



Legislative Fiscal Bureau

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Joint Committee on Finance

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Tuition Offset for GPR Reduction (UW System)

[LFB 2003-05 Budget Summary: Page 448, #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. The UW System may expend all monies received under the appropriation without limit. 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. The UW System may expend all monies received under the appropriation without limit.

GOVERNOR

Increase tuition expenditure authority by \$50,000,000 in 2003-04 and \$100,000,000 in 2004-05 related to increasing tuition for the 2003-04 and 2004-05 academic years to partially offset base budget reductions of \$110,000,000 GPR in 2003-04 and \$140,000,000 GPR in 2004-05. Restrict the UW-System Board from increasing tuition for resident undergraduate students at UW-Madison or UW-Milwaukee by more than \$350 a semester over the tuition fee charged in the prior academic year during the 2003-04 and 2004-05 academic years, and for a student enrolled at any other UW System institution by more than \$250 a semester in the 2003-04 and 2004-05 academic years.

DISCUSSION POINTS

1. Under current law, the UW System Board of Regents has the authority to set separate tuition rates for state residents and nonresidents and also for different classes of students, extension courses, summer sessions, and special programs. However, current statutes limit the Board of Regents authority to set resident undergraduate tuition rates. For example, the current restrictions would prohibit the UW System from increasing the undergraduate resident tuition rate in order to offset budget reductions proposed by the Governor under SB 44 without an increase to the tuition appropriation, or a change to the statutes, permitting the Board to increase the undergraduate resident tuition for such a purpose.

2. The Legislature's role with regard to tuition levels was 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.

3. 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; however, the Board of Regents had the authority to set tuition levels for all classes of students.

4. The appropriation for tuition and fees includes revenue generated not only from the academic tuition schedule (91.1% 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 SB 44, the amount appropriated for academic student fees would increase by 24.2%, from an adjusted base of \$576.2 million in 2002-03 to \$715.5 million in 2004-05. However, the appropriation amount 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 amount reflects other revenue items in addition to revenues derived from undergraduate tuition; as a result, a 24.2% increase in the appropriation expenditure level would not necessarily translate into an average 24.2% tuition increase over the biennium.

5. Tuition increases from one year to the next are a result of one or more of the following: (a) increases in instructional costs; (b) increases in the percentage of cost assessed to the students; (c) enrollment changes (resident/nonresident mix and numbers); or (d) GPR funding levels that increase at a lesser rate than costs. Given the relationship between costs and tuition levels, as costs increase due to such items as compensation, program enrichment and expansion, tuition automatically increases. For the past twenty years, the annualized rate of change for undergraduate

tuition has been approximately 7% annually; between 1982 and 1992 it was approximately 8% annually and over the past ten years it has been approximately 6% annually. The percentage increase is lower over the last ten years, in part, due to provisions in 1999 Act 109 which provided \$28.0 million GPR in 2000-01 to replace a planned tuition increase of approximately 7% for resident undergraduates.

6. The policy of charging tuition at a public university reflects a view that there are personal or private benefits for the individual student, as well as public benefits that justify government investment in higher education. As a matter of public policy, it is difficult to assess the appropriate balance between the public and private benefits of higher education when determining what portion of the student's educational cost should be borne by the students themselves. Factors that may be considered in setting tuition include: whether or not students are paying their fair share; how tuition levels compare to those of similar institutions in other states; and whether the amount of the state subsidy is consistent with the perceived priority of public education in the larger context of the state's needs.

7. The UW System Board has set separate tuition levels for Madison, Milwaukee, the comprehensive campuses (four-year institutions), and UW Colleges. In 2002-03, annual tuition for resident undergraduate students is \$2,700 at UW Colleges (two-year campuses), \$3,000 at most comprehensive campuses, \$3,738 at UW-Milwaukee, and \$3,854 at UW-Madison. While each of the comprehensive campuses currently charges the same general tuition rate, some campuses have implemented differential tuition rates for specific programs or campus-wide differential tuition rates.

8. UW System resident undergraduates currently pay approximately 39% of their instructional cost through the tuition. The remaining 61% is subsidized through a mix of general purpose revenue and tuition revenue from undergraduate nonresident students who currently pay between 162% and 207% of their instructional costs. At the time of merger of the various UW campuses into one system in 1971, nonresident undergraduate students paid 100% of their instructional costs compared to 25% for residents.

9. Peer comparisons are frequently used in evaluating tuition charged at UW System campuses. The Big Ten Universities are generally cited when comparing tuition at UW-Madison to that of similar institutions, while the peer group commonly used for UW-Milwaukee consists of other urban campuses across the nation. The peer group for the UW comprehensive campuses includes other public universities in the Midwest. The following table summarizes the distance to the peer median for UW-Madison, UW-Milwaukee, and the comprehensives for 2002-03. Currently UW-Madison undergraduate resident tuition is \$1,124 below the peer group median, while UW-Milwaukee is \$1,318 lower and the comprehensive campuses are \$865 lower. UW-Madison has the second lowest resident undergraduate tuition of its Big Ten peers, with Iowa slightly lower. The UW System Board of Regents current tuition policy includes increasing tuition over time to within 95% of the peer group median.

2002-03 UW System Peer Group Undergraduate Resident Tuition Comparisons

	<u>Tuition and Segregated Fees</u>	<u>Per Group Mid-Point</u>	<u>Distance from Mid-Point</u>
UW-Madison	\$4,423	\$5,547	-\$1,124
UW-Milwaukee	4,353	5,671	-1,318
Comprehensives	3,604	4,469	-865

10. Another approach to comparing tuition levels between states is to examine the relationship between tuition levels and state income measures, representing ability to pay. Based on both on measures of resident undergraduate tuition as a percentage of per capita disposable personal income and median household income, tuition in Wisconsin is more affordable than all other Big Ten states except Iowa.

11. The Governor's budget proposal would limit the maximum increase in resident undergraduate tuition to \$250 per semester over the prior year tuition at the colleges and comprehensive campuses, and to \$350 per semester at the doctoral campuses for both years of the biennium. The Governor's proposal would increase the UW System tuition appropriation by \$50 million in 2003-04 and \$100 million in 2004-05 to offset the GPR budget reductions. Without the appropriation increase provided in the Governor's proposal, the Board would not be able to increase undergraduate resident tuition in order to offset the budget reductions, because the current statutory authority regarding the ability of the Board of Regents to set undergraduate resident tuition rates provides a limited set of circumstances in which the Board can increase tuition.

12. Based on current enrollment and student mix, the resident undergraduate tuition revenue would increase by an estimated \$58.3 million in 2003-04 and \$116.8 million in 2004-05. If the tuition increase were applied to all classes of students, revenue would increase by \$70.9 million in 2003-04 and \$143.1 million in 2004-05. According to UW System staff, the Board of Regents would most likely apply the tuition increase specified under the Governor's budget to all classes of students in order to provide sufficient tuition funding for ongoing tuition-related expenditures during the biennium. UW System staff estimate additional tuition related expenditures of \$20.5 million in 2003-04 and \$29.2 million in 2004-05. These additional costs include the tuition-funded share of cost-to-continue expenditures, health insurance premiums, fuel and utilities, and physical plant related expenditures. The estimate does not include possible new tuition funding for 2003-05 classified and unclassified pay plans.

13. If implemented, the tuition increase for resident undergraduate students would help offset both the \$250 million GPR base reduction and \$49.7 million related to other tuition funded expenditures. According to executive budget staff, the increase of \$250 and \$350 per semester was considered to be a reasonable increase given the size of the budget reduction and the level of tuition charged in neighboring states. By capping the dollar amount of the increase rather than providing open-ended authority to increase tuition revenue or specifying a percentage increase limit, the

Governor's proposal would specify the tuition increase that parents and students can expect in dollar terms.

14. As shown in the following table, the application of a \$250 and \$350 per semester increase would result in tuition increases ranging from 15.9% at UW-Stout to 18.7% at UW-Milwaukee in 2003-04, and between 13.7% and 15.8% in 2004-05. This variation is caused by differences in the tuition base to which the tuition increase would be applied.

	2002-03 Undergraduate Resident <u>2002-03 Tuition</u>	2003-04 Undergraduate Resident <u>2003-04 Tuition</u>	Percent Increase	2004-05 Undergraduate Resident <u>2004-05 Tuition</u>	Percent Increase
Doctoral Campuses					
Madison	\$3,854	\$4,554	18.2%	\$5,254	15.4%
Milwaukee	3,738	4,438	18.7	5,138	15.8
Comprehensive Campuses					
Eau Claire	3,100	3,600	16.1	4,100	13.9
Green Bay	3,000	3,500	16.7	4,000	14.3
La Crosse	3,000	3,500	16.7	4,000	14.3
Oshkosh	3,000	3,500	16.7	4,000	14.3
Parkside	3,000	3,500	16.7	4,000	14.3
Platteville	3,000	3,500	16.7	4,000	14.3
River Falls	3,000	3,500	16.7	4,000	14.3
Stevens Point	3,000	3,500	16.7	4,000	14.3
Stout	3,150	3,650	15.9	4,150	13.7
Superior	3,000	3,500	16.7	4,000	14.3
Whitewater	3,106	3,606	16.1	4,106	13.9
Colleges Average	2,700	3,200	18.5	3,700	15.6

15. In comments to the Board of Regents, the UW System President acknowledged the challenge to the UW System in maintaining educational quality and access in the face of the Governor's proposed budget cuts. Even with a tuition increase at the maximum allowed under SB 44, UW System undergraduate resident tuition would likely remain \$700 to \$1,100 below the midpoint of the peer institutions. In 2002-03, tuition at public four-year institutions in the region increased by between 8% in Wisconsin to 20% in Iowa. Most other Big Ten campuses are expected to increase tuition from 10% to 20% in 2003-04.

16. In public testimony on SB 44, the United Council of Students and other individuals have expressed concern with both the increase in tuition and the size of the budget reduction proposed by the Governor. However, other students have expressed through public testimony a willingness to pay the tuition increases proposed by the Governor provided that access and quality

are maintained. Indeed, while students would be paying more in tuition over the 2003-05 biennium, they could have fewer scheduling options for courses, larger class sizes, fewer elective course offerings, fewer majors to choose from, and receive less service than in past years.

17. While willing to pay additional tuition, the United Council students have mentioned that tuition increases of between 10% and 14% would be more reasonable if the overall GPR base budget reduction for the UW System would be reduced. A 10% annual tuition increase for resident undergraduates would increase tuition revenue by \$33.6 million in 2003-04 and \$70.6 million in 2004-05; a 14% tuition increase would increase tuition revenue by \$47.0 million in 2004-05 and \$100.7 million in 2004-05. However, if the 10% tuition increase were applied among all classes of students, total tuition revenue would increase by \$57.1 million in 2003-04 and \$119.9 million in 2004-05; or \$79.9 million and \$171.0 million with a 14% increase.

18. If the Board of Regents were permitted to increase tuition at a lower rate than proposed by the Governor, the UW System would need to increase nonresident and graduate school tuition at a higher dollar amount than resident undergraduate tuition in order to achieve tuition revenue sufficient to offset the proposed base budget reduction by \$150 million over the biennium as well as the estimated \$49.7 million for tuition funded cost-to-continue expenditures.

19. Legislative requirements for nonresident undergraduate tuition surcharges in both 2001 Act 16 and 2001 Act 109 have increased the cost of tuition for nonresident students to the highest rates among the UW System's peer institutions. Representatives from the UW System argue that nonresident undergraduate tuition has become high enough to discourage nonresident students from attending UW System campuses, reducing UW System's nonresident tuition revenue and the subsidy it provides for resident undergraduates. As evidence, they point to experience in 2002-03, when there was an 11% decline at UW-Madison in the number of nonresident freshman. Continued reliance on nonresident tuition surcharges or larger nonresident tuition increases could result in reduced nonresident tuition revenue if UW System nonresident tuition rates are beyond a competitive market rate.

20. Under current law, the UW System Board of Regents has the authority to set differential tuition rates within various academic programs across campuses. In practice, the Board has not permitted campuses to implement differential tuition initiatives without student support. Typically, differential tuition is used to enhance an array of programs and student services including, advising, counseling, career development support, experiential learning/internships, and increase access to laboratories and libraries.

21. Currently, five campuses and all of the colleges have differential tuition for specific undergraduate programs or campus-wide differential tuition rates. For 2003-04, students at UW-Oshkosh, UW-Eau Claire, UW-Whitewater, and UW-Stout have requested, and the Board of Regents have approved, requests for either new differential tuition initiatives or differential tuition rate increases that could not be implemented with the tuition cap. Additionally, there are several other institutions developing various tuition initiatives that will be negatively affected by the Governor's tuition cap proposal if they are approved.

22. The Governor's tuition cap proposal would limit tuition increases beyond the cap for the Board of Regents and student approved differential tuition initiatives. As a result, the Committee may want to permit the Board to increase tuition beyond the tuition cap at campuses where students and the Board have already approved tuition initiatives as long as such initiatives are not used to offset the proposed GPR reductions. Student groups at campuses that have recently approved differential tuition initiatives have expressed a willingness to pay differential tuition over and above the tuition increases allowed under the budget.

23. An alternative model to across-the-board tuition increases for resident undergraduate students would be to charge higher tuition rates for new students than for those returning to campus under what is often referred to as tiered tuition. The Chicago and Urbana-Champaign campuses of the University of Illinois began charging new students a \$1,000 annual surcharge in 2001-02. Ohio State, Purdue, Indiana, and Penn State Universities have also implemented tiered tuition plans. In Fall 2002, Ohio State raised tuition for new students by 18%, to \$5,692, while returning students pay only 9% more.

24. The table below illustrates the effect on tuition of a tiered tuition alternative for the UW System that would increase resident undergraduate tuition revenue by approximately \$50 million in 2003-04 and \$100 million in 2003-04, the same amount as proposed by the Governor in SB 44.

25. Under the tiered tuition alternative, the UW System Board of Regents would be permitted to increase base resident undergraduate tuition by 12% in each year of the biennium. In addition, the Board would be permitted to charge a tuition surcharge for students enrolled starting with the Fall 2003 semester, \$350 a semester over tuition fee charged for continuing resident undergraduate students at UW-Madison and UW-Milwaukee, and a \$250 per semester surcharge for new students enrolled at any other UW System institution. The new student surcharge would become part of the tuition base for determining subsequent tuition rates for students enrolled after Fall 2003.

New Student Surcharge Tuition Model Resident Undergraduate Tuition Revenue

	<u>UW-Madison</u>	<u>UW-Milwaukee</u>	<u>Comprehensives</u>	<u>Colleges</u>
2002-03 Tuition	\$3,854	\$3,738	\$3,000	\$2,700
2003-04 Tuition				
Students Enrolled Prior to Fall 2003	4,316	4,187	3,360	3,024
Students Enrolled After Fall 2003	5,016	4,887	3,860	3,524
2004-05 Tuition				
Students Enrolled Prior to Fall 2003	4,834	4,689	3,763	3,387
Students Enrolled After Fall 2003	5,618	5,473	4,323	3,947

26. Tiered tuition would allow the UW System to move closer to the peer tuition average over time while keeping tuition increases for returning students lower than the Governor's proposal. The tiered tuition alternative would also provide the UW System with additional tuition revenue in order to maintain the current access rate of 33% for recent high school graduates. However, the tiered tuition alternative would place a greater burden on new students, even after consideration of the additional financial aid provided in SB 44. In addition, a new-student surcharge may discourage more students from attending the UW System. Further, many students have already applied and been accepted for Fall 2003, anticipating the tuition increase proposed by the Governor.

27. The establishment of resident tuition levels in Wisconsin is the culmination of many years of policy development. The rate of tuition impacts access to higher education, financial aid, and educational quality. It also illustrates the significance of higher education in the state's hierarchy of priorities. The decision by the Governor with regard to both tuition and the level of state funding provided to the UW System represents a significant shift in how higher education is funded in the Wisconsin. However, given the state's fiscal constraints, it may be necessary to reduce state funding for the UW System and to allow for tuition increases at a rate higher than the historical average of 7% annually.

ALTERNATIVES

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation to specify that the tuition limit would not apply to either current or future differential tuition initiatives approved by both students and the UW System Board of Regents.
3. Delete the Governor's recommendation and, instead, decrease tuition expenditure authority and permit the UW System Board of Regents to increase undergraduate resident tuition by one of the following:
 - a. Decrease tuition expenditure authority by \$16,400,000 PR in 2003-04 and \$29,400,000 PR in 2004-05 and permit the UW System Board of Regents to increase resident undergraduate tuition by up to 10% annually over tuition charged in the prior academic year for the 2003-04 and 2004-05 academic years.

Alternative 3a	PR
2003-05 FUNDING (Change to Bill)	- \$45,800,000

- b. Decrease tuition expenditure authority by \$9,700,000 PR in 2003-04 and \$14,500,000 PR in 2004-05 and permit the UW System Board of Regents to increase resident undergraduate tuition by up to 12% annually over tuition charged in the prior academic year for the

2003-04 and 2004-05 academic years.

Alternative 3b	PR
2003-05 FUNDING (Change to Bill)	- \$24,200,000

c. Decrease tuition expenditure authority by \$3,000,000 PR in 2003-04 and permit the UW System Board of Regents to increase resident undergraduate tuition by up to 14% annually over tuition charged in the prior academic year for the 2003-04 and 2004-05 academic years.

Alternative 3c	PR
2003-05 FUNDING (Change to Bill)	- \$3,000,000

4. Delete the Governor's recommendation to limit increases in resident undergraduate tuition to a maximum of \$250 per semester at the UW System comprehensive campuses and UW Colleges and \$350 per semester at UW System doctoral campuses, and, instead, authorize the UW System Board of Regents to increase tuition for resident undergraduates by up to 12% annually in the 2003-05 biennium. In addition to the base tuition increase for resident undergraduate students, authorize the UW System Board of Regents to implement a tuition surcharge of up to \$350 a semester for new resident undergraduate students enrolled at UW-Madison and UW-Milwaukee in the 2003-04 academic year, and up to \$250 a semester surcharge for new resident undergraduate students enrolled at any other UW System institution in the 2003-04 academic year. Authorize the UW System Board of Regents to maintain the tuition surcharge as part of the resident student tuition base for determining subsequent tuition rates for all new students enrolled in the UW System after 2003-04.

5. Delete provision.

Alternative 5	PR
2003-05 FUNDING (Change to Bill)	- \$150,000,000

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