

STANDARD NINE

FINANCIAL RESOURCES

Overview

Wheaton substantially strengthened its financial position during the past decade. Growth in enrollment, which was made possible by a growing reputation for academic excellence, combined with record levels of fundraising, conservative use of debt financing and robust returns from investment of the endowment expanded the college's base. Building on our strengths, the college has invested in further enhancement of the academic program, in facilities and in our students' educational experience in ways that make the most of our unique and innovative curriculum. Nevertheless, we face significant new challenges that arise, in large part, from the rapid growth in the cost of high quality private education, which has outstripped many families' ability to afford it. This reality, which has most recently been exacerbated by the global economic recession, has significantly increased the need for financial aid to ensure access to a Wheaton education, thus placing enormous pressure on the college's resources. For Wheaton, these challenges are complicated by the relative wealth of peer institutions with whom we compete for students and faculty. Despite the college's strengthened financial position, it remains at a disadvantage when it comes to resources. The demand for the high quality learning environment that Wheaton offers as well as the need for greater accessibility will require the college community to be creative, innovative and disciplined.

Description

Overall Financial Resources

Wheaton College ended fiscal year 2008 with total net assets of \$279 million (an increase of \$135 million from fiscal year 1998), a market value of endowment and life income funds of \$193 million (an increase of \$73 million from fiscal year 1998), and total outstanding debt of \$24 million (an increase of \$3 million from fiscal year 1998). Total operating revenues have increased from \$40 million in fiscal year 1998 to \$73 million in fiscal year 2008. Since fiscal year 2000 the college has met the objective set at the end of the previous re-accreditation cycle, namely the reduction of endowment spending from 6 to 5 percent. This endowment spending policy has been maintained at 5 percent, applied to the average market value over the trailing twelve quarters. The college has also observed a facility reinvestment rate of 1.8 percent (which represents maintenance funding as a percent of plant replacement value), and a financial aid rate below 30 percent (which represents institutionally funded aid per year as a percent of gross comprehensive fee revenue). In 2007 Moody's Investors Service affirmed the college's A2 credit rating. [See Appendix E.1: Wheaton financial ratios as calculated and provided by Moody's.]

Fundraising

A major campaign was completed in 2000 and raised a total of \$90 million, exceeding the original goal by \$25 million. The college currently is in the third year of the nucleus phase of a comprehensive campaign. Through fiscal year 2009, over \$60 million has been committed in gifts and pledges. These commitments are directed toward four nucleus-phase priorities, all of which are derived from the college's strategic plan: expendable financial aid grants; endowed scholarship funds; the construction of a new science center and the creation of an accompanying building maintenance fund; and increased annual giving support. The campaign goals and public phase are in the process of being determined. In fiscal year 2009 and in the face of the financial downturn, the college's Annual Fund exceeded its target of \$3.7 million, raising a total of approximately \$3.9 million, as a result of generous support from major donors.

Endowment

The college's endowment is managed in accordance with investment policies and strategies established and documented by the Trustee Investment Committee. The investment portfolio is diversified in accordance with asset allocation targets, liquidity ratios, and limits placed on the concentration of the portfolio with any

single investment manager. The annualized rate of return (net of fees) was 10.1 percent for the five-year period through June 30, 2008. The spending policy of 5 percent is applied to the average market value across the trailing twelve quarters. For any endowed fund that is “under water” (i.e., the current market value is below contributed value) at the beginning of the fiscal year, it is board policy not to distribute from this fund in that fiscal year beyond any current income generated by the fund. The college’s investment performance is regularly compared to that of peer institutions and to the NACUBO mean for endowment funds of similar size. The college’s Finance Department provides a full range of investment analyses and reports to the Trustee Investment Committee. On May 15, 2009, the investment advisory firm of Convergent Wealth Advisors was hired to complement and enhance the internal staff support provided to the Trustee Investment Committee. Investment performance (net of fees) for the year ending June 30, 2009 is estimated to be approximately -21 percent. [See Appendix E.2: Summary of endowment market value and performance along with comparative data.]

Comprehensive Fee and Financial Aid

The college’s comprehensive fee has increased from \$29,880 in fiscal year 2000 to \$49,440 for fiscal year 2010. While the comprehensive fee for most of the past ten years increased 2 to 3 percent above the annual inflation rate, the college moved from the bottom to a position somewhat closer to the mean of two comparison groups (Admissions Overlap Group and Northeast Nine Comparison Group). During the same period the financial aid rate has remained relatively stable, ranging from 25 to 27 percent, though it is projected to increase to 30 percent in fiscal year 2010. This most recent budget reflects the increasing pressures to limit tuition growth and to increase financial aid as a percent of gross student revenue. [See Appendices E.3 & E.4: Comparative data on comprehensive fee.]

Faculty Salary Plan

The establishment of the Faculty Salary Plan in 1995 provided a formal multi-year framework for supporting faculty salaries as an institutional priority, with improvements in salary linked to improvements in resources. In the seven-year period from fiscal year 2000 to fiscal year 2007, average faculty salary levels have been at or near the mean of the Northeast Nine Comparison Group, with annual increases calculated to keep average salaries at the mean. For fiscal years 2008 and 2009, a faculty salary pool increase of 5.2 percent was approved in accordance with the plan’s principles, and was expected to keep Wheaton salary levels competitive with the Northeast Nine mean. However, average faculty salary levels at the college have been calculated at approximately 3 and 6 percent below the Northeast Nine mean for fiscal years 2008 and 2009 respectively. While the agreement underlying the Faculty Salary Plan has not been formally renewed beyond fiscal year 2005, faculty salary pool increases for each fiscal year through 2009 were calculated according to the Faculty Salary Plan, and were intended to maintain the college’s position at or near the Northeast Nine mean. The recent economic downturn has led to a salary freeze for faculty and staff for fiscal year 2010.

From the very outset it was understood and agreed that the Faculty Salary Plan would need to undergo periodic review to assess the plan's effectiveness in establishing a multi-year framework for supporting faculty salaries as an institutional priority, in maintaining competitive faculty salary levels, and in linking salary decisions to institutional operating resource capability. Now seems to be a particularly appropriate time to conduct a review of the Faculty Salary Plan in relation to and as part of the overall strategic plan of the college and in view of the emerging set of challenges and opportunities facing the college in the foreseeable future. When the Faculty Salary Plan was successfully implemented in the 1990s, the college was able to dramatically strengthen its operating resources by increasing the comprehensive fee well above the annual inflation rate, increasing enrollment, lowering financial aid as a percent of gross student revenue, and achieving significant growth in the annual fund and the endowment. Today, external conditions and trends have changed dramatically, requiring all colleges to reexamine a broad range of plans that have been successful in the past but are not necessarily effective going forward.

While staff salary pool increases usually are somewhat below the annual increases for faculty, staff salary levels undergo regular review in relation to comparative data, such as that available through CUPA,

including annual evaluation of the need for internal and external equity adjustments. [See Appendices E.5 & E.6: Comparative data on salaries and resources within the Northeast Nine Comparison Group.]

Facilities Maintenance

Since the mid-1990s facilities maintenance has been funded in accordance with the trustee-authorized facilities reinvestment rate of 1.8 percent, which represents annual maintenance funding as a percent of plant replacement value. While over the past five years (FY05–FY09) annual budget allocations for maintenance averaged approximately \$3 million, this allocation for fiscal year 2010 has been reduced to approximately \$1 million as a temporary cost containment measure. A review of the college’s facilities maintenance funding and needs is being conducted by Sightlines, Inc., which serves as a consultant to more than 100 colleges and universities.

Outstanding Debt

The college has been conservative in issuing and maintaining debt. Total outstanding debt as of June 30, 2008, is \$24 million. The issuance of additional debt is anticipated to support the science center project, which calls for gift financing of \$35 million, of which \$5 million is endowment for operations, and debt financing of \$20 million. Construction drawings for this project are complete, with construction dependent on a solid financing plan, both for one-time construction costs and continuing operating costs.

Resource Allocation Process

The annual resource allocation process, under the leadership of the president and President’s Council, includes input from the Budget Advisory Council, consisting of student, faculty, and staff members plus the president, provost, and vice president for finance and operations. In May of each year, the trustees approve a preliminary operating budget for the coming year. The final operating budget is approved by the trustees in October. Annual budget resolutions presented to the board are accompanied by multi-year budget projections. In May 2009 the Planning and Priorities Committee, consisting of students, faculty and staff, was established to provide input to the president and President’s Council in clarifying the long-term strategic priorities and directions of the college.

Budget-to-actual reporting occurs on a regular basis, with each officer receiving monthly reports for their divisions and departments. Department heads and budget managers have full web-based access to their budgets and expenditure activity. The Trustee Executive Committee and Finance and Facilities Committee receive regular reports on budget performance overall. [See Appendix E.7: Key steps and timeline of annual resource allocation process.]

Financial Audits and Risk Management

The annual financial statements of the college are prepared in accordance with generally accepted accounting principles for colleges and universities as established by the American Institute of Certified Public Accountants (AICPA) and are in compliance with regulations concerning not-for-profit institutions issued by the Financial Accounting Standards Board. The college uses the audit firm of Pricewaterhouse Coopers, L.L.P. The Trustee Audit Committee meets three times annually, and in October it reviews, with the outside auditor, the audited financial statements and the management letter. The college implements recommendations presented in the management letter as part of its overall effort to continually improve financial operating policies and procedures.

In addition, the college collaborated with Babson College, Brandeis University, and Berklee College of Music to establish in the summer of 2008 an internal audit office designed to improve controls and establish best practices across the four institutions. Two internal audits were completed by the college in fiscal year 2009 and additional internal audits are scheduled for fiscal year 2010.

Since fiscal year 2005 the college has played an active role in establishing and overseeing a risk management office serving seven institutions (Bentley University, Berklee College of Music, Brandeis University, Olin College of Engineering, Wellesley College, Wheaton College and Worcester Polytechnic Institute). This initiative within the Boston Consortium for Higher Education has benefitted each of the seven institutions by jointly working through a single insurance broker, obtaining competitive bids, containing the growth and cost of insurance premiums, and establishing best practices across institutions for managing risk. Since 2005 the seven institutions collectively have achieved cost savings or avoidance well in excess of \$2 million.

Appraisal and Projections

Over the past decade the strengthening of the college's financial resources has been accompanied by major investments in academic excellence, including the expansion and renovation of arts facilities, more competitive faculty salaries, a student-faculty ratio improving to 10:1, and improvements in the quality and scope of global education programs.

The major economic downturn that has occurred over the past year has led to deliberate and collaborative efforts on campus to contain costs without compromising academic excellence. An *ad hoc* task force, known as Task Force One and consisting of student, faculty and staff representatives, was established by the president and charged with the task of recommending for fiscal year 2010 cost reductions and revenue enhancements totaling \$2.5 million. With the support of the Board of Trustees and in consultation with the President's Council, the Budget Advisory Committee and Task Force One, the president established the fiscal year 2010 budget as summarized below.

1. Operating expenses were reduced by \$3.6 million through a variety of measures, including the establishment of a salary and hiring freeze, the implementation of personnel and non-personnel reductions in excess of \$2 million, and a \$2 million reduction in funding for facilities maintenance.
2. These spending reductions were taken in anticipation of \$3.6 million in revenue loss, including reallocation of a greater proportion of gross revenue to financial aid, the expectation of a lower average enrollment and a projected decrease in operating support from annual giving and income from the college's endowment. Given the potential volatility of student recruitment and retention in this challenging economic climate, the college's budget also included a 23 percent increase in the contingency fund.

In this climate of diminishing resources, Wheaton and other colleges and universities face major challenges in responding to a higher education market that is demanding quality, first and foremost, at a reasonable price and affordable cost. Beyond the personnel and non-personnel budget reductions incorporated into the college's fiscal year 2010 budget, further reductions requiring difficult choices are anticipated for fiscal year 2011 and beyond.

Over the past decade the college has been able to rely on the following strategies in advancing academic excellence and becoming increasingly competitive as a selective and distinctive liberal arts college.

Strategies

1. Increase size and quality of applicant pool with corresponding improvements in admissions selectivity.
2. Increase net student revenue as a result of modest growth in enrollment, comprehensive fee increases well above inflation, and a stable financial aid rate.
3. Maintain steady growth in endowment as a result of successful fundraising and solid investment performance.
4. Achieve significant growth in annual giving.

In the coming decade the college will not be able to rely on past strategies to advance academic excellence and sustain financial equilibrium. New approaches will be necessary as the cost of education becomes

increasingly unaffordable to many students and parents, as the relationship between price and value in the public versus the private sectors receives increasing scrutiny, and as private liberal arts colleges with relatively small endowments and heavy dependence on net tuition revenue face increasing pressures to reduce costs.

The college must develop strategies for containing costs and enhancing revenues, and we must increasingly fund institutional priorities and support academic excellence through resource reallocation, also known as “growth by substitution.” Fundraising will continue to play a critical role as new alternative sources of operating revenue are developed and as additional support for financial aid becomes essential. However, increasing philanthropy will be challenging and it will not be a quick fix. In particular, many fundraisers believe that the impact of the global economic recession is likely to linger in potential donors’ minds for some time after the economy has begun to improve, making many individuals more cautious in contributing their resources to the college for some time.

Strategic alliances and partnerships need to be pursued around mutual interests and goals. Open communication should play an important role, and all efforts should be made to include and inform the entire college community if we value collaboration and transparency as hallmarks of the college. For the next decade the strategic positioning of the college on a successful and sustainable path toward its mission will require a clear sense of priorities, a strong willingness to embrace change and challenge the status quo, and the courage and vision to make difficult choices shaped and informed by institutional priorities.