

The current economic situation and Augsburg

Dear Augsburg College community,

I am pleased to send these thoughts and updates on the impact of the current economic situation on Augsburg – both in our current fiscal year and in our planning for the future. I begin with a deep sense of gratitude for the efforts of all our faculty and staff – both for the good stewardship you have shown for our resources and for the many ideas you have shared with me and others about ways we might respond to the economic situation. At the heart of our work are the people – faculty, staff, alumni, students and parents – who care deeply for Augsburg and work tirelessly to ensure our continuing strength. I have had the opportunity in the past few weeks to meet with the Staff Senate, Faculty Senate, Leadership Council and President's Cabinet to share a sense of our current situation. I also have been in ongoing contact with members of our Board of Regents, who, of course, share our commitment to doing the best things to ensure Augsburg's future.

My primary message is that Augsburg has not felt the full impact of the economic downturn in significant ways – yet. Our enrollment numbers are stable, our expenses are within budgeted ranges in most areas and we will add the additional 1.5% to all faculty and staff wages on February 1 as promised and planned. But we must remain vigilant in controlling expenses for the rest of the budget year and beyond while also continuing our efforts to build a longer term financial plan for Augsburg that reflects our efforts both to enhance revenue and to use our financial resources most responsibly to serve our mission and students.

I know that all of us have felt the impact of the current economic climate in our personal lives. The Augsburg community, of course, is not immune to the anxiety and pressure that shifting economic conditions have on our work together. Our students and their families must figure out how to pay for college. All of us must balance various competing values as we deal with the credit and mortgage crisis, steep drops in the values of investments, and the general anxiety we all feel over an uncertain economic future. As a college, our primary obligation is to be good stewards of our resources, keeping in mind our foremost concern for students and their academic experience. We also must be mindful of the need to communicate effectively with each other, our campus community and wider constituencies – keeping each other well-informed of how and what we are doing in these turbulent times.

The current year

Not surprisingly our endowment value certainly has dropped. It is down 25% year-to-date as of the end of December 2008, compared to a 35% drop in equities generally. But, in contrast to many other institutions, we don't count on endowment income for a significant part of our operating revenue. Our conservative spending rate of 4% of the endowment's principal value is computed on a 12 quarter rolling average of the endowment value, which means that the impact of the stock market drop will be spread over a longer period of time. For this year and next, we anticipate that the investment

earnings in our operating budget will be down about \$100,000, an amount we will need to make up from other sources, but nothing like the millions of dollars other institutions must find.

We do count on students, of course, and to date we are pleased with the numbers for returning students in the winter trimester and spring semester. Our final “tenth day” numbers for the spring semester and winter trimester show strong retention results in all academic programs. Our day school enrollment for the spring is above target, while our numbers in Weekend College, Rochester and graduate programs are within acceptable ranges. We are concerned that our overall Weekend College results for the year will be down – perhaps the most direct result of the economic downturn as new non-traditional students are making decisions to delay enrollment or take fewer classes per term. We hope to enroll additional graduate students this spring and will need to achieve those goals if we want to meet annual targets for graduate tuition revenue. We also know that our financial aid totals for undergraduates are above budget for the year – a result of the actual cost of making an Augsburg education accessible to our first-year class – but we have known of the impact of this additional student aid since the fall and have factored it into our budget projections for the year.

In our annual philanthropic programs, we are finding that our generous alumni and friends are doing their best to respond to Augsburg’s challenge to increase annual giving by 20% this year to \$1.2 million (compared to results just over \$1 million in 2007-08). At the same time, we know that personal circumstances sometimes mean that even intentions to help simply cannot be realized. We anticipate that we may not reach our ambitious goals for the Augsburg Fund – we may be off by up to \$100,000 with current projections – but we are not giving up our efforts to close this gap with strong efforts to encourage annual giving in the next four months.

The good stewardship of our budget managers has us in line with the budgeted expenses in most areas across campus. However, when we factor in the projected results for our various revenue categories, we anticipate that our efforts to balance the 2008-09 budget will require that we use the \$800,000 in expense contingency that was built into the budget. We are working on all revenue programs to ensure the best results we can for the year – especially those academic programs which enroll students for the spring trimester. We also are working with budget managers right now to identify another \$400,000-500,000 of spending that might be withheld for the remainder of the year so that we have the flexibility to respond to any further shifts in revenue. We will look for the additional contingency savings in discretionary spending for consultants and travel, as well as in the savings from open staff positions that may not be filled before the end of the fiscal year on May 31, 2009. I urge all of you, and especially budget managers, to consider ways in which you might delay spending for the rest of the fiscal year. We certainly know that there are important expense items, but if it can wait, this would be a good year to delay spending. Each of you can make a difference in our ability to achieve our planned balanced budget for 2008-09.

Keeping vigilant

I want to point out that we owe a great debt of gratitude to our forefathers and mothers who helped Augsburg diversify its academic programs, develop a prudent budgeting model, and keep its focus on student experience. This financial philosophy is key to weathering just the sort of economic downturn we are experiencing and our budget management at the moment is simply a responsible extension of this philosophy.

At the same time, given the uncertainties of the broader economic situation, my leadership team and I are keeping our eyes and ears open on many fronts to the potential impact of the economy on both our current year budget and future financial planning. Vice President and CFO Kevin Myren has engaged both the Commission on Augsburg's Financial Future and the College Budget Committee – which includes faculty, staff and student representation – in important conversations about points of potential vulnerability for Augsburg's financial well-being and what we might do (or plan to do) if there is a change that affects our situation.

Among the important areas we are monitoring carefully are:

- *Admissions* – price sensitivity among prospective students; stronger emphasis on retention of students; concern about whether or not our admissions model remains predictive of our hoped-for outcomes.
- *Financial aid* – more demand for review of financial aid packages and the potential increase in discount rate; more competition from other schools to win prospective students over with higher aid; less access to home equity loans to help finance college for children, a factor for middle-income families.
- *Fund-raising* – timing and scale of capital campaigns; strategies to keep annual giving strong and to offset possible endowment income losses.
- *Government support* – lower state aid for students; possible stimulus funding for colleges and universities
- *Endowment support* – as endowment value shrinks, impact on future scholarship funds available; need to review spending rules.
- *Debt management* – need to meet debt covenants and keep bond rating stable; availability of lines of credit for cash flow purposes; variable rate debt.
- *Cash flow* – slower receipt of receivables, payment of payables; important role of line of credit.
- *Earned income* – lower revenue from auxiliary programs (rentals, etc.)
- *Budget* – need for budgets to meet various scenarios; focus on areas of revenue growth that can happen quickly; focus on cost centers that can be reduced/deferred; review of staffing patterns and employee benefits; what are our strategic priorities and what work plans can we develop to ensure that those priorities are honored even if it requires redistribution of resources?

I think it is important that you see the range of issues and strategies we are considering as we manage and lead through these interesting times. We will keep you informed as we monitor these important themes in our financial lives.

Planning for next year

It is clear that the economic downturn will continue well into our next budget year and perhaps beyond. Prudence thus demands that our 2009-10 budget plans consider various scenarios. I think it is fair to say that all of these potential scenarios, which consider everything ranging from admissions to philanthropic gifts to increased cost of utilities and employee benefits, will require us to reconsider and reimagine how we do our work as a college. This is no surprise to those of us who have argued for many years that higher education needs a new economic model. Revenue simply cannot increase quickly enough to cover the costs of sustaining labor-intensive operations like ours. We must be creative and courageous in pursuing our common work in ways that focus on students. The economic downturn is not the reason that we must learn to work differently but it certainly sheds a light on the need and brings a new intensity to our continuing efforts to be good stewards of the many gifts entrusted to us.

The Cabinet and other campus leaders have been working hard during the past six weeks or so to identify how best to plan for next year's budget. We are exploring many different alternatives for increasing revenues and paring expenses. Based on this ongoing review of our situation, among the assumptions we are considering for next year's budget are:

- We will propose and ask the Board of Regents to approve later this week a lower than planned increase in tuition rates. This appears to be in line with what other institutions in our region are planning. This, of course, will limit the overall increase in our revenue for 2009-10.
- Our financial aid budget for next year will be set at a rate equal to this year's actual rate – an amount two percentage points higher than this year's budget. This is important to ensure that we can enroll the strongest class for next fall.
- We will aggressively explore additional new sites for academic programs in the Twin Cities area and will continue to work with faculty leadership in developing potential new and expanded academic programs, especially in the non-traditional undergraduate markets. We also will look for some growth in our Center for Global Education programs in Latin America and Africa.
- We will develop business plans for potential new revenue from various auxiliary programs, such as renting our facilities.
- We will look comprehensively at faculty and staff compensation – salaries and wages, and benefits – and consider ways we can balance our approach to compensation to honor good work, even in these tough times.
- We will look carefully at the staffing table for the entire college. Our current plan is to continue to pursue all faculty position searches – knowing that we may benefit from stronger pools of candidates. On the administrative and staff side, we will look carefully at all open positions and continue our work on organizational structure, ensuring that we keep the quality of student experience at the center of our explorations.
- We will hold discretionary spending at the same rate as this year, though we will ask budget managers to look carefully at ways in which resources might be

redeployed to areas of particular concern – giving up spending in some areas so that key priority needs in other areas might be funded.

- Our non-discretionary expenses (including utilities, capital renovations and debt service) will increase by expected market rates.

This is not very happy news, but it is the reality of our economic situation – a reality that we will face with resolve and imagination. I look forward to our continuing work together to ensure Augsburg's strong future. I welcome your comments, questions and suggestions. And I thank you for your good work on behalf of our students.

As I consider all of these financial matters, I keep coming back to two important Biblical themes as intersecting in our leadership work during times like these: on the one hand, we recall the many times that Jesus tells us, "Do not be afraid"; and on the other hand, we remember Jesus' parable of the wedding guests waiting for the bridegroom to arrive and Jesus' admonition to his disciples to "Keep awake!" We live at the intersection of 'do not be afraid' and 'keep awake and vigilant' – and in that tension we all keep our eyes squarely on the mission and vision of Augsburg to educate students for service and leadership in the world. I am deeply grateful for your work and for your continuing commitment to ensuring that Augsburg remains strong for the future.

We will have an opportunity at tomorrow's Community Time (Tuesday, January 27, 3:45 p.m. in East Commons) to discuss these topics further. I invite you to join me then and at future opportunities to share news of our financial plans.

Paul C. Pribbenow
President