



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #953

Tuition Revenue Expenditure Authority (UW System)

[LFB 2001-03 Budget Summary: Page 684, #8]

CURRENT LAW

Under current law, the Board of Regents may set separate tuition rates for state residents and nonresidents and also for different classes of students, extension courses, summer sessions and special programs. A provision enacted in 1999 Act 9 changed the appropriation for tuition and fee revenues from an annual, sum certain to a continuing appropriation. This means that the University may expend all monies received under the appropriation without limit and without the prior approval of the Legislature or the Joint Committee on Finance.

The Board is restricted from increasing tuition, including differential tuition, for resident undergraduate students beyond an amount sufficient to fund the following: (a) the amount shown in the appropriation schedule for the tuition appropriation; (b) approved compensation and fringe benefits adjustments for faculty and staff; (c) revenue losses caused by unforeseen enrollment changes; (d) state imposed costs not covered by GPR as determined by the Board; (e) distance education, intersession and nontraditional courses; and (f) differential tuition that is approved by the Board but not included in the amount in the tuition appropriation schedule.

GOVERNOR

Eliminate the restrictions on the Board of Regents for increasing resident undergraduate tuition and fees beginning in the 2002-03 academic year.

DISCUSSION POINTS

1. The appropriation for tuition and fees includes revenue generated not only from the

academic tuition schedule (90.0% of the appropriation), but also from summer school fees, off-campus degree programs, special fees for law students, master's level business students, nonresident undergraduates at UW Madison and other special fee programs, and the application fee. The 2000-01 tuition appropriation for academic student fees was \$448,550,100. Under the Governor's budget proposal, the amount appropriated for academic student fees would increase by 13.1% to \$507,192,000 in 2001-02 and by 1.7% to \$515,871,000 in 2002-03. However, since the appropriation for tuition reflects other revenue items in addition to revenues derived from undergraduate tuition, a 13.1% increase in the appropriation expenditure level would not necessarily translate into an average 13.1% academic year tuition increase.

2. In the past, the amount appropriated for tuition and fee revenues was determined by the Governor and the Legislature in the biennial budget process and was traditionally based on specific funding items in the University's budget. UW System requests for new funding typically reflect a sharing of costs between student fees and GPR. While the GPR/fee ratio is not statutory, it has been the policy of the Board of Regents to request a ratio of 65% GPR/35% PR tuition and fees. In their review of these funding requests for inclusion in the state budget, the Governor and Legislature may alter this ratio. In its biennial budget submission, the UW System may also reestimate the amount of tuition and fees generated due to anticipated increases in enrollments. Based on the amount appropriated and any additional expenditure authority it plans to use, the UW System calculates a systemwide tuition revenue target which is then used to set tuition.

3. Prior to the 1997-99 biennial budget act, the Legislature's primary role in the tuition setting process was to establish the appropriation level for tuition, which was the upper limit on the amount of tuition revenues that could be expended. While more revenues could be generated, expenditure of these additional revenues required approval by the Secretary of the Department of Administration and the Joint Committee on Finance under a 14-day passive review process. A provision in the 1997-99 state budget expanded the Regents' authority to expend tuition and fee revenues beginning with the 1997-98 academic year. Under that provision, the Regents were permitted to expend up to 104% of the amount appropriated by the Legislature in the first year of a biennium and up to 107% of the amount appropriated in the second year of a biennium. The University was also allowed to expend tuition revenues that were budgeted, but not expended in the prior year.

4. The Legislature's oversight role with regard to tuition levels was further diminished by a provision in 1999 Act 9 which changed the appropriation for tuition and fee revenues from an annual, sum certain to a continuing appropriation. This means that the University may expend all monies received under the academic student fee appropriation without limit and without the prior approval of the Legislature or the Joint Committee on Finance as is required for a sum certain appropriation. Act 9 included the statutory language aimed at limiting the purposes for which tuition can be raised for resident undergraduate students, which would be repealed under the Governor's budget proposal.

5. The Board is required to report annually by December 15, to the Secretary of Administration on the amount by which expenditures from the tuition revenue appropriation in the

previous fiscal year exceeded the amount shown in the appropriation schedule, the purposes for which the additional revenues were spent, and the amount spent for each purpose. In 1999-00, expenditures in the academic student fee appropriation exceeded the amount in the appropriation schedule by \$36.5 million; these expenditures included \$28.2 million in compensation related expenditures, \$7.3 million in enrollment related funding, and \$1.0 million for special fee programs expenditures. During the 1997-99 and 1999-01 biennia, the UW used tuition appropriation flexibility primarily to fund a portion of pay increases for unclassified UW employees.

Background -- Use of Tuition Revenues for Unclassified Compensation Increases

6. Salaries for unclassified UW faculty and staff are determined by the same pay plan process used for other nonrepresented employees except that the Board of Regents is required to submit a pay plan request for unclassified employees to the Secretary of the Department of Employment Relations (DER). The DER Secretary then submits a separate recommendation for UW unclassified staff pay plan increases to Joint Committee on Employment Relations (JCOER), which can approve, modify or reject the DER recommendation. The Board has the authority to provide salary increases beyond those included in the pay plan if the increases are awarded to correct a salary inequity or to recognize competitive factors.

7. In the 1999-01 biennium, the JCOER approved compensation increases of 2.0% in 1999-00 and 2.5% in 2000-01 to be funded through the compensation reserves and authorized 3.2% in 1999-00 and 2.7% in 2000-01 for unfunded adjustments for merit increases for faculty and academic staff. The UW System was able to use tuition revenues for the unfunded portion of the pay plan, at a cost of \$28.2 million PR in 1999-00 and \$33.6 million PR in 2000-01; however, the PR portion of the pay plan in 2000-01 was minimized by a provision in 1999 Act 9 that provided \$28 million in 2000-01 in order to freeze tuition for resident undergraduates at the 1999-00 rate.

8. In November, 2000, the Board of Regents approved a resolution to request 4.2% annual salary increases for unclassified faculty, academic staff and executives at an estimated cost of \$22.9 million GPR and \$10.1 million PR in 2001-02 and \$47.5 million GPR and \$20.9 million PR in 2002-03. The Board based the request on the need for the UW System to offer competitive market salaries in order to reach market parity with peer institutions by the end of the 2001-03 biennium. The Board estimated that, on average, UW salaries would be 2% below the peer average in 2000-01 and that the peers would provide average increases of 3.2% in 2001-02 and 2002-03. Based on this estimate, the total percentage needed to reach the peer average by the end of the biennium was calculated to be 8.6%, or approximately 4.2% annually.

9. Traditionally, salaries of unclassified UW faculty and staff are funded through a combination of GPR (69%) and tuition revenues (31%). Funding for salaries is not split on a 65% GPR/35% PR basis because a portion of faculty and staff responsibilities, such as public service and research, are not considered to be instruction-related and therefore, have no tuition component.

10. Typically, student fees only support the "instructional" portion of the UW budget. Exceptions to this occurred when nonstatutory provisions in the 1997-99 and 1999-01 state budgets

allowed the UW System to use tuition revenues to support the unfunded portion of the compensation plan for faculty and academic staff for those biennia. Consequently, a portion of the noninstructional cost of the salary increases for these employees was paid solely from tuition and fee revenues. In order to allow the Board of Regents to fund compensation increases solely using tuition revenues, nonstatutory provisions were included in 1997 Act 27 and 1999 Act 9. The provision permitted the Board to allocate sufficient tuition revenues for that portion of the pay plan increases for faculty and academic staff not funded through the compensation reserves. Since the nonstatutory provisions were effective in the 1997-99 and 1999-01 biennia only, and the bill does not include a comparable provision, it is not clear that the University could fund any portion of the 2001-03 pay plan using only tuition revenues.

11. It is estimated that each 1% increase in faculty and staff compensation that is funded entirely with tuition revenues would result in a 1.7% increase in tuition, whereas if these increases were supported according to the usual GPR/fee split, a 1% compensation would result in a 0.7% increase in average tuition.

12. In testimony on the 2001-03 budget bill, the President of the UW System stated, "it is important that we maintain the traditional GPR/tuition split on pay plan increases to keep tuition increases in check." While JCOER has not yet determined the increases which will be provided under the compensation plan, the amount available in the compensation reserves suggests that an annual 4.2% increase from GPR funds is unlikely.

Impact of the Proposal on Tuition

13. The impact of the proposal on UW tuition increases would depend on the extent to which the new authority would be used by the Board of Regents and the reasons for its use. Spending items specifically authorized in the bill would result in average tuition increases of 2.3% in 2001-02 and 1.6% in 2002-03 at all campuses except UW-Madison and UW-Milwaukee, at which the average increases are estimated at 3.7% in 2001-02 and 3.7% in 2002-03. These percentages do not include increases resulting from the compensation plan.

14. In addition to the proposed elimination on raising undergraduate tuition, the bill would also permit the Board to create or abolish faculty and academic staff GPR-funded positions without legislative approval. Depending on the extent to which the proposed flexibility is used, and the reasons for its use, average tuition increases could be greater than those resulting from items in the bill if the Board of Regents chose to increase tuition in order to fund spending items not included in the bill. On the other hand, use of the flexibility due to the generation of additional tuition revenues resulting from unanticipated increases in enrollment or activities such as distance education courses offered to adult students or customized courses provided to businesses, would not cause further tuition increases.

15. Based on historic tuition increases for undergraduate tuition, it is uncertain whether there is a connection between tuition authority and increases in undergraduate resident tuition. During the 1997-99 biennium, the Legislature allowed the Board 4% tuition expenditure flexibility

in the first year of the biennium and 7% in the second year; during this period, tuition for resident undergraduates increased 7.9% in 1997-98 and 4.9% in 1998-99. In part, the Board used this flexibility to fund faculty pay plan increases. Under the current tuition flexibility, tuition increased between 6.9% and 9.6% in 1999-00 and 0% in 2000-01 because of the tuition buy-down of \$28 million; however, tuition would have increased approximately 7% in 2000-01 in the absence of the tuition buy-down. For the past twenty years, the annualized rate of change for undergraduate tuition has been approximately 7%; between 1981 and 1991 it was approximately 9% and over the past ten years it has been approximately 6%. Given the short period of time in which the University has used tuition flexibility in setting tuition, there is inconclusive evidence to determine whether tuition flexibility accelerated the rate of tuition increases.

16. In her testimony on the bill, the President of the UW System stated that, "we are very sensitive to the need to maintain affordability." In addition, at the March Board of Regents meeting the UW System President stated that the Board is committed to no double-digit increases in regular tuition over the next biennium. While the current Board of Regents tuition policy specifies that, "tuition increases should be moderate and predictable, subject to the need to maintain quality," one could question whether a tuition increase not exceeding 9.9% would be considered moderate.

17. Students and student groups providing public testimony on the bill have opposed efforts to expand tuition authority as they have in past biennia. As in the past, students and student groups have expressed concern with the UW System using the tuition authority to fund initiatives, budget shortfalls and compensation increases on the "backs of students."

Impact of the Proposal on Legislative Oversight

18. According to executive budget staff, eliminating the restrictions on the purposes for which tuition revenues can be generated would give the UW System additional tuition flexibility to fund new initiatives using tuition and fees. However, the UW System has not found the current statutory limits for increasing undergraduate tuition restrictive, since the current allowable purposes cover a wide range of activities.

19. It could be argued that under the proposed expansion of tuition flexibility, oversight by the Governor and Legislature would continue under the proposal in the context of the biennial budget. The Legislature could, it is argued, repeal the authority if it disagreed with the Board of Regents' use of it. In addition, the bill would not eliminate the requirement that the Board of Regents report annually to DOA and the Joint Committee on Finance on the amount of expenditures from tuition and fee appropriations in the previous fiscal year that were in excess of the amounts appropriated. The existence of this reporting requirement preserves some level of legislative oversight.

20. The Legislature has delegated primary responsibility for the governance of the UW System to the Board of Regents, which has staff in the form of UW System administration. The Board is responsible for carrying out the purposes of the System, which includes enabling "students of all ages, backgrounds and levels of income to participate in the search for knowledge and

individual development." One could argue that the Board should be provided with the flexibility to perform its duties as it sees fit.

21. The Legislature's action in the 1999-01 budget act to grant flexibility through the continuing appropriation provision represented a significant departure from prior budgeting procedures as well as the expenditure and revenue authority of other state agencies. Given that the current flexibility provision has been in place for only one biennium, and that the UW System has not expressed concerns with the current restrictions, one could argue that the undergraduate tuition increase restrictions placed on the Board should be maintained in the absence of evidence that tuition revenues under the current law provision would be insufficient in the 2001-03 biennium.

ALTERNATIVES TO BILL

A. Appropriation for Tuition and Fee Revenues

1. Approve the Governor's recommendation to eliminate the restrictions on the Board of Regents for increasing resident undergraduate tuition and fees beginning in the 2002-03 academic year.

2. Modify the Governor's recommendation to clarify that the Board of Regents may allocate sufficient tuition revenues for that portion of the 2001-03 and future pay plan increases for faculty and academic staff not funded through compensation reserves, similar to the nonstatutory provisions included in 1997 Act 27 and 1999 Act 9.

3. Maintain current law.

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