

METHODOLOGY TO CALCULATE UW SYSTEM PROGRAM REVENUE APPROPRIATION BALANCES AND RESERVES

EXECUTIVE SUMMARY

BACKGROUND

On April 19, 2013, the Legislative Fiscal Bureau released a memorandum to the Joint Finance Committee related to UW System end of fiscal year 2012 cash balances. That memorandum and subsequent papers prepared for the Joint Finance Committee for consideration of the 2013-15 biennial budget raised questions about the appropriate level of cash BALANCES AND reserves.

2013 Wisconsin Act 20 includes the following directive to the UW System: “the Board of Regents of the University of Wisconsin System shall 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 shall submit its proposed methodology to the joint legislative audit committee for approval, modification, or disapproval.”

REQUESTED ACTION

Approval of Resolution I.2.c.

DISCUSSION

Balances

UW System program revenue balances should be presented in a clear and understandable manner on an annual basis. In order to expedite the calculation of balances and provide data easily attainable from the UW System’s general ledger, program revenue balances shall be calculated 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. Balances represent the cash on hand at the end of a given fiscal year. Total program revenue balances shall be depicted for the UW System as a whole and for each UW institution expressed in dollars and as a percentage of all program revenue expenditures. A description of UW appropriations included in each category below will be provided to aid in understanding the information presented.

Program revenue balances shall be classified as restricted or unrestricted. Restricted year-end program revenue balances are those balances subject to externally-imposed stipulations and shall include Gifts, Federal and Nonfederal Grants and Contracts, and Endowment Funds. Since these funds must be spent for the purposes for which they were received and largely cannot be used for general operations, the related restricted balances will be expressed in dollars for the UW System as a whole and for each UW institution, but will not be measured as a percentage of the total expenditures for the fiscal year.

Unrestricted year-end balances shall be categorized as follows: Tuition (Academic Student Fees and Extension Student Fees), Auxiliary Operations, General Operations, Federal Indirect Cost Reimbursement, and All Other Program Revenue. For each unrestricted category, year-end balances shall be expressed in dollars for the UW System as a whole and for each UW institution and as a percentage of the total expenditures by that 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 combined.

Reserves

The UW System primarily operates using revenues earned through providing services. Program revenues represented approximately \$4.8 billion of the UW System's \$5.9 billion operating budget in 2012-13, or more than 80%. As a result, program revenue balances are common and should be expected as funds collected at one point may be committed to a specific purpose but not expensed until a later date. For example, UW institutions often begin collecting tuition in spring for the fall semester. Program revenue balances, therefore, should not be equated with reserves, which are 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 purely serve as an operating contingency.

A UW System policy on program revenue appropriation balances and reserves will be presented to the Board later this fall, for submission to the Joint Finance Committee by January 1, 2014, as required in Wisconsin Act 20. In setting that policy, it will be important to take into consideration budgeted and committed purposes for those balances. This may include, but is not limited to, funds encumbered for goods or services provided to an institution but not yet expensed, capital projects, and deposits received in advance for future academic terms.

RELATED REGENT POLICIES

None.