Breaking the Spiral of Disillusionment:

A Proposal to Secure Universities as Infrastructure for Michigan and beyond.

CENTER FOR HIGHER AND ADULT EDUCATION

MICHIGAN STATE UNIVERSITY

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Executive Summary.

Increasing educational attainment to support individuals, job creation, and the economy is one of the few bipartisan priorities in the United States. Espoused support for college attainment has not translated into adequate funding for higher education institutions. In Michigan, like much of the country, higher education has become increasingly unaffordable for many families in the state primarily because the state has failed to make investments to ensure affordability. Governor Gretchen Whitmer set the goal of reaching 60% of Michigan adults with a postsecondary credential by 2030, but without additional resources for regional public universities, the goal is likely unattainable.

With insufficient support from the state, public universities are increasingly reliant on tuition dollars to make ends meet. Efforts to maximize tuition income prompts universities to compete with one another for students. This, in turn, can lead lawmakers and the public to perceive universities as self-serving.

Research universities in Michigan have generally been able to grow their enrollments. Regional public universities have not fared as well. These universities are crucial to meeting attainment goals because they serve a wide range of students in particular geographic areas. Yet regional public universities are also the most exposed to state disinvestment because they are the least able to generate tuition revenue and therefore offer the shrinking number of students they enroll with a less resource-intensive education. Research shows a causal relationship between educational spending and student success, which means that declining spending likely means falling attainment.

Taken together, the dynamics we outline yield a cyclical process. State disinvestment produces university revenue-seeking behavior and reduced opportunities for student success at regional public universities, which results in lower public confidence in higher education. We call this processes the "spiral of disillusionment." Interrupting the spiral of disillusionment is necessary to both meet attainment goals and make public higher education a resilient and stable social infrastructure for the 21st century.

Regional public universities in Michigan need additional resources to support their students. Funding for the state's regional public universities will help to increase affordability, promote student success, bring the state closer to its attainment goals, and reinstall public confidence in higher education. These funds should not be earned through market-like competition. Competing for dollars prompts universities to behave self-interestedly. Yet, given many demands on Michigan's resources, it is not clear that regional public universities can get all the funds they need from the state government.

To break the spiral of disillusionment, we propose a resource stabilization fund (RSF), drawn from both state and donor resources to increase and stabilize education spending at regional public universities. This fund will provide long-term financial stability while encouraging mission adherence, tuition discipline, and cooperation.

The fund has three objectives:

1. **The RSF will support increased student attainment by providing additional resources to the state's regional public universities.** High-quality evidence suggests that increased spending in higher education leads to increased graduation rates. Providing additional funds for regional public universities in Michigan will help to move the needle in achieving state attainment goals.
2. **The RSF will hold public universities accountable** to their core mission of undergraduate education. As a condition of participating in the RSF, universities will pledge to provide affordable access to Michigan's undergraduate students.

3. **The RSF will hold state governments accountable** for maintaining critical higher education infrastructure. Universities that enter the fund agreement voluntarily give up some of their autonomy and pledge a commitment to serve the state. In return, the state must demonstrate a good faith commitment to the universities.

This proposal offers three advantages over traditional ways of funding public higher education.

1. **Pooling funds** is more likely to be able to raise sufficient resources to better support students. This is a distinct advantage over policies that encourage universities to compete.
2. Restrictions placed on the RSF can be designed specifically to support the core mission of public higher education. **Mission discipline** is a key component of rebuilding public trust in higher education.
3. The RSF provides **targeted support** to regional public universities that need additional resources. Reinvigorating universities that provide affordable access is crucial to meeting Michigan's attainment goals.

Introduction.

Michigan's regional public universities are key social infrastructure for the state. They provide access to higher education to many students who might otherwise not pursue a four-year degree. They are also vital to community economic resilience.[1] But compared to the state's larger research universities, the regional public universities now struggle to maintain enrollments and face fiscal challenges.

Michigan's regional public universities need long-term, stable investments to effectively serve students and the state. Public investment can allow each of these campuses to fulfill their missions today and into the future. Higher education has long turned to endowment funds to provide enduring financial support. Public universities, and especially regional public universities, often struggle to build the sort of endowments that well-resourced private institutions enjoy.

Given this reality, coupled with the urgent need to secure the future of these vital institutions, we propose the establishment of an endowment-like revenue stabilization fund (RSF) that will help regional public universities to weather the challenges presented by a volatile funding environment. The RSF would be an independent non-profit organization—not owned by the state government or member universities—dedicated to supporting regional public universities in the state. Like the endowment for the Smithsonian Institution, the fund would be supported by both private philanthropy and public dollars. Universities that benefit from affiliation with the fund would be held accountable for fulfilling their missions by limiting tuition increases and spending funds on educational activities.

Background and Context.

Increasing educational attainment to support individuals, job creation, and the overall economy is one of the few bipartisan priorities in the United States. Since the early 2000s, successive versions of this priority have been called the attainment agenda.[2] In this report, we explain how bipartisan support for college affordability has failed to translate into policy that provides adequate funding for higher education institutions. We document the consequences of decades-long public neglect, which has led to what we call the spiral of disillusionment. We propose a novel policy solution in the form of a public-private revenue stabilization fund to support regional public universities in Michigan.

Attainment goals set by the federal government can be overly ambitious, vague, and lack concrete policy proposals or sufficient investment. The U.S. has a higher rate of college attendance and attainment than most other countries but has lost ground in recent years.[3] In 2009, President Barack Obama set a goal for the United States to have the highest college attainment rate in the world. The Obama administration did not match its lofty goal with an infusion of funding or new programs, and the goal to boost attainment was not achieved.[4]

Most of the states have set similar goals. In Michigan, Governor Gretchen Whitmer announced a goal in 2019 of reaching 60% of Michigan adults with a postsecondary credential by 2030.[5] Currently, the

[1] Weinstein, R., & Yang, Y. (2021). Do Universities Improve Local Economic Resilience? *The Review of Economics and Statistics*. https://doi.org/10.1162/rest_a_01212.

[2] Perna, L. W., Finney, J. E., & Callan, P. M. (2014). *The attainment agenda: State policy leadership in higher education*. Johns Hopkins University Press.

[3] OECD Education at a Glance: https://www.oecd-ilibrary.org/sites/3197152b-en/index.html?itemId=/content/publication/3197152b-en

[4] See "Happy New Year, Higher Ed: You Missed your Complete Goal" by Eric Kelderman. January 7, 2020, *Chronicle of Higher Education*: https://www.chronicle.com/article/happy-new-year-higher-ed-youve-missed-your-completion-goal/.

[5] See https://www.luminafoundation.org/news-and-views/michigan-sets-2030-goal-for-post-high-school/

postsecondary attainment rate in the state is below 50%.[6] Plans to provide free community college and substantial new investments in financial aid and funding for public universities[7] may help boost attainment in Michigan. Still, reaching the attainment goal will be a challenge.

Policymakers' desire to boost attainment and improve student outcomes is laudable. States including Tennessee, Oregon, and New York have found promising results from new policies that attempt to make higher education work for students. Too often, however, state governments set unrealistic goals and do not provide the investment necessary to meet them.

Because attainment agenda goals have neither been especially realistic nor adequately funded, policy emphasis increasingly pushes for short-term, lower-cost programs. This includes new qualification programs such as certificates and short-cycle sub-baccalaureate degrees and older ideas such as more and better information about program return on investment (ROI) or student vouchers to promote consumer market power. Some of these new credential programs are promising, but the long-term benefits are unproven. What is more, many students still demand core traditional college degrees, and four-year degrees are in demand by employers.[8] Policies that are based on portable aid and information have not been effective in driving down costs, improving quality, or expanding equitable opportunity.[9]

Even as states have promoted an attainment agenda, they have divested from the university infrastructure that fueled the expansion of participation and opportunity in the 20th century.[10] That infrastructure—many campuses, typically spread across a state—continues to serve a large share of students and supports local economic growth.[11] Like other infrastructure, higher education institutions need to be maintained. Neglecting the systems of accessible higher education that states built up over many years is like failing to fix the many potholes in our roads. The infrastructure is still in use and is necessary to get people where they need to go, but long-term neglect means it is not ideally suited to meet 21st-century goals.[12]

Infrastructure neglect weighs heavily on states with slow population growth, especially in the Northeast and Midwest, where populations are shrinking relative to the rest of the country.[13] U.S. higher education enrollments are down from historic peaks between 2010 and 2012. The demand for higher education, however, has not fallen off a cliff. Recent data show that students continue to select baccalaureate-granting programs. In fact, in addition to the strains created by the COVID pandemic, recent declines in community college enrollment are partially attributed to more students pursuing baccalaureate degrees, including baccalaureate programs offered at community colleges. Application data also show that large and well-known universities are seeing increases in student demand. Enrollments at public research universities have grown in recent years.[14] The combination of a shrinking population and growing demand for research universities means that regional public universities, sometimes called "broad access institutions" (BAIs), face especially dire financial circumstances.[15]

[6] See https://www.masu.org/news/educational-attainment/10-13-2020/michigan-action-plan-increasing-postsecondary-attainment
[7] See https://www.michigan.gov/whitmer/news/press-releases/2022/07/06/whitmer-celebrates-record-bipartisan-education-budget-investments
[8] See https://www.mlive.com/public-interest/2022/08/the-50-high-paying-jobs-expected-to-grow-the-most-by-2030-in-michigan.html. The 29 highest-paying jobs on the list all require a bachelor's degree or higher.
[9] See http://www.opportunityinstitute.org/wp-content/uploads/higher-education/Failing-Grade-High-Tuition-High-Aid-Apr09.pdf
[10] See https://sheeo.org/wp-content/uploads/2021/05/SHEEO_ImpactAppropationsFinancialAid.pdf
[11] See https://www.brookings.edu/research/restoring-regional-public-universities-for-recovery-in-the-great-lakes/
[12] See https://www.chronicle.com/article/its-time-for-radical-reorganization/
[13] Grawe, N. D. (2018). *Demographics and the demand for higher education*. Johns Hopkins University Press.
[14] See https://www.npr.org/transcripts/1103396029
[15] Crisp, G., McClure, K. R., & Orphan, C. M. (2022). *Unlocking opportunity through broadly accessible institutions*. Routledge.

State disinvestment, in other words, results in a higher education system that is inadequate to meet both public policy goals and the aspirations of countless individuals. When higher education falls short of expectations in this way, public support plummets. Across the country, families question the value of a college degree and policymakers seek to hold higher education more accountable. In the next section, we explain why we call this process the "spiral of disillusionment."

Thus far, policymakers have largely failed to interrupt the spiral of disillusionment. In 2022, Michigan Governor Gretchen Whitmer signed into law a bipartisan bill creating the Michigan Achievement Scholarship.[16] While the Michigan Achievement Scholarship is a significant investment in college affordability, Michigan public universities remain underfunded by the state. Chronic underfunding compromises the ability of regional public universities to serve students effectively.[17]

This report describes the challenging circumstances that institutional leaders and policymakers face as they seek to restore the promise of higher education to meet the challenges of the 21st century. We offer a novel policy solution designed to stabilize the recourses available to regional public universities that are critical to achieving policy goals and restoring confidence in higher education.

The dynamics of the spiral of disillusionment are in play in Midwestern states like Michigan, where regional public universities disproportionately serve low-income students, train nurses and teachers, and contribute to regional economies.[18] The state of Michigan hosts 15 four-year public universities, each of which can be considered critical infrastructure for the state's social and economic well-being. Stress to this crucial infrastructure, however, is not experienced evenly. Internationally recognized research universities have secured increased enrollments and revenue. By contrast, regionally focused campuses experienced few gains, with many losing students and income over time.[19] When regionally focused institutions face adverse market conditions, they may become more likely to strive for prestige and drift from their student-focused missions.[20]

We offer a policy proposal to help repair Michigan's public university infrastructure and to stabilize it for the future: an infrastructure bank to shore up the finances of Michigan's 13 regional-serving universities. ***We propose a Revenue Stabilization Fund (RSF) for regional public universities. We ask for mission discipline in return for access to the fund.*** The RSF would work as an endowment compact that provides financial security to public regional universities while holding each campus accountable for mission adherence. It is like a federal endowment for higher education proposed by researchers at the Brookings Institution[21] but focuses instead on the states, which have the primary responsibility for funding public higher education.

Michigan is a prime site for the development of a public university revenue stabilization fund for at least three reasons.

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[16]See https://www.michigan.gov/whitmer/news/press-releases/2022/10/11/gov-whitmer-signs-bipartisan-michigan-achievement-scholarship-bill

[17] See https://crcmich.org/PUBLICAT/2020s/2023/rpt417_price_of_higher_education.pdf

[18] See https://www.brookings.edu/research/restoring-regional-public-universities-for-recovery-in-the-great-lakes/

[19] Cheslock, J. J., & Shamekhi, Y. (2020). Decomposing financial inequality across US higher education institutions. *Economics of Education Review*, *78*, 102035.

[20] Taylor B. J., & Cantwell, B. (2021). Broad Access Institutions in crisis? Institutional vulnerability, state divestment, and the racial graduation gap. In G. Crisp, K. R. McClure, & C. M. Orphan (Eds.), *Unlocking opportunity through Broadly Accessible Institutions* (pp. 213-227). Routledge.

[21] https://www.brookings.edu/research/restoring-regional-public-universities-for-recovery-in-the-great-lakes/

1. The state of Michigan invests in public higher education at low levels relative to most other states. Limited state support for higher education suggests that public universities in Michigan will be eager to participate in the fund. Demographic change reduced the base of potential students from within the state, while shifts in the state economy have made higher education even more important for shared prosperity.
2. Michigan's higher education system is exceptionally decentralized, with limited statewide coordination. This results in competition. The RSF could help to incentivize collaboration and mission focus instead of competition and status-seeking.
3. Michigan's public higher education system is bifurcated. The state's two internationally recognized research universities, the University of Michigan at Ann Arbor (UM) and Michigan State University (MSU), are separated by a wide gap from the 13 state and regionally serving public universities (see Appendix report).[22] This inequality means that the fund's focus on supporting broad-access universities is especially necessary in Michigan.

In the next section, we outline the spiral of disillusionment, which is a challenge to the integrity and financial stability of public higher education. The RSF is designed to break the spiral.

Neglecting the systems of accessible higher education that states built up over many years is like failing to fix the potholes in roads. The infrastructure is still in use and necessary to get people where they need to go despite long-term neglect.

[22] While Wayne State University is a leading public research university with a medical school, its undergraduate profile is more similar to the regional universities in the state than to MSU or UM-Ann Arbor.

The Spiral of Disillusionment

When public universities face budget cuts or a declining pool of potential students, they begin to compete with one another for scarce resources and students. Oftentimes, rather than focusing on their core mission, universities mimic institutions they see as their more successful peers—expanding research capacity, attempting to lure students with new campus amenities, or investing in ambitious and unproven delivery models.[23] These responses can shore up university budgets but also can contribute to waning public trust and further divestment.[24] We call this process of retrenchment, competition, and loss of public support the spiral of disillusionment.

To make our university infrastructure work for people, communities, states, and the nation, we must break the spiral of disillusionment. The spiral weakens the bonds between public universities and communities, makes mission fulfillment harder, and strains the ties between higher education and state populations. The spiral may encourage policymakers to view higher education more skeptically and may call into question the value of higher education for prospective students and their families. Breaking the spiral is therefore a key step in a realistic agenda of attainment and reinvestment.

Recession and competing budget priorities.

Higher education is often among the first sectors state governments cut during recessions or when attempting to balance a budget with competing priorities. From a legislator's perspective, cutting higher education funding often makes sense. Universities can generate their own revenue through tuition while most other public organizations cannot. This common approach to managing state budgets causes disruption and uncertainty in university operations.[25] Moreover, fiscal uncertainty is one of the factors that has pressured universities to rely more heavily on contingent and temporary instructional staff, which negatively impacts student outcomes.[26]

Direct state funding shrinks as a share of operating expenses.

The costs associated with providing quality higher education have grown over time.[27] State funding has not. Successive rounds of cuts, only partial funding recovery, and competing demands on state budgets including tax cuts, healthcare, corrections, K-12 education, and state pensions results in a shrinking share of university expenses that come from direct state funding. ***In Michigan, the state covered 70% of public university expenses in 1979, 51% in 2002, and 22% in 2021.***[28] Placing most of the costs of higher education on families and individuals runs counter to the state's claims of wanting to increase attainment and grow the college-educated workforce.

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[23] Gonzales, L. D., & Nuñez, A. M. (2014). The ranking regime and the production of knowledge: Implications for academia. *Education Policy Analysis Archives* 22, no. 31.

[24] Taylor, Barrett J. *Wrecked: Deinstitutionalization and partial defenses in state higher education policy*. Rutgers University Press, 2022.

[25] Delaney, J. A., & Doyle, W. R. (2018). Patterns and volatility in state funding for higher education, 1951–2006. *Teachers College Record*, *120*(6), 1-42.

[26] Umbach, P. D. (2007). How effective are they? Exploring the impact of contingent faculty on undergraduate education. *The Review of Higher Education*, *30*(2), 91-123.

[27] Archibald, R. N., & Feldman, D. H. (2017). *The road ahead*. Oxford University Press.

[28] https://www.masu.org/policy-reports/masu-higher-education-public-policy-agenda/state-higher-education-appropriations

Increased Tuition Prices.

As states disinvest from higher education, universities pass a portion of state disinvestment on to students in the form of increased tuition.[29] Tuition increases also reflect the growing costs of providing higher education, and the investments universities make in improving education quality. In Michigan, average public university tuition increased 8.8 percentage points over the rate of inflation between 2012 and 2020.[30] Michigan universities have sought to offset tuition price increases by boosting student aid, but the state of Michigan has been among the lowest supporters of student aid in the country.[31] Increasing tuition prices makes going to college a more costly prospect for students and their families, who are especially sensitive to increases in the sticker, or list, price of tuition.[32]

Universities compete for revenue and recognition.

State disinvestment and tuition dependence mean that universities need to attract students who can cover a big share of the cost of education. University officials also seek to attract private donations and grants. Because there are relatively few students who can pay full-price tuition and only so many big donations and grants to go around, universities increasingly compete with one another. Competition encourages universities to spend more money on amenities, sports, and research, to recruit out-of-state students and students from wealthy families. Universities also devote resources and energy into marketing and public relations.[33]

Engaging in competition for status forces an impossible choice on campus leaders. Universities can focus on recruiting students, diverting resources from their mission of student access and success and furthering disillusionment. Or they can remain mission focused and hope that funding appears to support their missions. Choosing between mission and money undermines public confidence and furthers the spiral of disillusionment.

Growing inequality between universities.

Competition for resources leads to growing inequality between universities. The most well-known universities are more able to pass along state disinvestment in the form of tuition price increases. They also are better able to win research grants, attract donations, and expand enrollments. This does not mean that well-known universities are "better" than their peers, only that they win more competitions—and so become even wealthier and more prestigious—over time. Universities with more resources are better able to serve their students.[34] A likely result of extreme resource inequality among Michigan's public universities is uneven opportunity for Michigan students depending on what public university they attend.

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[29] Webber, D. A. (2017). State divestment and tuition at public institutions. *Economics of Education Review*, *60*, 1-4.
[30] https://www.masu.org/policy-reports/masu-higher-education-public-policy-agenda/tuition-policy
[31] https://sheeo.org/wp-content/uploads/2021/05/SHEEO_ImpactAppropationsFinancialAid.pdf
[32] Dynarski, S. (2002). The behavioral and distributional implications of aid for college. *American Economic Review*, *92*(2), 279-285.
[33] Salazar, K. G., Jaquette, O., & Han, C. (2021). Coming soon to a neighborhood near you? Off-campus recruiting by public research universities. *American Educational Research Journal*, *58*(6), 1270-1314.
[34] Taylor, Barrett J., and Brendan Cantwell. "Broad Access Institutions in Crisis? Institutional Vulnerability, State Divestment, and the Racial Graduation Gap." In *Unlocking Opportunity through Broadly Accessible Institutions*, pp. 213-227. Routledge, 2021.

Drift from mission into self-interest and self-promotion.

As universities become accustomed to competition, they can be perceived as self-interested and focused on organizational self-promotion. Self-interest and self-promotion may simply be survival strategies undertaken by campus leaders to improve their universities' market positions. But the public may nonetheless perceive that students and communities are subordinated to the university's bottom line—and, in some cases, such mission drift may in fact occur.[35] The irony of mission drift is that few universities experience improved market position by competing vigorously for prestigious status. Instead, they pull away from their mission with little in return.[36] Nonetheless, mission drift can further undermine public confidence in higher education.

The public and policymakers lose confidence.

Public polling shows that people are increasingly suspicious of higher education. A survey conducted by the Pew Research Center in 2019 found that 38% of Americans believe higher education has a negative effect on the way things are going in the country, 61% believe higher education is going in the wrong direction, and a whopping 84% agree that college costs too much.[37] Put succinctly, a majority of the public believes universities are too expensive and becoming too self-serving.

Public disillusionment with higher education likely compromises the goal of increased educational attainment in at least two ways. First, with waning public support for higher education, legislators have less incentive to re-invest, furthering the spiral of disillusionment. Second, as the public becomes less confident in higher education, students are less likely to enroll. Recent data suggest this is already happening, showing a decline in both the total number of students and the share of all recent high school graduates who go to college. While demographic trends explain why there are fewer high school graduates, the shrinking share of graduates who chose to go to college is likely attributable to dwindling confidence in higher education. Analysts see this as evidence that college is "losing its shine" among the public.[38]

Breaking the cycle is necessary to support attainment.

Improving college attainment is a key policy goal in Michigan and in numerous states around the country. Breaking the cycle of disillusionment is necessary to foster reinvestment and make progress on attainment targets. Policymakers should explore new tools because previous policy efforts have not sufficiently moved the needle.

Why have previous approaches failed to interrupt the spiral of disillusionment?

Public universities' challenges have built up through decades of the spiral. The fix cannot take decades. Some states have sought to direct universities to improve student outcomes and control costs through performance-based funding (PBF)—essentially substituting accountability mechanisms for reinvestment. Evidence suggests that outcomes have not improved.[39] PBF does not seem to be enough to break the

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[35] Weisbrod, B. A., Ballou, J. P., & Asch, E. D. (2008). *Mission and money: Understanding the university*. Cambridge University Press.

[36] Taylor, B. J., & Cantwell, B. (2019). *Unequal higher education: Wealth, status, and student opportunity*. Rutgers University Press.

[37] See https://www.pewresearch.org/social-trends/2019/08/19/the-growing-partisan-divide-in-views-of-higher-education-2/

[38] https://hechingerreport.org/how-higher-education-lost-its-shine/

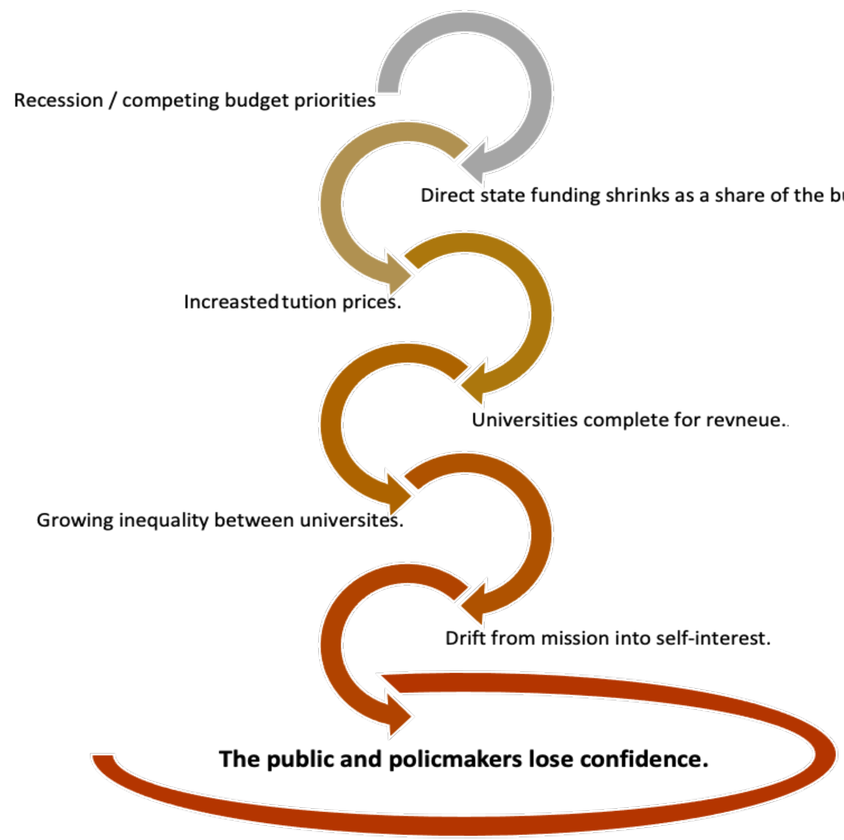
[39] Rosinger, K., Ortagus, J., Kelchen, R., Cassell, A., & Brown, L. C. (2022). New evidence on the evolution and landscape of performance funding for higher education. *The Journal of Higher Education*.

spiral of disillusionment because it does not include significant net new funding and because campus officials have been able to "game the system." Reinvestment is necessary.

To expand student opportunities and support communities, universities require direct funding and continuity of this funding into the future. Additional dollars support better educational outcomes. Direct, continuous funding prevents universities from competing with one another.

It is unrealistic to assume states will make consistent investments over time. Partisan differences in higher education preferences, fiscal constraints, and competing demands all introduce uncertainty into state budgeting. These conditions create a thorny policy problem: ***how to provide for mission-supporting investments without viable prospects for long-term state investments?*** We propose an alternative stream of revenue that is reliable, non-competitive, and a source of stability when state funding is volatile.

Figure 1: The Spiral of Disillusionment.



The spiral of disillusionment weakens the bonds between public universities and communities, making mission fulfillment harder to achieve, straining the ties between higher education and states. The spiral may encourage policymakers to view higher education more skeptically and may call into question the value of higher education for prospective students and their families.

A revenue stabilization program to secure public universities as state infrastructure.

Empirical research suggests that increased spending per student is a key to increasing both enrollments and college completions. In fact, reliable evidence indicates that increased per-student spending *causes* higher attainment rates.[40] Even relatively modest investments on a per-student basis can produce strong returns in degree production. A recent study conducted by researchers at the State Higher Education Executive Officers Association (SHEEO) predicts that a $1,000 increase in per-student appropriations is expected to generate about 73,000 new bachelor's degrees in two years, nationwide.[41] Even with this evidence, however, it is unrealistic to expect a consistent boost in state appropriations. Economic conditions, competing budget obligations, and changing political priorities all stretch the credibility of an assumption that states will dependably re-invest.

Given the uncertainty of state support, public institutions have turned aggressively to fund raising. Most public colleges and universities have long sought to grow endowment funds to support their operations and smooth variations in revenue. Nearly all universities now invest significant efforts in fundraising, development, and institutional advancement. However, public institutions largely have not been able to raise endowment funds large enough to replace declining state revenue. Where such funds exist, they are often restricted to specific programs or initiatives, and so do not offset the need for additional tuition income to fund general operations.

Broad access and regionally focused institutions rarely hold large endowments. Without national "brand" recognition and extensive networks corporate and alumni networks, their fundraising efforts are often more locally based. While Western Michigan University is a notable exception,[42] regional public universities are also less likely to attract splashy large dollar donations. Yet regional public universities generally do a good job of remaining mission faithful. It is therefore important to route funds to these institutions in a way that neither state governments nor donors are doing on their own.

We propose to develop a fund, drawn from both state and donor resources, to increase and stabilize education spending at broad access public universities into the future that encourages mission adherence, tuition discipline, and cooperation. The fund has three objectives, in order of importance:

1. Provide much needed resources to **support increased student attainment**.
2. **Hold public universities accountable** to their core mission of undergraduate education.
3. **Hold state governments accountable** for maintaining critical higher education infrastructure.

Rather than continuing to follow a model where individual public universities attempt to raise funds to stabilize their finances, we propose a state-sponsored collective revenue stabilization fund. This proposal offers three advantages on traditional ways of funding public higher education. First, by galvanizing resources and influence in the state, the RSF is more likely to be able to raise sufficient funds than is any university working alone. Second, unlike institutional fund-raising dollars will not be deployed at the discretion of individual donors. Rather than supporting ventures that may further university or donor status ambitions, funds will be designated to support the core mission of public higher education—in other words, to serve the public rather than the interests of individual donors. Third, while donors often

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[40] Deming, D. J., & Walters, C. R. (2017). *The impact of price caps and spending cuts on US postsecondary attainment* (No. w23736). National Bureau of Economic Research.

[41] https://sheeo.org/wp-content/uploads/2021/05/SHEEO_ImpactAppropationsFinancialAid.pdf

[42] https://wmich.edu/news/2021/06/64413

prefer to support prestigious institutions that least need additional funds, the RSF could be targeted to regional public universities in need of additional resources to better support students.

RSF framework.

The RSF would be a membership trust and partnership between participating universities and key stakeholders to ensure the generational security of state higher education infrastructure. It would be managed by an independent entity for the sole benefit of the member universities, their students, and their communities. University members of the trust would receive an annual payout proportional to their undergraduate enrollment and the Fund would build a strategic reserve to help offset cyclical declines in state funding.

Where would the money come from?

The RSF would be established as a tax-exempt charitable organization. The trust, developed to support mission fulfillment, should attract support from the following stakeholder groups: (1) the state, (2) philanthropy, (3) the business community, and (4) individual donors.

To seed the Fund, the state should make a one-time appropriation and issue bonds which the state government will be responsible for repaying. A lottery is one option for ongoing state funding.

The state should work with corporations and business groups like the chamber of commerce and private philanthropy to attract initial donations and ongoing commitments of support. A public donation campaign that targets member universities and the public can also support the RSF. Use of an NPR-style pledge drive with "sustaining" members and the possibility for employer matching donations is one potential option to supplement the Fund's seed monies and ongoing growth.

The state government should commit to one-time seed funding for the program. In addition to coordinating with business groups and philanthropies to secure private funding, the state could provide an up-front investment by some combination of the following:

- State bonds.
- Transfer from state reserves and budget surplus.
- Lottery funding.

To ensure the long-term viability of the Fund, the state should provide regular support to the RSF. Vehicles for support could include:

- A small appropriation to the Fund to defray management costs.
- Tax-advantaged incentives for private donations.

The state should not penalize participating campuses by lowering total appropriations to these institutions. Funds are intended to support educational missions by building on existing funding, not to allow the state to reduce spending on higher education. This, or a similar provision, should be included in the RSF charter.

How would the funds be distributed?

Each member institution would receive a top-up appropriation from the RSF for every undergraduate student enrolled. The size of the top-up appropriation would depend on the market value of the Fund and the total number of students enrolled at member institutions.

Because the fund is designed to operate in perpetuity, annual fund payout should conform to endowment and philanthropic standards, with annual payouts of approximately 5% of the fund's total value. Ideally, the Fund would be able to provide initial top-up funds of $1,000 per student. Additionally, the RSF should be managed in such a way that it can provide larger top-up payments when state appropriations are cut during recessions.

Who would benefit from the fund?

The direct beneficiaries of the RSF would be public regional universities. Indirect beneficiaries would be the students and communities that these institutions serve.

Institutional membership will be restricted to regional public universities. Flagship-type universities that attract tuition-paying students from outside of the state generally should not be eligible to participate. Membership criteria should include the following:

- **Tuition.** Include the institution(s) that that charge lower tuition prices per student.
- **Endowment.** Include the institutions(s) whose endowments have the lowest fair market value(s).
- **Admission.** Include universities that admit a large share of all qualified applicants (e.g., > 60%).
- **Total revenue.** Include the institutions(s) that generate the least total revenue (or total operating revenue) on a per-student basis.
- **Local.** Include the institutions with the largest share of the student body drawn from Michigan.
- **Student-focused.** Include the institutions(s) that generate less research funding.

These criteria are not intended to denigrate the work of selective, research-focused universities. Such institutions make important contributions to the public good by advancing knowledge and training graduate students. As they do so, however, these universities also tend to access pools of money—nonresident tuition payments, donations that support endowments, and federal and industry funds for research—that are not available to public regional universities. We understand the proposed fund as re-investing in regional universities to promote statewide attainment rather than punishing their prestigious peers.

Holding institutional members to account for their core mission.

To remain members of the RSF in good standing, institutions will make verifiable commitments to prioritizing a mission of affordability and student success.

Hold the line on tuition increases.

To participate in the RSF, institutions will yield some tuition-setting authority.

- **Slow increases.** If the state maintains appropriation funding (see below), tuition revenue per FTE cannot increase more than 0.5% more than the rate of inflation on a year-over-year basis.

Mission-focused spending.

Member institutions must demonstrate their commitment to a core mission of undergraduate teaching in their budgets.

- **Spend on education.** Set minimum ratios for instructional expenditures relative to administrative, auxiliary, and research spending.

Prevent system gaming.

Regulations should be established to bar universities from gaming the system through their admissions practices.

- **Spread enrollment.** To ensure that no single institution can drain the Fund's resources by growing too rapidly, funding for enrollment growth on a year-over-year basis should be limited within a pre-defined band established by member universities.
- **Support low-income students**. The fund should also consider placing limits on the use of merit-aid discounts to maintain a priority on student financial needs. Member institutions also should maintain or expand the share of students who are eligible to receive the federal Pell grant, relative to the total number of Pell-eligible students in the state.

Pay it forward.

All member institutions should commit a designated portion, for example 20%, of their net fund-raising income to the RSF. Funds raised prior to joining the RSF would be exempt from this requirement. If RSF fundraising targets and payouts are not net, then institutions would not be bound to fundraising sharing requirements.

State Accountability

Almost all higher education accountability efforts are designed to hold institutions accountable to students and the state.[43] Holding institutions to account is important, but public higher education institutions need a reliable partner in the state to be successful. The RSF therefore should include mechanisms to ensure that state governments do their part. Maintenance of effort requirements for state funding would ensure that states do not further divest from public higher education and thereby wipe out any fiscal gains achieved by the RSF. The purpose of this proposal is to expand the funding base for regional public universities, not to shift the funding burden from public to private sources.

Fund Management

Building on the autonomy of public higher education enshrined in the Michigan constitution, RSF should operate independently of the state, member institutions, and donors to ensure integrity.

- The fund should be run by a small professional staff that manages matters of investment and administration.
- The fund's board of directors should include gubernatorially appointed members, elected university faculty, elected university administrators, elected students, and selected members from the business community, philanthropy, and civic groups.

[43] Kelchen, R. (2018). *Higher education accountability*. The Johns Hopkins University Press.

- The fund should operate under a charter with strict ethics and conflict of interest rules and a mandate to keep management fees and administrative costs low.

Rather than continuing to follow a model where individual public universities attempt to raise funds to stabilize their finances, we suggest a collective approach—a Revenue Stabilization Fund that is a public–private partnership.

Why a Revenue Stabilization fund is Right for Michigan.

Michigan is an excellent option to pilot the RSF. Like many states in the region, Michigan has underinvested in higher education and relies on regional public universities for economic development. Regionally focused public universities are key state infrastructure and require additional support. As shown in the Appendix Report on Michigan Public Universities, these institutions face sagging enrollment, flat degree production and stagnant revenue. As result, the universities that comprise the backbone of the state's higher education infrastructure are unable to fully support state attainment objectives.

The public universities in Michigan are also highly stratified. Simply put, 13 Michigan universities are not like UM-Ann Arbor and MSU, which are separated from the pack by a wide margin on most metrics. MSU has nearly $10,000 more to spend on a per-student basis than the median regionally focused university while UM has nearly $20,000 more. Across the board increases in state funding are welcome, but regionally focused universities need the funding most urgently.

Michigan public universities operate in a highly decentralized governance framework. All universities have their own board, with the exceptions of UM-Ann Arbor, UM-Dearborn, and UM-Flint, which share a board. The state does not have a centralized coordinating or governing board, and the Michigan Department of Education has little oversight of the universities. Any coordination between the universities occurs informally or through the Michigan Association of State Universities, a voluntary membership organization. This means that the collective dimension of the RSF would add value to Michigan universities by increasing cooperation and reducing duplication.

The RSF also fits Michigan because most of the state's universities are enrollment dependent institutions. Universities have limited opportunities to expand their enrollments in a state with flat population. Beyond UM-Ann Arbor and MSU, Michigan's public universities attract limited numbers of students from out of the state. And because Michigan's population of high school graduates is in decline, regional public universities are forced to compete directly with each other for students, creating a disincentive for collaboration. Improved collaboration can help to dampen competition and maintain mission adherence.

The governance structure of public higher education in Michigan makes mergers unlikely. No board will want to lose independence and dissolve itself by merging with another state university. Furthermore, regional universities serve communities in the state that both need higher education and would not be adequately served without the local university. Consolidation, then, seems both unlikely and undesirable. A connective structure short of mergers seems most feasible and appropriate in Michigan.

For these reasons, Michigan's regional public universities appear to be strong candidates to pilot the development of an RSF. Table 1 shows undergraduate enrollment for each of Michigan's 13 regional public universities as well as the total "top-up" funds needed to provide at least an additional $1,000 in funding per-student.

Topping up per-student funding for the 13 regionally focused public universities, based on 2020 enrollment data, would require a payout of approximately $164 million. While this is a large figure, it is plausible to reach. Assuming a standard 5% annual payoff, a $3.28 billion fund would be required. Again, this figure seems quite large, but it is important to put it in perspective. As shown in table 2, UM-Ann Arbor holds a $12 billion endowment, nearly four times as large as the proposed fund to support 13 public universities in Michigan. MSU holds a $3 billion endowment, almost the same size as the proposed fund. A comparable fund for the state's remaining 13 universities does not seem unreasonable.

Of course, allocating several billion dollars at once would strain any state's coffers. We, therefore, have presented potential strategies for raising funds, such as bond packages, previously. Michigan's "rainy day" fund, known as the Budget Stabilization Fund, provides another model. The state government could contribute to the RSF annually until the Fund reached the necessary size.[44] State contributions of $330 million per year for ten years would ensure the intergenerational success of the RSF.

Table 1. 2020 Enrollment and Top-Up Fund Estimates at Michigan's Regional Public Universities.

Campus	Enrollment	Top-Up Funds
Central Michigan University	20,534	$20,534,000
Eastern Michigan University	17,951	$17,951,000
Ferris State University	13,373	$13,373,000
Grand Valley State University	21,112	$21,112,000
Lake Superior State University	2,099	$2,099,000
Michigan Technological University	5,811	$5,811,000
Northern Michigan University	7,089	$7,089,000
Oakland University	15,543	$15,543,000
Saginaw Valley State University	8,930	$8,930,000
University of Michigan-Dearborn	8,116	$8,116,000
University of Michigan-Flint	5,424	$5,424,000
Wayne State University	19,342	$19,342,000
Western Michigan University	18,313	$18,313,000
Totals	163,637	$163,637,000

Beyond MSU and UM, no other public universities in Michigan for which data are available come close to holding an endowment valued at one billion dollars or more. While several regionally focused public universities hold moderately large endowments, it is unlikely that these funds support the core mission of undergraduate student education as directly as the RSF would. Consider the example of Wayne State University, which holds an endowment of $400 million and has an undergraduate population of

[44] See https://www.michigan.gov/whitmer/news/press-releases/2022/07/20/whitmer-signs-fourth-balanced-and-bipartisan-budget

approximately 20,000. A 5% payout on endowment funds would provide approximately $1,000 per student. However, much of the endowment held by Wayne State is restricted to other areas of the mission such as the university's medical school, making these funds unavailable for supporting undergraduate education. RSF dollars, by contrast, are specifically tied to the mission of undergraduate teaching.

Table 2. Michigan Public University Endowments

Institution	2020 Endowment, thousands of dollars	
University of Michigan	$	12,476,874
Michigan State University	$	3,068,700
Wayne State University Foundation	$	401,553
Western Michigan University Foundation	$	396,926
Central Michigan University	$	187,797
Michigan Technological University	$	117,624
Oakland University	$	102,150

Source: NACUBO

Michigan is an excellent option to pilot a revenue stabilization fund.

Appendix: A profile report on public universities in Michigan.

The following report is a descriptive data profile of Michigan's public higher education system. To demonstrate the relative similarity of Michigan's 13 regionally focused public universities, these institutions are represented as a group by the 25%, 50% and 75% percentile value for each metric. These figures then are compared to UM-Ann Arbor and MSU's profiles, illustrating the ways in which Michigan's regional public universities are much more like one another—despite their important differences—than they are to their better-known counterparts.

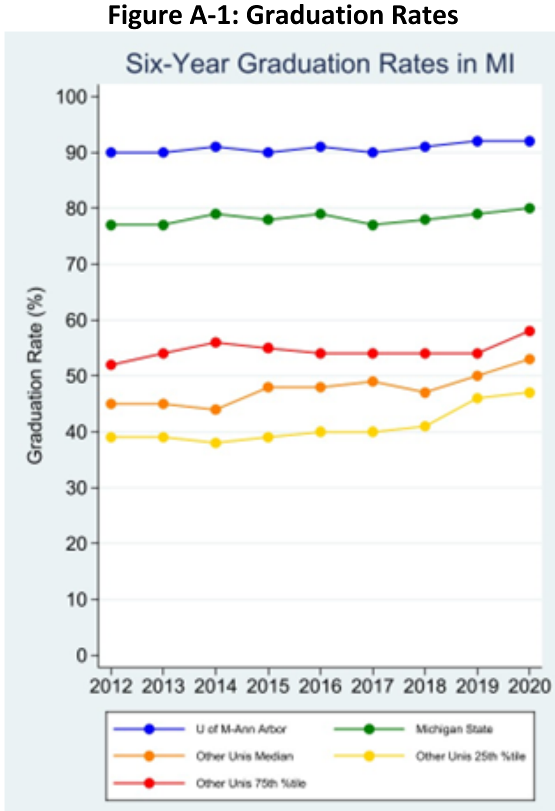
Data

Our analysis of Michigan's universities draws from the Integrated Postsecondary Education Data System (IPEDS). The dataset is an aggregate of various metrics pertaining to admissions and finance including enrollment and graduation rates, appropriations and expenditures, and related metrics.

Improving Graduation Rates

Public universities across the state have been increasing their graduation rates slowly but steadily throughout the past decade. Excluding MSU and UM, the median six-year graduation rate increased from 45% to 53%. Universities at the 25th percentile made larger gains (39% to 47%) than those at the 75th percentile (52% to 58%). This indicates that universities that have struggled the most have been making strides to improve the most. Wayne State University boosted its rates from a nadir of 26% in 2013 to 47% as of 2020. Even MSU and UM have made modest gains despite potential ceilings for both.

Figure A-1: Graduation Rates



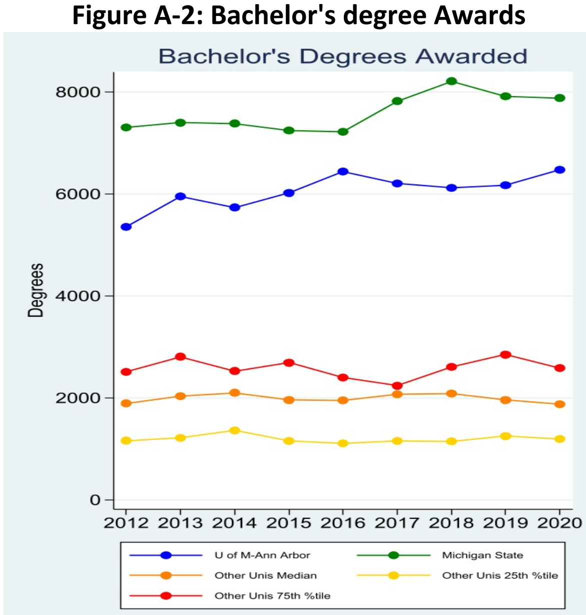
Michigan's regional universities have been improving student outcomes despite budgetary struggles and falling enrollment. These institutions are doing more with less. This should not be construed as an affirmation of budget cuts, but rather as an urgent call to invest in the mission-focused work already underway. With appropriate state funding, Michigan's regional public universities would be even better positioned to serve students and the state while keeping tuition prices lower.

Degree Production

Figure A-2 shows the total number of bachelor's degrees awarded each year. Once again, we observe that, despite falling enrollment numbers, the median regional university remained mission focused. There was virtually no change in degrees awarded between 2012 and 2020. MSU and UM have increased their degree production, aligning with their increasing enrollment within the period. MSU increased by 7.9% or from 7,306 to 7,885 while UM boosted its numbers from 5,336 to 6,475, an increase of 20.9%. In the case of public universities, degree production is vital towards building and sustaining a healthy, competitive labor market.

Higher education is needed now more than ever to stay competitive economically. Strong education and a strong labor force are symbiotic. Students are attracted to institutions in states that provide top-notch education. Graduates stay if the economy is strong and job prospects are favorable. Should they decide to stay in-state, these graduates can enhance the local economy and develop it to a level competitive with other states. More people come to receive an education or join the labor force, and, should they stay, contribute to the local economy, tax base, and even the local higher education system should they decide to raise a family and send their children to local institutions. If, however, the local economy is weak relative to other states, students may choose to leave.

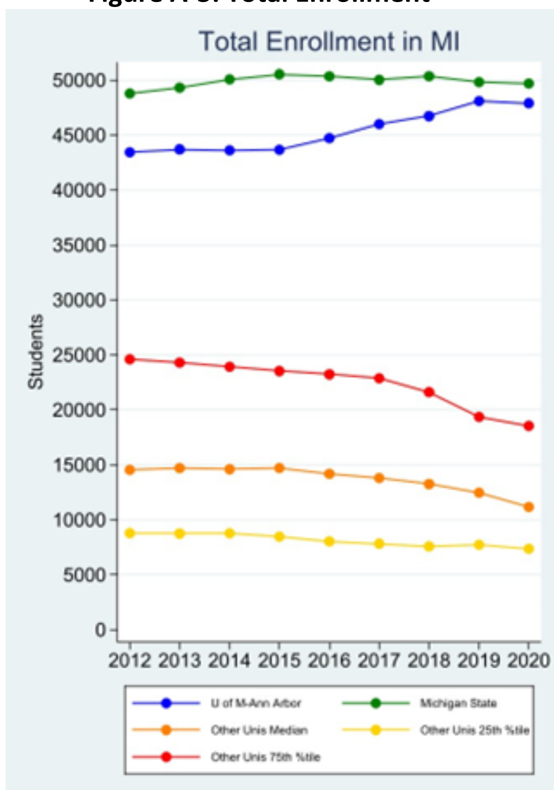
Figure A-2: Bachelor's degree Awards



Falling Enrollment

As seen in figure A-3, total enrollment across Michigan's regionally focused public universities has been falling throughout the past decade. The median regional enrollment has dropped from 14,522 to 11,165, shrinking by 23.1%. The university at the 25th percentile declined somewhat less (16.2%) than did its counterpart at the 75th percentiles (24.6%). On the other hand, MSU has held steady at around 50,000 and UM has greatly expanded its numbers from 43,426 to 47,907, a 10.3% increase.

Figure A-3: Total Enrollment



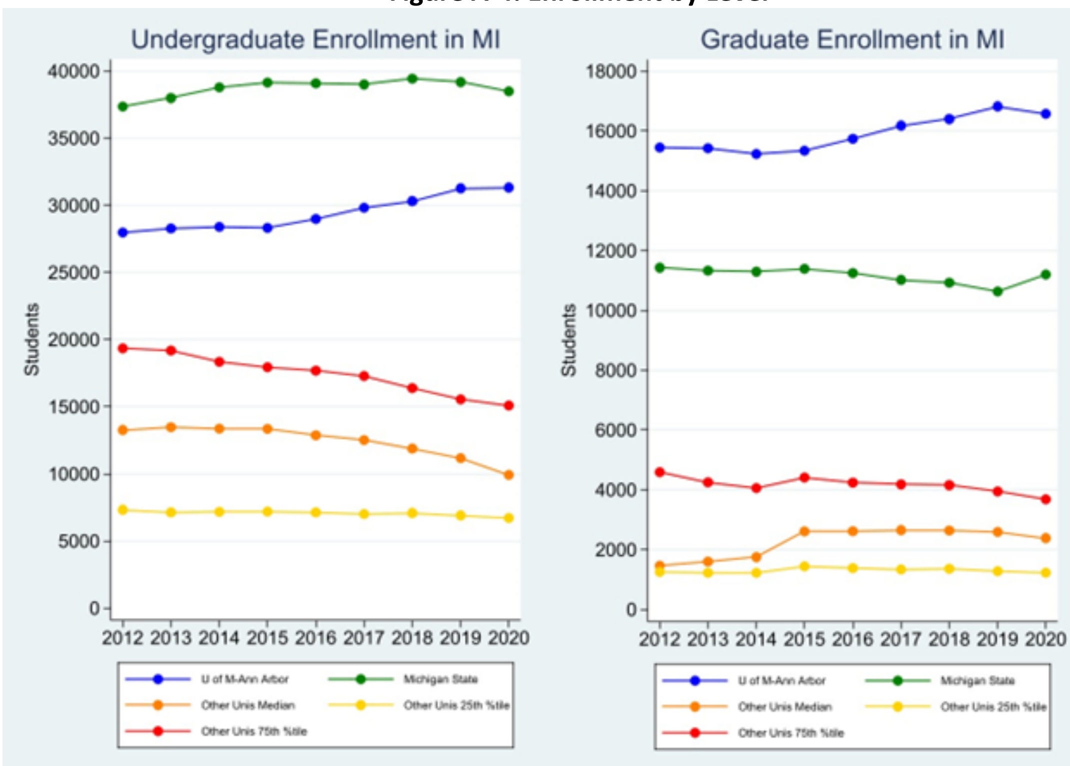
Based on these results, the general decline in enrollment among regional universities has hurt larger institutions more than smaller ones. Central Michigan University (CMU), Eastern Michigan University (EMU), and Western Michigan University (WMU) have experienced massive declines in enrollment of 37.2%, 30.7%, and 19.2%, respectively. In 2012, all three had enrollments well above 20,000. As of 2020, all three had all fallen well below that threshold.

Undergraduate vs. Graduate

Parsing the data out further reveals the lion's share of enrollment declines. As displayed by figure A-4, median undergraduate enrollment fell by 25.2%. The 75th percentile (21.9%) accounted for much of that drop, which was only 8.2% for the 25th percentile university. Undergraduate enrollment plateaued at MSU, while both graduate and undergraduate enrollment rose steadily at UM.

The median regional institution witnessed a massive boost in graduate enrollment overall at 63.5%, which peaked in 2017 and since then, declined by 10%. This suggests the strains on institutional budgets. With declining population and flat state funding, leaders of regional universities have been forced to contemplate new initiatives, including expanded graduate education, to generate new revenues. Again, while the regionals have broadly seen declines in enrollment, the greater percentages derive from several larger institutions with most smaller institutions seeing a more modest decline.

Figure A-4: Enrollment by Level



Admissions and yield

Figures A-5 show the total applications for and total offers of admission. Figure A-6 shows the admit rate which is simply the total number of admissions offers divided by the total number of applications. This figure also illustrates the yield, meaning the number of students who enroll divided by the number of students admitted.

Across the decade, applications to MSU and UM have steadily climbed. Total applications increased by 50.3% for MSU and 52.8% for UM. By contrast, the median regional university saw an overall decline of 9.3% despite a brief peak in 2016. Total admits for the regionals followed a similar trajectory, peaking in 2016 and then declining to a modest overall increase of 5.5%. Comparatively, MSU and UM also increased total offers of admission. However, the difference between the two "flagships" proved astounding. MSU increased its offers of admission by 62.5%, or more than it increased application volume. By contrast, UM increased its offers of admission by only 9.2%.

The result of these changes is depicted in figure A-5. UM became more selective over time, with its admission rate falling by over ten percentage points from a high of 36.6% to 26.1%. By contrast, MSU's admit rate was more on par with the median regional university, especially in more recent years. MSU's broad accessibility, may suggest that it is a contender for participating in the RSF. However, MSU had access to the time-tested strategy of enrollment growth. By admitting more students, MSU was able to expand its total enrollment. This strategy was not available to the state's regionally focused universities where the median admit rate has remained steady, increasing slightly from 73.8% in 2012 to 75.2% in 2020, even as enrollment has dipped.

Figure A-5: Applications and Admissions

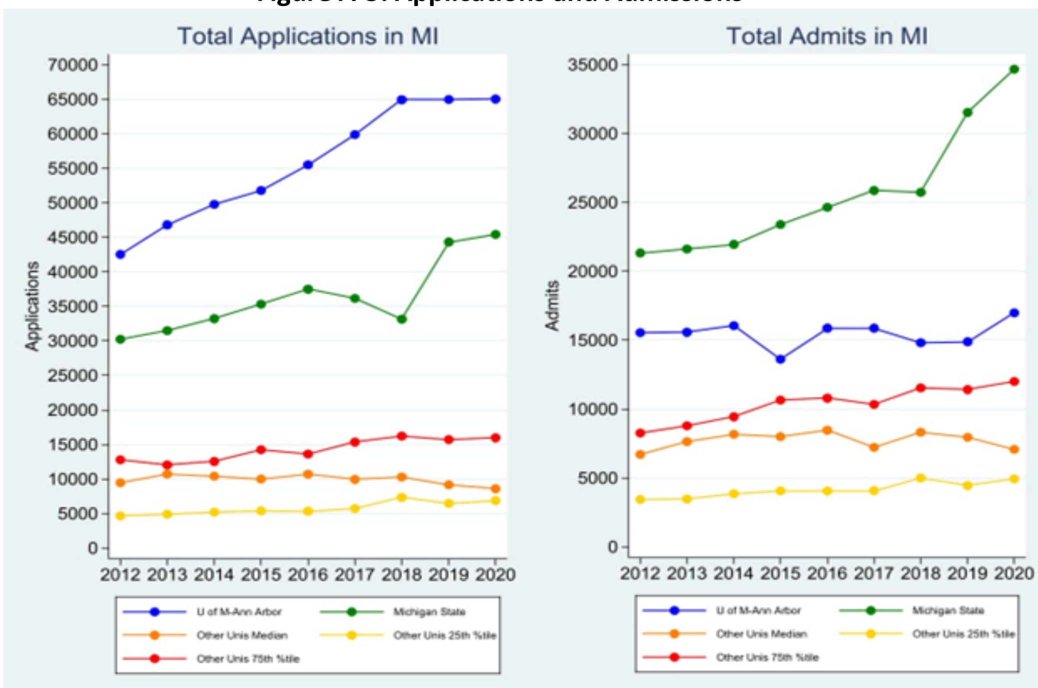
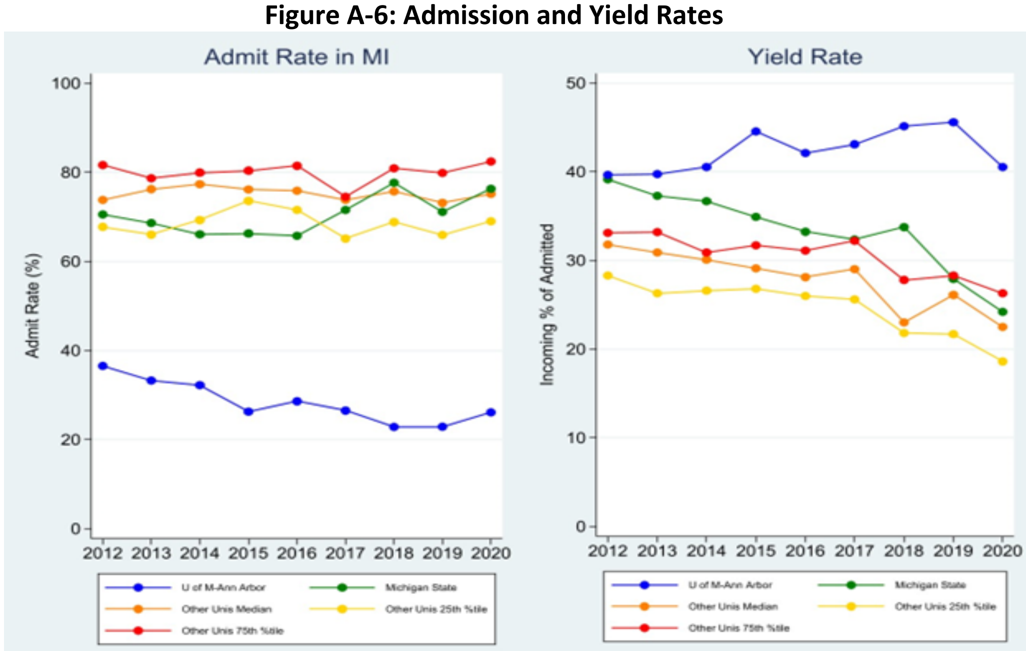


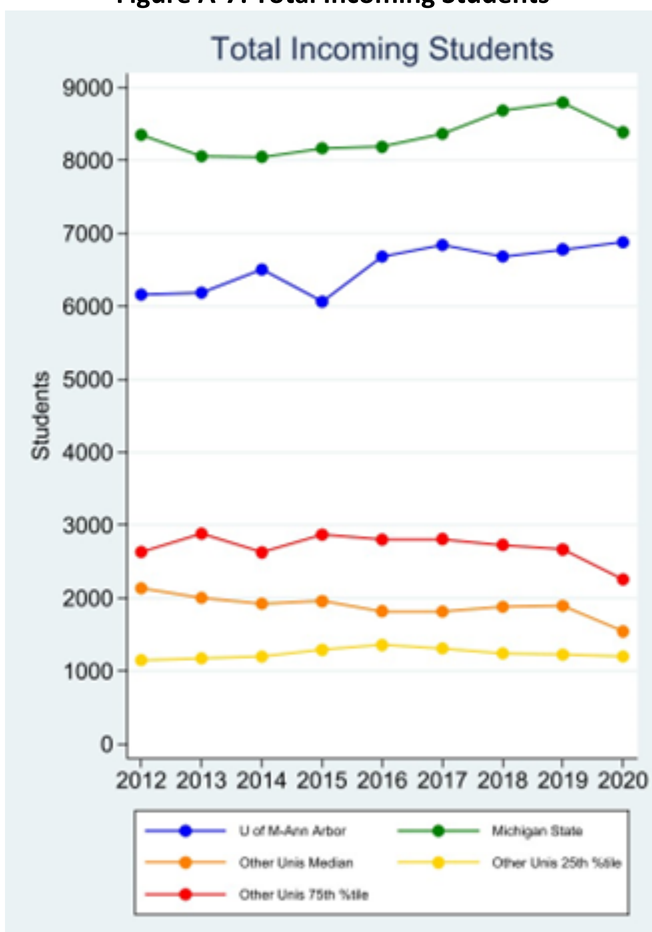
Figure A-6: Admission and Yield Rates



Except for UM, public universities in Michigan are struggling to attract the students they admit. Figure A-6 shows the median yield rate, which is the percentage of students who are admitted and choose to attend. This figure fell precipitously by 9.3 percentage points from 31.8% to 22.5%. Although UM had risen steadily from 39.6% to a high of 45.6% in 2019, the 2020 academic year erased all progress. UM's yield rate had fallen back down to 40.5%, most likely caused by the disruptive, global effects of the COVID-19 Pandemic. Even more concerning, MSU's yield rate showed the largest drop from 39.2% to 24.2%, an astonishing 15 percentage point decline that puts the university narrowly above the median regional and below the 75th percentile university. These yield rates show the stratification between institutions within the state and how the COVID-19 Pandemic has had more deleterious effects on UM, which has, and relies more heavily upon, an out-of-state, international pool of applicants.

Whom institutions enroll

Figure A-7: Total Incoming Students



The above figure provides a breakdown of the incoming student body year-by-year. Despite yield rates plummeting, figure A-7 shows a picture like our previous enrollment figures. From top to bottom, MSU's numbers have shown virtually no change. Meanwhile, UM has steadily increased its numbers from 6,163 to 6,878, an 11.6% increase. Also, in sync with total enrollment figures, the median and 75th percentiles of regional university cohorts have fallen from 2,135 to 1,543 and 2,635 to 2,257, respectively. By contrast, the 25th percentile has increased slightly from 1,152 to 1,201 or 4.3%.

Figure A-8: In-state Incoming Students

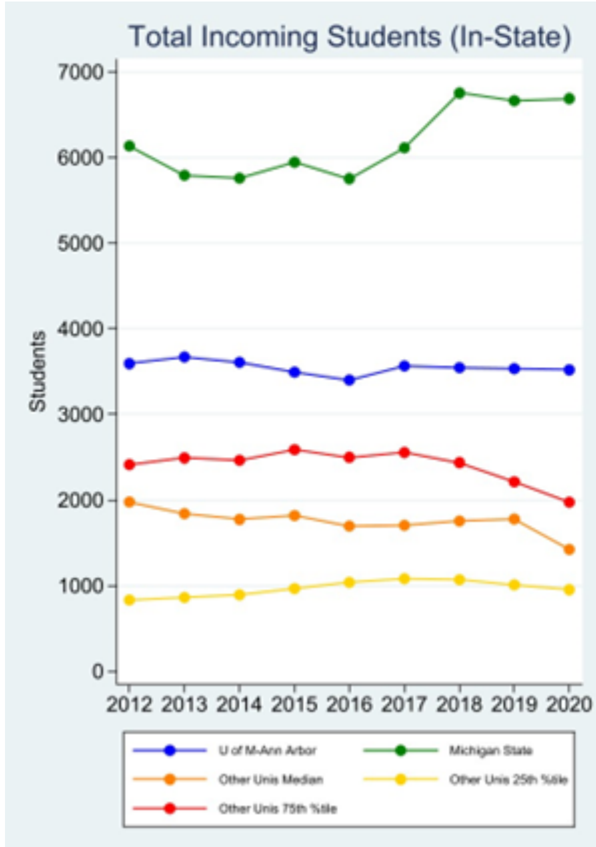


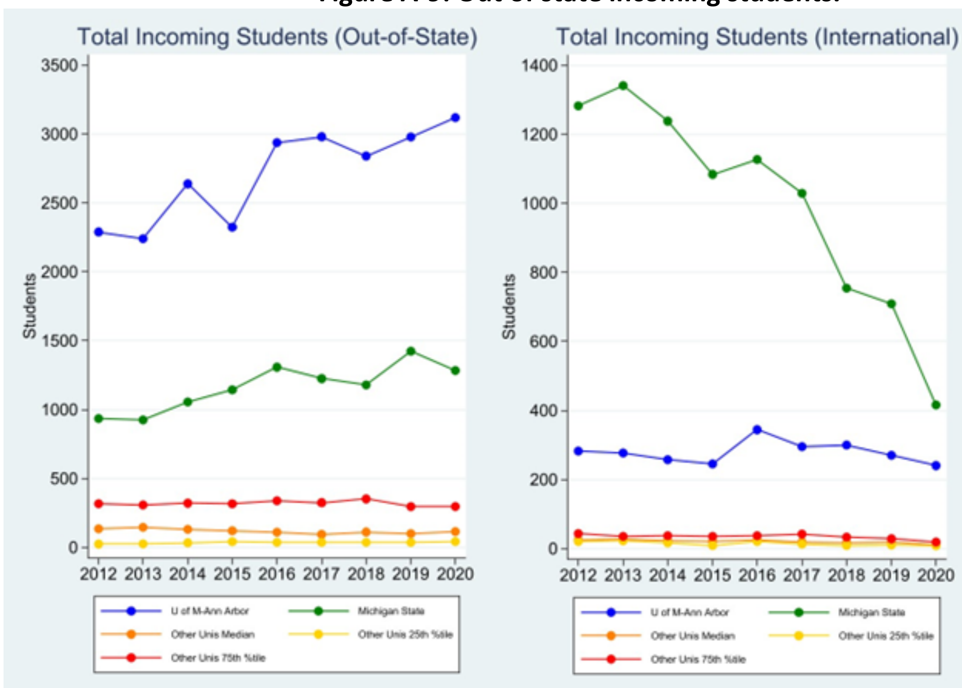
Figure A-8 begins to disaggregate incoming cohorts. These in-state enrollment figures show why the 75th percentile regional university is experiencing declining enrollment. MSU drew a significantly larger number of students from Michigan over time. From 2012 to 2020, MSU increased its in-state enrollment numbers from an already sizeable 6,135 to 6,688. By contrast, UM has hardly moved, declining slightly from 3,592 to 3,519.

The median and larger regional universities have lost in-state students year-by-year going from 1,978 to 1,421 and 2,413 to 1,973, respectively. The smaller regionals, surprisingly, have held steady and even gained a few students. The yearly number of students MSU has gained, 553, is nearly the same as the yearly number of students the median regional has lost, 557. This indicates that MSU is most likely eating into the larger regionally focused universities' traditional student populations. MSU is seeking more students in part because the state does not adequality fund MSU or any other public universities in Michigan. Conversely, UM has increasingly shifted to out-of-state and international enrollments.

Figures A-9 shows a major driver of stratification between the regionals, MSU, and UM. Both MSU and UM have expanded their out-of-state pool, bringing in 1,283 and 3,119 out-of-state students in 2020, a 37.4% and 36.3% increase, respectively. The median regionally focused university has seen little change in their much smaller pool, facing a slight decline from 134 to 114 yearly out-of-state incoming students. Whereas MSU and UM can access lucrative out-of-state tuition revenues, Michigan's regional universities cannot.

The numbers for incoming international students are even more striking. MSU plummeted from a high of 1,341 in 2013, falling 69% to 416 by 2020. Both UM and the regionals have lost international students as well, but the losses are minor in overall numbers. These figures complete the enrollment outlook, showing how MSU and UM have massive advantages when it comes to recruiting students not only in-state, but out-of-state and internationally.

Figure A-9: Out of state incoming students.



As state enrollment numbers decline overall, competition gets fierce. MSU and UM may use advantages in prestige and resources to draw from many sources to expand their enrollment numbers, and these gains in Michigan may come at the expense of regional universities. Both MSU and UM have leaned on out-of-state populations to boost their numbers as the number of in-state students shrinks.

The Implications of Stratified Enrollment

A major reason for our decision to separate MSU and UM from the rest of Michigan's public universities was the sheer difference in size, budgets, and especially recruitment. In terms of state appropriations, figure A-11 illustrates a clear divide in money allocated by the state. Much of this disparity is a matter of size and research income, which is consistent with national trends.[45] Given the gaps in size between the median regional university and MSU's and UM's enrollments (see Figure A-7), it is no surprise that more money goes to the larger universities. Wayne State University falls in the middle of the gap between MSU/UM and the regionals due to its status as an R1 institution along with MSU and UM. These three universities are the only R1 or "very high research activity" institutions in Michigan. Wayne State University's programs, especially their medical and law schools, incur massive expenditures.

[45] Cheslock, J. J., & Shamekhi, Y. (2020). Decomposing financial inequality across US higher education institutions. *Economics of Education Review*, *78*, 102035.

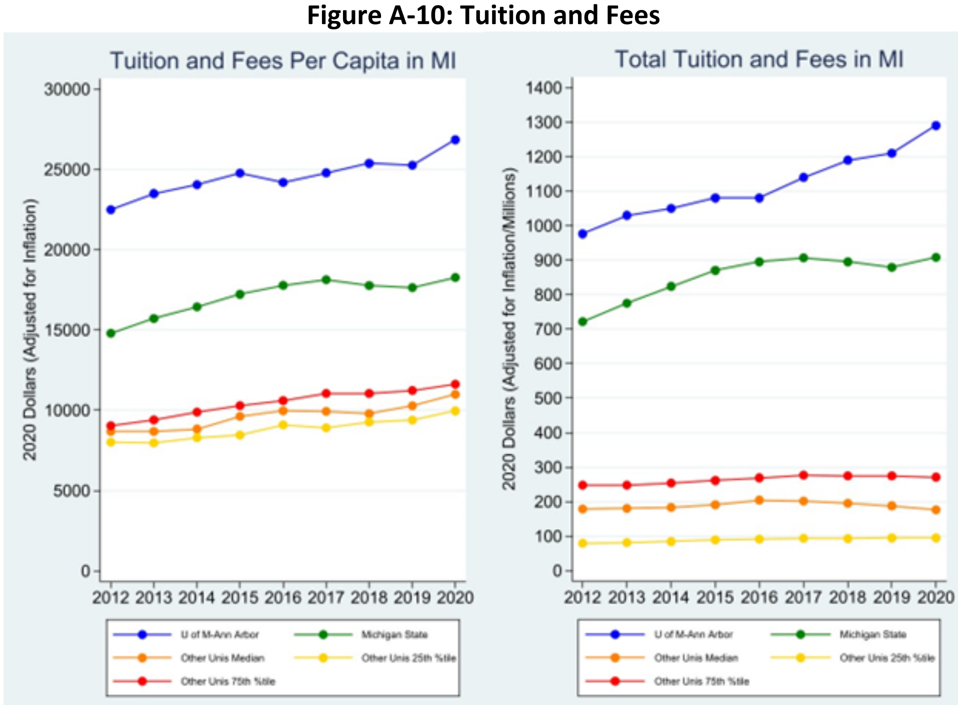
In terms of recruitment, MSU and UM have the advantage of national and international prestige. Both UM and MSU rank highly in general as #19 and #108 for global universities and #23 and #83 for national universities (U.S. News & World Report, 2022). Specific programs may be even more highly ranked. The next universities from Michigan rank #148 nationally (Michigan Tech) and #361 globally (WSU). These reputational indicators allow MSU and UM to draw students from out of state, which most regional universities cannot do on the same scale. Further, MSU and UM can siphon in-state students from regionals by expanding their number of admissions offers. Essentially, prestige plus capacity allows MSU and UM to have it both ways. These two universities can draw in-state and out-of-state students whenever they wish to expand enrollment. Regional universities must work under greater constraints.

The disadvantages that regional universities face have had negative consequences across Michigan's higher education system. Falling enrollment means less revenue for the regionals, which results in less capacity to develop and compete with their prestigious counterparts. Reduced state funding has already led to universities cutting programs, closing dormitories, and kneecapping admissions offices from expanding their recruitment efforts. This vicious cycle of disinvestment has persisted throughout the last decade and beyond and the trends have not been slowed or reversed.

The RSF would necessarily provide stability and support to the regionally focused universities. The Fund would endeavor to supply these universities with resources under conditions that encourage good behavior (as discussed above) and improve student opportunities and outcomes.

Tuition hikes

Figure A-10: Tuition and Fees



Michigan universities are no exception to the decades-long trend of rising costs in higher education. Universities have increased their tuition and fees not only in raw dollar amounts but adjusted for inflation as well. Figure A-10 shows the per capita (student) tuition and fees, that is, total tuition and fees divided by total enrollment, which paints a picture of stark contrast. Tuition revenues per student have risen by 26.5%, 23.5%, and 19.4% to attend the median regionally focused university, MSU, and UM, respectively. In order to fill the budgetary gaps left by retreating state support and falling enrollment, regional universities have had to increase prices at a greater rate than have MSU or UM. Because the tuition prices started low, however, the median regional university remains more affordable than UM or MSU. The above percent increases translate to $2,305, $3,476, and $4,355, respectively. These figures indicate that MSU and UM have increased their tuition by roughly $1,100 and $2,000 more than the median regional university.

Patterns in tuition revenue also indicate that MSU and UM have much more money to spend than do the regional universities. Figure A-10 shows that tuition hikes combine with total enrollment numbers to generate substantially more revenue for MSU, and UM compared to the regionals. For UM and MSU, total revenue from tuition and fees increased by 44% and 25.8%, which in raw dollar amounts are $280 million and $186 million, respectively. Conversely, the median regional lost revenue over the same period, falling slightly by 1.4% or $2.5 million. Even as regionals increase tuition by greater percentages, the scope of falling enrollment has led to stagnation in real dollars. As enrollment falls, price hikes may be seen as a way to mitigate budgetary shortfalls. Yet aggressive price hikes may also price students from lower-income households out of the market, potentially exacerbating the fall in enrollment. To put it plainly, the regionals are in a financial bind.

State Support and Overall Revenue.

Figure A-11 shows the other major component of total revenue, state appropriations and grants. This measure also highlights the drastic gap between the regionals and UM and MSU. This gap is partly the result of large research grants and appropriations based on research activity. It also partly reflects gaps in total student population. While these differences make sense, it is informative to visualize the sheer magnitude of difference. Given the steady level of funds distributed across this period, aside from the slump that coincided with the COVID-19 Pandemic, the amounts are examined based on overall averages. Between 2012 and 2020, UM and MSU received average annual amounts of $323 million and $293.8 million, respectively. The median regional institution received a mere $52.6 million annually. It should be noted, however, that Wayne State University (WSU) received an average of $226.1 million annually in appropriations and grants, which as the other R1 institution in Michigan with large medical and law schools is not unusual. For this reason, medians and percentiles are more illustrative of Michigan's regional universities. The median regional still received roughly one-sixth the amount of research funds as UM and MSU. Investing in a diversified and more evenly distributed public university research system may help Michigan to reach its attainment goals.

To complete the revenue analysis, we combine tuition and fees with state appropriations and grants (figure A-12). Having total revenue and revenue per capita income side-by-side neatly summarizes Michigan's public university finances. In both per capita and total revenue, UM has gained ground. Per capita revenue has increased by $3,573 or 12.1% and total revenue has rocketed up by $310 million or 24.2%. MSU appeared to follow a similar trajectory until 2017, when per capita and total revenue peaked and then declined slightly. Even so, this stagnation has resulted in a $3,212 or 15.6% increase per capita and a $180 million or 18% increase in total revenue.

The regionals are a different story. Despite falling enrollment, the median regional university has been able to generate more revenue per capita year after year. Although total revenue has declined slightly by

$6 million or 3.5%, per capita has increased by $2,905 or 24.6%, a raw dollar amount close to MSU, and a percent increase close to UM. When faced with increasing funding constraints, it seems the median regional has tightened the belt and made do with fewer students.

This trend is not sustainable. Without proper assistance, Michigan's regional universities may be forced to reduce the scope and/or quality of their offerings by eliminating departments, consolidating faculty, and closing buildings. Doing so will harm the state by weakening Michigan's ability to compete in the global economy. It will harm local communities directly because many rely on the jobs and services provided by regional public universities. In short, a failure to re-invest in Michigan's public regional university infrastructure likely will leave the state short of its attainment goals and stuck in the spiral of disillusionment.

Figure A-11: State Funding

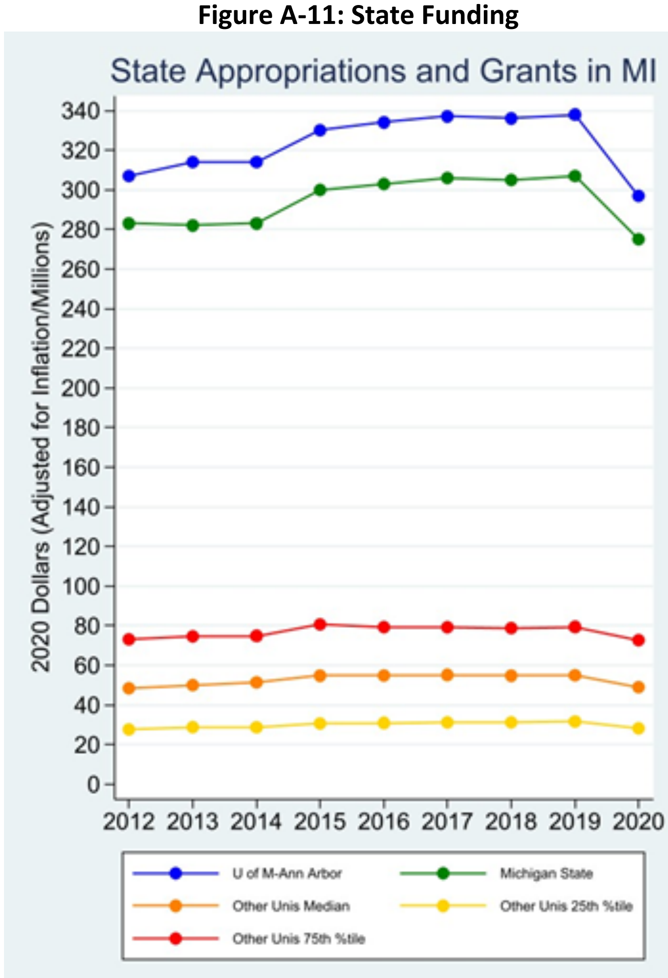
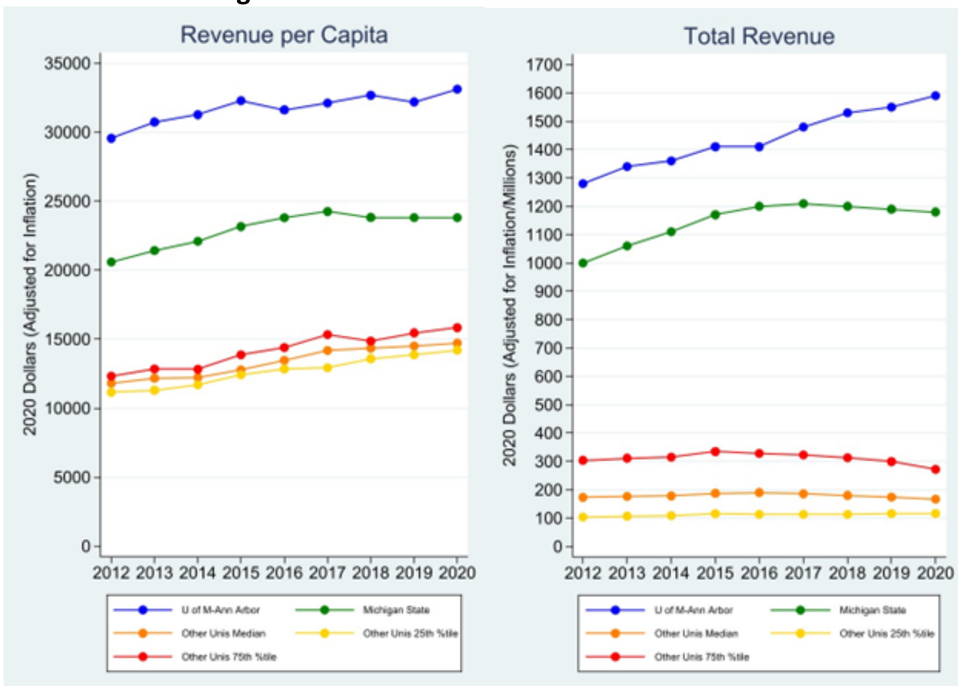


Figure A-12: Per-student and total Revenue.



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