



Legislative Fiscal Bureau

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May 24, 2011

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Higher Educational Aids Board: Section 13.10 Request for Approval of Reciprocity
Administrative Memorandum -- Agenda Item I

REQUEST

The Higher Educational Aids Board (HEAB) requests that the Committee approve the annual administrative memorandum required by the Minnesota-Wisconsin Public Higher Education Reciprocity Agreement for 2011-12. The annual administrative memorandum is subject to Committee approval through a passive review process under s. 39.47 (2g) of the statutes. On April 22, 2011, the cochairs notified HEAB that there was an objection to the request.

BACKGROUND

The Minnesota-Wisconsin tuition reciprocity agreement provides that state residents can attend public universities, community colleges, and technical colleges in the adjacent state without having to pay nonresident tuition. Students participating under the agreement are treated as residents of the state in which the institution they attend is located for admissions purposes. The agreement is administered jointly by the Minnesota Office of Higher Education (MOHE) and the Wisconsin Higher Educational Aids Board (HEAB) and has existed in some form since 1965.

PROPOSED CHANGES

Under the proposed 2011-12 administration memorandum, the Wisconsin reciprocity supplement program would be eliminated. This program was created when the Agreement was modified in 2007. Under the current Agreement and related administration memorandum, Wisconsin resident undergraduate students who first enrolled in a participating Minnesota institution during the 2008-09 academic year or any year thereafter are charged the higher of the resident tuition rate charged by the institution attended or the resident tuition rate charged by the

comparable UW institution or institutions.

When the Minnesota resident rate is the higher of the two tuition rates, the Wisconsin resident student receives a supplement through the Wisconsin reciprocity supplement program. This supplement is equal to the difference between the amount of tuition the student would have been charged under the 1998 Agreement and the amount of tuition the student is charged under the 2007 Agreement. In general, this is the difference between the Minnesota resident tuition rate and the resident rate charged by the comparable UW institution or institutions. (For students enrolled at the University of Minnesota-Twin Cities, the amount of the supplement is equal to 75% of the difference between the Minnesota resident tuition rate and the resident rate charged by UW-Madison. This is because Wisconsin resident undergraduate students enrolled at UM-Twin Cities were charged a "tuition gap surcharge" equal to 25% of the difference between the resident tuition rates at UM-Twin Cities and UW-Madison under the 1998 Agreement.) The supplement is applied directly to the student's tuition and is shown on the student's tuition bill. The supplement program is administered by the Minnesota institutions. HEAB reimburses the institutions for the amount of supplements awarded at the end of each academic term.

Table 1 shows the tuition rates and Wisconsin reciprocity supplement amounts by Minnesota institution for 2010-11. By comparison, non resident undergraduate tuition and fees total \$23,422 at UM-Twin Cities, \$13,969 at UM-Duluth, \$7,488 at Bemidji State, \$12,616 at Mankato, \$6,923 at Moorhead, and \$12,616 at Winona State.

TABLE 1

**State Tuition Supplements for Wisconsin Residents Attending
Minnesota 4-Year Institutions Full-Time, 2010-11***

	<u>Comparable Wisconsin Resident Rate</u>	<u>Minnesota Resident Rate</u>	<u>Amount of State-Funded Tuition Supplement</u>
UM-Twin Cities**	\$8,398	\$9,794	\$1,396
UM-Duluth	7,269	9,482	2,213
UM- Morris	7,933	9,482	1,549
UM-Crookston	5,822	7,932	2,110
Bemidji State	5,822	6,577	755
Minnesota State University -- Mankato	5,822	5,927	105
Minnesota State University -- Moorhead	5,822	6,140	318
Southwest Minnesota State University	5,822	6,249	427
Winona State University***	5,962	6,237	275
Saint Cloud State University****	194.06	195.40	1.34

* Wisconsin resident undergraduate students attending Metropolitan State (not shown) do not receive a tuition supplement from the state as the average UW comprehensive tuition rate is higher than the Minnesota resident tuition rate.

** Comparable Wisconsin resident rate is UW-Madison's resident tuition rate plus a surcharge equal to 25% of the difference between the UW-Madison resident tuition rate and the UM-Twin Cities resident tuition rate.

*** Comparable Wisconsin resident rate is the average UW comprehensive rate plus Winona State differential tuition.

**** Tuition rates for Saint Cloud State are shown per credit.

The modifications made to the Agreement in 2007 took effect beginning in the 2008-09 academic year and only apply to students who first enrolled in that and subsequent years. In 2008-09, when only first year students were eligible for the Wisconsin reciprocity supplement program, supplements provided totaled \$2.0 million. In 2009-10, when both first and second year students were eligible for the program, supplements provided totaled \$3.9 million. It is estimated that the total cost of the supplements would be \$5.8 million in 2010-11, \$7.9 million in 2011-12, and \$9.3 million in 2012-13.

Under the Agreement, each state's liability is the difference between the total amount of tuition charged to its students attending institutions in the other state and the calculated cost of educating those students. The state with the higher liability pays the difference between the two states' liabilities following the conclusion of each academic year. In 2008-09 and 2009-10, Wisconsin's liability under the Agreement exceeded Minnesota's liability and Wisconsin made a payment to Minnesota in both years. These payments totaled \$9.2 million for the 2008-09 academic year and \$9.1 million for the 2009-10 academic year.

Under the current Agreement, the amount paid by HEAB through the Wisconsin reciprocity supplement program is credited as tuition paid and reduces the amount of the state's year-end liability under the program. If the 2007 modifications had not been made and the 1998 Agreement

had instead been in effect, Wisconsin would have made larger year-end payments to Minnesota. It is estimated that if the 1998 Agreement had been in effect instead, these payments would have been \$11.2 million in 2008-09 and \$13.0 million in 2009-10.

Under the proposed administrative memorandum, the Wisconsin reciprocity supplement program would be terminated. It is estimated that by terminating this program, the state would reduce total payments made to Minnesota by \$7.9 million in 2011-12, \$9.3 million in 2012-13, \$10.0 million in 2013-14, and \$10.7 million in 2014-15. Terminating the program would have no effect on the year-end payment made to Minnesota.

If the supplement program were terminated, tuition paid by all Wisconsin resident students enrolled in University of Minnesota and Minnesota State Colleges and Universities under the Agreement would increase by the amount of the Wisconsin reciprocity supplement. Tuition would not increase for Wisconsin resident undergraduates enrolled in Minnesota institutions where the resident rate at the comparable UW institution or institutions exceeds the resident rate charged by the institution. In 2010-11, these institutions include Metropolitan State University, Anoka Ramsey Community College, and Lake Superior College. Wisconsin resident students who first enrolled in Minnesota institution prior to 2008-09 would not be effected in 2011-12 as these students would continue to be charged under the 1998 Agreement in that academic year. These students would be charged the higher of the two tuitions if they continue to be enrolled in 2012-13 or any year thereafter. Graduate and professional students would also not be effected by the proposed changes to the Agreement as they were charged the higher of the two tuition rates under the 1998 Agreement.

In addition, the University of Minnesota Board of Regents has modified its tuition and fee schedule in a way that will increase UW tuition revenues and effect year-end payments made by the Wisconsin under the Agreement. Through 2010-11, all University of Minnesota institutions, including UM-Twin Cities, UM-Duluth, UM-Crookston, and UM-Morris, have charged students a \$1,300 "University fee." As student fees are not subject to the Agreement, Wisconsin resident students attending University of Minnesota institutions have been paying this fee in addition to tuition charged under the Agreement. Beginning in 2011-12, this "University fee" will be considered part of a student's regular tuition.

As a result of this change, tuition for Minnesota resident students attending UW-Madison and UW-Milwaukee, which are comparable to the University of Minnesota institutions under the Agreement, will increase by \$1,300 annually. Under state law, tuition collected from reciprocity students in excess of what would have been paid by similar resident students is deposited in the general fund as GPR-Earned. In 2009-10, this excess tuition totaled \$8.8 million. It is estimated that a \$1,300 increase in tuition charged to Minnesota reciprocity students enrolled at UW-Madison and UW-Milwaukee would increase the amount of tuition revenues transferred to the general fund by \$4.8 million annually. In addition, the \$1,300 which Wisconsin resident students attending University of Minnesota institutions paid as a fee in past years could be credited as tuition paid under the Agreement thus reducing Wisconsin's liability. Under the proposed administrative

memorandum, this \$1,300 would continue to be paid by the student and would be credited as tuition under the Agreement. It is estimated that if this \$1,300 is credited as tuition under the Agreement, Wisconsin's payments to Minnesota would decrease by \$2.6 million annually.

OPTIONS

Approve the Administrative Memorandum Dated April 4, 2011

Under SB 27/AB 40, reciprocity payments are estimated at \$15,000,000 GPR in 2011-12 and \$16,000,000 GPR in 2012-13. If the April 4 administrative memorandum would be approved, these payments would be reduced by an estimated \$12,100,000 GPR in 2011-12 and \$14,100,000 GPR in 2012-13. In addition, revenues to the general fund would increase by an estimated \$4,800,000 GPR-Earned annually. In total, the general fund would be advantaged by \$16,900,000 in 2011-12 and \$18,900,000 in 2012-13 compared to estimates included in the budget bill.

Modify the Administrative Memorandum to Establish Phase-Out

Under the proposed administrative memorandum, the Wisconsin reciprocity supplement program would be eliminated beginning in the 2011-12 academic year. If this change were to be approved, all Wisconsin resident students attending Minnesota institutions under the Agreement would pay the higher of the two resident tuition rates beginning in that year. For many students, especially those attending the University of Minnesota institutions, this would result in a large one-year tuition increase. As shown in Table 1, the Wisconsin reciprocity supplement is \$1,396 for students at UM-Twin Cities in 2010-11. In fall, 2009, 4,535 Wisconsin resident undergraduate students, or 47.6% of all Wisconsin resident undergraduate students enrolled at Minnesota institutions under the Agreement, were enrolled at UM-Twin Cities.

While some students and their families would be able to pay the proposed tuition increases, it is likely that some students would not be able to afford a tuition increase of that size in addition to normal tuition increases. These students may consider transferring to less expensive institutions or may dropout.

To protect Wisconsin resident students currently attending Minnesota institutions under the Agreement from large, one-year tuition increases, the Wisconsin reciprocity supplement program could be continued for current students and those students who would first enroll in the 2011-12 academic year. Under this alternative, Wisconsin resident students who first enroll in Minnesota institutions under the Agreement beginning in the 2012-13 academic year would be charged the higher of the two tuition rates and would not receive a tuition supplement. To accomplish this change, HEAB would have to renegotiate the administrative memorandum with MOHE. The current supplement program would also have to be modified to reflect the \$1,300 fee being charged as tuition. It is estimated that phasing-out the Wisconsin reciprocity supplement program would require additional payments of \$7,900,000 GPR in 2011-12 and \$6,700,000 GPR in 2012-13, compared to the payments under the administrative memorandum, where the Wisconsin reciprocity

supplement program would be eliminated for all students beginning in 2011-12.

Financial Aid

The Special Committee on the Review of Higher Education Financial Aid Programs convened by the Legislative Council during the summer and fall of 2010 similarly recommended that the Wisconsin reciprocity supplement program be eliminated. Under Legislative Council bill draft 0052/2, which was approved for introduction by the Joint Legislative Council on May 4, GPR-Earned generated by tuition reciprocity in excess the amount of any payment to Minnesota required under the Agreement would be credited to the Wisconsin higher education grant (WHEG) program for UW students. The WHEG-UW program provides need-based grants to Wisconsin resident students enrolled in UW institutions at least half-time.

If the proposed administrative memorandum were approved without modification, it is estimated that Wisconsin would make payments to Minnesota under the Agreement of \$2.9 million in 2011-12 and \$1.9 million, and GPR-Earned would be \$14.7 million in 2011-12 and \$15.3 million in 2012-13. If the Committee were to specify that the net GPR-Earned generated by tuition reciprocity were to be credited to the WHEG-UW program, funding for that program would increase by \$11.8 million in 2011-12 and by \$13.4 million in 2012-13, resulting in increases in program funding of 20.2% in 2011-12 and 2.3% in 2012-13. No funding increases were provided for WHEG-UW under the Governor's budget.

Another alternative would be to distribute the net GPR-Earned generated by the tuition reciprocity program to the state's three largest GPR-funded need-based financial aid programs: WHEG-UW; WHEG-TCS, which provides need-based grants to resident students enrolled at the technical colleges; and the tuition grant program, which provides need-based grants to resident students enrolled at private, nonprofit institutions. As with the WHEG-UW program, no funding increases were provided for WHEG-TCS or the tuition grant program under the Governor's budget. Table 2 shows the increases that could be provided for each program if net GPR-Earned generated by the tuition reciprocity program were distributed based on current program funding.

TABLE 2

Possible WHEG-UW, WHEG-TCS, and Tuition Grant Funding Increases

	<u>2010-11 Funding</u>	<u>Possible Increases</u>			
		<u>2011-12</u>		<u>2012-13</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
WHEG-UW	\$58,345,400	\$6,619,100	11.3%	\$7,516,600	1.4%
WHEG-TCS	18,797,900	2,132,600	11.3	2,421,700	1.4
Tuition Grant	<u>26,870,300</u>	<u>3,048,300</u>	11.3	<u>3,461,700</u>	1.4
Total	\$104,013,600	\$11,800,000	11.3%	\$13,400,000	1.4%

If the Wisconsin reciprocity supplement program were to be phased out as described above, net GPR-Earned is estimated to be \$3.9 million in 2011-12 and \$6.7 million in 2012-13. This net GPR-Earned could be used to provide funding increases from the WHEG-UW, WHEG-TCS, and tuition grant programs of 3.7% in 2011-12 and 2.6% in 2012-13.

ALTERNATIVES

A. Administrative Memorandum

1. Approve the 2011-12 annual administrative memorandum required by the Minnesota-Wisconsin Public Higher Education Reciprocity Agreement. Reestimate payments under the Agreement by -\$12,100,000 GPR in 2011-12 and -\$14,100,000 GPR in 2012-13 as a change to the Governor's budget bill. Increase estimated GPR-Earned by \$4,800,000 annually.

2. Do not approve the administrative memorandum. Direct HEAB to renegotiate the administrative memorandum such the Wisconsin reciprocity supplement program would be phased-out beginning in 2012-13. Specify that the Wisconsin supplement program should also be modified such that the \$1,300 University of Minnesota fee that would be charged as tuition beginning in 2011-12 would continue to be paid by the student. Reestimate payments under the Agreement by -\$4,200,000 GPR in 2011-12 and -\$7,400,000 GPR in 2012-13 as a change to the Governor's budget bill. Increase estimated GPR-Earned by \$4,800,000 annually.

B. Financial Aid

1. Provide that the net GPR-Earned generated by the tuition reciprocity program be credited to the WHEG-UW program.

a. Increase funding for WHEG-UW by \$11,800,000 in 2011-12 and by \$13,400,000 in 2012-13 consistent with Alternative A1.

b. Increase funding for WHEG-UW by \$3,900,000 in 2011-12 and by \$6,700,000 in 2012-13 consistent with Alternative A2.

2. Provide that the net GPR-Earned generated by the tuition reciprocity program be distributed to the WHEG-UW, WHEG-TCS, and tuition grant programs based on current program funding.

a. Increase funding for WHEG-UW by \$6,619,100 in 2011-12 and by \$7,516,600 in 2012-13, increase funding for WHEG-TCS by \$2,132,600 in 2011-12 and by \$2,421,700 in 2012-13, and increase funding for the tuition grant program by \$3,048,300 in 2011-12 and by \$3,461,700 in 2012-13. These increases would be consistent with Alternative A1.

b. Increase funding for WHEG-UW by \$2,187,700 in 2011-12 and by \$3,758,300 in

2012-13, increase funding for WHEG-TCS by \$704,800 in 2011-12 and by \$1,210,900 in 2012-13, and increase funding for the tuition grant program by \$1,007,500 in 2011-12 and by \$1,730,800 in 2012-13. These increases would be consistent with Alternative A2.

3. Take no action. The full amount of the reestimate under Alternative A1 or A2 above could be used to fund other items or to increase the general fund balance.

Prepared by: Emily Pope