

*The Scenario*

The large decline in the market value of Reed's endowment in the 2008–09 fiscal year cut into revenue for the 2009–10 school year. However, three factors allowed the college to survive the crash with relatively minimal cost reductions in 2009–10:

- The 13-quarter moving average process allowed the effects of the market decline to be spread over three years rather than one.
- The college had several million dollars of accumulated surpluses from recent years that could be spent in the current year to avoid cuts.
- A strong market rebound is anticipated that will boost endowment values in the near future.

However, in your scenario the market does not rebound. In January 2010, foreign investors panic about U.S. debt accumulation and American stock values plummet. The Dow hits 7,000 and the NASDAQ falls below 1,300. Given the size of the U.S. debt and the shortfall of tax revenues to pay it off, no clear path is apparent by which stock values will recover to current levels before 2012, if then. Housing prices, being already depressed, did not fall further. Interest rates on all non-government bonds have risen considerably, with the rate on Reed-quality tax-exempt bonds at about 5.5 percent.

*The Implications*

The endowment value falls in the first quarter of 2010 to \$280,000,000. Our investment advisors caution us that we can only expect endowment earnings of about 5 percent per year into 2012, with some additional recovery possible after that.

This decline in asset values is expected to impact Reed parents, with predictable effects on financial aid and on the supply of full-paying matriculants. The admission office is doubly concerned because this is occurring on top of impending demographic changes in the composition of the pool of high-school seniors that shifts away from the demographic groups who have traditionally comprised Reed's core applicants.

Donations to the annual fund and to the endowment may be impacted by the decline. The timing is unfortunate for our Centennial Campaign, but we do not expect a

complete cessation of gifts and, in fact, have received one very generous restricted donation (see below).

The decline in stock prices has devastated the retirement accounts of Reed faculty members, giving them strong incentive to keep teaching until the market recovers. It is expected that all planned retirements by faculty members will be delayed until at least 2012.

### ***The Complication***

In December 2009, just before the crash, a bequest was received from Aria Singer, Reed alum and operatic superstar, for \$20,000,000 toward the new performing arts center. The bequest is conditional on Reed completing construction of a \$30,000,000 building before 2012. No additional funding has been obtained for the center and no other large gifts are expected, so Reed will have to dedicate \$10,000,000 of other endowment to this if it wishes to accept the gift. If Reed cannot meet the prescribed timetable, the money will instead go to renovate a concert hall at Juilliard.

### ***Your Task***

As officers of the college, you must come up with a plan to balance the budget for 2010–11, 2011–12, and 2012–13 in a way that is consistent with Reed's mission. Of course, you are subject to the constraints of the markets in which Reed participates. You should be prepared to defend the assumptions underlying your budget, such as the impact of changes in tuition level of admission and financial aid policy on the number of students enrolling, the effects of changes in faculty/staff salaries on hiring and retention, the realism of your goals for fund-raising, and any other methods or combinations of methods that you may propose to bring the college budget into equilibrium. You should also be prepared to defend the accuracy of your analysis: how the assumptions translate into line items in the budget.

The end product should be a report to the chairman of the Board of Trustees, detailing your plan and its rationale. Your report should clarify what changes are being made to the baseline budget and explain how the numbers add up. It should explain why your decisions are consistent with the college's mission. In addition to an initial summary, introduction, and conclusion, your report should include detailed sections covering impacts on the academic program, admission and financial aid, fund-raising and endowment, and long-run sustainability of college goals. You will be asked to present and defend your proposal before a panel of worthy "trustees" on the evening of Wednesday, December 16.

### ***Your Resources***

The budget handouts that you have received in class should provide enough information to allow you to do basic calculations. We will provide you with a "baseline"

budget that reflects the college's projections for these three years had there been no event and an estimate of how this setback will affect it. This estimate is sensitive to assumptions not only about endowment return but also about the payout rate and the rate of new contributions to the endowment. Be careful to build your assumptions about endowment donations and any changes in the payout rate into the projected figures for endowment value. While we cannot provide the Reed budget model for you to experiment with during your discussions, Jon is willing to provide limited "consulting" services to assess feasibility once you have a basic plan. Your treasurer should coordinate communication with Jon and should come with specific revenue and expenditure plans to be evaluated.

### *Your Roles*

- **President:** Responsible for organizing the group, convening and running meetings, arbitrating among the various constituencies represented by group members, and coordinating preparation of the final report and presentation.
- **Treasurer:** Responsible for making sure that the budget is in balance and that the assumptions going into the budget numbers are reasonable. Also responsible for the office of human resources and non-academic staff, so must defend the interests of staff members in addition to those of the institution.
- **Dean of the Faculty:** Represents the interests of the academic program. Must defend the interests of the faculty and the quality and integrity of the college's curriculum and academic program. Also responsible for the library and other academic support services.
- **Dean of Admission:** Responsible for recruiting the Reed student body and for maintaining or improving the quality and diversity of admitted students. Must be able to defend assumptions about student demand. With the director of financial aid position currently vacant, this person will also be responsible for estimating the financial-aid need and implementing financial-aid policy.
- **VP for College Relations:** Must deal with the public-relations aspects of the crisis and its impact on fund-raising.

### *The Teams*

#### **Team Reed:**

Erica Shannon, president  
Russell Mayhew, treasurer  
Onyeka Azike, dean of the faculty  
Renée Dosick, admission dean  
Tim Shin, VP for college relations

#### **Team Griffin:**

Cori Savaiano, president  
Bobby Fischer, treasurer  
Lars Gustafson, dean of the faculty  
Erik Swanson, admission dean *and* acting  
VP for college relations