



July 1, 2013

## Governor Signs Budget Bill

- *Both Houses Pass JFC Budget Version (limited final changes don't affect technical colleges).*
- *Governor's Veto Affects Phase-In of Performance-Based General Aid Funding Formula.*
- *Governor Does Not Make Requested Veto of New College Borrowing Limitation.*
- *\$5 Million General Aid Increase, \$2 Million Financial Aid Increase and Ability to Capture New Construction Growth in Operating Levies Highlight a Positive Budget for Technical Colleges.*
- *Final Summary and Details of Budget Provisions Affecting Technical Colleges Follow.*

### **Both Houses Pass JFC Budget Version With Only Technical Changes**

The Governor signed the 2013-15 state budget bill (AB 40) into law as 2013 Act 20 on June 30<sup>th</sup>, after making a series of line-item vetoes. The bill was introduced at the Governor's request in February, and amended topic-by-topic over six weeks by the Joint Finance Committee (JFC) between late April and June 5<sup>th</sup>.

Both houses passed the JFC version largely intact. Only one amendment was adopted. It made a series of technical changes plus one more substantive change to private K-12 school voucher expansion. These late changes did not affect technical college provisions.

As described below, Governor Walker received the bill and made a series of line-item vetoes, including one directly affecting performance-based funding for technical college aid. We also requested a specific veto concerning a new limit on borrowing. However, the Governor did not make that veto. Wisconsin's governor has one of the nation's most

powerful veto pens with the ability to strike individual numbers, words or phrases in any appropriations-related bill. The sprawling budget bill controls state spending and programs for the 2-year period beginning today.

Assembly Passage -- The Assembly passed the budget June 18<sup>th</sup> on a 55-42 vote. After making technical changes and one change to school voucher provisions, Democrats did not seek to amend the bill. Normally, the minority party offers a series of largely doomed amendments in order to debate and highlight opposing policy and funding choices. While Democrats had prepared 211 amendments (!), Minority Leader Peter Barca (D-Kenosha) was quoted afterward as choosing to take the debate from the chamber more directly to the public. He noted that the majority had informed him in advance that no Democrat amendment would pass.

All 55 “yes” votes (50 needed for passage) came from the 60-member Republican majority. All 39 Democrats voted “no,” joined by 3 Republicans: Steve Kestell (R-Elkhart Lake), Howard Marklein (R-Spring Green) and Steve Nass (R-Whitewater). Two Republicans did not vote, Don Pridemore (R-Hartford) and Tom Larson (R-Colfax). The Republican “no” votes were due to concerns focusing on a projected structural deficit of some \$545 million as of 2015, as well as the overall level of state borrowing in the bill, also about \$500 million. Representative Kestell also expressed concerns afterward that the budget simply contained too much non-fiscal policy that should be considered in stand-alone bills.

Senate Passage -- The Senate took up the bill on June 20<sup>th</sup> and eventually passed it early on June 21<sup>st</sup> on a 17-16 vote. Seventeen Republicans voted in favor. All 15 Democrats were joined by Senator Dale Schultz (R-Richland Center) voting “no.” Senate Democrats offered a series of motions to reshape the bill. One of these motions, offered by Senator Jennifer Shilling (D-La Crosse), would have increased technical college funding by an additional \$7.5 million annually. The funds would be used for grants to districts to expand program capacity in high-demand fields. Like each of the more than 50 motions offered, Shilling’s technical college motion was eventually tabled on an 18-15 party-line vote.

With identical versions passed by both houses, the bill was “enrolled” and sent to the Governor.

### **Line-Item Vetoes Affecting Technical Colleges**

Performance-Based Funding Implementation Veto – As detailed below, the Governor vetoed a 30% cap on the shift of technical college general aid from its traditional formula to a new performance-based formula. The original budget proposed a 6-year transition shifting 10% of aid in 2014 and culminating in a 100% shift after 6 years. The JFC amended this to shift 10% in 2014-15, 20% in 2015-16 and then 30% permanently as of 2016-17. By vetoing the 30% cap, the 10% shift will occur as expected in 2014-15, followed by the topic being addressed in the next biennium budget bill.

New Borrowing Restriction Not Vetoed – As detailed below, the JFC placed a new restriction on the issuance of promissory notes by colleges. MATC-Milwaukee, the District Boards Association and others requested this provision be vetoed, but it remained in the bill signed into law. The provision states that promissory notes issued for any goods or services with a life of less than one year must count toward the operating, not debt, levy. This is intended to prohibit issuing certain debt to fund future costs previously incurred for post-retirement employee health insurance benefits (known as “OPEB,” other post-employment benefits). We believed this provision removed a helpful tool for a district to best manage and meet fiscal commitments incurred in the past.

### **A Positive Budget For Wisconsin Technical Colleges**

This is the most positive state budget bill for Wisconsin technical colleges in a number of years. It is the most positive outright and, especially, relative to our starting point:

- In early December, 2012, all \$20 million of annual categorical aid to technical colleges appeared at significant risk of elimination. By January, we had secured the continuation of this funding plus new flexibility in its distribution.
- General aid was increased by \$5 million annually beginning in 2014. This is the single largest increase in more than 20 years.
- The levy freeze on operations was loosened to account for net new construction growth. A calculation limit on new growth was fixed.
- We avoided significant threats to district borrowing authority, to the overall authority to levy property taxes, and to our local-state governance model.
- Financial aid was increased by \$2 million for next year. While this was a one-time bump, it stands in contrast to a \$0 increase for UW students and a \$1 million increase for private college and university students.

It’s hard to quantify the value of having avoided negative things that are successfully defeated. Even discounting those, the significantly good aspects of this budget – new funding, flexibility and recognition of the key role technical colleges play – are heartening. At the risk of missing any of our key advocacy heroes, it is important to note the coordinated efforts of the WTCS Board, President Foy and her team, Kyle Schwarm and our Statewide Marketing partners, Mark Graul and Sean Stephenson of Arena Strategy Group, Jason Bauknecht and Tim Elverman of HWZ Associates on behalf of MATC Milwaukee, and our 16 college presidents, district staff leadership and district board members.

We demonstrated accountability and good stewardship. We demonstrated results and return on investment. We demonstrated responsiveness and that we listen both locally and in the Capitol. We built the level of trust and support in a legislative budget process that was widely seen as exerting new state authority over local control, and that was unfortunately negative toward our higher education partner UW System.

We came to Madison as trustees in January and came back again with the Wisconsin Association of Career and Technical Education (WACTE) and Wisconsin Student Government in February. Our student leaders took over the Capitol rotunda to

showcase community leadership and engagement in February. We worked locally with legislators to build awareness and support throughout a long winter.

As a collective of technical college supporters, we also exhibited a higher level of unified message and purpose than in the past. This matters. This was a result of individuals and groups choosing to join in common purpose. There was no edict. It included not only advocacy itself, but also crucial efforts such as our statewide efforts on student success, alignment of strategic objectives by the WTCS, presidents and district boards, and new ways to collaborate and find efficiencies together in a rapidly changing environment.

There are many challenges ahead. We began the budget process estimating the need for \$90 million over two years to close Wisconsin's skills gap. We will continue to be challenged to justify our existing funding, our outcomes and our governance, while working to best meet community needs. We are doing incredible things with existing resources and add and drop programs more rapidly than any other educational system. Nevertheless, the public will (and should) continue to expect peerless responsiveness from us and an even greater level of accountability and transparency.

With all of the positives, we will need to do all this in a challenging time for taxpayers, tuition payers, business and industry, and for the state.

Finally, we succeed today and will succeed tomorrow based on a proven, merit-based, board governance model that remains highly responsive but also highly reliant on property taxes. Throughout the budget process, undercurrents of reform – toward both board governance and local taxing authority – swirled. These are real issues that continue on as the budget process itself concludes.

-- Paul Gabriel

The following describes provisions affecting technical colleges in 2013 Act 20 (AB 40), the state budget for the two-year biennium beginning July 1, 2013:

## **Summary**

### **2013 – 2015 State Budget Provisions Affecting Technical Colleges**

2013 Act 20 (AB 40)

July 1, 2013

**Operating Levies** – The current freeze is replaced to allow levies to increase by net new construction growth. The longstanding 1.5 mill rate cap is eliminated. All district property will count for net new growth purposes (page 6).

**General Aid** – General aid is increased by \$5 million (6%) beginning in 2014. A new “performance based” aid formula will be phased in beginning in 2014, but will be more flexible than initially proposed. **A veto removes the 30% cap in 2016 on shifting aid to performance funding** (page 6).

**Categorical Aid** – Categorical aid funding amounts and purposes are preserved and placed into a new block grant called “grants to district boards.” The Governor’s positive proposal is made more flexible by JFC, and a calculation problem affecting Nicolet College is fixed (page 8).

**Capital Projects and Borrowing** – Capital project authority remains at up to \$1.5 million without district referendum approval. District borrowing authority is both expanded (concerning matching funds for federal grants), and restricted (concerning promissory notes for certain goods and services). **A requested veto of the new restriction is not successful** (page 9).

**Thirty-Credit Transferable General Education Core** – The budget requires creation of a uniformly transferable core of 30 general education credits between technical colleges and the UW System (page 10).

**Student Financial Aid Increased a One-Time \$2 Million** – Wisconsin Higher Education Grant (WHEG) funding for technical college students is increased for 2013-14 by \$2 million (11%) (page 10).

**Ability to Rehire Retirees (WRS Annuitants) Limited** – The 30-day “separation” period between retiring and being rehired is extended to 75 days. No annuitant may return to work at 2/3rds time or greater for a WRS employer and remain “retired” (keep his/her annuity) (page 11).

**Eligibility for Veterans’ Tuition Remissions Expanded** – Veterans who have lived in the state for 5 years before enrolling in college will now be eligible for a remission, along with those who were residents when they originally enlisted. A GPA requirement is added (page 12).

**Correction Protects Districts’ Ability to Accept Gifts and Grants** – A drafting error eliminating technical college authority to accept gifts and grants is fixed (page 12).

## **Detail**

### **2013 – 2015 State Budget Provisions Affecting Technical Colleges**

2013 Act 20 (AB 40)

July 1, 2013

**Operating Levies** – *The current freeze is replaced to allow levies to increase by net new construction growth. The longstanding 1.5 mill rate cap is eliminated. All district property will count for net new growth purposes.*

The final budget includes the Governor’s plan to remove the 2010 levy freeze and the longstanding 1.5 mill rate cap on operational levies. A new freeze is imposed limiting operating levies at current year levels with two exceptions: First, operating levies can be increased to capture districtwide valuation changes due to “net new construction.” For 2012, net new construction increased in every district ranging from .4% to 1.1%. Net new construction can be a positive number even when overall district values decline. Districts may also capture net new growth even if doing so lifts the levy rate above the previous 1.5 mill rate cap. Second, levies can still be increased for operations by any amount subject to districtwide referendum approval.

The JFC adopted a major “fix” to the net new growth language. Technical college districts cut across more than 150 town, village and city boundaries. For ease of calculation, the original bill language stated that net new growth counted only “in municipalities *wholly located in the district...*” This would have excluded *almost 5% of the state from growth calculations.*

In a very positive move, the JFC voted unanimously to fix the “wholly within” problem as follows: “... (I)nclude all municipalities located in a technical college district in the calculation of net new construction for the valuation factor. Require the Department of Revenue to apportion the value of net new construction in a split municipality proportionately between the affected technical college districts, based on the percentage of the municipality's equalized value that is located in each district.”

This fix was preserved in the bill as signed.

**General Aid** – *General aid is increased by \$5 million (6%) beginning in 2014. A new “performance based” aid formula will be phased in beginning at 10% in 2014 and 20% in 2015. A permanent cap at 30% in 2016 added by the Legislature was vetoed.*

Aid Increased 6% – The Legislature adopted the Governor’s proposal to increase WTCS general aid by \$5 million annually beginning on July 1, 2014, the second year of the biennium. General aid funding is distributed by formula and is the state’s primary investment in technical colleges. The current year aid amount of \$83,534,900 will be maintained until 7/1/14 and then increased to \$88,534,900, a 6% increase. General aid reached its funding high point to date pre-Act 10 at \$118 million in 2010-11.

Performance-Based Funding Shift – Beginning in 2014, 10% of general aid, \$8.85 million, will be distributed by new “performance” driven formula measures instead of by the longstanding formula driven by factors such as a district’s property values, enrollment and costs relative to other districts.

As signed, the new law maintains the proposal to shift 10% percent of aid in 2014-15 and 20% in 2015-16. The transition beyond 2016 will be addressed in the future.

The Governor originally proposed shifting an additional 10% annually reaching 50% in 2018-19, followed by a jump to 100% in 2019-20 and thereafter. The JFC capped the shift at 30% in 2016-17 with no additional shift from the current formula to performance-based aid. **The Governor vetoed the 30% cap.** This leaves the transition on track at 10% in 2014-15 and 20% the following year. The transition beyond that point will be addressed in the 2015-17 biennium budget bill.

Performance-Based Funding Formula – The JFC adopted the Governor’s six proposed performance measures (with one change endorsed by the WTCS and Boards Association). The JFC also added three additional factors, gave districts flexibility on which factors count, and changed the timing and oversight of developing the performance system.

The Governor proposed six factors for performance funding. All six were supported by the WTCS and Boards Association and adopted by the JFC:

1. The placement rate of students in jobs related to students’ programs of study.
2. The number of degrees and certificates awarded in high demand fields.
3. The number of programs or courses with industry-validated curriculum.
4. The transition of adult students from basic education to skills training.
5. Participation in dual enrollment programs. This measure was amended by the JFC at our request. A too-narrow definition of “dual enrollment” was expanded to better match the standard national definition.
6. The workforce training provided to businesses and individuals.

On a unanimous vote, the JFC passed a very positive motion by Senator Sheila Harsdorf (R-River Falls). Besides capping performance funding at 30% and adjusting “dual enrollment” as described above, the motion also modified the Governor’s recommendations.

First, the motion added three additional performance measures:

7. The number of adults served by basic education courses, adult high school, or English language learning courses, courses that combine basic skills and occupational training as a means of expediting basic skills remediation, and the success rate of adults completing such courses.
8. Participation in statewide or regional collaboration or efficiency initiatives.
9. Training or other services provided to special populations or demographic groups that can be considered unique to each district.

Second, it increased district flexibility by allowing districts to select 7 of 9 measures on which they choose to be measured.

Third, it also provided that the WTCS measure performance by using the past three fiscal years of data rather than only the previous fiscal year.

Fourth, the JFC switched state review of the WTCS performance funding plan from the Department of Administration to the JFC itself under “passive review.” Passive review allows the WTCS plan to go into effect unless the JFC objects (rather than requiring its affirmative approval). Finally, this shift also gives the WTCS three additional months to develop and report on its plan (switching the reporting deadline from 12/31/13 to 3/31/14, for implementation of performance funding beginning on 7/1/14).

Other than the veto adjustment as to the transition to performance funding, all of the changes made by the JFC remain in the bill as signed.

***Categorical Aid*** – *Categorical aid funding amounts and purposes are preserved and placed into a new block grant called “grants to district boards.” The Governor’s positive proposal is made more flexible by JFC and a calculation problem affecting Nicolet College is fixed.*

Other than general aid, technical colleges compete for or are granted shares of additional state funding for specific purposes. This “categorical aid” totals approximately \$20 million annually and is used for more than 15 different purposes such as Workforce Advancement Training (WAT) Grants and others.

The Governor proposed, and JFC endorsed, transferring the funds into a single “block grant,” called “Grants to District Boards,” to be distributed for any or all of the existing purposes by the WTCS Board. This means that the total funding and basic purposes remain, but that there will no longer be specific funding amounts for any specific purpose.

In endorsing the Governor’s plan, the JFC made the following positive changes:

- Fixed a problem that excluded certain Nicolet Area Technical College FTEs from the general aid formula in return for categorical aid (the guaranteed aid appropriation was removed by the block grant). All Nicolet FTEs will now be counted, consistent with other districts.



- Required that the WTCS, “to the extent practicable, ensure that grants are awarded to each geographic region of the state represented by the technical college districts.”
- Added the Legislature to the WTCS annual reporting requirements concerning how the grants are awarded. The original bill required the WTCS report to the Department of Administration only.
- Eliminated several “set asides” in statute that affected the flow of categorical aid but that were not addressed in the original bill.
- Restored apprenticeship curriculum as an allowable purpose for block grants that would have been eliminated under the bill.

These changes improve flexibility and correct some concerns created by how the original bill was drafted. All of the changes were included in the bill as signed.

***Capital Projects and Borrowing*** – *Capital project authority remains at up to \$1.5 million without district referendum approval. Borrowing authority is both expanded (concerning matching funds for federal grants), and restricted (concerning promissory notes for certain goods and services).*

Technical colleges may expend up to \$1.5 million per campus per 2-year period for capital projects without approval by districtwide referendum. The WTCS originally requested that this authority be expanded from \$1.5 to \$3 million. This was not included in the Governor’s bill or supported by the JFC. The JFC seriously considered, but ultimately did not support, an increase from \$1.5 to \$2 million.

The JFC did both expand and restrict borrowing authority. First, it gave modest new flexibility to all districts, but aimed at a specific Northcentral Technical College project. The JFC approved a motion that effectively allows a district to expend up to \$2.5 million for one project to the extent it does so to match federal grant funds. However, the district may only do this by “borrowing” from future \$1.5 million capital project authority in the next 2-year block. This assists Northcentral with a specific project for which grant funding is available. This provision was preserved in the bill as signed.

Second, based on a motion by Senator Glenn Grothman (R-West Bend), the JFC voted on party lines to restrict certain borrowing by promissory notes (but not by bonding) as follows:

“Specify that for the purposes of the limit governing the operating levy applicable to WTCS districts, operating levy would include payments on promissory notes issued after the bill’s effective date, unless the note would be issued to finance assets or projects with a useful life in excess of one year.”

This effectively makes any debt issued by notes (not bonds) to pay for assets or projects with a life of less than one year subject to the operating levy cap.

We formally requested that this provision be vetoed. The ability to use all long-standing fiscal tools to manage pre-existing fiscal obligations is in the public interest. The Governor did not choose to veto this provision, however.

***Thirty-Credit Transferable General Education Core – The budget requires creation of a uniformly transferable core of 30 general education credits between technical colleges and the UW System.***

The Governor’s budget bill requires the WTCS and UW System to enter into an agreement to ensure that, beginning in the 2014-15 academic year, at least 30 credits of “core general education” courses are uniformly transferable within and between each UW school and technical college. Independent non-profit colleges and universities in the state may also join the agreement voluntarily.

Core general education courses are defined as courses “generally required for an undergraduate degree in a specific course of study” that “satisfy general education requirements at the receiving institution.”

The JFC protected and clarified the Governor’s proposal. In the days leading up to JFC’s vote, we believed it might interpret the language to apply only to “liberal arts” credits, the already-transferable courses carried by a minority of students at 5 of 16 technical colleges. The JFC appropriately did not limit the transfer core, which can be developed to include technical and occupational general studies work as well as liberal arts courses.

The adjusted provision was preserved in the bill as signed.

***Student Financial Aid Increased a One-Time \$2 Million – Wisconsin Higher Education Grant (WHEG) funding for technical college students is increased for 2013-14 by \$2 million (11%).***

As drafted, AB 40 proposed flat funding for all need-based financial aid programs including Wisconsin Higher Education Grants (WHEG) for technical college students.

The JFC’s sweeping omnibus motion addressing all UW System and Higher Educational Aids Board (HEAB) budget issues included a one-time \$2 million increase for technical college WHEG. A \$1 million increase was approved in the same action for the parallel program at independent non-profit colleges and universities. The WTCS WHEG bump represents an almost 11% increase over its \$18.8 million annual base funding, the largest in many years.

The aid increase was added to the omnibus motion thanks to Representative Joan Ballweg (R-Markesan). In the same motion, the UW System remained flat-funded and

was required to shift funding of its entire WHEG program from general state revenue (GPR) to existing UW reserve funds.

The aid increase added in the Legislature was preserved in the bill as signed.

**Ability to Rehire Retirees (WRS Annuitants) Limited** – *The 30-day “separation” period between retiring and being rehired is extended to 75 days. No annuitant may return to work at 2/3rds time or greater for a WRS employer and remain “retired” (keep his/her annuity).*

The JFC made several amendments to adjust and adopt the AB 40 proposal addressing rehiring of WRS employees after retirement, the so-called “double-dipping” issue. The Governor proposed, and the JFC adopted, increasing the separation period from 30 to 75 days after retirement before a Wisconsin Retirement System (WRS) participant can return to work at a WRS employer. The original bill also proposed forbidding any WRS retiree to continue receiving his/her annuity if he/she returns to employment at a 75% FTE position or greater. The JFC changed this to working no more than “two thirds of what is considered full time employment by the Department of Employee Trust Funds...”

These provisions were preserved in the bill as signed.

This means a returning retiree hired to work 2/3rds or more must stop receiving his/her pension and re-join the WRS. It also limits WRS employers including technical colleges from hiring some highly qualified candidates for full-time positions. Note: An earlier JFC amendment to quantify 2/3rds time in hours worked per year was later scrapped.

Under current law, a WRS annuitant selected in an open position search can continue to receive his/her pension (the annuity earned in a prior career) and work in the new position without receiving employee benefits (including either retirement contributions or health insurance). This saves the employer and taxpayers significant costs while the college engages great veteran professionals in key positions.

The so-called “double dipping” issue was originally brought to the public’s attention when UW Green Bay rehired an administrator after 30 days into his prior position on what appeared to be a pre-arranged agreement without a full search and screen process. Such an arrangement is already prohibited. Rehiring annuitants based on an authentic search is often in the public interest. For example, WRS annuitants who were firefighters or police officers can be excellent candidates for second-career teaching opportunities. It saves taxpayers/the college significant benefit costs if the person hired can keep his/her annuity.

**Eligibility for Veterans' Tuition Remissions Expanded** – Veterans who have lived in the state for 5 years before enrolling in college will now be eligible for a remission, along with those who were residents when they originally enlisted. A GPA requirement is added.

The JFC adopted the Governor's proposal to extend the Wisconsin G.I. Bill veterans' tuition remission at technical colleges and in the UW System. Until July 1, 2013, a veteran must have enlisted in military service as a Wisconsin resident to qualify for the remission. Under the bill as signed, a veteran who has resided in Wisconsin for at least 5 years immediately preceding college enrollment (regardless of residency upon military enlistment) also qualifies.

The bill also requires veterans receiving tuition remission benefits for the first time to maintain a 2.0 cumulative grade point average. The JFC delayed the GPA provision's effective date to January 1, 2014. Those provisions were preserved in the bill as signed.

The very worthy Wisconsin G.I. Bill tuition remission program is largely funded by the colleges and by non-veteran students paying higher tuition. State funding for the program is fixed and covers less than 20% of remission costs. That proportion continues to fall as more veterans enroll and eligibility is expanded.

**Correction Protects Districts' Ability to Accept Gifts and Grants** – A drafting error eliminating technical college authority to accept gifts and grants is fixed.

The budget mistakenly eliminated technical college districts' authority to accept gifts and grants. The proposal was intended to eliminate only one portion of grants related to changes affecting the Office of Justice Assistance. The JFC fixed this drafting error on a unanimous motion and the final bill included this language.

*(end of report)*

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