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

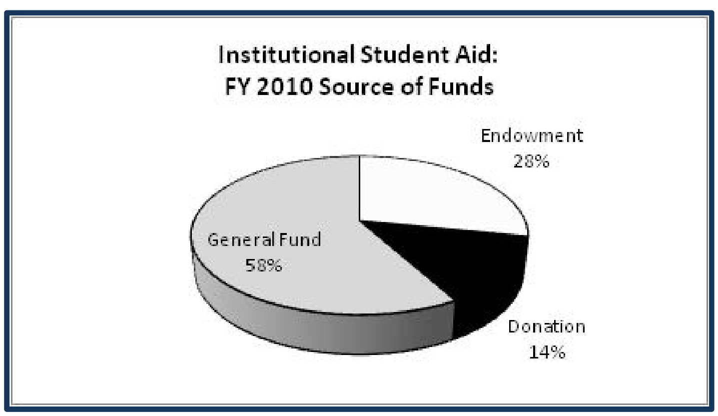
	Projected FY 2012									FY 2011		
	Summer 2012			Spring 2012			Fall 2011			Fall 2010		
	Total	Full-time	Part-time	Total	Full-time	Part-time	Total	Full-time	Part-time	Total	Full-time	Part-time
UNDERGRADUATE												
Undergraduate Degree-seeking	221	20	201	922	877	45	1,055	1,005	50	1064	1012	52
Undergraduate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

*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)

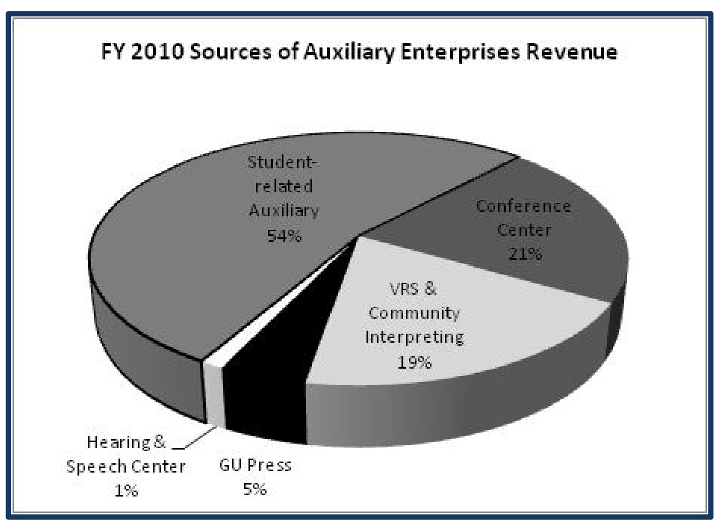
	Proposed Budget FY 2012	Budgeted FY 2011	Actual FY 2010	Actual FY 2009
Auxiliary Enterprises	$23,600	$22,900	$21,947	$19,668

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)

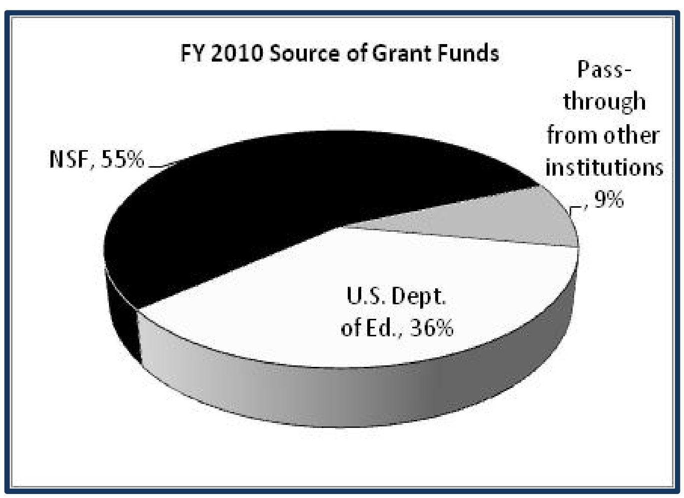
	Projected FY 2012	Projected FY 2011	Actual FY 2010	Actual FY 2009
Grants and Contracts	$7,000	$7,000	$7,184	$7,114

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
Total Operating Income (Before Release)	**$6,856**	**$6,692**	**$6,749**	**$7,275**
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.

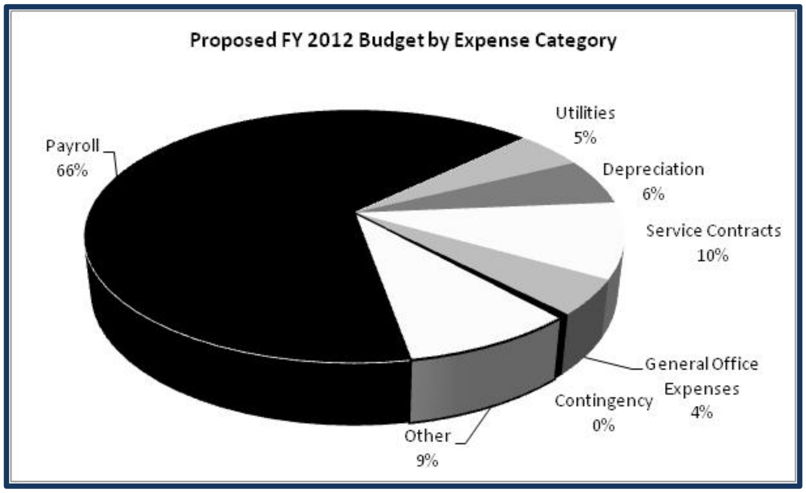
Other

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%
TOTAL	**910**	**$173,400**		**910**	**$172,900**	

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%
TOTAL	**910**	**$173,400.00**		**910**	**$172,900.00**	

***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%	
Cumulative percentage increase (computed without compounding), 2005-2011	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
Deferred maintenance projects	
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
Subtotal--Deferred maintenance projects	**$2,500**
Capital improvement projects	
Furniture for Dormitories	$500
Athletics Capital Improvements	500
Construction Contingency Fund	500
Available for major capital improvement and/or renovation projects.	6,300
Subtotal--capital improvement projects	**$7,800**
Total	**$10,300**

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 21st 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.

PROPOSED PRIORITIES FOR FY 2013 REQUEST FOR FEDERAL FUNDS

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.

FIVE-YEAR FINANCIAL PLAN

Gallaudet University 5-year Financial Plan

(dollars in thousands)

Income FY2011 Data Call	FY 2012 Projected	FY 2013 Projected	FY 2014 Projected	FY 2015 Projected	FY 2016 Projected
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
Net tuition	**$13,100**	**$13,600**	**$14,300**	**$14,500**	**$15,300**
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
Grand Total	**$173,400**	**$174,200**	**$176,900**	**$181,800**	**$187,400**
Federal appropriation as a percent of Income	*68%*	*68%*	*67%*	*66%*	*66%*
Expenses					
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
Grand Total	**$173,400**	**$174,200**	**$176,900**	**$181,800**	**$187,400**

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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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APPENDIX A

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.