



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

October 9, 2014

As you all know, the report we're presenting today on the UW System's Program Revenue Fund Balances represents a milestone. The journey to get here has at times been difficult, but it was necessary for the long-term financial well-being and viability of this great System.

I'm going to focus on several key issues today. Most importantly, we're going to look at what our actual reserves are – our true reserves. To do this, we all need to understand and agree on one very critical point: Program revenue fund balances cannot and should not be confused or conflated with true reserves at our institutions within the system. That is basic to everything we'll be talking about.

So, how did we get here? Let me share with you the progress we've made in providing even greater accountability and transparency in how we plan, manage and conduct our financial operations.

The March Board of Regents' meeting was my first as System president. Our first order of business was clear: to regain confidence in the UW System's financial information, budget processes and planning activities.

To do that, I told you that we would reshape our financial operations, develop new tools, and ultimately present the System's finances, including our program revenue fund balances, in such a way that everyone in the room could understand them. I said back then, and I repeat today, you shouldn't have to be a CPA to have a basic understanding of the university's finances.

At the time, it was hard for even me to defend our finances because I couldn't answer questions with complete confidence ... What are our program revenue fund balances? Where are they being spent? Where did they come from? I just wasn't sure. Today, however, things are different. The report before you contains an unprecedented level of detail. I am now confident we can answer any questions; and as you review and analyze this report, I am sure you will come to share in that confidence.

Over the past several months, we have worked diligently to devise a thoughtful, organized process to ensure that our finances could be understood and, when questioned, defended.

In April, we began looking at our fund balances through the tools provided by the Legislative Audit Bureau. The Legislative Audit Bureau developed definitions by which to classify our program revenue funds, and we retroactively used those tools to look at our Fiscal Year 2013 program revenue balances. It was early in the process, but there were already some promising signs in what we were doing, and we persisted.

In June, we unveiled our first-ever annual operating expense budget utilizing many of the new financial tools that were introduced in April. We added important components such as an actual vs. budget quarterly report, and incorporated projections for program revenue balances into our annual budget recommendations for the first time. *Fund balances had never before been part of the annual budget development and approval process.* This was a substantial development in restoring confidence in the university's accountability.

From now on, we won't have a separate fund balance discussion, because program revenue fund balances will be an integral part of all our financial reporting.

In August, we started to show how these new financial tools and models could be put to work. As part of our biennial budget recommendation, I proposed a joint investment with the state to better align the university's efforts and resources to more effectively meet the needs of the state. We call this joint investment the **Talent Development Initiative**.

Overall, this initiative has been well received. As I've visited with campus, community and business leaders, everyone agrees with its goals and objectives. Everyone understands that the state needs more high-impact talent and ideas if the economy is going to rebound and grow.

Definitions

So here we are today. But there has been some confusion, so before we go forward, let's review a few key definitions. What is program revenue? Program revenue is revenue collected at the campuses for services provided, such as tuition, food, residence halls, and general program operations. To be clear: these are funds generated on individual campuses, generated locally through individual activities on those campuses.

To further describe our program revenue fund balances, the Legislative Audit Bureau created and defined five different categories, based on levels of commitment. The categories were intended to give the university, legislators, the Governor, our campuses, and the public a clearer understanding of what program revenue fund balances are and how they are being spent.

You have seen and heard about these definitions at previous meetings.

For the purpose of discussion today, I am going to focus on two categories: Reserved and Undocumented. Taken together, these represent what we should call the System's actual or true reserves.

Reserved funds are intentionally held for use in the event of emergencies or for contingencies.

Undocumented are funds that are truly discretionary, funds we don't yet have detailed plans for. They are one-time opportunity investment funds that a chancellor may use, and are a necessary "buffer" that is essential to manage any complex organization.

Over the past seven months, we have thoroughly analyzed and dissected the program fund balances at every one of our institutions as well as the systemwide and System Administration accounts. It has been arduous but necessary work, and I commend our chancellors and their teams, as well as many others within System Administration, who have made this possible. Now I stand before you able to say with complete confidence ...

We can account for every dollar of our program fund balances at every single campus and institution within the UW System.

For the first time, we know exactly what our actual reserves are, our *true* reserves.

As of June 30, 2014, our true reserves were one hundred seventy-four million, eight hundred nineteen thousand, and thirty-six dollars (\$174,819,036) – which is about 3% of the overall operating budget for all of the institutions within the UW System. Let me say that again: our true reserves are only about \$175 million.

That \$175 million is spread across all of our institutions: \$54.7 million at UW-Madison, \$4.7 million at UW-Green Bay, \$2 million at Platteville, negative \$4.7 million at UW-Superior, negative \$670 thousand at UW-Parkside. The point is, the actual reserves for every campus are known and accounted for.

It is also worth noting that these true reserves declined in the last fiscal year, and it is projected they will continue to decrease in the future.

Perceptions and Reality

To really understand how we arrived at this number, we need to understand, once and for all, how perception and reality don't always meet.

Let's start with this. Misperception No. 1: All this program revenue money is in one big pot held by the UW System. Wrong! Simply not true. Remember our definitions. Program revenues are funds generated on individual campuses, and managed and distributed by those individual campuses.

There is not a single pot of money residing in our basement – or anywhere else. There is no slush fund. There is no such thing. Nine hundred and seventy-three million dollars is an accounting construct. It's a number used for state budgeting processes.

UW System is spread throughout the state. There is no larger footprint in Wisconsin. All together, these 14 institutions, 26 campuses, and 72 county extension offices operate with a 6-billion dollar annual budget.

As our report details, the fund balances, spread with great variance among all of the campuses and institutions, are generated locally, planned locally and spent locally with strategic purpose at Green Bay, Madison, Milwaukee, Superior, Stevens Point, Eau Claire, La Crosse, Oshkosh, River Falls, Stout, Whitewater, Parkside, Platteville, and Colleges and Extension.

So, why do we keep seeing these individual institution fund balance numbers get aggregated and rolled up into one grand total? The one that appears in headlines? Because the state expects us, as a state agency, to provide this information in aggregate form for the whole System as well as detailed for each institution. That's how people look at this report and say we've got \$973 million, and think that is our true reserves. That's also how people might think these funds are held in one location

Except they are not. Nor should they be.

The truth is, it's not one package and it's not neat.

Let me say this again: Do not confuse or conflate fund balances with true reserves. That would be misleading. As you will recall from previous meetings, more than \$700 million of our total program revenue fund balances are in some stage of obligation – in the categories defined by the Legislative Audit Bureau as Obligated or Planned.

Here's another common misperception: Program revenue funds should be redistributed by the System. No. No. No. Again, these funds are revenues generated on individual campuses to pay for the services and products provided ... and they should stay there. It is a fundamental commitment we make to our campuses, our chancellors – as well as our students and families who spend that money. Would a family paying hard-earned dollars to send their son or daughter to UW-Eau Claire want to hear that their money is actually being spent at UW-Oshkosh, or UW-Milwaukee? It would be like asking taxpayers in Racine County to send their property tax dollars to help Madison fund its garbage collection problems.

I should point out that the only program revenue funds the UW System directly administers are the systemwide and System Administration accounts. And much of the systemwide accounts are designated for needs that affect all UW campuses. About \$20 million is in the Reserved category. Another \$41 million is in essentially an escrow account, where funds are held for subsequent redistribution to the campuses for costs that impact all institutions, like veterans, fringe benefits, and utilities.

Let me give you an example. Last year, we set aside about \$20 million for veterans' tuition remission. We hold those funds at the System-level – until we know where those veterans have

enrolled, and then we disperse those funds directly to those campuses. The money follows the veteran.

The bottom line

So what's the bottom line? Because of the measures we have taken, the tools we have developed and implemented, and because of the hours and hours of work our folks have put in on our campuses and in the System offices, I can now say unequivocally something I could not say just a few months ago.

We know exactly what our program revenue fund balances are. We know how they were generated, how they are being managed, and how they are planned to be spent. We know this for each program revenue fund balance category on each campus. We have integrated program revenue fund balances into our budget planning process and into our financial reporting processes. From now on, program revenue fund balances will not be a separate conversation, but considered a normal and regular part of our financial discussions and decisions.

This level of detail and transparency about our financial information provided to you in this report is virtually unprecedented in Wisconsin and higher education.

We have been responsive to what you, our Board of Regents, our legislators, and the public, told us they wanted. The UW System has delivered.

We are more transparent, more accountable, more open, and better able to forecast and plan for the future. We're also better able to manage our operations. That's a key point. We are better equipped to move forward with clarity and confidence.

We know that our current true reserves, spread across our institutions statewide, are 3% of our annual budget. We will need to decide whether that's adequate if we want to uphold our standing as a world-class educational leader, as an organization, a system, that has the capacity and the will to help Wisconsin move forward.

We know we must make long-term decisions and investments that align the System's mission and actions with the needs of the state and the students we serve. We must find ways to achieve efficiencies in order to be good stewards of the funds we have been given. To that end, we cannot and should not spend our reserves or program revenue fund balances without careful, strategic planning. That's part of our commitment and responsibility.

Legislators and the public raised concerns – legitimate concerns – about how we were managing our program revenue fund balances. It is important to note that they not only asked the questions, but they also worked closely with us to get to this point. I thank them for their openness, for their patience, and for their commitment to help the UW.

As you've heard today, and as you can see in the meticulous detail in the report before you, we have addressed the concerns – thoroughly – and we are a stronger and more efficient university for doing so.

The University of Wisconsin – our institutions, our flagship, our deeply ingrained commitment to the Wisconsin Idea, our ability to help create businesses and put people to work – are a critical part of the economic and social well-being of the people of this state. We are not just the University of Wisconsin, we are also the University for Wisconsin.

Now it's time to work together to move forward. The University of Wisconsin and the state of Wisconsin are at a critical juncture. Our futures are inextricably interwoven. Together, we must focus on the future. Together, let's focus our collective energies on the needs of this state – particularly the development of high-impact talent, talent and ideas the state so vitally needs. No less than the future of our children and grandchildren, our businesses and communities, the future of our state, is at stake. It's that important that we get this right. Let's get back to work.

Thank you.