EMORY
UNIVERSITY

February 10, 2009

Dear Members of the Emory Community:

We are at a stage in the preparation of next year's budget when we thought direct communication with you would be beneficial. Budget development for the next academic year is continuing, and the final budget proposal is scheduled for Board of Trustees approval in April. Although we are a couple of months from presenting the final proposed budget, we are far enough along in the planning process to share with you in more detail the impact of the economy on our operating plan. As you know, Ways and Means (the university budget committee) proposes budgets to the trustees that project revenues and expenditures several years forward. While much about the next 18-24 months remains uncertain, we believe that maintaining a forward looking approach best prepares us for the future we seek for Emory. Similar processes are underway for Emory Healthcare to deal with the effects of the external environment on our patient care operations. Clearly, all of Emory is being impacted by this difficult environment.

At present, excluding Emory Healthcare, we are projecting core operating budget revenue growth of less than 2% or an estimated $10 million for next year, a figure that is likely to drop as we receive information on the evaluation of our private equity and other non-marketable investment holdings. In the current year, by comparison, revenue growth was projected at 7.0% or an estimated $41.8 million, which is the rate of growth we had seen for several years. Therefore, we will enter the new academic year with revenue growth, but on a much smaller scale than we have experienced in recent history. As we work through the details of the plan, we must focus on the principles outlined in President Wagner's recent letter. We must recruit and retain top students, and we must reward, retain and recruit the best faculty and staff. These are cornerstone values that are necessary to continue implementation of the university's strategic vision and goals.

Since we are not immune from the downturn of the economy (under current conditions endowment and investment income alone will decrease approximately $60 million by 2012 compared to this year's level), now is the time to focus on the future by attending to Emory's core mission, vision and values, and protecting its excellence. To maintain our momentum there will be some significant expense pressures against our modest income growth, particularly in financial aid. In order to assemble a responsible and balanced budget that advances the institution, it has become clear that reallocations of existing resources contained in the current base budget will be required; in other words most units will have to cut some current activity in order to fund higher priorities. At this stage we have not mandated the specific cuts. Rather, each school and division must assess what core activities are essential, and must work to eliminate or reduce those activities and programs that will not advance the Strategic Plan—either the unit's plan or the crosscutting University plan. Since over half of our operating expenses are salaries and benefits, this unfortunately means some positions will be eliminated and some members of our community will lose their jobs. Job losses are always difficult; they affect the lives of friends, colleagues, and families. They will be especially challenging given the regional and national unemployment rates. As we move ahead, we will see many good people leave because their positions have been eliminated; this may indeed be the most difficult part of carrying out our collective institutional responsibility in light of the hard economic realities.

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The tides of economic change have swept across our students and their families as well. We are already seeing an increased demand for need-based financial aid. Students and parents who were counting on the value of their homes or the value of their investment portfolios to help with the cost of education have been caught by the currents of the economy. We must remain committed to providing need-based aid to support our goal of recruiting and retaining top students.

Given our decentralized budget structure, the economic impact will hit every unit hard, but the specifics and levels of intensity will vary. Seven of the nine schools are currently estimating revenue growth from 1.8% to 4.9%. The two largest schools, Emory College and the School of Medicine, expect growth of 3.7% and 1.9%, respectively. Two of our schools, the Goizueta Business School and the Candler School of Theology, will both experience declines in revenue in the range of 1% to 2%. A subset of schools will draw from operating reserves to produce a balanced operating plan for next year. Even these preliminary figures are expected to worsen in the next month as current endowment valuations for non-marketable investments are booked. We expect the pattern of very modest revenue growth or declines to continue for the foreseeable future as endowment payout will decline for the next several years and market pressures keep the rate of tuition increases low. Next year, and for the next few years, it is important to remember that even units expecting to see modest budget growth will be required to reorganize and eliminate some activities in order to meet commitments to highest priorities.

At this time, many administrative and support unit budgets are or will be declining. A number of divisions have gone through or will be going through substantial reorganizations in order to fund higher priority support services. This has resulted in fewer personnel or the reassignment of personnel. For instance, University Technology Services has finalized a major reorganization that freed up roughly $1.5 million in order to pay for increases in external licensing fees and to provide the necessary staffing and support for implementing the new General Ledger Accounting System, without any new funds coming into the division. There are, and will continue to be, more examples across the institution in the days ahead.

Some cuts will be required to enable strategic investments. During the next several years we will need to grow new revenue sources and reexamine key aspects of our educational and business models. Development and Alumni Relations (DAR), for example, requires investment to ensure a successful campaign and to lay the foundation for future campaigns. As a private institution, we will always rely on gifts; all the more so as other revenue sources contract. We started the campaign with a solid plan to build the staffing levels in DAR so that we could successfully meet our goal of $1.6 billion, and we must stay with the plan for the long-term benefit of the University.

We will continue to aggressively pursue strategies to take costs out of the system. Over the past four years we have generated nearly $23 million in cost savings annually by restructuring debt, renegotiating virtually all major commodity contracts, consolidating and streamlining support services, improving technology systems and their delivery, eliminating land lines in residence halls, and other efforts. This kind of activity must continue throughout Emory. More recently, President Wagner has directed us to seek additional reductions. He has also directed that we enforce targeted budget reductions in several administrative units and a zero budget growth for all other administrative units; that his salary and that of members of his Cabinet be frozen; that all future hires come from either the reallocation of existing resources or the reprioritization of vacant positions; and that members of Cabinet review all hiring within their area of responsibility. Our task, we have been advised, is to make principled and prudent cuts to achieve wise and warranted growth.

This is also a time when the normal and customary merit salary program increase had to be removed from the operating plan. With guidance from Human Resources, we have challenged all of our managers to identify modest funds from existing resources to make sure there are some dollars available for faculty and staff promotions, and for high performing employees whose salaries are also lagging the market. This will mean that virtually all employees, many of them most deserving, will not see an increase in salary for Fiscal Year 2010.

Between now and the end of the semester, we expect the deans, vice presidents, and directors to be providing their units with more specific details regarding unit plans. We recognize that such communication is essential and that the more transparency the better. Likewise, the new economic realities facing Emory Healthcare are requiring appropriate plans to address their particular needs to sustain a high quality, academically oriented healthcare delivery system that closely interacts with the School of Medicine and many other units across the University.

As we look to the future, we can imagine more aggressive steps to address the challenges we all face. By all accounts, 2011 and 2012 will present even greater pressures on our resources than 2010. Throughout this year, we will continue our communications with you and our work with the leaders of your school, division, or unit as well as the University Senate.

Thank you for all you do to sustain and promote the excellence of this university. We will count on your ideas, energies, commitment, and effort all the more in the months and years ahead. More than anything, we value you and your support as we all strive to shape Emory for the future. The path ahead will require more collaboration than ever. We look forward to working with you.

Sincerely,

Earl Lewis
Provost and Executive Vice President for Academic Affairs
Chair, Ways and Means Committee

Michael Mandl
Executive Vice President for Finance and Administration

Fred Sanfilippo
Executive Vice President for Health Affairs
Chair, Emory Healthcare