

## Texas universities feeling recession's bite

By JEANNIE KEVER Copyright 2009 Houston Chronicle  
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It was a bad year for university endowments. A sampling of losses during the 2009 fiscal year:

- **Texas A&M University:** 10 percent
- **Baylor University:** 13.3 percent.
- **University of Texas system:** 15 percent.
- **University of Houston:** 16.8 percent
- **Rice University:** 18.2 percent.
- **Southern Methodist University:** 24 percent.

Note: SMU results as of May 31; Rice and Baylor as of June 30; A&M, UH, UT as of Aug. 31.

Other schools have taken similar measures.

At the University of Houston, where the endowment dropped 16 percent in the fiscal year which ended Aug. 31, regents reduced the amount of money pulled from the endowment, squeezing the budget elsewhere — leaving positions vacant, cutting utility costs and laying off a small number of employees, among other things — to replace endowment money used for scholarships and other student initiatives.

"There was a whole series of things proposed in the original budget that we didn't do because we ran out of funds," said Carl Carlucci, executive vice chancellor for administration and finance.

#### Lasting changes?

More lasting changes may be store across the state, as financial managers at several universities say they will use the endowment losses to rethink how they do business. That's especially true for public universities faced with uncertain state funding and growing pressure from students and legislators to rein in tuition increases.

"No matter how good we think we are, we've got to reset our expense line," said Kevin Hegarty, vice president and chief financial officer at the University of Texas at Austin.

Universities build endowments from donations and other gifts, investing the money to support scholarships, faculty salaries and other priorities. In boom times, the endowments can be a windfall. When the market crashes, it can get ugly.

But not all schools depend upon endowment money equally.

Rice funds 47 percent of its operating budget from its endowment, Wise said. UT system schools rely on various endowments for about 6 percent of operating expenses, and the University of Houston takes less than 3 percent of its operating budget from its endowment.

And because most base withdrawals on a three-year average — Texas A&M and Baylor use even longer periods — the damage from a bad year is limited, as long as a rebound quickly follows.

A&M relies on its endowment for less than 3 percent of its budget and, with a five-year payout, this year's distribution will be slightly higher than last year, despite a 10 percent drop in value, treasurer Greg Anderson said.

Baylor won't be affected this year, either, said Reagan Ramsower, vice president for finance and administration. Its endowment reported losses of 13.3 percent over the past fiscal year.

But using a multi-year average for payouts also means a bad year can ripple through university budgets for at least the next few years. And even schools which don't depend heavily upon their endowments have been squeezed.

#### Some layoffs

Several UT system schools have frozen salaries or even laid off employees as a result, said Bruce Zimmerman, chief executive of the University of Texas Investment Management Co., which manages investments for all UT system schools and for the Permanent University Fund, which provides money to both UT and A&M.

UTIMCO investments ended up down 15 percent for the year; investment losses accounted for 13 percent, with the rest due to the fact that the payout to member schools exceeded new contributions.

That added up to big money — a drop of \$1.7 billion in the PUF and \$900 million in various university endowments.

The National Association of College and University Business Officers' study of endowment performance for 2009 won't be out until January, but Ken Redd, director of research and policy analysis for the group, said results nationally are expected to be similar to that of the Standard & Poors 500 stock market index.

That fell about 25 percent during the fiscal year, Redd said.

A preliminary study found that university endowments fell about 23 percent between July and November 2008. Equal

Stagnant salaries. Larger class sizes. Smaller scholarships. The biggest stock market meltdown since the Depression will play out at Texas colleges and universities during the next few years.

University endowments lost billions of dollars over the past 15 months, and financial managers are still assessing the damage.

"Anytime you have this large a decrease in the value of your portfolio, it has to have an impact," said Scott Wise, president of Rice Management Co., the investment arm of Rice University.

The stock market began to bounce back this spring, and virtually all endowments have gained ground since then. And it's hard to compare endowment performances from school to school, since not all report results on the same date.

Many private schools, including Rice, report their endowment performance once a year, on June 30. Most public universities use a fiscal year that starts on Sept. 1, so their most recent results show Aug. 31 balances, allowing them to accrue two more months in a recovering market.

Still, everyone suffered.

The Rice endowment dropped more than 18 percent for the year ending June 30, a loss of \$838 million. As a result, the school cut its operating budget for the current fiscal year by 5 percent, briefly imposed a hiring freeze, limited most pay increases to people earning less than \$60,000 and cut energy use by setting thermostats higher in summer and lower in winter.

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A preliminary study found that university endowments fell about 20 percent between July and November 2008, equal to \$94 billion in lost market value.

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