

THE NEW SCHOOL

Academic Planning and Budget Development

Seminar on the University

March 2, 2010

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The Seminar on the University is a series of discussions designed to inform The New School community of university policies and initiatives. “Academic Planning and Budget Development” is the third paper for this academic year. This paper addresses the university’s initiatives in academic planning and its linkage to the development of the university’s fiscal 2011 operating and capital budgets.

THE BUDGET IN CONTEXT

Colleges and universities across the country –including the New School– are feeling the effects of sluggish markets, unemployment, increased costs, and decreased state funding and donor contributions as budgets for fiscal 2011 are formulated.

A general sense of anxiety permeates many of our peer institutions. Many institutions are taking draconian budget cutting steps in the face of diminished revenues. Each week, a university announces the elimination of majors of study, staff layoffs, furloughs, salary reductions or pension contribution reductions, and capital construction project moratoriums. These are challenging financial times for countless higher education institutions. Given this backdrop, the New School is fortunate: we have taken none of these actions.

We have made investments in strengthening the Provost’s Office.

We have made investments in the recruitment of full-time faculty.

We have made investments in expanding space for growing academic programs.

We have made investments in providing additional financial aid to help students, and their families, cope with economic stress.

We have made investments in sustainability and the greening of our campus.

We have made investments in creating a greater sense of campus community as we prepare for the new University Center.

The New School, like its peers, does face economic challenges as we formulate the fiscal 2011 operating and capital budgets. The University’s proposed budget, to be presented to the Board of Trustees in April, will be balanced. There never are enough resources to satisfy all desires without placing the burden of costly tuition rate increases on the University’s students. Therefore, resource allocation decisions will represent choices and prioritizations between competing demands.

The University is in transition. It continues its transition to credit-based education. It continues its transition to a residence-based community. It continues its transition to a new campus. It continues its transition to new presidential leadership. And the University is transitioning to a new resource allocation and budget process still under development that is multi-year in focus, based on academic planning and assessment, and which exhibits transparency and accountability.

A Budget Working Group is researching concepts and methods and examining best practices to enable it to propose recommendations on how the budget process can be improved to allow more focused and multi-year academic investments while retaining the fiscal discipline that drives the existing process. It is discussing a number of alternative concepts, approaches, and systems as well as visiting regional peer institutions to observe practices and processes. The committee is co-chaired by representatives of the Provost's Office and the Office of Finance and Business and is composed of staff from these offices, academic administration from various schools, and faculty.

Next year's budget is being constructed as prudently and conservatively as we have in the past. Contingencies and reserves are provided to help address unforeseen events and revenue shortfalls due to economic events beyond the control of the University. A modest but fair compensation pool is held in the contingency provided that revenue targets are achieved. A competitive 4.5 percent tuition rate increase is set in the fiscal 2011 budget. We will continue to seek opportunities for efficiencies in operational structures and programs and to identify avenues for increased revenue. The University is committed to ensuring our long-term fiscal health and making the appropriate investments to deliver strong academics at a reasonable price.

ACADEMIC PLANNING

As many of you are aware, the Office of the Provost is responsible for the management of the academic budget. This budget includes all funds located in the academic divisions and in the Provost's Office, resources set aside to cover the cost of new and replacement faculty hires, start-up funding for new programs, and resources to support faculty and student research, curricular development initiatives and other academic priorities. Our responsibility includes developing recommendations to the President for all matters related to the academic budget.

Over the past several months, the Provost has brought in additional staff to set up processes and to manage these and other new responsibilities. We have worked closely with the Office of Finance and Business to identify ways in which we might move forward with new budget policies that support the academic plan, while maintaining the budget discipline that is so critical.

Enrollment Planning Process

A key element in development of an academic plan for The New School is enrollment. Tuition and fees provide 78% of the University's resources and as a result we are building a model that keeps key academic priorities in place, while acknowledging market realities. The University's financial model relies on a 4% growth rate per year.

Last fall for the first time, the deans met together to review an aggregated enrollment planning tool that reported on actual enrollments compared with enrollment targets. The tool also enabled the deans to understand how fluctuations affect overall revenue because of the different tuition rates, cost of instruction, and ways in which students pay for classes.

It became clear in this process that additional growth in some programs will be a significant challenge; in others, growth will result in the need for significantly more space and technical capacities. But, in other areas, we found an eagerness to expand.

There was a good deal of discussion about the importance of developing new programs for academic and pedagogical reasons, but also because they will broaden the financial base and spread enrollment growth into new areas.

At the conclusion of the fall process, the deans agreed to the targets and Admissions and CEA are moving ahead to bring in these new students. We will also be working with key staff in the divisions to improve our matriculation and retention rates.

Revising Budget Policies

Last spring, the Provost charged a committee co-chaired by the Provost's Office and the Office of Finance and Business to look into alternative budget models that would incentivize the development of new programs and facilitate students and faculty working across the university. One of the first tasks of the Budget Rules, Development, and Process Work Group was to build the enrollment tool that was just mentioned.

The committee also developed a new Tuition and Fees Variance Policy that has just been approved by the Budget and Planning Committee of the Board. Rather than allocating funding based on a formula, this method is built upon funding the costs for additional enrollments and saving funds that were not needed because divisions fell short of their targets. These adjustments to budgets will be made on a temporary basis only, affecting this year's budget.

The committee is at work researching various budget models used in higher education to propose what might work here to support our academic goals. There are various methods that recognize that cross-funding is needed to support some programs. We will review strategies for moving tuition revenue with students as they enroll in courses beyond their division and for transferring faculty expense as well. Over the next two months, we will talk with several institutions to learn from their experience and utilize research that has been done on these problems.

Building the Academic Plan

Provost Tim Marshall has already begun to circulate among the deans the outline of an academic plan. Shortly, they will be discussing it with their own divisions. The Provost is scheduled to report on the plan when he participates in this seminar series on April 22nd. The academic plan is being built on the work of many others before us, but it also benefits from the specifics learned this fall in the enrollment planning process. The Provost intends to present the plan to the Board

at its meeting in May. This document will lay out the key goals over the next several years and outline projects that should be completed as well. It will feature new initiatives but also a commitment to work to improve basic systems, structures and the planning process so that we can work more effectively. We are talking with the deans about developing their own plans as well.

There are currently six major themes, all of which are driven by an overarching goal of academic excellence in a fiscally responsible context. These themes are:

- Curricular and programmatic innovation and excellence
- Furthering our investment in faculty
- Providing better support for students
- Putting action to social justice
- Strengthening our planning and governance
- Extending our reach internationally

New Programs

One of the most important elements of the plan is a commitment to developing new programs. Just recently three new university-wide degrees have been approved: Global Studies, Environmental Studies and Urban Studies/Urban Design Studies, as well as Fashion, Design and Society, Fashion Studies, Transdisciplinary Design and Interior Design in Parsons. Building on discussions this fall, the Provost has approved moving forward with twenty-two new majors, certificates, tracks in degree programs and nine other improvements to non-credit/non-degree programs.

We have developed an expedited review process for these proposals, with the expectation that many of these will be ready to be sent to the state for approval in late spring or early summer and that many of these programs will be open to students in the fall of 2011.

Faculty Hiring

We are about to begin discussions with the deans about searches they want to inaugurate for a projected fall 2011 hiring date. These conversations will be informed by the discussions related to the new programs and the continuing work on the academic plan.

Critical Needs

We have also asked the divisions to let us know their critical needs for next year, largely aimed at resources required to meet the enrollment targets.

The Annual Calendar

By next fall, we will have the academic plan in place, new programs in development, and the divisions will have completed a good deal of work on their own strategic plans. This

combination should provide a solid springboard for discussions about enrollment planning and decisions about the next wave of new programs to be developed.

BUDGET DEVELOPMENT APPROACH

The University's operating budget is developed incrementally. This means that the annual budget process uses the current fiscal year (fiscal 2010) as a base and applies changes to revenues and expenses to produce the budget for the next fiscal year (fiscal 2011). The funding priorities that guide the development of the budget each year are based upon multi-year institutional goals and academic planning as well as current economic conditions. To understand the development of the fiscal 2011 operating budget it is first necessary to take a look at this fiscal year's budget and understand where the University gets its revenue and how the funds are spent.

The fiscal 2011 budget is developed based on guidelines and assumptions about revenue and expense changes between this fiscal year and the next. Enrollment changes, the tuition rate increase, financial aid policy, fundraising and many other factors all determine the funds available for spending next fiscal year.

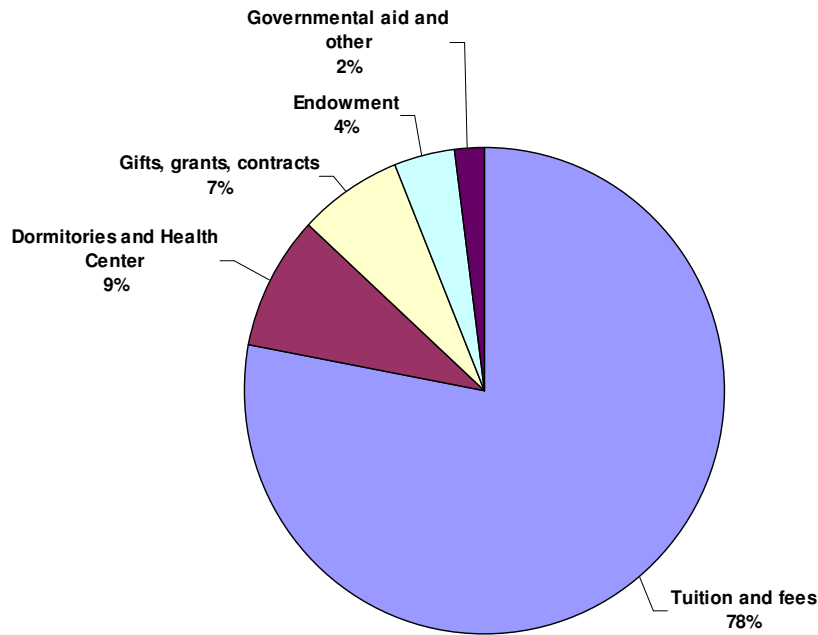
The final step of the budget process is to determine what "improvements" – the University's term for new items – will be funded for the next fiscal year. This includes such items as new faculty and staff, new academic programs, student services enhancements, facilities renovations and expansions, the purchase of new technology, and other expense additions.

THE FISCAL 2010 OPERATING BUDGET

Revenues

The University's fiscal 2010 operating budget includes total net revenue of \$286 million. The chart below shows the major sources of the university's revenues.

Fiscal 2010 Revenue Sources



As you can see, the University is heavily dependent upon tuition and fees, with these comprising 78% of annual revenue. Tuition and fees are presented net of scholarships and financial aid. The University’s operating budget treats awards to students for scholarship aid as a “tuition discount” by reducing gross revenues.

Of the total tuition revenues, more than 90% is from degree programs, with the remainder generated from non-degree and continuing education programs. This makes degree enrollment the most important factor in The New School’s revenue budget.

After tuition revenues, dormitory and health fees are the second largest revenue source; funds are used to operate the residence halls and Health Center, respectively. This means that 87% of the university’s revenue comes directly from students.

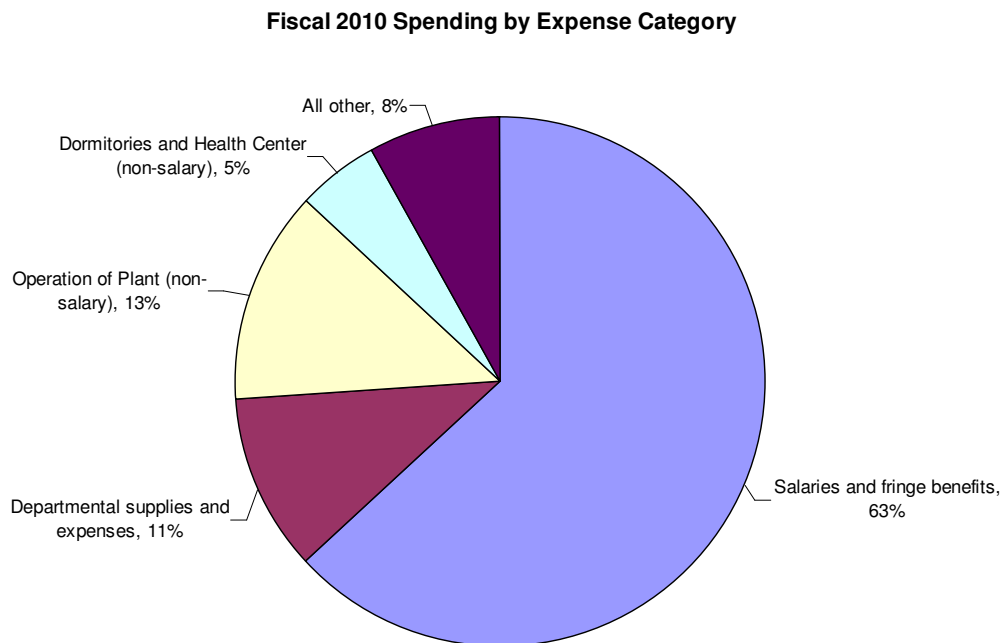
Expenses

To maintain a balanced budget, the University plans to spend no more than its annual revenues. At the same time, prudent financial management, especially in an uncertain economic climate, requires us to set aside funds, which we call contingencies, for potential shortfalls in enrollment and fundraising and losses in the endowment.

Overall, approximately one-half of The New School’s spending is budgeted in the academic divisions of the University and one-half funds university-wide activities that support students and faculty in all programs. School budgets include instructional activities and many academic and

student support services. In addition to the areas listed above, other university-wide functions include computing centers and the network, the admissions and housing offices, student affairs activities and commencement.

Another way to look at the operating budget is by type of expense. The following chart shows the proportion of budgeted spending for each category of expense in the fiscal 2010 operating budget. As you would expect, salaries and fringe benefits (health insurance, pension, social security, etc.) are the largest expense category, constituting almost two-thirds of the operating budget.



FISCAL 2011 OPERATING BUDGET DEVELOPMENT

Revenue projections

With 78% of the University's revenues coming from tuition and fees, enrollment projections are the most important estimates in developing the University's budget. Other important factors in determining revenues are: the tuition rate increase, tuition discount, endowment spending, dormitory rates, and projections of gifts, contracts, and other revenue sources.

Enrollment

The University's enrollment projections are split into three categories:

- Degree enrollment, which includes students in degree, certificate, and diploma programs

- For-credit enrollment, which includes students taking courses for credit who are not enrolled in a degree program
- Non-credit enrollment, which includes students in the University's many adult and continuing education programs.

We often group for-credit and non-credit enrollment together and refer to this category as non-degree enrollment.

Table 1 shows degree enrollment from Fall 2007 to 2009 and provides the percentage change from Fall 2008 to 2009. As shown, enrollment in degree programs increased 4.6% for Fall 2009 over the previous year, with most of the growth among undergraduate programs. Meanwhile, for-credit and non-credit enrollments have declined, as Tables 2 and 3 illustrate.

Table 1
Fall 2007-2009 Degree Student Headcount

	2007 Final	2008 Final	2009 Final	Variance from Fall 2008
1 Parsons BFA	2,208	2,337	2,498	6.9%
2 Parsons BA/BS and BBA	470	518	565	9.1%
3 Parsons AAS	859	960	1,021	6.4%
4 NSGS BA	722	724	700	-3.3%
5 Mannes	127	127	147	15.7%
6 Mannes Classical Diploma	62	86	60	-30.2%
7 Jazz BFA	245	259	253	-2.3%
8 Milano BS	81	17	0	-100.0%
9 Lang	1,274	1,325	1,403	5.9%
10 Total Undergraduate	6,048	6,353	6,647	4.6%
11 Parsons Masters	392	405	467	15.3%
12 Media Studies	448	490	508	3.7%
13 Creative Writing	205	199	210	5.5%
14 International Affairs	292	320	357	11.6%
15 MATESOL	21	53	56	5.7%
16 NSSR	697	696	697	0.1%
17 Milano	428	452	483	6.9%
18 Mannes	134	123	118	-4.1%
19 Mannes Professional Studies	48	69	56	-18.8%
20 Drama	148	131	119	-9.2%
21 Total Graduate	2,813	2,938	3,071	4.5%
22 Total Degree, Diploma, Certificate	8,861	9,291	9,718	4.6%
23 % change from previous year	6.0%	4.9%	4.6%	

Table 2
 Fall 2007-2009 For Credit Non-Matriculated Student Headcount

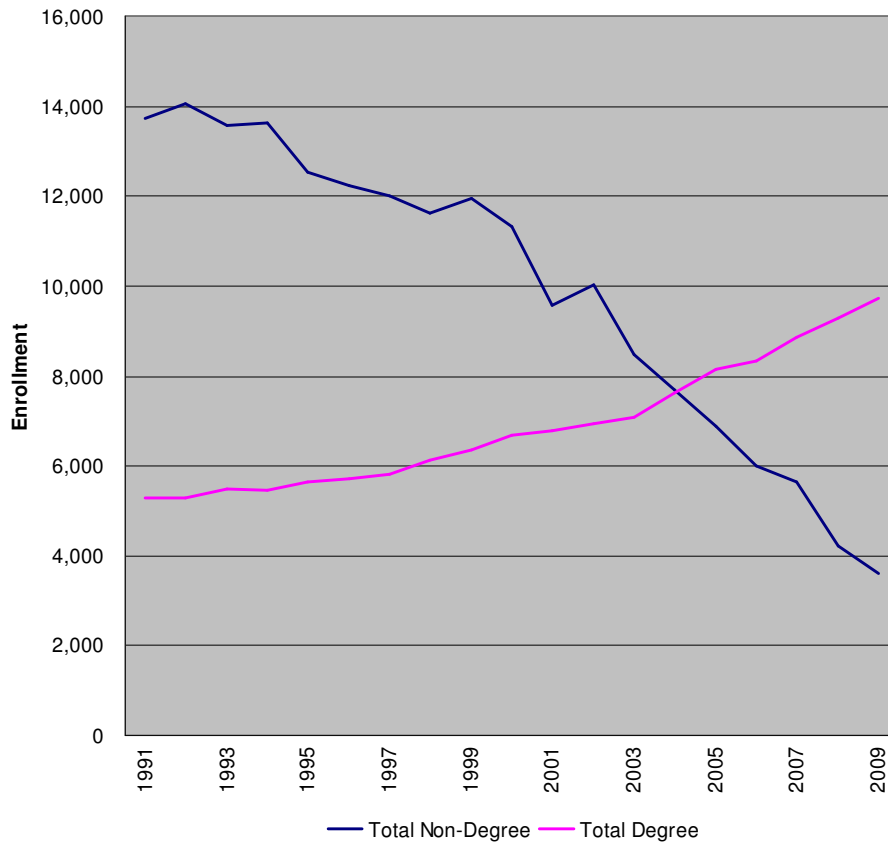
	2007 Final	2008 Final	2009 Final	Variance from 2008
1 Parsons	50	25	37	48.0%
2 Lang	17	22	26	18.2%
3 NSGS Undergraduate	216	202	129	-36.1%
4 NSGS Graduate	5	8	3	-62.5%
5 NSSR	18	27	20	-25.9%
6 Milano	24	21	19	-9.5%
7 Mannes Extension	8	7	3	-57.1%
8 Other non-degree	9	10	9	-10.0%
9 Total General Credit	347	322	246	-23.6%
10 % change from previous year	0.6%	-7.2%	-23.6%	

Table 3
 Fall 2007-2009 Non-Credit Student Headcount

	2007 Final	2008 Final	2009 Final	Variance from 2008
1 Parsons Continuing Education	1,240	1,200	1,087	-9.4%
2 NSGS Adult Education	3,425	2,078	1,664	-19.9%
3 Mannes Extension Non-Credit	176	176	159	-9.7%
4 Mannes Preparatory	430	430	440	2.3%
5 Other Continuing Education	18	22	15	-31.8%
6 Total General Credit	5,289	3,906	3,365	-13.9%
7 % change from previous year	-6.8%	-26.1%	-13.9%	

Our experience in Fall 2009 is consistent with recent trends in the University's enrollment: the number of students enrolled in degree programs has been increasing while non-degree enrollment has declined. This trend is illustrated in the chart below.

Fall Degree vs. Non-degree Enrollment



The preliminary targets for Fall 2010 were developed by the deans and Provost late last year in accordance with the University’s long term goal of 4% annual growth of degree enrollment. We anticipate similar enrollment patterns for next year: continued growth in degree programs, particularly at the undergraduate level, while other programs remain steady or decline slightly.

The estimates for each degree program’s enrollments are determined each year by looking at four factors: (1) the number of new students who will enroll next fall; (2) the number of students who will graduate; (3) attrition, or the number of students who, for a variety of reasons, are projected not to return to school in the Fall; and (4) any curricular or program changes that might alter enrollment. The projections for non-degree programs are based upon recent enrollment trends and patterns, as well as any program changes that are being made.

Tuition rates and tuition discount

The University’s Board of Trustees sets tuition policy. The University’s average tuition rate increases have been consistent with the national average for private colleges and universities in recent years. The University has been below the national average in four of the last six years and has always varied by less than one percentage point. The University’s tuition rate increase for

the current fiscal year, 4.5%, was the lowest in the 26 years that the University has kept records, and compared favorably with the national average for private institutions of 4.4%.

Universities track their spending on financial aid as a proportion of tuition that is returned to students as aid. This is known as the tuition discount. Table 4 provides a history of the tuition discount at The New School. As you can see, the discount rate has grown from 8.4% to over 26% since the early 1980s.

Fiscal Year	\$ Millions	Tuition Discount %
2010	\$ 73.3	26.2%
2009	62.4	25.3%
2008	55.0	25.4%
2007	49.3	25.2%
2006	44.3	25.0%
2005	39.3	24.8%
2004	35.0	24.0%
2003	33.0	24.4%
2000	23.3	23.9%
1997	16.1	22.7%
1992	7.4	17.0%
1984	1.4	8.4%

Dormitory rates

Increases in dormitory room rates are necessitated by higher costs of operating our housing facilities. The University charges students no more for housing than is required to cover the rent and operating expenses of our dormitories and apartments. The average increase for the current fiscal year was 6% with increases varying by location and type of room.

The New School has significantly increased the number of students housed in the University's owned and leased facilities in recent years. This past fall the University opened the new Stuyvesant Park residence, bringing the total beds to over 1,700.

Other revenues

Tuition and other student charges do not cover the full cost of each student's education. The New School relies upon support from private foundations, government, alumni, and friends to provide the full range of academic programs and support services for our students. Much of the University's fundraising is targeted to capital projects. The Sheila Johnson Design Center, for example, would not have been possible without the generosity of donors. The annual operating budget relies upon these funding sources, as well.

One form of this support is the endowment. It is a common misconception that the University “spends” the income from the endowment. In actuality, the University’s Board of Trustees sets a spending rate for the endowment, which is described as a percentage of the value of the endowment that funds expenses in the annual operating budget. The current spending rate is 5% of the three-year average of the value of the endowment. The spending rate of 5%, which is common among universities, is established to ensure that the endowment will be available for years to come to support the University. Ideally, increases in the value of the endowment, minus spending, should at least keep pace with inflation. This is why endowment losses are so critical.

In the current fiscal year over \$10 million of the operating budget revenues comes from the endowment. Due to decreases in value, certain specific endowment funds are now “underwater”. This means that the current value of the particular fund is lower than the original value of the gift. As a result, spending from these funds is not allowed and needs to be replaced by other revenue sources or curtailed. Our current projection for endowment spending for fiscal 2011 is less than \$10 million.

A second form of support is donations, including the Annual Fund. The current operating budget includes gifts of almost \$17 million to be spent by the divisions and for university-wide needs. This fiscal year, we expect gifts to fall short overall and, as a result, we are reducing our projections for fiscal 2011.

The third form of support is grants and contracts, which are usually restricted to particular projects. Many faculty research projects currently underway are supported this way, as are some special scholarship funds and lecture series.

Expenses

The largest expense item for the University is people: faculty members and administrative staff. As noted earlier, 63% of the University’s expenses are for salary and fringe benefits.

Many in the University community have heard about the unionization of the part-time faculty, but may not know that this is one of many unionized employee groups at the University. Maintenance, clerical, and security officers, as well as the part-time faculty in the School for Jazz and Contemporary Music, are among the other groups represented by various unions. The University negotiates with each of these groups to determine wages, benefits and other issues related to work.

Typically the operating budget provides for annual increases for full-time faculty and administrative staff. Due to the current economic uncertainty, the operating budget for the current fiscal year included no such increases. As mentioned earlier, the fiscal 2011 operating budget will hold a modest but fair compensation pool in the contingency provided that revenue targets are achieved.

Fringe benefits include health insurance, pension, social security, life insurance, tuition benefits, and other expenses for the University’s employees. The estimate of expenses for the new fiscal

year are based on three factors: the trend of benefit increases in recent years; the salary increases of union employees, which affect social security and pension payments; and a projection of the number of new employees the University will hire in the next year.

The budget also has to consider increases in non-personnel costs. The average cost increase built into the budget for all non-salary items in recent years has been 2.5%. The expected cost increases for items varies; costs for renting facilities in New York City, for example, increase faster than the costs for supplies.

In addition, the budget includes spending to increase the number of full-time faculty as well as provide funds to start new academic programs. As mentioned earlier, prudent financial management requires us to set aside reserves, or contingencies, to protect the University from the adverse effects of this uncertain economic climate. The fiscal 2010 budget included what was by far the largest contingency in the history of the University. This proved to be a wise decision as these funds were necessary to offset reduced giving and endowment support.

FISCAL 2011 CAPITAL BUDGET

The capital budget is developed on an annual basis through a broad participatory process that includes all academic and administrative divisions. Based on requests from the deans and officers, and in consultation with the Provost and Executive Vice President, the Office of Design & Construction, and the University Facilities Committee perform a preliminary evaluation of projects for consideration in the following year's capital budget. This process was covered in detail by an earlier university seminar.

In general, the capital budget consists of two broad categories of projects: annual projects and multi-year projects.

The budget for annual projects typically includes \$5 million for capital work and technology upgrades and \$1 million for infrastructure improvements. As the name implies, annual projects tend to be projects of a smaller scope that can be completed over the course of a year. Infrastructure improvements, or "Critical Maintenance", include projects such as fire alarm system upgrades, code compliance, boiler replacements, elevator upgrades, and mechanical systems upgrades

Multi-year capital projects are generally large-scale improvement or new construction projects. Most recently, these include the University Center project, and the addition of instructional space on newly leased floors at 79 Fifth Avenue / 6 East 16th Street.

Funding for the capital budget comes from three sources:

- The current year operating budget in the form of depreciation
- Gifts and grants from various sources, including the federal government
- Borrowing, such as new bond issues

Depreciation is an expense that is included in the operating budget. It is a 'non-cash' expense in that it does not require the payment of cash to a third party. Instead, it is used to fund the capital budget and provide the cash needed to make principal payments on long term debt.

PROCESS FOR DEVELOPING THE FISCAL 2011 OPERATING BUDGET

The timetable for development of the budget for fiscal 2011 is shown below. In addition, deans and officers have meetings within their respective areas to discuss the budget. Over the course of the year presentations are made on the university-wide budget to various groups.

- October, 2009: Preliminary guidelines, enrollment targets and assumptions for the fiscal 2011 budget are discussed with the deans, officers and the Budget Planning Committee of the Board of Trustees.
- November, 2009: Preliminary enrollment targets are developed by the deans and Provost for each academic division and discussion begins among deans and officers about budgetary issues for the next fiscal year.
- January, 2010: The Board Budget Planning and Executive Committees receive updates on the preliminary budget and approve the tuition increase, discounts, and other fees.
- March, 2010: University Seminar on Academic Planning and Budget Development.

Academic divisions and administrative officers review their budget marks for fiscal 2011.
- April/May, 2010: The Board Budget Planning Committee, Executive Committee and the full Board of Trustees adopt the fiscal 2011 budget.

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