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June 2, 2011 Joint Committee on Finance Paper #743

Budgeting and Financial Flexibilities (UW System)

[LFB 2011-13 Budget Summary: Page 459, #1]

CURRENT LAW

The general purpose revenue (GPR) operating budget for the UW System is provided through a number of sum certain appropriations, with the exception of a sum sufficient appropriation that is used to pay debt service on general obligation bonds that are issued for UW academic facilities. There are over 20 GPR appropriations for the UW System, although the three largest appropriations (general program operations, energy costs, and debt service) include almost 94% of the GPR funding budgeted for the UW System in 2010-11.

Program revenue (PR) and federal revenue (FED) received by the UW System are generally deposited in continuing appropriations that authorize the expenditure of all moneys received. In common with other state agencies, any program revenue and federal revenue received by the UW System is deposited in the general fund, which for this purpose includes GPR, PR, and FED. The cash balance of the general fund is invested by the Investment Board as part of the state investment fund and interest earnings on these moneys are retained by the general fund and recorded as GPR-Earned. One exception to this practice is relates to the UW-auxiliary reserve, which is credited with the interest earnings on its balance.

For most state segregated funds, the cash balances are invested as part of the state investment fund and interest earnings on these moneys are credited to each segregated fund.

In recent budgets, state agencies, including the UW System, have been subject to a number of lapse and transfer provisions. Required statewide lapse and transfer provisions totaled $533.5 million in the 2007-09 biennium and $562.8 million in the 2009-11 biennium. In addition, in the 2003-05 and 2009-11 biennia, approximately $50 million of moneys from UW System auxiliaries were provided for student financial aid programs, rather than being used by the auxiliaries that generated the moneys.

GOVERNOR

The Governor would use the approach of creating the UW-Madison authority to provide financial and budgetary flexibility to UW-Madison. The number of GPR appropriations for UW-Madison would be reduced to three, including general program operations, energy costs, and debt service (separate appropriations for the State Laboratory of Hygiene and the Veterinary Diagnostic Laboratory would be retained). All other moneys received by UW-Madison would be treated as revenues of the authority, with the exception of moneys related to certain limited PR and SEG appropriations. The bill would direct the authority to deposit moneys in the local government pooled-investment fund, which is invested by the Investment Board, and the authority would receive any interest earnings. UW-Madison personnel would be employees of the authority and would not be considered state employees.

DISCUSSION POINTS

Budgeting

1. The proposed UW-Madison authority would be a separate entity from the state of Wisconsin. Several of the policy goals related to creating an authority involve budgeting and financial issues. As an example, by reducing the number of GPR appropriations, UW-Madison would gain greater flexibility in the use of state GPR funding that is provided to it. However, this could be done under the current law for the UW System, by reducing the number of GPR appropriations used to provide funding for the System. The number of GPR appropriations used does not depend on whether an authority is created, but rather on whether the Legislature wants to provide GPR for specific purposes under the UW System.

2. In discussions over the number of appropriations for the UW-Madison authority, the concept of a block grant has been used. Under this approach, GPR funding would be provided in a single appropriation that could be used for any of the programs of the institution. This would give the institution greater flexibility in the use of its GPR funding. In addition, if funding increases would be established for future years (linking the appropriation to changes in the consumer price index or growth in state personal income), then the institution could make spending decisions based on the amount of available GPR. This could allow better long-term planning, rather than having to tailor hiring or spending decisions on the outcome of each biennial budget, or the current lapse and transfer requirement.

3. While an annual funding adjustment to any GPR block grants may offer advantages, as a practical matter, a future Governor and Legislature could modify any law established by the 2011 Legislature. Any statutory scheme to set future funding increases or dictate the allocation of GPR funding among the institutions of the UW System could be modified by a future Legislature.

4. Another GPR appropriation that has received particular attention relates to funding for energy costs at the UW System. Under current law, there is a separate sum certain GPR appropriation for this purpose, and this practice would be continued for the proposed UW-Madison authority. Under the Wisconsin Idea Partnership proposed by the UW System Board of Regents, the energy costs appropriation would be eliminated.

5. Arguments have been made to eliminate the energy costs appropriation and fold the related GPR funding into the main GPR appropriation for the UW System. The reason for this change is that if a UW institution is able to reduce its energy use, then it could retain the savings and reallocate them for other purposes. Under current law, any savings would accrue to the benefit of the general fund.

6. A potential disadvantage of eliminating the separate appropriation for energy costs is that funding reestimates for energy costs would no longer be provided by the Department of Administration in preparing the Governor's budget recommendations. As a result, the UW System or UW-Madison would not receive funding increases, if projected usage or energy costs would increase. However, at times the DOA reestimates have reduced funding in the appropriation. With a block grant, if actual costs exceed the amount of base funding provided for energy costs, the UW System or UW-Madison would have to pay the excess costs out of their block grant. In addition, the UW System or UW-Madison would not be able to request additional funding from the Joint Finance Committee under s. 13.10 of the statutes.

7. In recent years, the function of the separate energy costs appropriation has been blurred. Funding has effectively been reallocated both to and from the energy costs appropriation to cover funding shortfalls in the appropriation itself, and to address underfunding of the state’s compensation reserve. In addition, the energy cost appropriation is so large (base funding of $132 million) that if there is a significant shortfall, it would be difficult for the Joint Finance Committee to identify a source of funding that could be used to supplement the appropriation under s. 13.10 of the statutes.

Financial Management

8. Under the authority approach, PR and FED moneys received by UW-Madison would be received by the authority and would no longer be subject to legislative appropriation. This would allow the authority to use those moneys for any of its corporate purposes, subject to applicable federal limitations on the use of federal funds. This would give UW-Madison more flexibility than under current law, where the use of PR moneys may be restricted by the statutory purposes of the appropriation into which they are deposited.

9. Other potential advantages could result from direct receipt of PR and FED moneys by the authority. First, the Governor and Legislature would not have a convenient way to lapse or transfer PR moneys to benefit the general fund. Under current law, the Governor and Legislature have directly appropriated PR moneys for purposes traditionally funded with GPR and simply transferred PR balances to benefit the general fund. While it appears that moneys held by the authority could, by law, be transferred to the general fund, specific language would be needed to take moneys from an authority established to give UW-Madison greater autonomy. In addition, if the authority itself transferred these moneys so that they would be held by a separate foundation, then it does not appear that the state could force a transfer to the general fund.

10. As a practical matter, if the Governor and Legislature decide to take funding from the UW-Madison authority, they could simply reduce the GPR block grant.

11. The Wisconsin Idea Partnership would propose a similar arrangement for PR funds, where these moneys would be deposited directly into the local government pooled-investment fund and would not be subject to appropriation. However, attorneys with the Legislative Reference Bureau believe that any moneys received by the state, regardless of where they are deposited, would be subject to the constitutional provision that no moneys may be expended from the state treasury except through an appropriation by law.

12. If the Legislature wishes to establish a greater degree of separation for the moneys received by the UW System or UW-Madison, it could create a segregated fund for the entire UW System, one each for the UW System and UW-Madison, or one only for UW-Madison. To the extent that policy makers decide that transfers from segregated funds are undesirable, creating a segregated fund or funds may accomplish the goal of protecting revenues received by the UW System or UW-Madison from future lapse or transfer provisions.

13. If a segregated fund or funds would be created, the Committee would need to decide how many appropriations it would establish to authorize expenditures from the fund. One approach would be to create four appropriations, one for the expenditure of the GPR block grant moneys once they are deposited in the segregated fund, a second appropriation for the expenditure of tuition revenues, a third appropriation for the expenditure of federal revenues, and a fourth appropriation for the expenditure of all other revenues. It may be desirable to specify that payments from the GPR block grant would be made to the segregated fund on a quarterly basis.

14. A second potential advantage for the authority of the direct receipt of PR and FED moneys would be that the authority would retain interest earnings on those moneys. However, the state could allow UW-Madison to retain interest earnings either by creating a segregated fund to receive its revenues, or by specifying by law that the UW System or UW-Madison would retain interest earnings on tuition revenues.

ALTERNATIVES

A. Reduce the Number of GPR Appropriations

1. Approve the Governor's recommendations.

2. Delete the Governor’s recommendations and, instead, reduce the number of GPR appropriations as follows:

a. UW System: two appropriations, including block grant and debt service; or
b. UW System: three appropriations, including block grant, energy costs, and debt service;
c. UW-Madison: two appropriations, including block grant and debt service; or
d. UW-Madison: three appropriations, including block grant, energy costs, and debt service.

3. Delete provision, which would maintain the current appropriation structure.

B. Interest Earnings on UW System and UW-Madison Cash Balances

1. Approve the Governor's recommendations.

2. Delete the Governor's recommendations and, instead, specify that interest earnings on tuition revenues would be retained by the PR tuition appropriation as follows:

a. UW System.
b. UW-Madison.

3. Delete the Governor's recommendations and, instead, create a segregated fund with four appropriations, including one for block grant proceeds, which would be deposited quarterly, a second one for tuition revenues, a third one for federal revenues, and a fourth for all other revenues as follows:

a. UW System.
b. UW-Madison.

4. Delete provision, which would maintain interest earnings as revenues for the general fund.

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