

MINUTES
LEGISLATIVE FISCAL COMMITTEE
of the Legislative Council
December 20, 2011

The Legislative Fiscal Committee of the Legislative Council met December 20, 2011, in Room 116, in the Capitol. The meeting was called to order at 1:00 p.m. by Representative Scott Raecker, 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

Senator Kettering and Representative Sands were excused. The minutes were approved and a welcome message was extended to Melvin Dvorsky, guest of Senator Dvorsky.

The following agenda items were discussed:

Regents Budget Overview:

Board of Regents Efficiencies – Presentations included:

- Debbie O’Leary, Department of Administrative Services (DAS) – discussed the following areas where the DAS has worked with the Board of Regents to save money that included: office supplies, vehicles, and procurement cards.
- Nancy Brooks, Iowa State University (ISU)—discussed the following areas where the Board of Regents has increased purchasing efficiencies with the DAS through cooperative efforts that included: cooperative contracts, operational efficiencies, and other planned purchases.
- Steve Fleagle, University of Iowa (UI)—discussed efficiencies with the DAS related to information technology that included: internet sharing agreements, software licensing review, collaborative purchasing, and facility management application assessment.

Questions/Comments:

Representative Raecker: Asked for the rebate amount for using procurement cards.

Answer: The UI has a rebate percentage of 1.75% and ISU has a rate of about 1.80%.

Representative Raecker: Asked about non-profit master contracts.

Answer: The DAS does provide some services to non-profit organizations.

Medication Therapy Management Pilot Project — Ed Holland, DAS

The Medication Therapy Management (MTM) Pilot Project was established in HF 2531 (FY 2011 Standings Appropriation Act) and funded with \$543,000 from the Underground Storage Tank Fund. Outcomes Pharmaceutical Health Care of West Des Moines, was selected administrator of the Pilot Project.

Jessica Frank, Outcomes Pharmaceutical Health Care, discussed the results of the Pilot Project that included: an overall return on investment of \$8.83 and a drug product savings return on investment of \$2.44. Other information provided included 9,753 MTM claims with an estimated cost savings of \$4.3 million and an additional drug product cost savings of \$1.2 million. Outcomes did validate \$953,000 in drug cost savings related to the MTM Pilot Project.

Questions/Comments:

Senator Danielson: Asked if the MTM Program was extended would the DAS be interested in administering?

Answer: The DAS is always willing to look at alternate programs.

Representative Raecker: Was the validation data shared with the DAS?

Answer: Validation data had not been shared with the DAS. The validated savings of \$953,000 was in drug product cost savings.

Iowa Lottery Budget Process—Terry Rich, Chief Executive Officer (CEO) and Brad Schroeder, Iowa Lottery Board Chairperson

Terry Rich discussed the budgeting process at Iowa Lottery. The Chief Financial Officer and the financial staff prepare an annual budget based on expenses, most current fiscal year financial results, and the economic outlook. The CEO and other senior staff members review the budget and the Iowa Lottery Board approves the budget in September. The Board also reviews the budget results compared to actual results in June. Brad Schroeder provided an overview of the Iowa Lottery Board.

Questions/Comments:

Senator Zaun: How are Iowa Lottery Board members appointed?

Answer: They are appointed by the Governor and approved by the Senate.

Representative Jacoby: How would Iowa Lottery sell hunting/fishing licenses?

Answer: The Iowa Lottery is finishing implementing a new computer service and the goal is to look for new ways to sell lottery products and assist in saving other Departments money. The Iowa Lottery is currently talking with the Department of Natural Resources for new ways to sell hunting or fishing licenses but must maintain the high level of security.

Senator Danielson: Asked about the Iowa Lottery's authority to make operational changes and if operational changes should be approved by the Legislature.

Answer: The Iowa Lottery can make changes to their operations and has the authority to do so but continues to communicate to the Legislature about operations.

Representative Raecker: Since has charter authority, how does the Iowa Lottery Board review the budget? Should there be more legislative oversight of the budget?

Answer: The Board is very involved in the budget process and is comfortable with approving the budget.

Representative Raecker: Director Rich, do you present the Iowa Lottery budget to the Administration and Regulation Appropriations Budget Subcommittee each year?

Answer: A presentation is made every year and all budget information is public and available online and it is the goal of the Iowa Lottery to be transparent in operations.

Representative Raecker: Encourage the Fiscal Committee to review the Iowa Lottery budget each year.

State Prisons Staffing and Funding--Department of Corrections (DOC), John Baldwin, Director

John Baldwin provided an overview of the DOC organization and staffing levels of the various organizations and the span of control. Other subjects discussed included the number of employees that left from the early retirement incentive and their replacement, the lack of funding for new employees due to the lack of funding for projected salary increases, and overtime expenditures. An update on construction projects at Fort Madison, Mitchellville, and other facilities was provided.

Questions/Comments:

Representative Jacoby: Can you discuss the percentage of mental health inmates that refuse treatment. Also discuss the safety of DOC staff and overtime costs?

Answer: Small percentage of offenders refuse mental health treatment, probably less than 50. The DOC will treat offenders with problems, even the ones that cannot differentiate that they need treatment. The DOC hires as many people as they can afford and have been trying to cut back on overtime so additional staff can be hired and keep more people employed. There is no perfect number to say all staff will be safe but the DOC staff is the best.

Senator Dvorsky: Since the DOC is funded with General Fund do you anticipate the Department will need supplemental funding for operations?

Answer: The agencies that receive General Fund do not receive any reimbursements and will need additional funding and the DOC will need additional funding to continue operations.

Senator Dvorsky: Will the Waterloo facility be open.

Answer: Females that are on parole or probation are being moved to the Waterloo Center for Change and probation officers are moving their caseload to the Center for Change as well. There is no residential component at this time.

Senator Danielson: Asked the average cost per day in prison versus the average cost in a community-based correctional (CBC) facility. Senator Danielson also talked about the possibility of moving persons from Blackhawk County jail to the Waterloo facility that is currently empty.

Answer: About \$84 per day and residential facility about \$72 per day in correctional facilities.

Senator Bolkom: There were 325 early retirements but only replaced 125 employees and concern has been expressed that current employees do not get time off for vacation or family functions.

Answer: Will never be able to solve the problem that employees cannot get time off for functions as the operation runs 24 hours a day. 1:18 on tape

Representative Raecker: On slide 11 of the presentation, there is a \$16.0 million salary adjustment and \$2.1 million to hire 40 new correctional officers. Were the new officers hired?

Answer: The Department did not hire the 40 new correctional officers.

Representative Raecker: You discussed earlier the need for a supplemental appropriation. Have you identified of how much of a supplemental appropriation you would request?

Answer: The final number has not been determined yet.

Representative Raecker: Would like to know if lowans are safe due to lower levels of funding and will they be at a greater risk if not funded.

Answer: Would like to discuss the risk assessment process with the Legislature. There is never a decision made by the Department that does not include some level of risk, but the Corrections staff has done well in making decisions over the past 10 years. The people that need to be in prison should stay there, but people that can go back to Iowa communities should be given that opportunity through Community-Based Corrections.

Senator Dvorsky: A Department of Corrections Director cannot say that a prison will be unsafe given a certain level of funding and legislators should not be asking a question like that.

Representative Raecker: The intention of the question was not political.

Delinquent Sales/Use Tax Collection, Department of Revenue, Stu Voss, Division Administrator

Mr. Voss discussed how sales tax is assessed and enters the budget system. Businesses pay quarterly deposits every quarter if over \$6,000 in sales and every month if between \$6,000 and \$60,000, and every two weeks if over \$60,000. Also have an e-file system for sale tax and 96.0% of retailers file electronically so know when someone doesn't pay. In FY 2010, 95.4% of what was owed was paid on time and 2.5% was collected during the year, so at the end of FY 2010, about 2.1% was not paid on time.

Other items discussed included the annual write-off of sales tax delinquencies, the assessment and collection process, the Department of Revenue staffing levels and the Department's legislative needs. The Department asked to eliminate the 20-day notice requirement during the assessment process and to automate the bank levy process that is currently completed manually on paper.

Questions/Comments:

Representative Olson: Asked about recession and the impact on sales tax collections. Is that because more people are not filing, not selling as much, or a combination of those?

Answer: If you review the number of delinquent accounts related to sales tax, that number has begun to stabilize.

Representative Olson: Seems like the Audit will focus on an industry group that will spend more time on.

Answer: Victoria Daniels, Department of Revenue, number of audit programs they run. One program matches amount of taxable services and compares to the amount of income tax paid. Another looks at professional licenses that purchase equipment and may not pay the use tax. The Department is working with groups to educate them on what is taxable and what is not. Also receive information from the federal government.

Senator Bolcom: Asked about legislative proposal related to the 20-day notice requirement.

Answer: A person that does not pay on July 1, does not have to submit the return until October 31. When you include the notification steps, contact time, and appeal process, collection cannot begin for up to nine months in some cases. The 20 day in this example would start when the Department sends the first notice.

Senator Bolcom: Can you discuss the bank levy process?

Answer: The only difference from what is being done now that once every quarter the Department would send an electronic file to the bank to see if they have customers listed on the file. If the bank or credit union would verify that, then the Department could place a levy on the customer's account. Victoria Daniels added that the automated process would save time for the employees at the bank or credit union as well as for the Department.

Senator Danielson: Suggested that this idea be forwarded to the Efficiency Committee.

Other Discussion Items:

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

Holly Lyons explained there was little change from the last REC. The economy did not slide back into a recession but also the momentum for growth is slow. Iowa benefits from having reserve funds, low

unemployment, and commodity prices are stable. The REC estimate was adjusted upward slightly as the economy is improving but at a slower pace than previously expected.

Attachment G was explained by Jeff Robinson that details receipts and how they relate to the REC. Two changes that affect the General Fund are the Cigarette Tax and gambling receipts. The first \$106.0 million of the Cigarette Tax goes to the Health Care Trust Fund. The other item discussed was the gambling receipts that are estimated at \$66.0 million for the year. As there is a new gambling casino, gambling receipts will be received at a faster rate than in the previous fiscal year. The overall estimated growth rate for the fiscal year is 4.0%.

Representative Olson: Had a question about the information on Attachment G.

Answer: The last two columns on the Attachment represent money that was added to REC estimate. The second to last column is additional revenue from October to December FY 2012 and the last column is additional revenue for FY 2013. The last column was incorrectly labeled FY 2012 and should have been labeled FY 2013.

Senator Dvorsky: The estimated increase is a 4.0% and that is positive and moving forward.

Answer: Yes the increase is around 4.0%.

Senator Bolcom: Requested information about the tobacco transfer.

Answer: The transfer process is confusing and is hard to explain.

Representative Raecker: Agreed this was a discussion topic for the Legislative Session about creating an account that goes into the General Fund.

Senator Danielson: What is Iowa's strength in having a balanced budget and improvement in the economy?

Answer: Commodity prices have helped in sustaining the economy. Also Iowa's economy was not growing as quickly as other states when the economy stopped growing so it didn't affect Iowa as much.

Senator Danielson: What is Iowa's weakness going forward?

Answer: The retiring baby boomers will affect the workforce and there will be workforce shortages.

General Fund and Reserve Balance Sheets—Dave Reynolds, LSA

Dave Reynolds highlighted changes in balance sheet. The increase in revenues adds to the surplus on the balance sheet. In FY 2013, the projection is improved and the budget gap is reduced.

Questions/Comments:

Senator Bolcom: How does the Taxpayer Trust Fund with \$46.2 million affect the budget gap and could that money be used to reduce the budget gap?

Answer: The \$46.2 million is not available until FY 2014, and does not relate to the budget gap.

Other Business

Representative Raecker thanked the legislative members for attending the Fiscal Committee meetings and thanked staff for preparing for the meetings. Senator Dvorsky also thanked legislators and staff.

The meeting was adjourned at 4:15 p.m.

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>.