

January 24, 2008

To: Russell Osgood

From: Marci Sortor
The Budget Steering Committee

Re: Proposed FY 2009 Budget

This year, the Budget Steering Committee membership was expanded to include a rotating position for new administrators to help acquaint them with the budget planning process at Grinnell College. Richard Fyffe, Librarian of the College, is the first to occupy this one-year rotating position. As in past years, this broad-based committee of students, faculty members, and administrators in leadership positions helps identify our institutional priorities as they are expressed in the budget, and reviews all departmental budget requests.

The resulting budget for FY 2009 expresses the goals of an institution that is undergoing important changes while (1) maintaining and strengthening its core commitment to providing an excellent liberal arts education and residential experience to its students and (2) combining need-blind admissions with meeting the full demonstrated financial need of all Grinnell College students.

By FY 2009, Grinnell College will be well on the way to fully implementing the strategic plan (some important elements such as faculty appointments are on a slightly longer trajectory), and this has important implications for the budget. Indeed, well over \$4,000,000 of new expenditures (salary, non-salary, and BM&E) supports the strategic plan. An additional \$1,950,000 funds a \$2,000 loan cap. This initiative is the companion-piece to the strategic plan's call for upwardly adjusting the tuition to better reflect the cost and quality of a Grinnell College education. In the spirit of "No Limits," the combination of loan capping with our fine educational and residential program should produce graduates with the skills and knowledge needed to succeed, unrestricted by the fetters of heavy educational debt. Given our commitment to need-blind admission and meeting the full demonstrated financial need of our students, however, this initiative has significant costs.*

Two other significant developments have implications for the FY 2009 budget (and perhaps for FY 2010 as well): new appointments in important administrative leadership positions, and the Board of Trustees' efforts to complement the strategic plan with some additional initiatives. First, the Budget Steering Committee sought to find sufficient savings in the FY 2009 budget to allow for substantial investment in new ideas emerging from the Board of Trustees' summer retreat. Second, as a result of retirements and career changes over the past two years, Grinnell College has gained a new dean of Admission, a new Librarian of the College, a new director of Development, a new director of Athletics and Wellness, and a new director of the Career Development Office. These appointments

bring with them fresh new ideas and perspectives on how their offices can best support the mission of the college and the strategic plan, and the Budget Steering Committee grappled with how to best allocate funds to support them. Last, the FY 2009 budget proposal contemplates increases in the faculty and staff salary pools that are larger than in recent years.

The resulting budget proposal for FY 2009 contemplates an increase of approximately \$8,200,00 over this year's budget. This is 10.7% more in expenditures than budgeted for FY 2008. For the first two years of the strategic plan's implementation, we succeeded in balancing the budget without going above the 5% collar on the growth of the endowment's contribution to the base budget. The next phase of implementation poses a much greater budgetary challenge. *The FY 2009 budget proposal contemplates exceeding the 5% collar in order to aggressively implement the strategic plan and particularly to pay for loan-capping and other financial aid initiatives.*

It is important to note that loosening the collar in this way does not break through our 4% ceiling on endowment spending; the FY 2009 budget proposal anticipates a contribution of 2.9% of the 12-quarter moving average of the endowment's value as of December 31, 2007. The proposed loosening of the collar represents a reallocation of funds between the base budget and the capital reserve fund. It is too early in our development of the five-year projection to be certain, but it may be necessary to exceed the collar for a second year.

I. Revenue-related Parameters

A. Comprehensive Fee

Net tuition revenues for FY 2009 are budgeted at \$22,921,939, a decrease of \$627,249 over that budgeted for FY 2008. Total net tuition revenues are the combined result of budgeted enrollments, the comprehensive fee, and financial aid. For FY 2009, we have budgeted for an enrollment of 1,480 students and an off-campus FTE of 110. Half of the enrolled students will be paying the upwardly adjusted tuition called for by the strategic plan.

The proposed budget for FY 2009 calls for a 3% increase in tuition, room and board (applied equally to both the adjusted and the non-adjusted tuition rates). We include comprehensive fee data for Grinnell's peer schools for your review. You will see that we list this year's (2008) comprehensive fee of \$42,422 based on the upwardly adjusted tuition that applies to this year's new students. For FY 2008, Grinnell College's comprehensive fee is 95.7% of its peer mean (95.6% of its Midwestern mean).

Supporting Grinnell College's priorities of need-blind admission and meeting the full demonstrated need of our students, financial aid for FY 2009 is set at \$30,000,000. This represents an increase of \$2,500,000 over FY 2008 plus an

additional \$1,950,000 in order to implement a \$2,000 loan cap. These increases in financial aid are expected to bring the discount rate to 57%.

B. Endowment Spending

The budget proposed by the Budget Steering Committee cannot be balanced without loosening the collar on increases to the endowment's contribution to the base budget. Doing so will increase the endowment's contribution to the base budget from 46.5% in FY 2008 to 50.3% in the proposed budget for FY 2009. Loosening the collar to this degree continues to respect the ceiling on endowment contributions, set by the Board of Trustees at 4% of the 12-quarter moving average of the endowment's value. Indeed, this increase brings the endowment's contribution to the base budget to 2.9% of the 12-quarter moving average. We include an endowment spending analysis for your review.

C. Private Gifts and Grants

This year's budget (FY 2008) anticipates unrestricted gift and grant revenues of \$2,928,270, a 15.8% increase over the previous year (FY 2007). The proposed budget for FY 2009 contemplates something of a "resting period," with the rate of increase slowing to 5.7%, for a proposed total of \$3,095,000 in gift and grant revenues.

II. Expenditure-related Parameters

A. Faculty and Staff Salaries

The Budget Steering Committee recommends a faculty salary pool of 6.5% in order to maintain our position vis-à-vis our peers in faculty compensation. We include comparison data for faculty salaries (2003/04-2007/08) for your review. The committee also recommends a staff salary pool of 4.5% plus an additional \$150,000 market adjustment. Doing so should improve our ability to recruit a high quality the increasingly skilled staff needed to deal with ever more complex systems of all sorts. Increased benefits costs for faculty and staff are included in the proposed budget.

B. Current Debt Financing

We expect debt service to remain around \$1,700,000 based on an anticipated average interest rate of 3.25%.

C. Capital Reserve Fund

The level of endowment contribution to the base budget will depend on the Board of Trustees' decision regarding whether to loosen the collar on increases in endowment contributions to the base budget. The differences in funding levels are noticeable. Loosening the collar by the amount we propose results in a lessening of the allocation to the Capital Reserve Fund from 1.4% in this year's budget to 1.1% for FY 2009. The result will be a decline in the level of funding from \$19,700,000 to \$17,419,450.

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 2009 budget allocates \$800,000 across these three areas. This \$100,000 increase over the amount budgeted for FY 2008 helps us accommodate a number of large technology projects. The BM&E fund is distinctive in that its balance rolls over to following years, allowing us to "save up" for large projects. We expect to support about \$950,000 of technology-related projects from this fund in FY 2009.

F. Contingency Fund

The Contingency Fund helps us to address unexpected spikes in expenses (thanks to volatility in utilities) or dips in revenues (given Grinnell College's need-blind admission policy). The amount allocated to the Contingency Fund for FY 2009 is \$500,000, representing no change from this year.

G. Non-salary Expenditures

Non-salary expenditures in the FY 2009 budget proposal represent an 11.8% increase over this year's budget (subtracting those expenses that have corresponding revenues). As in the past, the Budget Steering Committee divided itself into two sub-committees, one addressing non-salary academic expenditure requests and one addressing such requests for non-academic areas. In order to help pay for the goals set forth at this beginning of this report, the sub-committees needed to find substantial savings in their review of the budget requests as well as rely on an increase in the endowment contribution. They established the following criteria for evaluating proposed expenditures:

- ❖ Programs supporting the strategic plan, programs central to the mission of the college,
- ❖ Initiatives promoting health and safety,
- ❖ Programs that enhance our competitive advantage, and
- ❖ Timely responses to important trends in higher education.

The sub-committees concluded their deliberations in finding \$620,000 in savings.

Attached:

- Actuals for the FY 2006 and 2007 budgets; the FY 2008 budget; the proposed FY 2009 budget
- Major resource and allocation decision summary, FY 2006 through proposed FY 2009
- Comprehensive fee peer comparison data
- Endowment spending analysis
- Faculty salary peer comparison data

* Refinement in the budget since my mid-year report has resulted in some changes in the numbers reported there, namely regarding loan capping costs and funding for the strategic plan.