

MINUTES OF THE SPECIAL MEETING

of the

BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

Madison, Wisconsin

UW-Madison

Held in 1820 Van Hise Hall

Thursday, March 23, 2006

2:00 p.m.

- President Walsh presiding -

PRESENT: Regents Axtell, Bradley, Burmaster, Connolly-Keesler, Davis, Loftus, Pruitt, Randall, Rosenzweig, Semenas, Smith, Spector, and Walsh

UNABLE TO ATTEND: Regents Crain, Gracz, McPike, and Salas

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Regent President Walsh defined the purpose of the meeting as continuation of discussion and possible action on the proposed Taxpayer Protection Amendment.

Noting that Robert Lang, Director of the Legislative Fiscal Bureau had been invited to the meeting but was unable to attend, President Walsh indicated that Associate Vice President Freda Harris had been asked to provide answers to some questions that he had posed.

Beginning her remarks, Ms. Harris presented information on historical GPR funding provided to the UW System as a means of examining the potential impact of the TPA on the university. First, she showed a table with a six-year history of GPR funding for cost to continue compared to total new GPR funds provided as part of the state budget. (Attachment 1)

The largest share of cost to continue is comprised of funding needed for utilities, debt service, health insurance price increases and the financial aid statutory link. This funding is needed to allow the UW to continue providing current functions and does not include funding for new programs or expansion of current programs.

Overall GPR funding increases exceeded cost to continue in only two of the six years – during the 2001-03 biennium. During 2003-05, GPR funding decreased significantly, resulting in large tuition increases approved by the Governor and Legislature to offset a portion of the reduction. In 2005-07, GPR increases again were not sufficient to cover cost to continue operations. Again, tuition revenue authority was increased to provide the necessary funding.

In 2003-05 and 2005-07, state revenues increased more than funding provided to the university, while costs continued to rise, leaving the university with three choices: To increase tuition, which was done; to decrease enrollment, which was not done; or to decrease services, which was done through required base reductions.

Regent President Walsh asked why the GPR share of cost to continue varied so widely from year to year; and Ms. Harris explained that these costs show up in the first year of the biennium, while not much is added in the second year. The amount in 2001-02 was \$25 million; in 2003-05 it was \$41 million; and in 2005-06, it was almost \$63 million.

In response to a question by Regent Walsh as to what was causing the increases, Ms. Harris explained that part was due to retirement and health insurance costs increases. In addition, if classified pay plan increases were not settled in time, they have been moved into the next biennium. In 2005-06, the largest factor was utility cost increases (\$90 million) and fringe benefits (\$40 million).

Given this history, Ms. Harris then turned to a projection of what could reasonably be expected under the TPA. These figures were contained in a slide showing estimated funding increases required in the 2007-09 biennial budget versus funding available under the TPA (Attachment 2).

Noting that the estimates of needed GPR increases were conservative, she explained that they included 6-year average increases for items such as health insurance, fringe benefits, estimated increases for debt service, utilities and other items, amounting to \$47 million in 2007-08 and \$10 million in 2008-09. No new initiatives were included, not even funding to cover veterans' remissions or the Wisconsin Covenant. A two percent pay plan increase for all staff was included, using the current GPR share of costs. Under this scenario, GPR funding would need to increase approximately \$74 million in 2007-08 and \$39 million in 2008-09

Regent Rosenzweig noted that the \$47 million cost to continue estimate for 2007-08 was considerably less than the \$62 million figure for 2007-08, and Ms. Harris agreed that the estimate could be understated.

It was pointed out by Regent President Walsh and President Reilly that, given the trend of increasing costs, the estimates likely were very conservative.

Ms. Harris continued her presentation by comparing funding available under the TPA with these conservatively estimated costs. Assuming that the state's funding increased by 3.1%, the five-year average calculated by the Legislative Fiscal Bureau, and assuming that the UW received a proportional share of that increase, there would be \$31 million available in new funding for the UW in 2007-08 and \$33 million available in

2008-09. The increased funding would still result in a GPR shortfall of \$42 million in 2007-08 and \$6.4 million in 2008-09.

In order to make up for the deficit in 2007-08, the UW could reduce student enrollments by 10,800 FTE or increase tuition by 11.25%. Even if enrollments were reduced that much, a 4.25% tuition increase still would be needed. In 2008-09, student enrollments would need to decrease by more than 1,600 FTE to make up for the GPR deficit or tuition would need to increase by 3.5%.

Since the same situation would occur in each following year, it could be assumed that tuition would either continue to increase disproportionately, pricing low and moderate income families out of the opportunity to participate equally in higher education or enrollments would continue to decline further in each succeeding year.

Noting that faculty and staff currently are below the median salaries of their peers, she pointed out that two percent annual increases would result in increasingly larger distances to reach peer medians. This would presumably result in losing more faculty and staff to competitive offers.

Referring to President Reilly's growth agenda that would increase baccalaureate degrees for Wisconsin, Ms. Harris observed that constant shortfalls in GPR revenue would mean that the state would not be able to take advantage of that growth agenda and that, under TPA, production of baccalaureate degrees would likely decline.

In response to a question by Regent Walsh, Ms. Harris indicated that the \$47 million figure included utility cost increases closer to \$60 million than \$90 million.

Replying to a question by Regent Pruitt, she said that, assuming statutory financial aid increases, the gap in enrollment of lower-income students would continue to grow.

Regent Rosenzweig asked if any modeling had been done using the trend of growth in costs to continue. Replying in the negative, Ms. Harris added that price increases for health insurance were down from previous years, while the cost of pensions were up. While the estimate was conservative, she did not think it was greatly underestimated.

In response to a question by Regent Spector, Ms. Harris explained that per student state support is calculated by dividing the costs of academic support and facilities by the number of students, which amounts to about \$8,600 per student. After subtracting tuition, state support per student amounts to \$3,886.

Regent Spector remarked that, in the K-12 system, it is difficult to make any actual savings if loss of students is evenly distributed.

Ms. Harris agreed, adding that it would mean providing less of everything. One problem is that, without enough money, the university would not be able to pay costs that continue, such as fringe benefits and utilities.

Regent President Walsh asked under what circumstances baccalaureate degree production would not decline, and Ms. Harris replied that this could occur if the UW were to become a higher state priority.

Noting that Senator Grothman had said that it might be the university's turn to become a higher priority for funding, Regent Walsh asked if that had occurred in the past.

Ms. Harris noted that the state must provide funding for Medicaid and K-12 education. In the case of medical assistance, the state must provide a match to obtain federal funding.

Regent Loftus recalled that, in past years, there were occasions when the UW received a disproportionate share of the budget.

Regent Rosenzweig noted that this had occurred before the two-thirds requirement for funding of K-12 education and the rapid growth in corrections and Medicaid costs. Ms. Harris added that in 2001 the UW received an increase of GPR to replace a tuition increase.

In reply to a question by Regent Loftus about bonding for early retirement, Ms. Harris replied that there had been a problem with how early retirement was funded at one point, and bonding was used to pay the money back.

Regent Bradley asked if dormitory building expenses would be included in the TPA, and Ms. Harris replied in the affirmative.

Regent Bradley noted that the premise of the TPA is that revenue growth would be restrained to costs that reflect daily family living expenses. He asked for examples of university costs that might increase faster than that.

Ms. Harris replied that the university provides cutting-edge programs and services, including laboratories, people who are in high demand, and libraries that must be kept up to date. These knowledge purchases, she pointed out, do not relate to the CPI and increase in cost more rapidly. For the state government, education and medical costs are rising faster than the CPI.

Referring to a remark by Senator Grothman that the bonding portion of the TPA would be amended, Regent Bradley asked if any changes had occurred. Associate Vice President Margaret Lewis replied that no more information had been released about any amendments and that more hearings were expected. Ms. Harris added that, while a change in the bonding provision would help, downsizing state government to the level of the CPI would be a larger issue.

President Reilly remarked that, under the TPA, the state's rising mandatory expenses would mean that other expenses, like the university, would receive smaller and smaller pieces of the pie. He asked if it would be fair to say that, under those circumstances, tuition would keep rising steeply, while enrollments would become smaller and smaller. Ms. Harris replied in the affirmative.

Regent Axtell asked if the loss of enrollments would continue each biennium, to which Ms. Harris replied that there would be the same choices each biennium – to increase tuition and/or reduce enrollments. Regent Axtell asked if there would be a possible reduction in 24,000 students over four years, and Ms. Harris replied that reductions of that magnitude could occur if shortfalls were made up entirely by enrollment decreases. She noted that the amendment would not take effect until the 2009-11 biennium.

Regent President Walsh inquired as to what portion of the two percent pay plan of \$26 million would be GPR, and Ms. Harris replied that the percentage is 74% for classified staff and 69% for unclassified staff, including health insurance cost increases.

In response to further questions by Regent President Walsh, Ms. Harris said that, in order to avoid an enrollment decrease, tuition would need to increase an additional seven percent to a total of 11.25%. Tuition increases had been 18% and 15 ½ % in 2003-05 and 6.9% in 2006.

Chancellor Wells pointed out that a decrease of 10,000 FTE students would translate into a decrease of 15,000 individual students.

Chancellor Markee observed that decreasing numbers of students also would have a negative impact on auxiliary operations.

Regent President Walsh asked if the historical increase in GPR has been greater than 3.1%, and Ms. Harris replied that overall GPR increases have exceeded 3.1% by a significant amount.

With regard to the emergency fund to be established under the TPA, Regent Bradley asked if it were true that the university would not necessarily have access to those moneys for emergency situations. Replying in the affirmative, Ms. Harris said that the Legislature would have to decide how to use those funds.

Adoption of the following resolution was moved by Regent Bradley and seconded by Regent Connolly-Keesler

Regents’ Resolution on a Proposed Constitutional Amendment Regarding Revenue Limits on State and Local Governments

Resolution: WHEREAS, Chapter 36 of the Wisconsin Statutes vests in the Board of Regents the responsibility for the governance of the University of Wisconsin System, directing the Board of Regents to ensure that the public university system in Wisconsin meets the needs of Wisconsin residents by developing its human resources, and providing access to a quality higher education for students of all ages, backgrounds and income; and

WHEREAS, establishing a formula in the constitution to limit revenues will cause significant reductions in state funding to higher education and other discretionary programs because mandated, formula-driven or entitlement programs receive funding first, and

WHEREAS, higher education funding reductions would force the University of Wisconsin to admit fewer students, and significantly increase tuition, and

WHEREAS, the proposed constitutional revenue limit would have a disproportionate impact on the transfer of knowledge by UW Extension in every county and limit access to the most affordable two-year UW College transfer institutions because they would be hit by both county and state revenue limits, and

WHEREAS, constitutional revenue limits would decrease the ability to invest in our state's economic growth by limiting revenues to leverage Wisconsin's fair share of federal research funds which contribute to solutions for our future health, homeland and economic security, and spin-off jobs to keep our children employed in Wisconsin, and

WHEREAS, instead of the state constitution, attention needs to be given to reforming the state budget process and state statutes to better reflect public priorities, and

WHEREAS, the Board of Regents and the University of Wisconsin System are committed to working with state government to accomplish such reform in a way that embodies the wisdom of this nation's founders in having elected officials make responsible budget decisions and be held accountable for them by taxpayers,

NOW, THEREFORE BE IT RESOLVED the Board of Regents does hereby oppose the proposed constitutional amendment and authorizes the President and representatives of the Board to communicate to the Legislature its opposition to said amendment for the following reasons:

1. The Board of Regents strongly opposes the enactment of any constitutional amendment that substitutes "government by referendum" for the individual decision and discretion of legislative representatives. It is the responsibility of elected officials to exercise their individual judgment in making revenue and expenditure decisions, and it is therefore in abrogation of their responsibility as

elected representatives to support a constitutional amendment that would require statewide referendums for individual legislative matters.

2. The strategy of the University of Wisconsin System is to increase the number of baccalaureate degree holders in the state of Wisconsin, a strategy which is necessary in order to compete in the knowledge economy. This strategy will require an investment in the university after several biennia of deep budget cuts. A restriction of state revenue tied to a cost-of-living formula unrelated to many of the university's most significant expenses will make this strategy unachievable, and will instead require significant tuition increases and enrollment caps. These results are not in the best interest of the citizens of Wisconsin.

Upon motion by Regent Connolly-Keesler, seconded by Regent Rosenzweig, and carried on a unanimous voice vote, the third paragraph of the resolution was amended to read as follows: "Whereas, historically, in less difficult times, the university has been subject to budget reductions; therefore there is no reason to believe that the University of Wisconsin System would not be the target of future cuts, which would force the university to admit fewer students and/or significantly increase tuition and fees;"

Noting that entitlement programs would likely rise in cost beyond what the TPA would allow, Regent Spector thought it likely that the university would receive less than its share of revenues.

Chancellor Bunnell suggested that the board speak to the amendment as broadly as possible, noting that the language would be subject to change throughout the process, that the language on the referendum ballot would need to be decided, and that it finally would be up to the judiciary to decide what the amendment meant.

Stating her strong belief in representative democracy, Regent Rosenzweig moved to amend number 1. under paragraph 8 by striking the words "for the individual decision" in the third and fourth lines and substituting the words: "for representative democracy in which there is accountability for individual decisions".

The motion was seconded by Regent Pruitt and carried on a voice vote, with Regent Randall abstaining.

Regent Spector suggested addition of the words "and in responding to unforeseen and emergency circumstances" after the word "decisions" in the fifth line of number 1, and the addition was accepted as a friendly amendment.

At the suggestion of Regent Pruitt, it was moved by Regent Burmaster and seconded by Regent Rosenzweig that number 2. under paragraph 8 be amended to add the words: "dramatic cuts in financial aid for low and moderate income families" after the

words “tuition increases” in the 11th line. The amendment passed on a voice vote, with Regent Randall abstaining.

Expressing his support for the resolution, Regent Axtell stated that the one word that he would use to describe the effect of the TPA on the university would be “crippling”.

Regent Walsh read an e-mail from Regent Crain, who was unable to attend the meeting, in which she urged the board to make a strong statement of opposition to the TPA because of her conviction that such an amendment would greatly and permanently damage public higher education and Wisconsin citizens.

Regent Pruitt moved the previous question. The motion was seconded by Regent Semenas and carried on a unanimous voice vote.

The question was put on the resolution as amended, and it was adopted on a voice vote, with Regent Randall voting in opposition.

Regents’ Resolution on a Proposed Constitutional Amendment Regarding Revenue Limits on State and Local Governments

Resolution 9157: WHEREAS, Chapter 36 of the Wisconsin Statutes vests in the Board of Regents the responsibility for the governance of the University of Wisconsin System, directing the Board of Regents to ensure that the public university system in Wisconsin meets the needs of Wisconsin residents by developing its human resources, and providing access to a quality higher education for students of all ages, backgrounds and income; and

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WHEREAS, the proposed constitutional revenue limit would have a disproportionate impact on the transfer of

knowledge by UW Extension in every county and limit access to the most affordable two-year UW College transfer institutions because they would be hit by both county and state revenue limits, and

WHEREAS, constitutional revenue limits would decrease the ability to invest in our state's economic growth by limiting revenues to leverage Wisconsin's fair share of federal research funds which contribute to solutions for our future health, homeland and economic security, and spin-off jobs to keep our children employed in Wisconsin, and

WHEREAS, instead of the state constitution, attention needs to be given to reforming the state budget process and state statutes to better reflect public priorities, and

WHEREAS, the Board of Regents and the University of Wisconsin System are committed to working with state government to accomplish such reform in a way that embodies the wisdom of this nation's founders in having elected officials make responsible budget decisions and be held accountable for them by taxpayers,

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2. The strategy of the University of Wisconsin System is to increase the number of baccalaureate degree holders in the state of Wisconsin, a strategy which is necessary in order to compete in the knowledge economy. This strategy will require an investment in the university after several biennia of deep budget cuts. A restriction of state revenue tied to a cost-of-living formula unrelated to many of the university's most significant expenses will make this strategy unachievable, and will instead require significant tuition increases, dramatic cuts in financial aid for low and moderate income families, and enrollment caps. These results are not in the best interest of the citizens of Wisconsin.

Upon motion by Regent Pruitt, seconded by Regent Semenas, the meeting was adjourned at 3:30 p.m.

Submitted by:

Judith A. Temby, Secretary