

**BELOW is the Admin Reponse to the PSU-AAUP Open Letter Expressing our Skepticism about the Case for a \$15 million Structural Deficit, and the Need for Drastic Academic Cuts. *We've improved the Admin response by adding our answers and corrections in red.***

**February 9, 2014**

## **PSU-AAUP's REFUTATION of the PSU ADMIN'S**

### **Responses to AAUP Open Letter**

dated January 24, 2014 posted on Jan 30, 2014

On January 17, 2014, the PSU chapter of the American Association of University Professors (AAUP) posted an open letter on its website **listing its reasons for skepticism of the case for a "structural deficit" in PSU's Budget** which included inaccurate **accurate but perhaps inconvenient** information about the university's budget and related matters. Following are the issues raised in that letter, with **the PSU Admin's** responses. For each issue, the original AAUP statement is listed first, in italics, followed by the PSU **Admin's** response, and then **PSU-AAUP's answer to the PSU Admin response, in red.**

### **The PSU-AAUP Open Letter Made 11 Points**

**(<http://www.psuaaup.net/blog/entry/open>)**

**of which the PSU Admin has responded to an edited version, omitting a few key details.**

1. **AAUP COMMENT REASON FOR SKEPTICISM:** *PSU's net tuition and fee revenues have grown \$5 million more than claimed, according to the State Board figures. In Fall 2009 PSU apparently reported \$142.5 m in net tuition and fee revenue to the Oregon State Board for the '08/'09 fiscal year, not the \$147.4 m shown in campus presentations, suggesting that growth in net tuition and fees over the last 5 years has been \$5m higher than claimed.*

#### **PSU ADMIN RESPONSE**

The OUS quarterly report classifies revenues in a different manner than the standard way PSU reports them. While the tuition and fee line is less by approximately \$5 million, the other revenue is

more by the same amount; so total E&G revenues are both reported at \$229,703,157. This is shown in the chart below:

<b>Account Category</b>	<b>PSU Slides</b>	<b>OUS Reclassifications<sup>1</sup></b>	<b>OUS Quarterly Report</b>
E&G Revenue <sup>2</sup>			
Net Tuition/ Fees	\$147,447,710	\$(4,971,212)	\$142,476,498
State Allocation	71,722,804		71,722,804
Other Revenue	10,058,895	4,971,212	15,030,107
Transfers In	473,749		473,749
<b>Total E&amp;G Revenue</b>	<b>\$229,703,157</b>	<b>\$</b>	<b>\$229,703,157</b>

1. OUS reclassifies certain fees as “other” rather than include them in net tuition and fees. These fees include application fees, late registration fees, course fees, etc.
2. Education and General (E&G) revenues consist primarily of state appropriations and tuition and fees.

**PSU-AAUP:**

**QUITE CORRECT and EXACTLY WHAT WE SAID!!!!**

The PSU Admin is reporting total Education & General (E & G) revenues broken down differently than the Oregon State Board is reporting them. PSU Admin is stating net tuition and revenue in Fiscal Year 2009 as \$5 million higher than does the Board, and “Other Revenue” as \$5 million lower.

**The upshot is that Board Figures indicate that THE GROWTH in net tuition and revenues between Fiscal Year 09 and this year, Fiscal Year 14, is \$5 million greater than the PSU Admin is stating in its case for a \$15 million structural deficit.**

**TWO KEY POINTS:**

**1. The PSU Admin case for the structural deficit is based on claiming that the growth in net tuition and fee revenue has not kept up with expenses.** Their case is not based on total E & G revenue not keeping up. The PSU Admin case appears to underestimate tuition and fee growth by \$5 million, which accounts for one-third of the “\$15 million structural deficit.”

**2. OUS numbers are audited by a third party; PSU’s are not.** If we have to choose which numbers to believe, we’ll go with the audited numbers of the State Board.

2. AAUP COMMENT REASON FOR SKEPTICISM: *The state is paying \$1.3 million more than shown in campus presentations, again according to State Board figures. OUS Board materials show a state contribution of \$58 m to PSU this year, including the initial legislative appropriation, as well as both the 1st and 2nd tuition “buy downs,” not \$56.7m. That figure was recently confirmed by an Administration response to an AAUP information request, showing also that \$62 million would be forthcoming in 2014/15.*

#### PSU ADMIN RESPONSE

The 5-year forecast that has been presented contains a state appropriation amount prior to the second tuition buy-down of \$1.3 million. However, this does not represent additional funds to PSU, rather it is a reduction of tuition revenues and an increase in State Appropriation for a net zero revenue change.

#### **PSU-AAUP:**

If the buydown of tuition adds no revenue, why does the presentation of the case for the structural deficit describe the state contribution as \$56.7 million for this year, apparently including the first tuition buydown?

Also, the PSU Admin was nervous about pushing tuition up too high, fearing a negative impact on enrollment. It's likely that fewer students would have enrolled for fewer credits, in the absence of the tuition buydown. If more students attended than otherwise would have, PSU revenues are up because of the tuition buydown.

3. AAUP COMMENT REASON FOR SKEPTICISM: *Salaries of full-time tenure-line and fixed term faculty NOT paid by external funding amount to only \$53.7m, or 34%, of PSU salaries quoted at \$156.7 m. Academic Professional salaries account for only another \$11.3 million, or a further 7%. If salaries are excessive, it's because combined Administration salaries expanded \$5m in the past 2 years alone, to \$43.6m. The number of Exec Admin positions with titles including the words President, Provost or Dean increased 65% between 2002 and 2012, and salaries for these positions skyrocketed.*

#### PSU ADMIN RESPONSE

The issue is not whether one PSU employee group or another is over-compensated (none are **-no comment...**), the issue is that compensation for all university employee groups has increased more than revenues. During labor negotiations in 2011, OUS approved salary increases for its SEIU employees that mirrored what the state had agreed to for all other SEIU employees statewide. PSU

was strongly encouraged to agree to an equivalent increase for AAUP. The result was an increase of more than 8 percent in salaries between January 1, 2011 and January 1, 2013 (4.1 percent each year) for AAUP and for **passed along as usual by the Admin** to the university's unrepresented employees. During SEIU negotiations in 2013, OUS again settled at the same level as the state, even though most of the universities – including PSU – said they couldn't afford it.

### **PSU-AAUP:**

If PSU can't afford to pay classified staff what the rest of the state is paying, it's because PSU spends too much of the budget on non-essentials.

As a result of the 2011-13 contract, salaries for full-time faculty and Academic professionals increased by 8%, while the combined administration payroll increased by 13%.

**As the FIU Center for Labor Research and Studies analysis of PSU salary data revealed, Executive Administrator salaries have soared in the past 10 years, while faculty and AP salaries have lagged:**

### **Between 2002 and 2012, after adjusting for inflation**

- \* President's salary on Education & General funds rose 90%
- \* Provost's salary shot up by 46%
- \* Vice Provosts' average salaries leapt by 43%.
- \* Vice Presidents' average salaries rose by 29%
- \* Associate Vice Presidents' average salaries grew by 19%
- \* Assistant Vice Presidents' average salaries increased by 23%

### ***Faculty & AP Salaries Lag Over the Same Period***

**Over the same period, the already high student/full-time faculty ratio worsened, and faculty salaries lagged, even falling for some categories.**

Between 2002 and 2012, after adjusting for inflation, on average

- \* Tenured Full Professors' salaries rose 6%
- \* Tenured Associate Professors' salaries **fell** by 1%.
- \* Tenure-Track Assistant Professors' salaries grew by 1%
- \* Fixed Term Assistant Professors' salaries rose by 8%
- \* Fixed Term Senior Instructors' salaries grew by 1%

- \* Fixed Term Instructors' salaries **fell** by 7%
- \* Academic Professionals' salaries **fell** by 3%

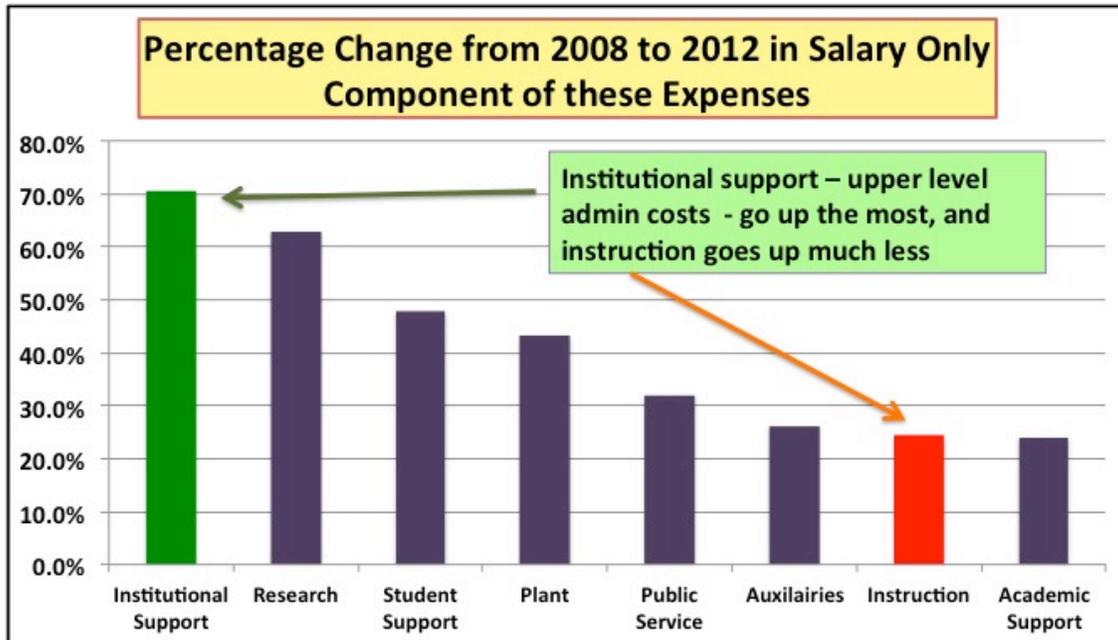
Howard Bunsis' analysis of Oregon state data, which PSU provides, shows the same pattern, first for rapidly increasing upper administrative salaries in the past 3 years:

**Top PSU Administrative Salaries,  
Comparing 2010 to 2013**  
Source: [http://www.oregon.gov/transparency/pages/state\\_workforce.aspx](http://www.oregon.gov/transparency/pages/state_workforce.aspx)

	2010	2013	\$ Change	% Change
<b>Total Top 40</b>	\$6,201,927	\$7,292,465	\$1,090,538	17.6%
<b>Average</b>	\$155,048	\$182,312	\$27,263	17.6%
<b>Median</b>	\$147,756	\$166,572	\$18,816	12.7%
<b>Total Top 20</b>	\$3,544,733	\$4,332,365	\$787,632	22.22%
<b>Average</b>	\$177,237	\$216,618	\$39,382	22.22%
<b>Median</b>	\$162,879	\$199,104	\$36,226	22.24%
<b>Inflation Adjusted (2013 Dollars). Source: <a href="ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.ai.txt">ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.ai.txt</a></b>				
<b>Total Top 40</b>	\$6,625,740	\$7,292,465	\$666,725	10.1%
<b>Average</b>	\$165,643	\$182,312	\$16,668	10.1%
<b>Median</b>	\$157,853	\$166,572	\$8,719	5.5%
<b>Total Top 20</b>	\$3,786,965	\$4,332,365	\$545,400	14.40%
<b>Average</b>	\$189,348	\$216,618	\$27,270	14.40%
<b>Median</b>	\$174,009	\$199,104	\$25,095	14.42%

and then, in IPEDS data also provided by PSU, for salary increases in upper administration far greater than in any other area of the campus budget since 2008:

## Percentage Changes in Main Expenses: Salary Component Only of IPEDS



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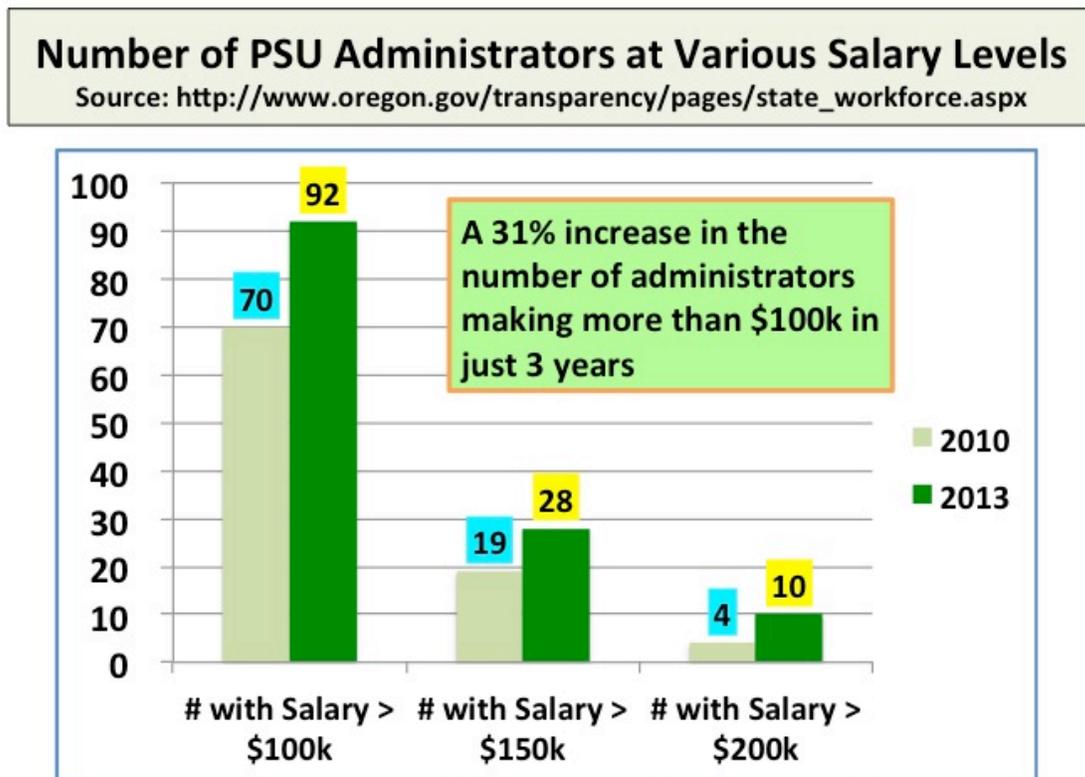
As the attached budget spreadsheets show (has anyone been able to find these? if so, please send to [maryking@psuaaup.net](mailto:maryking@psuaaup.net)), PSU is not in a position to approve that level of increase for AAUP. With enrollment essentially flat, PERS and PEBB costs continuing to increase, and state funding unable to keep pace, the university faces a \$15 million structural deficit by the end of the next fiscal year if it does not bring its budget into balance. It has already identified ways to address half of that amount through steps such as freezing salaries for the next two years for all unrepresented employees making \$100,000 or more and allowing only a two percent/year increase on the first \$50,000 of salary for all other unrepresented employees. The university will save \$2.1 million through these two steps alone. The AAUP settlement likewise will need to reflect the financial realities of the university.

### **PSU-AAUP:**

Obviously, enrollment spiked in response to the worst recession since the Great Depression, as PSU-AAUP predicted when negotiating the 2009-2011 contract, but took a furlough and pay cut at the insistence of the PSU Administration. When unemployment rates go up, it's smart for people to go back to school in greater numbers than they otherwise would have.

Despite the fact that we would expect enrollment to fall back toward its long-term upward trend-line, President Wiewel announced an enrollment increase this Fall, and OIRP projects continuing enrollment increases through 2021.

It's about time that Admin salaries above \$100k are frozen. Can you believe that PSU now employs 130 administrators earning more than \$100k, up from 93 three years ago, according to Howard Bunsis' review of Oregon state data in the slide below.



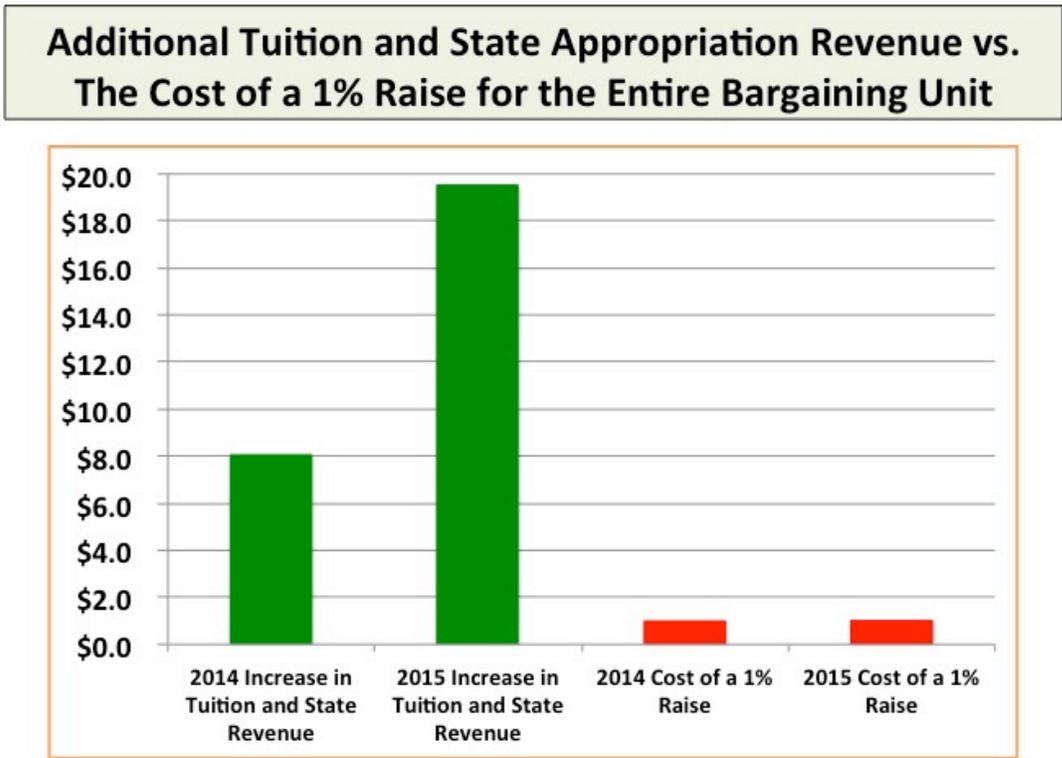
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Administrative salaries have been growing unconscionably out of proportion to salaries elsewhere on campus, which lag inflation, our comparators and the other large Oregon universities. It just does not make sense for PSU's President to be paid in the top one-third of public college and university Presidents, according to the *Chronicle of Higher Education*, when PSU faculty are in the bottom 10% of public research universities.

What we really need is to cut back on the expansion in Administrative positions, and to invest those

salaries into our academic capacity instead. According to Robert Martin’s analysis of IPEDS data, PSU employed 1 administrator for every 2.5 tenure-line faculty members in 1987 and now has only 0.8 tenure-line faculty members per administrator.

Before you believe that PSU lacks the revenue to pay raises to faculty and academic professionals comparably with those being paid in other Oregon universities, you should compare the additional tuition and state revenues with the costs of raises provided by Howard Bunsis’ review of the data available in public documents:



On a final point, AAUP’s assertion regarding the growth in senior administrative positions is inaccurate **completely accurate and based on data provided by PSU’s Human Resources to the PSU Library**. Only 6 new executive administrative positions have been created since 2002. The remaining positions in this category already existed in 2002, but were coded as something other than “executive administrative”, or were the result of promotions or title changes for existing employees.

Whether people holding the new positions and titles were hired from the outside, promoted or simply

re-titled hardly matters; the fact remains that in 2002 there were only 31 PSU positions that included the words “President,” “Provost” or “Dean” in their titles, and by 2012 there were 51, an increase of 65%.

4. AAUP COMMENT REASON FOR SKEPTICISM: *PERS costs are temporarily higher while compensating for losses due to the financial crisis of 2008. PERS is once again earning high returns, so problems are not “structural.” PEBB costs, for health care, did not increase from the previous academic year to this academic year, according to PEBB presentations in Spring 2013.*

#### PSU ADMIN RESPONSE

The data PSU uses for its 5-year forecast and other planning efforts is based upon rate information PSU receives from PERS and PEBB, as well as advice provided by OUS. While anticipated costs did moderate somewhat from the earlier predictions from PERS, PEBB and OUS, PEBB contribution rates did in fact increase in December 2013 from \$1,208 to \$1,260 per eligible employee per month. In addition, it is important to note that the OUS composite rate for PEBB results in PSU paying approximately \$800,000 a year more than the actual costs of the health insurance plans its employees choose. These are funds that are not available to use to keep down tuition, meet program needs or invest in personnel.

#### **PSU-AAUP:**

PERS is once again earning very high returns, as footnoted in our Open Letter.

Why point out that PSU subsidizes the PEBB system? Is it because we have higher turnover rates, and are therefore younger, than state employees in other agencies? Administrators have been citing this fact since Jay Kenton worked at PSU, presumably because they hope to pull PSU out of PEBB. Many people think that would put PSU at risk, because you have more negotiating power with insurers when you represent a larger group of people.

5. AAUP COMMENT REASON FOR SKEPTICISM: *Cash flow issues are not a “structural deficit.” Many US households spend more than they earn in December, by spending less than they earn in other months. Faculty members earning 9-month salaries to cover 12 months of expenses are experts in managing cash flow issues!*

## PSU ADMIN RESPONSE

Management of cash flow for an individual household is significantly different than managing cash flow for a university. Multiple revenue sources, a multi-million dollar payroll, thousands of vendor relationships, and the myriad of financial regulations public universities must comply with make the comparison between a household and a university strained, at best.

### **PSU-AAUP:**

This just obfuscation. The number of purchases and suppliers does not at all change the fundamental situation that uneven cash flow is not the same as a structural deficit.

If your annual income is less than your annual expenses, you have a structural deficit.

If your income varies month by month, and your expenses do not, you need to manage your cash flow.

Many households and businesses have uneven cash flow but are in great overall financial shape, because their annual income is greater than their annual expenses - think of realtors, department stores and yes - academics on 9 month contracts!

The most significant difference, however, is that as the employer of thousands of individuals and the educator of tens of thousands of students, good financial practices require that universities maintain cash balances on hand far in excess of what one might expect of an individual household in order to manage unforeseen circumstances and assure debt service capacity. Indeed, it is for this reason that the Oregon University System, consistent with industry standards, requires all Oregon public universities to maintain between 5 and 15 percent of their operating budgets on hand as a fund balance. We anticipate that the new PSU board will set similar standards, as would any responsible body with fiduciary obligations.

### **PSU-AAUP:**

Agreed, and for this reason PSU-AAUP has been pointing out – including in Point 10 of our Open Letter - that by OUS standards, PSU has looked quite healthy, posting a nearly 20% ending fund balance last biennium, and a 12.6% surplus last year, despite the facts that

a) PSU now needs to follow a new OUS policy of putting the entire amount of outstanding student debt into a separate reserve outside the ending fund balance, as if none of that debt will be paid off, and

b) has created a separate “sinking fund,” outside the ending fund balance & financed with tuition

dollars, to deal with the losses generated by the University Place Hotel.

The other Oregon Universities that “can’t afford” to pay classified staff the raises negotiated by the state have ending fund balances just over 1%, a very different situation than PSU's.

PSU's current budget rebalancing effort is essential to continue to meet the required standard. While current levels of cash are adequate to manage the expenses of PSU in the short term, continuing on the current spending trajectory would cause reserves to dip below the required 5 percent within the next year or two and place the university in a situation where total cash on hand was less than expenditures (mostly payroll) for an ever increasing number of months. Such an approach is unsustainable for an institution – or an individual.

**PSU-AAUP:**

Again, agreed! And for this reason, the PSU budget should be re-aligned toward the core academic mission, and excessive spending on Administration, Real Estate, Athletics and other auxiliaries reined in, so that we can invest in academics.

6. AAUP COMMENT REASON FOR SKEPTICISM: *Tuition, fees, and the state contribution subsidize a rapidly growing administration as well as a range of “auxiliary” activities that should be self-supporting, including poorly performing real estate, athletics and business start-ups. VP Rimai’s presentation in June 2013 to the PSU Faculty Senate indicated that Education & General Funds (tuition, fees, state contribution and a few other revenue sources), as well as Parking and one-time funds, were being used to subsidize “Auxiliaries,” including poorly performing real estate ventures such as the purchase of University Place Hotel, at a rate of \$6.8 million a year.*

**PSU ADMIN RESPONSE**

We believe this references a presentation given to the Faculty Senate Budget Committee. As the chart below shows there is \$6.9M of subsidies paid from a variety of sources for various activities. Of the \$6.9M listed, \$3.3M is from E&G funds. The remainder is from non-E&G funds.

<u>Subsidy</u>	<u>Amount</u>	<u>Source</u>
Athletics Personnel	\$ 2,143,441	General Fund (E&G)
Transit subsidies	1,156,999	Parking
Academic Rent - Athletics	916,000	General Fund (E&G)

Broadway	712,710	One-time Auxiliary funds
University Place Parking Loss	675,000	Parking
University Place	418,622	One-time Auxiliary funds
LID	392,216	Parking
Corbett Building	225,000	General Fund (E&G)
Portland Mall Management	163,909	Parking, housing, Facilities, CPSO
Native American Center	<u>50,000</u>	General Fund (E&G)
	\$ 6,853,897	

General Fund (E&G)	\$ 3,334,441	
Parking	2,326,658	
One-time Auxiliary funds	1,131,332	
Facilities	33,875	
Housing	19,123	
CPSO		<u>8,468</u>
\$ 6,853,897		

This chart makes clear that athletics is the main non-academic beneficiary of an E&G subsidy. Because it is important that athletics share in the rebalancing initiative, we cut the budget for the department by \$800K by requiring the football program to become self-sufficient. Having said that, it is important to point out that the level of subsidy for athletics is in line with other universities in the Big Sky conference. Just as there have always been students, faculty and staff who deeply value athletics, there have always been others who do not. However, athletics has been a part of PSU's history for many decades, as it has at most American universities.

**PSU-AAUP:**

The fact that 9 out of 10 U.S. universities subsidize Athletics programs with tuition dollars is not a good reason for PSU to have recently tripled the annual E & G subsidy to an Athletics program our students don't have the time or inclination to support. Shifting \$800,000 of football expenses to "self-support" leaves at least \$6 million coming from tuition and student fees administered by the ASPSU. (Though when student governments have tried to cut student fee funding of Athletics, they have learned the limits of their power.)

The Administration brought George Mehaffy in last January, to tell us all that traditional universities were the Pony Express, doomed by innovation – perhaps we could start by innovating away from expenditures that PSU and our students can't afford, in order to focus on our central academic mission.

**PSU Athletics:  
Where does the money come from to pay for athletics?**

Source: USA Today Database

2011-12	Dollars	% of Total
Institution \$\$	\$5,615,861	43%
Student Fees	\$3,906,150	30%
Rights/Licensing	\$921,731	7%
Contributions	\$332,689	3%
Ticket Sales	\$269,187	2%
Other	\$1,932,455	15%
<b>Total Expenses</b>	<b>\$12,978,073</b>	<b>100%</b>

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7. *AAUP COMMENT **REASON FOR SKEPTICISM:** Facing faculty opposition to the demand to identify 8% of academic budgets for possible cuts, President Wiewel has managed to reduce the structural hole by half, to \$7.5 million. The fact that President Wiewel pushed first to cut academic budgets raises questions about PSU's priorities.*

**PSU ADMIN RESPONSE**

Rebalancing the budget was always a campus-wide effort (involving both administrative and academic programs), but the initial focus was more on administrative functions than on academic – the opposite of what has been claimed - **but evidently without much success until faculty and APs began to object to proposed academic cuts.** The Executive Committee began working in the Spring of 2013, continuing through the Summer and Fall, to identify ways to streamline administrative functions, reduce the cost of athletics and take other institutional-level steps to bring the budget into balance. It is these efforts that have allowed the university to identify \$7.5 million of the needed \$15 million. The remaining \$7.5 million is being distributed evenly between administrative and academic units – **More, if belated, Progress!**

Since academic units (the Schools and Colleges, Institutes, etc.) account for 65 percent of university education and general expenditures it is not possible to excuse them from the rebalancing effort - **why not, since academics has been absorbing cuts for years to finance other areas?** As to the 8 percent planning target, that was set by the Provost for the same reason the Governor and Legislature sometimes ask state agencies to submit budget-cutting scenarios that are two to three times what is needed to balance the budget. Just as that approach allows the Governor and Legislature to make strategic budgeting decisions, so will the PSU approach allow the Provost to decide how to balance reductions and investments to protect quality and access.

It is also important to note that the rebalancing effort has never been about cuts only. Because the schools and colleges have the ability to generate revenue, planning for the academic units has been approached as a combination of budget reductions and revenue enhancements. In other words, if a particular unit ultimately ends up being given a rebalance target of 5%, that target would be achieved by adding X (budget reductions) to Y (revenue enhancements) for a total change of Z (5%).

### **PSU-AAUP:**

Oh, academic units now only need to come up with \$3.75 million in cuts, not \$15 million as advertised in October, 2013? That is both a big change, and very good news.

Let's cut the administration back to its size in June 2011, which would save \$5 million in salary costs, and probably another \$1.5 million in benefits, giving us \$6.5 million to cover the remaining "structural deficit" and almost \$3 million left over to hire senior faculty members to anchor PhD programs, as well as cover the costs of graduate assistantships for students.

We could come up with a lot more good ideas about how to enhance revenue, if anyone had a chance to think about it. Over the past 4 months alone, Departments have been charged with coming up with

a) 8% of expenses for possible elimination by Deans, then

b) scenarios for 2% and 5% cuts, then

c) 6% cuts, and now

d) plans to mount a Summer Session program in 2014 on dramatically reduced budgets, without affecting the number of student credit hours booked in summer. (Haven't heard about whether we ought to cut quality.....)

If the Admin is serious about growing revenues as a strategy, we'll need a little breathing room to figure that out, as well as some leadership.

8. AAUP COMMENT REASON FOR SKEPTICISM: *The cost of Instruction and Department Research accounts for only 27% of PSU's All Funds Expenses, while Tuition and Fees make up 45% of All Funds Revenue. The PSU- AAUP believes that enough could be cut from budgets for secondary activities to fund a substantial investment in academic capacity and quality at PSU in 2014 – see Appendix. With students going into serious debt to obtain an education, it's imperative that PSU budgets prioritize academics.*

### **PSU ADMIN RESPONSE**

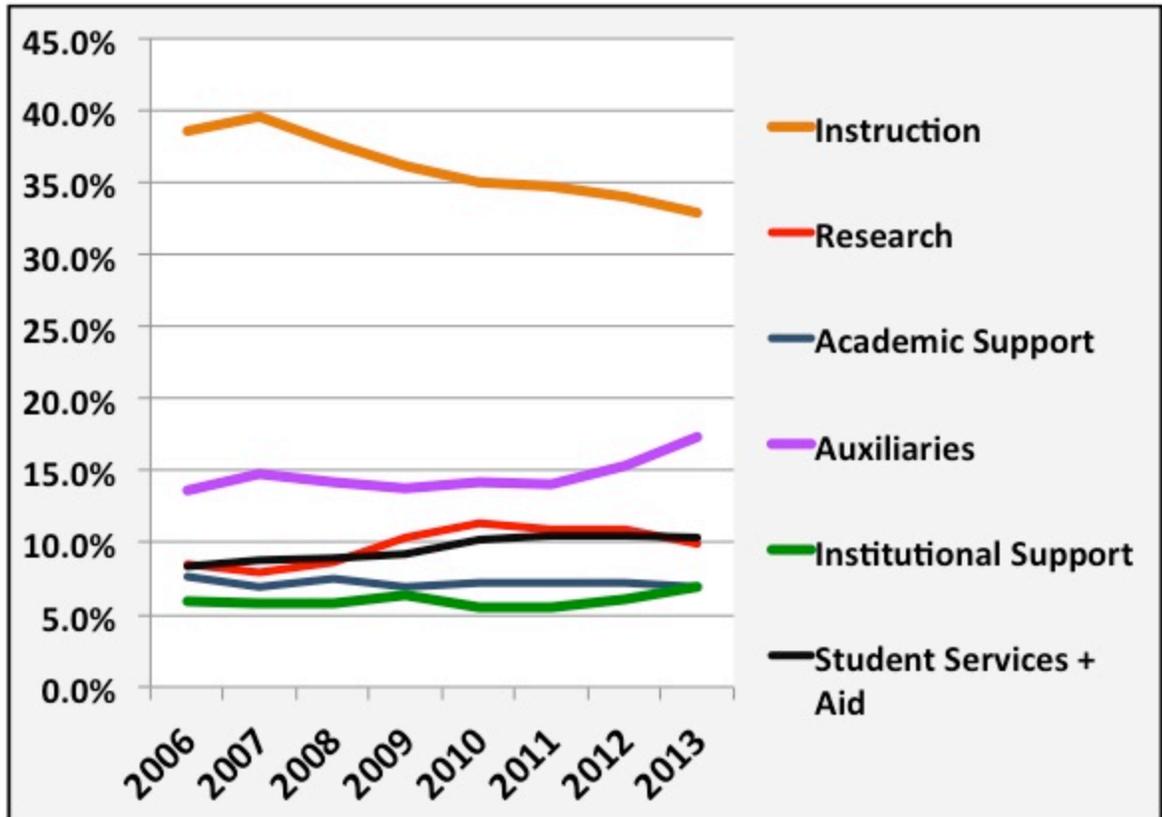
AAUP's analysis is done on an all-funds basis, which includes all non-E&G activities (housing, parking, etc.) for both revenue and expenditure activities. A more appropriate measure of how various university functions are resourced is to look at E&G funds only. For E&G funds, the cost of instruction and departmental research accounts for 51% of expenditures and tuition and fees make up 72% of the revenues.

### **PSU-AAUP:**

According to Howard Bunsis, U.S. universities spent closer to 50% of their all-funds budgets on instruction in the 1980s, despite the inclusion of housing and parking. As Bunsis' graph of the PSU budget over just the past 7 years shows, the proportion of the budget spent for instruction has continued to fall every year:

# PSU Expense Distribution Graphically

Source: OUS Audited Financial Statements



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## APPENDIX

Answers to the items in the open letter's appendix are generally covered in the responses to the preceding questions. As such, we have not attempted to respond further to these items.

The original appendix was in fact a demonstration of how the "structural deficit" could be closed, and a surplus created for investment into academic capacity.

(<http://www.psuaaup.net/blog/entry/open>)