

Swarthmore College

Update on Current Financial Conditions and  
Implications for the Budget

Board of Managers ~ Friday, December 5, 2008  
Updated ~ Tuesday, March 17, 2009

# Outline

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- ▶ Summary
- ▶ Update on the Endowment, Operating Cash, and Debt
- ▶ Implications for Budget Planning
- ▶ Recommendations

# Introduction: Key Points

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- ▶ Swarthmore was relatively better-positioned than many other institutions when this crisis began.
- ▶ The economic and financial downturn has resulted in the largest annual post-war decline in the endowment. Fundraising is under pressure, and financial aid needs are expected to increase.
- ▶ Constraints will be necessary in the current and next years' budgets. A plan of significant budget reductions will be developed for a long, severe downturn and recession.

# Endowment Update:

Swarthmore is relatively better-positioned than many other institutions.

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- ▶ The endowment was \$1.4 billion at June 30, 2008. We are using a -30% return assumption for 2008–2009 in our planning.
- ▶ Endowment liquidity is required to meet budget needs and for commitments to private equity and real estate partnerships. The endowment has ample liquidity to meet these needs. About 60% of the endowment has immediate, monthly, or quarterly liquidity.
- ▶ The endowment has a 15% allocation to U.S. Treasury bonds. Some of this is being used to fund budget needs.
- ▶ Current conditions and need for liquidation have created distressed sellers. The Investment Committee has made investments in several distressed opportunities; several of the endowment's investment managers are also taking advantage of these opportunities.

# Operating Cash and Tax-Exempt Debt Update:

Swarthmore is relatively better-positioned than many other institutions.

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- ▶ Most of the College's operating cash is invested in Treasury securities.
- ▶ All of the College's debt (\$184.5 million) is fixed rate. The College is not affected by the volatility in the variable rate debt markets or the difficulties in refinancing variable rate debt to fixed rates.

# Budget Implications:

Swarthmore is relatively better-positioned than many other institutions.

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- ▶ Swarthmore entered this downturn with:
  - ▶ A balanced budget
  - ▶ Compensation targets met
  - ▶ Significant funding for capital needs
  - ▶ A low endowment spending rate
- ▶ Except for the Annual Fund and some other unrestricted gifts, the College budget does not incorporate a large gift expectation to balance it.
- ▶ The College has not undertaken capital projects in advance of receiving funding. There are no current projects requiring financing.

# Budget Implications:

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- ▶ Despite our prudent policies, the magnitude of the decline in the endowment goes beyond the volatility that our endowment spending guideline was designed to tolerate.
- ▶ Maintaining our usual budgeting and endowment spending policies is not appropriate.
  - ▶ The spending rate has increased beyond the target range and would continue to increase.
  - ▶ Spending would not be able to be sustained.

# Endowment History

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- ▶ The largest prior one-year decline in the endowment was -22% in 1973-1974
- ▶ There have only been seven down years since 1970
- ▶ The College's endowment spending rate long-term target is 4.25%. Relevant historical rates are:
  - ▶ 1972-1973 (lowest) 2.7%
  - ▶ 2007-2008 (last year) 3.7%
  - ▶ 2008-2009 (this year) 4.3% (est)
  - ▶ 1982-1983 (highest) 5.4%
- ▶ The spending rate may need to exceed the previous high level

# 2008-2009 Budget Summary

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## Revenues

Student Revenues	\$69.5 million	
Less: Scholarships	<u>(23.3)</u>	
Net Student Revenues	\$46.2	40%
Endowment Income	57.3	50%
Gifts	7.5	7%
Other	<u>4.2</u>	<u>3%</u>
	\$115.2	100%

## Expenses

Faculty Salaries	\$22.3	
Staff Salaries	27.3	
Benefits	<u>16.4</u>	
Total Compensation	\$66.0	57%
Departmental Budgets	22.9	20%
Utilities	3.4	3%
Debt Service	11.7	10%
Capital: Facilities and Technology	10.8	9%
Other	<u>0.4</u>	<u>1%</u>
	\$115.2	100%

# Status of Budgeting for Next Year and Beyond

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- ▶ Approved by the Board of Managers in February, 2009
  - ▶ Increase in student charges of 3.76%, lowest in ten years
  - ▶ Increase in enrollment over 4-classes
  - ▶ Commitment to financial aid policies
  - ▶ Reduction in capital projects
  
- ▶ For action by the Board of Managers in May, 2009
  - ▶ Faculty and staff compensation
  - ▶ Departmental budgets
  - ▶ Endowment spending
  - ▶ Ad Hoc Financial Planning Committee recommendations