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Tuition Incentive Program: An Update for 2020

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Introduction

Since 1986, the Tuition Incentive Program (TIP) has provided financial aid benefits to low-income Michigan middle school and high school students as an incentive to graduate through its Phase I (two-year degrees and certificates) and Phase II (third and fourth year of four-year degrees) programs. The objective of TIP is to reduce Michigan's high school drop-out rate by offering the payment of college tuition as an incentive to graduate from high school or to achieve a graduate equivalency degree. The Tuition Incentive Program differs from the other two major State financial aid programs, the Michigan Competitive Scholarship (MCS) and the Michigan Tuition Grant (MTG), in that there is no built-in cost containment mechanism in TIP's authorizing statute. Each student's annual award for the MCS is limited to \$1,000; for the MTG, each award is limited to \$2,800. Boilerplate language also allows the Michigan Department of Treasury to prorate awards if appropriations for either of those programs are insufficient to support the full award amount for each student who qualifies. The TIP does not have these cost-control mechanisms in either of its Phase I or Phase II provisions. Because of this and other factors, the annual cost of TIP has increased dramatically since its inception, from about \$2.0 million in fiscal year (FY) 1986-87 to \$68.8 million in FY 2019-20.

Background

The Tuition Incentive Program provides financial aid benefits targeted toward low-income middle school and high school students. It was established in FY 1986-87 through language in the Department of Social Services appropriation bill. The program eventually was transferred to the Higher Education budget in FY 1992-93, and was then compiled into the School Aid Act when the Higher Education budget was compiled in FY 2011-12. The TIP provides an incentive for students to complete high school and go on to college by pledging to pay tuition and fees for associate degree or certificate programs (Phase I), as well as up to a total of \$2,000 for a student's third and fourth year at a four-year institution (Phase II) for four-year degree programs. Students in grades 6 through 12 who are, or were, Medicaid-eligible for 24 months in a 36-month consecutive period can qualify for TIP.

For Phase I costs, the following conditions apply:

- Payments for associate degree or certificate programs can be made for a maximum of 80 semester or 120 term credits for any individual student at any participating institution.
- For students enrolled at a Michigan community college who reside in a community college district, TIP will pay the current in-district tuition and mandatory fees. For students who reside in an area that is not included in any community college district, the out-of-district tuition rate may be authorized.
- For students enrolled at a Michigan public university, TIP will pay the lower division resident tuition and mandatory fees for the current year.

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- Students enrolled at a Michigan independent, nonprofit degree-granting college or university, or a Michigan Federal tribally controlled community college, or Focus: HOPE, receive mandatory fees for the current year and a per-credit payment that does not exceed the average community college in-district per-credit tuition rate as reported on August 1, for the immediately preceding academic year.

Program Expenditures

Tuition Incentive Program expenditures have increased from \$5.3 million in FY 2001-02 to \$59.7 million in FY 2018-19, an increase of 1,037.1% over 18 years. During the same period, the number of TIP awards received increased from 4,325 to 24,046, a 456.0% increase. [Table 1](#) provides further detail on the increase in awards and expenditures over time. The TIP began as a program funded primarily from the State General Fund; the program has been funded from Federal Temporary Aid for Needy Families (TANF) funds since FY 2007-08.

Table 1

TIP Costs and Awards FY 2001-02 through FY 2018-19				
Fiscal Year	Awards		Dollar Amount	
	Number of Awards	Percent Change	Amount	Percent Change
2001-02	4,325	-	\$5,250,000	-
2002-03	5,401	24.9%	8,650,000	64.8%
2003-04	6,578	21.8%	11,281,720	30.4%
2004-05	7,637	16.1%	11,705,482	3.8%
2005-06	9,046	18.4%	14,694,653	25.5%
2006-07	10,462	15.7%	17,600,277	19.8%
2007-08	11,701	11.8%	21,219,255	20.6%
2008-09	13,957	19.3%	26,678,697	25.7%
2009-10	15,558	11.5%	31,365,000	17.6%
2010-11	16,424	5.6%	34,650,729	10.5%
2011-12	17,266	5.1%	38,367,537	10.7%
2012-13	18,166	5.2%	43,013,226	12.1%
2013-14	17,989	-1.0%	45,720,824	6.3%
2014-15	18,189	1.1%	49,341,411	7.9%
2015-16	18,290	0.6%	51,768,507	4.9%
2016-17	22,332	22.1%	56,788,471	9.7%
2017-18	22,595	1.2%	55,462,465	-2.3%
2018-19	24,046	6.4%	\$59,697,609	7.6%

Note: FY 2019-20 program statistics are not yet available.

There are two primary drivers of costs for TIP: increases in participation in the program and increases in the cost of college and university tuition. Participation likely is connected to two primary factors: improved outreach by colleges, universities, and Treasury to residents who qualify, and an increase in the number of residents who would qualify for TIP based on

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Medicaid eligibility. Medicaid eligibility in particular is of interest as a cost factor as, over the time period reflected in [Table 1](#), Michigan's Medicaid caseload has increased by 102.2%, from 1.2 million in FY 2001-02 to 2.5 million in FY 2018-19. About 700,000 of this increased caseload is because of the adoption of Medicaid Expansion in FY 2013-14.

Increases in tuition and fees are the other significant cost driver for TIP. While there is no statewide database for private colleges, from FY 2001-02 to FY 2018-19, tuition and fees at public community colleges has increased by 77.0%, from \$81.37 per credit hour to \$144.05 per credit hour.¹ Similarly, tuition and fees at public universities has increased by 170.1% from \$164.83 per credit hour to \$445.20 per credit hour.

Most of TIP's costs are due to Phase I of the program as it provides full payment of tuition and fees whereas Phase II offers \$500 per semester up to a total of \$2,000. This essentially limits the annual benefit per student in Phase II to \$1,000 per year for most institutions. Because it pays full tuition and fees, Phase I costs are significantly higher and vary between types of institutions. The costs of Phase I are \$2,553 per student at two-year public community colleges, \$8,630 per student at four-year public universities, and \$2,281 per student at four-year private colleges. [Table 2](#) provides further detail on TIP costs for FY 2018-19, and [Table 3](#) provides those costs on a per-student basis.

Table 2

FY 2018-19 Tuition Incentive Program Costs						
	Phase I		Phase II		Total TIP	
	Students	Costs	Students	Costs	Students ¹	Costs
Two-Year Public Comm. Colleges	12,342	\$31,507,842	-	-	12,342	\$31,507,842
Four-Year Public Universities	2,130	18,382,315	7,509	6,529,815	9,639	24,912,130
Four-Year Private Colleges	922	2,103,503	1,346	1,174,134	2,268	3,277,637
Total	15,394	\$51,993,660	8,855	7,703,949	24,249	\$59,697,609

¹Student totals do not add to [Table 1](#) because of double-counting of students who transfer from Phase I to Phase II during the year.

Source: Michigan Department of Treasury, Student Scholarships and Grants, 2018-19 Annual Report

Table 3

FY 2018-19 Tuition Incentive Program Average Costs Per Student		
	Phase I	Phase II
Two-Year Public Comm. Colleges	\$2,552.90	-
Four-Year Public Universities	8,630.19	\$869.60
Four-Year Private Colleges	2,281.46	872.31
Average	\$3,377.53	\$870.35

The discrepancy in per-student costs among public community colleges, public universities, and private colleges is primarily due to program parameters contained in Section 256 of the

¹ This amount is imputed by taking the State average of tuition and fee revenue per full-year equated student from the 2001-02 Activity Classification Structure table and dividing it by 30 to get a per-credit-hour amount.

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State School Aid Act (full text provided in the Appendix). While there is a limit on tuition payments for private institutions (a per-credit payment that does not exceed the average community college in-district per-credit tuition rate), TIP payments for students attending a Michigan public university are based on the lower division resident tuition and mandatory fees for the current year, with no limit. The FY 2019-20 average per credit/contact hour cost (tuition and fees) at Michigan public community colleges is \$144.05. The average FY 2019-20 average per credit cost for lower division resident tuition and mandatory fees at public universities is \$459.

There are five universities that grant associate degrees or certificates that enable students to qualify for Phase I of TIP. Those universities are Ferris, Lake Superior, Michigan State, Michigan Technological, and Northern Michigan. [Table 4](#) provides the number of students at each university who receive a Phase I benefit and the cost of those benefits.

Table 4

FY 2018-19 Costs for TIP Phase I Recipients at Public 4-Year Universities			
	<u>Students</u>	<u>Costs</u>	<u>Cost per Student</u>
Ferris State	1,197	\$10,013,758	\$8,365.71
Lake Superior State	226	2,062,337	9,125.38
Michigan State	63	528,819	8,393.95
Michigan Tech.	143	1,429,811	9,998.68
Northern Michigan	501	4,347,590	8,677.82
Total	2,130	\$18,382,315	\$8,630.19

Source: Michigan Department of Treasury, Student Scholarships and Grants, 2018-19 Annual Report

[Table 5](#) provides a detailed account of Phase I payments to the three institution types over the last 12 years. The table also helps to illustrate the impact of TIP students attending Michigan public universities on program costs. From FY 2007-08 to FY 2018-19, total TIP Phase I expenditures increased by 149.4%, from \$20.8 million to \$52.0 million. During that time period payments to four-year public universities increased by \$12.9 million (233.2%), from \$5.5 million to \$18.4 million.

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Table 5

Tuition Incentive Program: Phase I Costs					
		Two-Year Public Comm. Colleges	Four-Year Public Universities	Four-Year Private Colleges	Total
FY 2007-08	Costs	\$12,570,152	5,517,681	2,760,429	\$20,848,262
	Students	8,619	899	1,417	10,935
FY 2008-09	Costs	15,145,441	7,510,257	3,157,575	25,813,273
	Students	10,109	1,148	1,512	12,769
FY 2009-10	Costs	17,454,006	9,181,512	3,637,090	30,272,608
	Students	11,026	1,300	1,797	14,123
FY 2010-11	Costs	19,096,451	10,129,465	4,203,714	33,429,630
	Students	11,310	1,379	2,077	14,766
FY 2011-12	Costs	20,857,568	11,555,916	4,374,450	36,787,934
	Students	11,626	1,473	2,141	15,240
FY 2012-13	Costs	22,925,853	13,407,981	4,822,291	41,156,125
	Students	12,024	1,791	2,289	16,104
FY 2013-14	Costs	23,382,942	15,898,290	4,398,105	43,679,337
	Students	11,599	1,969	2,123	15,691
FY 2014-15	Costs	24,669,503	17,832,479	4,617,208	47,119,190
	Students	11,533	2,014	2,053	15,600
FY 2015-16	Costs	25,745,111	19,261,282	4,314,547	49,320,940
	Students	11,427	2,255	1,870	15,552
FY 2016-17	Costs	28,918,299	18,070,543	4,723,686	51,712,528
	Students	12,243	2,260	1,991	16,494
FY 2017-18	Costs	30,354,245	16,208,406	2,409,775	48,972,427
	Students	12,227	1,973	1,191	15,391
FY 2018-19	Costs	31,507,842	18,382,315	2,103,503	51,993,660
	Students	12,342	2,130	922	15,394

Conclusion

The Tuition Incentive Program has provided financial aid benefits for hundreds of thousands of low-income Michigan residents since its inception in 1986. Medicaid caseloads, increases in tuition and fees, and increasing numbers of TIP students attending four-year universities have caused the costs of TIP to increase 1,037.1% between FY 2001-02 and FY 2018-19, from \$5.3 million to \$59.7 million. Because there are no cost-control measures built into TIP, program costs likely will continue to increase in the future, and will have to be considered in the context of other budgetary decisions facing the Legislature.

APPENDIX: Section 256 of the State School Aid Act.

(1) The funds appropriated in section 236 for the tuition incentive program must be distributed as provided in this section and pursuant to the administrative procedures for the tuition incentive program of the department of treasury.

(2) As used in this section:

(a) "Phase I" means the first part of the tuition incentive program defined as the academic period of 80 semester or 120 term credits, or less, leading to an associate degree or certificate. Students must be enrolled in a certificate or associate degree program and taking classes within the program of study for a certificate or associate degree. Tuition will not be covered for courses outside of a certificate or associate degree program.

(b) "Phase II" means the second part of the tuition incentive program that provides assistance in the third and fourth year of 4-year degree programs.

(c) "Department" means the department of treasury.

(d) "High school equivalency certificate" means that term as defined in section 4.

(3) An individual must meet the following basic criteria and financial thresholds to be eligible for tuition incentive program benefits:

(a) To be eligible for phase I, an individual must meet all of the following criteria:

(i) Apply for certification to the department any time after he or she begins the sixth grade but before August 31 of the school year in which he or she graduates from high school or before achieving a high school equivalency certificate.

(ii) Be less than 20 years of age at the time he or she graduates from high school with a diploma or certificate of completion or achieves a high school equivalency certificate or, for students attending a 5-year middle college approved by the Michigan department of education, be less than 21 years of age when he or she graduates from high school.

(iii) Be a United States citizen and a resident of this state according to institutional criteria.

(iv) Be at least a half-time student, earning less than 80 semester or 120 term credits at a participating educational institution within 4 years of high school graduation or achievement of a high school equivalency certificate. All program eligibility expires 6 years from high school graduation or achievement of a high school equivalency certificate.

(v) Meet the satisfactory academic progress policy of the educational institution he or she attends.

(b) To be eligible for phase II, an individual must meet either of the following criteria in addition to the criteria in subdivision (a):

(i) Complete at least 56 transferable semester or 84 transferable term credits.

(ii) Obtain an associate degree or certificate at a participating institution.

(c) To be eligible for phase I or phase II, an individual must be financially eligible as determined by the department. An individual is financially eligible for the tuition incentive program if he or she was eligible for Medicaid from this state for 24 months within the 36 consecutive months before application. The department shall accept certification of Medicaid eligibility only from the department of health and human services for the purposes of verifying if a person is Medicaid eligible for 24 months within the 36 consecutive months before application. Certification of eligibility may begin in the sixth grade.

(4) For phase I, the department shall provide payment on behalf of a person eligible under subsection (3). The department shall only accept standard per-credit hour tuition billings and

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shall reject billings that are excessive or outside the guidelines for the type of educational institution.

(5) For phase I, all of the following apply:

(a) Payments for associate degree or certificate programs must not be made for more than 80 semester or 120 term credits for any individual student at any participating institution.

(b) For persons enrolled at a Michigan community college, the department shall pay the current in-district tuition and mandatory fees. For persons residing in an area that is not included in any community college district, the out-of-district tuition rate may be authorized.

(c) For persons enrolled at a Michigan public university, the department shall pay lower division resident tuition and mandatory fees for the current year.

(d) For persons enrolled at a Michigan independent, nonprofit degree-granting college or university, or a Michigan federal tribally controlled community college, or Focus: HOPE, the department shall pay mandatory fees for the current year and a per-credit payment that does not exceed the average community college in-district per-credit tuition rate as reported on August 1, for the immediately preceding academic year.

(6) A person participating in phase II may be eligible for additional funds not to exceed \$500.00 per semester or \$400.00 per term up to a maximum of \$2,000.00 subject to the following conditions:

(a) Credits are earned in a 4-year program at a Michigan degree-granting 4-year college or university.

(b) The tuition reimbursement is for coursework completed within 30 months of completion of the phase I requirements.

(7) The department shall work closely with participating institutions to develop an application and eligibility determination process that will provide the highest level of participation and ensure that all requirements of the program are met.

(8) Applications for the tuition incentive program may be approved at any time after the student begins the sixth grade. If a determination of financial eligibility is made, that determination is valid as long as the student meets all other program requirements and conditions.

(9) Except as otherwise provided in section 3(d) of the Michigan reconnect grant act and section 17 of the Michigan reconnect grant recipient act, each institution shall ensure that all known available restricted grants for tuition and fees are used prior to billing the tuition incentive program for any portion of a student's tuition and fees.

(10) The department shall ensure that the tuition incentive program is well publicized and that eligible Medicaid clients are provided information on the program. The department shall provide the necessary funding and staff to fully operate the program.

(11) Any unexpended and unencumbered funds remaining on September 30, 2020 from the amounts appropriated in section 236 for the tuition incentive program for fiscal year 2019-2020 do not lapse on September 30, 2020, but continue to be available for expenditure for tuition incentive program funds under a work project account.

(12) The department of treasury shall collaborate with the center to use the P-20 longitudinal data system to report the following information for each qualified postsecondary institution:

(a) The number of phase I students in the most recently completed academic year who in any academic year received a tuition incentive program award and who successfully completed a degree or certificate program. Cohort graduation rates for phase I students shall be calculated using the established success rate methodology developed by the center in collaboration with the postsecondary institutions.

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(b) The number of students in the most recently completed academic year who in any academic year received a Pell grant at the reporting institution and who successfully completed a degree or certificate program. Cohort graduation rates for students who received Pell grants must be calculated using the established success rate methodology developed by the center in collaboration with the postsecondary institutions.

(13) If a qualified postsecondary institution does not report the data necessary to comply with subsection (12) to the P-20 longitudinal data system, the institution shall report, in a form and manner satisfactory to the department of treasury and the center, all of the information needed to comply with subsection (12) by December 1 2020.

(14) Beginning in fiscal year 2020-2021, if a qualified postsecondary institution does not report the data necessary to complete the reporting in subsection (12) to the P-20 longitudinal data system by October 15 for the prior academic year, the department of treasury shall not award phase I tuition incentive program funding to otherwise eligible students enrolled in that institution until the data are submitted.