

[For all presenters: acknowledge the Committee Chair and members, identify yourself, and thank the Committee for the opportunity to present]

**Senate Appropriations Subcommittee for Higher Education
Senator Tonya Schuitmaker, Chair**

Testimony of Patrick Doyle, Business Leaders for Michigan

You probably are wondering why the “pizza guy” has such a keen interest in higher education. It’s because at Domino’s, we are having a hard time finding enough high-tech talent in Michigan and see that becoming a bigger issue in the future.

I recognize that many of you probably don’t see Domino’s Pizza as a high-tech, global company. But today, Domino’s operates in over 70 countries around the world, and our online sales account for over 30% of our total orders. Each week, we process more than 1 million orders in the US from online and mobile devices. The ability to manage data, gain insights into customer behavior and find efficiencies in how we operate our business is critical to our growth. At our World Resource Center in Ann Arbor, we employ more people in technology than any other area of the company.

To grow our business, we rely on talented employees with the capacity to manage operations around the world and the technical skills to oversee the complex IT systems that keep our operations on line without interruption. Our Michigan universities are a primary source for finding the talent we need to compete. We are fortunate in this state to have some of the best universities in the world producing some of the best talent in the world.

There is no doubt, as the leader of a major employer in this state, I view the quality of Michigan’s higher education system as one of our state’s greatest assets for growing our business. My fellow BLM members agree. While many factors influence where a business decides to locate or expand, the quality of a region’s university system is a significant consideration, because every company wants access to the best talent.

That is why higher education has a prominent place in our 2012 Michigan Turnaround Plan. Step 4 of the MTP calls for Michigan to prioritize state investments in those areas that will most promote economic growth, including higher education, and the MTP identifies higher education as one of Michigan's six distinctive assets that can drive future economic growth.

Our public universities ARE a major driver of Michigan's economy.

Our universities drive talent production. In Michigan, as a percent of total graduates we produce 18% more STEM graduates than the national average.

Our universities drive innovation. In 2009, Michigan's universities ranked 10th in Research and Development spending at \$1.7 billion. Why is this important? Because this innovation fuels patent development, business start-ups and ultimately more jobs. In fact between 2004 and 2008, Michigan ranked in the top 5 for patent activity and business start-ups.

Our universities drive economic growth. A 2002 study by the Michigan Economic Development Corporation put the total economic impact of Michigan's public universities at almost \$40 billion – at that time representing 12.6% of Michigan's gross state product. In 2010, Michigan's major research universities alone had an estimated economic impact of \$15.2 billion, equal to 4% of our gross state product.

We believe these numbers can grow if we invest in our universities and grow their ability to attract more research dollars, increase innovation, and create more businesses. To realize this potential, we need a long-term, shared commitment to higher education from both the state AND our public higher education institutions.

From the State, we need a commitment to put a higher priority on higher education in the budget. This will help make college more affordable for hundreds of thousands of Michigan young people.

From our universities, we need a long-term commitment to help make college affordable by controlling costs. Our universities also need to strive to increase out of state enrollments, **without decreasing or compromising access for in-state students**, to help meet Michigan's future workforce needs because they can't be met just with in-state students as the number of young people in our state is shrinking. Last, they need to increase research and development efforts to best-in-class status and partner with business to increase industry supported R&D **so we can put that ingenuity to work right here in Michigan.**

I'm here as a member of BLM, an organization made up of 80 CEO's from the largest employers in Michigan, representing over \$1 Trillion in sales and a quarter of the State's GDP , and I'm telling you that increased funding for high quality, affordable Higher Education in Michigan is one of the single most important investments you can make to ensure the future economic growth of Michigan.

The goal of the MTP is to make Michigan a "Top Ten" state for job, economic and personal income growth. Thanks in great part to the difficult work done by you and your colleagues in the past year, much of the original plan has been fully or partially achieved. We have begun to see some evidence of economic turnaround with lower unemployment, higher economic growth and rising incomes.

While work remains on fiscal, budget, tax and business climate reforms, those measures alone are insufficient for Michigan to become a "Top Ten" state in today's economy. The regions around the nation and the globe that have been most economically successful leverage their unique assets to drive economic growth. Michigan's competitors **are not standing still.**

We hope the work of this committee and your House counterparts represents the beginning of a renewed commitment to one of our state's greatest assets for driving Michigan's economic prosperity.

Testimony of Philip H. Power, Chairman and founder of The Center for Michigan

With regard to the State's commitment to higher education, I'd like to draw your attention to a series of articles last month in Bridge Magazine, published by The Center for Michigan.

These articles demonstrated that tuition at 12 of Michigan's 15 public universities showed net student costs higher than their peer institutions across the country. The reason: a decade-long erosion in state support for our public universities. Since 2005, Michigan support for universities has plummeted, recording the third largest drop in the nation and a \$1 billion cut over the past decade. As state support drops, more and more of the cost of college is shifted to students and their families. In effect, the state decided that a college degree is primarily a benefit to the individual and not to the broader Michigan public. I hope Mr. Doyle's comments impress that indeed there is a greater economic good for the state.

When I served on the Board of Regents of the University of Michigan back in the 1980's, state support roughly equaled tuition and student fees. Back in the 1970's, the school got twice as much money from the state as from students and their families. Today, these figures are reversed. The rise in tuition is a direct response to the reduction in state support. Yet tuition increases over the last ten years have not been as large as the cuts to per student appropriations. When adjusting for inflation, state support per student in 2001 was \$8,700; today it is about \$4,600 – a \$4,100 decrease per student in state support – nearly a 50 percent cut. Sadly, we are in the bottom 10 in the nation in per resident support for higher education.

Not surprisingly, the Center's research also discovered a massive bubble in increased student college debt. Students at Michigan's public universities took out nearly \$2 billion in student loans in the 2009-10 school year. The increase for that one year was \$600 million. Student loans per degree granted across all campuses in 2010 was \$28,500, up 44% over 2007. You could nearly fill Spartan Stadium twice with the number of Michigan university students who took out unsubsidized federal Stafford loans in 2010 – loans that bear an interest rate of 6.8%, 70% higher than current 30-year mortgage rates.

The overall consequences are three: 1) Raising the cost bar by many thousands of dollars for young Michiganders hoping to attend college; 2) Saddling college graduates and their families with crushing college debt; 3) Reducing the number of Michigan kids who will get post high school degrees – exactly the credentials state employers are crying for.

These facts alone buttress the conclusion that our present system of financing higher education is simply unsustainable.

I want to be clear that Michigan is not the only state to cut higher education. Indeed, last year alone, 40 states cut support to their public universities. Nor is this a partisan phenomenon. The trend of disinvesting in our public universities in Michigan has spanned both Democrat and Republican Administrations. But Michigan cut deeper and longer than most states.

We must move beyond election cycles and establish a clear long-term state policy objective of moving our university system into the top ten in the nation. Estimates vary, but the Center's research found that just to reach the top ten, we'd have to double today's spending, which means recasting spending priorities. Obviously, this is not possible in one year. But it is clearly possible – and in my view, necessary – over a 10 year period.

We all need to face up to the fact that mediocre funding will inevitably produce mediocre universities, which in turn inevitably will result in mediocre prosperity for Michigan.

Testimony of Glenn Mroz, President, Michigan Technological University and Chair of the Presidents Council, State Universities of Michigan

The presidents and chancellors of Michigan's 15 public universities recognize the need for a shared commitment if Michigan is to realize the full potential our universities can have on the state's economic prosperity.

Like the rest of our state, Michigan's universities have come through a difficult decade, but have worked hard to maintain their position as a driver of the state's economy and a provider of high quality education to an increasing numbers of students. Our universities have increased the number of graduates we are producing – up more than 20 percent this decade. And the quality of our schools as a group remains among the best in the nation.

We have been able to do this in two ways. First, as Mr. Power pointed out, we have increased tuition to partially address reductions in state support. To maintain accessibility for low and middle income students, our universities have earmarked a portion of every tuition increase to augment financial aid for those students. Second, we've cut costs in a variety of ways and are operating more efficiently than ever.

All of our universities today operate on defined contribution plans. **NO universities offer guaranteed pensions.**

To meet rising health care costs, we've increased employee contributions to health care. On average, employees at Michigan universities today pay about 20 percent of their health care costs, in line with the private sector. To minimize costs, we offer pooled health care insurance that allows universities to get the lowest-cost health care possible.

We've collaborated in a number of cost saving strategies, including health, IT hardware and software insurance and property and casualty insurance. And our universities have pruned programs that are not attracting sufficient students, while adding some to meet the needs of employers.

One thing all the universities have boosted in recent years has been our attention to job placement. I'm proud to say at Michigan Technological University our job placement rate is 94.6 percent. And employers are willing to pay well for the excellence they find at MTU: the average salary for 2011 MTU grad in software engineering was \$67,000.

We are confident that through diligent efforts to control costs and maintain quality, and through a renewed commitment from the state, we will be able to demonstrate value to state policy makers, our students and their families, and the state's taxpayers.

Testimony of Doug Rothwell, President & CEO, Business Leaders for Michigan

As Patrick Doyle just outlined, BLM believes that we need a shared commitment from the state and our universities towards higher education recognizing the roles they play not only in talent production, but also in driving innovation and economic growth. We believe the best way to demonstrate this shared commitment is to support a long-term funding goal coupled with annual appropriations that links additional state funding to a set of performance metrics. We are not suggesting that you simply increase funding - we are suggesting an approach that requires our universities to earn additional funding based on measurable performance and accountability. There is evidence that Michigan voters support this approach as well. A recent poll conducted for BLM by the Glengariff Group showed that over two-thirds of the public favor additional state support tied to performance.

We are encouraged that the Executive Budget recommendation provides new funding based on some key metrics. But consistent with the need for “shared commitment,” we are here to identify two ways you can improve upon the Administration’s proposal and two ways you can support actions we are asking universities to take to strengthen higher education.

The first way you can improve upon the Executive Budget recommendation is to establish stronger standards for performance. Rather than comparing Michigan’s universities to their peers across the country, the Administration’s proposal measures Michigan’s universities against each other. You cannot compare the University of Michigan to Lake Superior State University. They have unique missions and unique student bodies, and they educate those students in unique settings.

In order to accurately gauge the performance of our universities, you should compare them to similar universities in other states. For example, we don’t want Ferris State or Grand Valley performing as well as each other, we want them performing as well or better than the best of their peers in the nation if we’re to grow the talent we need! At BLM, we are constantly measuring Michigan’s GDP, job growth, and personal income growth against the states and regions around the globe with which we most often compete. It makes sense to do the same when judging our universities.

Further, the Executive proposal only recognizes progress against past performance and ignores the absolute level of achievement. Progress only tells half the story. For some institutions, they are already performing at top levels, so progress may be incremental or improbable. For example, we believe Michigan should aspire to be a Top Ten state. If you agree with that, then we suggest the state ought to be rewarding “Top Ten” universities achieving this kind of excellence – not punishing them.

The Executive model only measures progress in undergraduate programs. No consideration is given to how our universities compare to their peers in producing advanced degrees. This omission should be corrected, as advanced degrees are not only costlier to provide they are also in great demand by employers, yield the greatest gains in personal income growth and are strong indicators of innovation.

And, the Executive proposal omits any measure of a university’s economic impact. We believe excluding such a metric fails to recognize the role higher education plays in today’s economy.

The second way you can improve upon the Executive budget recommendation is to embrace a long-term commitment to investing in this critical economic asset. The Executive recommendation treats the Fiscal Year 2013 dollars as a **one-time** expenditure and the Fiscal Year 2014 budget reverts to the Fiscal Year 2012 appropriations. We believe the State should set a goal that by 2022, Michigan’s public universities **that are performing** at the level of their top peers be funded at the level of their top peers. In other words, Top Ten performing institutions get funded as such.

Specifically, we respectfully submit for the committee’s consideration the following suggestions for improving the Executive budget model:

- Benchmark Michigan’s universities against their national peers, using the Carnegie classification system;
- Measure and reward a university’s absolute level of achievement as well as their progress;
- Add metrics that further incent quality outcomes, such as graduation rate and retention rate;

- Weight the degrees and completions metric for advanced degrees;
- Add a metric that incentivizes increasing economic impact, such as total research and development expenditures;
- Address affordability and tuition in a manner that doesn't risk driving down quality and outcomes to "average" for the sake of achieving "average" tuition increases. You can do this by:
 - Adding a metric that incentivizes universities to control administrative overhead, such as the percent of total expenditures devoted to institutional support. ; and
 - Changing the metric from an absolute tuition rate increase benchmark to one that compares our universities to their most affordable peer institutions.

There are also two ways you can help support actions we are asking universities to take. First, support our work with the state's universities to create a performance dashboard. This will include 15 to 20 measures to provide transparency for the public on how our universities are performing on a broad range of efficiency, productivity, and outcome metrics.

Last, it's critical that we acknowledge that we have serious challenges ahead in meeting future workforce needs. We need to think beyond just graduating more Michigan students, as demographic trends show Michigan's K12 pipeline is shrinking.

Michigan faces a projected shortfall of over one million college-educated workers in the next 15 years. We will not be able to fulfill this need by just educating more Michigan students. We need to expand enrollment. 11 of Michigan's 15 public universities are below their national peers in the percentage of out-of-state students they educate. Without reducing or compromising access for in-state students, those universities should strive to attract more students from outside Michigan and we shouldn't discourage them from doing so.

This would benefit Michigan in two ways. First, it would add to Michigan's already talented workforce pipeline. Second, it would increase the positive impact our higher education institutions have on Michigan's economy. Just increasing enrollment to their peer averages could realize a direct economic impact of over \$200 million over four years from increased tuition revenue to our state alone.

Graduating more students, growing talent, and increasing university-driven innovation and economic impact require that we have thriving and affordable public universities over the long-term. We hope the work you perform in this committee in the coming weeks achieves that vision. We stand ready to assist you in that effort, and we are confident that through the approach we have outlined our public universities can demonstrate value for the state's investment.