

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Preliminary FY 2004 Budgets and FY 2003 Budget Ceiling Adjustments
Date: June 9, 2003

Recommended Actions:

1. Refer to the individual institutional memoranda, 6a through 6h, for discussion of detailed budgets and budget ceiling adjustments.
 2. Approve the distribution of the Regional Study Centers FY 2004 appropriations as follows:
 - Quad-Cities Graduate Study Center \$161,173;
 - Tri-State Graduate Center \$79,940; and
 - Southwest Iowa Regents Resource Center \$108,673.
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Executive Summary:

Budget Process In accordance with the Board's strategic plan, budgets are presented to the Board at various times before final approval is requested.

- In May, the Board considered key budgetary issues to provide guidance in the development of the institutional budgets.
- This month the Board receives preliminary budget details.
- In July, the Board will receive the final general and restricted fund budgets for approval.

Definitions The Regent institutions have two basic types of funds within the budgets:

General operating funds include operating appropriations, some federal funds, interest income, tuition and fee revenues, reimbursed indirect costs, and sales and services for fundamental operations of the institutions.

Restricted funds are specifically designated or restricted for a particular purpose or enterprise and include capital appropriations, tuition replacement, gifts, sponsored funding from federal and private sources, athletics, as well as other auxiliary or independent functions such as residence, parking and utility systems.

FY 2003 Budget Ceiling Adjustments Board policy requires the Board to approve all budget ceiling adjustments, which are implemented to recognize any new revenue incurred in the current fiscal year.

Iowa Code does not allow additional revenues to be carried forward to the following fiscal year for expenditure. If an institution anticipates revenues in excess of its Board-approved budget, the institution must present a request for a budget ceiling adjustment to the Board to be allowed the opportunity to use the funds in the current fiscal year.

This month, Iowa State University and the Iowa Braille and Sight Saving School are requesting approval of FY 2003 budget ceiling adjustments of \$2.0 million and \$57,347 respectively.

FY 2004 General Fund Budgets The preliminary composite FY 2004 institutional general fund operating budgets, including the operations of the University of Iowa Hospitals and Clinics, total \$1.7 billion.

**INSTITUTIONAL GENERAL FUND
PROPOSED OPERATING BUDGETS
FY 2004**

SUI	\$1,123,348,710
ISU	426,278,344
UNI	139,287,339
ISD	8,855,862
IBSSS	<u>4,980,037</u>
Total	\$1,702,750,292

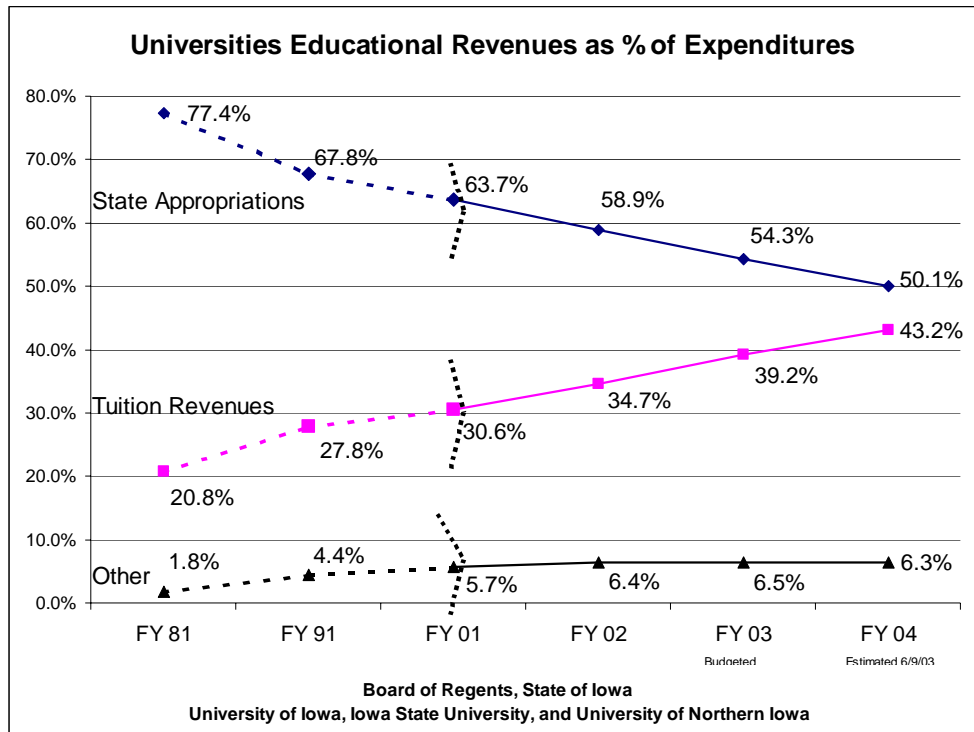
In developing the individual budgets, the institutions were guided by the strategic plans of the Board and each respective institution. Successful strategic planning depends, in part, upon the best use of available resources.

The institutions prioritized departmental funding based on final state appropriations, estimated tuition revenues, and identified reallocations of existing resources.

Budget Challenges

For the past several years, the Regent institutions have faced significant budget challenges with declining state appropriations. The Board and the institutions have taken various actions to increase revenues and control expenditures.

The Board has increased tuition and the universities have increased indirect cost recoveries through focused efforts in soliciting sponsored research. This has resulted in a shifting of resources as shown in the following table.



While the economic development appropriation units have status quo appropriations for FY 2004, they were reduced significantly (almost 60%) in FY 2003.

University of Iowa Health Care Units

The University of Iowa is proposing a rate increase of 9.5% for patient services for UIHC, the Psychiatric Hospital, and the Center for Disabilities and Development. While this increase is higher than previous years, the University states that it is necessary to support hospital operations and meet salary and wage commitments negotiated by the state and through the Board. The University has provided further justification for this rate increase on pages of G.D. 6a.

Athletics

Intercollegiate athletics at the Regent universities are not self-supporting activities. Each University provides some general university support to its athletic department, and student fees support either debt service or operations of the athletic departments.

The preliminary FY 2004 athletic budgets of the universities total \$78 million. General university support and student fees vary significantly by university.

It is recommended that the Board consider developing a policy, prior to the establishment of tuition and fees, that sets a proportional maximum amount of general university funds and student fees to be devoted to intercollegiate athletics at each institution. Further details are provided in the Athletic Department budgets in G.D. 6g.

Board Office The preliminary FY 2004 operating budget totals \$2.5 million. This includes state appropriations of \$1.2 million, same as FY 2003, and institutional allocations of \$1.3 million, which represents a \$59,000 increase. Further details are provided in the Board Office budget in G.D. 6f.

Regional Study
Centers Each year, funds are appropriated to the Board of Regents for distribution to the Quad-Cities Graduate Study Center, the Tri-State Graduate Center, and the Southwest Iowa Regents Resource Center. The distribution includes the individual appropriation amounts and no salary funding. This total allocation of \$349,786 is comparable to the final FY 2003 allocation.

Strategic Plan: The Board's strategic planning goal 4.1.1.0 requires the Board annually to review and approve institutional resource allocations and reallocations consistent with and supportive of the Board and institutional strategic plans.

The Board's strategic planning goal 4.1.1.5 requires the Board to approve all budget ceiling adjustments.

Background:

Board Budget
Process In May, the Board considered key budgetary issues to provide guidance in the development of the institutional budgets:

1. Revenues changes
2. Reallocations
3. Salary increase policies
4. Unavoidable mandatory and inflationary costs
5. General fund support for athletics
6. Economic development issues
7. Capital projects / building repairs

This month the Board receives preliminary budget details.

In July, the Board will receive the final general and restricted fund budgets for approval.

Analysis:

General Fund The preliminary general fund operating budgets for the five Regent institutions, including the UIHC budgets, were developed by the institutions based on the strategic plans of the Board and each institution and the actions of the General Assembly and the Governor.

The FY 2004 general operating funds of the institutions are as follows:

	<u>Total Budget</u>	<u>Direct State Appropriations</u>	<u>State Appropriations Reductions</u>
SUI	\$1,123,348,710	\$278,963,722	\$(8,458,963)
ISU	426,278,344	232,816,705	(6,992,498)
UNI	139,287,339	80,387,339	(2,428,539)
ISD*	8,855,862	8,263,803	319,818
IBSSS	<u>4,980,037</u>	<u>4,537,514</u>	<u>91,455</u>
TOTAL	\$1,702,750,292	\$604,969,083	\$(17,468,727)

* Includes estimated \$155,869 salary funding from state appropriations, which has not yet been determined.

Appropriations The FY 2004 general fund operating budgets for the Regent institutions include state appropriations of \$605.0 million.

- FY 2004 state appropriations were reduced by \$17.5 million including a \$17.9 million reduction to the universities and a \$411,273 increase to the special schools.
- No state appropriations were provided for salary increases to implement the state's salary policy at the Regent universities or the Board Office. Some salary funding may be provided for the special schools. That information should be available by the final budgets in July. In this month's budget presentations, ISD estimated an amount for state salary funding while IBSSS did not.

Tuition The Board's tuition policy is intended to maintain quality and effectiveness as well as improve quality, thereby recognizing the aspirations of the Board and the institutions for achieving excellence. Critical to the successful implementation of the Board's strategic plan is securing sufficient resources.

In November 2002, the Board approved a 17.6% increase in base tuition for FY 2004. The universities propose to use some tuition revenues generated by this rate increase to cover the shortfall in state operating appropriations and other non-discretionary operating cost increases.

FY 2004 Budget

Tuition and Fee Revenues

	<u>Total Budget</u>	<u>Gross Increase</u>	<u>Net Increase¹</u>
SUI	\$199,091,993	\$27,623,965	\$19,919,965
ISU	161,309,266	23,868,025	16,550,520
UNI	56,100,000	<u>8,566,931</u>	<u>7,656,173</u>
Total		\$60,058,921	44,126,658

¹ Excludes surcharges and student aid; includes enrollment growth.

Other Revenues

The University of Iowa and Iowa State University continue to see increased revenues from indirect cost recoveries due to continued success in increasing grant and contract activity. The University of Northern Iowa expects level funding of \$1.6 million.

FY 2004 Budget

Indirect Cost Recoveries

	<u>Total Budget</u>	<u>Increase</u>
SUI	\$41,926,244	\$3,800,000
ISU	16,000,000	3,000,000

Reallocations

The Regent reallocation program is an integral part of the Board's strategic planning and budgeting process. This program requires each Regent institution to reallocate at least 2% of its budget each year.

This reallocation policy is intended to ensure that the institutions use existing resources to improve quality and achieve efficiencies. The significant appropriation reductions of the last several years have impacted the ability of the institutions to reallocate resources to improve quality.

For FY 2003, the institutions are proposing to use some of the reallocations to address the shortfalls in state appropriations. This is the fourth consecutive year that the institutions have had to use reallocations to address appropriations shortfalls.

The following table shows the planned FY 2004 reallocations. The University of Iowa has indicated that there will be additional reallocations presented with the final budget.

	FY 2004 Reallocations			
	Shortfall / Mandatory Cost Increases	Strategic Initiatives	Total	% of FY 2003 Final Budget
SUI	\$5,271,979	\$0	\$5,271,979	1.2%
ISU	5,038,355	5,350,492	10,388,847	2.5%
UNI	1,581,391	1,455,000	3,036,391	2.3%
ISD	103,067	207,000	310,067	3.6%
IBSSS	<u>191,039</u>	<u>124,824</u>	<u>315,863</u>	6.5%
	\$12,185,831	\$7,137,316	\$19,323,147	

The institutions are proposing to utilize \$12.2 million of the identified reallocations to address the appropriations shortfalls and mandatory cost increases.

During discussions at the May Board meeting, the Board requested that the Board Office further review and revise the reallocation policy. This information is scheduled to be presented at the September Board meeting.

Salary Policies

The Board of Regents highest priority for the FY 2004 budget requests was full funding of salaries from state appropriations. 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 market place, the Regent universities must remain competitive paying competitive salaries in each discipline.

The Regent institutions have several bargained employee contracts requiring the institutions to fund salary increases for FY 2004 even though there has been no funding provided for the increases. This includes AFSCME, for which the state is completely responsible for the bargaining agreement.

Further information regarding the institutions salary proposals is presented in G.D. 6 a-h. See G.D 4 Proposed Salary Policies for Professional and Scientific Staff for FY 2004 and G.D.5 Proposed Salary Policies for Faculty at the Special Schools for FY 2004 for further details.

Salaries are the largest expenditure item at the Regent institutions as illustrated in the following table:

**FY 2004 Budget
Salaries as % of Budget**

SUI*	75.3%
ISU*	70.3%
UNI*	79.0%
ISD	82.6%
IBSSS	81.7%

* General University only

Student Aid Set-Aside

To accomplish the Board's key result areas on quality and access, it is essential that the universities attract quality students as well as provide affordable higher education. A mix of need-based aid and merit aid from tuition set-aside addresses both of these Board key result areas.

Normally, the student aid set-aside percentages of the individual universities are commensurate with the overall tuition increases and, therefore, increase as a result of the tuition rate increases approved by the Board.

During its tuition discussion in November 2002, the Board directed the universities to distribute at least 15% of gross tuition revenue annually for student financial aid with a focus on need-based aid.

The following table shows student aid by institution. All of the universities have exceeded the minimum requirement established by the Board in November 2002.

	<u>Increase In Student Aid</u>	<u>Total Proposed Student Aid</u>	<u>Student Aid as % of Tuition</u>
SUI	\$5,767,400	\$33,816,110	17.0%
ISU	6,994,177	35,309,605	21.9%
UNI	910,758	10,100,000	18.0%

Athletics

The preliminary FY 2004 university athletic revenue budgets total \$78.0 million. The Athletic Department budgets are detailed in G.D. 6g.

	<u>Total Revenue</u>	<u>% of Total</u>
Sports Income	\$29,688,592	38.1%
Athletic Conference / NCAA Support	15,863,403	20.3%
General University Support ¹	10,066,324	12.9%
Student Fees / Operations	2,311,325	3.0%
Student Fees / Debt Service	1,401,944	1.8%
Other Income	<u>18,630,541</u>	<u>23.9%</u>
Total	\$77,962,129	100.0%

¹ Includes diversity support.

Board Office

The preliminary FY 2004 operating budget totals \$2.5 million. This includes state appropriations of \$1.2 million, same as FY 2003, and institutional allocations of \$1.3 million, which represents a \$59,000 increase.

Budgeted expenditures have been reallocated to address costs related to the Board's new strategic plan, especially in the areas of economic development, outreach, and communications as well as address workload issues. Substantial reductions in special services expenditures, which includes organizational audit, bargaining, and attorney general reimbursement, have been reallocated to staff salaries, travel, outside services and educational training in FY 2004.

The Board Office budget is detailed in G.D. 6f.

Regional Study
Centers

Each year, funds are appropriated to the Board of Regents for distribution to the Quad-Cities Graduate Study Center, the Tri-State Graduate Center, and the Southwest Iowa Regents Resource Center.

The Board is asked to approve a distribution of funds to the study centers. The distribution includes the individual appropriation amounts. This total allocation of \$349,786 is comparable to the final FY 2003 allocation.



Deb A. Hendrickson

Approved: 

Gregory S. Nichols

**BOARD OF REGENTS
STATE OF IOWA
FY 2004 PRELIMINARY GENERAL FUND OPERATING BUDGETS**

RESOURCES	University of Iowa									
	Univ.	Univ. Hosp.	Psych. Hosp.	CDD	Oakdale Campus	Hyg. Lab	Family Prac.	SCHS	Special Purpose	Subtotal
APPROPRIATIONS										
General	\$225,576,763	\$27,984,189	\$7,223,647	\$6,526,426	\$2,725,472	\$3,900,021	\$2,129,177	\$665,709	\$2,232,318	\$278,963,722
Other	-	-	-	-	-	-	-	-	-	-
RESOURCES										
Federal Support	-	-	-	-	-	-	-	2,749,293	-	2,749,293
Interest	900,000	-	-	-	6,000	-	28,000	-	-	934,000
Tuition and Fees	199,091,993	-	-	-	-	-	-	-	-	199,091,993
Reimb. Indirect Costs	41,926,244	2,594,000	911,400	152,900	325,000	82,056	-	-	-	45,991,600
Sales and Service	-	577,661,111	10,670,753	2,191,574	-	2,827,566	-	250,707	-	593,601,711
Other Income	125,000	407,500	-	-	75,000	-	-	1,408,891	-	2,016,391
Subtotal - Inst. Income	242,043,237	580,662,611	11,582,153	2,344,474	406,000	2,909,622	28,000	4,408,891	-	844,384,988
TOTAL RESOURCE BUDGET	\$467,620,000	\$608,646,800	\$18,805,800	\$8,870,900	\$3,131,472	\$6,809,643	\$2,157,177	\$5,074,600	\$2,232,318	\$1,123,348,710
EXPENDITURES										
Fac. & Inst. Off. Salaries	204,364,665	23,459,400	3,207,100	671,200	-	-	1,703,342	581,700	588,757	234,576,164
Prof. & Sci. Staff Salaries	69,637,878	225,847,100	7,729,200	4,482,140	79,841	3,985,048	303,797	2,726,200	838,472	315,629,676
General Service Staff Sal.	75,549,293	107,410,300	4,296,800	2,454,260	1,510,027	2,110,182	90,274	944,100	170,138	194,535,374
Hourly Wages	2,513,525	6,076,700	127,300	192,100	-	16,752	20,000	94,600	13,644	9,054,621
Subtotal - Salaries	352,065,361	362,793,500	15,360,400	7,799,700	1,589,868	6,111,982	2,117,413	4,346,600	1,611,011	753,795,835
Prof. and Scientific Supp.	36,363,271	210,851,000	2,499,700	854,700	347,890	688,661	39,764	715,000	597,715	252,957,701
Library Acquisitions	10,872,574	-	-	-	-	-	-	-	-	10,872,574
Rentals	1,500,000	4,725,700	3,300	27,000	-	9,000	-	-	-	6,265,000
Utilities	19,543,779	14,082,200	942,400	189,500	1,177,514	-	-	-	-	35,935,393
Bldg. Repairs	6,261,871	7,376,500	-	-	-	-	-	-	-	13,638,371
Auditor of State Reimb.	471,016	-	-	-	-	-	-	-	-	471,016
Equipment	6,726,018	8,817,900	-	-	16,200	-	-	13,000	23,592	15,596,710
Aid to Individuals	33,816,110	-	-	-	-	-	-	-	-	33,816,110
Subtotal - Other Expenses	115,554,639	245,853,300	3,445,400	1,071,200	1,541,604	697,661	39,764	728,000	621,307	369,552,875
TOTAL EXPENDITURES	\$467,620,000	\$608,646,800	\$18,805,800	\$8,870,900	\$3,131,472	\$6,809,643	\$2,157,177	\$5,074,600	\$2,232,318	\$1,123,348,710

**BOARD OF REGENTS
STATE OF IOWA
FY 2004 PRELIMINARY GENERAL FUND OPERATING BUDGETS**

RESOURCES	Iowa State University					Univ. of Northern Iowa	ISD	IBSSS	FY 2004 General Fund Total
	Gen. Univ.	Exp. Station	Coop. Ext.	Special Purpose	Subtotal				
APPROPRIATIONS									
General	\$177,630,514	\$31,814,892	\$20,244,546	\$3,126,753	\$232,816,705	\$80,387,339	\$8,263,803	\$4,537,514	\$604,969,083
Other	-	-	-	-	-	-	178,450	86,150	264,600
RESOURCES									
Federal Support	-	4,125,373	8,400,000	-	12,525,373	-	54,000	235,452	15,564,118
Interest	1,370,000	-	-	-	1,370,000	600,000	25,000	6,000	2,935,000
Tuition and Fees	161,309,266	-	-	-	161,309,266	56,100,000	-	-	416,501,259
Reimb. Indirect Costs	16,000,000	-	-	-	16,000,000	1,575,000	-	71,133	63,637,733
Sales and Service	290,000	-	-	-	290,000	625,000	322,693	24,638	594,864,042
Other Income	1,957,000	5,000	5,000	-	1,967,000	-	11,916	19,150	4,014,457
Subtotal - Inst. Income	180,926,266	4,130,373	8,405,000	-	193,461,639	58,900,000	413,609	356,373	1,097,516,609
TOTAL RESOURCE BUDGET	\$358,556,780	\$35,945,265	\$28,649,546	3,126,753	\$426,278,344	\$139,287,339	\$8,855,862	\$4,980,037	\$1,702,750,292
EXPENDITURES									
Fac. & Inst. Off. Salaries	143,955,208	20,430,960	6,518,501	524,749	171,429,418	62,739,484	3,614,153	1,641,224	474,000,443
Prof. & Sci. Staff Salaries	59,468,347	7,477,301	15,229,132	1,380,072	83,554,852	23,637,352	1,679,288	452,977	424,954,145
General Service Staff Sal.	43,946,778	3,349,648	2,536,237	320,366	50,153,029	21,765,148	2,017,287	1,975,446	270,446,284
Hourly Wages	4,724,275	400,000	310,000	138,867	5,573,142	1,905,362	-	-	16,533,125
Subtotal - Salaries	252,094,608	31,657,909	24,593,870	2,364,054	310,710,441	110,047,346	7,310,728	4,069,647	1,185,933,997
Prof. and Scientific Supp.	27,518,479	3,925,373	3,546,676	671,399	35,661,927	10,989,794	966,441	579,256	301,155,119
Library Acquisitions	8,474,019	-	-	-	8,474,019	1,891,520	8,226	7,212	21,253,551
Rentals	694,307	-	160,000	-	854,307	900,000	-	-	8,019,307
Utilities	20,014,648	61,983	13,000	-	20,089,631	3,308,345	317,997	130,165	59,781,531
Bldg. Repairs	8,694,432	50,000	-	-	8,744,432	1,000,000	114,224	110,257	23,607,284
Auditor of State Reimb.	431,682	-	-	-	431,682	225,000	57,000	33,000	1,217,698
Equipment	5,325,000	250,000	336,000	91,300	6,002,300	825,334	81,246	50,500	22,556,090
Aid to Individuals	35,309,605	-	-	-	35,309,605	10,100,000	-	-	79,225,715
Subtotal - Other Expenses	106,462,172	4,287,356	4,055,676	762,699	115,567,903	29,239,993	1,545,134	910,390	516,816,295
TOTAL EXPENDITURES	\$358,556,780	\$35,945,265	\$28,649,546	\$3,126,753	\$426,278,344	\$139,287,339	\$8,855,862	\$4,980,037	\$1,702,750,292