

Declines in Spending on Public Higher Education in Wisconsin: An Analysis of the University of Wisconsin System Budget

By Kate Clark

KEY FINDINGS

1. The percentage of the UW System's total budget from state appropriations has been declining while the percentage funded through tuition revenue and federal funds has been increasing.
2. Adjusted for inflation, state appropriations to the UW System declined in five of the last six years while enrollment at system institutions increased.
3. Funding for the UW System from sources other than tuition revenue and state appropriations is generally restricted to uses other than instruction. This makes it difficult for the system to maintain funding for student instruction when state appropriations decline.

ABOUT THE AUTHOR

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Summary

The University of Wisconsin System is the main provider of public higher education in Wisconsin and aims to educate and train Wisconsin students. In addition to their focus on instruction, UW System institutions also perform research and engage in public service activities that benefit all Wisconsin citizens. Recognizing the role of public higher education as beneficial to the economic growth of the state, the Governor's budget instructions for 2007-2009 allowed the UW System, unlike other state agencies, to submit requests for increased state general purpose revenue for activities related to economic development.¹

Though a significant portion of the UW System's budget comes from the state—paralleling the pattern found in other states—in recent years, the UW System has received a relatively smaller percentage of its funding from the state and a relatively greater percentage from other sources. Adjusting for inflation, state appropriations to the UW System have actually declined since 2000. If the recent trend continues, state support will decline in the future.

As the legislature determines future funding levels for the UW System, state policymakers should be cognizant of this funding history. They should examine the relative contribution of different revenue sources, not just the system's total budget, and should be sure to accurately gauge the purchasing power of the system by examining funding in both nominal and inflation-adjusted dollars. Failing to do so presents an inaccurate picture of the fiscal standing of the UW System and could lead to misinformed policy decisions.

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The Relative Contributions of Revenue Sources are Changing

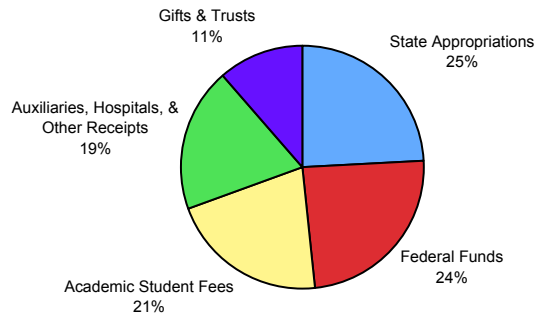
In fiscal year 2006-2007, the budget for the UW System totaled \$4.3 billion.² As illustrated in Figure 1 (see p. 2), the UW System receives revenue from a number of sources; the state, though the largest, is only one of these sources. In addition to state appropriations, the system receives revenue from the federal government, academic student fees (tuition), gifts and trusts, and various auxiliary enterprises, which are mainly self-funded operations like food service and student housing. The system receives federal funds in the form of indirect cost reimbursement to cover overhead costs associated with research, research contract funding, and loan and grant

funding for students. Funding from auxiliaries, hospitals, and other receipts includes revenue from self-funded auxiliary operations, hospitals, and athletics. Remaining funding for the system comes from gift and trust revenue and tuition.

In fiscal year 2006-2007, the UW System received approximately \$1 billion in state general purpose revenue (GPR), which represents approximately 8% of all state GPR expenditures.³ Of this amount, the legislature restricted the use of approximately \$284 million dollars for the State Lab of Hygiene, distinguished professorships, and funding for debt service and energy costs.¹ The UW System has more flexibility in appropriating the remaining unrestricted GPR for instruction-related expenditures. The majority of the UW System's other funding sources are restricted in their use as well. In fiscal year 2006-2007, of the UW System's \$4.3 billion budget, only \$1.67 billion could be used for educating students; the rest was restricted for other uses.¹

Though the overall size of the UW System budget has remained fairly steady in real terms since 2000, the relative contributions of different revenue sources has changed in recent years. The percentage of the overall budget coming from state appropriations has declined. As displayed

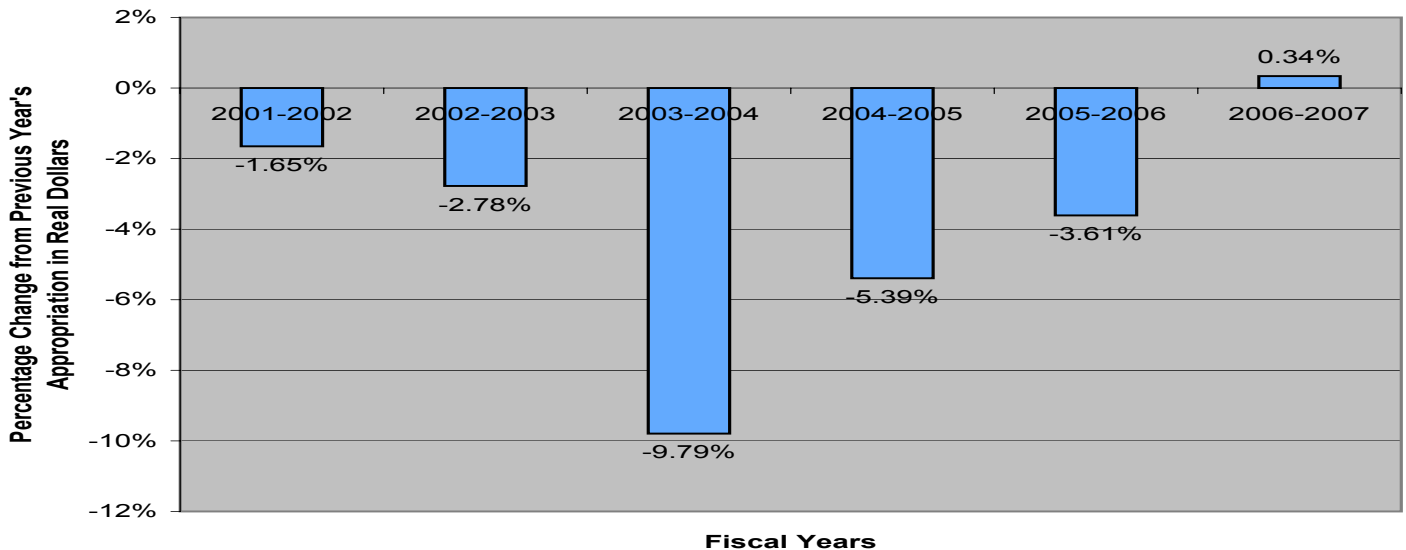
Figure 1
UW System Revenue Source Categories, FY 2006-2007



Note. Figure created by author using fiscal data from the University of Wisconsin System²

in Figure 2, in inflation-adjusted dollars, state appropriations to the UW System have actually declined in five of the past six years. In this policy brief, dollars are adjusted for inflation using the Higher Education Price Index (HEPI), an inflation index maintained by the Commonfund Institute that is specific to the expenditures made by institutions of higher education. It is important to use the HEPI and not another price index, like the Bureau of Labor Statistics' Consumer Price Index (CPI), because of the nature of purchases made by institutions of higher education. The CPI

Figure 2
Percentage Change in State Appropriations to UW System in Previous Fiscal Year



Note. Author's calculations using fiscal data from the University of Wisconsin System⁷

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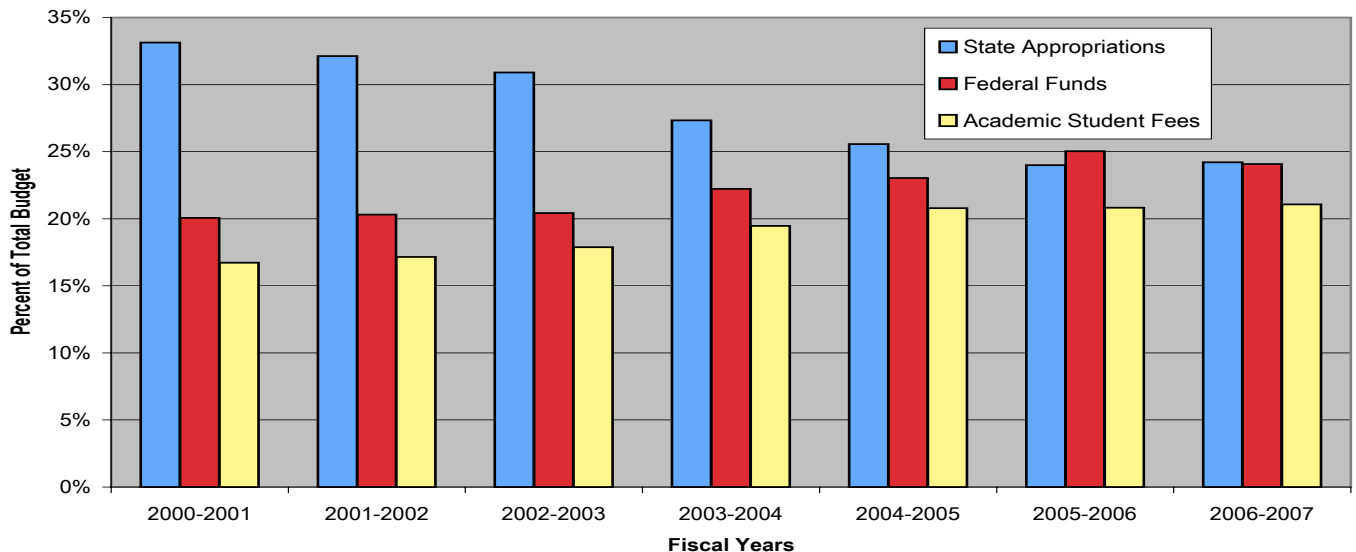
measures price changes over time of a basket of goods and services purchased by household consumers. These goods and services include food and beverages, housing, apparel, and transportation.⁴ Institutions of higher education, however, spend the majority of their money on personnel, so the CPI is not necessarily an accurate gauge of changes in price levels facing institutions of higher education.⁵ As the HEPI measures price changes over time in salaries and fringe benefits, utilities, and contracted services such as data processing and transportation, adjusting the UW System budget for inflation using the HEPI more accurately presents the changing purchasing power of the UW System.⁶

Based on available fiscal data, as state appropriations have declined, the overall UW System budget has continued to grow because of two main sources of funds: federal funds and tuition revenue. The UW System, unlike many other state agencies, has a large revenue source other than state funding in the form of tuition. Though economic theory suggests that individuals

may eventually refuse to purchase a good or service above a certain price, demand for higher education is considered to be inelastic (demand for a UW System education will not decrease substantially despite a higher price), so the UW System has some flexibility to raise tuition. Tuition at UW–Madison (the UW System’s flagship), though rising, is comparatively low among Big Ten universities. As long as demand for postsecondary education is inelastic enough, the UW System can raise tuition and fees and still raise revenue. Thus, as state appropriations decline, the UW System has closed some of its funding gap through increased tuition revenue.

As the percentage of the total UW System budget funded from state GPR revenue declined from 33% in 2000-2001 to 24% in 2006-2007, the share from tuition and fees rose from 17% to 21% and the share from the federal government rose from 20% to 24% (see Figure 3).⁸ Tuition increases are unpopular among legislators and students. Recent evidence suggests that tuition increases for nonresidents, who pay the total cost of their instruction and subsidize the cost of instruction for resident students, was causing declines in nonresident enrollment. This led to nonresident tuition decreases at system campuses other than UW–Madison.⁹

Figure 3
Changes in Revenue Sources of UW System Budget, FY 2000-2001 to FY 2006-2007



Note. Figure created by author using fiscal data from the University of Wisconsin System⁷



In addition, federal funds are less fungible than both tuition revenue and state unrestricted GPR. The UW System largely receives federal funds for specific research projects and for student aid, and these funds cannot be redirected for instructional purposes.¹⁰ Though the state continues to be a large financial supporter of the UW System, the system has increasingly relied on other sources of revenue, potentially putting pressure on the system to shift focus from state priorities to the priorities of other entities that provide funding to the system.¹⁰

The Changing UW System Budget

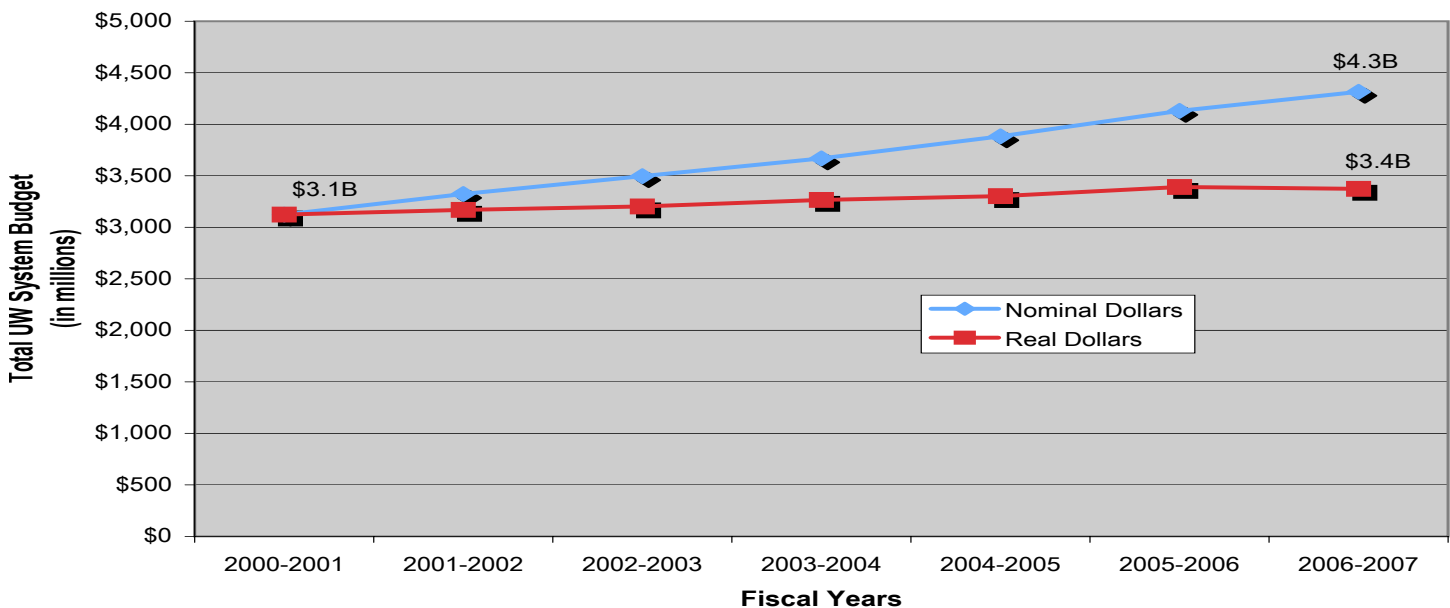
In nominal terms (not adjusted for inflation), the total UW System budget has increased each year. However, if adjusted for inflation using the HEPI, the UW System budget increased by much smaller percentages and, in fact, decreased between the 2005-2006 and 2006-2007 fiscal years. As Figure 4 demonstrates, while the nominal budget of the UW System grew by 38% between fiscal years 2000-2001 and 2006-2007, in 2000 dollars, the increase over this period was

only 8%. At the same time, enrollment at UW System institutions continued to increase. In 2000-2001, full-time equivalent (FTE) enrollment at all UW System institutions totaled 135,205 and grew to 144,814 FTE by 2006-2007.¹¹ Thus, from 2000-2001 to 2006-2007, FTE enrollment grew 7%, while the UW System budget grew 8% in real terms.

A pattern of declining state funding becomes apparent by examining the portion of the UW System budget that comes from the state. In nominal terms, state appropriations to the system increased by \$10 million (0.96 percent) between fiscal years 2000-2001 to 2006-2007. But in real terms, state appropriations decreased by \$223 million (a 22% decline) over this period.

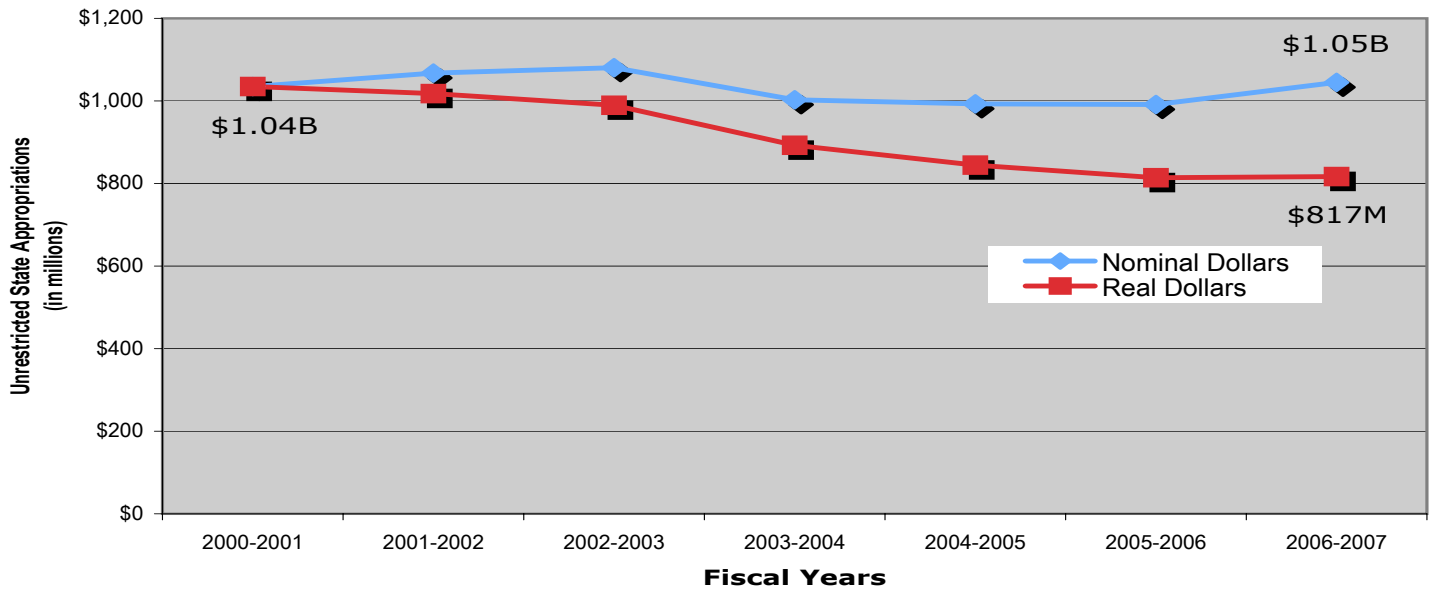
Figure 5 (see p. 5) suggests that in real terms, state appropriations for the UW System have been declining since 2000. Increases in enrollment over this period, and the fact that state appropriations are a significant source of funding for instruction, makes this decline in appropriations even more challenging for system institutions.

Figure 4
Total UW System Budget in Nominal and Real Dollars, FY 2000-2001 to FY 2006-2007



Note. Author's calculations using fiscal data from the University of Wisconsin System⁷

Figure 5
 Unrestricted State Appropriations to UW System in Nominal and Real Dollars, FY 2000-2001 to FY 2006-2007



Note. Author's calculations using fiscal data from the University of Wisconsin System⁷

Conclusions

Analysis of the UW System budget presents vastly different results depending on whether one focuses on the total system budget or only the portion of revenues that are appropriated to the system by the state. Similarly divergent patterns develop when examining funding in nominal versus inflation-adjusted terms. Though the UW System's total budget is generally increasing, the relative proportion of the system budget funded by state appropriations has been declining. Given the restricted nature of many funding sources other

than state GPR, it will be difficult for the UW System to increase revenue for instruction from non-state sources should state appropriations continue to decline. To maintain a high-quality university system committed to the priorities of the state, Wisconsin policymakers should be careful to analyze the whole picture when making fiscal decisions affecting the UW System and should pay attention to trends in funding sources and the purchasing power of the system before determining appropriate funding levels.



Notes

- ¹ University of Wisconsin System. (2006). *2007-09 biennial GPR/fee operating budget & capital budget*. Retrieved May 13, 2007, from University of Wisconsin System, Office of Budget and Planning Web site: http://www.uwsa.edu/budplan/opBudget/opBudgetArchive/final_06-07_budgetdocument.pdf
- ² University of Wisconsin System. (2006). *2006-07 budget redbook*.
- ³ University of Wisconsin System Office of Budget and Planning. (2006). *History of GPR expenditures*.
- ⁴ Bureau of Labor Statistics. (n.d.). *Consumer price indexes: Frequently asked questions*. Retrieved July 11, 2007, from http://www.bls.gov/cpi/cpifaq.htm#Question_1
- ⁵ Hansen, W. L. and Sell, K. R. (1991). The UW system budget. In Conant, J. K., Haveman, R. H., & Huddleston, J. (Eds.), *Dollars & sense: Vol. 2 Policy choices and the Wisconsin budget* (pp. 83-118). Madison, WI: The Robert M. La Follette School of Public Affairs.
- ⁶ Commonfund Institute. (n.d.). *Higher education price index*. Retrieved July 11, 2007, from <http://www.commonfund.org/Commonfund/Investor+Services/HEPI.htm>
- ⁷ Fiscal data from University of Wisconsin System *2000-01 budget redbook* thru *2006-07 budget redbook*. Price indices from Commonfund Institute. (n.d.). *Higher education price index 2006 update*. Retrieved July 11, 2007, from <http://www.commonfund.org/Commonfund/Investor+Services/HEPI.htm>
- ⁸ Though this analysis only focuses on fiscal years 2000-2001 to 2006-2007, it should be noted that a similar pattern of decreasing percentages of total budget revenue from state GPR and increasing percentages from tuition has existed since the 1970s. For more information on this trend, please see Hansen, W. L. and Sell, K. R. (1991). The UW system budget. In Conant, J. K., Haveman, R. H., & Huddleston, J. (Eds.), *Dollars & sense: Vol. 2 Policy choices and the Wisconsin budget* (pp. 83-118). Madison, WI: The Robert M. La Follette School of Public Affairs.
- ⁹ Beck, B. (2007). *The consequences of differential tuition increases at UW-Madison*. Retrieved July 11, 2007, from the Wisconsin Center for the Advancement of Postsecondary Education (WISCAPE) Web site: <http://www.wiscape.wisc.edu/calendar/details.asp?id=451>
- ¹⁰ Lyall, K. C. and K. R. Sell. (2006). *The true genius of America at risk: Are we losing our public universities to de facto privatization?* Westport, Connecticut: ACE Praeger Series on Higher Education.
- ¹¹ University of Wisconsin System Office of Policy Analysis and Research. (2007). *Ten-year FTE (full-time equivalent) reports*. Retrieved July 11, 2007, from University of Wisconsin System Office of Policy Analysis and Research Web site: http://www.uwsa.edu/opar/ssb/ten-year_fte.htm





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