

To: Russell Osgood
From: Marci Sortor
The Budget Steering Committee
Re: Proposed FY 2010 Budget

April 2010

With this report the Budget Steering Committee submits to you the proposed budget for the 2010 fiscal year. This past year has been an exceptional one, as even the date of this report indicates. Because the economic outlook has been so uncertain, the Board of Trustees determined to postpone approval of FY 2010 budget until its April meeting. Doing so has allowed us to continue to develop a budget that we believe is sustainable in terms of maintaining the integrity of our academic and residential programs.

Much as in past years, the Budget Steering Committee began its work this past fall reviewing department budget requests for FY 2010. Initially, we worked on a budget that modeled no increase in the endowment's contribution. Over the fall months the economic outlook grew steadily more ominous. By the time of our usual December check-in with members of the Budget Committee of the Board of Trustees, we received a new charge to model a budget with a reduced endowment contribution. At a January meeting with the Trustee Budget Committee, we explored two models, one with a reduction consistent with the Board's policies on endowment spending and allocation, and one with a deeper reduction. Based on this January discussion, we brought to the February Board meeting a recommended budget model with an endowment contribution 5% below that for FY 2009.

At the February meeting of the Board of Trustees, four important decisions were made. First, the Board of Trustees approved a 3% increase to the comprehensive fee. Second, barring any extreme economic disruption we would develop a budget proposal using existing policies for endowment spending and allocation:

- No more than 4% of the endowment's 12-quarter rolling average will be allocated in total,
- The endowment's contribution to the base budget can change no more than 5% from one fiscal year to the next, and
- Endowment spending beyond the contribution to the operating budget will be allocated to the Capital Reserve Fund.

I will discuss each of these issues below as I address the proposed budget in detail.

Third, the full Board approved a resolution that any surplus in FY 2009 be held in reserve to help us meet any unforeseen economic difficulties in FY 2010 (and similarly for any surplus in FY 2010 if economic circumstances continue to warrant this). Fourth, the Budget Committee recommended and the Board approved that any substantial

unrestricted bequests and/or trust maturities received shall be allocated to the Capital Reserve Fund to help repay the Series 2001 bond debt and pay for approved Capital Projects.

The result is a proposed FY 2010 budget of \$84,481,505, a reduction of \$1,738,585 (-2.0%) from the current year's budget. This budget expresses Grinnell College's continued commitment to meeting the full demonstrated financial need of our students in these trying economic times and to implementing the strategic plan.

I. Revenue-related Parameters

A. Comprehensive Fee

Net tuition revenues for FY 2010 are budgeted at \$23,267,700, an increase of \$345,761 over that budgeted for FY 2009 and amounting to 27.5% of the College's revenues. Total net tuition revenues are the combined result of budgeted enrollments, the comprehensive fee, and scholarships and grants. Adjusting for greater than anticipated enrollment in the present academic year, we have budgeted for an enrollment of 1,510 students and an off-campus study FTE of 100 for FY 2010. A review of college-owned housing last summer resulted in an upward correction of the room capacity to 1,325. Three of the four classes of students enrolled will be paying the upwardly adjusted tuition called for by the strategic plan. We can expect the recent trends in rising gross tuition revenues to flatten as we approach full implementation of the expansion of on-campus enrollment and upward adjustment of the tuition called for by the strategic plan.

The proposed budget for FY 2010 includes a Board-approved 3% increase in comprehensive fee (tuition, room and board). We include comprehensive fee data for Grinnell's peer schools for your review. You will see that we list this year's (2009) comprehensive fee of \$43,700 based on the upwardly adjusted tuition that applies to this year's new students. For FY 2009, Grinnell College's comprehensive fee is 92.87% of its peer mean (93.23% of its Midwestern mean).

Supporting Grinnell College's priorities of need-blind admission and meeting the full demonstrated need of our students, scholarships and grants for FY 2010 are budgeted at \$34,000,000. This represents a 13.3% increase, or \$4,000,000, over FY 2009 and is expected to bring the discount rate to 59.5%.

B. Endowment Spending

Because the endowment contributions to both the FY 2009 budget and the proposed FY 2010 budget are unusual, I will briefly review the current year. For FY 2009, the Board of Trustees approved a one-time loosening of the collar on increases to the endowment's contribution to the base budget in order to continue implementation of the Strategic Plan. This increase remained within the ceiling on endowment contributions, set by the Board of Trustees at 4% of the 12-quarter

moving average of the endowment's value while correspondingly reducing the allocation to the Capital Reserve Fund.

The FY 2010 budget proposal contemplates an endowment contribution of \$40,881,000, a 5% reduction (of \$2,152,000) from this year's contribution. This contribution constitutes 2.7% of the 12-quarter moving average of the endowment's value, remaining well within the 4% ceiling set by the Board of Trustees for our endowment spending policy. We anticipate that the endowment will contribute 48.4% of our FY 2010 revenues. We include an endowment spending analysis for your review.

C. Private Gifts and Grants

We anticipate that private gift and grant revenues will be adversely affected by the economic downturn. The budget for FY 2010 proposes a slight decline from the FY 2009 budget number to \$2,995,000 in unrestricted gift revenues, making up 3.5% of next year's proposed revenues.

II. Expenditure-related Parameters

A. Faculty and Staff Salaries

Faculty and staff salary pools have been a matter of considerable discussion during the prolonged budget planning period. On the one hand, members of both the staff and faculty have expressed a willingness to forego increases if doing so protects positions. On the other hand, the College has worked to bring staff and faculty salaries to their appropriate market levels and does not want these to slip behind. Furthermore, we are sensitive to the variable impact that a wage freeze can have on those at different compensation levels. Taking these viewpoints and issues into consideration, we propose a small salary pool of 2% for the more modestly compensated members of our staff and faculty only.

B. Current Debt Financing

We expect debt service in FY 2010 to approximate \$1,950,000. This includes \$1,050,000 for our \$50,000,000 Series 2001 bonds calculated at a fixed rate of 2.1% and an estimated additional \$900,000 for our new variable rate \$60,000,000 Series 2008 bonds.

C. Capital Reserve Fund

Keeping to the 4% ceiling on endowment spending and the 5% collar on changes to the endowment's contribution to the operating budget, the remaining funds of \$19,245,000 will be allocated to the Capital Reserve. These represent 1.3% of the 12-quarter rolling average of the endowment. Allocations to the Capital Reserve combined with the Board's resolution to apply any undesignated bequests and trust maturities to bond repayment and approved capital projects will allow us to

meet our outstanding obligations through FY 2012. The allocation to the Capital Reserve Fund will be a nominal rather than a cash transfer.

D. Building, Maintenance & Equipment (BM&E) Fund

The BM&E fund provides support for academic equipment, facilities, and technology projects that are significant and periodic or multi-year in nature. The proposed FY 2010 budget allocates \$750,000 across these three areas. We are seeking to reduce operating expenditures in FY 2009 as well as FY 2010 by, among other things, extending our repair and maintenance cycles. Keeping the BM&E contribution at its previous level provides assurance that these reductions are feasible.

F. Contingency Fund

The Contingency Fund was established to address unexpected spikes in expenses (such as volatility in utilities) or dips in revenues (given Grinnell College's need-blind admission policy). Because the economic outlook is so uncertain, particularly in regard to our sources of revenue, we propose a doubling of the Contingency Fund from its present levels to \$1,000,000 for FY 2010.

G. Non-salary Expenditures

Non-salary expenditures in the FY 2010 budget proposal represent a 6.1% decrease of \$2,271,000 from the current year's budget.

The task we initially set for the Budget Steering Committee was to build a flat budget. As the economic outlook worsened, the Budget Steering Committee set as its goal "90% of '09" for non-salary expenditures. Aiming at this overall reduction from FY 2009 levels of these expenditures helped:

- Address the need to reduce spending,
- Accommodate anticipated rising financial need among our students, and
- Enable the growth of some budget areas in order to continue the implementation of select strategic plan initiatives.

As a result, this budget preserves funding for diversity and accessibility related initiatives, digital technology, internationalization, the continued implementation of the loan cap and more generous aid for international students, and continuation of the Expanded Knowledge Initiative. Moreover, while overall we sought to reduce expenditures by 10%, reductions were targeted so that we could protect core academic and residential programs.

H. Consideration of Additional Budgetary Measures

The Budget Steering Committee normally takes a well-deserved rest in the Spring semester, but this has not been the case this year. Members of the committee have continued to work with their departments to ensure that the reduced budgets

are sound. The Committee also is exploring a number of changes to how we work, live, and play at Grinnell College. While budgetary necessity has helped us identify measures to investigate, we think they are good candidates for review even in good economic times:

- *The academic calendar*, comparing the length and timing of our semesters and breaks to other colleges', considering issues of student stress and celebrating achievement
- *Benefits*, including how we can help employees best prepare for retirement
- *Dining*, considering the options we offer and how they are priced, and how savings can be achieved while maintaining the great dining experience that we provide in the Joe Rosenfield '25 Center
- *MAPs*, considering how we ensure that this valuable program can meet our high expectations and allow us to raise these even further
- *Sports and Wellness*, considering our staffing levels and goals for these important aspects of campus life
- *Staff hours and early retirement options*
- *Senior Faculty Status*; after a few years of experience with this program, we are ready to review its provisions to improve the benefits that it provides to both the College and our most experienced faculty members.

The Budget Steering Committee is nearing the completion of its preliminary review of these measures. We expect that we can act on some relatively quickly. We will need to explore others further with the campus community.

This budget is realistic and sustainable. It meets our key institutional and strategic goals, protects our academic core, and incorporates safeguards for unforeseen difficulties. It is the result of hard work on the part of many members of the campus community, including members of the Budget Steering Committee Seth Allen, Elena Bernal, David Clay, Nancy Combs, Houston Dougharty, Leslie Gregg-Jolly, Kathy Jacobson, John Kalkbrenner, Mickey Munley, Mark Schneider, Kathleen Skerrett, Paula Smith, Karen Voss, Greg Wallace, and Emily Wax '09. In particular, Associate Treasurer Karen Voss has worked tirelessly and creatively to ensure that this budget is sound and realistic. Her extensive knowledge of budget lines, spending patterns, and college priorities has been, in a word, invaluable.

Attached:

- Actuals for the FY 2007 and 2008 budgets; the FY 2009 budget; the proposed FY 2010 budget
- Major resource and allocation decision summary, FY 2007 through proposed FY 2010
- Comprehensive fee peer comparison data
- Endowment spending analysis