Fiscal Year 2011 Budget Recommendations

of the

Gallaudet University Budget Committee

as of May 10, 2010

Gallaudet University FY 2011 Budget

As of May 10, 2010 with estimates for FY 2012 and beyond

Prepared by

Gallaudet University Budget Committee

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Calendar of Budget Related Events

October 2009–October 2010

October 2009	Fiscal Year 2010 begins.
February 2010	UBC issues instructions to divisions and revenue forecasters for FY 2011 budget development and for responding to FY 2012 priorities.
February 2010	UBC issues instructions to Faculty Senate and Gallaudet Staff Council to review and respond to division and revenue FY 2011 budget submissions.
March 2010	Divisions, revenue forecasters, Faculty Senate and Gallaudet Staff Council respond to UBC request for submissions.
April 2010	UBC completes recommendations for FY 2011 budget.
April 2010	UBC completes recommendations for FY 2012 federal appropriation request and salary treatment for FY 2011.
May 2010	A&F completes FY 2011 budget document for review and approval by President's Cabinet and Board of Trustees in May.
May 2010	Board reviews budget document for approval.
June 2010	President's Office submits FY 2012 budget request to U.S. Department of Education.
August 2010	UBC reviews and develops October 2012 tuition and fee schedule.
September 2010	UBC submits 2012 tuition and fee schedule for review and approval by President's Cabinet and Board of Trustees in October.
October 2010	Fiscal Year 2011 begins.

Executive Summary

This document presents Gallaudet's budget for FY 2011 within the context of changes in the institution's leadership, which is occurring while our nation's economy is struggling to recover. Because of our desire to exert more effective controls over spending—particularly payroll—we present the expense side of the budget using the natural classification of expenses. We believe this format more accurately reflects the manner in which we have sought to control costs in the past few years. We further believe this will give the administration more flexibility to allocate resources, both human and financial, toward the Gallaudet Strategic Plan, especially goals A and B concerning enrollment, retention, and graduation of students, in the most efficient manner we deem appropriate.

By far the most important factor affecting the University's budget is the federal appropriation process. This situation is due to Gallaudet's unique relationship with the U.S. Congress, which has provided the bulk of the institution's funding since its founding. Currently, Congress provides about 70% of the University's unrestricted funding. Because of looming federal deficits and the intention of President Obama to limit discretionary spending, we anticipate little or no growth in Gallaudet's appropriation. Given this prospect, the fact that efforts to increase alternative revenue sources will not reach their full potential in the next year or two, and the steady increase in institutional aid to students to bolster enrollment and retention, overall growth in total income is expected to be very slow in the foreseeable future.

The total FY 2011 budget is projected at $172.9 million. This budget assumes: (1) continued reductions in total staffing, (2) stronger enforcement of cost controls, especially the rates of pay increases awarded to employees, and (3) full funding of depreciation of plant and equipment. The University Budget Committee (UBC) also recommends that the president exercise discretion in awarding an overall pay increase (or no award) to faculty and staff in the range of 0% to 2%, contingent on the provision of new appropriated funds for this purpose or further reductions in staffing beyond what is already assumed in the proposed budget.

The next major budget topic to be addressed is the University's FY 2012 budget request to the Congress, which is submitted through, and according to the formats of, the U.S. Department of Education. **The board will be asked to approve a strategy for preparing this request, based upon the University's long-term need to maintain the purchasing power of its federal funding against inflation and the need to support the Gallaudet Strategic Plan.** This strategic framework was also developed through a public process conducted by the UBC. Both the process and the committee's recommendations are presented in this document.

This is followed by the University's 5-year financial plan, which will guide budget development in FY 2012 and beyond.

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Introduction: Strategic Planning for Institutional Resources

Budget development, indeed all planning at Gallaudet, is governed by the Gallaudet Strategic Plan. Goal C and its four major objectives are as follows:

> By 2015, secure a sustainable resource base through expanded and diversified funding partnerships and increased efficiency of operations.
>
> 1. Increase breadth and depth of local and federal government relations
> 2. Grow revenue from grants, auxiliary enterprises, and private fundraising
> 3. Increase student-related income through enrollment growth
> 4. Improve efficiency and effectiveness of all programs and services

It is understood, within the context of a comprehensive long-range plan for the institution as a whole, the University's heavy reliance on annual appropriated funding from the federal government poses a potential risk. Gallaudet has for many years recognized this risk and has as a goal to reduce its reliance on the federal government. For example, the following was proposed as an institutional objective in a 1999 financial planning document: *The University should be attempting to decrease its historic reliance on the Federal government for support to initiate or expand programs by continuing to diversify its sources of financial support.* This proposal was made in response to limitations on appropriated funding resulting from Congressional actions to balance the federal budget during the 1990s. Since 1997 and continuing into 2009, the University has received relatively generous increases in its appropriation from Congress and the potential risk has been seen as diminishing. However, given the current economic climate in the country and the unprecedented federal response to it, the University must reassess the degree of risk implied by the fact that it derives about two-thirds of its operating revenue from the appropriation. As Congress allocates a trillion or more dollars to stimulate economic recovery, will it have the resources to continue its historic generosity to Gallaudet? In his State of the Union address in February 2010, President Obama stated clearly that he intends to send no requests to Congress for budget increases for discretionary programs during the next three fiscal years. In addition, he criticized the high costs of domestic

It should be noted that, in this budget document, Goal C is considered subordinate to the four strategic goals concerning the University's programs and enrollments that have been affirmed by the board. These goals are as follows:

Goal A: Grow Gallaudet's enrollment of full-time undergraduates, full- and part-time graduate students, and continuing education students to 3,000 by 2015.

Goal B: By 2015, increase Gallaudet's 6-year undergraduate graduation rate to 50%.

Goal D: By 2015, refine a core set of undergraduate and graduate programs that are aligned with the institutional mission and vision, leverage Gallaudet's many strengths, and best position students for career success.

Goal E: Establish Gallaudet as the epicenter of research, development, and outreach leading to advancements in knowledge and practice for deaf and hard of hearing people and all humanity.

In other words, Goal C concerns only the means by which Gallaudet's major programmatic objectives can be realized; Goal C has no independent raison d'être. The current and previous Gallaudet presidents have also made it clear that, for the foreseeable future, goals A and B will have the highest priority in all of our planning.

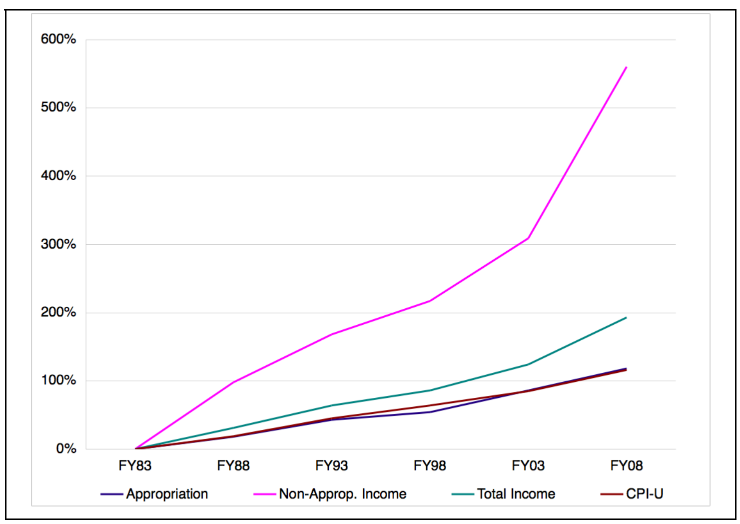
higher education programs. The UBC has, accordingly, adopted a budget process that assumes no growth in our federal appropriation, by far the largest component of our operating funding.

For the board and the campus community to fully understand the challenges Gallaudet faces during the next two fiscal years, a brief financial history follows, preceding a report on the budget recommendations of the UBC and the President's Cabinet.

Reduction of dependence on federal funding

Gallaudet's plan to reduce its dependence on federal funding dates to the early 1980s when the University was advised by staff at the Department of Education that it would be wise to increase tuition rates, given the expectation that federal funding would become tighter as the federal budget deficit increased. Historically under an agreement with the Department, Gallaudet's tuition rate had been set at the mean for land grant universities, on the principle that Gallaudet functioned as the national university for deaf people. Under a new agreement, setting Gallaudet's tuition in the upper quartile for land grant universities, the University began a long-term plan to increase its tuition rate so that it is now near the top of the range of public universities. Under its current agreement with the Department, Gallaudet's annual tuition increases during the 1990s and early 2000s did not exceed 10% annually, but for many years ran at 7% per year. Beginning in 2005 the University reduced annual increases in tuition to 3%, due to concerns about the continued affordability of a Gallaudet education and general concerns in Congress about tuition increases that exceeded those of the CPI. For academic years 2009-2010 and 2010-2011, the tuition rate was not increased and was held at the AY 2008-2009 level.

Figure 1. Cumulative percent increase in components of income vs. inflation, FY 1983–FY 2008



Also beginning in the mid-1980s and accelerating after 1990, Gallaudet made a commitment to increase its non-appropriated revenue. The consequences of these actions can be seen in Figure 1 which plots cumulative increases in Gallaudet's federal appropriation, its total operating income, and the CPI between 1983 and 2008. Note that the Department's advice was prescient: *The appropriation lagged the CPI by about one percentage point a year for the first 10 years of the period*, but the increases in Gallaudet's total income exceeded it due to substantial increases in revenues from student tuition and fees, auxiliary enterprises, and private giving. *During the second decade shown in Figure 1, following the balancing of the federal budget, increases in the appropriation exceeded those of the CPI with the result that the purchasing power of the appropriated funds is now approaching what it was in 1983*. During this 25-year period, Gallaudet's appropriation as a percentage of its total operating income declined from 83% to 62%. Note the 62% figure for FY 2008 does not apply institutional financial aid as a discount to tuition income, because that was not the practice in 1985. With institutional financial aid shown as a discount, the federal appropriation as a percentage of total operating income is 63% in 2008. If we look back even further in time, in 1981 appropriated funds comprised 85% of Gallaudet's total operating income.

As we consider an overall budget framework, it is also important to keep in mind that more than a quarter of Gallaudet's annual appropriation is currently devoted to the Clerc Center's two schools and national mission outreach and development activities. This program operates, in effect, as a public school, is funded almost entirely by appropriated funds, and is subject to a variety of legal restrictions that do not apply to the University. Since the 1990s, Gallaudet has had discretion over how to allocate its appropriation between the University and the Clerc Center, although the Department of Education is responsible for oversight.

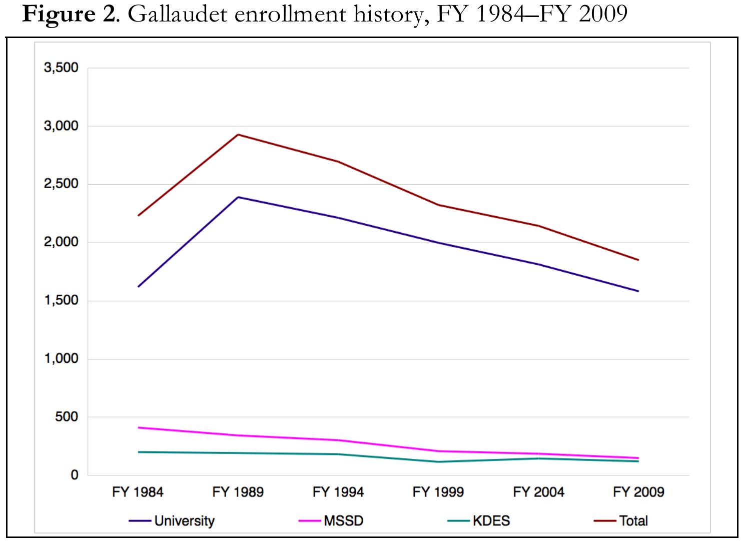
Gallaudet's funding base: Threats and opportunities

It would be useful to consider the University's relationship with the federal government in more detail. In this regard, Gallaudet enjoys a situation that is almost unique in American higher education. The University is permitted to make an annual request to Congress for its programmatic and construction funding needs within the larger process by which the federal budget is developed by the executive branch and approved by Congress. During the decade prior to 1997, the annual increases received by the University from the federal government were largely determined by Congressional budget agreements aimed at eliminating the federal deficit and not allowing it to return. Consequently, growth in the University's appropriation was slow. During that period the appropriation grew at rates that were less than the general inflation rate, including one year, FY 1996, when the amount was actually reduced by 3%. This meant the University's federal appropriation was losing purchasing power at a rate of about 1% annually. Since FY 1997, the appropriation has been growing at a rate slightly above the growth in the consumer price index for urban consumers (CPI-U), the index that the University uses for benchmarking purposes. However, as noted above, Congress and the administration are facing unprecedented economic challenges, and the UBC has concluded that we must anticipate no growth in the federal appropriation during the period FY 2011–FY 2013.

> The University's appropriations request is bounded by several factors:
> - Its request must be reasonable and must reflect the needs of the American deaf community.
> - It must take into consideration current economic conditions, including the inflation rate.
> - It must be cognizant of the wishes and interests of Congress, including a desire to control spending and reduce budget deficits.

As noted above, the University responded to previous erosion in its federal funding base by attempting to offset these losses in purchasing power with increases in other components of its income, especially student-related income. Given the University's heavy reliance on federal appropriations, the other sources of income required far greater annual increases than the 1% in value that the appropriation was losing annually. It is clear that the University's strategic decisions concerning these other income components have been predicated upon historical and anticipated changes in the federal

Figure 2. Gallaudet enrollment history, FY 1984–FY 2009



appropriation. Therefore, a well-articulated strategic plan for managing Gallaudet's resources must consider the interrelationships among the University's income components, especially the most important ones—the federal appropriation and income derived from student tuition and fees. In recent years, overall enrollment and income derived from enrollment have been decreasing (see Figure 2), so a trend toward reduced growth or actual reductions in the federal appropriation would have a much more serious impact on Gallaudet's operations than was true during the 1980s and 1990s.

Because Gallaudet's total operating income was increasing during the extended period of enrollment reductions, educational costs to the institution have been increasing (see Figure 3). This has become a significant issue with respect to the University's accountability to the Congress and other federal oversight agencies (i.e., the Department of Education and OMB), and it will ultimately influence the new accountability measures relating to costs per graduate. Table 1 presents actual and target data for educational cost per graduate at Gallaudet under the Government Performance and Results Act (GPRA). The University has made a commitment to manage this cost by controlling expenses and increasing the number of students who graduate from University programs.

Figure 3. Educational cost per student, University, MSSD and KDES combined (dollars in thousands), FY 1984–FY 2009

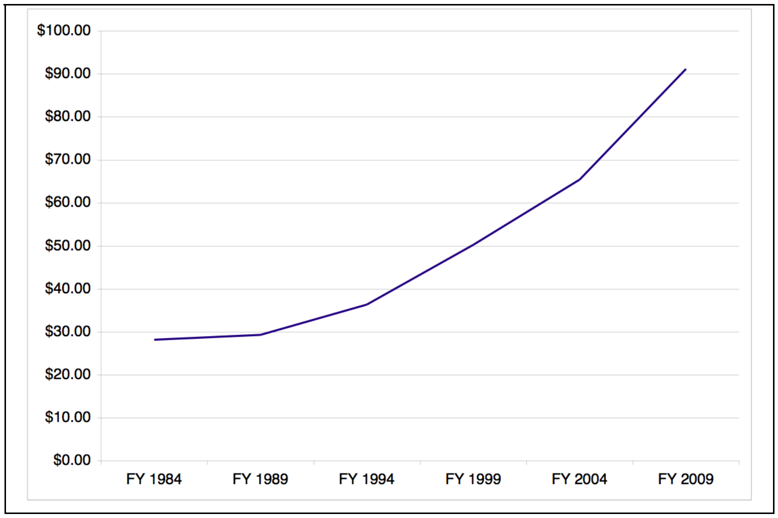
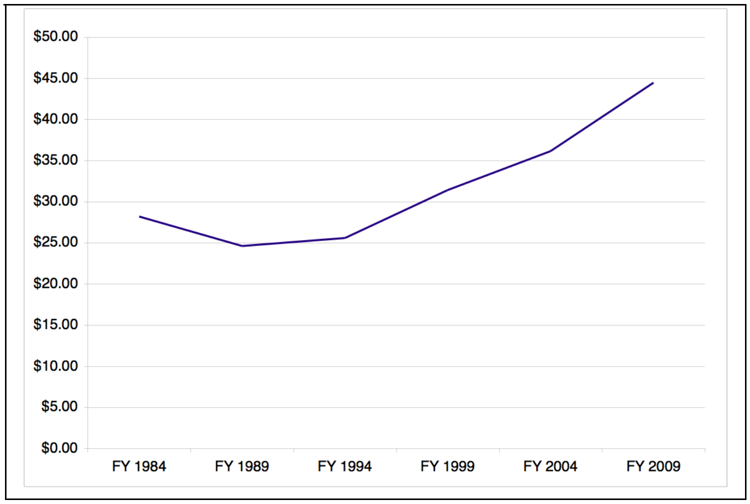


Table 1. Gallaudet GPRA measure: Educational cost per graduate, FY 2003–FY 2012

Year	Target	Actual (or date expected)	Status
2003		$271,735	Measure not in place
2004		$272,294	Measure not in place
2005		$263,088	Measure not in place
2006		$273,068	Measure not in place
2007	Set a baseline	$292,279	Measure not in place
2008	Maintain a baseline	$272,094	Measure not in place
2009	Maintain a baseline	$313,142	Measure not in place
2010	$284,066	(October 2010)	Pending
2011	$290,315	(October 2011)	Pending
2012	$296,702	(October 2012)	Pending

Even when we account for the underlying inflation in the economy (as measured by the CPI) during the period in question, there continues to be substantial growth in our costs per student (see Figure 4). Achievement of the new enrollment goals in the Gallaudet Strategic Plan will help to alleviate this situation, but it will continue to be an external accountability issue for the near-term future. Meanwhile, this growth in cost per student must also be controlled by managing or reducing overall institutional expenses.

Figure 4. Deflated educational cost per student (dollars in thousands), FY 1984–FY 2009



The analysis presented so far also suggests there should be a general priority, or guiding principle, for financial management at Gallaudet, which the board has articulated as follows:

Gallaudet is committed to managerial and fiscal accountability and delivering value to our stakeholders:

- Until enrollment, retention, and graduation targets are met, these areas, along with teaching and learning, will be the accountable strategic priorities for all administrators, faculty, and staff;
- Gallaudet takes seriously its role as a responsible steward of the funding provided by the federal government, our students, and other stakeholders, constantly creating the case for continued support through achievement of value-added outcomes;
- University resources, including financial and human capital, will be examined annually and re-allocated as needed to support strategic priorities. All programs will face ongoing assessment of their cost/benefit to the University, and decisions about continuation, expansion, or closure will be made annually as part of the budget process.

The board has also stated an additional general operational requirement for fiscal management: **The University must have an annual operating surplus (i.e., it must not have an operating deficit).** We note the accounting rules for private higher education institutions require depreciation of physical plant and equipment be recorded as an expense. This directive from the board requires, therefore, that the University budget provide for funding of depreciation.

Recent Performance of Key Revenue Components

Table 2 shows recent changes in key components of Gallaudet's operating income in the period since the protests of 2006.

Table 2. Comparison of University operating income (dollars in thousands), FY 2006 and FY 2009

Operating Income	FY 2006	FY 2009	% Change
Primarily student-related			
Net tuition and fees	$15,361	$11,760	-23%
Auxiliaries	$11,204	$10,075	-10%
Subtotal student-related	*$26,565*	*$21,835*	*-18%*
Non-student-related			
Grants and contracts	$3,531	$7,114*	101%
Contributions	$2,746	$967	-65%
Investment income	$5,576	$7,864	41%
Auxiliaries	$8,235	$9,174	11%
Other sources	$2,551	$1,954	-23%
Subtotal non-student-related	*$22,639*	*$27,073*	*20%*
Appropriation for operations	$106,998	$118,000†	10%
GRAND TOTAL	$156,202	$166,908	7%

*Increase mainly due to National Science Foundation VL2 grant. †We actually reported $118.5 million in our FY 2009 audited financial statements. The $500,000 difference resulted from the additional no-year appropriation for the MSSD site stabilization work. The remainder, $118.0 million, was for the operations of our institution, which is what appears in Table 2.

The decrease in student-related income is due to two major factors: (1) ongoing reductions in enrollment in University programs (see Table 3) and (2) controls on tuition and fees charged to students.

Table 3. Student enrollment at the University, MSSD, and KDES, AY 2006–AY 2010

	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
University	1,913	1,823	1,633	1,581	1,870
MSSD	226	221	164	149	151
KDES	141	128	127	120	105

Although there was an increase in University enrollments in FY 2009-2010, we expect this to translate to modest growth in revenues this year for the following reasons: (1) The bulk of the increase was in part-time professional studies programs; (2) Tuition charges were not increased in FY 2010; and (3) In order to improve recruiting, tuition discounting (institutional financial aid) was increased again.

While the University faces slow or no growth in its major sources of income, it has been facing growth in its largest component of expense, payroll, and in several other major areas of expense, including utilities, depreciation, and interpreting.

Analyzing and Projecting the Uses of Institutional Revenues

The task for the UBC in proposing an operating budget for FY 2011 is to indicate how the projected funding can be most effectively distributed to the institution's operating units in order to advance the Gallaudet Strategic Plan. In this regard, we observe that the institution has varying degrees of flexibility concerning its use of funds for several purposes. For example, we have been keeping the board informed of rapid increases in the cost of utilities, especially with respect to energy. In FY 2003, total utilities expenses were less than $4 million but had increased to more than $9 million in FY 2009. Another increasing cost component is depreciation of plant and equipment, which as we explained above must be treated as an expense in our audited financial statement. This cost has increased in recent years from less than $7 million to more than $9 million, as the SLCC went online. Finally, our largest expense category, payroll, has increased substantially in recent years. The first two of these expense categories, utilities and depreciation, are very difficult to control on a short-term basis. Payroll, while it can be controlled, presents an especially difficult challenge, as it could have a negative effect on the institution's employees.

A good way to understand the impact of the increases in these categories of expense is to consider the effect they have on the University's ability to exercise discretion over its spending going forward. The analysis in Table 4 shows these three categories of expense, between 2006 and 2009, as percentages of the institution's annual operating income (excluding releases from restrictions, which are not discretionary). The amounts are in thousands.

Table 4. Major expense categories in dollars (thousands) and as percentages of annual operating income, FY 2006–FY 2009

FY	Total income	Payroll	Utilities	Depreciation
2006	$156,202	$103,407 *(66%)*	$6,892 *(4%)*	$6,095 *(4%)*
2007	$160,266	$107,083 *(67%)*	$7,320 *(5%)*	$7,177 *(4%)*
2008	$163,373	$107,507 *(66%)*	$7,840 *(5%)*	$7,169 *(4%)*
2009	$166,908	$113,283 *(68%)*	$9,020 *(5%)*	$9,108 *(5%)*

It is clear these nonflexible categories of expense are growing as a percentage of the University's disposable income, from 74% in FY 2006 to 78% in FY 2009. We are particularly concerned about the growth in payroll. Controls were imposed in 2008 to cap payroll and reduce the number of on-board, regular employees, and these measures had the desired effect in FY 2008, limiting total payroll to the previous year's total. However, even with controls in place, the total payroll increased dramatically in FY 2009, as more temporary employees were hired and existing employees were promoted. An additional 3% increase in total payroll in FY 2010 was forecast early in the year, if conditions were left unchanged. As a result of this forecast, and a probable deficit in the institutional budget for 2010 and subsequent years, the University made the difficult decision to conduct a reduction in force in March. Because of this action, we intend to take a non-operating restructuring charge for approximately $1.3 million in FY 2010. As a result of these actions, we can now forecast an increase in total payroll in FY 2010 of about 1.4%. The recommendation of the UBC is that the University continue with its staffing reduction plan in FY 2011. (See "Employee salaries and benefits," p. 12, for more detailed discussion of the overall staffing and payroll situation.)

An additional area of growth in institutional expenses that merits attention is for the provision of interpreting services.

Table 5. Total GIS expenses, FY 2006–FY 2009

FY 2006	FY 2007	FY 2008	FY 2009
$3,060,820	$3,657,709	$4,195,183	$5,568,510

The growth in these costs represents a substantial part of the University's focus on achievement of goals A and B of the Gallaudet Strategic Plan. In order to achieve our goals for recruiting, enrollment, retention, and graduation, we anticipate teaching an increasingly diverse group of students, with changing needs for support with respect to their language and communication needs. We will need to provide maximum flexibility with regard to the use of signed and spoken language, as well as text through the medium of real-time captioning.

Figure 5. Expense categories as a percentage of the total, FY 2006–FY 2009

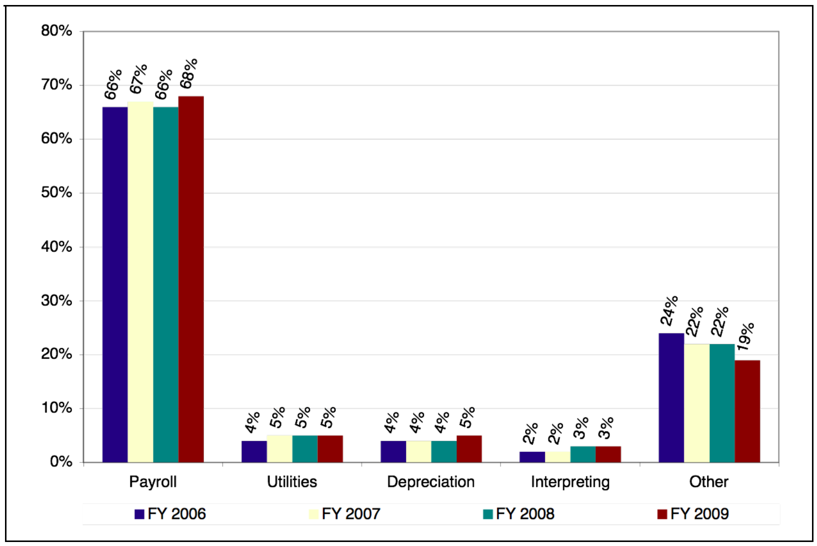


Figure 5 summarizes the loss in flexibility in the remaining parts of the Gallaudet budget due to the growth in payroll, utilities, depreciation, and interpreting.

As we proceed to a presentation of budget recommendations for FY 2011 and initial planning for 2012, it is important to keep the potential impact of these relatively inflexible expense components in mind. Our focus must be on how to deploy them for maximum impact on achievement of the Gallaudet Strategic Plan goals—in particular, we must be concerned with how best to deploy our human resources for this purpose.

FY 2011 Operating Budget

In 2010, we expect only a small increase in operating revenues over FY 2009—in terms of real discretionary income, we are forecasting an increase of about $1 million in net tuition revenue. With the reduction in force that was conducted in March, we expect the University to break even with respect to total income and expenses. In 2011, consistent with the Obama administration appropriation request for Gallaudet, we are projecting flat federal funding and only small increases in other components of income, especially in auxiliaries. The increases in auxiliary income will not add significantly to the general institutional budget, as most of that income will be spent to support auxiliary operations. Finally, we note that the president has appointed a new vice president for Development and Alumni Relations and that he has made a personal commitment to seek new private funding for the University. However, given the time needed to plan and launch a major fund raising campaign, we are not forecasting a major increase in private giving to support programs (as opposed to capital projects or scholarships) during FY 2011 and FY 2012.

With respect to the distribution of the projected income, the budget process for FY 2011 began with the UBC's call for budget submissions to division heads in February. Individuals responsible for income-producing units—such as enrollment management, the conference hotel, the bookstore, the university press, etc.—were asked to forecast income for their units, and the Faculty Senate and Gallaudet Staff Council were asked to make recommendations concerning salaries and benefits. Division heads were asked to respond to 3 budget scenarios: (1) flat funding, (2) a 2% reduction, and (3) a 4% reduction. Within those scenarios, the division heads were asked to specify numbers of employees and amounts of funds that would be dedicated specifically to achievement of the Gallaudet Strategic Plan or Clerc Center priority strategic goals. In addition, their input on priorities for funding in FY 2012 was solicited.

> Board members can find division responses in Google Documents. To access the site, log into your Gallaudet Web mail account and click on the Documents link at the top of the page. When changes are made to the documents or when new documents are posted, the UBC will notify board members via a Google email announcement.

In addition to the budget proposals from division heads, the University has launched a major initiative during FY 2010 to identify ways to move toward achievement of its strategic goals. Two program prioritization efforts have each been established to review academic and administrative programs. When these processes are completed, the University administration will have better information to use in assigning funding levels to the various programmatic areas.

Having reviewed all of the material supplied by the community, the UBC recommends the budget for FY 2011 as shown in Table 6. **Note that because of the challenges presented by an extremely slim operating margin in FY 2009, we display the expense side of the budget using the natural classification of expenses. Doing so reflects more accurately the ways in which we are beginning to control costs: e.g., by centralizing payroll, controlling employee counts, conducting energy efficiency reviews, and so forth. Note there is currently no provision for salary increases if the employee count remains at 910 throughout FY 2011. Please also note depreciation is fully funded in the FY 2011 budget.**

Table 6. UBC-recommended budget for FY 2010 and FY 2011 (dollars in thousands)

Budget	FY 2010	FY 2011
Income		
Tuition & fees	18,900	20,000
Less: scholarship aid	-6,300	-7,100
Net tuition	12,600	12,900
Federal appropriation	118,000	118,000
Gov. grants & contracts	7,000	7,000
Contributions, incl. releases	3,000	3,200
Operating investment income	7,000	7,000
Auxiliary enterprises	21,300	22,900
Other sources	1,900	1,900
Grand Total	**170,800**	**172,900**
Expenses		
Payroll	114,900	115,200
Utilities	8,200	8,800
Depreciation	9,500	9,700
Service contracts	15,900	16,300
General office expenses	7,300	7,500
Others	15,000	15,400
Grand Total	**170,800**	**172,900**
Projected Net Total	-	-

Note. The payroll expense estimates assume a continuation of the University's position reduction plan as shown in Table 7.

Table 7. University position reduction plan, FY 2008–FY 2011

Total Regular Employee Headcount	FY 2008	FY 2009	FY 2010	FY 2011
Target	1,020	990	930	910†
Actual	987	991	923*	

*as of May 10, 2010

†as of October 1, 2010

Figures 6 and 7 each provide breakdowns of the FY 2011 revenue sources and revenue distribution. Finally, Figure 8 compares Gallaudet's expenses to those of its peers.

Figure 6. Percentage of revenue by source, FY 2011

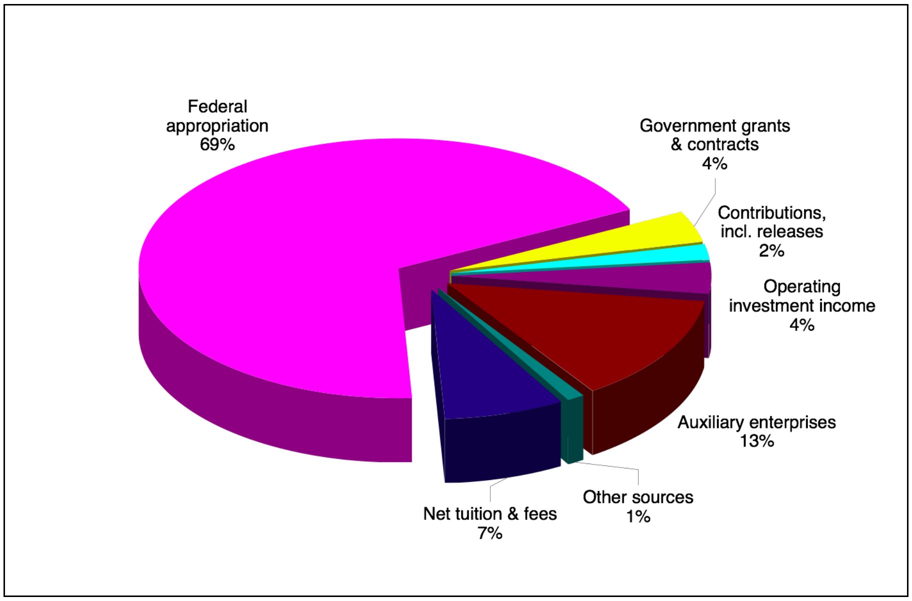


Figure 7. Planned distribution of revenue by division/purpose in percentages, FY 2011

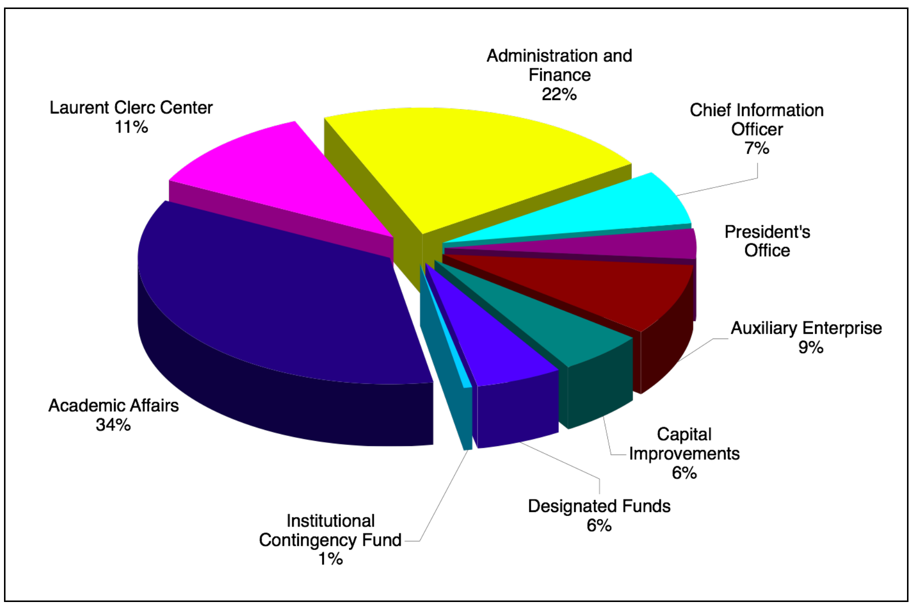
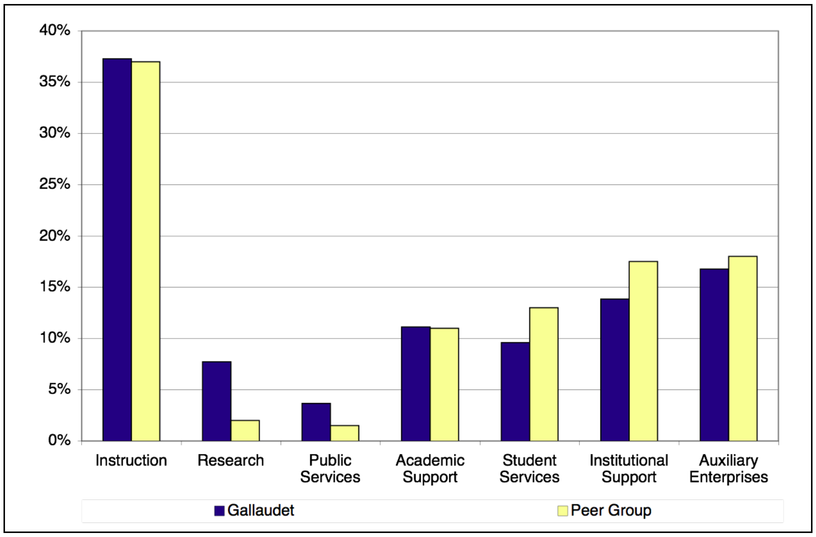


Figure 8. Distribution of expenses, Gallaudet and peer group of liberal arts institutions, FY 2009



Note. Gallaudet data is based on FY 2009 expenses; peer group data is from FY 2004.

Employee salaries and benefits

A key component of the budget process is the board's approval of salary levels for the upcoming year. As indicated in the analysis of institutional revenues (see pp. 7–8), growth in payroll expenses has been a substantial area of concern. In FY 2010, the University gave no salary adjustments in the form of a general pay increase or merit increase to existing employees. This action and previous reductions in the number of employees did not have the desired effect of controlling or reducing total payroll, and the University felt compelled to conduct a reduction in force. In deciding whether or not to recommend salary increases for FY 2011, the UBC took the following into consideration:

1. **Inflation.** The institution has had a long-term goal of maintaining the purchasing power of the salaries it pays to employees. For the 2011 and 2012 period, we have studied various estimates of likely inflation levels, especially those of the Congressional Budget Office (CBO). The CBO inflation estimates for the two years are 1.1% and 1.3% respectively.
2. **Peer comparisons.** For University faculty, the peer group comprises universities in the D.C. area, and comparisons are done on 9-month salaries by rank, using data collected by the American Association of University Professors (AAUP). In recent years the faculty have been ahead of the peer group at all ranks except Assistant Professor. For staff, a variety of data are used, and the salaries of Gallaudet staff consistently exceed the means for their peer groups.
3. **Morale.** We note that another year without pay increases could have a negative impact on employee morale.
4. **Availability of funds.** The UBC concludes that there are only two potential sources of funds to support pay increases in 2011: an increase in the federal appropriation for this purpose or further reductions in employee headcount.

Table 8. Change in Gallaudet general pay increases and CPI-U, FY 2005–FY 2010

Fiscal Year	Pay increase	CPI-U
2005	2.0%	3.0%
2006	2.0%	3.9%
2007	2.0%	3.5%
2008*	2.0%	3.7%
2009	2.0%	-0.2%
2010	0.0%	TBD
Cumulative percentage increase, 2005-2009	*10.4%*	*14.6%*

*The FY 2008 increase was awarded, effective January 7, 2008, not October 1, 2007.

Given these caveats, the UBC makes the following recommendation: **The president should have the discretion to award a pay increase, in the form of some combination of general pay or merit increases, of no more than 2% in FY 2011, provided that (1) Congress provides an appropriation increase for this purpose or (2) the University has flexibility in when it awards a pay increase, if any, during the year, should the employee count fall below the 910-count target after October 1, 2010. Any funds used for this purpose could be in the form of one-time awards rather than additions to base salaries, and they could be awarded only to certain categories of employees, perhaps depending on base salary levels. The committee also recommends that the administration consider non-monetary awards to improve employee morale. These could include expanded use of flexible work schedules, for example.**

Capital budget

Table 9. Capital improvements (dollars in thousands), FY 2010 and FY 2011

	FY 2010 Budget	FY 2011 Budget
Deferred Maintenance Projects	$2,200	$2,300
Capital Improvement Projects		
Contingency		500
Furniture for dormitories	425	500
Original MSSD site stabilization budget	2,000	
Denison House	1,500	
To be determined, subject to Gallaudet Strategic Plan	3,375	6,400
Subtotal Capital Improvement Projects	$7,300	$7,400
Total core capital improvement budget	**$9,500**	**$9,700**
No-year construction funds		
Additional MSSD site stabilization funding	$3,000	
Plus additional work remaining from FY 09		$3,000
GRAND TOTAL	**$12,500**	**$12,700**

Preliminary Planning and Appropriation Request—2012

Following is an outline of the approach that UBC recommends for requesting appropriated funding for FY 2012 through the Department of Education's budget process.

FY 2012 Budget Recommendations:

1. **$34.8 million for MSSD residential hall construction**
2. **$2 million for interpreting and captioning costs.**
3. **$3.6 million for operational increases (salaries and utilities)**

Funding for a new MSSD residential facility

The University requests $34.8 million in capital funding for the construction of the MSSD residential facility to replace the current dormitories of which all but one are uninhabitable. This funding would allow for the demolition of all current dormitories at MSSD and the design and construction of a new, single 200-bed facility to house MSSD students and residential staff. The total cost is estimated to be $41.8 million in FY 2012. The University has $7.0 million set aside from previous federal appropriations for this purpose.

The University has made a request to Congress for FY 2011 for $31.7 million to fund the construction, which is estimated to be $38.7 million if building begins in FY 2011. The request for FY 2012 to the Department of Education is predicated on the assumption that Congress does not provide the necessary funding in FY 2011 and construction costs rise at the historical annual average of 8%.

Interpreting and captioning costs to support students

The University requests $2 million in funding to support an increase in interpreting costs to serve students. This includes direct student services, such as classroom, internships, externships, student teaching, and consortium courses. This also includes student-related services such as guest lectures, campus tours, orientations, fairs, student health services, panel discussions, and performances.

Total student interpreting hours have increased from over 26,000 hours in FY 2006 to over 33,000 hours in FY 2009 and are expected to exceed 35,000 hours in FY 2010. The increase in hours can be attributed to the changing student body, the addition of real-time captioning services in the classroom, and the growth in internships and externships which account for nearly half the direct student services costs. Increasing hours is one part of the escalating costs equation. Supply and demand issues have driven up interpreter salaries considerably in the past few years, especially in the metropolitan Washington area. After a large number of Gallaudet staff interpreters left the University in FY 2007 and the increasing difficulty in attracting freelance interpreters to accept University assignments, a decision was made to raise staff salaries and freelance rates in line with the local market. This had the net effect of increasing the average salaries and rates approximately 30%.

The University has also seen an ongoing increase in captioning the past few years. While captioning costs are relatively minor compared to interpreting costs, the rapid growth in captioning hours suggests we need to be mindful of increasing costs in this area. Nineteen classes had ongoing real-time captioning services in AY 2008-2009. That number doubled to 38 for this academic year and is expected to continue its steady growth next year, especially given Enrollment Management's forecasted growth in new student signers.

Operational increases

The University requests $3.6 million to cover increases in salaries and utilities. The University faculty and staff had no salary increase in FY 2010, and it is possible there will be no increase in FY 2011. Economic forecasts suggest the economic recovery will pick up next year and inflation will begin to rise. The University would like to fund salary increases of approximately 2% in FY 2012 to prevent any erosion of faculty and staff salaries when adjusted for inflation. For the first time in recent memory, utility costs appear to remain stable in FY 2010. While this is a welcome respite from years past, the University anticipates energy prices will once again continue its average annual increase of 7.5% in the near future, as the economic recovery drives up energy prices.

Five-Year Financial Plan

The 5-year financial plan is based on a collaborative, transparent, institution-wide effort to gather data and share feedback among key individuals across the campus, especially for revenues. As is true with all projections, this plan is based on many assumptions and factors, which will affect our forecast if they prove to be different in the future.

Table 10. Gallaudet University strategic framework for income and expenses (dollars in thousands), FY 2011–FY 2015

Budget	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Income					
Tuition & fees	$20,000	$21,987	$23,665	$25,406	$27,235
Less: scholarship aid	-7,100	-8,106	-8,711	-9,401	-10,133
Net tuition	$12,900	$13,881	$14,954	$16,005	$17,102
Federal appropriation	$118,000	$118,000	$118,000	$120,360	$122,767
Gov. grants & contracts	7,000	7,000	7,000	7,000	7,000
Contributions, incl. releases	3,200	3,308	3,473	3,647	3,829
Operating investment income	7,000	7,027	7,437	8,106	8,834
Auxiliary enterprises	22,900	24,600	26,800	27,600	28,400
Other sources	1,900	2,016	2,076	2,138	2,203
GRAND TOTAL	**$172,900**	**$175,832**	**$179,740**	**$184,856**	**$190,135**
Fed. approp. as a % of income	*68%*	*67%*	*66%*	*65%*	*65%*
Expenses					
Payroll	$115,200	$115,632	$118,140	$121,756	$125,535
Utilities	8,800	9,500	10,200	11,000	11,800
Depreciation	9,700	10,000	10,200	10,400	10,600
Service contracts	16,300	16,600	16,900	17,200	17,500
General office expenses	7,500	7,700	7,900	8,100	8,300
Others	15,400	15,400	15,400	15,400	15,400
Contingency	-	1,000	1,000	1,000	1,000
GRAND TOTAL	**$172,900**	**$175,832**	**$179,740**	**$184,856**	**$190,135**
Projected Net Total	-	-	-	-	-

Key assumptions used to develop the 5-year projection

REVENUE

Tuition and fees. We base the assumed growth in gross tuition revenue on projected increases in enrollment for our undergraduate and graduate students. We also assume that we will start increasing tuition rates annually by 3% in FY 2012, which is the 2011–2012 academic year.

Scholarship aid. We assume the scholarships and fellowships funded by endowment payout and donations will grow at 9% (subject to the 3-year moving average formula) and 5%, respectively. For the institutionally funded portion, we plan to increase it by $1 million every year until FY 2012. After that, we assume the institutionally funded portion will increase in line with increases in the tuition and fees revenue, described above.

Federal appropriation. We assume it will remain level at $118 million through the end of FY 2013, and then start increasing again at 2% annually.

Government grants and contracts. We assume the VL2 grant will continue through the end of FY 2015.

Contributions. We assume we will meet the goal of $3 million in unrestricted contributions, including releases from restrictions, in FY 2010, then see an increase of 5% annually thereafter.

Other sources. We assume this will grow 3% annually.

Auxiliary enterprises. This consists of revenue from various activities. With the exception of our video relay interpreting service, we assume the remaining largest non-student-related auxiliary enterprises—i.e., Kellogg Conference Hotel, Food Service, Bookstore, and Gallaudet University Press—will see an average of 2–3% growth. We assume revenue from the video relay interpreting service will grow at between 15% and 35% between now and FY 2013, stabilizing to a growth pattern of 3% thereafter. We plan to increase the capacity of providing services through this area in FY 2010 and FY 2011. As for our student-related auxiliary enterprise revenue, we assume room charges cannot grow in the same proportion as enrollment increases until we increase student housing capacity and room rates. In FY 2010, we are adding 11 beds in Denison House, and hope to add another 100 in FY 2012. We assume annual room charge rate increases of 3% starting in FY 2013.

EXPENSES

Payroll. This is the single largest category of expenses. We assume that we will reach the 910-employee count target by October 1, 2010. Thereafter, we will continue to monitor—and possibly reduce—the count as needed to balance the budget. We further assume that we will not award general pay increases or authorize merit increases if the on-board employee count remains above 910.

Utilities. Because we ended FY 2009 with almost no operating margin, it is also important that we monitor and control this cost separately. For Gallaudet University, this expense category has little, if any, direct relationship with overall institutional revenues. Therefore, in a setting where revenues are expected to grow only modestly over the next several years, rapid increases in this category of expenses has a significant impact on the institution's operating margin or deficit. We also assume utilities will increase at 7.5% every year in FY 2011 and later. If the utilities bills are less than forecasted, we will invest the savings in various energy reduction initiatives to help us consume even less energy in the future.

Depreciation expense. We assume we will match the projected depreciation expense with an equal sum of funds set aside for capital improvements and deferred maintenance. This is necessary to avoid an operating deficit.

Service contracts. This is the largest category of non-payroll expense. Over half of this expense occurs in the institution's auxiliary enterprises, with a large portion of the remaining half in the general operations of our major divisions. Because of the amount of money spent annually in this category, we must make sure that any increases or decreases in this category are tied to the increases or decreases in revenues.

General office expenses. This is the next largest category of expenses, after service contracts, utilities and depreciation expenses. Most of this category occurs in the major operating divisions of the institution. Incidentally, this is where most of the interpreting service chargebacks occur for the operating divisions, among other types of general operating expenses.

Reporting on this large category of expenses separately, regardless of where the actual spending occurs in the institution, helps to control overall costs more effectively.

All other categories, combined. This is an aggregate total consisting of consultants, travel, printing, professional development, furniture and equipment, stipends to students, and the like.

Figure 9. Changes in appropriations and CPI-U vs. average changes, FY 2005–FY 2009

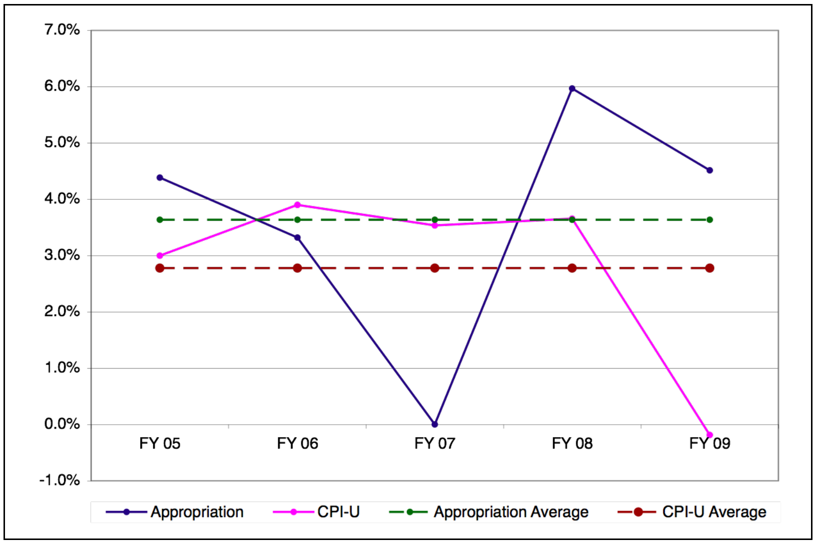


Table 11. Gallaudet University model for projecting growth in operating budget and expendable reserves (dollars in thousands), FY 2009–FY 2015

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Expenses	$168,633	$170,800	$172,900	$175,832	$179,740	$184,856	$190,135
Expendable reserves	$35,678	$38,175	$40,847	$43,706	$46,765	$50,039	$53,542
Percentage of expenses	21%	22%	24%	25%	26%	27%	28%
Investment	$7,864	$7,000	$7,002	$7,027	$7,437	$8,106	$8,834
Annual contributions	$1,762	$3,000	$3,150	$3,308	$3,473	$3,647	$3,829

Note. Long-term assumption for expendable reserves growth: 9% investment growth per policy minus 2% growth in capital improvement spending.

Figure 10. Projected growth in operating budget and expendable reserves (dollars in thousands), FY 2009–FY 2015