

Contact: Brad Berg

PRELIMINARY FY 2007 BUDGET ISSUES

Action Requested:

Provide direction to Board Office and institutions as necessary for the final FY 2007 budget.

Executive Summary:

The Regent institutions have identified key preliminary FY 2007 operating budget issues related to unavoidable cost increases, competitive salaries, revenue changes, and reallocations. The universities initially submitted budget scenarios based on receiving \$40 million in incremental state funding. Recent legislative developments indicate state operating incremental appropriations will most likely be \$11 million and not the \$40 million as planned.

The Board approved an inflationary tuition increase for the 2006-07 academic year of 4% at ISU and UNI and a 4.5% at SUI. The increased tuition revenue coupled with the estimated \$11 million in incremental state funding is not sufficient to cover incremental costs.

Reallocations are used to support new strategic initiatives, meet enrollment increases and demand for new courses, fund unavoidable cost increases, and support important core function initiatives. The universities and special schools intend to reallocate funds to cover incremental expenses, which include energy, contracted salaries, and faculty and professional and scientific salaries at market place levels.

Limited resources will put the universities at a financial disadvantage for FY 2007 and inhibit their ability to transform and advance the excellence of academic, research, and outreach programs.

Energy Costs Increases

Exponential price increases in natural gas, coal, and other fuels have created unavoidable cost increases for which the universities do not currently have the necessary funding without redirecting resources at the expense of educational excellence. Approximately \$10.3 million has been redirected from strategic academic spending over the last couple of years. This trend is expected to continue.

Competitive Compensation

Salaries comprise approximately 75% of the operating budgets and are one of the highest priorities for budget planning. The universities recognize its most valuable resources are its people. Strategic hiring and retention of faculty strengthen core academic areas, provide favorable faculty-student ratios, and improve time to graduation. Compensating faculty and staff at levels that promote recruitment and retention contribute to educational excellence at Regent institutions.

Faculty Salaries within Peer Group		
	<u>FY 2000</u>	<u>FY 2006</u>
SUI	8 th of 11	10 th to 9 ^{th*} of 11
ISU	9 th of 11	11 th of 11
UNI	7 th of 11	5 th of 11

* provided mid-year increases

UNI's ranking is primarily due to negotiated faculty contracts. Increased health insurance and other fringe benefit costs have also created substantial unavoidable cost increases. Proposed FY 2007 pay policies for the universities and special schools are outlined in Agenda Item 6b.

Other Unavoidable Costs Increases

There are other necessary cost increases which provide operational support for learning and research environments for the 62,300 student FTE's. These include library acquisitions, outreach, support of grant research, and operational support of new state-funded educational and research facilities.

<u>Regent Enterprise Incremental Revenue</u>	<u>Millions</u>
Anticipated Operating Appropriations	\$11.0
Net Tuition (less financial aid)	18.6
Required Reallocations	<u>5.5</u>
Total Incremental Revenues	\$34.1

Regent Enterprise Incremental Costs

Unavoidable increases in energy costs, library acquisitions, new state-funded buildings, etc.	*\$11.0
State-mandated AFSCME collective bargained salaries	8.9
Competitive compensation for faculty and professional and scientific staff	<u>32.6</u>
Total Incremental Costs	\$52.5

*does not include student focused opportunities such as curriculum enhancements, student system improvements, enhanced enrollment services, broader counseling prospects, improved student access to technology, and more student internships

Special Schools

ISD and IBSSS are anticipating a 4% allowable growth percentage increase. This is the same proposed increase in state operating appropriations for other K-12 schools in Iowa.