



Legislative Fiscal Bureau

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

March 4, 2002

Joint Committee on Finance

Paper #1260

Resident Undergraduate Tuition 10% Increase Limit (UW System)

[LFB Summary of the Governor's Budget Reform Bill: Page 102, #3]

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

Restrict the UW System Board from increasing tuition for resident undergraduate students in 2002-03 by an amount that exceeds 10% of the tuition charged to resident undergraduate students in the 2001-02 academic year unless the Board obtains the approval of the Joint Committee on Finance under s.13.10 of the statutes and the approval of the DOA Secretary. Provide that the Board could increase tuition beyond the 10% limit for differential tuition initiatives in 2002-03 that are approved by the Board, and that are not already included in the tuition appropriation schedule. Specify that the Board could not increase differential tuition

for 2002-03 to offset proposed GPR funding reductions in the general program operations appropriations for university education, research and public service, and for the UW System administration appropriation.

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. Under Act 16, the amount appropriated for academic student fees increases by 1.45% in 2002-03, from \$509,373,600 in 2001-02 to \$516,746,200 in 2002-03. However, the appropriation schedule for tuition does not reflect adjustments related to tuition revenue funding of approved pay plan increases or revenue changes caused by unanticipated changes in enrollment. In addition, the appropriation schedule reflects other revenue items in addition to revenues derived from undergraduate tuition; as a result, a 1.45% increase in the appropriation expenditure level would not necessarily translate into an average 1.45% 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 and estimates of tuition and fees generated by the UW System due to changes in enrollments. As a result, the appropriation schedule was used as a systemwide tuition revenue target, which was 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 role with regard to tuition levels was further modified 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 current statutory language aimed at limiting the purposes for which tuition can be raised for resident undergraduate students.

5. During the 1997-99 and 1999-01 biennia and in 2001-02, the UW used tuition appropriation flexibility primarily to fund a portion of pay increases for unclassified UW employees and to accommodate unplanned enrollment increases. Based on current enrollment, and tuition revenue, the Board of Regents would need to increase tuition by an estimated 7% at most campuses and 9.1% at UW Madison and UW Milwaukee in 2002-03 for UW-System initiatives approved in Act 16 funded with tuition and Joint Committee on Employment Relations approved unclassified pay plan increases funded with tuition. For 2002-03, the approved 4.2% unclassified pay plan increase would be funded with \$6.2 million GPR and \$20.4 million PR from tuition revenue. 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. Since 1997-99, a portion of the noninstructional cost of the salary increases for these employees has been paid solely from tuition and fee revenues.

6. 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 GPR; however, tuition would have increased approximately 7% in 2000-01 in the absence of the tuition buy-down. In 2001-02, the Board increased tuition between 7% and 8.4%. For the past twenty years, the annualized rate of change for undergraduate tuition has been approximately 7%; between 1981 and 1991 it was approximately 8% and over the past five 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.

7. The Governor's proposal to cap tuition increases for resident undergraduates at 10% seeks to prevent tuition increasing significantly beyond the planned tuition expenditures for 2002-03 to offset GPR budget reductions. The Governor's proposed tuition cap accommodates budgeted tuition funded initiatives and the pay plan, but limits the ability of the Board of Regents to offset GPR budget reductions with tuition increases. The Board of Regent tuition policy specifies that, "tuition increases should be moderate and predictable, subject to the need to maintain quality." However, the UW System has not faced large GPR budget reductions since it was given the tuition authority in 1999; as a result, it is uncertain what sort of action the UW System Board of Regents would take in the absence of a tuition increase restriction. The Committee could consider making the proposed tuition increase limit permanent in order to increase tuition oversight by the Governor and Legislature and ensure that tuition increases remain moderate and predictable.

8. The Governor's tuition cap proposal exempts Board of Regents and student approved differential tuition initiatives from the cap as long as such initiatives are not used to offset

the proposed GPR reductions. Under current law, the UW System Board of Regents has the authority to set differential tuition rates within various academic programs across campuses. Currently, five campuses and all of the colleges have differential tuition for specific undergraduate programs or campus-wide differential tuition rates. For 2002-03, the Board has approved undergraduate differential tuition at UW-Whitewater and UW-Stout. The proposed tuition cap exemption for campus differential tuition initiatives could result in tuition increases greater than 10% for freshman at UW-Stout and all students at UW-Whitewater. According to DOA staff, the Governor's exemption recognizes the student support for the two approved differential tuition initiatives and the level of planning for implementation that has already occurred.

9. In comments to the Board of Regents, the UW System President acknowledged the challenge to the UW System in maintaining educational quality in the face of the Governor's proposed budget cuts. The Governor's proposal would reduce total GPR funds over the biennia by \$51 million. However, the resident tuition cap of 10% would enable the System to generate tuition revenue to fund budgeted tuition expenditures, and in her remarks the President anticipates that the UW System would be able to fund about half of the original economic stimulus-related initiatives, primarily with tuition funding, in 2002-03. According to the President, if the System must absorb further reductions in instructional funding or more limited tuition caps, the UW System would need to reduce instructional staffing and enrollments in 2002-03 and postpone systemwide initiatives.

10. Despite the need to maintain educational quality and proceed with planned UW System initiatives, one could question whether a tuition increase of 10% could be considered moderate, given current low rates of inflation. Based on historic tuition increases, the Committee could choose a lower tuition increase cap for resident undergraduates of 7%, which would ensure that tuition increases do not exceed the historic average without the approval of the Joint Committee on Finance under s.13.10 of the statutes and the DOA Secretary. To accommodate UW-Milwaukee and UW-Madison campus initiatives and approved compensation plans, the proposal could include a non-statutory provision enabling the Board to exceed the 7% cap at UW-Madison and UW-Milwaukee for resident undergraduates in 2002-03 in order for those campuses to carry out their approved campus initiatives. It is estimated that an increase of 9.1% would be needed at those campuses.

11. 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 continue to be provided with the current flexibility to perform its duties as it sees fit as well as fund approved tuition expenditures. Ultimately, the Legislature retains some oversight, in that it could repeal the authority to freely expend tuition monies if it disagreed with the Board of Regents' use of it.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to prohibit the UW System Board of Regents from increasing average tuition charged a resident undergraduate in the 2002-03 academic year compared to the average tuition charged a resident undergraduate in the 2001-02 academic year by more than 10% without first obtaining the approval of the Joint Committee on Finance under s.13.10 of the statutes and approval of the Secretary of Administration. Permit the Board to increase tuition for differential tuition initiative approved by the Board beyond 10% as long as such differential tuition increases are not used to offset decreases in the GPR appropriations.

2. Modify the Governor's recommendation to limit the UW System Board of Regents from increasing average tuition charged a resident undergraduate in the 2002-03 academic year compared to the average tuition charged a resident undergraduate in 2001-02 academic year by more than 7%. Specify that the Board could increase resident undergraduate tuition at UW-Milwaukee and UW-Milwaukee and UW-Madison in excess of 7% in 2002-03 over tuition charged to a resident undergraduate at these campuses in 2001-02 in order to fund the tuition funded portion of the Milwaukee Idea and Madison Initiative approved in Act 16. Permit the Board to increase tuition for differential tuition initiatives approved by the Board beyond 7% as long as such differential tuition increases are not used to offset decreases in the GPR appropriations.

3. Modify either of the above alternatives to make the annual increase limit for academic fees charged to an undergraduate resident student permanent.

4. Maintain current law.

Prepared by: John Stott