

**TO:** Board of Trustees

**FROM:** Kirsten Volpi  
Senior Vice President for Finance and Administration

**DATE:** May 23, 2011

**SUBJECT:** FY 2012 Budget

## **I. BACKGROUND INFORMATION**

### **Fiscal Year 2012 Operating Budget**

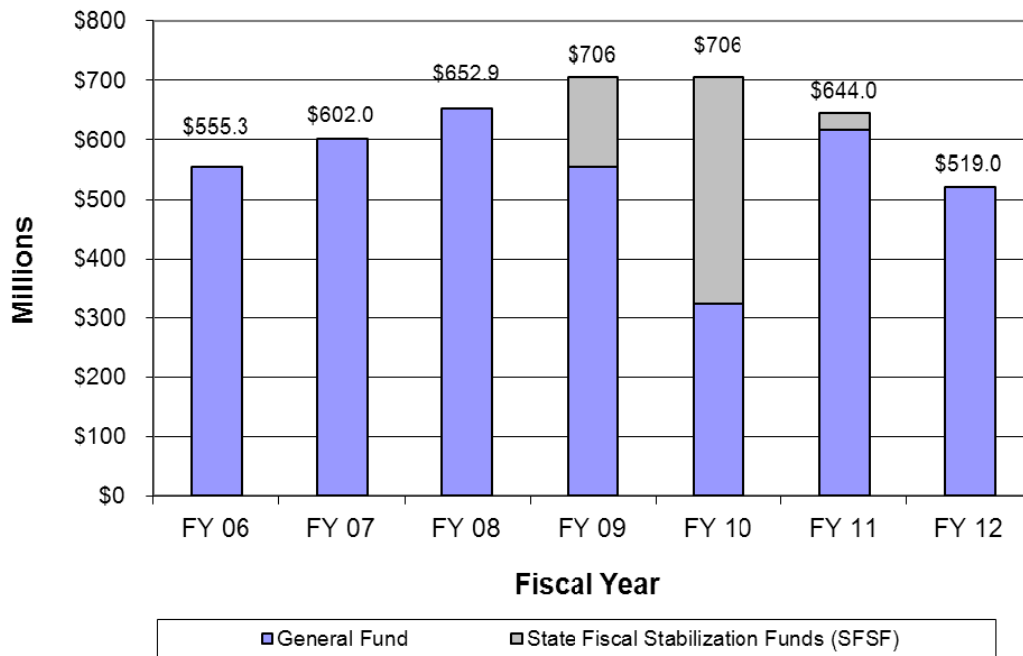
#### **Summary**

The Fiscal Year 12 budget was developed in alignment with the school's strategic objectives as well as addressing certain core critical needs. While the past several years were faced with great uncertainty of state funding, the school enters Fiscal Year 12 with a stronger financial position, a solid enrollment base, research strength, and expanded flexibility from the state. Because the school has been relatively conservative over the past few years, investments in certain areas are necessary to continue to move forward on the strategic initiatives and to maintain core operations. However, a significant part of our planning process contemplates the continued uncertainty surrounding the state's economy and its actions to balance the budget. It is likely that we have not seen the last of budget cuts to higher education. As we developed this budget and looked towards our five year financial model, we managed a delicate balance of making strategic and critical investments during a time of an uncertain financial state outlook.

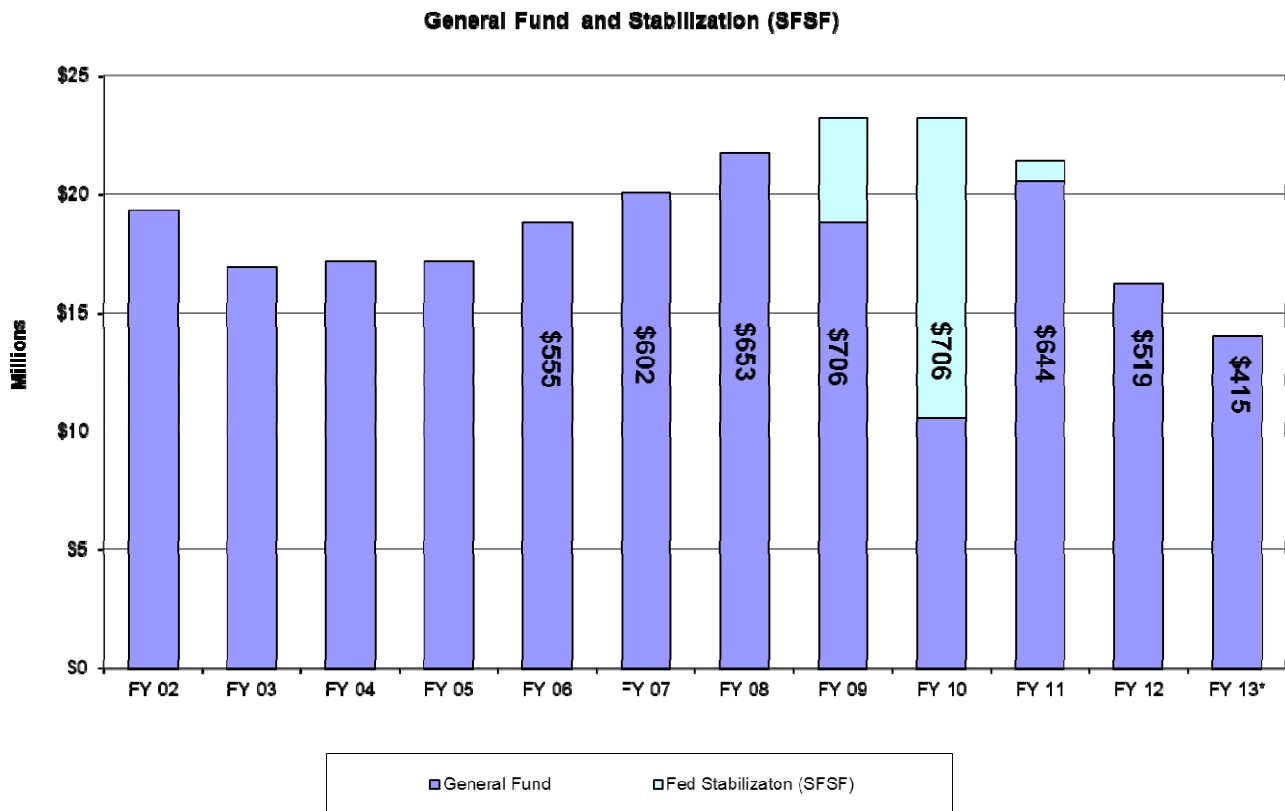
While the March 2011 state forecast projected a state revenue rebound, the recovery is likely to continue to be slow and structural deficits within the state budget remain (the fiscal year 2012 state deficit is projected to be \$600 million). With higher education being one of only a few unrestricted budgets for the state (in addition to the department of corrections and health care), higher education was and continues to be a source of funds to resolve the state's budget deficit.

Higher Education's fiscal year 2012 allocation from the state is \$519.0 million; down 19% from fiscal year 2011. Below is a chart that depicts the state's level of funding higher education over the past few years:

## Department Of Higher Education State Funding



The Colorado School of Mines' portion of the overall budget has been approximately 3%. For the fiscal year that we are just ending, fiscal year 2011, we are being funded with both state funds and federal stimulus (SFSF) at a level of \$21.4 million. With SFSF being removed next year, we anticipate to be Mines' allocation from the state in fiscal year 2012 will be \$16.2 million; a 24% decrease from fiscal year 2011. Because deficits are expected to continue in the state budget over the next few years, we are running financial models that project a 20% decrease each year in fee for service support beyond FY 2012. Below is a chart that shows state (and SFSF) funding for Mines over the past ten years and what we are predicting for FY13:



\*planned

## II. Discussion

After several years of conservative spending due to the anticipated cuts in state funding, we are now in a position to make both strategic and critical investments in the institution. When we built this budget, we aligned the resource needs with the school's strategic objectives set forth to meet the strategic plan as well as aligned the resource needs with investments in areas that are critical to the operations of the institution.

The budget includes **current unrestricted** (education and general operation and auxiliaries), funds that are **designated** for particular purposes (faculty start up and indirect cost recoveries), **restricted** funds (research and CSM Foundation funds) and the School's **endowment** funds. The school budgets most of its operations on incremental budgeting where the base is set from the prior year forecast and incremental adjustments are made up or down to reflect anticipated operations. The incremental budget adjustments for each fund are summarized below and the detail may be seen in Attachment 1.

## Proposed Fiscal Year 2012 Budget Summary

	<i>Current Unrestricted Fund</i>	<i>Designated Fund</i>	<i>Restricted Fund</i>	<i>Endowment and Loan Funds</i>
<b>Fiscal Year 2011 Base Budget:</b>	<b>\$ 9,000,000</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
<b>Revenue Increases (Decrease):</b>				
Tuition Revenue (Rate inc 9% Res; 5% NR) and Fees	8,500,000	194,000		
State Funding	(5,200,000)			
Housing Revenue	1,320,000			
Other Revenue		(20,000)	(113,000)	
<b>Projected Revenue Increase</b>	<b>\$4,620,000</b>	<b>\$174,000</b>	<b>(\$113,000)</b>	<b>\$0</b>
<b>Expense Increases:</b>				
New Academic Faculty (13 TTT; 10 Instructor)	2,340,000			
New Classified and Non-Academic Staff	600,000	125,000		
Labor Increases - Fringe Benefit Increase/ Annualization/Merit Pool	2,100,000			
New Buildings Operating and Labor	1,100,000			
Undergraduate Financial Aid	2,100,000		(113,000)	
Graduate Support	1,280,000			
Other Operating and Miscellaneous	1,190,000	388,229	109,000	(106,000)
Restore Deferred Maintenance budget	2,100,000			
<b>Total FY 2012 Budget Requests</b>	<b>\$12,810,000</b>	<b>\$512,000</b>	<b>\$4,000</b>	<b>(\$106,000)</b>
<b>Net Activity FY2012</b>	<b>\$810,000</b>	<b>(\$338,000)</b>	<b>(\$108,000)</b>	<b>\$106,000</b>

### *Current Unrestricted Funds*

After the budget adjustments summarized above, the current unrestricted budget reflects total revenue at \$132.66 million and expenses at \$131.85 million resulting in net revenue after expenses of **\$0.81 million**.

### Revenue

Current unrestricted revenues are expected to increase by \$4.62 million in fiscal year 2012. The assumptions behind the budget development follow:

- Tuition increases of 9% for resident students and 5% for non-resident students. Assumes an incoming class of freshman and transfers of 950 students (an overall flat undergraduate population) and a slight growth in graduate students; 37 new students or a 3% increase.

- Continuing Education is expected to remain flat at \$2.5 million.
- State Funding cut of \$5.2 million or 24% reduction from the prior year.
- Indirect cost recoveries are expected to remain flat, mirroring flat spending for Research.
- Auxiliary Revenue is expected to increase by \$1.3 million mostly due to increases in Housing with the opening of Maple Hall and increases in rates of 5% for traditional residence halls and 4% increases for apartment and Greek housing.
- Other revenue increase of is expected to remain flat.

### Expenses

*Current Unrestricted Funds (See Appendix A for detail)*

Net increase to the expense budget of \$12.8 million includes institute wide increases, increases for new buildings and departmental requests, and restoring \$2.1 million of the deferred maintenance budget.

### **Salaries and Benefits**

Note that for the third year in a row, the Governor has mandated a salary freeze for classified staff. The school matched that salary freeze across the board in fiscal year 2010 but for 2011, the school utilized an equity, promotion, and merit pool for academic and administrative faculty (2% including fringe benefits calculation). The fiscal year 2012 budget proposes the use of another equity, promotion, and merit pool for academic and administrative faculty.

This year includes a significant increase in faculty lines. We propose to hire 23 net new faculty (after we anticipate filling seven faculty positions from vacancies). Of the 23 positions, 13 are anticipated to be tenure or tenure track faculty and ten are anticipated to be lecturers. With these hires, our total faculty numbers will be:

	<b>FY11</b>	<b>FY12 proposed</b>	<b>FY13 planned</b>
Tenure/Tenure Track	189.8	202.8	216.8
Lecturer	51.3	61.3	61.3

We are proposing, however, to decrease slightly the adjunct budget. This budget reflects a 4% reduction to a total of \$2.4 million spent on adjuncts. Expense details may be reviewed in Appendix A and assumptions to note include:

- Benefit increases – Classified 5.3%; Exempt 2.8%.
- PERA – Continuation of 2.5% employee additional contribution.

- Equity and retention pool for faculty and exempt staff – 3% (excluding the fringe benefits calculation).

### **Financial Aid**

The fiscal year 2012 budget reflects changes in the allocation of undergraduate financial aid. The institution is now budgeting financial aid using a model developed by the school's Budget Office and *Scannell & Kurz*. This new model gives us the flexibility to adjust the financial aid budget based on any adjustments to the financial aid model. It also gives us the ability to more accurately predict the financial needs over a five year period based on our financial aid assumptions. The budget also includes the school's commitment under SB10-003 to convert all state funds received pursuant to fee for service to financial aid within the next ten years. The increase of \$2.1 million in undergraduate reflects these policy changes with \$0.67 million allocated for resident students and \$1.43 million allocated for non-resident students.

### **Other Operating**

Included in other operating expenses are nondiscretionary increases for utilities, debt, hardware/software and operations for new buildings. Also included is an increase for faculty searches (100%) to accommodate increased hiring in fiscal year 2012.

### ***Designated Funds***

Designated activity includes revenues derived for a specific purpose and cannot typically be used to fund general operations. Examples include the Academic Facility Fee designated for debt services payments, student activity fees used for student organizations, lab fees, and funds set aside for faculty research and professional development.

Designated Revenue is expected to increase a total of \$170,000 mostly due to an increase in fees based on inflation (1.6%) and graduate enrollment increase. This is offset by \$170,000 in expenses for new public safety and health services FTE as well as an increase in operating for Athletics post season expenses. See Appendix A for expense detail and increases in FTE.

### ***Restricted Funds***

Restricted Funds are restricted from outside entities and include the CSM Foundation, and federal, state and private grants. Funds received from the CSM Foundation are typically restricted pursuant to the instruction of the donor. Federal, state and private funds are generally used to carry out the research mission of the institution, but also include state and federal financial aid.

Sponsored research revenue and expense is expected to remain flat. A slight decrease of \$113,000 is expected for state financial aid funding and expense. It is anticipated that support from the CSM Foundation will remain flat.

### *Endowment Funds*

Endowment Funds are resources invested in perpetuity and represent those endowment funds that are owned by the School (as opposed to the CSM Foundation) and include both restricted and unrestricted sources. The income in this section includes investment earnings or new gifts and expenses represent spending from the School's endowment and the foundation fee for administering school endowments.

### CSM Foundation Budget

CSM receives annual funding for specific administrative operating activities outlined below. This funding is expected to remain flat for fiscal year 2012 and those base amounts are indicated below:

#### **CSM Support:**

##### **Legislative Relations**

Federal Legislative Services	\$144,000
Colorado Legislative Services	\$107,756
Travel - CSM Representatives	\$6,000
	<u><b>\$257,756</b></u>

##### **CSM Alumni Association**

**\$120,000\***

##### **General CSM Support**

Institutional Support	\$398,500
Marketing	\$100,000
Provost	\$100,000
S.V.P. Finance and Administration	\$10,000
V.P. Student Life	\$10,000
V.P. Research and Tech Transfer	\$10,000
	<u><b>\$628,500</b></u>

##### **CSM Services**

**\$10,000**

##### **Total CSM Support**

**\$1,016,256**

\*Still under review – changes possible

For informational purposes, the Colorado School of Mines Foundation Budget in its entirety is attached in Attachment 2.

### **III. RECOMMENDATION**

The Finance and Audit Committee recommends to the Board of Trustees for approval the Fiscal Year 2012 Operating Budget, including:

- The Colorado School of Mines operating budget;
- The Colorado School of Mines Foundation unrestricted support for the Colorado School of Mines.

### **IV. RESOLUTION**

*BE IT RESOLVED that the Board of Trustees of the Colorado School of Mines approves the Fiscal Year 2012 Operating Budget, including:*

- *The Colorado School of Mines operating budget;*
- *The Colorado School of Mines Foundation unrestricted support for the Colorado School of Mines.*



## Detail for incremental budget adjustments

### **Current Unrestricted Fund Expenses**

Incremental adjustments to the current unrestricted budget are proposed as follows:

Salary and Benefit increases -	\$5.6m
Financial Aid/Graduate Support increases -	\$3.4m
Operating Expense increases -	\$1.7m
Restore controlled maintenance budget -	<u>\$2.1m</u>
Total	\$12.8m

See detail below:

### Salary and Benefit increases \$5.6 million:

#### **Academic Faculty:**

Tenure/Tenure Track Faculty – 13 FTE net of 7 anticipated retirees

- Chemical Engineering – 1 FTE
- Chemistry – 1 FTE
- Engineering – 3 FTE
- Mathematical & Computer Science – 2 FTE
- Petroleum Engineering – 0.5 FTE
- Physics – 0.5 FTE
- Yet to be determined – 5 FTE

1,480,197

Instructor Positions – 10 FTE

866,080

#### **Classified and Non-Academic Staff:**

Academic Affairs Classified Positions – 4 FTE

314,306

- CCIT – 2.5 FTE
- Mechanical Technician in Engineering – 1 FTE
- Office of Graduate Studies – 0.5 FTE

Non-Academic positions

325,782

- Human Resource position for background investigations – 0.5 FTE
- Internal Audit/Compliance Officer – 1 FTE
- Student Life Custodial for Rec Center and Student Center – 2 FTE
- Director of Student Activities – 1 FTE
- Admission Counselor – 1 FTE
- Summer Counselor – 0.25 FTE
- Public Relations – 0.4 FTE (\$0 impact due to use of existing salary)
- EHS position – 1FTE (\$0 impact)

#### **Other Labor Increases (Fringe Benefits, Increases, Annualizations):**

Increase due to annualization of positions and fringe benefit increase \$ 650,177

Other Personnel Costs (student hourly, overtime, benefit increase due to exemption of 3 classified positions) offset by decrease in adjunct budget 118,563

Promotion, Equity and Merit Pool 1,344,904

#### **Labor for New Buildings:**

Positions required for the opening of Brown Hall and Maple Hall

- Maintenance – 12 FTE
- Student Life – 2 FTE

543,373

Financial Aid and Graduate Support increase of \$3.4 million

Financial Aid for Undergraduate	
Resident - \$674,361	
Non-resident - \$1,427,272	\$2,101,633
Graduate Support	
Resident - \$446,990	
Non-resident - \$836,955	\$1,283,945

Operating Expense of \$1.7 million

Utilities (including new buildings)	\$507,466
Hardware/Software and Tech Fee Match	\$380,475
Debt Service	\$350,522
Operating for new buildings	\$118,000
Operating Increase net of one-time expense to be funded with controlled maintenance budget (\$209,305) including increase for faculty searches (\$120,000) and operating budgets in Academic Affairs (\$218,850)	\$335,967

**Designated Fund**

Expenses in the designated fund are proposed to increase by \$170,000 which is comprised of:

Positions funded with resources designated for specific activities	\$124,796
• Public Safety – 1 FTE	
• Health Center benefits coordinator – 0.75 FTE	
• Health Center increase effort for Administrative Assistant – 0.25FTE	
Athletics Post Season Operating Increase	\$43,000