April 17, 2018

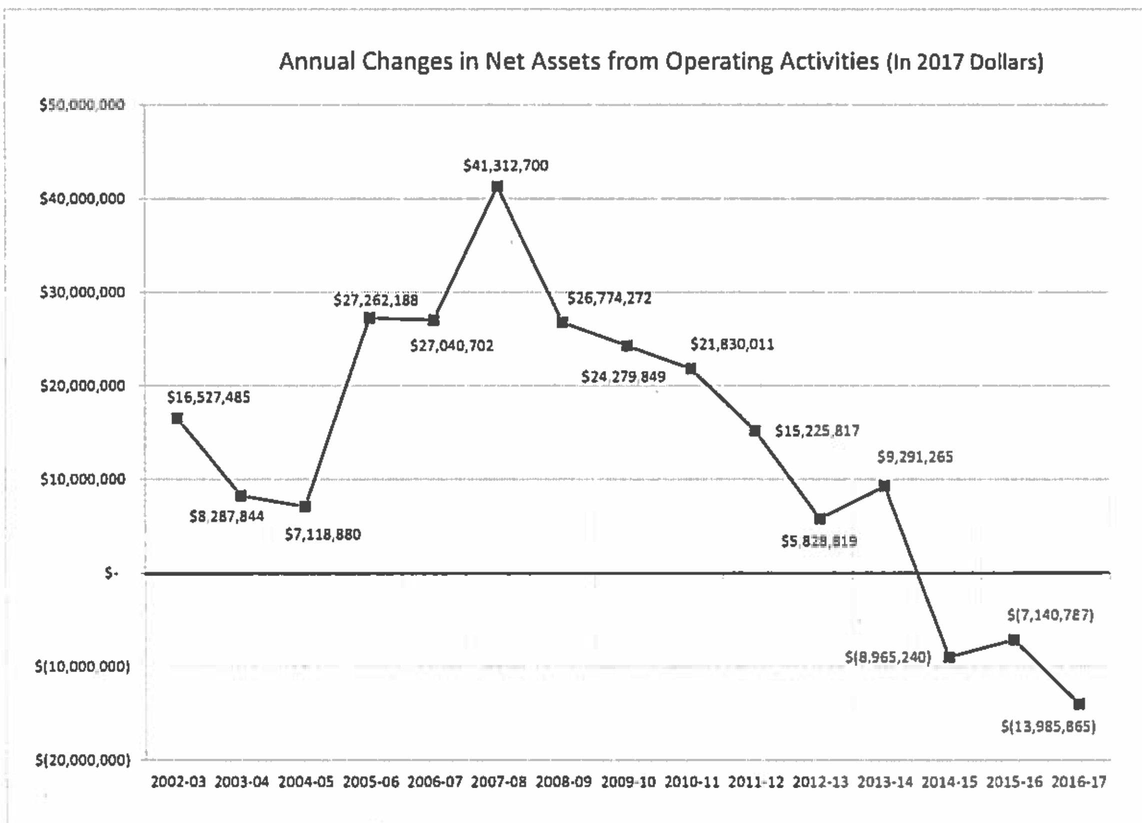
Dear Members of the Webster University Board of Trustees:

Webster is experiencing a severe financial crisis, one that is worsening each year. We, the Faculty Senate, fear that Webster's finances are deteriorating so rapidly that, unless substantial changes are made soon, Webster's future is in jeopardy. As the elected representatives of the Webster University faculty, we feel it is our duty to convey our alarm to you, the Board of Trustees, because Webster's administration has been unable to rectify the university's financial problems. The Faculty Senate, faculty advisory committees, and even the entire Faculty Assembly have met repeatedly with Webster's administration over the past couple years to discuss the problems, including twice this spring. But we do not feel we are making any progress toward rectifying the financial crisis confronting Webster by having these meetings.

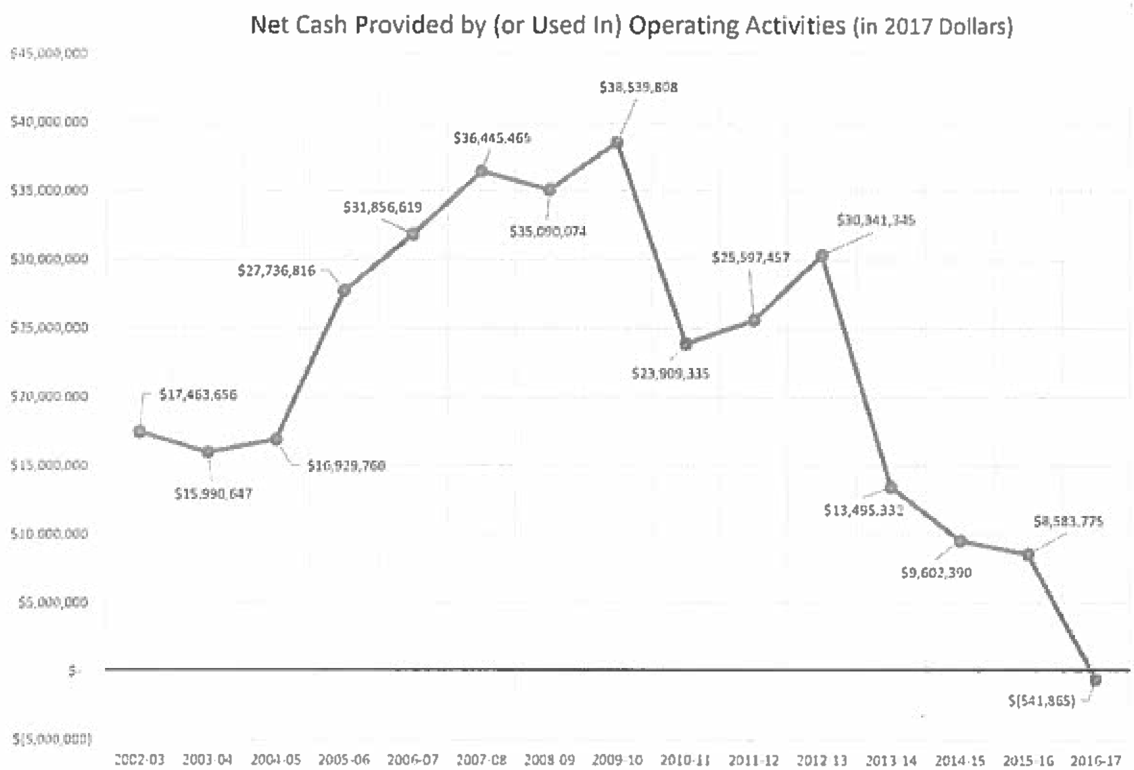
In this letter, we briefly discuss what we see as the key financial problems and causes, and urge you, the university's governing board, to initiate a collaboration with the faculty and top administrators to chart a sustainable course for Webster University. As key stakeholders, we are fully committed to working with the Board of Trustees and the administration to reverse the university's untenable downward trajectory.

Financial Problems

Using public data from Webster University's audited consolidated financial statements, the charts below highlight critical aspects of Webster's financial problems. The first chart shows that Webster's operating surpluses have declined since fiscal year 2008. Former operating surpluses have become operating deficits the past three years. Although we do not yet know the size of operating deficit for the current fiscal year (FY 2018), we fear it will be the largest operating deficit to date, far exceeding the $6 million deficit that was budgeted. If there is a deficit, this will be the fourth consecutive year of operating deficits.



The next chart illustrates another facet of the current crisis: net cash flow provided by (or used in) operating activities has become negative after years of decline. Although we do not know the overall cash flow for the current fiscal year (FY 2018), it will be negative. Chief Financial Officer Karaman told the faculty assembly in February 2018 that Webster will need to either take out a line of credit or draw down its quasi-endowment to pay its bills this year.

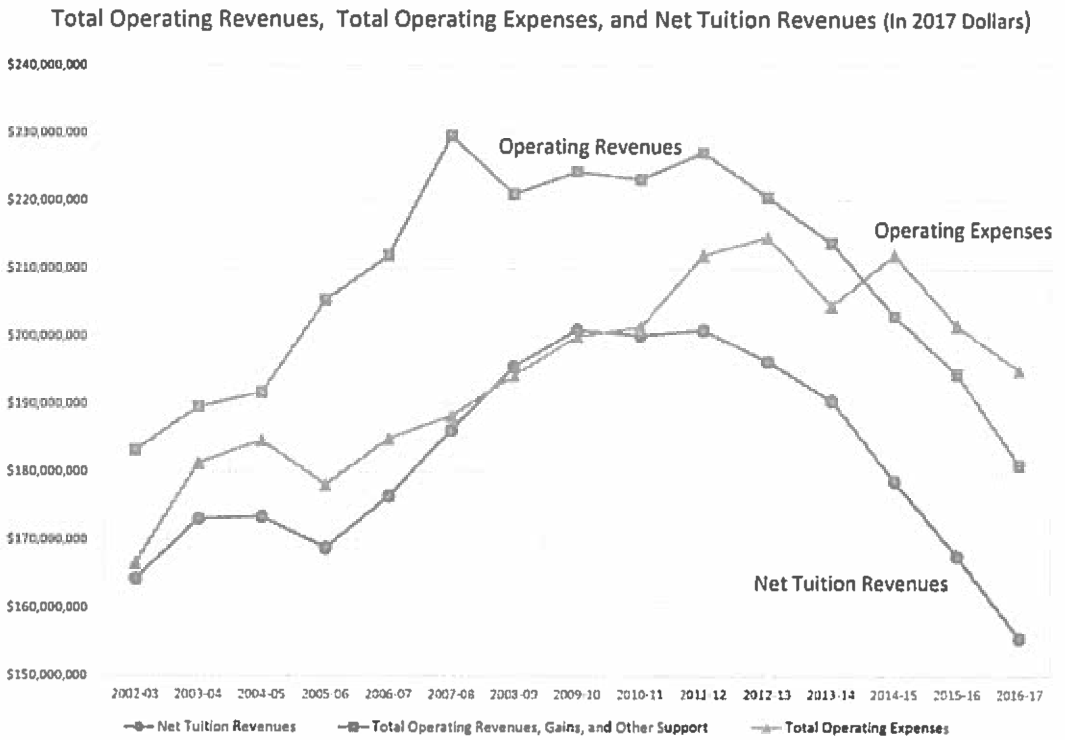


The ongoing operating deficits have reduced Webster's liquidity and, if not addressed, may lead to insolvency. Over the long run, negative cash flow is unsustainable when combined with ongoing operating deficits. Operating deficits and negative cash flows must stop if Webster is to survive, much less prosper. The logical next question is: "What is causing Webster's financial problems?"

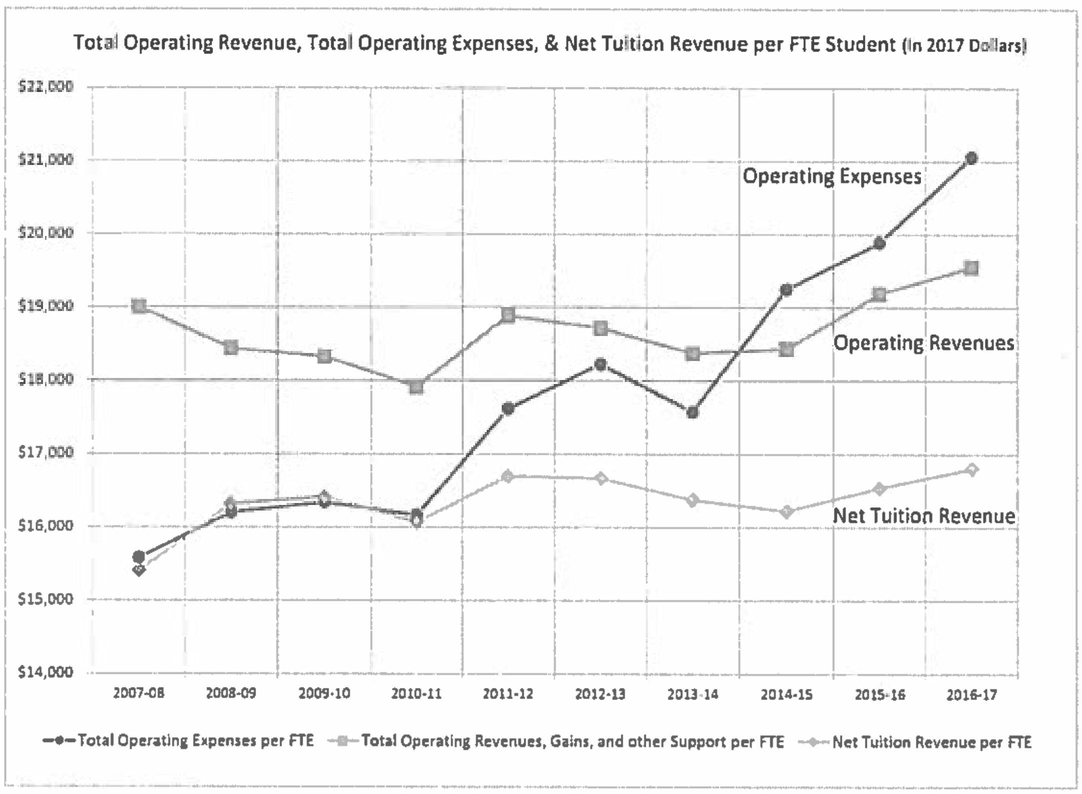
Causes of the Financial Problems

There is no question there are multiple causes for Webster's financial crisis. Two fundamental causes are that 1) Webster's operating expenses are too high, particularly its institutional support expenses, and 2) Webster is not adapting to the changing educational environment, which has led to declining enrollments and lower tuition revenues.

Operating expenses have been greater than operating revenues for the past three years, as shown in the next chart using data from Webster's audited consolidated financial statements. Although operating expenses have declined for the past three years, they did not decline enough to offset the decline in operating revenues during that time.

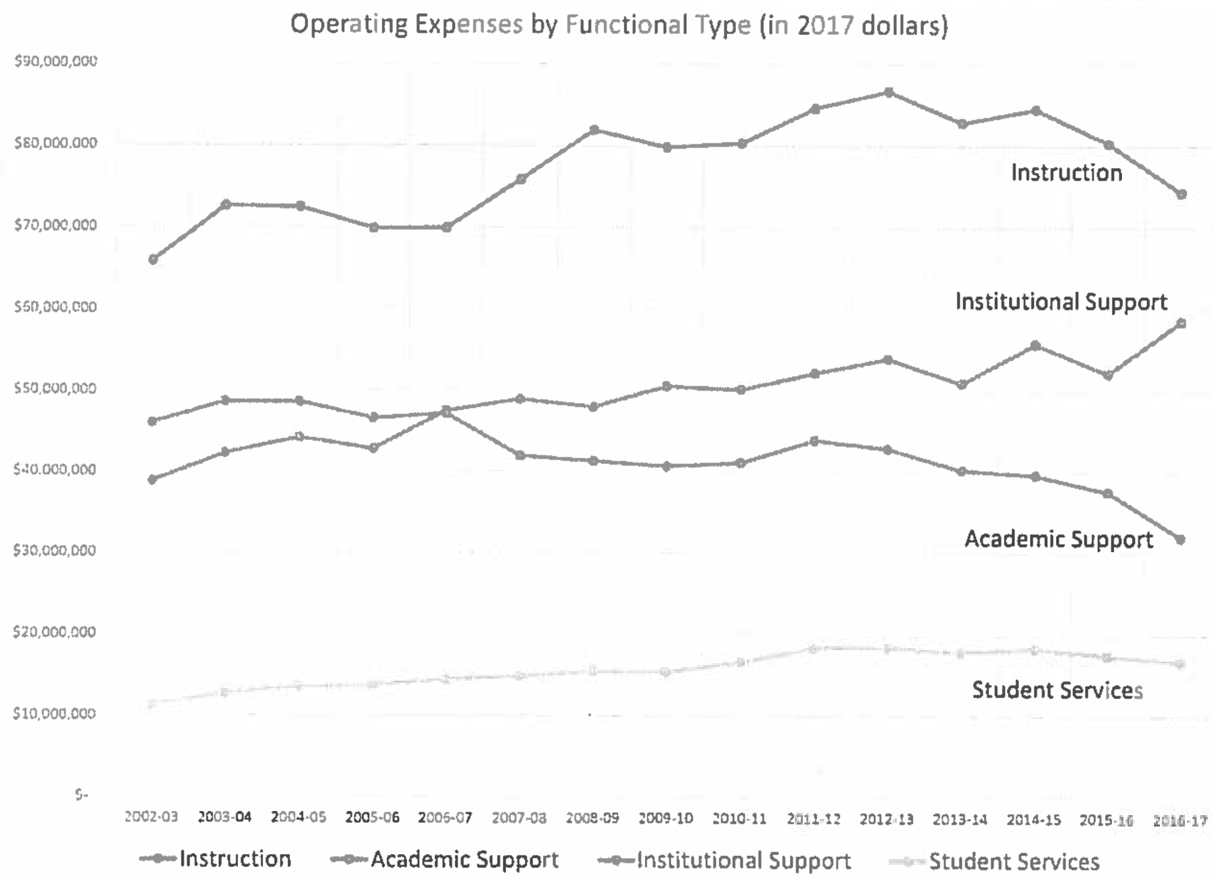


Webster is also increasingly inefficient in its operating activities. The following chart shows that operating expenses per full-time equivalent student ("FTE student") have been increasing much faster than operating revenues and net tuition revenue per FTE student.



Webster's operating expenses per FTE student are increasing because our total operating expenses are not declining as fast as our FTE students are declining. (The number of FTE students was reported in Webster's continuing disclosures that are required in its bonds and the financial data came from Webster's audited consolidated financial statements.)

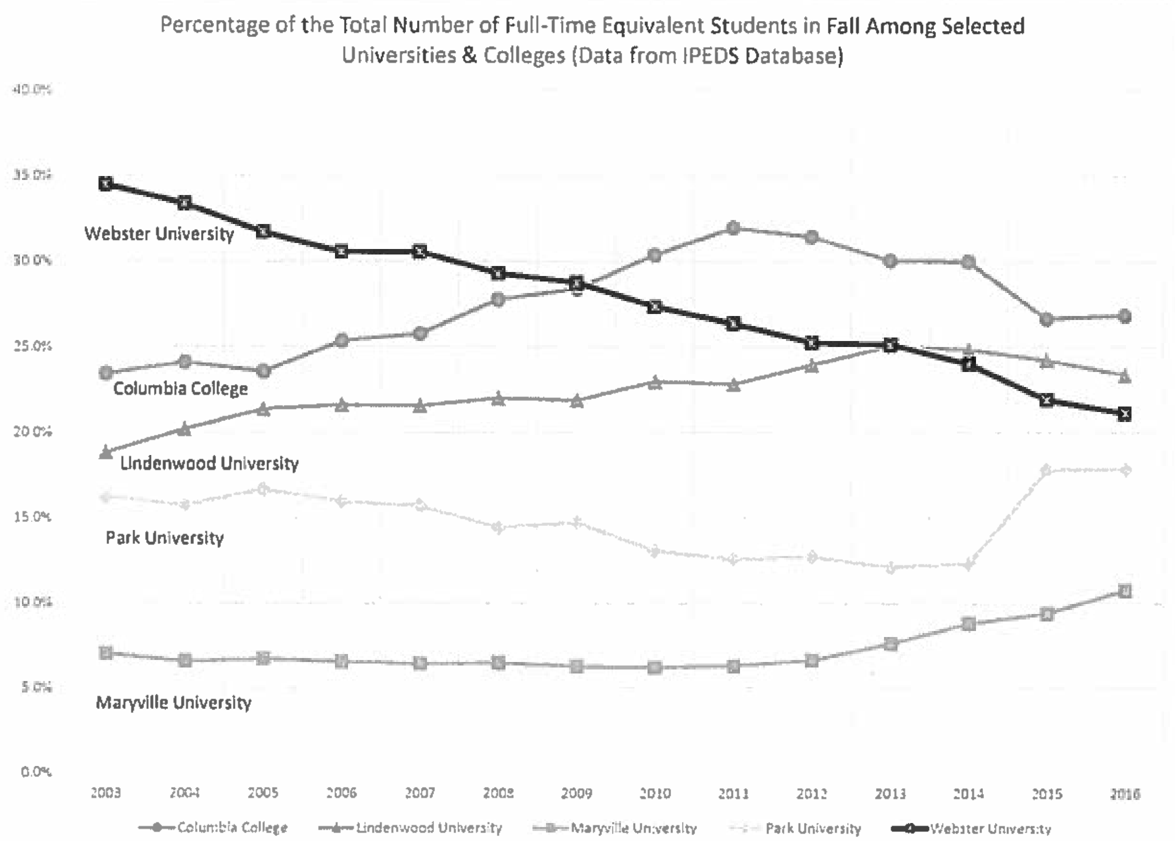
Of particular concern is that "institutional support" operating expenses have been increasing while "instruction" expenses and "academic support" expenses have been decreasing and "student services" expenses have remained relatively stable over recent years. "Institutional support" expenses are expenses relating to the day-to-day operational support of Webster, such as general administrative services, central executive- level activities associate with management and long-range planning, human resources, public and alumni relations including fundraising, and procurement. In other words, Webster's administrative operations are becoming increasingly expensive per FTE student. The chart below shows the trends using data from Webster's audited consolidated financial statements.



Despite its operating losses, Webster makes money on its instructional activities according to the audited consolidated financial statements. In fiscal year 2017, Webster made $81 million from its instructional activities (calculated as net tuition revenues minus instruction expenses). Unfortunately, this was down from a peak of $121 million (in 2017 dollars) in FY 2010. A chart showing these figures (called changes in net assets from instruction) is in the attachments. The problem is that Webster spends more on non-instructional expenses than it makes from its instructional activities. We are living beyond our means.

Declining enrollment and the resulting decline in net tuition revenue are key factors driving revenues because Webster's operating revenues are largely driven by net tuition revenue. Many private higher educational institutions have been experiencing declining enrollments. However, according to data collected from the federal Integrated Postsecondary Educational Data System (IPEDS), from Fall 2009 to Fall 2016 Webster's FTE student enrollment declined by -28.3%. This was a much greater decline than the decline at Columbia College (-7.7%). In fact, FTE students increased during this same time period at Lindenwood University (+4.3%), Maryville University (+67.5%), and Park University (+18.4%), which are comparable regional universities and colleges that compete with Webster for students. (This data is found in a table in the attachments.) It is important to note that IPEDS' student data do not include students at Webster's international campuses, only students at campuses and locations in the United States.

As shown in the next chart, based on IPEDS data, Webster's percentage of the total number of FTE students enrolled each fall at this group of universities dropped from a peak of 34.5% of the FTE students in the fall of 2003 to 21.1% of the FTE students in the fall of 2016. In other words, Webster's share of this market has been shrinking, while the other four other universities have gained market share.



If external environmental factors were the cause of Webster's declining enrollments, all universities' enrollments would decline equally, and each university's percentage share would not change. Yet, Webster's FTE student enrollments and percent of the FTE student market have declined relative to the other universities in the group. Therefore, Webster's declining enrollments cannot be attributed to environmental factors affecting all private universities, such as demographics or increased competition.

Another factor affecting enrollments and tuition revenues is that other universities and colleges have invaded Webster's domestic metropolitan and military markets, which have traditionally generated large profits for Webster. This competition has reduced enrollments and tuition revenue, sometimes causing Webster to close a site and withdraw from that market. Similarly, Webster's graduate online program is no longer enrolling as many students, no doubt in part to strong competition in this maturing market. Webster needs to stop the enrollment losses in these programs and may even need to expand into potential new domestic markets. Domestic metropolitan and military markets have long been a Webster strength.

Finally, Webster's international campuses also contribute to Webster's financial troubles. Webster is understandably proud of its international campuses and has invested ever-increasing amounts of time and money in its international campuses in recent years. Our style of international education is expensive because we usually create and run our own campuses. Yet, as has been the case for many other institutions, Webster's international campuses have not delivered the promised benefits, often losing money. We do not know how much money is being lost because the international campuses' operating losses are not identified in the consolidated financial statements. However, when our international campuses lose large amounts of money, they drain resources from Webster overall, without enough offsetting benefits. Needless to say, losses at the international campuses must stop or be dramatically reduced for Webster's finances to improve.

Proposed Actions

We fully appreciate that this is not a simple situation to address. However, the institution's top executive team has the responsibility to reverse Webster's deteriorating financial fortunes. They have not done so. In fact, Webster's finances are going from bad to worse. This inability to turn around our finances, while many other small private universities are rebounding from losses and even generating surpluses, is telling. We fear that Webster's top executive team does not fully comprehend the urgency of the situation or the need for immediate strategic changes. Our university is at a critical juncture and Webster's current vision and strategies have proven to be financially unsustainable.

Top administration's inability or unwillingness to adapt to the changing educational environment has been a large factor in causing the years of declining operating margins, and now has caused four years of operating deficits with no end in sight. Even in the face of ongoing operating deficits, top administration has remained steadfastly committed to allocating time and money in pursuit of a money-losing "global" or "international" vision and strategy instead of focusing on our dramatically declining domestic enrollments. Webster's vision reads in part: "Our vision is to be a premier U.S. - based international university setting a distinct standard for global education. . . . The educational endeavors in support of this vision are meeting the needs and enriching a global mix of learners within an ever increasing network of students desiring a U.S. education in multiple parts of the world." (Emphasis added.) (Retrieved from www.webster.edu/faculty/faculty_resource_guide/welcome/mission.html).

The administration's unwillingness to strategically reduce operating expenses is also a key factor in Webster's operating deficits. The administration has relied on across-the-board budget reductions and not filling vacant positions created by voluntary turnover to cut costs. These are not strategic decisions. Even if this strategy has reduced expenses fairly quickly, there is a limit to how long this strategy can continue before core academic competencies are damaged. This plan has not been and will not be sufficient to reverse our financial losses. In short, the Faculty Senate agrees that Webster's expenses need to be reduced, but they need to be reduced strategically.

In January 2018, the administration created an ad hoc steering committee charged with suggesting ideas to cut costs and generate new revenues. The administration has repeatedly touted the steering committee as the key to solving Webster's daunting financial problems. Expecting the steering committee to resolve Webster's financial crisis is wishful thinking because the steering committee was not charged with identifying and addressing the fundamental causes of the problems confronting Webster. The ideas generated and collected by the steering committee are not guided by, or related to, any targets, strategies, or vision. Haphazardly generating ideas unrelated to each other or to a strategic goal or vision is not going to rejuvenate Webster. What is needed now is a comprehensive review and revision of Webster's current vision, strategic goals, and strategies.

Although this letter has criticized Webster's administration, we also want to recognize that the administration has taken some important steps to reduce Webster's expenses. In 2017, CFO Karaman arranged to restructure Webster's 2011 bond debt at a lower interest rate and freed up cash by delaying principal payments on the new $49.7 million 2017 bond until 2020. (See Official Statement, $49,690,000, Health and Educational Facilities Authority of the State of Missouri Educational Facilities Refunding Revenue Bonds [Webster University Project, Series 2017, p. 16]). The administration also purchased the Vienna dormitory to reduce operating lease expenses and took out a mortgage on the Palais Wenkheim, thereby freeing up funds for other uses. While significant, these one-time initiatives are clearly insufficient to address Webster's underlying financial problems.

The Faculty Senate and faculty are fully committed to doing our part to make the necessary changes to reverse the downward trajectory of our university. The Faculty Senate and faculty have already attempted to help address Webster's financial problems as follows:

- The Faculty Senate proposed creating two standing faculty advisory committees to improve communication and to allow the faculty the opportunity to provide advice and recommendations to the administration on important, strategic financial and marketing matters. In the fall of 2016, the administration agreed to form the committees. Unfortunately, since then, the administration has largely ignored these two advisory committees. In fact, the ad hoc steering committee recently formed by the administration effectively supersedes these newly created joint faculty-administration standing committees. Nevertheless, members of one of the standing committees, the Marketing Advisory Committee, recently presented a comprehensive market research proposal to the Provost/COO. Their framework for conducting market research and allocating resources is in the attachments. They also recommended that the university develop a system to track the results of its advertising and marketing programs.
- Over the past two years, the Faculty has conducted faculty institutes, faculty assembly meetings, town halls, and informal faculty meetings to discuss Webster's financial problems as well as the faculty's role in changing Webster. This letter incorporates many of the concerns and ideas raised at those meetings.
- This spring, in light of Webster's severe financial problems, the faculty's Salary and Fringe Benefits committee proposed that the faculty would not seek any salary increases for next year, despite our increased health insurance costs. This proposal shows the faculty's willingness to share in the sacrifices needed to address the financial problems. As a condition for us accepting yet another year of declining net take-home pay (due again to the ever-increasing expense of healthcare), we said that that ALL Webster employees, including top administrators, must not receive raises, bonuses, or any other type of increased compensation either. The sacrifice being made by the faculty should be shared by all employees.

Against this troubling backdrop, we feel compelled to bring our concerns and ideas directly to the Board of Trustees because top administration has been unable to fix Webster's financial problems. Something needs to be done and be done soon. We ask you, the Trustees, a simple question: If this were your company, would you accept year after year of financial losses, losses that would threaten the future of your company? We assume the answer would be "no." Nor should Webster's recurring losses be acceptable to you, as Trustees of Webster. Ultimately, the Board of Trustees is responsible and accountable for Webster's success or failure.

Accordingly, the Faculty Senate respectfully urges the Board of Trustees to take steps immediately to address Webster's financial problems. Clearly, Webster's current vision, strategic goals, and strategies are not working, so change is essential. The question is what needs to be changed.

To answer this question, we ask that within the next month the Board arrange for its representatives to meet with the Faculty Senate, or its representatives, and top administrators to start the process of analyzing the causes of Webster's financial problems. Based on those analyses, we can then jointly revise Webster's vision, strategic goals, strategies, and make operational plans. We will also need to set priorities and identify other actions needed to turn around our finances in the long run. Concurrently, to help reduce the deficit in the short run, Webster needs to continue identifying and implementing cost reductions. Some of the steering committee's ideas may be valuable in this effort. But, we need to ensure that any cost reductions will not inadvertently impair our ability to implement important future strategic actions. Although this process will be challenging, it is imperative we act now while Webster still has the financial resources to fund promising new initiatives and programs.

In closing, we hope the Board of Trustees accepts the Faculty Senate's request that the Board intervene immediately to help rectify Webster's financial problems. We think collaboration among the Board, the faculty, and the administration is critical during this transition. The Faculty Senate is ready to meet with representatives of the Board of Trustees to discuss our concerns and proposed collaboration.

Webster has overcome adversity and celebrated many successes over the years. We hope that by working together, we can reenvision and reinvigorate Webster, thereby ensuring its future.

Respectfully submitted,

The Webster University Faculty Senate and Faculty Senate President

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