

THE BOTTOM LINE
ON ACADEMIC STRENGTH:

A conversation with Early Reese, vice president for finance and treasurer



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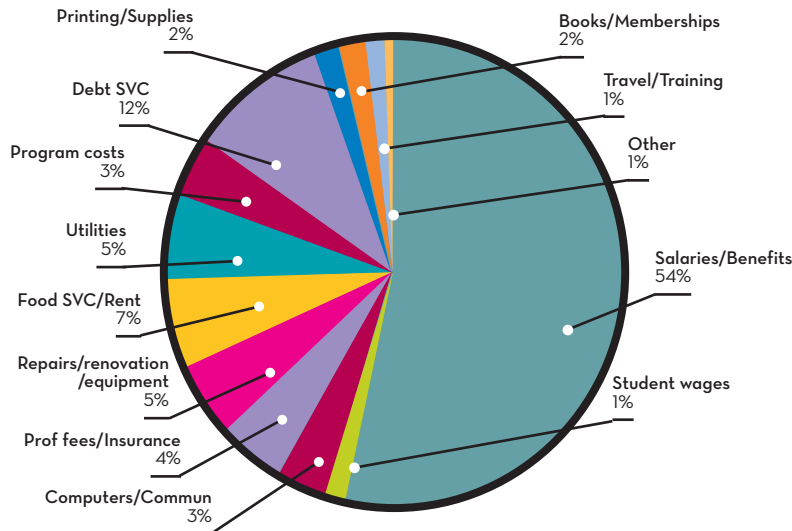
What does it take to keep Trinity competitive in today's higher education marketplace? In a period when escalating costs for energy and health care are challenging everyone from families to institutions, how does the College maintain its fiscal equilibrium? What role does our budget have in our ability to attract and retain the best students and the best new faculty members?

These are among the many financial questions that demand constant attention from the College's top leadership. According to Paul Raether '68, chairman of the Board of Trustees, "Competition among colleges is as fierce today in the areas of student and faculty recruitment as it is on the football field or squash court. In this environment, it is critical for Trinity to have the financial resources that will enable us to maintain our position as a college with a national reputation for excellence. The Board is committed to that ideal and to acquiring all the necessary support." Tami Preston '79, chair of the Finance and Planning Committee of the Board, adds that "In President Jones, we have an outstanding leader, not only on the academic side, but also on the financial side. His abilities as both a planner and a fund raiser are proven, as is his commitment to the College. Under his leadership, the entire community is coming together to help ensure a strong future for Trinity."

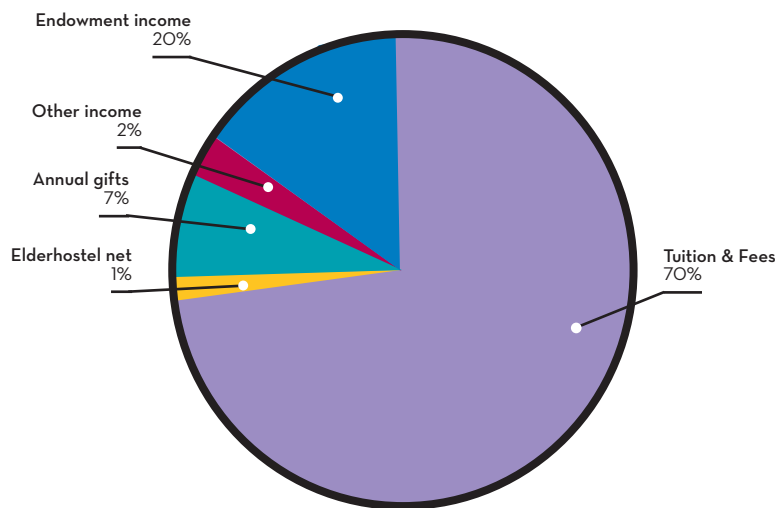
In early 2005, President Jones led a nationwide search for a new vice president for finance and treasurer, which resulted in the hiring of Early Reese. According to Jones, "We are attempting to assemble the most outstanding group of senior line officers that Trinity has ever enjoyed. This is certainly the case with someone as experienced and as nationally recognized as Early Reese." Tami Preston notes that "Early Reese brings a broad range of knowledge to his position at Trinity, including previous top-level financial responsibility in the academic world. He is a strong addition to the College's administrative team."

Reese came to Trinity with 30 years of financial experience, having served at PricewaterhouseCoopers, Philip Morris, and the United States Olympic Committee, where he reduced operating budget deficits and helped manage the endowment. Having also served as rector (chairman of the board of trustees) and as chairman of the finance and audit committee for Virginia State University, he is familiar with financial and management issues related to an academic institution. Upon his arrival, he began to set in place a number of far-reaching actions intend-

TRINITY COLLEGE
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TRINITY COLLEGE
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ed to provide forward-looking leadership for Trinity's financial affairs. In January of 2006, the *Reporter* asked Reese to comment on where the College currently is and where it is headed.

What operating principles guide your approach to the College's finances?

We start with three major tenets, accountability, stewardship, and leadership. We owe it to all members of the College community to manage Trinity's resources wisely and thoughtfully and to focus them on providing the finest liberal arts education possible. To that end, there are several principles that guide both our day-to-day activities and our long-range planning. These include balanced operating budgets, adequate cash reserves to fund the College's commitments, a five-percent endowment spend-rate, and prudent use of long- and short-term debt. In addition, we aim to be completely open about sharing financial information and we want to make it possible for a wide range of people to participate in the process of building and managing the budget.

By wisely handling our existing resources and by working effectively to increase several major sources of revenue, we will ensure that Trinity continues to offer the quality educational experience that is the hallmark of our reputation.

What is the importance of the endowment to Trinity's future?

The endowment is critically important to the College. Our tuition and fee structure is never sufficient to cover all of our operating costs—and this is true of colleges and universities all across the country—so we rely on the endowment as well as the annual Trinity Fund appeal to augment our operating budget. This year, the College's total tuition and fees come to \$42,220, but the actual, full, per-student cost of a Trinity education is approximately \$15,000 more than that. The endowment and the Trinity Fund are critically important in covering that gap.

Right now, approximately 20 percent of our annual operating expenses are derived from proceeds from the endowment fund. In order to cover that percentage of expenses, we are currently drawing against the endowment at the rate of approximately six percent annually. This is called the "spend rate." However, it is much more fiscally sound to have a spend rate of five percent and therefore to be able to re-invest more of the annual endowment income for future needs.

Case in point: Major Long Walk renovations required

As noted in the fall issue of the *Reporter*, the Long Walk was closed off late last summer due to safety concerns about the deteriorating condition of the Jarvis and Seabury roofs.

As the spring semester begins, the fencing has been removed, the Long Walk is once again operational, and the Quad is back to normal. Cracks were originally discovered in stones and fixtures at various places along the Long Walk during a restoration project at the Jarvis and Seabury towers last summer. Shifting stones had created gaps between several of the dormers and the buildings, and leaks were found in the tile roofs.

“We have stabilized the situation so that there is no longer an imminent safety issue,” explains Director of Facilities Sally Katz. “We have taken the fences down and the sidewalk and arches are open. We still have a lot of work to do but, as far as the day-to-day life of the College goes, the Long Walk is back in business.”

The next phase will be to determine how best to proceed with the major repairs. Katz says, “The decisions we’re going to make will have long-term implications. We’re going to take our time and do what’s best for the institution. There is no quick fix. We want to make sure we do this right.”

The initial estimate for renovation is in the range of \$10 million for replacing the slate roof and repairing the dormers. Additional funding will be sought for needed renovations to residence hall rooms and classrooms in each of the affected buildings. The entire project is expected to take up to three years.

endowment income for future needs. The Board has committed to reduce the spend rate over the next five years.

In order to accomplish that, we must be able to rely on the endowment to provide support to the College in the 30 percent range. Which brings us to the bottom line regarding the current condition of our endowment—clearly it has to be much, much larger. Right now, the Trinity endowment stands at \$380 million. In order to ensure a strong future for the College, we need to grow it substantially. In order for the College to maintain itself among the top liberal arts institutions in the country, our endowment needs to grow into the range of \$700 to \$750 million, and we need to achieve this goal in less than a decade.

A more robust endowment will enable us to achieve two things. First, and most important, it will enable us to take a college experience that is already strong and make our educational offerings even deeper and richer. Second—and this is also crucial—Trinity operates in a very competitive environment in American higher education. We go head-to-head with all the top liberal arts colleges in the country, as well as many of the top universities, in the recruitment of well-qualified students. And the same goes for the recruitment and retention of faculty members. What is of great concern is that, at the present moment, many institutions we compete with have a serious advantage when it comes to the support they get from their endowments.

For example, the endowment at Williams is \$1.3 billion, Amherst has more than \$1 billion, Vassar has \$600 million, and Wesleyan has \$500 million. So the schools we compete with are at least twice or three or four times our size, in terms of their endowments. I can’t emphasize enough that a significant improvement in our endowment situation is the key to a future in which Trinity College maintains its position among the leading liberal arts colleges in this country.

What is the role of the Trinity Fund in sustaining the College’s financial strength?

The Trinity Fund represents 7 percent of our operating budget, and that is particularly significant because these are unrestricted dollars that are available immediately as operating funds. As with the endowment, it is extremely important that the Trinity Fund continues to grow. Again, many of our competitors are ahead of us at the moment in this respect, with a number of colleges of our size realizing a 10 percent augmentation of their budgets from their annual funds. That is the level that Trinity needs to reach, as well.

Because the Trinity Fund is tied so directly to each year’s operating budget, it’s important to note that the College is no more immune than any individual or family to outside pressures that effect annual expenditures. As we work with this year’s budget, for instance, we are finding that the sharp spike in energy costs has

taken us quite a bit above what we expected to be paying in this sector. At the same time, we are facing continually increased expenses in the area of health care coverage. Both these upward pressures highlight the importance of ongoing support for the annual Trinity Fund, as we continue to balance these expenditures with the need to maintain our academic offerings at full strength.

Last year, the Trinity Fund contributed more than \$5.9 million. This year, the goal is to raise \$6.5 million. To that end, the College has launched the One:Two Challenge. Support from 28 alumni and parent Challenge donors has made it possible for the Trinity Fund to set this dollar goal as well as ambitious new goals for participation. The Challenge gifts are an important stimulus to the College's fund-raising activities and mark an historic moment in Trinity's growth. Just imagine what the College will be able to do with an additional \$2 or \$3 million in its annual operating budget to increase support for such things as financial aid, library acquisitions, and extracurricular activities, including athletics.

In the past several years, Trinity has had to take on some expensive renovation work, including the Chapel and the Long Walk buildings. What effect do these deferred maintenance projects have on the budget?

Best practice guidelines say that colleges and universities should be spending somewhere around 3 percent of the net asset value of their properties on an annual basis to maintain them in good operating condition. That number for Trinity would be approximately \$6 million annually. Our operating budget currently is supporting about \$2.6 million of that amount, which means that we are not keeping up with our deferred maintenance. One symptom of that became evident when we recently experienced a potential safety hazard with the Jarvis-Seabury buildings on the Long Walk (see sidebar). We discovered that not only was the slate roof beginning to leak, but that the support structures holding the stones of the dormer windows in place had rusted away, making it possible that some of the heavy dormer stones might fall on pedestrians in the Long Walk below. We took immediate steps to stabilize the structures and to ensure that no one would be in danger. In the long run, though, a complete restoration is required, which is an unbudgeted investment that will run well into the millions of dollars.

While the Long Walk situation is highly visible and dramatic, more so because this set of buildings is the historical heart of the campus, they are only one example of the many ways in which the College needs to get out ahead of its maintenance responsibilities and ensure that the inevitable demands of an aging campus infrastructure are fully funded in future budget planning. To that end, we have engaged a construction and engineering firm to conduct an updated deferred maintenance evaluation of all our major academic and residential properties so we can have a current assessment of the scope and extent of our repair needs and some recommendations for prioritizing the order in which we need to get them done.

What do we need to do in order to move forward in our role as one of the nation's leading liberal arts colleges, especially in the areas of financial aid/diversity, endowed chairs, and facilities?

In order to advance, Trinity must continue to attract the best students and the best faculty members, as well as be able to provide up-to-date facilities. We want to continue to attract a diverse population of well-qualified students because we believe that diversity provides a richer educational experience for all our students. The ability to offer competitive financial aid support is key to continuing to attract the necessary mix of students. At the same time, we need to continue to invest in our faculty, especially as we come into a period of time in which many senior faculty members will move into the retirement phase of their lives. This is a situation that schools all over the country are facing. Many colleges and universities grew rapidly during the '60s and '70s, and the cohort of faculty members who came aboard at that time are now nearing retirement. As we look at the many ways in which Trinity needs to successfully compete with other schools, the imminent moment in which we all will be competing for the best new, young faculty members is simply another instance of how urgent it is that we strengthen ourselves from a financial point of view.

As I noted earlier, we are up against the point where we can no longer reasonably expect to increase our income by substantially raising tuition and fees. Trinity is a proud school, with a long tradition of offering a quality education at the national level. In order for us to build on that tradition and to go strongly in the direction of our aspirations, we will certainly need to attend to the growth of the endowment and the Trinity Fund.