New Jersey City University
Supplemental Information Report

Acting President, Jason Kroll
August 25, 2022

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Introduction

In a letter dated August 11, 2022, the Middle States Commission on Higher Education ("Commission") requested that New Jersey City University ("NJCU" or "University") provide information relating to the "state's request for an investigation into the [University's] finances" and attached a copy of an article titled "Gov. Murphy calls for investigation into NJCU finances" dated August 5, 2022. Specifically, the Commission requested "additional information so that it can substantiate any media information and evaluate the [University's] continued compliance with the Commission's standards for accreditation, requirements of affiliation, policies and procedures, and applicable federal regulatory requirements." NJCU was asked to provide documentation "relevant to substantiating or correcting the information presented in the media report, and actions planned or taken by the [University] to ensure ongoing compliance with Standard VI: Planning, Resources, and Institutional Improvement." Additionally, NJCU was asked to "inform the Commission about any and all significant developments related to any internal or external investigations surrounding these concerns."

As set forth in further detail below, NJCU is navigating through a financial crisis, but not of the severity that is suggested by various media reports. The University's financial crisis is attributable to multiple factors, including the timing of real estate and programmatic expansions at a time of significant decline in enrollment that was exacerbated by the pandemic. Notably, our student population is comprised of the most financial vulnerable student population of any public four-year institution in the State of New Jersey. The largest contributing factor to the University's financial situation is the implementation of an accounting standard that required the University to report increased pension liability on its financial statements. Despite these challenges, the University is engaged in an ongoing rightsizing process that will eliminate excess costs while remaining committed to its mission and its students.

Substantive Narrative and Analysis

At its meeting on June 27, 2022, the NJCU Board of Trustees ("Board") declared a financial emergency. This was a strategic decision made by University leadership once it became clear that state appropriations of the amount that the University had requested would not be forthcoming. The declaration of a financial emergency triggered the ability for the University to conduct impact bargaining, which has included serious discussions of reductions in force and other cost-saving measures, with local unions. Notably, the overwhelming majority of the University's workforce are members of local bargaining units.

Simultaneously, the Board approved a 90-day interim budget to allow NJCU to seek rightsizing solutions to address an existing, and recently intensified, structural deficit. Immediately following the June 27, 2022 Board meeting, NJCU engaged in managerial layoffs, eliminating eleven managerial positions, which constituted 11.5% of managers at NJCU. These initial managerial layoffs afforded NJCU a long-term savings of $1,469,415.00.

Following the declaration of a financial emergency, various media outlets published articles reporting inaccurate information regarding NJCU's finances. These articles suggested that NJCU went from a surplus of $108 million in 2014 to a negative $67 million in 2022, with another

$156 million in debt. (Exhibit A). While this is technically true, this suggestion is made without context and implies that funds were squandered because of poor managerial decision-making. These statements are not an accurate reflection of NJCU's true financial position nor the entire factual background and context to understand same. Such reports have conflated basic accounting principles and have omitted an important change to accounting regulations, which has had a significant negative impact of NJCU's financial status.

A surplus refers to a period where revenues exceed expenditures. In contrast, net position refers to the difference between assets and liabilities, which includes debt, cash, cash equivalents, and non-liquid assets, such as investments in property, plant, and equipment. A net position is not a surplus, nor has NJCU ever had a surplus. (Exhibit B). While NJCU's net position has decreased from 2014 through 2021, there can be no discussion of this decline without discussing the implementation of Governmental Accounting Standards Board ("GASB") No. 68 Accounting and Financial Reporting for Pensions ("GASB 68"). (Exhibit B).

GASB 68 is a pension-related accounting standard that was implemented in 2015. (Exhibit B). This accounting standard modified existing financial reporting requirements and established new ones for government entities that participated in defined benefit pension plans, which included public colleges and universities such as NJCU. (Exhibit B). The effect of GASB 68 was that it dramatically altered the way institutions of higher education accounted for their defined benefit pension plans. (Exhibit B). Prior to 2015, institutions of higher education were only required to report a pension liability to the extent that they were behind on their annual actuarially-determined payments into the pension plan. (Exhibit B). After the passage of GASB 68, institutions of higher education were required to report a liability for the entire underfunded status of the plan and to report their portion of the liability of any cost-sharing plan with others. (Exhibit B). The practical effect of GASB 68 was that universities were reporting an increased pension liability on their financial statements. For NJCU, this caused a decline in net position, even though there were no other major changes to the University's financial position. (Exhibit B). NJCU was not the only institution negatively affected by the requirements of GASB 68, and institutions across New Jersey experienced a decline in net position attributable to GASB 68 (Exhibit B, p. 5).

NJCU experienced a decline of $115 million in its net position the year that GASB 68 was implemented. (Exhibit B). This decline was solely caused by the implementation of GASB 68 and its requirement that NJCU report a liability that it previously did not have to report. (Exhibit B). But for the implementation of GASB 68, NJCU would not have experienced a decline of $115 million in its net position. (Exhibit B). While NJCU's net position is currently negative $61 million for full-year 2021, this is attributable directly to the effects of GASB 68. If GASB 68 had not been implemented, NJCU's net position would be $84 million for full-year 2021.

While NJCU's net position declined from 2014 through 2021, decisions made by leadership contributed to <u>only</u> a $26 million decline in net position during that time period.[1] (Exhibit B). These decisions included multiple expansion projects that were designed to attract new students from other areas of the state and country. These projects occurred simultaneously

[1] Effective June 30, 2022, Sue Henderson resigned from her position as University President. Effective July 1, 2022, Jason Kroll has assumed the role as Acting President of NJCU until an interim president or permanent appointment is identified.

with decreasing enrollment, which began in 2016, and historical underinvestment in the University and its constituent populations. These factors were exacerbated by the COVID-19 pandemic, which resulted in the acceleration of the decline of the University's operating revenue.

Please be advised that the University initially projected a $22.66 million budget deficit for FY 2023. This figure stemmed from having made the strategic and conservative budget decision to move to a modified-accrual basis accounting, which only counts revenue when its realized. After announcing the 90-day interim budget, NJCU has taken significant rightsizing actions. In the short-term, there have been managerial layoffs that have resulted in a long-term savings of $1,469,415.00. Additionally, managerial employees have committed to reductions in salary and furloughs, which coupled with the managerial layoffs will yield a savings of approximately $2,073,000.00 for full-year 2023. (Exhibits D & E). Furthermore, the University has (in less than 60 days) identified a net savings of approximately $10 million dollars to address the deficit.[2]

Notably, the majority of NJCU's non-managerial workforce is unionized, and NJCU leadership has been engaged in extensive negotiations with the unions regarding concessions such as salary reductions, furloughs, and reductions in force. Those negotiations are ongoing, and it is anticipated that they will be completed before the expiration of the 90-day interim budget.[3]

NJCU is undergoing academic rightsizing, which consists of a thorough review of academic programs for potential reorganization and discontinuance of program offerings that are unsustainable. This academic rightsizing is a top priority for the University. To that end, there is a group of faculty and staff who meets weekly with the sole objective of rightsizing NJCU's academic portfolio and will be making recommendations regarding program discontinuance and sustainability in response to the University's decline in enrollment. Additionally, the University has created crisis teams that are designed to create an environment of collaboration and shared governance. (Exhibit F). These crisis teams encompass various departments within the University and are intended to provide a space for University personnel to be involved in decision-making and for University leadership to exhibit transparency. (Exhibit F). Each crisis priority team has specific objectives of ways to provide support for the University's rightsizing efforts, ad well as specific metrics that must be met to meet those objectives. (Exhibit F). By way of example, the

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[2] The University has locked in approximately $7 million in salary and wage savings against an initial personnel cost reduction target of $7.916 million for FY 2023. Approximately $800,000 of the projected salary savings (furloughs and pay-cuts) is non-recurring. The University has further eliminated over 40 full-time positions (non-essential hiring freezes) and reduced the supplemental instruction (i.e., adjuncts) budget to achieve the salary and wage savings. Additional salary and non-personnel savings are expected through rightsizing of Academic Affairs to meet current enrollment needs.

The operating budget (non-personnel) has been reduced by $1.73 million, which includes a $500,000 reduction to the athletics budget.

One-time, non-operating revenue from the sale of real property is estimated to produce approximately $12 million in non-recurring revenue to help balance the budget for FY 2023 and build a runway to identify more permanent savings or recurring revenue enhancements.

[3] The University anticipates nearly $2 million dollars in FY 2023 budget savings to result from negotiations with the largest bargaining unit on campus.

Budget and Finance team has conducted brainstorming sessions to identify ways to generate savings and diversify revenue streams, has inventoried all contracted services to determine the necessity and appropriate scope of those services, and is in the process of completing a forensic review of NJCU's non-personnel budget to accurately budget all fixed costs. (Exhibit G). These crisis teams, along with the other rightsizing efforts that NJCU has implemented, are all focused on tailoring the University's services to its mission and its students while focusing on cost saving measures and long-term sustainability.

In late 2020, the University engaged the services of the rpk Group, a higher education consultancy firm that helps colleges and universities address the disruption plaguing the traditional industry business models. NJCU retained rpk Group to conduct an academic portfolio and administrative services efficiency review and initiated a culture of constant evaluation of operational competitiveness and maximum resiliency to best serve our unique student population and community.[4]

This exercise was largely met with a coordinated resistance by some faculty. Campus inclusive steering teams and data teams were charged with driving assessments of the strengths and weakness of the University's academic portfolio, streamlining administrative services to reduce costs, evaluating return on investments on student success efforts, and establishing data lenses to facilitate resource allocation models to better align strategy and mission. Moreover, in 2021 NJCU refinanced $38.5 million of its existing debt spread across the Series 2007F, Series 2008F, Series 2010F, and Series 2016D bonds. (Exhibit C). As a result of this, NJCU achieved $23.1 million of cash flow relief through fiscal year 2029, $21.7 million of which will be realized from full-year 2022 through full-year 2026. (Exhibit C). As part of this refinancing, NJCU was also able to extend the final maturity of its old debt from full-year 2037 to full-year 2052, which will provide the University with long-term savings.

Additionally, the University has requested that the State of New Jersey advance its annual appropriation of approximately $31.8 million. Typically, this appropriation is provided to the University in monthly installments. Given the University's financial situation, the University has requested a six month advance of this appropriation, which would immediately provide a cash infusion and increase the University's cash on hand. Even if the State does not grant the University's request for an advance, the timing of the University's declaration in June, which was well before the University could budget for tuition payments and federal Pell grant monies, means that the University's financial position will improve with the imminent start of the fall semester.

As a result of NJCU's continued commitment to its mission, it is reducing the physical scale of its operations. NJCU is in the process of evaluating the divestment of certain monetizable real property. The divestments will provide both a cash infusion for the University as well as the elimination of long-term expenses associated with the development of real estate. To that end, the University has suspended or terminated many of its contracts with outside vendors and is

[4] The assessment and review findings and recommendations have not been fully implemented yet. However, many of the data sets were based on historical data from 2018-2020. Nevertheless, significant voluntary faculty and staff separations have been facilitated along with significant reductions in course-released time and adjunct budgets.

reviewing same to ensure that such contracts are truly necessary for the University to accomplish its mission and provide exemplar services to its students.

NJCU's planning processes, resources, and structures are aligned with its mission, and the University is united in its goal to overcome this financial crisis while remaining committed to its students. The University has engaged in direct and clear communication with the NJCU community and has made efforts to be transparent and responsive to all the University's stakeholders. This transparency, as well as the consistent evidence-based decision-making, clear assignment of responsibility by new leadership, and comprehensive planning relating to the University's infrastructure will ensure that the University is able to correct the course of its financial status. All decisions made by senior leadership since the declaration of the financial emergency have been evidence-based and collaborative, with input from the entirety of the University's constituents to determine the appropriate course of action to address the University's needs.

To reverse the current trend, NJCU is currently engaged in a strategic downsizing effort aimed at restructuring the institution to fit the current size of its enrollment. Specifically, NJCU will resize the academic portfolio to reflect market relevance and enrollment trends, realign our administrative structures to promote improved efficiency and better communication, and adjust our overall spending levels to support a sustainable, balanced operating budget. The University's downsizing efforts will unfortunately result in a significantly reduced workforce across the University, inclusive of union and non-union workers, as well as faculty and staff employees.

At the conclusion of the downsizing effort, NJCU will be a more sustainable and agile institution that lives within its means and preserves mission-critical functions that emphasize equity, quality, and an excellent student experience for decades to come. A key component of the University's downsizing plan is to request $35 million in stabilization funds from the State of New Jersey to provide needed liquidity while savings from our downsizing begin to accrue over a two-to-three-year time frame. Stabilization funds are critical in that they will help ensure that NJCU does not downsize haphazardly, visibly eroding the quality of services provided to students in the process.

Downsizing Objectives

1. NJCU will remain committed to its unique mission and the student population it serves while it re-imagines the way it is organized, structured, and financed in support of a sustainable cost structure.

2. Budgetary decision-making will be data driven and transparent and will involve input from multiple stakeholders, as well as regular communications with the campus-community.

3. NJCU will promote the quality of integrity of its budgetary forecasts by conservatively estimating revenues based on multiple enrollment projection scenarios.

4. Budget development will involve a rigorous review of all academic degree programs to ensure that market demand, enrollment, and educational outcomes, factor into NJCU's short and long-term budgetary choices.

5. All areas of the university will undergo a thorough structural and operational review - utilizing the administrative services review and academic portfolio analyses facilitated by the rpk Group study - to determine the most prudent and cost-effective way to address core mission priorities and student needs. (Exhibit K).

6. Consideration of diversity, equity and inclusion will guide the University's downsizing efforts to ensure its continuous commitment to a culture of open-mindedness, compassion, and inclusiveness among individuals and groups.

Key Policy Shifts

To support the downsizing initiative and ensure development of a responsible balanced budget, NJCU has implemented the following policy shifts:

1. NJCU has implemented a 90-day interim budget to facilitate development of a deliberate budge action plan to address the University's structural budget deficit and ensuing financial exigency.

2. Stringent spending guidelines were approved with the interim budget, limiting expenses to fixed and mandatory costs, and other operating costs necessary to fund the basic operations of campus. No discretionary, non-essential, or new spending will be allowed during the interim budget period.

3. All vacant positions are currently frozen, with limited exceptions being granted on a case-by-case basis to support mission critical objectives and activities.

4. The University has switched from budgeting on a full-accrual basis to a modified-cash basis for development of its FY 2023 budget. Expenditures will continue to be budgeted on a full accrual budgetary basis, to cover liabilities as they are incurred, but revenue will be budgeted based on when it is earned and both measurable and available. The hybrid approach allows the budget to be used to better manage the University's cash.

Working Strategies

The University is employing the following strategic downsizing framework to guide its efforts to restructure the organization, reduce costs and produce a more sustainable business model:

1. Academic Program Discontinuations[5].
   Reduce the number of degree offerings (with a focus on low-enrolled degree programs) to better align the academic program mix with current market demands and

[5] Academic program discontinuations are subject to shared governance considerations and collectively bargained reduction-in-force notice obligations that will impact the timeline for realization of permanent budgetary savings. Preliminary assessments project an upwards of $4.8 million of savings. The University, through shared governance, promulgated procedures for creating, merging, or dissolving academic departments which were formally approved by the Board of Trustees on June 27, 2022. (Exhibit L).

enrollment trends;

2. <u>Campus Wide Reorganization</u>
   Reorganize upper management and other administrative structures to promote improved efficiency, effectiveness, and communication;

3. <u>Administrative Consolidation</u>
   Consolidate the management of internal support functions (i.e., Information Technology) to reduce overlap and unnecessary redundancy;

4. <u>Operational Efficiency</u>
   Reduce non-faculty workforce levels to optimize administrative efficiency,

5. <u>Academic Efficiency</u>
   Reduce the number of full-time faculty positions (exclusive of academic program discontinuations) through efficiency in course scheduling, elimination of faculty release time, and adjustments to faculty-student ratios;

6. <u>Strategic Cost Cutting</u>
   Cost-cutting measures to reduce the non-personnel part of the annual operating budget.

On August 5, 2022, Governor Phil Murphy directed the New Jersey Office of the State Comptroller to conduct an investigation of NJCU's finances. (Exhibit J). The Office of the State Comptroller is responsible for conducting assessments of the performance and management of programs of the executive branch of New Jersey's government, which includes the University and other public institutions of higher education. Since the onset of the investigation, the University has cooperated fully with the Office of the State Comptroller and intends to continue that cooperation as the investigation proceeds. Pursuant to state law, NJCU has been directed to maintain the confidentiality of that investigation and will provide updates to the Commission regarding the investigation to the extent possible under New Jersey law.

Evidence Inventory

The below list of documentation has been used as a reference in preparation of this response and has been submitted to the Commission for review:

- Exhibit A: August 11, 2022 Letter from the Commission to NJCU with attached NJ.com Article titled "Gov. Murphy calls for investigation into NJCU finances," dated August 5, 2022;
- Exhibit B: Discussion materials dated August 8, 2022 prepared by First Tryon Advisors;
- Exhibit C: FY 2023 Budget Plan dated August 3, 2022;
- Exhibit D: Email from NJCU Human Resources announcing managerial pay reductions and furloughs, dated July 14, 2022;
- Exhibit E: Memorandum from NJCU Human Resources dated July 13, 2022 relating to Managerial Salary Reductions and furloughs;

- Exhibit F: Listing of crisis Priority teams dated July 11, 2022;
- Exhibit G: Budget Finance Crisis Priority Team;
- Exhibit H: Message from Joseph F. Scott, NJCU Board Chair, dated June 27, 2022
- Exhibit I: Introductory Message from Acting President Jason Kroll dated June 30, 2022;
- Exhibit J: Article from Inside Higher Ed titled "Financial Collapse at New Jersey City University" dated August 12, 2022;
- Exhibit K: NJCU Academic Portfolio Review and Efficiency Analysis (rpk Group November 2021);
- Exhibit L: University Policy, "Procedures for Creating, Merging, or Dissolving Academic Departments," (June 27, 2022).

Conclusion

The University is currently facing a financial exigency but has already taken significant steps since June 27, 2022, to address the situation and correct the financial circumstances of the University. The leadership of the University has made efforts to be transparent in its decision-making and is working diligently to find creative and flexible solutions to the financial crisis. In doing so, shareholders from across the University have been involved to ensure that informed and educated decisions are being made. The University is confident that these rightsizing efforts will ensure that the University leverages its resources effectively and efficiently to provide quality educational services to its students.