

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Operating Budget Issues for FY 2005
Date: April 12, 2004

Recommended Action:

Address budget related issues as detailed in the accompanying memoranda 8a through 8d.

Executive Summary:

Operating Budget The Board Office is presenting FY 2005 budget related issues in a more comprehensive manner than budget issues have been presented in prior years. This memorandum provides an overview of the various policy issues to which the Board is being asked to give guidance to the institutions as they develop their FY 2005 general fund operating budgets for the Board's action at its June meeting.

Salary Policies Salaries comprise more than 75% of the institutional general fund budgets, excluding the University of Iowa hospital operations. The most recent legislative appropriations information provides no incremental salary funding for the Regent institutions. The Regent universities are not expected to receive increments in base operating appropriations. The Special Schools are expected to receive a 2% increase in base operating appropriations.

The proposed plans for salary increases vary among the institutions. The range at the universities is from 1.5% to 3.75% for non-bargained faculty and staff; the latter is consistent with the increase for the bargained faculty.

Proposed salary increases for the special schools range from 4.5% to 5.2%.

Proposed Pay Plans Several proposed pay plans for FY 2005 at the Regent institutions are submitted for approval.

- Professional and Scientific Salary Schedules and Policies (G.D. 8a)
- Faculty Salary Policies at the Special Schools (G.D. 8b)
- Regent Merit System Pay Plans for supervisory employees (G.D. 8c)

Non-represented faculty and staff presentations It has been the Board's practice over the past several years to hear oral presentations on salary and benefits from faculty and staff who are not represented by a collective bargaining agent. Invitations to make such presentations were extended to faculty and staff by their respective institutional heads at the request of Executive Director Nichols.

Other budget issues

There are several key other budget issues identified separately in G.D. 8d:

- Reallocation plans
- Unavoidable cost increases
- Capital projects and building repairs

Information on the following items are provided for background purposes:

- FY 2005 revenues
- Athletics
- UIHC rates
- FY 2004 SUI budget update

Background:

Board Budget Process

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

FY 2005 Revenues

Appropriations

The current legislation for the Regent institutions would provide:

- No funding for salary increases including those required by the AFSCME contract that the state negotiates
- Appropriations for the Regent universities at the final FY 2004 level following the reductions at the beginning of the year and the mid-year 2.5% across-the-board reduction
- Increased base funding of 2% for the Special Schools

Tuition Increases

The universities estimate tuition revenue increases from FY 2004 budgets based on the Board-approved tuition increases and estimated enrollment figures as follows:

- \$5.0 million at SUI (2.5%)
- \$5.0 million at ISU (3.1%)
- \$1.9 million at UNI (3.4%)

Indirect Cost Recoveries

The universities estimate indirect cost recovery revenue increases as follows:

- Nominal, if any, at SUI
- \$1.0 million at ISU (6.7%)
- \$325,000 at UNI (20.6%)

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 by \$230.2 million.

**State Funding Reductions and Shortages
Regent Institutions**

	<u>Appropriations Reductions</u>	<u>Salary Underfundings</u>	<u>Total</u>
FY 2000	\$(3.4 million)	\$(1.6 million)	\$(5.0 million)
FY 2001	(2.7 million)	(16.7 million)	(19.4 million)
FY 2002	(81.9 million)	(7.0 million)	(88.9 million)
FY 2003	(42.6 million)	(8.0 million)	(50.6 million)
Revised FY 2004	<u>(33.0 million)</u>	<u>(33.3 million)</u>	<u>(66.3 million)</u>
Total	\$(163.6 million)	\$(66.6 million)	\$(230.2 million)

The Regent institutions state operating appropriations in FY 2004 total \$591.5 million, which is:

- \$22 million dollars less than FY 1998 operating appropriations.
- \$103 million less than FY 2001 operating appropriations.

In addition, 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 2003, the Regent share was only 14.0%
- FY 2004 estimates indicate the Regent share of the state's general fund budget at only 13.2%.

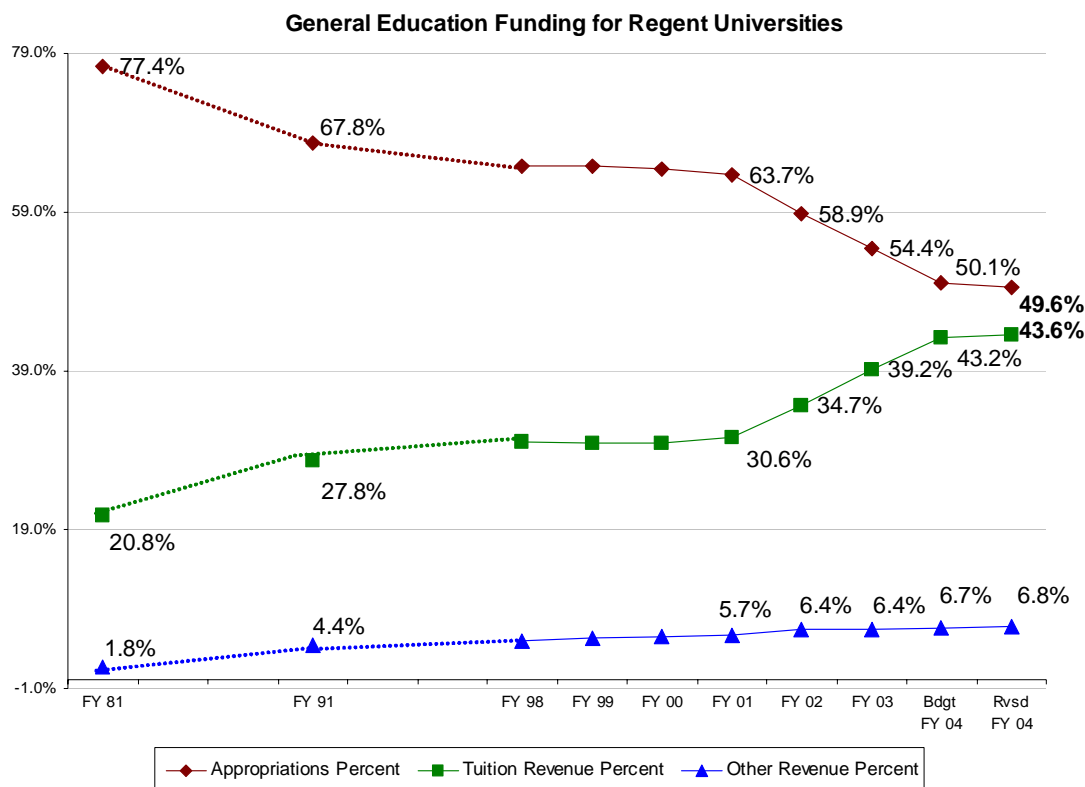
Tuition

While the Regents have significantly increased tuition rates over the last several years, the net tuition increases have not covered the appropriations reductions and shortages.

Shifting Revenue Sources

A considerable shift in revenue sources has occurred since FY 2000. Students and their families must now pay a larger percentage of the cost of public higher education.

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



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.

When the athletic department awards athletic scholarships, it becomes responsible for paying the tuition related to those athletic scholarships. These tuition payments are an expense to the Athletic Department and a source of revenue for the general university. While increases in tuition for FY 2005 impact the athletic budgets, the universities are not planning to increase general fund support to athletics for FY 2005.

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.

The Board is expected to address fees for athletics at the May board meeting in conjunction with the tuition study.

UIHC Rates The Board is responsible for approving rate increases for patient services at the University of Iowa Hospitals and Clinics, the Psychiatric Hospital, and the Center for Disabilities and Development.

The University is planning to present proposed rate increases at the May Board meeting.

SUI FY 2004
Budget Update In February, with the approval of the revised FY 2004 budgets, the University of Iowa reported to the Board that further FY 2004 budget reductions would be needed due to shortfalls of tuition revenue and indirect cost recoveries of approximately \$5 million. These potential reductions were not included in the revised budget.

The University reported at that time that it was establishing a General Education Task Force to identify \$12 million in permanent General University base budget reductions and it was monitoring revenue sources and would report to the Board any additional short-term measures that would need to be implemented in FY 2004.

Since that time, an expenditure reduction plan of \$3 million has been implemented for all general education fund budget units. This reduction is being accomplished using the differential approach that exempts student aid and library acquisitions and reduces administrative units by a higher percentage.

The University is awaiting the General Education Task Force report on further reductions.

Analysis:

ISSUE:
Salary Policies The Board of Regents highest priority in its FY 2005 budget requests was full funding of salaries from state appropriations. Salaries comprise more than 75% of the institutional general fund budgets, excluding the University of Iowa hospital operations.

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 Regent institutions have several bargained employee contracts that will require the institutions to fund salary increases for FY 2005 even though no state funding has been provided for the increases.

With the state's continuing budget challenges, the Regent universities are not expected to receive any increased funding in FY 2005. The Special Schools are expected to receive a 2% increase in base funding which could be used to partially fund salary increases.

The institutions plan to implement the pay plans as discussed in G.D. 8a through 8c and are still working through the details of salary increases. The current plans are as follows:

University of Iowa

The University is not prepared to recommend a firm salary policy for non-bargained employees at this time. However, the University is modeling an overall salary budget increase of 2% for this group.

The University will fully implement the collective bargaining agreements. It is possible that there may need to be layoffs to meet the financial requirements of the collective bargaining agreement.

Salary increases will need to be funded through a combination of reallocations, net new tuition revenues, and cost reduction opportunities recommended by the General Education Task Force.

Iowa State University

The University is tentatively planning for salary increases in the range of 1.5-2.0% for faculty, staff, and graduate assistants.

The University is planning to fund the employer portion of health insurance cost increases for all employee groups and salary increases for merit employees as required by the AFSCME contract.

University of Northern Iowa


The University proposes an average increase of 3.75% for professional and scientific staff consistent with the increase negotiated with the organized faculty. The University plans to award one-fourth of the salary increase pool on an equal dollar amount for professional and scientific employees rated satisfactory or above and the remaining three-fourths will be distributed based on merit and equity for employees.

Iowa School for the Deaf

ISD proposes to establish a pay policy of an average increase of 4.5% with all salary increases based on meritorious performance. The average salary increase for faculty would be 4% since many faculty are at the maximum of the range and are not eligible for the years of service increment.

Iowa Braille and Sight Saving School

The School anticipates an average increase for all faculty of 5.2%. 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.


Deb A. Hendrickson

Approved: 
Gregory S. Nichols