

Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
December 6, 2001

The Business and Finance Committee met at 1:16 p.m. in room 1820 Van Hise, in a joint meeting with all Regents invited, to discuss five "Building Our Resource Base" topics. Present were Regents Axtell, Barry, Boyle, Burmaster, DeSimone, Gottschalk, Gracz, Jones, Klauser, Krutsch, Marcovich, Mohs, Olivieri, Randall, Schneiders, and Smith.

a. Building Our Resource Base – Tuition Revenue Options

Regent President Jay Smith reviewed the Board's agenda for "Building Our Resource Base," its year-long examination of revenue development strategies. Last month, the Board discussed strategies for enhancing federal and gift funding. The discussion of tuition options this month will be followed by a discussion about the state compact approach in February. Increased tuition revenue should not come at the expense of additional GPR funding. The UW System is below the national average in support per student and the Board is seeking a higher support per student so strategic investments in educational quality can be made for the sake of Wisconsin.

Regent President Smith noted that the Board is well aware of the state's participation in the national recession. As was discussed at the recent second annual Economic Summit, the Board is concerned about structural factors influencing Wisconsin's economic future. Three factors make it imperative that the UW System help the state economy for the long term by increasing the number of college graduates in Wisconsin. These three factors are: 1) the State of Wisconsin's below national average per capita income; 2) the State's demographics of an aging population; and, 3) the State's low in-migration of college graduates.

The Board must craft the UW System's tuition policies with several principles in mind:

- affordability;
- equity;
- ability to attract more out-of-state students and hopefully retain them as productive members of our state economy; and,
- to the extent that the state fiscal situation permits it, some predictability in college costs.

This month, the Board is reviewing five approaches that conform with these principles. They are:

- per-credit tuition;
- cohort or guaranteed tuition;
- progressive tuition coupled with progressive aid;
- a nonresident alumni children's legacy tuition; and,
- self-supporting tuition for adult and professional programs.

Regent President Smith noted that Business and Finance Committee would review the five tuition options in more depth following President Lyall's summary of these options for all Regents. The Board is to provide guidance as to which of the five options it would like to consider further, and provide advice regarding any additional data the Board would like to see on these options.

The actual implementation of certain of these options would be complex and could make the UW System's revenue predictability a bit more uncertain. Further study will be needed in some cases to

ensure the viability of particular alternatives. For example, with respect to cohort tuition, assurance is needed that the Board can factor in unfunded state costs, state budget reduction offsets, and other contingencies. Regarding the nonresident alumni children legacy tuition program, the Board needs to know how many alumni children the UW System already has in order to answer the question of whether the UW System would actually lower revenues rather than increase them under this program. These questions will need to be answered through further research.

The Board may prefer that some of these alternatives be piloted at one or more institutions prior to making a systemwide policy change. This would provide an opportunity to measure the effect on revenue and on student behavior in a more controlled way.

President Lyall then gave an overview of the pros and cons of the five tuition options, noting that they are not mutually exclusive.

The first tuition option is *Per-Credit Tuition*. This option provides the ability to charge all students (both full-time and part-time) for all credits taken. An advantage is the equity to the students in that payment is the same per credit for all students. To the extent that students now use the plateau to take more courses than those required for their degrees, reduced time to degree may result. A disadvantage is that this could reverse the subsidy from full-time to part-time students since the cost of serving part-time students is actually higher (they take longer to graduate and are utilizing the university services for a longer period of time). A concern of this approach is that it would remove the positive feature of the current tuition plateau that is linked to time to degree. For those students using the plateau to take 15-18 credits per semester and who take only the required number of credits, the plateau provides an incentive to complete degrees faster.

The second option is *Nonresident Alumni Legacy Differential Tuition*. This option would provide a lower tuition rate for children of nonresident alumni, but still charge over 100% cost. The main advantage of this option is the “brain gain” effect on the State of Wisconsin. It is designed to attract increasing numbers of nonresident students to our campuses. Each year, a significant percentage of these students remain in the State after graduation. The main disadvantage is that it has the potential to make nonresident tuition rates appear more complicated and inequitable. If the Board were to want to further consider this item, UW System would want to determine how many currently enrolled nonresidents are children of nonresident alumni. This would enable the UW System to determine whether a nonresident alumni legacy program would increase or reduce revenue.

The third option is *Cohort Tuition*. This option increases tuition by a sizeable amount for each new freshman class, and then caps the rate of annual increase for that cohort in subsequent years. The main advantages of this option are that it better enables financial planning for students, and may offer positive benefits to the university and state as well. This approach provides an incentive for students to graduate faster, and offers the potential for reducing state support per resident degree and increasing institutional capacity (by shortening time to graduation). The major disadvantage to this option is that, if the UW System is subject to periods of sustained high inflation or other cost drivers, this approach could result in revenue losses for the institution. This option could also encourage the state to reduce its GPR support. The major unknown is whether a higher entering tuition rate will reduce applications for enrollment.

The fourth option is *Progressive Tuition, Progressive Aid*. This approach would create a statutory tie between the rate of annual resident tuition increases, and the increase in state financial aid programs. The major advantage is that this option reduces the state subsidy for those who can most afford tuition, and increases aid to lower income students who are most price sensitive to tuition rates. The major disadvantage is that this approach could encourage a reduction in GPR in our base budget. The unknown is whether the Legislature would link financial aid to tuition. The fear is that the UW System would put progressive tuition in place, but the state would fail to provide progressive aid.

The fifth and final option is *Self-Supporting Tuition for Professional and Other Niche Programs*. The main advantage is the increased options for adult, non-traditional, students who wish to continue their education with increased convenience. This option would also provide increased revenue to the UW

System. The disadvantage is that the non-traditional student market must remain strong in order for this program to be successful. The unknown is that the UW System does not know how price sensitive people will be for non-traditional classes.

Regent Klauser asked what the goals are of these tuition options. He also noted that the Chancellors, who are close to the student body, should be asked how they feel about these options before the Board considers implementing them. President Lyall responded that the goals of these tuition options are: enhancing revenues, particularly in light of the current volatility in state support; predictability of cost for students and parents; and brain gain for the State of Wisconsin. Also, before making any decisions on tuition options, the Chancellors will be involved in the discussion, and their input will be used in any final decisions.

Regent Olivieri noted that these options should enhance the UW System's resources in light of the reduced predictability of state support. He noted that revenue neutral options, and options that may increase risk and reduce revenue predictability should not be adopted. Also, there should be an incentive for students to graduate at 135 credits, and possibly an increase cost per credit above the 135 credit threshold. Finally, there should be a discussion of tuition differentiation. The discussion may focus on differentiation between campuses, and also on differentiation between programs.

Regent Mohs noted that one of the great advantages of the Board's discussion about tuition is that all the constituencies get to voice their opinion. Hearing from students about their opinions on tuition is an important part of the tuition discussion process.

Regent President Smith noted that the Board's discussion about tuition is healthy, but the Board's focus is on a discussion of building the UW System's resource base, of which tuition is just one component.

Regent Olivieri, noting the public's concern about tuition rising faster than the rate of inflation, remarked about the inflationary component that is built into the cohort tuition option.

Regent Krutsch, commenting on the nonresident alumni legacy option, noted that if one of the goals is brain gain, granting scholarships to students from other states is a good idea. However, the UW System should not target only children of alumni.

The Committee recessed at 1:43 p.m. The Committee reconvened in room 1920 Van Hise Hall at 1:53 p.m. Present were Regents Gottschalk, Axtell, Jones, Klauser, and Krutsch. Regent President Smith was also present.

b. Building Our Resource Base – Tuition Options Discussion

Associate Vice President Kathleen Sell, Ric Porecca, Senior Vice Chancellor and Chief Financial Officer, University of Colorado-Boulder, and John Wiley, Chancellor, UW-Madison, led a discussion of tuition options. Chancellor Wiley noted that UW-Madison performed computer modeling on the cohort idea, but more modeling is needed to further research the idea for each campus. Cohort tuition makes tuition increases more palatable to students because it increases predictability and helps students plan costs. There is a link between a student's time to degree and tuition level. There is also a link between gender and tuition level. At UW-Madison, non-resident women are the fastest group to graduate, and resident men are the slowest to graduate. The cohort approach is a possibility, but administration of it may be very complex. Chancellor Wiley remarked about his enthusiasm for reducing tuition for children of nonresident alumni. This would bring students in from other states that may stay in Wisconsin after graduation, and increase alumni loyalty and possibly donations. This approach may decrease tuition revenue, but would have a very positive effect overall.

Donald Mash, Chancellor, UW-Eau Claire, spoke on behalf of the nonresident alumni legacy option, noting that, at this time, UW-Madison has a greater capacity than other UW institutions to attract significant numbers of out of state students. Attracting larger numbers of nonresidents would bring a national perspective to the comprehensive institutions, and, even with a healthy discount, nonresident

students would pay much more than residents. Bringing students from across the nation will result in brain gain for the state.

Regent Axtell stated that the comprehensive institutions should be encouraged to attract more out of state students and to pilot the non-resident alumni legacy approach. The cohort, per credit, and progressive aid ideas seem to be zero sum approaches, whereas the nonresident alumni legacy and niche program ideas seem to have a better chance at generating revenue.

Associate Vice President Kathleen Sell noted that these approaches can be either revenue neutral or revenue enhancing. For some of these approaches, the UW System would need to amend the statutes for the tuition continuing appropriation. The cohort approach is worrisome at the systemwide level in terms of revenue predictability with the current volatility in GPR. With the risk of another fiscal downturn, the cohort approach should be piloted at only one, homogeneous institution. This pilot institution would probably be UW-Madison.

Regent Gottschalk commented that it may be too early to pilot cohort tuition. The current biennial budget situation is too volatile, and more study and computer modeling is needed.

Regent Klauser noted that the per credit approach eliminates the tuition plateau, and this may or may not be the goal of the UW System. The goal of the nonresident alumni legacy idea should be to increase the total number of students, not simply displace Wisconsin residents with nonresident students. He noted that brain gain goal is not a compelling reason if nonresident students do not stay in Wisconsin after graduation. This approach could be a revenue producer, but more research on current nonresident alumni students is needed to be sure.

Chancellor Wiley noted that UW-Madison already knows the number of legacy students that are on campus. The yield rate on out of state alumni is very low, whereas the yield rate for Wisconsin resident alumni is much better.

Associate Vice President Kathleen Sell noted the importance of targeting nonresidents because they increase revenue by paying 150 percent of cost.

Regent Klauser noted that the value of the cohort idea is predictability of cost for students, but the approach means that freshmen subsidize seniors. Also, the risk of this approach falls on the institution, which will have to correctly predict costs. The approach should be carefully tested by first piloting this idea at a volunteering sponsor campus. Regent Klauser noted his full opposition to the progressive tuition, progressive aid approach. Students and parents already pay different rates in taxes. Also, this approach breaks the link between the cost of the program and what the student is paying.

Regent Gottschalk invited the chancellors who were present to speak on any of the five tuition options being discussed.

Jack Miller, Chancellor, UW-Whitewater, noted the fairness of the per credit tuition idea, and gave his support for it because it may generate fresh revenue. Students may not always agree with the proposal, but the approach has merit. Chancellor Miller voiced his skepticism of the nonresident alumni legacy idea. Finally, the cohort idea has drawbacks for institutions with a high percentage of juniors and seniors, because these institutions would take in less revenue than institutions with a high percentage of freshman and sophomores.

Chancellor Mash noted that the per credit idea is typically not popular with students. UW-Eau Claire would like to pilot the nonresident alumni legacy idea, but not pilot the per credit approach. The cohort idea fits best with universities with a higher percentage of students that are full-time undergraduates.

Bruce Shepard, Chancellor, UW-Green Bay, noted the possibility of piloting the per credit idea. The cohort idea, which puts GPR money at risk, is very worrisome.

Douglas Hastad, Chancellor, UW-La Crosse noted that the nonresident alumni legacy discount is an interesting idea. UW-La Crosse has an interest in strengthening alumni relationships. This approach may also increase students from non-reciprocity states like Iowa and Illinois. At the same time, UW-La Crosse does not wish to displace Wisconsin residents. The proposal would adjust institutional enrollment targets upward so such a result would not occur.

Ann Lydecker, Chancellor, UW-River Falls, noted that UW-River Falls has an interest in the per credit and nonresident alumni legacy options. Many nonresident alumni would like to send their children to UW-River Falls, but the cost is prohibitive.

Regent Gottschalk asked whether it is feasible to ask the UW Medical School to become a self-supporting professional school. Philip Farrell, Dean, UW-Madison Medical School, remarked that the UW Medical School currently has the highest tuition of any Big 10 institution, and average debt load for graduates approaches \$100,000. More research would need to be completed before any option could be endorsed.

Regent Jones noted that UW-Whitewater has discussed some of these options. The equity of the per credit idea is what stands out with this approach. Students now pay the same amount of tuition when taking between twelve and eighteen credits. Also, students are concerned about what would happen to their tuition if they drop a course. There are many concerns with the cohort idea, especially concerning the predictability of cost due to the volatility of the biennial budget.

Regent Krutsch noted that one of the goals of these options is revenue enhancement, but the Board needs to remember that affordability is also an important goal. Also, she noted her surprise at the strong support voiced by the Chancellors for the nonresident alumni legacy discount, and indicated it was good that the Committee is hearing from the Chancellors.

Chancellor Wiley noted that the increase in nonresident tuition is very alarming. The cohort idea mitigates the increase in any one academic year.

David Olien, Senior Vice President For Administration, noted that the University of Iowa, like Wisconsin and Michigan, is very sensitive to the Chicago market. The University of Iowa increased tuition by 18 percent. This caused their percentage tuition increase for non-resident students to be less than the percentage tuition increase for in-state students. Care must be taken not to price the UW System's commodity in a way that it loses money. The UW System must also remember that the quality of nonresident students, and not just the revenue generated by them, is of utmost importance.

Assistant Vice President Freda Harris noted that by increasing nonresident students, the UW System would not reduce revenue since non-residents are paying 150 percent of cost. When the UW System loses nonresidents, the UW System loses revenues.

Ric Porecca complimented the Board for discussing so many different tuition options. The core question that the Board faces is who really should be paying the price for education. Finally, alumni discounting is an interesting idea, but if you model the approach, it may not amount to much more than a targeted scholarship program.

c. UW-Stout Laptop Differential

Charles Sorensen, Chancellor, UW-Stout, noted that UW-Stout is willing to pilot the per credit tuition model. At the September 7, 2001, Board of Regents meeting, the Board accepted the contract with Compaq Computer Corporation to provide a laptop computer leasing program for the students and staff at UW-Stout. UW-Stout now requests Board authority to eliminate the tuition and fees plateau and implement per credit tuition and fees.

To achieve revenue neutrality to the student, students would realize a reduction in per credit charges. However, students enrolled in the current 12-18 credit plateau would be charged for all credits taken. A determination would be made as to how the proration could be handled most equitably with the end result being that part-time students would no longer be paying a larger proportional amount than full-time students. The average credit load at UW-Stout is fourteen and a half credits, and UW-Stout thinks that this proposal will shorten student's time to degree.

Chancellor Sorenson introduced two UW-Stout students who described how the per credit tuition model will affect their educational costs. The students noted the equity of the per credit approach.

Regent Krutsch asked how UW-Stout will analyze the effects of the per credit approach in light of the fact that it is rolled in with the laptop leasing program. Diane Moen, Vice Chancellor, noted that

the revenue from each program will be separated on campus so that an analysis of each program will be possible.

Upon the motion of Regent Klauser and the second of Regent Axtell, the Committee approved Resolution I.2.c.

[Resolution I.2.c.]

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Stout, the Board of Regents authorizes the UW-Stout to convert to a per credit tuition system for undergraduate and graduate students for tuition, the existing “Access to Learning” differential tuition, segregated fees, textbook rental, and for a new laptop computer per credit user fee. This action would be phased in, beginning with new freshmen, fall 2002. It would continue to be phased in for new freshmen for a period of four years. Current UW-Stout students would have six years to complete their education under the current plateau tuition and fees system, at which time, the plateau system would be eliminated. Graduate students and other populations (special, transfer, etc.) would be incorporated as reasonable within the four-year implementation period.

d. DEFERRED UW-Milwaukee Per Credit Tuition for 2002 Summer Session

This agenda item topic was deferred to a future Committee meeting.

e. UW-Whitewater Tuition Differential

Jack W. Miller, Chancellor, UW-Whitewater, reviewed UW-Whitewater’s differential tuition proposal. The additional revenue resulting from the tuition differential will be used to fund a variety of student success initiatives, including improving academic and career advising. One of the goals of the program is to increase retention rates. Results will be tracked and findings will be presented in order to provide accountability.

Chancellor Miller initially presented UW-Whitewater students with a proposal to fund the new initiatives by means of a modified per-credit proposal wherein tuition would be assessed on a straight line basis up to 12 credits, and continue increasing on a straight line basis, but at a lesser slope, beyond 12 credits. In the ensuing campus-wide discussion, students supported the goal of increasing tuition revenues to support the new programs but preferred to raise the additional revenue by means of a differential tuition rather than through a modified per-credit approach. The current proposal has been endorsed by student government.

Chancellor Miller acknowledged the role played by Regent Jones in leading the campus discussion. Regent Jones noted that bringing this resolution before the Committee was a long process involving many focus groups with the student body, and students were involved in the dialogue every step of the way.

Upon the motion of Regent Jones and the second of Regent Axtell, the Committee approved Resolution I.2.e.

[Resolution I.2.e.]

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Whitewater, the Board of Regents approves the

differential tuition for undergraduate students at UW-Whitewater beginning in the 2002-03 academic year.

The order of the agenda items was modified so that Dean Philip Farrell of the UW-Madison Medical School could present the Blue Cross/Blue Shield update to the Committee at this time.

g. Blue Cross/Blue Shield Update

Philip Farrell, Dean, Medical School, UW-Madison, brought the Committee up to date on the developments with Blue Cross/Blue Shield, and the gift given to the UW Medical School and the Medical College of Wisconsin. The UW Medical School is working in cooperation with the Medical College of Wisconsin. The date of the stock sale is not set, therefore the Medical School is not yet sure exactly when and how much the gift will be. A nine-member oversight and advisory committee will be selected, eight of whom are selected by the Board of Regents, and one by the Commissioner of Insurance. The oversight and advisory committee member selection criteria were discussed, and interviewing for the committee will be conducted in January and February. The oversight and advisory committee will approve expenditures from 35 percent of the funds, and will review expenditures from the other 65 percent. These percentages are specified in the proposal, and approved by the Commissioner of Insurance. The next update to the Committee will be in March or April.

Regent Klauser asked how the proceeds of the stock sale are being handled. Dean Farrell responded that the UW Foundation has fiduciary responsibility over the stock sale. Fifteen and a half million shares are allocated to each school, and they are currently trading at about \$6 per share.

f. Committee Business

(1) Approval of minutes of the November 8, 2001 meeting of the Business and Finance Committee

Upon the motion of Regent Klauser and the second of Regent Axtell, the minutes of the November 8, 2001, meeting of the Business and Finance Committee were approved as presented.

(2) Report on Continuing Appropriations

Upon the motion of Regent Klauser and the second of Regent Jones, the Committee approved Resolution I.2.f.(2)

[Resolution I.2.f.(2)]

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the 2000-01 Continuing Appropriation Report for submission to the Legislature.

(3) Report on using the Continuing Appropriation to Serve Adult Students

Upon the motion of Regent Klauser and the second of Regent Jones, the Committee approved Resolution I.2.f.(3)

[Resolution I.2.f.(3)]

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents accepts the report on Cost Recovery Activity, Credit Enrollment and Unduplicated

Student Headcount by Program and Age, 2000-01 Academic Year for submission to the Joint Committee on Finance.

(4) Report on State Imposed Costs

Upon the motion of Regent Klauser and the second of Regent Jones, the Committee approved Resolution I.2.f.(4)

[Resolution I.2.f.(4)]

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the 2001-02 Report on State Imposed Costs Added to Resident Undergraduate Tuition for submission to the Secretary of the Department of Administration.

h. Report of the Vice President

Vice President Debbie Durcan discussed the Memorandum of Understanding between the UW System and Department of Administration regarding the creation of GPR positions. These Board approved flexibilities are much needed and greatly appreciated.

She reported that there were four responses to the Request for Proposal for a new banking contract and the UW System is currently evaluating the responses. A letter of intent to award the contract will be presented by the end of December.

In addition, Vice President Durcan noted that the UW System's additional share of the reported state budget lapse is \$1.5 million. This brings the UW System's total share to date to \$6.5 million.

i. Closed Session to consider trust fund matters, as permitted by s.19.85(1)(e), Wis. Stats.

Upon the motion of Regent Klauser and the second of Regent Krutsch, the Business and Finance Committee adjourned to Closed Session at 3:25 p.m. Present were Regents Gottschalk, Axtell, Jones, Klauser, and Krutsch.

The Business and Finance Committee adjourned at 3:46 p.m.


Eric Engbloom, Recording Secretary