

August 3, 2006

University of Wisconsin System
Board of Regents
Executive Senior Vice President Donald Mash
1730 Van Hise Hall
1220 Linden Drive
Madison, WI 53706

Dear Vice President Mash and Board of Regents:

The Waukesha County Action Network has continued to watch the progress of the future of the University of Wisconsin Waukesha campus. In doing so our education committee has compiled additional background information for you as you work towards a prudent solution when addressing the educational needs of Waukesha County and Southeastern Wisconsin.

This third report deals with the fiscal impact of the proposed merger in comparison to the "university center" concept favored by U.W. system staff.

The University Center concept proposed for UW Waukesha by the UW system staff fails to answer the need identified, and unfairly shifts additional costs to the local property taxpayer. Wisconsin ranks #1 among Midwestern states in the percentage of higher education costs paid by local government property taxes. Wisconsin property taxes are already among the highest in the country (11th per capita). The facts, we believe, indicate a merger will more fully address the needs of Southeastern Wisconsin while not shifting additional tax burden to Waukesha County taxpayers.

The merger of U.W. Waukesha with U.W. Milwaukee was first proposed nearly two years ago. A bill to move forward with the merger was passed by the legislature nearly one year ago. Without any publication of facts or data to support the University staff's rejection of the merger proposal, one is left to wonder how it can justify its position. With the current need already identified, and UW Milwaukee's declared commitment to establish a campus and programs in Waukesha County which answer the needs of the public and business in this Southeastern Wisconsin region, it is time for action on the merger.

Based on the facts presented WCAN continues to believe that the proposed merger between U.W. Milwaukee and U.W. Waukesha best meets the needs of Waukesha County and the Southeastern Region. It expands course offerings, including the badly needed engineering courses. It reduces the administrative costs, including the cost of the U.W. Waukesha Dean's office and the new director of the U.W. center. It simplifies enrollment for students. It spreads the tax impact more equitably, similar to the fiscal impact in other surrounding Midwestern states. And, it avoids the shifting of cost to the local property tax payer, who already bears the highest proportion of higher education costs in the Midwest.

We look forward to attending the August 17, 2006 Board of Regents education committee meeting. In the mean time please feel free to contact me with any further questions.

Sincerely,

Margaret Farrow
Board President

University of Wisconsin Board of Regents
Study of U.W. Milwaukee-U.W. Waukesha Merger
Waukesha County Action Network
Supplemental Report No. 3
August 3, 2006

Summer 2006 Update

Executive Summary of Third Report

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Summary of Earlier Presentations

WCAN again thanks the Board of Regents for requesting WCAN's input.

Nearly one year ago, Governor Jim Doyle vetoed the language in the State of Wisconsin budget calling for a merger of U.W. Waukesha into U.W. Milwaukee. The governor directed the University of Wisconsin Regents to study the higher education needs of metro Milwaukee and the proposed merger. President Kevin Reilly appointed a task force to identify ways to (1) increase the number of baccalaureate degree holders, while maintaining access and affordability; (2) increase graduate programs; and (3) create a research presence on the U.W.-Waukesha campus.

The Waukesha County Action Network submitted a detailed report to the Regents on January 30th, 2006 and a supplemental second report on June 8th, 2006. Bronson Haase, the chair of the WCAN Education Committee testified before the Regents Education Committee on March 9th and Margaret Farrow, the chair of WCAN testified before the same committee on June 8, 2006.

At the very first meeting called by University staff with WCAN, University system staff presented the “university center concept” as the University system’s solution to higher education needs in Waukesha County, dismissing the proposed merger without supporting fact or data. Throughout the study period, the University system staff has advocated exclusively this "university center" concept for the U.W. Waukesha campus. That concept as we understand it, would add additional administrative staff to the university system and local campus; while failing to provide critically needed on-site in-person engineering courses, teachers, researchers and laboratory facilities, as would be provided we are informed by UW Milwaukee in the event of a merger. We are further informed by our research that the very few examples of a “university center” currently operating, have limited if any engineering facilities and advanced course work, and have higher dropout rates due to the complexity of student enrollment requirements. The University system staff failed to mention such inconvenient facts in their presentation to WCAN.

The public is still awaiting information from the University system’s staff requested by WCAN concerning the task force’s charge and its study. Despite repeated requests from WCAN for detailed information on “university center” vs merger costs and cost comparisons, completion and drop-out rates, and the like, no such information has been provided to WCAN or to the public beyond the staff’s summary conclusions.

Unlike most public agencies, the university system website contains no additional information on the meetings of the study committee if any, its research results if any, or its draft reports or cost or budget comparisons.

The initial WCAN report discussed a survey of business workforce needs in Waukesha County. The second report focused on the economic development impact on the Southeastern Wisconsin region. In addition, WCAN along with the Milwaukee Business Journal hosted a public forum in May on the proposed merger. Following that forum, the Business Journal conducted an on-line survey of the public's view of the proposed merger. Although the survey was not a scientific sampling, 66% of the respondents favored the merger. This third report deals with the fiscal impact of the proposed merger in comparison to the "university center" concept favored by U.W. system staff.

The U.W. system staff in its June 8th report recommended two steps which WCAN believes will have significant negative financial impact. Although this recommendation was originally scheduled for action by the Education Committee of the Board of Regents, the report was withdrawn from the agenda. It was not presented for approval nor was any action taken by the Education Committee of the Board of Regents. Despite the lack of Regent action, and without disclosure of information research examined by the University system’s staff, the U.W. staff recommendation was to hire a "director to administer a university center approach effective July 1, 2006." This action,

along with the earlier recruitment of a new UW Waukesha Dean after the legislature enacted the merger proposal, appears to be a hurried effort to preserve the status quo within the University system and its current campuses. The recommendation of staff we believe is simply a waste of taxpayer money, and a disregard for on-going public discussion of the administrative savings that could be achieved through the merger proposal.

The U.W. staff also recommended that Waukesha County at local taxpayer expense pursue the construction of a building on the U.W.-Waukesha campus. This recommendation had not previously been discussed with Waukesha County public officials or with local business leaders. This recommendation for county construction of an additional building at U.W. Waukesha further shifts costs to the local property taxpayers, and the U.W. staff recommendation was publicly rejected by Waukesha County officials after the surprise introduction of the building proposal at the June, 2006 Regents meeting.

Although U.W. staff presents itself to the Board of Regents as working cooperatively with regional leaders, this is form over substance. Calling a meeting with WCAN prior to the March meeting of the Board of Regents in order to announce to WCAN that the University staff had concluded that it would recommend a “university center” and reject a merger simply isn’t working with regional leaders, it was a presentation of a conclusion to those leaders. The recent surprise introduction of the building proposal and the unilateral move to hire a "university center" director reflects a continuing arrogance and disdain for genuine public input and local concerns.

Fiscal Impact and Comparisons of University Center Proposal.

Sources of Wisconsin Higher Education Funding

The public financing of four year University of Wisconsin campuses comes entirely from state and federal tax dollars. Communities hosting four year campuses receive a payment in lieu of property taxes to cover municipal services.

The two year University of Wisconsin colleges, including U.W. Waukesha, are a mixture of county and state financial support. The host county provides land, buildings, and maintenance for the campus. Waukesha County's annual cost in 2005 for UW-Waukesha expenditures totaled \$1,546,665.

Although no details were provided in the June, 2006 U.W. staff report to the Board of Regents, it is estimated that the county cost of the new staff proposed building would exceed \$10 million. The state of Wisconsin provides other instructional and operating costs. The host county pays the entire building and maintenance cost for the two year

college located in that county despite the fact that students attend the college from across the state of Wisconsin.

The technical college system is also a mixture of funding from the technical college district and from the state of Wisconsin. Unlike the two year U.W. colleges, the property tax impact of the cost of the technical college is spread across the entire technical college district, not simply the host county.

Comparisons with Other Midwestern States.

The Wisconsin ranking for total state and local per capita spending on higher education is 13th among the 50 states based on 2004 data, the last year that local spending comparison information is available. . This is the highest ranking among the Midwestern states as shown in Table 1. This 50 state comparison is compiled annually by the University of Illinois and published in its "Grapevine Report."

Table 1. State and Local Expenditures for Higher Education 2004

	Total State and Local Expenditures (000)	Local Expenditures (000)	Ranking Per Capita Total \$\$\$
Wisconsin	\$1,453,396	\$338,584	13 th
Iowa	\$779,639	\$42,016	14 th
Illinois	\$3,312,800	\$611,641	15 th
Minnesota	\$1,287,455	none	19 th
Michigan	\$2,462,293	\$478,000	22 nd

Despite the recent state budget shortfalls, Wisconsin continues to spend generously for higher education. The 2004 ranking for total state and local higher education per capita spending is the same ranking as a decade earlier in 1994. However, the balance of spending between state and local levels has changed.

A comparison of the local government contribution to the total higher education spending clearly shows that Wisconsin already disproportionately shifts higher education costs to the property tax and to local governments. Wisconsin is the highest ranking Midwestern state in combined state and local higher education spending, and Wisconsin shifts a greater percentage of higher education costs to the property tax and to local government

than any other Midwestern state. The percentage distribution of spending in Table 2 is also compiled from the data in the "Grapevine Report" of the University of Illinois.

Table 2

Percentage of total state and local higher education spending from local government

Wisconsin	23.3%
Iowa	5.3%
Illinois	18.4%
Minnesota	0
Michigan	19.4%

And that percentage of higher education costs shifted to local governments and the property tax has been gradually increasing. In 1994-95, the percentage of total public higher education costs covered by local government was 20.9%. By 2004, the percentage of state and local higher education costs borne by local governments had increased to 23.3%. That increase costs state property taxpayers an additional \$33 million annually.

The comparison of Minnesota and Wisconsin higher education spending is instructive. Minnesota has a comprehensive higher education system funded entirely by state revenues. There is no higher education property tax burden in Minnesota. Beyond the gain in tax equity, the Minnesota comprehensive system apparently provides better alignment with employer workforce needs and job opportunities.

Wisconsin spends more per capita on post high school higher education than Minnesota. But Minnesota achieves a higher per capita income and a higher percentage of college graduates in the workforce.

New Research on the Importance of Patent Activity

The earlier WCAN reports focused on local workforce needs to help grow good paying jobs in Waukesha County and Southeast Wisconsin. One important finding of that early research was Waukesha County's ranking as the #1 county in Wisconsin for the production of patents. Unlike Dane County which receives substantial state tax support for its academic research and the related production of patents flowing from that academic research, the Waukesha County patent activity is entirely supported by private sector investment.

Waukesha County is a high technology manufacturing county in a manufacturing region of a manufacturing state. To continue that success, however, requires an educated workforce as WCAN learned from its meeting with local businesses. In particular, undergraduate and graduate engineering programs are critically needed. A University of Wisconsin Extension study in April, 2006 reached the same conclusion regarding a shortage of engineers in Waukesha County. The merger with UW Milwaukee meets this critical need for engineers. The "university center" concept advocated by UW system staff fails to meet that need.

Although the earlier WCAN reports on the proposed merger cited only comments from local businesses and a common sense connection between patent activity, high tech manufacturing, and economic growth that connection has now been confirmed in two U.S. Federal Reserve Reports. The first study is a report by the Federal Reserve Bank of Cleveland published in June, 2006. The paper is entitled "State Growth Empirics: The Long-Run Determinants of State Income Growth." It found that state patent activity was the most important determinant of long run economic growth. The same conclusion about the importance of patent activity for the economic was also noted in the Chicago Federal Reserve letter of August, 2006.

If patent activity is a critical factor in growing good paying jobs, then the alignment of higher education with private sector patent activity is an important public sector strategy. That public sector education support providing leverage on private sector research is the best investment of taxpayer dollars. Unlike education spending which produces academic research with the hope that private sector employers will find uses for the research findings, Waukesha already has a strong private sector. The missing link is strong public sector higher education investment.

Wisconsin has a well documented "brain drain" of college graduates to other states. The state is also below the national average in the percentage of the workforce with a college degree. At the same time private sector employers have a shortage of critical skills, particularly in engineering and some health care professions. The University of Wisconsin system is neither matching its courses with private sector needs nor is it making the geographic connection between campus locations and job opportunities. This is true not only for traditional college age students, but also for older, non-traditional students. The U.W. system acknowledges a drop of 10,000 non traditional students per year over the past decade.

This mismatch between workforce needs and the U.W. system is particularly true in Southeast Wisconsin and in the growing suburban employment market in Waukesha County. The recognition of the growing suburban market is not simply local boosterism by the Waukesha Action Network. In July, 2006 Money Magazine released its annual ranking of the Best Places to Live. Waukesha was Wisconsin's top ranked community by Money Magazine.

Waukesha County is Wisconsin's top county for patent activity. Waukesha is Wisconsin's top ranked community as a Best Place to Live. Those two rankings will, we believe, naturally attract additional families and businesses. One would think that higher education public policy, and a public University would build on that private sector success by providing needed undergraduate and graduate education opportunities along with a research support for the private sector growth.

The merger of U.W. Waukesha with U.W. Milwaukee was first proposed nearly two years ago. A bill to move forward with the merger was passed by the legislature nearly one year ago. Without any publication of facts or data to support the University staff's rejection of the merger proposal, one is left to wonder how it can justify its position. With the current need already identified, and UW Milwaukee's declared commitment to establish a campus and programs in Waukesha County which answer the needs of the public and business in this Southeastern Wisconsin region, it is time for action on the merger.

Conclusion

Based on the facts presented WCAN continues to believe that the proposed merger between U.W. Milwaukee and U.W. Waukesha best meets the needs of Waukesha County and the Southeastern Region. It expands course offerings, including the badly needed engineering courses. It reduces the administrative costs, including the cost of the U.W. Waukesha Dean's office and the new director of the U.W. center. It simplifies enrollment for students. It spreads the tax impact more equitably, similar to the fiscal impact in other surrounding Midwestern states. And, it avoids the shifting of cost to the local property tax payer, who already bears the highest proportion of higher education costs in the Midwest.