



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

May 27, 2015

Joint Committee on Finance

Paper #677

Resident Undergraduate Tuition Freeze (UW System)

[LFB 2015-17 Budget Summary: Page 460, #4]

CURRENT LAW

2013 Act 20 prohibits the Board of Regents from charging resident undergraduate students enrolled in a UW institution or UW Colleges campus in the 2013-14 and 2014-15 academic years more in tuition than it charged resident undergraduate students enrolled in that institution or UW Colleges campus in 2012-13.

GOVERNOR

Prohibit the Board of Regents from charging resident undergraduate students enrolled in a UW institution or UW Colleges campus in the 2015-16 and 2016-17 academic years more in tuition than it charged such students enrolled in that institution or UW Colleges campus in the 2014-15 academic year. Specify that this provision would take effect the day after the publication of the biennial budget act.

DISCUSSION POINTS

1. As proposed, the Governor's budget would freeze resident undergraduate tuition rates in both years of the biennium. Coupled with the proposed \$150 million annual GPR base budget reduction, this would have the effect of the reducing the total amount of funding the UW System would have to fulfill its instructional mission. This may imply that the UW System currently receives more funding, in terms of both state GPR and tuition revenues, than is necessary to accomplish its instructional mission.

2. The UW System's instructional mission is funded by a combination of state GPR and

tuition revenues. The proportion of these costs that should be funded by state GPR and the proportion that should be funded by tuition revenues is a matter of public policy. When considering the appropriate level of tuition for resident undergraduate students, policymakers often compare tuition and fees charged by UW institutions to tuition and fees charged by public, four-year institutions in other states. Table 1 shows the average tuition and fees charged to resident undergraduate students by UW System four-year institutions and by public four-year institutions in other states with institutions in the Big Ten athletic conference. For the purpose of comparison, the average tuition and fees charged to resident undergraduates at all public four-year institutions in the United State is also shown.

TABLE 1

Average Resident Undergraduate Tuition and Fees at Public Four-Year Institutions in Selected States, 2014-15

Pennsylvania	\$13,246
New Jersey	13,002
Illinois	12,770
Michigan	11,909
Minnesota	10,527
Ohio	10,100
Indiana	9,023
Wisconsin	8,781
Maryland	8,724
Iowa	7,857
Nebraska	7,404
United States Average (Weighted)	\$9,139

Source: The College Board.

3. As shown in Table 1, average tuition and fees charged to resident undergraduate students at UW System four-year institutions is less than the average tuition and fees charged to similar students by public four-year institutions in seven of the 10 other states that participate in the Big Ten athletic conference. Average resident undergraduate tuition and fees charged by UW System four-year institutions are also \$358 less than the weighted U.S. average.

4. As tuition and fees for undergraduate students have increased at a faster rate than incomes, there has been increasing concern related to the affordability of public higher education. Although Table 1 shows that UW System resident undergraduate tuition and fees are slightly below the national average, this data does not indicate whether or not these tuition rates are affordable for resident students and their families. One way to measure the affordability of undergraduate tuition and fees would be to compare the tuition and fees to the state's median household income. Table 2 compares the median household income in 2004 and 2013 to the average resident undergraduate tuition and fees charged by public four-year institutions in 2004-05 and 2013-14 for states with institutions in the Big Ten athletic conference and the United States as a whole. (Median household income data is not yet available for 2014.)

TABLE 2**Average Resident Undergraduate Tuition and Fees and Median Household Income for Big Ten States, 2004-05 and 2013-14**

	2004-05			2013-14		
	Resident Undergraduate Tuition and Fees	Median Household Income	Tuition and Fees as a % of Median Household Income	Resident Undergraduate Tuition and Fees	Median Household Income	Tuition and Fees as a % of Median Household Income
Michigan	\$6,294	\$42,256	14.9%	\$11,600	\$48,801	23.8%
Pennsylvania	8,249	44,106	18.7	12,802	53,952	23.7
Illinois	6,494	46,077	14.1	12,580	57,196	22.0
Ohio	8,236	43,055	19.1	9,942	46,398	21.4
New Jersey	7,979	55,275	14.4	12,723	61,782	20.6
Indiana	5,847	42,329	13.8	8,926	50,553	17.7
Minnesota	6,463	56,104	11.5	10,464	60,907	17.2
Wisconsin	5,218	45,732	11.4	8,741	55,258	15.8
Iowa	5,407	43,391	12.5	7,837	54,855	14.3
Nebraska	4,720	43,786	10.8	7,315	53,774	13.6
Maryland	6,770	57,103	11.9	8,480	65,262	13.0
U.S. Average*	\$4,962	\$44,334	11.2%	\$8,598	\$51,939	16.6%

Source: The College Board and the U.S. Census Bureau.

5. As shown in Table 2, the average resident undergraduate tuition and fees charged by UW System four-year institutions was equal to 15.8% of the state's median household income in 2013-14, compared to 11.4% in 2004-05. Despite UW tuition and fees growing as a percentage of median household income over that time period, UW institutions were still the fourth most affordable of public, four-year institutions in the eleven states shown using this metric. In addition, UW institutions were more affordable than the U.S. average.

6. Tuition and fees are only one component of college costs. Students must also pay for books, supplies, and transportation as well as room and board if they do not live with their families while enrolled. In general, tuition and fees represent between 35% and 50% of the total cost of attendance for UW System resident undergraduate students. In addition, many students receive grants and scholarships that reduce the amount of tuition and fees that the student and his or her family must pay. To reflect this, college and universities often use a net tuition and fees amount, instead of the "sticker price," when discussing whether a college or university is affordable.

7. Another measure of affordability could be the average student loan debt of graduates and the percentage of graduates who have debt. Table 3 shows the average student loan debt and percentage of graduates with student loan debt for public four-year institutions in states with institutions in the Big Ten athletic conference and the United States as a whole. It should be noted

that this data is different from the student loan data reported by the UW System in that it includes all bachelor's degree graduates of UW four-year institutions instead of only resident bachelor's degree graduates. As shown in the table, students who graduated for UW System four-year institutions with student loan debt in 2012-13 had, on average, less debt than the graduates of public four-year institutions of all the other states shown except for Iowa. However, the average debt of UW System graduates exceeded the national average in that year as did the percentage of students who graduated with debt. In addition, the average student loan debt of UW System graduates increased by 71% over the time period shown and the percentage of graduates with debt increased from 58% to 67%. This data may indicate that UW System four-year institutions have become less affordable to students and their families.

TABLE 3

Average Student Loan Debt and Percentage of Bachelor's Degree Graduates with Student Loan Debt for Public Four-Year Institutions in Selected States 2003-04 and 2012-13

	2003-04		2012-13	
	Percent of Graduates With Debt	Average Debt of Graduates	Percent of Graduates With Debt	Average Debt of Graduates
Pennsylvania	71%	\$18,788	74%	\$32,659
Minnesota	70	17,256	69	29,657
Michigan	57	18,735	61	29,092
Illinois	50	14,765	67	28,260
Ohio	58	19,002	65	28,010
New Jersey	57	14,539	70	27,914
Indiana	51	18,536	60	27,878
Iowa	72	26,826	64	27,695
Wisconsin	58	15,840	67	27,094
United States	54	16,389	60	25,043
Nebraska	57	17,181	59	24,130

Source: The Institute of College Access and Success.

8. The cost of attendance at an institution is only one of many factors that may contribute to the level of a new graduate's student debt. Other factors would include the amount that the student's family had saved for college prior to the student enrolling, the amount that the student's family was able to contribute while the student was enrolled, the amount of other financial aid the student received, the amount that the student worked while enrolled, the number of semesters it took the student to graduate, and the availability of courses required for graduation.

9. Prior to 1997, the UW System's tuition appropriation was an annual appropriation. This limited the amount of tuition revenue that the UW System could spend to the amount shown in the appropriation schedule plus the tuition portion of the pay plan approved by the Joint Committee

on Employments Relations (JCOER). While statutes gave the Regents the authority to set tuition rates, the Legislature controlled tuition rates indirectly by setting limits on the amount of tuition the UW System could spend. During the 1997-99 biennium, the UW System had the authority to spend tuition revenues in excess of the amount shown in the appropriation schedule and, under 1999 Act 9, the tuition appropriation was converted to an all-moneys-received, continuing appropriation which allowed the UW System to spend all of the tuition revenue it generated and to carry over excess revenues from year-to-year. Under 1999 Act 9, the Board of Regents was prohibited from increasing resident undergraduate tuition beyond an amount sufficient to fund all of the following: (a) the amount shown for the tuition appropriation in the appropriation schedule; (b) the tuition portion of the pay plan approved by JCOER; (c) the projected loss in revenue caused by a change in the number of enrolled students; (d) state-imposed costs not covered by GPR as determined by the Board; (e) distance education, nontraditional courses, and intersession courses; and (f) differential tuition that is approved by the Board and not included in the tuition amount shown in the appropriation schedule.

10. Table 4 shows the increase in resident undergraduate base tuition at UW System four-year institutions in each year from 2003-04 to 2014-15 and as proposed by the Governor in 2015-16 and 2016-17. The percentage increases shown in Table 4 exclude increases in differential tuition at individual UW institutions. Increases in tuition were limited by the Legislature in six of the 12 years shown as they would be in 2015-16 and 2016-17 under the Governor's budget. The 2003-05 budget act included specific dollar amounts by which resident undergraduate tuition could be increased to partially offset the \$250 million GPR base budget reduction included in that budget. The 2011-13 budget act limited increases in resident undergraduate tuition to 5.5% and the 2013-15 budget act prohibited the Board of Regents from increasing resident undergraduate tuition in either year.

TABLE 4

**Average Percentage Increases In Resident Undergraduate Base Tuition
at UW Four-Year Institutions, 2003-04 to 2016-17***

2003-04	16.7% to 18.7%
2004-05	14.3 to 15.8
2005-06	6.9
2006-07	6.8
2007-08	5.5
2008-09	5.5
2009-10	5.5
2010-11	5.5
2011-12	5.5
2012-13	5.5
2013-14	0.0
2014-15	0.0
2015-16**	0.0
2016-17**	0.0

*Increase in base tuition. Excludes increases in differential tuition.

**Proposed.

11. The Regents had the authority to set resident undergraduate tuition rates in each year from 2005-06 to 2010-11. During the 2005-07 biennium, the Regents increased tuition to fund the tuition portion of JCOER-approved pay plans and to fund increases in fuel and utilities costs. During the 2007-09 biennium, the Regents increased tuition to fund those items as well as to fund the tuition portion of certain academic programs and an initiative to recruit and retain faculty in high demand fields. The use of tuition dollars for the academic programs and the initiative to recruit and retain faculty in high demand fields were both approved by the Legislature through the 2007-09 biennial budget. During the 2009-11 biennium, resident undergraduate tuition was increased to offset the \$120.1 million GPR base budget reduction and to fund the JCOER-approved pay plan as well as to offset tuition remissions to veterans and the children and spouses of certain veterans and to fund an expansion of the initiative to recruit and retain faculty in high demand fields.

12. As described above, increases in resident undergraduate tuition rates have been used to generate additional revenues to offset GPR base budget reductions and to fund the tuition portion of the JCOER-approved pay plan in past biennia. One alternative could be to permit the Board of Regents to increase resident undergraduate tuition by a certain percentage amount in order to generate additional tuition revenues to offset some portion of the proposed \$150 million annual GPR base budget reduction. It is estimated that a 1% increase in resident undergraduate tuition would generate an additional \$7 million annually. Table 5 shows the amount of the GPR base budget reduction that could be offset if the Regents were permitted to increase tuition by certain percentage amounts annually. As shown in the table, permitting the Board of Regents to increase resident undergraduate tuition by 3% in each year of the biennium could offset \$63 million of the proposed \$300 million base budget reduction.

TABLE 5

Estimated Additional Tuition Revenue Generated by Different Percentage Increases in Resident Undergraduate Tuition in 2015-16 and 2016-17

	<u>2015-16</u>	<u>2016-17</u>	<u>Biennium Total</u>
1%	\$7.0	\$14.0	\$21.0
2%	14.0	28.0	42.0
3%	21.0	42.0	63.0

13. As noted in the issue paper prepared for the UW System titled "Compensation, GPR Position Authority, and Position Report," UW institutions were not able to generate additional tuition revenues to fund the tuition portion of 1% annual salary increases approved by JCOER and increases in fringe benefit costs during the 2013-15 biennium because resident undergraduate tuition was frozen during that biennium. Based on data provided by the UW System, it is estimated that the tuition portion of JCOER approved salary increases and increases in fringe benefit costs during the 2013-15 biennium is \$18,660,500 annually. If resident undergraduate tuition is frozen during the 2015-17 biennium, UW institutions will not be able to generate additional tuition revenues to fund the tuition portion of increases in fringe benefit costs during that biennium. Based on data provided by DOA, it is estimated that the tuition portion of the fringe benefit cost increases would

be \$3,219,600 in 2015-16 and \$5,435,900 in 2016-17.

14. One alternative presented in the budget paper on UW compensation is to provide the UW System with additional GPR to fund the tuition portion of the JCOER-approved salary increases that were provided in 2013-14 and 2014-15 and to fund increases in fringe benefit costs during the 2013-15 and 2015-17 biennium. Another alternative would be to permit the Board of Regents to increase resident undergraduate tuition to generate additional tuition revenues to fund those costs. It is estimated that the Regents would increase resident undergraduate tuition by 3.1% in 2015-16 and by 0.3% in 2016-17 under this alternative.

15. The errata letter sent by the Secretary of the Department of Administration to the Co-Chairs of the Joint Finance Committee indicated that the bill should be modified to specify that, beginning in 2017-18, increases in resident undergraduate tuition should be no more than the average annual change in the consumer price index (CPI). Another alternative could be to specify that the Board of Regents could increase resident undergraduate tuition by no more than the average annual change in CPI beginning in 2015-16, instead of in 2017-18 as recommended by the Governor. Average annual CPI increased by 1.6% in 2014. The Legislative Fiscal Bureau uses forecasting data for IHS Global Insight, Inc., to prepare its general fund revenue estimates. Based on that data, CPI is projected to increase by 0.1% in 2015. If the Board of Regents were permitted to increase resident undergraduate tuition by an amount equal to the average annual change in CPI in the previous calendar year during the 2015-17 biennium, UW System could generate \$11.2 million in 2015-16 and \$11.9 million in 2016-17 in additional tuition revenue.

16. CPI measures changes in the prices of a goods and services commonly purchased by U.S. households. Because institutions of higher education purchase a different mix of goods and services than households, CPI may not be a good reflection of changes in higher education costs. In recognition of this, the U.S. Department of Health, Education, and Welfare (now the U.S. Department of Education) developed the higher education price index (HEPI) to measure changes in higher education costs. HEPI is now calculated annually by the Commonfund Institute using the following eight cost factors: (a) faculty salaries; (b) administrative salaries; (c) clerical salaries; (d) service employee salaries; (e) fringe benefits; (f) miscellaneous services; (g) supplies and materials; and (h) utilities. Another alternative could be to specify that the Board of Regents could not increase resident undergraduate tuition by more than the change in HEPI in the previous fiscal year, beginning in either 2015-16 or in 2017-18. Based on data from the Commonfund Institute, HEPI increased by 3.0% in 2013-14 and is estimated to increase by 2.6% in 2014-15. If HEPI increases by an additional 2.6% in 2015-16, UW System could generate \$18.2 million in 2015-16 and \$36.4 million in 2016-17 in additional tuition revenue if the Board of Regents were permitted to increase resident undergraduate tuition by an amount equal to the change in HEPI in the previous fiscal year during the 2015-17 biennium.

17. Another alternative could be to prohibit the Board of Regents from increasing resident undergraduate tuition by more than the average annual increase in CPI in the previous calendar year or the increase in HEPI in the previous fiscal year unless the increase is approved by the Joint Committee on Finance (JFC). This would allow the Regents to request greater increases in resident undergraduate tuition in situations where the Regents deem such increases warranted while

retaining legislative control over those tuition increases.

18. A memorandum sent to Joint Finance Committee members in April, 2013, by the Legislative Fiscal Bureau showed that UW institutions held tuition revenue balances totaling \$459.5 million as of June 30, 2012. Since that time, legislators have expressed concern regarding the level of program revenue balances held by UW System institutions. In particular, many legislators have questioned whether it was necessary for the Regents to increase resident undergraduate tuition by 5.5% annually during the 2007-09 and 2009-11 biennia after it was shown that tuition balances increases from \$159.9 million to \$431.8 million over that time period. In May, 2014, JFC approved a motion that requires the Board of Regents to report annually by October 15 to JFC and the Joint Legislative Audit Committee on the level of UW System program revenue balances and to provide additional information regarding each institution's tuition, auxiliary operations, general operations, and other unrestricted program revenue balances if the level of those balances at the close of the fiscal year exceeded 12% of expenditures in the previous fiscal year.

19. Another alternative could be to prohibit the Board of Regents from increasing resident undergraduate tuition at any institution whose tuition revenue balances on June 30 of the previous fiscal year exceeded 12% of total GPR and tuition expenditures, less GPR expenditures for debt service, in that fiscal year. This would serve to discourage UW institutions from accumulating large tuition revenue balances while also permitting them to maintain tuition revenue balances of up to 12% of expenditures without penalty. Table 6 compares each UW institution's tuition revenue balance as of June 30, 2014, to its GPR and tuition expenditures, less GPR debt service, in the 2013-14 fiscal year. As shown in the table, only UW-Madison, UW-Stout, and UW-Superior held tuition revenue balances of less than 12% of prior year expenditures as of June 30, 2014, which means only those institutions would have been permitted to increase resident undergraduate tuition in 2014-15 if this alternative had been law at that time.

TABLE 6

**Tuition Revenue Balance and GPR and Tuition Expenditures
Less GPR Debt Service by UW Institution for 2013-14**

	<u>Tuition Revenue Balance</u>	<u>GPR and Tuition Expenditures Less GPR Debt Service</u>	<u>Balance as % of Expenditures</u>
Eau Claire	\$18,189,387	\$119,307,295	15.2%
Green Bay	9,131,468	56,219,013	16.2
La Crosse	23,305,222	111,604,971	20.9
Madison	84,561,883	1,037,914,727	8.1
Milwaukee	56,452,594	374,375,236	15.1
Oshkosh	15,777,042	103,071,841	15.3
Parkside	8,473,025	46,646,365	18.2
Platteville	12,600,372	81,465,626	15.5
River Falls	8,990,387	62,001,924	14.5
Stevens Point	18,571,383	95,743,042	19.4
Stout	1,991,358	95,104,311	2.1
Superior	2,153,055	37,172,428	5.8
Whitewater	30,922,636	116,306,662	26.6
UW Colleges	18,737,040	80,426,291	23.3

20. Another alternative could be to specify that the Board of Regents could increase resident undergraduate tuition at a UW institution only if that institution met certain accountability measures such as increasing its four-, five-, or six-year graduation rate, reducing the difference in graduation rates for non-minority and minority students or for Pell grant recipients and non-Pell grant recipients, or reducing the average amount of student debt for new graduates with student debt. The accountability measures that UW institutions would have to meet in order to be permitted to increase resident undergraduate tuition could be determined by the Legislature in subsequent legislation. This would allow for additional review of the measures through the standing committee process. In order to maintain access to the UW System for all qualified candidates, the measures should be constructed in such a manner that UW institutions would not be rewarded for admitting fewer low-income students, minority students, or students in need of remediation and other academic services.

ALTERNATIVES

A. 2015-17 Biennium

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation to permit the Board of Regents to increase resident undergraduate tuition by:

a. 1% annually. It is estimated that this would generate \$7 million in 2015-16 and \$14 million in 2016-17.

b. 2% annually. It is estimated that this would generate \$14 million in 2015-16 and \$28 million in 2016-17.

c. 3% annually. It is estimated that this would generate \$21 million in 2015-16 and \$42 million in 2016-17.

3. Modify the Governor's recommendation to permit the Board of Regents to increase resident undergraduate tuition by 3.1% in 2015-16 and by 0.3% in 2016-17. It is estimated that these amounts would be sufficient to generate the tuition portion of JCOER-approved salary increases provided in the 2013-15 biennium and increases in fringe benefit costs in the 2013-15 and 2015-17 biennia.

4. Delete provision. This would allow the Board of Regents to determine the amount by which resident undergraduate tuition should be increased.

B. 2017-19 Biennium

1. Modify the Governor's recommendation to specify that increases in resident undergraduate tuition be limited to no more than the annual change in the consumer price index beginning in 2017-18. This would be consistent with the Governor's errata letter sent to the Co-Chairs on April 13, 2015.

2. Modify the Governor's recommendation to specify that the Board of Regents would be prohibited from increasing resident undergraduate tuition by more than the annual change in the consumer price index unless approved by the Joint Committee on Finance. Specify that this provision would first take effect in the 2017-18 academic year.

3. Modify the Governor's recommendation to specify that increases in resident undergraduate tuition be limited to no more than the change in the higher education price index in the previous fiscal year beginning in 2017-18.

4. Modify the Governor's recommendation to specify that the Board of Regents would be prohibited from increasing resident undergraduate tuition by more than the change in the higher education price index in the previous fiscal year unless approved by the Joint Committee on Finance. Specify that this provision would first take effect in the 2017-18 academic year.

5. Modify the Governor's recommendation to specify that the Board of Regents could only increase resident undergraduate tuition at a UW institution if that institution had a tuition revenue balance of less than 12% of GPR and tuition expenditures, less debt service, at the end of the previous fiscal year. Specify that this provision would take effect beginning in the 2017-18 academic year.

6. Modify the Governor's recommendation to specify that the Board of Regents could

increase resident undergraduate tuition at a UW institution if that institution met certain accountability measures. These accountability measures would be identified by the Legislature in subsequent legislation.

7. No provision.

Prepared by: Emily Pope