

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: FY 2005 State Funding Requests
Date: September 8, 2003

Recommended Action:

Refer to the memoranda, 5a through 5e, for specific approval of the various legislative appropriations requests and submissions.

Executive Summary:

Statutory Requirements State law dictates the manner and timing for state entities, including the Board and Regent institutions, when requesting state appropriations. All requests for state funding consideration of the next General Assembly must be submitted to the state on or before October 1.

State Support Critical While there are a number of different types of appropriations, state funding sources vary depending on the resources available to the legislature.

State Support Critical State funding of the Board of Regents and its institutions is essential in fulfilling the Board's mission and achieving its vision to enhance the quality of life in Iowa and beyond by serving the needs of Iowa, its citizens, and the world. Without adequate state funding, these aspirations will be difficult to achieve.

State Support Critical In June 2003, the Board of Regents approved the following priorities for its 2004-2009 Strategic Plan:

1. Ensuring high-quality educational opportunities for all our students.
2. Discovering new knowledge through research, scholarship, and creative activities.
3. Providing needed service and promoting economic growth.
4. Demonstrating public accountability and effective stewardship of resources.

Board Appropriations Requests One of the Board's objectives to accomplish its priorities is to maximize benefits to Iowans and other citizens by determining appropriate needs for institutional resources and obtaining and managing them effectively.

Board Appropriations Requests The various summarized appropriations requests (detailed in memoranda 5a through 5e) identify the Regent needs for state resources. Approval by the Board of the detailed requests represents the first step in attempting to obtain needed state funding. The Regent legislative efforts are an integral part in successfully receiving requested funding.

The various appropriations requests for Board approval include:

- Incremental FY 2005 Salary Appropriations
- Base and Incremental FY 2005 Operating Appropriations
- FY 2005 Tuition Replacement Appropriations
- FY 2005 Capital Appropriations
- Five-Year Capital Plan Submissions, FY 2005 – FY 2009

Salary Appropriations (G.D. 5a)	<p>The highest priority of the Board and its institutions continues to be full funding of salary increases from state appropriations. The amount of this the Regent incremental salary need has yet to be determined.</p> <p>The state's practice over the last 25 years has been to separately appropriate dollars for salary increases. Therefore, a dollar amount for salary increases from state appropriations cannot be input into the state budget system.</p>
Base and Incremental Operating Appropriations (G.D. 5b)	<p>State operating appropriations have historically provided the core operating funds for the Regent institutions. Regent requests for operating appropriations are based on the premise that state funding is stable.</p> <p>The operating appropriations requests for FY 2005 include continuation of base operating appropriations as well as the additional support for strategic state purposes as follows:</p> <ul style="list-style-type: none">• High Quality Education and Discovery of \$32.6 million• Valued Public Service and Accountability of \$5.4 million
Tuition Replacement Appropriations (G.D. 5c)	<p>Tuition replacement appropriations represent an ongoing commitment of the state to meet the debt service cost of Academic Building Revenue Bonds. The issuance of these bonds was approved by the General Assembly and Governor prior to issuance.</p> <p>The Board's tuition replacement appropriations request is \$23.8 million for FY 2005. A portion of this request is estimated since the ISU bonds are not scheduled to be sold until October 2003. This appropriations request may need to be modified to reflect the changes resulting from the sale.</p>
Capital Appropriations (G.D. 5d)	<p>The FY 2005 capital appropriations request from state non-general fund sources focus on stewardship of existing resources through renovations and infrastructure improvements needed to meet the Board's priorities.</p> <p>The state-requested funding of \$67.5 million would be would be matched by \$17.3 million in private giving over multiple years.</p> <p>Approval of the FY 2005 capital budget request does not constitute specific project approval. All projects are subject to established Board approval processes.</p>
5-Year Capital Plans (G.D. 5e)	<p>These five-year plans, while not formal appropriations requests, are required by state law, cover the period FY 2005-09, and include:</p> <ol style="list-style-type: none">a. Five-Year Capital Program to be funded by capital appropriations or Academic Building Revenue Bonds (\$379.7 million), and private funds and earnings (\$97.1 million) which would be used to match the state-requested funding; andb. University of Iowa Hospitals and Clinics Five-Year Program to be funded by Hospital Building Usage Funds and Hospital Revenue Bonds or Hospital gifts or grants (\$173.4 million).

Background and Analysis:

Legislative
 Appropriations
 Process

Iowa Code §§8.21 through 8.29 outline the various statutory processes for seeking state appropriations. State entity requests must be submitted to the state on or before October 1

The Department of Management uses these submitted requests to prepare a tentative state budget by December 1. The Governor is required to hold public hearings on that tentative budget and must then transmit a recommended state budget to the General Assembly no later than February 1 of each legislative session.

Seeking Board approval of Regent appropriations requests permits the Board and Regent institutions to participate in the initial process for seeking state funding.

Statutory Compliance

Iowa Code §262A.3 requires the Board to submit a Five-Year, State-Funded Building Program to the General Assembly at the beginning of each legislative session.

Iowa Code §7E.5A also includes references to a department's five-year capital request.

Recent Legislative
 Salary Actions

Over the last 25 years, the state has utilized a legislative mechanism whereby appropriations for state employees' salary increases are separate and distinct from other operating appropriations. The enacted appropriations for salary increases have generally included funding for the Regent institutions, although it may have been significantly underfunded.

The state determines the salary increases for numerous state employees through its process of negotiating collective bargaining agreements. The state's negotiation of the AFSCME contract covers approximately 7100 Regent employees. Certain other Regent salary increases are determined through various collective bargaining agreements.

Historically, legislation required that Regent institutions provide comparable salary increases for non-contract employees as provided for contract covered employees. Legislative language for FY 2004 did not require comparable increases and did not provide salary increase funding to the Regent universities or the Board Office.

**State Appropriations Salary Underfunding
 Regent Institutions**

FY 2000	(\$ 1.6 million)
FY 2001	<u>(16.7 million)</u>
FY 2002	(7.0 million)
FY 2003	(8.0 million)
FY 2004	<u>(33.3 million)</u>
Total	<u>(\$66.6 million)</u>

The legislature normally appropriates incremental salary funding utilizing the State's General Fund. In some years, however, one time sources are appropriated to fund continuing salary obligations. For example, the 2002 legislature claimed \$30 million of the Regent proceeds from the Principal demutualization and appropriated it for incremental salaries for FY 2003.

Salary appropriations are then combined with the operating appropriations for each state entity at the beginning of a fiscal year.

Operating
 Appropriations History

Operating appropriations for the Regents are funded through the State's General Fund.

The following table represents the state appropriations for institutional operations from FY 1998 through FY 2004.

Institutional Operating Appropriations (In thousands)					
FY	SUI	ISU	UNI	ISD	IBSSS
1998	\$281,912	\$238,968	\$79,844	\$7,206	\$4,009
1999	296,027	250,581	83,998	7,487	4,155
2000	310,019	262,026	88,497	7,936	4,433
2001	318,588	269,898	91,829	8,178	4,568
2002	294,093	248,811	84,829	7,891	4,423
2003	287,423	239,809	82,816	7,944	4,446
2004	278,964	232,817	80,387	8,306	4,647

Reductions

The Regent institutions have had significant reductions in operating appropriations over the recent five fiscal years.

**State Operating Appropriations Reductions
 Regent Institutions**

FY 2000	\$(3.4 million)
FY 2001	(2.7 million)
FY 2002	(81.9 million)
FY 2003	(42.6 million)
FY 2004	<u>(17.9 million)</u>
Total	(\$148.5 million)

Tuition Replacement
 Appropriations

The tuition replacement appropriation replaces the tuition and fee revenue that is pledged for the debt service on the Academic Building Revenue bonds (one method of providing capital project funding for the Regents without a significant outlay in one year).

Until FY 2002, this appropriation was funded with State General Funds. Since that time, Rebuild Iowa Infrastructure Funds as well as the restricted and unrestricted components of the Tobacco Settlement Trust Fund have also been sources used to pay these appropriations.

REGENT CAPITAL APPROPRIATIONS

<u>Year of Action</u>	<u>Dollar Amount</u>	<u>Fiscal Year of Appropriations</u>
1995	\$ 7.400 million	FY 1996
1996	66.100 million	FY 1997 - FY 1999
1997	70.400 million	FY 1998 - FY 2001
1998	0.335 million*	FY 1999
1999	4.500 million*	FY 2000
2000	43.200 million	FY 2001 - FY 2004
2001	40.500 million	FY 2002 - FY 2004
2002	51.100 million	FY 2003 - FY 2005
2003	0.550 million*	FY 2004

* No state funding for Regent universities.

Capital Appropriations Capital appropriations are unique, in that they represent one-time fundings over a relatively short time period. They are not continuing commitments. .

The state has used a variety of non-general fund sources for capitals over the years.

Bonding - Upon specific authorization by the General Assembly and the Governor, the Board of Regents may sell bonds for academic building projects. From 1970 until 1995, most academic capital projects constructed at the Regent universities were financed through bonding.

Rebuild Iowa Infrastructure Fund (RIIF) - The State established the RIIF in 1995 largely from wagering tax revenues. Appropriations from RIIF for Regent educational capital projects were made from FY 1996 through FY 2001.

Tobacco Securitization Proceeds - In 2001, the State securitized its future tobacco settlement payments (due from the Master Settlement Agreement reached by 46 states with four major tobacco industry manufacturers) and sold \$590 million of tobacco bonds.

- The tax-exempt portion of these bond proceeds can only be used for qualified capital expenditures (debt service payments and capital projects).
- Beginning with FY 2002, Regent educational capital appropriations have been from the tax-exempt tobacco bond proceeds.



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Approved: 

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