

REVISIONS TO UW SYSTEM BOARD OF REGENTS POLICY ON PROGRAM REVENUE BALANCES AND RESERVES (RPD 21-6)

BACKGROUND

2013 Wisconsin Act 20 included the following directive to the UW System: the Board of Regents will develop a methodology for the calculation of program revenue balances and reserves, expressed in both dollars and as percentages of total annual expenses, for the University of Wisconsin System as a whole and for individual University of Wisconsin institutions, as defined in section 36.05(9) of the statutes, and the Extension. By September 1, 2013, the Board of Regents is required to submit its proposed methodology to the Joint Legislative Audit Committee for approval, modification, or disapproval. The proposed methodology was approved by the Board of Regents at its July 12, 2013, meeting and subsequently submitted to the Joint Legislative Audit Committee on July 18, 2013. A revised methodology was approved by the Board at its September 6, 2013, meeting and subsequently submitted to the Joint Legislative Audit Committee on September 11, 2013.

2013 Wisconsin Act 20 also required the Board of Regents to submit “proposed limits on program revenue account balances for the University of Wisconsin System as a whole and for each individual institution and proposed reports relating to the limits” to the Joint Committee on Finance by January 1, 2014. A Policy on Program Revenues Balances and Reserves (Regent Policy Document 21-6) was approved by the Board of Regents at its October 11, 2013, meeting and submitted to the Joint Committee on Finance on October 23, 2013.

The Joint Legislative Audit Committee received Report 13-17, *Level of Commitment for University of Wisconsin Program Revenue Balances* on November 15, 2013. The report covered carry forward balances for tuition and academic fees, General Operations, and Federal Indirect Cost Reimbursement for fiscal year 2012. The Committee held a hearing on the report and the proposed methodology on November 20, 2013. The report and hearing raised new issues about both the program revenue balances methodology and policy. The Legislative Audit Bureau staff indicated that they were procedurally prohibited from consulting with UW System staff on the draft methodology and policy during its development. The Joint Legislative Audit Committee subsequently requested that UW System staff work with the committee members and Legislative Audit Bureau staff on revisions to the methodology and policy. The Joint Committee on Finance deferred action on the program revenue balances policy until the Joint Legislative Audit Committee completed its review of the methodology.

REQUESTED ACTION

Approval of Resolution I.2.b.

DISCUSSION

The Joint Legislative Audit Committee co-chairs worked with UW System and Legislative Audit Bureau staff to develop revisions to the previously adopted program revenue methodology and policy. Conversations with legislators and stakeholders indicated that the issue would be more easily understood if the methodology for calculating the balances were incorporated into the policy. Based upon these discussions, a revised policy has been drafted and will, if approved by the Board of Regents, be submitted to the respective legislative committees.

The previously adopted Program Revenue Balances and Reserves Policy prescribed the funds to be included in the policy and the manner in which program revenue balances will be calculated at the end of each fiscal year. The policy established a minimum reserve of 10% of fiscal year expenses to ensure a degree of fiscal health. Institutions below this reserve level will be required to submit a plan to the Board of Regents that provides an approach and timeline for reaching the minimum. A reporting threshold of 15% was established to ensure that accumulations of resources above this amount are adequately justified. The 15% figure is designated as a threshold which requires a report and Board approval, and not as a cap on end-of-year balances.

The primary issue requiring clarification is whether carry forward funds of up to 10% would be held as a true reserve and whether carry forward funds held for future spending are limited to the amount over 10%. A secondary issue arose after the Legislative Audit Bureau's report 13-17. In the report, the UW System carry forward balances for the funds reviewed were categorized according to the level of commitment documented by each institution. In light of the report, legislators requested that the UW System policy require institutions to categorize carry forward funds in the same manner as the Legislative Audit Bureau.

The revised policy makes several clarifications to the methodology that will be used to calculate program revenue balances and reserves, including:

- Clarifying that the 10% minimum requirement applies to an annual minimum fund balance rather than a permanent reserve set aside in addition to any balances carried for future spending.
- Clarifying that balances for UW System Administration will be reported as an institution, and that systemwide balances will be reported both in dollars and as a percentage change over the prior year-end balance. Allocations from systemwide accounts to institutions will occur before an institution calculates its program revenue balance.
- Adding that year-end balances in each of the five designated funds: (1) Tuition (Academic Student Fees and Extension Student Fees); (2) Auxiliary Operations; (3) General Operations; (4) Other Unrestricted Program Revenue; and (5) Federal Indirect Cost Reimbursement will be categorized as obligated, planned, designated, reserves, and undocumented. These are the five categories developed and used by the Legislative Audit Bureau to classify UW's balances in Report 13-17.

- Adding other technical and definitional clarifications to enable clear interpretation and application.

Under the revised Policy, when an institution carries balances above the 15% reporting threshold, the entire balance will be reported to the Board of Regents for approval. In addition, the policy clarifies that the minimum balance target of 10% of fiscal year expenses shall not be used by any institution as a justification for the request and approval of additional funds.

RELATED REGENT POLICIES

Regent Policy Document 21-6 (Program Revenue and Reserves Policy).

REGENT POLICY DOCUMENT 21-6
PROGRAM REVENUE CALCULATION METHODOLOGY
AND FUND BALANCES POLICY

Scope

This policy addresses program revenue account balances and appropriate reserve levels, and the methodology for calculating these levels, at the UW System and UW System institutions.

Purpose

The purpose of this policy is to ensure the financial health and stability of each UW System institution and the UW System as a whole and to communicate an accurate fiscal condition more broadly and clearly. The policy balances prudent fiscal management with adequate levels of resources to carry out the universities' missions, programs, strategic goals, and objectives in an effective and efficient manner.

The policy ensures that:

- Individual institutions have the necessary flexibility to manage program revenue accounts to meet cash flow needs throughout the year, financial commitments, plans, and goals.
- Reporting of program revenue balances is at a level that provides the Board of Regents, Legislature, and public with a complete, consistent and transparent understanding of end-of-year balances.
- Institutions have the flexibility to continue to invest in and cultivate creative academic programs to reach all students seeking higher education.
- Institutions have the flexibility to invest in facilities that provide a world-class education.
- The University of Wisconsin is not incentivized to undertake unnecessary end-of-year spending in order to meet restrictive carry-forward caps.

Definitions and Methodology for Calculating

Program revenue balances shall be calculated subsequent to year-end reconciliation. Balances will be calculated starting with the prior year's ending cash balance, adding revenues received, and deducting expenditures made during the fiscal year. This produces the budgetary fund balance at the end of a given fiscal year. Balances will not reflect accruals for advance deposits received for future academic terms, accounts payable, or accounts receivable.

Year-end program revenue balances shall be calculated for:

Unrestricted Funds

- 1) Tuition (Academic Student Fees and Extension Student Fees)
- 2) Auxiliary Operations
- 3) General Operations
- 4) Other Unrestricted Program Revenue
- 5) Federal Indirect Cost Reimbursement

Restricted Funds

- 6) Gifts
- 7) Nonfederal Grants and Contracts
- 8) Federal Grants and Contracts
- 9) Other Restricted Program Revenue

A description of UW appropriations included in each category of program revenue balances will be provided to aid in understanding the information presented (attached).

Year-end balances in (1) Tuition (Academic Student Fees and Extension Student Fees), (2) Auxiliary Operations, (3) General Operations, and (4) Other Unrestricted Program Revenue shall be expressed in dollars for the UW System as a whole and for each UW institution. Year-end balances will be calculated as a percentage of the total expenditures by each fund for the fiscal year. Tuition balances shall be expressed as a percentage of the combined expenditures for GPR (less GPR-funded debt service) and Student Fees (tuition).

The UW System Administration year-end balances will be reported as an institution. UW systemwide balances, which are those maintained for the support of all UW institutions, will be reported in dollars and as a percentage change over the prior year-end balance. Allocations of tuition and fee balances to institutions from Systemwide accounts will occur before an institution calculates its program revenue balance.

Federal Indirect Cost Reimbursement year-end balances shall be expressed in dollars for the UW System as a whole and for each UW institution and as a percentage change from the prior year-end balance.

Reported year-end balances in (1) Tuition (Academic Student Fees and Extension Student Fees), (2) Auxiliary Operations, (3) General Operations, (4) Other Unrestricted Program Revenue, and (5) Federal Indirect Cost Reimbursement shall be categorized by the methodology used in the Legislative Audit Bureau's Report 13-17. The categories are obligated, planned, designated, reserves, and undocumented.

Year-end balances for restricted funds (Gifts, Nonfederal Grants and Contracts, Federal Grants and Contracts, and Other Restricted Program Revenue) will be reported in total dollars for the UW System as a whole and for each UW institution.

Policy Statement

It is the policy of the Board of Regents that the UW System and UW System institutions maintain appropriate balances to protect the institutions in cases of sudden shortfalls in revenue, to provide for extraordinary events, and to protect against unbudgeted future expenses or losses. Institutions should target a minimum level of 10% of total fiscal year expenditures for: (1) Tuition, and (2) Auxiliary Operations. This 10% target falls within the recommendation by the Government Finance Officers Association of reserve levels between 5-15% and should assist institutions in meeting the Higher Learning Commission accreditation requirements for financial

health. Institutions with balances of less than 10% of total fiscal year expenditures shall submit a savings plan for how they will achieve the minimum and within what time frame.

The Board of Regents recognizes there are many instances where accumulation of balances beyond the 10% level is a prudent practice in order to achieve strategic priorities over a multi-year period (establishing new academic programs, purchasing major equipment, funding start-up packages for new faculty, etc.). Institutions with balances above 15% of total fiscal year expenditures, inclusive of the minimum 10%, shall submit justifications for the entire balance along with a defined multi-year spending plan for each of the following four categories: (1) Tuition (Academic Student Fees and Extension Student Fees), (2) Auxiliary Operations, (3) General Operations, and (4) Other Unrestricted Program Revenue. Total balances above the 15% threshold should be obligated, planned, or designated by the Chancellor for specific purposes.

The 15% threshold is established to determine an amount which will require a report and Board approval. It is not established as a cap on end-of-year balances.

Oversight, Roles, and Responsibilities

UW System Administration will provide the Board of Regents with estimates of year-end program revenue balances for use in determining UW System's annual budget and setting tuition rates for the subsequent academic year. Actual year-end balances categorized by each institution and the System as a whole shall be reported annually after the fiscal year-end reconciliation and for formal approval by the Board of Regents at the October meeting. For those institutions with balances less than the 10% of the fiscal year's expenditures, the Board of Regents will determine by vote whether the institution has an adequate plan in place to meet the target within a reasonable period of time. For those institutions with balances above 15% of total year-end expenditures, the Board of Regents will determine by vote whether balances are adequately justified.

The minimum balance target of 10% of fiscal year expenses shall not be used by any institution as a justification for the request and approval of additional funds.

Related Regent Policies and Applicable Laws

Section 36.46 Wisconsin Statutes

History: Resolution 10278, adopted 10/11/2013, created Regent Policy Document 21-6.

21-6 REGENT POLICY DOCUMENT
XX-YY UNIVERSITY OF WISCONSIN SYSTEM PROGRAM REVENUE CALCULATION
METHODOLOGY AND FUND BALANCES AND RESERVES POLICY

Scope

This policy addresses program revenue account balances and appropriate reserve levels, and the methodology for calculating these levels, at the UW System and UW System institutions.

Purpose

The purpose of this policy is to ensure the financial health and stability of each UW System institution and the UW System as a whole and to communicate an accurate fiscal condition more that more broadly and clearly. The policy balances prudent fiscal management with adequate levels of resources to carry out the universities' missions, programs, strategic goals, and objectives in an effective and efficient manner.

The ~~p~~Policy ensures that:

- ~~Continues to ensure that I~~ individual institutions have the necessary flexibility to manage program revenue accounts to meet cash flow needs throughout the year, financial commitments, plans, and goals.
- ~~Ensures that R~~eporting of program revenue ~~cash~~ balances is at a level that ~~provides the~~ Board of Regents, Legislature, and public with a complete, consistent and transparent understanding of end-of-year balances.
- ~~Ensures that I~~institutions have the flexibility are incentivized to continue to invest in and cultivate creative academic programs to reach all students seeking higher education.
- ~~Ensures that I~~institutions have the flexibility are incentivized to invest in facilities that provide a world-class education.
- ~~Ensures that T~~he University of Wisconsin is not incentivized to undertake unnecessary end-of-year spending in order to meet restrictive carry-forward caps.

Definitions and Methodology for Calculating

Program revenue balances shall be calculated subsequent to on a cash basis subsequent to year-end reconciliation. Balances will be calculated starting with the prior year's ending cash balance, adding revenues received, and deducting expenditures made during the fiscal year. This produces the budgetary fund balance at the end of a given fiscal year. Balances will not reflect accruals for advance deposits received for future academic terms, accounts payable, or accounts receivable.

Year-end program revenue balances shall be calculated for; summarized as follows:

Unrestricted Funds

- 1) Tuition (Academic Student Fees and Extension Student Fees);

- 2) Auxiliary Operations;
- 3) General Operations, ~~and~~
- 4) Other Unrestricted Program Revenue;
- 5) Federal Indirect Cost Reimbursement;

Restricted Funds

- ~~5)6) Gifts;~~
- ~~6)7) Nonfederal Grants and Contracts;~~
- ~~7)8) Federal Grants and Contracts;~~
- ~~8)9) Other Restricted Program Revenue.~~

A description of UW appropriations included in each category of program revenue balances will be provided to aid in understanding the information presented (attached).

Year-end balances in (1) Tuition (Academic Student Fees and Extension Student Fees), (2) ~~Major~~-Auxiliary Operations, (3) General Operations, and (4) Other Unrestricted Program Revenue shall be expressed in dollars for the UW System as a whole and for each UW institution. Year-end balances will be calculated as a ~~and as a~~ percentage of the total expenditures by ~~that each fund category~~ for the fiscal year. Tuition balances shall be expressed as a percentage of the combined expenditures for GPR (less GPR-funded debt service) and Student Fees (tuition) combined.

The UW System Administration year-end balances will be reported as an institution. UW system-wide balances, which are those maintained for the support of all UW institutions, will be reported in dollars and as a percentage change over the prior year-end balance. Allocations of tuition and fee balances to institutions from Ssystemwide accounts to institutions will occur before an institution calculates its program revenue balance.

~~Reserves represent a portion of appropriation balances. Reserves are defined as funds set aside to protect against unbudgeted future expenses or losses, such as enrollment fluctuations, unexpected costs, or loss of state or federal aid. Reserves are not funds set aside for specific expenditures or commitments, but serve as an operating contingency. Reserves aid in the management of the University's and state's cash flow to meet daily expenditure needs.~~

Federal Indirect Cost Reimbursement year-end balances shall be expressed in dollars for the UW System as a whole and for each UW institution and as a percentage change from the prior year-end balance.

Reported year-end balances in (1) Tuition (Academic Student Fees and Extension Student Fees), (2) Auxiliary Operations, (3) General Operations, (4) Other Unrestricted Program Revenue, and (5) Federal Indirect Cost Reimbursement shall be categorized by the methodology used in the Legislative Audit Bureau's Report 13-17. The categories are obligated, planned, designated, reserves, and undocumented.

Year-end balances for restricted funds (Gifts, Nonfederal Grants and Contracts, Federal Grants and Contracts, and Other Restricted Program Revenue) will be reported in total dollars for the UW System as a whole and for each UW institution.

~~Designated balances are defined as funds set aside for specific expenditures or commitments. They include, but are not limited to, legally enforceable contracts, publicly made commitments, differential tuition, encumbrances, and advanced deposits.~~

Policy Statement

It is the policy of the Board of Regents that the UW System and UW System institutions maintain appropriate ~~balances~~reserves to protect the institutions in cases of sudden shortfalls in revenue, to provide for extraordinary events, and to protect against unbudgeted future expenses or losses. Institutions should target a minimum reserve level of 10% of total fiscal year expenditures for: ~~each of the following two categories:~~ (1) Tuition, and (2) Auxiliary Operations. This 10% target falls within the recommendation by the Government Finance Officers Association of reserve levels between 5-~~20~~15% and should assist institutions in meeting the Higher Learning Commission accreditation requirements for financial health. Institutions with ~~balances~~reserves of less than 10% of total fiscal year expenditures shall submit a savings plan ~~on~~ for how they will achieve the minimum and within what time frame.

The Board of Regents recognizes there are many instances where accumulation of balances beyond ~~the 10% level~~a reserve level is a prudent practice in order to achieve strategic priorities over a multi-year period (establishing new academic programs, purchasing major equipment, funding start-up packages for new faculty, etc.). Institutions with balances above 15% of total fiscal year expenditures, inclusive of the minimum 10%, shall submit justifications for the entire balance along the amounts above the threshold along with a defined multi-year spending plan for each of the following four categories: (1) Tuition (Academic Student Fees and Extension Student Fees), (2) Auxiliary Operations, (3) General Operations, and (4) Other Unrestricted Program Revenue. ~~Total b~~Balances above the 15% threshold should be obligated, planned, or designated by the Chancellor for specific purposes.

The 15% threshold is established to determine an amount ~~limit~~ which will require a report and Board approval. It is not established as a cap on end-of-year balances.

~~Federal Indirect Costs Reimbursement year-end balances shall be expressed in dollars for the UW System as a whole and for each UW institution and as a percentage change from the prior year-end balance.~~

Oversight, Roles, and Responsibilities

UW System Administration will provide the Board of Regents with estimates of year-end program revenue balances for use in determining UW System's annual budget and setting tuition rates for the subsequent academic year. Actual year-end balances categorized by each institution and the System as a whole shall be reported annually after the fiscal year-end reconciliation and for formal approval by the Board of Regents at the October meeting. Appropriation balances and reserve analysis for each institution and the System as a whole shall be reported annually as soon as practicable after the fiscal year-end reconciliation. For those institutions with ~~balances~~reserves less than the 10% of the fiscal year's expenditures, targeted threshold, the

Board of Regents will determine by vote whether the institution has an adequate plan in place to meet the target within a reasonable period of time. For those institutions with balances above 15% of total year-end expenditures, the Board of Regents will determine by vote whether balances are adequately justified.

The minimum balance target of 10% of fiscal year expenses shall not be used by any institution as a justification for the request and approval of additional funds.

Related Regent Policies and Applicable Laws

Section 36.46 Wisconsin Statutes

History: 10278, adopted 10/11/2013, created Regent Policy Document 21-6.

DRAFT

REPORT ON PROGRAM REVENUE CASH BALANCE PROJECTIONS, FY 2013-14

BACKGROUND

A report will be provided to Business and Finance Committee regarding 2013-14 program revenue cash balances, including year-to-date figures as well as year-end projections for each UW institution, UW System Administration and systemwide accounts. This report will allow for review and discussion of current year balances in order to identify funds and institutions which may be subject to the 10% minimum balance requirement or the 15% reporting threshold provided in the Regent Policy 21-6 (Program Revenue and Reserves Policy). Current and projected balances will be provided for the following funds, which have been classified as “unrestricted” balances:

- Tuition (Academic and Extension Student Fees) (Funds 131 and 189)
- Auxiliary Operations (Funds 128 and 228)
- General Operations (Fund 136)
- Federal Indirect Cost Reimbursement (Fund 150)
- Other Unrestricted Program Revenues

In order to provide a report based on figures through the end of the third quarter of FY 2013-14, supporting materials for this report will be provided to the Regents at the Business & Finance Committee meeting.

REQUESTED ACTION

This report is for information only.

RELATED REGENT POLICIES

Regent Policy Document 21-6 (Program Revenue and Reserves Policy).