

Subject: Board of Trustees Budget Decision

To the Earlham College Community:

This communication is intended to inform the Earlham community of a decision of the Board of Trustees related to the College's financial situation. We are calling for the College to develop an operating expense budget for the 2019-20 academic year of \$42 million, effectively reducing expenses by \$8M. This action is intended to improve the net cash flow of the College, which at present is not sustainable.

The College has been running substantial operating deficits since the financial crisis of 2007-08. A number of initiatives have been undertaken to improve the College's competitive position over the past several years. These included the adoption of a strategic plan which led to the formulation and implementation of EPIC, the construction and renovation of a number of campus buildings, and increased spending on marketing to prospective applicants. A series of expense reduction initiatives also have been pursued over this time to try to eliminate inefficiencies and reduce cash losses.

The Board of Trustees endorsed these efforts, sharing the hopes of the whole community that the value of the Earlham educational experience was being enhanced in ways that would appeal to a wider pool of applicants and increase tuition revenue. However, competition for students has continued to intensify with larger discounts being offered to students by more colleges to meet their enrollment goals. Because of these strong

macro-economic headwinds in the higher education market, the College's deficits have grown, rather than diminished. In turn, there is an unsustainable drawdown of unrestricted endowment funds, jeopardizing the long-term future of the College.

At the beginning of this year, the College was forecasting another large cash operating deficit of \$9 million. The Board of Trustees challenged itself and the rest of the community to work to reduce that deficit by \$2 million in each of the next two academic years through any combination of increased revenue and decreased spending to reduce the deficit to a level of \$5 million at the end of 2019-20. A sincere effort was made to find savings, and over \$2 million were identified. However, the cash deficit for the year just ending grew to over \$10 million. Even with the \$2 million identified in Phase I, the proposed operating budget for next year has a cash deficit of over \$12 million. The savings which had been identified were more than offset by increased costs elsewhere in the budget and disappointing results in enrollment and tuition revenue.

These harsh realities require that a much more aggressive approach to bringing the budget to a sustainable level be pursued. The objective which developed out of considerable discussion with the President and members of the Cabinet is to challenge the Earlham community to re-envision the College and its programs operating at a level of \$42 million in the year after next. At that level of budget expense, if enrollments hold steady and tuition revenue does not decline still more, the College still would face a \$4 million annual operating cash deficit. However, the Board believes that a deficit at that smaller level can be financed over a much longer period while

intensifying in every way practical the College's efforts to recruit larger numbers of students and improve tuition revenue.

The Board does not underestimate the difficulty of the task ahead. There is simply no choice but to tackle it as a community. The trustees are intent on keeping an Earlham education one of high quality and consistent with its unique mission. We are committed to working with the community on a strategic restructuring of expenditures while maintaining curricular value and impact. We want to stress that while some reductions in faculty programs are likely to be required, the entire array of College expenses is subject to examination.

The goal is to have as strong, vibrant and value-imbued an undergraduate education in the liberal arts as our means permit. In particular, we should continue with the College's central strategic initiative, EPIC, in experiential education which so many students are demanding in these times and in which many see great promise and potential. We need the campus community to work in concert so that Earlham can reimagine and reorganize itself to be responsive to the expressed interests and needs of current and future students.

The Board itself does not have any specific changes in operations or the curriculum which it expects to see emerge from this restructuring program. Under shared governance precepts, it is important that recommendations for needed changes emanate in the first instance from the Faculty and Cabinet. The Board, therefore, charges these bodies to organize to work together to do this important work creatively and thoughtfully, and to do so with the best interests of the College as an institution in mind. The Board

understands that very difficult and painful decisions, including some personnel reductions, will likely be required as part of this process. Reasonable ways of mitigating resulting hardships should also be part of the planning process.

The Board and the College, however, together must face current and future macroeconomic realities to effectively adjust and scale back the scope of the College's operations for the College to persevere and succeed in these difficult times. We offer whatever support and feedback we as Board can provide to the community as it guides the College to rationalize its operations to meet that goal.

Sincerely,

Debbie Hull, Chair

Earlham Board of Trustees