



## Legislative Fiscal Bureau

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

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May 15, 2003

Joint Committee on Finance

Paper #795

### **Base Budget Reductions (UW System)**

[LFB 2003-05 Budget Summary: Page 447, #2]

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#### **CURRENT LAW**

In 2002-03, the UW System has a base budget of \$1,039.7 million GPR and 18,965.13 authorized GPR positions.

#### **GOVERNOR**

Reduce the UW System's GPR-funded state operations appropriations, except debt service and fuel and utilities, as well as three specific aids to individuals and organizations appropriations, by a total of \$110,000,000 in 2003-04 and \$140,000,000 in 2004-05 and delete 650.0 GPR positions starting in 2003-04. The positions would be deleted from the agency's largest general program operations appropriation, which is used to support programs, services, enrollments, faculty, and staff of UW System institutions.

#### **DISCUSSION POINTS**

1. The Governor's budget recommendation contains the following base budget reductions from an adjusted base of \$888,733,100 GPR for the UW System:

<u>Appropriation</u>	Adjusted Base for these <u>Appropriations</u>	<u>Reduction Amount</u>		<u>% Change to Base</u>	
		<u>2003-04</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2004-05</u>
General Program Operations	\$827,579,700	-\$107,805,000	-\$137,805,000	-13.0%	-16.7%
Distinguished Professorships	809,100	-26,100	-26,100	-3.2	-3.2
Industrial and Economic Development Research	1,663,400	-54,700	-54,700	-3.3	-3.3
Area Health Education Centers (Aids Appropriation)	1,164,800	-37,400	-37,400	-3.2	-3.2
Fee Remissions	30,000	-1,000	-1,000	-3.3	-3.3
Educational Technology	6,609,400	-214,200	-214,200	-3.2	-3.2
Schools of Business	1,643,000	-73,300	-73,300	-4.5	-4.5
Extension Outreach	359,900	-12,000	-12,000	-3.3	-3.3
Extension Local Planning Program	85,800	-2,800	-2,800	-3.3	-3.3
Family Medicine and Practice	8,165,200	-276,100	-276,100	-3.4	-3.4
State Laboratory of Hygiene	7,820,400	-267,700	-267,700	-3.4	-3.4
Veterinary Diagnostic Lab	4,392,000	-149,000	-149,000	-3.4	-3.4
Laboratories	4,217,300	-277,300	-277,300	-6.6	-6.6
Farm Safety Program Grants (Aids Appropriation)	20,000	-600	-600	-3.0	-3.0
Wisconsin Humanities Council (Aids Appropriation)	75,000	-2,400	-2,400	-3.2	-3.2
Alcohol and other Drug Abuse Prevention	67,500	-2,200	-2,200	-3.3	-3.3
General Program Operations--UW System Administration	9,634,200	-324,100	-324,100	-3.4	-3.4
Minority and Disadvantaged Programs	10,221,700	-336,500	-336,500	-3.3	-3.3
UW Hospital and Clinics Services	<u>4,174,700</u>	<u>-137,600</u>	<u>-137,600</u>	-3.3	-3.3
Totals	\$888,733,100	-\$110,000,000	-\$140,000,000	-12.4%	-15.8%

2. The Governor's budget also contains a provision that would permit the UW System Board of Regents to offset a portion of the budget reduction to the UW System's general program operations appropriation with an increase in resident undergraduate tuition. The tuition offset would reduce the net reduction by \$50.0 million in 2003-04 and \$100.0 million in 2004-05. When the tuition offset is considered, the net overall base reduction would be \$60.0 million in 2003-04 and \$40.0 million in 2004-05, which would represent 6.8% and 4.5% reductions to the base, respectively.

3. For the UW System, the general program operations and academic student fees appropriations cover most instruction, research, student services, academic support, and public service activities of the UW System. The UW System has the ability to combine the GPR general program operations funds with money received from the academic fee/tuition appropriation. As a result, the net reduction to the UW System's largest general program operations appropriation would be partially offset by the proposed tuition increase, resulting in reduction of \$57,805,000 in 2003-04 and \$37,805,000 in 2004-05, a 7.0% and 4.6% base reduction.

4. The UW System's 2002-03 base budget totals \$3,398.8 million of which \$1,039.7 million or 30.6% is funded from general purpose revenue. However, not all of the total UW System

budget is available for discretionary use by the Board of Regents to support University programs. Significant amounts are dedicated to specific purposes such as: (1) state funds--debt service payments and energy costs totaling \$140.7 million; (2) federal funds--contractual obligations of \$624.7 million; (3) auxiliary operations for activities such as dormitories, athletics, student centers (\$568.3 million); (4) gifts and trust income (\$387.0 million); and (5) operational receipts of \$85.5 million for fees for services for other operations such as non-credit outreach programs.

Funding for these specific appropriations would increase by \$84.6 million GPR, \$165.2 million PR, and \$2.1 million FED over base funding in 2004-05. Of the GPR increase, \$67.3 million is related to the transfer of student aid programs to the UW System from HEAB, and \$17.3 million is related to debt service and energy costs. Increases in both the federal funding and program revenue appropriations are primarily related to adjustments to reflect current spending authority and reestimates based on prior year funding increases. Again, since these funds are for dedicated purposes, the UW System's ability to use these revenues to offset budget reductions is limited.

5. The UW System accounts for approximately 9.3% of the total state GPR appropriations in 2002-03, including GPR fuel and utilities and debt service funding. The total state GPR appropriations in 2002-03 includes local assistance (58.3% of total), aids to individuals and organizations (17.5% of total), and state operations (24.2% of total). Within the spending category of state operations, the UW System accounts for 37.7% of the GPR-funded appropriations. As a result, if across-the-board reductions are made to state operations appropriations, the UW System typically accounts for the largest share of overall reductions, even if the percentage reductions applied to the UW System's base operating budget are lower when compared to other agencies.

6. Based on reductions cited in executive budget documents, the proposed reduction to the UW System operations appropriation would represent 38% of the total base budget reductions for all agencies proposed by the Governor. Among all agencies, GPR-funded state operations funding would fall from a 2002-03 adjusted base of \$2,729.5 million to \$2,656.8 million in 2004-05, a reduction of 2.7%. However, the UW System's GPR-funded state operations appropriations would decline by 9.4% over the same period, from \$1,028.1 million to \$931.8 million.

7. In 2002-03, the UW System budget was reduced by \$42.4 million as the result of legislative action to address statewide budget shortfalls. The UW System's base budget was reduced by \$34.1 million under 2001 Act 109 and an additional \$8.3 million under 2003 Act 1. Similar to SB 44, the UW System took the largest share of overall GPR budget reductions under 2001 Act 109 and 2003 Act 1. However, the UW System received additional GPR funding in 2001 Act 16 for three initiatives in the 2001-03 biennium, including: (a) UW-Madison initiative (\$14 million GPR); (b) UW-Milwaukee (\$14.75 million GPR); and (c) information technology and biotechnology courses (\$9.5 million). In addition, while most state agencies received an annual, across-the-board reduction of 5% in Act 16, the UW System's reduction was 0.7%.

8. In addition, when compared to other GPR-funded state agency operations reductions under 2001 Act 109 and 2003 Act 1, the reductions represented a smaller share of the UW System's GPR-funded state operations appropriation than other agencies. Under Act 109, the UW System's base budget was reduced by 3.7% in 2002-03, from the 2001 Act 16 amount of \$915.6 million in

2002-03, which excludes debt service and fuel and utilities funding. However, most other agency operating budgets were reduced by 6.5%. The other major GPR funded operations budget, Department of Corrections, received a 2.9% budget reduction in 2002-03. Under 2003 Act 1, the UW System's state operations budget was reduced by approximately 0.9% with other agency cuts ranging from 0.4% at Department of Corrections to 12.1% at Tourism, with most agencies receiving 6% reductions.

9. Recent budget reductions have reduced the overall percentage of state support for the UW System. Since the UW System was merged with the State University System in 1973, the GPR share of the UW System's budget has fallen from 50% to 30%. Part of the reduction in GPR share is the result of increased funding from federal funds and gifts and trust income. However, the bulk of these additional sources of revenue result from specific project proposals at individual campuses and do not support the UW System's general operating budget for education, research, and public service. In addition, tuition has become a larger factor in the UW System's source of funds.

10. More indicative of the reduced role of state support for UW System operations is the decline in the share of GPR for general program operations for education, research, and public service. The University has the ability to combine the GPR general program operations funds with money received from tuition and certain federal indirect cost reimbursements. Currently, this creates a \$1.6 billion pool of funds that it may use to run its operations. The GPR share of the University's pool of funds for operations expenses fell from 76.8% in 1973-74 to 60.7% in 2002-03 while the academic fee share increased from 19.7% in 1973-74 to 34.0% in 2002-03. The federal share for indirect cost reimbursements is based on the amount of federal grants the UW System receives and the federal reimbursement rates for overhead charges and cost reimbursement related to these grants. The federal share of operational costs has increased from 3.5% in 1973-74 to 5.2% in 2002-03.

11. Under the Governor's proposal, the GPR share of the UW System's total funding would decline from 30.6% in the 2002-03 adjusted base to 27.5% in 2004-05 despite the addition of \$67.3 million GPR related to transferring student financial aid programs from the Higher Educational Aids Board (HEAB). If this transfer is excluded, the GPR share of the UW System's total funding would decline to 26.2% in 2004-05. In total, GPR funding for the UW System would be \$974.1 million in 2003-04 and \$943.3 million in 2004-05 (excluding the HEAB transfer), a reduction of \$162.0 million GPR in funding, or 7.8%, in the 2003-05 biennium from the 2002-03 adjusted base doubled. All of these comparisons exclude consideration of any pay plan supplement.

12. As the result of both the GPR decrease and tuition offset proposed by the Governor, state support for the UW System's education, research, and public service general program operations would fall to approximately 53.8% in 2004-05 and tuition would account for 41.2% with the remaining 5.0% funded through federal indirect cost reimbursements.

13. The Governor's budget proposal represents a significant shift in funding for the UW System's primary role of providing education, research, and public service. However, according to

executive budget staff, the \$250.0 million funding reduction and tuition offset were made due to the state's fiscal constraints, while providing resources to maintain access and quality at the UW System through a tuition increase. Based on current FTE enrollment of 135,700 students, the Governor's proposed budget reductions would reduce the GPR support per FTE student by approximately \$800 in 2003-04 and \$1,030 in 2004-05. In public testimony on SB 44, student groups have raised the concern that they will pay higher tuition for a lower quality education as a result of the proposed budget reduction and tuition increase.

14. Despite the likelihood of reduced state support for higher education in neighboring states over the next few years, Wisconsin may decline in support per pupil compared to other states under the Governor's proposal. Estimates of neighboring state's state-funded support for operating expenses of higher education are made in a survey by the Center for Higher Education at Illinois State University. Based on this information, the per pupil state support at UW System is approximately \$800 lower than similar institutions in neighboring states. The UW System continues to be viewed favorably, with tuition and fees below the national average, and spending per pupil below neighboring states. Advocates for the UW System argue that this suggests that the UW System is effective at providing higher education with lesser resources than comparable institutions in neighboring states.

15. The Governor's proposal gives UW System administration and individual campuses the flexibility to allocate budget reductions among departments and target expenditures for reduction. One can argue that delegating the authority to the campus administrators and department heads enables each department to focus reductions in areas that would have the least impact on student services. The benefit of this approach is that individual department heads are often the individuals that are best able to identify specific budget items for reduction; examples of such reductions include deferring equipment replacement, delaying recruitment, eliminating positions, and managing department resources.

16. In reaction to the Governor's proposed base budget reduction, the Board of Regents has issued a set of principles to govern the allocation and manage the reductions among the UW System institutions. The principles provide the order in which UW System Board of Regents would allocate budget reductions: first, the UW System would make efforts to accommodate the budget reductions by cutting administrative expenses most removed from serving students; second, eliminate duplicate academic programs and majors with low enrollments; third, support tuition increases that would place UW close to midpoint of peer institutions; and lastly, review and adjust enrollment targets if necessary after the prior steps have been taken. However, if budget reductions are increased or the flexibility for the UW System to manage base budget reductions through tuition increases is restricted, the UW System Board of Regents would likely limit enrollment and scale back the size of the UW System.

17. In remarks to the Board of Regents, the UW System President stated that the UW System has managed most of the reductions related to 2001 Act 109 and 2003 Act 1 through reductions in non-instructional areas. She indicates that the next round of budget reductions as proposed by the Governor would necessarily affect academic programs, student-teacher ratios, access to sections, and perhaps, admissions for Fall 2004, and beyond, depending on the final

budget outcome. Since enrollment for the 2003-04 academic year is already set, the ability to make adjustments to access and enrollment in the short term is limited.

18. While the UW is in the process of determining how the reductions would be allocated among UW System institutions, final decisions as to their specifics may not be known until July, when the Regents approve the annual budget. In prior years the UW System has allocated budget reductions among the institutions based on their share of base GPR funding. Nonetheless, preliminary plans to accommodate the budget reductions indicate that campuses would likely reduce courses, eliminate low enrollment academic programs, reduce administrative positions, eliminate faculty positions through attrition, and reduce GPR-funded research. The reductions would require most campuses to continue to limit GPR-funded administrative expenses related to travel, publications, mailings, and advertising.

19. The UW System and institutions allocate funding among twelve major budget subprograms: these include, instruction, research, public service, academic support, hospitals, farm operations, student services, financial aid, auxiliary enterprises, physical plant, institutional support, and debt service. Of these, GPR accounts for the majority of funding for academic support, farm operations, physical plant, institutional support, and debt service.

20. In order to limit the impact of the budget reduction on instruction related activities, the Committee could limit the GPR reduction for the instructional portion of the budget to \$50 million in 2003-04 and \$100 million in 2004-05, an amount equivalent to the tuition offset. Typically, student fees only support the "instructional" portion of the UW budget. Instructional costs are calculated using a cost accounting system, which includes faculty salaries and fringe benefits, supplies and services, administration, libraries and student services, and support costs. If the tuition increase is used to offset an equal reduction in GPR funding for instruction, the impact on the UW's instructional budget would be minimized and additional revenue generated through tuition increases would not be used to "subsidize" non-instructional portions of the UW budget.

21. Under this option the UW System would need to allocate the remaining budget reduction, \$60 million in 2003-04 and \$40 million in 2004-05, among non-instructional subprograms funded in part with GPR; the subprograms that would be affected include research, public service, academic support, farm operations, student services, physical plant expenditures not related to fuel and utilities, and institutional support. Budget reductions in non-instruction related functions of the UW System could reduce the ability of the UW System to attract federal and private research grants, reduce non-instructional student services, scale back public service and community outreach activities, and reduce administrative support.

22. Along with the budget reduction, the Governor has also proposed to delete 650.0 GPR positions starting in 2003-04. The positions would be deleted from the agency's largest general program operation appropriation, which is used to support programs, services, enrollments, faculty, and staff of UW System institutions. The reduction represents 3.4% of the UW System's 18,965 GPR positions.

23. According to executive budget staff, the position reduction was related to the net

budget reduction. It is expected that the UW would manage position reductions internally and there was no effort to specify certain areas that should be cut. However, in order to give the UW System more time to manage the budget and position reductions, the Committee could restore 325.0 positions in 2003-04. If the UW System were permitted to accommodate the full position reduction over the biennium, they would have more flexibility to manage job reductions through attrition and minimize the number of layoffs.

24. Under the Governor's proposal, the UW System's net reduction as a percentage of total base GPR funding is greater than the reduction for the Wisconsin Technical College System (WTCS). Under the Governor's proposal, total state-funded general and categorical aid provided to districts was reduced from \$136,766,300 to \$135,656,300 in 2003-04 and restored to \$136,766,300 in 2004-05; a reduction of \$1,100,000 in 2003-04, or -0.8%. In action on SB 44, the Committee modified the Governor's proposed reduction in aid for WTCS districts, and increased the reduction for categorical aids by \$14.8 million over the biennium, reducing total state aid to \$128,256,300 in 2003-04 and \$129,366,300 in 2004-05, a net reduction in state-funded aid of 6.2% in 2003-04 and 5.4% in 2004-05.

25. Under SB 44, the GPR reduction for the University's general program operations appropriation (instruction-related funding) equals 13.0% in 2003-04 and 16.7% in 2004-05 from the 2002-03 adjusted base. When the increased tuition under the bill of \$50 million in 2003-04 and \$100 million in 2004-05 is considered, the general program operations appropriation would experience a reduction of 7.0% in 2003-04 and 4.6% in 2004-05. These percentage reductions, under either analysis, are more significant than the reductions that the Governor applied to most of the University's other GPR appropriations. As shown in point #1, under SB 44, the reductions for most of the other appropriations are in the area of 3.4% for both years of the biennium. The range is from 3.0% to 6.6%. Also, these percentage reductions are less than those that a number of agencies would experience under SB 44.

In order to provide some additional funding to the UW's general program operations appropriation, the Committee could consider increasing the reduction to some or all of the University's other GPR appropriations and providing any generated savings to offset some of the reduction in the instructional budget. Alternative 3 contains a table which shows the amount that would be generated by increasing the reduction percentage to 10% from the other UW, GPR appropriations, which would be comparable to the proposed reductions to both the WTCS and DPI administration budgets.

26. The Governor's proposal allocates most of the budget reductions among the UW System's GPR state operations appropriations. However, a \$1,000 annual budget reduction was applied to a student aid program, fee remissions for children and spouses of certain protective services officers. The administration has requested that the \$1,000 reduction be applied, instead, to the UW System's largest GPR funded operations appropriation.

## ALTERNATIVES

1. Approve the Governor's recommendation, including the correction requested by the administration to reallocate the \$1,000 annual reduction from the fee remissions appropriation to the largest general program operations appropriation.

2. Modify the Governor's recommendation by any of the following:

a. Restore 325.0 GPR positions in 2003-04.

b. Limit the GPR reduction for the instructional portion of the UW System's budget to an amount no greater than the revenue generated from academic fees in s. 20.285(1)(im) in 2003-04 and 2004-05, and require the UW System to allocate the remaining budget reduction in 20.285(1)(a) among the non-instructional sub-programs of the UW System budget.

3. Modify the Governor's recommendation by increasing the base budget reduction to 10% annually among some or all of the following and reallocate the funding to the instructional portion of the UW System's largest GPR general program operations appropriation:

<u>Appropriation</u>	<u>Adjusted Base for the Appropriation</u>	<u>Reduction Amount</u>		<u>% Change to Base</u>		<u>Change to Bill</u>	
		<u>2003-04</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2004-05</u>
a. Distinguished Professorships	\$809,100	-\$80,900	-\$80,900	-10.0%	-10.0%	-\$54,800	-\$54,800
b. Industrial and Economic Development Research	1,663,400	-166,300	-166,300	-10.0	-10.0	-111,600	-111,600
c. Area Health Education Centers (Aids Appropriation)	1,164,800	-116,500	-116,500	-10.0	-10.0	-79,100	-79,100
d. Educational Technology	6,609,400	-660,900	-660,900	-10.0	-10.0	-446,700	-446,700
e. Schools of Business	1,643,000	-164,300	-164,300	-10.0	-10.0	-91,000	-91,000
f. Extension Outreach	359,900	-36,000	-36,000	-10.0	-10.0	-24,000	-24,000
g. Extension Local Planning Program	85,800	-8,600	-8,600	-10.0	-10.0	-5,800	-5,800
h. Family Medicine and Practice	8,165,200	-816,500	-816,500	-10.0	-10.0	-540,400	-540,400
i. State Laboratory of Hygiene	7,820,400	-782,000	-782,000	-10.0	-10.0	-514,300	-514,300
j. Veterinary Diagnostic Lab	4,392,000	-439,200	-439,200	-10.0	-10.0	-290,200	-290,200
k. Laboratories	4,217,300	-421,700	-421,700	-10.0	-10.0	-144,400	-144,400
l. Farm Safety Program Grants (Aids Appropriation)	20,000	-2,000	-2,000	-10.0	-10.0	-1,400	-1,400
m. Wisconsin Humanities Council (Aids Appropriation)	75,000	-7,500	-7,500	-10.0	-10.0	-5,100	-5,100
n. Alcohol and other Drug Abuse Prevention	67,500	-6,800	-6,800	-10.0	-10.0	-4,600	-4,600
o. General Program Operation--UW System Administration	9,634,200	-963,400	-963,400	-10.0	-10.0	-639,300	-639,300
p. Minority and Disadvantaged Programs	10,221,700	-1,022,200	-1,022,200	-10.0	-10.0	-685,700	-685,700
q. UW Hospital and Clinics Services	<u>4,174,700</u>	<u>-417,500</u>	<u>-417,500</u>	-10.0	-10.0	<u>-279,900</u>	<u>-279,900</u>
Totals	\$61,123,400	-\$6,112,300	-\$6,112,300			-\$3,918,300	-\$3,918,300



4. Delete provision.

<u>Alternative 4</u>	<u>GPR</u>
<b>2003-05 FUNDING</b> (Change to Bill)	\$250,000,000
<b>2004-05 POSITIONS</b> (Change to Bill)	650.00

Prepared by: John Stott