

Seminar Paper

Developing the Fiscal Year 2010 University Operating Budget

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I. Introduction

The seminar on March 26, 2009 will describe the process for developing the university's FY2010 (July 1, 2009 through June 30, 2010) operating budget. The seminar is intended to be an open discussion of the policy issues and choices that ultimately determine the final operating budget for the next fiscal year. The university community is invited to express its views at the seminar.

The university's operating budget is developed incrementally. This means that the annual budget process uses the current fiscal year (FY2009) as a base and applies changes to revenues and expenses to produce the budget for the next fiscal year (FY2010). The funding priorities that guide the development of the budget each year are based upon multi-year institutional goals as well as current economic conditions. To understand the development of the FY2010 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. Section II of this paper provides an overview of the FY2009 operating budget.

The FY2010 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 process for developing these guidelines and assumptions is described in Section III of this paper.

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.

Finally, section IV provides the key dates in the development of the FY2010 operating budget.

II. FY2009 Operating Budget

A. Revenues

The university's FY2009 operating budget totals \$282 million. Table 1 shows the major sources of the university's revenues.

Table 1
FY2009 Revenue Sources

		Percent of Revenues
1	Tuition and fees	75%
2	Dormitories and Health Center	11%
3	Gifts, grants, contracts	7%
4	Endowment	4%
5	Governmental aid and other	3%

As you can see, the university is heavily dependent upon tuition and fees with these comprising 75% of the annual revenue. This figure is net of funds spent on financial aid. Stated another way, tuition and fee revenues are first reduced by financial aid before this percentage is calculated. 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, as opposed to 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 86% of the university's revenue comes directly from students.

B. 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 this uncertain economic climate, requires us to set aside funds, which we call contingencies, for potential shortfalls in enrollment and fundraising and continued losses in the endowment.

Every multi-divisional university is structured to have some operating activities budgeted in its academic divisions and others budgeted at the university-wide level. The major reason for organizing some functions at the university-wide level is to provide the most efficient means for providing services. Examples of this are enrollment and administrative services (registration, student financial services, human resources, purchasing, facilities services, security, etc.) where university-wide offices provide services for the benefit of faculty and students in all divisions.

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. Table 2 shows the proportion of budgeted spending for each category of expense in the FY2009 operating budget. As you would expect, salaries and fringe benefits (health insurance, pension, social security, etc.) are the largest expense category, constituting over one-half of the operating budget.

Table 2
FY2009 Spending by Expense Category

	Percent	
1	Salaries and fringe benefits	57%
2	Departmental supplies and expenses	14%
3	Operation of Plant	14%
4	Dormitories and Health Center (non-salary)	9%
5	All other	6%

III. FY2010 Operating Budget Development

A. Revenue projections

With 75% 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.

1. Enrollment

The university’s enrollment projections are split into three categories: 1) degree enrollment, which includes students in degree, certificate, and diploma programs, 2) students taking courses for credit who are not enrolled in a degree program, and 3) non-credit enrollment, which includes students in the university’s many adult and continuing education programs.

Tables 3, 4, and 5 show the enrollments in each program between Fall 2006 and 2008 and provides the percentage change between Fall 2007 and 2008. As shown, enrollment in degree programs increased 4.9% in Fall 2008 over the previous year, with most of the growth among undergraduate programs. Meanwhile, enrollment of non-degree credit and non-credit enrollments have declined.

Our experience in Fall 2008 is consistent with recent trends in the university's enrollment: the number of students enrolled in degree programs has been increasing while non-credit enrollment has declined. The final targets for Fall 2009 are still being determined, but 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.

Table 3
Fall 2006-2008 Degree Student Headcount

	2006 Final	2007 Final	2008 Final	Change from 2007
Parsons BFA	1,952	2,208	2,337	5.8%
Parsons BBA	428	470	518	10.2%
Parsons AAS	801	859	960	11.8%
NSGS BA	690	722	724	0.3%
Mannes	123	127	127	0.0%
Mannes Classical Diploma	74	62	86	38.7%
Jazz BFA	260	245	259	5.7%
Milano BS	121	81	17	-79.0%
Lang	1,146	1,274	1,325	4.0%
Undergraduate	5,595	6,048	6,353	5.0%
Parsons Masters	402	392	405	3.3%
Media Studies	441	448	490	9.4%
Creative Writing	213	205	199	-2.9%
International Affairs	256	292	320	9.6%
MATESOL	n/a	21	53	152.4%
NSSR	675	669	665	-0.6%
Global Finance	0	28	31	10.7%
Milano	424	428	452	5.6%
Milano (off-campus)	7	0	0	n/a
Mannes	133	134	123	-8.2%
Mannes Professional Studies	51	48	69	43.8%
Drama	150	148	131	-11.5%
Graduate	2,752	2,813	2,938	4.4%
Total Degree, Diploma, Certificate	8,347	8,861	9,291	4.9%
Maintaining status				
NSSR	378	380	376	0.5%
All Other	69	79	81	14.5%
Total Maintaining Status	447	459	457	-0.4%
Grand Total	8,794	9,320	9,748	4.6%
% change from previous year	2.2%	6.0%	4.6%	

Table 4
Fall 2006-2008 Non-Matriculated Credit Student Headcount

		2006 Final	2007 Final	2008 Final	Change from 2007
1	Parsons	45	50	25	-50.0%
2	Lang	18	17	22	29.4%
3	NSGS Undergraduate	203	216	202	-6.5%
4	NSGS Graduate	8	5	8	60.0%
5	NSSR	29	18	27	50.0%
6	Milano	18	24	21	-12.5%
7	Mannes Extension	4	8	7	-12.5%
8	Other non-degree	20	9	10	11.1%
9	Total General Credit	345	347	322	-7.2%
10	% change from previous year	-13.8%	0.6%	-7.2%	

Table 5
Fall 2006 to Fall 2008 Non-Credit Headcount

		2006 Final	2007 Final	2008 Final	Change from 2007
1	Parsons Continuing Education	1,163	1,240	1,200	-3.2%
2	NSGS Adult Education	3,636	3,425	2,078	-39.3%
3	Guitar Study Center	209	0	0	0.0%
4	Mannes Extension Non Credit	200	176	176	0.0%
5	Mannes Preparatory	423	430	430	0.0%
6	Other CE	44	18	22	22.2%
7	Total	5,675	5,289	3,906	-26.1%
8	% change from previous year	-12.4%	-6.8%	-26.1%	

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.

2. 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 FY2010, 4.5%, will be at the lowest in the 26 years that the university has kept records.

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 6 provides a history of the tuition discount at The New School – this includes funds spent only on university scholarships, excluding federal and state funds. As you can see, the discount rate has grown from 8.4% to over 26% since the early 1980s.

Table 6
History of the Tuition Discount Rate

	\$ Millions	Tuition Discount %
FY2010	71.2	26.2
FY2009	62.4	25.3
FY2008	55.0	25.4
FY2007	49.3	25.2
FY2006	44.3	25.0
FY2005	39.3	24.8
FY2004	35.0	24.0
FY2003	33.0	24.4
FY2000	23.3	23.9
FY1997	16.1	22.7
FY1992	7.4	17.0
FY1984	1.4	8.4

3. Dormitory rates

Dormitory room rates will increase an average of 6% next year, although the increase will vary by location and type of room. This increase is 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 New School has significantly increased the number of students housed in the university's owned and leased facilities in recent years. The next significant increase will occur in Fall 2009 when the university will open a new residence on 15th Street, bringing the total beds to over 1,700.

4. 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. The university's Board of Trustees sets a spending rate for the endowment, which is described as a percentage of the endowment that funds expenses in 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 insure 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 the current economic turmoil and the resulting endowment losses are so critical. In FY2010, over \$10 million of the operating budget revenues will come from the endowment.

A second form of support is donations, including the Annual Fund. The FY2010 operating budget includes gifts of almost \$17 million that will be spent by the divisions and for university-wide needs.

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.

B. Expenses

The largest expense item for the university is people: faculty members and administrative staff. As noted earlier, 57% of the university's expenses are for salary and fringe benefits.

Many students have heard about the unionization of the part-time faculty, but students 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 FY2010 budget includes no such increases.

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.

Again with an eye towards protecting our financial health in the face of uncertainty, the FY2010 operating budget includes a 5% reduction in administrative expenses across the university. The deans and officers have planned these reductions so as to have no impact on the high level of academic programs and services that we provide to our students.

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 funds, called contingencies, to protect the university from the adverse effects of this uncertain economic climate. The FY2010 budget includes what is by far the largest contingency in the history of the university.

IV. Process for Developing the FY2010 Operating Budget

The timetable for development of the budget for FY2010 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, 2008: Preliminary guidelines, enrollment targets and assumptions for the FY2010 budget are discussed with the deans, officers and the Budget Planning Committee of the Board of Trustees.
- November, 2008: Enrollment targets are finalized for each academic division and discussion begins among deans and officers about budgetary issues for the next fiscal year.
- January, 2009: The Board Budget Planning and Executive Committees receive updates on the preliminary budget and approve the tuition increase, discounts and other fees.
- March, 2009: University Seminar on the Budget.

Academic divisions and administrative officers update their budget marks for FY2010.
- April/May, 2009: The Board Budget Planning Committee, Executive Committee and the full Board of Trustees adopt the FY2010 budget.