



"Committed to Academic Excellence"

NEWSLETTER

March 3, 2009

FRED STRICKERT RECEIVES DISTINGUISHED ALUMNI AWARD FROM LSTC

Wartburg AAUP member Fred Strickert has been selected as a 2009 distinguished alumnus by the Lutheran School of Theology, Chicago and honored with the school's Global Mission Award. Strickert received his M.Div. from LSTC in 1974 under unusual circumstances. He was one of approximately 400 students and 45 professors who left Corcordia Seminary (LCMS) in St. Louis to form Christ Seminary-Seminex. LSTC undertook the oversight of the exiled seminarians and granted them degrees. Fred recently described this tumultuous time to the attendees of a meeting of the Wartburg Literary and Philosophical Society. The AAUP membership congratulates Fred on receiving this honor and salutes him for his years of service and scholarship.

FOLLOW AAUP PRINCIPLES AND PROCEDURES

To date AAUP standards have been followed (more or less) in the presidential search process. Faculty representatives have been included on the presidential search committee, just as they were eleven years ago during the previous presidential search. Last time two faculty representatives were elected by the faculty; this time three faculty members were appointed by the board. I expect faculty members will again be afforded the opportunity to interview all the finalists when they are brought to campus, thus demonstrating that principles and procedures of shared governance are being honored. See *Faculty Participation in the Selection, Evaluation, and Retention of Administrators* in the *AAUP Policy Documents and Reports* (the so-called *Redbook*).

Warren T. Zemke

NACUBO ENDOWMENT SURVEY SHOWS SCHOOLS HURTING

Annually *The Chronicle of Higher Education* (TCHE) reports college and university endowments. This year's report (January 27, 2009) is entitled "Market Collapse Weighs Heavily on Endowments." The report figures, compiled by the National Association of College and University Business Officers (NACUBO), are market values for the recent fiscal year 2008 (or 2007-2008). Included are percentile changes for the most recent two years (fiscal 2007 to fiscal 2008) and the ranking of each institution among the 791 institutions reporting for fiscal 2008.

Earlier year's data are available also. The TCHE report released on January 23, 2005 was entitled "College Endowments Post 'Respectable' Returns for 2005." Not surprisingly, this year's market values are up from 2005 but down from 2007. The average returns for all reporting schools for fiscal years 2005 through 2008 were +9.3 %, +10.7 %, +17.2 % and -3.0 %, respectively. During the last six months, the economy has declined precipitously, as have endowments—but that's another story.

The following table lists fiscal 2005 and fiscal 2008 endowments, rankings and percentile changes for the Iowa private colleges most often compared to Wartburg. All information is from the TCHE reports and data bases, except for Wartburg for fiscal 2007 and fiscal 2008. Endow-

ment market values for these two years were taken from the financial summaries released by the College.

College	'05 Rank	Mkt Value ^a 6/31/2005	One Year Change	'08 Rank	Mkt Value ^a 6/31/2008	One Year Change
Central	407	64.8	+6.5 %	408	81.9	-0.3 %
Coe	501	44.3	-1.3 %	418	78.8	+0.3 %
Cornell	436	58.1	-2.1 %	456	67.2	-4.5 %
Grinnell	35	1,390.5	+7.6 %	47	1,472.4	-14.3 %
Loras	616	24.3	+4.2 %	639	25.0	-4.6 %
Luther	361	83.9	+13.9 %	342	115.3	+1.3 %
Simpson	419	61.2	+14.5 %	417	79.1	-1.0 %
Wartburg	548	36.7	+4.8 %	–	(50.1) ^b	(+3.5 %) ^b

^a In millions of dollars

^b Directly from Wartburg financial summaries

WARTBURG BUDGET PROCESS GAINS TRANSPARENCY

In these uncertain times, the budget for the upcoming academic year is of significant interest to the Wartburg College community. In the past there have been calls for greater transparency in this process, and this year some definite progress has been made. The administration held two meetings with faculty on January 20 and 21, 2009 to explain the process and prognosis for the 2009-2010 budget planning effort. In addition to these two meetings, members of the Budget and Building Committee were invited to budget planning meetings with the President's Cabinet prior to these two meetings. As a member of that committee, I would like to take this opportunity to talk about those meetings with faculty and the budget planning process in general.

The meetings were led by Vice President for Administration Gary Grace and Controller Rich Seggerman. At the first meeting there were seven faculty members in attendance, including myself, and reports from the second meeting indicate slightly better attendance. Mr. Seggerman presented a brief slideshow on some important background information. He then presented charts representing the current structure of the annual operating budget and concluded by showing the quantitative model that is used in budget planning. There were a number of questions from the faculty during and after the presentation, along with clarifications from VP Grace and Dean Menzel who were also in attendance.

Mr. Seggerman emphasized that planning for the operating budget takes place on a budgetary basis similar to personal finances, focusing on balancing revenues and expenditures by looking at various categories of income and expenses. He distinguished this from the tax basis used for reporting the state of the college to the federal government, for example on IRS Form 990. He pointed out that the college is highly tuition-dependent with approximately 85 percent of annual revenues coming from student tuition, fees, room and board. He pointed out that endowment income only makes up 3-4 percent of the annual revenue and that income from the endowment is based on a 36-month rolling average of endowment value, so recent downturns in the stock market should not have a marked effect on Wartburg's financial health.

On the expenses side of the ledger, the two largest categories are financial aid and salaries/benefits which together account for approximately 70 percent of all expenditures. The W does not have a significant affect on the overall budget, accounting for less than 5% of both revenues and expenditures. (See related article by Zemke.) Financial aid expenses are measured by the tuition discount rate, which is the percentage of total tuition dollars that are paid out to students as direct, unfunded financial aid awards. This is money that the college only nominally collects as tuition since financial aid is effectively a discount on tuition. The tuition discount rate is currently over 45 percent and will grow in the future. VP Grace mentioned that

such financial aid along with a tuition rate that is competitive with Wartburg's peer institutions are important pieces in recruiting and retaining the types of students that Wartburg wants.

The budget model that Mr. Seggerman showed at the meeting, which has also been shared extensively with the Budget and Building Committee, shows the budgetary effects of such parameters as tuition, fees, room and board; student enrollment; salary and benefit increases; and the discount rate. It allows budget planners (and at the meeting, interested faculty members) to propose changes to the parameters and then to see the effects of those changes. For example, a 50 student drop in enrollment results in a 1.5 million dollar shortfall. As faculty could see from the model, there are only a few parameters that can have any significant impact on the entire budget: enrollment; tuition, fees, room and board; the discount rate; and salary increases. The importance of each of these factors is in proportion to its predominance in revenues and expenses (as mentioned above).

As a member of the faculty and the Budget and Building Committee, I appreciate the efforts of the administration to make members of the faculty aware of the budgeting process at Wartburg. Meetings such as those held at the end of January and the inclusion of faculty members in the budget planning process are significant steps toward transparency at Wartburg.

Neil Martinsen-Burrell

OPERATING REVENUES AND EXPENSES AND THE W

The lead article in the January 26 *Wartburg Trumpet* caught my attention: "The W Bill Coming Due for Waverly." In an effort to get the facts behind the issue, I did some homework. I looked at the final copy of the Wellness Center Development and Use Agreement adopted by the Waverly City Council in December 2005 and the Fitch Ratings Report dated December 8, 2005 (for both see <http://home.mchsi.com/~wartburgaaup/issues.html>). I looked at Wartburg's financial statements itemizing revenues and expenses in the operating budget and I examined several Wartburg Form 990 financial information returns that are filed annually with the IRS. I even talked to two city council members about their recollections of the discussion of The W.

The table compares Wartburg's expenses and revenues over the past five fiscal years. All figures are in millions of dollars. Only the last year includes The W as an entry. Looking over five years, one sees a number of trends that are worth analysis.

	2003-04	2004-05	2005-06	2006-07	2007-08
OPERATING REVENUES					
Gross Tuition & Fees	31.52	33.88	36.44	37.99	41.57
Auxiliary Enterprises	8.73	9.33	10.36	11.21	11.99
Gifts & Grants	2.39	2.16	2.38	2.70	2.88
Endowment Income	1.45	1.65	1.56	1.65	1.75
Other	0.52	0.53	0.81	0.77	0.78
The W					<u>1.85</u>
Total	<u>44.61</u>	<u>47.55</u>	<u>51.55</u>	<u>54.34</u>	<u>60.82</u>
OPERATING EXPENSES					
Salaries & Benefits	17.71	18.83	19.82	20.86	21.57
Financial Aid	12.29	14.67	16.08	17.48	19.33
Auxiliary Enterprises	4.80	5.38	5.60	3.38	3.81
Institution + Acad. Support	3.18	3.30	2.77	1.89	1.86
Mand. + Non-Mand. Trans.	1.57	1.17	1.77	2.49	3.28
Other	4.02	4.20	5.48	8.19	9.16
The W					<u>1.79</u>
Total	<u>44.57</u>	<u>47.75</u>	<u>51.52</u>	<u>54.29</u>	<u>60.80</u>

On the revenue side, tuition and fees plus auxiliary enterprises are absolutely critical to Wartburg's financial health. Excluding The W revenues for 2007-08, these two categories combined range from 90.2 % of total revenues in 2003-04 to 90.8 % in 2007-08. And both are directly related to enrollments.

Auxiliary enterprises include housing, food services, bookstore and parking revenues. They increased slightly from 19.6 % of total revenues in 2003-04 to 20.3 % in 2007-08. This percentage is normal for private colleges, according to a national survey (see *Wartburg AAUP Newsletter*, November 5, 1996 at <http://home.mchsi.com/~wartburgaaup/newsletter.html/>). For comparison purposes, revenues for government grants plus fund gifts and grants have been combined into "gifts and grants" in the table. Revenues for sales and services plus other services have been combined into "other."

On the expense side, the "other" category combines expenses for public service, student services, institutional support, operations and maintenance, electric and natural gas, equipment and technology, and student wages. Mandatory and non-mandatory transfers include transfers to the plant fund, summer projects and debt service (excluding The W), for example. Salaries and benefits exclude those for The W. The W expenses, accounted for separately as required by the Board of Regents, include The W staff salaries/benefits, departmental expenses, equipment, utilities and student wages (see December 2008 email from Rich Seggerman to Dean Menzel and the faculty: "2007-2008 Actual Revenues and Expenses – Budget Basis"). Salaries and benefits plus financial aid dominate expenses. Combined, they have been relatively constant over the five years at 70.0 ± 0.6 % (The W excluded). It is noteworthy that salary and benefits have decreased year-by-year from 39.7 % of total expenses in 2003-04 to 36.6 % in 2007-08 (The W excluded), while financial aid has increased from 29.8 % to 32.8 %. I suspect these trends will continue.

Back to The W and the *Trumpet* article. Why all the brouhaha over The W if it has so little impact on the Wartburg budget (the difference between revenues and expenses is less than \$55,000 for 2007-08, out of \$ 1.8 million)? The 2005 Development and Use Agreement, upon which were based the municipal bonds used to finance the project, and the Fitch Report state that the city will make an annual payment to the college of \$150,000 for yearly costs through fiscal 2015. The city will also annually pay the college up to \$600,000 through fiscal year 2016 to cover any annual difference between actual total revenues and projected total revenues. In short, the city committed to 8 years of revenue payments to help service Wartburg's long term debt (Series 2006B bonds from the Iowa Higher Education Loan Authority; see Fitch Report).

My contact with the city council members supports the information given in the *Trumpet* article. "Waverly is getting a good deal," one of them told me. The city council members I talked to weren't surprised that the city would have to pay \$600,000 this year at the end of The W's first full year of operation. In fact the city had included that amount in its budget for this year since it expected to make the payment to Wartburg.

Although there is a valid concern about current financial statements (tuition and fees, operating funds, endowment funds, students loans, for example), the real concern is down the road a bit, particularly after fiscal year 2016. Unless there is a significant increase in memberships (currently there are over 800 according to the *Trumpet*, and Fitch projected a need for 1900 memberships), long-term debt will strain the college mightily. Wartburg's long-term debt (mortgages and bonds) jumped \$ 36 million to a total of \$ 85 million from fiscal 2005 to fiscal 2006, and its long-term debt exceeded net assets (see Wartburg's Form 990).

Warren T. Zemke