

## **Minutes, Budget Committee of Academic Senate**

### **Meeting of June 8, 2004 (As approved, Sept. 13, 2004)**

*Present:* Michael McIntyre (Chair), Stephen Calkins, Marc Cogan, Louis Romano\*, Vanessa Rose\*, Harley Tse, William Volz.

*Absent with Notice:* Charles Elder, Marlyne Kilbey, Celeste Lezuch\*, Charles Parrish, Linea Rydstedt, Assia Shisheva, James Woodyard.

*Absent without Notice:* Ravi Dhar, William Slater.

*Guest:* John Davis, Senior Vice President, Finance and Administration

\*Liaison

1. The meeting convened at 11:02 a.m. The minutes of the meeting of April 30, 2004, were approved.

2. *Discussion of BOG Items.* The Committee discussed briefly the various items going to the Budget and Finance Committee of the Board of Governors with Vice President Davis. Two issues were of particular interest — the plan to generate steam on campus for several buildings instead of purchasing the steam from an outside vendor and the report to the BOG on the University's debt situation. Mr. Davis argued that the self-generation of steam would save the University money in the long run. Several members noted that the savings depended in part on estimates of the price of natural gas in future years. Mr. Davis suggested that all energy prices tend to raise in unison, so that an increase in natural gas prices probably would be matched by a comparable cost increase for steam. Some members noted that this relationship certainly is plausible but is not inevitable.

Much of the discussion centered on the report on the University's debt situation. The report was prepared by Lehman Brothers, the underwriters for the University's debt issues. The report argued that the University's debt is not excessive and that further debt could be incurred without putting the University out of line with comparable educational institutions. Mr. Davis suggested that the only real limit on University debt is the willingness of the University to incur the costs of debt service.

Several members noted that the report did not show with clarity the growth of debt in the university over the past decade. Mr. Davis promised to provide that information. It is understood, nevertheless, that the increase in debt is quite large. Mr. Davis suggested that the University was overly cautious in prior years. Some members suggested that the report, between the lines, is warning that the University's bond rating is likely to go down, from a low A to a high B. The report, and Mr. Davis, suggested that such a drop would not have a significant impact on debt serving charges for the University. Some members of the committee expressed some skepticism, noting that interest rates appear to be on the rise and that a bond rating becomes more significant at higher average interest rates.

The report apparently was prepared because of a concern by the BOG that the University was incurring excessive debt in recent years. The committee noted that the current practice of utilizing debt to finance various projects was acceptable when it was clear that the projects would generate the funds needed to pay the debt service. But it suggested that there are much more significant risks when the funds for the debt service have to come from the already strapped General Fund. Members suggested that the report should have included a clearer presentation of the costs to the General Fund of the increase in debt over the past decade.

The committee expressed its appreciation to Mr. Davis for coming to the meeting and explaining his positions.

3. *Adjournment.* The committee adjourned at 12:25 p.m.

Michael J. McIntyre