

November 4, 2008

To The Campus Community,

As a follow up to the e-mail I sent just prior to Fall Weekend, and to the meeting Paul Maroni and I had with staff on Oct. 10, I want to provide you with some additional information about the College's financial stability in this uncertain economic climate.

The College entered this very difficult economic environment from a position of financial strength – much stronger, in fact, than we were in the last major downturn of 2001-2002. At June 30, 2007, we had the strongest balance sheet ever with a record-high endowment at \$225 million and net assets over \$270 million. The capital markets declined in 2008, but our endowment held fairly steady through this period, and we finished the 2008 year with our endowment at \$215 million, still well above '05 and '06 levels. Since June, and despite prudent financial management, the College's endowment – like many other college and university endowments across the country – has had a reduction in value, but much less than the overall equity market decline.

The three main sources that fund our operating budget each year are the students' comprehensive fee, draws from the endowment and gifts to the College through the Annual Fund. Any of these could be affected in the coming year if we fail to meet enrollment targets, the value of the endowment continues to decline or fewer people give to the College (or give less than in prior years).

At the recent board of trustee meeting, we reviewed the pressures on our operating budget and discussed how those pressures might affect the College this year and in the near future. Because Connecticut College is carefully managed and because our spending from the endowment is based on a rolling average of 12 quarters of endowment values set each June 30, we expect the current economic turmoil will not significantly affect this year's operations, provided we achieve spring enrollment targets for which we are on track currently. As we do every year, we have built a contingency within the budget to cover unanticipated expenses, and that fund will be an important resource for the College during 2009.

As we construct the budget for next year, we will undoubtedly have to make adjustments. The ACL pool for awarding spending increases will be smaller than last year's. Provided the economic environment does not deteriorate materially from here, we expect to slow spending growth somewhat compared to the increases of recent years. This means that certain areas we had targeted for increased spending over time might experience delays in seeing that increased support. For example, the College now budgets \$2 million annually from operations for campus renewal (not including projects funded by debt or gifts to the College). Though we will raise that support toward \$2.4 million over time, we may not be able to do so in the next fiscal year, as we had previously hoped to do. In this case, while we would prefer to move ahead aggressively, we can slow growth because we have recently elevated investment in the campus with support from gifts and debt financings. Further, we will augment the investment from operations next year as we proceed with the renovation and expansion of the fitness center, which has been fully gift funded.

At this time, we plan to continue our practice of awarding across-the-board increases in compensation, and we anticipate that we will be able to preserve all current staffing levels. We are recruiting to add two new faculty lines next year, though the remaining three new faculty lines specified in the strategic priorities document may be delayed given the current economic climate. We will, of course, continue to support spending on financial aid in this

environment to ensure our ability to attract and retain a strong student body.

A good part of the reason we can temper our concerns with some optimism in this economic climate is because, as a college, we operate with a strong sense of fiscal conservatism designed to provide opportunities for steady growth. Further, we enjoy a board and an investment committee that include savvy financial professionals with experience in the capital markets who have worked tirelessly to strengthen operations and build endowment diversification.

Among the financial underpinnings that have positioned us to, so far, ride through the tumult in the financial markets and the economic malaise are:

- * All of the College's long-term debt is at fixed rates; and therefore not vulnerable to the vicissitudes of credit markets and failed auctions.
- * The College re-financed a major portion of its debt some 18 months ago in very frothy markets and, as a result, has fixed rates ranging around 4.5 percent at maturities out to 30 years.
- * The College recognized some warning signs last spring that presaged the resulting illiquidity in a short-term fund used by some 900 colleges and universities and withdrew all but a nominal amount of balances at that time. When a portion of assets in that fund were frozen in October and many colleges and universities couldn't access their cash, Connecticut College cash had been invested elsewhere with full daily liquidity.
- * The College undertakes capital projects only if they are fully funded and, in certain cases, only if we have established an associated endowment to help fund their incremental operating costs (as we did in the fitness center, for example).
- * We fund new positions very cautiously, providing for several years of compensation increases.
- * The College budgets conservatively off a flat base with increases awarded competitively among requests and includes in each annual operating budget a 1% contingency to address unanticipated emergencies that cannot otherwise be funded.

We will continue to pay close attention to the financial markets and the long-term maintenance and growth of our financial assets. It's a responsibility I take very seriously on behalf of the College. Our ultimate goal – one that I know is shared by faculty and staff across campus – is to continue to provide this extraordinary education to the best and brightest students from all walks of life. As we look forward to our second century, we have this goal very much within our sights and we will further enhance this institution and the education we provide, with the support of the Campaign for Connecticut College.

We launched the Campaign during Fall Weekend with fanfare appropriate to the event, including a special video that features four students from the Class of 2009. These four students represent so well the benefits of a Connecticut College education that prepares students for the unique challenges emerging in our society today – and for the unknown challenges of tomorrow. The Campaign is more important now than ever. When it is completed in 2013, we will have raised \$100 million for the endowment, \$50 million through annual giving to the College and another \$50 million for capital projects, a total of \$200 million. As I outlined in an e-mail to you recently, this support will impact every aspect of this institution, from enhanced academic programs, to improved campus facilities and

increased support for faculty research and teaching, and for the financial aid that enables us to provide this education to the best students, regardless of their ability to pay.

Paul Maroni and I will host another all-staff meeting during Common Hour on Friday, Dec. 12 in Blaustein 210. At that time, we will provide an update on the state of the College vis-à-vis the economy and answer your questions about the College's finances or other topics on your mind. I look forward to seeing you there.

Sincerely,
Lee Higdon