

July 10, 2020

Dear Iowa State faculty and staff,

This past week, the University's FY21 budget was finalized after receiving input from the Institutional Budget Management Team which includes representatives from the President's units, and Divisions of Academic Affairs, Student Affairs, and Operations and Finance.

The development of the FY21 budget was an extremely difficult process. We are addressing unprecedented revenue losses due to COVID-19, projected enrollment declines, reduced state appropriations, reduced indirect cost recovery, and the increased costs of preparations necessary to enhance healthy outcomes for the fall semester. The revenue loss for FY21 for Iowa State University's educational fund is more than \$41 million. Since the start of COVID-19 through August 23, 2020, additional revenue losses and costs are estimated to be another \$73 million.

Budget Decisions

In April, in planning for the FY21 budget shortfall, I announced a 5 percent budget reduction to the administrative cost pools in the Academic Affairs, Operations and Finance, and Student Affairs divisions, and the President's units. This took effect July 1, 2020. Division leaders have discretion to differentially implement reductions, and the reductions for divisions will vary from the reduction target because of formula-driven revenue changes, mandatory cost increases, funding of the merit salary pool, and other reallocations.

Also in April, I shared the difficult news that ISU did not have the budget resources to implement a performance-based compensation increase for faculty, P&S staff, post docs, and contract associates in FY21. Merit staff did receive a July 1 salary increase of 2.1 percent consistent with the outcome of contract negotiations. As President, I will be taking a 10 percent salary reduction for FY21.

To further address the shortfall, the following actions are being or have been implemented:

- As previously announced, a second 5 percent budget reduction is planned for FY22, beginning July 1, 2021.
- The TIAA retirement match will be reduced by 2 percent for 10 months — September 1, 2020, through June 30, 2021. The savings will be shared between the central university and divisional units.
- All faculty and staff position vacancy postings will require approval at the Senior Vice President or President level, extending through Dec. 31, 2020.

- A temporary freeze is placed on renovation and capital projects, except in cases of safety or donor funding. Exceptions may be granted on a case-by-case basis by the President or respective Senior Vice President.
- The Employee Tuition Reimbursement program has been modified to support only courses taught at ISU. We have heard feedback from employees currently taking courses outside of ISU and are evaluating other interim options for support.

Additional Actions for FY21

We are planning for additional actions to occur in FY21 regarding a voluntary retirement incentive program and a review of health benefit costs.

New Retirement Incentive Option. The University will submit a proposal for a Retirement Incentive Option program to the Board of Regents for approval at their July 29 meeting. Details of our proposal will be released on July 20. If approved, the voluntary program may provide units an additional planning tool for making budget decisions, and be a resource to help employees make their own personal decisions.

Review of benefit costs. The premium costs for the health benefits in your ISU Plan have remained unchanged for six years, while health costs have risen steadily during that time. I have instructed the University Benefits Committee to review the health benefit plans and other benefits and to provide recommendations on how these costs can be reduced for the University during calendar year 2021.

More actions as necessary. We have developed a balanced FY21 budget as required by the Board of Regents. However, it is important to note that if additional revenue reductions occur during this fiscal year, or unforeseen expenses are incurred, we may be required to take further actions to further reduce expenses.

Differential Impacts, Maintaining Our Mission

The budgets of individual units are differentially impacted based on their own changes in enrollment, student credit hours delivered, and research indirect costs, as determined by the University's formula-driven revenue allocation model. In addition, our revenue-generating units such as Athletics, the Department of Residence and ISU Dining have been, and will continue to be, significantly impacted due to substantial revenue losses and reduced fees.

Our administrators campus-wide have the authority to plan the budgets of their units. They may need to consider whether layoffs and other actions are necessary to meet specific budget-reduction targets. But our leaders should use every tool at their disposal, and take an all-funds budgeting approach, to maintain our mission of excellence in teaching, research and extension and outreach, and benefit from the innovation of our faculty and staff in the planning process.

Budget Planning for FY22

By December 1, the Academic Affairs, Operations and Finance, and Student Affairs divisions and the President's units will have submitted a plan to achieve the additional 5 percent reduction that will be required for the FY22 budget. We recognize that budget planning will

continue to be impacted by the ongoing COVID-19 pandemic, and must be aligned with the University's expected future enrollment, since 70 percent of our educational financial resources come from tuition revenue. We will need to ensure that programs, administration, and services are sized appropriately relative to projected enrollment.

Summary

It would be an understatement to characterize this budget news as tremendously challenging. But we are taking the first step in addressing our budget reality by facing it with firm resolve and determination. I know that, just as we have risen above challenges in the past, we will deal with our current circumstances to emerge stronger as a result.

As is our tradition at Iowa State, we will continue to engage the university's shared governance organizations to help inform and shape decision making. We will also rely on the dedication, innovation, and entrepreneurship of our faculty and staff to help us deliver our land-grant mission of teaching, research, and extension in every corner of the state.

Wendy Wintersteen
President