

UWM's Operating Deficit: An Explanation October 9, 2015

Chancellor Mark Mone has recently discussed with the campus the fact that UWM has a growing operating deficit (also referred to as a “structural deficit”), currently estimated to be about \$30-35 million. This has raised a number of questions; this brief document is an attempt to explain the structural deficit.

What is an operating deficit? Chancellor Mone is using the term “operating deficit” to mean an ongoing, campus-wide shortfall between UWM’s total annual operating revenues and total annual operating expenditures. When operating revenues in a given year are positive, the excess of revenues over expenditures generally results in a growing carryforward balances from year to year¹. When operating revenues in a given year are negative (an “operating deficit”), the institution’s carryforward balances generally decline.

From FY 2003 to FY 2012, UWM experienced consistent, positive operating revenues from year to year. In other words, UWM’s overall operating revenues exceeded its overall operating expenditures each year during that period. As a result, UWM’s total carryforward balances grew each year, from about \$21 million as of the end of FY 2003, to \$45 million at the end of FY 2007, to \$99 million at the end of FY 2011.

The reasons for this growth in balances are several. While there were System-wide cuts to State appropriations for most of that period, at the same time, the Regents approved tuition increases that offset the cuts; more than 18 percent one year. Also,

Year	UWM's Net Revenues (or Deficit) in millions	UWM's Balances (in millions)
2010	\$28.6	\$83.8
2011	\$7.3	\$96.0
2012	\$5.8	\$93.3
2013	(\$.1)	\$96.3**
2014	(\$9.7)	\$86.8
2015	(\$19.0)*	\$65.1
2016	(\$30-35)*	\$35.0*
*estimated		
**inflated by a UWS utilities surplus distribution to UWM		

UWM’s enrollment was growing throughout that period, from 25,811 in Fall of 2003, to a high of 30,470 in Fall of 2010. At the same time, because of very public cuts to state appropriations, pay plans were few and far between and many institutions, including UWM, were conservative in budgeting for expenditures. That is, we did not fully plan for growth in tuition revenues until it was realized. As a result, expenditures were always behind revenue generation. As the carryforward balances were accumulating, UWM began to commit those funds to help pay for calculated investments in its future, as detailed further below.

FY 2010 was the year that UWM had the most positive operating revenues – about \$29 million. Each year thereafter, those annual revenues shrank. FY 2012 was the last year that UWM experienced positive operating revenues. In FY 2013, UWM’s operating revenues were very close to zero, at negative \$100,000. These changes from FY 2010 were due to flattening of tuition growth, declines in state appropriations, and dramatic

¹ There is not an exact correlation between the net revenues and change in carryforward balances because net revenues includes other restricted funds and certain accounting accruals.

increases in investments and capital expenditures, such as the Northwest Quad and the new Zilber School of Public Health and School of Freshwater Sciences. In FY 2009, UWM had anticipated an additional \$30 million in base operating revenues from state appropriations over three biennia to support the two new schools, but only realized \$10 million of those funds, in FY 2009.

When the budget process began for the 2013-2015 biennium, Governor Scott Walker introduced the most favorable budget in UW System's recent history, with an increase in state appropriations and without a plan to interfere in the Board's tuition setting. Unexpectedly, however, concerns broke out about growing carryforward balances throughout the UW System. At the time, UWM explained in great detail to legislators, the media, and UW System that UWM had, effectively, fully invested its carryforward funds with its commitments to the State for investments in the Northwest Quad (acquisition and renovation of the former Columbia St. Mary's campus), School of Freshwater Science, Zilber School of Public Health, and Innovation Campus. It further explained that, due to these commitments, recent enrollment declines, and the failure of the State to come through with \$20 million in anticipated operating funds for those investments, a large budget cut and/or tuition freeze would be devastating for UWM and would inevitably result in a severe decline in UWM's carryforward balances.

Nevertheless, the result of the 2013-2015 biennial budget process was the worst budget in UW System's history, with a total cut of \$15 million over the biennium or about \$8 million in an ongoing base cut. That was coupled with an unprecedented tuition freeze that effectively doubled the impact of the cut. That is, had the UW System implemented a modest 3% tuition increase² each year of the 2013-2015 biennium, the additional tuition would have resulted in a base increase in UWM's annual revenues of about \$15 million over the biennium.

Over the 2013-2015 biennium, expenditures continued to grow as predicted, especially with additional commitments of two new schools and Innovation Campus. Units throughout UWM made cuts in FY 2014 and FY 2015 in response to the GPR budget cuts, but they were not enough to keep pace with the combination of enrollment declines, budget cuts, tuition freeze, and additional expenditures. Based on all of the stressors, in both Spring of 2013 and Spring of 2014, UWM's business office predicted for campus leadership (also shared with the news media) an operating deficit of as much as \$30-40 million by FY 2014, based on all of the factors combined. In fact, the operating deficit turned out to be less than predicted, but still grew to almost \$10 million in FY 2014 and \$19 million in FY 2015. Also as a result, UWM's carryforward balances were reduced by roughly these amounts, as expenditures outpaced revenues.

That history brings us to the current biennium, which has resulted in the most damaging cut in history and truly "the perfect storm" for UWM. The budget cut alone was two times the largest prior cut, at \$12.2 million in FY 2016 and \$18.0 million in FY 2017. This has been combined with another two-year tuition freeze. The total impact of a now four-year tuition freeze alone on UWM is at least \$30 million in base (annual) revenues,

² From FY 2002 to FY 2013, tuition increases averaged 6.8% per year.

assuming a 3% tuition increase in the absence of the freeze. Despite many efforts to cut expenditures, we are now predicting an operating deficit of \$30-35 million for FY 2016, including the base cut, assuming enrollments remain flat. For scale, this is roughly equivalent to the total budgets of the College of Engineering and Applied Science, College of Nursing, and School of Information Studies, combined, and is about 10% of the annual revenues in all of the academic and administrative units at UWM. Clearly, applying traditional strategies to address this fiscal crisis will not be sufficient. To address this problem, UWM is applying efforts on all fronts to reduce the gap:

Student enrollment: In August of 2014, the Chancellor's Enrollment Management Action Team (CEMAT) was formed to oversee and coordinate all activities related to recruitment, retention, and student success. CEMAT is leading current and pending cross-campus initiatives and strategic investments to maintain and/or grow enrollments.

Budget model: A Budget Model Working Group has been developing a new budget model, which was prompted by frustration over the current model's inability to support effective planning and decision-making. After over two years of collaboration, review, and a pilot program, UWM hopes to launch its new budget model in spring of 2016.

Budget Planning Task Force: This group began its work in the spring of 2015 to manage the 2015-17 budget cut. This group has managed cost containment measures and a voluntary separation incentive program. It has allocated the FY 16 and FY 17 cuts in the most strategic manner possible. (As of October 14, 2014, the Chancellor has received but not yet implemented the Budget Planning Task Forces' recommendations for the FY 17 cuts.) All campus units have proposed how they will accomplish the cut and those scenarios have been evaluated. Through this work, many units have begun restructuring planning at the unit level.

Reorganization and Restructuring: As a result of feedback from several retreats held in June and July of 2015, Chancellor Mone has formed a Chancellor's Campus Organization and Effectiveness Team (CCOET) that will make recommendations on how the campus will reorganize and restructure itself on a large scale to optimally position the institution for current and future success. Adopted recommendations will be implemented separately, beginning late in the 2015-16 academic year.

Legislative & Community Engagement: Utilizing his Industry and Community Leadership Council (Kitchen Cabinet), Chancellor Mone is scheduling joint meetings with UWS and BOR leadership to develop our plans for a special capital budget request (Fall, 2015) and both base budget and capital budget planning for the 2017-2019 biennial budget.