Gallaudet University FY 2005 Budget

As of May 1, 2004 with estimates for FY 2006 and beyond.

Prepared by

Gallaudet University Budget Committee

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FY 2005 Budget Executive Summary

This document presents Gallaudet's budget for FY 2005 within the context of a financial plan for the University covering the next 5 years. The document begins with preliminary revenue and expense budgets for FY 2005, for Board approval. The process by which these budgets were developed was open and inclusive, involving representatives from all of the University's major internal constituencies. This budget was developed by the University Budget Committee (UBC) and was approved by the University President. The process that was followed is described in detail in this document.

The next major budget topic to be addressed is the University's FY 2006 budget request to the Congress which is submitted through, and according to the formats of, the U.S. Department of Education. The Board will be asked to approve a strategy for preparing this request, based upon the University's long term need to maintain the purchasing power of its Federal funding against inflation, and the need to provide for programmatic growth. This strategic framework was also developed through a public process conducted by the UBC. Both the process and the Committee's recommendations are presented in this document.

This is followed by the University's 5-year financial plan, which will guide budget development in FY 2006 and beyond. By far the most important factor affecting the University is the Federal Appropriation process. This situation is due to Gallaudet's unique relationship with the U.S. Congress, which has provided the bulk of its funding for the past 140 years. Currently, Congress provides about 70% of the University's unrestricted funding. For more than a decade, Congress struggled to balance the Federal budget, and for that reason, Gallaudet, along with other Federally supported programs, saw its funding base increase at a rate that did not match inflation in the general economy. More recently, during the last five fiscal years, the University's Federal funding has grown at a rate commensurate with the Consumer Price Index. However, the prospect of slow growth has returned following events in 2001. To offset slow growth in the appropriation, Gallaudet's tuition rate has been increasing at a rate that exceeds that of inflation, and this budget contains a recommendation for that to continue in FY 2006, although a smaller annual percentage increase is recommended.

Although the University's Federal appropriation is now growing at a rate that is commensurate with inflation, overall growth in real income is expected to be sluggish in the foreseeable future. This is due to anticipated slow growth in the appropriation, due to the reemergence of substantial federal budget deficits, and to total university enrollment that is expected either to decline or to remain at the current level. The total FY 2005 budget is projected at $141,600,000. The UBC has recommended that the President award a general pay increase to faculty and staff of 2% and believes that sufficient funding will be available for this increase.

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Calendar of Budget Related Events
October 2003-October 2004

October, 2003	Fiscal Year 2004 begins
January, 2004	President announces priorities for FY 2005 and 2006
January, 2004	UBC issues instructions to divisions for 2005 budget development and for responding to FY 2006 priorities
March, 2004	Divisions respond to UBC re 2005 and 2006/Planning Office begins analysis of division responses
March, 2004	Planning Office reports to UBC/Budget Office releases revenue projections for FY 2005/UBC begins preparation of 2005 budget
April, 2004	UBC completes recommendations for 2005 budget
April, 2004	UBC completes recommendations for 2006 Federal appropriation request and 2006 tuition and fee schedule
April, 2004	Budget Office completes 2005 budget document for approval by President and Board in May
May, 2004	Board approves budget document
June, 2004	Budget Office submits FY 2006 budget request to U.S. Department of Education
October, 2004	Fiscal Year 2005 begins

Recommended FY 2005 Budget

Following is a summary of the University Budget Committee's general recommendations to the President concerning the FY 2005 budget. That summary is followed by rationale for the recommendations and the distributions shown in the accompanying tables.

- General pay increase in a range between 0 and 2%
- Maintenance of existing operating budgets

UBC participation in the budget process began with receipt of projections of unrestricted income for FY 2005 and by announcement of the President's priorities for the year, stated in terms of AAPC directions:

Gallaudet University is a prestigious university with high quality academic programs, co-curricular programs, and research.

Gallaudet University is the university of choice for an increasingly diverse pool of students who are deaf or hard of hearing, and for hearing students who want to prepare for careers in the deaf community.

The President also indicated that three programmatic proposals, identified in institutional planning begun one year ago, and included in the University's federal budget request for FY 2005, would receive special attention in the 2005 budgeting process:

- National Mission Training and Dissemination
- School Social Work National Demonstration Program
- Biology and Genetics Research Laboratories

The UBC then solicited budget requests, organized around the President's priorities, from each of the University divisions.

Revenue Assumptions

The University faces significant uncertainty concerning its funding in FY 2005 from the Federal appropriation process. The Bush Administration budget for the University is $100.2 million, the same as our appropriation in FY 2004.This budget request must be examined in the context of a Federal budget deficit that is now growing toward historically large proportions of total economic activity in the United States. In the course of reviewing revenue assumptions for FY 2005, the UBC considered an historical analysis of the growth and decline of Federal budget deficits. For FY 2004, the Congressional Budget Office (CBO) projects a budget deficit that will be more than 4% of the nation's Gross Domestic Product (GDP), following a balanced budget as recently as FY 2001. Deficits this high were last seen during the Reagan administration and led to efforts at deficit reduction that included limitations on appropriation increases. The current situation facing the University must be considered in this light. Nevertheless, we are confident that the University can achieve a modest increase in our appropriation sufficient to fund a 2% general pay increase, and we have budgeted our Federal appropriation income accordingly.

In addition, Gallaudet faces limitations on growth in income from student tuition and fees, the second largest component of the University's undesignated income. In FY 2002 and 2003, revenues from tuition failed to increase by the 7% predicted by the rise in tuition rates. Consequently, midyear projections for FY 2004 suggest that tuition revenue is over-projected in the current year budget. As a result of this analysis, we are budgeting tuition revenue at the same level in FY 2005 as the amount budgeted in FY 2004. Amounts budgeted for other components of the University's total revenues are derived from the five year financial plan appended to this document. The effect of these limitations is that our total revenue budget for FY 2005 is only 1.7% larger than our current revenue budget for FY 2004, and our recommendations for budget distributions in FY 2005 are correspondingly limited.

Revenue Distributions

The UBC had two major responsibilities in recommending how the University should distribute its projected unrestricted income: 1. to recommend a general pay increase in FY 2004 for eligible employees; 2. to recommend distribution of the income among the University's administrative divisions and other major programs and activities. To this end, the UBC reviewed all of the budget requests submitted by the organizational units named above and the estimated costs of general pay increases at various levels. The Committee first evaluated the need for a general pay increase by considering primarily the competitiveness of the University's current salary schedules for faculty, teachers, and staff and the current and projected rate of inflation. The Committee believes that an increase of 2% is needed to maintain the competitiveness of the University's salary schedules and believes that sufficient funds are available to support it, either through an increase in the Federal appropriation or through reallocation of existing funding. The estimated cost of such an increase is $1.6 million. The estimated distribution of the total budget by division in the table on page 10 assumes that a general pay increase of 2% will be made to eligible employees within those divisions. With respect to the timing of the general pay award, the Committee recommends that it be awarded on October 1, 2004 whether or not a final appropriation bill has been passed, as the University's practice has been in recent years. Further discussion of the general pay increase is presented on page 13.

Beyond the general pay increase, the UBC received requests from the operating divisions for total funding equaling no more than 1% more than that budgeted in FY 2004. In addition, there are other items considered for funding in the five year financial plan, especially an ambitious capital improvement plan. Because of the limitations on funding that the UBC foresees, we are recommending limitations on growth in operating budgets in FY 2005, essentially to the levels budgeted in FY 2004 plus funding for the FY 2005 general pay increase of 2%. The UBC also supports the President's efforts to obtain funding for 3 programmatic priorities from Congress. Should that effort not be completely successful, the Committee recommends that these programs become priorities for private development efforts. The UBC also recognizes that passage of an appropriation bill may come very late in FY 2005 because of the impending election and the degree of contentiousness that it represents. The three program priorities are those mentioned above:

- National Mission Training and Dissemination ($1.1 million)
- School Social Work National Demonstration Program ($0.7 million)
- Biology and Genetics Research Laboratories ($1.8 million)

Should this funding (or part of it) be received from Congress in 2005, the UBC recommends that it be added to the appropriate operating budgets within Academic Affairs and the Clerc Center, but it is not included in the budget tables that follow.

There are several other changes, representing reallocations between existing budgets, that the UBC supports. As the result of a reorganization, the Office of Enrollment Services (OES), which has responsibility for recruiting and enrolling students, moved from the President's Office to Academic Affairs. In order to fully fund enrollment services activities that had been built up in response to increasing competition for recruiting students, the President also transferred approximately $500,000 from his contingency fund to Academic Affairs, along with the existing budget for OES. The UBC recommends that this transfer be made permanent and that the goal of restoring the contingency fund to $1 million become part of the 5 year financial plan. The Committee also supports a request from the Division of Administration and Finance to reallocate $400,000 from the Peoplesoft account to Information Technology Services (ITS) to support an ongoing and permanent need to provide security for ITS managed systems. Neither of these transfers results in an increase to the total budget, as the contingency fund and Peoplesoft accounts are correspondingly reduced in the FY 2005 budget.

In deciding not to recommend substantial changes in programmatic funding in FY 2005, the UBC reviewed the effects of its recommendations since its inception in 1999. Presented below is a review of the cumulative effects of budgetary decisions made during the five year period from FY 1998 to FY 2003, the last year for which full year income and expenditure data are available.

Changes in Gallaudet Income and Expenses: FY 1998-2003

Increase in Federal appropriation for operations	21.0%
Increase in total income for operations	20.2%
Increase in Consumer Price Index	12.3%
Cumulative Gallaudet general pay increase	13.7%

Changes in Gallaudet expenditures by division:

Academic Affairs	+23.6%
Clerc Center	+21.5%
Provost total	+23.0%
Enrollment services	+33.4%
President (including Institutional Advancement)	+32.6%
Administration and Finance	+14.5%
Technology Plan/Peoplesoft	-27.5%

This represents a successful outcome for the budget process and for the five year financial planning process, as well as efforts by the President and his staff to increase funding from a variety of sources. The increase in operating funds has been allocated to the institution's programs and to priorities set forth by the President related to recruitment, enrollment, fund raising, and planning, as well as for the highly successful Deaf Way II international conference and arts festival. We have also been able to identify substantial funding from within our operating income to support the construction of the SAC-SUB and the new communication building. Program support has been provided for the Clerc Center Cochlear Implant Center and several University programs, including support for graduate students and merit increases for faculty. In FY 2004, support was provided for the BA in interpreting, the leadership institute, and honors programs at the University and MSSD.

Because of the fiscal uncertainties facing the University and the completion of the first five year cycle under the current financial planning process, the UBC recommends that there be an institution-wide review of the current budget process, with an eye to finding ways to support the ambitious Academic Affairs Planning process that is now underway. Given the anticipated limitations on increases in funding, the UBC believes that the campus community should be involved in developing creative approaches to funding the AAPC planning priorities. In making this recommendation, the UBC notes that Gallaudet continues to be very healthy financially, but it also recognizes that we face limitations to our growth, and we should be seeking ways to overcome them.

Comparative Financial Indicators

In order to make its recommendations, the UBC also had to assess the appropriateness of the current budget distributions at the University. To do this, the Committee reviewed comparative data from a sample of small, selective liberal arts colleges and universities collected through the U.S. Department of Education's Integrated Post-Secondary Education Data System (IPEDS), with respect to FY 2000, the latest year for which analyzed comparative data were available. These data, along with comparable data for Gallaudet in FY 2003 are presented in the chart on page 15. Comparisons are presented in that chart for data on the functional distribution of expenses. In general, these data show that, with respect to the distribution of its expenses, Gallaudet is fairly typical, except that it spends relatively more on research and public service, in accordance with its national mission, and less on auxiliary enterprises.

Following is a list of institutions included in the peer group for comparison:

- Colgate University (NY)
- Bucknell University (PA)
- Skidmore College (NY)
- Swarthmore College (PA)
- Alfred University (NY)
- Hamilton College (NY)
- Barnard College (NY)
- Bard College (NY)
- Dickinson College (PA)
- Sarah Lawrence College (NY)
- Goucher College (MD)
- Haverford College (PA)
- Western Maryland (McDaniel) College (MD)
- Hood College (MD)
- Washington College (MD)

Review of these data suggests that there is no obvious indication that major reallocations are needed among University functions.

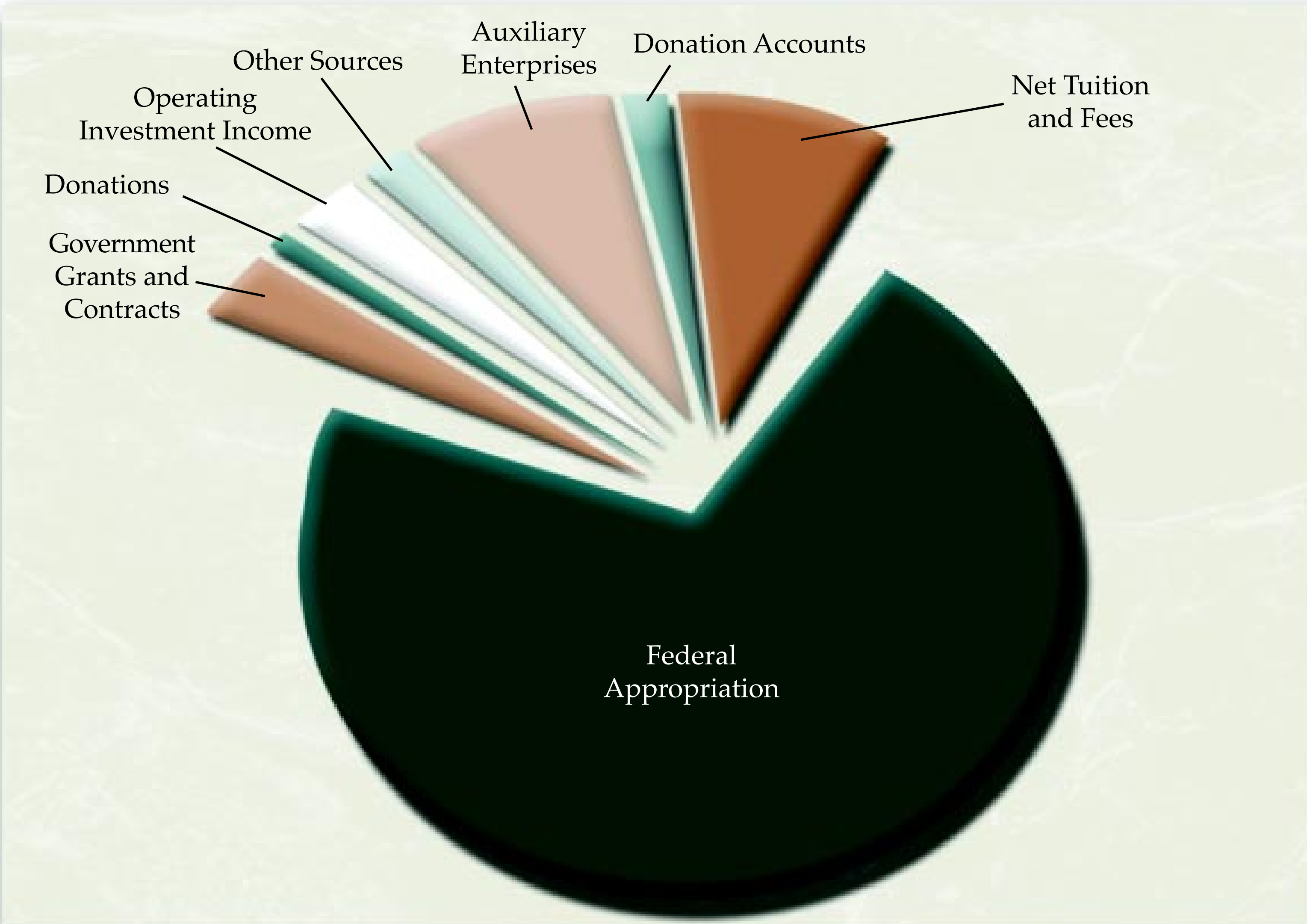
FY 2005 Preliminary Unrestricted Revenue Budget

Revenue by Source
(Dollars in thousands)

	Unrestricted		
	Not Designated	**Designated**	**Total**
■ Student Tuition and Fees	$18,500		$18,500
Less scholarship aid	($1,000)	($4,200)	($5,200)
■ Federal Appropriation	$101,800		$101,800
■ Government Grants and Contracts		$3,000	$3,000
■ Donations		$500	$500
■ Operating Investment Income	$1,000	$2,800	$3,800
■ Other Sources	$3,200		$3,200
■ Auxiliary Enterprises	$13,500		$13,500
■ Total Revenues	$137,000	$2,100	$139,100
■ Support from Donation Accounts		$2,500	$2,500
(Net assets released from restrictions)			
■ Total Revenues and Other Support	$137,000	$4,600	$141,600

NOTES: Unrestricted revenue refers to revenue that is available for expense. Designated refers to donor or Board imposed specifications with respect to use. Net assets released from restrictions refers to funds released from temporary restrictions by incurring expenses satisfying the purposes specified by the donors.

FY 2005 Revenues by Source

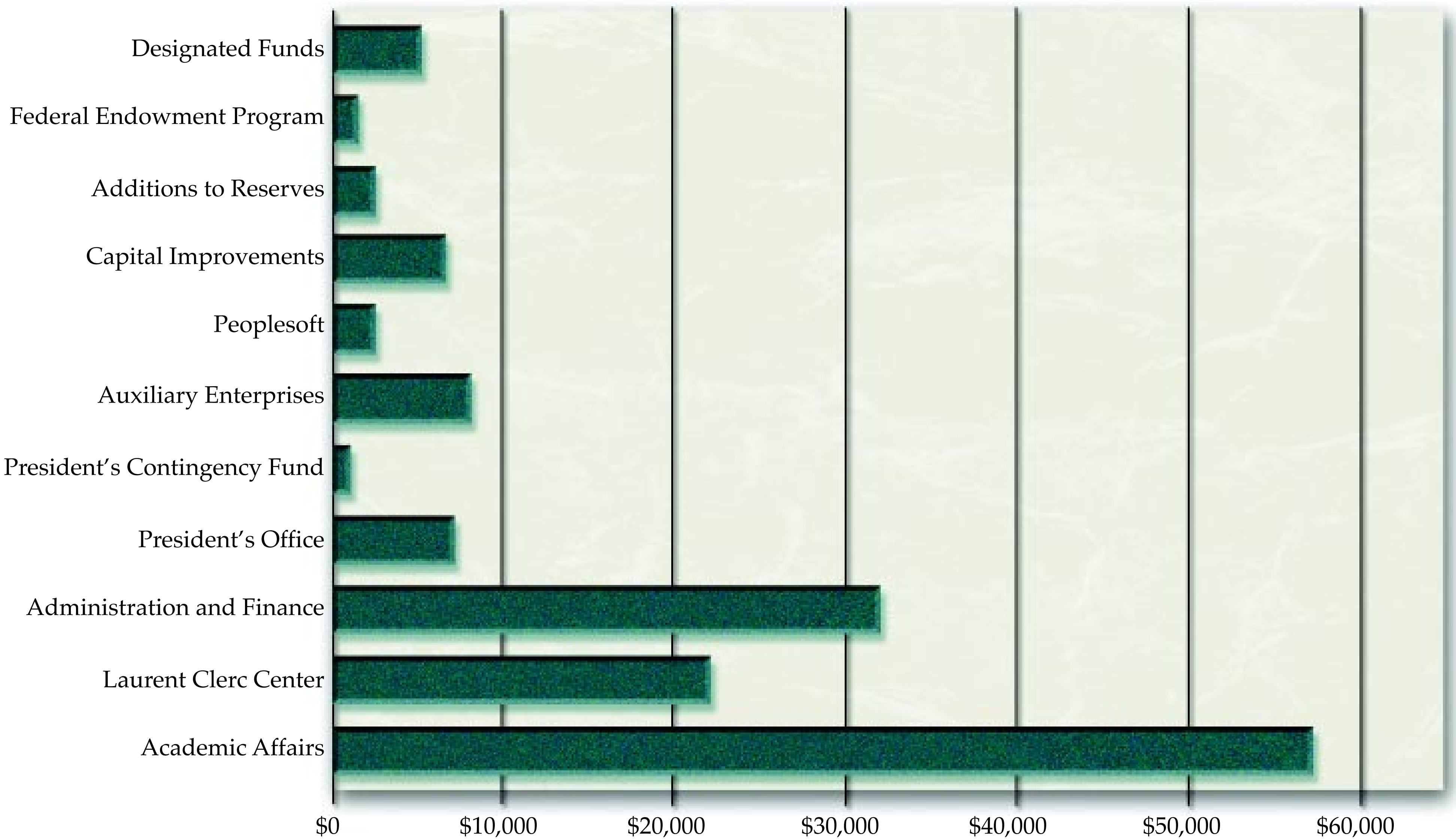


Estimated distribution of revenues by division and for other purposes
(Dollars in thousands)

Academic Affairs	$56,580
Laurent Clerc Center	$21,980
Provost Total	$78,560
Administration and Finance	$31,690
President's Office	$6,700
President's Contingency Fund	$500
Auxiliary Enterprises	$8,300
Peoplesoft	$2,050
Capital Improvements/Deferred Maintenance	$6,400
Board Mandated Add. to Reserves	$1,800
Federal Endowment Program	$1,000
Designated Funds	$4,600
Total Expenses	**$141,600**

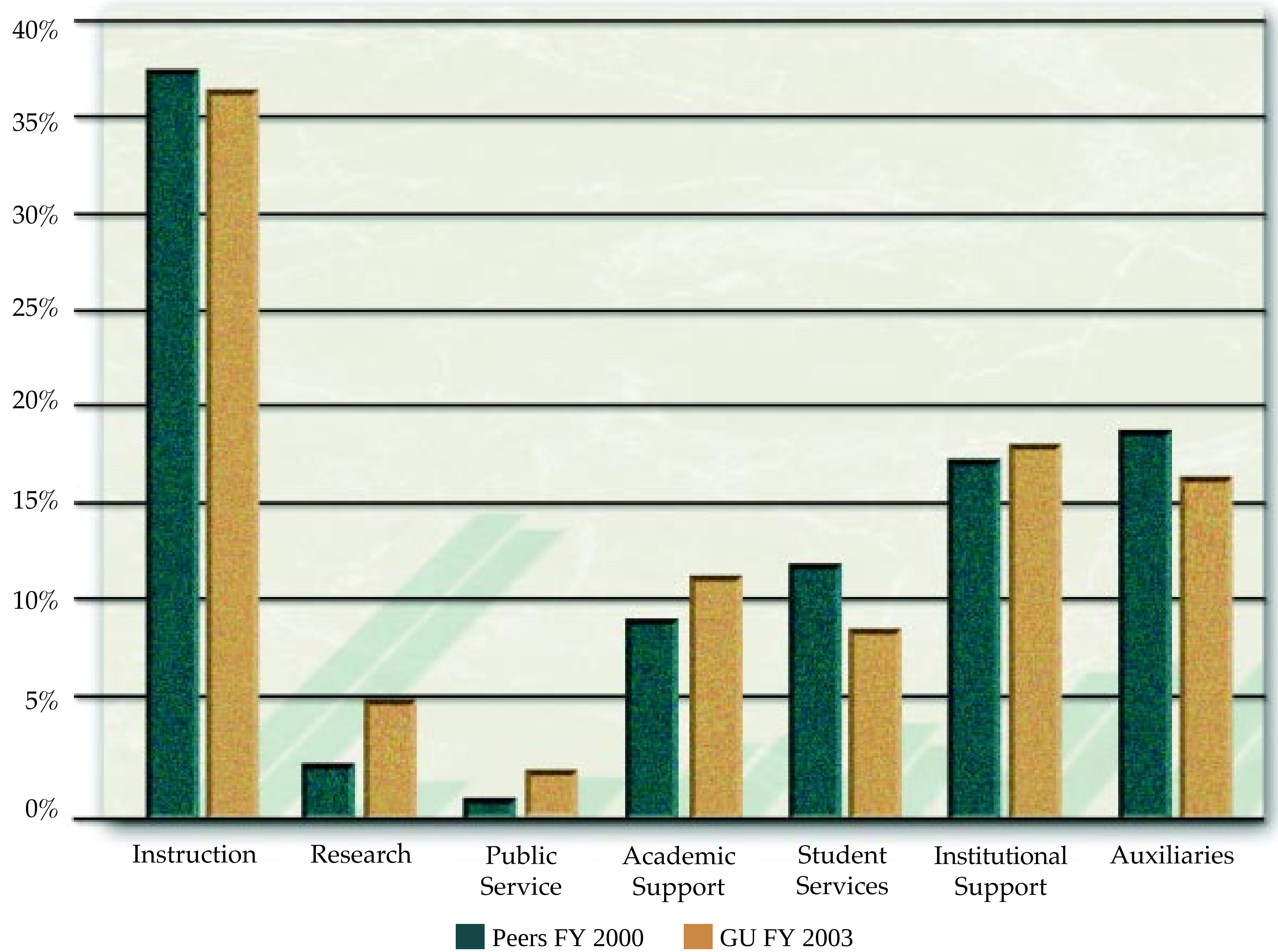
FY 2005 Projected Distribution of Revenues

(Dollars in thousands)



Functional Expense Comparison

Gallaudet and a Peer Group of Small Liberal Arts Institutions



FY 2005 General Pay Increase

The Board is asked to approve a general pay increase in a range between 0 and 2% for FY 2005

The Committee recommends that the President be given discretion to award a general pay increase of up to 2% in FY 2005. In considering this recommendation for a general pay increase in FY 2005, the UBC reviewed several kinds of information, including: the recent history of general pay increases at Gallaudet compared to the Consumer Price Index for Urban Consumers (CPI-U), the competitiveness of the University's pay schedules in local and national markets, and the anticipated availability of funds. The following schedule shows that the general pay increases awarded during the past several years have slightly exceeded increases in the CPI. Comparative data reviewed by the Committee suggest that the University's pay schedules for its major categories of employees are generally competitive in both the national and local labor markets. The general course of inflation during the past few years has been moderate, and the five year financial plan contains the assumption that it will continue to increase at an annual rate of about 2%, consistent with projections of the Congressional Budget Office (CBO). Therefore, it is the Committee's conclusion that a 2% general pay increase in FY 2005 should be sufficient to maintain the competitiveness of the University's salary schedules.

% Change in GU General Pay Increases and CPI for Urban Consumers FY 2000-2004

Fiscal Year	GU Pay	CPI-U
2000	2.0%	2.7%
2001	3.0%	3.7%
2002	3.0%	1.1%
2003	2.0%	2.6%
2004	3.0%	1.9%
Cumulative Percent Increase 2000-2004	13.7%	12.7%

FY 2005 Capital Improvements

During the past year, the University had its updated facilities Master Plan approved by the District of Columbia Zoning Commission. One of the recommendations in that plan is that the University should raze the Mary Thornberry Building, which currently houses the audiology department and replace it with a comprehensive Language and Communication Building to house the audiology, linguistics, and ASL and deaf studies departments. This will be a multi-year project with a current price tag estimated at $20 million, and the University seeks to support it with a combination of funding from current income, a portion of which is shown below, and private fund raising. Nearly $5 million has already been identified to support the project and an additional amount is included in this year's budget recommendations. The other projects come from the University's list of needed renovation projects.

Recommended Capital Improvements

■ New Language and Communication Building	$3,000,000
■ Dawes House renovation	$1,000,000
■ Fowler Hall Renovation	$1,000,000
■ Deferred Maintenance Projects	$1,400,000
Total	**$6,400,000**

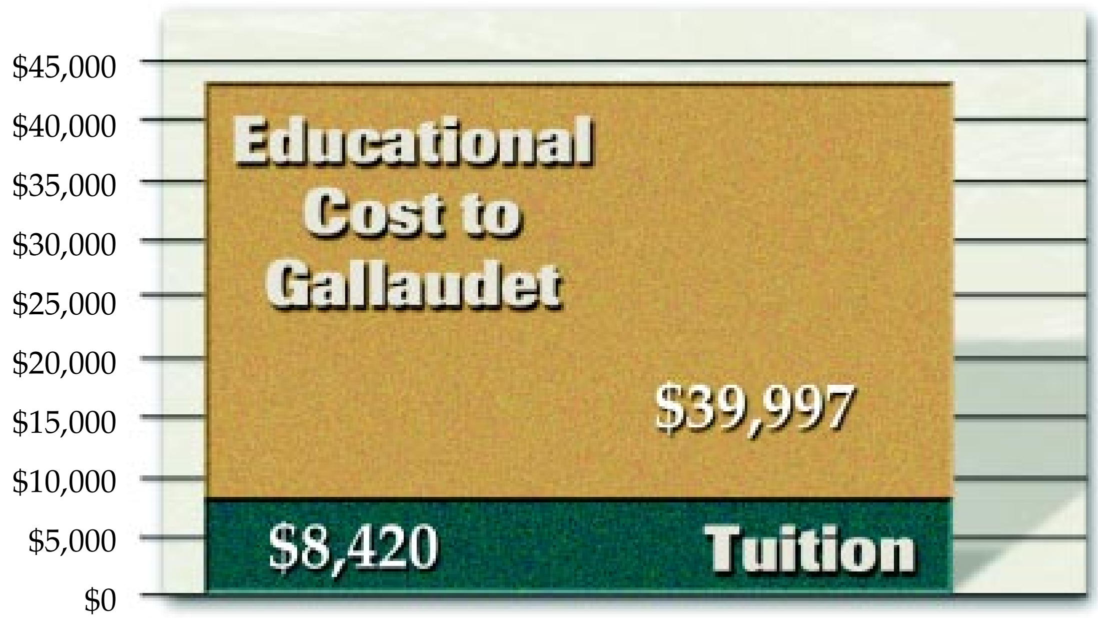
Tuition and Fees for FY 2006

In recent years, increases in tuition and fees have exceeded the inflation rate, consistent with the University's five year financial plan, so that the University could make up for erosion in the purchasing power of the Federal appropriation. Despite these increases, costs to students are still relatively low. The tuition for U.S. students currently accounts for only about 1/5 of the actual annual cost of educating a student (see chart on following page). It is also important to note that proportional to the tuition and fees that are charged, Gallaudet students receive very substantial financial aid. In FY 2003, for example, Gallaudet undergraduate and graduate students were charged a total of $23,533,000 for tuition, room, and board. According to Gallaudet's annual audited financial report for that year, the University's 2,000 students received a total of $22,044,000 from Federal financial aid programs, including loans and Vocational Rehabilitation funds, University financial aid funds and student employment. It is the case that these funds are not uniformly distributed among all students and that students incur substantial other expenses for attending, but actual out-of-pocket expenses for the average Gallaudet student continue to be fairly low.

The UBC also compared Gallaudet's tuition, room and board for academic year 2003-2004 with rates at the most expensive public university, the University of Vermont, and at the National Technical Institute for the Deaf, and a similar comparison of charges for 2004-2005 was conducted for Gallaudet and NTID only (see page 17). Note that tuition rates at both Gallaudet and NTID increased by 7% between 2003-2004 and 2004-2005, and that total charges at the two institutions increased by 5%. The amounts by which Gallaudet's tuition and fees exceed those at NTID do not seem large given the substantial availability of financial aid to Gallaudet students. However, the Committee is concerned about the continuing gap between the cost to attend Gallaudet and that for NTID. In addition, tuition and fees at Gallaudet are now at the top of the range for public universities. Last year, the Committee recommended that there be a comprehensive study of the tuition and fee structure, any impact this fee structure may be having on the University's competitiveness in attracting and retaining students, and the role of financial aid. This study is now underway. The Committee also recognizes the interest of Congress in maintaining the affordability of higher education and, accordingly, recommends that the increase in tuition be reduced from 7% to 3% in FY 2006, which is still above the projected rate of inflation.

It is recommended that the Board approve increases of 3% in tuition and 3% for room and board, consistent with the University's 5-year financial plan for Fiscal Year 2005-2006. The financial plan for future years may be adjusted following the University's receipt of advice from the consultant.

Educational Cost Per Student vs. Tuition Rate FY 2003



Undergraduate Tuition and Fees for Academic Year 2003-2004

	Tuition	Required Fees	Room	Board	Total
■ Gallaudet	$9,000	$310	$4,580	$3,450	$17,340
■ NTID	$6,981	$579	$4,452	$3,381	$15,393
■ University of Vermont (State Residents)	$9,088	$1,118	$6,999 (total for room and board)		$17,205

Undergraduate Tuition and Fees for Academic Year 2004-2005

	Tuition	Required Fees	Room	Board	Total
■ Gallaudet	$9,630	$310	$4,720	$3,550	$18,210
■ NTID	$7,470	$579	$4,653	$3,483	$16,185

Tuition and Fees FY 2006

Recommended Tuition and Fee Schedule
Regular Full-Time Undergraduate Students

	FY 2005	FY 2006	Increase Dollars	Increase Percent
GALLAUDET U.S. STUDENTS				
■ Tuition	$9,630	$9,920	$290	3%
■ Room	$4,720	$4,850	$130	3%
■ Board	$3,550	$3,660	$110	3%
Total	**$17,900**	**$18,430**	**$530**	**3%**
INTERNATIONAL STUDENT TUITION				
	$14,450	$14,880*	$430	3%
	$19,260	$19,840**	$580	3%

**International student surcharge for qualified students from developing countries at rate of 50%*

***International student surcharge at a rate of 100% for all other international students.*

Tuition and Fees FY 2006

Recommended Tuition and Fee Schedule
Regular Full-Time Graduate Students

	FY 2005	FY 2006	Increase Dollars	Increase Percent
	GALLAUDET U.S. STUDENTS			
Tuition	$10,600	$10,900	$300	3%
Room	$4,720	$4,850	$130	3%
Board	$3,550	$3,660	$110	3%
Total	**$18,870**	**$19,410**	**$540**	**3%**
	INTERNATIONAL STUDENT TUITION			
	$15,900	$16,350*	$450	3%
	$21,200	$21,800**	$600	3%

**International student surcharge for qualified students from developing countries at rate of 50%*

***International student surcharge at a rate of 100% for all other international students.*

FY 2006 Planning / Budgeting Framework

The Board is asked to approve a request for a total of up to $113 million in federal funds in FY 2006.

President Jordan initiated the budget development process for FY 2006 by announcing two priorities for funding that were presented as directions for academic programs by the AAPC planning process:

Gallaudet University is a prestigious university with high quality academic programs, co-curricular programs, and research.

Gallaudet University is the university of choice for an increasingly diverse pool of students who are deaf or hard of hearing, and for hearing students who want to prepare for careers in the deaf community.

Note that these are a continuation of the priorities announced for FY 2005. To begin the budget development process, the UBC solicited plans for implementing these objectives from each of the University's divisions. These plans were prepared in the form of narratives that described each division's projected efforts relative to each of the two priorities. The UBC reviewed these plans and sought to identify program proposals that could be used to form an institution-level plan for budget development for FY 2006. Because the UBC was unable to recommend funding for some of the programmatic priorities proposed by the division of Academic Affairs for funding in FY 2005, it recommends seeking funding from the Federal government for these priorities in FY 2006. A description and discussion is presented below.

In order to make the recommendations that follow, the UBC took into account the current status of the University's FY 2005 appropriation, including the Bush administration budget proposal to Congress for that year. As was noted in the section of this document dealing with the FY 2005 budget, the administration request for Gallaudet for FY 2005 was $100.2 million, the same as our appropriation in FY 2004. As was also noted, President Jordan was given the opportunity to discuss the University's budget needs in excess of this amount with House and Senate representatives. The UBC supports the requests that are currently being made for FY 2005. Accordingly, the Committee recommends that these programmatic needs form the core of the University's request for FY 2006, in the event the University does not receive support for them in FY 2005. The actual components of the University's FY 2006 request to the Department will depend upon the instructions the University receives from the Department of Education. If the Department uses the Bush administration budget request for FY 2005 as the basis for its instructions concerning the University's request for FY 2006, we will, in effect, be requesting funding for increases covering two years—both FY 2005 and 2006. If that turns out to be the case, the UBC proposes that the Gallaudet request include inflationary increases totaling 7% above the $100.2 million in the administration budget, or approximately $7 million. This would bring our budget proposal to approximately $107 million on the basis of anticipated inflation alone. In addition, the UBC recommends that the budget proposal address the highest priority programmatic items recommended for start-up support in the section of this document dealing with the FY 2005 budget:

- National Mission Training and Dissemination ($1.1 million)
- A School / Social Work National Demonstration Program ($0.7 million)
- Biology and Genetics Research Laboratories ($1.8 million)

In addition, the Committee recommends that there be additional requests for programmatic support arising from the Academic Affairs Planning Committee (AAPC):

Initiatives to increase accessibility to information from outside and from within the University campus ($975,000)

Initiatives to enhance University programs for deaf students from non-traditional and diverse backgrounds ($300,000)

Renovations of the Elstad Auditorium and Annex to improve the Theater Arts program ($950,000)

The total of these two groups of program related requests is $5,825,000.

The Committee recommends that the President be given discretion to request up to $113 million in appropriated funding to fund these programmatic priorities and anticipated increases in inflation.

G Appendix

Strategic Planning Framework for Financial Resources

Introduction

Gallaudet has gone through several rounds in a process to refine its strategic objectives and strategies for achieving them. The plan contains three major strategic objectives, and this analysis focuses on one of them, Strategic Objective 3 (SO3). SO3 was written as follows: Gallaudet University establishes a sustainable resource base. Currently, the University maintains a continuous process, called A-RAP (Action—Results, Assessment, Planning) to review and refine the plan and progress toward its accomplishment. The five year financial plan that is described here comprises the portion of A-RAP devoted to the financial portion of SO3. As such, this plan is reviewed and revised annually by the University Budget Committee (UBC) as part of the annual budget process. In addition, this plan is responsive to recommendations from the newly established Academic Affairs Planning Committee (AAPC).

The most important factor influencing the University's budget is, and has historically been its unique relationship with the Federal government, which is described below. Gallaudet's Federal appropriation is by far the largest component of its annual income, and the University's general financial strategies are very much influenced by this fact and by recognition of the University's public role. The relationship between the Federal appropriation and other components of the University's income will also be described in detail below.

It is important to note that this plan deals only with the University's unrestricted annual income and the major functions to which that income is distributed for use. It does not deal explicitly with Gallaudet's private fund-raising activities or the investment policies for its endowments, except with respect to fund raising for major construction projects. Finally, it should be noted that, in this report, SO3 is considered to be subordinate to the strategic objectives concerning the University's programs and to programmatic priorities arising from the AAPC. The reason for this approach is that SO3 concerns only the means by which Gallaudet's major programmatic objectives can be realized—SO3 has no independent raison d'être. Consequently, the projections that are developed for institutional financial resources make no assumptions beyond those already contained in the other strategic objectives—namely that there will be no programmatic growth that leads to increased, revenue generating enrollment. This report also assumes that there will be no real growth in the University's auxiliary enterprises. Changes in the University's other strategic objectives that would imply growth in these areas could easily be accommodated within the strategic framework that is proposed here.

A strategic framework

It would be helpful to think about the University's relationship with the Federal government, and how Gallaudet goes about seeking funding from Congress. In this regard, Gallaudet enjoys a situation that is almost unique in American higher education. The University is permitted to make an annual request to Congress for the funding it needs to operate all of its programs within the larger process by which the Federal budget is developed by the executive branch and approved by Congress. As the University develops an appropriation request, it is constrained by several factors: its request must be reasonable and must reflect the needs of the American deaf community; it must take into consideration current economic conditions, including the inflation rate; and it must be cognizant of the wishes and interests of Congress, including a desire to control spending and avoid budget deficits. During the decade prior to 1997, the annual increases received by the University from the Federal government were largely determined by Congressional budget agreements aimed at eliminating the Federal deficit and not allowing it to return. Consequently, growth in the University's appropriation was slow. During that period the appropriation grew at rates that were less than the general inflation rate, including one year, FY 96, when the amount was actually reduced by 3%. This meant the University's Federal appropriation was losing purchasing power at a rate of about 1% annually.

Since FY 1997, the appropriation has been growing at a rate slightly above the growth in the consumer price index for urban consumers (CPI-U), the index that the University uses for benchmarking purposes. It is noted here that Congress is once again facing budget deficits and, in addition, defense related priorities that will almost certainly constrain its ability to fund increases in Gallaudet's programs. Therefore, it can be expected that the University will once again be in a position where increases in its Federal appropriation may lag behind inflationary increases in costs, as noted in the next paragraph.

Figure 1 compares growth in both the appropriation and the CPI-U with the average growth for both of these factors between 1999 and 2004. The average value plotted for the increase in the appropriation through the period clearly exceeds that of the CPI-U by more than one percentage point. Despite recent substantial increases in Gallaudet's appropriation, the central strategic assumption underlying the planning framework that follows is that the University's appropriation will continue to increase at an average rate of only about 2%, roughly equal to or slightly below the expected increase in inflation, for the foreseeable future.

The University responded to previous erosion in its Federal funding base by attempting to offset these losses in purchasing power with increases in other components of its income. Given the University's heavy reliance on Federal appropriations, the other sources of income had to be increased by much more annually than the 1% in value that the appropriation was losing annually. It is clear that the University's strategic decisions concerning these other income components have been predicated upon historical and anticipated changes in the Federal appropriation. So, a well articulated strategic plan for managing Gallaudet's resources will have to take account of the interrelationships among the University's income components, especially the most important ones—the Federal appropriation and income derived from student tuition and fees. Finally, the strategic plan should be able to accommodate readily an overarching goal for institutional finances as it is stated in Strategic Objective 3.

While the original statement of SO3 (given above) refers to establishing a reliable resource base for Gallaudet, it doesn't state for what purpose. All of our strategic thinking about this issue leads toward an assumption that the purpose for maintaining a reliable resource base must be, because Gallaudet is a not-for-profit enterprise, to fulfill the University's mission. For practical purposes, in recent years, this has meant that the University has sought sufficient funds to maintain its current level of service to the American and world deaf communities and, perhaps, to increase that level marginally. This has been the University's implicit goal, but given the University's experience with changes in Federal funding, it has been necessary to become more efficient in order to maintain current levels of enrollment and service. There is a need for reliable and realistic projections of income by source that can be related to projected needs for expenditures on various aspects of the University's programs and facilities. The next section of this document contains a description of such a set of projections. The method described allows for variations in policy assumptions that could be expected to lead to a range of possible outcomes for the University. The most significant assumption underlying this projection method is that there are limitations on the University's ability to influence Congress with respect to the final outcome of the appropriation process. It assumes that, to some extent, the appropriation process will be driven by political and economic forces external to Gallaudet, as has been true in the past. It appears that the Federal government is once again heading into a period of tight limitations on total spending, accompanied by budget deficits. The strategic framework presented here allows the University to make adjustments to other components of the model should the appropriation process once again lead to increases that are less than inflation. Other components can be adjusted to reflect policy options that Gallaudet can actually control, such as increases in student tuition and fees. These considerations have also led to a slightly modified general statement of SO3—Gallaudet University establishes a sustainable resource base sufficient to support the accomplishment of its mission.

The analysis presented in the previous paragraph also suggests that there should be a very general subobjective under SO3—The University should be attempting to decrease its historic reliance on the Federal government for support to initiate or expand programs by continuing to diversify its sources of financial support.

Note that all of the projections presented in this plan are based on the FY 2004 budget as amended during the current fiscal year and the assumption that appropriated funding in FY 2005 will be at the level specified in the preceding budget document.

Projections within the framework

The first set of projections deals with a policy established by the Board of Trustees some two decades ago. This policy was not dealt with specifically in the drafts of the strategic plan that were prepared prior to earlier iterations of this financial plan, but it is vital both to achieving SO3 and to defining some of the other parameters within the overall strategic framework. Approximately two decades ago, the Gallaudet Board recognized that the University had insufficient expendable reserves to be able to weather even a fairly minimal disruption to its normal stream of income. Consequently, the Board adopted a policy that directed the University administration to set aside a portion of non-appropriated income (in general, appropriated funds must be expended during the year in which they are appropriated) annually, so that an emergency reserve fund could be built up. The Board never adopted a particular goal for the eventual size of this fund, but there are standard benchmarks for this in higher education, usually given as percentages of the institution's operating budget. For example, a reserve fund equal to 50% of an institution's operating budget would allow the institution to operate for 6 months even if its sources of income were completely cut off.

At the end of FY 2000, following many years of growth, the University's expendable reserve funds were equal to about 71% of the annual operating budget. However, this was followed by two years of dramatic declines in the value of the University's investments following September 11, 2001 (Gallaudet's fiscal year coincides with the Federal fiscal year and ends on September 30), so that by the end of FY 2002, this ratio had fallen to only 22%. It is important to note the ratio declined not only because of decreases in the value of the University's investments but also because of planned spending on two major construction projects: the new Student Academic Center and the Washburn Arts Building. Strong growth in investment markets returned the value of the reserve ratio to 35% at the end of FY 2003. Comparative studies with peer institutions and recommendations from outside consultants suggest that Gallaudet should have reserves equal to approximately 100% of the institution's operating budget. A strategic plan for accomplishing this goal, must consider growth in three factors: the University's annual contribution to the fund, growth in the fund due to investment, and growth in the annual operating budget. Figure 2 shows that, because of these substantial market loses, the University cannot achieve this goal under our current assumptions, even with fairly substantial increases in annual set-asides for this purpose. The analysis presented in Figures 2 and 3 suggest that returning to a goal of 2/3 of annual operating costs is more realistic, and that even this goal depends upon some fairly optimistic assumptions. First, the reserve fund must grow due to investment at an annual rate equal to the historic average rate of growth in the stock market—9%. Second, growth in the University's expenses must average no more than 2-3%. This analysis helps us to establish a goal for one of the lines in our current budget for distribution of income, that for funding Gallaudet's reserves. Given the University's non-profit status, we must establish goals for uses of income before we can establish goals for the income itself.

The University has other goals for income use that are more or less explicit. First, it has a long standing policy to contribute a portion of current income to fund capital improvement and deferred maintenance projects. In addition, recent changes in the accounting standards for private institutions of higher education have made it necessary for Gallaudet to record the annual depreciation in its facilities and equipment as expenses in its annual financial statement. This requirement has been added so that colleges and universities will not be able to hide serious problems related to failure to correct deterioration of their facilities. For Gallaudet, this currently means that the University must set aside income from its operating budget equal to about $5 million annually or it will record a deficit in its financial statement. This implies that the University needs to add to its strategic subobjectives a statement that it intends to fund the annual depreciation of its facilities. Currently, this issue is addressed in the annual budget process through the setting aside of income to support capital improvements. In addition, there are other funds set aside, as was described above, for increasing the University's strategic expendable reserves. These funds are represented by lines in the University budget, and they are reflected in the strategic framework presented below. Finally, the University seeks to continue funding the operating budgets of its divisions at current levels, meaning that these budgets must increase at least as rapidly as the inflation rate; and the University will continue to add $1 million of its appropriation annually to its Federal endowment matching funds. The non-Federal matching funds are assumed to come from Gallaudet's private fund raising efforts, which are not considered in this document.

Figure 4 illustrates how the University can meet these strategic spending and funding goals through FY 2009 given an annual 2% increase in its Federal appropriation. In order to meet the implied income goals, Gallaudet will have to increase its tuition rate by an average of 3% annually, and most other income components will also have to grow at a rate of 3%. The reason for this is that most of the other income components, especially those related to auxiliary enterprises (food service, dormitories, book store, Gallaudet University Press, Conference Center, etc.), are assumed to be for the purpose of supporting specific operations that should be growing at a rate about equal to that of general inflation in the economy. Growth in operating budgets will also have to be quite limited under these assumptions. As noted elsewhere, we will reexamine the assumption concerning tuition increases in the light of the consultant study of price sensitivity and discounting that is now underway.

Institutional financial health—the net income ratio

So far, the only indicator of financial well-being that we have considered is the ratio of expendable reserves to total operating budget. Another key indicator in measuring financial well-being is called the “net income ratio” by the University’s auditor, KPMG. In effect, this is simply a proportional measure of the institution’s operating surplus or deficit. In this case, changes in the University’s net assets for the year are compared to total income.

The components of this indicator are taken from the “statement of activities” in the annual financial report. The numerator is obtained by subtracting the total unrestricted operating expenses (including depreciation) from the total unrestricted operating income and other support. The denominator is simply total unrestricted operating income and other support. Depreciation, a key component of this indicator, is not currently part of the University’s budget. We will consider here what happens to our strategic planning when we make depreciation an explicit part of the budget. The current value of the depreciation of Gallaudet’s buildings and equipment is approximately $5 million annually. Figure 5 presents projected changes in Gallaudet’s net income ratio using the assumptions underlying Figure 4, with the additional assumption that depreciation will continue to be $5 million. In Figure 5, the line labeled “set asides” includes additions to reserves, capital improvements, and deferred maintenance. Note that under these assumptions, the net income ratio is positive and moves upward to about 4% by the end of the planning period. A value of 2 to 4% is considered for this purpose to be the “threshold” for healthy values of this indicator. Because there is at present no reliable way of predicting changes in the level of depreciation, it is impossible to construct a very precise scenario for the behavior of the net income ratio, but a strong case can be made for set asides at least in the range assumed in Figure 4. Note again that the availability of funds for meeting this goal depends upon the University’s meeting the income goals set forth in the financial planning framework. Note also that this is not a measure of growth in the University’s unrestricted net assets, because these are also growing through investment as illustrated in Figure 2.

Efficiency indicators

As was true with respect to maximizing income, the question of how to think about efficiency of operations is also problematic. Institutions of higher education have traditionally prided themselves on being inefficient, that is, by maximizing amounts per capita that could be spent on educating students. The position taken here, therefore, is that the University Budget Committee should not be developing recommendations about such possible efficiency indicators as the student to faculty ratio. Instead it is argued that these must come from the programs themselves and must be related to growth in other programs and considerations of quality in instruction and research. It is just simply unclear whether an increase in this indicator is to be desired. What are proposed in this respect as strategic goals and indicators are, then, designed to maintain what is seen as a desirable status quo with respect to the institution’s overall cost structure. Within this framework, it is recommended that the University continue to evaluate the distribution of its existing total cost among the various functional categories of standard higher education accounting and that funding for new programs be found primarily by creating efficiencies in existing programs. The overall planning framework can also accommodate goals for programmatic growth coupled with goals for improvements in efficiency.

Strategic goals and commentary

We can now summarize explicitly Gallaudet’s strategic goals for financial resources. Brief commentary is also presented, including statements of assumptions and strategies for achieving each goal. It is recommended that progress in achieving these goals be measured in terms of a moving average, rather than on an annual basis.

General goals for funding:

- **The University will increase its funding to support operations at a rate at least equal to the rise in the Consumer Price Index.**
  Comment: This goal would be met for division operating budgets for most out-years, given the assumptions underlying the projections shown in Figure 4.
- **Gallaudet will fund the annual depreciation of its facilities and equipment.**
  Comment: It is possible to achieve this goal for each year represented in

the plan, given the assumptions underlying the projections in Figure 4 and assuming that depreciation continues to have a value of roughly $5 million annually.

- **Gallaudet will match $1 million in Federal endowment funds annually.**

Strategic assumptions for funding:

- **Strategic assumption 1. Gallaudet's Federal appropriation will continue to increase at an average of 2% annually.**
  Comment: This should not be taken as implying that the University will seek annual increases of only 2% from the Federal government. Instead the University will present annual requests for funding that are responsible and that seek support for the University in areas that are deemed mutually beneficial to the U.S. deaf population and to the Government of the United States. The statement of this strategic assumption simply reflects the University's understanding of the recent history of the appropriation process and the political and fiscal constraints under which the Congress and the administration must operate.

- **Strategic assumption 2. University enrollment will remain constant at its current level.**
  Comment: For this assumption to be met, the University's tuition and other fees structure must continue to be reasonable and affordable, so that students are not deterred from attending the University for financial reasons. Studies conducted by the University have suggested that, to date, financial considerations have not been a significant factor in students' decisions to enroll in and remain at Gallaudet. The University must continue to monitor this situation, however. This assumption also depends on the University's conducting effective recruiting activities and on its continuing to offer programs of high quality and desirability.

Goals for income:

In general, Gallaudet University reduces its reliance on the Federal government for support to initiate or expand its programs by diversifying its sources of income.

- **Increase tuition income by 3% annually unless appropriation or inflation rate deviates from its predicted 2% average annual rise.**
  Comment: If the strategic assumptions made in this report are used to guide Gallaudet's tuition policy, then it will be necessary to increase the tuition rate for all categories of University students by 3% annually through FY 2009. Tuition charges increasing at a rate that exceeds that of the CPI is justified by the fact that the Federal funding base has eroded in the past and may do so in the future, by the fact that tuition currently only covers about 20% of the University's annual cost of educating a student, and by the fact that most student expenses are covered by financial aid.

- **Increase other components of discretionary income by 3% annually.**

- **Strategic assumption for income: Increases in student tuition averaging 3% annually and in other fees averaging 3% annually will not deter students from attending.**
  Comment: These goals should be reexamined annually with respect to changes in Federal appropriations and in the inflation rate.

Goals for financial well-being and efficiency:

- **Gallaudet's annual net income ratio will rise to approximately 2 to 4%.**

- **Gallaudet's expendable reserves will increase to approximately two-thirds of the value of the operating budget by FY 2009.**

- Strategic assumptions: Expenses will grow at an average rate of approximately 2% annually, and the University will increase reserve set-asides by 10% annually.
  Comment: The projections for funding that are presented in Figure 4 assume that spending will grow at a rate of 2% (the projected average inflation rate). Even given this rise in spending, the University should be able to achieve most of these goals by increasing its set asides by the factors given in the strategic planning framework.

- **Gallaudet's ratios of programmatic and support service expenditures will fall within the range for a peer group of small liberal arts colleges and universities.**
  The FY 2005 budget document includes a sample comparison of Gallaudet's functional expense distribution to the average distribution for such a peer group.

- **Gallaudet will establish mechanisms for redistributing funding from programs and services with low priority to those with high priority.**

Figure 1. Changes in Appropriation and CPI-U vs. Average Changes

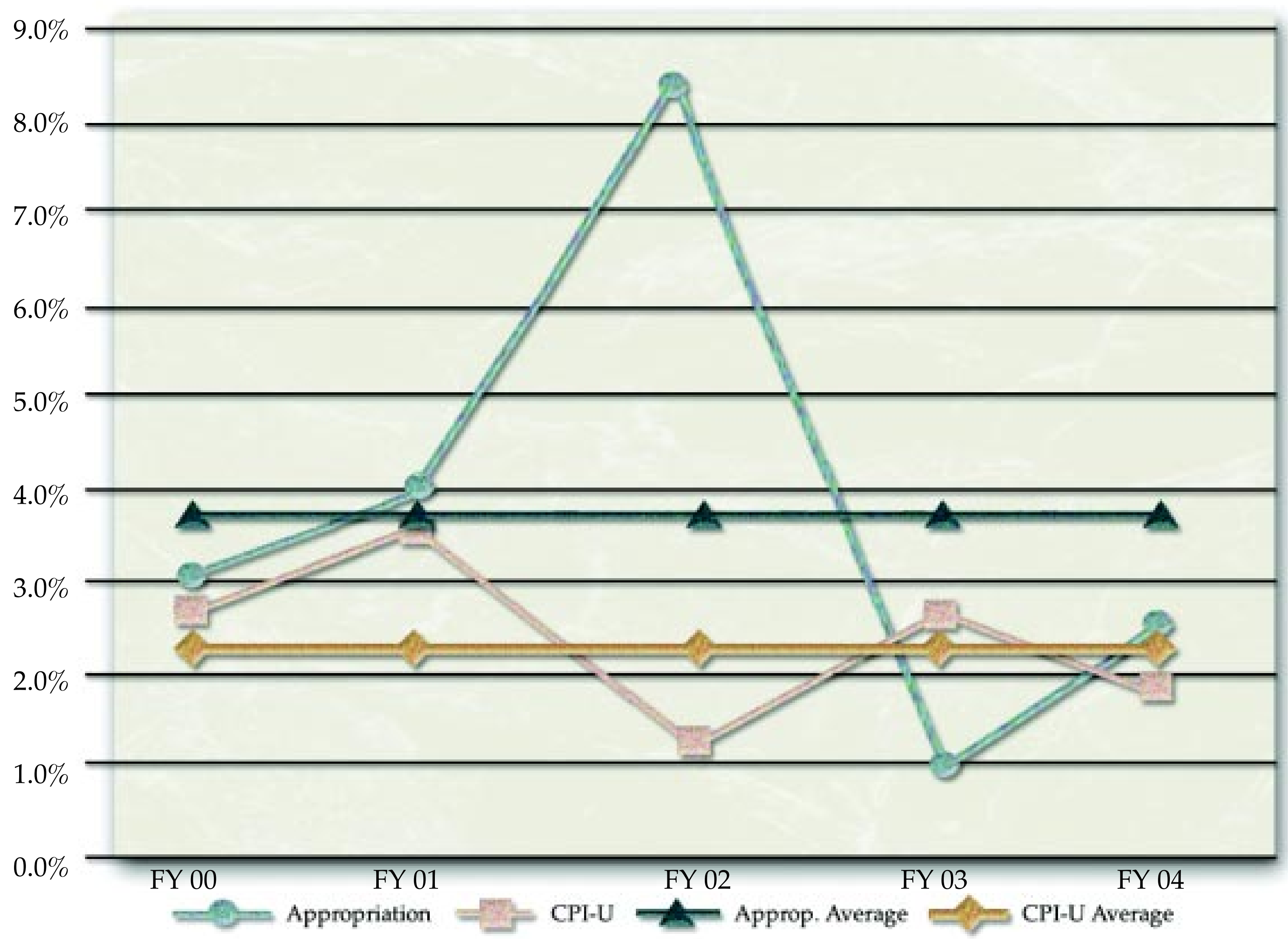


Figure 2. Gallaudet University Model for Projecting Growth in Operating Budget and Expendable Reserves

	2003	2004	2005	2006	2007	2008	2009
Expense growing at 2%	$135,800,657	$136,500,000	$137,400,00	$140,148,000	$142,950,960	$145,809,979	$148,726,179
Expendable net assets	$47,166,338	$52,811,308	$59,264,326	$66,398,116	$74,353,946	$83,223,801	$93,109,743
Percentage of expenses	35%	39%	43%	47%	52%	57%	63%
Investment growth at 9%	$4,244,970	$4,753,018	$5,333,789	$5,975,830	$6,691,855	$7,490,142	$8,379,877
Annual Contributions	$1,400,000	$1,700,000	$1,800,000	$1,980,000	$2,178,000	$2,395,800	$2,635,380

Figure 3. Projected Growth in Operating Budget and Expendable Reserves

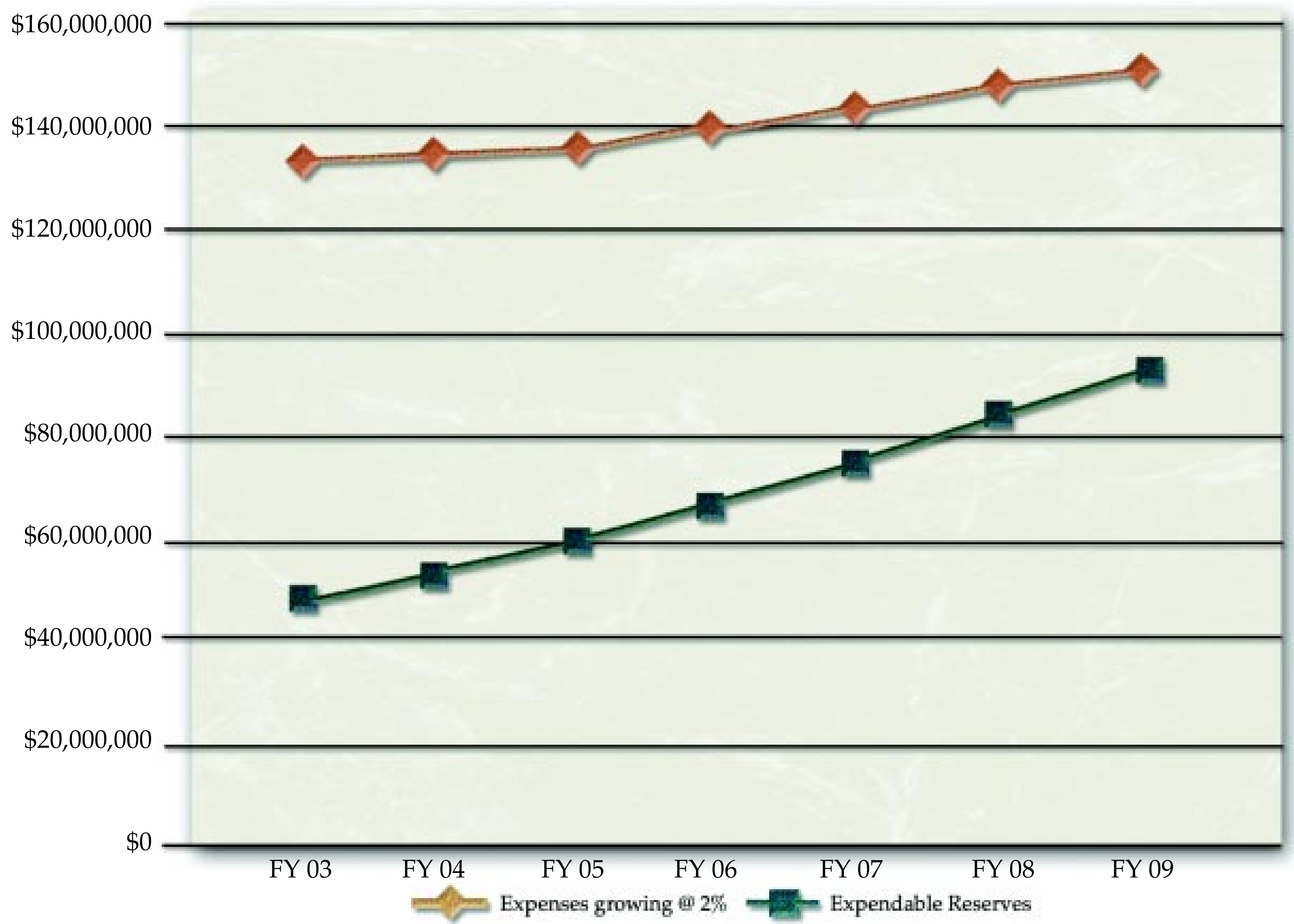


Figure 4. Gallaudet University Strategic Framework for Income and Expenses

Income	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Tuition and Fees @ 3% Growth	$18,500,000	$19,055,000	$19,626,650	$20,215,450	$20,821,913
Less Scholarship Aid	($5,200,000)	($5,356,000)	($5,516,680)	($5,682,180)	($5,852,646)
Federal Appropriation @ 2% Growth	$101,800,000	$103,836,000	$105,912,720	$108,030,974	$110,191,594
Governments Grants and Contracts	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000
Donations @ 3% Growth	$500,000	$515,000	$530,450	$546,364	$562,754
Operating Investment Income @ 9% Growth	$3,800,000	$4,142,000	$4,514,780	$4,921,110	$5,364,010
Other Sources @ 3% Growth	$3,200,000	$3,296,000	$3,394,880	$3,496,726	$3,601,628
Auxiliary Enterprises @ 3% Growth	$13,500,000	$13,905,000	$14,322,150	$14,751,815	$15,194,369
Total Revenues	**$139,100,000**	**$142,393,000**	**$145,784,950**	**$149,280,258**	**$152,883,623**
Net Assets Released from Restrictions	$2,500,000	$2,500,000	$2,500,000	$2,500,000	$2,500,000
Total Revenues and Other Support	**$141,600,000**	**$144,893,000**	**$148,284,950**	**$151,780,258**	**$155,383,623**
Appropriation as % of Total	71.89%	71.66%	71.43%	71.18%	70.92%
Donations for Capital Projects	**$5,000,000**	**$5,000,000**	**$5,000,000**	**$5,000,000**	**$5,000,000**

Figure 4 (continued). Gallaudet University Strategic Framework for Income and Expenses

Distribution of Income	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Division Operating Budgets	$116,950,000	$118,823,000	$120,152,930	$122,709,531	$125,512,401
Percent Growth in Div. Budgets	1.45%	1.60%	1.12%	2.13%	2.28%
President's Contingency Fund	$500,000	$700,000	$800,000	$1,000,000	$1,000,000
Designated Funds	$4,600,000	$4,801,000	$5,028,550	$5,285,293	$5,574,119
Auxiliary Enterprises	$8,300,000	$8,549,000	$8,805,470	$9,069,634	$9,341,723
Federal Endowment Fund	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Additions to Reserves	$1,800,000	$1,980,000	$2,178,000	$2,395,800	$2,635,380
Peoplesoft	$2,050,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000
Capital Improvements/Deferred Maint. (Including donations)	$11,400,000	$12,040,000	$13,320,000	$13,320,000	$13,320,000
Total Distributions	**$146,600,000**	**$149,893,000**	**$153,284,950**	**$156,780,258**	**$160,383,623**

Figure 5. Net Income Ratio

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Total Unrestricted Income	**$141,600,000**	**$144,893,000**	**$148,284,950**	**$151,780,258**	**$155,383,623**
Less Federal Endowment Match	($1,000,000)	($1,000,000)	($1,000,000)	($1,000,000)	($1,000,000)
Total Unrestricted Income	$140,600,000	$143,893,000	$147,284,850	$150,780,258	$154,383,623
Division Budgets	$116,950,000	$118,823,000	$120,152,930	$122,709,531	$125,512,401
President's Contingency Fund	$500,000	$700,000	$800,000	$1,000,000	$1,000,000
Auxiliary Enterprises	$8,300,000	$8,549,000	$8,805,470	$9,069,634	$9,341,723
Designated Funds	$4,600,000	$4,801,000	$5,028,550	$5,285,293	$5,574,119
Peoplesoft/Tech Plan	$2,050,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000
Total Current Expenses	$132,400,000	$134,873,000	$136,786,950	$140,064,458	$143,428,243
Set Asides	$13,200,000	$14,020,000	$15,498,000	$15,715,800	$15,955,380
Total Current Expenses and Set Asides	$145,600,000	$148,893,000	$152,284,950	$155,780,258	$159,383,623
Estimated Depreciation	$5,000,000	$5,000,000	$5,000,000	$5,000,000	$5,000,00
Total Current Expenses plus Depreciation	$137,400,000	$139,873,000	$141,786,950	$145,064,458	$148,428,243
Increase in Unrestricted Net Assets	$3,200,000	$4,020,000	$5,498,000	$5,715,800	$5,955,380
Increase in Net Unrestricted Assets as % of Income	2.28%	2.79%	3.73%	3.79%	3.86%