



## Legislative Fiscal Bureau

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May, 2021

Joint Committee on Finance

Paper #637

### UW System Revenue Investment (UW System)

[LFB 2021-23 Budget Summary: Page 605, #6]

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#### CURRENT LAW

The state investment fund is managed by the State of Wisconsin Investment Board (SWIB) and is used as an investment pool for portions of retirement trust assets and cash balances of the state's various funds. In addition, local governments can elect to invest their cash balances in the fund. SWIB states that the objective of the fund is to provide liquidity, safety of principal, and competitive rates of return. The fund is invested primarily in obligations of the US government and its agencies, and high quality commercial bank and corporate obligations. With current market interest rates at very low levels, in March, 2021, the state investment fund had an annualized rate of return of 0.06%.

#### DISCUSSION POINTS

1. The annualized rate of return of the state investment fund has mirrored the decline in market interest rates. In July, 2019, the annualized rate of return was 2.385%, but the rate of return fell significantly in the spring of 2020 and by June, 2020, the annualized rate of return was 0.147%. With current market interest rates at very low levels, in April, 2021, the state investment fund had an annualized rate of return of 0.058%.

2. UW System program revenue balances are considered part of the state's general fund, but retain interest earnings on their cash balances. (In this context, general fund refers to GPR, PR, and FED balances that are all considered part of the general fund for cashflow purposes). These UW System PR balances are invested as part of the state investment fund and in April, 2021, earned approximately \$69,000. In contrast, with the higher earning rates (2.39%) realized in July, 2019, the UW System PR balances at that time earned approximately \$2.8 million.

3. Under the Governor's 2021-23 budget proposal, the UW System would be authorized to manage the investment of any revenues by directing SWIB to invest these moneys according to investment policies established by the Board of Regents. Staff from the UW System indicate that this investment option could be used for approximately \$350 to \$400 million to increase the rate of return on their cash balances. The potential earnings would depend on the mix of assets, which is not known. An investment allocation plan would need to be developed and may include various fixed income funds, bank loans, and global equities.

4. The UW System's PR balances that are held in the state investment fund are reported as part of the state's general fund cash balance in the State Controller's monthly financial condition report, with an endnote indicating this practice. If a portion of these PR balances are transferred from the state investment fund to another investment account managed by SWIB, then the state's cashflow reports would reflect the lesser PR balance amount. However, in April of 2021 the state's cash position exceeded \$2.6 billion, attributable to the current large GPR balance and the receipt of federal moneys, so, at present, a potential reduction in the amount of these PR balances held in the state investment fund may not be a significant concern.

## **ALTERNATIVES**

1. Specify that the Board of Regents could manage the investment of any revenues designated by the Board of Regents, including revenues from gifts, grants, and donations, by directing SWIB to invest these moneys according to investment policies established by the Board. Require SWIB to invest moneys designated by the Board under the Board's investment policies and in accordance with the contract, except that SWIB may decline to follow any investment policy or directive that involves unreasonable risk or that would be in violation of SWIB's standard of responsibility.

2. Take no action.

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