

TO: Earlham College Community  
FROM: Doug Bennett  
RE: Dealing with Earlham's Share of the Financial Crisis  
DATE: February 24, 2009

In this memo I want to set forth how I want us to proceed in dealing with the consequences of the financial crisis into which the world has been plunged over the past few months. We can hardly expect Earlham to be spared in this crisis, but we can plan for the college to pass through it with as little damage as possible and to emerge from it as the vibrant and effective college of liberal arts and sciences that we are today.

I'll sketch first the challenge, then some framing considerations for finding a way forward, then the process I hope we'll follow, and finally a timetable.

### **The Challenge**

In working on the 2009-10 budget (for which, my thanks to the Budget Committee), we have come to a much better understanding of the likely challenges that will face us in 2010-11 and 2011-12. These challenges are outlined in the series of briefing papers that we prepared for the Board of Trustees at its recent meeting and also made available to the campus community. (They can be found on Community Documents, under Board of Trustees, February 2009.) Simply stated, this is the challenge:

#### **Supposing:**

**that enrollment holds steady,  
that financial aid does not increase in a disproportional way, and  
that gift income does not decline further,  
we project a deficit of \$750,000 for 2010-11 academic year that we will need to  
eliminate to achieve a balanced budget.**

**With the same assumptions, we project an additional deficit of \$750,000 for the 2011-12 academic year.**

These projected deficits largely arise from the significant decrease in the value of our endowment. Note that virtually every endowment of every major not-for-profit institution has also decreased significantly, so we have a great deal of company in facing this challenge.

The downturn in our endowment has not had a full effect in the 2009-10 budget because we use an endowment spending formula that smoothes changes in endowment value. The decrease in the value of our endowment will take full effect in the subsequent two budget years.

To give you a sense of magnitude, \$750,000 is about 2% of our Educational and General (E&G) expenses; \$1.5 million is 4% of our E&G expenses. (E&G expenditures are

everything in the operating budget except for our auxiliaries such as the residence halls, dining services, bookstore and the like.)

## **Framing Considerations**

In thinking about how to face this challenge, I suggest we work in common within these framing considerations:

1. We need to keep our focus on Earlham's mission: "to provide the highest quality undergraduate education in the liberal arts, including the sciences, shaped by the distinctive perspectives of the Religious Society of Friends (Quakers)." We must focus our fiscal priorities around what serves best the effective education of students.
2. We need to recognize that essential to serving Earlham's mission are members of our faculty and staff who individually give their dedication and talents to Earlham and who together form a community of equal respect and regard.
3. We need to keep our focus on preserving Earlham's strength through the middle and long term, not just the short term. At the same time, we need to do our best, year by year, to balance our budget – that is, to have expenditures match the resources available to us.
4. We need to approach this challenge not as a short-term dip in resources from which we will soon recover, but rather as a long-term step-down in the endowment resources available to us. Thus, we need to approach this challenge in ways that do not primarily rely on one-time savings that cannot be sustained over several years.

## **Process**

Addressing this challenge will not be a normal exercise in budget making. While I will want the Budget Committee to develop annual budgets on its regular schedule, we will want to provide them with some broad strategies that can guide their work.

We need to provide an opportunity for everyone in the community to voice their suggestions, and we need a Task Force to gather together these suggestions, to weigh them, and to draw them together into a broad plan that will guide the work of the Budget Committee. At the same time, we will need the Deans and Vice Presidents who make up Senior Staff (and who each year present budget proposals to the Budget Committee) to take the broad strategies developed by the Task Force and shape them into specific proposals to be considered by the Budget Committee.

Thus, I would like us to do all of the following in working out a best way forward:

1. We will hold community-wide consultations in early March to provide broad opportunities for all to become better informed, to voice their concerns, and to suggest basic strategies for addressing the problem. We will hold these for students, for faculty and for staff. The initial consultations with faculty will take place on Wednesday, March 4, from noon to 2:20. The initial consultation with hourly staff

will take place Friday, March 6, at 9:00 a.m. The initial consultation with students will be scheduled soon. Additional information on these sessions will follow soon.

2. I will appoint and charge a Fiscal Challenge Task Force (a) to consider what *basic strategies* should guide our efforts in meeting this fiscal challenge and (b) to recommend a *broad plan* to carry this through over the next three budget years. This Task Force will likely consult further with the campus community and with various college committees. The Fiscal Challenge Task Force will want to report back to the college community regularly, to report the status of its discussions and to hear further comments and suggestions.

At the same time, I will ask Debbie Hull, Board Chair, to appoint an ad hoc Fiscal Challenge Board Working Group to discuss the recommendations that come from the on-campus Task Force and to provide feedback in advance of formal consideration of the Task Force's recommendations by the Board. .

3. I will ask Senior Staff to develop specific proposals that work within the broad outlines of the strategies and plan recommended by the Fiscal Challenge Task Force. These proposals will go to the Budget Committee.
4. We will continue to expect the Budget Committee to develop and recommend annual operating budgets on their regular schedule, working within the guidance of the strategies and plan developed by the Fiscal Challenge Task Force, and drawing on the proposals developed by members of Senior Staff.

### **Timetable**

March 1, 2009	Appoint Fiscal Challenge Task Force
March 1, 2009	Commence community-wide consultation
May 1, 2009	Task Force to recommend basic strategies for addressing the challenge
June 5-6, 2009	Meeting of Board of Trustees: approve final 2009-10 budget and consider basic strategies for 2010-11 to 2012-13
September 15, 2009	Task Force to recommend broad plan for 2010-11 to 2012-13
October 22-23, 2009	Meeting of the Board of Trustees: consider plan
February 12-13, 2010	Meeting of Board of Trustees: approve budget parameters (tuition and other charges, compensation) for 2010-11