

Contact: Brad Berg

**FY 2008 BUDGET ISSUES AND
FY 2007 BUDGET CEILING ADJUSTMENT**

Actions Requested:

1. Discuss the FY 2008 budget issues and provide guidance to Board Office and institutions as necessary for the final FY 2008 budget.
2. Set reallocation target at 1% of FY 2007 budgets.
3. Consider approval of the proposed FY 2007 budget ceiling adjustment of \$500,000 in the general university operating budget for Iowa State University.

Executive Summary:

The Regent enterprise developed FY 2008 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 2008 operating budget issues related to revenue changes, reallocations, competitive salaries, and unavoidable cost increases.

Revenues

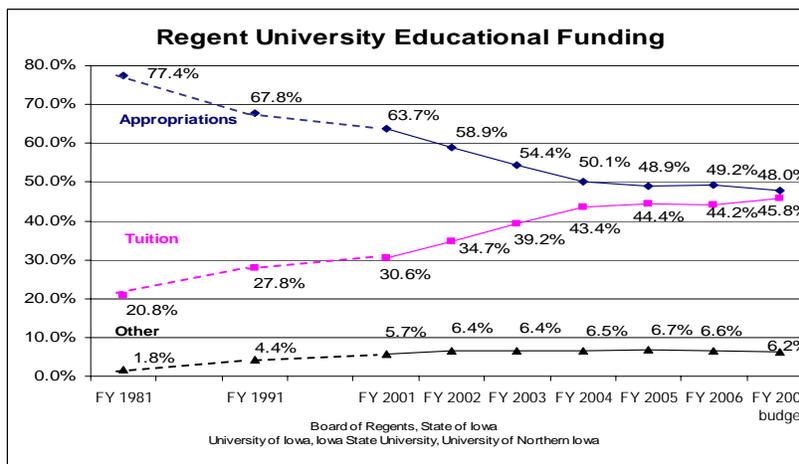
The three key resource components providing funding opportunities for higher education include state appropriations, tuition revenues, and university reallocations.

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

Appropriations

Actual appropriated amounts are not expected to be finalized until the end of the legislative session which creates difficulty in finalizing budgets. The outlook for state operating funding is extraordinary when compared to previous years. Proposed legislation indicates the Regent enterprise can anticipate receiving \$66.2 million of the \$72.8 million requested state incremental operating appropriations. Please note that appropriated dollars must be used for the specific purpose as directed by the legislation.

Dynamic changes in state funding patterns have significantly altered the proportion of revenue sources for higher education.



Tuition

The Board approved inflationary resident undergraduate tuition increases of 5.2% for the 2007-08 academic year in December 2006. Net tuition revenue was projected to be \$22.8 million when the 2007-08 tuition rates were approved. The smaller updated net tuition revenue projection of \$19.9 million is primarily due to a projected enrollment decline of 344 students at UNI when compared to the FY 2007 budgeted enrollment.

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 a reallocation target equal to 1% of the FY 2007 general fund budgets. A 1% reallocation target would result in approximately \$11.3 million being reallocated among the five institutions for strategic purposes.

One-Time Funding Replacement

The FY 2007 budgets for higher education of recurring costs were constructed utilizing \$19.9 million of non-recurring resources. The non-recurring resources were comprised of \$9 million of one-time state appropriations and \$10.9 million in temporary energy/environment surcharges. The proposed FY 2008 appropriations will be used in part to replace the one-time funding received in FY 2007.

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 2008 budget plans.

Competitive Compensation

Details of the FY 2008 pay policies are presented in Agenda Item 20. Salaries comprise approximately 74% of the operating budgets and are one of the highest priorities for budget planning. The universities recognize its most valuable resources are its 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.

\$14 million of the proposed new state incremental operating funding is specifically targeted to increase the ranking levels of average faculty salaries at SUI and ISU within their respective peer groups and enhance the educational quality at UNI by funding 19 new faculty positions.

Regent inclusion in the state salary bill for the first time since FY 2003 would 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 12% beginning January 1, 2008.

Other Unavoidable Costs Increases

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

ISU FY 2007 Budget Ceiling Adjustment

Iowa State University is requesting a FY 2007 General University budget ceiling increase of \$500,000 from \$382,430,205 to \$382,930,205. Board policy requires Regent institutions receive Board approval for proposed increases in budget ceilings for General Fund operations and must do so prior to modifying their obligations. Tuition revenues are expected to exceed budget estimates by \$1 million representative of an increase in collections. Interest income is expected to exceed budget by \$500,000 due to higher than anticipated interest rates. Indirect cost recoveries are projected to be \$1 million below budget due to a decrease of federal research funding due to tighter federal budgets and the loss of key faculty researchers. Auditor of State reimbursements were originally budgeted under supplies and services in the amount of \$495,400. The additional net revenue to the General University will be applied to the increased cost of utilities. The amended budget is provided below.

| | FY 2007 Approved <u>Budget</u> | Proposed <u>Changes</u> | FY 2007 Amended <u>Budget</u> |
|-----------------------|--------------------------------------|----------------------------|-------------------------------------|
| Revenues | | | |
| State Appropriations | 183,798,164 | | 183,798,164 |
| Interest | 1,320,000 | 500,000 | 1,820,000 |
| Tuition and Fees | 177,511,980 | 1,000,000 | 178,511,980 |
| Reimb. Indirect Costs | 18,288,180 | (1,000,000) | 17,288,180 |
| Other Income | 1,511,881 | | 1,511,881 |
| | <hr/> | | |
| Total Revenues | 382,430,205 | 500,000 | 382,930,205 |
| Expenditures | | | |
| Salaries | 273,799,346 | | 273,799,346 |
| Supplies and Services | 24,441,341 | (495,400) | 23,945,941 |
| Library Acquisitions | 8,897,981 | | 8,897,981 |
| Rentals | 1,137,927 | | 1,137,927 |
| Utilities | 23,476,629 | 500,000 | 23,976,629 |
| Bldg. Repairs | 6,589,018 | | 6,589,018 |
| Aud of State Reimb | - | 495,400 | 495,400 |
| Equipment | 4,217,361 | | 4,217,361 |
| Aid to Individuals | 39,870,602 | | 39,870,602 |
| | <hr/> | | |
| Total Expenditures | 382,430,205 | 500,000 | 382,930,205 |