

**Section 9148 (4L)  
2013 Wisconsin Act 20**

(a) Within 90 days after the effective date of this paragraph, the board shall submit to the secretary of administration and the joint committee on finance a plan for the establishment of the incentive grant program under section 36.25 (52) of the statutes, as created by this act. The plan shall include all of the following:

1. Application procedures and procedures and criteria for awarding grants.
2. A plan to establish performance goals and accountability measures for each grant recipient.
3. A plan to track and report program results reported by grant recipients.
4. An acknowledgment that the amounts awarded are not base building.

(c) If the cochairpersons of the joint committee on finance do not notify the board within 14 working days after the date of the board's submission of the plan under paragraph (a) that the committee has scheduled a meeting for the purpose of reviewing the plan, the board may implement the plan, but only upon approval of the secretary of administration. If, within 14 working days after the date of the board's submission of the plan under paragraph (a), the cochairpersons of the joint committee on finance notify the board that the committee has scheduled a meeting for the purpose of reviewing the plan, the board may implement the plan only upon approval of the committee and the secretary of administration.

(d) Notwithstanding section 36.25 (52) (a) of the statutes, as created by this act, the board may award grants under section 36.52 (52) (a) of the statutes, as created by this act, only as provided in a plan that is approved under paragraph (c).

(2c) FLEXIBLE OPTION INITIATIVE. Of the moneys appropriated to the board under section 20.285 (1) (gb) of the statutes, as affected by this act, the board shall allocate \$650,000 in the first fiscal year of the fiscal biennium in which this subsection takes effect, and \$1,300,000 in the second fiscal year of the fiscal biennium in which this subsection takes effect, to fund the University of Wisconsin Flexible Option initiative.

(3i) FUNDING FOR MEDICAL SCHOOL PROGRAMS. From the appropriation under section 20.285 (1) (gb) of the statutes, as affected by this act, in each fiscal year of the fiscal biennium in which this subsection takes effect the board shall allocate \$1,500,000 for the Wisconsin Academy for Rural Medicine and the Training in Urban Medicine and Public Health Program at the University of Wisconsin School of Medicine and Public Health.

(4i) TRANSLATIONAL IMAGING RESEARCH.

(a) Of the moneys appropriated under section 20.285 (1) (gb) of the statutes, as affected by this act, the board shall allocate \$3,750,000 in the fiscal biennium in which this paragraph takes effect for costs incurred by the University of Wisconsin Carbone Cancer Center that relate to translational imaging research, research imaging and scanning, research imaging equipment, and the Wisconsin

Oncology Network. The funds allocated by the board under this paragraph shall be funds that would have been otherwise allocated to the University of Wisconsin System and not to any University of Wisconsin institution or the University of Wisconsin-Extension.

(b) The board may not expend the funds allocated under paragraph (a) unless it receives an equivalent amount for the same purpose from federal, private, or other sources.

(c) The board shall submit to the joint committee on finance a plan for the expenditure of the funds allocated under paragraph (a). If the cochairpersons of the joint committee on finance do not notify the board within 14 working days after the date on which the board submits the plan that the committee has scheduled a meeting for the purpose of reviewing the plan, the board may expend the funds as provided in the plan. If, within 14 working days after the date on which the board of regents submits the plan, the cochairpersons of the joint committee on finance notify the board that the committee has scheduled a meeting for the purpose of reviewing the plan, the board may implement the plan for the expenditure of the funds only upon approval by the committee.

(4L) ACCOUNT BALANCES; METHODOLOGY. 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.

(4m) LIMITS ON ACCOUNT BALANCES; DISTRIBUTION AND EXPENDITURE OF FUNDS.

(a) In this subsection, "institution" has the meaning given in section 36.05 (9) of the statutes and includes the extension.

(b) By January 1, 2014, the Board of Regents of the University of Wisconsin System shall submit to the joint committee on finance all of the following:

1. 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.
2. Proposed policies regarding the annual distribution of tuition and fee revenue and state general purpose revenue to each institution.

3. Proposed policies regarding the expenditure of tuition and fee revenue and state general purpose revenue by each institution.

(c) If the cochairpersons of the joint committee on finance do not notify the Board of Regents within 14 working days after the date on which the Board of Regents submits the proposals under paragraph (b) that

Revised  
Methodology to Calculate UW System  
Program Revenue Appropriation  
Balances and Reserves

As approved by the Board of Regents in September 2013

**REVISED**  
**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.d.

**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 Other Restricted 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, , 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.

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.

### **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.

UW System Board of Regents  
Policy on Program Revenue  
Balances and Reserves

As approved by the Board of Regents in October 2013

## **UW SYSTEM BOARD OF REGENTS POLICY ON PROGRAM REVENUE BALANCES AND RESERVES**

### **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 included 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.” 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 stated “By January 1, 2014, the Board of Regents of the University shall submit to the joint committee on finances all of the following:

1. 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.
2. Proposed policies regarding the annual distribution of tuition and fee revenue and state general purpose revenue by each institution.
3. Proposed policies regarding the expenditure of tuition and fee revenue and state general purpose revenue by each institution.”

The attached policy addresses item 1 above.

### **REQUESTED ACTION**

Approval of Resolution I.2.c.

## **DISCUSSION**

The Program Revenue Balances and Reserves Policy prescribes the manner in which program revenue balances will be categorized and calculated at the end of each fiscal year and utilizes existing financial reporting guidelines. The policy outlines an appropriate reserve threshold to guide UW System institutions in their fiscal planning. Reserves are meant 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. A minimum reserve of 10% has been established to ensure a degree of fiscal health. Institutions below this reserve level will be required to submit a plan by which and by when they will reach the minimum. A reporting threshold of 15% has been established to ensure that accumulations of resources above this amount are adequately justified. Balances are often accumulated above the threshold in order to meet long-term strategic initiatives at the individual institution or at the System level; however, 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.

## **RELATED REGENT POLICIES**

None.

REGENT POLICY DOCUMENT  
XX-YY PROGRAM REVENUE BALANCES AND RESERVES POLICY

**Scope**

This policy addresses program revenue account balances and appropriate reserve levels at 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 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.

This policy ensures that:

- individual institutions have the necessary flexibility to manage program revenue accounts to meet financial commitments, plans, and goals.
- reporting 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.
- institutions are incentivized to continue to invest in and cultivate creative academic programs to reach all students seeking higher education.
- institutions are incentivized 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 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 will not reflect accruals for advance deposits received for future academic terms, accounts payable, or accounts receivable.

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

- 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,
- 6) Gifts,
- 7) Nonfederal Grants and Contracts,
- 8) Federal Grants and Contracts, and
- 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 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 tuition combined.

Reserves represent a portion of fund 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.

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.

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.

### **Policy Statement**

It is the policy of the Board of Regents that the UW System and UW System institutions maintain appropriate 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 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% and should assist institutions in meeting the Higher Learning Commission requirements for financial health. Institutions with reserves of less than 10% of total fiscal year expenditures shall submit a savings plan on how they will achieve the minimum and within what timeframe.

The Board of Regents recognizes there are many instances where accumulation of balances beyond 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 shall submit justifications for 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. Balances above the 15% threshold should be designated by the Chancellor for specific purposes.

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

### **Oversight, Roles, and Responsibilities**

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 reserves less than the 10% targeted threshold, the Board of Regents will determine 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 whether balances are adequately justified.

### **Related Regent Policies and Applicable Laws**

Section 36.46 Wisconsin Statutes

### **History**

**Attachment: Brief Notes for Select University Funds**

<u>Fund Category</u>	<u>Fund #</u>	<u>Fund Title</u>	<u>Source</u>	<u>Use</u>
Tuition	Fund 131	Academic Student Fees	Tuition revenue from undergraduate, graduate, and professional level students. Both residents and non-residents.	Costs related to degree credit instruction including the full range of salary and non-salary charges supporting the academic mission of the University.
	Fund 189	Extension Student Fees	Tuition and fee revenue generated from UW-Extension sponsored credit outreach instruction.	Costs related to UW-Extension degree credit instruction including the full range of salary and non-salary charges supporting these activities.
Auxiliary Operations	Fund 128	Auxiliary Enterprises	Primarily Residence Hall, Food Service, Bookstore, Student Union, Intercollegiate Athletics, Parking and Student Segregated Fee receipts.	Funds are applied to the costs supporting these activities. In general, receipts support expenditures in the area/activity in which they were generated. Charges can include the full range of salary and non-salary costs including program revenue funded debt service where applicable.
General Operations	Fund 136	General Operations Receipts	Receipts are generated from a broad range of activities which have a close tie to and/or support the academic mission of the University.	Generally revenues support academic programs in the area in which the funds were generated. Examples of such operations include the World Class Instructional Design and Assessment Consortium, University Press, Babcock Dairy, and Pre-School Lab operations at UW-Madison.
Other Unrestricted PR	Fund 123	Principal Repayment - Interest and Rebates	Primarily receipts from relatively small appropriations.	Funds generated from these sources are generally applied to the activities from which they were generated.
	Fund 125	Prostate Cancer Research		
	Fund 127	State Lab of Hygiene		
	Fund 130	State Lab of Hygiene		
	Fund 132	Extension Non-Credit Program Receipts		
	Fund 137	Breast Cancer Research		
	Fund 138	Sale of Real Property		
	Fund 156	Aquaculture Center		
	Fund 157	Outdoor Skills Training		
	Fund 159	Physician and Health Care Provider Loan Assistance Programs - Repayments		
	Fund 165	Veterinary Diagnostics Lab: Non-State Agency Fees		
	Fund 166	Veterinary Diagnostics Lab: State Agency Fees		
	Fund 181	Great Lakes Fish Study		
	Fund 183	Extension Outreach		
	Fund 184	License Plate Scholarship Programs		
	Fund 185	Center for Urban Land Economics Research		
	Fund 187	Funds Transferred from Other State Agencies		
	Fund 195	Physician and Health Care Provider Loan Assistance Programs		
	Fund 199	Veterinary Diagnostics Lab		
	Fund 620	UW Hospital and Clinics Authority - Services Provided		
Federal Indirect Cost Reimbursement	Fund 150	Federal Indirect Cost Reimbursement	Receipts are generated through the application of an indirect cost rate to expenditures made on grants and contracts. Rates are negotiated between each institution and the federal government.	Receipts are generally applied to support and replenish the institutional infrastructure which enables our institutions to be successful in competing for these extramural awards. Funds used for competitive faculty start up packages, equipment, and maintenance of federally funded research facilities.