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On the
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Fetzer Initiative on Economic Opportunity Policy Brief

On the allocation of resources between UW-Madison and UWM

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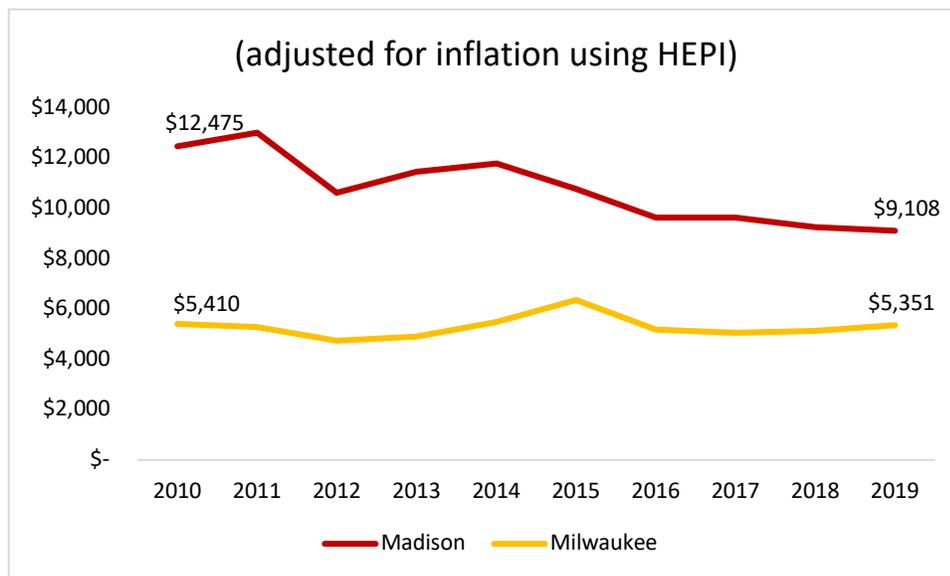
Executive Summary: Should we reallocate resources away from UW-Madison to UW-Milwaukee (UWM) to equalize per student state appropriations? This report brings the best available evidence to bear and finds no basis for such a reallocation.

1. **The Formula:** There have been attempts at revising the formula used to allocate resources. A few years ago, the allocation of incremental resources was revisited with a performance-based formula requested by the Joint Finance Committee, voted by Regents, and agreed upon by Chancellors. The result - UW-Madison's metrics rose while UWM's metrics fell. This shows that an agreed upon formula indicated that UW-Madison was (grossly) underfunded relative to UWM.
2. **Peer Comparisons:** Both UW-Madison and UWM receive less in state appropriations and tuition & fees relative to their peers. Peer comparisons show that UW-Madison is (slightly) more underfunded relative to peers than is UWM.
3. **Mission:** UW-Madison receive more in state appropriations per student primarily due to differences in mission. Take the School of Medicine and Public Health. This college has an important mission consistent with the *Wisconsin Idea* with no counterpart in any other System school. The same could be said of other Schools. UW-Madison recently absorbed UW-Extension. The analysis estimates what would happen if we were to align the missions of the two universities to be closer to one another. The counterfactuals lead to a striking conclusion - virtually all the differences in state appropriations per student between UW-Madison and UWM can be accounted for by differences in their missions.
4. **R&D:** UW-Madison generates 8 times as much in Federal R&D dollars for each dollar of state appropriations relative to UWM. And UW-Madison significantly overperforms peers (60%) relative to UWM (10%).
5. **Grad Outcomes:** UW-Madison graduates earn \$6,800-\$12,240 more every year than UWM graduates. The value added of UW-Madison (as measured by increased expected earnings of graduates) is significantly more than UWM.
6. **Completion Rates:** While UWM enrolls more Pell grant recipients, the six-year graduation rate is around 40% compared to 80% at UW-Madison.
7. **Access:** Finally, for low-income students (less than \$30K income), UW-Madison's net price is 55% below its peers while UWM's net price is 18% above its peers.

Many want to see resources in higher education institutions allocated more like they are at top performing organizations in the business world where leaders invest capital in the projects that are delivering the most value. Reallocation away from UW-Madison is in direct opposition to that concept especially at a time when it is the one campus with excess demand and is prevented from raising tuition or borrowing to fund projects.

During the June UW System Board of Regents meeting, some Regents called for a greater allocation of resources to UW-Milwaukee (UWM). There was subsequent discussion among the Regents and in the popular press with some calling for revisiting the formula used to allocate resources across UW System schools. Given no additional GPR (general program revenue) dollars allocated to the UW System for the 21-23 biennium, this investment needs to come from somewhere else. It is tempting to consider a reallocation of resources away from UW-Madison to UW-Milwaukee. Both schools have an R1 designation (R1 universities meet benchmarks in research activity and expenditures as measured by the Carnegie Classification of Institutions of Higher Education) and there is a perception that the differential allocation per student FTE (full time equivalent) between UW-Madison and UWM is without basis. This report examines the equality, efficiency, and market arguments behind such a potential reallocation. We begin with data on state appropriations per student FTE.

Figure 1: State Appropriations per student FTE



Source: IPEDS Finance Data.

Figure 1 shows that state appropriations per student FTE have fallen dramatically at UW-Madison (by over 25%) in the last decade and remained flat in UWM. For all the talk about the formula being unchanged, the reality is that if one were to adjust for demographics (student FTEs), a significant redistribution away from UW-Madison has already occurred even without changes to the formula. Given the changes destined due to demographic changes, this raises the question - Are further reallocations warranted?

1. The Allocation Formula

A commonly held misconception is that the allocation of state appropriations to the various UW System schools has not changed over the years. There is frequent talk of Madison receiving (approximately) 40% of GPR/Fee base and this not having changed over the decades. This is not entirely accurate. UW Regents have looked at this formula before at least as recently as 2013. Here is a link to the current policy in place:

<https://www.wisconsin.edu/regents/policies/policy-on-the-annual-distribution-of-tuition-and-fee-revenue-and-state-general-purpose-revenue/>

The 2017-19 state budget directed the UW System Board of Regents to establish an Outcomes Based Formula (OBF) with the purpose of allocating \$26.25 million in FY19. In the 2019-21 budget cycle, \$45 million was allocated based on OBF measures.

The OBF formula was developed in 2017 by a UW System working group. The group also consulted with national experts on outcomes-based funding to develop a model consistent with national best practices. The UW Board of Regents approved the formula at its December 7, 2017 meeting. It was subsequently presented in a meeting with the Joint Finance Committee (JFC). As specified in the statute, the outcomes-based funding formula uses 16 measures, four each within goals for Access, Success, Workforce, and Efficiency. In the OBF formula, each of the four categories is assigned a weight of 25%. Within each category, institutions weight each of the individual measures to reflect institutional mission. Overall performance on the OBF measures is driven by change in the measures as weighted by institutional mission.

The OBF formula starts with each institution's beginning appropriation share, which is its proportion of base GPR/fee funding. The beginning appropriation share is a major factor in the OBF allocation. In FY20, UW-Madison had the largest beginning appropriation share (41.4%). An institution's beginning appropriation share is modified by its performance on the outcomes-based funding measures. UW-Madison had the second largest increase in outcomes (UW-Platteville had the largest increase). UWM had the second largest decrease in outcomes (UW-Stevens Point had the largest decrease). Consequently, **in FY20, performance on OBF measures had the second largest impact on UW-Madison's appropriation share, increasing it from 41.4% to 41.9%. UW-Milwaukee had the next largest, decreasing from 15.5% to 15.2%.**

The UW System Board of Regents adopted a performance-based allocation system which represents a very reasonable framework within which to allocate incremental dollars. While it is always healthy for an institution to reassess allocation decisions, the

JFC-suggested and Regent-approved metrics resulted (at the margin) in a greater allocation for UW-Madison and a smaller allocation for UWM. This suggests that revisiting the formula with an outcomes-based metric can only be beneficial for UW-Madison and detrimental to UWM unless one moves away from rewarding performance. It is useful to take a step back and ask the question – Why does Madison (or any flagship, for that matter) receive greater per student state appropriation?

2. Differences in Mission

UW-Madison has a unique mission. UW-Madison is the only university in the System to have a School of Medicine and Public Health, a Law School, a School of Veterinary Medicine, and a School of Pharmacy. More recently, UW-Madison also absorbed UW Extension. UWM has Architecture and Freshwater Sciences, which no other university in the System has. Furthermore, UW-Madison is a land grant institution with the College of Agricultural and Life Sciences (CALs) playing a very important role, though it bears mention that UW Platteville and UW River Falls have Schools of Agriculture. Removing GPR allocated to SMPH, CALs, Law, Vet Med, and Pharmacy will lead to much lower per student state appropriation and make the comparison between UWM and UW-Madison more accurate, but the question is - How much?

Here is a radical idea, what if we changed UW-Madison's mission to make it more comparable to UWM? Specifically, what if it were not a land grant institution and consequently did not have the College of Agricultural and Life Sciences? What if UW-Madison did not have a School of Medicine and Public Health? Hypothetically, how much less would state appropriations be without these two important colleges as well as Law, Veterinary Medicine, and Pharmacy? This is not a straightforward calculation to make but one that we need to confront if we are to be serious about the optimal mix of funding between UWM and UW-Madison.

To make some progress on this counterfactual, note as a starting point that UW-Madison allocates Fund 101 (which comprises of state appropriations and student tuition revenues) across colleges. Assume that we estimate the equation:

$$F_t = a + b \cdot GPR_t + c \cdot NonGPR_t + error_t,$$

where the subscript t indicates academic year, F represents the Fund 101 that goes to CALs, SMPH, Law, Vet Med, and Pharmacy, GPR is the general program revenue that UW-Madison receives from the state, $NonGPR$ is the non GPR (mainly undergraduate tuition) revenue that UW-Madison uses for Fund 101, and $error_t$ is the approximation error.

With this approximation, b is the fraction of each additional dollar of GPR revenue that goes to CALS, SMPH, Law, Vet Med, and Pharmacy. Assuming this marginal contribution is equal to the average, b is also the fraction of total GPR that goes to CALS, SMPH, Law, Vet Med, and Pharmacy.

Using data from 2012 to 2019, we find b is 28.5%. That is, 28.5% of the state GPR to UW-Madison are used to fund CALS, SMPH, Law, Vet Med, and Pharmacy. In FY20 UW-Madison received 37.3% of the adjusted GPR/Fee base with UW Extension receiving 4.5%. Eliminating UW Extension implies that per student FTE drops to \$8,127. Eliminating these five colleges implies a reduction of 28.5% in state appropriations. Consequently, **UW-Madison per student FTE appropriations falls to \$5,811.**

The 28.5% estimate of GPR that goes to these five colleges understates comparisons between UW-Madison and UWM since eliminating these five colleges would also reduce administrative expenditures on these programs. And this calculation completely sidesteps that issue.

To summarize, most of the current differential allocation between UWM and UW-Madison can be accounted for by differences in the missions of these two important Universities with no weight whatsoever placed on differences in outcomes of the two institutions. UW-Madison is a land grant institution. Furthermore, the School of Medicine and Public Health is also unique to UW-Madison and remains committed to improving the health of Wisconsin. Adjusting for the differences in mission considerably narrows the per student FTE gaps between these institutions.² Given that differences in missions can go a long way towards explaining the gap between state appropriations per FTE at UW-Madison and UWM, it is instructive to compare their performance relative to peers. Perhaps these institutions are underperforming relative to peers?

² It is worthwhile pointing out that there are several other differences between UWM and UW-Madison even within colleges. This calculation does not adjust for the fact that the array of degree programs offered in the College of Letters & Science, College of Engineering, or the School of Business at UW-Madison is different from their counterparts at UWM. It also does not adjust for the fact that UWM has two colleges that are unique – Architecture and Freshwater Sciences. These colleges account for roughly 2% of UWM’s expenditures.

3. Peer Comparisons

One way to gauge whether a university receives too much or too little is to compare with peers. Table 1 gives an indication of what state appropriations and tuition and fees per student FTE look like for UW-Madison and UWM.

FY 2018-19	UW-Madison	UWM
State Appropriations plus Tuition and Fees per student FTE	\$25,008	\$14,364
Peer median amount	\$27,239	\$15,122
<i>% difference from peer median</i>	-8.19%	-5.01%

Table 1: State Appropriations and Tuition and Fees per Student FTE Peer Comparison

Source: IPEDS Finance Data.

Note: Peer comparison requires use of IPEDS Finance Data, which has different data definitions and uses revenues rather than budget. Peers for UW-Madison are 22 IPEDS peers with medical programs; UW-Milwaukee peers are 7 IPEDS peers without medical programs.

UW-Madison state appropriations plus Tuition and Fees per student FTE is lower relative to peers than is UWM's relative to its peers. Again, we reach the same conclusion when comparing peers – UW-Madison is underfunded relative to UWM.

The IPEDS peers are from across the country, e.g., University of Massachusetts Boston for MKE and Stony Brook University for UW-Madison. As another and arguably better comparison, we limit the peers to comparable universities in the Midwest: Cleveland State University and the University of Missouri-St. Louis for UWM, and the University of Michigan Ann Arbor and the University of Minnesota Twin Cities for UW-Madison. In this case, state appropriations per student FTE for UW-Madison is 9.4% below its peers, compared with 8.57% for UWM. Including the revenue from tuition and fees would lead to a much larger difference, where UW-Madison is 19.12% below its peers, compared with 9.08% for UWM. To reiterate, peer comparisons suggest that, if anything, UW-Madison is underfunded relative to peers relative to UWM.

Both UW-Madison and UWM are R1 institutions. How much in R&D expenditures do they bring in from the Federal government?

4. a) Federal R&D

What is the impact of state appropriations going to UWM and UW-Madison? To gain some insight on the productivity or impact of state GPR to each of these institutions, we present below a “multiplier” - federal research dollars relative to state appropriations. After all, one important metric for an R1 university is R&D expenditures which, in turn, spurs statewide economic activity. According to the National Science Foundation, in FY2019, the federally financed higher education R&D expenditures were nearly \$609 million for UW-Madison and \$23 million for UWM. Dividing these numbers by the amount of state appropriations (from IPEDS for AY18-19), we find UW-Madison generated \$1.6 for each dollar of state appropriations, compared to 20 cents for UWM.

UW-Madison generates more than 8 times as much in federal research and development dollars compared to UWM for each dollar of state appropriations.

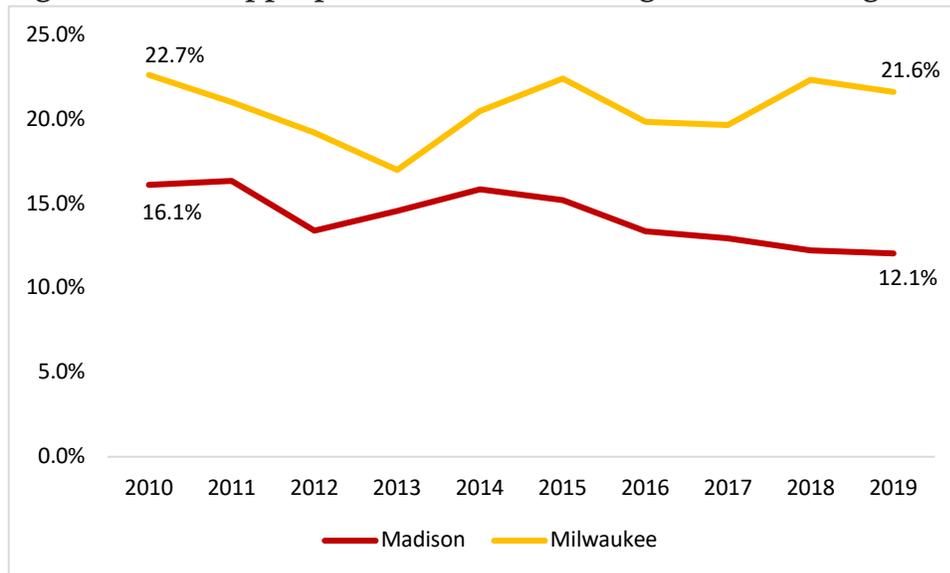
We could go further and ask how do UW-Madison and UWM stack up against their peers? Federal R&D expenditures at UW-Madison are 60% higher than peer institutions. By contrast, Federal R&D expenditures at UWM are 10% higher than peers. Again, while UW-Madison could do more, it significantly outpaces its peers when it comes to federal R&D expenditures relative to UWM.

b) Overall Budget

How much does each dollar of state appropriations translate into overall budgets? Productivity can be defined as the reciprocal of state appropriations relative to overall budget. Despite UW-Madison’s increase in enrollment in the last decade, UW-Madison’s state appropriations relative to total budget has been declining secularly. In contrast, UWM’s state appropriations relative to budget have stayed flat. The main reason is that UW-Madison continues to be entrepreneurial in generating other sources of revenue (federal, donors, corporate support, licensing and patenting, etc.).

For every dollar of state appropriation, UW-Madison generates \$8.26 in total budget while UWM generates \$4.63 in total budget.

Figure 2: State Appropriations as a Percentage of Total Budget



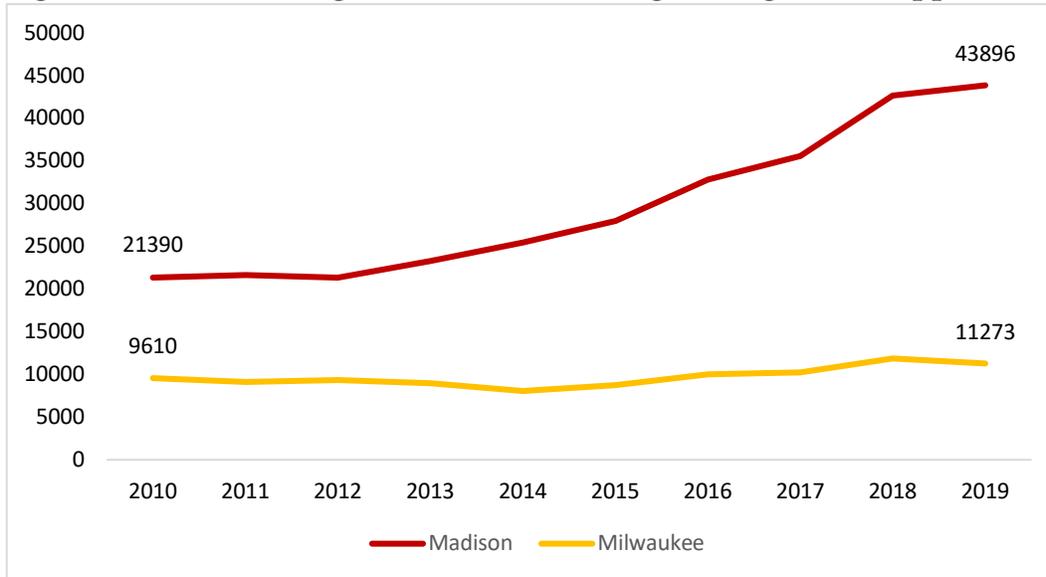
Some caution needs to be exercised here. The multiples presented here are average effects and not marginal effects – ideally, we would want to estimate the impact of another dollar in state appropriations which is a much more difficult object to measure.

UW-Madison has benefitted from decades of taxpayer support. It would not be the great institution it is today without persistent investments over the last 173 years. This raises the question - If it is more productive, why not reallocate away from UW-Madison? There are at least two reasons why this is ill-advised. First, the last decade has demonstrated that reductions in investment do affect UW-Madison’s ability to raise federal research dollars. UW-Madison no longer ranks among the top five research institutions in terms of federal support in large part due to investments not keeping pace with peers. Second, moving resources away from UW-Madison will also mean that UW-Madison is unable to expand high demand majors such as computer science, chemistry, business, and engineering at a fast enough pace to meet student demand. The next section looks at the demand for the undergraduate major at both institutions.

5. Demand for the Undergraduate Major

Undergraduate applications more than doubled over the last decade at UW-Madison while they increased 20% at UWM.

Figure 3: First-time, degree/certificate seeking undergraduate applications



Source: IPEDS

The upshot is that if UW-Madison wanted to expand the undergraduate student population, it could easily enroll another 2000 freshmen. Further expansion of the in-state student body will have a detrimental ripple effect on other UW System campuses.

6. Outcomes of Graduates

What is the value added of each of these institutions in terms of outcomes for their graduates? More specifically, what are the differences in salaries of UWM vs. UW-Madison graduates? Measuring the causal effect of a university on student earnings is no easy task. Students entering UW-Madison have better high school preparedness and performance. Consequently, it should come as no surprise that their graduates experience better post graduate outcomes. A serious calculation will adjust for this “ability bias.” One recent attempt is Dillon and Smith, 2020, *Journal of Human Resources*. They construct an index based on the first principal component of four proxies for college quality. Quoting them, “... our index combines the mean SAT or ACT score of entering students, the percent of applicants rejected, the average salary of all faculty engaged in instruction, and the undergraduate faculty-to-student ratio.”

They then create the student-weighted college quality distribution based on the index. **UW-Madison is at the 85th percentile of that distribution, while UWM is at the 17th percentile of that same distribution.**

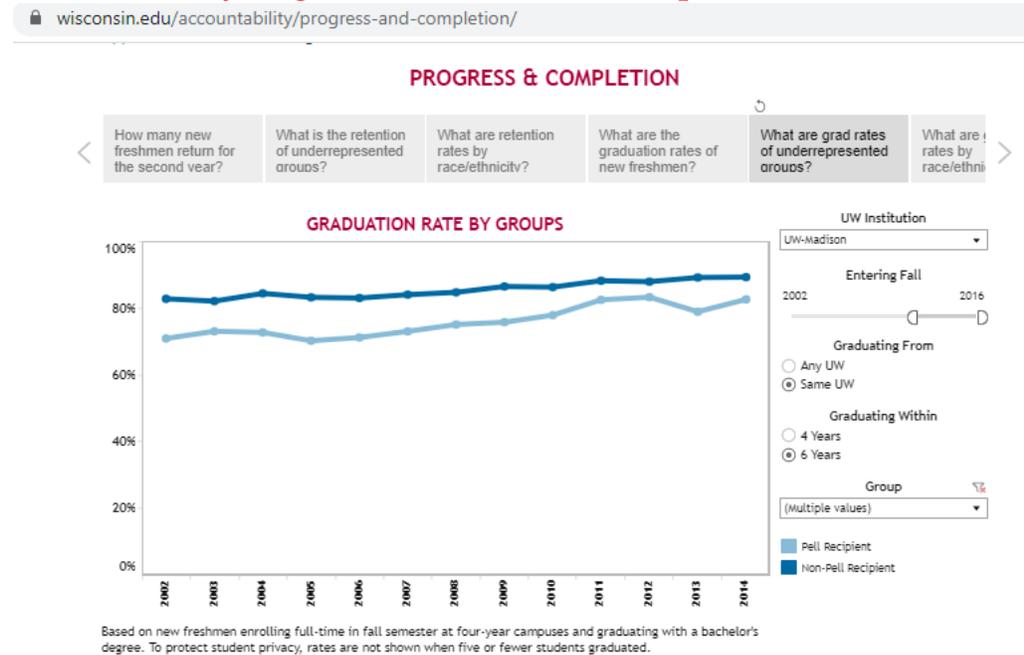
Their estimates suggest that a 10 percentile increase in college quality leads to a \$1000-\$1800 (depending on student ability) increase in annual earnings measured 10-11 years after starting college. Extrapolating this to the difference in quality (we should exercise some caution since the effects concern marginal changes, but these two schools are at the opposite ends of the quality distribution) between UW-Madison and UW-Milwaukee (68 percentiles), results in a difference in annual earnings of \$6,800-\$12,240. This estimate gives us a sense of the range of causal earnings differences (controlling for ability) between an average student attending UW-Madison and UWM.

Consistent with the literature, the returns to attending a flagship campus are large and UW-Madison is no exception. It is worthwhile emphasizing that the point is not that UW-Madison graduates earn more, which is not surprising given their higher achievement and greater high school preparedness. The value added of UW-Madison (as measured by increased expected earnings of graduates) is significantly more than that of UWM. The bottom line is that the rate of return to attending UW-Madison far exceeds the return to attending UWM.

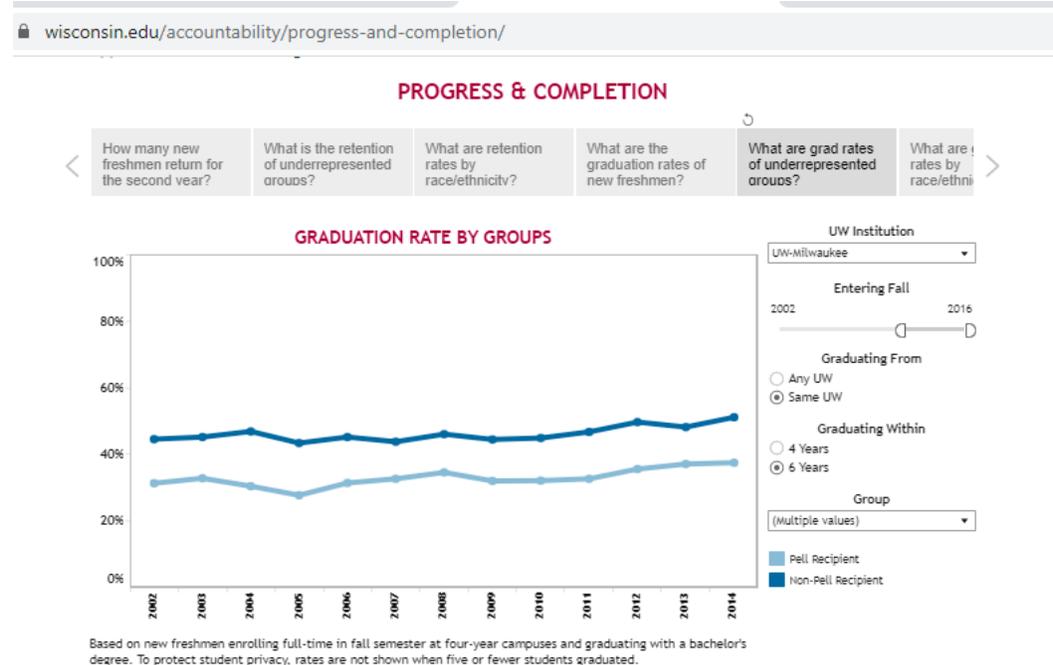
7. Performance of Pell Grant Recipients

A Pell Grant is a federal subsidy awarded to students for post-secondary education. Pell Grants are awarded based on financial need and do not have to be repaid except in rare instances. While UW-Madison enrolls fewer Pell grant recipients than UWM, the six-year graduation rates are substantially higher.

- a. **The six-year graduation rate of Pell recipients is around 80% at UW-Madison.**



- b. **The six-year graduation rate of Pell recipients is around 40% at UWM.**



8. Access

Perhaps most important, given the UW Regents discussion on the topic in their June meeting, is the question - How do UW-Madison and UWM compare relative to peers in terms of access? For each university in each academic year, IPEDS reports the average net price for full-time, first-time degree/certificate-seeking undergraduates paying the in-state or in-district tuition rate who were awarded title IV federal student aid by income level. Average net price is generated by subtracting the average amount of federal, state, or local government, or institutional grant and scholarship aid from the total cost of attendance. Total cost of attendance is the sum of published tuition and required fees (lower of in-district or in-state), books and supplies, and the weighted average room and board and other expenses.

To provide institutions a context for examining the data they submitted, IPEDS creates a data feedback report for each institution in each year, where each institution is allowed to choose a list of other institutions as its custom comparison group. We define this custom comparison group as the peers.

Income Level	0-30,000	48,001-75,000	75,001-110,000	All
UW-Madison	4367	13227	21860	16103
Median of Peers	9700	14286	20715	16232.5
% Difference from Median of Peers	-55	-7	9	-1
UWM	13222	17881	20945	14822
Median of Peers	11198	15145	17290	13481
% Difference from Median of Peers	18	18	21	10
MSN - MKE	-8855	-4654	915	1281

Table 2: Average net price of full-time, first-time degree/certificate seeking undergraduate students paying in-state tuition who were awarded Title IV federal financial aid 2018-19.

Source: IPEDS

Using data for 2018-19 AY, we find that, for students with family income below \$75K, the net price for UW-Madison is much lower than both the median of its peers and UWM. This difference is largest for students with the lowest income (\$0-\$30K), where the net price for UW-Madison is only \$4,367 and more than \$8,800 below UWM. The results on access are rather striking. **The net price at UW-Madison is 55% below its peers while the net price at UWM for low-income students is 18% higher than peers.** One reason to reallocate away from UW-Madison is if it had been a bad player when it comes to making the flagship accessible. The evidence suggests that UW-Madison has done an admirable job when it comes to access, especially when compared to peer institutions. Punishing UW-Madison for all of its great initiatives, such as Bucky's Tuition Promise that make it accessible, sends the wrong message and creates perverse incentives.

Conclusion: In an era where support and funding for higher education has been on the decline, the UW System, like many other university systems, is solving a rather difficult allocation problem with several of the UW System schools making the case for more funding. The past budget cycle has led some to take a critical look at the allocation of resources across UW System schools. In the absence of any additional state appropriations in the form of GPR to the UW System, it is tempting to look at differences in per student FTE allocation of GPR between UW-Madison and UWM with a view towards equalizing them. This report brings the best available evidence to bear on these issues. There are several key conclusions.

- 1. The Formula:** Contrary to popular opinion, there have been attempts at revising the formula, at the margin. A few years ago, the allocation of incremental resources was revisited with a performance-based formula requested by JFC, voted upon by the UW System Regents, and agreed upon by Chancellors. The result was that UW-Madison's metrics rose while UWM's metrics fell. If anything, this demonstrates that even an agreed upon formula suggested that UW-Madison was (grossly) underfunded relative to UWM.
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- 3. Mission:** Why do flagship campuses receive more? This is primarily due to differences in mission. There are several schools and colleges at UW-Madison offering services with no counterparts elsewhere. Take the School of Medicine and Public Health. This college has an important mission consistent with the *Wisconsin Idea* with no counterpart in any other System school. The same could be said of the School of Veterinary Medicine, Pharmacy, and the Law School. UW-Madison recently absorbed UW-Extension. The analysis estimates what would happen if we were to align the missions of the two universities to be closer to one another. The counterfactuals lead to a striking conclusion - virtually all the differences in state appropriations per student FTE between UW-Madison and UWM can be accounted for by differences in their missions.
- 4. R&D:** UW-Madison generates 8 times as much in Federal R&D dollars for each dollar of state appropriations relative to UWM. And UW-Madison significantly overperforms peers (60%) relative to UWM (10%).
- 5. Grad Outcomes:** Higher quality universities generate better outcomes for their students. Empirical evidence suggests that UW-Madison graduates earn \$6,800-\$12,240 more every year than UWM graduates. To be clear, the point is not that UW-Madison graduates earn more, which is not surprising given their higher achievement in high school and greater pre-college preparedness. The value

added of UW-Madison (as measured by increased expected earnings of graduates) is significantly more than that of UWM.

6. **Completion Rates:** While UWM enrolls more Pell grant recipients, the six-year graduation rate is around 40% compared to 80% at UW-Madison.
7. **Access:** Finally, for low-income students (less than \$30K income), UW-Madison's net price is 55% below its peers while UWM's net price is 18% above its peers.

Both UWM and UW-Madison serve important roles. The evidence suggests that both schools are underfunded relative to their peers. This report takes a critical look at the allocation of resources by comparing both schools relative to their peer institutions. Perhaps UW-Madison receives additional funding without any basis. Perhaps UW-Madison does not pull its weight when it comes to R&D funding. Perhaps UW-Madison is not accessible. Perhaps UW-Madison does not add sufficient value to graduates in terms of future earnings. This report finds that none of these assertions have any basis.

Good policy is driven by the desire to promote efficiency or to improve equality of opportunity. Moving resources away from UW-Madison to UWM accomplishes neither. UW-Madison fares well against its peers (and relative to UWM relative to its peers) along nearly every dimension despite being subject to severe constraints. Good policies encourage entrepreneurial activity and reward success. Underweighting performance sends the wrong message to System campuses and will stifle economic activity.

It is useful to recognize that the issues facing UW-Madison are very different from other campuses in the System. UW-Madison is hurt significantly more by overregulation than any other campus. UW-Madison would benefit most from a removal of the tuition freeze or with the ability to borrow and bond. Against the backdrop of these severe constraints faced by UW-Madison (extreme forms of price and capital controls not faced by any peer institution), it is a dangerous strategy to reallocate resources away from UW-Madison to UWM. Such a move is neither justified on efficiency nor equality grounds and represents an inefficient allocation of scarce taxpayer dollars.

Given that UW-Madison is performing well relative to other System campuses, wouldn't the marginal dollar have a bigger effect when reallocated to UWM? Why not allocate it to assist another campus in the UW System? While the multipliers presented earlier represent average effects and not marginal effects, to gain some insight on what would happen if we were to reduce state appropriations at UW-Madison, look no further than the past decade which featured significantly more cuts than peers coupled with the inability to raise tuition. A direct consequence is that during the past decade UW-Madison lost ground when it came to raising federal research dollars relative to peers. The reduction in investment resulted in UW-Madison not investing in critical

areas at a fast enough pace. UW-Madison was (and continues to be) unable to expand high demand STEM majors at a rapid enough pace. A reallocation away from UW-Madison will only accelerate the decline in federal funding coming to Wisconsin and result in UW-Madison not contributing as much as it could to enhance the pipeline of STEM graduates.

A case in point is the Engineering building which was not funded in the recent budget cycle. Regardless of whether a taxpayer believes that funding the Engineering building is preferable to receiving a tax cut, no right-minded person who cares about the state can possibly make a coherent argument against UW-Madison's desire to issue bonds at historically low interest rates to manage and fund this building project. The inability to borrow (issue bonds) to fund the Engineering building hurts UW-Madison's ability to expand high demand Engineering majors and hamstring the flagship campus from doing what it can to alleviate the labor shortage in Wisconsin. The extreme level of government control does significant damage to Wisconsin.

Many want to see resources in higher education institutions allocated more like they are at top performing organizations in the business world where leaders invest capital in the projects that are delivering the most value. Reallocation away from UW-Madison is in direct opposition to that concept at a moment when it is the one campus with excess demand and is prevented from raising tuition or borrowing to fund projects. We are running arguably the most socialistic model of higher education in the country and a reallocation away from UW-Madison to UWM will only further that reputation.