AUBURN STUDIES

THE BIG PICTURE

STRATEGIC CHOICES FOR THEOLOGICAL SCHOOLS

BY ANTHONY T. RUGER AND BARBARA G. WHEELER/DECEMBER 2000

About this Issue

The Association of Theological Schools and the Center for the Study of Theological Education introduced at the 1998 ATS Biennial Meeting a new resource for theological school leaders: the *Strategic Information Report.* Based on financial and other data regularly submitted by schools to ATS, the *SIR* is a tailored analysis of each school's data in a format readily usable for strategic planning.

This issue of *Auburn Studies* draws on learnings from the development of the *SIR* and other Auburn Center research to provide the "big picture" or the larger strategic context of the theological education "industry." The Ruger/Wheeler report can be used in conjunction with the *SIR*—or independently of it—to better understand this larger context and how it suggests the strategic choices available to individual theological schools.

Members of the Steering Committee for the Strategic Information Project for Theological Schools (1995-1998) were: for ATS, James L. Waits and Daniel O. Aleshire; for the Auburn Center, Anthony T. Ruger, Barbara G. Wheeler, and Mark N. Wilhelm.

Singles copies of this issue of *Auburn Studies* are free. Multiple copies are available for the cost of printing, mailing, and handling—typically $3 per copy. This issue and all back issues of *Auburn Studies* are also available on the web at www.auburnsem.org. To be placed on the Auburn Center's mailing list or to request copies of this or other Auburn Center publications, write to: Rachel Bundang, Auburn Theological Seminary, 3041 Broadway, New York, NY 10027 or contact us via e-mail at cste@auburnsem.org.

About the Authors

Anthony T. Ruger is a Senior Research Fellow at the Center for the Study of Theological Education. He directed the joint Auburn Center and Association of Theological Schools' project that developed the *Strategic Information Report* for theological schools.

Barbara G. Wheeler is President of Auburn Theological Seminary and Director of the Center for the Study of Theological Education.

Auburn Studies, No. 7, December 2000

THE BIG PICTURE

STRATEGIC CHOICES FOR THEOLOGICAL SCHOOLS

BY ANTHONY T. RUGER AND BARBARA G. WHEELER/DECEMBER 2000

Should my school increase enrollment? Should borrowed funds finance campus renovations? Although local factors dictate most strategic planning decisions at theological schools, wise strategic choices are sometimes made only by comparing a school with the universe of theological schools.

During the last decade, strategic planning has become standard practice in theological schools. Accreditors require it; board members who themselves have to follow strategic plans for their businesses or other organizations insist that seminaries make them as well. Presidents who read articles about higher education management know that responsible educational administrators are supposed to have the school's strategic plan within reach at all times, so that they can make daily decisions in light of strategic goals.

In 1998, the Auburn Center and the Association of Theological Schools (ATS) collaborated to produce a new resource. Called the *Strategic Information Report* (SIR), it is tailored to meet the needs of each ATS member, using the school's own data and those of institutions that are its peers in size, religious tradition, region, or type. The *SIR* provides in a convenient package information for strategic planning that would cost the school considerable time and effort to compile on its own. Some of the comparative data in the report would not be available to the school by other means.

The *Strategic Information Report* and the various formats that schools have otherwise adopted for strategic planning, yield valuable—sometimes invaluable—information about the institution's mission in light of its past accomplishments, future prospects, and position in relation to similar institutions. The *SIR* and most strategic planning processes, however, do not discuss what might be called *the big picture,* that is, the situation of a particular theological school in comparison with *all* other theological schools—the theological education "industry" as a whole. Though most of the strategic choices an institution faces are directly related to its own structure, history, location, program, and near competitors, some of the most important decisions are only evident when one stands back and looks at the school as part of a wider horizon. That is the purpose of this report, which is based on data gathered and analyzed by the Auburn Center during the course of designing the *Strategic Information Report*[1]: to paint "the big picture" and to suggest the kinds of choices that theological schools should be making.

This report is divided into two parts. The first focuses on the material assets of theological schools, especially financial assets. It sketches the financial condition of the theological education enterprise as a whole. With each of a series of financial measures—strength, trajectory, a combined measure of financial strength and direction, and institutional debt—each school is urged to place itself in "the big picture" and to assess the choices available to institutions in its position. The second part focuses on enrollment: again, schools are urged to consider the complex choices that face them as they measure themselves against the enrollment gains and losses of other institutions and of the theological education "industry" as a whole.

1.0 Major Choices: Money and Other Material Matters

1.1. Financial Strength: Choices for David and Goliath

1.1.1. Measuring the Financial Strength of Theological Schools

Institutions usually seek their own survival, and theological schools are no different. They believe they have a worthwhile purpose and that the purpose should be pursued indefinitely. No theological institution that we know of has willingly put itself out of existence.[2] Financial strength is key to survival: a school lacking in strength is vulnerable to misfortune and incompetence, whereas a financially strong school can ride out, at least temporarily, problems with enrollment and finances.

How is financial strength measured? The simplest way is to add up long-term financial assets: the stocks, bonds, and other investments the school owns. Schools often loosely refer to these investments as "endowment."[3] Each year the Association of Theological Schools publishes in its *Fact Book on*

Theological Education the market value of each school's long-term invested assets.[4] This simple measure provides some indication of the institution's gross wealth.

A better indicator of financial strength measures the school's wealth in relation to the demand on that wealth. To do this, a ratio, called the reserve ratio, is computed. The reserve ratio is the long-term net financial assets of the school divided by annual expenditures. A ratio of 3.0, for instance, means that an institution has invested assets equal three times as large as its annual expenditure. One can think of this as the number of years of expenditures that the school has in reserve.

1.1.2. Comparative Competitive Strength

The reserve ratio is designed to allow comparisons between schools of different sizes. If School A has annual expenditures of three million dollars and invested assets of nine million dollars, its reserve ratio is three (nine million divided by three million). School B may have twenty million dollars in investments and ten million dollars in annual expenditures. School B has a reserve ratio of two (twenty million divided by ten million). School A may at first appear to have less financial strength because it has fewer invested assets, but in fact it is stronger because its invested assets are greater *in relation* to its expenditures than School B's.

What are the actual reserve ratios of Protestant and Roman Catholic theological schools, and how do they compare with each other? Figures 1.1.2A, 1.1.2B, and 1.1.2C show the reserve ratios of two groups of Protestant schools—mainline and evangelical—and Roman Catholic schools for 1998.[5] Each vertical bar represents one school.

This report is divided into two parts: material assets and enrollment.

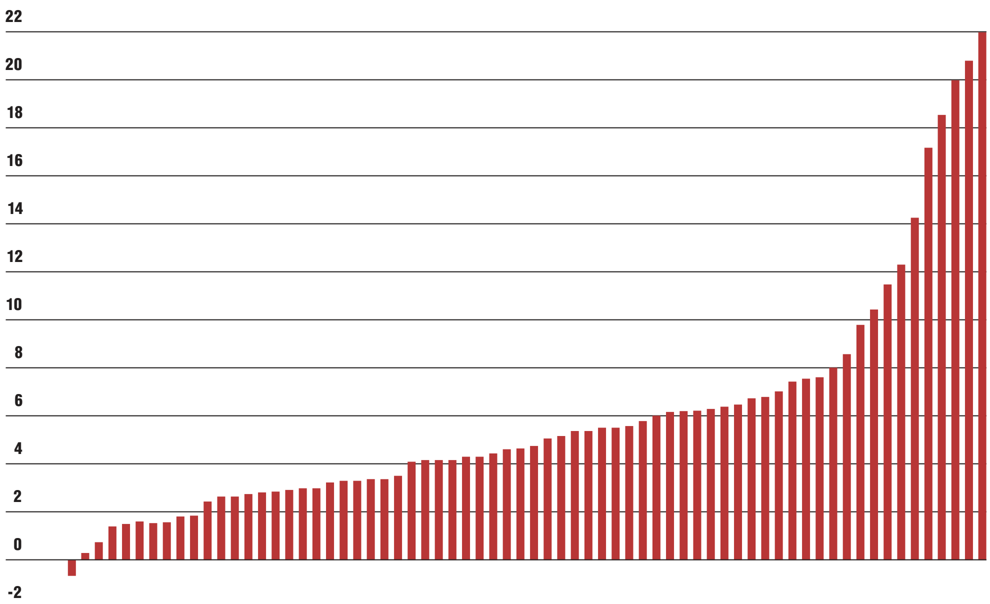
The schools are then placed in reserve ratio order, from smallest to largest.

On each figure we see, on the far right-hand side, the handful of schools that are the financial Goliaths in the group. Those schools clearly possess substantial reserves. Among mainline schools, (Figure 1.1.2A) we see eleven schools with ratios larger than eight, graphically towering over most of the others. Those schools clearly possess substantial reserves. One can also see at least two Goliaths among evangelical schools (Figure 1.1.2B), and three among the Roman Catholic schools (Figure 1.1.2C).

Each figure also shows a few schools of noticeable strength next to the Goliath-class schools. Such schools may be too strong to be considered Davids to the Goliaths. Perhaps they are analogous to Saul, who, in his prime, could strap on heavy armor and battle among the best.[6]

Most schools, however, have modest reserve ratios. They are clearly related in strength to the schools with highest ratios as David was to Goliath. For each type, there are substantial numbers of Davids, though the proportions differ for the different streams of religious tradition. Among the mainline schools,

Figure 1.1.2A: 1998 Reserve Ratios of Mainline Theological Schools



which, as a group, are older and better-endowed, sixty-five percent of the schools have a reserve ratio less than six. By contrast, ninety-five percent of evangelical schools, which are often younger and less well endowed, have reserve ratios less than six. Eighty-five percent of Roman Catholic schools have reserve ratios under six.

1.1.3. Competing with Goliath

Figures 1.1.2A, 1.1.2B and 1.1.2C can help a school find its place among others in its broad religious classification.[7]

It is also important for schools to place themselves in relation to their closest peer institutions—those with the same denominational affiliation or similar theological perspective, or with whom they compete for students or funds.

Once a school has identified its competitive universe, it can compute and chart, on the basis of available information, the reserve ratios or similar measures for its competitors.[8] Such a chart helps a school identify itself within its own universe as well as within its larger religious community as a financial Goliath or David—or perhaps Saul.

What differences does one's relative position make? It affects several important strategic choices. Goliaths, for instance, have certain advantages:

- Some Goliaths can boast of a depth of scholarly resources, including a first-class library, and contemporary research technology.
- Goliath's financial strength may mean that its compensation for faculty is likely to be strong, helping it to attract

and retain excellent scholars.

- A strong financial position enables Goliath to maintain recruitment and public relations programs that keep constituencies informed and cognizant of the school.
- Goliath's depth of resources can enable it to effectively compete, if it so chooses, in bidding for students with special scholarships.

How can David (and Saul) compete? As in the biblical story, nimbleness, speed, and unusual methods can help. The smaller, weaker school might compete through developing special emphases that Goliath does not have, or that few other schools have. Marketers refer to these special programs as "niches," and the strategic approach as "niche marketing." Niches have been developed by various theological schools, as they specialize in, and gain a national reputation for, expertise in particular subjects, a particular form of ministry, unusual or noteworthy programs, or service to particular constituencies.

One effective niche for schools that find themselves in the position of David in relation to others is convenient location. Currently, most Protestant theological schools function to some extent as local

Figure 1.1.2B: 1998 Reserve Ratios of Evangelical Theological Schools

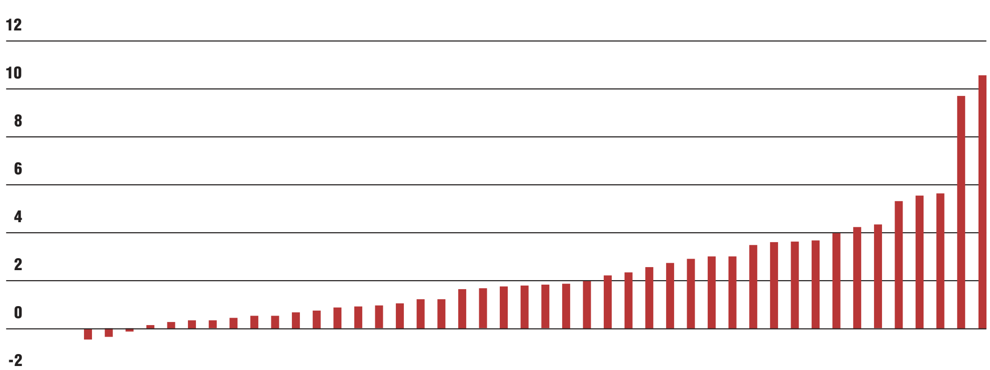
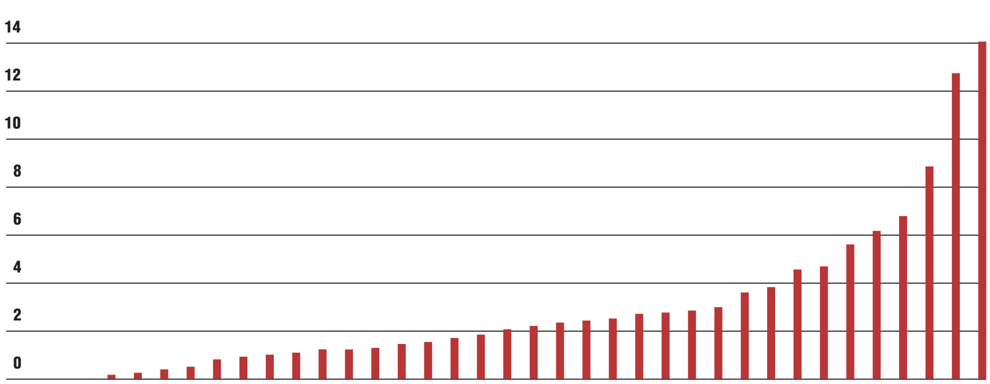


Figure 1.1.2C: 1998 Reserve Ratios of Roman Catholic Theological Schools



interdenominational seminaries, serving the theological education needs of a local population. The local campus, with its full range of services and community ethos, can often compete effectively with a distant Goliath, even when Goliath has a distance-learning program or extension center in the area.

Another niche that David (and Saul) can occupy is distinctive points on the spectrum of theological views. Some

Some revenue items can make budgets that are not really balanced appear to be balanced.

students choose their seminary by location, but for others character is even more important. Similarly, some students will travel quite far to attend an institution that offers programs in their native language, or that has a specialized topical focus. Smaller "David" schools need not, in other words, make themselves miniature versions of Goliath, offering many things to many people. They may succeed more readily (and support their activities more adequately) if they present a genuine alternative to Goliath.

Goliath has choices to make, as well. Goliath has obvious competitive advantages, including the means to maintain faculty compensation and student financial aid. A school with financial resources can afford to support farsighted administrative activities such as deferred-giving programs; it can build up financial reserves designated for the maintenance, enhancement, and adaptation of the school's facilities and equipment.

The financially strong school can also offer distinctive programs. It can gather resources to mount new programs in specialty areas. Or it can focus on a form of program that was once the norm for all seminaries but that many now find difficult to maintain: the full-time, in-residence degree program. More and more theological students are part-time, combining their theological studies with substantial amounts of work for pay. Though part-time education may be more affordable, research indicates that full-time, residential education is often more powerfully formative than part-time commuter education.[9] Goliath Theological Seminary can choose to use its resources to help students study more and work and commute less.

1.2. Financial Trajectory: Choices for Those Headed Up or Down

1.2.1. Measuring Financial Direction

Measuring the financial strength of a school in comparison with others can help clarify the school's strategy for both the intermediate and the long term. But, important as strength may be, another feature has even more impact on an institution's likely future: its pattern of operations—whether it habitually runs deficits, balances its budget, or produces operating surpluses.

Over time, the pattern of operating results will make a huge difference in an institution's condition. Operating deficits consume resources and reserves. The institution becomes weaker rather than stronger. A school with surpluses adds to its financial reserve, which can be used for future needs or be allowed to function as endowment to support operations. An institution with revenues to balance expenditures preserves its current strength for the future.

The definition of "balanced budget," however, is tricky. Some revenue items are straightforward and unambiguous (for instance, tuition, operating or annual gifts, and miscellaneous income). Others, such as return from investments, can be reported in ways that make budgets which are not really balanced appear to be balanced. By over-generously allocating investment returns to the current year's budget, for example, it can easily be made to appear that revenue is sufficient to cover expenses. *Because standard accounting practices permit this, boards and other overseers must monitor these "adjustable" revenue sources carefully.* This is especially true for institutions that rely on investment return for a considerable portion of revenue.

The solution to the problem of determining how much investment return should count as revenue is to adopt a spending rate policy. Experts recommend a level of five percent for portfolios with typical asset allocations. By this definition, a budget is balanced only if return on invested assets is spent at a rate of five percent or less. Therefore Figures 1.2.1A, 1.2.1B, and 1.2.1C, which measure operating results, show the surplus, deficit, or balanced state that institutions *would* report if all adhered to the five-percent rule.

Another ambiguous area is the use of unrestricted bequests. Should they be used as operating revenue during the year in which they are received? Standard accounting practices generally call for such gifts to be included in operating revenue. Numerous boards, however, stipulate that bequests should not be considered operating income. They do so for at least two reasons. First, bequests do not come to the school in a predictable and smooth flow; only steady and repeatable flows of revenue permit the school to plan with confidence. Second, boards exclude bequests from operating income because they intend that such gifts be used to strengthen their endowment and similar funds. Policies to treat unrestricted bequests as endowment encourage giving.

The amount of investment return to count as revenue is determined by a spending rate policy.

The data used to construct Figures 1.2.1A, 1.2.1B, and 1.2.1C do not exclude bequests.[10] As a result, the operating performance of some schools may reflect non-repeating bequests, and thus the performance shown may not be repeatable.

Even with the generous inclusion of bequests, we see on Figures 1.2.1A, 1.2.1B, and 1.2.1C that substantial numbers of schools ran cumulative operating deficits over the past three years. Mainline schools were most likely to run deficits, with forty-two percent showing a cumulative deficit. About one of four evangelical schools (twenty-six percent) ran a deficit. And about one in five Roman Catholic schools (twenty-one percent) had deficits. Deficit reduction is clearly a strategic priority

Figure 1.2.1A: Operating Surplus or (Deficit) as a Percentage of Expenditures 1996-1998, Mainline Theological Schools

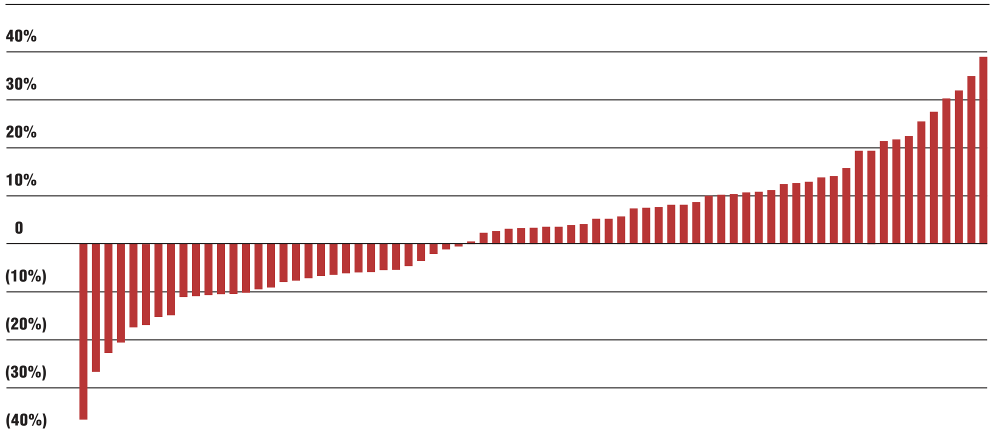


Figure 1.2.1B: Operating Surplus or (Deficit) as a Percentage of Expenditures 1996-1998, Evangelical Theological Schools

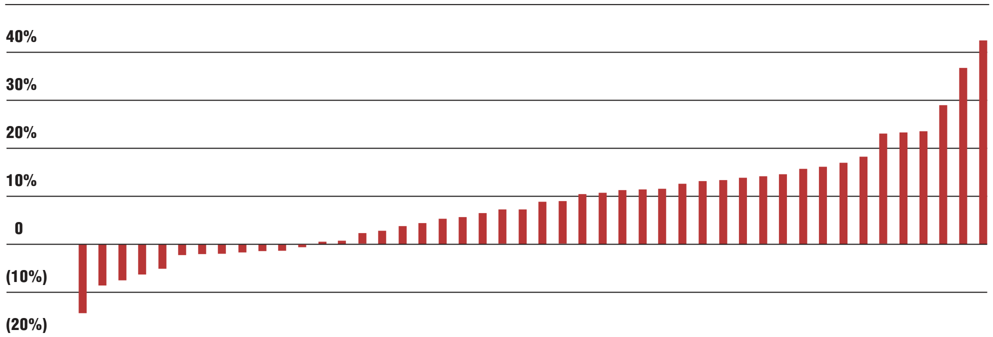
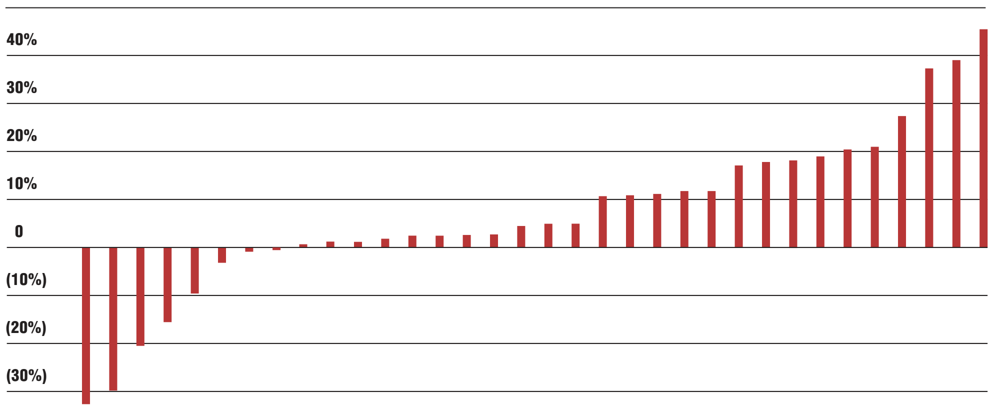


Figure 1.2.1C: Operating Surplus or (Deficit) as a Percentage of Expenditures 1996-1998, Roman Catholic Theological Schools



Surplus or (Deficit) as a Percentage of Expenditures.
Each bar on the charts shown above represents a single school.

for those schools.

Some schools may, in fact, have grown stronger in recent years despite operating deficits. Gifts restricted to endowment do not appear as operating revenue; in some cases, a school may have been strengthened through direct acquisition of new assets. Also, many schools have strengthened themselves despite deficits because of the record high returns from investment markets. The deleterious effects of deficits have, in many cases, been outweighed by superior investment markets. But since markets are likely to return to their historic long-term rates of return sooner or later, schools may be unwise to assume that record returns will continue. When they do, institutions that have shown restraint in spending during "the good years" will have reserves to weather the bad ones that the overspenders who run perennial deficits do not.

Operating results are a good measure of the trajectory of a school.

Despite these qualifications, operating results are a good measure of trajectory, that is, of the direction in which a school is moving. Theological schools should look up their own records of operating results[11] and place themselves on the chart that shows the operating picture for their type of institution. Schools that find themselves on the left side of the midline should be aware that they are consuming reserves and cutting into future strength. All the schools on their right are getting stronger than—or, at least, not as weak as—they are. If the budget is balanced—right on the mid-line—the institution is holding its current position. But, again, everyone to its right is getting stronger faster. If the institution runs regular surpluses, it has additional funds to invest for a stronger future.

1.2.2. Mapping a Financial Position: Choices for the Weak and the Strong

If we combine the measure of financial strength (the reserve ratio) with the trajectory (the operating result), we will have a simultaneous picture of the school's performance and strength. These two measures may be seen in Figure 1.2.2.

The vertical scale indicates the reserve ratio. The higher on the chart an institution is, the higher its reserve ratio. The horizontal scale plots operating results: as on the previous charts, schools with deficits are on the left, schools with surpluses on the right.[12]

On this chart, a school's strategic financial position is clear. The most desirable quadrant is the upper right. Schools in that quadrant are the financial superstars of theological education. Upper right schools have underlying strength and have buttressed that strength through surpluses during the last three years. If they can maintain that performance, those schools will be the strongest theological schools of the twenty-first century.

Schools in the lower right quadrant are performing well, but they do not have deep reserves. We can consider them to be "future stars" if they

Figure 1.2.2: Financial Reserve Strength and Financial Performance of Theological Schools

Financial Performance: Three Year (1996-1998) Surplus or (Deficit)

have strong surpluses. Continued good performance will keep them stable and solvent. Annual surpluses, if reinvested, should move them upward. Some of these schools may plan to safeguard or strengthen their futures by trying to move vertically at greater speed, through efforts such as capital campaigns or deferred-giving programs.

Schools in the upper left quadrant are the "falling stars" of theological education. These schools' deficit performance, if continued, will in all probability foreclose their futures as financially healthy institutions. They will have a hard time raising major capital, since deficits are toxic to most major donors. Because they have underlying strength as measured by their reserve ratios, it will probably be a long time until a crisis occurs but, if unchecked, persistent deficits could ultimately lead to real weakness and lower status among other institutions.

Schools in the lower left quadrant are at risk: they have few reserves and they are operating with accumulated deficits. They are not "stars" of any kind; they are "strugglers." If they continue on this path, such schools will certainly run into very serious trouble—sooner rather than later.

1.2.3. Tactics to Improve Position

The best place on the map, as we have said, is the top right, the "superstar" category. Any institution that is not already located there should want to move there—to the right (away from deficits and toward greater surpluses) and then upwards, toward greater financial strength.

How is this achieved by institutions on the left, that is, schools that have deficits? On what should falling stars and strugglers focus? The principal difference between falling stars and strugglers is that the strugglers have few reserves, and must act soon to forestall disaster. Falling stars have enough reserves to give them time for careful planning, but they must avoid the danger of procrastination or, worse, denial. In each case, the key first step is to eliminate the operating deficit.

How does one eliminate a deficit? Most seminary administrators hope it can be done through revenue enhancement, that is, through increased enrollment and tuition revenues, support from sponsoring church bodies, and other gifts. Unfortunately, such methods, though painless except for the hard work they require, may not be adequate, and the school's leaders must also take steps to cut expenditures.

Painful and difficult as this may be, it is the necessary prerequisite to greater strength. Most observers of higher education concur that institutions must eliminate persistent deficits if they want to strengthen the school's capital base through fund raising. Special campaigns to eliminate deficits rarely succeed, because major donors do not want to entrust large gifts to organizations that clearly cannot manage themselves well.[13]

There are other tactics for strengthening the financial base. Some schools have sold properties. Most examples of property dispositions involve the selling

Most seminary administrators hope to eliminate deficits through revenue enhancement. Unfortunately leaders must also cut expenditures.

of real estate no longer needed for the school's core program, although a few institutions have sold art, valuable manuscripts, and other rare items for significant sums. In some cases, schools have sold their "main" campus and moved to more economical quarters, sometimes sharing space with other institutions.

Finally, schools with no other way to improve operations or strengthen themselves may consider a radical change of their form. They might try to focus on particular aspects of their work as the strongest and most marketable, eliminating all the rest. This could involve shrinking the number and types of offerings, and then eliminating excess services and selling unneeded real estate. Falling stars and strugglers should also consider seeking partnerships with other institutions as a way of both strengthening programs and eliminating administrative costs. Ideally, schools should begin to consider such transformations while they still have some institutional and programmatic identity and strength. Waiting until all funds are exhausted usually means that, even if a new partner is found to carry on the school's name, very little of the mission will endure.

Superstars need to confront a different set of financial disciplines. As well-endowed institutions, they need to recognize that their well-being depends on the continued health of their endowment. To this end they need to make sure that they have excellent asset allocation policies, and thoughtful, careful reviews of investment performance. They must avoid impulses to time the financial markets or be reactive to inevitable downturns. Most schools with substantial investments would be helped by employing objective investment counsel. Such counsel does not manage money, but, rather, advises trustees about the long-term asset allocation needed to protect the school's future.

A complementary discipline for the superstar school is the maintenance of a sound endowment-spending policy. Such a policy should be carefully designed to insure reinvestment of excess returns sufficient to protect the assets from erosion by inflation. The capital assets of buildings should be protected also. As previously mentioned, superstars should have the financial discipline to fund and maintain a building reserve from operating sources.

Lastly, the superstar school is

A financially strong school must learn to select, among multiple proposals for expansion, the activities closest to its calling.

inevitably perceived by internal and external constituents as "rich." Concomitant with that perception may be an implicit demand for the funding of a particular service or program. The final discipline for the superstar is, therefore, the discipline of knowing which activities are part of its core purposes and plans, and which are not. It must learn to select, among multiple proposals for expansion, the activities closest to its calling.

The actual future of a "future star" is, of course, not assured. If things don't go well, future stars become strugglers. Operating performance may have been good, but reserves are often thin, so it is important for future stars to maintain good operating performance. This may be difficult, since tuition receipts may not grow dramatically, and gifts, especially from sponsoring churches and denominations, may be in decline.[14] The management disciplines that created the good performance need to be sustained. If the school is having a non-repeatable stretch of good fortune, such as benefiting from an unusual grant or bequest, it should look carefully at its underlying revenues to see whether they will be sufficient for the near future.

Future stars should begin to focus on the means of becoming superstars. They too should seek to have sound investment and spending policies in place, but their chief strategic actions should be to identify and cultivate major donors. Few institutions are able to maintain substantial growth through tuition (even with innovative distance learning), church gifts, or foundation grants for particular projects. Significant real growth comes through major donors. The form of gift may be annual (many schools count on major gifts each year) or capital, as in funding for a professorial chair. Significantly, many of the largest gifts to theological education are wills, bequests, trusts, and other forms of deferred giving. Major donors are key to all of these possibilities. Any future star that wishes to achieve greater stardom must have first-rate donor research capacity and an active deferred-giving program.

1.3. Building for the Future: Choosing to Borrow (or Not)

1.3.1. Raise It or Borrow It?

What happens when a theological school has a strategic vision, but needs a considerable sum of money to finance that vision? One classic answer is that the school embark on a fund-raising effort. An alternative answer, discussed here, is to borrow the money. Other organizations—businesses and many other kinds of institutions of higher education—do this frequently. Borrowing is much rarer in theological schools. Should borrowed money be used more often to underwrite strategic growth?

All amounts owed by a school are listed as liabilities on its statement of financial position.[15] Every school has some liabilities. These debts and obligations may be modest and short-term, such as bills to be paid the following month. However, they may also include large future obligations, such as building loans, mortgages, or bonds. It is the latter kind that is in question here. Because institutions, like individuals, can become burdened with debt, it is important to assess both the capacity to borrow and the advisability of doing so.

1.3.2. Borrowing for Capital Improvement

The most common reasons that schools borrow are to build or renovate facilities. Often such borrowing is for the short or intermediate term. Many schools hope eventually to pay for such projects through capital fund-raising campaigns, but the timing of the various gifts and pledges may require some intermediate borrowing. For instance, a school may have pledges of three million dollars for building renovation, the pledges to be paid over a five-year period. In order to begin the work, the institution may take a building loan, since all pledges will not yet have been paid. Once the project is completed, the school hopes that pledges will be honored and the building loan paid off. Borrowing under these circumstances, though somewhat burdensome because interest payments are added to the institution's annual expenditure budget, may be the cheaper alternative, because construction costs can increase quickly while a project is postponed to wait for pledges to be paid.

Sometimes, however, an institution may take out a long-term loan for

Many schools cannot expect that a capital project will "pay for itself" by housing additional income-generating educational activity.

a capital project, with the expectation that the project will help the school expand its operations and revenue. The project, will, in other words, "pay for itself" by housing additional income-generating educational activity. The common-sense view in business is that the capital expenditure enabled by the loan should generate a greater return to the organization than the cost of the loan. For instance, borrowing to expand or modernize a factory is done to generate additional net revenue by meeting additional demand for the product, lower operating costs, or both. The return from the capital expenditure is projected to be greater than the principal and interest payments the organization is required to make. Colleges and universities use a similar rationale for borrowing, arguing that the improvements in facilities can handle greater enrollment, justify higher fees, and help win increased government grants and contracts.

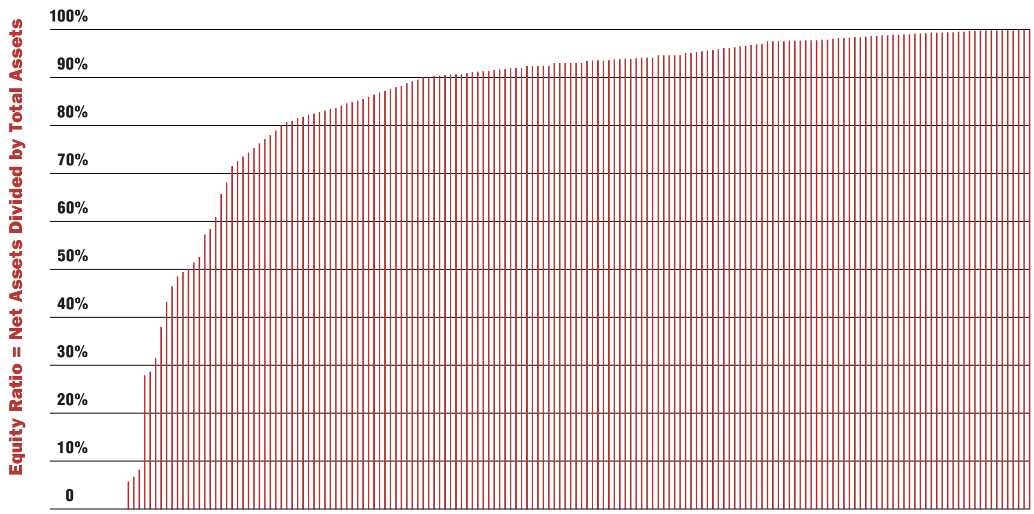
Do theological schools borrow to get their investment back in increased net revenues? A straightforward comparison of the cost of capital (i.e., the amount the school must repay) with the increased net revenue that the capital expenditure will generate is not easily done for theological schools. While the cost of capital is easily calculated, the net revenues generated by the capital expenditures are not always identifiable. What revenues would dramatically increase due to the capital expenditure? Demand for theological education, as we will show below, is sluggish; there is significant price competition for bright, mobile students; and schools are under pressure to keep costs down and student educational debt at manageable levels. Moreover, theological schools rarely if ever get federal contracts for sponsored research. Although some schools can project an increase in net revenues from capital expenditures, many, for the reasons cited, cannot.[16] In short, the economic payback is often uncertain. For this reason, capital fund-raising is often preferred to long-term debt.

1.3.3. Borrowing for Operations

Revenues do not flow into schools at an even pace. Sometimes there is more than enough cash to pay bills and meet payroll, while at other times cash is short. From time to time schools borrow to overcome such cash flow difficulties. This short-term borrowing is neither unusual nor, in and of itself, particularly dangerous.

It does become dangerous, however, when the school borrows to fund significant operating deficits. Borrowing to

Figure 1.3.4: 1998 Theological School Equity Ratios from Lowest to Highest



Data source: The Association of Theological Schools

cover the deficits cannot go on forever. Eventually the school will exhaust its credit limits and slide into insolvency and bankruptcy. Borrowing to finance a deficit should cause deep concern among trustees and other overseers and supporters of the institution.

1.3.4. Borrowing: Are the Right Choices Being Made?

Figure 1.3.4 shows the equity ratio of theological schools The equity ratio, as defined by the U.S. Department of Education, constitutes the net assets of the school (that portion of the school which the school owns free and clear, sometimes referred to as "fund balances") divided by the total assets.[17] As shown on the chart, most theological schools have an equity ratio of over ninety percent. This means that very few schools have significant debts to outside lenders.

It is important to note that "debt" as shown on this chart refers only to funds borrowed from outside lenders. Some schools may employ internal financing. That is, the school may borrow from its discretionary reserve funds rather than from an external creditor such as a bank.[18] In such cases the reasoning often goes like this: outside lenders charge interest, which must (along with repayment of the capital) be paid eventually from some new revenue source. To avoid this, schools borrow from themselves—from their own invested assets. Available data do not permit us to measure the extent to which this is the practice in theological schools.

It is important to note that internal borrowing may well be legal (legality depends on donor restrictions and what kind of assets the institution owns), but it is often a questionable move. One strong argument against internal financing is that while external creditors will demand regular payments of principal and interest in accordance with the loan agreement, weak administrations and boards may not discipline themselves

Investments in new facilities and capacities may make the school better, but they don't necessarily generate large amounts of revenue.

sufficiently to adhere to properly scheduled repayment of internally borrowed funds. Furthermore, although the "loss" of funds by this method is less visible than outright interest payments, it may be just as great. Amounts almost equivalent to (and sometimes greater than) interest payments will not flow to the school, because funds that would have been earning those amounts in investment markets are being used for internal financing.

The kind of debt financing we can measure, the external kind, does not appear to play much of a strategic role in theological education. While colleges and universities use debt leverage to upgrade facilities and programs in order to attract more students,[19] theological schools have avoided debt.

Why are theological schools so hesitant to borrow and so much more likely to seek funding from donors for new programs and projects? This habit may be an expression of church and ecclesial traditions and values, but could also be attributed to hardheaded realism about revenues. Investment in new facilities and capacities may make the school better, but they don't necessarily generate large amounts of revenue. Principal and interest payments could burden rather than benefit future programs.

In some cases, the reluctance to borrow may cause new opportunities to go unseized, but, in general, we think that the conservatism of theological schools about borrowing is wise. As already noted, financial return on new educational investments is not great in the world of theological education, especially at the present time of stagnant enrollment. The pay-as-you-go habits of most theological schools make sense in this environment, and may well contribute to their remarkable record of institutional persistence and survival.

Incurring debt makes institutions vulnerable to insolvency and bankruptcy when revenues fall; theological schools avoid foreclosure by avoiding debt. Falling revenues may weaken them—their financial assets suffer, their buildings accumulate deferred maintenance, and the quality of their programs deteriorate—but without debt many manage to limp through periods of great difficulty.

2.0 Major Choices: Enrollment

2.1. Enrollment Trends

2.1.1. Growth or Shrinkage?

A key strategic issue for any theological school is whether or not to grow. Although there are several dimensions to growth, including faculty size, extent of facilities, annual budget, and amount of funds in reserve (endowment), usually these all hinge on the number of students a school decides it will educate. Auburn's survey of the big picture in enrollment showed that the trends in numbers of students are different in the different streams of religious tradition that comprise the Association of Theological Schools. Because growth or shrinkage is heavily influenced by contextual factors, we begin this look at enrollment choices by studying the enrollment situation in these groups.

As this survey will show, theological schools offer a variety of degree programs, and the variety is increasing. The impression may linger that seminaries are mainly devoted to clergy preparation from pre-ordination through the Master of Divinity (M.Div.) degree, but offerings are in fact more varied. Most institutions offer a number of master's degrees in addition to the Master of Divinity. Some of these are primarily designed to prepare leadership for churches, while others emphasize scholarly activities. A minority of institutions also offers advanced degrees for research, such as the Doctor of Philosophy (Ph.D.) and Doctor of Theology (Th.D.) degrees, sometimes on their own and sometimes jointly with university departments of theology or religion. Degrees for advanced ministerial leadership constitute the final broad category of programs offered. These degrees include the Doctor of Ministry (D.Min.), the Doctor of Missiology (D.Miss.), and the Doctor of Education (Ed.D.)

2.1.2. Mainline Protestant Theological Schools

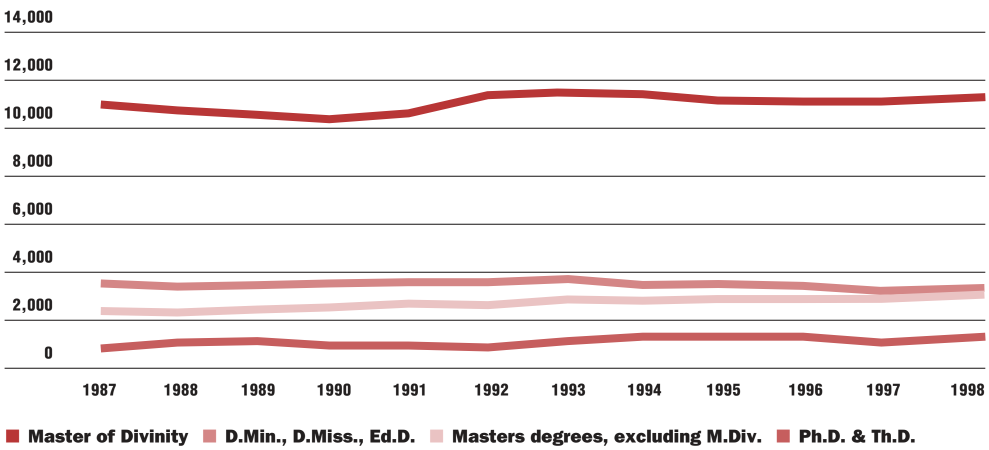
Master of Divinity students are the solid core of enrollment in mainline Protestant schools because the denominations served by these schools generally expect their ordained clergy to have earned the Master of Divinity degree. Some of these institutions have "diversified" into other masters' and more advanced degree programs, but in mainline schools the Master of Divinity remains the central focus.

The aggregate demand for the Master of Divinity degree is stagnant in mainline schools. Figure 2.1.2 shows twelve years of head count enrollment.[20] The generally observable trend is a slight decline year-to-year, except for an upward surge in the fall of 1992. This stagnation is apparent (although not shown on Figure 2.1.2) for both denominationally-affiliated and non-denominational mainline schools. Table 1 shows that the stagnation is even a little bit deeper than shown by Figure 2.1.2, because full-time equivalent growth rates lag behind head count growth rates. In other words, a school may have as many students as it did previously, but more of them are part-time.

The data presented in Figure 2.1.2 show the aggregate total of eighty-nine schools. Stagnation is the general experience, when the schools are treated in aggregate, but of course the experiences of individual institutions are more various: some schools grew while others declined.

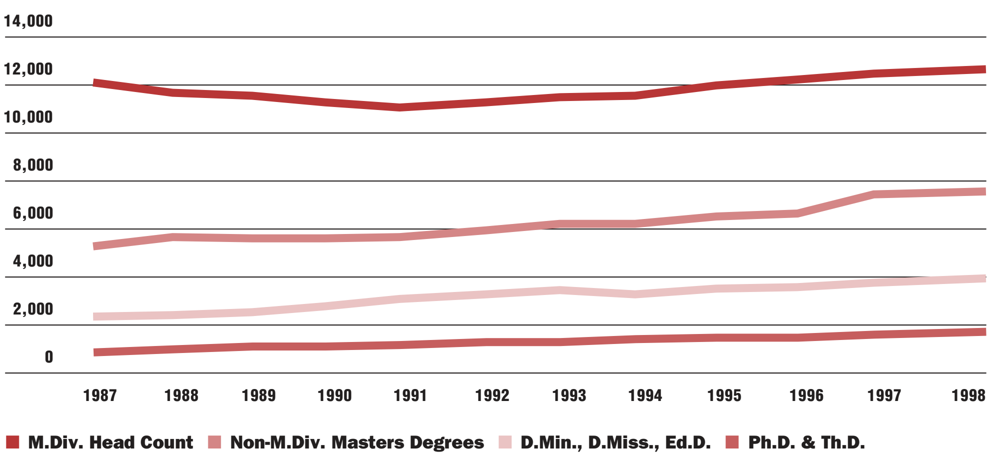
Stagnation is also the general condition in advanced degree programs. Doctor of Ministry enrollments grew

Figure 2.1.2: Head Count Enrollment in Mainline Theological Schools, by Degrees



Same 89 Schools Reporting

Figure 2.1.3: Head Count Enrollment in Evangelical Theological Schools, by Degrees



Same 49 Schools Reporting

rapidly in the 1970s, but leveled off in the mid 1980s. The enrollment in the D.Min. and similar degrees has been in slow, gentle decline since then. Advanced research and teaching degrees—the Ph.D. and Th.D.—have generally been flat as well.

Last, we note that enrollment in non-M.Div. masters' degrees has grown modestly, at the rate of 2.6 percent per year over the past twelve years, less steeply in the past five years than before.

In summary, the degree programs in mainline Protestant schools over the past twelve years show no dramatic growth—rather, they often show decline. The general stagnation means that most mainline schools face a real challenge if they want to grow or even maintain their enrollment "share" in a sluggish market.

2.1.3. Evangelical Protestant Schools

Figure 2.1.3 charts enrollment in evangelical Protestant schools in the same degree program categories as Figure 2.1.2. Master of Divinity enrollment shows a decline from 1987 through 1990, but then begins to rise steadily. Indeed, slow but steady growth seems to characterize evangelical schools as a group. As with the mainline group, however, the experience of individual schools varies greatly.

Compared with mainline schools, evangelical schools show a higher proportion of students enrolled in non-M.Div. masters' degree programs. There may be many reasons for this, but

Table 1

AVERAGE ANNUAL GROWTH OR (DECLINE) OF ENROLLMENT IN MAINLINE THEOLOGICAL SCHOOLS. SAME 89 SCHOOLS REPORTING.

Degree Program	*1994-1998, Five Years*	*1987-1998, Twelve years*
Master of Divinity Headcount	(0.3%)	0.5%
Masters Degrees Full Time Equivalent	(1.1%)	0.2%
Non-M.Div. Masters Headcount	1.5%	2.6%
Non-M.Div. Masters FTE	0.7%	2.6%
D.Min., D.Miss., and Ed.D. Headcount	(2.7%)	(0.4%)
Ph.D. and Th.D. Headcount	(1.2%)	0.0%

AVERAGE ANNUAL GROWTH OR (DECLINE) OF ENROLLMENT IN EVANGELICAL THEOLOGICAL SCHOOLS. SAME 49 SCHOOLS REPORTING.

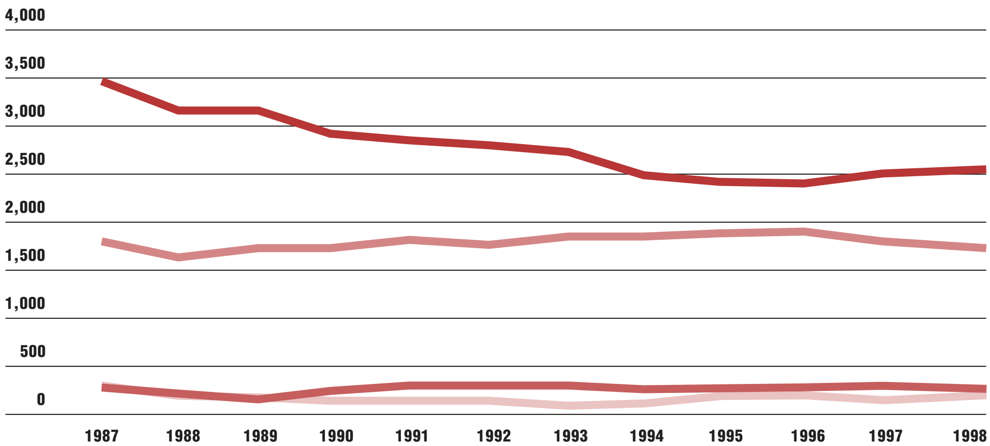
Degree Program	*1994-1998, Five Years*	*1987-1998, Twelve years*
Master of Divinity Headcount	2.1%	0.5%
Masters Degrees Full Time Equivalent	0.9%	(0.2%)
Non-M.Div. Masters Headcount	2.2%	2.6%
Non-M.Div. Masters FTE	0.3%	2.0%
D.Min., D.Miss., and Ed.D. Headcount	5.1%	4.8%
Ph.D. and Th.D. Headcount	6.5%	5.0%

AVERAGE ANNUAL GROWTH OR (DECLINE) OF ENROLLMENT IN ROMAN CATHOLIC THEOLOGICAL SCHOOLS. SAME 44 SCHOOLS REPORTING.

Degree Program	*1994-1998, Five Years*	*1987-1998, Twelve years*
Master of Divinity Headcount	0.7%	(3.1%)
Masters Degrees Full Time Equivalent	0.8%	(2.6%)
Non-M.Div. Masters Headcount	(1.2%)	0.7%
Non-M.Div. Masters FTE	(2.2%)	1.0%
D.Min., D.Miss., and Ed.D. Headcount	4.0%	(3.7%)
Ph.D. and Th.D. Headcount	1.6%	(0.0%)

Note: The average growth calculation computes the trend of the data as a straight line using the least squares method. The annual change in enrollment thereby obtained is divided by the average enrollment for the period.

Figure 2.1.4: Head Count Enrollment in Roman Catholic Theological Schools, by Degrees



■ M.Div. ■ Non-M.Div. Masters ■ D.Min. and Similar Degrees ■ Th.D and Ph.D.
Same 44 Schools Reporting

one is economic. Many evangelical denominations do not require the three-year Master of Divinity degree for their clergy. Students affiliated with those denominations, as well as those seeking independent ministries and ministries with parachurch organizations, may decide to enroll for a two-year master's degree program, thereby saving a year of time and tuition.

One vehicle for growth has been the establishing of extension learning sites, that is, the offering of courses toward a degree program at a site some distance from the main home campus.[21] Evangelical schools have established more satellite centers than have mainline schools.

Two other points about evangelical schools' enrollment may be gleaned from Table 1. As in the mainline schools, full-time-equivalent growth lags behind the growth rate of head count enrollment, confirming the trend of more and more part-time students. Second, when comparing types of degree programs, one notes that the advanced degrees, though the smallest segments, are the fastest-growing degree programs in evangelical theological education.

2.1.4. Roman Catholic Schools

The shortage of candidates for ordination into the Roman Catholic priesthood is well-known. Figure 2.1.4 documents facts that have not received much attention: the decline in M.Div. enrollment at Roman Catholic seminaries slowed considerably after 1994, and headcount enrollment has actually risen since then. It is not possible to predict whether this rising trend (so slight that it should probably be viewed as a plateau) will continue, or whether M.Div. enrollment at Roman Catholic schools will rise or fall in the future. But Table 1 shows that the five-year trend in M.Div. enrollment is better than comparable trends in mainline Protestant schools.

Other Roman Catholic degree programs have shown ups and downs over the past twelve years. Much like the mainline Protestants, the enrollment trends here seem relatively stable or stagnant.

2.2. Strategies for Schools That Want to Grow

Using the information in the *Strategic Information Report,*[22] institutions can plot their own enrollment trends and compare them with those of their larger religious family. Based on these comparisons and other factors, each institution can set goals for its ideal size.

Decisions about size should include considerations treated in this report, such as financial strength, and others, such as the physical and educational capacity the school has already built. Such decisions should also focus on the issue of selectivity. Using their own data or those provided in the *Strategic Information Report,* institutions will be able to examine their own selectivity (percentage of applicants accepted) and yield (percentage of those accepted who choose to enroll).[23] Some schools will find that in their masters'-level programs they are not highly selective. The *median* acceptance rates for ATS-member schools appear on Table 2. The medians are high, and half of all institutions have rates higher than the medians. In some cases, this may be because the institution is required to accept all approved candidates sent to it by its supporting religious body. In many others, however, the high rate is a sign that there are not many more applicants than slots available. For institutions that screen their applicants, rates at or over the median (or even under it, with mid-points as high as these) should cause institutions that already accept almost all who apply to ask themselves whether they can find additional students of sufficient quality.

Table 2:

PERCENTAGE OF APPLICANTS ACCEPTED IN ALL ACCREDITED ATS SCHOOLS 1995-97

Degree Program:	
Master of Divinity	87%
Master in Religious Education	93%
Master in Church Music	82%
Master in Specialized Studies	84%
Master in Pastoral Studies	89%
Master in General Theological Studies	86%
Master of (Sacred) Theology	79%

Some institutions will conclude that growth is necessary for and consonant with their mission. In the next section, we look at seminary enrollment in its broadest context and raise further questions about whether institutions should aim to grow.

2.2.1. Growth through Adding New Degrees

A number of institutions have achieved considerable growth over the past three decades by adding new programs. Especially prominent has been the Doctor of Ministry degree, a degree initially developed in the early 1970s. D. Min. programs grew rapidly throughout the middle 1980s. Some schools continue to contemplate the development or expansion of the D. Min. as a means of growth.

The second type of degree showing long-term growth has been the non-M. Div. masters' degrees in theological studies, pastoral studies, or in a special discipline such as counseling or religious education. Schools without much programmatic diversity beyond the M. Div. have often found it relatively easy

The fixed costs of an extension site for graduate degree programs are high.

to meld a one-year or two-year master's program with the three-year M. Div.

Both of these paths to growth remain available to institutions that have not heretofore taken them, although it should be noted that the "market" for the Doctor of Ministry degree is not growing and that no major new program type from which all schools may benefit seems to be on the horizon.

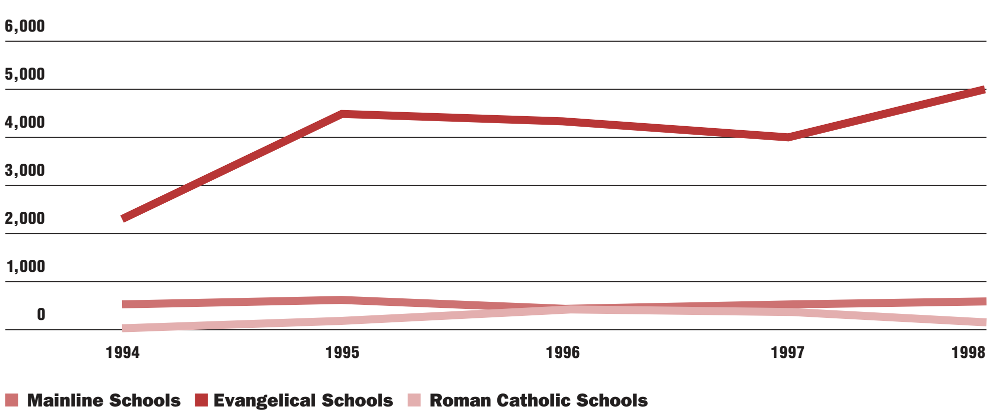
2.2.2. Growth through Extension Programs and Sites

Some schools have found extension sites to be one way of increasing enrollment. Figure 2.2.2 shows the head count enrollment in those extension sites that offer degree instruction. Evangelical schools have over nine times the enrollment in extension centers as mainline Protestant schools, and evangelical school enrollment in extension centers has risen over the five years shown. This strongly suggests that a major reason evangelical schools are growing is their greater use of extension sites.[24] The main campus may still be the administrative center and locus of residential programs, but the school may also have strong tentacles—like an octopus—in several cities.

Currently, in many theological schools there is a group of students for whom the school's nearby location of the school was a major factor in their choice of that institution. Students

Figure 2.2.2: Head Count Enrollment in Distance Learning Programs or Extension Sites Through Which More than Half of a Degree May be Earned.

All Schools Reporting to the Association of Theological Schools



for whom location is an important factor are older and more likely to be married.[25] It has been observed that older, married students who are concerned about location, are less likely to be members of the school's sponsoring denomination than are other students.[26] As a result, more and more institutions now function as interdenominational seminaries within their regions.

The data strongly suggest that there is unmet demand—numerous potential students—in cities and regions that do not have seminaries.[27] But before a school—after concluding that it needs or wants to grow—decides to open an extension center or program, the major challenges of such a move must be considered.[28]

Some of these challenges are logistical. Registration, library services, student services such as academic and vocational counseling, and administrative facilities (for instance, for payment of fees) must be made available at the extension site. Then there are issues of faculty deployment. Many extension centers make extensive use of adjunct faculty, thereby requiring of the institution extra means of assuring itself that content and other standards for degree education are met. Frequently, institutions must juggle faculty assignments and schedules so that regular faculty can teach in the extension centers. This causes complications and repercussions for teaching and governance on the main campus.

Another set of issues is financial. The fixed costs of establishing and maintaining an extension site capable of instruction in graduate degree programs are high. Most extension sites, to be financially feasible, must generate significant tuition revenue. Some schools, after carefully investigating their options, have concluded that many sites are not financially feasible unless local co-sponsors provide a subsidy.

2.2.3. Growth through Traditional Recruitment Techniques

Thus far we have looked at adding new sites, programs, or activities as means of growth. Now we turn to other approaches. Auburn Center research suggests that many current students are mobile and can choose among theological schools. If a school wishes to attract more of these students, it must induce them to choose that school rather than a competitor.

One way of doing this is to ensure that the institution's recruitment efforts are strong. The effectiveness of the recruitment office should be evaluated: incompetence or unplanned disruptions in recruitment activities can have profoundly adverse effects on the number recruited. Other steps to improve recruitment might include more and better advertising and closer contact with colleges, churches, and other organizations that have traditionally steered students to the school.

Many schools could benefit from careful study of the contact, recruitment, and application process as it affects prospective students. Such studies identify the threshold barriers that prevent prospective students from taking the next step in the process of inquiry, application, and enrollment. Some barriers, surprisingly enough, may be those constructed by the school itself. One example is the requirement of lengthy application essays when such essays are hardly ever used in the decision to accept or deny admission. The time and effort such steps demand can discourage potentially worthy applicants. The study could also identify the competition for students, and whether or not the competitors are other theological schools, other graduate schools, or other forms of work or occupation.

2.2.4. Pricing

An institution's pricing decision—how much to charge for a degree and how much to discount the price through financial aid grants—seeks to accomplish two goals that are at odds with each other. One goal is to set rates of tuition and financial aid that will attract students on the basis of price and net cost. The other is to increase net revenue for the school.

The tension between these two aims increases in a climate of stagnant demand for educational services. An institution that wants to generate more net revenues from tuition will probably have to increase its tuition rate because it will be unable to create increases in the volume of enrollment. The rise in rate may have negative impact on the number of persons enrolling. And rarely does an institution get to keep its entire rate increase. Tuition revenues are often offset by grants of financial aid. That is, a school may increase the amount of tuition, fees, and rents it charges to students, but may simultaneously increase its grant expenditures to assist needy or meritorious students.

In addition to these two negative results of price increases (potential decreases in numbers recruited and elevated aid budgets), theological schools also worry that rising costs force students to burden themselves with greater educational loans. Some debt burdens become unmanageable. Schools whose students borrow considerable amounts may (or should) feel a moral or ethical restraint in increasing net costs to students.[29]

Pricing, then, is a balancing act. Our overview of the financial and enrollment data of all ATS schools suggests that

An institution's pricing decision seeks to accomplish two goals that are at odds with each other.

aggressive pricing is not a strategy that many institutions have found workable. Tuition rates for theological education are generally lower than those for masters' degrees in social work, public policy, liberal arts, education, or counseling. In observing the low prices charged for theological education, we speculate that competition for students and, perhaps, ethical restraint, has kept prices low, even in institutions that because of their reputations are more selective than most others.

The need to set levels of financial aid makes the pricing decision even more complex. There is no objective research in the field of theological education that measures the extent to which a school can "buy" a student body. Anecdotal observations are numerous. Some schools with extremely generous financial aid struggle for students, while others, with very limited grants, are flourishing. These and other stories suggest that some students may be persuaded to attend a particular school because of financial aid, but that most students are relatively unswayed by personal finances in the selection of a school.[30]

We observe, however, increasing financial competition for certain students. Special awards and scholarships are increasing in number and amount. These awards—often for full tuition plus books and other expenses—are designed to attract prospective students thought to be highly capable. It is not unusual for a gifted applicant to receive several of these merit scholarships from competing schools. The strategy behind such awards is not primarily to increase the size of the student body, but to increase its quality. High-achieving students can inspire their classmates, improve the quality of the learning community, and, in years to come, burnish the reputation of the school through their leadership in the church.

The pricing decision is thus the result of numerous variables that must be taken into account. A high absolute rate of tuition may characterize a school as a market leader or simply as an expensive institution that prospective students may decline for a cheaper one. Looking below the surface, the net cost to students might make some difference in student-body size and quality as students compare financial aid packages from different institutions. Internally, the need for increased revenues may be partly or wholly offset by the school's values—values that include shielding the students from burdensome loans which could threaten the effectiveness of their future ministries.

2.2.5. Reputation: Faculty, Theological Posture, and Specialization

There are additional ways to compete. Various studies have shown that, when students are given a free choice, the most important factor in their decision is the school's reputation for educational quality.[31] Auburn Center data suggest that individual "super-star" faculty members are not an important factor in masters'-level theological students' choice of school. However, the overall "reputation of a school for educational quality" is ranked higher than any other

If free to choose a school, the most important factor in a student's decision is the school's reputation for educational quality.

factor in school choice. Exactly how reputation for quality is established is not known, but it is likely that visible publications by faculty members, their prominence at church and educational conferences, and the high-profile leadership of presidents and other senior administrators beyond their institutions all have impact. Schools should remember, when considering policies that affect the amount of "outside" activity in which faculty and other school leaders can engage, that their visibility beyond the institution may be the most powerful factor in student recruitment.

Also influential are the theological posture and denomination of the institution. Recently, many institutions, in response to the demand for local theological education from students of many denominations, have de-emphasized their denominational ties. While this strategy attracts some students, our data suggest that it be used with discretion, because it may send others to competing institutions with more distinct theological or denominational profiles.

Specialization—offering opportunities for specific or topical focus within existing degree programs—is another tactic that may draw students. Currently, the availability of specialized programs does not rank high among the reasons students give for school choice, but this may be because relatively few such specializations are available. In other words, specialized programs, like extension centers, may attract some students who otherwise would not have gone to seminary. This approach deserves special consideration from institutions that do not have the resources to compete with the "Goliaths" of their religious tradition and that cannot find the resources to branch out to another site.

Notes

1. The data used in the *Strategic Information Report* and this report come from the annual report forms each member school submits to the Association of Theological Schools.

2. There are schools that, after years of financial and enrollment struggles, enthusiastically embraced an institutional transformation through a refocused purpose, a new alliance with another school, or a merger. But the accumulation of circumstances led them to this change—it was not the result of "clean slate" planning.

3. Usually a school has a mixture of *"true" endowment*—funds permanently restricted by the donor in such a way that the principal must be invested and never spent—and funds *functioning as endowment.* Funds functioning as endowment are funds that—according to the stipulation of the board (not the donor)—are to be treated as if they were endowment.

4. Matthew Zyniewicz and Daniel Aleshire, editors, *Fact Book on Theological Education* (The Association of Theological Schools, Pittsburgh, 1998).

5. "Mainline" schools generally include those schools affiliated with mainline denominations and independent schools whose constituency and posture generally reflect those of the mainline schools. "Evangelical" schools are so designated if the school's president is a member of the Fellowship of Evangelical Seminary Presidents. If an otherwise "mainline" seminary president is a member of the Fellowship of Evangelical Seminary Presidents, the school is classified as "evangelical." If 1998 data were not available, the most recent available data were used. The mainline and evangelical schools were further divided into schools closely associated with a denomination and schools independent of denominations (or whose affiliation is to multiple denominations). Our shorthand phrase for those schools is "nondenominational." We found few interesting enrollment differences between denominational and nondenominational schools within

the mainline and evangelical classifications. The fourth denominational type, namely Anabaptist schools, are too few in number to discuss here. Data from a small sample of schools are too easily affected by school issues or denominational dynamics to be of general use.

6. I Samuel 17: 38-39.

7. The reserve ratio calculated here is actually the combined reserve ratio. It is the sum of the primary reserve ratio and the secondary reserve ratio. The numerator in the primary reserve ratio is the expendable net assets of the school. The expendable net assets are the unrestricted net assets plus the temporarily restricted net assets, less the fixed assets, plus outstanding long-term debt. The numerator in the secondary reserve ratio is the permanently restricted net assets. The denominator in each case is annual expenditures. The *Strategic Information Report* displays all three ratios in Charts 2.1.2. and 2.1.3. A detailed discussion of these ratios may be found in *Ratio Analysis in Higher Education,* Third Edition, Independent Institutions, by KPMG Peat Marwick LLP and Prager, McCarthy & Sealy, 1995, pp. 10-12.

8. One cannot precisely calculate another school's reserve ratios from data published by the Association of Theological Schools. The published data on each school are simply not detailed enough. One can, however, make an approximation using data from the ATS *Fact Book.* One can take as the numerator the "Long Term Investment" from Table 1.2 of the *Fact Book* and divide it by the "Expenditures—Total" shown on the same table for an approximate measure of reserve strength. In some instances, denominational groups of schools have been known to share audited financial data with one another. In those instances, the reserve ratios may be computed from the audited financial statements using the KPMG publication referenced earlier.

9. Jackson W. Carroll, Barbara G. Wheeler, Daniel O. Aleshire, and Penny Long Marler, *Being There: Culture and Formation in Two Theological Schools* (New York, Oxford University Press, 1997).

10. The source of the data, as mentioned previously, is the annual report forms of The Association of Theological Schools. Those forms, as on most aggregate financial statements, do not distinguish gifts by source.

11. The *Strategic Information Report* shows operating surpluses and deficits, using the five percent endowment spending rule, on Chart 2.2.1a and Chart 2.2.1b.

12. Schools may determine their combined reserve ratio (vertical) position by referencing Chart 2.1.3 of the *Strategic Information Report.* They may determine their horizontal position by adding the last three years surpluses and deficits from Chart 2.2.1b. and dividing that total by the last three years total expenditures from Chart 2.2.4..

13. Henry E. Riggs, "The Limits of Fund Raising," *The Chronicle of Higher Education* (May 3, 1996), p. B1.

14. Anthony Ruger, "Lean Years, Fat Years," *Auburn Studies* (New York: Auburn Theological Seminary, December 1994).

15. Theological schools affiliated with colleges or universities, and some schools associated with orders or dioceses, may not have a separate statement of financial position.

16. One decision that is subject to conventional economic analysis is the decision to begin a new distance-learning program or extension site. One can weigh the capital expenditures needed against the future cash flows from tuition. As mentioned previously, some schools have found that extensions need direct subsidy to break even.

17. The equity ratio is the complement of the more commonly used (in business) debt-equity ratio.

18. Internal use of discretionary funds does not usually pose legal problems. Boards need to be extremely careful, however, in contemplating the borrowing of permanently restricted funds or "true" endowment funds. They should consult competent legal counsel before any action is taken. Such funds usually carry legally enforceable obligations to fulfill the donor's wishes that the funds be preserved and invested.

19. Martin Van Der Werf, "Colleges Turn to Debt to Finance Their Ambitions" and "Poor Bond Ratings Don't Deter Some Colleges from Seeking More Debt," *The Chronicle of Higher Education* (March 19, 1999), pp. A38ff.

20. The data, from The Association of Theological Schools, are from 89 schools that consistently reported their enrollment from 1987 to 1998.

21. Extension centers may be accredited to offer partial or full degrees.

22. See Chart 3.1.3 in the *Strategic Information Report.*

23. See Chart 3.1.5a, Chart 3.1.5b, Chart 3.1.5c, Table 3.1.6a, Chart 3.1.6a, Chart 3.1.6b, Chart 3.1.6c, and Table 3.1.6b in the *Strategic Information Report.*

24. This conclusion is only suggested. The enrollment figures in Figure 2.2.2 include certificate, unclassified, and casual students, whereas the enrollment shown on previous charts only reflects students enrolled in degree programs.

25. A study of seminary students, forthcoming from the Auburn Center, shows that students' marital status is strongly connected with their ratings of "convenience of location" as a factor in seminary choice. Married students are significantly more likely to give this factor a high rating than are single students. Student age, which correlates closely with marital status, is also strongly associated with high ratings of convenience of location. Women students are also more likely to say that convenience of location matters to them. Women students are more likely to be older, but less likely to be married, than men. There are no significant relationships between ratings of convenience of location as a factor in seminary choice and the degree program in which students are currently enrolled.

26. This hypothesis remains to be tested in the Auburn Center's current research.

27. We draw this conclusion from two findings. "Convenience of location" is rated lower than most other factors in seminary choice by the entering students we surveyed in 1999; at the same time, most enrollment growth in recent years is related to the establishment of extension sites and centers. We conclude that the student body of seminaries overall contains relatively few students for whom location is the determinant, whereas sites that do not yet have a local option for theological education may contain a potential enrollment pool.

28. We do not discuss here the educational issues raised by extension education. There are no conclusive studies of the educational effectiveness of these arrangements. Arguments for the maximum account of contact between students and the school (not only faculty, but also other students and extra-curricular and co-curricular activities) are set forth in Jackson W. Carroll, Barbara G. Wheeler, Daniel O. Aleshire, and Penny Long Marler, *Being There: Culture and Formation in Two Theological Schools* (New York, Oxford University Press, 1997).

29. Anthony Ruger, "Manna From Heaven?" *Auburn Studies* (New York, Auburn Theological Seminary, April 1995).

30. Auburn's new student survey data confirm this view. Financial considerations, along with convenience of location, are significantly less important in students' selection of a seminary than the denomination, theological position, and reputation for quality of the school.

31. See note 30. See also Edgar W. Mills, The Study of Theological Education—Students and Graduates: A Report to the General Assembly Special Committee to Study Theological Institutions, The Presbyterian Church (U.S.A.), Louisville, KY, February 1992.

DESIGN: CYNTHIA GLACKEN ASSOCIATES, INC. ILLUSTRATION: NICULAE ASCIU

About Auburn Theological Seminary

Auburn Seminary was founded in 1818 by the presbyteries of central New York State. Progressive theological ideas and ecumenical sensibilities guided Auburn's original work of preparing ministers for frontier churches and foreign missions. After the seminary relocated from Auburn, New York, to the campus of Union Theological Seminary in New York City in 1939, Auburn ceased to grant degrees, but its commitment to progressive and ecumenical theological education remained firm.

As a free-standing seminary working in close cooperation with other institutions, Auburn found new forms for its educational mission: programs of serious, sustained theological education for laity and practicing clergy; a course of denominational studies for Presbyterians enrolled at Union; and research into the history, aims and purposes of theological education.

In 1991, building on its national reputation for research, Auburn established the Center for the Study of Theological Education to foster research on current issues on theological education, an enterprise that Auburn believes is critical to the well-being of religious communities and the world that they serve.

About Auburn Studies

Singles copies of this issue of *Auburn Studies* are free. Multiple copies are available for the cost of printing, mailing, and handling, typically $3 per copy. This issue and all back issues of *Auburn Studies* are also available on the web at www.auburnsem.org. To be placed on the Auburn Center's mailing list or to request copies of this or other Auburn Center publications, write to: Rachel Bundang, The Auburn Center, Auburn Theological Seminary, 3041 Broadway, New York, NY 10027 or contact us via e-mail at cste@auburnsem.org.

Auburn Center Staff

Barbara G. Wheeler, Director
Mark N. Wilhelm, Associate Director
Rachel A.R. Bundang, Data Manager and Research Associate

Auburn

Theological

Seminary

Center for the

Study of

Theological

Education

3041 Broadway

at

121st Street

New York, NY

10027

Tel: 212.662.4315

Website: www.auburnsem.org

Email: cste@auburnsem.org