2015-17 BUDGET PROCESS & DEVELOPMENT

February 6, 2014
Biennial Budget Presentation and Discussion

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Biennial and Annual Budgets

General to Specific

One Biennial Budget
Two Annual Operating Budgets
Annual Financial Reports

Why do numbers change over time?
The Biennial Budget Puzzle

Cost to Continue

Tuition Share of Costs

Standard Budget Adjustments

Compensation

Reductions

Lapses

New Initiatives

Financial Aid

Capital Budget

Operating Budget

Statutory Language

Debt Service
Board of Regents Request

- Operating Budget
- Statutory Language
- Cost to Continue
- Tuition Share of Costs
- New Initiatives
- Standard Budget Adjustments
Student Financial Aid
Higher Educational Aids Board

Operating Budget
Statutory Language
Cost to Continue
Tuition Share of Costs
New Initiatives

Financial Aid
Standard Budget Adjustments
Governor’s Executive Budget

- Operating Budget
- Debt Service
- Standard Budget Adjustments
- Financial Aid
- Statutory Language
- Cost to Continue
- Tuition Share of Costs
- New Initiatives
Final Legislative Budget

- Operating Budget
- Capital Budget
- Statutory Language
- Cost to Continue
- Debt Service
- Financial Aid
- Compensation
- Tuition Share of Costs
- Standard Budget Adjustments
- Reductions
- Lapses
- New Initiatives
Board of Regents adopt a biennial budget request including:
- Cost-to-Continue
- GPR/Tuition split
- New Initiatives
- Capital Budget request
- Statutory Language

Governor’s budget introduced including:
- Std. Budget Adjustment
- Cost-to-Continue
- New Initiatives
- Debt Service

Legislature passes final Biennial Budget including:
- Lapses
- Reductions
- Compensation

JUN 2014
AUG 2014
NOV 2014
FEB 2015
MAR 2015
JUN 2015
JUL 2015
2015-17

Board of Regents adopt a recommendation for student financial aid for the Higher Educational Aids Board.

Board of Regents adopt a compensation request for inclusion in the state compensation reserve.

State Building Commission Recommends Biennial Building program.

JCOER acts on compensation.

Governor signs Biennial Budget into law with partial vetoes.

Board of Regents adopts FY15 Annual Budget.
FY14 Total Budget: Sources

Total Budget: $5.997 Billion

- **Federal Funds** ($1.823 Billion): federal financial aid, research & indirect cost reimbursement
- **Gifts, Grants & Contracts** ($0.574 Billion): gifts, grants and bequests
- **Auxiliaries, Hospitals & Other Receipts** ($1.130 Billion): housing, food service, parking, etc.
- **GPR/Fees** ($2.470 Billion): State Funding & Tuition

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FY14 Budget: Sources - GPR & Tuition

Total GPR & Tuition: $2.470 Billion

- Federal Funds
- Gifts, Grants & Contracts
- Auxiliaries, Hospitals & Other Receipts
- Restricted GPR ($0.252 Billion): debt service, State Lab of Hygiene, Veterinary Diagnostic Lab
- GPR/Tuition ($2.218 Billion)

GPR/Tuition ($2.218 Billion)
37% of UW’s budget ($2.218 Billion) is available for instruction, student services, and all other functions.

- Tuition ($1.319 Billion)
- Non-restricted GPR ($899 Million)
FY14 Budget: Uses

All Funds Budget: $5.997 Billion

- Instruction (21.3%)
- Financial Aid (19.5%)
- Research (17.8%)
- Student Svcs (7.5%)
- Academic Spt (6.8%)
- Auxiliaries (5.9%)
- Physical Plant (5.3%)
- Public Service (5.0%)
- Instit Support (4.0%)
- Debt Service (GPR) (3.9%)
- Debt Service (PR) (2.1%)
- Other (0.9%)
FY14 Budget: How UW Uses Tuition

Tuition: $1.319 Billion

- Instruction (67.4%)
- Academic Spt (17.3%)
- Student Svc (8.1%)
- Physical Plant (5.0%)
- Financial Aid (2.0%)
- Instit Support (0.2%)
- Research (>0.05%)
FY14 Budget: How UW uses State Funding

GPR: $1.151 Billion

- Debt Service (GPR) (20.5%)
- Physical Plant (18.3%)
- Instruction (18.0%)
- Instit Support (14.9%)
- Research (8.2%)
- Academic Spt (7.8%)
- Public Service (6.7%)
- Student Svcs (2.6%)
- Financial Aid (2.3%)
- Other (0.6%)
How Debt is Authorized

Program Revenue

Issued primarily for:

- Residence halls
- Student unions (student approval)
- Parking facilities
- Athletic facilities
- Related physical plant projects
- Other self-supported operations

UW debt is managed through the process of review and approval of capital projects, and subsequent fee setting process.

There is not an overall debt level management policy.
How Debt is Authorized

General Purpose Revenue

Issued primarily for:

- Academic and instructional facilities
- Some administrative facilities
- Other taxpayer-supported operations

UW GPR-supported debt is managed by the state and annual debt service transferred into the UW budget.

There is not an overall debt level management policy.
How Debt is Approved and Funded

1. Campus Initiates Project
2. Regents approve project
3. Building Commission/Legislature
4. DOA Office of Capital Finance Issues Bonds
   - GPR supported
   - PR Supported
5. DOA adds GPR to UW System Budget
6. DOA bills UW System for payment
7. Regents approve annual PR fees schedules
8. Evaluation of ability to service debt

Student or other campus budget approval
Debt Outstanding: Principal

TOTAL UW INSTITUTIONS
2004-2013
GPR Debt Service and Capital Expenditures

TOTAL UW INSTITUTIONS
PROJECT EXPENDITURES FUNDED BY BOND AND NOTE PROCEEDS
2004-2013
PR and PR-Energy Debt Service and Capital Expenditures

TOTAL UW INSTITUTIONS
PROJECT EXPENDITURES FUNDED BY BOND AND NOTE PROCEEDS
2004-2013

- PR & PR-Energy Debt Service
- PR & PR-Energy Expenditures

Year:
- 2004
- 2005
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013

Amount:
- $0
- $50,000,000
- $100,000,000
- $150,000,000
- $200,000,000
- $250,000,000
- $300,000,000
- $350,000,000

Graph shows the trend of PR & PR-Energy Debt Service and Capital Expenditures from 2004 to 2013.
## Actual GPR Debt Service to Total GPR Appropriation

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<tbody>
<tr>
<td>GPR Appropriation</td>
<td>$951.0</td>
<td>$992.6</td>
<td>$988.2</td>
<td>$1051.0</td>
<td>$1114.9</td>
<td>$1176.1</td>
<td>$1041.1</td>
<td>$1097.0</td>
<td>$960.7</td>
<td>$1131.7</td>
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<tr>
<td>Actual GPR Debt Service Payments</td>
<td>$47.5</td>
<td>$99.5</td>
<td>$117.7</td>
<td>$125.6</td>
<td>$121.0</td>
<td>$123.9</td>
<td>$52.7</td>
<td>$73.1</td>
<td>$57.5</td>
<td>$201.2</td>
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<tr>
<td>% of GPR</td>
<td>4.99%</td>
<td>10.02%</td>
<td>11.85%</td>
<td>11.95%</td>
<td>10.85%</td>
<td>10.53%</td>
<td>5.06%</td>
<td>6.66%</td>
<td>5.99%</td>
<td>17.78%</td>
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### UW System Debt Service, 2007-08 to 2014-15

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<tbody>
<tr>
<td>Academic Facilities (GPR) Budgeted</td>
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<td>$235.9</td>
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<td></td>
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<td>$245.1</td>
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<tr>
<td>Academic Facilities (GPR) Actual</td>
<td>$121.0</td>
<td>$123.9</td>
<td>$52.7</td>
<td>$73.1</td>
<td>$57.5</td>
<td>$201.2</td>
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<tr>
<td>Self-Amortizing Facilities (PR) Budgeted</td>
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<td>$138.0</td>
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<td>$155.4</td>
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<tr>
<td>Self-Amortizing Facilities (PR) Actual</td>
<td>$65.3</td>
<td>$68.9</td>
<td>$76.6</td>
<td>$81.8</td>
<td>$93.8</td>
<td>$112.8</td>
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</table>
2014-15 Annual Budget

Accessibility

Quality

Accountability

GPR
Efficiency
Tuition
2014-15 Annual Budget (UW Must Fund)

ONGOING $: $61.9M GPR

Budget Cut
$32.8 M

New Initiatives
$1.3 M

Cost-to-Continue
$3.9 M

Pay Plan & Fringe Benefits
$23.9 M est.
Other Challenges to Address

- Compensation challenge for Faculty and Staff
  - No state approved general wage increases from 2009-10 to 2012-13
  - 1% general wage adjustments for 2013-14 and 2014-15
  - Increasing gap between salaries of faculty and their peers
  - Significant increase in the employee share of fringe benefits
Other Challenges to Address

- Compensation challenge for Faculty and Staff (cont’d)
  - Will the UW be funded under a block grant approach or be funded through the compensation reserve?
  - Will the UW continue to receive the same pay plan increases as other state agencies?
Other Challenges to Address

- Utilities
  - The Department of Administration generally estimates changes in funding related to inflation and normalization for weather.
  - The UW System has typically provided an advisory memo about changes in space that would affect utilities cost and university specific needs like funding for the co-generation plant at UW-Madison.
Other Challenges to Address

- Debt Service
  - DOA adds funding for state-funded debt service as part of the Governor’s (Executive) budget
  - Capital Finance provides the estimate
  - Debt Service changes have varied greatly in the last three biennia due to state financing strategies
  - Funding is sum-sufficient and lapses back to the state if not used
Other Challenges to Address

- Affordability and Financial Aid Funding
  - UW’s largest financial aid appropriation is the Wisconsin Higher Education Grant program for UW students (WHEG-UW), which is housed in the Higher Educational Aids Board (HEAB)
  - The Board of Regents submits a request to HEAB in June for their board’s consideration regarding the level of funding needed for WHEG-UW
Other Challenges to Address

- Fringe Benefits cost increases

Funding for fringe benefits is generally provided to state agencies in two ways

- Agency specific funding to cover fringe costs during the first year of the previous biennium, and

- A supplement during the biennium from the state’s compensation reserve (held centrally and provided annually based on need)
### Early Estimate of 2015-17 Funding

<table>
<thead>
<tr>
<th></th>
<th>Ongoing</th>
<th>Biennial</th>
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<tbody>
<tr>
<td>Funding Budget Cut and Flex Options</td>
<td>$34 million</td>
<td>$68 million</td>
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<tr>
<td>2013-15 Unfunded Fee Compensation Costs</td>
<td>$28 million</td>
<td>$56 million</td>
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<tr>
<td>2013-15 GPR Compensation Costs</td>
<td>$57 million</td>
<td>$114 million</td>
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<tr>
<td>2015-17 Estimated Fringe Benefit and Negotiated Salary Increases (GPR/Fee)</td>
<td>$46 million</td>
<td>$68 million</td>
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<tr>
<td><strong>Total Estimated Funding Needed</strong></td>
<td><strong>$165 million</strong></td>
<td><strong>$306 million</strong></td>
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<tr>
<td>Estimated 2013-15 Compensation Reserve</td>
<td>($53 million)</td>
<td>($106 million)</td>
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<tr>
<td>Need Excluding GPR in the Comp Reserve</td>
<td><strong>$112 million</strong></td>
<td><strong>$200 million</strong></td>
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**Rule of Thumb:** Annual 1% Pay Plan increases require $27 million ongoing ($40 million biennially).

Excludes: utilities and debt service which will be added by DOA, and financial aid funding that will be requested by HEAB.
2015-17 CAPITAL BUDGET
2015-17 Capital Budget

Agency Planning by Region

Workshop #1
Refine...
* Strategic Issues,
* Origin-Destination, and
* Profiles

Draft...
* Project Concepts and
* Solutions

Workshop #2
Refine...
* Project Concepts and
* Solutions

Draft...
* Institution Development Plan

Workshop #3
Refine...
* Institution Development Plans

04/13  06/13  08/13  10/13  12/13  04/14
2015-17 Capital Budget

Major Projects
✦ New construction, renovation, central utility extension, and remodeling

All Agency Projects
✦ Statewide maintenance, renovation, and remodeling (under $3M)
✦ Includes Small Projects (under $185K)

Instructional Space Projects
✦ Classroom and Laboratory renovation and remodeling (under $3M)
2015-17 Capital Budget: PR

Approved Funding

<table>
<thead>
<tr>
<th>Year</th>
<th>In Millions</th>
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<tbody>
<tr>
<td>2013-15</td>
<td>$463</td>
</tr>
<tr>
<td>2015-17</td>
<td>$348</td>
</tr>
<tr>
<td>2017-19</td>
<td>$307</td>
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<td>2019-21</td>
<td>$243</td>
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Planned Requests

<table>
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<tr>
<th>Year</th>
<th>In Millions</th>
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<tr>
<td>2013-15</td>
<td>$22 + $33</td>
</tr>
<tr>
<td>2015-17</td>
<td>$25 + $21</td>
</tr>
<tr>
<td>2017-19</td>
<td>$27 + $18</td>
</tr>
<tr>
<td>2019-21</td>
<td>$29 + $15</td>
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</table>
2015-17 Capital Budget: GPR

Approved Funding

<table>
<thead>
<tr>
<th>Year</th>
<th>Major Projects</th>
<th>All Agency</th>
<th>Instructional Space</th>
<th>Small Projects</th>
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<tr>
<td>2013-15</td>
<td>$329</td>
<td>$80</td>
<td>$22</td>
<td>$10</td>
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<tr>
<td>2015-17</td>
<td>$345</td>
<td>$85</td>
<td>$30</td>
<td>$11</td>
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<tr>
<td>2017-19</td>
<td>$360</td>
<td>$90</td>
<td>$32</td>
<td>$12</td>
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<td>2019-21</td>
<td>$380</td>
<td>$95</td>
<td>$34</td>
<td>$13</td>
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2015-17 Capital Budget: GPR

[Bar chart showing budget Planned Requests, Requests Received, and Deferrals for three periods: 2015-17, 2017-19, 2019-21.]
2015-17 Capital Budget

Physical Development
- Codes and Health/Safety
- Infrastructure & Maintenance
- Facility Reuse

Program Considerations
- Functionality
- Space Need and Utilization
- Operational Impact

Institutional Priority
- 1st Priority, Current Biennium
- 1st Priority, Past Biennia
- Project Sequence
Questions and Discussion