

Fiscal Crisis at UMass Boston: The True Story and the Scapegoating

How a UMass Central Office error triggered financial woes at the Boston campus,
and how the UMass president and trustees pinned the blame on Boston administrators

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Summary of Findings

Following a detailed review of records obtained from the UMass Comptroller’s office and other publicly available sources, Pioneer Institute concludes that the UMass President and Board of Trustees (BoT) unfairly scapegoated former Chancellor Keith Motley and UMass Boston administrators for creating UMass Boston’s \$30 million fiscal crisis in 2017–2018 when the president and BoT themselves bore primary responsibility for creating the crisis as a result of their having approved a massive, accelerated capital expansion plan without assuring that capital reserves would be available to pay for it.

1. Contrary to common understanding, UMass Boston’s so-called \$30 million budget deficit was not an operating budget deficit for which the management of local campus administrators could rightfully be blamed. Public records make clear that \$25.8 million of the budget reductions that UMass-Boston administrators were tasked by the university’s Central Office to make in FY2017, and \$25.3 million of the so-called “\$30 million deficit” in FY2018 were attributable to an off-budget directive from Central Office ordering UMass-Boston administrators to replenish the campus’s primary reserves that provides cash-flow to pay for campus-funded capital expansion projects.
2. The inappropriately-termed “\$30 million budget deficit” was comprised mostly of off-budget replenishment of capital reserves in 2017 and 2018 after the UMass Central Office realized mid-year that it had presented an extreme projection error to the BoT during the university’s budget cycle.
3. The BoT, president and UMass Central Budget Office approved each instance of capital spending by UMass Boston, but lost track of and drastically overestimated the primary reserves UMass-Boston would have available to pay for it, although it had been their legal responsibility to ensure that sufficient reserves were available. When they

realized their error in the middle of FY2017, they directed UMass-Boston administrators to replenish the reserves, triggering the budget crisis. This was the root cause of the so-called \$30 million budget shortfall.

4. Although the BoT and President approve reserve amounts on each campus as part of the University’s operating and capital budgeting processes, including approving expenditures from reserve accounts to fund capital projects, the BoT did not institute a University Reserve Policy until September 19, 2018 when it established policy T18-026 that governs University reserve funds, the purposes for which they can be used, and associated reporting requirements.^{1,2,3} The minutes of the meeting of the BoT Committee on Administration and Finance of September 12, 2018 reports that: “President Meehan highlighted the adoption of the University’s first Reserve Policy.” The fact that the BoT and President did not institute a reserve policy prior to September 12, 2018, despite their having had responsibility and authority to approve reserve amounts for each campus and to assure that sufficient reserve amounts would be available to pay for capital projects, is an indication that much of the blame for the UMass-Boston financial crisis was attributable to a failure of the BOT and President to fulfill their responsibilities in overseeing reserve accounts.
5. The event that precipitated the crisis occurred in September 2016 when the BoT Committee on Administration and Finance reviewed a revised five-year projection

“The President and Board of Trustees themselves bear primary responsibility for creating the crisis.”

Figure 1. April 6, 2016 Financial Projection of Primary Reserves by campus, presented to BOT by UMass Central Budget Office ⁴

Primary Reserve	Projected FY16	Projected FY17	Projected FY18	Projected FY19	Projected FY20
Amherst	24.7%	20.6%	19.4%	19.2%	19.1%
Boston	15.9%	18.3%	21.3%	23.7%	33.8%
Dartmouth	5.7%	9.0%	12.5%	15.7%	21.3%
Lowell	20.3%	18.2%	17.9%	17.9%	18.1%
Medical School	28.5%	27.0%	24.2%	21.7%	20.0%
Central	91.8%	89.5%	88.3%	87.1%	86.4%
University	17.6%	16.2%	15.8%	15.8%	17.2%

- of university finances prepared by the UMass Central Budget Office that drastically reduced the estimate it had presented to the full board six months earlier of how much UMass Boston would have in primary reserves in FY2017 and FY2018. In the earlier estimate, presented by UMass’s vice president for administration & finance and treasurer to the BoT committee in April 2016, the Central Budget Office estimated that UMass-Boston’s available FY2017 reserves would be \$77.7 million; its revised September 2016 estimate lowered the estimate to \$28.1 million, a drastic reduction of \$49.6 million. The Central Budget Office’s April 2016 estimate of available reserves in FY2018 was \$92.9 million; its revised September 2016 estimate was \$28.5 million, another drastic reduction, this time of \$64.4 million.
6. The revised September 2016 estimates showed that UMass-Boston’s primary reserve ratio (fiscal health measure) would drop to 6.6 percent in FY2017 and 6.4 percent in FY2018, far below UMass’s policy of 20 percent. The April 2016 estimate had projected much healthier primary reserve ratios of 18.3 percent in FY2017 and 21.3 percent in FY2018. Figures 1 and 2 show the extreme change in projected primary reserves at UMass Boston between the Central Office’s estimates of April 6, 2016 and September 14, 2016.
 7. At the September 2016 meeting, the vice president for administration & finance and treasurer did not make the presentation to the committee, as she had done at the April 2016 meeting, although she was in attendance. Instead, the committee chair provided the updated projection including the drastic, unexpected reduction in UMass Boston primary reserves. State comptroller’s records show that six months later, in February 2017, the vice president for administration & finance and treasurer received a payout and was transferred to a newly created position at UMass Amherst.
 8. The estimation error that precipitated the UMass Boston financial crisis was directly attributable to the UMass Central Budget Office, under the direction of the UMass president and the BoT, who are legally responsible for approving the capital reserve amounts on each campus annually and for keeping close track of available reserves. State law and regulations provide that the BoT is responsible for approving the university budget, including the budget of each campus, as well as each campus’s capital plan. The University President’s Office is responsible for assuring that sufficient funds will be available to fund the capital plan.
 9. Further evidence that UMass-Boston’s “\$30 million budget deficit” was not an operating budget deficit is included the university’s audited financial statements, which showed that the campus ended FY2017 with only a modest \$1.1 million operating budget loss and ended FY2018 with projected 2.5 million operating deficit, according to UMass’s FY2019 budget approved by the BoT on July 13, 2018.
 10. UMass Boston’s capital finance problems were largely attributable to a policy change made within the last decade by the UMass Building Authority, that allowed UMass campuses to undertake self-funded capital projects to construct academic buildings, laboratories, athletic facilities, heating plants, and other facilities not funded by fees and charges. Prior policy had restricted campus-funded projects to those that paid for themselves, including parking garages, dormitories, and dining facilities. The State College Building Authority does not allow campuses to borrow for facilities not funded by fees and charges and undertakes other capital projects only upon funding from the state legislature.

Figure 2. September 14, 2016 Financial Projection of Primary Reserves by campus, presented to BOT by UMass Central Budget Office

September 2016 BoT	FY17	FY18	FY19	FY20	FY21
Primary Reserve	Budget	Projected	Projected	Projected	Projected
Amherst	27.4%	26.6%	26.9%	23.5%	24.8%
Boston	6.6%	6.4%	8.7%	12.7%	17.6%
Dartmouth	7.3%	8.5%	11.1%	14.8%	20.2%
Lowell	15.8%	14.3%	13.7%	14.5%	15.8%
Medical School	28.8%	27.0%	25.2%	24.0%	23.0%
Central	109.1%	116.7%	119.5%	122.9%	128.0%
University	20.8%	20.7%	21.2%	22.4%	24.1%

“The estimation error that precipitated the UMass Boston financial crisis was directly attributable to the UMass Central Budget Office.”

11. The BoT and UMass Central Office forced UMass Boston to address its reserve account problems alone, effectively forcing it to make operating cuts, despite the fact that UMass Central Office's own reserves had grown from \$68.9 million in FY2011 to \$102.1 million in FY2016, while UMass-Boston's had declined from \$93 million in FY2011 to a board-approved FY2018 amount of \$12.1 million to pay for its self-funded share of board-approved capital projects.
12. In 2017, the UMass President and UMass Central Office Internal Audit Department hired KMPG to conduct a review of UMass Boston's budgetary procedures, released in November 2017, that was limited in scope and ignored missteps in the oversight role of the UMass President and BoT with respect to the UMass Boston's capital funding program.
13. The April 2018 Mount Ida purchase by UMass demonstrates that the university had sufficient funds available to assist UMass Boston in restoring its primary reserves and thereby relieve the fiscal crisis. While UMass Boston was directed to make mid-year cuts to its faculty, course offerings, child-care center, and programs to replenish its reserve account, the University purchased Mount Ida for \$75 million via a wire transfer. A portion of these funds could easily have instead been allocated to UMass-Boston to help resolve campus financial problems.
14. In May 2017, the Baker administration announced that the executive branch had asserted its right to review and approve the UMass capital budget.

“The governor and legislature should revamp the University of Massachusetts Board of Trustees with a focus on recruiting individuals who represent a statewide set of interests.”

Recommendations

1. The director of financial reporting in the Office of the State Comptroller, the independent, executive-level agency responsible for financial reporting by state agencies including UMass and other higher education institutions, should conduct an audit to determine whether the financial reporting and financial oversight of the university as a whole complies with state law, state regulations, and UMass Board of Trustee by-laws and policies, and to determine to what extent administrative shortcomings of UMass Central Office officials and the BoT may have contributed to the UMass Boston financial crisis.
2. The governor and legislature should revamp the University of Massachusetts BoT with a focus on recruiting individuals who represent a statewide set of interests. At least some of these individuals should possess specific expertise and have a proven track record in university financial planning and reporting.
3. Capital projects to construct academic buildings, laboratories, athletic facilities, heating plants, and other facilities not funded by fees and charges that are expected to exceed \$10 million should be expressly approved by the legislature and governor
4. Audited financial statements for each individual campus as well as consolidated statements for the whole system should be filed annually within 90 days after the end of the fiscal year in a publicly available Commonwealth depository. The information should include a report of all restricted and unrestricted reserves for each campus and the system as a whole. This report should start with the prior year balance for each reserve, include all additions and withdrawals and end with the current year balance.
5. The annual approved budget for each campus and for the whole UMass system should provide sufficient detail to identify the nature of each expense, including withdrawals from and contribution to reserves.
6. Any findings and recommendations resulting from the audit should be applied to all public institutions of higher education.

Introduction

UMass Boston has been a campus in turmoil for the past 20 months. Internal upheaval first became public in January 2017 when the UMass Board of Trustees (BoT) refused to extend Chancellor Keith Motley's contract. In March 2017 the trustees disclosed that the campus was facing a budget deficit of up to \$30 million with just three months remaining in fiscal year 2017.

In April of 2017, Chancellor Motley resigned, prompting students, alumni, and community leaders to rally on the State House steps demanding that officials reject his resignation. The board of trustees appointed Barry Mills, former president of Bowdoin College in Maine, to manage daily operations at the harbor campus while Motley continued to serve as chancellor in title only.

Prior to his appointment as Interim chancellor in April 2017, Mills told the UMass Board of Trustees that the UMass Boston financial mess is “systemic,” adds up to “somewhere around \$30 million,” and will take “discipline” to fix, according to reports from *The Boston Globe*. “The budget process is fundamentally broken,” said Mills, “and lacks transparency.” Mills also said, “This is not a one-year turnaround.”⁶ On November 9, 2017, UMass President Marty Meehan presented a report commissioned by his office and written by audit firm KPMG LLP to the UMass Board of Trustees⁷, reviewing the budget process at UMass Boston in fiscal years 2016 and 2017 to determine the root causes of UMass Boston's \$30 million FY17 budget deficit.⁸ The headline in the *Boston Globe* following issuance of the report read “Chaotic management led to UMass Boston deficit, audit says.” On December 31, 2017, President Marty Meehan told WCVB-TV5 that UMass had a structural deficit of \$30 million for what was then fiscal year 2018.⁹ Following issuance of the KPMG report, Mills said of the fiscal woes, “My view is that rapid growth, the cost of substructure-related construction projects, and an inadequate understanding of the budget process were key factors.”¹⁰

Since then, campus administrators have struggled to address the resulting budget crisis by cancelling courses, laying off instructors, closing a campus day care center, and instituting far-reaching budget cuts. UMass Boston has struggled to right its financial and administrative ship amidst the continuing frustration of students and faculty.

Campus upheaval reached a new high in May 2018¹¹ when the UMass Boston faculty council voted “no confidence” in UMass President Marty Meehan and the university trustees in response to their approval of the Mount Ida College deal, which the faculty said would “weaken the already difficult process of equitable allocation and distribution of public funds across the university system.”¹² One week later, the faculty council upended the search process for a new UMass-Boston chancellor when it voted “no confidence” in the three finalists designated by the UMass Boston search committee, prompting all three to withdraw four days later.¹³

In the aftermath of the withdrawal of the three candidates, UMass President Marty Meehan announced that the search would not immediately be restarted. “The very public way this search came to an end, with three finalists all withdrawing in the face of public opposition from members of the campus, renders a new search untenable at this time,” Meehan wrote.¹⁴ Meehan named Dr. Katherine Newman to take over as interim chancellor effective July 1, 2018. She had served for the past year as senior vice president for academic affairs in the UMass system office, and as provost at UMass Amherst for the three previous years.¹⁵

In May 2016, seven months before the financial crisis at UMass-Boston became public, **Pioneer Institute published a three-part analysis** entitled “UMass at a Crossroads.”¹⁶ The report identified many of the systemic financial problems that ultimately led to the UMass-Boston budget crisis, including unsustainable cost growth resulting from student enrollment expansion, facility expansion, rapid growth in self-funded research and development, a rising UMass Central Office budget, and unfunded deferred maintenance at campus facilities. Pioneer's report cited data from internal UMass documents and financial disclosures to Wall Street bond rating agencies and federal student lending agencies.

“The resulting budget crisis has led to cancelled courses, layoffs, closure of the campus day care center, and far-reaching budget cuts.”

In response to Pioneer's report, UMass President said, “We have experienced historic growth, but we believe this growth is sustainable and affordable. . . . What we don't share is Pioneer's confounding assertion that this is a problem.”¹⁷

Did UMass Boston really have a \$30 million dollar deficit?

On May 9, 2017, at a much anticipated UMass-Boston Town Hall Forum held in the midst of campus-wide consternation over announced budget cuts, Kathleen Kirleis, UMass-Boston's newly appointed vice chancellor for administration and finance and UMass associate chancellor, made a detailed presentation to explain “the \$30 million deficit we've all heard about in the newspaper.”

Her presentation consisted of a series of slides stating that UMass Boston needed to make \$25.8 million in reductions to meet its FY2017 budget and was facing a projected FY2018 deficit of \$29.1 million.¹⁸ Other parts of the presentation detailed a series of planned steep budget cuts on the campus to address these shortfalls.

Vice Chancellor Kirleis presented a slide at the forum

(Figure 3, below) detailing the components of the FY2018 “\$30 million deficit,” explaining that the revised number “after a little bit of adjustment over time” was estimated to be \$29.1 million.¹⁹ The slide projected that FY2018 revenues would be \$427.8 million and operating expenses would be \$431.6 million. The slide then included an additional amount of \$25.3 million described as “depreciation expense” that brought the “deficit” to \$29.1 million.

Figure 3. Slide presented by Vice-Chancellor Kirleis at May 9, 2017 Town Hall Forum at UMass-Boston

The \$30M Deficit	FY18 (Millions)
Revenues	\$427.8
Operating Budget	(\$431.6)
Depreciation Expense	(\$25.3)
Subtotal Expense	(456.9)
Surplus/(Deficit)	(\$29.1)

The following excerpt from the vice chancellor’s remarks, transcribed by Pioneer Institute, presents her explanation of how the so-called “depreciation expense” brought the deficit from \$3.8 million to \$29.1 million:

“So FY18, the \$30 million deficit, we’ve all heard about this in the newspaper. So where did that come from? Originally it came from, there’s a 5-year projection that we do as part of the University system, and there was a number with \$30 million. So that’s how it got out into the press. But there’s been a little bit of adjustment over time, so if you look at it today, our revenues for next year are planned at \$427.8 million. The operating budget, this would be rolling if we had the current operations today as they exist, as they existed at the end of FY16 — that would be your operating costs —our depreciation that we’re expecting based on our projects would get us subtotals of \$457 million, which gets us at \$29 million here—so this is a really large deficit.”

About as close as the vice chancellor came to disclosing that the \$25.3 million amount actually represented a directive from central office to replenish the primary reserves, was this statement in her presentation, as transcribed by Pioneer Institute:

“The University working with the overall system, they didn’t want to have us have a budget deficit of \$23 million, they wanted to say, you know, you, University, need to work to put some reductions in place over time, we realize that this is going to take you a little time. So the University came forward with some plans to implement reductions so that this budget could be achieved.”

The vice chancellor’s use of the term “depreciation expense” in her presentation obscured the fact that it represented the

amount identified in off-budget directives by the UMass Central Office to UMass-Boston administrators requiring them to make cuts to the campus’s operating budget to replenish the campus’s primary reserves.

In another slide, the vice chancellor explained that \$25.8 million in reductions were “needed to meet budget” in FY2017. What is evident from the slide is that the operating budget, which includes depreciation as an expense, was nearly balanced. As shown below in Figure 4, the BoT-approved budget for UMass-Boston included \$429.6 million in FY2017 expenses, including \$24.4 million in depreciation. The \$25.8 million in “reductions needed to meet budget” were in large part reductions needed to replenish UMass Boston’s primary reserves.

Figure 4. Slide presented by Vice Chancellor Kirleis at May 9, 2017 Town Hall Forum at UMass-Boston

FY17 Operating Budget Adopted by Board of Trustees (July 2016)	FY17
Enrollment - HCT	17,085
Revenue (in millions)	\$431.9
Expenses (in millions)	\$429.6
Operating Margin \$ (in millions)	\$2.3
Operating Margin %	0.50%
Reductions needed to meet Budget	\$25.8

UMass Central Office directives that UMass-Boston make reductions to replenish primary reserves occurred in the aftermath of central Office’s September 2016 discovery that it had overestimated UMass-Boston’s available primary reserves in April of 2016. No disclosure was made at the UMass-Boston Town Hall Forum about the estimation error that triggered the budget crisis. UMass’s use of terminology such as “reductions needed to meet budget” and “\$30 million budget deficit” erroneously convey the impression that UMass Boston administrators, including Chancellor Motley, had failed to meet the budget or had created a budget deficit of \$30 million. A more accurate description of the UMass Boston budget crisis is that the UMass Board of Trustees, president, and Central Office approved a rapid capital expansion program at UMass Boston and failed to plan for, provide, and keep track of the primary reserve funds necessary to pay for it. When they realized their mistake mid-year in FY2017, the crisis was triggered.

“The vice chancellor’s use of the term ‘depreciation expense’ obscured the fact that it represented the amount required to replenish primary reserves.”

The clearest indication that the \$23.5 million amount was not a depreciation expense, as defined by accounting standards, is that it has never been reported as such by UMass in its university-wide budget or its FY18–23 Financial Forecast. As indicated in [Figure 4](#), UMass Boston’s annual budgets, as

“By failing to plan for adequate primary reserve funds to support rapid capital expansion at UMass Boston, the UMass Board of Trustees, President, and Central Office triggered the crisis.”

approved by its board of directors (UMass Boston has its own board of directors, not to be confused with the board of trustees for the larger university system), included \$23.397 million in depreciation expenses in FY2016, \$24.418 million in FY2017, \$25.711 million in FY2018,

and \$29.474 million in FY2019. Under rules established by the Governmental Accounting Standards Board, UMass and all public universities in the United States are required to include annual depreciation as a component of operating expense in their audited financial disclosures. The addition of \$25.3 million in depreciation expenses in FY2018, such as was described in the vice-chancellor’s presentation, would have virtually doubled UMass Boston’s FY2018 depreciation from \$25.711 million to \$51 million, but that is not what UMass has since reported in its financial disclosures. [Figure 5](#) presents UMass Boston’s operating expenses as approved by the BoT for fiscal years 2016 to 2019, showing that depreciation is included as an integral component of operating expenses and that no sudden doubling of depreciation expense occurred in FY2017 or FY2018.

[Figure 6](#) presents an excerpt from UMass’s FY18–23 Financial Forecast, published by the UMass Central Office on November 29, 2017, showing that UMass Boston’s depreciation is accounted for as an expense and that the university did not report that the campus experienced a virtual doubling of “depreciation expense” in FY2017 or FY2018.

An insightful and extensively researched analysis of the UMass Boston’s budget crisis, entitled “Crumbling Public Foundations: Privatization and UMass Boston’s Financial Crisis” was published in August 2017 by The Coalition to Save UMB, a coalition of students, staff unions and faculty at the University of Massachusetts Boston.²⁰ The following two observations describe the significance of the BoT’s directive to UMass-Boston administrators to make deep cuts to replenish UMass-Boston’s primary reserves and the decision by the BoT that UMass-Boston would have to do so without help from the university as whole:

“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. . . .”

“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.”

As pointed out by the Crumbling Public Foundations report, UMass Boston’s financial crisis and resulting budget cuts were largely attributable to a directive received by UMass Boston administrators from the UMass President and BoT for the campus to back-fill its reserves by \$25.3 million and to do so in large part by making cuts in academic programming, faculty, and staff.

The BoT and UMass Central Office forced UMass Boston to address its reserve account problems alone, effectively requiring it to make operating cuts, despite the fact that UMass Central Office’s own reserves had grown from \$68.9 million in FY2011 to \$122.1 million in FY2018, while UMass-Boston’s had declined from \$93 million in FY2011 to a board-approved FY2018 amount of \$12.1 million to pay for its self-funded share of board-approved capital projects. The reduction in unrestricted reserves resulted from UMass Boston’s BoT-approved self-funded capital projects, including principal and interest payments for projects during construction, without funding from the state legislature or any other identified source.

The directive to back-fill unrestricted reserves was unexpected because the BoT had explicitly approved each of

“The directive to back-fill unrestricted reserves was unexpected because the Board of Trustees had explicitly approved each of UMass Boston’s expenditures.”

Figure 5. UMass-Boston's Operating Expenses included in UMass's annual budgets, showing that depreciation is reported as an expense

UMass-Boston Operating Expenses included in annual UMass budgets	FY2016 budget	FY2017 budget	FY2018 budget	FY2019 budget
Salaries & Fringe	258,245	279,031	277,084	269,623
Non-personnel	94,717	100,290	104,861	101,446
Scholarships and fellowships	12,649	14,523	15,201	18,771
Depreciation	23,397	24,418	25,711	29,474
Interest	10,934	11,345	13,278	17,186
Total Operating Expenses	399,942	429,607	436,135	436,500

Figure 6. UMass-Boston Expenses in UMass FY18–23 Financial Forecast, showing that depreciation is reported as an expense

Expenses	Actual				Budget			Forecast		
	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Salaries & Fringe	229,512	244,755	266,100	275,330	277,084	273,827	281,628	289,725	297,963	306,426
Non-personnel	86,312	95,721	101,713	98,250	104,861	103,960	107,483	110,019	112,599	115,253
Scholarships and fellowships	11,654	12,254	16,047	16,161	15,201	19,728	20,420	21,139	21,892	22,706
Depreciation	13,284	16,572	18,988	22,246	25,711	29,474	34,014	33,460	34,900	35,968
Interest	6,665	8,133	9,064	12,476	13,278	17,175	22,016	21,679	22,875	24,200
Total Expenses	347,427	377,435	411,912	424,463	436,135	444,164	465,561	476,022	490,229	504,553

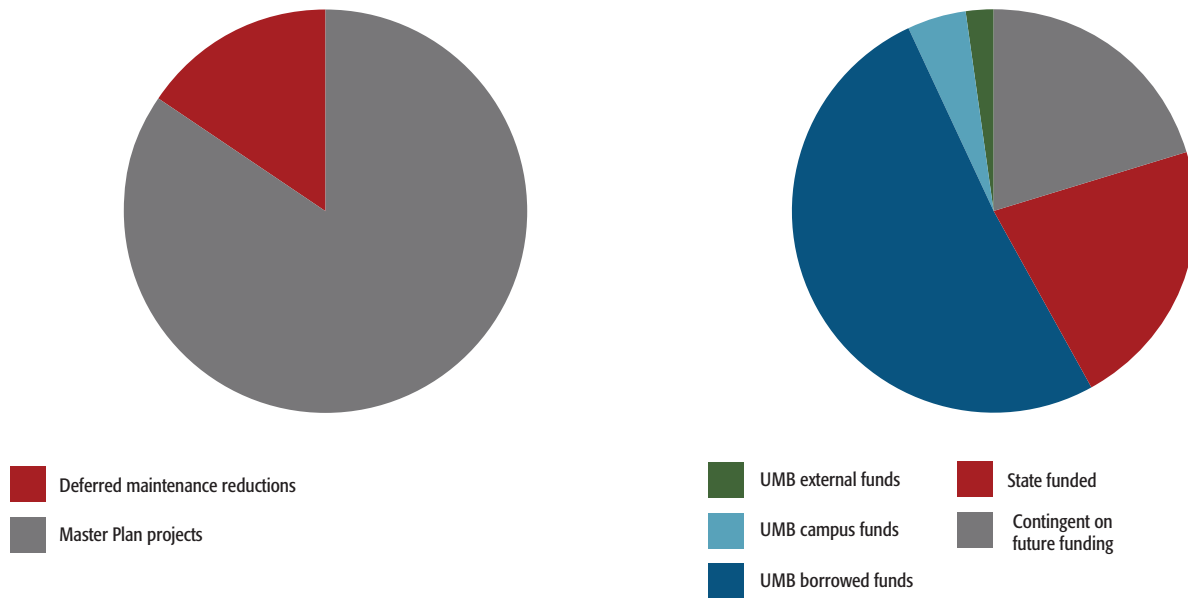
UMass Boston's expenditures from unrestricted reserves for campus-funded projects over this time period, and voted to approve UMass Boston's drop in unrestricted reserves to \$12.1 million in FY2018. The \$12.1 million cash reserve level was noted three times in the BoT-approved FY2018 budget. The FY2019 budget, the BoT explained, included "large investments in the physical infrastructure, borrowing in advance of construction need, and deficit spending has resulted in declining reserve balances over the past three years. Unrestricted net assets in FY19 are projected to be \$33.3 million, with a financial cushion of 7.6 percent."²¹ Notwithstanding Vice Chancellor Kirleis' announcement at the May 9, 2017 Town Hall Forum that UMass Boston needed \$25.8 million in reductions to meet the budget for the fiscal year ending June 30, 2017, the campus ended the year with an actual operating deficit of just \$1.1 million. This deficit was reported by the UMass financial department to the UMass BoT's Administration & Finance Committee on November 29, 2017 and later included in UMass's FY2019 budget approved by the BoT on July 13, 2018. Likewise, UMass Boston's \$29.1 million FY2018 deficit, as announced by the vice chancellor on May 9, 2017, wound up being a projected \$2.5 million operating deficit as disclosed on July 13, 2018 in the UMass operating budget adopted by the BoT.

Understanding the UMass Budget and Capital Planning Process

To understand what caused UMass Boston's \$30 million "budget crisis," and who was responsible for creating it, it is necessary to understand the fundamentals of the university's budgeting and capital planning process established by state statute and by official policies promulgated by the BoT. A key to understanding this process is recognizing that UMass campuses do not have a single budget; instead they have two budgets and a five-Year Financial Projection that guides them. By law, both the operating budget and the capital budget for each campus must be approved by the BoT.

The Five-Year Financial Projection for each campus and the university as a whole is prepared by the Office of the President of the University under the direction of the UMass vice president for administration & finance and treasurer, and is then presented to the BoT. A critical element of the Five-Year Financial Projection is its forecast of unrestricted reserves available on each campus to pay for potential operating losses and to pay for campus-funded capital projects, measured by the campus's projected primary reserve ratio. The primary reserve ratio is defined as "total unrestricted net assets divided by total operating expenditures."²² Unrestricted net assets is the amount presented in the UMass Boston's audited financial

Figure 7. Breaking down the \$987.7 million total spending in the FY15–19 UMass Capital Plan.²⁹



statements as unrestricted net position and determined in accordance with generally accepted accounting principles.²³

Each year, the BoT approves a detailed operating budget for each of the university’s five campuses. The approved budget specifically authorizes expenditure amounts for salaries; fringe benefits; numbers of positions in categories of executive, administrative, managerial, professional non-faculty, faculty, technical, service, and maintenance; enrollment; tuition and fees; operating cash flow; and debt service including interest payment. Finally, the BoT approves how much each campus will have in unrestricted reserves that will be available to pay for the non-state funded share of campus construction projects.

Under state law, the BoT is responsible for establishing a capital plan for each campus and for the university as a whole. The FY15–19 UMass Capital Plan makes clear that the UMass president is responsible for confirming affordability of the capital plan, as follows:

“[T]he University is responsible for developing the five year capital plan which entails prioritizing projects, identifying funding sources and ensuring that strategic and campus priorities are being addressed. . . . The President’s Office is responsible for coordinating the overall capital plan for the University and based on a review of finances confirms the affordability of submitted plans.”²⁴

The UMass Board of Trustees established a 20 percent primary reserve ratio target in its FY2016–20 Financial Projection.²⁵ The trustees defined the primary reserve as follows: “Primary Reserve: (Total unrestricted net assets divided by total operating expenditures). The primary reserve reflects the long-term financial health of an institution and its ability to protect itself

from short-term operational ups and downs. This indicator compares our reserves to our annual operating expenditures plus interest payments on our debt.”

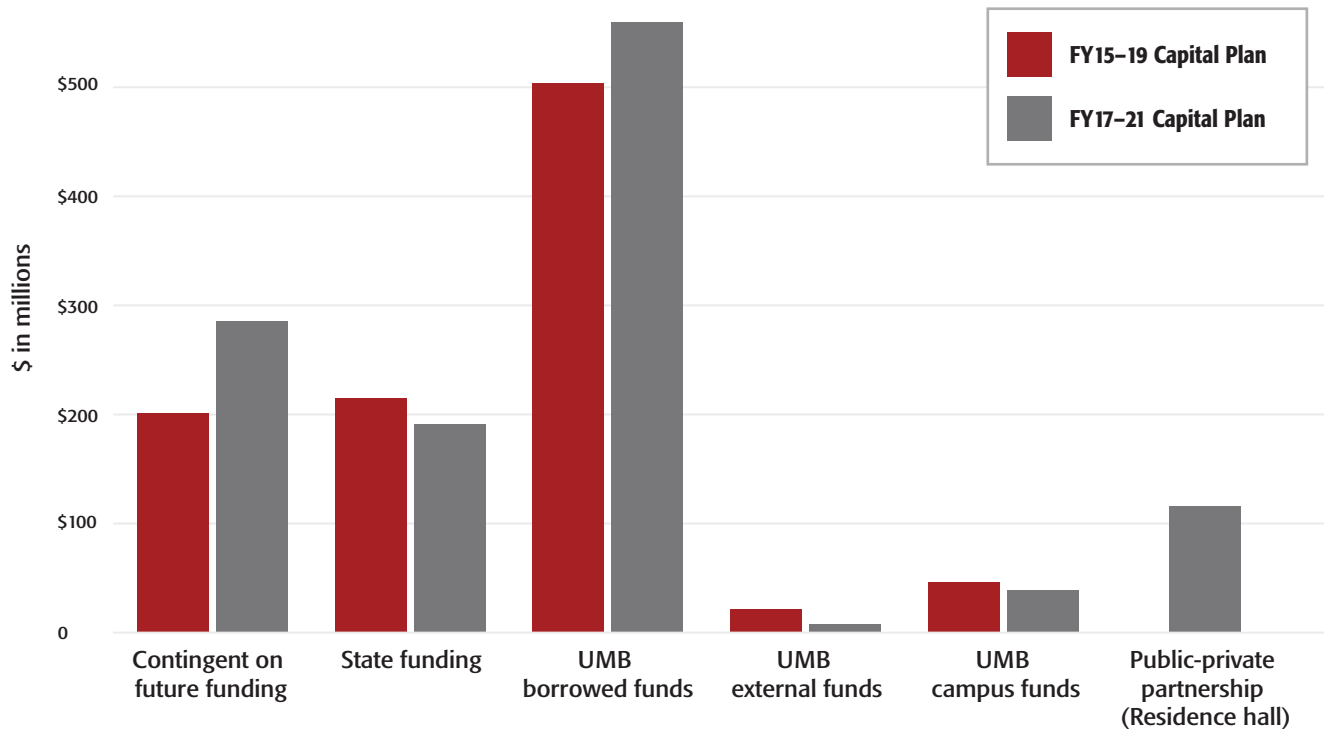
The Five-Year Financial Projection is used to develop assumptions for budget inputs and project revenues and expenses. Importantly, it also provides information that is used to forecast whether each campus will have sufficient unrestricted reserves to pay for its share of non-state funded construction projects.

In 2016, the UMass Central Office provided the BoT with a projection that overestimated how much UMass Boston would have available to pay for capital projects out of its FY2017 unrestricted reserves. This was not discovered until after the operating budget and capital budgets had been approved by the BoT. An updated estimate by the UMass Central Office in September 2016 found that its earlier FY2017 forecast had been too high.

What went wrong?

The root cause

In 2009, UMass Boston adopted an expansive Campus Master Plan and instituted a planning process to implement it.²⁶ The planning process culminated in the publication of a 2011 report entitled “Fulfilling the Promise — The Report of the University of Massachusetts Boston Strategic Planning Implementation Design Team”²⁷ that established a campus objective of increasing enrollment from 14,912 in 2009 to 25,000 by 2025, an increase of 67.7 percent over 16 years.²⁸ In December 2014, the BoT approved the FY2015–FY2019 UMass Capital Plan, which included capital budgets for each

Figure 8. Comparing Total Approved Capital Spending From FY15–19 and FY17–21 UMass Capital Plans^{37,38}

campus individually, including UMass Boston’s expansion projects. The capital Plan reported 41 projects expected to require \$792.3 million in spending during the five-year period. Fifteen of the projects had been started prior to this period, and had already cost \$195.3 million. The total spending on the projects listed as active through FY2019 was projected at \$987.7 million, 94 percent of which are specifically funded Master Plan projects intended to expand the UMass-Boston campus.²⁹ Of the total \$987.7 million, projects accounting for \$201.5 million were contingent on future funding. For the approved projects with identified funding (totaling \$786.2 million), state funding would be available for only \$215 million, and UMass Boston would be responsible under the approved capital plan to fund the remaining balance: \$503.5 in borrowed funds, \$46.6 million in campus funds, and \$21.2 million in UMass Boston external funds through fundraising.

The BoT concluded in the FY15–19 Capital Plan that according to UMass Boston’s capital plan, “Total planned borrowing and use of local funds are projected to be affordable within UMass Boston’s current overall financial forecast.”³¹ This was later proven to be wrong.

In April 2016, Christine Wilda, UMass vice president for administration & finance and treasurer, presented³² the university’s Five-Year Financial Projection FY2016–2020 to the Administration and Finance Committee of the UMass Board of Trustees^{33, 34} The projection, upon which the affordability of UMass-Boston’s capital project funding was determined, forecast that the campus would have \$77.7 million available in primary unrestricted reserves in FY2017 (with an 18.3 percent primary reserve ratio) and \$92.9 million in available primary unrestricted reserves in FY2018 (with a 21.3 percent primary reserve ratio). These reserve projections appeared to be in line with the university target of maintaining a 20 percent primary reserve ratio.

“The Board of Trustees concluded that UMass Boston’s total planned borrowing and use of local funds were projected to be affordable. This was later proven to be wrong.”

This projection, prepared by the UMass Central Budget Office in accordance with UMass Trustee Policy T92-031, forecast a healthy fiscal condition for UMass Boston throughout the five-year period, with rising enrollment, increasing revenues, and balanced operating budgets each year. Significantly, it projected available reserve ratios of 15.9 percent in FY16, 18.3 percent in FY17, 21.3 percent in FY18, 23.7 percent in FY19, and 33.8 percent in FY20.

These projected reserve balances showed that UMass Boston would be able to afford the campus's share of cash and debt payments to pay for all projects included in the UMass capital plan approved by the UMass board and to remain in compliance with the University Board of Trustees' policy of maintaining reserve ratios of at least 20 percent on university campuses.

The UMass FY17–21 Capital Plan included \$1.2 billion in approved projects for UMass Boston, more than any other campus and representing 35.9 percent of all university projects, even though UMass-Boston's FY2017 budget represented only 20.4 percent of the total university budget. For projects with identified funding (i.e. not contingent on future funding or private-public partnerships), total projected funding was \$797.4 million. According to the FY17–21 Capital Plan, only \$191.1 million is scheduled to come from the state; the remainder will be funded by UMass Boston itself through borrowing (\$559.9 million) and campus funding (\$38.9 million from campus local funds and \$7.5 million from campus external funds), including from fund-raising, if successful.³⁵ Since adoption of the FY17–21 Capital plan, the legislature has agreed to contribute an additional \$78 million towards the UMass Boston garage project.³⁶

Figure 9. UMass FY17–21 approved capital spending; UMass-Boston exceeds any other campus³⁹

Campus	Approved Capital Spending (in millions)
Amherst	\$1,096.3
Boston	\$1,161.9
Dartmouth	\$169.7
Lowell	\$547.0
Worcester	\$264.8
Total	\$3,239.7

The Five-Year Financial Projection for FY2017–2021 also drastically reduced projections of UMass Boston's available unrestricted reserves, indicating that the campus would have only \$28.1 million in reserves in FY2017 (with an 6.6 percent primary reserve ratio), and \$28.5 million in FY2018 (with a 6.4 percent ratio). This realization prompted the UMass President and BoT to require that UMass-Boston administrators make \$25.8 million in cuts in FY2017 and \$25.3 million in FY2018 to restore UMass-Boston's reserves.

Figure 10. Comparison of UMass Central Budget Office's projections of available unrestricted reserves at UMass-Boston, April 2016 projection versus September 2016 projection.

Five-Year Forecasts by UMass Central Office of Available Unrestricted reserves at UMass-Boston (in millions)	FY2016	FY2017	FY2018
Five-Year Financial Projection FY16–20, issued on April 6, 2016 by UMass Central Office	\$64.1	\$77.7	\$92.9
Five-Year Financial Projection FY17–21, issued on Sept 14, 2016 by UMass Central Office ⁴⁰	\$40.3	\$28.1	\$28.5
Difference	\$23.8	\$49.6	\$64.4

Disclosure of the extreme downsizing of projected unrestricted reserves by the UMass Central Budget Office in September 2016 ultimately led to the so-called \$30 million UMass-Boston budget deficit. Given their statutory and regulatory duties, it appears the BoT and University President bore heavy responsibility for the UMass-Boston financial crisis.

The minutes of the BoT Committee on Administration and Finance's September 14, 2016 meeting show that UMass Vice President for Administration & Finance and Treasurer Wilda was present, but did not make the presentation of the university's updated Five-Year Financial Projection, as she had at the April 6, 2016 meeting.⁴¹ Instead, committee chair James R. Buonomo provided the updated projection prepared by the UMass Central Budget Office. Vice President Wilda stepped down from her position five months later in February 2017 and was transferred to a newly established position of associate chancellor for compliance at UMass Amherst, receiving a pay buyout from UMass of \$17,607.⁴² She was replaced by Lisa Calise, Chief Financial Officer at Watertown-based Perkins School for the Blind and formerly director of administration and finance for the City of Boston.⁴³

Amid turnover at the UMass Central Office level, the Boston campus was also experiencing challenges. Upon adoption of the 2011 Strategic Plan, UMass Boston's Additional Investment and Operational Revenues Workgroup developed revenue and expense projections for campus expansion initiatives set out in the 2009 Campus Master Plan. In the workgroup's April 2011 report, findings reveal that according to the goals set forth in the plan, UMass Boston would experience growing operating losses from FY2011–2015, ending with a projected \$58.5 million operating loss for FY2015 (adjusted for income in grants and contracts not available for other operating expenses).

The 14-member group chaired by UMass Boston's director of budget and financial planning and the dean of the College of Management, published a preliminary estimate on April 1, 2011 added that "a continuation of business as usual is not tenable."⁴⁴ Early in the planning process, the workgroup's report,

published for public viewing on the UMass Boston Strategic Plan website, warned of the financial problems UMass Boston would face based on its expansion plan.

When compared with actual results, the report overestimated campus enrollment and revenue. Nonetheless, the workgroup was right in its conclusion: the expansion plan that had been developed by UMass Boston and approved by the UMass Board of Trustees was not affordable, and would plunge the Boston campus into serious financial trouble.

Of note, the workgroup underestimated projected state appropriations. From FY11 to FY15, actual monies appropriated to the Boston campus were \$83 million above projected levels. Between FY10 and FY17, appropriations increased by more than 77 percent. Despite this error, the updated FY15 end-of-year projection was still calculated as negative, coming in at \$34.5 million in adjusted operating loss.

Overall, the goal of expanding UMass Boston from a commuter to a residential campus was an enormous and expensive task. The plan set forth to achieve this goal was not affordable for the Boston campus, and warnings came from UMass Boston projections early on in the planning process. Another warning came in March 2017, when the Boston Globe reported

“Plans and projections approved by the university system set unachievable goals that the campus could not afford.”

ed that the former UMass Boston finance chief Ellen O'Connor told UMass leadership of an impending campus financial crisis after release of the planning report due to “ambitious expansion plans” for the future that would require “extreme financial care.” She ultimately wrote, “We are so tight in this forecast that there are no reserves to absorb any bad news...

This is not a solid game plan.” The

Boston Globe reported that a subsequent 2012 memo was sent to the UMass Central Office in an attempt to alert university leadership of potential financial problems.⁴⁵ Yet the board of trustees approved two capital plans, FY15–19 and FY17–21, and yearly operating budgets, which acknowledged the reduction of unrestricted reserves to \$12.1 million in FY18.

The misalignment of projections versus actual revenues and expenses indicates that UMass Boston's projections of the affordability of expansion plans were not solid. However, ultimate responsibility lies at the feet of UMass leadership, namely President Marty Meehan and the Board of Trustees. Plans and projections approved by the university system through the operating budgets and two capital plans set before them set unachievable goals that the campus could not afford.

UMB spent \$95.4M from its primary reserve funds FY12–17 and expects to spend more than \$75M in the FY17–21 capital plan

As shown in Figure 11, Pioneer's review of university records shows UMass Boston spent \$95.4 million from its primary reserve between FY12 and FY17. In fiscal years 2012 to 2014, the campus had operating surpluses of \$7.8 million, \$10.2 million, and \$14.6 million that added to the primary reserve. In those same years, UMass Boston spent \$12.3 million, \$8.4 million, and \$17.3 million from the primary reserves. As a result, UMass Boston's primary reserve declined from \$89.3 million to \$88.3 million over this period. Between FY15 and FY17, UMass Boston had operating losses of \$1.3 million, \$5.5 million, and \$1.1 million. In those years, UMass Boston paid out of primary reserve for those operating losses. Over the same period, the campus spent \$15 million, \$26.2 million, and \$16.2 million respectively on capital costs, totaling \$57.3 million, including for construction period debt payments. As a result, from the start of FY12 to FY17, UMass Boston's primary reserve declined by \$70.7 million.

The FY17 ending reserve balance of \$23.1 million as shown in Figure 11 was presented by UMass Boston at the Town Hall Forum in May 2017. In its Statement of Financial Position for FY2017, issued by the university later that year, the campus ended FY2017 with an actual reserve balance of \$40.3 million. This means the actual FY17 ending reserve balance exceeded the projected ending reserve balance by \$17.2 million. The university has not reported the means by which the primary reserve balance was increased.

The BoT approved a primary reserve balance of \$12.1 million for the Boston campus in its FY18 UMass Operating Budget. The university has not yet reported the final primary reserve balance for FY18 and a UMass Central Office official informed Pioneer Institute that it expects to do so in late 2018. The FY19 UMass Operating Budget approved by the UMass Board of Trustees included a primary reserve balance of \$33 million for UMass-Boston.

UMass-Boston: The scapegoated stepchild of the UMass system

Early Warnings from the Boston campus

The 2011 Strategic Plan Working Group documents issued warnings that implementation of the plan would create large budget deficits. Later in 2017, warnings came directly from within the Boston campus administration about the severity of expansion-related deficit problems at UMass Boston. However, the Strategic Plan cost projections do not absolve the UMass Board of Trustees and Central Office from bearing primary responsibility for the crisis. The Additional Operational

Revenues and Investment Workgroup raised a red flag that the plan would result in massive expenses down the road. The 2011 Strategic Plan developed by UMass-Boston was a vision. However, such proposals are filtered into UMass capital plans, where the result is supposed to be realistic. The Board of Trustees was charged to review and approve the capital plan, and anything from the UMass Boston Strategic Plan that was rolled into it. The UMass senior administration did not heed warnings coming from the Boston campus, and they bear ultimate responsibility for approving a massively unaffordable plan, then leaving UMass Boston alone to deal with the consequences.

President Meehan expressed to the Board of Trustees on November 9, 2017 that he had a “lack of confidence in the financial reporting that the system office and the [data that the] Board of Trustees was receiving from the UMass Boston’s management and leadership dating back to FY16.”⁴⁷ This statement, and others like it, have led outside observers to conclude that UMass-Boston administrators failed to inform the BoT about the campus’s rapidly depleting reserve balance. University records do not support this conclusion. They show that the board voted on June 15, 2016 to approve a reserve balance of \$27.9 million for UMass-Boston in its FY2017

UMass Operating Budget, far below UMass-Boston’s healthier reserve levels of \$88.3 million in FY2014 and \$72.0 million in FY2015. The Board of Trustees’ approval demonstrates that it had received information from UMass Boston administrators that the campus’s reserve balance would decline to a dangerously low \$27.9 million in FY2017.⁴⁸ Likewise, BoT voted to approve an even lower reserve balance for UMass-Boston of \$12.1 million in its FY2018 UMass Operating Budget; in fact the budget cites the \$12.1 million UMass Boston reserve balance three times in the official budget document.

Figure 12. UMass-Boston Primary Reserve balances⁴

FY14 Actual	FY15 Actual ⁵⁰	FY16 Actual ⁵¹	FY17 Budget	FY18 Budget
88,321	72,024	40,352	27,899	12,053

The UMass-Boston financial crisis was attributable primarily to a Board of Trustees mid-year directive ordering UMass-Boston administrators to replenish the campus’s reserve balance in the amount of \$25 million. One might conclude based upon the president’s statement that the crisis was

caused by flawed reporting provided to the UMass Central Office and board of trustees by UMass Boston’s leadership. Records from the university budget process do not support this conclusion. To the contrary, records show that the UMass Central Office and BoT had been made aware by UMass Boston administrators that campus reserves would decline to \$27.9 million in FY2017, as evidenced by the fact that the board of trustees approved this amount on June 15, 2016 in the FY2017 university budget.

The financial crisis was triggered by the Board of Trustees’ receipt of a reassuring but dramatically erroneous Five-Year Financial Projection from the UMass Central Office less than three months earlier, in April 2016, projecting that FY2017 UMass-Boston reserves would be \$77.7 million. This projection was revised by the UMass Central Office in September 2017, three months into the fiscal year, to \$28.1 million, an amount similar to the \$27.9 million figure that had actually been included in the university budget.

This raises obvious questions: Why did the UMass Board of Trustees approve UMass Boston’s FY2017 operating budget with reserves of \$27.9 million and then conclude later that UMass Boston had to make \$25 million in emergency mid-year cuts to increase the reserves? Why didn’t the board approve a budget in the first place that included a higher reserve level and craft an operating budget to achieve it?

The FY2017 budget that the BoT approved included a high level of specific detail, including staffing, fringe benefits, faculty-to-student ratio, enrollment projections, maintenance costs, and hundreds of specific details. The budget process leading to its approval included public hearings and involvement of interested parties. The Board of Trustees’ late decision directing UMass Boston administrators to make mid-year budget cuts represents a failure on the part of the Board that stemmed from approving a budget with \$27.9 million in reserves and subsequently deciding that level of reserves was too low. The UMass Boston budget crisis was not caused by insufficient reporting on the part of UMass Boston’s leadership, as President Meehan alleged, but rather by the board of trustees’ approval of a reserve level that it later determined was too low. University policies place the responsibility on the UMass Central Office for assuring that campus capital projects are affordable. In this case, the UMass Central Office and Board of Trustees failed to take appropriate and timely action to address UMass Boston’s declining reserves.

“The UMass senior administration did not heed warnings coming from the Boston campus, and then left UMass Boston alone to deal with the consequences.”

“The budget crisis was not caused by insufficient reporting by UMass Boston’s leadership, but rather by the Board’s approval of a reserve level that it later determined was too low.”

President Marty Meehan told the Boston Business Journal, “[T]he campus’s original budget plan, approved by trustees, called for \$25.7 million in cuts to achieve the projected \$2.3 million surplus at the end of fiscal 2017.” Meehan said the campus “waited too long to implement” that plan. “We’re moving forward,” he told reporters. “We believe that the failure here is more in execution of the plan that was presented to the board of trustees by the Boston campus. It’s more an issue of execution.”⁵² There is no evidence in the final budget, subsequent memoranda, or public hearings, of Meehan’s alleged directive to UMass Boston to make these cuts. Why would the president and BoT have approved the operating budget with dangerously low levels of unrestricted reserves if they later determined that such deep cuts were necessary? Regardless of the warnings that pointed to UMass-Boston’s financial duress due to rapid expansion, the upper echelons of UMass administration did not heed the signs and did not perform the oversight necessary to reject plans that UMass Boston could not afford to undertake.

Prior to the mandated cuts, Meehan approved and the BoT incorporated much of UMass-Boston’s 2011 Master Plan in subsequent UMass’ Five-Year Capital Plans. Because UMass did not secure state funding for a large portion of the proposed UMass Boston expansion, and because the BoT decided to proceed with self-funding, the onus fell upon UMass Boston to take on debt and pay for projects from primary unrestricted reserves. The \$30 million deficit was created in large part because UMass Boston did not have sufficient unrestricted reserves to pay these approved capital expenses.

According to the UMass FY2015–19 Capital Plan, approved by the BoT, the president’s office is responsible to confirm the affordability of submitted plans:

“The President’s Office is responsible for coordinating the overall capital plan for the University and based on a review of finances confirms the affordability of submitted plans. The President’s Office works closely with the campuses to facilitate and coordinate the capital planning effort on an annual basis and for quarterly reporting purposes. The annual effort begins with the issuance of guidelines to campuses to ensure that each

campus is submitting consistent information that will aid in presenting the plan to the Board of Trustees. Once the information is submitted, it is reviewed and analyzed in an effort to ensure that it is complete as well as to provide summary information of the submissions based on campus, funding source, and type of project.

The President’s Office also schedules on-site meetings with each campus to review the capital submission and to discuss priorities and how cost estimates were developed. Additionally, the President’s Office coordinates the quarterly capital update to the Board which provides a status on the funding and work plan for approved projects along with identifying changes in the overall cost and scope of projects. In addition to coordinating with the campuses, the President’s Office is also responsible for coordinating with DCAMM on the submission of UMass priorities to the EOAF and for working with them to ensure that authorized bond bill earmarks are funded.”⁵³

UMass’s aggressive capital expansion was facilitated in part by the changing role of the university’s building authority. A recent change in UMBA’s mission has provided UMass with a way to make capital expansion decisions without legislative approval. Before the change, UMass depended upon legislative approval and state financing to construct academic buildings, laboratories, athletic facilities, heating plants, and other facilities not funded by fees and charges.

Now, UMass Boston has reached its maximum debt service-to-operating expense ratio of 8.0 percent for the year 2020.⁵⁴ With its capital finance resources now virtually exhausted, UMass Boston’s plan to expand campus enrollment to 25,000 students in 2025— which would require doubling the campus’s assignable square footage space — is in jeopardy. It has left the Boston campus unable to address its deferred maintenance backlog, which is estimated at \$375 million, with ongoing costs of \$101 million due over the next decade, according to a consultant’s projections in UMass’s FY2015–2019 capital plan.⁵⁵

Figure 13. Unrestricted net assets at UMass campuses FY11–17 (as of April 2016) (millions)

Unrestricted net assets	FY11	FY12	FY13	FY14	FY15	FY16	FY17 (preliminary)
UMass-Amherst	\$209.2	\$226.7	\$253.7	\$281.6	\$310.4	\$326.2	\$362.1
UMass-Boston	\$93.7	\$89.3	\$91.1	\$88.3	\$72.0	\$40.4	\$40.3
UMass-Dartmouth	\$11.8	\$10.9	\$10.0	\$0.7	\$9.1	\$16.3	\$29.7
UMass-Lowell	\$74.8	\$61.7	\$72.8	\$80.2	\$85.4	\$89.3	\$79.4
UMass-Worcester	\$141.6	\$143.4	\$184.1	\$188.8	\$190.5	\$176.3	\$217.4
UMass Central Office	\$68.9	\$82.1	\$102.1	\$107.2	\$96.6	\$102.1	\$115.3

Central Office reserves skyrocketed while UMass-Boston’s were drained

Records of the U.S. Department of Education’s National Center for Education Statistics (NCES) show that unrestricted net assets grew between FY2011 and FY2017 at UMass’s Central Office and at four of five of its campuses, with the UMass-Boston campus being the sole exception. At UMass-Boston, unrestricted net assets declined from \$93.7 million in FY2011 to \$40.27 million in FY2017. The NCES data is presented in Figure 13.⁵⁶ Notably, UMass Central Office’s unrestricted net assets grew from \$68.9 million in FY2011 to \$115.3 million over this period. Records for subsequent years show that University Central Office increased its own unrestricted reserves to \$122 million in FY2018. Primary reserve data for FY2018 is not published on UMass websites for all campuses and will not be available until near the end of 2018.

In its April 2016 presentation to the Committee on Administration and Finance of the Board of Trustees, UMass Central office presented a history and projection of primary reserves at each of UMass’s five campuses and its central office. In the presentation document, UMass Central Office projected that UMass-Boston’s FY17 unrestricted reserves would be 18.3 percent of operating expenses, translating to \$77.7 million.⁵⁷

In the FY17 UMass Operating budget adopted on July 2016, the BOT included the following statement: “Historically, UMass Boston has had a healthy primary reserve ratio, as reserves were accumulated to support investment in the capital master plan. The FY17 primary reserve ratio reflects this investment, moving from 11.3% in FY16 to 6.0% in FY17.”⁵⁸

In a September 2016 update to its 5-year projection, UMass Central Office told the Committee on Administration and Finance that the FY17 University Annual Budget had included an approved amount of FY17 primary reserves at UMass-Boston of 6.6 percent, translating to \$27.899 million.

The April 2016 document defined primary reserves as “total unrestricted net assets divided by total operating expenditures.” The document stated: “The primary reserve reflects the long-term financial health of an institution and its ability to weather itself from short-term operational ups and downs.”

UMass’s Audited Financial Statement reported that UMass Boston’s final FY17 unrestricted net asset balance was \$40.265 million. This would come as a big surprise to

those who attended the UMass Boston Town Hall Forum previously on May 9, 2017, a meeting conducted just seven weeks before the end of the fiscal year. At the Forum, UMass projected that UMass Boston’s unrestricted net assets would be \$23.052 million on June 30, 2017. This amount turned out to be \$17.213 million less than the amount later reported in UMass’s Audited Financial Statement, which stated that the ending FY17 unrestricted net asset balance was \$40.265 million. Figure 14 shows the slide presented at the May 9, 2017 Town Hall Forum showing that the UMass Board of Trustees had approved UMass-Boston’s unrestricted net assets at \$27.899 million in the FY17 University Annual Budget and projecting that the FY17 balance would be \$23.052 million.

Given that UMass-Boston’s budget crisis was largely attributable to spending \$94.4 million of unrestricted reserves between FY2012 and FY2017, largely for capital projects, it seems reasonable to ask whether it is fair to expect each campus to self-fund all the non-state funded projects on its campus. This policy put an untenable financial burden on UMass Boston because its capital expansion, approved by the UMass Board of Trustees, was relatively larger than that of other campuses. While UMass Boston was in crisis, the UMass system paid \$75 million for its discretionary purchase of the Mt. Ida Campus.

Records of UMass’s May 2018 Mount Ida purchase show the university paid Mount Ida \$75 million via wire transfer even as the university president and BoT were requiring UMass Boston to make deep cuts to restore the campus’s unrestricted reserves. The “Asset Purchase Agreement by and between Mount Ida College and University of Massachusetts Building Authority and University of Massachusetts May 16, 2018” states on Page 15 as follows:

[T]he aggregate dollar amount paid by the Buyer for the Purchased Assets (the “Cash Purchase Price”) shall be \$75,000,000.00. The Cash Purchase Price shall be paid by the Buyer to the Title Company via wire transfer of immediately available fund to an account designated in the Title Escrow Agreement at Closing.”⁶⁰

In a press release dated April 12, 2018, UMass President Marty Meehan responded to criticism that the board of trustees had effectively abandoned UMass Boston by choosing to purchase the Mount Ida campus while forcing UMass Boston to make cuts. The press release stated,

Figure 14. Slide presented at May 9, 2017 UMass-Boston Town Hall Forum⁵⁹

	FY14	FY15	FY16	FY17	
				Budget	Projection
Unrestricted net assets	88,321	72,024	40,352	27,899	23,052
Total expense	347,427	377,435	411,912	429,607	431,310
Financial Cushion	25.4%	19.1%	9.8%	6.5%	5.3%

“It seems reasonable to ask whether it is fair to expect each campus to self-fund all the non-state funded projects on its campus.”

“There is no aspect of this transaction that represents a discretionary use of resources that favors one campus over another. UMass Amherst will borrow to acquire Mount Ida’s physical assets and offset that borrowing with revenue supported by its growth. There are no state appropriated funds involved in this transaction. UMass Amherst’s capacity to borrow these funds is wholly unrelated to UMass Boston’s capacity to borrow or fund its priorities.”⁶¹

The University of Massachusetts has not publicly disclosed the source of funding it used for the \$75 million wire transfer to Mount Ida on May 18 2018, nor has it indicated that UMass-Amherst borrowed \$75 million prior to the transaction in order to fund it. The Mount Ida purchase was not included in the previously approved UMass Capital Plan and therefore represented a discretionary use of resources by the board of trustees, one made without public hearings during an executive session. The president’s statement that “[t]here is no aspect of this transaction that represents a discretionary use of resources that favors one campus over another” overlooks the fact that the board of trustees’ capital funding policy inherently favors some campus over others. The Board’s policy requiring each campus to pay for all non-state funded portions of campus capital plans on its own, without supplementary university funding, inherently favors higher-revenue campuses like UMass Amherst at the expense of campuses like UMass Boston with lower revenues and proportionately larger capital plans.

To demonstrate that this policy puts UMass Boston at a disadvantage, consider that the FY2018 university budget approved by the board of trustees included reserve levels of \$309.4 million for UMass Amherst and \$12.1 million for UMass-Boston. Yet the FY2017–21 Capital Plan includes

\$839.3 million in fully approved capital projects for UMass-Boston and \$437.0 million for UMass-Amherst.⁶² The board of trustees policy of making UMass Boston pay its own way for the non-state funded share of capital projects without some type of university-wide capital sharing policy inherently puts urban campuses catering to lower-income students and families at a disadvantage compared to the flagship campus.

When the president states that “UMass Amherst’s capacity to borrow these funds is wholly unrelated to UMass Boston’s capacity to borrow or fund its priorities,” he disregards the fact that individual campuses do not borrow on their own; only the university can do that. UMass receives bond ratings for the university as a whole that are good, but the board of trustees’ “go it alone” campus-by-campus capital funding policy imposes funding requirements that would harm UMass-Boston’s bond rating bad if it were rated individually. The board has legal authority to provide funding to UMass Boston to replenish its primary reserves from the UMass Central Office reserve under a sharing arrangement to

“Had the Board contributed from the Central Office reserves the same amount as those used to purchase Mount Ida, the crises could have been substantially mitigated.”

help finance its huge capital plan.

Had UMass’s Board of Trustees instead contributed the same amount from Central Office reserves, or even a third as much, to UMass Boston order to replenish its unrestricted reserves during the FY17–FY18 budget crises, the crises could have been substantially mitigated.

Shifting responsibility – The KPMG Review report

On November 9, 2017, UMass President Marty Meehan presented a report to the board of trustees written by audit firm KPMG LLP that laid the blame for UMass Boston’s financial crisis squarely at the feet of UMass Boston administrators. President Marty Meehan told the board that he had asked the UMass Central Office Internal Audit Department to commission the report because of his previously noted “lack of confidence in the financial reporting the system office and

Figure 15. Reserve amounts by campus in UMass FY2018 Operating Budget and FY17–21 Capital Plan projects by campus, approved by BOT (in thousands of dollars)⁶³

	Primary Reserve (& Unrestricted Net Assets)	Primary Reserve % (& Unrestr. Net Assets)	Total Expenses	FY17–21 Capital Plan Full Project Approval
Amherst	309,379	25.00%	1,239,377	436,951
Boston	12,053	2.80%	436,135	839,290
Dartmouth	20,074	8.00%	251,175	80,509
Lowell	84,294	18.60%	454,350	299,900
Medical	245,088	27.00%	907,932	75,000
Central	122,140	105.90%	115,358	

the board of trustees was receiving from the UMass Boston's management and leadership dating back to FY16."

The report, commissioned by the UMass Central Office, blamed the financial crisis at the Boston campus on "leadership," or lack thereof, of the administration of Chancellor Keith Motley. KPMG, the report's author, states that the current deficit situation is a product of "inadequate budgeting processes," "lack of accountability for budget projections," and essentially poor leadership in addressing both "budget concerns elevated by the [UMB] vice chancellor of administration and finance" and "lack of commitment to meeting the budget presented to the board of trustees"⁶⁴. The KPMG report as a whole blamed the Boston campus's financial troubles on "leadership," namely the administration of Chancellor Keith Motley.

KPMG's review was not an audit conducted in accordance with Generally Accepted Government Auditing Standards, nor were its results reported in accordance with standards prescribed by the American Institute of Certified Public Accountants. The simple explanation for this is that its review was limited in scope by the parties that hired KPMG to perform it: the UMass President and Central Office Internal Audit Department. The KPMG report describes the scope of its contract as follows:

"[KPMG] was hired by the Internal Audit Department of the University of Massachusetts (University) to conduct a review of certain operations of the University's Boston Campus (UMass Boston Campus). The initial scope of the review involved reviewing the UMass Boston Campus' budgeting processes for both fiscal year 2016 (FY16) and fiscal year 2017 (FY17), as available and identifying the key drivers of the operating deficits." (Emphasis added)

Had KPMG been engaged instead to conduct an audit or more extensive procedures, it may have been responsible for examining the performance of the UMass President, Internal Audit Department, Board of Trustees, and the UMass Central Office with respect to budgetary procedures, not just that of UMass-Boston chancellor and administrators. The scope of the engagement fell well short of that.

When the UMass President and the Central Office Internal Audit Department engaged KPMG to conduct its review, KPMG was serving as the Commonwealth's independent auditor, reviewing the Uniform Financial Statements of state agencies including those of higher education institutions for the years in question, FY2016 and FY2017. In that capacity, KPMG had not identified, nor would they likely be required to identify, the internal control deficiencies the firm later cited in its review of UMass-Boston. Additionally, the firm did not note any deficiencies, nor would they likely be required to, of the UMass President, Board of Trustees, or UMass Central Office in fulfilling their statutory and regulatory obligations to monitor and report budget deficiencies and internal control weaknesses to the state comptroller, as explained below. The

2017 review procedures performed by KPMG on the UMass Boston budgetary process do not include issues related to UMass system leadership due to its limited scope as directed by the system's leaders.

The 18-page review report concluded that UMass Boston's ongoing budget crisis was attributable to a series of failings by UMass Boston administrators, including those of former Chancellor Keith Motley, which resulted in the unexpected \$29.1 million budget shortfall in fiscal year 2017. The report stated that there were large, unusual movements in FY 17 internal budget projections that should have been an indication to senior UMass Boston Campus leadership that budgetary figures and projections were not reliable. President Meehan summarized the report in his transmittal letter to the board of trustees as follows:

"It contains some very troubling findings regarding UMass Boston's process for development and monitoring of its annual budget, including but not limited to: a significantly inadequate budgeting processes; a lack of documentation and accountability for budget projections; ineffective use of budget planning and control software for monitoring and reporting; unexpected reductions in reserves resulting from poor planning of capital and other spending; a lack of response from UMass Boston leadership to budget concerns elevated by the UMass Boston vice chancellor of administration & finance; a lack of commitment from UMass Boston campus leadership to meeting the budget it presented to the Board of Trustees; a lack of credible budget reporting internally and to the system office; the presence of an 'internal' budget different from the one approved by the Board of Trustees and being monitored by the system office; and a culture at UMass Boston that treated the budget as a "guideline" and not an 'operational reality'."

"[KPMG] did not note any deficiencies of the UMass President, Board of Trustees, or UMass Central Office in fulfilling their statutory and regulatory obligations."

What KPMG did not explain in its report is that the primary reason for the difference between the FY2017 net revenue approved by the Board of Trustees of \$2.3 million in July of 2016, and the \$30 million deficit that was projected in November 2016 was that the UMass Board of Trustees had instituted a policy change requiring the campus to pay almost \$23 million to replenish its unrestricted reserves *after* the BoT had approved the FY2017 budget. The UMass board officially approved a UMass-Boston budget that had authorized unrestricted reserves to decline from \$40.4 million in FY2016 to \$27.89 million in FY2017.

Why the Comptroller should audit UMass

In light of the limited-scope nature of the procedures, Pioneer Institute recommends that the director of financial reporting in the Office of the State Comptroller, the independent, executive-level agency responsible for financial reporting by state agencies including UMass and other higher education institutions, conduct an audit to determine whether the financial reporting and financial oversight of the University as a whole complies with state law, state regulations, and UMass Board of Trustees policies, and to determine to what extent administrative shortcomings by these officials may have contributed to the UMass Boston financial crisis. The comptroller should review the responsibilities of the board of trustees and central office, and determine whether such duties were followed in this case. The question of who bears responsibility for the UMass-Boston FY2017 and FY2018 budget crisis is an important one because, to date, the blame has been placed almost entirely on UMass Boston administrators and largely on former Chancellor Keith Motley. The KPMG report was limited in scope to avoid placing blame on those at the UMass Central Office and Board of Trustees who are responsible for oversight of the Boston campus.

By statute and board of trustees policy, the BoT and university president have both the authority and responsibility to:

- Approve each campus's operating budget, including the level of available unrestricted reserves
- Approve the capital plan for each campus, including how much campus-funded capital spending will be necessary and assuring that it is affordable, and
- Conduct the Five-Year Financial Projection that forecasts available unrestricted reserves on each campus

The BoT's authority to dictate minimum unrestricted reserves is set forth in Board of Trustee Policy T92-031, entitled "Policy for Management of University Funds." This policy stipulates that an annual operating budget for the university be prepared and approved by the board of trustees each fiscal year and that the university's senior vice president for administration & finance and treasurer is responsible for planning and coordinating the budget process for the university.⁶⁵

The FY15–19 UMass Capital Plan makes clear that the UMass President is responsible for confirming affordability of the capital plan:

"[T]he University is responsible for developing the five year capital plan which entails prioritizing projects, identifying funding sources and ensuring that strategic and campus priorities are being addressed. . . . The President's Office is responsible for coordinating the overall capital plan for the University and based on a review of finances confirms the affordability of submitted plans."⁶⁶

The UMass FY2017 budget described the function of the university's five-year financial projection as follows:

"At the start of the fiscal year, July 1st, the University implements the budget that has been approved by the Board of Trustees and supported by State through its separate budget process. At the same time, the University undertakes its financial projection process which develops assumptions for budget inputs and projects revenues and expenses over a five-year period. Utilizing the financial projection, the University calculates key financial ratios over the five-year period to help analyze the fiscal health of the organization and to help make current year decisions. This information has previously been presented to the Board of Trustees at the April meeting and the University is currently working to produce this projection sooner in the fiscal year so that it can be used throughout the budget development process."⁶⁷

A key component of the five-year financial projection is estimating the primary reserve balances of each of the five UMass campuses. Such estimation includes an assessment of expected campus borrowing and direct campus cash expenditures for capital projects over the upcoming five-year period.

The Office of Budget and Financial Planning serves as a central coordinating point for budgeting, financial planning and reporting activities for the university. It directs the budgeting process by developing and disseminating budget parameters to the five campuses and other components of the university; establishing parameters for student charges and reviewing proposed tuition and fee schedules; developing consolidated reports and analyses of budget and other related issues; providing general and specific support to broader administrative, management and policy initiatives initiated through the president and senior vice president; and serving as a liaison between the university and state agencies, the legislature and other external parties. The budget office works with the campuses to integrate strategic financial planning activities with ongoing operating budget, capital and other reporting activities for senior management and the board of trustees.⁶⁸

This policy stipulates that an annual university operating budget be prepared and approved by the board of trustees each fiscal year and that the university's senior vice president for administration & finance and treasurer is responsible for

"Pioneer recommends that the Office of the State Comptroller conduct an audit to determine how UMass higher officials may have contributed to the UMass Boston financial crisis."

planning and coordinating the budget process for the university. In addition to the budget, this policy specifies expenditure authority, guidelines and criteria, official records, internal controls, and reporting requirements of the university and its campuses. From a practical standpoint, this board policy is implemented through coordination between the senior vice president for administration & finance and treasurer within the president's office and the vice chancellors for administration and finance at each of the campuses.⁶⁹

Appendix

Potential areas of non-conformity with state law and regulations on the part of UMass officials:

1. The UMass Board of Trustees, not the administrators of the five UMass campuses, are mandated by MGL C.29, Section 3; MGL. C.7A, Section 15, and MGL C.15A, Section 15C to report monthly statements of receipts and expenditures by subsidiary for each campus, including reconciliation of deficiencies and surpluses against all appropriated and non-appropriated funds for the current fiscal year, to the Office of the State Comptroller, an independent, executive-level agency, in accordance with financial reporting standards established by the state comptroller.
2. The state comptroller's financial reporting regulations require that the UMass Board of Trustees' report monthly reconciliations to the Massachusetts management and accounting reporting system using the statutory basis of accounting to be included in the monthly, quarterly and annual reports of the Commonwealth of Massachusetts, and are included in the Commonwealth's Statutory [budgetary] Basis Financial Report and the Comprehensive Annual Financial Report. <https://www.macomptroller.org/comptroller-regulations>
3. The University Internal Audit Office, under direction of the UMass President, has responsibility to review the reliability and integrity of financial and operational information and the means used to identify, measure, classify, and report such information. (UMass Board of Trustees Policy T06-061)
4. The University Internal Audit Office has responsibility to review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reporting. (UMass Board of Trustees Policy T06-061);
5. The UMass Board of Trustees has statutory responsibility under MGL Chapter 75, Section 7 to approve, prepare, and submit a detailed budget for UMass to the governor and state legislature each year. In addition, UMass Board of Trustees Policy T92-031 states that an annual operating budget for the university is prepared and approved by the board of trustees each fiscal year that presents projected revenue and expenditures for all five campuses as well as the president's office and Institute for Governmental Services.⁷⁰
6. The university controller is responsible for the fiscal integrity of the Financial Records System. The university controller is responsible for issuing guidelines for the categorization of funds to ensure that reporting will comply with the National Association of College & University Business Officers classification and American Institute of Certified Public Accountants and FASB/GASB guidelines. (UMass Board of Trustees Policy T92-031)
7. The university senior vice president for administration & finance and treasurer has primary responsibility for planning and coordinating the annual budget process. Schedules, standards, guidelines, formats and budget parameters are promulgated through the senior vice president for administration, finance, and treasurer. (UMass Board of Trustees Policy T92-031)
8. The UMass President has responsibility to review and approve the proposed budgets of each campus and of the central office, including staffing levels, enrollment levels, spending levels, and send his approved budget to the board of trustees for its final review and approval.
9. The university president has responsibility to review and approve each campuses' land and facilities use master plan, including information about the campus' mission and goals, projections of future land and facilities' needs, and assumptions and criteria used to identify the needs of the campus. (UMass Board of Trustees Policy T93-122)⁷¹
10. The university president and the board of trustees have responsibility to review and approve a five-year capital plan for each campus, updated biennially, including a prioritized list of all campus capital projects over \$2 million in total project cost that are planned to be initiated over the next five years, and a five-year capital budget projection along with the revenue source(s) for each project. (UMass Board of Trustees Policy T93-122)⁷²
11. The senior vice president for administration & finance and treasurer, an officer in the UMass Central Office, is responsible to issue procedures and guidelines for the university financial report. All university-wide financial reports will be reviewed by the senior vice president for administration, finance, and technology and treasurer. (UMass Board of Trustees Policy T92-031)
12. The university controller, an officer in the UMass Central Office, is responsible to promulgate internal control policies and procedures. Each campus shall develop and document internal controls consistent with generally accepted accounting principles. Internal controls are designed to safeguard assets, verify the accuracy and reliability of accounting data, and promote operational efficiency. University Auditing shall periodically make recommendations, review department activities and internal controls.

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About Pioneer

Pioneer Institute is an independent, non-partisan, privately funded research organization that seeks to improve the quality of life in Massachusetts through civic discourse and intellectually rigorous, data-driven public policy solutions based on free market principles, individual liberty and responsibility, and the ideal of effective, limited and accountable government.

