

AAUP Oakland Newsletter

August 21, 2009



Where do the resources go?

In these tight financial times Oakland University must spend its money wisely. The question is how can we spend our resources in the most productive way and ensure the continuation of quality programs.

The university is limited in what it can spend, but this is not to say that Oakland is without resources. Even in this weak economy we have maintained our AAA bond rating and continued to expand our reserves. We have access to money; the question remains--what is the best way to invest that money.

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AAUP Day: September 2



“Look at the entire university,
as the bond rating agencies
do.”

The True State of OU's Finances

Wednesday, September 2
Noon-1:00
201 Dodge Hall

Prof. Rudy Fichtenbaum

Wright State University

&

Prof. Howard Bunsis

Eastern Michigan University

This meeting is open to all faculty, staff, and students. Professors Fichtenbaum and Bunsis have extensive experience in examining university budgets and financial policies. They will explain the financial status of Oakland and the outlook for the university's budget.

In the past year universities' portfolios have been buffeted. Although OU's investments have performed far better than market averages, they have still lost value. So does this mean that the university has no money?

The administration would argue that OU's investment losses forced another increase in tuition, and even with this increased revenue, we must make drastic cuts to personnel costs.

However, this sort of examination does not reflect the complexity of finance for a modern university.

OU's endowment investments grew from \$18 million in 2001 to \$50 million in 2008. Although there have been short-term losses this year, the long-term health of OU's portfolio is quite strong. In all sectors of investment, it has outperformed the key industry benchmarks. The share price of these investments may have gone down, but that is only

significant if the university chooses to sell off its portfolio

One of the most important items in the budget is the amount of “unrestricted net assets.” This term represents those funds that are unencumbered and can be spent at the discretion of the Board of Trustees. Between 2001 and 2008, OU's unrestricted net assets rose by 185%. This occurred while their restricted net assets (those which are pledged to specific purposes) also rose, but by the lower figure of 129%. In other words, OU has money to spend. The administration just disagrees with the AAUP as to how it should be spent.

The AAUP is not alone in thinking that OU is not on the brink of financial disaster. Moody's, one of the most influential bond rating firms in the country gives OU their highest rating--Aaa. Bonding agencies make their valuations based on the entire budgetary picture. Clearly, Oakland is not financially vulnerable.

Charting the Financial Health of Oakland

Reading and understanding Oakland's financial statements can be a daunting task. To help assess Oakland's financial health, we used a scoring system developed by the State of Ohio to analyze its public university budgets. The system constructs a composite score designed to account for all the major budget variables. These scores range from 0 to 5, with 5 indicating the soundest possible financial footing.

To understand university finances, figures should not be examined in isolation. For example, an examination of debt tells us little unless we simultaneously look at cash flow. Debt in and of itself is not a critical problem. The important question to ask is "Does the institution have sufficient cash resources to meet its debt service obligations?" We have used the Ohio system because it looks at these sorts of relationships.

Using the financial statements available, namely those for the years 2006 to 2008, as the basis for calculation, Oakland University earned a score of 4.7 in each of those years. That is a ranking of 4.7 out of a possible 5. Not a single university in Ohio scored that high, yet those institutions are willing to invest in their faculty. Oakland's score means that it has more than enough resources to meet its current and long-term commitments and sustain financial growth into the future.

In the AAUP assessment of the university budget we have examined 3 key relationships (see box). OU is a financially healthy institution that has the resources to invest in our future. The question is, what will that investment be.

The Three Factors Used in the Ohio Metric Analysis

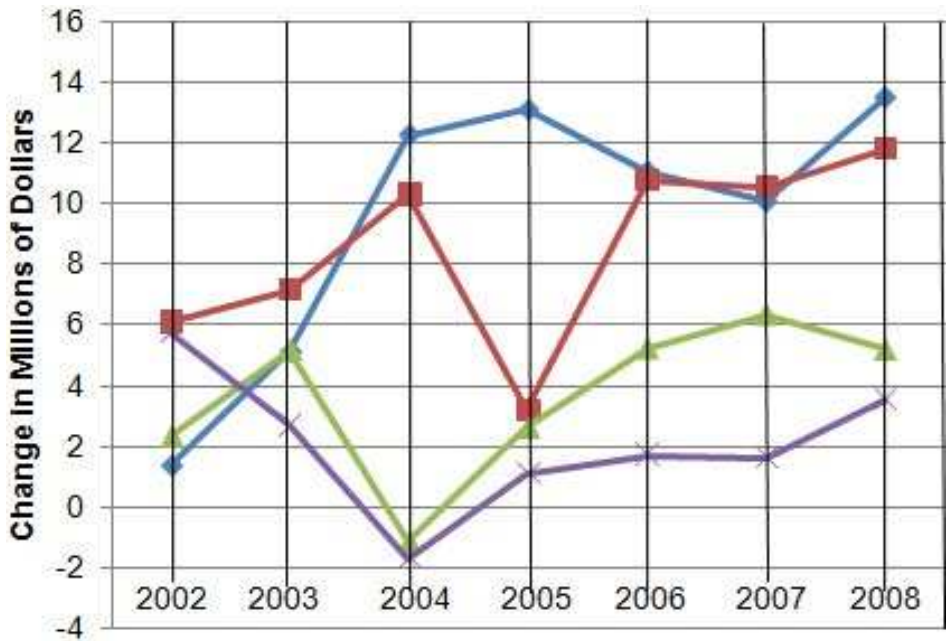
1. **Primary ratio** (weighted value is 50%): This ratio determined the ability of the university to meet its current cash operating expenses using the net assets available to them. Under this grading scheme, Oakland earned the highest mark or 5, and did so for every year reviewed. This means that Oakland is doing an excellent job of creating the necessary money to pay for the expenses needed to run the institution.
2. **Viability Ratio** (weighted value is 30%) This ratio measures the ability of an entity to cover the long-term debt that it took on to finance building and facility expansion. Oakland scored a 4 in this category, primarily due to the building projects they entered into during the past several years. This ratio shows that Oakland is well positioned to pay off its debt as it comes due.
3. **Profitability Ratio** (weighted value is 20%). This ratio compares the excess that the university has generated after all the expenses have been deducted from all the revenue for a year. It then compares that excess to the total revenue. Anything greater than 5% is considered outstanding and rates the highest score of 5. Over the years in question; Oakland averaged a 6% return. That means for every dollar of revenue, Oakland kept 6 cents.

Students Pay; Faculty Sacrifice; for What?

For several years students have been experiencing steady increases in tuition. But where has that money gone?

The chart to the right compares the increases from one year to the next for student tuition (red), increases in full-time faculty salaries (purple), instructional costs (green), and university unrestricted reserve funds (blue). Each year the increase in tuition exceeded the increase in faculty salaries. Clearly faculty raises accounted for only a small portion of tuition increases.

Contrast this to the increases in OU's unrestricted reserve funds. These funds provide a necessary cushion to enable the university to fulfill its responsibilities in time of crisis. One view of these data is that



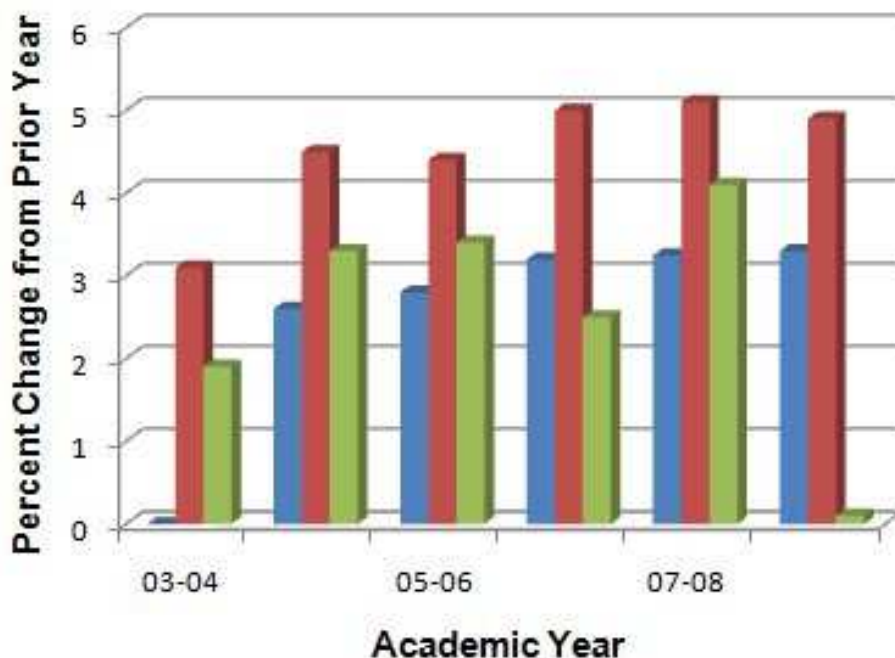
the revenue from annual raises in tuition and enrollment growth was used to enhance the university's reserve funds. However, should OU, during a period of prolonged economic stagnation, more than triple its reserves to a 2008 balance of \$102.34 million? Shouldn't we be spending down our reserves, not increasing them?

The graph below compares the average percent increase in OU full-time faculty salaries

(blue), with the national average of full time faculty (red), and the Consumer Price Index (green). The national average increase in full-time faculty salaries exceeded both the OU increases and CPI increases every year. The average national full-time faculty salary increased 30.2% and was 12.2% higher in inflation adjusted dollars. In inflation adjusted dollars OU faculty wages in 2008 equaled those in 2002.

Our faculty accepted these minimal raises due to the plight of our neighbors who were losing jobs and homes. No similar sacrifice was made by the upper administration.

The university must stop acting like a for-profit corporation. It must restore the competitiveness of faculty salaries, and cease using tuition increases to build bank balances. If tuition must increase, let's demand that all increases are absolutely essential for the maintenance of the quality of our academic programs and our instructional and research facilities.



It is true that faculty salaries constitute the most important expenditure of nearly every university in the country. After all, the "product" of a university is the intellectual activity it generates. Since nearly all that intellectual activity involves members of the faculty, it only stands to reason that a huge portion of university spending would concern hiring, retaining, and supporting the work of its faculty.

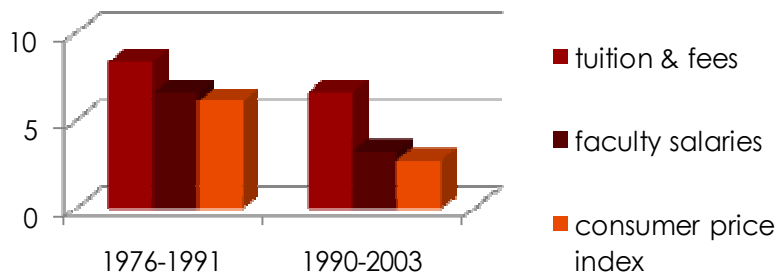
This does not mean that the recent extraordinary increases in tuition rates are the result of rising faculty salaries. In fact, faculty pay over the past several decades has barely kept pace with inflation. Faculty salary raises have lagged considerably behind those of university presidents, provosts, and chief financial officers.

Although the faculty expenses are the largest portion of the university budget, we have seen a national trend toward the expansion of both administrators and support personnel. Between 1976 and 2005 the number of administrators at American universities rose by 101%. During that same time the number of full-time, non-faculty professionals (in student services, information technology, and fund raising, for example) rose by 281%. These substantial increases in non-teaching personnel are compared to the 17% rise in the number of full time tenured and tenure-track faculty.

Still, how much work do these faculty perform? Maybe if they worked harder, tuition would not have to rise so much. In fact, according to the U.S. Department of Education, the average university faculty member works 53.4 hours a week. They prepare teaching materials, they conduct research, they publish their findings, and they perform administrative tasks. Is it too much to ask that these faculty receive more than a cost-of living increase?

Are Faculty Salaries Responsible for High Tuition?

Annual Percentage Increases in Tuition, Faculty Salaries, and the Consumer Price Index



AAUP at Oakland Day

Wednesday, September 2

The True State of OU's Finances

201 Dodge Hall

Noon-1:00

**Public meeting for faculty,
staff, and students**

Come hear an analysis and discussion of the financial status of Oakland University by Rudy Fichtenbaum and Howard Bunsis. Come here an analysis and discussion of the financial status of Oakland University. The Michigan economic crisis is real – Oakland's is not.

New Student Convocation

O-Rena

3:00-5:00

AAUP Chapter Meeting

St. John Fisher Chapel

6:00-8:00

**Closed meeting for AAUP members,
including new faculty**

The team will either discuss a tentative agreement or report on the status of the negotiations. All AAUP members should attend to show your support for the negotiating team. Come to have your questions answered about the contract.