



Date of Meeting: May 24, 2010
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Subject - Fiscal Year 2011 Operating Budget

Summary

The School's Campus Budget Committee and Executive Committee have reviewed the proposed operating budget for fiscal year 2011 which includes revenue and expenditure increases. The Committees' recommendations were provided to the President, whose fiscal year 2011 operating budget is presented for Finance and Audit committee and Board of Trustees for approval.

The ongoing uncertainty of the State's budget situation continues to constrain the School's spending on new initiatives. It is anticipated that the School will finish fiscal year 2010 in a strong financial position due to growth in nonresident tuition revenue, graduate enrollment increase and spending restrictions that were implemented in the fall of 2008. However, the uncertainty surrounding the state's economy and its actions to balance the budget demand that the school take a longer budget view beyond the 2011 fiscal year.

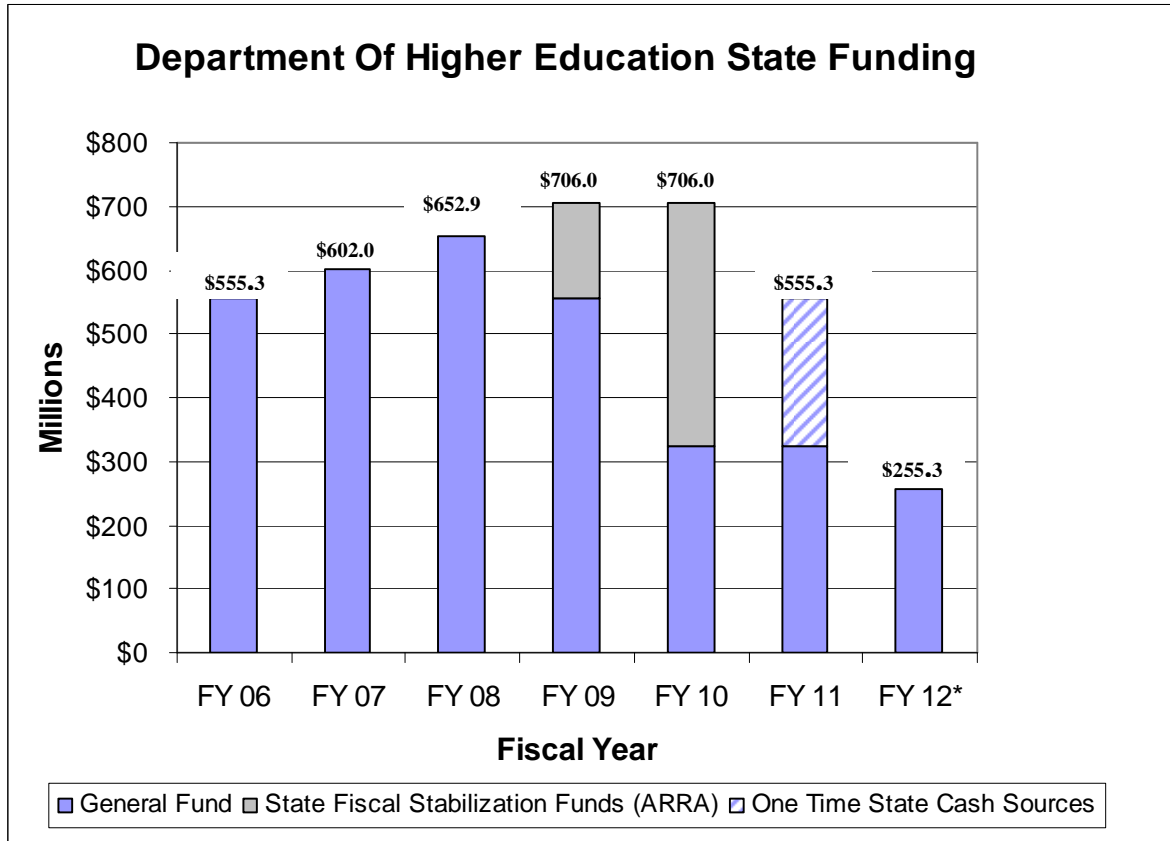
Background

With the national economy beginning to show signs of stress in early 2008, many states quickly began forecasting their own financial pressures. Colorado's economists reflected Colorado's first sign of economic stress in December, 2008. As with many states, throughout 2009 and continuing today, Colorado's economic projections reflect a loss of state revenue, primarily from loss of personal income tax and capital gains tax. With higher education in Colorado 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.

In fiscal year 2009, the state initially funded all higher education institutions in the amount of \$706 million. With the looming budget deficit, the higher education budget was reduced in fiscal year 2009 and again in 2010. The state has used, however, federal State Fiscal Stabilization Funds (SFSF) to "keep higher education whole" for those two years. The state's use of SFSF for higher education will run out in fiscal year 2011 which will leave only state general fund to support higher education. However, the state is required pursuant to the SFSF rules, to keep higher education funded at the fiscal year 2006 level through fiscal year 2011.

With a current projected state budget deficit of over \$1.5 billion in fiscal year 2012, the state is anticipating further higher education cuts in fiscal year 2012 by at least \$300 million from the fiscal year 2011 level.

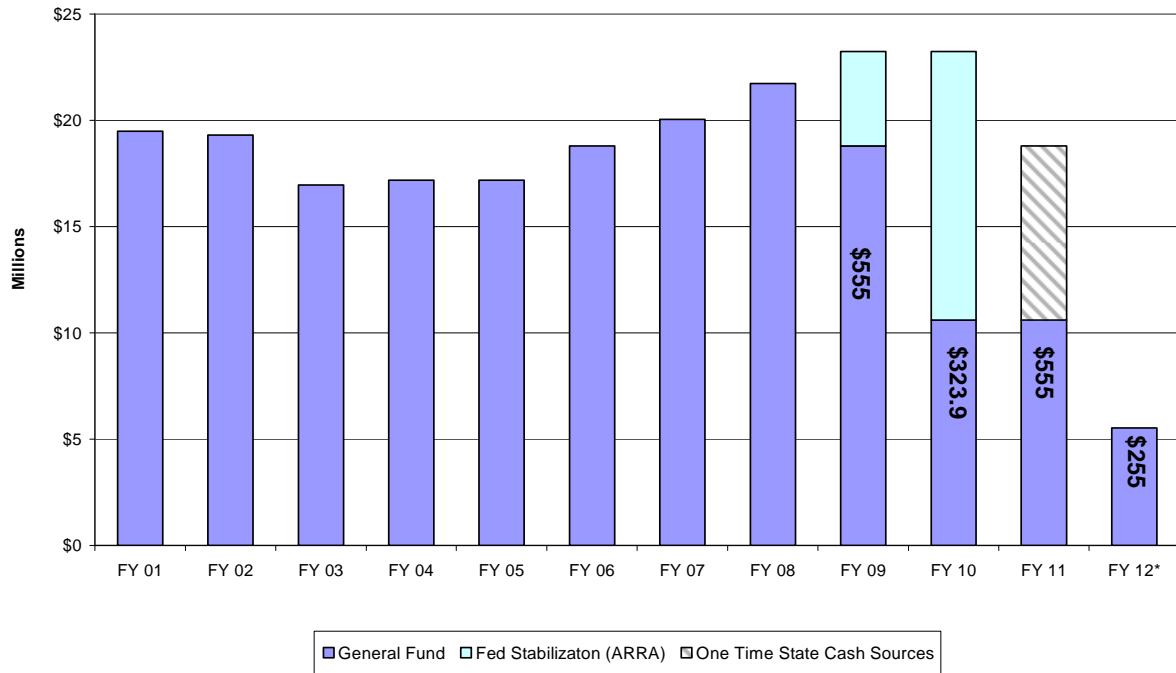
Below is a chart that depicts the state's level of funding higher education over the past few years and where it is projected to go over the next few years:



*anticipated

The Colorado School of Mines' portion of the overall budget is approximately 3%. For the fiscal year that we are just ending, fiscal year 2010, we are being funded with both state funds and SFSF at a level of \$23.3 million. With SFSF being removed next year, we anticipate to be funded by the state in fiscal year 2011 at \$18.8 million. ***If*** the state projections remain, likely best case scenario for the School would be a reduction of another \$13.2 million in fiscal year 2012 to \$5.5 million. Below is a chart that depicts state (and SFSF) funding for Mines over the past ten years and what is predicted over the next few years:

General Fund and Stabilization (ARRA)



*anticipated

Since the fall of 2008, the School has been taking precautionary steps against state revenue downturns resulting in budget cuts. The following actions have been taken to date:

Action	Approximate savings to date
Non Academic Faculty Hiring freeze/management	\$ 1,495,054
Salary freeze; July 1, 2009 and July 1, 2010	\$ 3,057,983
Travel Restrictions	\$ 284,735
Abolished positions (3 positions)	\$ 229,368
Opted out of the State Procurement Code; enhanced vendor negotiations	\$ 151,859
Facility inventory and purchasing controls	\$ 527,069
Energy Performance Audit	To be determined

Over the past two years, we have also been working to strengthen our financial position to move us towards ensuring that we have the ability to manage dramatic decreases in revenue. Fiscal years 2008 and 2009 resulted in net revenues exceeding expenses and fiscal year 2010 was the first year that we budgeted a reserve. Below is a summary of the level of operating reserve held by the School:

\$ (5,040,834)	General Fund Operating Balance at 6/30/07
1,660,000	FY08 surplus
<u>1,879,935</u>	FY09 surplus
(1,500,899)	General Fund Balance at 6/30/09
1,000,000	FY10 Reserve
<u>1,100,000</u>	FY10 Forecasted Surplus
599,101	Forecasted General Fund Balance at 6/30/10
<u>3,500,000</u>	FY11 Proposed Reserve
\$4,099,101	Forecasted General Fund Balance at 6/30/11

We do intend on ensuring a level of reserve building in each operating budget; target goal will be an annual set aside of 1% of current unrestricted revenue. Our goal is to have a reserve of over 5% of current unrestricted revenues at all times. Note that the School does retain a fair amount of unrestricted net assets (\$29.9 million at June 30, 2009), but the majority of these net assets are primarily designated for a particular purpose; strategic initiatives (Petroleum Institute), faculty start up funds, departmental research funds from indirect cost recoveries, and designated auxiliary activities (student organizations).

Discussion

Since fiscal year 2007, the School has budgeted all sources and uses of the School (all funds) – See Attachment 1 for the proposed 2011 budget. This 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.

Current Unrestricted Funds

Fiscal year 2011 Current Unrestricted Funds Budget reflects our ongoing conservative spending plan in reaction to the continued significant and likely permanent, state revenue cuts and the uncertainty that comes with the State’s upcoming budget condition. The revenue projections included in this budget support not only the State operating shortfall, but also the anticipated capital and controlled maintenance shortfall, and mandatory expenditure increases facing the School. Although this proposed budget does not include general operating increases, there are proposed increases for new academic faculty in support of the strategic plan as well as other increases that primarily alleviate pressures due to increased enrollment and research.

This Current Unrestricted Budget reflects revenue at \$125.5 million and expenses at \$121.6 million resulting in a net revenue after expenses of **\$3.9 million**. We are then proposing to reserve \$3.5 million for future use, likely in fiscal year 2012. See Attachment 2 for the Current Unrestricted Budget.

As noted above, this conservative budget proposed for fiscal year 2011 was built with a focus on the budgetary impacts anticipated in fiscal year 2012 when another significant state budget cut is anticipated. Below is an overview of revenue and expenditure changes by category.

Revenue

Current Unrestricted revenues are expected to increase by \$4.9 million in Fiscal Year 2011. The major components of this increase include:

1. Tuition Revenue – \$7.8 million due to the tuition increases and assumes an incoming class of freshman and transfers of 950 students and 58 new graduate students.

	Enrollment increase	Rate increase	Revenue increase
Resident Undergraduate	4.4%	9.0%	\$4,468,222
Non-Resident Undergraduate	5.0%	5.0%	\$2,258,833
Resident Graduate	8.0%	9.0%	\$683,304
Non-Resident Graduate	0.0%	5.0%	\$432,159
Fees	-	2%	\$140,000

2. Continuing Education (5% increase) - \$0.1 million additional revenue
3. State (and federal State Fiscal Stabilization Funds) Funding -

	Increase/(Decrease)
College Opportunity Fund	\$ 1,950,480
Fee for Service	\$ 6,248,832
Federal SFSF	\$(12,643,073)

The net effect of the increase in state funding and the decrease in federal awards is a net *decrease* in overall funding of \$4.4 million.

4. Indirect cost recoveries (5% increase) - \$0.4 million additional revenue resulting from an increase in research expenses.
5. Auxiliary Revenue – \$0.7 million additional revenue mostly due to increases in Housing rate increases of 5% and Meal Plan increases of 4%.
6. Other revenue increase of \$0.2 million

Expenses

Increase to the expense budget of \$6.86 million includes mandatory increases, non-mandatory increases, policy increases, new academic faculty, and new expense requests. Note that for the second year in a row, the School is proposing no salary increases for faculty, both academic and administrative. This is consistent with the Governor’s salary freeze for classified staff.

A summary of the expense budget is as follows:

1. Mandatory increases totaling \$2.6 million. This category includes:
 - annualization of existing positions - \$400,000,
 - fringe benefits increase - \$1.4 million,
 - utilities increase - \$800,000,
 - undergraduate financial aid - \$500,000,
 - debt service, hardware/software requirements and other obligations - \$700,000, and
 - PERA *reduction* – (\$1.2 million). Employee PERA contribution will increase in fiscal year 2011 by 2.5% and there will be a corresponding 2.5% employer contribution decrease. It is anticipated that this is a one year charge.
2. Non-mandatory increases of \$1 million. These include an increase for research cost sharing of \$275,000 and an equity and excellence fund equal to \$700,000 for both academic and administrative faculty.
3. Policy increase for \$1.36 million. The majority of the policy increases are in support of graduate students (\$800k); teaching assistants and graduate financial aid, and \$400,000 of additional undergraduate financial aid.
4. New academic faculty positions for \$1 million. This is the salary and benefit commitment of eight net positions which is the result of 14 new hires and approximately six retirements. The new hires are listed below by division:
 - Chemical Engineering
 - Assistant Professor
 - Assistant Professor-Biochemical Engineer
 - Chemistry-Assistant Professor-Electrochemist
 - Economics and Business-Assistant/Associate Professor - Operations research-energy and/or minerals economics
 - Engineering
 - Assistant Professor-Electrical - Energy & Power Systems
 - Assistant Professor
 - Geology-Assistant Professor - Structural Geologist
 - LAIS-Assistant Professor
 - Metallurgy-Instructor
 - Mining-Assistant/Associate Professor - Underground Tunneling
 - Nuclear Engineering-Assistant/Associate/Full Professor - Nuclear Materials
 - Petroleum Engineering
 - Harry Campbell Chair
 - Assistant Professor
 - REMRSEC-Assistant/Associate Professor

5. New Expense requests for \$0.9 million – these requests represent compelling needs as prioritized by each respective Vice President (note that the original requests as submitted by the departments were well over \$2 million). These requests represent needs due to increased in enrollment, research, and programs. The proposed additions to the fiscal year 2011 budget are as follows:

- 14 new non-academic faculty positions totaling \$796,140 (salary and fringe):
 - Academic Support:
 - Academic Affairs-Director of Academic Assessment
 - CCIT-Server Support (IT III) (Previously budgeted, but abolished in FY09)
 - CCIT-Department Support (IT II) (Previously budgeted, but abolished in FY09)
 - Engineering-Administrative Assistant
 - Petroleum Engineering-Laboratory Technician
 - Registrar-Associate Registrar for Technology
 - Research Support:
 - Office of Research Administration-(2) General Professional positions
 - Student Support:
 - Athletics-Head Soccer Coach
 - Athletics-Athletics Trainer
 - Institutional Support:
 - CCIT-Banner Student Tech Support (IT III)
 - Facilities Management-Position to maintain additional parking and athletic fields(Previously budgeted, but abolished in FY09)
 - Purchasing-Contract Administrator
 - Legal-Assistant Counsel

Additional details supporting each request are attached in Attachment 3.

- Operating expense increases totaling \$77,560 for support of Writing Center and Ethics Across Campus, internet membership fees, and background checks for graduate and undergraduate student employees.

Fiscal Year 2011 proposed budget includes \$4.3 million to fund deferred maintenance and capital improvements. The \$4.3 million represents a little less than half of the School's annual depreciation charge for buildings, improvements, and equipment. The School began funding a larger portion of deferred maintenance in the fiscal year 2010 budget primarily due to the cut in capital appropriations from the State. The State does not anticipate being able to fund deferred maintenance in the near future. Of the \$4.3 million, \$1 million is sourced by rental income from the USGS lease arrangement.

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.

One important change in this budget to recognize is how we are accounting for auxiliary operations. With this budget, we are more clearly defining auxiliary operations and the Education and General budget includes *only those* auxiliary operations where the net proceeds are completely unrestricted and can be used beyond auxiliaries. Those include Housing, Dining, Facility Rentals, Bookstore, the Campus Card, the Copy Center, and SPACE. All other auxiliary activity is designated for a specific purpose (e.g. student organizations) and is reflected in the Designated Funds Budget beginning in Fiscal Year 2011.

Designated Revenue is expected to increase a total of \$7.7 million mostly due to the change in budgeting for Auxiliaries and \$.9 million due to the incremental increase in the Academic Construction Building fee. Expenses are expected to increase \$5.8 million due to the change in budgeting for designated auxiliaries. Most other activity is expected to remain flat.

Restricted Funds

Restricted Funds are restricted from outside entities and include the CSM Foundation, 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.

Federally sponsored research revenue and expense is expected to grow by 5%, while private and state funded will remain flat. No growth is expected for state and federal financial aid and 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.

It is anticipated the endowment fund will recover early losses and investment income and gifts are expected to total \$1.7million in Fiscal Year 2010 and will remain flat for Fiscal Year 2011. The revenues are used primarily for financial aid and scholarships for approximately \$.5 million.

CSM Foundation Budget

The School's fiscal year 2010 budget reflected a decrease in support from the CSM Foundation largely due to the dramatic drop in the value of the CSMF endowment. This drop in endowment resulted in the School covering over \$1 million from endowment spending shortfalls. In addition, the School's general operating support was reduced by \$240,000 in fiscal year 2010. With the correction in the market and the return of net gains to the endowment, we anticipate there will be no endowment spending shortfalls for the School to backfill and we anticipate the CSM Foundation restoring the School general operating support back to 2009 levels of \$0.8 million as outlined below:

CSM Support:	
CSM President's Discretionary Fund	\$398,500
CSM Alumni Association	\$114,000
Marketing	\$100,000
Provost	\$100,000
S.V.P. Finance and Administration	\$10,000
V.P. Student Affairs	\$10,000
V.P. Research and Tech Transfer (NEW)	\$10,000
Foundation Contract	\$10,000
Total CSM Support	<u>\$752,500</u>

For informational purposes, the Colorado School of Mines Foundation Budget in its entirety is attached in Attachment 4.

Recommendation

The Finance and Audit Committee recommends the fiscal year 2011 budget to the Board of Trustees for consideration and approval. The elements for consideration are as follows:

✓ Current Unrestricted:	
Revenue =	\$125.5 million
Expenses =	\$121.3 million
Reserve =	<u>\$3.5 million</u>
Net =	\$0.7 million

The expense budget of \$121.6 million includes the following:

- Mandatory increases totaling \$2.6 million
- Non-mandatory increases of \$1 million
- Policy increase for \$1.36 million
- 14 new academic faculty positions for \$1 million
- 13 new non-academic positions totaling \$796,140
- Operating expense increases totaling \$77,560

✓ Designated:	
Revenue =	\$11.1 million
Expenses =	<u>\$ 6.1 million</u>
Net =	\$ 5.1 million
✓ Restricted:	
Revenue =	\$64.4 million
Expenses =	<u>\$64.1 million</u>
Net =	\$ 0.3 million
✓ Endowment:	
Revenue =	\$1.7 million
Expenses =	<u>\$0.5 million</u>
Net =	\$1.1 million
✓ CSM Foundation Budget:	
Support=	\$0.8 million

Conclusion

Given the condition of the state budget and the likely continued budget cuts, we are looking beyond fiscal year 2011 so that we can continue to plan for managing our future under a different financial model. Attachment 5 includes an overview forecast for fiscal years 2012 – 2014. The forecast for fiscal year 2012 reflects state funding at \$255 million, or \$5.5 million for the School. The following two years, not knowing what the level of state funding will be, we arbitrarily reduced each year by \$1 million.

Management and the Campus Budget Committee will be working over the summer to study and assess the fiscal year 2012 and beyond budget scenarios in order to develop strategies to manage the upcoming state budget cuts.