CSB|SJU Community

A newsletter for the faculty and staff of the CSB/SJU undergraduate program December Extra 2001

CSB President Mary Lyons (left) and SJU President Dietrich Reinhart OSB address faculty and staff at the Budget Forum.

Community Forum addresses budget issues

Editor's note: The following is text presented at a Community Budget Forum, Dec 11, 2001, by CSB President Mary Lyons and SJU President Dietrich Reinhart OSB.

Introduction

Welcome. The purpose of our gathering this afternoon is to discuss the budget outlook for Fiscal Year 2003 and beyond. As many of you know, we face a number of difficult budget issues next year and in the years following.

At the joint meeting of our Board of Trustees and Board of Regents two weeks ago, we identified four strategic budget challenges:

1. The need to balance pricing, tuition discounting, and enrollment strategies.
2. The need to increase revenue from non-tuition sources.
3. The need to increase compensation to attract and retain the highest quality faculty and staff.
4. The need for strategic reallocation of resources as our enrollment stabilizes.

These challenges would be significant if they were independent of each other, but they are related and must be addressed as a whole. To do so we must more effectively define and focus our priorities. That will require a series of difficult decisions. While this process will not be easy or painless, we remain committed to a course of excellence and will make judgments that are consistent with our mission and values and secure our long-term success as institutions.

We will today review the key factors influencing our budget, emphasize our institutional aspirations in that new context, and layout the process and choices we have in front of us.

The Changing Marketplace for Private Colleges

Private higher education is entering an enormously challenging economic period. This sentiment may seem oddly out of sorts coming on the heels of a decade of nearly unprecedented growth and success. However, the forces that converged in the 1990s to create a historically favor-

able economic and enrollment environment for higher education have disappeared, at least for the short term. Our budget and budget decisions must both reflect and respond to those changes. The signs are clear:

The recruitment environment is undergoing dramatic change. We do not expect growth in the college-bound population in Minnesota or the Midwest during this decade. The number of high school graduates in the state in 2010 will equal the number in 1999. In other words, the population growth that fueled enrollment growth here and across the state during the 1990s has disappeared. Together with the changing characteristics of the college-going population, we expect that competition for students, particularly high achieving students, will intensify even more.

We have worked very hard over the past several years both to secure a stable enrollment base and to improve the academic profile of our student body. We do not have the luxury of resting on our laurels. While we have experienced tremendous success, we have always operated with a very thin margin for error. CSB and SJU have the lowest ratio of admission applicants-to-enrolled students among all of Minnesota's private colleges, the highest matriculation rates, and above average retention rates. While we consistently have met our enrollment goals in recent years, it is instructive to examine the impact of failing to do so. A downward change of 1% from budgeted enrollment — 38 students — would reduce expected revenue by nearly $450,000. We believe it has been prudent to set aside in a reserve a portion of the revenue gain from our recent growth to provide some measure of security in a volatile marketplace.

The short-term economic outlook is not favorable. Nearly a decade of sustained economic growth has now ended. That news hits close to home. Last week the state announced a budget shortfall of nearly $2 billion, the largest in its history and the results of larger-than-expected job losses and declining revenue. Unlike the last recession, it appears that Minnesota will not be spared the full impact of the current economic downturn. We expect that many of our families will experience little in the way of income growth in the next year or two, and some may experience considerable decline. The economic slowdown not only limits our ability to generate new tuition revenue, it also influences family's willingness to pay the higher cost of private higher education. History provides little in the way of guidance, but during the last recession our enrollment fell by more than 7%. As we consider our response, we must be increasingly conscious of value in our pricing and spending decisions.

Student debt is already at an all-time high. When we raise our tuition, our discount rate typically is adjusted only for new entering students. Financial aid packages for returning students are usually not adjusted upward, and most returning students end up borrowing more to pay for the price increase. Unfortunately, debt is already at historically high levels among our students. The average debt load among our graduates rose from $12,800 in 1995 to $19,200 in 2001, a gain of 50%. Last year, 110 of our graduates left CSB/SJU with more than $24,000 in debt — compared to just 1 in 1995. We need to be concerned not only with our students' willingness to borrow more, but also about the morality of expecting them to borrow more.

Price competition will continue and likely intensify. Last year, more than 85% of all new entering students at private colleges in Minnesota received an institutional grant award, most of which were not backed by endowed or gifted sources. Over the last decade, Minnesota's private colleges — including CSB and SJU — have tripled their annual commitment to student financial aid. Clearly, all of us offer financial aid not only as a means to expand access but also as a competitive imperative. Intense price competition will not go away. Our budget must continue to reflect a balance between the economic needs of the colleges, the economic circumstances of families, and the competitive imperatives of the marketplace.

The tragic events of September 11 have produced long-term financial consequences. The events of September 11 have had a significant impact on our budget outlook, as well. Among other things, we expect the cost of our property and liability insurance to increase dramatically. In addition, we have revised downward, at least for the short-term, our national and international student recruitment goals. We are not exempt from the events of the world around us.

Affirming our Aspirations

The world in which we operate demands that we more carefully define and focus our institutional aspirations. Business as usual is no longer an option for us. That said, we believe that the College of Saint Benedict and Saint John's University are today well positioned to address the challenges and choices in front of us. All of our budget choices must be made in the context of our aspirations and should leverage the success we have already attained. We are fortunate to be able to address them from a fundamentally strong base.

We will continue to make our choices using our strategic plan aspirations as our guide. You will recall that our plan identified 3 broad strategic objectives, and 3 goals of distinction within those objectives. None of the challenges we face cause us to reduce our commitment to those aspirations. We are committed to providing an exceptional liberal arts experience, an integrative learning experience, and a community experience informed by our

Catholic and Benedictine values and tradition. As we work to achieve those goals, we do not intend to waiver from our commitment to exceptional teaching and scholarship, from our support for students, faculty and staff, or from our commitment to a high quality integrative educational experience.

To be sure, the changing economic landscape requires us to focus our strategies. However, those strategies must continue to point us in the direction of excellence. In the near term, the timeline over which we will achieve our aspirations will be slower than we initially intended or desired. But to abandon our aspirations and commitments in favor of retrenchment is not an option. We will continue to move forward.

Defining the Budget Process: Focusing on Excellence

All of that said, we would like to return to our strategic challenges and the choices we have before us for next year and beyond. As most of you know, we have been working on the budget since last summer. In prior years, the Coordinate Finance Committee of our boards would have recommended both a tuition and fee figure and a compensation plan by this time. However, the uncertainty of the economy has caused us to delay that action until early February, when we expect to have a clearer picture of both our economic and enrollment situation. Consequently, we are not here today to present to you a set of budget recommendations, but instead to lay out where we are at at this point. Keep in mind that this is a work in progress — we have not yet made any budget decisions.

Balancing pricing, discounting, and enrollment strategies.

Enrollment. After an extended period of growth, we chose two years ago to cap our enrollment at 3,800 (plus or minus 100). We did so for reasons of quality, because we had reached the limits of our human and capital resources, and because we had reached our long-term sustainable enrollment. This fall we enrolled 3,889 undergraduate students. However, the changing economy and the fallout from the tragic events of September 11 have caused us to revise our enrollment projection downward for next year to 3,845. In fall 2002, we expect to enroll a first-year class of 968, 90 students fewer than this years' new entering class. In addition, we will continue to build our budgets on our projected actual enrollment less 50 students (25 from each campus) in order to sustain our enrollment reserve fund. The bottom line is that we can no longer anticipate the marginal revenue gain associated with rising enrollment. At the same time, as our enrollment stabilizes, high retention rates become more important than ever.

Pricing. Our tuition and fees have increased at an average annual rate of 6.2% since 1990, more than twice the average rate of inflation. Even though the overall income profile of our students has risen in recent years, the gap between what our students have been either willing or able to pay has declined every year for a decade. We do not believe that the marketplace will support the price increases we have been accustomed to in recent years. Consequently, rather than raising tuition by 5.5% to 6%, we anticipate raising our price by 4% to 5% — an increase we believe will be common among high quality private colleges in the Midwest and nationally.

Financial aid. As enrollment stabilizes, net tuition, our primary revenue source, will grow much more slowly. We expect that net tuition income will grow by less than 2% per year over the next four years. However, the changing population in Minnesota, the changing economy, and our need to establish a broader enrollment base nationally will demand that we maintain, and likely increase, our commitment to institutional financial aid throughout the foreseeable future.

Increasing revenue from non-tuition sources.

Saint Benedict's and Saint John's are each preparing historically large capital campaigns. Endowments for faculty salaries and student financial aid will be central priorities for both campaigns. When those campaigns are complete, we expect to have made significant strides toward long-term fiscal security and educational excellence. However, our capital campaigns will not provide budget relief for at least 5 to 7 years. Consequently, while we are taking bold steps to ensure our long-term well-being, we must address our short-term budget challenges within the parameters of our current revenue base.

Increasing compensation to attract and retain high quality faculty and staff.

Our desire to offer a top quality educational experience is directly related to our ability to attract and retain the highest quality faculty and staff. Last year, we committed to an aggressive strategy designed to make our faculty salaries more competitive. We recognize that we are not positioned appropriately among our peers. While we remain committed to significantly improved compensation, we no longer believe we can reach the original goal in the period specified last spring. Nonetheless, as we make budget decisions over the coming weeks and months, we will do everything we can to move as quickly as possible to improve faculty salaries. To achieve our mutual compensation aspirations will require thoughtful attention to excellence, priorities, and tradeoffs.

COMMUNITY

Community is published by the CSB/SJU Communications and Marketing Services staff:

Jon McGee, Vice President for Institutional Planning, Research and Communication

Greg Hoye, Executive Director of Communication and Marketing Services

Julie Marthaler, Office Coordinator (CSB)

Viv Krueger, Office Coordinator (SJU)

Mike Durbin, Sports Information Director (CSB)

Michael Hemmesch, SJU Director of Communication

Jo Ann Shroyer, CSB Director of Communication

Glenda Isaacs Burgeson, Assistant Director of Communication/*Community* Editor

Tammy Hansen, Assistant Director of Communication/ Electronic and Print Media

Greg Becker, Senior Associate Director of Publications and Graphic Services

Kay L. Buytaert, Associate Director of Publications and Graphic Services

Ron Schoonover, Assistant Director of Publications and Graphic Services

Kathy Wenker, *Community* Student Coordinator

Deadline for the January issue is Dec. 21. To share your information and story ideas, simply e-mail them directly to Community at: community@csbsju.edu.

Strategic resource reallocation

We will continue to invest in a high quality educational experience. Unfortunately, the resources available for achieving those objectives are not infinite. Between FY 2002 and FY 2006, we are projecting that net operating revenue for Saint Benedict's and Saint John's will grow at an average annual rate of just 1.8%. At the same time, using very modest planning assumptions, our operating expenditures will rise by 2.9% annually. We will not be able either to balance our budget or meet our strategic aspirations next year or in the years following without reallocation. Our current projections indicate that we will together need to reallocate $800,000 in FY 2003. By FY 2006, the reallocation total will reach $1.8 million. Our combined annual operating budgets total approximately $59 million. The reallocations required to balance the budget and meet our aspirations will be challenging but they are not insurmountable — and they must be achieved as the first crucial step to assuring our future success.

Conclusion

One year ago, the Coordinate Finance Committee of our boards recommended a tuition figure and a compensation target. Much has happened since that crucial point, some of it related to actions expected but not taken, some related to unanticipated events. The strategy recommended then, and later affirmed in March by both boards, was aggressive and involved a certain amount of risk. What was then an aggressive but achievable strategy is no longer viable today. We expected to be able to raise tuition by at least 5% per year throughout our planning period. Our original projections did not consider the impact of a recession on students and their families. Reallocations from academic affairs did not occur as planned. We did not anticipate the difficulty in the marketplace in hiring new faculty. We could not have anticipated the events of September 11. While we may have been able to proceed as originally planned if just one of these events occurred (or did not occur), together they have had a cumulative impact on our budget outlook and have cause us to fundamentally alter our expectations.

We are now in the process of reviewing our strategic plan in light of this new environment. In the coming weeks we will be carefully reviewing and assessing our priorities and values, and developing budget recommendations that move resources accordingly. To do so intelligently will require the input and support of the whole community — and we invite and welcome your participation. We do not intend to initiate across-the-board reductions to meet our immediate budget needs.

It is important to point out that while we must take immediate action to complete the FY 2003 budget, we will not resolve all of our long-term budget issues in the next two months or even six months. Our commitment to focus will be on-going.

We do not enjoy making choices that for some will be very painful. Nonetheless, when we make those decisions we must choose excellence. We can and will improve through focus. Excellence is our only future.