

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Preliminary FY 2001 Operating Budgets
Date: June 5, 2000

Recommended Action:

Refer to the individual preliminary budgets for FY 2001 in the attached budget memos (8a through 8i.)

Executive Summary:

Strategic Planning Goal 4.1.1.0 requires the Board annually to review and approve institutional resource allocations and reallocations consistent with the Board and institutional strategic plans. In accordance with this goal and the Board's budget process, budgets are presented to the Board at various times before final approval is requested.

At the May Board meeting, the institutions presented conceptual operating budgets that provided overviews of institutional planning as it relates to strategic planning, legislative action, and major budgetary decisions. This month, preliminary budgets are being presented to the Board for review before final budgets are presented to the Board in July for approval. This gives the Board an opportunity to provide direction to the institutions before final budgets are completed.

The preliminary FY 2001 general fund operating budgets for the Regent institutions, including the University of Iowa Hospitals and Clinics, total \$1.5 billion. In developing the individual preliminary budgets, the institutions were guided by the strategic plans of the Board and each respective institution.

During FY 2000, the institutions experienced a legislative reduction in state appropriations of \$3.4 million. For FY 2001, base institutional operating appropriations are reduced by \$3.0 million and the salary appropriation allocation of \$18.2 million is approximately \$9.2 million less than the full funding needed to implement the state salary policy of 4%, excluding health insurance. A 10% health insurance increase for the Regent institutions would total approximately \$4.1 million.

Legislative intent language merged the appropriations of three priority Regent initiatives - namely Public Health at the University of Iowa, Plant Sciences at Iowa State University, and Masters in Social Work at the University of Northern Iowa - into each university's general operating budget. However, these initiatives did not receive the level of new state funding requested by the Board. The universities have, nevertheless, indicated commitments to spending the full amounts authorized.

In October, the Board had approved a 4.3% increase in base tuition for FY 2001, 2.3% to maintain quality and effectiveness and 2.0% to improve quality to achieve the aspirations of the Board's strategic planning goals of excellence. The universities are proposing to use all of the increased tuition revenues from the rate increase to cover shortfalls in operating and salary appropriations and for other mandatory cost increases.

In FY 1997, the Board established a five-year program of reallocations averaging 2% per year. The reallocation policy was not intended to be a budget reduction mechanism, but had a two-fold purpose to maintain operations and improve quality by redirecting resources needed to build excellence or engage in new opportunities. The institutions are proposing that the majority of the identified reallocations be directed to maintaining the quality that has been achieved in recent years.

Background/Analysis:

Board Budget Process

In previous years, the institutions presented preliminary general fund operating budgets, with specific planned expenditures, at the May Board meeting. This year, however, the specific budget information could not be completed in time following the legislative session (Regents appropriations were one of the last items approved.) Accordingly, the institutions presented conceptual operating budgets that provided overviews of their budget plans in response to the state appropriations process and strategic planning needs.

In June, the preliminary general fund operating budgets for FY 2001 are presented with budget dollars and greater detail about program directions toward strategic planning goals. These preliminary operating budgets represent the Board's consideration of the institutional budgets for the fiscal year beginning July 1, 2000. This process provides opportunity for the Board to raise questions, request additional information, and indicate priorities.

Allocations of capital appropriations for FY 2001 and capital improvement plans are also presented to the Board this month (G.D. 9 and G.D. 10).

Following presentation of the preliminary operating budgets this month, the institutions will detail specific salaries for each staff member and allocate funding to colleges, academic departments, as well as support and administrative units. The final FY 2001 operating budgets will be presented to the Board for approval in July along with restricted fund budgets.

FY 2000 Deappropriations

HF 2039, the FY 2000 deappropriation bill, was passed by the Legislature and signed by the Governor on January 18, 2000. This bill reduced state overall appropriations by \$30 million. The Regent share of the appropriations reduction was \$3.4 million.

Since this legislation represented a mid-year budget reduction, the Board reviewed and approved revised budgets at its February 2000 Board meeting. The specific reductions were guided by the strategic planning goals of the Board of Regents and the institutions.

Operating Budgets

The preliminary FY 2001 general fund operating budgets for the five Regent institutions, including the UIHC budgets, total \$1.5 billion. The preliminary FY 2001 budgets were developed by the institutions based on the strategic plans of the Board and each institution, the Board's FY 2001 appropriation request to the Governor and General Assembly, and actions of the General Assembly and the Governor.

Funding the general education costs at the Regent universities consists of multiple sources, including state appropriations; tuition and fees; federal support; indirect cost reimbursements; and other sources. The following table shows these categories as a percent of the general university budgets.

	<u>Revised FY 2000</u>	<u>Proposed FY 2001</u>	<u>Change</u>
State Appropriations	64.3%	63.7%	(0.6)%
Tuition and Fees	30.1%	30.7%	0.6 %
Other	5.6%	5.6%	0.0 %

FY 2001 direct state operating appropriations for the five Regent institutions, excluding tuition replacement, total \$693.2 million.

The general operating funds are distributed among the institutions as follows:

	<u>Total Budget</u>	<u>Direct State Appropriations</u>
University of Iowa	\$908,696,049	\$318,587,761
Iowa State University	397,915,455	269,897,592
University of Northern Iowa	130,612,081	91,829,144
Iowa School for the Deaf	8,735,754	8,178,173
Iowa Braille and Sight Saving School	<u>4,910,093</u>	<u>4,671,023</u>
TOTAL	\$1,450,869,432	\$693,163,693

FY 2001 State Appropriations

The FY 2001 education appropriations bill represents a reduction of \$2.7 million in funding from the original FY 2000 state appropriations for the Regent institutions general operating funds.

The education appropriations bill merged existing line item appropriations for three key Regent initiatives into the universities general operating budgets and included intent language allowing: (1) the University of Iowa to expend an additional \$1.05 million for its Public Health initiative, for a total of \$2.1 million; (2) Iowa State University to expend an additional \$2.5 million for its Plant Science initiative, for a total of \$4.7 million; and (3) the University of Northern Iowa to expend an additional \$150,000 for its Masters in Social Work program, for a total of \$450,000; up to \$100,000 for the roadside vegetation project; and up to \$200,000 for the Iowa Office for Staff Development. The appropriations did not, however, include incremental funding specifically for these spending authorizations, but gives the universities flexibility in managing base appropriations. The universities are committed to spending the funding authorized for these programs.

To fully fund the state salary policy increase of 4% at the Regent institutions, exclusive of health insurance increases, funding from state appropriations would have to total \$27.4 million. The Department of Management has provided the allocation of salary funding to the Regent institutions in the amount of \$18.2 million. This salary allocation represents a shortfall in salary funding of \$9.2 million, excluding health insurance. A 10% health insurance increase for the Regent institutions would total approximately \$4.1 million. The institutions are presenting their plans to address this shortfall in the individual docket memoranda 8a - 8i.

The Administration and Regulation Appropriations bill distributed an allocation to each state agency for workers' compensation. Previously, this appropriation was distributed entirely to the Iowa Department of Personnel. This distribution of funding reflects a change in state funding policy and distribution methodology, but does not represent new funding for the Universities. In fact, the universities have expressed concerns that this funding is less than what would have been provided using the previous distribution methodology.

The Economic Development Appropriations bill established a 4% across the board reduction. This represents an appropriations reduction to the Regent institutions of \$313,259.

Tuition and Fees

In December of 1997, the Board adopted a tuition policy consistent with its mission and strategic plan. The policy assures predictability in establishing rates, but also provides the Board with some flexibility.

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 October 1999, the Board approved a 4.3% increase in tuition for FY 2001. Tuition and fee revenues in the general fund for FY 2001 are projected to be higher than the revised FY 2000 budget because of several factors. Tuition revenue projections are based on: (1) the combination of rate increases approved by the Board last fall, (2) fall 2000 enrollment projections, and (3) the mix of resident and nonresident enrollment. The redirection of designated tuition at the University of Iowa, as approved by the Board in October, represents an increase to the general fund since these amounts had previously been restricted for student activities and services. Iowa State University is also proposing a change in accounting to recognize distance education tuition revenue as part of its general fund rather than in its restricted fund. Additional details will be provided in the final budget docket memoranda in July.

The universities propose to use most tuition revenues generated by the 4.3% rate increase to cover the salary shortfall and other non-discretionary operating cost increases (maintenance of quality rather than improvement of quality.) This varies from the planned uses of the increased tuition revenues as presented to the Board in October. The student aid percentages are commensurate with the overall tuition increases and therefore, will increase by \$2.0 million as a result of the tuition rate increases approved by the Board last fall. However, such areas as improved electronic connectivity, deploying funds toward undergraduate education for curricular and instructional development, student retention, and additional new faculty to support selected areas of high student demand, will not be accomplished.

Reallocations

In accordance with its strategic planning goals to increase effectiveness and efficiency, the Board approved a five-year program, beginning in FY 1997, requiring 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 but also to achieve efficiencies.

The policy is not intended to be a budget reduction mechanism. Rather, it is an important strategic mechanism (1) to maintain current operations e.g., help pay for inflationary costs and for costs due to changes in student demand (reactive); and (2) to improve quality by redirecting the resources needed to build excellence or engage in new opportunities (proactive).

Reallocations may involve both permanent and temporary shifts in the use of resources. An example of a permanent shift would include a permanent reduction in a department's budget as a result of decreased need/priority or an efficiency gained (dollars saved) from reorganizing or implementing a new system (e.g., a more efficient administrative process.) An example of a temporary shift would be reallocation of positions to accommodate temporary fluctuations in enrollments (e.g., student demand for biology courses.)


For FY 2001, the universities are proposing to use significant reallocations to address the shortfall in state appropriations for salary increases and base operating budgets rather than improve quality. The institutions have identified the following reallocations:

University of Iowa	\$10,860,900	2.7%
Iowa State University	7,606,657	2.0%
University of Northern Iowa	4,913,200	3.9%
Iowa School for the Deaf	178,862	2.1%
Iowa Braille and Sight Saving School	<u>385,378</u>	8.2%
	\$23,944,997	

Other Budget Presentations

In addition to the institutional general fund operating budgets, several other budgets are presented for Board review and discussion.

- The Iowa School for the Deaf presents its preliminary restricted fund budget because of tuition funding received from Nebraska for the provision of educational and residential services to its hearing impaired students.
- The Board receives state operating appropriations to be allocated to the three regional study centers. As the budget information indicates, these allocations provide only part of the funding for these centers.
- Funding for the Lakeside Laboratory is provided by Regent-approved allocations from the universities. A coordinating committee, made up of the Provosts of each university, provides guidance to the Laboratory director. The coordinating committee has recommended the preliminary budget.
- The university athletic budget presentations provide the Board with detailed information regarding athletic funding sources and expenditures including scholarships.
- The Board Office preliminary budget is presented in a format similar to the institutional preliminary budgets.


Deb A. Hendrickson

Approved: 
Frank J. Stork

BOARD OF REGENTS, STATE OF IOWA
PRELIMINARY FY 2001 GENERAL FUND OPERATING BUDGETS

University of Iowa										
	Univ.	Univ. Hosp.	Psych. Hosp.	Hosp. School	Oakdale Campus	Hyg. Lab	Family Prac.	SCHS Cancer/Mobile	Special Purpose	SUI Subtotal
RESOURCES										
APPROPRIATIONS										
General	\$ 255,065,870	\$ 33,040,152	\$ 8,411,522	\$ 7,487,966	\$ 3,207,848	\$ 4,203,122	\$ 2,460,405	\$ 689,890	\$ 3,250,693	\$ 317,817,468
Other*	-	-	-	-	-	-	-	-	-	-
Workers' Compensation	770,293									770,293
RESOURCES										
Federal Support	-	-	-	-	-	-	-	2,710,039	-	2,710,039
Interest	900,000	-	-	-	6,000	-	32,000	-	-	938,000
Tuition and Fees	125,729,260	-	-	-	-	-	-	-	-	125,729,260
Reimb. Indirect Costs	31,767,300	1,313,000	871,000	65,000	300,000	53,300	-	-	-	34,369,600
Sales and Service	-	411,466,948	9,122,078	1,690,034	-	1,963,473	-	177,600	-	424,419,833
Other Income	125,000	378,000	-	-	95,000	-	-	1,343,556	-	1,941,556
Subtotal - Inst. Income	158,521,560	413,157,948	9,993,078	1,755,034	401,000	2,016,773	32,000	4,231,195	-	590,108,288
TOTAL RESOURCE BUDGET	\$ 414,357,723	\$ 446,197,800	\$ 18,404,600	\$ 9,243,000	\$ 3,608,848	\$ 6,219,895	\$ 2,492,405	\$ 4,921,085	\$ 3,250,693	\$ 908,696,049
EXPENDITURES										
Fac. & Inst. Off. Salaries	197,601,436	21,483,800	2,773,800	805,300	-	-	1,968,324	548,933	616,817	225,798,410
Prof. & Sci. Staff Salaries	56,938,014	155,432,900	6,917,300	4,219,600	155,632	3,460,441	304,756	2,333,049	974,463	230,736,155
General Service Staff Salaries	57,718,473	81,216,400	3,903,000	2,231,000	1,356,474	1,703,396	97,495	928,699	278,566	149,433,503
Hourly Wages	2,513,525	5,561,500	182,200	254,400	-	16,264	35,666	23,600	-	8,587,155
Subtotal - Salaries	\$ 314,771,448	\$ 263,694,600	\$ 13,776,300	\$ 7,510,300	\$ 1,512,106	\$ 5,180,101	\$ 2,406,241	\$ 3,834,281	\$ 1,869,846	\$ 614,555,223
Prof. and Scientific Supplies	37,009,620	150,098,300	3,688,000	1,175,400	559,087	1,030,794	86,164	1,053,904	1,255,847	195,957,116
Library Acquisitions	9,411,574	-	-	-	-	-	-	-	-	9,411,574
Rentals	1,000,000	3,843,300	28,800	111,200	1,000	9,000	-	-	-	4,993,300
Utilities	17,880,037	11,434,400	686,600	182,700	1,102,510	-	-	-	-	31,286,247
Bldg. Repairs	6,724,128	7,801,400	151,100	188,000	409,945	-	-	-	-	15,274,573
Auditor of State Reimb.	428,913	-	-	-	-	-	-	-	-	428,913
Equipment	7,015,061	9,325,800	73,800	75,400	24,200	-	-	32,900	125,000	16,672,161
Aid to Individuals	20,116,942	-	-	-	-	-	-	-	-	20,116,942
Subtotal - Other Expenditures	\$ 99,586,275	\$ 182,503,200	\$ 4,628,300	\$ 1,732,700	\$ 2,096,742	\$ 1,039,794	\$ 86,164	\$ 1,086,804	\$ 1,380,847	\$ 294,140,826
TOTAL EXPENDITURES	\$ 414,357,723	\$ 446,197,800	\$ 18,404,600	\$ 9,243,000	\$ 3,608,848	\$ 6,219,895	\$ 2,492,405	\$ 4,921,085	\$ 3,250,693	\$ 908,696,049

**BOARD OF REGENTS, STATE OF IOWA
PRELIMINARY FY 2001 GENERAL FUND OPERATING BUDGETS**

	Iowa State University						University of Northern Iowa			FY 2001 General Fund Total		
	Gen. Univ.	Exp. Station	Coop. Ext.	IPRT	Special Purpose	ISU Subtotal				ISD	IBSSS	
RESOURCES												
APPROPRIATIONS												
General	\$ 201,912,212	\$ 37,029,596	\$ 23,386,276	\$ 4,474,108	\$ 2,465,304	\$ 269,267,496	\$ 91,398,565	\$ 8,134,202	\$ 4,549,780	\$ 691,167,511		
Other*	-	-	-	-	450,000	450,000	-	191,956	102,644	744,600		
Workers' Compensation	630,096					630,096	430,579	43,806	18,599	1,893,373		
RESOURCES												
Federal Support	-	4,125,373	8,300,000	-	-	12,425,373	-	64,000	137,905	15,337,317		
Interest	1,185,000	-	-	-	-	1,185,000	600,000	53,000	26,000	2,802,000		
Tuition and Fees	102,791,490	-	-	-	-	102,791,490	36,207,937	-	-	264,728,687		
Reimb. Indirect Costs	9,530,000	-	-	-	-	9,530,000	1,350,000	-	27,000	45,276,500		
Sales and Service	363,000	5,000	-	-	-	368,000	625,000	248,625	48,165	425,709,623		
Other Income	1,263,000	-	5,000	-	-	1,268,000	-	-	-	3,209,556		
Subtotal - Inst. Income	115,132,490	4,130,373	8,305,000	-	-	127,567,863	38,782,937	365,625	239,070	757,063,783		
TOTAL RESOURCE BUDGET	\$ 317,674,798	\$ 41,159,969	\$ 31,691,276	\$ 4,474,108	\$ 2,915,304	\$ 397,915,455	\$ 130,612,081	\$ 8,735,589	\$ 4,910,093	\$ 1,450,869,267		
EXPENDITURES												
Fac. & Inst. Off. Salaries	137,075,305	19,728,985	7,395,652	1,244,317	380,326	165,824,585	58,713,027	3,630,123	1,719,206	455,685,351		
Prof. & Sci. Staff Salaries	51,410,723	8,898,857	16,419,921	1,664,185	768,204	79,161,890	21,089,428	1,219,288	415,388	332,622,149		
General Service Staff Salaries	38,594,693	4,985,693	2,721,252	305,612	228,481	46,835,731	19,183,608	1,990,895	1,830,787	219,274,524		
Hourly Wages	3,884,961	599,426	627,898	162,508	154,818	5,429,611	2,314,808	-	-	16,331,574		
Subtotal - Salaries	\$ 230,965,682	\$ 34,212,961	\$ 27,164,723	\$ 3,376,622	\$ 1,531,829	\$ 297,251,817	\$ 101,300,871	\$ 6,840,306	\$ 3,965,381	\$ 1,023,913,598		
Prof. and Scientific Supplies	28,125,709	5,092,008	3,801,164	815,305	1,279,520	39,113,706	12,519,923	1,021,799	562,918	249,175,462		
Library Acquisitions	7,212,594	-	-	-	-	7,212,594	1,873,350	8,226	8,569	18,514,313		
Rentals	890,311	-	150,000	-	87,756	1,128,067	722,000	-	-	6,843,367		
Utilities	18,056,077	450,000	10,000	-	186	18,516,263	2,444,545	177,684	152,874	52,577,613		
Bldg. Repairs	8,123,996	505,000	50,000	-	-	8,678,996	2,050,000	449,994	162,257	26,615,820		
Auditor of State Reimb.	462,314	-	-	-	-	462,314	135,000	57,000	26,754	1,109,981		
Equipment	6,059,279	900,000	515,389	282,181	16,013	7,772,862	2,293,517	180,580	31,340	26,950,460		
Aid to Individuals	17,778,836	-	-	-	-	17,778,836	7,272,875	-	-	45,168,653		
Subtotal - Other Expenditures	\$ 86,709,116	\$ 6,947,008	\$ 4,526,553	\$ 1,097,486	\$ 1,383,475	\$ 100,663,638	\$ 29,311,210	\$ 1,895,283	\$ 944,712	\$ 426,955,669		
TOTAL EXPENDITURES	\$ 317,674,798	\$ 41,159,969	\$ 31,691,276	\$ 4,474,108	\$ 2,915,304	\$ 397,915,455	\$ 130,612,081	\$ 8,735,589	\$ 4,910,093	\$ 1,450,869,267		

* Pesticide \$200,000; Farm Hotline \$150,000; John's Disease \$100,000