

**MEMORANDUM**

**TO:** Board of Regents  
**FROM:** Deb Hendrickson  
**DATE:** June 6, 2005 *ASN*  
**SUBJ:** Operating Budgets for FY 2006 and Budget Adjustments for FY 2005

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**Recommended Actions:**

1. Refer to the individual institutional memoranda, 11a through g, for institutional details and other Board requested actions.
  2. Authorize the Universities to continue operating until final detailed budgets are approved at the August Board meeting.
  3. Allocate the FY 2006 appropriations as identified in the table on page 4.
  4. Approve the distribution of the Regional Study Centers FY 2006 appropriations as follows:
    - Quad-Cities Graduate Study Center \$157,144;
    - Tri-State Graduate Center \$77,941; and
    - Southwest Iowa Regents Resource Center \$105,956.
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**Executive Summary:**

**Budget Process** Normally, approval of the institutional budgets consists of two steps; review of budget issues and then approval of final budgets. This year, the state funding for the Regent Transformation and Excellence Plan was decided much later in the legislative process than anticipated and at a lesser amount than desired.

The Board is asked to consider the planned University strategic initiatives, measures, and reallocations at the June meeting with approval of final detailed budgets at the August Board meeting.

The Board is asked to approve the final budgets for the Special Schools and the Board Office.

New Revenues	<p>The Regent institutions are currently planning for a total of \$44.2 million in new operating revenues. New state operating appropriations are expected to be \$24.5 million and additional gross tuition revenues are expected to be \$17.0 million.</p> <p>The special schools will receive \$500,000 in capital appropriations and the universities will receive \$5 million for each of the next ten years from the Grow Iowa Values Fund (GIVF). The GIVF funding will be part of the restricted fund budgets, since it is appropriated to the Department of Economic Development.</p>
Reallocations	<p>The Regent institutions are planning to reallocate a total of \$25.1 million which represents a range of 2.0% - 3.4% of the FY 2005 budgets.</p>
ISD	<p>The final FY 2006 budget for the Iowa School for the Deaf includes the general fund operating budget of \$9,395,644 and the restricted fund budget of \$1,315,379, for a total School budget of \$10,711,023. (See Agenda Item 11e.)</p>
IBSSS	<p>The final FY 2006 budget for the Iowa Braille and Sight Saving School includes the general fund operating budget of \$5,459,871 and the restricted fund budget of \$2,116,907, for a total School budget of \$7,576,778. (See Agenda Item 11f.)</p>
Board Office	<p>The final FY 2006 operating budget for the Board Office totals \$3.0 million including state appropriations of \$1.2 million and institutional allocations of \$1.8 million. Further details are provided in the Board Office budget in Agenda Item 11g.</p>
FY 2005 Budget Ceiling Adjustments	<p>Board policy requires the Board to take action on proposed changes in budget ceilings.</p> <p><u>Iowa Code</u> does not allow unspent general funds to be carried forward to the following fiscal year for expenditure. If an institution anticipates revenues in excess of its Board-approved budget, the institution must present a request for a budget ceiling adjustment to the Board to be allowed the opportunity to use the funds in the current fiscal year.</p> <p>This month, Iowa State University and the University of Northern Iowa are requesting approval of budget ceiling adjustments in Agenda Items 11c and 11d, respectively.</p>

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**Background:**

Board Budget Process

In May, the Board considered key budgetary issues to provide guidance in the development of the institutional budgets:

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

This month, the Board is asked to approve budget ceiling adjustments for FY 2005 and FY 2006 budgets for the Special Schools and Board Office, and consider the University strategic initiatives and reallocations. Final approval of the University budgets is anticipated at the August Board meeting following a decision regarding supplemental tuition requests (Agenda Item 12).

Definitions

The Regent institutions have two basic types of funds within the budgets:

General funds include operating appropriations, some federal funds, interest income, tuition and fee revenues, reimbursed indirect costs, and sales and services for fundamental operations of the institutions.

Restricted funds are specifically designated or restricted for a particular purpose or enterprise and include capital appropriations, tuition replacement, gifts, sponsored funding from federal and private sources, athletics, as well as other auxiliary or independent functions such as residence, parking, and utility systems.

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**Analysis:**

New Revenues

The Regent institutions are planning operating budgets based upon the following new incremental revenues.

	<b>FY 2006 Incremental Operating Revenues</b>			
	<u>Operating Appropriations</u>	<u>Tuition Revenues</u>	<u>Other Revenues*</u>	<u>Total New Revenues</u>
SUI	\$9,907,956	\$8,200,000	\$ 1,850,000	\$19,957,956
ISU	9,607,715	7,649,175	602,590	17,859,480
UNI	4,503,617	1,150,000	200,000	5,853,617
ISD	340,000	0	0	340,000
IBSSS	<u>190,000</u>	<u>0</u>	<u>35,462</u>	<u>225,462</u>
TOTAL	\$24,549,288	\$16,999,175	\$2,688,052	\$44,236,515

\* Includes Indirect Cost Recoveries, Sales and Service Revenues, and Miscellaneous Income.

Appropriations

The Regent institutions will receive FY 2006 incremental appropriations from a variety of state sources as identified in Agenda Item 2 – Final Action of the 2005 Legislative Session. Direct appropriations for operating and capitals to the Board of Regents and its institutions total \$641.9 million.

Some of the funding is recurring and will become part of the base for FY 2007. Other funding is for one year.

	<b>FY 2006 Incremental Appropriations</b>			
	HF 816 Education Bill (Recurring Funding)	HF 875 Infrastructure Bill (One Time Funding)	SF 342 Supplemental Bill (One Time Funding)	Total Increment
SUI	\$6,174,831	\$2,578,125	\$ 1,155,000	\$9,907,956
ISU	5,987,715	2,500,000	1,120,000	9,607,715
UNI	<u>2,806,742</u>	<u>1,171,875</u>	<u>525,000</u>	<u>4,503,617</u>
Subtotal	\$14,969,288	\$6,250,000	\$2,800,000	\$24,019,288
ISD	340,000	327,000*	0	667,000
IBSSS	<u>190,000</u>	<u>173,000*</u>	<u>0</u>	<u>363,000</u>
TOTAL	\$15,499,288	\$6,750,000	\$2,800,000	\$25,049,288

\* Capital Appropriations.

The funding in these bills is appropriated to the Board in many line-items. For example, HF 816 has thirty different line-item appropriations for the Regent institutions and Board Office.

Tuition

In December 2004, the Board approved a 4% tuition increase for undergraduate resident students and varying increases for other tuition. The universities have used the planned tuition increase and expected fall 2005 enrollment mix to arrive at the following tuition revenues for general education.

	<b>FY 2006 Budgeted Estimated Tuition and Fee Revenues</b>	
	<u>Budget</u>	<u>Gross Increase</u>
SUI	\$214,471,000	\$8,200,000
ISU	169,368,000	7,649,175
UNI	<u>59,150,000</u>	<u>1,150,000</u>
Total	\$442,989,000	\$16,999,175

These tuition revenues may change subject to Board action on Agenda Item 12 – Supplemental Tuition Requests and UNI Computer Fee Changes.

Indirect Cost Recoveries

The institutions receive indirect cost recoveries on various grants and contracts. The following table shows the expected revenue in FY 2006 and the increase from FY 2005 budgets. This revenue source is dependent on new awards, renewals, and the timing of grant and contract expenditures.

**FY 2006 Budgeted  
Indirect Cost Recoveries**

	<u>Budget</u>	<u>Increase</u>
SUI	\$42,922,000	\$2,069,000
ISU	18,288,000	1,035,180
UNI	2,150,000	250,000
IBSSS	<u>106,279</u>	<u>35,462</u>
Total	\$63,466,279	\$3,389,642

Reallocations

The Board's Partnership Plan for Transformation and Excellence required the Regent universities to reallocate \$1 for every \$2 in state appropriations received which would have resulted in \$20 million if the \$40 million appropriations request was funded. While the legislation requires the \$1 for \$2 match, Board leadership has directed the universities to reallocate at least \$20 million.

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.

Each institutional submission contains: 1) the planned use of the reallocated funding in the strategic initiatives narrative; and 2) the sources for reallocations. The following table shows the planned reallocation amounts by institution.

<b>FY 2006</b>	
<b>Proposed Reallocations</b>	
	Proposed <u>Budget</u>
SUI	\$10,850,000
ISU	9,153,451
UNI	4,788,534
ISD	176,031
IBSSS	<u>102,514</u>
Total	\$25,070,530

The new incremental operating revenue and reallocation funding available for initiatives is as follows:

<b>FY 2006</b>	
<b>Incremental Operating Revenues and Reallocations</b>	
SUI	\$30,807,956
ISU	27,012,931
UNI	10,642,151
ISD	516,031
IBSSS	<u>327,976</u>
Total	\$69,307,045

Partnership Plan for Transformation and Excellence

The new funding from the Partnership Plan for Transformation and Excellence was to concentrate on:

- Assisting in reaching nationally competitive salary levels to allow the universities to recruit and retain faculty members who are among the very best in their fields of study, with a particular focus on disciplinary areas that are important to Iowa's future.
- Focusing resources in areas critically important to the future of Iowa:
  - Increased class offerings in areas of high student demand and of great importance to the state of Iowa
  - Strengthened academic areas negatively impacted by appropriation cuts over the past five years
  - New academic programs vital to Iowa's economic needs and growth potential
  - Further enrichment of the educational experience for students
  - Improved student progress toward graduation
  - Effective management of appropriate class sizes
  - Continued statewide public service to Iowans inherent in the missions of the three Regent universities.

Strategic Initiatives Universities The universities have focused their initiatives around each University's specific strategic plan goals and have linked them to the Regent Transformation and Excellence Plan. In addition, the universities were asked to identify strategic budget initiatives (one-year goals) with measures.

The majority of the new revenues and reallocations will be directed to salary and benefit expenditures at all three universities.

- The University of Iowa is planning to use \$14.1 million for salary and benefit increases in the General Education Fund and \$4.1 million for additional investment in faculty.
- Iowa State University is planning to use \$12.2 million to achieve competitive salaries for faculty and staff, an additional \$1.1 million for faculty to meet student demand, and an additional \$1.0 million for faculty in Veterinary Medicine.
- The University of Northern Iowa is planning to use \$4.0 million to cover negotiated salary and benefit increases and an additional \$1.3 million for investment in faculty.

Strategic Initiatives Special Schools The majority of the new revenues and reallocations will be directed to salary and benefit expenditures at the Special Schools.

- The Iowa School for the Deaf is planning to use \$340,000 for salary and benefit increases.
- The Iowa Braille and Sight Saving School is planning to use \$170,200 for salary and benefit increases.

Other Information The University of Iowa Hospitals and Clinic's budget assumes Board approval of the proposed 9.5% rate increase and the Wellmark Contract substantially similar to the current budget year. (See Agenda Item 4)

Iowa State University is planning to allocate \$1,080,819 of the new recurring state appropriations to the Agriculture Experiment Station and \$830,693 to Cooperative Extension Service.