

**Slide 1
Title slide**

**Slide 2
Overview**

**Slide 3
Perfect Financial Storm picture**

**Slide 4
S&P 500 Index**

**Slide 5
S&P 500 – Historical Downturns**

**Slide 6
Return to Volatility**

**Slide 7
Housing Price Appreciation ...Depreciation**

**Slide 8
Unemployment Rate**

**Slide 9
US Real GDP**

**Slide 10
Consensus World GDP Forecasts**

**Slide 11
Financial Conditions Index**

Slide 12

Effect on Revenue Sources

Slide 13

1. State Support

- At least 46 states faced or are facing shortfalls in their budgets for this and/or next year, and severe fiscal problems are highly likely to continue into the following year as well.
- Combined budget gaps for the remainder of this fiscal year and state fiscal years 2010 and 2011 are estimated to total more than \$350 billion.
- States are currently at the mid-point of fiscal year 2009 — which started July 1 in most states — and are in the process of preparing their budgets for the next year.
- Budget deficits are already projected in 43 states for the upcoming fiscal year. Initial estimates of these shortfalls total almost \$94 billion.
- As the full extent of 2010 deficits become known, shortfalls are likely to equal \$145 billion.
- Combined budget gaps for the remainder of this fiscal year and state fiscal years 2010 and 2011 are estimated to total \$350 billion to \$370 billion.

Slide 14

Total State Budget Shortfall

- This figure shows the size and duration of the deficits in the recession that occurred in the first part of this decade, and estimates of the likely deficits this time. This recession is more severe — deeper and longer — than the last recession, and thus state fiscal problems are likely to be worse.

2. Endowments

- As endowments continue to lose value and economic outlooks grow ever bleaker, some of the nation's wealthiest universities are calling for greater sacrifices than they were just a few months ago.
- In recent weeks, administrators at Stanford, Harvard and Cornell universities have laid out financial assessments that will require budget reductions, layoffs and increased borrowing.
 - Stanford, for example, issued a statement Monday noting that the university would need to cut its budget by 15 percent or \$100 million in one year, instead of over two years as was called for in January. The university will also be forced to eat into the principal of its endowment.
 - Stanford's provost said that budget planning assumptions estimated a loss in endowment of 20 to 30 percent; that figure is now trending higher, and it is increasingly clear that it will be a long time before the endowment's value returns to previous levels.
- Attempt to decrease reliance on endowments:
 - Cornell University, which draws about 11 percent of operating expenses from endowment returns, is less reliant on those dollars than Harvard and Stanford, both of which rely on endowment returns for about one-third of their operating costs.
 - Cornell is taking steps to become even less reliant on endowment earnings, which officials expect to continue to trend downward for the next two or three years.

Slide 15

Follow-up Survey Respondents' Average Endowment Investment Returns

Slide 16

Follow-up Survey Respondents' Average Change in Endowment Market Values

Slide 17

Average Investment Pool Nominal Rates of Return

Slide 18

Average Amounts Withdrawn from Endowments to Support Institutional Spending in FY 2007

3. Gifts

Donors may back away from or postpone gifts.

Survey by Council for Aid to Education:

- Colleges brought in an estimated \$31.6B last year, the highest total ever reported in the council's annual "Voluntary Support of Education" survey, which included 1,052 institutions. That represented a 6.2% increase over the previous year, and the fifth straight year of increases.
- The outlook for this year is anything but rosy. Based on interviews with top college officials and a study of historical giving data in periods of recessions and stock-market declines, the council predicts giving will decline in 2009 and may erode further in 2010.
- The council's predictions mirror recent results of a survey by the Council for Advancement and Support of Education, which predicted 5% growth for 2008 and a

- 1.7% decline this year. But no one knows how long the recession will go on.
- Skidmore College, for example, is tallying 2008 gifts, but officials expect to finish the year down about 4.5 percent in overall fundraising with total receipts in the mid \$20 million range.

Slide 19

4. Tuition

Having trouble finding stats on family income by state, but here is DOL employment news (as of March 6)

- Chart data March 2006-Feb 2009
- Nonfarm payroll employment continued to fall sharply in February (-651,000), and the unemployment rate rose from 7.6 to 8.1 percent – the highest level in 25 years.
- Since the recession began in December 2007, about 4.4 million jobs have been lost, with more than half (2.6 million) of the decrease occurring in the last 4 months. In February, employment declined in most major industry sectors, with the largest losses occurring in professional and business services, manufacturing, and construction.
- The number of unemployed persons increased by 851,000 to 12.5 million in February. Over the past 12 months, the number of unemployed persons has increased by about 5.0 million, and the unemployment rate has risen by 3.3 percentage points.

Leading states:

- Michigan, South Carolina, Rhode Island and California all have unemployment rates above 10%.

Example of how CA is responding:

- The University of California's president will propose that the university promise to cover tuition and fees for undergraduate students whose families make less than the state's median household income, \$60,000 per year.
 - University officials estimate that the California tuition promise would apply to about 50,000 students, *a third of its undergraduate population*.
 - California's economic situation, with unemployment above the national average, calls out for increasing the visibility of financial aid for students who may have trouble affording it.

Many institutions are making an effort to hold down tuition:

- Carnegie Mellon Raises Tuition 2.9 Percent, Lowest Increase Since 1975
- Drake University, at 2.99% holds tuition increase to lowest percentage in a decade
- The University of Pennsylvania announced its smallest tuition increase in 41 years – the Board of Trustees today approved a tuition increase of 3.75 percent for the 2009-10 academic year
- Duke raised tuition by 3.9% - the lowest increase in recent years

Note: With the passage of the Higher Education Opportunity Act of 2008 comes a new online cost calculator that will track colleges with the largest tuition increases. It's a list no one wants to be on, particularly when students and their families are struggling financially.

Slide 20

Effects on Operations

1. Liquidity: Although larger institutions are not as affected, those colleges and universities that held their short-term funds in the Commonfund, which has stalled, are having trouble covering expenses.

2. Capital Financing and Construction

- **Borrowing for construction:** The tightening of credit markets has affected cash flow for current and planned construction projects. Construction is likely to slow, and funds will be available only at higher rates.
- **Bonding insurance:** AIG was the insurer of choice for the construction industry, which needs lines of credit to pay subcontractors and cover other costs.
- **Rate increases:** on variable-rate bonds and accelerated payback schedules on bonds.
- **Capital construction:** Growing reluctance of governing boards to approve long-term capital construction projects.

3. Student financial aid

- **Requests will increase:** Where will the dollars come from?
- **EXAMPLE:** Boston University:

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- Endowment down 24.1% (6/30-11/30/08) and could be down 30% by end of fiscal year
 - \$10 M budget gap
 - SFA applications up 41% over last year
 - Need to increase SFA reserves
-
- **ARRA** - \$500 increase in maximum Pell – to \$4,860, and \$200 million for Federal Work-Study

4. Hiring/Wages/Retirements

- Senior faculty may postpone retirement, reducing openings for young faculty.
- Hiring freezes/layoffs:
 - Johns Hopkins University officials say a poor economy has forced them to put in place a hiring freeze for its arts & sciences and engineering schools that could last two to three years.
 - Stanford has not announced a specific number of anticipated layoffs, but a certain number of layoffs is “unfortunately inevitable,” according to a spokesperson for the university.
 - Cornell has paused external hiring and instituted a “voluntary retirement” program.

5. Enrollments

- **Volatility in student applications, yields:** Institutions can expect volatility in how many students apply to their campuses and how many who are accepted choose to enroll. Community colleges will see many more applicants. Tuition-dependent small private institutions may be especially vulnerable. Some large institutions have already been approached by smaller institutions

about possible mergers; other small institutions asking for assistance from larger institutions to help with the credit crunch.

- **Drop in application examples:**
 - Applications dropped at seven of the top eight liberal-arts colleges in the U.S., led by a 20 percent plunge at Williams College in Massachusetts.
 - Swarthmore College in Pennsylvania, ranked third-best among liberal-arts institutions by U.S. News and World Report, drew 10 percent fewer applicants than last year, and there was a 12 percent drop at fifth-ranked Middlebury College in Vermont. (March 9, Bloomberg)

6. Academic Programs

- Arizona State University will cap enrollment in addition to enacting more layoffs and cutting about 4-dozen academic programs and funding for a scholarship program, University officials announced Tuesday.
- Effective March 1, applications for the class of 2013 closed — five months earlier than past deadlines.
- Both the Polytechnic and West campuses will be cut to one college each as programs will either be cut or moved to the Downtown campus.
- Both of these campuses could close entirely in fiscal year 2010, ASU officials said.

7. Athletics

- **Stanford** University has one of the biggest athletic departments in the nation, but said the 13 per cent staff reduction from administrative and service areas was

- necessary because of decline in endowment value and fewer contributions during the recession.
- Stanford has announced it will cut 21 positions in its athletic department because of the economic downturn, while keeping all 35 of its varsity teams and its coaches.
 - **Coastal Carolina University**, a Division I school, has cut over \$200,000 from its Athletic Department's budget. The brunt of that cut directly affected the two most "expensive" programs – football and men's basketball.
 - **University of Rhode Island**, another Division I school, decided to discontinue funding for field hockey, gymnastics, men's tennis and men's swimming due to an \$840,000 budget cut.

8. Leadership Challenges

Communicate

- Avoid the temptation to restrict information so as not to worry employees
- Get the facts out – otherwise people will speculate
- Solicit feedback and advice

- Encourage broad participation - ensure wide representation from campus offices
- Use a variety of approaches
- Surveys and suggestion boxes
- Articles and op-ed commentaries
- Open meetings
- Educate when sharing financial data

Send clear and consistent messages to answer:

- How did we get in this crisis?

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- What is our current situation?
- What options are we considering, and why?
- How will decisions be made?
- How will this crisis affect me?

Take advantage of opportunities:

- Streamline operations and improve efficiency
- Re-evaluate endowment management practices

Slide 21

ARRA Overview

- \$787 billion designates substantial funds to benefit HE
- **State Fiscal Stabilization Fund:** \$53.6 B to Secretary of ED
 - 81.8% of grant to public school districts and public HE to restore state funding in '09, '10, '11 to '08 and '09 levels
 - 18.2% for public safety and other government services – including assistance to HE institutions AND modernization, renovation, and repair at public and private institutions
- **NSF:** \$3 B including \$400 M for facility construction
- **NIH:** \$9.5B for Research and Facilities
- **Student Financial Aid:**
 - \$500 increase in maximum Pell
 - \$200M for Federal Work-Study program

Slide 22

Possible Implications of Obama Budget Proposal

- Most dramatic changes to SFA since passage of HEA in 1965

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- Pell Grant becomes entitlement indexed to inflation
- Eliminate FFEL Program – all DL
- Restructure Perkins Loans – go from \$1B to \$6B
 - Replace distribution formula
- Make \$2500 amount of tax credit for college tuition permanent (from stimulus plan)
- BIG increases in research funding
 - \$6B for cancer research at NIH
 - \$872M boost at NSF