

Questions about the 2004-05 Budget (FY 2005)*

The Budget Steering Committee has developed a budget for FY 2004-2005 that continues to allocate resources toward our highest institutional priorities. As with the past two years, we have placed competitive faculty salaries (most particularly at the assistant professor level) as a high priority and have also sought to ensure generous financial aid.

We have also placed a high priority on meeting our certain, significant budgetary objectives, such as continuing to reduce the College's relative dependence on the endowment as measured by the percentage of the budget supported by it. As with the last two years, we have made progress on this front. In addition, as with last year, we have allocated resources to a contingency reserve so that we are not using all available resources and can respond to unanticipated needs or costs which are higher than projected. We have also endeavored to keep tuition increases relatively modest as well as the growth in overall expenditures.

In addition to the endowment contribution, Grinnell College's budget is largely driven by the following major items:

1. A comprehensive fee that is significantly lower than our peers
2. Generous financial aid (that is netted out against tuition and fees "above the line")
3. Competitive faculty and staff salaries.

It has become increasingly hard to balance our budget and direct fresh resources toward programs that may be in need due to these three relatively large and somewhat inflexible items. Putting together a balanced budget this year has been considerably more difficult than normal in that many of our institutional commitments, in the aggregate, have challenged our ability to allocate resources to all the programs that may be in need of additional support. In fact, next year's budget contemplates cost reductions in non-salary expenditures to balance the growth in the important areas cited above, primarily competitive faculty salaries and generous financial aid.

Looking to the near term future, the budgetary pressures that we see during this budget process will likely continue. On the one hand, budgetary pressure is not necessarily bad in that it provokes greater scrutiny of how resources are being and should be used. On the other hand, assuming a continued decline in the percentage endowment contribution and absent significant increases in other revenue sources, reducing non-salary expenditures as we did the past couple of years will likely not be adequate to produce future balanced budgets that meet our highest needs. This may require closer scrutiny of our salary/benefit expenditures, our comprehensive fee/tuition policies and other large items. We also look forward to the ultimate recommendations of the strategic planning process, which should guide our budget process.

* This document may be found on-line at:

<http://www.grinnell.edu/offices/institutionalplanning/2005budgetprocess/questionsbudget/>. We have continue to post answers to questions about the budgets of the past two years. These documents can be found on-line at:

<http://www.grinnell.edu/offices/institutionalplanning/budgetques03/> and

<http://www.grinnell.edu/offices/institutionalplanning/budgetques04/> for each respective budget year.

The FY 2005 Budget as we report it is attached to this document as Appendix A.

Question #1: Will the overall base budget increase next year? If so, how do we plan to spend the increased revenue?

Yes. In a budget of roughly \$66 million, we will have approximately \$2 million (3% of the total budget) of additional revenue in next year's budget. Close to \$1.7 million of this \$ 2 million will be used to cover increased costs for salaries and benefits. Roughly half of the \$1.7 million will support increases in faculty salaries/benefits and changes in faculty positions; the other half will support staff salary/benefits increases and changes in non-faculty positions. All of this reflects an average raise of 5% for continuing faculty, an average raise of 3.5% for continuing staff, estimated changes in benefits costs, and changes in faculty and staff positions.

This, of course, is after we take out scholarships and grants awarded by Grinnell College. That is, we are not treating these scholarships and grants as an expense. You can find more information about financial aid in Question #2.

Question #2: What are the biggest pieces of next year's budget?

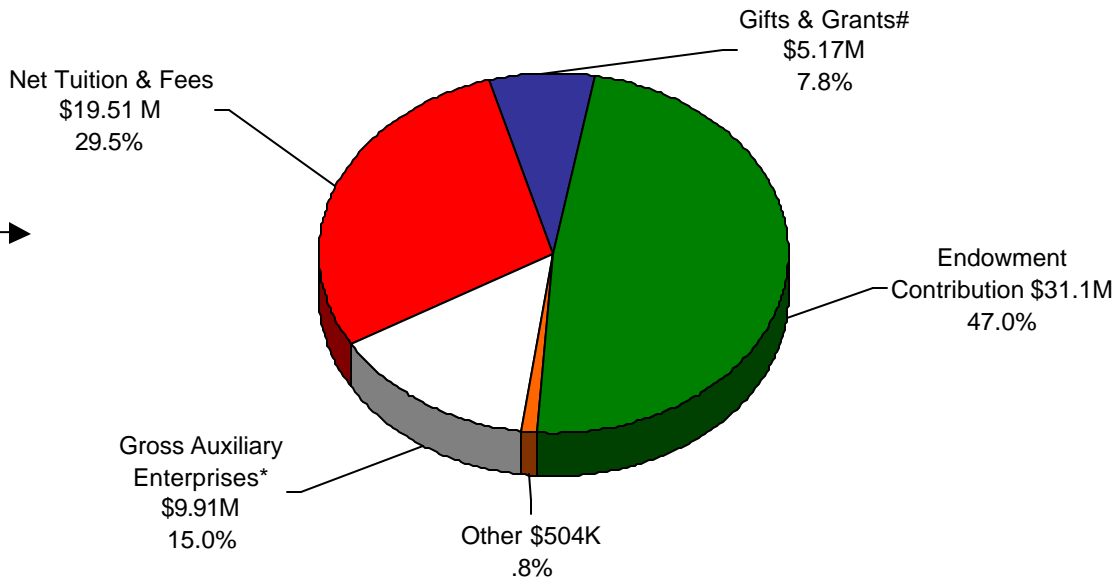
The answer to this question depends largely on how one presents the budget. In any presentation, however, two generalizations can be made about our revenues and expenditures. Our largest revenue sources are the endowment contribution and "net" tuition and fees. Our largest expenditures cover the costs associated with "Instruction." Classified in another way, our largest expenditures cover the cost of all salaries/ benefits and maintaining our campus (our physical plant).

At Grinnell, we present our budget in a manner that is consistent with our peers. This also helps to ensure that our budget is accurately and fairly presented. In reporting our budget, we do not show directly Grinnell College-awarded scholarships and grants, which is obviously a very large "expense" item in our budget. This is because, consistent with the methodology used by our peers, we "net" our tuition and mandatory fee income. That is, we show the tuition and mandatory fees as "paid" and then deduct from that figure the amount of any Grinnell College-awarded scholarships and grants (\$18,180,000 in next year's budget). Thus, as set out in the pie chart below, tuition and fees and Grinnell College-awarded scholarships and grants are reported as one figure in our budget: "net tuition and fees." This is done because, for accounting purposes, an item of tuition or any other fee that is reduced by a scholarship or grant award is not really "paid" and probably should not be shown as a revenue item. At the same time, scholarships and grants are a significant allocation of the College's resources.

Conversely, when we present our budget, we show almost all other income items on a "gross" basis. For instance, we show our Auxiliary Enterprises income, which includes items such as room, board, and bookstore payments as revenue. Were we to "net" our Auxiliary Enterprises revenue with the direct

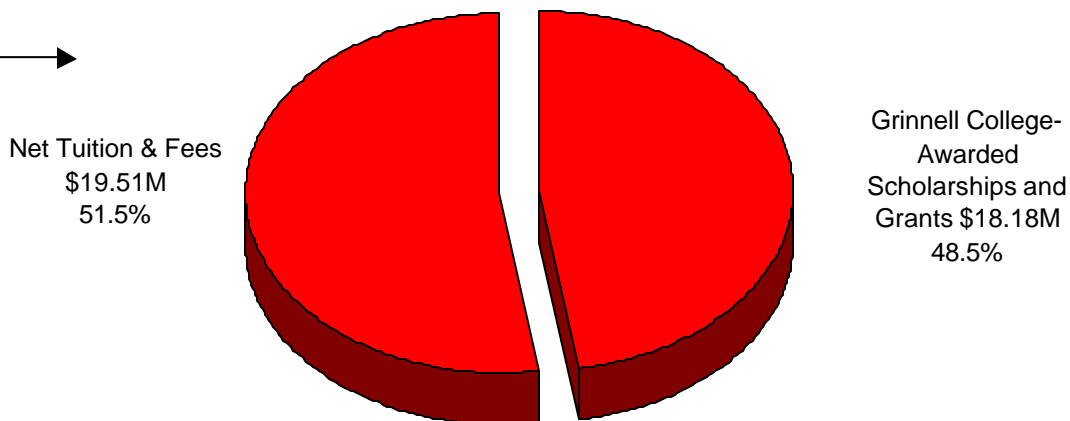
costs associated with running these enterprises, we would only show a modest amount of income. Here is what our revenues look like as we report them:

2004-05 Budget (FY 2005) Revenues



*Such as Dining, Phone Service and the Bookstore
 #Includes Government Grants, Contracts, Private Gifts and Grants
 Based on the FY 2005 Budget approved by the Board of Trustees on February 20, 2004

Tuition & Fees

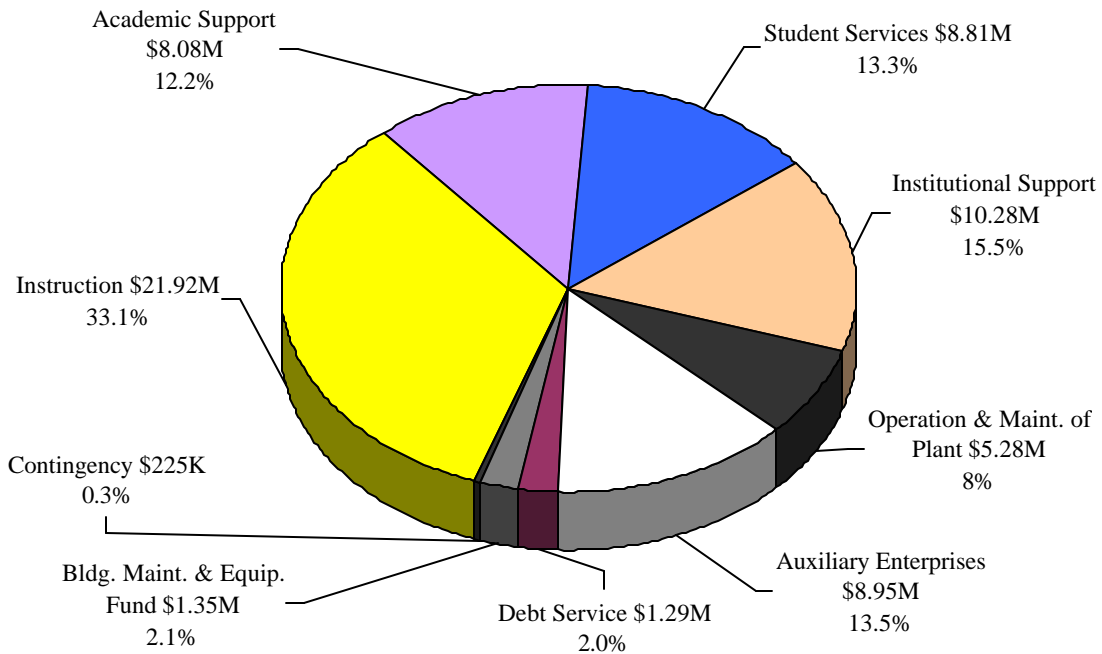


Net Tuition & Fees [\$19.51M]=Gross Tuition & Fees [\$37.69M] minus Grinnell College Scholarships & Grants awarded [\$18.18M]
 Tuition Discount Rate [48.5%] = Grinnell College-Awarded Scholarships & Grants [\$18.18M] divided by Gross Tuition & Fees [\$37.69M]
 The whole pie = Gross Tuition & Fees [\$37.69M]
 Based on the FY 2005 Budget approved by the Board of Trustees on February 20, 2004

Thus, to specifically answer the question on the expenditure-side, we could do so in two ways.

- 1) Under our reporting methodology, on the expenditure side, we talk in terms of functional categories such as “Instruction,” Student Services,” “Institutional Support,” and “Auxiliary Enterprises.” Here is what next year’s expenditures, including our largest ones, look like by functional classification:

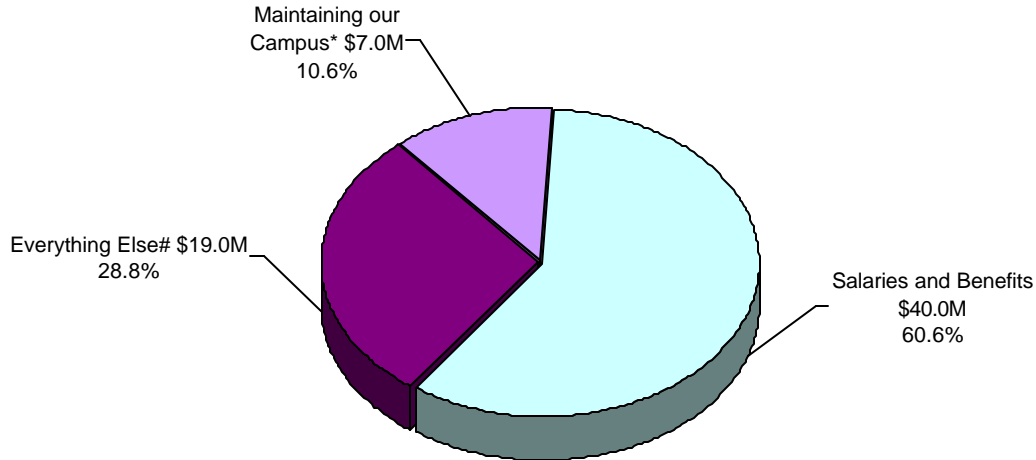
2004-05 Budget (FY 2005) Expenditures by Functional Classification



Based on the FY 2005 Budget approved by the Board of Trustees on February 20, 2004

- 2) We could also think about our expenditures within a “natural” classification. Using this classification, for example, we could organize our expenditures by such categories as “salaries/benefits” and “maintaining our campus” (our physical plant), which are our two largest expenditures, rather than by the function classifications listed above. Here is what next year’s expenditures look like by one natural classification:

2004-05 Budget (FY 2005) Expenditures by Natural Classification



*Maintaining our Campus - includes non-salary operation costs of our Physical Plant, Debt Service and the Building Maintenance and Equipment Fund (for facilities)

#Everything Else - includes items such as faculty and student programs, faculty development, travel, computers, food and library materials

Based on the FY 2005 Budget approved by the Board of Trustees on February 20, 2004

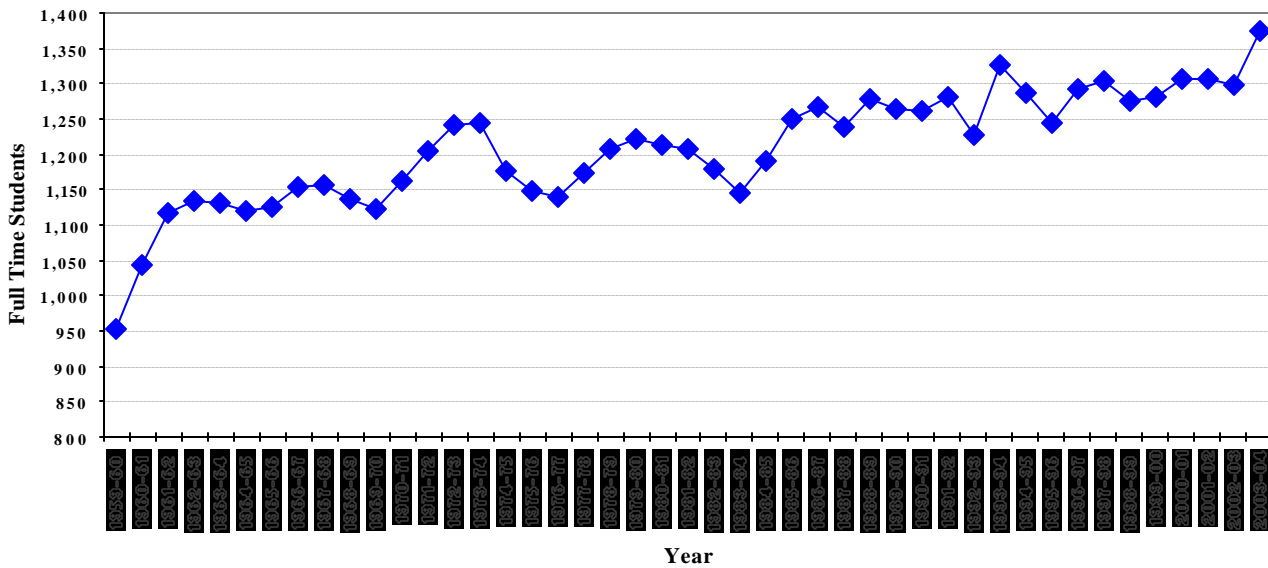
Question #3: When does our fiscal year begin and end?

The fiscal year, corresponding closely to the academic year, runs from July 1 through June 30. For example, FY 2005 starts on July 1, 2004 and ends on June 30, 2005.

Question #4: Does next year's budget assume any change in the size of the student body?

Next year's budget does not contemplate any change in the size of the student body.

Average Full-Time On Campus Enrollment



Question #5: Can you explain again what the tuition discount rate is? I can never keep straight whether “improving” this number means making it higher or lower....

The tuition discount rate is the Grinnell College-awarded scholarships and grants pool divided by our total tuition and mandatory fees (room and board are excluded). That is, the discount rate is the Grinnell College-awarded scholarships and grants pool as a percentage of total tuition and mandatory fees. “Improving” the discount rate means either spending less on scholarships and grants or generating additional net tuition and fees. Thus, a lower discount rate allows us to increase expenditures for high priority budget requests. All students will benefit if the College can lower its discount rate while continuing to meet full-demonstrated need for financial aid.

Question #6: Who is on the Budget Steering Committee and why?

This year, the Committee includes the President, those with primary budgetary oversight (Vice-Presidents), the Chair of the Faculty, another faculty member chosen by the Executive Council, the academic deans, an SGA representative, and a member of the Office of the Treasurer. More specifically, the current Committee members are: Jonathan Brand, David Clay, Tom Crady, Leslie Gregg-Jolly, John Kalkbrenner, Jacob Kaufman-Osborn, Mark Montgomery, Mickey Munley, Russell Osgood, Todd Reding, Helen Scott, Marci Sortor, Jim Swartz, Frank Thomas, and Karen Voss.

Appendix A.
Grinnell College
Current Fund Budget

	<u>FY 2003</u>		<u>FY 2004</u>		<u>FY 2005</u>	
REVENUES						
Tuition & fees	32,845,580		35,162,810		37,690,900	
Less: scholarships & grants	<u>(15,600,000)</u>		<u>(16,600,000)</u>		<u>(18,180,000)</u>	
Net tuition & fees	17,245,580	28.2%	18,562,810	29.0%	19,510,900	29.5%
Government grants & contracts	900,000	1.5%	900,000	1.4%	975,000	1.4%
Private gifts & grants						
Unrestricted	2,629,360	4.3%	2,813,415	4.4%	2,887,500	4.4%
Restricted	1,314,052	2.1%	1,383,270	2.2%	1,307,074	1.9%
Endowment spending						
Policy	29,740,000	48.6%	30,392,500	47.4%	31,100,000	47.0%
Other sources	650,000	1.1%	558,000	0.9%	504,000	0.7%
Auxiliary enterprises	<u>8,709,704</u>	14.2%	<u>9,484,809</u>	14.8%	<u>9,910,966</u>	15.0%
TOTAL REVENUES	<u>61,188,696</u>	100.0%	<u>64,094,804</u>	100.0%	<u>66,195,440</u>	100.0%
EXPENDITURES AND MANDATORY TRANSFERS						
Instruction	19,568,708	32.0%	20,861,270	32.5%	21,915,825	33.1%
Academic support	7,900,816	12.9%	8,021,662	12.5%	8,082,760	12.2%
Student services	8,017,521	13.1%	8,393,261	13.1%	8,812,050	13.3%
Institutional support	9,730,107	15.9%	10,098,988	15.8%	10,282,090	15.5%
Operation & maintenance of plant	4,948,372	8.1%	5,310,943	8.3%	5,277,267	8.0%
Auxiliary enterprises	<u>8,242,172</u>	13.5%	<u>8,460,181</u>	13.2%	<u>8,951,948</u>	13.5%
	58,407,696		61,146,304		63,321,940	
Mandatory transfers for:						
Loan fund matching grant	<u>6,000</u>	0.0%	<u>6,000</u>	0.0%	<u>6,000</u>	0.0%
Total expenditures & mandatory transfers	58,413,696		61,152,304		63,327,940	
OTHER TRANSFERS & ADDITIONS						
Transfers to (from):						
Plant fund						
Debt service	1,250,000	2.0%	1,217,500	1.9%	1,292,500	2.0%
Building maintenance & equipment fund						
Equipment	100,000	0.2%	150,000	0.2%	150,000	0.2%
Facilities	825,000	1.3%	850,000	1.3%	900,000	1.4%
Technology	600,000	1.0%	500,000	0.8%	300,000	0.5%
Contingency			<u>225,000</u>	0.4%	<u>225,000</u>	0.3%
Total other transfers & additions	<u>2,775,000</u>		<u>2,942,500</u>		<u>2,867,500</u>	
TOTAL EXPENDITURES/TRANSFERS	<u>61,188,696</u>	100.0%	<u>64,094,804</u>	100.0%	<u>66,195,440</u>	100.0%

