

MEMORANDUM

TO: Board of Regents
FROM: Board Office
SUBJECT: General Fund Operating Budgets - Iowa State University
DATE: June 9, 2003

Recommended Actions:

1. Approve the FY 2003 budget ceiling increase of \$2.0 million for a revised general fund operating budget of \$411,721,602.
2. Consider the preliminary FY 2004 general fund operating budget for Iowa State University in the amount of \$426,278,344.

Executive Summary:

FY 2003 Budget Ceiling	<p>The University is requesting a budget ceiling adjustment to its FY 2003 general university budget of \$2.0 million.</p> <p>Strong grant and contract activity has contributed to potential increased indirect cost recoveries of \$1.7 million. Tuition revenues derived from Extended Education and Travel Abroad courses are expected to exceed budget estimates by \$450,000. Interest earnings are expected to be under budget by \$150,000.</p> <p>The University requests approval to use the \$450,000 for increased costs associated with offering the travel abroad courses and the remaining \$1,550,000 for high priority needs in building repairs and deferred maintenance and fire safety. The revised total general fund operating budget for FY 2003 would be \$411,721,602.</p>
Preliminary FY 2004 Budget	<p>Iowa State University prepared its preliminary FY 2004 general fund operating budget in accordance with the strategic plans of the Board and of the University. In July, the University will present its final FY 2004 general and restricted fund budgets.</p>
General Fund	<p>The University's general fund operating budget of \$426.3 million is organized into six budgetary units, which reflect separate and distinct state appropriations to the University.</p> <p>The primary FY 2004 revenue sources include:</p> <ul style="list-style-type: none"> • State appropriations of \$232.8 million, • Tuition and fees of \$161.3 million, • Indirect cost recoveries of \$16.0 million, and • Federal support of \$12.5 million.

FY 2004 state appropriations were reduced by \$7.0 million. No state appropriations were provided for salary increases to implement the state's salary policy.

The University plans to address the shortfall in state appropriations by using a portion of new tuition revenue and reallocations.

The following table shows FY 2004 budgets by appropriation unit compared to FY 2003 budgets.

	FY 2003 Proposed <u>Revised Budget</u>	FY 2004 <u>Budget</u>	\$ <u>Change</u>
General University	\$342,511,547	\$358,556,780	\$16,045,233
Experiment Station	36,842,821	35,945,265	(897,556)
Cooperative Extension	29,220,676	28,649,546	(571,130)
Special Purpose			
Economic Development*	2,424,161	2,424,161	0
Leopold Center	489,648	476,225	(13,423)
Livestock Disease Research	<u>232,749</u>	<u>226,367</u>	<u>(6,382)</u>
Total	\$411,721,602	\$426,278,344	\$14,556,742

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

The University has identified total reallocations of \$10.4 million. This includes \$5.0 million for unavoidable cost increases including the budget shortfall and \$5.4 million for strategic initiatives.

The University proposes to allocate its general fund operating budget by its strategic planning goals:

Learning	\$213.1 million
Discovery	149.2 million
Engagement	64.0 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 preliminary budget of \$358.6 million includes direct state appropriations of \$177.6 million, tuition and fees of \$161.3 million, and indirect cost recoveries of \$16.0 million.

Budgeted salaries of \$252.1 million represent 70.3% of the FY 2004 budget. Student financial aid, the second largest expenditure category, represents 9.8% of the budget and 21.9% of tuition and fees.

Other Appropriation Units 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 8.

Athletics The preliminary Athletic Department budget, which is part of the restricted fund budget, is presented this month in G.D. 6g.

Background:

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

Analysis:

General Fund The proposed FY 2004 general fund operating budget for Iowa State University is \$426.3 million and is distributed among the following units:

	<u>Total Budget</u>	<u>Direct State Appropriations</u>
General University	\$358,556,780	\$177,630,514
Experiment Station	35,945,265	31,814,892
Cooperative Extension	28,649,546	20,244,546
Special Purpose		
Economic Development*	2,424,161	2,424,161
Leopold Center	476,225	476,225
Livestock Disease Research	<u>226,367</u>	<u>226,367</u>
Total	\$426,278,344	\$232,816,705

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

The University proposes to allocate its budget by strategic planning goals as follows:

Learning	\$213,139,172
Discovery	149,197,420
Engagement	<u>63,941,752</u>
Total	\$426,278,344

The summary sheet on page 11 of this docket memorandum identifies uses of new revenues and reallocations.

- Appropriations
- FY 2004 state appropriations to the University were reduced by \$7.0 million.
 - No state appropriations were provided for salary increases to implement the state's salary policy.

Reallocations The FY 2004 budget reflects internal reallocations totaling \$10.4 million. The appropriate Vice President approves college and unit reallocation plans. The President approves reallocations of central resources.

The reallocations represent 2.5% of the FY 2003 revised budget and are consistent with the Board's policy on reallocations.

The following table summarizes reallocations. Details are provided in the Regent Exhibit Book.

**Iowa State University
Preliminary FY 2004 General Fund Budget
Summary of Reallocations**

From:	
President	\$ 1,300,000
Academic Affairs	4,710,040
Student Affairs	113,412
Business and Finance	892,005
Agriculture Experiment Station	1,927,651
Cooperative Extension Services	1,352,482
Leopold Center	21,184
Healthy Livestock Research	6,943
Economic Development Units	65,130
Total Reallocations	<u><u>\$ 10,388,847</u></u>
To:	
Faculty positions-Academic initiatives	\$ 1,075,000
Faculty positions-College reallocations	2,579,122
Compensation increases	3,231,149
Appropriation Reduction	1,488,491
Student Support Staff and Services	384,616
General Staff and Administrative Support	339,778
Opening New Buildings	318,715
Information Technology and Web Systems	288,767
Administration	234,414
Graduate Student Support	180,462
Chief Information Officer	150,000
Energy Conservation	118,333
Total Reallocations	<u><u>\$ 10,388,847</u></u>

Some examples of ISU reallocations include:

- The President has reallocated funds for five academic initiatives supporting key research areas: Food Safety and Security, Human Computer Interaction, Combinatorial Discovery, Bioeconomy, and Information Infrastructure.
- Colleges have reduced administrative and supplies budgets and used salary savings accrued from retirements and resignations to hire new faculty members in areas strategic to the mission of the colleges and University. New positions are approved by the College Dean as well as the Vice President for Academic Affairs and Provost.
- The Vice President for Business and Finance is reallocating funds to support the costs of opening new buildings such as utilities, cleaning, daily maintenance, and access control.
- The University is charging back administrative costs to non-general fund units.

Salary Policy

The University plans to allocate 2.0% of the continuing employee salary base for faculty and P&S staff employee compensation increases. Units will have the flexibility to reallocate resources to augment the compensation allocation with all such reallocations requiring approval of the appropriate Vice President.

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. Promotion increases are not to be used as a substitute for a merit increase.

Staff layoffs may be necessary in some areas of the University due to the appropriations reductions and lack of incremental salary funding.

General University

The ISU General University appropriation unit represents the central educational operating budget and includes its eight colleges, the library, and central administration.

- College of Agriculture,
- College of Business,
- College of Design,
- College of Education,
- College of Engineering,
- College of Family and Consumer Sciences,
- College of Liberal Arts and Sciences, and
- College of Veterinary Medicine.

Central Administration includes the:

- Office of the President,
- Office of the Vice President for Academic Affairs and Provost,
- Office of the Vice President for Student Affairs, and
- Office of the Vice President for Business and Finance.

The following table shows the general university revenues and expenditures for the original FY 2003 budget and the proposed FY 2004 budget.

Iowa State University - General University			
Budget Comparisons			
	FY 2003 Original Budget	FY 2004 Proposed Budget	Change Over/(Under)
REVENUES			
Appropriations	\$183,134,521	\$177,630,514	(\$5,504,007)
Interest	1,752,000	1,370,000	(382,000)
Tuition and Fees	140,407,826	161,309,266	20,901,440
Reimbursed Indirect Costs	13,000,000	16,000,000	3,000,000
Sales and Services	253,700	290,000	36,300
Other Income	1,963,500	1,957,000	(6,500)
TOTAL REVENUES	\$340,511,547	\$358,556,780	\$18,045,233
EXPENDITURES			
Salaries	\$239,121,908	\$252,094,608	\$12,972,700
Prof. /Scientific Supplies	32,203,491	27,518,479	(4,685,012)
Library Acquisitions	8,148,095	8,474,019	325,924
Rentals	663,386	694,307	30,921
Utilities	19,628,125	20,014,648	386,523
Building Repairs	6,644,432	8,694,432	2,050,000
Auditor of State	531,682	431,682	(100,000)
Equipment	4,625,000	5,325,000	700,000
Aid to Individuals	28,945,428	35,309,605	6,364,177
TOTAL EXPENDITURES	\$340,511,547	\$358,556,780	\$18,045,233

Appropriations The FY 2004 general fund operating budget for General University is \$358.6 million, including state appropriations of \$177.6 million.

- FY 2004 state appropriations were reduced by \$5.5 million.
- No state appropriations were provided for salary increases to implement the state's salary policy.

Tuition Revenues The University has projected a net increases in FY 2004 tuition and fee revenues of \$20.9 million, for a total of \$161.3 million.

The increase in tuition and fee revenues of \$23.9 million, consists of:

- \$16.3 million from the Board-approved 17.6% tuition rate increase
- \$7.3 million from the deletion of designated tuition
- \$0.3 million from surcharge in Veterinary Medicine
- No increase in enrollment

The continuing education funds were moved to the general fund in FY 2001 as an experiment designed to more closely integrate off-campus activity into departmental planning. The change actually had a detrimental affect on the departments and thus, ISU budgeted the \$3.0 million in continuing education tuition revenues and \$630,000 in financial aid as part of the restricted fund.

Other Revenues The University estimates an increase of \$3,000,000 in indirect cost recovery due to continued success in increasing grant and contract activity.

Reallocations Of the total \$10.4 million, \$7.0 million of ISU reallocations will occur within the General University appropriation unit.

Expenditures The University proposes to use tuition revenues as follows:

Planned Use of Tuition

Student Aid Set-Aside (29.3% of new tuition revenues)	\$6,994,177
Compensation Increases	6,613,451
Offset Reductions in State Appropriations	5,504,007
<u>Unavoidable Cost Increases</u>	
Memorial Union Operations	1,574,100
Opening New Buildings (Carver Co-Lab, 4H/Extension, ETRC – Hoover Hall, Vet Med Biosecurity Unit, Gerdin Business Building)	325,018
Web System Cost Increases	257,960
Campus Safety	138,566
ADA Compliance	83,000
Homeland Security Compliance and Student Exchange Visitor Information System	58,449
Health Insurance Portability and Accountability Act (HIPPA) Compliance – Student Affairs	30,921
Campus Childcare	18,080
Lakeside Laboratory	8,543
State Attorney General Fee Increase	6,100
<u>Strategic Initiatives</u>	
Faculty Positions (approximately 8 positions)	571,682
Enrollment Services	480,798
Faculty and Staff Recruitment and Retention	400,000
Library Materials Inflation	325,924
Veterinary Medicine Surcharge	323,328
Internet I Capacity and Wireless Campus	153,921
Total	\$23,868,025

During its tuition discussion in November 2002, the Board directed the universities to distribute least 15% of gross tuition revenue annually for student financial aid with a focus on need-based aid. ISU is planning to allocate 29.3% of new tuition revenue to fund student financial aid. The proposed student financial aid budget represents 21.9% of estimated gross tuition revenues.

The University has several strategic initiatives that will be funded with new tuition revenue as follows:

New Faculty Positions – to hire approximately eight new tenure eligible faculty. Over 100 proposals have been submitted and are under review.

Enrollment Services – four new positions to support the recruitment of students and associated recruitment and financial aid program support.

Faculty and Staff Recruitment and Retention – to fund agreements made to retain and attract top faculty and staff members.

Library Materials Inflation – funds need to be added each year to avoid serious losses in the library's ability to acquire key resources.

Veterinary Medicine Surcharge – to provide new faculty positions and instructional support necessary to remain competitive and accredited.

Internet I Capacity and Wireless Campus – to increase capacity of existing system and expand locations for wireless access.

Iowa Agriculture
and Home
Economics
Experiment Station

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.

The FY 2004 general fund operating budget for the Experiment Station is \$35.9 million, including state appropriations of \$31.8 million and federal support \$4.1 million.

- The state appropriation includes an \$897,556 (-2.7%) reduction in FY 2004.
 - The Experiment Station will identify specific reductions in the final budget submissions. Most likely these will include reductions of staff as well as reductions in services provided to the citizens of Iowa.
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Cooperative
Extension
Services

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.

The FY 2004 general fund operating budget for Extension is \$28.6 million, including state appropriations of \$20.2 million and \$8.4 million in federal support.

- The state appropriation includes a \$571,130 (-2.7%) reduction in FY 2004.
 - Cooperative Extension will identify specific reductions in the final budget submissions. The reductions in state appropriations will most likely result in reductions of staff as well as reductions in services provided to the citizens of Iowa.
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Special Purpose Appropriations The Special Purpose Appropriations units include Economic Development, Leopold Center, and Livestock Disease Research.

Economic Development The FY 2004 economic development appropriations total \$2.4 million and include funding for the Institute for Physical Research and Technology, Small Business Development Center, and the Research Park.

Legislation required that \$550,000 of the appropriation be allocated to the Small Business Development Center, which is \$75,903 higher than FY 2003.

Institute for Physical Research and Technology (IPRT) \$1,720,959

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.

Small Business Development Center (SBDC) \$550,000

The Small Business Development Center consists of 17 centers covering ninety-nine counties in Iowa. These Centers have served for over 19 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 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.

ISU Research Park \$153,202

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.

Leopold Center The Leopold Center FY 2004 budget totals \$476,225. State appropriations were reduced by \$13,423 (-2.7%).

This 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 receives an operating appropriation as well as indirect funding from the Iowa Groundwater Protection Act.

Livestock Disease
Research

The Livestock Disease Research FY 2004 budget totals \$226,367. State appropriations were reduced by \$6,382 (-2.7%).

Reducing funding impedes strategic research that is a high priority to the state. Recent examples include Johne's disease in cattle, and pseudorabies diseases in swine and Newcastle disease in poultry. New concerns such as chronic wasting disease in deer populations and threat of foreign animal diseases are high priority because of the potential to cause economic disaster.



Deb A. Hendrickson

Approved: 
Gregory S. Nichols

**Iowa State University
Preliminary FY 2004 New Revenues and Reallocations**

Strategic Initiative and Goal #	Appropriation	Tuition	Reallocation	Other	Total
Appropriation Decrease	(\$6,992,498)	\$5,504,007	\$1,488,491		\$0
Compensation Increases		\$6,613,451	\$3,231,149		\$9,844,600
Student financial aid		\$6,994,177			\$6,994,177
Memorial Union Operations		\$1,574,100			\$1,574,100
Opening new buildings		\$325,018	\$318,715	\$742,790	\$1,386,523
Homeland Security Compliance and Student Exchange Visitor Information System		\$58,449		\$287,000	\$345,449
Property insurance premium increase				\$280,710	\$280,710
Campus safety		\$138,566			\$138,566
ADA Compliance		\$83,000			\$83,000
Health Insurance Portability and Accountability Act (HIPPA) Compliance – Student Affairs		\$30,921			\$30,921
Rent increase				\$52,000	\$52,000
Campus childcare		\$18,080			\$18,080
Lakeside Laboratory		\$8,543			\$8,543
State attorney general fee increase		\$6,100			\$6,100
Unavoidable Cost Increases Total	(\$6,992,498)	\$21,354,412	\$5,038,355	\$1,362,500	\$20,762,769
Strategic Initiatives	Appropriation	Tuition	Reallocation	Other	Total
Research incentive and support, #2				\$1,842,000	\$1,842,000
Faculty and staff recruitment & retention: #1, 2, 3		\$400,000		\$350,000	\$750,000
Faculty positions-President: #1, 2, 3		\$571,682			\$571,682
Faculty positions-Academic Initiatives: #1, 2, 3			\$1,075,000		\$1,075,000
Faculty positions-College reallocations: #1, 2, 3			\$2,579,122		\$2,579,122
Veterinary medicine surcharge		\$323,328			\$323,328
Library materials inflation: #1,2		\$325,924			\$325,924
Web systems cost increases: #1, 2, 3		\$257,960			\$257,960
Internet 1 capacity and wireless campus: #1		\$153,921			\$153,921
Chief Information Officer: #1, 2, 3			\$150,000		\$150,000
Enrollment Services: #1		\$480,798			\$480,798
Information Technology and Web Systems #1, 2, 3			\$288,767		\$288,767
Student Support Staff and Services #1			\$384,616		\$384,616
General Staff and Administrative Support #1, 2, 3			\$339,778		\$339,778
Administration #1, 2, 3			\$234,414		\$234,414
Graduate Student Support # 1, 2			\$180,462		\$180,462
Energy Conservation # 1, 2, 3			\$118,333		\$118,333
Strategic Initiatives Total	\$0	\$2,513,613	\$5,350,492	\$2,192,000	\$10,056,105
Total New Revenues & Reallocations	(\$6,992,498)	\$23,868,025	\$10,388,847	\$3,554,500	\$30,818,874