**From:**  Eva Cherniavsky, AAUP president
**Sent:** Tuesday, September 1, 2020 7:01 PM
**To:** Faculty Issues and Concerns aaup@u.washington.edu>
**Subject:** [AAUP] UW's reserves (Follow-up to town hall discussion)

Dear Colleagues,

In the “budget transparency” portion of the excellent town hall convened this morning by the Faculty Senate, the issue of UW’s unrestricted reserves was raised. We wanted to follow up on that discussion and share with you all some of the specifics that could not be included in a two-minute comment.

In reconciling the actual reserves of public colleges and universities with the numbers which appear in that institution’s financial report, it is important to understand the impact of an accounting change implemented in 2015.  Prior to 2015, pension liability did not appear on the balance sheets of public institutions such as UW.  In 2015, however, the Government Accounting Standards Board (GASB) added GASB 68, which put the liabilities for defined benefit pension plans of public universities on the balance sheet. This change was made largely at the behest of university administrators on a national scale; it is harder to implement austerity when balance sheets suggest robust resources, so it stands to reason that university financial managers would prefer an accounting system that effectively disappeared these resources.  In 2018, GASB added the OPEB liability to public university balance sheets, via GASB 75.

We can see both changes reflected on the UW’s audited financial reports.  In UW’s 2014 financial report, unrestricted reserves stood at 1.7 billion; in 2015, however, that number drops to 869 million; in 2018, unrestricted reserves appear as a *negative* number of just around 1.2 billion.  ***The crucial point, however, is that neither of these liabilities are real liabilities of any public university, as these are state, not institutional, obligations.***

***The best proof of this claim is that bond rating agencies such as Moody’s do not count these as real liabilities when they determine a university’s bond rating.***As is underscored in the 2019 financial reports, UW is only one of 8 public universities in the country to hold a Moody’s Aaa bond rating (the vast majority of public institutions hold ratings several tiers lower – though these ratings, as well, identify them as standing on solid financial ground).  UW would not hold a sterling Aaa bond rating if, in actuality, we had negative unrestricted reserves.

Using a template provided by Howard Bunsis, Professor of Accounting at Easter Michigan University and a nationally recognized expert in higher education finances, and inputting figures from UW’s 2019 audited financial report, we have attempted (in the attached document) to calculate UW’s true unrestricted reserves, ***which we estimate at 1.98 billion***.  ***If we have erred in any respect, we welcome corrections from more knowledgeable colleagues and administrators.  It would appear, however, that our figures are roughly corroborated in the UWINCO Board Update and Investment Performance Quarterly Report, prepared for the Board of Regents in December 2019:  this document sets “operating and reserve funds” at 2.213 billion***.

There is no question we are facing real losses:  possible losses in net tuition revenue (even if enrollments hold steady); loss in auxiliaries, especially housing/food service and athletics; a potential 15% cut to state appropriations.  It is worth bearing in mind, however, that state appropriations to UW in 2019 were just under 362 million; a 15% cut would be a loss of 54 million dollars. While we should unquestionably be mobilizing to support a capital gains tax and other measures that would enable public reinvestment in higher education in our state, the current level of state appropriation is currently so anemic that a 15% cut in real numbers is less substantial then it may sound.   ***In 2019, UW finished the year with a net increase in position of nearly half a billion dollars (481 million). From this perspective, it would seem that we have financial buffers in place to absorb some of our projected losses.***

As President Cauce noted in the town hall discussion, UWSOM is looking at very substantial losses.  The figure that has been widely cited is a 500 million dollar projected deficit by end of summer (see the Seattle Times coverage at <https://www.seattletimes.com/seattle-news/health/uw-medicine-faces-500-million-shortfall-because-of-coronavirus-pandemic-staff-cuts-and-furloughs-coming/>). We would hope it goes without saying that this deficit must be met through further CARES act allocations,  FEMA, or state funding; the SOM losses cannot be recuperated on the back of Tacoma, Bothell, the College of Arts and Sciences, or the other segments of the university that operate almost entirely on tuition revenue. Above all, SOM losses cannot be made up at the expense of our core research and teaching mission.

We realize that some portion of the UW’s unrestricted reserves has undoubtedly been budgeted for various ends, but as we all know, a budget is a plan, based on the conditions and circumstances that exist at the time it is written.  Budgets can be, and often are, revised, and unrestricted reserves are monies that can be rebudgeted when necessary.   This unprecedented crisis would seem to represent a moment where priorities must be rethought.  Reserves exist to enable institutions to withstand foul economic weather; surely it is raining now.

Respectfully,

Eva Cherniavsky and Diane Morrison

Eva Cherniavsky

Andrew R. Hilen Professor of American Literature and Culture

Director of Graduate Studies

Department of English

Box 354330

University of Washington

Seattle, WA 98195