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Inside Wright State's 6-Year Journey Into Financial Trouble

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Wright State University has seen more than its share of controversy in the last 10 years. There was the work-visa scandal that led to a federal investigation and a reprimand. The botched attempt to hold a presidential debate between Hillary Clinton and

Donald J. Trump. The faculty strike, resolved just days ago, that paralyzed the Ohio campus for nearly three weeks.

The strike is over. But now the university faces its biggest challenge yet: a fight for its long-term solvency.

At the start of the decade, Wright State was a healthy, financially stable public regional university. Just a small number of years later, it has hit rock bottom — or so its leaders hope. The university has posted daunting deficits for several years running, and at the close of the 2016 fiscal year, Moody's Investors Service concluded that if Wright State were to liquidate all available assets within a month, the funds would allow it to operate for only 42 days. (By comparison, Shawnee State University, also in Ohio and with the same credit rating as Wright State, reported to Moody's last year that it would have enough cash on hand to cover 114 days.)

What is needed for Wright State to recover? Among other things, plenty of time. "It will take WSU more than 20 years to get back to the financial position it was in just six years ago," stated a report drafted in the lead-up to negotiations with the faculty union.

Scandals alone can't explain the deterioration in Wright State's finances. Several challenges prevalent in public higher education played a role: declining or stagnant state support, dwindling enrollment of international students, greater competition for a smaller pool of domestic students, and a work force larger than the university's actual needs.

But the simplest explanation of what went wrong at Wright State is this: Revenues declined, but spending did not. From 2012 to 2017, the university repeatedly ended its fiscal years in the red. Over that time, total revenues fell by $43.5 million. Despite the declines, administrators failed again and again to bring spending in line with reduced revenues. For instance, though the university cut funding for academic support by $36 million over six years, it increased spending on instruction, institutional support, and research.

"They had some revenue stress over the years, and they hadn't done a very good job of effectively managing to that revenue stress," said Christopher Collins, an assistant vice president and an analyst at Moody's. "They hadn't adjusted their cost structure to align with lower revenue amounts, and I think that's really the big thing."

What started out as a pair of $9-million deficits in the 2012 and 2013 fiscal years quickly escalated. At the conclusion of 2016-17, Wright State had posted year-end deficits of $22 million, $37 million, and $47 million in the three preceding fiscal years.

The deficits depleted Wright State's once-muscular reserves — a $130-million drop in just five years — and contributed to multiple credit-rating downgrades. Moody's issued two rating downgrades on debt issued by Wright State from 2015 to 2017, determining that the risk associated with the debt had increased from low to moderate. The agency affirmed its findings in July 2018. Despite the ratings decline, according to Moody's, Wright State's debt remains investment grade.

In its 2017 opinion on Wright State's "rapid credit deterioration," the rating agency cited the unexpected severity of the operating deficits in the 2016 and 2017 fiscal years. Moody's also said its new rating highlighted the "significant management failure to adjust to an evolving environment."

Alarm Bells

If Wright State officials felt good about their financial outlook at the beginning of the decade, they also saw reason for concern. The university had been drawing revenue from the federal stimulus program, designed to help pull the country out of recession, and that money was about to run out. In financial statements, the university acknowledged that it would need to curtail spending that had been made more palatable by stimulus revenue. But the university seemed to ignore its own guidance, and expenditures continued to rise.

Moody's first sounded the alarm about Wright State's problematic spending in October 2015. That month, the agency downgraded its rating on bonds issued by Wright State, though it considered the university's overall outlook at the time to be stable. Sections of the agency's report now seem prescient. Among other factors, the analyst for Moody's wrote that its newly downgraded rating for Wright State reflected "the absence of concrete plans for materially reducing expenses."

The annual presentations to Wright State's board on the institution's anticipated budgets for the 2012 to the 2016 fiscal years never provided such negative analysis. The institution's financial outlook was always described as "strong" by various units and officials in charge of financial management at Wright State. Mark M. Polatajko, the vice president for business and finance from 2012 to 2016, declined to comment for this story. P. Jeff Ulliman, who followed him, also declined to comment.

David R. Hopkins, Wright State's president at the time, said in an interview that the Board of Trustees had been consulted on and had approved spending decisions made by the administration. Hopkins also said the administration had supported initiatives that the board had sought.

It wasn't until the end of the 2015-16 academic year that Wright State's board members realized the university might be in trouble, said Michael Bridges, then chairman of the board, in an interview with the *Dayton Daily News*. Bridges did not respond to a request for comment from *The Chronicle*.

Plans were devised to tamp down spending, but they faltered. For years the institution had reported on its financial statements that job vacancies had gone unfilled in order to reduce costs. But spending on employee compensation and benefits grew by 25 percent from the 2012 to the 2017 fiscal years. The university also used its reserves to support various capital projects.

"I think the former administration had some ideas of really growing and building the university in many ways, and they kind of got out there a little too far," said the current president, Cheryl B. Schrader, who took office in 2017.

Anticipating another deficit in the 2016 fiscal year, Wright State officials outlined a plan to Moody's analysts on how the institution would reduce expenses. "Instead," a Moody's analyst reported to bondholders, "expense growth exceeded revenue growth."

Cost controls did not target every unit equally. From November 2015 to November 2016, the number of nonfaculty instructional staff members increased by 264, according to data reported to the U.S. Department of Education. In the same year, Wright State eliminated 23 jobs, including six faculty layoffs. By November 2017, the university had laid off 57 more employees, and the number of faculty positions had shrunk by just over 100, according to data reported to the Education Department.

Slow-growing tuition and fee revenues, as well as muted state support, motivated the university to seek greater revenue from nontraditional sources. Attempts to jump-start revenue growth through the university's research arm were stymied, though, by controversies including the work-visa scandal, questionable payments to a lobbyist, and allegations of kickbacks to the companies of WSU board members.

Even worse, the visa scandal appeared to scare away some international students, William A. Holmes III, vice president for international affairs, told the *Dayton Daily News.* The decision by Saudi Arabia to curtail its generous scholarships for Saudi students in the United States also reduced revenues for Wright State.

And when a cost-cutting program did work, the effects lagged. In the 2017 fiscal year, the university bought out 153 employees, potentially resulting in $14.4 million in annual savings. But varied retirement schedules diluted immediate returns, and the program actually increased expenses by $10 million in 2017 because of payouts for accrued sick time and vacation.

Decimated Reserves

Since 2018, however, there has been cautious optimism on the campus. In June, Schrader said Wright State was on track to post a $7.2-million budget surplus for the 2018 fiscal year, the first since 2011. Schrader and her team informed the trustees that the university projected a $3-million surplus for the 2019 fiscal year, despite expected declines in revenue from Ohio as well as tuition and fees. At the time, the university said the anticipated surpluses would be used to shore up its decimated reserves.

The controversies of the last decade, as well as leadership changes, have exposed Wright State to both financial and reputational risk, Moody's found. While it's impossible to pinpoint the exact causes of the decline, the proportion of Wright State alumni giving to the university has dropped from 4.5 percent to 1.4 percent since the 2010 fiscal year, according to data reported to the Council for Advancement and Support of Education. And contributions to the university foundation's endowment fell from $4.7 million in 2013-14 to $525,000 in 2016-17.

Moody's analysts were monitoring the university's bargaining with the faculty union. The agency had repeatedly noted that Wright State's highly unionized work force "limits expense flexibility."

"This is a university that has turned the corner based on their financial performance in 2018, but their ability to sustain that over a longer period of time is going to dependent upon, to some degree, the resolution of the faculty strike," Collins said. In July 2018, Moody's said one factor that could lead to another downgrade for Wright State was the disruption of university operations as a result of bargaining with the faculty union.

In general, Collins said spending on new programs and capital projects is important to a university's future, but administrators must always be realistic about their institution's financial health. "There needs to be a balance," he said, between new initiatives and existing programs and facilities.

To what extent the new faculty contract will affect Wright State's long-term financial performance remains to be seen. A university spokesman said bringing the faculty union into the institution's unified health-care plan would help support long-term financial sustainability. But the spokesman said the negative attention arising from the strike may dissuade students from enrolling at Wright State this fall.

One focal point of the contract negotiations was the union's view that faculty members should not pay the price of the university's yearslong fiscal mismanagement. Faculty members also expressed skepticism at certain forecasts, provided by the university, of its short-term and long-term financial health. Faculty leaders questioned if certain elements were being exaggerated to gain advantage in contract negotiations.

Martin Kich, a professor of English and president of the American Association of University Professors' chapter at Wright State, said he hopes enrollments can grow and the university's reserves can be rebuilt. But he said it will take longer for the faculty to recover trust in the administration and the board. Professors can easily recall anecdotes of mismanagement that led to university's current plight, Kich said. And the bruises from negotiations with the university are still fresh.

"Almost by necessity," Kich said, "there's going to have to be a rebuilding of some mutual respect here, in order to make sure it is not repeated."

Emma Pettit contributed to this article.