



Roadmap to Operational Independence

Introduction

This report arises from a conversation between Rev. John Berg and Rev. David Davis in which Rev. John Berg invited a plan regarding CUAA from the MI District. Subsequently, workgroups were formed to contribute to the exploration of a path for CUAA to become autonomous, as announced by Rev. John Berg on March 1, 2024: *The ultimate goal is that both campuses thrive and live out the mission that God has entrusted to us in our respective places.*

The pathway for operational independence at CUAA exists but will take a team effort between the CUAA stakeholders to achieve it. This begins with a forthright assessment of the existing situation, as well as a commitment from CUAA and CUW stakeholders to prioritize the desire of an independent CUAA institution in the collective words and actions of leadership, staff, and stakeholders. This commitment isn't necessarily financial, but it does require all parties to believe in and communicate this mission to the world and earnestly work together towards an amicable separation of CUAA and CUW. Anything less than that type of cohesive message and dedication to the result will only undermine the opportunity to have CUAA continue to be a Lutheran higher education community committed to helping students develop in mind, body, and spirit for service to Christ in the Church and the world as well as being an important and visible cross raised in Ann Arbor and all of Michigan.

The roadmap that follows outlines the actions that we believe would allow CUAA to work achieve autonomy. This particular framework is built from the CUAA financial performance history provided to the Finance Subcommittee of the CUWAA Task Force, which outlined a trend of approximately \$5.0 million operational shortfall at CUAA. After the removal of approximately \$1.5m of non-cash expenses (depreciation), this resulted in an operational cash shortfall of \$3.5m. The Finance Subcommittee noted an additional \$6.1m of necessary expenses to get CUAA established as an independent institution (primarily executive staff, an IT department, and some necessary short term capital expenditures), bringing the total cash operational shortfall to \$9.6 million which must be covered through additional revenue and reduced expense management.

Note: This starting point does not incorporate two important items, which should be based in making forward-looking decisions regarding the prospects of an independent CUAA. These include:

1. 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 (i.e., that an operational separation was to occur immediately). The result of this separation assumption meant that CUAA would have to begin carrying the full weight of the \$6.3 million in additional expenses near immediately, rather than layered over a 3-5 year period. If a layered in model is utilized where CUAA pays CUW for its representative share of the shared operations (approximately 30% based on conversations within the Finance Subcommittee), it would provide for a structure that would be much easier to achieve financially as both parties worked toward operational separation.
2. The Finance Subcommittee's analysis (as well as the consultant's report) focused upon the 2023 financial results while not reviewing the 2024 projected results. With the continued progression of



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the PT/OT programs, the financial results may be improved vs. historical trends (i.e., \$5.0 million operational shortfall). If the results are improved this would reduce the projected \$9.6 million shortfall and allow an easier transition from a financial perspective. This is an important distinction individually but partnered with the prospect of a joint but financially separate structure noted in #1 above, it would significantly change the financial outlook of CUAA in the shorter term as it worked collaboratively with CUW to continue its mission as an independent institution.

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Projected financial hurdle based off 2023 results + anticipated independent expenses - **\$9.6 million**

2024-2025

Strategic Actions

- Appoint CUAA executive.
- Appoint administrative oversight group.

Financial Actions

- General fundraise of \$5.0 million (\$3.8m committed with additional \$1.2m to be raised).
- Increase tuition 5% beyond budgeted expenses increase - \$850k.
- Identify aggressive cost management savings - \$750k-\$1.0m.
- Achieve additional revenues through next level of PT/PA/OT cohorts – \$1.5m.
- Athletics fundraising to offset operating expenses (\$5.2m Athletics expense in 2023).

Projected Performance: \$1.7m shortfall (not including athletics fundraising efforts or cost management actions noted above).

Lutheran Identity Actions

- Review chapel worship practices.
- Prioritize the continued development of Lutheran Identity throughout all areas of the campus.

Accreditation Actions (See Note 2 at end of this document)

- Maintain the existing accreditation under the CUW-CUAA model.
- Begin preparing assessment for future independent accreditation (financials, etc.).
- Assess potential for accelerated accreditation process.

Legal Actions

- Develop MOU or agreement with CUW regarding intentions and operational structure.
- Complete thorough review of all implications related to endowed funds.

2025-2026

Strategic Actions

- Establish CUAA Advisory Team.
- Research third party graduate program marketing partners & opportunities.
- Research online undergraduate programs.



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- Research third party housing partnership to support organic growth.
- Research potential for trade school program options/opportunities.
- Develop Master Plan for self-sustaining University operations.

Financial Actions

- General fundraise of \$10.0 million to support operations.
- Increase tuition by 3% greater than budgeted expenses - \$1.0m
- Reduce the discount rate to 42% (down 4%) - \$1.6m.
- Achieve final level of PT/PA/OT cohorts - \$1.5m.
- Increase revenue through JV scholarship strategy - \$20k/student (proj. \$1.0m ~ 50 students).
- Employ adjunct coaching strategy for JV sports – marginal offset to overall revenue.

Projected Performance: \$7.6m surplus

Lutheran Identity Actions

- Prioritize the continued development of Luther identity throughout all areas of the campus.

Accreditation Actions

- Maintain the existing accreditation under the CUW-CUAA model.
- Complete review of program offerings to develop plan to address potential accreditation issues.
- Begin independent accreditation, if possible, use accelerated accreditation model.

Legal Actions

- Determine a financially sound and equitable plan for exchange, sale, use of all properties.

2026-2027

Strategic Actions

- Build administrative staff.
- Launch additional graduate programs (if possible).
- Launch additional trade school programs (if possible).
- Begin implementation of Master Plan.

Financial Actions

- General fundraise of \$10.0 million to support operations.
- Employ adjunct coaching strategy for certain varsity sports.
- Develop formal capital campaign with development office.

Projected Performance: \$8.7m surplus

Lutheran Identity Actions

- Obtain convention authorization.

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- Seek CUS approval.
- Seat CUAA Board of Regents.

Accreditation Actions

- Work with accreditor to finalize accreditation process.

Legal Actions

- Begin process for legal/financial separation.

2027-2028

Strategic Actions

- Open housing development for new housing facility.
- Call a President.

Financial Actions

- General Fundraise to support modest operations shortfall noted below.

Projected Performance: \$1.4m shortfall

Accreditation Actions

- Finalize accreditation.

Legal Actions

- Finalize separation between CUW and CUAA entities.

Note 1: This roadmap assumes that the CUAA and CUW campuses do not work in parallel during this period. If a shared administration plan was allowed to occur, while CUAA was responsible for their prorated share (approx. 30% of expenses) of the shared administrative services (leadership, accounting, IT, etc.), then the baseline hurdle declines significantly as CUAA would not be required to shoulder the full cost to go independent all at once, but rather would be stair stepped into CUAA's operations over a 3-5 year window, allowing CUAA to build financial reserves and maintain accreditation while working with HLC to obtain independent accreditation.

Note 2: Further assessment of the issues impacting and options for accreditation have been explored. It is recommended that the CUW Board of Regents review this assessment (separate document).



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Appendix: CUA Financial Model

Concordia Ann Arbor Financial Modeling

Assumptions:

Tuition Increase	N/A	10.0%	8.0%	5.0%	5.0%
Scholarship Allowance %	46.2%	46.2%	42.0%	39.0%	39.0%
Auxiliary Revenue Increase	N/A	7.0%	7.0%	5.0%	5.0%
Other Revenue Increase	N/A	5.0%	5.0%	5.0%	5.0%
Expense Increase	5.0%	5.0%	5.0%	5.0%	5.0%

	Baseline FY23	Projection FY25	Projection FY26	Projection FY27	Projection FY28
Tuition Revenue	\$ 31,175,000	\$ 34,292,500	\$ 37,035,900	\$ 38,887,695	\$ 40,832,080
Scholarship Allowances	\$ (14,400,000)	\$ (15,840,000)	\$ (15,555,078)	\$ (15,166,201)	\$ (15,924,511)
Net Tuition Revenue	\$ 16,775,000	\$ 18,452,500	\$ 21,480,822	\$ 23,721,494	\$ 24,907,569
Aux Revenues	\$ 4,675,000	\$ 5,002,250	\$ 5,352,408	\$ 5,620,028	\$ 5,901,029
Other Revenues & Support	\$ 1,000,000	\$ 1,050,000	\$ 1,102,500	\$ 1,157,625	\$ 1,215,506
	\$ 22,450,000	\$ 24,504,750	\$ 27,935,730	\$ 30,499,147	\$ 32,024,104
Salaries & Wages	\$ 16,425,000	\$ 17,246,250	\$ 18,108,563	\$ 19,013,991	\$ 19,964,690
General Expenditures - Excluding Depreciation	\$ 9,550,000	\$ 10,027,500	\$ 10,528,875	\$ 11,055,319	\$ 11,608,085
Depreciation	\$ 1,775,000	\$ 1,863,750	\$ 1,956,938	\$ 2,054,784	\$ 2,157,524
	\$ 27,750,000	\$ 29,137,500	\$ 30,594,375	\$ 32,124,094	\$ 33,730,298
Net Income (Accounting)	\$ (5,300,000)	\$ (4,632,750)	\$ (2,658,646)	\$ (1,624,947)	\$ (1,706,194)
Depreciation Add Back	\$ 1,775,000	\$ 1,863,750	\$ 1,956,938	\$ 2,054,784	\$ 2,157,524
Net Income (Cash)	\$ (3,525,000)	\$ (2,769,000)	\$ (701,708)	\$ 429,837	\$ 451,329
Additional Expenses For Independent Structure	\$ (6,100,000)	\$ (6,405,000)	\$ (6,725,250)	\$ (7,061,513)	\$ (7,414,588)
Financial Hurdle To Breakeven	\$ (9,625,000)	\$ (9,174,000)	\$ (7,426,958)	\$ (6,631,675)	\$ (6,963,259)
General Fundraising Efforts For Operations	\$ -	\$ 5,000,000	\$ 10,000,000	\$ 10,000,000	\$ -
Aggressive Cost Management Savings	\$ -	\$ 1,000,000	\$ 1,050,000	\$ 1,102,500	\$ 1,157,625
PT/PA/OT Cohort Levels	\$ -	\$ 1,500,000	\$ 3,000,000	\$ 3,150,000	\$ 3,307,500
Athletics Fundraising For Operations	\$ -	\$ -	\$ -	\$ -	\$ -
JV Sports Recruitment Strategy	\$ -	\$ -	\$ 1,000,000	\$ 1,050,000	\$ 1,102,500
Additional Financial Hurdle To Breakeven	\$ (9,625,000)	\$ (1,674,000)	\$ 7,623,042	\$ 8,670,825	\$ (1,395,634)

2024-2025

- Appoint Campus Executive
- Appoint administrative oversight group: former presidents, CFO, volunteer, contract
- Raise \$5,000,000 (\$1,200,000 more)
- Increase tuition by 3-5% beyond inflationary cost increases (\$500k)
- Conduct program evaluation to ensure fit and sustainability
- Identify \$750k-\$1 million in current staffing model
- Realize income growth from medical programs coming more to fruition
- Increase outside funding for athletics
- Launch aggressive marketing/PR campaign to limit damages
- Examine vendor/partner options (reduce spend \$500k) - likely for 25-26
- Strengthen alumni engagement
- Develop plan and resources for CUAA Advancement team
- Review chapel worship practices
- Work on Lutheran identity across faculty/staff
- Remain under CUWAA accreditation credentials
- Develop independent financial statements
- Sort through endowment implications
- Develop MOU with CUW regarding CUAA

Finance

- Lutheran Identity
- Accreditation
- Legal

2025-2026

Hire additional administrators
Develop CUAA Advisory Team
Raise \$10,000,000
Increase tuition by 3-5%
Reduce discount rate by 3-5%
Realize income growth from health care programs coming more to fruition
Grow/add JV athletics with adjunct coaches (no discount) - net 100 students
Begin examining developer funded/managed housing - create 100 units
Research 3rd party graduate program partners
Research trade school options
Increase funding for athletics

Prioritize Lutheran identity across faculty/staff

Solidify existing programs with an eye to excellence and accreditation issues
Remain under CUWAA accreditation credentials
Begin accreditation process for separation*
Monitor accreditation for all State of Michigan programs

Develop master plan for self-sustaining university

Investigate best use of property

*Our network has determined that there may be a path toward Acceleration Process

2026-2027

- Raise \$10,000,000
- Build administrative staff
- Launch additional graduate programs with 3rd party
- Increase funding for athletics
- Examine new (low budget) athletic teams with adjunct coaches (limited discount) - net 50-75 new students
- Begin trade school programs
- Capital campaign
- Convention authorization
- Seek CUS Approval
- Seat Board of Regents
- Next steps in accreditation process
- Begin implementation of masterplanning
- Begin process for legal/financial separation

2027-2028

Open new developer funded/managed housing - 300-400 capacity

Call a President

Finalize accreditation

Finalize separation

CUAA ACCREDITATION AND THE ROAD TO AUTONOMY
(5/6/2024)

Background

This report arises from a conversation between Rev. John Berg and Rev. David Davis in which Rev. John Berg invited a plan from the MI District. Subsequently, workgroups were formed to contribute to the exploration of a path for CUAA to become autonomous, as announced by Rev. John Berg on March 1, 2024: *The ultimate goal is that both campuses thrive and live out the mission that God has entrusted to us in our respective places.*

The level of collaboration between the MI District workgroups and the Regents appointed sub-committees was not clearly defined. Greater collaboration, especially around complicated and important issues such as accreditation, would be beneficial to all concerned. The information in this report was obtained through research and consultation.

Overview

Accreditation by the Higher Learning Commission (HLC) can be attained through one of two processes:

- Eligibility-Candidacy Process, which exists for “...institutions that do not hold any status with HLC.” This process takes longer and is more expensive. (3-5 yrs. ~\$50,000; eight major steps)
- The Accelerated Process, which exists for an “... otherwise eligible institution that is also currently accredited by a historically regional accrediting agency or a state entity recognized by the U.S. Department of Education as an institutional accreditor, and that meet other requirements.” This process is shorter, direct, and less expensive. (2 yrs. ~\$12,500, three major steps)

CUAA, with its history as an accredited institution prior to the merger, and existing within a currently accredited institution, appears to qualify for the Accelerated Process. Again, the Eligibility-Candidacy Process exists for institutions that do not hold any status with HLC.

Summary of Findings

Prior to application for the Accelerated Process, CUAA would need the following:

1. Either an independent Board of Regents, or an oversight group appointed until the independent Board was established.
2. Independent financial statements, preferably audited.

CUAA’s status as a branch campus per the Department of Education, in and of itself, is not an obstacle to the Accelerated Process.

HLC takes care that any institution applying for accreditation has adequate financial resources. Thus, accreditation is not independent of the resolution of finances between CUW and CUAA, which would necessarily include the disposition of the endowment, of which 27M is reportedly apportioned to CUAA.

CUW would file a Substantive Change Notice with HLC because CUW would be changing as an institution. However, during the accelerated process, outlined below, CUAA would have to remain accredited through CUW. Other aspects of separating the two institutions would be underway; some linked functions would take time and cooperation to separate.

It must be noted that there is a discrepancy between this report and the report through CUW in recent weeks that HLC, by way of its liaison to CUW, has indicated that CUAA would not be eligible for the Accelerated Process. The workgroup for this report, despite their best efforts, is not in a position to resolve this discrepancy. However, it was recently learned that clear guidance in this regard comes from HLC’s Office of Legal and Regulatory Affairs. The conversation with HLC’s legal team commences upon completion of this one-page Seeking Accreditation Inquiry Form:

<https://www.hlcommission.org/Accreditation/seeking-accreditation-inquiry-form.html>.

It may be noteworthy that, in the aftermath of many mergers in higher education, and in the current environments of still more mergers and closures, both the Department of Education and HLC are developing new policies and procedures to address these changes. It also may be, in retrospect, that the Board’s resolutions did not provide enough direction for CUAA’s path to possible autonomy.

Accelerated Process for Initial Accreditation – At a Glance

Steps and Activities	Duration
<p>Step 1. Application</p> <p>Demonstrate that CUAA meets the qualifications and characteristics for the process and that would make it eligible for HLC membership.</p> <p>Opportunity for interaction with HLC staff through email, phone etc. as needed.</p> <p>Culminates in a decision of whether CUAA may proceed to the next step. This decision is final so this initial application needs to be very strong.</p> <p>Application Contents: (13 items) Examples of types of items:</p> <ul style="list-style-type: none"> • Proof of good standing with HLC • Legal status • Rationale for seeking autonomy • BoR letter/minutes confirming intent (NOTE: BoR refers to CUAA’s independent BoR) • Enrollment/Programs 	<p>1 month</p>
<p>Step 2. Preliminary Peer Review</p> <p>Prepare and submit the following materials:</p> <ul style="list-style-type: none"> • Abbreviated Assurance Filing - narrative and evidence regarding each of HLC’s Criteria for Accreditation • Institutional Data Form (13 pp.) 	<p>1 year</p>

Steps and Activities	Duration
<ul style="list-style-type: none"> • Compliance with Eligibility Requirements Form (19 pp.) • Compliance with Assumed Practices Form (13 pp.) <p>Peer reviewers evaluate the narrative and evidence. No in-person visit or interactions. Culminates in a decision of whether CUAA may proceed to the next step. Required forms are fillable and require supporting evidence.</p>	
<p>Step 3. Comprehensive Evaluation for Initial Accreditation</p> <p>Prepare and submit the Full Assurance Filing - narrative and evidence demonstrating compliance with each of HLC’s Criteria for Accreditation <i>and</i> all Core Components.</p> <p>Other requirements:</p> <ul style="list-style-type: none"> • On-site visit • Student Opinion Survey <p>Other requirements – Initially completed in Step 2:</p> <ul style="list-style-type: none"> • Institutional Data Form (13 pp.) • Compliance with Eligibility Requirements Form (19 pp.) • Compliance with Assumed Practices Form (13 pp.) 	<p>1 year, with the on-site visit in the last 3 months.</p>

Other Accredited Programs

CUAA has multiple accredited programs, notably in healthcare and education. Many of these programs would require Substantive Change Notices should the two campuses have a clear directive to separate.

However, the separation, in and of itself, would not pose a risk to these accreditations, because they are site-specific to CUAA, and / or the State of Michigan.

Additional Issues

Considering the uncertainty of the past few months, CUAA expects a decline in enrollment. In the event of clear action on the part of the Board, messaging to stabilize and reverse the decline could begin.