



from the president **JOHN E. KLEIN**

The Endowment and Our Art

January 2008

To Members of the Randolph Community

ASKING QUESTIONS

One does not assume the role of president of Randolph College without asking a lot of questions. Many of the questions I asked before and after I arrived are similar to those I have heard from you. The answers are complex and, because of that, I wish we could talk one-on-one.

If you're on campus, stop me in the hall, make an appointment and come by my office, or be a part of a series of lunches that I have begun with various campus groups. If you are a parent, try to see me when you're visiting your daughter or son. If you are an alumna, please join my wife Susan and me at an alumnae event or visit me when you are back on campus for Reunion.

Since I will be unable to talk with each of you personally, this communication is one way of letting you hear from me. It is the first of a series that plans to address some of your questions and also lets you know some of the recent developments on campus. *This specific paper addresses questions about our endowment and the decision to sell four of the paintings from the College's art collection.*

MAJOR ANNOUNCEMENTS

December was a month of important announcements. Our accrediting agency, the Southern Association of Colleges and Schools (SACS), removed the College from financial warning. Two of our trustees made commitments, over two years, of \$100,000 each to enhance student life and support new initiatives from our faculty and, as of the end of December, overall giving to the College is up by more than 100 percent over last year.

The news is also good from the Admissions Office. Although we do not have several years of experience as a coed institution as a basis for predicting enrollment for next year, early indicators for fall of 2008 are excellent. As of mid-December, inquiries are up more than 75 percent, completed applications have more than tripled, and total applications are three times as high as last year at this point.

Q Does all of this good news mean we will not have to sell paintings from our wonderful collection? These days this is the question I hear most often, and the answer is that we are still planning to move forward with the sale. It is not the answer I would like to give, and it is not an easy answer for many to accept. This has been a very difficult decision for our trustees.

It is important to note that the majority of our current trustees are alumnae or are married or related to an alumna. Our trustees can recall when some of our most treasured paintings hung in the library, in the halls, and even in the dorms. Several trustees are involved as donors and volunteer leaders with museums around the country (as are my wife and I), and all of us are committed to the College's having an outstanding art collection. However, we all believe we must put the future of the College first, and the future of this College is dependent on financial stability.

Q How do we suddenly find ourselves in this position? How did the financial situation get so bad, so fast, that we have to sell some of our paintings?

First of all, it didn't happen quickly. The challenges the College faces are not new challenges. A review

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of Board of Trustees records from over 20 years shows—year after year—concerns about enrollment, deficit spending, and increases in scholarships and financial aid. The national trend of declining interest in single-sex colleges has been a key contributor to these challenges.

In the late 1980s, the Board of Trustees set an enrollment goal of 220 first-years as a part of a four-year plan to balance the budget. Each year the pressure grew to meet that minimum. Some years we came closer than others, but in 20 years we have not been able to achieve that goal. We believe we can do so as a coed institution.

For over 30 years, we have explored ways to enhance admissions marketing. We have hired top marketing firms, and we have routinely sought advice from outside consultants on admissions and financial aid. To attract top students and maintain our standards of academic excellence, we competed by offering generous scholarships and financial aid. Each time tuition and fees increased, the College also had to increase financial aid, so that in the 1990s, the College's net revenue from tuition, room, and board was relatively flat.

At the same time, our expenses increased significantly—especially for technology, employee health insurance, and energy. To cover increasing annual operating costs, we developed a growing dependence on alumnae giving and the endowment to achieve a precarious balance. So, when our expenses grew faster than our revenue, or the economy faltered and our investment values declined, or our enrollment dropped, the College had to use more of its endowment to balance the budget. When enrollment increased slightly and when our endowment performed exceptionally well, the alarm was reduced, and we thought the

College had “turned the corner.” In my opinion, over the decades, trustees and prior College presidents did their best to address the ongoing issues of enrollment, deficit spending, and increased financial aid, given the unquestioned assumption that we would remain a college primarily for women.

Q Our endowment is so much larger than our peers'. Why isn't it enough?

Much has been said, particularly in the media, about the size of our endowment versus those of peer institutions. We are fortunate that our endowment is relatively large. In fact, it is the size of the endowment that allowed us to remain a woman's college as long as we did.

For educational institutions today, best practices for sustainable, long-term financial plans allow for endowment spending to average no higher than 5 percent of the endowment's average market value. In other words, from an endowment with a \$150 million average market value, one should use only \$7.5 million annually in support of the institution.

During fiscal year 2006-07, we spent 10.2 percent of our endowment average, or \$12.2 million. It is very simple: if we continue to spend the endowment at rates above 5 percent, endowment growth will not keep pace with inflation, our operating deficits will grow, and we will deplete the available funds.

ACCEPTING THE CHALLENGE

In 2003, after three consecutive years of a declining investment market, trustees sought ways to immediately reduce endowment spending and establish a plan for long-term financial stability. As one former trustee said, “We tried various band-aids for many years; now we need surgery.”

Trustees committed to meeting this challenge head-on. In the fall of 2003, they began working with faculty, staff, students, and alumnae, as well as outside

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consultants with expertise in investment management, strategic market research and communications, and long-term financial planning.

In response, the College developed new enrollment initiatives, reduced the amount of scholarship and financial aid awarded, realigned our investments, and cut operating expenses. This past year, in addition to further reductions in operating expenses, we eliminated staff and faculty positions and closed several academic programs.

All of these changes have helped to lower our endowment spending rate, but we have neither met our immediate endowment spending objective of 7 percent nor the long-term goal of a 5 percent average. The task before us is significant because, in fact, at no time in the past 20 years has the College achieved an endowment spending rate as low as 5 percent.

We are moving in the right direction. In removing their financial warning, SACS has acknowledged the dramatic adjustments we have accomplished in a very short time, and they are expressing confidence that we will continue to follow the direction we have set. However, SACS will monitor carefully our progress over the next year. Failure to present a sound financial plan could lead to the College being placed on probation. Our full accreditation review is scheduled for 2011.

Q If we need to reduce the spending rate, can't we do that by enrolling more students, raising more money, and cutting expenses further?

The College has cut expenses substantially over the last several years. Our 2007 reductions in staff, faculty, and academic programs were severe. While we will continue to look for economies, we cannot make significant additional

reductions and still offer the educational experience today's students expect.

Our financial plan already incorporates steady growth in enrollment and in fundraising. Both are key factors in reducing the endowment spending rate, but they are not sufficient to lower the spending rate to 5 percent by themselves. To do so, we must have a minimum infusion of \$50 million into the endowment.

Fundraising \$50 million in new endowment would require cash gifts of a quarter of a million dollars every working day for a year. The College's largest gift to date has been a gift of \$10 million over five years. It should also be remembered that while the College is committed to reducing its average spending rate to 5 percent, it has many other needs, including removing the salary freeze, restoring faculty and staff positions, renovating some of our current buildings, and developing new academic programs and facilities. For us to move forward, we will actually need more than the \$50 million mentioned, and that is where fundraising will be critical.

After considering numerous alternatives, sale of assets is the most feasible way to increase the endowment immediately. A careful and extensive review of our assets leaves us only with the option of selling paintings. It is a difficult decision and one not made lightly.

ACKNOWLEDGING THE DIFFICULTY

Q Isn't selling the art taking the "easy way" out?

If you are someone passionately committed to "saving the art" or if you talk with someone who feels this way, I hope you understand there is another side of this story. There is nothing easy about the sale of the art. I know the emotional cost of this decision is enormous.

Whether or not you approve of the trustees' decision, I ask you to carefully consider the financial realities. I also ask you to remember that we are first and

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foremost a college. We are committed to the liberal arts and sciences and to our tradition of quality education—and we are committed to maintaining an art collection. The fact is, the endowment needs a minimum \$50 million infusion and, for the reasons listed earlier, we do not see an alternative. However, this does not mean we will stop looking for alternative ways, or raising funds, or working to increase enrollment.

Under these difficult circumstances, the selection of paintings to be sent to auction was done with the advice of art experts, including some alumnae. The intent of the selection was to maintain the diversity and coherence of the collection. Recognizing the original vision of Louise Jordan Smith that our community work, study, and live in the company of fine art, the College will endow the directorship of the museum with proceeds from the paintings' sale. And let there be no mistake about the fact that the trustees and I value the importance of our American art collection both as a teaching tool and as an attribute of the College that brings us renown. We are also aware of how much our Maier Museum means to the Lynchburg community.

Some individuals say that selling any painting is wrong and that maintaining the entire collection is essential at any cost. Although I hear that concern, the strength and longevity of the College must be paramount.

IN CLOSING

As the new president of Randolph College, I am dedicated to leading this institution through some of its most challenging times, and I am excited about our future.

The quality of education continues to be high. We have academically strong students. The close relationship between faculty and students continues to be the backbone of learning, and our traditions and our hallmarks are enduring.

Come to campus. Find out for yourself. I look forward to seeing you.

A handwritten signature in black ink, appearing to read "J. K. Kern". The signature is written in a cursive style with a large, looping initial "J" and a distinct "K".