

House Appropriations Subcommittee for Higher Education
Representative Bob Genetski, Chair
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Leaders for Michigan

Thank you Mr. Chairman and committee members. I know you have had a very busy schedule over the last several weeks, so I greatly appreciate the opportunity to appear before you today.

BLM is a leadership organization made up of the top executives from the largest employers in Michigan, representing over \$1 Trillion in sales and a quarter of the State's GDP. We're the brands you most associate with Michigan and our entire mission is to make Michigan a "Top Ten" state for job, economic and personal income growth.

I'm here on behalf of our members to convey their strong belief that one of the single most important actions you can take to help Michigan reach that goal is to increase the state's investment in high quality, affordable Higher Education. There is no doubt, as the state's major employers, our members view the quality of Michigan's higher education system as one of our state's greatest assets and a key factor in growing their businesses. 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. One step of our six step Plan calls for Michigan to prioritize state investments in those areas that will most promote economic growth, specifically higher education, and another identifies higher education as one of Michigan's distinctive assets that can drive future economic growth. Let me give you a few examples why we see higher education as being so important to our growth.

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. We're 10th in the latest ranking for university Research and Development spending at \$1.7 billion - the spending that fuels patent development, business start-ups and ultimately more jobs. In fact according to recent data, Michigan ranked in the top 5 for patent activity and business start-ups.

Our universities help drive Michigan's economy. 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 equal to 4% of our gross state product.

We believe these numbers can grow significantly if we invest in our universities and grow their ability to produce more talent, attract more research dollars and increase innovation. To realize this potential, we need a long-term, shared commitment to the growth of 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 and increase research and development to best-in-class status, including increasing industry supported R&D so we can put that ingenuity to work right here in Michigan.

From both the state and our universities we need a commitment to achieve top performance against national peers and increase out of state enrollments, without decreasing or compromising access for in-state students. Michigan's future workforce needs can't be met unless our universities offer the best education and graduate more students by attracting more out of state enrollees as Michigan's young population is shrinking.

We believe the best way to demonstrate this shared commitment is to support a long-term funding goal coupled with annual appropriations that link 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. A recent poll conducted for BLM 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. The Administration's proposal only measures Michigan's universities against each other. We believe you should measure them against their **national peers**. 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 evaluating the performance of our universities.

The Executive proposal only recognizes progress against past performance. We believe you should measure both **progress and 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 the **impact universities have on the economy** fails to recognize the role higher education plays and that we want it to play 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 much broader range of efficiency, productivity, and outcome metrics than would be used to determine performance funding.

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.

Thanks in great part to the difficult work done by you and your colleagues in the past year, much of the original Michigan Turnaround 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.

We believe strongly that our higher education institutions are one of those key assets, and we are confident that through the approach we have outlined our public universities can demonstrate value for the state's investment.