



**Remarks by President Ray Cross  
to the UW System Board of Regents**

**June 5, 2014**

Thank you, President Falbo. Good afternoon, everyone.

My remarks today are meant to frame and focus us on three key aspects of the many issues we are covering:

- The annual budget.
- The biennial budget.
- And student financial aid.

Much of my presentation this afternoon relates directly to the first of these three: the annual budget.

It is here where you will see perhaps the most significant internal organizational changes since the creation of the UW System: the on-going reform of our financial management systems.

We are developing and have begun using new tools and new ways to analyze and manage our finances. The proposed annual budget we will present in a few moments was built using them.

One of the most noteworthy reforms is the *disaggregation of our finances*. In this proposed annual budget you will see the budget broken down by fund and by institution. Before the October Board meeting, you will also see each institution's fund balances broken down by Legislative Audit Bureau category.

That report, the "Level of Commitment Report," will require that each institution consistently apply the LAB categories to their fund balances. We plan on designating a project manager and a review panel to make sure we are diligent in our efforts to consistently apply this process to our respective fund balances.

I know Regent President Falbo and Regent Whitburn and others on the Board feel strongly about this, and we do too.

The proposed annual budget will provide new perspectives on finances and different approaches to the way we look at and present financial data. I also want to recognize Interim Vice President Steve Wildeck, Associate Vice President Freda Harris, Associate Vice President Julie Gordon,

the campus CBOs, and a number of individuals who have worked hard to bring us this far -- they deserve a special thank you for their extra effort and hard work.

Our ultimate goal is to be able to forecast financial conditions three biennia or six years into the future. That will be an incredible step forward! It will make for better financial and policy program decisions for each campus and the entire System.

But let's deal with the matter at hand. I want to highlight several very important points in this proposed the annual budget. Look for them as Steve presents them later on.

First, we are seeking your approval of a \$6.097 billion expenditure budget. We are also seeking your approval to spend an additional estimated \$160 million from our fund balances. I want to emphasize that approval to spend fund balances has never before been requested of the Board.

Secondly, there have been significant strategic reductions of our fund balances. Our fund balances have dropped from \$1.097 billion to \$917 million. That is a **16.5% reduction** over the last year. They are projected to drop further to \$804 million by June of next year. That will represent a **27% drop since June of 2013**.

When "Obligated," "Planned" and "Designated" commitments are removed from the \$804 million, less than \$200 million will be "true reserves" as defined by the Legislative Audit Bureau. That means that **just 3.3% of our overall budget is set aside for contingencies and emergencies**.

Yes, that does concern me. Let me be clear. These reductions have been for strategic and necessary purposes; however, prudent business practices require some reserves to address the volatility of an organization's finances. I am committed to working with the Board and campus leadership to determine that balance.

Thirdly, it is important to note that the tuition portion of the fund balances is projected to drop significantly -- from \$551 million last June to \$304 million by June of next year. That represents a 45% reduction in that fund balance over a two-year period.

Finally, I am also pleased to note that within that fund, the "System-Wide" account balance is projected to be down from \$151 million in June of last year to a projected \$60 million this June. That's a 60% reduction. I promised the Board, the Governor, the Legislature, and the chancellors it would be cut in half by this June, and it will be!

Some of the added benefits of the changes we are making include a greater emphasis on the budgeting and planning process, improved accuracy in budgeting, and a better understanding of our fiscal positions (institutional and as a system).

To summarize:

1. First, the documents before you will look significantly different than previous annual budget documents. There is considerably more information and future budget documents will be even more informational and useful.
2. Second, our overall fund balances, our tuition balances, and our System-wide account fund balances are down, significantly.
3. Third, we are still reforming our practices but have fundamentally shifted the way we manage our financial resources.
4. Finally, we hope this effort will give you, our Board, students, faculty, and staff, the Governor, legislators, and all taxpayers a better understanding of our finances.

These efforts will also allow us to better align our resources with our strategic goals and our mission.

That brings me to the kind of things we are asking you to consider in the biennial budget request which will officially come before you in August. Today, we plan to provide you with a brief overview of the various elements of the biennial budget request we are exploring.

We are attempting to develop the biennial budget request on four pillars:

The first pillar is **financial management and reporting reforms**. I think everyone understands the importance of this effort so I won't repeat the reasoning; however, I will be interested in your feedback today, after you have reviewed our initial attempt to use and present some of this work with the proposed annual budget.

The second pillar is **affordability** for Wisconsin students and their families. What does that mean? Well, we all know that student debt and the cost of higher education are two major areas of concern to Wisconsin families and to the entire nation. We must be aggressive in our efforts to keep costs low and reduce student debt. Therefore, our biennial budget request will:

1. Hold costs down for all students by proposing to continue the tuition freeze;
2. Help technical college students reduce their costs to complete a college degree by easing transfer through the 30 credit transfer agreement we will officially sign tomorrow afternoon;
3. Help high school students reduce their cost of attending college by providing more dual enrollment courses in their high schools under the new Course Options program; and
4. Provide more financial aid to students through the Wisconsin Higher Education Grants. Currently, one out of ten eligible applicants is turned away. We propose to change that.

Freezing tuition, improving transfer capabilities, expanding dual-enrollment opportunities, and increasing financial aid to Wisconsin students—that is what we mean when we say we hope to make college more affordable for Wisconsin students and their families.

The third priority or “pillar” within our request will focus on our faculty and staff -- our university workforce needs. We are committing ourselves to developing **sustainable compensation solutions** so that the UW System can more effectively compete in the global higher education marketplace. We won’t resolve this in one year but we cannot wait.

This means that a multi-year plan will be needed to augment what we have already done on some campuses to address compensation challenges. In addition we need to secure the statutory flexibility needed to use the resources we already have to responsibly compensate our internationally recognized faculty and staff.

Finally, our fourth pillar will seek funds and support to **more deeply engage the university in serious challenges facing our state**. We cannot address all of the state’s challenges but we must focus on the most important. Can the university help reduce the achievement gap of underrepresented minorities in our schools? Can the university help to create more jobs by helping stage II companies grow? Can we address the issue of infant mortality right here in this city? Can we more effectively translate our research into commercial products? We can and we must. I believe the state that created, supports, values, and yes, even loves its university; the state that long ago conceived and embraced the Wisconsin Idea; the state that actually penned into the university’s mission statement into law. And I quote:

*... in this broad mission are methods of instruction, research, extended training and public service designed to educate people and improve the human condition.*

I believe that state, the State of Wisconsin, expects and deserves nothing less. Let us not just be known as the University *of* Wisconsin but also as the University *for* Wisconsin!

That’s my overview of what we are bringing to you today. Now, Interim Vice President Steve Wildeck will walk us through the specifics of the proposed annual budget and Senior Vice President David Miller will give us an overview of the kind of things we are exploring for the biennial budget request and then present a proposal for the Wisconsin Higher Education Grant to be forwarded to the Wisconsin Higher Education Aids Board.