

The Role of the Faculty in Conditions of Financial Exigency

(JULY 2013)

The report that follows, prepared by a subcommittee of the Association's Committee A on Academic Freedom and Tenure, was approved by Committee A and adopted by the Council at the meetings of those two bodies in late May and June 2013.

I. Introduction

The past forty years have witnessed a decisive shift in power in American colleges and universities.¹ Increasingly, institutions that were once governed jointly by faculty members and administrators have become overwhelmingly or wholly dominated by their administrations, as the faculty senates at these institutions have withered into insignificance. For the most part, the faculty retains jurisdiction over systems of peer review and the protocols of scholarly communication, but, astonishingly, faculty members have begun to lose control over the one central element of higher education where they have long been presumed to have invaluable expertise—the curriculum. Administrators are making unilateral budgetary decisions that profoundly affect the curricula and the educational missions of their institutions; rarely are those decisions recognized as decisions about the curriculum, even though the elimination of entire programs of study (ostensibly for financial reasons) has obvious implications for the curricular range and the academic integrity of any university.

As decision-making power has shifted to administrators, public universities have felt intensified financial pressures, especially in the wake of the financial crisis of 2008. Because the effects of the crisis have been especially pronounced for state budgets, public universities from coast to coast have seen severe if not draconian cuts in state appropriations and corresponding increases in tuition. States for a generation have been gradually shifting costs from state funding to tuition payments, but the new pressures have arrived at a time when public and legislative complaints about college tuition are on the rise and when concerns over student debt have become national news. The perfect storm thus generated—declining financial support combined with rule to a larger degree by administrative fiat—affords administrations the potential to manufacture a sudden “crisis” where none exists. For example, shifting costs from state revenues to student tuition payments does not in itself constitute an immediate financial crisis. We believe doing so is bad public policy, but it is a way of avoiding a funding shortfall, not creating one. Similarly, although many university endowments suffered substantial losses during the recession, very few institutions actually rely on endowment income for a major portion of their budgets. For that matter, endowments have by now largely recovered, as have the markets on which they

1. In this report we will henceforth use the term “universities” interchangeably with “institutions,” although we are aware that the term often applies to institutions that would ordinarily be designated as “colleges.”

are dependent. Claims of financial crisis based on the performance of the market should thus be met with skepticism.

As the AAUP discovered in its investigation of how New Orleans institutions responded to the effects of Hurricane Katrina, public perception of a crisis has opened a window of opportunity for campus managers to make some of the cuts and programmatic changes they have in fact long wanted to make.² An institution's desire to shift priorities is not the same as a fiscal crisis, and one should not mistake the former for the latter. As we will detail below, claims that a campus is facing either a crisis or a form of slow fiscal starvation need to be investigated thoroughly, and neither the faculty nor the staff can conduct such an investigation without access to detailed financial data. There are widely accepted metrics for analyzing an institution's financial health, metrics that make objective, reliable conclusions possible. We stress *objective* conclusions, because administration assertions about financial challenges cannot always be accepted at face value. That is not to say that small liberal arts colleges and some public institutions are not facing real financial pressures. It is to say that all members of the university community deserve to participate in relevant discussions of those pressures—and to do so with the aid of sound and detailed information.

The immediate occasion of this report is the decision of some university administrations to cut costs by eliminating entire programs—and terminating the positions of tenured faculty members in those programs. The University at Albany, State University of New York, made international news in 2010 when it announced the closing of its classics, French, Italian, Russian, and theater degree programs; the AAUP had begun an investigation but suspended it after two potentially affected French professors agreed to retire and the closing of the several degree programs was not followed by the involuntary termination of any tenured faculty appointments. Though it received much less national attention at the time, Southeastern Louisiana University also eliminated its undergraduate French majors (in French and French education) in 2010, dismissing the program's three tenured professors with a year's notice—and then offering one of them a temporary instructorship at a sharply reduced salary. In April 2012, an AAUP investigating

committee's report on the University of Louisiana system, with its focus on Southeastern Louisiana University and Northwestern State University, was published online, and Committee A presented statements on these two institutions in the nine-university system to the 2012 annual meeting, which imposed censure. In addition to the discontinuance of the French majors at Southeastern, with the resulting action against the three tenured professors, the chemistry major at the University of Louisiana at Monroe was discontinued, but without notification of termination to anyone among five threatened chemistry professors; and the discontinuance of the doctoral program in cognitive sciences at the University of Louisiana at Lafayette, while followed by notification of appointment termination to two tenured professors, resulted in steps to avoid implementation. At Northwestern State, however, a wide range of programs suffered discontinuance and more than twenty tenured professors suffered termination of appointment through the ending of programs, including economics, German, journalism, philosophy, and physics.

In 2010, at the University of Nevada, Reno, twenty-three degree programs were closed and dozens of faculty members released, including nearly twenty tenured professors. At the University of Nevada, Las Vegas, the president contemplated seeking a declaration of financial exigency in spring 2011 because of massive cuts in state financing. He eliminated over three hundred total positions and eighteen degree programs but avoided layoffs of tenured professors and of most faculty members with appointments probationary for tenure.

In March 2012, the University of Northern Iowa announced the elimination of more than fifty programs. An AAUP investigation at Northern Iowa resulted in a report that was published online in January 2013. Subsequent corrective action, however, resulted in deferral of censure consideration by the 2013 annual meeting. Massive layoffs at National Louis University, a private institution in Chicago, also triggered an AAUP investigation that led to censure in 2013, and multiple layoffs at Southern University in Baton Rouge, Louisiana's flagship historically black institution, similarly became the subject of investigation and 2013 censure.

In most of these cases, however, the institutions declined to issue declarations of financial exigency, the sole recent exception being Southern University in Baton Rouge. It therefore became clear that the

2. "Report of an AAUP Special Committee: Hurricane Katrina and New Orleans Universities," *Academe*, May–June 2007, 59–125.

AAUP needed to address program closures that are made in the absence of declarations of exigency and to revisit our *Recommended Institutional Regulations on Academic Freedom and Tenure*.

The current Recommended Institutional Regulation 4c sets a very high bar for terminations on grounds of financial exigency: “Termination of an appointment with continuous tenure, or of a probationary or special appointment before the end of the specified term, may occur under extraordinary circumstances because of a demonstrably bona fide financial exigency, i.e., an imminent financial crisis that threatens the survival of the institution as a whole and that cannot be alleviated by less drastic means.”

Regulation 4d, by contrast, provides procedures for tenure terminations as a result of program closings not mandated by financial exigency: “Termination of an appointment with continuous tenure, or of a probationary or special appointment before the end of the specified term, may occur as a result of bona fide formal discontinuance of a program or department of instruction.” Regulations 4d(1) and 4d(2) set out the conditions for discontinuing programs and tenure commitments:

- (1) The decision to discontinue formally a program or department of instruction will be based essentially upon educational considerations, as determined primarily by the faculty as a whole or an appropriate committee thereof.

[Note: “Educational considerations” do not include cyclical or temporary variations in enrollment. They must reflect long-range judgments that the educational mission of the institution as a whole will be enhanced by the discontinuance.]

- (2) Before the administration issues notice to a faculty member of its intention to terminate an appointment because of formal discontinuance of a program or department of instruction, the institution will make every effort to place the faculty member concerned in another suitable position. If placement in another position would be facilitated by a reasonable period of training, financial and other support for such training will be proffered. If no position is available within the institution, with or without retraining, the faculty member’s appointment then may be terminated, but only with provision for severance salary equitably adjusted to the faculty member’s length of past and potential service.

[Note: When an institution proposes to discontinue a program or department of instruction, it should plan to bear the costs of relocating, training, or otherwise compensating faculty members adversely affected.]

Neither of these regulations appears adequate to the situation in which many institutions now find themselves—in part because the standard of “exigency” was initially drawn from small, private, impecunious institutions, not large state universities, few of which can plausibly be said to face imminent crises that threaten their very existence. In recent decades, and especially in recent years, colleges and universities in the public sector have more commonly experienced intermediate conditions that may fundamentally compromise the academic integrity of the institution but do not threaten the survival of the institution as a whole. Thus most colleges and universities are not declaring financial exigency even as they plan for widespread program closings and terminations of faculty appointments. They are refusing to declare exigency for ostensibly good reasons (namely, that their financial conditions are not so dire as those invoked by Regulation 4c or that a declaration of financial exigency would itself worsen the institution’s financial condition) and for arguably bad reasons (namely, so that they can operate in severe-financial-crisis mode, bypassing AAUP standards of faculty consultation and shared governance without the bad publicity of declaring exigency). This report seeks to address this phenomenon and to propose sound procedures for program review under conditions captured by neither Regulation 4c nor Regulation 4d as currently written.

As we note in more detail below, this report is in some respects a continuation of a debate begun in the mid-1970s, the last era of major retrenchment in American higher education. Then, W. Todd Furniss, a staff officer of the American Council on Education (ACE), had criticized the gap between Regulations 4c and 4d, writing, “Good sense tells us that in the real world there are far more conditions between imminent bankruptcy on the one hand and, on the other, program change that would ‘enhance’ the ‘educational mission of the institution as a whole’ in the absence of a financial emergency.”³ At the time, Committee A chair and former AAUP president Ralph S. Brown had replied that “‘discontinuance’ may be invoked in

3. W. Todd Furniss, “The 1976 AAUP Retrenchment Policy,” *Educational Record* 57, no. 3 (1976): 135.

hard times as a substitute, perhaps a subterfuge, for an exigency crisis that cannot be convincingly asserted.”⁴ The relevance of Furniss’s and Brown’s concerns to current conditions is obvious. But the widespread and systemic nature of the challenges facing American universities in the second decade of the twenty-first century compels us to revisit and revise the terms of the debate begun a generation ago. We are therefore proposing a new definition of “financial exigency” that is more responsive to actual institutional conditions and that will extend the standard of exigency to situations not covered by the AAUP’s current definition. Under this new definition, an institution need not be on the brink of complete collapse in order to declare exigency. Rather, it needs to demonstrate that substantial injury to the institution’s academic integrity will result from prolonged and drastic reductions in funds available to the institution, and it needs to demonstrate dispository that the determination of its financial health is guided by generally accepted accounting principles.

We want to make it clear at the outset that many current “crises” represent shifts in priorities rather than crises of funding. Financial exigency is not a plausible complaint from a campus that has shifted resources from its primary missions of teaching and research toward employing increasing numbers of administrators or toward unnecessary capital expenditures. A campus that can reallocate resources away from teaching and research is not a campus that can justify cuts in its core mission on financial grounds. Discussions of a campus’s financial state cannot be fairly or responsibly conducted without faculty consultation about budgetary priorities. Our definition of “financial exigency” is as follows: *financial exigency entails a severe financial crisis that fundamentally compromises the academic integrity of the institution as a whole and that cannot be alleviated by less drastic means.* We will expand on this definition and provide detailed recommendations for the faculty deliberations necessary for a legitimate declaration of exigency that warrants program closure.

Cuts in teaching and research must be a last resort, after, among other actions, the administrative budget is reviewed and reduced and supplements for athletics and other nonacademic programs are eliminated. Moreover, colleges and universities need more objective, quantitative standards for claiming financial

exigency—such as an index that uses ratios that incorporate institutional debt level and reserves, along with other data, to come up with a composite score to assess and establish institutional financial health. The Ohio Board of Regents (OBR), for example, uses such an index and requires that the composite score fall below a certain level for two consecutive years before classifying an institution as being in serious financial difficulty. (Appendix II to our report describes the components of an index that is similar to the OBR index and can be used to guide determinations of an institution’s financial condition.)

This report provides guidance for how legitimate claims of financial exigency can be reviewed and substantiated and for how institutions should proceed with program closures under such a condition. Nothing in it weakens academic freedom, tenure, and shared governance as they are now understood and protected in the AAUP’s current *Recommended Institutional Regulations*. On the contrary, the report urges that institutions increase the level of faculty consultation and deliberation at every stage of the process, beginning with the guideline that is currently a note to Regulation 4c(1), stipulating that “there should be a faculty body that participates in the decision that a condition of financial exigency exists or is imminent and that all feasible alternatives to termination of appointments have been pursued.”

To close this introduction, we want to make explicit the reasons why the faculty should be centrally involved in deliberations about exigency. Certainly, such involvement is not the model in the corporate world, where downsizings and layoffs are simply announced and severance packages issued. Why then should academe be any different? The answer goes to the heart of the rationale for tenure as the basis for academic freedom, and indeed to the heart of the rationale for institutions of higher education. As Matthew Finkin and Robert Post have written,

[I]nstitutions of higher education serve the public interest and . . . promote the common good. The common good is not to be determined by the arbitrary, private, or personal decree of any single individual; nor is it to be determined by the technocratic calculation of rational and predictable profit incentives. The common good is made visible only through open debate and discussion in which all are free to participate. *Faculty, by virtue not only of their educational training and expertise but also of their institutional knowledge and*

4. Ralph S. Brown Jr., “Financial Exigency,” *AAUP Bulletin* 62 (1976): 13.

commitment, have an indispensable role to play in that debate.⁵

Program closures are matters of curriculum, central to the educational missions of colleges and universities—missions over which the faculty should always have primary responsibility. Closures ordered by administrative fiat—even, or especially, when they are ordered by administrators who believe they have done due diligence in program review—are therefore inimical not only to the educational mission of colleges and universities but also to the social contract according to which faculty expertise, academic freedom, and tenure serve the public good.

We believe it is crucial to keep the larger picture in view. After World War II, the United States embarked on the world's most extensive experiment in mass higher education. That experiment was a success, if one measures success by the fact that the American system of higher education was commonly described, over the ensuing decades, as the envy of the rest of the world; it was a success as an expansion of the promise of democracy as well. But in recent years the social contract underwriting that experiment has been largely rewritten. Tenure has been eroded by the growth of the ranks of the non-tenure-track faculty, and it is no coincidence that academic decision making has moved more and more emphatically into the hands of administrations. Tenure itself has increasingly been understood as a private, individual affair, a merit badge signifying that a faculty member has undergone peer review and is entitled to academic freedom in his or her teaching and research; few in academe, much less those outside of it, appreciate the broader principle that tenure serves the public good by allowing for independence of inquiry and by providing an incentive to intellectual exploration. At the same time, state legislatures have steadily disinvested in institutions of higher education, offloading costs onto individuals and families and characterizing education as a private investment rather than a public good.

The recent wave of program closures represents the confluence of all these long-term trends: the erosion and redefinition of tenure, the massive growth in the ranks of the contingent faculty outside the tenure system, and the nationwide disinvestment in public higher education. It is time for faculty members to reclaim and reassert their proper roles as the stewards

and guardians of the educational missions of their institutions—for the good of American higher education and the greater good of all.

II. The History of the Financial Exigency Clause

The initial 1915 AAUP document on academic freedom and tenure did not address institutional financing. The term *financial exigencies* appears first in Association of American Colleges drafts in the early 1920s.

A. Origins and Context

The Association's seminal 1915 *Declaration of Principles on Academic Freedom and Academic Tenure* provided the groundwork for the system of academic tenure in American higher education. It proceeded from the standpoint of high principle and moved to practical application but was not concerned with the relationship of tenure to institutional financing. A decade after the issuance of the *Declaration*, the American Council on Education sponsored a conference in Washington devoted to the formulation of a set of shared principles. In addition to those from the ACE, representatives from the American Association of University Professors, the Association of American Colleges, the Association of American Universities, the Association of Governing Boards, the Association of Urban Universities, the Association of Land Grant Colleges, the National Association of State Universities, and the American Association of University Women took part, with conference participation weighted heavily on the side of academic administration. The bases for discussion were drafts prepared by the Association of American Colleges (AAC) in 1922 and 1923. The resulting 1925 *Conference Statement on Academic Freedom and Tenure* set forth the following provisions on "Academic Tenure" pertinent to the issue before us: "Termination of permanent or long-term appointments because of financial exigencies should be sought only as a last resort, after every effort has been made to meet the need in other ways and to find for the teacher other employment in the institution. Situations which make drastic retrenchment of this sort necessary should preclude expansions of the staff at other points at the same time, except in extraordinary circumstances."

Concerns about the inadequacies of the 1925 document within the AAUP ran deep. According to the leading historian of the subject, the very manner of its promulgation was viewed by AAUP leaders as a

5. Matthew W. Finkin and Robert C. Post, *For the Common Good: Principles of American Academic Freedom* (New Haven, CT: Yale University Press, 2009), 125; emphasis added.

“charade.”⁶ But these reservations ran to issues other than the financial exigency clause, which, as will be seen momentarily, was understood by Committee A to be of a piece with the provision in the succeeding jointly formulated 1940 *Statement*.

Negotiations with the AAC on a successor document began in 1937, not only in the wake of the Great Depression, but also in light of an intensive study of higher education’s response to the Depression commissioned by the AAUP that appeared that year.⁷ The study surveyed the universe of institutions that higher education comprised at the time: most were private, small, denominational or locally controlled, and penurious. Institutional mortality was common. The study noted that “even in prosperous times” five to ten colleges “normally disappear or merge each year.”⁸ The mortality rate accelerated as the Depression deepened: in 1935, twenty-nine colleges closed.

The authors of the study were not fazed by the prospect of institutional closure.⁹ They were, however, unsettled by strategies for institutional survival, especially by their aggregate effect:

Are the ultimate purposes of higher education best served by adjusting institutional finances to depression circumstances through the process of decreasing the numbers of young men and women at the lowest ranks, and at the same time restricting the entrance into the profession of other young men and women who would normally come up through the rank of instructor? The faculty of tomorrow depends upon the recruits of today. Temporarily the problems of diminishing budgets may be solved by releasing some of the young men and appointing but few others. The older men carry on, and institutional prestige is

6. Walter P. Metzger, “The 1940 Statement of Principles on Academic Freedom and Tenure,” *Law and Contemporary Problems* 53, no. 3 (Summer 1990): 27.

7. Malcolm Willey et al., *Depression, Recovery, and Higher Education* (New York: McGraw-Hill, 1937).

8. *Ibid.*, 211.

9. “The . . . data raise a question concerning the justification of seeking to maintain colleges and universities, of any size, that may finance themselves with minimum adequacy in prosperity periods, but cannot do so during years of depression. . . . Why should two neighboring, financially weak schools each attempt to offer the same programs? Competition for students may have brought the duplication, but it is apparent that sooner or later many of these inadequately supported institutions will be compelled to face the facts of economic existence more realistically, and to examine them in terms of social need as well as in connection with the obligation to the student.” *Ibid.*, 171–2.

maintained. But will this prove to be sound procedure in the end?

“The alternative,” the authors quickly added, “is not the discharge of older men, in favor of instructors.”¹⁰

The AAUP-commissioned study summarized institutional response to the Depression as follows:

The character of educational institutions has changed in the past thirty years. Business, professional, and vocational interests have assumed a more important place. An aura of practicality hangs over the campus. The educational institution is more of the world than ever before. . . . As all the data thus far have shown, the ups and downs of the world of business have their counterpart in academic matters. Men are hired or dropped, salaries are raised or cut, and tenure is more or less secure as general economic conditions fluctuate between prosperity and depression.¹¹

The authors called for greater “faculty cohesion”—and, presumably, institutional cohesion as well—on “principles they regard as essential to the welfare of higher education.”¹²

The drafters of the 1940 *Statement* sought to achieve just that cohesion, but on its face the final text was actually less instructive on this issue than its 1925 predecessor. The 1940 *Statement* provided in its entirety that “[t]ermination of a continuous appointment because of financial exigency should be demonstrably bona fide.” Even so, a gloss of meaning was supplied in the remarks of the AAC’s lead negotiator, Henry Wriston, president of Brown University, in presenting the document for AAC adoption. On the clause itself, he remarked:

The plain fact is that dismissals directly due to financial emergency are really very rare. Speaking now as an administrative officer, it is much easier for me to say “no” to a man by pleading the exigencies of the budget than by denying a request on the merits. The displacement of a teacher on continuous appointment should not be merely an “economy move” but should be done only because of a genuine emergency involving serious general retrenchment. . . . It is a reminder that purity of

10. *Ibid.*, 34.

11. *Ibid.*, 452.

12. *Ibid.*, 451.

purpose is no defense in the public eye, unless the purity is demonstrable. The provision is a protection to the administrative officer because it reminds him to establish the record so clearly that the exigency is as obvious to the public as it is to him.¹³

And on the larger cohesive purpose of the document, he echoed and emphasized its stated premises:

Tenure is a means to certain ends; specifically: (1) freedom of teaching and research and of extra-mural activities, and (2) a sufficient degree of economic security to make the profession attractive to men and women of ability. Upon freedom and economic security, and hence upon tenure, depends the success of an institution in fulfilling its obligations to its students and to society. There is a statement of the philosophy of tenure. *Tenure is not an end in itself.*¹⁴

Fast upon the adoption of the 1940 *Statement*, the AAUP investigated two institutions in light of the newly fashioned financial exigency clause. This early engagement anticipates the Association's thinking later on; it treats administrative behavior that has recurred over the years.

The first investigation concerned the decision by the president of New York's Adelphi College in 1939 to dismiss five senior faculty members, all department heads.¹⁵ The institution was in bankruptcy. There was no question of an existing state of financial exigency, and the AAUP's committee of investigation said as much: "Manifestly, financial difficulty had become such as to compel consideration of the necessity of faculty dismissals."¹⁶ Faculty salaries had been reduced by 25 percent since 1930. But more had to be done. A special committee of the board of trustees, on which the president served, reviewed the unit cost of those departments giving academic credit, but also considered the president's plan for future curricular development and for the direction of the college. The result was the dismissal of the highest-paid person in each department sharing the highest unit cost, with one notable exception. The chair of the Department of Sociology and Economics was dismissed even as his department ranked fifteenth in unit costs.

The investigating committee was critical of the

use of unit cost as the sole metric and was especially critical of the educational consequence of removing the most senior and experienced members of the faculty.¹⁷ It noted that the faculty had proposed other economies, proposals with which the administration did not seriously engage. Several members of the faculty argued that courses in art, dance, and music should be eliminated before reductions in the liberal arts, but these courses apparently were in keeping with the president's vision for the direction of the college. And the actual saving to the college was less than the sum of the salaries of those dismissed as the result in part of the appointment of a dean, an office heretofore vacant. The committee concluded that "not all permissible alternatives short of dismissal had been explored and given full consideration." And the committee found that "factors other than financial were influential": that the degree to which faculty members did not agree with the administration played a role in singling them out for release.¹⁸ None of those dismissed was provided a hearing.

The second investigation dealt with the decision of the president of Memphis State College in 1942 to terminate the appointments of two professors of long service—one in history, one in English—as "an economy measure" after having stated to the faculty that the college was facing a "financial emergency."¹⁹ The college had experienced a 27 percent drop in enrollment with a consequent loss of tuition revenue, only half of which would be made up out of reductions in the operational budget. The president argued that the instructional budget would have to be reduced by 14 percent to make up the shortfall, but a salary reduction of that dimension would fall disproportionately on the lower paid. The state board of education approved the terminations even as it approved the appointment of two new teachers in English; in addition, a football coach was hired who had no team to coach but who taught courses on a part-time basis that had been deemed "redundant" in the release of one of the faculty members.

The Association's general secretary had written to the president suggesting measures that might be taken to avoid the terminations; these the administration

13. Association of American Colleges Bulletin 24, no. 1 (March 1939): 122.

14. Ibid., 113; emphasis added.

15. "Adelphi College," AAUP Bulletin 27 (1941): 494–517.

16. Ibid., 501.

17. Ibid., 515, citing "University Unit Costs," U.S. Office of Education Bulletin No. 21 (1937) (emphasizing the complexities of interpreting unit costs).

18. Ibid., 516.

19. "Academic Freedom and Tenure: Memphis State College," AAUP Bulletin 29 (1943): 550–80.

rejected out of hand. The investigating committee took them up: a “proportional and equitably graduated reduction” of professional and administrative salaries, save those in the lowest brackets; redistribution of teaching duties without filling vacancies; termination of temporary and short-term appointments; or some combination of these options. Without denying the existence of the shortfall, the investigating committee doubted that the dismissals were driven by the administration’s concern for economy. In the case of one of the dismissed faculty members, the investigating committee agreed that her department was “overstaffed”; however, it opined, “[i]f dismissals were necessary in this department, they should have been made of those most recently appointed, but the evidence shows that these recent appointees were ‘flexible’ (one of them doubled in coaching football and the other directed intramural sports).”²⁰

As in the Adelphi case, there was incontrovertible evidence that faculty members were singled out for release because of presidential displeasure—for their having been “uncooperative” and critical of the administration. Again, no hearing was provided; nor were the faculty’s views solicited or considered.

These early applications of the financial exigency clause manifest the temptation to justify a dismissal of an out-of-favor faculty member as an “economy move.”²¹ But more important, they underline the need to explore alternatives in dealing with a financial shortfall, to retain experienced faculty members of long service, and to ventilate the ground of discharge in a hearing. The investigating committees’

20. Ibid., 572.

21. A decade and a half later, Texas Technical College would dismiss three tenured faculty members who had displeased the institution’s board of directors because of their political or civic activities. The appointment of one faculty member was terminated after the adult education program he led, supported by outside funds, was discontinued for “reasons of economy.” “Texas Technical College,” *AAUP Bulletin* 44 (1958): 170–87. This might well be the AAUP’s first reported case of release of a tenured professor on grounds of program discontinuance. A member of the board was quoted in the press as follows:

It was the further view of the Board that the so-called adult education program as formerly sponsored by the Ford Foundation was of little academic importance, considering the need for money in other vital and well-established fields. Hence, the adult education program, largely suspect of genuine academic value by many patrons of Texas Tech and by the most distinguished segments of the faculty, should be discontinued. Personally, I’ve always viewed it as a bit of plush academic boondoggling that any institution genuinely dedicated to the great academic traditions, and the really consecrated teachers

emphasis on the educational unwise of terminating the services of senior (tenured) faculty members while adjunct, part-time, or junior faculty members are retained, even as those terminated might be the higher paid and be less “flexible,” circles back to the 1940 *Statement*’s justification for tenure: that the academic profession cannot be made attractive to the most promising if, after passing a lengthy and exacting period of probation in which their academic merit has been made manifest, professors can lose their academic posts because of evanescent shifts in student enrollment or arbitrary redirection of resources or programmatic restructuring, undertaken by administrative fiat. Absent any faculty participation or review, the procedure thus lacks the critical elements of transparency argued as essential by Brown’s President Wriston.²² As he contended and as the 1940 *Statement* makes clear, these elements are a matter of sound public policy, not of special solicitude for the tenured.

B. The 1970s and the Era of Retrenchment

Regulation 4 was initially drafted in 1957 but did not become the focus of extended discussion until the 1970s, when the Association witnessed a wave of cases involving declarations of financial exigency. Former AAUP president and Committee A chair David Fellman summarized the phenomenon in a 1984 essay for *Academe*:

As the national economic recession of the 1970s gathered momentum, the administrations of many colleges and universities began to invoke pleas of financial difficulty, in some cases defined by them

who pursue it, can ill afford. In keeping with its duties established by law, the Board decided to terminate it permanently. (181)

In response to this, the investigating committee observed:

Persons with whom the committee talked treated with skepticism the claim of economy, pointing out that only about one-third of one per cent of the total College budget was involved, and that the money taken from the Adult Education Program was simply transferred to the general account and not to some other pressing need. Neither is the claim of economy consistent with the fact that the next ranking person on the staff of the Program, who had the title of Executive Assistant, was not affected in the same manner as Professor Stensland [the released faculty member], but is still retained on the faculty. (181–82)

22. At both Adelphi and Memphis State, for example, the dismissals were accomplished while the presidents were attempting to effect significant reorganizations of their own devising to which the released faculty members were not sympathetic.

as “financial exigency,” to justify terminating the appointments of tenured faculty members and persons in probationary status before the end of their terms. Beginning with Bloomfield College in New Jersey in 1973, a steady stream of serious cases has come to the attention of the Association. From the spring of 1974 until March 1984, ten cases involving issues relating to financial exigency that were investigated by *ad hoc* committees led to reports published under the auspices of Committee A in the Association’s journal. . . .

Retrenchment has taken many forms, but the release of tenured and nontenured faculty members has presented the academic profession with its most acute problem.²³

The Association’s last sustained analyses of the financial exigency clause stem from that era, and most of the findings of those analyses remain relevant today. Then as now, the financial crisis was real—and deep: it was a time when the nation’s largest city came close to declaring bankruptcy. But time and again, Committee A investigations found that institutional authorities declared financial exigency under circumstances that bordered on the ludicrous. At Bloomfield College, infamously, the administration abolished the tenure system and dismissed a large proportion of the tenured faculty while simultaneously hiring a similar number of nontenured new faculty members, and the president’s determination that the college had a net worth of \$12,000,000 did not take into account the college’s ownership of two golf courses valued at \$15,000,000. At Sonoma State University in California, “the investigating committee noted that while the [twenty-four] layoffs were occurring, a new presidential assistant was appointed with a substantial salary and two new associate deanships were created without consulting the faculty.”²⁴ At Metropolitan Community Colleges in Missouri, “where sixteen full-time tenured faculty members were laid off, the investigating committee stressed that the local faculty hearing committee had concluded that the alleged financial crisis was only ‘a projected or hypothetical one based on predicted events which never occurred.’”²⁵ Then as now, “crises” were announced as pretexts for decisions that effectively eroded the institution of tenure; then as now, those decisions were made almost entirely

without faculty input or consultation. “In most of the cases reported by Committee A for publication,” Fellman concluded, “faculty involvement was either nonexistent or grossly inadequate.”²⁶

Noting that declared emergencies were often not real emergencies and pointing out that the faculty was largely ignored in administrators’ responses to such “emergencies” merely kicks the can down the road. Such faculty determinations need to be made—and this report strongly recommends that faculty members be intimately involved in the determinations of the extent of their institution’s financial conditions—but a structural problem remains with Regulations 4c and 4d of the *Recommended Institutional Regulations*. That problem was first pinpointed in W. Todd Furniss’s critique “The 1976 AAUP Retrenchment Policy,” in which Furniss cites his March 28, 1975, letter to AAUP general secretary Joseph Duffey. Speaking for the Commission on Academic Affairs of the American Council on Education, Furniss had written:

The definitions of financial exigency and the conditions for programmatic change given in the regulation are, in the view of the Commission, too skimpy to be useful. . . . [T]he definitions as written imply that termination for financial exigency is legitimate *only* when an entire institution is on the brink of bankruptcy, and those for program change *only* when there are no financial considerations (which would require the procedures for financial exigency). Good sense tells us that in the real world there are far more conditions between imminent bankruptcy on the one hand and, on the other, program change that would “enhance” the “educational mission of the institution as a whole” in the absence of a financial emergency.²⁷

Ralph S. Brown’s important essay “Financial Exigency” (to which Furniss was partly responding) acknowledges that program discontinuance

meshes only imperfectly with financial exigency terminations. Recognition of it has developed independently, and without any explicit foundation in the 1940 *Statement of Principles*. . . .

The imperfect fit of discontinuance with financial exigency comes from an impractical desire to keep the two wholly separated. This desire arises

23. Fellman, “The Association’s Evolving Policy on Financial Exigency,” *Academe*, May–June 1984, 14.

24. *Ibid.*, 16.

25. *Ibid.*, 17.

26. *Ibid.*, 20.

27. W. Todd Furniss, “The 1976 AAUP Retrenchment Policy,” *Educational Record* 57, no. 3 (1976): 133–39.

from the observation that “discontinuance” may be invoked in hard times as a substitute, perhaps a subterfuge, for an exigency crisis that cannot be convincingly asserted. A little redefinition here, a showing of declining enrollments there, and—presto—the Professor of Italian is terminated, because the Italian program in the Romance Languages Department has been discontinued.²⁸

Brown’s concerns remain our concerns, which is why we remain so vigilant about the possibility that any attempt to devise Association guidelines for bridging the gap between 4c and 4d will be taken as license to grease the skids for program closings in hard times. But we note that Brown immediately added, “[I]t is entirely natural that the educational value of fields of instruction or research should be viewed with a colder eye in bad times than in good. The only way to keep the process from getting out of hand is to insist on good faith educational judgments, and to hope that the faculty, exercising its primary responsibility in such matters, will make them.”²⁹ Furniss’s criticism of Regulation 4 includes the objection that the phrase “primary responsibility” is ambiguous (“the Commission found itself questioning whether ‘primary’ means ‘initial,’ ‘chief,’ or ‘exclusive,’ and requested that Committee A modify the phrase or define it”); similarly, it will not escape anyone’s attention that “good faith educational judgments” is also a phrase that invites a wide range of interpretations.³⁰ Indeed, as we noted in the introduction, it is plausible to read this report as an attempt to address the arguments made more than thirty years ago by Brown and Furniss and to offer guidance regarding the lingering ambiguities of Regulations 4c and 4d. The task is rendered only more urgent by seismic changes in the academic workforce between the mid-1970s and today—namely, the end of mandatory retirement and explosive growth in the number of contingent, non-tenure-track faculty members, the latter of whom can be seen as the legacy of the era of retrenchment, as retiring tenured faculty members were increasingly replaced with various forms of adjunct (including full-time non-tenure-track) positions. Additionally, the need to revise AAUP guidelines on financial exigency and program discontinuance is complicated by the fact that over the past four decades the political climate has become markedly more hostile to the institution of

tenure at all levels, with a fair amount of the hostility coming from university administrators. Last but not least, as we have noted above, over the past four decades the practice of shared governance has been weakened considerably in much of American higher education. This report hinges on, and emphatically advocates, a reversal of that trend and a reassertion of the fundamental principle that the faculty should play the primary role in determining the educational mission of their institutions.

III. Recommendations for Institutions Experiencing Financial Exigency

As will be seen, with the focus of financial exigency now to be on the survival of the institution’s academic integrity, the determining role of the institution’s faculty becomes truly crucial.

A. Determination of the Financial Condition of the Institution

In what follows, we review AAUP policy on the role of faculty members in the determination of their institutions’ financial condition. We believe that our policy documents and reports provide decisive guidance in these matters, and we note at the outset that it seems to be increasingly difficult to find institutions in which the faculty has been afforded the primary responsibility—or, if that phrase is ambiguous, *any* responsibility—to conduct those determinations. Once again, this is not to say that the crises facing many institutions are not real; it is to say only that the critical protocol established in a note to Regulation 4c(1), that “there should be a faculty body that participates in the decision that a condition of financial exigency exists or is imminent and that all feasible alternatives to termination of appointments have been pursued,” is often being ignored. Frequently, a crisis is simply declared, and steps are taken to meet it—steps that sometimes, but not regularly, involve substantial consultation with an appropriate faculty body. In too many cases, “faculty consultation” seems to consist of merely informing faculty members of what will be done to them.

The *Statement on Government of Colleges and Universities* was jointly formulated in 1966 by the AAUP, the ACE, and the Association of Governing Boards of Universities and Colleges. The AAUP adopted the document as official policy, and the other two organizations commended it to the attention of their membership. The statement recognizes a division of labor among trustees, presidents, and faculty members and offers the following recommendation

28. Brown, “Financial Exigency,” 13.

29. Ibid.

30. Furniss, “The 1976 AAUP Retrenchment Policy,” 137.

with regard to budgeting: “The allocation of resources among competing demands is central in the formal responsibility of the governing board, in the administrative authority of the president, and in the educational function of the faculty. Each component should therefore have a voice in the determination of short- and long-range priorities, current budgets and expenditures, and short- and long-range budgetary projections.”³¹ The statement further specifies that the judgment of the faculty “is central to general educational policy” and that the faculty therefore “has primary responsibility for such fundamental areas as curriculum, subject matter, and methods of instruction, research, faculty status, and those aspects of student life which relate to the educational process.”³² We hold that program closure is very much a matter of educational policy and that the faculty should therefore be accorded an *initial and decisive* role—to answer Furniss’s question about the meaning of “primary”—in any deliberations over program closure and release of tenured faculty members.

Additionally, the AAUP’s statement *The Role of the Faculty in Budgetary and Salary Matters*, adopted in 1972, reads as follows:

The faculty should participate both in the preparation of the total institutional budget and (within the framework of the total budget) in decisions relevant to the further apportioning of its specific fiscal divisions (salaries, academic programs, tuition, physical plant and grounds, and so on). The soundness of resulting decisions should be enhanced if an elected representative committee of the faculty participates in deciding on the overall allocation of institutional resources and the proportion to be devoted directly to the academic program. *This committee should be given access to all information that it requires to perform its task effectively, and it should have the opportunity to confer periodically with representatives of the administration and governing board.*³³

Established AAUP policies therefore provide clear and unambiguous support for the position that faculty consultation and participation should be integral to the budget process, quite apart from any consideration of the financial status of the institution. Faculty

consultation and participation in budget matters should simply be part of the ordinary course of business, in good times or in bad. In other words, we are not proposing a radical new platform of emergency measures whereby faculty committees are summoned to review university budgets only when institutions are experiencing financial exigency; we are reaffirming the principles that inform policies that have existed for forty years and more, recommending that faculty participate in the budget process at every stage—even as we acknowledge that on many campuses, these policies would in fact lead to radical changes in business as usual.

But AAUP policy also speaks specifically to occasions in which institutions are experiencing financial exigency and in response to which emergency measures are contemplated. The first recommendation in the Association’s statement *On Institutional Problems Resulting from Financial Exigency: Some Operating Guidelines* reads as follows: “There should be early, careful, and meaningful faculty involvement in decisions relating to the reduction of instructional and research programs. The financial conditions that bear on such decisions should not be allowed to obscure the fact that instruction and research constitute the essential reasons for the existence of the university.”³⁴ Although the call for “early, careful, and meaningful faculty involvement” might seem to be clear on its face, we believe that recent developments with regard to program closures have rendered it necessary for us to specify “faculty involvement” in greater detail. We therefore propose the following procedures for faculty involvement in program closures.

Before any proposals for program discontinuance on financial grounds are made or entertained, the faculty must be afforded the opportunity to render an assessment in writing on the institution’s financial condition. The faculty body performing this role may be drawn from an elected faculty senate or elected as an ad hoc committee by the faculty; it should not be appointed by the administration. At institutions governed by collective bargaining agreements, the leadership of the union is an elected body of its faculty members and should have a role in the assessment as well. (Should the faculty refuse to participate in a process that might result in faculty layoffs, they effectively waive their right to do so.) We recommend, in order to make those determinations, that the faculty should have access to, at minimum, five years of audited

31. AAUP, *Policy Documents and Reports*, 10th ed. (Washington, DC: AAUP, 2006), 137.

32. *Ibid.*, 139.

33. *Ibid.*, 149; emphasis added.

34. *Ibid.*, 147.

financial statements, current and following year budgets, and detailed cash flow estimates for future years. Beyond that, in order to make informed proposals about the financial impact of program closures, the faculty needs access to detailed program, department, and administrative-unit budgets; but *the determination of the financial position of the institution as a whole must precede any discussion of program closures.* As stated in Regulation 4c(1), the faculty should determine whether “all feasible alternatives to termination of appointments have been pursued,” including expenditure of one-time money or reserves as bridge funding, furloughs, pay cuts, deferred-compensation plans, early-retirement packages, and cuts to noneducational programs and services.

We note ruefully that this recommendation speaks to practices to which few institutions now adhere and will doubtless be read as a radical departure from business as usual—even though it follows clearly from AAUP principles. We also anticipate that it will meet with resistance from some administrators who will claim that faculty members do not have requisite expertise in these matters. We acknowledge that faculty members who engage in detailed consultation of this kind will necessarily have to be or become literate in budgetary matters. But there are two critical points that need to be considered. The first is that every institution of higher education that offers a full curriculum of instruction necessarily includes faculty members who specialize in accounting, finance, and economics more generally. Their expertise is directly relevant to the determination of financial exigency. The second is that outside the disciplines of accounting, finance, and economics, faculty members long experienced in the analysis of complex data relevant to their particular disciplines as well as to their own departments and schools can be expected to bring seasoned judgment to bear on institutional finances and their impact on the future of educational programs.

However, when we speak of “the financial position of the institution as a whole” we are not simply returning to the standard of “an imminent financial crisis that threatens the survival of the institution as a whole and that cannot be alleviated by less drastic means” than the termination of appointments. Again, we are proposing a new definition of “financial exigency” that we believe corresponds more closely to the facts on the ground for most institutions of higher education. Financial exigency can be catastrophic and corrosive even when it does not threaten (as it rarely does) the survival of the institution as a whole. But

because this definition of “financial exigency” does not require that an institution be faced with the prospect of immediate closure and bankruptcy, it must be accompanied by greater safeguards for faculty members and more stringent guarantees that it will not be abused.

Neither Regulation 4c nor Regulation 4d requires an institution to consult with or seek input from faculty members in programs slated for termination. This seems to us a significant omission, particularly since our guidelines on institutional problems resulting from financial exigency insist that such consultation is imperative: “Given a decision to reduce the overall academic program, it should then become the primary responsibility of the faculty to determine where within the program reductions should be made. Before any such determination becomes final, those whose life’s work stands to be adversely affected should have the right to be heard.”³⁵ It may be objected that the results of such a recommendation would be predictable, insofar as very few affected faculty members would argue for their own program’s elimination or their own release. However, some arguments for a program’s elimination or preservation are better than others, and we believe that faculty members must be entrusted with the right to make and assess those arguments. Regulation 4c(2) affords a faculty member whose position is terminated “the right to a full hearing before a faculty committee,” and Regulation 4d(3) provides that a faculty member whose position is terminated for reasons other than exigency “may appeal a proposed relocation or termination resulting from a discontinuance and has a right to a full hearing before a faculty committee.” But there is no provision for consultation with such faculty members before the decision is made. In the future, we propose, faculty members in a program being considered for discontinuance because of financial exigency should be informed in writing that it is being so considered and given at least thirty days in which to respond. We recommend that Regulations 4c and 4d be revised accordingly.

B. Another Suitable Position Elsewhere within the Institution

Regulation 4d(2) states,

Before the administration issues notice to a faculty member of its intention to terminate an appointment because of formal discontinuance of a

35. Ibid.

program or department of instruction, the institution will make every effort to place the faculty member concerned in another suitable position. If placement in another position would be facilitated by a reasonable period of training, financial and other support for such training will be proffered. If no position is available within the institution, with or without retraining, the faculty member's appointment then may be terminated, but only with provision for severance salary equitably adjusted to the faculty member's length of past and potential service.

This provision is crucial to determining whether a program is being discontinued for sound, legitimate educational reasons or whether it is being discontinued simply in order to shed its tenured faculty members: an institution that makes no substantial effort (or, as is often the case, no effort at all) to find "another suitable position" for faculty members affected by program closure is effectively using program closure as a convenient way to terminate tenured appointments.

The problem, of course, lies in specifying what "another suitable position" might be. It is obviously beyond the capacity of this subcommittee to imagine every kind of possible program discontinuance and the potentially suitable positions for which affected faculty members should be considered; the challenge lies in developing overarching principles that can have numerous specific applications. The question is further complicated when one considers the case of *Browzin v. Catholic University*, as Ralph Brown explained in 1976:

What is a program? What is a department? Here also we must rely on good faith, and on faculty involvement. An example of questionable judicial definition, albeit to a good end, is found in the *Browzin* case. . . . The issue was whether an adequate attempt had to be and had been made to place Professor Browzin in another suitable position. The trial in the lower court had concentrated on financial exigency. An ambiguity in the 1968 [Recommended Institutional Regulations on Academic Freedom and Tenure] seemed to relate the obligation to seek a suitable position only to cases of abandonment of program. Judge Wright, striving to give effect to what he thought were underlying goals, concluded that "financial exigency is in the case, but so is *abandonment of a program of instruction*" (italics Judge Wright's). Since courses in Soil Mechanics and Hydrology,

"Browzin's particular responsibility," were given up, "The University did discontinue Browzin's program of instruction." If the issue had been solely whether Browzin could be terminated because of a program discontinuance, I do not think we would want to accept this notion of a one-man program. The case would then seem to be a simple breach of tenure, in the absence of financial exigency.

Why then is a larger carnage acceptable? Only because it does not seem to be right to require a university to maintain a program, and the people in it, when a serious educational judgment has been made, in the language of [Regulation 4d(1)'s] note, that "the educational mission of the institution as a whole will be enhanced by the discontinuance."³⁶

We see no reason to abandon or revise the AAUP's long-standing position on one-person programs, which seem to us administrative devices for cherry-picking tenured faculty members for release. In the AAUP's 1983 report on Sonoma State University, for instance, the investigating committee commented decisively on that institution's use of "Teaching Service Areas" to define individual faculty members as one-person programs. "Through the device of the Teaching Service Area," the committee wrote, "the newly engaged non-tenured faculty members may be reappointed while the appointment of a tenured professor with many years of service may be terminated. The administration need only decide to reduce the 'biology' Teaching Service Area by one person and leave 'microbiology' and 'molecular biology' alone."³⁷ The committee therefore found, and we concur, that such a procedure "is prone to abuse by the administration and serves to undermine academic freedom, tenure, and due process."³⁸ Whatever name such procedures go under (or, as is more likely, when they carry no official designation at all), we hold that they are not "program closures" as we understand the term, but, rather, an illegitimate means for targeting and terminating individual faculty appointments.

We therefore want to try to answer Brown's question—*what is a program?*—without relying exclusively on good faith and faculty involvement (though both are clearly necessary). First and

36. Brown, "Financial Exigency," 13.

37. "Academic Freedom and Tenure: Sonoma State University," *Academe*, May-June 1983, 8.

38. *Ibid.*, 9.

foremost, programs cannot be defined ad hoc, at any size; programs must be recognized academic units that existed prior to the declaration of financial exigency. The term “program” should designate a related cluster of credit-bearing courses that constitute a coherent body of study within a discipline or set of related disciplines. Ideally, the term should designate a department or similar administrative unit that offers majors and minors; at the University of Northern Iowa in 2012, by contrast, the administration’s definition of “program area” was not agreed to by United Faculty, the local AAUP collective bargaining unit, and was indeed so fluid and capricious as to allow for multiple cherry-picking operations. One way to determine whether a program closure is bona fide is to ask whether the courses in the program continue to be offered, as was the case at Southeastern Louisiana University after it “closed” its majors in French and French education. In other words, the elimination of a major or minor in a course of study is, of itself, no excuse for the release of tenured faculty members if courses are still on the books (presumably to be taught instead by non-tenure-track faculty members, or by faculty members who have been stripped of tenure).³⁹

As the court in *Browzin* held,

[T]he obvious danger remains that “financial exigency” can become too easy an excuse for dismissing a teacher who is merely unpopular or controversial or misunderstood—a way for the university to rid itself of an unwanted teacher but without according him his important procedural right. The “suitable position” requirement would stand as a partial check against such abuses. An institution motivated only by financial considerations would not hesitate to place the tenured professor in another suitable position if one can be found, even if this means displacing a nontenured instructor.⁴⁰

39. This is not to say that a faculty member should be guaranteed the same courses he or she taught prior to the declaration of financial exigency. If the elimination of a major or minor entails the elimination of advanced courses in a subject, so be it. We will not seek to uphold the right of a Spanish professor to continue teaching small seminars on Cervantes instead of lower-division language-instruction courses. We are concerned here only with preserving the positions of tenured faculty members, not with dictating the content of their course loads.

40. *Browzin v. Catholic University*, 527 F.2d 843 (U.S. App. D.C.) at 847.

We note, however, that in the years since *Browzin*, and Brown’s response thereto, academic programs themselves have undergone substantial transformation. The change has brought about both danger and opportunity. First, with the post–World War II expansion of American higher education, the meaning of “another suitable position” has changed radically. Second, since the 1970s, in every field of intellectual endeavor—from the arts and humanities to the social, speculative, and applied sciences—colleges and universities have heralded the virtues of interdisciplinarity and have created a wide variety of innovative interdepartmental programs, centers, and institutes in order to encourage interdisciplinary research, teaching, and collaboration. On the one hand, this transformation of the curricular landscape would appear to have made it easier for administrations to define “programs” whose proposed discontinuance is simply a means of terminating one troublesome tenured professor. On the other hand, the expansion or redefinition of the traditional disciplines, together with the creation of new interdisciplinary programs, should also have made it easier for institutions to find “another suitable position” for faculty members in discontinued programs.

Two examples will help illustrate what we are suggesting. At SUNY-Albany, the tenured professors in classics, French, Italian, and Russian could very well have been consolidated in a department of languages and literatures that would also have included Spanish and less-taught other languages. If the SUNY-Albany administration did not consider this possibility, it would be but one of many ways in which AAUP standards were ignored. At Pennsylvania State University, the termination of the university’s science, technology, and society program—itself created, in 1969–70, by faculty members from the colleges of earth and mineral sciences, engineering, liberal arts, and science—affected five tenure-track professors working on a wide variety of subjects, such as the history of autism and networks created by families with autistic children, the politics of food security, and the history of Chinese ecological science and environmental governance, with a focus on climate policy and urban development. The faculty members involved clearly can be housed in any number of academic units, from the traditional Department of Human Development and Family Studies to newer interdisciplinary units such as the Huck Institutes of the Life Sciences, the Penn State Institutes of Energy and the Environment, and

the International Center for the Study of Terrorism.⁴¹ American universities have found many ways of creating such centers and institutes, using them as devices for establishing new areas of research and teaching and for engaging new faculty members. We are aware that few of these centers and institutes were created with the intention that they would include tenure-track faculty lines. But because the AAUP maintains that tenure is held in the institution rather than any department, college, program, or other subdivision within the institution, we believe that it is incumbent upon institutions to be at least as creative in finding ways to relocate faculty members whose programs have been discontinued. In some cases, relocating a faculty member may involve provost-level negotiations, if, for instance, the faculty member's line is to be transferred between colleges. But in all cases, the first sentence of Regulation 4d(2) must be observed: the institution must make every effort to place the faculty member concerned in another suitable position before the administration issues notice to a faculty member of its intention to terminate an appointment because of formal discontinuance of a program or department of instruction. The effort to find another suitable position must precede the announcement of an institution's intent to terminate a program; it cannot follow the announcement as faculty members and administrators scramble to put together a Plan B.

If an undergraduate major or a graduate program is eliminated but lower-level courses continue to be offered (as is the case with many reductions of foreign-language programs), the professor who is reassigned from upper-level to lower-level courses is not considered to be relocated "elsewhere." Tenure rights enable the professor to assume the teaching of lower-level courses that have been taught by non-tenured faculty members; departments and colleges should not assume that if upper-level courses are eliminated, the tenured faculty members who taught them need to be released as well. All relocations of tenured faculty members should allow those faculty members to retain their tenure rights, including eligibility for

41. Penn State conducted its program closures, which were announced in 2011, by means of a "Core Council" that included minimal faculty input, none of which concerned the financial state of the university. There was no attempt to find "another suitable location" for the probationary faculty members in the science, technology, and society program until after its closure had been decreed, though arrangements were eventually made for some—not all—of the faculty members affected.

service on department, college, and institution-wide committees; no relocated professor should suffer a reduction in his or her salary, unless across-the-board salary reductions are part of an institution's response to its financial condition, and no relocated professor should suffer demotion from his or her previously earned academic rank.

Again, the AAUP holds that the locus of tenure is in the institution as a whole, not in any subdivision (department, college, program) thereof. Therefore, the elimination of a program in which a faculty member has tenure does not entail the elimination of that faculty member's tenure rights, and it is for this reason that he or she has the right to be relocated.

We note also that an increasingly common justification for program closure is "low completion rates," that is, low numbers of graduates per year. We believe that gauging enrollment simply by counting the number of student majors is especially inimical to sound academic judgments. Often, modern languages such as French and German are unduly penalized by such calculations, because they discount the number of students who meet language requirements by taking courses in French and German without majoring in those subjects; but in the University of Louisiana system and at the University of Northern Iowa, this kind of bean counting affected the sciences as well, as when the UNI administration slated a physics program for closure without considering how many majors in the other sciences needed to take courses in physics. So-called "data-driven" program closures should be eschewed in favor of comprehensive, orderly reviews of the full profile of an institution's curricular offerings, reviews that are guided not solely by enrollment numbers but also by sound, rational, and justifiable determinations of the intellectual strengths and weaknesses of each program.

Lastly, we reaffirm the provisions of Regulations 4d(2) and 4d(3), requiring institutions to offer a reasonable period of training for faculty members affected by program discontinuance, financial and other support for such training, severance pay equitably adjusted to the faculty member's length of past and potential service, the right to appeal a proposed relocation or termination, and the right to a full hearing before a faculty committee.

C. Personnel Priorities

Regulation 4c(1) states that "judgments determining where within the overall academic program termination of appointments may occur involve considerations

of educational policy, including affirmative action, as well as of faculty status, and should therefore be the primary responsibility of the faculty or of an appropriate faculty body. The faculty or an appropriate faculty body should also exercise primary responsibility in determining the criteria for identifying the individuals whose appointments are to be terminated. These criteria may appropriately include considerations of length of service.” In earlier versions, this clause read “considerations of age and length of service,” but it was revised to conform to the Age Discrimination in Employment Act of 1967. Since the end of mandatory retirement in academe, this issue has become only more complex, and it is complicated still further by the multiple demographic changes in the academic workforce over the past four decades: the professoriate contains far more women and minorities than it did in 1970 (a development we welcome) and far fewer faculty members with tenure as a proportion of all faculty members (a development we deplore). Forty years ago, roughly three-quarters of all faculty members were tenured or probationary for tenure; today, roughly three-quarters of all faculty members do not have, and have little hope of gaining, the protections of tenure.

When programs are discontinued and faculty members face relocation or release, priority must be given to the tenured, or tenure itself will lose meaning. It is worth reviewing this imperative with regard to the consideration of “seniority” in our revised definition of financial exigency. Thanks to the dramatic expansion and institutionalization of the nontenured ranks, it is possible to find non-tenure-track faculty members with significant seniority—amounting even to decades—over newly tenured members of the faculty. Similarly, our operating guidelines on institutional problems resulting from financial exigency state that “as particular reductions are considered, rights under academic tenure should be protected. The services of a tenured professor should not be terminated in favor of retaining someone without tenure who may at a particular moment seem to be more productive.”⁴²

However, Regulation 4c(3) complicates matters somewhat: “The appointment of a faculty member with tenure will not be terminated in favor of retaining a faculty member without tenure *except in extraordinary circumstances where a serious distortion of the academic program would result.*” (Emphasis

added.) Matters are complicated still further by AAUP policy holding that all full-time faculty members who have exceeded seven years of service are considered to be within the cohort of the tenured, regardless of whether they have undergone formal tenure procedures. As a result, their rights to the protections of academic due process that accrue with tenure are identical to those of faculty members with tenure. It is only for the purpose of defining professional standards for relocating or releasing tenured faculty members in programs facing discontinuance that we draw a distinction between these categories. When programs are discontinued, institutions must make every effort to relocate both formally and informally tenured faculty members to other academic programs. What should be strictly forbidden, in any case, are decisions to terminate faculty appointments based on quantitative or otherwise reductive assessments that do not consider the breadth and versatility of a faculty member’s research and teaching, since these determinations effectively create a system of punishment and reward that does not answer to essentially educational considerations and is easy to manipulate by appeal to evanescent fluctuations in enrollments and research funding, or evanescent fluctuations in the productivity of individual faculty members.

Further, we want to enhance the role of all faculty members in decision making. We call attention to a critical passage in the AAUP statement *The Role of the Faculty in Budgetary and Salary Matters*, which grants to contingent faculty members a key role in the determination of financial exigency, consonant with the role we recommend for tenured faculty members:

Circumstances of financial exigency obviously pose special problems. At institutions experiencing major threats to their continued financial support, the faculty should be informed as early and as specifically as possible of significant impending financial difficulties. The faculty—with substantial representation from its nontenured as well as its tenured members, since it is the former who are likely to bear the brunt of any reduction—should participate at the department, college or professional school, and institution-wide levels in key decisions as to the future of the institution and of specific academic programs within the institution.⁴³

42. *Policy Documents and Reports*, 147.

43. Ibid., 150; emphasis added.

The reference to the faculty's being "informed as early and as specifically as possible" is potentially misleading; although administrators have a fiduciary responsibility to alert the campus to impending challenges, in a properly collaborative and consultative environment, the faculty would have a detailed and ongoing sense of the institution's financial health. In a similar vein, AAUP operating guidelines on institutional problems resulting from financial exigency specify that "the granting of adequate notice to nontenured faculty should also be given high financial priority." We propose that "adequate notice" be understood in relation to a non-tenure-track faculty member's length of service. For instance, in Regulation 13e(1), the following provision is made for "part-time faculty members who have served for three or more terms during a span of three years": "Written notice of reappointment or nonreappointment will be issued no later than one month before the end of the existing appointment. If the notice of reappointment is to be conditioned, for example, on sufficiency of student enrollment or on financial considerations, the specific conditions will be stated with the issuance of the notice." We propose that this provision be extended to all nontenured faculty members who are released as a result of a declaration of financial exigency; nontenured faculty members with more than seven years of service have long-standing affiliations with an institution, and they may have to make major life changes—switching careers, moving families—in order to seek new positions. Nontenured faculty members with three or more years of service but less than seven should be granted six months of additional appointment after notice of termination on the same grounds. Tenured faculty members, if they are released on the ground that they are not as qualified to execute the fullest possible range of the program's educational and institutional mission as others in their cohort, should be provided with an additional year of appointment after they have been given notice of termination for financial considerations.⁴⁴ We note that this provision is especially germane to our revised definition of financial

exigency, insofar as a campus that is not experiencing an imminent financial crisis that threatens the survival of the institution as a whole (but, rather, a *severe* financial crisis that fundamentally compromises the *academic integrity* of the institution as a whole) presumably will have the time and resources necessary to give its long-serving faculty members adequate long-term notice of termination.

Finally, there is the question of how departments should prioritize terminations of tenured faculty appointments with regard to educational considerations. Particularly in fields that have undergone substantial intellectual transformations in recent decades, these decisions can pit established fields against emerging fields—to the detriment of the former, if too much weight is given to recent developments in a discipline, or to the detriment of the latter, if too much weight is given to traditional areas and forms of scholarship. This committee finds it exceptionally difficult to recommend specific courses of action in such cases; we cannot say, as a general rule, whether (to take a salient example from the Furniss-Brown exchange) a department should prefer to keep its three senior tenured scholars of European history or terminate one of them in favor of keeping the younger tenured scholar in Asian studies. Such decisions will be wrenching regardless of their outcomes and may lead to substantial redefinition of a department's or program's core educational mission. We propose, therefore, that any decisions about the priority of subfields within a discipline be made with respect to the long-term health and viability of the discipline as an educational enterprise, as determined by deliberations in good faith, balancing the virtues of both established and emerging fields and asking which areas of study, and which methodologies, will best serve the discipline and prospective student populations for the foreseeable future.

There are good reasons for our hesitation in this matter. We do not wish to compel, or to give administrators the right to compel, individual departments to accept refugees from closed programs. We consider it illegitimate to try (for example) to force a chemistry department to appoint a pharmacist from a discontinued program or to expect law schools or economics departments to accept business professors who teach law or economics if the law school or economics department in question deems those professors to be unqualified for appointment. However, *every good faith effort must be made to find another suitable position for displaced faculty members with tenure*, and

44. We find it exceptionally vexing to have to set a standard for providing adequate notice of nonreappointment for non-tenure-track faculty members with more than seven years of service when our policies do not recognize the legitimacy of an institution's having any full-time faculty members in this category. But we want to provide some protection for the full-time non-tenure-track faculty members even though we do not accept the legitimacy of their positions off the tenure track.

if one department blocks an appointment, it should provide a written statement of its rationale.

Whenever a department refuses the reappointment of a faculty member, the burden remains on the administration to try to find another plausible department as a home. Every presumption should be in favor of preserving the tenured position; as we noted above, interdisciplinary programs, centers, and institutes might well accommodate displaced faculty members, particularly if their work crosses disciplinary boundaries. No invidious reasons should be accepted for a department's decision not to accept a displaced faculty member; a department cannot insist that it does not want to hire another woman or demur on ideological grounds that would violate a faculty member's academic freedom. If a faculty member believes that his or her rejection by a proposed relocation department is invidious, spurious, or in violation of AAUP principles, that faculty member should have the right to appeal to an appropriate faculty committee. But that committee's recommendation should be advisory, not binding; and we do not grant deans and provosts the right to override the wishes of departments if those departments' decisions are based on legitimate educational and intellectual grounds.

D. Proposed Changes for Individual Institutions

At institutions not covered by collective bargaining agreements, the foregoing policy statements, like all AAUP guidelines, are recommendations: they represent our careful consideration of best practices for colleges and universities, and they offer a definitive measure by which institutions can gauge their adherence to the standards that should govern American higher education. The faculty and administrations at institutions not governed by collective bargaining should therefore work together to include the report's policy statements and recommendations in their institutional regulations and faculty handbooks.

Collective bargaining representatives that incorporate some or all of the AAUP's previous recommendations related to this report into their collective agreements, or that seek in the future to negotiate new or revised agreements that incorporate these recommendations, should also seek to ensure that disputes regarding the interpretation and enforcement of the policies and procedures are resolved through a grievance process that includes binding arbitration. In the best cases, the enforceable procedures that result will include an opportunity for the faculty, acting through the union or the faculty senate, to participate

in the determination of whether a bona fide financial exigency exists. In such cases, the parties may need to determine whether to continue with their existing understanding of "financial exigency" or to adopt our revised definition. Similarly, those institutions whose agreements specifically include AAUP-recommended program review and closure procedures that entail faculty participation in these decisions, or incorporate such AAUP-recommended procedures by reference, should update their agreements to incorporate these revised recommendations. We recommend, further, that collective bargaining representatives take special care to ensure that faculty members without tenure are granted the right to participate in determinations of financial exigency and program discontinuance, since they are likely to bear the brunt of program closures and layoffs.

Too often, however, the imposition of excessively narrow interpretations of negotiable terms and conditions of employment means that faculty collective bargaining agreements fall short of the faculty involvement that constitutes best practice. Contracts that do not provide the safeguards afforded by faculty participation in decisions respecting financial exigency and program closure typically must then rely entirely on layoff and recall provisions to protect academic integrity and faculty rights. In view of the flexibility provided by the vast increase in instruction by part-time and short-term appointees, and the deleterious consequences for academic freedom and educational quality that may be expected to result, there is no excuse for layoff procedures that permit routine reliance on the layoff of faculty members within the term of their appointments in order to meet short-term financial or enrollment concerns. Where proposed layoffs involve dismissal of faculty members with tenure, faculty members whose length of service entitles them to the protections of tenure, or term appointees within the term of their appointments, agreements should adopt at minimum AAUP-recommended procedures regarding order of layoff, length of notice, fair consideration for alternative suitable positions, and severance pay. These agreements ought particularly to ensure, through seniority provisions and appeal procedures, that layoffs cannot be based on considerations inconsistent with academic integrity and academic freedom.

IV. Conclusion

This report has sought to address the gap between Regulation 4c on financial exigency and Regulation 4d

on program discontinuance by redefining “financial exigency.” As we set forth in the introduction, our new definition names a condition that is less dramatic than that in which the very existence of the institution is immediately in jeopardy but is significantly more serious and threatening to the educational mission and academic integrity of the institution than ordinary (short- and long-term) attrition in operating budgets. Financial exigency can legitimately be declared only when fundamental compromise of the institution’s academic integrity will result from prolonged and drastic reductions in funds available to the institution, and only when the determination of the institution’s financial health is guided by generally accepted accounting principles. In proposing this new definition, however, we insist again that financial exigency is not a plausible complaint from a campus that has shifted resources from its primary missions of teaching and research toward the employment of increasing numbers of administrators or toward unnecessary capital expenditures.

In order to ensure that our definition of “financial exigency” does not become an excuse for program elimination and the termination of tenured faculty positions when less drastic responses to institutional crisis are available, this report urges that faculty members be involved in consultation and deliberation at every stage of the process, beginning with a determination that a state of financial exigency exists. We offer specific recommendations for such faculty involvement:

1. Before any proposals for program discontinuance on financial grounds are made or entertained, the faculty should have the opportunity to render an assessment in writing on the institution’s financial condition.
2. Faculty bodies participating in the process may be drawn from the faculty senate or elected as ad hoc committees by the faculty; they should not be appointed by the administration.
3. The faculty should have access to, at minimum, five years of audited financial statements, current and following-year budgets, and detailed cash-flow estimates for future years.
4. In order to make informed proposals about the financial impact of program closures, the faculty needs access to detailed program, department, and administrative-unit budgets.
5. The faculty should determine whether “all feasible alternatives to termination of appointments

have been pursued,” including expenditure of one-time money or reserves as bridge funding, furloughs, pay cuts, deferred-compensation plans, early-retirement packages, deferral of nonessential capital expenditures, and cuts to noneducational programs and services, including expenses for administration.

6. Faculty members in a program being considered for discontinuance because of financial exigency should be informed in writing that it is being so considered and given at least thirty days in which to respond. Tenured, tenure-track, and contingent faculty members should be involved.

We reaffirm the AAUP’s long-standing opposition to the elimination of “one-person” programs, which allows for selective, arbitrary termination of tenured faculty members; and we reaffirm the principle that tenured faculty members hold tenure in the institution as a whole, not in any college, department, program, or other subdivision thereof. We also affirm long-standing AAUP policy that all full-time faculty members who have taught at an institution for over seven years are considered to be within the cohort of the tenured, whether or not they have undergone formal tenure procedures. It is precisely because tenure resides in the entire institution that tenured faculty members have the right to another suitable position within the institution, and we urge institutions to be creative in finding ways to relocate faculty members whose programs have been discontinued. Most important, we reiterate that the institution must make every effort to place the faculty member concerned in another suitable position *before* the administration issues notice to a faculty member of its intention to terminate his or her appointment because of formal discontinuance of a program or department of instruction. We reaffirm the principle that tenured faculty members must not be released and then replaced with nontenured faculty members. And we recommend that faculty members without tenure who are released as a result of program closure be given notice of non-reappointment commensurate with their length of service to the institution. Finally, we recommend that collective bargaining representatives adopt the recommendations of this report to the fullest extent possible.

We affirm these principles and make these recommendations not as a rearguard measure, not as a last-ditch attempt to keep the flickering flame alive before the forces of austerity engulf American higher education. We do believe that the forces of austerity

are threatening to engulf American higher education; certainly this is why institutions are closing programs that should be part of any serious educational institution's curricular portfolio and implementing policies that further erode the ranks and the discretionary authority of the tenured professoriate. But we do not issue this report in a defensive mode. On the contrary, we believe that the erosion of the ranks and of the discretionary authority of the tenured professoriate is not only bad for American higher education but also bad for society as a whole and for the future of the United States. Program closures on the scale we have recently witnessed represent a massive transfer of power from the faculty to the administration *over curricular matters that affect the educational missions of institutions*, for which the faculty should always bear the primary responsibility. In most cases the decisions to close programs are made unilaterally and are driven by criteria that are not essentially educational in nature; they are therefore not only procedurally but also substantively illegitimate. Moreover, program closures on this scale appear to reflect—and to implement—a widespread belief that faculty positions and instructional costs are the first expenditures an institution should seek to trim, as opposed to expenditures on administration or capital projects.

We cannot say this strongly enough: the widespread closure of academic programs, when undertaken by administrations unilaterally or on occasion with a fig leaf of faculty participation, represents a significant threat to the foundations of American higher education. These initiatives essentially transform colleges and universities from educational to managerial institutions, in which instruction in a course of study is simply another “deliverable” and where programs are so many inventory items to be discounted, downsized, or discontinued according to a reductive logic of efficiency and the imperative to lower labor costs whenever possible. We are not as a rigid matter of principle opposed to program closures. The AAUP has long acknowledged that a college or university can discontinue a program of instruction, but our standard has been that if the discontinuation is not undertaken for financial reasons, it must be shown to enhance the educational mission of the institution as a whole; we have long acknowledged that programs can be cut in times of financial exigency, but only if an appropriate faculty body is involved in the decision-making process, beginning with the determination of whether an institution is experiencing bona fide financial exigency. But by and large, the program

closings of recent years do not meet any of these standards. They represent a violation of the principles on which American higher education should operate and must be contested by a vigorous, principled, and informed faculty. ■

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APPENDIX I

Proposed Regulation 4 as Revised of the Association's Recommended Institutional Regulations on Academic Freedom and Tenure

4. TERMINATION OF APPOINTMENTS BY THE INSTITUTION

- a. Termination of an appointment with continuous tenure, or of a probationary or special appointment before the end of the specified term, may be effected by the institution only for adequate cause.
- b. If termination takes the form of a dismissal for cause, it will be pursuant to the provisions specified in Regulation 5.

Financial Exigency¹

- c. (1) Termination of an appointment with continuous tenure, or of a probationary or special appointment before the end of the specified term, may occur under extraordinary circumstances because of a demonstrably bona fide financial exigency, i.e., a severe financial crisis that fundamentally compromises the academic integrity of the institution as a whole and that cannot be alleviated by less drastic means.

[Note: Each institution in adopting regulations on financial exigency will need to decide how to share and allocate the hard judgments and decisions that are necessary in such a crisis.]

As a first step, there should be an elected faculty governing body, or a body designated by a collective bargaining agreement, that participates in the decision that a condition of financial exigency exists or is imminent and that all feasible alternatives to termination of appointments have been pursued, including expenditure of one-time money or reserves as bridge funding, furloughs, pay cuts, deferred-compensation plans, early-retirement packages, deferral of nonessential capital expenditures, and cuts to noneducational programs and services, including expenses for administration.²

Judgments determining where within the overall academic program termination of appointments may occur involve considerations of educational policy, including affirmative action, as well as of faculty status, and should therefore be the primary responsibility of the faculty or of an appropriate faculty body.³ The faculty or an appropriate faculty body should also exercise primary responsibility in determining the criteria for identifying the individuals whose appointments are to be terminated. These criteria may appropriately include considerations of length of service.

The responsibility for identifying individuals whose appointments are to be terminated should be committed to a person or group designated or approved by the faculty. The allocation of this responsibility may vary according to the size and character of the institution, the extent of the terminations to be made, or other considerations of fairness in judgment. The case of a faculty member given notice of proposed termination of appointment will be governed by the following provisions.]

- (2) Before any proposals for program discontinuance on grounds of financial exigency are made, the faculty or an appropriate faculty body will have opportunity to render an assessment in writing of the institution's financial condition.

[Note: Academic programs cannot be defined ad hoc, at any size; programs should be recognized academic units that existed prior to the declaration of financial exigency. The term "program" should designate a related cluster of credit-bearing courses that constitute a coherent body of study within a discipline or set of related disciplines. When feasible, the term should

- designate a department or similar administrative unit that offers majors and minors.]
- (i) The faculty or an appropriate faculty body will have access to at least five years of audited financial statements, current and following-year budgets, and detailed cash-flow estimates for future years.
 - (ii) In order to make informed recommendations about the financial impact of program closures, the faculty or an appropriate faculty body will have access to detailed program, department, and administrative-unit budgets.
 - (iii) Faculty members in a program being considered for discontinuance because of financial exigency will promptly be informed of this activity in writing and provided at least thirty days in which to respond to it. Tenured, tenure-track, and contingent faculty members will be informed and invited to respond.
- (3) If the administration issues notice to a particular faculty member of an intention to terminate the appointment because of financial exigency, the faculty member will have the right to a full hearing before a faculty committee. The hearing need not conform in all respects with a proceeding conducted pursuant to Regulation 5, but the essentials of an on-the-record adjudicative hearing will be observed. The issues in this hearing may include:
- (i) The existence and extent of the condition of financial exigency. The burden will rest on the administration to prove the existence and extent of the condition. The findings of a faculty committee in a previous proceeding involving the same issue may be introduced.
 - (ii) The validity of the educational judgments and the criteria for identification for termination; but the recommendations of a faculty body on these matters will be considered presumptively valid.
 - (iii) Whether the criteria are being properly applied in the individual case.
- (4) If the institution, because of financial exigency, terminates appointments, it will not at the same time make new appointments, except in extraordinary circumstances where a serious distortion in the academic program would otherwise result. The appointment of a faculty member with tenure will not be terminated in favor of retaining a faculty member without tenure, except in extraordinary circumstances where a serious distortion of the academic program would otherwise result.
 - (5) Before terminating an appointment because of financial exigency, the institution, with faculty participation, will make every effort to place the faculty member concerned in another suitable position within the institution.
 - (6) In all cases of termination of appointment because of financial exigency, the faculty member concerned will be given notice or severance salary not less than as prescribed in Regulation 8.
 - (7) In all cases of termination of appointment because of financial exigency, the place of the faculty member concerned will not be filled by a replacement within a period of three years, unless the released faculty member has been offered reinstatement and at least thirty days in which to accept or decline it.
- Discontinuance of Program or Department for Educational Reasons⁴**
- d. Termination of an appointment with continuous tenure, or of a probationary or special appointment before the end of the specified term, may occur as a result of bona fide formal discontinuance of a program or department of instruction. The following standards and procedures will apply.
 - (1) The decision to discontinue formally a program or department of instruction will be based essentially upon educational considerations, as determined primarily by the faculty as a whole or an appropriate committee thereof.
 - [Note: “Educational considerations” do not include cyclical or temporary variations

in enrollment. They must reflect long-range judgments that the educational mission of the institution as a whole will be enhanced by the discontinuance.]

- (2) Faculty members in a program being considered for discontinuance for educational considerations will promptly be informed of this activity in writing and provided at least thirty days in which to respond to it. Tenured, tenure-track, and contingent faculty members will be invited to participate in these deliberations.

[Note: Academic programs cannot be defined ad hoc, at any size; programs must be recognized academic units that existed prior to the decision to discontinue them. The term “program” should designate a related cluster of credit-bearing courses that constitute a coherent body of study within a discipline or set of related disciplines. When feasible, the term should designate a department or similar administrative unit that offers majors and minors.]

- (3) Before the administration issues notice to a faculty member of its intention to terminate an appointment because of formal discontinuance of a program or department of instruction, the institution will make every effort to place the faculty member concerned in another suitable position. If placement in another position would be facilitated by a reasonable period of training, financial and other support for such training will be proffered. If no position is available within the institution, with or without retraining, the faculty member’s appointment then may be terminated, but only with provision for severance salary equitably adjusted to the faculty member’s length of past and potential service, an amount which may well exceed but not be less than the amount prescribed in Regulation 8.

[Note: When an institution proposes to discontinue a program or department of instruction based essentially on educational considerations, it should plan to bear the costs of relocating, training, or otherwise compensating faculty members adversely affected.]

- (4) A faculty member who contests a proposed relocation or termination resulting from a discontinuance has a right to a full hearing before a faculty committee. The hearing need not conform in all respects with a proceeding conducted pursuant to Regulation 5, but the essentials of an on-the-record adjudicative hearing will be observed. The issues in such a hearing may include the institution’s failure to satisfy any of the conditions specified in Regulation 4d. In the hearing, a faculty determination that a program or department is to be discontinued will be considered presumptively valid, but the burden of proof on other issues will rest on the administration.

Review

- e. In cases of termination of appointment, the governing board will be available for ultimate review.
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NOTES

1. See *The Role of the Faculty in Conditions of Financial Exigency*, in *Bulletin of the American Association of University Professors* (special issue of *Academe*), July–August 2013: 120–47. The definition of “financial exigency” offered in that report and adopted here is intended to be more responsive to actual institutional conditions and extends the standard of exigency to situations not covered by Committee A’s previous definition.

2. See *The Role of the Faculty in Budgetary and Salary Matters*, in *Policy Documents and Reports*, 149–52, especially the following passages:

The faculty should participate both in the preparation of the total institutional budget and (within the framework of the total budget) in decisions relevant to the further apportioning of its specific fiscal divisions (salaries, academic programs, tuition, physical plant and grounds, and so on). The soundness of resulting decisions should be enhanced if an elected representative committee of the faculty participates in deciding on the overall allocation of institutional resources and the proportion to be devoted directly to the academic program. This committee should be given access to all information that it requires to perform its task effectively, and it should have the opportunity to confer periodically with representatives of the administration and governing board. . . .

Circumstances of financial exigency obviously pose special problems. At institutions experiencing major threats to their continued financial support, the faculty should be informed as early and specifically as possible of significant impending financial difficulties. The faculty—with substantial representation from its nontenured as well as its

tenured members, since it is the former who are likely to bear the brunt of the reduction—should participate at the department, college or professional school, and institution-wide levels in key decisions as to the future of the institution and of specific academic programs within the institution. The faculty, employing accepted standards of due process, should assume primary responsibility for determining the status of individual faculty members.

3. See *Statement on Government of Colleges and Universities*, in *Policy Documents and Reports*, 135–40, especially the following passage: "Faculty status and related matters are primarily a faculty

responsibility; this area includes appointments, reappointments, decisions not to reappoint, promotions, the granting of tenure, and dismissal. The primary responsibility of the faculty for such matters is based upon the fact that its judgment is central to general educational policy."

4. When discontinuance of a program or department is mandated by financial exigency of the institution, the standards of Regulation 4c above will apply.

APPENDIX II

Measuring Financial Distress

The purpose of this appendix is to provide faculty members with some guidance in understanding the financial condition of their institutions. While no single number can capture the entire financial condition of an institution, the composite index described below is designed to indicate whether an institution may be facing financial distress.

This index can be used to analyze how the financial condition of one institution has changed over time and to compare similar institutions. If the index falls below the threshold discussed in this appendix, it may indicate that the institution is facing financial exigency. However, the index's merely falling below the threshold does not automatically indicate that a state of financial exigency exists; falling below the threshold should instead be seen as necessary but not sufficient to declare that an institution is in severe financial distress. Even if an institution's composite index falls below the level that could indicate the existence of a state of severe financial distress, appropriate faculty committees as well as administrators at an institution should examine financial statements and other budgetary materials with great care to ensure that the factors causing the index to fall are real and not transient.

The index described below is a variant of the index used by the Ohio Board of Regents to assess the financial health of public institutions of higher education in Ohio. The index uses four ratios: a solvency ratio, an activity ratio, and two margin ratios. A *solvency ratio* measures the ability of an institution to meet its debt obligations. An *activity ratio* measures the ability of an institution to cover its operating expenses. *Margin*

ratios measure the relationships between the inflow and outflow of resources at an institution.

There are several differences between how reserves, cash flow, and net assets are measured at public and private institutions. The Governmental Accounting Standards Board governs financial statements for public institutions, whereas the Financial Accounting Standards Board governs financial statements for private institutions.

The *solvency ratio* used in the index is known as the viability ratio, and it measures the ratio of reserves to the institution's long-term debt. At public institutions, reserves are defined as unrestricted net assets plus restricted expendable net assets. At private institutions, reserves are defined as unrestricted net assets plus temporarily restricted net assets. If a private institution does not separately report value of assets invested in physical plant net of accumulated depreciation minus the liability for long-term debt (net assets invested in plant), then the value of assets invested in plant net of accumulated depreciation minus the liability for long-term debt should be subtracted from unrestricted net assets. In addition, at institutions that offer postretirement benefits, the liabilities for these postretirement benefits should be subtracted from unrestricted net assets. The viability ratio shows the percentage of the institution's debt that could be paid off using reserves and is a primary indicator of solvency.

The activity ratio used in the composite index is known as the *primary reserve ratio*. It is the ratio of reserves (as defined in the previous paragraph) to operating expenses plus interest on capital-asset

Table 1. Ratio Scores

| | 0 | 1 | 2 | 3 | 4 | 5 |
|-----------------------|--------|-------------|-------------|-------------|-------------|----------------|
| Viability Ratio | < 0 | 0 to .29 | .30 to .59 | .6 to .99 | 1.0 to 2.5 | > 2.5 or n/a |
| Primary Reserve Ratio | < -.1 | -.1 to .049 | .05 to .099 | .10 to .249 | .25 to .49 | .5 or greater |
| Cash Flow Ratio | < -.05 | -.05 to 0 | 0 to .009 | .01 to .029 | .03 to .049 | .05 or greater |
| Net Asset Ratio | < -.05 | -.05 to 0 | 0 to .009 | .01 to .029 | .03 to .049 | .05 or greater |

related debt. The *primary reserve ratio* shows how many months an institution could continue its operations even if it had no sources of revenue.

The first margin ratio used in the composite index is the *cash-flow ratio*, which is the ratio of operating cash flow to total revenue. Institutions of higher education use accrual accounting, which means that they have certain “non-cash” expenses such as depreciation and the losses on the disposal of assets. In addition, unrealized changes in the value of assets (such as changes in the value of investments held in an endowment) can result either in gains that are booked as income or in losses that are booked as expenses. The existence of noncash expenses and unrealized gains and losses on investments means that the income or (losses) before other revenues (net income) is not always a reliable indicator of net resources gained or lost by an institution. The operating cash-flow ratio is therefore at times a better indicator of the inflow and outflow of resources that can support operations. At public institutions, operating cash flow is the sum of net cash used by operations and net cash provided by noncapital financing activities minus interest paid on capital debts and leases. At private institutions, operating cash flow is net cash provided by operating activities minus interest payments on capital debts and leases.

The second margin ratio is the *net-asset ratio*, which is the change in net assets divided by the total revenue. The change in net assets is the most comprehensive indicator of the difference between revenues and expenses and is therefore one of the primary performance indicators for institutions.

To create a composite index, each of the ratios listed above is converted into a continuous score between 0 and 5 using ranges from table 1 and the piecewise linear function shown in the equation below. (If one wishes, an index can be calculated with a step function simply by assigning scores for the various ratios using the table below and then taking a weighted average of those scores using the weights in

table 2.) The advantage of using the piecewise linear function $s(X)$ is that it results in a score for each ratio that changes continuously as each underlying ratio changes. Without the piecewise linear function, a very small change in a ratio can lead to a large change in the score when the underlying ratio crosses a threshold.

The following piecewise linear function creates a continuous score by using a linear function between the points where the $a_0 \dots a_4$ represent the viability, primary reserve, and cash-flow and net-asset ratios:

$$s(X) = \begin{cases} 0 & \text{if } X \leq a_0 - \frac{a_1 - a_0}{2} \\ \frac{X - a_0}{a_1 - a_0} + .5 & \text{if } a_0 - \frac{a_1 - a_0}{2} \leq X \leq a_1 \\ \frac{X - a_1}{a_2 - a_1} + 1.5 & \text{if } a_1 \leq X \leq a_2 \\ \frac{X - a_2}{a_3 - a_2} + 2.5 & \text{if } a_2 \leq X \leq a_3 \\ \frac{X - a_3}{a_4 - a_3} + 3.5 & \text{if } a_3 \leq X \leq a_4 + \frac{a_4 - a_3}{2} \\ 5 & \text{if } X \geq a_4 - \frac{a_4 - a_3}{2} \end{cases}$$

Figures 1–4 illustrate how this function works compared to a simple step function. The horizontal axis shows a ratio (viability ratio, primary reserve ratio, cash-flow ratio, and net-asset ratio). Moving up vertically to the line and then left to the vertical axis translates the ratio into a score.

The scores generated for each of the ratios using either the piecewise linear function or the step function are then weighted as follows:

Table 2. Weights

| Score | Weight |
|-----------------------|--------|
| Viability Score | 0.225 |
| Primary Reserve Score | 0.400 |
| Cash Flow Score | 0.250 |
| Net Asset Score | 0.125 |

Multiplying each weight times its respective score and summing creates a composite index. In general, a score of 1.5 or below for two consecutive

years would indicate a condition of severe financial distress.

Discussion of Ratios

Viability Ratio

Definition: Reserves divided by debt

Public-sector reserves = Unrestricted net assets plus restricted expendable net assets

Private-sector reserves = Unrestricted net assets plus temporarily restricted net assets

What the ratio tells us:

Whether the institution has sufficient reserves in relation to the amount of debt. If the ratio is greater than 1.0, then reserves are greater than debt, which indicates financial strength.

Figure 1. Viability Scores

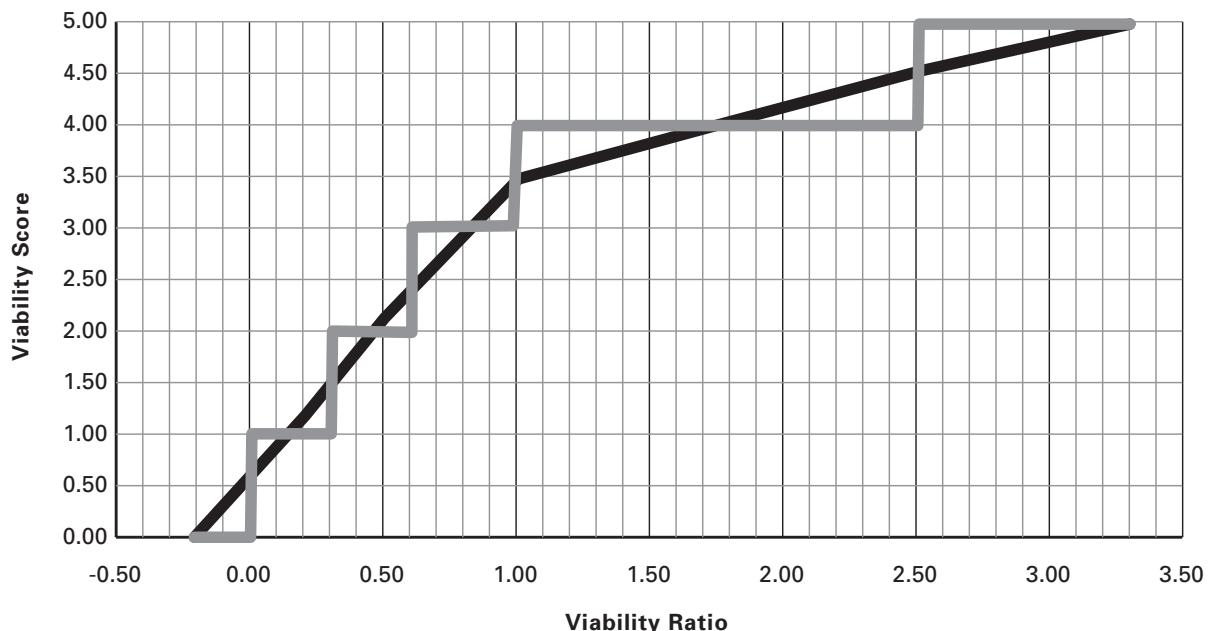


Figure 2. Primary Reserve Scores

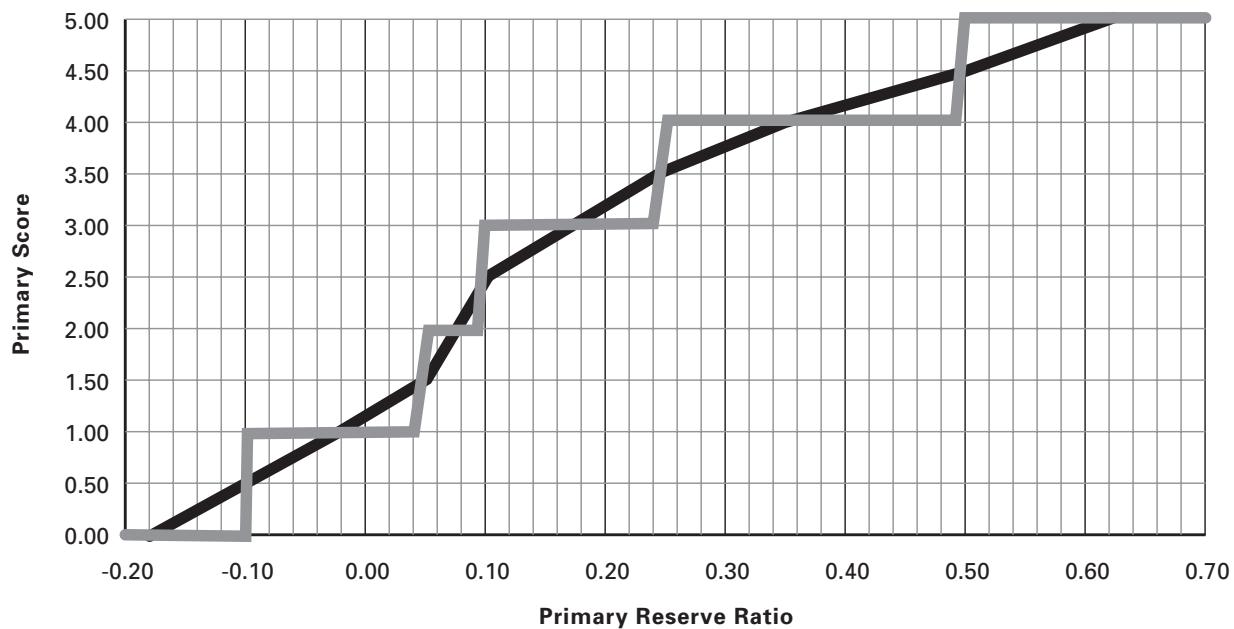


Figure 3. Cash Flow Score

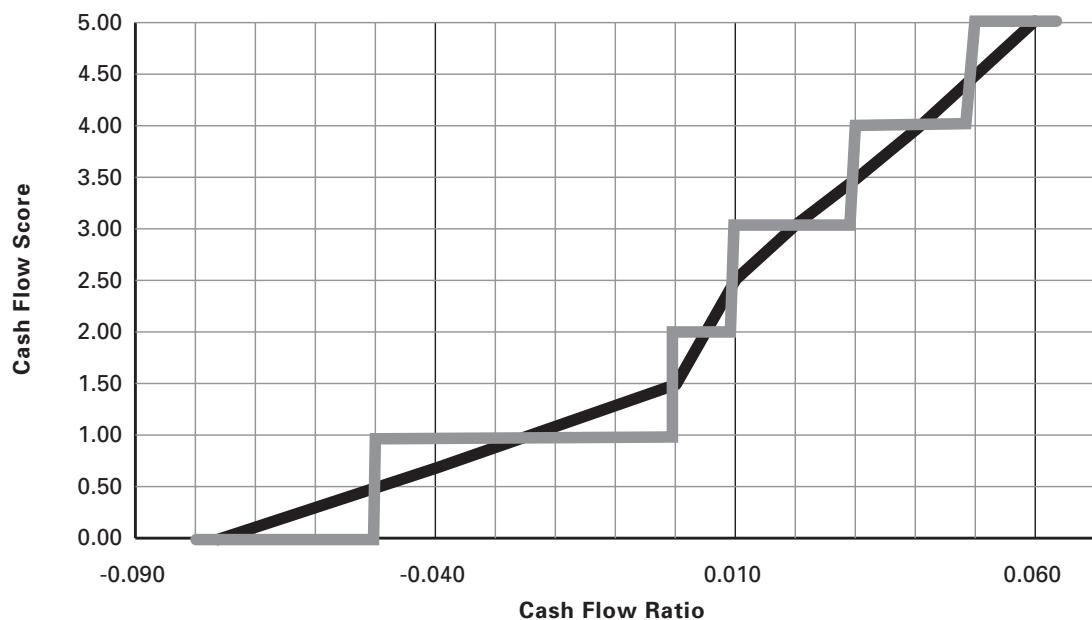
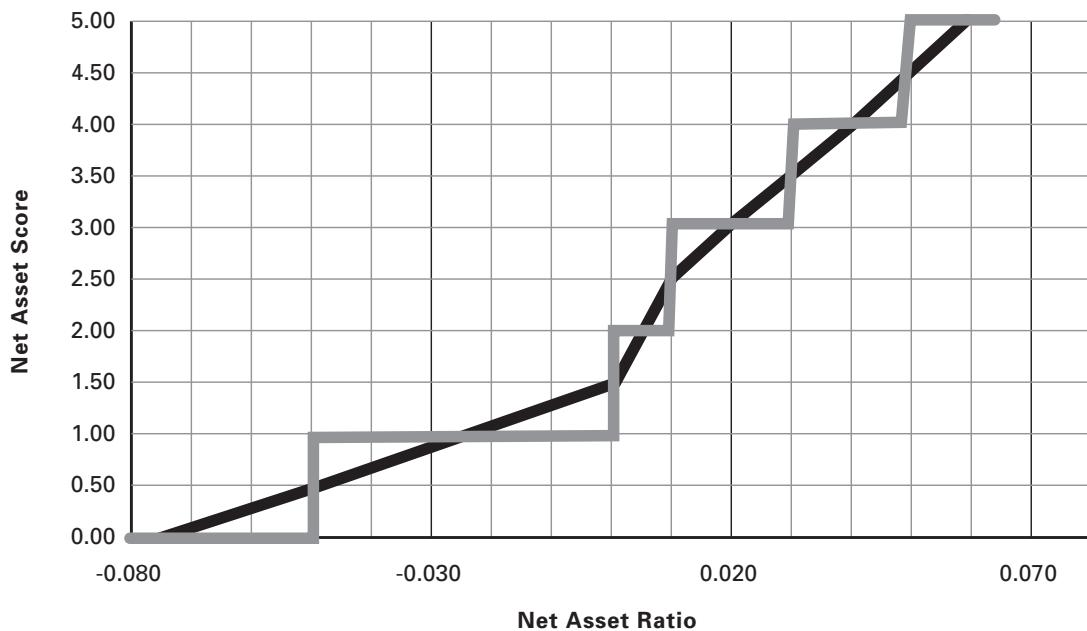


Figure 4. Net Asset Scores



Primary Reserve Ratio

Definition: Reserves divided by total expenses

What the ratio tells us:

Whether the institution has sufficient reserves to handle unexpected declines in revenues or unexpected increases in expenses. If the ratio is 33%, then the institution can cover expenses for four months (33% of twelve months). A ratio above 25% indicates that the institution is in a relatively strong position with respect to operating reserves.

Cash-Flow Ratio

Definition: Operational cash flows divided by total revenues

What the ratio tells us:

Whether the institution is generating sufficient cash flows to meet obligations. Cash from operating activities includes cash inflows from tuition, grants, and contracts and from sales and outflows for compensation, payments to suppliers, and payments for scholarships and fellowships. Cash flows from noncapital financing activities include state appropriations, grants for noncapital purposes (for example, Pell grants), and gifts. This ratio gives us a pure measure of cash flows.

Net-Asset Ratio

Definition: Change in net assets divided by total revenues

What the ratio tells us:

The change in net assets is total revenues less total expenses, so this ratio tells us whether there was a “profit” or “loss” during the year.

Technical Definitions

Unrestricted net assets are those for which the institution has financial freedom and flexibility. There is not a pot of cash sitting around, but if there are unrestricted net assets, then the institution has liquid assets (cash, investments, receivables) that it can tap.

Restricted expendable net assets are reserves that have been set aside for a particular purpose, such as paying future debt obligations. The institution cannot use these reserves for any other purpose, but an institution is much better off having a fund set aside to cover future obligations than not to have one.

Temporarily restricted net assets are donations that have a time component (as, for example, when a donor states that the principal of a gift cannot be used for ten years).

Debt is interest-bearing debt.

Public-sector operating cash flows consist of net cash (used) by operating activities plus net cash provided by noncapital financing activities (mostly the state appropriation) minus interest expense.

Private-sector operating cash flows consist of cash flows from operations minus interest expense. ■