

Contact: Brad Berg

**FY 2009 BUDGET ISSUES AND
FY 2008 BUDGET CEILING ADJUSTMENT**

Actions Requested:

1. Discuss the FY 2009 budget issues and provide guidance to the institutions and Board Office as necessary for the development of the FY 2009 budgets.
2. Set the FY 2009 reallocation target at 1% of the FY 2008 budgets.
3. Consider approval of the proposed FY 2008 budget ceiling adjustment of \$2.97 million in the general university operating budget for the University of Northern Iowa.

Executive Summary:

The Regent enterprise developed FY 2009 spending and funding plans last fall consistent with the Board's strategic plan to serve the people of Iowa by providing a high-quality accessible education, cutting-edge research, and needed public services that help fuel the state's economy. The development of these plans included a tuition increase, incremental state appropriations, and reallocations.

The Regent institutions have identified key preliminary FY 2009 operating budget issues related to revenue changes, reallocations, competitive salaries, and unavoidable cost increases.

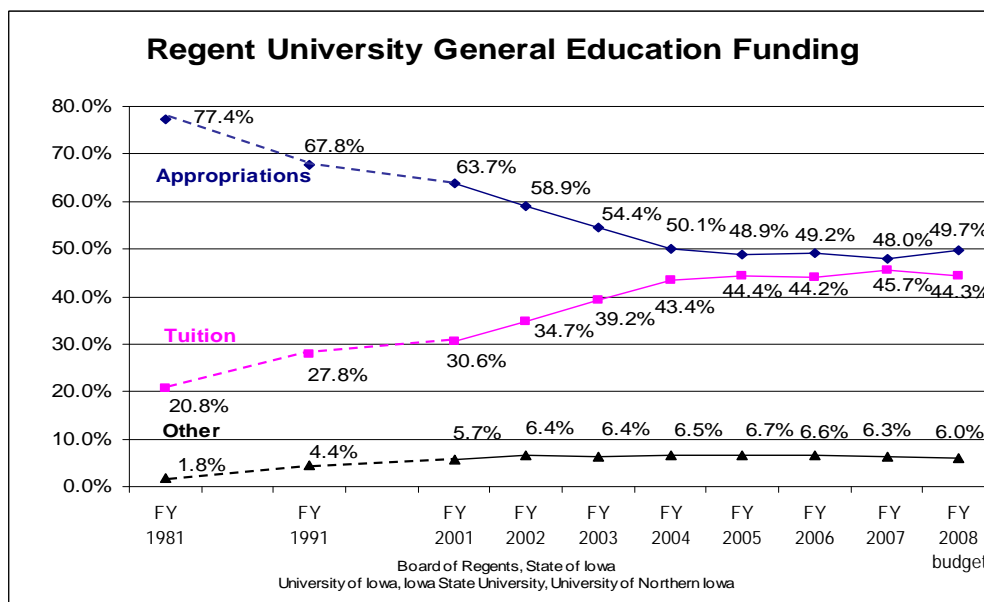
Revenues

The three key resources for university operations include state appropriations, tuition revenues, and university reallocations.

The key funding resource for the special schools is state appropriations, which provide approximately 90% of the schools' operating funds.

➤ **Appropriations**

State operating appropriations have historically provided the core operating funds for the Regent universities. However, dynamic changes in state funding patterns have significantly altered the proportion of revenue sources for higher education. The state operating funding levels received by the Regent universities in FY 2008 reflect a very recent upward trend in support following several years of decline.



Actual FY 2009 appropriated amounts are not expected to be finalized until the end of the legislative session which creates difficulty in finalizing budgets. The Regent FY 2009 incremental operating appropriation request of \$56.9 million consisted of the following:

- \$ 39.7 million for higher education inflationary increases
- \$ 7.9 million for strategic initiatives
- \$ 8.7 million for legislative special purpose units (includes economic development units)
- \$ 0.6 million for the special schools
\$ 56.9 million

Proposed legislation indicates the Regent enterprise may receive \$41.9 million in state incremental operating appropriations and \$0.3 million in incremental appropriations for the special schools. Again, final legislative action was pending at the time of this writing.

Chapter 257.8 of the Code of Iowa established an FY 2009 allowable growth rate of 4% for public K-12 schools in Iowa. The appropriation request for the special schools was based on the 4% allowable growth rate that the legislature has historically extended to the special schools. However, proposed legislation indicates the special schools may receive a 2% increase in direct operating appropriations; half of the requested amount.

➤ Tuition

In December 2007, the Board approved resident undergraduate tuition increases of 3.2% for the 2008-09 academic year. The approved nonresident undergraduate tuition increases at SUI, ISU, and UNI were 6.0%, 2.5%, and 2.2% respectively.

FY 2009 incremental tuition revenue is projected to be a combined \$29.0 million prior to offsets for student financial aid compared to current FY 2008 estimates.

- University of Iowa \$16.0 million
- Iowa State University \$12.0 million
- University of Northern Iowa \$ 1.0 million

➤ Reallocations

Reallocations are used to support new strategic initiatives, meet enrollment increases and demand for new courses, fund unavoidable cost increases, and support important core strategic initiatives. Board policy states the Board will set an annual reallocation target or percentage each year. The universities and special schools recommend an FY 2009 reallocation target equal to 1% of the FY 2008 general fund budgets. A 1% reallocation target would result in approximately \$12.1 million being reallocated among the five institutions for strategic purposes including faculty recruitment and retention, financial aid, facility improvements, and public safety and security.

Expenses

Operating costs continue to rise each year. The costs associated with competitive compensation and related fringes for faculty and staff and other unavoidable cost increases must be addressed in the FY 2009 budget plans.

➤ **Competitive Compensation**

Details of the FY 2009 pay policies are presented in Agenda Item 12. It is anticipated the Board will be asked to consider final salary policies for the institutions and the Board Office at the June meeting.

Salaries comprise approximately 73% of the operating budgets and are one of the highest priorities for budget planning. The universities recognize their most valuable resources are people. Strategic hiring and retention of faculty strengthen core academic areas, provide favorable faculty-student ratios, and improve time to graduation. Compensating faculty and staff at levels that promote recruitment and retention contribute to educational excellence at the Regent institutions.

Regent inclusion in the state salary bill is expected to provide additional resources for existing faculty and staff at the institutions. The anticipated funding will be directed towards the costs associated with the collective bargaining agreements and improving the competitiveness of faculty salaries.

Budget planning for salaries also includes associated cost increases for fringe benefits. Consistent with national trends and recent experience, health care costs are projected to increase 10% beginning January 1, 2009.

SUI's flex benefit plans for faculty and non-bargaining staff are currently being reviewed for amendments beginning January 1, 2009. Details of these changes will be presented concurrent with the University's budget information and requests to the Board for approval of the FY 2009 General Education Fund budget. Development of benefit plan details is now underway through the Human Resources and Finance Offices and the internal governance processes at the University.

➤ **Building Repairs**

National standards establish a building repair target of 1% of the replacement value of facilities to prevent further deterioration. The current replacement value of General Fund facilities (academic/research/administration) is estimated at \$6.3 billion. Due to budget reductions, the general education operating building repair expenditures have declined from \$20 million in FY 2000 to \$16 million in FY 2008; 0.25% of the replacement value.

It is important the Regent institutions budget adequate funds for building repairs to ensure the facilities are adequately maintained, repaired, and replaced as needed to minimize future deferred maintenance.

➤ **Utilities**

The cost of coal and natural gas used for heating and cooling academic facilities continue to rise. General fund utility costs are projected to increase approximately \$6 million in FY 2009 when compared to FY 2008. The universities continue to investigate and identify new opportunities to create and conserve energy, and promote energy independence through research and development of renewable fuels.

➤ **Other Unavoidable Costs Increases**

There are other necessary cost increases which provide operational support for the learning and research environments including library acquisitions, outreach, support of grant research, and operational support of new state-funded educational and research facilities.

UNI FY 2008 Budget Ceiling Adjustment

The University of Northern Iowa is requesting a FY 2008 General University budget ceiling increase of \$2.97 million from \$156,987,113 to \$159,957,113. Board policy requires Regent institutions to receive Board approval for proposed increases in budget ceilings for General Fund operations; they must do so prior to modifying their obligations. Tuition revenues are expected to exceed budget estimates by \$2.66 million from additional collections resulting from an enrollment increase. Other revenue sources are projected to exceed the budgeted amount by \$310,000. The additional net revenue to the General University is budgeted to be applied to the following:

- Professional & Scientific staffing to support activities associated with internal audit, website development, IT security, graphic design, and admission recruitment
- General Service Staff and temporary assistance to support building services, and clerical staffing to assist in the University's reaccreditation process
- Supplies and Services to support the Reaccreditation process, a new Foundations of Excellence program, admissions consulting, website development, energy conservation, student information system hardware/software/consulting, branding, and student services program initiatives
- Building Repairs for an emergency generator in the Information Technology Services office and costs associated with Baker Hall environmental testing
- Equipment for a campus emergency communications system, and Information Technology equipment replacement

	FY 2008 Approved Budget	Proposed Changes	FY 2008 Amended Budget
Revenues			
State Appropriations	92,495,485		92,495,485
Interest	750,000	60,000	810,000
Tuition and Fees	61,300,000	2,660,000	63,960,000
Reimb. Indirect Costs	1,846,628	200,000	2,046,628
Sales and Services	595,000	50,000	645,000
Total Revenues	156,987,113	2,970,000	159,957,113
Expenditures			
Compensation			
Fac. & Inst. Off. Salaries/Ben	69,125,484		69,125,484
Prof. & Scientific Salaries/Ben	28,552,861	109,718	28,662,579
General Services Staff Sal/Ben	23,713,218	43,365	23,756,583
Hourly Wages/Ben	2,173,215	-	2,173,215
Total Salaries & Benefits	123,564,778	153,083	123,717,861
Other Expenditures			
304-Supplies and Services	12,030,247	1,813,417	13,843,664
315-Library Acquisition	2,008,423		2,008,423
402-Rentals	971,231		971,231
403-Utilities	5,407,000		5,407,000
409-Bldg. Repairs	1,200,000	449,500	1,649,500
412-Auditor of State Reimb	250,000		250,000
501-Equipment	548,434	554,000	1,102,434
803-Student Aid	11,007,000	-	11,007,000
Total Expenditures	156,987,113	2,970,000	159,957,113