



## Legislative Fiscal Bureau

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April 19, 2013

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: UW System Program Revenue Appropriation Balances

At a meeting to discuss the state's general fund deficit under generally accepted accounting principles (GAAP) earlier this year, a legislative inquiry was made requesting additional information regarding the amounts shown related to the University of Wisconsin System in the state's 2012 Comprehensive Annual Financial Report (CAFR). In the time since that meeting, staff from the Legislative Audit Bureau (LAB) and the Legislative Fiscal Bureau (LFB), have worked together and contacted UW System Administration for information to respond to this question. While we continue to review this issue, we wanted to make the Committee aware of the information available at this time. We expect that the Joint Committee on Finance will consider this issue and the related policy questions, some of which are outlined at the end of this memorandum, as part of its work on the 2013-15 biennial budget.

Table 1 shows the UW System's appropriation balances at the close of the 2010-11 and 2011-12 fiscal years. The UW System's appropriation balances at the close of the 2010-11 fiscal year were retrieved from the state's WISMART system. Under 2011 Act 32, most of the UW System's program revenue (PR) appropriations were collapsed into four general PR appropriations limiting the data available in WISMART; however, the UW System has continued to internally track program revenues based on prior law fund codes in its Shared Financial System (SFS). The PR appropriation balance amounts shown in Table 1 for the 2011-12 fiscal year were retrieved from the UW System's SFS by LAB staff.

**TABLE 1****University of Wisconsin System PR Appropriation Balances as of June 30, 2011, and 2012**

	<u>June 30, 2011</u>	<u>June 30, 2012</u>
Academic Student Fees (Tuition)	\$393,293,468	\$414,141,007
Auxiliary Enterprises	130,273,504	184,003,939
General Operations Receipts	97,331,832	138,045,240
Federal Aid and Indirect Cost Reimbursement	89,465,334	119,903,390
Extension Student Fees	38,481,009	45,367,550
Gifts -- WARF	34,061,919	40,772,120
Gifts and Nonfederal Grants and Contracts-- Other	11,675,946	52,359,659
Total of All Other PR Appropriations	<u>42,213,835</u>	<u>50,607,667</u>
 Total UW PR Appropriation Balances	 \$836,796,847	 \$1,045,200,572

When considering the UW System's total appropriation balances, it seems reasonable to exclude the balances of certain appropriations shown in Table 1. First, federal aid received by the UW must be spent in compliance with rules and regulations established by the U.S. Congress and the various federal departments that administer those funds. In addition to direct federal oversight of these funds, the LAB assesses the UW's compliance with federal rules and regulations regarding these funds annually in its State of Wisconsin Single Audit. However, the UW System does have discretion related to the amounts received for indirect cost reimbursement related to federal grants and contracts. As of June 30, 2012, the UW System had a federal indirect cost reimbursement balance of \$34.3 million. Second, the UW's total appropriation balance includes a large amount of gifts and nonfederal grants and contracts. These gifts, grants, and contracts have often been provided for a specific purpose. Because these persons and organizations who provided these funds determine how these funds should be used, it seems appropriate to exclude these funds. Third, current law prohibits the Board of Regents from accumulating auxiliary reserve funds of more than 15% of the previous fiscal year's total revenues from student segregated fees and auxiliary operations funded by student fees unless the reserve funds are approved by the Secretary of the Department of Administration and the Joint Committee on Finance. As current law limits the amount of the auxiliary enterprises appropriation balance and the Joint Committee on Finance receives and approves a report on these balances annually, these funds reasonably can be excluded from consideration of the UW System's appropriation balances.

Table 2 shows the UW System's appropriation balances for 2010-11 and 2011-12 excluding the federal aid and indirect cost reimbursement, gifts, grants, and contracts, and auxiliary enterprises balances.

**TABLE 2****Balances for Selected UW System PR Appropriations as of June 30, 2011, and 2012**

	<u>June 30, 2011</u>	<u>June 30, 2012</u>
Academic Student Fees (Tuition)	\$393,293,468	\$414,141,007
General Operations Receipts	97,331,832	138,045,240
Extension Student Fees	38,481,009	45,367,550
Total of All Other PR Appropriations	<u>42,213,835</u>	<u>50,607,667</u>
Total UW Appropriation Balances	\$571,320,144	\$648,161,464

UW System Administration staff have indicated that the majority of the balances in Table 2 have been held in reserve to fund specific planned future activities. The UW System's 2012 Annual Financial Report similarly states, "Substantially all of the unrestricted net assets have been designated by the Board of Regents for purposes to fulfill the University of Wisconsin System's fiduciary responsibility, including academic and research programs and capital projects." LFB and LAB staff requested that UW System identify the purposes for which these funds have been designated by appropriation. Of the \$648.2 million balance as of June 30, 2012, shown in Table 2, the UW System Administration has identified expenditure purposes that would utilize \$441.2 million of the balance. The specific timing of the expenditure of these balances has not been identified.

As shown in Table 1 and Table 2, the UW System had a tuition balance of \$414.1 million as of June 30, 2012. By comparison, the UW System's tuition balance was \$212.8 million as of June 30, 2009. During this time period, base resident undergraduate tuition increased by 5.5% annually. It should be noted that the UW System's tuition balance increased significantly at the same time that the UW System has been subject to significant GPR funding reductions and lapses.

While the amounts shown in both Table 1 and Table 2 are large, it is important to view them in the context of the UW System's overall budget. In 2011-12, the UW System's total budget was \$5,589.2 million. Excluding federal aid, gifts, grants, and contracts, and auxiliary enterprises, the UW System's budget was \$2,469.3 million in that year. The balance shown in Table 2 for June 30, 2012, represents 25.7% of the UW System's budget from similar fund sources in that year. This is similar to the primary reserve ratio of 25.3% that the UW System calculated based on its unrestricted and expendable restricted net assets and total expenses as reported in its 2012 Annual Financial Report.

The UW System's appropriation structure allows for the accumulation of PR balances. In general, the UW System's PR appropriations under current law are continuing appropriations that allow the UW System to carry balances from one year to another. The UW System's GPR appropriations do not allow for balances to be carried forward from one year to the next. With the exception of the auxiliary enterprises appropriation, the Legislature has not set limits on the amount of balances the UW System can carry from one year to another. In addition, the total amount of the UW System's appropriation balances and net assets are publicly reported in two

documents prepared annually: the state's CAFR and the UW System's Annual Financial Report.

However, there are important policy questions raised by these balances, including:

1. What is the appropriate level of UW System appropriation balances?
2. What role, if any, should the Legislature have in determining the appropriate level, and use of, UW System appropriation balances?
3. To what extent should the Board of Regents be permitted to charge current students tuition to fund programs that will benefit future students?

UW System Administration staff indicate that the UW System and the Board of Regents are addressing these issues. They state that President Reilly is working with Regent leadership to create a committee, consisting of Regents, chancellors, chief business officers, and others, to develop reserve goals and reporting requirements, recognizing the size and missions of their various institutions. The Legislature will have the opportunity to address these policy issues as part of the 2013-15 biennial budget. During Joint Committee on Finance deliberations on the Governor's budget recommendations, more information on these moneys will be provided to you in the form of an LFB issue paper. If you have questions or concerns in the interim, please feel free to contact me.

BL/EEP/sas  
Attachment

**ATTACHMENT**

**Specific Purposes Identified by the UW System for PR Appropriation Balances**

**TABLE 3**

**Tuition Funds Identified by the UW System  
As Being Designated for Specific Purposes**

<u>Purpose</u>	<u>Amount</u>
Required lapse in 2012-13	\$19,553,513
Veterans remissions	27,686,654
Flexible option	12,300,000
Human resources system and University personnel system	7,000,000
WiSys	4,000,000
Tuition access grant balance	1,362,318
Utilities funding held for campuses	7,462,671
Institutional initiatives	9,873,608
Efficiency projects	3,076,474
Reserve for revenue/enrollment shortfalls	4,196,092
Growth agenda/strategic plan funds	106,185,205
Technology purchases	11,902,978
Capital and other major purchases	27,900,158
Chargebacks	25,563,278
Encumbrances/advance deposits	11,179,354
Other systemwide projects	1,317,817
Matching funds for incentive grants	20,000,000
Academic common systems	1,500,000
Financial aid	<u>30,000,000</u>
Total Identified by UW System	\$332,060,120
 Total appropriation balance on June 30, 2012	 \$414,141,007

**TABLE 4**

**General Operations Receipts Identified by the UW System  
As Being Designated for Specific Purposes**

<u>Purpose</u>	<u>Amount</u>
Growth agenda/strategic plan funds	\$38,233,698
Capital and other major purchases	20,841,000
Technology purchases	5,000,000
Reserve for revenue/enrollment shortfalls	<u>809,000</u>
Total identified by UW System	\$64,883,698
 Total appropriation balance on June 30, 2012	 \$138,045,240

**TABLE 5****Extension Student Fees Identified by the UW System  
As Being Designated for Specific Purposes**

<u>Purpose</u>	<u>Amount</u>
Flexible option	\$1,000,000
Institutional initiatives	1,145,000
Growth agenda/strategic plan funds	4,514,000
Technology purchases	692,000
Capital and other major purchases	<u>887,526</u>
Total identified by UW System	\$8,238,526
Total appropriation balance on June 30, 2012	\$45,367,550

**TABLE 6****Other Program Revenues Identified by the UW System  
As Being Designated for Specific Purposes**

<u>Purpose</u>	<u>Amount</u>
Federal/financial aid funds	\$14,614,339
Debt service	13,616,937
Veterinary diagnostic laboratory	758,184
Contingency for space needs	<u>7,000,000</u>
Total identified by UW System	\$35,989,460
Total appropriation balance on June 30, 2012	\$50,607,667

**TABLE 7****Total Funds Identified by the UW System As Being Designated  
for Specific Purposes and Total Balances (Summary of Tables 3 thru 6)**

	<u>Specific Purpose</u>	<u>Balance</u>
Tuition	\$332,060,120	\$414,141,007
General Operations Receipts	64,883,698	138,045,240
Extension Student Fees	8,238,526	45,367,550
Other Program Revenues	<u>35,989,460</u>	<u>50,607,667</u>
Total Identified by the UW System	\$441,171,804	\$648,161,464