It is a fact that the current economic crisis is the number one topic of conversation in the country today. Many of you have inquired with concern about how this financial “tsunami” is affecting Saint Leo University. This Occasional Paper will bring you up to date on the university’s issues and responses in the current economic situation.

Dr. Arthur F. Kirk, Jr.
President

Effects of our global and national economy on Saint Leo University

We are all concerned about the continuing deterioration of our economy, not to mention the seemingly unprecedented collapse of credit markets, the bankruptcies of financial sector icons, and the seemingly imminent collapse of some of our national industry giants. No organization, Saint Leo University included, is immune to the effects of the plummeting equity markets, tightening credit markets, rising unemployment, consumer uncertainty, and lack of confidence. It will obviously be a year of economic challenge around the world and across our nation, for our students and their families, and for the university.

Saint Leo University faced other challenges even before the sharp economic decline. We knew that this year and the next would be years of transition for the university as we complete restructuring and streamlining our Center for Online Learning (COL) operations. We also expected that the stresses on our Armed Forces, who are in the seventh year of fighting two wars, would continue to depress our military enrollments. This unprecedented confluence of institutional and world events will make this fiscal year one of Saint Leo’s most challenging in decades. We are planning and budgeting with greater focus and discipline. Many other colleges and universities, including the likes of Harvard, Dartmouth, Boston University, and Cornell, froze hiring and/or announced faculty and staff layoffs. Many schools eliminated salary increases (in some cases for the second or third consecutive year), terminated programs, and took other measures to reduce costs and avoid more difficult and painful decisions later. Saint Leo University must be equally prudent as conditions require. In just the last month, two small colleges announced they were closing because they were unable to weather the added financial stresses of this economy, which may be the worst in our experience. Another private school is seeking a for-profit institution as a buyer, or for its home state to take it over. Presently, Saint Leo does not expect drastic changes in our strategy and direction.
We do expect that the near-term external economic conditions will require Saint Leo University to be even more conservative in raising tuition rates for the 2009-2010 fiscal year, and extremely conservative when considering any additional personnel, programs, projects, locations, or expenses. Based on our current circumstance we believe that we can avoid layoffs and vacancy freezes, and we will continue to honor every aspect of our student-centered mission. We will focus our resources more on the programs, locations, and initiatives that will contribute to enrollment growth, greater student learning and satisfaction, improved retention, and revenue growth. We will seek strategic advantage for the university in this turbulent marketplace. We will also be more disciplined in identifying activities that we should or can discontinue. In times like these, smart organizations pursue greater clarity about their strengths and priorities and concentrate on them. What is weak or less important is trimmed to provide sufficient resources to pursue opportunities appropriate to the university’s future. Saint Leo faces hard decisions and a difficult year, but we also see opportunities.

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Saint Leo University faces internal threats unique to us as well. Our new business model for the Center for Online Learning is still in its infancy and evolving. The planning and execution of the plans we developed over nearly six years prior to the end of our online-services contract allowed us to change every course, every system, every component of the technological infrastructure, and every process for more than 3,000 students and hundreds of faculty. We projected our revenue to be lower this year as we converted to this new model, but we still have fallen short of those lower enrollment projections. The economy is affecting enrollments far more than we imagined six and twelve months ago when we never would have predicted Bear Stearns, Washington Mutual, Wachovia, and Lehman Brothers would be bankrupt or sold at fire-sale prices. The good news is the downward enrollment trend leveled out by the summer and now we are in an upward trajectory. However, the continuing economic decline, job losses, and lack of consumer confidence are clearly affecting the decisions of adult students to enroll or to remain enrolled. This is exerting downward pressure on our enrollments in COL. We are managing our expenses well to mitigate the bottom-line impact of lower enrollments…thus far. We have revised our marketing strategies and done some tuition discounting, which appears to be helping us. Our initial forecasts projected that we would rebuild our enrollments to approximately 4,000 students in about 18 months (Spring 2011). That timeline will have to be extended in this economic climate. We do expect COL to ultimately contribute even more to the university’s operating strength but not until we complete the transition, until our business model stabilizes and matures, and until the economy improves.

The military centers also continue to see a slow decrease in enrollments and revenue as soldiers are told to stay mobile and be ready to move at a moment’s notice. Some are deployed for the third or fourth time and are too fatigued from multiple deployments to continue their studies and some new recruits lack a high school diploma. We also face much greater competition for military students than we have in the past.

COL and military programs together constitute about 46 percent of our tuition revenues, down from 59 percent last year. University College, graduate programs, and civilian centers met our enrollment and tuition growth expectations this fall, but their growth is insufficient to offset the declines in our two largest lines of work. However, the economy is having a positive effect on our enrollments in graduate programs, online and “on ground.” Both are growing beyond expectations.
We are also happily experiencing an increase in applications for our traditional University College program. Applications exceed the prior year’s record pace by 8 percent. Saint Leo University’s competitive price and considerable value attracts more and better applicants every year. (Consumer’s Digest rated Saint Leo the nation’s fifth best value of private colleges and universities.) While we have grown by 700 students in the last seven years and increased our freshman class each year, we cannot continue to increase freshman enrollments because of housing and classroom space constraints. Still, we will graduate a smaller senior class than the incoming freshman class of 500 and we should grow by about 50 students (3 percent). We worry about student retention, but have seen no evidence that the economy is causing students to withdraw. If they demonstrate greater financial need, we will meet part or all of it, if at all possible.

Last fiscal year (2007-2008) we were able to exceed the budgeted surplus thanks to our employees’ responsible stewardship, high productivity, and judicious spending. I thank them for their good work. It was Saint Leo University’s seventh consecutive year with a solid budget surplus. This fiscal year (2008-2009), we may well struggle to do much more than break even. We budgeted only a $1.3 million surplus (1.16 percent), meager but still challenging given the economy and the fact that COL and military enrollments and revenues are falling short of our budget projections. We must achieve break-even status this year and the 1.16 percent surplus is razor thin. The 2008-2009 financial results will be the ones that our accrediting association, SACS, will scrutinize. Of course, our lenders demand surpluses every year as well. We must do all that we can to exceed our surplus target for FY 2008-2009. We must also budget extra conservatively for FY 2009-2010 to assure we produce a surplus that year as well.

Despite these exigencies, we will continue to invest in Saint Leo University’s future. One very important investment is in our people. Faculty received salary increases last August as per schedule and we will grant salary increases to our administrators and staff in January as planned. They have earned them. Saint Leo University operates on a lean staffing model. Our people work hard and accomplish a great deal. They are the key to getting us through these tough times. We will reward their good work appropriately this year and as long as we possibly can. We will also pursue some strategic objectives in the coming months. These were identified in our strategic planning process as key result areas in pursuit of our strategic vision. They are listed below.

1. Complete the Center for Online Learning transition and develop new academic programs for online delivery.
2. Be the expert on the new GI Bill.
3. Develop sophisticated market (program and location) research capacity.
4. Identify and evaluate new-generation technology.
5. Prepare for a capital campaign for a School of Business building, a theater, and residence hall additions.
6. Become even more attractive to Hispanic and Latino populations.
7. Amplify our Catholic Identity.

While several of these strategic priorities do not require an investment of any magnitude beyond time and attention, we do not expect to fund other strategic initiatives beyond these in the current volatile economic environment. However, we do intend to pursue these seven initiatives vigorously to strengthen our position. I have discussed the importance of our online programs and military mission. We want to maintain our favorable status as an attractive setting for Hispanic students and military veterans. We rank seventh nationally in the number of veterans...
attending Saint Leo now and must maintain that status under the new law. Hispanics and Latinos are the fastest growing segment in the traditional student market. Preparing to build again is essential to campus growth. Our vision is for Saint Leo to grow beyond 2,000 resident students on the main campus by 2013. Presently, we lack the academic and residential capacity to expand—but have more than sufficient student demand to continue growing. We received more than 4,000 freshman applications each year for the last two years and had a waiting list in 2008. As we grow, on campus and off, we need to be more precise about what programs are in demand and which new locations offer the best prospects for successful new off-campus centers. And, we must continue to be faithful to our Catholic mission and be appreciated for all that we do in that regard.

We have enjoyed a spectacular run for nearly a decade. In just seven years campus enrollments grew 70 percent, graduate enrollments grew fivefold, overall enrollments grew by over 20 percent, and the number of full-time faculty increased by more than 70 percent. Revenues nearly doubled and total net assets jumped threefold.

In the next few years, we expect our revenue growth to be similar to most successful not-for-profit colleges and universities—modest at best and comparable to the rate of inflation. The average college or university will face declining resources and deeper cutbacks. Other colleges will close their doors in this era. Saint Leo University also must adjust its expectations according to the new economic climate and our changing growth levels. Saint Leo’s decade-long run of growth and prosperity resulted from our disciplined planning and budgeting process. That discipline is far more important now if we are to weather this economic tsunami and look forward to strong growth in future years.

I believe that Saint Leo University is more capable, committed, determined, and disciplined than ever. What I see our faculty and staff accomplish is nothing short of remarkable. I have absolute confidence that we will do what is right, smart, and consistent with our mission, values, and vision. I believe we will demonstrate the discipline of greatness and, most importantly, will sacrifice what we may personally want or need for the longer term benefit of Saint Leo University. I know that we will be even more resourceful and learn as we must (and as the nation must) to do more with less. I stand ready to do all that is best for Saint Leo long-term and so too do our vice presidents, deans, faculty, and staff. The result of meeting these challenges will be a stronger and somewhat leaner Saint Leo University next year and beyond, but one with an even stronger reputation for excellence, values, and value.

We appreciate your understanding and support to help Saint Leo meet these challenges.