To: Russell Osgood

From: Marci Sortor, on behalf of the Budget Steering Committee

Re: Proposed FY 2011 Budget

February 2010

With this report the Budget Steering Committee recommends the proposed budget for the 2011 fiscal year. The Budget Steering Committee submits to you an operating budget of $84,100,000, roughly $400,000 below the current year's budget, and about $2,100,000 below the amount budgeted for FY 2009. This figure reflects a continuing commitment to establish a budget that will be sustainable over the next few years. Key elements in the FY '11 proposal, which I shall discuss in detail below, include:

- Continued reduction of the endowment's contribution to the operating budget
- 3% increase in comprehensive fees
- 6.5% increase in financial aid
- Reduction in gifts and grants
- Stable auxiliary revenues
- 2.5% salary and wage pool
- Slight increase in expenditures
- Reduction in the BM&E fund,
- Zero allocation to the Contingency Fund and a compensatory allocation of additional funds elsewhere to address the presidential transition and other as yet unidentified needs.

As in past years, *but unlike many colleges in planning for FY '11*, we solicited budget requests from departments and offices. While explaining that overall we would need to reduce expenditures from the current year's levels, we sought to emphasize the goal of developing a sustainable budget (please see the attached memo). Budget managers were allowed to propose non-salary increases if these were seen as necessary for the long term health of the College. Our confidence in our colleagues was confirmed. Departmental requests reflected careful thought and evidence of efforts to find savings in budgets already trimmed in FY '10. Even with these initial efforts, however, the Budget Steering Committee and its academic and non-academic subcommittees faced the task of closing a substantial deficit. The outcome of their work is a budget that looks similar to FY '10, but reflects the effects of on-going efforts to rethink our use of resources and grapple with forces that drive our budget in ways difficult to control, such as the financial needs of our students, expectations for services, energy costs, fees and interest rates, and the diminution of the endowment.

Attached to this report are the FY 2011 budget summary and a list of major resources and budget allocation decisions.

I. Revenue-related Parameters

A. Comprehensive Fee

Net tuition and fees revenues for FY 2011 are budgeted at $25,003,000, an increase of $1,735,000 over that budgeted for FY '10 and amounting to 29.7% of the College's revenues (a slight improvement over this year's 27.5%). Total revenues from tuition and fees are the combined result of budgeted enrollments, the comprehensive fee, and scholarships and grants. In order to smooth out enrollment after greater than anticipated enrollment previously, we have budgeted for 1,515 students on campus and an off-campus study FTE of 110 for FY '11. All four classes of students enrolled will be paying the upwardly adjusted tuition called for by the strategic plan. As I mentioned in last year's Budget Steering Committee report, we can expect the recent trends in rising gross tuition revenues to level off as the upwardly adjusted tuition is applied to all of our students and as we ease on-campus enrollment back to the goal of 1,500.

The budget for FY '11 includes a 3% increase in comprehensive fee (tuition, room and board). It includes a 2.7% increase in tuition. Increases in fees included a modest upward adjustment of $20/student in health fees to reflect expanded on-campus mental health services and the incorporation of telephone charges into our fee structure (something normally done at institutions like Grinnell). We include comprehensive fee data for Grinnell's peer schools for the 2009/10 academic year for your review. This year's (FY '10) comprehensive few is 92.5% of the peer mean (and 91.4% of the Midwestern mean).

Supporting need-blind admission and meeting the full demonstrated need of our domestic students, scholarships and grants for FY '11 are budgeted at $36,200,000. This represents a 6.5% increase, or $2,200,000, over FY '10. This increase follows substantial increases in FY '09 and '10 as well. We expect the discount rate to approximate 59.5%, and intend to increase the loan cap modestly to $2,250 for next year's entering class.

B. Endowment Spending

The 2011 fiscal year will mark the second year of a reduced endowment contribution to the budget. The Budget Steering Committee proposes an endowment contribution of $38,900,000, a 5% reduction from the FY '10 allocation of $40,881,000, and comprising 46.3% of our FY '11 revenues. The College bases its FY '11 budget on the following decisions regarding endowment spending and allocation:

- Application of the endowment spending and allocation policy (reaffirmed by the Trustees in February 2009)
- Suspension of distributions to the Capital Reserve Fund (as in FY '09 and '10)
- Reduction of the endowment contribution to the operating budget by 5% , and
- Use of 4% of the current estimated market value of the endowment as a reasonableness test.

We include an endowment spending analysis for your review.

C. Private Gifts and Grants

We anticipate that private gift and grant revenues will continue to be adversely affected by the economic downturn. The budget for FY '11 reflects a projected 10% reduction from the FY '10 budget number to $2,695,000 in unrestricted gift revenues, making up 3.2% of next year's proposed revenues.

II. Expenditure-related Parameters

Total expenditures for FY 2011 are budgeted at $81,400,000 (approximately $620,000 over FY '10 expenditures). Non-salary expenditures (excluding off-campus study and restricted funding, which have corresponding revenue offsets, the student activity fee pass-through to SGA, and the reallocation of contingency funds discussed below) remain nearly flat from this year's budget. Academic non-salary expenditures are budgeted at approximately 1% below FY '10 (-.7%), and non-academic at approximately 1% above (1.2%). Increased expenditures were primarily linked to increased ITS and FM costs (reflecting increased licensing fees, continued implementation of key upgrades, and reimplementation of a repair and replacement cycle to avoid costly deferred maintenance), and to funding to address potential costs linked to the presidential transition.

A. Faculty and Staff Salaries

The College has not terminated anyone for financial reasons, and we have managed to shrink staffing through attrition. The FY '11 budget includes a salary pool of 2.5%. The FY '10 budget proposal included a modest salary pool, but we stipulated at the time that we were unlikely to implement it. By not implementing the FY '10 increase, we believed that we would be better able to incorporate an increase into the FY '11 budget. Members of the staff and faculty expressed a willingness to forego a pay increase in order to help protect positions. For its part, the College's bargaining unit also chose not to seek pay increases during contract negotiation.

B. Current Debt Financing

We expect debt service to approximate $2,100,000. This includes $1,050,000 for our $50,000,000 Series 2001 bonds calculated at a fixed rate of 2.1% and an estimated $1,050,000 (or a 1.75% "all in" rate) for our variable rate $60,000,000 Series 2008 bonds.

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 '11 budget allocates $600,000 (a reduction of $150,000 from FY '10) across these areas.

F. Contingency

In response to the economic crisis, the College took a number measures to address issues of reduced liquidity and economic uncertainty. For the FY '11 budget, the result of these

measures is a reconsideration of the kinds of buffers that we carry. We propose for FY '11 to make no allocation to the Contingency Fund. This fund was established to address unexpected spikes in expenses (such as volatility in utilities) or dips in revenues (given our need-blind admission policy). Because the economic outlook was so uncertain, particularly in regard to our sources of revenue, we raised the Contingency Fund to $1,000,000 for FY '10.

Before discussing the changes to the Contingency Fund, I will briefly review the measures that have had an impact on it. The College suspended allocations to the Capital Reserve Fund, and in its February 2009 meeting, the Board of Trustees voted that,

> *Given the present economic circumstances, the Board makes the following temporary adjustment. Any unrestricted bequests or trust maturities in FY09 and FY10 shall be allocated to the capital Reserve Fund to help repay the Series 2001 bond debt and pay for approved Capital Projects. Any end of year surplus for FY09 (and also FY10 if economic circumstances do not improve) shall be held in reserve in its entirety for twelve months as a further cash cushion in case of unpredictable financial aid needs and any unexpected liquidity exigencies in the portfolio. At the end of the twelve months of deferral the current policy would be applied returning any surplus (after adjustment of the contingency) to the endowment.*

FY '09 resulted in a substantial surplus. In light of this surplus, the fact that it will be held over into future years as the College Operating Reserve Fund, and the College's intent to work with the Board of Trustees over the next few months to re-establish a buffer, we have reduced to zero the allocation to the Contingency Fund and have correspondingly added $500,000 to Institutional Support to provide additional funding for the presidential transition and any other as yet unidentified needs.

The Budget Steering Committee's membership includes Seth Allen, Steve Andrews, Elena Bernal, Nancy Combs, Houston Dougharty, Mark Godar, Leslie Gregg-Jolly, John Kalkbrenner, Jim Mulholland; Mickey Munley, Gabe Schechter '12, Mark Schneider, Kathleen Skerrett, Paula Smith, Karen Voss, and Cyrus Witthaus '11. In particular, I appreciate the hard work and creativity of our Dean of the College, Paula Smith, and the rest of the academic sub-committee in helping to build the academic side of the FY '11 budget.

Attached:

- Memo to budget managers regarding FY 2011 requests
- Actuals for the FY '08 and '09 budgets; the FY '10 budget; the proposed FY '11 budget
- Major resource and allocation decision summary, FY '08 through proposed FY '11
- Comprehensive fee peer comparison data
- Endowment spending analysis