



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #805

Base Budget Reductions (UW System)

[LFB 2009-11 Budget Summary: Page 653, #2 and Page 654, #3]

CURRENT LAW

In 2008-09, the UW System has a GPR base budget of \$1,149.4 million, of which \$813.6 million (70.8%) is in its general program operations appropriation. In addition, the UW System has a base budget of \$1,111.7 million FED, \$2,428.0 million PR, and \$28.7 million SEG.

GOVERNOR

Delete \$65,000,000 GPR in 2009-10 and \$35,000,000 GPR in 2010-11 from the UW System's general program operations appropriation. In addition, delete \$10,030,800 GPR, \$13,974,900 PR, and \$286,800 SEG annually as part of an across-the-board 1% reduction of most non-federal appropriations.

DISCUSSION POINTS

\$100 Million Base Budget Reduction

1. The UW System's general program operations appropriation is its largest GPR appropriation. When GPR funding for fuel and utilities and debt service are excluded, GPR funding provided through this appropriation is equal to 91% of all GPR funding provided to the University. These funds, combined with tuition revenues and certain federal funds, support the University's general program operations including instruction, student services, academic support, and public service activities. According the UW System staff, the University would absorb the \$100 million base budget reduction to the general program operations appropriation by drawing down reserves, using revenues generated from tuition increases, and spending reductions.

2. The Board of Regents is delegated the authority to set tuition under 36.27 of the statutes. Under current law, the Board of Regents may increase resident undergraduate tuition to fund certain items including: (a) the amount shown in the appropriation schedule for the tuition appropriation in the Joint Finance Committee version of the budget bill, the engrossed budget bill, or the enrolled budget bill; (b) the approved recommendations of the Director of the Office of State Employment Relations for compensation and fringe benefits for classified and unclassified staff; and (c) state-imposed costs not covered by GPR. Under AB 75, the tuition appropriation would increase by \$19.6 million in 2009-10 and \$23.8 million in 2010-11 to fund the tuition portion of standard budget adjustments, increases in recruitment and retention funds, increases in fuel and utilities, and the student technology fee. As the UW System estimates that a 1% increase in resident undergraduate tuition would generate approximately \$6 million in additional tuition revenue, it is estimated that tuition would need to increase by 3.3% in 2009-10 and 0.7% in 2010-11 to fund these items. In his budget address, the Governor indicated that state employees' salaries would be frozen in the 2009-11 biennium, so it is assumed that tuition would not need to be increased to fund increases in salaries and fringe benefits.

3. Given the significant GPR base budget reductions proposed by the Governor, the Board of Regents could use its authority to increase tuition to fund state-imposed costs not covered by GPR to increase tuition by amounts greater than would be required to fully fund the increases in the tuition appropriation. Although the Board of Regents has not yet set tuition rates for 2009-10 and 2010-11, UW System staff have estimated that resident undergraduate tuition could increase by 5.5% in each year of the 2009-11 biennium. These tuition increases would generate \$13.4 million in 2009-10 and \$42.2 million in 2010-11 more than would be required to fund the increases in tuition revenue expenditure authority provided under AB 75. In 2009-10, this excess tuition revenue could be used to offset a portion of proposed \$65 million reduction to the general program operations appropriation. The remainder of the reduction (\$51.6 million) would be funded through the use of carryover funding and spending reductions. Tuition revenue generated in 2010-11 would offset the \$35 million reduction to the UW System's general program operations appropriation in that and future years.

1% Across-the-Board Reduction

4. In addition to the \$100 million reduction in the UW System's GPR general program operations appropriation, AB 75 would also reduce most of the UW System's non-federal appropriations by 1%. These reductions would total \$10,030,800 GPR, \$13,974,900 PR, and \$286,800 SEG annually. Of these proposed reductions, \$5,113,300 PR annually would have been from gift and grants appropriations. These reductions have already been restored by a prior action of the Committee.

5. The proposed 1% reduction to GPR appropriations under the UW System would directly improve the balance of the general fund. In general, the proposed 1% reductions to PR and SEG appropriations would only benefit the general fund if the Secretary of the Department of Administration (DOA) transferred the PR and SEG moneys associated with the 1% reduction to the general fund under the proposed \$160 million lapse and transfer provision in AB 75. If the Committee were to restore these 1% reductions to PR and SEG appropriations from which the

amount of the reduction might be transferred to the general fund as part of the proposed lapse and transfer requirement, the Secretary of DOA would need to generate these moneys from other sources.

6. During the UW System agency briefing before the Joint Finance Committee, UW System President Reilly stated that while the UW System was confident it could manage the \$100 million GPR base reduction, the additional 1% reductions could have a significant impact on the System's operations. In addition, President Reilly expressed concern over the 1% reduction of PR and SEG appropriations, saying that these reductions contradicted past indications by the state that the UW System should seek other sources of funds with which to support its operations. While the Committee has already restored reductions to the UW System's gifts and donations appropriations, significant reductions to the System's PR auxiliary enterprises and general operations receipts appropriations remain. Auxiliary enterprises are self-supporting activities including residence halls, dining halls, parking, bookstores, student government, transportation, student unions, and intramural athletics. DOA budget staff have indicated that the 1% reductions to both of these appropriations would be used to fund a portion of the \$160 million lapse and transfer requirement.

7. Under AB 75, the UW System's general program operations appropriation would be affected by both the \$100 million reduction described above and this 1% across-the-board reduction. The 1% reduction would decrease the general program operations appropriation by an additional \$8,136,000 annually. When this reduction is added to the \$100 million base reduction described above, total reductions made to the general program operations appropriation would be \$73,136,000 in 2009-10 and \$43,136,000 in 2010-11. These reductions represent a 9.0% decrease in the appropriation in 2009-10 and a 4.1% increase in the appropriation (as compared to 2009-10) in 2010-11.

8. Similarly, the auxiliary enterprises appropriation would be affected by both a required transfer and the 1% across-the-board reduction. Auxiliary enterprises are self-supporting activities including residence halls, dining halls, parking, bookstores, student government, transportation, student unions, and intramural athletics. The 1% reduction would decrease the auxiliary enterprises appropriation by \$5,336,600 annually. Another provision of the Governor's budget would have required the UW System to transfer \$25 million from the auxiliary enterprises appropriation to the Higher Educational Aids Board to supplement funding for the Wisconsin higher education grant (WHEG) program for UW System students. This required transfer was reduced from \$25 million to \$16.25 million under prior action of the Committee. As DOA has indicated that this 1% reduction would be transferred to the general fund under the proposed \$160 million lapse and transfer provision in AB 75, the UW System would have to transfer a total of \$21.6 million in 2009-10 and \$5.3 million in 2010-11 from its auxiliary enterprises appropriation.

9. UW System staff have indicated that the UW System would fund the \$16,250,000 required transfer by drawing down its auxiliary reserves. Under the Joint Finance version of the budget bill, the required transfer would be distributed based on each institution's auxiliary reserve balance less those reserves generated by student segregated fees. UW System staff have indicated that the 1% reduction would be distributed to institutions based on each institution's auxiliary enterprises budget less any segregated fee revenues credited to those accounts. It is unknown to

what extent UW System institutions would reduce their auxiliary operations or draw upon their auxiliary reserves to fund this 1% reduction.

10. As an alternative, the Committee could restore the 1% reduction to these appropriations in the second year of the biennium. This would reduce the total amount of the reductions over the biennium by half and restore these appropriations to 2008-09 base levels (provided that no other adjustments have been made) for the purpose of budgeting in future biennia. However, if the 1% reduction to these PR and SEG appropriations are restored in 2010-11, the DOA Secretary would need to generate moneys equal in amount to these proposed 1% reductions to fulfill the proposed lapse and transfer amount. Even if these reductions are restored, the DOA Secretary would still have the authority to lapse or transfer funding from the restored appropriations. However, such a lapse would not negatively effect these appropriations on an ongoing basis.

11. DOA has indicated that no funds would be transferred to the general fund from certain PR and SEG appropriations under the UW System that would be affected by the 1% reduction. These appropriations are shown in the following table. Because the proposed 1% reduction to these appropriations would not benefit the general fund, the Committee could restore these funding amounts without negatively impacting the general fund closing balance. This would be consistent with prior action taken by the Committee with regard to the reduction of certain gift appropriations. As indicated in the table, certain of these appropriations are all-moneys-received appropriations, meaning that the amount shown in the appropriation schedule is not controlling. However, DOA could limit expenditures from these appropriations to the amounts shown in the appropriation schedule through the allotment process. The remaining appropriations shown in the table are controlled by the amounts shown in the schedule such that any funds credited to those appropriations above the amount shown in the schedule may not be expended.

1% Reductions That Would Not Transfer to the General Fund, as Indicated by DOA

		<u>Base</u>	<u>Annual Reduction</u>
PR	Distinguished professorships*	\$948,800	\$9,500
PR	License plate scholarship programs*	201,500	2,000
PR	Great Lakes studies	48,800	500
PR	Physician and dentist and health care provider loan assistance programs; repay and contract**	488,700	4,900
PR	Laboratories (tuition)	4,405,400	44,100
PR	Schools of business (tuition)	608,000	6,100
PR	Nonincome sports*	302,500	3,000
SEG	Telecommunications services	1,054,800	10,500
SEG	Grants for forestry programs	133,100	1,300
SEG	Environmental education; forestry	400,000	4,000
SEG	Trust fund income*	26,276,400	262,800

* All-moneys-received appropriations.

** Transferred from the Department of Commerce by a previous action of the Committee.

ALTERNATIVES

A. \$100 Million Base Budget Reduction

1. Approve the Governor's recommendation.
2. Delete provision.

ALT A2	Change to Bill Funding
GPR	\$100,000,000

B. 1% Reduction: GPR Appropriations and PR and SEG Appropriations Subject to Lapse

1. Approve the Governor's recommendation.
2. Modify AB 75 to restore the 1% reduction to these appropriations in 2010-11.

ALT B2	Change to Bill Funding
GPR	\$10,030,800
PR	8,796,400
SEG	<u>8,200</u>
Total	\$18,835,800

3. Delete provision.

ALT B3	Change to Bill Funding
GPR	\$20,061,600
PR	17,592,800
SEG	<u>16,400</u>
Total	\$37,670,800

C. 1% Reduction: Appropriations Not Subject to Lapse

1. Approve the Governor's recommendation.
2. Delete provision.

ALT C2	Change to Bill Funding
PR	\$140,200
SEG	<u>557,200</u>
Total	\$697,400

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