



Legislative Fiscal Bureau

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June 2, 2011

Joint Committee on Finance

Paper #740

Base Budget Reduction (UW System and UW-Madison Authority)

[LFB 2011-13 Budget Summary: Page 473, #3 and Page 498, #3]

CURRENT LAW

The UW System has an adjusted GPR base budget of \$1,149.5 million of which \$792.1 (68.9%) is provided in its general program operations appropriation. In addition, the UW System has an adjusted base budget of \$1,743.2 million FED, \$2,486.1 million PR, and \$33.8 million SEG.

GOVERNOR

Delete \$60,095,400 GPR annually from the UW System's general program operations appropriation and \$2,404,600 annually from the general program operations appropriation for UW System Administration. Delete \$62,500,000 GPR annually from the general programs operations appropriation for the UW-Madison authority which would be created under the bill.

DISCUSSION POINTS

1. Table 1 shows the amounts by which the UW System's GPR base budget has been reduced in each biennial budget from 2001-03 to 2009-11. As shown in Table 1, the UW System's GPR base budget has been reduced in four out of these five budgets. On an ongoing basis, these reductions total \$226,375,800 or 22% of the UW System's 2000-01 adjusted base budget. If the proposed base budget reduction were approved, total GPR base reductions (including the proposed GPR reduction for the UW-Madison authority) from 2001-03 through 2011-13 would total \$351,375,800 or 35% of the UW System's 2000-01 adjusted base budget.

TABLE 1

UW System GPR Base Reductions, 2001-03 to 2009-11

<u>Biennium</u>	<u>Total Biennial GPR Base Reduction</u>	<u>Description</u>
2001-03	-\$12,690,000	Intended to be 5% of administrative costs. Ongoing base reduction of \$6,345,000.
2003-05	-250,000,000	Ongoing base reduction of \$140,000,000. The general program operations appropriation was reduced by 16.7%, ongoing reductions to other GPR appropriations ranged from 3.0% to 6.6%.
2005-07	-90,000,000	To be funded by administrative reductions, savings from the Governor's procurement consolidation initiative, and income from the management or sale of assets; ongoing base reduction of \$35,000,000
2009-11	-120,061,600	Combination of \$100 million GPR base reduction and a 1% across-the-board reduction of most GPR appropriations. Ongoing base reduction of \$45,030,800.
2011-13*	-250,000,000	Ongoing base reduction of \$125,000,000.

*Proposed.

2. In previous biennia, the UW System has been able to partially offset GPR base budget reductions with additional tuition revenue. In 2003-05, when the UW System's GPR base budget was reduced by \$250 million, the Legislature provided an additional \$150 million in tuition revenue expenditure authority. This increase in tuition revenue offset \$100 million of the \$140 million ongoing GPR base reduction. In that biennium, tuition was increased by 18.2% and 15.4% at UW-Madison, by 18.7% and 15.8% at UW-Milwaukee, by 17.2% and 14.4% at the 11 comprehensive institutions, and by 18.5% and 15.6% at the UW Colleges. In the 2009-11 biennium, no additional tuition revenue expenditure authority was provided in the biennial budget to offset the GPR base reduction; however, tuition was increased by an amount sufficient to generate \$35 million to partially offset the ongoing GPR base reduction of \$45 million.

3. Another provision of the Governor's budget would increase the UW System's tuition revenue expenditure authority by an amount equivalent to 5.5% annual increases in resident undergraduate tuition. While the bill does not include an explicit cap on increases in resident undergraduate tuition, this provision implies that it is the Governor's intent to limit resident undergraduate tuition increases to 5.5% in each year. If resident undergraduate tuition were increased by 5.5% in each year, the additional tuition revenue generated would be sufficient to fund only the tuition portion of standard budget adjustments and the increase in the student technology fee that would be generated in 2011-12. None of the revenue generated by this tuition increase could be used to offset any of the proposed GPR base reduction in 2011-12. Assuming no other cost increases, the additional tuition revenue that would be generated by a 5.5% increase in resident undergraduate tuition in 2012-13 could be used to offset an estimated \$34.8 million of the proposed \$125 million ongoing GPR base budget reduction.

4. The Committee could provide the UW System with additional tuition revenue expenditure authority to offset a greater amount of the \$125 million ongoing GPR base reduction. Table 2 shows the estimated dollar increase in resident undergraduate tuition at UW-Madison, UW-Milwaukee, the 11 comprehensive campuses, and the UW Colleges if tuition were increased by 5.5%, 8%, and 10% in 2011-12. An increase in resident undergraduate tuition of 8% would offset an estimated \$67.3 million of the proposed \$125 million ongoing GPR base budget reduction; an increase of 10% would offset \$93.3 million of the proposed ongoing base budget reduction.

TABLE 2

Dollar Increases Corresponding with Various Percent Increases in Resident Undergraduate Tuition in 2011-12

	2010-11 <u>Base Tuition*</u>	<u>Percent Tuition Increase</u>		
		<u>5.5%</u>	<u>8%</u>	<u>10%</u>
Madison	\$7,433	\$409	\$595	\$743
Milwaukee	7,269	400	582	727
Comprehensive Institutions	5,659	311	453	566
UW Colleges	4,268	235	341	427

*Excludes differential tuition.

5. Actual tuition increases may be greater at institutions charging differential tuitions. At UW-Madison, tuition will increase by \$250 annually in 2011-12 and 2012-13 as a differential tuition is phased in. In 2010-11, UW-Madison resident undergraduate tuition including the differential tuition is \$7,933. Including the differential tuition, resident undergraduate tuition at UW-Madison would increase by \$659 (8.3%) if base tuition were increased by 5.5%, \$845 (10.7%) if base tuition were increase by 8%, and \$993 (12.5%) if base tuition were increased by 10%. Similarly, tuition at UW-Eau Claire will increase by \$300 annually in 2011-12 and 2012-13 as a differential tuition is phased in. In 2010-11, UW-Eau Claire resident undergraduate tuition including a differential tuition is \$6,122. Including the differential tuition, resident undergraduate tuition at UW-Eau Claire would increase by \$611 (10.0%) if base tuition were increased by 5.5%, \$753 (12.3%) if base tuition were increase by 8%, and \$866 (14.1%) if base tuition were increase by 11.1%. Tuition increases at other institutions that charge differential tuition may be greater in dollar terms if the differential tuition increases along with tuition.

6. The Board of Regents has frozen tuition at the UW Colleges in each of the past four years with the aim of providing a lower-cost entry point to the UW System. Actual tuition increases at the UW Colleges may be less than the amounts shown in Table 2 if the Board of Regents opts to again freeze tuition at the UW Colleges in each year of the biennium or imposes smaller tuition increases at the UW Colleges than at the other campuses.

7. If tuition were increased by more than 5.5%, it is likely that resident undergraduate tuition and fees charged by UW-Madison, UW-Milwaukee, and the 11 comprehensive institutions

would continue to be less than the average tuition and fees charged by their peer institutions. For example, if UW-Madison's tuition had been \$993 higher in 2010-11, the equivalent of a 10% increase in 2011-12 and the \$250 differential tuition increase, tuition and fees charged would have totaled \$9,976 which would have been \$453 less than the peer average. Similarly, if UW-Milwaukee's tuition had been \$727 higher in 2010-11, the equivalent of a 10% increase in 2011-12, tuition and fees charged would have totaled \$8,828 which would have been \$488 less than the peer average. If the average tuition charged by the UW comprehensive institutions had been \$566 higher in 2010-11, the equivalent of a 10% increase in 2011-12, average tuition and fees charged would have totaled \$7,657 which would have been \$949 less than the peer average.

8. Under the bill, GPR general program operations funding for the proposed UW-Madison authority would be reduced by \$62.5 million annually, GPR general program operations funding for all other UW institutions would be reduced by \$60.1 million annually, and GPR general program operations funding for UW System Administration by \$2.4 million annually. Under this distribution, the proposed UW-Madison authority would absorb 50% of the total reduction in GPR general program operations funding; however, UW-Madison currently generates approximately one-third of all UW System tuition revenues. Given its lower tuition revenue base, UW-Madison would have to increase tuition by a greater amount than all other UW institutions in order to generate the same amount of tuition revenues. It is estimated that 8% annual tuition increase at all other UW institutions would generate additional tuition revenues to offset \$43.0 million of the proposed \$60.1 million GPR base reduction in 2012-13. By comparison, 8% annual tuition increases at UW-Madison (excluding differential tuition increases) would generate additional tuition revenues to offset \$24.4 million of the \$62.5 million GPR base reduction in 2012-13.

9. Although resident undergraduate tuition could be increased by more than 5.5% and remain below peer averages, any tuition increase would make attending a UW System institution less affordable for students from low- and middle-income families. The cost of attending a UW System institution becomes less affordable whenever increases in tuition are greater than increases in the state median income. In addition, need-based grant aid available to low- and middle-income students may decrease during the biennium making the cost of attendance ever higher for those students.

10. At the federal level, the maximum Pell grant award will remain at its 2010-11 level of \$5,550 in 2011-12. The Pell grant program is the largest source of need-based grant aid for resident undergraduate students. Two additional programs, the academic competitiveness grant and the national science and mathematics access to retain talent (SMART) grant programs, would be eliminated beginning in the 2011-12 academic year. Although these programs are not strictly need-based, only Pell grant recipients are eligible for funding. In 2009-10, 7,938 UW System students received academic competitiveness and SMART grants totaling \$8.7 million. Under the federal budget reconciliation act passed in April, 2011, funding for the Leveraging Educational Assistance Program (LEAP) in 2011-12 was deleted. The LEAP program provides additional need-based financial aid funding to states to supplement financial aid programs for students with the substantial financial need. In Wisconsin, LEAP funds have been used to support the talent incentive grant (TIP) program. In 2009-10, 2,308 UW System students received TIP grants totaling \$2.4 million including approximately \$811,100 in federal LEAP funds.

11. At the state level, no additional funding is provided for the Wisconsin higher education grant (WHEG) program for UW students under the bill. WHEG-UW is the largest source of state-funded need-based grant aid for resident undergraduates. While WHEG-UW program funding would remain at the 2010-11 level during the biennium, it is anticipated that the average WHEG award received by UW System students would decline. By statute, WHEG award amounts are based on a formula approved by the Higher Educational Aids Board (HEAB). Grants are awarded on a first-come basis and eligible students who apply after all available funding has been committed are placed on a waitlist. Due to significant program waitlists 2009-10 and 2010-11 resulting from an increase in applicants and an increase in applicant need, the HEAB Board has adjusted the WHEG-UW formula to decrease the maximum award in both 2010-11 and 2011-12 from \$2,980 in 2009-10 to \$2,563 in 2010-11 and \$2,444 in 2009-10. While these reductions in the maximum grant amount have increased the number of grants that can be awarded, these WHEG awards now cover a smaller portion of the student's cost of attendance. Previous action by the Joint Finance Committee provided \$3,930,000 in 2011-12 and \$7,990,000 in 2012-13 for the Wisconsin covenant grants program which would provide grants to first-year students designated as a Wisconsin covenant scholar based on their financial need. Based on data provided by HEAB, it is estimated that less than one-third of the 5,250 first-year student who are eligible to receive Wisconsin covenant scholars grants would also be eligible to receive WHEG-UW grants indicating many grant recipients would be higher-income students.

12. As allocated in the Governor's budget, the GPR reduction would be a 13.5% reduction to UW-Madison's GPR base budget, an 8.9% reduction to the GPR base budgets of all other UW System institutions, and a 25.4% reduction to UW System Administration's GPR base budget. If the GPR base reduction were to be distributed equally amongst UW-Madison and all other UW System institutions, the reduction would be equal to a 10.8% base budget reduction.

13. Under the bill, GPR general program operations funding for the proposed UW-Madison authority would be reduced by \$62.5 million annually. In the past, reductions in GPR funding for the UW System have been allocated to individual UW institutions by the Board of Regents based on each institution's share of the UW System's GPR/fee budget excluding debt service, utilities, financial aid, separately budget academic tuition, and Extension credit programs. Table 3 shows how the GPR base reduction could be allocated to each institution by the Board of Regents based on past practice. Table 3 assumes that GPR funding for UW System Administration would be reduced by \$2.4 million annually as under the bill.

TABLE 3

**Annual GPR Base Reduction by UW Institution If Allocated
by Board of Regents Based on Past Practice**

	<u>Reduction</u>
Madison	\$47,199,200
Milwaukee	16,881,400
Eau Claire	6,375,000
Green Bay	3,064,900
La Crosse	5,161,300
Oshkosh	6,142,000
Parkside	2,905,500
Platteville	3,543,000
River Falls	3,555,300
Stevens Point	5,247,100
Stout	4,818,000
Superior	1,900,200
Whitewater	5,394,200
Colleges	4,756,700
Extension	<u>5,651,600</u>
Total	\$122,595,400

14. One reason given for the disproportionately large GPR base reduction for UW-Madison is that the bill would provide UW-Madison with a wide variety of operational flexibilities that other UW institutions would not have. If the Committee provides fewer operational flexibilities to UW-Madison or more operational flexibilities to the other UW institutions when compared to the bill, the Committee may wish to adjust the amount of the GPR base reduction for UW-Madison. Another reason that has been given for the disproportionately large GPR base reduction specified for UW-Madison is that state GPR makes up a smaller part of UW-Madison's total budget when compared to other UW System institutions. In 2010-11, GPR accounted for 19.6% of UW-Madison's total budget compared to 32.2% for all other campuses. (These figures exclude funding for UW Hospitals and Clinics, UW System Administration, and federal student financial aid.) Proportionate reductions in GPR funding for UW-Madison and all other UW institutions would, therefore, result in a smaller percentage reduction in UW-Madison's total budget and larger percentage reductions in the budgets of all other UW institutions. For this reason, the Committee may wish to specify that UW-Madison's GPR base be reduced by a proportionately larger amount than the GPR bases of other UW institutions. However, much of the non-GPR funding received by UW-Madison is provided for a specific purpose and cannot be used to support other activities. Federal funds make up 26.6% of UW-Madison's budget. Most of these funds are received in the form of research grants and contracts and cannot be used to support other purposes such as instruction and public service.

15. The bill would reduce GPR funding for UW System Administration by \$2,404,600 annually which is equal to 25% of its adjusted base GPR general program operations appropriation.

Reductions in funding for UW System Administration may result in an increase in costs at individual UW institutions and a general loss of efficiency systemwide. UW System Administration provides a variety of services to UW institutions that, due to the nature of the service, would be inefficient for each institution provide for themselves. For example, UW System Administration's Office of Capital Planning and Budget provides architectural, engineering, and environmental services to UW institutions. As UW institutions, with the exception of UW-Madison, undertake large building projects on an irregular basis, it would be inefficient for each institution to have staff dedicated to these functions. (By contrast, UW-Madison, which often undertakes several large building projects at one time, does have dedicated capital planning and development staff.) UW System Administration also employs legal staff which serves all UW institutions except for UW-Madison and UW-Milwaukee which have their own legal staff.

16. In addition to providing services to UW institutions, UW System Administration coordinates certain activities across all institutions. For example, UW System Administration has developed a single application for admission that is used by all UW institutions with the exception of UW-Madison. UW System Administration's Office of Learning Information Technology works with institutions to develop shared library resources and distance learning technology. UW System Administration also coordinates the systemwide programmatic and financial audits and provides training to campus-based auditors.

17. UW System Administration also serves as a clearinghouse and the office of record for expenditure, budget, student information, curricular information, and financial information. UW System Administration collects data from all UW institutions and publishes the annual UW accountability report. UW System Administration ensures that data is collected in a way that provides the ability to do comparative studies both within the UW System and nationally. UW System Administration ensures compliance with state, federal, and higher education financial reporting standards.

18. The bill would also create UW-Madison as an authority which would not be governed by the Board of Regents. Given relative size of UW-Madison compared to other UW System institutions, it could be inferred that UW System Administration's activities would be significantly reduced if UW-Madison were no longer an institution of the UW System justifying some part of the 25% reduction provided under the bill. If UW-Madison is not created as an authority, the Committee may wish to restore some portion of this reduction. One alternative could be to reduce GPR for UW System administration by 10.8% which would be consistent with the reduction for the UW institutions if distributed equally among UW-Madison and all other UW System institutions.

ALTERNATIVES

A. Base Funding Reduction

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation to allow the Board of Regents to offset a greater portion of the GPR base reduction by increasing the Board of Regents' tuition expenditure

by:

a. Amounts equal to 8% annual increases in resident undergraduate tuition. Under this alternative, the UW System (including UW-Madison) would be able to offset \$67.3 million of the \$122.6 million GPR base reduction in 2012-13.

ALT A2a	Change to Bill Funding
PR	\$48,750,000

b. Amounts equal to 10% annual increases in resident undergraduate tuition. Under this alternative, the UW System (including UW-Madison) would be able to offset \$93.3 million of the \$122.6 million GPR base reduction in 2012-13.

ALT A2b	Change to Bill Funding
PR	\$87,750,000

3. Provide \$130 million (\$65 million annually) to reduce the GPR base reduction to \$120 million over the biennium (\$60 million annually) which would be equivalent to the reduction provided under 2009 Act 28. If the Board of Regents increases base resident undergraduate tuition by 5.5% in each year of the biennium, the UW System would be able to offset \$34.8 million of the \$60 million GPR base reduction in 2012-13.

ALT A3	Change to Bill Funding
GPR	\$130,000,000

B. Distribution of Base Reduction

1. Approve the Governor's recommendation.
2. Delete all provisions related to the proposed UW-Madison authority. Specify that:
 - a. UW-Madison's base budget should be reduced by \$62,500,000 GPR annually as under the Governor's recommendations; or
 - b. The GPR general program operations appropriation for UW System Administration be reduced by \$2,404,600 annually as under the bill and the GPR general program operations appropriation for UW System be reduced by \$122,595,400 annually. Under this alternative, the Board of Regents would allocate the GPR base reduction to each UW institution as it has under previous budgets.

C. UW System Administration

1. Approve the Governor's recommendation.

2. Reduce to proposed reduction for UW System Administration by \$1,383,000 GPR annually. Under this alternative, GPR funding for UW System Administration would be reduced by \$1,021,600 GPR annually (10.8%).

ALT C2	Change to Bill Funding
GPR	\$2,766,000

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