

MINUTES
LEGISLATIVE FISCAL COMMITTEE
of the LEGISLATIVE COUNCIL

August 2, 2000

The Legislative Fiscal Committee of the Legislative Council met August 2, 2000, in the Speaker's Conference Room of the State Capitol Building. Co-chairperson, Senator Derryl McLaren, called the meeting to order at 10:07 a.m. Other members present were:

Senator Tom Flynn
Senator Pat Harper
Senator JoAnn Johnson
Representative Michael G. Cormack
(Designee for Representative David Millage)
Representative Jack Drake
(Designee for Representative Jamie Van Fossen)
Representative Pat Murphy
Representative Don Shoultz

APPROVAL OF MINUTES

Senator Johnson made a motion to approve the minutes of the Legislative Fiscal Committee Meeting held June 22, 2000, (**Attachment A**). The minutes were approved.

REVENUE UPDATE

Dennis Prouty, Director, Legislative Fiscal Bureau (LFB), presented a revenue update. He reported that for July, receipts were 2.2% over last July. July receipts in the past years have ranged from -38% to a + 93% increase.

At the last meeting it was reported that receipts had come in higher than estimated for FY 2000 but refunds were also higher. Final information for FY 2000 is not available yet, but it should be near the estimated amount at the close of the 2000 Legislative Session.

LEASE PURCHASE NOTIFICATION

Dave Reynolds, LFB, presented a lease purchase notification for the Auditor's Office. This is for the purchase of remanufactured modular components for the Auditor's Office, needed as a result of the relocation of the Auditor of State staff to the second floor of the Lucas Building. Total cost of the project has been revised to an estimated \$199,000. This includes \$181,000 in principal and interest at an estimated rate of 5.57% for a three-year period. Annual payments will be approximately \$70,000.

Representative Shoultz asked if the payments come from the Auditor's budget. Senator McLaren stated it is included in the budget requests.

UPDATE ON FORT DODGE PRISON

Attachment C is a memo from Beth Lenstra, LFB, presenting an update on the Fort Dodge Correctional Facility. The 1,162-bed Facility is now fully operational. The Department of Corrections (DOC) has transferred appropriations from the Fort Dodge Correctional Facility each of the last three fiscal years. Funds were available due to construction delays. Ms. Lenstra reviewed the reasons for the transfers.

John Baldwin, Department of Corrections, was present to respond to questions.

Senator Johnson asked if all the beds were full. Ms. Lenstra responded yes, they are all full. Senator Harper asked if any of the prisoners in the Fort Dodge facility were county jail inmates. Mr. Baldwin answered one was from Webster County.

Representative Shoultz asked if the facility is fully operational now. Ms. Lenstra responded yes.

TOBACCO SECURITIZATION

Attachment D is a memo from Beth Lenstra, LFB, reviewing House File 2579, the Act that created the Tobacco Settlement Authority. This Act begins the process necessary for the State to sell its future tobacco settlement payments due from the Master Settlement Agreement. Other provisions in the Act were also presented.

The Tobacco Settlement Authority has issued a Request for Proposals (RFP) to select a financial advisor. The advisor will assist the Authority in reviewing and researching various financial options.

Brett Mills, Treasurer's Office; and Gordy Allen, Attorney General's Office, were available to respond to questions.

Representative Shoultz asked if after selecting the financial advisor, the Authority decides not to proceed, who pays the costs that have been incurred. Ms. Lenstra responded the Act requires the Authority to develop a plan, and a financial advisor is to assist them in developing a plan.

Senator McLaren asked who incurs the cost of the financial advisor. Brett Mills responded the financial advisor absorbs that cost and that is stated in the RFP. Senator McLaren asked if the program plan is approved but not executed, who pays the costs. Mr. Mills stated there are no provisions to cover expenses if the plan is not executed. Unless the Master Settlement Agreement (MSA) is sold, the departments involved will absorb the costs such as staff costs incurred in preparing the RFP.

STUDIES APPROVED BY THE LEGISLATIVE COUNCIL

Doug Wulf, LFB, reviewed the list of studies approved by the Legislative Council. The Council approved ten study committees for a total of 29 meeting days, 39 members from the House, 39 members from the Senate, and 50 public members. The Council is writing a letter to four of the Executive Branch Agencies reminding them of the studies/requests that are required of them for issues of railroad right-of-way, use by utilities, task force for operating motor vehicles while intoxicated statutes, Department of Transportation review of outdoor advertising, and the Insurance Commission to review long term care insurance laws and insurance options available in Iowa.

Members of the various committees have not been appointed as of this date.

FEDERAL FUNDING AND ISSUES UPDATE

Phil Buchan, State/Federal Office, provided an update on recent federal action via teleconference. He talked about four major areas. The Labor/Health and Human Relations Bill, which is in a Conference Committee, is anticipated to provide "level funding" from the present Program. The funding for long term care initiative is through Medicaid money. There currently are three tiers in this Program; Iowa is in the middle tier.

Other projects of interest include the civic project, a National Guard information technology project, for which there is money in the defense appropriations bill. This bill has been sent to the President for his signature. Money is not specifically earmarked for Iowa.

Representative Shoultz asked about the long term care funding and if it is in jeopardy. Senator McLaren stated he understood elder care funding had been approved, with all states in one class. He asked if that meant that funding for Iowa is in jeopardy. Mr. Buchan replied yes, and he also thinks that the long term funding stream is going to dry up sooner than anticipated. This money exists because of the revised billing practices under the Medicaid Program and is calculated as the difference paid to nursing homes and the maximum limit of payment. Iowa has proposed that the returned money be placed in the Senior Living Trust Fund and be used to fund alternative long-term care services.

Mr. Buchan stated that not all states' plans have been approved by the federal government. Meanwhile the Health Care Financing Administration (HCFA) has recently expressed concern over the states' use of this funding mechanism, in part because states are using the money returned from the nursing facilities for expenditures that are not Medicaid-related. A Notice of Proposed Rulemaking has been drafted which would phase out states' ability to claim federal reimbursement based on the upper payment limit. The Director of the Medicaid Division has the idea that because he had started talking about drying up the public stream, there would be a transitional stage or phase out period. Three classifications of states have been identified. Iowa is in the "middle tier" – a state

with approved state plan amendments but whose plans have been in effect for a short period of time; these states are likely to receive a very limited phase-out period.

Senator McLaren stated HCFA created the middle tier designation, not the White House, and expressed concern that Iowa's plan had been approved and now suddenly the rules and federal dollar commitments are being changed. For the Iowa Legislature, the federal elder care funding was anticipated to provide \$200 million and was to be eliminated at the end of five years. The commitment received was not close to this amount, only \$100 million and it seems to be in jeopardy. Mr. Buchan responded the \$100 million is retroactive and is locked in.

Senator McLaren asked if the second \$100 million funding is in jeopardy. Mr. Buchan stated that is correct, but the figure was expected to be more like \$90 million. Senator McLaren stated it is important to make a distinction between the anticipated \$200 million and the \$90 million that is the actual commitment. Mr. Buchan agreed. He also stated that he is placing much effort on extending the current commitment.

Senator McLaren asked about the Iowa budget for nursing homes and whether the 70th percentile ranking can be maintained this year. Mr. Buchan commented this is a concern.

Mr. Buchan stated a bill is starting to move forward that should provide Iowa with approximately \$16 million in federal funding for parks and recreation land. This funding is from federal off-shore receipts for gas, with revenues placed in a trust fund and allocated to states. In the compromise bill, Congress has to take action to spend a specified amount for individual projects, then the remaining money will be released. Much of this money is allocated to states that have shorelines. There is concern if Iowa will receive \$16 million a year as with the present funding formula, Iowa is last. Large amounts of this money are allocated to states that have shorelines that could be affected by gas spills which is a reasonable policy argument for them to receive more money.

Senator McLaren asked how this federal fiscal year might end with the new ten-year projections by the Executive Branch and the President. Mr. Buchan stated it is possible that the two houses and the president could change leadership this year and thus, could provide many different potential combinations. He commented that Governor Bush would be more likely to move in the direction of block grants and sharing revenues with states while Vice President Gore would probably be more prescriptive but may provide more money for social issues. These areas contain a large percentage of federal funding which Iowa receives. The makeup of the two houses in Congress will also be an influencing factor.

Senator McLaren asked if anything will be done with the new federal estimates. Mr. Buchan responded that probably the only thing the new revenue estimates will be used for is to come to a broad agreement so Congress can get out of town on time in early October.

The last issue Mr. Buchan spoke of was on Internet sales tax. At this point the states have been working together to negotiate among the states. There does not appear to be much movement in Congress to pass additional legislation to extend the moratorium for five years. Internet representatives will continue to work to keep a tax-exempt status and avoid having to pay state/federal taxes on items purchased over the Internet.

Senator Johnson asked if there is a forward movement to push for a moratorium or have it extended. Mr. Buchan stated the moratorium is ending, but there has been no real push to extend it. A variety of proposals have been made, one that he is opposed to is a permanent moratorium on the Internet sales tax. Many of the current proposals are written very sloppily. He indicated that a system of parity needs to preserve the sales tax systems in the various states. He is following this issue closely along with Gerald Bair, Director of the Department of Revenue and Finance.

VISION IOWA AND COMMUNITY ACTION AND TOURISM (CAT) FUND

Dwayne Ferguson, LFB, presented an *Issue Review*, "Vision Iowa Program". (Attachment F) This *Issue Review* reviewed the operation, administration, and project selection process of the Vision Iowa Program and the Community Attraction and Tourism (CAT) Program.

The Vision Iowa Program was created to provide State financial assistance in the form of grants, loans, forgivable loans, and loan guarantees to communities for the development of major tourism facilities. The Program will receive \$15.0 million annually for 20 years from gambling receipts after the first \$60.0 million is deposited into the General Fund. The Vision Iowa Program has a bonding authority with the Treasurer of State.

The General Assembly appropriated \$12.5 million per year from the Rebuild Iowa Infrastructure Fund (RIIF) for five years for the Community Attraction and Tourism (CAT) Program. The CAT Review Board is a subgroup of the Vision Iowa Board and will review applications, making recommendations to the Vision Iowa Board as to grants.

Senator Johnson asked who the five members of the CAT Review Board are. Nancy Landess, Tourism Director, Department of Economic Development, stated they are Michael Gartner, Marvin Berenstein, Mary Ellen Chamberlain, Dianne Paca, and Gregg Connell.

Representative Cormack asked what happens to grant money when it has been awarded but withdrawn later. His specific reference was a grant awarded to the City of Ames, which was withdrawn because of a dispute. Ms. Landess explained that this particular project was not for a multipurpose activity so the grant was withdrawn.

Senator McLaren stated there was diversity in board members, but no diversity required for funding projects. Ms. Landess replied diversity is not required in terms of dollar

amounts but there is geographical diversity. The Board looks at location, does not divide by regions, or by types of projects.

Senator McLaren asked when the Board would act upon the proposed rules to evaluate the Program. Ms. Landess responded they had their first meeting in July, at which time they received a draft of the proposed rules. At the August 9 meeting, it is hoped they will have all their comments. This Board does not have rule-making authority. Once they have approved them, the proposed rules will go to the Vision Iowa Board for approval.

Senator McLaren asked if there was a scoring mechanism included in the proposed rules. Ms. Landess stated yes, and a draft copy could be provided to this Committee. The proposed rules are very similar to the CAT Program rules.

Senator McLaren asked if in the proposed scoring rules, there is a scoring mechanism for total competition attributable to diversity. Ms. Landess replied the applicants had to meet three threshold requirements, show local support, demonstrate need for financial assistance, and vertical infrastructure.

Once those are met, the scoring was for economic impact, leverage activity if the attraction was built, local match, feasibility of the project, and geographical diversity. There are not specific points, all forms of diversity will be considered at the next meeting.

Senator McLaren asked if members of the Fiscal Committee could receive copies of the recommendations that will be provided to the Vision Iowa Program Board. Ms. Landess responded yes, and also stated they would also be on the website (www.traveliowa.com).

Senator Johnson asked about ethnic measurements vs. a sports complex, as to how much the financial potential weighs into the formula. Ms. Landess replied they will be looked at on an individual basis, such as will a museum in a smaller community have the same drawing for people as a sports arena. There is also funding reserved for communities with a population of 10,000 or under, and the 33 counties in the bottom tier of Iowa.

Representative Murphy stated the *Issue Review*, "Vision Iowa Program" talks about the projects have to be at a cost of \$20.0 million or more, it is conceivable that one project can receive both CAT Funds and Vision Iowa Program Funds. Ms. Landess referenced the Dubuque Program, stating they did not have a Vision Iowa Program to consider. There was no dollar amount to reference. As an example, if there is a \$30 million project and only an additional \$2 million is needed, it would be better to consider the CAT Program rather than the Vision Iowa Program. The Board has not addressed that issue but it is certainly one they will have some discussion about.

Representative Murphy asked about contracts that are more than one year and if new issues can be considered once the contract is signed. Georgia Soliday, Legislative Liaison, Department of Economic Development (DED), stated it would depend upon the circumstances involved.

Representative Murphy asked if future contracts might contain wording to address new issues that become effective after the contract is signed, and the project is committed funds for a specific time period unless it is something that would cause the contract to be voided. Ms. Landess stated the contract specifies what State funds will be used for and what the local match funds will be used for, and is monitored before drawing State funds. Projects have to be done exactly as stated in the contract based on the application.

Representative Murphy asked if temporary employees are hired instead of full time employees, receiving wages that are not at county average wages, and perhaps health insurance issues exist also, and it is assumed that they have been offered those items as a provision of employment by an employer. Who monitors this? He also asked if it is something that can be done through a ruling or can the DED change under current policy for all future contracts. Ms. Landess responded these will be addressed in the rules. Contractors state there will be this many jobs with this wage.

Representative Murphy commented that CEBA was doing these things with wages, health insurance requirements, and failed wage requirements and asked if these items are considered in the awarding process. He asked if he could look at the rules and see the wage requirement, then incorporate all those pieces in case there are problems in this area. Ms. Landess responded those issues are incorporated in the wages, insurance, and benefits area of the contract.

Representative Murphy asked about grant applications that are professionally done. Is this paid for from the grant? How can this be avoided, maybe through audits. He asked if some type of audit process will be set up, specifically, will an auditor actually look at the physical project under contract. Ms. Landess responded they have not been doing audits and physical visits to project sites.

Representative Murphy asked if the Department of Education will be handling the VIP portion for schools. He stated this is something he wants to see addressed on both sides because in some situations they didn't meet their prior grant criteria. He also asked if there were problems in receiving payments for the projects and if the problems have been addressed from the education standpoint such that small school districts and large school districts have met every grant criteria including the dollar amount and verify that none of the funds were used to write the grant.

Senator McLaren stated that in Vision Iowa Program, health insurance is to be paid before funds are received. There was also a provision about prevailing wages, will prevailing wages paid by these entities be accountable in the scoring process. Ms. Soliday stated the Board has suggested that this be incorporated into the scoring. Senator McLaren stated that pertains only to the Vision Iowa Program, not the CAT Program. Ms. Soliday confirmed that is correct.

Senator Flynn expressed concern about opportunities of temporary employees that are of a seasonal nature. This type of employment provides students with opportunities for

summer temporary work and they should be included. Ms. Soliday stated students were not affected.

Representative Murphy asked if in regards to the prevailing wages, there is a requirement in the VIP to pay a minimum of 90% of the average wage in the State. Ms. Soliday answered the Board has talked about 125% of minimum wage and the final word is with the Vision Iowa Board.

Representative Shoultz asked if there are provisions in the contracts if the recipients decide it is cheaper to contract for the work, and if so, what happens. Ms Soliday responded that is a good question.

Representative Shoultz asked if the contracts do not pay well, how are they going to pin down and make sure the number of jobs is fulfilled, to make sure they actually do have those jobs and pay what they are supposed to. There should be some way to control this or enforce it. Ms. Soliday responded if they receive a grant, they can make sure the terms are enforced.

Representative Cormack asked if terms are spelled out in the rules for default of contract and if there is a priority as to whom will be the first to be paid back. Ms. Landess commented that in the first year only two loans were made. All the other projects were grants (CAT Funds).

Senator McLaren stated that with bonding authority up to \$300 million in bonds that total amount would actually never be available because of the present value supporting the money stream. With the prevailing interest rate, the \$300 million would have maybe \$160 million worth of purchasing power for project development. The \$75 million in the CAT Program is on principal, not on principal plus interest. One thing that was not considered in the Legislation was the possibility that the bonds be issued with a principal balloon payment at the end. This would provide \$75 million of immediate purchasing power and then if the principal payments were delayed, most of the funds could be consumed in one project. He asked if the Board has considered this in laying down the requirements and rules and requiring at a minimum, annual principal payments for any project they have considered. Ms. Soliday answered this has not been brought up but she will discuss it with the Board. Senator Flynn emphasized this is \$300 million in capacity, not \$300 million in proceeds.

Nancy Landess, DED, reviewed the two handouts, **Attachments 2 and 3**. She presented a map showing the geographical location of the 43 first-year applications that were approved. She also included the 25 projects that were funded this year and reviewed the projects that did not receive funding the first year. Of the projects receiving funds, all were grants except two, Arnolds Park and America's River in Dubuque, which were forgivable loans. Two projects received multi-year awards, the Dubuque project and Cedar Rapids project.

Senator McLaren asked if the VIP Board proposed rules for scoring included the amount of leverage gained from State dollars. Ms. Landess stated a number of committee members have brought that up and anticipates that it will be discussed further.

Representative Murphy asked what determines awards for feasibility studies. Ms. Landess explained that this past year we did not have a board but had an internal review committee to look at all of the projects that were coming in. If some of the projects were eligible for a grant or loan in another area, they tried to direct it to the proper area for assistance. Representative Murphy asked if they tied this into any feasibility studies. Ms. Landess replied no, they are not tied in. Representative Murphy stated that another issue is funds for more feasibility studies to help develop projects. Ms. Landess stated that one of the changes in the legislation passed is that feasibility studies would not be funded.

Senator McLaren stated the Governor's item veto language presents an interesting dilemma in that \$1.2 million for tourism for fiscal years 2002-2004 which the governor vetoed, makes \$1.2 million potentially available but there is no language by the Legislature authorizing this beyond FY 2001. Ms. Soliday responded they would need to talk to the Vision Iowa Board on this matter; the money is not currently in their budget due to the veto.

Senator McLaren stated there is no authorization stating the funds must stay in tourism, and asked what the Board recommendation will be to the Governor and Legislature with the \$1.2 million for tourism that is in question. Ms. Landess responded the Vision Iowa Board will talk to us about what they would like to see happen.

Ms. Soliday shared some of the success stories in the tourism advertising program, both within the State of Iowa and in surrounding states. She stated there had been a 205% increase in the website inquiries and 134% increase in phone calls from February through June. They are also doing a barometer of 40 attractions throughout the State to find out what their visitations over the spring, summer and fall were to help determine the impact of those dollars.

Representative Shoultz commented he thought the purpose of the Vision Iowa Program was to keep Iowa people in Iowa, not to attract other people to come in to see what we have. Ms. Landess stated they also wanted to draw others in.

LUNCH BREAK

The Committee recessed for lunch at 11:55. Senator McLaren reconvened the meeting at 12:55 p.m.

SCHOOL INFRASTRUCTURE PROGRAM

Robin Madison, LFB, presented an *Issue Review*, "School Infrastructure Program" (**Attachment G**). The School Infrastructure Program was enacted by the 2000 General Assembly and became effective July 1, 2000. The purpose of the Program is to provide financial assistance grants to school districts to improve school infrastructure.

The Department of Education administers the Program, with assistance from the School Budget Review Committee and from a task force of individuals knowledgeable in school infrastructure and construction issues. A listing of members of the task force and administrative rules for the Vision Iowa School Infrastructure Program were attached to the *Issue Review*. The Board of Education will be reviewing the rules at their next meeting. The rules include criteria for awarding grants.

Ms. Madison reviewed the criteria and requirements by legislation as to how the total funding would be allocated.

Ann McCarthy, Department of Education, was present to respond to questions.

Senator Johnson asked the number of school districts that fall within each of the three areas of the distribution allocated 25% based upon enrollment. Lee Tack, Director, Department of Education, stated he did not have that information with him, but would provide it. Senator Johnson asked how many school districts are above 4,750 students.

Representative Shoultz stated that schools exceeding 4,750 students may not receive any of this money, they are not guaranteed 25%. Ms. Madison responded that 25% of the money is directed to school districts with an enrollment of 4,750, and 25% is designated for any size of school district. However, those schools receiving local option sales tax money in excess of what the statewide average would be, would not be eligible. If that money is not used, it would be distributed under the 25% to districts of any size enrollment the following year. Senator Johnson asked if the other criteria still holds in place regarding restrictions on local option sales tax, etc. Ms. Madison answered yes.

Representative Cormack asked what the statewide average would be. Mr. Tack responded the law says they have to levy at the maximum rate to be ineligible so if they are less than the maximum rate they would still be eligible, subject to other rules. Polk County was estimated to be \$900 per pupil, the State average is between \$400 and \$500 per pupil.

Senator McLaren asked what the outline is for issuing awards. Ms. Madison responded for the first \$10 million, notification to recipients are due May 1, 2001. The second \$20 million notification is due in December 2001.

APPROPRIATIONS TRANSFERS

Holly Lyons, LFB, presented the Section 8.39, Code of Iowa appropriations transfers since the last Fiscal Committee meeting.

- Up to \$15,000 to the General Office of the Department of Management from the Governor's Office, State/Federal Relations (**Attachment B**).

UNDERFUNDING OF HEALTH INSURANCE COSTS & THE USE OF INSURANCE RESERVES

Randy Bauer, Budget Director, Department of Management, was present to explain the recent increase to State of Iowa agencies for Wellmark health insurance premiums. He presented a briefing on how the Department of Management deals with this issue as well as the Department of Personnel. When reviewing the status of the contract with Wellmark in May, it was determined, that because of stronger than anticipated utilization, an adjustment in the amount departments, agencies, and institutions were paying for the cost of health insurance would be necessary. In May, it was decided to add 17% to those billings on July 1, 2000, and add another 17% to billings starting January 1, 2001. The first 17% is to fund reserves at a level that, at the end of the contract, will cover terminal liability; paying off the remaining claims against the contract after the contract expires.

The second 17% increase is due to the anticipated rate increases from Wellmark. At the present time, the State of Iowa is in negotiations with Wellmark and consulting with health care consultants to determine if the information that Wellmark has given is credible. It is hoped these negotiations will be concluded later this month. There has been some discussion on what would be the case if the rates were increased by the amount that Wellmark is talking about increasing them and that would require some other financial modifications. Those options are being considered with financial consultants as well as the Department of Personnel. If it is necessary to make other modifications, it will be shared with the departments and Legislature at the appropriate time.

Agencies were sent a letter on June 1, regarding the increase in premiums. This information is to be used for planning purposes for their FY 2002 budgets. It is anticipated the allowance that will be required for additional resources for departments will be approximately 1% of their operations budget.

The Department of Management and Governor's Office have pledged to work with any department or agency where it creates a hardship. There will be opportunities to make changes or to utilize some of the manual techniques provided by statute if necessary to deal with these issues case by case. We do not believe that there will be a reduction in services, and we will do all that we can to make sure that is the case.

The "frequently asked questions" (**Attachment M**) handout was provided to departments, agencies, and institutions to help them to understand these issues. A letter was sent by

Mollie Anderson, Department of Personnel; and Cynthia Eisenhower, Director, Department of Management; explaining the changes in rates to the departments, agencies, and institutions. A meeting was held with department directors and their fiscal agents invited to discuss these issues.

Senator McLaren asked how much was left in the insurance reserves after the FY 2001 budget was passed by the Legislature and signed by the Governor. Mr. Bauer stated the calculation on May 25, when the final decision was made to do this, was that the insurance reserves would have an ending balance of approximately \$12 million at the end of FY 2000.

Senator McLaren asked what was the projection for the insurance reserve balance after the passage of the FY 2001 budget. Mr. Bauer responded the FY 2001 projection was based on the estimated usage for the entire fiscal year with the calculation based on the changes when the two 17% increases were put in place.

Senator McLaren stated there is always a trade off on the salary package, and asked how much of the insurance reserve was used to buy down the salary package. He asked how much of the insurance reserve was consciously committed to be consumed in the budget the Governor presented to the Legislature. Mr. Bauer stated that consciously the commitment to consume was basically the same offer as we had to transfer from reserves, about \$32 million in FY 2000 and \$28.5 million in FY 2001. Because utilization changed so much, as many reserves that meant they were not going to be as many reserves to refill and keep the reserves at this level.

Senator McLaren stated the insurance reserves act as a plus and minus for calculating the cost of the salary package. Mr. Bauer responded it was assessed at the same rate as the previous year. The original salary projection was prepared with the Department of Management (DOM) and the Governor's staff using the same cost increase projection. DOM and Wellmark both missed on this calculation. Wellmark lost money on the State contract last year. Health care utilization is an area that can be very severe and increases can be steep at certain points in time.

Senator McLaren asked when the budget was put together, what was the anticipated balance for the insurance reserve on June 30, 2001. Mr. Bauer stated he did not have the original calculation with him, but it was approximately a \$12 million to \$15 million ending balance. The concern is that there be sufficient resources available. The DOM and Governor's staff thought \$16 million would be enough in resources to meet terminal liability claims.

Senator McLaren asked if any of the terminal liability funds were used in presenting the budget. Mr. Bauer responded consciously no, but because utilization has changed significantly, adjustments in rates had to be changed. If utilization had stayed within the projected range of when the budget was established, reserves would again have the level to reach terminal liability.

Senator McLaren asked if each of the 17% increases would be placed in the insurance reserve fund. Mr. Bauer stated yes, it all goes in to reserves to account for what expectations were for the increase in cost. Senator McLaren asked what the reserves are projected to be on June 30, 2001. Mr. Bauer responded the expectation is that the reserves at the end of FY 2001 would be approximately \$7.0 million.

Senator McLaren asked why with the Governor's proposed budget last year, a \$16 million reserve was anticipated, but with two projected rate increases of 17% each, the reserve balance would be only \$7 million. He asked for clarification and also asked what rate of increase for insurance cost was being used. Mr. Bauer said Wellmark used approximately 40% and DOM used 35%.

Senator McLaren question how insurance reserves were "building" when the fund balance was going from \$12 million down to \$7 million. Mr. Bauer responded the assumption is based on two things, one is that the terminal liability level of \$16 million, has to be reached by January 2002.

Senator McLaren stated that while the Governor's staff did not consciously propose a budget this past year that depleted the reserves and got into the terminal liability fund, in fact it did with the increase cost being projected. Mr. Bauer responded to keep in mind the Legislature appropriates funds for the salary packages and benefits based on whatever assumptions they wish to utilize. Senator McLaren responded that the Legislature accepted the Governor's recommendation for salary numbers because the Governor has to manage the numbers and stand by them when he sends them. Mr. Bauer stated he wished the Legislature had accepted the Governor's recommendation for the rest of the budget and then this discussion would not be taking place.

Senator McLaren referenced **Attachment I**, stating the estimated shortage for health insurance is \$9.3 million with a total shortfall for salary and health insurance of approximately \$23.0 million. Mr. Bauer stated this was a Legislative Fiscal Bureau (LFB) document. Senator McLaren responded that LFB staff had received this document from the Department of Management. Senator McLaren added the information in the document did not include the Board of Regents and asked what the additional cost would be for that. Mr. Bauer did not have the answer. Senator McLaren requested this information be provided to the Committee, including the Board of Regents impact. Mr. Bauer will provide the requested information. He indicated that if the Legislature had passed the Governor's recommendation on the Regents, their appropriation would be \$50 million higher, and some of the concerns would be mitigated. Senator McLaren stated this should not be an issue as the salary requests were passed as the Governor recommended.

Senator McLaren commented that if the Legislature passed bills with any additional money for identifiable programs, those identifiable programs would get the money. There is absolutely no reason to make a statement that you could go out and pick money

out of programs to backfill the salary package. Mr. Bauer responded the Legislature has given the authority to agencies, departments, and institutions to manage their budgets.

Senator McLaren added, "but not to eliminate programs" citing the tobacco money as an example. When funding is provided for a specific program and used for something else, this is not correct. Mr. Bauer stated that section of the statute does not apply to this. Senator McLaren agreed, however, he stated that Mr. Bauer had said the Governor asked the Legislature to take appropriate action to deal with the \$23 million problem and yet the \$23 million problem does not include the Board of Regents. Senator McLaren asked what actions are those? Mr. Bauer responded the DOM and the Governor's staff have asked departments, agencies, and institutions to manage their budgets.

Senator McLaren asked if that means the Governor will be giving the Legislature a recommendation as to a deappropriation package. Mr. Bauer stated no decisions have been made yet.

Senator McLaren asked if there is a decision for deappropriations, and if a recommendation is being considered for a supplemental appropriation for the shortfall. Mr. Bauer responded the Legislature has not taken the Governor's recommendation the last two years.

Senator McLaren took issue with that comment stating the deappropriation package passed and the supplemental request passed. Mr. Bauer stated they are taking a real serious look at how this is being managed in State government, if it is causing any major negative impacts, and then will revise a recommendation accordingly. Senator McLaren said Mr. Bauer's earlier statement was that any action taken will have no effect in terms of delivery of services. Mr. Bauer stated they were just going on past practices. Senator McLaren stated that last year was not strictly a salary and health insurance problem, but it was also a revenue problem.

Senator McLaren stated he felt it was management problems and they need to come to the Legislature for some suggestions. Mr. Bauer stated he would pass that on.

OBTAINING OUTSIDE CRITIQUES

The Committee was scheduled to discuss obtaining outside critiques of certain aspects of State government. The Legislative Council has authorized the Fiscal Committee to pursue critiques at a reasonable cost if a majority of the Fiscal Committee Members (i.e., a majority of each caucus) approves the expenditure. Representative Murphy made a motion to table this item until the next meeting. This was approved.

NEXT MEETING DATE

The next meeting date is scheduled for August 30. However the Senate Republicans have scheduled a caucus for that date. Following discussion, it was agreed to change the next Fiscal Committee meeting date to September 6 at the State Training School in Eldora.

Potential agenda items include:

- ♦ Tom Miller and Ron Corbett Building; Shepherd Building
- ♦ *Issue Review* - School Liaison Program
- ♦ Report concerning the 30 boys at Toledo that were scheduled to move in FY 2001, but the General Assembly has delayed until FY 2002
- ♦ *Issue Review* – Healthy and Well Kids in Iowa (HAWK-I) Program
- ♦ Federal funds spreadsheet
- ♦ Other topic suggestions included:
 - ♦ Representative Shoultz suggested reviewing the training and technical services provided business and industry through State funding to know if the funds are being utilized in the manner intended by the Legislature.
 - ♦ Senator McLaren suggested revisiting the TIF Program and the impact it has on the State budget, particularly the school aid formula. Mr. Prouty, LFB, stated the LFB is working with the DOM to compile data on TIF districts. It has been very difficult to receive proper information, as many TIF district personnel do not understand the forms and therefore, the forms are not completed correctly. The TIF Program has just ballooned. At the beginning of this Program, reports were done on a voluntary basis, and not many Districts volunteered.
 - ♦ Representative Murphy suggested an update from the Vision Iowa Board before the next Legislative Session starts. He also asked if the Department of Education was considering an audit of the schools receiving State funds for school infrastructure to verify funds were spent as designated and that the project is completed.
 - ♦ Senator McLaren requested follow-up information from the Department of Management and the Governor's staff on items discussed today regarding the health insurance reserves and salary package and to include the Board of Regents in the information.

ADJOURNMENT

Representative Murphy made a motion to adjourn the meeting at 1:45 p.m. The next meeting will be in Eldora on September 6, with the following meeting at Iowa City on September 26.