AUBURN STUDIES

SEEK AND FIND?

REVENUES IN THEOLOGICAL EDUCATION

ANTHONY RUGER / AUBURN THEOLOGICAL SEMINARY/ APRIL 2005

About this Issue

This is the fourth in a series of decennial studies of revenue in theological education in the U.S. Earlier studies found that theological schools varied considerably in the level of denominational or church support that they received, and that most schools, even those with strong denominational support, were turning increasingly to individual donors for contributions. During the 1980s, theological institutions, like many others, enjoyed low inflation and excellent investment returns. Schools entered the 1990s on an optimistic note. Inflation continued to be low, contributions had increased, and the markets kept rising. This report will describe what has happened to the revenues of U.S. theological schools since 1991. Growth—or rather, the search for growth—is a theme of this report. How have revenues grown and can growth be anticipated in the future?

The previous report on revenue in theological education, "Lean Years, Fat Years: Changes in the support of Protestant theological education" (1994), as well as all back issues of *Auburn Studies,* may be found on the Center's website: www.auburnsem.org.

About the Author

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SEEK AND FIND?

REVENUES IN THEOLOGICAL EDUCATION

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Where do theological schools find financial support when contributions from denominations continue to decline? Can these institutions expect increased tuition revenue in the next decade? How important are individual donors for the future of the seminary? How can schools avoid the roller-coaster ride of the markets when they are dependent on investment returns? This report is the fourth in a series that tracks the financing of theological institutions in the United States.

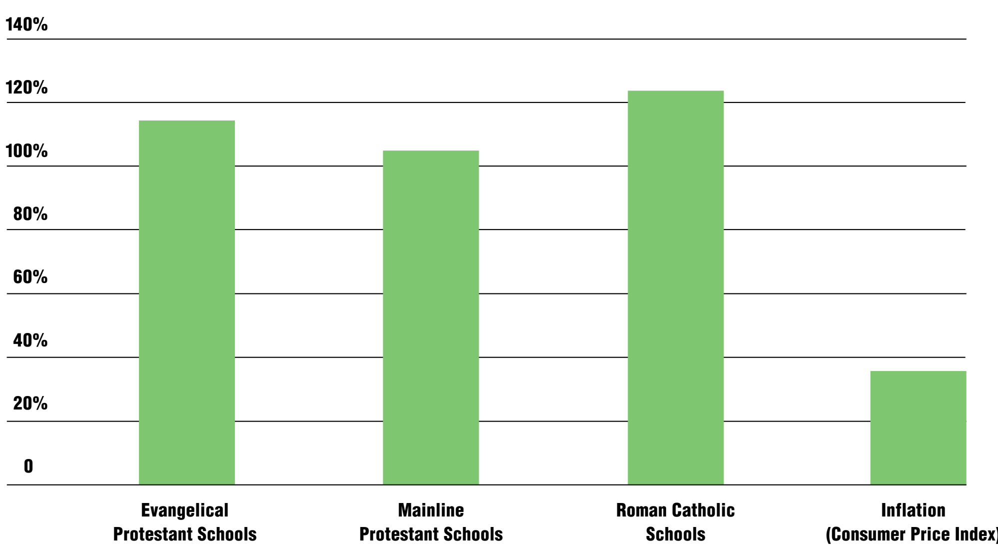
Introduction

Where do theological schools find support? This is the fourth in a series of decennial studies of revenue in theological education in the United States. Badgett Dillard, until his death the executive Vice President of Southern Baptist Theological Seminary, conducted the initial study of the seminary funding patterns of eleven Protestant denominations in 1971.[1] Dr. Dillard updated his study using data from 1981, bringing in Anthony Ruger as a collaborator.[2] Anthony Ruger updated the study in 1991 following Dr. Dillard's death in 1986.[3] Each study has benefited from the assistance of the Association of Theological Schools in the United States and Canada (ATS), which has made data available for analysis. Consistent with Dillard's original investigation, this research focuses on U.S. theological schools; however, the study has expanded beyond the original eleven denominations that Dillard studied to include all accredited Protestant, Roman Catholic, and interdenominational and nondenominational schools in the United States.

Dr. Dillard's research concluded that no particular pattern of acquiring and distributing resources was superior to others, but that the level of support was dependent on the commitment of the denomination to its schools and to theological education. The studies of 1981 and 1991 confirmed the original findings and uncovered a new trend: denominational schools that had been dependent on church support, whether from local churches, regional judicatories, or national denominational bodies, found that those revenue sources were not growing as rapidly as the schools expected and hoped. Denominational support for some institutions had, in fact, declined in purchasing power over this time period. Typically, schools made up the difference through gifts from individuals. Seminaries that had never solicited funds established development offices, hired professional fundraisers, and began to expand the number of contributing friends serving on their governing and advisory boards.

The combination of high inflation and poor investment markets in the

Figure 1: Educational and General Revenue Growth, by School Tradition, 1991–2003



Source: ATS Database

1970s wounded many schools. The next decade was dramatically different. During the 1980s, theological institutions, like many other organizations, enjoyed low inflation and excellent investment returns. Schools entered the 1990s on an optimistic note. Inflation continued to be low, contributions had increased, and the markets kept rising.

This report will describe what has happened to the revenues of U.S. theological schools since 1991. Growth—or rather, the search for growth—is a theme of this report. How have revenues grown? Can growth be anticipated in the future?

An Overview of Revenue Growth and Revenue Proportions

Revenues of theological institutions have grown substantially over the past twelve years. Figure 1 shows the educational and general revenue growth for U.S. theological schools by religious tradition.[4] All three groups more than doubled their revenues. Roman Catholic schools led the way, with 124 percent growth. The Protestant schools were not far behind, with evangelical Protestant schools increasing resources by 115 percent and mainline Protestant schools by 104 percent. This revenue growth far outpaced inflation, whether measured by the Consumer Price Index, as shown in Figure 1, or by the Higher Education Price Index.[5] Such better-than-inflation growth could or should help schools defray rising costs, address longstanding needs, initiate or enhance programs, and increase their reserves.

Not all schools grew at the same rate, of course. A few—about 10 percent—found revenue growth very difficult to achieve, but they were the small minority. Ninety percent of schools found that their educational and general revenues outpaced the Consumer Price Index.

Schools also varied in their revenue mix; that is, in their proportions of different types of revenue. Differences show up in aggregate categories when schools are divided by religious tradition. The pie charts (Figures 2–4) show that evangelical Protestant schools rely on gross or undiscounted tuition for 41 percent of revenue, and gifts from individuals and churches for another 41 percent.[6] Roman Catholic schools are

Figure 2: Average Educational and General Revenue, Evangelical Protestant Schools, 2003

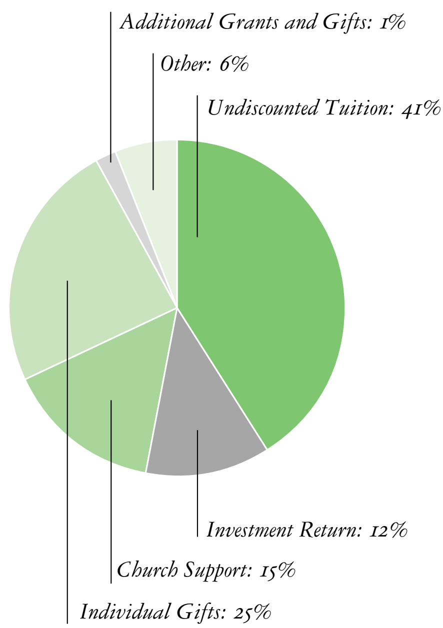


Figure 3: Average Educational and General Revenue, Roman Catholic Schools, 2003

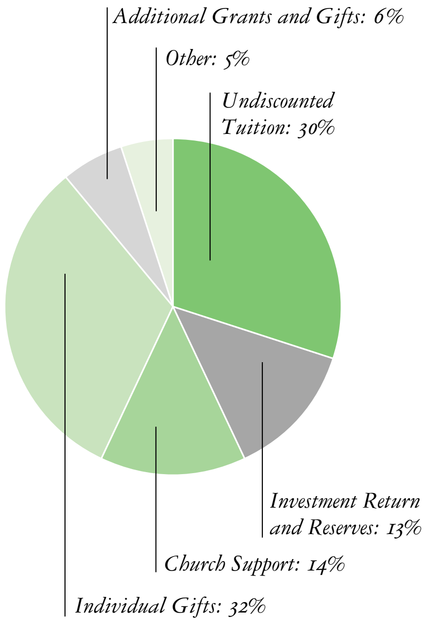
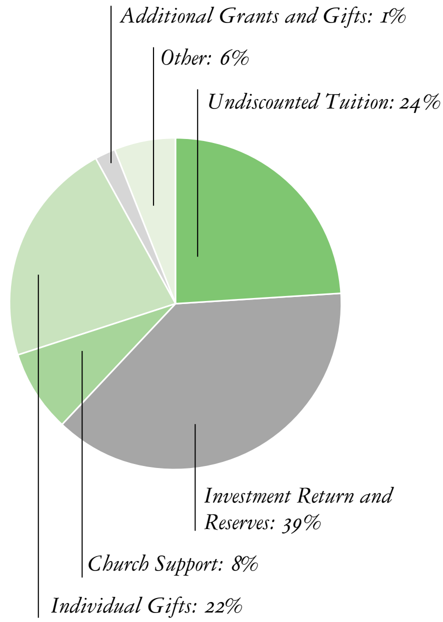


Figure 4: Average Educational and General Revenue, Mainline Protestant Schools, 2003



heavily dependent on gifts and church support (52 percent of revenue), and then on gross tuition (30 percent). Mainline Protestant schools have a different pattern. They depend on investment returns for 39 percent of revenue, then gifts and church support (31 percent), tuition (24 percent), and other sources. Of course, individual schools vary within each denominational classification. Some evangelical Protestant and Roman Catholic schools rely heavily on investment return, just as some mainline Protestant schools rely on tuition and fees.

Is there a perfect mix of revenues? The issue is debatable. Some scholars have put forward the commonsense notion that a nonprofit organization is better off if it has many revenue streams, not just a few.[7] In this view, a school with four equal sources of revenue—tuition, investments, individual gifts, and church support—is less vulnerable than a school that is overwhelmingly dependent on a single revenue source.

Substantial support from each of several sources may be the ideal, but the goal of balanced revenue sources should not dominate the efforts of a school's management. Some sources of revenue are easier to grow than others; administrators should seek to increase total revenues without unduly worrying about the individual proportions. For example, a school dependent on and successful at raising funds from individuals should not necessarily divert attention and resources from that task to the more difficult and less lucrative task of lobbying for increased allocations from denominational headquarters. There are also reasons to avoid increasing some revenue types. If, for instance, tuition rates rise too sharply, students who take out loans to pay tuition may be overly burdened. It is wise to have a diversity of revenue sources and prudent to understand a school's vulnerabilities when it is heavily dependent on one or two sources, but there are no norms that prescribe correct proportions of revenue.

The sections that follow examine the various revenue streams that support theological schools, explore some of the underlying trends in those streams, and attempt to answer the question: Where should theological schools seek funds for their future?

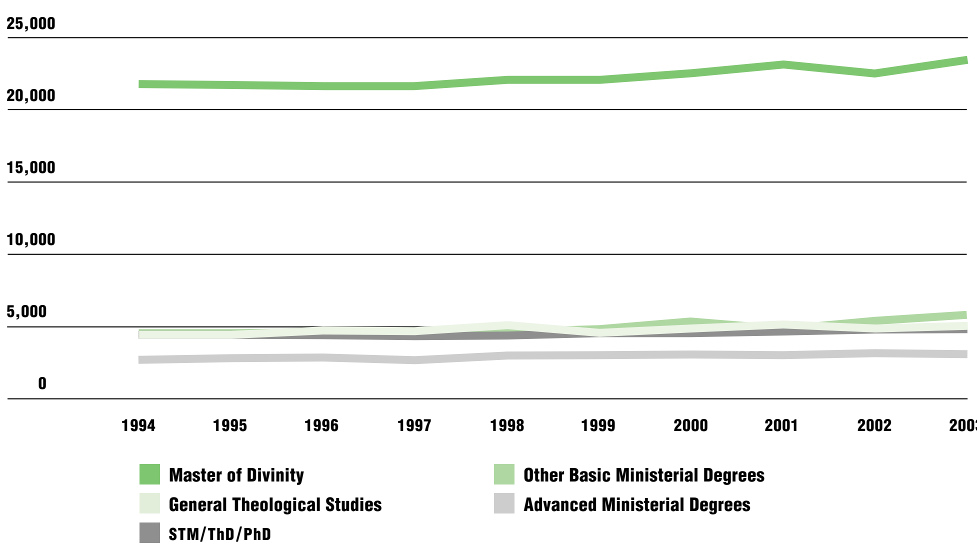
Tuition

Tuition revenue depends on three factors: volume, price, and discount rate. Volume refers to the number of students enrolled. Price is the rate the school charges, more commonly known as the tuition rate. A final factor is the discount rate—tuition minus financial grants in aid—given to students. The discount lowers a school's overall net revenue.

ENROLLMENT VOLUME: A LOW-GROWTH ENVIRONMENT

Demand for graduate theological education in North America has been stagnant. Figure 5 shows full-time equivalent enrollment by degree categories in 212 schools reporting to the ATS from 1994 to 2003.

Figure 5: Total Full-Time Equivalent Enrollment by Degrees, 1994-2003



Source: ATS Data Base

The Master of Divinity (MDiv) degree, often the degree required for ordination, has the largest enrollment. Enrollment in MDiv programs is growing, but almost imperceptibly, at less than 1 percent per year (0.8 percent). Table 1 summarizes the long-term growth of enrollment by degree program groups.

Figure 6 shows non-MDiv degree enrollment more clearly than Figure 5. Advanced ministerial degrees, which include the Doctor of Ministry (DMin), Doctor of Missiology, and Doctor of Education, showed a growth rate of one percent per year. Enrollment in Master's degree programs oriented to general theological study (as distinct from those oriented to ministry) also grew slightly, averaging the same 1 percent per year. Advanced theological degrees, such as the Master of Sacred Theology and Doctor of Philosophy (PhD), also grew at 1 percent per year. Only basic ministerial degrees other than the MDiv showed an increase of greater than 1 percent in this time period.

Figure 7 shows these other basic ministerial degrees. Among them are master's-level degree programs in education, music, and the Master of Pastoral Studies, each of which shows little or no growth. However, strong growth is shown in enrollment in specialized master's degrees, such as those in counseling, world mission, spiritual formation, and so forth. Many of these degrees have been developed only in recent years, and the enrollment in them has more than tripled in the last eighteen years. Just as enrollment in DMin programs grew rapidly with the introduction of the degree in the 1970s, schools initiating specialized master's degrees are experiencing some modest growth. These focused offerings may attract students who might not otherwise consider enrolling in theological education. Specialized offerings may also serve to make schools more broadly attractive in a competitive environment.

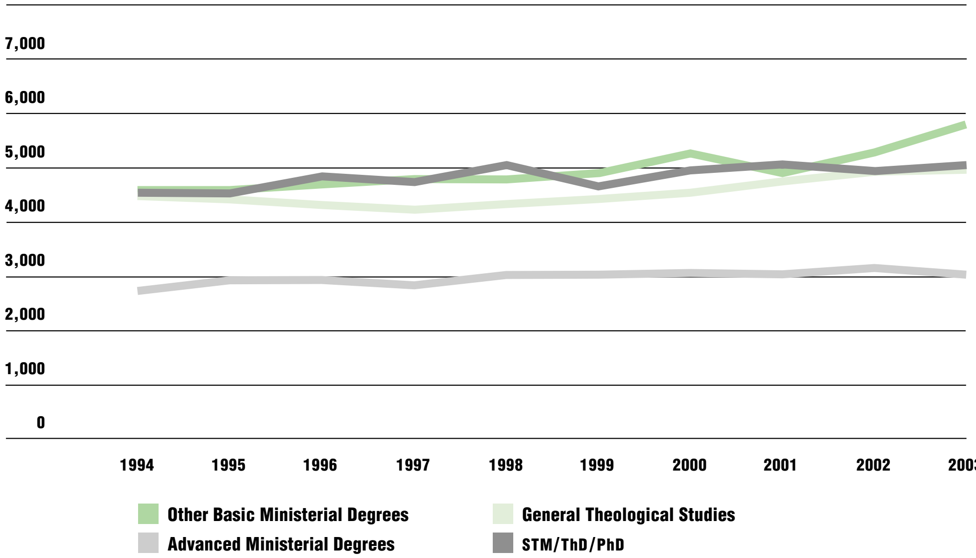
Schools have also expanded enrollment through extension sites. Many schools have established branches in distant cities and towns, providing a variety of program services through those branches. These extension centers vary widely in their configuration and in the levels of education they provide. Some offer only occasional courses for

Table I: Average Full-Time Equivalent Enrollment Growth by Degrees, 1994-2003

Master of Divinity	0.81%
Other Basic Ministerial Degrees	2.68%
Advanced Ministerial Degrees	1.01%
General Theological Degrees	1.05%
STM/ThD/PhD	1.00%

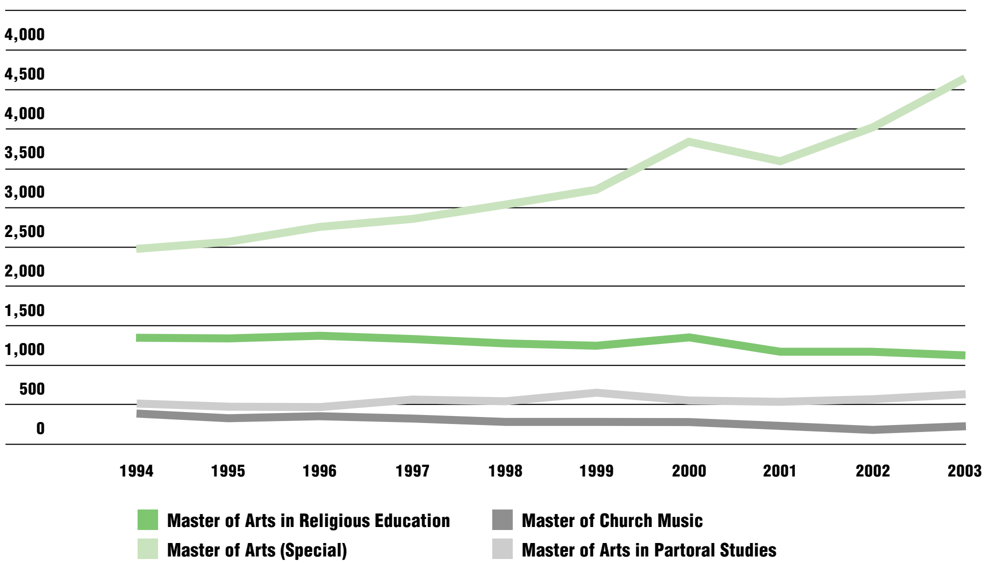
Source: ATS Database

Figure 6: Total Full-Time Equivalent Enrollment by Degrees, 1994-2003 (Excluding MDiv)



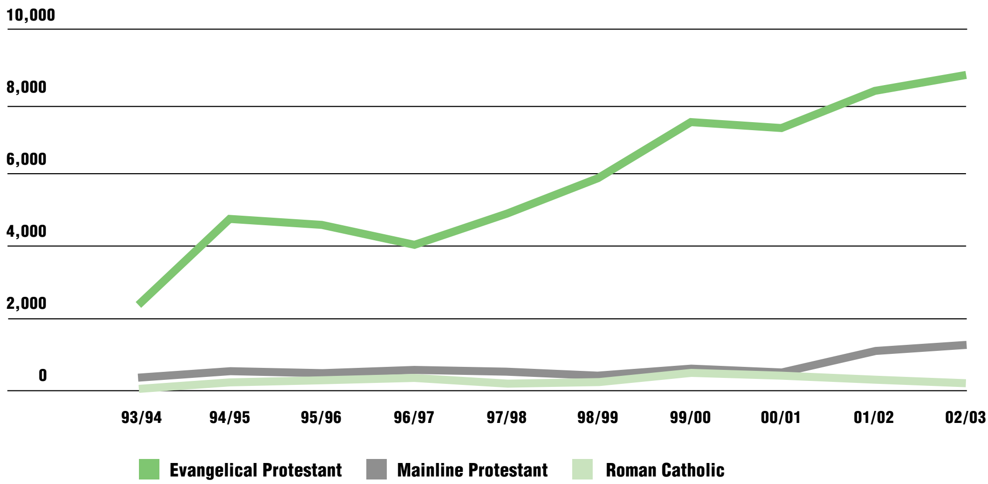
Source: ATS Data Base

Figure 7: Total Full-Time Equivalent Enrollment for Master's Degrees, 1994-2003 (Excluding MDiv)



Source: ATS Data Base

Figure 8: Total Enrollment in Extension Centers, by School Tradition*



Source: ATS Data Base

*Included are only those centers where half or more of the credits required for an ATS-approved degree may be earned.

credit; others are full-scale programs, offering complete degrees and enrolling hundreds of students. Figure 8 shows the enrollment growth in extension programs that offer at least half the credits needed for an ATS-approved degree. As can be seen in this chart, evangelical Protestant schools have been the prime movers in the development of extension sites. Extension education has not been pursued in mainline Protestant and Roman Catholic institutions to the same extent.

SEEKING GROWTH

What should a school do if it wishes to increase enrollment? The data clearly indicate that the general demand for traditional theological education is not rising at a significant rate. Growth in enrollment at particular schools, therefore, will probably not happen without some deliberate efforts to attract more students. Whom might a school target? There are three groups of potential students.

Students who could attend other seminaries. One way to grow is to become more competitive; that is, to attract students who are desirable to a number of schools. Schools can try to burnish their reputations, build useful ecclesiastical relationships, invigorate their marketing, and increase their scholarship grants in an effort to attract the undecided mobile student. Some denominational schools, for instance, have emphasized the multidenominational character of their faculties and student bodies in order to attract a broad mix of applicants. Others have created new tracks within existing programs. For instance, MDiv programs at some schools may have special tracks or emphases in rural or urban ministry, and thereby increase the attractiveness of the degree to some students. Many schools have special foci for particular racial/ethnic groups. Such strategies are designed to entice students who might otherwise be interested in another school.

Students who face barriers to their attendance. Among those confronting barriers are people who cannot participate in a traditional, residential, full-time, daytime program. Often older, with family and financial responsibilities, such students find it extremely difficult, if not impossible, to leave their full-time occupation to take up residence on a seminary campus or to enroll in full-time studies. Thus the principal barrier for these potential students is what economists call the opportunity cost. The student loses the opportunity to earn his or her full-time employment compensation if he or she attends seminary as a traditional daytime student.

The solution devised by a number of institutions is to reengineer academic schedules and curricula to offer evening and weekend schedules, and special intensive classes to serve this population. These institutions have grown or at least maintained their enrollment by attracting increasing numbers of part-time, commuter students.

Another barrier for some would-be seminary students is geography. Many students do not attend seminary because, in addition to opportunity cost, there is no local site within commuting distance. Schools tell stories of heroic students who commute hundreds of miles weekly, but these students are few in number. As noted earlier, the solution some institutions have found is education by extension, as schools reach out to cities and regions where potential students are underserved. Extension education is challenging, however. Seminaries considering extension formats should carefully study the incremental costs and revenues of the proposal, as many fail to generate tuition revenue sufficient to cover the costs. Very few schools can afford to subsidize extension sites over the long haul.

Students who might not otherwise attend theological school. Another market for seminaries is those who have not previously considered a seminary education. One form this effort is taking is programs that increase awareness and knowledge of church professions among college students and others contemplating new careers. With foundation support, some seminaries and divinity schools are sponsoring such programs. The Fund for Theological Education and some denominational organizations are also mounting broad efforts of this sort.

Seminaries considering extension education should carefully study the incremental costs and revenues of the proposal.

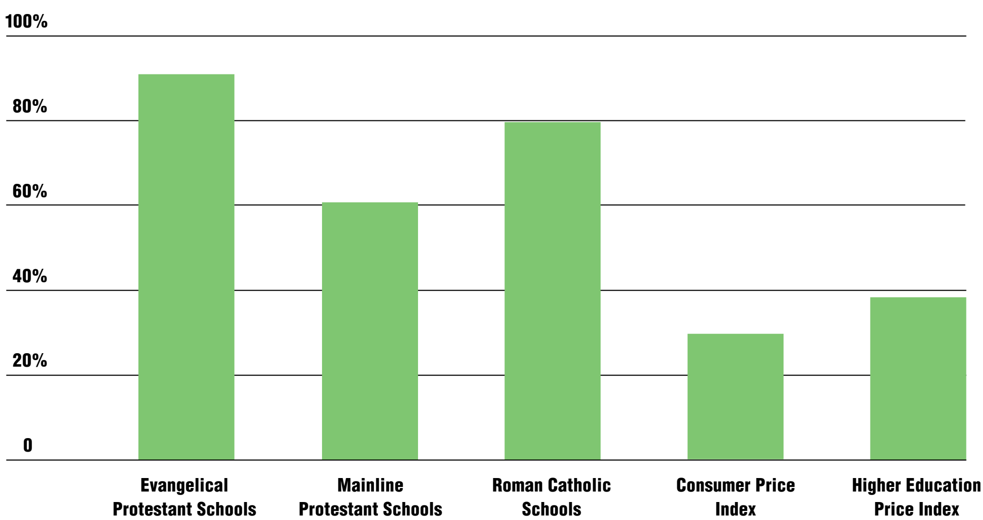
The other form this approach may take is to develop specialized programs for new constituencies. The growth of specialized degrees reported above is a sign that some schools are offering new products to attract new populations. The various master's degrees in special, concentrated areas such as marriage and family therapy and counseling, intercultural studies, mission and evangelism, spiritual formation, ethics, and other subjects serve to attract students with particular interests and related occupational goals. These students would not, in many cases, be interested in enrolling in the more general theological master's degree or the MDiv degree.

Adding a specialized program can add expenses, especially if the school must expand its faculty roster in order to have adequate breadth and depth in a subject area. Here also, some careful financial analysis is advisable. Adding programs works well when one can add a substantial number of students without adding substantial costs. In decades past, many schools added DMin programs without adding many faculty members. Similarly, many Roman Catholic schools have added the Master of Pastoral Studies degree for laity seeking to serve in parishes without adding overly burdensome costs.

TUITION RATES: INCREASING THE COST OF A COMPARATIVELY INEXPENSIVE EDUCATION

Tuition rates for the MDiv degree have risen steadily over the past dozen years.[8] Figure 9 shows that the average theological school (whether evangelical or mainline Protestant, or Roman Catholic) increased tuition for the MDiv degree in excess of inflation over the period. The graph shows a substantial cumulative

Figure 9: Average per School Increase in MDiv Tuition, by School Tradition, 1991-2001



Source: ATS Database

Table II: Annual Average per School Increase in MDiv Tuition, by School Tradition, 1991-2001

Evangelical Protestant Schools	6.7%
Mainline Protestant Schools	4.8%
Roman Catholic Schools	6.1%
Higher Education Price Index	3.4%
Consumer Price Index	2.7%

Source: ATS Database

increase, but the increase actually occurred gradually, year by year, typically increasing by 5 or 6 percent each year (see Table 2). (The theological schools' tuition increase was similar to other increases in higher education.[9]) Inflation, which was quite low during the decade, averaged less than 3.4 percent per year when measured by the Higher Education Price Index and less than that—only 2.7 percent per year—when measured by the Consumer Price Index.

Despite these increases, theological school tuition is modest. The MDiv is inexpensive, less than two-thirds the average cost of private undergraduate education. The average school charged less than $10,000 for tuition in 2003–2004. Other kinds of graduate professional education, such as business and law schools, charge much more on average than theological schools.

Low tuition rates, however, do not always mean that students can comfortably bear increased costs. Compensation for clergy and other church professionals is modest, and increasing amounts of educational debt carried forward from undergraduate education and incurred during seminary are putting greater stress on recent graduates.[10]

NET TUITION: DISCOUNTING THROUGH FINANCIAL AID GRANTS

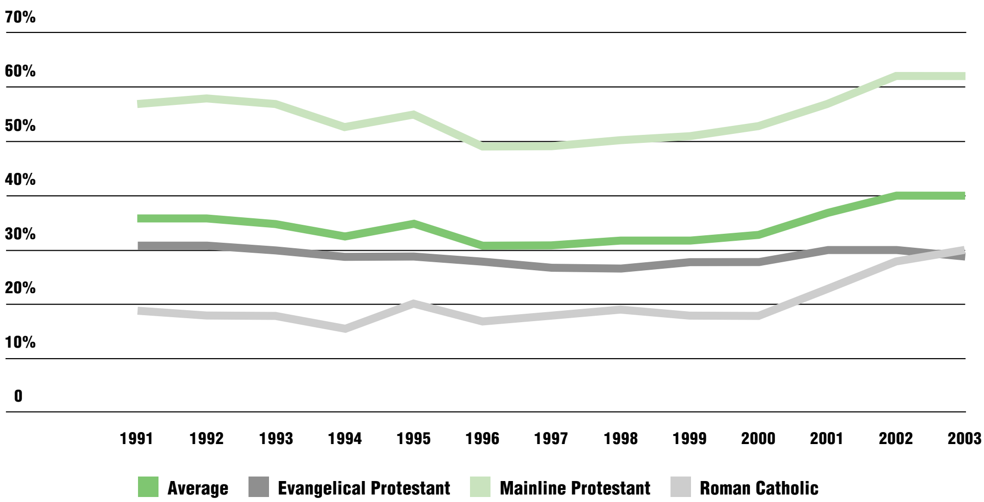
Gross tuition revenue is the product of volume multiplied by the amount charged. In recent years, volume has been relatively flat, while the modest amount charged has increased rather sharply. The *net* tuition revenue of a school is the gross tuition revenue less discounts; namely, the amounts given to students in the form of financial aid grants.

How the grants are distributed and how the level of grants is determined differs from school to school. Some institutions provide grants based on a student's financial circumstances. Such grants are called need-based. There are, in addition, merit scholarships; larger awards given to prospective students who seem to be especially qualified. Advocates of merit awards say that they help schools compete for the best students. A number of institutions offer both need-based and merit grants.

Grant levels are also influenced by the amount of gifts and endowment returns that donors have restricted to student scholarships. Many schools supplement their restricted revenues with unrestricted funds for the competitive reasons cited above, and to smooth out year-to-year variations in gifts and investment returns restricted to financial aid.

Levels of financial aid usually vary by degree program. Typically, full-time residential master's degree students (including the MDiv) and PhD students

Figure 10: Scholarships as a Percentage of Tuition Revenue, by School Tradition, 1991-2003



Source: ATS Data Base

receive the largest financial aid grants. DMin students, on the other hand, are usually employed full-time and pursue their studies part-time. Their cost of attendance, consequently, is less than that of a full-time MDiv student.[11] Schools recognize the lower need and therefore give few grants to DMin students. If a school wishes to increase net tuition revenue through enrollment increases, it is often advisable for the school to try to increase DMin enrollment, because almost all of those tuition dollars are retained.

Figure 10 shows the trends in discount rates, or the proportion of gross tuition devoted to financial aid grants. Overall, the tuition discount rate has changed very little, fluctuating between 31 percent and 40 percent. Mainline Protestant schools, which charge the highest tuition, typically give the most financial aid. Since 1995 their discount rate has grown from 49 percent to 62 percent of tuition charged. Put another way, the current net tuition revenue in mainline Protestant schools is 38 cents of every tuition dollar charged. Evangelical Protestant schools charge less, but spend fewer scholarship dollars. Their discount rate, in aggregate, has averaged 30 percent over the last decade. The aggregate discount rate for Roman Catholic schools has increased in the past five years, reaching 30 percent of gross tuition in 2002–2003.

There are vast differences in the level of scholarship support from school to school. Some schools' scholarship grants exceed the amount of tuition collected. Those schools, as must be obvious, have other sturdy sources of revenue. At the opposite end of the spectrum are schools that are much more dependent on tuition and that find themselves able to allocate very little, if any, unrestricted funds to scholarship aid.

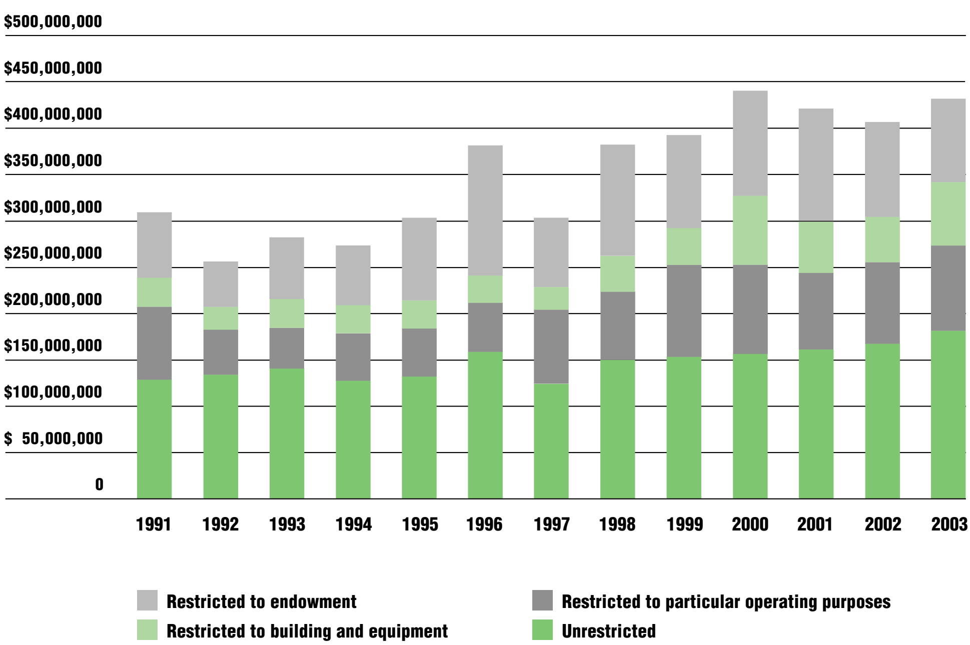
How important is tuition revenue in financing the theological school? It is not as important as it is to most colleges and universities. The median percentage of expenditures covered by net tuition is less than one-third for theological schools: about 28 percent for evangelical Protestant schools, 25 percent for Roman Catholic schools, and only 11 percent for mainline Protestant schools. Small, independent, four-year colleges, by contrast, depend on net tuition to fund nearly half (47 percent) of their expenditures.[12] Most theological schools get the majority of their financing from other sources.

Gifts and Grants

GIFTS BY PURPOSE

Figure 11 shows the trend in total gifts to 143 U.S. theological schools from 1991 through 2003. The overall trend is upward, from less than $300 million per year in 1992–1994 to more than $400 million each year from 2000 onward. Figure 11 also shows, in the stacked bars, the broad purposes to which donors restricted their gifts. The largest share of gifts—40 to 50 percent—was unrestricted. Gifts for restricted operating purposes (such as student scholarships and faculty support) and endowment account for approximately another 40 percent. Gifts for buildings and equipment, usually less than 10 percent of the total, make up most of the balance.[13]

Figure 11: Total Gifts and Grants by Purpose, 1991–2003



Source: ATS Data Base

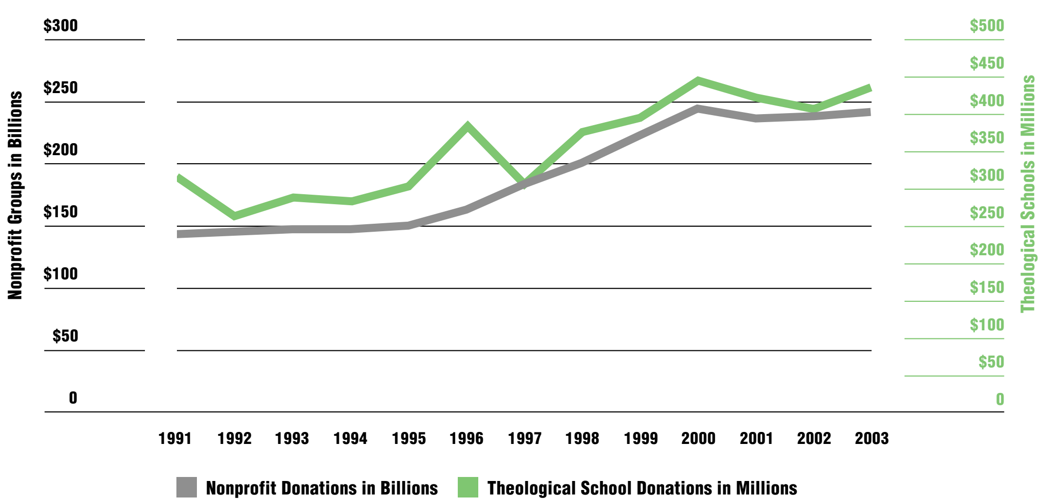
Many endowment campaigns wax and wane over several years and many endowment gifts arrive in the form of bequests.

The least predictable of these gift categories are those associated with endowments. Many endowment campaigns wax and wane over several years and many endowment gifts arrive in the form of bequests. It is not unusual for a school to receive hundreds of thousands of dollars in bequests one year and almost nothing the next.

The general trend in total giving to theological education in the United States roughly parallels total gifts to nonprofit organizations. Figure 12 plots the gifts to nonprofit groups on the left axis and gifts to theological schools on the right axis. Both graphs show an acceleration of gifts between 1995 and 2000. This increase may be related to the extended rising market in stocks of the mid to late 1990s, and to increased sophistication and effectiveness of theological school fundraising.

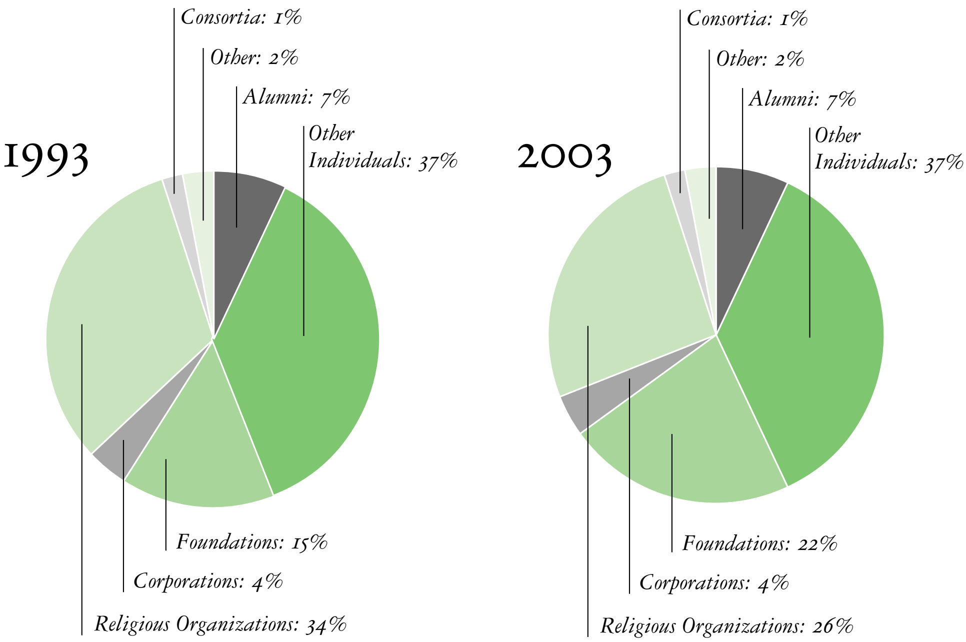
Individual school results showed much greater variability. Some schools' fundraising efforts languished, while others fared very well. For most, gift increases did not come in steady increments, as did tuition revenue, but

Figure 12: Comparison of Donations to Nonprofit Groups and Theological Schools



Source: ATS Data Base; American Association of Fundraising Counsel (AAFRC) Trust for Philanthropy

Figure 13: Total Gifts by Source *(Gifts from Persons Include Bequests)*



Source: ATS Database

rather by occasional jumps interspersed with fallow periods. As mentioned previously, the intermittent receipt of bequests contributes to this variability. Variability is also to be expected when years of highly visible capital campaigns are interspersed with periods of quiet cultivation.

WHO IS GIVING TO THEOLOGICAL EDUCATION?

Figure 13 compares the sources of gifts in 1993 and 2003. The proportions contributed by alumni and other individuals and corporations (often in the form of matching gifts) have hardly changed. There is a noticeable decline in the percentage contributed by religious organizations, matched by a proportionate increase in grants from foundations.

The declines in religious organizations' support of theological institutions are not new; they have been documented in these revenue reports over the last three decades.

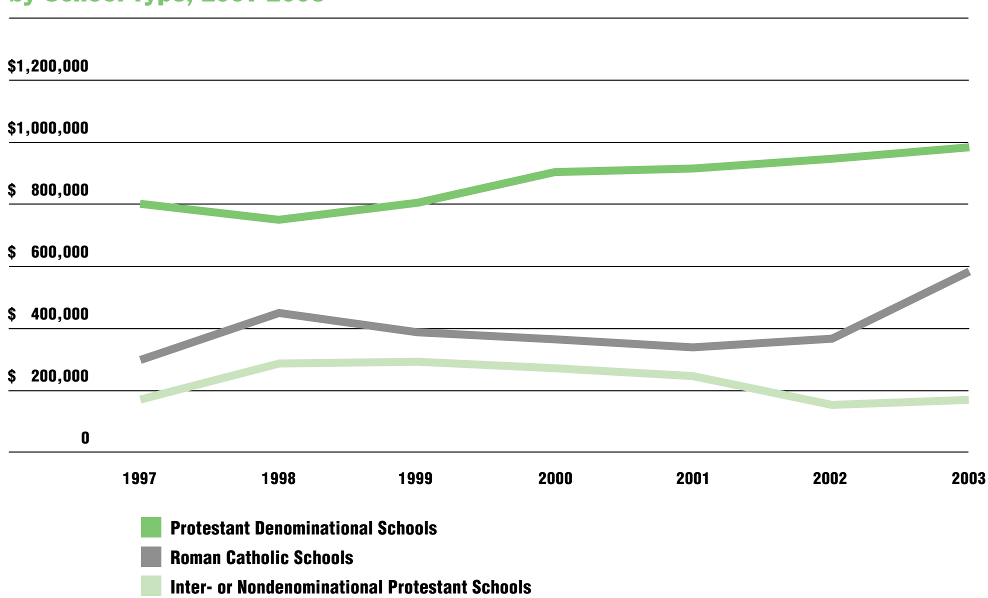
GIFTS FROM RELIGIOUS ORGANIZATIONS

Donations from religious organizations include gifts and grants from local churches, from regional judicatories such as dioceses and conferences, from religious orders, and from national and international denominational bodies. One would expect that denominationally related schools would have greater support from church bodies than independent schools. Figure 14 confirms this hypothesis. Interdenominational and nondenominational Protestant schools, lacking a single supporting denomination, have the lowest average level of gifts per school from religious sources. Protestant denominational schools, larger on average than Roman Catholic schools, receive the most funding from church sources.

Most gifts from religious sources (80 percent) support general operations. The prior studies in this series carefully tracked the church support given for operations in nine Protestant denominations and their predecessor denominations. These data show that denominations have had considerable difficulty in maintaining operating support for their schools. Figures 15A and 15B show that schools from only three of these nine Protestant denominations—American Baptist, Southern Baptist, and United Methodist—garnered more operating church support in 2001 than in 1991.[14] None of the Protestant denominational school groups, however, received more operating support after inflation is taken into account.[15] Indeed, some Protestant denominational groups lost as much as 40 percent of the purchasing power of their church support for operations over the decade.

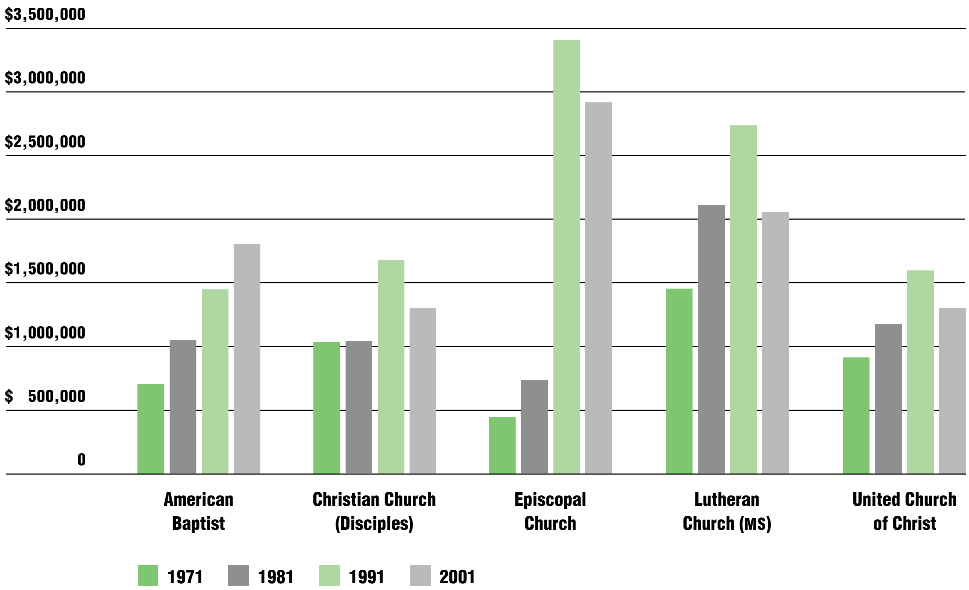
The more positive view of church support is that these funds can be counted on from year to year, and that, in most cases, no unusual effort on the part of the seminary is required to secure this denominational support.

Figure 14: Average Gifts per School from Religious Sources, by School Type, 1997-2003



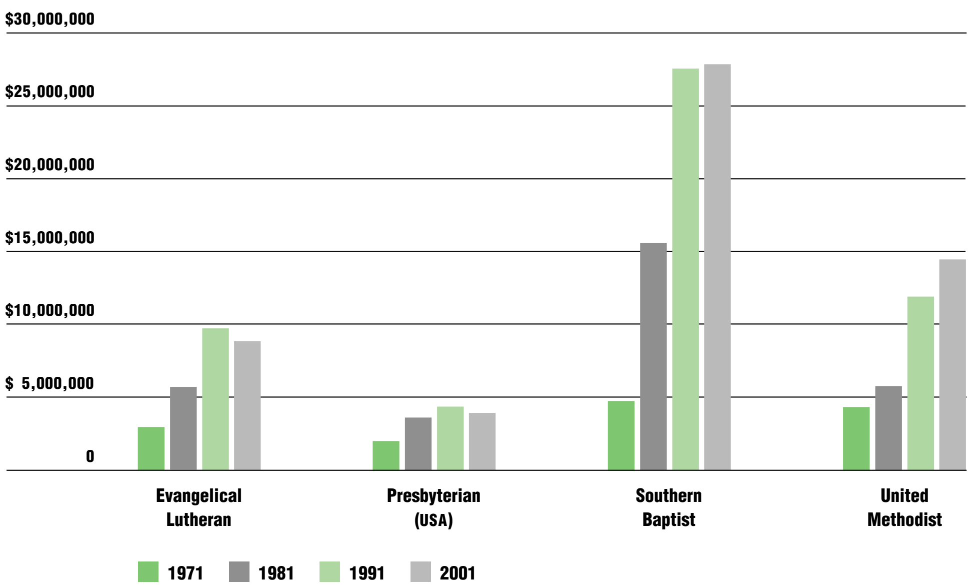
Source: ATS Data Base

Figure 15A: Operating Gifts and Grants from Church Sources, by Denomination (< $3,500,000), 1971–2001



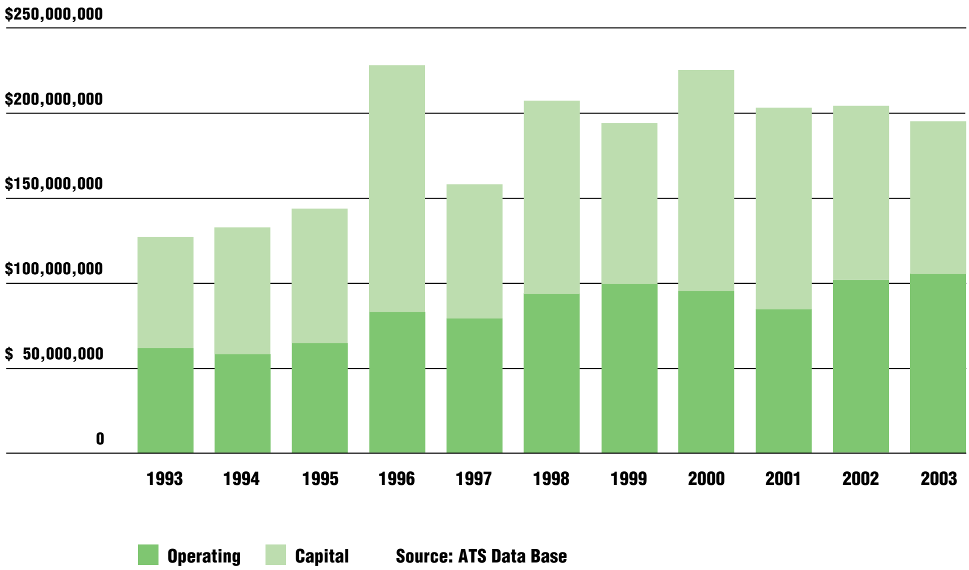
Source: ATS Data Base

Figure 15B: Operating Gifts and Grants from Church Sources, by Denomination (> $3,500,000), 1971–2001



Source: ATS Data Base

Figure 16: Gifts from Individuals, Including Bequests, 1991–2003



Operating includes unrestricted gifts and restricted operating gifts. Capital includes gifts for endowment, buildings and equipment, and private student loan funds.

The funds received are mostly unrestricted, so they can be applied to the basic, ongoing, day-to-day expenses of the school. In many cases, denominational funds are given cheerfully because seminaries are well regarded in the denominational system. Funds provided to theological schools are considered to be dollars well spent.

A more sober perspective is based on the fact that, in times past, many denominations funded a high proportion of their schools' expenses. The current amounts of church support do not keep up with inflation or with the growing expenses of the schools. Schools must therefore raise tuition and undertake the challenging and uncertain task of raising funds from individuals. The state of established denominations—often declining in size, aging in membership, and conflicted by controversy—may indicate that the lack of growth in church funding will persist indefinitely into the future. (The evidence over recent decades supports this view.) The data show that most schools would be well advised to allocate their fundraising attention and time to identifying and cultivating individuals who can advance the purposes of the school.

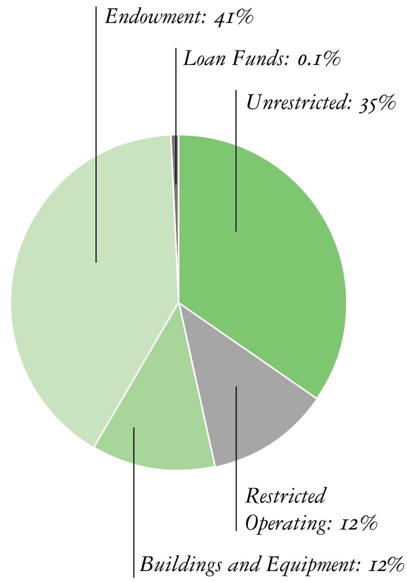
The state of established denominations may indicate that the lack of growth in church funding will persist indefinitely into the future.

GIFTS AND BEQUESTS FROM INDIVIDUALS

Gifts from individuals (including school alumni) as described here include gifts from living persons *and* deferred gifts, which will be referred to as bequests, from persons who have died. Figure 13 shows that gifts and bequests from individuals provide 45 percent of the gift receipts to theological education. These gifts, in contrast to church gifts, have grown in excess of inflation: from 1993 to 2003, gifts from individuals, as shown in Figure 16, grew by 56 percent, well in excess of the Consumer Price Index of 27 percent for that decade. Figure 16 also indicates how much of this money went to operations and how much was contributed for capital purposes. Although the totals varied greatly from year to year, the operating portion grew relatively steadily, declining only in fiscal 2000 and 2001, two years of dramatic stock market decline. Capital gifts, on the other hand, varied greatly. As noted earlier, receipts from capital campaigns do not flow in a steady stream, and bequests, which provide a substantial amount of the total, are too irregular to predict.

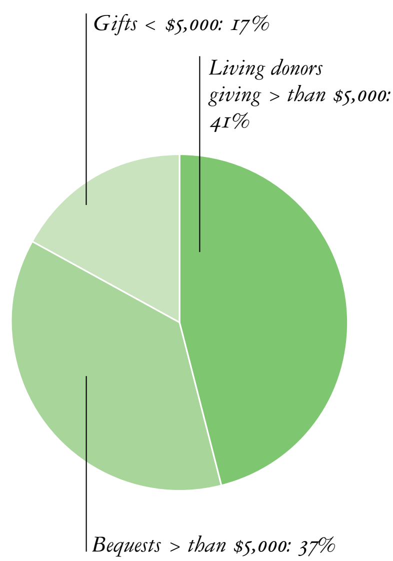
Figure 17 shows in more detail the purposes to which individuals directed their gifts. Perhaps surprisingly, individuals gave more money for endowment than for any other purpose, including unrestricted gifts. This may be because bequests are often restricted to endowment purposes, and many schools, by policy, allocate unrestricted bequests to endowment as well. Such a policy not only encourages bequests but also frees the school from depending on the receipt of bequests, which cannot be predicted accurately, to fund operations.

Figure 17: Gifts from Individuals by Purpose, 2003
(Includes Bequests)



Source: ATS Database

Figure 18: Average Gift Proceeds from Individuals, by Size of Gift, 2003



Source: ATS Database

Major donors and bequests are the key to fundraising from individuals. Figure 18 shows the total donated by individuals according to the size of the gift, and whether the major gift (more than $5,000) came from a living donor or through a bequest or other deferred gift. In the five-year period ending in 2003, gifts and bequests of $5,000 or more accounted for 83 percent of the gifts from individuals. Major living donors contributed nearly half the total generated, and deferred gifts generated more than one-third. These data confirm the gift-range tables seen in fundraising textbooks that show how, in a typical campaign, major gifts account for more than 80 percent of the total amount raised.[16]

These crucial gifts come from very few donors. Table 3 shows that half of U.S. theological schools had seventeen or fewer living major donors (i.e., individuals giving $5,000 or more for any purpose). A quarter of U.S. theological schools reported eight or fewer such major donors. There were even fewer deferred gifts, with the median seminary typically the recipient of three bequests per year. Although they are fewer, the amounts of deferred gifts are much higher. The average major gift (of more than $5,000) to these 143 schools over the five-year period from 1999 to 2003 was $22,806. The average bequest for those same schools was more than five-and-a-half times larger, averaging $122,362. These facts suggest that the numbers of key donors in any given school are quite manageable, but that the school could be financially vulnerable if the relationships with the few key donors are ignored.

Gifts and bequests of $5,000 or more accounted for 83 percent of the gifts from individuals.

Our data confirm the widely held impression that major donors are often members of the institution's board. Board members, in aggregate, provide about 15 percent of the gifts given by living individuals. *In Whose Hands,* a prior study by the Center for the Study of Theological Education, suggests that, in many theological institutions, some aspects of board giving are weak. In many cases, boards do not report 100 percent participation of board members financially supporting the school. Typically, fewer than one-third of board members have provided for the school in their will.[17] Schools would do well to strengthen their boards' involvement in fundraising. In addition, all schools are likely to benefit from better board-administration teamwork in the identification, cultivation, and solicitation of major donors.

Table III: Average Number of Gifts Greater than $5,000 Received Annually, 1999-2003

	From Living Individuals	*From Bequests (Deferred Gifts)*
25th Percentile	8	1
50th Percentile (Median)	17	3
75th Percentile	36	6

Source: ATS Database

THE VOLATILE STOCK MARKET

The 1990s saw the stock market rise to record heights. One dollar invested in the S&P 500 on December 31, 1989 would, by March 31, 2000, have been worth $5.45 if all dividends and gains were reinvested, an increase of more than 400 percent in the decade. Much of the growth happened in the late 1990s, a period of great investor enthusiasm for both new companies (the dot-coms) and established companies alike. The three years from March 1995 through March 1998 saw a total return of 134 percent to the investor in the S&P 500.[18] This three-year return was the fourth best three-year return, measured monthly, since the advent of consistent market data in the 1920s. Put another way, the three years ending March 31, 1998 were better than 99.5 percent of all other three-year periods.

Then came the fall. Investors began to withdraw from the stock market. There may have been many reasons for this, but certainly some investors concluded the earlier enthusiasm was unwarranted. The speculative bubble leveled off around the turn of the century and burst. The market fell. The attacks of September 11, 2001 contributed to investor caution as well. The three years from March 2000 to March 2003 were the worst three-year period for the stock market since the onset of the Great Depression. Investors lost 41 percent of the value of their investment in stocks. Figure 19 shows the rise and fall of the speculative bubble, comparing it to the long-term expected return from stocks of 10.4 percent.

Figure 19: The Speculative Bubble of 1995-2002,
Value of $1 Invested December 31, 1989 to July 31, 2003 in the S&P 500, and a 10.4% Annual Return

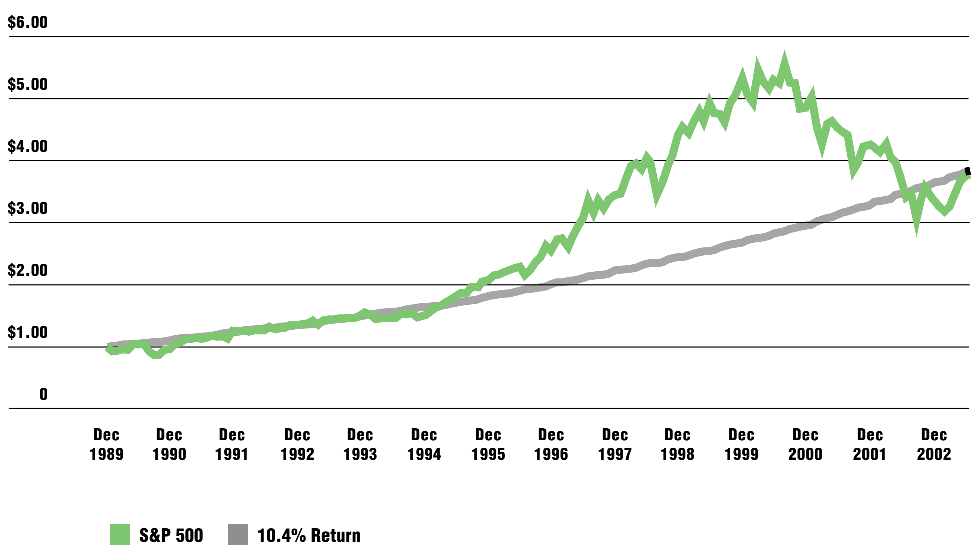
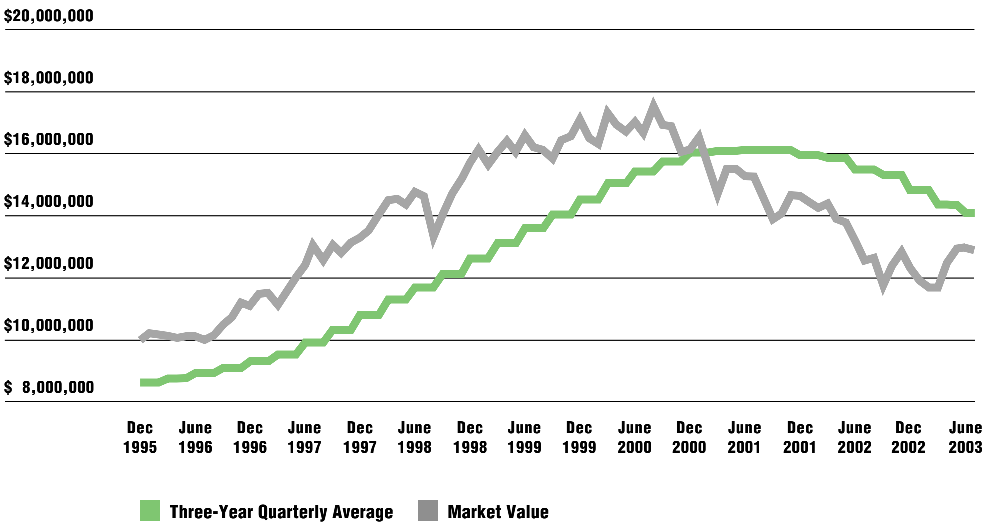


Figure 20: Smoothing and Lag Effect of Averaging the Value of an Endowment,
65% Equity, 35% Fixed Income, 5% Spending

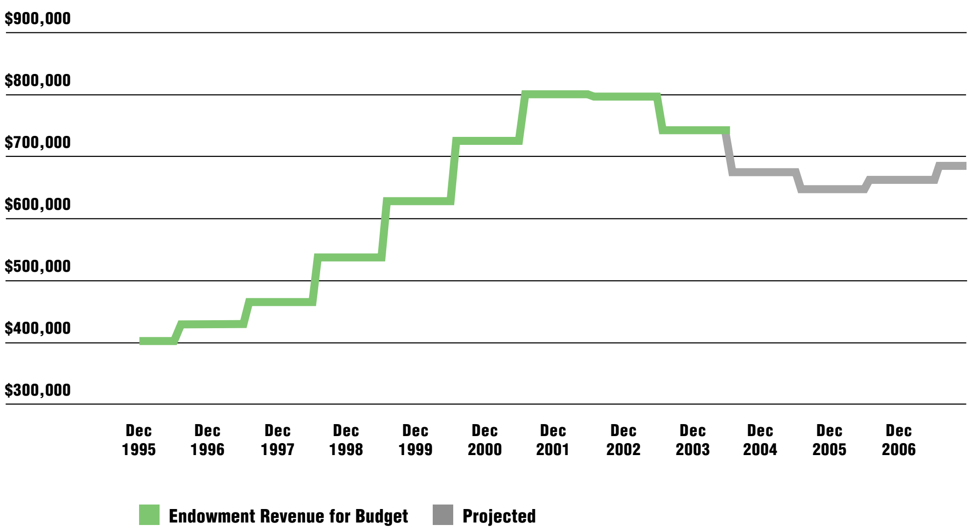


THE EFFECTS ON THEOLOGICAL SCHOOLS

How were theological schools affected by this volatile market? The greater a school's dependence on endowment revenue, the greater the impact.[19] The median theological school, from 1991 to 2003, received only 14 percent of its educational and general revenue from investment return; one might fairly conclude that schools at or below the median dependence on endowment revenue found the fluctuations manageable. One quarter of theological schools, however, relied on endowment for one-third or more of their educational and general revenue. Those schools, including the 10 percent of schools that rely on endowment revenue for half of their educational and general revenue, were likely to be severely affected by these unusual and historic fluctuations in the stock market.

The effect was moderated in most schools, however, by diversification of investments, so that few schools suffered the 41 percent loss in their entire portfolio. The portfolios include stocks and also, very likely, bonds, other fixed income securities, and alternative investments. "Alternative investments" include such nontraditional investments as non-U.S. stocks and bonds, real estate, and for some, hedge funds. The Commonfund's research showed that these alternative investments softened the blow of the bursting speculative bubble, especially for large college and university endowments (those with more than one billion dollars in assets) whose personnel have the investment expertise to choose such investments wisely.[20] Nevertheless, even sophisticated, broadly diversified funds were adversely affected by the sharp downward trend in the stock market.

Figure 21: Projected Endowment Revenue for Budget,
Spending 5% of a Three-Year Average Market Value,
Invested in 65% Equity, 35% Fixed Income; Assumes 8.5% Return in 2003-2006

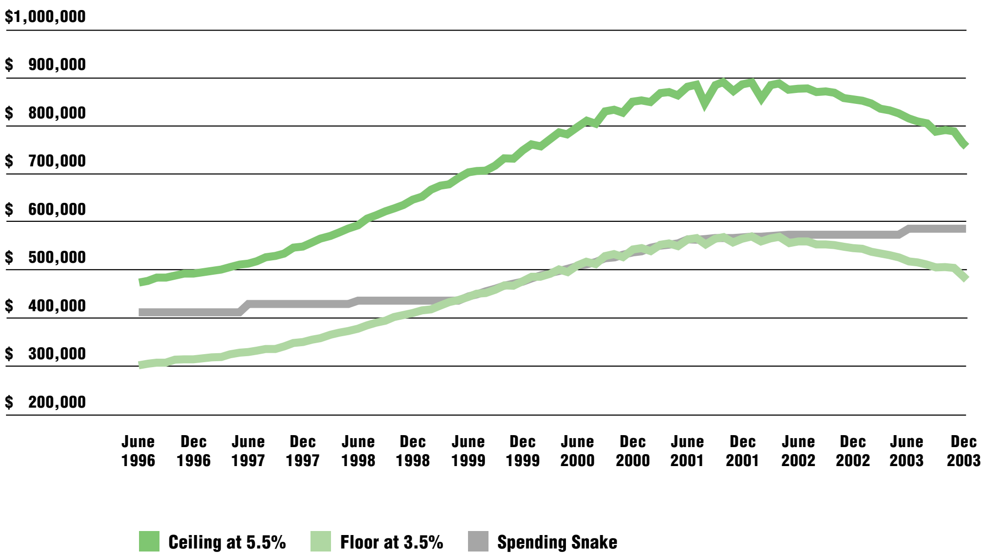


The budgets of many schools, although affected by significant market gains and losses, do not feel the impact of these fluctuations immediately. Many schools' budget endowment returns are based on a fixed percentage of a three-year (or longer) moving average of the endowment market value. One primary purpose of a multiyear average (with values taken quarterly) is to smooth out any short-term fluctuation in the market.[21] Figure 20 shows this smoothing effect, as the bumpy month-to-month values of the endowment may be visually contrasted with the smoother three-year average.

Figure 20 also shows why schools using a multiyear averaging formula are not affected by the fluctuations right away. The three-year average lags behind the actual value when, as in recent years, the actual value rises or falls over a sustained period. It takes the average a while to catch up to the actual value. Thus Figure 20 shows that the three-year average was below the actual amount during the rising market from 1995 until 2000. Similarly, when the actual value of the endowment fell, from 2000 to 2002, the three-year average still included high values from three years past, causing the average to lag behind the lower actual value.[22]

Those schools that budget endowment and investment revenues using a fixed percentage of a multiyear average market value face decreasing amounts of revenue in 2004–2005 and beyond. Figure 21 shows projected budgeted revenue for an endowment invested in 65 percent equities and 35 percent fixed-income investments. Budgeted revenues reached their

Figure 22: Snake-in-the-Tunnel Spending Policy



peak in fiscal 2000–2001. The losses in endowment market value plus the consumption of the budgeted amounts caused the subsequent years' endowment revenue to decline, sometimes steeply, until fiscal 2006–2007, even though the projection assumes an 8.5 percent annual total return from mid-2003 forward. Revenue decreases attributable to the lag effect of the budgeting formula will be felt until fiscal 2006–2007.

Figure 21 shows a 20 percent drop in endowment revenue from fiscal 2000–2001 to fiscal 2005–2006. That is the bad news. The good news is that the built-in lag permits schools to anticipate the decreases and respond appropriately and deliberately, without an undue sense of crisis. Schools that are not heavily dependent on endowment may make up for the shortfall with a bit of belt-tightening or good fortune in enrollment or fundraising efforts. On the other hand, if a school is heavily dependent on endowment, it may find itself struggling to "right-size" itself through the difficult and painful steps of cutting back programs, services, and personnel. This challenge is exacerbated if a school has been spending more than its policy rate, or if its rate is higher than it should have been (as noted, the norm in higher education is to spend, over the long run, 5 percent of the market value of the investments annually). In such instances, the task of adjusting a school's spending is much more difficult, because the school must correct for overspending as well as for the decline in the market value of the investments.

AN ALTERNATE SPENDING FORMULA

A few schools use a "banded" endowment spending policy, called the "snake-in-the-tunnel" spending policy by Samuel H. Ballam III and Robert T. Forrester, to avoid problems such as the speculative bubble of 1995–2002. Those institutions that used the policy were in a position to side-step the effects of the rapid increase and rapid decrease of endowment revenue in the last decade.[23]

Under this policy, the amount of endowment revenue is not determined by a fixed percentage of a three-year average. This policy determines budgeted endowment revenue for each year as the amount spent in the prior year, adjusted for inflation, provided that the amount is less than a predetermined maximum and more than a predetermined minimum. The maximum and minimum are defined in conventional percentage-of-a-moving-average terms. For example, the maximum might be 5.5 percent of a three-year moving average of the investment market value. The minimum could be set at 3.5 percent of that same average. The minimum and maximum constitute the "bands" that constrain spending, or, in Ballam and Forrester's metaphor, constitute the ceiling and floor of the tunnel within which the spending snake moves.

Figure 22 shows the ceiling and the floor of the tunnel rising with the increase in value from 1995 to 2000 and falling in subsequent years, along the same shape as the market value average shown in Figure 20. The spending line, or snake, however, does not rise quickly, because it increases only by the amount of inflation, typically between 2 and 3 percent in these years. In fact, the slow growth of spending caused the formula to hit the bottom of the tunnel in the 1999–2000 fiscal year and the two years following. When the value of investments began to fall, however, the spending continued upward, modestly adjusted for inflation each year. Projections of future years show that inflationary increases can be continued for several years despite the assumption of sluggish investment returns.

This spending formula would have maintained a steady level of spending had it been employed from 1995 through 2004. The spending in the 1995–2001 period, the time of rapid increase, would have been greatly restrained, unlike spending using a fixed percentage approach. That restraint, of course, makes possible the steady increases in the lean years of 2001 to 2005.

Under some circumstances, the snake will hit the ceiling. An extended period of high inflation combined with poor investment returns (such as the so-called stagflation period of the 1970s) would cause the spending rate to reach its upper limit fairly quickly. As the average market value declined due to stagnation and spending, the budgeted maximum permitted by the policy would decline also. The policy, at its maximum or minimum bands,

The banded policy is one that should be considered by endowment-dependent schools.

operates as a fixed-percentage-of-average-market-value formula. If the bands are set broadly enough, such as 2 percent in the 3.5 to 5.5 percent example cited earlier, the occasions of reaching either the maximum or minimum will be fewer.

The banded policy is one that should be considered by endowment-dependent schools. If followed faithfully, it guards against overspending in periods of investor exuberance, and sustains operations in bearish times.

Seeking Future Growth

Where will future financial growth for seminaries come from? As noted earlier, the growth in enrollment has not been automatic or easy. Indeed, those schools able to maintain or increase their enrollment have done so through significant adaptations to student needs and sometimes expensive innovations. The future of enrollment is hard to read. Will schools be required to invest major energy and venture capital in adaptive and creative approaches in order to attract students? Will the next decade see a renaissance of full-time residential education and of more recent college graduates entering seminary? Will the rapidly increasing undergraduate and seminary debt of students hurt enrollment? Will schools find new, low-cost methods of providing theological education? Will they find more nontraditional students?

The stock market has recently reminded theological schools of the inherent volatility of investing as a means toward growth. Risk and reward are bywords in investing; the kind of returns schools need require them to judge carefully the risks of stocks and alternative investments. Clearly, schools cannot count on consistently excellent investment returns. Will those who predict sluggish returns for the next few years be proven correct? Will inflation—arguably the major economic enemy of fixed-cost organizations such as seminaries—increasingly gnaw at educational budgets? While sound policies and practices can protect a school, external events cannot be controlled.

The brightest hope remains with the schools' best friends—the donors. A healthy future awaits those who are able to attract major gifts and bequests and those who manage their funds wisely. Recent history shows that some theological schools have gained the needed skills to do this, despite the oft-cited disadvantages of the small size, limited denominational support, and modestly compensated graduates of theological schools. The watchword is to seek—and find—new friends and partners. ■

Research Note

Each longitudinal figure and table uses a consistent set of schools across the given time period. The numbers are as follows:

- Figures 5, 6, 7 & Table I, N = 212 schools
- Table II & Figure 9, N = 48 Evangelical Protestant schools; 68 Mainline Protestant schools and 42 Roman Catholic schools
- Figures 11, 12, 13, 17, 18 & Table III, N = 143 schools
- Figure 14, N = 94 Protestant schools, 32 Roman Catholic schools, and 17 inter- or non-denominational schools
- Figure 10, N = 166 schools

Notes

1. Badgett Dillard, "Financial Support of Protestant Theological Education," EdD thesis, Indiana University, 1973.

2. Badgett Dillard and Anthony Ruger, "Changes in the Support of Protestant Theological Education, 1971–1981," Unpublished paper, Louisville, KY, 1983.

3. Anthony Ruger, *Lean Years, Fat Years: Changes in the Financial Support of Protestant Theological Education.* Auburn Studies 2, Auburn Theological Seminary, New York, December 1994.

4. Educational and general revenues as they are used here include gross tuition receipts, undiscounted for student aid grants, all gifts and grants for operating purposes, investment return, and miscellaneous operating revenue. They do not include receipts from auxiliary enterprises such as food service, bookstore, or student housing. The denominational classifications distinguish the schools by their broad religious tradition (i.e., mainline Protestant, evangelical Protestant, and Roman Catholic).

5. The Higher Education Price Index (HEPI) measures the cost of the goods and services typically purchased by colleges and universities.

6. Church support in these and other charts includes support from local churches, regional judicatories, national bodies, and church-sponsored organizations.

7. See, for instance, the discussion of the revenue concentration index in John M. Trussel, "Revisiting the Prediction of Financial Vulnerability," *Nonprofit Management and Leadership 13* (2002). San Francisco: Jossey-Bass.

8. Tuition for other master's degrees often mirrors the tuition of the MDiv degree.

9. For instance, private-school undergraduate tuition increased at the rate of 5.7 percent per year from 1993 to 2003, according to figures published by the College Board.

10. For an analysis of seminary student indebtedness, see Anthony Ruger, Sharon L. Miller, and Kim Maphis-Early, *The Gathering Storm.* Auburn Studies 12, Auburn Theological Seminary, New York, 2005.

11. DMin students do not pay the opportunity cost of leaving their profession to attend seminary. Moreover, students in DMin programs often receive scholarship assistance from the congregation they serve or from the ecclesiastical judicatory with which they are associated.

12. Brian Douglas and Doug Harmening, *Comparative Financial Statistics for Small Independent Four-Year Institutions, Fiscal Year 1998.* Washington, DC, National Association of College and University Business Officers, 1999.

13. In addition, small amounts are donated for private loan funds. These amounts are too small to show up in Figure 11.

14. In Table 15A, Christian Ch. (Disciples) represents Christian Church (Disciples of Christ), and Lutheran Church (MS) represents Lutheran Church–Missouri Synod.

15. The Consumer Price Index for all urban consumers for the decade 1991 to 2001 increased by 31 percent. The recent slightly upward trend in average church support per school, as seen in Figure 14, is more than offset by the effect of inflation on operational support over the decade.

16. See, for instance Henry A. Rosso and Associates, *Achieving Excellence in Fund Raising* (San Francisco: Jossey Bass, 1991) 84–85.

17. Barbara G. Wheeler, *In Whose Hands: A Study of Theological School Trustees.* Auburn Studies 9, Auburn Theological Seminary, New York, July 2002.

18. All references to return are to total return (i.e., to the value of the investment if all interest, dividends, and gains are reinvested).

19. Endowment revenue, as the term is used here, generally refers to the amount of revenue budgeted for expenditure from all long-term investments, including permanently restricted funds and unrestricted and other funds functioning as endowment.

20. *Commonfund Benchmarks Study.* Wilton, Connecticut, Commonfund Institute, 2003.

21. This smoothing worked especially well after the October 1987 crash of the stock market, as the market rebounded well in subsequent quarters.

22. Some spending formulae use a weighted average, in effect making recent years count more in determining the average, in order to slow the lag time. Figure 20 shows a simple average.

23. Samuel H. Ballam III and Robert T. Forrester, "Endowment Spending Rates," *Coopers & Lybrand Higher Education Management Newsletter,* May 1988. Based in part on the work of Richard Spies and Wallace E. Ackley.

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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 in theological education, an enterprise that Auburn believes is critical to the well-being of religious communities and the world that they serve. Auburn Seminary also sponsors the Center for Church Life, to help strengthen the leadership of mainline churches, and the Center for Multifaith Education, to provide life-long learning for persons of diverse faith backgrounds.

Auburn Center for the Study of Theological Education

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