



Legislative Fiscal Bureau

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August 16, 2007

TO: Members
Joint Finance Committee

FROM: Bob Lang, Director

SUBJECT: Higher Educational Aid Board: Request for Approval of Reciprocity Agreement and Administrative Memorandum -- Agenda Item I

REQUEST

The Higher Educational Aids Board requests that the Committee approve changes to the Minnesota-Wisconsin Public Higher Education Reciprocity Agreement (Agreement) and the annual administrative memorandum required by the Agreement for 2007-08. The reciprocity agreement is subject to approval by the Committee under s. 39.42 of the statutes, while the annual administrative memorandum is subject to Committee approval under a passive review process under s. 39.47 (2g) of the statutes.

BACKGROUND

The Minnesota-Wisconsin tuition reciprocity agreement provides that state residents can attend public universities, community colleges, and technical colleges in the adjacent state without having to pay nonresident tuition. Students participating under the agreement are treated as residents of the state in which the institution they attend is located for admissions purposes. The agreement is administered jointly by the Minnesota Office of Higher Education (MOHE), formerly the Minnesota Higher Educational Services Office (MHESO), and the Wisconsin Higher Educational Aids Board (HEAB) and has existed in some form since 1965.

Wisconsin state statutes specify that a student enrolled at a university or a community or technical college under the agreement pay a reciprocal fee. The reciprocal fee charged may not exceed the higher of the resident tuition at the institution in which the student is enrolled or the resident tuition charged at a comparable institution in the student's state of residence. The

agreement applies to students enrolled in all undergraduate and graduate programs with the exception of medical, dental, and veterinary programs. Annually, a payment between the states is made to compensate for any net differences in the cost of educating students enrolled at universities and community colleges under the agreement. In 2005-06, the most recent year for which data is available, 12,542 Wisconsin resident students attended Minnesota colleges and universities while 14,453 Minnesota residents attended UW institutions.

The reciprocity agreement also applies to students attending public vocational and technical institutions. However, students attending these institutions pay the resident tuition rate for the institution in which they are enrolled, rather than the tuition rate charged in their home state. In addition, there is no provision for the exchange of funds between the two states to compensate for vocational and technical college students participating under the agreement.

Current Agreement. The current Agreement was approved by the Joint Finance Committee in August, 1997. In order to implement the Agreement, several changes to state statutes had to be made, which were enacted by the Legislature in 1997 Act 200. The current Agreement went into effect on July 1, 1998.

In addition to modifying state statutes to permit the changes to the Agreement, Act 200 required that an administrative memorandum be prepared by HEAB and MOHE each year and submitted to the Joint Committee on Finance for its approval through a 14-day passive review process. This administrative memorandum establishes policies and procedures for the implementation of the agreement for the upcoming academic year. The administrative memorandum also includes a description of how the reciprocal fee structure is to be determined.

Unlike prior tuition reciprocity agreements, the current agreement does not include an expiration date. Instead, the current agreement is automatically renewed each year unless it is modified with the consent of both states or terminated by either state. If one state should wish to terminate the Agreement, the tuition reciprocity program would be phased out over a four-year period. During this period, the program would operate under the last annual administrative memorandum agreed to by both states.

Tuition Charged to Wisconsin Reciprocity Students. In general, Wisconsin reciprocity undergraduate students are charged an amount of tuition that is equal to the average resident tuition at comparable institutions in the UW System. There are two exceptions to this rule. First, Wisconsin reciprocity undergraduate students who attend the University of Minnesota-Twin Cities are charged the UW-Madison undergraduate tuition rate plus a "tuition gap surcharge" equal to 25% of the difference between the resident tuition rates charged at UM-Twin Cities and UW-Madison. The tuition gap surcharge was first implemented during the 1998-99 academic year. In 2006-07, the difference between the annual resident tuition rates at the two campuses is \$1,588, resulting in a tuition gap surcharge of \$397. Second, Wisconsin reciprocity undergraduate students attending Winona State University pay the average resident tuition charged at comparable institutions in the UW System (the comprehensive campuses in this case) plus the differential tuition charged to all undergraduate at Winona State. In 2006-07, this differential was \$135.

Graduate and professional students enrolled under the agreement are charged the higher of the two states' resident tuition rate. Medical, dental, and veterinary students are excluded from the tuition reciprocity agreement.

Reciprocity Payments. Under the current Agreement, each state's liability is the difference in between the total amount of tuition paid by its students attending institutions in the other state and the calculated cost of educating those students. The state with the higher liability pays the difference to the other state. In determining liability, the two states have agreed to use what is referred to as the "reciprocity cost" instead of total educational costs. The reciprocity cost is the portion of total student costs that varies with changes in enrollment and excludes fixed costs. Currently, reciprocity cost is defined as 64% of Wisconsin's total per credit instructional costs. Wisconsin's costs are used to calculate liability because it is assumed that instructional costs are similar in both states. Table 1 shows enrollments, net costs, and the reciprocity payment for each year from 1996-97 to 2005-06. A negative payment indicates a payment made by Wisconsin to Minnesota.

TABLE 1
MN-WI Reciprocity Enrollment and Payment History

Academic <u>Year</u>	Minn. Students <u>Enrolled in WI</u>		WI Students <u>Enrolled in Minn.</u>		Reciprocity <u>Payment*</u>	Net Tuition <u>Differential</u>	Total GPR- <u>Earned</u>
	<u>No.</u>	<u>Net Cost</u>	<u>No.</u>	<u>Net Cost</u>			
1996-97	12,062	\$15,503,365	9,815	\$16,811,480	-\$1,308,114	\$5,624,555	\$4,316,441
1997-98	12,614	17,827,062	9,905	19,902,922	-2,075,860	4,192,017	2,116,157
1998-99	13,323	19,528,554	10,390	16,985,058	2,543,496	4,015,391	6,558,887
1999-00	12,191	20,932,068	10,292	18,446,571	2,485,497	2,869,433	5,354,930
2000-01	14,029	22,793,477	10,480	20,362,958	2,430,518	4,905,299	7,335,817
2001-02	13,200	20,592,614	11,074	20,895,356	-302,741	6,535,256	6,232,515
2002-03	14,194	19,200,118	11,519	22,307,745	-3,106,725	8,423,068	5,316,343
2003-04	14,116	10,821,798	12,133	16,984,994	-6,163,196	7,683,385	1,520,189
2004-05	14,085	6,811,842	12,531	13,326,601	-6,514,759	8,204,476	1,689,717
2005-06	14,453	2,540,213	12,542	10,310,750	-7,770,538	8,685,989	915,451

*Payment made to Wisconsin by Minnesota. The reciprocity payment is made in December of the following fiscal year.

As shown in Table 1, Wisconsin made payments to Minnesota for the 1996-97 and 1997-98 academic years as well as for each academic year from 2001-02 to the present. However, in each year that Wisconsin made a reciprocity payment to Minnesota, that payment has been more than offset by what is termed the "tuition differential" such that the net effect on the GPR balance of the tuition reciprocity has been positive. The "tuition differential" is the amount by which the tuition paid by Minnesota students attending UW System institutions exceeds the amount of tuition that would have been paid by Wisconsin resident students. With the exception of Minnesota residents attending the UW Colleges, a Minnesota student attending a UW System institution pays a greater amount of tuition than a Wisconsin resident attending the same institution. Wisconsin law requires

the UW System to deposit the additional tuition paid by Minnesota students into the general fund. This amount is shown on Table 1 as "Net Tuition Differential." As indicated in Table 1, the tuition differential was \$8,685,989 in 2005-06. This offset the reciprocity payment, which was \$7,770,538 in that year, such that the net effect on the GPR balance for the tuition reciprocity program was \$915,451.

ANALYSIS

Summary of the Proposed Changes

HEAB has requested a number of changes to the agreement, including:

1. Wisconsin resident students attending Minnesota institutions under the Agreement would be charged Minnesota resident tuition. This change would be phased in beginning in 2007-08 such that it would have no effect on students enrolled in the 2007-08 academic year as long as they are continuously enrolled. Beginning in the 2011-12 academic year, all Wisconsin resident students attending Minnesota institutions under the Agreement would be charged Minnesota resident tuition.

2. Additional language related to financial aid for reciprocity students would be included. This language would specify that: (a) terms for any financial aid program should be included in the annual memorandum of understanding; (b) any such financial aid program would not affect the computation of interstate reimbursement as specified in this agreement; and (c) any such financial aid program would not affect the payment arrangement for the interstate reimbursement to the general fund.

3. A Wisconsin reciprocity supplement program would be established. This program would provide grants equal to the difference between Minnesota resident tuition and the tuition that a Wisconsin reciprocity student would have been charged under the current Agreement to all Wisconsin reciprocity students affected by the change in tuition charged. These grants would be paid by HEAB directly to the University of Minnesota and the Minnesota State Colleges and Universities (MnSCU) systems and would be shown as a credit on tuition bills, where applicable. Specify that: (a) the Wisconsin reciprocity supplement program would be administered by Minnesota; (b) the two Minnesota systems should submit an invoice related to the program to HEAB following each academic term; and (c) HEAB should submit a payment to the two Minnesota systems within one month of receiving an invoice.

4. All references to "student paid" tuition would be deleted to allow Wisconsin reciprocity supplement payments made by HEAB to be treated as tuition for the purpose of calculating Wisconsin's obligation to Minnesota under the Agreement.

5. Students would be charged using the tuition structure and banding mechanism in place at the institution attended. The current agreement specifies that: (a) students taking less than 12 credits per term shall be charged per credit; (b) student taking 12 to 18 credits per term shall be

charged the semester rate; and (c) student taking more than 18 credits shall be charged the semester rate plus the per credit rate for each additional credit over 18. This tuition structure and banding mechanism (commonly referred to as the “plateau system” by the UW System) is the same as that used by most UW System institutions (UW-Stout charges students per credit regardless of how many credits are taken). Some Minnesota institutions use different tuition structures and banding mechanisms; for example, the UM System charges students taking less than 13 credits a per credit rate and students taking more than 13 credits the semester rate.

6. All references to the “Minnesota Higher Education Services Office” would be changed to the “Minnesota Office of Higher Education,” which is the current name of that office.

7. An obsolete reference to analyses to be performed in the spring of the 1998-99 and 1999-00 academic years would be deleted.

8. The effective date would be changed from July 1, 1998 to July 1, 2007.

9. The administrative memorandum would be modified to be consistent with the proposed changes to the Agreement.

Although the effective date of the Agreement would be July 1, 2007, the changes related to tuition charged to Wisconsin reciprocity students or the Wisconsin reciprocity supplement program would not take effect until academic year 2008-09.

Effect of the Changes

The proposed changes to the agreement and the administrative memorandum would have the effect of redirecting a portion of the payments made by Wisconsin from the state of Minnesota to the UM and MnSCU systems. It is anticipated that the proposed changes would have a one-time cost of \$1.3 million to be paid from the Wisconsin general fund during the 2008-09 fiscal year. Under the proposed changes, Wisconsin reciprocity students would continue to pay the same amount of tuition as they would have paid under the current Agreement and annual administrative memorandum.

Rationale for the Changes

Under the current agreement, Wisconsin resident students attending UM and MnSCU campuses are charged less tuition than Minnesota resident students attending those same campuses. This is because Wisconsin undergraduate students attending Minnesota institutions are charged an amount of tuition equal to resident tuition at a comparable institution within the UW System and tuition charged by institutions within the UW System is generally less than tuition charged by institutions within the UM and MnSCU systems. For example, the average annual tuition at the four-year comprehensive universities within the UW System was \$4,652 in 2006-07 while the average annual tuition at the MnSCU and the UM-Crookston campuses was \$5,160. As a result, a Wisconsin resident student who attended UM-Crookston or an institution within the MnSCU System would have paid \$508 less on average than a Minnesota resident attending the same campus

in 2006-07. Similarly, a Wisconsin resident student who attended UM-Twin Cities would have paid \$6,397, or \$1,191 less than a Minnesota resident student attending that campus.

In Wisconsin, where the amount of tuition paid by reciprocity students exceeds the amount of tuition paid by resident students, the amount of excess tuition received, known as the "tuition differential," is deposited into the general fund. In Minnesota, the amount of tuition paid by reciprocity is less than the amount paid by resident students. The state of Minnesota does not reimburse the institutions for this forgone revenue.

If the proposed changes to the agreement are accepted, the state of Wisconsin through HEAB would begin making certain payments directly to the UM and MnSCU systems. These payments, which would be equal to the difference between the amount of tuition paid by Wisconsin reciprocity students and the amount that would have been paid by Minnesota resident students for a similar number of credits in each term, would replace the foregone revenue for these institutions. Each state's net reimbursement obligation would continue to be calculated at the end of each academic year as under the current agreement and the supplemental payments made by HEAB to UM and MnSCU systems would be treated as tuition paid. These payments would reduce Wisconsin's obligation to Minnesota such that it is estimated that Minnesota would begin making reciprocity payments to Wisconsin in 2011-12.

HEAB Payments and the Effect on the General Fund

Under the proposed changes to the agreement, HEAB would make payments to the UM and MnSCU systems following the conclusion of each academic term. In addition, at the end of each academic year, the state with the larger net obligation would make a payment to the state with the smaller net obligation equal to the difference between the two states' net obligations as under the current agreement. As proposed, the sum of the payments made by HEAB to the UM and MnSCU systems and the amount either paid or received by Wisconsin following the conclusion of the academic year should equal the amount that would have been paid by Wisconsin under the current agreement.

To illustrate how this agreement might operate, Table 2 shows how the transfer of funds could occur in 2011-12, the first year in which the changes would be fully implemented, if the proposed changes were to be adopted.

TABLE 2**Example of Minnesota-Wisconsin Reciprocity Payment Under the Proposed Changes, 2011-12**

(\$ in Millions)

	<u>Gross Obligation</u>	<u>Student Paid Tuition</u>	<u>State Paid Tuition</u>	<u>Total Tuition Paid</u>	<u>Net Obligation (Gross Obligation - Total Tuition Paid)</u>
Minnesota	\$99.7	\$96.3	\$0.0	\$96.3	\$3.4
Wisconsin	96.8	83.0	12.1	95.1	1.7
Reciprocity Payment (from MN to WI)					\$1.7
Total Paid by WI (Tuition Paid by Wisconsin Minus Reciprocity Payment Received)					\$10.4

As shown in the example in Table 2, Wisconsin's gross obligation, which is the total number of credits taken by Wisconsin reciprocity students multiplied by the reciprocity cost, is projected to be \$96.8 million in 2011-12. Wisconsin students enrolled under the agreement are projected to pay \$83.0 million in tuition in that year. Under the proposed changes to the agreement, the state would pay an estimated \$12.1 million in tuition to the UM and MnSCU systems through the Wisconsin reciprocity supplement program. In total, Wisconsin reciprocity students and the state would pay \$95.1 million in tuition to the two systems. Under this scenario, Wisconsin's net obligation to Minnesota would be \$1.7 million.

Similarly, Minnesota's gross obligation is projected to be \$99.7 million in 2011-12. Minnesota reciprocity students are projected to pay \$96.3 million in that year. Under the proposed agreement, the state of Minnesota would not make any tuition payments on behalf of its reciprocity students, so the amount of tuition paid by the state is shown as zero. Under this scenario, Minnesota's net obligation to Wisconsin would be \$3.4 million.

As Wisconsin's net obligation is less than Minnesota's, Minnesota would make a reciprocity payment to Wisconsin equal to the difference between the states' net obligations, or \$1.7 million. This payment would be made to Wisconsin's general fund. Under the proposed agreement, the total amount paid by Wisconsin in 2011-12 would be \$10.4 million, which is equal to the amount paid by Wisconsin in tuition less the amount of the reciprocity payment received (\$12.1-\$1.7).

For the purpose of comparison, Table 3 shows how the transfer of funds would occur in 2011-12 if the current agreement would be maintained.

TABLE 3**Example of Minnesota-Wisconsin Reciprocity Payment Under Current Agreement, 2011-12**

(\$ in Millions)

	<u>Gross Obligation</u>	<u>Student Paid Tuition</u>	<u>State Paid Tuition</u>	<u>Total Tuition Paid</u>	<u>Net Obligation (Gross Obligation - Total Tuition Paid)</u>
Minnesota	\$99.7	\$96.3	\$0.0	\$96.3	\$3.4
Wisconsin	96.8	83.0	0.0	83.0	13.8
Reciprocity Payment (from WI to MN)					-\$10.4
Total Paid by WI (Tuition Paid by Wisconsin Minus Reciprocity Payment Received)					\$10.4

As Tables 2 and 3 show, the gross obligation of each state and the student paid tuition would be the same under both the current agreement and the proposed agreement. However, under the current agreement, the state would make no tuition payment to UM and MnSCU. As a result, the total tuition paid by Wisconsin would be less than under the proposed changes and the net obligation would be greater. Minnesota's net obligation would be the lesser of the two and Wisconsin would make a reciprocity payment to Minnesota equal to the difference between the two, or \$10.4 million. This would be equal to the total paid by Wisconsin under the proposed agreement, which illustrates that the proposed changes would have no net effect on the general fund.

One-Time Cost

The current agreement requires that the state with the greater net obligation make a reciprocity payment to the other state by December 1 of the fiscal year following the academic year in question. The proposed changes to the agreement would require that, in addition to the reciprocity payment, Wisconsin, through HEAB, make payments to the UM and MnSCU systems following each academic term. Given the academic schedule, this change would result in Wisconsin making two payments to Minnesota during fiscal year 2008-09. The first would be the reciprocity payment, which would be required under both the current agreement and the proposed changes, that HEAB would make to the state of Minnesota prior to December 1, 2008. The second would be a payment from HEAB to the UM and MnSCU systems to reimburse them for Wisconsin reciprocity supplement grants credited to student tuition bills for the fall 2008 semester. This payment would be made around February, 2009.

Under the current agreement, costs incurred in one fiscal year are paid in the following fiscal year. Under the proposed changes, a portion of the costs incurred in any given fiscal year would be paid in that fiscal year. By moving a portion of the costs from a future fiscal year back, Wisconsin would incur a one-time cost equal to the amount of the payment made by HEAB to

the UM and MnSCU systems around February, 2009. It is estimated that this payment would be approximately \$1.3 million. As a result, the cost of the proposed changes to the agreement to the state would be \$1.3 million paid in the 2008-09 fiscal year.

Required Statutory Changes

There is a provision included in the Assembly version of the 2007-09 budget that would modify current law governing the reciprocity agreement. The proposed changes to the law would allow the new agreement to be implemented, if the Agreement would be approved by the Committee. Technical modifications to the Assembly item would be needed to accomplish the intent of the provision.

Other Options

The proposed changes to the reciprocity agreement would accomplish a goal of maintaining the current tuition amount paid by Wisconsin residents. A different policy goal would be to reduce the cost of reciprocity to the general fund. Under this alternative, the Committee could deny the request and instead recommend that Wisconsin reciprocity students pay the higher of Minnesota or Wisconsin resident tuition. Using the same assumption used in the examples shown in Tables 2 and 3, if Wisconsin students paid the higher of Minnesota or Wisconsin resident tuition, it is estimated that Wisconsin resident students, rather than the general fund, would pay an additional \$12.1 million in tuition in 2011-12. This would advantage the general fund by \$12.1 million when compared to payments that would be made in that year under both the current Agreement and the proposed changes to the Agreement, but require Wisconsin students attending institutions in Minnesota to pay the same amount of tuition as Minnesota resident students.

If such a change had been fully implemented in 2006-07, Wisconsin reciprocity undergraduate students attending UM-Twin Cities would have paid \$7,588, or \$1,191 more than under the current Agreement. Wisconsin reciprocity undergraduate students attending UM-Duluth would have paid \$7,605, or \$1,705 more than under the current Agreement. Similarly, Wisconsin reciprocity undergraduate students attending all other Minnesota institutions would have paid \$5,160, or \$508 more than under the current Agreement.

If the Committee would choose to recommend changes to the Agreement other than those proposed by HEAB, the changes would have to be approved by MOHE and the Minnesota Board of Regents before they could take effect. It is unknown how MOHE and the Minnesota Board of Regents would respond to any changes to the proposed agreement if the Committee chose to recommend them. However, in December, 2006, MOHE proposed that Wisconsin residents pay tuition at the Minnesota resident rate.

Another option would be for the Committee to deny this request. In this case, the current agreement would remain in effect. The effect of this action of the tuition reciprocity program would depend on the resulting action of MOHE and the Minnesota Board of Regents. Negotiations could be reopened or MOHE could notify HEAB that it wishes to terminate the agreement. In that case, the program would begin four-year phase-out period during which it would operate under the 2006-

07 administrative memorandum. After that period, Wisconsin resident students attending Minnesota institutions would be charged nonresident tuition and would be treated as nonresident students for the purpose admissions. In 2006-07, nonresident tuition was \$20,810 at UM-Twin Cities and \$11,400 at Winona State.

ALTERNATIVES

1. Approve the proposed changes to the Minnesota-Wisconsin Public Higher Education Reciprocity Agreement, which would first take effect in 2008-09, and the annual administrative memorandum that applies to 2007-08.
2. Direct HEAB to reopen negotiations with the goal of establishing a reciprocity agreement that would require Wisconsin residents attending in Minnesota under reciprocity to pay the higher of Minnesota or Wisconsin resident tuition.
3. Deny the request.

Prepared by: Emily Pope