



OUT OF REACH: EXAMINING THE PRICE OF HIGHER EDUCATION IN MICHIGAN

This is a summary of a full report with the same title. Access the full report at www.crcmich.org.

Key Takeaways

- Growth in tuition and fee charges at public universities and community colleges is making college less affordable to the typical household. For public universities, average annual charges as a percentage of median household income have grown almost three-fold over the last three decades.
- Tuition and fee growth has been significantly higher than growth in institutional spending, so spending alone cannot explain the sharp growth in tuition charges. Data analysis suggests that slow growth in public operating support has been a key driver, especially for public universities.
- While growth in financial aid grants have helped mitigate some of the out-of-pocket tuition and fee costs to students and families, affordability has still declined even after factoring in this growth in grant aid.

Few argue the benefits of attaining a post-secondary degree. Today's workplace is significantly different from the workplace that existed decades ago. Higher salaries and wages are increasingly reserved to those with advanced skills that are most commonly associated with a college degree. Recent research suggests that workers with a bachelor's degree earn, on average, around 70 to 75 percent more than workers with only a high school diploma. Similarly, an associate's degree increases average earnings for workers by about 20 percent over those with only a high school education.¹

However, while the benefits of a college degree are well-documented, so too is the dramatically increasing price of obtaining one. U.S. Department of Education data show that the average tuition and fee charges at public four-year universities increased at an annual rate of 6.6 percent during the period between the 1979-80 school year and the 2019-20 school year. For public two-year colleges, annual

growth was somewhat slower at 5.8 percent.² Both growth rates exceeded the 5.5 percent growth rate realized for U.S. personal income over this period, meaning that tuition has become less affordable to the average family. Many worry that this growth in the price of higher education will keep some potential students from achieving the benefits of a college degree.

To provide insight into why a college degree is becoming more expensive both in Michigan and nationally, this report utilizes 30 years of available data from the U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS) to shed light on these important questions:

- How have tuition and fee charges changed at Michigan public universities and community colleges over the last 30 years? And how do these increases compare with national public peer institutions?

- How has university and community college spending, both in Michigan and nationally, changed over this period? To what extent do spending increases explain the observed tuition increases?
- Since the costs of instruction at public institutions are supported by both student/family payments and by direct public support, how have changes in the magnitude

of this public support affected tuition and fee charges?

- Finally, for many students, tuition and other charges are often discounted for financial grant aid from public, private, and institutional sources. How have changes in the availability of financial grant aid affected out-of-pocket costs to students and families?

Tuition and Fee Growth over 30 Years

Tuition and fee charges are a significant core component of the price of a college degree. Students and families pay tuition and fee charges to cover the costs of educational courses that make up a student’s program of study as well as the costs of support services (e.g., financial aid, admissions, student organizations) needed to facilitate that educational program.

Tuition and fee charges in Michigan and nationally have risen faster over time than typical household incomes, making college less affordable for most people.

In Academic Year (AY)1989, average annual tuition and fee charges for Michigan universities equated to 7.4 percent of Michigan median income. By AY2019, that percentage had grown to 21.6 percent – an almost three-fold growth in the percentage over this period. That means that a typical Michigan family would need to find financial resources (by either directly spending from its income or by drawing down savings or borrowing) equal to more than 21 percent of their annual income to afford one-year of public university education.

Nationally, tuition at all U.S. public universities also grew significantly as a percent of U.S. median house-

hold income from 5.4 percent at the start of the period to 14.4 percent by its end. (see **Chart A**)

Tuition and fees at public community colleges also became less affordable, with charges at Michigan community colleges rising from 3.2 to 5.8 percent of median household income. Nationally, average annual community college tuition rose from 2.6 to 5.1 of median income. The report also finds that tuition at Michigan institutions have exceeded national levels:

- Tuition at Michigan public universities was significantly higher than the national average across the period. In AY2019, charges were 39 percent higher than the average across all U.S. public universities in the comparison group, and all 15 of Michigan’s public universities had charges that exceeded the average for their Carnegie peer group.
- For Michigan community colleges, average tuition also exceeded the national average. However, charges varied considerably across the 28 colleges, with the typical charges for in-district students at nine Michigan community colleges falling below the national average.

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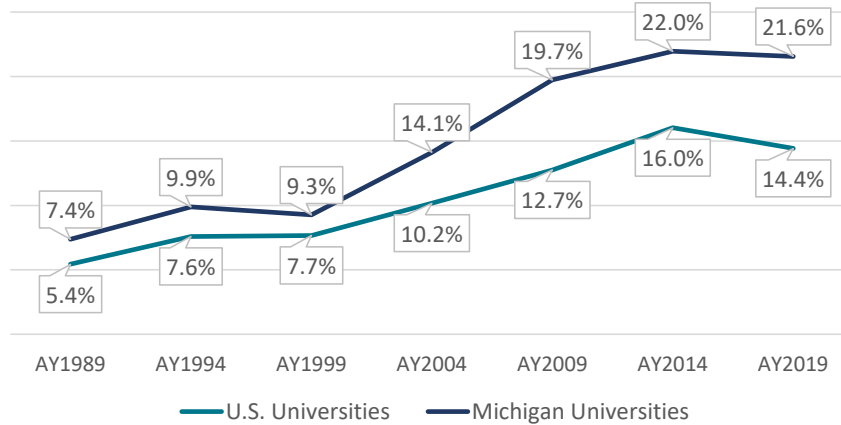
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Chart A

Tuition and Fees as Percent of Median Income - Universities



Source: Research Council calculations based on tuition and fee data from Integrated Postsecondary Education Data System and annual median household income data from Current Population Survey, U.S. Census Bureau. Average tuition and fee charges are weighted by full-time equated undergraduate enrollment.

Institutional Spending and Tuition Growth

One critical driver of growth in tuition and fee charges is the growth in education-related spending by universities and colleges. Other things being equal, a university with above-average growth in education spending per student will have above-average growth in tuition and fee charges.

To determine how much of the observed growth in tuition and fee charges can be explained by growth in spending, the report analyzes growth in education-related spending per full-time equated (FTE) student at public institutions between AY1989 and AY2019. Relevant spending is divided into two categories based on IPEDS spending classifications:

- **Instruction/Student Services spending:** direct instruction and education expenses plus certain student services expenses (e.g. registrar, admissions, student activities, student health services)
- **Administration and Support Services spending:** expenses that support the university’s mission including Academic Support (e.g., academic deans, libraries, museums), Institutional Support (e.g., executive office, legal/fiscal operations, human resource, public relations), and

Operations and Maintenance (campus grounds and facilities).

Institutional spending at both public universities and community colleges has grown significantly slower than tuition over the last three decades. Thus, institutional spending alone cannot account for the significant growth in tuition and fee charges and the related decline in affordability.

For Michigan universities, the annual growth in Instruction/Student Services spending was only 3.5 percent, compared to 6.2 percent annual growth for tuition. Nationally, spending growth for this category (3.3 percent) was just over half tuition growth (6.3 percent). Growth in Administration and Support Services was somewhat higher: 4.3 percent annually at Michigan universities and 3.7 percent at U.S. universities; but that growth was still only 69 percent of tuition and fee growth (6.2 percent) for Michigan universities and around 59 percent of tuition and fee growth for all U.S. universities (6.3 percent).

The comparison was similar for community colleges. Instruction/Student Services spending per student at U.S. community colleges grew at a 3.2 percent annual rate while Administration and Support Ser-

vices spending grew by 3.5 percent annually. Both rates fall well below the 5.3 percent annual growth in tuition charges. The gap between spending growth and tuition and fee growth was smallest for Michigan community colleges, where annual Instruction/Student Services spending growth (3.6 percent) was about 80 percent of the growth rate of tuition (4.5 percent). Annual growth in Administration and Support Services spending (4.4 percent) was about 98 percent of tuition and fee growth. (see **Chart B**).

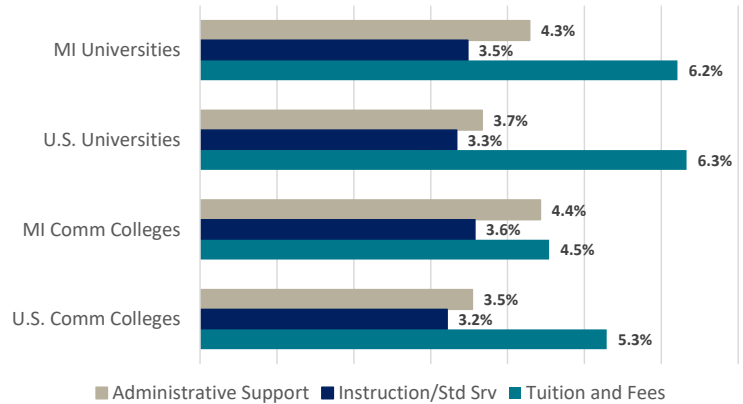
In terms of spending at Michigan institutions, the data suggest:

- Spending levels per student at Michigan universities were significantly higher than national average spending. However, much of that gap was attributable to spending levels at the University of Michigan-Ann Arbor and its status as a very large national research university. Spending at other Michigan universities trended both above and below the national average for their Carnegie peer classification.
- Most Michigan community colleges realized per-student spending levels and per-student spending growth across the period that exceeded national averages for all community colleges in the comparison group.

Chart B

Tuition and Fee Versus Spending Growth

Annual Growth between 1988-89 and 2018-19 Academic Years



Source: Research Council calculations based on data from Integrated Postsecondary Education Data System. Percentages reflect average annual increase over the 30-year period spending per FTE student and in tuition and fee charges for full-time, in-state university students and full-time, in-district community college students.

Changes in the Public Subsidy for Higher Education

Public colleges and universities do not rely solely on tuition and fee revenue to finance their education-related expenses. They also receive operational support from the public sector. State government appropriations to universities and colleges and local tax revenue that often supports community college operations help to subsidize the price of higher education. In this report, this public operating support for colleges and universities is referred to generically as the “public subsidy”.

Changes in public subsidy revenue growth can also impact institutional decision-making on tuition and fee

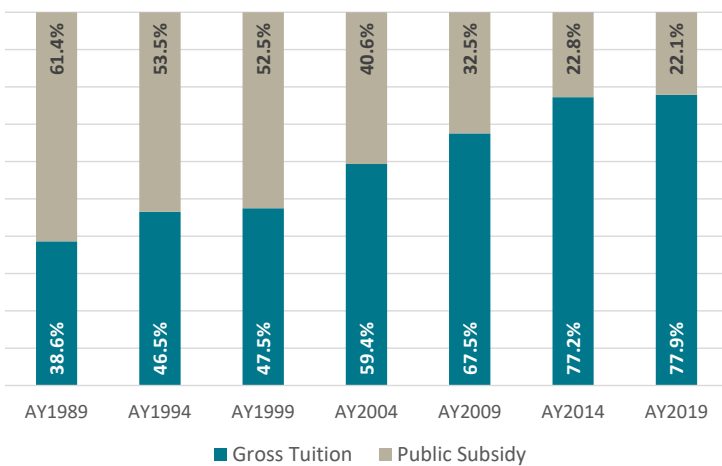
growth. If an institution’s long-term spending grows at a consistent rate, faster growth in public subsidy revenue, for instance, could allow an institution to reduce the growth of its “price” as established through its tuition and fee charge. Likewise, slower growth in the public subsidy could push institutions to consider faster growth in the price to make up for unrealized public subsidy revenue.

Over the last three decades, public subsidy revenue per student has grown very slowly for public institutions of higher education, particularly for universities. As a result, they have leaned increasingly

more heavily on tuition and fee revenue to finance their operations. This has been especially true for public universities. **Chart C** illustrates this trend for Michigan universities. For each academic year, the public subsidy share of revenue is calculated by dividing total public subsidy revenue across all 15 Michigan universities by the total revenue from both the public subsidy and gross tuition for these same universities. The public subsidy share at Michigan universities declined from 61 percent in AY1989 to just 22 percent in AY2019. In turn, the gross tuition share of revenue doubled from 39 percent to 78 percent over the same period.

Chart C

Tuition and Public Subsidy Revenue Shares - Michigan Universities



Source: Research Council calculations based on data from Integrated Postsecondary Education Data System. Percentages reflect gross tuition revenue and public subsidy revenue, respectively, divided by total revenue from both sources across all 15 Michigan public universities.

Similarly, the public subsidy share of revenue fell from 73 percent in AY1989 to 35 percent in AY2019 for all U.S. universities. For community colleges, the public subsidy share of revenue has also fallen, but the decline has been much smaller. The public share fell from 68 percent to 61 percent at Michigan community colleges and from 77 percent to 62 percent at all community colleges nationwide.

However, when a public institution faces slower than normal growth in public subsidy revenue, it has more than one option. It can raise tuition and fee charges to help restore some of the unrealized revenue; or, it can accept slower total overall revenue growth and reduce the growth in institutional spending to live within its new revenue means.

Community colleges did a little of both. Community colleges nationally with the greatest decline in the public subsidy share of their education revenue had the highest growth rate in tuition and fee charges among all colleges; but they also had the lowest overall growth in education revenue. On the whole, community colleges both increased tuition and fees and also accepted somewhat slower overall revenue growth in response to sluggish public subsidy revenue growth

The same was not true, however, for universities. Universities with the greatest decline in public subsidy share had the highest growth rates in tuition and fees over the period, but there was no discernable impact on education revenue growth for universities with the highest and lowest declines in public subsidy share. This important finding suggests universities generally responded to sluggish subsidy growth primarily by increasing tuition and fees.

The Impact of Changes in the Public Subsidy on Affordability

Slow growth in public operating support has played a major role in fueling growth in tuition and fee charges, particularly for 4-year universities. Looking at affordability, most of the decline in observed tuition and fee affordability – as measured by increases in tuition and fee revenue as a percent of median household income – is attributable to the resulting decline in the

public subsidy share of total education revenues for universities. That correlation is less clear, however, among community colleges.

To measure the impact of the declining public subsidy share for universities, the report compares the actual growth path of per-student tuition revenue

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with an adjusted path that models how tuition and fee revenue would have grown without a decline in the public subsidy share. “Adjusted growth tuition” takes per-student tuition and fee revenue for AY1989 and grows that amount by the overall growth rate in all education revenue from both tuition and the public subsidy. The measure serves as a proxy for tuition and fee revenue under a scenario where the public subsidy share of revenue stayed constant throughout the period.

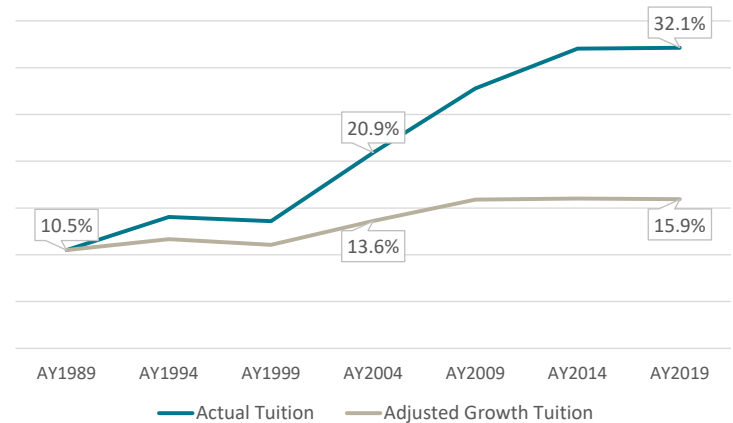
For Michigan universities, actual per-student tuition revenue increased from 10.5 percent of personal income to 32.1 percent of personal income between AY1989 and AY2019. However, “adjusted growth tuition” grew to only 15.9 percent of median income (see **Chart D**). This suggests that only around 25 percent of this growth (the 5.4 percentage point growth for adjusted tuition divided by the 21.6 percentage point growth for actual tuition) was driven by long-run growth in overall education revenue (and the spending it supports); the majority of the decline in tuition affordability is related to tuition increases to address sluggish growth in public subsidy revenue.

For U.S. universities, the story is much the same, but the impact of the declining public subsidy share is even greater. Comparing actual tuition revenue growth with adjusted growth suggests that the vast

majority (about 93 percent) of the growth in the income burden of tuition and fees was attributable to slow public subsidy growth and the resulting decline in the public subsidy share.

Chart D

Tuition as Percent of Median Household Income - Michigan Universities



Source: Research Council calculations based on data from Integrated Postsecondary Education Data System. Tuition is measured as total gross tuition revenue across all Michigan universities divided by aggregate full-time equivalent enrollment. Michigan median household income is taken from Current Population Survey, U.S. Bureau of the Census.

Public Tax Effort for Postsecondary Education

What explains the sharp decline in the public subsidy share of postsecondary education revenue? Did the subsidy share decline because governments elected to constrain growth in tax revenue allocated for higher education as part of a broader effort to bring about smaller government and lower tax burdens? Or instead, has growth in higher education spending outpaced the growth in state and local tax bases? Under this latter scenario, the decline in the public subsidy share is just the inevitable result of state and local governments grappling with annual budget tradeoffs between higher education and other key public spending priorities.

To explore this question, the report examines “public

tax effort” for postsecondary education, which is defined as total state and local public subsidy support to universities and community colleges as a percentage of personal income

For public universities, the data show a significant decline in public tax effort over the last three decades. Tax effort for Michigan universities declined from 0.61 percent of Michigan personal income in AY1989 to 0.30 percent in AY2019. Similarly, U.S. universities experienced a decline in tax effort from 0.58 percent of U.S. personal income at the start of the period to 0.30 percent by AY2019 (see **Chart E**). In short, tax effort for public universities was cut in half over the 30-year period examined – both in

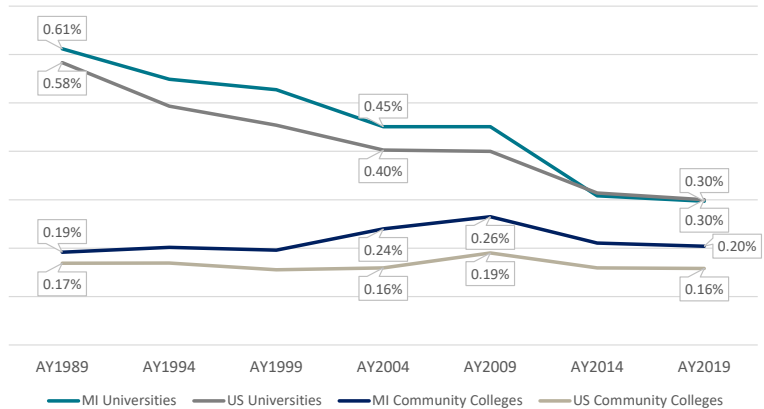
Michigan and nationally.

For Michigan, if tax effort for universities had remained constant at the AY1989 rate, the resulting increase in state support would have more than doubled the amount of public subsidy revenue per student in AY2019 from \$5,852 to \$12,048. For U.S. universities, maintaining a constant tax would have similarly raised public subsidy revenue per student at U.S. universities from \$7,887 to \$16,019.

For community colleges, tax effort was much more stable. Michigan community colleges saw tax effort increase from 0.19 percent of Michigan personal income in AY1989 to 0.26 percent of personal income in AY2009 before the percentage fell back to 0.20 percent in AY2019. Still, tax effort had increased very slightly by the end of the 30-year period. Public tax effort was even more stable for U.S. community colleges, starting at 0.17 percent of U.S. personal income in AY1989, growing to a peak of 0.19 percent of personal income by AY2009, and then declining to 0.16 percent of U.S. personal income by AY2019.

Chart E

Public Subsidy as a Percent of Personal Income



Source: Research Council calculations based on data from Integrated Postsecondary Education Data System. Michigan and U.S. personal income data from the U.S. Bureau of Economic Analysis. Public subsidy revenue is included for all 635 public universities and 935 public community colleges that reported data to IPEDS in each year, including institutions that were not part of the report’s comparison groups.

Financial Aid Discounts to Tuition

Many students and families are not required to pay the full tuition and fee charges imposed by a university or community college. An institution’s tuition and fee charge is effectively the “sticker price” of an educational program. Many students receive financial aid grants that help discount that sticker price. Some of these grants come from the public sector and represent what can be considered a second tier of public subsidy targeted toward selected students. Federal Pell grants, for instance, provide support to low-income students. State financial aid programs often provide grant aid to students based on both merit and financial need. Other institutional grant aid – both need-based and merit-based – comes directly from college or university resources; and some students receive grant aid from other private sources.

To get a full picture of the affordability of tuition and fees, these discounts also need to be considered. To what degree do financial aid grants mitigate the growth in “sticker price” tuition and fee charges? Is higher education still getting less affordable after

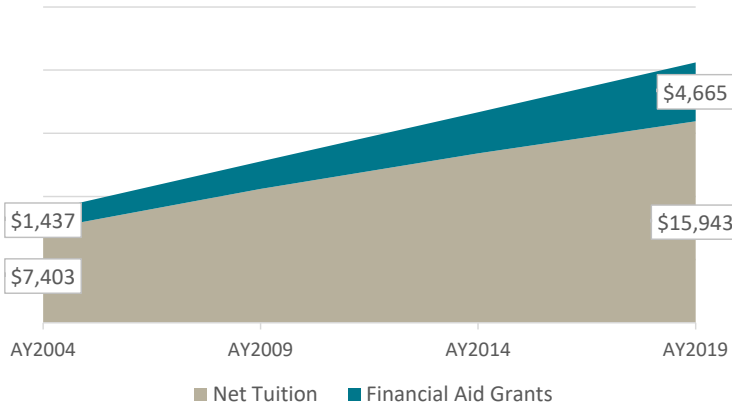
this additional grant aid is included in the analysis?

IPEDS includes revenue data on both gross tuition revenue (which includes financial aid grants) and net tuition revenue (which subtracts grant aid and includes only the amount paid by the student and family), and the report uses these data to analyze these questions. The analysis shows out-of-pocket net tuition revenues have grown more slowly than gross tuition revenues attributable to sticker prices tuition and fee charges.

Chart F illustrates the relative growth of both components of per-student gross tuition revenue at Michigan universities. While per-student gross tuition grew at an average annual rate of 6.4 percent, financial grant revenue per student grew at an 8.2 percent annual rate from \$1,437 in AY2004 to \$4,665 in AY2019; as a result, grant aid absorbed a greater share of overall growth in gross tuition revenue. This allowed for slower 5.2 percent growth in net tuition revenue paid directly by students and families.

Chart F

Net Tuition and Aid Revenue per Student - Michigan Universities



Source: Research Council calculations based on data from Integrated Postsecondary Education Data System. Financial aid grants reflect grant aid used to discount tuition paid by student. Aggregate revenue is divided by aggregate full-time equivalent enrollment at Michigan universities to calculate per-student amount.

The results were similar for Michigan community colleges. Financial aid grants grew at an annual average rate of 7.3 percent between AY2004 and AY2019, while net tuition revenue grew at slower 5.0 percent rate.

Still, the growth in grant aid has not been sufficient

to prevent declines in tuition and fee affordability. For Michigan universities, net tuition revenue per student grew from 17.5 percent to 24.9 percent of median household income between AY2004 and AY2019; growth in financial aid grants has only helped to offset a portion of the decline in affordability. Net tuition revenue also grew from 5.4 percent to 7.4 percent of personal income at Michigan community colleges over these 15 years.

Nationally, affordability also declined over this period, but the growth in net tuition revenue as a percentage of personal income for universities and community colleges was smaller than the growth experienced in Michigan. For Michigan institutions, a large reduction in state-based grant aid implemented as part of the FY2010 state budget has had a unique impact. Before the reduction, the percentage of Michigan students receiving financial grant aid was significantly higher than the national average. After the reduction, however, Michigan students are less likely to receive grant aid.

The impact of this reduction was particularly significant for Michigan community colleges. Michigan universities were able to increase institutional financial aid grants to help offset some of the loss in state-based grant aid. Community colleges were less able to do so. While financial aid grants have largely offset growth in tuition and fee charges at community colleges nationally, this has not been the case for Michigan community colleges.

Summary and Major Findings

Substantial research demonstrates the value of higher education to both individual students and the broader society. Yet, data show that tuition and fee charges – the price of a college degree – at public institutions of higher education have grown faster than typical incomes. Further, an important driver behind this decline in affordability is the stagnant long-term growth over recent decades in the public subsidy for university and college operations. Slow growth in public operating support has meant that institutions of higher education have resorted to greater increases in tuition and fee charges in order to achieve normal operating revenue growth to support education-related

spending. This trend has been particularly prominent for four-year universities, both in Michigan and across the United States.

This conclusion draws from four major data findings in the report on growth trends for tuition and fee charges, institutional spending, public subsidy revenue, and financial aid grant funding.

First, growth in tuition and fee charges at public universities and community colleges is making college less affordable to the typical household. This is particularly true for public universities where

average annual tuition and fee charges as a percentage of median household income has grown almost three-fold over the 30-year period from AY1989 to AY2019. Public community colleges have also seen tuition and fee growth outpace incomes, but to a lesser extent. Still, average community college tuition and fee charges nationwide absorbed almost the twice the share of median household income in AY2019 than they did in AY1989.

Second, tuition and fee growth has been significantly greater than growth in institutional education spending per student. While per-student spending growth certainly factors into the growth in tuition and fee charges, it does not account for all of the growth. Instruction/Student Services spending at public universities grew only half as fast as tuition and fee charges during the 30-year period analyzed, while Administration and Support Services spending grew around 60 to 70 percent as fast for Michigan and U.S. universities. Spending growth at public community colleges was closer in magnitude to tuition and fee growth – particularly for Michigan community colleges – but tuition and fee growth was still higher both in Michigan and nationally. Spending alone can not explain the sharp growth rates observed for tuition and fee charges.

Third, stagnant growth in public subsidy revenue is primarily responsible for making college less affordable, especially for four-year universities. For public universities nationally, virtually all of the difference between tuition and fee growth and the growth in median household incomes – in other words, all of the tuition and fee growth that has resulted in reduced affordability over time – is attributable to slow growth in public subsidy revenue for universities. The public subsidy share of university education revenue has declined precipitously over the 30-year period of analysis.

Growth in public subsidy revenue for public com-

munity colleges has been somewhat stronger over the period, resulting in a more stable public subsidy share of education revenue. Still, that share has declined for both U.S. and Michigan community colleges, which has also contributed to declines in tuition and fee affordability.

Finally, while financial aid has helped reduce out-of-pocket tuition and fee costs to students and families, they have not offset tuition and fee growth. Even after controlling for grant aid revenue per student, net tuition growth still resulted in decreased affordability for college students – in both Michigan and nationally, and at both universities and community colleges.

Further, large reductions in state-based financial aid programs implemented in Michigan to address a large revenue shortfall in FY2010 has reduced the percentage of Michigan college students – both at public universities and community colleges – that receive financial grant aid. This runs counter to the national trend that saw sizable increases in the percentage of students receiving grant aid over the period. The reductions caused Michigan to shift from being a state where grant aid receipt rates were quite high to being a state where the percentage of students receiving grant aid is below the national average.

In summary, public operating support for higher education has grown very slowly for the past three decades, particularly for four-year universities. This has made earning a college degree significantly less affordable for the average student over the last three decades. State policymakers in Michigan and elsewhere should work to push the budget pendulum in the opposite direction with significantly greater budget investments aimed at making higher education more affordable for the next generation of college students.

Implications for Public Policy

While postsecondary education remains critical to the economic well-being of workers and of society as a whole, it has become increasingly more expensive to secure over the last three decades; and the data

make clear that state-level disinvestments in postsecondary education have played a prominent role in driving this decrease in affordability, especially for those seeking a bachelor's degree. This is particu-

larly true in Michigan. The state followed the national trend of providing very slow growth in public subsidy support between 1989 and 2019, driving down the public subsidy share of education revenue for public community colleges and, particularly, for the state's public universities. On top of that, however, the state also slashed much of its state-based financial aid programs during budget challenges following the Great Recession.

Despite efforts to enhance affordability through tuition restraint provisions in state appropriations bills, the price of higher education has grown less affordable. Tuition and fee charges in Michigan and nationally have generally grown as a share of median household incomes, even after adjusting for the availability of financial aid grants.

Reversing the trend in college affordability at public institutions will require greater public investments in higher education. Clearly, one option for policymakers is to reverse the 30-year trend documented in this report and increase direct public subsidy support to colleges and universities. However, the results of this study show that there will be challenges to this approach. First, it is likely that some of the increased revenue obtained from faster growth in the public subsidy would be retained to support increased educational spending rather than mitigating tuition and fee charges.

It should be noted that some research suggests that increased institutional spending results in improved student outcomes. But if the goal of additional investments in university and community college operations is to improve affordability, increases in the public subsidy may need to be accompanied by thoughtful tuition restraint provisions. Optimally, those provisions would recognize that any given percentage increase in public funding has variable impacts across different institutions; those with a greater dependency on tuition and fee revenue get more “bang for the buck” than those that are more dependent on public subsidy revenue.

Second, Michigan's four-year public universities in

particular are now much more tuition dependent than they were 30 years ago. That means that a given percentage increase in public subsidy revenue per student will have less “bang for the buck” in terms of leaving room for institutions to reduce or slow the growth of tuition and fees while maintaining growth in total education revenues at a rate consistent with its long-run trend. Moving the needle on university affordability will require significant growth in the public subsidy, sufficient to reverse the 30-year trend seen in the data by increasing the public subsidy share of these education revenues.

A second option for policymakers would be to increase the public investment in state-based financial aid. This would help reduce the out-of-pocket costs of postsecondary education to students and families, even if “sticker price” tuition and fee charges remain relatively high.

To that end, state policymakers have already begun to make new public investments in postsecondary financial aid. A new state program, Michigan Reconnect, offers significant new funding to meet community college tuition and fee costs for Michigan residents aged 25 or older who have a high school diploma but no college degree. More recently, Michigan's FY2023 Higher Education budget includes \$250 million for a new Postsecondary Scholarship Fund to support scholarships for Michigan students. However, important details related to financial eligibility and grant amounts for students as well as what postsecondary institutions they may attend remain undefined; provisions within the state budget require enabling legislation to be passed by September 30, 2023, for the new program to establish these details.

If Michigan policymakers can come to an agreement on program requirements and – even more importantly – commit to maintaining significant ongoing funding for the program, the new investment could be instrumental in reversing the disinvestment in state-based financial aid that occurred as Michigan navigated significant budget challenges during the Great Recession.

Endnotes

1 Jaison R. Abel and Richard Deitz, "[*Despite Rising Costs, College Is Still a Good Investment*](#)," Federal Reserve Bank of New York *Liberty Street Economics* (blog), June 5, 2019; and Winters, John. "[*What You Make Depends on Where You Live: College Earnings across States and Metropolitan Areas*](#)," Washington, DC: Thomas B. Fordham Institute, May 2020.

2 U.S. Department of Education, National Center of Education Statistics, [*Digest of Education Statistics 2020*](#), Table 330.10

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