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Understanding UW Oshkosh’s fiscally responsible, 1-percent uncommitted reserve and other fund balances

Last week, two significant announcements were made, each relating to the 2013-15 biennial budget. The first was UW System President Kevin Reilly’s proposal on April 19 regarding tuition, student financial aid and economic-development, and student-employment programs supporting initiatives to propel Wisconsin’s economic rebound and growth.

That same day, shortly after President Reilly’s proposal was made public, the state Legislative Fiscal Bureau issued a report detailing what subsequent news stories described as a more-than \$650 million “surplus” in UW System funds. This level of surplus has understandably led to questions.

Let us review UW Oshkosh’s fund balance. Our analysis shows UW Oshkosh was ultimately carrying a fiscally responsible, **uncommitted**, rainy day reserve fund of \$3 million, equal to **1 percent** of its \$242 million 2011-12 budget. That is a conservative amount significantly below widely accepted reserve recommendations, which we will explain in this review. UW Oshkosh’s total portion of the System-wide billion dollar fund balance total – approximately \$37 million – represents an amalgam of reserves and fund balances. Approximately \$34 million of those monies are funds either restricted or committed to specific student services, programs or University initiatives.

Some individuals remain concerned about growth in our fund balances and growth in the proportion of the balances represented by tuition dollars. However, it is important to understand the increasingly critical and influential role tuition revenue has played in UW Oshkosh’s budget and academic mission in recent years. We and our UW System sister institutions have weathered historic cuts in state taxpayer funding. Therefore, it should come as no surprise that the greater dependency on tuition revenues has had a multifaceted impact on our budget. It has been a major factor in the growth of our fiscally prudent and responsibly managed fund balances.

Clearly, given the new questions being asked, it is time for an informed, inclusive and civil examination of fund balances and reserves. Meanwhile, we are in the process of identifying additional UW Oshkosh goals and initiatives that could benefit from the investment of our limited unrestricted reserves, each supporting President Reilly’s proposal and Governor Walker’s workforce and economic development objectives.

Balances and reserves

As we have documented in information sent by UW System to the Legislative Fiscal Bureau, our institution’s total program revenue (PR) fund balance at the end of 2011-2012 was \$37 million. As we discuss these funds, we must be careful not to confuse “balances” with “uncommitted reserves.” The key distinction is that balances are associated with planned expenditures and projects, such as capital projects. They may also be used for strategic investment in new programs. There are concrete, underlying purposes for the vast majority of UW Oshkosh’s PR balances.

In the 2003-2004 fiscal year, UW Oshkosh began engaging in new, entrepreneurial, self-supporting (cost-recovery) academic programs. These successful programs have allowed revenues to be retained at the campus level. This effort continues to drive our key operational plans on campus and provides new revenue streams that support the Advantage Wisconsin Growth Agenda – our concentration on college affordability, access and national/global competitiveness during a period of major reductions in state taxpayer funding. It also supports the UW System commitment to addressing the state need for more graduates, more jobs and stronger economic and workforce development. Our campus community has been extremely successful in these efforts. **Between 2000 and 2012, total enrollment surged 15.7 percent, from 11,684 to 13,519. In addition, the number of degrees awarded annually increased 28 percent from 1,712 to 2,192.**

The new self-supporting programs have contributed valuable, additional resources to the University's operational budget, thereby providing funds to support "strategic initiatives" during difficult financial times when state taxpayer funding was either not forthcoming or in dramatic decline. Many of these innovative, popular programs are additional sources of revenue generators – independent of state GPR (taxpayer) funds and student fees and tuition – that have had a reoccurring direct effect on fund balances.

Breaking down UW Oshkosh's fund balance

Below, we detail and identify **restricted and committed (92 percent of total)** and uncommitted (**8 percent of total**) portions of our total 2011-2012 fiscal year-end PR fund balance of approximately \$37 million:

- **\$3 million** is in our "rainy day/emergency" **uncommitted** reserve. Retaining this reserve provides protection against unanticipated fluctuations in enrollment numbers or campus-wide financial planning assumptions.

Overall, given our \$242 million UW Oshkosh budget, we estimate the approximately \$3 million we maintain in this fund would sustain our institution for, at best, a few weeks of daily financial obligations should a state fiscal emergency befall Wisconsin. If necessary, UW Oshkosh could subsist for two to three months longer in a fiscal crisis while redeploying some of our strategically committed fund balances. Ultimately, the adequate, appropriate level of rainy day reserves is debatable. However, there are helpful guidelines. UW System's Office of Budget and Planning recently referenced two standards in its analysis of fund balance:

- **The National Association of College and University Business Officers (NACUBO) recommends a reserve level of 40 percent of total budget.**
- **The Government Finance Officers Association (GFOA) recommends a 17 percent reserve.**

Our \$3 million rainy day reserve is about **1.2 percent of our total \$242 million budget.** Even our \$37 million fund balance total is substantially below the 17 percent reserve recommendation of the GFOA. An April 22 Milwaukee Journal Sentinel analysis of fund balance as a percentage of total budget further shows that UW System and its institutions are either in line with or significantly below peer systems and institutions in the Midwest and across the nation.

- **\$7.5 million** is the result of our commitment to preserve and increase the number of seats in classrooms at UW Oshkosh. We take this obligation very seriously. Enrollment growth has been part of our strategic and key operational plans. Continued investment in protecting our direct instructional and graduate teaching mission, technology and capital needs are supported annually

by a portion of our program revenue fund balance. In addition, approximately \$1 million of this fund has been used to cover centrally our 2012-2013 biennial budget lapse.

- **\$8.2 million** is the result of various balances in recurring self-supporting (cost recovery) academic programs. These revenue-generating initiatives across the institution's divisions and colleges include: our Lifelong Learning and Community Engagement (LLCE), remedial programs, the high school dual-enrollment-based Cooperative Academic Partnership Program (CAPP), Accelerated Nursing, programs within the College of Education and Human Services, our MBA Consortium, and Study Abroad programs.
- **\$6.1 million** is the result of net revenues generated from earlier self-supporting (cost-recovery) academic programs and is targeted to supplement division/college budget needs and/or provide one-time funds to support investment in new and innovative academic programs. Many of these programs are directly connected to closing skills gaps identified by employers and boosting Wisconsin's economic development. This fund balance also supports investment in campus-wide strategic initiatives, such as the Student Titan Employment Program (STEP), an on-campus internship program that, since its 2009 inception, has put more than 800 hundred students in high-impact, major-connected work experiences that give them a means to counter the cost of college while benefitting from career skill-building work experiences. Additionally, the fund supports implementation of our innovative, sweeping and nationally recognized redesign of general education at UW Oshkosh, the University Studies Program (USP). It also fuels our salary-equity, recruitment and retention efforts, and campus technology improvements.
- **\$2.7 million** of our program revenue appropriations is targeted to support various training needs requested by original funding agencies (for example, our Center for Career Development and Employability Training, or CCDET, which offers customized and cost effective services to local, state and federal organizations, including training, quality assurance, and case and project management expertise.
- **\$7.8 million** is the result of fee-funded, self-supporting auxiliary operations. Operating on a private business model, these programs must set aside funds that will be needed in the future. That is especially critical when major fee-funded buildings are approved and constructed at an institution. Students expect us to use these balances for items such as new debt service requirements, equipment and maintenance. In some cases, these balances may be needed to offset near-term revenue shortfalls or unanticipated expenditures, providing much-needed stability for students. Student housing, campus food service and operations funded by student segregated fees are all supported by these funds.
- **\$1.5 million** is the result of Differential Tuition that provides targeted revenue to student support areas. The Differential Tuition Finance Committee is comprised of students who determine what programs get funded and at what amounts. The students expect us to preserve this fund for specific services often referred to as the "Four Core Areas," which include the Undergraduate Advising Resource Center (UARC), Career Services, Career Counseling, and the Center for Academic Resources (CAR).

New opportunities and strategies to reinvest unrestricted fund balances

As the state economy recovers and the need to fill in budget gaps wanes, we believe we are poised to leverage our limited unrestricted fund balances. This must be a thoughtful process, however. It must involve the input of our campus community, with guidance and support from students, staff and faculty.

The investments must also be fiscally prudent and aligned with what we consider to be our most important strategic challenges:

- We must remain focused on our efforts to improve student success and educational quality by improving student retention rates, reducing time to degree, increasing graduation rates and closing the gap between students of color and white students.
- We must rededicate ourselves to reducing class sizes to facilitate small-learning communities – a key element within our University Studies Program.
- We must maintain as a high priority the funding of high impact practices for our students in order to ensure the quality of their education. This also requires that we address student aid and college affordability. Fund balances can dramatically help us enhance our STEP program. We are also eager to help, as appropriate, the more than 300 UW Oshkosh students who are eligible for but have not able to receive Wisconsin Higher Education Grant (WHEG) funding in this current academic year.
- As President Reilly and other administrators and academic leaders have noted, if we are unified in our efforts to improve educational quality, we must remain committed to addressing compensation competitiveness. Fund balances can play an important role in helping UW Oshkosh in its efforts to retain and attract talented faculty and staff in the coming years.

We also plan to apply undesignated fund balances to support new and innovative academic programs designed to help close the skills gaps identified by employers while strengthening Wisconsin economic development. Some of these include:

- Three New North-based, collaborative baccalaureate engineering technology majors: Mechanical, Electrical and Environmental Engineering Technology that are responsive to workforce-development needs. Both UW Oshkosh and UW Green Bay faculty governance groups approved these programs the week of April 1, 2013.
- The “Northeastern Wisconsin Educational Resource Alliance’s” (NEW ERA’s) innovative online Intern-to-Work program, connecting New North employers to thousands of talented college students needing internship experience.
- Student-and-faculty collaborative efforts to help launch and operate biodigester laboratory facilities, including two located on area dairy farms. A large biodigester laboratory and public education center is being developed at the state’s largest dairy farm – the 9,000-cow Rosendale Dairy (Milksource). A second family-farm-sized unit has been installed and is operational at Allen Farms northwest of Oshkosh. Both of these facilities, and UW Oshkosh’s dry fermentation anaerobic biodigester on campus, work in concert with our unique Environmental Research and Innovation Center (ERIC).

We look forward to dialogue and cooperation with the UW System Board of Regents, colleagues at our sister institutions, state legislators and Governor Walker as the state budget advances through its legislative process in the weeks ahead.

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