

REPORT OF THE FUNDING ALLOCATION WORKING GROUP

BACKGROUND

The Funding Allocation Working Group was convened in December 2013 by President Kevin Reilly and asked to review the methodology used to allocate general purpose revenue (GPR) and tuition among UW institutions and to determine if changes are needed in the process. The working group was comprised of chancellors and chief business officers, and was chaired by Mark Bugher.

Regent Policy Document 21-8, *Policy on the Annual Distribution of Tuition and Fee Revenue and State General Purpose Revenue*, codifies the current practice for the distribution of revenues. This policy was adopted in December 2013, in response to 2013 Wisconsin Act 20, which required the UW System to submit to the legislature's Joint Finance committee proposed policies regarding the annual distribution of tuition/fee revenue and GPR; the policy is due to sunset on June 30, 2015.

The working group's report, shared with President Cross in August 2014, concludes that base funding should not be reallocated among the institutions, due to funding challenges faced by all institutions. Also, new resources should continue to be distributed in a manner that covers cost increases for salaries and fringe benefits for state-supported positions and utility expenses. The working group also concluded that institutions should continue to retain all of the tuition revenues they generate. In addition, the President and the Board of Regents should have discretion in the allocation of any flexible new state funding, and flexible dollars should not automatically be distributed on a formula basis.

The working group also made recommendations related to the inclusion of performance funding as part of the biennial budget request, clarification of tuition-setting authority, and other efforts designed to facilitate communication and understanding of funding allocation methodologies and related issues.

REQUESTED ACTION

This report is for information only.

DISCUSSION

Based on the working group's report and the recommendation to clarify tuition-setting authority, President Cross proposed that the Board of Regents discuss the tuition-setting recommendations, with the desired outcome being a clear understanding of Board and institutional responsibilities and flexibilities in tuition setting.

The Business and Finance Committee will discuss the Funding Allocation Working Group report at its October meeting. The committee also will hear from three chancellors who were members of the Funding Allocation Working Group: Chancellor Rebecca Blank, UW-Madison; Chancellor Dean Van Galen, UW-River Falls, and Chancellor Renee Wachter, UW-Superior.

RELATED REGENT POLICIES

Regent Policy Document 21-8, *Policy on the Annual Distribution of Tuition and Fee Revenue and State General Purpose Revenue*

Regent Policy Document 32-1, *Delegation of Authority Regarding Residence Classification*

Regent Policy Document 32-2, *Nonresident Tuition Remission Delegated to Chancellors*

Regent Policy Document 32-3, *Academic Student Fee Structure*

Regent Policy Document 32-4, *Tuition Structure: 12-18 Credit Plateau*

Regent Policy Document 32-5, *Tuition Policy Principles*

Regent Policy Document 32-6, *Delegation of Authority to Establish Graduate Resident Tuition Remissions*

Regent Policy Document 32-7, *Student Involvement in Differential Tuition Initiatives*



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DATE: September 9, 2014
TO: Board of Regents
FROM: Ray Cross 
RE: Report of the Funding Allocation Working Group

The Funding Allocation Working Group, convened in December 2013 by then President Kevin Reilly, has completed its work and submitted its report (attached). I thank the working group members for their thoughtful deliberations along with the staff who supported and informed the working group's discussions. The working group met four times, and discussed equity concerns, reaffirmed a number of core allocation principles, and made recommendations to create a performance fund and clarify the tuition setting process. The transmittal memo from working group Chair Mark Bugher provides a succinct summary of the working group's conclusions.

One key element of the working group's report is a recommendation to clarify tuition setting authority. The report identifies three categories of tuition setting as described below, with the latter two primarily based on market factors.

1. No changes were recommended to how tuition is set for traditional resident undergraduate students.
2. Institutions should be permitted to propose tuition rates for graduate students and for nonresident undergraduate students. These rates could vary by academic program, and would be subject to the approval of the Board of Regents.
3. Institutions should be delegated the authority to price programs targeted to nontraditional students who are served online, off-campus, or exclusively during evenings and weekends. This approach would update and consolidate several existing policies into a single one.

Based on the group's report, I propose that the Board of Regents discuss the tuition setting recommendations with the desired outcome being a clear understanding of Board and institutional responsibilities and flexibilities in tuition setting. The guidance provided by the Board will enable UW System Administration staff to work with institutions to update tuition setting policies and procedures that were developed in a very different era.

Once again, I want to thank the Funding Allocation Working Group for completing its important task on such a short timeline. I also want to thank Mark Bugher for the excellent leadership he provided.

Attachment

Cc: Chancellors
Cabinet
CBOs



University of Wisconsin System

1220 Linden Drive
Madison, Wisconsin 53706-1559

Website: www.uwsa.edu

August 8, 2014

TO: Raymond W. Cross
President, University of Wisconsin System

FROM: Mark Bugher
Chair, Funding Allocation Working Group

RE: Report of the Funding Allocation Working Group

The Funding Allocation Working Group (working group) was convened in December 2013 by then President Kevin Reilly. The working group was asked to review the current methodology used to allocate general purpose revenue (GPR) and tuition among UW System institutions, and to determine whether changes are needed in the process. The working group met four times, and discussed equity concerns, reaffirmed a number of core allocation principles, and made recommendations to create a performance fund and clarify the tuition setting process. The working group's report is attached.

There was considerable conversation around the issue of equity. Perceptions of equity issues varied among the working group's members depending on institutional circumstances, and there was not agreement on a common set of equity issues that could reasonably be addressed. The working group cited the Shared Revenue and School Aids formulas in Wisconsin as having similar issues – each group believes they should receive more funding, but it is challenging to develop more equitable alternatives.

After a thoughtful review of current allocation practices and options in place elsewhere, the working group reached the following conclusions related to the allocation of GPR and tuition.

1. Given the funding challenges faced by all UW System institutions, base funding should not be reallocated among the institutions.
2. New resources should continue to be distributed in a manner that covers cost increases for each institution for salaries and fringe benefits for state-supported positions and for utilities expenses.
3. Institutions should continue to retain all of the tuition revenues they generate.
4. The President and the Board of Regents should have discretion in the allocation of any flexible new state funding. Flexible dollars should not automatically be distributed on a formula basis.

The working group recommends the creation of a performance fund as part of the 2015-17 biennial budget request. The working group proposes institutions compete for the funding by

identifying priorities for improvement and specific outcomes to be achieved in a four-year timeframe.

The working group recommends some clarifications of tuition setting authority. Tuition setting would consist of three categories as described below, with the latter two primarily based on market factors.

1. No changes were recommended to how tuition is set for traditional resident undergraduate students.
2. Institutions should be permitted to propose tuition rates for graduate students and for nonresident undergraduate students. These rates could vary by academic program, and would be subject to the approval of the Board of Regents.
3. Institutions should be delegated the authority to price programs targeted to nontraditional students who are served online, off-campus, or exclusively during evenings and weekends. This approach would update and consolidate several existing policies into a single one.

The working group also recommends that:

1. annual presentations on funding allocation methodologies be scheduled for the Board of Regents, the Chancellors, and other institutional leaders;
2. a letter be sent to the Department of Administration requesting that the Governor's budget consistently include full-funding of cost-to-continue items (utilities, debt service, employee fringe benefits, etc.); and
3. UW System institutions prepare and submit strategic enrollment plans to UW System Administration in order to facilitate greater coordination and communication.

We hope you find this report useful. I applaud the members of the working group for the considerable time and effort they put into this work. If you have any questions about the report, please do not hesitate to contact me.

REPORT OF THE FUNDING ALLOCATION WORKING GROUP

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REPORT OF THE FUNDING ALLOCATION WORKING GROUP

The Funding Allocation Working Group (working group) was convened in December 2013 by then President Kevin Reilly. The working group was asked to review the current methodology used to allocate general purpose revenue (GPR) and tuition among UW System institutions, and to determine whether changes are needed in the process. The working group was asked to report to the Board of Regents in June 2014. The charge memo is attached (see Attachment One), as is a chart providing a summary of the working group's action on each item in its charge (see Attachment Two).

The working group met four times. An overview of the discussions and recommendations from each meeting are attached (see Attachment Three). The working group discussed equity concerns, reaffirmed a number of core allocation principles, and made recommendations to create a performance fund and clarify the tuition setting process.

There was considerable conversation around the issue of equity. Perceptions of equity issues varied among the working group's members depending on institutional circumstances, and there was not agreement on a common set of equity issues that could reasonably be addressed. The working group cited the Shared Revenue and School Aids formulas in Wisconsin as having similar issues – each group believes they should receive more funding, but it is challenging to develop more equitable alternatives. More information on perceived equity issues is attached (see Attachment Four).

The working group reached the following conclusions related to the allocation of GPR and tuition.

1. Given the funding challenges faced by all UW System institutions, base funding should not be reallocated among the institutions.
2. New resources should continue to be distributed in a manner that covers cost increases for each institution for salaries and fringe benefits for state-supported positions and for utilities expenses.
3. Institutions should continue to retain all of the tuition revenues they generate.
4. The President and the Board of Regents should have discretion in the allocation of any flexible new state funding. Flexible dollars should not automatically be distributed on a formula basis.

The working group recommends the creation of a performance fund as part of the 2015-17 biennial budget request. Performance Based Funding is getting a close look in many states, particularly in those that already use a funding formula. Performance funding approaches are focused on outcomes rather than inputs. The working group proposes institutions compete for the funding by identifying priorities for improvement and specific outcomes to be achieved in a four-year timeframe. More information on the performance fund recommendation is attached (see Attachment Five).

The working group recommends some clarifications of tuition setting authority. Tuition setting would consist of three categories as described below, with the latter two primarily based on market factors. More information on the tuition recommendations is attached (see Attachment Six).

1. No changes were recommended to how tuition is set for traditional resident undergraduate students.
2. Institutions would be permitted to propose tuition rates for graduate students and for nonresident undergraduate students. These rates could vary by academic program, and would be subject to the approval of the Board of Regents.
3. Institutions would price programs targeted to nontraditional students who are served online, off-campus, or exclusively during evenings and weekends. This approach would update and consolidate several existing policies into a single one.

The working group also recommends that:

1. annual presentations on funding allocation methodologies be scheduled for the Board of Regents, the Chancellors, and other institutional leaders (a summary of how this might be done is provided in Attachment Seven);
2. a letter be sent to the Department of Administration requesting that the Governor's budget consistently include full-funding of cost-to-continue items (utilities, debt service, employee fringe benefits, etc.); and
3. UW System institutions prepare and submit strategic enrollment plans to UW System Administration in order to facilitate greater coordination and communication.



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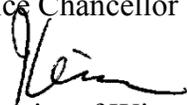
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Attachment One

WORKING GROUP CHARGE MEMO

December 3, 2013

TO: Mark Bugher (Chair)
Janice Mueller, Board of Regents
Tim Higgins, Board of Regents
Steven Wildeck, Interim Vice President, Office of Finance
Rebecca Blank, Chancellor, UW-Madison
Michael R. Lovell, Chancellor, UW-Milwaukee
Richard H. Wells, Chancellor, UW-Oshkosh
Renée Wachter, Chancellor, UW-Superior
Dean Van Galen, Chancellor, UW-River Falls
Ray Cross, Chancellor, UW Colleges and UW-Extension
Robert Hetzel, Vice Chancellor for Administration & Finance, UW-La Crosse
Melvin Klinkner, Vice Chancellor for Finance & Administration, UW-Parkside
Rob Cramer, Vice Chancellor for Administrative Services, UW-Platteville

FROM: Kevin P. Reilly 
President, University of Wisconsin System

SUBJECT: UW System Working Group on Funding Allocation

Thank you for agreeing to serve on the UW System Working Group on Funding Allocation. The charge for this group is to review the current methodology used to allocate general purpose revenue and tuition among our institutions, and determine whether changes are needed to the process. The committee will report to the Board of Regents in June, 2014.

By way of background, 2013 Wisconsin Act 20 requires the UW System to submit to the Joint Finance Committee by January 1, 2014, for approval through a 14-day passive review, proposed policies regarding the annual distribution of tuition and fee revenue and state general purpose revenue to each institution.

The UW System will submit the attached policy on annual distribution of funds, codifying the current practice, to the Joint Finance Committee for use in the 2013-15 biennium. The policy will sunset on June 30, 2015. The committee will report to the Board in June, 2014.

If the working group determines that the allocation methodology should be changed, the group should develop alternatives for consideration by the UW System President, the chancellors, and eventually the Board of Regents. If changes are adopted by the Board, the new methodology would be implemented for the 2015-16 fiscal year. The methodology resulting from this process

should be responsive to the needs of students and the state while maintaining or enhancing quality education at each institution.

The current allocation methodology which is described in the attached materials is based on several historical principles:

- Distribute cost-to-continue funding to fully fund each institution's actual costs.
- Maintain institutional tuition revenue targets.
- Retain all tuition at the institution and allocate GPR where needed.
- Allocate resources to balance out the effect when mandates, adjustments, or cuts impact institutions disproportionately.
- Allocate GPR cuts so that institutions are impacted proportionately.

Some questions we need to consider are:

1. What are the principles upon which a resource allocation model for the University of Wisconsin System should be built?
 - Should the historical principles be maintained?
 - Should all institutions' continuing costs be fully funded?
 - What modifications, if any, should be made to practices for funding self-supporting activities and programs?
 - How can incentive structures be reconciled with System or institutional directions/missions?
 - How can the resource allocation process be made understandable to our stakeholders?
 - How should the model provide incentives for System-wide goals?
2. Are there alternative resource models consistent with those principles and incentive possibilities, and what appear to be the advantages and disadvantages of each?
 - Are there examples from other systems that could help provide the logic and analysis to assist in this process?
 - What should be the role of "entrepreneurial activity" by each institution in the overall financial model? How should its impact on the level of funding support-per-student be considered?
 - What are the relative gaps in resources among institutions, as compared with outside peers? How should peer institutions be identified?
 - What methods should we consider for closing those peer comparison resource gaps?
3. What types of tuition-related issues need to be considered within the context of the GPR/Fee allocation methodology? For example:
 - What are the principles that should be used for setting tuition rates for each UW System institution and the UW System as a whole?
 - What types of tuition policies or strategies might need to be revisited as part of the GPR/Fee allocation issue, including use of differentials, rate structure (e.g.,

- plateau, per-credit, other), rate clusters (e.g., doctorals, comprehensives, colleges), or non-resident rates?
- What tuition revenue streams (e.g., general, self-support activity, differential, outreach, etc.) should be recognized when setting rates or calculating need to fund continuing costs?
4. Should UW System institutions grow with or without additional state resources, and if so how should the overall levels of support, including support-per-student, be monitored and managed?

Mark Bugher has graciously agreed to chair this important Working Group. The first meeting of the group will be held in January 2014.

Thank you for accepting this important assignment – your work will be critical for the future of the UW System.

Copy: Regents
Chancellors
Cabinet
Provosts
Chief Business Officers

Attachment Two
WORKING GROUP ACTIONS ON EACH ITEM IN ITS CHARGE

Charge	Discussion	Outcome
1. Review the current methodology used to allocate GPR and tuition among UW institutions.	Discussed in detail during the January meeting.	Follow-up conversation on allocation models used in other states in February.
2. Determine whether changes are needed to the GPR and tuition allocation process. If the allocation methodology should be changed, the group should develop alternatives for consideration by the president, the chancellors, and the Board.	Discussed during the January, February, and April meeting.	The workgroup decided that 1) the current base level of GPR/Fee funding should not be reallocated among institutions; 2) the resource allocation methodology should continue to fully fund increases in unavoidable costs, such as utilities and fringe benefits; 3) any inequities within the System should not be addressed with current base resources; and 4) tuition revenues should remain at the institution where they are generated.
3. What are the principles upon which a resource allocation model for the University of Wisconsin System should be built?	The workgroup was asked to evaluate the current allocation principles. Members received the results of the survey during the February meeting.	The workgroup decided that 1) the current base level of GPR/Fee funding should not be reallocated among institutions; 2) the resource allocation methodology should continue to fully fund increases in unavoidable costs, such as utilities and fringe benefits; 3) any inequities within the System should not be addressed with current base resources; and 4) tuition revenues should remain at the institution where they are generated.
A. Should the historical principles be maintained?	Discussed in January and February.	The workgroup decided that 1) the resource allocation methodology should continue to fully fund increases in unavoidable costs, such as utilities and fringe benefits; 2) tuition revenues should continue to remain at the institution where they are generated.
B. Should all institutions' continuing costs be fully funded?	Discussed in February.	Yes.

Charge	Discussion	Outcome
C. What modifications, if any, should be made to practices for funding self-supporting activities and programs?	Discussed in February, March, and April.	Tuition revenue from self-support activities should remain at the institution that generated the revenue. GPR allocations should not be impacted by self-support revenue. The workgroup proposed a tuition-pricing policy in support of these activities.
D. How can incentive structures be reconciled with System or institutional directions/missions?	Discussed in February, March, and April.	The workgroup proposes a performance-funding pilot. Institutions would have significant flexibility to develop programs that are appropriate to their missions and opportunities, but each proposal would include specific and measurable performance outcomes.
E. How can the resource allocation process be made understandable to our stakeholders?	Briefly discussed in the January and April meetings.	UWSA has already implemented a communication plan with elected leaders to explain and to respond to questions about university finances. The workgroup encouraged UWSA to develop regular briefings with institutional leaders on the resource allocation process.
F. How should the model provide incentives for System-wide goals?	Discussed in the March and April meetings.	The suggested performance-funding pilot would address institutional priorities. Broad criteria could be developed that reflect system-wide or state goals.
4. Are there alternative resource models consistent with those principles and incentive possibilities, and what appear to be the advantages and disadvantages of each?	Discussed in the February and April meeting.	The workgroup advanced ideas for a pilot that would incorporate principles from a performance funding model.
A. Are there examples from other systems that could help provide the logic and analysis to assist in this process?	Discussed in the February meeting. Briefly discussed in March.	Workgroup members discussed the components and outcomes of performance funding models in other states.
B. What should be the role of “entrepreneurial activity” by each institution in the overall financial model? How should its impact on the level of funding support-per-student be considered?	Discussed briefly in February and in greater detail in March.	Tuition revenue from entrepreneurial activities should remain at the institution that generated the revenue. GPR allocations should not be impacted based on self-support revenue. Some members expressed interest in renaming "entrepreneurial revenue."

Charge	Discussion	Outcome
C. What are the relative gaps in resources among institutions, as compared with outside peers? How should peer institutions be identified?	Discussed in February and March.	The group chose not to continue with a peer funding comparison at this time. Peer data has not been compelling to stakeholders in the past, and this type of analysis would require more time than was available to the workgroup.
D. What methods should we consider for closing those peer comparison resource gaps?	Discussed in February.	The Board of Regents can allocate new resources as they see fit to address system resource needs.
5. What types of tuition-related issues need to be considered within the context of the GPR/Fee allocation	Discussed in March and April.	The workgroup proposes a revised tuition-pricing policy for consideration by the Board of Regents.
A. What are the principles that should be used for setting tuition rates for each UW System institution and the UW System as a whole?	Discussed in March and April.	The workgroup proposes a revised tuition-pricing policy for consideration by the Board of Regents.
B. What types of tuition policies or strategies might need to be revisited as part of the GPR/Fee allocation issue, including use of differentials, rate structure (e.g., plateau, per-credit, other), rate clusters (e.g., doctorals, comprehensives, colleges), or non-resident rates?	Discussed in March and April.	The workgroup proposes a revised tuition-pricing policy for consideration by the Board of Regents.
C. What tuition revenue streams (e.g., general, self-support activity, differential, outreach, etc.) should be recognized when setting rates or calculating need to fund continuing costs?	Discussed in January, February, and March.	Tuition revenue from all activities should remain at the institution that generated the revenue. GPR allocations should not be impacted based on entrepreneurial revenue.
6. Should UW System institutions grow with or without additional state resources, and if so how should the overall levels of support, including support-per-student, be monitored and managed?	Briefly discussed in April.	The workgroup recommended that institutions submit their strategic enrollment plans to UW System Administration in order to facilitate system-wide enrollment coordination.

Attachment Three

SUMMARY OF WORKING GROUP MEETINGS

Background

In June 2013, the Legislature passed Act 20. This act required the UW System to submit policies regarding the annual distribution of tuition, fee, and general purpose revenue (GPR) to UW institutions for approval by the Joint Committee on Finance (JFC).

The UW System submitted a policy codifying current practice to JFC for use in the 2013-15 Biennium. The policy will sunset at the end of the biennium.

Anticipating the sunset date, President Reilly charged the UW System Working Group on Funding Allocation with evaluating the current methodology used to allocate GPR and tuition among UW institutions. The workgroup is required to report to the Board of Regents in June 2014. Any changes to the existing policy would not go into effect until the 2015-17 Biennium.

The workgroup met four times in person – once in January, February, March, and April.

Discussion

During meetings, working group members engaged in roundtable discussions facilitated by Chairperson Mark Bugher. The agendas for the subsequent meetings were derived from the ideas and topics that surfaced during the discussions.

The working group began in January by discussing the current allocation policies and processes in detail. In particular, members and staff discussed the origins of the current allocation methodology and how it had changed over time.

After significant deliberation during two meetings, the working group concluded that all UW institutions were underfunded relative to peer institutions in other states. Further, reallocation among UW institutions cannot resolve the chronic funding challenges.

The working group also acknowledged limited control over key expenditures (e.g., utilities, fringe benefits) at the institution level. As such, it is difficult to find and to incent efficiencies in some large expenses.

After discussing the advantages and disadvantages of the current approach, the working group considered alternative models and examples from other states. These models were evaluated against the existing fiscal constraints in Wisconsin. For example, the working group discussed the challenges of creating an incentive to reduce energy consumption when key components of utilities funding are controlled by the State.

From these discussions, the working group made three key decisions:

1. The base level of funding currently provided to institutions should not be altered and any performance-based funding program should not reallocate existing base funding.
2. Any new resource allocation methodology should continue to fully fund increases in unavoidable costs (e.g., utilities and fringe benefits).
3. All tuition revenue should remain at the institution that generated the revenue.

With these decisions made, the working group considered the underlying question of how to define equity and how to identify potential inequities. As the discussion progressed, members concluded that the diversity of missions and institutional histories across UW institutions created many valid definitions of equity. A one-size-fits-all metric cannot adequately capture the variety of ways that institutions serve Wisconsin.

Instead, the workgroup explored ways to responsibly address the underlying resource issues. Two proposals were developed: 1) Tuition-setting recommendations and a 2) Performance-funding pilot.

1) Tuition-Setting Recommendations. The tuition-setting recommendations are based, in part, on the 2010 report of the Graduate Programs and Nonresident Tuition Working Group. In discussing the report, some members expressed concern with delegating additional tuition flexibilities at this time, while other members explained the need to immediately address institutional funding issues. The group as a whole agreed that the language used in the 2010 recommendations needed to be simplified and easier to understand.

The current working group's proposal serves two purposes. First, it is intended to clarify existing tuition-setting flexibility that has already been delegated to institutions. Second, it allows institutions to make graduate, professional, and nonresident tuition proposals to the Board for its approval.

2) Performance-Funding Pilot. The second proposal, which is the performance-funding pilot, drew on the workgroup's discussion about allocation models in other states and the recent success of the university's economic development grants. Members decided that \$10 million per year would be an appropriate amount for a pilot program. The details of funding the proposal would be in the purview of the Board of Regents and the system president during the biennial budget process.

The pilot program would allow institutions to advance funding proposal for a broad range of projects that fit within the institution's mission and the needs of the community. However, each proposal must include specific, measureable outcomes.

At the April meeting, the workgroup reviewed its progress against the president's charge. In response to the charge to address whether institutions should grow with or without state resources, the workgroup proposed that institutions should submit their strategic enrollment plans to UW System Administration in order to facilitate greater communication and coordination.

Additionally, in order to address the communication and transparency issues that prompted the formation of the workgroup, members recommended that UW System Administration meet annually with institutional leader to review the funding allocation process. Members also reiterated the need for institutional leaders to responsibly manage their communication with policy makers.

Outcomes

After careful deliberation, the working group reaffirmed four fundamental allocation principles:

1. Given the funding challenges faced by all UW System institutions, base funding should not be reallocated among the institutions.
2. New resources should continue to be distributed in a manner that covers cost increases for each institution for salaries and fringe benefits for state-supported positions and for utilities.
3. Institutions should continue to retain all of the tuition revenues they generate.
4. The president and the Board of Regents should have discretion in the allocation of any flexible new state funding. Flexible dollars should not automatically be distributed on a formula basis.

The working group also recommended the following changes:

1. A new tuition-setting policy that clarifies existing flexibilities and establishes a process for proposing graduate, professional, and nonresident tuition rates to the Board for its approval.
2. A performance-funding pilot program that provides institutions with appropriate flexibility to propose meaningful initiatives and that requires specific, measureable performance outcomes.
3. A process for systemwide review and coordination of strategic enrollment planning.
4. Annual meetings between institutional leaders and UW System Administration staff to discuss the resource allocation process.
5. A renewed commitment by institutional leaders to responsibly manage communication with policy makers.

Attachment Four

ALLOCATION EQUITY ISSUES

The working group spent considerable time discussing possible equity issues. Perceptions of equity issues varied among the working group's members depending on institutional circumstances, and there was not agreement on a common set of equity issues that could reasonably be addressed. The working group cited the Shared Revenue and School Aids formulas in Wisconsin as having similar issues – each group believes they should receive more funding, but it is challenging to develop more equitable alternatives. The working group did not identify any specific equity issue that all agreed needed to be addressed. However, the working group recommended that the President and the Board of Regents have some discretion in the allocation of new funding to address high priority needs within the UW System as opposed to distributing these funds on a formula basis.

Several of the issues the working group touched on are described below.

Differential Tuition

UW System institutions were once able to request differential tuition increases in consultation with their students. Differential tuition was designed to provide a margin of excellence in addition to the basic services supported by regular tuition and state funding. New tuition differentials were not permitted during the 2011-13 and 2013-15 biennia by the Legislature. It is too early in the budget process to know if the state will permit differential tuition proposals in the 2015-17 biennium.

Some have raised concerns that institutions with a differential are able to offer more services to students than those that do not. The larger the differential, the greater the gap is perceived to be.

The concern has also been raised that, even if the current ban on new tuition differentials is removed, institutions that serve a greater proportion of students from lower income families have less capacity to support a larger differential. Institutions that have a smaller differential or do not have one are concerned about being locked into a lower resource base – creating a “haves versus have-nots” perception.

Institutions with larger differential tuitions argue that they have made a pact with their students about additional services they will receive in return for the increased cost they must pay. Reducing state funding to “balance” differential tuition revenue would break this pact.

A History of Institutional Decisions

Chancellors face a number of decisions about the future of their institutions as they engage in strategic planning. Examples include decisions on the program array, enrollment levels, new facilities, and allocation decisions in the face of declining state resources. Decisions made on these and other issues have impacted an institution's GPR funding per students and the total GPR/Tuition funding available. Given the base-plus budgeting and allocation approach in the

UW System, institutional decisions will have an ongoing impact on institutional finances. Current chancellors inherit the decisions of previous chancellors.

GPR/Tuition Split

The state (GPR) and tuition percentages of an institution's total GPR/Tuition allocation vary. There are several reasons for this.

Debt Service. Payment of the debt on academic buildings is fully funded through a sum-sufficient GPR appropriation. The amount of debt service required for each institution is determined by the Wisconsin Department of Administration (DOA), and each institution receives only what it needs for a given year's payment. This funding is placed in an institution's budget and then used by the DOA to make the payments. It cannot be used for any other purpose. Debt service for any institution can vary based on the amount and cost of recent construction activity.

Economies of Scale. Providing a core array of educational and student services costs more per student at smaller institutions. This is because the cost of the core array is distributed over a smaller student base. Therefore, UW Colleges and the smaller comprehensive universities typically have a larger GPR percentage allocation than the larger comprehensive universities.

Flagship Institution. Although UW-Madison serves the largest number of students among UW System institutions, there are four reasons that it has a larger GPR allocation percentage:

1. UW-Madison has a robust research mission, and research activity has historically been GPR funded.
2. UW-Madison's considerable public service activities have historically been fully GPR funded. This includes two entities - the State Lab of Hygiene and the Veterinary Diagnostic Lab - that the Legislature attached to UW-Madison for administrative purposes. Although the GPR for these entities appears in UW-Madison's budget, it has no control over these funds.
3. UW-Madison is the only public institution in the state to have Medical, Veterinary, Pharmacy, and Law schools. These are high cost programs, and tuition has historically been held low.
4. UW-Madison has a large share of the UW System's graduate enrollments. Educating graduate students typically costs more than educating undergraduates. Although graduate tuition is slightly higher than undergraduate tuition, a large percentage of UW-Madison graduate students receive a tuition remission in return for serving as graduate assistants. These remissions are required by statute and reduce the amount of revenue generated.

New Tuition Generation. In recent years, UW System institutions have been able to increase revenues through differential tuition, by adding enrollments to on-campus programs, and by increasing enrollments in programs targeting nontraditional students through distance education. Institutions retain all of the tuition generated, and their GPR allocations are not affected. Although institutions that have increased revenues using these tools have improved their financial health, the additional tuition revenues have reduced GPR as a percentage of their total budget.

Faculty Salaries

Faculty salaries lag far behind those at peer institutions for all UW System institutions. For some, that gap is larger than for others. Smaller institutions that are not growing find it particularly difficult to free up resources to address faculty and staff salaries concerns.

Institutions with the largest gaps argue that they should receive a larger share of new resources in order to reach the UW System average.

Institutions that have made reallocations or used new revenue sources to increase faculty salaries argue that their efforts should not result in reallocations to institutions that have not taken similar “self-help” measures.

Program Array

Some academic programs are more expensive to offer than others (e.g., engineering, lab intensive STEM programs, art, and music). The mix between regular- and high-cost academic programs varies among UW System institutions. The size of each program, measured by enrollments and faculty/staff in each program, also varies.

The equity concern around program array is that some institutions have adjusted their missions and program mix over time and received additional GPR and tuition support for those programs. Institutions that chose to develop or grow programs that did not receive new GPR support have urged a “reset” of allocations to reflect their new program mix. The unresolved issue is how decisions made by one institution affects others.

Attachment Five

PERFORMANCE FUNDING PROPOSAL

Background

Performance Based Funding is getting a close look in many states, particularly in those that already use a funding formula. Performance funding approaches are focused on outcomes rather than inputs. For example, institutions are more likely to be funded based on students successfully completing courses than on credits attempted by students. The elements of a performance funding model vary by state, and may vary by type of institution. Rewarding performance for an array of institutions with different missions, student profiles, and sizes has proven difficult, resulting in performance funding being tried and abandoned in many states. However, current iterations are being developed using the lessons learned from previous failed efforts, although they have not been in place long enough to judge their long-term success.

Proposal

The working group discussed performance funding as a mechanism to provide additional funding to institutions seeking to address specific high-priority needs. The working group recommended a performance fund for the UW System with the following components.

- 1) The UW System would seek \$10 million to fund targeted performance improvements. The funding would be awarded through a competitive process, and would be available to the receiving institutions for 4 years.
- 2) Institutions would propose specific targets for improvements based on the institution's mission and its emerging opportunities. The proposals would include the institution's high-priority area(s) for improvement, a request for resources to address those priorities, and specific anticipated outcomes.
- 3) Institutions will be expected to meet the anticipated outcomes by the end of the fourth year of funding.
- 4) If an institution meets or exceeds its goals, it will retain the original amount of performance funding received in its base. For this to happen, a permanent funding source would be required.
- 5) If an institution fails to meet its goals, the Board of Regents will evaluate its progress to determine whether continued funding is appropriate, or if the funding could be made available to other institutions as part of a new round of performance funding.

Attachment Six

TUITION SETTING RECOMMENDATIONS

The working group discussed a number of potential flexibilities related to setting tuition rates for resident undergraduate students, particularly during its first meeting. Given the current tuition freeze for resident undergraduate students, the working group chose to focus on options the Board of Regents could implement under its existing authority.

Current Practice

Tuition for most programs and students is set by the Board of Regents. This includes the “general” tuition increase, which is used to support the UW System’s legislatively-approved tuition appropriation, and differential tuition, which has been proposed by institutions to the Board after consultation with students. There have also been institutional proposals approved by the Board for increases in professional school tuition.

Institutions are authorized to set tuition rates for certain programs targeting nontraditional students. This authority was granted under service-based pricing (which is approved by the President of the UW System), distance education, and contract instruction. Institutions also have some pricing flexibility with credit outreach programming that is offered on a cost-recovery basis, meaning the revenues cover the entire costs of the program.

Recommended Changes

The working group recommends some clarification of tuition setting authority. Tuition setting would fall into three categories as described below, with the latter two primarily based on market factors.

1. *Resident Undergraduate Students.* The majority of the students in the UW System are resident undergraduates enrolled in traditional programming. The Board of Regents would continue to set the tuition rates for these students, subject to restrictions established by the Legislature. Institutions would continue to have the opportunity to propose differential tuition rates with student input, subject to restrictions imposed by the Legislature. This would be no change to current practice.
2. *Graduate and Nonresident Students.* Institutions could propose tuition levels for graduate students and for nonresident undergraduate students. The proposed tuition levels would be considered for approval by the Board of Regents. Institutions would have greater flexibility in proposing tuition rates based on market.
3. *Credit Outreach.* Under an umbrella of credit outreach instruction, institutions would be allowed to price programs targeted to nontraditional students who are served online, off-campus, or exclusively during evenings and weekends. These programs would be priced at market levels as determined by the institution. This approach would update and consolidate several existing policies into a single policy.

Attachment Seven

COMMUNICATION PLANS REGARDING ALLOCATION OF RESOURCES

The charge for the working group from then President Kevin Reilly included addressing questions regarding the principles upon which a resource allocation model should be built, whether continuing costs should be fully funded, and whether the resource allocation process and incentive structures understandable to stakeholders. Early in the group's discussions it became clear that there had not been sufficient communication to the Board and institutional leadership about how funding is distributed within the UW System.

Currently, the distribution of resources is discussed annually with the Chief Business Officers and the Chancellors before being recommended to the Board of Regents. Information on distribution of funds has also been included in annual operating budget documents, but has typically not been highlighted during the annual Board of Regents budget approval meeting. The group felt that the conversations surrounding allocation of resources should be elevated and occur on an annual basis with Regents and Chancellors. Additional efforts should be made to communicate the allocation process and rationale to new Regents, Chancellors and Chief Business Officers.

Public discussions of the resource allocation process will also help inform the general public, legislators, university staff, and students. These discussions should contain language that is easy for a lay person to understand. The working group recommends the development of an annual communication plan by System Administration be included in the report.