Minutes, SFA meeting, March 25, 2015
8:30-10:00, Elkins Auditorium

Guests: CFO Paul Lasiter and Provost Rick Marrs

Ron Cox opened the meeting at 8:37

Devotional: Andy Yuengert: Simon of Cyrene: the blessing of participating in carrying the cross.

Minutes: A motion was made and seconded to accept the minutes from the SFA meeting of December 3, 2014. Approved!

SFA Office Nominations: The slate of candidates for SFA officers from the nominating committee, comprised of the former president, president, president-elect, are:
SFA President – Lincoln Hanks, Maire Mullins
SFA Secretary/Treasurer – Kindalee De Long, Rebecca Kim

There were no nominations from the floor.

The election will be held by electronic ballot and we will also hold elections for SFA Representatives from the Divisions and RTP elections.

Update on Parking Inquiry: This was held off until later.

Provost Marrs and CFO Paul Lasiter's Presentation:

Ron explained the purpose is to improve communication between faculty and administration. Some questions were received in advance and sent to Marrs and Lasiter. We will follow up on any questions that are not addressed here.

Lasiter: A PowerPoint used in the presentation was forwarded to the faculty via e-mail earlier, very detailed and for reference. Some of it was presented to Moody's Investor services with regard to rating of debt. He offered his phone number x4779.

Credit summary: Moody's sees us as in a good market condition, balance sheet, and so on. We are rated AA3 a very solid investment rating. AA flat by Standard and Poors.

We are in a difficult environment in higher education. Competitive student market, makes it difficult to attract and then have students come. Cost is important in getting them here, especially financial aid. We are competing with some who have greater resources than we have. Our reputation has grown faster than our resources, and we are dependent on student revenue, 75% of our revenue from students. Others related to us are often less dependent on student revenues, 50-

75%; and may have government grants and larger endowments than us. Level of our giving is very low compared to our peers. First half of our history, we graduated lots of teachers and preachers. We have an increasing mix of alumni, but a wave of philanthropic support is probably a few years down the road.

There is lots of demand for Seaver, but students can't afford to pay for it, or are having harder time paying for it, and we're having harder time getting resources to pay for it.

He showed an FTE chart that showed 2004 was peak for enrollment university wide, and he noted that we don't have plans for dramatic growth for the whole institution. Enrollment was 3194 for Seaver for Fall 2014. School of Business had been under pressure, but they bounced back in Fall 2014 with a 20% increase. That took pressure off others and put us in a more balanced position.

He showed credit hours sold chart and noted that we are selling more units in Seaver than other schools, historically, but that doesn't necessarily translate into revenue, if discounted heavily (by scholarships/financial aid). We waived international programs fees and lowered room fee to $100 in summer last year, and that helped with stimulating summer demand and credit hours sold.

He showed a chart demonstrating our reliance on student revenues, room and board and tuition, again, around 75%.

Seaver is in the best shape of the various Pepperdine schools with regard to student debt; they have about $30,000 in their name when they leave Seaver College (does not show parents' debt, which may make it more like 50%). Two ways to look at this; tragedy that they have to borrow but it is encouraging that they are wiling to obtain what we have to offer; our reputation helps embolden people to borrow money. While student default rates have escalated nationally (10% within 2 years are in default in some way) our students' rate is much lower at 1.3% for 2-year rate.

Endowment performance: we underperformed after financial crisis, 4-year period. Why? We went conservative, reduced equity exposure, and that resulted in our underperforming. The overall level of endowment, peaked in 2007, then dropped and has built back up since 2009. Payouts have increased slightly since 2004. Endowment per student, peaked in 2007 then dropped, got ahead again in 2014. It lets students pay less, but it is a small percentage of total gross tuition. It's not large enough per student.

Net asset growth: 1.2 billion in assets, much of it unrestricted, (good and unusual). 2/3 of this by endowment; part of it is unrestricted, some permanently restricted.

Cash flow and operating margin: we went conservative by reducing costs when the crisis hit and then have put the money back in. He discussed some other numbers related to expendable resources.

Overall budget: It is clear we are a people business, with personnel as percentage of expenses, from 56-57% to 60%.

Benefits are around 32% of salaries, 32 cents on the dollar, and escalating, was 26% in 2001. Medical costs growth: 11% was total base cost presented to us this year. How do we pay for that? Not a lot of choices: if we charge students more, it's hard to be competitive. Change plan to reduce benefits? Take money from somewhere else in budget? These are choices, none good.

Net tuition and direct expenses per FTE student: around $33,000 for net tuition is what a student pays for across university; how much is spent on things students care about like instruction, research, student support and student services? It is about 75%. We are making up for it with endowment, room and board, etc.

Discount rate: it is increasing dramatically, 2001, 24% for university, for Seaver it was 36%; 32% for university today and for Seaver it is 44%. For every unit we sell, we are discounting to be competitive or for other reasons, so we are getting less revenue per student; last four years, net tuition has been unchanged, gross rate has gone up but discount has also gone up, so our revenues have not gone up.

Annual operating margins, around 2-4%.

We are spending on things students care about, spending more on these than before, about 65%, but was 61% in 2001; lots more money is pushed to academic areas than administrative. He mentioned management and general expenses savings to show how much we would be spending if we had kept up the 2001 rate.

Seaver College specifically: Selective institution, 35.6% undergraduate acceptance rate in Fall 2014, demand is there, people want to come here. Admitting 35%, of those, how many matriculate is dropping: 21% from total applications. They are going to other places, some cheaper or have more resources but are good schools; this is a worrisome statistic and an area we are weakest compared to others that Moody's, et. al., looks at. We either have to allocate our resources better or have more to give them.

Competitor Group slide: Shows competitors experiences on the same measures: e.g., declining yield rate. Students are shopping, applying to more places, and playing schools off one another to get deals on financial aid. Will even pay deposits at multiple schools and then play them off. Our experience is that our admit rate spiked in the financial crisis, but it is moving back and has improved our selectivity? compared to our peers; the yield rate has declined faster than our competitors. This is worrisome, hyper competitive market, and so there are more affordable options in our backyard.

Endowment support: We tried to hold at previous levels (during the financial crisis) by backfilling with endowment, so that shows our shortfall supplement. Seaver college got more than other schools, 2 million in most recent fiscal year. If we hadn't backfilled, we would have 2 million less than we have this year, as example. Payouts for endowments have declined but total amount of support has kept up.

Budget at Seaver College: Budgeted level and actual enrollment level: enrollment level is higher, running ahead of the budget in terms of total students, although dropped from 2013 to 2014 a little bit. This is good in that additional resources from increased enrollment help, but these are one-time moneys that might not be there the next year. This also means we need to push more resources to support the student, and growing Seaver is meant to address this. The idea is to grow the budget line to reflect what's happening in terms of increased students.

Seaver College total revenue: We're below our revenue expectation even with the student growth; because of student discounts/student aid, we're collecting less per student. The pressure is on.

Seaver college operations overall, net revenues and expenses: amount of surplus showed rapid growth before financial crisis and then went backwards. In 2013 we were at budgeted contribution level, but we have come back a bit.

Q: What happens to Seaver College money that's generated? It is accrued in banking reserve and the dean has discretion over use of those funds. Pepperdine deans can draw up to a quarter million no questions asked, if they draw more than that, we do ask what they are doing. But Seaver's resources are for Seaver.

Q: How much revenue are we generating, net tuition and fees and endowment per unit sold? We are bringing in about 1000 a unit in net tuition and net endowment support. Where does it go? About 200 per unit goes to faculty salaries. Salaries for staff, etc., about 75 dollars. Student employees add a little, then benefits, total 400 just for personnel costs. Supplies and maintenance and equipment gets us up to 4600. Everything else is facilities and administrators, facilities costs are about 22% of every dollar we bring in. About 200 in costs for administrative overhead, about 20% that's where it goes.

Done by 9:25.

Provost Marrs: He provides answers to questions that came in from faculty, in the context of shared governance and growing Seaver: What was his perspective about the genesis on growing Seaver? Our applicant pool was increasing dramatically, and the question emerged, can we capture more money and make academic experience better if we grew Seaver? It came from faculty; he was asked to study what would be the implications. What was Board's role? Board of regents had nothing to do with this, and he doesn't think a board member has read the document, which is the same one written by ad hoc committee two years ago.

He needed to pull people in with lots of expertise to help think through issues, with the premise of making Seaver better, what would it look like? They received faculty input, from Nov 2-Feb 24, 2013, with ten focus groups, well publicized. Faculty turnout was low but staff turnout was higher. He took that material and made an ad hoc committee of faculty, staff, administrators, faculty--Andy was unavailable, but Cyndia Clegg and Michael Murrie (presidents at that time and elected by faculty)--and people who had expertise, like Mike Truschke for admissions, Hung Lee, for student needs, etc.. There were ten members plus him, who then produced the white paper, the committee edited it, and then it went in August 2013 to senior administrators and then to faculty.

Even before decisions to move forward there were efforts to jump start this by providing some resources: academic support, travel lines in particular, two additional faculty members, student affairs in health and counseling and enrollment management to address issues. Also, space was a concern. People are working to secure specific square footage. It is hard to be specific about space, because some ideas would relocate people, and that's challenging to talk about; Growing Seaver says we'll need 45,000-60,000 additional square feet, and yesterday, we picked up 100,000 square feet. Space is being secured in part related to library and law school major renovations.

He had received a question about what happened with a faculty ad hoc committee's response to growing Seaver. He was concerned about factual errors, typographical errors in it, and the SFA Executive Committee made the decision not to advance it.

Another question was is Seaver getting the lion's share of resources, and his answer is yes. Paul can say more. One example: Seaver, for 2-3 years has been getting base pool plus additional money on faculty lines. Last year, Seaver got base pool plus additional money for step/promotion; two schools had salary freezes.

Shared governance: Wants a much fuller discussion on this in next six months to year. In addition to general philosophy he's noted some other points

1) timing—faculty have had no real opportunity to provide input as they see it, but he thinks they had opportunity, but weren't yet interested yet, rightly or wrongly. The timing wasn't ideal—now the faculty says they are ready to have that discussion, but it's late. Example: faculty think of semesters and years, and in another worldview, they think in terms of quarters, financial—we've got to figure out a way to make this work with different world views. Another example: Title 9, sexual assault issues; faculty reps from all five schools are involved depending on where the event happens; if something happens, all hands must be on deck immediately. In Fall had to do this 3 x in 24 hours.

2) level of expertise and experience; for a lot of decisions we need people who deal with these things on a daily basis; like a crisis example, we need faculty input, but

they don't normally deal with things like psychological meltdown/emergency. Budget example, we live with budget all year long. Budgets, revenues, expenses, meet with all the operational units, see what their requests are and what we can fund; tuition rate for Fall have been set. One of the drivers of the tuition rate was to secure a 3% pool for faculty/staff raises.

3) how do we balance demands that are placed on you; we're asking even more of you if we pull you into more things that you want to be a part of in terms of discussion; being conversant on higher ed climate, etc. SMU example: they just recently made 35 million dollar cuts, cut 100 personnel, doing well in areas, but to continue they decided must make cuts. Sweet Briar College, has an 84 million endowment and yet are closing doors.

Q and A:
Q. On the growing Seaver document; appears there are some changes since its first iteration, and there is concern the document is growing without faculty oversight or input, like schedule as an example. Going forward, could any addenda or changes be put in separate documents, and some information on writers be in it: only two faculty members, only a couple of administrators are shaping this document?

Disagrees with Lasiter, thinks reputation is more important than costs to students, need to take care of our reputation, and if not including faculty in that shared governance, we're not doing a favor to our constituents.

A: Feltner responded: there was one thing change only, which corrected a typographical error; it was noted at the cover and at the correction who made the change (in the online copy of Growing Seaver).
Marrs: White paper has not changed.

There was some discussion about appendices and 50 pages or so of them. Appendices were added in April 2014 and released at the last SFA meeting of last year.

There was mention made that from 2002-2014 we have averaged an additional 20 students every year. Growing Seaver, would intentionally grow 18 students every year; this would be intentional and would capture base dollars for this growth.

Feltner: He is happy to work with SFA ExCom with anything going forward. Each year we'll have to work through issues like schedule, etc. We are not updating the document every year, but are committed to reporting how Growing Seaver is implemented and will provide data that show the results of that implementation.

Q: How do we maintain student quality as Seaver grows? Paul's chart about opposite direction of yield and applications is a concern; could you talk about what strategies we have in place to maintain student quality if total population goes up?

Marrs: We are already putting university resources toward recruiting and targeted recruiting; we think people don't even know we exist. We have hired a high profile person in country on staff to help attract these students. There are lots of factors to consider, student aid, female-male ratios, etc. McGuire and Associates are helping us distribute financial aid, and saved a million and half to 3 million in financial aid (Jody and Paul disagree on interpretation of savings); we need to deploy more targeted financial aid; we did this without increasing student debt—to target more who actually need it.

Quality of students is at the top of list of priorities in admission decisions; appendices talk about monitoring, and he has had conversations with Andy and Ron about this; working on metrics to work on academic quality; right now some information is buried on OIE, but we're going to put it out there and we can have conversations about it. Also working on getting donations for loan forgiveness.

Q for Paul: Only 20% for administrative overhead compare to peer institutions? Thinks salary percentage is misleading.

A: Our rate is generally lower than our peers, but can't tell exactly because you can't tell how much management and overhead is for administrative and how much for plant functions; comparatively we are lower and are trying to push those costs down even more; but operating here in Malibu is incredibly expensive. Faculty salaries plus their portions of benefits is 32%.

Q: What's rate of net tuition rate last several years? Didn't have data from before 2006.
A: 4.54% has been annual rate of tuition increase since 2007. Faculty costs have grown at 5.4%, slightly less, but pretty comparable. He will try to put data together on management comparables with other universities.

Q/C: She is concerned about the quality of faculty community. The young faculty are not here, we need to pay attention to that, why are they not here?

Q: Can you clarify the gap—it includes facilities, administrators, and doesn't it also include IT?

A: Everything under legal, accounting, regulatory affairs, all the other overhead is what the gap funds (note this is in Seaver college revenues and expenses chart).

Q for Paul: how do we sell units? What about our flat rate for units across 12-16 units?

A: Paul showed slides that show how many units we are selling university wide, there are issues because sometimes differences between full time students and student units; last slide was per unit slide, could show it any number of ways, data wouldn't be that different.

Q: Reason asking—faculty is absorbing extra units of labor, and the school may not actually see the financial benefit up to the flat rate. If you are talking about added revenue, it has to be those units above the threshold or summer units.

A: A big reason for bump was summer units.

Ron's goal is to facilitate communication; he encouraged faculty to keep dialogue going and be engaged in it. Please talk to SFA Executive Committee members. Also Lasiter, Marrs, and Feltner welcome calls and questions. Keep asking questions, commenting.

We have another meeting in three weeks, and an executive meeting next week.

Motion to adjourn, seconded. At 10:03 Adjourned!

Respectfully submitted,

Darlene Rivas
SFA Secretary Treasurer