

August 18, 2014

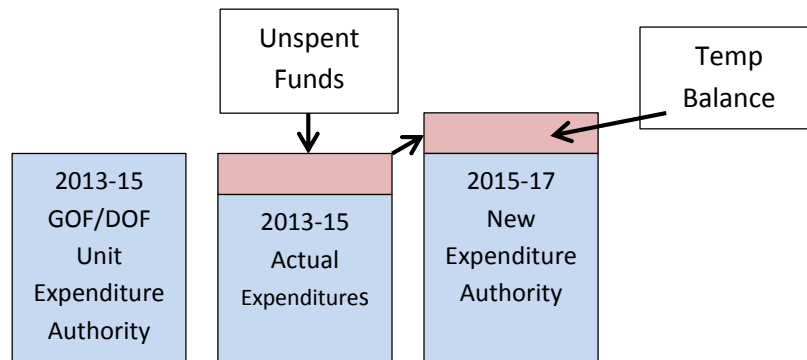
To: Ana Mari Cauce, Provost and Executive Vice President

From: Administrative Carryover Work Group

Subject: Policy Recommendations Regarding Administrative Unit Carryover Funds

The Carryover Work Group you convened in May 2014 has concluded its scheduled meetings and respectfully submits policy recommendations to you for your consideration.

Carryover funds are defined for this purpose as General Operating Fund (GOF) and Designated Operating Fund (DOF) budget authority allocated in a given biennium that remains unspent at the end of that biennium. Under current policy, these funds are given back to units in the form of temporary funds in DOF budgets.



Currently, every other year, you ask UW Seattle academic and administrative units, as well as UW Bothell and UW Tacoma, to attribute their carryover balances to specific categories. In addition, at your discretion, the Office of Planning & Budgeting (OPB) provides GOF/DOF balances back to units in the form of temporary DOF at every biennium close. Units also receive a temporary allocation for the balances remaining in their indirect cost recovery budgets. These reporting and funding practices are not guided by specific administrative or statutory policies, but have been common practice.

Areas of Consideration

The Carryover Work Group discussed the fact that growth in units' carryover balances can be attributed, at least in part, to logical events. Some of these reasons included concerns about the external fiscal climate; anxiety resulting from a lack of local control over budget authority; perceived differential treatment between academic and administrative units; and, simply, that planned expenditures did not come to fruition in the pattern or manner anticipated.

In addition, the group contemplated the fact that many administrative units hold funds for activities on behalf of senior leadership. Some administrative units even contribute to start-ups and other more academic endeavors.

Finally, the group spent time at its meetings discussing similar policies at other higher education institutions. It is clear that many large public universities currently employ or have plans underway to integrate a carryover policy. There is a range of applications and nuances to the policies we reviewed. Some policies have been abandoned during the recession, but many are still being utilized today. Our findings are included in this correspondence as a series of three attachments:

1. **“Carryover Policy Features”** – which provides an overview of five tactics that other universities commonly incorporate into their carryover policies;
2. **“GCS Peer Carryover Policies”** – which describes the carryover policies that our GCS peer universities have in place, and notes when a GCS peer either does not have a policy or is in the process of developing one; and,
3. **“Big Ten General Carry-Forward Practices”** – which is a summary of information that the Director of Budget & Fiscal Analysis at the University of Maryland compiled in the summer of 2013 and provided to us for guidance.

The group recommends the following approach, which it feels will limit administrative units’ reserves in a reasonable and responsible manner, but allow each unit to make a case for spending their remaining funds in ways they deem valuable, with your approval.

Proposed Policy Practice

Under the proposed policy, administrative units would be asked to do several things on an annual basis during autumn quarter, as part of the Provost’s budget process:

1. **Reserve 10 percent of their permanent ABB base (GOF and DOF ONLY).** It is recommended that units hold 10 percent of their permanent base as an emergency reserve. This “emergency” reserve would be calculated annually and derived from the previous June/July’s ABB base budget information to units. These figures would be published by OPB.
2. **Set-aside “central” commitments from the reserve.** For this purpose, central commitments are defined as those coming from OPB, the President and/or the Provost. A list of these commitments would be provided by OPB to administrative units during the budget call process. The list would come from OPB’s commitments database. If additional commitments had not been entered into OPB’s database because OPB did not have knowledge of them, then the administrative unit would provide information to OPB for this purpose.

3. **Explain any remaining temporary carryover balance by providing a list of intended use(s)/purpose(s) (i.e. a spending plan).** These would be differentiated according to intended use along the following lines:
 - a. Permanent expenditures funded with temporary funds;
 - b. Possible multi-year commitments; and,
 - c. Immediate, current year use.

The detailed spending plan (item #3), would be made available to OPB and the Provost annually. OPB would then provide this information to you as an inventory for each unit. However, should you wish to review general plans and not detailed lists, the inventory would be summarized in a high-level template by the categories listed above. We recommend that units be given the opportunity to outline how these plans align with strategic plans for their own unit as well as for the University generally. We also recommend that units be given the chance to outline the implications of not doing the work outlined in their spending plans. Spending plans should be discussed in conjunction with requests for Provost Reinvestment Funds.

For the first year of this policy's implementation, during development of the FY16 budget, we suggest that units submit spending plans for FY 15. OPB will then monitor carryover balances at biennium close (summer 2015) to compare remaining balances against submitted spending plans.

Annual budget materials would henceforth require that units account for unchanged or growing carryover balances. Administrative units that fail to spend according to their spending plans would provide formal justification to you before the provision of additional funds for salaries, benefits, reinvestment funds, etc. Units would be asked specifically how their spending trends reflect their prior year's spending plan commitments. Permanent and/or temporary reinvestment fund allocations may be withheld if trends don't reflect commitments from units.

Units would understand that if spending patterns do not change over time, you may exercise your right to not return temporary carryover balances back to units.

Potential Risks

- The group remains concerned that employing a carryover policy will limit local flexibility and make it more difficult to serve the academic, research and service missions of the University in novel and modern ways.
- This policy may present itself as a paradigm shift, representing a loss in local control and more centralization of budget prioritization. As such, it may be viewed negatively by many. Some within the group thought that it might contribute to the loss of professional staff.
- Many remain concerned that 10 percent is too small a required reserve to weather uncertainty. As administrative units, we are expected to support a growing and increasingly more complex university. If funds are restricted, our ability to respond to campus needs will be affected.

- The group noted that many administrative units assume the risk of academic units. As such, academic units can plan for the future and execute on their strategic goals knowing that the administrative infrastructure will support their work. However, administrative units represented in this group expressed concern that they are not often consulted but rather, expected to provide support without additional funds. Some within the group suggested that holding administrative budget meetings after academic budget meetings would furnish more information about the ways in which administrative units would need to meet academic unit needs.
- Several of the group's members noted that a spending plan would encourage units to spend funds in less frugal, mission-critical ways.

Likely Positive Outcomes

- We recognize that external pressure is mounting; we believe this policy will indicate that we monitor balances and that there are intended uses for these funds.
- We believe that this policy may give you more information when making decisions about where to invest Provost Reinvestment Funds.
- This policy should raise awareness among both academic and administrative unit leaders about spending these resources in intended ways, but also contribute positively to spending trends generally.

We would also suggest that this group reconvene in one year's time to assess the effectiveness of the policy after biennium close.

Thank you for convening this group to discuss such an important topic. We hope that these recommendations are satisfactory and that we have assisted you in considering how this area might be strengthened in the future.