



Item: IV

Tuesday, June 4, 2019

SUBJECT: COLORS OF MONEY Presentation

PROPOSED Board ACTION

For informational purposes.

BACKGROUND INFORMATION

At the March 28, 2019 meeting, the Board of Governors (BOG) provided a training deck on the permitted uses of various types of funds, entitled, "Colors of Money." The BOG staff, working with University Chief Financial Officers, developed a basic training packet, including a glossary of terms for the presentation to each of the University Board of Trustees.

IMPLEMENTATION PLAN/DATE

June 4, 2019.

FISCAL IMPLICATIONS

N/A.

Supporting Documentation: Colors of Money Presentation and Glossary

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FLORIDA ATLANTIC UNIVERSITY



Colors of Money

June 4, 2019

The following slide presentation hits the high level points on the delegation of authority to Boards of Trustees, fiscal responsibilities of the Trustees, parameters surrounding the expenditure of funds, and key statutes and regulations that provide dos and don'ts on the use of funds.

Board of Governors Regulation 1.001 - University Board of Trustees Powers and Duties

(1) Pursuant to Article IX, section 7(c), Florida Constitution, the Board of Governors shall establish the powers and duties of the board of trustees as set forth herein and as may be established in Board of Governors' regulations. This regulation supersedes the delegation of authority to the boards of trustees contained in the Board of Governors' Resolution dated January 7, 2003. The intent of this regulation is to **delegate powers and duties to the university boards of trustees so that the university boards have all of the powers and duties necessary and appropriate for the direction, operation, management, and accountability of each state university.**

(6) **Each board of trustees shall be responsible for the financial management of its university** and shall submit an institutional budget request, including a request for fixed capital outlay, and an operating budget to the Board of Governors for approval in accordance with the guidelines established by the Board of Governors.

FAU Regulation 6.001 – Fiscal Policy

- (1) The University is committed to providing the best and the most education at the least cost. Institutional fiscal policy is set by the President.
- (2) The Vice President for Financial Affairs is the designee of the President for fiscal management and accounting of the assets and liabilities of the University. The Vice President for Financial Affairs is authorized to write-off amounts in compliance with applicable state and federal law and Board of Governors rules and regulations.
- (3) The Vice President for Financial Affairs may delegate such parts of his/her responsibility to Associate/Assistant Vice Presidents and Directors reporting directly to him/her.

Board of Governors Regulation 9.007 – State University Operating Budgets

- (1) Each university president shall prepare an operating budget for approval by the university board of trustees, in accordance with instructions, guidelines, and standard formats provided by the Board of Governors.
- (2) The university board of trustees-ratified operating budget is presented to the Board of Governors for approval. Each university president shall implement the operating budget of the university as prescribed by regulations of the Board of Governors, policies of the university board of trustees, provisions of the General Appropriations Act, and data reflected within the SUS Allocation Summary and Workpapers publication.

Florida Statutes

1011.45 End of year balance of funds

Unexpended amounts in any fund in a university current year operating budget shall be carried forward and included at the balance forward for that fund in the approved operating budget for the following year.

1011.90(4) State university funding

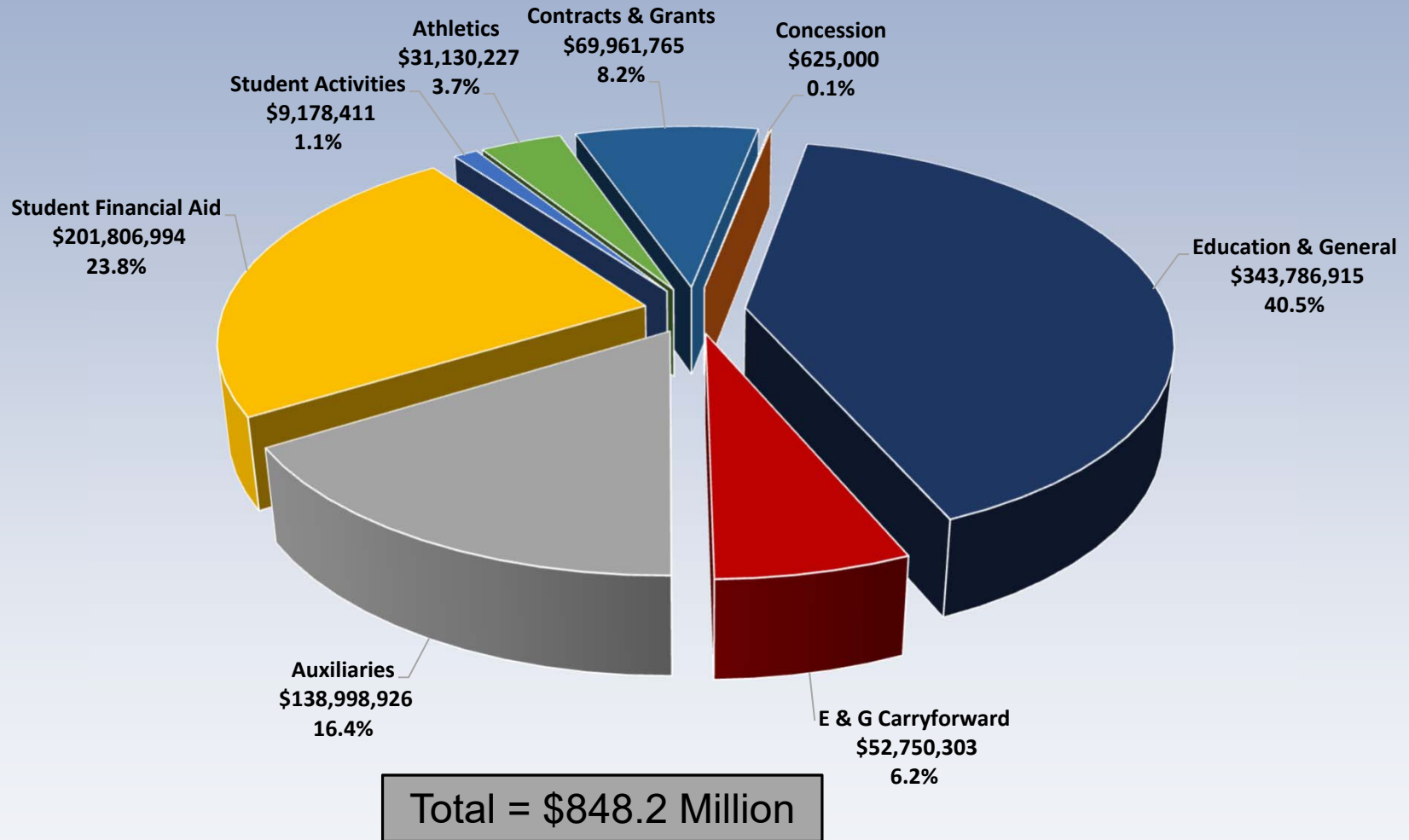
Expenditure analysis, operating budgets, and annual financial statements of each university must be prepared using the standard financial reporting procedures and formats prescribed by the Board of Governors. These formats shall be the same as used for the 2000-2001 fiscal year reports.

1011.91 (1) Additional appropriations

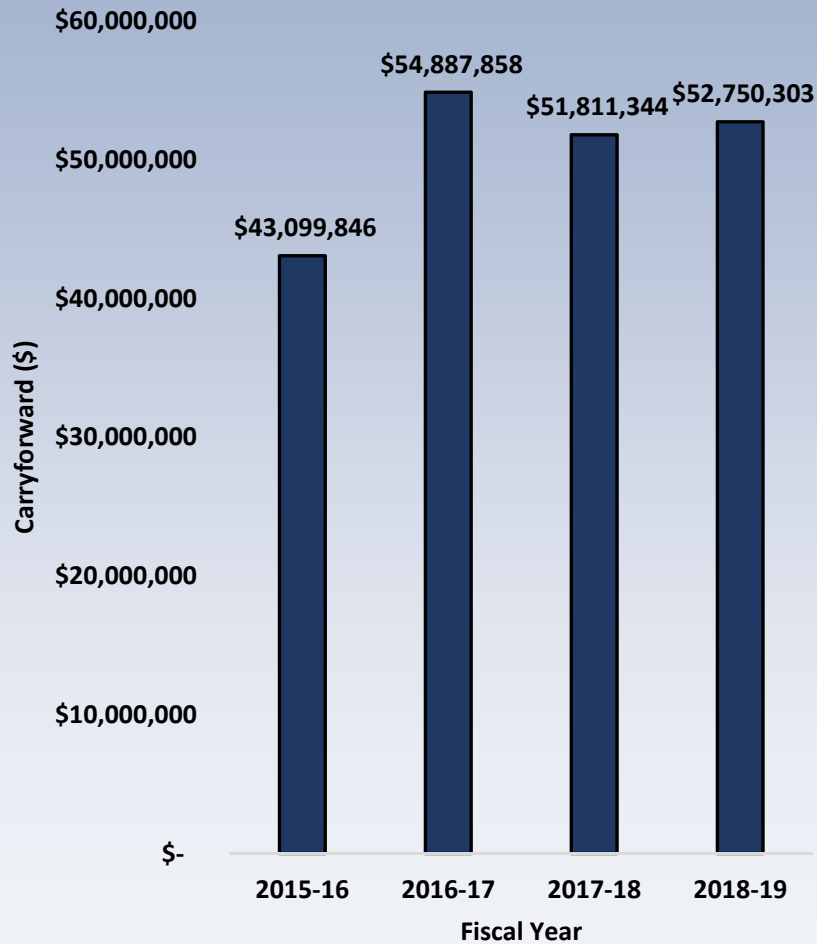
Except as otherwise provided in the General Appropriations Act, all money that comes from federal grants, student fees, private sources, and from vending machine collections is discretionary; however, the budget must be approved and these funds may not be expended for construction, except as provided by S. 1013.74. F.S.

FLORIDA ATLANTIC UNIVERSITY

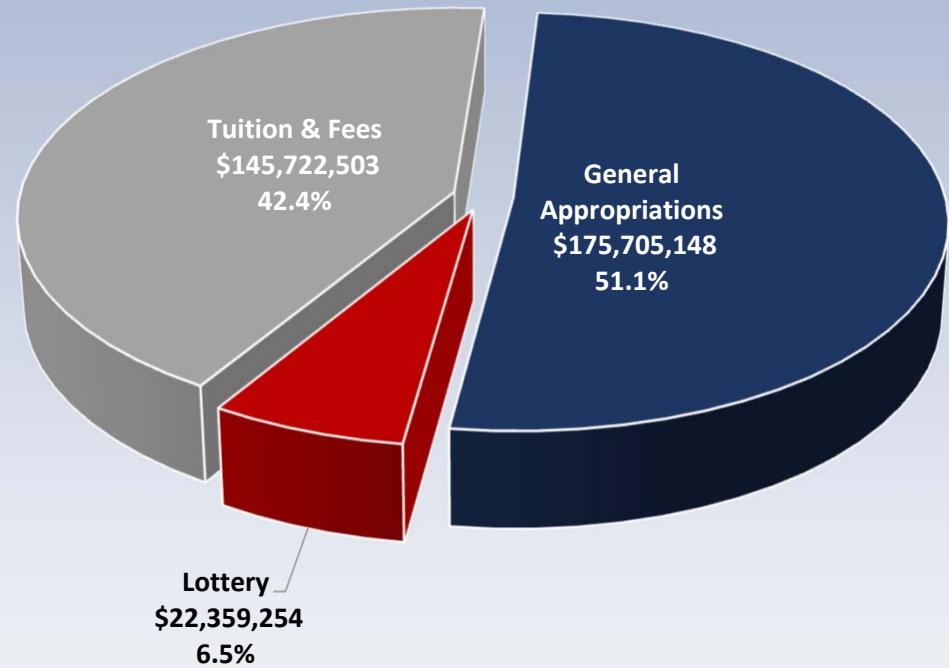
FAU 2018-19 Operating Revenue Budget \$848.2 M



July 1 Beginning Carryforward Balances



2018-19 Education & General Operating Revenue Budget



Total = \$343.8 Million

Education & General (E&G)

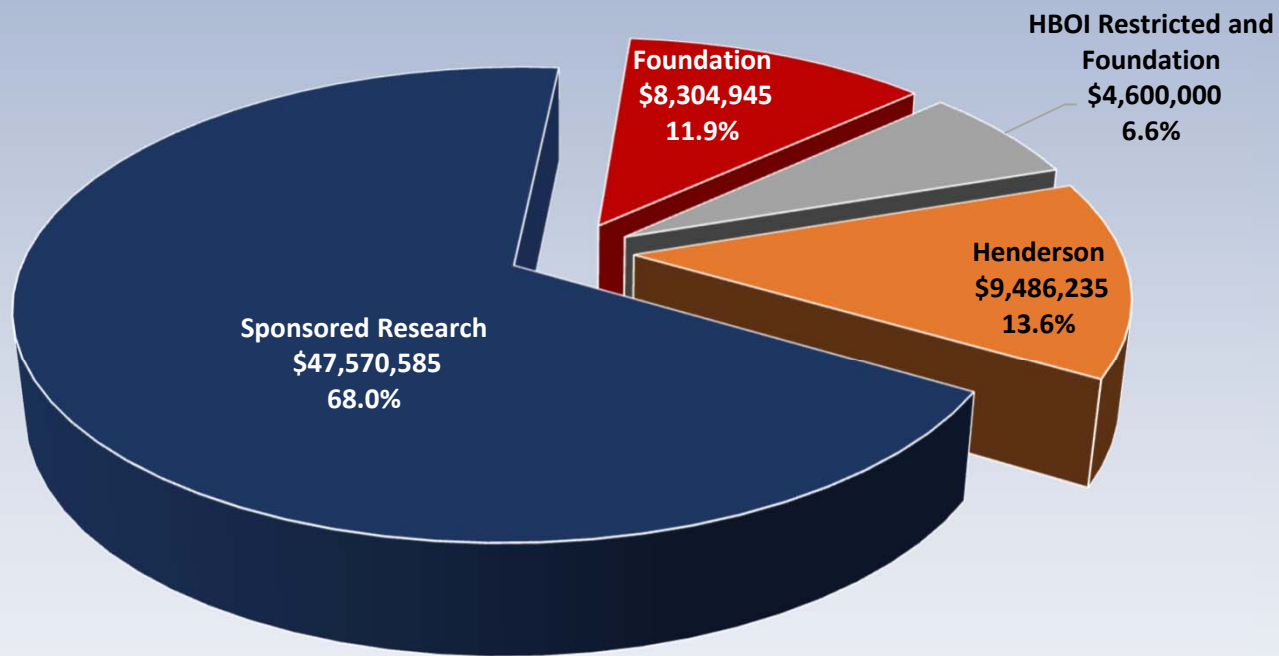
- ✓ Appropriated by the Legislature/Governor each fiscal year (July 1 to June 30).
- ✓ Includes General Revenue, Lottery, Student Tuition & Fees.

- ✓ Board of Governors Regulation 9.007.
 - ✓ E&G funds are used for operating activities only, such as, but not limited to, general instruction, public service, plant operations and maintenance, student services, libraries, administrative support, and other enrollment-related and stand-alone operations of the universities.
 - ✓ Ending fund balances (carryforward) shall be used for operating activities only except where expressly allowed by law. Operating activities included, but are not limited to, unfunded enrollment growth, potential budget reductions, anticipated increases in university operations, and prior year encumbrances.

Education & General (E&G) (*continued*)

- ✓ At any time the unencumbered available balance in the E&G fund of the university board of trustees approved operating budget falls below seven (7) percent of the approved total, the president shall provide a written notification and explanation to the Board of Governors.
- ✓ Interest earnings resulting from the investment of current-year E&G appropriations are considered to be of the same nature as the original appropriations, and are subject to the same expenditure regulations as the original appropriations. E&G interest earnings are not to be utilized for non-E&G related activities or for fixed capital outlay activities except where expressly allowed by law. Interest earnings resulting from invested carryforward funds are considered to be additions to the university's carryforward balance.

2018-19 Contract and Grants Operating Revenue Budget

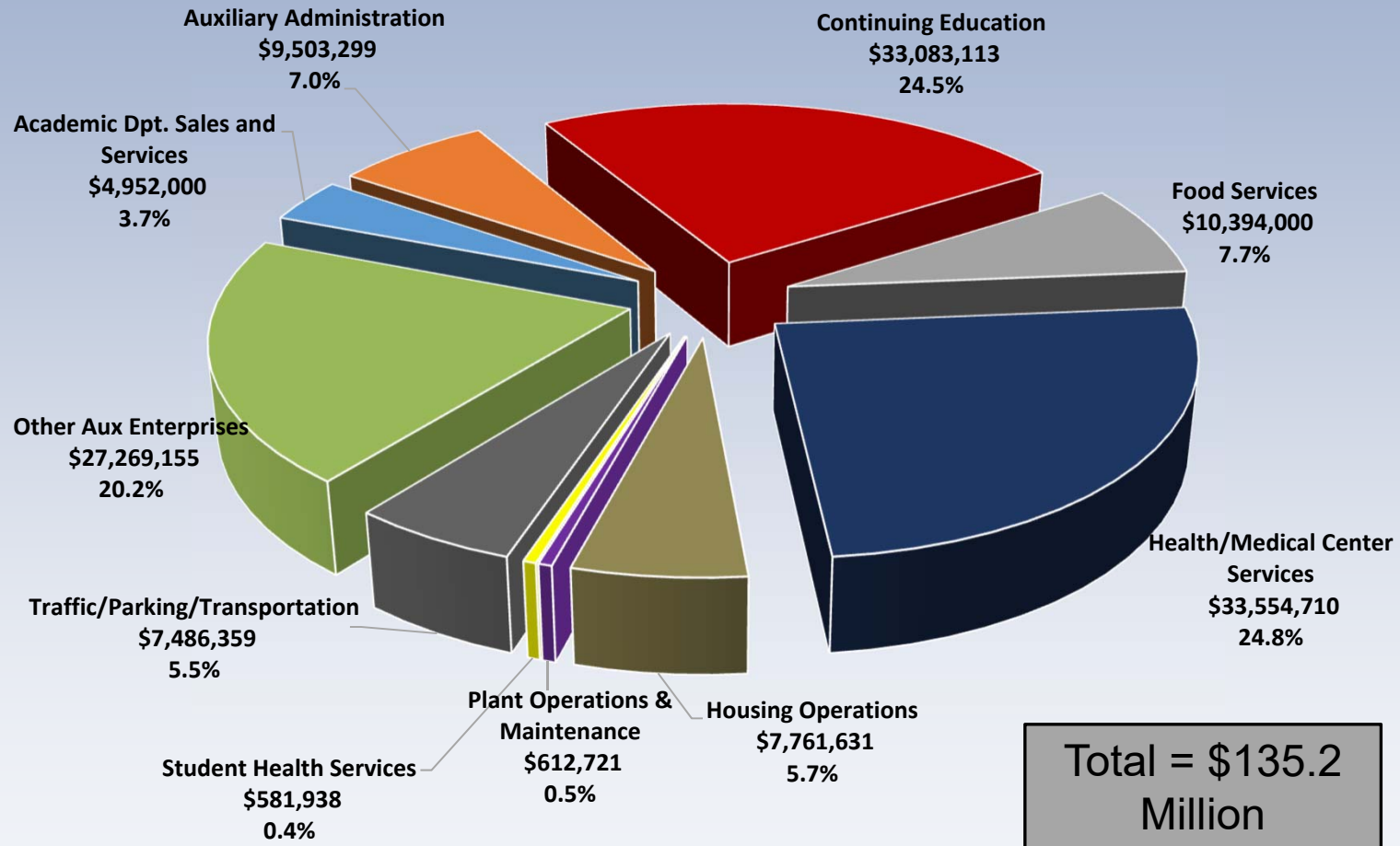


Total = \$69.9 Million

Contract and Grants

- ✓ Sponsored Research – Board Regulation 9.007
 - ✓ Funding from federal agencies, state agencies, foundations, and private sources that enables the University to conduct specific research projects or to provide specific services or deliverables.
- ✓ Grants/Donations – Board Regulation 9.007
 - ✓ Funding includes university and research foundations, state and local awards, and other various donations and grants.
 - ✓ Transfers from university medical Faculty Practice Plans to support physicians compensation also included in this entity.
- ✓ Developmental Research Schools – Florida Statute 1002.32
 - ✓ Laboratory schools fiscal activities are reported in the universities' Developmental Research Trust Funds. Funding originates from the DOE Florida Education Finance Program.

2018-2019 Auxiliary Enterprises Operating Revenue Budget



Auxiliary Enterprises – Board Regulation 9.013 – Auxiliary Operations

Auxiliary services are integral activities of a university that furnish to its faculty, staff and students goods and/or services that are necessary or desirable but not readily available elsewhere in terms of costs, quality, quantity, timeliness, convenience, or other similar considerations. These activities shall support the educational endeavor of the institution and enhance its functioning; therefore, they shall not detract or distract from this basic endeavor in any way, financially or otherwise.

The Auxiliary Enterprises Budget consists of university business operations that are self-supporting through user fees, payments and charges.

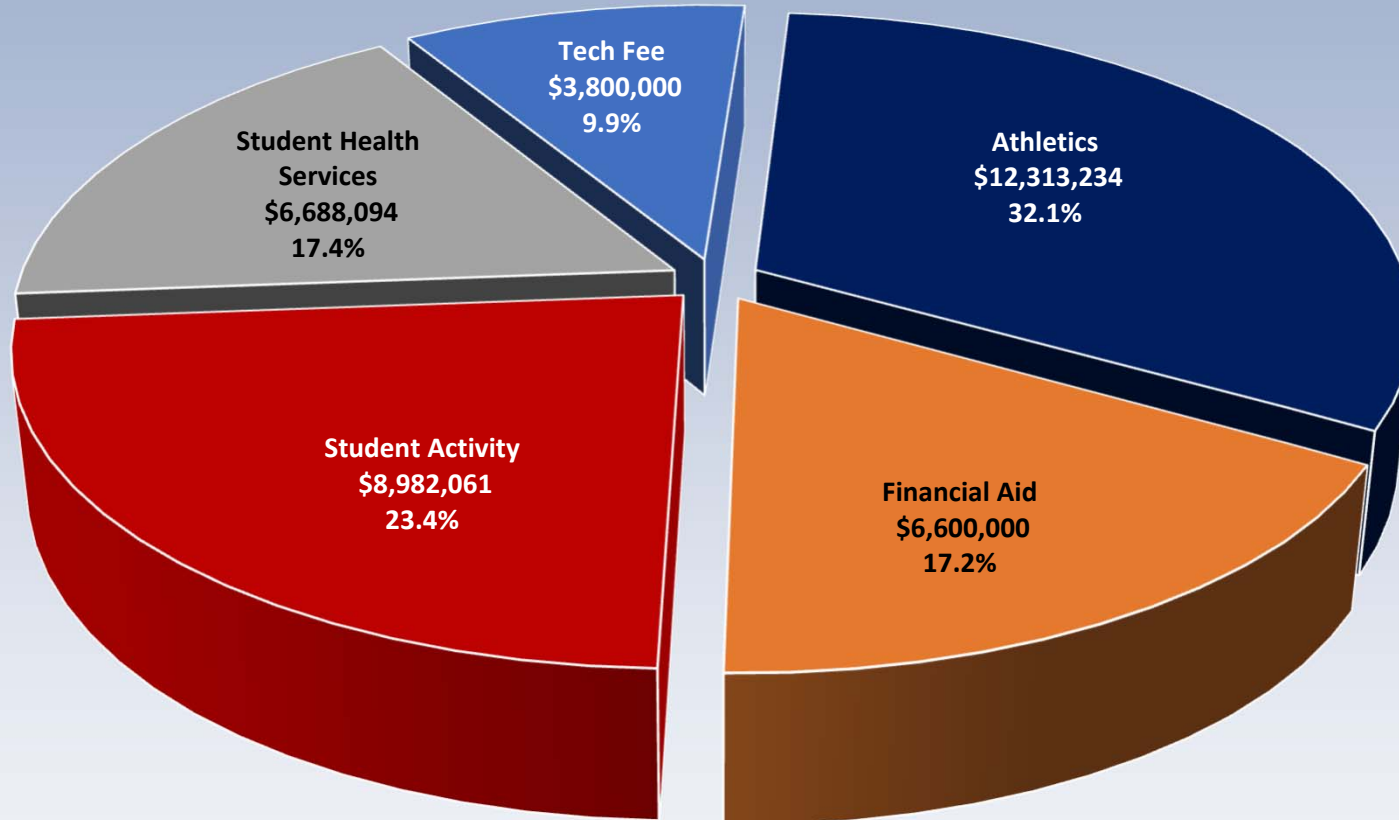
Each institution may determine whether its auxiliary services will be self-supporting on an individual or collective basis, except for athletics, which shall be a self-supporting entity.

Auxiliary Enterprises – Board Regulation 9.013 – Auxiliary Operations

Proceeds from Auxiliary Enterprise operations may be used for purposes deemed necessary by the institution's administration. Examples of uses of Auxiliary funds include:

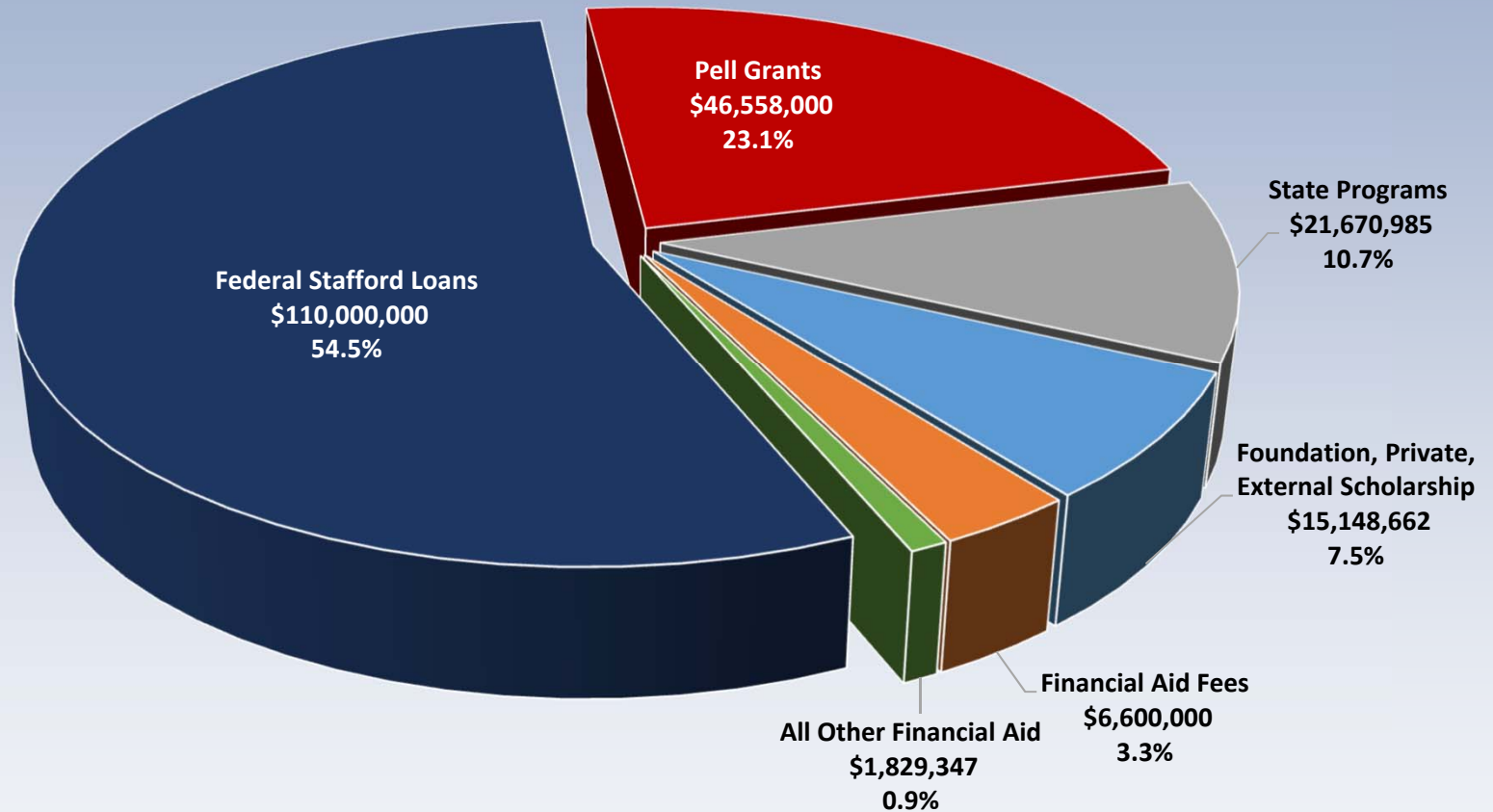
- ✓ Debt service for bonds issued for the construction of university parking garages and student dormitories (pledged revenues)
- ✓ Construction of new university facilities
- ✓ Administrative department support from Auxiliary operations overhead assessments (Human Resources, Purchasing, etc.)
- ✓ Campus safety and infrastructure improvements
- ✓ Maintenance and repairs of university academic and administrative buildings
- ✓ Salaries and benefits, compensated leave for Auxiliary Enterprise employees
- ✓ Subsidized costs for student extracurricular activities (concerts, seminars, career fairs, homecoming events, etc.)

2018-19 Local Fees Operating Revenue Budget



Total = \$38.4 Million

2018-19 Financial Aid Operating Revenue Budget



Total = \$201.8 Million

Local Funds – Regulation 9.007(d) – Operating Budgets

- ✓ Student Financial Aid
 - ✓ Funding from the student financial aid fee
 - ✓ Federal Pell Grants
 - ✓ Florida Bright Futures
 - ✓ Florida Student Assistance Grant
 - ✓ Federal Work Study
 - ✓ First Generation Scholarships

- ✓ Intercollegiate Athletics Budget – Board Regulation 7.003
 - ✓ The Athletics Operating Budget supports the University's student athletics program. Funding is generated from student athletics fees as well as ticket sales to athletics events, game guarantees, NCAA distributions, sponsorships and private support.

Local Funds (*continued*)

- ✓ Student Activities and Services – Board Regulation 7.003(4)(e)
 - ✓ Funding from the activities & service (A&S) fee to support student government operations and student activities such as clubs and organizations.
 - ✓ The student A&S fees shall be expended for lawful purposes to benefit the student body in general.

- ✓ Technology Fee – Board Regulation 7.003(5)
 - ✓ The fee may be up to 5 percent of the tuition charged per credit hour. The revenue from this fee shall be used to enhance instructional technology resources for students and faculty.

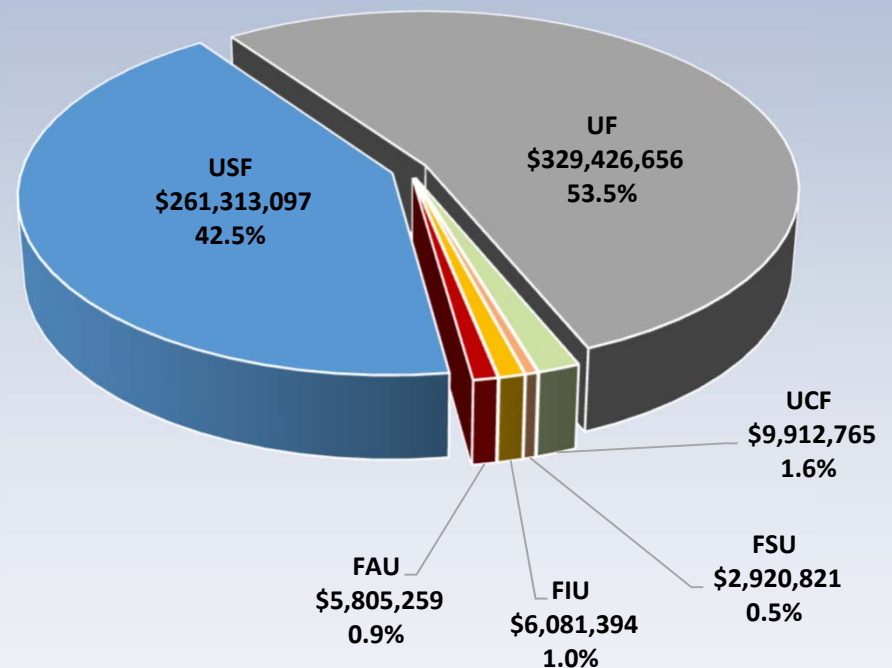
- ✓ Student Financial Aid Fee – Board Regulation 7.003(17)
 - ✓ This fee is collected for financial aid purposes in an amount not to exceed 5 percent of the tuition and out-of-state fee.
 - ✓ Minimum of 75 percent mandated for need-based student aid.

Faculty Practice – Regulation 9.007

Related to the activities for the state universities' medical schools and health centers. This budget must report the monetary level of clinical activity regarding the training of students, post-graduate health professionals, and medical faculty.

University Faculty Practice Plans have been established to facilitate the orderly collection, distribution, and regulation of fees generated by faculty members engaged in healthcare services to patients as an integral part of their academic activities and employment as university faculty.

Faculty Practice



Fixed Capital Outlay

- **Public Education Capital Outlay (PECO)** – Funded by the Gross Receipts Tax, which is a 2.5 percent levy on the gross receipts of electric, gas and telecommunications. This tax is devoted entirely to the PECO and Debt Service Trust fund and is the major state source of revenue dedicated to k-20 facilities. Funds are used for renovation/remodeling, new construction and/or land acquisition.
- **Capital Improvement Trust Fund Fee (CITF)** – Funded by student fees and used for student related projects. This fee can be no more than 10 percent of tuition. Board Regulation 7.003(16)

SUS Authorized Revenue Sources for Fixed Capital Outlay (FCO) Projects

- ✓ **State Appropriations for FCO**
 - ✓ Public Education Capital Outlay (PECO) Trust Fund is the primary funding source for university instruction and research space
 - ✓ Secondary state sources include General Revenue, Lottery and the Capital Improvement Fee
 - ✓ Project spending authorized in the General Appropriations Act or via special appropriation

SUS Authorized Revenue Sources for Fixed Capital Outlay (FCO) Projects

- ✓ **Authorized University Revenues**
 - ✓ Student life, research, retail, and athletic facilities do not receive PECO. These facilities must generate their own revenues for both construction and operations.
 - ✓ These may also be described as “Self-Supporting Facilities”
 - ✓ Authorized self-supporting facility revenues include athletics, student housing, transportation/parking, student dining, student unions, retail, research related, health, etc.
 - ✓ The use of tuition as a facility revenue source is specifically prohibited in S. 1010.62 F.S.

SUS Authorized Revenue Sources for Fixed Capital Outlay (FCO) Projects

- ✓ **Authorized Non-State Revenues (S. 1013.74 ES.)**
 - ✓ Universities may use Federal Grants, private grants, and gifts for fixed capital outlay projects IF the funds are given or granted specifically for the purpose of construction.
 - ✓ Replacement of buildings from insurance proceeds.
 - ✓ Florida Polytechnic University only is authorized to use reserves or carry forward balances for the construction of legislatively authorized projects.

Financing Mechanisms

Section 1010.62, ES.

- ✓ Authorizes financing using revenues derived from or received in relation to sales and services of auxiliary enterprises or component units of the university, including, but not limited to:
 - Housing, transportation, health care, research or research related activities, food service, retail sales, athletic activities, or other similar services, other revenues attributable to the projects to be financed or refinanced, any other revenue approved by Legislature for facilities construction or for securing revenue bonds issued pursuant to s. 11(d), Art. VII of the State Constitution, or any other revenues permitted by law.

Financing Mechanisms (*continued*)

Section 1010.62, ES.

- ✓ Bonds, loans, certificates of participation - all require Board of Governors approval and Division of Bond Finance review.
- ✓ Equipment financing does not require Board of Governors review; the equipment serves as the collateral securing the note.
- ✓ Mortgage financing does not require Board of Governors review; the building and land serves as collateral in securing the note. Mortgage financing is not allowed on State-Owned land.

Public Private Partnership (P3)

- ✓ Defined by Board Guidelines and subject to approval by the Board of Governors.
- ✓ Parallel review structure for Bonded Projects; includes Bond Finance review as well.

State University System of Florida

Glossary of Budget and Finance Terms¹

Activity and Service

The Activity and Service budget consists of funds from the student Activity and Service (A&S) fee to support student government operations, student activities such as clubs and organizations, student centers, and recreational sports for all campuses.

Auxiliary Enterprises

The Auxiliary Enterprises budget consists of university business operations that are self-supporting through user fees, payments and charges; no General Revenue Support. These budgets include: Academic Auxiliary programs, Housing, Parking and Transportation, Student Health Services, and other auxiliaries such as commissions on food services and bookstore sales, rentals, and interdepartmental services. Each institution may determine whether its auxiliary services will be self-supporting on an individual or collective basis, except for athletics, which shall be a self-supporting entity.

Board Approved Fees

Board Approved Fees are fees specific to the university and have been approved by the Board of Governors (Regulation 7.003(23)). Every five years, the Board of Trustees is required to review the fee to determine if the fee has met its intended outcomes.

Current Board of Governors approved fees include:

- ✓ Green Fee - USF, NCF and UWF
- ✓ Test Preparation Fee (Law Schools) - FIU and FAMU
- ✓ Student Life & Services Fee - UNF

Bonded Projects (Capital Funding)

Generally includes housing and parking garage debt. Can be bonded through the State Division of Bond Finance or via a university DSO

Capital Improvement Trust Fund Fee (CITF) (Capital Funding)

Funded by student fees to support student related projects. Funds are collected by the university and transmitted to the State to pay for debt service. Remaining funds are returned to university after receiving legislative authorization. A portion of the fee may be used for university child care centers.

¹ More information regarding these terms may be found in Florida Statutes 1009.24 and the Board of Governors Tuition and Fee Regulations (Chapter 7)

Carryforward

The accumulated ending Education and General (E&G) fund balance. Carryforward can be used for operating activities such as, but not limited to, a contingency for unfunded enrollment growth, potential budget reductions, anticipated increases in university operations, and prior year encumbrances. Interest or investment earnings on carryforward are used for operating activities. At any time the unencumbered available balance in the E&G fund of the university board of trustees approved operating budget falls below five (5) percent of the approved total, the president shall provide a written notification and explanation to the Board of Governors (Regulation 9.007).

Carryforward funds cannot be used for new construction.

Concessions

The Concessions fund contains all the commission-based revenues from beverage and pouring, snack vending, as well as student housing laundry machines. The commission revenues are used to support the purchase of food and refreshment items at university-wide events, faculty and staff recruitment, commencements, training, lecture series, board of trustees, student housing socials and convocation events. Funds shall not be expended for the construction or reconstruction of buildings except as provided under s. 1013.74 F.S.

Contracts and Grants

The Contracts and Grants (C&G) budget consists of funding from federal agencies, state agencies, foundations, and private sources that enables the university to conduct specific research projects or to provide specific non-research services. The C&G budget also includes direct support organization reimbursements for use of university resources.

Expenditures to support research grants include: a) direct costs such as salaries, wages, and benefits of research personnel, materials, supplies, travel, equipment, and rental of space that are directly attributed to the research project, and b) Indirect Costs such as building and equipment use and depreciation, physical plant and maintenance, hazardous waste disposal, libraries, general administration costs (legal, purchasing, accounting), janitorial services, and utilities.

Developmental Research Schools

These are a category of public schools affiliated with a state university college of education as provided by F.S. 1002.32. Currently, FSU, FAMU, UF and FAU operate DRS schools.

Direct Support Organizations; DSO's

Per Florida Statute 1004.28 (1)(a), "University direct-support organization" means an organization which is:

1. A Florida corporation not for profit incorporated under the provisions of chapter 617 and approved by the Department of State.
2. Organized and operated exclusively to receive, hold, invest, and administer property and to make expenditures to or for the benefit of a state university in Florida or for the benefit of a research and development park or research and development authority affiliated with a state university and organized under part V of chapter 159."

Similar to Auxiliary Enterprises, DSO's must be self-supporting; the key distinction is that DSO's are formally incorporated.

Education and General (E&G)

The Education and General (E&G) budget consists of State appropriated General Revenue, Educational Enhancement (Lottery) funding, and Student Tuition and Matriculation payments. Incremental funding is provided by the following primary mechanisms: Performance-based funding, tuition increases, and special legislative appropriations. State appropriated funding is no longer based on enrollments. E&G funds are used for general instruction, research, public service, plant operations and maintenance, student services, libraries, administrative support, and other enrollment-related and stand-alone operations of the university.

Faculty Practice

Faculty Practice Plans collect and distribute income from faculty billings for patient services to the UF, FSU, USF, FAU, UCF, and FIU Medical Clinics to cover the cost of medical services.

Gifts (Academic or Capital Funding)

Another source of academic or capital funding is philanthropy. Philanthropic gifts usually come with donor restrictions on the use of the funds.

Intercollegiate Athletics

The Athletics Operating budget supports the university's student athletics program. Funding is generated from student athletics fees as well as ticket sales to athletics events, game guarantees, NCAA distributions, sponsorships and private support. Intercollegiate Athletics is also supported by Title IX funding, waivers and scholarships, and a statutory tax on ticket sales to support women's sports.

Local Funds

Local funds is a term used to describe a grouping of university operating units that, prior to the devolution of the state universities from the State's central accounting system (FLAIR), were allowed to deposit operating revenues into local bank accounts as opposed to the State Treasury. These units include Student Activities, Financial Aid, Concessions, Intercollegiate Athletics, Technology Fee, Board-Approved Fees, and university Self-Insurance Plans.

Performance-Based Funding

Performance-based funding is a mechanism by which the Florida Board of Governors (BOG) allocates state appropriations to the state universities. The BOG Performance Funding Model (PFM) includes 10 metrics that evaluate institutions on a range of issues. Eight of the 10 metrics are common for all universities; one is selected by the BOG for the university and one is selected by the Board of Trustees. The Performance-based Funding Model has been in effect since fiscal year 2014-15.

Public Education Capital Outlay (PECO) (Capital Funding)

Funded by the Gross Receipts Tax, which is a 2.5 percent levy on the gross receipts of electric, gas and telecommunications as well as a portion of the Communications Services tax. This tax is devoted entirely to the Public Education Capital Outlay and Debt Service Trust fund. PECO is established in the Florida Constitution and must be used for K-20 Capital projects, including the state universities. The Legislature appropriates PECO annually. PECO distributions are administered by the Florida DOE.

Self-Insurance Programs

These are revenues received by the university from entities and individuals protected by the self-insurance program for medical schools, including the Faculty Practice Plans. These programs at UF, FSU, USF, UCF, FIU, and FAU are directed by the respective self-insurance councils and the captive insurance companies (these companies underwrite the risks of its owner and the owner's affiliates). These activities are supported by premiums charged to the insured individuals and entities (primarily medical faculty and institutions). There shall are no funds appropriated to a self-insurance program (Chapter 1004.24(3) Florida Statutes).

Special Legislative Appropriations

These are legislative appropriations tied to specific university requested or member projects. Funding is based upon the university's Legislative Budget Request and may be recurring or non-recurring.

Student Financial Aid

The Student Financial Aid budget consists of funding from student financial aid fees, support from federal and state financial aid awards, institutional programs, and private scholarships. The financial aid fee may not exceed 5 percent of the combined total of the tuition and out-of-state-fee. A minimum of 75 percent of the fee shall be used to provide student financial aid based on absolute need. Examples of other sources of student financial aid are: Federal Pell Grants, Florida Bright Futures Scholarship Program, university scholarships, Florida Student Assistance Grant, Federal Work Study, and First Generation Scholarships.

Student Loans

The Student Loans Budget is comprised of loans from federal and private sources. Federal sources include Stafford and Plus, and private sources include Sallie Mae, Discover, and the PNC Financial Services Group Inc. The university acts as an agent with respect to these funds.

Technology Fee

The Technology Fee budget consists of funding from the technology fee which is assessed at 5 percent of resident base tuition. The fee revenues are used to enhance instructional technology resources for students and faculty.

Tuition Increase Funding

The Florida Legislature establishes undergraduate tuition and authorizes the Board of Governors to establish graduate and professional tuition, as well as non-Florida resident tuition. Tuition differential beyond the base tuition for undergraduate Florida residents, up to 15 percent, is currently being implemented by each university with the exception of Florida Polytechnic University. A minimum of 30 percent of the tuition differential fee must be used to provide need-based financial aid to undergraduate students. The ability to request an increase in the Tuition differential fee beyond existing levels was eliminated effective fiscal year 2014-15 (per Chapter 1009.24(16) F.S.) with the exception of those universities designated as Preeminent by the Board of Governors (may request an increase not to exceed 6 percent per year for tuition and tuition differential fee combined). The Board of Governors approves tuition for market rate programs subject to parameters established by the Florida Legislature and Board Regulation 8.002.

University Treasury Operations

Treasury operations revenue consists of earnings from the university's investment portfolio. Earnings include interest income, realized gains and unrealized gains or losses.