

Contact: Brad Berg

FY 2010 BUDGET PRELIMINARY BUDGET ISSUES

Actions Requested:

1. Discuss the FY 2010 budget issues and provide guidance as necessary to the institutions and Board Office for the development of the FY 2010 budgets.
2. Consider for approval the first and final reading of the proposed amendment to Chapter 7.03(4) of the Board's Policy Manual regarding reallocations as described on pages 5-6.

Executive Summary:

The current economic challenges facing the State of Iowa necessitate an in-depth review of all expense line items in the institutional budgets to ensure they do not exceed anticipated revenues while continuing to provide a high-quality, accessible education to Iowans, engage in cutting edge research, and promote economic growth for our state.

Iowa's public universities and special schools have identified key preliminary FY 2010 operating budget issues related to anticipated revenue changes, reallocations, compensation, and unavoidable cost increases.

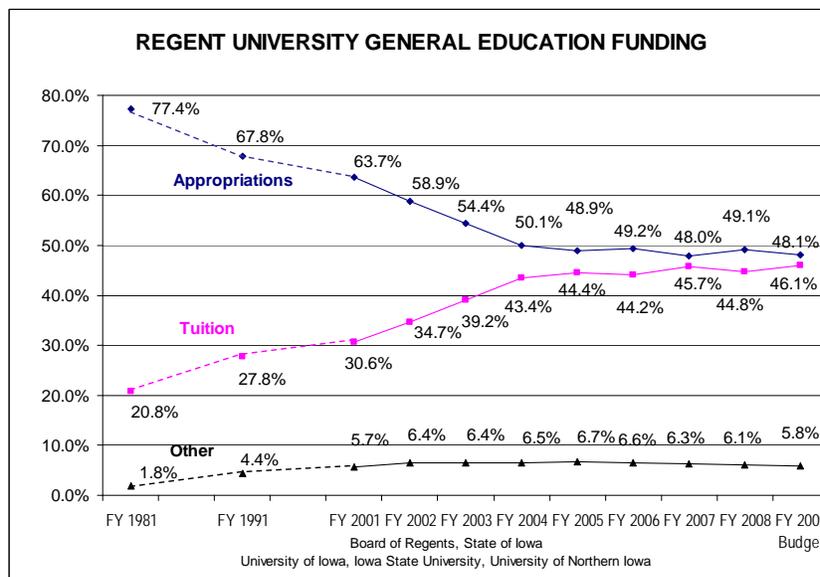
Revenues

The three key resources for university general fund operations have historically included state appropriations, tuition revenues, and university reallocations. The primary funding resource for the special schools is state appropriations. For FY 2010, the anticipated allocation of non-recurring federal stimulus funds from the American Recovery and Reinvestment Act will assist Iowa's public universities and special schools in FY 2010 budget preparations, and allow additional time to effectively budget for potential state funding reductions in future years.

➤ **Appropriations**

State operating appropriations have historically provided the core operating funds for the Regent universities. The graph below illustrates the dynamic changes in state funding patterns that have significantly altered the proportion of revenue sources for higher education. For FY 2010, it is anticipated that general education funding from state appropriations will be less than tuition revenues.

The Regent's FY 2009 General Fund Operating Appropriations reductions totaled \$17.5 million. The reductions were comprised of a 1% cut to the university appropriations as recommended by the Governor and an additional 1.5% across-the-board cut applied to all appropriated units. These reductions will be carried forward into FY 2010 with additional anticipated cuts to state appropriations. Actual FY 2010 operating appropriations have not yet been finalized at the time of docket preparation.



Proposed legislation indicates the general universities may receive a 14% cut (\$81.4 million) and the special schools a 6.5% cut (\$1.0 million) to current FY 2009 state funding levels. A 14% reduction in state appropriations for the general universities would result in state funding levels less than that received in FY 1999.

➤ Tuition

In December 2008, the Board approved resident undergraduate tuition increases of 4.2% for the 2009-10 academic year. The approved nonresident undergraduate tuition increases at SUI, ISU, and UNI were 7.6%, 2.8%, and 2.0% respectively.

FY 2010 incremental tuition revenue is projected to be a combined \$37.5 million prior to offsets for student financial aid compared to current FY 2009 estimates.

- University of Iowa \$20.5 million
- Iowa State University \$15.0 million
- University of Northern Iowa \$ 2.0 million

➤ Reallocations

Reallocations have historically been used to support new strategic initiatives, meet enrollment increases and demand for new courses, fund unavoidable cost increases, and support important core strategic initiatives. For FY 2010, the primary focus of reallocations will be to manage state funding reductions while maintaining the quality of core academic programs. SUI reports reallocations will also be directed to support campus flood recovery efforts.

Note: This docket item contains a proposed amendment to the reallocation policy beginning on page 5.

➤ Federal Stimulus Funds

The Regent enterprise anticipates the receipt of one-time federal stimulus funds to supplement other revenues for FY 2010. Using non-recurring stimulus money to support the FY 2010 budget will provide additional time to bridge strategic budget decisions in future fiscal years and allow additional time for the State of Iowa to begin its economic recovery process. Final federal stimulus funding distributions to the Regents for FY 2010 have not yet been determined.

Expenses

Iowa's public universities and special schools must adjust spending levels to the anticipated reduced levels of funding while attempting to minimize negative impacts to the quality or accessibility of the academic programs.

➤ Compensation

In March 2009, the Board adopted a resolution directing the heads of the universities and special schools to hold flat the salaries of non-bargaining unit employees, including faculty and professional and scientific staff in FY 2010. Exceptions to the resolution are to be approved solely by the University Presidents or Special School Superintendents upon consultation with the Board Office.

The institutions have been unable to define specific salary policies given the uncertainty of the appropriations process and the distribution of federal stimulus funds. It is anticipated that the Board will be asked to consider final salary policies for the institutions and the Board Office at the June meeting.

Faculty and staff at the Regent institutions fall into three categories: faculty, professional & scientific (P&S), and merit employees. Each institution has its own classification system for P&S staff. These classifications encompass positions such as accountants, scientists, nurses, admission counselors, engineers, managers, etc. There are approximately 8,900 P&S employees at the five institutions. Of these, approximately 2,400 registered nurses and other health care professionals at the University of Iowa Hospitals and Clinics are organized for the purposes of collective bargaining in accordance with Chapter 20 of the Iowa Code.

There are approximately 4,500 faculty and institutional officials at the three universities including 600 organized faculty at the University of Northern Iowa.

There are approximately 7,800 merit employees in the Regent Merit System. Of this total, about 6,800 are in AFSCME bargaining units (blue collar, security, technical, clerical). The remaining employees are supervisory or confidential and excluded by law from collective bargaining.

Finally, 2,700 graduate assistants at the University of Iowa are organized for the purposes of collective bargaining.

Based on the conceptual budget planning for FY 2010, the salary policy goals of the institutions are summarized below. As noted above, the policies cannot be finalized until the legislative process concludes.

University of Iowa: Salary adjustments on July 1, 2009, will be based upon the Regents resolution adopted at its March meeting and collective bargaining agreements.

For FY 2010, the University has proposed a faculty salary policy of a 0% pay adjustment on July 1, 2009. The University proposes that units be allowed to provide on a case-by-case basis promotional increases (e.g. assistant to associate professor), counter offers, equity matters, and acute compression issues. In addition, the Colleges of Medicine, Dentistry, Pharmacy, and Nursing, who pay variable compensation to faculty based on productivity as previously approved by the Board, will continue to be authorized to do so in FY 2010 subject to individual plan reviews and approvals by the Office of the Provost and University Human Resources. The Office of the Provost is currently undergoing a comprehensive review of the at-risk variable compensation plans in order to ensure these plans continue to achieve programmatic goals and objectives and are financially linked to revenue enhancements.

Non-organized P&S staff are expected to be given a 0% pay adjustment on July 1, 2009. The University proposes that units be allowed to provide on a case-by-case basis reclassification increases, equity and acute market adjustments and counter offers. The University will continue to utilize the exceptional performance pay policy approved by the Board in 2006 for non-bargaining P&S staff; and, it will be both selective and reflective of the University's economic circumstances.

Iowa State University: Salary adjustments for FY 2010 will be based upon the Regents resolution to the universities and special schools to maintain salaries for faculty and P&S staff at FY 2009 levels.

The University proposes that exceptions to this policy be allowed for faculty promotions, P&S staff reclassifications, retention of key faculty and staff and bringing salaries to the minimum of the modified pay matrix for P&S staff.

University of Northern Iowa: Salary adjustments for FY 2010 will be based upon the Regents resolution to the universities and special schools to maintain salaries for faculty and P&S staff at FY 2009 levels.

Historically, P&S employees have received increases commensurate with the faculty bargaining contract. The United Faculty negotiated pay plan will provide a 0% increase on July 1, 2009. As such, P&S salaries will be held at FY 2009 levels as well.

Iowa School for the Deaf: Salary adjustments for FY 2010 will be based upon the Regents resolution to the universities and special schools to maintain salaries for faculty and P&S staff at FY 2009 levels.

ISD proposes that each cell of the faculty matrix be increased by 0%. A 2% increase between each consecutive cell on the vertical scale (for years of service) will be maintained. P&S staff are expected to be given a 0% pay adjustment on July 1, 2009. The P&S matrix would be increased 3% at the minimum and maximum at each range. ISD further proposes no increase for extra-curricular activities pay plan for FY 2010.

Iowa Braille and Sight Saving School: Salary adjustments for FY 2010 will be based upon the Regents resolution to the universities and special schools to maintain salaries for faculty and P&S staff at FY 2009 levels.

For FY 2010, IBSSS proposes no increase in faculty salaries, other than faculty matrix step and lane changes resulting from additional education. IBSSS further proposes no changes to professional and scientific staff salaries and to the extra-curricular pay plan.

Regent Merit System Supervisory and Confidential: Traditionally, the pay policy for employees in the Regent Merit System excluded from AFSCME bargaining units has been the same as that for those employees covered by the collective bargaining agreement. The FY 2009 pay policy for AFSCME staff is 0% across-the-board increase on July 1, 2009. Eligible employees will receive 4.5% step increases on their eligibility dates throughout the year.

Two-year (July 1, 2009, through June 30, 2011) collective bargaining agreements have been negotiated with the organized employee groups. Salary policies for the first year of each of the agreements are summarized below:

- UNI – United Faculty: 0% increase on July 1, 2009.
- Regent Merit System staff in AFSCME bargaining units: 0% across-the-board increase on July 1, 2009, and continuation of step increases valued at 4.5% for eligible employees (those not at the maximum of the pay grades).
- University of Iowa tertiary care unit (SEIU): 1.75% across-the-board increase.
- University of Iowa graduate assistants (COGS): 0% average stipend increase and scholarship increases equal to the tuition rate increase.

➤ Building Repairs

National standards establish a building repair target of 1% of the replacement value of facilities to prevent further deterioration. As reported in February 2009, the current replacement value of General Fund facilities (academic/research/administration) is estimated at \$6.7 billion. The general education operating building repair expenditures have declined from \$20 million in FY 2000 to approximately \$16 million in FY 2009; 0.24% of the replacement value. Progress towards the 1% target in FY 2010 will prove to be difficult during this period of significant budget reductions.

➤ Utilities/Opening New Buildings

The projected incremental cost of utilities and expenses associated with opening new buildings is projected to increase \$8.2 million in FY 2010 when compared to FY 2009. The universities continue to investigate and identify new opportunities to reduce purchased fuel costs, to decrease reliance on coal by burning renewable fuels, and promote energy independence through research and development.

➤ Other Unavoidable Costs Increases

Other unavoidable cost increases of the learning and research environments include library acquisitions, outreach, and support of grant research.

Proposed Reallocation Policy Amendment

Board policy requires the reallocation policy in Chapter 7.03(4) of the Board's Policy Manual be reviewed every five years. The universities annually reallocate funds as a budgeting best practice, in part, to address funding deficiencies in key strategic areas and to support core academic areas. The special schools are also encouraged to annually leverage available resources whenever possible (Policy Ch. 7.03.2b). Given the fact the institutions budget differently and have varying levels of available resources to reallocate, the intent of the proposed amendment is to allow maximum flexibility regarding reallocations during these budget preparation periods with limited resources. Iowa's public universities and special schools would continue to report budgeted and actual reallocations to the Board as a part of the budget and financial reporting processes. Significant reallocations are expected to occur in FY 2010 to, in part, bridge the anticipated significant state funding reductions.

Effective beginning in FY 2010, the proposed policy amendment shown below removes the specified required reallocation target annually set by the Board and removes the four year restriction on the redirection of reallocated funds. The proposed policy change also removes the numerous reallocation examples from the policy.

Proposed amendments to Policy Chapter 7.03(4) are shown below.

4. Reallocations

The following represents the key components of the reallocation policy:

a ~~Definition: Reallocation of institutional funds occurs when funds within the base budget of a defined university entity (presidential/vice presidential unit, college, academic or nonacademic department, division, program, or other unit) are removed by the dean, vice president, or president overseeing that entity and redirected to another entity or purpose. Funds so removed cannot be redirected back to that original entity or purpose within four years except under extraordinary circumstances and only then by increasing an equivalent reallocation amount for the current year. Reallocations may be made to:~~

- ~~1) support new strategic initiatives~~
- ~~2) meet enrollment increases and the demand for new courses and services~~
- ~~3) fund new but unavoidable or mandated cost increases~~
- ~~4) support any other initiatives important to the core functions of the university.~~

b. Regent universities shall internally reallocate funds annually as a budgeting best practice. Reallocation may be made to:~~The Board will annually set a target dollar amount or percentage of expected reallocations for each institution. Institutions will include reallocations in the budgetary process.~~

- 1) support strategic initiatives of the Board and institution
- 2) meet enrollment increases and the demand for new courses and services
- 3) fund unavoidable or mandated cost increases
- 4) meet lower revenue targets
- 5) support other initiatives important to the core functions of the institution

~~c. Examples of actions that are reallocations:~~

- ~~1) Moving funds that supported a faculty position in the Department of Physics to support a new faculty position in the Department of Genetics, Development, and Cell Biology~~
- ~~2) Moving funds that supported a faculty position in genetics to support a new faculty position in cell biology, all within the Department of Genetics, Development, and Cell Biology~~
- ~~3) Moving funds from the budgets of all academic departments within a college to create an additional collegiate-wide professional position for information technology support.~~
- ~~4) Moving funds from fuel and utility budgets because of additional efficiencies to fund new faculty positions in strategic disciplines.~~
- ~~5) Moving funds from academic and other programs that are being eliminated or downsized to increase funding to academic programs of higher priority.~~
- ~~6) Moving the support for a faculty position from the General Education Fund (GEF) to a private grant or contract and using the GEF savings to cover the start-up costs for a new faculty hire.~~
- ~~7) Moving funds from individual staff positions within Facilities Management to support unfunded and mandated collective bargaining staff salary and benefit increases.~~
- ~~8) Moving funds from individual faculty or staff positions within a college to support more competitive faculty salaries within the college.~~

~~d. Examples of actions that are not reallocations:~~

- ~~1) Movement of funds that supported a staff position in financial aid record keeping to funding for an automated software system to maintain the same records, but more efficiently~~
- ~~2) Movement of funds that supported a P&S staff position to oversee freshmen chemistry labs to support a graduate student to oversee the same freshmen chemistry labs~~
- ~~3) Movement of funds within an academic department from graduate student support to student hourly wages.~~
- ~~4) Movement of funds from a lecturer position in Art and Design teaching drawing to a tenure-track position in the same department teaching drawing.~~

The reallocation policy will be reviewed at least every five years.