Resolution of faculty strike is credit positive, eliminating near-term operational risks

On February 11, the American Association of University Professors and Ohio’s Wright State University (WSU, Baa2 negative) struck an agreement to end a 20-day faculty strike. Resolution of the dispute, which originated primarily from disagreements over compensation, benefits, layoffs and workload, is credit positive because it provides for staffing continuity for the length of the new contract, which runs until June 30, 2023. The agreement also eliminates near-term operational risks such as hiring a temporary pool of qualified replacement faculty and modifying course scheduling. Further, the agreement mitigates reputational risks to the university that would have intensified if the strike had persisted.

The terms of the agreement give WSU flexibility to achieve long-term savings, although the university made some concessions from its original proposal. Under the five-year agreement, there will be no salary increases through June 30, 2021, a 2.5% increase in fiscal 2022, and a 3.5% increase in fiscal 2023. Other key provisions in the agreement require unionized faculty to join the university’s healthcare plan, maintain flexibility to impose one furlough day per semester, and allow for implementation of a retirement incentive plan.

Exhibit 1: New contract terms enhance WSU’s prospects of rebuilding its financial footing after a period of significant strain

The terms of the agreement do not materially impede WSU’s ability to achieve its financial objectives of sustaining sound operations and gradually rebuilding liquidity. Through significant expense reductions, the university has made progress in restoring its financial footing after years of substantial deterioration. In fiscal 2018, WSU generated an operating cash flow margin of nearly 8%, significantly improved from the negative cash flow margins of the prior four years. Its 52 monthly days cash on hand nearly doubled from fiscal 2017, though is still well below the 178 monthly days in fiscal 2011. Sustaining this performance...
will continue to be a challenge due to expectations of revenue declines stemming from weakening enrollment and net tuition revenue. As a result, expense containment will continue to be key to sustaining fiscal stability.

Challenging conditions in the higher education sector will make collective bargaining more contentious and potentially drive an increase in the number of strikes. Most susceptible will be universities with weak demographics in their core market, pressured state funding and high collective bargaining exposure — similar to Wright State University’s profile. Sectorwide revenue growth is likely to remain depressed in upcoming years, which will make sustaining fiscal balance difficult without expense adjustments. In this environment, the ability of universities to effectively control expenses and increase operating flexibility will be essential, yet in conflict with labor objectives of maximizing faculty compensation increases and strengthening other benefits. Rising healthcare costs will exacerbate operating pressures on universities and be another point of contention between administrations and labor. As competition between these priorities intensifies, we expect an increase in strikes, with universities’ credit quality closely tied to their ability to reach reasonable terms in labor negotiations.

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