

Questions about the 2005-06 Budget (FY 2006)*

The Budget Steering Committee has developed a budget for FY 2005-06 that allocates resources to our highest institutional priorities:

1. An outstanding educational experience for our students, supported by a fiscally sound balance of endowment revenue, comprehensive fee income, gifts, and grants.
2. Generous scholarship and grant support that ensures a Grinnell education is affordable to students and their families and that maintains our commitment to need-blind admissions and meeting the full demonstrated need of all domestic students.
3. Competitive faculty and staff salaries.

The Budget also funds certain important decisions set out in the nearly-final strategic plan. Even though the plan is not effective yet, we are implementing these initiatives because we believe that they should be adopted in any event. We also believe that by funding them in the FY 2006 Budget, we will be well positioned for the implementation of the full plan, should the plan come into effect. For instance, next year's budget includes a more realistic accounting of students' personal expenses.

Pressure on the budget over the course of the next few years will continue to increase assuming we implement major elements of the strategic plan. Subsequent budgets will need to cover the significant annual operating costs (utilities, custodial, etc.) of the new Joe Rosenfield '25 Center and the expansion of the Noyce Science Center. However, the strategic plan also contemplates growth in revenues and cost savings within current programs, both of which are intended to offset strategic expenditure growth.

It is a challenge to balance a budget and direct resources strategically when we are driven by three relatively expensive priorities. However, we think that we have been successful in preparing for the possible implementation of the strategic plan over the next five years. Within this context, we will continue to focus on the College's financial objectives such as achieving a more fiscally sound revenue distribution and greater expenditure control.

* The FY 2006 Budget as we report it is attached to this document as Appendix A. Answers to questions about the budgets of the past three years can be found on-line at: <http://www.grinnell.edu/offices/institutionalplanning/>.

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 \$69.5 million, we will have approximately \$3 million (4.3% of the total budget) of additional revenue in next year's budget. 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 Questions #2, #3, #4, and #5.

Almost \$2.0 million of the increased revenue will be used to support the 5.5% increase in salaries for continuing faculty and a 3.5% increase in the staff salary pool.

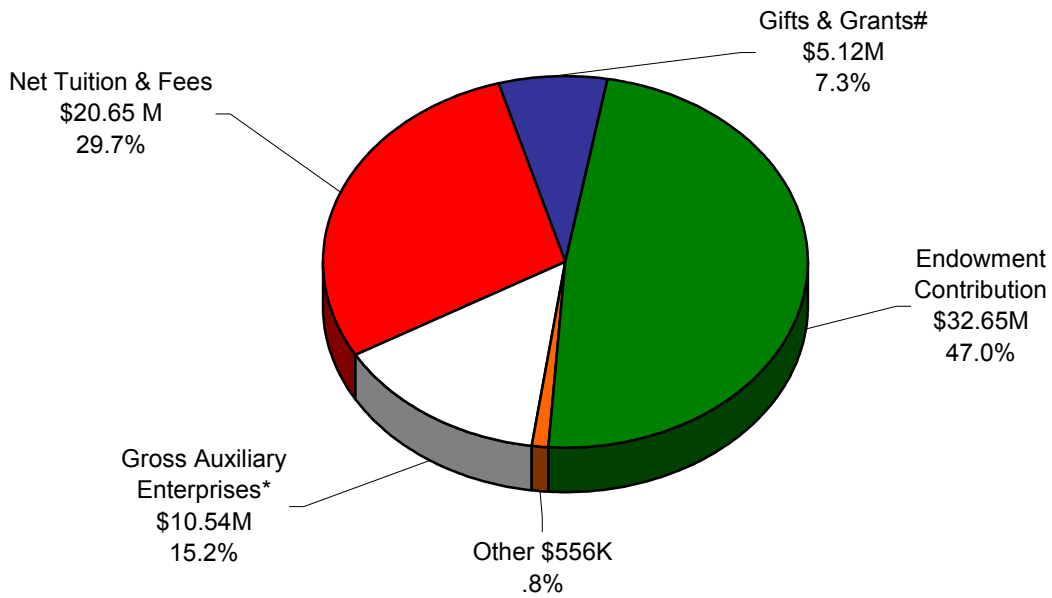
Question #2: What are the biggest pieces of next year's budget?

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 expenditure is the cost of "Instruction." Looked at in a very different way, our largest expenditures are for all salaries/ benefits and also for the maintenance of our campus (our physical plant).

At Grinnell, we present our budget in a manner that is consistent with other educational institutions. 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" out financial aid grants from 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. 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 "paid," as an accounting matter, 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.

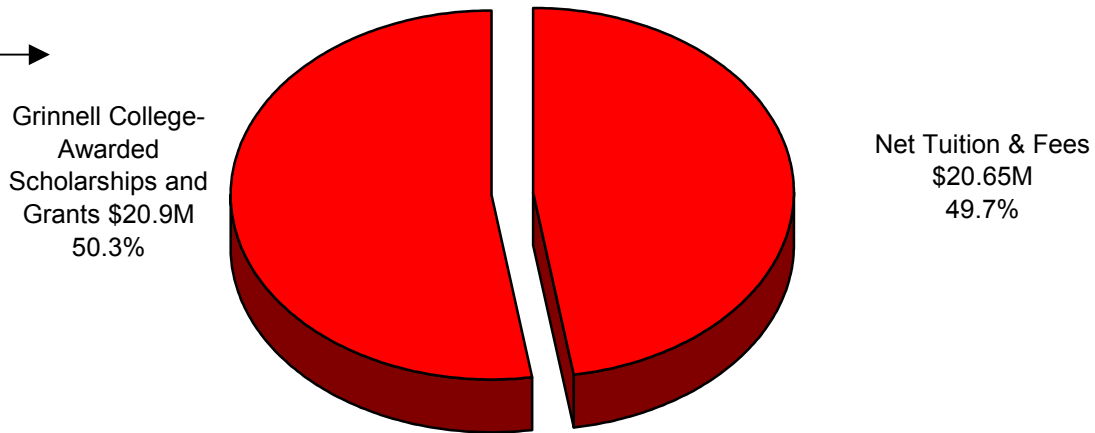
Conversely, when we present our budget, we show almost all other income items on a "gross" basis. For instance, we show our auxiliary enterprises income, which includes items such as room, board, and bookstore payments as revenue. Were we to "net" our Auxiliary Enterprises revenue with the direct costs associated with running these enterprises, we would only show a modest amount of net auxiliary income. Here is what our revenues look like as we report them.

2005-06 Budget (FY 2006) Revenues



*Such as Dining, Phone Service and the Bookstore
 #Includes Government Grants, Contracts, Private Gifts and Grants
 Based on the FY 2006 Budget approved by the Board of Trustees on February 18, 2005

Tuition & Fees

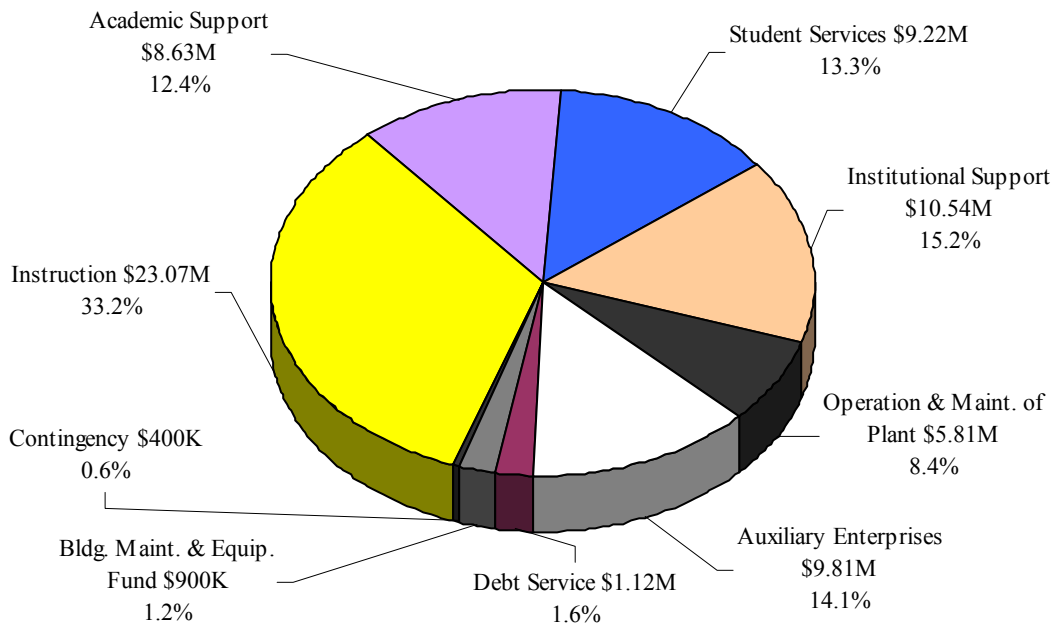


Net Tuition & Fees [\$20.65M]=Gross Tuition & Fees [\$41.55M] minus Grinnell College Scholarships & Grants awarded [\$20.9M]
 Tuition Discount Rate [50.3%] = Grinnell College-Awarded Scholarships & Grants [\$20.9M] divided by Gross Tuition & Fees [\$41.55M]
 The whole pie = Gross Tuition & Fees [\$41.55M]
 Based on the FY 2006 Budget approved by the Board of Trustees on February 18, 2005

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 several functional categories such as “Instruction,” Student Services,” “Institutional Support,” and “Auxiliary Enterprises.” (You can see which budgets fall under each of these classifications at: [http://www.grinnell.edu/offices/institutionalplanning/budgetcategories/.](http://www.grinnell.edu/offices/institutionalplanning/budgetcategories/)) Here is what next year’s expenditures, including our largest ones, look like by functional classification:

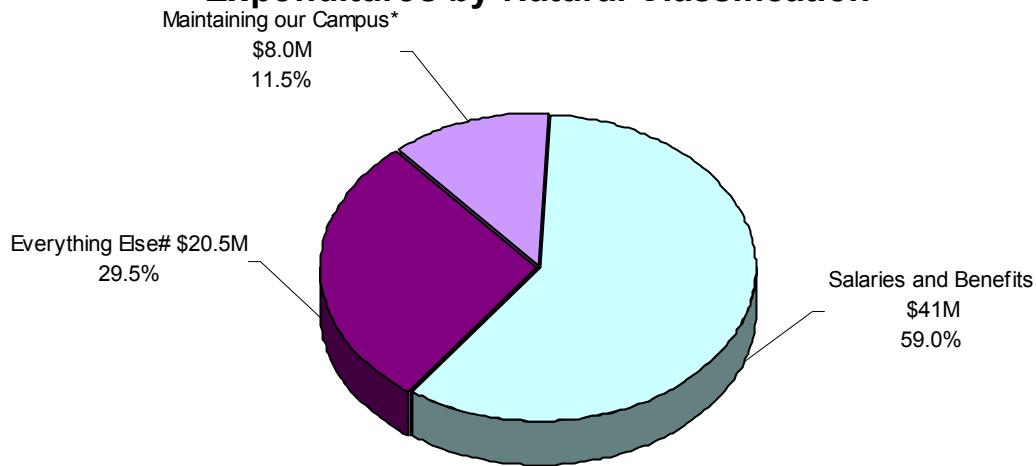
**2005-06 Budget (FY 2006)
Expenditures by Functional Classification**



Based on the FY 2006 Budget approved by the Board of Trustees on February 18, 2005
The cost of operating and maintaining auxiliary buildings is included in "Auxiliary Enterprises."

- 2) We could also think about our expenditures in an entirely different way, within what is called 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:

2005-06 Budget (FY 2006) 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 2006 Budget approved by the Board of Trustees on February 18, 2005

Maintaining generous financial aid support and competitive salaries as well as operating our new facilities largely drive our increased spending. For example, while we project that gross tuition will increase by \$3.7 million, we also project that financial aid support will grow by \$2.72 million, thus leaving slightly under \$1 million in additional revenue from tuition. This additional tuition revenue is also a result of a growth in the budgeted number of students on-campus, discussed in Question # 7 below.

Question #3: Why does our comprehensive fee go up so fast? Has it been going up faster, more slowly, or the same as other schools?

Educational costs have risen more quickly than inflation over the past few years (reflected in the Higher Education Price Index—HEPI—used to adjust the figures in the second graph below), especially as colleges and universities try to keep up with technology, stay competitive on salaries, and support educational efforts in new ways. Many schools have also faced stagnant or declining endowment values, which has put pressure on other revenue sources, such as tuition, to cover increased costs. In addition, a reduction in state and federal financial aid influences our ability to balance the budget.

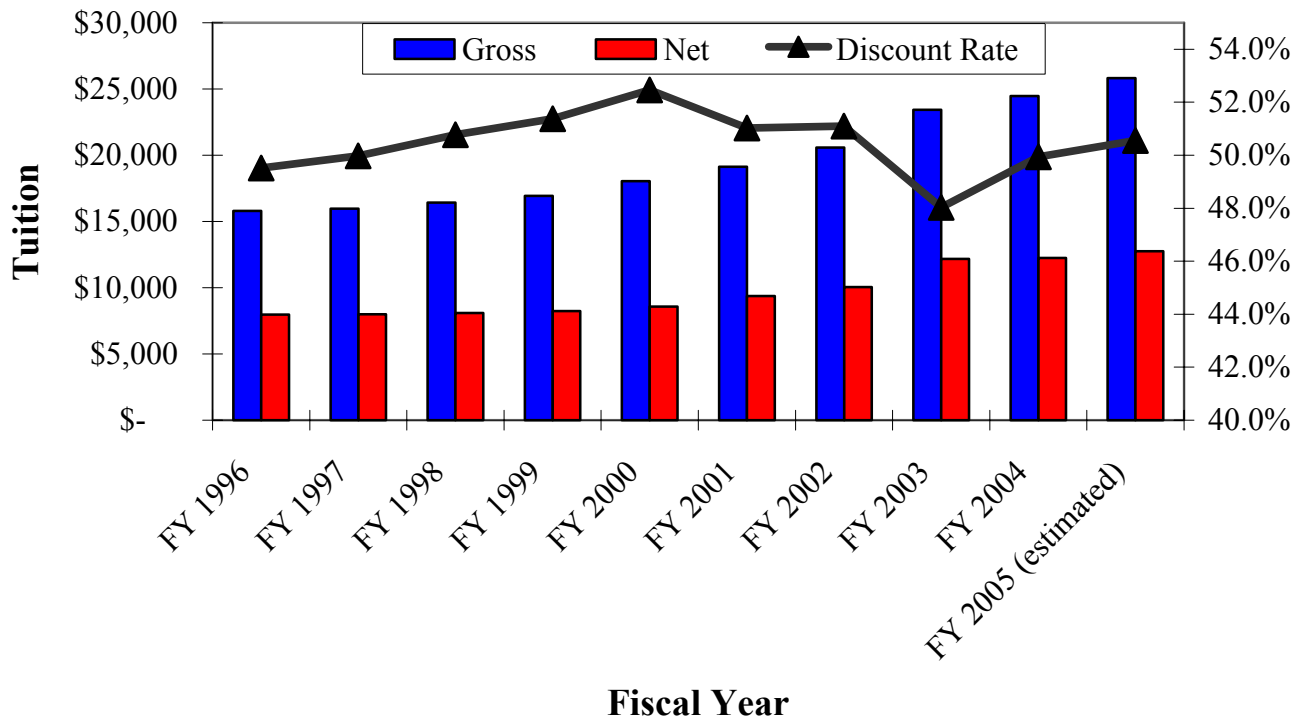
The Budget Steering Committee has had discussions over the last few months related to the College's comprehensive fee and our target for it. For the 2003-04 academic year, we increased the comprehensive fee by 4% and, for this year, we increased it another 5.25%. Each of the last two years, we stated that, in anticipation of the completion of the strategic plan (and a comprehensive fee policy), our goal was to balance the budget while addressing our financial objectives. The FY 2006 Budget's comprehensive fee of \$34,814, or a 6.5% increase, reflects this goal while also permitting us to fund our highest priorities and balance next year's budget.

The graphs below show the changes over a 10-year time frame, including a projection for 2005, in our tuition and fees and grant and scholarship expenses on a per student basis, as well as the discount rate. Since increases are to some extent driven by inflation, the second graph shows tuition and fees and

scholarships and grants indexed to the Higher Education Price Index (“HEPI”), a standard index of the inflation of prices of goods and services in the higher education market. The graphs also reflect a change in accounting for, and reporting of, students attending non-Grinnell off-campus study programs beginning in FY 2003.

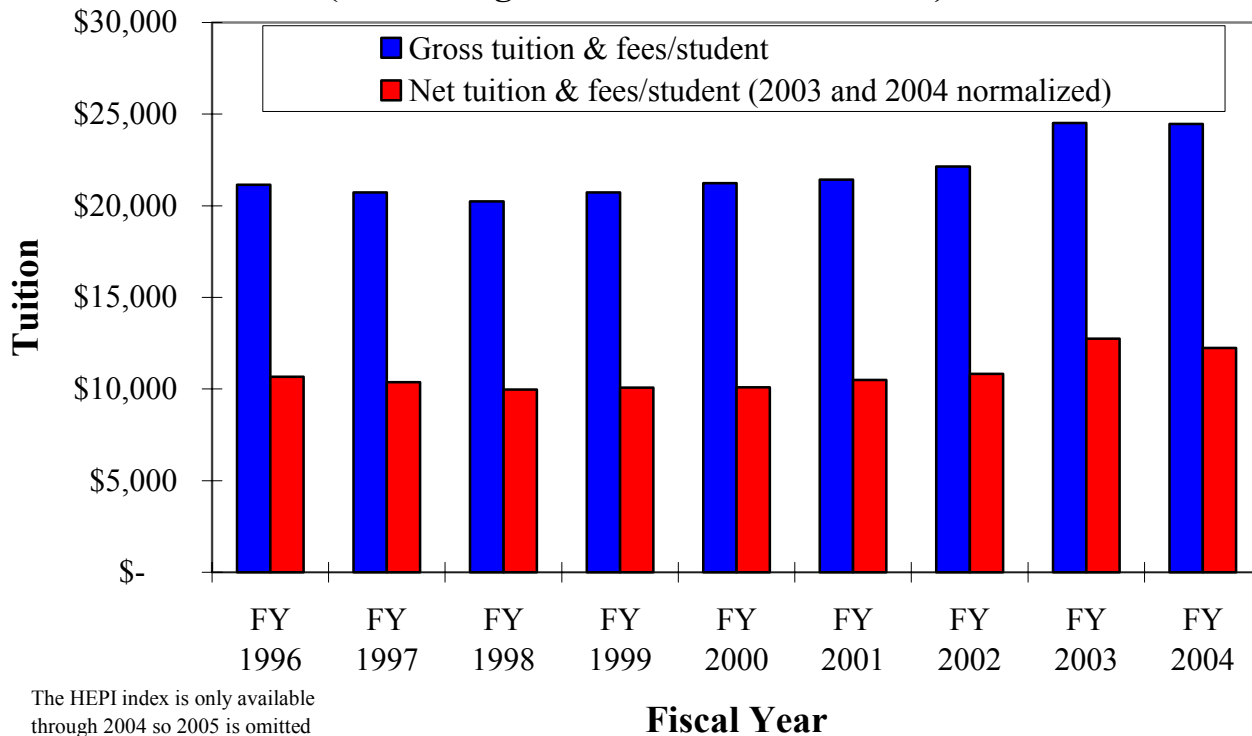
Tuition Revenue per Student--Gross and Net

Discount Rate



HEPI Adjusted (2004=1) Gross and Net Tuition Revenue

(HEPI--Higher Education Price Index)



Question #4: I have heard that there are some big changes in financial aid next year. Can you explain what is happening?

The financial aid budget for next year is \$20,900,000, an increase of \$2,720,000 or 15% over this year. This large increase is a result of the fact that our discount rate was higher than we had originally anticipated for the current first-year class and this class will roll through the budget for 3 more years. Thus, its financial aid needs must be incorporated into our budget models. In addition, the budget model includes a more generous methodology for calculating need (in line with virtually all of our peers) that will apply to next year's incoming class (and ultimately to all 4 classes over the next 4 years), a formal loan reduction program, increasing the size of the Posse program consistent with our core values and strategic goals and a more realistic accounting (a substantial increase) of students' personal expenses when calculating need. Next year, merit aid is being held constant and will be managed the same as this year.

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.

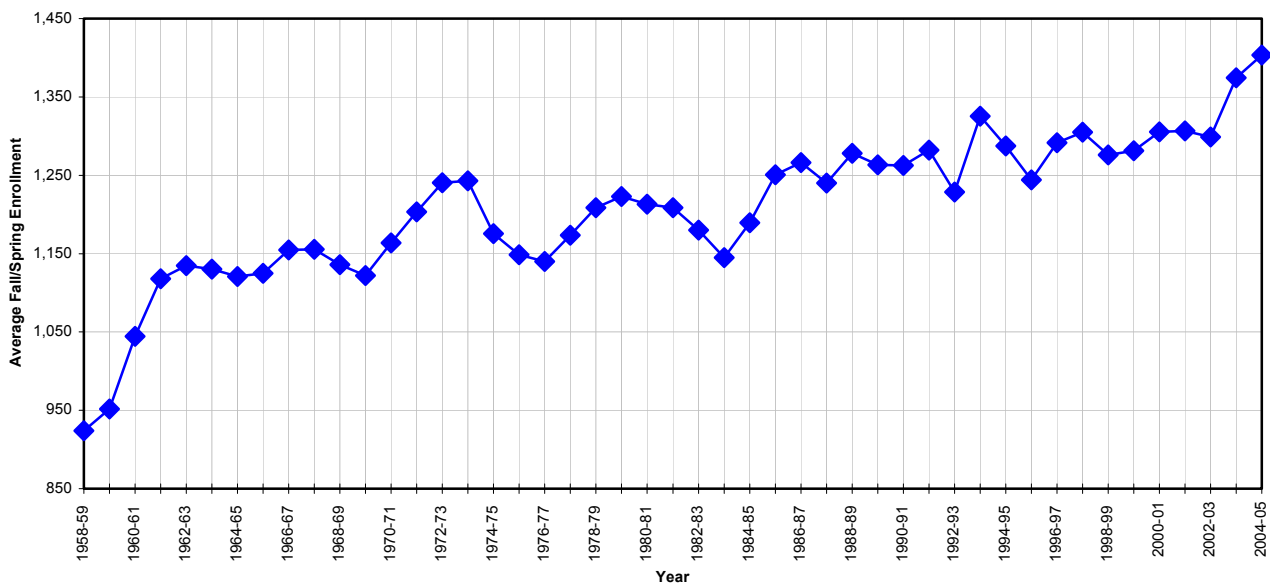
Question #6: When does our fiscal year begin and end?

The fiscal year, corresponding closely to the academic year, runs from July 1 through June 30. For example, FY 2006 starts on July 1, 2005 and ends on June 30, 2006.

Question #7: Does next year’s budget assume any change in the size of the student body?

Next year’s budget includes a more realistic estimate of the number of students rather than a planned increase in actual enrollment. The number of students assumed for budgeting purposes increases by 45, from 1355 to 1400. As shown below, the actual number of students on campus this year is 1404; we project that the average of both semesters next year will be 1417.

Average Actual Fall/Spring Enrollment of Full-Time On-Campus Students

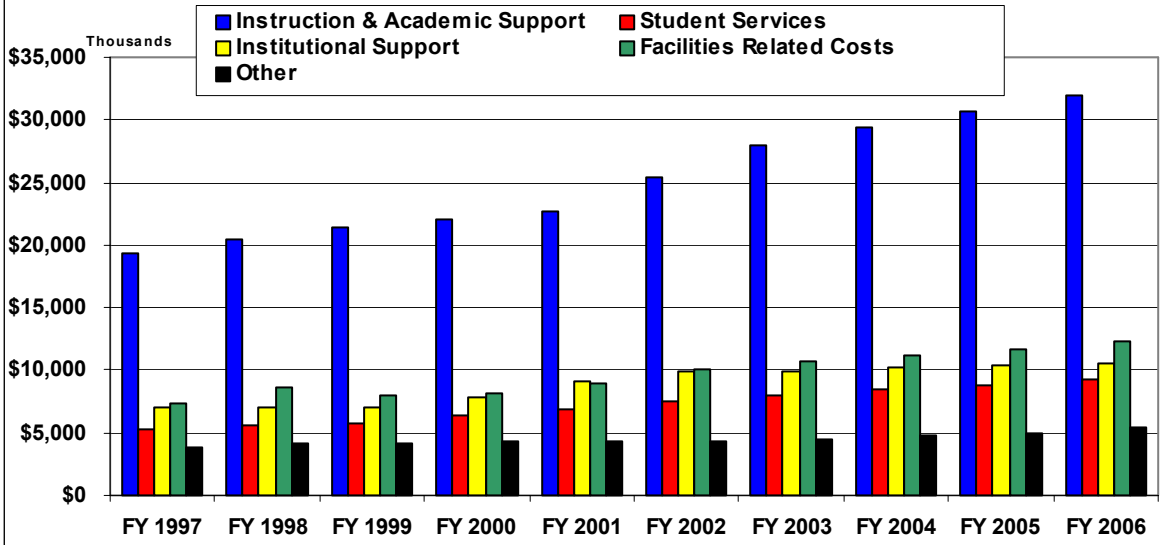


From the 2004-05 Grinnell College Factbook

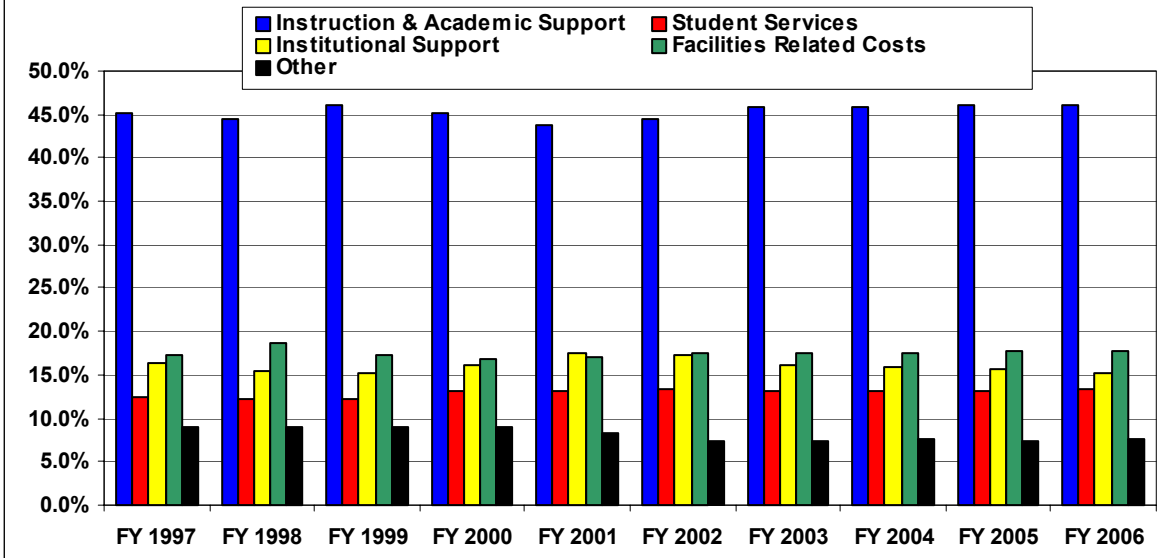
Question #8: How have allocations to the functional areas of the College changed over time?

The graphs below show the actual dollar and percentage of budget allocations to major functional areas (Instruction and Academic Support, Student Services, Institutional Support, Facilities, and Other (which contains non-facility related auxiliaries)) for the college over the past 10 years. These allocations have all increased, but on a percentage basis are relatively constant. Auxiliary costs and income have grown as we have strategically increased the fraction of our students who live on campus. The percentage of the budget that supports the academic program (instructional and academic support budgets) has also increased.

Budgeted Expenditures & Transfers



Budgeted Expenditures & Transfers as % of Total Budget



The Building, Maintenance, and Equipment Fund, which is a rolling fund for specific buildings, technology, and academic equipment project (and which is maintained in the Base Budget) has been allocated to different categories in the above charts as follows: building-related costs are in Facilities-Related Costs; Technology costs are carried largely in Academic Support with a fraction in Institutional Support; and academic equipment is carried in Instruction.

Question #9: Will all these new facilities that we are building leave us with less money in the base budget?

Yes. Although the actual cost of construction for these projects is covered by gifts and the Capital Reserve Fund (which operates outside of the annual budget), the base budget will be affected by our new facilities. We estimate that our overall square footage will grow by over 30% with the four new residence halls, the

athletic and fitness center, the completed Noyce Science Center, and the Joe Rosenfield Center. We anticipate that the base budget will continue to grow, which will help us to absorb new costs. Still these larger and new facilities will need to be maintained (heating, cooling, cleaning, etc.) and the cost of this will come from the base budget. That said, we hope to be able to heat and cool these facilities more efficiently, which should reduce energy costs, and take some older, less efficient buildings off-line to reduce maintenance costs.

Question #10: 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, Vice-President for Institutional Budget and Planning

Jon Chenette, Associate Dean of the College; Blanche Johnson Professor of Music; Professor of Music

David Clay, Vice-President for Business and Treasurer of the College

Matthew Cleinman, SGA Treasurer

Tom Crady, Vice-President for Student Services

Leslie Gregg-Jolly, Member of the Executive Council; Associate Professor of Biology

John Kalkbrenner, Vice-President for College Services

Wayne Moyer, Chair of the Faculty; Member of the Executive Council; Professor of Political Science; Director of the Rosenfield Program

Mickey Munley, Vice-President for Communication and Events

Russell Osgood, President of the College

Todd Reding, Vice-President for Development and Alumni Relations

Marci Sortor, Associate Dean of the College; Associate Professor of History

Jim Swartz, Vice-President for Academic Affairs and Dean of the College; Professor of Chemistry

Frank Thomas, Vice-President for Diversity

Karen Voss, Associate Treasurer

Appendix A.
Grinnell College
Current Fund Budget

	<u>FY 2004</u>		<u>FY 2005*</u>		<u>FY2006</u>	
REVENUES						
Tuition & fees	35,162,810		37,830,667		41,545,407	
Less: scholarships & grants	(16,600,000)		(18,180,000)		(20,900,000)	
Net tuition & fees	18,562,810	29.0%	19,650,667	29.6%	20,645,407	29.7%
Government grants & contracts	900,000	1.4%	975,000	1.5%	1,050,000	1.5%
Private gifts & grants						
Unrestricted	2,813,415	4.4%	2,887,500	4.3%	2,677,500	3.9%
Restricted	1,383,270	2.2%	1,413,785	2.1%	1,395,965	2.0%
Endowment spending						
Policy	30,392,500	47.4%	31,100,000	46.8%	32,655,000	47.0%
Other sources	558,000	0.9%	504,000	0.8%	556,000	0.8%
Auxiliary enterprises	9,484,809	14.8%	9,920,966	14.9%	10,537,897	15.2%
TOTAL REVENUES	<u>64,094,804</u>		<u>66,451,918</u>		<u>69,517,769</u>	
Instruction	20,861,270	32.5%	22,067,785	33.2%	23,073,762	33.2%
Academic support	8,021,662	12.5%	8,175,927	12.3%	8,629,573	12.4%
Student services	8,393,261	13.1%	8,737,298	13.1%	9,222,347	13.3%
Institutional support	10,098,988	15.8%	10,343,017	15.6%	10,544,754	15.2%
Operation & maintenance of plant	5,310,943	8.3%	5,267,767	7.9%	5,810,754	8.4%
Auxiliary enterprises	8,460,181	13.2%	8,986,625	13.5%	9,805,577	14.1%
	<u>61,146,304</u>		<u>63,578,418</u>		<u>67,086,769</u>	
Mandatory transfers for:						
Loan fund matching grant	6,000	0.0%	6,000	0.0%	6,000	0.0%
Total expenditures & mandatory transfers	<u>61,152,304</u>		<u>63,584,418</u>		<u>67,092,769</u>	
OTHER TRANSFERS & ADDITIONS						
Transfers to (from):						
Plant fund						
Debt service	1,217,500	1.9%	1,292,500	1.9%	1,125,000	1.6%
Building maintenance & equipment fund						
Equipment	150,000	0.2%	150,000	0.2%	100,000	0.1%
Facilities	850,000	1.3%	900,000	1.4%	500,000	0.7%
Technology	500,000	0.8%	300,000	0.5%	300,000	0.4%
Contingency	225,000	0.4%	225,000	0.3%	400,000	0.6%
Total other transfers & additions	<u>2,942,500</u>		<u>2,867,500</u>		<u>2,425,000</u>	
TOTAL EXPENDITURES/TRANSFERS	<u>64,094,804</u>		<u>66,451,918</u>		<u>69,517,769</u>	

*as adjusted after February, 2004

Current Fund Budget
Major Resource and Allocation Decision Summary

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
<u>Enrollment</u>			
Students on campus	1,330	1,355	1,400
Grinnell off campus study (FTE)	30	30	20
Other off campus study programs (FTE)	65	65	80
Residing in college-owned housing	1,210	1,210	1,230
<u>Comprehensive fee</u>			
\$	31,060	32,690	34,815
\$ increase	1,200	1,630	2,125
% increase	4.0	5.25	6.5
<u>Unrestricted gifts</u>			
\$	2,813,415	2,887,500	2,677,500
\$ increase	184,055	74,085	-210,000
% increase	7.0	2.6	-7.3
<u>Endowment spending</u>			
Base	30,392,500	31,100,000	32,655,000
Capital Reserve Fund	14,000,000	14,300,000	16,500,000
<u>Salaries and wages (% increase)</u>			
Faculty	5.0+	5.0+	5.5
Staff	3.5	3.5	3.5
<u>Scholarships and grants</u>			
\$	16,600,000	18,180,000	20,900,000
\$ increase	1,000,000	1,580,000	2,720,000
% increase	6.4	9.5	15.0
<u>Tuition discount rate</u>	47.4	48.5	50.5
<u>Building Maintenance & Equipment Fund</u>			
Equipment	150,000	150,000	100,000
Facilities	850,000	900,000	500,000
Technology	500,000	300,000	300,000
<u>Debt Service</u>	1,217,500	1,292,500	1,125,000
<u>Contingency</u>	225,000	225,000	400,000

