

THE GEORGE WASHINGTON UNIVERSITY
Washington, DC

**MINUTES OF THE SPECIAL MEETING
OF THE FACULTY SENATE HELD ON
FEBRUARY 3, 2006 IN THE MARVIN CENTER, ROOM 405**

Present: President Trachtenberg, Vice President Lehman, Registrar Amundson, and Parliamentarian Johnson; Deans Brown, Frawley, Phillips, and Tong; Professors Artz, Biles, Cordes, Gallo, Garris, Griffith, Kim-Renaud, Klaren, Miller, Robinson, Rycroft, Shen, Simon, Vergara, Wilmarth, and Zea

Absent: Deans Futrell, Katz, Lawrence, Scott, and Whitaker; Professors Briscoe, Castleberry, Delaney, Englander, Friedenthal, Gupta, Helgert, Marotta, Mueller, Pagel, Robin and Wirtz

CALL TO ORDER

The meeting was called to order by President Trachtenberg at 2:15 p.m., who began by congratulating the men's basketball team for their winning record thus far. The President then called upon Professor Lilien F. Robinson, Chair of the Faculty Senate Executive Committee, who explained that the Special Meeting had been planned by the Senate's Fiscal Planning and Budgeting Committee (FP&B), the Senate Executive Committee, and Executive Vice President for Academic Affairs Donald R. Lehman. She said that the focus of the meeting would be the Fiscal Year 2007 budget and current assumptions, projected shortfalls, and their impact on academic and administrative operations, along with ways of closing an anticipated gap between revenues and expenditures. Professor Robinson noted that the agenda for the meeting called for presentations from Vice Presidents Katz, Chernak, and Lehman, each of whom was expected to speak for 15 minutes in the context of their particular areas of responsibility. The two Committees provided questions to the Vice Presidents in advance of the meeting to be addressed as part of their remarks. Copies of these questions were distributed and posted on the Faculty Senate website. Professor Robinson requested that comments, questions, and discussion follow the presentations. She then yielded the floor to Professor William B. Griffith, Chair of the Fiscal Planning and Budgeting Committee, who spoke briefly on behalf of his Committee.

Professor Griffith reported that this year the Senate Fiscal Planning and Budgeting Committee was able to obtain budget data on the forthcoming budget for Fiscal Year '07, rather than just information on the budget for the current fiscal year. Because the FY '07 budget estimates showed a projected gap between anticipated revenues and expenses, the Committee had suggested that a Special Meeting be convened so that the Senate could arrive at a general understanding of the problems the University faces, and could reach some consensus about reasonable solutions.

By way of introducing Executive Vice President and Treasurer Louis H. Katz, Professor Griffith said he thought there is a general understanding that the University has raised enrollment about as high as it possibly can, and there is also currently a classroom shortage. Tuition costs are already high, and cannot be increased much more. So one question going forward is where new revenues will be found for University use. The value of the endowment has fluctuated up and down over the past few years, and the Board has cut the payout rate so that money previously used to improve classroom facilities is no longer available. In addition, the University's debt has increased quite rapidly, and even though a portion of that debt service is covered by income streams from the residence halls and auxiliaries, there is still a significant portion which is not.

Executive Vice President and Treasurer Louis H. Katz distributed his Report entitled "State of the Development of the FY 2007 Budget and the "Gap," along with a Schedule of Exhibits: A. FY 06 Second Quarter Budget Status Report; B. FY 06 Second Quarter Debt Management Report; and C. FY 06 Second Quarter Endowment Management Report. (The Report and Exhibits are attached.)

Vice President Katz began by referring to the University's 2004-05 audited Financial Report which had previously been distributed to the Senate. This Report shows that total revenues for the University were \$846 million. This is the same figure that Vice President Katz's Report on the 2007 Budget uses as a starting point. Vice President Katz then reviewed the way in which the University's total operating revenue [funds available to support day to day operations] is calculated, along with an outline of the manner in which operating expenses deducted from revenues produced an operating surplus last year of \$300,000.

Vice President Katz then reviewed those parts of his Report which describe the preliminary FY 07 budget; based on current estimates, operating expenses are projected to increase 4.7% next year, while the rate of revenue growth will only increase by 1.6%. There will also be a 9% increase in "below the line" items in FY 07 which will include a \$2.5 million increase in debt service. The estimated shortfall for FY 07 is between \$10 and \$12 million, and the "gap" is largely the function of expenses growing at a faster rate than revenue.

Vice President Katz also reviewed key debt management strategies, information on the University's endowment and funding for initiatives under the Strategic Plan for Academic Excellence. He also explained the types of reserves (Operating, Interest rate, Capital, and Fixed Price Tuition) the University maintains. An illustration of Undergraduate Fixed Price Tuition Reserve Funding is included in his Report.

Vice President Katz summed up his presentation by saying that the major reason for the gap is that revenues are not growing as fast as expenses. Going forward, the University will have to identify additional revenue (for example, from tuition, fundraising, or additional net from auxiliaries), find ways of reducing the rate of expense increases, and identify an appropriate balance between capital budget requirements and borrowing capacity, which would include examining the debt strategy to see how much of the debt service is derived from operations, how much from fundraising, and so on. Relief will also have to be provided to the operating budget.

Vice President Katz specifically addressed the third question about revenue from Square 54 by saying these funds would help to build a Science Center because they would cover part or all of the debt service connected with the building. He added that a cash flow will be required for operating expenses for the Center, and for programs that are housed there. He also emphasized that an overall debt strategy is very important, as presently 85% of the University's capital projects are funded by debt. Even if fundraising were wildly successful and this reliance on debt was reduced to 50%, the University would still be primarily debt-dependent for capital projects.

ROLE OF FINANCIAL AID WITH RESPECT TO OUR RECRUITMENT AND RETENTION OF STUDENTS

Senior Vice President for Student and Academic Support Services Robert A. Chernak distributed his Report, entitled, "The Major Role of Financial Aid in Undergraduate Enrollment Management – Is There Flexibility in the Discount Rate?" (The Report is attached.)

Vice President Chernak's remarks followed the outline of his Report. He briefed the Senate on the purpose of student financial aid, the discount rate, and described the portion of student aid distributed on the basis of need (as opposed to merit). He also reviewed the number of undergraduate students receiving financial aid, and their average aid awards for this year. He outlined some of the pressures impacting the student aid budget, one example being that only \$1.7 million in annual support is derived from restricted and endowed funds, and the other \$110 million comes out of the University's unrestricted Operating Budget. He also gave an overview of trends affecting family resources and their availability to contribute to the cost of a GW education. He described the manner in which students demonstrating financial need are awarded grant, or "free" money and how much aid is derived from loans and/or work-study (self-help). Also included in Vice President Chernak's Report are guidelines governing GW's Merit Scholarship Program for 2006-07, figures detailing how much student aid was distributed this year to the entering freshman class, and a comparison of gross tuition, net revenue, and the discount rates for freshmen, including statistics for 2004-05 to 2005-06.

Vice President Chernak concluded his report by enumerating challenges affecting the area of student financial aid. He also provided information about college enrollment and the financial aid distribution of the entering class of 2005 (which shows differing discount rates in the various Schools – the overall discount rate is an average). A number of changes in student aid policy which will be undertaken to control expenditures was also included in the Report, along with information on the challenges involved in attempting to reduce the discount rate for next year to realize more net revenue from tuition.

STATE OF ACADEMIC AFFAIRS – DATA, STRATEGIC ACADEMIC PRIORITIES AND IMPACTS ON PRIORITIES

Executive Vice President Donald R. Lehman began by reviewing key aspects of the University's Strategic Plan for Academic Excellence, emphasizing that Academic Affairs is carefully benchmarking progress using metrics described in the Plan. Next, he offered data

on undergraduate, and graduate (on and off campus) enrollment. The size of the freshman class, approximately 2,400 students for the past five years, is approximately 48% larger than it was in 1996, and GW's undergraduate population of 9,435 students is approximately 59.3% larger than it was in 1996. Most of the increase has taken place in Columbian College of Arts and Sciences, followed by the Elliott School of International Affairs, the School of Business, and the School of Engineering and Applied Science. These enrollment trends require increased course sections in Arts and Sciences because freshman and sophomore students in these four schools complete many of their requirements there.

Vice President Lehman then described retention trends over the past ten years which have improved from a level of 88% in 1996 to 92% presently. He also described graduation rates and provided information on class sizes and distributions. Higher enrollment at all levels has meant that 366 more class sections were taught in Fall, 2005 than in Fall, 1988, a 13.5% increase. Through addition of these extra sections, class size has remained relatively stable over time.

Vice President Lehman also recapped information concerning the composition of the faculty (active-status, and limited service), which he initially provided at the January, 2006 Senate meeting. Over the period 1995-2005, the number of regular, tenured or tenure-accruing active-status faculty has increased by 17.7%; the number of regular, non-tenured or tenure-accruing active-status faculty, 67.7%, and the limited service faculty (excluding Research, Visiting and Affiliated, and the Law and Medical Center) 19.3%. Vice President Lehman's Report also presented information on teaching loads. The full-time faculty, both tenured/tenure-track, and non-tenure-accruing, teach the majority of students. A breakdown of information on teaching loads is given on Slide 43 of the Report.

Finally, Vice President Lehman presented information on the Academic Budget Plan for FY 07. Even though GW is a tuition-dependent institution, the risks associated with this are reduced by strong demand at the undergraduate and graduate levels, with an associated increase in undergraduate and graduate applications. He further touched on other factors comprising the budget planning environment, including the three primary Strategic Planning priorities: the Writing Program, Signature Programs (7), and Graduate Student Support, and Priorities submitted by the Deans and other academic units. The College of Professional Studies will receive funding next year to support its assumption of responsibility for academic programs at the Virginia campus. (The Report is attached.)

Professor Griffith inquired about obtaining some budget relief from auxiliary enterprises. Vice President Katz said that these produce net revenues, and it is hoped they will continue to do that.

Professor Bernard Wood was recognized and said he wanted to congratulate the Senate for asking that budget information be made available. He also congratulated the administration for providing it. Professor Wood said that for the first time since he joined the University in 1997, he understands what makes the University work, and the pressures upon it. President Trachtenberg spoke briefly about these pressures, which many educational institutions face, which include cutbacks in financial assistance to students and changes in overhead for research. In this climate where the University's business model faces pressure from many sides, it is necessary to seek other sources of income, or reduce

expenses. The President then commented briefly on GW's endowment, which has quadrupled over the last 18 years. GW's yield on its endowment is approximately 12.5% compared to the national yield of 9.5%, but obviously a larger endowment would be of benefit to the University. Another major capital campaign needs to be launched in order to raise funds to increase the endowment. Adjustments to the University's business model, such as adopting a 4x4 curriculum, and better use of the University's facilities during the summer months, deserve serious consideration.

Professor Simon said that he did not understand why there is a projected budget gap when tuition charges and the number of students have increased significantly. Discussion followed on this subject between the President, Professor Simon, and Vice Presidents Katz and Chernak about the University's debt structure, leverage, and tuition revenues.

A short discussion followed between Professor Wilmarth and Vice President Katz concerning some of the variances in the budget, including tuition revenues which would apparently exceed projections, gifts and contributions which amount to \$5 million less than projected. There are also significant increases in purchased services and support and investment expenses. Vice President Katz attributed the increase in the former to the high demand for tradespeople and a resulting scarcity and increase in expenses. Professor Wilmarth asked if in future years there would be a constant budget crisis. Recapping his presentation, Vice President Katz said that expenses for the past five years have grown about 5% per year, while revenues were growing at about 8% per year. With revenues expected to grow in future at about 1.6% per year, if the gap is not funded on a permanent basis, there will be still problems every year.

Professor Wilmarth asked if yet another [fourth] salary deferral was likely. Vice President Katz responded that it was unlikely, because as of January, 2007, the University has built into its budget model funds which would provide approximately 4% annual salary increases.

There being no further questions, President Trachtenberg thanked everyone for coming to the meeting, the purpose of which was to bring more transparency to the budgeting process, and better inform the faculty about issues having a bearing on choices the University must make going forward. Professor Wood was again recognized, and said he thought that the meeting had been constructive in keeping the faculty more fully informed about budget matters and would help secure faculty cooperation with administrative initiatives in the future.

In conclusion, on behalf of the members of the Fiscal Planning and Budgeting Committee, Professor Griffith thanked the Vice Presidents for the extensive information provided.

Upon motion made and seconded, the meeting was adjourned at 5:31 p.m.

Elizabeth A. Amundson

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Secretary

Although the minutes of the Faculty Senate’s Special Meeting on the University Budget held on February 3, 2006 are in production, please find below the questions provided to Vice Presidents Katz, Chernak, and Lehman prior to the meeting. The reports presented by the Vice Presidents are also accessible on the Senate Website by selecting the indicated link.

The following questions were posed to the Vice Presidents for discussion at the Special Meeting:

For Executive Vice President and Treasurer Katz:

1. Would you briefly review the main budget factors driving the currently estimated “gap,” using the cross-budget-year comparisons?
2. We would like you to focus some attention on the items below the line: “Other (Decreases) Increases in Net Assets”, which make our “Operating Surplus” disappear and turn negative.
3. Would you briefly address the constraints and potential built into our overall budget situation in the out-years, until revenue from the Sq 54 project is realized? For example, after FY07, will it no longer be necessary to set aside \$6m in your tuition reserve? Do you see any potential for savings from a bond issue or other restructuring of our large debt burden?

TO VIEW VICE PRESIDENT KATZ’S REPORT AND ITS EXHIBIT, SELECT THIS LINK:

http://www.gwu.edu/%7Efacsen/faculty_senate/pdf/EVP&TKatzBudget.pdf

For Senior Vice President for Student & Academic Support Services Chernak:

1. Would you review for us the implications of lowering the UG “discount rate” from its current level, to realize more net from tuition?
2. Would you briefly review the categories of expenditures in your division’s budget, and any decreases in expenditures that you are able to foresee here?

TO VIEW VICE PRESIDENT CHERNAK’S REPORT, SELECT THIS LINK:

http://www.gwu.edu/%7Efacsen/faculty_senate/pdf/SVPChernakBudget.pdf

[Questions posed to the Vice Presidents for discussion at the February 3, 2006 Special Senate Meeting]

For Executive Vice President for Academic Affairs Lehman:

1. Would you please explain the drops in enrollment which are largely responsible for the decrease in expected revenue?
2. Would you also address the role that expenditures for “strategic initiatives” are expected to play in FY07 and future years?

TO VIEW VICE PRESIDENT LEHMAN’S REPORT, SELECT THIS LINK:

http://www.gwu.edu/%7Efacsen/faculty_senate/pdf/EVPAALehmanBudget.pdf