

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report on Legislative Session
Date: June 9, 2003

Recommended Actions:

Receive the final report on the 2003 regular legislative session and a preliminary report on the 2003 special legislative session.

Executive Summary:

Regular Session The regular 2003 session of the General Assembly was adjourned on May 1st.

Appropriations Attachment A, on page 9 of this memorandum, summarizes line item operating appropriations.

Education appropriations bill (HF 662) – funds the basic operating appropriations for FY 2004 with a combined total of \$621.2 million for the Regent operations and \$13.3 million for tuition replacement.

- The operating appropriations are consistent with FY 2003 appropriation levels, except the special schools received a 2% appropriations increase.
- The university operating appropriations will be reduced by almost \$17.9 million as specified in SF 453, the reinvention bill.
- Additional tuition replacement funds are included in SF 452, the infrastructure bill.

Economic development appropriations bill (SF 433) – provides funding for various economic development programs, including \$3 million for programs at the Regent universities. The Regent appropriations are consistent with FY 2003 levels, but do not restore the significant appropriations reductions (approximately 60%) made for FY 2003.

Infrastructure appropriations bill (SF 452)

- Appropriates almost \$11 million for tuition replacement debt service needs.
- Deappropriates \$7 million of ISU capital funds for FY 2004, but authorizes debt-financing language for the project.
- Includes a total of \$550,000 for new capital projects at the two special schools and the Old Capitol Building at the University of Iowa.
- Provides \$500,000 to UNI for a National Playground Safety Program.

Reinvention bill (SF 453) – reduces FY 2004 operating appropriations to the three Regent universities by almost \$17.9 million.

Standings and Salaries bill (SF 458) – appropriates \$28 million for salary adjustment increases to state agencies and the two special schools. (One of the extraordinary session bills, HF 683, increased this amount.) The universities and the Board Office are not expected to receive any salary increase funding. The bill also makes certain regulatory adjustments that impact the Regent institutions.

The Governor has taken action on all bills of the regular session. Gubernatorial vetoes impacting the Regents are identified below.

Extraordinary Session

The General Assembly convened in Thursday, May 29, in the 2003 Extraordinary Session, passed two pieces of legislation, and adjourned on Wednesday, June 4.

Economic Development, Financial, Taxation, and Regulatory Matters bill (HF 683) – this bill represents the legislative funding package of \$503 million for the economic development "grow Iowa values fund" over a 7-year period:

Of this amount, \$27 million would be funded over 4 years for a university and college financial assistance program. If the three public universities submit appropriate applications, not less than \$25 million of these funds shall be awarded to the three Regent universities.

The Regent universities may also be able to apply for other resources provided by the "grow Iowa values fund."

The bill also increases state salary funding from \$28 million to \$30 million and provides a mechanism to allocate funds to the Regent universities from a tax-credit university-based research utilization program created in HF 692.

Regulatory, Taxation, and Statutory Requirements bill (HF 692) – this bill modifies statutory requirements relating to taxation of property, income and utilities, liability reform, workers' compensation, financial services, unemployment compensation employer surcharges, and economic development.

Gubernatorial action is pending on these bills. The Governor has 30 days from the end of the special session to take action.

Update

An oral update will be provided at the meeting.

Background/Analysis:

Regular Session
Appropriations Bills

Education
Appropriations
(HF 662)

This bill appropriates operating moneys for various educational entities, including the State Board of Regents and its institutions.

This bill appropriates operating funds to the Regents, excluding tuition replacement, for FY 2004 that are consistent with the state funding for FY 2003. The two special schools received an increase of 2% in the operating appropriations, totaling \$255,404.

| | |
|------------------------------------|------------------|
| University of Iowa | \$287,169,347 |
| Iowa State University | 237,385,042 |
| University of Northern Iowa | 82,445,323 |
| Iowa School for the Deaf | 8,107,934 |
| Iowa Braille & Sight Saving School | <u>4,537,514</u> |
| Institutional Totals | \$619,645,160 |
| Board Office | 1,190,152 |
| Other | <u>364,889</u> |
| Operating Totals | \$621,200,201 |
| Tuition Replacement | \$13,343,050 |

The operating appropriations of the universities are subject to a total reduction of \$17.9 million, as outlined in the standing bill, SF 453.

Gubernatorial Action: Signed on May 30 with line item vetoes.

The following subsections of §9 were vetoed. This language required the universities to freeze the budgets for specific programs at the FY 2003 level.

- Subsection 2. School of Public Health and the Public Health Initiative at the University of Iowa.
- Subsection 3. The Center for Excellence in Fundamental Plant Sciences at Iowa State University.
- Subsection 4. The masters in social work program, the roadside vegetation project, and the Iowa office for staff development at the University of Northern Iowa.

The Governor stated that it was unfair to designate budget caps for specific programs while the universities may reallocate funds for all other programs.

The Governor also vetoed language requiring the Board of Regents, the Department of Management and the Fiscal Bureau to jointly determine the amount needed for tuition replacement (Section 9, subsection 1). The Governor agreed that the tuition replacement language is obsolete since the Board of Regents relies on a financial advisor to calculate figures for tuition replacement.

Economic
Development
(SF 433)

This bill making appropriations to the Department of Economic Development, certain Board of Regents Institutions, Department of Workforce Development and the Public Employment Relations Board for the fiscal year beginning July 1, 2003.

This bill appropriates FY 2004 funding for the three Regent universities for economic development programs at the FY 2003 ending level.

| | |
|-----------------------------|----------------|
| University of Iowa | \$ 253,338 |
| Iowa State University | 2,424,161 |
| University of Northern Iowa | <u>370,555</u> |
| Total | \$3,048,054 |

The legislation mandates that \$550,000 of the ISU appropriation must be allocated to the small business development center, which represents a \$75,903 increase for the small business development center and a decrease to the other two economic development – the science and technology research park and the institute for physical research and technology.

Gubernatorial Action: Signed on May 30 with line item vetoes.

- The Governor vetoed the language that would require that small business development centers be located equally throughout the different regions of the state because the bill contained no instruction as to the legislative meaning or intent of "located equally throughout the different regions of the state." As such, the bill is terminally vague making compliance impossible.
- Also vetoed were the sections dealing with businesses or individuals receiving benefits from specified Regent programs to have a commercially viable service or product; and a reporting requirement that duplicated existing data and place an unneeded and unprecedented requirement on limited staff resources.

Infrastructure
Appropriations
(SF 452)

Infrastructure appropriations bill (SF 452) provides funding from various sources for capital projects.

- Appropriates almost \$11 million for tuition replacement debt service needs (including an amount for debt service for the ISU project for which funding was deappropriated).
- Includes a total of \$550,000 for new capital projects at the two special schools and the Old Capitol Building at the University of Iowa.
- Deappropriates \$7 million of ISU capital funds for FY 2004, but authorizes debt-financing language for the project.
- Provides \$500,000 to UNI for a National Playground Safety Program.

The bill appropriates FY 2004 funding to the Board of Regents for allocations as follows:

- \$100,000 for deferred maintenance at each of the special schools the Iowa School for the Deaf and Iowa Braille and Sight Saving School.
- \$350,000 for non-fire-related restoration of the Old Capitol on the University of Iowa campus in Iowa City the University of Iowa.

- \$10,610,409 from the tobacco fund and \$350,000 from the Rebuild Iowa Infrastructure Fund for tuition replacement.

The bill also deappropriates \$7,000,000 to Iowa State University from HF 2627 (passed by the 2002 General Assembly) but provides that the Board of Regent may issue bonds up to \$7,000,000 plus related issuance costs to carry out completion of the Engineering Teaching and Research Phase II Construction project at Iowa State University.

Gubernatorial Action: Signed on May 30 with line item vetoes, none impacting the Regent institutions.

Reinvention Issues
(SF 453)

This bill: relates to state and local government financial and regulatory matters, making and reducing appropriations, providing a fee, increasing civil penalties, and providing applicability and effective dates.

- Reduces FY 2004 appropriations to three Regent universities by \$17.9 million and mandated a study of a capital charge for future years.
- Charges state agencies a capital charge of \$1.7 million.
- Reduces property tax replacements payments to local governments by \$70 million.
- Establishes charter agencies, expecting to cut appropriations by \$15 million.
- Requires Area Education Agencies to refund \$8.9 million to the state.

Gubernatorial Action: Signed on May 30 with line item vetoes.

The Governor vetoed items dealing with the allocation of the operating appropriations reduction to the three Regent universities citing that it is important for the Board of Regents have the complete flexibility in making these reductions across their appropriations.

He also vetoed the legislative interim committee study on the levying of charges for capital assets against universities since he does not support the concept.

Standings and
Salaries
Appropriations
(SF 458)

This bill relates to public expenditure and regulatory matters, compensating public employees, making and reducing appropriations, modifying sales and use taxes, modifying the investment tax credits and premium taxes on mutual insurance associations, providing for related matters, making penalties applicable,

It appropriates \$28 million for salary adjustment increases to state agencies with certain mandates for priority salary increases and the two special schools. The salary allocation amount for the special schools has not yet been determined by the Iowa Department of Management.

The universities and the Board Office are not expected to receive any state salary increase funding under the provisions of the bill.

The bill identifies a process for privatizing the Iowa Communications Network (ICN) and makes minor regulatory adjustments that impact the Regent institutions, including changes in investment language, eliminations of obsolete code sections, changes in medical assistance language, and requirements for adoption of a policy for refunding tuition

for military personnel.

Gubernatorial Action: Signed on May 30 with line item vetoes.

The Governor vetoed the process for the privatization of the ICN, in part, due to the exclusion of educational users from the proposed process of review.

Regulatory Bill

Department of
Administrative
Services (HF 534)

This bill establishes the Department of Administrative Services and states that the Board of Regents shall not be required to obtain any service for the Board or any institution under its control that is provided by the department without the consent of the Board of Regents.

Gubernatorial Action: Signed on May 23.

Extraordinary Session

Grow Iowa Values
Fund (HF 683)

Economic Development, Financial, Taxation, and Regulatory Matters – this bill represents the legislative funding package of \$503 million for the economic development "grow Iowa values fund" over a 7-year period:

- \$403 to the grow Iowa values fund from a new program (to-be-developed) for streamlined sales and use tax agreements.
- \$100 million of anticipated federal moneys are to be deposited into the fund.

Of the \$503 million, \$27 million would be funded over 4 years for a "university and college financial assistance program". These funds may be used for "multiuse, goods manufacturing processes approved by the food and drug administration of the United States department of health and human services, protein purification facilities for plant, animal, and chemical manufactured proteins; accelerating new business creation; innovation accelerators and business parks; incubator facilities; upgrading food and drug administration drug approval laboratories in Iowa City to a larger multiclient, goods manufacturing processes facility; crop and animal livestock facilities for the growing of transgenic crops and livestock, protein extraction facilities, containment facilities, and bioanalytical, biochemical, chemical, and microbiological support facilities; a national center for food safety and security; and advanced laboratory space."

- If the three public universities submit appropriate applications, not less than \$25 million of these funds shall be awarded to the three Regent universities for public and private joint ventures if applications meet the requirements of the grow Iowa values board.
 - \$10,000,000 in financial assistance shall be awarded to SUI
 - \$10,000,000 in financial assistance shall be awarded to ISU
 - \$5,000,000 in financial assistance shall be awarded to UNI

The Regent universities may also be able to apply for other resources provided by the "grow Iowa values fund."

The bill also increases state salary funding by \$2 million to provide a mechanism to allocate funds to the Regent universities from a tax-credit university-based research utilization program created in HF 692.

Gubernatorial Action: Pending.

Regulatory, Taxation
and Statutory
Requirements
(HF 692)

This bill modifies statutory requirements relating to taxation of property, income and utilities, liability reform, workers' compensation, financial services, employer unemployment compensation surcharges, and economic development.

The bill adds statutory language to chapter 262 of the Iowa Code that details reporting requirements for the Board of Regents related to the commercialization of research.

The bill modifies Iowa Code chapter 262B, establishes it as the Commercialization of Research for Iowa Act, and defines duties and responsibilities for the Board of Regents. Legislative intent for the chapter includes that:

- The three universities under the control of the state board of regents have as part of their mission the use of their universities' expertise to expand and stimulate economic growth across the state.
- Real or virtual research parks be established and maintained by the universities in close enough proximity to the ventures that cooperation between the academic, research, and commercialization phases will be encouraged.
- Satellites of the research parks will expand and stimulate economic growth in other areas of the state.

The new chapter directs the Governor to appoint a director and deputy director of technology to serve within the office of the governor. These positions shall be responsible for advancing technology transfer and commercialization issues in the state and shall coordinate the related activities at the institutions of higher learning under the control of the Board of Regents.

The new chapter also directs each Regent university to designate an employee to serve as a technology transfer agent to coordinate the activities of the institution with the gubernatorial positions.

The bill also:

- Modifies the income tax regulations, including elimination of itemized deductions for state income tax purposes, which some estimate would decrease state revenues by \$300 million over the next several years.
- Revises the property tax regulations.
- Streamlines the sales and use tax statutes to bring in state revenues of estimated at \$400 million over the life of the grow Iowa values fund.
- Establishes the "grow Iowa values" board and fund, as well as numerous other boards and committees.
- Sets up a value-added agricultural products and processes financial assistance program that is to provide preferential treatment to


producer-owned, value-added businesses and public and private joint ventures involving an institution of higher learning under the control of the state board of regents or a private college or university acquiring assets, research facilities, and leveraging moneys in a manner that meets the goals of the grow Iowa values fund.

- Creates an income tax credit program entitled "university-based research utilization program" to encourage practical business application of university research.
- Changes regulations related to statutory liabilities, workers' compensation, financial services, and employer unemployment compensation surcharges.

Gubernatorial Action: Pending



Pamela M. Elliott

Approved: 

Gregory S. Nichols

| Regent Operating Appropriations | FY 2003 | FY 2004 | | | |
|--|----------------------|--------------------------|---------------------|--------------------|--------------------|
| | Final Appropriations | Enacted 2003 Legislation | | | |
| | | HF 662, SF 433, & SF 452 | SF 453 | SF 458 (Salaries)* | Totals |
| UNIVERSITY OF IOWA | | | | | |
| GENERAL UNIVERSITY (includes Public Health) | 232,423,103 | 232,423,103 | (6,846,340) | - | 225,576,763 |
| UNIVERSITY HOSPITAL | 28,833,519 | 28,833,519 | (849,330) | - | 27,984,189 |
| PSYCHIATRIC HOSPITAL | 7,442,887 | 7,442,887 | (219,240) | - | 7,223,647 |
| CENTER FOR DISABILITIES AND DEVELOPMENT | 6,724,505 | 6,724,505 | (198,079) | - | 6,526,426 |
| OAKDALE CAMPUS | 2,808,191 | 2,808,191 | (82,719) | - | 2,725,472 |
| HYGIENIC LABORATORY | 4,018,388 | 4,018,388 | (118,367) | - | 3,900,021 |
| FAMILY PRACTICE | 2,193,798 | 2,193,798 | (64,621) | - | 2,129,177 |
| SCHS - CANCER, HEMOPHILIA, HIGH RISK INFANT | 685,914 | 685,914 | (20,205) | - | 665,709 |
| PRIMARY HEALTH CARE | 803,013 | 803,013 | (23,654) | - | 779,359 |
| STATE OF IOWA CANCER REGISTRY | 188,886 | 188,886 | (5,564) | - | 183,322 |
| SUB ABUSE CONSORTIUM | 68,553 | 68,553 | (2,019) | - | 66,534 |
| BIOCATALYSIS | 931,420 | 931,420 | (27,436) | - | 903,984 |
| BIRTH DEFECTS REGISTRY | 47,170 | 47,170 | (1,389) | - | 45,781 |
| ECONOMIC DEVELOPMENT | 253,338 | 253,338 | - | - | 253,338 |
| UNIVERSITY OF IOWA | 287,422,685 | 287,422,685 | (8,458,963) | - | 278,963,722 |
| IOWA STATE UNIVERSITY | | | | | |
| GENERAL UNIVERSITY (includes Plant Sciences) | 183,134,521 | 183,134,521 | (5,504,007) | - | 177,630,514 |
| AG. EXP. STATION | 32,712,448 | 32,712,448 | (897,556) | - | 31,814,892 |
| COOP. EXT SERVICE | 20,815,676 | 20,815,676 | (571,130) | - | 20,244,546 |
| LEOPOLD CENTER | 489,648 | 489,648 | (13,423) | - | 476,225 |
| LIVESTOCK DISEASE RESEARCH | 232,749 | 232,749 | (6,382) | - | 226,367 |
| ECONOMIC DEVELOPMENT | 2,424,161 | 2,424,161 | - | - | 2,424,161 |
| IOWA STATE UNIVERSITY | 239,809,203 | 239,809,203 | (6,992,498) | - | 232,816,705 |
| UNIVERSITY OF NORTHERN IOWA | | | | | |
| GENERAL UNIVERSITY | 82,228,033 | 82,228,033 | (2,428,539) | - | 79,799,494 |
| RECYCLING & REUSE | 217,290 | 217,290 | - | - | 217,290 |
| ECONOMIC DEVELOPMENT | 370,555 | 370,555 | - | - | 370,555 |
| UNIVERSITY OF NORTHERN IOWA | 82,815,878 | 82,815,878 | (2,428,539) | - | 80,387,339 |
| UNIVERSITY TOTALS | 610,047,766 | 610,047,766 | (17,880,000) | - | 592,167,766 |
| IOWA SCHOOL FOR THE DEAF | 7,943,985 | 8,107,934 | - | - | 8,107,934 |
| IOWA BRAILLE & SIGHT SAVING SCHOOL | 4,446,059 | 4,537,514 | - | - | 4,537,514 |
| Subtotal: INSTITUTIONS | 622,437,810 | 622,693,214 | (17,880,000) | - | 604,813,214 |
| REGIONAL STUDY CENTERS | 349,786 | 349,786 | - | - | 349,786 |
| BOARD OF REGENTS OFFICE | 1,190,152 | 1,190,152 | - | - | 1,190,152 |
| CLOTHING AND TRANSPORTATION | 15,103 | 15,103 | - | - | 15,103 |
| OTHER OPERATING APPROPRIATIONS | 1,555,041 | 1,555,041 | - | - | 1,555,041 |
| REGENT OPERATING TOTALS | 623,992,851 | 624,248,255 | (17,880,000) | - | 606,368,255 |
| TUITION REPLACEMENT (all funding sources) | | | | | |
| Tuition Replacement - General Fund (HF 662) | - | 13,343,050 | - | - | 13,343,050 |
| Tuition Replacement - Tobacco (HF 2625 & SF 452) | 10,503,733 | 10,610,409 | - | - | 10,610,409 |
| Tuition Replacement - Health Iowans (HF 2614) | 16,843,772 | - | - | - | - |
| Tuition Replacement - RIIF (SF 452) | - | 350,000 | - | - | 350,000 |
| Total | 27,347,505 | 24,303,459 | - | - | 24,303,459 |
| TOTAL OPERATING APPROPRIATIONS | 651,340,356 | 648,551,714 | (17,880,000) | - | 630,671,714 |

* Special school salary allocations not yet determined.