

University of Puget Sound Faculty Senate Meeting Minutes January 24, 2011

Senators Present: Brad Dillman, Fred Hamel, Rob Hutchinson, Dan Burgard, Kristin Johnson, Bill Barry, Tiffany Aldrich MacBain, Keith Ward, Dan Miller, Steven Neshyba, Ross Singleton, Elise Richman, Kris Bartanen

Visitors: Douglas Cannon, Bill Beardsley, Mott Greene (BTF), D. Wade Hands (BTF), Sherry Mondou (BTF)

Neshyba called the meeting called to order at 4:04 pm

Minutes of 12/13/10 were approved with minor adjustments.

Announcements

The Benefits Task Force (BenTF) most likely will not present its proposal to the Board of Trustees in February. Sherry Mondou has requested verification of budget neutrality regarding certain aspects of the proposal and would like responses and feedback prior to bringing the proposal before the Trustees. There will be one more Trustee meeting in the spring.

Dirk and Clarissa Spivey were born on January 7th.

Budget Task Force Recommendations

Greene discussed the process involved in generating the Budget Task Force proposal. The BTF is composed of 2 vice presidents (Bartanen, chair; Mondou), 2 faculty members (Mott Greene; Wade Hands), 2 staff members (Debbie Chee; Jada Pelger), and 2 students (Chris Pierce-Wright; Elayna Zamarelli). BTF members examined expenses garnered and revenue gained in the current fiscal year and projected over the next four years. The BTF hosts presentations by all constituent divisions of the university, plus the Faculty Salary Committee and Staff Salary Committee. A fundamental purpose of the BTF was to explore the expense needs identified by each representative's constituency.

This year, given the decline in projected revenue, the BTF sought potential budgetary cuts by balancing constituencies' voiced needs and abilities to reduce spending. Greene went on to state that the attached document (University of Puget Sound Budget Task Force Recommended Budget Assumptions for 2011-12) does not cover deliberations, just recommendations.

Mondou began by stating that investment in new expenses is dependent upon revenue. The BTF was faced, in achieving this balance, with several challenges: the Fall 2010 freshman class was 50 students short of the "target headcount"; students have a greater overall level of financial need; the endowment will be down \$700,00 next year and this decline will persist (see page 4 of BTF attachment). The bottom line is that all increases must be matched by cuts.

The BTF also was informed by university consultations regarding the recruitment market and financial aid structures.

Bartanen was appreciative of the thoughtful ideas the constituencies brought to the exploration of potential budgetary reductions. Chairs, for example, identified possible 5-10% reductions in their departments. Page five of the attached document outlines proposed cost reductions.

Bartanen also discussed the desire to protect things that are important to maintaining academic quality in determining budget cuts. Toward this end, the academic budget will cover the costs of all steps in faculty promotion; support all sabbaticals; maintain faculty travel, development, and research funds; maintain operating budgets in academic teaching departments; and maintain academic equipment budgets. The \$995,000 reduction in the Academic division budget will come largely through reduction in visiting faculty hires for coverage of sabbaticals, some reductions in administrative budgets in the academic area, and some staff reduction. The Finance & Administration and Student Affairs divisions are also tightening budgets through administrative operating and staff reductions.

Budgetary reductions are outlined in the attached documents.

The BTF identified the following priorities:

- Funding for financial aid
- Support for enrollment efforts
- Enhancing support through gift revenue and philanthropy
- Protecting faculty and staff compensation

Barry thought that \$995,000 (the amount cited as the academic budget reduction) represented a smaller number than he'd remembered being discussed earlier with departmental chairs.

Mondou explained that additional long-range reductions will be necessary.

Greene commented on the difference in the rhetoric surrounding Puget Sound's budgetary issues versus that of public institutions, which are facing more stringent and more long-term budget cuts.

Hands explained that the endowment income figures included in the proposal were "moving averages" since the university is not taking the brunt of a financial "hit in one year" and will need to deal with "endowment lags" over time. The BTF proposal represents long-term considerations. Forecasting the economic state of the university involves looking at last year's budget, seeking advice from consultants, among other factors.

Beardsley asked about the basis for confidence in predictions regarding future student enrollment levels and tuition increases.

Mondou acknowledged that the recruitment market is a bit of a “wild card.” She explained that the BTF was informed by Hardwick-Day consultants, who looked at Puget Sound’s market position and price sensitivity to understand and make predictions regarding financial aid recruitment. One key factor is to become more competitive and to be proactive. The university also has traditionally and continues to use a conservative budget model. There is, for example, a 1% enrollment margin of error that provides “wiggle room” for budgetary projections.

Beardsley stated that the long-term strategic plan is based upon assumptions that the current economic downturn is temporary. He went on to ask when the university would consider deeper cuts.

Greene answered that next year, for example, if projected entering freshmen numbers are lower than anticipated the university will need to consider deeper cuts.

Mondou emphasized a belief in the quality of education that Puget Sound offers, which is a source of its competitive edge. She stated that the market will reveal what individuals can afford (and are willing) to pay.

Bartanen added that Puget Sound is a fiscally sound university. She went on to share that fifty people from the campus community are engaging in a workshop to learn how to “tell our story” better as a means of appealing even more to prospective students.

Mondou informed the group that peer institutions are in similar situations and are making similar cuts.

Ward asked about benefits increases, about how Benefits Task Force recommendations will play out in the coming fiscal year and in the long term.

Mondou identified the Benefits Task Force’s overarching objective: to make recommendations regarding the faculty and staff benefits package that are budget neutral, meaning that an increase in one area would need to be offset by a reduction in another area of the benefits budget. Bartanen clarified that the increase in benefits recommended by the Budget Task Force is simply the dollars that cover existing benefits and go along with the recommended 2% increase in faculty and staff compensation.

Cannon asked if reductions in visiting faculty will affect class sizes to a degree that may affect our competitiveness.

Bartanen stated that such concerns were considered and the overall student to faculty ratio would change but not by very much. Furthermore, cuts in visiting

faculty (which Puget Sound has in higher proportion to full time, ongoing faculty than some peer institutions) could strengthen the overall quality of teaching and advising by increasing the proportion of full time faculty who tend to bring a higher level of commitment and knowledge pertaining to the university to their positions.

Neshyba asked for confirmation that start-up funds for faculty were unchanged in the BTF's 2011-12 budget. Kris confirmed that this was indeed the case. Neshyba then asked if there were efforts to target more transfer students. Mondou stated that the number of transfer students at Puget Sound has been reduced historically. Bartanen added that transfer students are part of a competitive market and have the highest attrition rate. Mondou suggested that the ultimate goal is to successfully graduate the students we have. Neshyba asked if students with GI bill financial aid were attending Puget Sound. Mondou answered yes, including some Yellow Ribbon students benefitting from federal funding who tend to be of traditional college age were attending Puget Sound.

Burgard asked about tuition increases over the long term, stating that by 2012-13 tuition and additional costs will add up to nearly \$50,000. He wondered if there is a sense of what the market will pay and if tuition will continue to consistently increase by 2-3% annually.

Mondou replied that tuition increases will be dependent upon inflation and how Puget Sound's tuition compares with peer institutions. She added that there will always be a market for what we do. Wade added that all institutions share Puget Sound's financial situation, meaning that tuition increases can be evaluated on a smaller, more comprehensible scale--in relation to peer institutions. Ward mentioned the Federal Government's Net Price Calculator as another means of promoting a general cognizance of how much students actually pay for tuition. Mondou added that few students pay full tuition costs.

Hamel asked how the BTF came to 12.7% as the targeted percentage increase for financial aid. Mondou explained that there was a review of the last recruitment efforts and an evaluation of the change in enrollment and financial aid structure.

Hamel expressed how impressed he was with the BTF's work as well as his endorsement of and support for the BTF's proposal.

Bartanen stated that the comment period on the BTF proposal is still open through January 31; comments may be submitted to president@pugetsound.edu.

Committee Liaison Reports

The need to find a temporary replacement for Amy Spivey who is the Student Life liaison was discussed.

Barry reported that the ASC voiced some concern about the viability of a university common hour. Concerns focused on logistics and desirability. Barry also reported that the ASC is working on giving staff and perhaps students the right to report academic integrity violations.

Neshyba asked for clarification on the status of the thirty-day deadline for commentary on Upper Division Course requirement amendments. Singleton provided clarification, stating that once the Faculty Senate considers any action brought forth by a committee, the thirty-day clock stops. Barry understood that according to the last Faculty Senate conversation regarding Upper Division Course requirements, this issue is to be re-visited by the Curriculum Committee. Ward asked that a representative from the Curriculum Committee be invited to talk to the senate. Hamel will discuss this with the Curriculum Committee.

Consideration of priorities for the coming semester

Hutchinson suggested discussing the 12-page data pertaining to Instructor Evaluations at a future faculty meeting.

Ward suggested that the Animal Control Policy drafted by Todd Badham and John Hickey be presented to the senate for consideration.

Neshyba encouraged committee liaisons to ask their respective committees to submit final reports earlier than normal or to submit interim reports. He also plans to sit in on the next Diversity Committee meeting to look into a cohort model that could potentially be implemented at Puget Sound. Neshyba mentioned "Posse" as an example of a national cohort model, which involves providing support for a group of students that go through four years of college together. He would like to see if this model could be applied on campus.

Bartanen mentioned that the next faculty meeting is on February 7th and agenda items are due soon.

Hamel summarized senate priorities:

- The senate needs one more senator
- The common hour
- Instructor Evals
- Curriculum Committee/Upper Division course requirements
- Animal control policy
- Diversity committee and possible cohort model

Barry requested that the Curriculum Committee resolve all issues surrounding Upper Division course requirements before presenting potential modifications to

the senate. Hamel will check with Curriculum Committee Chair Buescher to ensure that there is clarity about Upper Division course requirements and to see if he would like to attend a senate meeting to discuss the issue in person. Burgard echoed that desire for a coherent, single version of the Upper Division course requirement changes before the issue is discussed further in the senate.

M/S/P (Hamel) to adjourn.

Respectfully submitted,

Elise Richman
Scribe

Tiffany Aldrich MacBain
Secretary

**University of Puget Sound
Budget Task Force
Recommended Budget Assumptions for 2011-12**

The Budgeting Process

Since 1977, the university has benefited from the involvement of faculty, staff, and students in a participative budgeting process. Puget Sound’s annual budgeting process begins with the important work of the Budget Task Force (BTF), a group chaired by the Academic Vice President that includes students, faculty, staff and the Vice President for Finance and Administration, and whose charge is to recommend to the President a balanced budget that advances the university’s mission, strategic plan, and long-term health. After meeting with the President to hear his perspectives and sense of priorities, the BTF studied written reports, heard presentations, and considered budget recommendations from the leaders of eighteen campus groups/departments¹ throughout the fall term. As the BTF deliberated, it also invited suggestions and comments from the entire campus community through Open Line and Tattler. After analysis and discussion, the BTF reached a consensus in recommending a balanced 2011-12 operating budget to President Thomas, and their recommendations are now available for campus review and comment. We invite you to engage in the review and comment period.

How Campus Members Can Learn About and Comment on Recommendations

The BTF sent an email to all faculty, staff, and students with a link to this report. Members of the BTF will also share their recommendations in person with the Faculty Senate, Staff Senate, and ASUPS Senate, at the times shown below. All staff, students, and faculty are welcome to attend:

- Faculty Senate, Monday, January 24, 4:15 – 5:00 p.m., Library 020, Collins Memorial Library
- Staff Senate, Wednesday, January 26, Noon to 1:00 p.m., Room 101, Wheelock Student Center
- ASUPS Senate, Thursday, January 27, 7:30 – 8:15 p.m., Murray Boardroom, Wheelock Student Center

The President invites comments from the campus community through Friday, February 4, 2011, before taking his recommendation to the Board of Trustees for approval at their February 18 meeting. Send your comments to president@pugetsound.edu.

BTF Membership

Kristine Bartanen, Academic VP, Chair	Debbie Chee, Staff Member
Sherry Mondou, VP for Finance and Administration	Jada Pelger, Staff Member
Mott Greene, Faculty Member	Chris Pierce-Wright ‘11, Student Member
Wade Hands, Faculty Member	Elayna Zammarelli ‘12, Student Member

For more complete information about Puget Sound’s budgeting process, see: http://www.pugetsound.edu/files/resources/5748_BudgetingProcess.pdf. To view the university’s mission statement, go to: <http://www.pugetsound.edu/about/mission-statement/>. For information about the university’s strategic plan, which was an important consideration in budget decision making, visit: <http://www.pugetsound.edu/about/strategic-planning/>.

¹ Academic Division, Accounting and Budget Services, Admission, ASUPS, Business Services, Community Engagement, Communications, Facilities Services, Faculty Salary Committee, General Institutional, Human Resources, Recruitment/Student Financial Aid, Staff Compensation Committee, Student Affairs, Student Financial Services, Technology Services, Treasury, and University Relations.

Context in Which Budget Recommendations Were Formed

President Thomas met with the BTF early in the process to share his perspectives and general sense of priorities. He noted that the higher education landscape has changed and that concerns about the affordability of college have been accelerated by the deep economic recession and slow recovery. To successfully compete in meeting our goals for student recruitment, we must stay focused on mission, continue to build Puget Sound's national reputation as a national residential liberal arts college, and offer competitive financial aid packages. The market signaled to us this past year, with the smaller freshman class size, that Puget Sound's pricing strategy requires adjustment and we will need to both increase financial aid and distribute that aid in the most strategic way. We must also moderate tuition increases to the fullest extent possible at a time when philanthropic and investment environments place strains on our other key revenue sources. We anticipate declines in endowment distributions through 2012-13. We will continue to focus on high quality education, our strategic objectives, and the attainment of the net revenues that will sustain our educational mission and operating budget. This will require strategic investments in some areas, including competitive compensation for faculty and staff, and will require strategic cost cutting to achieve a balanced budget and long-term financial equilibrium in this very competitive and challenging environment.

The BTF considered the major budget drivers within Puget Sound's business model, the economic environment and external forces of influence, as well as Puget Sound's current and aspirational position.

Economic Environment:

- Economists agree that recovery from the Great Recession is going to be slow.
- The rate of inflation has been relatively benign, dropping from 2.7% in 2009 to 1.5% in 2010. The difference between 2- and 30- year Treasury yields has widened as investors demand a higher reward for the longer-term securities on concern that a strengthening economy will eventually spur inflation.
- Unemployment remains high at 9.4% as of December 2010 and progress is expected to come slowly. Unemployment is 15.3% among those without a high school diploma, 9.8% among those with a high school diploma, 8.1% among those with some college or an Associate's degree, and 4.8% among those with a Bachelor's degree and higher.
- Home values have declined, with over 22% of Americans with mortgages owing more than their home is worth. This means fewer families have home equity and those who do, have less of it. Families often use home equity to help finance their children's education.
- Investment portfolios supporting retirement and children's education have lost significant value. A \$100,000 investment in the S&P 500 in October 2007 is worth \$80,000 in December 2010.
- State budgets, including Washington's budget, are in terrible shape and funding for higher education is on the chopping block. State aid provided to students attending private colleges has been cut and is at further risk.
- The recession and economic uncertainty have prompted changes in behavior and people have become more cautious about spending. For some, this includes considering lower cost options for college.

Puget Sound's financial situation:

- Puget Sound entered this difficult economic period with a strong financial foundation, a long history of balanced budgets, a clear focus on mission and a strategic plan to guide our work. This has enabled us to remain focused on the most important things and to make gains toward strategic objectives, and has required us to be innovative and resourceful in finding savings and efficiencies.

- Student Demand
 - There is strong interest in a Puget Sound education with a record number of applications in 2010. We continue efforts to solidify our reputation in the market and we continue to seek ways to increase student success to graduation.
 - Though interest is strong, prospective students are less wealthy, have greater financial need, and are price sensitive. The market determines what we can charge.
 - Puget Sound increased tuition 4.91% in 2009-10, the lowest in nine years, and by 4.49% in 2010-11, the lowest in a decade. Puget Sound hired a consultant to gauge our position in the market and the research strongly advised moderation in tuition increases relative to peers given the heightened price sensitivity in the market.
 - Competition for students is fierce and peer institutions, many of which have larger endowments, are offering stronger merit and need-based financial aid packages.
 - Puget Sound increased its financial aid budget by 10% in 2009-10 and another 12.4% in 2010-11 (and overspent that increased budget), and finds that the discount rate still trails peer institutions, in some cases by as much as 10%. Peer institutions had higher discount rates than Puget Sound before the recession and they have continued to increase them.
 - Puget Sound enrolled 46 students above its first-year student goal in fall 2009, though the entire class required greater amounts of financial aid than budgeted, and then enrolled 50 students fewer than target in fall 2010 while trying to moderate the discount rate.
 - To be competitive, we need to continue to strengthen our position in the market and continue to retool our financial aid strategy to maximize net tuition revenues.
- Revenue Diversification
 - To take pressure off tuition increases, we continue efforts and investments to strengthen fundraising and endowment.
 - Our investments in alumni and fundraising infrastructure are paying off, but significant shifts in revenue diversification (in other words, reducing tuition-dependence) take decades. To achieve long-term success, we must stick with our plans.
 - We have found fundraising success early in our campaign and we have seen the recession cool the philanthropic environment in general.
- Expenditures
 - Challenges of the recession create a catalyst for identifying fresh approaches and securing cost-savings. These new approaches and cost savings will allow us to invest in the most strategic areas, including the human resources that contribute to Puget Sound's quality and effectiveness and including strategies that strengthen revenues.
 - Even as we keep our sights on our strategic objectives, it is clear that constrained revenue growth requires scrutiny and restraint on the cost side. We held budgeted expenses to a 1% increase in 2009-10 (and did not increase base salaries) and to a 1.75% increase in 2010-11.
 - In recent years we lost ground in our comparative position of faculty salaries to those at peer institutions.
 - We secured cost savings in some areas to fund investments in other areas, and more of this will be needed. As endowment distributions decline and net tuition revenue is challenged, Puget Sound will need to make more substantial cuts in 2011-12 and likely 2012-13 as well.

The BTF's Recommendation

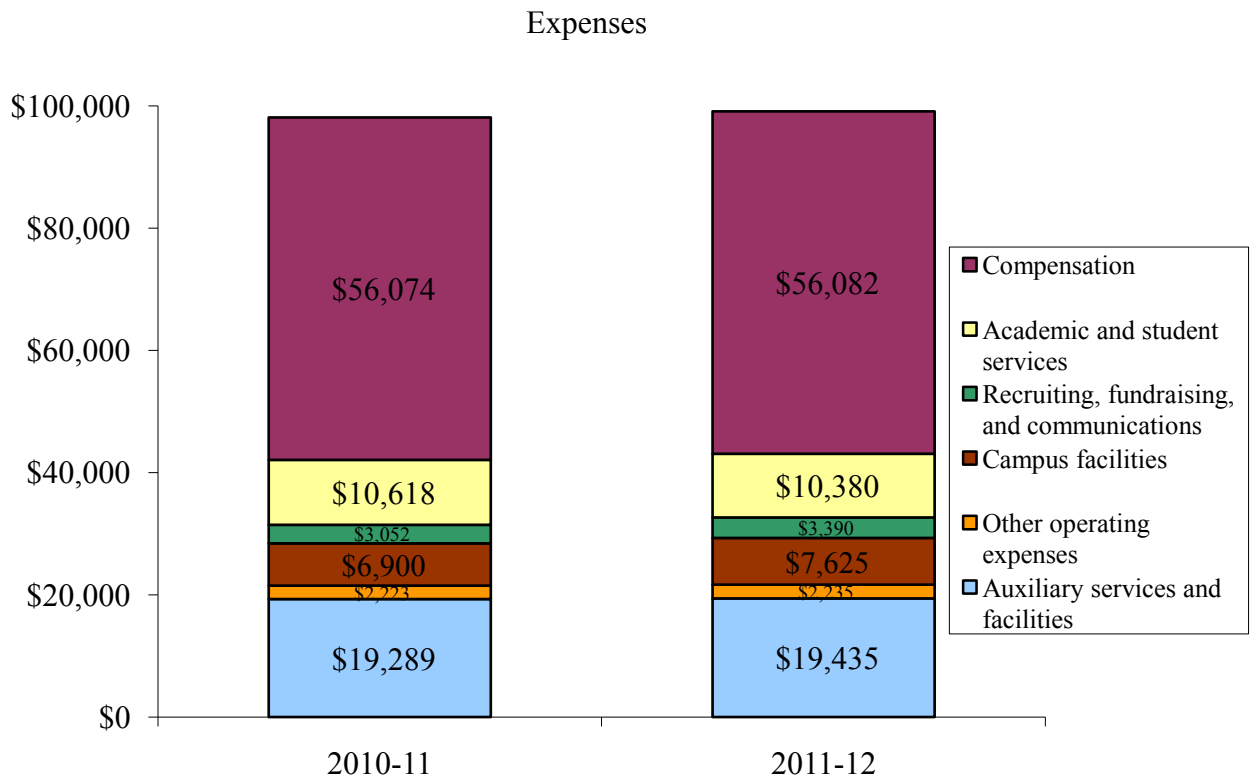
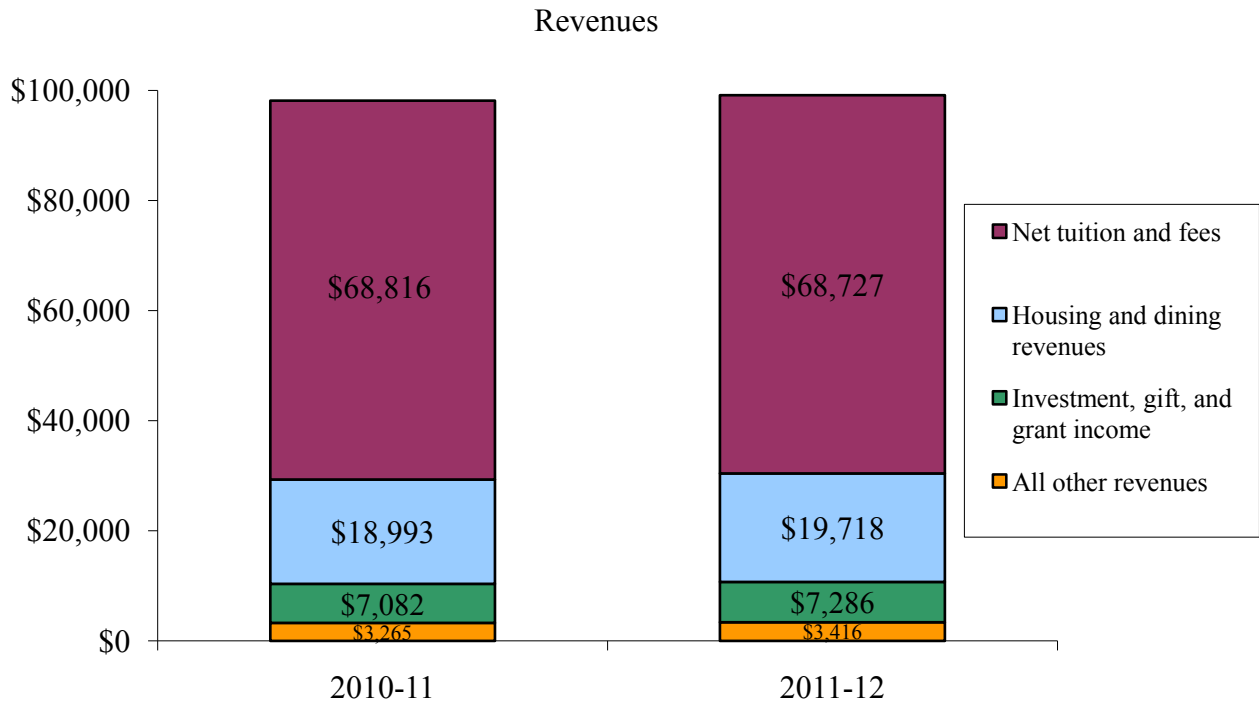
The BTF's recommendation for a balanced budget in 2011-12 is summarized on the next two pages, followed by a more detailed discussion of the key budget drivers and recommendations.

Overview of Revenues and Expenditures

University of Puget Sound

UNRESTRICTED OPERATING BUDGET SUMMARY

(Dollars in Thousands)



Summary of Recommended Budget Assumptions for 2011-12
(Excludes Auxiliary Operations)

REVENUES, Total net increase of .28% , including:

- Virtually flat net tuition revenues with a slight decrease of .1%
 - No change in the overall budget enrollment assumption of 2,650 student FTE, with a 1% enrollment contingency
 - 4% increase in undergraduate tuition rate, the lowest in nearly 4 decades
 - 12.7 % increase in student financial aid, honoring aid commitments to continuing students and bringing the freshman discount rate to a more competitive 42%
- 6% decrease in total endowment distributions, including a 5.3% reduction in unrestricted endowment
- 10% increase in unrestricted gift and grant support
- \$98,000 in new revenue from procurement credit card (P-Card) rebates, with opportunity for additional rebates over time as campus usage increases

EXPENSES, Total net increase of .28% , including:

- \$1,652,000 in budget reductions confirmed by President’s Cabinet
 - Academic - largely in visiting faculty, some staff & admin budgets **\$ (995,000)**
 - Finance & Admin - largely a reduction in staff positions, many vacant **\$ (405,000)**
 - President - elimination of discretionary budget **\$ (200,000)**
 - Student Affairs - reduction of non-essential expenses **\$ (52,000)**
- Investments in compensation **\$1,271,000**
 - 2.00% increase to faculty, staff, and student staff salary pools
 - 2.27% fringe benefit increase to cover cost of current benefits
 - Considering this increase less the reduction in positions, the net increase in the compensation budget is just \$8,000
 - Should Washington State’s 2011-13 biennial budget include reductions in State Work Study as anticipated, both the student employment budget and grant revenue budget will necessarily be reduced
- Investments in our academic and administrative facilities **\$ 166,000**
 - 10% increase in planned major maintenance per trustee expectation
 - No increase in utility expenses due to energy conservation strategies
 - \$559,000 increase in E&G debt service covered by a decrease in auxiliary debt service
- Investments in academic programs
 - Study abroad program expenses **\$ 70,000**
 - Ongoing replacement funding for Center for Health Sciences technology equipment following initial purchase covered by capital budget (all other operating costs for this building, estimated at \$235,000, will be absorbed in existing budgets) **\$ 56,000**
- Investment in student recruitment, including funding for essential new software **\$ 58,000**
- Campaign costs covered by board approved endowment support during campaign period and by increased giving levels over time.

A discussion of the key budget drivers and the Task Force’s recommendations follow.

Discussion of Key Budget Drivers and Recommendations

Major Revenue Sources

Net Tuition and Other Fees

The 2011-12 tuition revenue budget is based on enrollment of 2,650 fulltime equivalent (FTE) students; no change from the 2010-11 budget assumption. This enrollment level is appropriately conservative relative to 2011-12 projected enrollment of 2717, which assumes full success in recruiting 675 freshmen and 55 transfer students, in meeting new student enrollment budgets for graduate programs (PT 36, OT 26, MAT 45, and M.Ed. 10), and in continued strength in retaining continuing students. While recent and 2011-12 projected enrollments exceed the 2650 budget, the projection for 2013-14 is just 2,654 as we graduate the large freshman class entering fall 2009 and as the small freshman class entering fall 2010 rises as seniors. Maintaining a 1% enrollment contingency based on net tuition (tuition for 26 FTE less financial aid) provides protection from variations in enrollment and/or discount rate in any given year. In the event that enrollment targets are met and the contingency is not needed, it will be released for one-time expenses of high priority in accordance with board-approved policy. In the event that enrollment targets are not met, our conservative budget provides protection and gives us reasonable time to make adjustments. Conservative budgeting, including enrollment levels and enrollment contingency, is a key factor in helping Puget Sound weather the recession and any surprises without harmful mid-year disruption of programs and mission.

The Budget Task Force recommends a 4% increase in tuition rates, which will bring full-time undergraduate tuition to \$38,510. The recommended increase is the lowest in nearly four decades. Puget Sound's 2010-11 tuition is below the median of Northwest peers and national peers and we anticipate being comparably positioned in 2011-12 as we anticipate that peers will also increase tuition beyond inflation to fund student financial aid, to compensate for decreases in endowment and gift funding, and to invest in their human resources and programs, even as they trim costs. The Budget Task Force heard reports of intense price sensitivity in the current economic environment based on a commissioned pricing study, as well as our own experience and that of peers in the last recruitment cycle. Vice President for Enrollment George Mills and other key leaders believe Puget Sound can remain competitive at this tuition level providing we continue to be effective in communicating the value of a Puget Sound education and provide competitive financial aid packages.

Puget Sound combined room and board fees are also below Northwest and national peer medians, although room fees are above the medians and board fees are below. The BTF recommends a room increase of 2.97% and a board increase 4.93%, respectively, to best support an excellent residential experience for students and in consideration of market data. The combined increase would be 3.83% and we anticipate that Puget Sound would remain below the national peer median for combined room and board.

ASUPS and the BTF recommend that the ASUPS (student government) fee be increased from \$195 to \$210. This fee has not increased since 2007-08 and is well below the medians of Northwest and National peers.

An increase of \$15 per student is needed to:

- fund expenses to maintain KUPS radio compliance with Federal Communications Commission (FCC) regulations;
- continue the very successful One Regional Card for All (ORCA) transit pass program for students (initially funded as a pilot program with one-time funding); and
- fund increases elsewhere in the ASUP budget, primarily related to student clubs and programming.

ASUPS leaders made an excellent and compelling presentation to the BTF.

As shown in the following table, the recommended aggregate increase to tuition, ASUPS fee, and standard² room & board is 3.98%, or \$1,865, before considering recommended increases in financial aid discussed below. Over 90% of Puget Sound students receive financial aid.

	<u>FY2010-11</u>	<u>FY2011-12</u>	<u>% Increase</u>
Tuition	\$37,030	\$38,510	4.00%
ASUPS Fee	<u>195</u>	<u>210</u>	<u>7.69%</u>
Tuition and Fees	37,225	38,720	4.02%
Room ²	5,390	5,550	2.97%
Board ²	<u>4,260</u>	<u>4,470</u>	<u>4.93%</u>
Total	<u>\$46,875</u>	<u>\$48,740</u>	<u>3.98%</u>
Median NW Peers	<u>\$47,426</u>		
Median National Peers	<u>\$49,730</u>		

In evaluating a price increase, financial aid, not just “sticker price” must be considered. After hearing from the President, Vice President for Enrollment, Associate Vice President for Student Financial Services and others, and after considering the substantial financial need of our students, the results of a pricing study, past experience recruiting talented students, and increased price sensitivity in the current economic environment, the Budget Task Force supports leadership’s recommendation for an additional \$3.72 million in student financial aid budget. A portion of this increase is needed to honor financial aid commitments to continuing students following a year when current freshmen required more financial aid than the budget provided. The increase will also allow us to increase the freshman discount rate from an average of approximately 39.9% in 2010-11 (when we fell short of the 675 target) to 42% for the next recruiting cycle (based on market study, extensive modeling and expert consultations). This level of financial aid will enable Puget Sound to be more competitive with peer institutions that on average are discounting freshmen closer to 46%. The total recommended discount rate for all students is 38.67% with 5.80% coming from endowment and gift funds, as compared to the 2010-11 budget of 36.35% and 6.12% and as compared to the 2010-11 projected actual of 37.24% and 5.94%.

The recommended increase in tuition and in student financial aid results in a slight decline in net tuition and fees of .1% in the aggregate. This compares to a 1.5% increase in the national consumer price index in 2010.

Gifts

The Budget Task Force in consultation with Vice President for University Relations David Beers recommends a Puget Sound Fund budget of \$2,312,000, a 16.2% increase over the 2010-11 budget and a 10% increase above the goal for 2010-11. 10% annual growth is anticipated throughout the campaign period ending in 2015, fueled by the establishment of a new reunion gift program. Temporarily supplementing the Puget Sound Fund is a generous gift in support of our expanded Alumni Reunion Program of \$100,000 per year through 2013-14.

Interest Income and Endowment Distributions

Along with generous donor gifts, the university relies on investment earnings to help fund university operations and financial aid. Lower investment valuations since 2007 and continued low interest rates will bring a reduction to these funding sources in 2011-12. On a combined basis, unrestricted endowment

² This assumes double or greater occupancy in a residence hall and a medium meal plan. There are other housing and meal options, each with pricing variations. Internet connection (ResNet) fee is included in the room charge.

distributions and interest income on operating cash are projected to decline in 2011-12 by a combined 5.2%. Though endowment valuations have been recovering, we will see declines in endowment distributions in 2011-12 and 2012-13 as the lower investment values are held in the spending formula for 3 years. Total endowment distributions, including funds with restrictions, are projected to decline about \$700,000 in 2011-12 and another \$700,000 in 2012-13. The board-approved endowment spending rate for 2011-12 will remain at 5% of a three-year average of endowment market values.

Federal and State Grants

Federal and state grant revenue includes student work study grants, an administrative cost allowance for campus-based federal financial aid programs, and indirect cost recovery on faculty research grants. The budget anticipates a \$20,000 reduction in federal funding for administrative cost recovery related to campus-based programs. We also expect to see another reduction in state work study funding, following a 30% or \$200,000 decrease in 2010-11, when Washington passes a 2011-13 biennial budget that must address the state's \$4.6 billion shortfall. Any decrease in state work study funding will mean a corresponding decrease in the student employment budget. Puget Sound and all members of Independent Colleges of Washington are monitoring and attempting to influence the outcome.

Other Revenues

New procurement cards are being deployed to budget managers across campus to streamline the purchasing process and to generate rebate revenue projected at \$98,000 for 2011-12. A portion of the rebates will fund a procurement coordinator, resulting in further rebates, discounts through group contracts, and the benefits of an e-procurement system.

In the interest of sustainability and in recognition of the costs involved, the BTF encouraged the creation of fee proposals for parking and printing before the 2012-13 budget planning cycle. Most campuses charge for both, but Puget Sound does not at present. Analysis of both parking and printing are currently underway and recommendations are anticipated before next fall. Associate Vice President for Business Services John Hickey, in collaboration with others, agreed to bring forward a campus-wide parking solution. Associate Vice President for Technology Services William Morse, in collaboration with others, agreed to bring forward a campus-wide print solution.

Major Expenditures Held to a .28% Net Increase, well below inflation

Expense Reductions

The President's Cabinet has worked proactively with its leadership teams and others to scrutinize costs and to identify cost containments, reductions and reallocations to ensure that our expense base is in line with anticipated revenue budgets. The President's Cabinet shared with the BTF their commitment to targeted budget reductions in 2011-12 of \$1,652,000, representing 2% of the educational and general budget.

- Academic - largely in visiting faculty, some staff & admin budgets \$ (995,000)
- Finance & Admin - largely a reduction in staff positions, many vacant \$ (405,000)
- President - elimination of discretionary budget \$ (200,000)
- Student Affairs - reduction of non-essential expenses \$ (52,000)

Given that the vast majority of Puget Sound's expenses are in compensation, it stands to reason that expense reductions of this magnitude would largely impact the compensation budget. The President's Cabinet and BTF both believe that it is strategically important to Puget Sound's long-term success in recruiting, engaging and retaining an excellent faculty and staff that compensation levels must be competitive. As such, the expense reductions are in the form of position reductions rather than salary or benefit cuts.

Puget Sound will reduce by 9 the number of one-year visiting faculty hired for sabbatical replacements. Institutional Research estimates that the student to faculty ratio will move to 11.26, as compared to 10.83 in 2010-11 and 11.19 in 2009-10, and the average class size of 18.8 will increase by less than one student. We will offer 3% fewer courses and some electives may be offered less frequently.

Vice Presidents are working with department heads to reduce the total number of staff positions at Puget Sound by a net of 8 FTEs in ways that best meet the needs of the university going forward. The Vice Presidents will accomplish the staff reductions by June 30, 2011, through a combination of reorganization, change in roles, reduction in hours, and elimination of positions, many of which are vacant.

Compensation

The President, his Cabinet, and the BTF were convinced it was critically important to maintain the quality of a Puget Sound education and that the best way to do so was to invest in our most strategic asset, the people who educate and support our students. The BTF recommends salary pool increases of 2% for faculty, staff, and student staff and an overall fringe benefit increase of 2.27%, for a total cost of \$1,271,000.

How do faculty salaries at Puget Sound compare to the market? Our position and the dollar differentials vary by faculty rank, but on average Puget Sound ranks 4th among the 5 national liberal arts colleges in the Northwest and 13th among our 26 national peer comparison set. The gap between Puget Sound and the average of its Northwest and national peers is in the 2 to 4% range. This position represents a decline from recent years relative to peers.

How do staff salaries at Puget Sound compare to the market? There is great variety in staff positions from organization to organization, rendering market comparisons imperfect, but in general, survey data suggests that staff salaries are comparable to the median of national peers and that we are competitive in the local market as well. Staff turnover rates are consistently below Puget Sound area averages for all industries. Applications per hire were 26 in 2007 and have increased to 94 as unemployment has risen. Even so, attracting the best talent for certain strategic positions has been a challenge.

How do student staff wages at Puget Sound compare to the market? Washington has the highest state minimum wage in the country at \$8.67 per hour and our students earn at or above this rate commensurate with the staff position they hold and their continuity in the role. We provide work opportunities for more than 1100 students who contribute to the operation of the college, gain valuable work experience, and earn money for their college expenses.

Why is Puget Sound not in the top quartile of its peers in terms of faculty and staff salaries? One very important reason is that most of the peer institutions have greater resources than Puget Sound as evidenced by their larger endowment value per student. Puget Sound's endowment per student is a third less than the median for its national peers and fourth out of the five Northwest national liberal art colleges. Considering the disparity in resources, Puget Sound performs well on compensation.

How does the recommended 2% salary pool increase compare to inflation? The average 2010 U.S. consumer price index was 1.6% greater than the average in 2009. The average 2010 Seattle-Tacoma-Bremerton index grew just 0.3%. Salary pools must cover not only across the board increases for cost of living adjustments, but also steps and promotions for faculty and equity and promotional adjustments for staff. The actual distribution of any approved pool increases will be determined for faculty by the Dean, in consultation with the Faculty Salary Committee, and for staff by the President, in consultation with his Cabinet, upon receiving a recommendation from Human Resources. Before putting forth a recommendation, Human Resources will seek input from the Staff Senate Compensation Committee.

Why is the recommended benefit increase more than the recommended salary increase? A good portion of the fringe benefits budget is tied to salary levels (FICA and retirement), while other portions are tied to tuition increases (education benefits) and to healthcare trends (flexible benefits allowance). The BTF recommends an overall increase of 2.27% to sustain current programs. Specific adjustments in the 2012 flexible benefits allowance and subsidy program will be established later in the year when premium rates are known.

The budget recommendation also includes a market and Fair Labor Standards Act regulatory compensation adjustment for two existing Pre-doctoral Psychology intern positions in Counseling, Health, and Wellness Services (CHWS), which cost-effectively provide important counseling services to Puget Sound students.

Academic and Administrative Facilities

The provision and maintenance of our campus facilities are central to our residential liberal arts mission. All colleges have some level of deferred maintenance and most struggle to cure it. In 2004, understanding that Puget Sound's annual budget was insufficient to maintain its facilities over time, the Board of Trustees determined that our planned major maintenance budget should increase at least 10% each year until reaching an appropriate level, which will take several years. Our recommendation includes a 10% or \$166,000 increase.

The new Center for Health Sciences will be operational in 2011-12. Incremental costs to maintain and operate the building and grounds will be absorbed within the existing budget through efficiencies and reallocations, although increases may be necessary in subsequent years depending on our experience and when warranty periods expire.

Utility budgets will remain flat as we proactively seek energy conservation strategies, including the decommissioning of the central steam plan in favor of more efficient local boilers and use of a geothermal system in our new Center for Health Sciences.

Moody's and Standard & Poor's recently affirmed Puget Sound's strong credit ratings of A1 and A+, respectively. Puget Sound has utilized its good credit to borrow modestly over the years to fund high priority capital projects in combination with gifts and reserves. We last borrowed in 2006, at which time our debt service payments were established to achieve level payments over time. While debt service in the educational and general budget is increasing in 2011-12, debt service in the auxiliary budget is decreasing. The budget reflects this and we have adjusted cost sharing between the two budgets to neutralize the shift.

Academic Programs

The recommended budget includes the following increases in support of the academic program:

- \$70,000 for Study Abroad program costs due to increases in participation and provider costs
- \$56,000 for the ongoing replacement of technology equipment in the Center for Health Sciences (Initial acquisition and installation funded through the construction budget).

Student Recruitment and Communications

The BTF recommends investing \$58,000 in response to priorities identified by the Office of Admission to support competitive student recruitment efforts:

- Annual expenses associated with essential new student recruitment software.
- Smart phone allowances to enable admission officers to check on status of student application materials and communicate effectively with prospective students while they are travelling throughout the country.
- Increased cost of recruitment events and hosting prospective students on campus.

The recommended 2011-12 budget also includes sufficient funding for the Office of Communications to maintain Puget Sound's web site (critical to student recruitment), to produce the President's Annual Report (critical to donor support.) and to circulate *Arches* to our growing alumni base.

Alumni Engagement and the Campaign

The Budget Task Force continues to recognize the importance of investing in relationship-building, activities, and programs that will bring substantial resources to the university over time, making it possible for Puget Sound to achieve its strategic goals and support student success. To continue to improve and expand alumni and parent programs, and to execute a successful campaign, the budget recommendation includes an increase of \$210,000 in support of these crucial objectives through endowment earnings designated by the Board of Trustees throughout the campaign period. This level of funding is consistent with the comprehensive campaign plan and multi-year budget proposed by Vice President for University Relations Dave Beers and approved by the Board of Trustees. Expenditure levels for alumni and parent programs and fundraising have historically lagged those of peer institutions and our strategic investment in this area over many years will remedy that.

Funding Requests not Incorporated in the Recommended Budget

The BTF heard appeals for additional expenditures, but the BTF could not justify their recommendation at this time. Funding all requests would have resulted in a tuition increase of 8%, which would not be acceptable or prudent.

The BTF received three modest requests for one-time funding totaling \$23,750, which need not be added to the ongoing annual budget base, but would require a one-time funding source. The BTF will forward a prioritized list to President Thomas for consideration, understanding that funding is limited, especially with the elimination of the president's \$200,000 discretionary budget.

Looking Ahead

It is important to highlight that current financial projections suggest balancing the budget for the next two to three years will continue to challenge us as we see reduced endowment distributions, continued low interest on operating cash, market constraints on tuition increases, and higher financial need among families sending their children to college. Even as we seek to strengthen revenues over the long run, we anticipate and are preparing for additional expense cuts in the next budget cycle.

Puget Sound's keen focus on mission, strategic objectives, student success, and prudent fiscal management over its 122 year history has served us well during economic recessions, economic recoveries, and the boom years. As we move through the current slow economic recovery, we will maintain this focus and become stronger as a result.

In Closing

The BTF is grateful for the ways in which our community has come together to face the economic challenges before us. While the task of balancing a budget is particularly difficult during these economic times, it is made easier by the proactive work of campus members in identifying and committing to cost containments, reductions and reallocations. The BTF appreciated the preparation by presenters, the efforts they have taken to secure savings, their understanding of Puget Sound's business model, and their recognition of current and future challenges. Thank you for your support as we endeavor to fulfill our charge.

Lastly, we remind you once more of the opportunity to share your comments with the President at president@pugetsound.edu no later than Friday, February 4, 2011.