

What Kind of Business Is Run Like This?

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The truism that our colleges and universities need to be managed as businesses has lost whatever credibility it once might have had—largely because it has become very clear that academics are the only part of our institutions to which the truism is actually applied. It is not applied to the ballooning bloat in administrative compensation (though, arguably, the bloat in executive compensation has now become an entrenched part of the business practice) or to the ever-expanding number of administrative positions and of staff hired to serve the needs of those administrators. It does not apply to the endless erection of new buildings. Nor does it apply to the urgency with which each new campus amenity must be provided—even though no studies exist to show that a new climbing wall has had any impact whatsoever on enrollment. Why would it, when every campus was rushing almost simultaneously to install one where some of the ping-pong tables used to be? The truism certainly is not applied to intercollegiate athletics, where no more than three or four dozen universities actually have programs that generate net revenue and a few dozen more are actually self-supporting. And, perhaps most ironically, it is not applied to the endless administrative pursuit of new ways to economize—a pursuit typically dependent on hiring an endless succession of extremely expensive external consultants.

All of these non-academic expenditures are typically characterized as “investments,” whereas academic spending is typically characterized as a regrettable drain on resources. No matter that, at most colleges and universities, academic programs and research produce almost all of the revenue—and certainly any net revenue. No matter that our institutions encourage everyone else, from students and parents to legislators and wealthy donors, to “invest” in higher education. Our institutional leaders regard spending on academics in the same grudging way that most individuals calculate the need for home and auto repairs, trying to separate those that can probably be put off to a later time from those that absolutely need to be done now.

The recent, almost simultaneous announcement by the administration and Board of Trustees at the University of Akron that 20% of the university’s degree programs and degree tracks are being eliminated while the university is “investing” in a new e-sports facility is an extreme illustration of the almost daily evidence of increasingly skewed institutional priorities.

At Wright State, we are trying to work our way out of a largely self-created financial crisis: our administration, with Board approval, ran through about \$130 million in reserves in four years, “investing” in non-academic initiatives that they promised would produce new revenue streams but that, instead, drained us dry. At our university, the truism has had two corollary assertions. The first is that the reckless spending has stopped. The second is that there is nothing left to cut but academics.

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Much of the non-academic overspending has been funneled through “semi-autonomous entities” that have allowed the university to skirt the fiscal constraints on public institutions intended to prevent reckless spending. One of these semi-autonomous entities is DoubleBowler—named for the Wright Brothers’ bowler hats, memorialized in a prominent public sculpture on campus, in which the hats sit together at the end of a bench. DoubleBowler is essentially a real estate firm and property management business. Although its website asserts that its purpose is to enhance the academic mission of the university (specifically, “To expand the educational opportunities available to the students, faculty and staff of Wright State University by developing, operating, and maintaining facilities for the benefit of the University”), one would be hard-pressed to identify anything academic that has occurred in any of the buildings that the university has purchased through DoubleBowler. Indeed, most of the buildings have stood largely empty for most if not all of the period in which the university has owned them. One does house the university’s Human Resources Department, but that department used to occupy the large suite of offices to the left of our AAUP office, and that suite has been empty since HR relocated.

As our former president explained publicly, the point of creating DoubleBowler was ostensibly so that properties could be purchased without all of the delays caused by the constraints placed on major expenditures by public institutions. Over about three years, we have calculated from Greene County, Ohio, property records, that DoubleBowler purchased \$21,196,400 in off-campus properties. We are aware of additional properties in Montgomery County that were purchased as well, but they were relatively inexpensive. As we contend with what, again, has been a largely self-created budget crisis, we have been told that although those properties are losing money, they cannot be sold now because everyone is aware of the university’s financial issues, and therefore, no one is willing to pay market prices for the properties. That sounds like a rational position, but it isn’t one.

The most recently purchased properties were acquired by DoubleBowler for the university about two years ago; so let’s use that as a baseline. According to its most recent annual audited financial report, DoubleBowler had revenues of \$2 million for the year: \$1.3 million was money from Wright State to DoubleBowler to pay for leases on space in the buildings (yes, we are leasing space in buildings on which we are paying the mortgages); \$300,000 from Wright State as a direct contribution to DoubleBowler; and \$400,000 raised from leases to other entities. It also reports expenses of \$1.8 million. Despite the fact that 80% of its revenue comes from Wright State, DoubleBowler claims to have produced a profit of \$200,000, rather than a loss of \$1.6 million. It is worth noting here that these calculations do not include the \$250,000 salary of the CEO of DoubleBowler, which has been off-loaded directly onto the payroll of the university within which he has been given rather broad new responsibilities.

So, doing the basic arithmetic, at a minimum, at the end of 2018-2019, the properties purchased and managed through DoubleBowler will have cost the university about \$4.8 million. In another three years, assuming that nothing changes dramatically (and there is no reason to think that it will), the cost to the university will have doubled to \$9.6 million—or approaching half of the original purchase costs. The university spends another \$630,000 per year on mortgage payments on the properties, but even supposing that 100% of those mortgage payments were being applied to the principal and not, as they most likely have been, to interest, three years from now the university will have paid \$3,780,000 on the mortgages and would still be responsible for almost \$17.5 million in mortgage payments—on properties that have already cost them \$9.6 million. So, for the university

to break even on the sale of these properties after the worst of its financial crisis has been resolved and “forgotten,” the commercial real estate prices in Dayton will have to have experienced *at least* an 8%-10% annual growth rate over the six years—and that has not come close to occurring over the first three of those six years.

And, worse, I believe that it is fair to say that what I have just described is a “best case” scenario. As my calculations here should suggest, I am anything but an expert on financial calculations, never mind the complexities of real estate transactions. But a colleague who has much more expertise in both areas has pointed out to me that If one were to use a metric commonly used to value real estate investment trusts (funds from operations = net income + depreciation – amortization + gains on sales of property – losses on sales of property), the financing of DoubleBowler and its property acquisitions would very likely look considerably worse.

I am absolutely certain that the university administration and Board will challenge most if not all of these calculations and even the total value of the properties purchased through DoubleBowler—the \$21,196,400 indicated in the Greene county records and reported here—because although almost none of the numbers that they have reported, at least until very recently, have held up to any scrutiny, they have a persistent and profound skepticism about our calculations—which we have often made using data that we have requested from them. But, at the risk of seeming terribly casual about the numbers, the truth is that whether the total for the properties purchased is higher or lower than the \$21+ million, the implications are likely as bad or worse for the university—and I don’t think that I am simply being cute with my reasoning. For if the total is lower, it will be even harder for the university to break even after each successive year in which it owns the properties, and if the total is higher, it brings into question even more emphatically why there is any need to hold onto these properties when, as the university keeps emphasizing, our enrollment has been declining.

I’d like to emphasize that much of our recent enrollment declines have been related to losses of international students from two nations who were concentrated in less than a handful of programs. Beyond that being another illustration of dubious strategies and economizing on recruitment of students, it is not the sort of thing that would raise any major alarms if we had any substantial reserves left. But, to the extent to which the assertion of declines in enrollment, aside from international enrollment, is true, I think that one can argue credibly that our enrollment has been declining largely because reducing expenditures in the core revenue-producing areas—in this case, academics—is a self-defeating business strategy.

But, returning to DoubleBowler, the very least that can be said is that the constraints that were skirted by the creation of “semi-autonomous entities” such as DoubleBowler had obviously been put in place for very good reasons. And foremost among those reasons is that a public university or college is *not* a business with corporate officers, a corporate board, and shareholders, all of whom may be too narrowly focused on short-term profitability but all of whom are also acutely aware of any risks to profitability.

And just so that no one passes all of this off as par for the course, consider this very recent news report from Iowa. What follows is an excerpt from an article written by Kathy Bolton for the *Des Moines Register*, published in mid-July:

Nearly two years ago, the University of Iowa launched an effort to offer undergraduate programs at the former AIB College of Business campus.

It was an opportunity, UI officials said, to provide new and expanded educational options for central Iowa students, particularly those who were older and who worked in the capital city.

But the opportunity never panned out.

Last week, university officials announced they would close the campus by year's end and sell its 17-acre tract and seven buildings that were gifted by the former business college to UI.

"It just wasn't the right piece of property," said Tom Rice, academic director of the University of Iowa's Des Moines programs. "It gave us too big of a footprint in Des Moines; it had too many buildings."

To put this decision in perspective, the University of Iowa has a much larger enrollment (33,300) and budget and a much larger endowment (\$1.37 billion) than Wright State has. But, like Wright State, UI is facing some reduction in enrollment (in its case, apparently planned, in order to increase completion rates) and some reduction in state funding. So it is cutting its losses on a property on which it has been losing \$1.2 million per year—or about \$100,000 less per year than Wright State pays DoubleBowler to lease space in buildings on which Wright State is responsible for paying the mortgages.

Now, one might object that it is easier for the University of Iowa to decide to unload this property because it was donated to the university and they do not have to pay a mortgage on it. But, given the costs to Wright State of the DoubleBowler properties, as well as the very different financial positions of the two universities, I would argue that there is more reason for Wright State to unload those properties, even at a substantial loss, than for the University of Iowa to unload the former campus of the AIB College of Business, which was donated to UI. (By the way, I am not sure about the sale of this property, but I am aware that some of the other cuts announced by the university of Iowa have been controversial.)

In the end the answer to the question "What kind of business is run like this?" should be obvious: a failed business.

But our university is a public institution consisting of public buildings and spaces valued at many hundreds of millions of dollars and contributing almost a billion and a half dollars a year to the economy of the Dayton, Ohio, metro area. So, it cannot be dismantled like a failed business because it is not a business. And instead of claiming to run it like a business, our Board of Trustees should insure that it is run responsibly as a public university ought to be run—with a renewed emphasis on direct spending on academics.

And if a "renewed emphasis on direct spending on academics" seems like an idealistic or a delusional over-reach, it's a very sad indication of how things have devolved. For, at the risk of stating the obvious, academics are the only actual reason for a university to exist.

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ADDENDA:

This article is based on information available in the 2016 and previous audited financial statements. The 2017 statement, which has just been released, includes some different numbers. Most notably it indicates a total property valuation of \$14 million, rather than \$21 million. The university clearly has not sold a third of the properties purchased through Double Bowler. Several years ago, when we were closely reviewing WSARC's audited financial statements, we noted that properties were being transferred through other "affiliated entities" or "semi-autonomous units" to and through WSARC, with some of the property valuations being decreased with each transfer. Likewise, up until this past year, most of the "affiliated entities" were not even breaking even, never mind producing any net revenue. So, although I don't wish to suggest that any of this is clearly irregular, I think that it is clear that whatever entity officially holds the deeds to some of the properties bought through DoubleBowler, the university is ultimately responsible for the mortgages and that the bulk of the mortgages are still outstanding. Of course, if one or more of the "affiliated entities" suddenly becomes very profitable, or if the demand for commercial office space in Dayton suddenly increases dramatically, the university's liabilities on these properties might also change.

Lastly, here is an excerpt from "Wright State Monthly Financial Performance Reports–Financial Highlights FY2019 through August 31, 2018, Expenses and Transfers
http://www.wright.edu/sites/www.wright.edu/files/uploads/2018/Sep/meeting/Wright%20State%20Monthly%20Financial%20Performance%20Reports_%20overview.pdf:

Maintenance & Repairs and Utilities – Actual results exceed the budget estimate by \$417K. Contributing factors were changes to the contract with Ellucian for the Banner enterprise software. Only nine months was paid in 2018 and the full fiscal year for FY2019 was paid in August. Payments to Double Bowler of \$430K also contributed to the budget shortfall to date.)

This sounds like a substantial unexpected expense, but who knows.

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