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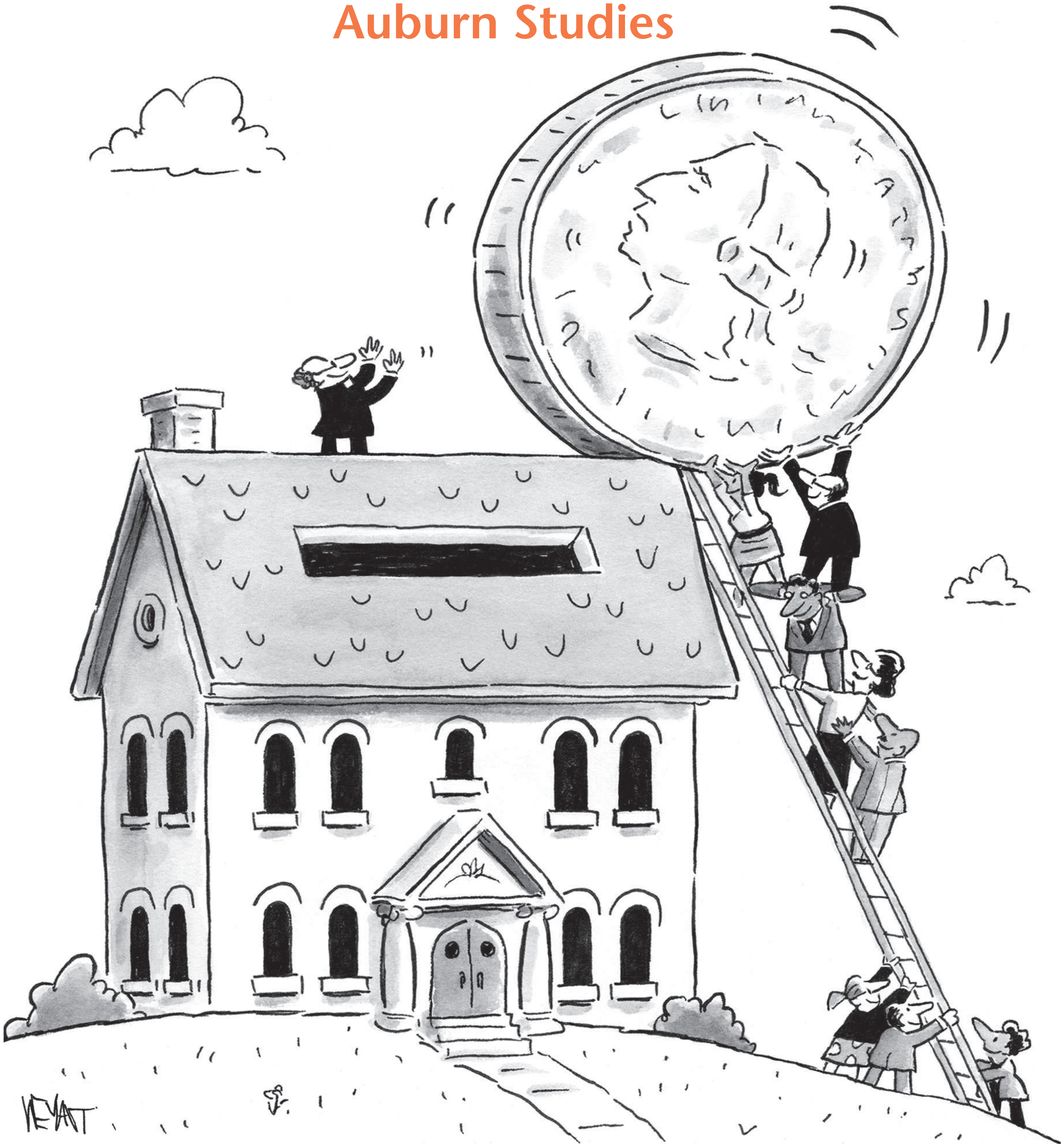


# Through Toil & Tribulation

## Financing Theological Education 2001–2011

By Anthony Ruger and Chris A. Meinzer | July 2014

## About this Issue

This is the fifth in a series of decennial studies of revenue in theological education.[1] The first, by L. Badgett Dillard of The Southern Baptist Theological Seminary, looked at patterns of philanthropic support of Protestant denominational theological schools in fiscal year 1971. Ten years later, Dr. Dillard's updated study reviewed the decade from 1971 to 1981, a lean decade by any measure. During that period inflation accelerated while investment returns and the North American economy sputtered. The term "stagflation" was coined to describe this period of stagnant economic growth coupled with high inflation. The stress caused a number of schools to consolidate. Then the fat years arrived, as documented by a third study (1981–1991). Schools in the 1980s enjoyed low inflation, excellent investment returns, and increasing enrollment. The next study, covering the period 1991–2001, reported that the 1990s were economically mixed. Enrollment grew, but at a modest one percent per year. Investments rose—partly due to the dot-com bubble toward the end of the decade—but then began to tumble. Church support of many denominational theological schools declined in real (after-inflation) terms, but gifts from individuals rose. The present study, which surveys the first decade of the twenty-first century (2001–2011), adds further longitudinal analysis to the work done by Dr. Dillard forty years ago.

This report, as well as all back issues of Auburn Studies, may be found on Auburn's website: www.auburnseminary.org/research.

This study (and the three most recent reports) were made possible by Lilly Endowment Inc., whose steadfast support of research in theological education has enhanced the viability and mission of many schools in countless ways. We also thank the Association of Theological Schools, whose indispensable data collection and cooperation made all five studies possible.

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Auburn Studies, No. 18, July 2014

# Through Toil & Tribulation

## Financing Theological Education 2001–2011

**By Anthony Ruger and Chris A. Meinzer | July 2014**

**It was a tale of woe at Emmett Theological Seminary. Their denomination used to send them plenty of students, but their once-thriving residential Master of Divinity program had diminished significantly. Now classrooms and student housing were only partially filled. Both the housing and classrooms needed upgrading badly. Denominational funding for operating support tailed off and individual donations had not made up the difference. A new building for faculty offices was recently constructed but the seminary had to borrow funds because the capital gifts raised were insufficient. The interest expense was added to an ongoing deficit. The overspent endowment took a nosedive when the Great Recession arrived. What should they do?**

**Preface** | The decade 2001–2011 was another lean period for North American theological education. The Great Recession negatively affected investments and gifts. Levels of formal religious affiliation declined, undermining both church support of theological schools and student enrollment. This report documents the hard times and challenges, but it also offers hope. In the course of the study, the researchers encountered schools whose diligence and discipline strengthened their financial undergirding and capacity for mission despite the undertow of a poor economy and changing religious environment. The report describes the best practices of these institutions, offering measures that might be adopted by others.

**The report is divided into the following sections:**

**Revenues**

*1.1 Enrollment, tuition, and financial aid*

*1.2 Investments and spending rates*

*1.3 Gifts and grants*

**Expenditures**

*2.1 General expenses*

*2.2 Capital renewal, deferred maintenance, and depreciation*

**Results and the dynamics of success**

Each section contains a presentation of pertinent data and trends. The Commission on Accrediting of the Association of Theological Schools (Commission) annually collects financial, enrollment, and other data from all member schools of the Association of Theological Schools (ATS). These data were generously shared by the Commission with the Auburn Center. Therefore, the quantitative data in this report, unless otherwise noted, reflects the entire membership of ATS schools.

A new element in this study is the discussion of qualitative factors contributing to financial stability. The researchers examined the financial results of all schools in the database. Six schools were selected whose financial performance was remarkably consistent and solid. Key personnel from these six "success schools" were interviewed by telephone or during campus visits. Insights from the interviews are reported in the third section, titled "Results and the dynamics of success." Because only six schools were examined, observations about them should be considered anecdotal and suggestive rather than exhaustive and authoritative.

# Revenues

## 1.1 Enrollment, Tuition, and Financial Aid

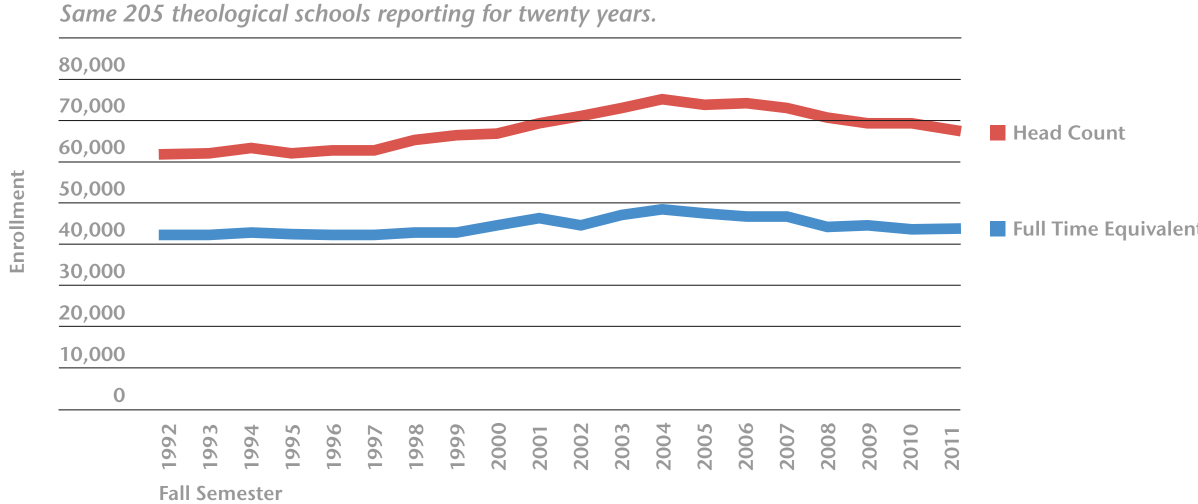
### Downward trends

The tale of tribulation in this decade begins with enrollment. Figure 1, taken from *Theological Student Enrollment,* a special report from the Auburn Center for the Study of Theological Education, shows that enrollment, which had slowed in the 1990s, rose through 2004, but then began a steady decline of about one percent per year.[2]

As explored in *Theological Student Enrollment,* the phenomenon of decline is visible from several angles. No degree program category

**Figure 1: Total Head Count and Full Time Equivalent Enrollment.**

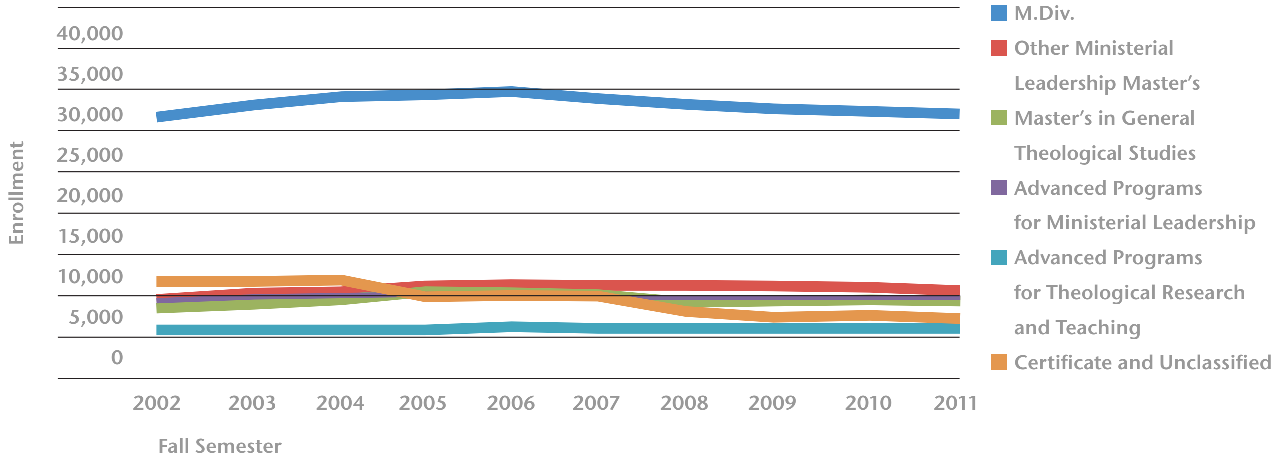
*Same 205 theological schools reporting for twenty years.*




*Source: Commission on Accrediting of the Association of Theological Schools.*

**Figure 2a: Head Count Enrollment Aggregated by Degree Groups.**

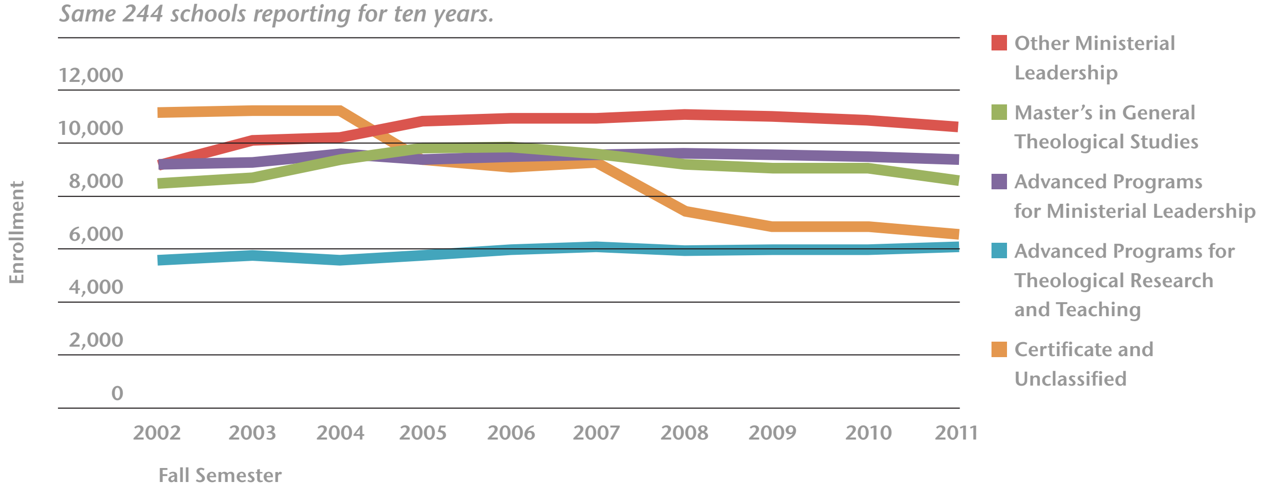
*Same 244 schools reporting for ten years.*




*Source: Commission on Accrediting of the Association of Theological Schools*

**Figure 2b: Head Count Enrollment Aggregated by Degree Groups, excluding the M.Div.**

*Same 244 schools reporting for ten years.*

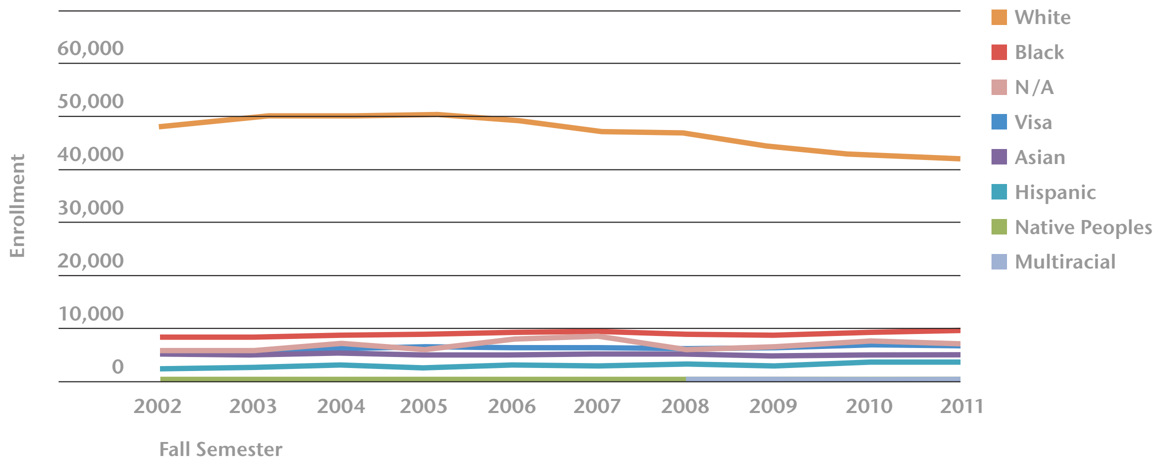



*Source: Commission on Accrediting of the Association of Theological Schools*

grew vigorously, unlike in the 1970s, when the Doctor of Ministry degree became popular. Enrollment in master's degrees for ministerial leadership did grow from 2001 to 2008, but since then it has declined. Enrollment in advanced programs for theological research and teaching (the STD, Ph.D. and Th.D. degrees) also grew very slightly during the decade. Although individual schools have diversified their offerings with additional degrees, enrollment in these degrees are relatively small compared to the Master of Divinity (M.Div.), as shown on Figures 2a and 2b. Any enrollment gains that this diversification may have generated were

**Figure 3a: Head Count Enrollment by Race/Ethnicity.**

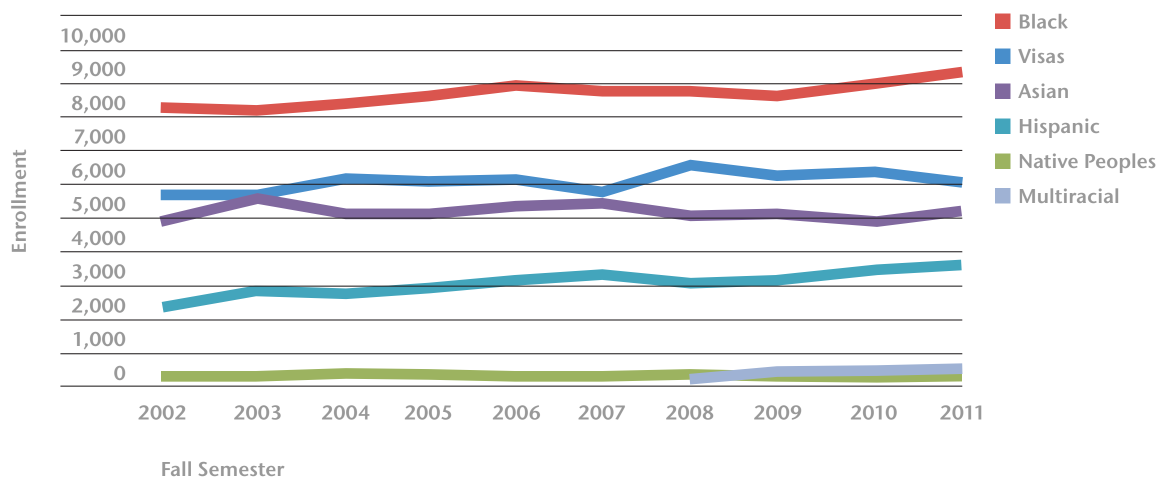
*Same 244 schools.*




*Source: Commission on Accrediting of the Association of Theological Schools*

**Figure 3b: Head Count Enrollment by Race/Ethnicity, excluding Whites.**

*Same 244 schools.*




*Source: Commission on Accrediting of the Association of Theological Schools*

not enough to overcome the losses taken in the M.Div. and other degree programs.

The overall decline since the middle of the decade affected all broad religious traditions—Anabaptist, evangelical Protestant, mainline Protestant, Roman Catholic and Orthodox, although with variations in timing and intensity in each tradition.[3] Grouping schools by their denominational families showed that most had a flat profile or a modest enrollment decline. Put another way, no particular denominational "brand" of school seemed to flourish. The overall decline in theological school enrollment is very likely related to a number of factors, including the changing age and racial/ethnic profiles of the population in general and the decline in religious affiliation in the groups in North America that graduate-level theological schools have traditionally served.[4]

| **Enrollment Since 2011** *Same ATS schools reporting* | |
|---|---|
| *Change in Headcount Enrollment Over Prior Year* | *Increase (Decrease)* |
| Fall 2012 | (1.5%) |
| Fall 2013 | (1.6%) |

Some individual schools showed strong growth, while others had difficulty in recruitment. There is no single or simple explanation for individual variations. Taken together, however, the overall portrait shows a slow erosion of enrollment.

Amidst the decline, some student cohorts showed stability and growth. Figure 3a (taken from *Theological Student Enrollment*) shows that white students' enrollment has declined steadily since 2005. Figure 3b, which is the same chart without white students included, shows that the enrollment of African American, Asian, Hispanic, and international students all increased. In percentage terms, Hispanic enrollment led the way, with 50 percent growth over the decade. African American enrollment was next, growing by 13 percent. The other racial/ethnic cohorts grew modestly, with the exception of the very small Native American segment. The decline in recent years is almost entirely attributable to a falloff in white enrollment.

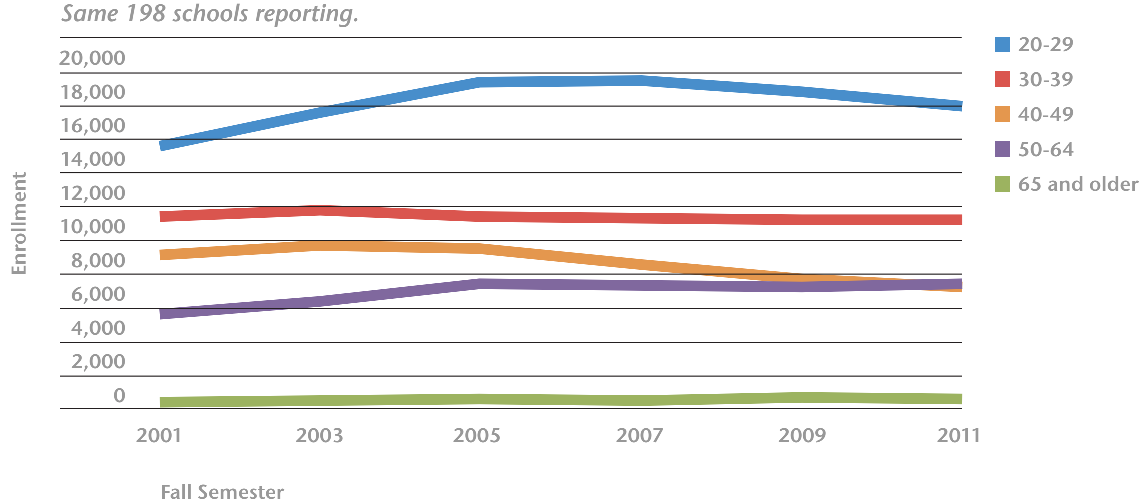
One older age group of master's students shows modest growth and stability. Figure 4, again taken from *Theological Student Enrollment,* shows an enrollment decline of students in their twenties, a slight decline of enrollment of students in their thirties, and a steeper decline of students in their forties. However, enrollment of students fifty years of age and older increased in the early part of the decade and has held steady since.

### Increasing access

During the decade, theological schools introduced program innovations in order to sustain and, they hoped, to increase enrollment. As mentioned, some schools designed new degrees, hoping to expand the pool of

**Figure 4: Head Count Enrollment in Master's Degree Program by Age Cohort.**

*Same 198 schools reporting.*

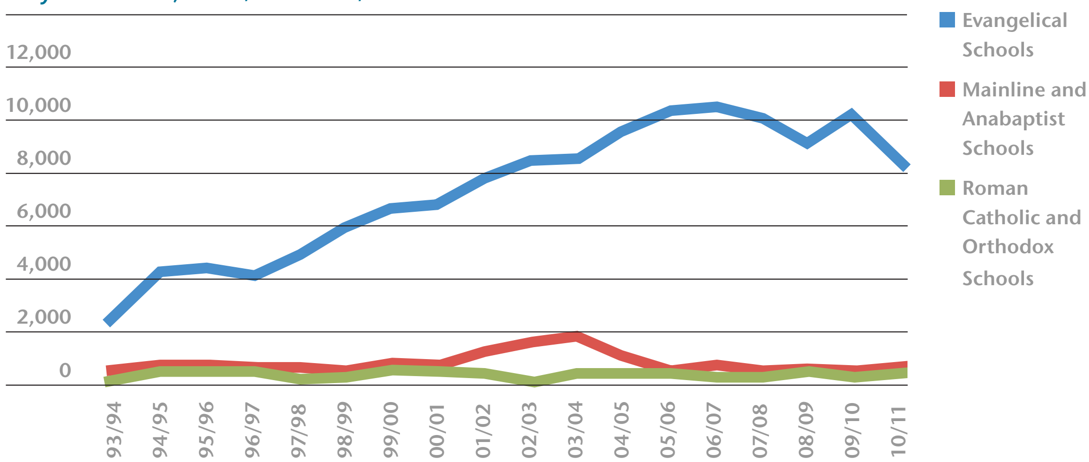



*Source: Commission on Accrediting of the Association of Theological Schools*

potential students. Others strove to overcome barriers to enrollment of potential students. One innovation coming to prominence in the 1990s was the development of extension centers. Extension centers are, in effect, branch campuses, but usually without the extensive facilities needed to house faculty, students, library, and administration. Schools opened these extension centers in locations where the population was likely to be underserved, i.e., in places where students in their tradition did not have access to a graduate program of theological studies. Thus, extension centers overcame the barrier of distance.

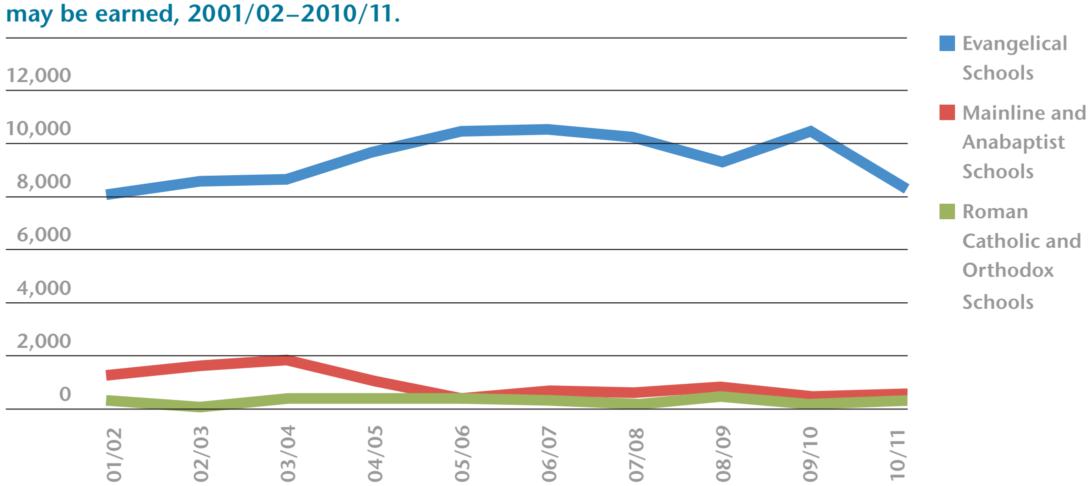
Extension centers often run their programs in the evenings and on weekends. This makes theological education accessible to students with full-time occupations who otherwise could not afford to resign from daytime employment to study full-time in a residential program. Indeed, many residential program schools offer night and weekend classes on their home campuses to

**Figure 5a: Head Count Enrollment in Extension Centers in which half or more of the credits required for an ATS-approved degree may be earned, 1993/94–2010/11.**



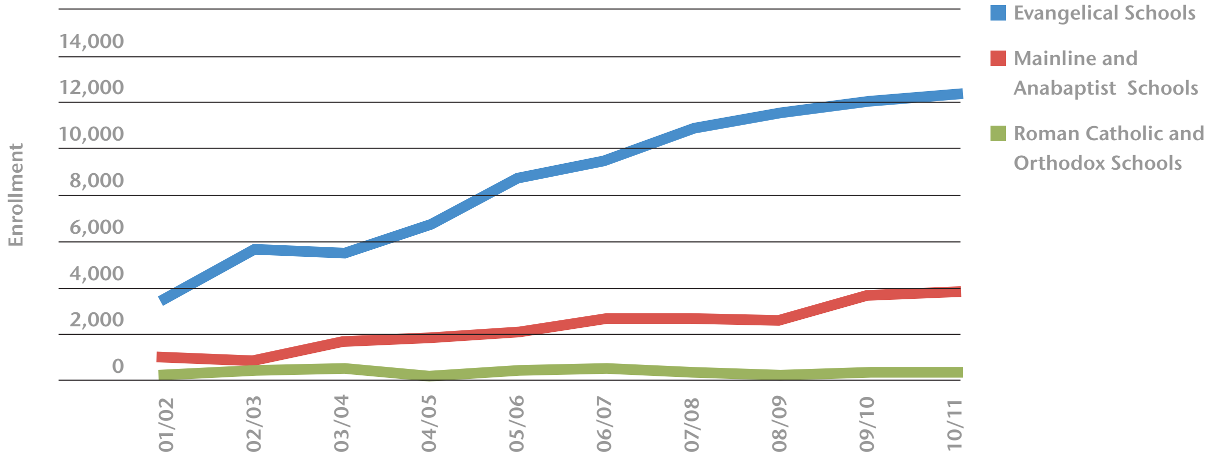

*Source: Commission on Accrediting of the Association of Theological Schools*

**Figure 5b: Head Count Enrollment in Extension Centers in which half or more of the credits required for an ATS-approved degree may be earned, 2001/02–2010/11.**




*Source: Commission on Accrediting of the Association of Theological Schools*

**Figure 6: Head Count Enrollment in Distance Education Courses, 2001/02–2010/11.**




*Source: Commission on Accrediting of the Association of Theological Schools*

accommodate commuter students who, for the same economic reasons, are not able to attend weekday daytime classes. These innovations overcome the barrier of opportunity cost: night/weekend students do not have to live with the economic consequences of leaving full-time work in order to attend seminary.

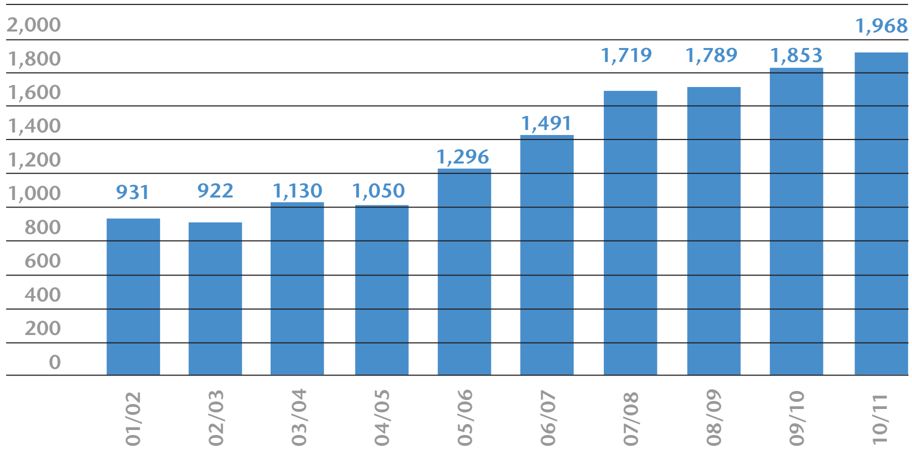
As shown on Figure 5a, enrollment in extension centers grew substantially in the 1990s, with that growth spearheaded by schools in the evangelical Protestant tradition. Three large evangelical schools became proficient at running extension centers, drawing 30 percent of the total extension center enrollment.

Extension center enrollment did not, however, hold up during this period. Figure 5b, which is similar to chart Figure 5a, but covers only the past decade, shows that extension center enrollment also began to decline in the middle of the last decade. The leveling off and decline in extension centers may be partially attributed to a natural maturing of the market. Another factor in the decline may be the advent of "online" theological education, known more inclusively as "distance education."[5] The distance education courses may attract some students who earlier would have enrolled at extension sites.

Distance education overcomes barriers, as do extension centers. Students do not have to move to a new location or give up full-time employment. In addition, asynchronous courses (classroom instruction that does not require all students to participate at the same time) permit students to schedule coursework flexibly. Because most distance learning uses the Internet, students can be widely dispersed geographically. Residency requirements for degree completion require students and instructors to meet in the same place, but distance learning programs often meet this requirement through intensive face-to-face sessions of a week or so. Courses that combine online and such intensive components are often called "hybrid" courses.

Figure 6 shows the vigorous growth in the twelve years of distance education enrollment since the Association of Theological Schools began collecting data on distance education.

**Figure 7: Total Courses in Ongoing Distance Education Offerings and Distance Education Programs, 2000/01–2010/11.**




*Source: Commission on Accrediting of the Association of Theological Schools*

Figure 7 shows that in the decade 2001–2011 the number of distance education courses increased by 111 percent. Reported enrollment in these courses continues to climb as well.

The analysis in *Theological Student Enrollment* shows that schools with larger than median enrollment tend to show better-than-median enrollment performance in their distance education programs. The story for distance education programs at smaller schools was more mixed: some did expand their student body size while others declined more steeply than the median school. This suggests that recruitment for distance learning is not easy or automatic, and that other factors, such as the school's educational reputation and marketing skill, play a significant role. Distance formats are not, then, guaranteed to increase enrollment or to slow the decline experienced by so many schools.

**Distance Courses Since 2011**
*Same ATS Schools Reporting*

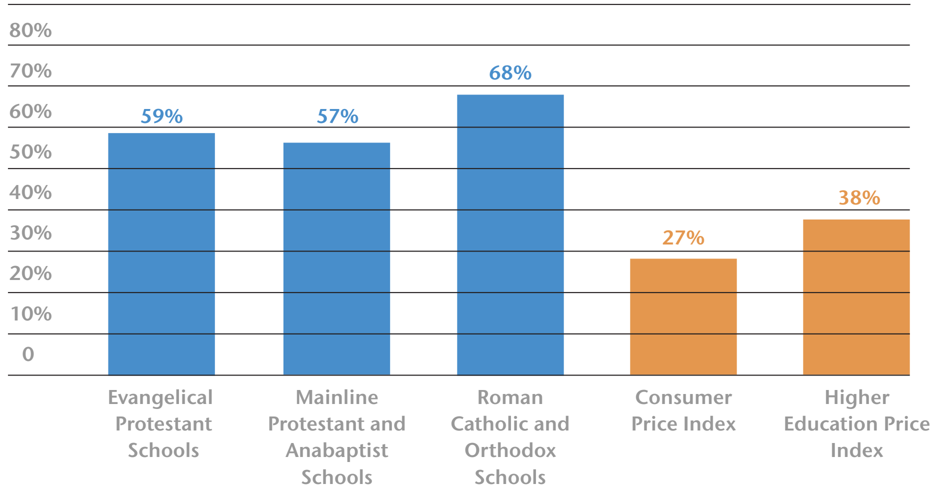
| *Number of Courses Reported* | |
|---|---|
| 2011/12 Year | 2,253 |
| 2012/13 Year | 2,515 |
| 2013/14 Year | 2,377 |

## Pricing and discounting

Tuition rates for the M.Div. degree have risen steadily for the past twenty years. Increases over the last decade are shown on Table 1. Figure 8 shows the average per school increase in M.Div. tuition by ecclesial families. Average tuition charges increased from 4.5 to 5.5 percent each year. Students now pay substantially more for instruction than those who enrolled earlier. A 2011 student paid an average of 57 to 68 percent more than a 2001 student; when inflation is taken into account the real (after-inflation) increase is 20 to 40 percent, depending on the inflation index used. Over a twenty-year period, the increase is even more striking. Students in 2011 paid an average of 150 to 200 percent more in tuition than their counterparts in 1991; in real (after inflation) terms they paid between 88 to 139 percent more.[6]

Despite these increases, theological school tuition is modest. Average M.Div. tuition is substantially less than the average undergraduate tuition at a private institution.[7] Data from the

**Figure 8: Average per School Increase in M.Div. Tuition by Ecclesial Family, 2001–2011.**




*Source: Commission on Accrediting of the Association of Theological Schools, the Bureau of Labor Statistics, and Commonfund*

U.S. National Center for Education Statistics comparing tuition and fees for first professional degree programs shows that the field of theology consistently shows the lowest tuition and fees by substantial margins.[8]

Low comparative tuition rates, however, do not always mean that students can comfortably bear increased costs. Compensation for clergy and other church professionals is modest. Increasing amounts of educational debt carried forward from undergraduate education, plus amounts incurred during seminary, are putting greater stress on recent graduates.[9]

Theological school tuition charges are mitigated to some extent by financial aid grants. Grants are gifts of money to students that enable them to defray some of their tuition and living expenses. Accountants, with characteristic eloquence, call these generous gifts "discounts." The "discount rate" is the percentage of the stated tuition bill that

**Table 1: Changes in Average Master of Divinity Tuition Rates 2001–2011**

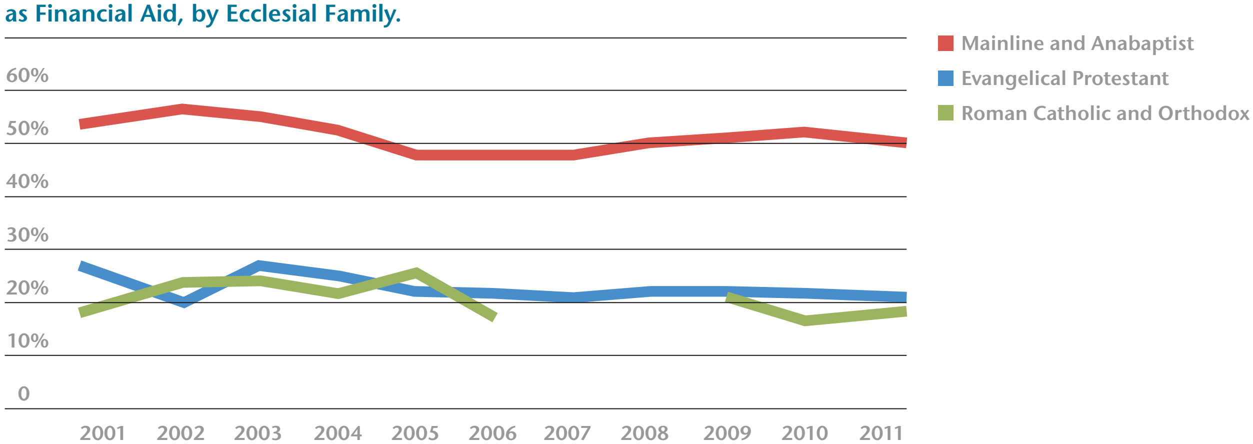
| | *Evangelical Protestant Schools* | *Mainline Protestant and Anabaptist Schools* | *Roman Catholic and Orthodox Schools* | *Inflation for the Decade* | |
|---|---|---|---|---|---|
| | | | | *for Consumer Prices (CPI)* | *for HIgher Education costs (HEPI)* |
| Average M.Div. Tuition in 2001 | $7,178 | $7,974 | $9,031 | | |
| Average M.Div. Tuition in 2011 | $11,403 | $12,512 | $15,198 | | |
| Increase for the decade | 59% | 57% | 68% | 27% | 38% |

*Source: Commission on Accrediting of the Association of Theological Schools, the Bureau of Labor Statistics, and Commonfund* is paid for by a grant. If a student receives a grant that pays for one fourth of his or her tuition the discount rate for that student is 25 percent.

The ten-year trend, when all schools are aggregated, shows a slight decline in the discount rate. In other words, financial aid grants cover a slightly smaller proportion of tuition than they did at the beginning of the decade. Figure 9 and the table below show discount rate data for schools according to their broad ecclesial tradition. Please note that Roman Catholic schools are difficult to compare to the others, because candidates for ordination are often supported by their diocese or order and therefore have not been included in the data on master's level discount rates.

Even though the aggregate discount rate is declining, there are enormous variations in the amounts of financial aid individual schools provide. The discount rate for master's degree students ranges from nearly nothing (meaning the great majority of students in some schools pay the full tuition rate) to rates of over 100 percent, signifying that some schools provide more in financial aid grants than they bill in tuition. In those instances, some needy and meritorious students have grants that pay for all tuition and have additional grant funds to defray the cost of fees, books, and living expenses. Figure 10 shows the distribution of average discount rates in percentiles for freestanding schools.[10] The median school's average discount rate for master's degree students is 25 percent (that is, half of independent theological schools have discount

**Figure 9: Discount Rates, i.e., the Percentage of Tuition Awarded as Financial Aid, by Ecclesial Family.**



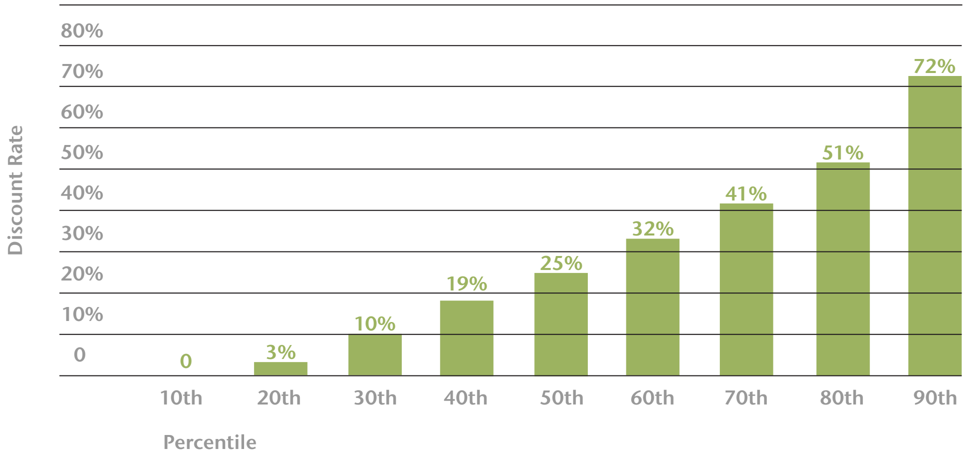

*Source: Commission on Accrediting of the Association of Theological Schools*

**Table 2: Tuition Discount Rates, Year Ended 2010**

| *Degree* | *Classification* | *Low* | *Median* | *High* | *Average* |
|---|---|---|---|---|---|
| Doctor of Ministry | All schools | 0% | 0% | 68% | 6% |
| Masters | Mainline Schools | 1% | 45% | 144% | 48% |
| Masters | Evangelical Schools | 0% | 19% | 92% | 23% |
| Ph.D. | All schools | 0% | 39% | 286% | 53% |

*Source: Commission on Accrediting of the Association of Theological Schools*

**Figure 10: Master's Degree Tuition Discount Rates, 2011 Fiscal Year. Independent Schools.**




*Source: Commission on Accrediting of the Association of Theological Schools*

rates higher than 25 percent, and half have discount rates below 25 percent). The graph also shows, for instance, that a school with a master's degree discount rate of 72 percent is offering a higher average discount rate than 90 percent of independent schools.

There are many anecdotes about particular students enrolling in particular schools because of generous financial aid offers. Yet the great variation in discount rates raises questions about the effectiveness of discounting as a strategy for attracting large numbers of students. The net price students pay varies greatly among schools in the same ecclesial tradition. It even varies greatly among schools in the same denomination. Nevertheless, schools with low discount rates manage to attract their share of students. Some may attract more than their "share" due to a superior reputation and adept marketing. It may be that demand in theological education is inelastic: the volume of the goods and services purchased may not be greatly affected by changes in net price. It is possible that seminarians, who would not be pursuing ministry if they were highly concerned with economic security, are insensitive to the cost of their education. It may also be the case that prospective students are not well informed about cost. Discount rates are often not published. There is no comparative "net price list" for prospective students to consult.

Different programs offer different levels of financial aid as well. Doctor of Ministry students typically receive modest levels of grants, if any; those students are usually in full-time paid ministry, and thus, like other part-time students, usually have lower school-related expenses. These students are often supported by their church employer. By contrast, full-time master's degree students have greater need and require higher grants. Grants to students in elite, competitive Ph.D. programs can be very high.[11]

### Strategic considerations

These findings suggest that strategic planning for enrollment should be informed by the following factors.

- Overall, the pool of prospective students for theological schools is likely to shrink. College and university enrollments are declining, and religious affiliation continues to decline.
- Hispanic, African American, and Asian enrollments are likely to grow, and white student enrollments to decline.

- Enrollment of late-career students in their fifties and sixties has been stable.
- No new "products," i.e., new degree programs offered by theological schools, are showing significant growth.
- Distance education programs are growing rapidly. New entrants in the field will probably confront competition from older programs. Offering distance education does not guarantee that overall enrollment will grow.
- Tuition rates, even after the application of financial aid grants, continue to outpace inflation.
- Student indebtedness continues to rise. Uncertainty about the manageability of rising debt may contribute to students' reluctance to consider theological education and ministry.

Stagnant and declining enrollment may not only undermine schools financially but may also erode morale. Institutions may be forced to question whether they have a constituency for their work and a role to play in the future.

## 1.2 Investments and Spending Rates

Some theological schools are heavily endowed and are as sharply affected financially by changes in investment markets as other, tuition-driven institutions are by changes in enrollment. Few schools dependent on endowment would like to relive the investment markets of the 2001–2011 decade. The 1980s and 1990s saw solid returns, making up for the "stagflation" wounds of the 1970s. But in 2000–2003 the "dot-com" speculative bubble in the stock market burst. The decline from the market peak to the market trough (October 9, 2002) was 49 percent, the worst decline since the Great Depression.

Toward the end of that decade, the financial crisis, triggered by subprime mortgage instruments, caused markets to fall even further: 54 percent from peak to trough on March 9, 2009. It took about four years for the stock indices to recover. The decade in stocks, taken as a whole, yielded a meager average annual total return of 2.7 percent, as shown on Figure 11. Long-term corporate bonds did better than stocks, returning 7.3 percent, but underperformed their preceding twenty "fat" years.

Schools' long-term investments rose in the preceding decade, then fell, rose, fell, and rose again. Budgeting investment return became a major problem for endowment-dependent schools. A hypothetical school is shown on Figure 12. The graph assumes a school had a $10 million endowment on June 30, 2001, and that the school invested 60 percent in stocks and 40 percent in long-term bonds.[12] Every year the school spent 5 percent of the investments' market value.[13] There were no other additions or withdrawals. How did the school's endowment fare? The investments in 2011 were $9,725,000, a net loss for the decade of $275,000. The school ended with about 97 percent of the money it had when the decade began. Unfortunately, the purchasing power of those funds was eroded by inflation, which for

**Distribution of Long Term Investments Among Theological Schools, 2011**

| *Held by:* | |
|---|---|
| Mainline Schools | 67% |
| Evangelical Schools | 23% |
| Roman Catholic and Orthodox Schools | 10% |

**Stock Market Returns: S&P 500 since 2011**

| | *2011* | *2012* | *2013* |
|---|---|---|---|
| Calendar year: | 2.1% | 16.0% | 32.4% |

**Figure 11: Average Annual Return From Stocks (S&P 500) by Decade.**

*Decades ending June 30.*

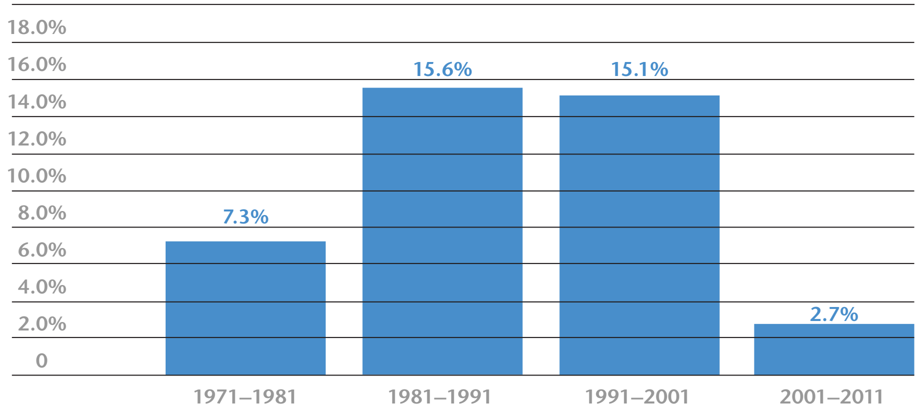
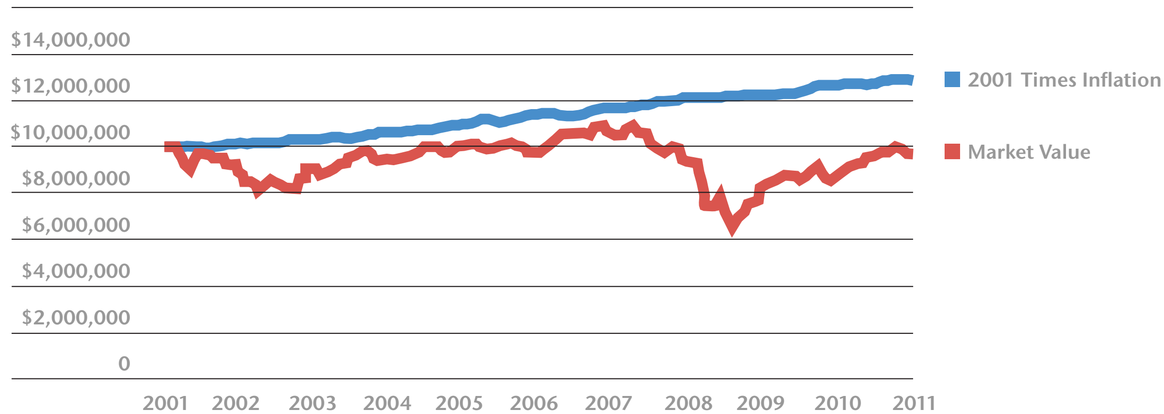



**Figure 12: Profile of a $10,000,000 Endowment 2001–2011.**
**Invested 60% in Stocks (S&P 500), 40% in Long Term Bonds.**

*Spending rate of five percent of the prior year market value.*




the decade came to 27 percent. The investments actually lost more than a quarter of their purchasing power. The amount available for the budget, while nominally stable, did not match the inflationary increases in salaries, benefits, books, utilities, and services.

### Strategic considerations

Can investment losses be avoided? No investments are free from risk. Even funds not invested, the proverbial talent buried in the ground, are eroded by inflation.[14] But institutions can position themselves to cushion their mission from the unavoidable losses. One president of a freestanding seminary that has remained stable through this difficult period explained his school's approach: "We were spending at the rate of 3 percent before the 2008 meltdown. The 40 percent loss in asset value only brought our spending rate up to 5 percent, so we could continue business as usual." Starting the decade with a 3 percent spending rate would have cushioned the budget considerably, although the school would still likely suffer a loss of purchasing power by the end of the decade. A low spending rate, in normal times, has the virtue of extra reinvestment for the future. In unusual times, it can absorb shocks like the 2008–09 meltdown.[15]

Unfortunately, some schools went into the market meltdown spending more than 5 percent. The double challenge to these institutions was severe: they had to correct their overspending *and* they had to balance their budgets with a smaller capital base. It is hard work to balance a budget: tough choices among competing priorities have to be made. The booming 1980s and 1990s undermined budget-balancing discipline; schools with strong endowments were tempted to spend more. It was possible to avoid tough decisions and to permit expenditures to expand when excellent investment returns poured more money into the vault. Re-establishing spending discipline is difficult, but it is more important than ever.

## 1.3 Gifts and Grants

### Church support

Church support for theological education is declining. The data collected each year by the Commission includes support from all church sources (local churches, regional judicatories, and national entities). The decline is evident on Figure 13a, which shows a high point of $154 million contributed from church sources in fiscal 2006 to all reporting ATS schools. Five years later, in 2011, contributions had shrunk by 24.3 percent, to a little more than $117 million. For added perspective, Figure 13b shows religious organization gifts since 1988. While the total fluctuated in the period before 2006, the trend from 1988 through 2006 moved gently upward. The trend now has turned downward.

The impact of this decline is shown in Figure 14, which graphs the percentage of total expenditures funded by religious sources in 2001, 2006, and 2011. The “independent” evangelical and mainline Protestant schools (i.e., those schools without a close denominational affiliation) traditionally show little church support. Anabaptist, evangelical denominational, and mainline denominational schools show a decline in their dependence on church support since 2001, with evangelical denominational schools hit the hardest in the past decade. The decline has been going on for some time in Protestant schools. The previous study in this series showed a decline in actual dollars for several denominational school groups from 1991 to 2001 and a decline for all school groups when inflation is taken into account.[16]

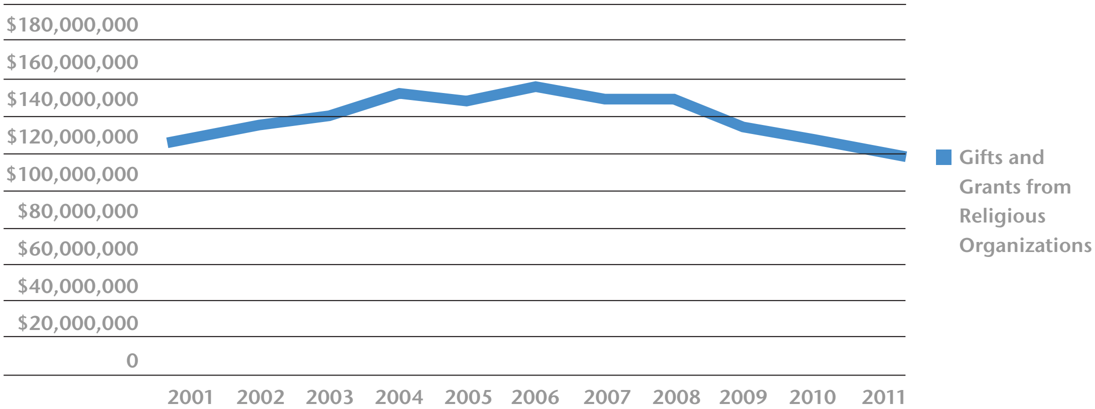
### Support from individuals, foundations, corporations, and others

Figure 15 superimposes gifts from non-church sources on the chart of religious organization giving seen as Figure 13b.[17] Over the twenty-three years charted, giving from religious organizations in 2011 was 13.2 percent higher than in 1988. Gifts from non-church sources, by contrast, more than tripled, growing by 232 percent. The philanthropic funding of theological education has shifted from the institutional church to the individual churchgoer.

**Increase or (Decrease) in Giving Since 2011**

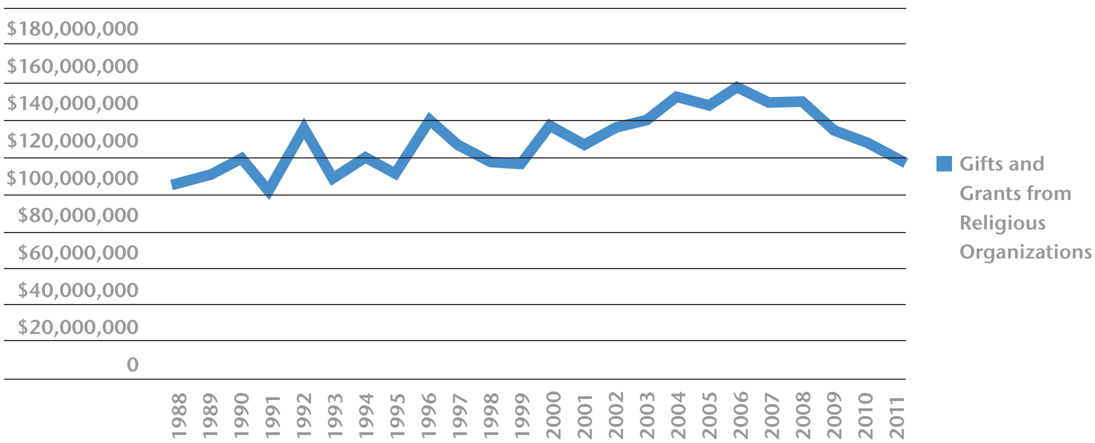
| *Change in Amount Given Over Prior Year* | *2012* | *2013* |
|---|---|---|
| Religious Organizations | (5%) | (4%) |
| Individuals, Foundations, and all other sources | 10% | (4%) |

**Figure 13a: Total Gifts and Grants to Theological Schools from Religious Organizations. All Schools Reporting to the ATS, 2001–2011.**



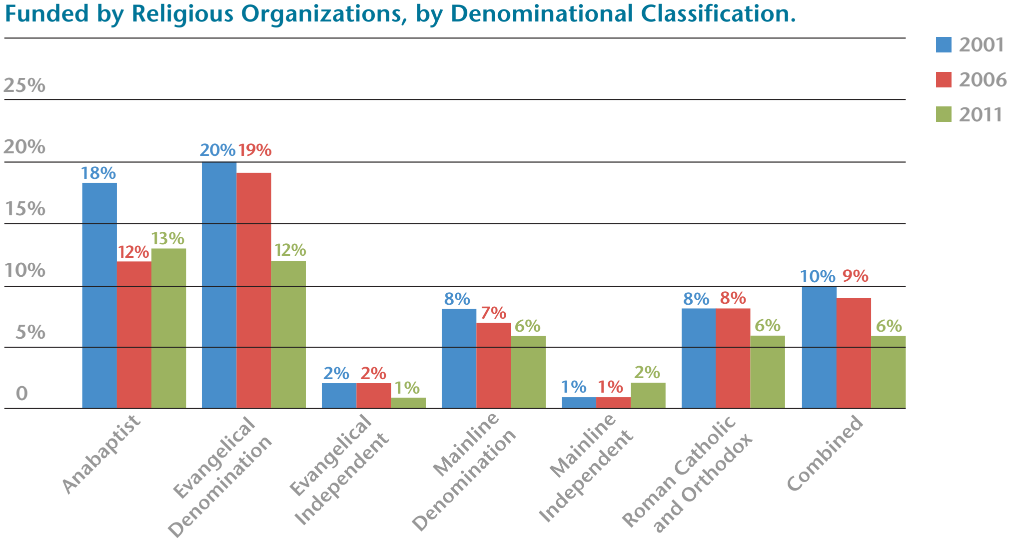

*Source: Commission on Accrediting of the Association of Theological Schools*

**Figure 13b: Total Gifts and Grants to Theological Schools from Religious Organizations. All Schools Reporting to the ATS, 1988–2011.**



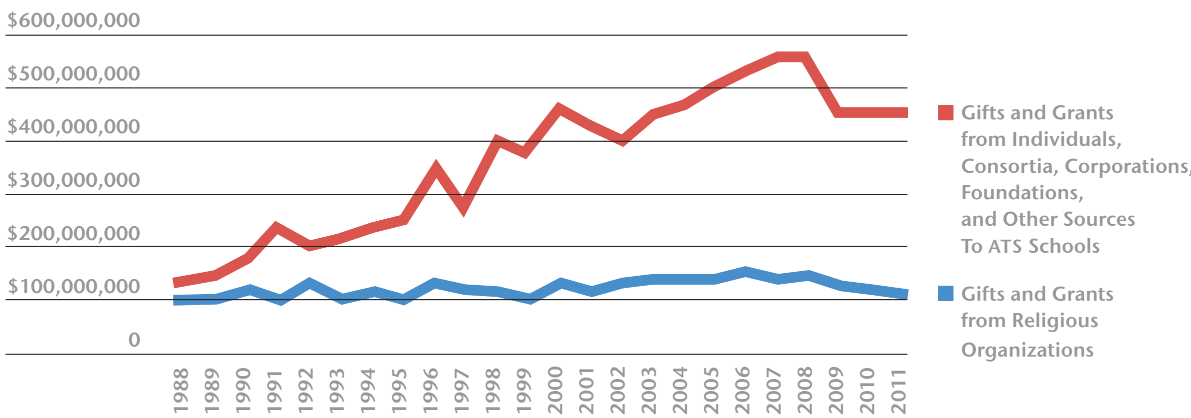

*Source: Commission on Accrediting of the Association of Theological Schools*

**Figure 14: Percentage of Theological Schools' Operating Expenditures Funded by Religious Organizations, by Denominational Classification.**




*Source: Commission on Accrediting of the Association of Theological Schools*

## Figure 15: Total Gifts and Grants to Theological Schools by Source. All Schools Reporting to the ATS.




*Source: Commission on Accrediting of the Association of Theological Schools*

Figure 15 shows that non-church giving fell off sharply, by 18.3 percent, as the recession of 2008 took hold. Donors appear to have cut back in response to their losses. Schools may also have held back their appeals for capital or other special funds in this period of financial stress on donors. Even so, the flat giving of individual donors in recent years contrasts favorably with the decline in religious organizations' giving.

The bulk of the non-church money comes from major living donors and bequests. Major gifts and bequests—gifts of $5,000 or more—provide 84.3 percent of the funds from individuals. Only 15.7 percent comes in the form of small gifts. Before the recession, theological schools averaged thirty-one major gifts from individuals per year. In the aftermath, the average number of those gifts dropped by five, to twenty-six per year.

**Diligent presidents and boards have learned to use the respect in which they are held and their connections as the basis for cultivation of individual donors and donor prospects.**

### Strategic considerations

There is a vast amount of literature on fundraising and development in nonprofit organizations, much of it highly pertinent to theological schools. Rather than distilling the wisdom in these sources, this section notes theological schools' distinctive challenges and advantages.

One challenge is described above: the decades-long evolution of schools from dependence on religious organizations (local churches, denominational judicatories) to dependence on individual philanthropy. Denominational funding in some cases has been cut back abruptly. With graduates who do not earn large salaries and presidents and boards who may have little prior experience in cultivating large gifts, schools may find it hard to compensate for the loss of denominational support.

Even with diminished church support, seminaries and their leaders usually have high status in their church environment. Diligent presidents and boards have learned to use the respect in which they are held and their connections as the basis for cultivation of individual donors and donor prospects. Presidents who have done this successfully have noted that donor cultivation has features in common with the religious practices of pastoral care and discipling.

One successful school reported that it took twenty years to develop a donor constituency. President after president of that school spent far more time in building relationships and cultivating donors than they ever thought they would. It required attention and discipline, but it paid off. The school has many wealthy friends among business leaders; one friend, who sits on the Board, is reportedly a billionaire.

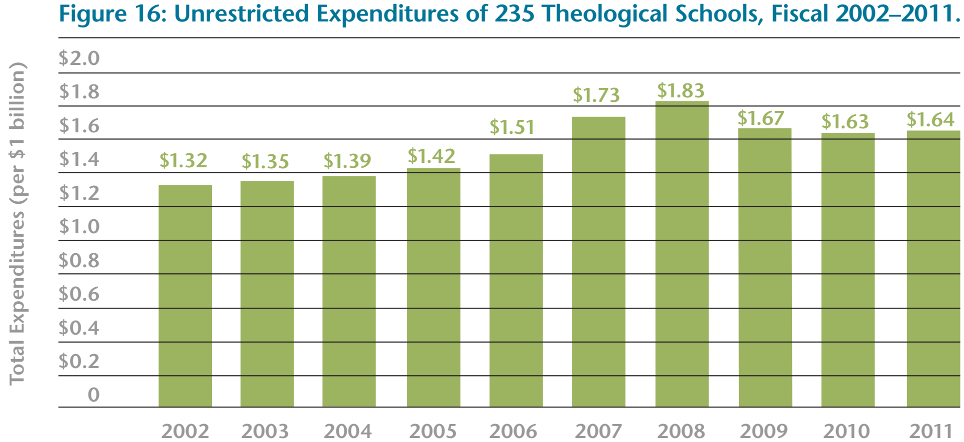
An effective modern practice is to involve prospective donors in planning for the future of the school. One president put it as follows: "People support what they help create. We want donors to give their biggest gift to the thing they are most excited about. We want it to be their proudest gift."

## Expenditures

Predictably, expenditures were cut in response to the recession. Figure 16 shows a 10 percent reduction in expenses from 2008–2010 for all reporting schools. For the entire 2001–2011 decade the schools' expenditures did not keep up with inflation: schools spent 3.4 percent less in 2011 than they had in 2001, when inflation is taken into account. Much of the belt-tightening that happened after 2008 was painful. The interviews for this study yielded many accounts of compensation cutbacks, workforce reductions, retirement buyouts, and no-frills cost discipline.

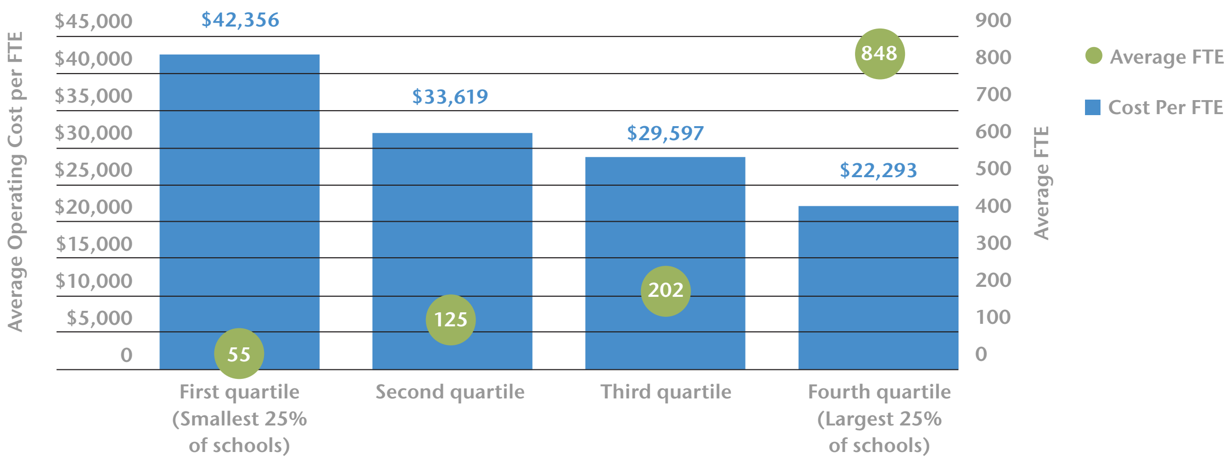
Expenditure reductions are particularly challenging for theological schools because they have a high proportion of fixed costs. Fixed costs are by definition hard to reduce. Shrinking enrollment does not mean expenditures automatically shrink. Buildings require maintenance, administrative functions are (mostly) necessary, and faculty contracts are multiyear. The challenge is even greater for small schools, as Figure 17 shows. The quartile of schools with the least enrollment had an average per-student cost in 2011 that was 90 percent higher than the quartile of schools with the largest enrollment. The average full-time equivalent enrollment for the schools of each quartile is shown in circles on Figure 17.

**Figure 16: Unrestricted Expenditures of 235 Theological Schools, Fiscal 2002–2011.**




*Source: Commission on Accrediting of the Association of Theological Schools*

**Figure 17: Average Operating Cost Per FTE Student, 2011, by FTE quartile. Independent Schools. N=175**




*Source: Commission on Accrediting of the Association of Theological Schools*

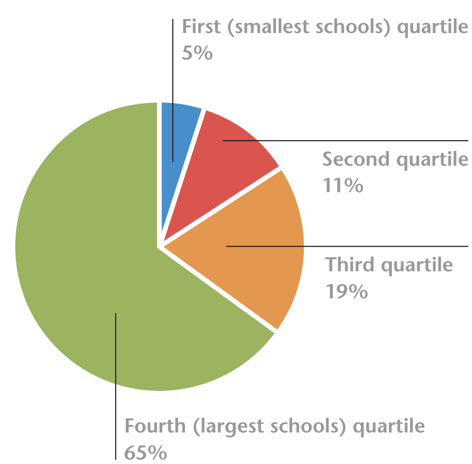
The majority of theological schools are very small. Several graphs illustrate this:

- Figure 18 shows the distribution of enrollment by quartiles as a pie graph.
- Figure 19 shows the head count enrollment of schools lined up from largest to smallest. It visually underscores that there are many small schools and few large ones.
- The ten largest schools enroll 27 percent of the students; 73 percent of students attend the remaining 247 schools.
- The sixty-four largest schools (out of 257) enroll 65 percent of the students. The other 193 schools enroll the other 35 percent.
- Half the students go to thirty-three theological schools. The other half attends the remaining 224.

There are many reasons why there are so many small schools. The schools serve different geographic areas, denominations, theological traditions, vocations, and ethnicities. Each has a unique identity, internal culture, and sense of mission. Small schools, like small churches, can build deep formative relationships through the intimacy of a community in which everyone is known and cared for.

Are small schools inefficient? Yes, because fixed costs are spread over fewer students. Is efficiency the only criterion to be used when assessing the viability of the school or formulating a strategic plan? Many might say there should be multiple criteria. The mission of the school to educate leaders, engage in research, do service, and preserve and enhance the school's theological tradition are also

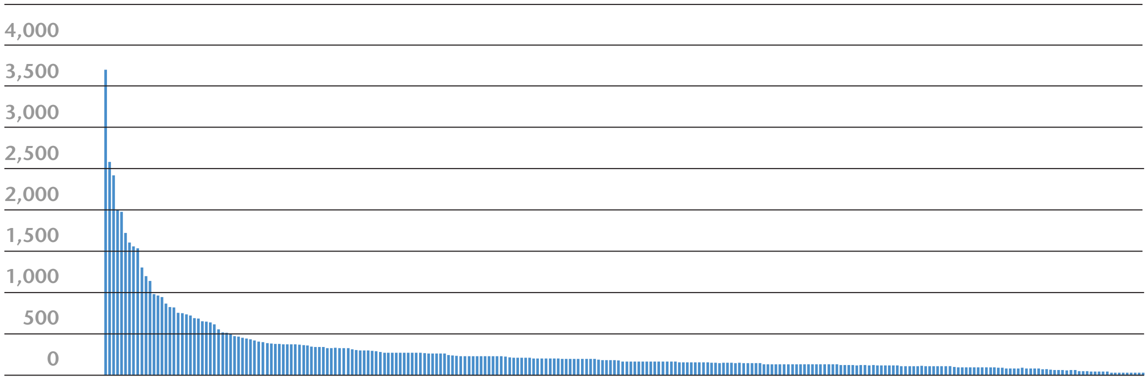
**Figure 18: Distribution of Head Count. Enrollment by School Size, 2011.**




*Source: Commission on Accrediting of the Association of Theological Schools*

**Figure 19: Distribution of Head Count Enrollment by School, 2011.**

*Sorted largest to smallest.*

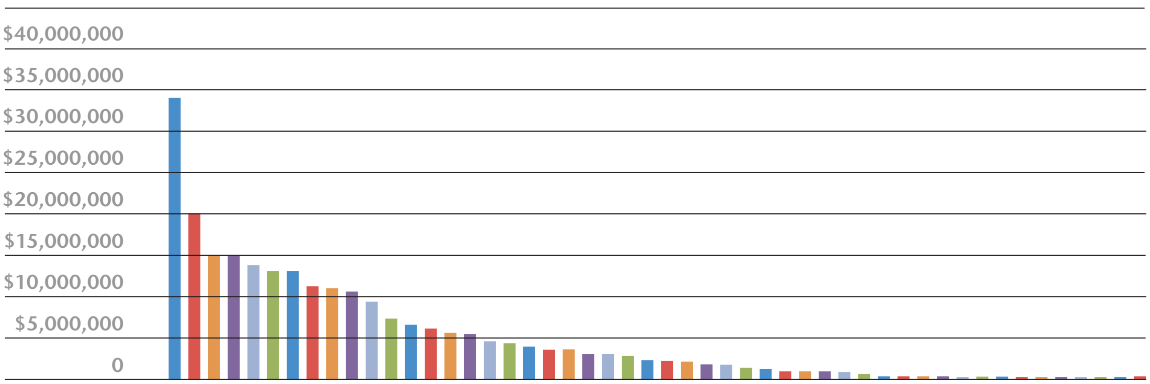



*Source: Commission on Accrediting of the Association of Theological Schools*

**Figure 20: Estimates of Deferred Maintenance, 2011.**

*50 schools reporting that the estimate was based on a study of facilities.*

*Sorted largest to smallest. Each vertical bar represents the estimate of a single school.*




*Source: Commission on Accrediting of the Association of Theological Schools*

significant factors. Nevertheless, a small school faced with declining enrollment and financial losses ought actively to seek an affordable, sustainable future. Insofar as these ongoing challenges are not likely to change dramatically in the future, stewardship of the mission may necessitate reimagining an institutional form that carries the mission forward.

### Deferred maintenance and capital renewal

In addition to operating expenditures, many schools bear responsibility for capital renewal: the repair and replacement of major building systems and components such as heating, air conditioning, elevators, roofs, equipment, and so forth.[18] Under financial pressure, many schools defer maintenance, postponing regular and sometimes even pressing repairs to buildings and equipment. Each year the ATS asks its member schools to estimate their cost of deferred maintenance.[19] Figure 20 shows the reported deferred maintenance estimates for fifty schools that performed professional surveys of their facilities. The range is huge, from over $30 million to zero. Institutions use different methods to arrive at their estimates, so the figures are not strictly comparable. Still, the median reported amount of deferred maintenance was over $2.1 million, and the average was more than $4.8 million. These are substantial amounts.

# Results and the dynamics of success

A considerable number of theological schools, large and small, ended the decade showing substantial operating deficits. Figure 21 shows the distribution of operating results (surpluses and deficits) among freestanding schools.[20] Thirty-seven percent of the freestanding schools ended the year with surpluses. Another 20 percent had deficits under $250,000—a potentially manageable amount—depending on the size of the schools. The remaining schools have challenges. Seventeen percent had deficits over $1 million.[21]

This study had a special focus on the twenty schools that strengthened their net assets by 40 percent or more over the course of the decade. They ended the decade stronger—about 13 percent stronger—when 27 percent inflation is taken into account. This is a remarkable achievement when enrollment, investment markets and gifts were all wobbly. Table 3 shows some of their methods for success that were evident from an examination of the schools' financial data. The methods were used singly or in combination, which is why the "Number of Schools" column in the table adds up to more than twenty.

Some of the methods listed in the Table—the sale of property or a merger—are rare events or singular occurrences. These certainly may be best practices for a school needing to restructure and recapitalize itself in order to sustain a mission. They have the limitation, however, of working only once to generate revenue or reduce expense. Therefore this research study concentrated on ongoing, operating best practices.

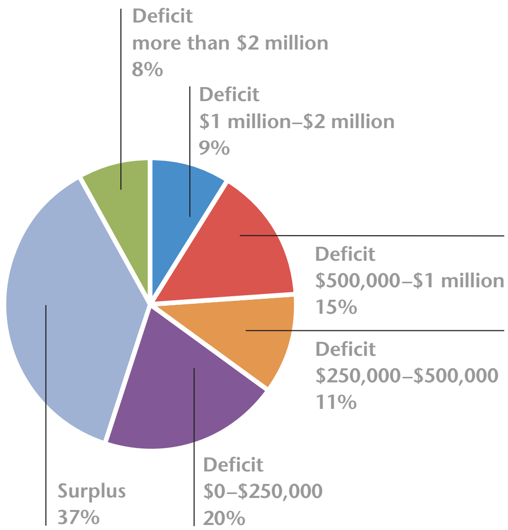
For closer study, six schools were selected that showed steady financial progress, despite occasional hiccups, during the decade. The schools varied greatly in size, theological posture, and church affiliation. Researchers visited or interviewed key personnel at each of those schools. These included the chief executives, chief financial officers, chief development officers, chief academic officers, board members and other key personnel. Interviewees were asked how financial success was achieved. They said that conquering a

**Table 3: Methods Leading to Financial Success**

| | *Number of Schools* |
|---|---|
| Consistent operating surpluses | 16 |
| Gifts and bequests to endowment from individuals | 10 |
| A low investment spending rate; high reinvestment of surpluses | 5 |
| Sale of property | 3 |
| Superior investment gains | 2 |
| Gifts from foundations | 1 |
| Merger | 1 |
| Other—not determinable from statements | 2 |

**Figure 21: 2011 Operating Surplus or Deficit in Freestanding Schools.**

*Adjusted Revenues Less Expenses. N=177*




*Source: Commission on Accrediting of the Association of Theological Schools*

deficit and sustaining a balanced budget were not a simple matter of applying management technique. Rather, the process required significant, coordinated, committed effort.

The comments that follow are anecdotal, describing a composite of all six schools. No individual school claimed to be exemplary, but all had some excellent characteristics. Taken together, the six had a constellation of virtues, described below.

### Deficits are anathema

Our observation from the interviews is that the leadership of financially successful schools came to the firm conviction that deficits are unacceptable, toxic, and to be energetically avoided. Several schools went through a crisis when trying to balance their budget. Two schools' new presidents inherited a habit of deficit budgeting. Other schools were temporarily thrown by the investment market meltdown or suffered other unforeseen events. At some point, though, the resolve to act to eliminate the deficit took hold. The effort was so taxing and stressful on the administration and board they resolved to avoid all future deficits. As one board member said: "Budgeting deficits is too painful. It is doubly hard in the future. I wouldn't hang around for that disaster." We asked a president at another school about the secret of their consistent budgeting and expenditure discipline. The simple answer: "We are very careful."

**The leadership of financially successful schools came to the firm conviction that deficits are unacceptable, toxic, and to be energetically avoided.**

### Teamwork is essential

The transition to a balanced budget from a habit of deficits was sometimes experienced as a "crisis." It was hard on everyone. These successful schools, however, were able to rally both their administrations and boards to take on the task:

> We got all the voices around the table, like a "team of rivals." The other administrators really helped to stimulate the President's courage. The Board was provided the information and made the decisions. The Board chair took the heat.

The phrase "The Board was provided the information" carries significance. The team had to learn how to provide information in a thorough yet useful way in order to inspire appropriate action from the Board. Transparency about the nature and extent of the crisis was cited as a crucial step in unleashing the energy, attention, and commitment of their boards. Some schools, after the budget had been balanced, restructured and energized their board

**Donors don't want to fill a hole. They want to build a mountain. Major donors want assurances that the organization is well run and that, therefore, their gift will be well used.**

committees, demanding better information and reports on an ongoing basis. One school characterized their highly engaged board committees as "communities of strategy" for the president and senior officers.

### Fundraising

Consistent balanced budgets—both operating and capital budgets—provide the foundation for strengthening the school through fundraising. Put simply by one president: "Donors don't want to fill a hole. They want to build a mountain." On occasion there are exceptions—donors so loyal or so moved by a school in difficulty that they give generously despite deficits. Those stories are true, but they are rare, and "crisis" appeals can't be repeated often. Fundraising literature and consultants generally agree that major donors want assurances that the organization is well run and that, therefore, their gift will be well used. One president succinctly stated: "People need to trust what you have done with their money." Each of the successful schools built on their balanced budgets and board-administration partnerships through steady and patient attention to the task of development.

### Vision

Schools with deficits are constrained. Interesting educational and administrative initiatives may be shelved for lack of funding. Worse, some staff or faculty may be "looking over their shoulder," concerned that their programs, compensation, or continued employment could be at risk. Sometimes complaints of overwork, turnover of staff, resistance to change and office politics are symptoms related to a lack of institutional confidence. Few organizations are free of these corrosive behaviors, but positive counterweights were evident in the successful schools.

One school talked about a forty-year strategic plan. Another school topped that, and talked about a hundred-year plan. These claims are surprising. Most three-year strategic plans are out of date in eighteen months. The world—ecclesial and secular—is changing rapidly. How could anyone plan so far in advance?

It became evident that the forty and hundred-year plans were not "plans" in any conventional sense. They were statements of the school's values and vision. Put another way, the "plans" were the translation of the mission into the corporate, shared vocation of the school. This shared vocation contributed to the cooperative, shared governance the schools showed, and seemed to animate and motivate the persons associated with the school. The positive yet realistic attitude was palpable in the interviews. The undertow and shadows that deficits can cause seemed to be absent.

### A virtuous circle

Each of the "best practices" listed above—avoiding deficits, building the administrative team, engaging the board, fundraising, and fostering shared vocation and vision—leads to and supports the others. If a school with persistent deficits, for instance, wished to tackle its problem, it would likely start by increasing the collaboration and effort of the administrative team. In order for that energized administration to make serious headway, the board would have to be up to speed, fully engaged and energized in the task of sustaining an adequate and financially viable mission. An engaged and energetic board would recognize the importance of making friends and fundraising, including strengthening the board membership itself. Effective fundraising and governance, in their turn, foster a common vision and vocation among all those who care about the mission of the school and the future of the church.

None of the best practices is "best" if attempted in isolation, or pursued without adequate attention to the others. These practices together create a virtuous circle, which can lift the entire school.

## Recommendations for Emmett Theological Seminary

This report began with the fictional situation of Emmett Theological Seminary, a composite of several actual schools:

*It was a tale of woe at Emmett Theological Seminary. Their denomination used to send them plenty of students, but their once-thriving residential Master of Divinity program had diminished significantly. Now classrooms and student housing were only partially filled. Both the housing and classrooms needed upgrading badly. Denominational funding for operating support tailed off and individual donations had not made up the difference.*

*A new building for faculty offices was recently constructed but the seminary had to borrow funds because the capital gifts raised were insufficient. The interest expense was added to an ongoing deficit. The overspent endowment took a nosedive when the Great Recession arrived.*

*What should they do?*

The troubled Emmett Theological Seminary should start with some clear-eyed quantitative and qualitative analyses.

One set of quantitative assessments should focus on enrollment. What are the actual enrollment numbers? What are the demographic, geographic, and vocational characteristics of the students who enroll? How does Emmett compare to its competition in size, convenience, offerings, and cost?

Qualitative enrollment analyses should ask, "Why do students choose Emmett?" What does the Seminary think its distinctive competitive advantages are? Do enrolled students actually cite these distinctive strengths? Why do some applicants who are accepted fail to enroll, or decide to attend a different theological school?

Financial analyses and projections are needed. The basic question Emmett must address is: How far are we from financial stability and growth in the intermediate and long term? What numbers (operating surpluses, net financial capital growth) must we hit to sustain our mission? The projections might show

**The questions we must ask ourselves: How far are we from financial stability and growth in the intermediate and long term? What numbers must we hit to sustain our mission?**

**If the work shows that business as usual is not sustainable, it will also probably show that there are no easy answers or quick fixes. The way forward calls for financial discipline, program creativity, and thorough, thoughtful collaboration.**

that "business as usual" means that reduced net tuition and declining denominational support will exacerbate the operating deficit, overspending from endowment will continue to weaken the financial net assets, and neglected buildings will eventually take their revenge. Some significant future challenges loom. Effective action—sooner rather than later—will be needed.

The quantitative financial projections should give rise to some qualitative imagining. "What if" scenarios on possible changes can be simulated and played out. What should Emmett's future programs look like? Should it downsize? Can it expand to attract new constituents? What does it mean to focus on its singular contribution to the Church and world? Any and all suggestions and scenarios should be welcomed. Skepticism about easy answers—"we'll go online" or "we'll raise lots of money"—is needed, especially if Emmett has little experience in developing and marketing online programs or cultivating prospective donors.

Analyses and projections are an excellent opportunity for Emmett to enter the virtuous circle of effective administrative teamwork, an empowered board, and a developing vision. The analyses and projections are the meat in the crucial task of finding a viable future. If the work shows that business as usual is not sustainable, it will also probably show that there are no easy answers or quick fixes at hand. The alternatives that many schools are contemplating—transforming educational delivery, seeking new or renewed constituencies, asset sales, institutional reconfigurations, mergers—are all difficult and raise deep questions about the school's identity, autonomy, mission, and vocation. The way forward calls for financial discipline and program creativity, in addition to the thorough, thoughtful collaboration of the Board, administration, faculty, and the religious communities that depend upon Emmett.

## Summary of Tribulations 2001–2011

### Tuition and Fees

- 9.3 percent fewer students since 2004, despite growth of alternate delivery systems.
- 20–30 percent real increase in tuition.
- No percentage increase in financial aid grants.
- Increasing student indebtedness from undergraduate and theological studies.

### Investments

- Two bear markets; difficult to keep pace with inflation of 27 percent.
- Compounded by overspending in some schools.

### Gifts and Grants

- 24.3 percent decline in church support since 2006.
- 18.3 percent decline since 2008 from all other sources.

### Costs

- High fixed costs.
- Increased educational and administrative demands.
- Deferred maintenance and capital renewal.

## Notes

1. L. Badgett Dillard, *Financial Support of Protestant Theological Education* (unpublished dissertation) (Bloomington: Indiana University, 1973).

   L. Badgett Dillard and Anthony Ruger, *Changes in the Support of Protestant Theological Education,* 1971–1981 (Louisville, KY, 1983).

   Anthony Ruger, *Lean Years, Fat Years: Changes in the Financial Support of Protestant Theological Education* (New York: Auburn Studies, 1994).

   Anthony Ruger, *Seek and Find: Revenues in Theological Education* (New York: Auburn Studies, 2005).

2. Barbara G. Wheeler, Anthony T. Ruger and Sharon L. Miller, *Theological Student Enrollment: A Special Report from the Auburn Center for the Study of Theological Education* (New York: Auburn Studies, 2013).

3. Ibid.

4. The Pew Forum on Religion and Public Life, *U.S. Religious Landscape Survey; Religious Affiliation: Diverse and Dynamic* (Washington, DC, February 2008).

5. The Association of Theological Schools in the United States and Canada and The Commission on Accrediting, *Commission Standards of Accreditation, ES.4.1* (Part 1, p. G-32), (Pittsburgh, 2012). The Commission accrediting standards define distance education "as a mode of education in which a course is offered without students and instructors being in the same location. Instruction may be synchronous or asynchronous and employs the use of technology. Distance education courses may consist exclusively of online or other technologically assisted instruction or a blend of intensive classroom and online instruction."

6. For the twenty years from 1991–2011 the Consumer Price Index rose approximately 65 percent. Over the same period evangelical and Roman Catholic schools raised tuition just over 200 percent. Mainline schools increased tuition by 153 percent.

7. The College Board, *Average Published Undergraduate Charges by Sector, 2013–14: Annual Survey of Colleges* (New York, 2013). Average tuition and fees for private nonprofit four-year institutions in 2011/12 was $27,883.

8. National Center for Education Statistics, *Digest of Education Statistics 2011* (NCES 2012–001), (Washington, DC 2012).

9. Sharon L. Miller, Kim Maphis Early and Anthony Ruger, *Taming the Tempest: A Team Approach to Reducing and Managing Theological Student Debt* (New York: Auburn Studies, 2014) [Forthcoming].

10. Schools embedded in colleges and universities might not report financial aid grants as part of the theological school budget. Those schools were not included to maintain comparability.

11. Helen M. Blier and Barbara G. Wheeler, *Report on a Study of Doctoral Programs that Prepare Faculty for Teaching in Theological Schools* (New York: Auburn Studies, June 2010).

12. Contemporary investment experts often recommend a greater diversification of asset classes and investment managers within asset classes than this example assumes.

13. Experts have recommended that spending an amount equal to 5 percent of the market value of conventionally allocated long term investments will, over the long term, permit reinvestment of excess return sufficient to protect the purchasing power of the invested funds. One of the early authoritative studies was Richard M. Ennis and J. Peter Williamson, *Spending Policy for Educational Endowments* (Westport, CT: The Common Fund, January 1976).

14. Matthew 25:25.

15. Theological schools "embedded" in universities or larger entities often are subject to the parent school's spending policies. Some, however, have the option of spending less than the policy, thereby reinvesting more than other departments and schools.

16. Anthony Ruger, *Seek and Find: Revenues in Theological Education* (New York: Auburn Studies, 2005), 16.

17. Non-church sources include individuals, foundations (which are often family foundations), corporations (which are usually matching gifts of employees), and consortia.

18. Most freestanding schools have this responsibility. Policies and practices at embedded schools will vary.

19. Accounting rules do not recognize non-specific or indefinite future expenses as liabilities, so only estimates can be reported.

20. The financial data from schools that are part of a larger entity (such as a university, diocese, or order, often called "embedded" schools) typically do not have the same revenue and expense categories as freestanding schools. Nor are the categories consistent among the embedded schools. Thus, the data from those schools are excluded from the chart for lack of comparability.

21. Revenue from investments was normalized at 5 percent of the prior year market value of long-term investments.

# Auburn Center Publications

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# 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 freestanding 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 lifelong learning for persons of diverse faith backgrounds.

**Auburn Center for the Study of Theological Education**

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