

**GALLAUDET UNIVERSITY
FY 2009 BUDGET**

With Board Actions

AS OF MAY 16, 2008

Prepared by Gallaudet University Budget Committee

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Executive Summary

The following document presents a recommended operating budget for Gallaudet University for Fiscal Year 2008-2009 for consideration and approval by the Board of Trustees. This document was prepared by the University Budget Committee (UBC), a committee representing the students, faculty, staff, and operating divisions of Gallaudet. Because Gallaudet receives the bulk of its operating funds by direct appropriation from the Congress of the United States, the University follows the federal fiscal year, October 1 to September 30. The document begins with an assessment of Gallaudet's financial performance in FY 2007, the year most recently completed, and because the Gallaudet budget process has been transformed during the past year, the document continues with a presentation and analysis of the FY 2008 budget as part of the material introducing the recommendations for FY 2009. The budget development process for 2009 was motivated and guided by priorities derived from the University's new strategic plan and announced by the President:

- restoration of the enrollment base at all levels of the institution,
- student learning and achievement.

The Board has traditionally reviewed and approved recommended budget actions in 2 areas for the upcoming fiscal year at its May meeting. These areas are as follows:

- a general institutional operating budget at the division level;
- pay increase levels for employees.

In addition, the Board considers recommendations in 2 areas for the out-year, in this case, FY 2010;

- the Board approves tuition and room charges for 2010;
- priorities for the University's budget request to the federal government for that year.

Accordingly, the UBC makes the following general recommendations for Board action:

- A Fiscal Year 2009 operating budget of \$165,800,000.
- Pay increases for employees not to exceed a total of 4% in FY 2009, through a combination of general and merit pay increases.
- Increases in student tuition and room fees of 3% in Academic Year 2009-10.
- Priorities for the FY 2010 federal budget request to focus on inflationary increases in payroll and utilities, support for the University's bilingual mission, and continued funding for restoration of the MSSD site and facilities.

Board actions as of May 16, 2008 are discussed on pages 20-22.

Finally, this document concludes with an updated 5 year financial plan reflecting realistic expectations for ongoing income from the federal government (both appropriations and competitive grants), student tuition and fees, the University's endowment, and its auxiliary enterprises.

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FY 2007 Financial Indicators

In support of the University’s Strategic Goal 5, providing the resources necessary to carry out the institutional mission, the University Budget Committee recommended a series of financial goals for Gallaudet for the budget. These goals were presented within the context of a five-year financial plan. The following report discusses indicators of progress toward those goals that are derived from the University’s FY 2007 Financial Statement.

GENERAL GOALS FOR FUNDING

1. ***The University will increase its funding to support operations at a rate at least equal to the rise in the Consumer Price Index.***

The indicator for this goal is the increase for FY 2007 over FY 2006 in unrestricted income for operations, and the benchmark for comparison is the annual increase in the CPI-U (Consumer Price Index for All Urban Consumers).

<i>Unrestricted Revenues</i>	<i>FY 2007</i>	<i>FY 2006</i>	<i>% Increase</i>
	<i>\$161,362,903</i>	<i>157,494,866</i>	<i>2.5%</i>
<i>CPI-U</i>	<i>September ‘07</i>	<i>September ‘06</i>	<i>% Increase</i>
	<i>208.5</i>	<i>202.9</i>	<i>2.8%</i>

The University fell just short of this goal in FY 2007, as there was no increase in appropriated funds and a small decrease in net tuition revenues.

2. ***Gallaudet will generate a net annual operating surplus at least equal to the value of the annual depreciation of its facilities***

This goal is considered to have been achieved if the University does not experience a decrease in unrestricted net assets from operations, that is, if the University’s income from all unrestricted sources equals or exceeds expenses for operations plus depreciation.

<i>Change in unrestricted net assets from operations</i>	<i>FY 2007</i>
	<i>\$2,833,297</i>

The University had a substantial operating surplus. This goal was achieved in FY 2007.

GOALS FOR INCOME

1. ***Increase tuition income by 3% annually.***

<i>Tuition/Fee Revenues</i>	<i>FY 2007</i>	<i>FY 2006</i>	<i>% Difference</i>
<i>Tuition and Fees</i>	\$19,312,472	\$20,099,597	-3.9%
<i>Less scholarship aid</i>	\$4,389,681	\$4,738,973	
<i>Net Tuition and Fees</i>	\$14,922,791	\$15,360,624	-2.9%

This goal was not achieved in FY 2007, as the University experienced a downturn in enrollment.

2. ***Increase other sources of discretionary income by 3% annually.***

The indicator for this goal is the sum of income from auxiliary enterprises, investment income, and other sources.

<i>Other Discretionary Income</i>	<i>FY 2007</i>	<i>FY 2006</i>	<i>% Difference</i>
	\$27,906,050	\$27,566,172	1.2%

This goal was not achieved in FY 2007, largely due to the impact of the enrollment reduction on student fees for auxiliary services.

GOALS FOR FINANCIAL WELL-BEING AND EFFICIENCY

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

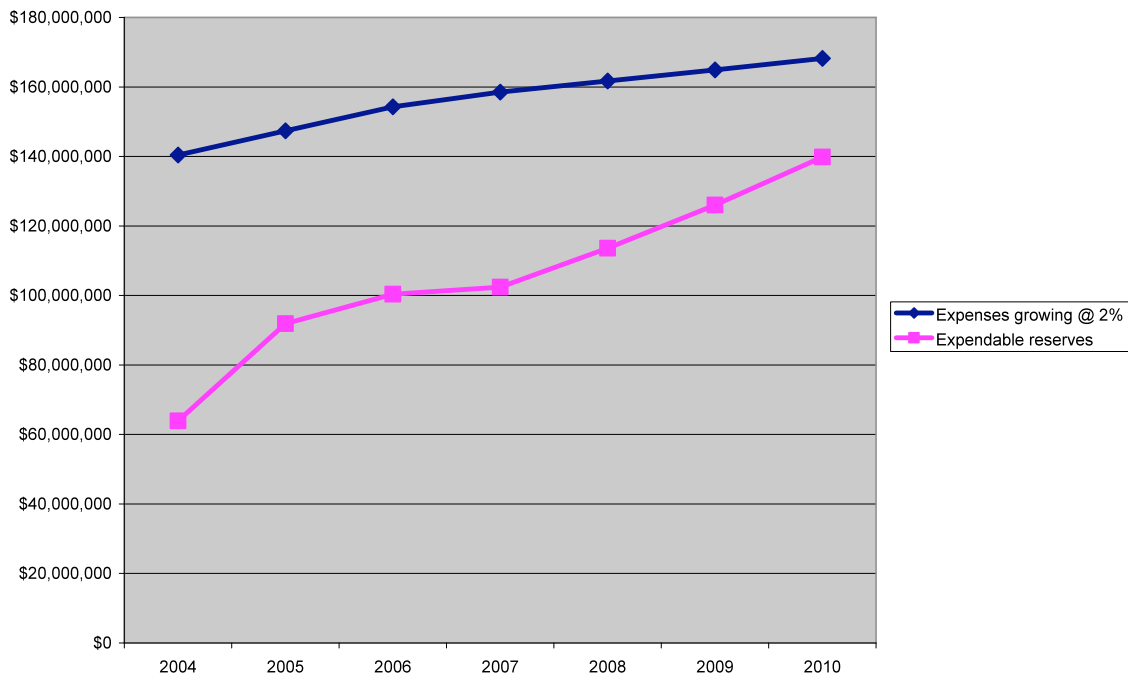
<i>Net Income Ratio</i>	<i>FY 2007</i>	<i>FY 2006</i>
	<i>1.8%</i>	<i>2.1%</i>

The Net Income Ratio is the ratio of total operating income to total expenses plus depreciation. This is a measure of the University's operating surplus, and the goal of 2 to 4% is suggested in analyses by industry experts. The five year financial plan contained in the FY 2006 budget document assumed that this goal would be achieved by FY 2006 and in succeeding years. The University fell just short of this goal in FY 2007 after achieving it in 2006.

2. ***Gallaudet's expendable reserves will increase to approximately two-thirds of the value of the annual operating budget by FY 2010.***

The ratio of the University's expendable reserves to its operating budget is a measure of how long it could operate in an emergency with no influx of new funding. A ratio of one would mean that Gallaudet had sufficient reserves to operate for one year. In FY 2000, the value of this ratio was 71%, or enough funds to operate for about seven months, but by FY 2002, it had declined to 22%. ***Following a substantial increase in FY 2005, the value for FY 2006 increased to 65% and remained at that level in 2007, effectively achieving the goal.*** There are two primary reasons for the reduction in the value of this indicator in FY 2001 and 2002: losses in the value of investments because of the falling market, and planned expense of unrestricted private funds for construction of the new student academic center. The increases in this ratio in FY 2003, FY 2004, FY 2005, and FY 2006 were due primarily to improvements in investment markets, but also to the receipt of contributions to support new construction, some of which was spent in FY 2007. Additional amounts will be spent in 2008 to fund the Sorenson building. The following chart presents information on the University's plan to achieve this goal by FY 2010, including actual progress through FY 2007.

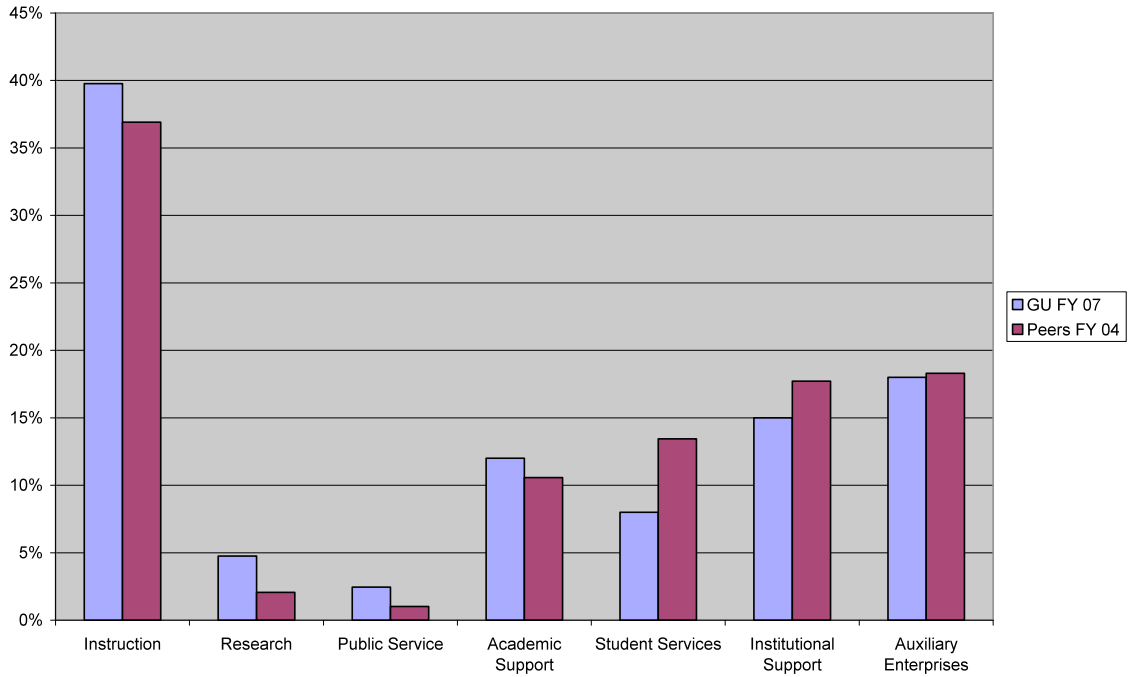
Projected Growth in Budget and Reserves



3. *Gallaudet’s ratios of programmatic and support service expenditures will fall within a range for a peer group of small liberal arts colleges and universities.*

The following chart compares Gallaudet University (university programs only) with the average for a peer group of small, high-cost, liberal arts colleges and universities. The basis of comparison is percentages of total expenses devoted to the various functional categories of expense. *According to this analysis, expenses at Gallaudet University have a distribution pattern that is very similar to that of the peer group, some exceptions being that Gallaudet spends considerably more on research and public service, consistent with its national mission.* This comparison is taken as a sign of success for this goal.

Distribution of Expenses Gallaudet and Peer Group of Liberal Arts Institutions



Increase in Net Assets

The University does not have a quantitative strategic goal for increasing its net assets, but seeks an increase in this indicator. This indicator experienced healthy growth in FY 2007. The chart that follows shows the recent history of growth in the University’s assets divided into three categories: property, expendable net assets (reserves), and permanently restricted net assets. Note that, during the past three years, the University has experienced growth in expendable and permanently restricted net assets, while the value of the plant has declined slightly, following major additions in FY 2002.

<i>Total Net Assets</i>	<i>FY 2007</i>	<i>FY 2006</i>	<i>% Change</i>
	<i>\$356,194,067</i>	<i>\$325,877,689</i>	<i>9.3%</i>

Changes in Net Assets FY 2001-2007



FY 2008 Budget Document

For the past decade, Gallaudet University has employed a participatory process for budget development that involves a representative University Budget Committee (UBC) presenting a recommended budget for the upcoming year, following approval by the President, to the Board of Trustees at its annual May meeting. However, because of uncertainties with respect to critical aspects of the FY 2008 budget, the University followed a different process for that fiscal year. As it neared the time when it would have to present a proposed budget for FY 2008 to the Board in May 2007, the UBC had to take into account the following issues:

- The University was in the process of reorganizing and recovering from the previous year's protest, and it was believed that there would be associated costs.
- The negative publicity surrounding the protest and the accreditation actions taken by the Middle States Commission on Higher Education (MSCHE) were having an impact on enrollment that was reducing revenues from tuition.
- Flat funding at the 2006 level in the final FY 2007 appropriation.
- The federal budget for FY 2008 also included flat funding at the FY 2006 level.
- The need for funding to begin the work of stabilizing the Model Secondary School (MSSD) site, with no assurance that Congress would appropriate funds for the project.

Given all of these uncertainties, the UBC decided to take a different approach to budget development and Board approval for the FY 2008 budget and the framework for an FY 2009 federal budget request to the US Department of Education. At the May 2007 Board meeting, the UBC submitted the following recommendations to the Board Committee on Financial and Institutional Affairs (FIA), following approval by President Davila:

- Delay approval of a detailed budget for FY 2008 until the October 2007 Board meeting.
- Give the President discretion to award a general pay increase in a range between 0 and 3%, depending upon the availability of funding.
- Delay Board action on tuition and fee schedules for 2008-2009 until the October 2007 meeting.
- The budget proposal for FY 2009 to the Department of Education should focus on an expected inflation rate of 3% for operations and on additional funding for the MSSD site stabilization and renovation project.

The FIA Committee endorsed these recommendations and reported them to the full Board.

At the time of the October 2007 Board meeting, it was clear that enrollment had declined and that tuition income would be reduced, but there was no further progress on the federal appropriation, suggesting the possibility of flat funding for a second year, without direct support for the MSSD site project. Accordingly, the President, following advice

from the UBC, presented the following six step plan for budget reconciliation in 2008 to the FIA Committee.

Step #1: Cap total payroll expenses for FY 2008 at current levels. Total payroll as well as total staffing has been creeping up in recent years, and we must anticipate flat funding, at best, through FY 2009. Total payroll expenses in FY 2007 are expected to be approximately \$107 million, and I have instructed administrators that we can spend no more than that for payroll in FY 2008.

Step #2: Begin planning for long term reductions in the total number of employees, with an initial reduction during FY 2008 of 3% of regular status employees (not positions but actual employees). This step will result in 30 fewer employees on board at the end of FY 2008 than we have now. Because teaching and learning are job #1 at the University and Clerc Center, reductions in numbers of staff employees should occur before reductions in faculty or teachers are considered.

Step #3: Do not award a general pay increase without a corresponding increase in the federal appropriation. We requested an increase for this purpose, and it will be used for that if we receive it, but there will be no across the board increase in its absence. There is no way to predict when we will know the final appropriation for FY 2008, but it will probably be well after the beginning of the fiscal year on October 1, 2007. Therefore, there will be no general pay increase on that date.

Step #4: Fund the current merit increase system but closely monitor adherence to guidelines and policies by administrators, and use the savings from the staffing reduction to fund it. In particular, I have instructed administrators that merit increases for all categories of employees must average no more than 2%.

Step #5: Add \$3 million to the current utilities budget to cover unbudgeted increases in costs since FY 2003. Between FY 2003 and 2006, the total cost of providing heat, air conditioning, electricity, and water to the campus has increased from \$3.9 million to \$6.9 million, and it is expected to increase further by the end of this fiscal year. These additional costs have been absorbed within our general budget, but we must now provide additional funding so that these accounts can be balanced.

Step #6: Given the steps outlined above, the President, Provost, and Vice President will prepare budgets for their divisions and for the Clerc Center for FY 2008 for review by the Board at its October meeting. The finance and budget offices will be providing support for this process, and I expect all administrators to work in a spirit of cooperation as these budgets are developed.

At the October meeting, the Board reviewed this plan and updated budget projections and also approved an increase of 3% in tuition and room fees for Academic Year 2008-2009.

In late December 2007, the University received the very welcome news that the omnibus spending bill approved by President Bush contained \$115.4 million dollars for Gallaudet in FY 2008, an increase of \$8.4 million but that an across-the-board recision was in effect that would reduce the final increase to \$6.4 million--still a very good result. Following a proportional distribution of the increase that the President had proposed to Senate Appropriations Committee staff, the following additions were made to existing budgets:

- A 2% general pay increase for eligible employees, effective January 7, 2008--\$1.4 million.
- Initial funding for the MSSD site stabilization project--\$4 million.
- The remaining \$1 million to support inflation in energy costs and programmatic responses to MSCHE accreditation issues.

Following these distributions, the Gallaudet budget as of February 1, 2008 appears in the tables that follow this narrative. It is presented for Board consideration and final approval. The funding for the MSSD project appears as part of the total in the line marked "capital improvements/additions to reserves."

Finally, we plan to return to our customary budget process for the FY 2009 cycle and will present a budget for Board approval at the May 2008 meeting, along with a plan for developing the FY 2010 federal budget request.

What follows is an analysis of the distribution of additional funding during FY 2008, primarily to support the President's priorities and inflation in basic operating costs, especially those for utilities.

Priority funding in FY 2008

From the \$1 million federal appropriation remaining in the FY 2008 appropriation increase:

\$500,000 to the Academic Affairs division, all of it for enrollment management purposes, broken down as follows:

- \$100,000 for recruitment of students of color
- \$75,000 for community college transfer student initiative
- \$50,000 for adult learner completion program
- 150,000 for summer recruitment programs, and
- \$125,000 for "Keeping the Promise," to support retention to graduation of African- American male students

\$500,000 to the Administration & Finance division, broken down as follows:

- \$250,000 additional funding for utilities
- \$50,000 for additional student employment opportunities (our internship program)
- \$90,000 to close the budget gap in our support of the Consortium Library network, and

- \$110,000 for overtime costs resulting from increased support for our many institutional changes and initiatives.

Finally, this is a breakdown of the allocation of the increase in the institutional endowment payout, as well as increases in centralized payroll totals resulting from the addition of personnel (coaches, mostly) in the Athletics program:

- \$338,388 for ASL instructors;
- \$250,000 for our athletics program (\$226,808.31 in the centralized payroll;
- \$23,191 in remaining funding added to the Athletics budget unit);
- \$51,200 to the Ingeniux CMS project, an Internet content management system that supported re-design of the home page;
- \$146,343 to strengthen and improve our alumni relations;
- \$40,269 for SPSS initial license costs;
- \$61,000 for closed captioning in classrooms, a pilot project;
- \$50,000 for the purchase of computers and software in the Department of Business;
- \$50,000 for the Special Collection on Deafness in the library.

Budget Approval

This FY 2008 budget was endorsed by the FIA committee and approved by the full Board at its February meeting.

Description of Lines in Operating Budget

A table presenting the Gallaudet FY 2008 operating budget appears on page 15. Following are definitions of the elements in the budget lines.

Income

Tuition and fees: Student tuition and charges for other educational activities of students, excluding room and board charges.

Scholarship aid: Also known as the institutional discount, includes aid awarded by the institution but excludes most aid from federal grant programs.

Federal appropriation: Funds appropriated to Gallaudet directly by Congress

Government grants and contracts: Includes federal student aid to students and competitive grants for research and training.

Donations: Includes unrestricted giving, meaning gifts that can be spent, but excludes donor restricted grants for endowment or construction, not included in this budget.

Operating investment income: Income from the endowment principal dictated by the University's 5% spending rate.

Other sources: Income from sales of products, etc. by individual campus units.

Auxiliary enterprises: Income from student room and board fees, Kellogg Conference Hotel, bookstore, Gallaudet University Press, etc.

Expense

Operating divisions: Academic Affairs includes the following components: Office of the Provost; College of Liberal Arts, Sciences, and Technologies; Graduate School and Professional Programs; College of Professional Studies and Outreach; Academic Technology, Library, and Archive Services; Student Affairs; Enrollment Management; Center for Academic Programs and Student Services; the Clerc Center (including MSSD and KDES); Office of Institutional Research; and Office of Assessment. Administration and Finance includes: Office of the Vice President; Finance Office; Human Resources; Business and Support Services; Transportation; Public Safety; Equal Opportunity Programs; Facilities; Information Technology Services; Gallaudet University Press; and Kellogg Conference Hotel.

Designated funds: Funds from grants, donations, and endowment income where use is directed by the donor.

Capital improvements/additions to reserves: Planned set-asides from operating income, designed to ensure the operating budget surplus called for in the 5 year financial plan and to fund the University's capital improvements response to deferred maintenance and depreciation issues. This line includes the \$4 million for the MSSD site stabilization project described above.

Gallaudet University FY 2008 Operating Budget 2/1/08
(Dollars in thousands)

Income	FY 2007 Actual	FY 2008 Budget
Tuition and Fees	\$19,300	\$18,300
Less Scholarship Aid	(\$4,400)	(\$4,600)
Federal Appropriation	\$107,000	\$113,400
Government Grants and Contracts	\$5,400	\$4,000
Donations	\$6,200	\$1,500
Operating Investment Income	\$6,200	\$8,000
Other Sources	\$2,200	\$2,200
Auxiliary Enterprises	\$19,400	\$19,000
Total Revenues	\$161,300	\$161,800
Distribution of Income	FY 2007	FY 2008
Academic Affairs	\$62,800	\$63,600
Laurent Clerc Center	\$21,800	\$23,000
Provost Total	\$84,600	\$86,600
Administration and Finance	\$39,300	\$40,700
President's Office	\$7,800	\$6,500
Auxiliary Enterprises	\$12,500	\$12,000
Designated Funds	\$7,700	\$5,000
Capital Improvements/ Additions to Reserves	\$9,400	\$11,000
Total Expenses	\$161,300	\$161,800

FY 2009 Budget Document

Outline of Budget Process

To orient its approach to development of the FY 2009 operating budget, the UBC adopted a set of operating principles that is summarized below.

Principal elements

- Top down framework: Establish overall cost per student and functional distribution targets through peer comparison.
- Bottom up development: Have deans and directors fit overall costs into top down framework through justification process involving a limited number of numerical indicators with benchmarks.
- Introduce mechanisms for “institutional renewal”—meaning on-going processes for supporting new initiatives through either redistribution of existing resources or the development of new funding (or, ideally, some combination of the two).
- Public information sharing: President convenes mid-year, third quarter, and year end meetings to review progress at the dean/director level.

Key features

- Recognize that with a few exceptions, cost is personnel driven and establish faculty and staffing benchmarks.
- Develop formulas for non-payroll personnel related costs (professional development, travel, etc.).
- Develop benchmarks for key non-personnel related costs, such as those for utilities, operating surpluses, and deferred maintenance.
- Develop standards for “deafness-related” costs such as interpreting.
- Improve measures for determining self-sufficiency for auxiliary programs.
- For the FY 2009 budget, justification to the UBC to be at the Dean/Director not the budget unit level.

Indicators and Benchmarks

- Student/Faculty ratios at the Dean level for grad, undergrad, and Clerc Center programs.
- Student support service functions to be justified in terms of student/staff ratios.
- Benchmarks for student related ratios to be justified by peer comparison.
- Within all areas, secretarial/clerical staffing levels as ratios to faculty/professional staff.
- Plant operations and maintenance to be justified in terms of staffing per square foot for major functions.
- Long range planning for increased efficiency in utilities to be cited in budget, but no benchmarks to be proposed at this point—i.e., savings in utilities costs can not occur immediately.

- Staffing ratios for other major administrative functions to be in terms of sum of students and employees served or necessary expertise for areas such as human resources and financial aid offices—benchmarking to be based on peer comparison.
- Salary structures across the board to be based on peer comparisons.
- Interpreting costs to be driven by market conditions and institutional policies concerning access.
- Major auxiliaries to be self supporting.

Details and Timelines

1. Establish projected educational cost per student target of \$58,000 for University programs, and Clerc Center educational cost (excluding national mission activities) at the projected FY 2009 level, as calculated by agreement with the Department of Education. Establish projected FY 2009 year end staffing target to include an additional 3% total staffing reduction.
2. Request that the Provost and Vice President for Administration and Finance (A and F) prepare budgets that assume 2% savings from current expense levels that can be made available to the UBC for redistribution to support priorities.
3. Complete details of dean/director level justification process by end of February—A and F is currently requesting proposed processes from its directors, so both the Provost and the VP need to complete the establishment of their processes by the end of that month. Establish similar process for President's Office.
4. Build in opportunities to address President's priority for increasing enrollment.
5. Deans and directors must complete their responses to the justification process by the end of March.
6. UBC must complete budget recommendations by April 15, including those relating to the operating budget and pay increases for 2009, tuition and room fees for 2010, and a federal request framework for 2010.

The analytic material that appears on pages 18-20 was prepared in the spirit of the MSCHE request that the University base its decisions on evidence and analysis. We have analyzed the increases in budget and spending at Gallaudet during the past 3 to 4 years in order to provide a context for the budget allocations for FY 2009. First, we consider a longer range context for these numbers. The University's budget document for FY 2007 included an assessment of Gallaudet's budget process that has been managed by the UBC since 1998. This analysis showed that, in the period between FY 1998 and FY 2005, the University's budget process had led to a substantial proportional redistribution of its funding away from the Division of Administration and Finance (A and F) and toward the President's Office and the institution's programs in Academic Affairs and the Clerc Center. This was taken as a mark of success for the process—relative increases in programmatic expenses and reductions in administrative expenses are generally seen as favorable in educational and other non-profit organizations. The 2007 budget document also included a comparison of the distribution of Gallaudet's expenses by function with the average for a peer group of small, high cost, liberal arts institutions. This comparison, the latest in a series, showed the same sort of favorable distribution of

expenses—we spent more on instruction, research, and public service and less on central administration.

The tables that follow extend this analysis from FY 2004 through our current budget year of FY 2008. It is important to note that the financial data are for general funds only—substantial other funds from endowment income and grants are under the Provost’s control, and these funds, along with those derived from auxiliary enterprises are not included, as they are theoretically self-supporting. The division figures for FY 2008 reflect some reorganization that has occurred since the budget was adopted in February. The changes between FY 2004 and 2007 follow the pattern identified in the previous study—expenses went up relatively more in the President’s Office and the Provost’s area (AA) than in A and F, but not by a large margin, following removal of the utilities costs, which went up by almost a third. Following through into the FY 2008 budget, if the Vice President and Provost spend all of the funds that are currently budgeted, A and F expenses would be slightly higher, as a percentage increase over 2004 than those in AA.

**Three Year Changes in Expenses
Dollars in Thousands**

	FY 2004 Actual	FY 2007 Actual	Percent Change	FY 2008 Budget 5/1/08	Percent Change 04 to 08
Academic Affairs (AA)					
Payroll	\$48,832	\$53,262	9.07%		
Nonpayroll	\$9,106	\$9,520	4.55%		
Total	\$57,938	\$62,782	8.36%	\$63,994	10.45%
Clerc Center					
Payroll	\$16,601	\$18,408	10.88%		
Nonpayroll	\$4,294	\$3,381	-21.26%		
Total	\$20,895	\$21,789	4.28%	\$22,512	7.74%
Provost Total	\$78,833	\$84,571	7.28%	\$86,506	9.73%
Admin. and Finance					
Payroll	\$20,040	\$25,075	25.12%		
Utilities	\$4,582	\$7,320	59.76%		
Other nonpayroll	\$9,991	\$6,837	-31.57%		
Total	\$34,613	\$39,232	13.34%	\$41,184	18.98%
A and F total w/o utilities	\$30,031	\$31,912	6.26%	\$33,134	10.33%
President					
Payroll	\$4,566	\$4,919	7.73%		
Nonpayroll	\$1,667	\$2,847	70.79%		
Total	\$6,233	\$7,766	24.59%	\$6,463	3.69%

Total Divisions	\$119,679	\$131,569	9.93%	\$134,153	12.09%
Total Divisions w/o utilities	\$115,097	\$124,249	7.95%	\$126,103	9.56%

As the following chart shows, enrollment has declined by about 10% between 2004 and 2008, and if we were to look at the reduction between 2006 and 2008, the impact on the University would be even higher, as enrollment increased slightly between 2004 and 2006. This has led to an increase in the educational cost per student for University programs, estimated to increase to \$58,000 this year. The next set of analyses brings the functional expense comparison up to date and reveals again that Gallaudet spends proportionally more on its programs and less on central administration (institutional support) than do the peers. Finally, we consider similar information about Swarthmore College, the nation's wealthiest (and arguably most prestigious) small liberal arts college. In FY 2007, Swarthmore spent about \$62,000 to educate each of its students—our predicted educational expense per student for 2008 is \$58,000.

	Enrollment			FY 2008	04 to 08
	FY 2004	FY 2007	Percent Change		
University	1,812	1,823	0.61%	1,633	-9.88%
MSSD	186	221	18.82%	164	-11.83%
KDES	145	128	-11.72%	127	-12.41%
Ed Cost per Student/University	\$45,510	\$50,924	11.90%	\$58,000	27.44%

Functional Distribution of Expense GU and High Cost Small Liberal Arts Institutions

	GU FY 07	Peers FY 04
Instruction	40%	37%
Research	5%	2%
Public Service	2%	1%
Academic Support	12%	11%
Student Services	8%	13%
Institutional Support	15%	18%
Auxiliary Enterprises	18%	18%
	100%	100%

	GU FY 07	Swarthmore 07
Instruction	40%	36%
Research/Pub. Serv.	7%	3%
Academic Support	12%	13%
Student Services	8%	9%
Institutional Support	15%	21%
Auxiliary Enterprises	18%	18%
	100%	100%

We conclude from these analyses that the Gallaudet's already high per student costs have increased in recent years and that the increased expense has been distributed throughout the institution. It is also apparent that tuition revenue has declined, and, that with an increasing federal deficit and weak economy, we face an uncertain future with respect to our appropriated funding. Accordingly, we recommend that the University recapture 2% of the existing budget for the purpose of funding the President's strategic priorities in FY 2009, especially as they relate to continued implementation of the bilingual mission and restoration of enrollment at all levels. The proposed budget for FY 2009 that appears on page 21 identifies \$2.5 million for this purpose.

Revenue and Expense Budgets for FY 2009

The chart that follows on page 21 documents the results of the budget actions that were described above. A key result of the recommended actions is that \$2.5 million is identified for distribution to the President's priorities. The line for the federal appropriation in the revenue budget is the amount in the Bush administration budget for Gallaudet that is now under consideration by Congress. The \$6 million increase in FY 2009 is what the University requested for the second phase of the MSSD site stabilization project, and the administration budget assumes that the University would keep the \$4 million that was received in FY 2008 as part of the operating base. This would offset projected losses in income from tuition and auxiliaries and would permit the University to meet its goal of increasing salaries through a combination of general pay and merit pay increases, provided a second year of staffing reductions is successfully completed in FY 2009. The income budget for FY 2008 that appears in the chart differs from the Board approved budget of February 2008 by the inclusion of an additional \$2 million in donations resulting from release of additional funds from the Binns estate. The UBC will continue to review revenue and expenses and will report back to the Board at the October meeting with any further recommendations related to income and details of the distribution of priority funding.

The Board approved a total FY 2009 preliminary operating budget of \$165,800,000 on May 16, 2008.

Gallaudet University Preliminary FY 2009 Operating Budget
(Dollars in thousands)

Income	FY 2009 Budget	FY 2008 Budget
Tuition and Fees	\$17,500	\$18,300
Less Scholarship Aid	(\$4,600)	(\$4,600)
Federal Appropriation	\$119,400	\$113,400
Government Grants and Contracts	\$4,000	\$4,000
Donations	\$1,500	\$3,500
Operating Investment Income	\$8,000	\$8,000
Other Sources	\$2,000	\$2,200
Auxiliary Enterprises	\$18,000	\$19,000
Total Revenues	\$165,800	\$163,800
Distribution of Income	FY 2009	FY 2008
Academic Affairs	\$62,700	\$64,000
Laurent Clerc Center	\$22,000	\$22,500
Provost Total	\$84,700	\$86,500
Administration and Finance	\$40,400	\$41,200
President's Office	\$6,500	\$6,500
Auxiliary Enterprises	\$11,700	\$12,000
Designated Funds	\$6,000	\$6,000
Capital Improvements/ Additions to Reserves	\$14,000	\$11,600
Total Expenses	\$163,300	\$163,800
Funding to support strategic priorities	\$2,500	

Salary Increases—FY 2009

Analysis of the University's prospects for revenue in FY 2009, including an almost certain downturn in tuition income and dedication of increased federal funding to the MSSD site project suggests the need to limit salary increases in that year and continue with the 3% staffing reduction that was already recommended. At the same time, there is a need to recognize that the cost of living continues to increase and that the University must continue to reward its most productive employees. The UBC recommends limiting overall salary increases to 4% in FY 2009, the division of this increase between a general pay increase and merit increases to be determined by the President, Provost, and Vice President. We recommend that the distribution between the two types of increase be the same across the operating divisions. We also recommend that the President, Provost, and Vice President address salaries for particular categories of employees that are below the benchmarks for those categories. The recommendation to the President is as follows: Limit total salary increases due to a combination of general pay and merit increases to a total of 4% for eligible employees, the final total to be in a range of 0 to 4% depending upon the availability of funding and the success of the ongoing staffing reduction process. **The Board approved this recommended salary plan for FY 2009 on May 16, 2008.**

Tuition and Fees—AY 2010

Tuition and room fees: Following discussion with the student members of the UBC, the committee recommends continuing for AY 2010 the 3% increases in tuition and room fees that have informed the 5 year financial plan for the past several years. The Board has approved removal of food service charges from the set of charges that are annually approved by the Board. These charges are to be set by the Business Operations department according to market conditions. The Committee also recommends that the University continue to study optimization of its use of institutional financial aid to support the recruitment and continuing enrollment of students. The recommended tuition and fee schedules for undergraduate and graduate students are shown on page 23 and reflect the current EDA requirements for surcharges for international students, 100% generally but reduced to 50% for qualifying students from developing countries. **The Board deferred a decision on the recommended tuition and fee rates until its October 2008 meeting, pending further study of the potential impact on students.**

Funding Priorities—FY 2010 Federal Budget Request

The UBC recommends that the President request increased appropriated funding through the Department of Education for the following priorities in FY 2010:

1. Inflationary expenses of up to 4% for payroll and utilities.
2. Support for implementation of the bilingual mission, especially for increased use of real-time English text in the classroom and associated increases in interpreting costs.
3. Ongoing support for restoration of the MSSD facilities.

The Board approved the priorities for the 2010 federal budget request on May 16.

Recommended Tuition and Room Schedules AY 2009-2010

Regular Full-Time Undergraduates

	AY 2010	AY 2009	Increase	
			Dollars	Percent
<i>Gallaudet U.S. Students</i>				
Tuition	\$11,180	\$10,850	\$330	3%
Room	\$5,460	\$5,300	\$160	3%
Total	\$16,640	\$16,150	\$490	3%
<i>International Students</i>				
50%	\$16,770	\$16,280	\$490	3%
100%	\$22,360	\$21,700	\$660	3%

Regular Full-Time Graduate Students

	AY 2010	AY 2009	Increase	
			Dollars	Percent
<i>Gallaudet U.S. Students</i>				
Tuition	\$12,290	\$11,930	\$360	3%
Room	\$5,460	\$5,300	\$160	3%
Total	\$17,750	\$17,230	\$520	3%
<i>International Students</i>				
50%	\$18,440	\$17,900	\$540	3%
100%	\$24,580	\$23,860	\$720	3%

Five Year Financial Plan

The following tables present the University's five year financial plan. This plan is directed by several assumptions about growth in the University's financial resources, and it is designed to meet the goals for financial health discussed in the report on FY 2007 financial performance that began this document, especially continuation of annual operating surpluses and growth in the institution's expendable reserves.

The assumptions concerning revenue sources are as follows:

1. Enrollment stabilizes in FY 2010 and tuition and auxiliary income thereafter are driven by annual 3% increases in the rates charged.
2. The federal appropriation grows at an annual rate of 2%.
3. Operating investment income grows at the benchmark rate of 9% annually.
4. Departmental income (other sources) grows at 3% annually.
5. Unrestricted donation income returns to an annual growth rate of 3%.
6. Post VL2 grant income stabilizes at \$3 million annually.

The critical assumptions underlying the distribution of available funding are as follows:

1. Set-asides for reserves and capital improvements are maintained at current levels.
2. Auxiliary costs are contained.
3. Mechanisms are maintained for redistributing operating funds to strategic priorities.
4. Healthy growth returns to funding for operating divisions.

GALLAUDET UNIVERSITY

Five Year Financial Plan

Income	FY 2008 Budget	FY 2009 Budget	FY 2010 Projected	FY 2011 Projected	FY 2012 Projected
Tuition and Fees	\$18,300,000	\$17,500,000	\$18,025,000	\$18,565,750	\$19,122,723
Less Scholarship Aid	(\$4,600,000)	(\$4,600,000)	(\$4,738,000)	(\$4,880,140)	(\$5,026,544)
Federal Appropriation	\$113,400,000	\$119,400,000	\$121,788,000	\$124,223,760	\$126,708,235
Gov. Grants/Contracts	\$4,000,000	\$4,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Donations	\$3,500,000	\$1,500,000	\$1,545,000	\$1,591,350	\$1,639,091
Operating Investment Inc.	\$8,000,000	\$8,000,000	\$8,720,000	\$9,504,800	\$10,360,232
Other Sources	\$2,200,000	\$2,000,000	\$2,060,000	\$2,121,800	\$2,185,454
Auxiliary Enterprises	\$19,000,000	\$18,000,000	\$18,540,000	\$19,096,200	\$19,669,086
Total Revenues	\$163,800,000	\$165,800,000	\$168,940,000	\$173,223,520	\$177,658,276

Appropriation as % of Total	69.23%	72.01%	72.09%	71.71%	71.32%
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Distribution of Income	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
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Division Operating Budgets	\$134,200,000	\$131,600,000	\$134,389,000	\$138,310,990	\$142,373,370
% Growth in Div. Budgets		-1.94%	2.12%	2.92%	2.94%
Designated Funds	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000
Auxiliary Enterprises	\$12,000,000	\$11,700,000	\$12,051,000	\$12,412,530	\$12,784,906
Additions to Reserves/ Capital Improvements/	\$11,600,000	\$14,000,000	\$14,000,000	\$14,000,000	\$14,000,000
Funds for Strategic Priorities		\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000

Total Distributions	\$163,800,000	\$163,300,000	\$166,440,000	\$170,723,520	\$175,158,276
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