

SWARTHMORE COLLEGE
FY2020-21 Operating Budget
for the fiscal year July 1, 2020 to June 30, 2021

	Budget 2019-20	Budget 2020-21	Change from 2019-20	% Change 2019-20
OPERATING REVENUE (\$ in thousands)				
Student Tuition and Fees				
Student Tuition and Fees (On-Campus)	\$ 85,318	\$ 78,961	\$ (6,357)	-7.5%
Student Tuition and Fees (Off-Campus)	5,909	0	(5,909)	-100.0%
Room and Board	24,373	10,159	(14,214)	-58.3%
Student Aid	(46,751)	(42,000)	4,751	-10.2%
Net Student Fees	\$ 68,850	\$ 47,120	\$ (21,730)	-31.6%
Endowment Return Distribution	96,421	107,479	11,058	11.5%
Gifts and Grant Support	5,261	5,169	(92)	-1.7%
Other Revenue	5,129	3,989	(1,140)	-22.2%
Total Operating Revenue	\$ 175,661	\$ 163,757	\$ (11,904)	-6.8%
OPERATING EXPENDITURES				
Faculty Salaries	\$ 32,174	\$ 32,500	\$ 326	1.0%
Staff Salaries & Hourly Wages	39,424	39,424	-	0.0%
Employee Benefits	23,621	26,618	2,997	12.7%
Total Compensation	\$ 95,219	\$ 98,542	\$ 3,323	3.5%
Non-personnel expenses				
Bookstore, cost of sales	612	1,119	507	82.8%
Equipment	3,475	4,128	653	18.8%
Facilities operating expenditures	3,636	3,772	136	3.7%
Food services, cost of sales	2,868	1,155	(1,713)	-59.7%
Insurance	1,775	1,828	53	3.0%
Library materials	2,392	2,152	(240)	-10.0%
Memberships, licenses and dues	948	853	(95)	-10.0%
Off-campus study expenses	4,050	1,013	(3,038)	-75.0%
Printing, postage & publications	1,651	1,550	(101)	-6.1%
Real estate taxes	1,226	1,263	37	3.0%
Services, supplies and other	11,398	12,258	860	7.5%
Student payroll and fellowships	2,725	1,300	(1,425)	-52.3%
Travel and professional development	3,570	893	(2,678)	-75.0%
Utilities	2,557	2,500	(57)	-2.2%
Total Non-Personnel Expenses	42,883	35,783	(7,100)	-16.6%
Contingency	1,800	2,500	700	38.9%
Total Operating Expenditures	\$ 139,902	\$ 136,825	\$ (3,077)	-2.2%
NONOPERATING EXPENDITURES				
Capital Projects	\$ 13,941	\$ 11,513	\$ (2,428)	-17.4%
Transfer to/(from) Reserves	(946)	(5,500)	(4,554)	481.4%
Debt Service	23,194	20,577	(2,617)	-11.3%
Total Nonoperating Expenditures	\$ 36,189	\$ 26,590	\$ (9,599)	-26.5%
Total Operating and Non-Operating Expenditures	\$ 176,091	\$ 163,415	\$ (12,676)	-7.2%
Inn at Swarthmore Net Income	430	(342)	(772)	-179.5%
Adjusted Surplus/(Deficit)	\$ 0	\$ 0	\$ 0	0%

Swarthmore College

Operating Budget Summary for Fiscal Year 2020-21

The Covid-19 pandemic has created unprecedented challenges for the College and introduced considerable uncertainty in the College's ability to live into its academic mission. Over the past seven months, we have implemented remote learning environments, transitioned to a hybrid model of residential and non-residential students, and made significant changes to our day-to-day work. These efforts were coordinated by a number of ad hoc committees consisting of staff, faculty, Managers, students and epidemiologists that worked collaboratively to address the on-going challenges of the pandemic. Based on this work, we were able to successfully reopen the campus this semester to a limited number of students.

The College's reopening plan, and the related FY 2020-21 operating budget adhere to the following principles:

- We will hold paramount the health and safety of our students, faculty, and staff members.
- We will continue to deliver to our students the highly engaged, intellectually enriching educational experience that is foundational to all that we as a College do.
- We will make decisions about College finances and operations with empathy, compassion, and humanity and work to maintain operational continuity and retain employees to the greatest extent possible.

As noted in President Smith's [email of October 13, 2020](#), after much discussion and in consultation with public health experts regarding the safe capacity of our campus facilities, we are planning to invite juniors and seniors to live on campus for the spring semester — with similar safety protocols in place as we have had this fall for first-year students and sophomores. The approved operating budget for FY 2020-21 reflects the assumption that we will continue to have reduced on-campus enrollment for the remainder of this academic year.

From a budgetary perspective, we now have a clear picture on enrollments and the estimated operating costs for the 2020-21 fiscal year, which began on July 1, 2020. The budget was developed in consultation with the Financial Study Group (FSG). I am grateful to the members of the committee, including faculty and Managers, who have taken the time to help shape this year's budget, which was approved by the Board of Managers on September 26, 2020.

This budget assumes that current circumstances pertaining to the pandemic will continue throughout the academic year and we will continue with our current cohort-based approach for both semesters. As described in detail in this memo, the pandemic has resulted in significant new expenses as well as a serious decline in revenue from tuition, room and board. We will cover these negative variances with additional one-time spending from the endowment. For the first time in over 35 years, the spending rate for budget-supporting units of the endowment will exceed 5.0%, at 5.3%. While this is not a sustainable rate, the Board agreed that this is an exceptional moment requiring exceptional measures.

OPERATING REVENUE

Enrollment

Maximum on-campus enrollment for the fall semester was set at 900 students. The target for on-campus enrollment was based on CDC recommendations regarding the number of students per bathroom fixture, the need to offer only single rooms, and the need to set aside rooms for isolation or quarantine. Based on current enrollments, we have 1,450 students enrolled, and approximately 610 of them will reside on campus. The budget assumes that this pattern will hold throughout the year. The table below shows the changes in enrollment from FY 2019-20 to FY 2020-21.

	FY 2019-20 Budget	FY 2020-21 Budget
Total Enrollment	1,660	1,450
Total in Campus Housing	1,523	610

Term Bill Income and Financial Aid

The budget is based on fall enrollment as of September 11, 2020, and assumes that current numbers of students living on campus or remotely will persist in the spring semester. The financial aid allowance for living expenses, which in normal years represents payments for room and board on campus, has been adjusted based on whether the student will be studying on campus or remotely. Each student's aid package has been adjusted, and those changes are reflected in the financial aid budget.

As always, the financial aid budget is based on meeting the demonstrated financial need of our students. Because of the pandemic, we have made adjustments to the work-related portions of students' financial aid packages, specifically pertaining to summer earnings and student employment during the semester. This year, we waived the summer earnings requirement for most aided students. Similarly, because there are fewer opportunities for student employment this year, we anticipate that a significant portion of campus work aid will be converted to scholarships this year. Since work aid is performed on campus and is accounted for in the operating budget, there is a corresponding reduction of expense in the non-personnel budget. The table below reflects these changes.

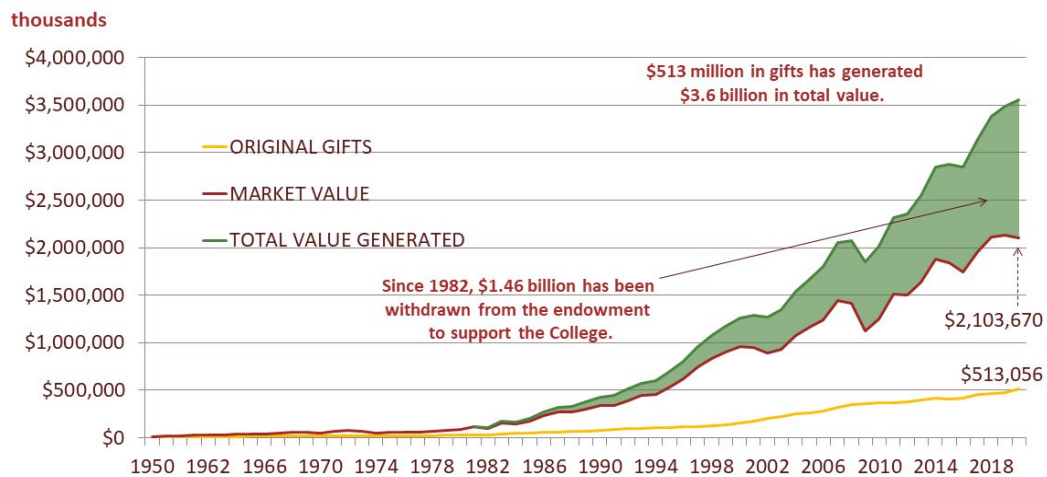
\$ in thousands	FY 2019-20 Budget	FY 2020-21 Budget
Tuition and Fees	\$91,228	\$78,961
Room and Board	24,373	10,159
Financial Aid	(46,751)	(42,000)
Net Term Bill Income	\$68,850	\$47,120

Endowment Spending

As noted in the College's audited financial statements for the year ended June 30, 2020, the final market value of the endowment at June 30, 2020 was \$2.104 billion. This amount is used to calculate the endowment spending rate for budget-supporting funds.

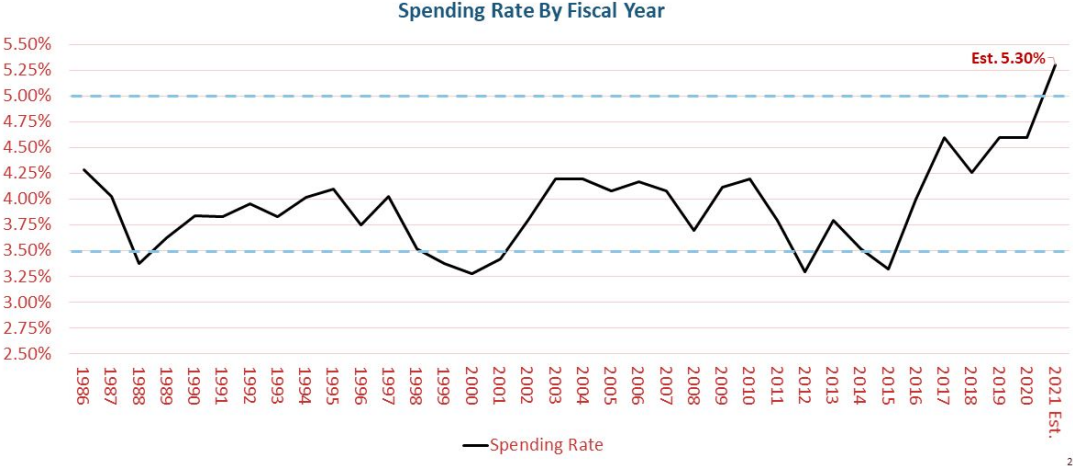
The following chart shows gifts to the endowment, the market value of the endowment, as well as spending from the endowment over the past several decades. The growth of the endowment's market value over time has provided the College with a strong foundation during this time of broader financial challenges. An additional \$33.9 million in endowed gifts were received in 2019-20 during the final year of the *Changing Lives Changing the World* campaign.

Endowment Performance



According to the College’s endowment spending guidelines, we usually set a spending rate each year between 3.5% and 5.0% of the prior fiscal year’s market value. By maintaining spending within these bands, the College has been able to ensure that funds are available to support future generations of Swarthmore students while at the same time meeting current institutional needs. Given the challenges of the current times, The Board of Managers approved an endowment spending rate of 5.3% for the current fiscal year. The chart that follows shows the College’s historical endowment spending rate as well as the budgeted rate for FY 2020-21.

Historical Endowment Spending



\$ in thousands	FY 2020-21 Pre-pandemic Estimated Budget	FY 2020-21 Budget
Budget support from the endowment	\$81,350	\$97,409
Quasi-endowment liquidation for Debt Principal	10,070	10,070
Total Endowment Spending	\$91,420	\$107,479
Endowment Market Value	\$2,103,670	2,103,670
Spending Rate for Budget Supporting Units	4.6%	5.3%

Other Revenues

The budgeted **Gift and grant support** reflects a reduction of \$1 million in Swarthmore Fund gifts (from \$5 million to \$4 million). This is partially offset by \$600,000 in student support from

the federal CARES Act grant, which will be applied to offset some of the increased expenses associated with campus operations this year.

Other revenue includes interest earnings, departmental revenues from retail dining, and charges for various summer programs. Because of the closing of the campus during the academic year, we budgeted for a reduction in other revenue for FY 2020-21.

OPERATING EXPENDITURES

Although the College's budget process is usually a bottom-up process, involving discussions and reviews with multiple campus constituencies, the FY 2020-21 expenditure budget was prepared on a top-down basis. Salaries and wages were frozen at FY 2019-20 levels. Various non-personnel line items were reduced by 10% or more, while others, like insurance premiums, were adjusted upwards based on available information. Campus departments are expected to live within the constraints imposed by the pandemic and related decisions to limit or reverse budget growth. The following highlights specific decisions made to develop the proposed revised budget for FY 2020-21.

Compensation

The approved budget assumes no salary or wage increases for continuing employees during FY 2020-21. Based on year-end results and on present instructional needs, we have made a minor adjustment of \$324,000 to the faculty salary budget. The budget assumes no changes to the number of staff employed by the College during the year, although some staff may be reassigned based on operational needs.

The College implemented a premium pay bonus of \$100 per week through November 22, 2020 for on-campus hourly employees who have frequent and regular contact with students or other community members. Employees in EVS, Maintenance & Heat Plant, Dining Services, the Campus & Community Store, Events Management, and Public Safety are eligible for these payments. The cost of this premium pay over the semester is estimated at \$150K.

Unrelated to the Covid-19 pandemic, the College has experienced a sharp upturn in utilization of its medical and prescription benefit plans for employees. This resulted in an unfavorable budget variance of \$2 million for **employee benefits** in FY 2019-20. We estimate that the College's cost for medical benefits will increase by an additional \$1 million in FY 2020-21. On a premium equivalency basis, this increase would amount to an increase of 9.8%. Consistent with past practice, we expect to absorb this increase proportionally between the College and its employees through premium cost sharing. Depending on plan choices and family coverage, this increase in premium cost sharing would range from under \$1 to approximately \$70 per month in pre-tax dollars for faculty and staff. The increased cost to be picked up by the College would range from \$42 to \$188 for the same range of plans. We are not making any other changes to the existing health plans, co-pays, or deductibles.

The following table shows the breakdown of the revised benefits budget for FY 2020-21 with comparative data for FY 2019-20.

Description (all \$ in thousands)	FY 2019-20 Budget	FY 2019-20 Actual	FY 2020-21 Budget	% Change from FY 2020 Budget	% Change from FY 2020 Actual
Medical Benefits	\$9,673	\$11,281	\$12,359	27.8%	9.6%
403(b) Contributions	6,674	6,510	6,674	0.0%	2.5%
FICA	5,102	5,210	5,200	1.9%	-0.2%
Tuition Benefits	1,137	1,330	1,350	18.7%	1.5%
All Other Benefits	1,035	1,339	1,035	0.0%	-22.7%
Total Employee Benefits	\$23,621	\$25,670	\$26,618	12.7%	3.7%

Non-personnel Expenses

Based on changes that were implemented in March at the start of the pandemic, the FY 2020-21 budget continues the restrictions on travel and off-campus study programs, and required departments are asked to make targeted reductions (typically 10%) in other non-personnel line items. We increased the budget for facilities operating expenses to cover Covid-related changes to classrooms and residence halls, added funding for technology and equipment, and allocated funds to support our new Covid testing protocols. The following summarizes the adjustments to non-personnel expenses included in the FY 2020-21 budget.

Food services, cost of sales, has been reduced based on the number of students expected to be in residence.

As we anticipated, most **off-campus study** programs have been canceled for the fall semester and we expect that these programs will be curtailed in the spring. In constructing this revised budget, we have reduced study abroad expenses by 75% from the FY 2019-20 budget. A limited number of international students will enroll in study abroad programs in their home country in order to continue their studies, and it remains possible that some off-campus study programs may recommence in the spring semester.

We have made minor adjustments to increase the budget for **printing and publications** due to anticipated needs associated with recruiting the Class of 2025 during this highly unusual year. Many of our standard materials will need to be revised to reflect current circumstances.

The College has entered into a contract with a third party to provide Covid-19 tests for students, faculty, and staff. Our payments to the vendor are based on the number of tests performed. These costs are reflected in the budget for **services, supplies and other**. It is worth noting that we track the latest developments in testing and may be able to move to less expensive options as the semester progresses — but, to date, there is not another viable option in terms of reliability and turnaround time.

Despite efforts to establish new remote student positions as well as some one-time student jobs on campus, we anticipate there being fewer student employment opportunities in the current academic year. As a result, we have reduced the budget for **student payroll and fellowships** by \$1.4 million. This is offset by increased scholarships for work-aided students.

In March at the onset of the pandemic, we assumed that travel would likely resume in January. Given the unlikelihood of travel for athletics, admissions, or advancement, we have reduced the **travel and professional development** budget by a total of 75% from FY 2019-20. This line also covers professional development for staff. By eliminating travel for staff conferences but maintaining a budget for professional development, we are making an investment in our staff without incurring the risks and expenses of travel.

We had an exceptionally mild winter last year, so we experienced savings of over \$300,000 in our \$2.6 million budget for **utilities**. With increased energy usage in Singer Hall and decreased use of spaces elsewhere on campus, we believe that it's prudent to maintain the utilities budget at \$2.5 million for FY 2020-21.

Contingency

Given all of the uncertainties that remain ahead of us, we increased the general **operating contingency** account from \$1.8 million to \$2.5 million, or 1.53% of the revised expenditure budget. In recent years, we have tried to set aside a contingency of at least 1% for unanticipated expenses, so this slight increase seems warranted under the present circumstances.

NON OPERATING EXPENSES

The **debt service** budget is based on the debt repayment schedules associated with our current outstanding debt. We expect to issue additional long-term debt during the summer of 2021 to support a number of major capital projects.

The College's budget model anticipated \$13 million in planned spending from the endowment for **capital renewal and replacement projects**. In May, the interim budget included \$7.5 million of funding from endowment spending. These funds were invested to support academic programs and facilities (\$2.5 million), infrastructure (\$1.6 million), technology (\$1.4 million), and other critical projects. These funds have all been committed and projects are completed or underway.

In September, the Board of Managers approved additional spending of \$3.5 million to address two critical capital renewal and replacement projects. In order to preserve the purchasing power of the endowment, we funded these two additional projects through a reduction in unrestricted cash reserves. The projects are as follows:

- **Singer Hall (\$500K):** The additional funding is for miscellaneous project completion costs, including costs incurred as a result of delays caused by the Covid-19 pandemic and other change orders.
- **Backup generation plant (\$3.0 million):** In May, the Board approved a \$1 million expenditure for the design and engineering fees associated with the backup power generation plant. We are now ready to proceed with the project, which we hope to complete by the first quarter of 2022. The urgency of this project is underscored by the following:
 - This project is a critical component of the College's Energy and Utility Master Plan.
 - The College experiences frequent power interruptions from our single, medium voltage feed from our local utility provider, PECO. These power outages range from momentary blips to several days, and even the blips can cause equipment damage and jeopardize faculty research.
 - All of the outages disrupt curricular and co-curricular programs and research and each requires several hours of facilities mechanics' time to reset mechanical equipment.
 - The plant may be used to control our peak load on high demand days. This is an important function with construction of the Dining and Community Commons facility and the electrification of the campus geo-thermal system.

Transfer to/(from) Reserves

For several years, we have used reserves to offset one-time expenditures that were included in the operating budget. Our original projection anticipated the use of \$2 million from reserves to support financial aid. As part of the approved budget we included an additional transfer from reserves of \$3.5 million to fund the capital renewal and replacement projects discussed previously in this memo.

Inn at Swarthmore

The Inn at Swarthmore projects an operating loss of \$342K for FY 2020-21. The overall revenue and expenditure budgets have been reduced from FY 2019-20, and are based on an assumption that occupancy will continue at less than 50% capacity until January, when it will gradually increase to the mid 70's. Banquet business is very slow at this time, and the restaurant is managing at limited capacity and staffing, with most seating outdoors. The hotel's management has trimmed expenses to offset much of the loss in revenue.