

# WESLEYAN

U N I V E R S I T Y

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**For:** The Board of Trustees

**From:** John Meerts

**Date:** May 12, 2006

**Subject:** **FY 2006/07 Proposed Operating Budget**

It is my pleasure to present the Wesleyan University operating and capital budget for FY 2006/07. The budget is balanced, with restricted funds showing a small surplus. This budget begins the first year of a five year plan to reduce Wesleyan's draw from the endowment to reach its stated policy of a 6% increase over the previous year budget, but within a "collar" of 4.5% to 5.5% of the previous 12 quarter average of the market value of the endowment.

The Board approved a tuition increase of 5.0% in March. The overall 5.4% total student charge increase will maintain Wesleyan's cost below the top of our comparison group.

The FY 2005/06 budget was the last year for the Fund for Excellence (FFE) which provided a jump-start for investments (\$21,000,000 since its inception in FY 2000/01) in the *Strategy for Wesleyan*. Wesleyan's annual fund increases to \$11,500,000 million in FY 2006/07. Wesleyan embarks on its next stage of fundraising and this budget increases University Relations' expenditures by \$737,000 to provide for additional staffing and outreach. However, more demands are being placed on University Relations to raise operating funds with the addition of the Campus Renewal (\$2,500,000) and University Relations Enhancement (\$1,350,000) initiatives.

Wesleyan remains committed to meeting full financial need of all students. This commitment continues to place cost pressures on our budget. Wesleyan is providing more aid which is reflected in a 2% increase in Wesleyan supported scholarships for FY 2006/07.

The budget continues to support increases in faculty and staff compensation. The salary pool for faculty increases 3.5%, professional librarians 3%, and 2% for administrative staff. Wesleyan is committed to providing a competitive benefits program. National increases in health care costs remain a concern and the budget increases 15% for health care.

Similarly, utilities have become a growing and volatile component of our expenses. We budgeted a 10% increase in utilities costs, and have implemented several energy saving initiatives across campus. To increase budget certainty, we locked in electrical rates and pursue a similar approach for oil and natural gas.

### **Endowment Draw Reduction Strategy**

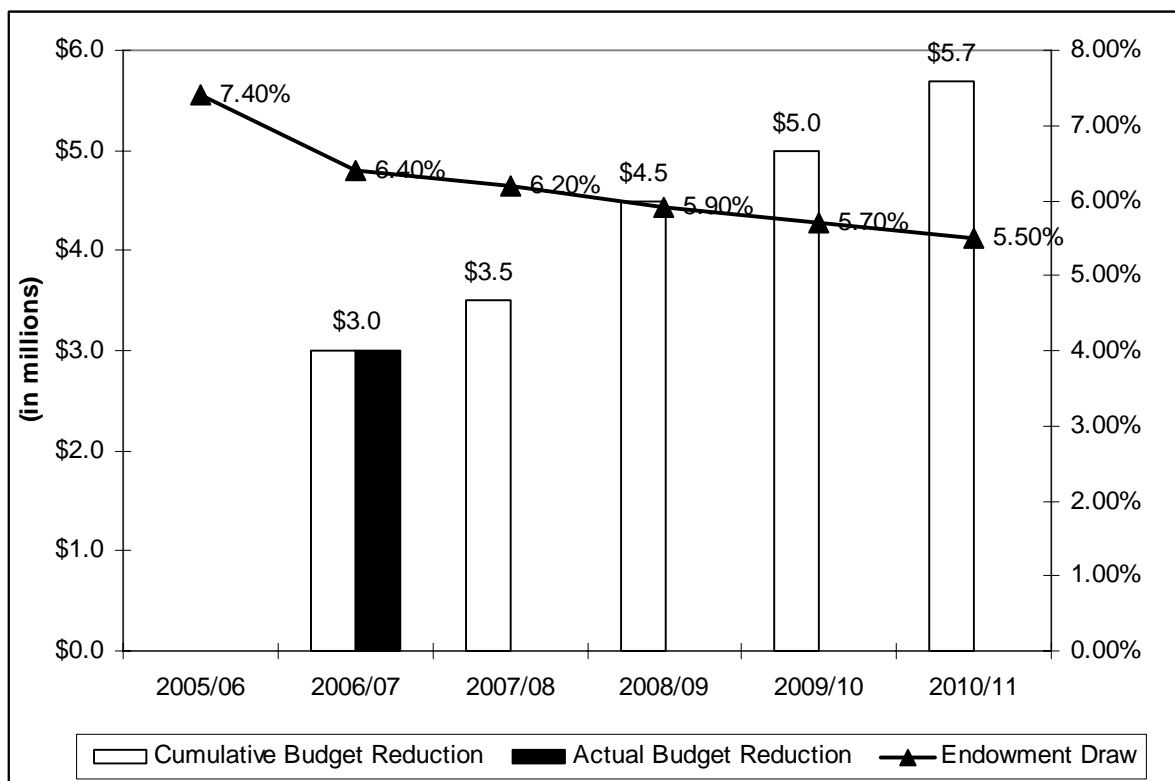
Wesleyan's long-term financial planning discussions focus on the size of Wesleyan's endowment. Wesleyan's endowment supports three specific purposes: operations, capital campaign, and capital spending and debt service. This past year a commitment was made to bring our endowment spending over a 5 year period (2007-2011) in-line with our payout policy of a 6% increase over the previous year budget, but within a "collar" of 4.5% to 5.5% of the previous 12 quarter average of the market value of the endowment. This goal was based on two premises:

1. Board of Trustees recognition that we could not sustain our above average endowment draws and maintain long-term financial competitiveness; and
2. Our need to increase future bond capacity to continue implementation of strategic capital (building) initiatives, in particular, the sciences.

Our financial planning approach is twofold. First, we will use gifts to the Campus Renewal Fund for operations and no longer place them in the endowment. Placing these gifts in the endowment and later drawing them out along with market gains for capital/major maintenance purposes, increased the endowment draw but also provided the operating budget with flexibility if these gifts were not raised. The 2006/07 budget contains \$2,500,000 in CRF gifts to the operating budget. Over the 5-year planning timeline we will be incorporating 100% of our capital costs into the operating budget within the spending guideline.

Second, we will reduce our expenditures. Our initial planning indicated \$5,700,000 in budget reductions over the planning period. FY 2006/07 reductions totaled \$3,000,000 to balance the unrestricted operating budget.

The following chart illustrates endowment spending as a percent of the previous 12 quarter average of the market value of the endowment and budget reductions through the current long-range forecast period:



The \$3,000,000 reduction was met through various methods. In some cases, we eliminated inflationary increases such as in library acquisitions, technology, and supplies and equipment. In other cases, we eliminated the inflationary increases and reduced budgets (e.g. Major Maintenance). In addition, each officer was asked to review his or her respective budget and offer opportunities for savings.

We initiated Project \$ave (Sustainable And Viable Efficiencies) in March 2006 to engage the Wesleyan community in using resources efficiently and identify savings across the campus. A web site was designed to not only collect the ideas but also to post all the viable proposals. To date, over 150 suggestions have been received with many related to energy efficiencies. Work is underway to implement many of these suggestions.

A Budget Working Group has been reviewing all vacant staff positions and providing advice on how best to fill these hires. We eliminated 6 full-time staff through reorganizations and altering workloads.

The goal of increasing the endowment continues as a priority for the University. Over the next several years we plan to increase annual gift contributions to the endowment. This effort, along with above average market returns, will allow us to slowly but consistently grow the size of the endowment. We will also continue to find the means to meet our highest priority needs and strategic objectives through wise budgeting and use of available resources.

**SUMMARY BY EXPENDITURE TYPE**  
(\$ in 000s)

	2005/06		Total Support			
	Unrestricted Support	Restricted Support	2005/06	2004/05 <sup>1</sup>	Increase (Decrease)	
					\$	%
<b>Educational and General Operations</b>						
<i>Revenues</i>						
Tuition & Fees	97,970	-	97,970	93,567	4,403	4.7
Endowment Support	16,263	10,274	26,537	26,217	320	1.2
Private Gifts	11,839	5,914	17,753	17,596	157	0.9
<b>Federal and State Grants</b>						
Financial Aid	-	2,723	2,723	2,723	-	0.0
Sponsored Research	-	7,305	7,305	7,305	-	0.0
Overhead Recovery	1,790	-	1,790	1,790	-	0.0
Other Revenues	1,816	-	1,816	1,761	55	3.1
<i>Total Revenues</i>	<u>129,678</u>	<u>26,216</u>	<u>155,894</u>	<u>150,959</u>	<u>4,935</u>	<u>3.3</u>
<i>Expenditures</i>						
Faculty salaries	24,881	2,772	27,653	26,965	688	2.5
Staff salaries	32,428	-	32,428	31,787	641	2.0
Benefits and payroll taxes	15,953	756	16,709	15,438	1,271	8.2
Financial Aid	27,562	11,162	38,724	36,434	2,290	6.3
Other	28,023	10,776	38,799	37,863	936	2.5
<i>Total Expenditures</i>	<u>128,847</u>	<u>25,466</u>	<u>154,313</u>	<u>148,487</u>	<u>5,826</u>	<u>3.9</u>
<i>Net Educational and General</i>	<u>831</u>	<u>750</u>	<u>1,581</u>	<u>2,472</u>	<u>(891)</u>	<u>(36.0)</u>
<b>Auxiliary Operations</b>						
Revenues	29,181	-	29,181	26,862	2,319	8.6
Expenditures	28,537	-	28,537	27,398	1,139	4.2
<i>Net Auxiliary Operations</i>	<u>644</u>	<u>-</u>	<u>644</u>	<u>(536)</u>	<u>1,180</u>	<u>220.1</u>
<b>Minor Capital Projects and Debt Service</b>						
Sources: Endowment Support	10,306	-	10,306	9,361	945	10.1
Uses:						
Capital Budget	2,387	-	2,387	2,340	47	2.0
Debt Service	9,394	-	9,394	7,696	1,698	22.1
<i>Minor Capital and Debt Svs</i>	<u>(1,475)</u>	<u>-</u>	<u>(1,475)</u>	<u>(675)</u>	<u>(800)</u>	<u>(118.5)</u>
<i>Net Revenues less Expenditures</i>	<u>-</u>	<u>750</u> <sup>2</sup>	<u>750</u>	<u>1,261</u>	<u>(511)</u>	<u>(40.5)</u>

<sup>1</sup> Projected actual

<sup>2</sup> Reserved for future use per gift and endowment restrictions