

REPORT OF THE WSCUC TEAM

SPECIAL VISIT

to

Pacific School of Religion

May 13 - 15, 2020

Submitted by

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The team evaluated the institution under the 2013 Standards of Accreditation and prepared this report containing its collective evaluation for consideration and action by the institution and by the WASC Senior College and University Commission (WSCUC). The formal action concerning the institution's status is taken by the Commission and is described in a letter from the Commission to the institution. This report and the Commission letter are made available to the public by publication on the WSCUC website.

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SECTION I – OVERVIEW AND CONTEXT

A. Description of the Institution and its Accreditation History

Located in Berkeley, California, the Pacific School of Religion (PSR) was originally founded as a seminary in 1866, the first seminary founded west of the Mississippi River. Although having claimed itself “undenominational” in 1916, PSR is a progressive Christian seminary with formal relationships with three denominations: the Christian Church (Disciples of Christ), the United Church of Christ, and the United Methodist Church. For over 150 years, PSR has trained future leaders within multiple faith communities.

In 1963, PSR joined eight other seminaries (three Roman Catholic, four Protestant, and one Unitarian Universalist) to form the Graduate Theological Union which grants, PhD, ThD, and MA degrees in the field of religious studies. PSR has two centers: The Center for LGBTQ and Gender Studies in Religion (CLGS) founded in 2000, and the Ignite Institute founded in 2014. As of fall 2019, PSR enrolled 108 FTE (166 unduplicated headcounts) students in eleven programs (four masters, two professional doctorates, and five non-degrees). Ten of these programs are on-site and one is delivered through distance education.

PSR was accredited by the Association of Theological Schools (ATS) in 1938 and by the WASC Senior College and University (WSCUC) in 1971. PSR’s last WSCUC review took place in 2016. The WSCUC Commission reaffirmed PSR’s accreditation in 2017 for a period of six years with a Special Visit scheduled in spring 2019 in which the institution was requested to:

- a. *Address the fiscal stability of PSR and the progress made in the repayment of funds borrowed from PSR’s endowment, especially the restricted endowment (CFR 3.4);*
- b. *Provide evidence of breakeven operating budget results (CFR 3.4);*
- c. *Provide and operational contingency plan to address the event of further operating budget deficits and/or delays in the sale of the campus properties (CFR 3.4, 4.7).*

With permission from WSCUC staff, the Special Visit was postponed from spring 2019 to spring 2020 “to allow for the implementation of a strategic initiative, involving leveraging property holdings, that would significantly affect PSR’s financial model. A later visit would allow the action to take place and for the team to evaluate the effect of that action.” This team report is based on the Special Visit to PSR (held virtually) on May 13-15, 2020.

B. Description of the Team's Review Process

The team received PSR’s Special Visit Institutional Report in January 2020 as well as several relevant documents. Two additional addenda were received by the team on March 9, 2020 and May 4, 2020.

The team met via a conference call on February 18, 2020 to evaluate the PSR’s Institutional Report, agree upon topics for further inquiry, develop lines of questioning, identify additional supporting documents, and finalize the visit schedule and team assignments. Due to the COVID-19 pandemic, the visit was rescheduled and conducted via Zoom. The visit started with a virtual team meeting the afternoon of May 13th and concluded at 11:00 am on May 15th. All meetings were conducted virtually with institutional representatives as well as members of the Board of Trustees.

C. Institution’s Special Visit Report: Quality and Rigor of the Report and Supporting Evidence

PSR’s Special Visit report was prepared primarily by Dean Susan Abraham, President David Vasquez-Levy, Chief Business Officer Patrick O’Leary, and Faculty Emerita and former Dean Mary Donovan Turner. After reviewing the guidelines for a Special Visit, the writers gained additional information from other members of the PSR community. However, because of the focused nature of the report, a comprehensive involvement of all institutional constituencies

was not conducted. PSR's Special Visit report, including appendices, addenda, and other requested documents, was submitted in a timely manner, is well-written, and addresses the issues identified in the Commission's March 9, 2017 Action Letter.

SECTION II – Evaluation of Institutional Response to Issues Identified in the Commission's Action Letter of March 9, 2017

A. Fiscal Stability and Repayment of Endowment Borrowing

“Address the fiscal stability of PSR and the progress made in the repayment of funds borrowed from PSR’s endowment, especially the restricted endowment (CFR 3.4)”

The last Accreditation Visit team that visited PSR in October 2016 reported that the school had experienced five years of consecutive operating deficits through the fiscal year ended June 30, 2016. These deficits were primarily attributed to a five-year decline in enrollment from 157.0 FTE in fall 2011 to 95.8 FTE in fall 2016. The accumulated operating deficits had resulted in PSR borrowing a total of \$8.2 million from its unrestricted (board designated) endowment as of June 30, 2016, with plans to repay the borrowings using a portion of the proceeds from the sale of a majority of its campus properties to a third-party senior housing developer.

A review of audited financial statements by the current Special Visit team indicated that PSR incurred operating deficits for the fiscal years ended June 30, 2017, June 30, 2018, and June 30, 2019 of -\$1.6 million, -\$2.4 million, and -\$1.7 million, respectively. The review also indicated that PSR used \$3.2 million of proceeds from the sale of a school-owned apartment building to underwrite the operating deficit in the fiscal year ended June 30, 2017 and to decrease the amount borrowed from unrestricted endowment. However, continued operating deficits in the fiscal years ended June 30, 2018 and June 30, 2019, as well as the failure of PSR to sell a majority of campus properties to a third-party senior housing developer as planned in

2017, resulted in an accumulated operating deficit of \$8.2 million and a total of \$7.6 million borrowed from the unrestricted endowment as of June 30, 2019.

The \$7.6 million borrowed from unrestricted endowment almost equals the entire \$7.9 million balance in the unrestricted endowment as of June 30, 2019. PSR had borrowed \$0.3 million against a \$1.0 million line of credit as of June 30, 2019 and had also entered into a \$1.0 million term loan (due August 2023 with \$0.8 million outstanding as of June 30, 2019) for the improvement of two campus properties the school intends to retain. The line of credit and the term loan are secured by property liens on a student residential hall (Anderson Hall).

The PSR's institutional report dated January 9, 2020, as well as the two addenda dated March 9, 2020 and May 4, 2020, state that PSR remains committed to repaying funds borrowed from the unrestricted endowment through the monetization (i.e. sale and/or lease) of campus properties. The monetization of campus properties is guided by seven principles and is informed by the work of a Property Task Force comprised of industry experts as well as internal stakeholders. In the past year, PSR has taken a number of steps to leverage its property assets such as deferring building renovation plans, outsourcing the management of its residential properties, and continuing efforts to sell and/or lease campus properties, often with mixed results.

Evidence of mixed results regarding efforts to sell and/or lease campus properties includes the failed sale of the majority of campus properties in 2017 to a senior housing developer as noted previously, and again in early 2020 to a private organization after two years of negotiations. The failure to complete the sale, which was valued at \$34.8 million, was attributed both to an adverse decision by the City of Berkeley over a lot line adjustment and a change in the leadership of the purchasing organization. PSR also experienced the early

termination of a classroom building (Seeley G. Mudd Building) lease with a charter middle school in mid-2019 when the school lost its charter from the Berkeley School Board.

On the positive side, PSR was able to sell an apartment building (LeConte Apartments) for \$4.5 million in February 2020. The school also recently finalized a 10-year lease of a classroom building (Seeley G. Mudd Building) to the College of Engineering at UC Berkeley for \$35,000 per month plus tenant improvements totaling approximately \$1.2 million.

Interviews with senior administrators, faculty leaders, members of Board of Trustees, and members of the Property Task Force indicated that PSR remains committed to repaying all funds borrowed from the unrestricted endowment and to increasing the size of the unrestricted endowment to help assure long-term financial sustainability. Repaying the unrestricted endowment was contingent on the sale of additional campus properties, but that the new plan for incrementally selling non-core primarily residential campus properties would be more likely to succeed. PSR confirmed that the proceeds from the sale of campus properties would also be used to underwrite operating deficits projected to occur over the next five years.

Although PSR has worked extremely hard to monetize its property assets so that it can repay its line of credit and term loan, repay its endowment, and grow its endowment to help assure long-term financial sustainability, the team is concerned that the school may not be able to fully comply with CFR 3.4 in the future due to the following factors:

1. It has not generated positive operating results in eight years through June 30, 2019, which has resulted in borrowing against its unrestricted endowment to the point of exhaustion.
2. Borrowing from a line of credit and a term loan secured by campus property may further deplete PSR's ability to repay and grow the unrestricted endowment, which is necessary

to generate sustainable investment returns (i.e. endowment spending) to support future operations.

3. Using the proceeds from the sale of properties, which are long-term assets of PSR, to cover operating deficits rather than adding them to unrestricted endowment is not a sustainable strategy.
4. The school has experienced mixed results in trying to monetize its campus properties, especially when focused on one large sale of properties.
5. Some of the factors (e.g. unique physical aspects of the campus, neighbor's resistance to change, city entitlement processes, etc.) that have negatively impacted PSR's ability to sell campus properties in the past are unlikely to change.
6. The impacts of the COVID-19 pandemic on local real estate markets are not fully known, but are likely to negatively impact PSR's ability to sell or lease its campus properties in the short-term.
7. The impacts of the COVID-19 pandemic have already negatively impacted financial markets and have likely lowered the market value of PSR's donor restricted endowment, which was valued at \$36.7 million as of June 30, 2019.

Factors that should help assure PSR's continued compliance with CFR 3.4 include:

1. A plan to incrementally sell select non-core campus properties that are primarily residential in nature has a greater chance of success than previous plans that would have sold most of campus properties in one transaction and would have required municipal entitlements to complete.

2. A commitment by the Board of Trustees to repay unrestricted endowment funds borrowed (\$7.6 million as of June 3, 2019) from the sale of select non-core campus properties that are conservatively valued at \$20.0 million.
3. The conservative valuation (\$20.0 million) of the non-core campus properties to be sold provides sufficient capacity to repay funds borrowed from the unrestricted endowment (\$7.6 million as of June 3, 2019), to fund projected operating deficits of approximately \$8.0 million over the next five years, and to increase the value of the unrestricted endowment fund to help assure long-term financial sustainability.

B. Breakeven Operating Results

“Provide evidence of breakeven operating budget results (CFR 3.4)”

As noted in the previous section of this report, PSR had incurred operating deficits for eight consecutive fiscal years through June 30, 2019 and had funded those deficits through borrowing from its line of credit, borrowing from its unrestricted endowment funds, and through the use of proceeds from the sale of long-term assets (i.e. college properties). PSR’s institutional report addendum dated May 4, 2020 indicated that the school expects to incur an operating deficit in the current fiscal year ending June 30, 2020. The operating deficits are projected to continue for four more years through the fiscal year ending June 30, 2024 and that such deficits would be funded by the proceeds from the sale of additional campus properties. The addendum outlined six goals and measurable outcomes that will be used to establish accomplishment milestones of financial sustainability to reach by June 30, 2025, as well as the strategies being deployed to achieve these milestones.

The six goals and outcomes include:

1. Selling residential properties by June 30, 2022.

2. Repaying funds borrowed from unrestricted endowment by June 30, 2023.
3. Returning to a minimum enrollment in stackable curriculum programs of 70.0 FTE by June 30, 2023.
4. Having the Ignite Institute reach breakeven operating status by June 30, 2024, with operating surpluses thereafter.
5. Reaching breakeven operating status for the entire school by June 30, 2025.
6. Commencing planning for a capital campaign by June 30, 2025.

The strategies being deployed to meet the accomplishment milestones are detailed in the May 4, 2020 report addendum and are sequenced over three phases: short-term, mid-term, and long-term. The short-term phase covers the remainder of the current fiscal year ending June 30, 2020 (FY 2020) and its strategies reflect PSR reactions to the COVID-19 pandemic.

The short-term strategies being deployed entail moving all courses to distance education delivery, moving to remote workplace environments, and recruiting students more broadly to take advantage of distance education. The strategies also entail modifying operating budget assumptions for the fiscal year ahead (FY 2021) which include forgoing a planned 1.5% increase in tuition and fees, reducing auxiliary housing revenue by 25%, reducing gift revenue projections by 15%, and assuming a 20% reduction in endowment market values. Finally, the short-term strategies entail lowering projected sale values of campus properties by 5%, assuming that no real estate sales will take place during FY 2021, using proceeds from the recent \$4.5 million sale of an apartment building to underwrite the projected operating deficits for FY 2020 and FY 2021, using proceeds from a \$0.7 million Paycheck Protection Program loan to support FY 2020 operations, signing a 10-year lease with the College of Engineering at University of California Berkeley for a classroom building (Seeley G. Mudd Building) at \$35,000 per month with \$1.2

million in tenant improvements, signing a listing agreement with a real estate broker to lease the campus chapel and dining hall, delaying planned improvements to the school's main administration building (Holbrook Hall), increasing the existing line of credit from \$1.0 million to \$2.0 million, and making targeted reductions in operating expenses while maintaining funding for strategic investments in outreach and the development of new programs.

The mid-term phase covers the two fiscal years ending June 30, 2021 (FY 2021) and June 30, 2022 (FY 2022). The strategies being deployed entail selling remaining properties by June 30, 2022 and using the proceeds to underwrite operating deficits and to repay borrowings from unrestricted endowment. The strategies also entail increasing rental revenue from the expected lease of the chapel and dining hall, increasing tuition and fee revenue from new programs being developed and implemented by the new director of the Ignite Institute that were informed by a SWOT analysis, and increasing revenue from major donors, foundations, and congregational partners based on the implementation of a detailed and sequenced five-year development plan through FY 2025. Finally, the mid-term strategies entail the rollout of new marketing and social networking initiatives to take advantage of expanded student markets made possible through distance education, which are projected to increase student enrollment from a FY 2020 FTE of 78 (headcount of 98) to a FY 2025 FTE of 100 (headcount of 140).

The long-term phase covers the fiscal years ending June 30, 2023 (FY 2023) through June 30, 2025 (FY 2025). During this long-term phase, PSR expects to be harvesting investments in curriculum development, program innovation, and development enhancement. PSR therefore expects that its new stackable curriculum programs will achieve stable enrollment growth, that the Ignite Institute's programs will generate enough earned revenue to fully support itself and contribute to overhead costs, that gift and grant revenue will increase from \$1.0 million in FY

2020 to \$1.5 million in FY 2025, and that the silent phase of a capital campaign will be underway for the renovation of its main administrative building (Holbrook Hall).

Interviews with senior administrators, faculty leaders, member of the Board of Trustees, and members of the Property Task Force indicated that the impacts of the COVID-19 pandemic will likely delay the sequenced sale of select campus properties by one year. The interviews also indicate that the school could incur projected operating budget deficits of approximately \$8.0 million for the next five fiscal years that would be funded by the proceeds from the sale of select non-core campus properties. Finally, the interviews indicated that various efforts underway to grow and diversify operating revenues outlined previously in this section of the team's report are showing positive early results.

Although PSR has diligently developed and implemented a host of plans designed to achieve breakeven operating results, the team is concerned that the school will remain able to fully comply with CFR 3.4 in the future due to the following factors:

1. PSR has not had positive operating results since the fiscal year ended June 30, 2011.
2. It is not projected to achieve breakeven operating results until FY 2026 assuming that all strategic efforts are successful.
3. PSR plans to underwrite its continued operating deficits and repay its endowment borrowings through the sale of additional campus properties which, if not accomplished, could cause the school to secure additional sources of capital.
4. Its plans to use proceeds from the sale of long-term capital assets (i.e. campus properties) to fund operating deficits rather than build unrestricted endowment to help assure long-term financial sustainability.

Factors that should help assure PSR's continued compliance with CFR 3.4 include:

1. A viable plan to fund its projected operating deficits of approximately \$8.0 million and its accumulated operating deficits of \$8.2 million (as of June 30, 2019) through the sale of select non-core campus properties valued conservatively at \$20.0 million.
2. A sizeable restricted endowment (\$36.7 million as of June 30, 2019) that provided 30.6% of operating revenues in the fiscal year ended June 30, 2019.
3. A plan to rent, rather than sell, several of its core campus properties, which will provide additional and diversified operating budget support.
4. A consistent financial responsibility composite score of 2.2, which is well within the range of scores of 1.5 to 3.0 that the U.S. Department of Education utilizes to determine financially responsible institutions.

C. Operating Contingency Plan

“Provide an operational contingency plan to address the event of further operating budget deficits and/or delays in the sale of campus properties (CFR 3.4; 4.7)”

Three observations in the PSR Accreditation Visit Team Report of 2016 are relevant to the CFRs in Standard 4:

Reliable institutional data should prove to be a key factor in the successful development, implementation, and assessment of continuous planning efforts at PSR. The timely availability of accurate institutional research data and its analysis should also help assure the success of quality assurance processes as well as facilitate institutional learning and improvement efforts so that PSR can stay true to its institutional direction and realize its goals (CFR 4.1, 4.2, 4.3, and 4.4). (PSR Report 2016, p. 21)

When asked about PSR’s capacity to support innovative programming, the faculty acknowledged that there was a gap in the expertise to teach organizational leadership and non-profit management. Students with a business degree or prior corporate background were grateful for that previous experience because it offered practical skills to complement their learning at PSR. In the next stage of institutional development, PSR may be able to utilize the skills and experiences of its student population as it works to grow capacity to offer instruction in organizational leadership and non-profit management (CFR 4.3). (PSR Report 2016, p. 14).

Recommendation 2. Further develop and coordinate the institutional research capabilities at PSR to help assure data-informed planning and decision-making (CFR 4.1, 4.2, and 4.7). (PSR Report 2016, p. 24).

PSR has made progress in the area of institutional research, having brought in new staff persons in Enrollment, Admissions, and Marketing. Enrollment team described a process of “excavating” past reports to tag issues of student experience. At the time of the Special Visit, they shared excitement with the visit team about migrating from two separate forms of data collection into one, integrated platform that traces students from their first point of contact with PSR all the way through to the admissions. Though touted as one seamless process, the enrollment team deferred questions of retention to a different office.

Interviews with faculty leaders indicated high levels of satisfaction with the new stackable curriculum that ties together up to three stand-alone years to provide a different credential at each level. Though the curricular modification was urgent for students, who often must disrupt initial plans to complete a three year degree, the change has also benefitted faculty members, bringing all of their classes into a long arc of experience that clearly builds new skills and knowledge gained in preceding levels. Students receive a new certification at each level, so if their finances or life conditions prohibit continuing studies, they leave with certification of some kind. This modular approach to certification has lent coherence to the faculty experience as well, offering the opportunity to clearly distinguish among different parts of the curriculum.

PSR’s hopes for a broader reach and a wider revenue stream continue to be pinned on the Ignite Institute and the newly added “Professors of Practice” series. These innovations are intended to bring PSR’s core mission of providing spiritual tools for social transformation to a population much wider than those typically reached by graduate theological education. The vision for both programs is to combine theory and practice in ways that are immediately applicable to multiple

professional audiences. Ignite Institute has not yet achieved the numbers of students or dollars expected for the program. At the time of this visit, Ignite Institute was four weeks into its reboot under a new director with experience catalyzing action toward social good. The new director has trimmed the budget and is planning a series that will complement and feed into PSR's degree programs. Full time faculty are not clear about their role viz-a-vis the new programs and would benefit from clarity about mission fit of the new programs with PSR's degree programs as well as expectations for their participation.

SECTION III –COMMENDATIONS AND RECOMMENDATIONS FROM THE TEAM REVIEW

Commendations

The team finds that PSR is comprised of committed individuals who care deeply about their institution and its mission and who are working diligently in a well-organized manner to assure its future.

PSR is commended for its:

1. Recruitment of an experienced, entrepreneurial, and disciplined senior leadership team.
2. Engaged and committed Board of Trustees with a wide range of expertise and backgrounds.
3. Persistence and flexibility in pursuing multiple planning options for the monetization of campus properties, as well as development of guiding principles and the use of a Property Task Force, which includes real estate experts as well as internal stakeholders, to inform decision making.

4. Development of a stackable curriculum that responds to the changing landscape of graduate theological education and lends coherence to the student experience and faculty preparation.
5. Ability and willingness of faculty to convert courses to distance education and work remotely in response to the COVID-19 pandemic, and the vision to use new technological tools to nationalize PSR's reach.

Recommendations

Although PSR has worked tirelessly to address each of the three topics that were the focus of the special visit, the team finds that the school should:

1. Accelerate all strategic efforts planned or underway in order to achieve breakeven operations sooner than FY 2025 or FY 2026 as currently projected (CFR 3.4).
2. Designate all proceeds from the sale of campus properties that are not needed to underwrite deficit operations as unrestricted endowment to help assure long-term financial sustainability (CFR 3.4).
3. Finalize milestones to assess and modify strategic efforts as necessary due to changing environmental conditions, and align Board reporting with progress towards achievement of said milestones (CFRs 4.1, 4.3, 4.7).
4. Develop metrics to evaluate the effectiveness of the Ignite Institute as an alternative revenue stream and as a feeder program (CFRs 4.1, 4.3, 4.7).
5. Establish data tracking protocols for migration from participants at the Ignite Institute to certificate and/or degree programs (CFR 4.3).