Representing Wayne State Faculty and Academic Staff

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Budget Report

Hidden Reserves and Higher Revenues

By Michael J. McIntyre, Chair of the Academic Senate Budget Committee

The University has engaged in a wild and wooly budget process over the past several months, and the uncertainty continues. The process has been long and arduous, tempers have occasionally flared, and sanctimony has raised its ugly head on occasion. Still, with few exceptions, the process has been conducted with what passes for collegiality at Wayne. This report summarizes what has happened so far and what might be expected in the weeks ahead.

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The "Perfect Storm"

Everyone agrees that the University budget is under significant pressure, created in substantial part by reductions of around $50 million in state support over the past three years. The Administration has claimed that the University is facing a Perfect Storm, buffeted simultaneously on three fronts: 1) a large drop in state support, 2) an anticipated decline in tuition revenue, and 3) a drop in funds generated by research activities (so-called "indirect cost recovery" funds).

The first part of this scenario was heralded in June when Lansing, facing its own budget crisis, announced it would cut state aid for WSU by $3.5 million in 2008 and also postpone— perhaps, it was feared, even default on— the last payment of $20 million promised for FY2007.

Rather than cover the shortfall out of its reserves, the University imposed a freeze on most spending, subject to a complex and somewhat chaotic waiver exception. The freeze hit hardest in the Schools and Colleges, where the savings it generated were subject to capture by the Administration. This process was messy, to say the least, and its full effects on academic programs have yet to be reported by the Administration.

As the faculty representative on the Board of Governors Budget and Finance Committee and the Chair of the Academic Senate's Budget Committee, I have argued that the immediate budget problems, although very real, have been overstated to justify large and unnecessary cuts in academic programs.

The BOG

The Board of Governors (BOG) accepted the "Perfect Storm" scenario and adopted the Administration's budget recommendations, including a tuition increase of 19 percent for the Fall semester, dropping to 12.8 percent if the state did not default on the $20 million withheld from last year's subsidy. The recommendations also included budget cuts of $9.1 million, over 80 percent of which were imposed on the Schools and Colleges.

The AAUP-AFT did obtain a firm commitment from the Administration that these cuts would be imposed without any faculty or academic staff losing their job — a commitment that has been kept.

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Many faculty and academic staff protested the cuts, especially those in the Interdisciplinary Studies Department. The College of Liberal Arts and Sciences (CLAS), facing budget cuts of over $1 million, moved to disband that department and reassign its personnel within CLAS. Supporters of the program objected to the procedures established for collegial consultation within CLAS and also asserted that the cuts were unnecessarily severe. In their view, the University was eliminating a department closely associated with its urban mission when a more equitable distribution of the budget cuts and a more realistic estimate of revenues would have eliminated the need for those cuts.

In response to criticism from these and other quarters, President Reid made an unambiguous promise at the BOG meeting on September 6 that all revenues obtained in excess of the budget projections, whether from underestimation of enrollment or from favorable state funding decisions, would go to instruction, academic support services, and research, in that order.

"...the immediate budget problems, although very real, have been overstated to justify large and unnecessary cuts in academic programs."

The "Perfect Storm" Abates

Even as the BOG was rubber-stamping the Administration's budget proposal, there was growing evidence that the predicted "Perfect Storm" was losing some of its punch.

The Budget Office, headed by Director Rob Kohrman, had predicted that tuition revenue would be down for academic year 2008 by $2.6 million, despite mounting evidence in late August and early September that enrollments were well above the initial projection. Enrollment in some graduate programs, particularly Engineering and Law, were below expectations, but undergraduate enrollments unquestionably were surging. In the final count, credit hours for the Fall term were up rather than down, and by enough that the Administration could have presented a balanced budget and reduced the cuts made to the Schools and Colleges by over fifty percent.

The budget cuts, moreover, were not shared equally within the University, despite claims to the contrary by the Administration.

The Budget Office computed a base budget amount for each unit, and then imposed an across-the-board cut of around 3 percent on this base amount. By allocating fixed costs to the Schools and Colleges, but removing many of these same costs from the base budgets of the divisions and the President's Office, the apparently "standard" 3 percent cut ended up carving a far larger slice out of the academic pie.

The calculations I presented to the BOG's Budget and Finance Committee indicate that the Schools, Colleges and Academic Support, in combination, get a little over 60 percent of the General Fund budget— yet they took well over 80 percent of the budget cuts. This continues an unfortunate long-term trend at Wayne State: despite some enhancements efforts coming from the Provost's Office, the percentage of the budget going to the Schools and Colleges has been declining every year for the past decade, resulting in larger class sizes and a higher student/faculty ratio.

This occurred in a context in which tuition revenues were underestimated by several million dollars. Not only did this dimension of the "Perfect Storm" fail to materialize, but the severity of the state cuts also fell short of the worst-case scenario. On October 16, the State presented the University with a check for $39 million, which included the $20 million to "repay" the FY2007 shortfall. (The remaining $19 million is the first installment of State support for FY2008.)

Hidden Reserves

During the budget process, we learned of the existence of a previously undisclosed "auxiliary plant fund reserve." I stumbled upon the existence of this fund at a meeting of the Budget and Finance Committee when I asked the Administration how it had eliminated the operating losses suffered in FY2007 by WDET (over $800,000) and the Housing Office (over $2 million), both reporting to Executive Vice President Andrea Dixson. The

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Health Care for Retirees?

By Allen C. Goodman, Faculty Representative

With the continuing upward spiral in the cost of medical care, retiree health benefits are an issue of concern for all of us. At this time, the only retiree health option available at Wayne State is one that allows the retiree to opt for continued coverage under one of the employee plans, with the retiree paying the full premium.

The AAUP-AFT and the Administration have been negotiating possible improvements in the current retirement package, and several proposals have emerged from these discussions.

The "2N" Committee

In the last round of collective bargaining, the AAUP-AFT and the Administration established a "2N" Committee on Health Care for Retirees made up of equal numbers ("N") of union and management representatives.

The four AAUP-AFT representatives on the eight-member committee are Charles Elder, Allen Goodman, Michael McIntyre, and Charles Parrish. The four Administration members are John Davis, Brett Green, Michael Herbert, and Paula Wood. Dean Wood and AAUP-AFT President Parrish serve as co-chairs.

As a measure of our commitment to the process, the union agreed to put one-half of one percent of the negotiated salary increase for last year into escrow for possible use in helping to fund a retiree health benefit. In the event no agreement could be reached, that money would be returned (with interest) to employees' paychecks.

The Union Proposal

The union members of the committee have proposed that faculty and academic staff who are eligible for Medicare in the year of their retirement would receive a subsidized and transportable Medigap health insurance plan. They could also opt for the current dental and vision insurance plans, paying the full premium but benefiting from the lower group rates. **con't on page 4**

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answer given was that the operating losses were covered by a transfer from the so-called auxiliary plant fund reserve.

This "slush fund" (a fund not subject to normal budget controls) had never been disclosed to the Budget Committee of the Academic Senate, does not appear anywhere in the Auxiliary Budget, and is not even identified in the University's audited accounting report. Apparently, the money in this secret reserve came from surpluses accumulated in prior years from building projects. It turned out that over $5 million had been squirled away before someone (it is not clear who) ordered the transfers to cover the defecits in WDET and housing.

If I had not raised the question in committee, neither the Board of Governors nor any one else would have been aware of the transfer of funds. In my view, the Administration had a duty to the BOG and the University community to disclose the existence of this fund early in the budget process, when painful cuts were being made to various academic and other units.

The Bottom Line

In brief, the Perfect Storm predicted by the Administration did not have the force predicted. Only one of the three components of that scenario (the drop in research grants) actually occurred. In light of the higher-than-expected revenues, the battle now will be to ensure that the Administration makes good on its promise to direct these resources to the Schools and Colleges which took the brunt of the cuts.

The outcome of this battle is obviously important to faculty and academic staff. It is even more important to our students, who have been asked to pay substantially higher tuition at a time when the programs directly affecting them have been cut to the bone.

Health Care for Retirees?

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Funding would come from two sources: the salary set-aside in escrow (amounting to over $800,000), and a subsidy from the university based on the retiree's "final-year compensation amount."

The subsidy would come from the savings generated when a person retires from a funded position: while the position is vacant in the first year, the money is still in the budget for salary and benefits. The union estimates that approximately $80,000 would be available from the two sources for retiree health care.

The Administration Proposal

The administration representatives proposed that qualified retirees 65 years old or older who retire in FY 2008 would receive a lump-sum to subsidize their health insurance for a five-year period. The subsidy would equal the average cost of the University's employee health plans over those five-years. It would be paid into a tax-preferred individual account, which the retiree would use to purchase health insurance.

To qualify under the Administration's proposal, an employee would have to retire during a 3-month election period at the end of FY 2008.

Persons not electing to retire at that time would not be entitled to any benefits. The Administration proposal would also provide for the same dental and vision benefits the union proposes. Benefits per retiree from the Administration plan are estimated to be approximately $30,000.

Voluntary Early Retirement

The Committee also unanimously endorsed the extension of the voluntary early retirement program for the faculty to the last two years of the Agreement. Some Administration representatives, however, oppose extending the program for the academic staff because this involves lump-sum payments to the participants. Negotiations continue on this score.

Where it Now Stands

The full Committee report was transmitted to Provost Nancy Barrett last month and is under consideration.

Since the salary set aside has not been used by the deadline specified in the contract, it is being returned (with interest) to faculty and academic staff as an uncapped across-the-board increase during the Fall 2007 academic term.

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