

TO: Board of Trustees Finance and Audit Committee

FROM: Peter Han - Chief of Staff, President's Office

DATE: May 14, 2013

SUBJECT: FY 2014 Budget

I. BACKGROUND INFORMATION

Fiscal Year 2014 Operating Budget

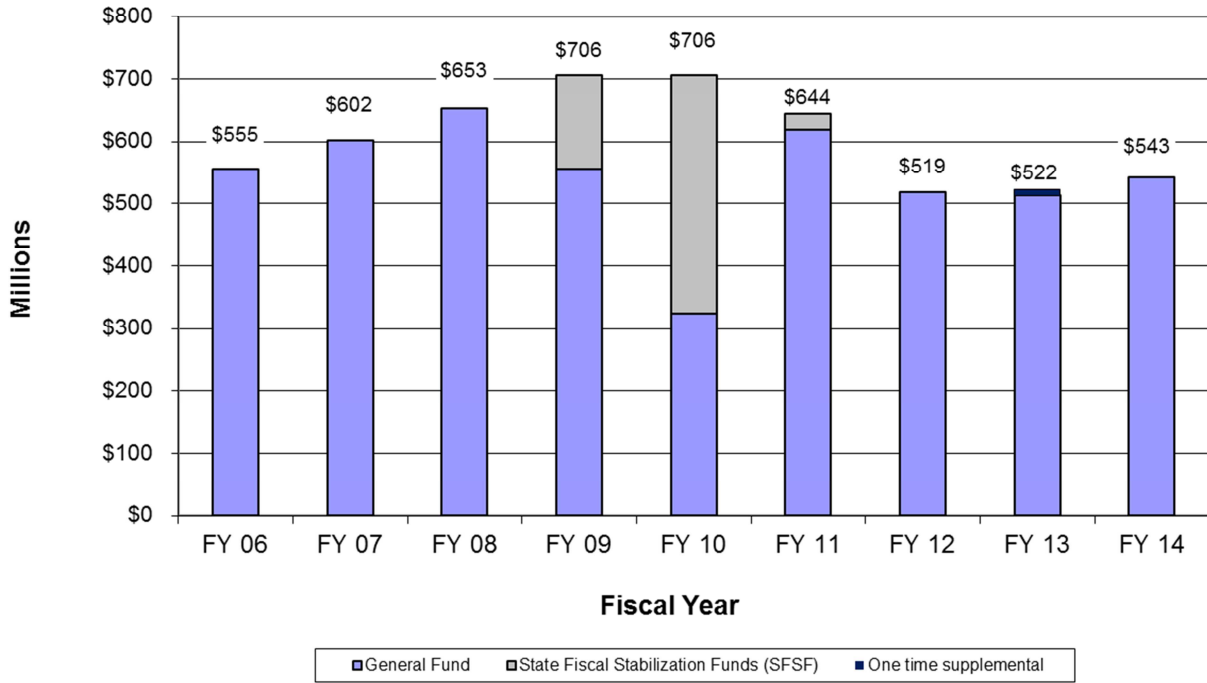
Summary

The fiscal year 2014 budget was developed to support key strategic initiatives and to address certain critical needs. Priority areas for increased funding in next year's budget include: 1) new tenure track faculty positions, 2) undergraduate grants and scholarships, and graduate student support, 3) salary increases, and 4) student services.

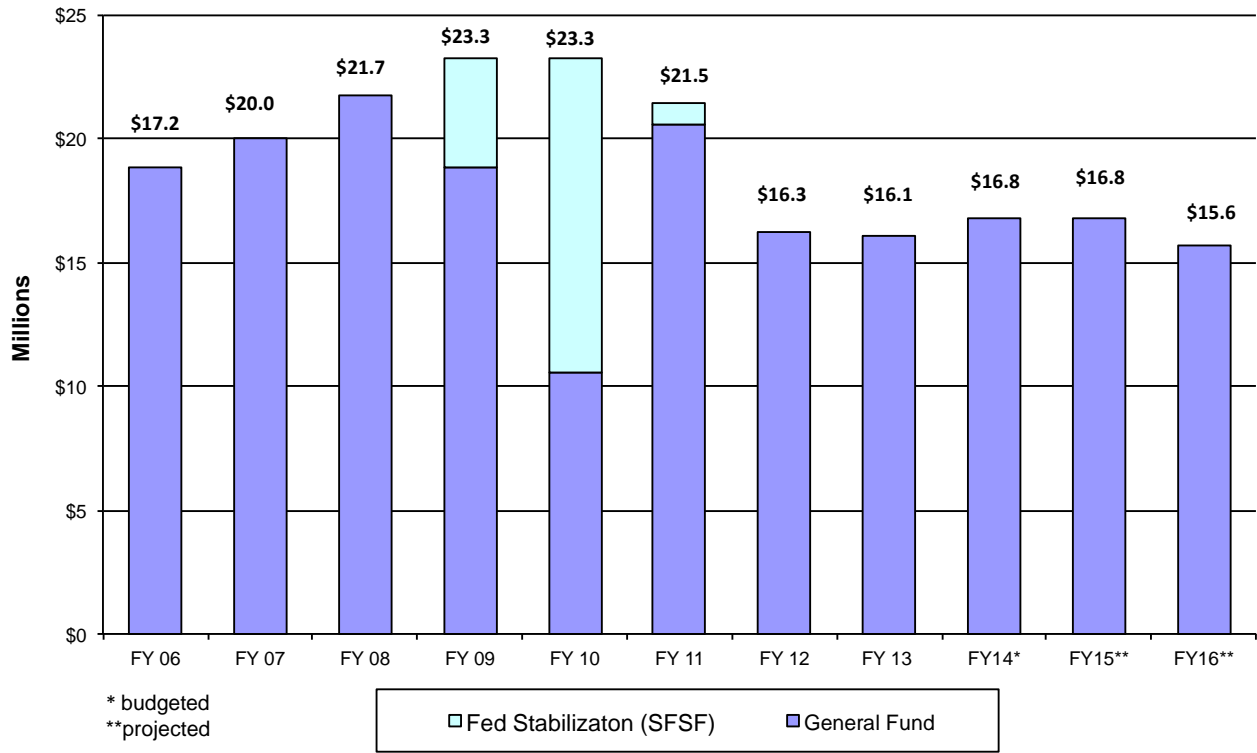
As we developed this budget and looked towards our five-year financial model, we continue to manage the delicate balance of having to make strategic and critical investments during a time of economic uncertainty. Recent economic growth in Colorado has allowed the state to increase its allocation for higher education to \$543 million for 2014, an increase of nearly 6% from 2013. On the other hand, in its March 2013 revenue forecast, the Governor's budget office noted that economic growth in Colorado will likely moderate in 2013 and could be threatened by economic vulnerabilities nationally and internationally. Further the allocation for fiscal year 2014 is still considerably lower than 2010 as noted in the chart on the next page, title, "Department of Higher Education State Funding."

Colorado School of Mines will receive an increase in state funding of \$1 million in fiscal year 2014 for a total of \$16.8 million to be received in the form of College Opportunity Fund stipends and fee for service. We are expecting state funding to remain flat in fiscal year 2015. However, due to the uncertainty in the State's budget in the future, we continue to assume a decrease in fee for service support for each year beyond fiscal year 2015 in our financial models. Also on the next page is a chart that shows state (and SFSF) funding for Mines over the past ten years and what we are projecting for through FY16.

Department Of Higher Education State Funding



Colorado School of Mines State Funding



II. Discussion

The School continues making strides in funding strategic and critical investments despite recent reductions in state support. The proposed budget reflects efforts to align resources with the school's strategic objectives set forth in the strategic plan as well as investing in areas that are critical to the operations of the institution.

The budget is categorized as **current unrestricted funds** (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 budget adjustments for each fund are summarized below and the detail may be seen in Attachment 1. Budget totals for each of these categories is shown in the "all funds" format in Attachment 2.

Proposed FY 2014 Budget Summary

	<i>Current Unrestricted Fund</i>	<i>Designated Fund</i>	<i>Restricted Fund</i>	<i>Endowment and Loan Funds</i>
Fiscal Year 2013 Base Budget:	\$ 2,300,000	NA	NA	NA
Revenue Increases (Decrease):				
Tuition Revenue (6% Res; 6% NR rate inc.) and Fees	7,000,000	200,000		
State Funding	1,000,000			
Indirect Cost Recoveries for Research	1,200,000			
Housing Revenue	600,000			
One-time Savings from prior year	3,400,000			(2,900,000)
Gift Revenue				
Research			2,700,000	
Other Revenue		34,000		
Projected Revenue Increase	\$15,500,000	\$234,000	\$2,700,000	(\$2,900,000)
Expense Increases:				
New Academic Faculty (11 TTT; 3 mid-year hires)	1,300,000			
Adjunct (primarily one-time)	400,000			
New Classified and Non-Academic Staff	800,000			
Labor Increases - Fringe Benefit Increase/ Annualization/Merit Pool/Classified Increases	4,400,000			
Resident Financial Aid & Graduate Support – SB003	1,300,000			
Other Financial Aid and Graduate Support	1,200,000			
Increase in Debt Payment (Housing and Dining)	800,000			
Other Operating and Miscellaneous	1,400,000	(300,000)	300,000	(100,000)
Research Expense			2,300,000	
Capital Projects		(1,800,000)	(2,000,000)	(1,500,000)
Auxiliary Debt Payments and R&R Reserves	1,100,000			
Debt Retirement Reserve	1,000,000			
Total FY 2014 Budget Requests	\$13,700,000	(\$2,100,000)	\$600,000	(\$1,600,000)
Net Activity FY2014	\$1,800,000	\$2,300,000	\$2,100,000	(\$1,300,000)

Current Unrestricted Funds

After the budget adjustments summarized above, the current unrestricted budget reflects total revenue of \$167.07 million and expenses of \$165.27 million resulting in net revenue after expenses of **\$1.8 million**.

Revenue

Current unrestricted revenues are expected to increase by \$13.23 million in fiscal year 2014 based on the following assumptions:

- Tuition increases of 6% for resident students and non-resident students.
- An incoming class of freshman and transfers of 950 students. Although overall undergraduate enrollment is expected to remain relatively flat, the enrollment model anticipates a *decrease* in undergraduate resident students of 1.66% and an *increase* in non-resident students of 2.73%. This change in the overall mix of students reflects the greater number of non-resident students in recent classes as these classes replace older ones with less non-resident students. The enrollment projections also assume a slight decrease in graduate students; 11 fewer students or a decrease of 1%.
- Fees are expected to increase slightly by \$82,000 primarily due to the increase of mandatory fees by CPI (1.9%).
- State Funding will increase by \$1 million or 6.5%.
- Indirect cost recoveries are expected to grow 10% or \$1.16 million due to expected increases in Research spending and an increase in the overhead rate.
- Auxiliary Revenue is expected to increase by \$0.90 million. The increase is primarily due the average increase of room and board of 4%.
- Revenues include one-time savings from fiscal year 2013 of \$3.4 million. These savings are primarily the result of current year revenue increases from higher than anticipated undergraduate enrollment, an increase in indirect cost recoveries from research, and salary savings for faculty still in the hiring process.

Expenses: *Current Unrestricted Funds (See Attachment 1 for detail)*

Net increase to the expense budget of \$13.76 million includes the following institution wide increases and departmental requests:

Salaries and Benefits

For the first time in four years, the Governor has recommended an increase for classified staff. In general, increases include a base adjustment of 2% and a merit increase dependent on performance evaluations. The average increase is expected to be

approximately 3.5%. The fiscal year 2014 budget also proposes the use of an equity, promotion, and merit pool for academic and administrative faculty of 3.5%.

The fiscal year 2014 budget request includes a significant increase in faculty lines. We propose adding 11 new faculty positions in addition to filling faculty positions from current vacancies. All 11 new positions are anticipated to be tenure or tenure track faculty. A one-time request for adjunct funding is provided to help fill gaps until these new positions are filled. With these hires, our total budgeted faculty numbers compared to FY07 will be:

	FY07 Actual	FY12 Actual	FY13 Actual	FY14 Budgeted
Tenure/Tenure Track	171	181	215	226
Teaching Faculty	39	58	74	74

Salary expense details may be reviewed in Attachment 1 and assumptions to note include:

- Benefit adjustment – Classified decrease 1.5%; Faculty increase 3.8%; Admin Exempt increase 4.1%.
- Classified Salary increases average 3.5% (excluding the fringe benefits)
- Equity and retention pool for faculty and exempt staff – 3.5% (excluding fringe benefits).

Financial Aid

The budget includes the school's commitment under SB10-003 to convert all state funds received pursuant to fee for service to financial aid and graduate support within the next ten years. FY14 will be the third year of the commitment with a total budget \$3.5 million (30% of our fee for service contract) of additional institutional financial aid and graduate support dedicated to resident students. To meet this target, the proposed budget request includes an increase of \$1.15 million undergraduate resident financial aid and \$0.19 million for graduate resident support. In addition, the proposal includes requests for non-resident students with an additional \$.73 million allocated to undergraduate financial aid and \$.33 million for graduate support.

Debt Retirement

This year's budget proposal includes providing a debt retirement fund for the institution. With the uncertainty in the long-term outlook for state funding, it is critical the School develops options for future capital needs. Establishing this fund will provide alternatives for future investments such as paying off debt (depending on rates that time), using cash in lieu of debt, or leveraging large gifts with the ability to match. The fiscal year 2014 budget requests \$1 million to establish the fund and our projections include increases to that amount each year for an estimated annual contribution of \$3.4 million within the next five years.

Auxiliary Debt Payments and R&R Reserves

As part of the financing plan for existing and approved new facilities, Student Life will set aside \$0.56 million from auxiliary revenues in fiscal year 2014 for debt payments to be

made in 2015. This is shown as an expense in 2014 for budgeting purposes. In addition, a budget proposal of \$0.57 for a Student Life renewal and replacement fund will be used specifically for equipment, maintenance and capital projects related to student life activities and funded with fees and charges. Auxiliary revenues will be used to fund this renewal and replacement fund.

Other Operating

Included in other operating expenses are nondiscretionary increases for debt (\$0.8 million) utilities (\$0.2 million), and research development funds (\$0.4 million). Other requests include:

- \$0.32 million for IT operating and Hardware/Software support;
- \$0.09 million for one-time set up costs for new employees;
- \$0.38 for operating budgets in facilities, academic departments, the writing center, the library, for pre-hire drug testing and professional development.

Fundraising and Alumni Relations

The development services fee with the CSM Foundation remains \$1.8 million for FY2014. This fee is used to support a portion of the capital campaign's costs. As part of its operating agreement with the CSM Alumni Association, the institution will provide \$302,050 to CSMAA to support alumni relations and Mines Magazine.

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 \$200,000 mostly due to an increase in fees based on inflation (1.9%). The decrease of \$1.8 million in capital projects reflects current year funding for new parking lots which we do not anticipate needing in fiscal year 2014.

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 increase by 3%. It is anticipated that support from the CSM Foundation and State Financial Aid will remain flat. The decrease of \$2.0 million in capital projects reflects the current year funding of the Athletics Complex using gift funds.

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. The reduction on \$2.9 million in revenue primarily due to a large gift received in the current year for the Nuclear Science and Engineer Chair. The decrease of \$1.5 million in capital projects reflects the current year funding of the High Performance Computer.

CSM Foundation Budget

CSM receives annual funding for specific administrative operating activities outlined below. This funding is expected to remain flat for fiscal year 2014 and those base amounts are indicated below:

CSM Support:

Legislative Relations

Federal Legislative Services	\$144,000
Colorado Legislative Services	\$108,929
Travel - CSM Representatives	\$6,000
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	\$258,929

CSM Alumni Association

\$180,000

General CSM Support

Institutional Support	\$298,500
Marketing	\$50,000
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
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	\$478,500

Total CSM Support

\$917,429

The Colorado School of Mines Foundation Budget in its entirety is included for informational purposes in Attachment 3.

III. RECOMMENDATION

The Finance and Audit Committee recommends to the Board of Trustees for approval the Fiscal Year 2014 Operating Budget, including:

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