Minutes, Budget Committee of Academic Senate

Meeting of January 23, 2006 (As approved, Feb. 13, 2006)

Present: Michael McIntyre (chair), Stephen Calkins*, Marc Cogan, Charles Parrish, Frederic Pearson, Louis Romano, Linea Rydstedt, Vishwanath Sardesai, Assia Shisheva, Harley Tse, Cheryl Verbruggen*, William Volz, James Woodyard.

Absent with Notice: Loren Schwiebert, Ravi Dhar.

Invited Guests: Nancy Barrett, Provost; John L. Davis, Vice President for Finance & Facilities Management.

*Liaison

1. The meeting convened at 10:03 a.m. The minutes for the meeting of November 28, 2005, were approved without objection.

2. *BOG Materials*. BOG Materials. The committee discussed various matters going to the Board of Governors at its meeting of January 25, 2006. The first topic of substance was the FY 2005 General Fund Budget Performance Report. The Provost answered questions about the report and suggested that some of the details not included, such as the surpluses and deficits in various accounts, would be available in the quarterly reports. The Provost also informed the committee that the State had restored all of the cuts made for the last fiscal year, which will provide some cushion for the deficit caused by enrollment numbers not reaching the budget target.

The committee also discussed the FY2005 Audited Financial Report. Vice President Davis answered questions about the report. Most of the discussion focused on nonoperating revenues, due to the general lack of information on that topic.

Members did not review in any detail the various proposals for replacing chillers and otherwise improving infrastructure. Nor did it review the M.U.S.I.C. report.

3. *Payout from Endowment Funds*. The committee had passed a motion at its last meeting asking the Policy Committee to request that the Administration rescind the 0.25% cut in the payout from the Endowment Fund. Currently, the Endowment Fund pays out at a rate of 4.75%, with 0.5% being captured by the Advancement office and the rest going to the intended beneficiaries (generally schools and colleges). Policy had discussed the matter with the Provost, and the Provost had agreed to discuss the matter with Vice President Davis. Vice President Davis agreed to come to this meeting to discuss the matter with the committee.

Vice President Davis agreed that the performance of the endowment fund for the prior year was adequate to finance a payout rate of at least 5%. He suggested, however, that money managers are concerned that the good returns of last year are unlikely to be sustained in the future. He stated that the policy of the University is to maintain the principal (adjusted for inflation) in the endowment fund intact. He felt that a return to the prior rate would put that policy at risk.

Various members presented opposing views. Some members noted that the fund had enjoyed returns well in excess of the 5% payout rate for many years but that the University had resisted proposals to raise the payout rate on the ground that the retention of the earnings in excess of the payout would allow the University to maintain the 5% rate when the economic picture changed. Now when there is a small downturn, the University has used that downturn as an excuse to cut the payout rate. One member noted that a cut at this time of general austerity was unwise and harmful to the operations of the schools and colleges. The chair suggested that the present system seems to lack symmetry — that the rate only goes down and never up. He suggested that the system would have more credibility if it were more balanced.

Vice President Davis responded to the comments by suggesting that the cut in the rate was not due simply to one bad year but to what some pension fund specialists are projecting to be a trend for the future. He indicated, however, that he was prepared to revisit the issue if a trend developed in the other direction. He claimed that the outlook for the current year is not rosy and provided some information on that issue to the committee.

One member suggested that the University might want to develop a system whereby the rate is set by reference to a rolling average of investment returns, perhaps with some floor and cap. In that way, members of the University community might buy into the system and not blame the University if a drop in the investment return resulted in a drop in the payout rate. Vice President Davis agreed that such a system was worth considering and 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.

Some members suggested that the University, as a show of good faith, might consider a temporary increase of 0.25% in the payout rate for the current year, with a more permanent solution established after further study. Vice President Davis was not supportive of that proposal.

One member suggested that the low payout rate probably discourages giving, since donors are concerned about the benefits to a particular school or college from their gift. In addition, deans may be inclined to seek gifts for current expenditures rather than for contributions to the endowment fund. Vice President Davis suggested that donors definitely are concerned about the return on investment for the endowment fund, but he was not sure they were as concerned about the actual payout rate.

4. *Review of Advancement Performance*. The chair distributed information on gift giving at the University that he obtained from the Advancement Office. He noted

that the information had not been obtained easily and had required repeated requests and repeated interventions by the Provost.

Several members indicated that the committee needed to be concerned about the performance of the Advancement Office due to the 0.5% tax on payouts from the endowment fund. Several members felt that it was unclear whether Advancement was having great success, due in part to the lack of information on the cost side. The chair agreed to request cost information. Some members indicated that the meaning of the headings on the tables distributed by the chair were unclear and that some clarification would be useful. The chair agreed to seek such clarification.

One member noted that cost information is difficult to assess, since spending on fund-raising events can be useful in some cases and a diversion of resources in other cases. In response, a member suggested that this problem is unsolvable and that it is necessary to hold fund raisers accountable based on performance. It was noted, however, that gift giving depends on many factors, including the health of the economy, which are outside the control of the fund raisers.

The chair noted that the tables provided by Advancement do not consolidate the performance of the old College of Liberal Arts and the College of Science. He added a line to the table that he constructed to provide that consolidation. One member noted that much of the growth in gift giving is coming from the School of Medicine, which generally administers its own gift program. Another member indicated that revenues from the SOM's Fund for Medical Research and Education (FMRE) are included in the gift reports, although FMRE funds cannot fairly be characterized as gifts. The committee does welcome the fact that the FMRE amounts are now accounted for in a separate budget line instead of being commingled with SOM giving.

5. Adjournment. The committee adjourned at 11:58 a.m.

Michael J. McIntyre