



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

June 1, 2001

Joint Committee on Finance

Paper #950

Funding for UW Madison (UW System)

[LFB 2001-03 Budget Summary: Page 683, #5]

CURRENT LAW

In 2000-01, the adjusted base budget for the UW System totals approximately \$3,054 million, of which \$1,015 million or 33.2% is funded from state, general purpose revenues. Approximately 81% of the University's GPR adjusted base budget is provided under an appropriation for general program operations for University education, research and public service. The UW System has the ability to combine the GPR general program operations funds with monies received from tuition and certain federal indirect cost reimbursements, creating an approximate \$1.3 billion pool of funds that it may use to run its operations.

Annually in June or July, the UW Board of Regents approves budget allocations to the 26 campuses in the System based on past allocations, targeted budget initiatives, planned enrollment changes and planned programmatic changes. In 2000-01, UW-Madison's total budget from all fund sources is approximately \$1.5 billion, of which \$606.3 million is derived from GPR and fee revenues.

GOVERNOR

Provide \$1,000,000 GPR and \$2,800,000 PR in 2001-02 and \$1,000,000 GPR and \$7,000,000 PR in 2002-03 for the second phase of a four-year UW-Madison initiative.

DISCUSSION POINTS

Background

1. The UW-Madison initiative is a four-year public-private partnership between the

state and students and the University's alumni and donors. The original plan, introduced in 1999, called for an investment of \$57 million in state support and tuition over four years (1999-00 through 2002-03) to be matched by \$40 million from the independent UW Foundation and the Wisconsin Alumni Research Foundation (WARF). The UW System originally requested \$57 million in state support and tuition in order to bring UW-Madison up to the median of its peers in the Big 10 in terms of state/tuition support per student. The private money would be used to maintain and ensure the University's margin of excellence.

2. For the first phase of the Madison initiative, the Legislature and Governor agreed to fund \$29.2 million under 1999 Act 9. According to the University, the funding provided in the budget was augmented with a commitment of \$20 million in private funding during the 1999-01 biennium. Private contributions from the Wisconsin Alumni Research Foundation (WARF), the UW Foundation, and one-time funds from the Vilas Trust in 1999-01 totaled \$18.5 million, the balance of \$1.5 million of the \$20 million commitment was set aside in reserve to fund costs related to new faculty hires related to the initiative and additional faculty hires, if available, during the 2001-03 biennium.

3. The original goal of the Madison initiative was to achieve a \$57 million increase in base GPR and tuition funding by the end of the 2001-03 biennium. As a result of the \$29.2 million provided for the initiative under 1999 Act 9, base funding for UW-Madison increased \$20.8 million GPR/Fees by 2000-01. In addition, UW-Madison received base funding increases of approximately \$1.3 million as part of its share of other initiatives in the 1999-01 budget, including funding for libraries and advising.

4. According to UW-Madison, the first phase of the initiative was designed to strengthen the University's human, academic and physical infrastructures. The \$29.2 million provided for the Madison initiative in 1999-01 were used for the following:

Broadening Student Learning Programs. \$3,950,000 over the 1999-01 biennium for improving campus libraries, instructional technology student staffing increases and training, and increased funding for the biological life sciences. Funding for the biological sciences was used to expand introductory courses and upgrade laboratories. In addition, approximately \$1.3 million was allocated to UW-Madison as part of the Governor's systemwide library funding initiative.

Maintaining Affordability. \$500,000 in 2000-01 for need-based grants to students to hold them harmless from the tuition increases associated with the request. As previously mentioned, need-based grants were funded in 1999-00 with one-time funding of \$1,275,000 from the Vilas Trust. During the 1999-00 academic year, about 4,200 undergraduates received \$300 scholarships to offset the tuition increase associated with the first phase of the Madison Initiative. During the second year only 800 students received grants because less funding was available; however, the total grant amount increased to \$600 and was targeted at the most needy students.

Compensation Increases. \$20,100,000 in 1999-01 for competitive compensation increases for 25% of the faculty and academic staff of 2.4% per year and recruitment funds for the salary

costs of new faculty who were replacing retiring or terminating faculty in areas of high demand, such as finance and biomedical engineering.

Strategic Faculty Appointments. \$1,700,000 and 17.0 GPR positions starting in 2000-01 to hire new faculty members in targeted academic areas such as chemical biology, computer engineering, cosmology, cultural studies and economic sociology. UW-Madison plans to add at least 100 new strategic faculty members as part of the initiative. In 2000-01, 49 new faculty were hired under this program, with 32 positions funded through ongoing support from WARF totaling approximately \$3.2 million annually. According to UW-Madison, the new faculty hired under this program brought with them from other institutions, or received, a total of \$13.4 million in federal and private research grant funding.

Facilities Renewal. \$3,000,000 for maintenance, reconditioning and energy conservation projects for existing UW-Madison facilities with approximately \$2.0 million annually in base funding to support ongoing facility renewal projects.

5. While the original goal of the initiative was to increase GPR/fee base support by \$57 million, the UW recognized that this overall goal was unlikely to be met during the 2001-03 biennium. As part of its 2001-03 economic stimulus budget request, the Board of Regents included increased funding for the second phase of the UW-Madison Initiative totaling \$28.0 million (\$18.2 million GPR and \$9.8 million PR) over the biennium and 59.0 GPR positions beginning in 2001-02 and 130.0 GPR positions in 2002-03. New funding during the second phase of the initiative would be focused on program development designed to address the new economy education needs of students and the University's role in statewide economic development and would be allocated for the following purposes:

Student Learning. \$2.1 million in 2001-02 and \$7.9 million with 65.0 positions in 2002-03 to fund the following efforts to broaden student learning: develop and implement instructional technology to improve student learning; expand the number and scope of freshman seminars and integrated learning opportunities; expand existing pre-college programs; and strengthen undergraduate training in international studies.

Economic Development. \$2.8 million in 2001-02 and \$6.3 million with 17.0 positions in 2002-03 to fund the following workforce development initiatives: develop capstone and certificate programs in bio-informatics, computational science and alternative programs leading to teacher certification; develop an e-commerce certificate program and a new virtual-level e-commerce campus institute; establish an environmental biotechnology center; expand the transfer of university research to the private sector; and establish permanent funding for the center for world affairs and the global economy.

Strategic Faculty Appointments. \$1.6 million in 2001-02 and \$3.3 million with 33.0 positions in 2002-03 to hire additional faculty members in targeted academic areas. The additional faculty would achieve the initiative's goal of hiring 100 new strategic faculty hires in emerging areas, funded equally by state funds and WARF. The 33 additional state-funded

faculty requested in 2001-03 would be in areas such as e-commerce, technology and design visualization, molecular imaging, occupational safety and health and infancy/early childhood development. The state-funded positions would be augmented by a promised \$1.8 million from WARF for 18 additional faculty hires in addition to the 32 funded in 2000-01. In addition, WARF would be willing fund a total of 73 additional faculty with ongoing gift funding of \$7.3 million; if full state support were offered, the total number of strategic faculty appointments would be 123, higher than the original goal of 100.

Maintaining Affordability. \$1.5 million in 2001-02 and \$2.5 million in 2002-03 to maintain tuition affordability and provide all UW-Madison students who receive need-based financial aid with sufficient grant funds to offset extra tuition costs associated with the requested funding for the second phase of the Madison Initiative.

6. The Governor's budget bill would provide \$11.8 million, approximately 42% of the total amount requested, for the second phase of the Madison initiative. DOA staff indicate that the recommended level of funding reflects the allocation of scarce state resources and does not represent the rejection of any particular component of the request. The funds would be placed in unallotted reserve due to uncertainty as to how the monies should be allocated among the budget expenditure lines.

7. However, UW staff indicates that without additional GPR positions associated with the funding provided in the Governor's budget, UW-Madison would not be able to make the 33.0 strategic hires or develop new programs because vacant faculty and staff positions are unavailable. The Governor has since requested a modification to the bill to include 85.0 positions for the Madison initiative during the 2001-03 biennium

8. According to executive budget staff, it is the intent of the Governor's recommendation that the allocation of the proposed funding among the various components of the request be left to the University. UW System staff report that, except for faculty appointments, it is not possible to indicate how the campus would allocate the monies at this time due to the uncertainty of the status of other spending items in the bill that will also impact Madison's budget. Funding provided in the budget for the Madison initiative would form a pool of funds which the campus could distribute among any of the items in the original request or used for other purposes that the UW-Madison views as high priorities.

9. UW-Madison staff indicate that a portion of the funding provided under the Madison initiative could be used, as part of its overall pool of funds, to compensate as needed for the proposed base funding reduction of 5% to the adjusted base relating to administrative costs of UW System's total state operations appropriations. Based upon preliminary budget allocation decision rules, UW-Madison's base would be reduced by approximately \$2.4 million annually. Further base funding reductions or reductions to the funding increases for the systemwide initiatives could cause the campus to use a greater share of the Madison-specific funding to replace those monies and be less able to accommodate enrollment.

10. The Governor's recommendation for the Madison initiative would increase the campus' base funding to \$32.6 million by 2002-03, or \$24.4 million short of the original base funding goal of \$57 million. However, when combined with systemwide initiatives, including a base reduction of \$2.4 million in the Governor's 2001-03 budget, allocated to UW-Madison during the 1999-01 biennium and 2001-03 biennium, total base funding by 2002-03 would fall short of the original funding goal by approximately \$27.5 million.

General Discussion of Additional Funding for UW-Madison

11. The overall goal of the proposed four-year increase in base funding is to maintain the campus' status as one of the premier research universities in the country. The \$57 million figure was based on the premise that the amount of GPR and tuition per undergraduate student at Madison in 1995-96 was \$1,900 less than the median of the public Big Ten Universities in the Midwest, which are generally cited as peer institutions for Madison. When both state appropriations and tuition were considered, the median of the Big Ten institutions was calculated to be \$11,250 per student while the comparable figure for Madison was \$9,350. Madison's tuition was \$900 below the peer median and state support per student was \$1,000 below the median. Multiplying the \$1,900 per student figure by the approximately 30,000 UW-Madison undergraduate students resulted in a total funding difference of \$57 million.

12. UW System staff indicate that the data used to calculate state support per student for the other Big Ten institutions was obtained in a one-time analysis conducted by the Big Ten financial officers using 1995-96 data. Because of necessary adjustments in state support figures to account for differences each state's budget practices and the way each institution is structured, replication of this analysis using 1999-2000 data would involve considerable time and effort on the part of all of the universities. While the institutions involved currently have no plans to update the analysis, it is assumed that Madison's position in relation to its peers has not improved significantly since 1995-96. In 2000-01, annual resident undergraduate tuition and fees at Madison remains below the peer mid-point by more than \$900, while increased state funding for higher education in Wisconsin has lagged that of neighboring states.

13. Historically, UW-Madison's tuition has been consistently lower than tuition at most other public Big Ten universities in the Midwest. However, this trend has begun to change in recent years as tuition for graduate students and nonresidents has increased at a faster pace. Of the nine public Big Ten campuses in the Midwest, Madison's resident undergraduate tuition ranks eighth. However, Madison's tuition rankings are higher for resident graduate students (fifth) and for nonresident undergraduates (second) and graduate students (second). The following table compares annual tuition and fees charged at Madison to those charged at the peer campuses in 2000-01.

	Resident		Nonresident	
	Undergraduate	Graduate	Undergraduate	Graduate
Michigan	\$6,864	\$10,822	\$20,974	\$21,750
Michigan State	5,472	6,317	13,096	12,138
Minnesota	5,047	5,975	13,533	11,102
Illinois	4,994	5,614	12,442	13,124
Indiana	4,363	4,407	13,418	12,148
Ohio State	4,383	6,048	12,732	15,639
Purdue	3,872	3,872	12,348	12,348
UW-Madison	3,788	5,884	14,186	18,594
Iowa	3,128	3,784	10,890	11,454
Average (excl. WI)	\$4,765	\$5,855	\$13,679	\$13,713
Mid-Point (excl. WI)	\$4,689	\$5,795	\$12,914	\$12,248
UW Distance to Mid-Point	-\$901	\$89	\$1,272	\$6,346

14. A number of national rankings are commonly used when judging the overall quality or reputation of a University. U.S. News and World Report ranks Madison 35th among all colleges and universities, public and private in the country—up from 36th since the Madison initiative started—and eighth among public universities. Annually, the Chronicle of Higher Education compiles statistics on private and public postsecondary institutions in the U.S. from a variety of national agencies and organizations and reports these statistics in its annual almanac issue. The following rankings were reported in the August, 2000, issue:

<u>Category</u>	<u>Rank</u>	<u>\$ in Millions (1998-99)</u>
Number of Earned Doctorates	2nd	
Federal Research and Development Expenditures		\$240.5
All Institutions	9th	
Public Institutions	6th	
Total Research and Development Expenditures		419.8
All Institutions	3rd	
Public Institutions	2nd	
Fund Raising (Total Support)		245.4
All Institutions	7th	
Public Institutions	2nd	

15. Based on the criteria measured in the various rankings, it appears that Madison is well-positioned to compete with similar universities nationally. One could argue that the proposed funding for the second phase of the initiative is not necessary at this time, given the additional funding provided to UW-Madison in the 1999-01 budget and other budget priorities. However, the UW-Madison Chancellor argues that the funding for the second phase is needed now to ensure that the University continues to remain competitive in the future because maintaining the campus' current reputation for quality would be less difficult, and less costly, than attempting to regain it.

The campus is important to Wisconsin's economy in that it helps to attract quality students and faculty to the state as well as new businesses, research funding and private support. In addition, cutting the state's commitment to the Madison initiative could jeopardize their fundraising efforts related to the initiative

16. Both the UW-Foundation and WARF have expressed concerns that reductions in the total state and tuition funding of the original four-year plan for the Madison initiative could potentially result in a lesser amount of private funding being provided by the UW Foundation and WARF. Both WARF and UW-Foundation view state/tuition support as essential to the original goals of the Madison initiative, and their own funding role as augmenting, not replacing, state support. As such, if funding for the second phase of the initiative were not to increase, both the UW-Foundation and WARF would likely revisit their planned ongoing contribution of \$5 million annually each with regard to the initiative. According to UW-Madison staff, at this point, WARF remains committed to funding additional strategic faculty hires given the Governor's budget proposal.

GPR/Tuition Split

17. Typically, funding for instruction-related initiatives in the UW System's budget is provided through a combination of 65% GPR and 35% program revenues derived from tuition. The UW System requested funding for all of the initiatives during the 2001-03 biennium based on this 65% GPR/35% PR split. The \$11.8 million provided under the bill would consist of 17% GPR and 83% PR. According to DOA staff, the 17% GPR/83% PR funding split was used because the Governor retained the PR portion originally requested by the University for the second phase of the initiative at the request of the UW System while reducing GPR.

18. In order to restore funding to the 65% GPR/35% PR split, the Committee would need to increase GPR funding or reduce the PR funding authority provided in the Governor's budget. In order to provide the total amount provided in the Governor's budget at the traditional GPR/PR split, GPR funding would need to increase, and PR funding would need to be reduced, by \$1.47 million in 2001-02 and \$4.2 million in 2002-03. In order to restore funding to the UW-Madison request of \$28 million during the 2001-03 biennium, GPR funding would need to increase by \$4.2 million in 2001-02 and \$12.0 million in 2002-03.

19. When combined with the other UW spending items specifically authorized in the bill, funding for the Madison initiative would result in average tuition increases at Madison of 3.7% in 2001-02 and 3.7% in 2002-03, exclusive of increases resulting from the state's compensation plan. These percentage increases represent increases of \$122 in 2001-02 and \$126 in 2002-03 in annual tuition for a full-time resident undergraduate student. If total funding proposed by the Governor were to be provided based on the usual 65% GPR/35% PR split, the estimated increase in annual tuition would be \$64 lower in 2001-02 and \$76 lower in 2002-03 than that resulting from the 17%/83% split provided in the Governor's budget.

ALTERNATIVES TO BILL

1. Approve the Governor’s recommendation to provide \$1,000,000 GPR and \$2,800,000 PR in 2001-02 and \$1,000,000 GPR and \$7,000,000 PR in 2002-03 for the second phase of a four-year UW-Madison initiative.

2. Modify the Governor’s recommendation, as requested by the administration, to provide 85.0 positions, with 38.0 positions starting in 2001-02 and an additional 47.0 positions in 2002-03 in order to hire additional faculty and staff to carry out the initiative.

Alternative 2	GPR
2002-03 POSITIONS (Change to Bill)	85.00

3. Modify the Governor’s recommendation by providing an additional \$1,470,000 GPR in 2001-02 and \$4,200,000 GPR in 2002-03 and deleting \$1,470,000 PR in 2001-02 and \$4,200,000 PR in 2000-01 to provide the funding based on a 65% GPR/35% PR split. Provide 85.0 positions, with 38.0 positions starting in 2001-02 and an additional 47.0 positions in 2002-03 in order to hire additional faculty and staff to carry out the initiative.

Alternative 3	GPR	PR	TOTAL
2001-03 FUNDING (Change to Bill)	\$5,670,000	- \$5,670,000	\$0
2002-03 POSITIONS (Change to Bill)	85.00	0.00	85.00

4. Modify the Governor’s recommendation by providing an additional \$4,200,000 GPR in 2001-02 and \$12,000,000 GPR in 2002-03 and 130.0 positions starting in 2001-02 in order to provide full funding for the Madison initiative as requested in the UW-System economic stimulus request.

Alternative 4	GPR
2001-03 FUNDING (Change to Bill)	\$16,200,000
2002-03 POSITIONS (Change to Bill)	130.00

5. Maintain current law. Under this alternative, \$1,000,000 GPR and \$2,800,000 PR in 2001-02 and \$1,000,000 GPR and \$7,000,000 PR in 2002-03 would be deleted from the bill.

Alternative 5	GPR	PR	TOTAL
2001-03 FUNDING (Change to Bill)	- \$2,000,000	- \$9,800,000	- \$11,800,000

Prepared by: John Stott