

TO: Board of Trustees

FROM: Kirsten M. Volpi
Executive Vice President for Finance and Administration

DATE: May 19, 2014

SUBJECT: FY 2015 Budget

I. BACKGROUND INFORMATION

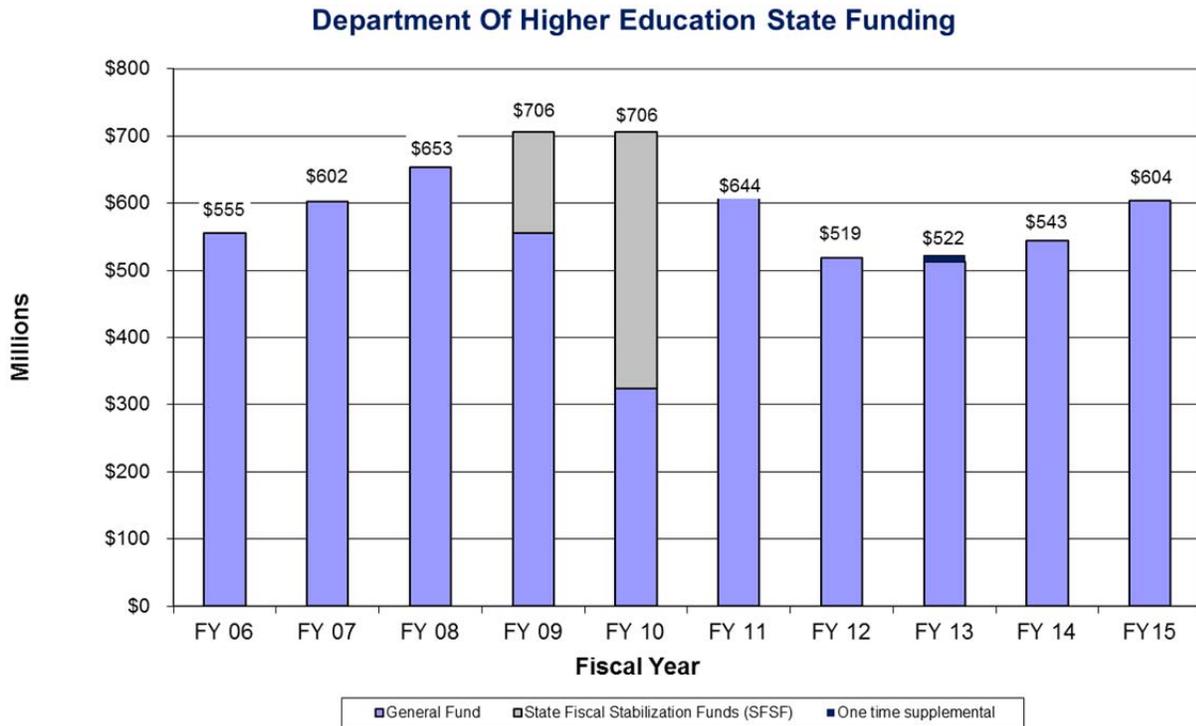
As we approach fiscal year 2015 and the development of the budget, there are key operating and strategic factors that translate to our financial position, both short and long term. We have just developed a new strategic plan; we have seen stable and even an increase of our financial support from the state; after years of aggressive academic faculty hires, we are stabilizing at an all-time high of number of academic faculty; we are experiencing a moderating of revenue after years of strong growth; and we are continuing our commitment of financial aid to students both on the undergraduate and graduate levels. With these outlooks and themes in mind, we have developed our budget prioritizing our resource needs in relation to our revenue position and the impacts not only to the upcoming year, but future years. Even with our growth in state funding, we are experiencing a softening of our revenue base in this proposed budget primarily due to our moderating of tuition rate increases. This has made our ability to manage the delicate balance of having to make strategic and critical investments while minimizing the impact on students and tuition even more difficult this year.

With the growth in research, student enrollment, and academic faculty that we have experienced in the recent years, this year's budget focuses largely on growth in the School's infrastructure; those critical areas that directly support the academic, research and student core programs. Our priority areas for increased funding in this budget include: 1) new positions to support the information technology infrastructure; website development and management; research administration; and student services, 2) salary increases, and 3) undergraduate grants and scholarships, and graduate student support.

State Funding

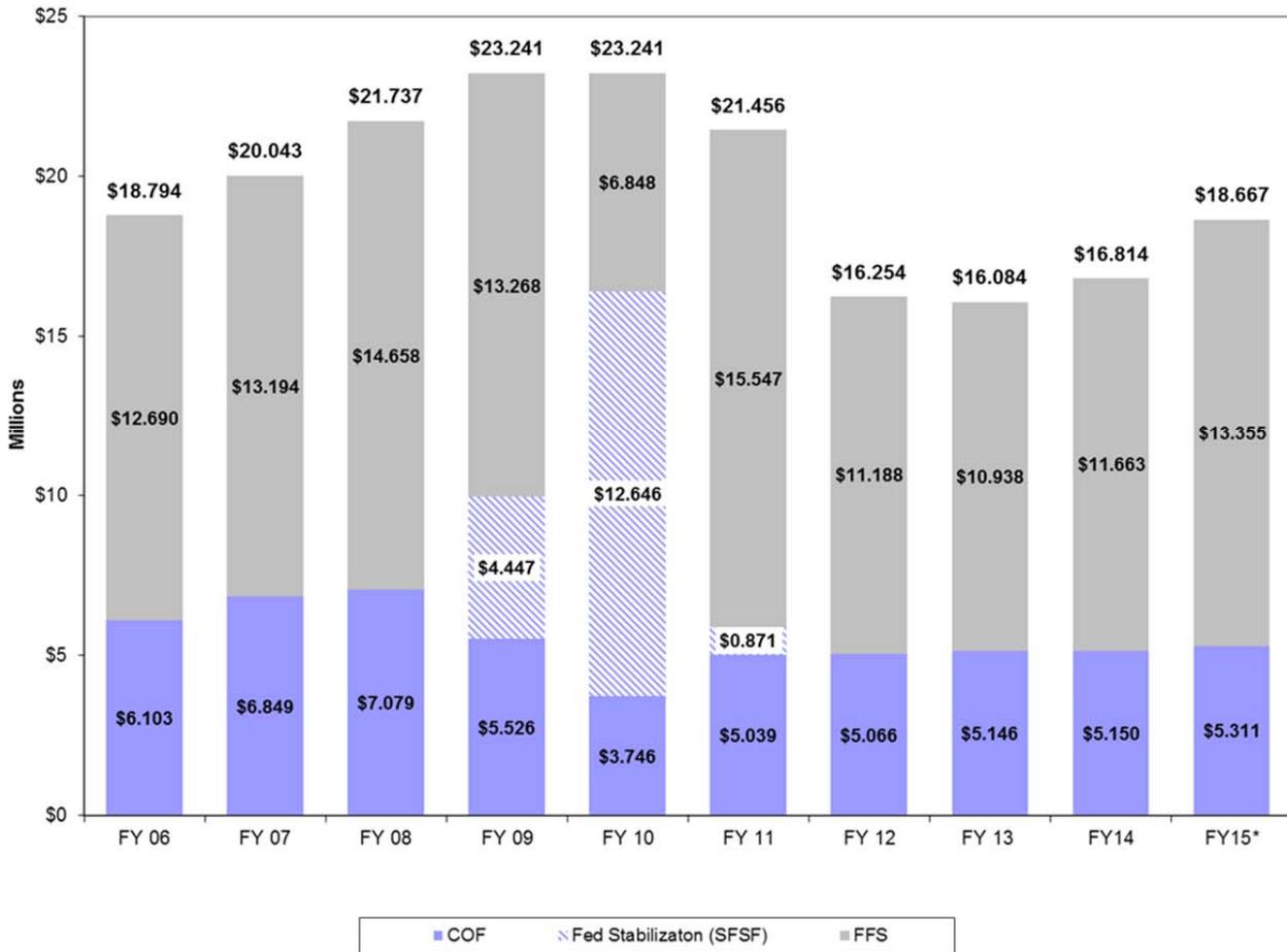
Continued economic growth in Colorado has allowed the state to increase its allocation for higher education to \$604 million for 2015, an increase of nearly 11% from 2014. While the Governor's budget office is projecting sustained modest growth for Colorado in its March 2014 revenue forecast, it is noted that growth could be threatened by economic vulnerabilities nationally and internationally. Further the allocation for fiscal year 2015 is still

considerably lower than the State's highest level of higher education funding in 2009 and 2010 as noted in the chart below, title, "Department of Higher Education State Funding."



Based on the overall 11% increase, the Colorado School of Mines will receive an increase in state funding of \$1.86 million in fiscal year 2015 for a total of \$18.67 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 2016. However, due to the uncertainty in the State's budget in the future and the passing of House Bill 1319 that will significantly change how institutions of higher education are funded in Colorado, we continue to assume a decrease in fee for service support for each year beyond fiscal year 2017 in our financial models. The chart of the following page reflects state funding for Mines over the past ten years.

CSM State Support



* Upon JBC Approval

II. DISCUSSION

The School continues making strides in funding strategic and critical investments. The proposed budget reflects investing in areas that are critical to the operations of the school as well as efforts to begin to align resources with the school’s strategic objectives set forth in the newly developed strategic plan.

This budget represents all funds received and used by the school and 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 is summarized in Attachment 1 and the changes for each fund are summarized below and detailed in Attachment 2.

Proposed FY 2015 Budget Changes

	Current Unrestricted Fund	Designated Fund	Restricted Fund	Endowment and Loan Funds
Fiscal Year 2014 Base Budget:	\$ 1,400,000	\$ 0	\$ 0	\$ 0
Revenue Increases (Decrease):				
Tuition Revenue (2.75% Res; 3.75% NR rate inc.) and Fees	7,000,000	400,000		
State Funding	1,860,000			
Housing Revenue	1,900,000			
Use of One-time Savings from FY2103	(3,300,000)			
Gift Revenue			17,000,000	
Research				
Federal and State Financial Aid			400,000	
Other Revenue		(11,100,000)		200,000
Proposed Revenue Increase (Decrease)	\$7,460,000	(\$10,700,000)	\$17,400,000	\$200,000
New Expense Increases (Decreases):				
New Administrative Staff	800,000			
Salary and Benefit Savings (includes benefit pool reduction of \$100,000)	(2,100,000)			
Operations of New Buildings (Elm and Welcome Ctr)	500,000			
Net Increase in Debt (primarily Elm Hall)	1,300,000			
Ongoing Expense Increases (Decreases):				
Salary and Fringe Increases	3,600,000			
Resident Financial Aid & Graduate Support – SB003	1,700,000			
Other Financial Aid and Graduate Support	2,020,000			
Increase Start Up for new Faculty	2,100,000			
Adjunct and Student Hourly	200,000			
Other Operating and Miscellaneous	700,000	(6,200,000)	500,000	(100,000)
Capital and Controlled Maintenance	(2,300,000)		17,000,000	
Proposed Expense Increase (Decrease)	\$8,520,000	(\$4,500,000)	(\$100,000)	\$100,000
Net Activity FY2015	\$340,000	\$1,200,000	\$1,300,000	\$0.00

Current Unrestricted Fund

After the budget adjustments, summarized above, the current unrestricted budget reflects total revenue of \$169.94 million and expenses of \$162.81 million, and reserve set aside of \$6.79 million resulting in net activity of **\$0.34 million**.

Revenue

Current unrestricted revenues are expected to increase by \$7.46 million in fiscal year 2015 based on the following assumptions:

- Tuition increases of 2.75% for resident students and 3.75% for non-resident students

- An incoming class of freshman and transfers of 950 students with 144 transfer students. Although these incoming class numbers are flat from fiscal year 2014, enrollment is expected to increase as the enrollment model anticipates an increase in undergraduate resident students of 0.53% and an increase in non-resident students of 6.51%. This overall increase in enrollment reflects the greater number of non-resident students that have enrolled in prior year classes as these classes matriculate through the system and replace older classes that had less non-resident students. The enrollment increase also reflects an increase in non-resident retention. The enrollment projections assumes flat graduate enrollment.
- State Funding will increase by \$1.86 million or 11%.
- Auxiliary Revenue is expected to increase by \$1.95 million. The increase is primarily due the average increase of room and board of 3.77% and the opening of the new residence and dining hall.
- Revenues include a reduction of the one-time savings used from fiscal year 2013 of \$3.3 million in the fiscal year 2014 budget.

Expenses

The net increases to the expense budget have been carefully aligned with the strategic plan and to deliberately address critical needs to support the academic, research and student programs. In alignment with the strategic plan, additional funding has been invested in the following areas; creation of a Center for Teaching and Learning, the creation of web development positions, increased support for the information technology infrastructure, administrative research support, and the operations of new facilities. The expense budget increase of \$8.52 million includes the following institution wide increases and departmental requests.

Salaries and Benefits

The legislature sets the salary and benefit increases for classified staff. For this year, they have approved an increase for a base adjustment of 2.5% and a merit increase (dependent on performance evaluations) of 1%. To match the legislative increase for classified staff, this budget includes the same percentage increase, 3.5% for all other staff; academic and administrative faculty. The 3.5% will be used for any equity adjustments, promotions, and merit.

The school has aggressively invested in academic faculty hiring over the last several years and is working towards finalizing several searches. Additional adjunct funding (much of it as one-time) is provided to help fill the gaps until those positions are filled. For the fiscal year 2015 budget we are leveling off new faculty hires to focus on critical needs in areas such as information technology infrastructure and research support.

In addition, an increase of \$2.10 million is requested to fund faculty start up for the new academic faculty; this will address our total \$6.3 million commitment to fund start up for new faculty.

The budget includes 22 new non-faculty FTE, four of which were funded from realignments of operating dollars and had no budget impact. Eight of the positions support information

technologies and includes three new positions for web content and development at the colleges. It also includes a director for the Center of Teaching and Learning program, two new positions within the Office of Research Administration, and six FTE to support the new Elm Residence and Dining Hall. A listing of all new positions and the related areas is provided in Attachment 2.

This will be the first year that we implement a budget for salary savings. For a number of years, we have incurred salary savings due to faculty and staff vacancies, but have never captured them as a part of the budget. With the desire to develop a budget that is better aligned with our true operations, we thought it was prudent to budget salary savings wherein we could “utilize” those savings in our budget planning rather than determine how to deal with them in the year that they occur. Below is a brief outline of how salary savings have been incurred in the last few years and what we propose for fiscal year 2015:

Salary (and benefit) Savings			
	FY13	Projected FY14	Budgeted FY15
<i>Academic Affairs</i>			
New Academic Faculty	\$1,930,690	\$2,227,982	\$0
Existing Faculty	2,361,071	2,672,324	1,000,000
Non - Academic	631,944	960,284	500,000
<i>President’s Office</i>	14,540	410,591	0
<i>Finance and Administration</i>	249,471	600,000	230,000
<i>Student Life</i>	242,260	350,000	270,000
Total	\$5,429,976	\$7,221,181	\$2,000,000

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 ten years. Fiscal year 2015 will be the fourth year of the commitment with a total budget of \$5.2 million (40% of our fee for service contract) in additional institutional financial aid and graduate support dedicated to resident students. To meet this target, the proposed budget request includes an increase of \$1.51 million undergraduate resident financial aid and \$0.16 million for graduate resident support. In addition, the proposal includes requests for non-resident students with an additional \$1.72 million allocated to undergraduate financial aid and \$.21 million for graduate support.

Mines is committed to addressing access and affordability while maintaining academic excellence so in fiscal year 2015, we are introducing the Colorado Scholars Fund scholarship program. Using SB10-003 funds (as discussed above), this program allocates awards to high merit and high need Colorado resident students – the student must be Pell eligible and a CSM Merit Award recipient. The funding will fill the gap between what the student receives in grants and scholarships and the cost of tuition and fees. We expect to provide funding throughout each student’s year at Mines. The program will start with the freshman class and will be renewable for four years if the requirements continue to be met. With this program, we intend to offset costs and lower loan debt for Pell eligible Colorado students who excelled academically in high school and choose to come to Mines.

New Buildings

The new residence hall will open in the fall of 2014 with the dining hall opening in January 2015. In addition, the school acquired an office building from Jefferson County which is expected to be occupied over the summer. This budget requests an increase of \$0.51 million for six FTE and the operations for these buildings as well as start-up costs for the Welcome Center that is expected to come on line during the summer of 2015.

Debt and Other Operating

Included in other operating expenses are increases for debt (\$1.25 million) and other nondiscretionary increases including utilities, software licenses and other contractual agreements (\$0.20 million). The school is preparing to retire early certain debt which will have a positive impact to the operating budget in 2015 of \$321,658 as well as future years.

Fundraising

The development services fee with the CSM Foundation increased 5% to \$1.9 million for FY2015. This fee is used to support a portion of the capital campaign's costs.

Operating Budget Projections

While developing the budget, we took into consideration the impact our current decisions have on future years. Below is a summary of the next few years given moderate tuition increases in fiscal years 2016 and 2107 and flat state support in fiscal year 2016. In fiscal year 2017, we are forecasting a decline in state support of 10%. Fiscal year 2016 and 2017 also include three new academic faculty positions each year.

Current Unrestricted Operating Budget Projections FY 2015-2017			
	FY15	FY16	FY17
Revenues	\$169,937,970	\$177,030,565	\$182,323,532
Expense	169,599,024	176,927,944	183,879,538
Net	\$338,946	\$102,621	(\$1,556,006)

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 decrease in total by \$10.7 million primarily due to settlement proceeds received in 2014 for the CSMRI project which will not occur again in

fiscal year 2015. We anticipate an increase of \$400,000 mostly due to an increase in student fees based on inflation (2.75%). The decrease of \$6.2 million in capital projects reflects repayment of the CSMRI project liability along with internal funding set aside for the Clear Creek Athletics complex which we do not anticipate needing in fiscal year 2015.

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.

We are anticipating the receipt of gifts for the Welcome Center (\$2.0 million) and the Clear Creek Athletics Complex (\$15.0 million) to be used for construction. We also expect a small increase for State financial aid of \$0.30 million. All other activity is expected to 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. We expect the activity to remain relatively flat with fewer transfers to fund capital and operating activity.

Colorado Geological Survey

Beginning with fiscal year 2014, legislation was passed moving the Colorado Geological Survey (CGS) from the Department of Natural Resources to the Colorado School of Mines. CGS transitioned to the school and is now a function within the College of Earth Resource Sciences and Engineering. The funding for CGS comes primarily from state general funds and severance tax. They also receive state and federal funds for research. Because the majority of their funding is derived from state resources, they are separately appropriated in the Long Bill. Below is the fiscal year 2015 budget that has been approved and appropriated in the Long Bill:

Colorado Geological Survey		
FY 15 Budget		
	Designated State Funds	Federal/ Restricted Funds
Revenue		
State General Fund	\$300,000	
Severance Tax	1,295,601	
Grants and Contracts		290,545
Other	215,542	
Total Revenue	1,811,143	290,545
Expense		
Labor	1,500,948	212,736
Operating	310,195	77,809
Total Expense	\$1,811,143	\$290,545

Because their funding is separately budgeted and appropriated in the state's Long Bill, their budget cycle begins in June and must be submitted to the Office of State Planning and Budgeting in August (almost one year in advance of the CSM budgeting process). The fiscal year 2016 budget request is still in development and is not expected to have material changes. However, they will be requesting one additional FTE (a Geologist) that, if approved, will be funded with additional severance tax.

CSM Foundation Budget

CSM receives annual funding for specific administrative operating activities outlined below. This funding has been reduced for fiscal year 2015 and those base amounts are indicated below:

CSM Support:		
Legislative Relations	FY 2014	FY 2015
Federal Legislative Services	\$150,000	\$150,000
Colorado Legislative Services	108,929	110,018
	\$258,929	\$260,018
CSM Alumni Association	\$180,000	\$0
General CSM Support		
Institutional Support	\$298,500	\$250,000
Marketing	50,000	0.00
Provost	100,000	0.00
S.V.P. Finance and Administration	10,000	0.00
V.P. Student Life	10,000	0.00
V.P. Research and Tech Transfer	10,000	0.00
	\$478,500	\$250,000
Total CSM Support	\$917,429	\$510,018

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 2015 Budget, including:

- The Colorado School of Mines budget; and 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 2015 Budget, including:

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