



March 5, 2014

SPECIAL REPORT: Special Session Bills Pass Both Houses; Local College Governance and Control Likely to be Considered Next

Historic Shift in Technical College Funding (SB 1) Passes (page 2)

- *Already passed by the Assembly, Senate passes bill 17-15 (Republicans except Senator Schultz in favor, Democrats and Schultz opposed).*
- *Assembly must adopt Senate tweaks before bill goes to Governor for signing.*
- *Proposal will shift \$406 million annually from local to state funding.*
- *Technical colleges will be primarily state funded for the first time ever.*
- *Dollar-for-dollar shift will be accomplished by “buying down” operational mill rates using projected budget surplus funds.*
- *Measure includes restoring levy authority if state subsequently cuts funding.*
- *Not affected at this time: debt levy authority, capital projects and borrowing authority, authority to increase operating levies by net new construction growth factor, and local board authority.*

Workforce Development Funding Passes (AB 2) Including One-Time Funds to Reduce Technical College Waiting Lists (page 4)

- *Provides \$35 million one-time funding to Department of Workforce Development (DWD).*
- *Major purpose will be to reduce wait lists at technical colleges.*
- *Other purposes include projects to increase dual enrollment/industry certifications, and services to disabled individuals.*

Radical Technical College Governance Changes and Additional Funding Shifts Likely to be Considered in Coming Months (page 5)

- *Legislators consider creating study committee to assess elimination of local boards and local college control.*
- *Options could include shifting decision-making, employees, campuses, and all control from local to entirely state-controlled system.*
- *Study would also likely assess completing the shift from local to an entirely state-funded college system.*

SB 1 – Historic Funding Shift Passes

In the January State of the State Address, Governor Walker announced major tax changes including property tax reform to be implemented by dramatically reducing technical college levies and replacing that revenue dollar-for-dollar with \$406 million annually in new state funding. This proposal was introduced as January Special Session bills AB 1 and SB 1. The measure passed both houses on largely party-line votes with Republicans in favor and Democrats voting against.

The \$406 million is part of estimated new revenues being collected in the current biennium (through June 30, 2015), and expected to be available in future years as the economy improves. The funding will be used to “buy down” the operational mill rate by something between 0.87 and 0.89 at each district.

This enormous shift in funding will make technical colleges primarily state, not locally, funded for the first time in their 102-year history.

Because each district’s operating mill rate would be reduced by the same mill rate, the impact on property taxes will be the same (\$87 to \$89 per \$100,000 of property value) everywhere in the state. Upon implementation, the remaining levy will vary greatly depending on district. A district with a current operational mill rate at 1.5 will subsequently levy .61 mills for operations plus its existing debt levy. A district with an operational mill rate at 1.0 will levy just .11 plus its existing debt levy. In the latter case, the district’s operating levy will almost vanish.

Importantly, the Walker Administration, the WTCS, and the Boards Association, worked together to include in the bill a mechanism to restore levy authority to the extent state funding is reduced in subsequent years. This is accomplished by a new revenue cap. The new cap for operations will be the sum of a district’s operating levy plus its share of the \$406 million. Should the state amount later be reduced, local levy authority expands to make up for the loss. This means that a subsequent state fund reduction could be restored locally if a district chose to increase its levy up to the cap amount.

Districts will otherwise retain their existing authority for the following:

- Issuance of debt and existing triggers for referendum approval of capital projects;
- Increasing the operating levy up to the amount based on the district’s net new construction growth under current law;
- Ability to seek districtwide referendum approval to levy for operations above the net new growth cap.

Existing WTCS state general aid and categorical aid grants to districts will be preserved at current levels and will continue to be distributed under existing law. This means that general aid (approximately \$83.5 million now, increasing to \$89.5 million in July, 2014) will be maintained and will begin shifting from its traditional distribution formula to the new performance-based funding model by 10% annually beginning in July, 2014.

It also means that roughly \$22 million will be preserved for WTCS grants to districts (currently called “categorical” aid). Finally, it means that the \$406 million for property tax levy relief will be placed in a new fund to be distributed based on each district’s reduced levy amount and will not be run through another formula.

Similarly, all existing law concerning college and system governance will remain unchanged by the bill itself. However, as described below, the historic shift from primarily local to state funding brings the question of local control and board governance to prominence. Additionally, the Governor and majority legislators have been quoted in support of additional tax reform that could lead to a further reduction, or complete elimination, of local taxing authority.

The bill’s fiscal impact is staggering. Here are approximate current year numbers, compared with how the proposal would change them if it was implemented this year (the actual bill would not take effect until next year and affects slightly different numbers):

	(\$ millions)	<u>Now</u>	<u>With proposal</u>
Operating levy statewide		615.1	209.1
Debt levy statewide		<u>181.6</u>	<u>181.6</u>
Total levy statewide	\$	796.7	390.7
State fund replacing levy		0.0	406.0
State general aid		83.5	83.5
State grants to districts (formerly “categorical” aid)		<u>22.0</u>	<u>22.0</u>
Total state funding	\$	105.5	511.5

The proportion of funding represented by each major source (local, state and tuition) will change dramatically. The following illustrates this for purposes of general perspective. Again, it is based on current year or last year’s numbers, not the actual numbers next year as the new law takes effect.

This calculation treats the “big 3” funding sources – local funding, state funding, and student tuition as comprising 100%:

	<u>Now</u>	<u>With shift</u>
Local funding	68 %	33 %
State funding	9 %	44 %
Student tuition	23 %	23 %
	<u>100 %</u>	<u>100 %</u>

Colleges also receive smaller federal, gift, grant and enterprises revenues, among others, not included here.

Technical college boards have long supported being less dependent on local property taxes and better supported by state aid. This bill more than accomplishes the type of shift envisioned and provides Wisconsinites with important property tax reform. We have argued, however, that tax relief can be delivered through a general credit rather than by targeting one form of local government among various local taxing authorities. A major shift from local state funding begs the question of shifting college governance and control. As described in the final portion of this report below, this question is already being contemplated.

AB 2 – Workforce Development Funding for Purposes Including One-Time Reduction of Technical College Wait Lists

The Governor's State of the State address also proposed a significant new one-time investment focused on building technical college capacity and reducing waiting lists. Introduced as Special Session AB and SB 2, the bill has passed both houses. The Assembly passed it on a 77-22 vote in mid-February. The Senate passed it unanimously on March 4th. Because the passed versions were identical, it goes now to the Governor's desk where signing is expected.

This bill appropriates \$35.4 million on a one-time basis to be used by June 30, 2015. The funds are allocated to the Department of Workforce Development (DWD) to be used for the following purposes:

1. Grants to technical colleges for the reduction of waiting lists for enrollment in programs and courses in high-demand fields, as determined by DWD.
2. Grants for collaborative projects among school districts, technical colleges, and businesses to provide high school pupils with industry-recognized certifications in high-demand fields, as determined by DWD.
3. Grants to public and private organizations or services provided by DWD to enhance employment opportunities for persons with disabilities.
4. Administration costs for grants for the above purposes.
5. To the extent DWD determines that the \$35.4 million will not be needed for the above purposes, it may also make additional grants "for workforce training programs for the training of new and incumbent employees under existing law" (the Fast Forward Grant program).

While the amount for each purpose is not specified in the bill, we believe that the vast majority, perhaps up to \$31 million, will be targeted to reduce technical college waiting lists. This creates an enormous opportunity to expand college capacity on a one-time basis. Because the amount and specific allocations and projects will be subject to agreement between the WTCS and DWD, it is difficult to quantify the impact, distribution or exact timing of this funding at the present time.

The funds will be delivered through the existing DWD “Fast Forward” job training grants program targeted directly to technical colleges and not likely subject to the existing Fast Forward criteria or grant process. The existing Fast Forward grants were created as one of the first new laws passed in the current session (2013 Act 9, signed into law in March, 2013). The current program is funded at \$7.5 million annually for various projects, primarily competitive grants to business and industry for worker and job training programs.

AB 2 represents a major positive investment in expanding technical college capacity, but will require extremely quick implementation using a one-time funding boost. The nature and purpose of this funding create some challenges to be worked out between DWD and the WTCS. “Wait lists,” in the narrowest sense, do not always match programs most in need of additional capacity leading to jobs in high-demand fields. Wait lists can be used to control enrollment because of limitations that a one-time funding boost can’t address, such as a limited number of clinical placements. Some programs and colleges consciously avoid creating wait lists based on other factors such as the number of local jobs available. These and other factors will require that “wait lists” be treated flexibly. It is essential to focus on employers’ job wait lists as much as or more than formal program wait lists.

Finally, this enormously welcome investment could be limited in impact by the very nature of college capacity. Capacity can be envisioned as a pipeline through time moving individuals from raw potential to skilled jobs. A one-time infusion is limited in impact if it expands just one portion of a longer pipeline. The agreements reached on using these funds by June 30, 2015, must maximize flexibility in ways that expand the overall pipeline rather than just short segments.

Radical Technical College Governance Changes and Additional Funding Shifts Likely to be Considered in Coming Months

The shift from a primarily local to primarily state-funded system fuels ongoing concern about the future. The tendency to seek stronger control in return for stronger fiscal support is fairly universal among legislative bodies. While changes in governance and control are not part of the special session bills themselves, there is already discussion about making such changes in the near future.

The Boards Association has learned that legislators are already considering a study of college control, governance and funding for Summer, 2014. This proposal is still being shaped and has not been finalized.

Legislators may request that various issue areas be studied by “Joint Legislative Council” committees comprised of legislators (of both houses) and citizens. These committees are given a specific set of issues to consider, typically over the summer legislative recess. They conduct research through the Legislative Council staff, gather data and testimony from various sources and interests, and then make recommendations that can be drafted into proposed bills. “Leg Council” committees may ask to introduce legislation directly, rather than it being drafted and sponsored by individual legislators. Committees established for Summer, 2014, will make recommendations that would be introduced in the new legislative session beginning in January, 2015.

We understand that one or more legislators have already requested creation of a Legislative Council committee to study technical college board governance and funding during Summer, 2014. All proposals to create study committees must be approved by the Joint Legislative Council Committee, a committee of 22 legislators (11 from each house).

The request for a technical college study will likely track the scope of this past session’s AB 177. This would include considering the elimination of local boards and of local colleges status as local governments. It would likely look at shifting the colleges, the employment of faculty and staff, campus ownership, assets and liabilities, and all decision-making, to a fully centralized state system. It would likely assess shifting the remaining portion of local funding to state funding.

The benefit of considering key issues by Leg Council Committee is that they are discussed in the open with some level of research and public input. This is preferable to making changes via a budget bill amendment that is voted upon with little or no discussion. The disadvantage of a study committee is that they are *intended to introduce legislation*. It is rare that at least some parties to a study committee don’t arrive with a notion of outcomes they would like to see introduced and accomplished.

The outcomes, impact and enormous benefits to business, industry, students and taxpayers created through Wisconsin technical colleges is inseparable from their local governance. Wisconsinites benefit from state WTCS leadership, accountability and coordination balanced with local responsiveness. The resulting outcomes – job placement, compensation, employer satisfaction, a highly skilled and productive workforce – are unmatched. The very DNA of 2-year technical and community colleges is inherently LOCAL. While university systems may thrive without local funding and control, universities do not exist to rapidly adapt to local workforce and community needs. The liberal arts degree, an important cornerstone of American education – is

largely unchanged in curriculum and pedagogy across centuries. Contrast this with the creation, elimination and re-tooling of more than 400 technical college programs statewide in the past decade. Contrast this further with colleges designed and operated to meet different needs for employers in Marinette than Prairie du Chien and different students and communities in Kenosha than Superior.

At the hearing for the current session bill to change college funding and governance, AB 177, the bill's lead sponsor was asked about how a technical college would adjust its program or resource mix to meet local needs under a completely state-controlled system. The sponsor responded that the college president would demonstrate those needs to the legislature, along with other presidents and any number of state-level public interests. When a major employer calls a college today, the college responds today. In a system of colleges without local funding or control, the response could be severely constrained. The next state budget and regular session allowing for new bills to be introduced begins in January, 2015. Initiatives funded in the new budget take effect no sooner than July, 2015, some 16 months from now.

There is no distinct reason to protect any governance or funding model absent the model's impact on outcomes. We know that high job placement rates, high salaries paid to graduates, and high employer satisfaction rates, among other measures, are a function of local college responsiveness. That local responsiveness is fully interdependent with our governance and funding. You can't remove local control without eroding local responsiveness. This is understood by our business and industry partners and must be communicated to the legislature by our business and industry partners.

It is more important than ever to link our responsiveness and performance outcomes to our proven governance model. We must continue to demonstrate that local board governance and control, balanced with existing state system coordination and accountability, are completely part of and essential to our responsiveness and results.

As the study committee proposal moves along and comes into focus, we will share it with you. Now is the crucial time for each college and every board member to identify employers and community leaders willing to write or speak in support of protecting our outcomes and responsiveness by protecting the colleges as locally owned, controlled and board governed. The Boards Association is working through the college presidents to create a district-by-district business and industry advocates list. We need each board and board member's help to bring these voices forward and assure they are heard.

This report was prepared by Paul Gabriel for members of the Wisconsin Technical College District Boards Association. It is based on the best information available upon publication. Any opinion or analysis in this report is exclusively the author's.