



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #776

Base Budget Reductions (UW System)

[LFB 2005-07 Budget Summary: Page 498, #4]

CURRENT LAW

In 2004-05, the UW System has a base budget of \$976.6 million GPR and 18,327.63 authorized GPR positions.

GOVERNOR

Reduce the UW System's largest GPR-funded general program operations appropriation by \$40,000,000 in 2005-06 and \$25,000,000 in 2006-07 and delete 200.0 positions starting in 2005-06. The agency's largest general program operations appropriation supports programs, services, faculty, and staff of UW System institutions.

In addition, require the UW System Board of Regents to submit a plan by May 30, 2006, to the Secretary of Administration for approval to eliminate the 200.0 administrative positions within the UW System. Require the Board to specify position classification and location in the plan, and suspend the Board's current law authority to create GPR positions in 2006-07 until the Secretary of Administration approves the position reduction plan.

DISCUSSION POINTS

1. The UW System's 2004-05 base budget totals \$3,822.0 million of which \$976.6 million or 25.6% is funded from general purpose revenue. However, not all of the total UW System budget is available for discretionary use by the Board of Regents to support University programs. Significant amounts are dedicated to specific purposes such as: (1) state funds--debt service payments and energy costs totaling \$146.0 million; (2) federal funds--contractual obligations of \$772.7 million; (3) auxiliary operations for activities such as dormitories, athletics, and student

centers (\$615.2 million); (4) gifts and trust income (\$442.3 million); and (5) operational receipts of \$92.3 million for fees for services for other operations such as non-credit outreach programs.

In 2005-07, funding for these specific appropriations would increase by \$49.7 million GPR, \$302.6 million PR, and \$5.6 million FED over the base year doubled. Of the GPR increase, \$40.7 million is related to standard budget adjustments, \$41.1 million is related to debt service and energy costs, \$10.6 million is for student financial aid; and \$22.3 million is related to new initiatives in AB 100. These funding increases are partially offset by the proposed reduction of \$65 million. Increases in both the federal funding and program revenue appropriations are primarily related to adjustments to reflect current spending authority and re-estimates based on prior year funding increases.

2. For the UW System, the general program operations and academic student fees appropriations cover most instruction, research, student services, academic support, and public service activities of the UW System. Under the Governor's proposal, total funding for the general program operations appropriation would decline from \$735,872,900 in 2004-05 to \$705,831,400 in 2005-06, and \$729,974,100 in 2006-07.

3. The University has the ability to combine the GPR general program operations funds with money received from tuition and certain federal indirect cost reimbursements. Currently, this creates a \$1.5 billion pool of funds that it may use to run its operations. No provision was included that would permit the Board to increase resident undergraduate resident tuition to partially offset the proposed budget reductions. Current law does not authorize the Board of Regents to increase resident undergraduate tuition to offset GPR budget reductions. This can occur only if the Legislature increases the PR tuition appropriation to offset the GPR funding reduction.

4. Recent budget reductions have reduced the overall percentage of state support for the UW System. Since the UW System was merged with the State University System in 1973, the GPR share of the UW System's budget has fallen from 50% to 25.6%. Part of the reduction in GPR share is the result of increased funding from federal funds and gifts and trust income. However, the bulk of these additional sources of revenue result from specific project proposals at individual campuses and do not support the UW System's general operating budget for education, research, and public service. In addition, tuition has become a larger factor in the UW System's source of funds.

5. More indicative of the reduced role of state support for UW System operations is the decline in the share of GPR for general program operations for education, research, and public service. The GPR share of the University's pool of funds for operations expenses fell from 76.8% in 1973-74 to 46.9% in 2004-05 while the academic fee share increased from 19.7% in 1973-74 to 47.3% in 2004-05. The federal share for indirect cost reimbursements is based on the amount of federal grants the UW System receives and the federal reimbursement rates for overhead charges and cost reimbursement related to these grants. The federal share of operational costs has increased from 3.5% in 1973-74 to 5.8% in 2004-05.

6. Under the Governor's proposal, the UW System's GPR-funded operations appropriation would be reduced by \$40,000,000 in 2005-06 and \$25,000,000 in 2006-07 and 200.0 positions would be deleted starting in 2005-06. According to executive budget documents, these reductions include the following: \$15,000,000 in 2005-06 and \$20,000,000 in 2006-07 associated with the administrative position reduction; \$5,000,000 annually related to projected supplies and services procurement savings associated with the Governor's procurement consolidation initiative; and \$20,000,000 in 2005-06 related to the management or sale of assets. The GPR reduction for the University's largest general program operations appropriation (instruction-related funding) equals 5.4% in 2005-06 and 3.4% in 2006-07 from the 2004-05 adjusted base of \$735,872,900 GPR.

7. The Board of Regents has identified an allocation of these reductions by campus for 2005-06, which is attached. The proposed base budget reduction will be allocated based on each institution's share of the UW System's 2004-05 GPR/Fee budget excluding debt service, utilities, financial aid, separately budgeted academic tuition, and Extension credit programs, and includes a reduction to UW System administration.

8. The Board of Regents has issued a set of principles to govern the allocation and manage the reductions among the UW System institutions. The Board of Regents will require campuses to manage administrative budget reductions using the following principles: (a) faculty and instructional academic staff positions will not be reduced; (b) the reductions would first target administrative expenses that are least related to serving students, meeting legal accountability responsibilities, achieving Plan 2008 enrollment goals, and providing opportunities to generate non-GPR revenues; and (c) one-time reduction opportunities would be considered in the short-term to give campuses time to plan more permanent modifications including changes to program array.

9. Under the AB 100 provision, the administrative reduction of \$15,000,000 in 2005-06 and \$20,000,000 in 2006-07 would be associated with the salary and fringe benefit expenditures related to the 200.0 position reduction. Based on October, 2004, payroll and 2003-04 fringe benefit costs, the average salary and fringe benefit cost per FTE is approximately \$66,000. The administrative budget reductions in AB 100 per FTE are \$75,000 in 2005-06 and \$100,000 in 2006-07 for each administrative position reduced during the biennium. If the positions that are deleted have salary at the overall average, the additional budget reductions per FTE would need to be accommodated through additional staff reductions or supply and service funding reductions. However, these savings amounts per position could be realized if higher salary positions are eliminated.

10. According to executive budget staff, the types of positions targeted for reduction under the Governor's budget proposal include all positions classified as administrative under the September, 2004, Legislative Audit Bureau (LAB) report on UW System staffing. Traditionally, the UW System has reported administrative costs and staff through a federally-defined measure known as "institutional support." The federally-defined methodology is useful for comparing institutional costs with other institutions of higher learning around the country, but arguably does not identify all types of administrative employees. Under the federal definition, approximately 4.6% of the UW System budget is allocated for institutional support, which includes executive management,

planning and programming, campus and community relations, general administrative services, and support services such as chancellors, academic planning, alumni relations, capital and operating budget planning, data processing, and purchasing.

11. Utilizing a broader definition of administrative staff, the LAB audit found that approximately 15% of UW System's total budget and 25% of its positions could be classified as engaged in an administrative function. The LAB audit identified administrative employee as any employee with a management or administrative responsibility under all UW System activity codes. For example, the LAB audit classifies a grant manager who ensures compliance with federal requirements for the use of federal funds as an administrative employee; under the federal definition, the UW System would classify the employee under "research."

The following table shows UW System positions (all funds) that were categorized under institutional support along with those positions coded under other UW System activity codes that were identified as having an administrative function by the LAB audit. When administrative positions under non-institutional support are combined with those reported as institutional support, UW System's administrative staffing level exceeds 8,000 FTE positions. However, without a similar audit of peer institutions, the LAB findings do not provide a basis for comparing the UW System's administrative expenditures with other similar academic institutions in other states.

**Administrative Positions
March 2004
(Full-Time Equivalent)**

<u>Position Type</u>	<u>Coded as Institutional Support</u>	<u>Coded as Other Activities</u>	<u>Total</u>	
			<u>Number</u>	<u>Percentage</u>
Management	355.4	1,048.2	1,403.6	17.5
Clerical and Secretarial	297.7	3,217.6	3,515.3	43.7
Professional Non-Faculty	1,046.5	1,336.5	2,383.0	29.6
Technical and Paraprofessional	242.5	222.8	465.3	5.8
Other	<u>270.5</u>	<u>0.0</u>	<u>270.5</u>	<u>3.4</u>
Total	2,212.6	5,825.1	8,037.7	100.0%

Source: Legislative Audit Bureau

12. In public testimony on the bill, UW System staff and students have expressed concern over the budget reductions for positions defined as "administrative" in the LAB audit. Concerns were raised that reductions in non-instruction related functions of the UW System and support staff could reduce the ability of the UW System to attract federal and private research grants, reduce non-instructional student services, scale back public service and community outreach activities, and reduce administrative support. However, as noted above, the Board of Regents intends to first target expenditures that are least related to serving students.

13. In order to mitigate the immediate effect on reduced administrative support, the Committee could restore 100.0 positions in 2005-06. This would allow the UW System to phase in the full position reduction over the biennium, which would give them more flexibility to manage job reductions through attrition and minimize the number of layoffs. The UW System has requested the restoration of 200.0 GPR positions in 2005-06, with the full position reduction taken in 2006-07. However, given the overall budget reduction under the Governor's bill in 2005-06, it could be difficult for the UW System to maintain the requested additional position authority. Another area of flexibility that could be provided to the UW System, would be to authorize the UW System to submit a plan to DOA, and then to the Committee under a 14-day passive review process, under which some of the reductions could be reallocated to other UW GPR sum certain state operations appropriations. For example, the UW System has separate appropriations for a number of specific programs, such as family medicine, schools of business, and laboratories

14. The Governor's proposal includes a provision that would require the UW System Board to submit a plan to eliminate the 200.0 administrative positions by classification and location to the Secretary of DOA. In order to monitor the reductions, the Committee could also require the report be submitted to the Joint Finance Committee.

15. The Board's current law authority to create positions under s. 16.505(2p) of the statutes would be suspended in 2006-07 until the Secretary of Administration approves the position reduction plan. Under s. 16.505(2p), the UW System may create or abolish a full-time equivalent academic staff or faculty positions from base GPR funds provided in its largest general program operations appropriation. The UW System has not used this authority since 2001-02 when 88.95 positions were created to accommodate additional enrollment; these positions were not added to the UW System's permanent GPR position authority.

16. The Governor's budget provision also includes a one-time reduction of \$20,000,000 in 2005-06 related to asset management and \$5,000,000 annually related to an initiative to consolidate statewide procurement contracts and authority under the Department of Administration.

17. The asset management budget reduction is linked with the Governor's proposal to permit the Board of Regents to retain proceeds from the sale of real property sold during the 2005-07 biennium to offset the \$20,000,000 reduction in 2005-06, which is dealt with in a separate budget paper. The Board of Regents has allocated \$10,000,000 of the \$20,000,000 reduction to campuses with the balance held in systemwide reserve until asset management savings have been identified. According to executive budget staff, the asset management reduction would be offset through retention of funds from the sale of property or sale of revenue related assets such as parking concessions. In the absence of asset sale revenue, the UW System would need to reduce operations expenditures in order to accommodate this budget reduction.

18. Under the consolidation of state procurement and purchasing services proposal, it is anticipated that DOA would establish commodity and service teams with expertise in specific business areas and that DOA would undertake certain specialized procurement responsibilities. This statewide procurement item is dealt with in a separate budget paper. According to executive budget

staff, the \$5,000,000 annual reduction related to the procurement consolidation is based on the current GPR-funded supplies and services funding provided to the UW System and anticipated savings of multi-agency vendor contracts. The Board of Regents has allocated the \$5,000,000 reduction to campuses on the same basis as other budget reductions. Since campuses do not anticipate supplies and services savings from the proposal, they are planning to manage the reduction as a general budget reduction. However, to the extent that savings are realized, any decreases in cost would mitigate the effects of these budget reductions.

ALTERNATIVES

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation by some or all of the following:
 - a. Restore 100.0 GPR positions in 2005-06.
 - b. Require the UW System Board to submit a plan to eliminate the administrative positions by classification and location to both the Secretary of the Department of Administration, and the Joint Committee on Finance.
 - c. Eliminate the nonstatutory provision that suspends the UW System Board of Regents current law authority to create GPR positions in 2006-07.
 - d. Authorize the UW System to submit a plan to reallocate a portion of the reductions to other UW GPR sum certain state operations appropriations. Specify that the plan would be subject to approval by the Secretary of the Department of Administration, and then the Joint Committee on Finance under a 14-day passive review process.
3. Delete the provision.

<u>Alternative 3</u>	<u>GPR</u>
2005-07 FUNDING (Change to Bill)	\$65,000,000
2006-07 POSITIONS (Change to Bill)	200.00

Prepared by: John Stott
Attachment

ATTACHMENT

UW Board of Regents Proposed Allocation of AB 100 Reductions in 2005-06

	<u>Procurement</u>	<u>Asset Management</u>	<u>Administrative Savings</u>	<u>2005-06 Total</u>
Madison	\$1,886,500	\$3,773,000	\$5,659,500	\$11,319,000
Milwaukee	640,000	1,280,000	1,920,000	3,840,000
Eau Claire	248,000	496,000	744,000	1,488,000
Green Bay	120,500	241,000	361,500	723,000
La Crosse	212,500	425,000	637,500	1,275,000
Oshkosh	237,000	474,000	711,000	1,422,000
Parkside	113,500	227,000	340,500	681,000
Platteville	148,000	296,000	444,000	888,000
River Falls	140,500	281,000	421,500	843,000
Stevens Point	215,500	431,000	646,500	1,293,000
Stout	193,500	387,000	580,500	1,161,000
Superior	74,500	149,000	223,500	447,000
Whitewater	220,000	440,000	660,000	1,320,000
Colleges	187,500	375,000	562,500	1,125,000
Extension	211,000	422,000	633,000	1,266,000
System Administration	151,500	303,000	454,500	909,000
Systemwide*	<u>0</u>	<u>10,000,000</u>	<u>0</u>	<u>10,000,000</u>
Total	\$5,000,000	\$20,000,000	\$15,000,000	\$40,000,000

*\$10 million would be held in a systemwide category relating to the asset management proposal.