



Out of Reach:
Examining the Price
of Higher Education
in Michigan

Out of Reach: Examining the Price of Higher Education in Michigan

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Citizens Research Council of Michigan

January 19, 2023 Webinar

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Robert Schneider, Senior Research Associate



- Work Experience
 - 2nd stint with Citizens Research Council
 - State Budget Office
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- Policy Background
 - State budget
 - Human Services
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- Education
 - B.S. in Economics from Central Michigan University
 - M.A. in Economics from Michigan State University.

Research Goals and Data

Outline of Research Goals

Report analyzes 30 years of available federal data on public 4-year universities and 2-year community colleges

- **Tuition and Fees:** How has tuition affordability changed at Michigan institutions and among national peer institutions?
- **Spending:** How have per-student spending levels changed within relevant education-related categories? To what extent is spending driving tuition rate increases?
- **Public Subsidy:** How has public support for higher education changed over this time period? How have these changes impacted tuition levels?
- **Financial Aid Grants:** To what degree has grant aid to students help offset the increase in tuition charges?

Data for the Report

Data obtained from Integrated Postsecondary Education Data System (IPEDS) annual surveys administered by the U.S. Department of Education.

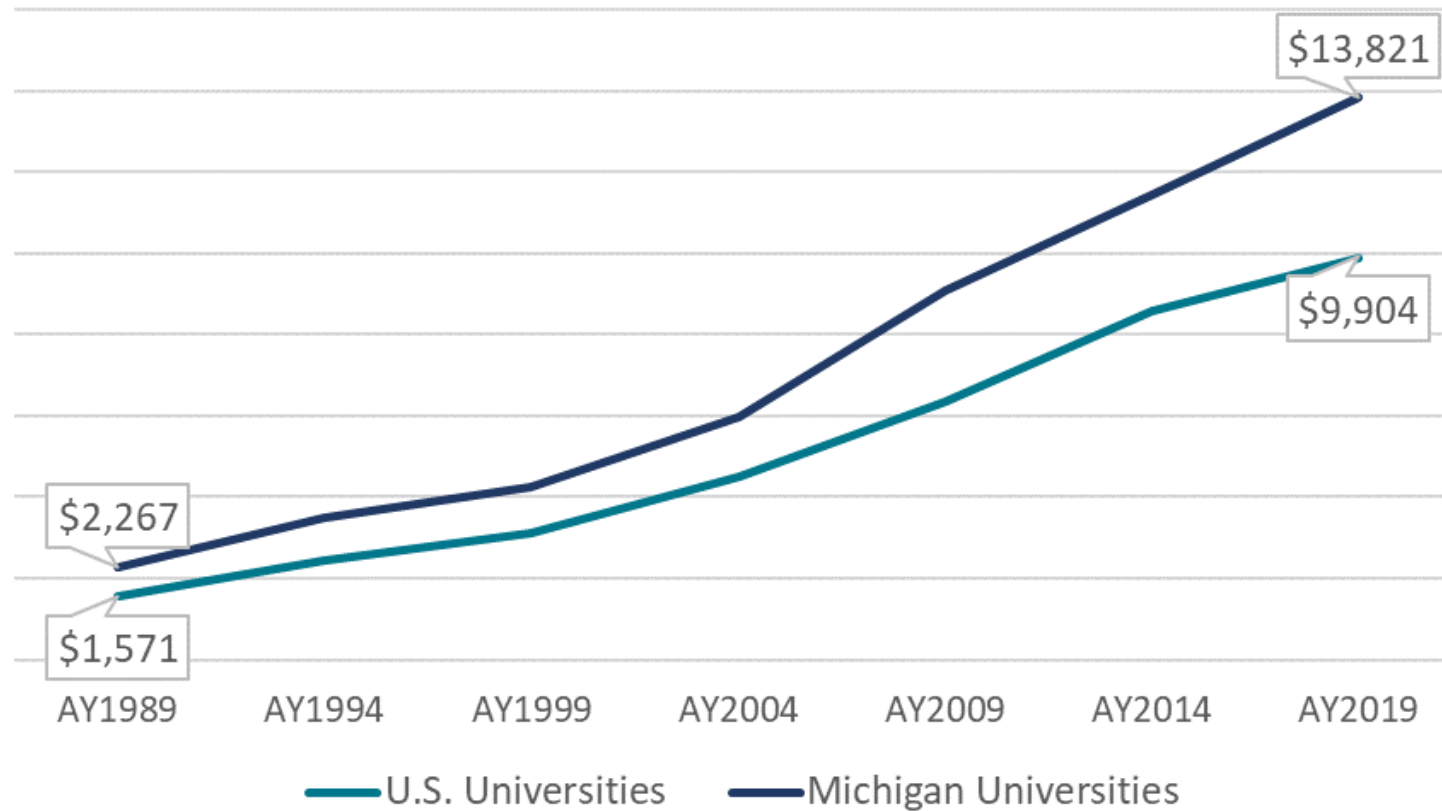
Michigan institutions are compared with national counterparts based on their 2018 classifications from the Carnegie Commission on Higher Education.

- **Public Universities:** 471 public four-year universities classified as Doctoral Universities, Master's Colleges, and Baccalaureate Colleges; including all 15 Michigan universities
- **Public Community Colleges:** 680 public two-year colleges classified as Associate's Colleges and Mixed Baccalaureate/Associate's: Associate's Dominant; including all 28 Michigan community colleges

Tuition is Becoming Less Affordable

Growth in Annual Tuition and Fees: 1989 to 2019

Full-Time, In-State Undergraduate Tuition and Fees Public Universities



Average Annual Growth:

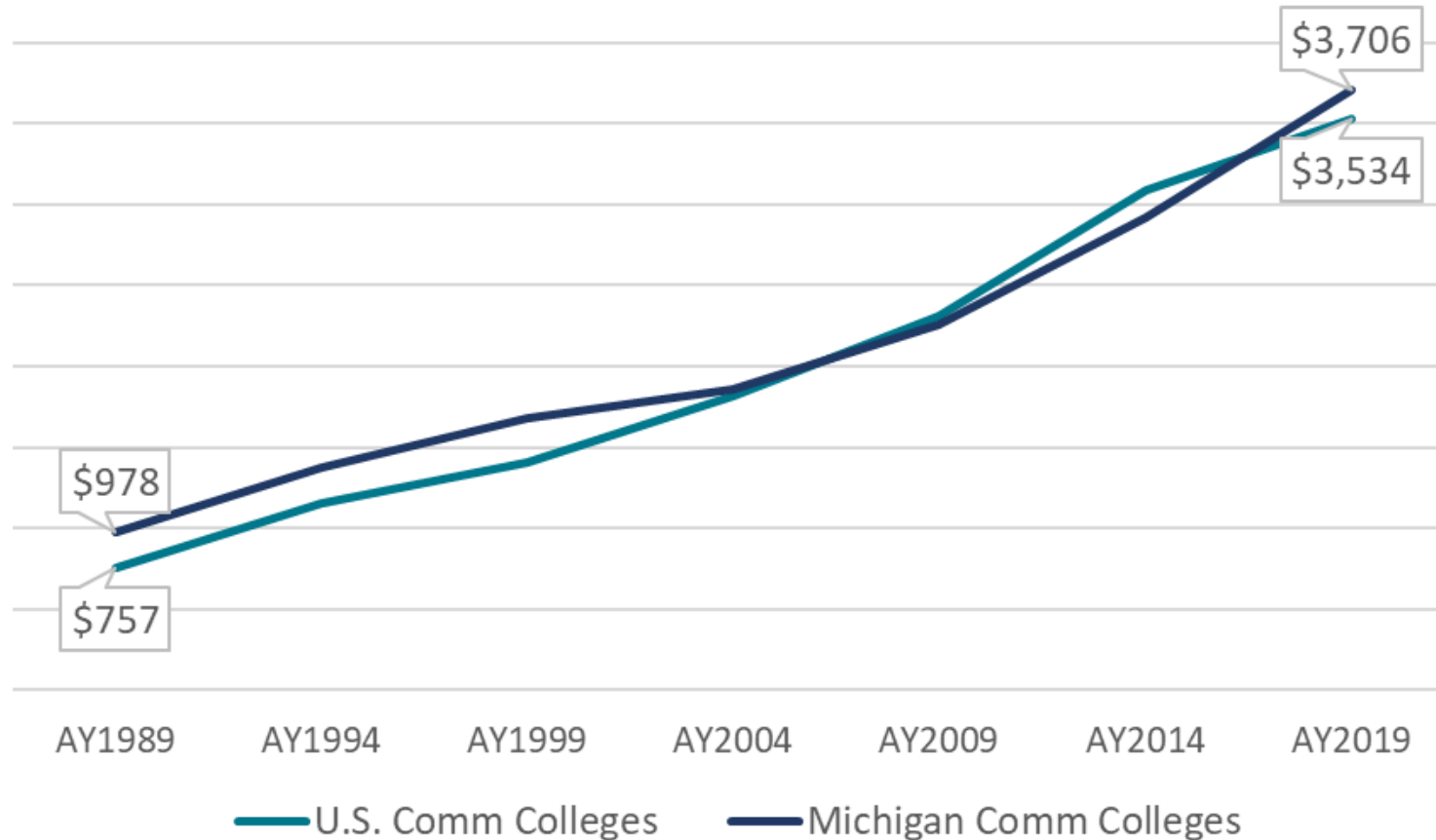
MI Public Universities: 6.2%

US Public Universities: 6.3%

- Michigan growth rates are very similar to national levels.
- Michigan tuition and fee levels are consistently higher than the national average
- Average tuition was almost 40 percent higher than national average in AY2019

Growth in Annual Tuition and Fees: 1989 to 2019

Full-Time, In-District Tuition and Fees Public Community Colleges

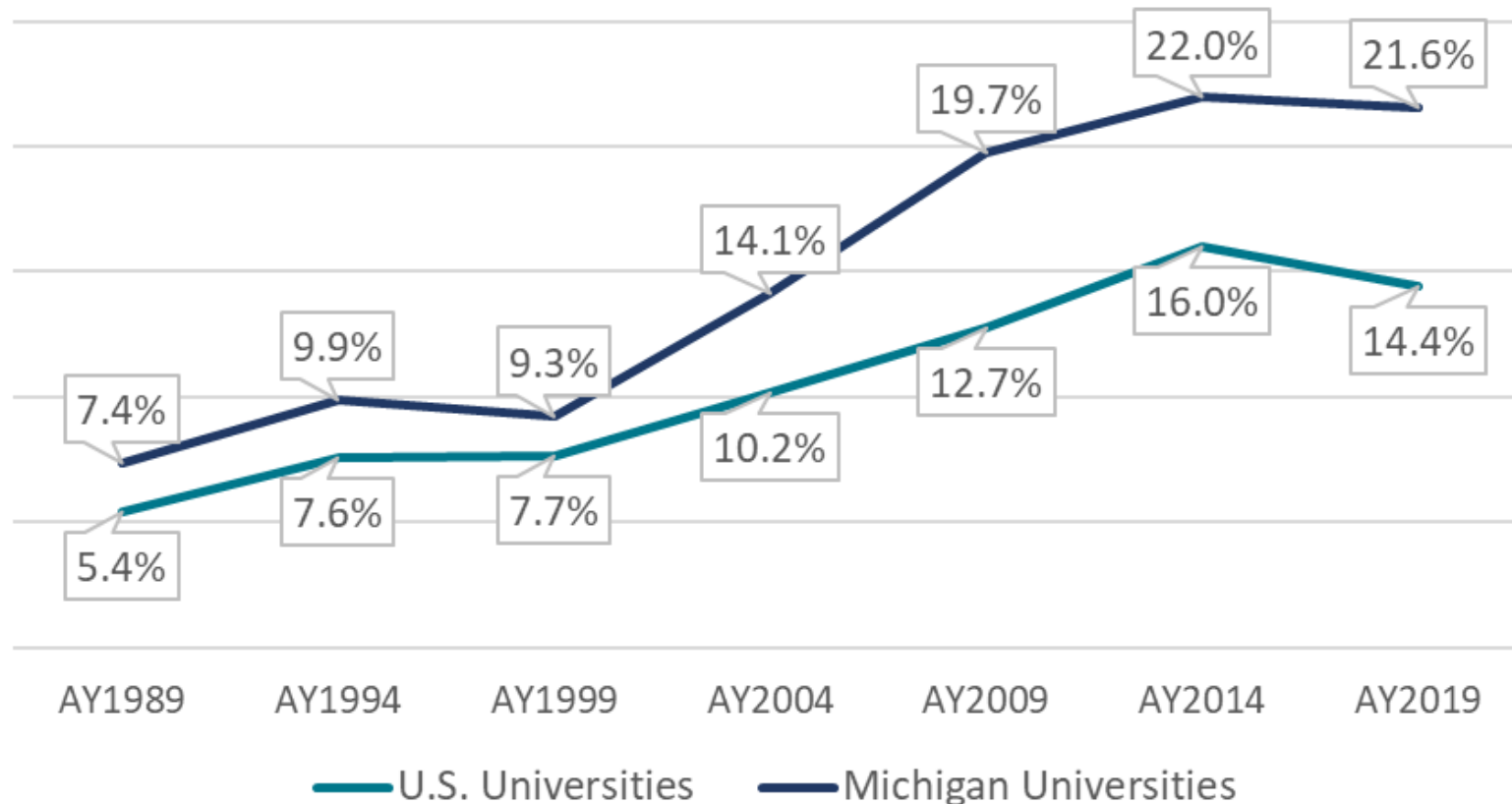


Average Annual Growth:
MI Comm Colleges: 4.5%
US Comm Colleges: 5.3%

- In 2019, Michigan community college tuition was 6.6% above the national average.
- A significant gap that existed between Michigan and national rates in 1989 slowly closed by 2009.

Tuition Affordability: Public Universities

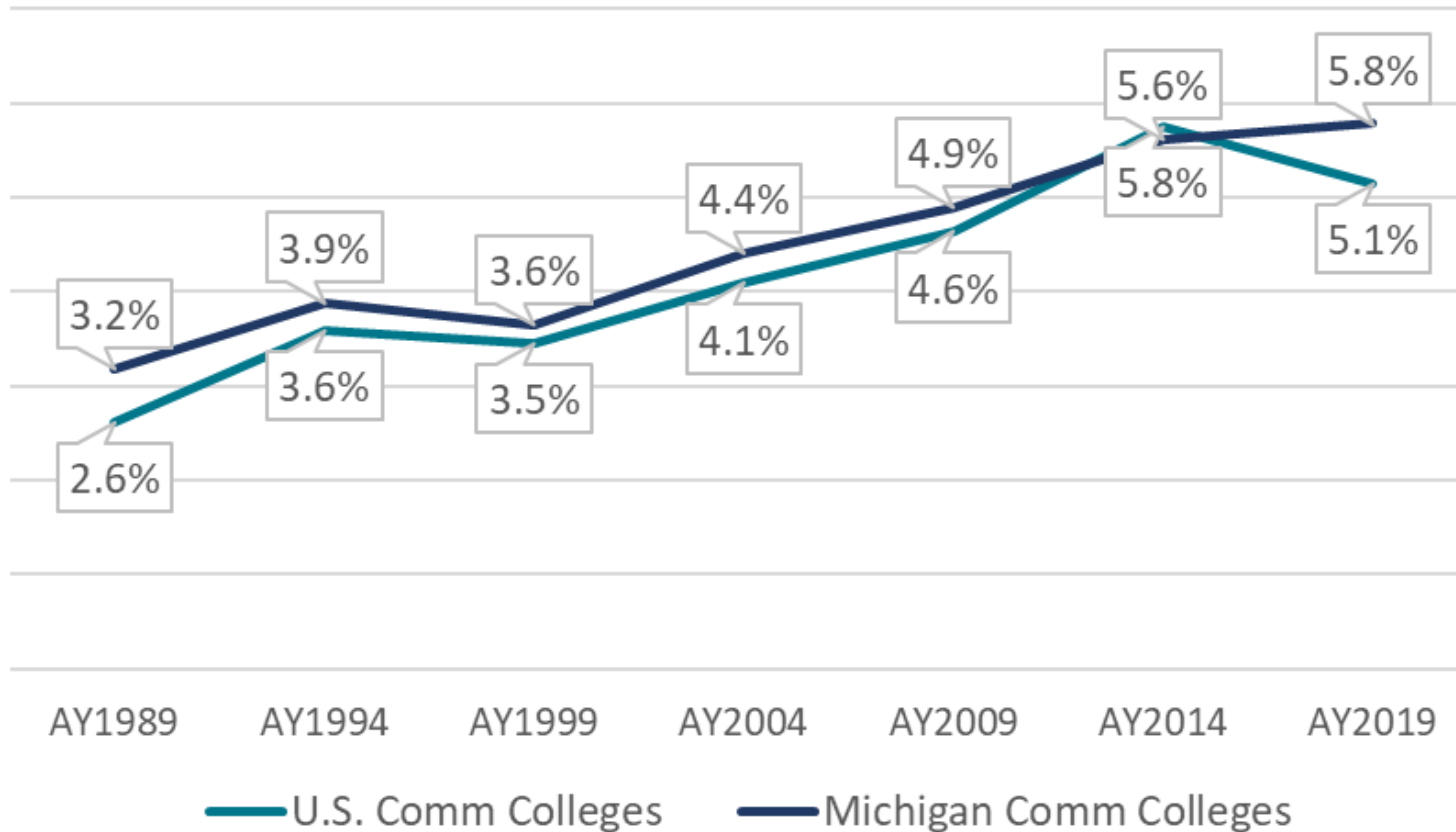
In-State Tuition and Fees as Percent of Median Income



- Tuition is taking a larger bite out of family budgets.
- Tuition and fee charges at Michigan public universities went from 7.4% to 21.6% of median income over three decades.
- Nationally, the percent rose from 5.4% to 14.4%

Tuition Affordability: Public Community Colleges

In-District Tuition and Fees as Percent of Median Income



- Similarly, tuition and fees at Michigan community colleges grew from 3.2% to 5.8% of median income over the same period.
- Tuition rose from 2.6% to 5.1% of median income for all U.S. community colleges.
- Affordability declined, but by proportionally less than universities

Tuition: Michigan vs. National Peers

Public Universities

- All 15 Michigan universities had tuition charges that exceeded the average of their Carnegie class peers in AY2019
- 11 of the 15 had annual growth rates over the 30 years that exceeded the average for their national peer group

Public Community Colleges

- 23 of the 28 Michigan colleges had tuition charges that exceeded the national average in AY2019
- 13 of the 28 had annual growth rates over the 30 years that exceeded the national average

What's Driving the Tuition Growth?

- Public institutions rely on two key revenue sources to finance educational programs
 - **Tuition and fees** – revenue from students/families and from financial aid grants (federal/state/local/private)
 - **Public operating support** – state appropriations and dedicated local millages; in report, we can call this the “public subsidy” since it subsidizes tuition charges
- At a high level, tuition grows for two reasons:
 - Institutional spending: higher per-student educational spending growth increases revenue needs and thus puts upward pressure on tuition
 - Public subsidy growth: if public operating support grows slower than spending, that puts upward pressure on tuition to make up the difference

What's Driving Tuition Up?: Institutional Spending Isn't the Whole Story

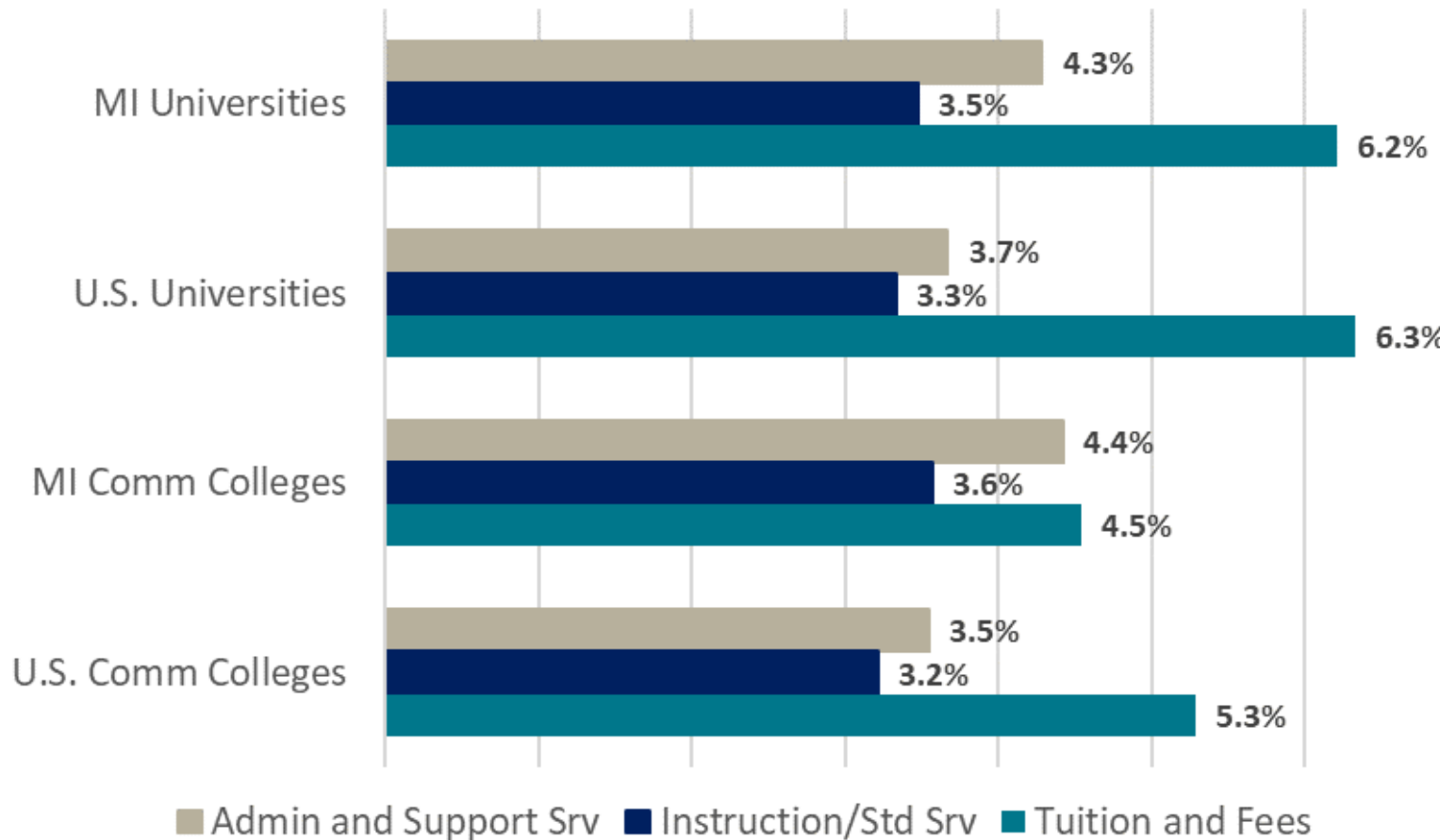
Education-Related Spending

Examined federal data on two broad categories of education-related spending typically covered by tuition and fee revenue; per student calculations are based on all full-time equated students (undergraduate and graduate)

- **Instruction and Student Services Spending:** direct academic instructional spending as well as spending on education-related services to students (e.g., registrar, admissions, student organizations, health services)
- **Administration and Support Services Spending:** broader “overhead” costs that would be allocable to tuition/fee revenue; includes general administrative functions (e.g., finance, legal services); academic support (e.g., dean’s offices; academic administration, libraries); and operations and maintenance (e.g., facilities, insurance/utility costs)

Tuition Versus Spending Growth

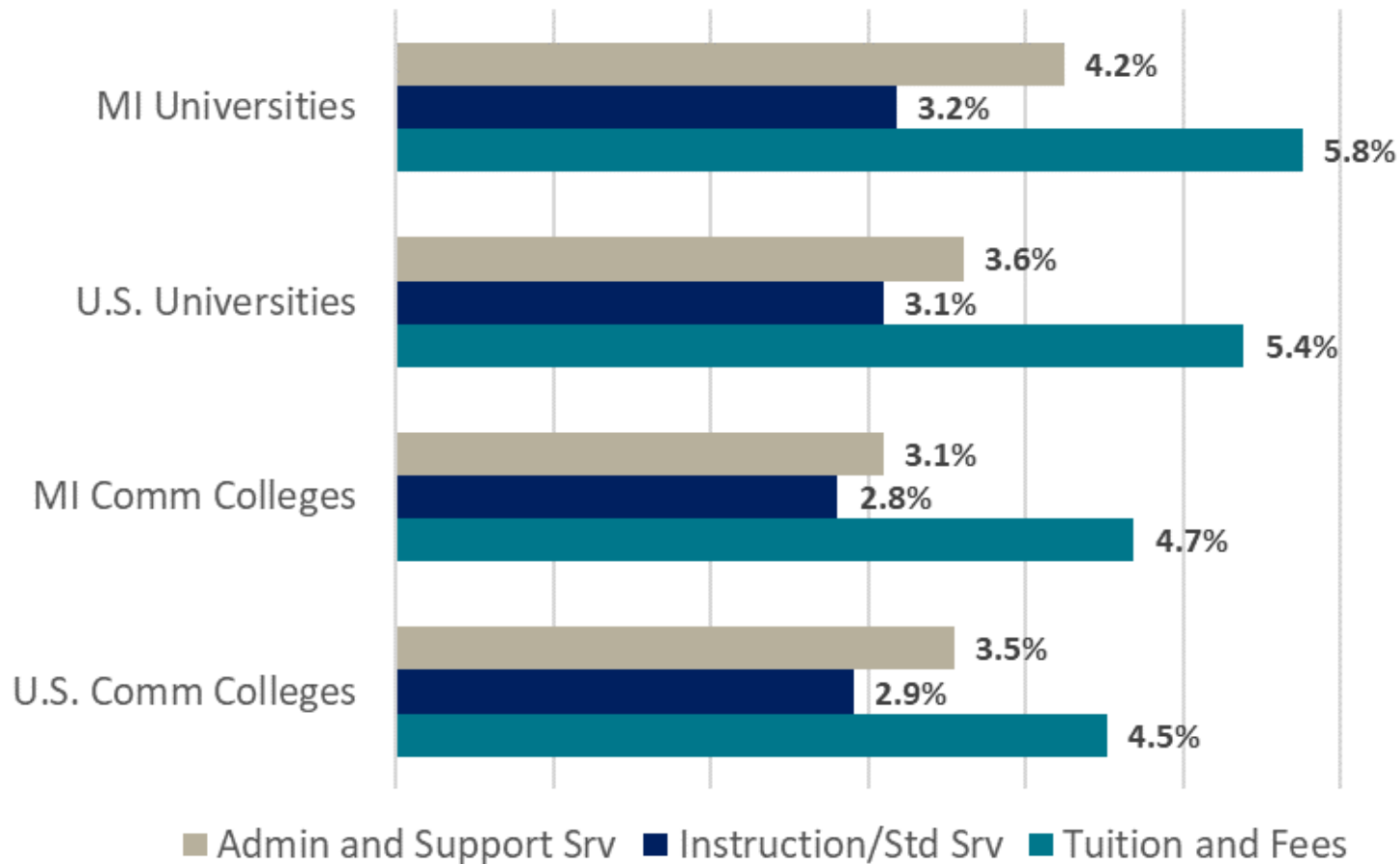
AY1989 to AY2019



- Universities: annual spending growth is much lower than tuition growth both in Michigan and nationally
- Community Colleges: Gap between annual tuition and spending growth is narrower, but gap still exists.

Double-Check: Tuition Versus Spending Growth

AY2004 to AY2019



- Does the gap between tuition and spending growth still hold over a shorter timeframe?
- Yes – annual growth for both spending and tuition slows somewhat during this 15-year period, but tuition growth still exceeds per-student spending growth.

Conclusion: Spending is Only Part of the Story

- Institutional spending per student is an important driver of tuition growth
- But spending alone can not account for the observed growth in tuition and fee charges – something else is at work

Slow Growth in Public Operating Support Has Also Pushed Up Tuition

Public Operating Support Has Grown Slowly

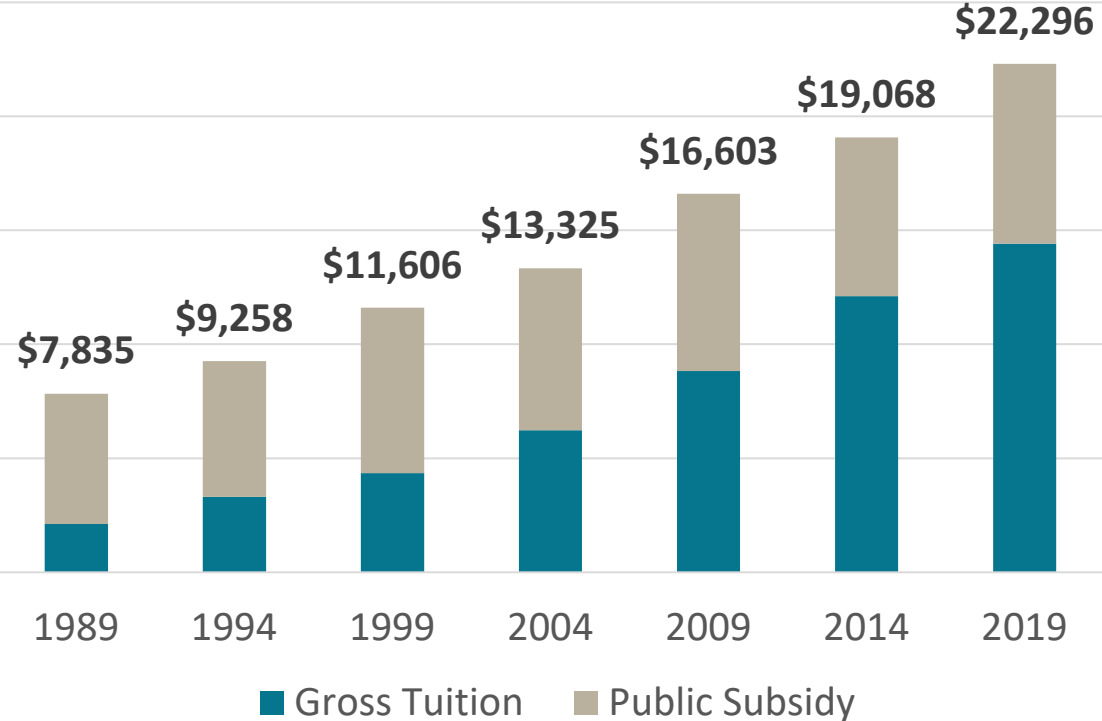
...especially for public universities

- “Public Subsidy” = state appropriations for universities and community colleges; local millage revenue for community college operations
- Nationally, public subsidy revenue per student for universities grew at a 1.1% annual rate over thirty years; for Michigan public universities, growth was just 0.4%.

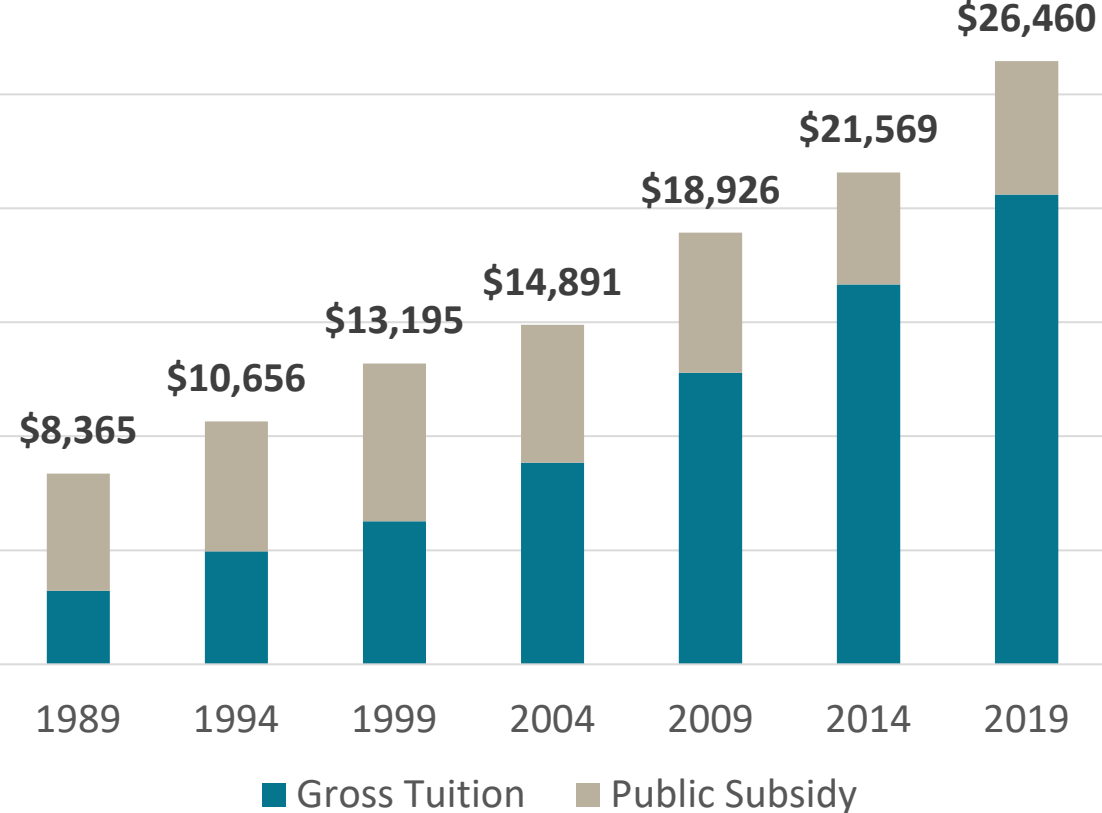
	Gross Tuition Revenue			Public Subsidy Revenue		
	<i>1988-89</i>	<i>2018-19</i>	<i>Annual Chg</i>	<i>1988-89</i>	<i>2018-19</i>	<i>Annual Chg</i>
MI Universities	\$3,230	\$20,609	6.4%	\$5,135	\$5,852	0.4%
US Universities	\$2,111	\$14,410	6.6%	\$5,724	\$7,887	1.1%
MI Community Colleges	\$1,429	\$6,677	5.3%	\$3,026	\$10,557	4.3%
US Community Colleges	\$1,009	\$4,961	5.5%	\$3,363	\$7,917	2.9%

University Revenue per FTE Student: Tuition and Subsidy

U.S. Universities
Annual Growth = 3.5%



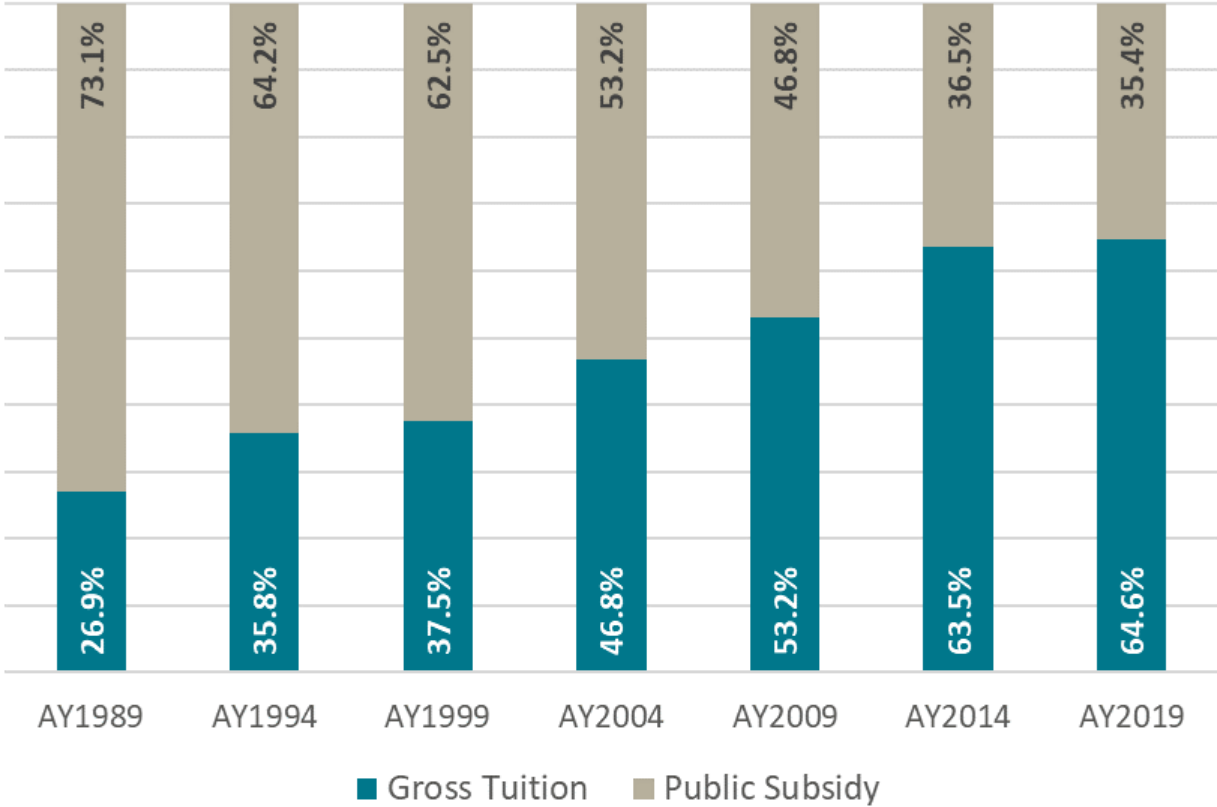
Michigan Universities
Annual Growth = 3.9%



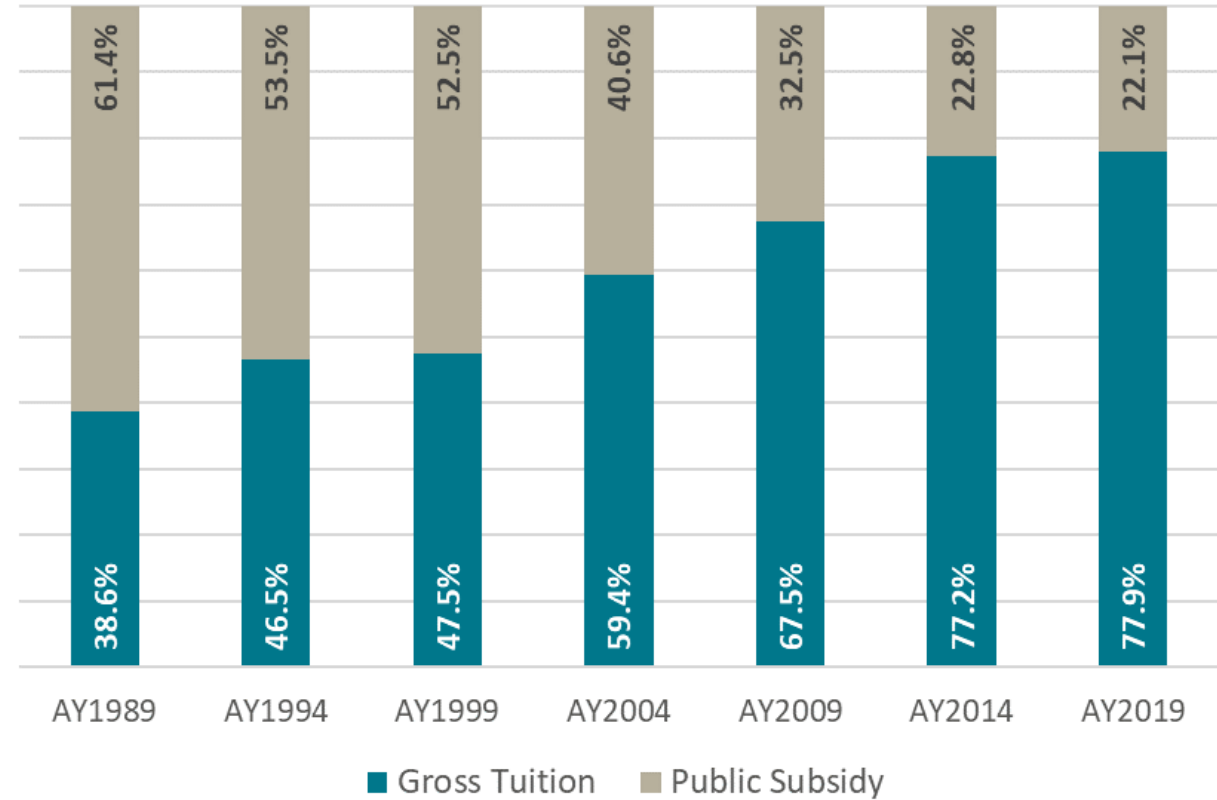
University Revenue Shares Have Changed Over Time

Public Subsidy Share of Revenue is Down in Michigan and Nationally

U.S. Universities



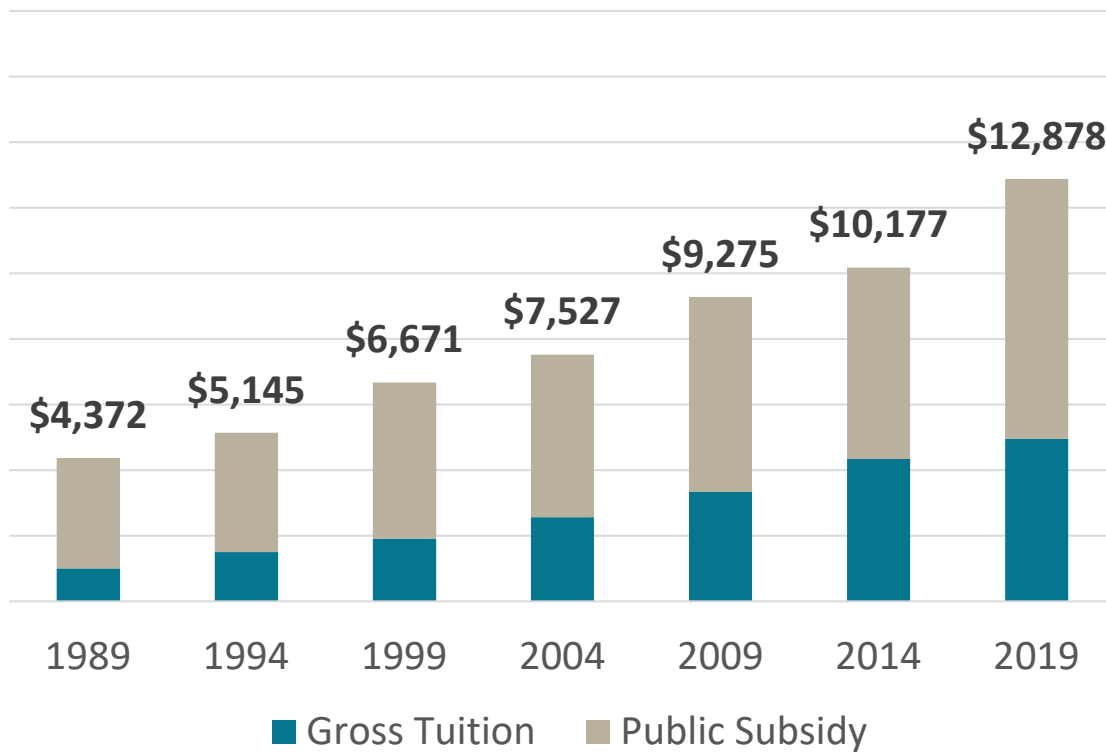
Michigan Universities



College Revenue per FTE Student: Tuition and Subsidy

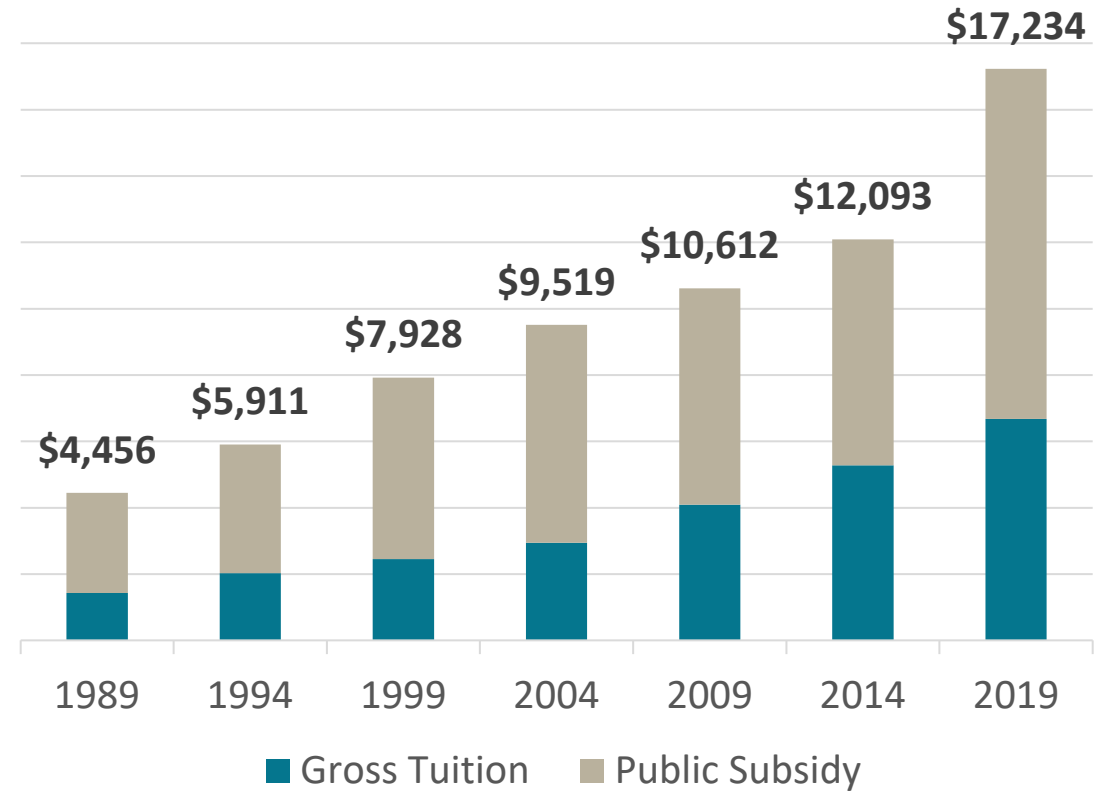
U.S. Community Colleges

Annual Growth = 3.7%



Michigan Community Colleges

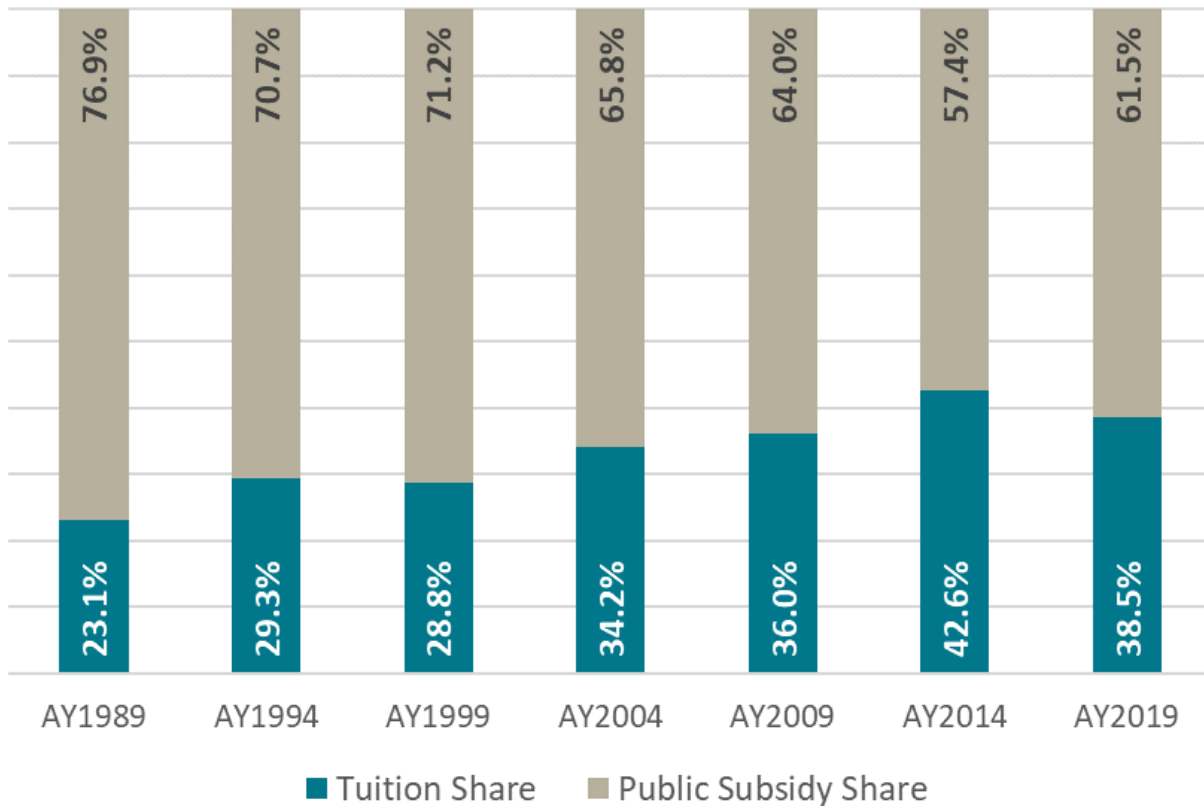
Annual Growth = 4.6%



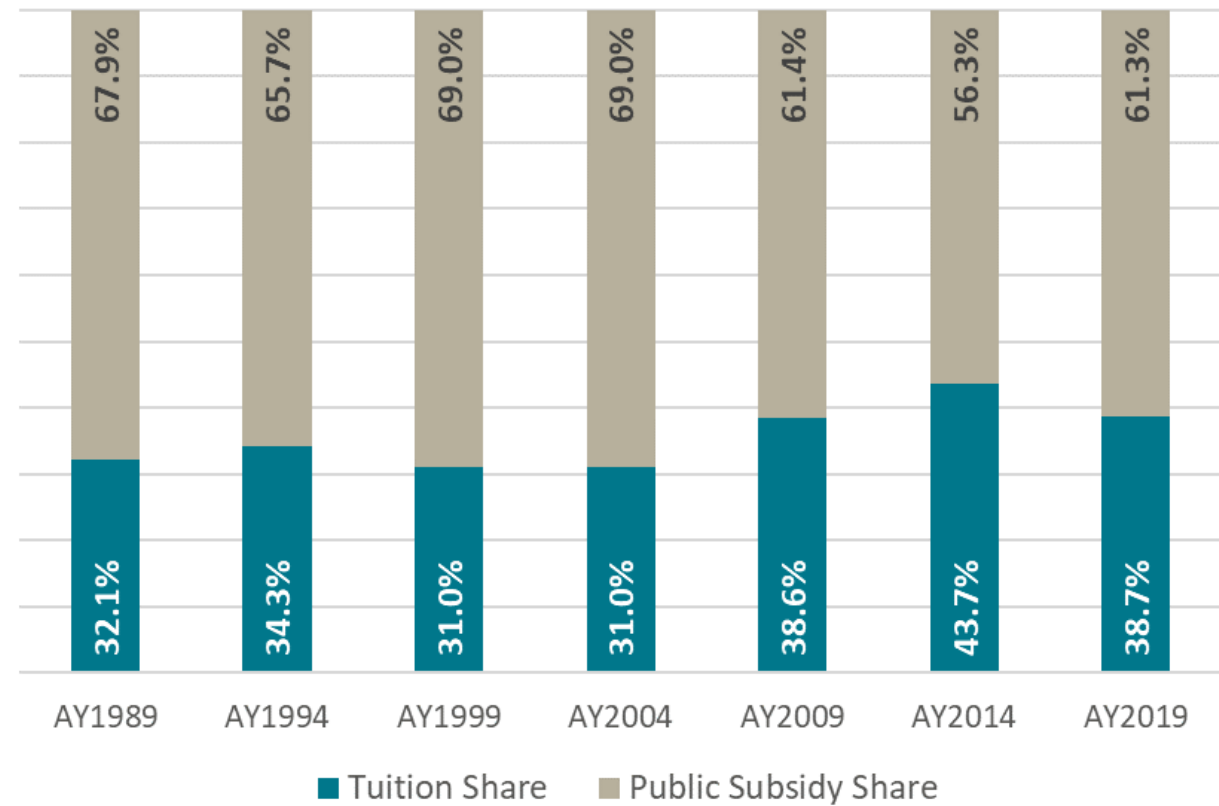
Community College Revenue Shares are More Stable

Public Subsidy Share is Down, But by Less than University Shares

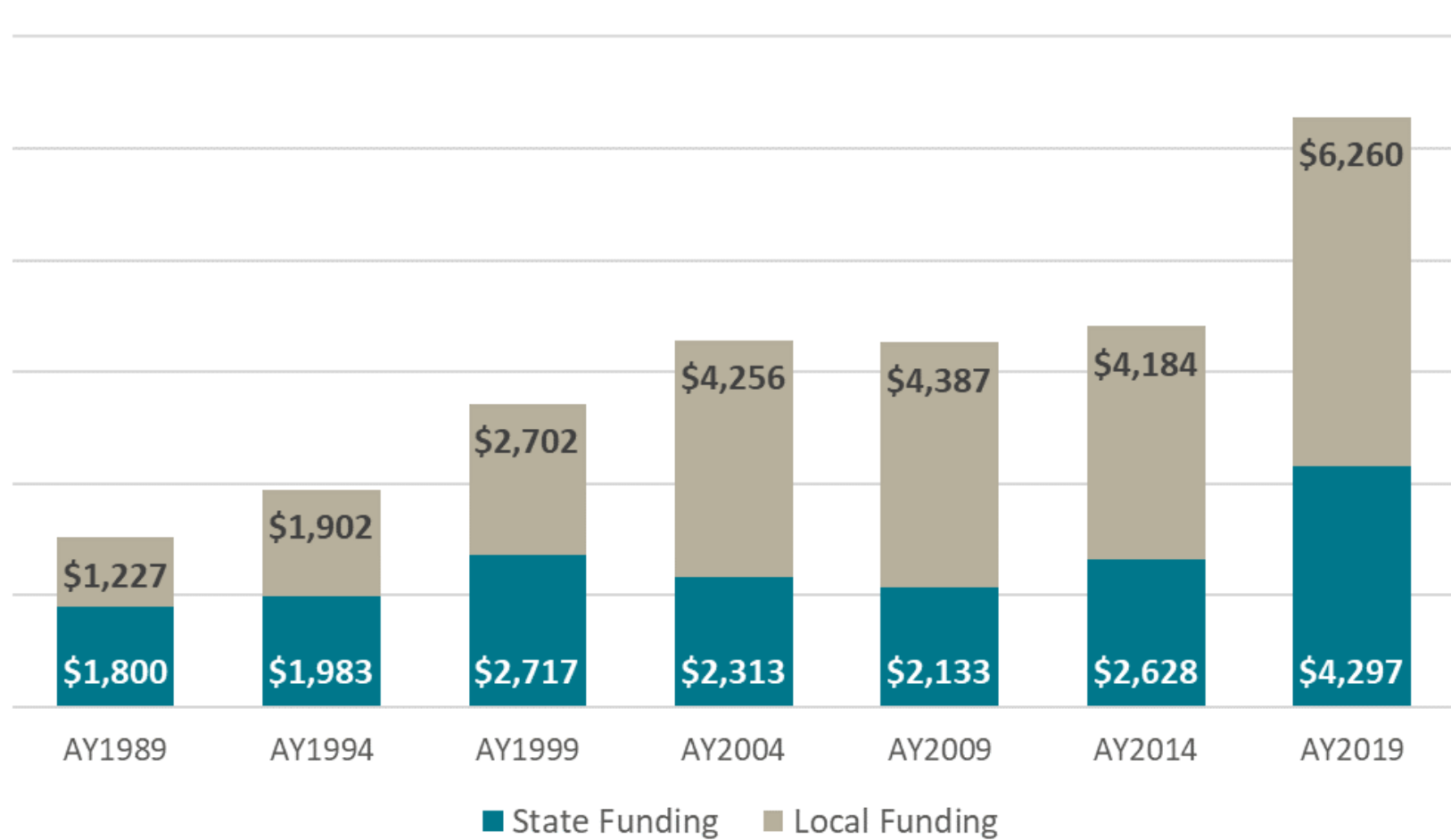
U.S. Community Colleges



Michigan Community Colleges



Public Subsidy to Community Colleges



30-Year Annual Growth Rates for Michigan community colleges:

State Funding: 2.9%

Local Funding: 5.6%

Impact of Declining Public Subsidy Share

A public institution gets 50% of its education revenue from tuition and the other 50% from public subsidy. It seeks to maintain overall revenue growth of 3.5% per year.

This year, public subsidy revenue only grows by 1%. The institution has two choices:

- Raise tuition by 6% to offset the slower growth in the public subsidy component of its education revenue. This would bring overall revenue growth to its 3.5% goal.
- Accept less overall revenue growth, which then would allow the institution to raise tuition by something less than the full 6%

Median Revenue Growth Rates by Public Subsidy Share Quartile

U.S. Public Community Colleges (AY1989 to AY2019)

	<u>Tuition Growth</u>		Public Subsidy Growth	Education Revenue Growth	Decline in Subsidy Share
	<i>Indistrict Charge</i>	<i>Actual Tuition</i>			
Top Quartile (greatest decline)	6.04%	6.39%	1.19%	3.04%	-30.87%
Second Quartile	5.87%	5.77%	2.44%	3.42%	-18.70%
Third Quartile	5.80%	5.96%	3.01%	3.59%	-12.21%
Lowest Quartile (smallest decline)	5.27%	4.93%	4.08%	4.28%	-4.74%
All Community Colleges	5.80%	5.85%	2.64%	3.59%	-15.10%

- Community colleges with greatest public subsidy share declines had higher tuition growth and lower public subsidy growth
- But they also had the lowest median growth in combined education revenue; community colleges employed a mix of both strategies

Median Revenue Growth Rates by Public Subsidy Share Quartile

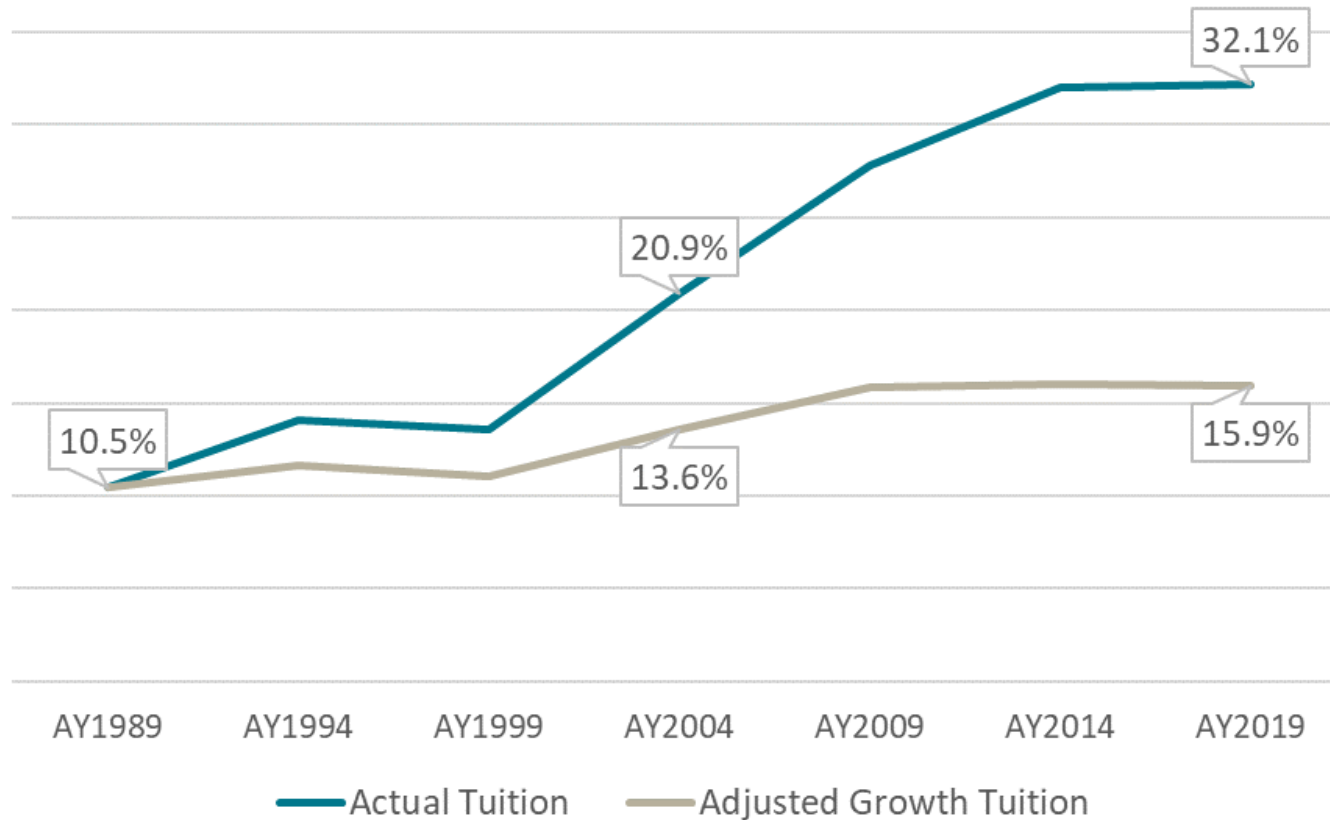
U.S. Public Universities (AY1989 to AY2019)

	<u>Tuition Growth</u>		Public Subsidy Growth	Education Revenue Growth	Decline in Subsidy Share
	<i>Instate Charge</i>	<i>Actual Tuition</i>			
Top Quartile (greatest decline)	6.85%	7.22%	0.33%	3.76%	-44.27%
Second Quartile	6.38%	6.40%	0.87%	3.37%	-35.92%
Third Quartile	5.93%	6.07%	1.72%	3.56%	-29.07%
Lowest Quartile (smallest decline)	5.91%	5.79%	2.73%	3.88%	-19.48%
All Universities	6.33%	6.37%	1.40%	3.65%	-32.97%

- Universities with greatest public subsidy share also declines had higher tuition growth and lower public subsidy growth
- But median growth in combined education revenue was not discernably different across the four quartiles; universities generally reacted to declining subsidy share by increasing tuition

Declining Subsidy Share Explains Most of Affordability Challenge for Universities

Per-Student Tuition Revenue as Percent of Median Income
Michigan Public Universities

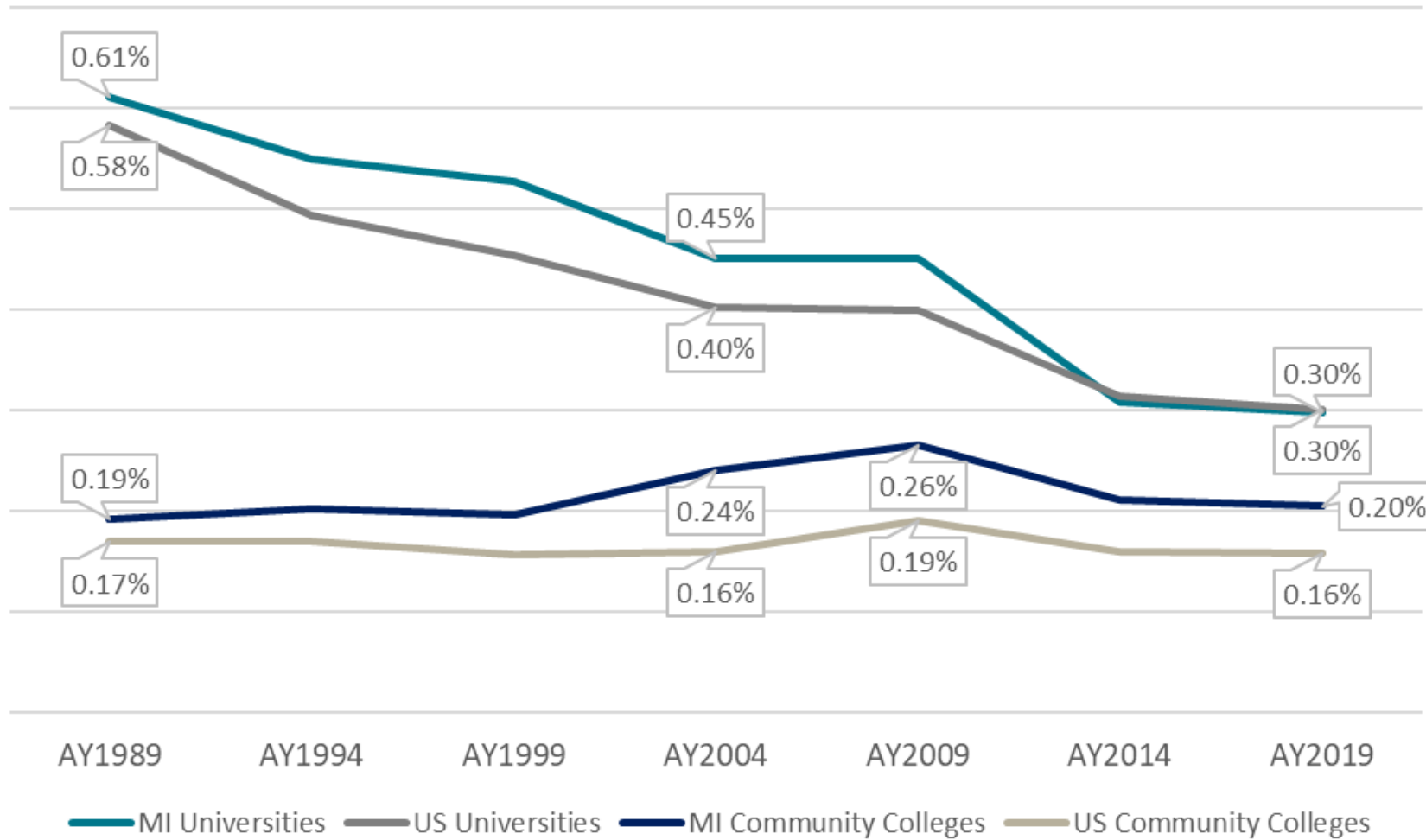


- If public subsidy share had remained at 61% (AY1989 level), Michigan universities would have had an extra \$10,300 per student in state funding (actual was \$5,852 in AY2019)
- “Adjusted Growth” tuition (bottom line) reflects this growth path
- Lower public subsidy share accounts for 75% of increase in tuition as percent of median income

“Tax Effort” for Higher Education

- “Tax Effort” defined as public subsidy revenue as a percent of personal income; what percent of our income is passed on to public institutions of higher education through our tax dollars?
- Examining change in tax effort can help identify underlying cause of declining public subsidy share of revenue
 - If institutional revenue demands outpaced income (i.e., our tax base), then government can’t keep share constant without cutting something else
 - In this case, “tax effort” for higher education would be stable or growing
 - Alternatively, slow public subsidy growth might reflect a decision to constrain growth in tax revenue to higher education in favor of lower overall tax burden or other budget priorities?
 - In this case, “tax effort” for higher education would fall

Public Subsidy as Percent of Personal Income



- Tax Effort for public universities was cut in half over the 30 years examined
- Maintaining tax effort at AY1989 level would have increased public subsidy per student for MI universities from \$5,852 to \$12,048

Financial Aid Grants Have Helped, But Not Enough

Financial Aid Discounts to Tuition Charges

- Not all students pay the “sticker price” for tuition and fees. Financial aid grants discount those charges
 - First-time, full-time undergraduate students in Michigan in academic year 2018-19
 - Universities: 73 percent received grant aid
 - Community colleges: 64 percent received grant aid
- Beginning in academic year 2003-04, IPEDS data contains more detailed information on financial aid discounts. These data break out “Gross Tuition” revenue into two components:
 - Net Tuition Revenue: revenue actually received from students/families. This would include payments made from student loan proceeds and any work-study wages
 - Financial Aid Discount: the component of tuition charges covered through financial aid grants from federal, state/local, or institutional sources

Relative Growth in Net Tuition and Grant Aid

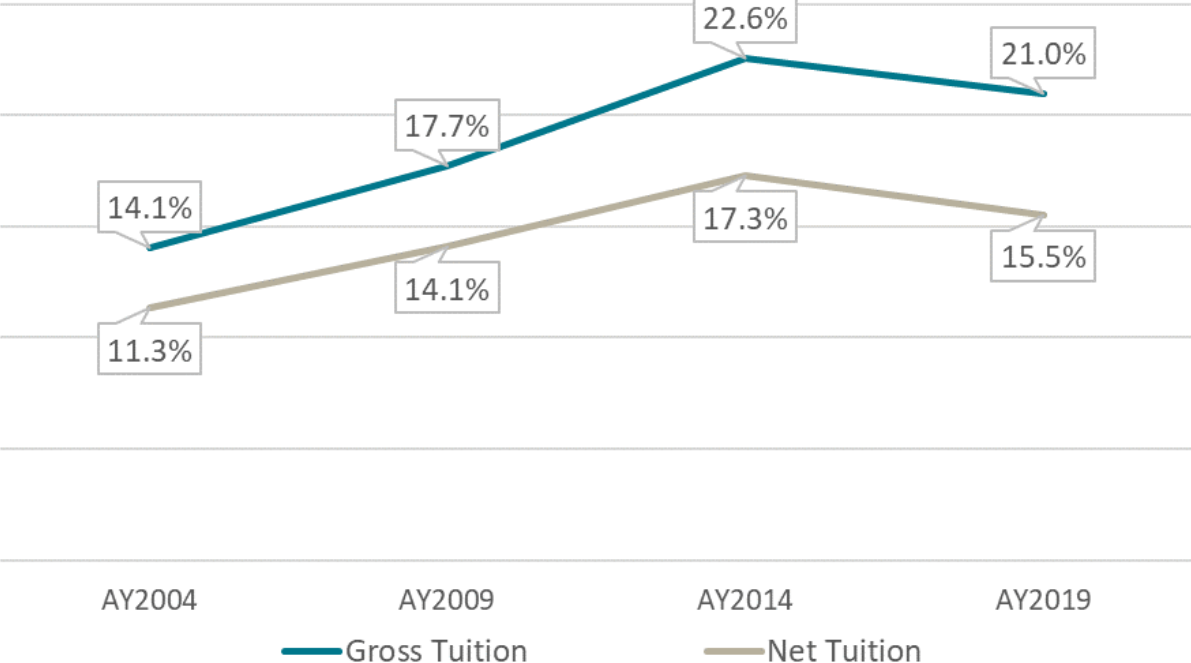
	Net Tuition per FTE Student				Financial Aid Discount per FTE Student			
	<i>2003-04</i>	<i>2018-19</i>	<i>Growth</i>	<i>Annual % Chg</i>	<i>2003-04</i>	<i>2018-19</i>	<i>Growth</i>	<i>Annual % Chg</i>
MI Universities	\$7,403	\$15,943	\$8,541	5.2%	\$1,437	\$4,665	\$3,228	8.2%
US Universities	\$5,021	\$10,652	\$5,631	5.1%	\$1,209	\$3,757	\$2,549	7.9%
MI Community Colleges	\$2,277	\$4,728	\$2,451	5.0%	\$673	\$1,949	\$1,275	7.3%
US Community Colleges	\$1,877	\$3,090	\$1,213	3.4%	\$697	\$1,872	\$1,175	6.8%

- For both universities and community colleges, financial aid grant awards per student have grown faster than tuition; as a result, net tuition paid by students/families has grown slower than “sticker price” tuition
- One notable finding: Growth for Michigan universities look very similar to growth for all universities nationally; but for community colleges, financial aid growth has had less impact in Michigan. Annual growth in net tuition at Michigan community colleges (5.0%) exceeded growth nationally (3.4%)

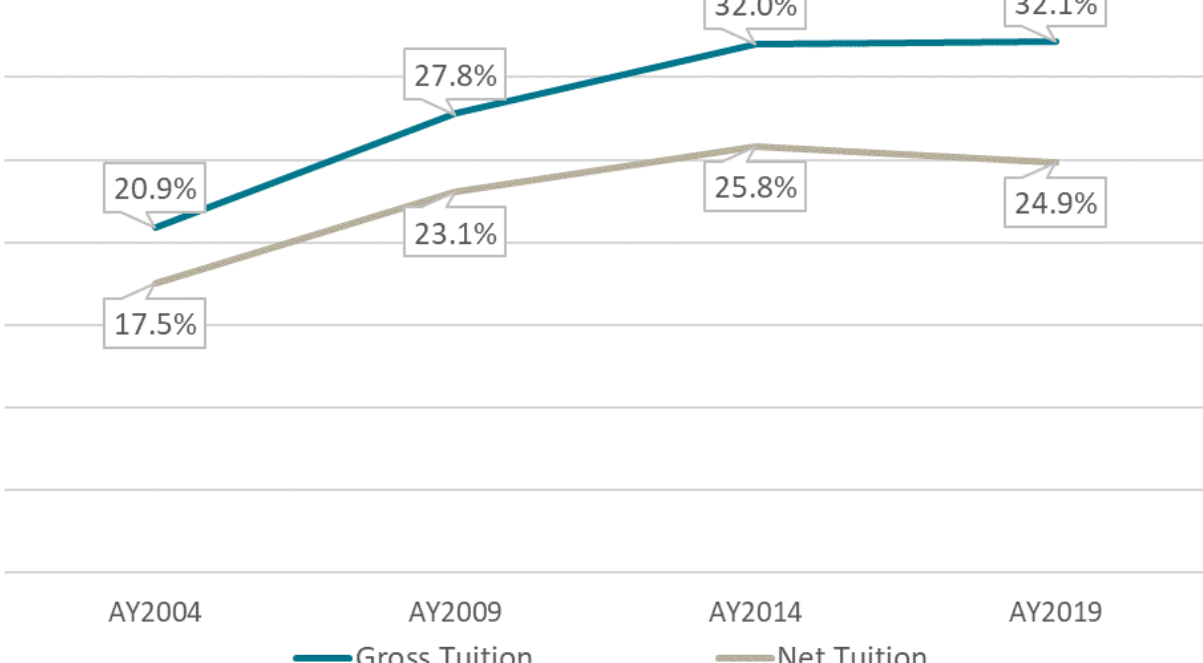
Financial Aid and University Tuition Affordability

Growth in Grant Aid Helped Offset Some Out-of-Pocket Tuition Costs, But Not All

U.S. Universities



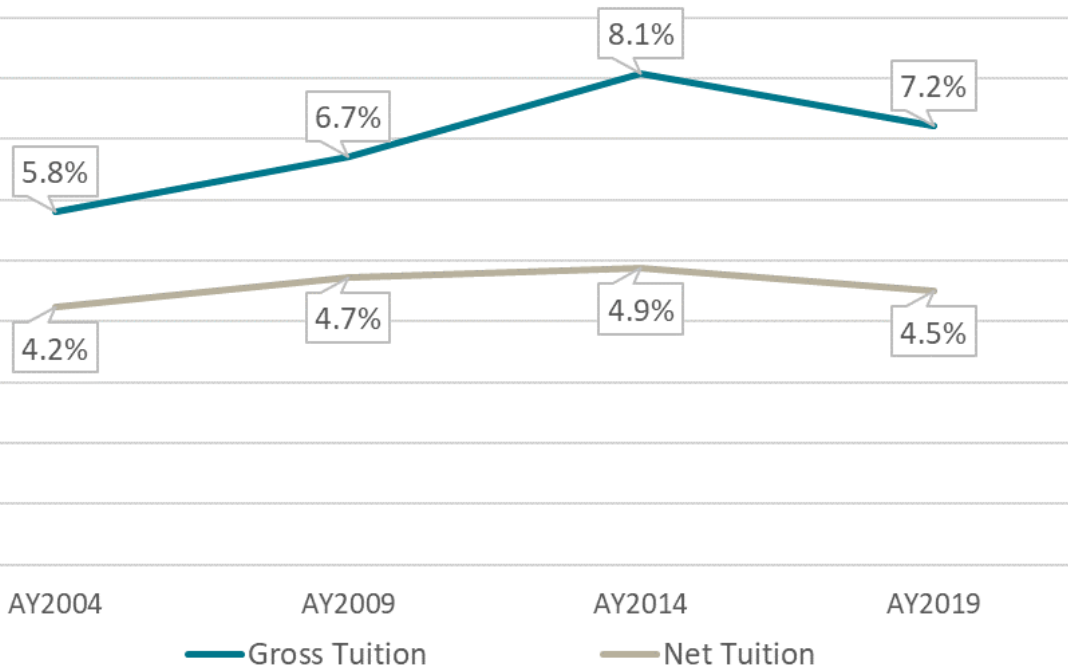
Michigan Universities



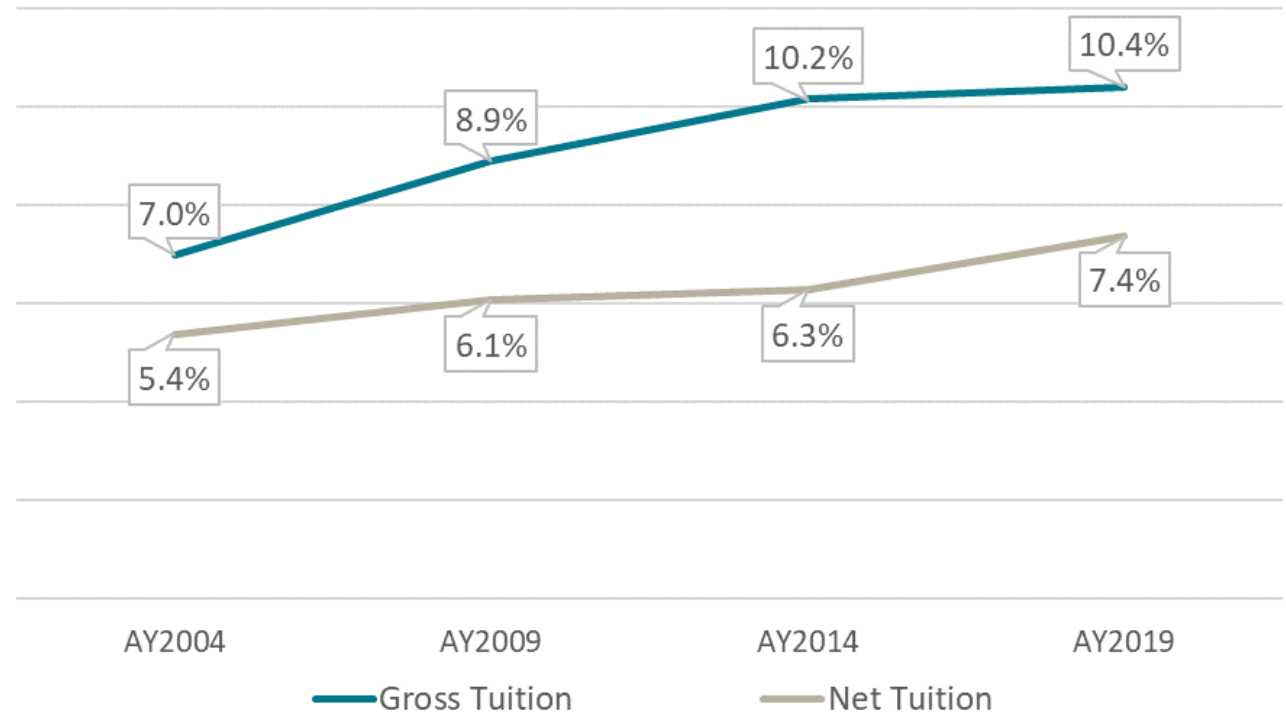
Financial Aid and Community College Tuition Affordability

Nationally, Financial Aid Keeps Affordability Stable; Not So in Michigan

U.S. Community Colleges



Michigan Community Colleges



Major Reductions in State Financial Aid (2010)

To mitigate severe state budget challenges during the Great Recession, major reductions to state-based financial aid programs were implemented in FY2010:

- Elimination of Michigan Promise Grants (\$80.5M): program awarded up to \$4,000 upon completion of two years of college with at least 2.5 GPA
- State Competitive Scholarship and Michigan Tuition Grant programs reduced by \$46.4M (about 52% of prior year funding): maximum awards reduced for both programs and new eligibility limitations added
- Total state-based aid reduced by \$139M, a 64% cut from prior year levels

Who Gets Financial Aid Grants?

Financial Aid Grants to First-Time, Full-Time Undergraduate Students

	<u>Academic Year 2008-09</u>		<u>Academic Year 2018-19</u>	
	<i>Percent</i>	<i>Avg Award</i>	<i>Percent</i>	<i>Avg Award</i>
U.S. Community Colleges	62.9%	\$3,807	70.1%	\$5,574
Michigan Community Colleges	85.7%	\$3,319	64.0%	\$5,502
U.S. Universities	57.4%	\$6,267	74.6%	\$9,645
Michigan Universities	76.3%	\$5,442	72.6%	\$10,801

Financial Aid Grants by Source

Financial Aid Grants to First-Time, Full-Time Undergraduate Students

	Federal		State/Local		Institutional	
	<i>Percent</i>	<i>Avg Award</i>	<i>Percent</i>	<i>Avg Award</i>	<i>Percent</i>	<i>Avg Award</i>
U.S. Universities						
2018-19	35.5%	\$5,094	38.8%	\$4,645	56.4%	\$6,345
2013-14	33.2%	\$4,622	35.4%	\$3,824	44.6%	\$5,512
2008-09	24.2%	\$4,245	33.8%	\$3,223	35.0%	\$4,238
2003-04	22.4%	\$3,003	30.1%	\$2,427	26.3%	\$3,003
Michigan Universities						
2018-19	30.8%	\$5,256	11.7%	\$2,862	69.0%	\$8,525
2013-14	31.2%	\$4,643	16.4%	\$1,668	60.2%	\$6,567
2008-09	25.1%	\$4,266	53.2%	\$1,710	47.5%	\$4,565
2003-04	22.5%	\$2,932	55.6%	\$1,850	36.2%	\$3,299

Financial Aid Grants by Source

Financial Aid Grants to First-Time, Full-Time Undergraduate Students

	Federal		State/Local		Institutional	
	<i>Percent</i>	<i>Avg Award</i>	<i>Percent</i>	<i>Avg Award</i>	<i>Percent</i>	<i>Avg Award</i>
U.S. Community Colleges						
2018-19	52.6%	\$4,974	38.8%	\$2,345	18.2%	\$2,102
2013-14	61.9%	\$4,433	36.7%	\$1,788	14.6%	\$2,009
2008-09	44.6%	\$3,610	37.0%	\$1,528	13.2%	\$1,675
2003-04	35.0%	\$2,758	24.7%	\$1,197	10.4%	\$1,225
Michigan Community Colleges						
2018-19	51.8%	\$4,983	19.0%	\$3,192	19.5%	\$1,742
2013-14	70.6%	\$4,560	16.9%	\$2,339	15.0%	\$1,572
2008-09	55.7%	\$3,615	39.6%	\$1,484	18.0%	\$1,355
2003-04	32.0%	\$2,576	36.4%	\$1,308	12.6%	\$885

Public Policy Implications

Reversing Affordability Decline Will Require New Public Investments

- One option: reverse the 30-year trend of slow public operating support to public institutions, especially universities
 - Challenge: universities are much more tuition-dependent today; so less “bang for the buck” on tuition from big percentage increase in public operating grants
 - Challenge: a big increase in operating grants probably results in some per-student spending increase; no guarantee that it results entirely in mitigating tuition increases
- Another option: increase public investments in state-based financial aid
 - Michigan Achievement Scholarships: new \$250 million investment will help offset the financial aid reductions from 2010
 - Michigan Reconnect already employed to expand aid for community college studies

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