



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #775

Fuel and Utility Expenses (UW System)

[LFB 2005-07 Budget Summary: Page 497, #2]

CURRENT LAW

Fuel and utility costs for instructional buildings represent part of the costs that are funded through GPR. Annual base level funding for fuel and utilities is \$56,921,200 GPR.

GOVERNOR

Provide \$22,543,900 GPR and \$15,583,700 PR in 2005-06 and -\$1,858,400 GPR and \$45,283,700 PR in 2006-07 for fuel and utility expenses for the UW System.

DISCUSSION POINTS

1. The UW System fuel and utility appropriation provides funding for items such as coal, natural gas, steam production, chilled water, electricity, and fuel and fuel oil. Currently, UW System non-auxiliary operations utility costs are paid from a GPR-funded fuel and utility appropriation with base funding of \$56,921,200.

UW System Fuel and Utility Expenditure Estimate

2. As part of the 2005-07 budget process, the Department of Administration (DOA) estimates energy cost needs for all state agencies. Table 1 shows the UW System non-auxiliary fuel and utility cost estimates for 2005-07. The DOA analysis estimates a total biennial fuel and utility cost increase of \$80,650,400 to reflect projected fuel and utility rate increases for 2005-07 and adjust base funding to reflect a utility appropriation shortfall for 2004-05. The funding estimate addresses four specific areas: (a) resolves the base funding deficit of \$29,455,600; (b) adjusts the funding for estimated cost increases over the biennium; (c) funds fuel and utility expenditures for

new facilities coming online during the biennium; and (d) provides funding related to the UW-Madison co-generation facility.

TABLE 1

**UW System 2005-07 Estimated Increases in Fuel and Utilities
(Change to Base)**

	<u>2005-06</u>	<u>2006-07</u>	<u>2005-07 Funding</u>
2004-05 Base Funding Shortfall	\$29,455,600	\$29,455,600	\$58,911,200
2005-07 Cost Increase	3,333,100	6,830,700	10,163,800
New Space 2005-07	1,623,400	2,905,900	4,529,300
Co-Generation Facility Operations	<u>2,969,900</u>	<u>4,076,200</u>	<u>7,046,100</u>
Subtotal	\$37,382,000	\$43,268,400	\$80,650,400
Account for Shift of Fees in 2002-03	<u>2,605,100</u>	<u>2,605,100</u>	<u>5,210,200</u>
Total	\$39,987,100	\$45,873,500	\$85,860,600

3. The most significant portion of the funding increase addresses the current funding shortfall. The UW System GPR-funded fuel and utility appropriation has not been sufficiently funded since 1999-00, resulting in annual shortfalls that have been accommodated through s. 13.10 transfers, delayed billing, transfer of appropriation authority within the fuel and utility appropriation between fiscal years, and transfers from the tuition appropriation for the tuition share of fuel and utility expenditures.

4. In 2003-04, actual fuel and utility expenditures from the UW System GPR fuel and utility appropriation were \$66,106,100. Current estimates for 2004-05 fuel and utility expenditures indicate an increase to \$86,376,800; with base funding of \$56,921,200, the appropriation base has a shortfall of \$29,455,600 in 2004-05. Since 2003-04, state utility costs have increased most notably for coal (64%), natural gas (38%), and electricity (16%), while most other fuel types have experienced 10% increases.

5. In addition to the \$29,455,600 annual adjustment to the base, the estimate also includes an increase of \$3,333,100 in 2005-06 and \$6,830,700 in 2006-07 over 2004-05 expenditures related to additional utility rate increases over the biennium. The forecast utility rates for 2005-07 show some stabilization in coal, natural gas, and electricity rate increases with estimated annual increases of between 3.5% and 7.0%.

6. The estimate also includes the increased energy costs attributable to the addition of new facilities at a number of UW System institutions. Over the 2005-07 biennium, approximately 1.3 million square feet of additional space will be added to UW System institutions, resulting in increased energy demands. For 2005-07, the cost for fuel and utility expenditures related to the new

space is an estimated \$1,623,400 in 2005-06 and \$2,905,900 in 2006-07.

7. The 2005-07 expenditure estimates include \$2,969,900 in 2005-06 and \$4,076,200 in 2006-07 for the operating costs for UW-Madison's co-generation steam and chilled water facility. Under a memorandum of understanding, UW-Madison and Madison Gas and Electric share in ongoing maintenance and operation of the facility; the estimate reflects UW-Madison's share of these costs and the steam and chilled water generated by the facility.

8. Finally, in the 2003-05 biennial budget, the UW System increased its fee authority by \$2,605,100 to cover the fee portion of the GPR increase in utilities for the 2002-03 fiscal year. This would account for an annual tuition offset of \$2,605,100 that should previously have been transferred to the UW System's fuel and utility appropriation from their general program operations appropriation to reflect the fee share of the utility funding in 2002-03. Since 2002-03, the \$2,605,100 has been utilized for fuel and utility funding through internal sales credits from the tuition appropriation to the utility appropriation.

9. The Committee could correct the base for the UW Systems' fuel and utility appropriation by providing an additional \$2,605,100 GPR annually and decreasing the largest GPR general program operations appropriation by the same amount in order to account for an annual tuition offset that should previously been made to these appropriations. This correction would not increase the tuition appropriation or result in additional tuition increase during the 2005-07 biennium since the \$2,605,100 is already reflected in the UW System's tuition base.

Fuel and Utility Funding

10. UW System energy costs for most academic facilities are funded through a combination of GPR and PR tuition and fee revenues; auxiliary operations' fuel and utility expenditures are generally paid directly through the auxiliary appropriation and their cost estimates and funding are not considered as part of this funding request.

11. During biennial budget deliberations, the payment of the tuition share of utility costs is accomplished by increasing the PR tuition appropriation and making a corresponding decrease in the GPR general program operations appropriation. The resulting reduction in GPR for general program operations is offset through an increase in the GPR-funded fuel and utility appropriation. By making this adjustment, fuel and utility costs can be paid through a mix of GPR and PR funding, with the GPR being provided in the fuel and utilities appropriation and the PR from the tuition appropriation.

12. For the 2005-07 biennium, the Governor's recommendation would provide an increase of \$81,552,900 for UW System fuel and utility expenses with \$20,685,500 GPR and \$60,867,400 PR. Table 2 shows the proposed funding adjustment for the UW System fuel and utility expenditures in AB 100. The Governor's provision provides an additional \$745,600 in 2005-06 and \$156,900 in 2006-07 over the estimated fuel and utility cost increase of \$80,650,400. In addition, the proposed funding does not include a GPR offset between the UW System's general

program operations appropriation and the fuel and utilities appropriation related to the full funding provided for fuel and utilities through tuition.

TABLE 2

**Proposed AB 100 Fuel and Utility Funding Adjustments
(Change to Base)**

	<u>2005-06</u>	<u>2006-07</u>	<u>Total</u>
GPR			
General Program Operations	-\$13,647,900	-\$17,630,200	-\$31,278,100
Fuel and Utilities	<u>36,191,800</u>	<u>15,771,800</u>	<u>51,963,600</u>
Subtotal -- GPR	\$22,543,900	-\$1,858,400	\$20,685,500
PR			
Tuition	<u>\$15,583,700</u>	<u>\$45,283,700</u>	<u>\$60,867,400</u>
Total -- All Funds	\$38,127,600	\$43,425,300	\$81,552,900

13. The insufficient GPR offset provided under the Governor's proposal would cause a shortfall in the UW System's GPR-funded utility appropriation during the 2005-07 biennium based on the projected increase in fuel and utility funding included in AB 100. If the Committee approved the Governor's recommendation, the UW System would be unable to fund the estimated fuel and utility expenditures from the GPR-funded utility appropriation. The UW System could utilize the additional expenditure authority provided under the Governor's proposal through internal fund transfers and sales credits, or request a formal transfer between appropriations through a subsequent s. 13.10 request.

14. The proposed funding in AB 100 would allocate \$45,283,700 PR from tuition in 2006-07 while providing an overall increase related to fuel and utility funding of \$43,425,300. The structure of the funding provided in 2006-07 would result in a GPR base budget reduction of \$1,858,400 for the UW System operations that would be offset by a tuition increase.

15. Overall, tuition would need to increase by 5% to 7% annually in the 2005-07 biennium based on provisions that include tuition funding under AB 100. The tuition increase related to fuel and utilities would be approximately 3% in 2005-06 and an additional 5.4% in 2006-07.

16. The Committee could consider providing UW System's fuel and utility funding as illustrated in Table 3. Total funding under this alternative would be reduced by \$902,500 to match the estimated fuel and utility expenditures, the fuel and utility appropriation would be increased by the same amount as the estimate, and the GPR-general program operations appropriation offset would be the same as the tuition share of the fuel and utility cost. Compared to the Governor's provision, the net GPR provided during the 2005-07 biennium would remain at \$20,685,500 with

\$1,858,400 GPR less in 2005-06 and an additional \$1,858,400 in 2006-07. The tuition share would be reduced by \$902,500, with an additional \$1,113,000 PR in 2005-06 and a reduction of \$2,015,300 PR in 2006-07.

TABLE 3

**Fuel and Utility Funding Adjustments with Corrected Tuition Offset and Total Funding
(Change to Base)**

	<u>2005-06</u>	<u>2006-07</u>	<u>Total</u>
GPR			
General Program Operations	-\$16,696,500	-\$43,268,400	-\$59,964,900
Fuel and Utilities	<u>37,382,000</u>	<u>43,268,400</u>	<u>80,650,400</u>
Subtotal -- GPR	\$20,685,500	\$0	\$20,685,500
PR			
Tuition	<u>\$16,696,500</u>	<u>\$43,268,400</u>	<u>\$59,964,900</u>
Total -- All Funds	\$37,382,000	\$43,268,400	\$80,650,400

17. Under the proposed alternative funding shown in Table 3, the GPR offset would reduce funding for the UW System's operations appropriation. However, since the UW System has the ability to combine the GPR general program operations funds with monies received from tuition, the additional tuition authority related to this provision would offset the GPR general program operations reduction with no net effect on the total operations funding for the UW System.

18. The cost sharing between student fees and GPR is not statutory; thus, the Governor and the Legislature may either approve or alter the ratio of funding requested by the UW System as part of the biennial budget process. In its 2005-07 biennial budget request, the UW System requested fuel and utility funding utilizing a 65% GPR/35% Fee split. Table 4 shows how the 2005-07 fuel and utility estimate would be funded utilizing the UW System's requested funding split.

TABLE 4

**Fuel and Utility Funding With 65% GPR/35% Fee Split
(Change to Base)**

	<u>2005-06</u>	<u>2006-07</u>	<u>Total</u>
GPR			
General Program Operations	-\$13,083,700	-\$15,143,900	-\$28,227,600
Fuel and Utilities	<u>37,382,000</u>	<u>43,268,400</u>	<u>80,650,400</u>
Subtotal -- GPR	\$24,298,300	\$28,124,500	\$52,422,800
PR			
Tuition	<u>\$13,083,700</u>	<u>\$15,143,900</u>	<u>\$28,227,600</u>
Total -- All Funds	\$37,382,000	\$43,268,400	\$80,650,400

19. Rather than adhere to a GPR/Fee cost-sharing formula, the Committee could set both the GPR and tuition levels for fuel and utility funding by balancing the UW System's fuel and utility cost needs with the state's ability to fund those costs with GPR and the ability of students and families to bear a portion of the increased costs through increased tuition.

20. If the provision of estimated fuel and utility costs for the UW System were fully funded through student tuition with no additional net GPR funding provided for fuel and utility expenditures during the 2005-07 biennium, the tuition funding for the provision would need to increase by \$21,798,300 in 2005-06 to \$37,382,000, and decrease by \$2,015,300 in 2006-07 to \$43,268,400. Under this alternative, the UW System GPR-funded general program operations appropriation would be reduced to provide an equivalent GPR increase to the GPR-funded fuel and utility appropriation. Table 5 illustrates this alternative.

TABLE 5
Fuel and Utility Funding With All Tuition
(Change to Base)

	<u>2005-06</u>	<u>2006-07</u>	<u>Total</u>
GPR			
General Program Operations	-\$37,382,000	-\$43,268,400	-\$80,650,400
Fuel and Utilities	<u>37,382,000</u>	<u>43,268,400</u>	<u>80,650,400</u>
Subtotal -- GPR	\$0	\$0	\$0
 PR			
Tuition	<u>\$37,382,000</u>	<u>\$43,268,400</u>	<u>\$80,650,400</u>
 Total -- All Funds	\$37,382,000	\$43,268,400	\$80,650,400

21. Based on current tuition revenue, fully funding the fuel and utility estimate with additional tuition revenue would result in a 3% to 4% tuition increase in 2005-06 and relatively no change to the tuition increase estimate for 2006-07 when compared to the Governor's provision. Based on the existing tuition-funded provisions in the Governor's bill, tuition would need to increase by approximately 9% to 10% in 2005-06 if the fuel and utility cost increases for 2005-07 are fully funded through tuition, while the tuition increase of between 5% and 7% in 2006-07 would remain the same under this alternative.

ALTERNATIVES

A. Modification

1. Reduce the University's largest state operations appropriation by \$2,605,100 GPR annually and increase the University's fuel and utility appropriation by \$2,605,100 GPR annually to reflect the application of revenues received since 2002-03 from fuel and utilities charges assessed to

students.

2. Maintain current law.

B. Fuel and Utility Funding

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation to adjust the funding amounts to correct the tuition offset and total funding, consistent with Table 3, as follows:

	<u>2005-06</u>	<u>2006-07</u>	<u>2005-07</u>
GPR			
General Program Operations	-\$3,048,600	-\$25,638,200	-\$28,686,800
Fuel and Utilities	<u>1,190,200</u>	<u>27,496,600</u>	<u>28,686,800</u>
Subtotal -- GPR	-\$1,854,400	\$1,858,400	\$0
PR			
Tuition	<u>\$1,112,800</u>	<u>-\$2,015,300</u>	<u>-\$902,500</u>
Total -- All Funds	-\$745,600	-\$156,900	-\$902,500

<u>Alternative B2</u>	<u>PR</u>
2005-07 FUNDING (Change to Bill)	- \$902,500

3. Modify the Governor's recommendation to provide funding for the fuel and utility costs utilizing a 65% GPR/35% Fee funding split, consistent with Table 4, as follows:

	<u>2005-06</u>	<u>2006-07</u>	<u>2005-07</u>
GPR			
General Program Operations	\$564,200	\$2,486,300	\$3,050,500
Fuel and Utilities	<u>1,190,200</u>	<u>27,496,600</u>	<u>28,686,800</u>
Subtotal -- GPR	\$1,754,400	\$29,982,900	\$31,737,300
PR			
Tuition	<u>-\$2,500,000</u>	<u>-\$30,139,800</u>	<u>-\$32,639,800</u>
Total -- All Funds	-\$745,600	-\$156,900	-\$902,500

<u>Alternative B3</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	\$31,737,300	- \$32,639,800	- \$902,500

4. Modify the Governor's recommendation and fully fund the estimated fuel and utility cost increase with tuition, consistent with Table 5, as follows:

	<u>2005-06</u>	<u>2006-07</u>	<u>2005-07</u>
GPR			
General Program Operations	-\$23,734,100	-\$25,638,200	-\$49,372,300
Fuel and Utilities	<u>1,190,200</u>	<u>27,496,600</u>	<u>28,686,800</u>
Subtotal -- GPR	-\$22,543,900	\$1,858,400	-\$20,685,500
PR			
Tuition	<u>\$21,798,300</u>	<u>-\$2,015,300</u>	<u>\$19,783,000</u>
Total -- All Funds	-\$745,600	-\$156,900	-\$902,500

<u>Alternative B4</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$20,685,500	\$19,783,000	- \$902,500

5. Delete the provision, which would maintain current base funding of \$56,921,200 GPR annually for the UW System's fuel and utility appropriation. Under this alternative, the issue of fuel and utility funding for the UW System would need to be addressed in subsequent legislation.

<u>Alternative B5</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$20,685,500	- \$60,867,400	- \$81,552,900

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