

MINUTES of the
BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM
PLANNING STUDY:
FOR UW SYSTEM IN THE 21ST CENTURY

Madison, Wisconsin

Held in 1820 Van Hise Hall
Thursday, September 7, 1995
1:30 p.m.

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- President Grebe presiding -

PRESENT: Regents Barry, Benson, Brown, Budzinski, Dreyfus, Gelatt, Grebe, Hempel, James, Krutsch, Lubar, MacNeil, Orr, Randall, Smith and Steil

ABSENT: Regent De Simone

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INTRODUCTION

Regent Grebe began the meeting by reminding those attending that the previous Board planning session had centered on identifying several key issues for possible study during the coming year. He noted that he, Regent Lubar and President Lyall are working to finalize the list of issues to be circulated prior to the October 5, 1995 meeting. Working groups for each topic will be appointed.

At the August meeting, an interest was expressed in performing different kinds of "environmental scans" as a starting place to become better acquainted with trends in higher education. In order to begin that process, several outside speakers have been invited to share their knowledge about trends in higher education to help the planning study members to reflect in an objective way on the environment facing higher education, and to project trends which might affect the future of the UW System.

Regent Grebe called on President Lyall to introduce the first of those speakers. She introduced Dr. Roger Benjamin, a former provost and professor at the University of Minnesota, and the current director of the Institute on Education and Training at RAND. He has recently completed a study for California of the effects of its state expenditure trends on future funding for higher education, and has a particular research interest in the structural

changes facing higher education and higher education's relationship to private industry. President Lyall reported that Dr. Benjamin would examine some of the trends in the nation and in California, and compare them to his initial observations about Wisconsin; his presentation would be followed by further reflections on the Wisconsin environment and trends offered by State Budget Director Richard Chandler and Todd Berry, President of the Wisconsin Taxpayers Alliance; after their comments, there would be more general discussion.

Presentation by Roger Benjamin of RAND: "The Implications of State Fiscal Futures for Higher Education: the Case for Redesign"

Dr. Benjamin's discussion focussed on four general divisions. First, he described concerns for the health of America's higher education sector. Next, he highlighted fundamental problems higher education faces: a changed environment, as tracked by national fiscal trends, the particular case of California, and his tentative observations about Wisconsin. Third, since the national trends point toward institutional redesign, he noted that resource allocation could be a key factor to address the problem; however, he observed that is often done poorly. Finally, he suggested issues requiring research and the need to ask the right questions.

1. In looking at the higher education sector in America, he observed that 1989 data reveal there were 3,500 colleges and universities, 13.5 million students, and 1.4 million professional staff; 1995 data show that there are now more than 14 million students, which means that 5.9% of the U.S. population is engaged in higher education and that higher education is an important part of the U.S. economy. Tuition and fees are increasing rapidly; in the 1980's, they increased at rates higher than health care. Concerns about higher education are not only financial. Other issues include quality (ensuring that students achieve competence in particular areas); access, including participation, retention and graduation rates; and the ability of higher education to contribute to economic growth and competitiveness.

Overall demand for higher education has moved from rapid (in the 1960's) to currently slow growth; however, the student body is becoming much more diverse. Particular student populations (students over 35 years old, minorities) are rapidly increasing. This heterogenous population makes different demands on the curricula, orientation, remediation, and ancillary services of institutions. Demands for research and service also are changing. Basic research is still performed, but it must also address basic social problems and stimulate economic growth. When continuing education and agricultural extension services are available, they must provide a wider variety of services to local communities, as well as consulting and technical assistance to all levels of government. The national trend has thus been from "boom to stagnation" as enrollment and dollars per student have both decreased, while costs (e.g. faculty salaries, research budgets, building costs and maintenance) have increased. Tax revenue percentages allocated to higher education have decreased, as have state appropriations, leading institutions to rely more on private sources of revenue.

2. Dr. Benjamin provided a view of these trends on a state level, looking at the case of California, where long term trends of slow to moderate growth in revenues and rapid growth in "receiver" populations have these general implications: Demands for state support will grow faster than revenues, mandated and entitlement spending will grow disproportionately, "squeezing" public services--particularly higher education. Higher education currently receives 10% of the \$57 billion general fund appropriations, a decrease from 14% in 1970. Projections over the next 10 years assume moderate (5% annual) growth in state and local revenues, while spending on corrections will grow faster than revenues and K-14 expenditures will rise as fast as state revenues. If these projections are correct, by 2005, while spending on health and welfare and K-14 education remain relatively stable, increased spending on corrections will leave very little funding for higher education and other government expenditures. This results in an access deficit in the number of seats needed for 18-22 year olds, given their past participation rates. According to Dr. Benjamin, access deficits will "soar" for all public higher education in California, resulting in .5 million students without seats at California institutions of higher education.

In Wisconsin, the UW currently receives 10% of general fund appropriations, while 30% goes to K-12 education, 25% to other human resources, 4% to corrections, and 31% to other government functions. Dr. Benjamin predicts that state revenues will grow moderately, while K-12 education spending will grow somewhat faster than revenues, corrections spending will grow much faster, and spending on UW will decrease to 8% of the General Fund by 2005.

3. The challenge of this changed environment is that traditional demands for research and education must continue to be met; however, a wide variety of new demands must be addressed with limited resources. Resource reallocation is the key to effective performance, and Dr. Benjamin asked if the current decision-making systems are appropriate to handling the demands of the changed environment. From WWII to the 1970's higher education met growing demand with growing resources. The challenge then was to manage growth, and the response was to develop an incremental, decentralized, and hierarchical governance structure. The system that emerged can't cope with the changed environment because of its size, complexity, inadequate information, unclear priorities, and dispersed power.

4. Citing the "need to get the questions right," Dr. Benjamin suggested that important questions include asking how much the state can or should provide, while taking into account upcoming Federal activity on research funding, block grants, etc. Noting that the UW has begun to investigate productivity improvements, he suggested a few strategies, such as, mission differentiation and productivity improvements, including education technology, assessment, and new incentive systems. He noted that, as these are built in, the issue becomes one of developing a new resource plan, addressing what portions parents, students and the state should pay, and what should be provided through other campus resources.

Presentation: State Budget Director Richard Chandler

Mr. Chandler provided information relating to Wisconsin's budget outlook over the next six to eight fiscal years. Referring to California's situation, he noted that Wisconsin is nowhere near their fiscal condition, which has been in crisis for several years. In Wisconsin, the outlook is more optimistic. Reviewing the Wisconsin budget over the past 8 years, Mr. Chandler observed that three programs have had spending increases well above inflation rates: K-12 education, medical assistance, and corrections. Annual increases to these programs have been 7.7%, 9.1% and 12.5% respectively. Over that same period, three programs have either decreased or remained relatively stable: AFDC (down by an average of 4.7% per year), property tax credits and community aids, which have remained stable. Most other areas of the budget over this period have been growing at or slightly below the inflation rate. The 1995-97 budget affects these figures through a large increase in spending for K-12 education; all the areas but medical assistance and corrections will either remain the same or be reduced.

Looking forward, Mr. Chandler projects that corrections spending is going to increase, as will medical assistance spending, possibly at an average rate of 10% and 7% respectively. Estimating a rate of growth for K-12 spending is more difficult--a current system of cost controls limits the rate of increase in local school spending, and if kept in place, the rate of growth would be about 4.25% per year. If the cost controls were removed and prior growth rates were used to estimate future growth, the rate would be close to 8% per year. For the six fiscal years after 1997, if K-12 growth is contained, and medical assistance and corrections grow at rates well above inflation, every other program will be able to grow at about 5%; if K-12 growth returns to its prior pattern, everything else will see about 1% or less increase in spending. Thus, the amount of GPR funding available to the UW, under a best-case scenario (i.e., with K-12 growth constraints remaining in place), will be increasing at the rate of inflation plus the rate of economic growth or close to it.

Another variable identified by Mr. Chandler is the question of revenue growth; the projections cited above assume an average annual rate of growth of 5.7%. Variations in that rate will directly affect the projections. Federal law changes may also affect these figures, since state funding might change relative to Federal block grants. He concluded his comments by observing that Wisconsin's K-12 program does not face the challenges that California's system faces, and that, overall, his projections indicate that UW could see GPR revenue growth at close to the rate of economic growth, depending on K-12 spending constraints and the rate of economic growth.

Presentation by Todd A. Berry, President of the Wisconsin Taxpayers Alliance: "Thinking About Wisconsin's Fiscal Future"

In regard to the subject of property tax relief, Mr. Berry noted that in 1996-97 the state will pay \$4 billion in school aids and credits, total school

spending will be \$6 billion, and state general fund budget will be approximately \$9 billion. In comparison, state subsidies for the UW will be around \$850 million. He concurred with Dr. Benjamin's projected figures, and predicts that 1996-97 school spending to reach 42% of the general fund and 46% by 2004. He asserted that the school funding change could be summed up in the words "sum sufficient." A "sum sufficient" appropriation means that the state will pay two-thirds of actual school costs rather than a fixed sum. The implications of this are that K-12 appropriations will be "first-draw" on the treasury, and there will be greater competition for funds.

Mr. Berry then addressed three budget scenarios. He noted that over the past ten years, GPR tax growth (inflation plus real growth) has averaged in the 5.6 to 5.8% range per year; however, in four years, growth was less than 5%, and five years saw more than 7% growth. In the first scenario, it was assumed that school revenues would grow at 4.7%, with 5% general revenue growth and no tax increase. What his projections reveal is that the next biennium would incur deficits in the range of \$266 million in 1998-1999. However, this projection assumes 0% increases in all appropriations other than schools--essentially "freezing" the UW's appropriations. The second scenario, which assumes 4.7% school revenue growth, 7% general revenue growth, and allows for a 3% GPR growth for all other appropriations, incurs a \$210 million deficit for the same period.

He concluded that the changes in school financing change everything about state budgeting and spending priorities. As far as the university goes, the amount of real spending growth is likely to be small. As school costs increase, so too would property tax levies, after an initial drop in the 1995-97 biennium. He explained this by noting that 46% of the property tax is unrelated to schools; rather, it has to do with counties, technical colleges and municipalities which are not under revenue restraints.

Mr. Berry concluded his discussion by noting the utility of this information to provoke thought, discussion and debate, and raised a series of questions to provoke such discussion. He questioned whether the state budget should provide two-thirds of local government and school funds, and asked if the financial relationship between state and local government needs to be re-examined, suggesting that the state give local communities their own revenue sources in order to spread the management of impending fiscal pressures. He noted that an "enrollment bubble" is anticipated for the UW, but that it would be followed by a rapid decrease. He wondered if the UW should look to private colleges to ease the pressure of this temporary enrollment increase. He asked whether the junior college concept needs to be rethought, and whether the UW Centers should be "spun off" from the UW System to share revenue sources with their supporting county or locality, or if they should be ceded to the Technical College system. Further, he asked if admissions procedures need to be revisited in order to decrease the need for remediation, and perhaps cede that function to the technical colleges or back to the high schools. He asked whether there are profit centers within the UW System which can be used to generate revenues. He asked whether the relationship between the State and UW needs to be reconceptualized. Explaining that the System relies on the State GPR for about one-third of its funds and that the State's involvement goes

beyond the subsidy the System receives, Mr. Berry noted that the 1995-97 Biennial Budget centralizes certain UW System administrative processes under the State's auspices at a time when the opposite trend is occurring in private organizations, which are moving toward de-centralizing processes. Finally, he asked whether the UW-System should consider whether one or two campuses, colleges or programs could participate in an arrangement wherein they would not receive public money, or a reduced public subsidy, in return for complete control over their operations. The money could come from gifts, grants and private revenue, and the institution(s) could be governed by an independent board of trustees--with precedent established by such institutions as Cornell University, which has a mixture of public and privately funded colleges. He suggested such a program could be piloted at the Medical School, a Business School, a special institution (such as UW-Stout, which has many private connections already), or at UW-Madison where potential for generating revenue is greatest.

Discussion

Regent Grebe opened discussion by recognizing Regent Dreyfus, who asked Mr. Chandler if his projections included the additional 10,000 students (the "enrollment bubble" indicated by Mr. Berry). Mr. Chandler replied that was an issue which would need to be addressed by the enrollment management policy. He conceded that this is an important point, and that this and the next biennium will produce a situation where funds will be very tight, after which a more normal scenario may be anticipated.

Regent Gelatt noted that Dr. Benjamin addressed assessment in his presentation, and observed that "Planning the Future" shared this focus, but that not much progress has been made. He asked Dr. Benjamin if he could address "how, who and what" in assessment. Dr. Benjamin suggested that this is complicated, but that some law schools, for example, have attempted to shape their curricula according to new assessment tools. The need is to generate responsible, valid and reliable tests which give proper information to both teacher and student. He anticipates that as universities move in this direction, and experiment with these questions, answers to Regent Gelatt's questions will develop.

Regent Krutsch asked Dr. Benjamin about outmoded decision-making structures and inquired whether he could suggest more effective structures; she also asked him to expand on the new incentive systems he referred to. He recommended developing a "flatter, leaner organization," and using technology to provide more information to compare situations which were previously difficult to compare. He recommended more participatory situations, noting that education changes could not be effected only from the top-down or from the bottom up; neither group has all the proper information. On the subject of incentives, he gave the example of rewards at some universities being research-biased. He suggested changing the incentive system to one which holds departments and colleges responsible for improving the quality of instruction, with a dean or director who has a budget to "spend" on the curriculum, and is in charge of "buying" courses based on their quality.

Regent Budzinski inquired about the costs of remedial education and the suggestion that it be shifted away from the University; noting that this merely changes the funding to another area, he asked if the possibility has been raised to simply stop providing remediation at this level. Dr. Benjamin responded that several states have decided to cease remediation, arguing that it's costly and not the role of higher education. He suggested that community and junior colleges might take on this task. Dr. Benjamin then raised the question of the social and economic costs of not providing remediation to disadvantaged groups, and that these social costs must also be considered.

Regent Barry noted that the average student in the Wisconsin Technical College System is about 28 years old and that many WTCS students began their post-secondary education as students at UW System campuses. He suggested that systems need to be explored which encourage students to make more appropriate choices for higher education, since the attrition rate and associated costs are quite high. Dr. Benjamin concurred that this is a difficult question, but noted that access issues also need to be considered, since it is difficult to deny students the chance to go to the campus of their choice.

Regent Orr noted that one of the opportunities that the UW-System has is the use of distance education; he asked Dr. Benjamin about incentives for using or applying these technologies. Dr. Benjamin noted that these systems seem promising, and that there are a number of interesting experiments in distance education going on at Big-Ten universities. He cites such coursework as, potentially, more cost-efficient and perhaps better, since it exploits the competence of a wider range of faculty; however, he noted that an issue which needs to be addressed is costs and benefits of various technologies.

Regent Barry summed up the discussion by observing that the UW-System faces the tenuous questions of whether the revenue growth rate and the revenue caps for the K-12 system will hold. Finally, he asked "what is the appropriate amount of money for the University?" Mr. Chandler replied that he had based his discussion on a series of projections, but that the likelihood was that the University could anticipate revenue growth between 1 and 5%.

Regent Grebe concluded the discussion by thanking the panel participants, noting that they had raised issues that were thoughtful and provocative.