

**Contact: Patrice Sayre**

**FY 2011 OPERATING APPROPRIATIONS REQUESTS**

**Actions Requested:**

- Based on proposed spending and funding plans, consider approval of the identified operating appropriations requests for FY 2011 totaling \$767.6 million.
- Consider authorization of actions by designated Regent staff to enhance IowaCare patient access, and support increasing services covered for reimbursement, including physician care.
- Consider authorization of actions by designated Regent staff to seek collaboration and partnerships between Regent institutions and other sectors of state government.

**Executive Summary:** To maximize benefits to Iowans and other citizens, the Board of Regents advocates for adequate support for Regent institutions from all sources for high-quality educational opportunities accessible to Iowans, research and scholarship, service activities, and economic development efforts.

The two key resource components requiring specific Board action are: (1) requesting state appropriations and (2) determining tuition rates. The tuition rate proposal is scheduled to take place at the next Board meeting in October. This Regent request is for state appropriations.

State appropriations are crucial investments in the future of Regent institutions that, together with the research funding and philanthropy garnered by the public universities, and the tuition and fees paid by students and parents, reflect a partnership that serves the needs of Iowa, its citizens, and the world.

Iowa Code requires state entities to submit appropriations requests for the ensuing fiscal year to the state on or before October 1. The Regent requests for FY 2011 are due October 1, 2009.

Regent appropriation requests are consolidated into six major functional areas:

- ◆ Higher Education
- ◆ Special School Education
- ◆ UIHC IowaCare Program
- ◆ Higher Education Legislative Special Purpose
- ◆ Economic Development
- ◆ Iowa Public Radio

The proposed spending plans calls for an inflationary increase based on the Higher Education Price Index (2.7%) for university units and the state-determined allowable growth for K-12 schools for the Special Schools (historically set at 4%).

To maintain a stable base for operations, the funding plan incorporates:

- ◆ Continuation of recurring state appropriation levels
- ◆ An inflationary increase in tuition revenues
- ◆ Funding for salaries from state appropriations
- ◆ Replacement of one-time resources with recurring state appropriations
- ◆ Continuation of the UIHC IowaCare program

Board of Regents Proposed Spending/Funding Plan									
		Regent Operations by Major Function							
		Higher Education <sup>(a)</sup>	Higher Education Legislative Special Purpose <sup>(b)</sup>	Special School Education	Economic Development	Total	UIHC/IowaCare Program <sup>(c)</sup>	Iowa Public Radio	Grand Total
Spending Plan	FY 2010 Budgeted Amounts	1,162,214,756	157,004,520	19,344,130	3,537,810	1,342,101,216	859,146,000	6,616,647	2,207,863,863
	One-time funding ARRA stimulus dollars	79,365,798		914,202		80,280,000			80,280,000
	Inflationary Increase over FY 2010 <sup>(a)</sup>	47,705,013	5,752,168	299,034	150,267	53,906,482	-	-	53,906,482
	<b>Proposed FY 2011 Spending Plan</b>	<b>1,289,285,567</b>	<b>162,756,688</b>	<b>20,557,366</b>	<b>3,688,077</b>	<b>1,476,287,698</b>	<b>859,146,000</b>	<b>6,616,647</b>	<b>2,342,050,345</b>
Funding Plan	<b>TUITION</b>								
	Continuation of FY 2010 Tuition Revenues	591,203,756				591,203,756			591,203,756
	Inflationary increases for FY 2011	15,962,501				15,962,501			15,962,501
		607,166,257				607,166,257			607,166,257
	<b>STATE APPROPRIATIONS</b>								
	Continuation of FY 2010 Recurring Appropriations <sup>(b)</sup>	504,260,561	100,166,744	15,216,302	3,537,810	623,181,417	27,284,584	451,465	650,917,466
	Salary Funding	31,742,512	4,217,548	299,034	150,267	36,409,361	-	-	36,409,361
	UIHC IowaCare Supplemental					-	-	-	-
	Replacement of One-time funding	79,365,798		914,202		80,280,000			80,280,000
	Subtotal with Increases	111,108,310	4,217,548	1,213,236	150,267	116,689,361	27,284,584	451,465	116,689,361
	Proposed Total Appropriations	615,368,871	104,384,292	16,429,538	3,688,077	739,870,778	27,284,584	451,465	767,606,827
	<b>OTHER (federal, patient revenues, interest, etc.)</b>	<b>66,750,439</b>	<b>58,372,396</b>	<b>4,127,828</b>	<b>-</b>	<b>129,250,663</b>	<b>831,861,416</b>	<b>6,165,182</b>	<b>967,277,261</b>
<b>Proposed FY 2010 Funding Plan</b>	<b>1,289,285,567</b>	<b>162,756,688</b>	<b>20,557,366</b>	<b>3,688,077</b>	<b>1,476,287,698</b>	<b>859,146,000</b>	<b>6,616,647</b>	<b>2,342,050,345</b>	

<sup>(a)</sup> Higher Education inflation based on HEP1 projections of 2.7% and Special School inflation based on K-12 allowable growth.

<sup>(b)</sup> Includes tuition replacement appropriations

<sup>(c)</sup> IowaCare is funded through DHS, negotiations are in process

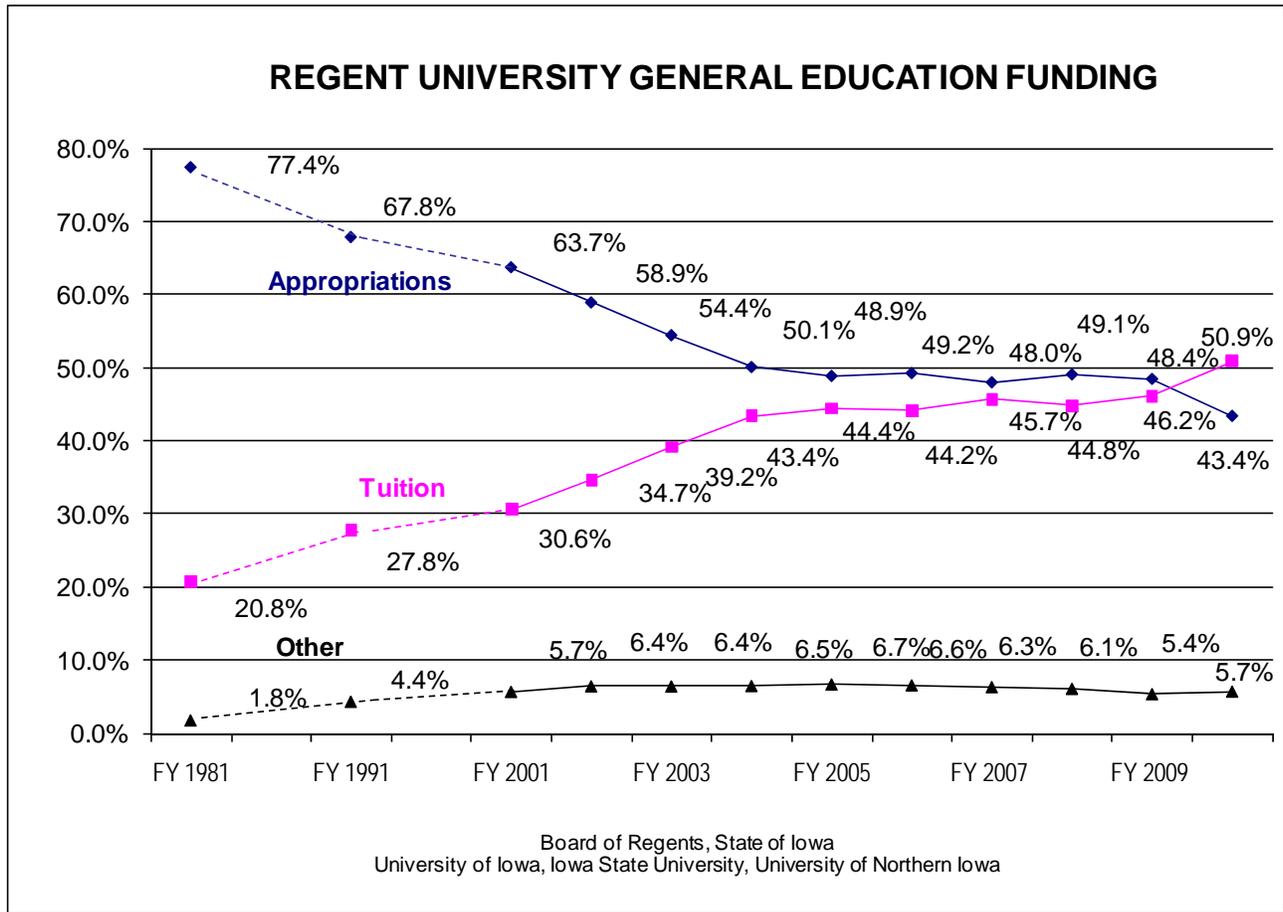
**Appropriations Request:**

**Higher Education Operating Appropriations Request**

**\$615.4 million**

This functional area combines the general education units of the three universities and continues current year base appropriations and asks for salary funding.

State operating appropriations have historically provided the core operating funds for the Regent institutions. However, dynamic changes in state funding patterns significantly altered the proportion of revenue sources for higher education. The Higher Education operating appropriations were reduced \$88.2M when compared to original FY 2009 funding levels. State operating funds for FY 2009 budgets were reduced \$14.9M in the second half of the year; additional cuts of \$73.3M followed for FY 2010.



President Obama’s American Recovery and Reinvestment Act invests \$80.3 million in one-time funds from State Fiscal Stabilization Funds for education in FY 2010, the majority of which will be invested in this functional area. These funds are to be spent in FY 2010 and not carried over to the next fiscal year.

There is \$48M in ARRA State Fiscal Stabilization Funds uncommitted for FY 2011. At this time, there is no process for requesting those funds.

The Institute for Economic Research at the University of Iowa has analyzed the likely course of inflation in the Higher Education Price Index (HEPI) for fiscal years FY 2010 and FY 2011. Board Policy Manual, Chapter 8.02C(4) requires the use of HEPI as a benchmark in evaluating university-proposed tuition and fee increases. The FY 2011 HEPI median is 2.7%, with a probability range from 1.8% to 3.5%. For purposes of modeling, the Funding/Spending plan has used the median of 2.7% for tuition.

Historically, the state enacts collective bargaining laws for state employees and legislation to pay for state employee salary increases. Session law for this salary funding requires that all Regent employees be treated comparably to bargaining unit employees, therefore, non-bargaining staff is included in the appropriation.

The current bargaining agreement with AFSCME includes:

- ◆ FY 2010 - 0% across-the-board increase
- ◆ FY 2011 - 2% across-the-board increase on July 1, 2010 and 1% increase across the board on January 1, 2011
- ◆ Continuation of step increases valued at 4.5% for eligible employees in each year of the agreement
- ◆ No changes in health insurance plans or contribution rates

It is estimated the cost of the agreement statewide will be approximately 4.74% in FY 2011 and will cover about 7,000 Regent AFSCME employees.

Salaries comprise 70% of the universities' general education expenditures. The best faculty and staff are essential to providing exceptional learning opportunities, widely disseminating knowledge, stimulating economic growth in Iowa, and delivering valued public services that Iowans expect from the Regent universities. The Board, in its commitment to Iowans and its students, must also be committed to its employees.

The proposed spending plan includes a request for funding salaries at the projected AFSCME cost of 4.74% that would allow the Board and the universities to:

- ◆ Build on dynamic efforts to offer nationally competitive salaries so the universities recruit and retain faculty members who are among the very best in their fields of study, thus maintaining educational excellence in areas important to Iowa's future
- ◆ Enhance the quality of life for Iowans through a strong, dedicated, and professional workforce
- ◆ Focus the hiring of new faculty in key strategic academic disciplines with a high impact in Iowa and in growth potential for the state
- ◆ Preserve the quality of statewide research and outreach services inherent in the missions of the three Regent universities
- ◆ Enrich the educational experience for students and provide more student access to faculty who produce research and scholarship.
- ◆ Effectively manage appropriate class sizes
- ◆ Improve student progress toward graduation
- ◆ Facilitate interdisciplinary interaction in teaching, research and service

To provide a solid base for budgets, a request for the State to replace one-time funds with continuing state appropriations is included. The universities lost \$88M in the general education budget, approximately the equivalent of removing all state support from UNI. This cut was back-filled with ARRA federal stimulus dollars in the amount of \$79.4M (the balance of \$80.3M ARRA funds was allocated to the Special Schools).

Because of the availability of ARRA funds, the Regent public universities were cut deeper than many agencies that did not have access to stimulus dollars. The Education Appropriations bill sought an across-the-board reduction of 8.33%; the community colleges and public universities averaged a 12.5% cut. The universities would have received \$25M more in state funding if held to the 8.33% cut.

No increase in recurring dollars means:

- ◆ \$44M in human capital has been lost, nearly half in faculty and instructors
- ◆ \$6M fewer dollars are spent on supplies and services than in FY2009 to serve a greater number of students
  - This line item typically would grow at least at the inflation rate
- ◆ No additional dollars are available to cover the rising costs of utilities which have averaged an increase of 10% over the last four years
  - FY 2010 projects an increase of only 6.5% which equals an incremental increase of \$4.7M if carried to FY 2011
- ◆ The same amount will be spent on Building Repairs as in FY 2009 to provide stewardship for one of the primary resources of a higher education institution
  - For Fall 2008, Regent universities reported a total of \$492M in deferred maintenance for general fund facilities totaling approximately 16.8 million gross square feet
  - Funds will have to be reallocated from other sectors to cover repairs that involve fire and environmental safety issues
- ◆ No additional dollars are available to cover Equipment costs
- ◆ Reliance on Tuition and fees to support the education and research mission
  - A modest tuition increase of 4.2% in FY 2010 for resident undergraduate students, coupled with an increase in enrollment garnered \$54M and changed the long-standing trend of state appropriations being the major funding source

There are also unavoidable cost increases beyond the collective bargaining agreement costs mentioned earlier:

- ◆ Commercial insurance premium increases
- ◆ Utility energy and debt service increases
- ◆ Facilities costs
  - Renewal commitment of funding 1% of the replacement cost each year
  - Costs to occupy new, improved or reassigned General Education fund space
- ◆ Fuel costs vulnerable to natural gas prices
- ◆ Safety and security investments
- ◆ Maintaining and growing student financial aid budgets
  - Board policy requires a minimum of 15% of tuition be set-aside for this purpose
  - Universities have consistently gone beyond this floor
- ◆ Regulatory requirements for research space, human and animal subject reviews, fire and environmental safety, new or changed federal accounting and reporting requirements
- ◆ Enterprise system maintenance contracts and “right to use” licenses

The public universities will continue to find cost savings, shift costs when possible, and provide good stewardship for the public funds entrusted to them, especially in this time of economic downturn. The public universities have a long history of collaboration and consolidation, both within each campus and interinstitutionally.

Recent cost savings efforts include:

- ◆ Early retirement programs that will result in current cost savings and greater savings in future years
- ◆ High level reviews for all new hires or replacement positions
- ◆ Cost containment task forces and revenue enhancement initiatives
- ◆ Academic program assessment for possible elimination or change
- ◆ Combining sections to lower instruction costs
- ◆ Procurement partnering with other Regent institutions, state agencies, and other external organizations
- ◆ Investing resources in energy reducing capital projects
- ◆ Sustainability efforts increased with:
  - Establishment of sustainability offices/sectors
  - Sustainability curricula to educate students
  - Initiatives such as purchasing electric vehicles, recycling and reuse, LEED certifications for new construction and renovations, recycling of motor oil
- ◆ Using technology to reduce print services
- ◆ Coordinating the timing for issuing and refinancing academic revenue bonds to take advantage of low interest rates

The Regent enterprise has a realistic understanding of the state budget situation. However, with a large unmet need, requesting replacement of one-time funds is unavoidable.

Higher Education Legislative Special Purpose Appropriations Request

\$104.4 million

These appropriations are for specific programs at each institution which provide services to Iowa. Examples of these appropriations are the Hygienic Laboratory at the University of Iowa, the Cooperative Extension Service and Agriculture Experiment Station at Iowa State University, and the Recycling and Reuse Program at the University of Northern Iowa.

Special School Education Operating Appropriations Request

\$16.7 million

The funding request for the two special schools (ISD and IBSSS) allows the Board of Regents to continue to provide high quality, individualized instructional opportunities to children and youth who are deaf or hard-of-hearing and to those who are blind or visually impaired, including those with additional disabilities. The Allowable Growth rate for K-12 has historically been set at 4%, which is reflected in the request for the Special Schools.

The Special Schools have taken numerous steps to reduce expenses and reallocate resources including:

- ◆ Reducing staff and postponing the filling of vacancies
- ◆ Offering early retirement incentives
- ◆ Delaying deferred maintenance
- ◆ Purchasing fuel-efficient vehicles
- ◆ Implementing energy saving efforts

These measures are being taken at the same time that unavoidable costs increases for bargaining unit personnel, utilities, health insurance and fuel will occur.

Economic Development Operating Appropriations Request

\$3.7 million

Economic development improves the quality of life in Iowa through educational outreach programs as well as exceptional and accessible valued public services in response to the needs of Iowans.

This functional area includes operating funds for SUI - Advanced Drug Development, Oakdale Research Park, and Technology Innovation Center; ISU - Institute for Physical Research and Technology, Small Business Development Centers, and ISU Research Park; UNI - Institute for Decision Making and Metal Casting Center.

UIHC IowaCare Program Appropriations Request

\$27.3M Recurring

The IowaCare waiver expires June 30, 2010. The IowaCare Program, initiated by the Iowa Department of Human Services on July 1, 2005, has benefited thousands of low-income Iowans without health insurance. Covered services, except for childbirth or an annual physical exam, are only available at the University of Iowa Hospitals and Clinics for IowaCare beneficiaries in 98 of Iowa's 99 counties. In Polk County, IowaCare beneficiaries have the option of receiving care at the UIHC or Broadlawns Medical Center.

Enrollment in the IowaCare program, now at approximately 32,000, has greatly exceeded expectations. There were only about 4,500 unique patients during the last year of the Indigent Patient Care Program. This level of participation in the IowaCare program has resulted in hardships for many beneficiaries because of the need to travel great distances to obtain covered services.

The Iowa Department of Human Services (DHS) has been meeting with the Centers for Medicare and Medicaid Services (CMS) regarding renewal of the IowaCare waiver. Expansion of the provider network and payment for physicians are among the subjects of discussion. The Board of Regents authorizes its State Relations Officers to pursue any flexibility DHS negotiates with CMS regarding enhancing local IowaCare beneficiary access to care and permitting additional services, including physician services rendered by IowaCare network providers, to be reimbursed. It is unknown at this time what expansion dollars may be available; at a minimum, the current level of funding should continue.

Iowa Public Radio

\$451,465

In May 2007, The Board of Regents and Iowa Public Radio (IPR) signed an operating agreement to promote the welfare and growth of the network of public radio stations licensed to the Board of Regents and operated for the public benefit. The request for IPR results in flat funding for FY 2011 and not a restoration to original FY 2009 levels (\$48,535 difference).

Non-appropriations Request

The Board of Regents strongly encourages Regent institutions to seek collaboration and partnerships between Regent institutions and other sectors of state government that result in improved productivity, more effective stewardship of state resources and enhanced economic development opportunities for Iowa's citizens. The Board also seeks relief from statutory and administrative state mandates that demonstrably impede the Regents' flexibility in governance, require unnecessary staff work or require significant reporting which no longer serves a critical state or Regent strategic purpose.