CRUMBLING PUBLIC FOUNDATIONS:

Privatization and UMass Boston's Financial Crisis

August 2017

A report by the Coalition to Save UMB,
a coalition of students, staff unions and faculty at the
University of Massachusetts Boston

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The Coalition to Save UMB is a coalition of students, staff unions and faculty at the University of Massachusetts Boston. In addition to individual undergraduate students, graduate students and employees, the following organizations are part of the coalition: **Classified Staff Union** (MTA/NEA), **Graduate Employee Organization** (UAW), **Professional Staff Union** (MTA/NEA), and the **Public Higher Education Network of MA** (PHENOM).

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Our thanks to the following individuals for reading drafts and providing important feedback on this report: Sarah Bartlett, Tom Goodkind, John Hess, Marlene Kim, Linda Liu, Mitch Manning, Genevieve Morse, Wally Soper, and Steve Striffler. Our particular thanks to Mary Jo Connelly for her excellent research and editing.

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- Labor donated -

Executive Summary

UMass Boston's current budget crisis exposes the results of the long-term underfunding and privatization of public higher education in Massachusetts. This report will show that UMass can and must address the pressing need for construction and renovation on the Boston campus without doing harm to UMass Boston's unique urban mission.

UMass Boston (UMB), the only public four-year university in Boston, educates nearly half of the system's most vulnerable, and often most driven, students—low-income students, first-generation students, immigrant students, students whose first language is not English, and students of color. Thus, the current threats to the campus's academic programs and student support services are of grave concern.

Our examination of the campus's finances through FY16[1] found that:

- UMB has had a positive net cash income up to and including FY16;
- UMB would have shown an overall positive net income in FY15 and FY16 if it had not been required to deduct the full actuarial value of depreciation from its operating budget—an amount that exceeded the principal owed on its current debt; and
- the Commonwealth has woefully underfunded both public higher education and higher education capital projects, leaving UMB to finance the necessary, overdue rebuilding.

This combination of inadequate public funding and restrictive accounting has created the current fiscal crisis at UMass Boston.

While the UMB administration should look closely at expenses that have grown rapidly in recent years—most notably, the growth of upper-level administration reported as Institutional Support in UMass's financial reports—adjusting campus specific expenses will not solve the current $25-30 million deficit.

Instead, we recommend that the UMass Board of Trustees and the Massachusetts Legislature take the following steps to address this crisis:

- Immediately release UMass Boston from the obligation to achieve a positive net income while also accounting for the full actuarial value of depreciation;
- Identify funding—from the UMass central office's reserves and from the Commonwealth's budget—to aid in the payments for rebuilding the Boston campus, including interest and principal payments; and
- Endorse the Fair Share Amendment and, should it pass, commit significant additional funds to rebuilding the Boston campus as part of a general reinvestment in Massachusetts public higher education.

Not taking these actions means failing in our responsibility to the people of the Commonwealth and to UMass Boston's students.

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I. Introduction

Since early 2016, UMass Boston (UMB) employees and students have heard about a growing budget crisis. We've heard various stories and explanations, ranging from 'there is no crisis; this is planned deficit spending,' to 'UMB must learn to make do with much less,' to the more recent cries of 'another public institution being wildly mismanaged.' So we set out to determine whether there is a budget crisis at UMB, and if there is, what are its causes.

This isn't of interest to us merely as an area of academic inquiry. This is of interest to us because we are stakeholders in public higher education and in UMass Boston—we are faculty and staff employees, graduate students and student employees, alumni, undergraduate students, and parents of past, current and future students. We believe in the purpose of public higher education and in UMass Boston's particular urban mission. Our intent in examining our campus's financial status is to identify appropriate solutions that allow UMass Boston to continue to thrive and pursue its main function of providing an excellent and affordable public university education to the people of Greater Boston.

The campus administration is currently seeking its own solutions to the "crisis," solutions which so far have taken the form of cutting services and jobs at UMB—eliminating non-tenure track faculty jobs, laying off custodians, freezing replacements of staff who leave, reducing paid graduate assistantships (which make graduate studies possible for many working class students), raising the campus's student-to-faculty ratio, closing (or potentially privatizing) the campus's Early Learning Center, and reducing shuttle services for students and employees to get to and from the campus. While these steps have saved the campus some money, shaving perhaps $5 million from the reported $30 million deficit, they do not provide a road map for how to ensure that UMB's mission is preserved. Our aim is to provide such a road map.

We examine the public policies and managerial decisions that we believe … are fundamentally transforming UMB from a public good beholden to the students and citizens of Massachusetts, to a private institution beholden to its bondholders.

Before we delve into the analysis, it is important to know a little about UMB itself. Briefly, UMB is the only public university in the Greater Boston area that offers Bachelor's, Master's and Doctoral degree programs. Since its founding, UMB's mission has been to provide higher education to a diverse urban student population: as of the Fall 2016 semester, 57% of our undergraduate student body are first-generation college students, 57% students of color, 51% are children of immigrants to the US who speak English as a second language, and 48% have family incomes low enough to quality for Pell grants (UMass *Annual Indicators*, July 2017). For the Commonwealth, UMB plays a central role in educating UMass's US students of color, educating more than 1 of every 3 students of color in the system (34%): 43% of all Black and African-American, 35% of all Latino, and 30% of all Asian-American UMass under-graduates are educated at the Boston campus

(UMass *Fall 2016 Student Profile*). These statistics are one measure of UMB's special and vital role as a public higher education institution for Great Boston and for our Commonwealth as a whole.

Our report begins with an analysis of UMB's financial standing as of the end of the 2015-2016 Fiscal Year (FY16), the most recent year for which financial statements for the campus and the UMass system have been published. Next we examine the public policies and managerial decisions that we believe have created and are driving the current crisis, policies that are fundamentally transforming UMB from a public good beholden to the students and citizens of Massachusetts, to a private institution beholden to its bondholders. We end this report with recommendations for both short- and long-term steps to reverse the privatization of UMB.

II. An Analysis of UMB's Financial Status

In order to investigate UMB's current financial status, the Massachusetts Teachers Association (MTA) consulted with Dr. Howard Bunsis, a professor of accounting at Eastern Michigan State University who has studied the finances of numerous public and private higher education institutions. In addition, the authors of this report conducted our own review of the publicly available financial documents posted on the UMass President's website (umassp.edu). Specific websites are cited for all of our sources in the References at the end of this report.

Revenues and Expenses[1]

UMB has been in good financial shape for years, with increasing net worth and increasing reserves. This picture began to change in FY15 when the rebuilding of the campus started to impact the campus's finances. Table 1 presents the revenues and expenses reported on the "Statements of Revenues, Expenses and Changes in Net Position" and the "Statements of Net Position" for the Boston Campus included in the 2013 through 2016 *University of Massachusetts Annual Financial Reports*, as well as the projected values from the UMass budgets for FY16 and FY17. The data show that total revenues have exceeded total expenses each year since 2013, resulting in an increasing value of the campus's net assets each year.

An examination of the separate categories of revenues and expenses provides insight into how specific campus activities are impacting the overall financial status of the campus. Without a doubt, the activity that is having the largest impact on the campus's finances is the recent rebuilding of the campus. We see the impacts of the rebuilding in both the revenues and the expenses.

The single factor that accounts for most of the fluctuation in the revenues over this period is "Capital Appropriations, Grants and Contracts." Despite the projections in the FY16 budget, capital revenues increased by more than $14 million from FY15 to FY16, resulting in an 11% increase in total revenues as opposed to the projected 2% increase. While the FY17 budget projected that all other categories of revenues would increase, it again projected a decrease in capital revenues, in this case by 56%. However, if the actual capital appropriations from the state in FY17 are similar to those in FY16, we will see a 2% increase in total revenues instead of the projected 1% decrease. We point this out to show how pivotal the state's decisions about funding capital projects are to UMB's financial status.

On the expenses side, depreciation and interest both grew significantly in FY15 and FY16 (15% and 11% respectively), and are projected to grow even more in FY17 (29% and 25% respectively). Depreciation accounted for 3.9% of all expenses in FY13; in FY16, it accounted for 4.6%; and it is projected to account for 5.7% of expenses in FY17. Interest payments, while smaller, are projected to increase by 25% from FY16 to FY17, adding significantly to the overall growth of expenses.

Thus the amount the state invests in the campus's infrastructure is the main driver behind the increasing expenses on the campus, as well as the main source of revenue instability.

Table 1: UMB Revenues, Expenses and Net Assets (in thousands), FY13-FY17

Individual Revenues:	**2013**	**2014**	**2015**	**2016 Projected**	**2016**	**2017 Projected**	**% Change 2015 to 2016**	**% Change 2016 to 2017**
Tuition and Fees	153,084	160,317	169,657	183,545	186,884	204,819	10%	10%
State Appropriation	89,435	100,553	110,295	116,305	117,987	127,230	7%	8%
Auxiliaries	9,743	9,981	9,211	7,423	5,965	7,508	-35%	26%
Grant and Contracts	70,007	68,608	72,000	76,340	77,481	79,904	8%	3%
Capital Appropriation, Grants & Contracts	26,401	44,834	36,408	32,809	50,586	28,155	39%	-56%
All Other Revenues	14,220	18,085	9,304		13,120		41%	
Total Revenues	**362,890**	**402,378**	**406,875**	**416,422**	**452,023**	**447,616**	**11%**	**-1%**
Individual Expenses:								
Salaries and Fringes	216,654	229,512	244,755	266,519	367,812	279,031	8%	3%
Non-personnel	78,495	86,312	95,721	93,407		100,290		
Scholarships	11,832	11,654	12,254	13,241	16,047	14,523	31%	-9%
Depreciation	12,770	13,284	16,572	20,820	18,989	24,418	15%	29%
Interest and Other	9,570	6,665	8,133	9,674	9,064	11,345	11%	25%
Total Expenses	**329,321**	**347,427**	**377,435**	**403,661**	**411,912**	**429,607**	**9%**	**4%**
Change in Net Assets	33,569	54,951	29,440	12,761	40,111	18,009		
As % of Total Revenues	9.30%	13.70%	7.20%	3.06%	8.90%	4.00%		

Note: *"Total Revenues" are calculated as the sum of the Total Operating Revenues, the Net Non-Operating Revenue excluding the Interest on Indebtedness, and the Total Other Revenues, Expenses, Gains and Losses. "Total Expenses" are calculated as the sum of the Total Operating Expenses and the Interest on Indebtedness. The projected amounts for FY16 and FY17 are from the UMass FY16 and FY17 Operating Budgets.*

When we look at the net income of the campus—operating and non-operating revenues and expenses, excluding the capital revenues, expenses, gains and losses (often referred to as the cash flow of the campus)—we get a picture of the campus's cash revenues and expenses without the capital investments. Table 2 gives these details for FY13—FY16.

The net income values reported in Table 2 show that the campus has gone from one with positive net income in FY13 and FY14 to negative net income in FY15 and FY16. Over this

Table 2: UMB Net Income (in thousands), FY13-FY16

	2013	2014	2015	2016	% Change from 2013 to 2016
Revenues					
Tution and Fees	153,084	160,317	169,657	186,884	22%
Grants and Contracts	70,007	68,608	72,000	77,481	11%
Sales and Service, Educational	3,000	3,433	4,197	3,709	24%
Auxiliary Enterprises	9,743	9,981	9,211	5,965	-39%
State Appropriations	89,435	100,553	110,295	117,987	32%
Gifts	3,767	4,535	3,149	3,775	0%
Investment Income	8,692	11,306	4,519	4,743	-45%
Endowment Return	1,718	1,997	2,346	2,876	67%
Other Operating Revenues	749	998	854	2,837	279%
Other Nonoperating Revenues	(636)	275	487	767	221%
Total Revenues	339,559	362,003	376,715	407,024	20%
Expenses					
Educational, Research & Student Services	221,516	233,074	247,957	271,498	23%
Insitutional Support	40,376	46,159	55,199	57,467	42%
Operation and Maintenance of Plant	22,692	25,238	28,319	31,567	39%
Depreciation and Amortization	12,770	13,284	16,572	18,989	49%
Scholarships and Fellowships	11,832	11,654	12,254	16,047	36%
Auxiliary Enterprises	10,565	11,353	9,001	7,280	-31%
Unrealized loss on investments			593	622	
Interest on indebtedness	9,570	6,665	8,133	9,064	-5%
Total Expenses	329,321	347,427	378,028	412,534	25%
Net Income	10,238	14,576	(1,313)	(5,510)	
Net Income not including Depreciation/Amortization	**23,008**	**27,860**	**15,259**	**13,479**	

Note: *"Total Revenues" in this table include only operating and non-operating revenues from the "Statements of Revenues, Expenses and Changes in Net Position." Similarly, "Total Expenses" include only operating and non-operating expenses. No items listed as "Other Revenues, Expenses, Gains and Losses" are included.*

period, the total revenues for the campus increased by 20%, while the campus expenses increased by 25%. The two types of revenues that did not increase at the same rate were revenues from auxiliary services (which decreased by about $4 million) and revenues from investment income. Investment income is not fully under the control of the campus by its very nature and must be expected to fluctuate. The decreased revenue from auxiliary services was matched by a similar decrease in expenses in this area, so that the overall contribution of auxiliary services to the finances of the campus remained essentially unchanged over this period.

This leaves us with the expenses as the drivers of this reversal of fortune for the campus. The expenses that experienced the largest positive change over this four-year period are:

- depreciation and amortization (defined in the next section), which increased at a rate of 49% (or $6 million);

- institutional support (upper administration costs, defined more fully below), which increased at a rate of 42% (or $17 million);
- the costs of operating and maintaining the campus, which increased at a rate of 39% (or $9 million); and
- scholarships and fellowships, which increased at a rate of 36% (or nearly $4 million).

Depreciation

Depreciation and amortization stands out among these expenses as the only item that is not an actual cash expense. As explained by Rudy Fichtenbaum, Professor of Economics at Wright State University:

> Depreciation is a way of allocating the cost of fixed assets over the useful life of those assets. It is an expense and therefore it reduces the net assets of a university. Whether this diminution of net assets represents a real decline in the wealth of an institution is questionable. For private companies, depreciation represents the allocation of the cost of purchasing plant and equipment. However, at universities and colleges, a significant portion of buildings and equipment are paid for by governmental appropriations or private gifts. Thus, universities and colleges have a source of funding for purchasing fixed assets that is not available to for profit businesses. *Depreciation is an expense that will show up on the income statement, but unlike other expenses it does not represent an outflow of cash from the college or university*. (p. 5, emphasis added)

UMass uses the operating funds set aside for depreciation to pay for construction-related principal payments. According to the *University of Massachusetts Fiscal Year 2017-2021 Five-Year Capital Plan* (September 2016):

> [The reported depreciation expense] essentially accounts for the annual debt service and other capital expenditures made and recorded in Other Revenues, Expenses, Gains and Losses on the SRECNP. Existing buildings are currently included in the depreciation expense based on their useful life. Additionally, as capital projects are completed, a depreciation expense must be added into the budget. Given the amount of capital investment in recent years, this expense has increased significantly in support of that plan. (p. 16)

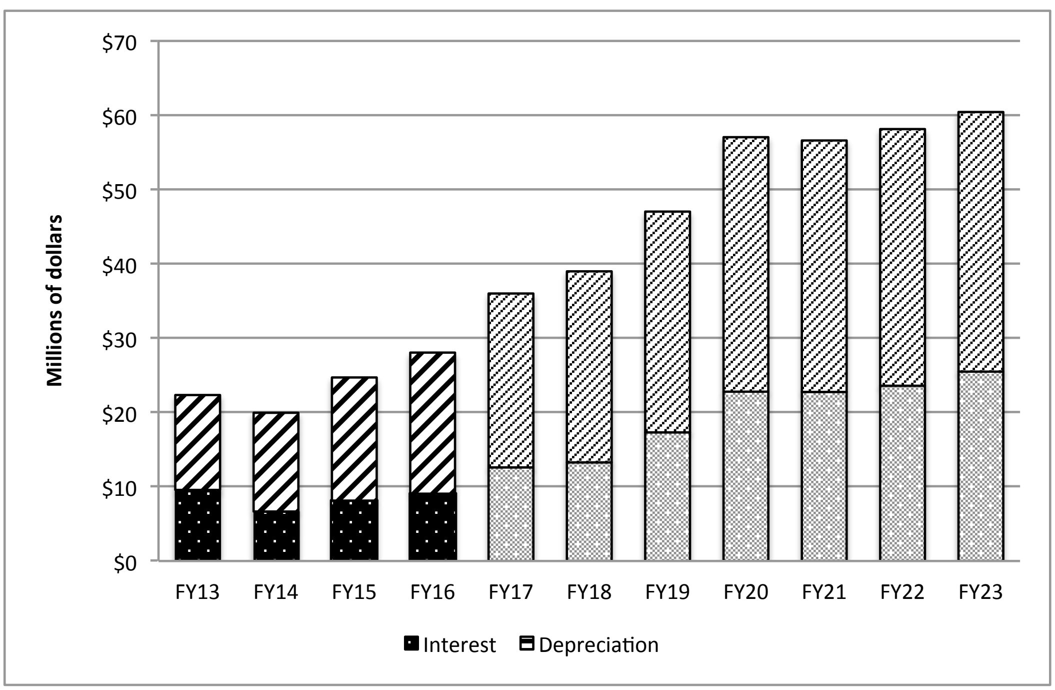
The practice of covering the full actuarial value of depreciation … reduces the amount of tuition and state appropriations that are spent on providing students with an education, and by increasing the apparent cost of education, drives additional tuition and fee increases for students.

However, the FY 2017-2021 Capital Plan reports amounts spent on principal and interest for UMB ($19,812,00 for FY15 and $21,281,000 projected for FY16) that were lower than what was reported as interest and depreciation expenses. For FY15, this amount is $4.9 million less than what UMB reported spending on interest plus depreciation, and for FY16, it is $6.7 million less. In both instances, the extra depreciation that was not spent on principal payments exceeded the campus's operating deficit: in FY15 there was $4.9 million of extra depreciation when the campus reported a $1.3 million loss; and in FY16 there was $6.7 million of extra depreciation when the campus reported a $5.5 million loss (see Table 2).

These differences raise two questions. First, where did the extra depreciation go since it was not spent on principal payments? Presumably it went into the campus's reserves, where it can be saved or used.[1] Second, should the system count the full amount of depreciation against the campus's bottom line? If we do not include depreciation among UMB's cash expenses, the campus's net income increases dramatically. The bottom row on Table 2 shows that the cash revenues continued to exceed the cash expenses of the campus such that in 2016 the campus had an actual net cash income of over $13 million, as opposed to a deficit of $5.5 million. Even counting only the principal payments as a cash expense in the last two years results in a positive net income balance of $3.6 million in FY15 and of $1.2 million in FY16.

Continuing to count the full amount of depreciation as a cash operating expense means that a rapidly increasing portion of the campus's revenues will be set aside for depreciation each year. Chart 1 shows the actual and projected amounts that the campus has and will set aside from its operating budget to cover interest payments and depreciation. In FY16, the

Chart 1: UMB Interest and Depreciation Expenses, Actual and Projected



Note: *FY13-16 values are actual values reported in the University's "Statements of Revenues, Expenses and Changes in Net Position." FY17-23 are projected values as reported in the Senior Vice President's Report to the UMass Board of Trustees, Administration & Finance Committee on September 13, 2017.*

campus set aside $19 million for depreciation. By FY19, depreciation is anticipated to be nearly $30 million, and by FY23, nearly $35 million (Senior Vice President's Report to the UMass Boston of Trustees, Administration & Finance Committee, September 13, 2017). UMass recognizes that the value of depreciation will increase as capital projects are completed, regardless of whether the campus is responsible for paying the principal for those projects or not. Thus, the practice of covering the full actuarial value of depreciation requires the campus to set aside an increasing portion of its operating revenues even when those funds are not required to pay off debt. This reduces the amount of tuition and state appropriations that are spent on providing students with an education, and by increasing the apparent cost of education, drives additional tuition and fee increases for students.

Institutional Support

Institutional Support (IS) is another campus expense that has grown significantly. IS is defined by the National Center for Education Statistics in their IPEDS Glossary:

> A functional expense category that includes expenses for the day-to-day operational support of the institution. Includes expenses for general administrative services, central executive-level activities concerned with management and long range planning, legal and fiscal operations, space management, employee personnel and records, logistical services such as purchasing and printing, and public relations and development. Also includes information technology expenses related to institutional support activities. If an institution does not separately budget and expense information technology resources, the IT costs associated with student services and operation and maintenance of plant will also be applied to this function.

From the data presented in Table 2 we know that IS expanded from a $40 million expense in FY13 (12% of all UMB expenses), to a $57.5 million expense in FY16, (14% of all expenses)—a growth of 42%. In contrast, the expenses for educational, research and student support only grew by 23% over the same time period.

Table 3 presents Howard Bunsis' analysis of the data on IS salaries and fringe benefits in the 2013-2014 IPEDS report, and our analysis of the 2014-2015 IPEDS report. These data show that UMB was an outlier among the campuses in FY14, spending 7.7% of total expenses on IS salaries and fringe benefits. The following year, in FY15, UMB increased its spending on IS salaries and fringe benefits by over 8% (from $27.2m to $29.4m), while the system overall increased spending in this area by only 4.4% (from $192.6m to $201.1m).

UMB's IS salary and fringe expenses are also high in comparison to UMass Lowell. UMass Lowell is used as a comparison campus for UMB due to its similar operating budget and student population. In FY14, UMass Lowell spent 6.9% of its operating budget on IS salaries and fringe benefits. In FY15 they had reduced that to 6.1%; while their overall expenses had increased by 10.5% from FY14 to FY15, UMass Lowell had reduced their spending on IS salaries and fringes by 2%. Thus, in FY15, UMass Lowell spent $4,130 per full-time-equivalent (FTE) enrollment on Institutional Support, while UMass Boston spent 18% more, or $4,872 per FTE enrollment (IPEDS FY2015).

Table 3: Institutional Support across the UMass System (in thousands), FY14 & FY15

UMass Institution	2013 - 2014 IS Salaries	IS Fringes	Total Expenses	IS Salaries + Fringes as % of Total Expenses	2014-2015 IS Salaries	IS Fringes	Total Expenses	IS Salaries + Fringe a % of Total Expenses
Amherst	$ 40,527	$ 4,697	$ 1,023,256	**4.4%**	$ 42,301	$ 3,348	$ 1,061,031	**4.3%**
Worcester	$ 35,028	$ 3,348	$ 932,057	**4.1%**	$ 37,266	$ 4,177	$ 797,183	**5.2%**
Boston	$ 21,524	$ 5,628	$ 351,886	**7.7%**	$ 23,175	$ 6,242	$ 381,298	**7.7%**
Dartmouth	$ 12,609	$ 3,785	$ 231,125	**7.1%**	$ 13,827	$ 3,901	$ 225,308	**7.9%**
Lowell	$ 18,994	$ 5,502	$ 353,367	**6.9%**	$ 19,707	$ 4,288	$ 390,360	**6.1%**
Central Office	$ 32,015	$ 8,919	$ 99,555	**41.1%**	$ 33,224	$ 9,629	$ 111,549	**38.4%**
TOTAL SYSTEM	**$ 160,697**	**$ 31,879**	**$ 2,991,246**	6.4%	**$ 169,500**	**$ 31,585**	**$ 2,966,729**	6.8%
All Campuses Less System	$ 128,682	$ 22,960	$ 2,891,691	**5.2%**	$ 136,276	$ 21,956	$ 2,855,180	**5.5%**

Note: *Data in this table are from the FY2014 and FY2015 IPEDS.*

In conducting our own research into the number and salaries of administrators, we've found that UMB reported 77 full-time and 1 part-time executives/administrators in its 2012 *Statistical Portrait* report available on the UMB Office of Institutional Research, Assessment and Planning website. Four years later, in 2016, they reported 86 full-time executives/administrators. This is nearly a 12% increase in upper-level administrators in just four years. By way of comparison, Table 4 shows the changes in employment levels for faculty and staff in the same time period. From 2012 to 2016, as the student population grew by 9%, the faculty increased the most by 13%, the professional staff increased by 11.6%, and classified staff decreased by 0.2%. Over this time period, the student:employee ratios decreased slightly for faculty (from 15.2:1 in 2012 to 14.7:1 in 2016) and professional staff (from 15.8:1 in 2012 to 15.5:1 in 2016). The largest decrease in this ratio, however, was for executives/administrators (from 155.9:1 in 2012 to 152.3:1 in 2016)—the group that should be the least affected by UMB's growing student enrollments.

Table 4: UMB Staffing Levels, 2012 - 2016

	2012	2013	2014	2015	2016	% change from 2012 to 2016
Undergraduate students (FTE)	9,410	9,688	10,079	10,371	10,280	9.2%
Graduate students (FTE)	2,591	2,645	2,754	2,825	2,821	8.9%
Total Students (FTE)	12,001	12,333	12,833	13,196	13,101	9.2%
Exec/Admin FT	77	83	82	88	86	11.7%
Exec/Admin PT	1	1	0	2	0	N/A
Exec/Admin FTE	77	83	82	89	86	11.7%
Faculty FT	587	602	650	699	714	21.6%
Faculty PT	606	571	569	572	529	-12.7%
Faculty FTE	787	790	838	888	889	12.9%
Professional Staff FT	694	725	758	758	788	13.5%
Professional Staff PT	198	172	169	219	180	-9.1%
Professional Staff FTE	759	782	814	830	847	11.6%
Classified Staff FT	374	383	380	397	392	4.8%
Classified Staff PT	277	258	262	243	219	-20.9%
Classified Staff FTE	465	468	466	477	464	-0.2%

Note: *Data in this table are from the UMB Statistical Portraits (2012-2016), Tables 1 and 43. FTE for employees are calculated using the IPEDS conversion factor of full-time (FT) staff plus 0.33 times part-time (PT) staff.*

And the number of these positions has continued to grow: our best estimate is that as of March 2017 there were 84 Executives/Administrators at UMB, being paid collectively about $13,184,298 in salaries alone (see Appendix A). Among these are positions that include "Chancellor" or "Provost" in their titles: for example, Associate Vice-Provost. Our analysis of the prevalence of these titles across the UMass campuses, presented in Table 5, shows that in March 2017, 46 individuals with these titles were employed at the Boston campus and only 32 at the Amherst campus. Based on student populations, this means that Boston had one high-level executive for each 223 FTE undergraduate students, while Amherst had one for each 738 FTE undergraduate students. Said another way, Boston has over three times more high-level executives than Amherst per undergraduate student.

Table 5: High-level Executive Positions at Boston and Amherst, March 2017

	Chancellors & Provosts	Students (FTE)		Students:Chancellor/Provost	
		Undergraduate	Graduate	Undergraduate	All Students
Boston	46	10,280	2,821	223	285
Amherst	32	23,616	4,796	738	888

Note: *Data in this table are compiled from the "Massachusetts State Employee Database," MassLive.com, 2/18/2016. Accessed 2/20/2017. Cross referenced with data provided by UMB: UMass_Salary_List_UMB_Central_3_15_17.*

Together, these findings—rapid increase in the institutional support expense category, institutional support salaries and fringes making up an unusually large proportion of all expenses, the growth of these positions that outstrips the growth of students and other staff, and a super-abundance of high-level executive positions—lead us to conclude that UMB has allowed executive costs to expand too rapidly. If institutional support expenses had grown at the same rate as educational, research and student services expenses, the campus would have reduced its expenses by $7.8 million in FY16 alone.

Scholarships and Fellowships

The funds devoted to scholarships and fellowships also increased noticeably, particularly between FY15 and FY16. To examine this expense, we compared it to the number of students at UMass Boston and to the cost of UMB's tuition and mandatory fees. Table 6 shows the numbers of FTE undergraduate and graduate students, the cost of in-state tuition and mandatory fees, and the value of scholarships and fellowships made available by UMass Boston.

The amount of scholarships/fellowships per student has increased from $959 in FY13 to $1,225 in FY16, an increase of 28%. Over the same time period, the cost of tuition and mandatory fees at UMass Boston has increased by 6% for in-state undergraduates and 19% for in-state graduate students. While the scholarship and fellowship funding has outstripped the growth in the cost of receiving an education at UMB, we applaud the campus administration's clear efforts in this area to make UMB more affordable for our lower-income students.

Table 6: UMB Scholarship and Fellowship Spending, FY13 - FY16

	2013	2014	2015	2016	% Change 2013 to 2016
Number of UMB students:					
Undergraduate FTE	9,688	10,079	10,371	10,280	6.1%
Graduate FTE	2,645	2,754	2,825	2,821	6.7%
Tution and Mandatory Fees:					
Undergraduate instate	$11,966	$11,966	$11,966	$12,682	6.0%
Graduate instate	$13,506	$14,168	$15,018	$16,115	19.3%
Scholarships and Fellowships:					
Funds spent in fiscal year (in thousands)	$11,832	$11,654	$12,254	$16,047	35.6%
Funds per total student FTE	$959	$908	$929	$1,225	27.7%

Note: *Student FTEs are from Table 4. Tuition and Mandatory Fees are from UMass President Office Factsheets. Fund spent on Scholarships and Fellowships are from Table 2.*

Conclusions

From our analysis, we draw three conclusions about UMB's financial status.[1] First, as of the end of FY16, UMB's cash revenues outstripped its cash expenses, including interest and principal payments. This is an important finding in light of the characterizations that have been made publicly that UMB has been mismanaged, that the campus cannot continue to pay for its educational offerings, and that, therefore, the campus should reduce its programming for students.

Second, we identified one area where significant savings could be achieved on campus, namely by reducing spending on institutional support in general and upper-level executive positions in particular. We believe that the campus administration should look closely at this area in order to garner any short-term savings, and to better distribute the campus's financial resources in the long-term.

Finally, we find that the current practice of accounting for depreciation is driving an accounting deficit, despite the actual positive cash flow. Furthermore, due to the needed and much delayed rebuilding of the Boston campus, the campus's depreciation burden will increase significantly through FY23, causing the current accounting deficit to balloon. In the next section of this report, we will explore further the policies for accounting for depreciation that UMass is adhering to, and question their validity for UMB and for all of public higher education.

This examination of UMB's finances exposes evidence of a more profound story—the story of the privatization of public higher education.

More importantly, however, this examination of UMB's finances exposes evidence of a more profound story—the story of the privatization of public higher education.

III. Examining the Drivers of Privatization

Often we think of privatization only as the replacement of public services and jobs by private companies; for example, when the provision of food in a cafeteria is outsourced so that the food services workers on a campus are no longer public university employees. This type of privatization has taken place at UMB and on many other public higher education campuses, and it is often accompanied by less control over the quality of the services provided and a worsening of the pay and benefits for the workers in those privatized jobs, as money is taken away from the workers so the private company can pay its own managers and turn a profit. But this is only one type of privatization.

The situation at UMB provides us with a case study of other ways that privatization operates. We see privatization in the application of private sector accounting methods to public sector institutions. We see it in the transfer of the costs of construction of UMB's public buildings onto the campus's books and away from the state. And we see it in the ever-increasing cost of public education that is being borne by our students and their families.

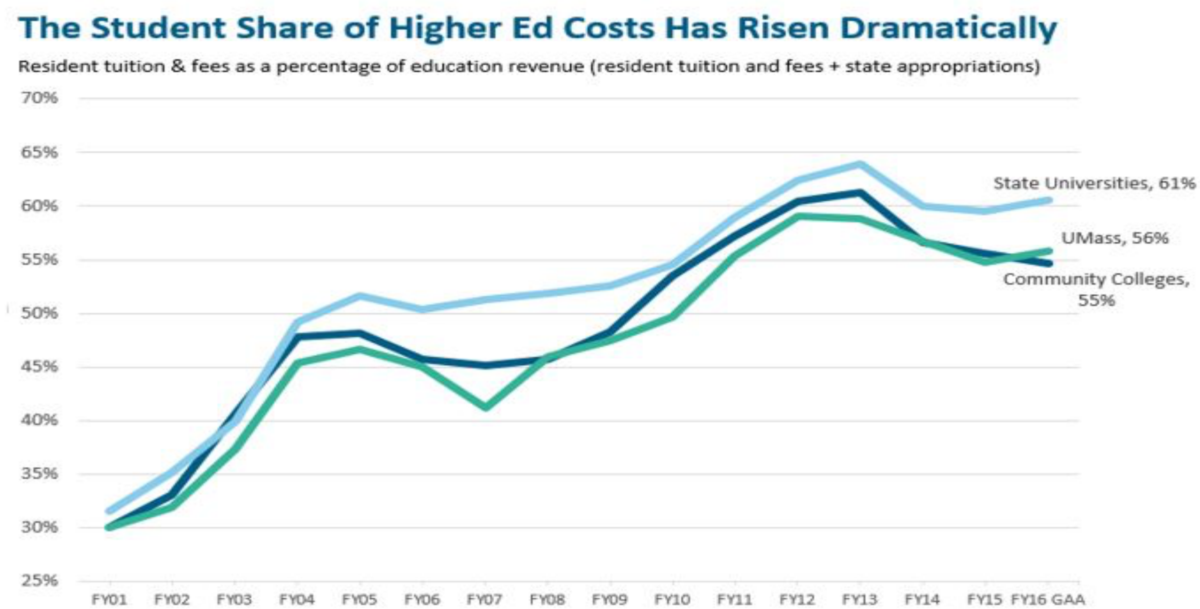
Underfunding Public Higher Education

Over the last few decades, we have experienced a shifting of the cost of public higher education from the state to the individual student. In the 1970s public funding paid for 85% of the cost of an in-state student's education, making higher education truly accessible and affordable for the vast majority of people in Massachusetts (Bears). That is no longer the case. In the fifteen years between 2001 and 2016, the per-student state appropriation for our four undergraduate UMass campuses has decreased by $4,200, while the tuition and fees paid by students has increased by $5,400 (Schuster). Thus, the cost of education borne by our students nearly doubled in 15 years, even after adjusting for inflation, leaving students paying for 56% of the costs of their education, as documented below in the chart from Schuster's report.

In the 1970s public funding paid for 85% of the cost of an in-state student's education, making higher education truly accessible and affordable for the vast majority of people in Massachusetts. Now Massachusetts' contribution toward higher education is among the lowest in the nation.

While this shifting of costs onto individual students is happening in other states as well, Massachusetts' contribution toward public higher education is among the lowest in the nation. It has been well documented that the Commonwealth's appropriation for higher education on a per capita basis is below the national average, and that the Commonwealth made significant cuts to state funding for higher education after 2008 (Schuster). However, despite the improvement in our state's finances since then, our public higher education funding still lags behind: in 2008 we spent over $10,000 per student, but in 2016 we spent only $8,748, leaving us nearly 16% below our pre-recession level of funding (Mitchell et al.). We also come up short when we compare Massachusetts' spending on public higher education to the investments made by other states. In FY2015, our Commonwealth's educational appropriations were $238 less per full-time student than the US average for state spending on public higher education (State Higher Education Executive Officers Association, 2016). Our spending on higher education is paltry when we consider how wealthy our state is: MA was 43rd in the nation for amount of state support for public higher education per $1,000 of personal income in FY2016 and FY2017 (*Grapevine Summary Tables FY2016-2017*).

Chart 2: Student Share of Higher Education Costs in MA, FY01 – FY16



As noted above, the primary effect of underfunding from the Commonwealth is that it drives up the cost of tuition. And increasing tuition and fees directly impacts students, driving up debt and pricing some local students out of an education. By 2015, 75% of UMass undergraduates graduated with student debt, and the average debt was nearly $31,000. This debt load had increased 19% in only four years (*University of Massachusetts Annual Indicators 2011-2015*).

Underfunding also pushes universities to seek higher-paying students in order to make ends meet, giving more seats to out-of-state and international students while making it harder for local applicants to be accepted. While the majority of UMass students are still from Massachusetts, the proportion of in-state students has decreased in recent years. The *Fact Sheets* available on the UMass President's website show that in the fall of 2008, in-state students made up 86% of all UMass undergraduates and 91% of UMB's under-graduates. By the fall of 2015, in-state student enrollment had fallen to 81% for all of UMass, and to 85% of UMB's undergraduate enrollment. In its search for higher-paying students, our public campuses develop contracts with entities like Navitas, a private for-profit company that recruits international students with the promise of admission into UMB upon completion of one year of study.

Finally, underfunding may put pressure on our campuses to eliminate programs that require state support. Smaller programs that address important social issues of race and diversity, ethnic heritage and culture, arts, labor, etc., may be eyed for elimination because they are not “profitable.” If followed to its logical conclusion, this corporate mentality—that an educational program is only of value if it is profitable—will leave us with a narrow set of programs that are tied to local industries, reducing education for our students to the development of skills for employment. The benefits of a broad education that encompasses history, arts, literature, as well as STEM specialties, would be reserved solely for those students who can afford to attend a private university. This is not the future we envision for our students, our campus, or for any public higher education institution.

Funding the Rebuilding of UMass Boston

State capital investment is another area where Massachusetts ranks below the national average. As reported in Schuster’s 2016 analysis for the Mass Budget and Policy Center, while the state’s spending on higher education capital projects has fluctuated widely in recent years, our spending over the past 15 years places us 30th in the nation for per student higher education capital spending. This 15-year span covers the early 2000’s when there was low state capital investment (between $50 to $130 million annually), and the years after the 2008 higher education bond bill, which included $1.0 billion for UMass capital projects.

In this environment of limited state support, the UMB administration was confronted with the reality of crumbling campus buildings and the undeniable need to substantially redesign and rebuild the Boston campus. Updating and moving the utilities upon which the campus depends—water, electricity, heat, air conditioning, gas, telecommunications, and networking—has been essential. These systems are housed in the campus substructure which, due to faulty initial construction followed by decades of neglect, is rapidly deteriorating, putting these systems, as well as the safety of the students and employees, at risk. In addition to the collapsing substructure, most of the campus’s classrooms, teaching and research laboratories, and office space housing faculty and staff, are in buildings plagued by leaks and indoor air quality problems. As our campus population of students and employees has grown, the size and number of teaching spaces and offices are not sufficient to house us all, thereby necessitating the construction of new buildings.

Funds secured by Governor Patrick through the 2008 Higher Education Bond Bill have helped to cover some of the costs of rebuilding the UMB campus, including building the Integrated Science Center (ISC) and partially funding the ongoing substructure project. With no other sources of funding, the campus has had to absorb the remaining construction costs, most notably including the utilities corridor and the general academic building, now known as University Hall. According to UMass’s FY 2017-2021 Capital Plan (issued in September 2016), of the $968 million needed to complete the 12 UMB projects “devoted to addressing the issues that derive directly or indirectly from the deterioration of the Substructure and the need to demolish it along with the Science Center and Clark Pool,” only 18.4% ($178m) has come from the state so far; UMB has borrowed the vast majority of the funds ($510m or 53%), with an additional $26m (2.7%) provided through local and external funding. About a quarter of the funds needed for this work have yet to be identified. This has left the campus without the funds to construct an additional academic building to house the programs currently housed in the condemned Science Center.

The vision for this rebuilding was captured in the campus's September 26, 2011 report titled, *Fulfilling the Promise: The Report of the University of Massachusetts Boston Strategic Planning Implementation Design Team*, available on the UMass Boston website. In addition to laying out the plan for rebuilding the campus, the report addresses the financial implications of the plan. *Fulfilling the Promise* identified increasing student fees and increasing the numbers of out-of-state and international students as the largest sources of additional revenues for the rebuilding. This approach was optimistic in that it relied on increasing student enrollment at UMB, despite the projections available at the time that the high school graduating population in Massachusetts would shrink, and that total enrollment in public higher education institutions would increase by only 15 percent over the decade between 2004 and 2015; UMB's plan counted on a 16 percent increase in enrollments in just six years, 2010 to 2016 (Hussar and Bailey, p 12).

More disturbing than the optimism about enrollment is the overt intention built into the plan to have current and future students shoulder the burden of the construction debt by further raising the cost of tuition and fees. This would be a burden on students at any public campus, but it is an impossible burden to place on UMB students. Increasing the cost of education impacts all students by increasing the number of hours they must work in order to pay for school, and by increasing the personal debt of those who continue in their pursuit of higher education. Moreover, tuition and fee increases deny access to many students who cannot afford to take on more debt, undercutting the mission of UMB, its students, and the capacity of the entire UMass system to serve the Commonwealth's growing populations of immigrant, first generation, low income and students of color.

The UMass Board of Trustees (BOT) had oversight over this plan and over the debt shouldered by the campus. The BOT could have prioritized the rebuilding of the Boston campus under the 2008 Higher Education Bond Bill, or sought other sources of funding to ensure that the needed rebuilding could have moved forward, perhaps at a slower pace, but without severely affecting current and future students. Instead, the BOT allowed the plan to move forward, fully cognizant of the financial implications for students and for the campus.

> *Tuition and fee increases deny access to many students who cannot afford to take on more debt, undercutting the mission of UMB, its students, and the capacity of the entire UMass system to serve the Commonwealth's growing population of immigrant, first generation, low income and students of color.*

Instead of taking the necessary steps to ensure public funding for the rebuilding of UMB, the system and the campus have turned to public-private-partnership (or P3) agreements for some of their building needs. These partnerships come with enormous costs for the students, employees and the public. While the campus may get a residence hall built without taking on more debt, the students most in need of housing will not find it there. Instead of building a dormitory controlled by the state to ensure an affordable housing option, an outside company will build what is essentially an apartment complex, charging market-rate rents which most local students cannot afford, so that the private company can turn a profit. In a well-meaning gesture, the current UMB administration is anticipating issuing financial aid to help cover low-income students' housing costs so some could live in the dorm. While this may help a few students, it shifts more of the University's operating budget into the hands of a private for-profit company. The surrounding community may suffer too, since these "partnerships" can change the local economic landscape, perhaps driving up rents and forcing residents out of the neighborhood.

Balanced Budgets, Reserves and Depreciation

The BOT has made it clear in statements at committee meetings over the past year that they will not allow UMB to continue to run deficits while paying off construction debt. Instead, the BOT is insisting that UMB balance its budget and protect its reserves. To do this, UMB will have to cut academic programming, faculty, and/or staff in order to absorb the principal and interest payments on the construction debt. Indeed, those cuts have already begun. We won't know the actual numbers of this year's revenues and expenses until the official financial statements are released, but we do have two numbers to consider: a purported $25 million deficit and a projected $23 million of depreciation. UMB is being told it must make $25 million worth of cuts in the 2017-2018 academic year in order to show a balanced budget that includes setting aside approximately $23 million worth of actual revenues for principal payments and depreciation.

Is this demand in either the short- or long-term interests of our students? We don't believe it is. UMB's track record shows that until 2014 we had been building our reserves. Over the past three years the campus used some of those reserves to make debt payments. To insist that the full amount of the debt be paid for out of the campus's revenues takes resources away from educating our students and limits their education.

The BOT has other options. It could allow UMB to run a deficit for the next few years, using reserves to pay down some of the debt. In addition, the BOT could release some of the central office's reserves to help cover principal payments, showing that UMass truly is a system that benefits from and supports all of its campuses. The BOT could work harder to secure state funds to fully fund the construction of the utility corridor, substructure, parking garage and new classroom buildings. As discussed above, UMB has taken on the lion's share of debt for the rebuilding of the campus. Another bond bill, such as the 2008 Higher Education Capital Improvement Act, could provide the state funding needed for the reconstruction of the campus. Finally, the BOT could endorse and actively support the Fair Share Amendment, designed to provide more tax revenues for public education, and commit a portion of any resulting revenues to paying off the principal of UMB's construction debt. These steps would address the short-term financial needs of the campus, minimizing or even eliminating the pressure to squeeze savings out of academic and student support programs, and they would shift the burden of the construction debt away from students and back onto the state and UMass system, where it belongs.

The alternatives outlined above would all help to reduce UMB's debt burden, reducing the amount of the campus's operating funds spent on interest and principal payments. But there is another aspect of the budgeting process that poses a long-term problem: depreciation. Accounting for depreciation as a cash expense—a practice implemented in response to the non-governmental Government Accounting Standards Board (GASB) Statement 35 at the beginning of this century—is problematic. On its face, it requires that each campus set aside a portion of its annual operating funds (e.g. tuition, fees, state appropriations, grants, gifts, etc.) to pay for the replacement costs of buildings and equipment. This requirement is flawed both in its theory and application. It does not account for the reality that the state should pay for the construction of public buildings, while the campus pays annually for their upkeep and for equipment replacement from other parts of the operating budget. Additionally, in practice this money does not appear to actually be set aside to pay for repairs and equipment replacement; if it were, there would be a fund available to the campus for such costs.

Counting depreciation as a cash expense results in reducing the amount of the operating budget that actually can be spent on educating students. While the BOT may not be able to refuse to adhere to GASB statements, we do expect the BOT to understand the implications of those practices and take steps to mitigate against the most damaging ones. In UMB's case, the expectation that the full value of depreciation—amounts greater than the needed payments for principal and interest payments—be set aside from operating funds is not in the best interest of our students and programs. The campus should not be made to cut academic programming, or faculty and staff, in order to balance the full actuarial value of depreciation. To make matters worse, the BOT has insisted that the campus not be allowed to spend its reserves—reserves built up over the years in part from accounting for depreciation—to cover the new building costs.

To be clear, the goal of the GASB requirements are to ensure that bond holders are given a full accounting of their investments. While this may be warranted for investment in private companies where investors run the risk of losing their money if the company goes bankrupt, this is much less of a concern for holders of public bonds. As pointed out earlier, the funding mechanisms for large public capital projects do not rest solely on the shoulders of any one campus. By refusing to take steps to mitigate against these effects of having to include the full actuarial cost of depreciation in each campus's operating budget, the BOT is succumbing to the concerns of bond rating agencies. The primary interest of the BOT, however, should be providing the best educational experience for our students and for the families of our Commonwealth. The overall financial health of the UMass system and of our Commonwealth should allow the BOT to loosen the strictures it has placed on UMB of a fully balanced budget and increasing reserves.

IV. Our Recommendations

We believe that UMB can continue to thrive as a public higher education institution committed to providing an affordable and rich educational experience to a diverse urban population **and** update its campus's physical infrastructure and educational resources. We offer the following recommendations to help achieve that goal:

1. UMB should immediately be released from the obligation to achieve a positive net income, and should not be required to include the full actuarial value of depreciation as a cash expense. The campus should be allowed to use reserves to make payments on the construction debt, and the BOT should release Central Office reserves to aid in the paying of this debt.

2. The UMB administration should engage in an open and transparent process to look at the finances of the campus, and a plan should be developed, with involvement of students and employees, to ensure that the campus can continue to provide an affordable and diverse education along with appropriate support services to its students, and ensure reasonable workloads for its faculty and staff. This planning process should include a review of interest and principal payments, and should assess the rapid increase in upper administration (Institutional Support) expenses.

3. The BOT should endorse the Fair Share Amendment and work to ensure that, if passed, significant monies are committed to funding public higher education, as intended.

4. The MA Legislature should provide funds in the immediate-term to cover all the costs of replacing deteriorating buildings on the UMB campus, including fully funding the UCRR and substructure projects. This could be done by approving Governor Baker's recent bill "An Act Providing for Immediate Capital Improvement Needs of the Commonwealth," which includes approximately $1 billion for Massachusetts public higher education campus facilities and grounds. While this bill stops short of providing funding for replacement academic buildings, it is a significant step toward ensuring responsible and appropriate construction on all campuses and toward re-establishing the state's responsibility for the cost of replacing, renovating, and maintaining our campuses. Campuses that choose to underwrite additional building projects must be able to absorb the costs and debt without increasing tuition, decreasing academic offerings, or reducing staffing levels.

> *We believe that UMB can continue to thrive as a public higher education institution committed to providing an affordable and rich educational experience to a diverse urban population* ***and*** *update its campus's physical infrastructure and educational resources.*

5. The MA Legislature should annually increase appropriations for public higher education until we are at least on par with the national average based on our state's wealth. This goal would move the Commonwealth toward spending $5.26 per $1,000 of personal income on state support for public higher education, as Wisconsin currently does, and away from the $3.51 per $1,000 of personal

income, as we currently do. This should be done as part of an agreement with the UMass campuses not to increase tuition and fees. The Fair Share Amendment, if passed, could help address these funding needs.

In considering these recommendations, we ask that we all—members of the MA legislature, the UMass BOT, UMB's administration, and the larger community of Boston—remember the purpose with which we are tasked. Chancellor John W. Ryan, at UMass Boston's 1966 Founding Day Convocation, reminded those gathered that "we have an obligation to see that the opportunities we offer…are indeed equal to the best that private schools have to offer." This is the expectation that the citizens of our Commonwealth have for themselves and their family members when they come to UMass Boston. This is the responsibility that UMB staff, faculty and administrators take on each day on behalf of our students. This should be what guides the decisions of the BOT and the MA legislature as we work to address the crisis at UMB.

Endnote

[1] This analysis is based on the information provided in financial documents made available on the University of Massachusetts President's Office website. In a meeting on September 12, 2017, shortly prior to the planned release of this report, the authors were informed by the UMass Boston administration that the campus has been making capitalized interest payments, interest payments on borrowed funds that have not yet been used for capital improvements. These payments are made from the UMB reserve funds and are not reflected in any of the available financial documents. The authors were also told that the campus administration expects these payments to be complete in FY18. While we have not had time to explore and assess what impacts this new information has on our conclusions about the campus's cash flow and net cash income, it is clear that this is yet another cost the campus is taking on as part of the rebuilding of UMB.

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APPENDIX A: UMB Upper-Level Administrative Positions as of 3/15/2017

- **84 UMB non-unit, upper-level administrators earn more than $100,000 annually.** The total annual salary for this group (not including benefits) is $13,184,298.

- **46 of these administrators have either Chancellor or Provost in their title.** The total annual salary for this group (not including benefits) is $8,021,129.

    - **28 upper administrator positions include 'Chancellor' in their title,** including 2 positions currently being searched. The salaries for these positions totals $4,803,107.
        - 1 Chancellor
        - 1 Deputy Chancellor
        - 1 Assistant Chancellor
        - 1 Chief of Staff / Assistant Chancellor
        - 1 Special Assistant to the Chancellor
        - 5 Vice Chancellor (not including Provost/VC Academic Affairs)
        - 1 Interim Vice-Chancellor
        - 1 Special Assistant to the VC of Student Affairs
        - 1 Sr. Associate Vice Chancellor
        - 3 Associate Vice Chancellors
        - 12 Assistant Vice Chancellors

    - **18 upper administrators positions include 'Provost' in their title.** The salaries for these positions totals $3,218,022.
        - 1 Provost/Vice Chancellor for Academic Affairs
        - 3 Associate Provosts
        - 5 Vice-Provosts
        - 4 Associate Vice-Provosts
        - 5 Assistant Vice-Provosts

- **Ratio of UMB Upper Administrators with Chancellor or Provost in their titles to UMB Students** (10,280 undergraduates FTE + 2821 graduate students FTE):
    - 1 chancellor or provost for every 223 undergraduates (FTE)
    - 1 chancellor or provost for every 285 total student (FTE)

Titles and Salaries of 46 Non-Unit Upper-Level Administrators

28 Chancellor Titles:

Chancellor	$ 355,059
Deputy Chancellor	$ 250,001
Assistant Chancellor	$212,133
Chief of Staff/Assistant Chancellor	$219,448
Special Assistant to Chancellor	$116,899

Vice Chancellor—Administration & Finance	$ 269,697
Vice Chancellor—Athletics & Recreation/Special Programs & Projects	$ 219,019
Vice Chancellor—Enrollment Management	$223,328
Vice Chancellor—Governmental Relations and Public Affairs	$ 194,774
Vice Chancellor—Student Affairs	$ 228,938
Special Assistant to the VC of Student Affairs	TBD/searching
Interim Vice Chancellor—University Advancement	$ 170,000
Senior Associate Vice Chancellor—Student Affairs	$ 183,821
Associate Vice Chancellor—Academic Affairs	$ 167,614
Associate Vice Chancellor—Alumni Relations & UMB Fund	$ 141,140
Associate Vice Chancellor—Dean of Students	TBD/searching
Assistant Vice Chancellor—Academic Affairs	$ 115,000
Assistant Vice Chancellor—Budget & Financial Planning	$ 169,505
Assistant Vice Chancellor—Human Resources	$ 197,000
Assistant Vice Chancellor—Special Projects	$ 164,079
Assistant Vice Chancellor—Campus Master Planning	$ 158,230
Assistant Vice Chancellor—Campus Services	$ 153,546
Assistant Vice Chancellor—Enrollment Management	$ 128,623
Assistant Vice Chancellor—Facilities Management	$ 201,692
Assistant Vice Chancellor—Finance & Operations	$ 135,976
Assistant Vice Chancellor—Leadership & Capital Giving	$ 140,077
Assistant Vice Chancellor—University Advancement	$ 124,203
Assistant Vice Chancellor—Contract & Compliance	$ 163,305

18 Provost Titles:

Provost & Vice Chancellor for Academic Affairs	$ 297,769
Associate Provost	$ 209,523
Associate Provost	$199,298
Associate Provost for IR	$ 139,398
Vice Provost—Academic Support Services	$ 184,972
Vice Provost for Economic Planning	$ 217,921
Vice Provost and Director, OGP	$ 188,650
Vice Provost for Research	$ 242,486
Vice Provost—Information Technology & CIO	$ 231,753
Associate Vice Provost—Academic Support	$ 148,048
Associate Vice Provost—Director of ORSP	$ 209,776
Associate Vice Provost—Research and Graduate Studies	$ 188,649
Associate Vice Provost	$ 132,351
Assistant Vice Provost for CIS	$ 133,164
Assistant Vice Provost	$ 126,009
Assistant Vice Provost—Application Services	$ 131,330
Assistant Vice Provost for Business Ops	$ 111,925
Assistant Vice Provost for IT Client Services	$ 125,000