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# Impact of Nation's Financial Crisis on Augustana College

April 9, 2009

Steve Bahls, President of the College

There is a Swedish saying that "worry gives a small thing a big shadow." What started out to be a subprime borrowing crisis is now casting a long shadow over the entire economy, including higher education. Few colleges are immune from the impact of this deep recession, which most agree is the worst since the Great Depression. This paper analyzes the likely impact of the crisis on Augustana College and identifies how the college intends to preserve the quality of the education we provide to our students despite these challenges.

## Assessment of Impact of Nation's Financial Crisis on Augustana College

1. **Loss of endowment value.** Due to the stock market downturn, our endowment has declined from about \$110 million at its high point to about \$80 million today, representing a 28% loss. Loss of endowment value causes a significant problem for the college. First, Augustana draws 5% of its average endowment value over the last 12 quarters to provide for operational expenses. If our endowment value remains at \$80 million for three years, we will be drawing \$1.5 million less from the endowment in three years than we did last year.
2. **Less giving to the college and slower state financial aid payments.** Though Augustana has a loyal alumni base that has dramatically increased its giving to the college over the last 5 years, many predict that the economic problems will result in less charitable giving, at a time when nonprofits like Augustana need charitable giving the most. Compounding the problem, the State of Illinois, due to its own financial problems, is expected to delay student financial aid payments provided through its Monetary Assistance Program.
3. **Challenges in maintaining full enrollment and sufficient net revenue per student.** As the nation's economy contracts, some families will have difficulty paying the cost of an Augustana education. And while we are optimistic that we will be able to maintain full enrollment, there will be pressure to increase our financial aid budgets. Fortunately, the credit market for students seeking loans remains relatively strong.
4. **Graduating seniors will likely face a more challenging job market.** A slowing economy could mean fewer employment opportunities for our graduating seniors. Though the Quad Cities area has the lowest unemployment rate of the twelve metropolitan areas in Illinois, many of our students will be seeking jobs in geographic areas with higher unemployment.
5. **The value of the retirement accounts of Augustana employees is decreasing for those employees whose accounts are in equities.** Employees have seen their retirement accounts shrink due to stock market losses, particularly impacting those employees within ten years of retirement. Our workforce is older than those at many institutions, meaning our employees may be disproportionately impacted.

## Augustana's Readiness to Address the Financial Crisis

While the economic times put stress on the college's budget, there are eight important factors that will enable Augustana to "weather the storm" in a more favorable way than many of our peer colleges:

1. **A tradition of providing students with the highest quality education.** Ultimately, those colleges that will remain strong during difficult times are those colleges that provide a high quality education to students at a fair value. Augustana's academic, extra-curricular and co-curricular programs are among the highest quality

in the nation, thanks to the extraordinary commitment of our faculty and staff. We have a history of working together during difficult times to strengthen Augustana for the benefit of our students.

2. ***A tradition of prudent financial management.*** As Midwesterners, members of the Augustana community have a tradition of "sticking to our knitting" in financial matters. Augustana has maintained balanced budgets each year since the 1970s, and we are committed to maintaining balanced budgets during this economic crisis. We have resisted the excesses of other colleges that added expensive graduate programs, built opulent recreational facilities, residence halls and dining facilities or became top-heavy with administrators. As such, though tuition at Augustana is a major investment for our families, our tuition is far below many comparable selective colleges. Augustana remains one of the best values for a high quality college education.
3. ***Long history of prudent endowment investment.*** The college's endowment is invested for the long term and is diversified among many different stocks and debt instruments. Investments are made by the Investment Committee of the Board of Trustees, upon the advice of Ellwood and Associates, our investment advisor. Prior to the 2008 fiscal year, the endowment gained an average of 12.9% for the four previous years. Because the amount we draw from our endowment is computed over the average of the last twelve quarters, the full effect of the endowment losses will not be felt immediately.
4. ***Strong, campus-wide recruitment efforts.*** Enrollment at Augustana is the largest in the 149-year history of the college. We are optimistic that robust enrollment will continue. The Augustana community is more engaged than ever in recruiting. Applications are up by about 10%, though it is too early to tell if deposits will also be up over last year.
5. ***Strong retention and graduation rates.*** Retention and four year graduation rates are particularly strong. Of the class graduating last May, 93% completed their degree in four years. Retention from first trimester to second trimester this fall was the second highest in 20 years, though first-year attrition was up. Our historically strong retention is due to the outstanding efforts of faculty and staff to provide the best possible learning experience.
6. ***Successful capital campaign.*** The college's capital campaign has been very successful. We have commitments of \$97 million toward the \$100 million goal, though the economic crisis means that some gifts will be paid over a longer period than we originally anticipated.
7. ***Investment grade bond rating.*** The college has maintained and is committed to maintaining an investment-grade bond rating. The outlook for Augustana was upgraded by Moody's Investor Services five years ago, though Moody's may reevaluate our rating in light of the economy.
8. ***Strong operating margins.*** In recent years Augustana has developed a 3% operating margin, meaning that revenues exceeded expenses. The 3% margin has allowed the college, among other things, to reduce our deferred maintenance backlog. With the exception of funds committed to the Augie Choice program and financial aid, the additional funds generated by the 2008 tuition pricing plan have not been fully committed to new projects, allowing us to maintain strong operating margins. This affords us some flexibility to redirect funds to financial aid and other urgent areas, if needed.

### **Augustana's Responses to the Nation's Economic Crisis**

Even though the factors listed above will help us mitigate the impact of the nation's economic crisis on the college, the crisis will still have an impact. The college's Administrative Cabinet and the leadership of its Board of Trustees have been in ongoing conversation about how Augustana will stay strong during the nation's

economic crisis. We are committed to the following eight steps:

1. ***Exercise care and restraint during the remainder of the 2008-2009 year, deferring certain non-essential expenses.*** Though we expect tuition revenues and fees to hold relatively steady for the remainder of 2008-2009, we will carefully monitor retention to determine if changes are needed. To this end, we will take the following actions with respect to this year's budget:
  - We anticipate, barring unforeseen circumstances, hiring twelve new faculty members . The majority of the nation's colleges are pulling back on faculty hiring, creating real opportunities for Augustana to hire the best and brightest faculty members on the market, building on the core strength of the college.
  - We will delay certain non-essential expenses, particularly deferred maintenance, equipment purchases and consulting contracts. We will not reduce expenses if those reductions threaten our ability to provide students with an outstanding education.
  - We will ask all departments (academic and non-academic) to voluntarily hold spending below authorized levels for 2008-2009. Departments should work to reduce, for example, travel expenses, as well as employee overtime.
  - As positions become vacant, we will carefully evaluate the need to hire replacements.
2. ***Develop budgets using alternative budget assumptions for the 2009-2010 year and defer approval of the 2009-2010 budget until June of 2009.***
3. ***Assess how quickly it is prudent to start either the construction of the student center or the renovation of Old Main.*** The college's debt policy and our financial covenants with our banks require that the college maintain certain financial ratios. An important ratio is the amount of unrestricted endowment to total debt. Because our endowment is down, this ratio is down and would fall further if the college were to issue new debt. Until this ratio improves, it would be imprudent to borrow in support of new projects such as the student center or Old Main renovation. We have suspended the planning process for the student center; however, because of the structural issues with Old Main's dome, we are continuing that planning process. The college's board will assess early next year whether it is prudent to start either of these projects this year, but it is unlikely that either will begin until at least 2010.
4. ***Add a senior gift officer to assist with maintaining our level of giving.*** At the same time, we continue to work diligently to increase unrestricted gifts during the balance of the 2008-2009 year.
5. ***Work with the Augustana community to determine additional ways to build on our already enhanced efforts to support and advance our recruiting efforts.***
6. ***Monitor our financial aid budgets closely, making appropriate adjustments within our means, to attract and retain students who will be successful at the college.***
7. ***Increase our commitment through Augustana's Office of Human Resources to provide retirement planning services to our faculty and staff.*** Likewise, the college will look for ways to employ, when practicable, greater numbers of retired faculty and staff in part-time positions in order to help supplement retirement income.
8. ***Develop a more aggressive program through the Career Center to help students network to find the best possible jobs.*** In addition, implementation of the Augie Choice program (particularly the research and internship components) should give our students a significant advantage in the job market and when

applying for graduate school.

This economic crisis will test Augustana. Martin Luther King, Jr., stated that the "ultimate measure of a person is not where they stand in moments of comfort and convenience, but where they stand in times of challenge." The measure of our strength, as a community, will be how we respond to difficult times such as these.

Though Augustana's financial resources may be strained by the nation's economic crisis, our human resources are not. We enjoy record enrollment, record graduation rates and record diversity. It is clear to me that we are a community of committed and imaginative people who care about each other and our students. Working together, I have no doubt that we will preserve and strengthen this wonderful college.

1. *About 65% of our endowment is invested in the stock market.*
2. *Conversely, because endowment draws are based on a 12 quarter average, the impact of bad quarters will be felt for three years.*
3. *Ten of these positions are replacement positions. Two are new.*

 <b>AUGUSTANA COLLEGE</b>	Accounting Africana Studies Anthropology Art Art History Asian Studies Biochemistry Biology Business Administration Chemistry Chinese Classics Communication Sciences & Disorders	Communication Studies Computer Science Creative Writing Economics Elementary Education Engineering Engineering Physics English (Literature) English (Writing) Environmental Management & Forestry Environmental Studies Ethics French	Geography Geology German Studies Greek Graphic Design History International Business Japanese Landscape Architecture Latin Library and Information Science Mathematics Multimedia Journalism & Mass Communication	Music Music Education Music Performance Neuroscience Non-Profit Leadership Development Philosophy Physics Political Science Pre-Dentistry Pre-Law Pre-Medicine Pre-Music Therapy Pre-Nursing Pre-Occupational Therapy	Pre-Optometry Pre-Pharmacy Pre-Physical Therapy Pre-Physician Assistant Pre-Seminary Pre-Veterinary Medicine Psychology Religion Scandinavian Studies Secondary Education Sociology Sociology (Social Welfare) Spanish Theatre Women's & Gender Studies
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