



January 28, 2009

To: Students, Faculty and Staff

From: Carol Christ

RE: Potential Budget Reduction Strategies for Discussion

A few weeks ago I updated the campus community on the college's financial planning. Since then, we held a joint retreat of our planning committees and engaged the group in a detailed discussion of strategies the college may pursue to adjust our budget in light of the current economic conditions. We have identified a number of options and we would now like to create opportunities for campus discussion of those areas.

The steep decline in the value of the college's endowment this fiscal year due to the recession and grim economic forecasts requires that the college plan for a prolonged period of reduced spending. As noted in my recent letter, the combination of lower endowment income to support the operating budget and potential other adverse trends such as an increase in the financial aid budget or a decline in annual giving indicates that the college may need to reduce its budget by 10-15% (or more) over the next three years. This would require downward adjustments in the range of \$20-30 million. Fortunately, the college entered this difficult period in a strong financial condition with reserves on hand, which gives us some timing flexibility in our budget planning. We also have considerable advantages to draw upon. One of the most significant is the resource that the Five Colleges represent. In academic, administrative, and student and academic support areas, we can pursue more aggressively opportunities for joint programming among our campuses. To make the most of these opportunities, we will need to think imaginatively and strategically, creating a vision for the Five Colleges a decade or more from now.

This memo addresses potential strategies for achieving cost reductions or revenue enhancements that could be made within the next three years as well as possible actions that may require more time to implement, and that would need to be paired with shorter-term savings to ensure that our expenses will be covered by available revenues. While in the current year we held back 2% of departmental budgets (and will continue to make some across-the-board reductions), we cannot build a sound or effective long-term strategy to achieve the magnitude of necessary savings through across-the-board cuts. The specific areas identified here are intended to spur discussion of the key financial planning question we have framed: what is the sequence of actions the college should take if it is necessary to reduce expenditures by \$20-30 million, or 10-15% over the course of three years? Each of the strategies listed holds the potential for savings in the

range of \$1 million to \$7 million and taken together, they would enable us to adjust the budget to our new economic circumstances. **All would require detailed analysis and a thorough understanding of the implications of making such changes. The strategies listed are intended to convey the magnitude of change necessary to reach the targeted level of budget adjustments.** In considering each of these options, we need to consider how it can support the strategic goals of the college.

Should we reduce near-term salary increases?

It is important that the college maintain competitive compensation to assure our success in recruitment as well as retention. In the current economic conditions, we can anticipate that salary increases in higher education will be much lower over the next few years. Some colleges and universities already have announced salary freezes.

Should Smith increase its student-to-faculty ratio modestly, from the 9:1 range to the 10:1 range?

The high level of competition among liberal arts colleges in the past twenty years is most apparent in two factors: the investment in student life enhancements and the declining student-to-faculty ratio. The student-faculty ratio at the most competitive colleges, such as Amherst and Williams, was 13 to 1 as recently as the 1980s. The addition of new programs, more generous sabbatical policies, growing prevalence of research, reduced teaching loads, and more course releases have led to a persistent downward pressure on this key ratio. Smith's current ratio (using definitions from the AAUP survey for faculty and IPEDS survey for student enrollment) is 9 to 1. One could argue that a student-faculty ratio of 10 to 1 is educationally sound and would still uphold the core principles and characteristics that define a residential liberal arts education. Any reduction in tenure track positions would require a careful academic plan and time to implement such a plan, eliminating positions only as they become empty through retirement or resignation and necessitating fewer searches in the transitional period. In addition, temporary and replacement hires will require careful scrutiny going forward.

Such a reduction would necessitate a careful consideration of the curriculum—a consideration already begun in the recent retreats that academic departments and programs have held. We need to give particular attention to ways in which departments can collaborate on course offerings. We are fortunate to have significant opportunities for planning and coordinating curricular needs on a five-college basis, and we will want to explore such opportunities aggressively.

Should we reduce benefits as a percentage of base salaries?

A recent comparative study of benefits packages and rates among peer colleges demonstrated that Smith's overall investment in benefits is in the middle range of the group, albeit lower in some areas and higher in others. Despite this current middle position, the college must review this area of spending carefully. The benefits rate for full-time positions is 32.5% for 2008-09, which represents a 10% increase from a rate of

29% just five or six years ago. Perhaps more concerning, expected trends in health insurance, tuition assistance, and other selected benefits lead to projections of rate increases of one-half to one percentage point of salaries per year moving forward. To achieve savings in this area, we could seek strategies to reduce the benefits rate to a range at or below 30%. The most expensive benefits areas are health insurance, retirement and tuition benefits, so our review should focus there.

Should we reduce the tuition discount rate?

Smith has a strong commitment to meeting the full demonstrated need of admitted students. The college has broad socio-economic diversity within its student body and as a result our discount rate, a comparison of financial aid to tuition revenue, is among the highest in our peer group. The importance of balancing our commitment to access with other expenses associated with providing a high-quality academic experience requires us to regularly evaluate strategies for maintaining the discount rate at a manageable level. One area for review is the Ada Comstock Program, since growth in the educational opportunities available to women of all ages, particularly the expansion of the community college system and shifts in the financial aid landscape, are reflected in recent declines in applications and enrollment in the program.

Should we reduce facilities space, targeting a 10% reduction?

Smith's facilities have a replacement value of approximately \$750 to \$800 million. This figure has been increasing in recent years due to the construction of new facilities as well as high annual construction inflation. To avoid deferred maintenance, the Trustees have set a goal of an annual budget for renewal and replacement of 2% of the value of our facilities. Benchmarking against other institutions indicates that Smith has the most square footage per student of any of its peers; the additional space can be found in both the residential and academic sectors. This is an expensive leadership position, as it affects the budget not only in maintenance and renovation costs but also through expenses such as cleaning and utilities. Reducing the facilities footprint by 10% would require discontinuing use of \$75 million of buildings; doing so would likely translate into a reduction of some 300,000 square feet of space.

Should we reduce the cost of study abroad?

Smith spends approximately \$9 million annually (or almost 5% of the operating budget) on study abroad programs, including its four programs in Europe, consortium programs, and independent programs offered by other institutions. In recent years, the level of students studying abroad annually has been equivalent to about 430 student semesters or 215 full-time-equivalent (FTE) students. The average cost of a study abroad program per student FTE exceeds \$40,000, and approaches \$45,000 if one factors in other costs excluding financial aid. The cost structure alone makes this a critical area for review and study, with an eye toward more efficient structures and policies.

Should we consolidate academic support operations such as libraries and information technology?

By some measures, Smith's library is the largest of any liberal arts college in the country. This is an area of considerable historic strength for the college but also an area of substantial annual expense during a period when the role of libraries is shifting in important ways. Smith's library consists of the main Neilson Library plus three branches and special collections, and the library is also part of the five college consortium. Consolidation of five college library functions may offer the opportunity for significant cost savings. In addition, we should consider the implications of an overall reduction in funding for acquisitions, protecting collections on a five-college basis through greater coordination.

We can also explore savings in the area of information technology services through five-college opportunities. In addition, we should review the volume of campus computer equipment to identify efficiencies in our computer resources.

Should we reduce spending in administrative, student and academic support areas?

An overall budget reduction of 10-15% will require a combination of several large-scale changes such as those suggested above, as well as careful review of operational areas which may individually yield savings in the tens or hundreds of thousands of dollars. A review of administrative, student and academic support areas might pay particular attention to those areas related to administrative duplication or inefficiency, or with the potential for shared services or contracting. At the same time, we should review the potential for increasing programs that generate net revenues for the college.

Should we focus our upcoming campaign on budget support for existing needs?

The planned campaign can focus primarily on building endowment for existing critical priorities rather than on new initiatives. This will most likely entail a significant emphasis on areas such as financial aid and core academic program support. Preliminary planning for a campaign suggests that we may be able to achieve \$5 to \$7 million of annual budget support beyond our normal gift expectations absent a campaign.

I invite you to send your comments and suggestions regarding these budget strategies to planning@smith.edu.