



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT WALKER

GOVERNOR

MIKE HUEBSCH

SECRETARY

Office of the Secretary

Post Office Box 7864

Madison, WI 53707-7864

Voice (608) 266-1741

Fax (608) 267-3842

May 15, 2013

The Honorable Alberta Darling, Co-chair
Joint Committee on Finance
317 East, State Capitol
Madison, WI 53702

The Honorable John Nygren, Co-chair
Joint Committee on Finance
309 East, State Capitol
Madison, WI 53702

Dear Senator Darling and Representative Nygren:

Governor Walker and I have reviewed the April 19 memorandum from the Legislative Fiscal Bureau that details the results of a Legislative Audit Bureau analysis of the University of Wisconsin System's (UW System) appropriation balances. The study of UW System's finances revealed that UW System has amassed a program revenue cash balance of \$1,045,200,572 as of the close of the 2011-12 fiscal year. Additionally, UW System has acknowledged that this balance may increase slightly by the close of the 2012-13 fiscal year. While we recognize that a portion of this balance cannot be spent at UW System's discretion, \$648 million of the balance as of the close of the 2011-12 fiscal year is available to UW System to fund the projects of its choosing.

Of particular concern is that \$414 million of the balance was generated by tuition or approximately 40 percent of the total balance. The reserves generated by tuition almost doubled in the last four years, while at the same time tuition for Wisconsin students increased by 5.5 percent each year. Students seeking a quality Wisconsin higher education have paid more year over year, allowing UW System to fund special projects that will not benefit those same students during their UW careers.

Further, UW System has repeatedly represented to Wisconsin citizens that its financial situation is exceptionally dire. In the wake of the 2008 recession, state revenues plummeted and state agencies were asked to reduce spending in order to balance the budget and protect struggling taxpayers. Because it represented the greatest portion of state appropriations available for lapsing, UW System was asked to find a proportionate \$65.7 million in savings during the 2011-13 biennium. UW System expressed outrage that it would be asked to find efficiencies or reevaluate programs the same way that other state agencies did and insisted it was being treated unfairly and that students would suffer. At the time, UW System said:

"We do not know how we can take these cuts without negatively affecting the education of our students and the expectations of their families for a quality experience. These disproportionately large cuts will hurt every UW institution's ability to spur regional economic growth and to help all of Wisconsin emerge from a persistent economic recession."

Indeed, in its reduction plan to the Department of Administration, UW System asserted that the results of the 2011-13 reductions would be increased time to degree, reduced student services and loss of economic development opportunities. However, considering the findings of the April 19 memorandum, these assertions now simply appear inaccurate and untruthful, and that UW System was more interested in protecting its bank account than ensuring a quality higher education. The Walker Administration is saddened that UW System did not show leadership during a fiscal crisis, and instead made the burden of a public higher education heavier while stockpiling cash.

In light of the additional information presented in the April 19 memorandum, the Governor would like the conceptual changes outlined below added to or modified in 2013 Assembly Bill 40, the 2013-15 biennial budget bill. The net result of these changes will increase the general fund balance by \$94,388,600.

1. Tuition Freeze

Modify the budget bill to include a statutory requirement that resident undergraduate tuition rates for academic years 2013-14 and 2014-15 remain at the rates set for the 2012-13 academic year. Under a tuition freeze, UW System would collect approximately \$42 million less than under UW System's proposed two percent tuition increase.

2. Lapse Reinstatement

The Governor's budget directed the Secretary of Administration to allocate \$172 million in lapses across state agencies in the 2011-13 biennium. In the 2013-15 biennium, agencies were required to lapse funds again and to make the lapses permanent by reducing base budgets. UW System was exempted from these requirements because the Administration understood that classes, programs and services to students were at risk. However, UW System clearly could have absorbed the lapse without major cuts at the campus level. As such, the Governor recommends reducing UW System's general purpose revenue appropriations by \$65,688,600 over the biennium to implement a permanent reduction similar to other state agencies.

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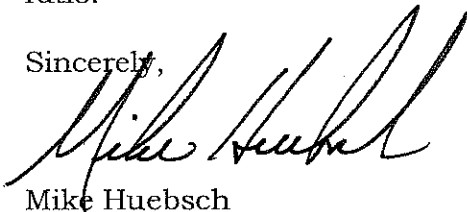
3. Economic Development Initiatives

The Governor's budget includes the following items related to job creation and economic development: \$20 million over the biennium for a new incentive grant program; \$3,750,000 for the University of Wisconsin-Madison Carbone Cancer Center; \$3 million over the biennium for the Wisconsin Academy of Rural Medicine program; and \$1,950,000 for implementation of the UW Flexible Degree program. The Governor recommends requiring UW System to fund each of these items through its program revenue block grant.

UW System has argued that it must maintain a reserves-to-operational costs ratio of at least 17 percent. The three revenue and expenditure measures outlined above would reduce the projected 2012-13 reserves by approximately \$136,388,600. Based on these actions, UW System would have a remaining balance of \$908,811,972 and a reserve ratio of 22 percent based on current year operating costs, well above the 17 percent minimum.

These revisions present UW System with an opportunity to scrutinize its processes, programs, finances and operations so that in the future, tuition will be not be accumulated for special projects under the cloak of maintaining a favorable reserve ratio.

Sincerely,



Mike Huebsch
Secretary

cc: Members, Joint Committee on Finance
Bob Lang, Legislative Fiscal Bureau