

## The Critical Need to Protect University Fund Balances (Net Assets)

### Fund Balances Defined

A fund balance is another name for an organization's net assets. Any "sweeps" of the universities' fund balances are the same as a cut to any other part of their operating budgets.

- Board of Higher Education mandates and industry standards require universities to carry between 5%-15% of annual operating revenues in fund balances. OUS's 2009-11 beginning Education & General (E & G) fund balance of \$80.4 million equals approximately 7.6% of operating revenues.
- Given the volatility of the state budget in this and the next biennium, prudence dictates **maintaining, if not enhancing, fund balances**. The Government Finance Officers Association (GFOA) recommends that government agencies, at a minimum, maintain unrestricted fund balance in their general fund of no less than two months of operating revenues or expenditures.<sup>1</sup> For OUS, this would equal a **minimum of \$181.9 million**.
- The source of revenues in OUS's E & G fund balance comes primarily from student tuition and fees, indirect cost recoveries from the federal government, sales and services.

### Need for Fund Balances

Fund balances or net assets, according to the GFOA, are affected by the following factors:

- **Prevailing economic conditions and climate:** current, and forecasted conditions are volatile in Oregon
- **Stability of major revenue sources:** OUS experiencing declining state appropriations; and while enrollment has reached record levels in the last two years, OUS often experiences variable enrollments from year to year
- **Cash flow requirements:** OUS currently expends approximately \$91.0 million per month from its E&G fund
- **Expense flexibility and controllability:** many OUS

#### Two Examples: Campus Uses of Fund Balance

##### Oregon State University

Under the leadership of President Ed Ray, OSU has undertaken a long-term strategic reorganization which has consolidated departments' administrative functions in order to achieve significant savings. This effort, as well as other cost cutting measures campus-wide, has achieved savings. The **savings from these efficiencies, now part of OSU's fund balance, will be redirected to key campus priorities**, such as student instruction, hiring of faculty to cover increased enrollment demand, research, and student support programs. President Ray's cost cutting measures are exactly the type of solution needed to address current and projected budget constraints. However, **sweeping savings will penalize these laudable efforts to protect students and programs while maintaining quality and access for Oregonians.**

##### Western Oregon University

WOU's unique guaranteed tuition **Promise Program** has helped Oregon students and families plan for tuition payments by offering a locked-in tuition rate for the 4 years a student is in college. In order for this program to remain viable, **WOU must keep a certain amount of funds held in reserve in their fund balance**, as this major revenue component cannot be changed in response to changing financial conditions of the State. **Sweeping fund balance from WOU will put the Promise program at risk.**

<sup>1</sup> *Appropriate Level of Unrestricted Fund Balance in the General Fund (2002-2009)*, The Government Finance Officers Association (GFOA), approved by the GFOA's Executive Board, October 2009

expenses are governed by labor contracts that are inflexible; and OUS must pay other expenses mandated by state government programs and assessments.

➤ Besides the minimum need factors noted above, fund balances are also used to:

- **Hire faculty to meet increased enrollment demand on campuses and the need for additional course and class sections**
- **Meet anticipated operating cash flow, program investment and other financial needs, including paying committed operating and capital expenses, and other encumbered obligations**
- **Demonstrate to external funding entities that OUS is financially viable**
- **Meet unanticipated reductions in revenue.**

**"It is essential that governments maintain adequate levels of fund balance to mitigate current and further risks, (e.g., revenue shortfalls and unanticipated expenditures)..."**

*GFQA Executive Board, October 2009*

#### **Other Fund Balances in the OUS**

- **Agricultural Experiment Station:** fund balance is from federal appropriations, indirect cost recoveries, and sales and services. Federal funds are restricted for AES program expenditures by statute.
- **Extension Services:** fund balance is from federal and county appropriations, and sales and services revenue. Federal and county appropriations are restricted for ES program expenditures by statute.
- **Forest Research Lab:** fund balance is from federal appropriations, indirect cost recoveries, and sales and services revenue. Federal funds are restricted for FRL program expenditures by statute.

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