



Legislative Fiscal Bureau

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May 6, 2014

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: UW System: Proposed Policy on Program Revenue Fund Balances -- Agenda Item V

REQUEST

Section 9148(4m)(b) 1. of 2013 Act 20 requires the UW System Board of Regents to submit to the Joint Committee on Finance proposed limits on program revenue account balances for the UW System as a whole and for each individual institution and proposed reports relating to those limits. To meet this obligation, the UW System President submitted the UW System Policy on UW System Program Revenue Appropriation Balances and Reserves to the Committee on October 23, 2013. At that time, the Committee Co-Chairs sent a letter to the UW System President stating that the policy was not approved and that the Committee would schedule a meeting to consider the policy at such a time when: (1) the Joint Legislative Audit Committee had approved the UW System's proposed methodology for calculating program revenue balances and reserves as required under section 9148(4L) of Act 20; and (2) all of the items required under section 9148(4m) had been submitted.

The UW System President submitted the last of the three proposed policies required by section 9148(4m) to the Committee on December 9, 2013. The UW System President submitted a revised version of the Policy on UW System Program Revenue Appropriation Balances and Reserves to the Joint Committee on Finance and the Joint Legislative Audit Committee on April 16, 2014. The Joint Legislative Audit Committee approved the UW System's proposed methodology for calculating program revenue balances and reserves included in the revised policy at its meeting on April 24, 2014. A copy of the motion approved by the Joint Legislative Audit Committee is attached to this paper as Attachment 1.

Reports

Under the methodology approved by the Board of Regents and the Joint Legislative Audit Committee, year-end program revenue balances will be calculated for the following five categories

of unrestricted program revenue funds and the following four categories of restricted program revenue funds:

Unrestricted

1. Tuition
2. Auxiliary Operations
3. General Operations
4. Other Unrestricted Program Revenue
5. Federal Indirect Cost Reimbursement

Restricted

1. Gifts
2. Nonfederal Grants and Contracts
3. Federal Grants and Contracts
4. Other Restricted Program Revenue

Balances for each of these nine funds will be reported in total dollars for the UW System as a whole and for each UW institution, including UW System Administration and UW Systemwide. Unrestricted program revenue fund balances will also be reported as a percentage of total fund expenditures for the UW System as a whole and each UW institution, except that: (1) the tuition fund balance will be reported as a percentage of total tuition and state general purpose revenue (GPR) expenditures less GPR debt service; (2) the federal indirect cost reimbursement fund balance will be reported as a percentage change to the prior year balance, not as a percentage of total expenditures; and (3) fund balances held in UW Systemwide accounts will be reported as a percentage change to the prior year balance, not as a percentage of total expenditures.

Attachment 2 shows the information that would have been provided to the Board of Regents regarding program revenue fund balances as of June 30, 2013, if the proposed policy had been in effect at that time.

In addition, program revenue balances will be reported using the five categories defined by the Legislative Audit Bureau (LAB) in their report titled, "Level of Commitment for University of Wisconsin System Program Revenue Balances." These categories are as follows:

- Obligated: Funds held for a purpose as indicated by documentation such as a contract or an encumbrance that would make it difficult for an institution to easily use the balance for other purposes.
- Planned: Funds held for a purpose as indicated by documentation such as a budget document or a memorandum signed by a chancellor. Institutions may use planned balances for other purposes if the use complies with any funding source requirements.
- Designated: Funds held for purposes related to the original fund source, but for which documentation of an obligation or specific plan was not provided. Institutions may use designated balances for other purposes only if the use complies with funding source requirements.
- Reserves: Funds documented to be held for contingencies.
- Undocumented: Funds for which there is no documentation of an obligation or plan. These funds may be used for any purpose because there are no funding source requirements.

Attachment 3 shows UW System unrestricted program revenue balances as of June 30,

2013, by institution and category. This information was provided to the Board of Regents at its meeting on April 10, 2014. As of June 30, 2013, the UW System's program revenue fund balances totaled \$1,273.5 million of which \$1,097.2 million was unrestricted.

Limits

Under the proposed policy, UW institutions with program revenue fund balances greater than 15% of fiscal year expenditures would be required to submit justifications for the entire balance and a defined multi-year spending plan. This additional reporting threshold would only apply to the following four unrestricted program revenue funds: (1) tuition; (2) auxiliary; (3) general operations; and (4) other unrestricted program revenue. The proposed policy would require the Regents to determine by vote whether these institutions' balances are adequately justified.

Table 1 lists the institutions that would have been required to submit justifications for fund balances and a defined multi-year spending plan by unrestricted program revenue fund if this policy had been in effect for fiscal year 2012-13. It should be noted that this reporting threshold would not apply to fund balances held by UW Systemwide because those balances would not be reported as a percentage of expenditures.

TABLE 1

Institutions That Would Have Been Subjected to Additional Reporting in Fiscal Year 2012-13 Under the Proposed Policy by Fund Category

<u>Tuition</u>	<u>Auxiliary Operations</u>	<u>General Operations</u>	<u>Other Unrestricted Program Revenue</u>
Eau Claire	Eau Claire	Eau Claire	Eau Claire
Green Bay	Green Bay	Green Bay	Green Bay
La Crosse	La Crosse	La Crosse	Madison
Milwaukee	Madison	Madison	Platteville
Platteville	Oshkosh	Milwaukee	River Falls
River Falls	River Falls	Oshkosh	Whitewater
Stevens Point	Stevens Point	Parkside	
Whitewater	UW Colleges	Platteville	
UW Colleges	Extension	River Falls	
Extension	UW System Administration	Stevens Point	
		Stout	
		Whitewater	
		UW Colleges	
		Extension	
		UW System Administration	

In addition, the proposed policy would create a minimum target balance of 10% of fiscal year expenditures for tuition and auxiliary operations. Institutions that have balances of less than 10% of fiscal year expenditures in either of those two categories would be required to submit a savings plan showing how they will increase their balances to the 10% minimum and over what

time period. The proposed policy states that, "The minimum balance target of 10% of fiscal year expenses shall not be used by any institution as a justification for the request and approval of additional funds." Similar to the 15% threshold, the proposed policy would require the Board of Regents to determine by vote whether an institution has an adequate plan in place to meet the target within a reasonable period of time.

Table 2 lists the institutions that would have been required to submit savings plans to the Board of Regents had this policy been in effect for fiscal year 2012-13. Again, this threshold would not apply to UW Systemwide balances because those balances would not be reported as a percentage of expenditures. (Although it is not stated in the proposed policy, it is believed that the 10% minimum target for tuition fund balances would not apply to UW System Administration because it does not hold tuition funds.)

TABLE 2

Institutions That Would Have Been Required to Submit a Savings Plan in Fiscal Year 2012-13 Under the Proposed Policy by Fund Category

<u>Tuition</u>	<u>Auxiliary Operations</u>
Stout	Parkside
Superior	Stout
	Superior

BACKGROUND

Recommendations of Government and Colleges and Universities Groups

In its proposed policy, the University cites a 2002 recommendation of the Government Finance Officers Association (GFOA) regarding the appropriate level of unreserved fund balances in the general fund. That policy asserts that general-purpose governments maintain an unreserved fund balance of no less than 5% to 15% of general fund operating revenues or no less than one to two months of general fund operating expenditures. This recommendation was revised by the GFOA executive board in 2009 and now states the general-purpose government's unrestricted fund balance should be no less than two months (17%) of operating revenues or expenditures. The GFOA document asserts that this level of balance is necessary in part to manage risk of disaster and state budget cuts among other events that may impact a government's budget. Another reason given for this level of balances is the desire to maintain or improve the government's credit rating. Because the University does not have the authority to issue bonds, this would not be a justification for the University to maintain a higher level of fund balances.

In the past the University has cited the recommendation of the National Association of State College and University Business Officers (NACUBO) which recommends that institutions maintain a "primary reserve ratio" (the ratio of expendable net assets to total expenses) of 40%. The Regents' proposed policy does not cite this recommendation.

Policies in Other States

In preparing their report on the level of commitment of UW program revenue balances, the LAB gathered information regarding balances and reserves policies at other public institutions. Attachment 4 summarizes to policies of one state, four university systems, and one individual university. These policies vary widely and the basis of calculation and accounting can differ significantly as well.

The Pennsylvania State System of Higher Education (PASSHE) policy and the University of Cincinnati policy both set targets for fund balances thus making them most similar to the Board of Regents' proposed program revenue fund balance policy. However, the two policies set very different targets with the PASSHE policy establishing a range of 5% to 10% of educational and general revenue (which excludes auxiliary and restricted activities) and the University of Cincinnati setting a minimum target of 25% of annual operating budget expenditures.

The Minnesota State Colleges and Universities (MnSCU) policy and Indiana University policy both limit institutional reserves which are understood to be some portion of the institution's balance. The MnSCU policy requires reserves of between 5% and 7% while Indiana University requires a 2% reserve at the flagship campus and a 3% reserve at all other institutions.

The Illinois Legislative Audit Commission policy and the State University of New York (SUNY) policy set multiple limits for balances and reserves. Under the Illinois policy, universities are permitted to retain a "working capital allowance" approximately equal to the highest month's expenditures. Additional funds may be held in reserve accounts. Each reserve account is tied to a specific project or projects approved by the Illinois Board of Higher Education and the implementation of such a reserve requires a resolution by the institution's governing board and notification of the Auditor General. The SUNY policy establishes a minimum operating reserve of 10% and a maximum operating reserve of 25%. Institutions with less than a 10% reserve are monitored by the system administration while institutions with a reserve of more than 25% in two consecutive fiscal years are subject to a system charge. In addition to these general reserves, the SUNY policy permits institutions to hold strategic investment reserves to be used to fund specific projects or initiatives.

Accreditation

All UW four-year institutions and the UW Colleges are accredited by the Higher Learning Commission (HLC). At the suggestion of the U.S. Department of Education, HLC began monitoring the financial status of the public colleges and universities it accredits beginning in 2007. HLC assesses each institution's financial health using a metric known as the composite financial indicator, or CFI. Each institution's CFI is calculated using the following financial indicators, each of which is given a different weight: primary reserve ratio, net operating revenue ratio, return on net assets ratio, and viability ratio. An institution's CFI can range from -4 to +10. HLC uses an institution's CFI score to place it in one of three categories: above the zone, in the zone, and below the zone. Institutions with CFIs of greater than 1 are categorized as "above the zone" meaning that they are financially healthy and not in need of any additional monitoring.

Institutions with CFIs of between 0 and 1 are categorized as "in the zone" meaning that their financial status may be of concern. These institutions are required to submit additional paperwork to HLC and, if they are in this category for two consecutive years or more, will receive additional monitoring and review. Institutions with CFIs of less than 0 are categorized as "below the zone" meaning that there is significant concern regarding their finances. These institutions must submit additional paperwork to HLC and will receive additional monitoring and review.

Under the Board of Regents' proposed policy regarding program revenue balances and reserves, balances would be expressed as a percentage of expenditures for four categories: tuition, auxiliary operations, general operations and other unrestricted program revenue. This calculation is similar to the method by which the primary reserve ratio, one of the component indicators of CFI, is calculated. An institution's primary reserve ratio is calculated by dividing the institution's net assets by its total expenses in the prior year. The calculation of the primary reserve ratio is different from the UW's proposed calculation of balances in two main ways. First, the primary reserve ratio is calculated using figures from institutions' annual financial statements. Under the proposed policy, the UW's balances would be reported subsequent to year-end reconciliation (which occurs six to eight months prior to the release of the UW System's annual financial statement) on the basis of budgetary fund balance. This means that the numbers used to calculate the primary reserve ratio will be different from those used to calculate balances. Second, the primary reserve ratio is calculated using assets and expenditures from all revenue sources whereas, under the proposed policy, the UW would only report balances at a percentage of expenditures for four revenue categories. Due to these differences in calculation, an institution's primary reserve ratio may be significantly different than the balances expressed as a percentage of expenditures under the UW's proposed policy.

Because CFI is calculated using four different financial indicators, it is not possible to identify the minimum primary reserve ratio needed to generate a CFI that would be categorized as "above the zone." Data from fiscal years 2009-10, 2010-11, and 2011-12 shows that UW institutions that were classified as being "above the zone" had primary reserve ratios ranging from 0.084 to .704 while UW institutions classified as either "in the zone" or "below the zone" had primary reserve ratios ranging from 0.057 to 0.282. This shows that an institution could have a relatively strong primary reserve ratio (0.282) but still be categorized as "in the zone" due to weaknesses in other areas. Conversely, an institution with a relatively weak primary reserve ratio (0.084) could be categorized as "above the zone" due to strengths in other areas.

State Fund Balances in Wisconsin

As a matter of policy, the state has maintained a low required statutory balance in the general fund. The state's statutory reserve has been set at \$65 million (approximately 0.4% of general fund expenditures) from 2005-06 through 2016-17, but is scheduled to increase to 2% in 2017-18 (approximately \$320 million). Although the general fund has ended some years with a larger balance, these balances have been utilized during the following biennial budget process.

Over the last three fiscal years, deposits have been made to the budget stabilization fund, so that the balance in that fund is \$279.5 million. The balance in the stabilization fund now represents

approximately 1.9% of annual general fund expenditures, compared to the minimal balances that had been maintained in that fund prior to 2010-11. State law governing general fund transfers to the stabilization fund specifies that no further transfers would be made once the balance in the fund reaches 5% of estimated annual general fund expenditures.

The state's lottery fund has a required statutory balance of 2%.

ANALYSIS

Limits: Maximum

Tuition, Auxiliary Operations, General Operations, and Other Unrestricted Program Revenue

Under the Regents' proposed program revenue fund balance policy, there would be no hard limits or caps on program revenue fund balances. Instead, the Regent policy would create threshold that would trigger additional reporting by institutions whose fund balances exceed that threshold. This threshold for additional reporting would be set at 15% and would only apply to four program revenue fund categories: (1) tuition; (2) auxiliary operations; (3) general operations; and (4) other unrestricted program revenue.

UW officials have argued that tuition fund balances allow them to manage risk and to invest in new initiatives to improve the University. UW institutions face a number of financial risks including unexpected declines in enrollment, changes in student mix, disasters, financial downturns, reputational risk, and reductions in state funding for the UW System. When revenues decline unexpectedly or when costs increase due to an unplanned event, such as a fire or flood, institutions can use their fund balances to maintain their operations in the short term. Institutions may also plan to accumulate funds over a number of years in order to fund capital projects or new initiatives. In the auxiliary operations program, accumulating funds over a number of years may allow the institution to reduce the amount of bonding required for a project, such a residence hall or student union renovation, and to smooth rate increases related to such projects over a number of years. Tuition fund balances may be used to acquire new equipment, renovate classrooms, or provide seed funding for new initiatives.

While it may be desirable for institutions to hold some level of unrestricted program revenues balances, it must also be remembered that the majority of those funds are generated by tuition and other fees charged to students. A policy on program revenue fund balances must therefore balance the interest of the institutions in accumulating program revenue funds with the public policy goal of keeping higher education affordable for state residents. The Board of Regents increased resident undergraduate tuition at UW four-year institutions by 5.5% in each year from 2007-08 to 2012-13. UW tuition fund balances more than tripled over the same time period, from \$145.5 million as of June 30, 2007, to \$551.5 million as of June 30, 2013.

Table 3 shows the aggregate amount of unrestricted program revenue fund balances that UW institutions could have held as of June 30, 2013, without submitting justifications and a spending

plan to the Board of Regents for approval if the threshold for additional reporting had been set at various levels. The amount of federal indirect cost reimbursement is the same for all reporting thresholds as the proposed reporting threshold would not apply to those funds. For context, 8% is equal to approximately one month of expenditures and 17% is equal to approximately two months of expenditures which would be consistent with the GFOA recommendation. If the Committee determines that the amount of unrestricted program revenue balances that UW institutions could accumulate without approval by the Board is too high, the Committee could modify the Regents' proposed policy to lower the threshold for additional reporting and Regent approval. Conversely, the Committee could increase that threshold to 17% to be consistent with GFOA policy. For comparison, the UW System's unrestricted program revenue fund balance was \$963.8 million as of June 30, 2012, and \$1,097.2 million as of June 30, 2013. Excluding federal indirect cost reimbursement, which would not be subject to the 15% threshold for additional reporting and approval under the proposed policy, the UW System's unrestricted program balance was 25.8% of related expenditures as of June 30, 2013.

TABLE 3

Aggregate Amount of Unrestricted Program Revenue Balances That UW Institutions Could Accumulate Without Regent Approval If the Reporting Threshold Was Set at Various Levels*

<u>Threshold For Additional Reporting</u>	<u>Tuition & GPR Expenditures Less Debt Service</u>	<u>Auxiliary Operations</u>	<u>General Operations</u>	<u>Other Restricted Program Revenue</u>	<u>Federal Indirect Cost Reimbursement</u>	<u>Total Unrestricted</u>
5%	\$117,650,600	\$41,855,600	\$13,926,300	\$10,835,100	\$148,183,500	\$332,451,100
8	188,241,000	66,968,900	22,282,000	17,336,100	148,183,500	443,011,500
10	235,301,200	83,711,200	27,852,500	21,670,100	148,183,500	516,718,500
12	282,361,500	100,453,400	33,423,000	26,004,100	148,183,500	590,425,500
15	352,951,800	125,566,800	41,778,800	32,505,200	148,183,500	700,986,100
17	400,012,100	142,309,000	47,349,300	36,839,200	148,183,500	774,693,100

*Based on 2012-13 expenditures.

UW institutions hold fund balances for two major purposes: to manage risk and to fund new initiatives and projects. As an alternative, the Committee could set limits for the two corresponding components of the UW's unrestricted program revenue balances: funds held for specific purposes and not held for specific purposes. This second category, which would be a combination of the LAB's designated, reserve, and undocumented categories, would serve as an operating reserve and protect each UW institution against risk. Three of the policies used by other public universities specifically limit the reserve portion of fund balances. The Indiana University policy limits reserves to 2% at the flagship and 3% at all other institutions, the MnSCU policy limits reserves to 7%, and the SUNY policy limits reserves to 25%. The Committee could modify the Regents proposed policy to limit the portion of fund balances not held for a specific purpose to 5%, which would be consistent with the statutory limit on transfers to the state's budget stabilization fund.

Table 4 shows the amount of each institution's tuition fund balance that was not held for a specific purpose as of June 30, 2013, based on data provided by the UW System and that amount as a percentage of total tuition and GPR expenditures less GPR debt service. As shown in the table, the portion of balances not held for a specific purpose exceeded 5% of the expenditures at eight of the 15 UW institutions as of June 30, 2013.

TABLE 4

Portion of the Tuition Fund Balance That Was Not Held for a Specific Purpose in Dollar Amounts and as a Percentage of Tuition and GPR Expenditures Less GPR Debt Service by Institution as of June 30, 2013

	<u>Not Held for a Specific Purpose*</u>	<u>Not Held for a Specific Purpose as a % of Expenditures</u>
Madison	\$25,000,000	2.6%
Milwaukee	22,030,309	6.2
Eau Claire	7,026,989	6.4
Green Bay	8,596,999	15.9
La Crosse	20,326,720	18.8
Oshkosh	845,816	0.8
Parkside	456,000	1.0
Platteville	180,000	0.2
River Falls	2,510,764	4.2
Stevens Point	7,752,400	8.5
Stout	1,711,780	1.8
Superior	2,006,125	5.6
Whitewater	7,814,087	7.3
UW Colleges	7,505,371	9.6
UW Extension	1,669,060	2.9

* Sum of the LAB's designated, reserve, and undocumented categories.

If the Committee modifies the Board's proposed policy to create a hard limit on fund balances not held for a specific purpose, it may wish to specify a penalty for institutions whose balances not held for a specific purpose exceed this amount. In the case of tuition, the Committee could specify that funds not held for a specific purpose held above the specified amount would be transferred into a UW Systemwide account controlled by the Board of Regents. In the case of auxiliary operations, the Committee could specify that institutions with balances not held for a specific purpose above the limit would not be permitted to increase their housing, dining, and other fees.

With regard to balances held for specific purposes, which would be the combination of the LAB's obligated and planned categories, the Committee may wish to modify the Regents' proposed policy to establish a procedure by which the Regents formally approve the accumulation of funds for a specific initiative or project. This would be similar to the guidelines established by the Illinois Legislative Audit Commission which requires the institutional governing board to approve

a resolution before funds can be accumulated for an initiative or project. To limit the number of resolutions that would have to be passed by the Board of Regents, the policy could be made to apply only to initiatives or projects for which more than \$500,000 would be accumulated. Projects or initiatives for which a lesser amount of funds would be accumulated could be approved by the chancellor.

Federal Indirect Cost Reimbursement

UW institutions receive federal indirect cost reimbursement funds based on the amount of federal grants and contracts they are awarded. Due to its large research program, UW-Madison accounted for more than 80% of both total UW System federal grant and contract expenditures and total UW System federal indirect cost reimbursement expenditures in fiscal year 2012-13. Although federal indirect cost reimbursements funds are based on the amount of federal research and other grants an institution receives, these funds may be awarded to reimburse institutions for expenses that were originally charged to GPR. These funds are also unrestricted which means that they may be used for any purpose, not just research.

As of June 30, 2013, UW-Madison had a federal indirect cost reimbursement fund balance of \$107,845,600 which was equal to 163.3% of its federal indirect cost reimbursement expenditures for that year. Because these funds are received on an irregular basis, UW System officials have argued that federal indirect cost reimbursement balances should be reported as a percentage change from the prior year instead of as a percentage of expenditures. Both the proposed policy approved by the Board of Regents and the methodology for calculating program revenues balances and reserves approved by the Joint Legislative Audit Committee would calculate federal indirect cost reimbursements in this way. From June 30, 2012, to June 30, 2013, these balances increased by less than 1%. Due to the way that they are calculated under the proposed policy, federal indirect cost reimbursement balances would not be subject to the 15% threshold for additional reporting.

UW-Madison officials have argued that a significant federal indirect cost reimbursement balance is necessary to manage risk related to that institution's research program. Although these funds can be used for purposes other than research, they are also the most appropriate source of funds to serve as a reserve for the research program as tuition funds have historically not been used to fund research and most other funds must be used for the purpose for which they have been collected. If federal indirect cost reimbursement fund balances are used to manage risk related to the research program, it may be informative to compare them to total federal grants and contracts, nonfederal grants and contracts, and federal indirect cost reimbursement expenditures. UW-Madison's expenditures in those categories totaled \$691,966,000 in fiscal year 2012-13; UW-Madison's federal indirect cost reimbursement fund balance as of June 30, 2013, was equal to 15.6% of these expenditures. According to data provided to the Board of Regents by UW System Administration, this balance consisted of the following: 2.3% obligated, 18.8% planned, and 78.9% reserve.

It is unclear why the Board of Regents opted not to create an additional reporting threshold for federal indirect cost reimbursement funds. If the Committee wishes to impose a limit on these

funds, either in the form of a hard cap or a threshold for additional reporting, it may wish set that limit as a percentage of total federal grants and contracts, nonfederal grants and contracts, and federal indirect cost reimbursement expenditures. However, because these funds are not directly related to the public policy goal of maintaining affordable tuition, housing, and dining rates, these funds could be subject to a higher limit than tuition and auxiliary operations balances or not be subject to a limit.

Restricted Program Revenue

Under the proposed policy, the UW System would report fund balances in dollar terms but not as a percentage of expenditures for the following four restricted program revenue categories: gifts, federal grants and contracts, nonfederal grants and contracts, and other restricted. Balances held in these categories would not be subject the 15% threshold for additional reporting. Because the University does not generally control the expenditure of these funds, imposing a reporting threshold or limit on them may not be desirable.

Limits: Minimum

The Board of Regents' proposed policy would create a minimum target balance of 10% of expenditures for tuition and auxiliary operations. Institutions whose tuition fund balance or auxiliary operations fund balance is less than 10% of expenditures would be required to submit a savings plan showing how they will increase their balances to the 10% minimum and over what time period. The Board of Regents would determine by vote whether the plans submitted by these institution are adequate. If this policy had been in effect for fiscal year 2012-13, two institutions (Stout and Superior) would have been required to submit savings plans for the tuition fund and three institutions (Parkside, Stout, and Superior) would have been required to submit savings plans for the auxiliary operations fund.

When the proposed policy was initially submitted to the Joint Committee on Finance in October, 2013, there was concern that this minimum target balance would be used to justify increases in tuition, segregated student fees, or housing, dining, or parking fees. In response, language was added to the revised version of the policy which was submitted to the Committee in April, 2014. This language reads as follows: "The minimum balance target of 10% of fiscal year expenses shall not be used by any institution as a justification for the request and approval of additional funds." To clarify the intent of this language, the Committee may wish to amend that sentence by adding, "or as the basis for an increase in tuition, student segregated fees, or housing, dining, or parking fees."

However, if institutions are required to maintain a minimum level of program revenue balances, but may not increase tuition or other fees in order to achieve that minimum level, institutions may be forced to reduce expenditures in order to increase their reserves. In some cases this may be appropriate, but in other cases cutting expenditures would mean reducing services to students and others who use those services. To prevent institutions from either increasing fees or reducing services to increase their reserves to the target minimum level of 10%, the Committee may wish to delete the language in the Regents' proposed policy that creates this minimum.

While the Committee may not wish to endorse a 10% minimum balance for the tuition and auxiliary operations fund, it may be advantageous for the Committee to recommend a minimum balance of 0% for those funds. This minimum level would encourage institutions to manage their operations such that they are not running a deficit on an ongoing basis. While this may require institutions to raise fees or cut expenditures, in the case that an institution is carrying a negative balance, the argument could be made that current fees are too low to fund operations or that expenditures are too high. In this case, increases in fees or reductions in expenditures would be made to align revenues and expenditures, not increase fund balances.

Reporting Requirements

Under the proposed policy, the UW System would report year-end program revenue balances to the Board of Regents but would not report this information to the Legislature. If the Committee wishes to remain informed on the amount of the program revenue balances held by the UW System and individual UW institutions, the Committee may wish to require the Board of Regents to submit a report on program revenue balances to the Finance and Audit Committees on an annual basis. When the Joint Legislative Audit Committee approved the Board of Regents proposed methodology for calculating program revenue balances and reserves, that Committee also recommended that Joint Finance Committee require the Board of Regents to submit a report on program revenue balances to the both committees by October 15 of each year. The report would include:

1. Program revenue balances expressed in dollars for all nine categories for the UW System as a whole and for each UW institution, including UW System Administration and UW Systemwide.
2. Tuition, auxiliary operations, general operations, and other unrestricted program revenue balances expressed as a percentages of corresponding expenditures for the UW System as a whole and each UW institution except UW Systemwide.
3. Tuition, auxiliary operations, general operations, and other unrestricted program revenue balances expressed as a percent change from prior year balances for UW Systemwide.
4. Federal indirect cost reimbursement balances expressed as a percent change to the prior year balance for the UW System as a whole and each UW institution, including UW System Administration and UW Systemwide.
5. Tuition, auxiliary operations, general operations, other unrestricted program revenue, and federal indirect cost reimbursement balances categorized as obligated, planned, designated, reserves, and undocumented using the methodology created by the Legislative Audit Bureau in its report titled, "Level of Commitment for University of Wisconsin System Program Revenue Balances."
6. The justifications and multi-year spending plans approved by the Board of Regents for institutions who balances exceed the threshold for additional reporting.

The Joint Finance Committee may wish to modify the report to ensure that it is both easily understood by all parties and provides the information that the Committee is most interested in. To make the data reported by the UW System more easily understandable to Regents, legislators, and the general public, the Joint Finance Committee could require the Board to report balances using two categories: (1) held for a specific purpose; and (2) not held for a specific purpose. The first category would be the sum of the LAB's obligated and planned categories while the second category would be the sum of the designated, reserves, and undocumented categories.

To ensure that the Committee receives the information it is most interested in, the Committee may also wish to specify what would qualify as a justification for a balance. Under the Regents' proposed policy, institutions whose balances exceed 15% of annual expenditures for tuition, auxiliary operations, general operations, and other unrestricted program revenue would submit justification and multi-year spending plans to the Board of Regents for approval. However, the Board's policy does not specify what kind of information would qualify as justification for a balance. To make clear the nature of the information the Committee wishes to receive, the Committee could specify that justifications should include the specific projects or initiatives for which the funds are being held, the amount of funds held for each project or initiative, the total amount of program revenue funds the institutions plans to accumulate for the initiative or project, the total amount of funds expected to be expended on each project or initiative, and the timeframe in which those funds will be expended.

The Joint Legislative Audit Committee recommended that the Board of Regents submit an annual report to that Committee and the Joint Committee on Finance. If the Joint Committee on Finance would like additional oversight over the UW System's program revenue balances, it may specify that these reports should be approved by the Committee through a 14-day passive review process. The UW System has generally opposed a formal review of program revenue balances by the Legislature because it does not want to have to secure legislative approval for every new initiative that an institution wishes to undertake. Indeed, giving this oversight to the Committee would be duplicative in that new initiatives should be approved by the Board of Regents and capital projects, a common justification for balances especially in the auxiliary operations fund, would be approved by the Board of Regents, the Building Commission, the Joint Committee on Finance and the full Legislature during enumeration. Formal approval by the Committee of the proposed report may also be unnecessary as the Committee would be able to act on information provided in the report during its deliberations on the UW System's biennial budget.

ALTERNATIVES

A. Limits: *Maximum*

1. Approve the additional reporting and approval threshold as approved by the Board of Regents (15%).
2. Set the threshold for additional reporting at one of the following levels:
 - a. 5% of expenditures.

- b. 8% of expenditures.
- c. 10% of expenditures.
- d. 12% of expenditures.
- e. 17% of expenditures.

3. Limit the portion of tuition, auxiliary operations, general operations, and other unrestricted program revenue not held for a specific purpose to 5% of expenditures. Require the Regents to transfer amounts held above this threshold in any fiscal year to a central UW Systemwide fund, beginning in 2015-16.

4. Require Board approval prior to the accumulation of fund balances related to a project or initiative if the total amount of funds to be accumulated exceeds \$500,000. Projects or initiatives for which a lesser amount of funds would be accumulated could be approved by the chancellor.

5. Set a threshold for additional reporting and approval of federal indirect cost reimbursement at one of the following percentage levels of total federal grants and contracts, nonfederal grants and contracts, and federal indirect cost reimbursement expenditures:

- a. 5% of expenditures.
- b. 8% of expenditures.
- c. 10% of expenditures.
- d. 12% of expenditures.
- e. 15% of expenditures.
- f. 17% of expenditures.

B. Limits: *Minimum*

1. Approve a target minimum level of 10% of expenditures for the tuition and auxiliary operations fund balances for each UW institution consistent with the Board of Regents' proposed policy.

2. In addition to #1, specify that the target minimum level should not be used as the basis for an increase in tuition, student segregated fees, or housing, dining, or parking fees.

3. Approve a target minimum level of 0% of corresponding expenditures for the tuition and auxiliary operations fund balances for each UW institution.

4. Do not approve a target minimum level for any fund balances.

C. Reporting Requirements

1. Do not require the Board of Regents to report to the Legislature regarding program revenue balances.

2. Require the Board of Regents to report to the Joint Committee on Finance and the

Joint Legislative Audit Committee consistent with the recommendation of the Joint Legislative Audit Committee.

3. Require the Board of Regents to report to the Joint Committee on Finance and the Joint Legislative Audit Committee consistent with the recommendation of the Joint Legislative Audit Committee except that: (1) balances should be categorized as being held for a specific purpose or not being held for a specific purpose and the amounts in each of these categories should be expressed both as dollars and as a percentage of corresponding expenditures; and (2) specify that the justifications for balances above the threshold for additional reporting should include the specific projects or initiatives for which the funds are being held, the amount of funds held for each project or initiative, the total amount of program revenue funds the institutions plans to accumulate for the initiative or project, the total amount of funds expected to be expended on each project or initiative, and the timeframe in which those funds will be expended.

4. Specify that the report would require approval by the Joint Finance Committee through a 14-day passive review process.

Prepared by: Emily Pope
Attachments

ATTACHMENT I

MOTION

Offered by Senator Cowles and Representative Kerkman

A. Methodology

Pursuant to Section 9148 (4L) of 2013 Wisconsin Act 20, and consistent with the proposed methodology submitted by the Board of Regents in April 2014, the Joint Legislative Audit Committee approves the following:

UW System's Board of Regents shall:

1. Calculate program revenue balances on the basis of budgetary fund balance subsequent to fiscal year-end reconciliation.
2. Calculate budgetary fund balance by starting with the ending cash balance from the prior fiscal year, adding revenues received, and deducting expenditures made during the fiscal year. Budgetary fund balance will not include accruals for advance deposits received for future academic terms, accounts payable, or accounts receivable.
3. Calculate program revenue balances for UW System as a whole, for each UW institution, and for UW System Administration as shown in Table A.
4. Calculate program revenue balances after tuition and fee balances are allocated from systemwide accounts to each UW institution.
5. Calculate the program revenue balances for systemwide accounts in dollars, as a percentage change from the ending balance from the prior fiscal year, and by program revenue source.
6. Calculate the level of commitment for any program revenue balance from Tuition, Auxiliary Operations, General Operations, Other Unrestricted Program Revenue, and Federal Indirect Cost Reimbursement using the definitions for obligated, planned, designated, reserves, or undocumented as reported by the Legislative Audit Bureau in report 13-17.

B. Reporting

Pursuant to Section 9148 (4m)(b)1 of 2013 Wisconsin Act 20, the Joint Legislative Audit Committee recommends the Joint Committee on Finance require the following:

Annually, and not later than October 15, UW System's Board of Regents shall report to the Joint Legislative Audit Committee and the Joint Committee on Finance the calculation of all program revenue balances as shown in Table A. In addition, for each UW institution's balance that is greater than the percentage specified in Table A, the Board of Regents shall also report the portion of each institution's entire balance from that source as obligated, planned, designated, reserves, or undocumented based on the level of commitment definitions reported by the Legislative Audit Bureau in report 13-17 and specify the justification and defined multi-year spending plan for the balance as approved by the Board of Regents.

TABLE A

Program Revenue Source	Methodology for Calculating Balances	Recommended Methodology for Additional Reporting to Legislature ¹
Tuition (Academic Student Fees and Extension Student Fees)	1. In dollars 2. As a percentage of combined expenditures for GPR (less GPR-funded debt service) and Student Fees (tuition) for the fiscal year.	When greater than ___ percent, report the level of commitment for the institution's entire balance and report the justification and defined multi-year spending plan for the balance as approved by the Board of Regents.
Auxiliary Operations	1. In dollars 2. As a percentage of total Auxiliary Operations expenditures for the fiscal year.	When greater than ___ percent, report the level of commitment for the institution's entire balance and report the justification and defined multi-year spending plan for the balance as approved by the Board of Regents.
General Operations	1. In dollars 2. As a percentage of total General Operations expenditures for the fiscal year.	When greater than ___ percent, report the level of commitment for the institution's entire balance and report the justification and defined multi-year spending plan for the balance as approved by the Board of Regents.
Other Unrestricted Program Revenue	1. In dollars 2. As a percentage of total Other Unrestricted Program Revenue expenditures for the fiscal year.	When greater than ___ percent, report the level of commitment for the institution's entire balance and report the justification and defined multi-year spending plan for the balance as approved by the Board of Regents.
Federal Indirect Cost Reimbursement	1. In dollars 2. As a percentage change from the prior fiscal year ending balance.	Report the level of commitment for institution's entire balance.
Gifts	1. In dollars	
Nonfederal Grants and Contracts	1. In dollars	
Federal Grants and Contracts	1. In dollars	
Other Restricted Program Revenue	1. In dollars	
TOTAL PROGRAM REVENUE BALANCES	1. In dollars 2. As a percentage of total program revenue expenditures for the fiscal year.	

¹Percentages to be determined by the Joint Committee on Finance under section 9148 (4m)(b)1 of 2013 Wisconsin Act 20.

ATTACHMENT 2

Information Relating to Balances as of June 30, 2013 Presented in Tables I Through IV

TABLE I

Unrestricted Program Revenue Balances in Dollars and as Percentage of Expenditures for the UW System as a Whole and Each UW Institution as of June 30, 2013

	Tuition		Auxiliary Operations		General Operations		Other Unrestricted Program Revenue	
	<u>Balance</u>	<u>%</u>	<u>Balance</u>	<u>%</u>	<u>Balance</u>	<u>%</u>	<u>Balance</u>	<u>%</u>
Eau Claire	\$20,787,897	18.8%	\$17,599,709	43.3%	\$7,513,614	134.3%	\$3,391,362	76.5%
Green Bay	8,656,999	16.0	5,677,763	30.1	5,002,998	182.7	360,894	21.9
La Crosse	25,874,274	23.9	25,189,654	57.3	25,993,052	337.5	247,730	4.2
Madison	143,006,274	14.7	77,970,384	19.4	67,849,375	40.6	24,219,721	16.7
Milwaukee	65,671,309	18.4	9,512,437	10.9	11,337,203	53.0	-174,666	-1.6
Oshkosh	15,023,433	15.0	15,103,566	36.7	16,187,823	147.7	227,735	3.4
Parkside	6,757,020	14.9	-73,055	-0.7	1,098,652	58.4	176,785	3.8
Platteville	17,289,648	23.6	3,015,772	10.2	2,000,214	15.8	4,119,536	69.0
River Falls	11,387,319	19.1	8,591,929	34.5	762,907	24.0	4,434,345	129.3
Stevens Point	16,591,764	18.3	16,064,016	40.0	3,794,297	54.8	711,671	7.7
Stout	4,417,320	4.8	2,145,475	7.2	8,494,546	35.6	406,455	7.0
Superior	2,006,125	5.6	-4,598,507	-48.4	236,389	14.1	46,529	3.1
Whitewater	34,743,217	32.5	6,254,676	14.9	3,400,651	37.8	1,082,846	15.9
UW Colleges	16,703,620	21.4	2,828,505	36.9	4,113,446	72.0	19,434	0.8
Extension	10,805,644	19.1	2,669,386	35.2	1,603,650	85.1	-2,312,501	-597.3
UW System								
Administration	<u>0</u>	0.0	<u>178,470</u>	74.9	<u>545,739</u>	379.8	<u>0</u>	0.0
Subtotal	\$399,721,863		\$188,130,180		\$159,934,556		\$36,957,876	
UW Systemwide	<u>151,777,431</u>	N.A.	<u>601,298</u>	N.A.	<u>11,868,612</u>	N.A.	<u>0</u>	N.A.
UW System								
Total	\$551,499,294	23.4%	\$188,731,478	22.5%	\$171,803,168	61.7%	\$36,957,876	17.1%

Source: UW System Administration.

TABLE II**Restricted Program Revenue Balances for the UW System
as a Whole and Each UW Institution as of June 30, 2013**

	<u>Gifts</u>	<u>Nonfederal Grants and Contracts</u>	<u>Federal Grants and Contracts</u>	<u>Other Restricted Program Revenue</u>
UW-Eau Claire	\$475,859	\$1,759,839	-\$220,899	\$1,403,342
UW-Green Bay	617,209	245,676	-826,563	251,362
UW-La Crosse	127,089	3,303,996	-203,389	239,081
UW-Madison	130,846,328	10,435,607	-2,526,773	943,086
UW-Milwaukee	-101,902	-254,292	-920,610	293,193
UW-Oshkosh	94,153	1,587,848	-1,377,647	364,618
UW-Parkside	14,013	54,272	-91,637	208,590
UW-Platteville	-664,721	135,329	-230,136	594,862
UW-River Falls	-24,736	131,403	-285,586	1,003,662
UW-Stevens Point	425,238	-818,946	1,174,722	2,319,740
UW-Stout	163,298	293,538	-297,397	4,082,736
UW-Superior	-313,469	159,547	-1,068,180	7,312
UW-Whitewater	-352,388	231,158	-2,035,342	1,889,517
UW Colleges	503,772	396,654	157,097	-1,551
UW-Extension	533,675	4,429,832	-88,930	1,129,494
UW-System Admin	0	112,714	0	0
UW-Systemwide	<u>17,174,585</u>	<u>-24,046,539</u>	<u>22,747,632</u>	<u>0</u>
UW System Total	\$149,518,003	-\$1,842,364	\$13,906,362	\$14,729,044

TABLE III**Federal Indirect Cost Reimbursement Balances for the UW System as a Whole and Each Institution as of June 30, 2013, and Percent Change from Prior Year**

	<u>Fund Balance</u>	<u>% Change from Prior Year</u>
Eau Claire	\$1,884,205	3.2%
Green Bay	1,481,044	8.1
La Crosse	472,492	-39.5
Madison	107,845,645	0.0
Milwaukee	9,928,774	-0.5
Oshkosh	1,136,750	72.0
Parkside	149,051	4.9
Platteville	280,026	2.9
River Falls	218,663	27.3
Stevens Point	1,653,258	-11.4
Stout	638,361	-22.4
Superior	786,319	6.2
Whitewater	767,753	6.1
UW Colleges	716,143	-1.6
Extension	7,885,540	8.1
UW System Administration	12,219,292	-2.0
UW Systemwide	<u>120,178</u>	-36.5
UW System Total	\$148,183,494	0.2%

TABLE IV**Unrestricted Program Revenue Balances Held by UW Systemwide as of June 30, 2013, and Percent Change from Prior Year**

	<u>Fund Balance</u>	<u>% Change from Prior Year</u>
Tuition	\$151,777,431	19.1%
Auxiliary Operations	601,298	-77.4
General Operations	11,868,612	307.7
Other Unrestricted Program Revenue	0	-100.0

ATTACHMENT 3

**UW System Unrestricted Program Revenue Fund Balances by Institution
and Level of Commitment as of June 30, 2013
Presented in Tables I Through VI**

TABLE I

Tuition Fund Balances by Institution and Level of Commitment as of June 30, 2013

	<u>Obligated</u>	<u>Planned</u>	<u>Designated</u>	<u>Reserves</u>	<u>Undocumented</u>	<u>Total</u>
Madison	\$47,734,822	\$70,271,452	\$0	\$25,000,000	\$0	\$143,006,274
Milwaukee	20,845,000	22,796,000	22,030,309	0	0	65,671,309
Eau Claire	5,541,579	8,219,330	2,776,989	4,250,000	0	20,787,898
Green Bay	60,000	0	498,314	8,098,685	0	8,656,999
La Crosse	0	5,547,554	17,863,773	2,462,947	0	25,874,274
Oshkosh	5,672,806	8,504,810	845,816	0	0	15,023,432
Parkside	576,000	5,725,000	456,000	0	0	6,757,000
Platteville	1,334,000	15,776,000	180,000	0	0	17,290,000
River Falls	2,021,640	6,854,915	2,373,609	137,155	0	11,387,319
Stevens Point	4,460,300	4,379,100	5,792,400	1,960,000	0	16,591,800
Stout	2,706,220	0	303,780	1,408,000	0	4,418,000
Superior	0	0	2,006,125	0	0	2,006,125
Whitewater	11,447,130	15,482,000	3,581,966	4,232,121	0	34,743,217
Colleges	977,721	8,220,529	929,646	6,575,725	0	16,703,621
Extension	2,694,921	3,733,165	167,225	1,501,835	0	8,097,146
System Admin	0	0	0	0	0	0
Systemwide	<u>111,285,190</u>	<u>7,833,454</u>	<u>17,000,000</u>	<u>0</u>	<u>15,658,787</u>	<u>151,777,431</u>
Subtotal	\$217,357,329	\$183,343,309	\$76,805,952	\$55,626,468	\$15,658,787	\$548,791,845
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,707,449</u>	<u>2,707,449</u>
Total	\$217,357,329	\$183,343,309	\$76,805,952	\$55,626,468	\$18,366,236	\$551,499,294
% of Total	39.41%	33.24%	13.93%	10.09%	3.33%	

TABLE II**Auxiliary Operations Fund Balances by Institution and Level of Commitment as of June 30, 2013**

	<u>Obligated</u>	<u>Planned</u>	<u>Designated</u>	<u>Reserves</u>	<u>Undocumented</u>	<u>Total</u>
Madison	\$67,111,225	\$1,833,172	\$0	\$9,025,987	\$0	\$77,970,384
Milwaukee	0	2,010,800	7,501,600	0	0	9,512,400
Eau Claire	5,712,775	11,886,934	0	0	0	17,599,709
Green Bay	119,391	1,234,415	3,122,446	1,201,511	0	5,677,763
La Crosse	7,390,162	6,453,054	11,346,438	0	0	25,189,654
Oshkosh	6,700,000	0	3,466,574	4,936,992	0	15,103,566
Parkside	0	0	0	-73,000	0	-73,000
Platteville	0	0	3,016,000	0	0	3,016,000
River Falls	0	0	8,591,929	0	0	8,591,929
Stevens Point	7,517,200	2,747,600	5,767,900	31,300	0	16,064,000
Stout	0	0	2,145,000	0	0	2,145,000
Superior	-4,387,114	0	-211,393	0	0	-4,598,507
Whitewater	0	0	6,254,676	0	0	6,254,676
Colleges	110,362	406,792	1,436,252	875,099	0	2,828,505
Extension	451,809	1,948,237	0	269,340	0	2,669,386
System Admin	0	0	178,470	0	0	178,470
Systemwide	0	0	254,315	0	346,983	601,298
Subtotal	\$90,725,810	\$28,521,004	\$52,870,207	\$16,267,229	\$346,983	\$188,731,233
Other	0	0	0	0	245	245
Total	\$90,725,810	\$28,521,004	\$52,870,207	\$16,267,229	\$347,228	\$188,731,478
% of Total	48.07%	15.11%	28.01%	8.62%	0.18%	

TABLE III**General Operations Fund Balances by Institution and Level of Commitment as of June 30, 2013**

	<u>Obligated</u>	<u>Planned</u>	<u>Designated</u>	<u>Reserves</u>	<u>Undocumented</u>	<u>Total</u>
Madison	\$6,548,454	\$0	\$57,003,468	\$4,297,454	\$0	\$67,849,376
Milwaukee	0	0	11,337,000	0	0	11,337,000
Eau Claire	474,155	0	7,039,459	0	0	7,513,614
Green Bay	121,895	928,000	3,623,036	330,067	0	5,002,998
La Crosse	8,932,348	7,626,208	9,434,496	0	0	25,993,052
Oshkosh	240,000	3,467,106	8,855,690	3,625,025	0	16,187,821
Parkside	0	509,000	590,000	0	0	1,099,000
Platteville	0	0	2,000,000	0	0	2,000,000
River Falls	0	0	762,907	0	0	762,907
Stevens Point	1,368,400	789,600	1,246,800	389,500	0	3,794,300
Stout	2,431,195	1,259,729	3,881,463	922,613	0	8,495,000
Superior	68,827	0	167,561	0	0	236,388
Whitewater	2,366,047	0	1,034,604	0	0	3,400,651
Colleges	728,175	530,655	958,210	1,748,557	147,847	4,113,444
Extension	503,389	254,964	819,458	25,840	0	1,603,651
System Admin	0	0	411,517	0	134,222	545,739
Systemwide	2,091,813	0	0	0	9,776,799	11,868,612
Subtotal	\$25,874,698	\$15,365,262	\$109,165,669	\$11,339,056	\$10,058,868	\$171,803,553
Other	0	0	0	0	385	385
Total	\$25,874,698	\$15,365,262	\$109,165,669	\$11,339,056	\$10,059,253	\$171,803,938
% of Total	15.06%	8.94%	63.54%	6.60%	5.86%	

TABLE IV**Other Unrestricted Program Revenue Fund Balances by Institution and Level of Commitment as of June 30, 2013**

	<u>Obligated</u>	<u>Planned</u>	<u>Designated</u>	<u>Reserves</u>	<u>Undocumented</u>	<u>Total</u>
Madison	\$18,973,245	\$4,083,547	\$0	\$0	\$0	\$23,056,792
Milwaukee	0	0	0	-174,666	0	-174,666
Eau Claire	3,385,064	0	0	0	0	3,385,064
Green Bay	0	0	309,414	51,480	0	360,894
La Crosse		247,730				247,730
Oshkosh	0	227,735	0	0	0	227,735
Parkside	2,000	0	175,000	0	0	177,000
Platteville	0	0	89,000	4,031,000	0	4,120,000
River Falls	0	4,324,336	110,010	0	0	4,434,346
Stevens Point	41,000	0	670,700	0	0	711,700
Stout	0	0	406,000	0	0	406,000
Superior	0	20,583	25,946	0	0	46,529
Whitewater	0	1,082,846	0	0	0	1,082,846
Colleges	0	0	0	19,434	0	19,434
Extension	0	361,934	0	828	0	362,762
System Admin						0
Systemwide						0
Subtotal	<u>\$22,401,309</u>	<u>\$10,348,711</u>	<u>\$1,786,070</u>	<u>\$3,928,076</u>	<u>\$0</u>	<u>\$38,464,166</u>
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-1,506,290</u>	<u>-1,506,290</u>
Total	\$22,401,309	\$10,348,711	\$1,786,070	\$3,928,076	-\$1,506,290	\$36,957,876
% of Total	60.61%	28.00%	4.83%	10.63%	-4.08%	

TABLE V**Federal Indirect Cost Reimbursement Fund Balances by Institution and Level of Commitment as of June 30, 2013**

	<u>Obligated</u>	<u>Planned</u>	<u>Designated</u>	<u>Reserves</u>	<u>Undocumented</u>	<u>Total</u>
Madison	\$2,509,485	\$20,277,703	\$0	\$85,058,457	\$0	\$107,845,645
Milwaukee	3,260,000	896,500	0	5,772,500	0	9,929,000
Eau Claire	30,000	699,000	755,205	400,000	0	1,884,205
Green Bay	0	65,600	1,378,857	36,587	0	1,481,044
La Crosse	0	375,782	0	0	96,710	472,492
Oshkosh	0	1,136,750	0	0	0	1,136,750
Parkside	0	0	0	0	149,000	149,000
Platteville	0	0	0	0	280,000	280,000
River Falls	0	0	0	0	218,663	218,663
Stevens Point	399,200	138,800	1,115,300	0	0	1,653,300
Stout	160,017	50,000	139,559	0	288,424	638,000
Superior	173,519	0	0	0	612,799	786,318
Whitewater	0	0	767,753	0	0	767,753
Colleges	500,000	95,544	105,212	15,387	0	716,143
Extension	2,239,110	3,289,689	0	2,356,736	0	7,885,535
System Admin	2,085,436	150,000			9,983,856	12,219,292
Systemwide					120,178	120,178
Subtotal	<u>\$11,356,767</u>	<u>\$27,175,368</u>	<u>\$4,261,886</u>	<u>\$93,639,667</u>	<u>\$11,749,630</u>	<u>\$148,183,318</u>
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>176</u>	<u>176</u>
Total	\$11,356,767	\$27,175,368	\$4,261,886	\$93,639,667	\$11,749,806	\$148,183,494
% of Total	7.66%	18.34%	2.88%	63.19%	7.93%	

TABLE VI**Total Unrestricted Program Revenue Fund Balances by Institution and Level of Commitment as of June 30, 2013**

	<u>Obligated</u>	<u>Planned</u>	<u>Designated</u>	<u>Reserves</u>	<u>Undocumented</u>	<u>Total</u>
Madison	\$142,877,231	\$96,465,874	\$57,003,468	\$123,381,898	\$0	\$419,728,471
Milwaukee	24,105,000	25,703,300	40,868,909	5,597,834	0	96,275,043
Eau Claire	15,143,573	20,805,264	10,571,653	4,650,000	0	51,170,490
Green Bay	301,286	2,228,015	8,932,067	9,718,330	0	21,179,698
La Crosse	16,322,510	20,250,328	38,644,707	2,462,947	96,710	77,777,202
Oshkosh	12,612,806	13,336,401	13,168,080	8,562,017	0	47,679,304
Parkside	578,000	6,234,000	1,221,000	-73,000	149,000	8,109,000
Platteville	1,334,000	15,776,000	5,285,000	4,031,000	280,000	26,706,000
River Falls	2,021,640	11,179,251	11,838,455	137,155	218,663	25,395,164
Stevens Point	13,786,100	8,055,100	14,593,100	2,380,800	0	38,815,100
Stout	5,297,432	1,309,729	6,875,802	2,330,613	288,424	16,102,000
Superior	-4,144,768	20,583	1,988,239	0	612,799	-1,523,147
Whitewater	13,813,177	16,564,846	11,638,999	4,232,121	0	46,249,143
Colleges	2,316,258	9,253,520	3,429,320	9,234,202	147,847	24,381,147
Extension	5,889,229	9,587,989	986,683	4,154,579	0	20,618,480
System Admin	2,085,436	150,000	589,987	0	10,118,078	12,943,501
Systemwide	<u>113,377,003</u>	<u>7,833,454</u>	<u>17,254,315</u>	<u>0</u>	<u>25,902,747</u>	<u>164,367,519</u>
Subtotal	\$367,715,913	\$264,753,654	\$244,889,784	\$180,800,496	\$37,814,268	\$1,095,974,115
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,201,965</u>	<u>1,201,965</u>
Total	\$367,715,913	\$264,753,654	\$244,889,784	\$180,800,496	\$39,016,233	\$1,097,176,080
% of Total	33.51%	24.13%	22.32%	16.48%	3.56%	

ATTACHMENT 4

Summary of Reserve Policies Used by Certain Other Universities, University Systems, and States

Illinois public universities: The University Guidelines adopted by the Legislative Audit Commission in 1982 and modified by that Commission in 1997 contain a section regarding reserves and excess funds. Under those guidelines, each university may retain a working capital allowance equal to the following: (1) the highest month's expenditures for the previous fiscal year; (2) encumbrances and current liabilities chargeable to current year operations and paid with 60 days of the close of the fiscal year; (3) deferred income and refundable deposits; (4) for entities with inventories, the amount necessary to increase the current inventory to normal operation levels; and (5) an allowance for anticipated payouts of accumulated vacation and sick leave in the next fiscal years.

In addition to the working capital allowance, the governing board may establish additional, identifiable reserves for the provision of additional non-instructional facilities. Under the guidelines, each reserve shall be limited to the specific project or projects for which it is created. The proposed use of the facility must be substantially similar and rationally related to the source of funds. The funds held in any reserve may only be used for the project or projects for which the reserve was create. Funds held in such reserves may only be used for improvement and expansion; they may not be used for operations or maintenance. The project or projects for which the reserves are created must have been approved by the Illinois Board of Higher Education prior to the implementation of the reserve. The Auditor General must be notified in writing prior to the implementation of a reserve.

Minnesota State Colleges and Universities: The governing board adopted a policy related to the general operating reserve in 2002. That policy identifies reserve funds as the portion of the institution's general fund balance that is designated as a reserve and for which no use is presently planned. The policy specifies three purposes for reserves: (1) to protect the system and individual institutions in cases of sudden shortfalls in revenue (unforeseen shortfall in enrollment or a reduction in state appropriation within the biennium); (2) to cover unanticipated expenses (one-time legal fees, major disasters, unanticipated increases in utility costs); and (3) to provide for extraordinary one-time investments. The policy requires colleges or universities with reserves of less than 5% of the general fund to submit a detailed plan for how the college or university will increase its general fund reserve to the 5% level. Colleges or universities that wish to maintain reserves above 7% of the general fund must submit a plan to be approved by the MnSCU vice chancellor-chief financial officer. Colleges and universities must receive prior approval of the vice chancellor-chief financial officer to reduce the reserve to less than 3%. If a college or university exhausts or may exhaust its general fund reserve, it may seek assistance from the system office. The chancellor of the system reports annually to the governing board regarding the uses and outlook for the system reserve and the outlook for college and university reserves. This report includes a list of all requests made to the vice chancellor-chief financial officer for use of system reserves, the requested use, and the dollar amount requested. The report also include requests

approved, the description of requests, and the dollar amount approved.

Pennsylvania State System of Higher Education: The Board of Governors adopted a policy related to unrestricted net assets in 2011. According to the policy, adequate net assets should be maintained in order to: (1) protect the system and individual institutions in cases of sudden revenue reductions; (2) provide resources to address unanticipated expenses, including emergencies; and (3) prepare for multi-year planning needs. The policy specifies that unrestricted net asset balances shall be maintained within the range of 5% and 10% of the University's current year educational and general revenue. Under the policy, education and general activities exclude auxiliary operations and restricted activities. The policy defines operating margin as the amount by which annual revenues exceed annual operating expenses and requires that the University's operating margin be within the range of 2% to 4%. Exceptions to these target ranges must be approved by the system chancellor.

State University of New York: The governing board adopted a policy regarding reserve funds in 2011. Under this policy, campuses are directed to establish and maintain unrestricted operation reserves of up to 25% or the equivalent of three months of operating expenses. The rationale given for maintaining this level of reserve is the "level of unpredictability and high potential for mid-year budget reductions" which require "that campuses be as prepared as possible to maintain academic operations." Campuses with operating reserves of less than 10% of operating expenditures will be put on a watch list and monitored by the system administration until the campus achieves the 10% reserve level. This provision can be suspended by the chancellor during period of extreme financial crisis. Campuses with more than 25% operating reserves are required to demonstrate the reason for the excess amount of reserves and submit a plan to reduce those reserves to the 25% level by the end of the next fiscal year. If these reserves remain above the 25% threshold at the end of the next fiscal year, the reserves will be subject to a system charge equal to 50% of the excess in the first quarter and 25% of the excess in both the second and third quarters. These excess reserves will be deposited in a university-wide pool to fund the system's strategic plan.

In addition to the operating reserves, campuses are encouraged to create and maintain strategic investment reserves for the following categories: (1) equipment replacement and repairs; (2) facilities rehabilitation and renovation; (3) program stabilization; (4) scholarships; (5) campus program initiatives; and (6) research investment. The campus must develop a plan for these reserves which is submitted to the system administration as part of the annual budget development process. This plan must include: (1) a detailed description of the project, initiative, or items for which the reserve is being established and its relationship to the campus mission; (2) the desired estimated value of the reserve as well as periodic payments anticipated to be committed to the reserve; and (3) a disbursement plan and timeline describing when and how the expenditures will be made. Campuses that expend less than 75% of the amount projected in the plan in any given year will be required to explain the discrepancy and submit a revised plan. If campus disbursements are less than 75% of planned disbursements in the second, a system charge will be applied.

University of Cincinnati: The Board of Trustees approved a policy regarding university

operating cash in 2006. Under this policy, the University is to take measures to build its cash balance such that the average daily balance is no less than 25% of annual operating budget expenditures and the minimum daily balance is no less than 17% of annual operating budget expenditures and transfers.

University of Indiana: The University's policy on general fund year-end balances was established in 1994 and updated in 2003. Under that policy, the University of Indiana at Bloomington is directed to maintain an uncommitted general fund year-end reserve of at least 2% of budgeted general fund income while all other campuses are directed to maintain reserves of 3%. The Finance and Audit Committee of the University Trustees receives reports of actual June 30 general fund reserves by campus and for any individual college, department, or center whose balance is more than \$500,000. The campus chancellor, with approval of the president, may commit or expand reserves above the 2% or 3% threshold. The commitment or expenditure of excess reserves are reported on the periodic basis to the Finance and Audit Committee.

According to the policy, the purpose of the reserve is to meet unforeseen and adverse shifts in general fund income and expenditures. Excess levels of reserves provide campuses with the resources to respond "to significant opportunities to enhance the University's program and activities." In some circumstances, a campus may be required to commit excess reserves over a period of several years to accumulate the resources needed to fund a particular activity.