Representative Genetski and members of the House Appropriations Subcommittee on Higher Education, thank you for taking time from your busy legislative schedule to hear from Michigan universities. It is an honor to appear before you today. More than ever we need your help and support. I am here to work with you to make certain our state has the higher education opportunities it needs to secure our economic future and to help increase the number of Michigan citizens who earn an undergraduate degree.

Each of you has a vital interest in Ferris State University, as we enroll students from each of your districts at our University –

- Rep. Jackson 63
- Rep. Pscholka 107
- Rep. Bauer 212
- Rep. Cotter 376
- Rep. Haveman 562
- Rep. Genetski 595

Ferris enrolls students from throughout Michigan. Our reach is statewide. In fact, Michigan residents make up 93 percent of Ferris’ student body. As we talk about students today I want to emphasize that these students are from your districts. They are your constituents who you represent here in Lansing. We are proud to have one of our former students here on your panel. Representative Haveman is a graduate of Ferris State University who served as student body president during his time at Ferris.
As the leader of Ferris State University for the past nine years, I understand our current reality. I want to help you in this process. To this I bring nine years of working with appropriation committees in Lansing and thirty-seven years of experience as a university educator.

Let me begin by thanking the citizens who form our Board of Trustees for their hard work on behalf of the University. They are people who care deeply about students. They are committed to the ideals of quality, opportunity and access that guide our shared efforts. Together we work continually to keep the cost of a Ferris education within reach during these difficult economic times. Our board consists of -

Ronald E. Snead – Chair
Sueann L. Walz – Vice Chair
George J. Menoutes – Secretary
Arthur L. Tebo – Immediate Past Chair
Alisha M. Baker – Member
Paul E. Boyer – Member
Gary L. Granger – Member
D. William Lakin - Member

In past years when addressing you regarding funding for higher education, I have taken time to talk about Ferris State University and the important things we are doing. Were there more time today, I would talk about our network of state-wide partnerships, how we continue to develop cutting-edge degree programs and are substantially raising graduation rates. However, the budget proposal you have before you this year can help to shape the future of higher education for our students both today and tomorrow. It is so critical to the future of Michigan that I will forgo further details about our many successes. For your benefit I have enclosed some information about the career-oriented education we provide at Ferris State University in the packet each of you received today.

Likewise, I wish there was enough time to work carefully through the issue of community college baccalaureate degrees which, in my opinion, is the wrong idea at the wrong time, and something that with scarce resources Michigan can ill afford. In this constrained funding environment, our state should not create additional baccalaureate programs when it cannot afford those it has now. At Ferris we partner with seventeen community colleges across the state in nineteen locations. Our current partners include –

Alpena Community College
Delta College
Grand Rapids Community College
Kirtland Community College
Lansing Community College
Macomb Community College
Montcalm Community College
Mott Community College
Muskegon Community College
North Central Community College
Northwestern Michigan College
Oakland Community College
Schoolcraft Community College
Southwest Michigan College
St. Clair County Community College
Wayne Community College
West Shore Community College

Working together we maximize our unique institutional strengths through creative and cost-effective partnerships. Through this we are committed to providing students the degree access they need. As in the past I will repeat my public promise that Ferris State University will partner with any community college willing to work with us to help their students.

State Support

We are emerging from times of historic economic and fiscal challenges for Michigan. The heart-wrenching choices you made in last year’s session to balance the budget have placed us in a promising situation today. As requested I will focus my testimony on the performance-based funding proposed in the Executive Budget. I want to frame this in the context of what has been years of short-term decisions. Recommendations you produce should be made with recognition of the cumulative effect of those short-term decisions. The current state of funding for higher education is not the product of just this past year, or even these past few years. Rather, it is an alarming and disturbing continuum of disinvestment in the knowledge and skills Michigan’s citizens need for the state to attract and retain global business and industry.

Last year’s budget reduced state support by $602 for every full-time student at Ferris State University. As you consider the state budget for higher education it is useful to keep in mind that for our University’s $279 million budget the state contributes just 14.8%.

This decade-long disinvestment in higher education is reflected in the first chart. Regrettably, this chronicles what has been my experience with public funding in nine years as President of Ferris State University. During this period state funding for Ferris has been reduced from $55.5 million to $41.3 million, a loss of $14.2 million, or 25.5%. (See chart one)

As dramatic as that decline is, it only tells part of the story. At the same time of this historic disinvestment in public universities, the state has also cut our students’ financial aid. For a half
century an extraordinary strength of Michigan was our commitment to students. During the last
decade, even during times of budget contraction, the state supported students through financial aid.
As late as 2009 the state provided $235 million for student financial aid. Unfortunately, in 2010 the
state budget was balanced on the backs of our students as the state reduced total appropriations for
student financial aid by 64 percent to $84 million.

Last year’s budget increased financial aid slightly for our students, but further reduced state
support for our students. The budget replaced state support for financial aid with federal Temporary
Assistance to Needy Family funds. Alarmingly only $1 million in state funds goes to student
financial aid. Since 2009, state dollars for financial aid for our students have been reduced by 99%.
If the federal support our students receive through these TANF funds is ever removed, only $1million in
state support will remain and there will be a $99 million budget hole to fill. (See chart two)

Ferris State University has worked hard to help our students in these difficult times. Three
years ago, Ferris’ ongoing state funding was reduced by $1.6 million and replaced by $1.38 million in
federal stimulus funds. We cut the University’s budget by the larger amount and used the stimulus
funds to replace funding students did not receive for Promise Grants and Michigan Competitive
Scholarships. Since 2007 we have more than doubled student financial aid support from $8 million
to $19 million. However, we cannot do this alone. Ferris students need your support to earn degrees
that will get them the jobs that will build not just better individual futures, but a better Michigan.
(See chart three)

Performance-based Funding

Performance-based funding (PBF) is not a new topic or idea. A range of such approaches was
implemented in 26 states between 1979 and 2007. Subsequently, 14 of these states abandoned
performance-based funding. An excellent introduction to PBF with detail about state efforts is
published by the American Association of State Colleges and Universities.

This brief, “Performance-based Funding: A Re-Emerging Strategy in Public Higher Education
Financing,” was written by Thomas L. Harnisch, Policy Analyst at AASCU and is accessible at
http://www.congressweb.com/aascu/docfiles/Performance_Funding_AASCU_June2011.pdf. The
following excerpts are used with permission –

Key advantages of PBF may include:
- Greater awareness of campus performance
- Improved delineation of state and institutional priorities
- Enhanced transparency and accountability
- Increased productivity

Restoring Support, Encouraging Opportunity and Growth
Ferris State University, David L. Eisler
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Key disadvantages may include:
- A limited portrait of university performance
- Mission distortion/student access
- Quality reduction
- Lack of program support
- Increased inequality and instability

Effective practices to implement when developing a PBF system include:
- Establishing state postsecondary education goals
- Bipartisan political commitment
- Support from institutions
- Stakeholder collaboration throughout the program design process
- Stable program funding

Funding system architecture should consider the following best practices:
- Allow institutional autonomy
- Keep it simple
- Account for institutional differences
- Allow time for implementation
- Anticipate challenges
- Evaluate outcomes, ensure recognition

Performance-based Funding in Michigan

At Ferris State University we are very pleased that the Executive Budget proposes a 3% increase to begin to restore the state funding support higher education has lost over the last decade. It is worth noting that the proposed increase for higher education, $36 million, is quite small in the context of public university funding and the 15% reduction of last year.

In November 2011, Michigan public universities working together through the Presidents Council of the State Universities of Michigan, proposed guiding principles for performance funding. The proposed metrics reflect portions of four of those guidelines—

- Performance funding should be implemented with additional funds, not redistributed funds...
- A performance funding formula should be straight forward and easy to understand. It should have a small number of statewide goals for which all institutions are held accountable...
- Clarity and the availability of sound data are important in measuring the progression and success of each outcome.
- Performance funding should not be punitive to any university...
The proposed approach in the Executive Budget uses four metrics. Each metric carries funding of $9 million and data for each metric are used to determine the dollar amount per unit of measure and the allocation to institutions.

**Metric One – Growth in undergraduate degree completions, three-year average change in undergraduate degrees.** As proposed for next year this would provide $17,191 per average degree completion. The strengths of this measure include –

- The number of degrees awarded are included in the state HEIDI database, and already measured and quantified.
- This places an emphasis on outcomes and degree completion. An emphasis on degree completion is an outcome for all colleges and universities.
- It provides support for two different approaches to growth on this measure, either through increased enrollments or through higher graduation rates.
- A three-year average protects against annual fluctuations in these numbers.
- It treats each university equally providing the same support for each degree.

A weakness of this measure is that it focuses only on undergraduate education and provides no support for graduate education.

**Metric Two – Three-year average number of undergraduate degree completions in critical skill areas.** As proposed, for next year this would provide $685 for each average completion. The strengths of this measure include –

- It provides an incentive for universities to offer programs in, and graduate students from, fields needed to help grow the Michigan economy, or in which there are strong employment prospects.
- It recognizes the significant increased cost in producing graduates in STEM fields. For example, on average in Michigan it costs over $500 per student credit hour to provide coursework in engineering. In the social sciences it costs $185 per student credit hour.

A weakness of this measure is that it places primarily liberal arts institutions at a disadvantage.

**Metric Three – Three-year average number of all undergraduate students receiving Pell grants.** As proposed, for next year this would provide $151 per student. For the following year the metric would be based on the number of Pell students who graduate. The strengths of this measure include –

- It encourages public universities to seek and support students from limited financial backgrounds.
- In the future it places a premium on the success of these students.

The weaknesses of this measure include –

- Given budget challenges on the federal level and the rapidly growing cost of Pell Grants, there may be a reduction in the number of Pell Grants awarded or the size of the awards.
- The change in this measure for FY 14 is not yet clearly defined.
Metric Four – Tuition restraint based on a percentage increase in resident undergraduate tuition. For next year this metric will look at the difference between each university’s rate of increase and 4.1%. The strengths of this measure include –
- Establishes financial incentives for universities that keep tuition increases low.
- Does not infringe on autonomy or prevent institutions that may need to increase tuition more from doing so.

Weaknesses of this measure include –
- Does not contain a commitment to use 4.1% as a number beyond 2013.
- Allocation based on distance from 4.1% does not allow institutions to know what funds they may receive when tuition is set.

Given that state support represents only 14.8% of our total budget, it would be our preference that performance metrics not be introduced. However, if increased funding will be dependent upon the introduction of performance metrics, Ferris State University believes the State Budget Office has done excellent work in developing these proposed metrics and supports them strongly for the following reasons –

1. It is a limited number of simple, easily understood measures.
2. These measures use clearly quantifiable data that is already collected by the state.
3. Finally the state will reward universities for enrollment growth and producing more graduates. Despite rhetoric that touts the importance of more students going to college, for the past decade Michigan has punished growth at its universities.
4. It recognizes the additional costs of educating students in needed high tech, high touch STEM fields.
5. It encourages universities to enroll and graduate students from poor economic backgrounds.
6. It rewards universities that work to keep tuition increases low.

The most serious flaw of these proposed metrics is that the funding awarded through them is one-time. This significantly limits their effectiveness. It is not a sustainable financial approach to use this funding model for base, continuing costs, as there is no certainty state funds will be continued in subsequent year budgets. For example, say Ferris State University received $3 million under this plan for recurring costs. If those funds were not received the following year it would then be necessary to reduce the budget by $3 million. This is a level of risk and uncertainty that does not need to be introduced into the challenging finances of leading a modern university.

Additionally, establishing these performance metrics as one-time funds also eliminates their effectiveness in restraining cost for our students. If they were base dollars it would be possible to use them to further limit tuition increases. These would help us immensely at Ferris State University as we work together as an institution to limit the rapid rise of student debt.
While it is our perception that Metric Four is an incentive to keep tuition increases low, we remain opposed to tuition restraint measures as unnecessary. Michigan universities have the authority to set tuition levels. With that comes the responsibility to do this sensibly. We believe that government forgets the important role of our trustees in establishing tuition policy and rates. Trustees are citizens appointed by the governor and affirmed by the legislature and who represent the public in this function. I know that our trustees take this issue very seriously and are concerned about the cost of higher education. We intend to continue to keep tuition increases low as we did last year when we were two percentage points below the restraint number, and were the second lowest among public universities in our state.

At Ferris we have already constrained, and will continue to constrain, the cost of a higher education degree. We have reduced our budget, cut costs and trimmed the size of our workforce. By July of last year we had eliminated 127 positions. In that process we reduced the size of our administration by five percent. Today we are teaching 3,600 students more than in 2001, 33 percent more, with no increase in staffing. We have saved money by slowing down or stopping important, much-needed efforts throughout our campuses both for now and in the future. This has been a very difficult balancing act. But there is one constant in this for Ferris; during my nine years as president we have never passed a budget reduction from the state on to our students. When the state cuts our budget we reduce spending by that amount.

It is important to remember that the cost of a student’s education is tuition plus the support we receive from the state. In 2001 this cost was $11,674. Today it is $14,934. During this decade, the cost per student has risen by an average of 2.3 percent annually, less than the rate of inflation. Had our costs risen by the national average of higher education institutions (the Higher Education Price Index, or HEPI), our costs today would be $16,454, a difference of more than fifteen hundred dollars per students, a savings of $18.3 million. As the numbers clearly show, at Ferris we keep costs down while educating more students and producing more graduates. (See chart four)

**Michigan Public Schools Employment Retirement System**

A performance-based funding model cannot work unless there is a level playing field among universities. Ferris State University is one of seven public universities with employees in the Michigan Public Schools Employment Retirement System, or MPSERS. In order to create that level playing field, please help us with the unfunded MPSERS mandate. Of the estimated $49 million the universities will pay into MPSERS this year, 48% will support retiree health costs, 45% unfunded liability, and 7% normal pension costs.

At our University we have capped retirement costs for all employees at no more than 10-12%. For our 300 MPSERS employees we currently pay more than 38% of salary. Without relief it seems likely that our contributions for members will exceed 50% in two years. If this pattern does not change, by 2020 we will pay 80% of their salary to MPSERS. (See chart five)
Beyond that it is important to understand we also pay a charge for our 492 employees who are not members of MPSERS. These are employees that would have been in MPSERS had new higher education employees continued to be added to the system when it began to be phased out in 1996. The 13.41% we currently pay for these employees is a rate that has quadrupled in three years.

The simple reality is that this year Ferris State University will return 20% of our state appropriations for this overburdened and underfunded retiree pension and healthcare plan. By 2020 this amount will easily exceed 25% of our state appropriation. Put another way, since I last testified on this topic in 2007, the MPSERS mandate has cost Ferris State University more than $28,600,000. An additional sheet is provided in this packet which provides additional detail on the history and cost of MPSERS. (See chart six)

The MPSERS issue is one that has for many years defied efforts to slow or reduce this mandate. It has created a two-tier system among state universities. I was heartened by Governor Snyder’s recent budget proposal. His public recognition of the problem is a very positive step forward in finding a solution to this growing problem. Please keep in mind that resolving the legacy of MPSERS is very important for the seven universities saddled with the cost. This year Ferris State University has budgeted $8.35 million for this liability and it will cost each full-time student at Ferris $656 to support this unfunded mandate from the state.

Closing Thoughts

When we talk about higher education funding and the state budget, we talk about money in the millions and billions of dollars. We look at trend lines, comparison statistics and projections into the future. What I fear is that the lives of actual, individual students sometimes get lost in the blur of facts and figures.

These are the people behind the numbers. On our campus we have students who served in Iraq and Afghanistan and are now attending college on the GI Bill. We have students who heed the call for community service despite the challenges of earning a degree. At Ferris the student-led “Big Event” has become a major component of fighting community blight in Big Rapids. We have students who struggle with dyslexia and others who help tutor students so they can succeed.

When Woodbridge Ferris founded our institution in 1884 it was a time of great economic and social change. The timber boom was already past its peak and men and women needed new skills for an economy that would no longer be based primarily on resource extraction. Woodbridge Ferris founded our school with the goal of changing lives. And it has.
For each commencement, I seek out stories of Ferris students who have overcome challenges to earn their degrees so I can highlight them during the ceremony. As I listen to our students I am continually inspired by the adversity and challenges they overcome in their determination to earn a college degree. Let me relate just two of these.

Although 93% of our students come from Michigan, Gemechis Roro grew up walking a mile to and from elementary school and studying by the light of a kerosene lamp in his rural village in Ethiopia. In his words, “he won the lottery,” selected as one of a very few out of three million applicants who received paperwork to emigrate to the United State. Here, he settled with cousins in Philadelphia, working two jobs as a convenience store clerk and parking lot attendant while attending Philadelphia Community College.

In Ethiopia before her death, his mother had dispensed medications from a small room in his village, and it was Gemechis’ dream to become a pharmacist. He was admitted to the Ferris Pharmacy program and drove here in a 19-year-old car, having never been to Michigan, knowing no one in Big Rapids, and with very little money. In Ethiopia his father had been one of the first Lutheran pastors. Needing help in our community he went to St. Peter’s Lutheran Church. The pastor called Language and Literature professor Caroline Stern who took him into her home for three weeks until a permanent place was found for him with another church family. He graduated with his Pharmacy degree in 2011.

During that same commencement ceremony, Truong Cao received his degree. Truong grew up in South Saigon, Vietnam, where his father was imprisoned after the war because of his opposition to the communists. His mother had to work in an open air market to support seven children. In 1989, after two years of private university training in chemistry, he fled Vietnam with 121 other people in a dilapidated 33-foot boat, which began to break apart after a week at sea. Miraculously, the refugees were rescued by workers on an oil rig.

They were taken to a refugee camp on the Malaysian island of Pulau Bidong. After four years he was allowed to emigrate to Vancouver, British Columbia. During this time he fell in love, but the emigration separated them as she was relocated to Lansing. He moved to Windsor to be closer to his future wife and was married in 1999, although it was two more years before he was allowed to live in this country.

He took a factory job assembling automobile seats for the Lear Corporation. In 2002 he became gravely ill with a bleeding ulcer. His recovery inspired him to join the medical profession. After study at Lansing Community College he was admitted to the Ferris Pharmacy program. He graduated with his doctorate in Pharmacy 22 years after fleeing Vietnam.

Gemechis and Truong worked very, very hard to accomplish what many of us take for granted. The importance they placed on education reminds each of us of its transformative power.
As you grapple with the difficult issues facing higher education and how to keep this invaluable resource within reach of thousands of people looking to transform their lives, I hope you will remember that those thousands of people all have individual challenges, individual hopes and dreams. The difference between those dreams becoming a reality or remaining unfulfilled is often a college degree.

You can be the person who makes that difference. As you consider this budget think not of our University but of our students. I know that working together we can and we will make a difference. On behalf of Ferris’ 14,560 students, and the more than 300,000 students at public universities statewide, I thank you.

*These materials are accessible on-line at*
http://www.ferris.edu/HTMLS/administration/president/presentations/2011-2012/*