

Section 9148 (4L)
2013 Wisconsin Act 20

(a) Within 90 days after the effective date of this paragraph, the board shall submit to the secretary of administration and the joint committee on finance a plan for the establishment of the incentive grant program under section 36.25 (52) of the statutes, as created by this act. The plan shall include all of the following:

1. Application procedures and procedures and criteria for awarding grants.
2. A plan to establish performance goals and accountability measures for each grant recipient.
3. A plan to track and report program results reported by grant recipients.
4. An acknowledgment that the amounts awarded are not base building.

(c) If the cochairpersons of the joint committee on finance do not notify the board within 14 working days after the date of the board's submission of the plan under paragraph (a) that the committee has scheduled a meeting for the purpose of reviewing the plan, the board may implement the plan, but only upon approval of the secretary of administration. If, within 14 working days after the date of the board's submission of the plan under paragraph (a), the cochairpersons of the joint committee on finance notify the board that the committee has scheduled a meeting for the purpose of reviewing the plan, the board may implement the plan only upon approval of the committee and the secretary of administration.

(d) Notwithstanding section 36.25 (52) (a) of the statutes, as created by this act, the board may award grants under section 36.52 (52) (a) of the statutes, as created by this act, only as provided in a plan that is approved under paragraph (c).

(2c) FLEXIBLE OPTION INITIATIVE. Of the moneys appropriated to the board under section 20.285 (1) (gb) of the statutes, as affected by this act, the board shall allocate \$650,000 in the first fiscal year of the fiscal biennium in which this subsection takes effect, and \$1,300,000 in the second fiscal year of the fiscal biennium in which this subsection takes effect, to fund the University of Wisconsin Flexible Option initiative.

(3i) FUNDING FOR MEDICAL SCHOOL PROGRAMS. From the appropriation under section 20.285 (1) (gb) of the statutes, as affected by this act, in each fiscal year of the fiscal biennium in which this subsection takes effect the board shall allocate \$1,500,000 for the Wisconsin Academy for Rural Medicine and the Training in Urban Medicine and Public Health Program at the University of Wisconsin School of Medicine and Public Health.

(4i) TRANSLATIONAL IMAGING RESEARCH.

(a) Of the moneys appropriated under section 20.285 (1) (gb) of the statutes, as affected by this act, the board shall allocate \$3,750,000 in the fiscal biennium in which this paragraph takes effect for costs incurred by the University of Wisconsin Carbone Cancer Center that relate to translational imaging research, research imaging and scanning, research imaging equipment, and the Wisconsin

Oncology Network. The funds allocated by the board under this paragraph shall be funds that would have been otherwise allocated to the University of Wisconsin System and not to any University of Wisconsin institution or the University of Wisconsin-Extension.

(b) The board may not expend the funds allocated under paragraph (a) unless it receives an equivalent amount for the same purpose from federal, private, or other sources.

(c) The board shall submit to the joint committee on finance a plan for the expenditure of the funds allocated under paragraph (a). If the cochairpersons of the joint committee on finance do not notify the board within 14 working days after the date on which the board submits the plan that the committee has scheduled a meeting for the purpose of reviewing the plan, the board may expend the funds as provided in the plan. If, within 14 working days after the date on which the board of regents submits the plan, the cochairpersons of the joint committee on finance notify the board that the committee has scheduled a meeting for the purpose of reviewing the plan, the board may implement the plan for the expenditure of the funds only upon approval by the committee.

(4L) ACCOUNT BALANCES; METHODOLOGY. The Board of Regents of the University of Wisconsin System shall develop a methodology for the calculation of program revenue balances and reserves, expressed in both dollars and as percentages of total annual expenses, for the University of Wisconsin System as a whole and for individual University of Wisconsin institutions, as defined in section 36.05 (9) of the statutes, and the extension. By September 1, 2013, the Board of Regents shall submit its proposed methodology to the joint legislative audit committee for approval, modification, or disapproval.

(4m) LIMITS ON ACCOUNT BALANCES; DISTRIBUTION AND EXPENDITURE OF FUNDS.

(a) In this subsection, "institution" has the meaning given in section 36.05 (9) of the statutes and includes the extension.

(b) By January 1, 2014, the Board of Regents of the University of Wisconsin System shall submit to the joint committee on finance all of the following:

1. Proposed limits on program revenue account balances for the University of Wisconsin System as a whole and for each individual institution and proposed reports relating to the limits.
2. Proposed policies regarding the annual distribution of tuition and fee revenue and state general purpose revenue to each institution.
3. Proposed policies regarding the expenditure of tuition and fee revenue and state general purpose revenue by each institution.

(c) If the cochairpersons of the joint committee on finance do not notify the Board of Regents within 14 working days after the date on which the Board of Regents submits the proposals under paragraph (b) that

Correspondence from the
Co-chairpersons of the
Joint Legislative Audit Committee
to the
President of the
University of Wisconsin
Board of Regents

Dated November 26, 2013



WISCONSIN STATE LEGISLATURE

Joint Audit Committee

Committee Co-Chairs:

State Senator Robert Cowles

State Representative Samantha Kerkman

November 26, 2013

Mr. Michael Falbo, President
Board of Regents
University of Wisconsin System
1860 Van Hise Hall
1220 Linden Drive
Madison, Wisconsin 53706

Dear Mr. Falbo:

On Wednesday, November 20, 2013, the Joint Legislative Audit Committee held a public hearing to discuss documents submitted to our offices related to the Board of Regents' proposed methodology for calculating UW System program revenue appropriation balances and reserves and its related policy. This information was submitted pursuant to the requirements of 2013 Wisconsin Act 20.

To aid the Committee in its consideration of the submissions, we requested assistance from the nonpartisan Legislative Audit Bureau, which prepared the enclosed memorandum that identified questions that were used by the Committee to clarify aspects of the proposed methodology and policy. In your absence, Ms. Regina Millner, Vice President of the Board of Regents, attended the hearing and testified before the Committee. We appreciate Ms. Millner's attendance and her testimony.

Based on the Legislative Audit Bureau's memorandum, and testimony received from UW System representatives, it is clear that the submissions were not actionable as presented and that additional effort is needed by the Board of Regents to clarify the language of the submissions. For example, the proposed methodology defines reserves as "funds set aside to protect against unbudgeted future expenses or losses" and not "funds set aside for specific expenditures or commitments." However, oral testimony offered by UW System representatives that described a "carry-forward balance" was found to be inconsistent with the language of the proposed methodology and policy adopted by the Board of Regents. The Board of Regents should determine whether the language of its proposed methodology and policy, the testimony of its representatives, or another alternative is most reflective of its intent.


Further, additional effort is needed to ensure the submissions include adequate analyses to support any methodology the Board of Regents chooses to adopt. Examples of such analyses could include annual fluctuations in enrollment and federal aid by institution to demonstrate a need for contingency funds at a certain level and other analyses based on the historical experience of each institution to support the appropriateness of a specified level for a "carry-forward balance."

In addition, and as shown in report 13-17, the Legislative Audit Bureau identified that a large portion of federal indirect cost reimbursement balances was "undocumented." Written testimony distributed by UW System representatives at the hearing indicated the importance of these balances for maintaining research competitiveness. Given both these conditions, we encourage the Board of Regents to focus not only on the calculation of federal indirect cost reimbursement balances, but also on additional monitoring steps it could create to increase the documentation of plans for these particular balances in order to expand the Board of Regents' oversight beyond a proposed report, which would show only the percentage change in the balance.

As co-chairpersons of the Joint Legislative Audit Committee, we have chosen to afford the Board of Regents an opportunity to make necessary clarifications and improvements. We anticipate that the Board of Regents will use the Legislative Audit Bureau's memorandum and the additional understanding gained from testimony at the November 20 hearing to revise its submissions. Once revised, the Board of Regents may again submit information to our offices for the Committee's review and consideration under the provisions of Act 20.

Thank you for your cooperation. We look forward to receiving and reviewing your revised submissions.

Sincerely,



Senator Robert Cowles, Co-chair
Joint Legislative Audit Committee



Representative Samantha Kerkman, Co-chair
Joint Legislative Audit Committee

Enclosure

cc: Members,
Joint Legislative Audit Committee

Members,
Joint Committee on Finance

Members,
Board of Regents
University of Wisconsin System

Kevin Reilly, President
University of Wisconsin System

Bob Lang, Director
Legislative Fiscal Bureau

Joe Chrisman, State Auditor
Legislative Audit Bureau



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Legislative Audit Bureau

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Joe Chrisman
State Auditor

DATE: November 19, 2013

TO: Members
Joint Legislative Audit Committee

FROM: Joe Chrisman
State Auditor 

SUBJECT: Proposed Methodology for Calculating Program Revenue Balances and Reserves

Section 9148 (4L) of 2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act, required the University of Wisconsin (UW) System Board of Regents to “develop a methodology for the calculation of program revenue balances and reserves, expressed in both dollars and as percentages of total annual expenses, for the University of Wisconsin System as a whole and for individual University of Wisconsin institutions...and the extension.” By September 1, 2013, Act 20 required the Board of Regents to submit its proposed methodology to the Joint Legislative Audit Committee for approval, modification, or disapproval.

At its July 2013 meeting, the Board of Regents approved its proposed methodology in a document titled “Methodology to Calculate UW System Program Revenue Appropriation Balances and Reserves” (proposed methodology), which UW System staff subsequently submitted to the co-chairpersons of the Joint Legislative Audit Committee. However, at its September 2013 meeting, the Board of Regents revised the proposed methodology and resubmitted it to the Joint Legislative Audit Committee co-chairpersons.

Act 20 also required the Board of Regents to propose limits on program revenue account balances for UW System as a whole and for each individual institution and to propose reports related to the limits. Act 20 requires the Board of Regents to submit the information on its proposed limits and proposed reports to the Joint Committee on Finance by January 1, 2014. Proposed limits were approved by the Board of Regents at its October 2013 meeting in a document titled “Policy on Program Revenue Balances and Reserves” (policy), which also includes information related to the methodology for determining reserve levels. UW System staff provided this policy to the co-chairpersons of the Joint Legislative Audit Committee in response to an August 2013 request for additional information on the calculation of reserves.

On October 23, 2013, UW System staff submitted the policy to the Joint Committee on Finance for its consideration under the 14-day passive review process prescribed by Act 20. Because UW System staff submitted the policy before the methodology was considered by the Joint Legislative Audit Committee, the co-chairpersons of the Joint Committee on Finance informed UW System in writing that the October 23, 2013 submission was not approved at this time and that the Joint Committee on Finance would schedule its meeting once the Joint Legislative Audit Committee has taken action on the proposed methodology.

ISSUES FOR CONSIDERATION

The Joint Legislative Audit Committee will hold a public hearing on November 20, 2013, for the purpose of considering whether to approve, modify, or disapprove UW System's proposed methodology. At the request of the co-chairpersons, and to aid the Joint Legislative Audit Committee in its deliberations, we have prepared this memorandum in which we have identified questions to help to clarify the methodology for calculating program revenue balances and the methodology for calculating reserves. We also have identified questions the Committee could consider related to the ongoing oversight of UW System's program revenue balances. Although we have not audited the proposed methodology or policy, this memorandum may be helpful in the Committee's discussion with representatives from UW System at the hearing on November 20. Based on the testimony it receives, the Committee could choose to approve or disapprove the proposed methodology; make modifications to the proposed methodology; defer any action to a future date; or direct the Board of Regents to make modifications and to submit a revised methodology to the Committee for its further consideration under the provisions of Act 20. If the Committee chooses to direct the Board of Regents to make modifications and to submit a revised methodology, we have described a number of possible modifications the Committee could consider.

Clarifying the Methodology for Calculating Program Revenue Balances

The proposed methodology indicates program revenue balances will be calculated on a cash basis subsequent to year-end reconciliation. Balances will be summarized by program revenue source, such as tuition (academic student fees and extension student fees) and federal indirect cost reimbursement. The policy indicates that a justification for certain balances exceeding a 15 percent threshold must be reported to the Board of Regents. We have identified four questions that may help to clarify the calculation of program revenue balances.

What should be the basis for the calculation of program revenue balances?

The proposed methodology indicates that balances will be calculated on a cash basis subsequent to year-end reconciliation, and will represent the cash on hand at the end of the fiscal year. However, the policy includes additional language indicating that "balances will not reflect accruals for advance deposits received for future academic terms, accounts payable, or accounts receivable." It is not clear if this indicates that balances would be reported on a cash basis or reported on a basis other than cash. The Committee could consider directing the Board of Regents to make modifications necessary to ensure the language used to describe the basis for calculating program revenue balances is consistent between the proposed methodology and the policy.

How should federal indirect cost reimbursement balances be reported?

Federal indirect cost reimbursement is received from the federal government for various costs incurred in administering federal grant programs. As of June 30, 2013, federal indirect cost reimbursement balances totaled \$148.2 million. Institutions have considerable flexibility in the use of federal indirect cost reimbursement and are able to accumulate and use federal indirect cost reimbursement balances to meet ongoing financial obligations. Although the proposed methodology indicates that federal indirect cost reimbursement balances will be reported in dollars for UW System as a whole and for each UW institution, these balances would not be calculated as a percentage of total expenditures. Instead,

the proposed methodology indicates that federal indirect cost reimbursement balances will be calculated as the percentage change from the prior year-end balance. Further, the policy would exempt federal indirect cost reimbursement from the 15 percent reporting threshold.

Given that in report 13-17 we categorized as undocumented 82.9 percent of federal indirect cost reimbursement balances as of June 30, 2012, the Committee could consider directing the Board of Regents to modify the proposed methodology to require institutions and UW System as a whole to report federal indirect cost reimbursement balances in dollars and as a percentage of total annual federal indirect cost reimbursement expenditures. In addition, the Committee could consider directing the Board of Regents to modify the proposed methodology to require institutions to report on the planned uses for federal indirect cost reimbursement balances when they exceed 15 percent of total federal indirect cost reimbursement expenditures.

How should balances at UW System Administration and in systemwide accounts be reported?

UW System maintains some program revenue balances for UW System Administration and in systemwide accounts, which are accounts maintained by UW System Administration for the benefit of all UW institutions. Portions of the amounts held in systemwide accounts are allocated to UW institutions at the end of each fiscal year for use in the subsequent fiscal year. However, it is unclear whether the proposed methodology and policy apply to these balances.

As of June 30, 2013, the total program revenue balance held by UW System Administration was \$13.1 million. After allocations to UW institutions, the total program revenue balance in systemwide accounts was \$180.2 million as of June 30, 2013. The Committee could consider requesting clarification and could consider directing the Board of Regents to modify the proposed methodology and policy to state explicitly that UW System Administration balances and systemwide account balances are subject to the requirements of each document. In addition, the Committee could consider directing the Board of Regents to modify the proposed methodology to clarify that amounts held in systemwide accounts for institutions will be allocated to the institutions prior to the calculation of institution balances and reserves, as this may more accurately reflect the balances available to each institution.

Should limits on balances be a reporting threshold or cap?

As noted, Act 20 requires the Board of Regents to submit to the Joint Committee on Finance its "proposed limits on program revenue account balances for the University of Wisconsin System as a whole and for each individual institution." The Board of Regents has not proposed a limit, or cap, on program revenue balances, but rather has established a 15 percent reporting threshold to the Board of Regents for balances from four program revenue sources. A discussion of this definition by the Joint Legislative Audit Committee may help the Joint Committee on Finance determine whether a reporting threshold or a cap would be most consistent with the Legislature's intent for the establishment of proposed limits under Act 20.

Clarifying the Methodology for Calculating Reserves

As noted, the Joint Legislative Audit Committee has been provided with two documents approved by the Board of Regents related to reserves: a proposed methodology and a policy. The policy indicates that institutions should target a reserve level of 10 percent of total fiscal year expenditures from tuition (academic student fees and extension student fees) and from auxiliary operations. Institutions with a reserve level of less than 10 percent from either of these two program revenue sources will be required to submit a savings plan to the Board of Regents indicating how they will achieve the minimum reserve level and within what time frame. We have identified four questions for consideration regarding the methodology for calculating reserves.

How should reserves be calculated by UW institutions?

Although the proposed methodology defines reserves, it does not indicate how reserves will be calculated by the institutions. Without additional clarification, institutions may report some or all of their program revenue balances as reserves, even when those balances have been set aside by institutions with the intent of using them for specific commitments. The Committee could consider directing the Board of Regents to modify the proposed methodology to address how institutions will calculate reserves.

What is an appropriate reserve level for UW System institutions?

Although the policy targets a 10 percent minimum reserve level from tuition and from auxiliary operations, it does not explain how the Board of Regents determined that this amount would constitute an appropriate minimum level of reserves for UW institutions. The proposed methodology indicates that reserves are funds set aside for contingencies such as “enrollment fluctuations, unexpected costs, or loss of state or federal aid.” Neither the proposed methodology nor the policy describes any analyses performed to determine the average annual fluctuation in enrollment or the average annual fluctuation in state or federal aid in order to propose a specific minimum reserve level. It is also unclear whether the State’s ultimate responsibility for UW System’s general obligation bonding and pension liabilities were considered in proposing a specific minimum reserve level. Further, it is unclear whether support from related external organizations, such as UW Foundation, was considered in proposing a specific minimum reserve level.

The proposed methodology defines reserves as “funds set aside to protect against unbudgeted future expenses or losses” and not “funds set aside for specific expenditures or commitments.” This definition of reserves would have necessitated that UW System hold approximately \$200 million of June 30, 2013 tuition balances to meet a 10 percent minimum reserve level. As we categorized in report 13-17, and including tuition and extension program receipts, UW System held \$26.1 million of June 30, 2012 balances as reserves, which represented a reserve level of 1.2 percent.

The Committee could consider requesting clarification on the factors used by the Board of Regents to determine an appropriate minimum level of reserves. The Committee could consider directing the Board of Regents to perform analyses of additional factors in order to determine more precisely each institution’s experience with contingencies, such as an unexpected decline in enrollment, and to use these analyses to revise the proposed methodology to create a specific minimum reserve level that is informed by each institution’s experience.

What is an appropriate reserve level for UW System Administration and systemwide accounts?

As noted, it is unclear whether the proposed methodology and policy apply to UW System Administration and systemwide accounts. If reserve levels are to be established, it may be appropriate for reserve levels for UW System Administration and systemwide accounts to be different than for other institutions. The Committee could consider requesting clarification and consider directing the Board of Regents to modify the proposed policy to address what an appropriate reserve level should be, if any, for UW System Administration and systemwide accounts.

Who should decide when reserves can be used and under what circumstances?

The proposed methodology does not clearly indicate who will be authorized to make decisions regarding the use of reserves accumulated below the minimum reserve level. Given that each UW institution's chancellor is responsible for the institution's financial administration, the Committee could consider directing the Board of Regents to modify the proposed methodology to require an institution's chancellor to approve, in writing, the use of any of the reserves.

Ongoing Oversight of Program Revenue Balances

To ensure transparency and accountability over UW System's program revenue balances, it is important that oversight roles are clearly understood. We have identified three questions for consideration regarding oversight roles.

Should the Board of Regents vote to approve plans submitted by institutions related to program revenue balances and reserves?

If an institution's balance exceeds the 15 percent reporting threshold, the policy requires the institution to submit to the Board of Regents justification for the amount above the threshold along with a multi-year spending plan. Similarly, if an institution's balance is below the minimum reserve level, the policy requires the institution to submit a savings plan on how it will achieve the minimum reserve level and within what time frame. Although the policy requires the Board of Regents to determine whether the justification institutions submit for the planned uses for balances above the 15 percent threshold is sufficient, a vote by the Board of Regents is not explicitly required to approve the plan. Similarly, the policy does not explicitly require the Board of Regents to vote to approve the plan submitted by an institution to achieve the minimum reserve level. Rather, the policy only requires the Board of Regents to determine that the institution has an adequate plan in place to meet the requirement in a timely manner. The Committee could consider directing the Board of Regents to modify the policy to require the Board of Regents to vote to approve any plan for use of balances above the reporting threshold and any plan to meet the reserve level.

When should program revenue balances and reserves be reported to the Board of Regents?

The proposed methodology does not include the establishment of a specific timeline for the annual consideration of program revenue balances by the Board of Regents, although the policy indicates balances will be “reported as soon as practicable after the fiscal year-end reconciliation.” UW System staff indicated their intention to annually report information related to balances and reserves to the Board of Regents in August. However, because the Board of Regents currently adopts a budget and establishes tuition rates for the subsequent academic year prior to its August meeting, these decisions would not be informed by reporting of program revenue balances.

If the Committee intends for the Board of Regents to adopt a budget and to establish tuition levels in recognition of accumulated program revenue balances, it could consider directing the Board of Regents to modify the proposed methodology to require the preparation of an interim report on estimated program revenue balances that the Board of Regents would review in advance of adopting a budget or establishing tuition rates. Further, the Committee could consider directing the Board of Regents to modify the proposed methodology to establish a specific timeline for the consideration of final year-end information on program revenue balances by the Board of Regents.

What should the role of the Legislature be in ongoing oversight of program revenue balances?

Act 20 requires the Board of Regents to submit to the Joint Committee on Finance “proposed reports relating to the limits” on program revenue balances. Although the policy creates proposed reports to the Board of Regents, neither the proposed methodology nor the policy establishes a reporting mechanism for ongoing monitoring by the Legislature. The Joint Legislative Audit Committee could consider advising the Joint Committee on Finance to create a process requiring the submission of annual reports to the Legislature related to program revenue balances. For example, these reports could be similar to those that are proposed to be submitted to the Board of Regents.

21-6 Program Revenue Calculation Methodology and Fund Balances Policy

As approved by the Board of Regents in April 2014



Office of the President

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April 15, 2014

Sent via email

Senator Robert Cowles
Representative Samantha Kerkman
Co-Chairs, Joint Audit Committee

Dear Senator Cowles and Representative Kerkman:

As required by 2013 Wisconsin Act 20, the University of Wisconsin Board of Regents met Friday, April 11, 2014, and approved revisions to Regent Policy 21-6 Program Revenue Calculation Methodology and Fund Balances Policy. Attached are the following documents:

- 1) Regent Policy 21-6 Program Revenue Calculation Methodology and Fund Balances
- 2) Board of Regents Resolution and Executive Summary on Regent Policy 21-6
- 3) Markup copy of Regent Policy 21-6

Regent Policy 21-6 replaces the prior version that was submitted to the Joint Legislative Audit Committee on October 18, 2013, and to the Joint Committee on Finance on October 23, 2013. These revisions reflect the issues raised in the Joint Legislative Audit Committee's November 26, 2013, letter to Board of Regents President Michael Falbo which encouraged clarification and revision to the previously submitted language.

I would be happy to answer any questions you may have about these documents.

Sincerely,

A handwritten signature in cursive script that reads "Ray Cross".

Ray Cross
President

Attachments

cc:

Senator Alberta Darling
Representative John Nygren
Regents
Cabinet
Chancellors
Bob Lang, LFB
Joe Chrisman, LAB

21-6 PROGRAM REVENUE CALCULATION METHODOLOGY AND FUND BALANCES POLICY

Scope

This policy addresses program revenue account balances and appropriate reserve levels, and the methodology for calculating these levels, at the UW System and UW System institutions.

Purpose

The purpose of this policy is to ensure the financial health and stability of each UW System institution and the UW System as a whole and to communicate an accurate fiscal condition more broadly and clearly. The policy balances prudent fiscal management with adequate levels of resources to carry out the universities' missions, programs, strategic goals, and objectives in an effective and efficient manner.

The policy ensures that:

- Individual institutions have the necessary flexibility to manage program revenue accounts to meet cash flow needs throughout the year, financial commitments, plans, and goals.
- Reporting of program revenue balances is at a level that provides the Board of Regents, Legislature, and public with a complete, consistent and transparent understanding of end-of-year balances.
- Institutions have the flexibility to continue to invest in and cultivate creative academic programs to reach all students seeking higher education.
- Institutions have the flexibility to invest in facilities that provide a world-class education.
- The University of Wisconsin is not incentivized to undertake unnecessary end-of-year spending in order to meet restrictive carry-forward caps.

Definitions and Methodology for Calculating

Program revenue balances shall be calculated subsequent to year-end reconciliation. Balances will be calculated starting with the prior year's ending cash balance, adding revenues received, and deducting expenditures made during the fiscal year. This produces the budgetary fund balance at the end of a given fiscal year. Balances will not reflect accruals for advance deposits received for future academic terms, accounts payable, or accounts receivable.

Year-end program revenue balances shall be calculated for:

Unrestricted Funds

- 1) Tuition (Academic Student Fees and Extension Student Fees)
- 2) Auxiliary Operations
- 3) General Operations
- 4) Other Unrestricted Program Revenue
- 5) Federal Indirect Cost Reimbursement

Restricted Funds

- 6) Gifts
- 7) Nonfederal Grants and Contracts
- 8) Federal Grants and Contracts
- 9) Other Restricted Program Revenue

A description of UW appropriations included in each category of program revenue balances will be provided to aid in understanding the information presented (attached).

Year-end balances in (1) Tuition (Academic Student Fees and Extension Student Fees), (2) Auxiliary Operations, (3) General Operations, and (4) Other Unrestricted Program Revenue shall be expressed in dollars for the UW System as a whole and for each UW institution. Year-end balances will be calculated as a percentage of the total expenditures by each fund for the fiscal year. Tuition balances shall be expressed as a percentage of the combined expenditures for GPR (less GPR-funded debt service) and Student Fees (tuition).

The UW System Administration year-end balances will be reported as an institution. UW system-wide balances, which are those maintained for the support of all UW institutions, will be reported in dollars and as a percentage change over the prior year-end balance. Allocations of tuition and fee balances to institutions from Systemwide accounts will occur before an institution calculates its program revenue balance.

Federal Indirect Cost Reimbursement year-end balances shall be expressed in dollars for the UW System as a whole and for each UW institution and as a percentage change from the prior year-end balance.

Reported year-end balances in (1) Tuition (Academic Student Fees and Extension Student Fees), (2) Auxiliary Operations, (3) General Operations, (4) Other Unrestricted Program Revenue, and (5) Federal Indirect Cost Reimbursement shall be categorized by the methodology used in the Legislative Audit Bureau's Report 13-17. The categories are obligated, planned, designated, reserves, and undocumented.

Year-end balances for restricted funds (Gifts, Nonfederal Grants and Contracts, Federal Grants and Contracts, and Other Restricted Program Revenue) will be reported in total dollars for the UW System as a whole and for each UW institution.

Policy Statement

It is the policy of the Board of Regents that the UW System and UW System institutions maintain appropriate balances to protect the institutions in cases of sudden shortfalls in revenue, to provide for extraordinary events, and to protect against unbudgeted future expenses or losses. Institutions should target a minimum level of 10% of total fiscal year expenditures for: (1) Tuition, and (2) Auxiliary Operations. This 10% target falls within the recommendation by the Government Finance Officers Association of reserve levels between 5-15% and should assist institutions in meeting the Higher Learning Commission accreditation requirements for financial

health. Institutions with balances of less than 10% of total fiscal year expenditures shall submit a savings plan for how they will achieve the minimum and within what time frame.

The Board of Regents recognizes there are many instances where accumulation of balances beyond the 10% level is a prudent practice in order to achieve strategic priorities over a multi-year period (establishing new academic programs, purchasing major equipment, funding start-up packages for new faculty, etc.). Institutions with balances above 15% of total fiscal year expenditures, inclusive of the minimum 10%, shall submit justifications for the entire balance along with a defined multi-year spending plan for each of the following four categories: (1) Tuition (Academic Student Fees and Extension Student Fees), (2) Auxiliary Operations, (3) General Operations, and (4) Other Unrestricted Program Revenue. If a balance exceeds the 15% threshold, the Chancellor shall approve that fund balance.

The 15% threshold is established to determine an amount which will require a report and Board approval. It is not established as a cap on end-of-year balances.

Oversight, Roles, and Responsibilities

UW System Administration will provide the Board of Regents with estimates of year-end program revenue balances for use in determining UW System's annual budget and setting tuition rates for the subsequent academic year. Actual year-end balances categorized by each institution and the System as a whole shall be reported annually after the fiscal year-end reconciliation and for formal approval by the Board of Regents at the October meeting. For those institutions with balances less than the 10% of the fiscal year's expenditures, the Board of Regents will determine by vote whether the institution has an adequate plan in place to meet the target within a reasonable period of time. For those institutions with balances above 15% of total year-end expenditures, the Board of Regents will determine by vote whether balances are adequately justified.

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.

Related Regent Policies and Applicable Laws

Section 36.46 Wisconsin Statutes

History: 10278, adopted 10/11/2013, created Regent Policy Document 21-6.

Revisions to UW System
Board of Regents Policy
on Program Revenue
Balances and Reserves

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the attached revised methodology to calculate UW System Program Revenue Appropriation Balances and Reserves and directs the President to submit the methodology to the Joint Legislative Audit Committee for its subsequent review and approval.

REVISIONS TO UW SYSTEM BOARD OF REGENTS POLICY ON PROGRAM REVENUE BALANCES AND RESERVES (RPD 21-6)

BACKGROUND

2013 Wisconsin Act 20 included the following directive to the UW System: the Board of Regents will develop a methodology for the calculation of program revenue balances and reserves, expressed in both dollars and as percentages of total annual expenses, for the University of Wisconsin System as a whole and for individual University of Wisconsin institutions, as defined in section 36.05(9) of the statutes, and the Extension. By September 1, 2013, the Board of Regents is required to submit its proposed methodology to the Joint Legislative Audit Committee for approval, modification, or disapproval. The proposed methodology was approved by the Board of Regents at its July 12, 2013, meeting and subsequently submitted to the Joint Legislative Audit Committee on July 18, 2013. A revised methodology was approved by the Board at its September 6, 2013, meeting and subsequently submitted to the Joint Legislative Audit Committee on September 11, 2013.

2013 Wisconsin Act 20 also required the Board of Regents to submit “proposed limits on program revenue account balances for the University of Wisconsin System as a whole and for each individual institution and proposed reports relating to the limits” to the Joint Committee on Finance by January 1, 2014. A Policy on Program Revenues Balances and Reserves (Regent Policy Document 21-6) was approved by the Board of Regents at its October 11, 2013, meeting and submitted to the Joint Committee on Finance on October 23, 2013.

The Joint Legislative Audit Committee received Report 13-17, *Level of Commitment for University of Wisconsin Program Revenue Balances* on November 15, 2013. The report covered carry forward balances for tuition and academic fees, General Operations, and Federal Indirect Cost Reimbursement for fiscal year 2012. The Committee held a hearing on the report and the proposed methodology on November 20, 2013. The report and hearing raised new issues about both the program revenue balances methodology and policy. The Legislative Audit Bureau staff indicated that they were procedurally prohibited from consulting with UW System staff on the draft methodology and policy during its development. The Joint Legislative Audit Committee subsequently requested that UW System staff work with the committee members and Legislative Audit Bureau staff on revisions to the methodology and policy. The Joint Committee on Finance deferred action on the program revenue balances policy until the Joint Legislative Audit Committee completed its review of the methodology.

REQUESTED ACTION

Approval of Resolution I.2.b.

DISCUSSION

The Joint Legislative Audit Committee co-chairs worked with UW System and Legislative Audit Bureau staff to develop revisions to the previously adopted program revenue methodology and policy. Conversations with legislators and stakeholders indicated that the issue would be more easily understood if the methodology for calculating the balances were incorporated into the policy. Based upon these discussions, a revised policy has been drafted and will, if approved by the Board of Regents, be submitted to the respective legislative committees.

The previously adopted Program Revenue Balances and Reserves Policy prescribed the funds to be included in the policy and the manner in which program revenue balances will be calculated at the end of each fiscal year. The policy established a minimum reserve of 10% of fiscal year expenses to ensure a degree of fiscal health. Institutions below this reserve level will be required to submit a plan to the Board of Regents that provides an approach and timeline for reaching the minimum. A reporting threshold of 15% was established to ensure that accumulations of resources above this amount are adequately justified. The 15% figure is designated as a threshold which requires a report and Board approval, and not as a cap on end-of-year balances.

The primary issue requiring clarification is whether carry forward funds of up to 10% would be held as a true reserve and whether carry forward funds held for future spending are limited to the amount over 10%. A secondary issue arose after the Legislative Audit Bureau's report 13-17. In the report, the UW System carry forward balances for the funds reviewed were categorized according to the level of commitment documented by each institution. In light of the report, legislators requested that the UW System policy require institutions to categorize carry forward funds in the same manner as the Legislative Audit Bureau.

The revised policy makes several clarifications to the methodology that will be used to calculate program revenue balances and reserves, including:

- Clarifying that the 10% minimum requirement applies to an annual minimum fund balance rather than a permanent reserve set aside in addition to any balances carried for future spending.
- Clarifying that balances for UW System Administration will be reported as an institution, and that systemwide balances will be reported both in dollars and as a percentage change over the prior year-end balance. Allocations from systemwide accounts to institutions will occur before an institution calculates its program revenue balance.
- Adding that year-end balances in each of the five designated funds: (1) Tuition (Academic Student Fees and Extension Student Fees); (2) Auxiliary Operations; (3) General Operations; (4) Other Unrestricted Program Revenue; and (5) Federal Indirect Cost Reimbursement will be categorized as obligated, planned, designated, reserves, and undocumented. These are the five categories developed and used by the Legislative Audit Bureau to classify UW's balances in Report 13-17.

- Adding other technical and definitional clarifications to enable clear interpretation and application.

Under the revised Policy, when an institution carries balances above the 15% reporting threshold, the entire balance will be reported to the Board of Regents for approval. In addition, the policy clarifies 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.

RELATED REGENT POLICIES

Regent Policy Document 21-6 (Program Revenue and Reserves Policy).

Attachment: Brief Notes for Select University Funds

Fund Title	Fund #	Fund Title	Source	Use
Tuition	Fund 131	Academic Student Fees	Tuition revenue from undergraduate, graduate, and professional level students. Both residents and non-residents.	Costs related to degree credit instruction including the full range of salary and non-salary charges supporting the academic mission of the University.
	Fund 189	Extension Student Fees	Tuition and fee revenue generated from UW-Extension sponsored credit outreach instruction.	Costs related to UW-Extension degree credit instruction including the full range of salary and non-salary charges supporting these activities.
Auxiliary Operations	Fund 128	Auxiliary Enterprises	Primarily Residence Hall, Food Service, Bookstore, Student Union, Intercollegiate Athletics, Parking and Segregated Fee receipts.	Funds are applied to the costs supporting these activities. In general, receipts support expenditures in the area/activity in which they were generated. Charges can include the full range of salary and non-salary costs including program revenue funded debt service where applicable.
General Operations	Fund 136	General Operations Receipts	Receipts are generated from a broad range of activities which have a close tie to and/or support the academic mission of the University.	Generally revenues support academic programs in the area in which the funds were generated. Examples of such operations include the World Class Instructional Design and Assessment Consortium, University Press, Babcock Dairy, and Pre-School Lab operations at UW-Madison.
Other Unrestricted Program Revenue	Fund 123	Principal Repayment - Interest and Rebates	Primarily receipts from relatively small appropriations.	Funds generated from these sources are generally applied to the activities from which they were generated.
	Fund 125	Prostate Cancer Research		
	Fund 127	State Lab of Hygiene		
	Fund 130	State Lab of Hygiene		
	Fund 132	Extension Non-Credit Program Receipts		
	Fund 137	Breast Cancer Research		
	Fund 138	Sale of Real Property		
	Fund 156	Aquaculture Center		
	Fund 157	Outdoor Skills Training		
	Fund 159	Physician and Health Care Provider Loan Assistance Programs - Repayments		
	Fund 165	Veterinary Diagnostics Lab: Non-State Agency Fees		
	Fund 166	Veterinary Diagnostics Lab: State Agency Fees		
	Fund 181	Great Lakes Fish Study		
	Fund 183	Extension Outreach		
	Fund 184	License Plate Scholarship Programs		
	Fund 185	Center for Urban Land Economics Research		
	Fund 187	Funds Transferred from Other State Agencies		
	Fund 195	Physician and Health Care Provider Loan Assistance Programs		
	Fund 199	Veterinary Diagnostic Lab		
	Fund 620	UW Hospital and Clinics Authority - Services Provided		
Federal Indirect Cost Reimbursement	Fund 150	Federal Indirect Cost Reimbursement	Receipts are generated through the application of an indirect cost rate to expenditures made on grants and contracts. Rates are negotiated between each institution and the federal government.	Receipts are generally applied to support and replenish the institutional infrastructure which enables our institutions to be successful in competing for these extramural awards. Funds used for competitive faculty start up packages, equipment, and maintenance of federally funded research facilities.

~~21-6 REGENT POLICY DOCUMENT~~
~~XX-YY UNIVERSITY OF WISCONSIN SYSTEM PROGRAM REVENUE CALCULATION~~
~~METHODOLOGY AND FUND BALANCES AND RESERVES POLICY~~

Scope

This policy addresses program revenue account balances and appropriate reserve levels, and the methodology for calculating these levels, ~~at the~~ UW System and UW System institutions.

Purpose

The purpose of this policy is to ensure the financial health and stability of each UW System institution and the UW System as a whole and to communicate an accurate fiscal condition more ~~that more~~ broadly and clearly. The policy balances prudent fiscal management with adequate levels of resources to carry out the universities' missions, programs, strategic goals, and objectives in an effective and efficient manner.

The ~~p~~Policy ensures that:

- ~~Continues to ensure that~~ Individual institutions have the necessary flexibility to manage program revenue accounts to meet cash flow needs throughout the year, financial commitments, plans, and goals.
- ~~Ensures that R~~eporting of program revenue ~~cash~~ balances is at a level that ~~provides the~~ Board of Regents, Legislature, and public with a complete, consistent and transparent understanding of end-of-year balances.
- ~~Ensures that I~~nstitutions have the flexibility ~~are incentivized~~ to continue to invest in and cultivate creative academic programs to reach all students seeking higher education.
- ~~Ensures that I~~nstitutions have the flexibility ~~are incentivized~~ to invest in facilities that provide a world-class education.
- ~~Ensures that T~~he University of Wisconsin is not incentivized to undertake unnecessary end-of-year spending in order to meet restrictive carry-forward caps.

Definitions and Methodology for Calculating

Program revenue balances shall be calculated subsequent to ~~on a cash basis subsequent to~~ year-end reconciliation. Balances will be calculated starting with the prior year's ending cash balance, adding revenues received, and deducting expenditures made during the fiscal year. This produces the budgetary fund balance at the end of a given fiscal year. Balances will not reflect accruals for advance deposits received for future academic terms, accounts payable, or accounts receivable.

Year-end program revenue balances shall be calculated for: ~~summarized as follows:~~

Unrestricted Funds

- 1) Tuition (Academic Student Fees and Extension Student Fees);

- 2) Auxiliary Operations;
- 3) General Operations, and
- 4) Other Unrestricted Program Revenue;
- 5) Federal Indirect Cost Reimbursement;

Restricted Funds

- ~~5)6)~~ Gifts;
- ~~6)7)~~ Nonfederal Grants and Contracts;
- ~~7)8)~~ Federal Grants and Contracts;
- ~~8)9)~~ Other Restricted Program Revenue.

A description of UW appropriations included in each category of program revenue balances will be provided to aid in understanding the information presented (attached).

Year-end balances in (1) Tuition (Academic Student Fees and Extension Student Fees), (2) ~~Major~~ Auxiliary Operations, (3) General Operations, and (4) Other Unrestricted Program Revenue shall be expressed in dollars for the UW System as a whole and for each UW institution. Year-end balances will be calculated as a and as a percentage of the total expenditures by each that fund category for the fiscal year. Tuition balances shall be expressed as a percentage of the combined expenditures for GPR (less GPR-funded debt service) and Student Fees (tuition) combined.

The UW System Administration year-end balances will be reported as an institution. UW system-wide balances, which are those maintained for the support of all UW institutions, will be reported in dollars and as a percentage change over the prior year-end balance. Allocations of tuition and fee balances to institutions from Systemwide accounts will occur before an institution calculates its program revenue balance. Allocations from Systemwide accounts will occur before an institution calculates its program revenue balance.

Reserves represent a portion of appropriation balances. Reserves are defined as funds set aside to protect against unbudgeted future expenses or losses, such as enrollment fluctuations, unexpected costs, or loss of state or federal aid. Reserves are not funds set aside for specific expenditures or commitments, but serve as an operating contingency. Reserves aid in the management of the University's and state's cash flow to meet daily expenditure needs.

Federal Indirect Cost Reimbursement year-end balances shall be expressed in dollars for the UW System as a whole and for each UW institution and as a percentage change from the prior year-end balance.

Reported year-end balances in (1) Tuition (Academic Student Fees and Extension Student Fees), (2) Auxiliary Operations, (3) General Operations, (4) Other Unrestricted Program Revenue, and (5) Federal Indirect Cost Reimbursement shall be categorized by the methodology used in the Legislative Audit Bureau's Report 13-17. The categories are obligated, planned, designated, reserves, and undocumented.

Year-end balances for restricted funds (Gifts, Nonfederal Grants and Contracts, Federal Grants and Contracts, and Other Restricted Program Revenue) will be reported in total dollars for the UW System as a whole and for each UW institution.

~~Designated balances are defined as funds set aside for specific expenditures or commitments. They include, but are not limited to, legally enforceable contracts, publicly made commitments, differential tuition, encumbrances, and advanced deposits.~~

Policy Statement

It is the policy of the Board of Regents that the UW System and UW System institutions maintain appropriate ~~balances~~reserves to protect the institutions in cases of sudden shortfalls in revenue, to provide for extraordinary events, and to protect against unbudgeted future expenses or losses. Institutions should target a ~~minimum reserve~~ level of 10% of total fiscal year expenditures for: ~~each of the following two categories:~~ (1) Tuition, and (2) Auxiliary Operations. This 10% target falls within the recommendation by the Government Finance Officers Association of reserve levels between 5-2015% and should assist institutions in meeting the Higher Learning Commission accreditation requirements for financial health. Institutions with ~~balances~~reserves of less than 10% of total fiscal year expenditures shall submit a savings plan ~~on for~~ how they will achieve the minimum and within what time frame.

The Board of Regents recognizes there are many instances where accumulation of balances beyond ~~the 10% level~~a reserve level ~~is~~ is a prudent practice in order to achieve strategic priorities over a multi-year period (establishing new academic programs, purchasing major equipment, funding start-up packages for new faculty, etc.). Institutions with balances above 15% of total fiscal year expenditures, inclusive of the minimum 10%, shall submit justifications for ~~the~~the entire balance along the amounts above the threshold along with a defined multi-year spending plan for each of the following four categories: (1) Tuition (Academic Student Fees and Extension Student Fees), (2) Auxiliary Operations, (3) General Operations, and (4) Other Unrestricted Program Revenue. ~~Balances above the 15% threshold should be designated by the Chancellor for specific purposes. If a balance exceeds the 15% threshold, the Chancellor shall approve that fund balance.~~

The 15% threshold is established to determine an amount limit which will require a report and Board approval. It is not established as aa cap on end-of-year balances.

~~Federal Indirect Costs Reimbursement year-end balances shall be expressed in dollars for the UW System as a whole and for each UW institution and as a percentage change from the prior year-end balance.~~

Oversight, Roles, and Responsibilities

UW System Administration will provide the Board of Regents with estimates of year-end program revenue balances for use in determining UW System's annual budget and setting tuition rates for the subsequent academic year. Actual year-end balances categorized by each institution and the System as a whole shall be reported annually after the fiscal year-end reconciliation and

for formal approval by the Board of Regents at the October meeting. Appropriation balances and reserve analysis for each institution and the System as a whole shall be reported annually as soon as practicable after the fiscal year end reconciliation. For those institutions with balances/reserves less than the 10% of the fiscal year's expenditures, targeted threshold, the Board of Regents will determine by vote whether the institution has an adequate plan in place to meet the target within a reasonable period of time. For those institutions with balances above 15% of total year-end expenditures, the Board of Regents will determine by vote whether balances are adequately justified.

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.

Related Regent Policies and Applicable Laws

Section 36.46 Wisconsin Statutes

History: 10278, adopted 10/11/2013, created Regent Policy Document 21-6.