

Annual Report of the Budget Committee of the Academic Senate, August 2006

The Budget Committee met nine times during the year, two during the summer recess. Most of the meetings were scheduled to review Administration proposals to the Budget and Finance Committee of the Board of Governors (BOG). As in the past, the committee offered its views on those proposals. The detailed minutes of the committee are available on its web site at: <http://www.law.wayne.edu/mcintyre/Budget>.

Early in the year, the committee established a subcommittee to work with the Provost's office to try to determine why the percentage of the General Fund budget going to the schools and colleges, as measured under a consistent accounting method, was declining every year. Although the subcommittee worked hard to get to the bottom of this matter, it was unable to discover who the big winners have been under the annual budgets. A subcommittee also was established, in conjunction with the Office of the Vice President for Research, to try to improve the budget information provided to reviewing committees by centers and institutes. This work was not completed.

The Budget Committee has become increasingly concerned about how major capital spending priorities are set by the Administration. The only chance the committee has to deal with this issue is in reviewing the priority list submitted to the State by the University. Vice President John L. Davis promised the committee that it would be consulted early on that priority list. Unfortunately, the list was prepared and set in concrete before that consultation occurred. The committee has assurances that it will be consulted in timely fashion when the 2007 list is being prepared.

The committee also has been concerned about the reduction in funds for the schools and colleges resulting from the reduction in the payout rate on college endowment funds. That reduction was taken two years ago on the ground that investment returns were low. The committee objected, noting that investment returns had been well above the inflation-adjusted replenishment rate for years and that requests for increasing the payout rate were rebuffed on the ground that reserve funds were needed so that the payout rate could be maintained in lean years. The committee also noted that the drop in the investment rate might well be short lived. After discussion, the committee adopted the following motion at its November 28, 2005, meeting:

That the Policy Committee be requested to ask the Administration to rescind the 0.25% cut in the payout from University endowment funds that was instituted on the premise, now seen to be false, that the one-year decline in the income from endowments would continue indefinitely into the future.

A memo embodying this motion was sent to the Policy Committee on November 28, 2005.

One result of the discussion of the committee's motion at Policy was that Vice President John L. Davis agreed to come to the committee to discuss the matter. He did so at the January 23, 2006, meeting of the committee. At that meeting, a suggestion was made

that the University might want to develop a system whereby the payout rate on endowment funds is set by reference to a rolling average of investment returns, perhaps with some floor and cap. Vice President Davis agreed that such a system was worth considering and noted that it is being used by some universities. He agreed to collect information on the matter and to discuss such a change with the committee at a later time. So far, that information has not been provided. The committee can be expected to pursue this matter in the coming academic year. The committee can also be expected to continue to monitor the effectiveness of the Advancement Division in obtaining gifts and grants for the University.

A major innovation begun this year by the committee was to meet with all of the chairs of the various department and college budget committees. Organizing that meeting was not an easy task, as there was no organized list of the chairs of these committees. Nevertheless, the committee, with the help of the staff of the Academic Senate, prepared such a list and invited all of the chairs to a meeting. The meeting featured a budget presentation by Provost Nancy Barrett. The meeting was very well attended, and it is our expectation that it will be repeated in the coming academic year. For confidentiality reasons, the minutes of this meeting are a bit sketchy.

In recent years, the committee has been concerned about the lack of faculty consultation regarding the spending of amounts that become available during the year as a result of overestimation of expenses and underestimation of revenues. That concern was expressed to the BOG's Budget and Finance Committee. The BOG responded to that concern by asking the Administration to prepare quarterly reports on the actual expenditures made during each quarter. The Administration submitted its First Quarter Report on the FY 2006 budget to the BOG at its meeting of March 8, 2006. The committee discussed that report with the Provost and Vice President for Finance & Facilities Management. The committee expressed some disappointment that the quarterly report simply provided new estimates without providing the data on actual expenditures on which the new estimates were based. After discussion, the following motion was made and seconded:

The Budget Committee requests that the Administration provide, as a supplement to the quarterly budget reports, a report on the actual expenditures and revenues for the quarter, with comparisons to the actual expenditures for the same quarter in the prior year.

Unfortunately, no action was taken by the Administration in response to this motion. When the Second Quarterly Report came out, it had exactly the same major flaw. As a result, the faculty representative to the BOG's Budget and Finance Committee raised the issue at the BOG meeting of June 21, 2006. Various members of the BOG supported the suggestion that the actual numbers be provided, with whatever caveats the Administration felt were appropriate. Vice President Davis and Provost Barrett agreed to provide the requested information in the next quarterly report.

On June 19, 2006, the committee met with Provost Barrett and the Policy Committee for a briefing on the proposed budget for FY 2007. Various members of the committee expressed concern about the priorities reflected in the draft budget and suggested changes in those priorities. Unfortunately, no changes were made in response to those concerns. The committee discussed the budget and tuition proposals of the Administration at its meeting of July 19, 2006. Again, objections were made to certain of the budget proposals. In particular, various members objected to \$1 million going to the Office of the Vice President for Research (OVPR) without any specification of the use of those funds. Many members felt the amounts should be used for what the OVPR had identified as its top priorities — namely faculty setups and faculty retention.

This issue was raised by the faculty representative at the BOG's Budget and Finance Committee meeting on July 26, 2006. He made a motion at that meeting that the \$1 million be put in a fund for faculty setups and faculty retention, to be administered by the Provost in consultation with the OVPR. That motion passed. It was overturned, however, by the full BOG when it met later in the day. This rejection by the BOG of a budget recommendation of its Budget and Finance Committee is apparently unprecedented.

The committee also objected to the Administration's proposal for an across-the-board increase in the budgets of the so-called Research Excellence Fund Centers. It adopted a motion to have the amounts otherwise going to those centers placed in a fund, to be distributed according to merit among the centers by the OVPR, with faculty consultation. That motion was made by the faculty representative at the BOG's Budget and Finance Committee meeting, as an amendment to the Administration's motion for an across-the-board increase for the centers. The motion to amend received broad support from BOG members and was incorporated by agreement into the Administration's motion.

Although the committee has had some differences in views with the Administration on certain matters, it has worked constructively with the Administration and expects to continue that constructive relationship in the coming academic year. Priorities of the committee for the coming year will include the building of stronger ties to the budget committees in the schools and colleges, a reversal in the decline in budget allocations to the schools and colleges, better coordination of capital spending projects with the strategic plan, continued monitoring of the performance of the Advancement Division, monitoring of the spending by the OVPR of the \$1 million fund it received, ostensibly for faculty setups and faculty retention, and better consultative mechanisms with respect to spending of amounts available from the understating of revenues and overstating of expenses in the FY 2007 budget.

Michael J. McIntyre, Chair, Budget Committee of the Academic Senate
August 30, 2006