



## CHAPTER 6: RESOURCES

### Be Financially Viable

#### The Unfolding of a Financial Crisis (2a, 2b)

When HLC and NASAD last visited MIAD, they found an institution that “consistently balanced its operating budget” and was confident in its ability to succeed in a capital campaign. Enrollment growth had been gradual and consistent. As enrollment grew, buildings were acquired using a combination of fundraising and debt financing. There were 28 full-time faculty members supported by a large number of adjuncts.

In 2002, MIAD experienced a financial crisis. Enrollment peaked in 2000 and, among other challenges, an ill-fated effort to develop a design museum and an overly ambitious capital campaign resulted in operating deficits in excess of \$2 million for both 2001 and 2002. Ultimately, the

connection to the museum was abandoned, staff positions were eliminated, salaries reduced and retirement benefits suspended (benefits were reinstated in 2006). The college also sold one building. These efforts and enhanced fundraising resulted in reducing the 2004 accumulated, unrestricted fund deficit of \$2.9 million by \$1.1 million. However, as was described in the introduction of the self-study, unsettled presidential leadership and a failure to address enrollment growth caused the college to lose momentum, and the unrestricted fund deficit now exceeds the 2004 level. Moreover, institutional debt has risen from \$6.2 million in 1999 to over \$10 million by the end of 2009.

Fiscal Year	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Operating Revenue	\$12.9M	\$13.1	\$13.3	\$13.3	\$13.4
Operating Expense	12.3	13.6	13.6	13.6	\$13.6

The consequence of these deficits now challenges the fiscal operations of the college. Until regular surpluses are generated, MIAD cannot meet USDOE operating ratios. (*SEE Financial Attachment A in **Appendix #10.***) The ratios will improve only with improvement in the current unrestricted fund balance. Moreover, a reduction of over \$.7 million to the current unrestricted fund was recorded in 2009 owing to the decline in market value of endowment securities. The college views this reduction as temporary and as Attachment A illustrates, MIAD would have come close to the DOE composite goal of a 1.5 score if the endowment fund had remained constant.

Throughout this period, MIAD has received unqualified audits and has improved its cash position, such that it was able to reduce a bank line of credit by nearly half in 2008. While holding expenditures at a constant level, it has managed to give regular salary increases to faculty and staff. Access to studios and technology for students remains a priority.

### **The Impact of Planning and New Leadership (1c, 2a, 2b, 2d, 3d)**

Upon his arrival in summer 2007, the President introduced an inclusive, strategic planning process and hired the enrollment-consulting firm, Noel-Levitz. Generous support from Milwaukee-based foundations meant that this multi-year contract is largely funded. Time was important because the operating budget for FY 2008 reflected both a planned \$644,000 deficit and a highly optimistic fall

enrollment of 652 students. The strategic plan, while not exclusively focusing on the financial aspects of the college, was important to fiscal recovery because of the trust it developed among the college community. Institutional teaching and learning priorities were established, which helped to advance the value of increased enrollment as educationally important and not simply a means to balance the budget.

Communication was an important element of the goal of financial viability. All-campus meetings were held to explain the status of the budget and the limits on fiscal resources. Another key component of the financial plan was an analysis of academic space and how to relate it to enrollment growth. These factors anticipated the more ambitious need for an academic plan. Simultaneously, consultants from Noel-Levitz were examining admissions and retention data. Conclusions were drawn from data, for example, that revealed a 39% attrition rate for first-time freshmen in the first two years and an overall graduation rate of 41%.

Not unexpectedly, fall 2007 enrollment was a disappointment. Using the strategic planning process as a forum for communication, the President and his administration evaluated every budget element and non-academic position. Ultimately \$1.4 million in budget reductions was achieved against a shortfall of \$1.1 million in revenue, resulting in an operating deficit of \$389,000. Several staff positions were eliminated, including two vice presidents. Non-core programs such as continuing education were suspended, to be reorganized when financially feasible.

The budget process for FY2009 was informed by the planning process and the disappointing financial results of FY2008. Fall enrollment was budgeted at 593 FTE, the tuition rate was held constant and further reductions were made in operating budgets as the full benefit of payroll savings were recognized. The concerted work done by all parties to improve recruitment and retention resulted in a record fall 2008 new student enrollment, without a reduction in student quality; operating expenses did show a small decline from the 2008 level. Unfortunately, the college did not anticipate the impact of the economic recession and fundraising fell far short of the projected goal. In addition to the loss of contributed income, the Board of Trustees voted to suspend endowment income for the

2009 fiscal year due to significant unrealized portfolio losses. A previously budgeted amount of \$123,000 was eliminated from anticipated revenue, more than 65% of the fiscal year deficit.

It is important to note that throughout this period, MIAD's commitment to the instructional program has remained at approximately 42% of total operating expenses.

<b>Fiscal Year</b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
Instruction (\$M)	\$5.1	\$5.6	\$5.6	\$5.5	\$5.7
Full-Time Faculty	33	35	35	36	40
Enrollment	593	600	605	590	637

MIAD has the physical capacity to expand without incurring substantial additional operating expenses. The Pettit Building provides an excellent facility for art education. While enrollment growth will necessitate rethinking space allocation (currently, most students past the Foundation year have dedicated classroom studio space), an institutional space plan is based upon serving 1,000 students. Financial Attachment B (***SEE Appendix #10***) reflects enrollment growth that is supported by Noel-Levitz. Projections of retention rates are based upon actual results for the last three semesters. The success of the enrollment management approach is clearly demonstrated by the fall 2008 and fall 2009 enrollment.

The financial aid process has been completely revamped and continues to be refined. Until fall 2008, MIAD's financial aid process was strongly weighted towards merit. Basically need-blind, awards were made on the basis of an annual portfolio competition. Aid is now awarded on the basis of need and merit, as measured by the information on the FAFSA, high school GPA and a portfolio evaluation. Enrollment of ethnic minorities has grown from 12% of total enrollment in 2001 to over 17% in spring 2009. The college believes this revised approach will not only increase enrollment but also further enhance outreach to students of diverse backgrounds.

That the projection of new students for 2009 reflects a decline based upon the current economy further demonstrates that future budgets will be predicated upon achievable enrollment

goals, an important departure from past practices. Total enrollment will increase, in large part due to improved retention.

### **Contributed Revenue (2b)**

Contributed revenue is not considered a major component of future operating budgets. In fact, as Financial Attachment C illustrates, unrestricted giving will be a declining element. **(Financial Attachment C in Appendix #10.)** This shift does not portend a reduction in contributed revenue, the results of 2009 aside; rather it reflects a long-term strategy to promote investments in endowments, improvements in physical assets and the advancement of academic excellence. Fundraising has been a significant factor in sustaining the operating budget, but donor interest in support of operations can best serve MIAD's future by being invested in a fashion that results in long-term benefits. As the last HLC visiting team observed, "Endowment growth is essential to the long-term stability of the institution."

<b>Fiscal Year</b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
Total gifts/grants	\$1.8M	\$1.7M	\$1.6M	\$1.6M	\$0.7M
Unrestricted gifts	\$1.0M	\$0.9M	\$1.1M	\$0.9M	\$0.5M

Unrestricted giving remains important as support for student financial aid. In the absence of a larger endowment, operating expenses need to be tied to predictable revenue sources. This policy favors a conservative projection of net tuition revenue. As Attachment C further demonstrates, a realistic approach to tuition rates and institutional financial aid is designed to position MIAD in a highly competitive environment.

### **Budgetary Discipline (2a, 2b)**

Fiscal stability cannot be achieved solely from increased revenues. Disciplined spending, or more important, spending that enhances the long-term success of the college is critical to a sustained recovery. It is therefore vital that budget discipline is not simply imposed but is in keeping with a broadly understood strategy. Non-academic savings have been achieved with a collaborative but

senior management-driven trajectory. A further success of the strategic planning process will be reflected in future budgets due to redefining the role of deans, part of a larger discussion of academic governance. *In lieu* of four non-teaching deans, the faculty will increment, on a rotating basis, the salaries of faculty members who will coordinate the academic programs as department Chairs.

Another important cost savings, also a function of deliberative academic process, is the introduction of a student laptop computer program. The cost of academic technology, currently expended to support 10 specialized labs largely funded almost exclusively by 3-year leases, cannot be sustained. Based on the results of a current trial program, access to technology will migrate to student-owned laptops over the next several years. The end result allows the college to focus on providing support in the use of technology in the classroom rather than on the acquisition and maintenance of that technology. This strategy frees funds for investment in an integrated administrative operating system, critical for the long-term success of enrollment management and budget administration. Enhanced administrative systems also address a recommendation made by the last HLC visiting team.

Key administrative positions have been added. A former dean has assumed a new role as Director of Academic Advising and a human resources specialist was added to the Business Office. Although MIAD is not yet in a position financially or administratively to undertake a comprehensive employee classification system, such a process is clearly needed. In the interim, a survey of all staff positions was completed in 2009, and equity adjustments have been completed.

MIAD recognizes that as enrollment increases, investment in additional full-time faculty will be required. The projection in Financial Attachment C assumes the equivalent of an additional position for each increment of 20 new students (one position was added in the 2010 operating budget.) Other expenses are adjusted for anticipated inflation. For example, full-time salaries are projected to increase at an annual rate of 2% in FY2011 and 3% in 2012 and 2013.

It is expected that faculty salaries will increase at rates greater than projected. A goal of the strategic planning process, to attract, develop and retain quality, diverse, full- and part-time faculty

and staff, has proven to be one of the most challenging. There are three components of the plan. The first, to generate increased enrollment providing a basis for a broader curriculum and increased revenue, is underway. The second involves a faculty taskforce that is responding to the president's directive that inequity in pay within rank requires priority. The last, featuring work accomplished by an original planning task force, has determined peer institutions, and acquired comparable data from those schools that will permit salary objectives to be set. These objectives cannot be established, however, until the inequities have been addressed and additional revenues generated.

Projection models that reflect revenues that increase at a rate greater than the increase of expenditures will ultimately project surplus revenue. It is the purpose of the previous detail to demonstrate that the revenue projection has a conservative bias and that current leadership is motivated to contain expenditures. However, as the current year demonstrates, external economic factors have a direct bearing on these outcomes. With the exception of one position, the president has replaced his entire senior staff with experienced professionals who bring the right set of skills to the long-term success of MIAD.

### **Board of Trustees Participation (2a)**

The Board of Trustees, an active participant in strategic planning, endorses the concept that enrollment must increase if MIAD is to achieve fiscal viability. The Board's Finance and Facilities Committees have merged to facilitate planning and communication. Deferred maintenance/energy conservation in the Pettit Building and preparation for additional student housing have emerged as priorities.

Improvement in the quantity and quality of student housing is an institutional priority that emerged from the planning process. As this self-study is being prepared, the Board of Trustees is evaluating options that would replace the current residence hall with a new and larger facility. The college is obligated to refinance its current indebtedness and is exploring incorporating additional debt to the refinancing. The proceeds from the sale of the current residence hall would further offset the cost of a new facility. This process should be concluded in spring 2010.

The Board of Trustees has changed dramatically since the last accreditation visit. In December 2003, the trustees voted to move the Eisner museum to independent status and accept the president's retirement. This president had been the architect of the college's growth and local prominence over the previous two decades. The Board responded by establishing its own role of independent governing body. This was a process not without setbacks. However, what has emerged in the last three years is the correct relationship of the Board to institution and president to Board. Bylaws approved in 2008 define the roles and responsibilities of trustees, officers and committees. Regular evaluations of trustees and the chief executive are required. The Board is developing a conflict of interest policy and is streamlining its schedule of meetings, both Board and committees, which numbered 44 in 2008.

By attending to recruitment and retention, MIAD will maintain academic excellence, increase enrollment and generate an expanding revenue stream. Because of underutilized capacity, cost can be controlled and surpluses achieved. Simultaneously, gifts and grants will be directed toward long-term investments designed to make MIAD a more attractive option for art/design students.

### **Facilities Planning (2b)**

Also related to the strategic planning process, work began in spring 2008 to address the facility changes that would be needed to accommodate the anticipated growth of the college. Faculty, students and staff were engaged in the facility planning process through focus groups led by Uihlein-Wilson Architects. Evaluation of current classroom usage revealed that, through alterations in scheduling and attention to class sizes, the institution could accommodate substantial additional growth over the next several years, while other construction and renovation is completed, including 14,000 square ft. of undeveloped space on the fourth floor. In response to the goal of a more integrated approach to learning, flexible classroom and studio spaces, increased student storage and improved student circulation are key components of the instructional architectural plan. *SEE Facilities Plan, Resource Room – Cpt.6 #1.*



A larger, more modern, residence hall housing 250 students is in the development phase. Facility plans include studio space in the environmentally-conscious building, which will include a solar-paneled face and a “green” wall. Architects have suggested engaging MIAD students in the process through design charettes and other activities. To be located across from MIAD’s main building, the construction of this dormitory will tie together housing, the Student Union and the main instructional building into a true campus environment.

Recent facilities planning efforts have also included an evaluation of the physical plant. In 2008-09, with assistance from outside engineers and professionals from the energy field, MIAD completed an assessment of the building envelope, HVAC, system controls and lighting. Because a majority of MIAD’s building equipment will reach the end of its functional life within 5-10 years, a special facilities plant contingency fund is being set up within the institutional budget to help address these inevitable expenses. Phased lighting retrofits and motion sensors, digital controls and a new R-25 insulated roof are planned over the next few years to help reduce and manage energy costs. Solar and green roof applications are being considered as options for the future.

### **Development Plan – Rebuilding the Base (2b, 2d)**

Historically, the Milwaukee community has been generous to MIAD. Donations to the capital campaign for the Pettit building, support of the college during the financial crisis and, most recently, donations to Creative Fusion, the Board-created annual event that raises approximately \$200,000 for student scholarships each year, give evidence of the region’s commitment to the college. The college’s trustees, administration and volunteers have been effective in garnering financial support. However, the past development efforts could be characterized as sporadic and related mostly to specific projects. MIAD leadership has recognized that future fundraising efforts need to be more strategic and developmental. To accomplish this, a development plan has been created, tied to the institutional plan, to build a long-term systematic approach to building new constituencies. (*SEE Development Plan: Resource Room – Cpt.6 #2.*)

Relationship based fundraising is the core of the new plan. Purposeful coordination and expansion of the efforts of Development, Cultural and Alumni Relations, and Marketing/PR will allow MIAD to retain and build on the existing funding base and cultivate a new broad-based constituency. As described in detail in the Development Plan, a systematic approach to data collection has been established, and historic and new donor prospects have been identified and researched; solicitation of prospects will be based on thoughtful, focused strategies. Trustees are establishing their own personal giving goals, taking ownership of the overall fundraising plan and assuming leadership responsibility for implementation. With representation from a breadth of industry and community leaders, the recent expansion of the Board to 25 members has added considerable strength to the development efforts. Existing venues, such as the Senior Exhibition, Creative Fusion and new events like the Pop Up exhibits, lecture programs, special events and private Trustee dinner parties are being consolidated and aligned to better support the donor conversion strategies and to reengage foundations and philanthropic leaders.