

Appropriation Testimony (PCSUM)

Introduction

Welcome to UM...

...a busy week....

Introduce Glenn Stevens

I would like to begin by making a few general comments before moving to the details of the FY91-92 budget request and responding to your questions.

My Message

Few realize the the ever-accelerating pace of change in our world...our nation...
...and, perhaps most of all, in our state.

Who would have predicted several years ago

...end of communism in Europe

...destruction of Berlin Wall and
reunification of Germany

...that the Soviet Union, China, together with
most other nation's of the world would act
together to defeat the actions of an
aggressive dictator in the Middle East

...that the U.S. market share of foreign automobile
manufacturers would rise above 50%...

...or that Bo Schembechler would become
president of the Detroit Tigers

Yet these changes are just the tip of the iceberg

...there are even more profound changes occurring
in our state...

We are becoming more diverse, more pluralistic
as a people. Indeed, almost 85% of the new
entrants into our workforce during the 1990s
will be people of color, women, or immigrants.

Our economy and commerce are becoming every day
more interdependent with other nations as
the United States becomes a world nation,
a member of the global village --

And we are rapidly evolving into a new post-industrial
society, in which the key strategic resource
necessary for prosperity and social well-being
has become knowledge itself, that is,
educated people and their ideas.

Indeed, knowledge will play the same role that

in the past were played by natural resources
or geographical location or labor pools...

The Signs of Change in Michigan

Needless to say, these same challenges of pluralism,
of globalization, and of this age of knowledge
that is our future will pose great challenges and
demand similar changes in our state and our nation.

The America of the 20th Century that we have known...
was a nation characterized by a rather homogeneous,
domestic, industrialized society...

But that is an America of the past.

Our children will inherit a far different nation...

a highly pluralistic, knowledge-intensive, world nation
that will be the America of the 21st century

The impact of these changes are already painfully apparent
to Michigan's workers and industries.

In fact, it is here in Michigan...in the heart of the "Rust Belt"
that the impact of these extraordinary changes are
most clearly seen...

We all know that past decade was a period of
great difficulty for our state...

Industries of great economic importance to our
nation such as steel and automobiles have
fallen victim to intense competition from abroad...

Plants have closed...we still have many people chronically
unemployed...or under employed...

There are many indicators of the impact of this
transition on our state...

Over the past decade, Michigan has slipped badly
in several key indicators of quality of life:

- 30th in per capita income
- 41st in overall employment
- 48th in business climate (perceived)
- 48th in high school graduation rates
- 50th in return on federal tax dollars

Oh, we still rank near the top in some things...

For example, we rank...

- 12th in property tax burden
- 14th in teenage unemployment rate
- 13th in incarceration rate (and rising rapidly)
- 13th in percentage of children in poverty

- 10th in infant mortality
- 4th in public aid recipients
- 1st in mortality from major disease

There is still one additional category of indicators of some concern, and these reflect our willingness to invest in the future. Michigan ranks

- 37th in support of HE per student
- 45th in support of HE during 1980s
- 40th in support of K-12

In fact, numerous studies over the past several years have suggested that Michigan is seriously underinvesting in its "knowledge infrastructure"...by as much as 30% to 40% relative to other states.

The situation is somewhat different yet no less acute for higher education in our state.

While the quality of Michigan higher education today is still high, the long term prognosis is poor if we continue as we have been in recent years.

Over the past two decades, the State of Michigan has dropped from the position of a national leader (ranked 6th in 1965) in its public support of higher education to among the lowest in the nation.

Let's look at the comparisons for a moment:

Among the states, Michigan currently ranks

- i) 33rd in appropriations per student
- ii) 37th in appropriations as a percent of personal income
- iii) 35th in appropriations as a percent of tax revenue

Further, we not only fall significantly below the national average in our support, but it is clear that we are slipping even farther behind with each passing year:

In fact, the increases we have provided in our support to higher education now rank

- iv) 42nd over the past two years
- v) 45th over the past ten years

nearly dead-last among the states.

Whether measured in terms of

state appropriation per student or fraction of our tax dollars directed toward higher ed,

it is clear that in comparison with other states, our present level of public support is simply inadequate

to maintain over the long run a system of higher education that is competitive on a national basis.
We have become consumers of education,
not investors in the future.

A Fork in the Road

It is clear that our state is in the midst of a profound transition...
...from an industrial economy based upon the abundance of natural resources, unskilled labor, and, to some degree, constrained, slowly moving domestic markets...

To a knowledge-based economy, characterized by intensely competitive world markets, rapid change, and--most important of all--educated people and their ideas.

This has not been...and will not be...an easy transition to make.

The truth is that the outcome is still very much in doubt!

producing jobs and improving our quality of life.

Whether we will emerge from this transition as a

world economic leader once again...with a

strong, prosperous--albeit new--economy

Or whether we will fail to heed the warnings...

...to make the necessary investments and

sacrifices today necessary for strength and

prosperity tomorrow...

And become an economic backwater in the century ahead.

It is clear that we face a watershed--a fork in the road ahead.

My central theme is that education, broadly defined, will

be the pivotal issue in determining which of these two

alternative futures will be Michigan's...and America's.

Indeed, I am absolutely convinced that the dominant issue of the 1990s will be the development of our human resources.

In the pluralistic, knowledge-intensive, global future that is our destiny, it is clear that the quality of and access to

...education in general

...higher education in particular

...and research universities

such as the University of Michigan

are rapidly becoming the key factors in

determining the strength and prosperity

of our state.

Previous economic transformations were closely associated with major public investment in infrastructure such as

railroads, canals, electric networks, and highways.

In the coming economic transition, an equivalent infrastructure will be an educated population.

From this perspective, it is important that we not view the public support of higher education as just another expenditure demand on an already over-extended state budget, but rather as a critical investment in our future.

Conclusion

We recognize that the choices before Michigan are not easy.

We must address pressing social issues of employment, health, social welfare, we must meet the important needs of our citizens today.

But also we must balance these immediate needs with investment in our future.

If we don't invest in cures, our symptoms will, in time, become fatal...

For generations, the people of Michigan sacrificed so that their children could have a better life.

They had faith in education.

Now it is our generation's turn.

We must rekindle that faith and that commitment to the future today.

We must care for our children's future as much as we attempt to our present needs and desires.

Education represents one of the most important investments a society can make in its future...since it is an investment in its people...

Answers to Specific Questions

Q: In general, do you agree or disagree with the FY91-92 Executive Recommendation for higher education

A: We are deeply gratified that Governor Engler has proposed a 4% budget increase for higher education in the next fiscal year. We are especially mindful that this commitment is made within the context of other pressing state needs and extremely limited resources.

These are hard choices. And it is precisely because we are faced with difficult choices that we must look far into the future, and ensure that we make a long-term, investment in an educational system that will meet the needs of Michigan's children.

However let me note that the recommended 4% increase while courageous in the face of a tight budget year, will at best only cover the minimum inflationary cost increases in our universities, and in itself it fails to address either the past underfunding or necessary program investments in our institutions.

Hence, we must respectfully ask that the Legislature take further steps to approach the funding increase requested by the Presidents' Council of 8.5%, while considering a multiple year approach to restore Michigan to at least the top third of states in the nation.

Q: What are your institutions plan's for next year regarding tuition and fees?

A: It is far too early to respond to this, since there are too many uncertainties.

In years' past we have not established firm tuition targets until mid-summer, since we have not known the full nature of the resource situation of the University.

However, since there is both a great deal of concern...and a great deal of confusion...on tuition at public institutions in Michigan, let me make a few observations.

Q: Please comment on funding for facilities openings.

A: For many years the state has had a policy of meeting the full operating costs for all new and renovated academic, research, and academic support facilities...

We strongly support this policy.

..Further, we believe that facilities operating costs should be state funded regardless of the source of funding for the construction of the building itself, for to do otherwise removes the incentive for institutions to raise badly needed capital facilities funds from private sources.

However we also recognize that given this year's difficult budgetary circumstances, operating funds for new and renovated facilities are simply not available.

We do urge, however, a return to the historic state policy as soon as the state recovers economically.

This raises a related issue...which has to do with the

state funding of capital facilities projects themselves. Five years of freeze on capital outlay projects have caused serious damage to our campuses. Urgent projects have been bottled up. Considering the seriously inadequate support of capital facilities on many of our campuses during the 1970s, we simply cannot continue much longer without some mechanism for rebuilding our infrastructure. For example, on UMAA, over the past 20 years we have received state funding for only 2 academic buildings--and that at a 50% participation rate. This amounts to an average of \$3.6 M in state funding for new facilities over the past 20 years... compared to a level of \$25 to \$50 million per year for peer campuses such as UCB, UNC, Illinois,...

The House bill calling for an increase on the bonding cap of the State Building Authority addresses this urgent need in a fiscally responsible manner, and we urge its support.

Q: Do you support adding Research Excellent Fund money to the base?

A: Over the past several years the REF has been of critical importance in strengthening and diversifying Michigan's industrial base. For example, at UMAA, we have multiplied this investment by attracting \$2 from federal and industrial sources for every \$1 of REF...while stimulating roughly a tenfold investment increase through economic activity. Yet we face serious challenges:

- i) REF funding has not kept pace with inflation, hence forcing program cutbacks
- ii) Creation of the new competitive program has drained funds from the original program while introducing an additional layer of bureaucracy into the process
- iii) The real impact of REF can only be achieved through very long term funding. The year-by-year micromanagement of the program focuses a very short term focus,

thereby undercutting long term efforts.

We believe that the recommendation to add these funds to the base will not only deal with these concerns... but will remove unnecessary costs from the operation of the program and focus those dollars where they have the most impact...on the research activities of the universities themselves.

Q: Does your institution offer programs or courses at any locations apart from your main campus?

A: We provide education and research across the state... consistent with our mission of outreach. As a former chancellor at Wisconsin put it, "The boundaries of our campuses are the boundaries of the state, itself."

Q: Are current undergraduate enrollments optimum?

Given the continuing decline in high school graduates, how do you intend to maintain optimum enrollments?

A: Yes, we believe that the enrollments on our campuses are at optimum levels, and we intend to maintain these enrollments. Demand for admission to the University continues to be very strong, despite the demographic decline.

We are confident that we will continue to attract the quality students capable of succeeding at the University. In fact, our yield of Michigan students accepted to University continues at our historic level of two-thirds.

However, let me also point out a potential problem here...

As the number of high school graduates continues to drop, it is clear that the UM is taking a larger and larger fraction of the best high school graduates in the state.

Indeed, we are now enrolling the largest fraction of Michigan high school graduates in our history.

While this serves to maintain the quality of the University, there are also signs that we are having a significant impact on the pool of outstanding students available to other institutions throughout the state...both public and private.

This raises an important policy issue for the state. As you know, UMAA is currently committed to maintaining an undergraduate enrollment balance of 70% Michigan residents, 30% nonresidents.

Yet, it is also clear that if we are to continue at this level throughout

demographic trough of the next decade, we could deplete the

pool of outstanding students available for other institutions--and, over time, permanently damage the quality of these institutions.

While we certainly understand and accept our responsibility to serve citizens of the state, a rigid restriction on enrollment mix during the decade ahead may not be in the best interest of higher education more broadly across this state.

We would suggest that this commitment might wish to consult on this matter with other public and private institutions across the state.

Q: What impact do you expect the reauthorization of the Higher Education Act will have on our financial aid programs? How will this affect Michigan students?

A: As you may be aware, we are heavily involved through Washington-based associations such as NASULGC, AAU, and ACE on this matter.

In general, we believe that the reauthorization holds promise for improvements in the financial aid programs. As you may be aware, the past decade saw

- ...the effective level of federal support of financial aid decline by roughly a factor of two...which, incidently, is one of the principal reasons tuition levels have increased, since increased tuition paid by those who could afford to pay have provided the funds for those who cannot throughout institutionally-funded financial aid programs

- ...a shift from grants to loans.

We are seeking

- ...more adequate funding levels for programs such as the Pell Grants

- ...simplification of financial aid programs...

 - ...as evidenced by a direct loan program replacing the Stafford Guaranteed Student Loan Program

- ...attention to delivery systems and timing of awards

Tuition Myths and Realities

Myth 1: Tuition levels at most universities...

including the University of Michigan...are "out of control".

Reality:

Hence, in real terms, tuition levels at the University--

and at most other public instituitons--have been quite stable.

This is a very important point, since while most attention has been generated by the very high tuition levels at a few highly selective private institutions, the tuition levels at major public universities such as the University of Michigan have remained both quite stable and quite low over the decades of the 1970s and 1980s.

Over the past eight years, the tuition rates for resident undergraduates

at the University of Michigan have increased by 47.5%.

This is not only less than most other public and private institutions across the nation (which have seen increases in the 50% to 70% range),

but it is less than the inflation rate of 52% for higher education during this period.

Myth 2: Tuition levels at the University of Michigan are quite high relative to other institutions.

Reality

Not only is this statement quite incorrect,

but in reality tuition levels at Michigan's public universities are quite low

and comparable to those of most other public universities throughout the nation.

The roughly \$2,000 to \$3,500 per year of annual tuition and fees charged

to undergraduates in Michigan's public universities represents an incredible bargain when compared to all other alternatives: public or private education in Michigan or across the nation.

Indeed, it now costs more to attend the private secretarial school Cleary College (\$4,400 per year) than to attend the University of Michigan (\$3,200) per year.

Further, Michigan students face far higher tuition levels at peer public institutions (UC Berkeley tuition runs \$9,000-\$10,000 per year),

and at private institutions (Harvard, Stanford, and Cornell ...or Kalamazoo, Albion, and Calvin... tuitions run \$14,000-\$16,000 per year).

There are other interesting comparisons.

It is now estimated that 60 percent to 70 percent of college-age students

own an automobile. Well, the cost of a degree at a public university

in this state is less than the cost of that car.

Furthermore, this investment in a college education will be paid off

in only a couple of years following graduation because of the very high earning capacity of a college graduate relative to those without college degrees.

Perhaps it is because the absolute tuition levels at public institutions are so low, that it is easy to become confused in a comparison of costs

by simply noting percentage increases.

I don't need to remind you that a large percentage of a small number is still a small number.

Further, it should be noted that the true cost of higher education at a public institution is not tuition, rather it involves those other costs associated with room and board, books, travel and other expenses. Indeed, tuition represents less than 25 percent to 30 percent of the cost of a public university education.

Myth 3: The increasing tuition levels at the University of Michigan are pricing it out of reach of all but the very wealthy. Again, this statement is not only incorrect, but it is seriously misleading.

First, it should be noted that the costs of a UM education to a Michigan resident have been rising far less rapidly than disposable income:

In fact, a college education today is probably more affordable to more Americans than at any period in our history.

This is due, in part, to the availability of effective financial aid programs used to assure access to public higher education for those without adequate financial resources.

For example, at the University of Michigan, we have a policy that guarantees that all Michigan residents are provided with adequate financial aid to meet their needs until graduation.

In fact, roughly 65 percent of our Michigan resident students receive some form of financial aid, which amounted to over \$140 million last year.

Further, families with incomes of up to \$60,000 are generally eligible for some form of financial aid.

There is a certain irony, here, since as state and federal support of financial aid has deteriorated over the 1980s, tuition revenue

itself has become one of the primary sources of funds necessary to sustain these important programs.

In a sense, public universities in our state, just as universities across the nation, have asked those more affluent families that have the capacity to pay a little bit more of the true cost of education for their students in order to provide the capacity for those less fortunate to attend.

Myth 4: Surely the fact that tuition rates are increasing faster than the CPI reveals that universities are not cost-effective and are exploiting the marketplace.

One of the frustrating facts of life about modern economics is that the value of the dollar is not constant; it is continually eroding through the effects of inflation.

Hence the price of essentially everything in our society increases from year to year to reflect the fact that the dollar itself has somewhat less value.

Thus, it would be unrealistic to expect that tuition-- or the price of a car, groceries, or anything else-- would be held constant from year to year.

First, one should note that while tuition has been increasing somewhat

faster than the CPI, it has NOT been increasing faster than either the per capita income or the inflation rate characterizing the costs of higher education (HEPI):

Myth 5: The price of a college education is no longer worth it.

Nationwide, it is clear that the money invested in a college education results in one of the highest returns of any investment a student or a family can make.

Across all fields, the net return of an undergraduate education is in excess of 10 percent.

In knowledge-intensive professions, of course, it is far beyond that.

Furthermore, the modest tuition levels charged by public institutions represent a particular bargain.

At a leading university such as the University of Michigan we estimate that we invest roughly \$20,000 per year, per undergraduate student

to create the learning environment necessary to prepare our graduates for the 21st century.

Since our present instate tuition levels are \$3,500,

we are asking parents to contribute less than
20 cents on the dollar. Not a bad deal I'd say!

Myth 6: Hold on now! We pay taxes. Don't these pay for the
cost of the college education of Michigan residents?

Once again, a popular but quite false myth.

Over the past two decades, the University of Michigan's
share of tax revenue has dropped by 42 percent
from 3.74 percent, to 2.15 percent.

Hence, today, only about two cents of each tax dollar
goes to the University.

In other words, someone paying \$5,000 per year in state taxes
will be paying only about \$100 of those taxes to support the
University.

More specifically, the typical parent
over his or her entire earning career, will pay less than \$3,000 in
taxes
that are used for the support of the University of Michigan
(assuming thirty years of earnings).

By way of comparison, the tuition costs of
a Michigan undergraduate education is currently about \$14,000.

Hence, it seems clear that the Michigan taxpayer
is not shouldering the real costs for a college education
in a Michigan public university.

Rather, it is being borne primarily by a combination
of other sources, including tuition, federal support, and private
support.