

**House Appropriations  
Subcommittee on Higher Education  
Ferris State University  
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**The Funding of Higher Education  
In Michigan:**

**The Economic Importance of Higher Education,  
Higher Education Funding, and MPSERS**

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Representative Stewart and members of the House Appropriations Subcommittee on Higher Education, thank you for taking time from your very busy legislative schedule to hear from Michigan Universities. It is an honor to appear before you today and to offer thoughts on higher education, its future, and its funding.

Senator Stewart, I want to begin by thanking you for your support of higher education in Michigan. We have been fortunate to have your commitment and your enthusiasm for higher education in our state. I want you to know how much I will miss your advocacy for higher education in Michigan and in the House of Representatives.

Likewise I am honored to follow my distinguished colleague Mark Murray. It has been my pleasure to work with him for higher education in Michigan these past three years. For me Mark is more than a presidential colleague, he is someone I consider a friend. His voice of reason and economic honesty will be sorely missed. Meijer's gain is surely higher education's loss. I wish Mark great and continued success as he assumes these new responsibilities.

### **Ferris State University**

These are times of record enrollment at Ferris State University. This fall we enrolled 12,547 students, the most in our history. Our increase of 744 students, a growth of 6.3%, was the largest increase in students, both in number and percentage, of any university in Michigan. We are delighted that students are responding so positively to our message of education that leads to successful careers.

This fall also marked strong continued success in our student retention efforts, with a 3% increase in freshman to sophomore baccalaureate retention. During the last five years we have improved our student retention by 18%, a truly remarkable achievement. Simply put, the goal for students is simply not to enroll in college, but rather to graduate from it.

We are very proud of the success of our merger with Kendall College of Art and Design. Since joining Ferris State University, Kendall's enrollment has grown from slightly over 500 to 1,036 students this fall. Combined with our efforts at the Applied Technology Center at Grand Rapids Community College, we now educate 2,000 students in downtown Grand Rapids.

Over the past two years we have worked very hard to provide greater access to higher education for community college students, especially to those who may be some distance from Big Rapids. As a part of this effort we have opened new bachelor degree programs at Henry Ford Community College, Lansing Community College, Macomb Community College, Northwest Michigan College, Oakland Community College, Saint Clair County Community College, and Schoolcraft College.

At Ferris State University we take great pride that our students graduate prepared for a career. Our job placement rate remains at 98%, which we believe is the highest in state. Many of our programs have 100% job placement rates (See Chart One) -

## Ferris State University Programs with 100% Placement

Accountancy/CIS	Mechanical Engineering Technology
Advertising	Medical Laboratory Technology
Applied Math/Actuarial Science	Medical Record Administration
Applied Mathematics	Medical Record Technology
Architectural Technology	Medical Technology
Automotive Body	Music Industry Management
Automotive Service Technology	New Media Printing & Publishing
Biotechnology	Operations Management
Building Construction Technology	Optometry
Business Education	Ornamental Horticulture
CAD Drafting & Tool Design Technology	Pharmacy
Career & Technical Education	Plastics Engineering Technology
Chemistry	Plastics Technology
Civil Engineering Technology	Pre-Science
Computer Networks & Systems	Pre-Teaching Elementary
Dental Hygiene	Pre-Teaching Secondary
Diagnostic Medical Sonography	Printing & Digital Graphic Imaging
Electrical/Electronics Engineering	Printing Technology
English Literature	Product Design Engineering Technology
Facilities Management	Psychology
Finance	Public Administration
Heavy Equipment Service Engineering	Quality Engineering Technology
Heavy Equipment Technology	Recreation Leadership & Management
Hotel Management	Resort Management
Human Resource Management	Respiratory Care
HVACR Engineering Technology	Rubber Engineering Technology
HVACR Technology	Rubber Technology
Industrial Chemistry Technology	Small Business & Entrepreneurship
Industrial Electronics Technology	Small Business Management
International Business	Surveying Technology
Legal Assistant	Tech & Professional Communication
Legal Studies	Technical Education
Liberal Arts	Television & Digital Media Production
Manufacturing Engineering Technology	Television Production
Manufacturing Tooling Technology	Visual Science
Marketing/Professional Golf Management	Welding Engineering Technology
Marketing/Professional Tennis Mgmt	Welding Technology

This results from our unique approach to education, which combines a high-quality academic foundation, career specific hands-on education, and real-world internship experiences working at businesses, companies, and in industry.

### **The Economic Importance of Higher Education**

In speaking with you, it is easy to feel somewhat like the minister who has turned to deliver his sermon to the choir. Each of you is a strong supporter of higher education in Michigan. However I want to share with you information from a recent study that I find particularly compelling, with the hope that you will share this information with your colleagues.

Michigan is not the only state where the legislature and governor have recognized higher education as the economic driver of the future. Similar calls have gone out across the nation and many states are making significant financial investment in higher education. Over the past two years, twenty-two states have increased state tax funds for operating expenses more than 10% -

Alabama	Georgia	New York
Alaska	Hawaii	North Carolina
Arizona	Kansas	Oklahoma
California	Massachusetts	Utah
Connecticut	Nevada	Virginia
Delaware	New Jersey	Washington
Florida	New Mexico	Wyoming

Nine of those states have increased funding over 15%. During that period Michigan has increased funding 1.7%. Only five states have made less financial investment in higher education than Michigan - Colorado, Illinois, Mississippi, West Virginia, and Wisconsin. Which of those would we like to be grouped with as a state?

For the last few years our economy has struggled as businesses and industries left our state, not because of the quality of the work product, but rather because it could be produced more cheaply in other states or on other shores. I believe strongly in the Michigan worker and believe it is possible to not only retain the industries and jobs we have in the state, but to grow new efforts. A more expensive workforce can be competitive, but only if it is better prepared and educated. It can not be emphasized enough,

**A more expensive workforce that is less educated will not survive as we know it.**

I want to return to the state of California and a landmark study of its education future released last fall – “Return on Investment: Educational Choices and Demographic Change in California’s Future.” The study compares future prospects for those who do not complete high school, earn a high school degree, and earn a bachelor’s degree. The findings include the following (*See Chart Two*) –

- Poverty
  - 22% of high school dropouts live in poverty
  - 10% of high school graduates live in poverty
  - Less than 5% of college graduates live in poverty
- Crime
  - High school dropouts are 15% more likely to be incarcerated than those who graduate
  - College graduates are 85% less likely to be incarcerated than high school graduates
- Unemployment
  - High school dropouts will spend 25% less years in the workforce than those who graduate
  - College graduates will spend 23% more years in the workforce than a high school graduate

Perhaps most stunning is the return on investment in higher education. If the state invests \$2,000 in a person, over the life of the cohort, that person will pay \$5,000 in additional taxes and the state will save nearly \$4,000 in decreased support for poverty-related programs (*See Chart Three*). Simply stated,

**An investment of \$2,000, results in \$9,000 return!!**

### **Higher Education Funding**

In beginning this discussion of higher education funding, I want to express my thanks to you for the prospect of increased support for higher education. This is my third year in Michigan and the first in which we have not instituted mid-year budget reductions. The prospect of increased state funding support, while significantly less than the cost of inflation, is very much appreciated. Over the past decade state funding for a student’s education at Ferris State University has declined from 54% to 34%.

The realities of state funding for Ferris State University can be captured quite simply –

- For this year’s senior we receive 19.2% less funding from the state than we did four years ago when that student was a freshman.
- Looking back five years the decrease has been 24.2%.
- And for six years the decrease has been 27.9%.

How can this be? Funding decreases have not been that severe. This stunning decrease results from the double-edged impact of budget reductions and a funding approach that does not support enrollment growth. In other states each increased student enrollment brings an additional piece of state funding to help support that student's education. Michigan, unlike other states across the country, does not fund this.

The incredible irony here is that the one thing we can all agree upon for higher education, that more people should attend and graduate from college, is something we as a state choose not to fund. In the absence of a systematic approach to university-funding we have gross inequities in funding. A simple comparison of state appropriations as a percent of total revenue reveals the results of this flawed approach (*See Chart Four*). In Michigan this ranges from a high of 50% at Wayne State University to a low of 28% at the University of Michigan - Ann Arbor. Removing research institutions from this comparison still shows a range of state funding from 48% at Northern Michigan University to 31% at Grand Valley State University. This is a remarkable disparity among institutions with similar missions.

Last year's work by this committee and by the House in developing, adopting, and implementing a funding formula was a landmark achievement. It is impossible to express strongly enough my disappointment that after agreement to this concept was reached in last year's budget, it is missing from both the executive budget and the senate's budget.

Unlike your funding formula, these approaches essentially ignore enrollment. This year Ferris State University has the highest enrollment growth of any public university in Michigan, both in terms of percentage (6.3%), and in number of students (744). One would think that this would produce significant new state funding for our institution. Under the executive budget we would receive 1.7%, the second lowest of all 15 public universities and lower than every community college in the state. With the senate budget we would receive 1.8%, the same as all institutions, excepting Central, Grand Valley, Oakland, and Saginaw which receive floor funding. This means that our institution, with a 6.3% enrollment increase would receive the same percentage increase as Western, which has a 5.7% decrease. How can that be considered either logical or equitable?

For a moment we need to consider the seriously flawed concept of a single funding floor. Simply put, this funds institutions to the lowest common denominator and makes the assumption that all students in all programs should cost the same. In my testimony last year I presented a chart which compared the cost of degrees across the twelve teaching institutions in Michigan (*See Chart Five*). Suggesting that different programs or program mixes cost the same is no more logical than suggesting that an Impala costs the same as a Cadillac.

**Intensity of Instruction -  
High Intensity  
Over \$200 SCH**

Optometry	\$451
Agriculture, Agricultural Operations	\$343
Engineering	\$320
Nursing	\$312
Pharmacy	\$309
Architecture and Related Programs	\$284
Other Health Professions	\$258
Precision Production	\$236
Engineering Technologies	\$236
Public Admin. and Soc Services	\$235
Computer and Info Science	\$231
Mechanical and Repair Technology	\$228
Health and Medical Assisting	\$210

**Medium Intensity  
\$150-199 SCH**

Visual & Performing Arts	\$198
Multi/Interdisciplinary Studies	\$186
Family & Consumer Science	\$180
Personal & Culinary	\$169
Business and Management	\$167
Physical Sciences	\$162
Education	\$158

**Low Intensity  
Less than \$150 SCH**

Biological Sciences	\$146
Foreign Languages	\$138
Parks, Recreation, Leisure	\$136
Legal Prof & Studies	\$132
Security and Protective	\$127
Eng Lang & Letters	\$126
Social Sciences	\$120
Mathematics	\$119
Liberal Arts/Humanities	\$112
Communications	\$112
Area, Ethnic, Cultural Studies	\$111
Psychology	\$111
Philosophy & Religious	\$101
Reserve Officers Training	\$100
History	\$96
Natural Resource & Conservation	\$85
Military Science	\$84

I would encourage you to look at this chart again. Ask yourself where jobs exist in the state. What is the education our state needs to regrow our economy? I believe you will agree with me that these programs are in the high intensity area.

Yet, when you choose to fund universities based on a concept of minimum funding per student, you ignore the differences in program cost and mix at each of our higher education institutions. In doing so you lose a critical opportunity to influence higher education into producing the education our state needs most. If an institution can produce more graduates in the social sciences, liberal arts, and humanities for slightly over \$100 per credit hour, why would they create more spaces for engineers and healthcare workers that cost over \$300 per credit hour?

An approach based on minimum funding per student is a strong disincentive for higher cost applied science, technology, and healthcare programs, and discourages both their creation and expansion. This is an area where higher education and Ferris State University especially can make a difference for our state. The next table demonstrates how our University provides much of the education in many of these fields for Michigan (*see Chart Six*) -

- 100% of Optometry graduates
- 95% of Precision Production graduates
  - Engineering Graphics
  - Furniture Design
- 79% of Mechanical and Repair Technologies graduates
  - Automotive Body
  - Automotive Service Technology
  - Automotive/Heavy Equipment Management
  - Heavy Equipment Service Engineering Technology
  - Heavy Equipment Technology
- 79% of Health and Medical Assisting Graduates
  - Dental Hygiene
  - Diagnostic Medical Sonography
  - Nuclear Medicine
  - Radiography
  - Respiratory Care
- 52% of Pharmacy graduates

- 46% of Engineering Technology graduates
  - Architectural Technology
  - Building Construction
  - CAD Drafting/Tool Design
  - Electrical/Electronics Engineering Technology
  - Facilities Management
  - Manufacturing Engineering Technology
  - Plastics Engineering Technology
  - Welding Engineering Technology
  - Numerous Others
  
- 43% of Communication Technologies
  - Digital Animation and Game Design
  - New Media Printing and Publishing
  - Printing Technology
  - Television Production

Ferris State University makes an important contribution to the total degrees awarded state-wide in high-demand, high-cost disciplines. The cost for these high-demand, high-employment, and high-need degrees are as high as \$542 per credit hour and average over \$290 per credit hour. Contrast these instructional costs with the average cost of \$163 a credit hour at teaching institutions across the state.

Based on state-wide data we have done an analysis of the percentage of high-intensity degrees produced at teaching institutions across the state. It should not surprise you that the highest percentage is at Michigan Tech, 74%, or that the second highest is at Ferris State University, 54%. What should surprise you is that no other teaching institution awards more than 23%. The reality is that this is the most likely result of an approach that funds higher education at the lowest common denominator. Now is the time to create incentives for universities to expand access to degrees in desired disciplines by funding them at a higher weighted rate.

One thing on which the legislature and the governor agree is that higher education must grow to help our state. More students need to attend and graduate from college. The current approach provides disincentives for growth. An institution above the minimum amount per student receives no additional funding for enrollment growth. If you continue to use a per student funding model, reward institutions that grow by funding their new student growth at this level.

My message this year is the same as last. There are two key components to higher education funding and it essential you move now to fund these in meaningful ways -

**First, fund enrollment growth.**

**Second, fund institutions based on programmatic costs.**

**Third, if you must use a funding floor, use this same dollar amount per student to fund enrollment growth.**

### **Michigan Public School Employees Retirement System (MPSERS)**

Finally I want to share with you my deep concerns regarding MPSERS. As you know seven institutions in the state have employees in this system. It is a state retirement system in which higher education has no representation and whose costs have become an unreasonable burden on us. One of the strategies of MPSERS has been to reduce benefits for new members rather than to limit them for those already in the system. Since higher education is not adding additional members, taking this path of least resistance exacerbates rather than reduces our challenges.

In understanding MPSERS, it is useful to look back at the history of its development. In 1945, the Legislature adopted the Michigan Public School Employee's Retirement Act (MPSERA). Its purpose was to provide pension benefits (not health benefits) for former employees. From 1945 and over the next several years, it grew to include Michigan K-12 public schools, various Michigan community colleges and junior colleges, and seven of the fifteen public universities.

Of the universities in existence at the time of the adoption of MPSERS or shortly thereafter, the University of Michigan, Michigan State University, and Wayne State University were not mandated to participate in MPSERS. Participation was mandated at that time for the institutions which became Central Michigan University, Eastern Michigan University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Western Michigan University, and Ferris State University (the MPSERS universities). Beginning with the University of Michigan-Flint, in 1956, all of the institutions that subsequently became public universities were not put into MPSERS - Oakland University, University of Michigan-Dearborn and Flint, Grand Valley State University, and Saginaw Valley State University.

At the time of its adoption in 1945 until 1974, the State took full responsibility for the participation it mandated by fully funding the costs for MPSERS retirees and dependents. The 1945 legislation defined the word "pension" as "annual payments for life derived from money provided by the State." A significant policy shift occurred in 1974 when the State assessed MPSERS

universities, community colleges, and public schools a portion (up to 9%) of the MPSERS costs. In 1975, MPSERS was amended to include the cost for retiree health benefits to the MPSERS pension payments – a State mandated change.

In the early 1990's the State transferred the full cost burden for MPSERS to the institutions. Public schools, as a result of Proposal A, received additional resources to support the full MPSERS costs, universities did not (other than a small amount in 1992-93 which was never sustained). In 1995, MPSERS universities expected help from legislation that excluded any new university employees hired after January 1, 1996 (unless they had previous MPSERS university experience) from belonging to MPSERS. Nevertheless, with the passage of time, the relief that was expected to be provided by the legislation never materialized and contributions for unfunded liabilities continue to increase. The MPSERS universities are being asked to pay substantial unfunded liabilities accrued from when the State had not fully funded known obligations.

From 1974 to date, the legislature has increased benefits for MPSERS retirees, without input from the universities, and without recognition for the increased costs that would result. As a result, MPSERS costs to the universities have continued to skyrocket. This year, 2005-2006, the MPSERS universities estimate they will pay over \$37 million back to the State to support MPSERS costs. That amount is projected to significantly increase for FY 2007, when funding transfers from a MPSERS pension stabilization subaccount will be depleted.

MPSERS assesses costs pursuant to three components:

1. Pension Current or Normal Costs – the monthly cash benefit earned by active employees. MPSERS assesses a percentage against the payroll of current MPSERS employees to provide sufficient funds to cover the cost attributed to the current year. This year that percentage was to be 12.03% of payroll. A final transfer from the pension stabilization subaccount delayed a portion of the increase for this year and set the pension rate at 9.95%.
2. Unfunded Actuarial Accrued Pension Liability – this is the amortization of the amount that MPSERS lacks when comparing the present value of all earned or accrued benefits to the value of current assets. MPSERS assesses each university a percentage of payroll for current university MPSERS employees AND current university employees who would have been in MPSERS but for the January 1, 1996 legislation to exclude new hires from MPSERS. This year the contribution rate was set to be 5.73%, but will increase only by 3.65% due to the above mentioned transfer.
3. Current costs for retiree health benefits – these are set out in actual dollars and is the projection of the year's costs for the health benefits provided to current retirees of the MPSERS institutions.

Of the estimated \$37 million the universities will pay into MPERS this year, 60 percent will support retiree health costs, 16.5% unfunded liability, and 23.5% normal pension costs.

At our University we have capped retirement costs for all employees at no more than 12%. For our 470 MPERS employees we currently pay 24.3% of salary. While charges have not yet been received for next year we estimate that amount could increase to as much as 29% for next year. Beyond that it is important to understand that we also pay a charge for our 473 employees who are not members of MPERS, but would have been had new higher education employees not been added to the system beginning in 1996. We estimate that next year we could pay as much as 3.12% for these employees, a rate that has quadrupled in four years (*see Chart Seven*).

MPERS is an unfair and unreasonable burden on Ferris State University and our six sister institutions. At a time when much interest is placed upon taxes, this is a tax that the State of Michigan places upon us. The impact on our costs and our students is staggering. Next year, each full-time student at Ferris State University will pay \$700 in tuition to cover MPERS costs.

It is unlikely the state will possess the resources this year to address the problems of MPERS and provide the relief higher education both needs and deserves. For FY 2006 this amount would be \$37 million. However there are significant actions you can do that limit the debilitating impact of MPERS. I urge you to consider the following -

1. Take MPERS out of any funding formula equation involving funding per student. For FY 2006, the MPERS costs represent 8.3% to 12.4% of annual State appropriations among the MPERS universities.
2. Recognize past employment impact on unfunded liability, pension, and retiree costs. Currently we pay full liability for employees that began in the K-12 system and moved to higher education.
3. Eliminate the penalty to higher education for not placing new employees in MPERS. Have MPERS universities pay a fixed percentage annually into MPERS and tie this to the same percentage as K-12 districts pay. This could be accomplished through two approaches.
  - Include higher education with K-12 members in calculating annual contributions. This would blend these costs over all MPERS entities, not just higher education.
  - Provide a State appropriation that represents the difference between the fixed percentage K-12 pays into MPERS and calculated university annual costs.

## Closing Thoughts

Thank you for the opportunity to present these thoughts on higher education. Working with the legislature as active partners, we can create a future of opportunity for Michigan citizens.

It is the greatest honor of my life to serve as president for Ferris State University. Each day I see firsthand the life-changing difference higher education can make for our people. It is a privilege to represent to you the men and women of Ferris State University, faculty, staff, and students. We appreciate you and your support for our efforts. Most importantly, we stand ready to work with you to make a difference for Michigan.

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