



## Legislative Fiscal Bureau

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May 6, 2014

TO: Members  
Joint Finance Committee

FROM: Bob Lang, Director

SUBJECT: UW System: Section 36.46 Review of Student Fee-Funded Auxiliary Reserves --  
Agenda Item VI

### REQUEST

Under s. 36.46 of the statutes, the Board of Regents may not accumulate auxiliary reserve funds of more than 15% of the previous fiscal year's total revenues at any institution without the approval of the Secretary of the Department of Administration (DOA) and the Joint Committee on Finance. This limitation applies only to auxiliary operations funded with student segregated fees or other student fees. According to UW System financial administration policy, student fee-funded auxiliaries subject to this limitation are housing, food services, student unions, athletics, and recreational facilities.

On September 13, 2013, the UW System Senior Vice President for Administration and Fiscal Affairs submitted a request to the DOA Secretary and the Joint Committee on Finance for the approval of student fee-funded auxiliary reserves above the 15% threshold for seven of the 13 four-year campuses and the UW Colleges. On September 27, 2013, the DOA Secretary sent a letter to the Co-Chairs of the Joint Finance Committee recommending that the UW System's student fee-funded auxiliary reserve plan be approved. The Co-Chairs sent a letter to the DOA Secretary on October 4, 2013, notifying him that an objection to the plan had been received.

### ANALYSIS

The Committee delayed action on the UW System's student fee-funded auxiliary reserve plan because members wished to consider the reserve plan along with the Board of Regents' proposed policy on all program revenue fund balances. The UW System's plan pertains to student fee-funded auxiliary reserves that will be accumulated during the 2013-14 fiscal year. Given that there are less than two months remaining in the fiscal year, the institutions whose student fee-funded auxiliary reserves were planned to be more than 15% of the previous fiscal year's total

revenues likely have few fiscally prudent options for significantly drawing down their reserves before the end of the fiscal year. For this reason, the Committee may wish to consider approving the UW System's request.

However, the UW System's student-fee funded auxiliary reserve plan may help inform the Committee's consideration of the Board of Regents' proposed policy on program revenue fund balances. As proposed, UW institutions with program revenue fund balances equal to 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 apply to the following four unrestricted program revenue funds: (1) tuition; (2) auxiliary operations; (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.

This piece of the proposed policy is very similar to the existing statutory requirement regarding the accumulation of student fee-funded auxiliary reserves with the major difference being that the Board of Regents would approve the balances instead of the DOA Secretary and the Joint Committee on Finance. It is important to note that neither the current statutory requirement related to student fee-funded auxiliary reserves nor the proposed 15% threshold for additional reporting related to program revenue fund balances is a hard cap and that reserve amounts above the 15% may be permitted. Indeed, more than half of all UW institutions (eight out of 14) have planned student fee-funded auxiliary reserves of more than 15% and four have planned reserves of more than 30%.

If the Legislature wishes to truly limit balances, it could, by law, establish a hard cap at a higher level, such as 20% or 25%, in addition to the threshold for additional reporting. Imposing both an additional reporting threshold and a hard cap would provide institutions with the flexibility to exceed the lower threshold on a short-term basis with Regent approval while ensuring that those balances do not greatly exceed that threshold as the auxiliary reserve amounts often have. To enforce such a limit, the Legislature could create a penalty provision. Such a provision is lacking from the current student fee-funded auxiliary reserve plan procedure. Current law specifies that planned student fee-funded auxiliary reserves above the 15% level require approval by the DOA Secretary and the Joint Finance Committee, but does not specify what would happen if the planned reserve amounts were not approved. This may have given policymakers the impression that approval was the only option, thus negating the purpose of the provision.

Imposing a hard cap at the 25% level would be similar to the limit adopted by the State University of New York, another large public university system. Under the SUNY policy, balances held above the 25% level are transferred to a systemwide account. This transfer occurs only if an institution's balance has been above the 25% level for two consecutive years. If a legislative enactment were to set a hard cap, balances above that amount could be transferred to a central UW System account. Another possibility would be to prohibit the institution holding those funds from increasing housing, dining, or student segregated fees.

The Committee may also wish to consider the type and amount of information it receives under this provision. Under current law, the student fee-funded auxiliary reserve plan submitted by

the Board of Regents is required to include the amount of funds the Board wishes to accumulate and the purposes to which the funds would be applied if approved. The table showing the planned uses of the student fee-funded auxiliary reserves that was submitted as part of the Board of Regents request is attached to this paper. The Committee may consider whether it would like additional information submitted to it such as 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 funds expected to be expended on each project or initiative, the timeframe in which those funds will be expended, and the amount of funds that are being held as an operating reserve or are otherwise uncommitted. This would give Committee members a better understanding of the purposes for which balances are being accumulated and when those funds might be expended.

Finally, the approval of the Board of Regents policy on program revenue balances may make the provision under s. 36.46 unnecessary. Depending on the reporting requirements that the Committee approves, most of the information required under s. 36.46 should be included in the Board of Regents annual report to the Finance and Audit Committees. To prevent duplication, the Legislature may wish to repeal s. 36.46. However, unlike the proposed policy, s. 36.46 pertains to a specific portion of the UW System's auxiliary operations – the amount funded by student fees – and that portion would not be reported separately by the Board of Regents. (Student fee-funded auxiliary operations make up between 75% and 95% of total auxiliary operations at most UW four-year institutions.) If the Legislature wishes to continue to receive information on this specific subset of auxiliary operations, it could maintain the provision under s. 36.46.

## **ALTERNATIVES**

1. Approve the request.
2. Approve the request, and direct that future plans submitted under this provision include information relating to 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 funds expected to be expended on each project or initiative, the timeframe in which those funds will be expended, and the amount of funds that are being held as an operating reserve or are otherwise uncommitted.
3. Deny the request.

Prepared by: Emily Pope  
Attachment

University of Wisconsin System  
Section 36.46 Report on Student Fee Funded Auxiliary Reserves  
Planned Use of 2013-14 Balances Greater Than Threshold

| Institution   | Balance Greater Than Threshold | Planned Use of 2013-2014 Balances Greater Than Threshold   | Anticipated Cash Payment (millions) | Annual Debt Service (millions)  |
|---------------|--------------------------------|--|-------------------------------------|---|
| Madison       | 7,539,752                      | University Houses - enumeration of \$8.0 million PRSB and \$7.0 million PR cash  | 7.0                                 | TBD   |
|               |                                | Elizabeth Waters Hall - enumeration of \$7.1 million PR cash and an additional \$3.0 million cash  | 10.1                                | N/A   |
|               |                                | Student Activity Center/University Health Service - debt service on \$17.4 million PRSB  |                                     | 1.4   |
| Eau Claire    | 12,730,357                     | Chancellors Hall - debt service on \$12.0 million PRSB   |                                     | 1.0   |
|               |                                | Davies Center - debt service on \$38.0 million PRSB  |                                     | 2.9   |
|               |                                | Various residence hall maintenance projects - debt service on \$4.8 million PRSB   |                                     | 0.5   |
|               |                                | New residence hall - enumeration of \$35.0 million PRSB and anticipated \$5.5 million cash payment   | 5.5                                 | TBD   |
| LaCrosse      | 3,676,284                      | Garfield Avenue construction - enumeration of \$8.1 million PRSB and anticipated \$2.5 million cash  | 2.5                                 | TBD   |
|               |                                | Student Union - enumeration of \$51.0 million PRSB and \$2.3 million cash payment  | 2.3                                 | TBD   |
| LaCrosse      | 3,676,284                      | Parking ramp construction - enumeration of \$1.0 million cash payment  | 1.0                                 | N/A   |
|               |                                | Various maintenance projects - enumeration of \$2.8 million cash payments  | 2.8                                 | N/A   |
|               |                                | Oshkosh  | 8,872,815                           | Horizon Hall - debt service on \$33.6 million PRSB (\$2.6 million escrowed for future debt pymts) |
| Oshkosh       | 8,872,815                      | Student Center/Student Union - debt service on \$15.0 million PRSB   |                                     | 1.5   |
|               |                                | Intramurals Rec Complex - enumeration of \$4.3 million PRSB and \$1.5 million cash payment   | 1.5                                 | TBD   |
|               |                                | Fletcher Hall renovation - enumeration of \$17.6 million PRSB and \$1.0 million cash payment   | 1.0                                 | TBD   |
|               |                                | River Falls  | 7,223,617                           | South Forks Suites - debt service on \$28.0 million PRSB  |
| River Falls   | 7,223,617                      | Johnson Hall renovation - debt service on \$3.0 million PRSB   |                                     | 0.2   |
|               |                                | Student Center - debt service on \$23.5 million PRSB   |                                     | 1.9   |
|               |                                | Falcon Center - enumeration of \$10.3 million PRSB and anticipated \$1.8 million cash payment  | 1.8                                 | TBD   |
|               |                                | Rodii Enrollment Services Center - enumeration of \$2.4 million PRSB and \$1.6 million cash payment  | 1.6                                 | TBD   |
| Stevens Point | 3,388,267                      | Baldwin Hall - debt service on \$4.2 million PRSB  |                                     | 0.3   |
|               |                                | Steiner Hall - debt service on \$4.8 million PRSB  |                                     | 0.4   |
|               |                                | Hansen Hall - debt service on \$4.7 million PRSB   |                                     | 0.4   |
|               |                                | Neale Hall - debt service on \$4.9 million PRSB  |                                     | 0.4   |
|               |                                | North Debot Hall - debt service on \$10.3 million PRSB   |                                     | 0.7   |
|               |                                | University Center Upgrade - debt service on \$24.9 million PRSB  |                                     | 1.3   |
|               |                                | Health and Wellness Center - planning stage, will seek BOR approval and enumeration in 2015-17 budget  |                                     | TBD   |
| Stout         | 2,018,551                      | Memorial Union Center Renovation - debt service on \$18.9 million PRSB   |                                     | 1.5   |
|               |                                | Recreation Complex - debt service on \$6.4 million PRSB  |                                     | 0.6   |
|               |                                | Demolition of JTC Hall - anticipated \$2.5 million cash payment  | 2.5                                 | N/A   |
|               |                                | Various residence hall projects - debt service on \$30.0 million PRSB; annual payments of \$2.4  |                                     | 2.4   |
| Colleges      | 1,050,782                      | Balances at the 13 campus locations within UWV Colleges will primarily be used for replacing equipment and furniture, and for textbook rental start-up |                                     | -   |
| <b>TOTAL</b>  | <b>46,500,426</b>              |  | <b>39.6</b>                         | <b>22.5</b>   |