

2010 PRIVATE COLLEGES AND UNIVERSITIES FINANCIAL CONDITIONS SURVEY

AGB ASSOCIATION OF
GOVERNING BOARDS
OF UNIVERSITIES AND COLLEGES

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For 90 years, the Association of Governing Boards of Universities and Colleges (AGB) has had one mission: to strengthen and protect this country's unique form of institutional governance through its research, services, and advocacy. Serving more than 1,200 member boards and 35,000 individuals, AGB is the only national organization providing university, college, and foundation chief executives, board chairs, trustees, and board professionals of both public and private institutions with resources that enhance their effectiveness.

In accordance with its mission, AGB has designed programs and services to strengthen the partnership between the chief executive and governing board; provide guidance to board members; identify issues that affect tomorrow's decision making; and foster cooperation among all constituencies in higher education.

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Researched and written by Kyle Long, project and research coordinator, Ingram Center for Public Trusteeship and Governance.

*2010 Private Colleges and Universities Financial Conditions Survey
Conditions Survey*

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Association of Governing Boards of Universities and Colleges,
1133 20th St. N.W., Suite 300, Washington, D.C. 20036.

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INTRODUCTION



From March through May 2010, the Association of Governing Boards of Universities and Colleges (AGB) conducted an online survey of board chairs from independent colleges and universities to gauge institution and governing board responses to the economic downturn. This is the second year AGB has administered a survey on this topic, with this survey focusing primarily on fiscal year 2009. Because we wanted responses to cover a completed fiscal year, the survey was scheduled such that all FY09 data would be available. Of 493 board chairs asked to participate, 111 completed the survey (22.5 percent response rate).¹ The institutions represented in this survey include:

Master's	42.9%
Baccalaureate	41.0%
Doctorate	12.4%
Associates	1.9%
Special Focus Institution	1.9%

¹ In some cases, surveys were referred to the chief executive or the chief financial officer for completion.

MAJOR FINDINGS

Endowments. Forty-two percent of private institutions experienced endowment losses of 10-20 percent during FY09. Approximately 90 percent of private institutions report that the portion of the operating budget supported by the endowment either decreased or stayed the same. Fewer than 10 percent report increases.

Operating budgets. Fifty-six percent of private institutions report an increase in revenues to their fiscal year 2009-10 operating budget. In fiscal year 2008-09, only five percent reported an increase.

Tuition. Eighty-seven percent of private institutions report that they will increase tuition in the 2010-11 academic year. The average institution will raise tuition 4.5 percent.

Cost-reduction strategies. The most common immediate cost-reduction strategies at private institutions include:

- Implementing energy-saving initiatives (i.e., operation of buildings, heating and cooling)—63.0 percent
- Implementing hiring freezes or restrictions—51.9 percent
- Implementing salary reductions or freezes—50.9 percent
- Postponing capital spending—49.1 percent

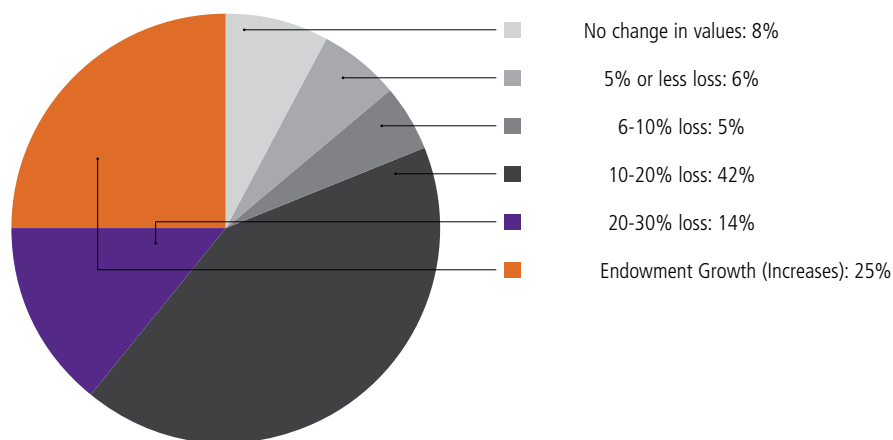
Board actions. The most common approaches by private-institution governing boards in response to financial challenges:

- Additional and/or longer meetings of some or all board committees—42.7 percent
- Additional meetings (including conference calls) of the board executive committee—26.4 percent
- The board saw no special approach as necessary at this time—37.3 percent

ENDOWMENTS

In the AGB survey administered a year ago, covering FY08, board chairs at independent colleges and universities cited decreased endowment returns as the financial issue posing the greatest challenge. At that time, endowments were spiraling. From July 1 to November 30, 2008, private institutions saw their endowments drop 22.5 percent on average.² While most respondents to this year's survey still report significant losses by the end of fiscal year 2009, performance varied widely across the private sector. When asked about their institutions' endowment performance for FY09, a plurality of 42.1 percent reported 10-20 percent losses, and 14 percent of respondents disclosed losses of 20-30 percent. But one-quarter (25.2 percent) reported endowment growth (increases).

PERFORMANCE OF PRIVATE INSTITUTION ENDOWMENTS FY09

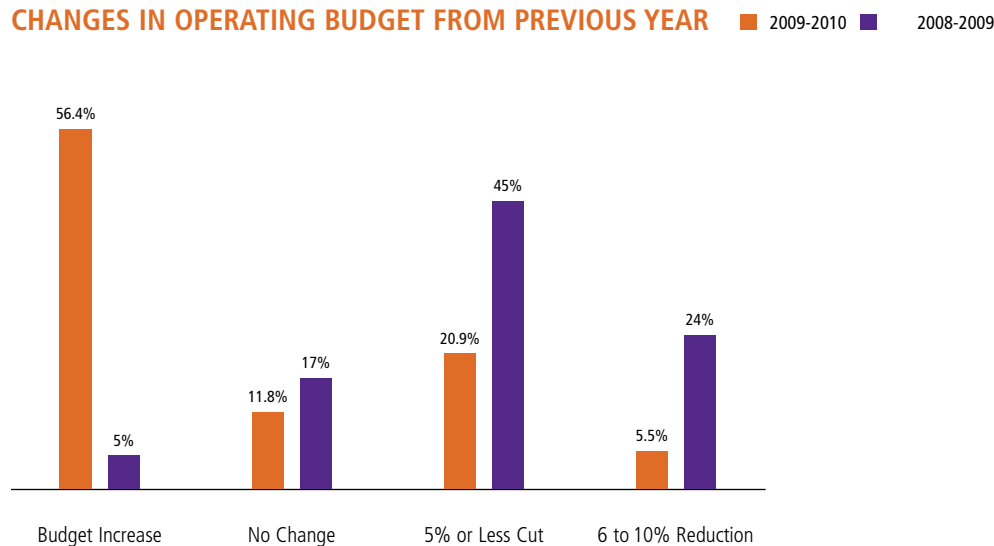


² 2008 NACUBO-Communfund Endowment Study Follow-up Survey.

OPERATING BUDGETS

Even if endowments are still underperforming, it appears that many independent institutions have still managed to bounce back in some capacity. After a year of reeling from budget cuts, most private colleges and universities now report expected increases to their operating budgets. When asked what changes in the institutional operating budget have or will likely be made by the end of the fiscal year 2009-10 as compared to the previous year (fiscal year 2008-09), 56.4 percent forecast an increase in revenues. Notably, baccalaureate institutions are much more likely than doctoral institutions (62.8 percent v. 38.5 percent) to estimate an increase in revenues. Still, respondents at both types of institutions are more optimistic this year than last. In fiscal year 2008-09, only five percent of respondents reported an increase from the year before. Correspondingly, the amount of minimal budget cuts this year also decreased. This year, 20.9 percent of those surveyed report reductions of 5 percent or less to the FY10 budget. More than twice as many (45 percent) faced the same cuts in FY2008-09.

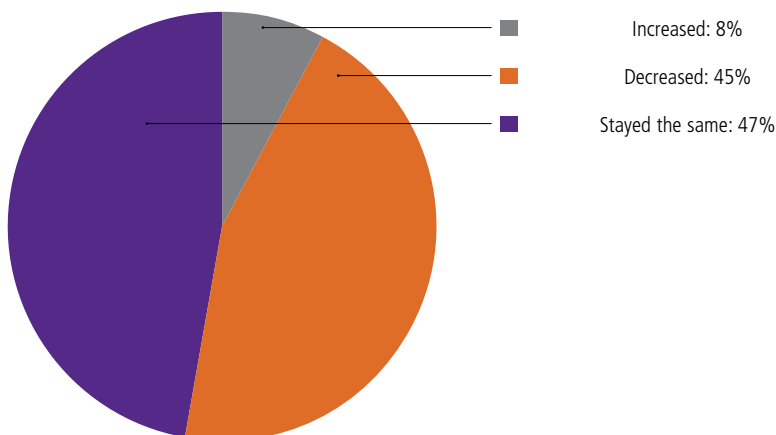
CHANGES IN OPERATING BUDGET FROM PREVIOUS YEAR



IMPACT OF ENDOWMENTS ON OPERATING BUDGETS

In general, neither endowment performance nor allocation of endowment funds appears to account for the dramatic improvement in operating budgets reported by institutions. When asked how to describe the portion of the operating budget supported by the endowment, only 8.6 percent said it had increased while roughly 90 percent said it had either stayed the same or decreased. Like endowment performance, the relationship of the endowment to an institution's operating budget also fluctuates from institution to institution. The average private institution's endowment supports 6.75 percent of its operating budget, but at some institutions it supports as much as 50 percent.

PORTION OF THE OPERATING BUDGET SUPPORTED BY THE ENDOWMENT COMPARED TO YEAR BEFORE



"Like endowment performance, the relationship of the endowment to an institution's operating budget also fluctuates from institution to institution."

TUITION

“Respondents to this survey report that their institutions plan to raise tuition more in the upcoming year than the last decade’s average annual increase.”

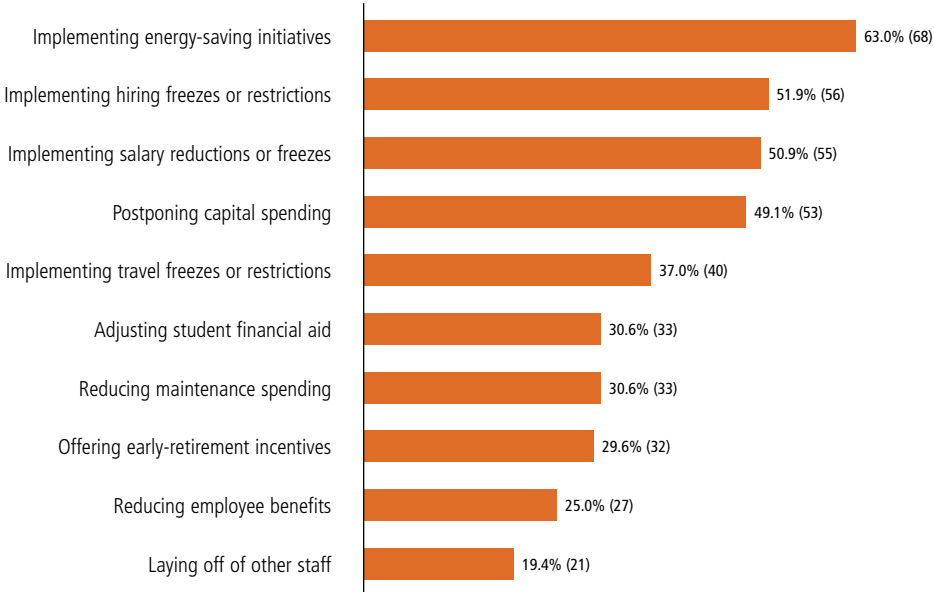
According to College Board, the rate of growth of published tuition and fees at private not-for-profit four-year institutions—2.6 percent—was lower from 1999-2000 to 2009-10 than in either of the previous two decades.³ But respondents to this survey report that their institutions plan to raise tuition more in the upcoming year than the last decade’s average annual increase, which may explain the reported improvement to operating budgets. Eighty-seven percent of respondents report raising tuition for the 2010-11 academic year, by an average of 4.5 percent; this measure is fairly consistent with responses from the previous study, in which 78 percent of respondents reported that they would raise tuition for the 2009-10 academic year. The average increase then was 4.65 percent.

³ College Board, Trends in College Pricing 2009.
http://www.trends-collegeboard.com/college_pricing/pdf/2009_Trends_College_Pricing.pdf

COST REDUCTION STRATEGIES

While endowments are stabilizing and revenues are increasing, private colleges and universities have been clearly attempting to cut costs. When asked to identify steps their institutions have taken, or are considering taking, to reduce costs, respondents tended strongly toward efficiencies in facilities and human resources. Sixty-three percent are implementing energy-saving initiatives; half are operating under hiring freezes or restrictions (51.9 percent) or salary reductions or freezes (50.9 percent); and nearly another half (49.1 percent) are postponing capital spending. Thirteen percent reported other strategies, including consortial purchasing and not replacing various faculty and staff positions. Some differences in responses emerge among institutions when considered by type. Independent baccalaureate institutions are much more likely than doctoral institutions to implement energy-saving initiatives (78.6 percent v. 33.3 percent). And 52.3 percent of baccalaureate and master’s institutions are postponing capital spending as compared to only 8.3 percent of doctoral institutions.

STEPS PRIVATE INSTITUTIONS ARE TAKING, OR ARE CONSIDERING, TO REDUCE COSTS



STRATEGIC ACTIONS AND TRANSFORMATIVE INITIATIVES

When given the opportunity to describe their institutions' most important strategic actions or transformative initiatives that go beyond cost-reduction strategies, many board chairs focused on their campus' academic and administrative restructuring efforts. Common responses include:

- collaborating with other institutions on course delivery and purchasing;
- implementing more distance-learning opportunities via technology improvements;
- considering how to reallocate faculty time; and
- discontinuing non-priority programs.

The board chair at a small liberal arts college stated that his board is “intensively studying all non-essential items in the budget with a view towards continuing to watch carefully any growth in spending.”

Comments also pointed to a heightened focus on enrollment and recruitment. The chair at a mid-sized master's-level institution described his institution's efforts to “enlist all faculty, staff and alumni as university ambassadors for recruiting and retention purposes,” a strategy they call the “all hands on deck” approach. (If the results from a recent survey by Noel-Levitz are any indication, this is a good tactic. The enrollment-management consulting firm reports that, although the number of applications and admitted students has risen, 65 percent of four-year private institutions were expecting higher-than-normal summer cancellations and no-shows in summer 2010.⁴)

⁴ Noel-Levitz Report on Undergraduate Enrollment Trends.
<https://www.noellevitz.com/NR/rdonlyres/238972E7-1029-4CB6-928E-6A844FF0302E/0/2010DepositsandConfirmations.pdf>

Some board chairs recognized that the “new normal” forced them to abandon old ways of doing business. For some, the change is uncomfortable. Consider the situation at a small liberal arts college:

“After going through one round of overall budget cuts on a departmental basis, we realized that we will face future budget shortfalls in the next years. This is made all the more problematic because we believe we have now reached the point at which we can no longer continue to raise tuition rates as we have in the past. Therefore, we have embarked on a longer-term review of strategic budget reductions that focuses on analyzing the efficacy of certain academic offerings and departments; analyzing overall class size; and modeling future budgets on an assumption that less, rather than more, will be available to us.”

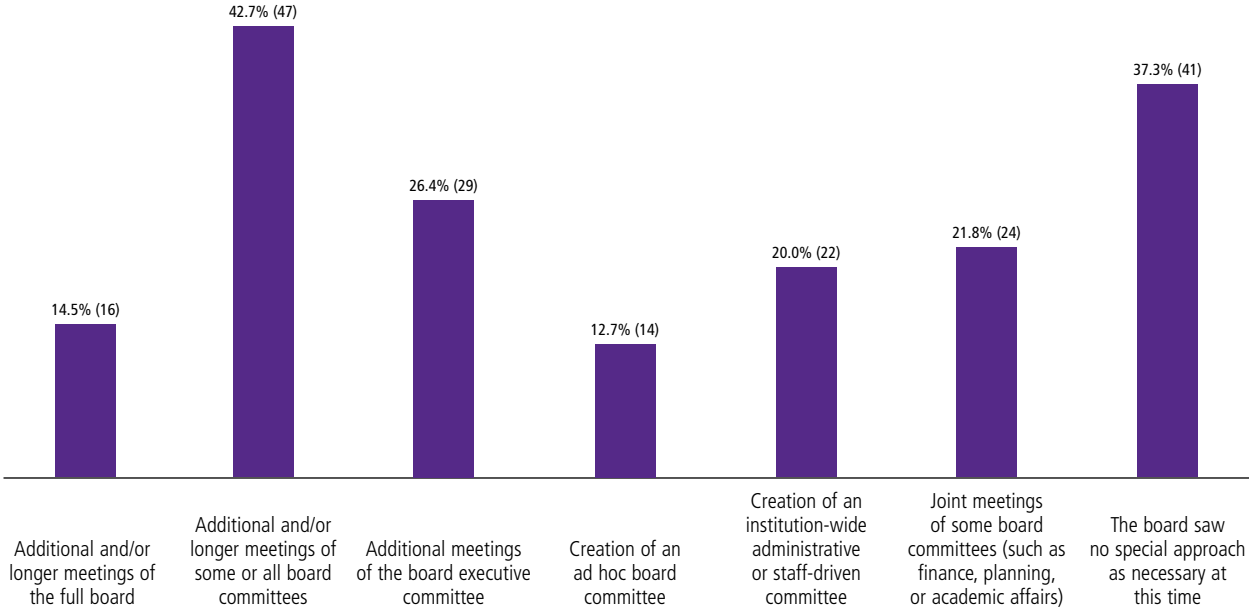
Others, most notably doctoral institutions, are welcoming the changing landscape with open arms. “We’re in full growth mode,” said the chair at a large research institution, continuing, “adding new programs, buying, leasing, and constructing new buildings, trying to take advantage of the current environment’s very attractive prices for construction and labor.”

“When given the opportunity to describe their institutions’ most important strategic actions or transformative initiatives that go beyond cost-reduction strategies, many board chairs focused on their campus’ academic and administrative restructuring efforts.”

BOARD ACTIONS

As many private colleges and universities make changes in response to financial challenges and opportunities, many governing boards are also changing their own practices. Nearly 43 percent of respondents say that some or all of their board committees were holding additional and/or longer meetings. Over one-quarter report additional meetings of the board’s executive committee (including conference calls). And one-fifth of respondents report that the governing board created an institution-wide administrative or staff-driven committee. Two-thirds of this sub-group said that the committees included senior administrators, while almost half included deans (47.2 percent) and faculty (44.4 percent). At the same time, over one-third (37.3 percent) of institutions said that their board saw no special approach as necessary at this time.

APPROACHES BY GOVERNING BOARDS IN RESPONSE TO INSTITUTIONAL FINANCIAL CHALLENGES



SUMMARY

The responses to the survey paint a picture of a sector of higher education that has been remarkably optimistic in responding to economic conditions, although the impact thereof has varied from institution to institution. Compared to their public counterparts, private institutions face fewer obstacles (e.g. state executive agencies, legislative funding and mandates, etc.) in preparing for an uncertain future. Noteworthy, however, is what that preparation actually entails. Many independent colleges and universities are increasing budgets, cutting costs (often human costs), and increasing tuition. They seem to have adopted a modus operandi that emphasizes bringing in more revenue, while simultaneously cutting costs in anticipation of continued economic uncertainty.

“Compared to their public counterparts, private institutions face fewer obstacles (e.g. state executive agencies, legislative funding and mandates, etc.) in preparing for an uncertain future.”



1133 20th Street NW, Suite 300, Washington, DC 20036

T 202.296.8400 F 202.223.7053 www.agb.org