

# Franklin W. Olin College of Engineering

## Financial Overview

by

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**Executive Summary.** The financial model for Olin College is quite different from the vast majority of colleges and universities in the U.S. Since its founding, Olin has had a goal to provide a superb undergraduate engineering education at little or no cost to the students and their families. The financial resources to do this were made possible by a generous grant from the F. W. Olin Foundation. The model was working reasonably well until 2008 when the global economic and financial crisis caused a significant decline in the College's endowment. The College's Board of Trustees and senior leadership are currently assessing ways to improve the long term financial sustainability, primarily through diversification of sources of income.

**Olin Foundation Grants.** When the F. W. Olin Foundation made the decision to create the College, they pledged to transfer all of their uncommitted assets to the College. The grants from the Foundation, totaling approximately \$460 million, were used to fund early operating and campus construction expenses and to create the Olin Endowment. In August of 2003, the College issued bonds to pay for the construction of the campus (see the Debt section below) and used a portion of the proceeds to reimburse itself for the early construction expenses. The reimbursement was added to the Olin Endowment.

**Olin Endowment.** The combination of endowment grants from the Foundation, the debt reimbursement, and investment returns resulted in the Olin Endowment<sup>2</sup> growing rapidly from \$0 in early 2003 to a peak of just over \$500 million in late 2007. Since the peak, the Olin Endowment has declined to approximately \$315 million as of March 31, 2009. See Exhibit 1 for a history of endowment values.

This is a substantial endowment for an institution the size of Olin. For the fiscal year ending June 30, 2008, the College's endowment was the 149<sup>th</sup> largest out of nearly 800 institutions that participated in the annual National Association of College and University Business Officers (NACUBO) Endowment Survey. On an endowment per FTE student basis, Olin ranked sixth in the same survey.

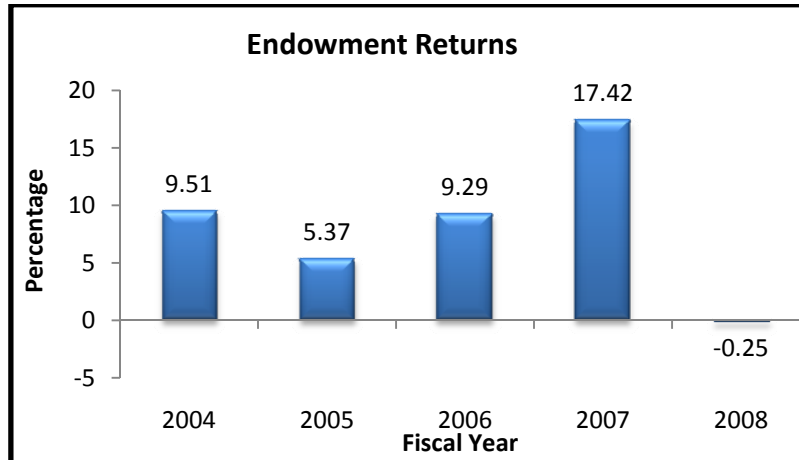
The endowment is invested in a fully diversified portfolio. The long term target allocations are:

Domestic Equities	25%
Non-US Equities	15%
Hedged Equity	15%
Private Capital	8%
Commodities & Nat. Resources	6%
Core and Global Bonds	12%
Credit & Opportunistic	3%
Absolute Return	5%
Distressed Debt	3%
Private Real Estate	<u>8%</u>
Total	100%

<sup>1</sup> Vice President For Financial Affairs and Treasurer, Olin College

<sup>2</sup> The College also has a number of small designated special purpose endowment funds.

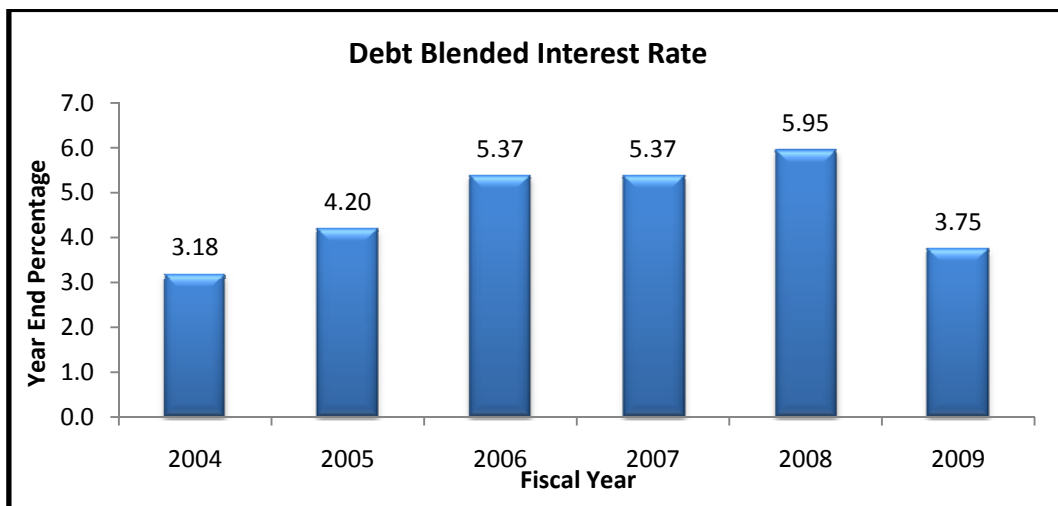
Endowment returns averaged 8.27% during the fiscal year 2004 to 2008 period. The FY09 year to date returns are currently in the -25% to -30% range.



**Debt Portfolio.** The College issued its first debt in 2003 to pay for the initial phase of the campus construction. Approximately \$159.1 million was issued in a mix of 30 year fixed rate and variable rate bonds. Following the collapse of the Auction Rate Securities market in early 2008, the College refinanced the variable rate portion of the debt portfolio. The current portfolio consists of:

\$65,910,000	Tax-exempt, fixed rate bonds. 5.25% coupon. Final maturity 2033
\$84,000,000	Tax-exempt, variable rate bonds. Final maturity 2043
<u>\$10,000,000</u>	Taxable, variable rate bonds. Final maturity 2043
\$159,910,000	Total

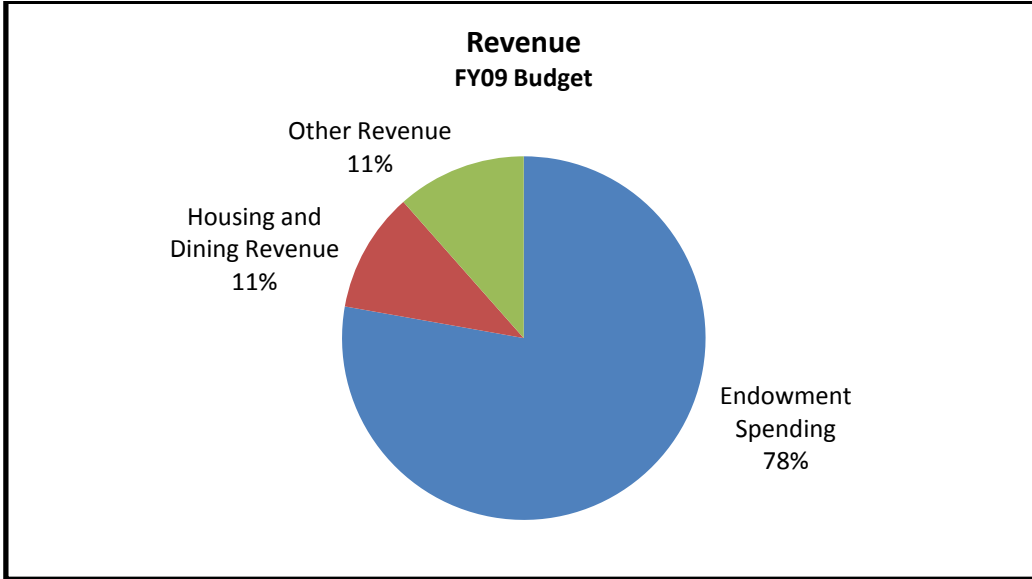
The College's credit ratings are A+ from Standard and Poor's and A1 from Moody's Investors Services. The fixed rate bonds are insured by Syncora Guarantee, Inc. (formerly XL Capital Assurance) which results in the bonds being rated AAA. The variable rate bonds are backed by a Letter of Credit from Citizens Bank, N.A. The combination of the Bank's credit rating and the College's underlying credit rating results in the bonds being rated AAA. The following exhibit shows the weighted average interest on the debt as of June 30<sup>th</sup> of each year.<sup>3</sup>



<sup>3</sup> Fiscal Year 2009 is as of March 15, 2009

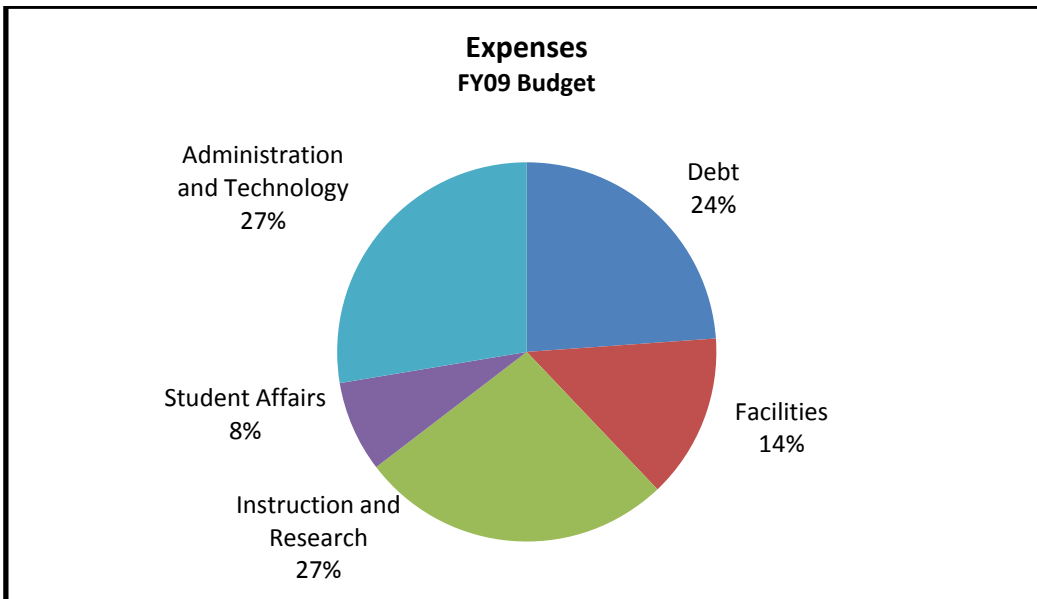
The College has also entered into three interest rate swaps to help manage its exposure to variable interest rates.

**Operating Budget.** The College obtains most of its operating “revenue” from the Olin Endowment. A standard methodology for determining the amount of endowment spending is used.<sup>4</sup> Supplementing the endowment spending are student room and board fees and revenue from a number of other miscellaneous sources.



The revenue from the endowment has been at the approximately 80% level for the past 2 or 3 years, once all students were paying for room and board.<sup>5</sup>

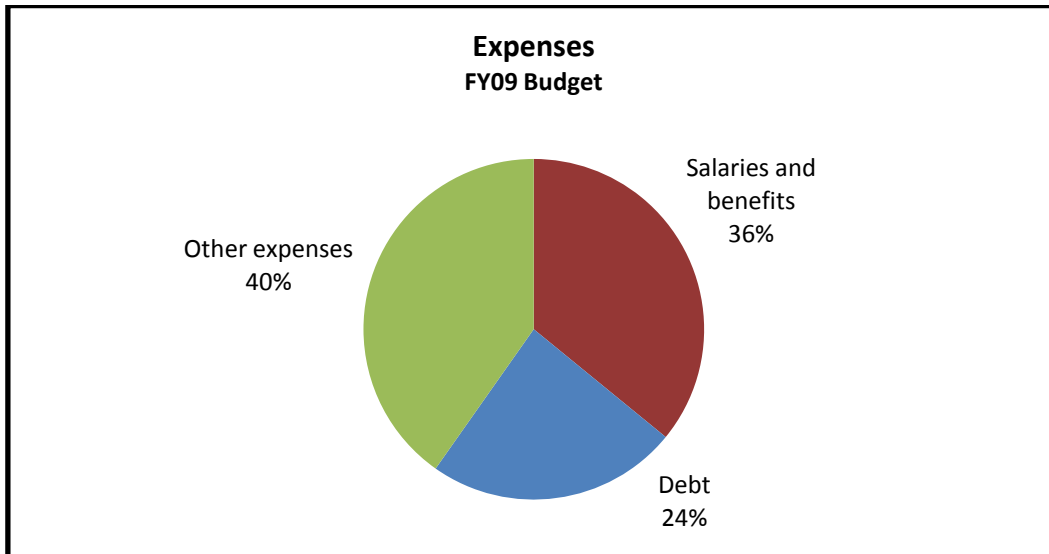
On the expense side, the single largest line item in the budget is the interest payments on the debt. This has historically been approximately 25% of the operating budget. Approximately 27% of the budget is spent on instruction and research.



<sup>4</sup> The spending amount is based on a 12 quarter trailing average of endowment values (see Exhibit 1). The Board of Trustees approves a spending rate each year, generally in the 5% to 6% range.

<sup>5</sup> The classes that graduated in 2006 and 2007 were not charged a room fee.

Looking at the expenses in a different slice shows that salaries and benefits are approximately 36% of the operating budget.



**Long Term Financial Planning.** The full impact of the recent decline in the value of the endowment will not be fully felt until fiscal year 2012 due to the use of the trailing average endowment spending methodology. A large number of scenarios have been run through the College's long range financial planning model and none of them result in a rapid recovery of endowment values. This means that the College is facing a significant decline in the level of resources that can be drawn from the endowment without eventually incurring significant levels of annual operating deficits.

Diversifying the sources of revenue has been a College goal for the past few years and it has become even more important now. The College has made a significant investment in a new Development Office team and fairly aggressive fundraising targets have been incorporated into future budgets. In addition, the College leadership and the Board of Trustees have been discussing and modeling other options, including a possible reduction of the full-tuition Olin Scholarship that each student currently receives. The Board will be continuing this discussion at its May meeting.

Exhibit 1

### Olin Endowment Quarterly Values and Trailing Averages

