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WESLEY COLLEGE: AN EXTRAORDINARY TURNAROUND

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Although alumni today often boast about how Wesley, a predominately liberal arts college in Dover, Delaware, affiliated with the United Methodist Church "refused to die," the fact is that the 133-year-old institution was almost moribund when President Scott D. Miller assumed the presidency in 1997. As strategic enrollment management consultant to the College throughout the last decade, it has been an inspiration to watch Wesley's transformation since Dr. Miller's infusion of business and marketing savvy, coupled with his infectious enthusiasm and high energy, propelled Wesley's future to possibilities unimagined 10 years ago.

By any standard, Wesley's transformation is an impressive story involving a leader who turned an institution around and led it to prosperity. Wesley College today represents a pay-off of the entrepreneurial, calculated risk-taking leadership of President Miller, cited among 17 college presidents who have advanced their institutions through such leadership in the book, *The Entrepreneurial College President,* the largest empirical study yet of presidential attitudes, values and behaviors. Authors James L. Fisher and James V. Koch, both former college presidents and consultants to governing boards and presidents, specifically cite Dr. Miller's "agenda to innovate, lead and plan strategically, solve problems, create efficient financial structures and operate with fiscal responsibility."

Reversing a decade of deficits, sagging enrollment, stagnant voluntary support and declining alumni and faculty/staff morale, President Miller moved proactively – even before his arrival on campus -- commissioning a comprehensive institutional review examining all aspects of campus operations and helping craft the College's blueprint for the future. The review resulted in a 128-page working document with 60 specific recommendations for change that led to development of an ambitious 10-Year Master Plan to turn the College into the robust institution it is today.

On the enrollment side, it is especially gratifying to note Wesley's extraordinary growth under Dr. Miller's leadership. Fall Semester 2006 opened with College enrollment not only at an all time high, but also, with selectivity the most rigorous in its history. In the last decade, Wesley's applications have more than tripled, and enrollment more than doubled to 2,400. The SAT scores of incoming freshmen have risen by 133 points, and the retention rate increased by 30 percent.

Wesley's incoming class of 525 students was drawn from a pool of more than 3,000 applicants, reflecting its momentum and growing reputation as a progressive, financially stable institution with quality academic, student life and scholar-athlete programs. For the third consecutive year, the College earned top-tier ranking in its region in the prestigious *U.S. News and World Report*. For the past seven years, Wesley's operating budgets have included a surplus, alumni giving has risen from a dismal 5 percent to above the (*see Wesley College p.2*)

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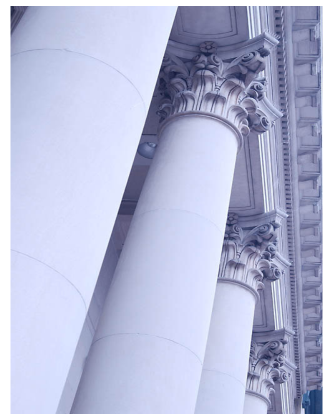

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national average, overall revenues have tripled and Wesley's effective fundraising has been recognized by the Council for the Advancement and Support of Education (CASE).

A student-friendly, consumer-oriented marketing, recruitment and retention strategy focusing on enhanced facilities and amenities, culminating in the completion of the Academic Village this year, has been a major emphasis of Dr. Miller's turn-around strategy, based upon research showing prospective students were not attracted to the College's former dated facilities, food services and playing venues. Completion of Malmberg Hall in August 2005 culminated the College's vision of an Academic Village also consisting of Zimmerman Hall and Bellmeyer Honors House while supporting the goal of about 70 percent of traditional students living on campus. A substance-free student residence featuring 180 beds lodged in two and four person suites, Malmberg earns high marks from students, families and student life staff after its first few months of occupancy.

The new residence facility has earned kudos from local media, as well, with the *News Journal* lauding Wesley for "*putting its money where its mouth is*" in creating this optional living choice for selected upperclassmen. "*The college has made a costly investment in their students' future, and (administrators) deserve our thanks for leading the way in Delaware,*" a September 11, 2005, commentary, notes.

The overhaul of Dulany Hall, the College's dining commons, and hiring of a new student-friendly food service company capped this effort, resulting in a marked increase in the number of students using the institution's meal plan. Eliminating formerly long lines for meal service, the new service offers fresh, made-to-order entrees, individual food preparation stations, takeout meals and a single traditional entrée station. The upgraded facility was designed with new student tastes and dining preferences in mind and input from a seven-student advisory panel.

"Far from being 'frills,' these amenities are central to the total undergraduate residential experience," says President Scott D. Miller. "They reflect Wesley's commitment to the total quality student experience."

"Dr. Miller has indeed been the architect of Wesley College's revival," notes an independent May 2006 institutional assessment. Under his tutelage, the report notes, the College has established an off-campus center near Wilmington, expanded its work at Dover Air Force Base and has initiated several popular master's degree programs, including an M.B.A. This fall, Wesley's strong international program has received a renewed impetus with the addition of a faculty associate for global initiatives post to head the interdisciplinary focus that will emphasize preparing students to graduate as citizens of a global community.

Several of the most innovative thrusts of the College in recent years have occurred in its relationships with the regional community. The College now boasts a thriving Boys and Girls Club that impacts the lives of many dozens of young people annually and provides many Wesley students with internships and highly desirable community involvement. With nearby Delaware State University, Wesley has forged a highly successful and significant alliance with the Schwartz Center for the Arts in Dover's historic downtown district that *"was truly a good deed, but also made lots of sense,"* according to an elected official.

Capitalizing upon the College's strong scholar-athlete tradition, Dr. Miller embarked on major upgrades of Wolverine Stadium for the college's football program, ranked 4th in the nation at the NCAA Division III level at this writing, as well as renovations of the gymnasium, playing courts and fields. A $1.4 million privately funded upgrade and 1,000-seat expansion with a 300-seat "VIP section", the new stadium also features "Field Turf," a synthetic surface safer than natural grass, a press box, new lighting and pedestrian walkways.

Athletics continues to be an important and integral part of Wesley's entire culture, which emphasizes excellence both on the fields and courts and in the classroom, President Miller emphasizes. More than two-thirds of Wesley's current students participate in sports at the varsity, club or intramural levels, and the College's strong track record of successful scholar-athletes is a competitive recruiting and retention advantage. Four new women's and men's intercollegiate varsity sports have been added under Dr. Miller's tenure, bringing the total to 17.

The announcement that Wesley teams will join the Capital Athletic Conference (CAC) for the 2007-08 academic year comes as yet another third-party recognition of its scholar-athlete tradition. The conference is one of the top NCAA Division III conferences in the nation, with member institutions boasting impeccable academic reputations. In addition, the CAC complements Wesley's mission of graduating scholar-athletes, placing a high priority on the well-being of the student in scheduling and in adhering to strict codes of sportsmanship. (*see Wesley College p.3*)

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The results of this transformation have been impressive, say alumni now flocking "back in droves," as one put it, to savor their alma mater's success while enjoying its renovated campus in Dover's historic downtown district near the state Capitol.

"I used to be embarrassed to be identified as an alumnus of Wesley," said one graduate of the period before Dr. Miller arrived. "Now, I can enthusiastically recommend the College to prospective students."

CONSIDERATIONS IN EVALUATING YOUR INSTITUTIONAL DISCOUNT RATE

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Discount rates are always an important topic for evaluation and discussion at private colleges and universities. The institutional discount rate is simply the amount of unfunded institutional aid as a percentage of gross tuition revenue. For example, if a college is spending $4,500,000 in institutional financial aid against a gross tuition figure of $10,000,000 then the discount rate is 45%. (Note: The traditional, generally accepted method for calculating the institutional discount rate includes only tuition revenue).

Institutions constantly monitor their rates, seek to control and sometimes reduce their rates and annually compare their rates to those at other colleges and universities. Auditing firms, Boards of Trustees, Presidents and other campus administrators closely track the discount rates. While discount rates are obviously an important variable, higher education administrators should understand that many things influence the discount rate besides financial aid policies. Enrollment Vice Presidents and Financial Aid Directors are often held accountable for rates that are primarily influenced by market conditions and decisions made outside the division of enrollment management. Board members and chief campus administrators should understand all of the variables and decisions that impact the discount rate.

Location, location and location are the three top considerations for real estate investment. Location can also have an influence on institutional discount rates. The differences in taxpayer-supported funding for financial aid as a function of individual state can be huge. If your institution is located in Alabama, you can expect an average state grant of approximately $21 for every enrolled student. Move your college to Alaska and the average state grant per student increases to more than $2,200! Significant differences in state support for higher education in the form of scholarships and grants can greatly influence discount rates.

Given the role of state aid, the number of students enrolled from your state will also make a difference. While geographic diversity is certainly desirable, colleges and universities enrolling large percentages of students from out-of-state are more likely to have higher discount rates because the institution must often replace aid normally available from the state with scarce institutional funds. Key administrators must understand that there is a price to be paid for better geographic representation.

Retention plays a role in discount rates that is often overlooked. The structure of the Federal Stafford Loan program increases the importance of retention in controlling discount rates. This program is the largest source of financial aid. It dwarfs expenditures in all other state and federal aid programs combined. Eligibility is based upon grade level and the dollar amounts of eligibility increase as a student progresses grade levels. Freshmen are eligible for $3,500, sophomores are eligible for $4,500 and juniors and *(see Discount Rate p.4)*

DISCOUNT RATE CONTINUED:

seniors are eligible for $5,500 per year. Schools generally make up the difference in aid for freshmen and sophomores using institutional aid until their eligibility increases to the maximum amount. A college that continuously funds the shortfall for first and second year students but often does not receive the benefit of full Stafford funding because most students never progress to junior level is going to have a high discount rate. Institutional leaders can add increased net revenue to the myriad reasons to improve retention.

Another important consideration in evaluating discount rates is the percentage of students residing on campus. Discounts are calculated based upon tuition, but financial aid packages also include the costs of room and board. Obviously, a school with few students residing on campus is likely to have a lower discount rate than a college where the majority of students reside on campus. Caution is in order when comparing discount rates at residential colleges to those at commuter colleges. Recall also, that while residential students tend to increase institutional aid expenditures and thus increase the discount rate, they also generate higher revenue. For many colleges and universities it is preferable to have more students living in the residence halls and using institutional meal plans even if that means a higher discount rate.

As any business administration student will tell you, there are two types of accounting: Financial Accounting for "outside" audiences such as auditors, analysts, and stockholders and Managerial Accounting which is for internal control purposes. Likewise, the generally accepted method of tuition-only discount calculation seems to be the preferred measure for external audiences such as auditors and various organizations which use that metric to assess or "rate" institutions. Since it is auditors who prepare college financial reports, trustees and business officers will rely on the discount rate that is calculated in the generally accepted manner. For internal control and management purposes, however, both trustees and business officers should look at another discount rate that is calculated using **all** student revenue – room and board in addition to tuition. Since, as noted above, financial aid eligibility is calculated based on total student costs including room and board, there should be a discount rate measurement that takes these costs into account. Some institutions already employ this more broadly calculated discount rate but all institutions would be well advised to do so for internal purposes.

This calculation can give institutions a clearer picture of how efficiently they are using financial aid dollars to leverage additional revenue. In all fairness to enrollment officers, they are generating more than tuition revenue and their financial aid strategies need to be measured against all student revenue. Although the discount rate will be lower when calculated this way, it will also be a more accurate measure of how well institutions are using their financial aid resources to generate student revenue.

Another factor to consider is tuition generated from non-discounted enrollments such as part-time students and adult degree programs. In many cases, part-time students and adult students are not receiving institutional aid so they generate tuition revenue without financial aid costs. This will, of course, reduce the institution's overall tuition discount rate. But it may also mask the discounting that is going on with traditional-aged students in discounted programs who are receiving institutional aid. Institutions, therefore, may actually have a discounting problem but it is not showing up because of tuition growth in the adult degree program. One solution to generate a more meaningful internal rate is to calculate the rate for traditional, full-time students separately.

Keep in mind that there are many ways to calculate discount rates. Make sure that if you are comparing your rate to the reported rate at another *(see Discount Rate p.5)*

DISCOUNT RATE CONTINUED:

institution that you understand their method for determining the discount rate. Differences in calculation methods can be significant.

Scholarship athletics will influence institutional discount rates. As a general rule, institutions offering athletic scholarships (and talent scholarships for participation in activities such as music, art, theater and dance) will have higher discount rates than schools that do not fund such programs with institutional aid dollars. Again, there is nothing wrong with athletic or talent scholarships but leaders should understand that these scholarships usually increase discount rates. It is just another institutional goal that must be addressed with institutional aid funds. The higher the percentage of participation in scholarship-funded athletics and talent programs, the greater the impact on the budget. An institution where 45% of currently enrolled students participate in scholarship athletics will tend to have a higher discount rate than a college where only 15% of students participate.

Academic quality can also make a difference at institutions offering merit scholarship and grants. Beware of your success in attracting large numbers of students eligible for your institutional merit scholarships and grants. Success in recruiting high ability students can cause expenditure strains when it comes to the discount rate.

It is best to avoid full-tuition scholarships and full tuition, room and board scholarships if you are seeking to control the discount rate. Such awards ensure that expenditures will rise consistently every time an increase in price occurs. The same is true of scholarships and grants based on a percentage of cost. A scholarship guaranteeing 50% of tuition will need to be increased every year while flat awards will remain stagnant as costs rise. While there is nothing inherently wrong with full ride awards and percentage scholarships, administrators should be aware that they impact the ability of enrollment and financial aid officers to control average institutional aid expenditures.

Pricing can also make a difference. It is generally more difficult to control discount rates at high-priced colleges and universities. High tuition rates minimize the controlling benefits of campus-based aid, Federal Stafford Loans, Federal Pell Grants and state grants. It is easier to control the discount rate when tuition is $12,000 because a full Federal Pell Grant and a freshman Federal Stafford Loan ($6,675) already cover 56% of tuition cost. The same awards only cover 39% of tuition at a school charging $17,000 and thus an institution is more likely to have to utilize institutional funds to meet financial need.

History will influence discount rates. It is interesting to note the sometimes vast differences in campus-based funding (FSEOG, Federal Perkins Loan, Federal Work-Study) allocations among institutions dependent on when they first participated and their aggregate financial need and size at the time. Some campuses enrolling fewer than 800 students have more campus-based funds at their disposal than institutions three times larger. Obviously, the higher the campus-based allocations, the easier it is to control the discount rate.

Administrators should be aware that tuition discount rates can be subject to manipulation. Institutions looking to reduce their discount rate can simply put all cost increases into tuition instead of spreading cost increases over tuition, room and board. This inflates tuition which causes the traditional discount rate to go down and can make the institution look better in the eyes of the auditors and the trustees who rely on the traditional discount rate reports.

Another form of manipulation is an institution's receivables or uncollected student charges. Students with balances that are carried by the institution from semester to semester and never paid are, in effect, receiving institutional financial aid by other means (like much institutional financial aid, unpaid balances are uncollected tuition, room and board). If institutions offer less generous financial aid packages in an effort to "do something" about the discount rate, they can control expenditures but can place students and families in positions where they will never be able to pay the charges. Institutions that still allow students with unpaid balances to enroll and start class have, in reality, transferred the discount rate "problem" from the Financial Aid Office and Enrollment Division to the collections operation in the Business Office.

While the discount rate is an important metric, it is not the only metric and usually does not tell the whole story. In addition to the discount rate, institutional representatives also need to look at net tuition revenue. If a modest increase in the discount rate produces a significant gain in net tuition revenue then the discount rate increase is a positive for the institution. Some institutions, in their zeal to "do something" about the discount rate, actually end up reducing enrollment and net revenue so they could deliver the "happy news" to auditors and trustees *(see Discount Rate p.6)*

DISCOUNT RATE CONTINUED:

that the discount rate is now "under control." The most important metric is net revenue. It is suggested that chief administrators find the answers to the following questions in order to have a better understanding of their discount rate:

- How does your state rank in average aid to students enrolled in higher education?
- What percentage of your students resides in your state?
- What percentage of your students participates in scholarship athletics?
- What is your average institutional discount rate for scholarship athletes compared to other enrolled students?
- How does your retention rate compare to your peer institutions?
- What percentage of your students resides on campus?
- How do you calculate your discount rate?
- What percentage of your students is less than full-time and what percentage is enrolled in non-discounted programs?
- How does the academic quality of your students (entering standardized test scores and high school grade point averages) compare to your peer institutions?
- Do you offer full-tuition scholarships or scholarships and grants based upon a percentage of tuition?
- Where do you rank in terms of pricing in your state?
- Have you discussed your allocations for campus-based federal aid with your Director of Financial Aid?
- What percentage of your students is "first generation" college students and what percentage is minority?
- What are your outstanding receivables for the last three years?
- How do your allocations for campus-based aid compare with your peer institutions?

THE DEMOCRATS TAKE CONTROL OF CONGRESS: PREPARE FOR CHANGES

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The Democrats have taken control of both houses of Congress and higher education changes are expected. While most of the prospective news looks promising for enrollment administrators, one change could turn into a financial burden.

The good news is talk of increasing the maximum amount of the Federal Pell Grant for the first time in more than four years. The current maximum award is only $4,050 and some are advocating an increase perhaps as high as $5,100. Such an increase would certainly benefit needy undergraduates but would also assist colleges and universities in controlling discount rates. Support for an increase in the maximum Federal Pell Grant seems to be strong but there are still major questions about how an increase would be funded.

The Democrats are also talking about reducing the cost of student borrowing. There are proposals being discussed that would cut the interest rate on Federal Stafford Loans in half. This would, of course, be welcomed news for student borrowers. Lower interest rates would serve to make these loans more attractive to students and families and that should help financial aid officers, recruiters and retention officials. The cost of this change would also be significant but no one is suggesting detailed ways to pay for the change in interest rates.

Tax breaks are also going to be on the table. Current tax deductions for educational expenses may be replaced by new, more generous deductions. This is good news for taxpayers but is unlikely to have any measurable impact on enrollments and the proposals are not going to make it any easier for needy students to meet the costs of higher education. Again, someone is going to have to find the money for this initiative as well.

A sleeper issue for higher education administrators and enrollment managers is the proposal to increase the federal minimum wage. There will be *(see Prepare for Changes p.7)*

PREPARE FOR CHANGES CONTINUED:

important considerations for the Federal Work-Study Program.

Discussions with many administrators revealed that some have not considered the implications. Federal Work-Study is awarded to students in flat amounts. The thinking is that if the hourly wage increases, it will not make much of a difference because the amount of the initial award will not change. This would only be true if most students actually earned their maximum awards.

At some schools, as many as 90% of students do not earn the total amount awarded. That means that if the minimum wage increases by more than $2 per hour, most students are likely to continue working the same number of hours but now each hour of work is going to increase costs by as much as $2.10! Since the majority of institutions already spend their entire Federal Work-Study allocation and more, the increase in the minimum wage could significantly increase the institutional share. Total Federal Work-Study expenditures could increase by literally hundreds of thousands of dollars dependent upon the size of the school and the number of students working under the program.

It would be wise to discuss the implications with your Director of Financial Aid. You may be faced with the choice of increasing the institutional funding for Federal Work-Study or cutting back on the number of hours students are allowed to work. In some cases, the increase in the minimum wage may mean that fewer students will be eligible to participate in the program.

Finally, keep your eye on the timing of implementation if the increase is approved. Immediate implementation will impact your budget this year while a more phased implementation will give administrators some more time to evaluate the impact and make the appropriate budget and/or packaging adjustments.

All readers are encouraged to submit articles to this newsletter on issues related to enrollment management.

Best Wishes For a Prosperous New Year!

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