



Legislative Fiscal Bureau

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May 15, 2003

Joint Committee on Finance

Paper #799

Depreciation Offset for General Purpose Revenue Funds (UW System)

CURRENT LAW

Depreciation costs for instructional buildings represent part of the costs which are funded through GPR and tuition. The UW System budget was last adjusted in 2001-03 to reflect revenue from depreciation charges.

GOVERNOR

No provision.

DISCUSSION POINTS

1. In the UW System, instructional costs are shared between GPR (65%) and tuition (35%). The Board of Regents sets tuition based on a calculation of total instructional costs which include direct and indirect costs.

2. Because debt service is funded solely through GPR, students do not share in these costs, even for instructional facilities. Therefore, a depreciation charge for new buildings is included in total instructional costs, and thus, in the calculation of tuition. The total depreciation charge, which is based on the expected useful life of an instructional building, is equal to 3.5% of the value of new facilities. The 35% student share of instructional costs is then applied to the total depreciation charge.

3. In each biennium, as new buildings are completed, the depreciation charge generates additional tuition revenues for the UW System. Because these funds are not set aside for depreciation-related items such as building maintenance, these revenues represent an increase in the amount of monies available to support the University's budget.

4. The tuition revenues generated by the depreciation charge and corresponding PR funding increase are taken as a direct GPR offset to instructional funding because the costs of

depreciation are not included in the University's operating budget.

5. While a charge for depreciation will be assessed to students in the 2003-05 biennium, the bill does not include additional tuition revenues which will be generated from such a charge, nor have such funds been used to offset GPR. Since the charge to students and related PR funding increase for the UW system is intended to be a GPR offset, the Committee could reduce the GPR instructional budget for the UW System by an equal amount. This type of adjustment has been made in each biennial budget since 1983-85.

6. The estimated cumulative net value of the new instructional buildings funded with GPR-supported bonding is \$60.1 million in 2003-04 and \$67.2 million in 2004-05. This increased value will generate additional tuition revenues of an estimated \$449,100 in 2003-04 and \$1,236,700 in 2004-05, which would fund corresponding PR increases. Consequently, an equivalent amount of GPR could be deleted from the University's budget.

7. Given the Governor's proposed \$250 million GPR base reduction for the UW System and tuition offset with undergraduate tuition increase limits, the Committee could forgo the tuition offset for depreciation during the 2003-05 biennium. The tuition limit for resident undergraduate students would prohibit the UW System Board of Regents from increasing tuition in order to offset an additional GPR reduction related to the depreciation offset. However, as part of its budgetary planning for 2003-04, the UW System has included a portion of the offset for depreciation as part of its estimated additional tuition related expenditures of \$20.5 million in 2003-04 and \$29.2 million in 2004-05.

ALTERNATIVES

1. Reduce the University's budget by \$449,100 GPR in 2003-04 and \$1,236,700 GPR in 2004-05 and provide \$449,100 PR in 2003-04 and \$1,236,700 PR in 2004-05 to reflect the application of revenues to be received in 2003-05 from depreciation charges assessed to students.

| <u>Alternative 1</u> | <u>GPR</u> | <u>PR</u> | <u>TOTAL</u> |
|---|---------------|-------------|--------------|
| 2003-05 FUNDING (Change to Bill) | - \$1,685,800 | \$1,685,800 | \$0 |

2. Maintain current law.

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