

# Memo

## Budget Committee of the Academic Senate

To: Budget & Finance Committee, Board of Governors

From: Michael J. McIntyre, Chair

Subject: FY 2008 Budgets

Date: September 24, 2007

I have the following comments on the budgets being presented to the Board of Governors at the meeting of September 26, 2007.

1. *Inadequate Consultation.* The Academic Senate is entitled under Board statutes to consult on the budgets. I was promised by the Administration, when I set up the meeting of the Academic Senate's Budget Committee for Friday, September 21, 2007, that the members would have a copy of the proposed budgets by Tuesday, September 18. I asked for assurances on this matter because the committee did not receive the Administration's tuition proposal, presented in July, until the morning of our meeting. Receiving the documents that late obviously precludes effective consultation. Despite the prior assurances, the committee again received copies of the budgets on the morning of our meeting. I am requesting by this memo the assistance of the Board in getting the Administration to abandon this unfortunate practice of holding the already prepared budget materials until the very last minute. The University community is concerned, to say the least, about certain actions that the Administration has taken in obtaining approval of the large tuition increase and the substantial and disproportionate cuts in the instructional budgets of the Schools and Colleges. A failure to consult in good faith simply increases the concern.

2. *Undisclosed Reserves.* At the recent meeting of the Budget and Finance Committee, I learned for the first time that the Administration has been maintaining an undisclosed "auxiliary plant fund reserve". Vice President Davis has provided some information about various reserves maintained by the Administration, although there is no accounting for anything labeled "auxiliary plant fund reserve". The Administration claims that these reserves are needed to replace equipment and facilities used by the auxiliaries. In fact, however, those reserves are being used for purposes that are not remotely related to a legitimate purpose of a "plant fund reserve". Instead, they have been used to cover operating deficits in auxiliary activities unrelated to the activities that generated the reserves and for special projects favored by the Administration.

3. *Interest-Rate Swaps.* The Administration is requesting permission, in effect, to substitute its existing fixed-rate bonds for variable-rate bonds. The point of the proposed interest-rate swap

proposal is to reduce interest rates today, with the reasonable expectation of higher rates in later years. This is a risky strategy. As anyone reading the papers these days knows, the use of variable interest bonds has led to unprecedented foreclosures by homeowners. That strategy is even less wise for a University, which cannot reasonably expect that rising real estate prices will save it from financial hardship in future years.

4. *Restructuring of Summer-School Budgets.* The Administration has included in the Budget Book a proposal for changing the distribution of revenues from summer-school programs. A change of this nature falls within the areas where consultation with the Academic Senate is required. Yet, the Administration has not sought any consultation with the Budget Committee or any other instrument of the Academic Senate. I suggest that this proposal be put on hold until the Academic Senate has had an opportunity to study the proposal and offer its recommendations to the Administration. The asserted goal of the proposal is to encourage schools to increase their summer-school enrollments. On its face, however, the proposal puts the large existing programs in Liberal Arts and Education at serious risk of reduced funding. The Administration apparently has so little confidence in the success of its proposal that it is predicting a significant decline in summer-school enrollment for the coming year.

5. *Overly Conservative Estimates of Enrollment.* The new enrollment information now available indicates that the Administration has seriously underestimated enrollment for FY 2008. The Administration concedes that its estimate is "conservative". It claims that a conservative estimate is appropriate because the budget situation for the University is unsettled. Of course, the budget situation was unsettled when the original estimate was made this past July. The July estimate was conservative; the September estimate is simply unsupported by the known facts. The Administration has imposed heavy and disproportionate cuts on the instructional budgets of the Schools and Colleges. The conservative approach would be to minimize risks to the core educational functions of the University by using the funds made available from a realistic estimate of enrollment to restore a portion of those cuts.