

MINUTES OF THE REGULAR MEETING

of the

BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

Madison, Wisconsin

UW-Madison
Held in 1820 Van Hise Hall
Thursday, December 8, 2005
10:30 a.m.

- President Walsh presiding -

PRESENT: Regents Axtell, Bradley, Connolly-Keesler, Crain, Gracz, Loftus, Pruitt, Randall, Semenas, Smith, Spector, and Walsh

ABSENT: Regents Burmaster, Davis, McPike, Rosenzweig, and Salas

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DISCUSSION ON FINANCIAL AID AND TUITION

In opening remarks, President Reilly observed that, for generations of Wisconsinites, the UW has been their best option for a brighter future. For hundreds of thousands of people, it has represented a ticket to prosperity and it has always been accessible for them.

Today, he pointed out, many fellow citizens doubt their ability to afford a UW education for themselves or their children. They are concerned about being able to obtain grants or low-income loans to help subsidize their education, and they are concerned about the amount of debt they will have upon graduation. Worst of all, he emphasized, many Wisconsin families are not even talking to their children about a college education because they do not consider it a possibility.

Noting that there was a time when the entire country looked to Wisconsin and its university for big ideas, such as social security, workers' compensation and welfare reform, President Reilly stated that the time has come to get back to the tradition of thinking big.

An area in particular need of big ideas, he remarked, is that of tuition and financial aid. With the cost of higher education rising, a significant portion of the population is being priced out of the opportunity to go to college, depriving both the people involved and the state of the benefit of many educated, creative minds.

In addition, he continued, financial aid programs have not kept pace with tuition increases, meaning that more and more students and families must take out loans to pay for higher education, incurring levels of debt which many find too burdensome to undertake.

The President pointed out that increasing the number of baccalaureate degree holders in Wisconsin would lead to raising the state's per capita income, generating more tax revenues, and building a 21st century economy that would keep Wisconsin viable and vital.

He asked that the following questions be kept in mind: How to agree on a big idea regarding tuition and financial aid that can increase access, especially for those of letter means; how to work with the PK-12 system to get the big idea out to the audiences that need to hear it; how to use this idea to strengthen retention and brain gain efforts; how to develop a consensus on a set of principles to guide thinking toward realizing the big idea; how to excite the imagination of the public about it; and how to construct a compact with the Legislature and Governor to realize these goals.

In conclusion, the President stated his belief in the UW as the hope of Wisconsin's future and his hope that the dream of a university degree can be made a reality for all Wisconsin residents who want to work to earn one, regardless of wealth.

He then called on Associate Vice President Sharon Wilhelm for a presentation on financial aid.

Ms. Wilhelm began her remarks by noting that in the 2003-04 study on *Charting a New Course for the UW System*, the Board requested development of initiatives to expand access for low income students. Noting the economic benefits of obtaining a college education, she showed data to illustrate that students from the lowest income families are less likely to enroll in the UW and thus benefit from a bachelor's degree. The percentage of UW resident new freshmen from the lowest income quintile has declined from 15.8% in 1994 to 12.3% in 2004, whereas 20% of students would be in each income range if the new freshmen population reflected the state population. Noting an improvement from 11.1% in 2003 to 12.3% in 2004, she indicated that it is too early to know if this change reflects an upward turn or just a one-time variation but noted that the overall trend for enrollment of this group is downward.

Addressing the question of whether it is an academic or financial barrier that keeps low income students out, she showed a chart demonstrating that, in each ACT score range, students from low-income families have lower access rates than students from higher income ranges.

With regard to financial aid, Ms. Wilhelm referred to a graph that showed tuition and fees for resident undergraduates increasing more rapidly than the average state need-based grant. The largest state grant program, the Wisconsin Higher Education Grant

(WHEG) increased less than \$300 between 2001-02 and 2004-05, while average resident undergraduate tuition and fees increased approximately \$1500.

She then turned to average cost of attendance, which includes tuition, fees, room and board, books, and a modest amount for personal expenses as compared to the average need-based grant from all sources, including federal Pell grants. She presented a graph showing that the average cost of attendance has been rising faster than the average grant total. In 2004-05, the gap between the average need-based grant aid and cost to attend was about \$8,500. For some students, she said, the gap is filled by taking out loans and working, while, for others, the gap results in not attending college.

Between 2001-02 and 2004-05, the average Pell grant increased \$217 and the WHEG grant increased \$266, for a total of \$483, while average borrowing increased twice as much. Thus, even students whose family incomes are near the poverty level need to rely heavily on loans to finance their education.

With regard to the Board's *Charting a New Course* study, Ms. Wilhelm recalled that the Partnership with the State Subcommittee developed three financial aid goals -- access, retention and brain gain. From those discussions, the Board focused on the short-term goal of holding students in the lowest two income quintiles harmless for tuition increases and submitted this plan as part of the 2005-07 budget request. The Board's goals for the current year also identified financial aid as important in providing access and encouraging degree completion for low-income students.

To assist in identifying ways to address access for low-income students, she indicated that a working group was formed to examine bold and innovative financial aid practices used in other states and assess their feasibility for the UW System. The working group first developed a set of principles to provide a framework for a shared vision of financial aid policy:

- That socio-economic diversity enhances the learning environment and bolsters state economic growth;
- that student recruitment, retention, and degree completion are most successful when financial barriers are eliminated;
- that it is essential to provide a clear message to young people and their parents that college is possible and within reach; and
- that progress towards achieving financial aid goals should be monitored.

Through examining bold initiatives in other states, the working group identified three categories of the most effective programs:

- Need guarantee programs
- Pledge programs
- Large state grant programs

In addition, loan forgiveness and hold harmless programs in other states were examined.

Ms. Wilhelm then went on to describe these types of programs.

Need guarantee programs guarantee additional grant assistance to students below a certain income threshold to cover the cost of attendance. A “last grant” program, it is awarded after all other grants and scholarships have been taken into consideration and includes a work requirement on the part of the student. This model, used by the University of North Carolina-Chapel Hill, University of Virginia, University of Illinois, and the University of Minnesota, reduces or eliminates student loan debt and is easy for the public to understand. It would be a huge financial undertaking for a system as large as the UW.

Pledge programs target middle and high school students below a certain income threshold, asking them to sign a pledge that they will take certain high school courses, attain a certain grade point average and stay out of trouble. If they fulfill the pledge, they receive a scholarship that pays for tuition and fees. This model, used by Indiana and Oklahoma, has great potential to increase the number of low-income students who graduate from high school and go to college. The preparation component encourages high school students to become aware early of academic requirements necessary to attend college.

A large state grant program can make a positive impact on retaining low-income students by covering tuition and fees; but there may be a limited impact on increasing access as aid is distributed on the basis of Expected Family Contribution, a complex calculation that would be difficult to market to high school students. In Wisconsin, such a program would require a substantial increase in the funding level of the WHEG program to cover tuition and fees for the neediest students. States using large state grant programs include Minnesota, New York, Illinois, New Jersey, and Pennsylvania.

A hold harmless program was included in the UW’s 2005-07 budget request in order to hold students in the lowest two income quintiles harmless for tuition increases by providing a grant for the same dollar amount that tuition was raised. A new program of this type was recently announced by Virginia Tech and could be proposed again by the UW in the future.

Loan repayment and loan forgiveness programs are used in many states to meet workforce needs and provide a financial incentive for college graduates to stay in the state. Currently, Wisconsin has four loan forgiveness programs created to address specific state needs in such areas as nursing and teacher shortages. Some or all of the debt from these loans may be forgiven if the student stays in Wisconsin and works in the specified field after graduation. Loan repayment and forgiveness programs achieve the goal of encouraging students to graduate and become employed in the state. They reduce the fear of loan indebtedness, provide a financial bridge for students to stay in school and complete their degrees, and contribute to the state economy through development and retention of an educated workforce.

Ms. Wilhelm concluded her presentation by indicating that development of a financial aid plan for the UW System includes addressing the following questions:

- Who should be covered by the program?
- What should be covered by the program?
- Should the program include a student commitment, such as an academic requirement while in high school or a work requirement while in college?

She added that any financial aid program needs to be partnered with an aggressive campaign to inform low income students that college is possible so that they do not assume that higher education is beyond their financial reach.

Associate Vice President Freda Harris then made a presentation on funding options to improve access, retention and brain gain.

Noting that several public institutions, including the University of Connecticut, the University of Iowa and the University of Texas, use tuition to fund financial aid, she indicated that there are several reasons why such an option might be considered in Wisconsin.

- Wisconsin is below surrounding states in grant funding per student.
- Wisconsin continues to experience structural budget deficits, with an early estimate of \$600 million in deficits for 2007-09. Therefore, funding will continue to be tight.
- There are many competing needs for state resources
- Resident tuition at UW institutions continues to be below the median of peer institutions. UW-Madison is about \$1,900 below its peers for 2005-06, and the comprehensive universities are about \$1,100 below their peers.
- UW tuition is low when compared to peers in terms of the percentage of family income that is needed to pay for tuition. Moderate increases in tuition to fund financial aid could be accomplished while keeping tuition below the peer median.

With limited resources and intense competition for state funds, she suggested that the Board might wish to consider leveraging any request for financial aid by providing an additional source of revenue, such as tuition. With leveraging, financial aid goals could be met much sooner than by relying on state resources alone. Other options, including increased private fundraising, might also be considered.

Ms. Harris then described several tuition options, beginning with tuition funded financial aid. Which would increase tuition rates for all students and also would increase financial aid to hold down net costs for lower income students. Concerns about this approach would include the following:

- How the program would be administered and whether it would be possible to ensure that all money from the program would be retained from year to year to support financial aid;
- Whether the state would continue to fund the statutory link for tuition increases;

- Concern that higher tuition would result in “sticker shock” for low income students. A tuition funded financial aid program would need to be accompanied by an extensive campaign to inform low income students about it.

Noting that the Board currently does not have the authority to increase tuition rates to add funding for financial aid, Ms. Harris indicated that the Board could request legislative approval either through biennial budget requests or a statutory language change. A one percent increase to tuition in each year of the 2007-09 biennium would generate \$5.5 million in the first year and \$11 million in the second. That funding could be used either to start a new financial aid program or to supplement state funding for the existing program. A one percent increase would amount to between \$40 and \$60 per student in 2007-08.

As another option, she described tuition based on ability to pay, which would freeze tuition rates for lower income students and assess higher tuition to students from families above a certain income level. If the state maintained the statutory link for financial aid, the effect of the combined programs would be a decrease in the gap between need and grant funding for the neediest students. This option, she noted, would be another way to fund a hold-harmless program. Because the Board currently has the authority to set different tuition rates by income level, the proposal could be implemented as soon as the 2006-07 year.

Such a program, she explained, could be implemented so as to ensure that tuition remained below the peer median for all students, including those with greater ability to pay. It also would remove some of the “sticker shock” associated with the tuition-funded financial aid option.

Concerns about this option might include a possible perception that it would be a “Robin Hood” approach. However, this would need to be balanced against the value of improving the socioeconomic diversity of the student body. In addition, students and financial aid administrators have expressed concern about a “funding cliff”, with as little as a single dollar being the deciding factor as to whether a student’s tuition is frozen or increased more than an average increase would have required. There also has been concern about students who, while legally dependent upon their parents, do not receive the “estimated family contribution”.

Other concerns relate to the ability to predict the impact of two-tiered tuition on the enrollment of middle and higher income students. No data is available since no other states have implemented such an approach, although California, North Carolina and Washington have considered it. There also would be questions relating to feasibility of implementing what could be an administratively difficult tuition program in a time of diminished resources and staffing. Finally, different tuition levels might be difficult for students to understand, necessitating a simple way to explain whose tuition would be frozen and whose would not.

A final tuition option in Ms. Harris’ presentation involved a nonresident tuition rollback. This would be a brain gain strategy that would involve reducing nonresident undergraduate tuition by setting it at three times the resident rate at all institutions except UW-Madison. This would cover the full cost of educating a nonresident student, plus

provide an amount equal to the current state share of the cost of educating a resident student, thereby providing a resident tuition subsidy.

This proposal would seek to make nonresident tuition at UW-Milwaukee, the Comprehensive Universities and the UW Colleges more affordable by bringing it closer to the level of peer institutions. UW-Madison already is close to the peer median for nonresident undergraduates. Increasing nonresident enrollments by about 250 of the more than 900 students that the UW has lost since 2001-02 would fully cover the cost of the tuition rollback. Additional enrollments beyond that level would add funding for institutions. Because nonresident enrollments are self-supporting, they would not negatively impact enrollment of resident undergraduates.

Such a plan, Ms. Harris noted in conclusion, would fit with the board's policy that "Nonresident rates should be competitive with those charged at peer institutions and sensitive to institutional nonresident enrollment changes and objectives."

President Reilly indicated that a discussion of the relationship of enrollments to these topics would be brought to the Board at the February meeting. In addition to the options presented at this meeting, he pointed out, there are other alternatives, such as cohort tuition, that may be considered.

Noting the importance of simplicity and clarity in the messages given to students and their families, he pointed out that a "Pledge" model conveys the simple message that if the student stays out of trouble and maintains a certain grade point average, the aid would be forthcoming. A "No Debt" model would be very expensive, covering room and board, as well as tuition and fees.

Regent Crain added that it is important for the message to be clear to the general public as well.

In response to a question by Regent Smith about the increase in the percentage of low income new freshmen between 2002 and 2004, Ms. Wilhelm indicated that there are more low income students taking the ACT, so it might be that they are hearing the message that college is possible despite income limitations. She cautioned, though, that it would be necessary to see if the percentage continues to climb, or if the increase simply reflected an anomaly in a downward trend.

In response to a question by Regent Loftus, Ms. Harris explained that a proposal to hold students in the two lowest income quintiles harmless for tuition increases was proposed in the 2005-07 budget request. The Governor added a substantial amount to the WHEG program in response to this request. Although it was cut in the legislative budget process, the Governor vetoed that cut.

Regent Loftus referred to an article in the *Atlantic Monthly* that identified increasing academic standards as a factor in limiting higher educational access for low-income students.

Ms. Wilhelm noted, however, that, even at the same ACT level, higher income students participate in college at a higher level than low-income students.

Regent Loftus indicated that the Regents could direct that the institutions admit more economically diverse classes.

President Reilly noted that the UW System as a whole has a higher representation of low-income students than does UW-Madison.

Regent Pruitt asked if there had been enough experience with the “Need Guarantee” and “Pledge” models to assess how well they have worked in other states. Ms. Wilhelm replied that, while there had been some successes, there had not been much experience with those models to date.

Regent Smith asked if tuition is tied to financial aid in other states, and Ms. Harris replied that such is the case in Connecticut, Iowa and Texas, for example. In these models, part of the financial aid is funded by tuition.

Regent Semenas inquired about retention rates for lower income students, to which Ms. Wilhelm responded that, while retention rates for these students in Wisconsin had not been analyzed, national information indicates that low-income students are not retained as well as others and that this result is thought to be financially related. Regent Semenas urged that retention of these students be a key goal.

Regent Spector asked if family assets are part of the computation in income-based tuition models, and Ms. Harris replied in the negative. Ms. Wilhelm added that federal financial aid computations take family assets into consideration.

In response to a question by Regent Spector as to whether there have been complaints about the fairness of existing financial aid programs, Ms. Wilhelm said that in her experience the major concern was need for more aid, rather than inequitable distribution. Connie Hutchinson, Executive Director of the Higher Educational Aids Board concurred, adding that a standard federal formula is used and complaints generally are not received.

Regent Bradley asked if there is data on whether grants or loans achieve better results for the students. Given that low-income families are debt-averse, Ms. Hutchinson remarked that it would be better to provide grant aid, especially early in the college career. After the first two years, she thought they might be more willing to take out loans.

Regent Loftus commented that there is a perception in the Legislature that campuses are becoming elite institutions due to increasingly high academic standards. If that perception could be changed, he felt it would go a long way toward improving relationships.

While UW-Madison had not increased its admission requirements, Chancellor Wiley said that, due to strong competition for available spaces, those who are accepted increasingly have high class ranks and grade point averages.

Chancellor Markee added that UW-Platteville’s admission standards and student profile have not changed in 10 years.

In response to a question by Regent Smith as to next steps, President Reilly indicated that staff would put options together with their potential effects in a format for potential action by the Board.

Regent Crain noted the importance of making sure that all qualified students have access to a UW education.

Regent Pruitt asked if data is available for neighboring states to see whether Wisconsin has fallen behind in serving lower income students, and Ms. Wilhelm replied that such information could be obtained.

Noting many families do not have the financial means to pay college costs, Regent Semenas stated the importance of keeping tuition low and providing financial aid so that students can fulfill their dreams. Students are having to work more, he pointed out, because they do not receive enough aid to cover tuition and fee costs; and lower income students are not graduating at desired rates. Because of community perceptions that colleges are becoming more elite, he urged that universities advertise to let people know what is available and that a pro-active stance be taken in communicating the need for more financial aid to the Governor and Legislature. It is important, he said, to have socio-economic diversity on campus.

Regent Spector observed that having worked while in college was a strong predictor of success in people that he had hired over the years. He felt that work and loan repayment requirements help young people develop a sense of responsibility and motivation.

In response to a question by Regent Walsh, Ms. Wilhelm indicated that the state contributes \$60 million per year to grant funding.

Regent Loftus asked if first generation college students would be in the lower income categories or would be GI Bill recipients, and Ms. Wilhelm replied that data on those points had not been collected.

In response to a question by Regent Walsh, Chancellor Wiley said that a large number of students come to UW-Madison from the technical colleges. There is a joint admissions program with Madison Area Technical College and no need for students to apply for transfer.

Regent Randall recalled that the Private Industry Council had a college fair attended by almost all the UW institutions and 200 students. He pointed out the need to inform families about financial aid and help them to compare packages, noting that many Wisconsin students go to out-of-state schools because they receive attractive looking packages. A number then return because of unanticipated high costs, but some never come back. If costs and benefits were explained to them more clearly, he thought that families could make better decisions and the UW could attract more first generation students.

Regent Walsh asked about comparisons with other systems, and Ms. Wilhelm replied that Minnesota is often used as a comparison because the populations of the two states are similar. In terms of financial aid, Minnesota provides a great deal more, mostly in GPR.

Chancellor Keating noted that over half of the male high school students and 40% of the female students do not take the ACT and thus remove themselves from consideration for college admission.

Regent Randall added that there is a program to encourage more Milwaukee students to take the ACT or SAT. More males do not take the tests, he observed, because they are discouraged from doing so by their peers; and those who do take them often do

so in order to become eligible for athletic scholarships. Historically Black colleges, he pointed out, do not require the ACT or SAT. Currently, African American students score 15-16 on the ACT, Latino students score 14-15, and white students score 21-22. Efforts to improve performance on these tests are ongoing and meeting with some success.

Regent Loftus noted that well-endowed universities find ways to fund students that they admit, regardless of their financial means.

When seeking more GPR dollars for financial aid, Chancellor Markee pointed out, the importance of this aid for the state's workforce development should be emphasized.

Regent Bradley stated that it is the moral obligation and public duty of the state to provide educational opportunity for Wisconsin children and to make it possible for lower-income students to have access to such opportunities. In the knowledge economy, he pointed out, a college education is becoming ever more important for success.

Regent Connolly-Keesler noted that, while many hundreds of scholarships are available, there is no clearinghouse for them. She suggested that a clearing house be established and that a program be proposed to provide a state match for privately funded scholarships.

In response to a question by Regent Spector, Regent Loftus indicated that the legislative perception is that public colleges are becoming places for the wealthy and that academic standards are so high that many graduates would not be admitted if they applied today. There is a feeling that colleges want a student body that will improve their rankings.

Senior Executive Vice President Mash noted that the matter is complex because fewer students are being enrolled now than 20 years ago. Therefore, campuses are becoming more selective because the number of applicants is growing, but enrollments are not.

Regent Loftus stated that the UW's role should be to grow to meet the needs of Wisconsin students.

With regard to tuition-funded aid, Regent Semenas expressed concern that this type of program would tell the Legislature that students should pick up more of the burden of educational costs.

Concluding the discussion, President Reilly indicated that on February 12, 2006, Wisconsin would hold an event called "College Goal Sunday", part of a statewide volunteer program to help college-bound students and their families accurately complete the Free Application for Federal Student Aid, which is required for any student to receive federal or state aid. Research has shown that applying for financial aid is a major hurdle for low-income students and families. This program was designed to help them clear that hurdle and move a step closer to higher education.

The Wisconsin Association of Student Financial Aid Administrators received a grant from the Lumina Foundation to conduct "College Goal Sunday" at 12 sites throughout the state. The program is open to any college-bound student, regardless of age.

He commended the financial aid administrators of obtaining the grant, and putting on this beneficial program.

Upon motion by Regent Gracz, seconded by Regent Crain, the meeting was adjourned at 12:20 p.m.

Submitted by:

Judith A. Temby, Secretary

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