

May 5, 2005

## **Issues of Fiscal and Academic Management At George Washington University**

### **The Ad Hoc Committee of Concerned Faculty (Membership Appended)**

#### **Background**

Recent incidents, including a surprise announcement that the Administration may freeze faculty and staff salaries for the second time in two years, raise obvious questions of process, highlighting the Administration's isolation from faculty, staff, and students, and its casual willingness to guide the University unilaterally. The incident also raises questions about the financial health of the University. The core business of the University, the education of students and the provision of research, seemed to be prospering. Is it possible that the University is so financially strained in what otherwise appears to be a period of growth that it must undercut its workforce? It was with that goal in mind that an ad hoc committee of the faculty decided to examine the factors that might account for the apparent financial predicament.

We limit our focus to financial decisions and outcomes, and not to process. The appropriateness of unilateral decision-making is an issue we leave to the full community. It is important to note however that process and performance are often intertwined. Unilateral decision-making by the Administration has led to serious problems of transparency and accountability. To anticipate later findings, limited success in fund raising, unrestrained spending on construction, and heavy reliance on debt, often with variable rate instruments, have had and will continue to have serious consequences for the University's budget, but the University community is not regularly informed about these consequences. The same lack of openness leads to a concern about accountability. For example, it appears that the entire University community will bear the financial burden of such costly failures as the College of Professional Studies, GW Solutions, and the National Crash Analysis Center, but no member of the Administration has been identified as being responsible for these failures.

For lack of time and resources, we also do not explore a variety of odd management details that emerged in the course of our study. For example that new GW dormitory construction has a capital cost of approximately \$90,000 per bed, double the national average, while funds for academic activities are strained indicates to us a surprising planning model of the typical GW student's

preferences. Instead we limit our analysis to a broad picture of the current state of the University.

We have two objectives in reporting our findings to the GW community:

- (1) We believe that the evidence available to us suggests that current Administration policies are unwise, and require serious modification.
- (2) We believe that the Faculty is fully capable of working with the Administration and the Trustees to develop plans for the University's future that balance competing needs. These needs include regular and competitive increases in salary to Faculty and Staff and expansion of faculty and staff size as well as "bricks and mortar." The latter cannot become a priority to the exclusion of other investments necessary for the University to grow in a sustainable manner.

## Summary of Findings

George Washington University has undergone large, positive changes since 1988. Undergraduate applications have grown substantially and the physical infrastructure of the university has undergone a remarkable transformation. Many outside observers, and perhaps even some members of the GWU community, think that the construction boom in Foggy Bottom is a reflection of the financial prosperity of the University. There are important elements of truth in this story, but it is an incomplete one.

### ***The core business of the University appears to be doing well:***

- The University is educating many more students at much higher tuition charges than ever in its history.
- Externally funded research has grown rapidly in recent years.

### ***However, these same positives have set in play a series of other management and financial decisions that, if not handled properly, threaten the University's future:***

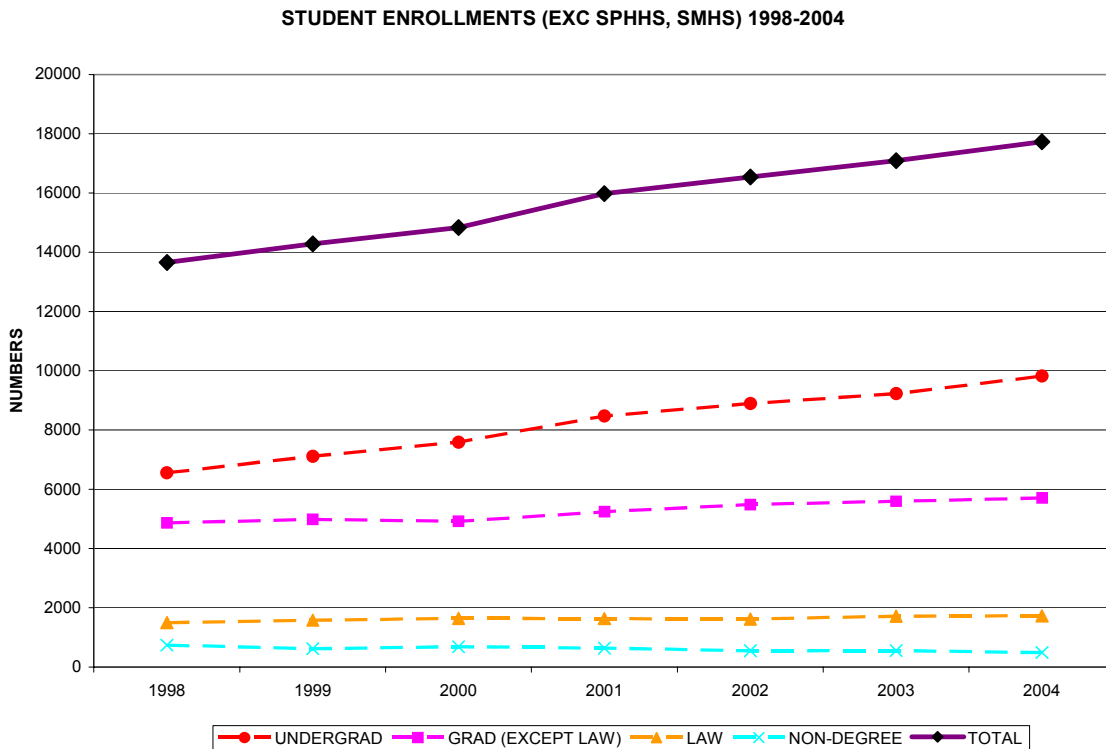
- The Administration has focused on expanding undergraduate enrollments to approximately 10,000 students, an objective which is largely complete.
- The Administration has lagged behind its peers in raising the gifts and endowments funds sufficient to pay for expanded academic facilities.
- A freeze on permanent faculty positions to control costs has led to a sharp increase in the ratio of students to full-time faculty. The combination of increased student population with a fixed number of full-time faculty has resulted in crowded classrooms and closed out classes. This undercuts the undergraduate experience, leads to dissatisfied alumni, and further undermines the ability of the university to raise gifts and endowment funds in the future.
- A freeze on faculty and staff pay has undercut university morale, weakening the University's ability to attract and retain quality faculty directly undermining the academic environment.
- The university also has taken on large amounts of new debt to cover the shortfall in fund-raising. Moreover, by relying on short-term financing of much of this debt, the University has been made highly vulnerable to interest rate increases, a risk compounded by its decision to absorb all inflation risk of entering students through the guaranteed tuition program.

In short, the rapid expansion of educational and research services when combined with short-falls in external fundraising has led to a host of problems facing the university, threatening its long run reputation as a high quality institution of higher learning.

# The Report

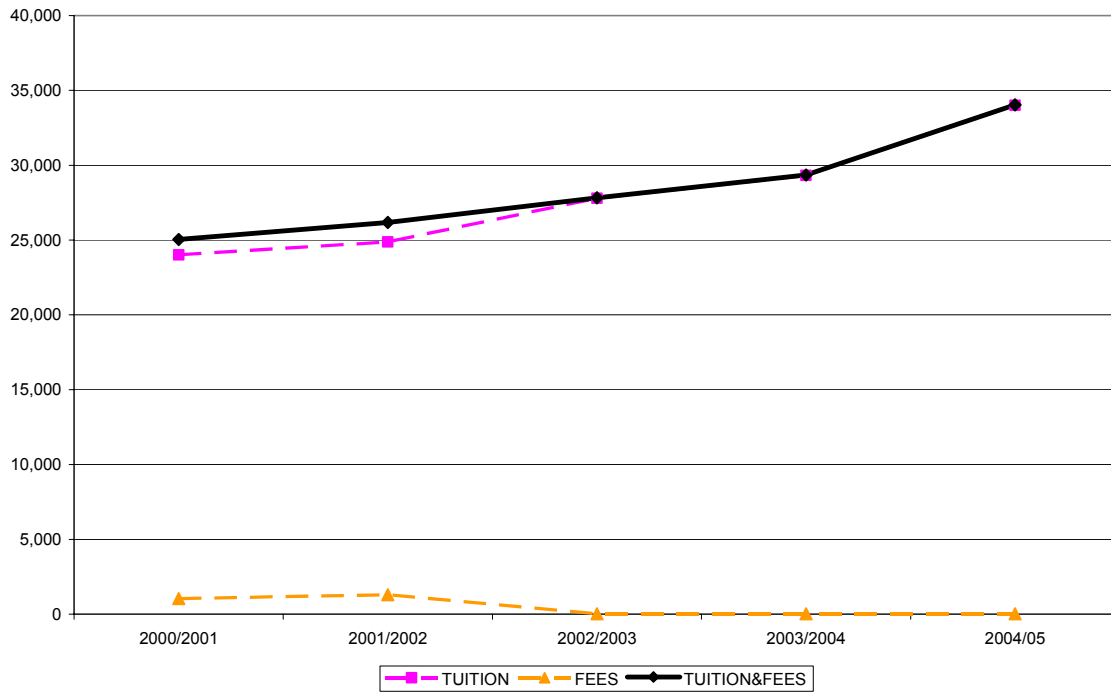
## Revenues from Students and from Externally Funded Researchers are up Sharply

The most obvious Administration activity in the last five years, to current students, faculty, staff and the Foggy Bottom community, has been the addition of almost 4,000 students. The picture is striking. From FY 1999 to FY 2004, undergraduate enrollment rose 40%, graduate enrollment rose 15%:



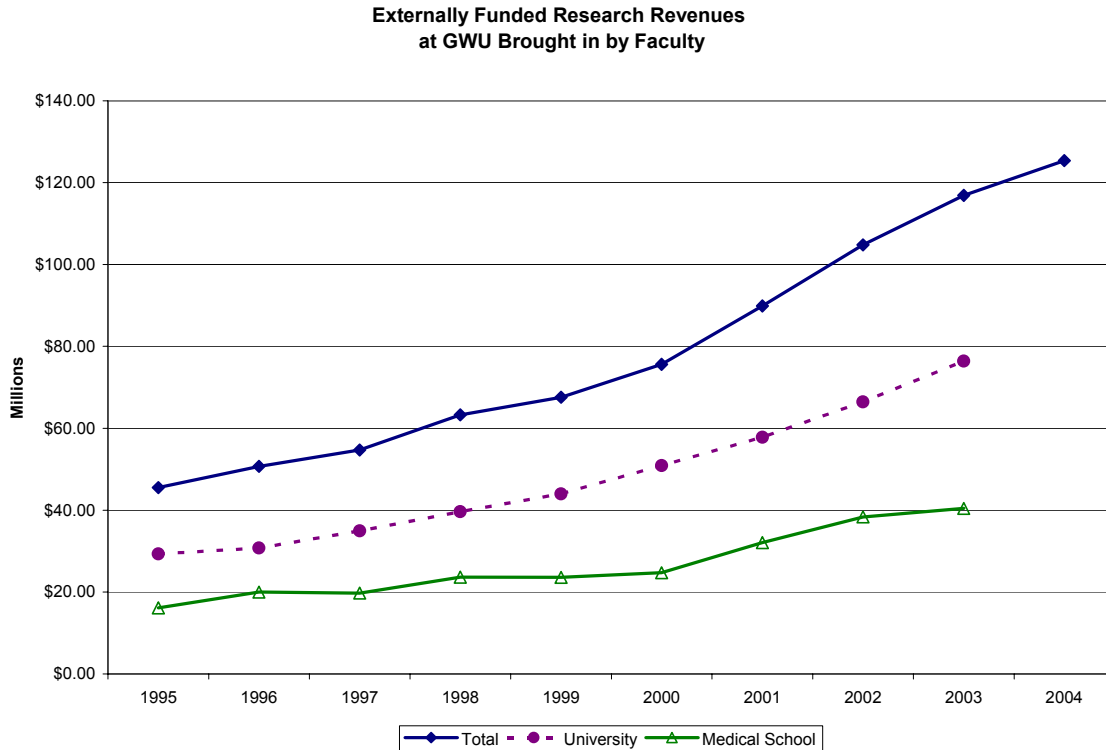
The immediate financial impact of this growth is positive, especially if the faculty, staff, and facilities are not expanded to serve this larger number of students. Indeed the business basics of the University are excellent. It is selling its product to a growing number of students at ever increasing prices; the total of tuition and fees charged to new students has increased by 36 percent between 2000-1 and 2004-5 to \$34,030.

TUITION, FEES, AND TUITION&FEES, NEW UNDERGRADUATE 2000-2005



Remarkably the quality of GW students has not decreased during this expansion period, and the undergraduate program continues to be ranked in the low 50s by at least one highly quoted service.

Externally funded research has been similarly successful. The growth path of externally funded research is as follows:



Were it not for the need to serve these additional student and research needs, the University's finances would not be strained. Alas that is not possible—revenue is only one half of the business equation--and the need to support these large increases has severely strained existing GW facilities and the capital budget. Gift-giving from alumni and interested others would normally help cushion these short-run difficulties, but that has not happened at GW.

## Administration's Development Efforts Lag behind Peers

The Administration has not been able to engage potential donors in its “size vision.” This is evident in both the volume of gifts and the growth in the University’s endowment in this period. The table below reports gifts and gifts as a percentage of revenue for GWU and seven of its competitors in FY 02.

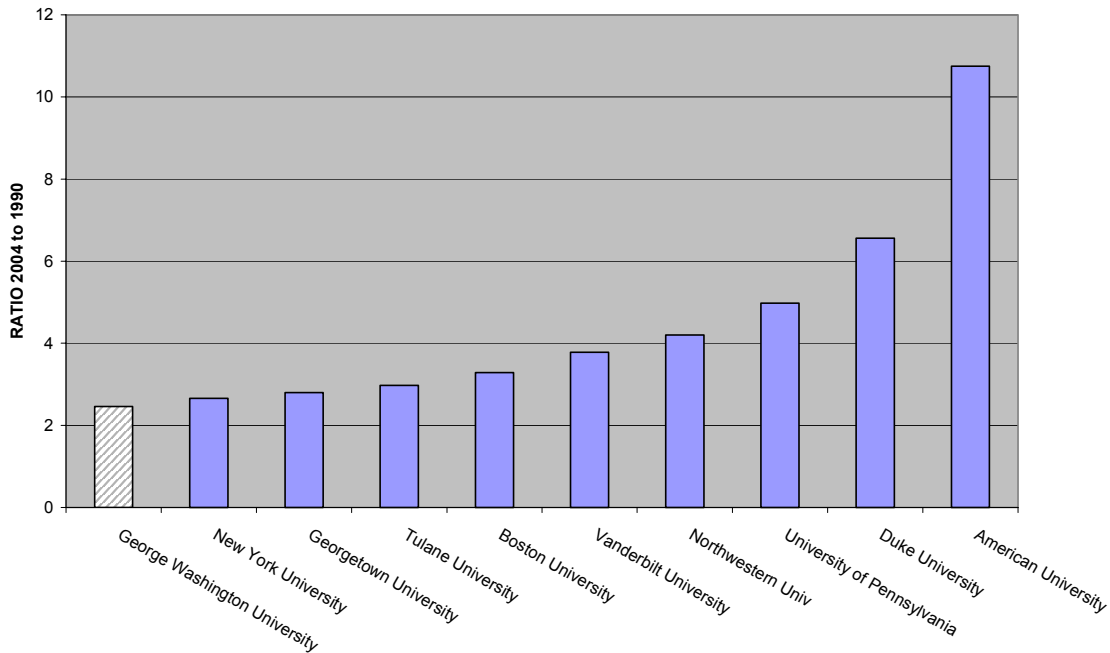
### Gifts, In Thousands of Dollars and as Percentage of Total Revenue, “Market Basket” Schools FY 2002 <sup>1</sup>

University	Gifts, FY 02	Total revenue, FY 02	Gifts as a % of revenue
Northwestern University	\$158,055	\$701,855	22.5%
Vanderbilt University	\$207,987	\$1,507,059	13.8%
Tulane University	\$59,220	\$563,044	10.5%
Duke University	\$254,978	\$2,247,022	11.3%
New York University	\$282,561	\$1,892,049	14.9%
University of Pennsylvania	\$317,575	\$3,464,081	9.2%
Boston University	\$71,778	\$904,702	7.9%
<b>George Washington U.</b>	<b>\$22,702</b>	<b>\$545,844</b>	<b>4.2%</b>
Average	\$171,857	\$1,478,207	11.6%

<sup>1</sup> Total revenue includes revenue generated by academic operations and the endowment as well as auxiliary enterprises. Internal data supplied by VP Katz to Faculty Senate.

The growth in a university's endowment is a function of a variety of factors, including most obviously the fund-raising skills of its president, the business acumen of the fund manager, and luck. As the record of gifts would suggest, GW must depend on business acumen and luck, and apparently neither has been especially good. A graph of the rate of expansion of these same market basket schools plus two local competitors, Georgetown and American, reveals the sluggish fund-raising performance under the current administration.

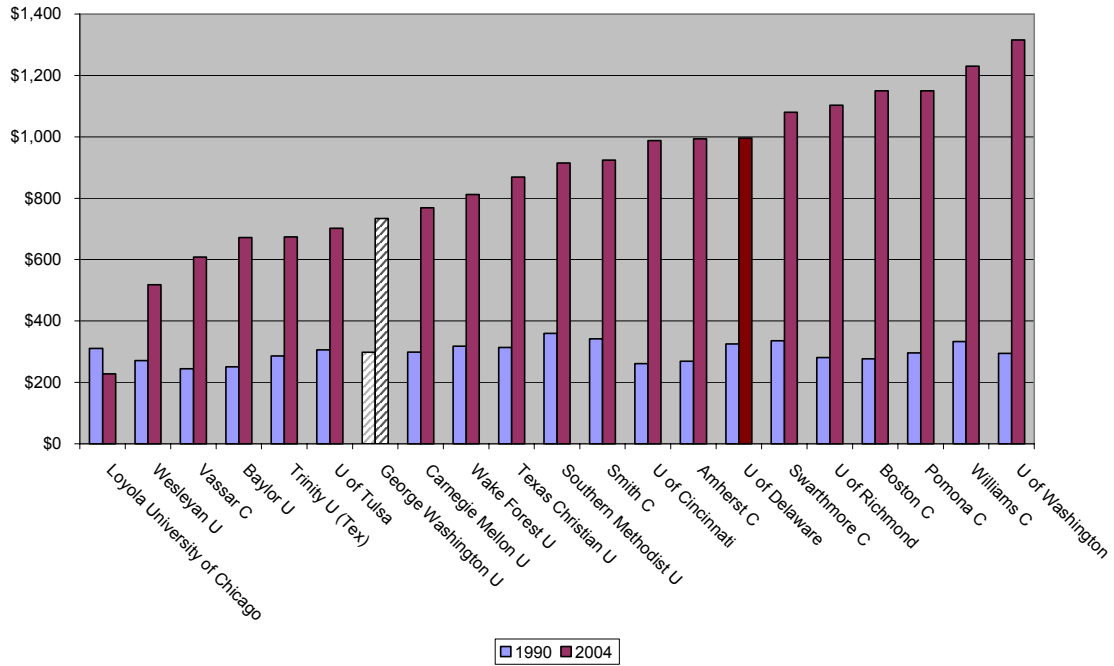
**RATIO OF ENDOWMENT IN 2004 TO ENDOWMENT IN 1990  
GWU AND MARKET BASKET SCHOOLS**



NOTE: The remarkable growth rate for American University reflects its low initial endowment as well as the considerable fundraising success of its President and Administration; in 1990 the endowment was only \$20 M, growing to \$215 M by 2004. In the same period, GW's endowment grew from \$298 M to \$734 M.

A similar story emerges if one looks at endowment growth between 1990 and 2004 among schools *with similar endowments in 1990*. From the Carnegie figures on endowments in 1990, the ten schools immediately below GW and the ten immediately above are graphed. The schools are then ordered by final endowment values (2004). Although not a catastrophic performer, GW is comfortably settled toward the back of the class—a large opportunity missed.

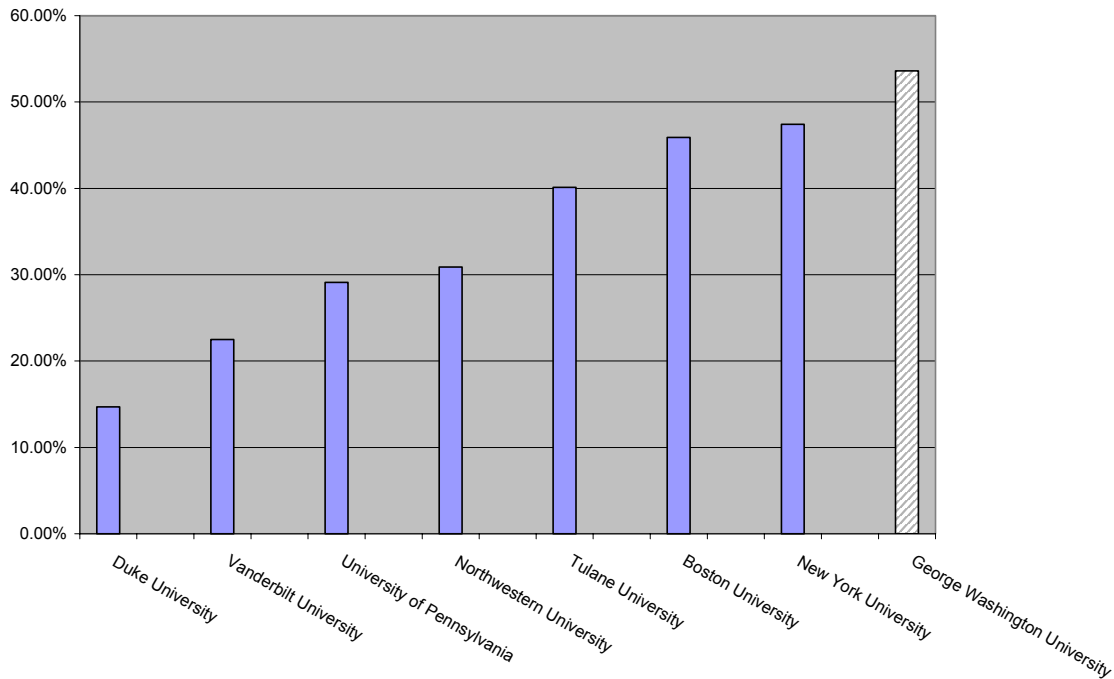
UNIVERSITY ENDOWMENTS 1990-2004 (IN THOUSANDS OF DOLLARS),  
GW AND SCHOOLS TEN ABOVE AND TEN BELOW GWU IN 1990 ENDOWMENTS



- **GWU's high tuition dependency poses short-run and long-run risks**

The low gift/revenue ratio and modest endowment ensure that GWU is extremely tuition dependent, making GWU poorly diversified in terms of revenue sources. Certainly tuition accounts for a larger share of revenue than schools in its market basket.

TUITION DEPENDENCY RATIO OF GW AND MARKET BASKET SCHOOLS, FY2003



<sup>1</sup> Net tuition and fee revenue as a percentage of total operating revenue. Total includes research but excludes health care revenue and government appropriations.

Reducing this dependence is important to the long-run health of the University. An unexpected shortfall in tuition revenue or an unexpected increase in costs, especially if, as now, the University is carrying high levels of debt.

## FINANCING EXPANSION IN THE ABSENCE OF DONOR INTEREST

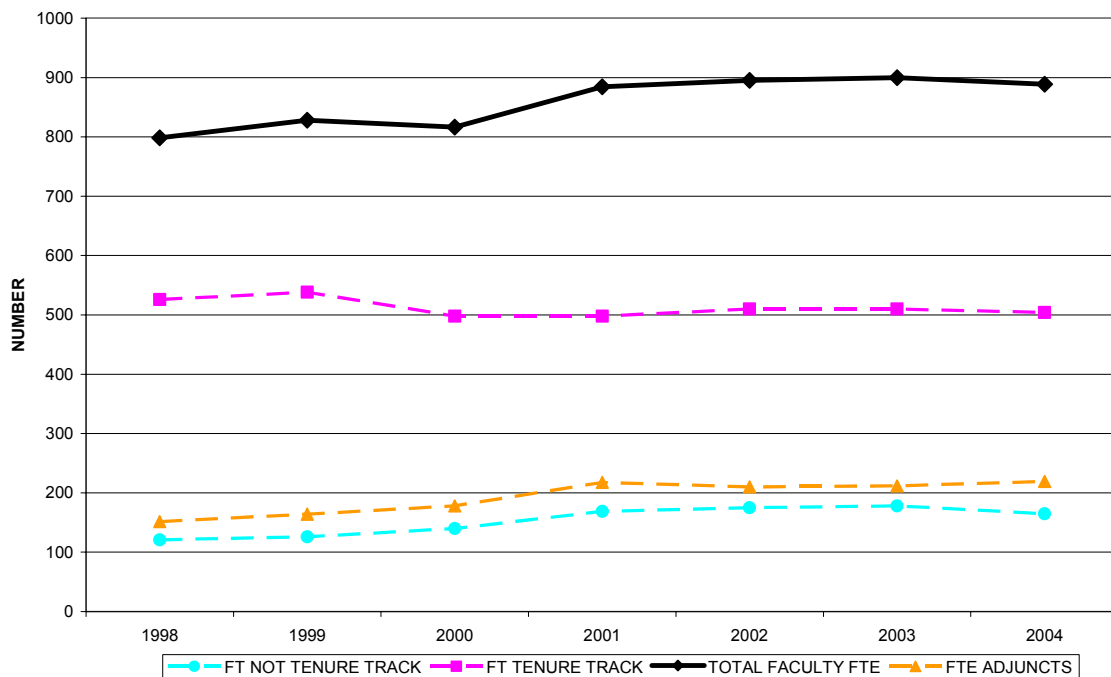
In the absence of successful fundraising, the Administration has been forced to finance its expansion ambitions through a combination of current operating “surpluses” and increased debt. Operating surpluses are created in a number of ways:

### Limitations on Resources Devoted to Students

- **The Number of Faculty Has Grown Slowly, Tenure-Track Faculty not at all**

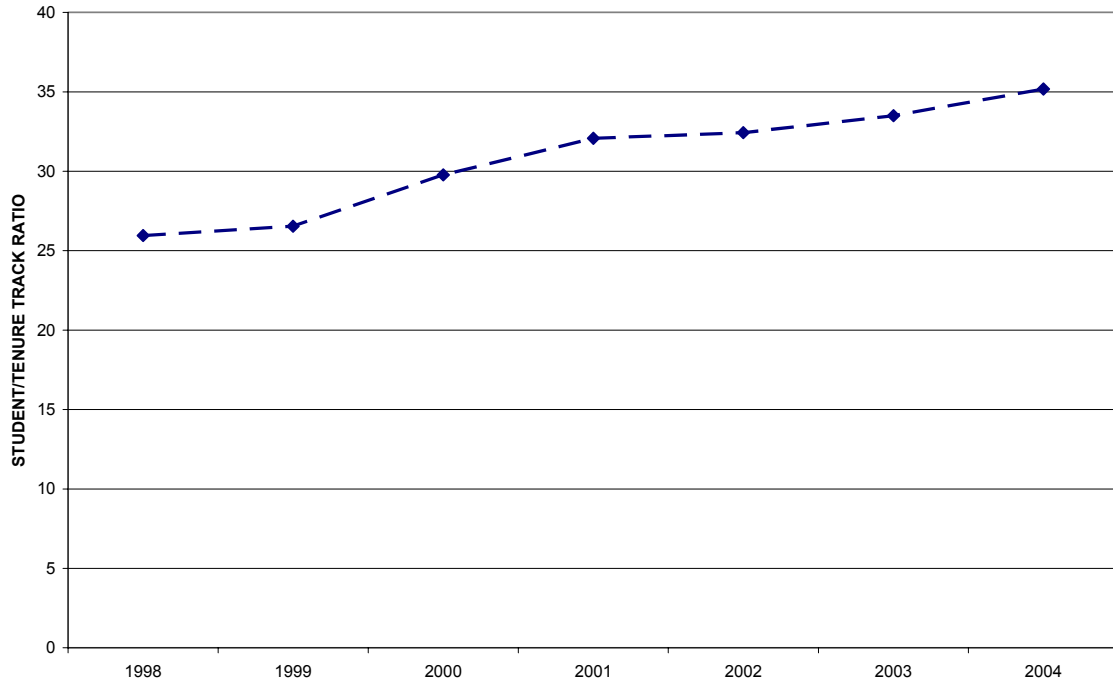
Faculty and staff have increased much more slowly than student enrollments. Between 1998 and 2004, full-time equivalent faculty grew by 17 percent, with a sharp shift toward adjunct faculty. Regular tenure track faculty *fell* by 4 percent while non-tenure track faculty rose by 36 percent and FTE adjunct faculty grew by 45 percent. [These numbers exclude SPHHS and SMHS faculty for data availability reasons.]

FACULTY FTE, IN TOTAL AND BY TYPE, 1998-2004



The large increase in students and the modest increase in teaching support have obvious implications for the ratio of students to faculty at GW. The problem is sufficiently important to warrant illustration. Below is the trend in the ratio of students to tenure track faculty, the core of student educational experiences.

STUDENT/TENURE TRACK FACULTY RATIO GEORGE WASHINGTON UNIVERSITY 1998-2004

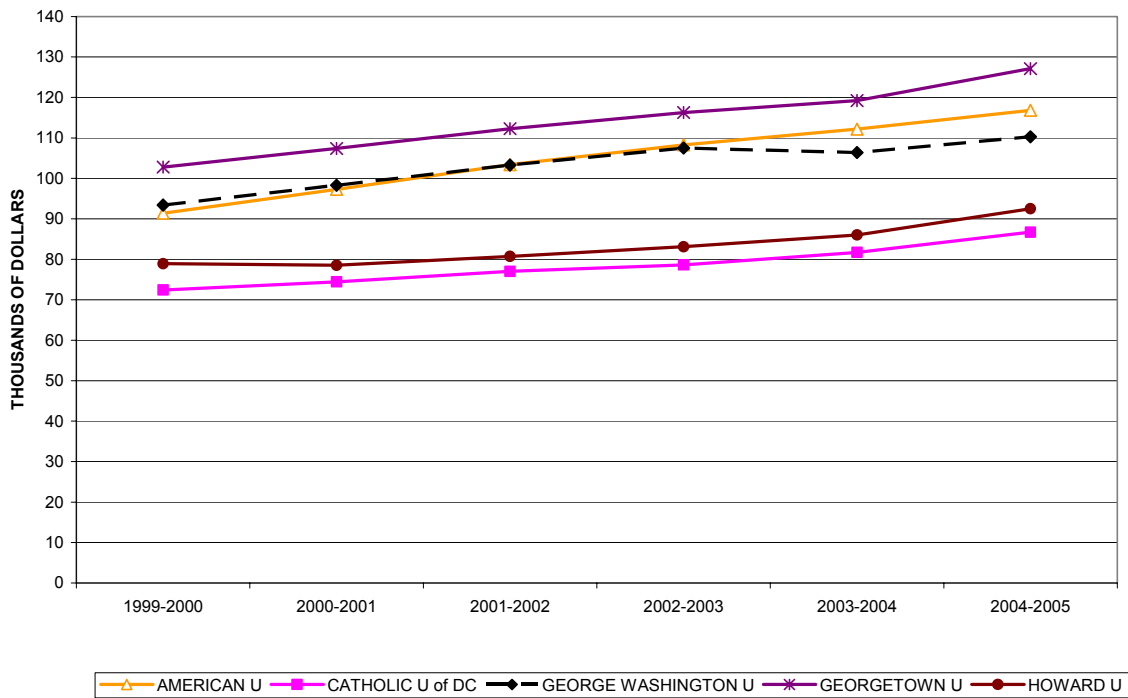


- **Faculty Salaries Lag Competitors, Undermining Long-Run Faculty Quality**

The Administration has also systematically reduced resources targeted on the quality of the faculty with whom the students interact. To take one benchmark, salaries of senior professors have fallen significantly below those of competitors. To take two examples, GWU senior professor salaries have fallen behind those at American University and further behind those at Georgetown University.

Consider full professors, whose composition stays relatively constant over time. In FY 1999, GWU full professor salaries were slightly above those of American University's with Georgetown University's about 10% higher in FY 1999. By FY 2005, AU salaries exceeded GWU's by 7%, and GU was 15% above GWU. A simple reading of recent faculty salary trends is that GW has given up its ambition of competing in quality with these two schools.

**AVERAGE SALARIES OF FULL PROFESSORS, CATEGORY I DC UNIVERSITIES 1999-2004**

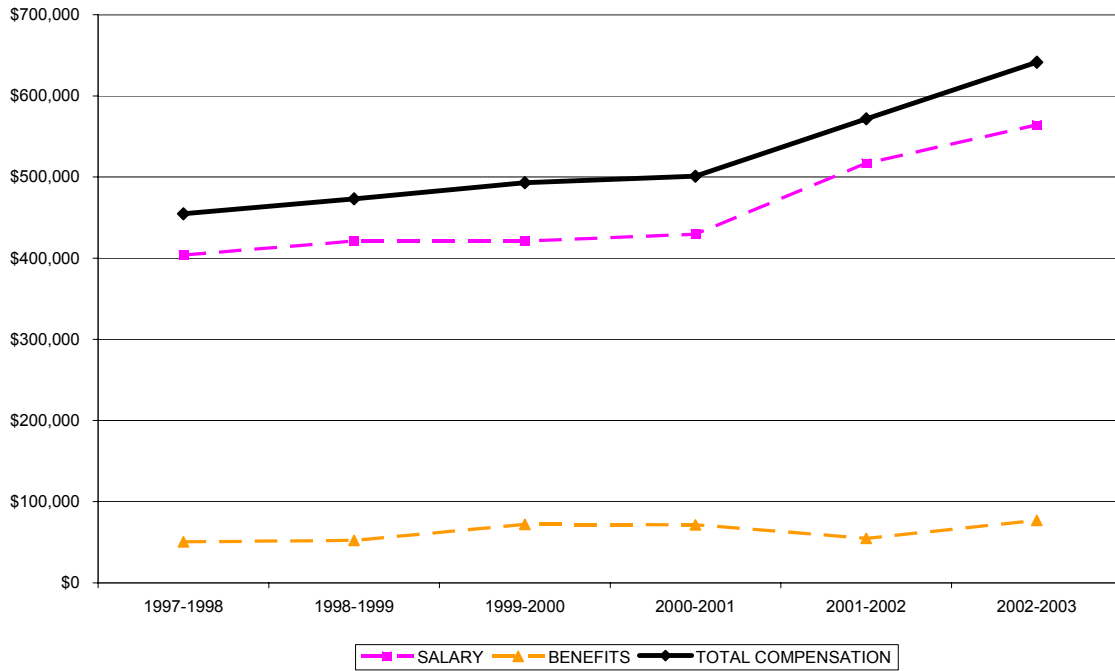


The impact on faculty quality is predictable. Attracting the best new tenure track faculty will be increasingly difficult if they can expect lower than market wages as they progress professionally. Retaining tenured faculty will also become increasingly difficult, which will cost GWU some of its most productive scholars.

Although we do not report the data here, staff salaries and long run quality have been given a similar *priority* at GW in the expansion period.

Strikingly, the faculty and staff salary austerity has not extended to the upper levels of the administration. Although data are available only with a considerable lag, President Stephen J. Trachtenberg’s total compensation of \$641,364 in FY2003 was higher than that received by the presidents of Georgetown (\$587,922) and AU (\$614,360), and grew handsomely, by 41 percent between 1997-8 and 2002-3. The salaries others in the “top five” can be found on the Faculty Senate website.

**STEPHEN J. TRACHTENBERG, SALARY, BENEFITS, AND TOTAL COMPENSATION  
1997-2003 Chronicle of Higher Education Executive Compensation Survey**



## **Limited Support for Externally Funded Researchers**

Sponsored research brings tremendous scientific, academic and financial benefits to the University, but the administration has failed to tap the full potential of this resource. A critical problem is that along with numerous benefits, sponsored research carries with it significant costs and obligations. The University charges most sponsors Facilities and Administrative (F&A) costs to cover the reasonable expenses associated with buildings, equipment, utilities, and administration. A substantial portion of the administrative expenses are borne by researchers and Departments, but the University does not adequately reimburse researchers and Departments for these expenses (the University had a Research Enhancement Incentive Award program that reimbursed units for a fraction of these expenses; however, poor planning and inadequate budgeting led the University to dramatically cut back this program).

The reimbursement is intended to support the research infrastructure and environment for those faculty members, departments, and schools actively engaged in external research. This is money brought into the university by faculty initiative and academic entrepreneurship. The lack of reimbursement is counter-productive in two ways. First, by increasing the costs of writing and carrying out grants, it discourages many faculty members from seeking sponsored research. Unnecessary University procedures and red-tape magnify this effect. Second, for the faculty who take the initiative to obtain external funding, the policy provides no incentive to recover F&A costs. This may explain why, despite stated F&A rates that run as high as 52 percent for on-campus research, the University has been recovering less than 15 percent. Other decisions by the administration, such as the one last year to sequester salary savings from sponsored research and the subsequent decision to return salary savings but not allow them to be carried over across budget years, further discourage faculty from seeking sponsored research.

- **In Sum, Operating Revenues have been used to Finance Capital Projects and Debt Service to the Detriment of the Teaching and Research Environments**

By limiting expenditures on teaching and research activities, the Administration has shifted large sums from the operating budget to finance the building component of its size vision. Transfers from the operating budget to fund capital projects and debt service have increased greatly over the past 5 years. In FY 1999, total operating revenue was approximately equal to total operating cost. In the proposed FY 2005 budget, total operating revenue exceeds operating expense by \$50 M. Note that, over this period, there has been no change in operating support provided by the endowment (equal to approximately \$25 M)

## **The University's Debt Burden Has Increased Sharply**

There are limits to how much of the financing of expansion can be shifted to current students and their parents, to faculty and staff, and to researchers with outside funding. Each of these groups operates in competitive markets. This makes the University seriously dependent on debt finance.

- **Substantial Capital Spending has greatly increased Debt.**

Total debt outstanding increased from \$310 M in FY 1999 to an estimated \$796 M for FY 2005, and increase of \$486 M, or 57 percent in six years. This increase would be considerably larger were it not for the substantial transfers from the operating budget noted above.

### **The University has taken a Speculative Position on Debt Finance**

Pressed to generate funds, the Administration has taken speculative positions when financing its debt. Specifically it is financing long term investment in real estate and construction with low cost, short-term debt

Approximately 58% of GWU's debt is variable rate, exposing the institution on interest rate risk. The University self-insures by holding a reserve fund should short term rates rise, but this only provides liquidity—losses are not recoverable. If the yield curve inverts, as it did in 1990 and 1999, short term interest rates such as LIBOR could again exceed 7%, more than exhausting the reserve rate that GWU has established. It is not clear what provisions GWU has made for this contingency but, when and if it happens, it will be too late to regret having failed to lock in long term financing at 4%, when the Senate Fiscal Planning and Budget Committee first alerted the Administration to the riskiness of its debt policies.

## Conclusion

The Administration has launched the University into an ambitious expansion, financed largely through a combination of debt, higher student charges and degraded student and researcher services. Student/faculty and student/staff ratios are sharply higher, academic facilities strained, and faculty and staff compensation (and presumably quality) neglected. Because of the Administration's inability to raise funds to support creation of a *larger and higher quality* university, it appears to have concentrated on size. Although many faculty and staff are quite willing to work with the Administration to improve the quality of the University, whatever its size, few support this more limited goal.

Like any business, GW has (i) a "best" long-run size, and (ii) a "best" rate of adjustment to that ideal size. Without deeper study, it is impossible to know whether 10,000 undergraduate is ideal under current circumstances. What would the University look like twenty years from now if 9,000 students or 11,000 were targeted? Because the Administration has not shared its planning data and calculations with the Faculty, it is impossible to know what model, if any, led to the current target.

The evidence is much clearer on the adjustment question: the University is pursuing a pattern of expansion that may itself be fiscally unsound and which certainly has negative implications for the teaching and research environment. The implicit quality commitment to students and their parents and to external funders of research has not been satisfactorily met. The seeds of quality decline among faculty and staff have been planted. Local community stress has been substantial, and has led to an unproductive, and unprofitable, political backlash. We hope that this brief report provides a better appreciation of the current situation and leads to fruitful, *community-wide* discussions of these crucial issues.

## **The Ad Hoc Committee of Concerned Faculty**

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