



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #636

5% Tuition Reduction (UW System)

[LFB 2017-19 Budget Summary: Page 459, #2]

CURRENT LAW

2015 Act 55 prohibited the Board of Regents from increasing resident undergraduate tuition in the 2015-16 and 2016-17 academic years, except that the Board could increase resident undergraduate tuition at UW-Stevens Point to implement a differential tuition if approved by the students in a referendum held after the effective date of the act.

GOVERNOR

Increase the amount of funding provided through the UW System's general program operations appropriation by \$35,000,000 GPR in 2018-19. According to the Executive Budget Book, this funding is provided to fund a 5% reduction in tuition in that year and should be allocated to the institutions in proportion to the estimated reduction in revenues as a result of the tuition decrease.

DISCUSSION POINTS

1. The table below shows resident undergraduate tuition rates in 2017-18 and the dollar amounts by which resident undergraduate tuition would be reduced in 2018-19 if that tuition were frozen in 2017-18 and reduced by 5% in 2018-19.

Reductions in Resident Undergraduate Tuition If Reduced by 5% in 2018-19

	2017-18 Resident Undergraduate Tuition Rates*	5% Reduction Amount
Madison		
General Tuition Rate	\$9,273	\$464
Business Degree	10,273	514
Business Certificate	9,573	479
Engineering Degree	10,673	534
Milwaukee**		
Eau Claire	7,361	368
Green Bay	6,298	315
La Crosse	7,585	379
Oshkosh	6,422	321
Parkside	6,298	315
Platteville	6,418	321
River Falls	6,428	321
Stevens Point***		
Freshmen, Sophomores, and Juniors	6,698	335
Stout****	234	12
Superior**	6,535	327
Whitewater	6,519	326
UW Colleges	4,750	238

*Assumes resident undergraduate tuition will remain frozen in the 2017-18 year.

**Milwaukee and Superior charge a per credit differential for courses taken in certain departments. These differentials are not reflected in the table.

***UW-Stevens Point began implementing a differential tuition in fall, 2016. Beginning in 2018-19, all resident undergraduates will be charged a differential tuition of \$400 annually.

****UW-Stout charges tuition and segregated fees on a per credit basis.

2. The Governor's budget would provide \$35 million GPR in 2018-19 to fund the proposed tuition reduction. Based on data provided by the UW System, it is estimated that a 1% reduction in resident undergraduate tuition could result in a decrease in tuition revenues of \$8.4 million. Based on this estimate, a 5% reduction in resident undergraduate tuition in 2018-19 could reduce UW System tuition revenues by \$42 million in that year.

3. If the Committee approves the reduction in resident undergraduate tuition and wishes to fully fund that reduction, the Committee could increase the GPR funding provided to the UW System in 2018-19 by \$7.5 million. Alternatively, the Committee could reduce the amount by which resident undergraduate tuition would be decreased such that it would be fully funded by the \$35 million provided in the bill. It is estimated that \$35 million would offset the estimated decrease in tuition revenues resulting from a 4.2% reduction in resident undergraduate tuition.

4. According to the Governor's budget address, the purpose of the proposed reduction in resident undergraduate tuition is to make UW institutions more affordable. However, some have argued that the funding provided for the tuition reduction would have a greater impact on affordability if it were instead provided through need-based financial aid programs. The proposed

tuition reduction would benefit all resident undergraduate students, including those who come from relatively wealthy families who can afford to pay for college without the assistance of grants or loans. By providing additional funding through need-based financial aid programs, instead of to offset the proposed tuition reduction, the funding could be targeted to students who have the greatest financial need.

5. The Wisconsin Grant program, which is administered by the Higher Educational Aids Board (HEAB), is the state's largest student financial aid program. The Wisconsin Grant program provides need-based grants to resident undergraduate students enrolled at least half-time in UW System institutions, Wisconsin technical colleges, private, non-profit colleges and universities located in this state, and tribal colleges located in this state. Wisconsin Grants for UW System students are funded through a separate GPR, sum sufficient appropriation for that purpose. In 2015-16, a total of 31,751 UW System students received Wisconsin Grants averaging \$1,754.

6. The Governor's budget would increase funding for Wisconsin Grants for UW System students by 3.67% in 2017-18 and 2.33% in 2018-19. A separate issue paper addresses the proposed increases in funding for the Wisconsin Grant program for UW System students as well as proposed increases in funding for Wisconsin Grants for technical college, private, nonprofit colleges and universities, and tribal college students. The alternatives presented in that paper include increasing the appropriation for Wisconsin Grants for UW System students by an amount sufficient to: (a) increase the average grant to \$2,161 as requested by the Board of Regents; (b) increase the average grant by \$363 which is equal to 5% of weighted average resident undergraduate tuition; and (c) increase the average grant to 50% of weighted average resident undergraduate tuition. Compared to the funding provided in the bill, increasing the average grant to \$2,161 is estimated to cost an additional \$4,113,000 over the biennium, increasing the average grant by \$363 beginning in 2018-19 is estimated to cost an additional \$9,723,700 in that year, and increasing the average grant to 50% of the weighted average resident undergraduate tuition beginning in 2018-19 is estimated to cost \$19,786,600 in that year.

7. In 2015-16, 27.6% of all resident undergraduate students enrolled at least half-time in UW institutions received a Wisconsin Grant. However, data from HEAB and the UW System indicate that a larger percentage of resident undergraduate students may need financial assistance to pay for college expenses. HEAB data shows that 58.5% of all resident undergraduate students enrolled at least half-time in a UW institution in 2015-16 received some kind of need-based aid, which could include grants, loans, or work study. In addition, data from the UW System shows that 73% of Wisconsin residents who graduated with a bachelor's degree in 2015-16 had some amount of student loan debt.

8. Both the Wisconsin Grant and the Pell grant, the largest federally-funded need-based grant program, are awarded on the basis of a student's expected family contribution (EFC). Each student's EFC is determined using the information provided by the student, or the student and his or her family if the student is a dependent student, on the Free Application for Federal Student Aid (FAFSA). In 2016-17, the maximum EFC that a UW System student can have and receive a Wisconsin Grant is \$4,500 while students with EFCs of up to \$5,234 can receive Pell grants if they are enrolled full-time. As tuition at the least expensive UW four-year institutions is \$6,298 for

resident undergraduates, this means that a student and his or her family could be expected to pay less than the full cost of tuition but not receive any state or federal need-based grant aid.

9. As an alternative, the Committee could direct HEAB to use any additional funding provided for the Wisconsin Grant program for UW System students to increase eligibility for the program, by increasing the maximum eligible EFC, instead of increasing the average grant amount. Another alternative could be to provide funding for a program that would provide grants to students who do not receive Wisconsin Grants or Pell grants but have EFCs that are less than the resident undergraduate tuition charged by the institution attended. The UW System currently administers a program known as the tuition assistance grant which provides grants to resident undergraduates who have financial need but do not receive Wisconsin Grants. Funding for this program was initially provided under 2009 Act 28 and eligibility was limited to students whose family income was \$60,000 or less and who had been enrolled in a UW institution in 2010-11 and maintained continuous enrollment. In 2015-16, the UW System provided tuition assistance grants averaging \$788 to 9,219 students.

10. DOA has estimated that the GPR-funded fringe benefit costs for UW employees could increase by \$9,979,500 in 2017-18 and \$15,429,300 in 2018-19. In addition, the Governor has proposed providing 2% salary increases for all state employees, including UW System employees, on September 30, 2018, and May 26, 2019. It is estimated that the GPR portion of these salary increases for UW System employees would total \$15,794,500 in 2018-19. The bill would specify that the Board of Regents could not request any funds from the state's compensation reserve during the 2017-19 biennium to fund compensation and fringe benefit costs. Instead, the bill would provide \$126,500 GPR in 2017-18 and \$11,517,900 GPR in 2018-19 through the UW System's GPR general program operations appropriation to fund these costs. These amounts are equal to the estimated cost of the GPR portion of salary and fringe benefit increases less the estimated GPR savings to the UW System of the state self-insuring for employee health benefits (\$9,853,000 in 2017-18 and \$19,705,900 in 2018-19).

11. The Committee has indicated that it will not approve the self-insurance contracts negotiated by the Department of Employee Trust Funds, which means the UW System will not realize any savings from the state self-insuring for employee health benefits during the 2017-19 biennium. If the Committee does not approve the 5% tuition reduction proposed by the Governor, the Committee could provide a portion of the \$35 million provided to offset that tuition reduction to the UW System to fund estimated increases in salary and fringe benefit costs. Based on DOA's estimates, an additional \$9,853,000 would be required to fund the GPR portion of these costs in 2017-18 and an additional \$19,705,900 would be required in 2018-19. A separate budget paper will provide additional information regarding the funding provided in the bill for salaries and fringe benefits for UW employees.

12. The Governor's budget did not include any language limiting the Regents' authority to set tuition for resident undergraduate students. In the errata letter sent to this office, the State Budget Director indicated that it was the Governor's intention that resident undergraduate tuition remain frozen in the 2017-18 year and be reduced by 5% in 2018-19 and that statutory language to this effect should be added to the bill. If the Committee approves the Governor's proposal to freeze

resident undergraduate tuition in the 2017-18 year and reduce that tuition by 5% in the 2018-19 year, it may wish to add language to the bill as requested by the Governor. If such language is not added to the bill, the Board of Regents would have full authority to set tuition rates for all students, including resident undergraduates, beginning in 2017-18.

13. It has been suggested that, instead of freezing or reducing resident undergraduate tuition as recommended by the Governor, the Committee could limit increases in resident undergraduate tuition to increases in some economic measure such as the consumer price index for all urban consumers (CPI-U) or the median household income in this state. This would allow the Regents to increase resident undergraduate tuition to generate additional revenues as needed while protecting students and their families from large tuition increases. Table 2 shows changes in CPI-U and Wisconsin median household income from 2012 to 2016.

TABLE 2

Percentage Change in CPI-U and Median Household Income, 2012 to 2016

	<u>Change in CPI-U</u>		<u>Median Household Income*</u>
	<u>Average Annual</u>	<u>May-May</u>	
2006	3.2%	4.2%	3.5%
2007	2.8	2.7	3.7
2008	3.8	4.2	3.0
2009	-0.4	-1.3	-4.0
2010	1.6	2.0	-2.0
2011	3.2	3.6	2.8
2012	2.1	1.7	1.3
2013	1.5	1.4	0.8
2014	1.6	2.1	2.2
2015	0.1	0.0	5.7
2016	1.3	1.0	NA

*Based on 1-year estimates from the U.S. Census Bureau's American Community Survey.

14. Prior to the implementation of the tuition freeze in 2013-14, percentage increases in resident undergraduate tuition were greater than percentage increases in CPI-U and median household income. From 2007-08 through 2012-13, the Regents approved annual increases of 5.5% in base resident undergraduate tuition at the four-year institutions. Tuition increased by greater amounts at institutions that approved and implemented differential tuitions. By comparison, the change in the average annual CPI-U ranged from -0.4% to 3.8% from 2006 to 2011 and the change in median household income for this state ranged from -4.0% to 3.7%.

15. Depending on the measure selected, limiting tuition increases to the increase in CPI-U or median household income in this state could also result in resident undergraduate tuition rates

being set earlier than under current practice, which would give students and their families more time to plan for future increases. It should be noted that the Census Bureau releases data on median household income in August or September of the following year. As tuition rates are set prior to the beginning of an academic year, the estimate of median household income from two years prior would have to be used to set tuition. As shown in Table 2, there is also a greater range of variation in the median household income than in CPI-U.

16. The Regents passed a resolution in October, 2016, to freeze resident undergraduate tuition in 2017-18 and to increase that tuition by no more than the increase in CPI in 2018-19. As the Regents have indicated that they will limit increases in resident undergraduate tuition in each of the next two years, it may be unnecessary to statutorily limit their authority to set tuition rates in the 2017-19 biennium.

ALTERNATIVES

1. Approve the Governor's recommendation and add language freezing resident undergraduate tuition in 2017-18 and reducing that tuition by 5% in the 2018-19 year as requested in the errata.

ALT 1	Change to	
	Base	Bill
GPR	\$35,000,000	\$0

2. Modify the Governor's recommendation to provide an additional \$7,000,000 in 2018-19 to fully fund the reduction in resident undergraduate tuition. In addition, add language freezing resident undergraduate tuition in 2017-18 and reducing that tuition by 5% in the 2018-19 year as requested in the errata.

ALT 2	Change to	
	Base	Bill
GPR	\$42,000,000	\$7,000,000

3. Modify the Governor's recommendation to specify that resident undergraduate tuition would be frozen in 2017-18 and reduced by 4.2% in 2018-19.

ALT 3	Change to	
	Base	Bill
GPR	\$35,000,000	\$0

4. Delete the Governor's recommendation and instead provide funding to:

a. Increase the amount of the average Wisconsin Grant awarded to UW System students. (The fiscal effect would depend on the amount of the increase.)

b. Increase the maximum EFC a UW System student could have and receive a Wisconsin Grant. (The fiscal effect would depend on the amount of the increase.)

c. Increase funding for the tuition assistance grant program under the UW System. Specify that grants provided through that program should be awarded to students whose EFCs are less than the resident undergraduate tuition charged by the institution in which the student is enrolled but who do not receive Wisconsin Grants or Pell grants. (The fiscal effect would depend on the amount of the increase.)

d. Fund all or some of the estimated increases in salary and fringe benefit costs for UW System employees during the biennium. (The fiscal effect would depend on the amount provided for this purpose.)

5. Delete the Governor's recommendation and instead specify that the Board of Regents could not increase resident undergraduate tuition in any year by a percentage amount that was greater than:

a. The change in CPI-U.

ALT 5a	Change to	
	Base	Bill
GPR	\$0	- \$35,000,000

b. The change in the median household income for this state.

ALT 5b	Change to	
	Base	Bill
GPR	\$0	- \$35,000,000

6. Delete provision. Under this alternative, the Board of Regents would have the authority to set resident undergraduate tuition beginning in 2017-18.

ALT 6	Change to	
	Base	Bill
GPR	\$0	- \$35,000,000

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