

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Conceptual Guidelines for FY 2004 Operating Appropriations Requests
Date: July 8, 2002

Recommended Action:

Consider the conceptual guidelines for FY 2004 operating appropriations requests.

Executive Summary:

State statutes require requests for state appropriations be submitted to the Department of Management on or before October 1 of each year.

This memorandum promotes two categories for Regent institutional appropriations requests for FY 2004 consistent with the Board and institutional strategic plans:

- Full Funding of Salaries from State Appropriations
- Strategic Investments

Full Funding of Salaries from State Appropriations

Full funding of salaries from state appropriations continues to be the first priority of the Board and its institutions. Competitive salaries are crucial in attracting and retaining outstanding faculty and staff. A strong and professional workforce is essential for the Board and its institutions to achieve their strategic planning goals.

Strategic Investments

Institutions should prepare appropriations requests for strategic investments in a limited number of the following priorities:

- Educational excellence
- Focused program enhancements
- Improved stewardship of facilities
- Revitalized economic development programs

The most recent projected range for the FY 2004 Higher Education Price Index is 2.8% to 5.1%. The recommendations for incremental appropriations for the educational/programmatic investments, other than salary funding, should be reasonably limited to increases at or below the midpoint of the HEPI range on base FY 2003 operating appropriations.

Strategic Plan:

State appropriations are critical to sustaining operational excellence at the Regent institutions consistent with the Board's strategic plan. Requests for state operating appropriations provide a mechanism for achieving quality (KRA 1.0.0.0) and maintaining accountability (KRA 4.0.0.0).

- Action Step 4.1.1.1: Requires the development of common institutional appropriations requests.
- Action Step 4.1.1.6: States preliminary consideration of appropriations requests is scheduled for the Board in July with final action in September.
- Action Step 1.2.1.2: Emphasizes the continued practice of annually seeking state appropriations at a level at least 3 percentage points above the Higher Education Price Index.

Background:

Statutory Provisions

Iowa Code §8.23 requires that all state agencies prepare estimates of appropriation expenditures for the ensuing fiscal year for which state appropriations are requested. These requests are to be submitted to the Department of Management on or before October 1.

During the 2001 session, the General Assembly passed and the Governor signed HF 687, the Accountable Government Act. This bill mandates that the appropriation estimates required by law be based on achieving goals contained in the agency's strategic plan. It further requires that requested appropriations be accompanied by an explanation of the manner in which the requested funds will assist the agency in meeting the goals contained in the strategic plans.

**Regent
Appropriations
Requests Process**

The chronological appropriations process includes the following:

- Regent institutions develop institutional budget requests.
- The Board receives preliminary operating appropriations requests (excluding dollar amounts for implementing state salary policy).
- Board Office staff discusses appropriations requests with institutional officials (summer) and makes recommendations to the Board (September).
- The Board approves final operating appropriations requests, excluding dollars for salaries (September).
- The Board-approved operating appropriations requests are submitted to the Department of Management (October 1).
- The Governor prepares state appropriations recommendations including recommendations for Regent appropriations.
- The Governor delivers his Condition of State/Budget message (January 2004).
- General Assembly and Governor consider and approve appropriations.

Regent Request
Criteria

The initiatives presented by the institutions are evaluated based on the following criteria:

- Relationship of initiatives to institutional strategic plans, which also guide capital budget requests
- Prior appropriations for similar or connected initiatives
- External funding which provides a leverage of state resources
- Equity among institutions
- Impact of initiatives on the state's economic development

Regent
Appropriations
History

The Regent universities rely heavily on state appropriations, but have other funding sources for general fund operating budgets. The Special Schools rely entirely on state appropriations for operating revenues.

The Regent share of the state's general fund appropriations from FY 1992 through FY 2001 ranged from 14.7% to 15.3%. For FY 2003, the Regent share of the state general fund is less than 14%. One percent of the state's FY 2003 general fund total is roughly \$45 million.

The following table represents the state appropriations for operations from FY 2000 through FY 2003.

Institutional Operating Appropriations (In thousands)				
	FY 2000	FY 2001	FY 2002*	FY 2003**
SUI	\$310,019	\$318,588	\$294,093	\$287,423
ISU	262,026	269,898	248,811	239,809
UNI	88,497	91,829	84,829	82,816
ISD	7,936	8,178	7,891	7,944
IBSSS	4,433	4,568	4,423	4,446

* Final appropriations.
** As enacted by legislation.

Appropriation
Reductions

The Regent institutions have had appropriations reductions in each of the last four years with significant reductions in state appropriations in FY 2002 and FY 2003.

**State Appropriations Reductions
Regent Institutions**

FY 2000	\$(3.4 million)
FY 2001	(2.7 million)
FY 2002	(81.9 million)
FY 2003	(42.6 million)

State Salary Policy In addition to these reductions, state appropriations to implement the state's salary policy have been underfunded over this same time period.

The state, during its process of negotiating collective bargaining agreements, determines the statewide salary increase policy. Certain Regent salary increases are determined through various collective bargaining agreements, including the state's negotiation of the AFSCME contract.

Historically, legislation requires that Regent institutions provide comparable salary increases for non-contract employees as provided for contract covered employees.

**State Appropriations Salary Underfunding
Regent Institutions**

FY 2000	(\$ 1.6 million)
FY 2001	(17.7 million)
FY 2002	(7.0 million)
FY 2003	(8.0 million)

University Funding The Regent universities funding consists of state appropriations; tuition and fees; federal support; indirect cost reimbursements; and other sources. The following table summarizes funding sources for all three universities as a percent of total general university budgets. (The percentages vary by institution.)

**University General Education Budget Totals
(In Thousands)**

	FY 2000		FY 2003		Three- Year Shift in Funding Sources	% Change in Dollars
	\$	% of Total	Budgeted \$	% of Total		
State Approps	\$527,598	64.3%	\$497,507	54.3%	(10.0%)	(5.7%)
Tuition & Fees	246,656	30.1%	359,371	39.2%	9.1%	45.7%
Other	45,675	5.6%	58,920	6.4%	0.8%	29.0%
Total	\$819,929	100.0%	\$915,798	100.0%		

Shifting Revenue Sources A considerable shift in university revenues has occurred since FY 2000. In the aggregate, state appropriations percentage of budget declined by 10% while tuition and fees as a share of the budget increased 9.1%. University revenue sources are being shifted from state appropriations to students and their families.

State appropriated dollars for the general university budgets have decreased 5.7% since FY 2000 while tuition dollars have increased 45.7%

State Revenues The outlook for increased state revenues for FY 2004 is bleak.

Regent Strategic
Planning

The Board of Regents has invested a great deal of time and effort on formulating and assessing progress on strategic plans. This commitment to strategic planning and organizational effectiveness has been an integral part of the Board's stewardship role in governing the Regent institutions. The Board's strategic plan is comprised of four key result areas: Quality, Access, Diversity, and Accountability.

The goal for each institution is simple, yet empowering: to become the best enterprise of public education in the United States through the unique teaching, research, and outreach programs. The Board's intent is to make progress in its mission, aspirations, and statutory responsibilities.

The Board has adopted a comprehensive list of performance indicators that measure progress beyond those contained in the institutional and Board strategic planning efforts. Each year, the Board reviews the progress of these indicators.

As outlined in various action steps of the Board's strategic plan, common institutional appropriations requests of at least 3 percentage points above the Higher Education Price Index are to be developed and presented to the Board for preliminary consideration in July, with final action in September.

The following analysis section outlines two categories for Regent institutional appropriations requests for FY 2004: Full Funding of Salaries from State Appropriations and Strategic Investments.

Analysis:

Full Funding of
Salaries from State
Appropriations

Full funding of the state's salary policy and state negotiated agreements from state appropriations for Regent institutions is a key component of the Board's strategic plan for quality. State funding of salaries is necessary for the institutions to be competitive with their peers and is a beneficial investment for the state.

The dollar amounts for FY 2004 incremental appropriations for increases in salary are not included in the Regent appropriations requests in September. These amounts are calculated at a later date in conjunction with the state collective bargaining negotiations and the setting of the state's salary policy.

Salaries comprise more than 75% of the institutional general fund budgets, excluding the University of Iowa hospital operations.

Factors to be considered for full funding of salaries include:

- Quality faculty and staff are essential to the implementation of the Board's and institutions' strategic plans.
 - Advance Regent and institutional goals and objectives related to undergraduate and graduate instructional programs.
 - Foster distinguished research, scholarship and artistic creation.
 - Facilitate interdisciplinary interaction in teaching, research, and service.
- To recruit and retain top faculty in a global marketplace, the Regent universities must remain competitive by paying competitive salaries in each discipline.
 - The reputation of a university/school and the ability to recruit and retain students is largely dependent on the range of offerings and the quality of the people who provide instruction, conduct research, and support academic activities.
 - Premier programs are developed and maintained by attracting and retaining premier faculty and staff.
- The Regent institutions face serious competition from other institutions of higher learning as well as from the private sector, which pays market rates.
 - Faculty and staff in public universities have many opportunities to leave academe to work for private employers, sometimes at higher salaries.
 - Public and private institutions of higher education are in keen competition with each other for the best and the brightest.
- To remain competitive for essential positions within the professional & scientific compensation plans, it is not sufficient just to keep pace with inflation, especially in high demand occupational groups such as sciences and technology.
- The state benefits from quality faculty and staff.
 - Quality faculty and staff are dedicated to discovering, disseminating, and preserving knowledge and to the development of an educated citizenry.
 - Through teaching, research, scholarship, clinical practice, and public outreach, the institution develops ideas, enlarges understanding, and extends its resources to society.
 - Faculty determine what students should learn and shape the body of knowledge that will be passed on to future generations.
 - It is also the institution's obligation to engage all members of its community in collective reflection on their responsibilities not only to their disciplines and professions but also to the institution and to society.
 - The costs of personnel benefits are rising rapidly. The continued escalation of these costs erodes the institutions salary dollars for competitive position.

Strategic
Investments

The Regent institutions need sufficient resources to achieve excellence as envisioned by the Board's strategic plan. State appropriations and stable base operating budgets are essential for attaining excellence.

The Regent institutions have suffered significant reductions in state appropriations in FY 2002 and FY 2003. The universities have been experiencing record enrollments.

The Regents increased tuition rates significantly for FY 2003 to recognize the Board's aspirations for quality by securing resources to improve student academic and support services. However, tuition revenues have not made up for the state reductions.

The following summarizes parameters for individual institutional requests for FY 2004 state appropriations.

- Each request should be specifically linked to the institution's strategic plan. State statutes require that appropriations requests be accompanied by an explanation of how the requests will help the institution meet its strategic plan.
- Each institution should focus requests on a limited number of the following priorities:
 - Educational excellence
 - Enhance libraries
 - Improve student-teacher ratios, class sizes, graduation rates
 - Focused program enhancements
 - Strengthen programs for students
 - Address state needs
 - Improved stewardship of facilities
 - Maintain, operate, repair, and accomplish technological improvements to facilities.
 - Revitalized economic development programs
 - Increase return on investment and leveraging of resources
 - Emphasize local, state, and national priorities
 - Restructure to maximize value to the state



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Approved: 

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