# THE FINANCIALIZATION OF HIGHER EDUCATION

## At the University of Cincinnati

REPORT BY **PARKER CELLURA, CALEB AKERS,** AND **MEGHAN MALAS**
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ROOSEVELT NETWORK

# **ABOUT** THE ROOSEVELT NETWORK

**The Roosevelt Network** trains, develops, and supports emerging progressive policymakers, researchers, and advocates, focusing on communities historically denied political power. With locations on campuses and in cities in nearly 40 US states, the network is founded on the principle that changing who writes the rules can help fulfill the promise of American democracy and build true public power. The network supports student-led, scalable policy campaigns that fight for the equitable provision, distribution, and accessibility of public goods at the campus, local, and state levels. In addition to its student-led activities, the organization leverages the power of its alumni network—which includes public officials, lawyers, teachers, nonprofit executives, and researchers—to expand opportunities for the next generation of policy leaders. A program of the Roosevelt Institute, the network operates alongside leading economists and political scientists to bring the ideals of Franklin and Eleanor Roosevelt into the 21st century.

## **ABOUT** THE AUTHORS

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# Executive Summary

In the wake of the 2008 economic recession, universities across the United States have seen significant shifts in financial management. Through shifting priorities away from fostering the academic mission and toward the development of monetary streams that provide revenue for the financial sector, the University of Cincinnati (UC) and many other public universities have employed a practice, whether intentionally or not, known as the "financialization of higher education." Financialization is a particular framework of governing an institution that is defined by placing a high sense of value on "the increase in the size, scope, and power of the financial sector—the people and firms that manage money and underwrite stocks, bonds, derivatives, and other securities—relative to the rest of the economy" (Konczal 2014). This comes at the expense of the students, faculty, and broader academic mission of these universities; institutions of higher education have increased costs for students, including tuition price and additional fees, while simultaneously redirecting existing institutional resources toward programs whose interests do not align with the universities' stated academic priorities. All of this has happened without the expressed input or consent of academic stakeholders. This report illustrates the trends of financialization at the University of Cincinnati, which include but are not limited to: unreasonable rises in tuition and fees, the unrepresentative terms under which these funds are allocated, the financial quagmire of the athletics department, and the unethical investments of the endowment (with specific attention paid to hedge funds).

The University of Cincinnati's mission statement depicts the institution as one which "serves the people of Ohio, the nation, and the world as a premier, public, urban research university dedicated to undergraduate, graduate, and professional education, experience-based learning, and research" (UC n.d.e). However, as the budgetary prioritization and unrepresentative financial decision-making since the 2008 economic recession indicate, the university's actions run contrary to its expressed mission. The issues at hand are the result of an extractive corporate business model designed to maximize profits for a powerful minority at the expense of the collective interests of the broader public, manifesting within institutions that are meant to serve as universal points of access to knowledge and as resources for that same public. This report draws scrutiny on university leadership, who have both facilitated and consistently reinforced practices that ensure that higher education's role as a source of economic mobility is depleted, as it concurrently becomes a greater cause of the very inequality it was developed to combat. The report's analysis details a series of noteworthy findings regarding the university's financial decisions that are reflective of the financialization process and encourage greater scrutiny:

- The proportion of student tuition and fee revenues that account for annual operating expenses has jumped from 29 percent to 53 percent from 2001 to 2018;
- $936 of each full-time undergraduate student's tuition is going toward making up the UC Athletic Department's deficit;
- Adjunct professors of the College of Arts & Sciences, the single largest college of the university, have not received a base pay raise since 2003;
- The College of Arts & Sciences maintained an operating budget of $0 in February of 2019;
- UC maintained over $55 million of distributed capital in "natural resource" ventures in 2019, which included developers of petroleum and crude oil; and
- In fiscal year 2017, UC's largest single hedge fund investment manager, King Street Capital, grew its portfolio through hedge funds maintaining investments including, but not limited to:
    - EP Energy, a crude petroleum and natural gas development company;
    - Teva Pharmaceutical Industries, which recently paid over $23 billion in court settlements due to its contribution to the ongoing opioid crisis;
    - Pacific Gas and Electric Company, whose poor structural maintenance has been cited as the root cause of California's deadliest fire in history, which killed 85 people.

With these core issues in mind, we offer five recommendations for UC's administration:

- Promote input from the stakeholders who are most directly impacted by the financial decisions of the university through the installation of student and faculty representative positions with full voting authority on the Board of Trustees;
- Decentralize university financial management through implementation of the American Association of University Professors' equity-inspired budgeting model;
- Reduce the financial burden of the deficit created by the UC Athletic Department on the student body;
- Improve the transparency of financial investments and resource distribution as a way to promote more ethical means of generating revenue and fostering community relations; and
- Freeze the cost of tuition rather than guarantee tuition upon enrollment, in an effort to assess how to restructure the financial management of the university with the resources available.

# Introduction

Financialization research at the Roosevelt Institute spans multiple program areas and teams. Experts in Roosevelt's think tank, such as Lenore Palladino, Mike Konczal, and Nell Abernathy—among many others—have advanced research and policy recommendations about curbing corporate power and the trend of financialization. From stock buybacks to the pharmaceutical industry, corporate America's power has been increased by financialized practices.

In 2015, the Roosevelt Network built on that foundation of research to look specifically at how financialization was impacting higher education. The first Roosevelt Network publication of this research, authored by Alan Smith, Carrie Sloan, and Dominic Russel, studied the impact of interest rate swaps at a host of universities across the country. Then, in 2018, Aman Banerji, Brigid Kennedy, and Ademali Sengal authored a case study like this one for Michigan State University.

Across all of the research, it's clear: Financialized operation of higher education hurts students, workers, and faculty, and limits the ability of this public good to be accessible to everyone.

## ACKNOWLEDGING COVID-19

It is impossible to gauge the full scope of impact the COVID-19 pandemic will have on institutions of higher education. It is without question that the pandemic has brought tremendous changes to the industry thus far. In the semesters to come, until a reliable vaccine is readily accessible to the broader public, universities will face uncertainties in the reliability of revenue streams as a result of potential declines in enrollment of both domestic and international students, the inability to safely house large quantities of students, and modifications to collegiate sport seasons and other major events (Kim et al. 2020). Several of the financial issues universities will soon find themselves managing have been in development for years, and are only being exacerbated by the pandemic rather than directly caused by it. To see the pandemic as the sole cause of financial stress instead of an igniting charge would be to overlook the trends in higher education. Yet the pandemic does provide a great opportunity to assess if and how systems of power on a broader scale are withstanding these challenges, as well as how they can be restructured to better serve the needs of those an institution is meant to serve.

With public universities across the nation adapting to meet the challenges presented by the pandemic—including but not limited to transitioning to a greater reliance on remote education, implementing measures to promote physical distancing, and administering layoffs and work furloughs to university educators and staff—universities will need to reevaluate how the services they offer have changed and make decisions based on how students reappraise the value of these services (Lederman 2020; Mcgraw, Hubler, and Levin 2020). Transitioning institutional practices to those that are inherently more restrictive to the educational, intramural, and social experiences is not conducive to providing a greater sense of value, yet this did not stop the university from raising the cost of tuition again for the incoming class in 2020 (Dickler 2020; Reilly 2020). This is not to say that universities should not be implementing measures which assure the safety of those attending, only that doing so prompts the reassessment of the admissibility of current budgetary practices. Relying so heavily on high enrollment and the resulting tuition revenue is not conducive to long-term financial stability when enrollment rates have reason to plummet given these changes in institutional practices.

The reevaluation of institutional integrity should not only be a self-reflective exercise. In this time of uncertainty, universities must reevaluate the dependability of the practices they have come to rely on. For example, nearly 75 percent of the $630 billion invested in endowment funds at universities and colleges across the United States are invested in equities or stocks, at a time when share values have become erratic due to COVID-19 (Marcus 2020a). While the stock market has rebounded from the initial crash seen in early 2020, the development of the COVID-19 pandemic is not unique in proving the dangers of this investment strategy (Romano 2020). The popularity of these types of investments stems from a misplaced value on their volatility as a means to generate greater returns.

Given the unprecedented challenges of this moment, now is a time to remain open and eager to restructure the fiscal and governance systems of our public institutions to prioritize a sense of equity and inclusivity toward the people most directly affected by the decisions being made.

# Financialization

## THE UNIVERSITY OF CINCINNATI'S REVENUE

One of the most crucial aspects of financialization is the withdrawal of government support for public institutions of higher education, which forces many schools to seek alternative revenue streams to close gaps in funding. To do so, they have relied on recruiting large numbers of students to attend their colleges, to make up the difference in tuition and fees. Higher education is not given the same sense of prioritization by lawmakers and legislators as other key issues such as health care and social security benefits. Similarly, the percentage of people who consider higher education to be very important dropped from 70 percent to 51 percent between 2013 and 2019, and many view higher education not as a right, but rather as an opportunity based on financial access and merit (Marken 2019). As of June 2020, 72 percent of college presidents had stated that one of their chief concerns was the decrease in perceived value of higher education due to COVID-19 (Inside Higher Education and Hanover Research 2020). This is up sharply from 49 percent when asked the same question in March of 2020. This decline in confidence in the value of higher education could spell additional financial troubles for universities already struggling to keep enrollment and revenues up. With individual states maintaining control over their education budgets, funding for public institutions of higher education in the years since the Great Recession is more than $6.6 billion lower than what it was before 2008 (Mitchell 2019). As a result, public institutions have begun to shift to rely more on tuition and fees of students for income, with annual published tuition at four-year public colleges rising by $2,708 (37 percent) since 2008 (Mitchell 2019). As costs of attendance continue to grow, many economically disadvantaged people, such as ethnic minorities and the working class, are prevented from attending institutions of higher education.

In 2001, the University of Cincinnati main campus's total operating revenue was roughly $382 million dollars (National Center for Education Statistics 2001).[1] This has grown to over $833 million as of 2018, a near 53 percent increase in total operating revenue, after calculating for inflation (NCES 2018b).[2] During this period, revenue from tuition and fees increased from $105 million ($149 million in 2018 dollars) to $443 million—a staggering 198 percent increase after accounting for distributed scholarships and inflation—nearly doubling from around 27 percent of the university's total operating revenues to 53 percent (NCES 2018b).[3] This is especially notable when compared to the national average proportion of tuition and fees, which accounted for 20 percent of revenue at public institutions in 2016—17 (NCES 2018a). Meanwhile, the next largest stream of revenue—

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[1] 2001, Finance: Operating revenue is determined through adding Part A, Lines 01: "Tuition and fees"; 06-08: "Government grants and contracts"; 09: "Private gifts, grants and contracts"; 11: "Sales and services of educational activities"; 12: "Auxiliary enterprises"; 14: "Other sources (calculated value)"; and deducting Part E, Line 07: "Total scholarship and fellowship expenditures (calculated value)."

[2] 2018, Finance: Operating revenue is determined through adding Part B, Line 01: "Tuition and fees, after deducting discounts & allowances"; Part B, Lines 02-04b: "Grants and contracts - operating"; Part B; Line 05: "Sales and services of auxiliary enterprises, after deducting discounts and allowances"; Part B, Line 08: "Other sources - operating CV=[B09-(B01+ ....+B07)]"; and Part B, Line 26: "Sales and services of educational activities." According to the Consumer Price Index Inflation Calculator, the inflation rate of the United States Dollar from August 2001 to August 2018 is 1.42.

[3] The proportion of the 2001 tuition and fees was calculated by subtracting the 2001, Finance: Part E, Line 07: "Total scholarship and fellowship expenditures (calculated value)" from Part A, Line 01: "Tuition," and then dividing the difference by the 2001 operating revenue (ref. footnote 1). The proportion of the 2018 tuition and fees was calculated by dividing the 2008, Finance: Part B, Line 01: "Tuition and fees, after deducting discounts & allowances" by the 2018 operating revenues (ref. footnote 2).

government grants and contracts—has shrunk from 31 percent to 15 percent (Figures 1.1, 1.2, and 1.3) (NCES 2001; NCES 2018b).[4]

The lack of government support for education has forced schools to seek alternative sources to close the gap, leading to financialization. With decreasing public funding, many schools have begun to employ private sector strategies through a method known as commercialization. Commercialization is a method through which financialization manifests, in the form of prioritizing university resources toward programs designed with development-for-profit incentives; this is a symptom of the widespread shift to an academic capitalist framework across US colleges and universities, wherein institutions exhibit increasingly market-based behavior, while the mission of public good takes a backseat to revenues and market share (Kezar and Bernstein-Sierra 2016). In a 2013 book, former Harvard President Derek Bok noted:

> *As institutions of higher learning grew larger and more complicated, they needed trustees who could help them raise money and develop better methods of administration... with faculties that were steadily becoming more secular and professional. Business executives and corporate lawyers simply seemed better suited to the changing needs of the university. (Bok 2013)*

Through entering the market, universities now focus on attracting trustees and administrators with business and legal backgrounds to continue the shift in their revenue generation strategies, granting the financial sector ever-increasing influence over decision-making at universities' highest levels. The American Association of University Professors' 2017 Ohio Higher Education Report states that in Ohio universities, "more than half of trustees are from the corporate/business and banking/finance world, typically holding the title of president, CEO, or CFO" (American Association of University Professors 2017).

## INSTITUTIONAL PRIORITIES

Issues of financialization often produce unintended consequences for the student body, as the primary focus of university functions shifts away from students' academic experience and toward revenue generation. Over the past decade, greater proportions of

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[4] The proportion of 2001's Government Grants and Contracts was determined through adding 2001, Finance: Part A, Lines 06: "Federal (exclude FDSL loans)," 07: "State," and 08 "Local," and dividing the sum by the 2001 operating revenue (ref. footnote 1). The proportion of 2018's Government Grants and Contracts was determined through adding 2018, Finance: Part B, Lines 02: "Federal operating grants and contracts," 03: "State operating grants and contracts," and 04a: "Local government operating grants and contracts," and dividing the sum by the 2018 operating revenue (ref. footnote 2).

the revenues generated by individual colleges within the university have been controlled and distributed by the central administration, Office of the Provost, and the Board of Trustees, and less by departmental directors and deans of those colleges. Before the 2008 recession, these individual colleges typically controlled the allocation of a majority of the revenue they brought in, but as control over those funds becomes more centralized, the academic leadership continues to lose authority over how to maintain the academic mission of the university (American Association of University Professors of the University of Cincinnati 2019).

The growing trend of what is called "Innovation Infrastructure" showcases the ramifications of this centralization of revenue management through an increased focus on commercialization efforts. As the financial sector continues to have greater influence over the direction of universities, with academic leadership maintaining less and less, the priorities of institutions begin to shift toward commercial development ventures, particularly those deemed to create "innovative solutions." Ken Morse, founder of MIT's Entrepreneurship Center, defines innovation as, "the fusion of invention and commercialization" (Rodriguez n.d.). The goal of this trend is to encourage universities, professors, and students to develop technology and intellectual property that can be patented, marketed, and sold through the university's innovation infrastructure and offices, thus generating revenue (UC n.d.a).

UC's growing centralized control over the budget has facilitated an easier shift toward commercialization. The university has begun to invest more in long-term, large-scale development projects as part of its Next Lives Here initiative. However, the initiative is projected to add $400 million to the annual budget by 2025, while colleges at the university are struggling to meet their budgetary needs (Kissling 2019). The initial phase of Next Lives Here's Innovation Agenda has taken the form of a $38 million investment in the renovation of a 133,000-square-foot building known as the "1819 Innovation Hub" (Koesters 2017). The building was designed specifically with commercialization in mind, with each floor meant to aid would-be developers in their product creation, be it physical or digital (UC n.d.b). In an interview, David Adams, CEO of the UC Research Institute and UC's Chief Innovation Officer, claimed that the Hub should be as "school-agnostic as possible," envisioning a space in which students, faculty, and businesspeople from multiple disciplines work together to develop creative solutions to problems (Koesters 2017). This project is meant to sprawl into what the administration refers to as the "Innovation Corridor," a massive 65 acres representing over $2.5 billion in investments that consists of office space, a hotel, and retail and residential developments (Uptown Innovation Corridor n.d.).

A major driving force behind this innovation-led push for more Intellectual Property (IP) is that the university gets a cut of it. These inflated infrastructure development projects are meant to create enticing spaces for more IP production for the university. The Ohio Revised Code stipulates:

> *All rights to and interests in discoveries, inventions, or patents which result from research or investigation conducted in . . . any state college or university, or by employees of any state college or university acting within the scope of their employment or with funding, equipment, or infrastructure provided by or through any state college or university, shall be the sole property of that college or university. No person, firm, association, corporation, or governmental agency which uses the facilities of such college or university in connection with such research or investigation and no faculty member, employee, or student of such college or university participating in or making such discoveries or inventions, shall have any rights to or interests in such discoveries or inventions, including income therefrom, except as may, by determination of the board of trustees of such college or university, be assigned, licensed, transferred, or paid to such persons or entities. (33 Ohio Rev. Code 2011)*

The top floors of the Innovation Hub are home to private companies that are to act as third-party funders for startups in the Hub, as well as potential owners or co-owners of any IP created in the process (UC n.d.d). As Edward Hsieh, a patent attorney at Lowenstein & Weatherwax LLP and a former technology transfer officer for the University of California at Los Angeles put it: "With more and more universities having huge revenue streams from licensing and with the cut in funding, especially in state institutions from government, universities are looking more and more to their tech transfer offices as a revenue source" (Nayak 2019).

The practice of universities attempting these types of market-driven methods of profit generation stems from the passage of the 1980 Bayh-Dole Act. The act allowed colleges and universities to patent inventions developed with federal research grants; previously, these inventions had been placed in the public domain which had allowed for greater access by the public. This legislation allowed universities to market and profit off of research. An example of such inventions is Google Inc., founded in 2002 by Sergey Brin and Larry Page while they were working as PhD students at Stanford. In 2005, Stanford sold the 1.8 million shares it was considered entitled to from the labor of its students for $336 million (Savage 2005). These innovations began to contribute to the product- and programmatic-oriented revenue streams that universities came to rely upon alongside rising tuition revenue (Kezar and Bernstein-Sierra 2016). In its 2019 Impact Report, Stanford stated: "In FY2019, Stanford received $49.3M in gross royalty revenue from 875 technologies, with royalties ranging from $10 dollars to $16.5M dollars" (Stanford University 2019). Stanford's total budget for FY2019 was $6.8 billion (Stanford University 2020).

The growing reliance on these revenue-generating tactics is shown through the 2018–2019 draft of the operating budget in the Ohio House of Representatives, which would require the Boards of Trustees at public institutions of higher education to update their policies on faculty tenure to "promote excellence in instruction, research, service, and commercialization." This enables and incentivizes faculty to use their efforts to move technology to market as a factor in earning tenure, and incentivizes universities to grant tenure status to professors able to produce works that generate profit for the university rather than based on their academic qualities (McCafferty 2017). This practice inherently leads to an unfair standard of attaining tenure for departments in fields of the social sciences and humanities, whose research cannot (and should not) be commodified, putting a premium on tenure through means of profit generation and development. Dr. Adrianna Kezar and Dr. Samantha Bernstein-Sierra, of the University of Southern California, Los Angeles, make a case against these sort of practices in the Handbook of Academic Integrity:

> *Privatization of the research enterprise has led to a move away from openness in research in favor of increased revenues, which bolsters the claim underlying academic capitalism: that knowledge is a* ***private*** *good developed for the benefit of industry. This move signals to both faculty and students that the purpose of knowledge production is to generate revenue and reinforces the credentialed view that education is merely a means to an end. (Kezar and Bernstein-Sierra 2016)*

Through Innovation Infrastructure, knowledge is being turned into a commodified product. In that process, universities devalue their academic mission. Institutions of learning and advancement have become extensions of private interests research and development (R&D) teams; information itself, once viewed as a good for the public, is now seen as private, monetizable, and guarded. If the University of Cincinnati is to revert its priorities back to its mission of serving "the people of Ohio, the nation, and the world as a premier, public, urban research university dedicated to undergraduate, graduate, and professional education," then it must reexamine its relationship with innovation as a means toward profit and the role it plays in controlling the accomplishments and developments of its faculty and students (UC n.d.e).

There is substantial evidence to show that universities' roles in producing IP and patents through startups and Innovation Infrastructure hardly offset the actual costs of these massive construction and development projects. Academic institutions accounted for only 2 percent (6,639 of 304,126) of the patents granted in 2016 (the last year for which the figure is available), according to the National Science Board (National Science Foundation 2018; Marcus 2020b). Yet universities pour millions of dollars of federal research grants into these R&D projects, which take years to come to market (if they do at all) with no guarantee of profit. The goal among many universities is to link public and private sector investment into R&D to ensure their projects and startups are not reliant on federal funding, hoping private investors will cover costs for the rights to licensing (Marcus 2020b; National Science Foundation n.d.). According to the Association of University Technology Managers (AUTM), whose members oversee what is known as technology transfer, "universities and colleges spun off 11,000 startups between 1996 and 2015—an average of 550 per year . . . That's one-tenth of 1 percent of the roughly 400,000 annual startups reported by the Bureau of Labor Statistics" (Marcus 2020b). Of these start-ups, very few make it out of the gate and go on to reap the desired rewards of the university through obtaining licensure or patent. According to AUTM, "twenty-nine of the 187 research institutions that reported their activity to AUTM collected less than $100,000 apiece in licensing revenue in 2017. . . Just 15 accounted for 72 percent of all the money. And the top five alone earned more than half" (Marcus 2020b). Public universities like UC are expecting huge payouts to come from licensing and patents through federal research funding, but this is an unrealistic expectation. Since 2012, from the boom in Technology Transfer Offices following the passing of the Bayh-Dole Act, a case study regarding tech transfers from the Brookings Institute revealed that, "the top 5 percent of earners (8 universities) took 50 percent of the total licensing income of the university system; and the top 10 percent (16 universities) took nearly three-quarters of the system's income" (Valdivia 2013). Stanford, one of the top 5 percent of tech-transfer earners, made $49.3 million in 2019 from its licenses, yet only 49 of the 875 technologies generated $100,000 or more in royalties, and only 0.057 percent generated $1 million or more (Stanford University n.d.). UC's continued investment into R&D, with the expectation of high returns, is similar to its approach toward college athletics. In observing the successful payouts of larger institutions' sports programming, UC hopes to emulate their results through a misguided financial commitment to underperforming departments which fail to produce results that make these programs sensible. As Marc Levine, a University of Wisconsin professor who has studied this subject, claims, "There are some big-time programs that make a lot of money. There are some winners in the tech transfer, commercialization-of-research game, but those tend to be fairly few and far between" (Marcus 2020b). The university's continued prioritization of private market ventures, in the interest of financial gain, serves as a drain on resources which should be going toward facilitating its mission of producing an environment where higher academic achievement is possible.

# ATHLETIC SPENDING

In 2019, the University of Cincinnati athletics department's 12-year deficit grew to $250 million, which UC students have to help pay off (Huffmon and Schell-Olsen 2020). Every year, $936 of each full-time undergraduate student's tuition goes toward making up the athletics deficit (Exner 2020).[5] This cost was calculated by dividing the direct institutional support subsidy by the number of full-time undergraduate equivalent students on campus. The athletics program is dependent on revenue from student tuition to survive, and most students are not aware that they are paying such a high cost every year to sustain it.

In comparison, in 2018 the median athletic debt for a university in the American Athletic Conference was $65,465,990 (Knight Commission on Intercollegiate Athletics 2018). As a part of the auxiliary fund category, the athletics program is meant to produce enough revenue to sustain itself, but it instead relies on subsidies from revenue generated by tuition (UC 2019b). This means that money which could be used to directly further the academic mission of the university is instead propping up an athletic program with a growing deficit. Last year, it was reported that 44 percent of the year's athletic spending was covered by "direct institutional support," which includes tuition, state tax money, tuition waivers, and endowments not earmarked specifically for sports. The athletics program depended on a subsidy of $29,702,420 from the school, with $27,261,434 of it reported as "direct institutional support" (Exner 2020).

In 2019, the two highest-paid employees of the University of Cincinnati were working in athletics. Luke Fickell, the head football coach, was paid a salary of $2,485,000. John Brannen, the head basketball coach, was paid $1,140,152. Two of UC's assistant football coaches made more than the highest-paid dean at the university; coaches Michael Denbrock and Marcus Freeman made $480,833 and $447,917, respectively, while Dean of Lindner College of Business Marianne Lewis made $425,000 (McCartney 2019). Although the UC Athletic Department pays the salaries of its employees, the department could not afford the cost of its coaching contracts if it used only the revenue the department itself generates.

The prioritization of athletic spending over academic investment is also apparent from the declining rate of instructional spending. Between 2005 and 2015, UC instructional

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[5] Reports of this figure vary. The most conservative estimates, reporting $936 a year for full-time students, are from Cleveland.com (Exner 2020). Citing the expense reports which UC has to submit each year, the University of Cincinnati's student newspaper, The News Record, reported that full-time undergraduate students pay about $1,250 per year to support athletics (Huffmon and Schell-Olsen 2020). For the purposes of this report, we will use the more conservative estimate of $936. Using this figure, undergraduate students in a four-year program pay an estimated $3,744 by the time they graduate in order to support the athletics program's deficit.

spending fell 30 percent for full-time undergraduate students (adjusted for inflation) (Taylor 2018). Instruction includes expenses for all activities that are part of a university instructional program, but excludes expenses for academic employees who are in primarily administrative roles, like deans (UC n.d.c). Meanwhile, spending on coaching increased by roughly 140 percent in that same time frame (USA Today n.d).

The COVID-19 pandemic continues to restrict the UC Athletic Department's ability to generate revenue. The NCAA announced that it will distribute $225 million to Division I schools in June of 2020—a fraction of the previous year's $600 million distribution (National Collegiate Athletic Association 2020). In an effort to mitigate the financial impact of COVID-19 on student athletes, the UC Athletic Department launched the Next Level Success Fund to secure a portion of the resources student athletes typically receive. According to the program's website, the fund will provide "critical resources for student-athlete welfare, including physical and mental health, nutrition resources and emergency medical insurance costs" (University of Cincinnati Athletics n.d.).

COVID-19's impact on the program's ability to generate revenue through ticket sales, combined with less support from the NCAA, has put greater pressure on UC to continue to subsidize the athletics program so that it can survive. In the fall semester of the 2020 academic year, UC released an addendum to its approved FY2020 Budget Plan, which indicated that the previously approved $11.7 million non-debt-related institutional subsidy had been cut by 20 percent. This $11.7 million is just a portion of the total athletic subsidy for 2020–2021, as it does not include the portion of the total subsidy that goes toward paying off the athletic department's debt. The portion of the athletic subsidy that is debt-related is lumped into the larger "debt service" category in the university FY2020 Budget Book that only offers an aggregate total of payment toward debt (UC 2020b).[6] The university stated that this reduction will allow for it to allocate $2.3 million that would have gone to athletic-related expenditures to "other units" as part of the university's "Incremental Planning and Adjustments" efforts, and claims this measure helped reduce the original budget reallocation to 8 percent, implying that the university-wide cuts (excluding athletics) would have been higher without this 20 percent reduction to a portion of the athletic subsidy (UC 2020a). This reduction in the subsidy has forced the athletics program to make significant operational changes, including operating budget cuts, department-wide furloughs, and pay reductions (UC 2020a). On September 3rd, 2020, the University of Cincinnati announced that the Athletics Department underwent a 15 percent cut in staffing, in response to the financial implications of the pandemic. The department eliminated 14 department positions altogether (Jenkins 2020a).

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[6] The aggregated debt service comes from "areas including Business Core Systems, Athletics, and for debt on academic buildings, among other things," and was listed at $108 million in the 2019 academic year (UC 2020b; UC 2019b).

The university's decision to reduce the subsidy in order to decrease cuts to the rest of the university may seem to indicate a fair prioritization on its part. However, these operational changes the Athletics Department has to make are the result of its increasing dependence on the subsidy gifted to it by the university every year. This recent reallocation of funds serves as a temporary measure, not a permanent rightsizing of athletics spending. Athletics is listed as an auxiliary funding category, meaning that by definition, it should be at least close to self-sustaining. The loss of just a portion of the non-debt-related institutional subsidy forced the Athletics Department to develop the Next Level Success Fund because it could not afford the promised resources to student athletes without donations. This demonstrates that the Athletics Department is heavily dependent on the university to finance basic functions. UC acknowledges that the extent to which the pandemic will impact the finances of athletics remains unknown (UC 2020a).

## THE ENDOWMENT: OVERVIEW

One of the core tenets of financialization is the ever-growing shift of financial and material resources toward investments that seek to maximize returns, while often disregarding the stated values of the institution. Endowments are investment funds established by a foundation that makes consistent withdrawals from invested capital. They are typically provided by donations that are used for specific purposes, characterized as a rainy-day fund to ensure the institution's solvency in times of financial duress (Chen 2020). As of December 31, 2019, the University of Cincinnati had an endowment worth $1.5 billion. This is the second largest public university endowment in the state, behind Ohio State University (The Ohio State University 2020). The use of funds can be designated by the Board of Trustees; restricted by donors or other external individuals; or undesignated, which unlocks the money to be used for any university purpose.

The University of Cincinnati claims that environmental sustainability is one of its core values, stating in the executive summary of its 2019 Sustainability and Climate Action Plan that it remains "committed to enhancing resiliency in a future that is sustainable for all. To that end—and with the next generations to follow us in mind, we have made sustainability a priority at UC" (UC 2019a). However, while the steps the university is taking to reduce its own carbon footprint are not without merit, UC has also been investing in various environmentally harmful resources for years. The university refuses to provide specific data regarding its individual investments, claiming such information to be a "trade secret," which provides exemption from public records requests under the Ohio Public Records Act (McNair 2017). However, it has been revealed through examination of several public records requests that as of March 31, 2019, the university had itemized distributed capital totaling more than $55 million for the 2018-2019 academic year in "natural resources" (Figure 2.1). The UC 2013 Endowment Report defines and rationalizes UC's "natural resource" endowment investments as follows:

> *We think of investment opportunities in the Natural Resources category broadly, but are currently focused on private energy and power investments due to what we view as inflated asset values in other areas including farmland and timber. Our investment thesis for private energy and power investing is that volatility in energy prices, the capital intensity of energy and power assets, and the changing dynamics of where energy commodities are produced and consumed drives consistent and large turnover in assets that dwarfs the amount of capital available to take advantage of the opportunities. (UC 2013)*

Contributing millions of dollars toward nonrenewable private energy development directly contradicts UC's stated value of promoting environmental sustainability, and while the university definition of natural resources alone does not directly indicate investment in nonrenewable energy sources, a letter to the university administration from Marathon Petroleum has surfaced which does provide direct evidence of this type of investment (Figure 2.2) (Nichols 2016). This letter states that, "if UC were to divest from fossil fuels, the message would be clear: we are not welcome on campus." This is a thinly veiled threat to remove opportunities of student internship and co-op programs in retaliation if the university were to choose to disinvest from corporations which directly contribute to the growing issue of climate change and ongoing harms to public health (Feuer 2019). The university's response in maintaining investments clearly showcases UC's preference of upholding the will of fossil fuel executives over both its own stated values and the welfare of the public.

## THE ENDOWMENT: HEDGE FUND INVESTMENTS

While the endowment investments of the University of Cincinnati as a whole are worthy of great scrutiny, this section is meant to focus on what may be the clearest inconsistency between allocation of university resources and its expressed values: hedge funds. Hedge funds are an investment partnership that have freer rein to invest aggressively and in a wider variety of financial products than most mutual funds (Gad 2020). As such, they are not required to provide the same level of disclosure with the Securities and Exchange Commission as is standard with other forms of investment; therefore, it is often difficult for investors, like the University of Cincinnati, to fully evaluate the terms on these investments, which rarely present opportunity for significant financial gain even when they perform well (Romano 2020; United States Securities and Exchange Commission 2012). This investment framework has historically delivered low returns while charging high fees. Hedge Clippers, an organization dedicated to uncovering fraudulent financial activity by those in power, highlights that over $100 billion of the $500 billion of university endowments were invested in hedge funds in 2015 (Tannenbaum et al. 2016). Additionally, universities in the US have lost an estimated $16.7 billion in hedge fund fees between 2009 and 2015, a time in which hedge fund returns recorded a notable downturn broadly (Tannenbaum et al. 2016). Indexes provide one of the best ways to gauge the performance of a variety of market sectors and segments. However, given that hedge fund performance details are not publicly transparent, it can be helpful to compare the performance of hedge fund indexes to the S&P 500 to understand the performance metrics involved in comparing hedge funds to standard mutual funds (Investopedia Staff 2019). Index performances as of March 5, 2019 show that the gross annualized returns for the S&P 500 have been significantly higher than the Hedge Fund Research Index (HFRI) Fund Weighted Composite Index® (Figure 3) (Investopedia Staff 2019). Fees also play a large part in comparing performance. Mutual fund operational fees are known to range from approximately 0.05 percent to 5 percent, while hedge funds typically utilize what is known as a "two-and-twenty fee," which includes a management fee of 2 percent and a performance fee of 20 percent.

Furthermore, the hedge funds used by the university actively invest in interests that directly harm the greater Cincinnati community, including the pharmaceutical and fossil fuel industries, to name a few. As of June 30, 2019, $152.6 million of UC's endowment was apportioned to hedge fund investments, a strategy the university continues to pursue despite various ethical concerns (UC 2019c). In the 2017 fiscal year, UC's largest single investment to a hedge fund was made to King Street Capital Management for $27 million (McNair 2017). King Street is a global investment management company whose problematic practices range in scope and scale. In FY2017, King Street held 4 million shares of EP Energy, a crude petroleum and natural gas development company, and 2.15 million shares in Teva Pharmaceutical Industries, which dispersed court settlements worth over $23 billion due to its contributions to the ongoing opioid crisis (Higgins and Biondi 2017; Randazzo 2019). The University of Cincinnati would not comment on whether it still maintains investments with King Street, and in the past has preferred to cite the federal Defend Trade Secrets Act's exemption from public records requests regarding "all forms and types of financial, business, scientific, technical, economic, or engineering information" as reason not to provide transparency on its investments, under the assumption that releasing the information could pose competitive harms (McNair 2017). As of the final quarter of FY2019, King Street held more than 6.8 million shares in multiple fossil fuel development companies (Higgins and Biondi 2019a). At the same time, it also held 6.4 million shares in Pacific Gas and Electric Company, whose poor structural maintenance practices have been cited as the cause of the 2018 Camp Fire, California's deadliest fire, which killed 85 people and destroyed nearly 19,000 homes, businesses, and other buildings, as well as prompted shutdown of power to an estimated 2.4 million people (Higgins and Biondi 2019a; Eavis and Penn 2019; Canon 2019).[7] Additionally, from the second quarter of FY2018 until the third quarter of FY2019, King Street Capital Management maintained an investment ranging from 400,000 to 2.4 million shares in Allegran PLC, a pharmaceutical company that provided a $5 million settlement payment to Ohio counties Summit and Cuyahoga as part of a landmark federal opioid trial (Higgins and Biondi 2018b; Higgins and Biondi 2019b; Higgins and Biondi 2018a; Kellaher 2019).

Hedge fund investments are unconscionable for many reasons, but public institutions of higher education need to be held to a higher standard by the public they are intended to serve. Students, alumni, and other community stakeholders simply cannot access information about when or if their university is actively investing in interests that negatively impact them and their community. A hedge fund investment inherently provides a certain level of uncertainty in how the particular funds of a specific investor are invested. As such, the only true way to ensure the university has a control over how its revenue is managed is to discontinue investing in hedge funds. By continuing these investments, the university is, at best, choosing to remain apathetic to the harms caused by these unjust investments, and any argument of plausible deniability used to defend these investment practices only serves to reinforce the notion that these investments are both nontransparent and/or out of the control of the university.

# Policy Recommendations

## STUDENT AND FACULTY REPRESENTATION

Currently, there are two student trustees on the Board of Trustees at UC and three faculty representatives. The student trustees are picked through an application process by the Ohio Governor and State Legislature, and are tasked with representing the interests of the graduate and undergraduate student bodies. They serve two-year terms and are considered official members of the board. They are distinct from the faculty

[7] Pacific Gas & Electric claims that the power outages will affect approximately 800,000 "customers," which refers to the number of accounts being affected. The company services 5.3 million electricity accounts, which serve approximately 16 million people. Therefore, the average account will provide electricity to around three people, meaning that with 800,000 "customers" being affected, approximately 2.4 million people will be without power.

representatives in that they are bound by the bylaws and are permitted all the rights of the bylaws—except the right to attend executive sessions or be counted in quorum; additionally, they can neither vote on nor submit proposals to the Board. Faculty representatives may only speak when asked to, and are provided none of the rights of the Board's bylaws. We believe it is imperative that student trustees on the Board have equal voting rights on all matters, and be considered part of quorum. Furthermore, faculty should be given equal trustee positions and not be relegated to the positions of representatives.

All of the decisions made by the Board have a resounding effect on the instructors, educators, and students at UC. Granting full-member voting rights to student trustees and faculty representatives on all matters, particularly financial ones, would show the administration's commitment toward fair representation. Students' tuition and fees make up the vast majority of revenue used toward programmatic spending and budgetary allocations. Faculty are the bodies in the rooms teaching and following through with the academic mission of the university. Therefore, students and faculty should have an official say in determining where and how this money is used, and in the policy plans set in place to carry forward the university's mission. Allowing student and faculty trustees equal access and authority to attend executive sessions would allow them into the room where the most powerful decisions are made. Executive sessions are off-the-record meetings where members debate and discuss matters of concern without fearing backlash from meeting attendants and the press. These sessions determine the outcomes of the most pressing issues involving the university and its finances, and as such, require accountability from the student body as major academic stakeholders affected by these decisions.

UC considers "faculty investment" to be a core principle in the mission of the Academic Excellence tenant of the Next Lives Here initiative, and thus is willing to commit financial resources and university space in development of a Faculty Enrichment Center as "a new multifunctional, technology-enhanced space for faculty to learn, collaborate, create, recharge and relax" (UC 2019b). Yet the university's stated intentions ring hollow when held to any scrutiny, since at the same time, part-time, adjunct faculty make up 40 percent of University of Cincinnati faculty while consistently teaching more than 50 percent of the student body; furthermore, female professors fill only 42 percent of instruction, research, and public service roles at the main campus, but 55 percent of part-time positions (Kissling 2019). These professors are restricted from instructing more than five courses during the school year, which would qualify them for health insurance benefits. Furthermore, only 38 percent of instructional employees maintain tenure or tenure-track status, and less than 30 percent of new hires for the 2019-20 academic year are tenure-track (College Factual n.d.; University of Cincinnati 2019b). Adjunct professors in the College of Arts & Sciences have not received a base pay raise since 2003, and a survey of the 2015 faculty senate showed that 89 percent of members were never informed by university administrators that they were eligible for promotions or pay raises (Londberg 2019a; Kissling 2019). However, it is essential for educators at an institution of higher education to be given a sense of agency and influence in the decision-making process regarding issues that directly impact their abilities to promote an enriching learning environment.

Currently, only the Ohio State University, the land grant university of Ohio, allows student trustees the right to vote on the Board, count as quorum, and attend executive sessions (The Ohio State University n.d.). In 2015, House Bill 183 was presented to the 131st Ohio House of Representatives with the intention of extending these rights to all other four-year universities in the state (H.B. 183). The bill had bipartisan sponsorship, but previous versions of the bill had failed due to a lack of compromise between the Inter-University Council of Ohio and the representatives supporting the bill. The bill is currently waiting for further review in the Ohio House. The last update on its progress was from April of 2016. Much of the consideration behind this bill was on the affordability of college for students, and the need for student input in this process to safeguard from the ever-increasing cost of attendance. Ohio House Representative Niraj Antani, a sponsor of the bill, asserts that college affordability is "one of the biggest issues students and families face, hence student trustee involvement in board decisions is critically important if universities and the state are looking to make higher education more affordable" (Lim 2016). Allowing student trustees to vote on matters puts leverage into the hands of students and allows them to maintain affordability and lend legitimate input into maintaining their student experience.

Critics of the bill and the initiative argue that student trustees are not meant to represent the interests of students at large, but rather, the people of Ohio. Others argue that it presents a conflict of interest for students to vote on matters regarding their professors. President Roderick J. McDavis at Ohio University has argued that allowing this sort of representation would "put unfair pressure on students" (Binkley 2014). However, to claim that Board representatives should not be able to bring their experiences as students with them when voting on decisions, calling for action, and deliberating on choices that will have direct impact on other students' experiences invalidates many of the reasons for having student trustees in the first place. In most governing bodies and organizations, stakeholders are allowed the right to represent themselves and have legitimate effect on the final outcomes of major decisions. This practice should not stop at institutions of education; it should be encouraged to ensure the points of influence in university policy take into consideration the values of those they most directly impact.

## DECENTRALIZING UNIVERSITY SPENDING: THE AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS' 51 PERCENT CAMPAIGN

The increasing centralization of UC's financial management was a result of the massive reconstruction initiative of the main campus, which was completed around 2008. In the aftermath, the university administration found itself facing economic hardship due to both the cost of construction and the broader economic recession, and in 2010 opted to resolve the matter through implementation of a budgetary model known as Performance Based Budgeting (PBB). The model was designed to syphon revenue generated by individual colleges to restore the financial stability of the university. The model worked to achieve its aims, but as the program remains in place it continues to expand and syphon more and more resources from the colleges. The issues resulting from the matter caught the attention of the public when it became known that UC's College of Arts & Sciences, the single largest college of the university, maintained an operating budget of $0 in February of 2019 (Londberg 2019b). To ensure the college remained operational, the budget shortfall was bridged by funds provided by the Office of the Provost, which oversees UC's 13 academic colleges (Londberg 2019b). Dr. John McNay, a full-time professor at the University of Cincinnati and president of the Ohio Conference of the American Association of University Professors (AAUP) described the negative impacts the model poses as follows:

> *The problem is that the emergency budget model, PBB, is still in place and is still draining the colleges of money that should be spent on faculty, students, and programs. The revenue goes to the upper administration to spend as they like. It finds its way to pet projects, administrative bloat, construction, and covering the athletic department deficit . . . Each year a budget committee, on which no faculty sits, sets a 'threshold' or a target for revenue for each college. Since it is a corporate model, it expects the target to grow every year. If a college misses its threshold, it is therefore in deficit and the next year it must pay off that deficit with either enrollment growth or cuts to spending. The most important fact to recognize is that these are artificial deficits. Colleges can produce 'profits' of millions of dollars but still be in 'deficit' because the threshold was not achieved.*

The AAUP of UC writes on the subject:

> *In addition to declining revenue retention, the council of deans reports that over 31 costs have 'trickled down' to the colleges. The cumulative effect of these additional costs and the growing threshold has created an untenable situation where over 5 colleges are in 'debt' to the University. In the 2019 PBB Progress Tracking Report from July 16, 2019, the College of Law, the College of Design, Architecture, Art & Planning, College of Education, Criminal*

> *Justice and Human Services, College-Conservatory of Music, and College of Arts & Sciences 'owe' the university in varying amounts for FY 2019 . . . Over $8 million is still 'owed' to the university from this 'rolling' debt. Had the percentage of revenue retained by the colleges not dipped over time, the colleges could have easily absorbed these debts in FY 17 alone and still had a significant amount of money to put toward the primary mission of UC—education. The financial strain caused by the threshold and matriculating costs encourage decisions to be made that increase the use of part-time faculty, decrease the student services offered, increase class size, and overall weaken the quality of education at UC. With an all-time record-breaking number of students enrolled for the 6th year in a row [now the 8th year in a row, as of the 2020–21 fall semester], it is unfathomable how so many colleges can continue to operate on a crisis basis . . . Creating a budget that risks compromising the quality of a UC education is irresponsible. The time has come for UC to demonstrate that it prioritizes education by reallocating funds back to the colleges before irreparable damage to [its] mission and reputation. (American Association of University Professors of the University of Cincinnati 2019)*

With 75 percent of UC faculty attesting that PBB provides their unit with insufficient resources, and 70 percent that PBB has negatively affected the core academic mission of the university, the AAUP has proposed a more equitable budgeting model, through which each college would retain 51 percent of the revenue it generates (Figure 4) (American Association of University Professors of the University of Cincinnati 2019). Ken Petren, a former dean of UC's College of Arts and Sciences, declined reappointment to the position of dean mainly due to issues with how PBB has negatively affected the colleges (Londberg 2019b). Petren has since been outspoken on the need for change in fiscal management:

> *What people didn't realize was how every year there's less and less money, less and less of tuition revenue flowing to colleges. That's not a sustainable way to run a university. You can't just keep cutting and cutting the colleges, which are responsible for all the student programs, the faculty and staff, and the research mission of the university . . . What the key issue is, is there's less resources flowing to colleges. Whereas 50 percent or more of the resources used to flow to colleges, now it's down to 42, 40, in some cases 39 percent. (Cramerding 2019)*

The university's continued centralization of revenue generated by the individual colleges hinders their academic capabilities. Allowing each college to establish a more consistent expectation of the revenue it retains will present the colleges with a more effective means to prioritize operational expenditures in a way that leads to greater academic success and better labor standards. McNay continues his statement, expanding on the intentions of the AAUP's alternative budgeting model:

*The objective of the "51 percent campaign" is to restore [UC's] academic mission . . . The university should no longer cripple the academic mission with [PBB]. Most of our institutions spend 20 percent of their budgets or less on faculty salaries and benefits. Students need to be asking where is their money going? Because a lot of it is not going for their education.*

The University of Cincinnati cannot continue to centralize management of revenues generated by the individual colleges in an effort to maximize profitability at the expense of its academic mission and expect to maintain its reputation as a premiere educational institution. This centralization of revenue has led to a deprivation of resources these colleges require to preserve the standards of educational rigor the university claims to place significant value on. This is shown in stagnant wages for educators compared to rising wages for executive administration staff, in increased reliance on part-time and adjunct faculty, and in increasing class sizes (American Association of University Professors of the University of Cincinnati 2019). Deans and other academic leaders within individual colleges are the stakeholders best equipped to ensure the standards of the university's academic mission; they understand the needs of both students and faculty, and can work more directly with representation from these groups to strategize how to meet these needs, as they have done in the past. As such, it is in the best interests of the university's academic mission that these academic leaders reassume management of a majority of the revenue their colleges generate.

## ATHLETICS SUBSIDY ADJUSTMENT

It is important to acknowledge that a large athletics program can be a significant enrollment booster for a public university, especially one of UC's size (Mayes and Giambalvo 2018). A complete deletion of the athletics program would undoubtedly be unfavorable, not just for the brand of the university, but for many students and alumni as well. In August of 2020, the University of Cincinnati Board of Trustees approved a contract extension for head football coach Luke Fickell through 2026. The extension will pay Fickell $3.4 million a year starting in 2020. According to Athletics Director John Cunningham and the Board of Trustees, the extension is funded through private donations and fundraising (Jenkins 2020b). This indicates that there is community interest in maintaining a competitive football team at UC. However, it is important that the spending on athletics does not result in sacrificing the academic mission of the university. After all, it is unclear if this contract would be possible, even with all of the donations and support from fans, if the subsidy did not exist to pay for the other costs of the athletics program, especially since the department cut 14 staff positions shortly after approving Fickell's contract (Jenkins 2020a).

Many full time undergraduate students are unaware that by the time they graduate, they have paid thousands of dollars each to sustain the athletics program (Exner 2020). At the very least, the University of Cincinnati should be up-front about how much of a student's tuition is going to support athletics. It would be detrimental to the athletics program if institutional support stopped completely, and unethical to drastically cut athletic scholarships. However, an open discourse on the sustainability and return of supporting athletics programs to the extent that the university currently does should take place. If even half of the $27,261,434 athletics subsidy, about $13,630,700, was redirected to fund the academic mission of the university, those funds could be used to give hundreds of scholarships a year. These scholarships could provide opportunities to minority and/or low-income students who face obstacles to accessing higher education, which directly contributes to the overall mission and purpose of the institution.

## TRANSPARENCY

The persistent lack of transparency in the University of Cincinnati's spending habits is a major roadblock in gaining an accurate, comprehensive understanding of the financial practices and realities of the institution. This has allowed risky, inequitable, and unconscionable financial practices to go on unchallenged for years, the bulk of which are decided on behind closed doors. Without structures in place to hold administrators, trustees, and investment staff accountable to the UC community regarding these investment practices, the university will continue down its current path and both investors and students will remain in the dark about the true ramifications of their financial contributions. The introduction of the published 2020 budget for UC states that the university prioritizes the continued investment in "forward-looking initiatives which will echo throughout UC, its neighborhood, community, and the world," and that the Next Lives Here initiative has so far "invested nearly $21 million to support the foundational work that will lead to larger and more transformational efforts in the years ahead" (UC 2019c). This may be the expressed intent of the institution, but UC makes no effort to disclose itemized investments or project funding allocations to the various initiatives it takes pride in advertising.

According to Ohio Revised Code 149.33(B), "the boards of trustees of state-supported institutions of higher education shall have full responsibility for establishing and administering a records program for their respective institutions" (1 Ohio Rev. Code 2003). As a public institution endowed with the trust of the Ohio public, UC must be held accountable to and by that public, which is only possible through increased transparency of its financial investments. This includes, but is not limited to, the university reporting itemized returns of investment outlets, disclosing investment managers' earnings, providing a more granular breakdown of revenue expenditures, and giving projected costs of major construction projects. Yet, UC prefers to cite exemptions from public records requests in response to information requests, under the assumption that the information disclosed could pose competitive harms to this particular revenue stream. The University of Cincinnati must take actions that are in line with its expressed beliefs, including the disclosure of investment practices. In choosing to do otherwise, the university continuously states to its students, faculty, and investors that maintaining the competitiveness of its revenue streams is of greater importance to it than the right of the UC community to impact how their resources are utilized.

Institutions of higher education like the University of Cincinnati don't act solely as points of access to aggregated information and resources that engage with local and global communities. They also serve as intrinsically democratic spaces in which critical thought and the means to provide evidence and knowledge to these communities contribute to fostering a free, democratic ecosystem. They are not institutions that should prioritize profit generation, as the conflict of interest that arises from such pursuits inherently runs contrary to these principles. As such, the investments of these institutions and others like them should be made with the intention of ensuring long-term financial sustainability, and should be adverse toward engaging with high-risk ventures, compliant with the values that the institutions claim to adopt, and able to be observed and scrutinized openly by the public they claim to serve.

## A REAL TUITION FREEZE

There has been a consistent rise in the proportion to which the University of Cincinnati has come to rely on tuition revenue to fund its operating budget over the greater part of the past two decades, soaring from accounting for 27 percent of the university's total operating revenue in 2001 to 53 percent in 2018.[8] As state and federal agencies continue disinvesting from public higher education, the burden for collecting UC's revenues has increasingly fallen onto students. With the national student debt burden in the United States surpassing over $1.6 trillion, it is imperative that the university commits to reducing the cost of tuition (Friedman 2020). Even in the midst of the COVID-19 pandemic, the university has broken personal records of student enrollment for its eighth consecutive year (Mayhew 2020). Taking this into consideration, it is more necessary and

[8] Ref. footnote 3.

feasible now than ever before to provide a sense of stability and compassion toward the stakeholders from which this institution of higher education derives all meaning: the student body.

UC claims to have implemented a freeze on tuition over the past six years, which shows that the central administration has an understanding of the necessity for granting this sense of relief for the student body. However, while the positive intentions of this policy are worth acknowledging, the actual measures this policy accomplishes don't extend nearly far enough. In reality, what the university provides is a tuition guarantee that is renewed yearly. This policy is a reassurance that the cost of a student's tuition will be left unchanged for the duration of their degree program upon enrolling at the university. However, the base cost of tuition for new incoming classes has been rising. As of the Fall 2020 semester, students who are residents of Ohio and are attending UC's Uptown Campus full-time at the senior or junior level will have their tuition remain at $11,000 annually, while the equivalent sophomore class continues with the base tuition rate they began their degree with—$11,660 annually. The incoming class of students will maintain a base tuition cost of $12,138 annually throughout the duration of their degree program (Reilly 2020).

UC should implement a serious extended freeze in tuition for the next four years, pledging to hold current tuition rates in place for a consistent period of time rather than making the decision on a yearly basis. Maintaining the current rate of tuition for the next four incoming classes is a necessary first step for the university to address the issues its financialized behavior has created. In doing so, the university must ensure that student fees are also frozen, or at least indexed to inflation. The measure will provide a greater understanding of how the university can best restructure the distribution of its resources based on the needs facing both the individual colleges and the university at large, will provide the institution with a tactic to abandon its habit of increasing its reliance on students to make up gaps in revenue, and will signal to its current and prospective students that the institution acknowledges the times of personal economic hardship affecting those it serves in the wake of the COVID-19 pandemic and that it will meet those challenges with compassion and respect. This type of action is not without precedent, as Purdue University's tuition freeze has been ongoing since 2013. Purdue has seen such great success with the policy that, as of 2016, its student loan default rate among graduating students was 1 percent, as opposed to the national average of 7.6 percent (Purdue University 2016). The University of Cincinnati can and should be following the precedents set by its peer institutions with the intent of promoting the long-term interests of its student body.

# Conclusion

Looking specifically at the University of Cincinnati, this report has depicted a few of the many ways in which the financialization of higher education manifests. UC, like many other major public educational institutions across the United States, is operating with its priorities skewed toward maintaining financial incentives over ensuring the institutional mission it operates under. Far from prioritizing provision of an equitable, inclusive, and accessible public education, as its core mission emphasizes, UC currently engages in practices that are unrepresentative of, or directivity oppose, the interests of its students, faculty, and community stakeholders.

The disproportionate increase of reliance on student tuition revenue, the financial quagmire that is the university athletics program, and the reckless spending on "innovative infrastructure" have continuously displayed the university's poor decision-making that acts inherently against the interests of the student body. Moreover, its continued, unethical investment practices (both those that we know of and those which haven't yet come to light) showcase the university having strayed away from working as a community resource that "serves the people of Ohio, the nation, and the world as a premier, public, urban research university," and have shown an increased trend in the privatization of its interests (UC n.d.e).

These decisions are driven by the pursuit of a healthy bottom line, while the stakeholders who are the most adversely affected by the ongoing financial mismanagement are excluded from having any legitimate say in the decision-making process. In continuing these practices and others like them, the University of Cincinnati continues to ensure that its role as a source of economic mobility is depleted, as it concurrently becomes a greater cause of the very inequality it claims to combat.

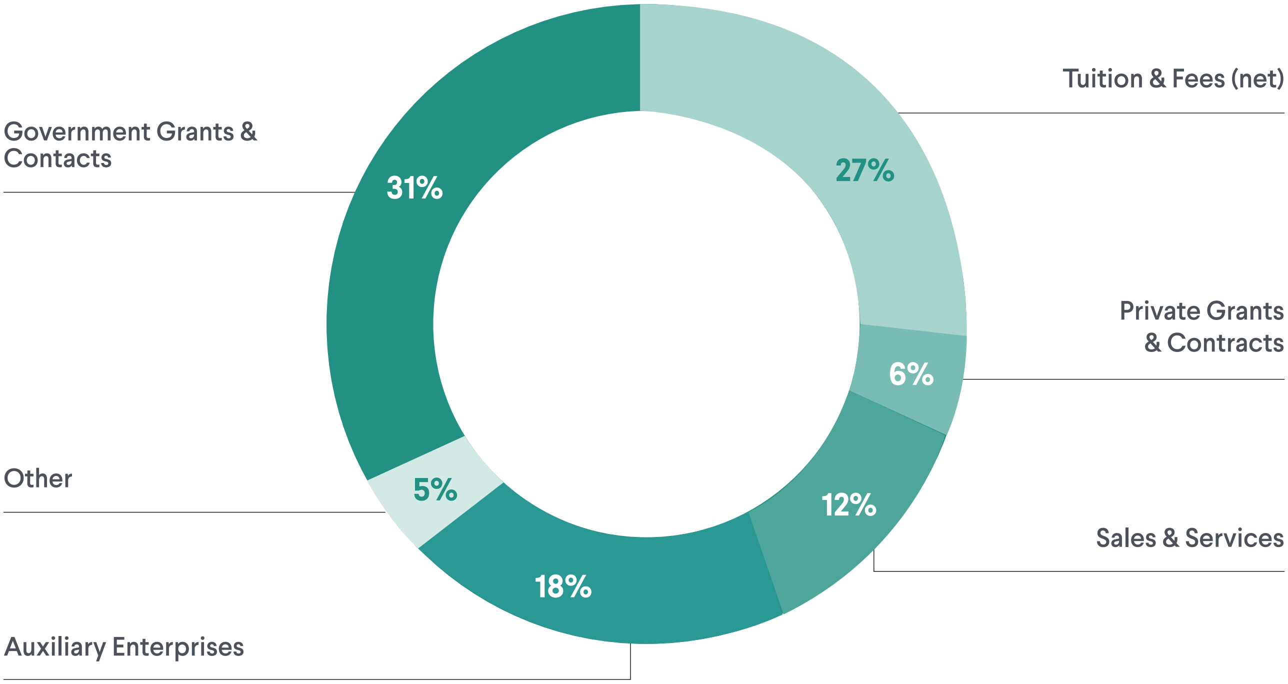
# Appendix

**FIGURE 1.1: BREAKDOWN OF CHANGE IN UNIVERSITY OF CINCINNATI OPERATING REVENUE FROM 2001 TO 2018 (NCES 2001; NCES 2018b)***

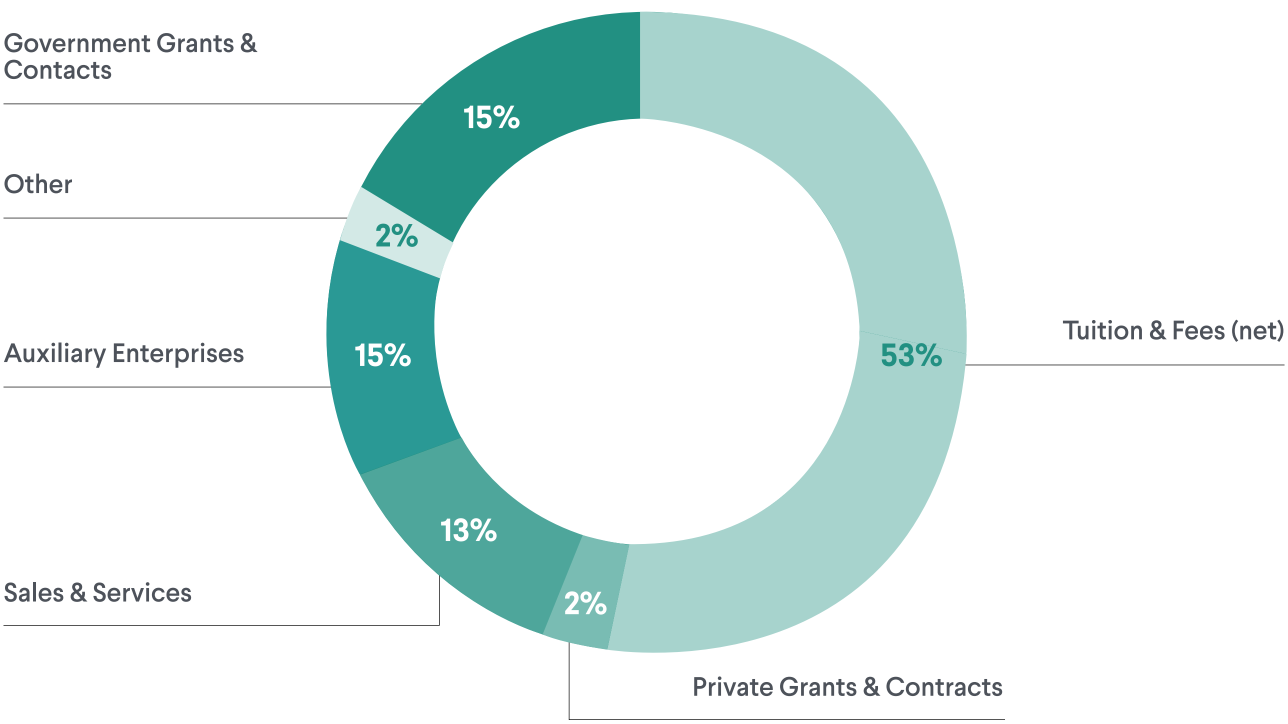
| Operating Revenue | 2001 | Proportion of Total Operating Revenue | 2018 | Proportion of Total Operating Revenue | Change in Proportion of Operating Revenue |
|---|---|---|---|---|---|
| Net Tuition and Fees | $104,895,553 | 27.47% | $443,133,525 | 53.20% | 25.73% |
| Government Grants and Contracts | | | | | |
| Federal | $109,215,851 | 28.60% | $121,182,344 | 14.55% | -14.05% |
| State | $9,052,909 | 2.37% | $5,538,239 | 0.66% | -1.71% |
| Local | $332,118 | 0.09% | $18,153 | 0.00% | -0.08% |
| Private Grants and Contracts | $24,389,304 | 6.39% | $20,106,164 | 2.41% | -3.97% |
| Sales and Services of Educational Activities | $69,099,612 | 18.10% | $124,450,309 | 14.94% | -3.16% |
| Sales and Services of Auxiliary Enterprises | $46,716,143 | 12.23% | $105,500,990 | 12.66% | 0.43% |
| Other Sources | $18,153,062 | 4.75% | $13,093,845 | 1.57% | -3.18% |
| **Total** | **$381,854,552** | **100.00%** | **$833,023,569** | **100.00%** | |

** Data reported by the United States Department of Education's Integrated Postsecondary Education Data System (IPEDS) may differ from that of university financial reports.*

## FIGURE 1.2: UNIVERSITY OF CINCINNATI OPERATING REVENUE 2001 (NCES 2001)




## FIGURE 1.3: UNIVERSITY OF CINCINNATI OPERATING REVENUE 2018 (NCES 2018b)



## FIGURE 2.1: UNIVERSITY OF CINCINNATI ENDOWMENT FUND SUMMARY OF ILLIQUID INVESTMENTS REPORT FOR PERIOD ENDING MARCH 31, 2019 (FROM FOIA REQUEST)

| | Committed Capital | Called Capital | % Called | Distributed Capital | Fair Market Value | Multiple of Called Capital | Fair MV as a % of the Investment Portfolio | Target MV as a % of the Investment Portfolio | Inception to date Net IRR |
|---|---|---|---|---|---|---|---|---|---|
| Private Equity | $334,301,778 | $216,398,265 | 65% | $228,423,227 | $101,034,317 | 1.5 | 10.5% | 16.5% | |
| Natural Resources | $127,800,000 | $93,241,230 | 73% | $55,614,644 | $65,300,213 | 1.3 | 6.8% | 5.0% | |
| Private Real Estate (Ex. Local RE) | $50,425,401 | $42,108,119 | 84% | $30,345,788 | $8,811,208 | 0.9 | 0.9% | 3.0% | |
| **Total Illiquid Investments** | **$512,527,179** | **$351,747,614** | **69%** | **$314,383,659** | **$175,145,738** | **1.4** | **18.3%** | **24.5%** | |

** Fair Market Value estimate based on the most recent valuation, adjusted for capital calls and distributions after the valuation date.*

## FIGURE 2.2 LETTER FROM MARATHON PETROLEUM CORPORATION TO UNIVERSITY OF CINCINNATI PRESIDENT (NICHOLS 2016)

**Rodney P. Nichols**
Senior Vice President
Human Resources and Administrative Services

**Marathon Petroleum Corporation**

539 South Main Street
Findlay, OH 45840-3229
Tel: 419.421.2528
Fax: 419.421.4252

Received
PRESIDENT'S OFFICE
UNIVERSITY OF CINCINNATI

January 14, 2016

Action?

Santa J. Ono, Ph.D.
President, University of Cincinnati
Rm. 625, University Pavilion
PO Box 210063
Cincinnati, OH 45221-0063

FWD: CHIEF INVESTMENT OFFICER TO REPLY ON MY BEHALF

Dear Dr. Ono:

I recently became aware of a campaign by some of your students advocating that University of Cincinnati remove its investment dollars from fossil fuel companies. I appreciate your measured response to this misguided recommendation; I'm confident a close examination of the merits and drawbacks of such a move will clearly redound to the credit of those companies that reliably meet the vast majority of our nation's – and our world's – energy needs.

However, if UC were to divest from fossil fuels, the message would be clear: we are not welcome on campus. Further, this would amount to a rejection of our industry and the prosperity it generates. It's unfortunate that some members of your student body appear willing to do this even as they benefit every day from the products we manufacture.

I sincerely hope that as your administration considers its next steps, you will be able to convey to the activists how ill-conceived their effort is. Please don't hesitate to contact me if you have any questions or concerns.

Sincerely,

Rodney P. Nichols

Rodney P. Nichols, Senior Vice President
Human Resources & Administrative Services

## FIGURE 3: GROSS ANNUALIZED RETURNS FOR THE S&P 500 VS. THE HEDGE FUND RESEARCH INDEX (HFRI) FUND WEIGHTED COMPOSITE INDEX AS OF MARCH 5, 2019 (INVESTOPEDIA STAFF 2019)

| Index | 1-Year | 3-Year | 5-Year |
|---|---|---|---|
| HFRI Fund Weighted Composite Index | -3.62% | 5.04% | 2.94% |
| S&P 500 | 3.77% | 11.77% | 8.31% |

## FIGURE 4: CHANGE IN PERCENTAGE OF REVENUES RETAINED BY UC COLLEGES SINCE ONSET OF PERFORMANCE BASED BUDGETING (PBB) IN 2010 (AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS OF THE UNIVERSITY OF CINCINNATI 2019)

| Fiscal Year | Revenue generated by the colleges | Direct expenditures of the colleges | % Revenue retained by the colleges | Revenue gap experienced by colleges in FY17 |
|---|---|---|---|---|
| FY10 | $538,036,989 | $272,746,834 | 50.69% | |
| FY17 | $695,259,659 | $299,919,494 | 43.14% | |
| FY17 Hypothetical had % revenue retained been at same level as FY10 | $695,259,659 | $352,427,121 | 50.69% | **$52,507,627** |

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