

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Other Significant Budget Issues
Date: April 12, 2004

Recommended Action:

Consider and discuss possible guidance on other significant issues related to FY 2005 budgets.

Executive Summary:

Budget Issues	<p>Other significant budget issues affecting FY 2005 general fund operating budgets are presented for Board consideration and discussion. Board direction will assist the institutions in shaping the detailed budgets for the Board's review and approval at the June meeting.</p> <p>Construction of budget details is directly related to other key budget issues, which include:</p> <ol style="list-style-type: none"> 1. Reallocations 2. Unavoidable cost increases 3. Capital projects / building repairs
Reallocations	<p>The Boards reallocation policy requires each institution to reallocate at least 1% of its continuing base general fund budget for focused strategic initiatives. The institutions are planning to reallocate a minimum of 1% as required by the Board policy. Many of the reallocations will be used to fund salary increases since no appropriations were provided by the state for these increases.</p>
Unavoidable Cost Increases	<p>The Regent institutions must address cost increases that cannot be avoided. Some examples include increases in library costs, utilities, insurance premiums, and opening new buildings.</p> <p>These increases will require the Regent institutions to use other revenue sources or reallocations for funding.</p>
Capital Projects / Building Repairs	<p>The Regent institutions have significantly reduced building repair budgets since FY 2000 because of appropriations reductions. These reductions are likely to increase deferred maintenance and hinder the institutions' ability to correct fire and environmental safety deficiencies.</p> <p>The Regent institutions are planning no further decreases in building repair budgets for the FY 2005 budget.</p>

Background:

Board Budget
Process

The Board considers key policy issues in April. In June, the Board will receive final detailed general fund and restricted fund budgets for approval. This timeline allows the Board time to consider institutional plans and provide guidance prior to final approval of budgets.

Analysis:

Reallocations

In October 2003, the Board approved a revised reallocation policy to be incorporated into the Policy Manual. The following represents the key components of the reallocation policy for FY 2005 through FY 2009:

- Each institution must reallocate at least 1.0% of its continuing base general fund budget for focused strategic initiatives.
- Each initiative must be fully described, similar to initiatives requesting state appropriations or outside funding, and should address the following criteria:
 - Relationship of initiatives to institutional strategic plans.
 - Other proposed funding source requests, such as state appropriations or tuition, for similar or connected initiatives.
 - Benefits associated with initiatives to the institution and/or the state such as:
 - Desired outcomes of initiatives
 - Potential for enhancement of external funding (leveraging of resources)
 - Expected impact on the state's economic development
- The institution is to describe results/progress of the initiatives funded by reallocations as part of the annual comprehensive fiscal report.
- The institution would provide a summary, in general terms, from where the reallocated funding was accumulated for these initiatives.

The reallocation policy will be reviewed every five years.

The Regent institutions are planning to reallocate 1% for focused strategic initiatives. They are still working through the details of the FY 2005 reallocations and will provide further information in June.

The current plans, based on funding projections to date, are as follows:

University of Iowa

The University will reallocate funds based on recommendations of the General Education Fund Task force. This will most likely include funds for salary increases for the bargained and non-bargained employees.

Iowa State University

The University will reallocate 1% of its General Fund budget. The top priority for the use of these funds is faculty and professional and scientific staff salaries.

University of Northern Iowa

The University will reallocate a minimum of 1% to fund salary increases, unavoidable cost increases, and strategic initiatives.

Iowa School for the Deaf

The School will reallocate over 1% of the general fund budget for strategic initiatives. Specifically, funds once provided for the School's Deaf Resource area will be reallocated to specific student instruction in English and American Sign Language (ASL).

This reallocation is part of the ongoing re-definition of the reading and language development programs in both elementary and secondary schools at ISD.

Iowa Braille and Sight Saving School

The School will reallocate 1% for the following strategic initiatives for expanding the summer programs, reinstating the Early Childhood Consultant position, and salary and benefit cost increases as well as other unavoidable cost increases.

These reallocations will be funded primarily by a reduction in center-based educational services; downsizing and reorganization of student extra-curricular activities, reduced contractual services for Quality Programming of Visually Impaired (QPVI) – Special Schools, and / or reduced secretarial support.

Unavoidable Cost
Increases

The Regent institutions must address cost increases that cannot be avoided. Some examples include increases in library costs, utilities, and insurance premiums.

The Regent institutions must also provide funding for operations, maintenance, and utilities as new buildings are opened. Funding for the following buildings will be required in the FY 2005 budget.

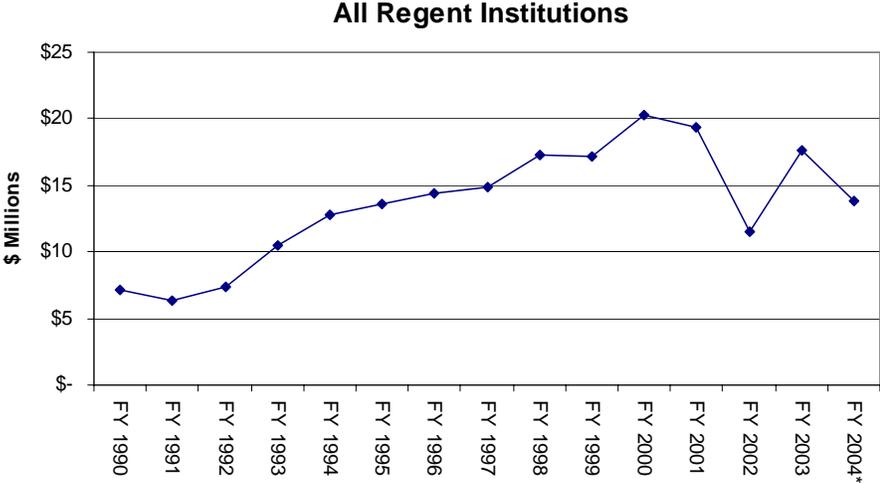
- SUI - Pomerantz Center, Blank Honors Center, and the Adler Classroom / Journalism Center
- ISU – ETRC2 – Hoover Hall, Veterinary Medicine Biosecurity Unit, Gerdin Business Building, and renovated general classrooms and auditoria

These increases will require the universities to use other revenue sources or reallocations for funding.

Capital Projects /
Building Repairs

The Regent institutions have significantly reduced building repair budgets since FY 2000 because of appropriations reductions. These reductions are likely to increase deferred maintenance and hinder the institutions' ability to correct fire and environmental safety deficiencies. The inability of the institutions to make needed repairs/replacement of roofs, exterior building envelopes, windows, plumbing and electrical systems because of reduced funding can cause further damage to the facilities, thus increasing the cost of future repairs.

The following table illustrates general fund budgets building repair expenditures over the last 15 years.



* FY 2004 budgeted amount, as approved by Board in February 2004

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Approved: *Gregory S. Nichols*
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