# Minutes, Budget Committee of Academic Senate

## Meeting of September 13, 2004 (As approved November 9, 2004)

*Present*: Stephen Calkins (Chair), Marc Cogan (late), Charles Elder*, Celeste Lezuch* Michael McIntyre, Frederic Pearson, Louis Romano, Vanessa Rose* (late), Linea Rydstedt, Vishwanath Sardesai (late), Assia Shisheva, William Volz (late), James Woodyard.

*Absent with Notice*: Ravi Dhar, Charles Parrish

*Absent without Notice*: Harley Tse.

*Liaison

1. The meeting convened at 12:23 p.m. The minutes for the meetings of June 8, 2004, and July 15, 2004, were approved.

2. *Review of Centers*. The chair announced that he had received a request from the Policy Committee that the committee review four centers. He asked for volunteers to serve on a two-person review subcommittee for each center, with the understanding that he would assign reviewers from those not in attendance in the absence of sufficient volunteers. Set forth below is the list of centers to be reviewed, the unit to which they report, and the persons who volunteered at the meeting to do the review.

| Center/Institute | Reporting to* | Subcommittee Members |
|---|---|---|
| Institute of Gerontology | Research | McIntyre, Shisheva |
| Douglas A. Fraser Center for Workplace Issues | CULMA | Pearson |
| Ligon Research Center of Vision | SOM | Romano |
| Center for Healthcare Effectiveness Research | SOM | Rydstedt |
| *From C&I website: http://www.research.wayne.edu/ci/directory.htm | | |

The chair asked those listed above to check the materials on the center they will be reviewing as soon as they receive them to see if the budget materials are complete and particularly whether the budget form has been completed correctly (which is often not the case). He indicated that we should send the budget forms back to the appropriate persons if additional budget data are needed, and he wanted to do so as soon as possible to prevent any unnecessary delay in the review process.

One member suggested that he was uncomfortable reviewing a center that reported to his own dean and thought that the committee might want to consider a policy of not assigning people from a particular college to review a center that reported to the dean of that college. Discussion followed. There appeared to be an emerging consensus that it was appropriate for one member of the subcommittee to be from the college where the center resided, as long as that member did not feel uncomfortable in serving. It was thought to be unwise, however, to have both persons from the college where the center resided. The chair stated that he would make subcommittee appointments in accordance with that emerging consensus. The committee members did not know where each of the centers under review reported. The chair indicated that he would obtain that information (see chart above) and would make appropriate adjustments in assignments if necessary.

3. *Auxiliary Budget*. Of the various issues going to the Board of Governors (BOG) at its September 15, 2004, meeting, the only one of substantial interest to the committee was the FY 2005 Auxiliary Budget. The committee has been concerned in the past about the treatment of surpluses that sometimes accumulate in the various auxiliary units. It has been the position of the committee that those surpluses should be put into the General Fund, absent special circumstances, rather than being spent on various projects unrelated to the functions of the auxiliary units. That issue was revisited by the committee in its discussion of the FY 2005 Auxiliary Budget.

a. Fitness Center

The FY 2005 Auxiliary Budget of the Recreation and Fitness Center was discussed in some detail. One member noted an apparent error in the budget materials. Page 16 of the budget showed that in FY 2004, the center reported net income of $923,100. On page 18, however, it is stated that the income for FY2004 is only $347,000. This inconsistency created some problems for the committee, since the income reported on page 16 indicated that the surplus generated by the Fitness Center is alarmingly large. [Note: Budget Director Rose later confirmed that the page 16 numbers are the correct ones.]

Another member noted that the revenue figure for the Fitness Center could be misinterpreted in that $500,000 of the revenue for FY 2004 and $830,000 for FY 2005 comes from money collected from students as a fee. This fee is assessed on newly enrolled students without reference to their use of the Fitness Center. According to one member, this fee, in substance, is really a part of student tuition (part of the Omnibus Fee), so that its transfer to the Fitness Center should be accounted for as a General Fund subsidy rather than as revenue generated by the center. The view was expressed that this difference in accounting is important in assessing the ability of the Fitness Center to function as a self-contained auxiliary entity. Needless to say, most units could appear to be operating successfully if they were able to tap into tuition money or other University resources to finance their operations.

One member noted that the infusion of money from the student fee into the Fitness Center budget tends to disguise the fact that genuine revenues from membership fees for FY 2004 were less than half the projected amount. Another member noted that the decline in membership fees is likely to be due to the success of the center in attracting student usage. People allegedly are unwilling to pay membership fees when the demand for usage is such that they have to wait in a queue to make use of the facilities. Other members noted that the concern for proper accounting for the Fitness Center should not be understood as criticism of the center. Several members expressed the view that Fitness Center has been an important success story for the University and probably deserves the financial support it has received. They contend, nevertheless, that if a subsidy is to be given to the center, it should be done explicitly and not by earmarking a tuition-related revenue source for the center.

The chair asked for some clarification as to the objection to the current accounting, since the budget does make clear that the student fee is the source of an expected $830,000 in revenue. One member suggested that including the student fee under "revenue" is misleading because it creates the impression that the Fitness Center is generating the fee. A separate heading such as "Earmarked student fee" would be more descriptive.

One member noted that the earmarking of the fitness fee for the Fitness Center will become even more important in the next couple of years, as additional students become subject to that fee. It can be expected that the implicit subsidy provided by the earmarked fee will increase substantially in the next two years. Moreover the amount of the earmarked subsidy will be a function of the size of the student population, which one member suggested may not be a sensible way to determine the size of the subsidy.

One member praised the Administration for providing useful information to the committee on the operations of the auxiliary units. Although there is some additional detail that would be useful, the information provided is far more detailed than the information given in the past. As a result, the committee is able to provide the Administration with more detailed comments on the budget.

Several members noted that the surpluses being generated by the Fitness Center are very large (over $1.2 million) and exceed any likely needs of the center. It was also noted that the FY 2005 Auxiliary Budget already provides for a reserve for new equipment and a reserve labeled "facility and replacement reserve." Given these reserves, various members argued that there is no good reason for allowing the center to retain the surpluses. One member noted that retention of the surpluses was particularly inappropriate in that a major reason for those surpluses is the earmarked fitness fee, which is really a disguised General Fund subsidy. After discussion, the following motion was made and seconded:

> That the surpluses in the budget of the Fitness Center should be transferred to the General Fund after proper reserves have been established for replacement of obsolete equipment and for building maintenance.

The motion passed by voice vote with some opposition.

One member noted that the FY 2005 budget for the Fitness Center provides for an explicit General Fund subsidy of $232,000 even through the center is projected to have net income of $213,000. In effect, the General Fund subsidy is being used to build up the already large reserves of the center. Ms. Rose indicated that the subsidy from the General Fund is coming from the Omnibus Fee, so that any amounts received from a reduction of the subsidy would have to be used for purposes consistent with the restrictions on the use of the Omnibus Fee amounts, such as technology support for students. After discussion, the following motion was made and seconded:

> Given that the Fitness Center is projected to have a net surplus for FY 2005 of $213,000, that the General Fund subsidy of $232,000 for FY 2005 should be reduced substantially.

The motion passed by a vote of 8-2.

Several members noted that the Fitness Center initially was expected to generate a much larger percentage of its operating expenses from membership fees and was not expected to be a substantial drain on the General Fund directly or indirectly (through a fitness fee). Yet there has been no business plan developed to address the new circumstances. In addition, the budget document suggests that reserves are being established for "facility and replacement reserve" and for "equipment replacement," yet there is no explanation of the former reserve and no rationale offered for the amount being put into the latter reserve. As one member noted, reserves are often used by businesses as an accounting technique for understating profits. It is important, therefore, that any reserve established by the Administration have a clear justification and that the amount to be placed in the reserve be tied to expected future expenses.

Reflecting the discussion summarized above, the following motion was made and seconded:

> That the Policy Committee request the Administration to produce a business plan for the Recreation and Fitness Center that explains how the center is to be financed, its expected revenue needs over the next decade, the expected costs for replacement of obsolete equipment and repairs, the size of its projected surpluses, and the uses to be made of any surpluses.

The motion passed by voice vote without objection.

b. Bookstore

Committee members noted that many of the points made about the budget of the Fitness Center are also applicable to the Bookstore budget. In particular, the Bookstore is generating a substantial surplus that appears not to be needed for its own operations. The question arises as to why that surplus is not being transferred to the General Fund.

According to the FY 2005 budget for the Bookstore, $400,000 is being transferred for "Non-General Fund Projects." Ms. Rose indicated that this amount is being transferred to the plant fund reserve and that the uses for that amount have not yet been identified. Several members suggested that a transfer for non-General Fund purposes is inappropriate. In their view, all surpluses generated by an auxiliary unit that are not needed for the mission of that unit should be returned to the General Fund. It may be that an addition to the plant fund reserve is desirable, but the proponents of that position should be required to make their case in competition with the case being made for other uses of those funds, such as the rebuilding of the faculty.

Several members noted the anomaly of having certain university functions, such as the provision of awards to faculty, being financed by surpluses in the budget of the Bookstore. In their view, the Bookstore surpluses should be transferred to the General Fund, and deserving programs now funded by the Bookstore surpluses should compete with other claimants to General Fund revenues. They noted that they were not objecting to the particular uses made of the funds — only that the funds were earmarked for special purposes without having to compete for funds with other, perhaps more deserving programs. They also suggested that it would be inappropriate to cut back on faculty awards simply because of a cut in the surplus generated by the Bookstore.

After discussion, the following motion was made and seconded:

> Without objecting to the particular uses being made of the Bookstore surpluses, that the committee expresses its concern that funds from the Bookstore surpluses are being used for non-General Fund projects rather than being returned to the General Fund.

The motion passed by voice vote without opposition.

c. Auxiliary Services

Many of the points made with respect to the Bookstore and Fitness Center budgets were also made with respect to the budget for Auxiliary Services. Committee members was particularly concerned that $353,600 of the surplus of Auxiliary Services were being transferred for non-General Fund projects. Concern was also expressed over the expected balance of $685,900, which seems to be very high, given the low capital requirements of the unit.

The committee noted with approval that the fee for overhead that was introduced for FY 2004 is continuing for FY 2005. The fee is set at 20% of revenues. Members indicated that charging the auxiliary units  a reasonable estimate of general overhead is a good accounting practice. They commended the Administration for making this useful change, which the Budget Committee has recommended in the past. A question was raised, however, concerning the rational for the size of the fee. One member observed that the University overhead percentage for research contracts and grants is over fifty percent. It would be useful to have some explanation for how the overhead percentage is being calculated.

One member suggested that the difficulty that the University has had in reversing the decline in the percentage of the budget going to the Schools and Colleges is due in part to the earmarking of various funds for reserves and other non-General Fund uses. It is nearly inevitable that the percentage to the schools and colleges will decline when a substantial portion of the University's discretionary funds are squirreled away in reserves and other funds that are not available for the budgets of the schools and colleges.

d. Cadets

One member asked about the financing of the safety cadets. The chair stated that the Dean of the Law School had informed the Law School Budget Committee that the Law School would be required to pay a substantially increased percentage of the cost of the cadet stationed at the Law School. The chair asked Ms. Rose whether a similar change was occurring elsewhere in the University. Ms. Rose indicated that she did not have that information but had attempted without success to obtain it prior to the meeting. She promised to provide the committee with the information when she obtains it.

One member suggested that public safety ought to be considered a University concern, not the responsibility of individual units. He also suggested that the budgets of the schools and colleges are effectively being cut when they are charged for services previously provided without charge.

4. *Budget Form*. One member noted that the committee had attempted in the last fiscal year to work with the Division of Research to produce a budget form that could be used in the evaluation of Centers and Institutes. The Budget Committee had developed a form that has been used for some time. The form is useful but not without flaws. The plan was to revise the form so that it provided the Budget Committee with the information it needed and also provided appropriate information to the Centers and Institutes Advisory Committee. Last year, a subcommittee of Professor Woodyard, chair, and Professors McIntyre and Parrish had looked at the budget-form issue. Professor Woodyard promised to provide the current and former chairs with information about the work of the subcommittee so that a plan for the current year could be formulated.

5. *Adjournment*. The committee adjourned at 2:05 p.m.

Michael J. McIntyre

# CENTERS AND INSTITUTES TO BE REVIEWED IN 2004-2005

**Centers/Institutes the Senate Office has received for charger renewal as of September 13, 2004**

1. Institute of Gerontology
2. Douglas Fraser Center for Workplace Issues
3. Ligon Research Center of Vision
4. Center for Healthcare Effectiveness Research

**Centers/Institutes under review for renewal of their charters by Center and Institute Advisory Committee fall 2004, and we might get in December**

Cohn-Haddow Center for Judaic Studies – We should have in a month.

Institute for Manufacturing Research

Bioengineering Center

Institute for Scientific Computing

Center for the Study of Arts and Public Policy

Center for Legal Studies

Center for Molecular Medicine and Genetics

**Center/Institute to be reviewed for renewal of its charter in the winter term 2005**

Morris Hood Jr. Comprehensive Diabetes Center

**Proposed (new) centers/institutes that Senate may receive for renew this year**

Manufacturing Information Systems Center

Institute for Learning and Performance Improvement

Typed by A. Wisniewski
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