

BOARD MEMORANDUM

TO: Board of Regents, State of Iowa
 FROM: Deb Hendrickson
 DATE: April 20, 2005 *ASN*
 SUBJ: Operating Budget Issues for FY 2006

Recommended Action:

Consider policy issues and provide guidance to the institutions in the preparation of final budgets.

Executive Summary:

BUDGET ISSUES Policy issues affecting preliminary FY 2006 general fund operating budgets are presented for Board consideration and discussion. These discussions will assist the institutions in shaping the detailed budgets for the Board's review at the June meeting.

The key budget policy issues include:

1. Revenue changes
2. Reallocations
3. Salary policies
4. Unavoidable mandatory and inflationary cost increases
5. General fund support for athletics
6. Capital projects / building repairs

Revenue Changes The Regent institutions estimate the following incremental revenue will be available for FY 2006. These estimates assume the universities will receive the \$40 million requested and the Special Schools will receive a 4% increase in state appropriations comparable to the K-12 allowable growth.

FY 2006 Planned Incremental Revenues

	State		Indirect Cost	
	<u>Approps</u>	<u>Tuition</u>	<u>Recovery</u>	<u>Total</u>
SUI	\$16,500,000	\$10,000,000	\$2,000,000	\$28,500,000
	0	0		
ISU	16,000,000	8,300,000	1,380,000	25,680,000
UNI	7,500,000	1,450,000	100,000	9,050,000
ISD	340,000	N/A	N/A	340,000
IBSSS	190,000	N/A	N/A	190,000

Reallocations	<p>The Regent Transformation and Excellence Plan requires each university to reallocate a “match” of \$1 of resources for each \$2 in increased state funding. The Regent universities are planning to reallocate at least \$20 million.</p> <p>The special schools will be required to reallocate similarly.</p>
Salary Policies	<p>Salaries comprise more than 75% of the institutional general fund budgets, excluding the University of Iowa hospital operations.</p> <p>The proposed plans for salary increases vary among the institutions. The range at the universities is from 1.5% to 5.0% for faculty and staff.</p> <p>Proposed salary increases for the special schools range from 4.5% to 5.1%.</p>
Unavoidable / Inflationary Cost Increases	<p>The Regent institutions must address cost increases that cannot be avoided. Some examples include increases in library costs, utilities, insurance premiums, and opening new buildings.</p>
Support for Athletics	<p>Intercollegiate athletics at the Regent universities are not self-supporting activities. Each university provides some general fund support to its athletic department. The University of Iowa is planning to reduce its support for FY 2006 and transfer \$800,000 from the athletics budget to student financial aid to be designated for athletic scholarships. Iowa State University will have a small increase for women’s athletic scholarships. The University of Northern Iowa will increase general fund support as well as mandatory fee support.</p>
Capital Projects / Building Repairs	<p>The Regent institutions have decreased building repair budgets since FY 2000 because of appropriations reductions. These reductions have hindered the institutions’ ability to correct fire and environmental safety deficiencies and deferred maintenance. As reported in December 2004, deferred maintenance in general education facilities is reported to be \$220 million. FY 2005 general and restricted fund building repair budgets total \$34.9 million.</p> <p>The Regent universities report that if the requested \$40 million increase in state appropriations is received they plan to increase building repair budgets in FY 2006.</p>

Background:

Board Budget Process

The Board is requested to consider key policy issues prior to its review and approval of detailed budgets in June. This allows the Board time to consider institutional plans and to provide guidance to the institutions prior to final approval of budgets.

Revenues

The Regent universities rely on several funding sources for general fund operating budgets. The Regent universities funding consists of state appropriations, tuition and fees, federal support, indirect cost reimbursements, and other sources.

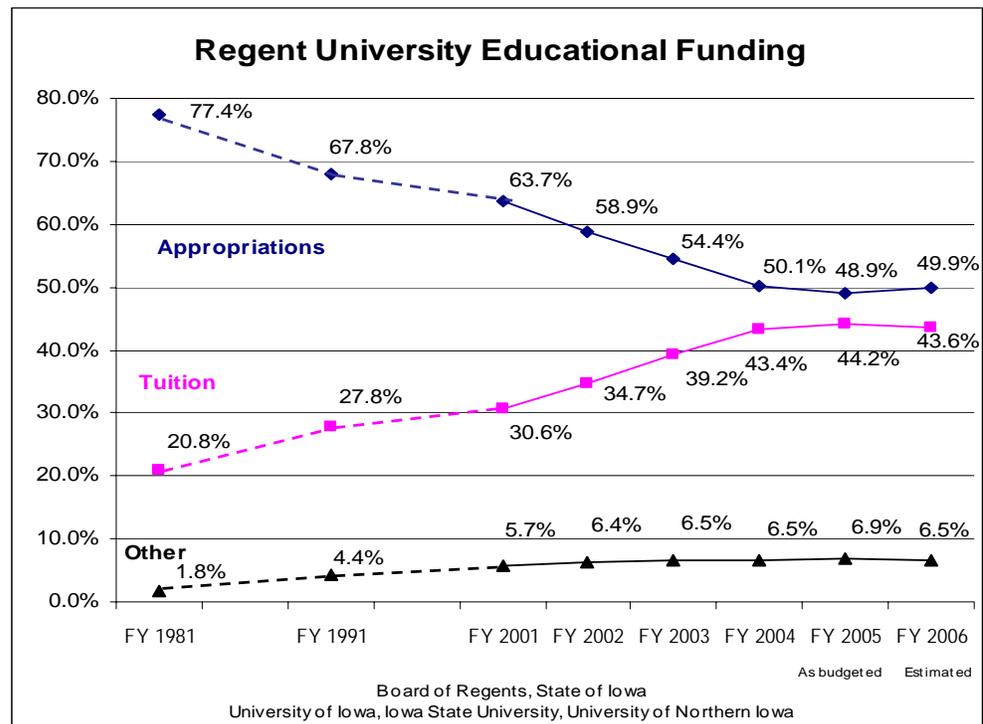
The special schools rely mostly on state appropriations. For FY 2005, state appropriations represented 95.4% of ISD's general fund budget and 93.0% of IBS's general fund budget.

Appropriations Reductions

State funding is critical to the quality and success of Iowa's state universities and special schools.

Since 2000, the state has significantly reduced base operating appropriations to the Regent institutions and has underfunded salary requirements from state appropriations. In FY 2001, the Regent institutions received \$695 million in state appropriations compared to \$592 million in FY 2005.

The following table summarizes funding sources for all three universities as a percent of total general university budgets. (The percentage numbers vary by institution).



The Regent share of the state's general fund appropriations has declined:

- Between FY 1992 and FY 2001, the Regent share ranged from 14.7% to 15.3%.
- For FY 2005, the Regent share was only 13.3%

Analysis:

ISSUE:

Revenue Changes

State Appropriations

Currently, the Legislature is still in session and appropriations to the Regent institutions are undecided. For planning purposes, the Regent institutions have assumed that the Regent Transformation and Excellence Plan will be funded as requested and that the Board would receive \$40 million for distribution to the universities as follows:

University of Iowa	\$16.5 million
Iowa State University	\$16.0 million
University of Northern Iowa	\$ 7.5 million

The Special Schools have assumed that they will receive an allowable growth percentage increase of 4%, which is the same proposed increase for other public K-12 schools in the state as follows:

Iowa School for the Deaf	\$340,000
Iowa Braille and Sight Saving	\$190,000

Tuition

In November 2004, the Board approved a 4% tuition increase for undergraduate resident students and varying increases for other tuition. The universities have used the planned increase and expected enrollment mix to arrive at the following new tuition revenues. In November 2004, the estimated additional tuition revenues totaled \$19.8 million.

University of Iowa	\$10.0 million
Iowa State University	\$ 8.3 million
University of Northern Iowa	\$ 1.5 million

Indirect Cost Recoveries

The Regent universities receive indirect cost recoveries from funded research. The universities are expecting the following increases in FY 2006.

	<u>FY 2005</u> <u>Budget</u>	<u>FY 2006</u> <u>Increase</u>	<u>%</u> <u>Increase</u>
University of Iowa	\$45,220,356	\$2,000,000	4.4%
Iowa State University	17,253,000	1,380,000	8.0%
University of Northern Iowa	1,900,000	100,000	5.3%

ISSUE:
Reallocations

The following represents the key components of the reallocation policy for FY 2005 through FY 2009:

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.

Reallocation may be made to:

- Support new strategic initiatives,
- Meet enrollment increases and the demand for new courses and services,
- Fund new but unavoidable or mandated cost increases, or
- Support any other initiatives important to the core functions of the university.

The Board will annually set a target dollar amount or percentage of expected reallocations for each institution. Institutions will report on a semi-annual basis to the Board on their actions relative to reallocations.

The Regent Transformation and Excellence Plan requires each institution to reallocate a "match" of \$1 in reallocated university resources to \$2 in increased state funding. The Regent universities are planning to reallocate at least \$20 million to match the \$40 million requested from state appropriations.

The special schools will be required to make a similar match.

The Regent universities have established processes to identify and track reallocations to assure compliance with the Board's reallocation policy and meet the Board's commitment to the Governor and General Assembly. The following highlights each University's plans.

UNIVERSITY OF IOWA

FY 2006 will bring the second phase of General Education Fund (GEF) reductions based on the recommendations of the President's GEF Task Force. In FY 2006, the University plans an additional \$2 million in reductions. Information on both the source and application of these reductions will be provided in the final FY 2006 budget.

The combination of this and the following components of reallocation will exceed the University's share of the commitment of \$1 in reallocation for every \$2 in new operating appropriations at the \$40 million regent-wide appropriation level as contained in the Regents' FY 2006 request.

Administrative Units

Each administrative unit has developed or is developing a plan for reallocating at least 2% of its General Education Fund budget. Specifically, each unit is being required to provide a detailed list of where reallocated funds will derive within their existing budget and information on where they wish to reinvest, as well as to provide a rationale for reinvestment plans. Reallocation plans must be approved by the appropriate Vice President/Provost. Reviews will occur during FY 2006 to confirm that reallocations are being accomplished in accordance with the approved plans.

Collegiate Units

The Office of the Provost will require colleges to reallocate a minimum of 2% of their recurring general fund budgets. A portion of this, 0.5% - 1.0%, will be retained and redistributed by the Provost across collegiate units to support University-wide strategic initiatives presented to the Board of Regents at its March 2005 meeting. To successfully compete for this support, colleges must provide some match for the reallocated funds they receive and the dollars awarded have to be invested in high priority initiatives. The colleges are allowed to retain the remainder for reallocation within the college.

IOWA STATE UNIVERSITY

A process has been developed at Iowa State University to internally reallocate \$8 million consistent with the Board's reallocation policy. A web-based system has been developed to track all reallocations. The system allows the university to identify the source, current use, destination, and future use of all reallocations. Each reallocation is accompanied by a justification and is reviewed at the Vice Presidential and Presidential level before being approved.

Reallocations will be focused on priority initiatives and goals included in the university's new strategic plan for 2005-2010. Four specific initiatives, derived from the strategic plan, were identified to focus this year's reallocations:

- Increase student success and enhance the quality of undergraduate educational programs;
- Increase the excellence of those graduate, professional, and research programs that are or can be among the very best;
- Strengthen Iowa through technology transfer, economic development, and enhanced Extension and outreach programs; and
- Increase administrative efficiency and improve administrative systems, information infrastructure, and facilities needed to support the above initiatives.

UNIVERSITY OF NORTHERN IOWA

A new budget system is being designed to complement the recent implementation of a personnel/payroll/benefits system. Each major budget unit will be able to identify permanent and one-time budget reallocations using a budget transfer document. This methodology will track reallocations to and from specific budget lines and provide a mechanism to identify reallocations by the four major categories – strategic initiatives, enrollment increase/demand for new courses or services, unavoidable/mandates, and other initiatives. Authorizations vary depending on the reallocation.

ISSUE:
Salary Policies

Quality faculty and staff are essential to the implementation of the Board's and institutions' strategic plans. To recruit and retain top faculty in a global marketplace, the Regent universities must remain competitive by paying competitive salaries in each discipline.

The institutions plan to implement the pay plans as discussed in Human Resource Committee Agenda Item 4 and are still working through the details of salary increases. The current plans are as follows:

UNIVERSITY OF IOWA

The University proposes to increase General Fund supported faculty salaries by an average of 5.0%. This includes a:

- Base component of 3.0% to be allocated to each academic unit,
- Strategic component of 2.0%, to be allocated by the Provost to enhance faculty salaries in cases where these salaries are out of line with the scholarly reputation, teaching effectiveness and research productivity of the faculty involved.

The University is planning an average 3% budget allocation increase for non-bargaining professional and scientific staff to be distributed on the basis of performance. It is the aspiration of the University for non-organized professional and scientific staff to permit an overall average that ranges higher than 3% when feasible through reallocation and/or flexibility based on funding source.

The University will implement all collective bargaining agreements. The costs of the agreements for FY 2006 are illustrated in the following table.

<u>Contract</u>	<u>General Funds</u>	<u>All Funds</u>
AFSCME*	\$2,000,000	\$7,500,000
SEIU	0	6,000,000
COGS**	<u>1,000,000</u>	<u>1,800,000</u>
Total	<u>\$3,000,000</u>	<u>\$15,300,000</u>

* Includes annualization costs

**Includes stipend and tuition scholarship

IOWA STATE UNIVERSITY

ISU tentatively plans to increase salaries in the range of 2-3% for faculty, professional and scientific staff, and graduate assistants. The University is planning an additional, separate salary allocation of 1-2% designed to bring faculty and professional and scientific salaries up to competitive levels. Faculty salaries were at or slightly above the peer mean for most of the last decade but have steadily fallen below the peer mean since 1999. Salaries for professional and scientific staff have also fallen below levels that are competitive in the marketplace. Competitive salaries are critical for attracting and keeping top faculty and staff.

The University's ability to implement its salary policy and plan for competitive salaries will be highly dependent on the amount of new state appropriations received.

The university will fully implement the terms of the collective bargaining agreement which it anticipates will cost \$2.53 million. Supervisory and confidential employees will be treated in the same manner as merit employees.

UNIVERSITY OF NORTHERN IOWA

The University proposes an average increase of 2.5% for professional and scientific staff based on meritorious service and consistent with the increase negotiated with the organized faculty.

The University plans to fully implement the collective bargaining agreements.

IOWA SCHOOL FOR THE DEAF

ISD proposes to establish a pay policy of an average increase of 4.3% for faculty and 4.5% for professional and scientific staff with all salary increases based on meritorious performance.

ISD faculty are required to have highly specialized teaching certifications for special education (including additional certification to teach deaf students) and therefore must recruit and compete for teachers on a national level. No comprehensive teacher-training program in deaf education exists currently in Iowa. Being able to provide competitive salaries is essential to maintaining and attracting the high standard of teaching excellence that has become a part of ISD.

IOWA BRAILLE AND SIGHT SAVING SCHOOL

The School anticipates an average increase for all faculty of 5.05% and professional and scientific staff of 4.5%. Bargained merit employees not at the pay plan maximum will receive a 4.5% increase on their anniversary/eligibility date. The School plans to treat the four non-bargained merit staff the same as the bargained staff. Salary increases for institutional officials would be 4.5% under the current plan.

ISSUE:
Unavoidable /
Inflationary Cost
Increases

The Regent institutions must address cost increases that cannot be avoided. Some examples include increases in library costs, utilities, bargained salary increases, and insurance premiums.

The Regent institutions must also provide funding for operations, maintenance, and utilities as new buildings are opened. Funding for the following buildings will be required in the FY 2005 budget.

- SUI – Adler Classroom / Journalism, Pomerantz Center, Art Building, Carver Biomedical Research Building, Dey House Addition, and the College of Public Health (within General Hospital)
- ISU – LeBaron Hall Auditorium Carver Co-Lab Greenhouse, and the Environmental Health and Safety Regulated Materials Facility

Several of these facilities were funded with state dollars while others were not.

ISSUE:
Support for
Athletics

Intercollegiate athletics at the Regent universities are not self-supporting activities. Each university provides some general fund support to its athletic department. Athletic budgets will be presented separately to the Board in June.

In May 2004, the Board agreed to undertake a study, at the policy level, to evaluate funding structures of intercollegiate athletics at the Regent universities. Since the study was to include all the details necessary to make a policy decision, the timeframe for this study has not yet been determined.

FY 2005 Athletic Budgets (as approved by Board 6/04)

	<u>SUI</u>		<u>ISU</u>		<u>UNI</u>	
General University Support	1,923,359	4.2%	2,637,717	9.8%	4,099,323	49.9%
General University Support -Diversity	-	0.0%	-	0.0%	550,000	6.7%
Student Fees -Operations	-	0.0%	1,125,000	4.2%	1,275,725	15.5%
Student Fees - Debt Service	1,526,431	3.4%	-	0.0%	-	0.0%
	<u>3,449,790</u>	<u>7.6%</u>	<u>3,762,717</u>	<u>13.9%</u>	<u>5,925,048</u>	<u>72.1%</u>
Sports Income	21,328,000	46.9%	\$10,052,002	37.2%	\$1,201,400	14.6%
Athletic Conference/NCAA Support	10,609,000	23.3%	5,527,184	20.4%	223,296	2.7%
Other Income	10,091,689	22.2%	7,707,211	28.5%	865,500	10.5%
Total	<u>\$ 45,478,479</u>	<u>100.0%</u>	<u>\$ 27,049,114</u>	<u>100.0%</u>	<u>\$ 8,215,244</u>	<u>100.0%</u>

Scholarships

In the recent past, when the athletic department awards athletic scholarships, it becomes responsible for paying the tuition related to those athletic scholarships. Tuition payments are an expense to the Athletic Department and a source of revenue for the general university.

For FY 2006, the University of Iowa reports that \$800,000 in general funds will be transferred from the athletics budget to student financial aid and designated by the Office of Student Financial Aid as support for athletic scholarships. Athletic scholarships totaling \$800,000 will no longer be included in the athletic budget.

Assuming that the Board receives the \$40 million requested, the proposed changes in general fund allocations to intercollegiate athletics are as follows:

The University of Iowa general education fund support for athletics operations totaled approximately \$2.2 million in FY 2004. In FY 2005, this support was reduced to \$1.9 million. In FY 2006, this support will be reduced by an additional \$250,000 in addition to the transfer of funds for scholarships outlined above.

Iowa State University plans to increase the general university allocation for women's athletic scholarships by 4% (approximately \$33,000) and to provide salary increase funding for those employees included in the general university budget.

The University of Northern Iowa reports that current operating support of intercollegiate athletics from general funds is projected to continue at approximately the same percentage level as past years.

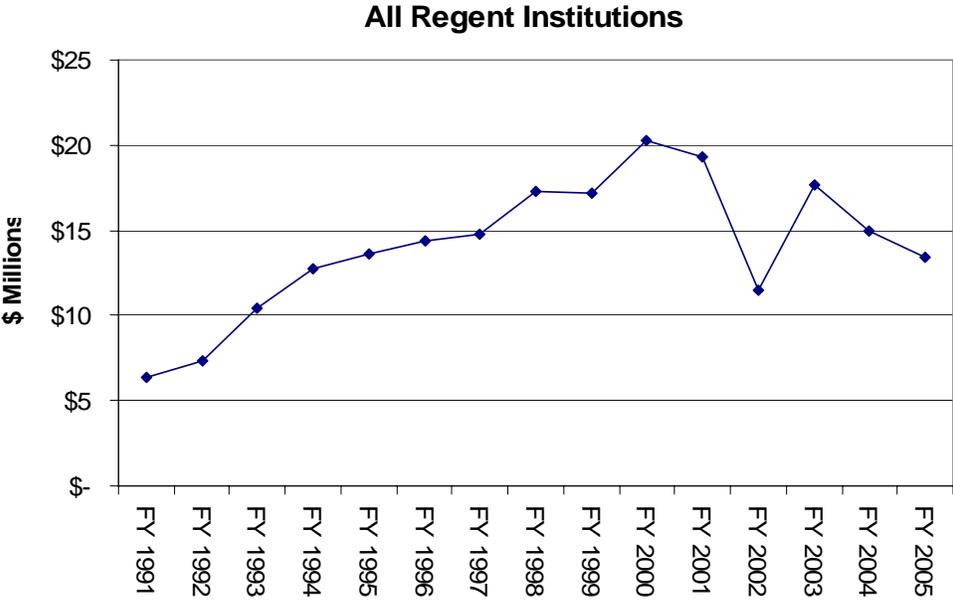
A portion of the universities mandatory student fees support the athletic programs. The Board will be asked to approve the allocation of mandatory student fees at its May meeting. (Agenda Item 8.)

ISSUE:
Capital Projects /
Building Repairs

Due to significant budget reductions, Regent general education, operating budget building repair expenditures declined, in total, from a high of \$20.3 million in FY 2000 to a budgeted amount of \$13.4 million in FY 2005. From FY 2001 (fall 2000) to FY 2005 (fall 2004), the institutions reported an increase of \$66 million (from \$153.6 million to \$220.4 million) in total deferred maintenance in general education facilities. The budget reductions have also hindered the institution's abilities to correct fire and environmental safety deficiencies, which totaled \$4.4 million in fall 2004.

The Regent universities report that if the Regents' \$40 million operating appropriations request is funded, their building repair budget lines will increase.

The following table illustrates general fund building repair expenditures excluding the hospital over the last 15 years and the FY 2005 budgeted expenditures.



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