

“Indiana University 2009-10 Budget Proposal to the Trustees of Indiana University”

Special Trustee Meeting
Remarks of Michael A. McRobbie
President
Indiana University
University Place Conference Center
July 16, 2009

1. INTRODUCTION

It is no exaggeration to say, and few disagree, that the world, the nation, and the State of Indiana are now facing economic difficulties unprecedented since the Great Depression.

The IU Center for Econometric Model Research paints a sobering picture of the situation in Indiana:

- State income has declined since July 2008 and is expected to grow at a slower pace than the rest of the country over the next 12 months.
- Employment in the state has fallen by 200,000 from its peak and is expected to continue to drop through the end of 2009.
- Manufacturing employment has been particularly hard hit and accounts for well over half of the state’s job losses, even though only 16% of Hoosiers are employed in the manufacturing sector.¹

¹ For more information see <http://www.indiana.edu/~cemr/index.html>

2. THE STATE BUDGET FOR IU

This serious and major decline in state income has, of necessity, forced painful cuts to be made to the state's budget – there has been no choice, and we understand that IU is not immune from these cuts.

In spite of this, the General Assembly and Governor Daniels have, through the regular and special sessions, demonstrated strong support for higher education and have done their best to meet IU's needs, which we all greatly appreciate.

In difficult and trying circumstances then:

- Total state operating appropriations for IU's system were cut by 4.5 percent in FY 2010 and another 1.5 percent in FY 2011, although appropriation cuts vary by campus. These cuts total \$29.3 million. However federal Stimulus funds will temporarily replace 100 percent of state operating appropriation cuts over these two years.
- Indiana Innovation Alliance funding totals \$10 million per year with \$3 million for expansion of IU's Centers for Medical Education, \$2 million for Purdue technology programs, and \$5 million for core research.
- Repair and rehabilitation (R&R) for IU's system is funded at \$31 million, including restoration of nearly \$13 million that was cut in FY 2009.
- Capital project authorizations (total amount) included are:
 - Bloomington Cyber Infrastructure Building Phase II at \$35.7 million
 - Northwest Tamarack Hall at \$33.0 million
 - Indianapolis Neurosciences Building Phase II at \$33.0 million
 - Southeast Education and Technology Building at \$22.0 million
 - Bloomington Life Sciences Lab Renovations at \$10.0 million

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 - In addition, both of the projects passed in 2007 (Neurosciences Phase I and IU South Bend Education Arts Building) remained authorized, which together with IU's contributions totals \$191 million!
- State Student Assistant Commission of Indiana's Frank O'Bannon and 21st Century Scholars grant programs received a modest increase.

3. THE ECONOMIC CONTEXT

Let me make some more specific comments about the general economic context in which we have formulated IU's budget.

As I noted, the cuts to IU's operating budget have been to some extent softened by funding from the federal Stimulus bill. But it is essential to remember that this funding is temporary and will only last for two years – in two years time it runs out. By then the economy may have improved and state income may be increasing again, allowing for budgetary expansion. On the other hand it may stay the same – or worsen. Of course, there is no guarantee that there will be any more Stimulus funding. Even the most hardened Keynesian will blanch somewhat at the present trillion dollar federal budget deficit.

Consequently, fiscal prudence dictates that we must budget for the situation where the state economy has not improved significantly in two years time, where there is no more Stimulus funding, and where we will most likely face another difficult budget session.

We also fully understand that many of the families of our students, and prospective students, are facing difficult economic circumstances.

That is why we have redoubled our commitment to maintaining IU's role as a public institution that is affordable for all qualified Hoosiers. For example:

- The tuition and fee recommendations for the 2009-10 and 2010-11 academic years, which were presented to you this morning, are in full compliance with all six of the recommendations that the Indiana Commission on Higher Education made to IU about its tuition and fees, and
- As Vice President Theobald emphasized earlier, although the “sticker price” for an IU undergraduate degree is going up, the actual cost for many Hoosiers will decline because the amount of money available for financial aid grants has been increased on all campuses. By 2010-11, \$250 million in financial aid will be made available to in-state students across IU's seven campuses.

In addition to greatly increased demands for financial aid, it is expected that the costs of health care, energy, and facility maintenance will continue to rise over the next two years.

4. IU'S PROPOSED 2009/10 BUDGET

In constructing this budget we have adopted three principles.

(i) To preserve and continue expanding the excellence of the academic core of Indiana University. In these times of faculty hiring freezes in other institutions, we will continue to seek to hire the best faculty.

(ii) To continue to build the essential infrastructure that supports increased excellence in education and research in accordance with the new masterplans for IUB and IUPUI, which IU Trustees approved earlier this year.

(iii) To avoid lay-offs and to provide additional support to our lowest paid employees.

Thus, to ensure a balanced budget over the next two years in anticipation of a base budget reduction of 6.5% by 2011 and in accordance with the three principles I have just stated, I recommend the following actions in addition to the tuition and fee recommendations for which we seek Trustee approval, the 2009-10 budget plan that Vice President Theobald will outline soon.

- No base salary increases will be given for either faculty or staff with the exception of individuals receiving tenure or being promoted and a small number of other exceptions.
- IU will provide one-time supplemental payments of \$500 to most full-time staff employees with base salaries of \$30,000 or less.
- The university policy permitting bonus plans and payments by the campuses is suspended for 2009-2010.
- Indiana University will pay the healthcare premium increase for all full-time employees, though, by freezing employee contributions for 2010 at current rates for 2009.
- Each unit's FY10 general fund travel budget will be cut by 50%.
- Non-faculty hiring will be greatly reduced by cutting the budget line for each vacated position by 50%.

Before Vice President Theobald provides more details of the budget, I want to make two further recommendations with important financial implications.

5. ADMINISTRATIVE RESTRUCTURING

As I mentioned earlier, Indiana University understands that it is not immune to the cuts in the state's budgets caused by the severe decline in state income.

Not only does this mean that we have to tighten our belts in the form of reductions in expenditures, but it is essential that we are accountable for using the state resources that are given to us as efficiently as we can.

Over my two years as President, I have carried out a substantial restructuring of University administration with a view to focusing us more effectively on our principal missions of research and education.

We have also implemented many reforms aimed at cost containment and avoidance. But there remains more to do, and greater efficiency in how we use our resources must always be central in all our agendas.

5.1 VICE PRESIDENT FOR CAPITAL PROJECTS AND FACILITIES

One of the three principles I described before that underlies our budget recommendation is that IU will continue building infrastructure. Not only is this important for the new research and educational opportunities and capabilities it enables, but it is a way of creating construction and other jobs to stimulate the Indiana economy now.

I am particularly mindful of the fact that the state has authorized nearly \$200 million of new construction, which in fact may well be a record. If you add to this the amount of construction we have underway or planned, then the total amount is around double this figure.

Clearly, it is essential to IU and it is essential to the state that we do all we can to get all of this infrastructure planned, built and operating as soon as possible.

Hence, I am proposing to establish a new position of Vice President for Capital Projects and Facilities that would contain all the offices in the previous Office of the Vice President for Administration that are responsible for capital projects and facilities at IU.

In short, my goal is to form an office focused exclusively on capital projects and facilities without the additional burden of the other responsibilities that the previous office had. These other responsibilities of the previous office will be re-allocated to other offices in line with our goal of greater efficiency and effectiveness.

Details will be announced later, but I do want to mention that the major University offices of Purchasing and Human Resources will report to the Office of the Chief Financial Officer effective immediately. In both these areas I believe, and successive reports have confirmed, that there are considerable savings to be had if IU takes a true University-wide perspective. I am asking that the CFO, the Chancellors, and the heads of these two offices immediately begin to address these issues.

As the new Vice President for Capital Projects and Facilities, I am recommending Tom Morrison to commence this position on July 27, 2009. As you know, Tom did an outstanding job as Director of State Relations in helping to achieve what was, relatively speaking, a very good budget for us, a budget which of course included a number of major new capital projects. You may also know that when Tom was at Ball State he also had major responsibilities for capital projects and facilities in this area where he was very successful.

We have potentially one of the largest construction efforts in IU's history about to start, and there are major matters that need immediate sustained attention. We need a vice president who has the track record, the experience, and the personal relationships to help guide our projects through the ICHE, State Budget Agency, State Budget Committee and the

legislature in general. There is no use having the funding for capital projects if we cannot get this funding released.

In this area, Tom has experience to rival the very best in the state. By appointing Tom, we hit the ground running following the passing of the state budget.

My thanks to Paul Sullivan for acting in the role of Vice President for Administration since the retirement of Terry Clapacs.

5.2 INTERIM VICE PRESIDENT FOR RESEARCH

I commenced a search for a new Vice President for Research in January earlier this year. The committee recommended a number of well-qualified finalists to me, but after considerable consideration, I concluded that none of them had the right blend of skills and experience that IU needs at this time. Consequently, I have asked that the search continue.

However, I believe this outcome is potentially fortuitous for us. The budget outcome for IU was better than that for higher education in many other states, and IU will continue hiring excellent faculty and building essential infrastructure. Hence, IU will look an increasingly attractive opportunity to the right individual.

However, there is also considerable Stimulus money becoming available through the research funding agencies, especially large "center" grants. Without a single University-level office of research, we are not optimizing our ability to harness the resources of both IU Bloomington, IUPUI, and the regional campuses to maximize our ability to attract this sort of funding.

Hence, we cannot wait until this search is complete to re-establish a University-level office of research. By re-establishing this office now, we will address a concern raised during this search as to the extent of the University's commitment to making it a success.

Thus, I am recommending to you the appointment of Bobby Schnabel, Dean of the School of Informatics, as the Interim Vice President for Research, also effective July 27, 2009. Bobby has distinguished himself as an excellent dean since his appointment and he has rapidly mastered the complexities of cross-campus collaboration. He is at a point in the evolution of Informatics where he feels he could take on this additional responsibility until a permanent Vice President for Research is appointed.

Further, by making this appointment now, it will allow Bobby to begin addressing some structural issues of which he already has a good understanding, so as to allow the new vice president, when appointed, to focus principally on the future.

As was previously announced, this new office will subsume the previous offices of the Vice President for Life Sciences and the Vice President for Research Administration. I want to thank Steve Martin for acting in this later role following the departure of Ora Pescovitz.

These represent substantial changes, and I would propose that the various vice presidents affected give presentations on them at the August Trustees meeting.

I commend these two new appointments to you.

Now let me hand over to Vice President and Chief Financial Officer Neil Theobald to present the proposed 2009/11 IU Budget.