Dear Oberlin community,

The Board of Trustees met last week.

As we do at our June meetings, we reviewed the administration’s budget proposal for the coming year. The Board unanimously approved the proposal, which includes a projected deficit of $4.7 million.

This budget removes the reduction to tuition benefits that had been proposed to us previously. However, it includes the remaining reductions to benefits detailed in President Ambar’s recent note to the community, including certain retirement benefits.

The budget reductions will hurt faculty and staff. That’s why we owe it to the community to explain why we made this decision.

# # #

The Board’s consideration of the budget is a process that begins months before we meet in June. By last December it was clear to us that, absent any substantial adjustments, we would see a deficit of as much as $9 million for the fiscal year beginning July 2018 (and indefinitely into the future). Deficits of this size are unsustainable, because they hamper Oberlin’s ability to provide financial assistance to students and to invest in our faculty, staff and campus. That’s why the Trustees directed President Ambar and her team to reduce that deficit.

It may not be self-evident why a $9 million deficit is unacceptable. After all, the difference between $4.7 million (the deficit in the budget we approved) and $9 million is a small fraction of Oberlin’s roughly $160 million budget, and an even smaller fraction of Oberlin’s roughly $870 million endowment.

The Board sees it differently.

First, the deficit has widened over the last few years, a trend that will continue without any measures to deal with it. This is a phenomenon familiar to most other institutions like Oberlin. The costs of delivering an outstanding education are outpacing our revenues. If we don’t start bending back towards balance, we will be forced to make indiscriminate cuts in the future, which will limit our ability – indeed, our fiduciary responsibility – to make decisions that are in the best interest of Oberlin’s future.
Second, shrinking the deficit is really hard work. It's hard to cut spending, because compensation – the lion’s share of our spending – is constrained by tenure and union contracts, and because we recognize that we must invest in our faculty and staff to remain an outstanding liberal arts institution. It’s hard to cut most other expenses (interest payments, energy costs, and so on) because this would impair our capacity to operate.

At the same time, it’s getting harder to boost revenues. We bring in money overwhelmingly from just two unpredictable sources: student charges and gifts (either past gifts to the endowment or present gifts to the Annual Fund). This time last year we were looking at a 100-student shortfall because of lower-than-expected enrollment and retention, a potential loss of $5 million. (Fortunately, we limited the loss with careful management.) This year, we’ve done much better enrolling students, thanks to great work by Dean of Admissions Manuel Carballo and Director of Conservatory Admissions Mike Manderen, their staffs and, especially, the faculty. But we’ve also had to contribute more financial aid, so the net revenue gain from improved enrollment has been modest.

In other words, we are exhausting our pricing power. Raising tuition only increases the demand for financial aid. It also adds to the financial strains on our students and their families, making it harder for us to keep them at Oberlin from the day they matriculate to the day they graduate. This weighs heavily on Oberlin’s finances.

As for the endowment, the past decade has seen an impressive bull market, thanks mostly to the stimulus that was put in place at the depths of the financial crisis. But it would be irresponsible for us to expect the market to continue ascending as it has. It's worth remembering that the decade leading up to the financial crisis was a stock market seesaw.

Third, one out of every four dollars we spend is generated by returns from our endowment. In fiscal year 2017, the College withdrew about $41 million to support a budget of roughly $160 million.

This is a heavy burden on our endowment. In order to transfer $40 million to the budget, our endowment must deliver average annual gross returns in excess of 5% (and much more if we want our endowment to grow). That looks like an increasingly tall order now that quantitative easing is ending, inflation is beginning, and we’re contending with disputes over trade and nuclear weapons. We appear to be at the end of a decade-long bull run; it will be much harder to deliver healthy returns in the future than it was over the past few years.

We must act decisively to close our budget gap – even if it takes some years to balance the budget – because failing to do so imperils Oberlin. The peril isn’t insolvency and collapse; we can always spend down the endowment to survive for decades. The peril we face is mediocrity and irrelevance, which is what will come if our decisions are increasingly driven by short-term financial exigencies. If we don’t take note of the red light flashing in the
distance, we’ll have to slam on the brakes when we get to it, making draconian cuts in short order that will almost certainly undermine what makes Oberlin great.

# # #

We also owe it to the community to explain how we got to where we are.

We got here by failing to acknowledge how the world has changed. Over the past decade we recognized that students and their families were demanding more from colleges like Oberlin. We responded. We expanded services for students. We upgraded our campus with new arts and athletic facilities and new places for students to live. Most importantly, we invested in our faculty. In the decade following 2007, College faculty headcount increased by about 15%, and the faculty compensation pool increased by almost 30%. During this period, the Arts & Sciences faculty teaching load was reduced from 5 to 4.5 courses per year, leaving more time for research – a plus for attracting top-notch new faculty – and allowing faculty to spend more time with students outside the classroom. Non-faculty staff headcount and compensation also grew during this period. However, enrollment remained relatively static.

Then we sent the tab to our students and their families, and we discovered that an Oberlin education which in 2007 cost 46% of a median household’s income – a share that looked alarmingly high at the time – now cost a shocking 71% of the same household’s income in 2016.

We may have noticed this sooner had we taken note of what was happening in America. Over the past 25 years, the income share of the wealthiest 5% has grown steadily – albeit at the expense of the rest of Americans – so every year a meaningful share of students could still afford Oberlin’s rising price tag. As long as we could provide financial aid to the rest, we could persuade ourselves that the math worked.

The math doesn’t work anymore. The pool of students graduating from high school is no longer growing. Even upper middle class families are straining to afford an Oberlin education. And today we’re competing against less expensive alternatives (like highly selective liberal arts programs embedded inside state universities).

# # #

This poses a very serious challenge for Oberlin. One response could be to concentrate on appealing to those students who can afford Oberlin, and hoping to subsidize the rest. If we do so, we will be chasing to compete with colleges with far more financial firepower. This means much more than playing in a high-stakes money game. It means allowing richer institutions to define what a liberal arts education looks like in the 21st century. They will lead; we will be forced to follow.
We may not know what their model will look like, but we know that it will be expensive and tailored for a social stratum that every year is further removed from the rest. This feels to us like a betrayal of Oberlin's cherished commitment to access and diversity, and to demonstrating that a liberal arts and conservatory education is indispensable to all of society, not just the privileged.

We've agreed on a different response. We've asked President Ambar to lead Oberlin to define for ourselves what a 21st century liberal arts education looks like, one that appeals to a wide swath of college- and conservatory-bound students – because it is relevant to the times and because it is accessible – and one that is a model for other institutions like Oberlin. This feels like a powerful way to honor Oberlin’s founding mission and its abiding role as a leader in higher education.

# # #

How do we do this?

We said earlier that we failed to recognize how the world had changed. This is not merely an observation about the world; it is an admission of failure. The Oberlin community, and especially the Board, could have done better to recognize how our world was changing, and we could have responded better. (We are not pointing to our predecessors; two of us have been on the Board for years.)

We don’t yet see all of the elements of the 21st-century Oberlin. But there are two things we do know.

First, we know that we won’t grasp them unless we decide better than we have in the past. This means developing a better understanding of the forces that affect Oberlin and institutions like it. And it means making better decisions based on this understanding.

The Board has taken steps to improve our decision-making. We devoted a large part of our March meeting to discussions about Board governance. We’ve passed new procedures for approving capital projects, formed an ad hoc financial sustainability task force, established a debt subcommittee, and expanded our Nominations & Governance committee to think about how to improve the Board’s effectiveness. We will soon roll out a new trustee evaluation system, consider how we might better evaluate Board performance, rethink the Board’s size, and undertake a thorough review of our bylaws.

The second thing we know is that we can’t discover the 21st-century Oberlin without our faculty and staff.

That’s why it is so important for faculty to constitute half of the AAPR steering committee.

That’s also why the Board wants to establish better connections with faculty leadership. The first step in this direction was a meeting on Thursday between the board’s Executive
Committee, the General Faculty Council, and representatives from the College Faculty Council and the Conservatory Faculty Council. We also shared dinner Friday night. We identified several concrete steps we can take together beginning this fall, and look forward to deeper engagement with the faculty and its leaders.

The Board also wants to work with the Oberlin community, and especially faculty and staff, to develop a common understanding of Oberlin’s challenges. To this end, we have plans for a series of webinars on budgeting, recruitment and admissions, endowment management, development and alumni affairs, and on the changing landscape of higher education.

Finally, we need to marshal the resources to invest in our faculty and staff – in their compensation, their teaching, their research and their morale. Oberlin is lost if we can’t attract and retain outstanding employees.

# # #

The important decisions we must make to build the 21st-century Oberlin will take time. They need to be well informed, deliberate, and in consultation with the community. We can’t make them under duress. This is why we have insisted on reducing the deficit today. It will give us the room we need to make those decisions as responsibly as possible.

We must embrace this work as a community. We will fail if one constituency undermines another one, and we will certainly fail if we start fighting with each other. If we collaborate, however, we have an extraordinary opportunity to define the model for residential liberal arts institutions for the next generation.

We look forward to working together.

Carmen Twillie Ambar, President
Chris Canavan, Board of Trustees Chair
Chesley Maddox-Dorsey, Board of Trustees Vice Chair