



June 10, 2013

Joint Finance Committee (JFC) Completes State Budget Work

- *Bill Moves On from JFC to Full Assembly, then Senate*
- *Further Changes Possible, But Unlikely to Affect Technical College Provisions*
- *Summary of Budget Provisions Affecting Wisconsin Technical Colleges Provided*

JFC Completes Budget Rewrite

Following an all night session across June 4th to dawn on the 5th, the Joint Finance Committee (JFC) completed its version of the state's 2013-15 budget bill, AB 40. The JFC debated and voted on hundreds of individual adjustments to the Governor's proposed budget bill over the course of almost 6 weeks. As expected, the JFC's final version was sent on to the full Assembly on a party-line 12-4 vote with Republicans in favor and Democrats opposed.

The full Assembly is expected to consider the JFC bill later this month, likely the week of June 24th. The bill then goes to the full Senate. Once an identical version passes both houses, the bill is returned to the Governor for line-item veto consideration and signing.

Further Changes?

Now that the JFC version is complete, there is plenty of speculation about whether further amendments will be required to reach a version passing both houses. Some observers see each house passing the JFC version intact. This scenario would include plenty of floor rhetoric and attempted amendments, but a final vote in each house passing the JFC budget bill "as is." In contrast, there are also plenty of observers

believing that at least a few significant changes may be made between the houses before a final bill can be passed.

The latter scenario is based on signs that some majority Republican members in both houses are concerned with some part of the JFC budget version. First, eleven Assembly Republicans wrote to their house leadership on May 30th expressing concern that they “cannot represent ... conservative principles by supporting the budget in current form.” The letter expresses concerns with provisions proposed by both the Governor and the JFC that remain in the JFC’s bill version. The Assembly is comprised of 60 Republicans and 39 Democrats. With 50 votes required to pass a bill, the significance of 11 (not 10 or fewer) members signing a letter is obvious.

At this time, it would appear that passing the JFC version is not going to be a major problem for the Assembly given the large majority (creating room for a few defections) and a good chance that some of the 11 will be willing to vote for the bill in the end.

Second, the Senate is comprised of 18 Republicans and 15 Democrats. Among the final night’s three omnibus motion packages passed in JFC (tax cuts, K-12, and medical assistance), K-12 funding and private school voucher expansion remain potentially controversial among Senate members. Just 2 Republican Senators could force changes to the bill if those changes are a “bottom line” to vote for the overall budget.

Further budget changes would not likely affect technical college provisions in the bill directly, but could have impact on the session’s tenor and momentum. Even with some Senate-driven changes, few observers see much prospect the budget will be delayed into the new biennium beginning on July 1st.

The following summary describes provisions affecting technical colleges as provided in the bill being presented to the full Assembly (ASA1 to AB 40):

Summary

AB 40 Provisions Affecting Technical Colleges

as of June 10, 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 4).

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, and will be capped when it reaches 30% of aid in 2016 (page 4).

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 6).

Capital Projects – Capital project authority remains at up to \$1.5 million without district referendum approval. The capital projects limit is both expanded (concerning matching funds for federal grants), and restricted (concerning promissory notes for certain goods and services) (page 7).

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 7).

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 8).

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 8).

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 9).

Correction Protects Districts’ Ability to Accept Gifts and Grants – A drafting error eliminating technical college authority to accept gifts and grants is fixed (page 10).

Detail

AB 40 Provisions Affecting Technical Colleges

as of June 10, 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 JFC endorsed 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 approved 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."

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 and will be capped when it reaches 30% of aid in 2016.*

Aid Increased 6% – The JFC 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.

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. While the Governor proposed a 100% shift of aid to the new formula over 6 years, the JFC capped the shift at 30%. The policy choice between a 30% and 100% shift over time could be the subject of further scrutiny when the bill returns to Governor Walker for veto review.

Performance Based Funding – 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).

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.

Capital Projects – *Capital project authority remains at up to \$1.5 million without district referendum approval. The capital projects limit 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 capital project 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.

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 are closely monitoring this provision as the bill is drafted to assess its potential impact. We have also been working with bond counsel and financial services leaders to assess the provision’s scope.

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 the JFC 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.

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.

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....”

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. Currently, a veteran must have enlisted in military service as a Wisconsin resident to qualify for the remission. Under the bill, 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.

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.

(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.