

MEMORANDUM

To: Board of Regents

From: Board Office

Subject: FY 2000 Budget Ceiling Adjustment and FY 2001 Conceptual General Fund Operating Budget - University of Iowa

Date: May 8, 2000

Recommended Actions:

1. Approve the FY 2000 budget ceiling increase of \$1,700,000 for the general university budget unit of the University of Iowa for a revised FY 2000 budget of \$396,911,684.
2. Approve the FY 2000 budget ceiling increase of \$11,275,500 for the University of Iowa Hospitals and Clinics for a revised FY 2000 budget of \$427,981,500.
3. Consider the FY 2001 conceptual general fund operating budget for the University of Iowa.

Executive Summary:

FY 2000 Budget Ceiling Increase

Board policy and strategic planning (Action Step 4.1.1.5) require the Board to approve all budget ceiling adjustments. The University of Iowa is requesting approval of a budget ceiling adjustment for FY 2000 of \$1,700,000 (0.4%) for a revised FY 2000 budget of \$396.9 million. Reimbursed indirect costs and tuition and fees increased. SUI is proposing to use the increased revenues for expenses related to technology system changes including year 2000, student financial aid, classroom modernization, and costs associated with indirect cost renegotiations.

It is difficult to estimate indirect cost recoveries with precision because they are based on competitively awarded grants and contracts that vary from year to year. Although a maximum indirect cost rate is established, many federal agencies are allowed to pay lower than the maximum rate.

The University of Iowa Hospitals and Clinics is requesting approval of a budget ceiling adjustment for FY 2000 of \$11,275,500 (2.7%) a revised FY 2000 budget of \$428.0 million. Sales and services revenues increased from pharmaceuticals and medical/surgical supplies. UIHC officials indicated that although there is some mark up on the products, the increased revenues are offset by the purchase of these pharmaceuticals and medical/surgical supplies because UIHC does not receive full payment for these products.

FY 2001 Conceptual General Fund Operating Budget

The University of Iowa provided limited information to the Board Office on the conceptual general fund operating budget. University preliminary planning had not been completed at the time of docket preparation. The University plans to provide an oral report at the Board meeting.

The Legislature recently approved FY 2001 education operating appropriations (HF 2549) for the University of Iowa that were \$2,174,423 below the FY 2000 appropriations base. There was also a reduction of \$25,352 in the institution's special purpose appropriations related to economic development. SUI is not expected to receive full funding from state appropriations for salary increases – a shortfall of approximately \$4.3 million for calculated salary needs, not including increased costs for health insurance.

SUI plans to provide funding for all non-organized employees as close as possible to the 4% state salary policy. To fund this salary proposal, mandatory cost increases, and the remaining budget shortfall, the University intends to use tuition revenues (less student aid) and additional reallocations.

Background and Analysis:

FY 2000 Budget Ceiling Increase

Regent Procedural Guide §7.04 requires that Regent institutions docket proposed changes in budget ceilings for general fund operations for Board action prior to institutional action modifying their obligations.

GENERAL UNIVERSITY

SUI had another record year for grant and contract awards in federal FY 1999 (ending September 30, 1999) that resulted in additional indirect cost recoveries for FY 2000. SUI also experienced a slight shift in the mix of nonresident vs. resident students that caused tuition revenues to increase. The budget ceiling adjustment will impact the following revenue line items:

- Reimbursed indirect costs increased \$1,300,000; and
- Tuition and fees increased \$400,000, which would be allocated for student financial aid to the Farm Access Program, and additional expenses associated with the Direct Lending Program, the Washington Center Program, and the Equal Opportunity Program.

SUI requests approval to use the \$1.3 million to improve general assignment classrooms, conduct surveys of campus buildings and pay for related costs in preparation of renegotiations of the indirect cost rate, and for expenses related to technology system changes including year 2000.

The revised total general fund operating budget for FY 2000 would be \$396,911,684.

UNIVERSITY OF IOWA HOSPITALS AND CLINICS

During FY 2000, the UIHC has experienced a higher than expected usage of certain expensive pharmaceuticals and medical/surgical supplies due to volume increases and new technology. The University of Iowa faculty physicians are generally early adopters on new technology and treat more acutely ill patients.

Significant volume of expensive pharmaceutical treatment programs occurred in the Adult and Pediatric Bone Marrow units, the Clinical Cancer Center, and the solid Organ Transplant program. In addition, the Hemophilia Home Care program is dispensing more of expensive anti-inhibitor types of clotting factors.

Surgery volume, particularly more complex surgeries, has been higher than budgeted during FY 2000 causing greater usage of surgical supplies and implants. Costs of devices implanted in patients are exceeding budgeted levels for two reasons: (1) The volume of routine implants for procedures such as hip and knee joint replacement surgery continues to increase; and (2) new technology has developed new implants for many areas.

The budget ceiling adjustment will increase the Sales and Services revenue line by \$11,275,500. The offsetting expenditures for pharmaceuticals in the amount of \$7,913,200 and surgical and related supplies in the amount of \$3,362,300. The revised UIHC operating budget for FY 2000 would be \$427,981,500.

FY 2001 Conceptual General Fund Operating Budget

Development of SUI's conceptual budget is based on the Board's and institution's strategic plans, the Board's FY 2001 appropriation request to the Governor and General Assembly, and actions of the General Assembly. At the time of this docket memorandum the Governor had not signed the appropriations bills.

SUI has areas of concern given the shortfall in general fund operating appropriations of \$2.2 million and the salary appropriation shortfall of potentially over \$5 million. The University had not, however, completed planning at the time of docket preparation. The University has indicated that it will provide an oral report at the Board meeting.

UNIVERSITY OF IOWA

The University is proposing to implement a salary policy as close to 4% as possible for all non-organized employees for FY 2001. SUI has also indicated that it plans to spend the additional \$1.1 million authorized by the legislature for its Public Health Initiative for a total Public Health budget of \$2.2 million.

SUI has stated its preliminary intentions to use new tuition revenues (less student aid) and reallocations to address the shortfall in anticipated salary funding and general fund operating budget. The reallocations in many cases may defer expenses. Areas that are likely to be affected include building repair, equipment, and replacement of personnel.

UNIVERSITY OF IOWA HOSPITALS AND CLINICS

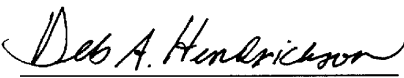
The University of Iowa Hospitals and Clinics does not face the same degree of budget shortfall from state appropriations since state appropriations are only about 7% of UIHC's budget. However, UIHC predicts limited revenues as a result of the Federal Balanced Budget Act of 1997, a change in payment for Medicare outpatient services, increased discounts from Wellmark (BCBSI), and the Indigent Patient Care Program.

The FY 2001 budget seeks to balance decreasing revenue sources with its identified strategic goals. Therefore, the UIHC plans to focus its budget resources on achieving the following mission-driven goals.

Goal: Assure the availability of a sufficient patient base and resources to sustain the UIHC's educational mission as the prime clinical training base for the University of Iowa's health science education programs by achieving incremental growth in service volume.

Goal: Preserve the UIHC's role as the only comprehensive referral teaching hospital in Iowa by staying on the frontiers of medicine and health care delivery through clinical differentiation.

Goal: Establish the UIHC as the employer of choice to attract and retain excellent people in a rewarding environment.


Deb A. Hendrickson

Approved: 
Frank J. Stork