

2003/2004 Annual Report of the University Senate Fiscal Committee

submitted by Richard Gunther, Fiscal Committee Chair

General Observations

The activities and accomplishments of the Fiscal Committee and its subcommittees during the 2003/4 academic year provided further evidence that the June 2002 restructuring and reform of the committee (through Senate approval of changes in Faculty rule 3335-5-4811) has achieved its desired objectives. The committee was able to deal with a massive workload, producing analyses and policy recommendations concerning a number of important matters. Also successful was the establishment of standing subcommittees, as well as the appointment of an Ad Hoc Budget Restructuring Review Committee, which made it possible to deal with a much heavier workload than could have been undertaken by the committee functioning in plenary sessions only. Proposals for further structural changes in the committee (mostly in the form of adding new members to provide liaison with other university bodies) were discussed but rejected on the grounds that the current composition of the committee has proven to be most efficacious (while further expansion might establish a body of unmanageable proportions), particularly in light of the informal practice of inviting interested bodies (such as the Faculty Compensation and Benefits Committee and the University Staff Advisory Committee) to designate observers to perform these liaison functions.

One structural problem with the current composition of the committee was discovered, however, which must be addressed at the end of the 2004/5 academic year. Both of the fiscal officers serving on the committee were appointed to terms that expire simultaneously. Given the importance of maintaining a high level of technical expertise among the committee's membership, and the negative impact that an excessively high rate of turnover in these key positions would entail with regard to the "historical memory" of this institution, it was unanimously recommended that at least one of these two fiscal officers should be reappointed for the following year, and that the terms of these two fiscal officers should be staggered to prevent a reoccurrence in the future.

Prof. Marvin Batte was reappointed to serve as chair of the Central Services Subcommittee for the 2004/5 academic year. Two other committee chairs, however, have stepped down: Stu Zweben (chair of the Central Distribution Subcommittee) will be replaced by co-chairs Donna Hobart and Richard Kass during the coming year; and Richard Gunther (Fiscal Committee chair and chair of the Ad Hoc Budget Restructuring Review Committee) will be replaced by Prof. Karla Zadnik as Fiscal Committee Chair.

Having completed its task of systematically evaluating the new budget system on the bases of its first two years of implementation, the Ad Hoc Budget Restructuring Review Committee was disbanded. However, there was widespread agreement that the budgetary process must be reevaluated on a regular basis over the coming years, and that the Fiscal Committee should continue to closely monitor its evolution and promptly step in to address negative "unanticipated consequences" or other major developments whenever these arise.

Departing Chair Richard Gunther expresses his thanks to committee members for their excellent work over the past two years. As noted in the 2002/2003 Annual Report, the committee's

success is contingent upon two important factors, and he urges the committee to remain committed to these criteria over the coming years: (1) Members must continue to be recruited who are willing to regularly attend committee and subcommittee meetings, who are drawn from a wide array of academic disciplines, and who have considerable expertise and/or prior experience with budgeting and academic administration. (2) Committee members must continue to adopt a broad university-wide perspective in their involvement with committee affairs, and must avoid a parochial stance oriented toward advancing the interests of their respective academic units.

Selected Highlights of Committee and Subcommittee Activities:

- (1) In response to a formal request by Provost Barbara Snyder and Vice President Bill Shkurti that the Fiscal Committee undertake a systematic analysis of the new budget system, an Ad Hoc Budget Restructuring Review Committee was appointed. It consisted of several Fiscal Committee members (Richard Herrmann, Donna Hobart, Judy Kleen, Alayne Parson, Dieter Wanner and Karla Zadnik, with Lee Walker and Julie Carpenter-Hubin providing professional expertise and staff support, and Richard Gunther serving as Ad Hoc committee chair). This committee was charged with undertaking a comprehensive review of the new budgetary process and its impact, and with addressing fourteen specific issues of concern that were set forth in a November 15, 1999 report by Provost Ed Ray and Vice President Bill Shkurti.

This committee's report, issued on March 19, 2004, concluded that the new budgetary system has been successful in achieving its stated objectives of promoting efficient and responsible program management practices throughout the university, and that several potential problems (both anticipated and unanticipated) have either not emerged as initially feared or were satisfactorily addressed through prompt action by the Fiscal Committee, the Office of Finance, and the Office of Academic Affairs. However, some matters remain unresolved, and the development of appropriate policies is still pending in some key areas (such as the funding of graduate education and study-abroad programs). Moreover, the short time span covered by this analysis has precluded a more definitive assessment of long-term trends that may have been set in place by unanticipated changes in the statewide budgetary environment. Among these are the long-term consequences of the decline of state subsidy income as a share of overall budget revenues--which cannot be assumed to have a uniform impact on all academic units. The annual monitoring of these trends, and other unanticipated developments that have a direct impact on the university's budget, must be a regular responsibility of the Fiscal Committee and central administration.

The report concluded with an "action agenda" which included the following recommendations:

the Council on Academic Affairs must initiate its monitoring of academic-program quality, particularly with regard to the possible displacement of regular faculty in the classroom by less expensive lecturers and "post-docs;"

unnecessary procedural delays in securing administrators' approval of interdisciplinary research grant proposals must be reduced or eliminated;

the long-term funding of some interdisciplinary centers must be clarified;

the University Research Committee should perform a more active consultative and review function with regard to the investment of research funding and the consequences of past investments;

policies must be developed for implementation of budget restructuring regarding study abroad programs and their impact on participating academic units, and should establish a fiscal environment supportive of these valuable programs;

the systematic assessment of graduate programs must be accelerated so that relevant qualitative criteria can be entered into budgetary decision-making as a counterpart to the quantitative, enrollment-driven formulas for the distribution of subsidy and tuition revenues;

key issues with regard to continuing support for graduate education (e.g., concerning fee authorizations, and employment of graduate students as research and teaching assistants) must be satisfactorily addressed;

college-level faculty advisory committees should facilitate the two-way flow of information between deans and their faculty, disseminate accurate information about budgetary decision-making processes and outputs, and monitor expenditure trends within colleges;¹

and accurate information about the basic norms, procedures and consequences of the new budgetary system must be widely disseminated.²

- (2) The Central Services Subcommittee (Chaired by Prof. Marvin Batte) participated in the review of central service units' annual budget requests, passing on its recommendations to the Fiscal Committee and the Office of Finance. It also established a template which will guide the rotating comprehensive program reviews of central service units over the coming years (as called for by the "Hoffsis Committee" prior to the launching of the new budgetary process). In the spring and summer of 2004 the first of these program reviews (of Physical Facilities and related units) was initiated. Self-studies by these units were followed by in-depth assessments undertaken by both internal and external evaluation committees.

¹ Toward this objective, on May 25, 2004 the Fiscal Committee unanimously approved the addition of language to University Rule 3335-3-29(e) which would require the existence of such consultative committees in all colleges.

² Indeed, the Fiscal Committee strongly encouraged the central administration must redouble its efforts to disseminate accurate and detailed information about the budgetary process, and to correct misperceptions and inaccurate claims such as those which were recently included in the February 25, 2004 "Statement of Concern" issued by the President's and Provost's Advisory Committee (see Fiscal Committee Minutes of March 30, 2004), and in the May 3, 2004 "Report of Committee on Barriers to Interdisciplinarity."

- (3) The Fiscal Committee unanimously endorsed Vice President Shkurti's policy proposal regarding Risk Management Under Budget Restructuring (see Minutes of October 21, 2003). These established targeted amounts that should be contained in a Central Rainy Day Fund, a College Stabilization Fund, and a Central Insurance Fund.
- (4) The Committee endorsed recommendations from the Central Distribution Subcommittee (Prof. Stu Zweben, Chair) concerning the distribution of Success Challenge funds and Tuition Set-aside Funds for Technology (see Minutes of November 20, 2003).
- (5) The full Committee (on January 2, 2004) and the Central Distribution Subcommittee (during several previous meetings) discussed the fiscal impact of the progressive decline of State Instructional Subsidy funds as a percentage of revenues supporting academic programs. The fund allocation formulas recommended by the Budget Advisory Committee had assumed that approximately half of general fund revenues would come from state subsidy funds, but several rounds of budget cuts by the state legislature have significantly reduced that share of general revenues, leading to a corresponding increase in reliance on tuition and fees income. Since state subsidy is distributed in a manner that takes into account differences in the cost of providing education among various academic disciplines, while tuition and fees do not, concern was expressed that if these trends were to continue over the long term, this would result in an erosion of support for high-cost academic disciplines. Extensive study and deliberation within the subcommittee indicated that this may have significant consequences over the long term, but that data based on little more than one year of experience with the new budgetary system did not produce evidence that was sufficiently clear as to justify a policy response at this time. It was resolved that these trends would be monitored on an annual basis by the Fiscal Committee.

However, on April 27, 2004, the Committee reiterated its endorsement of the adoption of "program fees" by high-cost academic units as a means of dealing with this potential erosion of financial support, and it further elaborated norms that should govern the adoption of these program fees (see April 27, 2004 Minutes of Fiscal Committee, and April 1, 2003 "Final Report of the Central Distribution Subcommittee on the subject of Undergraduate Program Fees").

- (6) The Fiscal Committee decided not to take a stand regarding the USG's proposed resolution on Investment Responsibility Concerning Endowment Securities, but did conclude that the Fiscal Committee could not take on the enormous task of monitoring the university's investment portfolio even if this oversight process were adopted by the university (Minutes of April 13, 2004).
- (7) A recommendation of the Central Distribution Subcommittee concerning the "Allocation of Med I and II Subsidy" was endorsed by the full committee (Minutes of April 13, 2004).
- (8) Recommendations of the Central Distribution Subcommittee concerning FY 03 Fee Reconciliation were approved (see Minutes of June 12, 2004).

Initial Agenda for Fiscal Committee Deliberations, 2004/5

As has been its practice over the past two years, the Fiscal Committee's agenda will flexibly respond to new policy questions and sundry budgetary developments as they arise over the coming academic year. At the end of the 2003/4 academic year, however, the committee agreed that the following issues should be addressed in the near future:

a reassessment of the current and proper level of central taxation (currently set at 24%);

continued study of the long-term implications of the stagnation in state subsidy support;

preparation for the next round of budget rebasing;

the funding of graduate education (among other things, to reconcile budget restructuring norms with the rigidity of the Board of Regents' doctoral funding cap);

funding the next Development campaign;

follow-up monitoring of issues raised in the report of the Ad Hoc Budget Restructuring Review Committee;

preparation for the next biennial budget round;

accounting for expenditure of tuition dollars;

immediate needs regarding Deferred Maintenance;

evaluation of university-wide risk-management policies and practices;

evaluation of support units' 5-year needs;

assessment of changes in the capital expenditure environment;

and a response to forthcoming proposals to change health insurance coverage and services for university employees.