

**GALLAUDET UNIVERSITY**

**FY 2010 BUDGET**

**WITH BOARD ACTIONS**

**AS OF MAY 15, 2009**

**GALLAUDET UNIVERSITY  
FY 2010 BUDGET**

**AS OF MAY 1, 2009**

**Prepared by Gallaudet University Budget Committee**

**David F. Armstrong  
Stephen Chaikind  
David Farias  
Jessica Fletcher  
William Hughes  
Patricia Hulsebosch  
Paul Kelly, ex officio  
Debra Lipkey  
Richard Lytle  
Michael Moore  
Doris Parent  
William Sloboda  
Nicole Sutliffe  
Stalin Thermadom  
Peter Un  
Fred Weiner, Chair  
Stephen Weiner, ex officio**

## *Executive Summary*

The following document presents a recommended operating budget for Gallaudet University for Fiscal Year 2010 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. Three appendices provide supporting materials for this budget document. Appendix A is an assessment of Gallaudet's financial performance in FY 2008, the year most recently completed. Because the Gallaudet budget process has been transformed during the past year, Appendix B contains a presentation and analysis of the FY 2009 budget. Appendix C contains an updated 5-year interim 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. It is expected that this plan should be updated to accommodate changes due to the new Long Range Strategic Plan after the latter is formally adopted by the Board.

The budget development process for 2010 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 the 2010-2011 academic year;
- priorities for the University's budget request to the federal government for FY 2011.

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

- Fiscal Year 2010 operating budget of \$164,100,000, additional funding for construction, NCLB, and CART to be requested through the appropriation process.
- Salaries for all employees to be frozen at current levels, 3% annual staffing reduction plan to continue.
- A decision about student tuition and room fees for Academic Year 2010-11 to be deferred until the October 2009 Board meeting.
- Priorities for the FY 2011 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.

## Table of Contents

<i>FY 2010 Budget Document</i> .....	4
<i>FY 2008 Financial Indicators</i> .....	15
<i>FY 2009 Budget Document</i> .....	21
<i>Interim Five Year Financial Plan</i> .....	29

## ***FY 2010 Budget Document***

### *Financial issues and challenges in FY 2010*

It was not until March 2009 that Congress passed and President Obama signed the omnibus appropriation bill for FY 2009 that included Gallaudet's final appropriation. Fortunately, our appropriation increased by \$10.6 million above the FY 2008 level. This increase included \$6 million designated as "no year" money (funds that remain available until spent) for construction of a retaining wall to stabilize the MSSD hillside site. As a result, the University had an additional \$4.6 million available for operations, to fund increases in salaries and utilities costs. Although Gallaudet received a generous increase in its federal appropriation in FY 2009, it also experienced flat or reduced funding from its student related sources of income, so the appropriation increase was also needed to offset this funding lost due to continuing declines in enrollment as well as donations. The one area that experienced an increase was grant funding. While grant funding has helped offset the overall revenue decline, these funds are designated for specific purposes and do not provide the operational flexibility in the budget that other revenue sources do. Trends we have observed during the past several years are expected to continue into 2010, and, in addition, we must assume that Congress and the new administration will have to grapple with a skyrocketing federal deficit.

*Summary trend analysis*

The trends in income that were described above can be summarized as follows for the period FY 2006 to 2008:

**Major unrestricted income components 2006 to 2008**  
**Dollars in**  
**thousands**

	FY 2006	FY 2008	% Change
<b>Primarily student related</b>			
Net tuition and fees	\$15,361	\$13,366	-13%
Auxiliaries (e.g., food, board, bookstore, etc.)	\$11,204	\$10,038	-10%
Subtotal student	\$34,800	\$32,157	-8%
<b>Non-student related</b>			
Grants and contracts	\$3,531	\$6,142*	74%
Contributions	\$2,746	\$1,895	-31%
Investment income	\$5,576	\$7,847	41%
Auxiliaries (e.g., conference hotel, university press, etc.)	\$8,235	\$8,753	6%
Other sources	\$2,551	\$2,653	4%
<b>Total non-student related</b>	\$14,404	\$18,537	29%
<b>Appropriation</b>	\$106,998	\$113,384	6%
<b>Grand total</b>	\$156,202	\$164,078	5%

\*Increase mainly due to National Science Foundation VL2 grant.

***The decrease in student related income is striking—even with increases in the rates charged, total income has declined because of the persistent enrollment decrease.***

Tuition charges to students in FY 2010 will be the same as in FY 2009, so without growth in student enrollment, increases in total income can again not be expected. Other income categories, such as government grants and investment revenue, have grown in recent years, but the additional growth is not expected in the near term.

A persistent area of concern with respect to expenses is the growth in utilities costs. These can be summarized as follows:

FY 2003	\$3,979,336
FY 2008	\$7,840,009
% Growth	97%
Projected FY 2009	\$9,700,000

The five year increase has been largely unbudgeted—that is, the University has not acted formally to designate an additional \$6 million in funds for the Division of Administration and Finance, which pays for the utilities. Under normal circumstances, inflationary increases in the university budget were sufficient to cover increases in utility prices. Given the spikes in recent years, funds have had to be diverted from other administrative functions. Some of the increase in cost will be addressed in this budget.

In addition, the University is also experiencing a large increase in interpreting and CART costs as a result of Gallaudet’s increasing demand for interpreter and CART services as well as rising rates due to market competitiveness for qualified interpreters. Interpreting costs are estimated to increase by \$1 million in FY 2009 and CART costs as a pilot project are estimated to be \$200,000. As the University continues to admit students with various communication modalities, increase expectation for students to take internship and externship opportunities off campus, and encourage greater participation in consortium classes, the institution anticipates a significant increase in interpreting and CART costs in the coming years.

The Education of the Deaf Act was reauthorized on July 31, 2008. As mandated by this reauthorized legislation, the Clerc Center is required to comply with certain aspects of the No Child Left Behind legislation through the adoption of challenging academic content standards, challenging student academic achievement standards, and academic assessments of a state. Hence, the Clerc Center has effectively assumed responsibility for implementation of standards that are typically the responsibility of a state’s department of education. The Clerc Center will eventually disseminate their findings and efforts to support other school programs in the nation. The cost of developing this program through the assistance and support of outside experts is anticipated to be approximately \$600,000 annually over a three year period.

### *Development of FY 2010 budget*

At the direction of President Davila, the UBC is committed to developing a balanced budget for 2010, and the issues and challenges that follow must be considered within that context. On the expense side, with the addition of the James Lee Sorenson Language and Communication Center (SLCC), depreciation of buildings and equipment is expected to increase from \$7.2 million in 2008 to \$9 million in FY 2009—this amount is what is currently projected for FY 2010 as well. Because the accounting rules for private universities require that depreciation be recorded as an expense, the University must spend \$9 million less on operations than it takes in, if it wishes to avoid an operating deficit in its annual financial statement, a requirement under the President's balanced budget mandate. Gallaudet's practice has been to use the funds set aside for depreciation to support capital improvements, thereby maintaining the value of its physical assets and avoiding long term deferred maintenance issues. In addition, expenses for salaries and utilities continue to increase. Also, changing student demographics and the expectation of quality communication access and increased academic rigor will drive CART and interpreting costs up significantly. Finally, the University has a number of strategic initiatives that it wishes to pursue. All of this must fit within a flat funding framework.

The most critical issues and challenges for the 2010 budget are summarized below.

- Flat total revenue for operations is projected for 2010;
- The institutional operating budget must be balanced;
- Utilities costs are expected to increase by \$2 million in FY 2010;
- Each 1% increase in payroll is equal to about \$1 million;
- Depreciation must be funded at \$9 million, an increase of about \$1.8 million above FY 2008;
- Changing student demographics and increased academic rigor have driven interpreting costs up a projected \$1 million and CART costs up by a projected \$200,000 in FY 2009.
- The President's Office, Academic Affairs and A&F need budget flexibility to respond to contingency situations and to fund any needed strategic initiatives.

As noted above, in the out-year section of the FY 2009 budget, the Board approved requests to the federal government for appropriation increases in FY 2010. The following requests were made in the University's FY 2010 budget submission to the Department of Education:

- \$2 million additional for the MSSD site project;
- \$4.6 million for inflationary operations increases;
- \$4 million for the real-time captioning (CART) program.

A challenge in the University's budget development process this year is that for the first time in institutional memory, an institutional budget is being developed without a budget from the U.S. Department of Education. Normally the Administration will release a

Federal budget in early February but the Obama Administration has announced that the budget will not be ready until the first week of May.

Although the UBC does not have an Administration budget on which to base assumptions for Federal appropriations, past Department of Education budgets have proposed no increases for Gallaudet's operating budget. With this in mind, the UBC recommends that President Davila consider focusing on long term development of the MSSD site, including replacement or renovation of the existing dormitories and reducing the amount requested for CART, especially in light of the substantial increases in operations funding the University has received during the past two fiscal years.

During a time of limited fiscal resources, it is critical that these resources be directed in a manner that addresses key strategic issues for this institution. Student enrollment has been in a steady decline since the "Rubella bulge" decade that ended in the latter part of the 1980's. Since that time this institution has seen a 40% drop in enrollment while many other institutions of higher education have seen their enrollment grow significantly. This decline can be attributed to the aftermath of the "bulge" but also due to the fact that the identifiable number of deaf and hard of hearing students in K-12 programs has not increased since then. Furthermore, placement trends have shifted significantly during that time. Today, 86% of deaf and hard of hearing K-12 students attend mainstreamed settings and 14% attend deaf schools. Despite the disproportionate distribution, Gallaudet continues to rely heavily on its traditional source of enrollment, deaf schools, as evidenced by the fact that a majority of undergraduate students come from there. Clearly if Gallaudet wants to restore its enrollment base at all levels in accordance with the Board mandate during a time when enrollment has dropped 20% in the past three years, the institution will need to become more effective in reaching out to, and recruiting mainstreamed students for its undergraduate programs.

Students from mainstreamed settings are not as likely as their deaf school counterparts to be engaged in an educational environment where sign language is the only mode of communications within the classroom. Hence, in order to make Gallaudet more attractive to them and to ensure that they can thrive during their underclassmen years as they adapt to this new environment, it is imperative that this institution provide a full range of communications access through means such as CART and interpreting services.

The need for increased communications access is not restricted to the evolving and increasingly diverse student population in the classroom but the enhanced academic rigor and this institution's increasing engagement with the community at large outside of Gallaudet through internships, consortium courses, community volunteerism, and partnerships with non-deaf entities. As a result, interpreter service hours are forecasted to increase between 20 and 30% in FY 2009 alone. This figure is expected to grow through the next few years. While the increasing costs and usage are understandable given the current circumstances, the University may want to consider a review of current practices to identify ways to make more efficient use of interpreting and CART services.

The UBC also recommends freezing institutional payroll at current levels—therefore, no general pay increase or merit increases are recommended. In addition, in order to meet the goal of freeing funds to support strategic initiatives, the Committee recommends continuing to reduce staffing by 3% annually through FY 2010. At current payroll levels, this should free up about \$1.5 million in existing funding during FY 2010 assuming attrition occurs at a steady pace. Because the University had already met its FY 2009 staffing goal at the beginning of the fiscal year, there have been only very modest decreases in actual staffing this year. As a result, we expect the total payroll to increase by 3 to 4% this year, the amount of the total general pay and merit increases. The UBC believes that the University should continue to pursue overall staffing reductions in FY 2010 and possibly beyond, in order to control salary and benefits costs, the largest single institutional cost component. We currently expect the total payroll in FY 2009 to amount to more than \$111 million, an increase of about \$4 million above FY 2008. Funds, anticipated at \$1.5 million, recaptured from the centralized payroll as a result of the salary freeze and the staffing reduction should be used to offset past (and anticipated future) increases in utilities costs.

The UBC recognizes that faculty and staff have worked hard the past year to support recruitment and retention efforts. Recent indicators such as average ACT scores of the entering Fall 2008 class and the Fall to Spring semester persistence rate of this class suggest that if this trend continues, the institution should begin to see a rise not only in overall student enrollment but in the academic rigor within the student body. Although these indicators are promising, it is too soon to say if this will have an appreciable effect on university finances. The UBC recommends that there be an effort to communicate with the campus about this positive turnaround and the importance on maintaining these efforts. Communications should stress that the decision for no salary increases is not a reflection of employee performance but an economic decision in which part of the impact was created by declining enrollment.

The UBC also recommends that the Board approve an incentive budget to be based on enrollment growth in fall 2009. If the University exceeds the fall 2008 enrollment during that semester, additional projected revenue from tuition and room charges should be set aside for funding strategic initiatives in Academic Affairs. The main focus of new initiatives in the division of Academic Affairs will be:

- 1) retaining students through programmatic initiatives focusing on teaching and student learning, through various support programs to enhance teaching skills, and support services for students who have a reasonable chance of success, and
- 2) efforts to recruit underserved cohorts (e.g., adult learners and veterans).

A further recommendation is that the President direct the Provost and Vice Presidents to identify 2% of their existing funding to support contingencies and strategic priorities as the latter arise from the Long Range Strategic Planning process.

*Strategic considerations*

In developing this budget recommendation in times of limited resources, the UBC recognizes the strategic imperative for primarily directing these resources towards the needs of the students.

An important consideration in budget development at Gallaudet going forward is the potential impact that allocation decisions may have on efficiency measures that we are expected to respond to under the Government Performance and Results Act (GPRA). In particular, the Department of Education is negotiating with us concerning goals for educational costs per student and educational costs per graduate. There are two ways in which to control these indicators—either by increasing the numbers of students and graduates or controlling educational costs. The new draft strategic goals A and B address the first approach—increasing numbers of students and graduates. With respect to the second, controlling educational costs, it is important that the formula for calculating these costs excludes expenses for research and outreach. Increasing activities in these areas is addressed in the new strategic goals D and E and does not contribute to increased educational costs. Therefore, the Committee recommends that allocation decisions take into account these two factors—increasing resources to support growth in enrollments, numbers of graduates, research, and outreach.

Expenses related to construction and infrastructure also add relatively little to educational cost and then only indirectly as a result of the expensing of depreciation. Therefore, allocations for this purpose also have the strategic benefits of improving the physical environment as a marketing device to attract students and adding only modestly to educational costs.

In looking at economic conditions, there has been virtually no inflation for the past year. With regard to the labor market, economic forecasts anticipate that the unemployment rate will continue to rise and will not recover until the second half of 2010. Some local institutions of higher education, including Howard University and the University of Maryland, have addressed budget shortfalls by turning to furloughs. Given these factors, we do not believe the university should consider increasing faculty and staff salaries for FY 2010 with one exception. This year's faculty salary peer comparison indicates that Gallaudet University assistant professor salaries are \$4,721 or 6.7% behind those of their counterparts at other local institutions. Given this disparity, it is recommended that their salaries be increased by \$5,000 beginning FY 2010 to bring them in line with other local institutions. The UBC notes that this is the second time in recent years that this has happened with assistant professors, despite the fact that their salaries were raised the first time this was noted. The UBC recommends a study be conducted by the university to identify the causes for this recurrence.

Finally, the UBC recommends that the President set aside funds for “seed money” to support program growth in strategically important areas. This fund should be built up through essentially two mechanisms: growth in income from student enrollments and private philanthropy, and reallocation of existing financial resources from lower to higher

priority programs. To build this fund, the President should have the option of tapping into the division contingency funds described above.

*Summary of FY 2010 budget recommendations*

- Fiscal Year 2010 operating budget of \$164,100,000
- Additional funding to be requested through the appropriation process for the following:
  - \$6 million for construction
  - \$600,000 for NCLB
  - \$1.4 million for CART
  - Consideration to be given for the possibility of also requesting funding for increases in interpreting and utility costs.
- Salaries for all employees, except assistant professors, to be frozen at current levels
- Assistant professors be granted an across the board increase of \$5,000
- 3% annual staffing reduction plan to continue.

*FY 2011 Appropriation request to the U.S. Department of Education*

The UBC recommendation for the FY 2011 appropriation request to the U.S. Department of Education can be split into two categories. The first category contains items that are also a part of the FY 2010 appropriations list. These items include construction, NCLB, and combining CART and interpreting costs. The second category contains items that are not part of the FY 2010 appropriation request. First, the UBC recommends \$3.6 million in inflationary costs to cover employee salaries and other operating expenses. Recent media reports indicate economists suggest that the economy could begin to recover as early as third quarter 2009 and as late as mid-year 2010. Since that period precedes the beginning of FY 2011, we believe the environment would be conducive to seeking inflationary increases to cover employee salaries and other items. Second, the Clerc Center is initiating a pilot Postsecondary Education Program (PEP) this coming fall. The purpose of this program is to provide educational support services to students who do not qualify for admission to Gallaudet, or other post-secondary programs but could eventually qualify if given additional support. The cost for PEP is estimated to be \$700,000.

*Summary of FY 2011 Appropriation request to the U.S. Department of Education*

- \$6 million for construction
- \$3.6 million for inflationary costs
- \$600,000 for NCLB
- \$2 million for CART and Interpreting
- \$700,000 for PEP

*Tuition and Room rates for FY 2011*

The UBC recommends that the Board defer a decision about tuition and room rates for FY 2011 until the October 2009, pending receipt of information about the fall semester enrollment. The Committee continues to be concerned about the potential impact of rate increases on student recruitment and enrollment. In general, the Committee believes that approval of tuition and room charges should be moved to the October Board meeting on a permanent basis.

**Gallaudet University Preliminary FY 2010 Operating Budget**  
(Dollars in thousands)

<b>Income</b>	<b>FY 2009 Projection</b>	<b>FY 2010 Budget</b>
Tuition and Fees	\$17,600	\$17,600
Less Scholarship Aid	(\$5,000)	(\$5,000)
Federal Appropriation	\$118,000	\$118,000
Government Grants and Contracts	\$4,000	\$4,000
Donations	\$2,000	\$2,000
Operating Investment Income	\$7,500	\$7,000
Other Sources	\$2,000	\$2,000
Auxiliary Enterprises	\$18,500	\$18,500
<b>Total Revenues</b>	<b>\$164,600</b>	<b>\$164,100</b>
No-Year Construction Appropriation	\$6,000	\$2,000
<b>Grand Total</b>	<b>\$170,600</b>	<b>\$166,100</b>
<b>Distribution of Income</b>	<b>FY 2009</b>	<b>FY 2010</b>
Academic Affairs	\$65,900	\$65,900
Laurent Clerc Center	\$20,800	\$20,800
Provost Total	\$86,700	\$86,700
Administration and Finance	\$43,800	\$43,800
President's Office	\$6,300	\$6,300
Auxiliary Enterprises	\$12,700	\$12,700
Designated Funds	\$6,600	\$5,500
Capital Improvements/ Additions to Reserves	\$14,500	\$9,000
<b>Total Expenses</b>	<b>\$170,600</b>	<b>\$164,000</b>
Funding to support strategic priorities		\$2,100

***FY 2008 Financial Indicators***

In support of the University’s Strategic Goal 5 ([http://aaweb.gallaudet.edu/Documents/Academic/Gallaudet\\_Strategic\\_Plan\\_2007-2011\\_Goals\\_Objs\\_Indic.pdf](http://aaweb.gallaudet.edu/Documents/Academic/Gallaudet_Strategic_Plan_2007-2011_Goals_Objs_Indic.pdf)), 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 of FY 2008 over FY 2007 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).

<b>Unrestricted Revenues</b>	FY 2008 <b>\$178,374,192</b>	FY 2007 <b>\$161,362,903</b>	% Increase <b>10.5%</b>
<b>CPI-U</b>	September ' 08 <b>218.8</b>	September ' 07 <b>208.5</b>	% Increase <b>4.9%</b>

The University met this goal, aided greatly by the use of the \$11.5-million accumulated contributions in funding the construction of the new Sorenson Language & Communication Center building. Without this transaction, our unrestricted revenues would have been \$166,873,326, for an increase of 3.4%, which is below the increase in the CPI-U.

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.

<b>Change in unrestricted</b>	FY 2008
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<b>net assets from operations</b>	<b>\$16,355,669</b>
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The University had a substantial operating surplus. This goal was achieved in FY 2008 for the same reason indicated above. Even without the use of the \$11.5-million accumulated contributions, the net operating surplus would still be a positive amount: \$4,854,803.

Goals for Income

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

<b>Tuition/Fee Revenues</b>	FY 2008	FY 2007	% Difference
Tuition and Fees	<b>\$18,345,823</b>	<b>\$19,312,472</b>	<b>-5.0%</b>
Less scholarship aid	\$4,980,150	\$4,389,681	
<b>Net Tuition and Fees</b>	<b>\$13,365,673</b>	<b>\$14,922,791</b>	<b>-10.4%</b>

This goal was not achieved in FY 2008, as the University 1) continued to experience a downturn in enrollment, and 2) increased the amount of scholarship aid.

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.

<b>Other Discretionary Income</b>	FY 2008	FY 2007	% Difference
	<b>\$29,291,468</b>	<b>\$27,906,050</b>	<b>5.0%</b>

This goal was achieved in FY 2008, largely due to the increase of the endowment payout rate despite enrollment reduction on student fees for auxiliary services.

Goals for Financial Well-being and Efficiency

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

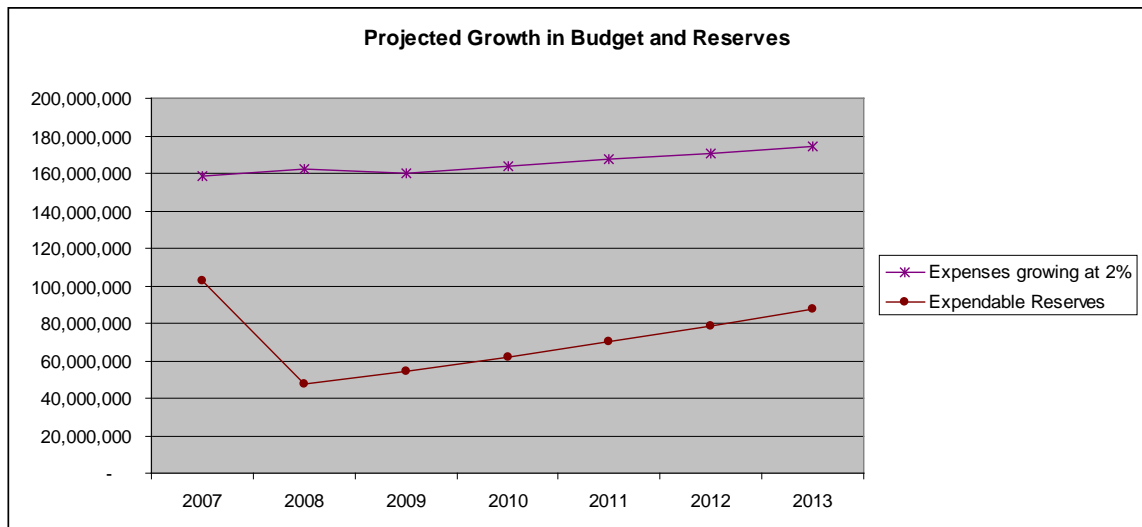
<b>Net Income Ratio</b>	FY 2008	FY 2007
	<b>9.2%</b>	<b>1.8%</b>

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 University met this goal in FY 2008 after barely missing it in 2007. Even without the use of the \$11.5 million accumulated contributions for the SLCC, the Net Income Ratio would have been 2.7%, still achieving this goal in FY2008.

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

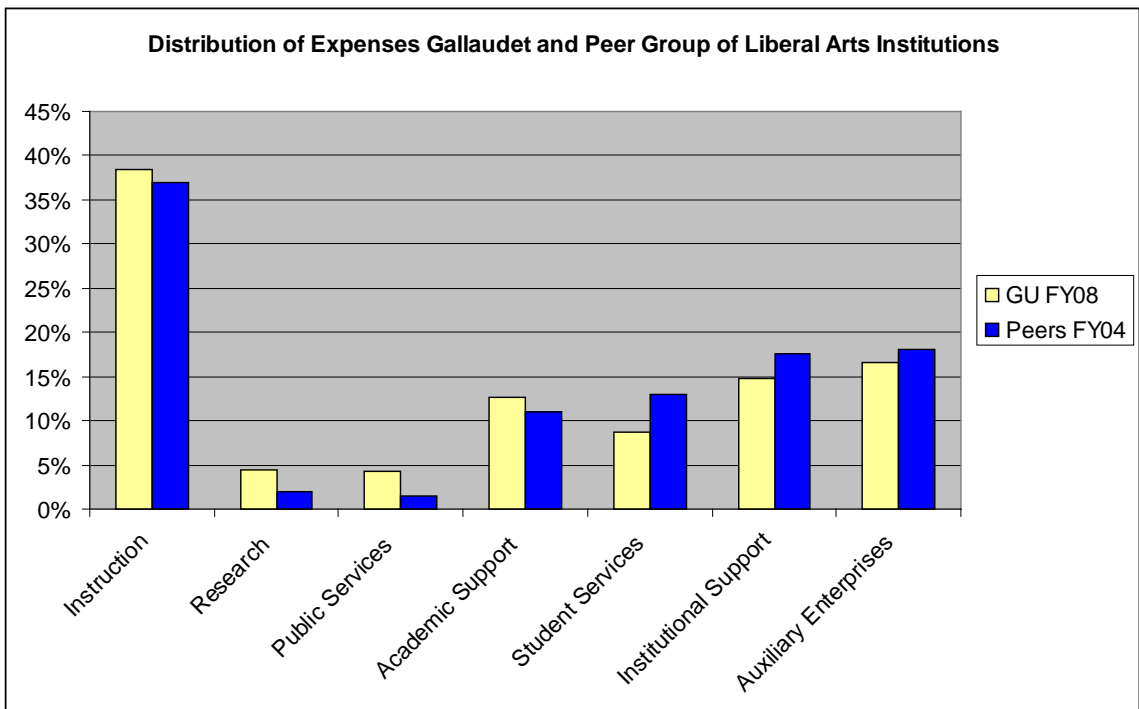
The ratio of the University's expendable reserves to its operating budget is a measure of how long it could operate in an emergency with no influx of new funding. A ratio of one would mean that Gallaudet had sufficient reserves to operate for one year. **From 64.7% in 2007, this ratio had unfortunately fallen to 29.2% in 2008.** There are two primary reasons for the reduction in the ratio. First, the University experienced a \$34.9 million reduction in our investments from FY07 to FY08. (This does not include the use of the \$11.5 million accumulated contributions in funding the construction of the SLCC.)

The second reason is a large increase in our “land, buildings, and other property” assets of \$22.8 million. This is the result of the construction of the Sorenson Language & Communication Center. The following chart presents information on the University's projection over the next 5 fiscal years, including actual progress from FY2007 through FY 2008.



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.

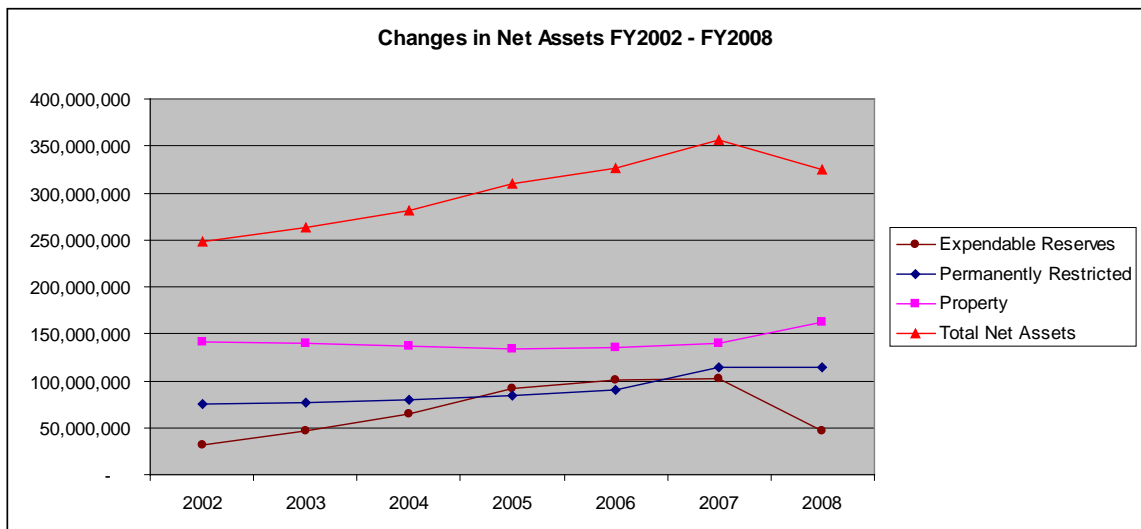


### Increase in Net Assets

The University does not have a quantitative strategic goal for increasing its net assets, but seeks an increase in this indicator. This indicator unfortunately dropped significantly FY 2008. The major reason is the decline in our investments due to the turmoil in the stock market.

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 in FY 2008, expendable net assets fell along with total net assets; however, the value of plant went up.

Total Net Assets	FY 2008	FY 2007	% Change
	\$324,137,995	\$356,194,067	-8.9%



## *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 in Appendix A, pages 15 to 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
<b>Academic Affairs (AA)</b>					
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%
<b>Clerc Center</b>					
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%
<b>Provost Total</b>	<b>\$78,833</b>	<b>\$84,571</b>	<b>7.28%</b>	<b>\$86,506</b>	<b>9.73%</b>
<b>Admin. and Finance</b>					
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%
<b>A and F total w/o utilities</b>	<b>\$30,031</b>	<b>\$31,912</b>	<b>6.26%</b>	<b>\$33,134</b>	<b>10.33%</b>
<b>President</b>					
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%
<b>Total Divisions</b>	<b>\$119,679</b>	<b>\$131,569</b>	<b>9.93%</b>	<b>\$134,153</b>	<b>12.09%</b>
<b>Total Divisions w/o utilities</b>	<b>\$115,097</b>	<b>\$124,249</b>	<b>7.95%</b>	<b>\$126,103</b>	<b>9.56%</b>

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.

	<b>Enrollment</b>		Percent Change	FY 2008	04 to 08
	FY 2004	FY 2007			
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%

Swarthmore FY 07 Educational Cost Per Student \$62,000

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 27 identifies \$2.5 million for this purpose.

*Revenue and Expense Budgets for FY 2009*

The chart that follows on Appendix B-7 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)

<b>Income</b>	<b>FY 2009 Budget</b>	<b>FY 2008 Budget</b>
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
<b>Total Revenues</b>	<b>\$165,800</b>	<b>\$163,800</b>
<b>Distribution of Income</b>	<b>FY 2009</b>	<b>FY 2008</b>
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
<b>Total Expenses</b>	<b>\$163,300</b>	<b>\$163,800</b>
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 29 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. The following tuition schedule was approved at the October meeting

**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	\$10,850	\$10,850	\$0	0%
Room	\$5,460	\$5,300	\$160	3%
Total	\$16,310	\$16,150	\$160	1%
<i>International Students</i>				
50%	\$16,280	\$16,280	\$0	0%
100%	\$21,700	\$21,700	\$0	0%

**Regular Full-Time Graduate Students**

	AY 2010	AY 2009	Increase	
			Dollars	Percent
<i>Gallaudet U.S. Students</i>				
Tuition	\$11,930	\$11,930	\$0	0%
Room	\$5,460	\$5,300	\$160	3%
Total	\$17,390	\$17,230	\$160	1%
<i>International Students</i>				
50%	\$17,900	\$17,900	\$0	0%
100%	\$23,860	\$23,860	\$0	0%

*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.**

### *Interim Five Year Financial Plan*

The following tables present an interim 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 2008 financial performance that began this document, especially continuation of annual operating surpluses and growth in the institution's expendable reserves. It is also intended to support the current strategic plan. The UBC is also developing a strategic financial planning document to support implementation of the new Long Range Strategic Plan (LRSP). This document will be finalized after the Board approves the new LRSP and presented at the October 2009 Board meeting.

In the interim plan, summarized in the following table, 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**

<b>Income</b>	<b>FY 2009 Budget</b>	<b>FY 2010 Budget</b>	<b>FY 2011 Projected</b>	<b>FY 2012 Projected</b>	<b>FY 2013 Projected</b>
Tuition and Fees	\$17,600,000	\$17,600,000	\$18,128,000	\$18,671,840	\$19,231,995
Less Scholarship Aid	(\$5,000,000)	(\$5,000,000)	(\$5,150,000)	(\$5,304,500)	(\$5,463,635)
Federal Appropriation	\$118,000,000	\$118,000,000	\$120,360,000	\$122,767,200	\$125,222,544
Gov. Grants/Contracts	\$4,000,000	\$4,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Donations	\$2,000,000	\$2,000,000	\$2,060,000	\$2,121,800	\$2,185,454
Operating Investment Inc.	\$7,500,000	\$7,000,000	\$5,900,000	\$5,400,000	\$5,900,000
Other Sources	\$2,000,000	\$2,000,000	\$2,060,000	\$2,121,800	\$2,185,454
Auxiliary Enterprises	\$18,500,000	\$18,500,000	\$19,055,000	\$19,626,650	\$20,215,450
<b>Total Revenues</b>	<b>\$164,600,000</b>	<b>\$164,100,000</b>	<b>\$165,413,000</b>	<b>\$168,404,790</b>	<b>\$172,477,262</b>
<b>No-Year Constr. Approp.</b>	<b>\$6,000,000</b>	<b>\$2,000,000</b>			
<b>Grand Total</b>	<b>\$170,600,000</b>	<b>\$166,100,000</b>	<b>\$165,413,000</b>	<b>\$168,404,790</b>	<b>\$172,477,262</b>
<b>Distribution of Income</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>
Division Operating Budgets	\$136,800,000	\$136,800,000	\$136,432,000	\$139,031,360	\$142,199,629
% Growth in Div. Budgets		0.00%	-0.27%	1.91%	2.28%
Designated Funds	\$6,000,000	\$5,500,000	\$4,900,000	\$4,400,000	\$4,900,000
Auxiliary Enterprises	\$12,700,000	\$12,700,000	\$13,081,000	\$13,473,430	\$13,877,633
Additions to Reserves/ Capital Improvements/	\$14,500,000	\$9,000,000	\$9,000,000	\$9,000,000	\$9,000,000
Funds for Strategic Priorities		\$2,100,000	\$2,000,000	\$2,500,000	\$2,500,000
<b>Total Distributions</b>	<b>\$170,000,000</b>	<b>\$166,100,000</b>	<b>\$165,413,000</b>	<b>\$168,404,790</b>	<b>\$172,477,262</b>