

UW SYSTEM TUITION-SETTING POLICY TASK FORCE

February 10, 2016, 9 a.m.

1220 Linden Drive
1820 Van Hise Hall
Madison, Wisconsin

Agenda

- 9:00 I. Welcome and introductions (if needed) – *Regent Chair Tim Higgins/All*
- 9:05 II. Analysis of how the needs and priorities of the state should influence the tuition-setting process
- A. Needs of the state – *Regent Mark Tyler*
- 10:05 B. Examples of strategies currently used by UW institutions to address state needs and priorities
- 10:50 C. Discussion – *All*
- How should tuition incentives be used, if at all, to attract students to programs that will help meet the state’s needs?
 - How should the needs of the state be determined?
- 11:20 III. Discussion of prior meetings – *Regent Chair Tim Higgins/All*
- 11:30 Break
- 11:45 IV. Use of Tuition within the UW System and Impact on Allocations – *UW System Office of Budget and Planning/All*
- 12:15 V. Tuition Strategies – *UW System Office of Budget and Planning/All*
- 1:15 VI. Preview of Upcoming Meetings – *Regent Chair Higgins*
- 1:30 VII. Adjourn

UW SYSTEM RESOURCE ALLOCATION

A. What do the statutes say regarding the allocation of GPR/Tuition resources?

Section 36.09 (3)(h) of the Wisconsin Statutes describes the responsibilities of the UW System Board of Regents related to the allocation of GPR/Tuition funding. The specific relevant language states:

"The board shall allocate funds and adopt budgets for the respective institutions giving consideration to the principles of comparable budgetary support for similar programs and equitable compensation for faculty and academic staff with comparable training, experience and responsibilities and recognizing competitive ability to recruit and retain qualified faculty and academic staff."

B. What are the UW System's resource allocation principles?

1. UW System students should have a quality educational experience regardless of which institution they attend.
2. The tuition generated by each institution should remain at the institution that generated it.
3. Funding for inflationary cost increases (pay plan, health insurance, and utilities) should be distributed in a way that makes each institution whole for these cost increases.
4. Resources generated from entrepreneurial activity at an institution should remain at that institution.
5. When funding cuts or adjustments disproportionately impact UW System institutions (such as tuition remissions for veterans), resource allocations should balance out the effects.
6. When UW System institutions face sizeable GPR base reductions, resource allocations should attempt to make the impact on every institution proportional.

C. What are the steps in determining annual budgets (high level)?

1. For more than 30 years, the University of Wisconsin System has used a base-plus approach to budgeting. This means starting the process with the previous year's base, and then adjusting the base up or down based on Legislative and Board of Regents actions. **Each institution's current base budgets are an accumulation of individual allocation decisions made by the Board of Regents over the history of the UW System.** There have been periodic studies of alternative approaches to resources allocation, with the most recent conducted over a two year period (2004-2006). In the end, the Chancellors have consistently agreed that the base-plus approach is the best alternative.
2. **The first step in allocating resource changes is to determine the amount of budget authority to be allocated to each institution. Allocations options are discussed with the Chief Business Officers every year, and their collective advice determines the approaches subsequently discussed with the Chancellors and recommended to the Board of Regents.**

- a. The majority of an institution's allocation is for core activities for which UW System institutions take a shared responsibility for funding. These include:
 - » salaries and fringe benefits for state-supported positions
 - » utilities
 - » the student technology fee
 - » new initiatives (for example, the Growth Agenda funding provided in 2008-09)
 - » tuition offsets to GPR reductions
 - » debt service for academic buildings

- b. Institutions may also request additional budget authority for revenues from institution-specific entrepreneurial programming/initiatives. These include:
 - » tuition differentials
 - » tuition from students in self-supported programs
 - credit outreach
 - distance education
 - customized instruction
 - remedial education
 - study abroad
 - summer session
 - interim sessions
 - service-based priced programs
 - » tuition from enrollment growth
 - » tuition above the regular graduate rate for students in professional schools
 - » tuition from nonresident students enrolled via the Midwest Student Exchange, the Tri-State, or the return to Wisconsin programs
 - » growth in application fee revenues

3. **Once an institution's GPR/Tuition allocation is determined, the next step is to determine how it will be funded.**
 - a. The tuition generated from students enrolled at each institution is projected.
 - » The tuition paid by traditional students at the "regular" tuition rates, plus any tuition generated under the institution-specific activities (see 2b above) for which the institution requested budget authority, is calculated. This amount covers a portion of the institution's total allocation.
 - » Any remaining tuition is retained by the institution, and some of it may be budgeted in the extension credit outreach fund.
 - b. GPR resources cover the difference between budgeted tuition revenues and the institution's total allocation.

An example of how allocations were handled in 2011-12 for one institution is provided in Attachment One.

WHAT DOES MY TUITION FUND?

The following highlights a few examples of activities, programs, and needs that are funded by tuition from different types of UW students.



I am a traditional resident undergraduate student. My tuition funds...

Core Activities & Shared Needs

- Salaries & fringe benefits
- Utilities
- Student Technology Fees
- New initiatives
- Tuition off-sets to GPR reductions
- Debt service for academic buildings

Institution Specific Activities & Programs

- Self-supported programs (credit outreach, distance education, remedial education, etc.)
- Enhancements to core services
- More course sections to serve additional students

I am a resident undergraduate at an institution with differential tuition. My differential tuition funds...

I am one of the 12,000 additional students enrolled over the last six years. My tuition funds...

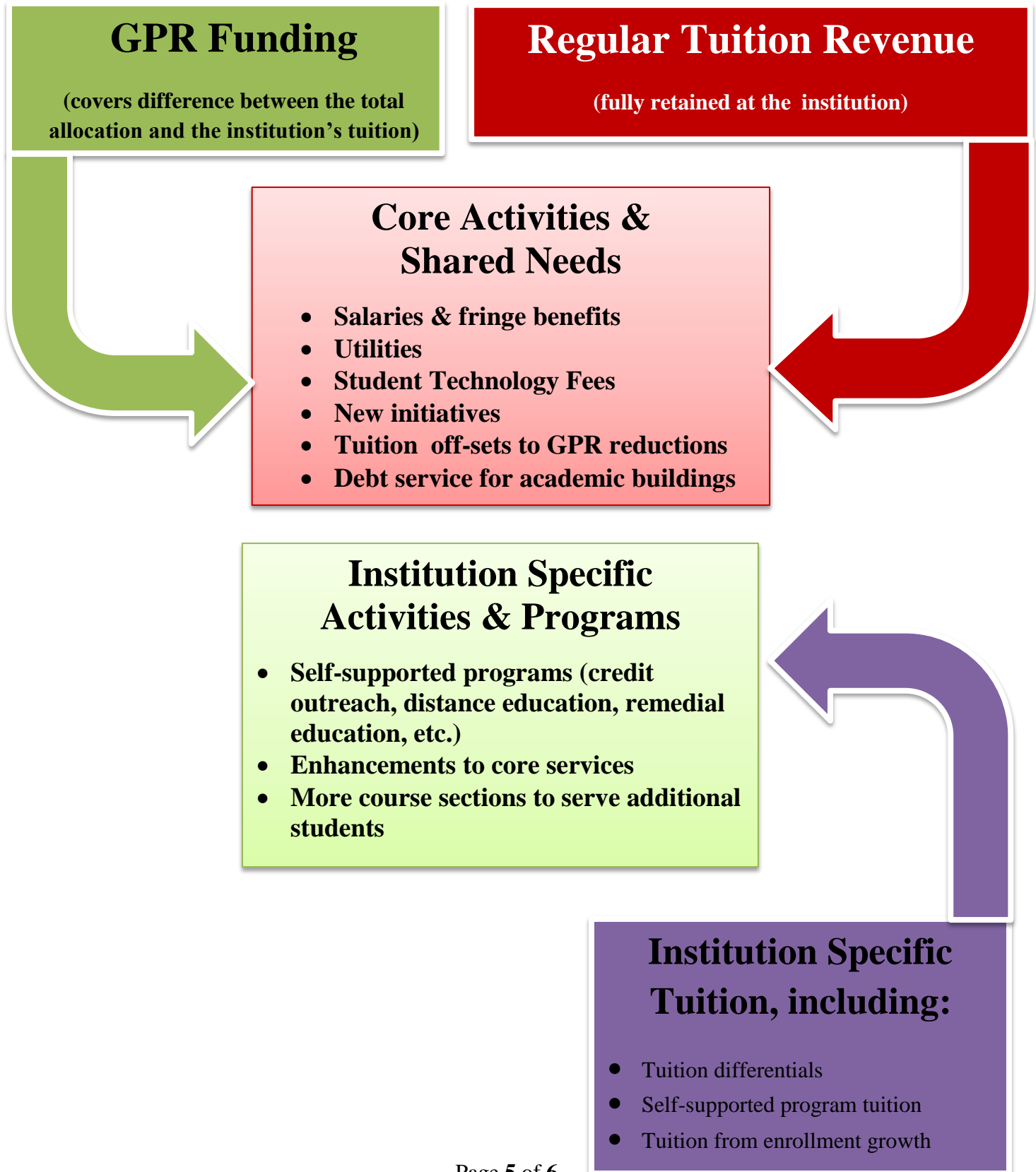


I am a student taking courses online. My tuition funds...

D. What is the connection between the UW System's Budget Request and the allocation of GPR/Tuition funds?

1. The biennial budget request submitted by the Board of Regents to the State typically includes funding requests for new initiatives as well as an inflationary component commonly referred to as cost-to-continue or standard budget adjustments. These inflationary items include requests for funding to fully cover the ongoing costs of pay plan, health insurance, and utility increases, the costs of which are largely outside of the UW System's control. The state budget commonly provides additional funding for these inflationary costs, but it divides the responsibility for funding them between GPR and tuition.
2. The Board of Regents is responsible for allocating the budget to insure that each institution has the resources to cover the increased costs. In general, GPR dollars are used to make up the difference between an institution's budget and the tuition it generates.
3. Allocations to institutions will vary depending on the Legislative intent behind those dollars, the method for calculating the amount needed, and the recommendations of the Chief Business Officers and the Chancellors. For example:
 - a. Funding for salary increases is based on the previous October payroll.
 - b. Funding for utilities is based on campus expenditures, new space demands, and projected cost increases by type of fuel.
 - c. Funding for new initiatives, such as *Growth Agenda* proposals, is provided based on the proposed budget initiative approved by the Board of Regents and any ensuing adjustments made by the Legislature.
 - d. Funding reductions are allocated to institutions using each institution's share of the UW System's prior year GPR/Tuition budget excluding debt service, utilities, financial aid, separately budgeted academic tuition, and extension credit programs. The Chief Business Officers have consistently recommended using this approach because it provides greater stability and predictability for institutional budget planning.
4. In most cases, the state expects tuition to cover some portion of the new funding. Generating the additional tuition dollars for these initiatives typically becomes a shared responsibility for all UW System institutions.
5. Some funding provided by the state is designated for specific purposes at specific institutions. For example, UW-Madison has received targeted, one-time GPR appropriations for specific research initiatives. These amounts are allocated directly to the institution as specified by the Legislature.
6. Institutions that have grown enrollments are generating new tuition revenues. If an institution is confident that the increased revenues will continue to be generated, it may request additional budget authority. The tuition collected from additional students is the only funding available to serve them. Therefore, this tuition is designated as institution-specific, and does not contribute to the tuition share of funding shared UW System needs.
7. Given that enrollments fluctuate from year to year, institutions may choose to not budget additional revenues generated from enrollment increases. This helps them to avoid creating new ongoing obligations with funding that may not be generated in the future. Unbudgeted dollars are available to cover unanticipated cost increases or funding reductions that occur during the fiscal year, or to shield the institutions from the impact of enrollment fluctuations.

FUNDING AN INSTITUTION'S BUDGET



E. How is an institution's tuition revenue target established?

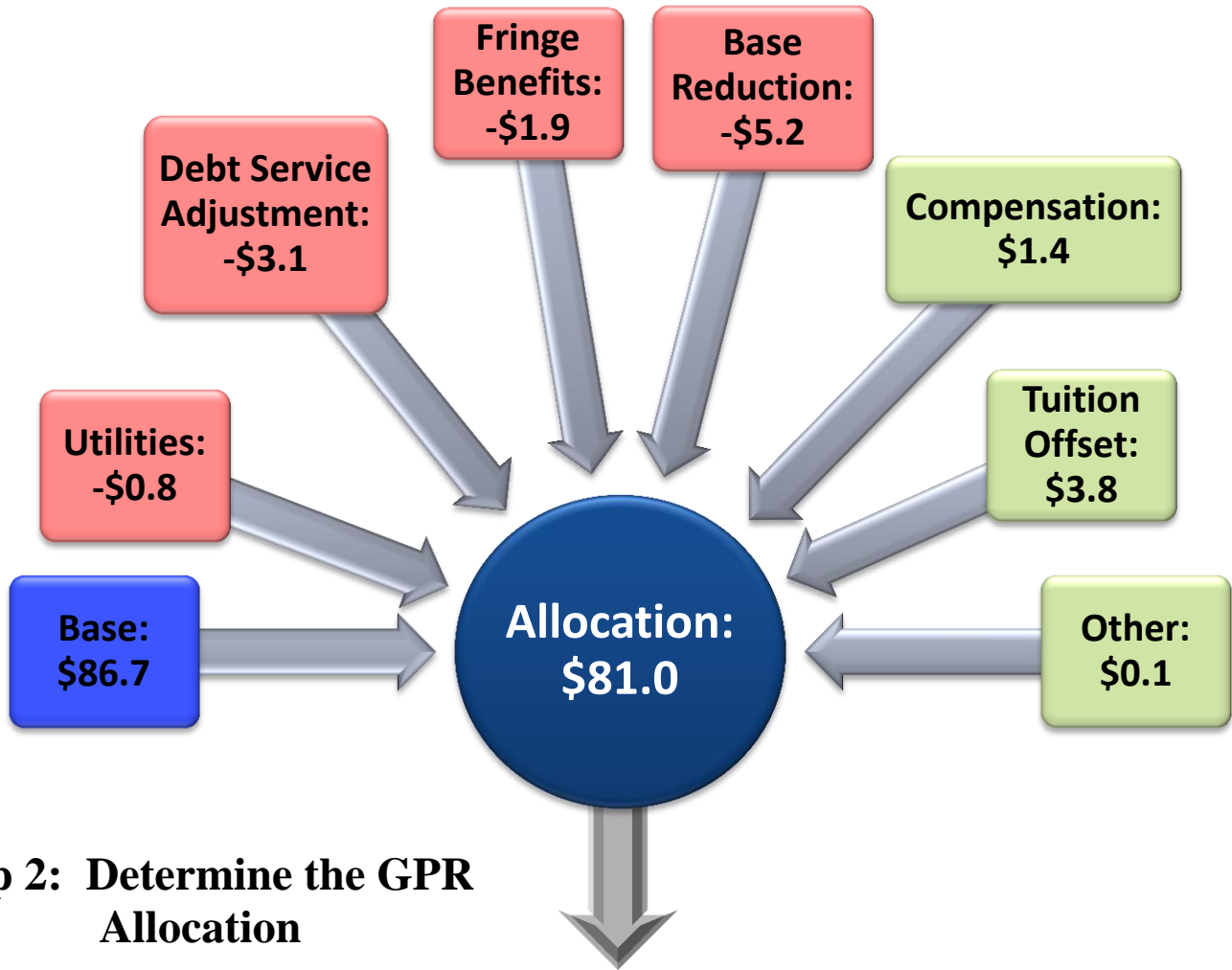
1. A tuition revenue target is established annually for each institution. If the target is exceeded, the institution retains the additional funding. If an institution fails to meet its target, it must reduce spending accordingly.
2. Establishing the target starts with the previous year's target. The tuition revenue targets are the result of a series of allocation and tuition rate decisions made over time by the Board of Regents. Tuition generated from the "regular" Board approved tuition increases are added, with the combined total matching the amount that the Legislature identified as needed to generate the tuition share of changes to UW System funding. Tuition increases for students enrolled in self-supporting programs or in specially priced programs are not applied to the shared amount, and instead remain at the institution to cover cost increases for additional services to serve those students. The new tuition target also includes new funding authority requested by the institution for institution-specific needs.
3. **Tuition setting decisions can have the effect of increasing or decreasing an institution's share of the tuition portion of funding expenses for which institutions have a shared responsibility, which will be offset by a decrease or increase to the institution's GPR allocation.** A good example is that tuition was frozen for four years (2007-08 through 2010-11) at the UW Colleges. This provided a lower cost entry point for students and more GPR resources were shifted to the UW Colleges to make up for their lower tuition revenues. Students at all of the other UW System institutions paid more to generate the revenues needed to fully fund the UW System's budget.

F. For what purposes are some GPR funds held in Systemwide accounts?

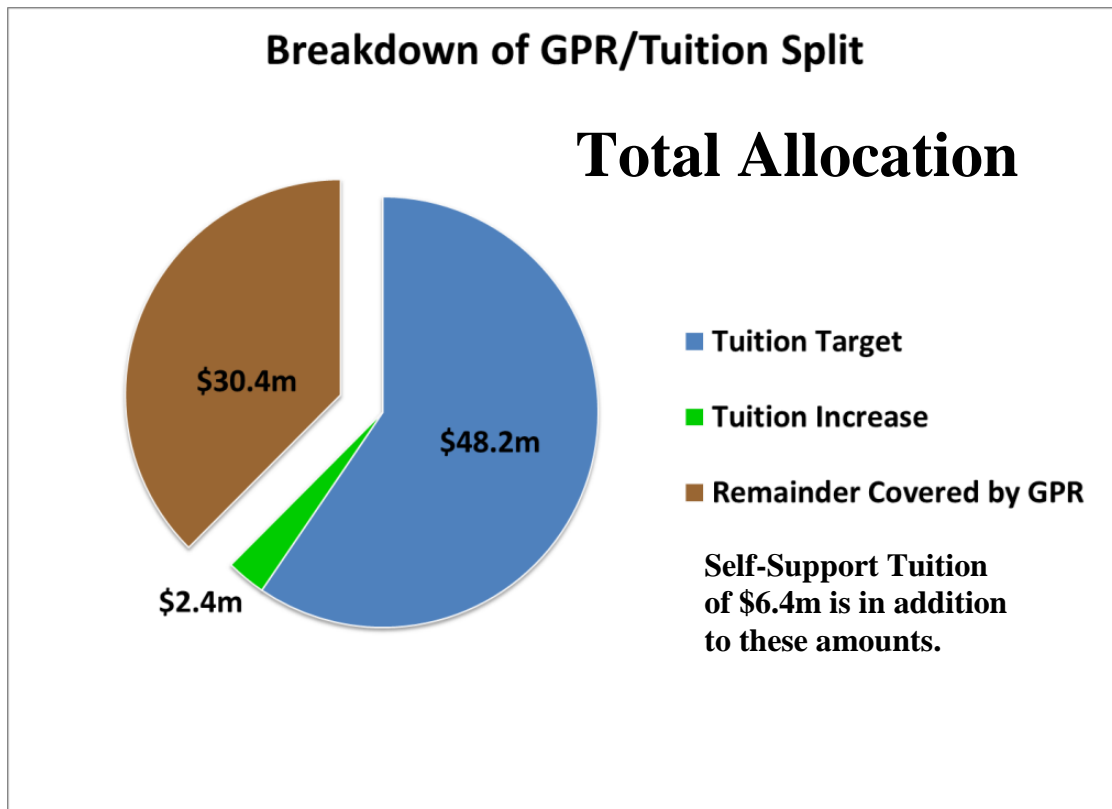
1. About \$20 million GPR annually is budgeted in a systemwide account to offset the impact of the tuition remissions for veterans. Institutions report the amount of tuition revenues not collected from veterans, and sufficient systemwide funds are transferred to cover the shortfall.
2. A small amount of GPR is budgeted in a contingency fund. In recent years, the contingency fund has been used to mitigate the impact of lapses on UW System institutions. Historically, it has also been used to provide short-term assistance to institutions that are falling short of their revenue targets. During the 2011-13 biennium a base funding transfer from the contingency fund helped to partially offset the GPR reductions at every UW System institution.
3. Annual tuition increases include an amount to cover anticipated, but unknown, mid-year increases in health insurance costs. This funding is allocated to the institutions on a prorated basis. The institutions use any of this funding they need to cover the health insurance increases, and the balance is returned to a systemwide account, thereby adding to the year-end fund balance.

Attachment One: How is the GPR/Tuition Budget Set?

Step 1: Determine the GPR/Tuition Allocation (\$ in millions)



Step 2: Determine the GPR Allocation



Determining Budget Allocations

Allocation methodologies for funding changes are discussed with Chief Business Officers and their recommendation forms the basis for the allocations.

Base: The base is the previous year's GPR/Tuition budgeted amount.

Utilities: Utility costs were allocated to fully fund institutional FY11 expenditures and increased to account for new space in FY12.

Debt Service Adjustment: The amount provided by the state was prorated to institutions based upon prior year expenditures. This fund is sum sufficient and institutions are always fully funded. However, excess funding is returned to the state.

Fringe Benefits: Fringe benefits were pooled Systemwide in FY12 as the state supplements the university for the actual costs. Allocations were prorated based on prior year actual salary expenditures.

Base Reduction/Tuition Offset: Base reductions and the tuition offsets were allocated using an adjusted GPR/Tuition base.

Compensation: Funding for pay plan is based on the previous even numbered year October payroll base (for FY12 it was the October 2010 payroll). The miscellaneous classified rate adjustments are based upon bargaining agreements, and are allocated using actual expenditures.

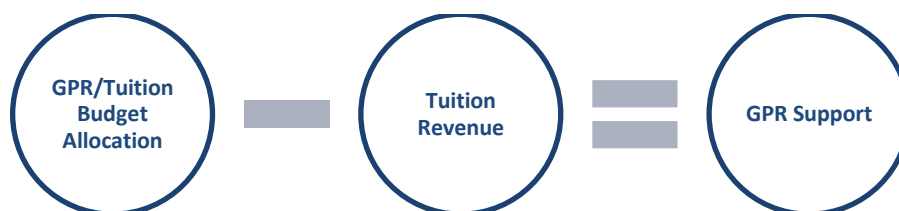
Other: Includes categories such as financial aid adjustments and student technology fees.

GPR/Tuition Split

GPR and Tuition: GPR/Tuition funding is allocated out to the institutions (see above). Allocation options are discussed with the CBOs and the Chancellors.

Tuition generated by each institution remains at the institution: Part of the tuition generated at each institution is used to meet the tuition portion of funding items for which all institutions have a shared responsibility to support. Any remaining tuition is fully retained to cover institution specific responsibilities. The difference between the budgeted tuition generated by the institution and the total GPR/Tuition allocation is covered by state funding. Here is an example:

- The institution's **GPR/Tuition allocation is \$81 million.**
- The institution is expected to generate **\$51 million in tuition**, leaving a \$30 million balance.
- The remaining **\$30 million is covered by GPR.**





USE OF TUITION AND IMPACT ON ALLOCATIONS

Tuition Setting Policy Task Force
January 15, 2016

Use of Tuition and Impact on Allocations

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- Cost to Continue
- New Initiatives
- Legislative Budget
- Compensation
- “State Mandated” Costs
- Institutional Requests for Funding
- Allocations

Use of Tuition and Impact on Allocations

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Tuition typically supports the “instructional portion” of the UW budget.

- Prior to 1980-81 tuition was set as a percentage of the total cost per student (CPS).
 - ▣ Resident undergraduate was 25% of cost.
 - ▣ Nonresident undergraduate was 100% of cost.
 - ▣ Resident graduate was 20-22% of cost.
 - ▣ Nonresident graduate was 70% of cost.

Note: The CPS was developed prior to merger.

Use of Tuition and Impact on Allocations

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Under prior statute, GPR funding and Fee authority was received in the following ways:

- Through the biennial budget process, including base adjustments from the compensation reserve.
- As a supplement in a fiscal year of a biennium, typically from the compensation reserve but could come from Jt. Finance action
- Through institutional request for changes in enrollment, self-supporting programs, changes in mix, differential, etc.
- Through adding funding for state imposed costs.

Biennial Budget - Cost to Continue

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- Each biennium the Department of Administration issues instructions to agencies regarding what can be included in requests for Cost-to Continue or Standard Budget Adjustments.
- The UW System uses its October Payroll base to determine the GPR/Fee split that will be used in biennial budget salary and fringe requests. The split assumes that the state funds research, public service and financial aid at 100% and other programs/activities at 65%.

Cost to Continue

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- Normally funding for Cost-to-Continue will include
 - Full funding of Fringe Benefits through the first year of the biennium prior to the request (2015-16 for 2017-19)
 - For 2015-17, GPR fringes were estimated and included in the biennial budget. The fee share was not funded and resulted in reallocation of resources at institutions
 - The GPR share was calculated to be 70.7% and the Fee share was 29.3% of the total cost of fringe increases.

Cost to Continue

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- Cost-to-Continue includes
 - Full funding of Salaries approved in the current biennium
 - This includes items that were authorized by the compensation plan but not funded during the biennium, like Discretionary adjustments or salary surveys.
 - Funding for Phased in Pay increases
 - Funding for Increases above the General Wage Adjustment
 - Utilities for **new space** (typically requested at 65% GPR/35% Fees)
 - Financial Aid (requested as all GPR)

New Initiatives

New Initiatives are requested by the Board with a combination of GPR and Tuition based on the purpose of the funding. Normally a historical mix is used.

- New Academic Programs, Libraries, enrollment growth, retention, etc. are requested 65% GPR/ 35% Fees
- Research, Financial Aid and Public Service (100% GPR)

Executive and Legislative Budget

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- The Governor adds debt service and utilities cost adjustments
 - ▣ Debt Service is provided as 100% GPR
 - ▣ Utilities
- The Governor and the Legislature decide
 - ▣ whether to fund any of the Decision Item Narratives (DINS) requested by the Board
 - ▣ whether to accept the funding mix for budgetary items.
 - The funding mix has been changed in the past for utilities, La Crosse's Growth Agenda and additional advisors.

Executive and Legislative Budget

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- The Governor and the Legislature can also suspend or override the Board's authority to increase tuition. This has been done through
 - ▣ Tuition Freezes
 - In most cases the state has not provided resources to make up for required revenue not generated through tuition increases. However, they funded a freeze in 2000-01.
 - ▣ Tuition Caps
 - ▣ Mandated Increases for Nonresident Students

Compensation

- Typically, the biennial budget request by the Board does not include funding for salary increases in the biennium that is being considered. This funding is normally part of the Compensation Reserve maintained by the state.
- Fees pay a share of proposed salary increases for GPR/Fee funded staff. The new split will be determined by the October 2016 payroll.

State Mandated Costs

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- In the past, State Mandated Cost increases have included:
 - Shortfalls in the Compensation Reserve
 - Unfunded Utilities increases
 - Veterans and other required remissions programs

Institutional Requests for Funding

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- Institutions can request funding for revenue growth for:
 - Differential Tuition
 - Enrollment growth or changes in mix (funding is not pooled to support the needs of the additional students)
 - Online Programs
 - Collaborative Programs
 - Service Based Priced and Extension Programs

Tuition Impact on Allocations

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- Resources for general systemwide needs are allocated as combined GPR and Tuition based on the purpose for which the funding was received (pay plan, utilities, etc):
 - Pay Plan increases are distributed proportional to the payroll base of the institution or in some cases (surveys, discretionary, etc) by using actual increases.
 - New Initiatives based upon the planned use of funds
 - Utilities based on prior year expenditures and new space

Tuition Impact on Allocations

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- Tuition increases requested for enrollment changes and self-supporting programs are allocated to the institution.
 - None of these funds are currently used to support general systemwide needs for cost to continue, new initiatives or supplements.
 - Institutions are responsible for funding their own salary and fringe needs related to these revenues.

Tuition Impact on Allocations

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- The tuition revenue required by changes in the biennial budget, for compensation purposes, and state imposed costs is calculated.
- The funding that is estimated by each institution based on current student enrollment in the “pool” and the prior year tuition rate is calculated.
- The percentage increase needed to generate the additional revenue is calculated and applied to base tuition levels of each institution. The tuition base plus rate increases and institutional requests becomes the new tuition requirement.

Tuition Impact on Allocations

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- Each campus' tuition requirement is based on the new rates and is subtracted from the amount of funding needed to support the allocated level of funding
- GPR is provided to bridge the gap between the allocated level and the tuition requirement

Funding for Enrollment/Mission

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- Where does funding for Enrollment and Mission Changes come from?
 - Institutions receive funding for enrollment changes as the result of either the biennial budget or from the tuition generated by new students
 - Mission change and program related funding comes as the result of reallocation at the institution or through the biennial budget.
 - The current process does not have another way of funding these changes. Institutions initiate the changes and funding decisions.