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Joint Committee on Finance

Paper #810

UW System General Program Operations (UW System)

[LFB 2023-25 Budget Summary: Page 664, #2]

CURRENT LAW

Most of the GPR funding for the UW System is provided in a general program operations appropriation with adjusted base level funding of \$1,001.9 million. There is also a GPR debt service appropriation with adjusted base level funding of \$209.5 million and five other smaller GPR appropriations with combined adjusted base funding of \$8.8 million, including \$4.4 million for renewable energy and \$2.5 million for the Freshwater Collaborative.

DISCUSSION POINTS

1. Assembly Bill 43/Senate Bill 70 would provide an additional \$22.1 million in 2023-24 and \$44.3 million in 2024-25 for UW System operations in the UW System's largest GPR appropriation for general program operations. DOA budget staff indicate this additional funding would be flexible and discretionary. According to UW System, the funding is intended to offset increased inflationary costs of goods and services and provide ongoing support for key initiatives at UW institutions such as dual enrollment; equity, diversity, and inclusion efforts; Title IX compliance; sustainability; and student mental health services. Additionally, funds would be utilized to increase compensation to recruit and retain critical faculty and staff in information technology, facilities, behavioral health, and academic advising.

2. To show the long-term trend of GPR funding for the UW System, the UW System's internal budget document (the Redbook) can be used to show GPR funding allocated by spending purpose. Excluding debt service, GPR funding for UW System operations totaled \$930.5 million in 2012-13. (Redbook numbers include funding for the State Laboratory Hygiene and the Veterinary Diagnostic Laboratory.) For 2022-23, the comparable number is \$1,027.1 million GPR, an increase of 10.4%. However, over that time, the consumer price index (CPI) increased by 27.5%, meaning the GPR funding increase was less than half the increase in inflation over the period. Table 1 shows the UW System's GPR operating budget from 2012-13 through 2022-23.

TABLE 1

**UW System GPR Operating Budget
Excluding Debt Service
(in Millions)**

<u>Fiscal Year</u>	<u>Amount</u>	<u>Fiscal Year</u>	<u>Amount</u>
2012-13	\$930.5	2018-19	\$904.5
2013-14	915.5	2019-20	936.2
2014-15	933.1	2020-21	963.5
2015-16	802.5	2021-22	1,005.9
2016-17	832.9	2022-23	1,027.1
2017-18	840.4		

3. Since Spring, 2020, the COVID-19 pandemic has had a significant impact on UW System's operations and financial condition. UW estimates a loss of approximately \$513 million due to COVID-19-related enrollment declines including forgone tuition and forgone auxiliary revenues such as housing and dining revenue. Other significant costs related to the pandemic include testing, personal protective equipment (PPE), and technology/telecommuting. As of March, 2022, the most recent data available, UW System estimates a net loss due to the COVID-19 pandemic of approximately \$210 million as shown in Table 2.

TABLE 2

**Net Impact of COVID-19 to UW System
(\$ in Millions)**

Additional expenses	-\$299
Lost revenue (including tuition losses)	-513
Federal aid revenue	<u>602</u>
Total	-\$210

4. Like many sectors of the U.S. economy, higher education has faced significant inflationary cost pressures in recent years. According to data from Commonfund, an asset management firm that tracks inflation in the higher education sector, the cost of running a higher educational institution increased by 2.7% in fiscal year 2020-21, and by 5.2% in fiscal year 2021-22, the highest increase since 2001. Commonfund calculates inflation for the higher education sector based on salaries, utilities, supplies and materials, and fringe benefits. In 2022, utilities were the primary driver of cost increases, with an increase of 43.1%, followed by supplies and materials costs which rose by 21.5%. Faculty salaries rose the least, by only 2.1%. This is consistent with UW System, where salary increases averaged 2.6% across the system in 2021-22.

5. In response to these rising costs, many colleges and universities have increased tuition. On March 30, 2023, the Board of Regents approved tuition increases for the 2023-24 school year for both residents and non-residents. The Regents also approved increases in segregated fees and room and board fees. For residents, the increase in tuition would average 5.1% and the total increase in tuition and segregated fees would average 4.9% across the system. For example, UW-Madison's tuition would increase by 4% to \$9,646 (from \$9,273), for a total cost of \$11,215 including segregated fees (from \$10,796). Tuition at UW-Oshkosh would increase to \$6,806 (from \$6,422) with fees increasing from \$1,373 to \$1,452, for total tuition and fees of \$8,258 (from \$7,795), an increase of 5.9%. Overall, UW estimates the increased tuition, segregated fees, and room and board fees are expected to generate approximately \$75.5 million in increased annual revenue, including \$38 million from general increased tuition, \$19.5 million from increased differential tuition, and \$18 million from increased segregated fees and room and board fees.

6. During five of the last six most recent biennia, the Legislature has included provisions in the biennial budget act that have limited the amount by which the Regents could increase resident undergraduate tuition rates. Under 2011 Act 32, the Regents were prohibited from increasing tuition for resident undergraduate students by more than 5.5% annually in 2011-12 and 2012-13. Beginning in the 2013-15 biennium, each biennial budget act until 2021 Act 58 prohibited increases in resident undergraduate tuition rates. As the 2021-23 budget act (2021 Act 58) did not include a tuition freeze provision, there were no limits on the Regents' authority to set resident undergraduate tuition beginning in the 2021-22 academic year under current law. However, the Board opted not to increase resident undergraduate tuition in the 2021-22 or 2022-23 academic years. While tuition was frozen, UW System utilized base funding and tuition reserves, also known as program revenue (PR) balances, to fund compensation and fringe benefit increases. From June 30, 2013, to June 30, 2022, the tuition revenue PR balance decreased from \$551.5 million to \$298.3 million. According to UW System, the \$298.3 million balance represents 39.4 days of operating expenses. UW System estimates the tuition revenue PR balance will be approximately \$242.4 million at the close of fiscal year 2022-23 and \$204 million at the close of fiscal year 2023-24. According to UW System, the inflationary pressure on the costs of goods and services, coupled with the inability to utilize increased tuition revenues to cover increases in compensation plans, have made the tuition freeze on undergraduate tuition unsustainable. Increased revenue is also needed to address structural deficits; UW System notes that, with the exception of UW-Madison, actual revenues from tuition and fees were below budgeted amounts at all other system institutions in fiscal year 2021-22 by over \$30 million.

7. When asked by a member of the Assembly Committee on Colleges and Universities during an informational hearing whether tuition increases of approximately 5% would still be necessary if the increased funding proposed in Assembly Bill 43/Senate Bill 70 was provided, UW System President Jay Rothman responded affirmatively that tuition increases would still be needed. He noted that UW System has lost spending power due to recent increased levels of inflation and emphasized the need to maintain multiple levers of revenue. President Rothman also stated that UW System is committed to maintaining affordability, through measures like the tuition promise, a program designed to supplement the gap between any scholarships or grants an eligible student receives outside of the tuition promise program and the full cost of their academic fees and segregated fees.

8. President Rothman also stated that he is committed to looking at system expenditures and identifying areas to improve efficiency. For example, UW System has eliminated several offices and consolidated the divisions of finance and administration under one Vice President. Information technology services have also been consolidated as three campuses have recently committed to utilizing IT services through UW System, and UW System indicates that more campuses are expected to join these services in the near future. UW System is also standardizing human resources and finance business processes within and across campuses. To better meet student demand and increase workforce supply in high-demand fields, UW System also continues to look at the array of programs offered by all System institutions. Between July 1, 2017, and June 30, 2022, 196 single institution new academic programs were approved by the Board of Regents and 107 programs were suspended or eliminated from the program array.

9. As noted, the increased funding provided would be flexible and discretionary. For example, funding could be utilized for priorities at individual institutions, or perhaps to increase funding for institutions with higher relative declines in enrollment. Or, if funding is not provided for other items proposed by the Governor through the budget act, this increased funding could be utilized to fund some of those items.

10. Funding could also be used to support aging infrastructure. UW System estimates that more than half of its facilities were built in the post-World War II era, compared to approximately 33% of total inventory across higher education nationally. Facilities built at this time did not prioritize energy efficiency. UW System notes that while electrical systems are recommended to be replaced every 25 years, heating ventilation and air conditioning (HVAC) systems every 30, and plumbing every 35 years, many of the UW System buildings constructed between 1950 and 1975 have never had their electrical, HVAC, plumbing, or exterior envelope (including roof, windows, doors, floors, foundation, and insulation) replaced or repaired. This deferred maintenance leads to greater risk of system failure. Further, the longer maintenance is deferred, the more expensive it becomes to fix. As systems fail, existing resources must be diverted to address them, leaving fewer resources for preventative maintenance.

11. Given recent inflation, the Committee could consider a larger increase in funding in the first year of the biennium. An increase of \$165 million beginning in 2023-24 would provide an increase of 16.5% in UW System's adjusted base operations appropriation consistent with the increase in the CPI from 2018 to 2022. [Alternative 2] As inflation is expected to level off over the 2023-25 biennium, with the CPI projected to increase by 2.2% in 2024, and 2.0% in 2025 compared to 8.0% in 2022 and 3.9% in 2023, UW System costs could be less than anticipated. The Committee could consider providing 2.0% annually. [Alternative 3]

ALTERNATIVES

1. Provide \$22.1 million in 2023-24 and \$44.3 million in 2024-25 for UW System operations in the UW System's largest GPR appropriation under section 20.285(1)(a) of the statutes for general program operations, an increase of 2.2% in 2023-24 and 4.4% in 2024-25 above level funding.

ALT 1	Change to Base
GPR	\$66,400,000

2. Provide \$165 million in 2023-24 and 2024-25 for UW System operations in UW system's largest GPR appropriation under section 20.285(1)(a) of the statutes, an increase of 16.5% compared to base level funding.

ALT 2	Change to Base
GPR	\$330,000,000

3. Provide \$20 million in 2024-25 for UW System operations in UW system's largest GPR appropriation under section 20.285(1)(a) of the statutes, an increase of 2% annually compared to base level funding.

ALT 3	Change to Base
GPR	\$40,000,000

4. Take no action.

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