

# Halpern Responds to Karns

*EDITOR'S NOTE: In the interests of readability, the following reprint of Jeff Halpern's response to Julie Karns' memo has been edited lightly for punctuation.*

TO: Julie Karns  
Vice President, Finance

FROM: J. Halpern, for the AAUP

DATE: January 17, 1995

SUBJ: Your Memorandum of  
December 19, 1994

Since your memorandum of December 19 purports to "correct" information provided the campus community by the AAUP, we feel it is absolutely essential that we respond. In doing so we will follow the format of your memorandum.

## **Projection of Future Deficits**

We are relieved to hear that the administration is projecting neither future deficits nor enrollment declines. But we did not make up the idea that you were projecting future deficits out of whole cloth — that term has been used by members of the administration in any number of meetings attended by faculty. As for enrollment, our point was, and is, that — since our revenues are so tuition-driven that any discussion of the future must involve projections of student enrollments, — we were, therefore, asking what models for projecting future enrollments were being used. Your memorandum of Dec. 19 makes clear that the process of developing financial projections has not yet even begun, so we wonder how anybody could talk about "continuing deficits"?

We are heartened to hear that financial projections are going to be developed. We assume that once that task is completed, not only will the results be

shared, but so will the underlying assumptions and models used to reach those results, since — as we all know — the outcome of such an exercise is determined by those assumptions and models.

## **Fund Balances**

In your memorandum you claim that Dr.

Richard Weber's analysis of the financial health of the institution was in error because he compared "apples to oranges" when he compared the institution's fund balances in 1990 to those in 1993, because the 1990 figure does not include Westminster, while the 1993 figure does. This is no error, and in fact the one thing that is never true when dealing with money is that you are dealing with apples and oranges. The whole point of valuing everything in money is so that you may compare all things (if you pardon the pun) in the same coin.

The simple fact of the matter is that Rider University was worth X in 1990 and was worth X+Y in

1993. The fact that this difference was partly due to the acquisition of Westminster does not make this any less true. Your way of arguing reminds me of the woman who denies she is better off today than she was in 1990. I say to her, but you were worth \$10 million in 1990 and you are worth \$13 million today. She retorts, yes, but that is only because my uncle died in 1991 and left me \$4 million. Then she goes on to say that in fact she is poorer today, because in 1990 her uncle was worth \$7 million and she was worth \$10 million for a total of \$10 million, but she is worth only \$13 million today so she is actually \$4 million poorer today than in 1990. No! She is \$3 million richer because her inheritance was a real event that increased

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➡ **RESPONSE, p. 4**

## Response

↳ (from page 3)

her net worth just as the acquisition of Westminster was a real event that increased our net worth.

Now you might have said that while we are wealthier today than we were prior to the merger, we are not as well off as we might have been or we expected to be. Those would be fair and honest statements. But to claim that an increase in the overall fund balances did not occur is simply not true.

### Quasi-endowment

First, we are happy to see that we are all in agreement that the quasi-endowment was in fact \$30 million as of June 1993, and not the \$9 million figure that has been bandied about. The fact that the board has chosen to make only \$9 million of that amount available for discretionary spending is just that, a choice. It may or may not be the correct choice, but it is a choice and does not change the actual value of the quasi-endowment. But your memorandum seemed to miss the major point of our pointing out that the quasi-endowment increased by \$2 million in 1993, which was that we cannot take seriously a discussion of university finances that focuses on operating deficits, since the university declared an operating deficit in 1993 and was still able to add \$2 million to its rainy-day fund! Most people find it hard to understand how you can have a deficit and save \$2 million at the same time.

A quasi-endowment is indeed a rainy-day fund. It is money that the institution has put aside in years of surpluses for future expenditures — including those created by the normal fluctuation in revenues. Since this money exists to be spent, we do not understand why the administration and the board of trustees seems to be in such a panic whenever we have to spend it. We certainly do not understand how one can predict that all of the discretionary funds will be spent in under three years, when you have already admitted that the process of predicting revenues for the next two years has just begun.

What we do understand is the fact that the way you present the possible decline in the quasi-endow-

ment for this year is less than forthright. You claim that the decline in the quasi-endowments for this year (barring any reductions in expenditures) will be \$3.5 million. You reached this figure by adding the projected operating deficit of \$1.6 million to the \$1.2 million in funding for the Hill Residence Hall and \$700,000 in partial payment on debt.

Let us take each of these in turn. The \$1.6 million figure includes within it payments from the current fund to other funds — including payments to the quasi-endowment. It, therefore, can not be simply subtracted off of the quasi-endowment since some of it represents an ADDITION to quasi-endowment. While the \$1.2 million for the Hill Residence may represent a decrease in our liquid funds, it does not represent a decrease in our overall net worth, since those \$1.2 million will now appear under Investment in Plant Funds. And as

for the \$700,000 in payment of debt, since this reduces our liabilities, it too does not decrease our overall net worth.

If we are going to work together in the future, it must be not only on the basis of shared information, but on shared perspectives on what that information means.

P.S. We have not commented on your figures from the 1994 fiscal year, since we have not yet seen a copy of the university's 1994 audited statement, which we assume you will send us as soon as it is available. We would also like to comment on your Note 3. It is not at all clear to us why the lack of a lifetime cap on claims affects either the need for or the size of the reserve fund — given that the university purchases stop loss insurance for just such a catastrophe. It is our understanding that that insurance protects the university against any individual claim greater than \$35,000. In light of this, your note appears to be nothing more than a gratuitous attack on one of the few outstanding elements of our health insurance.

cc: Phyllis Frakt  
Helen Stewart  
AAUP Executive Committee

**We are happy to see  
that we are all in  
agreement that the  
quasi-endowment was  
in fact \$30 million as  
of June 1993.**