

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Preliminary FY 2001 General Fund Operating Budget - University of Iowa
Date: June 5, 2000

Recommended Actions:

1. Consider the preliminary FY 2001 general fund operating budget for the University of Iowa in the amount of \$908,696,049.
2. Approve rate increases, effective July 1, 2000, for the University of Iowa Hospitals and Clinics (6%), Psychiatric Hospital (6%), and University Hospital School (6%).
3. Defer the University of Iowa's proposal for employer payment of domestic partner insurance coverage.

Executive Summary:

In accordance with the Board's strategic plan, the University of Iowa is presenting its preliminary FY 2001 general operating fund budget. In July, SUI will present its final FY 2001 general fund operating and restricted fund budgets to the Board for approval.

The University's FY 2001 general fund budget, which includes 17 different appropriation units and the operations of the university hospitals and clinics, totals \$908.7 million. The FY 2001 state operating appropriations of \$318.6 million for the University were \$2.2 million less than the amounts originally appropriated to the University for FY 2000.

GENERAL UNIVERSITY

The University's general education operations are accounted for within the General University unit for which the proposed budget is \$414.4 million. FY 2001 state appropriations for this general university budget unit total \$255.8 million, which include (1) a decrease of \$1.7 million to its base (FY 2000 original) operating appropriations, (2) \$7.2 million in appropriations for salary increases (which is \$3.7 million less than full funding to implement the state salary policy of 4%, excluding health insurance), and (3) \$0.8 million for workers' compensation to reflect a change in state funding policy and distribution methodology, but does not represent new funding for the University.

When the legislature combined the General University and the Public Health appropriations, intent language was added to the education appropriations bill that allows the University to expend an additional \$1.05 million for its Public Health initiative, for a total of \$2.1 million. The appropriation did not include incremental funding specifically for this spending authorization, but gives the University flexibility in managing its base appropriations reduction. The University, though, is committed to spending \$2.1 million for its Public Health initiative.

The University proposes to use all new tuition revenues generated by the 4.3% rate increase to cover the salary funding shortfall and other non-discretionary operating cost increases (maintenance of quality rather than improvement of quality). Of the \$10.9 million planned reallocations (2.7% of FY 2000 revised General University budget), the University proposes to use \$5.9 million of the reallocations to address the budget shortfall and \$5.0 million for programmatic reallocations.

The University has allocated its preliminary budget by its strategic goals as follows: strengthening undergraduate education (\$129.3 million), achieving premier graduate and professional programs (\$158.1 million), fostering distinguished research, scholarship, and artistic creation (\$63.0 million), facilitating interdisciplinary interaction in teaching, research, and service (\$12.1 million), and developing a highly productive organization (\$51.9 million).

The FY 2001 education appropriations bill eliminated the special purpose appropriations to the University for the National Advanced Driving Simulator (NADS). The University proposes to allocate \$297,000 from its General University funds to sustain the NADS operation during this transitional year in the absence of specific state support for this program. The current NADS program schedule calls for completion of installation by October 2000. When completed, the federal government will have approximately \$47 million invested in the NADS project. The University is committed in this partnership with the federal government.

UNIVERSITY OF IOWA HOSPITALS AND CLINICS

The University is proposing rate increases for patient services of 6% at the University of Iowa Hospitals and Clinics, Psychiatric Hospital, and University Hospital School. The UIHC anticipates that this rate increase, combined with expected volumes and non-patient revenue sources, will yield an increase in net revenues of 4.4%. UIHC expects salary cost increases of 4% and other cost increases ranging from 3% - 6%.

DOMESTIC PARTNER INSURANCE COVERAGE EXPANSION

The Board Office is recommending that the Board defer consideration of the University's proposal at this time. State funding is not sufficient for the existing health insurance coverages approved by the Board. Additionally, more research concerning the experience of the existing program as approved by the Board and similar programs at other institutions is recommended prior to Board approval of the request.

Background:

In May, the University of Iowa presented a conceptual budget for FY 2001 to the Board. This preliminary budget is consistent with what was presented at that time. The University plans to fund salary increases in line with state salary policy at an average of approximately 4% and use all new tuition revenue and some reallocations to address salary and operating budget shortfalls.

Development of the SUI preliminary budget is based on the Board's and the institution's strategic plans, the Board's FY 2001 appropriation request to the Governor and General Assembly, and actions of the General Assembly and the Governor. The Board's budget process for the institutions incorporates strategic planning, reallocations, and state appropriations.

Analysis:

The preliminary FY 2001 general fund operating budget for the University of Iowa is \$908.7 million, a \$36,495,552 (4.2%) increase over the revised FY 2000 budget after mandated deappropriations and budget ceiling adjustments. The university's budget is distributed among the following units:

	Total <u>Budget</u>	State <u>Appropriations</u>
General University	\$414,357,723	\$255,836,163
University Hospital	446,197,800	33,040,152
Psychiatric Hospital	18,404,600	8,411,522
Hospital School	9,243,000	7,487,966
Oakdale Campus	3,608,848	3,207,848
Hygienic Laboratory	6,219,895	4,203,122
Family Practice	2,492,405	2,460,405
SCHS	4,921,485	689,890
Special Purpose	<u>3,250,693</u>	<u>3,250,693</u>
Total	<u>\$908,696,449</u>	<u>\$318,587,761</u>

The FY 2001 direct state operating appropriations for SUI total \$318.6 million, an \$8.6 million (2.8%) increase over the revised FY 2000 state appropriation after the mandated deappropriations of \$1.6 million. This includes partial funding for salaries and workers' compensation, and decreased funding for the General University and NADS.

The summary sheet on the last page of this docket memorandum details the budget by strategic planning goal, revenue source, and allocation of new revenues and reallocations.

General University

The preliminary FY 2001 general fund operating budget for General University is \$414,357,723, which represents a \$17,446,039 (4.4%) increase over the revised FY 2000 budget after mandated deappropriations and budget ceiling adjustments.

The General University state appropriations of \$255,836,163 represent an increase of \$8,508,514 (3.4%) over the revised FY 2000 state appropriations. The new state appropriations reflect \$7.2 million for salary increases (which is less than needed) and \$770,293 for worker's compensation to reflect a change in state funding policy and distribution methodology, but does not represent new funding for the University.

During this past legislative session, the College of Public Health appropriation was merged into the General University general operating appropriation. Previously, it was a separate appropriation unit.

The FY 2001 budget reflects internal reallocations totaling \$10.9 million, which recognize both permanent and temporary shifts in the use of general education fund resources. The SUI General University internal reallocations for FY 2001 represent 2.7% of the revised FY 2000 General University budget and are consistent with the Board's five-year program of reallocations averaging 2% per year.

Some examples of reallocations proposed at the University of Iowa for FY 2001 are as follows:

- The largest reallocation is to address the shortfall in salary appropriations and the reduction of the base operating budget. SUI proposes to reallocate \$5,927,700 for this purpose.
- The Tippie College of Business proposes to reallocate \$1.1 million of its faculty salary budget that has become available through resignations and retirements to address key high demand areas such as marketing, finance, management information systems, and entrepreneurship. While these areas have increased the number of faculty, the overall number of faculty in the college has declined.
- The College of Dentistry proposes to reallocate up to \$450,000 from faculty retirements and resignations to support faculty start-up costs, the clinical operation of the pre-doctoral clinics, the development and implementation of the new Oral Health Information System, and the new first and second year curriculum.
- The College of Education proposes to reallocate \$539,000 to nine newly hired assistant professors. As a result of the FY 2001 budget shortfall, the decision to hire an Associate Dean has been delayed, the North Central Association support will be reduced, financial support for the Institute of School Executives will be reduced, and several lecturers will not be rehired.

- The College of Liberal Arts proposes to reallocate \$2.0 million to departments with the most need in the college. Examples of departments that would receive reallocated permanent faculty lines include Spanish, Chemistry, English, and Psychology.
- The College of Medicine proposes to reallocate approximately \$650,000 for the development of interdisciplinary graduate programs, to provide bridge support to faculty between grants and contracts, and to address the cost of recruiting new department heads.

The university has projected total tuition and fees revenues of \$125.7 million for FY 2001, which is an increase of \$7.4 million (6.3%) over the revised FY 2000 budget. Projected tuition and fees revenue is based on enrollment estimates and the Board's approved rate increases, which include surcharges for Law, Dentistry, and MBA.

Approximately \$1.2 million will be set aside from the additional tuition revenues to continue SUI's level of support for student financial aid at 16% of expected tuition revenues. The University proposed to use the tuition revenue in excess of student financial aid to meet salary and general operating fund shortfalls.

The University proposes to use the additional tuition revenue from the redirection of designated tuition to mandatory fees of \$1.9 million in the manner as the University had committed to students in October 1999, and as the Board had approved. This includes strategic investments in financial aid services, revitalizing university libraries, enhancing instructional equipment in classrooms and laboratories, and developing new writing programs.

Indirect cost recoveries from sponsored research and other grant and contract activities are projected to be \$31.8 million for FY 2001, an increase of \$1.9 million (6.4%) over the indirect cost recoveries for the revised FY 2000 budget due to anticipated success in obtaining competitive grants and contracts.

Interest income revenues are projected to remain constant at \$900,000.

University Hospitals and Clinics

The preliminary FY 2001 general fund operating budget for the University Hospitals and Clinics is \$446,197,800, which represents an \$18,216,300 (4.3%) increase over the revised FY 2000 budget. The state appropriations of \$33,040,152 represent an increase of \$524,237 (1.6%) for salary allocations over the FY 2000 state appropriations. State appropriations represent 7.4% of the University Hospitals and Clinics FY 2001 projected revenue. These appropriations are for the Indigent Patient Care Program. UIHC predicts that the state appropriations will cover approximately 46% of the costs associated with the program for FY 2001.

UIHC is requesting Board approval of a 6.0% rate increase, to be effective July 1, 2000. The UIHC anticipates that this rate increase, combined with expected volumes and non-patient revenue sources, will yield an increase in net revenues of 4.4%.

- It is estimated that the Federal Balanced Budget Act of 1997 will reduce Medicare and Medicaid payment levels to UIHC in FY 2001 by approximately \$14.6 million.
- The Health Care Financing Administration (HCFA) is converting payment for Medicare outpatient services to a prospective payment basis effective July 1, 2000. UIHC anticipates that this will mean the loss of \$3.0 million in revenues plus the cost incurred for installation and maintenance of software for the new billing rules.
- Wellmark (BCBSI) has increased its discounts and shifted risks to providers as it moves more contracts into managed care products.

The combined effect of these payment restrictions, as well as subsidizing the Indigent Patient Care Program, will be to reduce the amount that UIHC receives for its patient care services from 64.7% in FY 2000 to 61.7% in FY 2001 of gross charges.

In addition to these revenue restrictions, the UIHC's salary package is consistent with the state salary policy at 4%. The funding provided is \$467,958 below funding needed to implement the state salary policy of 4%, excluding health insurance. Health care costs continue to inflate. The April 30, 2000, issue of Rate Controls (a health provider publication) shows the net price increase that consumers are expected to pay in FY 2001 is 5.1%. The UIHC expects its net price to increase 4.4% to its consumers.

Historically, the UIHC has provided support to the College of Medicine's (COM) clinical departments, including the COM's Faculty Practice Plan (FPP) and additional support for activities that are of mutual benefit to the UIHC. FY 2001 UIHC support of COM is projected to be \$50.1 million, a decrease of \$1.7 million (3.4%) over FY 2000. This decrease can be attributed to a change in UIHC budgeting procedures.

UIHC provides direct payments for various University services, including administrative and related University support services, utility services, and laundry services. The estimate of all such services for FY 2001 totals \$27.1 million.

Psychiatric Hospital

The preliminary FY 2001 general fund operating budget for the Psychiatric Hospital is \$18,404,600, which represents a \$869,600 (5.0%) increase over the FY 2000 revised budget. The state appropriation of \$8,411,522 represents an increase of \$211,264 (2.6%) for salaries over the FY 2000 state appropriation. The state appropriation represents 45.7% of the Psychiatric Hospital's FY 2001 projected revenue.

University Hospital School

The preliminary FY 2001 general fund operating budget for the University Hospital School is \$9,243,000, which represents a \$345,000 (3.9%) increase over the FY 2000 revised budget. The state appropriations of \$7,487,966 represent an increase of \$219,454 (3.0%) for salaries over the FY 2000 state appropriation. The state appropriation represents 81.0% of the Hospital School's projected FY 2001 revenues.

Specialized Child Health Services

The preliminary FY 2001 general fund operating budget for Specialized Child Health Services (SCHS) including Cancer, Hemophilia, High Risk Infant, Mobile and Regional Clinics, and Muscular Dystrophy is \$4,921,085, a \$592,727 (13.7%) increase over the revised FY 2000 budget. The increase is primarily attributed to funding from the Federal Medicaid Administrative Claiming program for children's programs. The state appropriation of \$689,890 represents an increase of \$37,967 (5.8%) for salaries over the revised FY 2000 state appropriations.

Oakdale Campus

The preliminary FY 2001 general fund operating budget for the Oakdale Campus is \$3,608,848, which represents a \$19,278 (0.5%) decrease over the revised FY 2000 budget. The state appropriation of \$3,207,848 represents an increase of \$54,278 (1.7%) for salaries over the revised FY 2000 state appropriation. Other income revenues, including indirect cost reimbursements, are expected to decrease by \$35,000.

University Hygienic Laboratory

The preliminary FY 2001 general fund operating budget for the University Hygienic Laboratory is \$6,219,895, which represents a \$142,561 (2.3%) increase over the revised FY 2000 budget. The state appropriation of \$4,203,122 represents an increase of \$149,981 (3.7%) for salaries over the FY 2000 state appropriation. Indirect cost reimbursements are expected to decrease by \$32,770.

Family Practice Program

The preliminary FY 2001 general fund operating budget for the Family Practice Program is \$2,492,405, which represents a \$73,504 (3.0%) increase over the revised FY 2000 budget. The state appropriation of \$2,460,405 for the FY 2001 Family Practice Program represents an \$73,504 (3.1%) for salaries increase over the revised FY 2000 state appropriation.

Eighty percent of the appropriated funds will be spent on community-based family physician training programs consistent with statutory requirements and twenty percent will be spent on university-sponsored activities in support of the community-based training programs.

Special Purpose Appropriations

The preliminary FY 2001 general fund operating budget for Special Purpose Appropriations is \$3,250,693, a \$259,457 (7.4%) decrease over the revised FY 2000 budget. The Special Purpose Appropriations for FY 2001 are as follows:

	<u>Revised FY 2000</u>	<u>FY 2001</u>	<u>% Change</u>
Center for Agricultural Health and Safety	\$278,292	\$284,452	2.2
Center for Biocatalysis and Bioprocessing	1,068,888	1,084,871	1.5
Center for Advanced Drug Development	281,679	275,811	(2.1)
Iowa Substance Abuse Consortium	75,158	77,286	2.8
National Advanced Driving Simulator	295,618	-	(100.0)
State of Iowa Cancer Registry	212,950	217,012	1.9
Oakdale Research Park	238,578	233,162	(2.3)
Technology Innovation Center	110,365	107,859	(2.3)
Primary Health Care	896,898	916,974	2.2
Iowa Birth Defects Registry	<u>51,724</u>	<u>53,266</u>	<u>3.0</u>
Total	\$3,510,150	\$3,250,693	(7.4)

The state did not provide an appropriation for the National Advanced Driving Simulator for FY 2001. The Center for Advanced Drug Development, Oakdale Research Park, and Technology Innovation Center were part of the Economic Development bill that received 4% reductions across the board. The special purpose appropriations have increases for salary adjustments.

Domestic Partner Insurance Coverage – Employer Payment

The University requests Board approval to make employee partners in a same sex relationship eligible for the same flexible benefits offered to married persons employed by the University and to permit such domestic partners to allocate benefits in the same manner as opposite sex married employees. The University indicates that this request involves making the same employer financial contributions for the benefits of to same sex domestic partners as it does to heterosexual married partners. The University also indicates that its intent is to have the employer make the same contribution for health insurance for a same sex domestic partner as it does for a spouse. However, as the University offers its benefits in a cafeteria plan, an employee could receive the dollar credit for the domestic partner health insurance and apply it to some other benefit, such as dental insurance, and not purchase health insurance for the same sex domestic partner. The University is not requesting an employer contribution for heterosexual domestic partners who are not married.

The University estimates the cost of the proposed change is expected to range from \$18,000 to \$43,000 per year. The proposal is unanimously endorsed by the University's Funded Retirement Insurance Committee and is supported by the Faculty Council and the Staff Council.

In June 1992, the Board approved, effective January 31, 1993, permitting domestic partners who completed an Affidavit of Domestic Partnership to participate in the University health insurance program at no cost to the University. The employee picked up the full cost of the domestic partner's coverage. This initial participation was available only in the University's most expensive indemnity health insurance program, Chip II. At the time of the approval (June 1992) the Board also required that the program be offered on a three-year trial basis. At the end of the trial, the Board was to receive a report on the operation of the program to determine if it should be continued.

In June 1995, six months before the trial period was complete, the University, in its budget proposal to the Board, reported that the experience with the trial had been beneficial. At no time had more than 20 people participated in the offering and a total of 31 persons had participated in the 30-month period. The University asked that the program be continued and that the domestic partners be permitted to enroll in any of the University's health insurance options. The insurance company reported that pay-outs for domestic partners were significantly less than for spouses.

The University has provided some background information regarding other universities and colleges, and private corporations which offer domestic partner insurance. The report for colleges and universities shows that 110 colleges and universities offer domestic partner health benefits, like the program already approved by the Board for the Regent universities. The report does not show which of those institutions provided employer financial contribution to the benefit and does not distinguish between private and public institutions. To place the participating number of institutions in perspective, there are slightly less than 3,000 colleges and universities in the United States. (It should be noted that some of the 110 institutions are in fact multi-institutional systems.)

In the private sector, the University's report shows that 92 (18.4%) of the Fortune 500 companies are offering same sex domestic partners the same benefits as married employees and their spouses -- most particularly for health insurance purposes. This report does not show whether the benefit is merely offered by the employer or is offered and paid for by the employer.

The Board Office recommends this proposal not be approved by the Board at this time. The Board Office agrees that this appears to be a benefit being offered by a growing number of universities and corporations and contributes to a diverse community in which to work. However, the issue presented for Board consideration is not the availability of the benefit -- which is already offered for same sex domestic partners -- but the payment of the benefit by the employer. The Board Office recommends that the Board not proceed with approval to have the employer assume responsibility for payment for the following reasons:

- The Board and its institutions are receiving less than full funding for the salary and benefits needs of employees for FY2001. Since the institutions do not have the resources even to meet current salary/benefit requirements, it appears untimely to expand the pool of employer obligations when funding clearly isn't available.
- The availability of domestic partner insurance program, which involves no institutional funds, is already in place at all three universities. Thus, it appears the University of Iowa's existing program, as approved by the Board, is consistent with many of the 110 other universities who offer domestic partner insurance.
- Presently, the Board has approved a policy authorizing all Regent universities to offer employee domestic partner insurance at no cost to the employer. Apparently, there have not been interinstitutional discussions about this policy shift. For purposes of consistency and equity, the Board may want to review the need for a modified policy at all Regent institutions.

- In approving the present domestic partner insurance offering in 1992, the Board required that an evaluation of the three-year trial (January 1, 1993 to December 31, 1995) be provided to the Board. While certain limited information about the operation of the program was provided in June 1995, the Board Office believes a more detailed report covering the period from the inception of the program to June 30, 2000, would be appropriate and helpful to the Board prior to making any decisions about expanded employer financial obligations. While fewer than 20 employees have availed themselves of the domestic partner benefit when financed by the employee, a larger number may elect the benefit if the employer is obligated to make the financial contribution. A method of projecting participation under the University's proposal should be investigated.
- Further analysis of the programs offered at the University's peer institutions needs to be undertaken. The Board has approved SUI's peer group of 10 universities. Of this peer group, only three, in addition to SUI, offer domestic partner insurance. (University of California at Los Angeles, University of Michigan, and University of Minnesota.) More detailed information concerning employer contributions to domestic partner insurance and experience at the other institutions would be instructive.
- Some employers who have not financially supported domestic partner insurance have reasoned that a person who marries is bound at law to be responsible for the debts of their spouse and children. In order to assist the employee with this legal obligation, the employer provides financial assistance for health insurance for the employee, spouse, and children. The law imposes no such responsibility on those who elect to live together outside of marriage, whether of the same or opposite gender. (Some obligations vary for common law marriages and for children born outside of a marriage but acknowledged by a birth father.) Hence, these employers have reasoned that if the law did not impose financial responsibility, the employer should not be financially responsible for the benefit.


Deb A. Hendrickson

Approved: 
Frank J. Stork

**UNIVERSITY OF IOWA
FY 2001 General Fund Budget Summary**

STRATEGIC PLANNING GOALS				ALLOCATIONS OF NEW REVENUES AND REALLOCATIONS		
Goal #1: Create an undergraduate experience that enables students to fulfill their intellectual, social, and career objectives.			\$129,335,362	Mandatory Cost Increases		\$11,965,741
Goal #2: Achieve premier graduate and professional programs in a significant number of areas.			158,076,555	Strategic Planning Initiatives Increases		<u>16,117,529</u>
Goal #3: Foster distinguished research, scholarship, and artistic creation.			62,955,907	TOTAL		\$28,083,270
Goal #4: Facilitate interdisciplinary interaction in teaching, research, and service.			12,094,789	MANDATORY COST INCREASES		
Goal #5: Develop a highly productive organization that supports the mission and values of the University.			<u>51,895,110</u>	Accounts Payable/Purchasing Systems		\$130,000
TOTAL			\$414,357,723	Accounts Receivable/Fees Systems		150,000
SOURCE OF REVENUE				Asset Management Systems		84,000
	Original*	Revised*	Prelim.	Facilities Management System		340,000
	FY 2000	FY 2000	FY 2001	Human Resource Systems		211,000
State Approp	\$249,531,025	\$248,277,649	\$255,065,870	Compensation Increases		13,127,996
Tuition and Fees	118,291,735	118,691,735	125,729,260	Library Acquisitions		300,000
Reimb Indirect Costs	28,567,300	29,867,300	31,767,300	Opening New Buildings		747,000
Interest Income	900,000	900,000	900,000	Amortization of Capitalized Systems and Y2K		952,414
Other Income	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	Base Reductions-Academic & Administrative Units		(553,000)
TOTAL	\$397,415,060	\$397,861,684	\$413,587,430	Extension of FY 2000 Budget Reductions		(1,253,376)
* includes Public Health appropriation of \$1,050,000.				Building Renewal Deferral		(1,000,000)
NEW REVENUES AND REALLOCATIONS				Utilities		<u>(500,000)</u>
State Appropriations:				TOTAL		\$12,736,034
Base Reduction**		\$(1,713,922)		STRATEGIC PLANNING INITIATIVES INCREASES (Excluding Mandatory Cost Increases)		
Workers' Compensation		770,293		Initiatives	Goal	Allocation
Salary & Benefits Increases		<u>7,248,767</u>		Arts and Humanities	1,2,3,4	\$400,000
Subtotal State Appropriations			\$6,305,138	Biosciences	1,2,3,4	975,000
Other Revenues:				Business Services Restructuring	5	184,000
Tuition and Fees		7,437,525		Central Investment Research Fund	2,3,4	550,000
Reimb. Indirect Costs		3,200,000		Central Research Facilities	2,3,4	670,000
Subtotal Other Revenues			<u>10,637,525</u>	Classroom Management	1,2,3,4,5	44,000
Total New Revenues			16,942,663	College of Public Health	1,2,3,4	1,050,000
Reallocations			<u>10,860,900</u>	Collegiate Reallocations	1,2,3,4,5	5,927,700
TOTAL			\$27,803,563	Dentistry Surcharge	2,3	121,000
** authority to spend \$2.1 million on Public Health.				Human Resources Restructuring	5	187,000
				Human Subjects Office	3,5	150,000
				Iowa Research Council	3,5	20,000
				Law Surcharge		2,3,5
				MBA Surcharge	2,3,5	76,025
				NADS	3,4	297,104
				Redirection of Tuition	1,2,3,4	1,596,000
				Research Contract Proposal	3,4	50,000
				Strategic Intercollegiate Realloc.	1,2,3,4,5	885,000
				Student Aid Increases	1,2	1,189,500
				Student Financial Aid		
				Direct Lending	1,2	135,000
				Student Services	1,2,5	167,200
				Women's Athletics	1	<u>211,000</u>
				TOTAL		\$15,067,529