

**From:** Kerker, Mike  
**Sent:** Thursday, November 06, 2003 11:03 AM  
**To:** Cyndi Taylor Krier  
**Cc:** Yudof, Mark; Sullivan, Terry; Frederick, Francie  
**Subject:** Analysis of UT Watch Document

Regent Krier,

The Office of Academic Affairs and The University of Texas at Austin have conducted an analysis of the document presented by UT Watch titled: Budget Analysis of The University of Texas at Austin: A Students' Perspective.

In general, the document indicates a fundamental misunderstanding of several key issues.

- The UT Watch analysis appears not to take into account constitutional and legislative restrictions on the use and distribution of the Permanent University Fund.
- The UT Watch analysis suggests that all funds available to the University are interchangeable, not understanding the use of many funds is restricted by donors, state government, or the federal government.
- The UT Watch analysis does not recognize that research facilities and programs benefit students, not just researchers or the University
- The UT Watch analysis implies total control of private donations that, in reality, does not exist.
- The UT Watch analysis fails to understand that current budget shortfalls are indicative of long-term problems which cannot be "fixed" through the use of one-time budgetary reallocations.

The following is a point-by-point analysis of the UT Watch document provided by UT Austin. Our office concurs with the points made by UT Austin.

Please let me know if you have any further questions or need additional information regarding this issue.

Mike Kerker  
Assistant Vice Chancellor  
Academic Affairs  
The University of Texas System

**Response by Kevin P. Hegarty, Vice President and Chief Financial Officer for the University of Texas at Austin to recommendations made in the UT Watch paper titled “*BUDGET ANALYSIS of THE UNIVERSITY OF TEXAS AT AUSTIN: A STUDENTS' PERSPECTIVE*”**

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I have reviewed the paper issued by UT Watch titled, “*BUDGET ANALYSIS of THE UNIVERSITY OF TEXAS AT AUSTIN: A STUDENTS' PERSPECTIVE*.” There is nothing new in the recommendations made that has not been previously discussed by me with UT Watch in face-to-face meetings. Fundamentally, UT Watch proposes that the university spend monies that either do not exist or spend monies in a manner inconsistent with their required purpose. Recently the UT Watch organization had two opportunities to present their recommendations for public debate at the university-wide public forums held by the Tuition Policy Advisory Committee. They did not do so. In absence of the opportunity to engage in a public debate, I have responded (in non-italic **boldface**) below to each of the UT Watch recommendations (*in italics*).

*The Tuition Policy Committee stated that the University will experience a \$30 million shortfall for the next year*

**The Tuition Policy Advisory Committee projects a financial shortfall to critical needs of \$13M in the current academic year and \$86M in the next (2004/05) academic year. I can only assume that UT Watch does not understand that the \$30M they refer to is the estimated shortfall for the 2004/05 academic year after taking into consideration the tuition recommendations made by the Committee.**

*therefore UT Watch recommends:*

- 1) *increasing tuition by only \$2 per semester credit hour to offset inflation.*

**A \$2 increase in tuition per semester credit hour would generate about \$2M in net revenues annually after the required financial aid set-asides. The University’s academic budget is approximately \$846M, and assuming inflation at 3%, approximately \$25.3M would be needed to fully offset the effects of inflation. Thus, a \$2 increase in tuition, after set-asides, would fund only about 8% of the economic impact of inflation on the university’s academic budget**

- 2) *decreasing many administrative paychecks and deregulating the salaries of UT-Austin President Larry Faulkner and UT System Chancellor Mark Yudof. Their paychecks far exceed their peers in the State of Texas, so their paychecks should be deregulated and driven to their established benchmarks. The excess money from all the administrative paychecks could be used for student scholarships or raises for the faculty and staff.*

**The University competes in the national and international markets for the best talent in all aspects of its operation including administration.**

Salaries are already deregulated, meaning that they are largely set based on free market factors at the time of hire; subsequent adjustments are also determined in this context. The salaries of certain unique positions, such as the head football coach, are paid by endowments established by donors and gifted specifically for that purpose; they are not paid from state funds or student tuition and the monies from such endowments would not be available for other university purpose if they were not spent for such salaries.

3) *increasing the flexibility of donations to UT.*

The determination of flexibility of a donor's gift is made by the donor, not the University. Once a determination is made, the University has little ability to change it without the consent of the donor. Historically donors have given for very specific purpose, about 30% of which is in the form of scholarships for students.

4) *increasing the role and the amount of state appropriations at UT*

State funding of UT Austin and state higher education overall is determined by the state legislature, not the University. UT Austin takes every opportunity to educate the legislature about the needs of the University and the merits of making additional state investments in the University. Since the legislature has already appropriated the state budget for the University for the 2003/04 and 2004/05 fiscal years, there can be no increase in appropriations to help with the budget shortfall for this and next year.

5) *indefinitely postponing new construction and renovation projects that have little or no educational and general space.*

The funding source for a given construction project is determined principally based on projects purpose. Research and other specialized space that is not directly tied to the educational mission of the University (e.g. research labs, entertainment spaces) are financed primarily by monies sourced from the underlying activity (e.g. research indirect cost recovery, gifts from donors). Ceasing construction of such building projects would have no impact on the University's ability to fund its academic budget because these funds could largely not be used for such purposes.

6) *using a portion of the money found in the Short Term Fund, the Short Intermediate Term Fund, and the Institutional Index Funds to offset current*

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*shortfalls at the University. Their increases over the past year triple the cited shortfall. Additionally, the costs cited by UT officials for the next several years will significantly decrease if new projects are postponed.*

**The University’s financial shortfall is recurring in nature, meaning that it will occur year-after-year if it is not funded by a recurring source of funds. The cash balances referred to by UT Watch are by their nature available only for one-time purposes meaning once they are spent, they are gone and cannot be used the following year. The balances proposed to be used are largely restricted as to possible use based on their source (e.g. research, plant commitments), and cannot largely be spent to meet the discretionary needs of the university as suggested. A very small portion of the funds represent the operational emergency reserves of the university and should not be spent for normal operating needs.**

- 7) *improving flexibility of the PUF. University officials argued for flexibility in setting tuition, yet they have made no strides to further tap into one of the single largest endowments in the country.*

**Income from the Permanent University Fund (PUF) is shared across the Texas A&M and UT System component institutions; this is set by state law. Total income distributed from the PUF in any one year is largely determined based on the performance of the investment markets. The portion of income allocated to UT Austin is set by the UT System Board of Regents, not the University. Today, UT Austin receives about 45% of the total investment earnings received by UT System. Those monies are already very flexible and are fully committed in the University’s budget.**