

AY 2009-10 BUDGET ADVISORY COMMITTEE (BAC)

Minutes from the April 8, 2009 meeting

ATTENDEES

Dr. Alvin Thornton – Chair

Dr. Ivor Livingston

Mr. Sidney Evans – CFO

Ms. Roberta McLeod

Dr. Donald Bell

Dr. George Middendorf

Dr. Rufus Blackwell

Dr. James Mitchell

Ms. Carole Borggren

Dr. Robin Newton

Dr. Philip Fanara

Dr. Joseph Reidy

Dr. Andre Farquharson

Dr. Rosetta Ross

Ms. JoAnn Fax

Dr. David Schwartzman

Ms. Renee Grant

Mr. Bryan Smart

Dr. Barbara Hines

Dr. Dawn Williams

Dr. Thomas Lawson

Committee Staff: Mr. Terrell Allen and Mr. Eugene Cooper from the Office of Financial Analysis and Budget.

2:03p.m.

Dr. Thornton called the meeting to order. Dr. Thornton thanked the CFO and Finance staff for spearheading the BAC effort. Everyone around the room introduced themselves. Dr. Thornton mentioned that President Ribeau and the faculty leaders have high expectations for the BAC process and recommendations. Dr. Thornton then introduced Mr. Evans.

Mr. Evans began a walk-through of the presentation passed out at the meeting “Structure of the University Budget”. Before beginning, Mr. Evans noted that a balanced budget is a mandate from the Board of Trustees.

Mr. Evans then stressed that the budgeting process is deliberate above all, and should be done carefully, with an eye towards monitoring and adjusting. Budgeting is ongoing.

Mr. Evans discussed the types of budgets, Operating, Capital, and Special Purpose. He then reviewed the different approaches to budgeting, Incremental, Zero Based, Formula, Responsibility Centered, and Performance Based. While discussing budget approaches, Dr. Schwartzman noted that Zero Based Budgeting was used at the University during the Carter Administration, but the practice was not continued.

During review of the University Sources of Funds budget for FY2009, Mr. Evans noted that Sale of Surplus Assets, primarily real estate assets, was budget for \$5M. To date, only \$500K worth of assets have been sold. This is due to the slowdown in the real estate market.

During discussion of “Auxiliary Enterprises” revenues, Dr. Lawson questioned if the change in the manner of determining ratings has hurt WHUR revenue. Ms. Borggren replied that in planning for 2009 and 2010 we are monitoring that issue, plus the effect of the recession on advertising. Dr. Mitchell asked whether Faculty Practice Plan (FPP) collections have improved. Dr. Newton answered the FPP has made a number of changes to address past issues, and is focused on ongoing improvement.

Dr. Thornton asked if the new “Base Camp” software can facilitate issue discussions like the ones occurring. Ms. Borggren answered that it can do that. Dr. Middendorf requested that “Auxiliary Revenue” be broken out. Ms. Borggren stated that Finance could provide that information.

Mr. Evans noted that some 60% of the expense budget related to people. Also, the budget has grown over the past 10 years faster than the inflation rate. Inflation and increasing expenses have added pressure on HU due to the Federal Appropriation being basically static over the past seven years. Mr. Evans used the personal budget analogy that if 40% of a household’s income remained static for ten (10) years, problems would follow.

The Howard University financial statements have received clean audit reviews, meaning the outside auditors have given them an unqualified approval. Also, the spending on capital has not kept pace with depreciation, which negatively impacts the University’s physical plant.

Mr. Evans reported that during FY2008, the combined entity of Howard University and the Hospital saw a net asset decrease of \$96.8M, or 10.6%. The University had an operating loss of \$22.7M, of which \$14M was represented by the Faculty Practice Plan loss and the cost of clinical medical faculty. Financial market declines drove a \$61 million non-operating decrease in Net Assets. Mr. Evans also noted that non-operating activities are not included in the budget process.

Dr. Bell suggested that the presentation be loaded onto the University website and shared with the University body at large.

The presentation was completed at 2:57pm.

QUESTIONS

Dr. Schwartzman asked that the BAC look at adding to the operating budget from the endowment. Mr. Evans restated that investment strategy was not part of the BAC purview, but that BAC could consider recommending an increase in the 5% endowment payout policy. Mr. Evans noted that up to 5% of a 3 year moving average of the unrestricted component of the endowment can be used, which leads to fluctuations in the amount during peak and down periods. He also noted that while the 5% figure maximum is approved by the Board of Trustees, this figure has only been used in the past two (2) years. Prior to that, about 2.5% of the endowment was used for to support operations.

Dr. Thornton noted that Princeton University, which faces an \$80M budget shortfall, will increase their endowment spending from 6.25% to 6.75%.

Dr. Mitchell noted that “Sales: Educational Departments” could increase from its current budgeted level of \$1.846M, contributing more revenue to the budget.

Dr. Ross asked if grants have an impact on the budget shortfall. They do not, since we commit to spend grant funds only when and if award are received. However, collecting the full indirect cost recovery allowed by the federal government does have a positive impact.

Dr. Newton asked about the assumptions regarding the FPP included in the forecast included in Mr. Evans presentation. It had been assumed that the FPP would be self-supporting.

Dr. Middendorf noted that non-payment of vendors negatively impacts research. Mr. Evans acknowledged that flawed business processes have led to delayed vendor payments, adding that delaying payments is not part of a University financial strategy. Mr. Evans also announced new measures, like small vendor credit cards, being explored to address and correct this issue. Dr. Newton asked if medical supply buying groups were being used. Mr. Evans stated that they have not been used to date, but the new Materials Management Vice President, Paul Asher, has been tasked with exploring any and all measures to improve the flow of materials and supplies to the University community.

Dr. Lawson questioned the number of and salaries of university staff and administrators. He asked if President Ribeau would audit these figures to determine if both were too high. Both Dr. Thornton and Mr. Evans stated that they could not speak for President Ribeau, but that this sort of data is benchmarked regularly. Both Dr. Thornton and Mr. Evans stated that an unofficial canvass and survey would show that salaries and wages at Howard lag those at other area colleges and universities.

Dr. Schwartzman requested a detailed breakout of staff, faculty and administration salaries and wages. The protocols for data requests are on the agenda for the next meeting.

Dr. Farquharson asked could any functions be outsourced to generate incremental revenue. Mr. Evans stated that efforts to identify these measures were ongoing. He mentioned the Howard University Town Center as an example of a new project to generate revenue, with the potential to generate up to \$25M in net present value revenue.

Dr. Livingston stated that a change in culture and mindset is needed to facilitate cost savings, for example turning off faucets and lights when not in use.

Dr. Mitchell requested a complete and detailed analysis of the specific drivers of budget losses. He feels that this would identify areas of improvement, and help avoid future

mistakes. Mr. Evans stated that this request could be accomplished. He did warn that care must be taken to get a thorough understanding of the context of expenses incurred. This would help separate ongoing trends, such as increases in faculty salaries, from one-time occurrences, such as the move of expenses from the Hospital to the University.

NEXT STEPS:

Dr. Thornton asked that measures to be accomplished for the next BAC meeting be laid out. These steps were identified as:

1. Dr. Thornton asked that follow-up questions be submitted through “Base Camp”.
2. The FY 2010 budget will be discussed in detail.
3. BAC members were asked to continue creative thinking regarding revenue generation.

The next meeting was set for Wednesday, April 15, 2009.

The meeting was adjourned at 3:35pm.