted | 419,000 | 250,000 |
| | GF/GP | \$0 | \$0 |
| 8. Removal of One-Time Funding | Gross | \$300,000 | (\$300,000) |
| Eliminates \$300,000 GF/GP of one-time funding for the North American Indian Tuition Waiver Program | GF/GP | \$300,000 | (\$300,000) |

Major Boilerplate Changes From FY 2017-18

Sec. 242. Federal or Private Funds – REVISED

Deletes language specifying that acceptance of federal or private funds does not place an ongoing obligation on the legislature.

Sec. 245. University Transparency – REVISED

Deletes requirement that state budget director determine compliance and language granting authority to withhold payments for a university not in compliance.

Sec. 252. Tuition Grant Program – REVISED

Revises program application deadline from July 1 to March 1 to be considered for a tuition grant award. Deletes language that a tuition grant may not be renewed for more than 10 semesters or its equivalent in trimesters or quarters, or if a student has not completed using the grant within 10 years of determined eligibility by the Department of Treasury. Increases maximum award amount from \$2,000 to \$2,100. Deletes expiration date of unexpended funds as a work project. Increases individual institution cap on awards from \$3.5 million to \$4.2 million.

Sec. 256. Tuition Incentive Program – REVISED

Deletes requirement for unexpended funds to continue to be available in the next fiscal year as a work project.

Sec. 261. Douglas Lake Biological Station – DELETED

Deletes legislative intent section that designates University of Michigan's Douglas Lake Biological Station as a unique research resource and aims to protect the lake area.

Sec. 265. Performance Funding Criteria: Tuition Restraint – REVISED

Revises tuition restraint cap for universities to 3.8% or \$490.00, whichever is greater. Deletes language that defines fees to include the cost of a university-affiliated health insurance policy for a university that compels resident undergraduate students to have health insurance coverage. Deletes legislative intent language that indicates universities that violate the tuition restriction cap shall not receive a capital outlay project authorization in FY 2018-19 and FY 2019-20 and will have its appropriation adjusted.

Sec. 265a. Performance Funding Criteria and Formula – REVISED

Revises language around weighted undergraduate completions in critical skills areas. Deletes legislative intent language to lower score for three-year improvement criteria from 2 points to 1 point. Deletes intent language about allocating more funding based on performance metrics in future years.

Major Boilerplate Changes From FY 2017-18

Sec. 265b. Articulation Agreements and Academic Partnerships Reporting – NEW Requires that the Michigan Community College Association (MCCA), the Michigan Association of State Universities (MASU), and the Michigan Independent Colleges and Universities (MICU) report on the names and number of baccalaureate degree programs offered on community college campuses, the names of articulation agreements between universities and community colleges, and the number of students enrolled and degrees awarded through articulation agreements and on-campus baccalaureate programs.

Sec. 268. Indian Tuition Waivers – REVISED

Deletes language that states unfunded Indian Tuition Waiver costs be allocated from the general fund. Deletes language around distribution of funds from one-time appropriation.

Sec. 271a. Instructional Activity Pertaining to Unionization – DELETED

Deletes legislative intent language that instructs public universities not to use appropriations to offer instructional activity that targets companies or groups of companies for unionization or decertification of a union.

Sec. 274. Embryonic Stem Cell Research – DELETED

Deletes legislative intent language that instructs organizations conducting research using human embryonic stem cells report to the Department of Health and Human Services regarding compliance with federal guidelines and detailing usage of stem cell lines.

Sec. 275a. Capital Outlay Requirements – DELETED

Deletes section that prohibits use of state funds for self-liquidating projects and requires compliance with Joint Capital Outlay Subcommittee reporting requirements, with specified penalty of 1.0% of appropriation for failure to comply. (Executive Recommendation originally repeals Sec. 275. The State Budget Office notified the fiscal agencies of the mistake.)

Sec. 289. Audit of Higher Education Institutional Data Inventory (HEIDI) Data – REVISED

Revises language that the Auditor General shall audit the HEIDI data and selected universities from periodically to not less than every four years.

Supplemental Recommendations for FY 2017-18 Appropriations

**FY 2017-18
Recommendation**

1. Michigan Competitive Scholarship Fund Swap

Increases funding for Michigan Competitive Scholarships by \$6.0 million in federal Temporary Assistance for Needy Families (TANF) funds. The scholarships are awarded to students with a qualifying ACT/SAT score and demonstrated financial need. The funding is taken from the Tuition Grant Program, due to higher than expected demand in Michigan Competitive Scholarships and lower participation in the Tuition Grant Program. Total funding for Michigan Competitive Scholarships would be \$32.4 million.

| | |
|--------------|--------------------|
| Gross | \$6,000,000 |
| Federal | 6,000,000 |
| GF/GP | \$0 |

2. Tuition Grant Program Fund Swap

Decreases funding for the Tuition Grant Program by \$6.0 million in federal TANF funds. The program provides need-based tuition assistance to students at Michigan independent (i.e. private, non-profit) colleges and universities. The reduction of funds is placed in Michigan Competitive Scholarships, due to higher than expected demand in Michigan Competitive Scholarships and lower participation in the Tuition Grant Program. Total funding for the Tuition Grant Program would be \$32.0 million.

| | |
|--------------|----------------------|
| Gross | (\$6,000,000) |
| Federal | (6,000,000) |
| GF/GP | \$0 |

FY 2018-19 University Performance Funding Increases Executive Recommendation

| University | Proportional to FY 2010-11 | | | Performance Funding Proportional to Share of Total | | | | Performance Funding Scored vs. National Carnegie Peers | | | | | | | | *Total Performance Funding Increase | Proposed FY 2018-19 Appropriation | Percent Change |
|---------------------------------------|----------------------------|------------------------|---------------------------------------|--|-------------------------------------|------------------------|--------------------|--|--------------------------------|----------------------------------|--------------|----------------|-----------------|------------------|--------------------|-------------------------------------|-----------------------------------|----------------|
| | % of formula: | 50.0% | | 11.1% | | 5.6% | | 33.3% | | | | | | | | | | |
| | Funding per unit: | \$0.0101 per dollar | | \$177.62 per completion | | \$0.0011 per dollar | | \$6.71 per weighted point | | | | | | | | | | |
| FY 2017-18 Year-to-Date Appropriation | FY 2010-11 Appropriation | Funding | Critical Skills Undergrad Completions | Funding | Research & Development Expenditures | Funding | 6-year Grad Rate | Total Degrees | Instl. Support as % of Expend. | % Students Receiving Pell Grants | Total Points | Undergrad FYES | Weighted Points | Funding | | | | |
| Michigan State | \$281,239,100 | \$283,685,200 | \$2,852,821 | 3,244 | \$576,104 | \$349,725,075 | \$369,240 | 2 | 3 | 0 | 0 | 5 | 36,703 | 183,515 | \$1,231,666 | \$5,029,800 | \$286,268,900 | 1.8% |
| UM-Ann Arbor | 314,589,100 | \$316,254,500 | 3,180,347 | 3,159 | 561,007 | \$857,589,000 | 905,443 | 3 | 3 | 2 | 0 | 8 | 28,671 | 229,371 | 1,539,429 | \$6,186,200 | 320,775,300 | 2.0% |
| Wayne State | 199,169,800 | \$214,171,400 | 2,153,770 | 961 | 170,602 | \$181,378,000 | 191,499 | 2 | 2 | 0 | 3 | 7 | 14,375 | 100,622 | 675,324 | 3,191,200 | 202,361,000 | 1.6% |
| Central | 85,654,400 | \$80,132,000 | 805,831 | 822 | 145,913 | \$14,889,698 | 15,721 | 2 | 3 | 0 | 2 | 7 | 16,842 | 117,894 | 791,249 | 1,758,700 | 87,413,100 | 2.1% |
| Michigan Tech | 49,052,200 | \$47,924,200 | 481,940 | 923 | 164,013 | \$59,326,199 | 62,637 | 3 | 0 | 2 | 0 | 5 | 5,577 | 27,884 | 187,141 | 895,700 | 49,947,900 | 1.8% |
| Western | 109,376,800 | \$109,615,100 | 1,102,321 | 1,173 | 208,257 | \$22,801,658 | 24,074 | 0 | 2 | 0 | 2 | 4 | 16,272 | 65,087 | 436,835 | 1,771,500 | 111,148,300 | 1.6% |
| Eastern | 75,169,900 | \$76,026,200 | 764,542 | 938 | 166,606 | \$4,847,557 | 5,118 | 2 | 3 | 2 | 2 | 9 | 14,419 | 129,775 | 870,986 | 1,807,300 | 76,977,200 | 2.4% |
| Oakland | 51,235,900 | \$50,761,300 | 510,470 | 1,348 | 239,429 | \$12,609,712 | 13,313 | 2 | 2 | 2 | 2 | 8 | 15,216 | 121,728 | 816,981 | 1,580,200 | 52,816,100 | 3.1% |
| Grand Valley | 70,100,100 | \$61,976,400 | 623,253 | 1,390 | 246,800 | | | 3 | 3 | 2 | 0 | 8 | 20,178 | 161,420 | 1,083,375 | 1,953,400 | 72,053,500 | 2.8% |
| Saginaw Valley | 29,766,100 | \$27,720,700 | 278,767 | 495 | 87,832 | | | 2 | 2 | 2 | 2 | 8 | 7,341 | 58,726 | 394,140 | 760,700 | 30,526,800 | 2.6% |
| UM-Dearborn | 25,421,900 | \$24,726,200 | 248,654 | 481 | 85,505 | | | 2 | 2 | 2 | 2 | 8 | 5,861 | 46,885 | 314,672 | 648,800 | 26,070,700 | 2.6% |
| UM-Flint | 23,061,800 | \$20,898,000 | 210,156 | 610 | 108,258 | | | 2 | 2 | 0 | 2 | 6 | 5,062 | 30,372 | 203,840 | 522,300 | 23,584,100 | 2.3% |
| Ferris | 53,595,500 | \$48,619,200 | 488,929 | 1,540 | 273,550 | | | 2 | 3 | 2 | 2 | 9 | 10,229 | 92,061 | 617,870 | 1,380,400 | 54,975,900 | 2.6% |
| Northern | 47,137,400 | \$45,140,300 | 453,944 | 598 | 106,269 | | | 2 | 3 | 2 | 0 | 7 | 6,534 | 45,738 | 306,972 | 867,200 | 48,004,600 | 1.8% |
| Lake Superior | 13,775,000 | \$12,694,200 | 127,657 | 191 | 33,943 | | | 2 | 2 | 0 | 0 | 4 | 1,929 | 7,716 | 51,786 | 213,400 | 13,988,400 | 1.5% |
| TOTAL: | \$1,428,345,000 | \$1,420,344,900 | \$14,283,400 | 17,870 | \$3,174,089 | \$1,503,166,899 | \$1,587,044 | 31 | 35 | 18 | 19 | 103 | 205,208 | 1,418,792 | \$9,522,267 | \$28,566,800 | \$1,456,911,800 | 2.0% |

| Data Notes | | | |
|---|----------------|---------------|---|
| Component | Source | Years | Notes |
| Critical skills undergrad completions | State HEIDI | FYs 2016-2017 | STEM/health/etc. |
| Research & develop expends | Federal IPEDS | FY 2016 | Carnegie research universities only |
| Six-year graduation rate | Federal IPEDS^ | FYs 2012-2015 | First-time, full-time degree seeking students |
| Total degree completions | Federal IPEDS^ | FYs 2012-2015 | Includes graduate degrees |
| Inst support as % of core expends | Federal IPEDS^ | FYs 2012-2015 | Measure of administrative costs |
| Pell grant students | Federal IPEDS^ | FYs 2013-2015 | Federal need-based aid for undergrads |
| Undergrad FYES | State HEIDI | FY 2017 | Includes nonresident students |
| ^ via Business Leaders for Michigan and Anderson Economic Group | | | |

| Scoring Based on Carnegie Peers | |
|---------------------------------|---|
| Top 20% nationally | 3 |
| Above national median | 2 |
| Improving over 3 years | 2 |

*Requirements to receive funding increase:

1. Restrain FY 2018-19 resident undergraduate tuition/fee rate increase to 3.8% or \$490 (whichever is greater)
2. Participate in at least three reverse transfer agreements with community colleges
3. Maintain a dual enrollment credit policy that does not consider whether credits were used toward high school graduation
4. Actively participate in and submit timely updates to the Michigan Transfer Network