Wright State University Board of Trustees' Rebuttal
to the Faculty Petition to Conduct a Vote of Confidence / No Confidence

March 8, 2019

On February 21, 2019 the Wright State University Board of Trustees was informed by Faculty President Travis Doom that the Faculty Senate Executive Committee scheduled a vote of confidence / no confidence in the Board. Pursuant to the Faculty Senate process, the Board of Trustees may provide a written rebuttal to assertions made by the initiating petition. The petition was signed by 91 of the approximately 750 fully-affiliated Wright State University faculty members.

Before addressing specific assertions included in the petition, it is important to provide context for the difficult decisions of the Board of Trustees since 2015 to put Wright State University on the road to financial recovery.

Beginning in 2015 a series of events occurred that alerted the Board of Trustees that the university was spending down reserves at a precipitous rate and was in a financial crisis. Overspending was found across the university, even among academic units. For example, faculty, administrators and staff had continued to be hired even though enrollments had continued to decline, and long term financial commitments were made without budgeted recurring funds. Nearly half of the $130 million spent from reserves can be attributed to hiring personnel without appropriate long-term funding in place.

Over the next two years the Board worked with the former administration to control spending and to more accurately project revenues. However, revenue shortfalls related in significant part to declining enrollments exacerbated an already untenable situation. Fiscal Year 17 ended with a $25 million deficit, which was the sixth consecutive year ending with a deficit.

The Board also became aware of poor or non-transparent practices in areas of governance and oversight that put the university at risk, and subsequently set in place a number of checks and balances to correct such issues going forward.

1. Upon being notified in April of 2015 by the Ohio Attorney General of a federal investigation into Wright State regarding H1-B visas, the Board immediately looked into the allegations, cooperated fully, directed the removal of all personnel associated with H1-B visa issues, outsourced H1-B visa processing, and engaged Plante Moran to determine what else, if anything, the Board was not aware of but should change regarding controls. The results of the Plante Moran report helped the Board determine how best to move forward over the next few years with more stringent controls in place to ensure a positive future for Wright State University.

2. The Board set forth a requirement for the university to establish an Office of University Compliance and hired its first director in November 2016. University Compliance operates under the leadership of the director, and partners with the Compliance Council and the newly constituted Board Governance and Compliance Committee, to reach and sustain an infrastructure to support all elements necessary for a strong compliance program including:
    a. Coordinating oversight and monitoring of compliance areas
    b. Ensuring consistent university-wide adherence to compliance policies and standards
    c. Identifying compliance priorities and risks
    d. Identifying compliance resources that are needed and resources that can be shared across compliance areas, and

e. Providing data as required for various reports and presentations

Currently, the Office of University Compliance does not perform the responsibilities of the various substantive compliance areas, and compliance activities are performed in their existing reporting structures. The Office's role is to provide central coordination of these efforts, as well as independent oversight and assessment of university-wide compliance.

3. In February of 2015 the Board became aware of a challenging financial situation at the university that had not been fully disclosed by the former Hopkins' administration. Prior to that time, finances were reviewed with the Board on a yearly basis in a June budget workshop, and the former president and former chief financial officer routinely reported that the university was doing well. However, several factors emerged that called into question a report of solid financial footing which soon led the Board to change established protocol and implement more substantial oversight.
    a. The budget process in place before 2016 was inadequate, did not plan for all known expenses, did not accurately project revenues, and was not sufficient as a financial planning tool. Fiscal Years 16 and 17 brought planned spending reductions that were not adequate or fully realized. Both fiscal years ended in deficits.
    b. In March of 2017 former president Hopkins stepped down and interim president McCray was hired to bridge the leadership gap until president Schrader arrived in July. Immediately, the Board requested and received realistic, balanced budgets for FY 18 and FY 19. A number of unknown and unbudgeted expenses were discovered in FY 18 based on the approved June 2017 budget, and as a result the FY 19 budget is the first one where known expenses are accurately reflected. Even so, FY 18 was the first year where a budget surplus was realized since 2011 and where funds could finally be added to build up the depleted reserves. It was also a landmark year in that the university did not enter state fiscal watch as had been predicted. This was due in large part to a focus on financial sustainability by the Board and the Schrader administration.
    c. In June of 2017 the Board adopted a new financial governance policy which was vetted by Faculty Senate. The new policy sets financial targets, requires much more detailed reporting, and sets governance guidelines to prevent excessive use of reserves for unfunded projects. For example, the policy allows no new construction projects without 100 percent of the funding in place unless approved by the Board. One reason for the rapid decline in university reserves was the construction of two new buildings for which much of the funding was not in place, which is a situation that should not happen under current practice.
    d. Financial reports were provided to the Board of Trustees monthly throughout FY 18 and very recently the report frequency was changed to bi-monthly, as compared to quarterly before FY 18. The administration has provided appropriate monthly updates on revenues and expenses. This may have been the most significant and important improvement in oversight.
    e. The Board also adopted a more conservative investment policy in October of 2016, noting that investment losses were not acceptable. The university's investments should focus on capital preservation, not necessarily return, noting that investment losses were another reason for the spend down in reserves. In noting investment performance over the last two years as a result of Board actions, while income is lower, there have been few, if any, market losses. Eventually the Board would like to divest of its alternative investments but cannot yet do so due to the illiquid nature of these investments.
    f. Again, and perhaps most important, under the Board's and the current Schrader administration's leadership the university produced its first operating surplus since 2011

and the first increase in reserves since at least the same period of time. The university is also on track to produce a second year of operating surplus and still higher cash balances.

4. The Board adopted a policy on affiliated entities in October of 2016, has closed many previously affiliated entities, and is demanding transparency, accountability and financial responsibility from those entities that remain. The director of compliance leads affiliated entity reviews in partnership with the Board Governance and Compliance Committee.
    a. The first entity to undergo such extensive review and delineation of responsibility was the Wright State Applied Research Corporation (WSARC) and the Wright State Research Institute (WRSI), which signed a memorandum of agreement with the university in October of 2017. It is important to note that WSARC / WSRI completed its first annual review under this policy with the Board in December of 2018. The Faculty Senate Budget Priorities Committee conducted its own review and report which was submitted to Faculty Senate in February of 2019 (Reference 1). The Faculty Senate unanimously voted to take no further action with a pending WSARC / WSRI resolution after a well-received report and presentation (Reference 2). Several Senators commented positively on the many changes and accomplishments that had occurred, that WSARC / WSRI was self-sufficient and on schedule to completely pay to the university what was owed by year end, and that meaningful collaboration with university faculty, staff and students was on the rise. In 2018, for example, final HERD research expenditures for Wright State University outside of WSRI were $39 million, while WSRI research expenditures topped $28 million (compared to $21 million reported in preliminary numbers) and comprised 42 percent of total research expenditures attributed to the university. Applied research attributed to WSRI has grown over the past five years while Wright State basic research has remained relatively flat.
    b. The second entity to undergo this extensive review was Double Bowler beginning in February 2017. Double Bowler executed an official agreement with the university in August of 2018. The Faculty Senate Budget Priorities Committee is conducting a review of Double Bowler much like it did with WSARC / WSRI and will issue a report to Faculty Senate.
    c. Other affiliated entities, such as the Wright State Alumni Association, the Wright State University Foundation, and The STEM School are in various stages of review by University Compliance and the Board and will be examined in detail as regularly scheduled.

In reference to the allegations of the petition regarding a vote of confidence / no confidence the Board puts forward the following facts.

Petition Issue 1. The Board of Trustees and new university policies, procedures and practices as a whole have brought Wright State out of the shadow of state fiscal watch to a stronger financial situation. A budget surplus was posted in FY 18 and is on track for FY 19 in order to begin to rebuild the depleted reserve balance. Moody's Investment Service indicates that the settling of the strike and the agreed-upon terms of the labor contract with unionized faculty is credit positive and should help provide the flexibility to sustain sound operations and gradually rebuild liquidity provided expense containment continues as key to sustaining fiscal stability (Reference 3).

Petition Issue 2. The petition questions Double Bowler, an affiliated entity of the university created in 2014, as to its benefit to Wright State University. As is common practice in the state of Ohio higher education system, Double Bowler was formed as an entity to serve the university in its real estate transactions. In accordance with the new affiliated entities policy, Double Bowler went through an extensive affiliated entity review and was determined to continue to be an asset to the university. As such, a memorandum of agreement was signed in August of 2018. Double Bowler is led by the university's chief operations officer who is largely responsible for university-wide operations, auxiliary services, facilities and grounds, where Double Bowler is only a portion of his responsibilities. The petition incorrectly charges the Board with approving the formation of limited liability companies related to Double Bowler. The LLCs were established by Double Bowler as it acquired property, as is common in commercial real estate transactions, and were later dissolved following the conclusion of property acquisitions. The petition also alludes to an "appearance of impropriety" with regard to one of the current Trustees and a building purchase. This allegation was also levied prior and addressed when an attorney specializing in ethics was engaged on behalf of the Ohio Attorney General's office to look into this matter and concluded that there were no ethics violations to report.

Petition Issue 3. The Board has not clouded or hidden the flow of money from affiliated entities such as WSARC or WSRI. In fact, and as mentioned previously, the Board instituted an affiliated entity policy that lays bare the benefit or lack thereof of university association with any such entity. The first in depth review was with WSARC / WSRI. A memorandum of understanding was signed in October of 2017 and the first annual review was conducted in December of 2018. The Faculty Senate and its Budget Priorities Committee are very supportive of the current state of operations with these entities and their relationship with the university, faculty, staff and students (References 1 and 2).

Petition Issue 4. It is true that in 2016 the Ohio Ethics Commission reprimanded a Wright State Trustee. He mistakenly voted on a large slate of people who had been hired, associated with or had left the university and that list included his son. The situation was investigated and closed. The Trustee now recuses himself from all votes on personnel and grants in case his son should appear on these extensive lists. This situation has been addressed and education provided and does not remain an issue.

Petition Issue 5. The petition inappropriately states that the Board has protected Division I athletics over education. This is simply untrue. The petition alludes to the Board preventing the university president from making any significant cuts to the athletic budget in 2017 as compared to the academic units. First, it should be clarified that academic units were left largely untouched in 2017 where non-academic budgets, including athletics (and the loss of its swimming and diving teams), bore the brunt of budget cuts. To be clear, although there were contracts non-renewed for some staff and faculty, no layoffs have occurred to date among faculty, whereas about 100 staff lost their jobs through layoffs. The particular situation the petition alludes to is in the hiring of interim president McCray from March through June of 2017. The Board felt that a decision to move from Division I athletics might jeopardize the character of the university as an integral part of remaining a high-profile public institution of higher education on equal footing with many sister schools around the state who operate similar Division I athletics programs as a part of the overall university experience, and was not something to be entered into lightly without considering long term ramifications of such action. Therefore, the Board stipulated that a move from Division I athletics was not an option for the interim president in addressing a structural deficit of $30 million in three months-time in 2017.

Petition Issue 6. As indicated previously, the Board cooperated fully with the federal government in the H1-B visa investigation, put in place numerous checks and controls, and ultimately agreed to pay a $1 million settlement in exchange for a non-prosecution agreement for the university on any civil or criminal matter. The petition alludes to additional costs incurred during the investigation and in paid administrative leaves. What the petition is silent on is that paid administrative leaves resulted from employees protected under the faculty union contract, where it is very difficult to separate anyone until full and lengthy due process protocols and procedures are fully exhausted. What the petition is also silent on is that the faculty union is currently forcing the university into binding arbitration to hire back the former provost as a faculty member which is still prolonging the resolution of this matter.

Petition Issue 7. A Trustee has a right to state an opinion that his former company hired many people with associate degrees and that Wright State would be smart to consider stackable degrees. This is not a differing opinion from many at the state and national levels and is an indication of how to consider and express the value of higher education.

Petition Issue 8. For two years, the Board bargained in good faith with the faculty union. Given the dire financial circumstances the university was facing, the university determined that concessions were necessary from the union contract. Gaining any voluntary agreement on key financial concessions at the bargaining table from the union leadership proved to be an extremely difficult proposition. The Board attempted to first gain concessions from the union through various methods of negotiation, including non-traditional modified interest-based bargaining, but all of these approaches were rejected. At every step of the negotiating process, from direct discussion between negotiators; to engaging mutually agreed upon and independent federal and state mediators; to participating in the statutory state labor board fact-finding process with a mutually agreed upon, independent and experienced state appointed fact-finder (and even mediation before the formal fact-finding began with the fact-finder himself serving as a mediator), the union leadership rejected changes in the key financial levers such as a uniform health care plan, furlough days, compensation freezes and summer teaching pay adjustments. However, continuing with a status quo contract in these key areas would have driven the university into further financial hardship. Even when the independent fact-finder conducted a four-day hearing with expert witnesses and legal briefing and recommended that these types of concessions take place, the report was rejected by the union. Eventually it was determined by the Board that change was needed and necessary to move the parties forward and break the stalemate; therefore, the Board implemented Terms and Conditions of employment for the faculty union on January 4, 2019. In doing so, the Board kept their primary goal in mind: ensure the financial sustainability of the university and the promise of a high quality, affordable education to our current and future students. When a strike was imminent, the Board withdrew or compromised in consultation with the faculty union much of what it initially sought in terms of management flexibility to narrow a focus as much as possible on important and necessary short and long term financial concessions in successor agreements. This petition issue ignores that retrenchment, workload and other objectionable issues were withdrawn by the Board in compromise and largely left unchanged in the agreed upon successor agreement terms. Moreover, the petition ignores the independent Moody's comment of February 14, 2019 that the resolution of the faculty strike and the final agreed upon terms between the parties is credit positive and helps move the university forward regarding both short and long term financial stability (Reference 3). Finally, the petition does not acknowledge from the Moody's comment that across the nation, universities' credit quality remains closely tied to their ability to reach such concessionary terms in labor negotiations.

Reference 1:
FBPC_WSARC_Report_to_Senate_2019_02.pdf

Reference 2:
WSARC_Faculty_Senate_Feb_2019_FINAL.pdf

Reference 3:
Moody's Investor Service Issuer Comment: February 14, 2019 (PDF)