

The following pages reference two different reports as it presents a brief analysis of the proposed plan brought forth by Michigan District President Rev. David Davis and its viability. The “Subcommittee” refers to the named Task Force committee appointed by resolution of the CUWAA Board of Regents on February 29, 2024 and their associated report, which has now been published for the Synod community. The “Roadmap” refers to the report produced by an unidentified group of individuals gathered at the request of President Davis after discussion with CUWAA Board Chairman Rev. John M. Berg.

The Board of Regents determined that the pathway to autonomy presented in the Roadmap was not viable. The commentary below does not represent the full breadth of review and discussion conducted to make this determination. However, it addresses a number of the significant challenges CUAA would face operating under the Roadmap’s proposed financial model. Managing these challenges while satisfactorily meeting the requirements of accreditation with the Higher Learning Commission (HLC), with continued annual operating deficits, an endowment below \$30 million (approximate CUAA portion), and a high dependence on general, unrestricted fundraising (without addressing deferred maintenance) does not chart a course of long-term, sustained success for CUAA as an autonomous campus.

Page 1:

- The Subcommittee received its direction from the Board of Regents’ Resolution “To Appoint a Special Subcommittee to Explore the Possibility of Self-Governance For the Ann Arbor Campus Within the Concordia University System”.
  - The Roadmap notes that, “The Finance Subcommittee was specifically told by the CUW Board of Regents to assess the financial picture under the assumption that CUAA and CUW could not operate under an operationally joint but separate structure while working towards a formal operational separation.” The statement falsely implies that the Board of Regents was intent on making the process of separation more difficult.
    - However, such operational separation is necessary in order to meet the requirements of HLC. CUAA would be required to document its ability to operate fully independently in order to move forward in the accreditation process, including independent financial statements that document stability for the years preceding application.
      - See the “Accreditation” section of the Subcommittee report for links to the required documentation of the HLC process.

Page 2:

- The Roadmap offers a critique of the data used in the Subcommittee’s report in that final results from FY23 were used instead of projections for FY24.

- The Finance Subcommittee reviewed ten years worth of data and used FY23 results as representative of the challenges presented by the current financial model at the Ann Arbor campus, which over the last decade has had an annual operational loss of approximately \$4 to 5 million.
- In the 24-25 action section:
  - Beginning in this section, the Roadmap proposes raising \$25 million in unrestricted funds over a three year period (\$5 million in year one). Over the last decade, unrestricted annual fundraising has been approximately \$375,000 for the Ann Arbor campus.
    - The Michigan District commendably raised pledges totaling almost \$4 million in February (goal of \$5 million), however, it is more than optimistic to plan to continually operate on fundraising goals that far exceed historical norms (greater than 1,000% increase).
      - It is important to note the proposed funds raised are planned for operations. They are not to address needed capital improvements, deferred maintenance, or significant, unforeseen expenses.
    - The Association of Governing Boards addresses the real dangers of such optimistic budgeting in their May/June issue of *Trusteeship* in an article entitled “Positivity Bias”.
      - This concern is further exacerbated by the increasing public recognition of the challenge cash flow and deferred maintenance pose to institutions creating little to no operational margin.
  - Aggressive cost management savings of \$750k-\$1 million are suggested.
    - No specifics are provided as to where such cuts would be made on a campus that already runs “lean”, is below desired compensation levels, and would need to add significantly to administrative staff and infrastructure to meet the required substantial presence HLC requires of independently accredited institutions.
  - The potential for pursuing the accelerated process of accreditation through HLC is addressed by the Subcommittee report. Both the University’s HLC liaison and HLC’s Office of Legal and Regulatory Affairs have confirmed the Ann Arbor campus is not eligible for this process.
    - This determination invalidates the Roadmap timeline and underscores its oversimplification of the serious challenges to CUAA becoming autonomous.
      - President Davis was made aware of this prior to the June 6 meeting of the Board of Regents. To date, it has only been

communicated that the Board of Regents refused to collaborate, not that an outside entity (HLC) spoke clearly into the process.

- The details of the Eligibility and Candidacy process, which CUAA would have to successfully navigate to gain independent accreditation, are provided in the Subcommittee report.

Page 3:

- In the 25-26 action section:
  - The inclusion of program research aligns with the administration's view of curating the academic portfolio to programs that are sustainable and mission focused.
    - If new programs are suggested, such as the trade school program mentioned, the associated costs related to implementation (infrastructure/personnel/marketing/recruitment/etc.) are not included in the Roadmap expense calculations.
  - How third-party housing supports organic growth is unclear.
    - If a different institution houses students, that institution would presumably receive most, if not all, associated auxiliary revenue. This would further reduce the amount of auxiliary funds available to support programs such as athletics and put further strain on tuition dollars.
      - If an agreement was being developed that included CUAA retaining some portion of auxiliary revenue despite not housing students, that was not communicated.
  - General, unrestricted fundraising is set at \$10 million for this year to cover operational deficits.
    - As noted above, unrestricted annual fundraising has been approximately \$375,000 for the Ann Arbor campus.
    - No analysis is provided of what CUAA would do in the event the \$10 million goal (greater than 2,500% increase) was not reached.
      - President Davis was asked to provide clarity on this point. He suggested that CUW would be responsible to cover any shortfall in the fundraising.
  - In order to begin the Eligibility and Candidacy process, CUAA would need to provide the following to HLC as part of the required documentation:
    - Three years of comparative budgets, including notes that address the basic assumptions underlying the budgets.
    - Cash flow analyses for the past two years.

- The institution’s primary reserve ratio calculated as (expendable net assets/total expenses).
    - Two most recent financial audits for the institution. Per HLC, CUAA would need to provide financial audits reflective of the CUAA campus only.
  - All of the information above would be based solely on CUAA numbers for revenues, expenses, endowment, etc., in order for HLC reviewers to make a determination on its viability as an independent institution.
    - The Roadmap completely avoids any mention of the challenge this would be for a campus that has historically had significant annual operational losses.
      - The lowest financial “hurdle” noted on pg. 5 of the Roadmap is \$6.6 million.
  - The Department of Education and national accreditors such as HLC continue to tighten their financial reporting requirements to identify financial red flags, such as net income ratio (ability to generate profit).
  - The average net income ratio for CUAA over the past 10 years is -14%. Minimum benchmarks of financial health for this ratio are 4%.
    - The only two positive years (FY21 and FY22) were due to COVID funding and the sale of property (about \$4.6 million).
- In the 26-27 action section:
  - An additional \$10 million of unrestricted fundraising is required.
    - The concerns regarding this approach to covering operational expenses have been addressed.
  - A capital campaign is noted but no goal or target is set, nor is there mention that such a campaign would be in addition to the funds already proposed.
    - The Roadmap fails to account for the substantial deferred maintenance/capital improvement needs.
  - Seating of a CUAA Board of Regents and calling a President is noted.
    - The Roadmap does not acknowledge the conflict addressed in the Subcommittee’s report between HLC requirements for independence/substantial presence and Synodical By-laws on this matter.

Page 4:

- In the 27-28 action section:
  - The concept of an open housing development is something that has been discussed by the Board of Regents.
    - Such a project would take time to complete and fill in order for returns to begin assisting with operational expenses.

- A significant challenge for an autonomous Ann Arbor campus would be to handle the debt financing required to complete such a project under the funding model proposed by the Roadmap.
- It is not possible for CUAA to achieve its own accreditation by 27-28 through the accelerated process as detailed above and by the Subcommittee report.
  - The Eligibility and Candidacy Process is estimated to take 3-5 years, though the reporting requirements that necessitate a change to financial structure would extend that timeframe.
  - Note 2 suggests that the Board of Regents needed to review an alternate assessment of accreditation options. The assessment was based on false assumptions regarding the accreditation process and was ultimately deemed incorrect. The determination of HLC on what process CUAA would be eligible to pursue is addressed above.

Page 5:

- In the Financial Modeling section:
  - The noted increases in tuition, decreases in scholarship expenses, and increase in auxiliary revenues would increase average costs by more than \$1,000 per student.
    - It is unrealistic not to account for an associated decrease in enrollment because of the increased expenses, which the model does not appear to do.
    - President Davis was asked how many students the projections were based on and he was unable to provide an answer.
  - The proposed tuition increases in each year of the Roadmap's model would prevent students from participating in a number of Michigan State Aid programs (limit 5% increase of tuition, decreasing to 4.5% in Fall 2025, on institutional eligibility - the Michigan State budget director will be able to re-evaluate institutional eligibility due to non-compliance with tuition restraint limitation):
    - Michigan Achievement Scholarship: Up to \$5,500/year starting in 24-25 (was previously \$4,000).
    - Michigan Future Educator Fellowship: Forgivable loan up to \$10,000/year for up to 3 years.
    - Michigan Future Educator Stipend: \$9,600 stipend while students are student teaching at public schools in Michigan.
  - As noted earlier, the Roadmap does not address the significant deferred maintenance or the need to soon address the obsolescence of buildings on the main campus in its financial model.