

# **Gallaudet University Budget Committee**

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## **Fiscal Year 2012 Budget Recommendations**

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**As of May 4, 2011**

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OFFICE OF THE PRESIDENT  
(202) 651-5005  
(202) 651-5508 (FAX)

KENDALL GREEN  
800 FLORIDA AVENUE, NE  
WASHINGTON, DC 20002-3695

May 4, 2011

MEMORANDUM

TO: Gallaudet University Board of Trustees

FROM: T. Alan Hurwitz, President

SUBJECT: Gallaudet University Budget Committee Fiscal Year 2012 Budget Recommendations

Attached is the Gallaudet University Budget Committee's (UBC) Fiscal Year (FY) 2012 Budget Recommendations. These recommendations reflect the results of a University-wide budget process led by the UBC. The UBC recommends an FY 2012 operating budget of \$173.4 million, including a capital budget of \$10.3 million exclusive of borrowed funds and federal funds that may be appropriated for construction of a dormitory at the Laurent Clerc Center. This reflects an increase of only \$500K or 0.3 percent over the FY 2011 operating budget. Included in the UBC budget proposal is a recommendation to award an increase to all employees' base pay in some combination of general pay or merit increases contingent upon no significant reduction to the University's federal appropriation. Additionally, the UBC recommends priorities for requesting additional federal funds for FY 2013. A consolidated list of UBC recommendations is found on page 25.

I have reviewed the UBC recommendations and make the following additional recommendations—

- Increase the University contingency budget to \$1.5 million, an increase of \$500K;
- Allow me discretion to award either a lump sum increase to employees in the range of 0 to 3 percent, or an increase to their base pay in some combination of general pay and/or merit increases in the range of 0 to 3 percent;
- Establish an 'Innovation Fund' of \$500K under the President's Office that would support developing and refining innovative ideas to transform the University and Clerc Center to not only meet, but also, exceed the challenges of a rapidly changing 21st Century;
- Before expanding the UBC charge, I will ask UBC to conduct an analysis of the impact of such expansion; and
- The Board of Trustees approve a 7 percent tuition increase, an amount that falls within the range of 5 percent to 8 percent recommended by the UBC.

Finally, I would like to thank the committee for their hard work over the past several months of collecting and reviewing proposals and input from the major campus stakeholders to produce a document that, with the adjustments described above, has earned my full support. Now we turn our attention to producing these revenues to support these expenditures and to achieve the desired results.

Attachment: As stated

cc: President's Cabinet  
Gallaudet University Budget Committee

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# Gallaudet University FY 2012 Budget

*Prepared by*

**Gallaudet University Budget Committee,**

Debra Lipkey, Chair

**Diane Clark**, University Faculty

**Stephen Chaikind**, University Faculty

**Liletha Davidson**, Gallaudet Staff Council

**David Farias**, Finance Office

**William Hughes**, Assistant Treasurer

**Patricia Hulsebosch**, Office of Academic Quality and Planning

**Michael Moore**, Academic Affairs

**Doris Parent**, Development and Alumni Relations

**Dmitry Rossoshansky**, Student Body Government

**William Sloboda**, University Faculty

**Nicole Sutcliffe**, Clerc Center

**Fred Weiner**, Program Development and Government Relations

**Sheri Youens-Un**, Gallaudet Staff Council

**Catherine Andersen**, Chief Enrollment and Marketing Officer (Ex Officio)

**Edward Bosso**, Vice President, Laurent Clerc Center (Ex Officio)

**Paul Kelly**, Vice President, Administration and Finance (Ex Officio)

**Cynthia King**, Interim Chief Information Officer (Ex Officio)

**Lynne Murray**, Vice President, Development and Alumni Relations (Ex Officio)

**Stephen Weiner**, Provost, Academic Affairs (Ex Officio)

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## EXECUTIVE SUMMARY

This document presents Gallaudet University's proposed fiscal year (FY) 2012 operating budget, capital budget, and priorities for requesting additional federal funds for FY 2013. The UBC formulated these recommendations during a period when the University is working to transition to a more integrated planning and budgeting process. The initial steps towards an improved process included prioritizing all university-level programs. Consequently, reallocation of resources within and among Divisions' operating budgets relies heavily on the outcome of the evaluation of program prioritization recommendations that is currently underway.

### Operating Budget Highlights

Due to the realities of the economic times and the uncertainties of our federal appropriation over the past three years, the University completed or initiated a number of actions to assure that we have control over financial resources. As a result, the University realized improvement in both operating revenues and expenses in FY 2010. Specifically, Gallaudet's FY 2010 operating revenues increased by \$3.1 million, primarily from student-related revenues. At the same time, operating expenses decreased by \$0.8 million or 0.5 percent yielding an FY 2010 operating surplus of \$3.9 million.<sup>1</sup>

Further improvement is evident in FY 2011. Although, Congress passed a FY 2011 budget that reduces Gallaudet's federal appropriations by 0.2 percent, the Finance Office expects other non-federal revenue to show slight improvements, primarily from auxiliary enterprises. More notable, the institution's year-to-date total operating expenses are down by 4.7 percent compared to the same period as FY 2010 (i.e., February to February).

### Improving Planning, Budgeting, and Performance Management

To continue the positive momentum of building stronger financial management and links between planning, budget, and performance management, the UBC emphasizes that they, along with the Gallaudet Strategic Plan (GSP), the Administrative Programs and Service Review Committee (APSRC) call for improving the University's planning and budget processes. The APSRC recommended reviewing the strategic plan in its entirety and assessing progress made to date; providing for coordination of future strategic planning efforts to ensure prudent use of resources in the most effective manner possible; establishing strong, central leadership to allow for programs and services to develop a consistent tracking methodology and data collection process; and establishing a set of GSP metric and standardized templates for data collection that will require programs and services to provide their data annually to assess their progress.

#### **Recommendation 1**

*Because of its knowledge base in, and shared governance approach to, formulating the University budget, and the representative composition of its membership, the UBC believes it is the appropriate body to coordinate both planning and budgeting activities. Therefore, the UBC recommends expanding its charge as described in Appendix A.*

### Revenue and Expense Budget - \$173.4 million

Overall, the University expects operating revenues to remain relatively stable assuming the federal appropriation remains flat with a slight increase in non-federal sources, primarily from auxiliary enterprises. Non-federal

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<sup>1</sup> This amount excludes expended funds appropriated for the Clerc Center soil stabilization and dormitory projects.

revenue components represent 32 percent of total operating revenues. Growth in these areas is expected to generate an increase of \$500K or a 0.3 percent increase.

Due to the administration's continuing evaluation of the programmatic and financial implications of APSRC recommendations, a recommendation by UBC to reallocate resources among Divisions would lack a sound basis at this time, and would preempt implementation of APSRC recommendations. Therefore, the UBC supports future reallocation of resources within, and among Divisions, based on PPTF and APSRC recommendations. UBC recognizes that reallocation decisions should be evaluated thoroughly for programmatic and financial implications and, therefore, should not be rushed.

The UBC noted that the absence of a general pay and merit increases for employees in FY 2010 and FY 2011 have negatively affected employee morale at a time when the University is making great strides in implementing the GSP and the Clerc Center Strategic Plan (CCSP). Gallaudet's decision to freeze employees' pay in FY 2010 was progressive. Gallaudet made that decision two years prior to President Obama's announcement to freeze federal employees' salaries. Despite no general pay increases, a period of transitioning to a new administration, and program prioritization activities, employees remain dedicated to advancing the University's strategic goals.

#### **Recommendation 2**

*Therefore, UBC recommends establishing the total proposed operating budget for FY 2012 at \$173.4 million that is \$500K or 0.3 percent higher than last year. The operating expense budget includes \$1 million set aside for a planned operating surplus or contingency fund, a \$600k increase in depreciation expense, and UBC's recommendation to award employees with a pay increase to their base pay by reallocating savings realized from position reductions, improved controls, and potential savings from APSRC recommendations. UBC recommends that the President award a pay increase in the form of some combination of general pay and/or merit increases in the range of 0 to 3 percent.*

#### **Fall 2012 Tuition Recommendation**

Gallaudet has long recognized that its federal funding represents both an opportunity and a risk. In 2009, the Board approved the GSP that includes Goal C, to secure a sustainable resource base through expanded and diversified funding partnerships and increased efficiency of operations. Gallaudet has made significant progress and must continue these efforts to mitigate the risk. From FY 1983 to FY 2010, Gallaudet's appropriation, as a percentage of its total operating income, declined from 83 percent to 69 percent in FY 2010, excluding federal appropriations for construction. Increasing revenue generated from tuition and fees represents one of the institution's strategies for reducing its dependency on federal funding.

#### **Recommendation 3**

*To continue reducing our dependency on the federal appropriation, and to hedge against erosion of the University's income due to inflation and no increase in federal funding, the UBC recommends increasing tuition and fees in the range of 5 percent to 8 percent.*

#### **Capital Budget**

Investment in the infrastructure of Gallaudet University is a vital component supporting the GSP and its goals. Traditionally, the capital budget is guided by the University's Facilities Master Plan. Gallaudet is currently preparing an updated Facilities Master Plan for 2012 to 2022 that establishes the framework for capital projects. That plan will be submitted to the Board of Trustees in May 2012 and to the DC government in September 2012.

Consequently, the University will rely on the GSP, the CCSP, and the President's Cabinet for guidance on FY 2012 projects.

The following principles currently guide the University's approach toward funding capital improvements: 1) The base capital budget should be at least equal to the annual depreciation to prevent operating deficits, and provide for annual reinvestment and replacement of the physical plant, and 2) Gallaudet will leverage fundraising opportunities by matching gifts with institutional funds. Gallaudet administrators estimate that depreciation expense will increase from \$9.7 million in FY 2011 to approximately \$10.3 million in FY2012.

Therefore, the minimum FY 2012 base capital budget will be \$10.3 million comprised of \$2.5 million for deferred maintenance and \$7.8 for construction/major renovation. In addition to the \$7.8 million budgeted for construction/major renovation, in mid to late FY 2011 Gallaudet will begin construction on two major projects with a total combined cost of more than \$30 million. The two projects include a 60,000 square foot, 175-bed facility scheduled for completion in July 2012; and the second project is an energy conservation project involving extensive upgrades to Gallaudet's existing facilities to gain energy efficiencies. Gallaudet is in the process of issuing tax-exempt bonds to finance these two projects. The debt service related to the bonds is expected to begin in FY 2013 at approximately \$1.6 million in Gallaudet outlays and increase to \$2.5 million per year thereafter.

Additionally, the University is hopeful that the FY 2012 federal appropriation will include funding to continue construction of the Clerc Center dormitory. Since FY 2008 through FY 2010, \$19.99 million has been appropriated for the Clerc Center soil stabilization and dormitory project. An additional \$15 million is needed to complete the project. As described below, Gallaudet intends to ask the U.S. Department of Education and Congress to appropriate funds for constructing this dormitory.

#### **Recommendation 4**

*Using estimated FY 2012 depreciation, UBC recommends \$10.3 million as the minimum FY 2012 capital improvement budget, including allocations of \$2.5 million for deferred maintenance and \$7.8 million for construction/major renovation. These allocations include \$500K for dormitory furniture, \$500K for athletics capital improvements, and \$500K for a construction contingency fund. The remaining \$6.3 million will remain available for major capital improvement and/or renovation projects. The UBC recommends developing a more specific plan for the use of the remaining \$6.3 million. Specifically, it recommends that the University conduct a formal effort to strategically consider capital improvement and/or renovation projects; and that the effort should be completed by September 2011.*

#### **Priorities for FY 2013 Federal Funding**

#### **Recommendation 5**

*The UBC recommends requesting additional federal funds for two purposes: a) Completing construction of the Model Secondary School for the Deaf (MSSD) dormitory (\$15 million), and b) supporting increasing costs of communication access due to a changing student body that has more diverse communication access needs (\$3 million).*

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## INTRODUCTION

This document presents Gallaudet University's proposed fiscal year (FY) 2012 operating budget, capital budget, and priorities for requesting additional federal funds for FY 2013. The FY 2012 budgets and the FY 2013 priorities for federal funds were formulated during a period when the University is working to transition to a more integrated planning and budgeting process. The initial steps towards an improved process included prioritizing all university-level programs. The administration established 2 working groups that prioritized programs during FYs 2010 and 2011. The Program Prioritization Task Force (PPTF) reviewed all academic programs, and the Administrative Programs and Services Review Committee (APSRC) reviewed non-academic programs. Implementation of some PPTF and APSRC recommendations are underway. However, the administration continues to evaluate the programmatic and financial impacts of APSRC recommendations. Consequently, reallocation of resources within and among Divisions' operating budgets relies heavily on the outcome of the evaluation of APSRC recommendations. Therefore, the University Budget Committee (UBC) recommendations for Divisions' operating budgets reflect no change.

## OPERATING BUDGET HIGHLIGHTS

Due to the realities of the economic times and the uncertainties of our federal appropriation over the past three years, the University completed or initiated a number of actions to assure that we have reasonable control over financial resources. They include:

1. Laying off 39 individuals from across the University;
2. Freezing 40 positions;
3. Implementing strict controls on the number of employees by requiring Presidential approval for opening new positions;
4. Giving no salary increases to employees in FYs 2010 and 2011;
5. Implementing two task forces to prioritize all programs, academic;
6. Establishing a benefits task force to compare Gallaudet's benefits with local and national universities, to review best practices and trends, and to propose cost-cutting options to cover an anticipated deficit in the benefits budget;
7. Implementing a new telecommunication device policy;
8. Completing a major utility efficiency study and beginning the process of obtaining funds to implement the recommendations of that study;
9. Asking employees to volunteer to reduce their appointments from 12-months to 10- or 11-month appointments;
10. Implementing a centralized, bulk-purchase plan for the purchase of computer equipment;
11. Improving the rigor over controls for international travel, including a requirement for Presidential approval;
12. Obtaining the Board of Trustees approval to increase room fees to help fund the building of a new student housing facility; and
13. Obtaining the Board of Trustees approval to increase tuition and fees by 7 percent beginning with fall 2012.

Consequently, the University realized improvement in both operating revenues and expenses in FY 2010. FY 2010 operating revenues increased by \$3.1 million primarily from student-related revenues.<sup>2</sup> At the same time, operating expenses decreased by \$0.8 million, or 0.5 percent, yielding a FY 2010 operating surplus of \$3.9 million.<sup>2</sup>

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<sup>2</sup> This amount excludes expended funds appropriated for the Clerc Center soil stabilization and dormitory projects.

Further improvement is evident in FY 2011. Although, Congress passed a FY 2011 budget that reduces Gallaudet's federal appropriations by 0.2 percent (final budget details are pending at this time), other non-federal revenue is expected to show slight improvements, primarily from auxiliary enterprises. More notable, as the result of improved financial management, the institution's year-to-date total operating expenses are down by 4.7 percent compared to the same period as FY 2010 (i.e., February to February). Most of the reduction in FY 2011 is the result of continued savings in utilities and having 76 fewer employees compared to the beginning of FY 2010.

## OBJECTIVE

Within the context of transitioning to a more integrated planning and budget process described above, the objective for the FY 2012 Gallaudet budget is to formulate a balanced budget that provides for—

- Advancing the Gallaudet Strategic Plan (GSP) and the Clerc Center Strategic Plan (CCSP),
- A shift in resources from programs and areas of lower priority to those with higher priority,
- Maintaining a pricing strategy that is within the top quartile of state and land grant colleges, and comparable to our most direct competitors,
- Maintaining competitive faculty, teacher, and staff compensation,
- Producing a capital improvement budget guided by the GSP and CCSP, and
- Realizing a small operating surplus to allow for unforeseen expenses.

## THE FY 2012 BUDGET FORMULATION PROCESS

Each year Gallaudet formulates its budget using a shared-governance model. The UBC is responsible for coordinating the budget formulation process, including—

- Issuing guidance to administrators in preparing revenue forecasts, operating budget requests, the capital budget request, and the federal appropriation,
- Collecting, reviewing, and evaluating revenue forecasts, operating budget requests, and the capital budget request,
- Making recommendations on employees' salary treatment including general pay increases and/or merit increases, and
- Making recommendations on tuition and fees.

The UBC is comprised of representatives from each Division, the University Faculty, the Gallaudet Staff Council, the Student Body Government, the Graduate Student Association, the Executive Director of the Office of Academic Quality and Planning, and staff from the Finance Office. The UBC coordinates the budget formulation process during the winter and spring months. In addition to the GSP and CCSP, the PPTF and APSRC represent significant activities that helped to guide the FY 2012 budget formulation. A summary of key UBC dates and activities follows.

## Calendar of Budget related Events

October 2010 – October 2011

- October 1, 2010** Fiscal Year FY 2011 begins.
- February 2011** UBC issues FY 2012 budget call for Division expense budget requests, revenue forecasting, capital budget, and priorities for FY 2013 priorities for federal funding.
- UBC issues call to University Faculty and Gallaudet Staff Council to review and respond to division expense budget requests, the capital budget proposal, revenue forecasts, and recommendations on employee salary treatments, and FY 2013 priorities for federal funding.
- March 2011** Division expense budgets, the capital budget proposal, revenue forecasts, and recommendations on employee salary treatments and FY 2013 priorities for federal funding submitted to UBC and shared with University Faculty and Gallaudet Staff Council.
- April 2011** UBC recommends FY 2012 operating and capital budget to the President.
- UBC recommends FY 2013 priorities for federal appropriations request to the President.
- UBC recommends FY 2012 salary treatment.
- UBC recommends tuition and fees for Fall 2012 to President.
- University Budget Director prepares FY 2012 budget document for review and approval by the President's Cabinet and the Board of Trustees.
- President's Office recommends changes to Fall 2012 tuition and fees.
- May 2011** Board reviews budget document for approval.
- Board reviews President's recommendation for Fall 2012 tuition and fees for approval.
- June 2011** President's Office submits FY 2013 budget request to U.S. Department of Education.
- September 30, 2011** Fiscal Year 2011 ends.
- October 2011** Fiscal Year 2012 begins.

## STRATEGIC PLANS

Gallaudet University maintains the GSP comprised of five strategic goals and the CCSP comprised of three goals as shown below.

### Strategic Goals

<i><b>GSP Strategic Goals</b></i>	<i><b>CCSP Strategic Goals</b></i>
<p><b>A.</b> <i>Grow Gallaudet’s enrollment of full-time undergrads, full- and part-time graduate students, and continuing education students to 3,000 by 2015</i></p> <p><b>B.</b> <i>By 2015, increase Gallaudet’s six-year undergraduate graduation rate to 50%</i></p> <p><b>C.</b> <i>By 2015, secure a sustainable resource base through expanded and diversified funding partnerships and increased efficiency of operations</i></p> <p><b>D.</b> <i>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</i></p> <p><b>E.</b> <i>Establish Gallaudet as the epicenter of research, development and outreach leading to advancements in knowledge and practice for deaf &amp; hard of hearing people and all humanity</i></p>	<p><b>1.</b> <i>Students will reach their full potential linguistically and academically from birth through 21 years of age.</i></p> <p><b>2.</b> <i>The Clerc Center will provide leadership in the identification, evaluation, and dissemination of evidence-based instructional practices, strategies, and resources for deaf and hard of hearing students with disabilities through a national collaborative project with schools and programs.</i></p> <p><b>3.</b> <i>The Clerc Center will identify and disseminate resources to ensure that all deaf and hard of hearing children and their families have early and ongoing access to information that supports the development of linguistic competence.</i></p>

The GSP and CCSP establish the roadmap that guides us as we strive to carry out the institution’s mission. While the strategic goals, objectives, and strategies have established our destination, the University continues to develop and refine specific turn-by-turn directions for how to get there. Over the past eighteen months, the University has begun working to re-stack existing resources through program prioritization process. These program prioritization processes represent progress towards bringing planning and budgeting closer together. Implementation of the recommendations from this first round of prioritization has begun, and will be completed across the next several years.

The GSP, the APSRC and the UBC all recommend improving the University’s planning and budget processes. The GSP provides clear guidance designed to improve the institution’s planning and budgeting processes. Goal C, Objective 4 states, “Improve efficiency and effectiveness of all programs and services.” The four subordinate strategies include—

- C.4.1 Create mechanisms that reallocate resources to high-priority areas, including funding the strategic plan,
- C.4.2 Conduct Workforce Planning Analysis, mapping human capital against current needs, to achieve improved faculty:student and staff:student ratios,
- C.4.3 Identify optimal unit costs and develop plans to meet cost objectives, and
- C.4.4 Institute ongoing cost/benefit reviews of new and existing programs, including ‘sunset policies.’

Goal D, Objective 1 states, “Optimize undergraduate majors and graduate programs to justify costs and outcomes.” One of the subordinate goals under this objective, Strategy D.1.1 says, “Establish Program Prioritization Task Forces for undergrad & grad schools to review existing majors and degree offerings based on mission-centrality, market demand, and assessment of productivity and viability life.”

In February, the University presented the results of the PPTF and an update on the APSRC reports. Both of these activities demonstrate significant progress towards the achievement of the objectives and strategies described above. However, the work of the two groups, PPTF and APSRC, is essentially complete. In his book, *Prioritizing Academic Programs and Services*, Dickenson writes, “The President will want to maintain relative priority rankings for enrichment as well as possible reduction reasons on an ongoing, dynamic basis.” PPTF and APSRC recommendations will be completed across the next two years. UBC believes the positive momentum of these two groups needs to continue.

Additionally, beyond program prioritization, and as described in the APSRC report, strategic planning and performance management processes require strengthening. Specifically, the APSRC recommendations state—

- “. . .the President’s Cabinet should review the strategic plan in its entirety and assess progress made to date;”
- “Future strategic planning efforts need to be coordinated to ensure prudent use of resources in the most effective manner possible. Goals and strategies have been set. It will be the responsibility of divisions, programs, and services to identify which offices are responsible for executing specific strategies and to measure programs.”
- “There needs to be strong, central leadership to make it possible for programs and services to develop a consistent tracking methodology and data collection process;”
- “Establish a set of metrics driven by the Gallaudet Strategic Plan that will require programs and services to provide their data annually to assess their progress. Such metrics will also help the institution measure progress toward GSP targets.”
- “A standard reporting template and data collection methodology should be developed to ensure consistency in counting.”

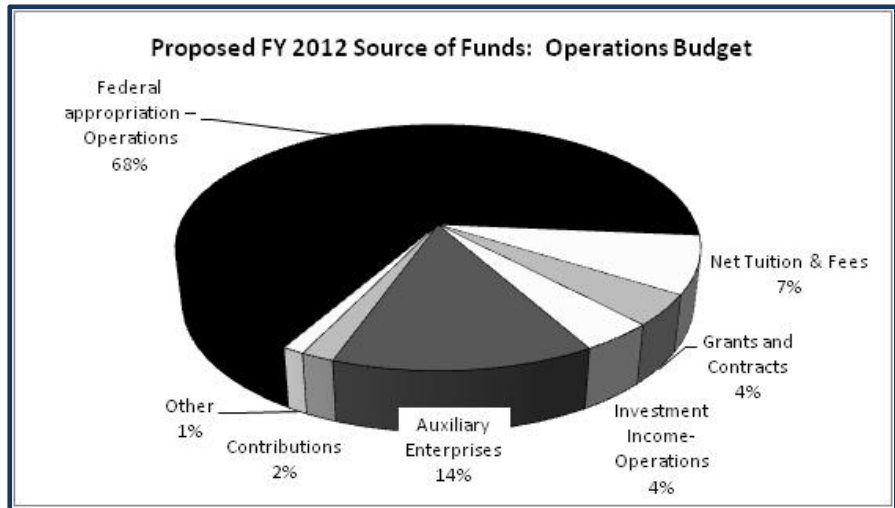
**Recommendation**

*Therefore, the UBC believes that its knowledge base in, and shared governance approach to, formulating the University budget, and the representative composition of its membership makes it an appropriate body to coordinate both planning and budgeting activities. Specifically, UBC recommends expanding its charge to serve as an advisory and coordinating body that would coordinate the periodic re-visiting of program prioritization and prioritizing new initiatives, and facilitate the review of the strategic plan and the assessment of progress made to date. See Appendix A for the proposed charge statement.*

## PROPOSED FY 2012 OPERATIONS REVENUE BUDGET

The operating revenues are comprised of the following sources of funds—federal appropriation, tuition and fees, grants and contracts, investment income for operations, auxiliary enterprises, contributions, and small amounts from miscellaneous sources.

Overall, the University expects operating revenues to remain relatively stable assuming the federal appropriation remains flat with a slight increase in non-federal sources, primarily in the auxiliary enterprises category. Non-federal revenue components represent 32 percent of total operating revenues and are expected to generate a 0.3 percent increase or \$500K. However, in light of the



current political climate, and as a prudent management practice, the UBC formulated this budget to provide contingencies should the University experience a cut to its federal appropriation. Specifically, as you will see in the Operating Expense Budget, UBC recommends employees receive a pay increase, contingent upon no reduction in the institution's FY 2012 federal appropriation, and recommends continuation of a \$1 million contingency fund.

### **Recommendation**

*The UBC recommends establishing the operating budget for FY 2012 at \$173.4 million that is \$500K or 0.3 percent above the FY 2011 budget. Per the Board's direction, the operating budget was prepared to provide for an operating surplus.*

The table below provides a breakdown of the recommended operating revenue budget by source of funds. A description of each revenue component follows.

*Operating Budget by Source of Revenue*  
(dollars in thousands)

Source of Revenue	FY 2012 Proposed Budget	% of Total	Amount of Change	% Change	FY 2011 Budget	% of Total
Federal appropriation – Operations	\$118,000	68.1%	0	0.0%	\$118,000	68.3%
Tuition and Fees	20,200		200		20,000	
Less: Scholarship Aid	(7,100)		0		(7,100)	
Net Tuition & Fees	13,100	7.6%	200	1.6%	12,900	7.5%
Grants and Contracts	7,000	4.0%	0	0.0%	7,000	4.1%
Investment Income-Operations	6,700	3.9%	(300)	(4.3%)	7,000	4.1%
Auxiliary Enterprises	23,600	13.6%	700	3.1%	22,900	13.2%
Contributions	3,000	1.7%	(200)	(6.3%)	3,200	1.9%
Other	2,000	1.2%	100	5.3%	1,900	1.1%
<b>TOTAL</b>	<b>\$173,400</b>		<b>\$500</b>	<b>0.3%</b>	<b>\$172,900</b>	

### Federal appropriation

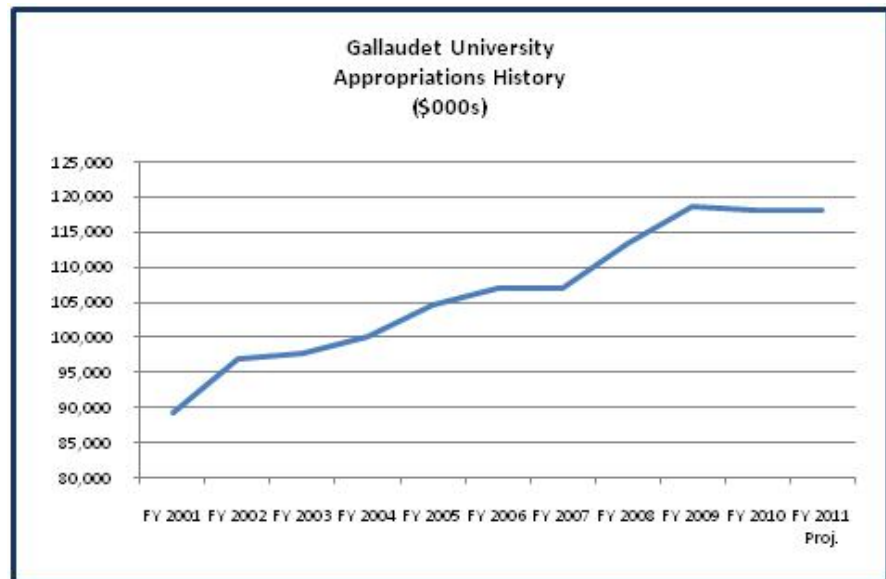
As stated in last year’s budget proposal, “It is understood, within the context of a comprehensive long-range plan for the institution as a whole, the University’s heavy reliance on annual appropriated funding from the federal government poses a potential risk.” The University administration’s sensitivity to that risk was elevated during FY 2011 in which our Nation’s attention was drawn to the growing federal deficit, and promises were made by the President and by Congress to cut domestic discretionary spending by billions of dollars. Indicative of this political climate was the threat of a government shutdown before an agreement was eventually reached. This dramatic event underscores how important it is to Congress to reduce the federal deficit and gives cause for Gallaudet to be guarded in anticipating increases in its federal funds.

Gallaudet has long recognized that its federal funding represents both an opportunity and a risk. Evident in our appropriations history is long-standing support for Gallaudet. Dating back to 1858, Gallaudet has annually received federal funding for operations, and has received federal funds for construction that date back to 1866. Across the first 130 years of a 153-year federal funding relationship, the government cut Gallaudet’s appropriation for operations 16 times. FY 1996 was the last time the government cut Gallaudet’s appropriation. The chart shows Gallaudet’s recent 10-year appropriations history.

As early as 1980, when the U.S. Department of Education advised Gallaudet that it would be wise to increase tuition rates in light of an expectation that federal funding would become tighter as the federal budget deficit increased, the University has planned to reduce its dependence on federal funding. In 2009, the Board approved the GSP that includes Goal C, to secure a sustainable resource base through expanded and diversified funding partnerships and increased efficiency of operations.

Gallaudet has made significant progress in reducing its dependency on federal funds and must continue these efforts to mitigate the risk. Since 1983, Gallaudet's appropriation as a percentage of its total operating income declined from 83 percent to 69 percent in FY 2010, excluding federal appropriations for construction.

Given the context described above, for the purposes of budget formulation, the UBC assumes that the Federal appropriation for operations will remain at the FY 2010 level of \$118 million.



## Tuition and Fees

*FY 2012 Projected Tuition and Fees Revenue and Recent History  
(dollars in thousands)*

	Projected FY 2012	Budget FY 2011	Actual FY 2010	Actual FY 2009
Gross Tuition	\$20,200	\$20,000	\$18,991	\$17,352
Student Aid	<u>(\$7,100)</u>	<u>(\$7,100)</u>	<u>(\$6,306)</u>	<u>(\$5,591)</u>
Net Tuition	\$13,100	\$12,900	\$12,685	11,761

The tuition and fees forecast for FY 2012 reflects the Board-approved 7 percent increase in tuition that takes effect for the fall 2012 semester and a slight drop in enrollment.

Increasing revenue generated from tuition and fees represents one of the institution's strategies for reducing its dependency on federal funding. Gallaudet intends to increase tuition revenue by increasing enrollment and by increasing the tuition rate. To have an impact, the change in tuition and fees revenue must be at a rate higher than the rate of change to the appropriation. For instance, assuming enrollment remains level, for every one percent increase in tuition, the University realizes about \$129K in net tuition or .07 percent increase in total operating income. In contrast, a 1 percent increase to our appropriation would realize about \$1,118K.

## Fall 2012 Tuition and Fees

UBC considered several factors when formulating a recommendation for the fall 2012 tuition rate. Last fall the University compared the cumulative percent change in the University's total operating revenue versus the cumulative percent change in the Consumer Price Index – Urban (CPI-U) and the Higher Education Price Index (HEPI). That analysis showed that Gallaudet's total operating revenues kept pace with the CPI-U, but lagged behind the HEPI by approximately 4 percent. This means that with little or no increase in Gallaudet's total operating revenue in FY 2012, the University's purchasing power will continue to decline. With the current political and economic climate, the prospects of increasing our appropriation are not high. Consequently, to hedge

against further erosion versus the CPI-U and the HEPI, and to continue progress towards reducing dependency on the federal appropriation, the UBC finds it necessary to continue to increase tuition.

Additionally, because of the improved merit-based student aid strategy designed to attract and retain the best-qualified students, the University's net tuition has grown at a slower rate than gross tuition. The current discount rate of 35 percent in FY 2011 is 6 percentage points higher than the discount rate in FY 2001. Consequently, while this strategy has proven effective in attracting and retaining better-qualified students, as demonstrated by rising ACT scores, it results in a slow growth pattern for net tuition.

In recommending a tuition increase, the UBC also considered how competitive Gallaudet's tuition is versus its competitors such as public 4-year colleges and universities, land-grant colleges and universities, private colleges, the National Technical Institute for the Deaf (NTID), and the California State University at Northridge. That comparison showed that Gallaudet is charging very similar tuition compared to NTID, is slightly higher than the average for land-grant colleges, and is less than half the cost of the average private university.

#### **Recommendation**

*To continue to move the institution towards its goal of reducing its dependency on the federal appropriation, and to hedge against erosion due to inflation, the UBC recommends tuition be increased in the range of 5 percent to 8 percent.*

#### **Enrollment**

As mentioned above, the overall university level enrollment is expected to be down slightly in FY 2012. Undergraduate enrollment is expected to fall by 2 percent, graduate enrollment is expected to be up by 5 percent, professional studies enrollments is expected to be stable, and the English Language Institute enrollment is projected to decline given the unrest in the Middle East and crisis in Japan. The University continues to refine its model for projecting enrollment. However, underlying any model is a set of assumptions, often based on historical patterns. A change in pattern occurred prior to the fall 2010. The University experienced unexpected last minute declines in both undergraduate and graduate enrollments. The University believes that families' concern about the affordability of college in the current economic climate resulted in last minute decisions not to attend. Looking forward to fall 2011, the University is concerned that the economic uncertainties could affect enrollment again, along with the unrest in the Middle East and recent events in Asia. For these reasons, the administration provided UBC with conservative projections for the purpose of forecasting tuition and fees revenue.

At this point, the University's path towards achieving the Goal of 3,000 students is not clear. The APSRC report noted that the GSP lacks clarity on how the University will achieve the strategic goal of increasing enrollment to 3,000 students. Specifically, the APSRC report said, "The GSP targets indicate that graduate and professional studies enrollments have the greatest potential for growth; however, the committee was unable to discern a clear and comprehensive strategy as to where the actual increases will occur and which units are responsible for making it happen." Therefore, UBC supports the upcoming discussion at the summer Board of Trustees retreat where they will discuss strategies and responsibilities.

### Enrollment Projections

	Projected FY 2012									FY 2011		
	Summer 2012			Spring 2012			Fall 2011			Fall 2010		
	Total	Full-time	Part-time	Total	Full-time	Part-time	Total	Full-time	Part-time	Total	Full-time	Part-time
<b>UNDERGRADUATE</b>												
Undergraduate Degree-seeking	221	20	201	922	877	45	1,055	1,005	50	1064	1012	52
Undergraduate Non Degree Seeking				20		20	25		25	36		36
<b>Total Undergraduate</b>	<b>221</b>	<b>20</b>	<b>201</b>	<b>942</b>	<b>877</b>	<b>65</b>	<b>1,080</b>	<b>1,005</b>	<b>75</b>	<b>1,100</b>	<b>1,012</b>	<b>88</b>
<b>GRADUATE</b>												
Graduate Degree-seeking	92	25	67	418	275	143	434	291	143	413	291	122
Graduate Non Degree-seeking				15		15	20		20	20		20
<b>Total Graduate</b>	<b>92</b>	<b>25</b>	<b>67</b>	<b>433</b>	<b>275</b>	<b>158</b>	<b>454</b>	<b>291</b>	<b>163</b>	<b>433</b>	<b>291</b>	<b>142</b>
<b>OTHER UNIVERSITY</b>												
Professional Studies*	201		201	185		185	201		201	201		201
English Language Institute	20		20	43		43	45		45	59		59
<b>Total Other University</b>	<b>221</b>		<b>221</b>	<b>228</b>		<b>228</b>	<b>246</b>		<b>246</b>	<b>260</b>		<b>260</b>
<b>Total University Level</b>	<b>534</b>	<b>45</b>	<b>489</b>	<b>1,603</b>	<b>1,152</b>	<b>451</b>	<b>1,780</b>	<b>1,296</b>	<b>484</b>	<b>1,793</b>	<b>1,303</b>	<b>490</b>
<b>CLERC CENTER</b>												
Kendall Demonstration Elementary School				105	105		105	105		99		
Model Secondary School for the Deaf				153	153		153	153		140		
<b>Total Clerc Center</b>				<b>258</b>	<b>258</b>		<b>258</b>	<b>258</b>		<b>239</b>		
<b>GRAND TOTAL GALLAUDET UNIVERSITY</b>	<b>534</b>	<b>45</b>	<b>489</b>	<b>1,861</b>	<b>1,410</b>	<b>451</b>	<b>2,038</b>	<b>1,554</b>	<b>484</b>	<b>2,032</b>	<b>1,542</b>	<b>490</b>

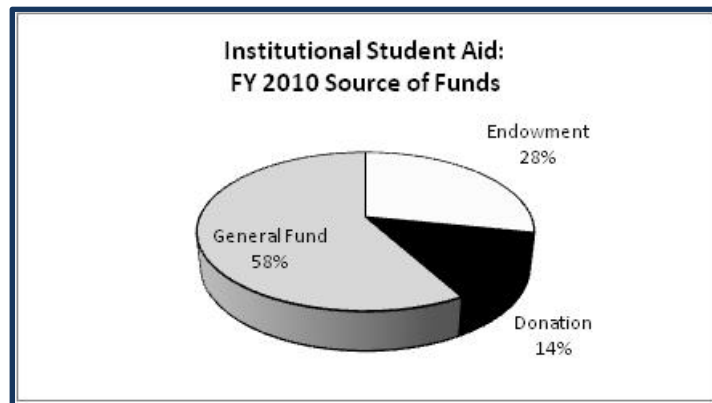
\*Not already counted as undergraduate or graduate.

### Scholarship Aid

#### FY 2012 Projected Institutional Aid and Recent History (dollars in thousands)

	Projected FY 2012	Budget FY 2011	Actual FY 2010	Actual FY 2009
Student Aid	(\$7,100)	(\$7,100)	(\$6,306)	(\$5,591)

Gallaudet's institutional aid is supported by endowment payout, donations, and general funds. The proportion from each may vary from year to year depending on the performance of the endowment and the amount of donations received. It is the goal of the University administration to increase the proportion of institutional aid supported by endowment and donations (funded) and to reduce the proportion supported from general funds (unfunded) while at the same time maintaining the discount rate. The UBC acknowledges that the increased discount rate seems to have contributed to the increased average ACT scores of entering freshmen and supports the administration's plans to evaluate the current strategies to determine if some adjustments may yield more students.



### **Recommendation**

Therefore, the UBC recommends that the FY 2012 discount rate remain the same (i.e. 35 percent) as FY 2011. This strategy assures that the burden of any increase in tuition rates does not shift to students. Given the forecasted increase in tuition revenue for FY 2012 of \$200K, the amount budgeted for institutional aid will remain equal to the FY 2011 amount, or \$7.1 million. And, in light of the University's enrollment goals and the outlook for enrollment, the UBC recommends that the administration assess and test its current institutional student aid strategies to assure that it is awarded in a manner that optimizes enrollment.

### **Auxiliary Enterprises**

*FY 2012 Projected Auxiliary Enterprises and Recent History  
(dollars in thousands)*

	Proposed Budget FY 2012	Budgeted FY 2011	Actual FY 2010	Actual FY 2009
Auxiliary Enterprises	\$23,600	\$22,900	\$21,947	\$19,668

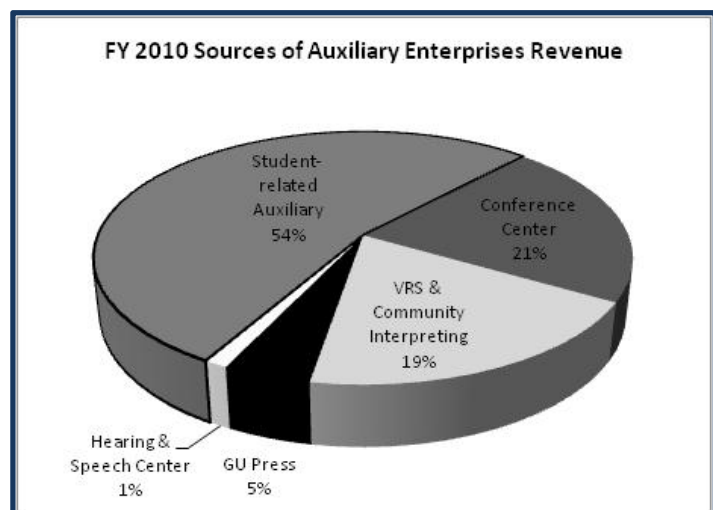
GSP guidance in this area includes—

- Goal C, objective 2 - "Grow revenue from grants, auxiliary enterprises, and private fundraising," and
- Goal C, object 2, strategy C.2.4 - "Explore options for additional revenue from interpreting, VRS, and other deafness-related enterprises."

In accordance with this strategy, the UBC forecasts a 3 percent increase in auxiliary enterprises revenue, or \$23.6 million in total auxiliary enterprise revenue. This represents a cumulative growth since FY 2009 of 20 percent. The administration attributes the growth primarily to the conference center performance. Auxiliary enterprise revenue is expected to increase slightly in the next few years assuming a moderate economic growth climate and continued strong sales related to the District of Columbia (DC) Government and Federal Government conferences.

However, targeted efforts in some smaller programs have resulted in increased auxiliary revenues, albeit, to a lesser extent. We are optimistic that one of these programs, the Hearing and Speech Center will become a 'bigger player' in future years. For instance, in 2009, the University embarked on expanding the Hearing and Speech Center to allow third-party billing. The University expects third-party billing to be fully operational in April 2011. In FY 2010, the Center collected \$263K in revenue. It is currently forecasting \$329K for FY 2011, \$514K for FY 2012, \$643K for FY 2013, and \$739K for FY 2014. The value of expanding these services provides more than financial benefits. The client base is expected to grow to include more veterans and expanded use by the DC school system.

We also expect slight increases in revenue from community interpreting services, food service, the Gallaudet Bookstore and the Gallaudet Press. Finally, the



Federal Communication Commission's (FCC) changes to reimbursement rates have hampered revenue growth from another auxiliary program targeted for growth, video relay service (VRS). Therefore, depending on the FCC's rates and upcoming contract negotiations, the University expects VRS revenue to remain relatively stable.

## Grants and Contracts

*FY 2012 Projected Grants and Contracts with and Recent History  
(dollars in thousands)*

	Projected FY 2012	Projected FY 2011	Actual FY 2010	Actual FY 2009
Grants and Contracts	\$7,000	\$7,000	\$7,184	\$7,114

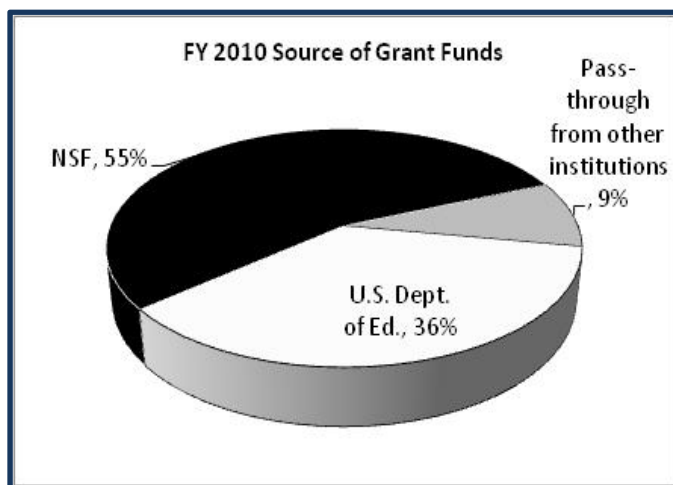
Since 2006, Gallaudet has doubled the amount of grant and contract income it receives. This increase is due mainly to the National Science Foundation Visual Language and Visual Learning (VL2) grant. Increasing grant and contract funding is another area that the University's intends to grow in its efforts to reduce dependence on federal appropriations. Two GSP Goals provide us with guidance related to grant and contract funding. They are—

- GSP Goal C, objective 2 says, "Grow revenue from grants, auxiliary enterprises, and private fundraising," and strategy C.2.1 says, "Develop incentives and infrastructure to support faculty/staff in seeking, obtaining, and administering grants."
- GSP Goal E: "Establish Gallaudet as the epicenter of research, development and outreach leading to advancements in knowledge and practice for deaf & hard of hearing people and all humanity."

Additionally, the APSRC report states, "GSP Goal E calls for Gallaudet to become the epicenter of research and development, and an important component in achieving Goal E is the Office of Sponsored Programs (OSP). OSP needs expanded programs and services to support the increasing number of federal grants by faculty and staff, provide training to faculty and staff in federal grant-writing, and increase collaboration among the various departments involved throughout the pre-grant and post-grant processes."

Clearly, a rationale exists for Gallaudet to invest in efforts to increase grant funding. The University is currently reviewing APSRC recommendations to determine how to reallocate resources to support increasing grant writing activities, to diversify sources of grants, and to provide administrative and financial infrastructures to support principal investigators.

For the purposes of formulating this budget, the University assumed that the resources dedicated to supporting grant writing would remain flat in FY 2012 as the University completes its assessment of APSRC recommendations. Additionally, the University considered the current political and economic climate, given that the vast majority of grant funds come from federal sources. The University also considered the schedules for current grants, the prospects of renewing existing grants given existing University resources supporting grant activities, and the possibility of generating new grants with current resources. Given these assumptions, the University expects grant and contract



funding to be stable, or \$7 million in FY 2012. Once the University completes its assessment of APSRC recommendations, additional support may be reallocated to OSP that may increase grant-writing activities.

#### Investment Income – operations

*FY 2012 Projected Investment Income (Operations) and Recent History*  
(dollars in thousands)

	Projected FY 2012	Projected FY 2011	Actual FY 2010	Actual FY 2009
Investment Income Used for Operations	\$6,700	\$7,000	\$7,275	\$7,852

For the purpose of formulating the FY 2012 budget, the University uses a moving average of the market value of the endowment fund over the past three fiscal years. Consequently, the annual endowment payout has a built-in delay in increasing and decreasing along with the stock market. The FY 2012 estimate assumes the following in estimating investment income available for operations in FY 2012:

- The endowment pool investment return will be 6 percent annually. This solely captures the investment performance exclusive of the annual payout or any new donor contributions.
- The University will receive no new substantial donor endowment contributions.
- The split between unrestricted endowments and temporarily restricted endowments will continue to be 90/10.
- The investment return for the Federal matching endowment pool will be 4 percent annually.
- The Federal matching endowment pool will continue to be liquidated as each ten-year tranche matures. At the start of FY 2012, only four years will remain in the pool. As each year matures, a million dollars is returned to the University with the balance becoming a contribution to the endowment pool.
- Short-term investment vehicles for the University's excess cash will not produce a material return.

*Basis for Estimating Investment Income for Operations*  
(dollars in thousands)

	FY 2013 Projected	FY 2012 Projected	FY 2011 Projected	FY 2010 Actuals
FY07 Market Value of the Endowment Pool	\$176,019	\$176,019	\$176,019	\$176,019
Fy08 Market Value of the Endowment Pool	\$146,663	\$146,663	\$146,663	\$146,663
FY09 Market Value of the Endowment Pool	\$136,829	\$136,829	\$136,829	\$136,829
FY10 Market Value of the Endowment Pool	\$142,449	\$142,449	\$142,449	
FY11 Market Value of the Endowment Pool	\$147,055	\$147,055		
FY12 Market Value of the Endowment Pool	\$151,505			
Three Year Rolling Average	\$147,003	\$142,111	\$141,980	\$153,170
Payout Estimated at 5%	\$7,350	\$7,105	\$7,099	\$7,654
Unrestricted Operating Investment Income – Payout	\$6,716	\$6,492	\$6,486	\$6,963
Unrestricted Operating Investment Income – FM	\$140	\$200	\$263	\$312
<b>Total Operating Income (Before Release)</b>	<b>\$6,856</b>	<b>\$6,692</b>	<b>\$6,749</b>	<b>\$7,275</b>
Income Increase (Decrease) Amount	\$164	(\$57)	(\$526)	
Income Increase (Decrease) Percentage	2%	(1%)	(7%)	

## Contributions

*FY 2012 Projected Contributions and Recent History*  
(dollars in thousands)

	Projected FY 2012	Projected FY 2011	Actual FY 2010	Actual FY 2009
Contributions	\$3,000	\$3,200	\$1,120	\$967

The University is at a critical point of its evolution following some extremely difficult years. The question is, how does the institution regain financial footing in order to achieve its fund raising goals? To be successful, the University must use more sophisticated, integrated strategies to secure funding across the full spectrum of donors. The APSRC report included Development in Category 1, 'Enrich/Increase Resources.' The report said, "There needs to be a concerted push for finding donations/grants for the University in light of shrinking federal dollars. Development needs more staff to focus on fundraising and to train faculty/staff in grant-writing." The University is currently reviewing APSRC recommendations to determine how to reallocate resources to support rebuilding the Development and Alumni Relations programs to maximize potential and to prepare the institution for its next Capital Campaign.

The projected amount of FY 2012 contributions will depend on a variety of factors including the strategies applied, the economy, the staffing level, and so forth. For the purposes of budget formulation, the assumption of flat staffing was assumed. Therefore, the Development Office forecasts that it would maintain the current fundraising level of \$3 million.

## Other

*FY 2012 Projected Other Income (Operations) and Recent History*  
(dollars in thousands)

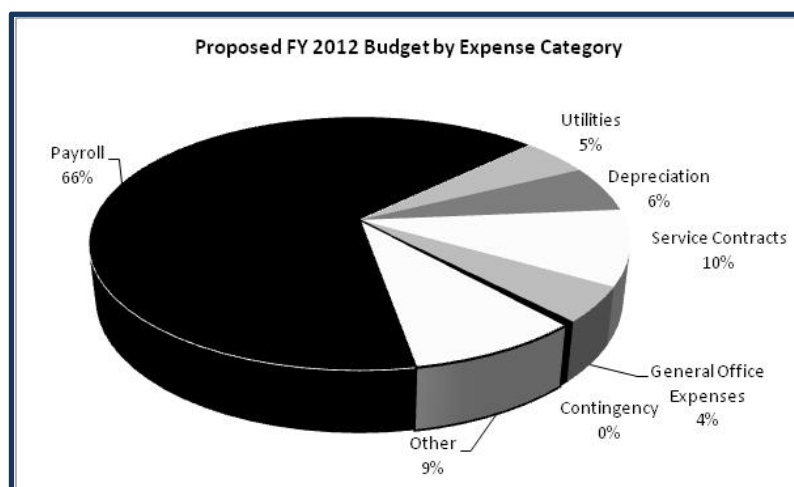
	Projected FY 2012	Projected FY 2011	Actual FY 2010	Actual FY 2009
Other Sources	\$2,000	\$1,900	\$1,739	\$1,548

Other sources are comprised of a number of small activities such as ASL evaluations, outreach activities, non-credit courses, theater ticket sales, use of athletic facilities, admission fees to athletics events, student fines, and summer activities. With the exception of student fines, the administration expects the activity levels in these areas to increase slightly to generate \$2 million.

## PROPOSED FY 2012 OPERATIONS EXPENSE BUDGET

The expense budget is presented by natural classification of expenses, and by organization. Note that the budget for regular status employees is controlled centrally. Therefore, the amounts shown by Division represent the non-centralized funds such as long- and short-term temporary faculty and staff, overtime, additional responsibility pay, travel, general office expenses, service contracts, and furniture and equipment.

As you will see, the UBC proposes increasing the operating expense budget by an amount equal to the growth in revenue of \$500K or 0.3 percent. Savings from improved financial management (as described under the **Operating Budget Highlights** section), including reducing the number of employees and improved controls, positions Gallaudet favorably for FY 2012 despite the economic climate and prospects for additional revenues.



### **Recommendation**

*The UBC recommends Gallaudet's operating expense budget for FY 2012 be established at \$173.4 million. The operating expense budget is essentially flat with the exception of a \$600K increase in depreciation. This operating budget includes UBC's recommendation to award an increase to employees' base pay in some combination of general pay and merit increase in the range of 0 to 3 percent. UBC recommends employee salary increases be funded by savings realized from improved financial controls, the savings from reducing the number of regular status employees over the past eighteen months, and savings that may be realized from implementing APSRC recommendations. The table below breaks down the proposed budget by expense category and organization. Discussion on each expense category follows the table.*

*Operating Expense Budget*  
(dollars in thousands)

BUDGET BY NATURAL EXPENSE CATEGORIES						
Natural Expense Category	FY 2012 Proposed Position Allocation***	FY 2012 Proposed Budget	% of Total	FY 2011 Position Allocation***	FY 2011 Budget	% of Total
Payroll (includes both centralized payroll and non-centralized payroll)*	910	\$113,806	65.6%	910	\$114,600	66.3%
Utilities**		\$8,400	4.8%		\$8,400	4.9%
Depreciation		\$10,300	5.9%		\$9,700	5.6%
Service Contracts		\$16,700	9.6%		\$16,300	9.4%
General Office Expenses		\$7,794	4.5%		\$7,500	4.3%
Contingency		\$1,000	0.6%		\$1,000	0.6%
Other		\$15,400	8.9%		\$15,400	8.9%
<b>TOTAL</b>	<b>910</b>	<b>\$173,400</b>		<b>910</b>	<b>\$172,900</b>	
BUDGET BY ORGANIZATION						
Organization	FY 2012 Proposed Position Allocation***	FY 2012 Proposed Budget	% of Total	FY 2011 Position Allocation***	FY 2011 Budget	% of Total
DIVISIONAL BUDGETS						
President	11	\$2,391.42	1.4%	11	\$2,391.42	1.4%
Academic Affairs	367	\$12,046.49	6.9%	367	\$12,046.49	7.0%
Enrollment and Marketing	30	\$2,285.17	1.3%	30	\$2,285.17	1.3%
Clerc Center	183	\$4,318.28	2.5%	183	\$4,318.28	2.5%
Gallaudet Technology and Library Services	81	\$5,091.29	2.9%	81	\$5,091.29	2.9%
Administration and Finance (includes auxiliary enterprises)	225	\$17,640.92	10.2%	225	\$17,640.92	10.2%
Development and Alumni Relations	13	\$551.89	0.3%	13	\$551.89	0.3%
NON-DIVISIONAL BUDGETS						
Central Payroll*		\$100,541.60	58.0%		\$100,641.60	58.2%
Utilities**		\$8,400.00	4.8%		\$8,400.00	4.9%
Depreciation		\$10,300.00	5.9%		\$9,700.00	5.6%
Grants		\$7,000.00	4.0%		\$7,000.00	4.0%
Miscellaneous		\$1,832.94	1.1%		\$1,832.94	1.1%
Contingency		\$1,000.00	0.6%		\$1,000.00	0.6%
<b>TOTAL</b>	<b>910</b>	<b>\$173,400.00</b>		<b>910</b>	<b>\$172,900.00</b>	

\*Note: the FY 2011 budgeted amount for Payroll reflects a \$600k transfer to establish the contingency fund.

\*\*Note: the FY 2011 budgeted amount for Utilities reflects a transfer of \$400K to establish the contingency fund.

\*\*\*Note: The position allocations reflect regular status positions supported by the general fund. It does not reflect grant- or income-supported positions or extended temporary positions.

## Payroll

### *Employee salaries and benefits*

A key decision point in the budget process is the Board's approval of salary levels for the upcoming year. The institution continues to be committed to its long-term goal of maintaining the purchasing power of employees' salaries. In making a recommendation, the University considers inflation, competitiveness against peers and national and local job markets, employee morale, and availability of funds.

Currently, the payroll represents approximately 66 percent of the total University operating expense. As such, any recommended salary improvements must be carefully assessed against forecasted revenue, especially the forecast

for federally appropriated funds. The current political climate of heightened attention towards reducing the Federal deficit, gives cause to be cautious in making a recommendation.

In FY 2010 and FY 2011, growing payroll expenses and limited revenue growth prevented the University from awarding salary increases. However, improved controls and prudent management have resulted in a projected reduction of payroll costs in FY 2011.

### ***Inflation***

The table below summarizes the general pay increases awarded employees between FY 2005 and FY 2010 as compared against the CPI-U. Note that in fiscal years 2005 through 2010, the University also awarded merit increases to faculty and staff. However, in FY 2010 and FY 2011, the University awarded no general pay or merit increases. The Congressional Budget Office (CBO) “. . . projects that inflation will remain very low in 2011 and 2012, reflecting the large amount of unused resources in the economy, and will average no more than 2.0 percent a year between 2013 and 2016”

(<http://www.cbo.gov/doc.cfm?index=12039>).

*Change in Gallaudet general pay increase and CPI-U, FY 2005-FY 2010*

Fiscal Year	GU Pay Increase	CPI-U*
2005	2.0%	3.4%
2006	2.0%	3.2%
2007	2.0%	2.8%
2008*	2.0%	3.8%
2009	2.0%	-0.4%
2010	0%	1.6%
2011	0%	
<i>Cumulative percentage increase (computed without compounding), 2005-2011</i>	10.0%	14.4%

*\*Source: U.S. Bureau of Labor Statistics*

### ***Peer Comparisons***

To evaluate the competitiveness of employees’ salaries, the University employs three strategies—

- **University Faculty** - Annually, the University Faculty prepares an analysis of their salaries based on data published by the American Association of University Professors (AAUP). They compare Gallaudet faculty salaries by rank against an established group of comparator colleges. Historically, general pay increases coupled with merit increases have proven effective at maintaining the competitiveness of overall faculty pay. At the time this budget proposal was prepared, the University had not completed its review of the AAUP survey results. Early indications show that faculty pay for all ranks except the assistant professor rank have kept pace with 7 of the 8 comparator institutions. However, an anomaly in the AAUP data for one of the comparator universities requires further analysis.
- **Clerc Center Teachers** - The Clerc Center performs an analysis every three years on the same schedule as the University’s staff salary analysis. They compare teachers’ salaries against those at large schools for the deaf located in large urban cities, as well as local school districts in the tri-state area (Maryland, DC, and Virginia). This sampling of schools allows for both the comparison

against schools of a similar setting, as well as teacher pay rates in the DC area. The Clerc Center also considers teacher contract requirements in other schools and the number of instructional and workdays at those schools as compared to those at the Clerc Center. Results of the survey are shared with teachers every three years and, if salaries are determined to be out of line with the comparison group, a committee of teachers and administrators is convened to review the data and make recommendations for salary adjustments.

- **Staff** - Every three years the University collects competitive base salary information on more than 80 benchmarked positions. These positions are selected based on the following criteria: common with educational institutions, difficult to retain, market sensitive, representing all levels and functions within Gallaudet, and containing multiple incumbents. The competitive market used for the review is defined as education and non-profit institutions, 1200 full-time employees with a similar operating budget, and local to the Washington, DC area. Because of the difficulty in recruiting employees with the appropriate skills required to work at Gallaudet, the midpoints of the salary structure grades are designed at the 65th percentile of the competitive market. Between the 3-year full benchmarking survey, an abbreviated analysis is completed every year to determine the salary ranges for the next fiscal year.

Given that President Obama announced freezing federal employees' pay for the next few years, the University believes that it is unlikely to receive additional federal funds for employee pay raises. Therefore, the potential sources of funds to support pay increases in FY 2012 include reallocation of resources, in particular, the savings realized from improved controls, position reductions, and savings that may be realized from implementing APSRC recommendations. However, it should be noted that with a total central payroll of \$100 million, for each 1 percent of general pay increase awarded, the University would be required to reallocate approximately \$1 million for salaries benefits.

## **Utilities**

Past experience has shown that it is difficult, if not impossible, to forecast utilities expenses. For example, from FY2003 to FY2009, utilities expense for Gallaudet more than doubled. In FY2010, utilities expense fell for the first time in recent history. As of April 2011, Gallaudet continues to benefit from more favorable rates negotiated with utilities companies during FY2010. A comparison of the first five months in FY2011 with the same period in FY2010 shows that utilities expense fell by a little more than 18 percent. However, with the current events around the globe such as the unrest in the Middle East, it is difficult to forecast whether utilities expenses will continue to fall, or even increase. Therefore, UBC recommends that the University keep the utilities budget level with FY 2011 at \$8.4 million. If costs continue to fall, the savings realized will be invested in energy-savings initiatives. Should they rise beyond the budgeted level, the University will review allocations in other expense categories and make adjustments.

## **Depreciation**

Gallaudet capitalizes buildings, building improvements, outside improvements, software over \$25,000, furniture, and equipment over \$5,000 with depreciable lives greater than one year. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Asset Class	Estimated Lives (years)
Land improvements	60
Buildings	40 to 60
Building improvements	20 to 60
Outside improvements	10 to 20
Library books	10
Furniture and equipment	5
Software	3

The depreciation expense budget recommended for FY 2012 is \$10.3 million or a \$600K increase over the FY 2011 level. It is Gallaudet's practice to adopt the budgeted amount for depreciation as the base budget for its capital budget (see Capital Budget section for additional details).

### **Service Contracts**

Increases in expenses in the service contracts category are attributed to a decision to outsource some University activities (e.g. audit services) and increased costs of service contracts that tend to increase relative to the forecasted growth in the Kellogg Conference Hotel revenue.

### **General Office Expenses**

Increases in general office expenses reflect budget transfers that occurred during FY 2011 from payroll to support the establishment of the Office of the Chief Diversity Officer, enhance funding for the Visitors' Center, and to permanently fund the First Year Study Tour.

### **Contingency**

To provide for unpredictable expenses, the FY 2011 budget was adjusted to transfer \$600k from the payroll budget and \$400k from the utilities budget to establish a contingency fund. In the event that these funds are not used, the funds will provide for an operating surplus. The UBC recommends holding the contingency budget at the same level as FY 2011, or \$1 million.

### **Division Operating Budgets**

The UBC supports resource reallocation based on PPTF and APSRC recommendations. They recognize that the University must thoroughly evaluate APSRC recommendations for programmatic and financial implications, therefore, should not be rushed. Consequently, the UBC-proposed budget does not include reallocations among Divisions. However, UBC notes that one area stands out as a candidate for receiving reallocated resources early on. Specifically, the Vice President for Development and Alumni Relations attests that by increasing the number of fundraisers, the University could significantly increase contributions. The potential for increasing revenue seems to warrant quick attention.

### ***Recommendation***

*In light of the forecasted relatively flat funding for FY 2012 and the current state of transition to evaluate APSRC recommendations, the UBC recommends no increase to the total of the Divisions' operating budgets, and no increase to the total number of regular status positions. This should not preclude the President from reallocating resources among the Divisions to advance the University's strategic goals.*

## Non-Divisional Operating Budgets

Non-divisional operating budgets include the central payroll, utilities, depreciation, grants and contracts, an allowance for bad debts, and undistributed endowment and donation funds. The University decided in FY 2009 to assign central control for the salary budgets for regular status positions to the Finance Office. This provides Division heads with assurance that the payroll is covered as long as they remain within their authorized position counts. The proposed non-divisional budget includes a net increase of \$500K comprised of a \$600K increase in depreciation offset by a \$100K decrease in the centralized payroll to cover the increased depreciation expense not covered by the growth in revenue.

## Efficiency

Per the APSRC report, the Middle States Commission on Higher Education stresses that Gallaudet needs to develop a data-driven culture that makes data-driven decisions. However, currently institutional support for data collection and analysis in non-academic programs and services is minimal. Similarly, PPTF noted that some types of program data were scarce or difficult to gather. The UBC believes that performance data on the effectiveness and efficiency of all programs is an important consideration for informing resource allocation decisions.

### **Recommendation**

*Therefore, UBC recommends that, improvements to the planning and budgeting processes give specific attention to formally monitoring, measuring, and reporting on the effectiveness and efficiency of operations.*

## PROPOSED FY 2012 CAPITAL BUDGET

Investment in the infrastructure of Gallaudet University is a vital component supporting the Gallaudet Strategic Plan ("GSP") and its goals. The following principles govern Gallaudet University's approach toward funding capital improvements.

- The base capital budget should be at least equal to annual depreciation to prevent operating deficits and provide for annual reinvestment and replacement of the physical plant; and
- Gallaudet will leverage fundraising opportunities by matching gifts with institutional funds.

Based on the most current available information, Gallaudet administrators estimate that depreciation expense will be approximately \$10.3 million in FY2012. Using this amount as the basis for the minimum capital improvement budget, the preliminary allocation of this amount is as shown in the table below. The table reflects two decisions Gallaudet administrators recently made with regard to the allocation of the capital improvement budget:

- Increase the deferred maintenance budget by \$200K per year across the next five years to achieve a budget equal to two percent of the net value of land, buildings, and other property; and
- Annually allocate \$500K, for capital improvements to Athletic programs until Gallaudet's athletics facilities are on par with the North Eastern Athletics Conference.

*FY2012 Capital Improvement Plan*  
(dollars in thousands)

Description	Amount
<b><u>Deferred maintenance projects</u></b>	
Parking garage reinforcements	\$1,000
Elevator upgrades	366
Replacement of furniture and carpets in public areas	100
Barrier-free environment	50
Other deferred maintenance projects	984
<b>Subtotal--Deferred maintenance projects</b>	<b>\$2,500</b>
<b><u>Capital improvement projects</u></b>	
Furniture for Dormitories	\$500
Athletics Capital Improvements	500
Construction Contingency Fund	500
Available for major capital improvement and/or renovation projects.	6,300
<b>Subtotal--capital improvement projects</b>	<b>\$7,800</b>
<b>Total</b>	<b>\$10,300</b>

In addition to the \$7.8 million budgeted for construction/major renovation, in mid to late FY 2011 Gallaudet will begin constructing two major projects with a total combined cost of more than \$30 million. The projects will continue through most of FY 2012. The two projects include a 60,000 square foot, 175-bed living learning facility scheduled for completion in July 2012; and the second project is an energy conservation project involving extensive upgrades to Gallaudet's existing facilities to gain energy efficiencies. Gallaudet is in the process of issuing tax-exempt bonds to finance these two projects. The debt service related to the bonds is expected to begin in FY 2013 at approximately \$1.6 million in Gallaudet outlays and will increase to \$2.5 million per year thereafter. During FY 2012, the administration will work with UBC to establish the strategy for supporting debt service.

Constructing the new living learning center is directly tied to the GSP. GSP guidance includes—

- Goal B, "By 2015, increase Gallaudet's six-year undergraduate graduation rate to 50%,"
- Goal B, objective 1, "Create environment and support systems to encourage retention and successful completion," and
- Goal B, strategy B.1.1, "Upgrade physical infrastructure (primarily dormitories) to meet 21<sup>st</sup> century student expectations for quality of campus life."

Living Learning centers continue to be a significant issue on campus both in terms of quality of life for students and for recruiting potential students, the University's top GSP goal. The UBC supports the initiatives identified above and supports the development of the Facilities Master Plan that will also address this issue.

In addition to the FY 2012 Capital Budget summarized above, the University is hopeful that the FY 2012 federal appropriation will include funding to continue construction of the Clerc Center dormitory. Since FY 2008 through FY 2010, the University received \$15 million in federal appropriations for the Clerc Center soil stabilization project. In FY 2011, the University's appropriation for this project is \$4.99 million. Of these amounts \$12.99 million remain after expending funds for soil stabilization and razing buildings in the Clerc Center area. With an estimated total cost of \$28 million for a new Clerc Center living learning center, an additional \$15 million is needed to complete

the project. As described below, Gallaudet intends to continue asking the U.S. Department of Education and Congress to appropriate funds needed for this dormitory.

**Recommendation**

*Using the amount equal to the estimated FY 2012 depreciation expense of \$10.3 million as the minimum capital improvement budget, the UBC recommends allocating \$2.5 million for deferred maintenance and \$7.8 million for construction/major renovation. This includes allocating \$500K for dormitory furniture, \$500K for athletics capital improvements, and \$500K for a construction contingency fund. The remaining \$6.3 million will remain available for major capital improvement and/or renovation projects. The UBC recommends developing a more specific plan for the use of the remaining \$6.3 million. Specifically, the Committee recommends that the University conduct a formal effort to strategically consider capital improvement and/or renovation projects and make specific project recommendations by September 2011.*

<b>PROPOSED PRIORITIES FOR FY 2013 REQUEST FOR FEDERAL FUNDS</b>
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Recognizing the Nations political climate that is focused on reducing the federal deficit, the UBC carefully considered whether recommending a request for additional federal funds at this time is warranted. The Committee focused its discussion on two candidates it considers critical to fulfilling the CCSP and the GSP. First, the dormitory situation at the Clerc Center represents not only an undesirable situation for the high school boys residing in a university dormitory, but also a loss of beds available for university students. This works against the GSP strategy B.1.1 that says, "Upgrade physical infrastructure (primarily dormitories) to meet 21st century student expectations for quality of campus life." Second, our student body has experienced significant changes as exemplified by the number of deaf and hard-of-hearing students who are now attending as first-time signers. This type of change requires ever-expanding access services to provide appropriate support for all Gallaudet students.

This past year, construction to restore the failing infrastructure (i.e., soil stabilization) supporting several dormitories at the Clerc Center was completed. Additionally, the University, with the support of the U.S. Department of Education determined that it was in the best interest of the Clerc Center students to demolish all dormitories except one. Consequently, the Clerc Center continues to operate with just one dormitory that houses high school girls, forcing the boys to reside in a university dormitory. This reduces the number of available dormitory beds for University students by 174 and has high school students living in close proximity to university students. The construction of the MSSD-located dormitory must be completed so that our high school boys reside in a facility designed and specifically located for high school students. Therefore, the UBC recommends that the University request \$15 million in federal funds for completion of the MSSD dormitory.

The demand for communication access services has increased from over 26,000 hours in FY 2006 to approximately 35,000 hours in FY 2010. The increase is attributed to the changing student body, the real-time captioning services in the classroom, and growth in internships and externships that account for approximately half of the direct student services costs. The number of on-going classes with real-time captioning services has increased from 19 in academic year 2008-2009 to 38 in academic year 2009-2010 and is expected to grow steadily in relation to the number of new student signers.

Both items described above were among the items submitted to the U.S. Department of Education for additional funding in FY 2012.

**Recommendation**

Therefore, to continue making progress towards achieving GSP and CCSP goals, the UBC recommends that the University continue to request additional federal funds for two purposes: 1) \$15 million to complete construction of the Model Secondary School for the Deaf (MSSD) dormitory, and 2) \$3 million to support increased cost created by growing demand for communication access services.

<b>FIVE-YEAR FINANCIAL PLAN</b>
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<i>Gallaudet University 5-year Financial Plan</i>					
<i>(dollars in thousands)</i>					
<b>Income FY2011 Data Call</b>	<b>FY 2012 Projected</b>	<b>FY 2013 Projected</b>	<b>FY 2014 Projected</b>	<b>FY 2015 Projected</b>	<b>FY 2016 Projected</b>
Tuition & fees	\$20,200	\$21,000	\$22,200	\$22,400	\$23,700
Less: scholarship aid	-7,100	-7,400	-7,900	-7,900	-8,400
<b>Net tuition</b>	<b>\$13,100</b>	<b>\$13,600</b>	<b>\$14,300</b>	<b>\$14,500</b>	<b>\$15,300</b>
Federal appropriation	\$118,000	\$118,000	\$118,000	\$120,400	\$122,800
Gov. grants & contracts	7,000	5,300	5,800	6,300	6,800
Contributions, incl. releases	3,000	3,000	3,000	3,200	3,300
Operating investment income	6,700	6,900	7,300	7,700	8,200
Auxiliary enterprises	23,600	25,300	26,400	27,600	28,900
Other sources	2,000	2,100	2,100	2,100	2,100
<b>Grand Total</b>	<b>\$173,400</b>	<b>\$174,200</b>	<b>\$176,900</b>	<b>\$181,800</b>	<b>\$187,400</b>
<i>Federal appropriation as a percent of Income</i>	<i>68%</i>	<i>68%</i>	<i>67%</i>	<i>66%</i>	<i>66%</i>
<b>Expenses</b>					
Payroll	\$113,800	\$114,000	\$115,100	\$117,400	\$119,800
Utilities	8,400	8,400	8,400	8,400	8,600
Depreciation	10,300	11,000	11,700	12,400	13,300
Service contracts	16,700	16,600	17,100	18,100	19,500
General office expenses	7,800	7,800	7,900	8,100	8,300
Others	15,400	15,400	15,500	16,100	16,400
Contingency	1,000	1,000	1,200	1,300	1,500
<b>Grand Total</b>	<b>\$173,400</b>	<b>\$174,200</b>	<b>\$176,900</b>	<b>\$181,800</b>	<b>\$187,400</b>

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## CONSOLIDATED LIST OF UBC RECOMMENDATIONS

1. **Integrated Planning and Budgeting** - The UBC believes that its knowledge base in, and shared governance approach to, formulating the University budget, and the representative composition of its membership makes it an appropriate body to coordinate both planning and budgeting activities. Specifically, UBC recommends expanding its charge to serve as an advisory and coordinating body that would coordinate the periodic re-visiting of program prioritization and prioritizing new initiatives, and facilitate the review of the strategic plan and the assessment of progress made to date. See Appendix A for the proposed charge statement.
2. **Efficiency** - UBC recommends that, improvements to the planning and budgeting processes give specific attention to formally monitoring, measuring, and reporting on the effectiveness and efficiency of operations.
3. **Operating Budget** - UBC recommends establishing the total proposed operating budget for FY 2012 at \$173.4 million or 0.3 percent above the FY 2011 operating budget. The operating expense budget includes \$1 million set aside for a planned operating surplus or contingency fund, a \$600K increase in depreciation expense, and UBC's recommendation to award employees with a pay increase to their base pay by reallocating savings realized from position reductions, improved controls, and potential savings from APSRC recommendations. UBC recommends that the President award a pay increase in the form of some combination of general pay and/or merit increases in the range of 0 to 3 percent.
4. **Divisions' Operating Budgets** - In light of the FY 2012 forecasted flat funding and the current state of transition to evaluate APSRC recommendations, the UBC recommends no increase to the Divisions' operating budgets, and no increase to the total number of regular status positions. This does not preclude the President from reallocating funds among the Divisions to advance strategic goals.
5. **Tuition** - To continue to move the institution towards its goal of reducing its dependency on the federal appropriation, and to hedge against erosion of the University's income due to inflation and no increase in federal funding for three, possibly four years, the UBC recommends increasing tuition and fees in the range of 5 percent to 8 percent.
6. **Discount Rate** - UBC recommends that the FY 2012 discount rate remain the same (i.e. 35 percent) as FY 2011. This strategy assures that the burden of any increase in tuition rates does not shift to students. Given the forecasted increase in tuition revenue for FY 2012 of \$200K, the amount budgeted for institutional aid will remain equal to the FY 2011 amount, or \$7.1 million. And, in light of the University's enrollment goals and the outlook for enrollment, the UBC recommends that the administration assess and test its current institutional student aid strategies to assure that it is awarded in a manner that optimizes enrollment.
7. **Capital Budget** - Using estimated FY 2012 depreciation, UBC recommends \$10.3 million as the minimum FY 2012 capital improvement budget, including allocations of \$2.5 million for deferred maintenance and \$7.8 million for construction/major renovation. These allocations include \$500K for dormitory furniture, \$500K for athletics capital improvements, and \$500K for a construction contingency fund. The remaining \$6.3 million will remain available for major capital improvement and/or renovation projects. The UBC recommends developing a more specific plan for the use of the remaining \$6.3 million. Specifically, it recommends that the University conduct a formal effort to strategically consider capital improvement and/or renovation projects; and that the effort should be completed by September 2011.
8. **Federal Funds** - The UBC recommends requesting additional federal funds for two purposes: a) completing construction of the Model Secondary School for the Deaf (MSSD) dormitory, and b) supporting increasing costs of communication access due to a changing student body that has more diverse communication access needs.

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**Proposed Revised UBC Charge**

The Gallaudet University (name to be determined) Committee serves an advisory role with respect to planning, resource allocation, and assessment, monitors and coordinates the University's planning, resource allocation, and assessment activities. The Committee advises the President on the implementation and evaluation of its budget, Strategic Plan and all aspects of institutional assessment.

The Committee's responsibilities include—

- Coordinating evaluation of progress toward achievement of the institution's strategic initiatives and the institution's academic achievements;
- Coordinating the University's annual budget development process including proposing the annual operating and capital budgets and making recommendations for federal appropriation, salary treatment, and tuition;
- Coordinating revisions to the Gallaudet Strategic Plan;
- Assuring that the University's budget is aligned with the Gallaudet Strategic Plan;
- Developing guidelines for preparing action plans for the implementation of prioritization and review recommendations and establish reporting mechanisms;
- Coordinating the monitoring of Gallaudet strategic goal outcome data including:
  - Setting reporting schedule,
  - Verifying data,
  - Analyzing data and action plans in order to make recommendations for continuous improvement on campus, and
  - Communicating the results of institutional effectiveness efforts to appropriate campus and external stakeholders to promote accountability and transparency;
- Reviewing results of learning assessment updates and program reviews that are conducted on a regularly scheduled basis and making recommendations on strategies and mechanisms to continually improve the quality of the institution.
- Assuring that GU meets all MSCHE and U.S. Department of Education (ED) expectations for planning, resource allocation, and assessment

**Principles**

- Capitalize on what we learned through PPTF and APSRC
- Build capacity (knowledge, skills, and dispositions) for integrated planning, resource allocation, and assessment in the GU community
- Broaden GU community participation
- Promote ownership in strategic resource allocation decisions

**Managerial and Fiscal Accountability**

Gallaudet's employs a number of strategies to assure accountability in all of its activities. The following paragraphs provide a brief overview of some of the strategies employed by the University.

A key factor in providing for accountability is the integrity and ethical values maintained and demonstrated by management and staff. Gallaudet University's administration maintains an environment that reflects a positive and supportive attitude towards internal control and conscientious management. Assuring a strong foundation for internal controls are the University's Administration and Operations Manual (A&O Manual) and the University Faculty By-laws and Guidelines. These documents, although not exclusively, help to provide assurance that the University complies with laws and regulations, maintains reliable financial reporting, and is effective and efficient. Among other things, the A&O Manual –

- assigns responsibility for budget management and control to administrative officers, and
- specifies restrictions imposed under the Education of the Deaf Act on the use of appropriated funds.

Additionally, the administration routinely monitors performance through such activities as standing meetings, standard and periodic reports, and supervision. The GSP and the CCSP provide key mechanisms for managerial and fiscal accountability. Periodic reports to the administration and to the Board on progress towards GSP and CCSP strategic goals and objectives represent a means for the administration to assure that resources are being deployed to fulfill strategic goals. Finally, the annual independent audit of the University's financial statement provide stakeholders with reasonable assurance that the University's financial statements fairly present its financial position, conform with accounting principles, and are free of material misstatement.

