

MEMORANDUM

TO: Board of Regents
FROM: Board Office
SUBJECT: Approval of FY 2003 Detailed Budgets - Iowa State University
DATE: July 8, 2002

Recommended Action:

Approve Iowa State University's final FY 2003 general fund operating budget of \$409,721,602 and the restricted fund budget of \$431,936,869 for a total of \$841,658,471.

Executive Summary:

Iowa State University prepared its detailed FY 2003 budgets in accordance with the strategic plans of the Board and of the University.

The FY 2003 budgets consist of the general fund and the restricted fund budgets.

General Fund

The University's general fund operating budget of \$409.7 million is organized into six budgetary units (page 3), which reflect separate and distinct state appropriations to the University. Direct state appropriations to ISU for FY 2003 total \$239.8 million.

- During FY 2002, the University experienced reductions in state appropriations of \$32.1 million.
- For FY 2003, state appropriations were further reduced by \$18.2 million.
- State appropriations for salary increases provided only 75% of the funding needed to implement the state's salary policy, a shortfall of \$3.0 million.
- At the end of May, the University was notified by the state of a \$862,000 increase in its workers compensation insurance premiums.

The state appropriations reductions will impair the University's ability to make progress in its strategic plan.

Since ISU used a series of one-time reductions to address the mid-year deappropriations in FY 2002, the current budget anticipates use of more tuition revenue and reallocations to address the combined FY 2002 and FY 2003 reductions.

The University has allocated its general fund operating budget by its strategic planning goals of learning (\$204.9 million), discovery (\$143.4 million), and engagement (\$61.4 million).

General University

The **General University** appropriation unit represents the central educational operating budget of the University and is the largest of the six appropriations. This budget of \$340.5 million includes state appropriations of \$183.1 million.

**General University Budget
(In Thousands)**

<u>Revenues</u>	<u>FY 2000</u>	<u>% of Total</u>	<u>FY 2003</u>	<u>% of Total</u>	<u>Three-Year Shift in Funding Sources</u>	<u>% Change in Dollars</u>
State Approps	\$195,165	64.8%	\$183,134	53.8%	(11.0%)	(6.2%)
Tuition & Fees	93,251	31.0%	140,408	41.2%	10.2%	50.6%
Other	<u>12,619</u>	<u>4.2%</u>	<u>16,970</u>	<u>5.0%</u>	0.8%	34.5%
Total	\$301,035	100.0%	\$340,512	100.0%		

- During FY 2002, this unit experienced reductions of \$24.1 million in state appropriations.
- For FY 2003, state appropriations for this unit were further reduced by \$11.5 million.
- State appropriations for salary increases provided only 75% of the funding needed to implement the state's salary policy, a shortfall of \$2.1 million for this budget unit.
- Tuition and fee revenues increase of \$23.1 million, reflects the Board-approved 18.5% tuition rate increase, a surcharge in Veterinary Medicine, and no increase in enrollment.

The University plans to address this shortfall by using a portion of new tuition revenue and reallocations.

Tuition revenue will be used to offset reductions in FY 2002 and FY 2003 state appropriations (\$14.9 million); fund unavoidable cost increases (\$5.0 million); and fund strategic initiatives (\$3.2 million).

The University has identified total reallocations of \$25.6 million. This includes \$19.6 million to meet the annualization of the budget shortfall that occurred in FY 2002 and the additional budget shortfall in FY 2003. In addition, there is \$6.0 million in programmatic reallocations. ISU is presenting strategic reallocations covering the FY 2002 reduction which is different than the other Regent universities.

The other appropriation units in the general fund include the Iowa Agriculture and Home Economics Experiment Station, Cooperative Extension Service, Economic Development, Leopold Center for Sustainable Agriculture, and Livestock Disease Research. Summaries of these units begin on page 7.

Restricted Fund

The restricted fund budget of \$431.9 million includes resources and expenditures related to sponsored programs, auxiliary enterprise functions, independent operations, bonding activities, and capital projects. State appropriations for capitals are included in the restricted fund budget. (See details on page 10.)

The Residence System and Athletic Department budgets are part of the restricted fund budget and, as such, are presented this month for approval. The preliminary Residence System FY 2003 budget was previously presented to the Board in March. Revenue projections are unchanged from the preliminary budget. Expenses have been reduced. (Attachment B, page 13.)

The Athletic Department budget is detailed in G.D. 6h.

Background:

In most years, the Board receives preliminary budget details in June. This allows the Board time to consider Regent institutional plans and provide guidance prior to final approval of budgets in July. The process was changed as a result of delayed actions on state appropriations. In June, the Board considered key budgetary policy issues. This month, the Board receives final detailed general fund budgets for approval.

The restricted fund budget is also presented this month for Board approval. Revenues are derived from federal and non-federal support for sponsored programs (primarily research and student aid), sales and services, reimbursed indirect costs, tuition and fees from sources such as continuing education, bond proceeds, tuition replacement appropriations, and capital appropriations.

ISU used a series on one-time reductions to address the mid-year deappropriations in FY 2002. The process of annualizing those reductions into the FY 2003 budget required the Provost and Vice Presidents to develop plans for reducing their budgets based on a specific set of guidelines. The University's Task Force for Strategic Effectiveness and Budget Priorities, appointed in August 2001, reviewed these plans. On March 1, 2002, the Task Force recommended a strategy for permanently restructuring the University's base budget, while at the same time allowing for strategic reinvestments/reallocations to continue progress on building the University's quality.

Analysis:

General Fund

The FY 2003 general fund operating budget for Iowa State University is \$409.7 million. The University's budget is distributed among the following units:

	<u>Total Budget</u>	<u>Direct State Appropriations</u>
General University	\$340,511,547	\$183,134,521
Experiment Station	36,842,821	32,712,448
Cooperative Extension	29,220,676	20,815,676
Special Purpose (page 8)	<u>3,146,558</u>	<u>3,146,558</u>
Total	\$409,721,602	\$239,809,203

The summary sheet on page 11 of this docket memorandum details the budget by strategic planning goal and identifies uses of new revenues and reallocations.

Appropriation
Reductions and
Funding Shortfalls

- During FY 2002, the University experienced reductions in state appropriations of \$32.1 million.
- For FY 2003, state appropriations were further reduced by \$18.2 million.
- In addition to this, ISU needs to annualize appropriation reductions from FY 2002 of \$16.3 million.

Impact of Operating
Reductions

The following information represents action taken and/or the results of the budget reductions:

- Eliminate 209 FTE positions from the General Fund;
 - 44 faculty members
 - 80 professional and scientific employees
 - 58 merit employees
 - 27 graduate assistants
- Offer fewer courses, larger course sizes, longer time to graduate;
- Increase student to faculty ratio;
- Reduce the University's ability to attract and retain faculty;
- Reduce staff in student affairs, administrative offices, and non-academic areas affecting responsiveness to student needs;
- Close the office of Vice President for External Affairs;
- Eliminate Associate Deans in Education and Veterinary Medicine;
- Combine the positions of Associate Dean of Students with Director of Minority Student Affairs;
- Reorganize the biological sciences and, as a result, restructure curricula and the administration of several departments;
- Eliminate 4 degree programs;
 - Organizational learning and human resource development (MS, PhD)
 - Community health education (BS)
 - Engineering science (BS)
 - Engineering applications (BS)
- Merge departments for administrative savings;
 - Landscape architecture with community and regional planning
 - Animal ecology with forestry
- Cut funds for professional development for faculty and staff;

- Reduce research and other activities that foster economic development in Iowa;
- Reduce funds for faculty travel to professional conferences for presenting research findings;
- Increase University Extension fees; and
- Reduce investments in strategic initiatives slowing progress.

Salary Policy

The University is proposing to allocate 2.6% of the continuing employee salary base for faculty and P&S employee compensation increases. Units would be allowed to reallocate resources to augment the compensation allocation with Provost/Vice President approval.

All compensation increases for faculty and P&S employee salary increases will be based on merit. Equity and/or market salary issues will also be addressed to the extent possible with limited funds.

The University is not planning to use furloughs to reduce expenditures in FY 2003. There may be some layoffs in the economic development areas.

This has not changed from what was presented to the Board in June.

Tuition Revenues

The University has projected increases in FY 2003 tuition and fee revenues of \$23.1 million, for a total of \$140.4 million. Projected tuition revenue is based on enrollment estimates, mix of resident and nonresident students, and the Board's approved rate increases, including surcharges.

ISU indicates it will not be able to address the plan for tuition proceeds approved by the Board in November. The University proposes to use tuition revenues as follows:

Planned Use of Tuition

Offset Partial Reductions in State Appropriations	\$14,891,950
Unavoidable Cost Increases*	4,709,591
Strategic Initiatives	
Additional Student Aid	2,500,000
Overenrolled Courses	629,622
Veterinary Medicine Surcharge	<u>323,328</u>

Total	\$23,054,491
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* Includes student aid set aside of \$2,535,944.

The allocation of additional tuition revenue to student financial aid and reallocated dollars brings the total student aid set-aside to \$5,824,709 (25.3% of new tuition revenue).

Reallocations

The FY 2003 budget reflects internal programmatic reallocations totaling \$6.0 million (Attachment A on page 12), which recognize both permanent and temporary shifts in the use of general education fund resources. When combined with the \$19.6 million in reductions to meet the annualization of the budget shortfall that occurred in FY 2002 and the additional budget shortfall in FY 2003, the reallocations represent 6.5% of the FY 2002 revised budget and are consistent with the Board's policy on reallocations.

Some examples of reallocations from the Office of the President to strategic initiatives for FY 2003 include:

- Faculty and Staff Recruitment/Retention (620,912) – fund several agreements made to retain and attract top faculty members and fund cost increases in the tuition grant program for P&S staff.
- Research Incentive (1,125,600) – ISU revised its policy on the use of research indirect cost recovery and plans to return more of these funds to campus research units to support the research enterprise and as an incentive to increase externally funded research, grants, and contracts.
- e-Library (250,000) – Funding will support at least one new faculty position to support instructional technology as well as a cross-disciplinary index/abstract tool for research.
- Genetically Modified Agricultural Products (200,000) – Establish a joint initiative among the colleges of Agriculture and Veterinary Medicine and the Plant Sciences Institute to conduct science-based analysis of the risks and benefits associated with genetically modified agricultural products.
- College of Design Envisioning (200,000) – Restructure and strengthen the College of Design by adding several graduate degree offerings and certificate programs; redesigning the freshman year as a "foundation" experience for all first-year students in the college; collaborating with the other colleges on various projects; and expanding Geographic Information System course offerings, research and outreach; and adding more instruction in multi-media design and animation.
- Childcare Support (27,000) – Replaces funding formerly supplied by the Student Health Center for an LPN to staff the Comfort Zone, a service that cares for mildly ill children of student and employees, and replaces funding formerly supplied by the College of Veterinary Medicine to support the University Child Care Center close to the college.

General University	<p>The General University appropriation unit represents the central educational operating budget of the University. The FY 2003 general fund operating budget for General University is \$340.5 million, including state appropriations of \$183.1 million.</p> <ul style="list-style-type: none">• During FY 2002, this unit experienced reductions of \$24.1 million in state appropriations.• For FY 2003, state appropriations were further reduced by \$11.5 million.• State appropriations for salary increases provided only 75% of the funding needed to implement the state's salary policy, a shortfall of \$2.1 million for this budget unit.
Iowa Agriculture and Home Economics Experiment Station	<p>The Experiment Station administers faculty research programs that support Iowa's agriculture, natural resources, and family and consumer programs. The Experiment Station also supports the teaching and extension functions of Iowa State University.</p> <p>The FY 2003 general fund operating budget for the Experiment Station is \$36.8 million, including state appropriations of \$32.7 million. The state appropriation includes a \$2.1 million (\$6.2%) reduction in FY 2003 after reductions of \$4.4 million (11.9%) in FY 2002. The Experiment Station will identify specific research facilities to be closed during the year to make up for the loss in state appropriations.</p>
Cooperative Extension Services	<p>Cooperative Extension Services provides research-based information and education primarily to Iowa citizens, and also to other university clients, nationally and internationally. Extension helps diverse entities in Iowa, including agriculture, natural resources, business and industry, local communities, families and youth, and many other Iowans through extended and continuing education.</p> <p>The FY 2003 general fund operating budget for Extension is \$29.2 million, including state appropriations of \$20.8 million. The state appropriation includes a \$1.3 million (6.0%) reduction in FY 2003 after reductions of \$2.8 million (12.1%) in FY 2002. In addition, Extension receives grants and contracts from state agencies to fund many services. Funding for these contracts will likely diminish because of reductions in those agencies appropriations.</p> <p>The reductions in state appropriations will result in increased costs for users and counties and the elimination of positions.</p>

Special Purpose
Appropriations

The FY 2003 general fund operating budgets for Special Purpose Appropriation units total \$3.1 million and are funded entirely by state appropriations. The Special Purpose Appropriations are as follows:

	<u>FY 2002</u>	<u>FY 2003</u>	<u>% Change</u>
Economic Development*	5,505,103	\$2,424,161	(56.0)
Leopold Center	520,392	489,648	(5.9)
Livestock Disease Research	<u>248,219</u>	<u>232,749</u>	(6.2)
Total	\$6,273,714	\$3,146,558	

*Includes the Institute for Physical Research and Technology, Small Business Development Center and Research Park (ISIS).

The FY 2003 economic development appropriations were combined into one appropriation. This appropriation includes funding for the Institute for Physical Research and Technology, Small Business Development Center, and the Research Park. These appropriation units experienced reductions as follows:

- During FY 2002, these units experienced reductions of \$702,032 (11.5%) in state appropriations.
- For FY 2003, state appropriations were further reduced by \$3.2 million (57.8%).

Institute for Physical Research and Technology (IPRT)

IPRT is a consortium of world-class research centers and industrial outreach programs. It includes such renowned centers as the Virtual Reality Applications Center, the Center for Nondestructive Evaluation, and the Ames Laboratory, which leverage a \$4.3 million state investment into over \$40 million in federal and industrial research contracts.

In 2002 alone, IPRT's centers brought in \$7.5 million in new federal funds. These centers also aid economic development through the creation of spin-off companies and by aiding Iowa companies to be at the cutting edge in their respective technologies. IPRT also operates three major industrial outreach programs that provide vital technical assistance to Iowa companies.

IPRT's significant reduction will require the following actions:

- Close the Rare Earth Information Center and merge two or three centers into one;
- Dramatically reduce services provided through three technical assistance programs for Iowa industry;
- Substantially reduce one of the most effective new business start-up assistance programs in Iowa; and
- Reduce staff who serve the state of Iowa through IPRT's centers and industrial outreach programs.

Small Business Development Center

The Small Business Development Center consists of 17 centers covering ninety-nine counties in Iowa. These Centers have served for over 18 years as the resource, the mentor, and the solution for thousands of business owners in the state. Each of these SBDC offices subcontracts with other universities, community colleges, chambers of commerce and other institutions to provide a network of over 700 full service assistance centers to the small business community.

The SBDC conducts research, counsels, and trains business people in management, financing, and operating small businesses, and provides comprehensive information services and access to experts in a variety of fields.

The FY 2003 state appropriation reductions will cut the community college, university, and chamber of commerce network of sixteen regional centers by one-third. Approximately 1,200 Iowa businesses will not receive services in fiscal year 2003. Many of these businesses will not be able to obtain funding for growth and expansion due to the lack of knowledge, mentoring, or inadequate planning.

ISU Research Park

The ISU Research Park is a technology community and an incubator of new and expanding businesses. It provides a material and human-resource rich environment for technology-based firms and research organizations. The Research Park also helps young Iowa-based companies develop their potential and nurtures scientific and technological entrepreneurial ventures.

State funds had supported the operational costs of the ISU Research Park, which reduced rent costs and supports services for the technology businesses at the Research Park.

The reduction in state funds will require the Research Park to consider:

1. Charging higher rents;
2. Reducing services provided to Research Park companies including administrative support and business development services; and
3. Charging for services previously supported through state funds.

The Leopold Center operating appropriations were reduced by \$32,567 (6.3%) and its fee allocation from the Iowa Groundwater Protection Fund was reduced by \$1 million (86%).

Leopold Center for Sustainable Agriculture

The Leopold Center is the only center in the state devoted to studying environmentally sound, profitable farming practices. It sponsors research and education on key issues for Iowa and the nation. It has a national reputation for exploring innovative, profitable approaches to farming that conserve natural resources and stimulate local economies. The Center's research on the effectiveness of streamside buffer strips has been adopted by the USDA as a model for protecting water quality on farms. Its work on developing alternative swine production systems also has had widespread impacts statewide and nationally.

The Center receives an operating appropriation as well as indirect funding from the Iowa Groundwater Protection Act. The FY 2003 operating appropriation was reduced by 6.3%. The more significant reduction is the \$1 million reduction (86%) in the transfer from the Iowa Groundwater Protection Act. The transfer funding is generated from taxes paid by farmers on agricultural chemicals. This reduction will effectively shut down the research programs of the Leopold Center.

The Livestock Disease Research operating appropriations were reduced by \$15,470 (6.2%). Reducing funding impedes strategic research that is a high priority to the state. Recent examples include Johne's disease in cattle, pseudorabies and PRRS diseases in swine and Newcastle disease in poultry. New concerns such as BSE and E.coli O157:H7 in cattle, chronic wasting disease in deer populations and threat of foreign animal diseases are high priority because of the potential to cause economic disaster.

Restricted Fund

Restricted funds for FY 2003 total \$431.9 million. Capital appropriations for FY 2003 include \$16.1 million for the Gerdin Business building, classroom / auditorium renovation, Livestock Infectious Disease, and the completion of labs in Carver Co-Laboratory. The tuition replacement is estimated to be \$10.8 million.

The restricted fund budget includes sponsored programs such as competitively awarded federal grants and contracts; auxiliary enterprise functions such as the Residence System and Athletic Department; and independent operations such as its parking, telecommunications, and utility enterprises. The restricted fund also incorporates the activities related to bonding and capital projects, including tuition replacement and capital appropriations.

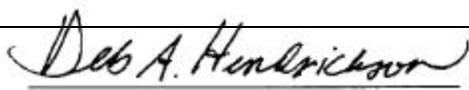
Residence System

The University proposes a FY 2003 residence system budget with expected revenues of \$53.0 million and expenses for operations of \$36.8 million, with \$16.2 million net revenue available for debt service, mandatory transfers, and transfers to voluntary reserves. (See Attachment B, page 13 for details.)

Revenue projections have not changed from the preliminary budget submitted to the Board in March. Those projections are based upon the room and board rates approved by the Board in April. Expenses have been reduced. The Residence System is planning on using an additional \$3.7 million of surplus funds for capital improvements and renovations.

Athletics

The athletic department budget, which is part of the restricted fund, is addressed separately in General Docket 6h.


Deb A. Hendrickson

Approved: 
Gregory S. Nichols

IOWA STATE UNIVERSITY
FY 2003 General Fund Budget Summary

STRATEGIC PLANNING GOALS		
Goal #1	Learning	\$204,860,801
Goal #2	Discovery	143,402,561
Goal #3	Engagement	<u>61,458,240</u>
	TOTAL	\$409,721,602

FY 2003 New Revenues and Reallocations

	Goal	Approp.	Tuition	Reallocation	Other	Total
Strategic Initiatives						
Student Financial Aid	1,2	0	2,500,000	788,765	0	3,288,765
Utility Energy and Infrastructure Base	1-3	0	0	1,500,000	0	1,500,000
Overenrolled Courses	1	0	629,622	730,378	0	1,360,000
Research Incentive	2	0	0	625,600	500,000	1,125,600
Support for Engagement	3	0	0	700,000	0	700,000
Recruitment and Retention	1-3	0	0	620,912	0	620,912
Veterinary Medicine Surcharge	1	0	323,328	0	0	323,328
e-Library	1-3	0	0	250,000	0	250,000
Genetically Modified Agricultural Products	1-3	0	0	200,000	0	200,000
College of Design Envisioning	1-3	0	0	200,000	0	200,000
Study of Science and Society Objectives	1-3	0	0	200,000	0	200,000
Student Affairs Programming	1	0	0	190,300	0	190,300
Support for Childcare	1-3	0	0	27,000	0	27,000
Mandatory Cost Changes						
Compensation Increases		9,160,500	0		312,412	9,472,912
State Auditor Fee Increase		0	20,714	0	0	20,714
Homeland Security Compliance		0	0	0	65,000	65,000
EPA Storm Water Monitoring		0	0	0	30,000	30,000
Biohazard Agent Monitoring		0	0	0	35,000	35,000
Property Insurance Premium		0	79,776	0	0	79,776
Disability Student Accommodation Fund		0	129,880	0	0	129,880
INS Policy Compliance		0	0	0	25,000	25,000
Library Materials		0	464,000	0	0	464,000
Fuel and Utility Cost Increase		0	291,653	0	0	291,653
Software Licenses		0	275,929	0	0	275,929
Student Services		0	419,352	0	0	419,352
Lakeside Lab Cost Increases		0	10,329	0	0	10,329
Web Based Systems Increase		0	62,210	0	0	62,210
Opening New Buildings/Rent		0	419,804	0	98,000	517,804
Student Aid Set-Aside		0	2,535,944	0	0	2,535,944
2003 Budget Reductions		(18,163,239)	14,891,950	3,271,289	0	0
TOTAL		(\$9,002,739)	\$23,054,491	\$9,304,244	\$1,065,412	\$24,421,408
2002 Budget Reductions				16,294,115		
Total Reallocations				\$25,598,359		

IOWA STATE UNIVERSITY

FY 2003 FINAL GENERAL FUND BUDGET
Summary of Reallocations

FROM

Office of the President*	\$6,418,921
Office of the Provost and Academic Colleges	\$5,612,090
Office of Student Affairs	\$556,271
Office of Business and Finance	\$2,126,449
Office of External Affairs	\$281,200
Agriculture and Home Economics Experiment Station	\$4,282,409
Cooperative Extension Services	\$2,709,280
Institute for Physical Research and Technology	\$2,593,755
Special Purpose Units	\$1,017,984

Total Reallocations

\$25,598,359

TO

FY02 & FY03 Appropriation Reductions	\$19,565,404
Programmatic Uses*	\$6,032,955

Total Reallocations

\$25,598,359

BALANCE

\$0

* Includes the allocation of \$4,162,509 of new revenues from tuition, indirect cost recovery, and interest income realized during FY2002

IOWA STATE UNIVERSITY
Residence System 2002-2003 Budget

	April-02	July-02
	Proposed Budget 2002-2003	Final Budget 2002-2003
<u>OPERATIONS (Modified Accrual Basis)</u>		
Revenue	53,008,168	53,008,168
Expenditures for Operations	37,174,578	36,826,574
Net Operating Revenue	<u>15,833,590</u>	<u>16,181,594</u>
% of Revenues	29.9%	30.5%
Debt Service (due July 1) ¹	8,719,365	8,719,365
Mandatory Transfers	500,000	500,000
Net after Debt Service and Mandatory Transfers	<u>\$6,614,225</u>	<u>\$6,962,229</u>
% of Revenues	12.5%	13.1%
University Overhead Payment from Surplus	749,478	749,478
% of Expenditures	2.0%	2.0%
University Scholarship Fund	360,000	360,000
% of Revenues	0.7%	0.7%

REVENUE AND EXPENDITURE DETAIL

Revenues		
Contracts	47,743,237	47,743,237
Interest ¹	1,544,838	1,544,838
Other Income	3,720,093	3,720,093
Total	<u>53,008,168</u>	<u>53,008,168</u>

Expenditures		
Salaries ²	19,672,563	19,021,029
Cost of Food	4,581,023	4,581,023
Other Operating ³	6,449,728	6,997,886
Utilities ⁴	5,027,362	4,842,649
Repairs ⁵	1,443,902	1,383,987
Total	<u>37,174,578</u>	<u>36,826,574</u>

Total Staff FTE 644

CASH AND INVESTMENT BALANCES (JUNE 30)

Revenue Fund	-	
Operation and Maintenance Fund	-	
Improvement Fund	-	
Surplus fund ⁶	7,348,914	3,654,099
Subtotal--Voluntary reserve Balances	7,348,914	3,654,099
Sinking fund	8,719,365	8,719,365
Bond Reserve Fund	9,450,675	9,450,675
Construction Fund	1,661,111	1,661,111
Subtotal--Mandatory Reserve Balances	<u>19,831,151</u>	<u>19,831,151</u>
Total--All Reserve Balances June 30	<u>27,180,065</u>	<u>23,485,250</u>