

Budget Presentation

Board of Regents Meeting, Cedar Falls

October 29, 2009

- Thank you for inviting me to explain the measures we intend to implement at The University of Iowa to address the 10% across-the-board cut ordered by the Governor earlier this month.
- In just 14 months, state support for The University of Iowa has been reduced by a staggering \$65 million, and it was done in the following stages:
 - A more than \$7 million reversion during FY09,
 - A cut of \$34 million at the beginning of FY10, and
 - Finally, the current 10% cut that will slice an additional \$23.5 million from our original budget plans yet this fiscal year.
 - Additionally, other UI units that receive state appropriations, such as the University Hygienic Lab, lost \$2.6M during these reversions.
- To put the size of these cuts in perspective, consider that \$65M is roughly a 24% reduction in state support in just one year.
- Thus far, we have managed these budget cuts with minimal disruption to our overall operations and largely without direct or noticeable affects on our students or on our remaining workforce, thanks largely to \$35M in federal stimulus money that has helped us manage through these earlier stages of budget cuts.

- We have known, from the beginning that federal stimulus dollars are temporary and now the stark reality of what such budget cuts mean to Iowa will grow ever more apparent.
- I will show in a moment how the original budget cut has been managed and then I'll describe our recommendations for implementing the latest 10% cut.
- We continue to be guided in our decision-making by these principles:
 - maintaining affordability --- even with the proposed tuition increase and the surcharge, our tuition remains the lowest among our Big 10 peers and among the lowest within all of our peers
 - supporting clinical and research enterprises, which continue to grow, in spectacular fashion, even during these difficult economic times,
 - recovering from the flood---there is still much to do and many important decisions to be made,
 - and protecting people to the greatest degree possible.
- An understanding of how we are managing the \$34 million cut will help illuminate the proposals we are making to accommodate the latest cut.
- The first two columns of this chart illustrate where we stand today compared to where we were when we presented the \$34 million-cut recommendations to you in June and August:
 - The left-hand column should look familiar since it is what I laid out back in August as our estimates for needed cuts to meet the original budget reduction.

- The middle column shows where we are today based on a great deal of hard work by every manager and supervisor at the UI as well as outstanding management within the central administration.
- So, for example, we anticipated the possibility of needing to cut \$10.8 million through further workforce reductions or layoffs, if our efforts on other cost-cutting measures did not meet our conservative initial estimates.
- In fact, we exceeded all expectations significantly, as you can see from this chart.
- We now estimate a gap of just \$802,000 in further workforce reductions---not \$10.9M---which means that few, if any layoffs will be needed to meet our budget targets.
- The reasons for this good news can be seen as you scan further down the middle column.
- We conservatively estimated participation in an early- and phased-retirement program to save \$1.86 million.
- Based on higher-than-expected application and approval rates, we now expect to cut \$6 million from our budget in this way.
- We hoped to cut \$16.5 million through attrition.
- Instead, our managers now believe they can cut \$20.8 million using this measure.

- The amount of savings we anticipate by having reduced our employee benefit costs are holding steady at \$1.05 million, and this measure was taken even before the events of the last 18 months.
- Cutbacks on travel, supplies, and expenses in general have yielded \$3.6 million in savings, rather than the \$2 million we anticipated.
- And in the building renewal and equipment category, we have held firm on our plans to cut \$1.8 million to meet the original \$34M cut.
- Before I move on to discuss the additional cost-saving proposals we recommend in connection with the latest \$23.5 million cut, there are a few points I want to reiterate:
 - First, of the \$35M we originally received in stimulus money, we applied only \$20 million to cushion the immediate impact of the \$34 million cut.
 - We were able to do that, because by the beginning of this fiscal year we had had to begin the budget transition this year, realizing that stimulus money is one-time money that will not be available in our budget in the next fiscal year.
- I must thank and compliment the expertise and creativity reflected in the budget recommendations put forward by deans, directors and supervisors across the university.
- They were asked to make specific decisions in accordance with the guiding principles I outlined earlier, and they did an outstanding job.
- Through their efforts we are supporting approximately 400 fewer positions today from the General Education Fund than we were just a year ago.

- Some positions are changing through the reorganization of units or work assignments.
 - Many positions were eliminated when they were vacated.
 - And more positions will be eliminated when the person in the position begins phased or early retirement.
 - As of this moment, we estimate that we need to enact fewer than 20 more position eliminations from the General Education Fund to meet our targeted workforce reduction goals.
 - Thus far we have employed extremely good and effective management strategies---although pay increases have not been possible, we have managed not to have to take money out of people's pockets at a time when our economy is suffering from too many unemployed and too many people nervous about spending money because of pay cuts or the threat of unemployment.
- So, these figures that I have talked about thus far reflect our best estimates based on information gathered during the first quarter of this fiscal year – between July 1 and just a few days ago.
 - We will of course continue to update the board on our progress throughout the fiscal year.
 - Moving next to our recommendations for implementing the latest 10% across-the-board cut, we have identified four key strategies that will allow us to manage during this fiscal year, and I'll speak briefly about our thinking for permanent reductions moving forward near the end of my comments.

- Our immediate challenge is to find an additional \$23.5M in cash to give back.
- So, in the column to the far right, you can see, first of all, that we will further reduce our spending in building renewal and equipment by an additional \$5.1 million, above and beyond the \$1.76 million already proposed.
- Next, because we were able to manage to not use all of the stimulus money to plug the current FY10 budget, we were thus able to create a competitive grant program for proposals that would have improved the university by increasing revenues or decreasing costs over time.
- However, this is no longer feasible; we now propose to redirect most of the unobligated stimulus funds (\$13 million) to help offset the \$23.5 million cut.
- The next two items reflect my request of our campus that we all step up, as we did during the flood, and help out during this very difficult time.
- We are asking everyone --- faculty, staff and students to contribute.
- We are asking our students to make a one-time, spring-semester only contribution of \$100.
 - This would NOT, I repeat, it would not become a recurring student expense --- spring only --- I gave them my word.
 - What this will do is generate \$2.2 million in net additional revenue.
 - This makes for just under a 9% contribution toward the budget cut.
 - I am acutely aware that in this economy, an additional surcharge will be a burden for some students and their families.
 - We absolutely pledge to support additional financial aid this spring so that all Iowa students who are Pell grant recipients will receive an additional

\$100 in support --- in other words, our most financially needy students will be held harmless.

- Similarly, and finally, we are asking all employees to take a temporary reduction of 2% in their TIAA-CREF retirement benefit, which will generate \$3.25 million in savings for the current fiscal year, which is about a 14% contribution to the cut.
- We specifically ask to implement this reduction beginning November 1, 2009, through June 30, 2011, and that this will automatically end on June 30, 2011.
- After extensive consultation with our faculty and staff leadership groups, we all agree that this reduction is the most equitable approach to a difficult situation.
- All employees in all employee groups can and will be treated equally.
- This is also a progressive approach in which those who earn more will give up more; those who earn less will give up less.
- I believe this is also an economically sound approach which further avoids layoffs and keeps money in people's pockets which I hope they will spend during the holidays and get this economy moving again.
- Listed on this next slide are all of the additional line item appropriations The University of Iowa receives from the state.
- The original appropriation and the amount of the cut assigned to each unit are listed as well as a brief summary of the impact on that unit.
- I will not take the time to go through each of these, however, I would like to highlight the Hygienic Laboratory.

- As the state's public health lab, and given the H1N1 issues facing this state, we will be paying close attention to the operations at UHL to make sure its public health obligations are not compromised.
 - If we see that happening, we will come back to the board and ask for your help to seek restored funding so we can maintain our role in protecting public health in Iowa.
 - The across-the-board reductions also impact UI Health Care reimbursements in Medicaid and IowaCare and I have asked Vice President Robillard to address this specifically during our UIHC Committee meeting later today.
- This final slide shows the other options that were considered to meet the budget reduction.
- We reviewed temporary reductions in pay and temporary layoffs but given the complexity of their implementation and what they would effectively do to employees, we did not think that reducing the size of people's paychecks was in the best interests of our employees or the economy right now.
- We looked at focused reductions during the remaining half of this year to non-academic units funded by the General Education Fund, but determined it would be best to have those units plan for reductions in the FY11 budgeting process.
- Finally, we considered additional reductions in building repairs and equipment expenditures, but decided that we need some flexibility for critical needs in this area.

- Roof leaks, damage to buildings that might lead to serious building failures, and equipment failures that occur and must be replaced are priorities that we must maintain for the sake of institutional quality.
- And of course, we will continue to look for additional cost reductions and efficiencies as the fiscal year progresses, as we have done throughout our history, but never before with such a sense of urgency.
- While we have managed exceedingly well under very trying circumstances, I would be remiss if I did not mention that the path we are heading down with budget cuts of this magnitude is one that will forever change the university.
- I have confidence that we will continue to be a top-tier public research university, but much that we do now will be changed and some will, by necessity, disappear forever.
- It is a testimony and tribute to our dedicated faculty, staff and student body that we can manage at all in these difficult times.
- Never before have the diversity of revenue streams and the complexity of our workforce and the work they do been more important to our survival and success for the future.
- We certainly hope that the state can continue to be a partner in higher education moving forward, but at this uncertain economic time that partnership seems challenged.
- With that said, I would be happy to answer any questions you might have.