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Linfield Takes Steps to Deal with Economy

Linfield Magazine Staff

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Linfield takes steps to deal with economy

The world economy is experiencing falling asset values, tightening credit and rising unemployment. The consensus among economic forecasters is that the recession in the U.S. may be the most severe in the post-World War II period. This has complex implications for the financial health of private colleges. To better understand the impacts on Linfield College, we sought insights from three individuals close to the scene.

Glenn Ford has served as vice president for finance and administration and chief financial officer at Linfield since 2007. He holds an MBA and has 24 years of experience in higher education administration.

Jeff Summers has been a professor of economics since 1992. His research focuses on the economics of higher education administration.

Dave Jubb ’71 graduated from Linfield and subsequently earned both a CPA and law degree. A retired PricewaterhouseCoopers partner and currently vice chairman of a large food manufacturing company, he has served on the college’s Board of Trustees since 1994 and chairs the board’s Financial Affairs Committee.

Linfield Magazine: In what ways can the economic downturn affect colleges such as Linfield?

**Summers:** A private college’s revenue comes from four main sources: tuition; endowment earnings; charitable gifts; and tuitions and board and related areas such as the bookstore. All are likely to decline during this recession. Therefore, the key economic issues affecting private higher education will include the abilities of students and families to pay for college (which could be hurt by reductions in state and federal financial aid), falling endowment values and reductions in charitable giving.

**Jubb:** Tuition provides the lion’s share of our budget, so we are focusing on maintaining stable enrollment. Cost containment is also at the top of our financial agenda, although tempered with an overriding concern for college program needs.

**L.M.:** What steps has the college taken to ensure it will have enough revenue from tuition, while ensuring that students will be able to afford to attend?

**Ford:** We’ve taken several measures. First, we are developing a contingency budget in the event that revenue is below projected levels. We have also carefully considered the financial aid budget that supports our students. Linfield remains significantly less expensive than nearly all of our competitor private schools in the Northwest.

**L.M.:** How does the endowment work, and what impact will its decline have on Linfield?

**Summers:** The endowment is invested in a diversified portfolio of funds. The college spends 4.5 percent of the 12-quarter rolling average of its value. College and university endowments fell on average by an estimated 26 percent in calendar year 2008. Linfield’s endowment dropped by approximately 24 percent in the same period. This will reduce income flows and negatively affect college revenues and spending. Declines here may be long term, with the stock market remaining well below the highs of the past decade for some time to come.

**Jubb:** The endowment provides a long-term financial “cushion” for Linfield and reduces the impact of the short-term ups and downs in revenues and costs. Linfield’s annual budget is less affected than many other private colleges by valuation changes in endowment due to market volatility because the annual amount taken into operations from the endowment is small in relation to the overall college budget.

**L.M.:** How might the current economic situation affect charitable giving?

**Summers:** Most charitable giving in the country and at Linfield is from individuals such as our alumni, not from foundations. The response of individuals’ charitable giving depends on their personal finances, which have likely deteriorated in this downturn. Nevertheless, colleges will continue to receive large gifts from able private donors who are motivated to raise their giving and help out in these challenging times. Foundations draw on endowment earnings to fund their gifts. As those earnings fall, the level of foundation grants to colleges will fall too.

**Jubb:** Across the country schools and charities are facing a decline in giving from individuals and private foundations at a time when their needs are greatest. However, not every private college is similarly situated and Linfield donors have been very supportive in the past during difficult times. We expect they will continue to be so during the current economic downturn. We see them where the same who are giving “digging deeper” to close the giving gap created by those more deeply hurt by the nation’s slow economy.

**L.M.:** What are the greatest expenses?

**Ford:** Compensation accounts for approximately 65 percent of our annual expenditures, or nearly $36 million next year. That’s largely because we have small numbers of students in our classes taught by high quality student-centered professors, not graduate teaching assistants. Operating expenses to cover the costs of serving our students represent 11 percent of our expenditures. The planned renovation of Northup Hall?

**L.M.:** What’s your “crystal-ball view” of the future?

**Summers:** Colleges such as Linfield that are more tuition driven – relying less on endowment income – could find themselves in a relatively better position as the recovery unfolds as long as their rates of tuition inflation do not exceed the growth of family income by too much. However, the pressure for colleges to account for the way they spend money and demonstrate in transparent ways the real values of the education they provide is going to grow over the foreseeable future. The colleges likely to be most successful in recruiting and retaining students and competing for scarce gift resources over the coming years will be those that set clear learning objectives for their students, take a systematic approach to the evaluation of student learning, and use the evaluation information as a vehicle for telling their educational stories to prospective students, parents and donors. These same colleges will demonstrate a more nimble willingness to make pedagogical, curricular and structural adjustments as needed to improve student learning on an ongoing basis.

**Ford:** Fortunately, Linfield has not been subject to all aspects of this crisis. We have no variable-rate debt and our debt ratios are solid. We have no liquidity problems, as we have carefully invested our operating cash. Because our endowment is small, we are not dependent upon it for a large portion of our budget. Our major emphasis must be on recruitment and retention of students.

**Jubb:** Linfield has a strong reputation, excellent faculty and staff, and a culture of commitment. I’m highly optimistic about the future of Linfield College. We are better in every way at this point in this century than we were in either of the two that preceded it. Linfield is and will continue to be a winner.
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L.M.: How about capital projects, such as the planned renovation of Northrup Hall?

Summers: Colleges are in something of a bind here. There may be fewer gifts to support capital projects just at a time when costs of construction have declined due to the recession. Colleges that can secure the resources for building and renovation projects that help fulfill their missions will benefit if they can at least begin the work on these projects before the economy rebounds and construction prices rise.

Ford: The renovation of Northrup Hall is the primary capital priority for Linfield. Our prospective donors are excited about the project and its significant positive impact. But we realize it may take us a bit longer than expected to get the funding in place.

L.M.: Summers: What’s your “crystal-ball view” of the future?

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