AD HOC FINANCIAL PLANNING GROUP RECOMMENDATION

TO THE SWARTHMORE COLLEGE BOARD OF MANAGERS

(Approved by the Swarthmore College Board of Managers, December 5, 2009)

The credit crisis that began in 2007 and the ensuing financial market decline and economic recession has changed the environment for private higher education. Swarthmore's history of prudent investment policies and conservative financial management positioned us well. Nonetheless, since we are a highly endowment-dependent institution, the endowment loss presented a set of budgetary challenges. This report to the Board of Managers summarizes the work that has been done to address these challenges and offers recommendations to return the College to financial sustainability. The Ad Hoc Financial Planning Group has developed a $15 million contingency plan, of which $8 million is recommended to be implemented over the next three to five years. Of the $8 million in spending cuts and revenue increases, about $6.9 million in measures have been identified here. The remaining $1.1 million will necessitate steps that would benefit by longer-term strategic consideration. The Ad Hoc Financial Planning Group proposes that the College embark next year on a comprehensive strategic direction-setting process.

Introduction

It is helpful to review how the "Great Recession," as it is now called, has evolved and affected the College. The College's endowment peaked in the summer of 2007 at $1.441 billion. The deterioration of the credit markets over the course of the 2007-08 fiscal year resulted in a slight decline in the endowment to $1.413 billion in June 2008. The sharp decline in worldwide financial markets began in the fall of 2008; and by December, the magnitude of the historic economic downturn was clear. At its December 2008 meeting, the Board of Managers reviewed the impact of the financial crisis on the College and adopted a set of planning assumptions for which we needed to develop a plan of response. These assumptions included the expectation of a 30% decline in the endowment and a significant increase in the financial aid needs of students.

The College was financially strong and well-positioned going into the recession. Because Swarthmore has one of the highest endowment-per-student ratios, its budget is heavily endowment-dependent. In recognition of our reliance upon the endowment and our desire to preserve intergenerational equity, the endowment's investment policies stress preservation of capital and protection against downturns in the financial markets. The endowment included an allocation to Treasury bonds to help protect against declines in the equity markets, and it had ample liquidity to meet investment and budgetary needs. The College operating budget was also in good shape. Compensation goals for faculty and staff had been met, and there was adequate annual funding for facilities capital needs and little deferred maintenance. The endowment spending rate was at the low end of its target range. All major capital projects had been fully funded, and no projects had been started in anticipation of future funding. The College had just completed a decade of growth in the academic program, financial aid, and facilities financed by *The Meaning of Swarthmore* capital campaign and above-average endowment investment return. Based on these factors, along with strong admissions statistics and a high alumni participation rate in annual giving, the Moody's and Standard & Poor's bond rating agencies had awarded Swarthmore their highest ratings of Aaa and AAA, respectively, which have been maintained during the crisis.

As a result of these prudent investment policies, Swarthmore's endowment decline was more moderate than those of many other institutions. Moreover, some of the budgetary impact of the decline could be absorbed by a rise in the College's low endowment spending rate. We avoided many problems experienced by other institutions (liquidity pressures, investment losses in operating cash, pre-existing budget issues, and an already high endowment spending rate). Our strong financial position gave us flexibility in choosing an approach to address the issues.

Despite these relative advantages, however, the magnitude of the endowment decline still requires a significant budgetary adjustment. The endowment at June 30, 2009, as shown in Exhibit 1, is back to its 2004-05 level following a partial recovery since March. Over these years, the College budget has grown significantly. With no basis for expectation of a near-term return to the levels of 2007, we must adjust the budget accordingly.

The April 2009 report from the Middle States accreditation team remarked on the exceptional nature of the Swarthmore community, noting, "Like the financial wealth that buffers the College from economic perturbations, this relational trust buys Swarthmoreans the time they need to deliberate thoughtfully and conscientiously…" The Board recognized that an overly harsh and hasty response to the crisis could have undermined this sense of trust. Consequently, it developed a process that was deliberative and intent on preserving community trust. Importantly, the Board allowed a year for the development of the full plan, providing ample time for in-depth deliberation and community involvement. This approach also had the advantage of giving us time to see how the situation developed before taking actions which had the potential to significantly damage the College. Swarthmore has enjoyed a remarkable advantage in being able to take the time to craft a response which maintains the College's core values and excellence.

The Board constituted the Ad Hoc Financial Planning Group in the winter of 2009. It included Board members, faculty, staff, and senior administrators and was charged with developing a plan to return the College to long-term financial sustainability over the next several years—that is, to adjust the College budget to the realities of a smaller endowment. In the spring, the Board of Managers approved the 2009-2010 budget of $107.0 million, which included the first phase of the College's response. A salary freeze for faculty and staff, departmental budget reductions, and deferral of facilities capital projects were key components of the College's immediate response. With a responsible budget set for this fiscal year, the Ad Hoc Financial Planning Group was then able to focus on longer-term actions.

The Ad Hoc Financial Planning Group was asked initially to address a $15 million budget gap. This figure was derived using the planning assumptions mentioned earlier—i.e., a 30 % decline in the endowment and a significant increase in financial aid needs. The $15 million was the amount of new revenues or budget reductions needed to return the College to a 5% endowment spending rate over the next three to five years. Historically, 5% is the maximum average annual spending from the endowment that will preserve the purchasing power of the endowment over time and thus our ability to provide equitable support for future generations. In other words, part of the impact of the decline in the endowment on the budget could be absorbed by allowing the spending rate to rise from 4.1% (its level in 2008-09) to 5%.

Over the summer, significant work took place to develop the components of the $15 million plan. This framework included both revenue generation and cost reduction elements. Detailed plans to achieve the budget reduction targets for academic and administrative departmental reductions were developed. Specific actions were analyzed following the guiding principles outlined in this report and were assigned to various levels of difficulty to implement.

Fortunately, the summer also saw some recovery in the economy and positive returns in the financial markets. The endowment ended the 2008-09 fiscal year at $1.129 billion on June 30, 2009 with an investment return of negative 16.8%, far better than the planning assumption of negative 30%. Financial aid needs, while higher, fell within our estimates.

In early fall, the Ad Hoc Financial Planning Group and the Board of Managers worked to determine how much of the $15 million plan should be implemented in the next phase given the improved financial situation. In September, the Board of Managers determined that approximately $8 million of the plan should be implemented. This document presents the details of this $8 million phase. The remainder of the $15 million plan is available as a contingency plan. Because uncertainty and volatility in the financial markets is likely to remain for some time, it is important to have this latter plan in the event further action is needed later.

A key feature of the process over the past year has been the high level of community dialogue and involvement. The Ad Hoc Group established a web site with information on the financial situation and the process for responding to it. It featured a "suggestion box" through which faculty, staff, and students could submit comments; and more than 150 submissions were received. Many meetings were held with faculty, staff, and students throughout the process to report on the Ad Hoc Group's and the Board's deliberations and to solicit feedback. In the fall, the Student Financial Advisory Panel was formed to further facilitate student input.

The input from the community has already resulted in some improvements in our operations. The College Bookstore has developed a wholesale purchasing program that provides discounts on a range of purchases made by academic and administrative departments. The College has updated and reissued its expense reimbursement and travel guidelines. Students generously gave back some surplus student activities' funds to pay for some items not able to be funded by the College budget and to establish a revolving fund for sustainability initiatives.

The recommendations in this report have been shared with the community in recent weeks.

Guiding Principles

Several key principles guided the work of the Ad Hoc Group, and many options were considered before it reached its conclusions. Members of the group were guided by the following principles:

- Preservation of the College's academic excellence
- Protection of need-blind admissions and accessibility for qualified students from all economic backgrounds
- Provision of strong support for students
- Commitment to the community, seeking a balance between the common good and the individual good, and shared contributions across the community
- Stewardship of the endowment to achieve intergenerational equity

Need for Strategic Review of Future Directions

The Ad Hoc Financial Planning Group had a very specific short-term financial charge—to develop a $15 million contingency plan and identify within it the $8 million to be implemented next. As we studied the budget and Swarthmore's academic aspirations, we recognized that several key issues required much further in-depth and strategic examination that should be undertaken in a broader context than the immediate financial one. We recommend that the Board of Managers initiate a strategic direction-setting process to begin next year to consider such key areas as academic aspirations, support for students, size/enrollment, need-blind admissions and financial aid policy, and tuition policy.

Such a study of fundamental commitments and their relation to one another should be undertaken with attention to demographic patterns relating to future student applicants and faculty candidates; cultural patterns of the next generation of college students; changing patterns of faculty work; interdisciplinarity and curriculum design; development potential of alumni, friends, and parents; and trends in the external environment for liberal arts higher education. An analytical and comprehensive process to set the strategic direction for Swarthmore should review planning reports from the earlier efforts in 2007-08 and incorporate where possible those components that still make sense in the new economic environment. The strategic direction-setting effort should result in a vibrant and significant vision of the future of Swarthmore that will lead the College into the next comprehensive fundraising campaign. It should articulate a compelling vision of Swarthmore as the leading model for liberal arts education in the world.

Closing the Budget Gap: Recommendations

Swarthmore's strategy to close the budget gap involves a careful phasing of actions. The first set of decisions were adopted by the Board of Managers in the spring of 2009 and implemented for the 2009-10 budget. These decisions are described below. The second phase is the $8 million plan of recommendations included in this report. Much of this will be implemented in the 2010-11 budget although some parts will be identified and implemented in the following two to four years. The advantage of this phasing is that actions can be adjusted and fine-tuned as financial circumstances warrant, minimizing negative impact on the College.

Throughout this process, and drawing on the guiding principles, we have attempted to avoid budgetary-driven layoffs and elimination of important programs, preserve need-blind admissions, and resume salary increases for both faculty and staff.

Phase 1: Spring 2009 Decisions: $3.2 million in ongoing budget adjustments and $9.1 million in temporary, non-sustainable adjustments.

The College's 2008-09 budget, constructed prior to the economic downturn, is summarized in Exhibit 2. The endowment provided $57.3 million in support to the budget or 50% of the $115.2 million in expenditures, a 4.1% spending rate. Factoring in the 30% endowment decline we were facing last spring, the endowment spending rate in our budget models would have exceeded 6 % in subsequent years if no adjustments were made. This rate is not sustainable. If allowed to continue for very long, it would result in a substantial erosion of the endowment.

The Board of Managers adopted the 2009-10 budget last spring. As shown on Exhibit 2, it included a lower level of endowment spending, $46.9 million. This was a reduction of $10.4 million from the year before. Total expenditures are $107.0 million, a decrease of $8.2 million from 2008-09. In order to balance the budget, a series of actions were taken. Some of these were permanent in nature and incorporated into the base budget. Other temporary measures helped reduce the draw from the endowment for, but not beyond, the next three years. These measures resulted in a budget with a responsible level of endowment spending while the longer-term plan was developed.

Exhibits 3 and 4 show the Phase 1 Spring 2009 Decisions for the 2009-10 budget. These are briefly described below.

Sustainable Budget Actions

Enrollment ($519,000)

An additional 35 students will be added over three years. This will bring the average on-campus enrollment target to 1420 students. Because we have housing capacity for these students and admissions applications are strong, this increase was feasible. Possible further increases in enrollment would be more difficult as higher enrollment would involve housing issues, other space needs, and adding faculty and staff.

<u>Salary Freeze for Faculty, Staff, and Students ($1,190,000)</u>

There were no salary increases for faculty, staff, or students in 2009-10. Many, if not most, of our peer institutions took the same action, so we feel our compensation remained competitive. The community gracefully and willingly contributed to solving the budget challenges by accepting this action on behalf of preserving the College's excellence and sense of community.

<u>Academic/Administrative Budget Reductions/Restructurings ($1,815,000, of which $1,441,000 were sustainable)</u>

All departments of the College trimmed their budgets. Brief descriptions of these reductions appear in Exhibit 4.

<u>Unsustainable, Three-Year Budget Actions</u>

<u>Reduction in Facilities Capital Budgets ($5,772,000)</u>

The College budget in 2008-09 included about $9 million for facilities capital budgets (i.e., major renovation and maintenance projects). This was reduced to about $3 million per year for the next three years. After that, however, the capital budget must be restored to a more sustainable level. Because College funding for facilities has been robust, we do not have a significant backlog of deferred maintenance, making deferral at this time possible.

<u>Use of Reserves ($2,950,000</u>)

Years ago, the College established a budget reserve which would be available in just such emergencies as these. This reserve will provide $750,000 per year for the next three years in order to reduce endowment spending by a similar amount. The technology reserve will also provide $700,000 for technology needs in lieu of money from the budget. It is estimated the budget reserve will remain at its adequate baseline level of $2 million, even after these withdrawals. This is the first time this reserve has been used in a significant way since its inception. It has provided valuable flexibility.

Phase 2: Fall 2009 Recommendations: $8 Million in Ongoing Budget Adjustments to be implemented starting in 2009-10

The Ad Hoc Financial Planning Group is recommending an $8 million plan for consideration by the Board of Managers at its December, 2009 meeting. The components of the plan are outlined in Exhibits 5 and 6. This plan will close the estimated budget gap and result in a sustainable budget within five years under the key assumptions outlined below. Essentially, it replaces the temporary actions of the Phase 1 Spring 2009 Decisions with long-term sustainable actions. It adjusts the College budget to "fit" the smaller endowment.

The $8 million estimated budget gap was generated using the following key assumptions:

- The endowment's negative 16.8% return for 2008-09 is expected to be followed by returns of 0% in 2009-10 and then 7% per year for the next four years. This is below the long-term historical average, reflecting a presumed slow recovery in the financial markets. There will be no "bounce-back" to the previous high levels.

- There will be increased needs for financial aid during this period.

- The endowment spending rate will rise to 5%.

- Tuition increases and salary increases for faculty and staff will be based on the factors we have used historically—i.e., inflation, increases in national family incomes, peer comparisons. In the case of faculty salary increases, reductions from these base assumptions may be made to generate savings as will be discussed below.

Components of the $8 Million Plan

Fundraising ($1,000,000)

Each year the College receives gifts and bequests which go into the endowment. Each new endowment gift generates an annual spending distribution. During *The Meaning of Swarthmore* campaign, new gifts to the endowment supported new programs, increases in faculty, and financial aid. Ongoing budgeted expenditures did not rely on these new gifts. Rather, they enabled the College to add new programs. Although the campaign has concluded, new gifts and bequests will continue to be received. While some of these will be for new items, many will be unrestricted and can be used to support the budget. We propose that $3.5 million of gifts per year be added to the endowment to support the budget.

In addition, we propose increasing the annual fund goal by $300,000 over the next five years. This recognizes the efforts under way by the Development Office to increase these gifts.

Both these efforts will take place over the next several years. By the end of five years, the cumulative impact on the budget will be an additional $1 million per year.

Facilities Capital Projects ($2,500,000)

Facilities capital projects have been reduced greatly for the next three years, as mentioned earlier. At the end of that period, they must be restored, as several major projects cannot be deferred beyond that. The Ad Hoc Group recommends that the annual funding level be restored to a level about $2.5 million below where it would have been had there been no economic downturn. We propose the annual level be restored to about $7 million per year, beginning in 2012-13. This will require careful attention to project prioritization and selection.

Academic and Administrative Budget Reductions/Restructurings ($2,224,000)

The Phase 1 Spring 2009 Decisions implemented in 2009-10 included $1,441,000 in permanent departmental budget reductions. The next set of reductions (Phase 2A) is deemed to be the least detrimental and can be implemented starting in 2010-11. These amount to $2,224,000 and are recommended for inclusion in next year's budget (except for those which will be phased in, as discussed below). Some of these reductions can be described as "belt-tightening", while others involve true restructuring. No layoffs are included; however, a total of 9 positions, totaling 4.5 full-time equivalent positions, can be eliminated through attrition. This is in addition to the 2 positions that were eliminated in 2009-10, also through attrition.

Exhibit 6 describes the specific reductions in each area to be implemented starting next year. The non-academic areas will be implementing $1,091,000 in reductions. The Facilities and Services area is the largest contributor with reductions of $411,000.

The academic area (departments, interdisciplinary programs, and Provost's Office) will be contributing $1,133,000. There will be some reductions in operating budgets, covering curriculum as well as office functions, but most reductions will come from among the three areas listed below. The faculty members of the Ad Hoc Group worked with the President and Provost and consulted extensively with the faculty in both large and small groups to identify these areas:

- Lower salary increases than usual for Assistant, Associate, and full Professors
- Reduction in annual leave replacements and other temporary (non-tenure-track) hires
- Elimination of tenure-track positions

The composition of the $1,133,000 academic area portion of the $8 million plan is still under discussion. Specific actions will be included in the detailed budget proposal to the Board of Managers at its February meeting.

To make possible the elimination of tenure-track positions by attrition, and yet avoid the arbitrary impact on the curriculum of individual retirements and resignations, the hiring of new tenure-track faculty will be temporarily deferred, until a number of vacancies exist for more strategic consideration. In October 2009 the Faculty approved Guidelines to be used by the Council on Educational Policy, the Provost, and the President in making future allocations of tenure lines (Exhibit 9).

Exhibit 7 shows the reductions by area for both the Phase 1 Spring 2009 Decisions and the Phase 2 Fall 2009 Recommendations. Exhibit 8 shows the total of the two and compares it with the pro rata portions of the budget for each area. The academic department, information technology, library, athletics, dean, and admissions reductions are somewhat smaller than their pro rata portions while the other administrative areas have somewhat larger shares. Total reductions for the two phases as a percent of the pre-crisis 2008-09 budgets ranged from 2.5% (ITS) to 9.3% (Human Resources). Overall, the reductions average 4.6%.

<u>Financial Aid ($457,000)</u>

The College remains committed to a need-blind admissions policy and a financial aid policy which meets the demonstrated needs of all qualified students. In 2008-09, the College adopted the loan-free policy which eliminated a suggested student loan from financial aid packages and replaced it with scholarship. Another component of the financial aid package is a term-time work expectation. A summer earnings expectation is also included for students.

A modest increase in summer work expectation is suggested. The summer earnings expectation, at $1450 for first year students and $1890 for returning students, has not increased in many years. This expectation is below what many of our peer institutions expect. The exact increase has yet to be determined and will be part of the February budget proposal.

Many other options for savings in financial aid were considered. The College's scholarship expenses have increased at a steady pace, rising from 24% of gross student charges in 1993 to over 34% in 2009. The College funded this increase through the capital campaign and rising endowment income; but this growth is unlikely to be sustainable in the future. The Ad Hoc Group recommends this issue be considered in the planning effort.

<u>Benefits ($400,000)</u>

The Faculty/Staff Benefits Committee was charged with identifying ways to save money in the benefits budget of the College. It developed some options, which it presented at four campus meetings. Employee feedback favored the following adjustments:

- <u>Adjust the cap for the College's tuition benefit for employee children to 40% (instead of 42%) of Swarthmore's tuition:</u> The College's tuition remission benefit pays a portion of the college tuition of faculty and staff children. This remains a benefit commonly offered by peer institutions. Reducing the benefit somewhat saves about $38,000 per year.

- <u>Restructure the health plans offered and the College's share of that cost:</u> Replacing the base plan option offered by the College with a comparable, but less expensive plan and restructuring the portion of the cost paid by the College will save $362,000.

The Ad Hoc Group and the Faculty/Staff Benefits Committee have spent much time examining the College's benefit bank contribution. This is a cash benefit that only some employees receive: e.g., those who elect specific lower cost non-family health coverage through the College. It is a vestige of a benefits structure adopted by the College in 1985. At that time, the College adopted a flexible benefits plan that attempted to equalize the monetary benefits for each employee. Employees who elected lower cost health coverage received a cash benefit bank payout instead. As time went on, this practice did not prevail among employers, and the College's plan became increasingly unique.

The Ad Hoc Group recognized that the cost of health insurance has increased at an unsustainable pace. As Exhibit 10 demonstrates, the College has assumed the majority of increases in the growth of the cost of health insurance. The College's compensation goals for both faculty and staff are to provide competitive compensation, including both salaries and benefits, relative to appropriate peer groups. In order to maintain competitive health insurance coverage, it will be necessary over time to eliminate the College contribution to the benefit bank and redirect the funds to cover health insurance premiums. The Faculty/Staff Benefits Committee will need to analyze thoroughly and systematically how best to use the resources now benefiting only some of our employees to best address rising health insurance care costs for all.

<u>Executive Compensation ($175,000)</u>

Restructuring of compensation will result in about $175,000 in savings over the next several years.

<u>Interest Income ($100,000)</u>

The College hopes to achieve additional interest income on operating cash through increased interest rates.

<u>Options for the Remaining Savings to be Identified ($1,144,000)</u>

The Ad Hoc Group is recommending that the Board of Managers adopt the above recommendations and that these be incorporated into the College budgets for 2010-11 and beyond. There remains $1,144,000 of the total $8 million plan yet to be identified, and several approaches are being considered to close this gap.

It is important in any model to have some flexibility to adjust to changing conditions and results as well as expectations for the future. Next year at this time, we will be updating this model and evaluating the need for further action. This segment may increase, decrease, or disappear entirely. For that reason, we are recommending that no decision be made on the final $1,144,000 at this time. Rather, we propose a full consideration of several options should it become necessary to find additional savings. By virtue of the fact that these have not already been recommended, they are more difficult options; and deliberation of them will benefit from the broader strategic direction-setting effort.

Closing Summary

The Ad Hoc Financial Planning Group recommends that the Board of Managers:

- Adopt the $8 million plan described above. $6.9 million of this has been identified and would be immediately incorporated into the next few years' budgets. Decisions for the remaining $1.1 million would be made next year through the College's normal budget process in conjunction with a strategic direction-setting effort.

- Continue to monitor closely financial conditions to determine if more of the $15 million contingency plan needs to be implemented.

- Establish a strategic direction-setting effort to begin next September.

Upon approval, these recommendations will be reflected in the detailed 2010-2011 budget proposal and updated five-year projection which will presented to the Board of Managers at its February, 2010 meeting. That report will also include recommendations for the increases in student charges and compensation increases for faculty and staff.

In closing, we want to acknowledge the hard work of all the members of the Ad Hoc Financial Planning Group. They have expended countless hours over the past year grappling with these challenging issues. All have served as excellent representatives for their respective areas-- the Board of Managers, faculty, staff, and administrative departments. Most importantly, however, they and we have sought to keep the larger interests of the College in mind and to preserve the College's core values during this difficult period.

The members of the Ad Hoc Financial Planning Group were:

Board of Managers

Barbara W. Mather, Chair

Salem Shuchman

David Singleton

Thomas Spock

Administration

Stephen Bayer, Vice President for Development and Alumni Relations

Alfred Bloom, President (through June 30, 2009)

James Bock, Dean of Admissions

Garikai Campbell, Acting Dean of Students (effective July 1, 2009)

Rebecca Chopp, President (effective July 1, 2009)

Maurice G. Eldridge, Vice President for College and Community Relations and Executive Assistant to the President

C. Stuart Hain, Vice President for Facilities and Services

James Larimore, Dean of Students (through June 30, 2009)

Constance C. Hungerford, Provost

Suzanne P. Welsh, Vice President for Finance and Treasurer

Melanie Young, Vice President for Human Resources

<u>Faculty</u>

Nathalie Anderson, English Literature

Stephen Golub, Economics

Thomas Stephenson, Chemistry and Biochemistry

Sarah Willie-LeBreton, Sociology and Anthropology

<u>Staff</u>

Sharmaine Lamar, Equal Opportunity Officer

Mary Marissen, Mc Cabe Library

We would also like to acknowledge the leaders of Student Council and the members of the Student Financial Advisory Panel for acting as liaisons with the student body throughout this effort:

<u>Student Council</u>

Rachel Bell ’10 (President, 2009-2010)

Nathaniel Erskine ’10 (Vice President, 2009)

Yongjun Heo ’09 (President, 2008-2009)

Student Financial Advisory Panel

Rachel Bell ‘10

Nathanial Erskine ‘10

Anjali Jaiman ‘10

Jung (Kevin) Kim ‘11

Nick Malinak ‘10

Robert Manduca ‘10

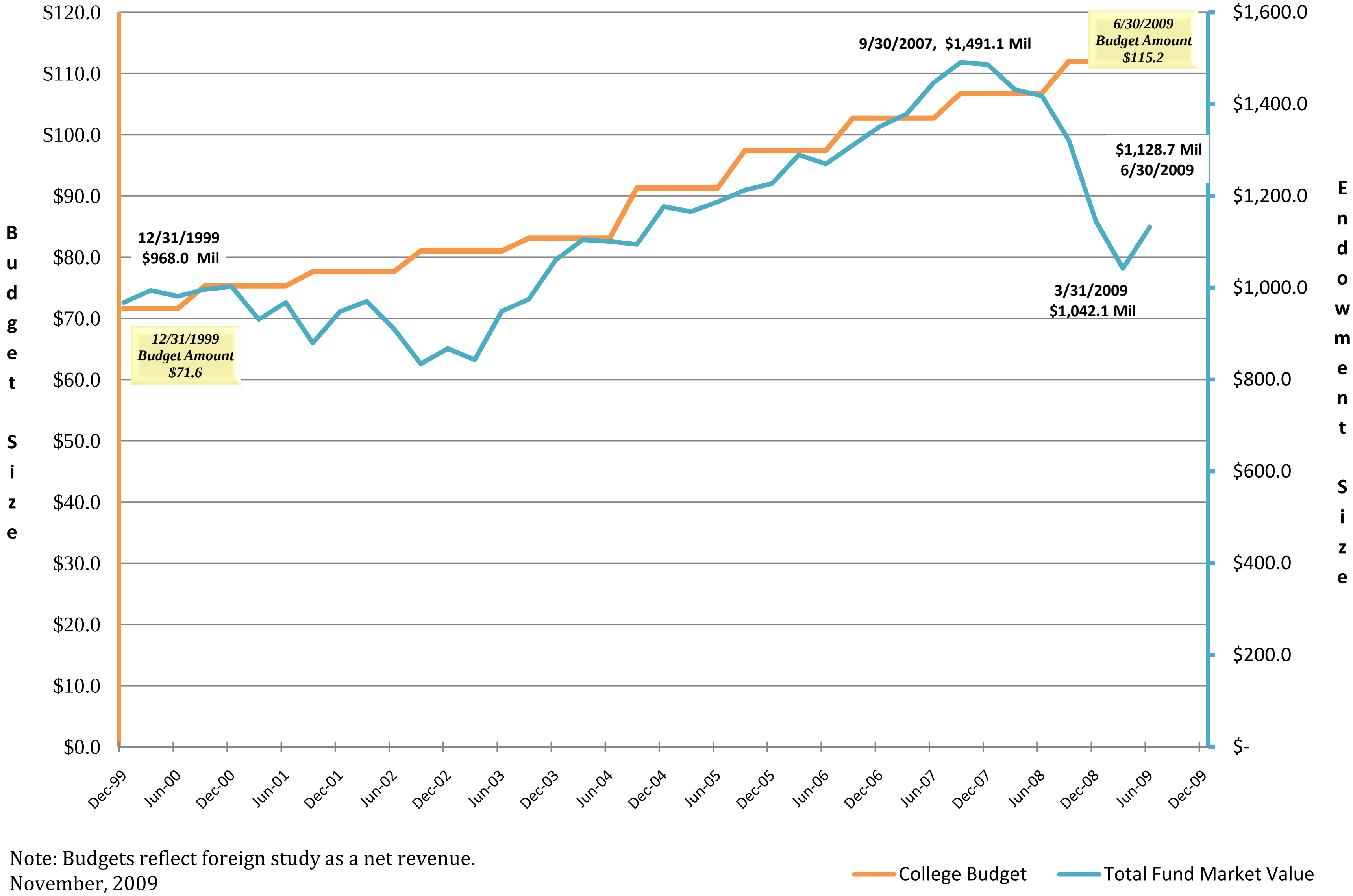
Daniel Symonds ‘11

Simon Zhu ‘11

Addendum

At its December 5, 2009 meeting, the Swarthmore College Board of Managers accepted and endorsed these recommendations of the Ad Hoc Financial Planning Group. The recommendations will be incorporated into the detailed 2010-11 budget proposal to be presented to the Board at its February, 2010 meeting.

Swarthmore College
Ad Hoc Financial Planning Group Report
Endowment Size and Budget Size



Note: Budgets reflect foreign study as a net revenue.
November, 2009

Exhibit 1

Swarthmore College
Ad Hoc Financial Planning Group Report
2008–2009 and 2009–2010 Operating Budgets
($ in millions)

	2008–2009		2009–2010	
Average Enrollment				
On Campus	1390		1406	
Foreign Study	79		83	
Revenues	$	% of Total	$	% of Total
Student Charges (net)	$46.2	40%	$48.2	45%
Endowment Spending	57.3	50%	46.9	44%
Gifts and Grants	7.5	6%	7.5	7%
Other	4.2	4%	4.4	4%
Total	$115.2	100%	$107.0	100%
Expenditures				
Compensation	$66.0	57%	$66.7	63%
Departmental Expenses	23.3	20%	22.4	21%
Capital Expenditures	10.8	10%	2.5	2%
Debt Service	11.7	10%	11.9	11%
Utilities	3.4	3%	3.5	3%
Total	$115.2	100%	$107.0	100%

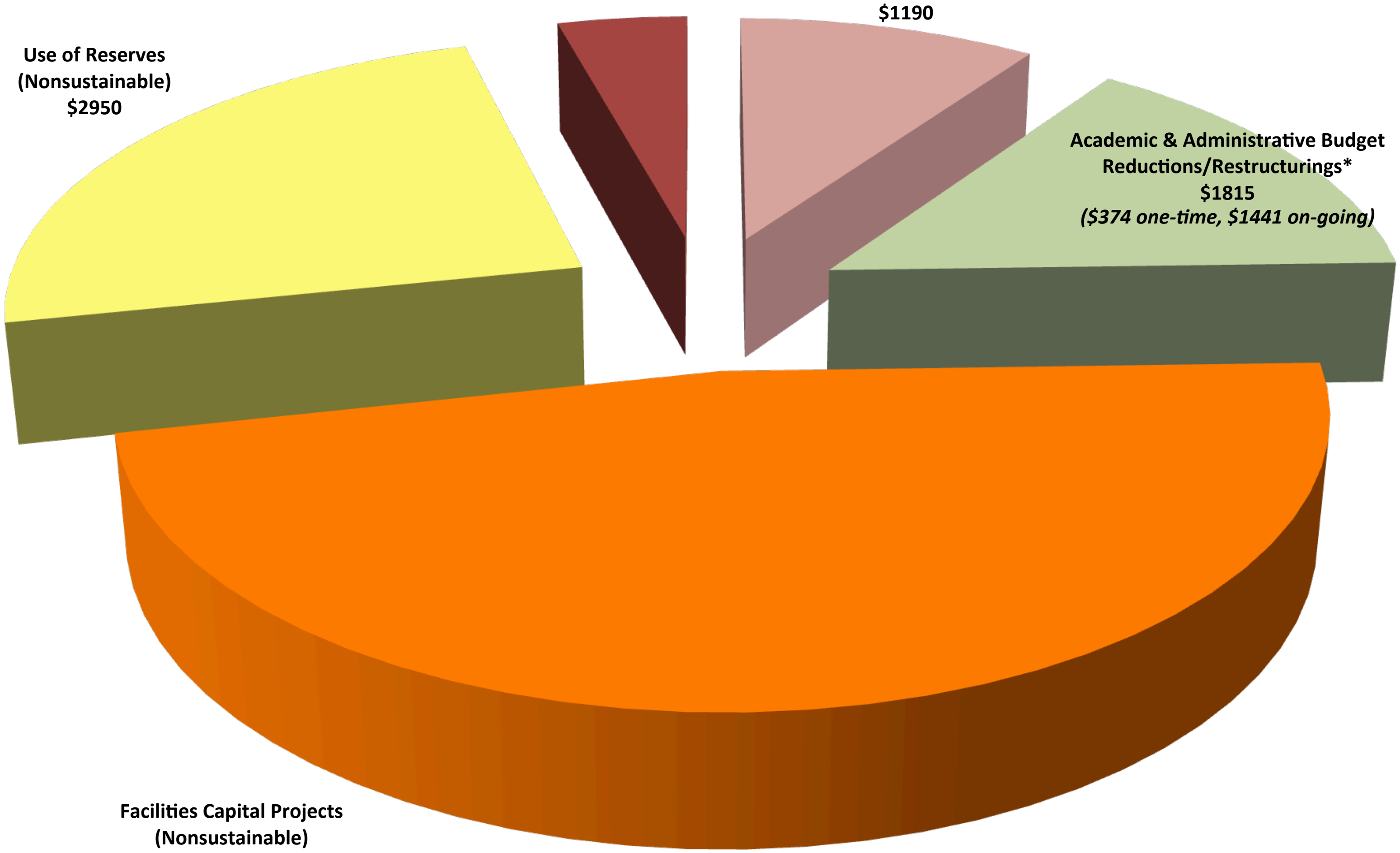
- Internal basis, reflects disaggregation of foreign study revenues and expenses.

November, 2009

Exhibit 2

Swarthmore College
Ad Hoc Financial Planning Group Report
($ in thousands)

Phase 1: Spring 2009 Decisions: Implemented in 2009–2010



* Excludes Development expenses which are accounted for differently.

Exhibit 3

November, 2009

SWARTHMORE COLLEGE
AD HOC FINANCIAL PLANNING GROUP REPORT
SPRING 2009 DECISIONS: IMPLEMENTED IN 2009-2010

Budget Actions	Amount
Salary Freeze for Faculty, Staff, and Students Savings if there otherwise would have been a 2% increase	$ 1,190,000
Additional 16 Students (net of financial aid, assuming same mix of students)	$ 519,000
Departmental Reductions (% of each respective area)	
Admissions and Financial Aid (2.2% reduction) New proposals for all print publications and attrition of one open staff position	$ 77,714
President/Communications (1.3% reduction) Elimination of Garnet Letter and electronic conversion of parent newsletter	$ 44,000
Dean (2.3% reduction) Reduction in printing budgets as shift to web-based publication and communication. Reduction in travel and professional development. Reduction and elimination of refreshments at meetings and events. Reduction in office supplies, publication and professional membership dues. Renegotiation of medical and professional services. Improved recovery of insurance reimbursements for lab-work and other health-related expenses. Implementation of a modest co-payment for prescription medications dispensed in Health Center. Reduction in student programming and honoraria for outside speakers. Reduction in student wage hours for campus activities and events.	$ 106,523
Development (2.1% reduction) Reduction in printing and postage costs by moving to electronic communications instead of mailings. Postponement of consulting services for campaign planning and technology support. Reduction in catering services. Postponement of of some technology purchases.	$ 105,000
Facilities and Services (4.6% reduction) Elimination of property purchase account. Reductions in small renovation projects. Savings in Dining Services. Reductions in Equipment purchases and contract services (trash and grass).	$ 781,850

SWARTHMORE COLLEGE
AD HOC FINANCIAL PLANNING GROUP REPORT
SPRING 2009 DECISIONS: IMPLEMENTED IN 2009-2010

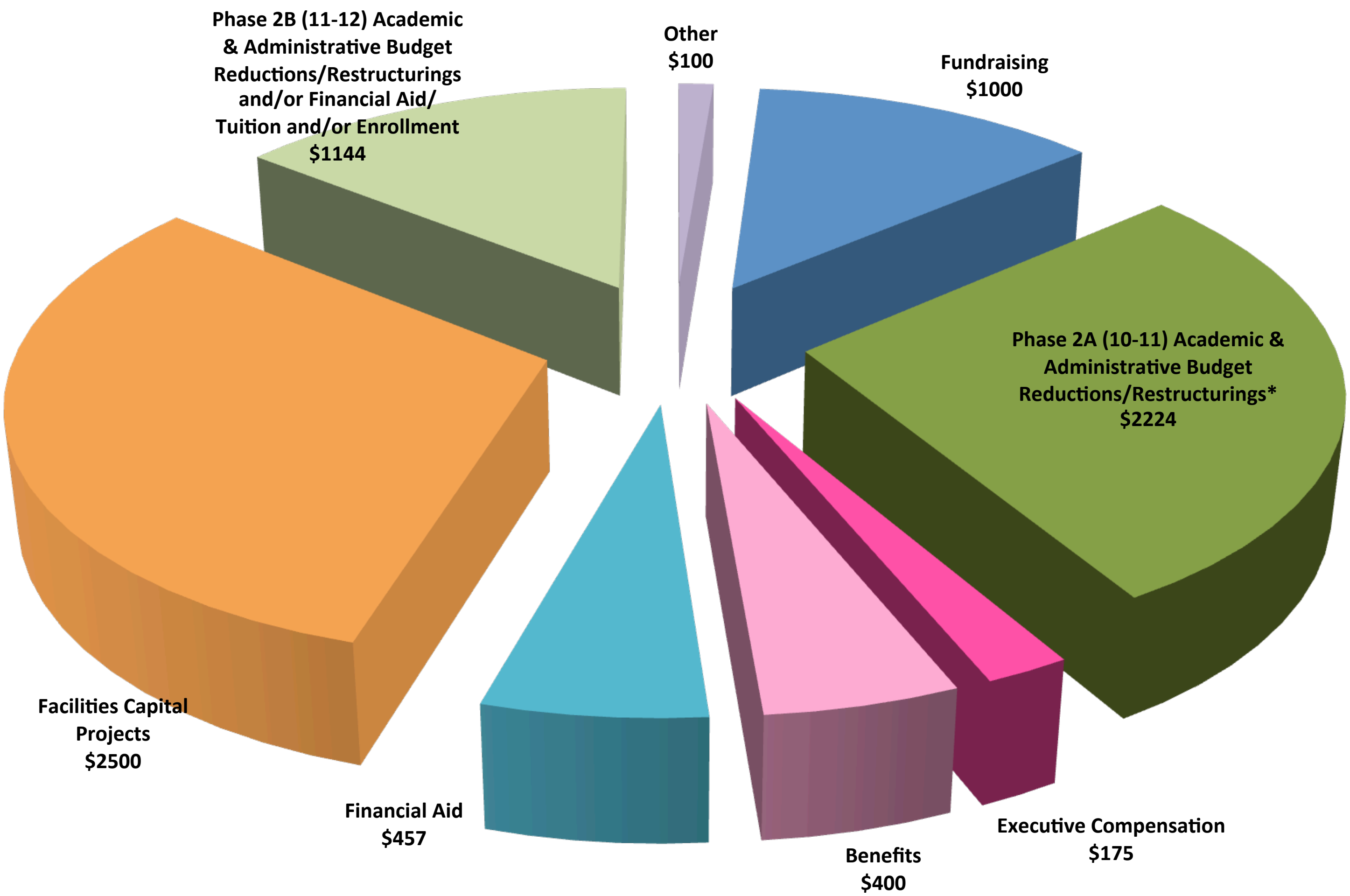
Finance (3.3% reduction) Reduction in insurance coverage. Reduction in Office Services and Business Office expenses.	$ 87,549
Human Resources (4.8% reduction) Conversion of student payroll system. Reduction of spring fling budget. Reduction of Wellness program costs.	$ 61,957
Provost	
Academic Departments (1.1% reduction) Reduction by depts. In spending for speakers, entertainment, and materials. Reduction by Provost's Office of equipment purchases, supplemental materials, and visiting committees. Will not fill one vacant tenure line. Reduction in leave replacements. Reductions one-time with permanent under consideration.	$ 373,654
Libraries (1.8% reduction) Suspension of use of external shelf-ready processing service. Ceasing to bind digitally archived journals. Reduction in materials budget (monograph books, periodicals, continuations, and audiovisuals). Reduction in Friends, Peace, and Special Collections.	$ 99,000
ITS (2.5% reduction) Reduction in operating budgets. Reversion to a 4-year replacement cycle for office computers. Reduction in number of computers and printers in residence halls(limiting to one each).	$ 120,000
Athletics (1.9% reduction) Reduction in hiring budgets(e.g., new asst. coaches). Reduction in equipment replacement for PE courses and sports medicine. Reduction in travel (teams for winter break and overnight to championships).	$ 62,000
	$ 3,628,247
Additional Temporary Reductions (not sustainable for long-term)	
Reduction in Facilities Capital Projects (each year for three years)	$ 5,772,000
Drawdown of Reserves	$ 2,950,000
	$ 12,350,247

November, 2009

EXHIBIT 4

Swarthmore College
Ad Hoc Financial Planning Group Report
($ in thousands)

Phase 2: Fall 2009 Recommendations: Proposed $8 Million Plan



* Excludes Development Expenses which are accounted for differently.

November, 2009

Exhibit 5

SWARTHMORE COLLEGE
AD HOC FINANCIAL PLANNING GROUP REPORT
PHASE 2:FALL 2009 RECOMMENDATIONS: IMPLEMENTED BEGINNING 2010-2011

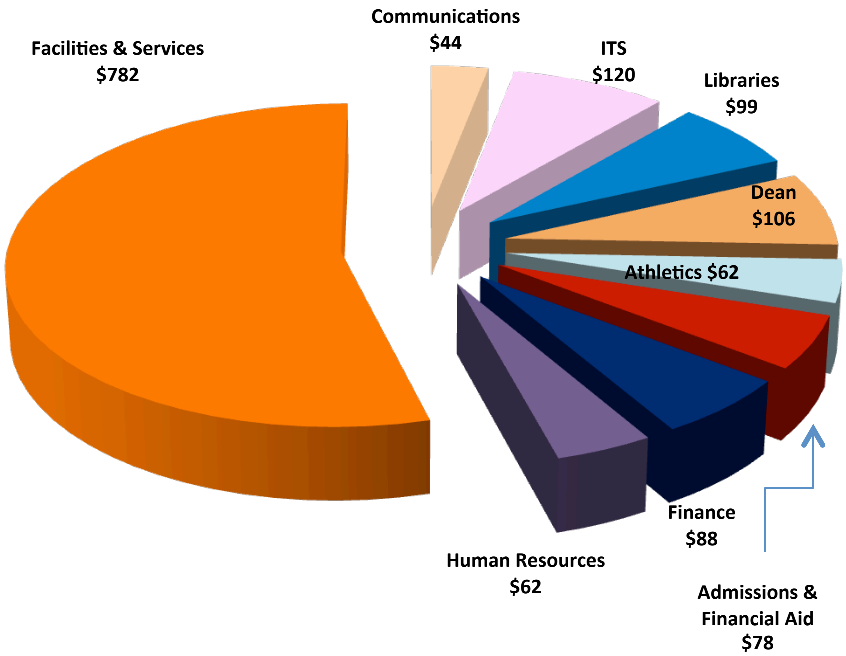
Budget Actions	Amount Phase 2:Fall 2009	*Amount Cumulative Phases 1 and 2*
Academic and Administrative Departmental Reductions		
(% of each respective area, cumulative Phase 1 and Phase 2, 4.6% reduction overall)		
Admissions and Financial Aid (4.0% reduction)	$ 65,997	*$ 143,711*
Savings in student wages, publications, advertising, memberships/dues, travel, licenses, entertainment, professional services, temporary agencies, rental fees, hardware.		
Communications (8.9% reduction)	$ 80,603	*$ 124,603*
Move to in-house design of Bulletin and reduction in pages. Compensation savings from restructuring and reduction of overtime.		
Dean (4.8% reduction)	$ 115,671	*$ 222,194*
Reductions fall predominantly in 5 areas. Reductions in: student positions, training for positions (e.g. meal tickets, outside facilitators, etc.), programming (e.g. speaker honoraria, food for events, etc.), staff development, and support for student activities (e.g. conference funding, travel for Penn courses, etc.).		
Facilities and Services (7.3% reduction)	$ 411,566	*$ 1,193,416*
Reduction of Morganwood repairs budget based on assessment of need. Reduction of utilities budget reflecting energy management success. Compensation savings from attrition and turnover. Other smaller reductions in operating budgets.		
Finance (6.0% reduction)	$ 71,677	*$ 159,226*
Savings from rebidding insurance program. Reduction in Office Services and Business Office expenses.		
Human Resources (9.3% reduction)	$ 58,563	*$ 120,520*
Reductions in all operating budgets. Reduction of Spring Fling expenses. Compensation savings through reductions in hours and turnover.		
President (7.6% reduction)	$ 153,083	*$ 153,083*
Reduction in travel, entertainment, catering, compensation, and commencement expenses.		
Provost		
Academic Departments (3.3% reduction)	$ 1,132,942	*$ 1,132,942*
Reduction in academic dept. and interdisciplinary operating budgets (honoraria for speakers, catering/food, professional services, office/teaching supplies, postage, travel, equipment, and student wages.) Reduction in Provost's Office for recruitment, external committees, student wages, faculty research support (beyond individual allowances). Reduction of instructional salary expenses through denial of requests for leave replacements and temporary hires. Possible reduction in faculty salary increases and elimination of faculty lines through attrition over the next several years.		
Athletics (3.1% reduction)	$ 41,235	*$ 103,235*
Reductions in expenses due to conference reduction of pre-season activity. Reduction through limitation of traveling squads for away games.		

SWARTHMORE COLLEGE
AD HOC FINANCIAL PLANNING GROUP REPORT
PHASE 2:FALL 2009 RECOMMENDATIONS: IMPLEMENTED BEGINNING 2010–2011

	Phase 2:Fall 2009	*Cumulative*
Athletics (cont'd.)		
Reduction of banquet expenses and meal stipends for away games.		
Reassignment of PE courses to full-time coaches and reduction of adjunct hiring.		
ITS (2.5% reduction)	$ -	*$ 120,000*
Reductions made in first phase (reduction in operating budget, increase in replacement cycle, reduction in computers/printers in residence halls).		
Libraries (3.5% reduction)	$ 92,566	*$ 191,566*
Reduction of student wages, supplies, printing, memberships/dues, maintenance contracts, hardware purchases, periodicals, and continuations.		
Compensation savings from turnover.		
Reduction in expenses of Friends Historical Library and Peace Collection.		
	$ 2,223,903	$ 3,664,496
Benefits (2.3% reduction)	$ 400,000	
Restructuring of health plans and modest reduction in tuition benefit for employee children		
Executive Compensation (5.7%)	$ 175,000	
Compensation savings over the next several years.		
Facilities Capital Projects (26.7% reduction)	$ 2,500,000	
Reduction from pre-crisis level of funding (after 3 years of temporary reduction). Based on analysis of current capital needs, including deferred maintenance and Dept. of Justice ADA requirements.		
Financial Aid (2.1% reduction)	$ 457,000	
Savings through moderate increases in the non-scholarship components of financial aid packages(e.g., term-time work, summer work, and/or loan). Options still under discussion.		
Fundraising	$ 1,000,000	
Inclusion of $3.5 million per year in gifts to endowment to support the budget plus an increase of $300,000 in the annual fund goal.		
Interest Income	$ 100,000	
Higher interest income on operating cash		
Total Identified Savings	**$ 6,855,903**	
Remaining Savings to be Identified	**$ 1,144,097**	
To be identified next year and implemented beginning 2011-12. Several options will be considered in conjunction with a strategic planning effort.		
Total Savings	**$ 8,000,000**	

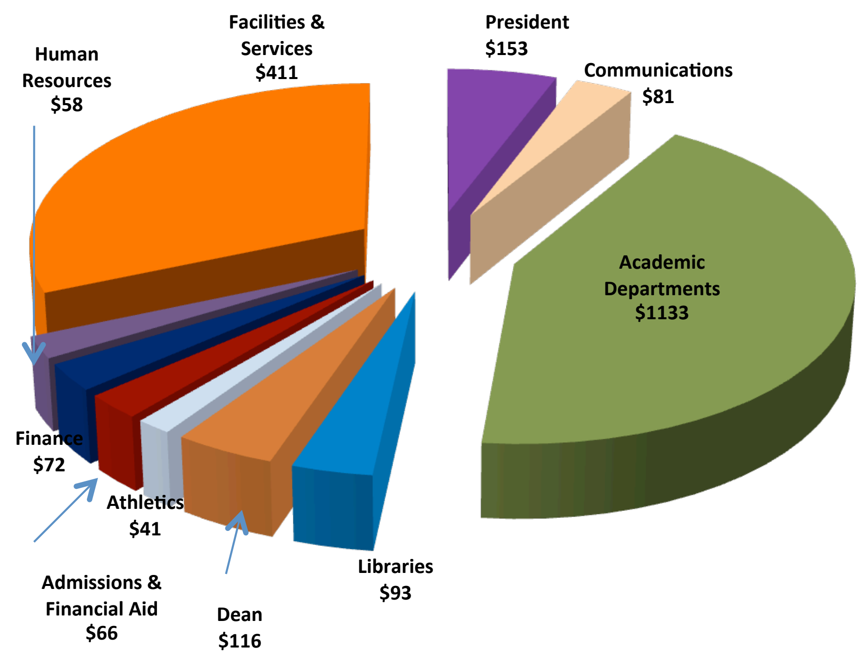
Swarthmore College
Ad Hoc Financial Planning Group Report
Academic and Administrative
Departmental Budget Reductions
($ in thousands)

Phase 1: Spring 2009 Decisions



$1,441

Phase 2: Fall 2009 Recommendations



$2,224

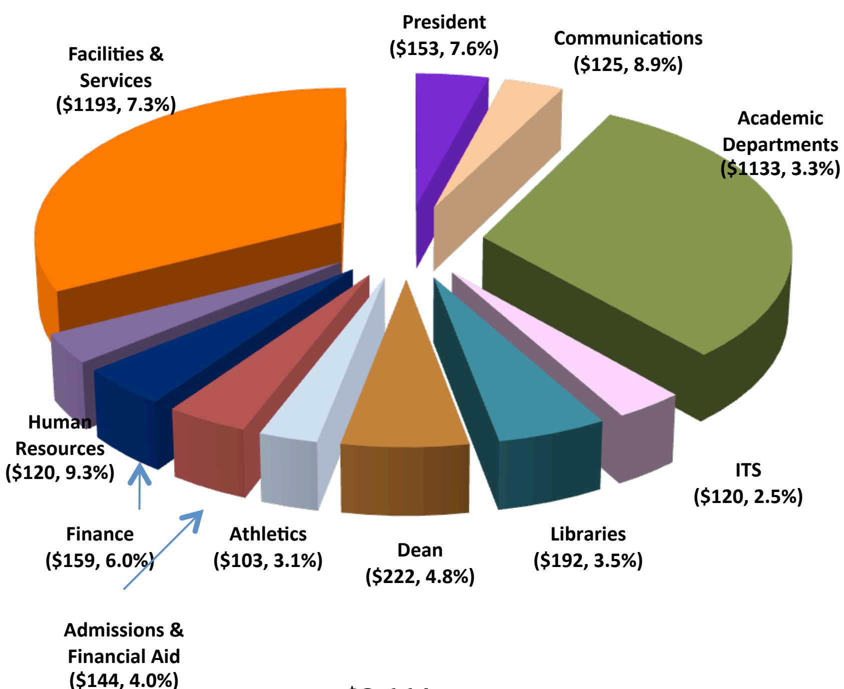
* Excludes Development Reductions ($105,000 in Spring 2009, $41,000 in Fall 2009)
** Includes only on-going reductions, not one-time
*** Figures may not add due to rounding.

November, 2009

Exhibit 7

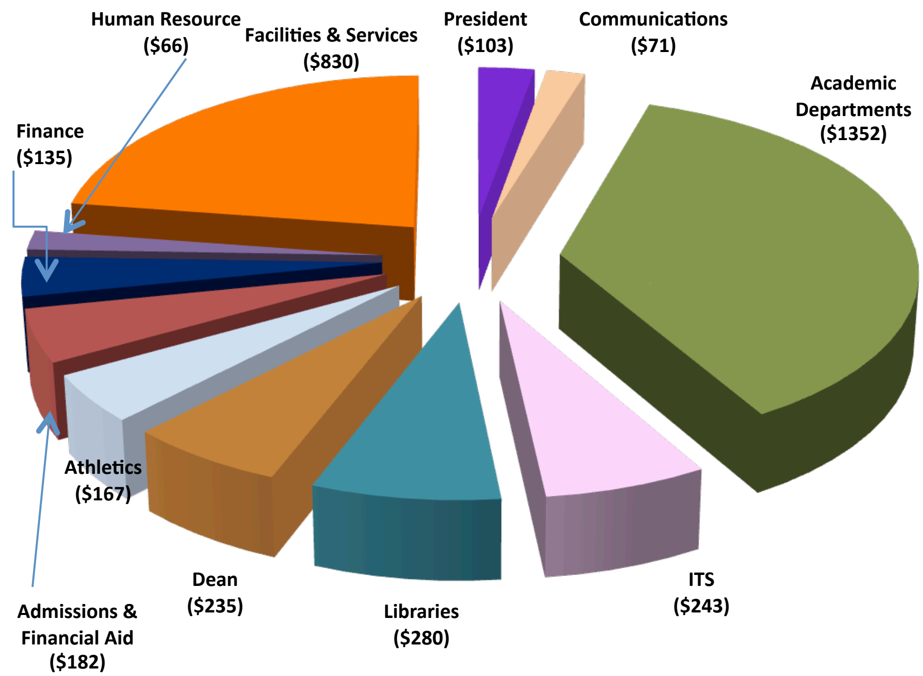
Swarthmore College
Ad Hoc Financial Planning Group Report
Academic and Administrative Departmental Budget Reductions
($ in thousands)

Total: Spring 2009 and Fall 2009
(Amount, % of respective area)



$3,664

Pro Rata *



$3,664

* Excludes Development ($146, 2.9%)
** Figures may not add due to rounding.

Exhibit 8

November, 2009

CEP Guidelines for Allocating Faculty Positions

Introduction

1.1. *Swarthmore seeks to help its students realize their fullest intellectual and personal potential combined with a deep sense of ethical and social concern.*

1.2. *Education is largely an individual matter, for no two students are exactly alike. The Swarthmore College curriculum is designed to give recognition to this fact and seeks to evoke the maximum effort and development from each student. The Swarthmore College Honors Program offers additional enriching and exciting intellectual experiences to students who choose to prepare for evaluation by examiners from other colleges and universities. Throughout the curriculum, options for independent study and interdisciplinary work offer opportunities for exploration and development over a wide range of individual goals. These opportunities typically include considerable flexibility of program choices from semester to semester, so that academic planning may be responsive to the emerging needs of students.*

1.4. *The college draws strength from tradition and energy from the necessity of change. Its purposes and policies must respond to new conditions and new demands. By being open to change, Swarthmore tries to provide for its students, by means appropriate to the times, the standard of excellence it has sought to maintain from its founding.*

"Introduction to Swarthmore College," *Bulletin*, 2009-10

The distinctiveness of Swarthmore's program ultimately derives from the unique character of the educational experience our students encounter at what is specifically a small liberal arts college. The excellence of our academic program depends in part on the depth and breadth of our curricular offerings, but most particularly on the quality of the intellectual exchanges that students experience with faculty and each other. Our goal, more than field coverage alone, is to train students in different modes of thinking and analysis at an intellectually challenging level. To that end, we offer classes in a range of disciplines, organized in three major divisions. All of them demand different kinds of thinking from students, and all of them offer students different ways to develop their analytic skills.

These Guidelines are impelled by the current financial crisis and the Faculty's mandate that they inform the deliberations of the CEP and the decision-making of the President and Provost. We have thus formulated them with the view that they should be useful in allocating a possibly reduced number of tenure-track positions. But we also intend that they should guide discussion whenever the faculty can return to more ambitious planning:

we hope they will guide decisions about where to add faculty, as proposed in the long-range planning effort, and about how to adapt the curriculum to a 4-course load. We hope that they will aid not only in subtracting, or adding, but in rethinking the curriculum and the existing distribution of teaching resources.

In ten years, the Faculty shall review how this process for allocating faculty positions has functioned, and consider whether the guidelines should be altered.

Guidelines

We propose the following questions, to be answered by departments that request to fill tenure-track positions, whether vacated in that department or potentially to be added to it. The Provost may also evaluate requests for leave replacements using the same questions. Particular position requests may well offer strong arguments for only some of the guidelines, although all guidelines should be addressed. In all cases, though, we want to understand how the appointment contributes to the excellence of Swarthmore's academic program, as described in statements of the College's mission.

1. How does the presence or absence of this position affect your department's ability to provide quality student experiences that involve close interactions with faculty, such as: appropriately-sized/small classes, Honors seminars, Writing courses, First Year seminars, research opportunities, and a meaningful senior comprehensive? How do enrollments in your department affect a student's experience?

2. Describe specifically how this position will influence the department's capacity to offer a coherent academic program for majors, minors, and non-majors. How has your department explored possible strategies for restructuring, within the department, through interdisciplinary cooperation, or through use of tri-college resources?

3. Does the position contribute to interdisciplinary studies, through course content or a program that has been agreed upon (by the CEP) as a College priority? Does this position support courses of study in other departments? Would it participate in a significant new initiative?

4. With what other departments and programs, at Swarthmore or within the Tri-College community, should the CEP, following up on your investigations, consult when evaluating the substance of this request?

5. Would the position enable the College to increase the diversity of the faculty? Would it enhance the College's ability to attract and retain a diverse student body?

October 8, 2009

Swarthmore Annual Costs for Healthcare

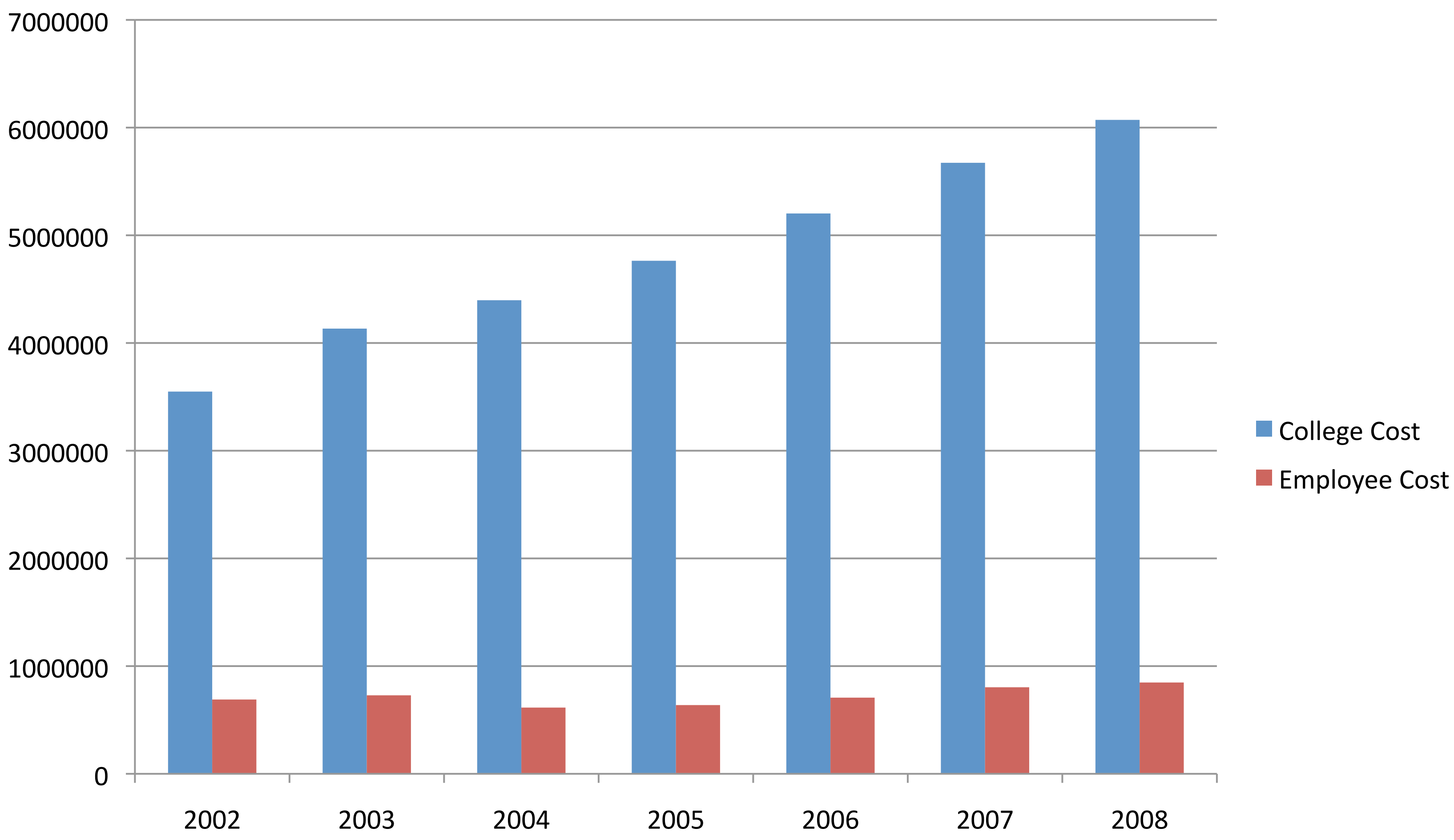


Exhibit 10