

Contact: Brad Berg

FY 2011 BUDGET PRELIMINARY BUDGET ISSUES

Actions Requested:

1. Discuss the FY 2011 budget issues and provide guidance as necessary to the institutions and Board Office for the development of the FY 2011 budgets.

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.

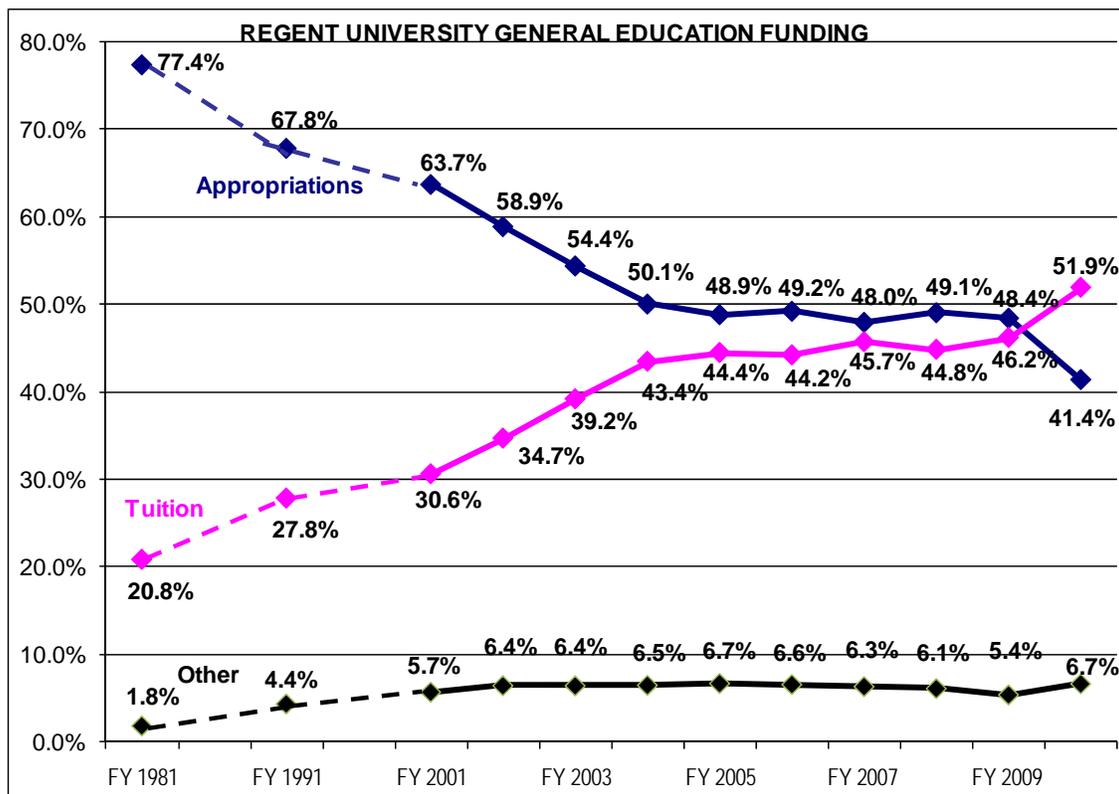
Iowa's public universities and special schools have identified key preliminary FY 2011 operating budget issues related to anticipated revenue changes, reallocations, compensation, and unavoidable cost increases.

Revenues

The key resources for university general education fund operations include state appropriations and tuition revenues. The primary funding source for the special schools continues to be state appropriations.

➤ **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. FY 2010 marks the first year tuition revenue has exceeded state operating funding levels. The FY 2010 funding percentages shown below reflect the data included in the proposed amended budgets in Agenda Item 9a.



The following illustrates the numerous funding adjustments to the general university appropriations since the original FY 2009 appropriations were approved by the 2008 General Assembly. The current FY 2011 general university appropriations are \$118.0 million less (-20%) than that originally approved for FY 2009 and \$8.5 million less (-1.8%) than the current FY 2010 state funding levels. For FY 2011, the general universities were appropriated \$8.7 million in one-time supplemental funding from the underground storage tank fund to offset a portion of the reduction in state general fund appropriations. Current FY 2011 general university state operating funding levels are approximately \$5.6 million less than that received in FY 1998.

General Universities Only					
	SUI	ISU	UNI	Total	Approximate Effective Date
Original FY09	276,518,045	217,695,081	98,286,381	592,499,507	Jul-08
1.5% ATB Cut	(4,147,771)	(3,265,426)	(1,474,296)	(8,887,493)	Dec-08
Gen Univ Share of \$7M Deappropriation	(2,843,105)	(2,237,174)	(1,020,000)	(6,100,279)	Feb-09
Final FY09	<u>269,527,169</u>	<u>212,192,481</u>	<u>95,792,085</u>	<u>577,511,735</u>	
Legislative Reduction from FY09 for FY10	<u>(34,044,078)</u>	<u>(27,204,898)</u>	<u>(12,002,198)</u>	<u>(73,251,174)</u>	Jul-09
Original FY10	235,483,091	184,987,583	83,789,887	504,260,561	Jul-09
10% ATB Cut	(23,548,309)	(18,498,758)	(8,378,989)	(50,426,056)	Dec-09
Reduction from Mandatory Unpaid Days	(742,740)	(352,210)	(253,175)	(1,348,125)	Dec-09
Maintenance-of-Effort Supplemental Funding	<u>14,371,621</u>	<u>10,839,521</u>	<u>5,227,665</u>	<u>30,438,807</u>	Apr-10
Current FY10	225,563,663	176,976,136	80,385,388	482,925,187	
Legislative Reduction from FY10 for FY11	<u>(7,925,629)</u>	<u>(6,440,119)</u>	<u>(2,835,579)</u>	<u>(17,201,327)</u>	Jul-10
Original FY11	217,638,034	170,536,017	77,549,809	465,723,860	Jul-10
One-Time FY11 Supplemental Funding	<u>4,086,492</u>	<u>3,202,079</u>	<u>1,456,118</u>	<u>8,744,689</u>	Jul-10
Current FY11	221,724,526	173,738,096	79,005,927	474,468,549	
Current FY 2011 Less Original FY 2009	(54,793,519)	(43,956,985)	(19,280,454)	(118,030,958)	
Current FY 2011 Less Original FY 2010	(13,758,565)	(11,249,487)	(4,783,960)	(29,792,012)	
Current FY 2011 Less Current FY 2010	(3,839,137)	(3,238,040)	(1,379,461)	(8,456,638)	

Each university's special purpose units receiving state general fund appropriations were also subject to the 10% across-the-board reduction in FY 2010 and were generally flat funded in FY 2011 when compared to the final FY 2010 appropriated levels. One exception was UNI's Iowa Mathematics and Science Education Partnership program (IMSEP), which was reduced to \$1.8 million in FY 2011 from the final FY 2010 appropriation of \$3.25 million. The IMSEP leadership team plans to recalibrate downward the goals, objectives, and impact of the program.

The Special Schools were also subject to numerous budget adjustments since the original FY 2009 appropriations were authorized by the 2008 General Assembly. ISD's current FY 2011 state funding level of approximately \$9.15 million (includes \$396K in one-time funding) is \$1.16 million less (-11.2%) than originally approved for FY 2009 and \$0.19 million less (-2%) than the current FY 2010 funding amounts. ISD's current FY 2011 state funding level of approximately \$5.16 million (includes \$229K in one-time funding) is \$0.65 million less than originally approved for FY 2009 and \$0.11 million less than the current FY 2010 funding amounts. The percentage decreases for IBSSS are the same as for ISD.

➤ Tuition

In February 2010, the Board approved resident undergraduate tuition increases of 6.0% for the 2010-11 academic year. The approved nonresident undergraduate tuition increases at SUI, ISU, and UNI were 6.0%, 4.1%, and 3.0% respectively.

FY 2011 incremental tuition revenue is projected to be a combined \$53.6 million prior to offsets for student financial aid compared to the original FY 2010 budget.

- University of Iowa \$25.6 million
- Iowa State University \$21.0 million
- University of Northern Iowa \$ 7.0 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 2011, the primary focus of reallocations will be to manage state funding reductions while maintaining the quality of core academic programs. SUI also reports reallocated funds will be used to renovate lab space, purchase start-up equipment for new faculty, create new active learning classrooms, and update instructional technology.

➤ Federal Stimulus Funds

In FY 2010, the Regent enterprise received one-time funds of approximately \$80.3 million in State Fiscal Stabilization Funds from the American Recovery and Reinvestment Act of 2009. The Regent enterprise will not receive this funding for FY 2011.

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

Salaries comprise approximately 70% of the operating budgets and are one of the highest priorities for budget planning.

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 9,100 P&S employees (headcount) at the five institutions. Of these, approximately 2,700 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 4,600 faculty and institutional officials at the three universities, including 570 organized faculty at the University of Northern Iowa. As reported in February 2010, faculty salary rankings at SUI and ISU remain near or at the bottom of their respective peer groups while UNI remains near the middle of its peers.

There are approximately 7,600 employees in the Regent Merit System. Of this total, about 6,400 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, 2,500 graduate assistants at the University of Iowa are organized for the purposes of collective bargaining.

Based on the conceptual budget planning for FY 2011, the preliminary salary policies of the institutions are summarized below. Final pay policies will be presented to the Board at the June meeting.

All incremental salary and benefit costs will be funded from internal resources as no state salary funding will be received for FY 2011.

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 2010 negotiated increases for AFSCME staff include a 2% across-the-board increase on July 1, 2010, followed by an additional 1% across-the-board increase on January 1, 2011. Eligible employees (those not at the maximum of the pay grades) will also receive a 4.5% step increase on their eligibility dates throughout the year.

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

- University of Northern Iowa United Faculty: 3% increase on July 1, 2010
- University of Iowa tertiary care unit (SEIU): 2% across-the-board increase on July 1, 2010 and an additional 2% on January 1, 2011.
- University of Iowa graduate assistants (COGS): 0% average stipend increase and scholarship increases equal to the tuition rate increase.

University of Iowa: For FY 2011, the University-wide average faculty salary increase is expected to be approximately 2%. Colleges will have the latitude in faculty pay adjustments based upon the individual circumstances of the college. 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, that pay variable compensation to faculty based on productivity as previously approved by the Board, will continue to be authorized to do so in FY 2011.

Funds equal to 2% of non-bargaining P&S staff salaries plus fringes are expected to be allocated to the General Education Fund supported units. 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.

The FY 2011 incremental General Education Fund cost of all collective bargaining agreements and proposed non-bargaining salary adjustments is estimated at \$8.9 million. The University of Iowa will partially offset this increase with a \$4.7 million temporary reduction in retirement contributions continuing in FY 2011 and additional fringe benefit cost savings (health, dental, life insurance) of \$2.4 million resulting from changes to the flexible health/dental/life benefit system as presented to the Board in September 2008.

Iowa State University: ISU's salary guidelines for FY 2011 will allow individual increases for promotions, reclassifications, adjustments to meet the minimum of an applicable pay grade, post doctorates and graduate assistants funded entirely from external sources as provided in the grants/contracts, and a limited number of increases to address serious equity imbalances.

ISU has been analyzing a comprehensive restructuring of the P&S pay plan matrix. Modifications to the compensation structure are planned for implementation on July 1, 2010 pending Board approval. See Agenda Item 18 for more details.

FY 2011 budget planning assumes a 5% increase in health care costs for faculty and P&S employees and a 10% rate increase effective January 1, 2011 for merit employees. The reduction in University retirement contributions approved by the Board last October expires on June 30, 2010. The combined incremental cost of the salary and benefit changes in FY 2011 is estimated to be \$3.4 million.

University of Northern Iowa: Historically, P&S employees have received increases commensurate with the faculty bargaining contract. The United Faculty negotiated pay plan will provide a 3% increase on July 1, 2010. The incremental salary and benefits cost is projected to be \$3.9 million for FY 2011 with the majority resulting from the bargained agreements.

Iowa School for the Deaf: ISD proposes an overall average increase for faculty of 2.25%. The proposal includes an increase of 1.5% to the faculty pay matrix in each cell and the 2% increase between each consecutive cell on the vertical scale (for years of service) will be maintained. P&S staff would receive an average increase of 2.25% for FY 2011. The P&S matrix would be increased 2.5% at the minimum and maximum of each range. ISD further proposes no increase for extra-curricular activities pay plan for FY 2011. The combined incremental cost of the salary and benefit changes in FY 2011 is estimated to be \$198,000.

Iowa Braille and Sight Saving School: The Statewide System for Vision Services employs 47 teachers, of which 39 are dedicated to services provided through the Area Education Agency for part or all of their time. Under the current contractual agreement, the AEA purchases the service of those teachers from IBSSS. For this reason, it is important the faculty salaries of the Statewide System for Vision services be comparable to AEA salaries. IBSSS proposes a 2.5% increase in FY 2011 for faculty and P&S staff. IBSSS proposes no change to the extra-curricular activities pay plan for FY 2011. The combined incremental cost of the salary and benefit changes in FY 2011 is estimated to be \$158,000.

➤ 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 2010, the current replacement value of General Fund facilities (academic/research/administration) is estimated at \$6.9 billion. Progress towards the 1% target in will again prove to be difficult in FY 2011 due to the current budget environment.

➤ Utilities/Opening New Buildings

The projected incremental cost of utilities and expenses associated with opening new buildings is projected to increase \$4.9 million in FY 2011 when compared to FY 2010. Examples include the Hygienic Lab, Environmental Waste Management Facility, and the Chemistry Building at SUI, the Biorenewables Research Lab and Hach Hall at ISU, and Sabin Hall at UNI.

➤ Other Unavoidable Costs Increases

The universities will budget additional funds for student financial aid set-aside from the budgeted tuition increase and are committed to meeting the needs of undergraduate Iowans with demonstrated financial need. Other unavoidable cost increases of the learning and research environments include library acquisitions, outreach, and support of grant research.