

From the issue dated March 4, 2005

Uneven Stevens

Even as a New Jersey university experienced operating deficits and endowment losses, its president received big pay raises. Some professors are asking why.

By SARA LIPKA

Hoboken, N.J.

With a hefty paycheck in hand and the Manhattan skyline gracing his office window, Harold J. Raveché thinks big.

In the next five years, the president of the Stevens Institute of Technology wants to double the number of Ph.D.'s that his university grants, and to expand the faculty by 30 percent, creating at least 45 new positions. He plans to double the value of Stevens's research grants, to \$50-million, increase its endowment by almost 65 percent, to \$200-million, and finish building a dormitory and a center for technology management, among other construction projects in progress.

The timing of his growth plan has proved ironic. Soon after Mr. Raveché (pronounced *Rav-a-shay*) told faculty members about his goals last year, they were surprised to see Stevens's bonds downgraded first by one credit-rating agency and then by another. The faculty's standing committee on planning and resources, assigned to assess the viability of the growth plan, began to look into the downgrades instead.

Faculty members discovered that the institute was running operating deficits, even in years for which its own annual reports showed surpluses. And the endowment was declining, having lost almost \$37-million from 2000 to 2003.

At the same time, Mr. Raveché's salary was growing rapidly. He received a 42-percent raise in 2002, bringing his total compensation to \$696,965 -- and making him one of the 10 highest-paid college presidents in the country. He also had more than \$1.2-million in outstanding low-interest loans from the university.

Never mind a growth plan, faculty members said. We want an explanation.

One professor, Donald N. Merino, chairman of the planning-and-resources committee, has led a dogged investigation into the institute's finances. Armed with charts and statistical analyses, he has raised tough questions about financial management. "The kind of performance that Stevens has does not bode well," said Mr. Merino, a professor of engineering management, at an informal faculty meeting he held in February. "Our current situation is perilous."

At a time when institutional accounting practices are under intense scrutiny amid high-profile corporate-fraud cases like Enron, executive compensation has become a contentious issue at colleges as well as companies. Many higher-education institutions are voluntarily complying with the Sarbanes-Oxley Act, a financial-

Related materials

Table: Showing how [top administrators' salaries](#) at the Stevens Institute of Technology have risen sharply in the past five years, even as the value of its endowment has declined



[Printer friendly](#)



[E-mail article](#)



[Subscribe](#)



[Order reprints](#)

reporting law that Congress passed in 2002 in an effort to restore public faith in corporate America. The Internal Revenue Service has begun an examination of compensation policies and procedures at about 2,000 nonprofit institutions, and colleges "are certainly among the mix," says Martha Sullivan, director of the agency's Exempt Organizations Division.

The IRS would not comment on whether Stevens was under review.

Heightened Scrutiny

The IRS project "has sent kind of a chill through the ranks of the nonprofits," says James Abruzzo, executive vice president of DHR International, an executive-recruiting firm based in Chicago. "People are skittish. ... We're getting a lot of phone calls from boards making sure that they're doing things properly."

At Stevens it is the faculty, and not the Board of Trustees, that is skittish. Professors are calling for a comprehensive external review of the university's finances and management practices. The faculty is expected to vote on such a motion by secret mail ballot this week.

The administration opposes an external review and is assuring its critics that any questions will be investigated internally. Trustees have met with faculty members, telling them that a board committee will thoroughly examine institutional finances, and that a new chief financial officer, scheduled to start this week, will resolve any problems that are found.

Some faculty members have deemed the trustees not credible and their presentations inadequate. Those professors, along with outside observers who asked not to be identified, say the situation at Stevens recalls controversies over presidential compensation at Adelphi and Boston Universities, and may be even more egregious.

'Pushing the Envelope'

Mr. Raveché, who will turn 62 in March, looks like a million bucks. Dapper and tanned, he is known on campus as Hal. He assumed the presidency in 1988, at a time when Stevens was steeped in mediocrity, he says. Entering classes were smaller than they had been in many years, retention rates were low, and the curriculum had stagnated, longtime Stevens officials agree. "We used to make our kids buy a certain textbook in electrical engineering, written by one of our faculty, and there were mistakes in it," says Mr. Raveché. One professor recalls that his wobbly old desk had only three legs.

Stevens is a small engineering-and-technology institute comprising three schools: sciences and arts, engineering, and technology management. In his time as president, Mr. Raveché has opened research centers in fields that include wireless networks and environmental systems.

According to Edward A. Whittaker, a professor of physics and chairman of the four-member Faculty Council, Mr. Raveché -- who is a politically active Republican and has openly entertained the idea of running for governor of New Jersey in 2009, when his Stevens contract expires -- has "certainly done a lot to raise our visibility in Washington and bring resources our way." Typically, says Mr. Whittaker, "places like us tend to get left in the dust when the pork gets spread around."

Congressional appropriations for Stevens, including those it has shared with other institutions, totaled about \$50-million from 2000 to 2003.

Today Stevens is "on the move," the president says. Its enrollment has increased

from 2,113 to 3,523 in the past 10 years, and it has lowered its undergraduate-acceptance rate from 68 percent in 1994 to 49 percent in 2004, he says.

According to Mr. Raveché's growth plan, increasing the size and prestige of the faculty is a priority over the next five years that will require "a huge investment."

He acknowledges that the budget is tight but says Stevens must position itself "to compete with the wealthiest universities."

"If we're not in that position, you know what position we're in? Like Brooklyn Poly," he says, referring to the financial struggles of the nearby Polytechnic University.

As part of its transformation, says Mr. Raveché, Stevens is "pushing the envelope in all directions."

Supporters of his growth plan say that even with deficits, an enterprising university must take risks to achieve its goals. "Any private company does the same thing," says Jerry M. Hultin, dean of the Wesley J. Howe School of Technology Management at Stevens. "It uses some of its capital ... to weather a tough storm and to get ready for the upside."

Critics scoff at the president's ambition and worry about the budget deficits and dwindling funds. Stevens's endowment dropped from \$150-million to \$113-million from 2000 to 2003, a period in which its enrollment increased. (The endowment rebounded slightly, to \$122-million, in the 2004 fiscal year.) "These kinds of numbers," particularly a declining ratio of endowment per student, says Mr. Merino, the engineering-management professor, will "severely limit us in terms of a future growth plan."

What Deficits?

Moody's Investors Service downgraded Stevens's credit rating last March to Baa2, just two notches above junk-bond status. In their report, analysts cited a "deterioration in operating performance," including a 6-percent deficit in the operating budget for the 2003 fiscal year. In an interview with *The Chronicle*, John Nelson, managing director of higher-education ratings at Moody's, said Stevens's "history of operating deficits probably shows that they need to do a little more focusing on ... expense control."

Two months later, in May, Standard & Poor's downgraded the college's credit rating to BBB+, three notches above junk-bond status on the agency's 21-grade scale. The S&P report noted operating losses for Stevens in every fiscal year but two since 1996. "The long and continued nature of the operating deficits ... is emblematic of some structural issues in their budget," Bobbi B. Gajwani, a credit-rating analyst and author of the report, told *The Chronicle*.

Faculty members were stunned by the downgrades. The institute's own annual report showed a deficit in 1999, but since then the reports have displayed only surpluses. For the 2003 fiscal year, the most recent for which data are available, the report shows an operating surplus of \$464,123. But for the same period, the institute's audited financial statement shows an operating deficit of \$8,503,914.

"The one thing that seems to be a confusion in everybody's mind is whether or not there are more than one set of books," says Francis T. Boesch, a professor of electrical engineering and a member of the Faculty Council.

Mr. Nelson, of Moody's, says a college's annual report can be a "much-simplified

presentation" that excludes, for example, accrued interest and depreciation. A comparison between it and the audited financial statement could be one of "apples and oranges," he says, and a discrepancy is not necessarily alarming.

The way the faculty council's Mr. Whittaker sees it, "the annual report is clearly a fund-raising document. ... I don't think anybody is trying to deceive anybody," he says, "but obviously you put the best spin on things."

Indeed, Stevens's annual report is "a marketing device as much as anything else," says Maureen P. Weatherall, vice president for enrollment and academic services. It is sent to donors, among others, she says.

But the administration has not disclosed much information about "the actual financial performance of the university," Mr. Whittaker says. "If we're having some problems, probably we should all know what they are."

Compensation Consternation

By compiling and distributing reports on the university's financial data among faculty members, as well as sharing his analyses with some trustees, Mr. Merino has tried to raise awareness of the problems he has found. Nothing attracts attention like a big paycheck.

According to tax forms filed by the university, Mr. Raveché's salary and benefits increased from \$489,243 in the 2002 fiscal year to \$696,965 the following year, a 42-percent raise. At the end of the 2003 fiscal year, the president also had \$1,233,429 in outstanding low-interest loans from the university.

Also in the 2003 fiscal year, three other administrators -- two vice presidents and a dean -- received raises ranging from 79 percent to more than 100 percent. Meanwhile, faculty raises during the past five years have averaged out to about the same as increases in the cost of living, faculty members report. There has been no faculty union at Stevens for decades.

"There were certainly some lean years for everybody but the top few," says Mr. Whittaker, recalling faculty raises that "came close to not matching inflation."

Mr. Raveché, who recommends his administrators' raises to the Board of Trustees, argues that if the university doesn't "compensate those people, they're going to leave."

He adds that some faculty members have received significant raises as well. George P. Korfiatis, dean of the Charles V. Schaefer Jr. School of Engineering, recalls that three or four professors' salaries increased by 15 percent to 20 percent.

Mr. Whittaker considers some of his colleagues' outcries over compensation, which have focused on the president, "not productive." But Robert H. Atwell, a former president of the American Council on Education who has published articles on presidential pay, says, "They've got a point."

"Institutional governing boards are believing they are needing to pay salaries that emulate corporate America," Mr. Atwell says. "We should be deploring what corporate America has done, not emulating it." Excessive compensation, he says, can threaten a president's rapport with his faculty and create an us-versus-them situation.

IRS regulations require that before setting a president's salary an institution's board conduct a comparability study to develop benchmarks from about a dozen peer

institutions. "If you are an outlier, then you really better have a very good reason," says Mr. Abruzzo, the executive recruiter.

The three trustees who serve on the compensation committee that sets Mr. Raveché's salary declined to be interviewed by *The Chronicle*. They approved a statement issued by another trustee, which did not address the issue of compensation but said the board "intends to increase the level and frequency of communication" with faculty members about financial questions.

Another trustee, Thomas A. Corcoran, a senior adviser at the Carlyle Group, a global investment firm, says he is "a little hazy" on whether the chairman of the compensation committee, Lawrence T. Babbio Jr., vice chairman and president of Verizon Communications, has shared data from comparability studies with the full board. About the president's salary, Mr. Corcoran says: "I am aware that he is highly paid. I am also aware that he has been in the job for a long time. ... And I am also aware of the good job that he has done."

Mr. Corcoran's position is not shared by everyone on the board. One trustee, who spoke on condition of anonymity, says he was shocked to discover the size of Mr. Raveché's pay and loans, the details of which the full board had been unaware until December, he says. "I haven't seen anything like what I've read in this report," he said, referring to the data that Mr. Merino shared with some trustees.

Faculty members, said the trustee, "did a very thorough search of public records which others had not done."

Assets on Loan

Outstanding institutional loans to the president, three in total, are all classified as mortgages on the university's most recent Form 990, which all nonprofit organizations, including private colleges, are required to file with the IRS. Two loans have interest rates of about 2 percent, well below market value, and one shows no accrued interest at all.

Loans to college presidents, though not uncommon, are typically given "to recruit an employee from a low-cost area to a higher-cost area," says Marcus S. Owens, a lawyer in private practice and a former director of the IRS's Exempt Organizations Division. Even if the loans are made for the ultimate benefit of the university, they are subject to scrutiny simply by being "from the organization to people who are in a position to call the shots," he says.

Mr. Raveché, who lives in a handsome brick colonial owned by Stevens, explains in an interview with *The Chronicle* that he owns two other houses. One is near the Jersey shore and the other is in Vermont's Mount Snow Valley. "The three mortgages were to acquire those homes and to do renovations on those homes, so that's what it's about," he says.

"I do work for the university in both homes," he says. "I've had many fund-raising events at these homes. Many."

Mr. Raveché attributes the lack of reported interest on his most recent loan, of \$575,000, to an "internal mistake," which he said had been fixed. The actual interest rate on the loan was 2 percent, he says.

According to Mr. Corcoran, the board's "druthers are to move away from those loans ... as soon as possible."

Two weeks ago the institute's Office of Development and External Affairs faxed to *The Chronicle* a copy of an e-mail message -- from a former chief financial officer

and current vice president for human relations, Mark L. Samolewicz, to the current director of communications, Patrick A. Berzinski -- which explained a "calculation error" in the president's salary figure for the 2002 fiscal year, which had been reported to the government as \$478,743, with \$10,500 in benefits. "The amount [of the salary] should be \$587,875," Mr. Samolewicz wrote.

"They're trying to tidy up everything," Mr. Berzinski says. "The corrected 990 is now being prepared. It was not considered a huge priority," he says, but something that "would be gotten to."

4 CFO's in 5 Years

Since 2000 Stevens has employed four people in the position of chief financial officer. One, Susan L. Vogt, has since passed away. Another, Susan J. Monico, did not return telephone calls from *The Chronicle*. Mr. Samolewicz declined an interview. The fourth, Stefano Falconi, who will take office this week, said through Mr. Berzinski that he would not speak with *The Chronicle* until then.

Mr. Falconi, whom Mr. Berzinski said was "getting acclimated at a feverish pace," resigned as vice president for administration and chief financial officer at Carnegie Mellon University last April, after just over a year in the post. "After discussion with the president and significant reflection, Stefano Falconi and the university have agreed upon his resignation," Carnegie Mellon said in a statement. A university spokeswoman declined to comment further.

Mr. Falconi made a trip to Hoboken in February, after accepting the job at Stevens, to discuss financial concerns at a faculty meeting. "He seemed to be willing to have an interchange with the faculty," said Mr. Boesch, of the Faculty Council. "I'm optimistic."

At a meeting of the Board of Trustees later in February, the board approved Mr. Raveché's growth plan, reported Richard R. Roscitt, a Stevens trustee and a former president of MCI Inc. "Stevens is on the right track," said Mr. Roscitt in a written statement issued on behalf of the trustees. "The trustees ... are excited by the enormous potential for future success."

Meanwhile, the faculty motion to recommend to the board a comprehensive external review of the institution is pending. Some professors say they want to give the new chief financial officer a chance to answer questions himself. Others say an external perspective is always a good idea.

During Mr. Merino's faculty meeting a few weeks ago, Richard B. Cole, a professor of mechanical engineering, argued that an external review would be "a mistake for the sake of the institute."

Edward A. Friedman, a professor of technology management, disagreed, calling the external review better than a surprise visit from the state attorney general. "This is a benign thing to do," he said. "If everything's fine, it'll clear up quickly."

Mr. Raveché says the institution's legally required financial statements could leave a false impression. "Are we strained financially?" he asks. "One hundred percent agreed. Are we going to do something about it? Yes. But don't be looking for 990s and this and all that to say, 'Oh, all this stuff is bad.' That's the wrong picture."

"There is no Enron here."

EXECUTIVE PAY UP, ENDOWMENT DOWN

In the past five years, top administrators' salaries at the Stevens Institute of Technology have risen sharply, even as the value of its endowment has declined.

President Harold J. Raveché's compensation (salary and benefits per fiscal year)		Stevens Institute of Technology's endowment (per fiscal year)	
1999	\$362,458	1999	\$130,463,000
2000	\$471,978	2000	\$150,033,000
2001	\$507,312	2001	\$136,382,000
2002	\$489,243	2002	\$119,062,000
2003	\$696,965	2003	\$113,042,000

SOURCES: IRS Form 990; Report by Stevens Institute of Technology to the National Association of College and University Business Officers

	Salary and benefits		Percentage raise
	2002 fiscal year	2003 fiscal year	
Harold J. Raveché, president	\$489,243	\$696,965	42%
Mark L. Samolewicz, vice president for finance*	\$108,800	\$194,300	79%
Maureen P. Weatherall, vice president for university enrollment and academic services	\$143,692	\$262,920	83%
Jerry M. Hultin, dean of technology management	\$139,808	\$287,723	106%

* now vice president for human relations

SOURCE: IRS Form 990 and *Chronicle* reporting