



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #680

### Future GPR Funding (UW System)

[LFB 2015-17 Budget Summary: Page 477, #14]

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#### CURRENT LAW

The amount of GPR funding provided for the UW System is determined by the Legislature through the biennial budget process.

#### GOVERNOR

Provide that \$753,533,000 in general sales and use taxes would be used to fund the amount shown in the appropriation schedule for the UW System's GPR general program operations appropriation in 2017-18. Provide that, beginning in 2018-19, the amount of general sales and use taxes used to fund the amount shown in the schedule for the UW System's GPR general program operations appropriation would be the amount used for that purpose in the previous year adjusted to reflect any changes in the U.S. consumer price index for all urban consumers (CPI-U) for the 12 month period ending on the preceding December 31.

#### DISCUSSION POINTS

##### GPR Funding Linked to Changes in CPI-U

1. Under current law, the amount of GPR provided to the UW System for general program operations is determined by the Governor and Legislature through the biennial budget process. In past biennia, the Legislature has provided additional GPR funding to the UW System through standard budget adjustments to fund increases in salary and fringe benefit costs. The Legislature has also provided additional funding in the past to support new academic programs and initiatives and to fund increases in financial aid programs and fuel and utilities costs. However, five of the most recent six biennial budgets have also included significant GPR base budget reductions for the UW System. When changes in GPR debt service are excluded, these GPR base budget

reductions exceeded increases in GPR funding provided to the UW System for standard budget adjustments, new academic programs, initiatives, and other items in each of those five biennium resulting in a net reduction in GPR funding for UW System operations.

2. UW System leaders have been supportive of the Governor's proposal to tie increases in the UW System's GPR block grant to changes in the U.S. consumer price index for all urban consumers (CPI-U) saying that the change would provide the UW System with a stable and predictable funding stream. From 2005 to 2014, the change in average annual CPI-U has ranged from -0.35% to 3.84%. While linking the amount of the UW System's GPR block grant to changes in CPI-U is unlikely to provide the UW System with large increases in funding, it could mitigate GPR base budget reductions for the UW System.

3. As noted above, there have been years in which CPI-U has decreased. To protect the UW System from decreases in GPR funding that could occur under this provision, the Committee could specify that this provision would only apply when the change in CPI is positive and that GPR funding for the UW System should be the same as in the prior fiscal year when the change in CPI is negative. This would be similar to provisions governing per pupil amounts for K-12 education.

4. One argument against linking GPR funding for UW System general program operations is that doing so would limit the Legislature's ability to adjust UW System funding to reflect shifting priorities or changes in the state's overall financial situation. It may also reduce the Legislature's ability to provide GPR funding for specific programs such as a new academic program, a specific area of research, or a student financial aid program. Linking funding for the UW System's block grant to the change in average annual CPI-U may also increase the level of uncertainty in the budget process as the amount of GPR funding for UW System general program operations in the second year of the biennium would have to be estimated. However, given that the entire state budget is based on estimates of future revenues, linking the UW System's GPR block grant to changes in average annual CPI-U should not significantly increase uncertainty in the budget process.

5. If the Governor's proposal were to become law, the Legislature would retain the ability to adjust the level of the UW System's GPR general program operations appropriation (also known as the "block grant") in the future. This could be done by either eliminating the link to CPI-U or by specifying the level of funding for the GPR block grant in one or more years of a biennium and providing that the link would be used in future years. This would be similar to past legislative action related to the appropriation for Wisconsin Grants (formerly Wisconsin Higher Education Grants or WHEG) for UW System students. Under current law, the appropriation for Wisconsin Grants for UW System students is a GPR sum sufficient appropriation with funding linked to the average percentage increase in resident undergraduate tuition in the UW System. This link was established in 2001 and has been suspended or modified in each biennium since that time either to provide increases that have been different from increases in resident undergraduate tuition or to allow the program to be funded with program revenue instead of GPR. However, if future Legislatures do not allow the proposed link between the UW System's GPR block grant to operate, the link would not achieve the goal of providing the UW System with a stable and predictable funding stream.

6. Under the bill, the UW System's GPR block grant appropriation would be an annual appropriation set at the amount shown in the appropriation schedule beginning in 2017-18. Another provision of the bill would link changes in the UW System's GPR block grant appropriation to changes in CPI-U; however, the language in Chapter 20 of the statutes, which sets the amount of the appropriation at the amount shown in the appropriation schedule, would be controlling. If the Committee wishes to link the UW System's GPR block grant appropriation to changes in average annual CPI-U, the Committee could convert the UW System's GPR block grant appropriation from an annual appropriation to a sum sufficient appropriation equal to the amount of the appropriation in the previous year adjusted annually by the percentage change in average annual CPI-U in the previous calendar year.

### **Start Date**

7. Under the bill, the UW System's GPR block grant appropriation would be adjusted by the percentage change in average annual CPI-U beginning in 2018-19. The errata letter sent by the Secretary of the Department of Administration to the Committee Co-Chairs indicated that the UW System's GPR block grant appropriation should be adjusted by the percentage change in average annual CPI-U beginning one year earlier, in 2017-18. While this change would have no effect on the amount of GPR funding the UW System receives during the 2015-17 biennium, it should increase the amount of GPR funding the UW System would receive in the 2017-19 biennium.

### **GPR Base Amount**

8. Under the bill, the UW System's pay plan supplement appropriations would be deleted on July 1, 2016. Although the UW System's pay plan supplement appropriations would not be deleted until the second year of the biennium, the Department of Administration (DOA) has indicated that the UW System would not receive pay plan supplements from the compensation reserve in 2015-16. Instead, the Governor's budget would provide an additional \$21,313,500 GPR to the UW System in 2016-17 to fund increases in fringe benefit costs for UW System employees during the 2015-17 biennium.

9. As introduced, the Governor's budget bill would reduce the UW System Authority's GPR block grant by \$21,313,500 in 2017-18 to reflect the removal of funding provided to fund increases in fringe benefit costs during the 2015-17 biennium and then adjust the amount of funding provided in the UW System's GPR block grant by the change in CPI-U beginning in 2018-19. As previously noted, the errata letter indicated that the UW System's GPR block grant appropriation should be adjusted by the percentage change in CPI-U beginning one year earlier, in 2017-18. DOA budget staff have indicated that the GPR block grant should be reduced by \$21,313,500 for the purpose of calculating the amount provided in 2017-18.

10. Under current practice, the UW System and all other state agencies request funding for prior increases in fringe benefit costs through the biennial budget as standard budget adjustments. Because GPR funding for the UW System's general program operations would be linked to changes in CPI-U beginning in the 2017-19 biennium under the Governor's budget, it is not anticipated that the UW System would request funding for prior increases in fringe benefit costs through the 2017-19 budget bill. As the \$13,385,500 of the \$21,313,500 provided in 2016-17 would be provided to

fund increases in fringe benefit costs in that year and it is likely that these cost increases would be ongoing, it may be reasonable to include these funds in the base used to calculate future adjustments in the UW System's GPR block grant. Doing so would have no effect on the state's general fund balance during the 2015-17 biennium, although it would affect the state's out-year commitment for the 2017-19 biennium.

## **ALTERNATIVES**

### **A. GPR Funding Linked to Changes in CPI-U**

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation to convert the UW System's GPR block grant appropriation from an annual appropriation to a sum sufficient appropriation equal to the amount of the appropriation in the previous year adjusted in each year of the biennium by the percentage change in average annual CPI-U, if positive, in the calendar year preceding the biennium.
3. Delete provision. The Legislature would determine GPR funding for the UW System in 2017-18 and 2018-19 through the biennial budget process.

### **B. Start Date**

1. Approve the Governor's recommendation. Under this alternative, the amount provided in the UW System's GPR block grant would be adjusted by the change in CPI-U beginning in 2018-19.
2. Modify the Governor's recommendation to specify that the amount provided in the UW System's GPR block grant would be adjusted by the change in CPI-U in the calendar year preceding the biennium, beginning in 2017-18. This alternative would be consistent with the errata letter.

### **C. Base GPR Amount**

1. Approve the Governor's recommendation. Under this alternative, the base used to calculate the UW System's GPR block grant appropriation in 2017-18 or 2018-19 would be \$753,533,000 which is \$21,313,500 less than would be provided in 2016-17 under the Governor's budget.
2. Modify the Governor's recommendation to specify that the base used to calculate the UW System's GPR block grant appropriation in 2017-18 or 2018-19 would be \$766,918,500 which is equal to the amount specified in the Governor's budget (\$753,533,000) plus the amount provided to fund increases in fringe benefits costs in 2016-17 (\$13,385,500).

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