A Position Paper on the Plight of The MIT Fraternities

A Study of Alpha Mu Chapter, Phi Kappa Sigma

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Table of Contents

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1. Introduction.

In this paper we provide a brief historical overview of fraternities at MIT, describe the financial operations of Alpha Mu Chapter of Phi Kappa Sigma, review the history of the ownership and upgrading of the 530 Beacon Street property, describe the financial operations of the Phi Kappa Sigma Alumni Corporation and the Phi Kappa Sigma house, review the new financial realities, describe our strategy for investing reserves, examine some options for the future, and make some recommendations for consideration by MIT.

This document was originally prepared by the directors of Phi Kappa Sigma's, Alpha Mu Chapter to detail the specific situations faced by our house as an illustration of the problems created in the Independent Living Groups (ILG's) when all first year undergraduates began living on campus. Since that time many financial estimates and projections have become fact. This revision reflects actual numbers in the financial analysis, Sections 11 through 17. We would encourage other ILG's to prepare similar reports.

Phi Kappa Sigma, like other fraternities at MIT, owns a multi-million dollar piece of property, which has been dedicated to serving MIT as student housing and as a means of teaching responsibility, leadership and tolerance to hundreds of MIT young men for 80 years–all at no cost to MIT. The future is notably uncertain for PKS and the other fraternities due to MIT's decisions and actions with regard to requiring MIT freshmen to live on campus, and through restrictions and stipulations inimical to a successful fraternity rush.

Phi Kappa Sigma is one of MIT's best fraternities by any measurement. It has a strong and active Board of Directors that are highly qualified and dedicated. The house has an outstanding group of brothers with diverse backgrounds and interests and with excellence in academics, sports and community affairs. The physical property of the house is a jewel, following a recent $1.7 million renovation, upgrade and expansion project funded in large part by the *Campaign for 530* in which 223 alumni provided gifts of $788K through MIT's Independent Residence Development Fund (IRDF) for the project.

For many years the active brothers and the alumni have worked together in a cooperative and collegial mode to manage this complex enterprise. We are now all deeply concerned that the era of fraternities at MIT may soon be over. MIT seems, if not by design then perhaps by benign neglect, to have put in place a process of bleeding the fraternities, sororities and independent living groups to death–slowly but surely. Our analysis provides some startling results and leads to an urgent call to action for MIT to be more supportive of these living groups if they indeed wish them to survive. Phi Kappa Sigma has adequate cash reserves to weather the storm MIT has created for perhaps three to five years. However, as prudent business managers our Board must begin to recognize the strong possibility that the house will have to be closed, the property sold, the proceeds moved to some other non-profit organization with the students moving to new, on-campus MIT housing. We hope this will not happen, but we have seen little evidence over the last few years that MIT has any other plans for the fraternities and sororities.

2. The General Problem.

Fraternities, sororities and all other independent living groups (ILG's) at MIT are under enormous political and financial pressure following the Institute's September 2002 implementation of housing all freshmen on campus. The 350 or so freshmen who would normally pledge and live in MIT Independent Living Groups are no longer allowed to do so. There will, therefore, be 350 empty beds and 350 fewer house bills to pay for the operations of these ILG's.

The financial assistance which MIT has indicated will be available to assist with the transition for the first year–$750,000–seems to be far less than what will be needed or what initially seemed to be proposed by MIT. In future years the problem rapidly becomes totally unmanageable as MIT reduces its financial support to zero at the end of the third year of transition.

3. The Political Problem

With MIT fraternities currently housing approximately one quarter of the undergraduate student body, and about half of all male undergrads, fraternities were obviously an accepted element of MIT housing. MIT clearly said so in material sent to incoming freshmen. But the actions over the past few years has communicated the opposite message. For the ILG system to continue, this course of action must be reversed.

The fraternities, sororities and ILG's are still in a state of shock and disbelief. MIT has suggested that each of the ILG's develop a long-term strategic plan describing how they plan to cope with the transition. We do not believe that the problems created by this transition can be solved by the ILG's without further major help from MIT. We sense that neither the ILG's nor MIT are devoting the time and/or the energy that will be required to fully understand and creatively solve the problem. We are hopeful that this document will help stimulate a more productive dialogue on the appropriate issues.

4. The General Financial Problem

The MIT News Office announced on February 27, 2002, that "$750,000 had been allocated for fraternities, sororities, and independent living groups to ease their transition into a new housing system in the fall." Later reports indicate that part of that allocated money was to be withheld by MIT for planning, etc.

MIT has also stated that each Independent Living Group would be reimbursed 80% of the fixed costs for empty beds during the first year, 2/3 of that amount for the 2nd year, 1/3 of that amount for the 3rd year and zero funds after that. The formula proposed for determining the number of "empty beds" for reimbursement is based on the average number of freshmen in each ILG over the last three years. The reimbursement would be 80% of the actual fixed costs for these empty beds at each ILG. Fixed costs per bed at Phi Kappa Sigma were projected at $4,600 per year in our first submission to MIT in the spring of 2002. However, that number can vary significantly depending on which costs we include, as described in detail later in this paper.

If we make some preliminary calculations of the cost for this transition based on the living costs in MIT dormitories we should be able to get some sense of the scale of the transition cost. MIT dormitory rent for 2001-02 ranged from $1,099–$2,098 per semester or $2,198–$4,196 per academic year. A 4.4% increase was projected for the 2002–03 dormitory rent costs which would raise the range to $2,295-$4,380 per academic year. If one used the midpoint of that range, $3,237, as a base for estimating the amount required for MIT by the ILG's at MIT, it is: (350 Freshmen) ($3,237 annual dormitory rent) (0.8) = $906,360. The arbitrary 0.8 factor was imposed by MIT in calculating the amount of reimbursements, and implies that the ILG's are partially at fault for the problem. Otherwise a 100% reimbursement would have been made.

The typical number of freshmen living in ILG's has been 350. If the ILG fixed cost per bed is at the upper end of the 2001-02 MIT dormitory housing cost, then the amount required for the first year would be (350 Freshmen) ($4,380 annual dormitory rent) (0.8) = $1,226,400.

The actual MIT rents for 2002-03 are $2,203 per term for West Campus (Baker, Burton, McCormack, Next, and Simmons). That amounts to dormitory rent on West campus of

(2 semesters) **x** ($2,203 per semester) = $4,406

per academic year. If the fixed cost reimbursement by MIT to the ILG's were based on that rent, the total lost ILG income would be

(350 beds) **x** ($4,406 per bed) = $1,542,100

and the amount to be paid to the ILG's for the first year would be

(350 beds) **x** ($4,406 per bed) **x** (0.8) = $1,233,680

Any of these numbers seems considerably larger than the original $750,000 which was allocated in some undefined manner and leaves the ILG's with something on the order of a $500K shortfall in the first year of transition, and a possible $1.5 million shortfall in the fourth year.

5. Fraternities at MIT—An Historical Perspective.

Fraternities at MIT have been an important and integral part of MIT's illustrious history and have played an important role in housing MIT students for over 100 years. Richard A. Knight '47, a former secretary of the MIT Alumni Association, prepared "A Brief Summary of the MIT Fraternity System," in April of 1982. That document is included herein as *Appendix A* and the following paragraphs are excerpted from that report.

Dean Samuel C. Prescott '94 in his early history of MIT, "When MIT was Boston Tech" says of the early fraternity system (p. 144) "The first fraternity, Sigma Chi was founded in March 1882. Within three years Theta XI and Alpha Tau Omega were chartered (1885). The club known as The No. 6 Club from its house at 6 Louisburg Square soon became a chapter of Delta Psi and within the next six years Boston Tech had chapters in Phi Gamma Delta, Delta Tau Delta, Delta Kappa Epsilon, Chi Phi, Delta Upsilon, and a local Phi Beta Epsilon which has maintained its independent status for over sixty years. The fraternities, … were extremely useful in providing living quarters for congenial groups of men in limited numbers, but in the [eighteen] eighties and nineties they comprised only a very small part of the student body."

By 1886, the first year that the Technique was produced, there were still only three fraternities with 39 actives, out of a total student body of 302. However, by 1900 the number had grown to eight fraternities and the number of actives had increased to 234, not quite 20% of the student body. Within the next 15 years the fraternity system had more then doubled to 20 fraternities with 481 actives, about one-third of the 1915-student body of 1685.

As the student body grew, the fraternity system continued to meet the needs of about 30% of the undergraduates. Run as private enterprises and managed by active brothers with assistance from alumni house corporations, they had none of the tax advantages of a non-profit institution and yet they provided a very efficient cost effective option to dormitory living.

The Knight Report also provides a brief history of the founding of the Independent Residence Development Fund (IRDF) in 1964 which was created by MIT to provide low-interest loans to the Independent Living Groups.

The Knight report points out that for about eighty years, about 30% of MIT undergraduates experienced MIT through the fraternity system. Out of this pool the Institute had derived an even higher percentage of leadership. At the time he prepared the report, all three alumni Presidents of the Institute were affiliated with fraternities. Twelve of the then 22 living past and current presidents of the Alumni Association came from the fraternity system and 38 of the then 76 alumni members of the Corporation participated in the fraternity system.

Alpha Mu Chapter of Phi Kappa Sigma fraternity has been an integral part of that illustrious past and will be celebrating its 100-year anniversary at MIT in October of 2003. Phi Kaps have been prominent at MIT in many ways over the years. Three members of the current MIT Corporation—James A. Champy '63, Paul M Cook '47, and Glen V. Dorflinger '46—are Phi Kaps. Harold E. Lobdell '17 was the first MIT Dean of Students and the dining hall at the MIT Student Center is named in his honor. Philip A. Stoddard '40 was an MIT Vice President for many years, responsible for MIT's operations, and Thomas Creamer '40 was an advisor to the MIT President. More recently, Mr. Robert P. Greene '55 was founding Associate Director of The MIT Media Laboratory, Dr. Frederic E. Morganthaler '55 was a Professor of Electrical Engineering, and Dr. Bruce D. Wedlock '56 was Director of MIT's Lowell Institute School.

6. The Bigger Problem.

Fraternities and sororities and other independent living groups at MIT provide far more than a place for students to live. Each fraternity, sorority, and living group is part of an individual teaching institution that includes upper and lower classmen, alumni, a responsible alumni corporation and possibly a national chapter, all working together to develop, implement and follow shared goals. MIT had allowed these groups to manage multi-million dollar facilities with virtually no direct financial assistance or supervision, and with the exception of a few glaring incidents, the system flourished.

In recent years MIT seems to have lost track of the important educational experience living in a fraternity or other ILG's contributes to a student's development. It is no accident that these graduates contribute so strongly to the leadership pool. Life in a fraternity is a complex lesson in the laboratory of life, one that is not found in dormitory living. The active brothers are forced to learn how to deal with issues of maintaining a livable facility, balance income and expenses, deal with non-payment of bills by brothers, hire and fire employees, interact with local government, and other real-life experiences. This quickly prepares them to better face the reality of life beyond the sheltered campus environment.

With freshmen now required to live on campus, the potential time frame for training the leaders of the ILG's, an on-the-job experience, is reduced by a year. So less experienced students will be required to manage the ILG's. This can not be considered an improvement; it will lead to management decisions with less background to draw upon.

The question of diversity and sense of community are frequently-mentioned desires by the MIT administration. There seems to be a feeling that these qualities are more probable in the dormitory setting than in an ILG, when actually the opposite is true. With the quick initial rush, fraternities didn't have time to explore an individual's characteristics in detail. Rather, men of diverse backgrounds, racial, ethnic and cultural, were committed to living together in harmony. All had to make adjustments to achieve this goal. In the dormitory setting, individuals gravitate to members of similar characteristics, defeating the goal of diversity. Taken as a whole, a large dormitory may appear to have a diverse population, but what really matters is how well that diversity is commingled. Thirty-five individuals within a house must learn to cooperate; there is no opportunity to avoid being part of the whole.

In evaluating MIT's decision process one must also keep in mind the changing character of the faculty. Diversity here has significantly diluted the number of MIT alumni on the faculty. In turn this means that far fewer faculty have any understanding of or interest in the MIT fraternity system, and may believe it is mirrored on campuses where they studied. MIT was unique, and few, if any, who did not experience it can understand it. With the pressure on younger faculty for research performance, they are rarely found visiting a fraternity for dinner today; a common event in the past. The fraternities must also share some blame for not working to improve the faculty's understanding of ILG's, as they are now also "too busy" to try and organize a faculty dinner. In sum, one needs to take the faculty's approval of "freshmen on campus" with a grain of salt. Finally, President Vest himself came to office with no knowledge of MIT's traditions under his belt.

7. The Alpha Mu Businesses.

Alpha Mu Chapter of Phi Kappa Sigma at MIT operates as two essentially independent, but closely interconnected businesses. The active brothers operate the Chapter House as a small cooperative residence, renting the space, contracting for utilities and services, paying for food and entertainment, performing minor maintenance and collecting house rent from the brothers. The alumni own the house through a corporation and trust which is responsible for the real estate taxes, insurances, major renovations and major maintenance. The corporation collects rent from the house to cover these costs.

In the best of all possible business worlds, each member of the house would be paying rent to the corporation that is roughly equal to or slightly less then the rent that an MIT student would pay to live in an MIT dormitory, and that collective rent would cover all corporation expenses for the house, including a reserve for depreciation.

8. The Evolving Organizational Structure of the Alumni Ownership of the Property.

The house at 530 Beacon Street was purchased in 1922 by a trust newly established for that purpose with Alpha Mu Alumni as trustees. Around 1990 a non-profit corporation was formed, The Alumni Association of Alpha Mu Chapter of Phi Kappa Sigma Fraternity, to organize and define the officers, membership and responsibilities of operating the property as well as providing some legal isolation for these volunteers. The trust was retained as the title-holder of the property, but is required to follow the instructions of the corporation regarding the encumbering or disposition of the property.

On the afternoon of Founders' Day in October of each year (or some later date) there is an annual meeting of the corporation to elect directors and officers. According to the bylaws, all dues-paying alumni are voting members, and the active brothers are non-voting members.

At present we are considering a possible change such that the trustees of will no longer be individuals, but rather the trust will be a limited-liability corporation (LLC) with PKS alumni as managers of the LLC. The trust will remain the property-holding entity, and its relationship to the corporation will be the same. This is being considered in order to put the individual trustees a bit more remote from public liability.

9. The History of the Property at 530 Beacon Street.

The Alpha Mu Chapter House of Phi Kappa Sigma at 530 Beacon Street was designed in the Federalist style by architect George A. Avery and built as a family residence for Charles H. Traiser in 1908. The cost was less than $10,000.

In 1922 Traiser sold the house to the fraternity's trust for $47,000. To finance this purchase, the chapter took our three mortgages: $17,000 from MIT; $12,000 from the State Street Trust Company, and $8,000 from the Traisers – all at 6% interest. Over the next seventy-five years, those mortgages were paid, the house was maintained and kept under repair, major and minor improvements were made to the property, and the Alumni Corporation built up a cash reserve of about $200,000.

Major maintenance projects over the past 20 years or so included a major electrical upgrade and major interior renovations (about $90K), two roofs and a replacement skylight (about $25K), a new boiler (about $10K), a new bathroom (about $35K), a fire escape addition and restructuring (about $10K), and reinforcing and rebuilding the back wall ($35K).

In 1995 a major project to gut, rehab, renovate, and expand the house was proposed. Three plans were considered and the plan to gut, rehab, and add one level was selected by the house and the corporation as being the most practical and affordable at a cost of $1.7 million. MIT's IRDF agreed to loan the corporation $1.1 million dollars from the Independent Residences Development Fund (IRDF) for the project.

The corporation also retained outside council to work with MIT to create the basis for MIT expanding the charter of the IRDF to allow that organization to make grants for the educational share of capital projects at MIT's Independent Residences. Phi Kappa Sigma launched a major capital campaign among its alumni, through the MIT IRDF, and when the three-year campaign was completed we had received pledges of $809,108 from 223 generous alumni. $787,846–or 97 percent of the amount pledged had been collected at the end of the three-year pledge payment period.

A detailed analysis of the share of the total project costs that qualified as academic or handicapped access costs led to the corporation submitting and MIT's IRDF approving a grant request of up to $794,711. All payments have been made from MIT to the corporation and the grant is now closed.

The upgraded and expanded Chapter House at 530 Beacon Street was dedicated on October 10, 1998 as part of the chapter's Founders Day celebration with a large gathering in the Lobdell Dining Hall.

10. The Current Status of the Property at 530 Beacon Street.

The property at 530 Beacon Street is presently one of the finest physical plants of all of MIT's fraternities, following its recent $1.7 million gut, rehab, and expansion. All of the building systems have been upgraded, all of the final punch list items have been completed and the brothers finally have a virtually new house with pleasant and functional living arrangements.

This property has a current value, estimated by several realtors, in the range of $3.5 million and is currently assessed by the City of Boston at a value of $1.6 million. If that property were to be combined with the three other contiguous MIT fraternities on Beacon Street as a package, it might be much more valuable. That combined property would be ideal for Boston University housing and certainly could be considered by MIT for graduate student housing. None of the houses in that group presently has any interest in selling and/or moving to Cambridge, but they all might consider doing so if MIT had a viable plan for housing fraternities at a reasonable Cambridge location and at some reasonable cost. We suggested a group be formed with a professional facilitator and a team from MIT to explore a long-range plan for moving fraternities to a smaller houses on campus. We learned that MIT had abandoned such a study, with no committee minutes available or conclusions reached. We were told that MIT was not yet ready to fund any long-term planning activities.

The corporation has a first mortgage with MIT's Independent Residences Development Fund (IRDF) of $1.1 million dollars at 3% interest, payable over a period of 27 years. The corporation has no other outstanding liabilities.

11. All-Inclusive Operating Expenses of the Corporation

The corporation is responsible for the annual major financial obligations incurred by owning the property as projected below, with more detailed explanations given for these expense categories as of academic year 2002.

(a)	MIT Mortgage Payment ($1.1M 3%, 27 Yrs.)	$ 59,652
(b)	Insurance (Liability and Property)	18,500
(c)	Real Estate Taxes	18,000
(d)	General Repairs	34,000
(e)	Depreciation $1.0 Million over 40 years	25,000
(f)	General Administrative Expenses	2,500
(g)	Alumni Relations–Mailings and Database	6,000
	Total	$ 163,652

(a) Mortgage–Principal and interest payments to MIT's IRDF on the $1.1 million, 3%, 27-year mortgage represents the largest single expense of $59,652 per year.

(b) Insurance–The corporation purchases $10M liability and property insurance through MIT at favorable rates. PKS National requires us to pay an additional $2K to them for their coverage.

(c) Real Estate Taxes–Real estate taxes to the City of Boston were $17,439.84 for last year.

(d) General Repairs–It is difficult to estimate general repairs since we have little experience with the "new" house. One would expect the initial general maintenance and repair costs to be minimal. However, our experience with the "old" house taught us that there was always something that needed to be fixed and/or replaced. We are presently facing a replacement of the hot water tank ($10,693) plus some major bathroom repairs, which under our agreement with the house, is a capital expense responsibility of the corporation.

It therefore seems prudent to provide for general repairs as a percentage of the property's renovation cost:
1.0% of the 1.7M cost would be $ 17,000.
2.0% of the 1.7M cost would be $ 34,000.

Two percent, or $34,000, is an industry standard that seems most reasonable, but there is no way this amount could be passed through to the brothers as rent and we, therefore, are budgeting, for rent purposes, on the basis of 1.0% or $17,000 of building value per year with the understanding that we plan to draw down cash reserves for any major expense. It should be noted that the difference between 1% and 2% is roughly the same as the annual real estate tax, an expense that ILG's must shoulder but MIT does not have with their dormitory facilities. Just one of the financial disadvantages we face and must rely on alumni to cover.

(e) Depreciation–There is simply no way that this very real expense can be passed through to the actives and we are planning to allocate part of our cash reserve for essentially this same purpose.

(f) General Administrative Expenses–These represent the administrative costs of operating the Alumni Corporation.

(g) Alumni Relations–Mailings and Database–This represents the cost of professional management of our alumni newsletter and database, which is approximately offset by an income stream from alumni in the form of annual dues.

NOTE: MIT disallowed expenses for depreciation, general and administrative and alumni relations for all houses in calculating the financial transition support and limited general repairs to the 2001-02 actual amount, greatly reducing the subsidy amount Phi Kappa Sigma expected in the original report.

12. Corporation Operating Costs for the Rent Base.

The corporation's estimated operating expenses for 2002-03 which are included in establishing our rent fee for the actives are therefore

(a)	MIT Mortgage Payment	$ 59,652
(b)	Insurance–Liability and Property	18,500
(c)	Real Estate Taxes	18,000
(d)	General Repairs	17,000
(e)	General Administrative Expenses	2,500
	Total	$115,652

which we will round upward to $116,000 for calculation purposes.

13. Corporation Management of Cash Reserves

As indicated earlier, the recent *Campaign for 530* was a resounding success. Our initial planned fundraising target was around $300,000; we increased that target to $530,000 as the campaign went public, and we ultimately collected $788,000. This has left the corporation with cash reserves in the order of $400,000 which will serve us well as we move through this critical transition. We are dividing these funds into two funds of approximately $200,000 each, managing them as described below:

(a) The Depreciation Fund–$200,000 of these reserves are being placed in a managed Fidelity Fund account with Weber Asset Management, 1983 Marcus Avenue #221, Lake Success, NY 11042. Mr. Kenneth Weber will manage these funds for us in a portfolio with a mix of Fidelity Mutual Funds that will seek to maintain a risk level approximately 50% less than that of the Standard and Poor 500 Index. The plan is outlined in his proposal of March 9, 2002, which is attached as *Appendix B*. Over the next 40 years we would expect to see that fund grow to something approaching the following:

$200K for 40 years at 5% = $1,408,000
$200K for 40 years at 6% = $2,057,140
$200K for 40 years at 7% = $2,994,891
$200K for 40 years at 8% = $4,344,904

(b) The Sinking Fund for Subsidizing House Operations–The remaining $200,000 will be directly invested in a conservative Fidelity Fund, presently the Fidelity Spartan Massaachusetts Municipal Income Fund, which has the following total returns as of the end of March 2003:

5 year Return	3 year Return	One Year Return	One Month Return	2003 Year-to-Date Return
5.85%	8.17%	10.17%	3.52%	1.94%

If we project an average, long-term 5% annual rate of return, investment income of $10,000 will be available each year to subsidize the operating costs of the corporation. If a larger subsidy is required for any reasonable purpose or a lower return is realized, we will be compelled to draw down reserves to meet that subsidy.

14. Financial Operations of the House

Rent, which we have discussed in Sections 11 and 12 is imposed upon the house by the corporation. The house itself has complete control of its other fixed and variable expenses which are organized on their books around the duties of the house officers that are responsible for managing their respective budgets and cost. The annual fixed costs include:

(a)	Chef–Part-time wages including all taxes and fees	$14,000
(b)	House and Grounds–Includes all minor maintenance, repairs and all workweek expenses	8,500
(c)	Utilities–The nine month cost of all utilities including water, sewer, garbage collection, electricity, gas, steam and basic telephone. Note–summer utilities are paid from summer rent.	27,000
(d)	Rush Expenses– Rush expenses were not originally included in MIT's list of fixed costs. Rush will be a much larger time and financial expense under the new rush rules and there are fewer brothers to share that expense. We consider "rush" the fraternity's advertising and recruiting expense and strongly believe that it should be considered as a "fixed" expense.	26,000
	Total	$75,500

NOTE: MIT disallowed ALL Rush Expenses for all houses in calculating the financial transition support, greatly reducing the subsidy amount Phi Kappa Sigma expected in the original report.

Variable costs include food, personal telephone calls, social fees and local and national dues.

15. Resident Numbers for 530 Beacon Street

Prior to the major rehab and expansion completed for the 1998-99 academic year, the Chapter House at 530 Beacon Street had housed about 34 brothers each year for many years. The original renovation plan was to increase the house population to 44 with the new addition. After the brothers began to settle into the new house arrangement, it became clear that a population of 44 was too high. The brothers and the corporation settled on 40 as being the ideal number of residents. That number was subsequently reduced to 38 brothers and one resident advisor (taking two spaces in a private room). We have all come to agree that 40 brothers or 38 brothers plus one resident advisor is the current house capacity.

16. Phi Kappa Sigma Rent and Fixed Costs

Each Independent Living Group was asked last fall by MIT to submit their operating costs in several specific categories. That was no easy task for Phi Kappa Sigma since we were moving towards higher operating costs with the new mortgage and an increased number of potential occupants with the expended house. The proposed MIT "Financial Transition" instructions are attached as *Appendix C* and the "MIT FSLG Fall 2001 Breakdown" form is attached as *Appendix D*.

The requested Phi Kappa Sigma numbers as submitted for the Fall of 2001 were as follows:

Semester Costs–Fall 2001 breakdown per semester per person

(a)	Rent and Fixed Costs	$ 2,300
(b)	Board (food)	1,200
(c)	Local Dues	0
(d)	National Fees/Dues	65
(e)	Social Fees	600
(f)	Alumni House Insurance (Included in rent)	0
(g)	Other – Rush	450
	Total Per Person per Semester	$ 4,615

As we began to look forward to the 2002-03 academic year, the corporation elected to subsidize the "rent" difference between the $164K in the All-Inclusive Operating Expenses of the Corporation (Section 11) and the $116K Corporation Operating Cost for the Rent Base (Section 12)–a subsidy of $48K.

Rent and fixed cost for Phi Kappa Sigma for 2002-03 , on the basis of 40 residents would therefore be

Rent (from Sec. 12) $116K/40	$ 2,900 per academic year
Fixed Expenses (from Sec. 14) $75.5K/40	$ 1,890 per academic year
Total	$ 4,790
Round to	$ 4,800

The difference for our 2002-03 academic year projections between the Phi Kappa Sigma rent and fixed cost per resident of $4,800 and the MIT west campus dormitory rent of $4,406 per resident amounts to about $400 per resident. Interestingly enough, that extra sum that the 40 brothers at 530 Beacon Street would be paying over the dorm rate amounts to $16K which could go a long way towards covering the $18K of taxes levied on our real estate.

17. The New Reality for Phi Kappa Sigma

President Vest's letter of August 25, 1998 declaring that all freshmen must live on campus beginning with the Fall of 2001 destroyed all earlier plans for filling the newly expanded house with brothers. The Vest plan was delayed to September 2002 because of construction delays at the new dormitory–Simmons Hall– and the Fall of 2002 will be the first year that all of MIT's Independent Living Groups have to deal with the occupancy shortfall created by no freshmen pledge class.

Phi Kappa Sigma graduated six seniors in June of 2002 and began the fall term with twenty-nine brothers, one resident advisor (occupying two spaces) and nine empty beds. A full complement of 40 brothers, each paying rent to the corporation of $2,900 per year in the 2002-03 year would have produced the $116,000 required to meet the corporation expenses; with no incoming pledge class for 2002 living in the house, we are denied these nine brothers and their fixed cost income contribution. However, in balancing the rental cost against a realistic house bill relative to other MIT housing options, the corporation elected to hold the per person rent at $2,700 for 2002-03.

MIT has agreed to cushion the transition costs by partially subsidizing the ILG's over the first three years of the transition for some of their lost rent and fixed costs. The February 27, 2002 MIT faculty meeting reported that, "The preliminary plan calls for FSILGs to receive a decreasing reimbursement starting at 80 percent of the fixed facility cost for each empty bed.. The payment for 2002-03 was based on the average number of freshmen in the facility from 1999 to 2002 and will be reduced by one third in each of the next two years. The Institute would also pay half of the fixed facility cost for fifth-year students at FSILGs."

Freshman occupancy at Phi Kappa Sigma over the last three years is

Year	Freshman in House
1999-2000	9
2000-2001	10
2001-2002	10
Total	29

This represents an average of 9.67 rounded to 10 freshmen per year. No fifth year students were expected to live in the house during the 2002-03 academic year. However, because of our expansion of living space, the final number of empty beds was set at 6.5 by MIT for 2002-03, and the MIT subsidy was set at $13,640 for the fall 2002 term. Some of this money goes directly to the house; the annual estimate of the corporation's share is about $18,750.

Rent to the Corporation

We need to examine the impact of these numbers on both the house and the corporation. Consequently, the total rental income to the corporation at an academic year rent of $2,700 per person would be

(a)	29 Brothers @ 2,700 each	$ 78,300
(b)	MIT Empty Bed Subsidy	18,750
(c)	MIT rent payment for resident advisor	2,700
	Total	$ 99,750

Since corporation operating expenses are expected to be $116,000, the rent difference of $16,250 will have to be covered from corporation reserves.

To accurately compare the annual rent paid by the Phi Kappa Sigma brothers with the rent charged by MIT for a dormitory room, one needs to understand that the rent paid to the Corporation is only part of the picture. House operating expenses for Upkeep and Grounds, Utilities and possibly Rush (Sec. 14) need to be added to the amounts (a) and (c) in the above list. This totals $142,500 which for 30 residents (including the resident advisor) amounts to an annual per person rent of $4,750, not far from the $4,406 MIT presently is charging. (Sec. 4). It should be noted that MIT will only reimburse for one bed, although the resident advisor is required to have a private room, which is a two-bed space.

The impact on our reserves for the next four years of the declining MIT rent subsidy are estimated below. Note that in this estimate we are holding the number of actives at 29, and the per-person rent at $2,700 each year. An increase of brothers living in the house would reduce the amount of required reserve expenditure.

Year	MIT Rent Subsidy	PKS Reserves Required
2002-03	$ 18,750	$ 16,250
2003-04	12,500	22,500
2004-05	6,250	28,750
2005-06	0	35,000

Fixed Costs to the House

The house will receive the following fixed cost income towards total annual operating costs

(a)	29 Brothers @ 1,890 each	$ 54,810
(b)	MIT Empty Bed Subsidy	8,530
(c)	MIT Resident Advisor (food)	1,070
	Total	$ 64,410

Against an total annual cost of $75,500, that leads to a similar situation which will require subsidization by the corporation as follows

Year	MIT Fixed Cost Subsidy	PKS Reserves Required
2002-03	$ 8,530	$ 11,090
2003-04	5,687	13,933
2004-05	2,844	16,776
2005-06	0	19,620

So in the 4th year the corporation will have to provide about $20K to subsidize house operations plus $35K to subsidize the rent: a total of $55K. Phi Kappa Sigma will be able to withstand this drain for maybe four years because of its large reserves. Other houses will not be so fortunate. In summary, the total amounts of the MIT subsidy and the drain on the Phi Kappa Sigma reserve fund over the next four academic years will be

Year	MIT Total Subsidy	PKS Reserves
2002-03	$ 27,280	$ 27,340
2003-04	18,187	36,433
2004-05	9,094	45,526
2005-06	0	54,620

Note: The projected steady-state drain on reserves does not provide the complete picture of Phi Kappa Sigma's financial situation. As explained in Sections 11 and 12, there is an annual depreciation of $25,000 and an annual repair expense estimated at $17,000 which MIT refused to include in the "bed cost" but are a very real component of the long-term operation of the house.

There is potential investment income generated by our reserves, perhaps $20,000 annually, plus the summer rental of the house which will offset the total deficit. However, it appears there will be an annual cash flow deficit of some $25,000 which will have to come from reserves, annual alumni giving or possibly from the creation of a half-million dollar endowment fund.

18. What are the Options?

There is no easy solution to the problem described above. We believe that each Independent Living Group is expecting that the problem will be solved by *other* houses being closed for legal or financial reasons, and that their particular house will continue to be viable. Or that MIT will magically change its collective mind and go back to the old system. The options which we have considered are

(a) **Increase the Overall Share of Male Pledges** MIT has typically pledged a larger percentage of incoming freshmen than is typical of most universities. The Phi Kappa Sigma national experience is that ten percent or less of male students join fraternities. We have seen other estimates that suggest the number might be as high as 13%. The following statistics for MIT paint a dramatically different picture for our campus.

Year	Number of Freshmen Males	Number Pledged*	% of Males
1994	680	330	49
1995	647	386	60
1996	680 est	376	55
1997	680 est	362	53
1998	596	316	46
1999	500	363*	< 60
2000	586	314*	< 53
2001	604	332	53
	Average 621	Average 345	Average 53
2002	563	276	49

* Some of these numbers may include sorority pledges, but we can't tell at this point. If so, the percentage of males would drop, possibly by 5%.

The major drop in number pledged in 1998 may reflect a transient due to the Krueger incident. However, the number pledged in 2002 is 10% lower than would be explained by applying the averages of the previous eight years to the 10% reduction in freshmen males. Freshmen on campus clearly has produced a measurable decrease in fraternity membership.

Using 2001 as an example in order to maintain house populations to pay the bills, those 332 pledges would need to increase to (4/3) **x** 332 = 442 or ~71% of the males in the Class of 2007. Expecting that number of pledges moving into fraternities in the fall of 2003 is totally unrealistic! In the fall of 2002 only 276 men pledged fraternities at MIT, and that is only 62% of the 442 required to fill all fraternity beds in 2003. It is therefore clear that MIT's subsidy plan is not designed to maintain the present number of ILG's. Rather it will eventually result in a reduction of their number on the order of one-third.

(b) **Increase the Pledge Pool by Opening Some Fraternities to MIT Women** We are not aware of any fraternity at MIT considering such a change. It would put the fraternities in direct competition with the sororities for the same potential pool of women candidates and it is unlikely to increase the pool of women interested in joining an Independent Living Group. With regard to fraternities with national affiliations (the large majority), their national charter most probably limits membership to males.

(c) **House 5th Year MIT Phi Kappa Sigma Graduate Students** Phi Kappa Sigma has no such 5th year graduate students planned for the Fall of 2002. There may be one or two such graduate students in future years, but that is likely to represent only a small contribution–perhaps one or possibly two men–toward fixing the overall problem. Few of our seniors go on to graduate school, and those who do prefer more private rooming arrangements.

(d) **House Non-Affiliated Graduate Students and/or Miscellaneous MIT Affiliated Visitors** Phi Kappa Sigma has no interest in housing non-affiliated MIT graduate students and/or miscellaneous MIT affiliated visitors because they believe doing so would seriously alter the character of the house.

(e) **House non-MIT Affiliated Individuals** We believe the house is prohibited by the City of Boston and by MIT from allowing non-MIT affiliated people from living in the house. This arrangement would substantially increase liability issues, and it makes no sense to do so.

(f) **Realistic Numbers** If the brothers and the corporation work very hard, and a few more fraternities self-destruct and/or go bankrupt, perhaps over time we could reduce those ten empty beds to maybe five empty beds. This might reduce the annual subsidy required by possibly one-half ,or $20,000 per year, which has to come from Phi Kappa Sigma Alumni on a continuing basis. It seems unreasonable for PKS and other MIT alumni to continue making large, taxable donations on a continuing basis to balance the books of the Independent Living Groups given the scale of the need. Again, our annual shortfall is about equivalent to the Boston property tax bill. Might MIT consider reimbursing ILG's for their property tax in payment for providing beds?

(g) **Downsizing Houses** Houses cannot downsize in inhabitants to accommodate the lower student resident population without increasing overhead. They could sell their existing properties and move to smaller houses on the MIT campus, and that may indeed be part of the long-term, viable solution to the problem.

(h) **Another Option–Freshmen in Independent Living Groups for the 2nd half of the Freshmen Year** We understand that MIT considered and rejected a plan that would allow MIT freshmen to move into Independent Living Group Housing after their first semester on campus. This plan has the appeal of both alleviating the shortage of students in ILG housing and reducing the over-crowding in MIT housing. Is there any possibility of reconsidering this plan?

(i) **Tax Exempt Contributions**–Phi Kappa Sigma, with the knowledge and support of MIT, has retained outside council to explore the possibility of MIT's IRDF making grants for the educational portion of FSILG operating costs. If possible, this would permit the use of tax-deductible contributions to the IRDF for fraternity operation grants based on proposals and availability of funds.

19. Leveling the Playing Field

When freshmen arrived on campus before classes started to take part in orientation followed by fraternity rush week, they were informed about MIT fraternities from material sent to them by the individual fraternities and later by a single composite collection of material from all fraternities that was sent by MIT.

There was also the opportunity for summer rush contacts and gatherings initiated by the fraternities, so that the freshmen had some advance idea of what fraternity life was like and with whom they might be associated. This was enabled because MIT released the names and address of incoming freshmen in the spring, and summer rush often yielded one half or more of the pledges for some of the individual houses.

While it is unrealistic to expect a return to the status embraced by the Knight Report (*Appendix A*), some actions must be taken to level the playing field on which the ILG's and the dormitories compete for members. With freshmen now all living in a dorm, we face the following disadvantages which did not exist when both groups recruited with the same starting gun.

1. Freshmen arrive on campus already assigned a dorm room and commence creating close associations in the dorms.
2. Delayed rush until after classes start, generating
   (a) An opportunity for dorm upper classmen to rush the freshmen before fraternity rush starts.
   (b) A situation where any rush activity impinges on study and/or class time of both freshmen and upper classmen.
3. The requirement for all freshmen to live on campus for the freshmen year ensures further freshmen incorporation into the dormitory environment, where their daily associates live, and the dorm rush continues.

20. Conclusions

The demise of perhaps one-third or more of the fraternities, sororities and independent living groups will not happen without great distress and pain to students, alumni, faculty, and officers of MIT. Fraternity alumni are a powerful group and they are already most unhappy with what they have been hearing. When they begin to comprehend the complete scale of the transition as it unfolds, they will be even unhappier and will be heard–loudly and clearly. We believe MIT needs to put together a high-level working group that can examine the financial status of each ILG and help many of them to phase down and out. We believe that large cash reserves and/or major alumni fundraising drives will be required in order for the remaining groups to survive, and that most of them have not yet begun to plan for this.

Many of the fraternity actives and alumni are already beginning to act as if MIT is indeed the enemy rather than their partner. They seem to be getting more hypersensitive with each passing day. We, for example, met recently with one senior alumnus whose fraternity house has a proposal before the IRDF for a capital loan. He is convinced that MIT is holding up action on this loan request because MIT is trying to close down all fraternities and taking no action on his fraternity's loan request as one way to help do so.

Other alumni have told us that the housing affiliations have been omitted from the MIT Alumni Directory for the first time in the latest directory because MIT wants to eliminate the fraternity affiliation as it continues to downplay and downgrade fraternities.

There was also a rumor circulating that the 2002-03 bulletin will no longer indicate that MIT is supportive of students living in fraternities because the MIT lawyers pulled the supportive language that has been there for many years. A recent e-mail query to David N. Rogers, Assistant Dean and Director of Fraternities, Sororities, and Living Groups, shed no light as to what actually happened.

Several representatives of Phi Kappa Sigma presented an abbreviated version of this report to Chancellor Clay and were told that it should be helpful to fraternities in planning their strategy. Indeed!

We have researched these allegations and learned that MIT action on the capital loan is delayed because the planned space allocations between academic and residential spaces are not sufficiently defined to pass IRS review. We also learned that the housing affiliations have been omitted from the last five MIT alumni directories–all the way back to 1967. This has been done for two reasons–lack of accurate historical data and the size of the growing graduate student only population. We are waiting to see the new Bulletin. And we are hopeful that Chancellor Clay will decide to initiate some action that goes beyond passing it back to the ILG's.

The fall of 2002 may indeed begin a long and painful process that closes all of MIT's fraternities, sororities, and independent living groups over the next ten years or so and dumps the approximate 1050 undergraduates still in these ILG's on MIT's doorstep looking for housing. We understand that Simmons Hall was roughly a $35 million dormitory for 350 students. Three more of those might be needed to house all undergraduates on campus in MIT housing. Is that what MIT wants? Many alumni think so. MIT fraternity alumni have been generous financial supporters of MIT for many years. The principal benefactor of Simmons Hall was Dick Simmons '53 of Delta Upsilon with a gift of $30 million. It seems unlikely that fraternity alumni will continue such support if their house fails financially.

If this is not MIT's plan, then they must develop a "strategic" plan to deal with this problem. The numbers presented here don't lie; they paint a clear but dismal picture for the future of ILG's. For the past two years the MIT staff support of ILG's has been a revolving door of candidates who seek new jobs before they learn this one. In short we appear to have no friend in court to plead our cases. In the past five years MIT has done nothing to positively support ILG's to the incoming students and their parents.

NOTE: As this is written plans for a "Blue Ribbon Committee" to study the issues facing independent living groups have been announced. We offer our full assistance and wish them much success.

However, MIT has also begun implementation of a mandatory $200 per term fee for dormitory meals accompanied by a 50% discount on meals purchased in the dormitory dining halls. This will have a negative financial impact on freshmen pledges who choose to take meals in their house, thereby discouraging a pledge's fraternal association gained by eating at his house.

21. Recommendations

The future has become very uncertain for Phi Kappa Sigma and for all of the fraternities, sororities and independent living groups at MIT. MIT must decide if it wants to support or close the fraternities and make that position unequivocally clear. We call upon MIT to enter into an active, bilateral dialog with each fraternity, sorority and independent living group. By actively addressing the situation of each ILG and the ILG's as a whole, MIT will produce a managed, orderly progression towards MIT's campus of the future. Failure to do so by staying the present course will produce unnecessary hardship for MIT's students and alumni and would discard decades of accumulated good will.

1. **MIT must declare its support for the fraternity system soon, often, strongly, and from the highest levels. Actions that might be taken over the next few months might include:**

   (a) A resolution by the MIT Corporation strongly supporting the fraternity system at MIT and indicating that the actions which MIT has already taken insure that the earlier problems have been resolved and are under control.

   (b) A strong written statement by President Vest indicating that MIT will take whatever steps are needed to insure that most of the present fraternities at MIT will survive and flourish.

   (c) President Vest needs to deliver that message directly to MIT's Academic Council and the faculty.

   (d) President Vest needs to deliver that same message this summer to MIT's incoming freshman class of 2006 and their parents, and to the media.

2. **MIT needs to take many actions that reinforce their commitment to the ILG's–words are not enough. Here are some actions that might be considered.**

   (a) Appoint a senior advisor committed to the success of the ILG's in the Dean's Office or the Office of the Chancellor, to be a liaison and/or ombudsman between the Institute and the Alumni Corporations. That person or office might work with the ILG's and resources within MIT to accomplish the following points.

   (b) Establish a common financial accounting and reporting system for the operation of the houses and for the operations of the Alumni Corporations that would provide early warning for pending financial disasters.

   (c) Provide assistance and advice to the ILG's for the numerous fundraising campaigns that will be needed by the ILG's to remain competitive housing options at MIT.

   (d) Coordinate with the MIT Treasurer's office to assist ILG's in managing their investments.

3. **Create a high-level secretariat at MIT for a new working group of faculty, staff and alumni that would develop strategies and plans for the ILG's successful future. The ILG Alumni Boards need to be an active part of such a process. Some ideas that might be explored include:**

   (a) Explore the possibility of eliminating real estate taxes from the ILG's.

   (b) Build apartments in some of the houses that could be occupied by young faculty and their families by MIT subsidizing the faculty rent .

   (c) Develop a serious and attractive plan for encouraging some fraternities to move from Boston to Cambridge. We understand that Boston and Brookline now house some 950 undergraduates (excluding coed houses and student house) in 21 fraternities. Given the new financial realties it would seem timely to seriously explore such a move.

4. **Before freshmen were required to live on campus, holding rush prior to the start of classes gave all living groups equal access to new residents. The design of a successful rush must restore some equality to this important activity. Some possibilities are to**

   (a) Encourage summer rush by all living groups by providing contact information for incoming students to the ILG's in June. Provide an "opt-out" check box in some earlier mailing to permit those not interested to be excluded.

   (b) Permit ILG's free access to dorms to host events; eliminate requiring permission of the dorm.

   (c) Return to a rush period prior to classes to provide an unbiased opportunity for freshmen to learn about ILG's.

NOTE: The recommendations proposed above in July 2002 have elicited little or no tangible or positive response from MIT as this update is prepared in April 2003.

We have seen little evidence of strong support for the MIT fraternities by the MIT administration over the past year, although we were pleasantly surprised to learn that President Vest made known his objection to the City of Boston for their actions canceling the Skuffle.

Negotiation with MIT over the Financial Transition Support seems to center on reducing MIT's costs by not allowing legitimate fraternity expenses such as alumni affairs, rush expenses, and general and administrative costs.

Appendix A–A Brief Summary of the MIT Fraternity System

by Richard A. Knight '47

Despite the fact that fraternities have played an important role in housing MIT students for 100 years, I was unable to find historical data gathered from this point of view, although there appears to be considerable information available from various sources–particularly *Technology Review* (starting in 1899) and the *Technique* (starting in 1886). I might add that in recent years the format of both of these publications has changed and that neither have much written information on alumni activities or, for that matter, student activities.

In 1865 the first classes were held in rented space in the Mercantile Building on the corner of Sumner and Hawley streets and the following year MIT moved to its new quarters in Back Bay. In these early days of the Institute, Tech students commuted from home, lived in boarding houses, or rented rooms. The establishment of the Alpha Theta Chapter of Sigma Chi on March 22, 1882 represented the first step toward providing an integrated social and living arrangement that would soon play a vital role at MIT. (Note: Not exactly the first step! In 1873 Tau Chapter of Chi Phi was established and then withdrawn in 1878. The current Beta Chapter was established in 1890.)

It was not until 1886 that Sigma Chi actually had physical facilities which they obtained by renting a suite of rooms, a pattern that most early fraternities followed. "Boston Tech" never had dormitories! The first dormitories were made available when the Institute moved to Cambridge in 1916. However, in 1902, private investors built a large housing facility, apparently aimed at the Tech student market, near Boston Tech on Boylston Street located approximately at the eastern end of the Prudential Center complex. It was called Technology Chambers and had 176 rooms, many of which were occupied by MIT students.

In the limited time available I've gathered the following background which may be of interest to you.

Dean Samuel C. Prescott '94 in his early history of MIT, "When MIT Was 'Boston Tech," says of the early fraternity system (pg. 144):

"The first fraternity, Sigma Chi, was founded in March 1882. Within three years Theta Xi and Alpha Tau Omega were chartered (1885). The club known as The No. 6 Club from its house at 6 Louisburg Square soon became a chapter of Delta Psi and within the next six years Technology had chapters in Phi Gamma Delta, Delta Tau Delta, Delta Kappa Epsilon, Chi Phi, Delta Upsilon, and a local, Phi Beta Epsilon, which has maintained its independent status for over sixty years. The fraternities, although few, were extremely useful in providing living quarters for congenial groups of men in limited numbers, but in the [eighteen] eighties and nineties they comprised only a very small part of the student body.

By 1886, the first year that the *Technique* was produced, there were still only three fraternities with 39 actives, out of a total student body of 302. However, by 1900 the number had grown to eight fraternities and the number of activities had increased to 234, not quite 20% of the student body. Within the next 15 years the fraternity system had more than doubled to 20 fraternities with 481 actives, about one-third of the 1915-student body of 1,685. Although I'm not certain of the underlying cause, there was some national anti-fraternity sentiment at this time in the United States, similar to that of the late [19]60's. Then, as more recently, MIT's system apparently remained strong.

The Institute had dormitories for the first time in 1917, after MIT moved to its location across the Charles in Cambridge. A description of undergraduate houses in the 1935 *Technique* points out that they were first used as fraternity houses. By 1935 the undergraduate student body had grown from about 1,600 at the time of the move to about 2,000–the graduate body which was very small, about 80 students, had grown to slightly over 200–primarily students working for their master's degrees.

As the student body grew the fraternity system continued to meet the needs of about 30% of the undergraduates. Run as private enterprises and managed by active brothers with assistance from alumni house corporations, they had none of the tax advantages of a nonprofit institution and yet they provided a very efficient, cost-effective option to dormitory living.

The Interfraternity Council (IFC) first began to appear in *Technique* in 1915, but my guess is that like many MIT organizations it had probably existed informally from 1885 when there were only three fraternities. From the beginning, fraternities engaged alumni as trustees and advisors and each house had its alumni corporation or board of trustees. Shortly after World War II, various members of the administration–Frederick G. Fassett (Hon), Philip A. Stoddard '40, Horace S. Ford, Jr. '31, to name a few–would convene the alumni leadership every two or three years to discuss matters of management, safety and finances. These were informal meetings, generated good feelings and, I'm sure, a few helpful ideas.

One very active alumnus who had attended most of these, Lindsay Russell '50, then President of the Theta Deuteron House Corporation, Theta Delta Chi, remembers a very important all day meeting. It took place on December 7, 1963. The key players were Vice President Kenneth R. Wadleigh '43; Frederic Watriss '41, Associate Treasurer and Recording Secretary of the Institute; and D. Reid Weedon, Jr. '41, then President of the MIT Alumni Association–all alumni and all fraternity men.

They discussed various methods of attracting alumni support of the system, prompted by concern for the physical deterioration of the fraternity houses and the substantial difference in the cost of new dormitory construction compared to the market value of fraternities. The first tower of McCormick Hall had just been completed at a cost of approximately $19,000/student. This compared to a market value of fraternity houses of under $2,000 per student! And over 1,200 students–still about 30% of the undergraduate body–elected to live in fraternities. Watriss proposed the establishment of an "X Fund" that would be managed by the Institute and that would loan money, consistent with IRS regulations, to fraternities. The problem they faced was to establish innovative ground rules that would permit donations acceptable to the IRS to be made directly to the Institute and thus be treated as tax deductible by the IRS. This required plowing new statutory grounds in order to waive, or at least modify, "the prudent man rule" interpretations in effect at that time.

First, they wished to establish the lowest possible interest rate–none, if it were possible. Second, they wished to establish the lowest annual cost by extending payments as long as possible. And third, they wished to have a maximum degree of simplicity as to the nature of the security in order to avoid problems with primary mortgages and to encourage refurbishing projects. Watriss and others had done their homework and felt that 3% interest, 40 years pay-back and a more casual loan security approach would be acceptable to the IRS. Shortly after 4:00 p.m.–the meeting had started at 9:00 a.m.–a motion was made to approve the "X Fund" and to proceed immediately with a plan of implementation. By the spring of 1964 the "X Fund" had a name–the Independent Residence Development Fund (IRDF) and a preliminary mailing was sent to all fraternity alumni. The first specific solicitation was sent out in the fall by each of the alumni house corporation presidents on their stationery (see Attachment #3). During this period, Russell recalls the informal association of alumni house presidents and trustees were given official recognition as the AIFC (Alumni Interfraternity Conference).

In the intervening years since the program was launched, approximately $3,500,000 has been loaned to 32 fraternities. I should also add that, in addition to the IRDF, an additional $3,000,000 through HUD and Pool "A" has also been borrowed by the fraternities. Although the current balance of funds available for loans is low, it is an annual option for alumni to donate to the IRDF through the Alumni Fund each year–over the past four years alumni have designated an average $170,000 each year for this purpose. In addition, the interest and principal on these IRDF loans runs to about $250,000 per year.

For almost eighty years about 30% of our undergraduates experienced MIT through the fraternity system. Out of this pool the Institute has derived an even higher percentage of leadership. All three alumni Presidents of the Institute were affiliated with fraternities, 12 of the 22 living past and current presidents of the Alumni Association came from the fraternity system, and 38 of the 76 alumni members of the Corporation participated in the fraternity system. Although we do not have specific data on these relative ratios among our nearly 5,000 current alumni officers, one could surmise that fraternity alumni do more than their share.

Glen P. Strehle '58 points out that he came to MIT while serving as Chairman of the AIFC from 1973-75. Although there had been a very positive Institute position prior to this, the policy had been one of allowing the fraternities to run themselves. Strehle knew that fraternities would not object to more direct support and was instrumental in adding staff support in the Dean's office and promoting active encouragement to fund and support new fraternities–as well as encouraging and supporting more Institutional involvement with the AIFC.

April 1982

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March 6, 2002

Bruce Wedlock
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As I had mentioned on the phone, we do manage money for similar entities where a board is involved, so I am well aware that the decision making process is usually neither quick nor smooth. If you or any other members of the board have further questions, please don't hesitate to contact me at (800) 326-3299 or at ken@weberasset.com.

I look forward to working with you.

Sincerely,

Ken Weber
President

cc: Bob Greene

Appendix C–Financial Transition Proposal

Background

In the winter of 1999, Chancellor Lawrence S. Bacow released "The Design of the New Residence System", the Bacow Report as it was called. The Bacow Report outlined the objectives of the Residence Life system at MIT, elaborating on both its strengths and weaknesses. The report went on to explain the decision to house all freshmen on campus in MIT residence halls and discussed the management and implementation of the decision.

In an effort to assist the FSILGs with the transition, The Bacow Report outlined two proposals in regards to how MIT might financially support the FSILGs during the change to the new residence system. The report did not assume that either proposal would be seen as the answer to the financial support situation; instead these proposals were analyzed for their insights as wells as their flaws, and a set of three general guidelines were given to guide the effort of finding a successful financial transition plan.

> "We must help the FSILGs financially, but not do so in a way that creates financial dependency on the Institute. To do otherwise would compromise the independence that lies at the core of the FSILG system."
>
> "The transition support should be provided in a form that does not reward houses that recruit badly, or punish houses that recruit well."
>
> "The transition support should encourage houses to adapt to the changing demographics of MIT. These changes include increasing numbers of women students, and an increasing number of undergraduates pursuing five-year Master of Engineering degrees."

The Financial Proposal Transition Committee used these guidelines as the basis for this proposal. This committee, however, is only a subgroup of the Residence System Implementation Team (RSIT), which is developing plans for all aspects of the 2002 transition. RSIT is composed of faculty, students and staff representing the various components of the residential and FSILG systems. After feedback from the FSILG community, this proposal will be submitted to RSIT for final approval.

Explanation of Financial Proposal

The 2002 Financial Transition Committee carefully analyzed each of the Bacow Report's three guidelines in developing its financial transition proposal. The following is an explanation of how each of these guidelines affects the final proposal.

The first guideline clearly states that MIT should subsidize FSILGs because of the 2002 decision. However, this support should not *"create financial dependency on the Institute"*. This committee proposes that TBD% of the fixed-cost revenue FSILGs lose due to empty beds will be reimbursed and that support will gradually decrease until no support is given after three years. The "fixed-cost" quantity that is reimbursed is the fixed facilities costs directly due to the effect of an empty bed. This cost referred to as 'fixed facilities costs' throughout, is carefully defined later in this proposal and should not be confused with the term 'housebill'. Fraternities, sororities, and living groups will be able to recover lost revenue from the 'housebill' by charging a "parlor fee" or "out of house fee" to those members living outside the chapter house. A common practice at most fraternities and sororities throughout the country. In addition, three years was selected as the period of support as this is the length of time necessary for the "empty beds" created by the 2002 decision to rotate out of an FSILG. A more complete explanation of this support is contained later under Specific Details of Financial Support.

The second guideline seeks to ensure that the support for all FSILGs is given in a uniform manner; no FSILG should receive a disproportional amount of support because of the FSILG's past recruitment experiences. Thus, the number of empty beds at an FSILG in a given year is calculated based on the difference between the current house occupancy and an average of house occupancy over the three years before 2002-2003. Maximum house capacity is not a factor in this calculation. This ensures that past recruitment experiences do not influence the level of support an FSILG receives. In addition, so as not to "reward houses that recruit badly," a maximum amount of empty beds is determined according to a schedule of how a typical FSILG should transition over the next three years. The specifics of this schedule are explained under Specific Details of Financial Support.

The final guideline of The Bacow Report endorses support for FSILGs that "adapt to the changing demographics of MIT. One of the greatest changes in demographics at MIT is the recent increase in the number of students staying for a fifth year to complete a Master of Engineering degree. This change provides a great opportunity for the FSILG community during this time of transition. As FSILGs lose one class (the freshmen) with which to fill their houses, FSILGs should be encouraged to tap on this rapidly expanding new class (fifth years). While individual FSILGs must not be forced to retain these fifth year students (as there may be conflicts with national, local, or chapter policies), incentives should be given to those FSILGs that do. Thus, in addition to the rent an FSILG receives from graduate and fifth year students, MIT will provide an incentive equal to half the amount that the FSILG would otherwise receive for an empty bed. Any portion of this incentive, of course, may be used by an FSILG to subsidize the housebills of their fifth year students if necessary to attract these students.

In large part because of the 2002 decision, sororities decided to move Panhellenic Recruitment to January (during IAP). Sororities thus lose a term of dues that New Members had previously paid. In the case of the three residential sororities, these house dues contain some revenue that is used to support fixed facilities costs. These three sororities now face a budgetary shortfall during this transition, and as such should be reimbursed in a manner similar to that applied to fraternities and living groups.

This committee also sought to incorporate some ideas into this proposal that are not addressed by Bacow's guidelines. In order to receive support from MIT, FSILGs must meet certain basic expectations. These expectations are designed to be easily achieved by every FSILG and ensure that MIT's financial support does not go to waste.

A fundamental expectation is that an FSILG must be recognized as a chapter in good standing by MIT in order to receive any support. This ensures that all FSILGs receiving support adhere to MIT's policies and procedures as well as those policies outlined by the IFC, Panhellenic Council and Living Group Council, and are considered MIT-certified housing options. It was also determined that an FSILG must participate in the recruitment period of any term in which it seeks support. FSILGs should be expected to make this effort to fill their houses before coming to MIT for reimbursement. It is also expected that houses maximize in-house residency with those non-residential members eligible to move into the house. MIT may not subsidize an empty bed if there are non-residential members of an FSILG that could reasonably be expected to live in the FSILG's house. Finally, attendance at Roundtable discussions relating to the 2002 transition and participation in 2002 Leadership Programs is expected. Regular attendance and participation ensures that all FSILGs are given the same information and resources from which to work and assist other chapters and organizations during this transition.

Basic Expectations of Chapters and Organizations

1) The FSILG must be recognized by MIT as a chapter/organization in Good Standing. A chapter/organization in Good Standing must be in compliance with the "Standards and Procedures for Students at MIT" and follow the "Specific Rules of the FSILGs". The "Specific Rules" consist of, among others, compliance with IFC, Panhel, and Living Group Council policies and guidelines, adherence to policies relating to hazing, drugs, health and safety, as well as having a current Lodging House License on file. In addition, the FSILG must be in Good Standing with their Inter/National Headquarters (if applicable), and/or their Alumni Board House Corporation. If the FSILG is not recognized by MIT, no support will be received.
2) The FSILG must participate in recruitment. For fraternities and living groups this is defined as participating in all IFC and Living Group Council sponsored recruitment events focused on individual FILG memberships, including events during formal fall and spring recruitment periods. Sororities are exempt from this expectation as they cannot recruit during the term in which they may seek support, unless through guidelines set up by the National Panhellenic Conference. If an FILG does not participate in recruitment for a given term, the FILG will receive no support.

3) The FSILG must attend Roundtable discussions sponsored by the FSILG office or IFC/Panhel/LGC that relate to the 2002 transition. Attendance at these programs are designed to help FSILGs transition successfully. Each term, FSILGs will have 5% of their total reimbursement deducted for each Roundtable session not attended by at least one member of that FSILG. However, if unusual circumstances excuse an FSILG from attendance, a meeting with the FSILG office can make up the missed session. Roundtable session topics may include:
    - Recruitment
    - Finances
    - Budgeting
    - Marketing and Public Relations
    - New Member Education
    - Effective chapter/organizational management
4) The FSILG should maximize in-house residency with those non-residential members eligible to move into the house. Each FSILG would be expected to encourage their out-of-house members to move in the chapter facility through incentives or contracts.

Basic Expectations of the FSILG Office

1) Developing and presenting a series of Roundtable and programs relating to the 2002 transition. Topics would include recruitment, finances, new member education, budgeting, marketing and public relations, and effective chapter management.
2) Assist the IFC/Panhel/LGC in the coordination of recruitment events and programs.
3) Act as a Clearinghouse for the marketing and public relations of the FSILGs to the MIT campus community, in particular, freshmen and unaffiliated members.
4) Act as a readily available resource for FSILGs during the 2002 transition.
5) Provide timely notification to any FSILG that is failing to meet a basic expectation.

Specific Details of Financial Support

1) The number of empty beds at an FILG is defined to be the difference between an FILG's effective house capacity and its actual undergraduate membership during a given term. Effective house capacity is calculated as the average house occupancy of an FILG over the three years prior to the 2002-2003 school year.
2) In addition, FILGs may choose to house 9th semester seniors, 5th year students, transfers, M.Eng. Students or other graduate students. If an FILG chooses to house members of the above mentioned populations such as graduate and/or M.Eng students in place of having empty beds, the number of students housed will be halved and added to the number of empty beds as calculated in step 1 above. This provides the FILG an incentive to house other students by offering them partial compensation for a bed that might otherwise be left empty in addition to whatever fees and/or rent is charged directly to the 5th year senior, graduate and/or M.Eng. student.
3) The number of empty beds MIT will reimburse must not exceed the maximum allowable number of empty beds for that FILG, calculated as follows:
    a. The expected number of first-year residents is calculated as the average number of first-year residents living in an FILG over the three years prior to the 2002-2003 school year.

b. The maximum allowable number of empty beds is calculated according to the following schedule:

Year 1: expected number of first-year residents
Year 2: expected number of first-year residents * (2/3)
Year 3: expected number of first-year residents * (1/3)

4) The FILG will be compensated for the number of beds equal to the minimum of either the effective number of empty beds (as calculated in steps 1 and 2 above) or the maximum allowable number of empty beds (as calculated in step 3 above).
5) Reimbursement amounts will be adjusted for any penalties the FILG may have incurred for not meeting basic expectations.
6) TBD% of the portion of an FILG's housebill that corresponds to the fixed facilities costs of the FILG is reimbursed – fixed facilities costs may be defined to be any of the following expenses: rent, mortgage payment, water, chef, sewer, garbage, electricity, house and grounds, gas and steam expenses. Other costs that an FILG wishes to be considered fixed costs can be addressed to the committee determining an FILG's reimbursement.
7) Residential sororities will be reimbursed TBD% of the portion of their current non-residential first-year fees that pay for fixed facilities costs (as described in 6 above). The average number of first-year pledges over the past three years will be used to determine the amount of support a sorority will receive. This number will decline over three years according to the same schedule as in 3b above. Reimbursement will be for the first term only to compensate for the fact that sororities are only losing the ability to charge fees during the first term.

Determination of Financial Support

The amount of support due an FSILG will be determined and paid out each term immediately following a term's recruitment period. Each FSILG must complete a straightforward formula sheet that calculates the number of "empty beds" to be reimbursed, the number of graduate students filling otherwise empty beds, and the percentage of fixed facilities costs the FSILG should be reimbursed for. The FSILG determines the exact fixed facilities cost portion of its house bill and justifies this figure with a detailed budget outlining the FSILG's fixed costs. FSILGs can and should present any unusual circumstances for the purpose of reviewing their reimbursement requests. When special circumstances exist or particular consideration is necessary for an FSILG, a Review Board will be charged with hearing from the FSILG on their specific circumstances. This Review Board will be made up of members of two members of the FSILG staff, a representative from each of the governing councils (IFC, Panhellenic, LGC), and one alumni. The Review Board would also have the ability to waive any penalties an FSILG may incur due to a failure to meet Basic Expectations. Presentations to this Review Board should include explanations of missed Roundtables and programs and of active non-residential members.

Revisions

After the 2002-2003 school year, the 2002 Financial Transition Committee will evaluate the implementation of this financial proposal. If any revisions or modifications to the proposal are necessary, this committee will draft a revised proposal for the remaining years of transition.

FSILG Information and Data

Information requested from the fraternities, sororities, and living groups should be presented to the FSILG office in a timely manner. FSILGs that submit false or misleading information at any time will be ineligible for reimbursement for life of the financial support.

MIT FSLG FALL 2001 BREAKDOWN

Fraternity, Sorority, and Living Group Name _____________

BREAKDOWN OF FEES PER SEMESTER **PER PERSON**

1) Rent (fixed costs: mortgage, chef, utilities, etc; costs other than food) $_________________

2) Board (food) $_________________

3) Dues (monies and fees collected by the chapter/org for chapter/org use) $_________________

4) Inter/National Fees to headquarters (may include insurance, initiation fee, etc) $_________________

5) Social Fees (if differnent than Dues collected by chapter/org) $_________________

6) Alumni House Insurance $_________________

7) Other (please explain) $___________________________________

8) Other (please explain) $___________________________________

Total Per Person Expenses for Fall 2001 $_______________

ANTICIPATED OPENINGS FOR FALL 2002

Number of Seniors graduating June 2002 _________________

Number of non-resident members as of June 2002 _______________

Number expected to move in fall 2002 _________________

Number of empty openings (residence) expected in fall 2002 ____________

This worksheet was prepared by : __________________________________

Please return to the FSILG office via email (jennjohn@mit.edu) or fax (617-253-8391) before 11/21/01