



**Center for  
Research  
On the  
Wisconsin  
Economy**  
University of Wisconsin-Madison

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## Unfreezing In-State Tuition<sup>1</sup>

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The UW-System operates under price controls not faced by any of its peers. The tuition freeze was largely a response to the substantial reserves held by the UW-System. The freeze forced the drawdown of reserves and moved control of spending from the Regents to the Legislature.

There is a substantial lifetime benefit from a college degree: In 2010, the average American who graduated from college could expect to earn \$500,000 more in lifetime income net of college costs over graduating with a high school diploma. While college students decades ago, did not spend as much on college as students do today, the net benefit from college was significantly smaller.

College costs rise primarily due to rising premium on skilled labor: The same forces that increased the benefit associated with college also increased its cost. The main cost for a university is skilled labor. The cost of skilled labor has risen at a much faster rate than inflation in the last 50 years. Consequently, the cost of educating students has risen much faster than inflation. The primary driver of the cost of college is the rise in wages of highly educated workers outside the education sector.

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<sup>1</sup> This testimony is drawn from my CROWE Report titled “Unfreezing In-State Tuition”. The full report is available at [https://crowe.wisc.edu/wp-content/uploads/sites/313/2019/11/Tuition\\_final.pdf](https://crowe.wisc.edu/wp-content/uploads/sites/313/2019/11/Tuition_final.pdf)

Student loan debt is much smaller than is widely perceived: To the extent there is a crisis, it is concentrated among borrowers who went to for-profit schools, two-year institutions and other nonselective institutions. As for-profit enrollment rose, borrowing by their students increased and defaults rose. For-profit schools account for 44 percent of defaults in recent years. Borrowers from four-year colleges earn more out of college and are more likely to pay back their loans.

Lack of access is not a big impediment to attending college: Only a very small minority of Americans would like to attend college but are unable to do so due to financial considerations. High school graduates from low income families are less likely to attend college, not because they cannot secure enough loans for college, but mainly because of fewer investments in their human capital at younger ages.

College is partly consumption, partly investment: While the investment value of college is significant, college has a substantial consumption component to it. Great facilities, dorms etc. are important for any major university in order to compete with the marketplace. Recent research assigns a large consumption benefit to college and finds that most students and parents value amenities and are willing to pay for them.

Funding the Freeze does not represent a long-term solution: Waiting exclusively for additional resources from the state in the hope that the state “funds the freeze” even in the medium run, is unlikely to be an effective strategy. Funding for health care has displaced funding for higher education. Additional general-purpose revenue (GPR) does not offer a permanent source of funds. It offers a short-term two-year solution until the next biennium. And it is infeasible for the current government to commit a future government to fund the freeze.

The state of Wisconsin does not provide UW-Madison a subsidy: The contribution by the state of Wisconsin to UW-Madison is just sufficient to offset the differential cost of an out-of-state student relative to an in-state student. Rather than provide a subsidy to UW Madison the institution, the existing subsidy is tantamount to a voucher given by the state to residents of Wisconsin which entitles state residents to send their children to UW-Madison at the lower in-state rate.

Regardless of how the impact of the UW-System on the State is measured, the economic impact is large. Research institutions generate spillover effects on neighboring areas, and their impact is much larger than the impact of most alternative use of scarce taxpayer dollars.

Years of tuition freeze paired with budget cuts have forced the UW System to be even more efficient and accountable to Wisconsin residents and taxpayers. For instance, programs across the UW System are embracing opportunities to generate additional resources by launching innovative educational offerings. While there are numerous positive changes all across the UW System, there is also widespread concern about the long-term health of the institution.

We are in this situation due to punitive measures arising from reservegate, the result of years of tuition increases that were not needed/used for current operations. The reserve, a concept that is frequently misunderstood, is the right to spend money outside the biennial budget process. It also represents an insurance against the State's unwillingness to fund UW System requests. It is understandable why a large reserve angered state Legislators. The freeze forced the drawdown of reserves and effectively moved control of spending from the Regents to the Legislature. It has served its purpose. The UW System continues to be a high rate of return on investment for the state. It is also a high return on investment for students. Extending the freeze further on can will likely result in under-provision of educational quality at a time when the return to skills is at an historic high.

There is little evidence that the tuition freeze has improved access. If improving access is the objective, there are other more effective and targeted ways of accomplishing it. There is consequently neither an equity nor an efficiency-based justification for extending the tuition freeze.

In an era where the return to college and becoming skilled is at its highest level in over one hundred years, the various stakeholders will need to do more to ensure that the UW-System can better serve Wisconsin residents. All campuses in the UW-System have and need to continue to do more to be even more efficient and accountable to Wisconsin taxpayers, the State needs to be more supportive by awarding the UW-System greater autonomy and additional resources, especially in high growth areas that significantly impact Wisconsin; and in-state students need to pay modest increases in tuition so that they can continue to enjoy a high-quality education in Wisconsin.

## Badgers United

### *Testimony by Executive Director, Amber Schroeder*

My name is Amber Schroeder, and I am here as Executive Director of Badgers United, a 501(c)3 organization that digs into the data on higher education to provide policy-makers like yourselves the information you need to make informed decisions on issues that affect UW-Madison.

We believe deeply that a strong UW-Madison leads to a strong Wisconsin. A healthy, sustainable University provides economic returns for taxpayers and addresses the workforce needs of the State of Wisconsin.

### **Thawing The Tuition Freeze**

Wisconsin currently has the longest-running and most restrictive tuition freeze in the nation. This has been politically popular on both sides of the aisle, but this is not a stable way to fund higher education in our state - because anything that has the price frozen indefinitely, eventually becomes free.

One thing lost in this conversation is how this freeze affects the University. While predictability and stability are critically important for families, so too is it critically important that we protect the investment of taxpayers across the state who have built UW-Madison into a national leader over the last 100 years.

Unlike other state agencies, UW-Madison is not a regulatory department - the University attracts talent and dollars to the state of Wisconsin. In 2017-18, for example, over a billion research dollars came into our state through UW-Madison. Our land grant university isn't just a government service for Wisconsin students - it is the single highest economic rate of return per tax dollar.

While much of the conversation today has revolved around how thawing tuition will impact the families of students who attend UW-Madison, we cannot lose sight of the fact that the University is also significantly affected by this decision.



The bill at hand chains tuition increases to a maximum of CPI - a policy approach that is a compromise between the more substantial tuition increases that leaders in higher education would prefer and the continued freeze that families in the state desire. By providing both families and the university predictability, taxpayers are getting a significant return-on-investment from their University & not shouldering additional costs.

**Digging Into The Data:**

We ran the numbers on what Chained-CPI tuition would look like to inform this conversation and our findings merit discussion.


First, regarding cohort tuition, though its focus on predictability is well-intentioned, the data finds cohort tuition is unnecessary. Chained-CPI tuition increases are, on average, just \$161/year - well within a predictable range that students and families can plan for, and nothing like the "horror stories" of double-digit tuition bumps other states are seeing. So, we find that the cohort model's effort to provide predictability are redundant and bring with it additional regulatory burdens for the University - adding administrative costs.

As we review data on the costs for students, our findings indicate that tuition increases under the new legislation for a freshman at UW-Madison who started in 2013 would be \$645 or an average of \$161.25/year. An increase of this size is certainly well within the earning potential of a graduate of UW-Madison. Additionally, the program provides students the budgetary predictability of not relying on legislative budget cycles to determine the yearly costs of their education - all while delivering necessary financial stability to the University.

**COHORT TUITION SOLVES A  
NON-EXISTENT PREDICTABILITY PROBLEM:**

	COHORT	CHAINED-CPI	TOTAL COST DIFFERENCE
'13-'14	\$10,544	\$10,544	+\$0
'14-'15	\$10,544	\$10,706	+\$162
'15-'16	\$10,544	\$10,716	+\$172
'16-'17	\$10,544	\$10,855	+\$311
<b>TOTALS</b>	\$42,176	\$42,821	<b>+\$645</b>

Chained-CPI tuition provides sustainable predictability to taxpayers, universities and families.

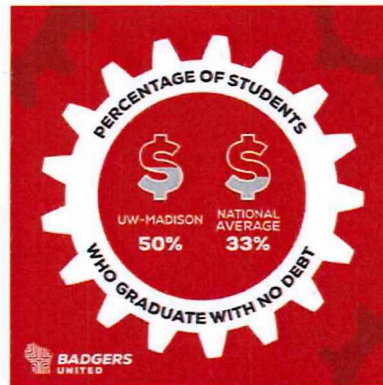
**BADGERS  UNITED**

*As you can see, the calculations show the Chained-CPI tuition structure is moderate and predictable.*

### **Student Debt**

While discussing this plan, concerns have been raised regarding another popular national narrative regarding increasing student debt. The current tuition freeze has, in many ways, transformed to be a response to those concerns. However, if we are to justify a continuation of this freeze based on student debt load, it is essential to clarify what student debt looks like at UW-Madison.

Currently, more than 50% of undergraduate students graduate with ZERO student debt. The school's default rate is 1.3%, which is considerably lower than that national average of 10.2%. Success in this area has been driven by programs like Bucky's tuition promise, made possible by private donors, which guarantees 4-years of free tuition for in-state families who earn less than \$60,000/year.



As with all conversations, we must approach the subject with nuance. When looking at the data regarding student debt, it is necessary to separate undergraduate and graduate debt as well as to demarcate public vs. private institutions. These delineations are critical as the data finds high student debt is largely driven by expensive private institutions and high-debt advanced degrees.

Another crucial part of the debt conversation revolves around future earning potential from degrees, another area in which UW-Madison excels - 50%+ of the school's graduates are making more than the average WI resident five years out of school.

### **Conclusion:**

To keep our public higher education competitive in Wisconsin, it is time that we step back and look at the whole ecosystem of higher education - not just the families that are sending their students to our universities.



As elected officials, you have an obligation to look out for the interests not just of the families of students who attend our schools, but for the investments every citizen of Wisconsin has made into our land grant university.

The data is clear that we are on an unsustainable path and that it is time to provide predictability and stability to our universities and our families through measured yearly increases in tuition that tied to the inflation rate. These increases, as mentioned before, would be near the cumulative total of \$645 over a student's 4-years, but in REAL dollars, *dollars adjusted for inflation*, that is an increase of ZERO.

We are pleased to see this committee is taking the matter seriously by starting a conversation on the subject. We look forward to continuing to provide data-driven perspectives to help enable you to make informed decisions.

Thank You

Amber Schroeder  
Executive Director, Badgers United



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January 22, 2020

TO: Honorable Members of the Senate Committee on Universities, Technical Colleges, Children and Families

FROM: Ray Cross, UW System President

RE: Senate Bill 343 Testimony- Speaking Against

Thank you, Chairman Kooyenga and committee members, for holding this public hearing on SB 343. Thank you to Senator Jacque and Representative Murphy for your proposal and continuing this discussion on responsible tuition-setting.

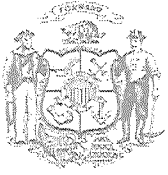
The tuition freeze started in 2013, and by the end of this budget, it will have gone on for eight academic years at the 4-year institutions and 12 of the last 14 years at the 2-year campuses. I think we can all agree that a tuition freeze is not sustainable. Unfortunately, I cannot support this tuition-setting proposal. It is the Board of Regent's fiduciary responsibility to set tuition rates as expressed in Wis. Stat. § 36.27.

SB 343 puts into place limits on tuition starting in the 2021-2022 academic year. The bill creates a cohort tuition model, which freezes tuition for resident undergraduates for up to four consecutive years while they are enrolled. The cohort model is costly and administratively difficult to implement since there would be several different pricing structures for resident undergraduate tuition, and existing systems (e.g. financial aid, billing etc.) would have to be reconfigured. We estimate the initial costs for reconfigurations and implementations of the Student Information Systems for all campuses, except UW-Madison, to be \$2.5 million-\$3 million for one-time expenses, and UW-Madison estimates \$522,720 for one-time expenses and \$243,875 for ongoing annual costs. The bill also caps tuition increases to CPI. Coupled with the cohort model, this will not even allow us to keep pace with inflation. Further, it limits our ability to cover the additional costs associated with implementing and maintaining this model.

This model has an impact on students and families. The cohort model can be confusing for students, and it can disadvantage students who are part-time, non-traditional, or those that transfer between institutions, and others who may not be able to complete a degree in four years. There are approximately 18,000 undergraduate students in the UW System who are considered nontraditional (over the age of 25) and about 26,500 part-time undergraduate students. As the state's population ages, we need to continue to focus on these nontraditional and part-time students, but they are much more likely to take longer than four years to complete their degree. If a student pursues a degree longer than four years, they are subject to a potentially large increase in their fifth year, which may affect their ability to continue school.

Once again, I appreciate being able to have a dialogue about responsible tuition-setting. While I cannot support this proposal, I do support this conversation and appreciate Representative Murphy and Senator Jacque for engaging in this important issue. Thank you again for the opportunity to submit testimony on SB 343, and I am happy to answer any questions.





# ANDRÉ JACQUE

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*Testimony before the Senate Committee on Universities, Technical Colleges, Children and Families  
State Senator André Jacques  
January 22, 2020*

Chairman Kooyenga and Committee Members,

Thank you for holding this hearing on Senate Bill 343, the Fair Future Tuition Act, relating to University of Wisconsin System resident undergraduate tuition a part of the Open and Accessible UW Package of legislative proposals.

Governor Evers and the legislature have committed to extending the UW resident undergraduate tuition freeze in the state budget; however, once this non-statutory freeze expires, there will be no limits in place on how much tuition may increase. After the last freeze, tuition increased by 60% in just four years.

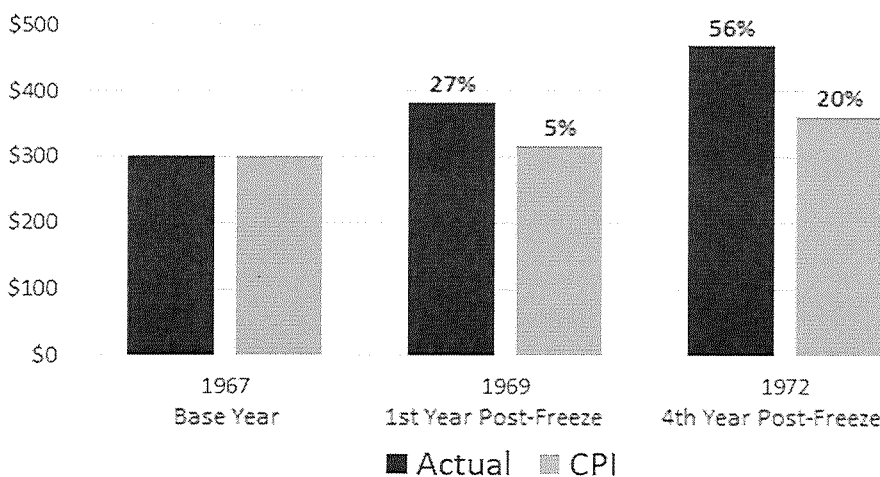
**Senate Bill 343 does not end the freeze;** instead, it puts protections in place for students and their families **if** the freeze is ended in the future.

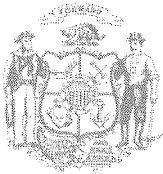
In order to prevent tuition from skyrocketing after the freeze, and give UW System the ability to plan future budgets, we must implement a common sense law placing controls on how tuition will be set in the future.

Under the bill:

- If the non-statutory freeze expires, the Board of Regents may increase tuition for all students up to the rate of Consumer Price Index (CPI) the first year after the freeze.
- Once a student begins at a campus, tuition at that campus is frozen for four years for that student.
- Each year, the Board of Regents may increase tuition for incoming students up to CPI.
- If a student transfers or remains at an institution for more than four years, they would pay the tuition rate for incoming students that year.

### Post-1967 Freeze Tuition Increases





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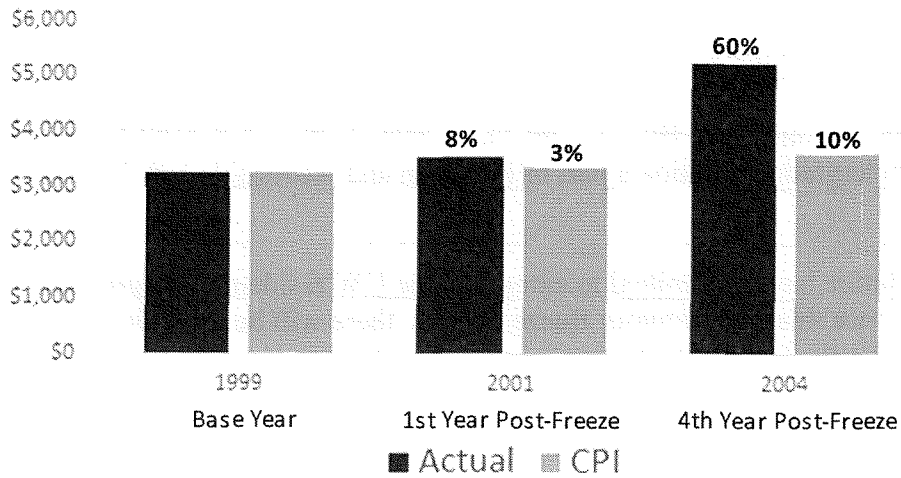
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## Post-1999 Freeze Tuition Increases



Thank you for your consideration of Senate Bill 343.



# DAVE MURPHY

State Representative • 56th Assembly District

**Senate Committee on Universities, Technical Colleges, Children and Families**

**January 22, 2020**

**Senate Bill 343**

**Testimony of State Representative Dave Murphy**

Mr. Chair and members of the committee, thank you for hearing Senate Bill 343 today.

University of Wisconsin (UW) System tuition for undergraduate Wisconsin residents has been frozen since 2012. This freeze was imposed by the legislature to rein in tuition revenue surpluses that our universities maintained without a dedicated purpose, all the while continuing to increase tuition by over 5% each year. This freeze has gone a long way to improving college affordability. It required UW institutions to justify their constantly increasing costs to stakeholders and it held tuition down. During the freeze graduation rates increased and time to degree decreased. The quality of our institutions has not suffered because responsible leaders like President Ray Cross allocated resources to where they would do the most good.

The tuition freeze has been great for Wisconsin, but it is non-statutory and it must be proactively renewed in the state budget every two years. If, for any reason the legislature and the governor cannot agree on renewing the tuition freeze, the law will default to UW institutions being able to raise tuition as much as they would like.

In the modern history of the University of Wisconsin there have been only two other tuition freezes:

- After the freeze in 1968, tuition increased by 27% in the first year and 56% by the fourth year.
- After the 1999 freeze, tuition increased 8% the first year after and 60% in the fourth year.

History shows that free of any controls, tuition has and will skyrocket.

Unless we take action now to protect all the good that has been done by the freeze, we will very likely see it be undone.

We must chart a sensible future path for tuition under which the Board of Regents can exercise its budgetary responsibilities. Tuition is a fee for a service; it's the skin in the game that students have in their own education.

I initially drafted a much more detailed piece of legislation that would have linked tuition directly to demonstrated instructional costs. The complexity of this bill made it hard to sell; however, I firmly believe that tuition should pay for a specific product. It needs to be crystal clear to students and taxpayers what they are paying for when a student enrolls in one of our public universities.

Senate Bill 343 ensures that tuition will not skyrocket, that budgets won't bloat, and that students will have predictable tuition throughout their college career.

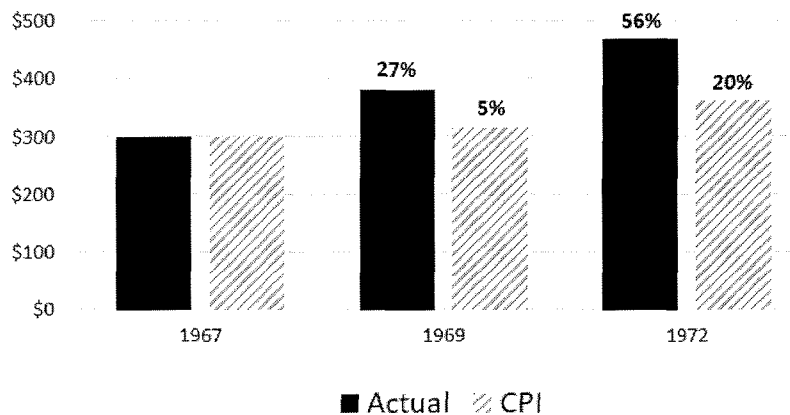
Our bill caps tuition increases at CPI in the first year after the freeze for all undergraduate Wisconsin residents. Thereafter, tuition will be frozen for all continuing students for four years, if they are continually enrolled at the same institution. The Board of Regents may increase tuition for incoming students up to CPI every year. If a student transfers or takes time off school they will reenter at the new incoming student tuition rate and have the tuition once again frozen for four years.

This is a unique type of cohort tuition. It was designed to encourage students to complete their education within four years and be incredibly easy for the university to administer. In fact, unlike cohort tuition in other states, which has exceptions and different rates for all situations under the sun, this model only requires a campus to track how long a student has been continuously enrolled at that single institution in order to determine their tuition rate. This data is easy to collect and implement for this purpose.

Placing a CPI cap on tuition increases and creating this streamlined cohort tuition system will preserve economical transparent budgeting at our colleges, and hedge against a return to the types of budgets that compelled us to impose the current tuition freeze.

Capping tuition will prevent our state universities from tapping into what was previously treated as a bottomless revenue stream secured by rapidly growing student debt. This sensible revenue restriction will incentivize efficiency, innovation and partnership with the state government, private donors, and businesses.

### Post-1967 Freeze Tuition Increases



### Post-1999 Freeze Tuition Increases

