

**MINUTES**  
**LEGISLATIVE FISCAL COMMITTEE**  
**of the Legislative Council**  
**October 18, 2011**

The Legislative Fiscal Committee of the Legislative Council met October 18, 2011, in Room S401, in the Pappajohn Business Building at the University of Iowa, in Iowa City. The meeting was called to order at 9:33 a.m. by Senator Robert Dvorsky, Co-Chairperson, with the following members present:

- Senator Robert Dvorsky, Co-Chairperson
- Representative Scott Raecker, Co-Chairperson
- Senator Jeff Danielson
- Senator Brad Zaun
- Representative Peter Cownie
- Representative Dave Jacoby
- Representative Tyler Olson
- Representative Thomas Sands

Senator Kettering was excused. Other legislators in attendance included Senator Schoenjahn and Representative Wagner. The minutes were approved and a welcome message was extended by:

- President Sally Mason, University of Iowa
- President Craig Lang, Board of Regents
- President Pro Tem, Bruce Rastetter, Board of Regents

The following agenda items were discussed:

**Regents Budget Overview:**

**Board of Regents—Patrice Sayre, Chief Budget Officer, Board of Regents**

Ms. Sayre presented the Board of Regents FY 2013 budget request that included cost-savings measures that have been implemented.

**Questions/Comments:**

**Senator Danielson:** What is the percentage of the 912 employees that opted to take early retirement related to the total workforce?

Answer: 2.0% of total workforce.

**Representative Jacoby:** What is the total percentage of the workforce that was eligible to retire?

Answer: Information will be provided.

**Representative Raecker:** Requested information on nonresident tuition and fees compared to the peer institutions.

Answer: Information will be obtained. Sayre did respond that for undergraduate nonresident tuition, the University of Iowa was the third lowest compared to their peer group, Iowa State University (ISU) was the second lowest, and the University of Northern Iowa (UNI) was the fourth lowest.

**Representative Sands:** Can you compare the entire Board of Regents budget to 10 years ago adjusted for inflation?

Answer: Information will be provided.

**Senator Bolkcom:** In addition to the request from Representative Sands, Senator Bolkcom wanted to see the same information but related to the general education portion of the budget.

### **Iowa State University (ISU)—Greg Geoffroy, President**

President Geoffroy presented ISU's budget that uses an incentive driven budgeting process. Colleges receive tuition and indirect cost revenue based on enrollment and other funds generated.

#### **Questions/Comments:**

**Representative Jacoby:** How did you arrive at the cost benefit containment percentage of 5.0%?

Answer: The number was more of an arbitrary number selected by President Geoffroy with minimal analysis.

**Representative Raecker:** Indirect cost allocation generated \$343.3 million in grants. What percentage rate is that on indirect costs and how is the money allocated?

Answer: Every university has a negotiated rate for indirect costs. The rate of 45.0% is used by ISU but that percentage can vary. Sometimes the percentage is lower to obtain the grant. Of the indirect costs, a small percentage of the indirect costs go to the professor to use for their scholarly agenda and the rest goes to the college where the professor resides.

**Representative Raecker:** Are any of the indirect costs funded to ISU for general administration of grants?

Answer: Some of the State appropriation is used to support the Vice President of Research Office where grants are accounted for. This method provides incentives for professors to get grants. Of the \$343.3 million in grants, an estimated 25.0% is used for indirect costs.

**Representative Raecker:** Are there future plans for requiring freshmen to join a Learning Community since it has proven to increase retention rates?

Answer: Making this mandatory creates scheduling challenges. For example, a student in marching band is participating in a community, however, not an official learning community. Currently, about 70.0% of freshmen participate in a learning community.

**Representative Raecker:** What input do you have for legislators to improve the legislative process?

Answer: Good communication with the Board of Regents, University Presidents, and others. Legislators should invite these people to visit the Capitol more often to discuss the budget. Also ask the right question and more questions, as this provides better information. A good question to ask on total budget would be to obtain the percentage breakdown for the following: undergraduate education, graduate and professional education, research, extension, outreach and economic development, and administration.

**Senator Dvorsky:** What would be a better process to get better information?

Answer: Review a pie chart that would define the areas in the previous question. This information would provide better information for making budget decisions.

**Senator Dvorsky:** Asked for a response on having good faculty members.

Answer: A university is only as good as the faculty. Great faculty members create a great university.

**Senator Danielson:** Is the State appropriation directly tied to tuition?

Answer: Per the strategic plan the number one priority is to provide superior education to students and the Board allocates appropriations with the students in mind. Some of the colleges have higher administrative costs than others so incentives are used to encourage professors to obtain additional funds for their college.

**Representative Sands:** Likes the incentive driven budget process and wanted to know if other colleges have adopted this.

Answer: This process has been in place for four years and private universities (Harvard and Southern California) have used this model and several public universities have used some version of this program.

#### **University of Northern Iowa (UNI), Ben Allen, President**

President Allen presented UNI's information related to the budget that included a demographic breakdown of the students that attend UNI, a summary of the revenue and expenditures, and the strategic priorities.

#### **Questions/Comments:**

**Senator Danielson:** Extended thanks to the Board of Regents that recognizes the difference between the institutions and thanked the Board of Regents for funding to UNI. Senator Danielson is concerned that this additional funding is a temporary situation and wanted to hear about UNI's three-year plan for additional funding.

Answer: If additional funding would be approved by the General Assembly, the funds would be added to UNI's permanent base budget. Campus investments and program cuts will be made to make UNI stronger.

**Representative Cownie:** Expand on tuition and inability to attract out-of-state students.

Answer: The Board is taking steps to increase the number of out-of-state students by looking at athletic programs and other programs to attract nonresidents.

**Representative Raecker:** Has UNI broadened discussion with the University of Iowa to centralize other services, such as payroll or purchasing, and in addition eliminate the duplication of academic services?

Answer: The Vice President of Business and Finance continues to seek more opportunities to save money. In addition all three University presidents work together with the Council of Provosts to ensure new programs are not added. However, it is difficult to eliminate a large program that is already in existence.

**Representative Raecker:** The Board of Regents could institute a broad program review.

Answer: Agreed a broad approach to an academic program review would be needed.

#### **University of Iowa, Sally Mason, President**

President Mason presented budget information related to the University of Iowa. This included a percentage comparison of the department budgets with the Health Care and Patient Care budget representing 32.0% of the budget and General Education representing 21.0%. Other information presented included cost savings measures and a discussion of the economic impact to Iowa as a result of the University's programs.

#### **Questions/Comments:**

**Senator Bolcom:** Wanted to note that ISU and the University of Iowa are both top institutions nationwide. In addition, asked about limiting the salary bill and the challenges that creates for the University of Iowa and the other universities to compete nationwide for talented staff.

Answer: The measure of the institution is the measure of the faculty. The University searches for talented people as a priority to ensure students get served by the very best teaching staff.

**Senator Zaun:** Commented that the University of Iowa's executive staff compensation is the lowest in the Big 10 Conference and also the admirable level of retaining students from freshman status until they graduate. Senator Zaun asked what about the type of items stored in the University surplus warehouse.

Answer: The warehouse stores used office furniture or laboratory equipment that is no longer functional for the University's purposes, but is available for sale.

**Representative Raecker:** It was noted during the presentations that 21.0% of tuition revenue collected is used for financial aid. Is that a collective number by the Board of Regents or is this a number used by each of the institutions?

Answer: The 21.0% is part of the Board of Regents strategic plan, but each institution strives to use 20.0% of tuition for financial aid.

**Representative Raecker:** Among peer institutions would 21.0% would be comparable?

Answer: Each institution calculates financial aid differently, so this is difficult to compare. The University of Iowa uses most of the discounting (financial aid) for Iowa students, but some is used for out-of-state students. There is also a substantial scholarship pool in the University's Foundation, and other financial aid includes work studies and student loans.

**Representative Raecker:** What about graduate student financial aid? Do the dollars go into one pool?

Answer: All tuition goes into one central pool and funds are used to provide competitive assistance-ships from tuition paid by graduate students.

**Representative Raecker:** Do you use incentive budget process like ISU?

Answer: Due to a different student mix with one third of students at the graduate level, the model that ISU uses does not work as well for the University of Iowa. They use a modification of the incentive budget for undergraduate programs, but do not use that type of budgeting for graduate students.

**Representative Raecker:** Asked for a clarification of the time period for the budgeted growth rate of \$2.6 billion to \$3.0 billion.

Answer: Over two years, with an average growth at \$200.0 million per year.

**Senator Dvorsky:** Noted the small amount of General Fund appropriation to the University of Iowa Healthcare, but how the system has grown.

Answer: Although not beneficiaries of appropriations, many of the buildings received funding from the General Assembly. The University of Iowa Healthcare benefits all counties across Iowa, and more than one million patients receive treatment each year.

**Senator Dvorsky:** College of Public Health that is just opening is a tremendous benefit to the State.

Answer: Benefit in many different ways—grants bring in resources to the University that creates jobs. A recent grant for \$650,000 was awarded to complete public health work in rural counties in Iowa.

**Senator Dvorsky:** Commented on the way the Board of Regents stepped up to work with the Department of Administrative Services (DAS) to increase efficiencies on services such as payroll, purchasing and technology. The Senator requested a presentation for the December meeting that updates the practices implemented by the Board of Regents when working with the DAS.

Answer: This information will be provided.

#### **University of Iowa Flood Recovery--Rod Lehnertz, Director of Planning, Design, and Construction**

Mr. Lehnertz provided an update related to the 2008 flood damage at the University of Iowa. The 2008 flood damaged 22 buildings and closed 2.5 million square feet. The University has been working closely with FEMA to restore the buildings damaged during the flood.

**Questions/Comments:**

**Representative Sands:** Asked about the new FEMA maps and how they affected Iowa City. Did they present a challenge with the recovery process?

Answer: Some of the maps had to be recalibrated but there were no major problems with the maps. As there are no city residents on campus, the concern with rebuilding along the river relates to protecting the building using a two foot above the 500 year map level.

**Representative Sands:** Is the Light Detection and Ranging (LiDAR) mapping completed by the Department of Natural Resources (DNR) available for use?

Answer: The Hydraulics Institute did the mapping and did a more detailed map of the Iowa River near the University.

**Other Discussion Items:**

**Disaster Recovery Update—John Benson, Homeland Security Emergency Management Division**

Mr. Benson provided an update on Homeland Security and Emergency Management projects in Iowa. Currently there are 14 open Presidential disaster declaration in Iowa. The most recent projects include the Missouri River flooding, the wind damage in parts of central Iowa, and flash floods that occurred in Iowa. The estimated damage related to the Missouri River flood is \$72.7 million and the Governor recently announced a Missouri River Coordination Task Force to coordinate disaster recovery for individuals, families, and businesses.

**Questions/Comments:**

**Representative Jacoby:** Is there anything specific we learned from the 2008 flooding disaster being used for the Missouri River flood disaster?

Answer: The benchmark for disasters is the 2008 disaster, but the reality is there is not as much money from the federal government for the Missouri River recovery. The relationships and partnerships from the 2008 flood still exist and will be used to find new ways for funding and other projects.

**Representative Jacoby:** Are we using the Iowa Flood Center at the University of Iowa?

Answer: Yes, they are being used extensively.

**Senator Danielson:** Encouraged legislators to be included on the Task Force.

Answer: Agreed that legislators should be included and will talk to General Hill about including legislators.

**Representative Raecker:** What is the actual funding needed compared to the performance of duty appropriation for FY 2012 and the projected performance of duty for FY 2013?

Answer: The response was from Pat Hall, Homeland Security. Mr. Hall has not gone to the Executive Council for the past two disasters (wind and flash flooding) and has gone to the Executive Council for a

portion of the Missouri River flooding disaster. The next time to report to the Executive Council will be either December or January but additional funding will not be requested until March.

**Representative Raecker:** Are we in line with projections and the estimate for the FY 2013 budget?

Answer: We are in line with current project estimates but will have to obtain Information for FY 2013.

**Representative Sands:** Some funding for the 2008 flood was from Block Grant funds and wanted to know what Department was administering the money.

Answer: The only time Homeland Security uses Block Grant funding is for hazard mitigation programs and the Block Grant money is used for match money.

**Representative Sands:** Asked about western Iowa flooding issues related to roads and the future freezing and thawing that could occur. Do the dollars reported reflect the high probably of what might happen due to weather conditions or do the numbers reflect the best estimate as of today.

Answer: This is the best estimate as of today.

#### **Legislative Services Agency (LSA) Discussion Items:**

#### **Revenue Estimating Conference (REC) and General Fund Receipts—Holly Lyons, Division Director, LSA**

#### **Questions/Comments:**

**Senator Danielson:** What drives the expenditures for school infrastructure?

Answer: Stu Vos, Department of Revenue replied that a supplemental distribution of pooled moneys for all districts under the statewide cap is completed in August.

**Senator Danielson:** Why did the funds transfer increase this year?

Answer: Stu Vos, Department of Revenue, replied that there are larger counties such as Polk County that are now entering the pool.

**Senator Danielson:** What does this money pay for?

Answer: Shawn Snyder, LSA, stated that school districts are required to file a revenue purpose statement for school infrastructure expenditures or for property tax relief.

**Senator Bolcom:** Some of the money may go to property tax relief rather than school infrastructure. Is there a report that summarizes this information?

Answer: The LSA will answer after all information is presented.

**Senator Danielson:** Asked for a description of the factors that would depress future revenue based on economic activity in Iowa?

Answer: There are several factors: persistent unemployment, a decline in wage and salary income, the Federal Reserve Board reports the economy still needs assistance, the University of Iowa and Department of Revenue have both predicted lower Iowa employment rates, and sales and use tax

revenue growth is still positive but has slowed. There is an overall concern related to consumer confidence.

**Representative Raecker:** What caused the 30.0% increase in corporate income tax?

Answer: Corporate income tax collected is a very volatile figure. Mike Lipsman, Department of Revenue, answered that in the previous year, corporations had strong profits, but as most companies take a six-month extension for filing taxes the revenue was not collected until September.

### **General Fund and Reserve Balance Sheets—Dave Reynolds, LSA**

#### **Questions/Comments:**

**Representative Raecker:** If the budget was funded at 100.0% plus estimated built-in expenditures, we would be over \$115.6 million over the expenditure limit?

Answer: Yes

**Senator Dvorsky:** What is the total of the built-in expenditures?

Answer: Estimated built-in expenditures are \$295.0 million. Mr. Reynolds also indicated that the \$115.6 million budget gap is the lowest number reported since 2004.

**Representative Olson:** Even though the REC has lowered the number for the current fiscal year, the surplus goes up as the surplus for FY 2012 is higher?

Answer: That is correct.

**Representative Jacoby:** Asked about the estimated \$115.6 million shortage.

Answer: To fully fund the rest of the FY 2013 appropriations and the estimated built-in amounts, you would have to make adjustments of \$115.6 million to balance the budget. Holly Lyons added the \$115.6 million is referred to as the budget gap and the General Assembly has always taken action to close the gap.

**Senator Bolkcom:** Suggested funding a portion of the budget gap with money from the Taxpayer Trust Fund.

### **FY 2011 Appropriation Transfers, Dave Reynolds, LSA**

Mr. Reynolds explained that HF 148 included restrictions to the transfer authority of the Governor. Members of the Legal Services Division and the Fiscal Services Division in the LSA discussed the legislation and it was determined that any appropriation carry forward balance will be added to the total enacted appropriations for the year for the purpose of calculating transfer limits. It was noted that one of the FY 2011 transfers that were made after HF 148 took effect did not comply with the 50.0% requirements. This involved the transfer of \$36,400 from the Office of State and Federal Relations, which accounted for 89.0% of the total funds appropriated to the Office.



**Questions/Comments:**

**Representative Raecker:** When a transfer is made that does not meet the law, what is done?

Answer: Normally, the LSA will work with DOM to correct any non-compliance issues. In this case, the infraction was not noticed until after the transfer was complete and the books for FY 2011 were closed.

**Representative Raecker:** We want to be clear that the law should be followed.

**Representative Raecker and Senator Dvorsky:** The Fiscal Committee strongly discourages and will not accept transfer funds that do not meet the requirements of the law.

**Senator Danielson:** What is the mechanism for releasing funds when the transfer amount exceeds the legal amount?

Answer: Bring to attention of Department and work with them to avoid this situation.

**Senator Danielson:** Does the Legislature have the internal accounting mechanism that does not authorize the transfer?

Answer: No.

**Medicaid Update—Jess Benson**

Mr. Benson reported there is a surplus for FY 2011, mostly due to the way federal ARRA money was handled in previous fiscal years.

**Questions/Comments:**

**Representative Jacoby:** A number from years ago, about 80.0% of children on Medicaid were from working families. Is there any current information on children in families that are underemployed or where the parents are working but still need to have health care for their children?

Answer: Medicaid eligibility is 133.0% of poverty level and ranges from \$25,000 to \$27,000 for family of four. Mr. Benson will check with the Department of Human Services and census data to see if additional information is available.

**Representative Jacoby:** So the Medicaid budget gap is \$40.0 million for FY 2013?

Answer: No, it is a \$100.0 million gap.

**Property Tax Equity Relief (PTER) Fund overview—Shawn Snyder, LSA and Stu Vos, Department of Revenue**

Mr. Snyder provided an overview of the Property Tax Equity Relief Fund.

**Questions/Comments:**

**Senator Bolcom:** Am I paying a 1.0% tax for silo?

Answer: The silo was eliminated from State tax.

**Representative Sands:** Commented on two ways to fix the PTER Fund. He first mentioned that once fully implemented, the increase in state aid due to the House version of the property tax bill, then the problem is irrelevant. The other way is to have a direct appropriation to the PTER Fund to benefit property poor school districts.

**Senator Danielson:** Requested a list of the school districts affected.

Answer: The information will be provided.

**Mike Lipsman, Department of Revenue:** The growth in use tax was faster than anticipated. The type of companies that would pay includes direct sellers such as Avon or Amway, and the other large contributor was telecommunication companies.

Topics to be discussed for the December meeting include:

- Update from the Board of Regents on practices implemented from working with DAS
- Disaster recovery update.
- REC update.
- Iowa Lottery to discuss budget issues and the budget process.
- State prisons—is funding sufficient to provide adequate staffing?
- Medication Therapy Management (MTM).

The meeting was adjourned at 1:32 p.m.

## **Tour**

Fiscal Committee members participated in a tour of the University of Iowa campus. Rod Lehnertz, Director of Planning, Design, and Construction, provided information about buildings damaged during the 2008 flood. Tour stops included:

- A tour of the Dentistry College, led by Dr. Michael Kanellis.
- A tour of the College of Pharmacy by Dean Donald Letendre.

The following link to the Legislative Fiscal Committee website includes the attachments discussed at the meeting. <http://www.legis.iowa.gov/Schedules/committeeDocs.aspx?GA=84&CID=46>.