

March 3, 2009

Dear

Last November, I wrote you about preliminary steps the college was taking to respond to the worsening economic conditions. Since then, as we all know, the economy has continued to deteriorate. In this letter, I want to provide an update on the state of Reed College's finances, with more detailed information about our plans for the coming academic year.

We have been monitoring the impact of the economic downturn on four major variables that occupy a place of central importance in setting next year's budget: the size of the enrollment, the financial need of our students, gift and grant income, and endowment performance.

1. Enrollment: For the current fiscal year, ending in June 2009, we are encouraged that enrollment is on track to reach, or even exceed, our budgeted target of 1,340 full-paying equivalent (FPE) students. Likewise, we are optimistic that we can meet our somewhat reduced enrollment goal for next year (1,310 FPE students), which includes a goal of enrolling 355 first-year students and 40 new transfer students this fall. Although applications are down 9.5 percent from last year, our applicant pool of 3,153 is still the third highest number in our history, and is academically very strong. Furthermore, our semester-to-semester retention rates continue to increase. This spring's retention figures exceeded the record-high rates achieved a year ago. More students are advancing to graduation more quickly; Reed's graduation rate now approximates 80 percent.

2. Financial need: Reed continues to meet the full documented financial need of all admitted and continuing students. Because of the growing recession, many families of Reed students have seen their financial circumstances deteriorate badly this year. In response, we have been called upon to make more financial aid awards and larger financial aid awards than ever before. The result has been that we have expanded this year's financial aid budget by over a half million dollars. Given our commitment to adjust financial aid awards as students' needs change, this year's actions will have implications for budgets in the coming years as well.

3. Gift income: As reported widely in the press, donations in most nonprofit sectors have declined this year. We are fortunate that current support for our academic program and financial aid program through the Annual Fund remains on target this year. But capital gifts are lagging behind our goals, with the result that overall cash receipts this year are down by about 20 percent.

4. Endowment: During the first six months of the current fiscal year (through December 31, 2008), the value of the college's endowment declined by 19.69 percent. Although this number compares favorably to the investment performance reported by many of our peers

for the same period, the negative endowment performance means less support for the college's operations from this crucial source. Many schools are increasing their nominal rate of spending from their depleted endowments. We are reluctant to do this, for fear of compromising the long-term financial stability of the college.

In setting the annual budget in any year, we seek to achieve three goals: to preserve the essential quality of our educational program, to meet the full financial needs of our students, and to ensure the long-term financial stability of the college. Needless to say, under current conditions, simultaneously achieving all three goals will require a very finely calibrated balance, and probably a generous dose of good luck. With those considerations in mind, here are the steps that we have decided to take for next year:

1. We will increase tuition by 3.9 percent to \$39,440. Room and board charges will increase 3.3 percent, to \$10,250. Altogether, the comprehensive fee (tuition, room, board, and student body fee) will increase by 3.8 percent to \$49,950. These are the smallest percentage increases in many years, and reflect the college's understanding of the difficult financial situations faced by many of our students and their families.

2. We intend to increase the financial aid budget by 7.8 percent over the current year's actual expenditures. By increasing the financial aid budget at twice the rate of the tuition increase, we hope to meet the expected increased needs of both continuing and new students. In addition, we will carry a sizable reserve fund for unanticipated increases in financial aid needs even above the budgeted amount.

3. We have reduced moderately the number of visiting faculty positions to be filled for next year. This will result in a very modest increase in the student:faculty ratio (from 10.4:1 to 10.6:1). To preserve, and indeed improve, the quality of the educational program, however, we have gone ahead with five tenure-track searches this year—including the first position for the new environmental studies program, which was authorized by the faculty last year—and we expect to authorize several tenure-track searches next year as well.

4. In virtually every other part of the operating budget, we are making significant cuts or other economies. We will reduce all non-personnel expenditures by an average of 5 percent below the current year's budget. We expect to reduce substantially the amounts originally planned for increased employee compensation and benefits. We will continue to require special justification to fill all staff vacancies. And we will continue a freeze on most major construction projects.

Altogether, these actions should enable us to balance next year's operating budget, without sacrificing the quality of Reed's trademark academic program, nor diminishing access to that program for students from all socioeconomic groups. I hope that you will agree that we have struck an appropriate balance and that we are serving as wise stewards of Reed's extraordinary assets under extremely trying conditions.

Please feel free to contact me with any thoughts or questions you might have.

Sincerely,

Colin S. Diver
President