

Board of Trustees

To: Stevens Community

From: Jim Walsh, Chair of the Finance & Investment Committee of the Stevens Institute of Technology Board of Trustees

Date: January 26, 2010

Re: A Message from the Chair of the Finance & Investment Committee of the Board of Trustees

Dear Stevens Community,

For the last several months the members of the Board of Trustees (the "Board") and the administration refrained from detailed public comment while the litigation that we brought against the New Jersey Attorney General ("NJAG") was pending. As you know last week the Board and the NJAG agreed on a Final Consent Judgment (the "Settlement") of our conjoined lawsuits and I now would like to provide some comment on the Settlement.

First, for clarification, in spite of the uninformed commentary that has been written in several places, most recently in a *Stute* Op-Ed, this action was a civil action. There never was any allegation of criminal behavior and the NJAG never suggested that there might be. Comments in the Op-Ed piece like "jury of his peers", "criminal record is officially expunged" and the like are ridiculous and serve to indicate the level of emotion to which this matter has ascended as well the degree of ignorance of the structure of the legal system on the part of the writer.

Let me address the facts of the situation as of today. The Settlement, which is available on the Stevens website, involves a number of resolutions that were passed by the Board on January 15th to:

- Confirm the key best practices of the Board and its major committees
- Modify certain other practices and structure of the Board and its major committees, and
- Approve certain new practices and structure of the Board and its major committees.

The clear majority of the initiatives in the Settlement involved a confirmation of current, and in some cases long standing, practices of the Board and there were several important new governance structures and procedures that were adopted.

In the Settlement the Board has agreed to enforce term limits for the main committee chairs and re-configure the Executive Committee to comprise former chairpersons who will serve in an advisory capacity, thereby not losing the benefit of their expertise and institutional history. The Executive Committee is an advisory body that cannot act in the name of the full Board.

There is a provision mandating the main committees to have four trustee and two faculty members. Several years ago the Board invited faculty onto most of its committees but the Board and faculty were not fully successful in attracting and retaining meaningful faculty participation. This mandate for all committees will be a great improvement, enhancing the governance of the Institute and providing a direct input of faculty opinion in key decisions.

I also would like to give you some qualitative remarks on the Settlement.

1. All claims from the initial action by Stevens against the NJAG and from the response action by the NJAG against Stevens are covered by this Settlement. There is nothing left outstanding.
2. There was no monetary component to the Settlement.
3. The president did not resign as a part of the Settlement. He decided to step down as president and tenured faculty member, prior to agreement on the Settlement, and in so doing, cleared the way to make a settlement possible.
4. All of the initial components of the complaint concerning the endowment and financial management were dropped by the NJAG.

Also of significant interest to some, there never have been "two sets of books" to track Stevens financial results and any continuing allegation by individuals to the contrary simply is false and misleading. The NJAG completed the Settlement without finding any impropriety in Stevens financial bookkeeping.

5. The question related to the Taylor Trust and the appropriate amount that annually could be transferred from it to the operating budget has been omitted from the Settlement and was dismissed without prejudice last week. That was a ruling that potentially had impact beyond Stevens.
6. With respect to the claims set out in the initial complaint from the NJAG, I want to confirm to all members of the Stevens community that, respect for the office of the NJAG notwithstanding, the Board believed that most of the complaints were without merit, and that it had taken all necessary due diligence in the various decisions cited in the complaint. In particular it is important that we reassure the Stevens community that there were no unreported compensation decisions relating to the president or any member of the administration and none of the loans to the president were forgiven or ever had been forgiven.

This Board/NJAG action sharpened both the opinions and concerns of many members of the Stevens community since it was a serious matter that raised many issues which had been controversial for several years. Ultimately most of these concerns converge to matters of finance.

Several years ago we undertook an effort to revamp the financial control and reporting systems at Stevens which had been outstripped by the growth and increased complexity of the Institute. Throughout Stevens history we always were audited by major accounting firms, but by 2005-06 the inadequacy of our systems impeded our ability to manage further growth of the Institute. This process was initiated with the advice and guidance of our external auditors and resulted in a significant enhancement in the quality of our internal reporting and our ability to have audits completed on time.

Previously I have cited two observations about the state of Stevens finances, which remain valid today. First, Stevens is not, and has not been, in any form of financial crisis, but neither is it in a strong financial position. Second, since its founding in 1870, Stevens *never has been* in a strong financial position.

By far the single-largest financial problem for Stevens continues to be the fact that our endowment is too small to support the level and nature of our operations, in particular financial aid. We provide financial aid at a level comparable to peer schools; however we fund the bulk of that aid by discounting tuition revenue.

We will receive the final audit for the year ended June 30, 2009 later this month so for now I would refer to the last audit from 2008 for illustrative data. In that year we granted more than \$29 million of financial aid, but received total contributions of \$4.2 million and moved \$5.5 million from the endowment as the annual spending transfer, leaving a gap in excess of \$19 million to be funded from operations. This was equal to 17% of our total tuition and fees that year, and it has been of a similar proportion for quite some time.

In order to fund our current level of financial aid from endowment earnings, we will need to grow the endowment to be four to five times its current size. While this is not a possible goal in the near term, every gift to the endowment is a step to getting us there.

Stevens will continue to have financial challenges, but relative to *any other time in our history*, we are better off today, and we are better prepared to address these financial challenges as they occur.

- We are generating a cash surplus from operations – not huge, but a surplus nonetheless.
- For the last several years the endowment performance has outstripped the average performance of *all* other colleges and universities according to NACUBO (National Association of College and University Business Officers) data.
- We have instituted a rigorous budget process under the direction of the Provost as, among other things, the chief budget officer of the Institute. More importantly, that budget process also has given us the ability to make mid-year changes in response to events that allow the Institute to perform at or closer to budget than ever before.

This litigation and the Settlement have served to crystallize the dissatisfaction and dislikes of many in the Stevens community, as well as add fuel to the fire of certain personal agendas. The Settlement does not purport to try to correct or even respond to those discontents, but it does – or at least should – give comfort to all that, upon investigation, the chief legal officer of the State of New Jersey agreed with the Board on key reinforcements and changes to governance at Stevens.

It is customary to conclude a letter like this with the laundry list of achievements of Stevens, its faculty and its students. But I will simply note that while matters of finance continue to challenge us, Stevens continues to be quite successful in executing its primary mission to provide education and research at the leading edge of a broad range of science and technology disciplines.

Jim Walsh is a Stevens graduate with a BS (physics) 1969 and MS (physics) 1971, and an MBA from Columbia University. He was an adjunct instructor (1972-74) in what was the Department of Management Science (Howe School). As an undergraduate he held various editorial positions on The Stute, rising to Managing Editor, served in student government and is a member of Khoda and Gear and Triangle. His career has been in finance and investment management in the US, Europe and Asia. He has been a Stevens Trustee since 1997 and is the chair of the Finance & Investment Committee and a member of the Audit Committee.