



## Legislative Fiscal Bureau

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

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Joint Committee on Finance

Paper #840

### State General Aid to Technical College Districts (WTCS)

[LFB 2009-11 Budget Summary: Page 679, #2]

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#### **CURRENT LAW**

Of the \$1,414.8 million in total revenues received by Wisconsin Technical College System (WTCS) districts in 2007-08, almost half (48.1%) was from property taxes. The remaining \$734.2 million consisted of tuition and fees (13.7%), federal aid (11.0%), state aid (9.6%), and self-financing operations and miscellaneous revenues (17.5%).

State aid is provided to WTCS districts in the form of unrestricted general aid and through categorical aids that support specific programs or services. In 2008-09, \$118,415,000 GPR is provided for state general aids and \$17.8 million GPR and \$1.2 million PR is appropriated for various categorical aid programs. General aids are distributed through a formula that takes into account each of the 16 districts' costs, FTE students, and equalized property valuation.

#### **GOVERNOR**

Reduce funding for state general aid to technical colleges by \$1,684,200 annually, from base level funding of \$118,415,000, which would represent a decrease of 1.4%.

#### **DISCUSSION POINTS**

1. Of the \$273.6 million in total state aid appropriated to WTCS districts in the 2007-09 biennium, \$236.8 million (86.5%) is distributed as general unrestricted aids through a cost-sharing formula designed to partially equalize the fiscal capacities of the 16 WTCS districts. Districts with less property valuation behind each student receive a higher percentage of their aidable costs through the formula because they are less able to generate as much property tax

revenue at a given mill rate than districts with higher property valuations. In addition to partially equalizing the revenue available for district programs, general aid is also provided as a form of property tax relief and to address district needs not met by categorical aids, particularly operational costs.

2. In the 2009-11 WTCS agency budget request, the Board requested an increase in general aid of \$13,341,500 annually, an 11.3% increase over base level funding. Funding would be used to expand programs at each college to serve an additional 4,500 students statewide each year. Initiatives proposed in each district would increase the number of graduates produced in advanced manufacturing, healthcare, and renewable energy fields.

3. The following table shows the amounts appropriated for general aids to WTCS districts and the ratio of general aids to aidable costs since 1999-00. Aidable costs represent expenditures, including debt service, associated with providing postsecondary, vocational-adult, and collegiate transfer programs that are funded by property taxes and state general aids.

	<u>State General Aids</u>		<u>Aidable Costs</u>		<u>Ratio of Aid to Cost</u>	<u>Change in CPI**</u>
	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>		
1999-00	\$115,945,000	---	\$526,551,225	---	22.0%	2.2%
2000-01	118,415,000	2.1%	559,577,270	6.3%	21.2	3.4
2001-02	118,415,000	0.0	598,842,862	7.0	19.8	2.8
2002-03	118,415,000	0.0	631,725,473	5.5	18.7	1.6
2003-04	118,415,000	0.0	666,710,083	5.5	17.8	2.3
2004-05	118,415,000	0.0	696,154,218	4.4	17.0	2.7
2005-06	118,415,000	0.0	710,594,304	2.1	16.7	3.4
2006-07*	117,815,000	-0.5	723,358,432	1.8	16.3	3.2
2007-08	118,415,000	0.5	762,017,605	5.3	15.5	2.8
2008-09	118,415,000	0.0	806,560,089	5.8	14.7	3.8

\*Funding was reduced by \$600,000 due to lapse requirement under 2005 Act 25

\*\*Changes in CPI-All Urban Consumers for calendar years 1999 through 2008.

4. As the table indicates, state general aid as a share of aidable costs has declined over the past decade from 22.0% in 1999-00 to an estimated 14.7% in 2008-09. If funding for general aids were decreased according to the Governor's recommendation and aidable costs were to increase by 5.0% per year, the state's share of aidable costs would decline to 13.1% by the end of the 2009-11 biennium. Over the past decade, aidable costs have increased an average of 4.8% annually. This rate exceeded the rate of inflation, as measured by the consumer price index, in seven of the past 10 years. On the other hand, WTCS cost increases are more in line with national averages as measured by the higher education price index, a measure of the average relative cost of a fixed set of goods and services typically purchased by colleges and universities, excluding research. The higher education price index has averaged 4.0% annually over the past decade.

5. A number of factors contribute to district cost increases. Employee contract settlements and the need to compensate instructors at levels competitive with what they would earn in the private sector are cited as cost drivers. Increased demand on existing programs, including

information technology and skilled trades, as well as changes in the modern workplace and workforce, have resulted in investments by districts in emerging technology and more flexible hours of instruction. In the past five years, WTCS has more than doubled program capacity in several high-demand healthcare programs, but there are still waiting lists for many healthcare programs. Overall, since the last increase in state general aid, technical college enrollments have increased by over 20%, from 59,700 FTE in 2000-01 to 71,900 FTE in 2008-09.

6. WTCS is also required to provide a number of programs that generate no tuition revenue. By law, adult basic education, adult high school, and English as a second language programs are exempt from tuition. In 2007-08, technical colleges spent \$68.5 million providing these courses for nearly 60,000 students (5,955 FTEs). Through the incentive grants categorical aid program, \$3.4 million GPR reimbursed about 5% of those costs. WTCS is also required to grant a 100% remission of tuition, less any amount paid by federal programs, to qualified veterans, spouses, and children of eligible veterans. For 2007-08, the number of students receiving remissions through the program was 3,028, a 52% increase from the prior year. In terms of foregone tuition revenue, the value of these remissions equaled \$5.0 million, of which technical colleges were reimbursed \$1.1 million, or 22%, under the remissions reimbursements program administered by the Higher Educational Aids Board.

7. Tuition revenues offset a relatively small portion of operational costs. Historically, technical colleges have had low tuition, in order to preserve affordability and promote access to the system. Technical colleges were originally trade schools established as part of the public school system, and were free of charge until 1975. Under current law, tuition for state residents enrolled in postsecondary/vocational programs must equal at least 14% of the estimated statewide operational cost of these programs. For collegiate transfer courses, tuition must equal at least 31% of statewide operational cost for such programs. This percentage was initially set for comparability with resident tuition at the two-year UW Colleges. However, the WTCS Board may set either percentage higher, in order to generate more revenue. The following table shows per credit WTCS resident tuition since 1999-00.

	Postsecondary/ <u>Vocational</u>	<u>% Change</u>	Collegiate <u>Transfer</u>	<u>% Change</u>
1999-00	\$59.25	--	\$81.30	--
2000-01	61.50	3.80%	85.90	5.66%
2001-02	64.00	4.07	90.00	4.77
2002-03	67.00	4.69	94.00	4.44
2003-04	70.00	4.48	97.00	3.19
2004-05	76.00	8.57	103.00	6.19
2005-06	80.50	5.92	109.10	5.92
2006-07	87.00	8.07	117.90	8.07
2007-08	92.05	5.80	124.70	5.77
2008-09	97.05	5.43	131.50	5.45
2009-10	101.40	4.50	136.10	3.50

8. In 2008-09, the postsecondary/vocational rate was set to recover 18.1% of costs. Similar cost recovery percentages are targeted for 2009-10 tuition rates. As the table shows, since

1999-00, tuition for postsecondary/vocational adult programs has increased from \$59.25 per credit to \$97.05 per credit in 2008-09, or 63.8%. That rate will increase 4.5% to \$101.40 in 2009-10, or \$3,042 annually to attend full time. This amount is nearly 21% higher than the 2008-09 national average for public two-year postsecondary institutions, but in line with the 2008-09 Midwest regional average of \$3,065 annually. In 2008-09, the collegiate transfer rate was set to recover 37.2% of those costs. Similar cost recovery percentages are targeted for 2009-10 tuition rates. Since 1999-00, tuition for collegiate transfer courses has increased from \$81.30 per credit to \$131.50 per credit in 2008-09, or 61.7%. That rate will increase to \$136.10 per credit for 2009-10, which would represent an increase of 3.5%. Still, the annual full-time rate of \$4,083 is less than the \$4,268 charged by the UW Colleges in 2008-09. (The Board of Regents has not yet set tuition rates for 2009-10, but the Chancellor of UW Colleges has requested no change in tuition.) It could be argued that, if technical colleges require more revenue, the State Board should set tuition at rates sufficient to recover a greater percentage of operational costs.

9. Because WTCS has historically experienced increased demand during times of economic recession or high unemployment, staff for the system expect enrollments to increase substantially during the 2009-11 biennium. Wisconsin's unemployment rate has increased rapidly in recent months, with unadjusted figures jumping from 4.4% in October, 2008, to 8.8% in February, 2009. Statewide, the Department of Workforce Development (DWD) estimates that 73,000 jobs were lost in 2008, with the rate of job losses accelerating more recently. In January and February of 2009 alone, an estimated 19,400 additional jobs were shed.

10. At the same time, enrollments across the system have increased an average of 3.3% in 2008-09, and locally, individual districts have experienced sharper increases. Following the closing of the Janesville General Motors plant, Blackhawk Technical College district saw the largest jump in enrollment in the state, in percentage terms. Covering Green and Rock counties, Blackhawk's enrollment increased 20% from 1,905 FTE in spring 2008 and to 2,285 FTE in spring 2009. At the same time, Janesville's unemployment increased to 14.6% in February, 2009, from 6.0% in February, 2008, and unemployment in the city of Beloit increased from 8.1% to 16.9% (according to unadjusted DWD figures).

11. Funding is provided to local workforce development boards for dislocated worker training under the ARRA, the federal economic recovery legislation. Technical colleges are expected to be a major provider of that training. However, there is no direct stimulus funding provided for technical college operations or infrastructure that might replace reduced general aid. At the time of writing, it is unknown whether workers will receive tuition assistance or if training could be provided on a contract basis, at a higher rate of cost recovery.

12. Some have argued that the ability of technical college districts to increase the property tax levy is a reason to reduce or limit the growth of state aid increases. Since WTCS has access to this local revenue source, the state can reduce general aids without denying WTCS additional revenues. In this case, local district boards would have to determine the level of resources for their local operations within the state mill rate limit on operating levies. On the other hand, state aids play an important role in supporting the technical college system. General aids are used to equalize the fiscal capacities of the 16 districts to ensure that an adequate revenue base is available

to fund technical education programs in all areas of the state. In addition, the growing dependence on the property tax to fund the system can result in fiscal inequities between districts with higher local tax bases and those with lower than average tax bases. Furthermore, concerns can be raised regarding the increasing burden being placed on local taxpayers to fund a statewide mission of technical and occupational education and workforce development.

13. Since 1996-97, the state's property tax relief efforts have largely focused on elementary and secondary school aids. Most of the state's other major local aid programs were frozen or received modest increases, while the Governor and Legislature appropriated funds to meet the state's commitment to fund two-thirds of K-12 partial school revenues.

14. Under current law, WTCS district levies for all purposes except debt service cannot exceed 1.5 mills. For districts at the mill limit, increases in revenue are essentially limited to increases in their equalized property values. Over the past decade, the relatively higher rate of increase in property values allowed most districts to increase their property tax revenues while remaining at or below the 1.5 mill limit. It has been the growth in property values, and in turn property taxes, that has provided the largest source of additional funding to districts, rather than increases in state aids.

15. However, the trend toward aggregate increases in property valuations statewide is expected to change in the 2009-11 biennium. According to preliminary figures from December, 2008, property valuations will be stagnant or decline over the next two years, part of the fallout from an economic recession spurred by national home mortgage and credit crises. Estimates of statewide property taxes were prepared by this office in April, 2009, and statewide equalized values are projected to decrease by 0.8% in 2009 and increase by 0.2% in 2010, compared to 8.1% annual average growth between 2000-01 and 2007-08. These figures will vary substantially among municipalities.

16. In 2008-09, two districts are at the 1.5 mill rate limit (Fox Valley and Milwaukee), and one is nearly at the limit at 1.49 mills (Western). The limited fiscal capacity of largely rural districts including Western has been compounded over the past decade by relatively low rates of increase in property valuation and reductions to the property tax base due to the full implementation of farmland use value assessment. Press accounts of early estimates by the Assessment Commissioner of the City of Milwaukee indicate the City's total assessed property value could fall at least 5% this year. The Fox Valley area is also expected to see limited overall growth. As property values stagnate or decline, if state aid is reduced, the limited ability to respond to programming needs of residents and employers may expand beyond the three districts currently at or near the mill rate limit.

17. Due to changes in district aidable costs and equalized valuations per FTE, a district's general aid payment typically varies from year to year, even when the total amount appropriated for general aids remains constant. As a result, the anticipated impact on each technical college district of a reduction in general aid would differ. In each case, the impact would depend on the ability and willingness of the district board to raise property taxes, reallocate resources among programs and services, and forego planned expansions of programs and services. Fiscal factors that would

determine how a district would respond to a reduction in general aid would include how close the district is to the 1.5 mill rate limit; the anticipated relative increase, or decrease, in equalized property valuations in the district compared to operational cost increases; and concerns about the impact of property tax increases in the context of an economic downturn.

18. Given the increased demand for WTCS programs, the Committee may wish to consider providing additional funding for general aids compared to the levels proposed in AB 75. This alternative would provide additional resources to the WTCS system and reduce the reliance on property taxes or tuition to fund increasing enrollment at WTCS districts.

19. The proposed reduction in general aids would be one of many reductions in GPR funded programs across state government. State agencies are being directed to operate with less GPR support, and other GPR-funded local assistance programs would be reduced as well.

**ALTERNATIVES**

1. Approve the Governor's recommendation to reduce funding for state general aid to technical colleges by \$1,684,200 annually, from base level funding of \$118,415,000, which would represent a decrease of 1.4%. Total funding would equal \$116,730,800 GPR annually.

2. Increase general aids to WTCS districts by one of the following percentages:

**GPR Funding Amount Calculated as a Change to Bill**

	<u>Annual % Increase</u>	<u>2009-10</u>	<u>2010-11</u>	<u>Total</u>
a.	1.0%	\$2,868,400	\$4,064,400	\$6,932,800
b.	2.0	4,052,500	6,468,200	10,520,700
c.	3.0	5,236,700	8,895,700	14,132,400
d.	4.0	6,420,800	11,346,900	17,767,700
e.	5.0	7,605,000	13,821,700	21,426,700
f.	6.0	8,789,100	16,320,300	25,109,400

3. Delete provision. Under this alternative, base level funding for WTCS districts would be retained at \$118,415,000 GPR.

<b>ALT 3</b>	<b>Change to Bill Funding</b>
GPR	\$3,368,400

Prepared by: Layla Merrifield