

April 10, 2015

Dear Dr. Levy:

We are in receipt of your draft report concerning the University of Southern Maine (USM) and respond as follows:

- I. We find it troubling that this document was transmitted to us in its current state. After review one can only surmise that there was not even a casual review for factual accuracy by the leadership of AAUP prior to its release.

For example, the fundamental premise of the draft is that USM is now operating at a surplus and has no financial concerns for the future. Unfortunately, nothing could be further from the truth.

Nor is it prudent or fiscally sound to propose that future financial projections and budgets should be disregarded as inevitably speculative. Every responsible organization must plan and operate in accordance with a budget.

This draft seeks to perpetrate the misconception that there is no financial issue, either at USM or the University of Maine System (UMS), when the UMS has significant fiscal problems that include deferring hundreds of millions in capital maintenance, and running operational deficits at multiple campuses. This erroneous view is contrary to our goal of having the faculty and administration at USM earnestly work together to put this invaluable university on a financially sustainable basis going forward.

Finally, the report suffers from a lack of care and due diligence. By way of example, in the draft, the authors complain that they could not get data specifically on USM's finances. In fact, extensive financial information for the system and for individual campuses is readily available at www.maine.edu, including the Core Financial Ratios and Composite Financial Index for the University of Southern Maine for the period FY06-FY14.¹

¹ University of Maine System. Retrieved from <http://www.maine.edu/about-the-system/system-office/finances/core-financial-ratios-and-composite-financial-index/>

II. AAUP's draft is based on analysis done by an "investigative committee" which came to the investigation with a pre-determined outcome and a lack of regard for due process.

AAUP denies any opportunity for the accused university to meet and cross-examine witnesses. AAUP does not even reveal who its witnesses are, so that the public can judge their credibility, or special interests, and they provide no opportunity for the accused institution to appear or to be heard before AAUP's ultimate decision-making body at its annual meeting.

Due process has developed in America as a way to get at the truth fairly and efficiently. It should be no surprise that by failing to follow any of these fundamental principles of fairness, the AAUP would end up with such misleading and negative judgments.

III. As we have previously observed, the AAUP has no standing to investigate or evaluate, official actions taken by the administration at USM.

USM is a part of the UMS whose Board of Trustees has plenary power to set and change policies, standards and budgets, without reference to any AAUP policies. The Board may, of course, look at policies recommended by AAUP or any other organization, but has no obligation to adopt or follow them.

Moreover, another union, Associated Faculties of the Universities of Maine, MEA/NEA (AFUM), represents UMS faculty - acting as the exclusive bargaining agent. The respective obligations of the UMS and the faculty are set out in the negotiated labor contract. AAUP is not a party to that contract and its practices cannot and do not override or substitute for the terms of the labor contract between UMS and its faculty.

IV. The draft report is extraordinarily one sided and is completely silent with respect to acknowledging the positive developments occurring at USM, thanks to the financial investments and commitment to USM by students, faculty, staff, parents and the community.

For example, this draft fails to note that:

- Even after the termination of 5 low enrollment, high cost programs, USM still maintains a portfolio of 53 undergraduate and 25 graduate majors, far exceeding the norm for 4-year public comprehensive universities with a similar sized undergraduate and graduate student population.
- USM is further transforming itself into a Metropolitan University, focusing its efforts on community partnerships, hands on internships, and a culture of collaborative and engaged learning, which was initiated with the leadership of a faculty driven Metropolitan University Steering Group.

- Despite the reductions necessitated by loss of enrollment revenues, USM still has a faculty/student ratio of less than 15:1 – far better than the ratios on the campuses of any of the members of the “investigative” committee, and far superior to many similarly sized public universities.

Further, despite a reduction in the number of faculty at USM as a result of retrenchments and retirements, there has been virtually no change in the teaching loads of our full time faculty, as 13.2% continue to teach only 1 course per semester; 25.7%, just 2 courses; 42.4% teach 3 courses, and only 18.7% teach 4 or more courses.

Additionally, the AAUP draft report fails to give even a passing acknowledgement of our many centers of excellence at USM, including:

- Our programs in nursing, accounting, business including concentrations like risk management, tourism and hospitality, public health policy, education, occupational therapy, exercise, health and sport science, biological science, communication and media studies, creative writing (with a faculty of nationally known writers, and a low-residency graduate program), education and human development among many others
- The Cutler Institute, conducting cutting edge public policy and health policy research
- The Osher Map Library, one of the finest and most extensive collections in the United States
- More than 87% of USM’s first-time full-time undergraduate students receive financial aid, with an average package close to \$10,000
- Existing strong community partnerships, which allow USM to offer service learning and internships ranging from state government, global businesses, local sport teams, to theatre and music venues
- Nearly 5,000 students provided over 370,000 hours of service to regional businesses and non-profits valued at more than \$6.2 million
- Living Learning and Residential Communities: Arts, SENSE (Students Entering Nursing, Science and Engineering), Honors, Russell Scholar, Sports Management and others
- Research, Technology and Innovation: The Pioneer Program (STEM) and Campus Ventures (project-based learning models) place students in relevant, real-world projects with local and regional business, organizations, and entrepreneurs
- Visual and Performing Arts including the Art Gallery, Corthell Concert Hall, and theatre performances in Russell Hall Theatre as well as an excellent music program
- More than 100 Student Organizations, Clubs and Service Groups

- Our tremendous effort to stay affordable, freezing in-state tuition at \$7,600 for the past 3 years, and maintaining a graduating student debt load averaging less than \$30,000

Of course, there are areas for improvement, and we need to do more in systematic advising, public service and sponsored research, but with the largest portfolio of STEM, humanities and social science programs in Southern Maine, we are far more than the “4-year community college” that AAUP alleges us to be. (p. 22) USM is committed to making progress as an accessible, relevant, engaged 4-year university, preparing students for a place in our work force and our civil society.

V. The draft report conjures up a bizarre, irresponsible theory on the role of budgets.

The draft report dismisses concerns about our financial circumstances on the amazing grounds that, “the future budget deficits (are) the estimate that future revenues will be less than future expenses . . . and do not represent what has actually happened.” (p. 30)

The draft appears to be claiming that even if we know enrollment revenue is down, and State appropriations may possibly be set at a certain level and costs are rising, we can’t do anything about it until the shortfall actually occurs, because until then, these numbers are only estimates.

AAUP is thus guilty of tautological reasoning with potentially dire consequences.

In reality, every responsible organization, private, public, and not for profit, routinely develops a budget for one or more future years, projecting its revenues, expenses and opportunities for improvement. Failure to anticipate and proactively address a projected deficit of \$16 million – over 10% of the planned budget – would be the height of irresponsibility and a violation of our basic fiduciary obligations to Maine students and taxpayers.

VI. AAUP further misleads the public by conflating the finances of USM and UMS.

USM is suffering from deficits and financial performance below the minimum levels established by the norms for universities in the United States. In an attempt to make USM look better off, AAUP slips into mixing an analysis of USM’s financial condition with that of the System as a whole, which, while several of its other campuses are also at risk of running operational deficits for FY16, is in relatively better financial shape.

USM appreciates the help UMS has provided in the last 2 years, both to address its deficits and to support the termination costs of its layoffs of employees. And certainly, we recognize there can be a role for some cross subsidization of costs, so long as in the end the sum total does not exceed the aggregate revenue of the institution.

It is our view that USM should get its fair share of the State subsidy for the various campuses. And we should have to pay no more than our fair share of Central Services. But the implicit argument in the report that the UMS owes USM unending support for each and every professor and program, no matter how undersubscribed or costly, beggars the imagination.

Not only would such a policy mean stealing from future generations by draining down reserves needed for future obligations in order to support underperforming programs now, but that the taxpayers and tuition paying students at other campuses of the UMS should be obligated to use their hard earned money to continue such underperforming programs at USM, without condition or qualification. Such a proposition and such a massive, ongoing subsidy are simply unsupportable.

USM can and will be a great metropolitan university, but it will achieve success not by endless subsidies from students at other branches of UMS, but by investing and operating wisely with a focused array of majors, interdisciplinary programs and hands-on internships.

- VII. The draft report advocates reverting to “business as usual” spending until reserves are exhausted and hints that Maine has ample wealth to raise its taxes in order to keep on spending.

Rather than acknowledge the difficult financial position of the university, with declining enrollment and rising costs, AAUP adopts the extraordinary position is “in strong financial condition...” and that (USM) “...is still generating revenues larger than expenses . . .”. (p. 17) This despite the irrefutable fact that USM required a transfer of up to \$7 million from the System to balance its FY15 budget, and reasonably projected it would have needed another \$16 million transfer for FY16, but for our own actions to mitigate our losses.

By taking immediate steps to address the budget shortfall for FY15, and through the dedication of many at the University, USM now projects that it will require approximately \$5 million from the System to balance the current budget. For FY16, following all of the steps taken for FY15, USM will still be utilizing \$1.6 million of reserves to balance the budget, which is seriously depleting USM resources available to address future anticipated demands.

The draft also makes the very curious claim that that Maine is not among the poorest states (p. 44) and that the rest of the country is aging right along with us (p. 45), with the clear implication that we can well afford to spend more tax dollars on higher education. Of course, the reality is that the size of the state subsidy is not a decision within the power of UMS.

We agree that affordable, accessible higher education should be a major priority for public investment, but we understand that to earn the opportunity to compete for scarce public dollars we must demonstrate to the people, whose real disposable income is far lower than that for people in most other states, and to the Legislature and Governor, that we are prudent and efficient in spending the appropriations we do get from the taxpayers.

VIII. The draft is shortsighted in proposing eliminations of the other functions of a university before considering elimination of any faculty positions.

This approach may be appealing for AAUP's narrow view of the operations of a university. The AAUP would propose drastic cuts in pay and elimination of positions for "administrators" and staff while preserving each and every faculty job and program, however miniscule its enrollment or great its deficit.

But as superficially appealing as the mantra that "any cuts should not come from the core academic mission, but from administrative costs" (p. 34) may be, the reality is that it takes a team of specialists in admissions, financial aid, advising, internship development, budgeting and payroll as well as diversity, disability, veteran and international student support services, and research, accounting and facilities maintenance to operate a modern university. The faculty are a key part of this team, but all these functions are essential to meeting all the needs of a modern American residential university.

Moreover, the committee thoroughly failed to account for the fact that for several years USM has been reduction its administrative staff, while leaving any reduction in faculty to the lottery of attrition.

Finally, AAUP provides no justification for leaving 100% of the faculty in place when it has shrunk from over 8,000 FTE's to less than 6,000 in recent years.

A university without such an array of services will no more survive, than one without a competent, efficient and relevant faculty.

IX. The financial analysis appended to the report repeats AAUP's familiar refrain of excess reserves echoes its conclusion concerning the finances of virtually every university it visits.

The formulaic claim that USM, or least UMS, is in great financial shape is belied by the recent determination of S&P to revise our credit outlook from stable to negative.² The investigators obviously overlooked a central failure of their narrative, which relied on UMS credit rating. The change in outlook is based on revenues, enrollment and tuition trends, as will be discussed further in Section X below.

² Gallagher, Noel K. (2015, February 24). S&P downgrades UMaine System outlook to negative. *The Portland Press Herald*. Retrieved from <http://www.pressherald.com>

Similarly, the fact that the FY16 budgets will require infusions of funds from reserves for 5 of the 7 universities flies in the face of AAUP's reasoning.

Moreover, this is not a "bridge" situation as AAUP implies in its advocacy of an immediate drawdown of System revenues to fund the status quo ante, but the product of long-term competitive trends, which are ignored in the report. In truth, an FY14 ratio analysis of USM's financial position clearly indicates a downward trend in all areas. The Primary Reserve Ratio indicates that USM's net position covers only two months of expenses, while the industry benchmark is five months. The Net Operating Revenue Ratio is -.37%, while the target is 2%-4%. The Return on Net Position Ratio is -2.25%, while the benchmark is 6%. The overall Viability Ratio is 0.58. The benchmark ratio exceeds 1.20. A ratio of less than 1.00 indicates insufficient resources to satisfy debt obligations.³

Despite our best efforts and progress, the reality remains far from the rosy picture AAUP paints.

X. Finally, the draft report is chock full of factual inaccuracies and reliance on dubious sources throughout.

While we have thoroughly reviewed this draft, we in no way intend to address all the countless factual inaccuracies. We do, however, feel compelled to point out a few blatant errors in this draft by way of illustration.

One example of the many inaccuracies is found on page 16 of the draft where it states, "First, no meaningful 'teachout' provisions were in place for the students enrolled in the programs slated for elimination. Indeed, as reported in the November 6, 2014 *Portland Press Herald*, four students in the applied medical sciences program lost thousands of dollars of grants under the NASA/Maine Space Grant Consortium Fellowship program - fellowships that had already been awarded." Not true.

First, it should be noted that, contrary to the AAUP draft (p. 16), the NASA/Maine Space Grant Consortium Fellowship program is not a USM program. According to their web site, "The Maine Space Grant Consortium (MSGC) is an affiliate-based 501(c)(3) corporation and a member of the national network of consortia. The network is funded by NASA's National Space Grant College and Fellowship Program (also known as Space Grant). Space Grant was established by Congress in 1988 to contribute to the nation's science and engineering enterprise."⁴

Second, only one of the four students who received this grant is a student in the Applied Medical Sciences program - the other three are undergraduate students in the biology program, as the same November 6, 2014 *Portland Press Herald* article states.

³ University of Maine System. Retrieved from <http://www.maine.edu/about-the-system/system-office/finances/core-financial-ratios-and-composite-financial-index/>

⁴ Maine Space Grant Consortium. (n.d). About MSGC. Retrieved from <http://www.msgc.org/about/>

Finally, and most importantly, not a single one of the four students “lost” their scholarship. As reported in the article referenced above, USM found alternative mentors for each student, thus allowing them to continue with their respective research.

Page 16 provides another example of the pattern of inaccuracies included in this draft, intended to lend credence to the AAUP’s assertion that USM “violated” AAUP policies. The draft states, “Nor does it seem that any serious thought was given to the principle enunciated in AAUP’s Recommended Institutional Regulation 4c(5), that a university undertaking program closures ‘will make every effort to place the faculty member concerned in another suitable position within the institution.’” As stated above, USM is in no way required to follow any policy of the AAUP, rather adheres to its contract with AFUM, and has indeed attempted to assist displaced faculty and other laid off.

Had the “investigative committee” truly been interested in investigating all the facts involved, they would have surely known that impacted faculty have been receiving a weekly communication alerting them to all available positions throughout the System. This is evidenced by a January 7, 2015 e-mail from Mark Schmelz, Director of Labor Relations with the University of Maine System.

If such inaccuracies were not enough, this draft fails to provide or rely on correct data.

On page 17, the draft states, “USM has seen a virtual freeze on the hiring of new assistant professors for the last several years, and there has been a significant decline in the number of faculty. In fact, the decline in faculty is greater than the decline in enrollment, credit hours, or sections offered.” According to official census data, from 2011 to 2014 USM saw a higher cumulative decline in enrollment than in the cumulative decrease in the total number of faculty for the same time period, including full and part-time faculty.⁵

Yearly decline in enrollment from Fall 2011 to Fall 2014:

Fall 2011	-3.6%
Fall 2012	+9%
Fall 2013	-4.9%
Fall 2014	-5.5%

Cumulative total -12.1 %

Yearly decline in the number of total faculty – both full and part time - from Fall 2011 to Fall 2014:

Fall 2011	-4.4%
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⁵ University of Southern Maine, Office of Institutional Research. Fall 2014 Fact Book, published October 15, 2014. Retrieved from http://usm.maine.edu/sites/default/files/oir/Headcounts_Fall_2014_0.pdf

Fall 2012	+5.7%
Fall 2013	-3.1%
Fall 2014	-5.6%

Cumulative total -7.4%

Another example of the AAUP committee's inability to provide accurate data is their failure to include the most current assessment of the System's bond rating by Standard & Poors Ratings Services (S&P.) On page 40 the report sets forth S&P's rationale for the System's AA- rating from Standard & Poors Ratings Services. What the draft fails to mention is that on February 23, 2015, S&P, as reported in the February 24, 2015 *Portland Press Herald*, "downgraded its long-term outlook for the University of Maine System from stable to negative on Tuesday, citing declining enrollment and high turnover among leadership at the seven campuses." While S&P left the System's credit rating unchanged, *Portland Press Herald* reported, that, "Downgrading the outlook means that S&P thinks the system's rating could be downgraded to an A+ if declining enrollment and revenue continue. A lower credit rating would mean the system would have to pay higher interest rates on any future borrowing."⁶

While technically what S&P did was to reverse UMS' credit outlook, the paper got the significance of the action right. And certainly, S&P's action was totally at odds the investigators analysis and conclusion.

XI. Conclusion.

No matter how hard it tries, AAUP cannot refute the harsh reality that the University of Maine System, and the University of Southern Maine, in particular, face enormous challenges as a result of demographics, competition, new technology and costly old buildings.

We must adapt to those new realities and their fiscal consequences to make sure we have a vibrant, useful, relevant public university in Southern Maine in the future. USM is doing so in a thoughtful manner that adheres to the policies and principles adopted by the Board of Trustees and the requirements of our collective bargaining agreements, rather than reverting to the sterile, bankrupt approach AAUP advocates. We are confident that our location, our affordability, our quality and our commitment to living within our means will lead to a successful future for USM.

Sincerely,



David T. Flanagan, President
University of Southern Maine

⁶ Gallagher, Noel K. (2015, February 24). S&P downgrades UMaine System outlook to negative. *The Portland Press Herald*. Retrieved from <http://www.pressherald.com>