REVISED

The Board of Regents, State of Iowa, met on May 4, 2005, at the Iowa Braille and Sight Saving School in Vinton, Iowa, and on May 5, 2005 at Kirkwood Community College, Cedar Rapids, Iowa. The following were in attendance at committee meetings and the public sessions.

	May 4, 2005	May 5, 2005
Members of the Board of Regents, State of Iowa		
Amir Arbisser	Present	Present
Mary Ellen Becker	Present	Present
Tom Bedell	Present	Present
Robert Downer	Present	Present
Michael Gartner	Present	Present
Ruth Harkin	Present	Not Present
Jenny Rokes	Present	Present
Rose Vasquez	Present	Present
Teresa Wahlert	Present	Present

Representing the Regent Institutions

SUI David Skorton, Doug True, Donna Katen-Bahensky, Anthony DeFurio, Michael Hogan, Sue Buckley,
ISU Gregory Geoffroy, Warren Madden, James Bloedel, Mark Chidister
UNI Robert Koob, Tom Schellhardt, Aaron Podolefsky, Pat Geadelmann
ISD Jeanne Prickett, Jim Heuer
IBS Dennis Thurman, Michael Hooley, Luann Woodward, Dianne Utsinger

Board Office

Gregory Nichols, Andrea Anania, Susan Anderson, Dianna Baker, Barb Boose, Marcia Brunson, Sheila Doyle, Pam Elliott Cain, Thomas Evans, Tony Girardi, Diana Gonzalez, Deb Hendrickson, Joan Racki, Gary Steinke, Ilene Tuttle

BOARD OF REGENTS, STATE OF IOWA
Kirkwood Community College
Cedar Rapids, Iowa

Public Session

May 4-5, 2005

The following business was transacted on May 4, 2005, beginning at 4:19 p.m.

Call to Order

President Gartner called the meeting to order.

Item 1. Status Report by IBSSS Task Force

Diana Gonzalez, Policy and Operations Analyst, presented a status report on the Iowa Braille and Sight Saving School Task Force.

She reiterated the charge of the task force, which was:

- to look at the future needs of students who are blind, including those with additional disabilities;
- what collaborations with other Regent institutions might be possible;
- how existing services are being provided in terms of efficiency and effectiveness.

Dr. Gonzalez said there were 14 individuals on the Task Force, including representatives from the Department of Education, State Board of Education, representatives from the AEAs, parents of students from the Iowa Braille School, as well as from district schools, graduates, former public school Board members, teachers of the visually impaired, a former Regent, and two current Regents. Five meetings were for public comment on preliminary recommendations were held between October 2004 and April 2005, and an ICN meeting was held in March at 19 sites with 122 participants.

The Task Force adopted seven recommendations

- Create a coordinating council, by the Board of Regents and the State Board of Education, to review all services.
- Provide equitable and timely access to services across the state regardless of residence.
- Begin discussions between IBSSS and UNI to create a rigorous academic program for students with visual impairments.
- Maintain flexibility in the structure of the Iowa Braille School in providing services to meet the needs of students in the core and expanded core curriculum.
- Explore further collaborations with the University of Northern Iowa and other Regent universities to enhance services.

- Intensify efforts to inform parents, especially of young children, of the services that are available throughout the state.
- Convene a group by the Board of Regents to develop standards and benchmarks for the expanded core curriculum.

She said the Task Force would present its report and recommendations to the Education and Student Affairs Committee in June 2005, who in turn will present recommendations to the Board.

President Gartner received the Committee Report.

Item 2. University of Iowa Hospitals and Clinics Trustees

President Gartner stated for the record that the Board was now sitting as Trustees of the University of Iowa Hospitals.

Donna Katen-Bahensky, Director and CEO of the University of Iowa Hospitals and Clinics, said in the future various parts of the presentation would change and more time would be devoted to the budget, but noted this was the first presentation to the Trustees in the new format.

Director Katen-Bahensky said that strategic planning was a critical component of governance. Due time constraints, she proposed to Executive Director Nichols that the details of the plan be brought to the June meeting.

President Skorton made introductory remarks and commented on activities having to do with the Health Sciences Center. He stated the University of Iowa Hospitals and Clinics received a full three-year re-accreditation by the Joint Commission. A year ago, the UIHC faced leadership challenges in major departments in the Health Sciences Center. The leadership team, Dean Robillard and Director Katen-Bahensky successfully recruited several outstanding physician leaders.

As an example, the two largest departments, the Department of Internal Medicine and Department of Pediatrics, had very prominent, successful leaders recruited. An aggressive cost/expenditure containment strategy was implemented at a more effective level of success. Supply chain costs were reduced down to the 46th percentile for the Hospital.

President Skorton said the Hospital received the magnet hospital designation, the first in Iowa, a sign of nursing excellence and environmental excellence for nursing.

He said the Hospital moved to productivity-based budgeting and used scorecards across all departments under the guidance of the Board. According to U.S. News and World Report, for the fifteenth year in a row, three of the services were in the top ten and 150 physicians at the Carver College of Medicine were selected for inclusion in the 2005 Best Doctors in America database.

Improvements have been made to the revenue cycle of accounts receivable with cash generated from those operations at $118 million. There was overall quality improvement and an operating performance projecting a year-end budget with a three percent margin.

President Skorton said another issue was the Hospitals interaction with Wellmark in terms of the reimbursement to the Health Sciences Center for both the Family Practice Plan and the Carver

College of Medicine and hospital reimbursements. He reported to the Board they have continued to have good faith negotiations with the company. They have been keeping the Board apprised through the chair of the committee that oversaw the University of Iowa Hospitals, Dr. Arbisser. He said they are continuing to have good faith, cordial interactions with Wellmark and still are completely committed to finding the solution to the negotiations.

Jean Robillard, Dean of Carver College of Medicine, gave an update on the recruitment of some chair positions. In addition to the recruitment that President Skorton mentioned, they were recently successful in recruiting Dr. Paul James as head of Family Medicine, who received his M.D. from the University of North Carolina.

Dean Robillard said they were close to complete recruitment in the Department of Anesthesiology and believe they will be successful in filling the head of Surgery within the next few months. He said they were also interviewing candidates for the head of Ophthalmology.

He said they were quite pleased with the election of David Gibson as member of the National Academy of Science. He said this was the most outstanding scientist ever elected to the National Academy of Science. It takes more than just making a discovery, you have to make a discovery that transforms the field, lives and the way everyone sees the world. Mr. Gibson's main field of research has been biocatalysis, which means his discovery has helped us understand how bacteria degrade pollutants, toxic chemicals and other compounds. Dean Robillard felt this was a very important set of discoveries Mr. Gibson made.

Director Katen-Bahensky said they were finalizing the recruitment of the division head of Cardiology in the Department of Internal Medicine. Dr. Paul Rothman, Dean Robillard and President Skorton have been working toward the recruitment of that position. She said it was a very important department, both clinically, as well as in terms of research.

Director Katen-Bahensky reported on the Economic Impact of the University of Iowa Hospitals and Clinics. She said on an annual basis, the Iowa Hospital Association does an economic impact study of all the hospitals in the state. There are many hospitals, thousands of employees, staff members and physicians, which has a very significant economic impact on the State of Iowa.

She said the National Cancer Institute site visit to the Holden Comprehensive Cancer Center took place in January. Holden completed their support grant application, a scientific review and a site visit was conducted. The Holden Comprehensive Cancer Center has been re-designated by this group for another five years. The administration review is not complete, so a formal announcement will not be made until the end of June. Arrangements have been made for Dr. George Weiner, the director of the Holden comprehensive Cancer Center to visit with the Board at their August meeting.

Director Katen-Bahensky said regarding bar code scanning, the University of Iowa Hospitals and Clinics have gone house-wide in its utilization of bar code scanning for blood transfusions. She said there was a great deal of risk associated with providing blood products to patients incorrectly. Patient ID bands are being bar coded, as well as blood products, so when blood is drawn, the patient is verified. When blood is brought to the patient, the patient is verified. Two individuals do that, by virtue of looking at the bar code. The computer will tell if the wrong patient or wrong blood product has been selected. Discussions have been held with the Board about "near misses" where there is potential for near-misses and how have they occurred. To date, through the AHRQ (Agency for Healthcare and Quality) grant, which was received to start the bar code process, the

University of Iowa Hospitals and Clinics are the only hospital that has been able to document the outcome of the work.

She continued by saying the Center for Medicare and Medicaid, effective in April, put out to the public the Hospital quality measures that had been made public for the first time about hospitals throughout the country. More than 4200 U.S. hospitals are participating voluntarily in this effort. Medicare has committed to not reduce payments to hospitals who participate in the activity.

There were three sets of measures focusing on three diseases or disorders: heart attacks, heart failure and pneumonia. Overall, UIHC is performing at about the same level as many of its peers across the country. In heart attack and heart failure, UIHC is doing much better than in the area of pneumonia care. Teams have already been set up to look at what they might be able to improve in that area. Dr. Charles Helms, Chief of Staff and Director of the Quality Improvement department, will present additional information on quality databases at a future meeting.

Surgeons at the Children's Hospital recently repaired a potentially lethal disorder in a six day old Iowa girl, making her the first patient to have this type of defect corrected with a robotic surgical system as a neonate. She is the smallest person to receive robotic surgery of any kind anywhere in the world. Dr. John Mehan, a member of the Pediatric surgical team participated. He also very recently sponsored an international pediatric robotic surgery conference, with attendees coming to Iowa City from the United States, Europe and Australia.

Ms. Katen-Bahensky said UIHC will participate on May 10 in the "100 Best Nurses in Iowa" as part of National Hospital Week and National Nurses Week. Out of those 100 nurses, nine nurses from the University of Iowa Hospitals and Clinics will be recognized.

Ms. Katen-Behensky talked about the Helen Rossi Guest House Addition. This is one of their community partnerships they have with Walmart and Sam's Club associates, not Walmart itself, but their employees from around the state who raised and donated over $1.2 million to renovate an area of the general hospital for a guest house addition. This 20 room unit will be for the use of parents whose child is in one of the intensive care units.

Ann Madden Rice, Associate Director and Chief Operating Officer of UIHC, said the University of Iowa Hospitals and Clinics adopted the use of a balanced score card, based on work done at Harvard Business School. The idea of a balanced score card was introduced to the Trustees two years ago, May, 2003. The vision was and has continued to be continual process improvement. As was stated at that meeting two years ago, the ways in which the balanced score card support continual process improvement are:

- Develop a healthy organization
- Maintain focus on the mission, vision and strategies
- Expand the objectives of the organization beyond financial
- Assist in making plans, setting targets and aligning strategic initiatives
- Enhance communication and feedback

The first score card was shared with the Trustees in October, 2003. UIHC has continued using it over the past 18 months to guide process improvements, as well as to highlight both accomplishments and challenges. The same balanced score card was shared with the UIHC staff, to reinforce the commitment to be making constant improvements, while maintaining the balance between quality, efficiencies and finances. Score cards are prepared internally at the department level.

Mrs. Rice said in the spirit of continuous process improvement, they also reevaluate metrics so that all parts of the institution continue to be challenged. They recognize the different approaches or viewpoints on how to best manage using the scorecard approach. Therefore, the advice and recommendations from the trustees would be very valuable to them as they prepare for fiscal year 2006 with a new strategic plan.

Mrs. Rice then described the spider diagram on attachment B-5. Given the timing of the meeting, the data shown was through February 28, 2005, rather than the usual calendar quarter. Progress was represented graphically, where each measurement was quantified as a percentage of the benchmark. She stated that the closer they are to simultaneously achieving all the goals and maintaining balance, the more the graph would be a perfect circle approaching the outer circle of 100% accomplishment. The diagram showed there was relative balance between the areas of finance, work place of choice, excellent quality and efficiency, but they have room for further improvement which Mrs. Rice stated she would describe in more detail.

The first quadrant, in the upper right, was the “work place of choice” quadrant and illustrated vacancy rates, employee commitment and timely performance of annual performance appraisals were closer to the benchmark than employee turnover and registered nurse turnover. Mrs. Rice then gave an example from the actual numbers (found on page B-1)—employee turnover was at 12.4% while the benchmark was 10%, and registered nurse turnover was at 14% while the target was 9%. UIHC began tracking turnover rates in addition to vacancy rates just this year at the suggestion of the Board of Regents. In doing so, they have learned about what influences turnover rates and have found that they need to improve the tools they use to measure employee commitment and reasons for turnover, as well as to offer more management training to supervisors and managers to support a workplace of choice. Mrs. Rice said they are in the process of selecting a tool to measure employee commitment on a more regular basis than they currently do, and they’ve expanded their management training offerings. These efforts are going well for them.

Regent Wahlert commented that she was concerned, from looking at the data and the spider diagram, that there was no category where UIHC was actually hitting the benchmark. Mrs. Rice said to look at the contrast between the turnover rate and the vacancy rate. The turnover rate is not hitting the benchmark, although they would like turnover to decline to the 10% level. On the other hand, she noted the vacancy rate was less than the benchmark, so they are outperforming in that case.

Mrs. Rice and Regent Wahlert then looked at the data for each category: Employee turnover, registered nurse turnover, RN vacancy rate, employee commitment and completed appraisals all were not reaching the benchmark. Vacancy rate was reaching its benchmark. Regent Wahlert said her question for each quadrant was if Mrs. Rice could tell where UIHC was going to be for the next year. Assuming they implement these processes in all four quadrants with an anticipation of some kind of improvement to the benchmark she asked what their goal was for that improvement by the end of the year. Mrs. Rice replied that it depended where the benchmark was coming from as to how rapidly they could move to it. For all of the categories, she stated that UIHC is looking for continuous improvement. She said the most success between now and the end of the year—June 30, 2005—would probably be in turnover rate. Mrs. Rice said vacancy rate would hold; RN vacancy rate was already down from February’s numbers; the RN turnover rate will be closer, though difficult; and employee commitment, measured on a 4-point scale, will be close.

Regent Wahlert said that when UIHC puts together their 2006 plan, one of the questions she will ask them for is to take the 2006 plan with numbers in the anticipated improvement level towards the benchmark. She said this will allow the 2006 plan to yield and quantify what interventions are necessary to reach the benchmarks. Regent Wahlert said she just wanted four pages, and the plan to have one more column stating “at the end of 2006, we plan to be….at these points”. President Gartner added that they should also include a column stating a goal date for the reaching of the benchmarks. Mrs. Rice agreed that these were good suggestions. Regent Wahlert said that would be what the Regents would use as a performance marker to hold UIHC accountable for getting to the benchmarks, however they go about it.

Ms. Katen-Behensky reminded everyone that, as discussed previously, there are differing views on benchmarks. President Gartner reiterated that they are hospital management suggested benchmarks, not benchmarks given out by the Regents. He stated he assumed UIHC wanted to be at the benchmarks by now and he would like to know when they will be reached and the Regents’ jobs are to ask why the benchmarks are not being reached by this time. Regent Wahlert stated she would also like to know if they are never going to get to the benchmark.

Ms. Katen-Behensky said that she believed some of the benchmarks would be changed with the new strategic plan, since the plan should reflect what you are going to measure. They have three sources for the benchmarks: Moody’s Rating Agency (for many of the financials); University Health System Consortium (92 academic peer medical centers); and their own budget. Often the benchmark is then set with what UIHC is capable of with their budget during an annual time period. Ms. Katen-Behensky would also like to add where they stood on the quadrants one and two years ago to the 2006 plan.

Regent Arbisser emphasized that UIHC had reset some of the standards already over the past couple years. Regent Wahlert said that she did not doubt that fact, but in the theme of accountability she wants them to be trying to get to some result, not just trying to “get better” as that is not good enough in today’s world. Regent Becker said that clarity in how long they anticipate it will take to get full-circle would be helpful, especially since the Board is always turning over. Regent Wahlert added that as the plan changes, so will the benchmarks each year since the industry changes each day. She restated the need to know what their objectives are in regards to the benchmarks.

Regent Vasquez said that she was thinking they were shooting for 100% on all the benchmarks. Ms. Katen-Behensky replied that that was the idea and if they would look at the numbers from last year at the end of 2004, about three of the quadrants were at 100%. She said they changed the benchmark to push them up a bit. Regent Wahlert asked if there was another column that was a “best practice.” Ms. Katen-Behensky replied that in some cases the benchmark is the best practice for their group, like the length of stay, for example was at 50% and they revised it because they had achieved the 50% already and went to what the UIHC considers to be best practice. On completed appraisals, they cannot get better than 100%, but that is where they need to be. Regent Wahlert said sometimes they would do a cost-benefit and for any number of business reasons, you don’t get to the best practice because it’s not worth the dime you’re going to spend to get there. Ms, Katen-Behensky replied that some of the benchmarks are required. Joint Commission requires 100% of every employee to be evaluated every year and they need to see documentation of that whether they can afford to do it or not. She said she thinks as they go through orientation it will be helpful to be able to explain where some of the benchmarks come from and why they are what they are. Dr. Katen-Bahensky said that, as they had discussed with President Gartner, some of the benchmarks with some of the restrictions that they have maybe impossible to reach. However, it would be good to be able to identify how far they can get and when they can get there.

Regent Vasquez stated that the visual was good and they want to cover the whole thing. Her interest was in was what did and did not work in order to get to 100%, whether it be in six months or a year.

President Gartner then asked what single benchmark would have the greatest positive financial impact on the hospitals. Dr. Katen-Bahensky replied that she thought it would be payroll cost per adjusted discharge and President Gartner agreed. Dr. Katen-Bahensky added that whether that is doable by them alone depended on several variables such as contracts, fringe benefits, and things that are not necessarily in their control. President Gartner said that nevertheless, if they get to the length of stay goal next year they are going to save $3.8 million and they're still a half a day off. He added that presumably, if they reached the length of stay benchmark from today, they would save $7.5 million. If they got to the employee cost per discharge benchmark by tomorrow they would save $14 million. He questioned that, from a management standpoint, wouldn't that be what they wanted to concentrate on most without in any way impairing the quality of care? Dr. Katen-Bahensky replied that length of stay feeds into payroll cost per discharge and taking a day or day and a half out of length of stay will allow them to reduce payroll cost per discharge. President Gartner stated that he understood.

Regent Wahlert added that, in the end, they just cannot do them all and in the effort in trying to do them all they are going to run in to some mediocrity along the way. Dr. Katen-Bahensky said that it will just take balance, if they spent all of their energy looking at payroll cost, other pieces would go down and they have to decide collectively how much they are willing to let it go down. Whether it is quality or number of admissions allowed to come in—that is the purpose of it being balanced. Regent Vasquez asked if there was a way to asterisk the benchmarks that are required as it would be a helpful tool.

Mrs. Rice asked if there were other indicators they had specific questions about. Regent Bedell said that he doesn't yet understand the business side and is anxious to learn about it, but his reaction was that they are really not customer focused while in a business of serving people. It seemed to him to be operational rather than customer focused and usually the long term way that you have a strong organization is by delivering a better value or result to your customer. He said if that is measured hard while at the same time the operational issues are addressed, you are building a strong organization. If you have focused so much on the operation, the customer becomes secondary and long term competitors are going to pass them by. Regent Bedell said UIHC got to this in their strategic plan, but it didn't match what they wrote for their vision. Dr. Katen-Bahensky commented that this was not based on the strategic plan either—it will look different although they shouldn't eliminate the fact that there are a number of these that do relate. She said the patient satisfaction, getting an appointment, medication safety, pneumonia care, mortality—all of those categories relate to the customer. Regent Bedell said that if he had been their customer, and he looked at those categories, they are not talking about "me". He encouraged them to have at least a quarter of the chart dedicated to what is meaningful to the customer and their experience. They will get into the problems of cost and competition and people will pay a lot of extra money for a great experience, especially when it involves their life or their loved ones' lives.

Regent Vasquez reinforced that they have mentioned the customer focus and that likelihood of recommendation to others as an attempt to reach for some of that, noted they are very sensitive to the issue. Mrs. Rice responded to Regent Bedell saying the UIHC participated in a national survey instrument called Press-Gainey and they receive constant feedback about customer satisfaction. As it is a new tool to them, she stated they are learning more about using it and there is more they can get out of it to reflect in their scorecard. What they are taking back to their employees to reinforce that all the time are the overall hospital rating score and the likelihood of recommendation to others as those both come out of the patient satisfaction tool. The tool lets them drill down and identify the patient's or their family's experience where UIHC could have done a better job. The UIHC could then target improvements on those specific things. She agreed that Regent Bedell picked up on an important point—that the strategic plan is much more patient and family focused than the way they've been operating and she thinks that is a really important change to make.

Regent Wahlert asked what their measurements would be for their strategic plan. Dr. Katen-Bahensky said that they are not that far yet, but it is the next step. They are currently working on tactical plans for each one of the goals and strategies and then they will be asking each of the teams to make recommendations. Several of the benchmarks will still remain as they cannot eliminate financials, being able to get market share et cetera, but it will have a bit different emphasis—perhaps more on outcomes. Mrs. Rice added that all the tactics will have specific measurements and what they would like to do is to have those reflected as much as possible in a tool like the web diagram so they have a way to check on progress. Regent Wahlert said she would envision they would have two or three strategic measurements that, if missed, the others would not count. Ms. Katen-Bahensky said they have that in place in the strategic plan as it is broken up into the three most important things they can do: future outcomes; patient and family centeredness and satisfaction; and being innovative in their care. Ways to measure each of those categories are included.

Ms. Katen-Bahensky addressed Regent Bedell, saying they take the customer focus down to the level—every department is required to put together a similar scorecard and then they get all the information from patient satisfaction for their nursing unit or clinical department online. They can then immediately begin working with their department on making improvements on what they are seeing in the patient satisfaction. Regent Wahlert then asked if their budget was related to their strategic plan. Ms. Katen-Bahensky said the 2006 budget is, partially, as it had to be finished before the strategic plan. However, a financial plan to go with the strategic plan is the next step in terms of what they need to make the plan work. She said this is another thing they have asked their teams to put together using the question: "If you implemented this, and had to measure this as an outcome, what would it take in terms of resources to do it?". She added that this is a difficult and transitional budget.

Anthony DeFurio, Associate Director and Chief Financial Officer discussed the financial piece. He called attention to attachment B-7 which showed the year-to-date income statement. They had been able to grow their paying patient revenues by about 5½ % compared to where they were in February 2004. He said the state appropriations are flat from year to year and their other revenues had grown by about 6% as well, bringing up their overall revenue growth by 5.2% year over year. Mr. DeFurio said the expense control had been exceptional with the salary and wages growing by just over 3%; general expenses, which would include the medical supplies and pharmaceuticals and purchase services, growing just 1.6% year over year; and then a modest increase in depreciation expense reflective of their capital spending over the last couple of years. The bottom line was clearly a dramatic improvement in operating margin with $12.2 million year to date through February 2005 for operating income, which is about a 2.7% margin. They are optimistic they will be able to finish the year around the 3% target which is what they had approved in the fiscal year 2005 budget.

Regent Wahlert asked how the above financials compared to their peer hospitals. Mr. DeFurio replied that information in the budget presentations would compare margins, however the Iowa Hospitals for 2004 reported 2.69% and Council of Teaching Hospitals (their other comparative margin), reporting quarterly, was between the 2.8 to 3.2% range. He stated that 3% seemed to be where they were all heading and he would demonstrate the trends in his later report.

President Gartner asked why cash flow was a better measure since depreciation had gone up so much in the last year—12% or $3 million. If the operating margin of $12 million and the depreciation of $31 million combined are what they finance growth out of, he questioned why that wasn't a better measure of their financial health? Why do they focus on margin, when, in fact, they are financing the growth not just out of margin, but out of depreciation and margin? Mr. DeFurio agreed and stated that their internal financial statements that the management team works off of a EBDITA (earnings before depreciation, interest, taxes and amortization) format. President Gartner asked if they were running on 12-13% on the EBDITA margin, to which Mr. DeFurio concurred. President Garter then asked how the EBDITA margin would compare to their peers. Mr. DeFurio stated that it is right in a relevant range and the last couple of years it has been a bit depressed, but with the turnaround in performance they are coming back to be essentially in the middle of the pack. The reason he believed it had historically been presented this way is that it is more consistent with the government accounting standards approach—not as focused on a cash flow basis. However, he'd be happy to do the comparisons for the Regents.

Ms. Katen-Bahensky addressed Regent Wahlert, stating that in terms of their peers, she is on the Board of Directors of the University Health System Consortium and they often have similar discussions at their quarterly meeting. Their current estimation is that about 40% of the academic medical center hospitals in this group are in the red, some more severely than others, depending on whether they are significant safety net hospitals for the uninsured. She said there are others that are making upwards of 6-8% operating margins and that it varies by type of hospital.

Regent Arbisser stated that there is a difference in the patient constellation that occurs in Iowa City compared to some of their peer institutions. For example, in Chicago, where there are multiple academic health centers, the burden of the uninsured and the very sick are divided up among multiple institutions instead of only one place being the final funnel for every problem. He said this made it unfair to try to compare, but is useful to get a relative idea. Regent Wahlert asked if there was a way to normalize that out. Regent Arbisser responded that they do that by severity of case index, and those numbers demonstrate that UIHC is taking care of really sick patients—one of the reasons for some of the negotiators elsewhere to have an understanding of the fact that the average patient that is coming the door is not the same patient that is coming in to other institutions around the state or to their peers. Mr. DeFurio said he would show the case mix index in a minute and that is one way they could at least normalize their in-patient population, though it doesn't really apply to the out-patient population in general.

Mr. DeFurio continued with a snapshot of their accounts receivable performance. They converted to a new patient billing system in March, 2003 called IBX. Immediately post-conversion, they experienced, as was anticipated, an increase in accounts receivable which peaked at 107 days in August 2003. In the last year and a half they have been working on a revenue cycle redesign and a cash acceleration process. That process has been quite successful and they have now stabilized, at the end of February, at 64 net days accounts receivable. Regent Wahlert questioned why 56 was the median Moody's rating and in the benchmark sheet on B-4 it was 65. Mr. DeFurio answered that it was one of the benchmarks that they choose a budgeted target, getting from 107 down to 56 in one year was not a realistic goal.

Regent Wahlert asked if they viewed their benchmarks as a one year goal. Mr. DeFurio said that was not necessarily the case as some of their benchmarks are more budget level and some are more aspirational. He said that certainly getting to the Moody's AA in 56 was something they are striving towards, and they believe they will get there in the next year or so, but again, starting at the 107 is not possible in one year. President Gartner asked if that, in fact, was a plugged figure depending on how much they choose to write off. For instance, he said, if they chose to write off debt it would be the 120-180 day debt, not the 45 day debt. Mr. DeFurio said he would not call it a plug figure as they have a very rigorous aging schedule where they evaluate all the patient accounts by financial class. President Gartner apologized for the use of the word "plugged", however, he asked if they could adjust that figure based on how much they choose to write off. Mr. DeFurio said, yes, they could increase their reserves and their write-offs and artificially lower their net days in accounts receivable, and of course, by doing that they would have an income statement impact.

President Gartner said that what they had—two or three years of enormous write-offs—was part of the way they got from 107 down to 66. Mr. DeFurio said they had a year over year increase of $118 million in cash collections from operations in fiscal 2004 compared to fiscal 2003 which is a tremendous cash acceleration effort. He said the vast majority of the improvement was through actual cash performance. President Gartner said that in 2004 they wrote off $50 million in bad debt. He listed their bad debts since 1998: $10 million, $14 million, $19 million, $15 million, $24 million, $28 million, $49 million—a massive jump. He asked if that wasn't a major factor in cutting their days down. Mr. DeFurio agreed that it was part of it; they now have a much more sophisticated method of recognizing bad debt as compared to contractual allowances than they had had historically. He said they actually now record bad debt along the aging schedule for each of the financial classes. He thought part of the bad debt figure in 2004 was a change in recognition methodology moving allowance and adjustments in some extent down to a bad debt classification. Once they made that adjustment, they're now on a status quo, normalized accounting process.

President Gartner clarified that his question was if the problem was solved with the billing. Mr. DeFurio said that he thought it was and they have entered an era of stability and they would work through a continual improvement process to get from 62 days to upper 50's and then eventually into the 55-56 as a target. Regent Downer said he thought they needed to do this more quickly, rather than "eventually." He said they have seen from December the number creep back up by 3 days and the median Moody's number of 56 days could be fairly significant in light of the fact that there is proposed going into the bond market and doing some financing. He said there is not nearly the level of debt there that there is with a lot of hospitals, but also it seems their performance in that regard might be evaluated. Regent Downer noted they had come down a long way from 2003 and that was commendable, however he thought the trend from 107 down to 61 needed to make more progress before resting on our laurels because they are talking about significant dollars. He roughly calculated every day was about $2 million and stated that it is a measure of performance that the rating agencies and others are going to utilize in connection with this. Mr. DeFurio agreed completely and hoped nothing he said was taken to mean they were resting on any sort of laurels as they have an extremely sophisticated and aggressive revenue cycle process that is still underway. He said they target 105% of their previous 3 months net revenue as the cash goal for the next month. If they achieve 105%, obviously, month in and month out, they will automatically bring their net days in AR down. They have actually hit that goal in 10 of the last 12 months—March was a very strong cash month as well. He said they are absolutely committed to keeping this moving in the right direction. Regent Downer asked if he knew the number of days in March. Mr. DeFurio said he thought they ended March at 62.

President Gartner asked if days of net revenue was the same measure as the number of days it takes to collect an outstanding bill. Mr. DeFurio said basically, yes. Ms. Katen-Bahensky said she would like to remind the Regents that collection of payment, whether from a self-paid patient or an insurance company or Medicare, is getting harder and harder. She said the documentation that is required, the constant follow-up is a complaint and concern of virtually every hospital and physician group. President Gartner asked if there was a distinction in how fast Medicare pays and the insurance companies pay. Regent Arbisser said yes and added that when multiple parties are responsible for an individual patient there is a game of ping pong as they go back and forth.

President Gartner asked who paid slowest and who paid fastest. Mr. DeFurio said Medicare is the fastest payer. If a clean claim was submitted, no edits or problems, it would pay in 14 days; the Medicare average is more like 32. President Gartner said that if the Medicare average is 32 and their average is 64, then there is an enormous problem with one of their payers. Mr. DeFurio replied that they have many payers that are very slow. Medicaid and most of the commercial payers ebb and flow, some better than others. He said Cigna is a notoriously very slow payer, United from time to time has claims processing problems, Wellmark ebbs and flows. President Gartner joked they should do what the credit card companies do and put in an interest charge. Mr. DeFurio said that couldn't be done easily. He said UIHC will certainly be updating the Board again about this and reminded everyone that there would be a whole slide in the budget that will talk about the revenue cycle and give them comfort that they were moving aggressively.

Regent Wahlert asked what would need to change to get them to 56 and didn't there have to be a clear intervention or two outside the system to get them to that point. Mr. DeFurio stated no, he literally had hundreds of interventions going on currently in the revenue cycle that will get them there and that there were not any one or two fixes. He said they are developing a pre-access unit which deals with pre-certification and insurance verification of patients up front. They believe that, over time, this will yield the biggest bang for the buck. Prior to the patient arriving, they should have all of the key ingredients so that once the care is rendered the claim will go out the door clean and will be paid promptly. He said that unit had been under development for the last six months and was well on its way to being fully functional. They are also changing their electronic claims processing vendor as they had a lot of problems with the previous vendor and had to go through an extensive RFP process to select and switch. The notification about this change was going out as they spoke. He said a revenue integrity unit is also being developed.

Regent Wahlert asked if they could quantify a good bit in number of days. Mr. DeFurio said yes, he could go through each of them and make a stab at them. He said they went through each of them a year ago when they started the revenue cycle processes and they presented to the Board target dollar savings for each of the various parameters and they've actually exceeded those on all the dimensions. Regent Wahlert said she thought he was discussing significant interventions and thought in order to measure their effectiveness he would be able to say "and because we anticipate this efficiency happening with our claims processing, we're going to gain two days," and "because of this prequalification with insurance, we're going to gain seven days." Mr. DeFurio said that some of the parameters lend themselves to that, but a lot of the pieces of the revenue cycle are so interrelated that it would be difficult to measure them discreetly. He gave the example of the pre-access unit; he could put a dollar value on the reduction on denials, which they have done, but he'd be hesitant to put a specific "day" value on it. Things like the change of the claims processing vendor could have a day value put on. Mr. DeFurio said he would be happy to go through each and assign either a day or dollar value. He said that when the revenue cycle team tracks goals, they are predominately looking at the cash collection goal and the net days in AR and the percent of bad debt. Those are the three key indicators that they track. Collectively, they are making sure everything they do keeps those three parameters moving in the right direction.

Regent Arbisser commented that an example of a process change would be to, especially with the pre-qualification unit, if you came in as a patient to say, "Teresa, your co-pay is this for the procedure for the doctor, your deductible is that, so if you'll give us a check for $852…" that goes into the deposit today. He said it is expensive and somewhat difficult to change the patient population, although they are not the only ones trying to educate patients about doing that. However, that would be a significant process change and would drop a few days off their AR and also reduce the cost of billing. He said there are many people, in many aspects of health care, interested in moving patients to that. Mr. DeFurio said they've actually instituted up-front cash collections in all of their out-patient clinics and are on pace to collect about $2.4 million in cash up front. This would trim a full day off of the days in AR. Regent Vasquez commented this would also possibly affect their patient satisfaction measure, which would be the tricky part. Regent Arbisser added that it may not necessarily be negative because there is an interesting psychology thing that happens. If somebody has paid for a service, they are often more satisfied with it than if they haven't paid and they are trying to negotiate to not pay. Regent Vasquez agreed saying unless they didn't understand in advance that they would need to turn over the $800 check. Ms. Katen-Bahensky said that was the purpose of the pre-access visit. She said she thought patients appreciate knowing in advance what they are going to owe. She gave the illustration of it being like getting your car fixed; you wouldn't just do it and then say "whatever you want to do". You get a call that says it's going to cost $500. Ms. Katen-Bahensky suggested they should do the same thing with patients and assume that they should not just accept whatever they're given at time of discharge or after their visit.

Mr. DeFurio said the next slide alluded to the point that Regent Arbisser made, he showed the case mix index, a measure of the acuity of the in-patient population which did not have any direct link to the out-patient population. He said you could see the YTD February case mix index was 1.62 with the median teaching hospital being 1.25 and the median Iowa hospital being .93. He said the particular case mix assigned to a particular DRG does change from time to time but the overall notion was that the average intensity of a patient would be 1.0. On average, their patients are about 62% more complicated or more resource intensive than the average patient, and significantly more intensive than both teaching hospitals or other hospitals in Iowa.

Mr. DeFurio said there was a tremendous amount of detail in terms of the budget and they passed out new booklets at the beginning of the meeting. He said President Gartner, in specific, asked some questions that he thought were clarified by the materials they added. They also had the benefit of the review of Regents Arbisser and Downer and reflected some of their thinking in the updated version.

The agenda for the budget review was to quickly look at the key operating indicators for the current fiscal year and where they think they are going to end, then the budget challenges for fiscal 2006, and lastly a discussion of the rational for a gross charge increase. President Gartner asked what they were going to be asked to do—are they to approve the budget or is it just for their information. Executive Director Nichols said the budget itself had traditionally been blended for the Board's final approval into the University's general budget submission which is scheduled for June. It was not necessarily designed for final action today. He said they could bring the budget back at the trustees meeting in June. President Gartner said he asked because of a question that Regent Bedell asked earlier which was how the budget measures with their strategic plan. They did not have time to go through the strategic plan, yet they were going through the budget and at some point questions are going to have to be answered before they approve the budget. He wanted to know the timetable and guidelines for the discussion.

Executive Director Nichols replied that if they were to approve the operating budget in June, as it was currently scheduled, before the new fiscal year began, then the question implies at the June meeting there will have to be an extended time for a trustees discussion of both the strategic plan elements and then any revisions that may be submitted to the budget document seen today. Ms. Katen-Bahensky added that the purpose for today's discussion was not to ask for approval of the budget, but there was a lot of material that, regardless of what their strategic plan says or does, was not going to change what some of their operating expense assumptions are. She said they were asking for the time to be able to review some of the material with the Board. President Gartner asked the six trustees who were in attendance what information they wanted in the next hour.

Regent Wahlert asked how many years the strategic plan covered. Ms. Katen-Bahensky replied that it covered three to five years. Regent Vasquez asked if there was a preliminary strategic plan. Ms. Katen-Bahensky said they have the preliminary goals, some background materials and some strategies along the three dimensions that she discussed in the packet of information they had received. Regent Vasquez asked if in they could work with the budget and the preliminary information within the hour. Ms. Katen-Bahensky said they could if they went as quickly as possible. Mr. DeFurio said the budget assumed a lot of the notions in the strategic plan are going to begin to be implemented during the fiscal year, but there are not any major changes that he would anticipate coming out of the strategic plan for fiscal year 2006, though there certainly will be in subsequent years. He said, as an example, for some of the business planning that is focused on clinical programs, they already know what some of the programs might be and they are working with the physician leadership to develop the plans. Regent Vasquez said it sounded like there might be enough of a close version of both that they could try starting on the discussion, depending on the time. Ms. Katen-Bahensky concurred saying there would be some benefit to the Board to going through and understanding it. She added that the issue was the hour it was going to take to get to Cedar Rapids and the events beginning there at seven o'clock as it was twenty minutes until six. Executive Director Nichols stated the evening event had been put back to seven thirty so they had an hour and a quarter to use however would be most productive.

Ms. Katen-Bahensky said she believed when they get to the level of putting tactics and financial planning with the strategic plan, it would not necessarily change the overall budget. She said it may change the budgets within certain departments so if they make a decision to put an operations improvement unit or a customer service unit for referring doctors, it may reallocate dollars. Regent Vasquez said she thought they had all they needed to go on. Regent Bedell commented that he hoped in future meetings they can completely reverse their discussion and talk about strategy first, what they are trying to accomplish, how to measure that before they talk about money, and then apply the money back to the strategy of the measurement criteria. He said in his first two meetings they have been talking only about money instead of outcomes are or what they are trying to accomplish. He recommended they add value strategically more than operationally with the institutions taking responsibility to ascertain how to work consistently with the strategies and tactics being supported.

Regent Downer said that given the limited amount of time they had, he wondered if anyone had something that needed another look prior to the final presentation. He said there were a couple of things in the budget that jumped out at him that he questioned how realistic they were and he did not want to put anyone there on the spot, but it seemed it might be appropriate to put other things on the table as well so they could go back and review the budget report at the next meeting. President Gartner said he thought it sounded like the Board wanted to discuss the strategic plan rather than the budget.

Regent Wahlert said she was with Regent Bedell on that the strategic plan is a five year thing, then there are the goals and objectives for fiscal year 2006 and then the budget to match them. She said she was unsure of how to go through the budget without knowing what they were trying to accomplish.

President Gartner said the consensus seemed to be to shift the remaining discussion to the strategic plan and to deal with the budget at a later date. He said since the Board had the numbers, they could come prepared to discuss them at the next meeting.

Regent Becker said that if they really wanted to discuss and understand the strategic plan and then delve into the budget, they were not talking about June or July but some later period and when should they anticipate that being done. Ms. Katen-Bahensky said that they would have the financial plan for the three to five year strategic plan finished by late-summer or early-fall.

President Gartner said they were back to the original question of how the budget relates to the strategic plan. Regent Becker said that this budget doesn't really relate since they were in between with the new strategic plan and that she didn't know how they could get around that. Regent Wahlert said that the budget must relate to something other than last year.

Ms. Katen-Bahensky said there were strategic decisions that they made in their assumptions about expenses and revenues that are in the presentation of the budget. She said they were caught in the middle and were trying everything they could to stay consistent with the College of Medicine so they could come together on their plan, which is absolutely critical, given that they are their medical staff. She said they have tried to stay in pace with them and unfortunately, their fiscal year starts July 1 and they had to get a budget completed. She said if they wait until July, they would have to start the year with no budget.

Regent Wahlert said going through the budget was fine, but she did not think they would meet any objectives. Ms. Katen-Bahensky said that today's purpose was not so much to put a seal of approval on it as it was to understand what goes into the budget and what they have come up with for next year. President Garter summed up that the budget did not relate to the strategic plan. Ms. Katen-Bahensky said it relates more to next year's operation.

Regent Vasquez said that she had the sense things were moving along until they could be right-timed.

Regent Wahlert asked if they had objectives for previous budgets, and if they could take the first four pages and tell her what the goals for 2006 are and how they relate to the budget? Ms. Katen-Bahensky said that the first four pages are the scorecard and it will change with July 1, based on some of the things in the budget and some of them will not change.

Regent Vasquez asked if there were some things, as they are looking at their strategic plan, they could point out. Mr. DeFurio said yes, as there was nothing inconsistent between the budget and strategic plan as the same management team has been doing both activities. He said there is no big output of a strategic plan that is planned for the coming fiscal year so the things they would be able to implement in the next twelve months are reflected in the budget consistent with the strategic plan. The bigger items coming out of the strategic plan that might require a larger investment—a new program or initiative—those are going to be 2007 and beyond.

Regent Wahlert asked if they could tell her that the budget was going to get to 60 net days in accounts receivable. Mr. DeFurio said 62 was the plan to finish the year. Regent Wahlert said she meant not to finish the year, but that the budget for 2006 was going to yield "x" days in AR, a percentage of bad debt and could they tell her what the numbers are. Mr. DeFurio said that they were in the budget. Regent Wahlert asked where and Mr. DeFurio said he would point them out as they went through. Ms. Katen-Bahensky said they were not on the scorecard because they have not started measuring them yet, but they are in the operating budget materials—the May 4 Budget Review—received today (pages 4 and 5 in the yellow sheets showed the summary of operations).

President Gartner said they should start through the budget that they have, keep it fairly brief and if strategic issues arise they will ask about them. Mr. DeFurio asked the Board to begin by looking briefly at page 3 to see the 2005 operating indicators that are critical to the budget. Patient volume on both the in-patient and out patient side had been relatively flat through February when comparing it to February 2004. He said market share had continued to grow in both primary and secondary service areas as well as in the state overall. They define their primary service area as a 30 mile radius surrounding the hospital and the secondary service area is a 60 radius surrounding the hospital. They then track the state of Iowa in general.

He said the acuity of patients remained high with an overall case mix index of 1.62 and Medicare case mix index of 1.85. The average length of stay had increased the past year to 7.08 days which had a negative economic effect on the hospital that would be shown later in the presentation in more detail. The nurse recruitment and retention had led to lower agency utilization. He said they are actually down now to 9 agency FTE's across the entire hospital—a tremendous performance in fact and he did not think any of them knew of a large hospital of their complexity that had been so successful in that regard. Mr. DeFurio again mentioned the patient billing system, characterizing its stability by stating they are planning to finish the year at about 62 days. They plan on finishing this year with close to a 3% operating margin which would be slightly over $20 million. He said the combination of that operating performance and their capital spending would yield a cash balance at the end of the year at about 218 days cash-on-hand which is just slightly below the Moody's AA median.

The year-to-date statistics on page 4 were projected to predict where they would finish the year. They also trended the previous four years so the Board could see where they had been and then what the budgeted targets were. Mr. DeFurio said they would be looking at this information in more detail, but they were planning 2.5% admission growth. He noted that these figures were consistent with the strategic plan. For length of stay the assumption was that they would go down to six and a half days. The surgical case volume would grow by 2½% over their projection for the year. The out patient clinic volume at 693,000 patients was about 2% growth from the prior year. He said they would give a lot of detail about the net patient revenue and how that worked. The $657 million was about a 5.3% increase from where they planned to finish the current year. The combination of all these would allow them to achieve a budgeted operating margin right at the three percent. They are planning that their case mix will remain consistent into next year as it has been historically over the entire 5 year period.

Mr. DeFurio said that performance translated to some key financial comparisons, as seen on page 5. The first was the days cash-on-hand which should finish this year with 218 days. He noted the budgeted number of 232 days to end fiscal 2006 was double asterisked because it was contingent upon issuing $75 million of debt sometime this fall. The operating margin was at 3% and if they issue the debt, the debt to capitalization ratio would go to 10.2 which would still be very low leverage compared to the Moody's AA median of 33.6%.

Regent Bedell asked if they had that much cash why would they issue debt? Mr. DeFurio replied that UIHC needs to grow their cash balances by about $650 million over the next 10 years. He stated that there is a time value of money in compounding that goes into that figure and when they project forward over that time and want to maintain the AA rating and keep around the 224 days cash-on-hand they need to have a balance of the cash reserves and the debt position.

Regent Bedell asked Mr. DeFurio to educate him about why they need that kind of reserve. Mr. DeFurio replied that there is investment income on that balance and typically not-for-profit organizations can issue revenue bonds at a lower interest rate than the marginal return on investment. To enjoy the lower interest rate on the debt that comes from having a AA rating, they need to keep around the benchmark targets of Moody's and Standard and He said if your liquidity position erodes, your debt rating will erode and, in turn, your interest cost will go up in the event that you need to access debt. What you are trying to do is optimize the combination of cash reserves and debt position.

President Gartner questioned that they are earning more on their investment than they are paying out in interest. Mr. DeFurio said that part of what they took the Board through showed a 30 year history in which he believed there was only one inflection point in 30 years that the variable interest rate exceeded the marginal investment rate. President Garter asked whether they were paying 4 or 4½% on their bonds. Mr. DeFurio said he was not sure what the rate was, he thought his financial advisors in attendance might know.

Regent Bedell asked who was responsible for managing the investments. Mr. DeFurio said their investments were pooled with the University of Iowa's investments which, in turn, are managed by the Regent enterprise collectively. Ms. Katen-Bahensky said they often have to explain this to people in the general public as they are in a very technology intensive business with anywhere between \$80 and \$90 million a year in capital expenditures to just really keep where they are today, not necessarily looking 10 years ahead when they have to do a new patient bed tower. Part of the reserves cover that expenditure in an ongoing basis. They don't really issue much debt.

Regent Wahlert asked then what the rationale for putting 62 days in AR for next year was. Mr. DeFurio stated that he was characterizing the situation as stability. They had a couple pieces that potentially could work against them in the coming year. The biggest one was the potential change of the state indigent patient care program moving towards the expanded Medicaid program. He reiterated that Medicaid is one of the slowest payers and that the shift of that population into a slower paying category, about 8% of their business. Without that change, he would have probably made the goal 57 or 58.

Regent Becker said they might consider modifying that goal to be more aggressive. Ms. Katen-Bahensky stated that she would first like to see the outcome of the first couple of months of expanded Medicaid population. The numbers being quoted are between 15 and 30 thousand more individuals than current patient levels. Mr. DeFurio said he could show them the current days in receivable by financial class.

Regent Wahlert said she didn't need that, she just wanted a connection between the two charts where Regent Downer asked about being more aggressive on the days AR. Mr. DeFurio said that in order to connect the two, they will have better performance in a stable payer mix—existing payers will all improve, but that improvement will be somewhat offset by the transition of a large piece of the population into Medicaid classification. They have to show the weighted average calculation, so absent that change, they would have the number 57. With the change, the average has to move back up.

Mr. DeFurio continued with the assumptions that went into the budget on page 6, describing the in-patient admission growth of 2.5% that he referenced and the outpatient visit growth of 2%. The budget was based on a gross charge increase of 9.5% and the combination of everything they are doing—the yields, net revenue growth on a per unit of service basis of 3%, a half day length of stay reduction, bad debts budgeted at 2.5% of gross charges—results in a $35.8 million on a $1.4 billion charge base. The assumptions in the budget include that the payer mix will be stable and the state appropriation will continue with no increase.

President Gartner asked if Mr. DeFurio didn't just say that the payer mix was going to significantly change. Mr. DeFurio said that if Medicaid changes go through the payer mix will change. The budget assumption is that the current level of appropriation will be paid equally each month and the expanded Medicaid charges will go against that. He said that as Ms. Katen-Bahensky mentioned, the question will be how the expanded volume begins. President Gartner asked the UIHC if they assumed for budget calculation purposes that they would receive the money, although late. Mr. DeFurio replied in the affirmative.

Regent Bedell asked about the patient revenue which shows $650 million and the $1.4 billion figure that is shown elsewhere. Mr. DeFurio said they would provide more detail about that topic. He said that in the hospital and physician business there can be a large difference in what is charged for care and what is ultimately paid. That difference fits into a category called 'allowances and adjustments' and they reflect the negotiated discounts, or governmentally-mandated discounts, for the payer classes. Mr. DeFurio explained that bad debts are calculated in two ways: as a percentage of gross charges and as a percentage of net revenue.

Regent Downer said that one number troubled him—the budgeted 6.5 days on length of stay. He said looking at the history on this since 2001 the lowest that it had ever been was 6.94, it had been running 7+ prior to that time and now they see that it's gone up for the first 8 months to 7.08 and is projected 7.11 for the year 2005 and then it's supposed to drop by 6/10 of a day. He said before this number is presented he would like them to take another look at that as it seems contrary to recent experience and he would question the optimistic projection for length of stay in the coming year.

Ms. Katen-Bahensky said she would be more than happy to bring that back at the next meeting as they had done a complete analysis of where the current problem is. For example, they could put one social worker in their emergency treatment center and make arrangements for people who have no place to go after they've been treated in the ED except to go to an in-patient room. She said that may sound like a small thing, but in the middle of a Saturday night with someone with no place to stay, they are not going to send them out on the streets, they're going to put them in a bed—logical but expensive and adds to that length of stay. She said infrastructure and systems issues and physician behavior, is probably the hardest to influence in a short period of time, but many of their clinicians have changed, the leadership has changed and they are accustomed, in some cases, to coming from institutions where there is accountability about that kind of behavior, and some of it is educating house staff. Residents that come in to the institution that change every year have to be educated and have to be knowledgeable about the clinical protocols that are utilized to get that length of stay down. She said the other issue that they can't control was the accessibility to resources after someone is discharged. She stated that there are not enough rehab and long-term care facilities that accept patients that need to be discharged to them. This creates a lot of work to provide a place for them to go.

Regent Downer said that from the explanation it was obvious that a lot of analysis had been given to the numbers and if it can be brought off it would be terrific. Mr. DeFurio agreed saying it was one of their key budget assumptions that affects so many things. He said it is difficult and is one that every hospital around the country struggles with every day and they are committed to doing the best job they can.

Regent Wahlert asked what their budget assumption was on Wellmark since they are one of their major payers. Mr. DeFurio said the budget is predicated as if Wellmark will be in-network substantially as it is today. He said they just recently received their proposed April 1 rates to be effective July 1. The UIHC is in the process of analyzing them and understanding the potential impact of them. The new rates would be effective at least the first 6 months of the fiscal year. They are optimistic, as President Skorton said, that they will reach an agreement with Wellmark that will be somewhat better than the current rates, however, for the budget, they have assumed that they'll be in-network at about the same rates as what they were given April 1. Regent Wahlert said that they could take a giant leap of faith for budget purposes. Mr. DeFurio said yes, taking a leap of faith for the current year, they can survive for 6 months.

He continued with some of the other expense assumptions. Salary base rates had increased in the range from 2 to 4.3%. He said the two major bargaining units, SEIU and AFSCME average increase was about 4.6% and includes call back pay, shift and weekend differentials, and other issues unique to health care. Their fringe benefit rate would average about 33%. They had a very aggressive supply chain initiative that they have reported to the Board on a routine basis. They are projecting that they will be able to keep their supply expense inflation to 4% and their drug expense inflation to 8%. He said that would compare to the cost input increases of 6% for supplies and 11% for drugs that they are receiving from their suppliers. They are projecting a utilities increase of 7.5%, and an administrative services increase from the University of 4.5%.

Regent Wahlert asked what utilities were included in the 7.5%. Mr. DeFurio said they buy all their utilities from the University—heat, electricity, chilled water.

Mr. DeFurio said that all of that combined would yield an overall margin of 3%, which was slightly below the Moody's AA median of 3.3%. Again he stated that in the 10 year plan, which they will be sharing with the Board during their orientation, they could demonstrate that they need that sort of margin to be an ongoing economically viable concern over a longer term planning horizon. He said they had already touched on the balance sheet assumptions, assuming the issuance of debt sometime in the fall which will allow them to end the year with days cash-on-hand of 232 days. Absent issuing that debt, the days cash-on-hand would go down to about 189.

Mr. DeFurio said that there is a unique thing in health care called a per-adjusted admission to compare one hospital to another. Some hospitals have as little as 10-15% of their business devoted to out-patient business, while other hospitals have 80-90% of their business as out-patient, making it difficult to compare. The industry has developed a standardization technique which basically takes the total gross charges for the institution divided by the in-patient charges and it creates an out patient adjustment factor. That factor is then multiplied by the number of acute in-patient discharges and attempts to make a comparison between very different hospital organizations. Mr. DeFurio said that they track most of their statistics on the per-adjusted admission or per-adjusted patient day basis. He said by doing that they could see that the net revenue had been relatively flat for the last 3 years and they are projected to improve that somewhat in 2005 and budgeting the 3% increase to the paying patient volume for 2006. The reason 3% is not what you get when just divide those numbers is the state appropriation is flat and is embedded in that number.

Mr. DeFurio went on to the payer mix year-to-date through February. The majority of the patient volume, 31% came from Medicare, 14% from Medicaid, 16% commercial and 25% from Wellmark. Regent Arbisser asked if the 25% from Wellmark included the University's own personnel. Mr. DeFurio said that it did. Regent Arbisser said that was not 25% dollars coming completely external to the system, so what proportion of the 25% was actually employees of the University system. Mr. DeFurio said about 30% of the Wellmark patients are University of Iowa family. Regent Wahlert pointed out that external money was actually more like 16%.

The next topic Mr. DeFurio discussed was the indigent patients served over time. He said the assumption in terms of cash payments they will net about the same $27.3 million next year from appropriations. He said they believe that it will be in a very different form than it has been historically.

Mr. DeFurio said the other component of the revenue picture was the other operating revenue which was budgeted at just over $40 million. The largest component of that were the gifts and grants, primarily research related grants. President Gartner asked if they went to the hospital or to the Foundation. Mr. DeFurio replied that this component came to the hospital. President Gartner asked if they also raised money for the University of Iowa Foundation. Mr. DeFurio said that the Foundation raises money separately and it would be reported through the University's aggregated financial statement.

President Gartner asked how that money comes to the hospital. Ms. Katen-Bahensky said there are separate Foundation accounts, depending on what the donor had designated. If the UIHC wants to spend something out of that, they sign off on it and the money gets transferred to the hospital for coverage of that purpose. President Gartner asked how much the Foundation approximately holds for the hospital. Ms. Katen-Bahensky replied that it was more than $6 million but not a whole lot more. She said their hospital has not traditionally done a lot of fundraising except for Children's Miracle Network, which is really the largest proportion of that money.

Mr. DeFurio said that on the revenue side of the equation, they have a lot of activity going on in terms of their focused growth plan. They are targeting capital prioritization that each capital investment that is revenue generating will be looking for a return of at least 20% or more. He said, consistent with the strategic plan, they will have focused business plans for the cardiovascular, neurosurgery, orthopedic, cancer and children's hospital services, which collectively are about 60% or more of their overall business. They will have a full year with two new operating rooms working, which opened a couple of months ago. He commented that their radiation oncology center of excellence was slated to open in a couple weeks and they would have a full year of additional patient volume there. They would have a full year with their new labor and delivery, neonatal ICU and pediatric ICUs . He said the Regent's had seen a lot of these things before, but the reason they were mentioned here in the budget is that it will be the first full fiscal year with all the additional programs up and running. Beds and significant investments in radiology should provide a quicker turnaround.

Mr. DeFurio said the documentation accuracy coding project with 3M was well underway. It should bring their case mix index up a bit because they are encouraging the physicians to more thoroughly document the care they provide. It has already been quite successful. The pre-access unit was mentioned earlier and included the insurance verification and authorization. Health benefit advisors or financial counselors set the expectation for the patients and their families up front so that they are not surprised about what kind of obligation they are going to have once they seek care. He said they had mentioned up-front cash collections in all the out patient service areas. They also had a comprehensive review of their chargemaster in conjunction with 3M. Mr.

DeFurio explained that hospitals are very different than other business and have about 30,000 charge items that have unique coding associated with each one and they must be thoroughly and routinely updated.

Regent Vasquez asked if they had decided to put all the administrative support together. Mr. DeFurio said they were working on that. Regent Vasquez recollected that the reasoning behind that decision was to generate better collection and better revenue. Mr. DeFurio said that on the hospital side their people were spread out in about 15 different locations and the billing people that worked on the physician receivables were in a totally different location making it difficult to coordinate and communicate. He agreed with Regent Vasquez that they should address that point. He said that relocation would take place about mid-year.

Mr. DeFurio continued with the expense side of the equation, saying it was on an adjusted discharge basis. The hospital had done relatively well in terms of holding off the inflation area increases. They are not quite working at the benchmark level.

The biggest driver of their overall expense structure was the payroll expense and the biggest component was the hours. Mr. DeFurio said they had done a good job of continually becoming more efficient over time and were budgeting a 2% improvement in productivity in most of their patient care and non-patient care areas for the coming budget.

Mr. DeFurio said that he'd like to talk about slide 23. He said if they roll forward their current years' experience and did not take in any gains in the length of stay issue, and did not take the 2% productivity improvements into play and simply accepted the price increases from the medical and drug suppliers, their overall expenses would go up by $47.9 million and would be distributed as the graph illustrated. If the expenses go up $47.9 million and revenues go up $36.8 million, there would be an $11.1 million shortfall. He said they therefore assume the half day length of stay reduction, the 2% productivity improvement, they limit their supply and drug cost inflation and the result is what they see in the yellow bars of the chart. Mr. DeFurio said they basically cut their expenses from the levels that they would otherwise expect so the net revenue then gives a balanced budget with a 3% margin.

Mr. DeFurio showed a pie chart that demonstrated how everything rolled together overall. The proposed9.5% rate increase translated to a 2.28% increase in actual patient payments. Their prices as an academic medical center continue to lag the academic medical center peer group as well as the historical state-wide increases. He showed a slide with information on how the actual rate they charge influences almost all of their payer groups. In the Medicare program, charges affect both the DRG, the in-patient payment, and the APC, which is the out patient payment, rate setting on a prospective basis. He said the Medicare program is on a 3-year lag in terms of the updates on the in-patient and out patient DRG factors. If you don't keep your prices current, the Medicare reimbursement gets depressed on a compounded basis.

The second piece on Medicare was that the charges for new technology that were introduced affect the rate setting. The Medicaid program also uses the charges to set their in-patient and out patient rates. He said in managed care several of their payers are based on a percent of charges, even if they are on a fixed payment methodology. He restated that the patient obligation under the managed care section is limited to the co-insurance up to the policy maximum. They also have a large number of payers that are non-contracted and those payments are directly related to the charges. Of course, there is then the self-pay population.

Regent Arbisser asked how the contracted payers that based their numbers on the Medicare numbers fit into the scenario. Mr. DeFurio said they would be in the managed care category. He continued that for the self-pay component, a lot of concern had been expressed. The UIHC has a charity policy in place. They use a sliding fee schedule based on the individual's or family's percentage of poverty. It begins at 150% and goes up to 300% of the federal poverty limits. Based on the size of the patient's balance, there is a percent discount that they receive. Any patient that is 150% or less of the poverty level has their entire bill written off to charity care. He stated that the lower end of the self-pay population is somewhat insulated from the effects of the price increase by virtue of this mechanism.

All rolled together, the effect of the volume increase, 2.5% on the in-patient side and 2% on the out patient side is an increase year over year in revenue of $11.9 million. The 9.5% price increase yields a payment increase of $12.5 million from commercial and managed care payers, $400,000 from other governmental payers and about $700,000 from self-pay. The self pay amount is both in the case of the person with no insurance whatsoever and also the self pay balances that are the patient obligation portion after insurance. The total increases in revenue of the $33.3 million they budgeted, $13.6 million was directly related to the price increase. He said the Medicare program is projected to go up by $4.3 million and there is no increase from the traditional Medicaid program budgeted. The fee schedule of fixed payment negotiated rates from commercial payers are to go up by $3.5 million. This is essentially how the revenue side of the picture will work.

President Gartner thanked UIHC officials for their presentation.

President Gartner recessed the meeting on May 4, 2005 at 6:35 p.m..

The Board convened in Executive Session on May 5, 2005, at 8:00 a.m.

<u>Call to Order</u>

MOTION	At 9:35 a.m., Regent Downer moved that the Board come out of Executive Session and reconvene in open session. Regent Vasquez seconded the motion. **MOTION CARRIED UNANIMOUSLY**

The Board reconvened in Public Session at 9:35 a.m.

Item 3. <u>A. Minutes of the February 2-3, 2005 Board Meeting</u>
<u>B. Minutes of the March 14-15, 2005 Board Meeting</u>
<u>C. Minutes of the April 16, 2005 Board Meeting</u>
<u>D. Minutes of the April 18, 2005 Board Meeting</u>

MOTION	Regent Wahlert moved that the four sets of minutes be approved. Regent Rokes seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Item 4. Ratification of Appointments by the President of the Board

President Gartner said appointments were established for the Board standing committees. Two other appointments were made: 1) the Board of the Department of Economic Development, and 2) the Iowa State Research Foundation.

He asked, given the emphasis of the Board of Regents on economic development, a close working relationship with economic development and the funding links with economic development through the Iowa Department of Economic Development (IDED) and the Regents. He asked that Ruth Harkin be the appointment to the Iowa State Research Foundation, and would himself be serving on the Iowa of IDED..

MOTION	Regent Wahlert moved to approve the ratification of appointments. Regent Rokes seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Item 5. Institutional and Board Office Personnel Transactions

Marcia Brunson, Policy and Operations Officer, presented the registers for the institutions and Board office for the Board's ratification. She said there were two appointments at the University of Northern Iowa highlighted in the docket.

For the benefit of new Board members, Associate Director Brunson said the registers of personnel transactions reflect everything that happens basically to employees' pay, appointment, resignation, leaves, changes in appointment status, changes in length of appointment. These are sent to the Board office monthly after payroll is run.

President Gartner asked if it was required by law that the Board approve these transactions and Ms. Brunson said it was.

MOTION	Regent Downer moved to approve the institutional and board office personnel transactions. Regent Arbisser seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Item 6. Legislative Update

Deputy Executive Director Steinke addressed the Board by phone.

Deputy Executive Director Steinke said last week the House passed House File 816, which is the Education Appropriations bill. The appropriation for the Regents is $15 million. The Democrats offered an amendment to bring the Regent's funding to $40 million, but the amendment failed on a tie vote of 49-49.

In the last several days, the Senate Republicans and Democrats had compromised on the state budget, which includes funding for the Regents of $22 million. He said that compromise is between Republicans and Democrats in the Senate. Mr. Steinke said it remains to be seen if there is going to be any movement upward from that $22 million figure.

On the economic development side, Mr. Steinke said that last night, the Senate passed the Economic Development Infrastructure bill. They have appropriated to the Regents $5 million for the three universities to fund the infrastructure needs associated with the current Economic Development programs at each of the three institutions.

The Regents deregulatory language that was a part of the Regent's transformational plan will be taken up in the Senate today. It will be part of a larger amendment and is very likely to pass the Senate.

Mr. Steinke said yesterday the Senate passed the expanded Medicare/Medicaid bill on a vote of 41-9.

Mr. Steinke expressed appreciation for the hundreds of emails from Iowa resident students and their parents over the last several days. Emails, personal letters and phone calls have come in explaining to Legislators that state funding is absolutely vital to keeping tuition low and affordable for Iowa resident students and their parents. He said these were not form letters, but letters "written from the heart" and were extremely effective. He felt it showed concern from the Iowa resident students and their parents about tuition and adequate funding for the three Regent institutions, to maintain quality and access.

He said it was also important to understand that the three universities, friends and alumni organizations have been working all year long, communicating with Legislators that they know personally or have contact with, and in a low key way, explaining to them from their perspective why it was important that funding levels of $40 million are important.

Mr. Steinke said he thought it was important for everyone to understand that most of the members of the Board of Regents volunteer their time to serve on the Board, have extended their volunteerism over the last several weeks. Many members of the Board have come to the Capitol and have made phone calls to Legislators about the importance of the Transformational Plan. That has been very effective and very appreciated. He also thanked the members of the General Assembly. He said they recognize the need and importance of the Transformational Plan and have provided, at this point, $22 million in new funding for the Regents, after four or five years of tremendous cuts. Mr. Steinke said it was disappointing but it signified a commitment on their part to do what they could for funding for the Regents this year.

Regent Rokes thanked Mr. Steinke for his hard work. President Gartner said she spoke for the entire Board, for the spectacular job he has done 24 hours a day.

Mr. Steinke commended the three state relations officers. He said they are there every day, from gavel to gavel. He said they have worked extremely hard. They have excellent relationships with the members of the General Assembly and have been and remain committed and dedicated to the Regents' priorities and have thought of creative and innovate ways to accomplish the Board's priorities.

President Gartner wanted to read a statement, a copy of which had been faxed to Mr. Steinke. He said the statement was from himself, Bob Downer, President Pro Tem and from the Presidents of the three Regents universities.

> "The Board of Regents and the Presidents of the three Regent universities, remain committed to making the universities leaders in education, partners in economic development and innovators in scientific research that benefits Iowa and the world. We are grateful to the Legislators for providing $22 million toward the $80 million needed for the first year of this transformation. Iowa students have provided $20 million through the tuition increase already enacted for this fall. We renew our own commitment to provide $20 million through internal efficiencies and reallocations, even though our own commitment was made in the expectation the Legislature would provide $40 million. That leaves a gap of $18 million.
>
> "Now, that gap must be filled. We will dig into our own resources, but we also now are forced to turn to Iowa's parents and students for further help. Unless additional help comes from the Legislature, we will be forced to consider an added tuition rise of three percent for the second semester of the coming academic year; and even that will fill only a part of the gap.
>
> "We regret that this must be done, but providing quality education, spurring economic growth and conducting important research cannot be delayed.
>
> "We appeal to the Legislature on behalf of the institutions and Iowa's students and their parents to reconsider this appropriation. We point out that the problem could be solved without a tuition increase, if the Legislature would add 10 cents to the proposed increase in the Iowa cigarette tax and to commit that revenue to the universities. That would come close to funding the future, would eliminate the need for an additional tuition increase and would ensure we prepare out students so they can compete in a changing world, while we also participate as full partners in the economic development of this state."

President Gartner said it was with great dismay that the presidents and the Board leadership had come to the conclusion of considering a tuition increase, but the gap is there and the other wells are pretty dry. He said the cigarette tax could solve the problem. He said this would be a ready solution that not only would resolve the issues for the Regents' universities, but would also further the social policy of trying to prevent young people from taking up smoking. He said if you don't take up smoking by 18 or 19, all studies show it is unlikely you will smoke. Studies also show that every minute a person spends smoking is one minute taken off the average life span of a person. He said it takes roughly seven minutes to smoke a cigarette, which is seven minutes off the potential life span of a college student who smokes. President Gartner said when you look at that, you wonder over the history of the state, how many great innovations have not been made, how many grandchildren have not been seen, how many great novels have not been written, because of cigarette smoking, which starts often in college or before. He concluded by saying they support the cigarette tax increase for not only the Regent's monetary reason but for the state's social policy.

Regent Downer added to the President Gartner's statistics by saying it has been determined that if the cigarette tax were to fully fund the costs of medical care associated with smoking cigarettes, the tax would be over $7 a pack. He said they were talking about an increase at this time that would only get the tax of 10% of that amount. Regent Downer said it was certainly reasonable to increase the tax to a far greater level and yet it still will not fund the direct medical costs associated with smoking.

Executive Director Nichols said for the audience and Mr. Steinke's benefit, if this plea is not heeded by the Legislature and the Board needs to consider an additional tuition increase, today's announcement should be considered a first public notice that the schedule of Board meetings previously provided is being modified and that plans are under way, if necessary, for the Board calendar to include a meeting on July 14, 2005 in Ames for that purpose. Formal notification of student leaders, at least 30 days prior to that, of any specific proposals on additional tuition that need to come forth, will be provided as well.

Item 7. <u>Operating Budget Issues for FY 2006</u>

Pam Elliott Cain, Chief Business Officer, said they were asking the Board to (1) discuss the identified budget issues and (2) provide a general direction and guidance to the institutions prior to their submitting budgets for Board approval. Ms. Elliott Cain said the amount of revenue funding for fiscal 2006 is a key component in the development of those institutional budgets. Since the Legislature is still in session, state appropriations are not yet final.

Ms. Elliott Cain said for the two special schools that do rely heavily on state appropriations, the incremental amount of $530,000, which is a four percent increase, has been unchanged since it was introduced into legislation. She said this increase is similar to the increase provided to other K-12 schools throughout the state through allowable growth. However, for the universities, the current legislative amount is in flux and for the Board's Transformation Plan is currently significantly less than the $40 million requested.

As part of the Board's four year plan, in November the Board approved a moderate tuition increase for fiscal 2006, by the estimated rate of educational inflation, four percent. That increase will provide about $20 million to the universities. Additionally, the Transformation Plan called for reallocations. The reallocations called for a $1 match for every $2 in state appropriations. At the time when the Board implemented the transformation plan, there was a specific definition of reallocations added to the Board policy. Ms. Elliott Cain said this would be the first budget cycle that they will be working with those definitions for reallocations.

Ms. Elliott Cain said another item to discuss was salary policies, which the Human Resource Committee discussed yesterday. Another item to consider and look at are the unavoidable/inflationary costs, which include library costs, maintenance, utilities and opening of new buildings. She continued by saying there was a section in the Board materials for general fund support of athletics. Ms. Elliott Cain said the last issue to look at was capital projects and building repairs.

She stated the fiscal 2005 budgets for building repairs represent $13.3 million across the five institutions, which is the lowest amount for building repairs in 10 years. The high for building repairs was in FY 2000, which was the first year of budget cuts. The difference between fiscal 2000 and 2005 is about $7 million per year.

President Gartner asked how much would be spent on maintenance. Ms. Elliott Cain said the operating budget for the current fiscal year, 2005 was $13.3 million. She said the current deferred maintenance was $220 million and the national standards are to set aside in an operating budget about 1% of the replacement costs. President Gartner said they were "marching toward a crisis" and Ms. Elliott Cain agreed. She said it is a trade-off between salaries and building repairs, as far as the current budgets.

Executive Director Nichols said this item was designed to provide an opportunity for the Board to give any suggestion or direction to the institutions, as they finalize preparations for budgets that will come to the Board in June.

President Gartner told Ms. Elliott Cain that he assumed she would be looking into the accounting appropriateness of the University of Iowa athletic scholarship switch to determine the best way to handle that. Ms. Elliott Cain said she would.

Ms. Elliott Cain said that the budgets to the Board in June would be based on the current known amounts for state appropriations and prior to any supplemental tuition that might be necessary. If supplemental tuition becomes necessary, they will bring the budgets back at a later time with revisions.

Regent Wahlert said one of the things that struck her when they were in salary discussions was the approach that the University of Northern Iowa has used in the past, which is a bit different than the other two universities in trying to fairly and adequately have a reimbursement philosophy on salary. She said one of the things she learned and one that everyone employs when they do their personal checkbooks, when there's no money in the bank, you either cut back somewhere or you quit something.

She said it seemed that one of the things heard from the University of Northern Iowa was the fact that they did make some decisions in the last four years to quit doing some things. Admittedly that may result in a lower service level in some areas; however, it does offer another avenue for appropriate salary changes for the rest of the university personnel. Regent Wahlert said one of the things she would be looking at is the understanding that each university is separate and distinct. She looks forward to the June meeting and what suggestions might be presented by the other two universities have while trying to keep loyal to the discussions they had on the criticality of salary increases in the educational field, balanced with what might be some suggested areas that they cease to deliver, understanding that does result in a different service level for students, but in order to keep the balance discussed, she would be interested in those suggestions.

Regent Downer said he wanted to second the comments made by President Gartner with respect to the deferred maintenance matter and the absolutely critical nature of that. He hoped that during this budget process, they could attempt to find some other ways to address that more aggressively than they have in the past, through bonding in some fashion, although the General Assembly hasn't been very receptive to that. He said they have an overwhelming case to be made for addressing this in a major way. The Board is not being good fiduciaries of the resources that are entrusted to their control, if they allow these facilities to further deteriorate. He said there is a new Board committee that will be dealing with building issues and hoped that somewhere in the process, this receives a significant amount of attention and is addressed.

President Gartner said that was a good point and that one of the new committees of the Board is the Facilities Committee, which Regent Arbisser will head. One of its charges is "inventory" the problem and help the Board try to find solutions, as well as come up with procedures in terms of new buildings and renovations and how those get done.

Executive Director Nichols said the Board will have on its June public agenda the presumably final review of institutional strategic plans and the initial public meeting for the Property and Facilities

Committee and the reviews of the preliminary budgets for the institutions. He said they would not be presented in the Board's ideal sequencing, but were at least getting the pieces pulled together at a similar time.

Regent Bedell said he was in total support of Regent Wahlert's comments and said it would help him as a new member, to have a working session with the three presidents and their staff, possibly individually, to help him understand the strategic plan, understand how the budget ties to it, understand what they're doing on the transformation program and understand if there's not a tuition increase, how they would still deliver the strategic plan and if there is a tuition increase, how that money would be spent to deliver better value for the Iowa students.

Item 8. <u>Allocation of Mandatory Student Fees for the 2005-06 Academic Year</u>

Deb Hendrickson, Senior Policy and Operations Officer, said that in the fall of each year, the Board establishes tuition and mandatory fees for each of the universities for the following academic year. At the subsequent May Board meeting, the Board allocates the student activity fees, student service fees and the building feeds after considering the priorities of the students.

Iowa Code requires the involvement of a Student Fee Committee prior to the Board approving allocations of the student fees. The Student Fee Committees at each of the universities have met and have made the recommendations that you see regarding the allocations of the fees.

The Board is being requested to approve the recommended allocations, as illustrated in the tables 1-3 on pages 6-8.

President Gartner asked if none of the fees cumulatively exceed the rate that was agreed to and Ms. Hendrickson said that was correct.

Regent Downer noted with respect to the student activity fee at the University of Iowa, that there was a decrease in funding for the Rape Victim Advocacy Program. He asked for the reason for the decrease.

Doug True, Senior Vice President of the University of Iowa said one of the things noted in the student activity fees is they can fluctuate from year to year, based on unspent balances in the prior year and accounting adjustments that have nothing to do with the direction of the program.

Mr. Phillip Jones, Vice President for Student Services said the Rape Victim Advocacy Program (RVAP) is an organization that is funded multiple ways; student government is one of those. This year, the student government, in conversation with RVAP, made a determination about the level of funding.

Regent Downer asked if the representatives of the program itself were supportive of that level of funding and Mr. Jones said they were.

Regent Bedell asked what the difference was, from the students' point of view, of the mandatory fees and the discussion about requiring health insurance. He asked why the students would accept the mandatory fees, but don't want the health insurance required.

Vice President Jones said there is a general student activity fee and that fee is allocated by the students for other student organizations. The student recommendations are made to Mr. Jones and the Vice President of Finance. From the total amount of money, $53 for student activity fees is what is being seen is the work of the student government with the several hundred student organizations who request funds. They requested an increase of $2 this year for them to be able to fund the organizations that request funds of them.

Regent Bedell asked if the student government comes up with the $53. Vice President Jones said it was part of the fees paid by each student.

President Gartner asked who set the $53 rate. Vice President Jones said the Board sets the rate. President Gartner asked if the Board sets the rate in response to requests from the universities, and then the university goes to the student government and ask how they would like it allocated. The students at the University of Northern Iowa said they want to give $19.10 for athletic scholarships. Vice President Jones said that's essentially how the University of Iowa does it. He said the spread of it is made by the student government Budget and Auditing Committee.

Ms. Hendrickson said she believed it had to do with the dollar amount. She said there is only a $2 increase from what they have been paying and assumed the student health insurance would be more significant.

Regent Wahlert asked for a description of the Student Association. She pointed out that the Student Association allocation is going from $22.62 to $25.00. Vice President Jones said within that amount, the student government holds part of the money for their program funding, but allocates to the various commissions and student areas.

Regent Rokes asked if the UI Student Association is part of the Student Government. Vice President Jones said the UI Student Association is the Student Government.

Regent Wahlert asked about the Student Association because of the question Regent Downer brought up. She said it seems that one of the duties the Board has for its students is safety on campus. She questioned significant increases in a couple of areas with the decrease in the rape Victim Advocacy Program. She thought if there were to be one realignment or re-evaluation, within the $53, she thought a second look should be taken at that organization, especially in the current times with safety issues. Mr. Jones said they could do that, but pointed out that the RVAP has funding from the county as well as from grants. They make an operational budget out of a variety of sources.

President Skorton said he wanted to talk on a more general level to Regent Wahlert and Regent Bedell's questions. He said the Rape Victim Advocacy Program is a good example of how much this represents in terms of their whole budget and whether it affects their programming and in the future they would make it clear.

President Skorton said he believes there should be a healthy give and take between student government and the university administration before they bring the matter to the Board, so if there were questions about changing the allocation that student government has decided to be fair to the philosophy of shared governance, he asked the Board's forbearance that they bring the student leaders to the Board meeting to defend their decisions, rather than overriding them without hearing their logic.

President Skorton said the direct question was asked about what was different between this and the student health discussion. He said to be fair to the students' position that was expressed yesterday, like everything else that is done in a complex organization like these universities, every single decision to add to someone's financial burden and use the result of that burden for a decision, is a complex mix of different factors. He said he believes in the students' mind the question that is asked on every one of the allocations, either by the student organization or by individual rank and file students is how much value will they gain for the perceived increase in costs. He said as years have passed, the Board has seen how students feel about many areas, regular curricular type functions, recreational functions, functions that have to do with health and safety, including programs like RVAP. He said he respects the students' right to voice their opinion on these issues. He said it's not so much the process of mandatory fees, but how they perceive each one of them. He said they would be happy to supply the Board, especially the new members, with a historical document showing how some of the fees have been spent in the past, if it would help them get a sense of the ebb and flow of different priorities.

Regent Rokes asked why Iowa State's mandatory fees are not listed in as much detail as the other universities. For example, what does the student government spend their money on or how exactly is the money being spent. Warren Madden, Vice President of Business and Finance for Iowa State University said each of the student governments have processes. He said in the case of Iowa State University, the Government of Student Body, which would be getting next year to approve the $59.90, they allocate that across all of their student organizations. They have a student government fee setting process, hold hearings, and meet with groups. He said he has a detailed list of hundreds of student organizations. He said the Board's past practice has been not been to get involved in the detailed processes the student governments follow to allocate their money. He didn't think there was anything other than historical practice about what level of detail the Board wants.

Regent Rokes said the University of Northern Iowa had a 10 cent decrease in the Child Care Committee. She asked if that was always considered in Financial Aid. President Koob said the Student Government this year thought they were involved in the Financial Aid process and thought that would be more effectively administered in financial aid. The numbers of dollars relative to the total financial aid budget were relatively small. He said they were able to shift the responsibility from Student Government to financial aid. He said there was no expectation of any decrease in the level of service to students.

President Gartner said for the record he wanted to follow up on items that Regent Wahlert and Regent Bedell said yesterday about the role of the Board, strategy versus other things. He said he thought it was important that the Board ensure issues like safety, freedom and health. He thought it would be not so wise to start second guessing how money is allocated by the student bodies. He thought there were certain over-arching principles they want to make sure are present. Beyond that, he thought there would have to be another meeting every year to debate the issues.

MOTION	Regent Becker moved that the Board approve the allocation of mandatory student fees for 2005-06. Regent Rokes seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Item 9. Final Approval of Miscellaneous Fees and Charges

Andrea Anania, Board Policy and Operations Analyst, said proposed changes to miscellaneous fees and charges were presented to the Board in March for preliminary consideration and are presented for the Board's approval. She said there were no changes from the recommendations presented in March.

Regent Becker commented that in the Background Check section (page 3) it was apparent there was a variety of practices in terms of criminal background checks; in particular the one with Iowa State, where there's a mention that Iowa State University has not centralized the process of background checks. She wondered if that was something that Iowa State University should look into, to ensure along the safety line, that there is some consistency across the hiring units in protecting student and faculty's safety.

Vice President Madden said they were continuing to review that. He said there were cost issues associated with doing background checks. He said there was also the lack of a national system to get the kind of data. He said you can do checks in the state of Iowa relatively effectively and they do some of that. He said one of the internal discussions they continue to have is the effectiveness of doing this, if you aren't able to collect the full data. He said at the present time, they made a judgment to leave this up to the individual areas. Those areas where there are people working in medical facilities and similar areas, checks are being done and those units have made those decisions. He said they were not in the same situation the University of Iowa would be in, in terms of programs and numbers. He said they have felt that leaving this up to the units is appropriate, but understand the Board's question and continue to review how this best is done across the institution.

Regent Becker said her general feeling is that in an area where there isn't a clear expectation.

MOTION	Regent Rokes moved that the Board approve changes to miscellaneous fees and charges for FY 2006. Regent Arbisser seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Item 10. Final Approval of Parking Rates and Policy Manual

Andrea Anania, Board Policy and Operations Analyst said proposed changes to parking rates and policy manual revisions were presented to the Board in March and are presented again this month for the Board's approval. She said there are no changes from those recommendations presented in March.

President Gartner asked if by law the Board had to approve these. Ms. Anania said the Administrative Code requires that certain changes be approved. The Policy Manual requires that they be approved by the Board.

Regent Bedell asked if the Board could give the three university presidents the assignment of figuring out to pull at least half of the issues presented to the Board and reassign them back to the universities so they could do whatever administrative things they need to do.

President Gartner said he has asked the staff on all the reports to prepare a list of the ones that are required by Code, either Iowa Code or Administrative Code, or others, and to weed this out. He said he doesn't feel that the Board has an expertise of what the parking rates should be at Iowa State University. He felt the more of this they could get rid of, the more they could have substantive conversations on more important issues.

Regent Downer said that as to those areas that are just in the Administrative Code, the Board should be able to change those, where it is not mandated by the Code of Iowa. Regent Vasquez said even if it was in the Code of Iowa, there could be a way to streamline. President Gartner said they could seek legislative relief next year, which he thought the plan was at this time.

MOTION	Regent Wahlert moved to approve parking rate increases for FY 2006 at the three Regent universities and policy manual revisions at the University of Northern Iowa. Regent Downer seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Item 11. <u>Final Approval of 2005-06 Residence System Rates</u>

Deb Hendrickson, Senior Policy and Operations Officer, said in March the Board received a comprehensive governance report on the residence systems at the universities, which included five year plans, proposed rate increases for the 2005-06 academic year and the fiscal 2006 preliminary budgets. The residence system budgets are currently scheduled to be finalized at the June Board meeting. At that time, some follow-up issues will be addressed. This month the Board is requested to approve the residence system rate increases, the fund transfers and the continuance of the University of Northern Iowa's Advantage Plan. No changes were made to the rates that were presented to the Board in March.

MOTION	Regent Becker moved to approve residence systems rates for 2005-06 academic year, approve transfers from the Dormitory System Funds and approve the continuance of the 2 year Advantage Plan at UNI. Regent Rokes seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Executive Director Nichols said the staff heard the message about parking rates. He said the Board went through a sequence of parking rates, residence rates, miscellaneous fees and student fees and of all of those are legitimate for staff to pursue in terms of the considering streamlining some Board items. He said the Board office would prepare recommendations.

Regent Becker said from her perspective it was more the cumulative impact of increases, so it's the percentage increases. That comes up more when talking about tuition and what the total impact would be on the students.

Regent Bedell felt it was the Board's role to agree with the policy that the residence systems should be self-supporting and then it should be the job of each of the universities to manage the dorms in a way that provides the best value for the students as they possibly can. President Gartner agreed.

Regent Arbisser said the Board had some responsibility for trying to keep the overall cost of education at a reasonable number. He felt there had to be some oversight for what's going on. He didn't think they needed to look at all the details, but felt there was some overall responsibility for the Board to be aware of what it costs kids in Iowa to go to college.

Regent Vasquez agreed with Regent Arbisser and said that was the balance they were trying to find.

Ms. Hendrickson pointed out there were a few Code issues about notifying students of rate increases and some of those issues would have to be worked through. She said it would be difficult to bring it all at budget time, because budgets are so dependent on the proposed rates. If there was a change to the proposed rates, it would cause a lot of effort on the campuses.

Executive Director Nichols said the additional issue on some of the self-supporting enterprises is on bond issuance, because the Board is the bond issuer.

Item 12. <u>Annual Governance Report on Faculty Tenure</u>

Marcia Brunson, Senior Policy and Operators Officer said before the Board was a newly structured report, which includes a request to approve the Promotion and Tenure Actions of the Regent universities for the upcoming academic year and presents an analytical review of the tenure actions for the current year. This was done in accordance with Board policy. She pointed out that tenure Actions were slightly below those of the current level and were detailed in the tables on page 1-2 of the materials.

Diana Gonzalez, Policy and Operations Analyst, said the Tenure Report is an annual report that describes the tenure rates at the Regent universities for 2004-05. Tenure is a contractual employment arrangement between a faculty member and the university. Typically it involves a probationary period of about seven years, during which time the faculty member undergoes ongoing review and evaluation. Dr. Gonzalez pointed out the following: 1) for the last seven of eight years, there has been a decrease in tenured faculty at the Regent universities; 2) for four out of the last five years, there has been a decrease in the number of tenure eligible faculty.

Dr. Gonzalez said one of the key issues involved in tenure is post-tenure review. She said those policies were developed by the universities and approved by the Board several years ago and are operational. The purpose of the post-tenure review is to ensure that the faculty vitality is addressed. She said each university has a program that involves many different opportunities for faculty to engage in professional development, both at the content and pedagogical levels

Regent Downer said on page three of the report, it was indicated that Iowa State University's tenure rate is the lowest of its peers. Then in the tables, he noted that the number of tenured faculty at Iowa State University has declined almost 300 from 1987-88 to 2004-05. He asked what the reason was for the circumstances and if it was something that the university was concerned about or whether the Board should have concerns about, with respect to issues of quality.

President Geoffroy said the ultimate reason for the decline in the number of tenured and tenure eligible faculty was because of the severe budget cuts that they had to absorb over the last four years. Those cuts have caused the university to eliminate faculty positions. He said that the university was very concerned because faculty is the heart and soul of the university and he feels that's where the excellence of the university resides. He said they have two major objectives. One is to ensure that compensation for faculty and staff is competitive with its peers and secondly to bring faculty numbers up to the level that is appropriate for the enrollment at Iowa State University.

Regent Downer said with respect to the University of Iowa, among its peers, its rate is high, second only to Ohio State. He asked if that was indicative of anything in particular with respect to the quality of the institutions. He noted that the University of Michigan was quite low, although generally regarded to be a high quality institution.

President Skorton said there were four points he wanted to make. He said they didn't have a policy or quota that a certain number of people are going to make tenure, nor do any of the top institutions that he was aware of have such a target. Every person is taken on their own record and are vigorously reviewed by peers; not only peers in the institution but commonly peers outside the institution who have no interest one way or the other in the outcome of a decision on promotion or tenure.

President Skorton said secondly that institutions and departments vary as to how hard of a filter it is to get a tenure track job in the first place. The best system is one in which the initial filter to get on a tenure track is very hard, that faculty have well-laid out expectations like any employee would, that they are evaluated rigorously and frequently on those mutually agreed upon parameters and that it would be relatively uncommon for someone not to be able to go through the system.

The third point President Skorton made was that the tenure process varies from year to year. President Skorton said the fourth point was the point of the post-tenure review at the level of associate professor and full professor with tenure, is to make sure that those decisions were done correctly, that the faculty continue to be active and vital and to have support and appropriate opportunities to contribute to the corpus of knowledge and contribute to the curricular mission.

He said the bottom line at the University of Iowa, by tradition, it has been a relatively hard filter to get on the tenure track and then substantial support has been given thereafter.

Provost Hogan said one of the things the data doesn't show is the faculty who leave the institution before the six year up or out tenure decision is made. The university does a very rigorous promotion and tenure review at the end of three years. In many cases, faculty in colleges where they may have opportunities outside the university, see the handwriting on the wall and depart. If you survive the third year review, there is a much greater probability that you will succeed in the six year review.

Associate Provost Clark said if you look at the period from an entering class to the group receiving tenure, overall it is 60-65%. Some are counseled out and some are taken by different institutions. Once an individual gets near the tenure point, most of those who are not going to get tenure have already left the institution.

In comparison to the University of Michigan which has a very large number of non-tenured faculty, the University of Iowa's faculty has been conservative about increasing the types of faculty that are not eligible for tenure and have limited the numbers of clinical track faculty members.

Regent Bedell asked what it meant to have tenure. President Skorton said the original idea of tenure was to protect the right of people to make controversial statements or unpopular statements without fear of employment reprisal. Over the years, it has developed a broader impact allow faculty to seek their own area of scholarly endeavor.

President Skorton said they do not look at tenure as a way to pass a few years, do a good job and have guaranteed life-long employment, without any fear of being evaluated. That is the whole point of post-tenure review. They take it very seriously and there are substantial consequences to faculty who do not continue to be productive. It may involve reassignment of duties or a change in salary.

Regent Bedell asked if tenure guaranteed employment. Associate Provost Clark said as an employment contract, tenure guarantees employment, barring inappropriate conduct.

Regent Wahlert said in the summary pages, she asked that the next time she would like to see one or two added lines of data, which are probably buried back in the statistical tables, of gender and racial/ethnic minority diversity.

MOTION	Regent Rokes moved to accept the recommendations to award faculty tenure and promotion for the academic year. Regent Downer seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

The Board recessed at 11:00 a.m.

President Gartner reconvened the meeting at 11:30 a.m.

Item 13. <u>Annual Report on Competition with Private Enterprise</u>

Andrea Anania, Board Office Policy and Operations Analyst, said the report on Competition with Private Enterprise is presented to the Board each year in the spring. The purpose of the report is to inform the Board of institutional activities, including any complaints related to competition with private enterprise during the past year. Iowa law precludes the Regents institutions from competing with private enterprise, except in certain situations. To be in compliance with the law, the Board adopted rules that Regent institutions shall not engage in competition with private enterprise unless the activity will assist in education, research, extension or service mission of the institutions.

Ms. Anania said each institution has established written policies regarding competition with private enterprise and ensure that activities provided by the institution are consistent with Board policy, processes are identified to handle inquiries and that there is a means for community businesses to interact with the institutions. No complaints were received during the past year at the Regent institutions; however, other comments and concerns that are regarded as informal were received and are addressed in the document.

Regent Arbisser said in looking at the Review Committee for the University of Iowa, it seemed that since the largest economic enterprise is medical, that it might be nice to have someone there. There have been questions raised in the past, including actual meetings with some of the legislators. Senior Vice President Doug True, of the University of Iowa said Dick LaBlond is on the Review Committee and is also incoming president of the faculty Senate.

Regent Bedell asked if it was a good policy. President Gartner said it was the law. Regent Bedell said he knew it was, but wondered if it was something they should encourage the Legislature to change. He said he would make the argument that if private enterprise can't compete with a university in a free market system, something's wrong. President Gartner said the issue is one of a level playing field; who pays taxes, who doesn't pay taxes, who gets free rent, who doesn't get free rent, those kinds of issues. Regent Bedell said he would encourage the Economic Development Committee to put this on their agenda, because it very likely may be that if the university system could take some of their research farther into the commerce mainstream before they turn it over, there would be a bigger success rate. He felt this law was causing some inefficiencies in the transition from ideas to execution in the marketplace. President Gartner said that would put it on the agenda.

Regent Downer said there were very significant exceptions in the statute that relate to the Regent institutions. He said those exemptions are far broader than they are for any other area of state government.

President Gartner received the report.

Item 14. <u>Institutional Agreements, Leases and Easements</u>

Joan Racki, Board Office Senior Policy and Operations Officer, said the leases before the Board were recommended for approval.

Regent Arbisser said as the chairman of a new committee, this material might belong under the Committee's purview.

President Gartner agreed and said if this wasn't required by statute, that the Board approve the Committee should take care of it and not bring it to the Board in the future, unless there is some kind of an issue.

Executive Director Nichols told President Gartner that it was a statutory requirement and President Gartner said they will see about getting the statute changed.

MOTION	Regent Becker moved to approve the leases. Regent Rokes seconded the motion. **BY ROLL CALL VOTE, MOTION WAS PASSED**

Vote for or against the motion. REVISED

Board of Regent Members	**Aye**	**Nay**	**Not Voting**
Regent Bedell	X		
Regent Becker	X		
Regent Arbisser	X		
Regent Rokes	X		
Regent Downer	X		
Regent Vasquez	X		
Regent Wahlert	X		
Regent Gartner			X
Regent Harkin			X

Item 15. <u>Report of the Economic Development Committee</u>

Regent Downer reported the Economic Development Committee took the following at its May 4, 2005 meeting:

- Approved the minutes of its meeting of March 14, 2005
- Received updates from the Universities concerning the status of their projects initiated under the auspices of the Grow Iowa Values Fund
- Received a report concerning the Biosciences Alliance
- Received an update from Iowa State University concerning the Biotechnology Risk Assessment Project

Regent Downer also reported that the following items were anticipated for consideration at the committee's next meeting:

- Staff report on an inventory of current economic development-related activities
- Report from the Universities on review of patent and intellectual property policies
- Outline for a committee work plan for the coming twelve months
- Plans for efforts to identify key entities with which to collaborate on ongoing economic development efforts

President Gartner received the report.

Item 16. <u>Report of the Audit and Compliance Committee</u>

Regent Wahlert, chair of the Audit and Compliance Committee gave a summary of the proceedings. On May 4, the Committee met in Vinton, Iowa and discussed the audit plan from the state auditor, David Vaudt, and talked about some of the changes that he was making, as well as where his focus will be next year.

The Committee also discussed the special investigation that was done over the last 12 months with some of the grants and contracts in Iowa State University's process.

The Committee discussed where each one of the institutions are at with the Sarbanes-Oxley activity and received information from each one of the institutions on not only the collective process, but how some of those suggestions will be implemented throughout the university systems within the state.

Regent Wahlert said they discussed a new code they would hopefully be adding to the Regent Code of Business and Fiduciary Conduct, which will be presented in the June Board meeting.

Discussion was held about interest in the hotline that will be establishing over the next 6-8 weeks, giving employees yet another avenue to report any issues they may have with regard to the fiduciary responsibilities of the state institutions.

Regent Wahlert said they accepted the revisions of the University of Northern Iowa's 2005 Audit Plan. The Committee discussed some audit reports and specifically within the state institutions on some issues that are currently being resolved within those audit recommendations. Regent Wahlert said they discussed their Work Plan for the 2006, which will begin shortly.

The Committee discussed and accepted a new philosophy in some of the work they will be doing in the future. She said it was interesting because it is one of the recommendations out of the Transformation Plan, which is to approach this particular area on an enterprise-wide basis. They will start that process first by filling the open Director of Audit position as an enterprise-wide position, rather than a replacement position within the University of Iowa. In the interview process for this candidate will be each of the three presidents, as well as the State Auditor, President of the Regents and the Audit Chairperson. When an individual is selected, that person will report to the chair of the Audit Committee, as well as the President of the Regents, which is directionally a different kind of reporting philosophy, yet consistent with running this particular area on an enterprise-wide basis. Regent Wahlert said they hoped to fill that position within the next 30-45 days. They will do some amending in the audit plan so that when they do an audit on a particular topic, they will do it enterprise-wise. Each of the universities and special schools will be included in this.

President Gartner said that was a significant change and will take effect quickly. President Gartner received the report and recommendations.

Item 17. <u>Report of the Human Resources Committee</u>

Regent Vasquez presented the report for the Human Resources Committee, which was held in Vinton, Iowa on May 4, 2005.

The Committee approved the minutes from its March 15, 2005 meeting.

The Committee reviewed the proposal for mandatory student health insurance at the University of Iowa. The Committee discussed and heard comments from University representatives and student leadership, regarding the proposal for mandatory student health insurance. The Committee requested the university clarify financial aid questions and other issues. The Committee also requested that the universities discuss whether, if implemented, the proposal could be done enterprise-wide.

The Committee discussed the Professional and Scientific Staff Flex Pay Plan from the University of Iowa. The Committee recommended approval of the University of Iowa's flexible pay proposal for unorganized professional and scientific staff for a one year pilot period. The Committee recommended that the flex pay plan for each department or unit incorporate guidelines that defined the funding amount. The Committee also requested that the university report back on how the plan could be applied on an enterprise-wide basis. The Committee recommends Board approval.

MOTION	Regent Vasquez moved to approve the one year pilot program for the Flex Pay Plan at the University of Iowa. Regent Arbisser seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Regent Vasquez said the Committee discussed the proposed salary policies and pay plans for the Regent universities. The Committee discussed and heard comments from faculty, staff and institutional representatives regarding the proposed pay policies of the universities and the special schools. The Committee voted to recommend that the proposed pay policies be considered by the Board as part of budget discussions at the June meeting, with the understanding that they are contingent upon funding.

President Gartner accepted the report.

Item 18. <u>Approval of Calendars</u>

A. UNI Calendar Holidays for 2007

B. IBSSS School Calendar for 2005-06

C. ISD School and Holiday Calendars for 2005-06

MOTION	Regent Bedell moved that the three calendars for UNI, IBSSS and ISD schools be accepted. Regent Arbisser seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Item 19. <u>Miscellaneous Iowa State University Items</u>

A. Naming Proposal for the Hixson-Lied Student Success Center

MOTION	Regent Bedell moved to accept the recommendation to name the new student success center "Hixson-Lied Student Success Center". Regent Becker seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

B. Honorary Doctorate Degrees

MOTION	Regent Downer moved to approve the request to award an honorary doctor of science degree to Vance D. Coffman. Regent Rokes seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

President Gartner recessed the meeting at 11:55 am.

President Gartner reconvened the meeting at 1:10 p.m.

Item 20A. <u>Register of Capital Improvement Business Transactions – University of Iowa</u>

Doug True, Senior Vice President, University of Iowa made a presentation on capital improvement transactions.

<u>University Hospitals and Clinics – Ambulatory Surgery Center and Procedure Suite and Replacement Ambulatory Care Clinic Development</u>

John Staley, Senior Associate Director of the University Hospital and Clinics discussed the project for developing the new ambulatory surgery Center and Procedure Suite and Replacement Ambulatory Care Clinics. He introduced:

- Dr. Joseph Buckwaler, Professor and head of the Department of Orthopedic Surgery and chair of the medical team that developed the plans for the Ambulatory Surgery Center.
- Dr. Paul Rothman, Professor and head of the Department of Internal Medicine, who has been involved in developing the plans for the internal medicine specialty clinics and involved in the overall planning for the Clinic project.
- Ms. Jody Kerr, Associate Director for Women's and Children's Services of the Department of Nursing and Patient Care Services.
- Mr. Douglas Fry, Project Architect with HKLB of Des Moines, Iowa, who will review the schematic design and budget for the project.

Mr. Staley said this was a very large and extremely complex project. Prior to reviewing the schematics, he provided some background on the project for those who have not heard previous presentations.

In December 2004 the Board approved a request to engage the same architect, HLKB of Des Moines, Iowa, for both projects and merge what had been two separate projects into one project. At the time, it was noted that the expected efficiency gains, coupled with scope modifications, which had been determined to be feasible, would result in a consolidated project cost estimate that would be $2.9 million less than the combined $42.5 million estimate for development the Ambulatory Surgery Center and the Replacement Clinics as separate projects.

Since that time, the Board office has approved the program statement for this consolidated project and today the schematic design and consolidated budget is presented.

Mr. Douglas Fry with HLKB presented the schematics for the project. He said one of the planning principles essential to the project, in addition to public way-finding, is the modular design of the clinics themselves. Mr. Fry discussed the budget and schedule for the project. The project is scheduled for completion on February, 2007, with occupancy in April, 2007, reflecting a certain amount of staging and equipping and sorting time.

Regent Becker said in looking at some of the detail, staff locker room and toilet facilities, it did not appear that the Board's guidelines in terms of male to female ratio has been met. A lot of the other places throughout it appear to be unisex restrooms, but in that particular instance, it doesn't appear to be 2 ½ to 1.

Mr. Staley said they do meet the Board's guidelines on restrooms. Mr. Fry said on the two floors combined, because there is an interesting situation where most of the square footage is clinic, so most of the toilets are staff and patient toilets. Within the public domain, there are four men's and ten women's fixtures. Within the occupied clinic space and ambulatory surgery suite, there is a total of 60 unisex facilities. He said they might be off in terms of the female/male locker rooms specifically. Those have been designed around the populations that the hospital believes are the right numbers.

Regent Becker asked Jody Kerr, the Associate Director for Women and Children's Services in the Department of Nursing and Patient Care if she was satisfied with the female staff having sufficient access. Ms. Kerr said she is not directly involved with the OR, but does have a Nurse Manager who is involved with the planning.

President Gartner asked what the funding source was. Mr. Staley said funding would be a combination of University of Iowa Hospitals and Clinics reserves and if a bond issue is pursued, bond funding will be included. President Gartner asked if he knew what the breakdown would be. Mr. Staley said if bonds are used as a vehicle for financing the project, the bonds would cover approximately 80% of the expense for the project. Mr. Staley said they needed to bring the bond issue request forward to the Board and get approval before they can finalize the use of bonds. President Gartner asked if bonds were their preferred option and Mr. Staley said they were.

Regent Arbisser complimented the modular design and felt it was the way to go, because things will change over time. He also liked having the clinic space separate from the individuals' professional offices. He felt this made for more production from the staff to not have distractions nearby.

Regent Arbisser asked what parking studies had been done. He said it looked like there was additional traffic flow to that part of the campus and said he was "under-whelmed" by the amount of spare parking. Mr. Staley pointed out on a schematic that to the right of the Pomerantz Family Pavilion there is a Ramp 4. The University is currently in the process of expanding Ramp 4 into what is shown as the Melrose Parking Ramp, which is under construction. Currently, Ramp 4 has a mixture of patient, staff and individuals using the Field House. He said when the Melrose Parking Ramp is completed, everything that is in Ramp 4, other than patient parking, will be moved over into the Melrose Ramp. All staff parking of any kind, anyone coming to the Field House would use that ramp. Additionally, as clinic volumes increase, if more space is needed for parking, to support the Clinics and Pomerantz Family Pavilion and the Ambulatory Surgery Center, then the commitment is they will take more and more of the Melrose Ramp and use that in conjunction with Ramp 4. Regent Arbisser asked how many spaces there would be and Mr. Staley said 540 new spaces would be added as a result of the new construction. Regent Arbisser asked if the parking was a separate proposal and Mr. Staley said it was.

Regent Downer said on the parking issue and making that available only for persons being in certain buildings, you cannot make everyone happy. But there are other areas on the west side of the river that are equally short on parking. He said there is very little parking at the law school. He said before the use of the ramp is restricted just to hospital uses, he urged that the University make a comprehensive study for all uses. He said it seemed that persons having business in other structures are entitled to reasonably accessible parking, as well.

Senior Vice President True said that was an excellent suggestion, as he was personally familiar with some of the problems in the area. He said the Melrose Ramp is well under way, all the underground work has been completed. He said across the street from that, there is a large surface lot, which is between the ramp under construction and the Gerdin Athletic Academic Center. He said that is where the next ramp will be built, although he didn't know how soon.

MOTION	Regent Arbisser moved to approve the UIHC Ambulatory Surgery Center Phase I schematic design project description and budget of $39.6 million, with the understanding that this approval will constitute final Board approval and final authorization to proceed with construction. Regent Downer seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Iowa Memorial Union Renovation

Brad Brown, Chief Architect, OPN Architects, Cedar Rapids, Iowa discussed Phase I of the Iowa Memorial Union Renovation. He said both phases of the Master Plan total $30 million. Phase I is targeted to be $9.9 million in project costs. He presented details of the schematic design.

Mr. Brown briefly discussed the floor plans. Each plan shows the current floor plan, as well as the new design after Phase I is completed.

Mr. Brown said the total deferred maintenance scope is $2 million within Phase I. A million dollars is with mechanical and electrical improvements to the facility, $750,000 is in renovation inside the building and $250,000 will be spent on the outside to make the building weather-tight, correct roofing issues and tuck pointing items.

Regent Arbisser asked what types of considerations there were made regarding security. He said they are building spaces that will house thousands of people. Phil Jones, Vice President for Student Services, said they had not looked at the building in the same way that they would look at Kinnick Stadium in terms of security. They have looked at it from the standpoint of safety features. One of the reasons for having the four story tower is for easy access and egress, because that has been a real problem in the past.

Regent Downer said he liked all parts of the plan, except the Madison Street façade. He thought this tried to blend too many different architectural styles in too short a distance. He felt the 1925 structure was a distinguished building and the 1960 building was less distinguished. He said he appreciated what was done with the President's house at the University of Iowa in the extension of the existing architectural styles to the addition. He thought what was done with the Memorial Union at Iowa State University, being very consistent with the original style of that building was appropriate. He said he would like to see another look taken at the façade to see if that could be brought more closely into conformity with the earlier part of the structure. Regent Downer said he had concerns with respect to energy considerations in connection with a glass wall. He said he remembered the student demonstrations of the 1960s and felt there could be a problem with such an expansive glass area.

Regent Vasquez said she found the statement interesting about glass envelope being “a trend”. Regent Arbisser said the new library has a glass envelope on it and there is an envelope on the new art building on the river. Regent Vasquez asked how good it would look and was trying to picture how it would look. Mr. Brown said it was developed during the program and master plan, which was a desire to open the building up. He said as you look at the current façade, both the 1960 or the 1925, they are “heavy” buildings and inwardly focused. They wanted to take one element that they are adding on. As you look at the total fabric of the Iowa Memorial Union, it is a very large and long building. It is one feature component at the main entrance on the east side to try and highlight views of in and out of the building. Mr. Brown said it was a reasonable question, and it had come up during the design process.

Mr. Jones said they had looked at a number of iterations. He pointed out that he went through this in 1988 and they decided not to do that because it was so difficult to marry the two buildings. He said as the students went through the various designs that were presented, there were two that they seemed to be drawn to. The reason was that they wanted light, to be in a space where there was more light. That became part of the consideration.

Mark Kresowik, SUI Student Government president, said that would be where the Student Government and Student Activity offices would be. He said currently they were in the basement and one of the considerations from a productivity standpoint, is that day lighting is crucial in terms of what the students want, especially within that space. He said from an energy prospective, day lighting and some of the passive solar benefits from bringing light into that space is very important. From a functional standpoint, that was an item that students absolutely wanted. He realized it was difficult to marry those two, but in terms of the glass envelope, that was something the students were very much in favor of.

Regent Becker asked about the columns behind the glass, if they were free-standing. Mr. Brown said the second floor extends out beyond the columns and they envision students within that office environment will use that as circulation space. They envision soft seating so students can gather within that area. On the second floor, the floor line comes out to the glass edge and you can actually get past those columns. He said on the third floor, the floor line is held back at the face of the columns. There is a handrail system that connects between those, so an individual can stand between the brick piers, rest on a guardrail and look out or down. Regent Becker said there was only one layer of glass, which was the exterior one, that there wasn’t an interior and an exterior glass. Mr. Brown said that was correct.

Regent Becker said it is always a difficult call when the transition part ends up looking like a third component. She said she liked the 1925 look, but the issue of the light and the function of the building that the students are looking for is the other side. She thought maybe the function should take over from the exterior look.

Mr. Brown said it was an interesting design challenge. He said normally they are designing four sides to a building and in this case they are only designing one but has been a great challenge.

He felt they should recreate to what had been done in the 50s and 60s, where they completely changed architectural styles. Somehow, there needs to be a connection between the two.

Regent Vasquez asked if money wasn't an issue, would they have done something differently. Mr. Brown said given what the starting point was, having the 1960s building to contend with, he didn't think that money was an issue in driving the elevation. He said if the issue was to take the 1925 look and completely wrap that around the entire building, that's a different issue. One of the challenges of that was the success of the original 1925 building, that character is also expressed on the interior. As you go into the Richey Ballroom or the Main Lounge, there is a wonderful ornate plaster ceiling, the heavy wood paneling and decorate elements. To wrap that around something that doesn't have that same character on the inside doesn't feel appropriate.

Regent Wahlert said she was okay with everything presented, except she agreed with Regent Downer on the safety and security issue. She thought they could achieve the same functionality and same look and design, with some kind of adjustment to the window span for the safety and security issues. She appreciated the fact they were willing to go back and take another look at how that might be presented.

Mr. Kresowik asked Regent Wahlert what she was concerned about in terms of safety, such as someone throwing a brick through the window. She said she could start with that. Mr. Brown said they were the architect for the new federal courthouse in Cedar Rapids. They have extreme security requirements. With glass technology you can get blast-resistant glass. New courthouse facilities have a lot of glass facades. He felt that both objectives could be achieved and didn't feel the glass should preclude the security issues.

Regent Vasquez said she was on the Bar Association's Security Task Force and she understood the concern about the rise and focal point. They want to get away from creating an environment where there is building for anticipating that kind of lock-down and wanting the light and access.

Regent Wahlert felt that both could be achieved. She didn't think they had to give up the light and functionality, necessarily. She said that's why architects get paid, is to bring in another thought that might alleviate some of the concern around safety and not give up any of the functionality. She felt that just needed one more piece of assurance on the safety side. She asked if safety had been brought up in the discussions. Mr. Jones said that it did not come up, because he didn't think anyone who was in any of the discussions were around at that time. Mr. Jones said issues about circulation he took very seriously because he had seen how difficult it was to get in and out of the building when there was a fire drill or even when there were demonstrations and were trying to get people in a given direction. He felt that central circulation from first to the fourth floor will be important for doing that, as well as for isolating things in the building, which couldn't be done previously.

President Gartner asked where the $9.9 million was coming from. Doug True said the $9.9 million would be the net proceeds from a bond sale that would be supported by a $29 student fee that is currently in place that the Board previously approved. The bond sale occurred earlier today.

President Gartner said considering the controversy over the design, he suggested two motions. The first would be to approve the budget of $9.9 million and secondly, a motion whether to approve or reject the design.

MOTION	Regent Wahlert moved the Board approve the $9.9 million budget with the understanding that this approval will constitute final Board approval of the budget. Regent Downer seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Vice President True said they came to listen to the schematic phase and received a number of thoughts from the Board. President Gartner asked if he would prefer they not vote on the design issue at this time and Vice President True said yes. He suggested that the Facilities Committee return to the next meeting to discuss security issues and share other views with the Board. President Gartner said that would be acceptable.

Roy J. and Lucille A. Carver Biomedical Research Building

Vice President True there was a change to the Biomedical Research Building to meet federal requirements for a BSL-3 protected facility that are being required as a result of change from the Center for Disease Control Regulation.

Kinnick Stadium Renovation Project

Vice President True said they were in the stage of less excitement and more grinding work, both in the budget and getting bids in order. As a whole, he characterized the circumstances as very, very good, both in being on schedule, being able to play football this fall and get the 70,000 fans in the stadium. He said working through the different bid packages and contracts had been difficult. He said an element of success was that only one very small contract has been awarded to a non-Iowa firm. One of their beginning objectives was to break this project into parts and make sure Iowa contractors had every opportunity to bid and participate. He said that has been more successful than he had imagined.

He noted a couple of cases where the bids were not as good as was thought. Given the construction environment over the last year, he felt they had been fortunate and wanted to make the Board aware. He said it has caused their contingency to be worked down to a level that is less than they would like for the rest of the project. Vice President True said Rod Lehnertz is managing all the projects and contracts with their consultant, M. A. Mortensen. They want to continue to do "value engineering" to get the costs down and to keep it as close as possible to the budget. He said if they needed to consider some additional contingency as they go through the project, they would be willing to talk to the Board about that at the June meeting. He said they feel they are in good shape to make the awards needed, work down some of the prices, maybe in a couple of instances rebid. The competition in a couple of instances hasn't been as good as they would like, but they would like to keep working on those issues and bring in the results of where they hope to be throughout the rest of the one year construction.

The remainder of the register was approved by general consent.

Item 20B. Register of Capital Improvement Business Transactions – Iowa State University

Dairy Animal Science Education and Discovery Facility

Warren Madden, Vice President of Business and Finance discussed the Dairy Animal Science Education and Discovery Facility project. He said the architects from OPN are available to present the schematic design.

Vie President Madden introduced Dr. Hogberg, head of Animal Science Department who would discuss the importance of the project and the role it plays in economic development and to give the Board some background why Iowa State University is making the investment to develop this facility, as the Ankeny farm is being closed down and the dairy science facilities that were immediately south of the campus.

Dr. Hogberg said nationally Iowa's dairy industry ranks 12th in the amount of total milk production, 7th in the number of dairy farms and 9th in the amount of milk produced per cow, which is also used as a measure of efficiency and profitability. He said Iowa is 3rd in ice cream production and 7th in cheese production. In looking at the surrounding region, Iowa currently has the most stable industry, is most efficient in milk per cow and have probably had the most consistent dairy industry in the surrounding contiguous states.

Dr. Hogberg said they have a problem -- 25% of the milk process for the state is being shipped in from out of state, which shows a deficiency in milk production. Within the last year, dairy leaders have discussed where they need to take the industry, what its future is and where its potential lies. Iowa now produces 2.2% of the nation's total milk production. The goal has been set to 2.8% by the year 2010. To do this, efficiency needs to be increased even further and make sure they can retain the value processing in the state.

He said the new dairy farm will contribute greatly to the economic growth, through teaching, research and extension efforts. To have a strong industry, it will be important to have a well-educated and trained work force. This is in production, as well as for processing. The teaching program is designed to present undergraduate students the opportunity to practice science, get hands-on experience and student employment while they're at school. Students in the College of Veterinary Medicine will also use this as a real-life hospital to gain real life cases and help train new practitioners for the industry in the state.

Dr. Hogberg said the research and extension programs are focused on what needs to be done to improve the efficiency and profitability of the industry, which will allow it to excel in the years ahead. Through nutrition programs, genetics programs, the use of genomics and trying to use that as a means to also look at where they can find those efficiencies. He said they have a very strong tie to the National Animal Disease Lab in Ames, Iowa. Scientists use this information in studying metabolic disorders.

The other aspect is developing this farm into a modern setting with modern technology, they are also addressing a lot of the environmental issues that currently surround many of the livestock productions. They hope to be an example of where they need to go in the future.

This farm will be replacing two dairy farms that Iowa State University; one that was closed over a year ago and the other one will be closed, once this new facility is built.

President Gartner asked Vice President Madden if the Board had already approved the land deal and approved the budget for Phase I at an earlier meeting, and that today is approval of the schematic design. Mr. Madden said yes, the Board would also approve the program. He said the Board has conceptually approved moving ahead with the land arrangement. He said they have not brought the final land proposals to the Board because they need to complete the sale of the Ankeny farm before they have the resources. He said the new project is being financed from that sale. He said the Board has approved the budget to be financed from the proceeds from the sale of the Ankeny farm.

Terry Gebard, OPN Architects, made the formal presentation to the Board. He commented that they had enjoyed a truly collaborative process between the Animal Science group, Dr. Hogberg's group, and Iowa State's Facilities Planning group. He felt it will be a state-of-the-art dairy facility that will serve the programmatic needs of Iowa State University, as well as being a source of pride for the State of Iowa.

Mr. Gebard discussed the site location, building structure, access points, construction materials, meeting rooms, barns, and treatment areas. The proposed dairy farm site is directly south of the university campus and forms a southern anchor to Iowa State's research, livestock and teaching corridor that is currently established along State Avenue.

Regent Downer asked if there was an estimate of how much the cost was of using brick and stone and materials that were indicative of the campus. He said he was not sure if materials that matched the campus buildings were necessary in view of the distance involved. Mr. Gebard said the cost of brick masonry and stone are higher than the pre-finished metal utilized on the other farm structures. He said they have attempted to minimize their use and use those in conjunction with corrugated metal. He showed an image of entering into the facility and the minimal use of brick and stone on the front façade and in moving around to the sides, corrugated metal will be used.

Regent Downer said he was pleased that the Pavilion would also be used for programs related to all species of domestic animals, so this wouldn't be confined to dairy, but would have multiple uses.

MOTION	Regent Becker moved that the Board accept the schematic design for the Dairy/Animal Science Education and Discovery Facility with the understanding that this approval would constitute final Board approval and authorization to proceed with construction. Regent Arbisser seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Morrill Hall Renovation

Vice President Madden said they were bringing to the Board a recommendation to approve a revised project budget for the renovation of Morrill Hall and to award the construction contract to HPC, L.L.C. if the Board approves the revised budget.

He said Morrill Hall is a historic structure in the center of the Iowa State University campus. Renovation of that project has been in process for some time. The major portion of funding for the renovation has come from private fund raising. He said there is a major classroom building in it and from the beginning they had indicated that would be funded by other revenue sources. As they have worked through the project, and in light of changes that have been occurring in the construction costs, the bids that were received exceeded the original project estimates. They have been working with the contractor to reduce the costs by eliminating some of the alternates and making material changes to simplify the project. At the end of that process, they concluded it was appropriate to increase the budget from the original $9 million to approximately $10.2 million. That increase will be financed from a combination of revenue sources, some additional fund raising, some additional income from the use of Treasurer's Temporary Investment income, which is unrestricted university funds. He said there were some utility extension that will serve not only Morrill Hall, but other structures in that area of the campus, which will be financed from the utility enterprise.

They believe this to be an appropriate budget taking into consideration that it is a historic structure and badly in need of renovation. The size of the project is the size of Morrill Hall. Vice President Madden said there were no ways to further reduce the project. After looking at all the alternatives, they believe their recommendation to increase the budget, using the appropriate funding sources, is the best recommendation.

Regent Becker asked if additional funds come from donations, would they still see if they could get more funding. Vice President Madden said additional fund raising was going on, within the structure for the programs that are there, the Textiles and Clothing Program, the Christian Petersen Museum activities. He said if they were fortunate to find additional funds for the basic construction part, they would do that.

MOTION	Regent Becker moved to approve the revised budget of $10,285,000 for the renovation of Morrill Hall and to award the construction contract to HPC, L.L.C. for $7,223,000 and deduct Charge Order #1 to the construction contract, approximately $350,000. Regent Arbisser seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Telecommunications – Inside Plant Systems Upgrade – Phase 5

Vice President Madden said this was a straight forward project since roughly 2001. They have been upgrading the infrastructure associated with campus communications. He said these were financed through a bond issue that was sold several years ago in phases. The revenue streams are the user charges for this. They will be adding additional buildings to help create a high speed internet capacity across the campus.

Regent Wahlert asked if the technology was consistent with wireless base infracture. Vice President Madden said most of the project was buried cable that is being upgraded to connect buildings together. With outside areas of the campus, there is a project that will provide wireless connection. He said many of the research facilities need very high speed, high capacity connections. With wireless, you still have to have the basic infrastructure. He said the university is part of a large research internet project that is connecting a number of schools. Regent Wahlert asked what vendor was doing the wiring. Vice President Madden said there were a variety of individuals who do cable work.

MOTION	Regent Bedell moved that the Board approve the plant upgrade. Regent Downer seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Item 20C. <u>Register of Capital Improvement Business Transactions – University of Northern Iowa</u>

Tom Schellhardt, Vice President of Administration and Finance presented to the Board the UNI Capital Register, which has one project. They are seeking permission to proceed with planning for a Multimodal Facility. This facility would consist of a parking structure that would tie together several modes of transportation on the campus, including auto, bus and bicycle. It would also enhance the current transit system on campus.

President Gartner asked if he would walk the Board through the funding process. Vice President Schellhardt said it was an $18.6 million project, of which 80% or $15 million is funded from the Federal Transit Administration. President Gartner asked if it was $15 million in-hand. Vice President Schellhardt said $8 million has been appropriated and $7 million will be appropriated in fiscal year 2006. He said they do have to apply for a grant through the Federal Transit Administration. He said they would do that once they received approval to go forward. A 20% match, or $3.6 million, would come from two sources: in-kind services and the value of the land which the parking structure would be housed, along with any other land use, such as the bus shelters.

President Gartner asked if they were giving themselves land and considering it a contribution. Vice President Shellhardt said they would use the university land as a contribution.

President Gartner asked who owns the facility and Vice President Shellhardt said that will be owned by the Federal Transit Administration and they will use the land as a match. President Gartner clarified that it would be the Federal government that owns the building and Vice President Shellhardt said that was correct.

President Gartner asked who contracts to build the building. Vice President Shellhardt said the university would be the grantee and they will contract.

President Gartner asked what if the second $7 million does not come through, who is stuck, the university or the Federal government. Vice President Shellhardt said they would not build the building until they were sure they received the $15 million.

Vice President Shellhardt said they do have to hire an architect and develop the business plan. He said they've met with most of the employee groups, although they still have to meet with Student Government next fall. There is a committee that has been looking at the features of the multimodal and the transit system, which includes students, faculty and staff.

President Gartner said the report shows one piece of the funding comes from parking revenues, but is insufficient to provide it and they might have to bond. Vice President Shellhardt said that was correct and said it appears that bonding might be anywhere from $2.2 to $2.7 million, depending upon how they devise the parking program.

President Gartner asked what the value of the land was. Vice President Shellhardt said they have not gone through an appraisal of the land, although that would be done within the next month. He said their initial projections are the land could be from $350,000-500,000, but they will not know until they finish the formal appraisal.

President Gartner asked if the in-kind services would be valued around $200-300,000. Vice President Shellhardt said that was approximately the right amount. He said that includes the time spent on the project, as well as their own university architects and staff at the university.

President Gartner asked what the revenue stream was to pay off the bonds. Vice President Shellhardt said that would be two revenue streams. One would be revenue coming from the Multimodal Facility, or individuals that would park in that 600 space facility. They are also looking at revenue that would come from students. For example, the students currently contribute $100,000 for what is called the Panther Shuttle. It appears they will continue to provide that funding. They are looking at revising the parking program; for example, they currently do not have reserved parking stalls. Faculty and staff have shown an interest in paying for reserved stalls. Additional revenue would come from the parking operations.

Regent Wahlert asked if the county was participating in the funding, since it was a public ramp. Vice President Shellhardt said this was a collaborative effort with the Metropolitan Transit Authority. He said they would subcontract with them to run the shuttle. There are some local apartment owners that currently contribute some money to the Panther Shuttle, so that transportation would pass by those apartment complexes. He said they were hoping the apartment owners would continue doing that. He said there would also be some advertising revenue that would contribute to the revenue stream.

President Gartner asked if the county would add to that or would the City of Cedar Falls participate. Vice President Shellhardt said they could engage in discussions with the county and the city. He said the city has been involved. He said this was an inter-campus system, which provides linkages with the Metropolitan Transit Authority so students can go throughout the Cedar Valley area where there is bus transit. He said at the present time, they have not talked to the county or the city about their contributing funds to the shuttle system.

Regent Wahlert said usually when there is that interconnection, other bodies can find ways to contribute to the funding. She felt they shouldn't "leave those rocks unturned", especially if they could get a conversation going with the two bodies.

Regent Downer said the Federal government was going to own the facility. He asked if it was an ownership that is in perpetuity. Vice President Schellhardt said much of it depends on the life of a structure. If the structure is 30 years, the ownership would be for that period of time. He said they have talked to the Federal Transit Administration and there doesn't seem to be that much concern. He said this is also happening on several other campuses, Southwest Missouri and Western Illinois as an example. He said other campuses already have the same arrangement.

Regent Downer said he understood that although the land would be used as a match for this, ownership of the land would not transfer to anyone, it would remain in the university. Vice

President Schellhardt said it would remain under the university's ownership; however, the Federal Transit Authority would have some say if they didn't have a use for the parking structure. He said they could use that for some other purpose. He said they don't envision that happening.

Regent Downer asked Tom Evans, Regents General Counsel, if this was a transaction that encumbers the property, as his recollection of the law provides this to go through the Executive Council of Iowa. Mr. Evans said state law in Iowa would so state. Regent Downer said it sounds like there is a commitment that would represent a disposition and Mr. Evans said that was correct and that it is required to go through the Executive Council.

President Gartner said that what the University was asking of the Board today was approval to proceed with planning. Vice President Shellhardt said that was correct and they would come back with a finance plan. President Gartner said a couple of interesting questions had been raised by Regent Downer and Regent Wahlert. He said when they get to the stage beyond planning, there are some issues, a legal issue, a financial issue and he thought a project finance issue, as well.

Regent Downer said one question that Regent Arbisser had raised was where the $8 million has been appropriated. Vice President Shellhardt said they have not received it. He said they still have to apply through the Federal Transit Administration for a grant. He said application is due around July 1, 2005. He said they can't move forward unless they have permission from the Board to proceed with planning.

Executive Director Nichols said he understood that planning in this case includes the typical stages of engaging architects, but also in this case, filing an application with the federal agency for disbursement of funds. Vice President Shellhardt said that was correct.

President Gartner asked what if the funds were disbursed and ultimately the Regents reject the idea because there was not county funding or because there was a legal problem; he asked what happens then. Vice President Shellhardt said they have received funds for planning for the project. The planning funds, as he viewed it, would be separate from the funds to construct. He said they had permission to move forward and plan for such a facility. President Gartner said they weren't applying for the $8 million at this time, but were applying for planning money. Vice President Shellhardt said that was correct.

Regent Downer asked if there were any planning funds that actually had been received at this point or if this was the first request. Vice President Shellhardt said they were in receipt of roughly $500,000. He noted that none of those funds have been expended to date.

MOTION	Regent Wahlert moved that the Board authorize permission to proceed with project planning, including the architectural selection process, with the understanding that this permission is contingent upon development of a financial plan for the university's share of the cost of construction, operation and maintenance of the facility. The financial plan will be presented no later than the Board meeting that precedes the meeting with the schematic design presentation, or the December, 2005 meeting, whichever is earlier. Any issues involving approval by the Executive Council or others must be resolved. Regent Vasquez seconded the motion. **MOTION WAS ADOPTED UNANIMOUSLY**

Item 21. Resolutions for the Sale and Award of Up to $10,960,000 Iowa Memorial Union Revenue Bonds, Series SUI 2005.

Vice President True said this was the financing part of the project described earlier. He said they would be speaking again to Regent Arbisser's Facilities Committee. The bond sale occurred the morning of May 5, 2005. He mentioned that this was supported financially by way of the $29 per academic year fee that the Board approved in the past. It is applied to students, which would support the debt service that in turn supports $9.9 million in net proceeds that are used for the project.

Barry Fick, Senior Vice President of Springstead, Inc., said the morning of May 5, 2005, they accepted bids for the sale of $10,960,000 of Iowa Memorial Union Revenue Bonds, Series SUI 2005 for the state University of Iowa. They received a bid from a group, led by UBS Financial Services, for the sale of the bonds. Whenever only one bid is received for a particular bond sale, they are concerned to make sure that the rates they received are at or better than market rates, consistent with prior Board sales.

He said that some of the things they have done in the past on an ongoing basis, and continue to do to ensure those rates are going to be at market rates, is working with the Board staff, as well as university officials and staff. They schedule the bond sales throughout the year to ensure that the supply of available bonds is always at or less than the demand for those bonds, thereby ensuring they will have a better opportunity to receive lower interest rates.

Secondly, the bonds have a double exemption from both federal and Iowa income tax, meaning that with a limited supply of that type of bond in the state, they should also be in a position where they will receive slightly better rates, even with only one bidder.

Thirdly, they monitor and compare the actual interest rates that are received on the bonds with both previously received rates on bonds for the same institution and for the Board in general, as well as comparing those rates to other issues sold in the same approximate time period and looking at market indices for those.

In the case of both sets of bonds that were sold on May 5, 2005, for the University of Iowa and the University of Northern Iowa, they are confident that rates received are better than what the market rate would be. For example, for the Memorial Union bonds that were sold, rates for those bonds were approximately 25 basis points better than what they had originally estimated. Based on the AA rating for the University of Iowa, the bonds actually sold approximately 20-25 basis points, or ¼%, lower than what their credit rating would indicate. Based on market scales for national rates, they are that much better and actually sold lower than AAA rated bonds, even though the University of Iowa is rated AA2 by Moody's and AA-minus by Standard & Poor's, which was both ratings were affirmed for the bonds.

For the Memorial Union bonds that were sold, the average annual debt service was approximately $820,000 a year, based on the rates they receive for the bonds, which is about $18,000 a year lower than what had been projected.

The bonds have coupons that range from 3½ % to 4.3%. The bonds extend to 2025 for their final maturity. The true interest cost for the bonds or the average rate is 4.1%, which is very favorable in the market. There were four term bonds that were included for the last eight years of the bonds. The term bonds were designed so that they can be left as an option for the underwriter to choose, if they wish, which enables them to get bond sizes of approximately $1 million or more, making them easier to sell and allowing them to get lower interest rates and pass those on to the university.

There were 17 firms that were involved in the bond sale and submitted the single bid. The lead bidder for each sale was UBS Financial Services, Inc. The combination of the strong number of firms, combined with the interest rates actually received compared to markets, gave them confidence that the interest rates are very favorable for the university, as evidenced by the fact that they trade through AAA levels.

President Gartner said he noticed in reading the prospectus that the President of the Board of Regents has to attest that all buildings on the campus are in good condition. He asked how he could attest to that when there is $220 million in deferred maintenance on the campuses of the three Regents' universities.

Ed Bittle, Bond Counsel, said there is a covenant in the bond resolution that the Board will keep the buildings up, keep them in good condition. President Gartner asked how they could say they are keeping the buildings up when they have $220 million in deferred maintenance. He said the prospectus says "all the buildings on campus." Mr Bittle said he would look into it.

Mr. Bittle said these were revenue bonds in an enterprise defined as the Memorial Union. He said they have not gone through that with new Board members, but the Code allows the Board to set up enterprises on the campus that have revenue streams supported by student fees or revenues of the facility, which is what supports this. He said he believes the covenants of the bond resolution relates to the enterprise, but said he would look into it further.

MOTION	Regent Bedell moved that the Board approve the resolution providing for the sale and award of $10,960,000, Series SUI 2005, and approving and authorizing the agreement of such sale and award. Regent Arbisser seconded the motion. **BY ROLL CALL VOTE, THE MOTION WAS ADOPTED UNANIMOUSLY**

Vote for or against the Resolution

Board of Regent Members	**Aye**	**Nay**	**Not Voting**
Regent Bedell	X		
Regent Arbisser	X		
Regent Downer	X		
Regent Vasquez	X		
Regent Gartner	X		
Regent Wahlert	X		
Regent Becker			X
Regent Harkin			X
Regent Rokes			X

REVISED

MOTION	Regent Arbisser moved that the Board approve the resolution authorizing and providing for the issuance and securing the payment of $10,960,000, Series SUI 2005, to defray costs of constructing additions and remodeling and improving the Iowa Memorial Union, funding a reserve fund, and paying the costs of issuance. Regent Downer seconded the motion. **BY ROLL CALL VOTE, THE MOTION WAS ADOPTED UNANIMOUSLY**

Vote for or against the Resolution

Board of Regent Members	**Aye**	**Nay**	**Not Voting**
Regent Bedell	X		
Regent Arbisser	X		
Regent Downer	X		
Regent Vasquez	X		
Regent Gartner	X		
Regent Wahlert	X		
Regent Becker			X
Regent Harkin			X
Regent Rokes			X

Item 22. **<u>Resolutions for the Sale and Award of Up to $7,465,000 Field House Revenue Refunding Bonds, Series UNI 2005.</u>**

Vice President True requested the same action from the Board to approve the sale and issuance of the bonds.

President Gartner asked how much they were saving. Mr. Fick said the savings on the refunding were in present value dollars today, just over $453,000, which is net of all the expenses associated with the financing. He said that was approximately 5.6% of the total refunded debt service, which is the most conservative measure used. It represents savings between $30-50,000 per year, from years 2006-2022. The savings are approximately $70-80,000 better than what they had projected from last week, which was a very favorable result.

MOTION	Regent Arbisser moved that the Board adopt the following resolution, subject to receipt of acceptable bids, providing for the sale and award of $7,465,000 Field House Revenue Refunding Bonds, Series UNI 2005, and approving and authorizing the agreement of such sale and award. Regent Downer seconded the motion. **BY ROLL CALL VOTE, MOTION WAS ADOPTED UNANIMOUSLY**

REVISED

Vote for or against the Resolution

Board of Regent Members	Aye	Nay	Not Voting
Regent Bedell	X		
Regent Arbisser	X		
Regent Downer	X		
Regent Vasquez	X		
Regent Gartner	X		
Regent Wahlert	X		
Regent Becker			X
Regent Harkin			X
Regent Rokes			X

MOTION	Regent Wahlert moved that the Board adopt the following resolution to authorize and provide for the issuance and securing the payment of $7,465,000 Field House Revenue Refunding Bonds, Series UNI 2005, for the purpose of refunding the 2006 through 2022 maturities of the $9,150,000 Field House Revenue Bonds, Series UNI 1997, including the debt service reserve fund, and paying the costs of issuance. Regent Arbisser seconded the motion. **BY ROLL CALL VOTE, MOTION WAS ADOPTED UNANIMOUSLY**

Votes for or against the Resolution

Board of Regent Members	Aye	Nay	Not Voting
Regent Bedell	X		
Regent Arbisser	X		
Regent Downer	X		
Regent Vasquez	X		
Regent Gartner	X		
Regent Wahlert	X		
Regent Becker			X
Regent Harkin			X
Regent Rokes			X

Item 23. <u>Savings from Bond Refundings</u>

President Gartner received the report and said the savings were very good.

Joan Racki, Senior Policy and Operations Officer for the Board office, added that savings with the refunding that just took place was approximately $11.75 million since 2001.

Item 24. <u>Approval of Interim Superintendent, Iowa Braille and Sight Saving School</u>

Regent Arbisser said there had been discussions about an Interim Superintendent for the Iowa Braille and Sight Saving School. Two recommended actions were presented.

MOTION	Regent Arbisser motioned, and Regent Wahlert seconded, that the Board: • Authorize Executive Director Nichols to finalize the contractual arrangement with Grant Wood Area Education Agency to provide superintendent services for the Iowa Braille and Sight Saving School for the period of July 1, 2005 through December 31, 2005. • Request that Grant Wood Area Education Agency designate Jeananne Hagen-Schild to provide interim superintendent services to Iowa Braille and Sight Saving School for the period of July 1, 2005 through December 31, 2005, upon successful completion of contractual arrangements with the Grant Woods AEA. **MOTION WAS ADOPTED UNANIMOUSLY**

ADJOURNMENT

The meeting of the Board of Regents, State of Iowa, adjourned at 3:15 p.m. on May 5, 2005.

Gregory S. Nichols
Executive Director