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Issue Brief:

University of Wyoming Block Grant

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by:

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ISSUE

Provide a history of the University of Wyoming (UW) block grant funding design. Illustrate relevant budget trends. Distinguish what University expenditures are and are not included within the block grant, and identify the criteria for inclusion of expenditure items within the block grant.

SUMMARY

Over the past seven biennia, the Legislature has yielded increasing budgetary flexibility to the University. In doing so, line-item oversight of such expenditures as individual staff salaries and supplies was abandoned. In exchange, the University has, most notably, established a series of benchmarks to be used as a gauge by the Legislature (and the public) for institution-wide accountability. Although important milestones in the development of the block grant occurred in 1990 and 2000, its evolution is perhaps best viewed as a process, not an event.

The block grant is inclusive of all state appropriations for UW operations, except for a few (primarily legislatively-driven) exceptions. However, University officials have historically included a range of items under its exception or expanded budget requests with little systematic criteria for inclusion, especially in the early years of the block grant.

Despite recent increases in state appropriations, the University accounts for a slightly lower share of the total state appropriations of discretionary revenue than it did just a decade ago. In terms of UW's total revenue, the General Fund appropriation declined in the late 1990s before rebounding in the past two biennia.

HISTORY OF THE BLOCK GRANT

The current block grant appropriation to UW developed in three prominent stages in 1990, 1992, and 2000. All three of the changes occurred as a result of modifications to the format of the appropriations act adopted by the Legislature and the implied expectation of future UW budget requests. These changes arose after numerous interim Joint Appropriation Committee (JAC) discussions and represent a relatively informal budget practice agreement between the Legislature, the Governor, the Department of Administration and Information's Budget Office, and UW. The practice is not based in statute. The legislative record clearly shows an expressed interest by UW trustees and administrators urging enhanced budgetary flexibility in the late 1980s. However, University officials and the Budget Office cautiously adopted the appropriations changes, submitting a budget request under the line item format even after the block grant was initially adopted. UW gradually eliminated supporting information from the budget document over several biennia.

The Legislature adopted the "lump sum" appropriation for UW in the 1990 Budget Session. In prior budgets, the University's appropriation had been separated into four sections: (1) University; (2) University, Self-Sustaining; (3) University, Higher Education Computer Network; and (4) University, Office of Development. Further, both the main University and the Self-Sustaining sections had each previously been subdivided into roughly eight different programs. (See figure 1 for a graphical illustration of the transition to a full block grant.) In 1990, the Legislature consolidated, into a block grant, the appropriations for the operating piece of the

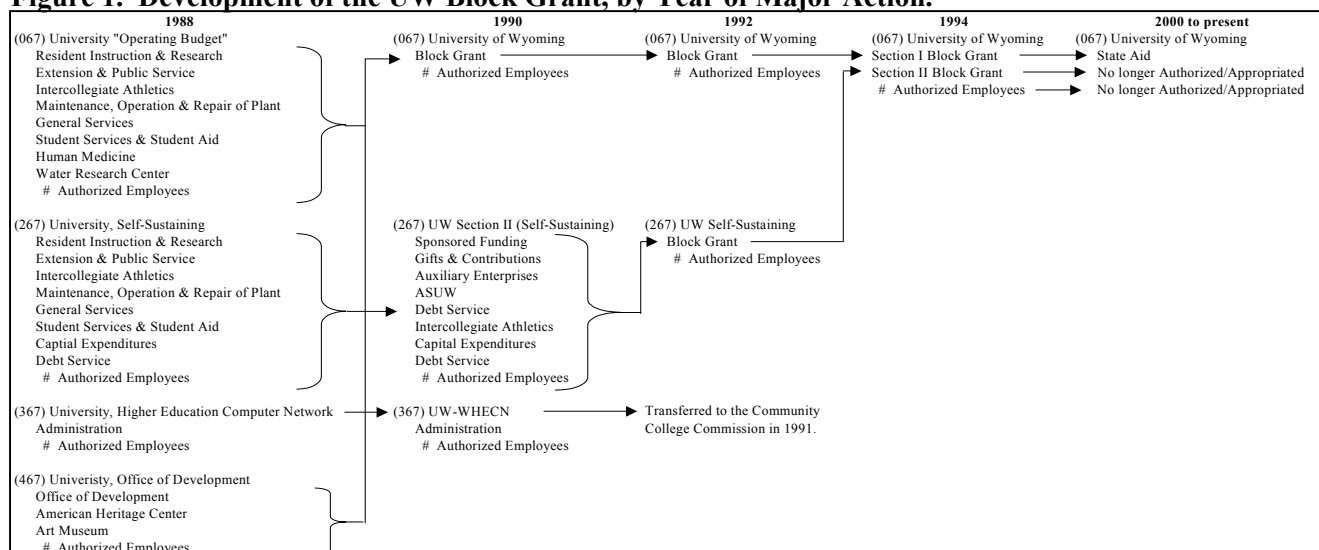
University's budget, now more commonly known as Section I. Section I is primarily funded through a General Fund appropriation and provides for the basic institutional operating revenues.

In the following budget session (1992), the University and the Budget Office once again submitted, and the Governor approved, a budget that roughly mirrored past practice: many individual programs rather than the previously appropriated lump sum operating budget. The Legislature continued the block grant for the Section I budget and went a step further to consolidate the remaining section's nine programs (the Section II, Self-Sustaining budget) into a second lump sum appropriation. The second lump sum contained no General Funds and was primarily composed of federal aid and auxiliary revenues and accounted for research grants, gifts and contributions, auxiliary enterprises, and athletic revenues.

By the 1994 Budget Session, the Legislature consolidated the remaining two appropriations sections into a single section (University of Wyoming) with two programs (Section I & Section II). This general structure prevailed until the 2000 Budget Session.

For the 2001-02 budget request, Governor Geringer initiated the second major change to the block grant appropriation. He pared the University's budget request to the General Fund portion of the Section I operating budget and retitled the program "State Aid." The JAC and the Legislature adopted the Governor's changes. This means the Legislature does not authorize the expenditure of any non-general funds (excluding those intended for capital construction), nor does the Legislature authorize the number of full-time or part-time employees.

Figure 1. Development of the UW Block Grant, by Year of Major Action.



Source: LSO developed illustration.

Reporting. There is perhaps no more immediately compelling representation of the change from line item appropriation to a block grant than a consideration of the information supplied by the University through its budget documents. The 1989-90 University budget request was 259 legal-size pages, including an accounting and presentation of each position and salary. For example, expanded/exception requests included part-time salaries for secretarial support

at the UW Casper Center (\$64,394) and continuation of the Intercollegiate Drug Education Program (\$100,000). In contrast, the 2003-04 budget request was just 35 pages and included summary detail at a much higher level.

Throughout the 1990s, the budget request, as a major reporting mechanism to the Legislature on University performance, initially included inputs, outputs and outcomes at the college and

department level (similar to executive branch agencies). Later, reporting was presented as university-wide objectives. The current administration removed most of the accountability reporting from the budget documents and now provides the Legislature with at least two annual performance reports: *Report to the Legislature: Institutional Benchmarks and Budget* and *UW Academic Plan Implementation Report Card*. As a result, while many of the performance indicators have been removed from the budget request language along with a tremendous amount of line-item detail, the University has supplemented its reporting and arguably increased its institutional accountability through other, regular reports.

Context - The initiation of the first lump sum appropriation. A number of external and internal circumstances and events at the University and statewide significantly influenced the adoption and development of the block grant model.

Total statewide General Fund revenues declined by nearly \$100 million, or 24 percent, between their intermediate high in FY85 to the intermediate low in FY89. During this downturn in the state's fiscal condition, the Legislature provided the University with the authority to transfer funds between appropriated programs. In the 1987 supplemental budget, the Legislature adopted a footnote allowing the University trustees to transfer up to three percent of General Funds within the main University operating appropriation. In 1988, the transfer authority was increased to ten percent; with specific language authorizing that the reallocated monies could be used for salary increases. This University-specific flex authority was the precursor to the lump sum appropriation with unlimited transfer authority.

When the JAC members met with the UW trustees in the summer of 1989, the purpose of the meeting was to explain the severity of the state's fiscal position and relay the need for all state entities to "tighten their belts." (The JAC was presented with estimates of a projected \$105 million shortfall for K-12 funding.) The option of a block grant appears to be an outgrowth of the JAC discussions, but "not the ultimate solution to" the state and University's budget shortfall.

Additional, near-simultaneous activities helped to pepper the environment surrounding the development of the block grant. These included

- 1) the passage of legislation requiring an independent management audit of UW operations ('89 Laws, Ch. 48);
- 2) a 1990 budget footnote requiring the trustees develop a zero-based budget, and coincident University-wide program review/reallocation process; and
- 3) the University's transition to the National Association of College and University Business Officers (NACUBO) budget format in the early 1990s.

Finally, although no formal agreement is found in the relevant JAC minutes, interviews with involved participants suggest that there was an informal agreement by the Legislature not to increase or decrease the total General Fund appropriation to the University in exchange for the enhanced flexibility of a block grant. Some evidence supports this notion as the General Fund appropriation for the 1991-92 biennium and the 1993-94 biennium were identical.

PUBLIC POLICY ISSUES

A number of Constitutional and statutory provisions provide the framework for UW budgeting. Article 7 of the Wyoming Constitution establishes the University of Wyoming. The Constitution requires Legislative appropriation so that tuition may "be as nearly free as possible" and states that the legislature shall provide, by law, for the management of UW. Relevant statute (W.S. 21-17-107) sets forth the policy that the Legislature shall appropriate monies for the University, that appropriations shall specify the intention of the funds, and that no expenditure exceed the appropriation or be used for a different purpose.

Expressed Public Policy Concerns. Both legislators and former Governors Sullivan and Geringer have articulated the inherent trade-offs, challenges, and opportunities associated with lump sum budgeting for the University. A review of the legislative record suggests two overriding policy considerations of block grant funding:

- 1) tension between legislative micro-management and the availability of sufficient information to make educated resource allocation decisions; and
- 2) opportunity for legislative discussions of state public policy regarding higher education outcomes versus negotiations over funding levels.

The following statements reinforce these concerns:

- In the 1990 interim, after the Legislature appropriated the first block grant, the JAC minutes indicate, "The discussion between the Committee and the University staff centered on the detail which would be provided." In doing so, they discussed the balance between sufficient information and micro-management. Further, the Committee agreed to take steps to "limit the level at which motions to amend budgets are made."
- In UW's 1995-96 budget request, Governor Sullivan reflected back on the development of the block grant and summarized, "Much discussion resulted because there was some concern that the single block grant program would shift the focus of attention from the mission of the University to the amount of funding only."
- At the time of the transition to the single State Aid line item in the 2001-02 UW budget request, Governor Geringer wrote, "Instead of focusing on how funds are spent, we should provide for better planning, greater performance accountability and incentives to enhance innovation for student improvement." He added, "budget development by expenditure object and number of employees has retarded the effectiveness of the block grant concept."

Finally, throughout the University internal reallocation process and transition to the block grant model in the early 1990s, the JAC minutes stress the need for *trust* and *integrity* of the process between the Legislature and the

University. The need for trust and integrity appears to represent the members' concern regarding the necessary foundation upon which any successful block grant model is built.

PRINCIPLES OF HIGHER EDUCATION FUNDING

The direction of this brief was not to compare the block grant with other states' higher education funding systems – the uniqueness of UW may limit such analysis. Nonetheless, a brief articulation of some of the principles recommended may be informative. First, funding objectives have historically included such motivating principles as adequacy, equity, reform, performance, stability, and quality.¹ Budget models include line item appropriations, block grant, incentive (or base plus funding), formulaic (cost-based and outcome-based), funding by objective, and funding based on comparative institutions.

More broadly, successful funding mechanisms for higher education are largely driven by well-articulated public policy goals at both the state and university level. Next, the funding system should reflect and even motivate the accomplishment of those goals. To that end, UW has developed three scheduled institutional planning documents: the Academic Plan, the Support Services Plan, and the Capital Facilities Plan. The administration and trustees have also embarked upon a Strategic Plan for Intercollegiate Athletics. Further, given the design of the current block grant funding model, state leaders may have greater opportunity to contemplate and discuss the larger institutional objectives for UW. Such policy directions might include student access and affordability, enrollment levels, student achievement, completion rates, performance on service initiatives, research and scholarship that can contribute to economic development of the state, contributions to workforce development, and others.

FISCAL TRENDS AND DATA

This section begins with an illustration of the recent increases in the state's appropriation to UW. Next is a discussion of the percentage of the UW budget funded by the General Fund. Additional budget information including resident and non-resident tuition rates, private donations,

and research grants, all of which contribute significantly to UW's overall budget, conclude the section.

Although the appropriations to UW have increased rather substantially in recent years, UW's share of all state discretionary funds has declined. Figure 2 shows the increases in the General Fund appropriation to the University over the last several biennia after no growth between the 91-92 biennium and the 93-94 biennium. Despite these recent increases, figure 3 shows the share of total discretionary revenues available to the state (also known as "Type 3 funds") and appropriated to UW have actually declined in three of the last four biennia. This is likely due to larger comparative budget increases in K-12 education, and other executive branch program spending as well as fairly significant increases in the total available revenues.

Figure 2. Percent Increase in UW Block Grant.²

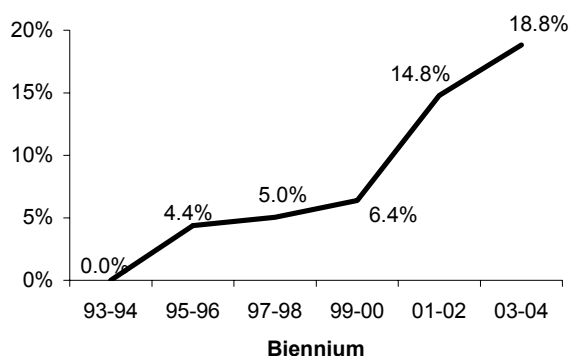
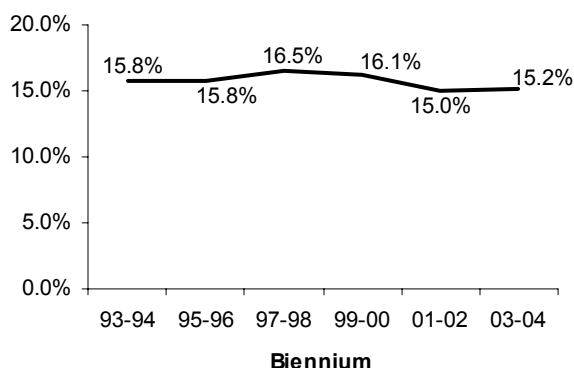
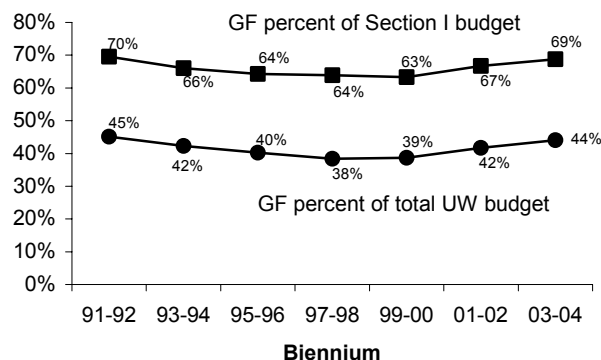


Figure 3. UW's Share of Discretionary Revenues.²



As shown in figure 4, after a steady, but modest, decline in the contribution of the General Fund's share of UW's budget, state aid is again on the rise in the two recent biennia. The 2003-2004 General Fund appropriation to UW was \$250,677,954 (including UW's share of a Section 300 appropriation for health insurance). The total UW operating budget for the biennium is \$569 million.

Figure 4. GF Share of UW Budget.²



Over the past 15 fiscal years, total resident tuition and fees have increased an average of 9.3 percent per year, while non-resident tuition and fees increased 8.7 percent. However, most of the increases came between FY90 and FY95, during which time resident and non-resident tuition and fees increased an average of 14.9% annually.

Figure 5. Historical Trend: Tuition and Fees.²

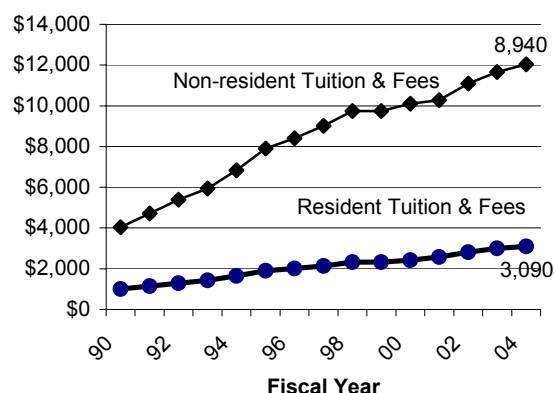
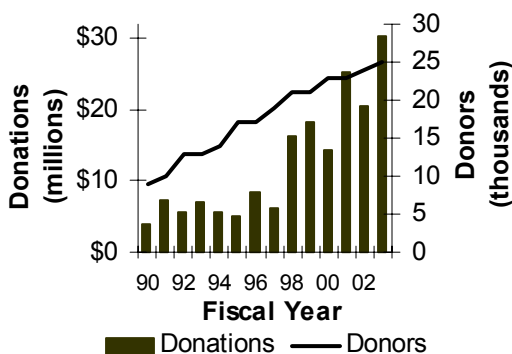
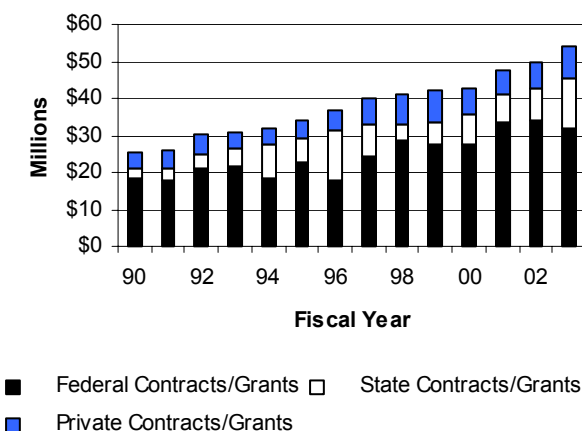


Figure 6 reflects the total private donations (pledges and cash received) and number of donors since the inception of the block grant. Average private donations from FY91 through FY98 were \$6.1 million, while the average from FY99 through FY03 was \$20.8 million.

Figure 6. Private Donations to UW.²

Last, figure 7 shows the growth in private, state, and federal research grants and contracts (secured, not expended) by fiscal year. Similar to tuition revenues and private donations, grants and contracts also contribute significantly to UW's overall budget.

Figure 7. Research Grants and Contracts.²**WHAT'S IN? WHAT'S OUT?**

All General Fund appropriations to UW are currently incorporated into the UW block grant, with the exception of certain Section 300 (state government-wide) appropriations. Capital construction requests are separated in the appropriations act and continue to be appropriated by fund and project, in contrast to the operations budget.

A more direct question might be, "what activities qualify as exception requests?" These requests, or funds requested and often appropriated beyond the standard block grant budget, include an array of

different expenditure items. Table 1 summarizes the variety of General Fund exception requests over the past five biennia.

Table 1. UW Exception/Expanded Budget Requests.

Biennium	Exception/Expanded Budget Requests
2003-2004	Compensation, utilities, Public Affairs Research Center, and standard budget cost adjustment (support services inflation).
2001-2002	WWAMI, student recruitment, equipment base adjustment, scholarship budget adjustment, facilities maintenance, instructional equipment, library acquisitions, and student retention and graduation.
1999-2000	WWAMI, equipment replacement, library acquisitions, "base budget support," UW Innovation Center, Wyoming Water Resources Center, and UW/Casper College Education Program.
1997-1998	Capital Campaign, electronic classrooms, document imaging and world wide web access, advanced financial services reporting, equipment base adjustment, and salary adjustment.
1995-1996	Equipment replacement.

Budget Request Criteria: Little formal criteria exist for the determination of what budget items are considered for exception requests. The internal determination in crafting UW's budget request is based most prominently on the magnitude of the funds needed to address the request or embark on a new initiative. Informally, University administrators assess what items can be managed internally versus what needs require external assistance, beyond the internal reallocation of resources.

Based on an assessment of historical requests, it appears that requests have been influenced by (1) the structure of identified need, e.g., WWAMI, and (2) the budgetary treatment of other state agencies, e.g., equipment and compensation. Additional criteria such as new initiatives and even the size of the request are apparent but have not been systematically followed. According to a University administrator, UW launches new programs and initiatives regularly and there are even examples of reallocations for certain budget items in excess of the requested appropriation for historic exception requests. However, due

primarily to the magnitude of the cost for enhancing compensation of faculty and staff, UW officials have indicated those major needs will be their primary focus for exception requests relating to the operating budget. In sum, under the current block grant, the University has wide latitude in what justifications are used to request enhanced funding but officials appear to be developing a more strict strategy, largely based on the magnitude of the needs.

CONCLUSION AND ISSUES FOR CONSIDERATION

According to University officials the block grant structure has afforded them with the flexibility to address many financial issues internally. For example, through the use of "central position management," vacant positions, with salaries on the order of one to two million dollars are consolidated and reallocated throughout the institution based on prioritized needs. Further, the

University continues to make fairly specific requests and stands ready to be held accountable that the appropriation was expended for the purpose requested. In doing so, officials acknowledge the priorities of trust and accountability integral in the structure of the block grant.

For its part, the Legislature has exhibited restraint and judiciously limited the use of footnotes to direct the expenditure of funds within the block grant. Beyond the magnitude and design of the block grant, the Legislature may wish to consider opportunities for more structured Legislative input into the public policy goals of higher education.

ADDITIONAL READING

Report to the Legislature, Institutional Benchmarks and Budget, University of Wyoming, Laramie, Wyoming, Annual Publication.

¹ Joseph L. Marks and J. Kent Caruthers, *A Primer on Funding of Public Higher Education*, Southern Regional Education Board, Aug. 1999.

² **Sources and notes for figures:** Figures 2, 3, and 4 are generated by LSO using internal data of UW appropriations and total state discretionary revenues for each period in question. UW data on Section I and Section II budgets for 1999-2000, 2001-2002, and 2003-2004 supplemented and informed LSO records. Total Section I and total UW budget data for the 1999-2000 and 2003-2004 biennia have been revised from UW internal records to account for section 300 appropriations. Section 300 appropriations for salaries and insurance are included in the total amount of the block grant for each biennium, even though the appropriations were technically not included in the "block grant" appropriations line item. The GF amounts for 2003-2004 also include an *estimated* \$5.9 million from the State Auditor for health insurance to be directed to UW (03 Laws, Ch. 131, Section 303). The \$250,000 GF appropriation for the 2001-2002 biennia for the technology business center is reflected in the UW block grant, despite being dedicated through footnote. **The \$30,000,000 endowment appropriation made in the 2001-2002 UW block grant line item has been excluded from Figures 2, 3, and 4 for comparative purposes.** No capital construction appropriations are included in any figures as the focus of this report is the block grant, or operating, appropriations. Figures 5, 6, and 7 are LSO prepared graphics using UW provided data, without modification.