



February 5, 2015

## **Governor Announces 2015-2017 Budget Plans**

Proposals Affecting Technical Colleges Include:

- *Flat Funding; WTCS State Aid Neither Increased nor Cut*
- *No Change to Local District Revenue/Levy Authority*
- *No Change to District Board Governance*
- *Outcomes Based (Performance) Funding:*
  - *To Be Increased Over Time to 100%*
  - *To Include a New Criterion Based on Credits Awarded for Prior Learning*
- *Tuition Freeze Imposed for High Demand Programs*
- *Consolidation for Some WTCS State Agency Functions*
- *Expanded Funding for DWD's Fast Forward Grant Program and Expanding Use of Fast Forward Grants for Apprenticeships*
- *Flat Funding for Need-Based Student Financial Aid*
- *Elimination of DPI Grants to School Districts Supporting Industry-Based Certification; To Be Replaced by DWD Grants*
- *Authorizing Pooled Risk-Sharing Across Technical Colleges for Health Insurance Coverage*

Budget Process Outlined

### **Governor Proposes Budget Plan**

On Tuesday evening, Governor Scott Walker addressed a joint session of the Wisconsin Assembly and Senate to outline his 2-year budget proposal for the biennium beginning July 1, 2015. The Legislature's Joint Finance Committee (JFC) met afterward and introduced the twin budget bills as AB 21 and SB 21.

## **Initial Summary of Provisions Affecting Technical Colleges**

Based on the budget address and preliminary review of the more than 1,800 page bill, here is an initial summary of provisions affecting technical colleges:

### **Flat Funding for WTCS State Aid and Grants**

State WTCS general aid, outcomes-based (performance) aid, and grants to districts (formerly categorical aid) will be maintained at current funding levels. This is not shocking in the face a large state deficit but is disappointing given the importance of the WTCS to the state's prosperity. The lack of direct cuts can be seen as positive in a difficult budget climate and in comparison with a 13% proposed state funding cut for the University of Wisconsin.

### **Property Tax Levies and Levy Authority Maintained**

The Governor's proposed new property tax cuts are NOT accomplished by further reducing technical college levies in any way. This is very positive. Technical colleges' current authority is preserved to increase levies under current law (by referendum, for all authorized debt, and by an annual amount based on a net new construction factor). This is also highly positive.

### **No Governance Changes Proposed**

As expected, the proposal does not make any changes to district board composition, selection, authority or governance. This is highly positive.

### **Outcomes-Based Funding Formula Shift to 100%**

The Governor's budget bill would restore the shift of 100% of general aid funding to an outcomes or performance-based funding model by 2020. This was expected but is disappointing.

In 2013, the WTCS supported creation of an outcomes-based funding model for a portion of state aid distributed to technical colleges. General aid (about \$88.5 million annually) has historically been formula-driven based on factors such as local district enrollment and property values. While we supported shifting some funding, the Governor proposed that aid would shift by +10% annually to 50% in 2019, and then from 50% to 100% in 2020 and beyond. We secured the JFC's help in the 2013 budget process to cap the shift at 30%. However, the Governor vetoed that cap.

The Governor's new proposal effectively restates his original provision making a shift to 100% in the coming years.

A 30% cap incentivizes excellence without creating significant funding losers at the expense of winners. Because new state funding investment is unlikely to keep pace with the amount shifted, each increase in percentage places more at stake for districts. Inevitably, district behavior will defensively protect base funding. Districts do many things within their mission not accounted for by the outcomes-based formula. These activities will be among the first at risk as the percentage and funding stakes increase.

### **New Outcomes Based Criterion Proposed**

Outcomes or performance funding currently is based on a district's selection of 7 of 9 statutory criteria such as graduate job placement and degrees awarded in high demand fields. The Governor proposes adding a 10th criterion based on the number of credits awarded for students' "prior learning." We initially believed this proposal would be limited to credit for prior learning for military veteran students. The bill, however, appears to apply to all students.

Credit for prior learning recognizes that college credit can be granted for some non-college training and life experiences. While we did not seek this change, it is written broadly enough to be useful. It also appears districts would still select 7 (of 10 instead of 9) performance criteria. This proposal is positive overall.

### **Tuition Freeze**

The Governor proposes freezing WTCS tuition for 2015-16 and 2016-17 at this year's rate for "high demand" programs. This is negative and disappointing. It was not requested nor supported by our students or other groups. It erodes WTCS Board authority to adjust district revenue based on statewide capacity and needs. The proposed freeze will be problematic to administer and does not appear well tailored to meet public policy goals such as reducing the skills gap or increasing access/affordability.

As proposed, the freeze will apply only to "high demand" WTCS programs as determined by the Department of Workforce Development (DWD). We expect DWD to use its new "Labor Market Information System" (LMIS) to determine high demand programs. It appears that high demand could be determined district-by-district, but this is not specified in the bill.

This freeze has a smaller direct financial impact than an across-the-board freeze. However, it will be difficult to implement and require districts to make potentially expensive IT programming and policy changes to keep track of multiple tuition rates.

Also, DWD's new LMIS system is not yet operational and it's not clear when "high demand" programs can first be identified using the system. Further, high demand programs identified by the LMIS will not necessarily match with programs in which more applicants are needed. They also will not necessarily freeze tuition for students for whom tuition is a barrier to attend. Finally, the LMIS tool is intended to show where jobs are in demand today, not two years from now.

It is not clear how such a freeze meets important public policy objectives. If the objective is to enhance college access and affordability, a smaller investment in need-based financial aid would likely better help students who are marginally unable to enroll, or are at risk of leaving school for financial reasons.

While we will work to tailor or eliminate the tuition freeze proposal, we do not want the alternative result to be an across-the-board tuition freeze. Based on a modest 3% tuition increase and stable enrollment in each of the next 2 years, the estimated cumulative impact of an across-the-board freeze would be approximately \$21 million statewide; \$7 million in 2015-16 and \$14 million in 2016-17.

### **Consolidation Proposed for Some WTCS State Agency Functions**

The bill creates a pilot project to consolidate state agency functions such as IT, HR, budget and finance away from state agencies including the WTCS (state system office). This would likely lead to the loss of WTCS staff positions and these functions. It would shift them to a larger pooled service through the Department of Administration. This is a bad idea.

It's ironic and disappointing to think that the same budget bill proposing new flexibility and independence for the UW System (in the name of efficiency) would erode flexibility, efficiency and responsiveness at the WTCS. The WTCS has a well-earned reputation among legislators for rapid responsiveness and providing accurate data. The need for both is increasing in an era of accountability and outcomes-based funding. Under this provision, it appears the WTCS would no longer manage or control its own data projects needed for district, state, and federal reporting, or, for example, for calculating performance funding distribution. It is highly unlikely that any savings will offset the resulting loss of efficiency and responsiveness.

### **Expanded Funding for DWD's Fast Forward Grant Program and Using Fast Forward for Apprenticeships**

The budget proposes expanding funding from approximately \$7.5 million annually to about \$10 million annually for DWD's Fast Forward Training Grant program. Technical colleges can participate with business and industry and other partners in these worker-training grants. The proposal also expands Fast Forward grant use to include apprenticeship programs. These proposals can be seen as net positive but will not

have significant direct impact on most colleges. The “Blueprint for Prosperity” grants (to eliminate wait lists, expand dual enrollment) added to the Fast Forward program last session were eliminated. This was expected but is disappointing.

### **Flat Funding for Student Need Based Aid**

The budget maintains state-based financial aid programs including Wisconsin Grants (formerly “WHEG”) for technical college students at current funding levels. This is not unexpected but is very disappointing. Even a small additional investment in need-based aid supports affordability and student persistence. Each year, more than 30,000 technical college students qualify but receive no grant due to lack of sufficient funding. The flat-fund WTCS proposal matches flat-fund proposals for the parallel UW, private /independent and tribal college and university students.

### **Elimination/Change of New Technical Education Grants to School Districts**

The 2013 budget created a new program to award \$1,000 to a school district for each student graduating high school in that district having earned an industry-based certification or credential. This budget proposal would eliminate this new program and, instead, authorizes DWD to make “grants to school districts for the development of programs that are designed to mitigate workforce shortages in industries and occupations that are experiencing a workforce shortage, as determined by DWD, and to assist pupils in graduating with industry-recognized certifications in those industries and occupations.” The impact of this will depend on how DWD distributes grants and in what amounts. This proposal will eliminate funding certainty for school districts (because the grant is automatic now upon a student graduating with the credential).

### **Authorized Risk-Sharing Across College Districts for Health Insurance Coverage**

We are pleased the Governor has proposed statutory language making it clear that technical college districts may pool/share risk in providing health insurance benefits. While not currently forbidden, the WTCS was not listed in a statute allowing other local governments specifically to pool risk for health insurance coverage. This proposal supports the new WTCS Health Consortium by eliminating any ambiguity.

### **An Overview of Wisconsin’s Budget Process and Future Decision Points**

Wisconsin Governors introduce the detailed “executive” budget bill every two years in February. The budget bill proposes all state spending levels and makes changes to many state programs for the coming biennium beginning July 1 in odd-numbered years.

Unlike many states, the Wisconsin budget bill stops, starts and reshapes programs as well as setting appropriation levels.

After the budget is introduced in the Legislature, a detailed summary of its provisions is prepared over several weeks by the Legislative Fiscal Bureau (LFB). Many other groups including the WTCS and District Boards Association assess the bill itself during this period. After legislators have the LFB summary, the Joint Finance Committee (JFC) typically schedules “agency briefings” to consider each major budget topic along with invited testimony and Q&A with the respective agency secretary or system president.

Following agency briefings, the JFC generally conducts several public hearings on the budget. These range in number and location around the state.

By sometime in April, the JFC begins “executive action,” voting on amendments offered to adjust the bill and make it the Legislature’s own version. This painstaking process takes place over several weeks and is the single most important opportunity to re-shape, delete or add to budget bill provisions. The most common timeframe for JFC executive action is from mid-April to late May.

Eventually, the bill is sent to each house for final approval and must then be reconciled to the extent either house changes the JFC version. The final identical bill version passed in both houses goes back to the Governor for line-item vetoes and signing, typically in June. Funding and program decisions can take effect as early as July 1, 2015, but may have future effective dates. Programs changes may even be deferred to a date beyond the new biennium (e.g., new UW flexibility measures are proposed to begin in 2017).

Wisconsin’s Governor possesses one of the most powerful veto pens in the nation. While the Governor can no longer cross out letters to make new words (known in the past as the “Vanna White” veto), the Governor may cross out words, numbers, sentences or entire sections of the bill.

*This report is based on a first review of the 1,800+ page budget bills, AB and SB 21. The information presented above is based on the best understanding of the bill possible as of February 5, 2015. Other budget provisions and details not described here may well affect technical colleges. Updates will be reported as soon as possible.*

*This report was prepared for members of the Wisconsin Technical College District Boards Association by Paul Gabriel. Any analysis or opinion in this report is exclusively the author’s.*