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Rutgers's Declaration of Fiscal Emergency
A Critical Analysis

AAUP-AFT University Budget and Priorities Committee
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On June 8, the university notified the Coalition of Rutgers Unions of its intent to declare a fiscal emergency. Article 8 of our own contract (like similar language in other Rutgers union contracts) allows management to declare an emergency and withhold our July 1 raises, but it requires management to provide extensive documentation supporting the claim of fiscal emergency. It also mandates binding arbitration should we dispute the emergency claim. In this report, we analyze the financial documents provided by management, together with other available financial information, to respond to two key questions:

1. Has management provided the financial information it is contractually required to provide?
2. Does Rutgers have a financial emergency that can only be dealt with by freezing salaries?

In brief, our answer to both questions is no. **Management's documentation is paltry and opaque.** The reason why is clear enough: though there is a global economic and public-health crisis, Rutgers has the rainy-day funds to meet the needs of this rainy day, including its contractual obligations to its workers. **The only emergency at Rutgers is management's urgent desire to undo our recent contract victory so that they can reallocate the money for their own distorted priorities.** Don't just take our word for it: at the June 16 Board of Governors Meeting, the Board passed a resolution lauding President Barchi for leaving Rutgers **"on perhaps its strongest financial footing in recent history."**

A PALTRY SHOWING

The university's letter to the Coalition was supposed to include a series of detailed financial documents, including operating budgets for the current and upcoming fiscal years, current financial statements, and, in the language of our contract, "the financial information upon which the University relies as the basis for its claim that a fiscal emergency exists." What management actually sent was a three-page cover letter and a one-page budget for fiscal year 2021, two one-page financial summaries as of March 31, and hundreds of pages of pre-pandemic budget requests and financial documents for prior years.[1] Since then, management has replied to almost none of the detailed questions the Coalition has posed about the financial situation. At the June 23 bargaining session, management's team was only able to reply to a single question.

Management's June 8 cover letter, signed by Michael Gower, the Executive Vice President of Finance and Administration, says the emergency declaration is due to the projected "change in fund balance" or bottom lines for FY2020 and FY2021: −$58M and −$204.5M respectively, or a total through next July 1 of −$262.4M. The letter attributes these deficits to lost state funding, lost healthcare revenue, and lost auxiliary revenue.[2]

The pre-pandemic documents cannot be the evidence of an emergency. Instead, management wants us to take its one-page budget as sufficient demonstration of an emergency situation. Our detailed analysis of the numbers provided is in the next section. As a document on which the university has supposedly relied to make a critical decision, the one-page budget document is remarkably thin. Unlike prior one-page budgets approved by the Board of Governors, this document **lumps almost all expenses in a single category**, "All Other Operating Expense." By contrast, the FY2020 budget approved in July 2019 subdivided this category into "Supplies and Other," "Travel," "Plant and Maintenance," "Professional Services," and these expenses were also subdivided by campus. In the July 2019 version of the 2020 budget, "Other operating expense" was $220.4M. That same grab-bag category, for the same fiscal year, is

1. Among the pre-pandemic documents is an "asking budget" for the coming fiscal year, dated to November 2019 (Rutgers usually submits such a budget in November or December). The total figures given there, which project equal revenues in 2020 and 2021, do not tally with the one-page budget summary, dated June 1, 2020, on which this report focuses. The one-page budget is the document the university claims to have relied on in deciding there is an emergency.

2. Throughout, "M" stands for"million." The university's fiscal years start on July 1, so FY2020 was July 1, 2019–June 30, 2020; FY2021 is July 1, 2020–June 30, 2021.

now inflated to $963.4M in the final FY2020 budget forecast sent to the coalition.[3] **Management is telling us they need money from our salaries, but they aren't telling us how they are going to spend it.** This is not evidence of an emergency: this is an expression of a wish for unaccountable power.

At a minimum, any serious discussion of the financial situation of the university requires more evidence. **We don't know** the current state of the university's reserves, nor how much of those reserves are unrestricted or restricted but expendable. **We don't know** how much money was spent on different categories of operations in the past fiscal year, nor do we have any breakdown for the coming year. By the same token, **we don't know** the details we need on the university's operating cash flow, its sources of revenue. **We don't know** all we need to know about fall enrollments across all the university's programs. **We don't even know** whether management's projections include the money from the first federal stimulus (the CARES Act), let alone how that money will be spent.

The legal process may eventually shed light on these details. What follows is our provisional analysis based on what we do know.

USE THE UNRESTRICTED RESERVES

Management's claim that they are in an emergency rests on their projection of a negative "change in fund balance." This number appears on the budget bottom line. In his presentation to the Board of Governors on June 16, Michael Gower asserted that the budget gap was "unsustainably large and would consume most of the net assets." The net assets, according to the 2019 audited financial report, consist of $583.1M in unrestricted reserves and a further $622.1M in restricted expendable assets.[4] Without an audit we can't say how much of the latter could be used for the shortfall, so with the available information we conclude that

3. On July 7, a one-page FY2021 budget approved by the Board of Governors became available online. This budget's total numbers correspond to the June 8 budget supplied to the Coalition, except for its estimate of state funding, which is approximately $50M higher than the "emergency" budget (as we discuss below, this is still much less than the amount of state funds Rutgers is likely to receive). The July 7 budget also includes the customary breakdown of operating expenses, which suggests that management had this information available all along; we return to this point below. The July budget document gives no further evidence of a fiscal emergency at Rutgers.

4. Our discussion of the university's reserves continues to use figures from the 2019 audited financial report (p. 9). Despite the contract requirement that the university supply an unaudited 2020 report, the university sent no such thing. The one-page financial summaries we have

"most," for Gower, means 22% ($262M/$1,205M). But even if the entire gap needed to be met with the unrestricted reserves, **this rainy day needs less than half of the rainy day fund.** These reserves should be used. The only reason for a public institution to hold large reserves is precisely so that it can continue to operate in a crisis.

Perhaps there are other reasons to hold the reserves: management has not been forthcoming, though we imagine it would like to continue to be able to borrow money with ease to finance capital projects, even if these are supposedly all on pause during the crisis.[5] But ensuring that university bonds are exceptionally attractive investments is an absurd justification for the program of layoffs, furloughs, and salary freezes management wants to use to avoid spending the reserve. These extreme measures should be the very last resort. In fact, management has other options: university spokesperson Dory Devlin told a reporter for My Central Jersey that the university had netted an additional $58M by "refinancing bonds" ($30M saved in debt service) and by selling "real estate in Edison" ($28M). This total is—coincidentally or otherwise—the same as the projected FY2020 negative change in fund balance.

THE REAL SIZE OF THE BUDGET GAP

Now let us consider the case for the university's claimed deficit, $262.4M in all. The final estimate of the FY2020 deficit, $58M, is far less than the $200M revenue shortfall initially claimed by President Barchi in late April. Our earlier critical analysis of this claim is therefore vindicated. However, we must concede that we were too charitable to management in our assumptions, since our own estimate of the net loss ($122M) was too high. In fact, the revenue shortfall itself is only $116.1M according to the university's revised projection, and this was compensated by an additional $56.1M in foregone expenses. The resulting

received, dated to the end of March 2020, provide little further clarity. The unaudited statement of net position does not subdivide the university's assets into unrestricted, restricted–expendable, and restricted–non-expendable. The unaudited statement of cash flow does not detail the sources of operating and non-operating revenue.

5. In fact, the university can and does borrow with ease: it continues to maintain an Aa3 bond rating from Moody's (interpreted as "high quality and . . . subject to very low credit risk", and the Board of Governors recently authorized increased short-term borrowing to the amount of $750M in the "commercial paper program."

deficit is $54M.[6] **You read that right: $200 million turned into $54 million.** Absent a more detailed accounting than the university has provided, we see no reason not to assume the $204.5M deficit forecast for FY2021 is equally exaggerated. Will the true bottom line be $100M? $50M? Management has given us little reason to take their claims on trust. And when the union coalition literally did management's financial homework and offered a work-sharing program that would have recovered up to $130M in the space of two months, management left the money on the table. All that suggests **it's not about saving money.**

But let's look at the money. Although management has failed to comply with its contractual and ethical obligation to be transparent, enough information is available to challenge the dubious deficit estimate for FY2021. Our own budget projection, which includes all of the university's contractually obligated salary raises as well as restored positions for the laid-off PTLs, is presented below. To be sure, much here is speculative and uncertain; then again, to all evidence, management's own budget forecasts are just as speculative. In summary:

1. **Rutgers is likely to receive significantly more revenue than management claims**, from continuing strong student enrollment, more federal and state support than management accounted for, and other sources.

2. **Rutgers's expenses will continue to be reduced** due to the still partially-closed campus as well as financial maneuvers relating to Rutgers's debt.

3. **Even accounting for the full cost of the raises management is trying to steal, Rutgers is fully capable of balancing its budget in the coming year.** Our own projection leads to a small surplus before transfers of $3M, about 0.1% of the budget—no deficit at all. We also believe that further sources of net revenues exist that we have not been able to incorporate in our estimates; we discuss this issue below. Lacking this information, our estimates are more conservative. Conservatively speaking, **it is evident there is no fiscal emergency at Rutgers and there is no justification for layoffs and pay freezes that hurt the people who make the university work.**

6. Management's final bottom line of −$58M is adjusted from this deficit by "non-operating transfers," including their planned uses of the reserves. But as we said above, management could use far more of the unrestricted reserve than their figures suggest; they could entirely make up the claimed deficit.

OUR DETAILED BUDGET ESTIMATE

In the table, "Mgmt. FY2021" gives the amounts in management's 2021 budget supplied to the Coalition as evidence of emergency, "Our FY2021" gives our own estimates, and the last column shows the difference between the latter and the former, indicating where we believe revenues will be higher than management claims and where we believe expenses will differ. We show expenses and deficits as negative numbers.

amounts in $ thousands	Mgmt. FY2021	Our FY2021	Diff.
Student Tuition and Fees	1,277,284	1,308,505	31,221
Federal and State Student Aid	231,016	258,116	27,100
Federal Appropriation	7,324	34,424	27,100
Allocated University Support	0	0	0
NJ State Appropriations	299,575	374,970	75,395
State Paid Fringe	447,196	465,549	18,353
Grants and Contracts	503,414	503,414	0
Facilities and Administrative Recoveries	117,617	117,617	0
Gift and Contribution Revenue	43,691	43,691	0
Endowment and Investment Income	59,844	59,844	0
Healthcare Revenue	570,028	597,611	27,583
Affiliated and Housestaff	415,221	415,221	0
Other Sources Revenue	115,117	187,517	72,400
Auxiliary Revenue	176,346	176,346	0
Total Revenue	4,263,673	4,542,825	279,152
Total Compensation	−2,958,910	−3,021,968	63,058
Scholarships and Fellowships	−439,948	−439,948	0
Debt Service - Principal and Interest	−182,317	−152,317	−30,000
All Other Operating Expense	−925,555	−925,555	0
Total Expense	−4,506,730	−4,539,788	33,058
Surplus/(Deficit) before Transfers	−243,057	3,037	246,094

Tuition, the major revenue source. Let us begin with the remarkable good news: **enrollments are holding steady**, with recent projections of new undergraduate enrollment down only 2.2% from 2019. Difficult economic times send people to higher education, as they have in the past. And when travel is greatly restricted, the state university has a particular advantage in recruiting local students who might have traveled further for college in other times. Financially, good enrollments matter because tuition is the single most important source of revenue for the university: 24% of total revenue came from student tuition and fees in 2018–2019. By comparison, the state's operating appropriation—reductions in which are the principal putative cause cited by management in declaring an emergency—was 10% of revenues.[7]

The university's own projection is that 2020–2021 tuition revenue will be down 5%. The estimated revenue of $1,277.3M is still larger than tuition and fee revenue from 2017–2018 ($1,235.9M)[8]; yet management's guess is probably an underestimate, since we seriously doubt that a 2% drop in undergraduate enrollment would lead to a 5% drop in overall tuition revenue.[9] The proportion of out-of-state students may decline, but these represent a small proportion of all enrollments (13.7% in 2019–2020, according to the university). We also do not have any information about graduate enrollments. All in all, we believe a 2.5% reduction in tuition revenue is a reasonable estimate.

State funding. Michael Gower's June 8 letter to the Coalition of Rutgers Unions cited three major concerns: lost state revenue, lost healthcare revenue, and lost auxiliary revenue (e.g. dining, housing, parking). The news about funding from the State of New Jersey is better than management implies. On June 30, Governor Murphy signed an appropriations bill with an additional $56.2M for Rutgers for the period July 1 to September 30. This amount was not included in management's pessimistic estimate of state appropriations for FY2021; we have added it back in.

Further federal money is also forthcoming to Rutgers via the state. On July 2, the Governor's office announced awards of further CARES stimulus money via the Governor's Emergency Education Relief fund "to support students and faculty for continuity of operations." Rutgers's award is $19.2M. We also include this amount in the revenue from the state.[10] We do not include

7. These figures are derived from the 2019 financial statement, pp. 15, 20, excluding the adjustments to revenues for pension contributions from the state of New Jersey.

8. The figure is from the "Financial Report on the Allocation and Transfer of Resources across Campuses for the Period July 1, 2017 to June 30, 2018."

9. We also remark that, as in past years, tuition revenue for 2020 will exceed management's budgeted amount, at $1,342.1M rather than $1,335M. These surpluses are the source of the growing reserves.

10. To be sure, on June 8 management could not have known the exact amounts the state would add to Rutgers's funding, but the news from the state shows that management was being as pessimistic as possible in order to produce its "emergency."

any further amount of stimulus funding, though it is very likely that more of the overall federal CARES grant to the state of New Jersey will go to Rutgers as part of a planned $300M in higher education relief.[11]

Federal funding. Rutgers received $54.2M in CARES stimulus funds this spring. Management's budget does not apparently represent this money; Federal appropriations are only $7.5M more for FY2020 and are designated at only $7.3M for FY2021. Similarly, the budget lines for "Federal and state student aid" do not obviously reflect the $27.1M of the stimulus funds that were required to be used for student aid, though the university publicly affirms it has used this money: the FY2020 number is within $2M of the amount budgeted last year, and the FY2021 number is likewise greater by only $3M. So far as we can tell, the CARES money is still not in the budget. We have added it into our 2021 estimate.

Healthcare revenue. We do not have an independent estimate of the change in revenue from Rutgers's very large healthcare operations. But we do have the following statement from President Barchi on June 9: "Elective surgeries and procedures are once again being performed at a pace that will approach pre-crisis levels in the next few weeks." We might in fact assume that elective surgeries that were deferred will now largely take place, and that Rutgers is in a position to profit from the urgent medical needs created by the pandemic. Management's budget assumes that FY2021 will see the same healthcare revenues as FY2020 (including the drop from the pandemic lockdown). We see no reason not to follow President Barchi's prediction of "pre-crisis levels." Indeed, we might wonder whether increased use of "telemedecine" services will lead to *more* profits for the university's healthcare operation than ordinary in-person care.

Other revenue. The university budgets an extraordinary drop in auxiliary revenue from FY2020, estimating that these revenues will fall by $87M. Dining and parking services are indeed likely to see reduced use as the campuses remain only partially open. Then again, the university has a major source of new revenue not reflected here, namely the COVID-19 home saliva test developed by RUCDR Infinite Biologics. At its June meeting the BOG approved the sale

11. The relief fund, to cover COVID-related expenses, is described in a May 22 report from the State Treasury.

of this lab to a newly formed private company, Infinity BiologiX, for $44.4M, according to a My Central Jersey report. We might guess the university will continue to profit from future sales of the test as well through patents or revenue sharing agreements, but our estimate includes only the known sales figure, added to the "Other Sources Revenue" category.[12]

Another My Central Jersey report from June 19 quotes the university's spokesperson, Dory Devlin, explaining that Rutgers sold $28M worth of real estate in Edison. We have included this sale in the miscellaneous "Other Sources Revenue" category as well.

Compensation. Management wishes to save money by taking promised raises away. Considering the scale of other items in the university's budget, it is almost surprising to note that the total amount at stake is about $39.7M for all Coalition of Rutgers Union workers.[13] The amount compares to that earned from the RUCDR lab sale or the combination of bond-refinancing and real-estate dealing we have just mentioned. **Something other than fiscal need must drive an administration that prefers to hold back contractually promised raises.** Consider, for example, that the administration's decision to freeze TA/GA pay at 2019 levels will save about $1.1M: this number is a paltry fraction of Rutgers's more than $4.5 billion in overall expenses, but for a graduate student making less than $29,000 a year, the lost raise ($857) is significant. Even the higher salary would have left most TAs earning less than a living wage (about $31,000 in Middlesex County, $34,000 in the New York/Newark metro area).[14] The faculty's share in the raises (roughly $12.2M) would have been distributed through a "merit pay" program which has already required a year's worth of evaluative work. For many other members of the coalition, the raise was a sorely-needed increment to keep up with the cost of living.

Our estimate for the total compensation expense therefore includes these raises, which are the university's legal and moral obligation to its workers.[15]

12. At a bargaining session, the university's attorney, David Cohen, stated that the RUCDR sale revenue was not included in the budget given to the coalition.

13. In developing the workshare program proposal rejected by management, the Coalition calculated the total salary base of all the workers it represents as $1,324.2M. Most contracts provided for 3% raises; the merit pay program for AAUP-AFT faculty has an equivalently sized "pool." The amount at stake is thus 3% of this grand total.

14. Living wage figures are from the MIT Living Wage Calculator: Middlesex County, NYC/Newark/Jersey City.

15. The figure also includes an estimate of the fringe benefits, since the university includes

We also include the cost of another urgent need, rehiring all the laid-off Part-Time Lecturers (about $3.5M), as well as the union's proposal of a $1.5M fund for PTLs to support the significant extra work of mass-converting to online instruction. Once again, the size of the "savings" are dwarfed by their human costs: not only to the hundreds of PTLs left without work, but to the university's teaching mission, which no longer benefits from the experience of these teachers, many of whom have taught for Rutgers for years.[16]

The conclusion is straightforward. **Paying fair wages is no emergency at all. The fiscal situation is simply a pretext for management's attempt to undermine the unions and their contracts.**

Debt service. The nature of the university's debt is opaque. However, the same June 19 report of Dory Devlin's remarks quoted her as saying the university had refinanced bonds for a projected $30M in savings on debt payments. We have accordingly deducted this amount from the budgeted debt service expense.

Operating expenses. As we remarked above, the budget management submitted as evidence of fiscal emergency is not transparent about operating expenses. We are baffled by the budget claim that the FY2020 operating expenses were essentially equal to the originally budgeted amount after four months of campus closure. By the same token, we are skeptical about management's FY2021 budget figure for "all other operating expenses"; this figure is lower than the FY2020 figure by $37.9M, but we think management may be understating the potential savings from operating expenses.

The one-page budget approved by the Board of Governors that was released on July 7 subdivides operating expenses into several more categories than the document sent to the coalition a month earlier with the emergency declaration. Since the total operating-expense figures in the two budgets are the same, however, the question is: **why did the university lump all its operating expenses together when it declared the emergency, since it apparently already had the information to disaggregate them?**

The disaggregated expenses seem to take little account of the consequences of continuing to limit on-campus operations. Travel is budgeted at $39.8M,

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these in its expenses; much of the fringe benefits for CRU workers are in fact paid by the state, so the fringe-benefit figure does not much alter the bottom line.

16. We also do not include the savings from the proposed agreement between Rutgers and AFSCME locals 888 and 1761, as the specifics are not available at present.

85% of the originally budgeted FY2020 amount. But a university travel ban remains in effect, and the June 18 *Returning to Rutgers* guidebook only says that "employee travel policies" will be revised in light of the pandemic (p. 11). Restrictive federal policy will drastically curtail international travel regardless of Rutgers's decisions, and domestic travel is likely to remain greatly reduced as new virus surges continue. It seems likely that these conditions will reduce university travel expenses far more than 15%.

Similarly, only-partially open campuses (with furloughed maintenance staff) will naturally incur significantly less expense for utilities and maintenance. But management's FY2021 budget includes an *increased* "Plant Operation and Maintenance" expense ($140.9M as against $127.3M originally budgeted for FY2020). Again, we expect expenses for supplies to be reduced (how many paper copies will be made during a largely-remote fall semester?); but management's budget projects an increase in this expense (($245.7M as against $239.4M for FY2020). The only significantly reduced operating-expense category from FY2020 is a black box, the "Other Operating Expense" line.

Our estimated bottom line retains management's FY2021 "All Other Operating Expense" figure, on the principle of charity, but the belated breakdown in the July 7 budget does not do enough to make that large figure plausible. The university will likely have significant further reductions in expenses as the pandemic continues to limit operations. **To substantiate their emergency claims, management should be obligated to produce significantly more budget detail about operating expenses than it has in past years.**

ADDRESS MISPLACED PRIORITIES

Perhaps it will turn out that Rutgers's financial situation becomes worse than it currently is: Rutgers is of course not entirely insulated from the national and global crisis. As we have emphasized, the university's reserves exist to meet newly urgent needs. But should these resources not suffice, **the next step should not be harming the faculty, graduate students, and staff who make the university work**. The university can make use of its considerable capacity to borrow at low interest, and the university can—as its reported real-estate sale demonstrates—sell off assets that are not serving its core mission. And if these fiscal options are not enough, then it is time for a hard look at **expenses that do not directly serve the university's core mission, like management's own bloat and the money-losing athletics program.** We have detailed these issues in our previous report; the implications for the putative "fiscal emergency" are as follows:

Management bloat. Rutgers reported 312 senior managers earning a total of \$65.3M in 2018–2019, up from 292 earning \$57.4M only two years before. There are at least 37 senior managers and coaches earning over \$350,000 yearly. Beyond management's own salary expenses, the university reports spending \$285.7M on "General administration and institutional support" overall. President Holloway recently announced he was voluntarily taking a 10% pay cut for his first year; if this is an earnest move towards bringing management expenses back to more reasonable levels across the board, we welcome it.

Athletics. The expense of the athletic program is hidden from scrutiny in management's one-page FY2021 budget. In each of the past three years the program has run deficits in excess of \$40M; in a pandemic year, when we can hardly expect many tickets to be sold, the deficit is likely to be even larger.[17] Ultimately, the university's general operating expenses include these deficits. It is quite likely the coming year's subsidy to the program will exceed the total amount in raises management is trying to hold back. **But management would rather nobody consider whether it is trying to balance the budget of the mostly-dormant athletics program on the backs of faculty and staff.**

SPENDING FOR THE RUTGERS WE NEED

Though our own projection suggests management will be able to balance its budget while meeting its obligations to workers in the coming fiscal year, it is not our aim to help management do its fiscal due diligence. Nor do we want to suggest that all is well; **though there is no "fiscal emergency," there is an emergency at Rutgers: management overreach, needless austerity, misplaced priorities, university-wide privatization.** Our unions have long advocated for significantly increased investment in Rutgers's core missions of instruction and research, including tuition reductions; better working conditions for all faculty, part-time and full-time, non-tenure-track and tenure-track; increased tenure-track hiring; better funding packages for graduate students through all their years of study; major funding for equity and diversity across the faculty and

17. The deficit figure is derived from a *USA Today* summary of reports to the NCCA: https://sports.usatoday.com/ncaa/finances.

the student body; and more. The current economic downturn gives all the more reason for these investments, and we suggest Rutgers should continue to seek to make them. Just what our priorities should be is a matter for all of us to decide collectively. We must not allow that decision-making process to be short-circuited by a false "emergency," justified only by exaggerations and wild guesses, whose real aim is to undermine workers.

AAUP–AFT University Budget and Priorities Committee
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NOTE

Uncited figures are calculations based on Coalition of Rutgers Unions records and detailed budget (2017) and salary (2019) information obtained through OPRA requests.