

MINUTES
LEGISLATIVE FISCAL COMMITTEE
of the LEGISLATIVE COUNCIL
September 26, 2000

The Legislative Fiscal Committee of the Legislative Council met September 26, 2000, at the Oakdale Campus, University of Iowa at Iowa City, Iowa. Co-chairperson, Senator Derryl McLaren, called the meeting to order at 10:00 a.m. Other members present were:

Representative Dave Millage, Co-chairperson
Senator Tom Flynn
Senator Pat Harper
Senator JoAnn Johnson
Senator Mary Kramer
Representative Libby Jacobs
Representative Pat Murphy
Representative Don Shultz
Representative Jamie Van Fossen

Representative Richard Myers was also present.

WELCOME

Mary Sue Coleman, President, University of Iowa (SUI), welcomed members of the Legislative Fiscal Committee to the University. She presented background information of the University and some of the future goals/plans.

The Oakdale Campus is a research facility, a technology innovation center, and serves as an incubation center to larger facilities, providing a good relationship with participating business and industry. Capital improvements are a continuous ongoing process including remodeling of current facilities and building new facilities.

President Coleman introduced staff members present for the meeting including Mark Braun, Associate Director for Government Relations; Derek Willard, Associate Vice President, Research and Special Assistant to the President for Government Relations; Doug True, Vice President of the Division for Financial and University Services.

TOUR

The members boarded a bus to tour selected buildings on the SUI campus. Doug True was the tour leader. Also accompanying the Committee on the tour were: Mark Braun; John Amend, Associate Vice President and Director, Facilities Services Group; and Allen Stroh, Executive Assistant to the Associate Vice President and Director, Facilities

Services Group. Pam Morris, State Fire Marshal's Office, was also present to answer questions. The tour included:

- A drive-by tour of the Medical Education and Biomedical Research Facility.
- A drive-by tour of the Softball Complex, rebuilt with private funds and now a year-round facility.
- A drive-by tour of the Health Sciences Complex.
- Tour of the Art and Art History Building, hosted by Professor Dorothy Johnson, Department Chairperson; and Professor Michael O'Hara. This Building Complex is the top priority for the University's capitals request for FY 2002.
- Tour of Seamans Center for Engineering, hosted by A. Jacob Odgaard, Associate Dean for Graduate Education and Research; and Fred Streicher, Director of External Relations for the College of Engineering.
- Tour of the Biology Building East, hosted by Professor Gary Gussin, former Chairperson of Biological Sciences.

WORKING LUNCH

The Committee returned to the Gold Room in Oakdale Hall on the Oakdale Campus, for a working lunch. The meeting was reconvened by Co-chairperson, Representative Dave Millage, at 12:50 p.m.

REVENUE UPDATE

Dennis Prouty, Director, Legislative Fiscal Bureau (LFB), presented a revenue update. Receipts today were 4.9% ahead of last year for the same comparable period. The Revenue Estimating Conference (REC) will be meeting October 12 to set the FY 2002 estimates.

Representative Millage asked when the REC will meet in December for the official estimate. Mr. Prouty stated the REC has to meet before December 15 but the date has not been set.

LEASE PURCHASES

Dave Reynolds, LFB, presented a lease purchase in the amount of \$170,000 for Iowa State University to replace outdated housing at Lakeside Laboratory (**Attachment 1**).

The total cost of the project is estimated at \$170,000. This includes \$127,000 in principal and \$43,000 in interest at an estimated rate of 5.63% for a period of ten years. Annual payments will total approximately \$17,000 and will be paid from room and board fees.

BOARD OF REGENTS FIRE AND ENVIRONMENTAL SAFETY

Mary Shipman, LFB, presented an *Issue Review*, "Board of Regents Fire and Environmental Safety" (**Attachment B**). The *Issue Review* provided a review of information regarding fire and environmental safety at the Board of Regents institutions, including background, current situation, alternatives, and the budget impact.

Pam Morris, State Fire Marshall's Office, provided information on the most recent fire inspections at the University of Iowa.

BOARD OF REGENTS DEFERRED MAINTENANCE

Mary Shipman, LFB, presented an *Issue Review*, "Board of Regents Deferred Maintenance" (**Attachment C**). The *Issue Review* provided information regarding deferred maintenance at the Board of Regents institutions including background, current situation, alternatives, and the budget impact.

BOARD OF REGENTS CAPITAL BUDGET REQUESTS FOR FY 2002 AND FIVE-YEAR CAPITAL PLAN

Mary Shipman, LFB, reviewed the Board of Regents Capital Budget Requests for FY 2002 and Five-Year Capital Plan (**Attachment D**). The *Issue Review* included information on the capital appropriations approved during the 2000 Legislative Session, the Regents capital requests for FY 2002, a five-year capital plan for FY 2002 through FY 2006 and the previous five-year plan for FY 2001 through FY 2005. Some priorities have been changed from the previous five-year capital plan to the present five-year capital plan.

Pam Morris presented a written report to the Committee members covering a synopsis of the buildings that were inspected including the number of deficiencies in each building and items that were not in compliance. She mentioned the sprinkler systems that have been installed in the Mayflower Hall and complimented the University for this major step in a residency hall.

Senator Flynn asked what the "Other Funds" in the Attachment represented. Ms. Shipman explained they are funds other than general fund money that the University will use to construct buildings. It could be foundation funds, Treasurer's Temporary Investment Funds, depending which project it is. These are typically private contributed funds.

APPROVAL OF MINUTES

Representative Murphy made a motion to approve the minutes of the Legislative Fiscal Committee meeting held September 6, 2000, (**Revised Attachment A**). The minutes were approved.

UPDATE ON SALARY ADJUSTMENT

Randy Bauer, Budget Director, Department of Management (DOM), was present to provide information on questions at the August 2 meeting, relative to health insurance premium increases and salary adjustments.

Mr. Bauer stated that **Attachment 2** in today's packet, is a revised schedule from the Department of Management relating to and including Regents health insurance shortfall. The Department of Management does not provide a proration for Regents salary dollars as they do for other departments of State government. Mr. Bauer stated that what the Regents refer to as a shortage, is a result of language in the salary adjustment bill which applied only to General Fund funded positions as it was passed by the Legislature. This is a change from past practice and is not something that the Department of Management had made assumptions on that proved to not be correct. Had the adjustments been made the same way as in the past, another \$8.5 million to \$9.0 million would have been added to the salary bill.

The proration for the shortage of health insurance costs for State government is approximately \$11.2 million. The DOM has not received any requests from departments for a supplemental appropriation to deal with their shortfall in health insurance premiums.

Senator McLaren asked at what time in the process last year did DOM recognize there was a shortfall in the salary package and health insurance package. Mr. Bauer responded that DOM worked on the health insurance rates, looking at the utilization of health insurance, and then made a decision in late May as to what changes needed to be made. The departments were billed starting in July. For the salary adjustment, DOM does a position-by-position calculation. It is very complex, and takes a couple of weeks for employees to complete. This is not the first time there has been a proration of salary adjustment dollars. In 1997, almost the same exact percentage proration was done by the previous administration.

Senator McLaren stated to Mr. Bauer, that if we were looking at information passed back and forth from the Governor's office, Department of Personnel and DOM, in February 2000, you would say that would be inaccurate in terms of debt and shortfalls in health insurance and salaries. Mr. Bauer responded that he didn't know exactly what Senator McLaren was referring to in terms of salaries but in terms of health insurance, Mr. Bauer was in the meetings held in the Department of Management when the decision was made as to what was going to be done in terms of rates. Those meetings were held in early May. If there were conversations or correspondence that took place before that, it was not at the time final decisions were being made. It is very difficult to make major changes in insurance rates.

Senator McLaren asked the amount of terminal liability required in the contract with Wellmark, the amount that needs to be set aside to guarantee the State's position and not

violate the contract. Mr. Bauer answered the DOM calculations were between \$16 million and \$18 million.

Senator McLaren stated to Mr. Bauer that in the August Fiscal Committee meeting he said the total credits to the terminal liability fund and insurance reserves were at \$12 million so we were in violation with Wellmark's contract. Mr. Bauer responded the accrued liability fund is at the end of the contract, not at every point of the contract.

Senator McLaren commented that would explain that the 17% increase in premiums was to build up the terminal liability funds. Mr. Bauer answered that was correct. Senator McLaren asked who keeps a copy of that contract and if a copy could be forwarded to members of the Fiscal Committee. Mr. Bauer responded that the Department of Personnel could do this.

Senator McLaren stated that at the August meeting, the Committee received a document that Mr. Bauer did not recognize as coming from DOM. Mr. Bauer responded it was today's **Attachment 2**. Senator McLaren continued that the August information did not include the Regents health insurance information and asked if that was an anticipated shortfall of \$27.0 million. Mr. Bauer stated that health insurance and salary adjustment would fall in that range.

Senator McLaren asked if that was the shortfall for the Regents. Mr. Bauer answered the \$3.0 million salary adjustment is entirely different. The DOM did not prorate the total for the Regents. The salary adjustment bill passed by the Legislature did not include non-General Fund funded positions. Senator McLaren responded the bill that passed was intact and identical to the Governor's recommendation. Mr. Bauer stated that was the Governor's recommendation, although the Legislature certainly did not pass all of the Governor's recommendations dealing with Regents funding. If this had been done, funding for the Regents would have been between \$15.0 million and \$18.0 million higher than what was ultimately passed.

Senator McLaren stated that towards the end of Session, it got down to negotiating over approximately \$20 million, between the Governor's office, Legislative leadership, and the Legislature. Senator McLaren asked why was salaries or health insurance never brought up as an issue to Leadership in the Legislature in dealing with this problem. Mr. Bauer answered he would not speak for the Governor who decided on the negotiating position, I think he felt there was general agreement on what that number was going to be so why would you enter that into what we are discussing with differences at that point.

Senator McLaren commented that during this time period, the Governor through the DOM and others, certainly voiced an opinion on particular areas that were identified as short funded. Mr. Bauer responded that because an agreement had been reached between the Governor and the Legislature on what the funding level was going to be, differences were being negotiated at that point in time.

Senator McLaren stated that fingers should not be pointed at the Legislature for coming up with some number on salaries before it was recommended by the Governor. Mr. Bauer answered he was only pointing out the DOM doesn't show a shortfall of salaries for the Regents. If assumptions are the topic of discussion, our assumption on what the Regents salaries would be was basically on target. That is what it would be if the salary adjustment from the General Fund funded positions is not funded.

Senator McLaren commented that Mr. Bauer has identified \$3.0 million of shortfall for the Regents and taken steps to reallocate \$.5 million, how do you explain that difference. Mr. Bauer responded he felt they were talking about decisions made by the Legislature knowingly on what they would get for salary adjustment dollars and that is obviously something that has been taken into consideration.

Senator McLaren asked to talk about something that was not a decision by the Legislature, or in conjunction with the Executive Branch which was asking what has occurred with the anticipated salary step increases that were to take effect after July 1 for State employees. Have the step increases been implemented? Mr. Bauer responded he was not sure.

Senator McLaren stated that the DOM has the authority to take corrective action for an anticipated shortfall including making the corresponding allocations and finding the source for those funds. He asked Mr. Bauer if State workers received their negotiated step increase. Mr. Bauer answered yes, as far as he knew.

Senator McLaren asked who owns the insurance reserves and terminal liability funds that must be maintained at the end of the policy period, is it the employer or employee. Mr. Bauer answered all the employees' share of the reserves were depleted during the last administration so only the employer's share of the reserves remains. Senator McLaren asked how the funds are allocated as to shares for the employer and employee. Mr. Bauer answered it is a straight calculation of funds placed into those reserve accounts by the employer and the employee. The employer puts in a larger share than the employee. Senator McLaren requested information showing segregation of those funds. Mr. Bauer stated this could be done.

Senator McLaren asked how the employees' share could be exhausted without exhausting the employer's share. Mr. Bauer responded the employer's share is much larger. Senator McLaren continued stating if those monies are on a prorated basis to buy down a salary package with a recommendation for a budget, could the employee's share be arbitrarily exhausted without exposing the employer's share. Mr. Bauer stated he did not have the answer to that question but would be glad to get an answer. Senator McLaren requested additional information as to how the employer's share and the employees' share has been allocated prior to September 26, 2000. Mr. Bauer will research files from the previous administration and attempt to prepare a document providing this information.

Representative Millage asked if traditionally the cost of the salary adjustment bill has been bought down by using health insurance reserves. Mr. Bauer said they have been used to buy down the health insurance payments, not the salary given employees.

Representative Millage stated there are two components to the insurance reserve, one being the terminal liability, which by law, cannot be touched, is that right. Mr. Bauer answered that he did not know the legal ramifications. Representative Millage asked if there is something in the statute as to why the excess funds for the terminal liability reserves and the insurance reserve for claims don't revert back to the State General Fund. Mr. Bauer stated he did not know. Representative Millage requested Legislative Fiscal Bureau staff to follow up on this issue. He also asked if the terminal liability portion has been used to buy down salary adjustments in the past. Mr. Bauer responded not intentionally.

Representative Millage stated it appears that one-time money is being used for ongoing expenses, which creates a double whammy increase in the next budget year. Mr. Bauer said that is a concern. The past practice has been to use the reserves to buy down the rates that departments were paying for health insurance. When the point is reached where this cannot be done, you have to deal with a larger increase. This was the policy in the previous administration as well as this one.

Representative Millage commented that the previous administration would probably say they used a surplus from the claims to buy down the rates but they did not use terminal liability to buy down rates. Mr. Bauer answered that it was not the current administration's intention to use what would be necessary for terminal liability to buy down rates either. We made the assumption that the increase in health insurance would be the same amount that Wellmark had increased the contract in the previous year. It was the wrong assumption.

Senator McLaren stated that it is obvious that DOM did go into the terminal liability funds to buy down the salary package and insurance package, because the proposed increases are in excess of what the actual health insurance premium increases were and the only reason for that would be to build the liability fund. He commented that in the previous administration that Mr. Bauer had referred to, insurance surpluses were used as a component of the salary package, but the terminal liability funds were maintained as a solid number against the contract. Now, you are saying the contract has not been violated as long as at the end of the contract period you have the terminal liability part. It is obvious that you have used the terminal liability funds to buy down this last annualized salary and insurance package because when the expected increases came in on health insurance, you are saying we needed a greater percentage of increase than what the actual insurance costs are, which means you are trying to rebuild the terminal liability fund that you robbed. Mr. Bauer responded that the two scheduled increases would annualize to approximately 28% increase.

Senator McLaren said to Mr. Bauer that at the August meeting the reserves for the health insurance package were down to \$12.0 million, and you have stated they need to be between \$17.0 million and \$19.0 million and thus you have gone into the terminal liability fund. Mr. Bauer answered the health insurance reserve fund needs to have between \$17.0 million and \$19.0 million at the end of the contract. A schedule is set up to bring the reserves to the required level at the end of the contract.

Representative Millage asked if someone from the University of Iowa could give an example of federal non-General Fund positions. Doug True answered most people, including those receiving grants, are paid from a variety of sources, including the general education fund. Representative Millage asked Mr. Bauer if the DOM built an assumption into this year's salary package that did not fund the non-General Fund salary increases because of the constant in and out in the Regents funding. Mr. Bauer stated the decision was made to include in the salary bill language that basically excluded the Regents from receiving salary adjustment for those positions because no one else in State government receives salary adjustment dollars for non-General Fund funded positions.

Representative Millage asked who is General Fund and who is not General Fund. Ms. Shipman answered the change that was made this year was to not provide salary adjustments on tuition revenues, which had been included in the past. The Regents hadn't been receiving salary adjustment for other funds prior to that time. Representative Millage asked why the Regents were complaining last year about the salary adjustment not being fully funded. Mr. Bauer stated that because the past practice had been for them to receive salary adjustment dollars for "tuition" dollar funded positions. Representative Millage asked what the administration's recommendation would be next year. Mr. Bauer answered budget recommendations have not been prepared yet. The departments don't have to have them in the system until October 2.

Representative Millage changed topics by stating in the last collective bargaining agreement, the Governor negotiated with the unions, and increased the number of steps an employee could utilize over the course of employment. He asked if that doesn't build an escalator into the salary package each year as more and more people move to those newly created steps. Mr. Bauer responded there would be costs associated with the additional steps.

Senator McLaren stated it appears that whether the terminal liability fund was tapped or not is a topic of discussion. He asked Steve Smith, Department of Personnel (IDOP), if he was aware of any discussions for the conscious use of the terminal liability funds to buy down the salary package, or health benefits, last year. Mr. Smith responded not in terms of conscious use of terminal liability dollars.

Senator McLaren asked if the terminal liability fund is segregated as a specific fund, or if it is lumped together in the reserves. Mr. Smith responded it was his understanding

they were lumped together. Senator McLaren requested copies of any communications, such as memos, between the DOM and IDOP relative to this topic, since November 1999, that directly relate to the Governor's recommendation, comparing the Governor's budget recommendation for salaries, including any assumptions and apprehensions, at the time of the salary adjustment/health insurance reserve decisions.

TEACHER SALARIES

Robin Madison and Shawn Snyder, LFB, presented an *Issue Review*, "Iowa's Teacher Salaries" (**Attachment G-Revised**). Ms. Madison reviewed the background information including the three phases of the Educational Excellence Program. Phase I was originally designed to bring the minimum teacher salary across the State up to \$18,000. Phase II was designed to supplement the pay of teachers in local school districts and AEAs to promote retention of quality teachers. Phase III was designed to enhance the quality, effectiveness, and performance of Iowa's teachers by promoting teacher excellence.

Ms. Madison reviewed the historical funding for the Education Excellence Program and a comparison of Iowa's teachers' salaries compared to other states and other professions.

Representative Millage stated he was surprised when reading this and asked how do you explain teachers saying they are moving elsewhere because the average teacher salary in Iowa is so low. Ms. Madison responded that press statistical information is probably from a different source. Education Week base their survey on US Census Bureau statistics that were compiled over a series of years, 1992-1999, and then adjust for the cost of living index.

Shawn Snyder, LFB, reviewed the current situation, including a comparison of average salary by enrollment categories; a comparison between school districts; and trends in teacher age and retirement and the impact on teacher salaries. He stated the information in the *Issue Review* on page 5 regarding the Kingsley-Pierson School District included benefits in addition to the salary. Mr. Snyder reviewed some alternatives and the budget impact for each.

Senator Kramer, referencing Table C, page 5, of the *Issue Review*, asked if the calculation for the percentage of teachers eligible for retirement, assumes that all eligible retirees in the first category have retired. Mr. Snyder responded no, these are cumulative.

Representative Millage commented that looking at the comparisons on midwest teachers salaries, Attachment 1, it is difficult to make actual comparisons, without knowing the statistics behind the numbers. For instance, in Illinois, they do not pay FICA, but in Iowa FICA is paid, with a 6.5% match of the teacher's salaries.

Representative Murphy stated that one area for a shortage of teachers is in special education. One of the problems in this area is the required certification. He asked if the Department of Education issues temporary certificates in this area. Lee Tack, Administrator, Division of Financial and Information Services, Department of Education, responded that temporary emergency certificates are issued.

Representative Shoultz stated that Humboldt County in Washington State, the Silicon Valley area where there are many high tech firms, recruit teachers by allowing them to buy down their home mortgage to something they can afford.

Representative Murphy requested more information on incentives for teachers used by other states. Perhaps the Department of Education personnel could provide this at the next meeting.

Senator Kramer requested information on how many prospective teacher graduates from Iowa colleges and universities go out-of-state for employment, comparing the number of graduates to the number of in-state teacher openings at the various levels, such as elementary, secondary, special education, etc.

BOARD OF REGENTS TREASURER'S TEMPORARY INVESTMENTS

Mary Shipman, LFB, reviewed a memo she had prepared on the Board of Regents Treasurer's Temporary Investments (**Attachment H**). This is interest that Regents institutions have earned on invested funds. A table showed the total by institution and the total for the last five years, and other documentation showed how the Regents institutions expended those funds. Typically they were used for building and campus repairs.

BOARD OF REGENTS INDIRECT COST RECOVERY

Mary Shipman, LFB, reviewed a memo she had prepared on the Board of Regents Indirect Cost Recoveries (**Attachment I**). Indirect cost recoveries are related to federal and other funds received by the Board of Regents. Typically a percentage of contracts is designated to be indirect cost recovery and helps the universities offset administrative costs related to those contracts.

Representative Millage asked if the federal government has rules and regulations for a limited amount that can be paid. Ms. Shipman responded that most signed contracts stipulate how the funds can be spent.

BOARD OF REGENTS PROPOSED TUITION INCREASES

Mary Shipman, LFB, reviewed a memo she had prepared on the Board of Regents proposed tuition increases (**Corrected Attachment J**).

A tuition increase of 7.2% has been proposed by the Regents Board office starting next Fall. The base tuition for undergraduate students is the same at the three Regents institutions. The memo also shows funds that will be generated for each university with this increase.

Information was provided on historical increases in undergraduate tuition and Board of Regents docket items that provide information on how the recommendation for tuition increase is determined. Much of it is based on a higher education price index.

Senator Flynn asked when was the last time the Regents institutions had a double-digit increase for tuition and fees. Frank Stork, Executive Director, Board of Regents, responded the Regents did not have double-digit tuition increases until 1988-1989.

Senator Flynn asked how the tuition and fees for the undergraduates at the three Regents institutions compare with other opportunities available in the Midwest. Ms. Shipman responded that information is located on page 24 of the Regents docket in the **Corrected Attachment J**. This includes tuition and fees for each of the three schools compared to peer group schools.

BOARD OF REGENTS BUDGET CEILING ADJUSTMENTS

Mary Shipman, LFB, reviewed **Attachment K**, Budget Ceiling Adjustments. At the May meeting of the Board of Regents, budgets are finalized for the fiscal year and if universities have received revenues they had not anticipated or budgeted earlier, they receive permission to raise their budget ceiling and expend those revenues. This document summarizes what those amounts have been for the last six years.

Representative Murphy asked if at the next meeting some time could be set aside to look at the formula that is laid out along with how the federal dollars are spent. Ms. Shipman responded that information is included in **Attachment 5**.

LOCAL OPTION SALES TAX ADMINISTRATIVE FEE

Ron Robinson, LFB, reviewed an *Issue Review*, "Proposed Administrative Rules to Recover Costs Associated with the Administration of the Local Option Sales and Service Taxes" (**Attachment L**). The Department of Revenue and Finance has passed a rule that would allow the Department to charge all jurisdictions imposing Local Option Sales and Service Taxes an administrative fee effective July 1, 2000. The *Issue Review* addresses interest earned on funds collected for Local Option Taxes prior to distribution to local jurisdictions.

The Department has estimated \$375,000 will be generated in FY 2001 from interest earned on the money. Mr. Robinson reviewed the background, current situation, some alternatives, and the budget impact.

Representative Van Fossen recommended the Administrative Rules committee place a session hold on this issue.

UPDATE ON INSURANCE COSTS

Susan Voss, Iowa Insurance Division; Steve Smith, Iowa Department of Personnel; Marla Naumann and Sandy Smitherman, representing Wellmark participated in the discussion regarding the update on insurance costs.

Susan Voss presented background information on what the Insurance Division is seeing on health care insurance costs from both consumers and health insurance companies. Several health care insurance carriers have been contacted by the Division to find out where the increases are. The chief actuary from Wellmark and an actuary from Principal, have indicated drug costs have increased approximately 13%, inpatient/outpatient services are increasing and every trend is going up.

Ms. Voss stated that reviewing the annual statements for 1999, every health care unit doing business in the State of Iowa lost money except one. Wellmark lost \$60.0 million last year, in the Accident and Health (A&H) business in Iowa. Principal lost \$347.0 million in their A&H business over the past three years.

Representative Millage asked if there have been any studies done, not by state government, but by the industry or by private economists, as to whether or not when the federal government talks about implied drug coverage and providing expanded Medicare, more control is enforced and costs increase. Ms. Voss responded that she had just received two studies on drug coverage costs and the Medicare supplement but will check to see if there is more.

Representative Millage asked if a part of the explosion of drug costs and subsequently health insurance costs is driven by outside factors trying to anticipate the market and the regulations that may be forthcoming. Ms. Voss stated she could not answer that but does know that in talking with the chief actuaries with the two largest health care insurance companies, that drug costs were 13% of their increase. The national average for drug coverage increases is approximately 18%. She will do additional research for more information on this issue.

Senator Johnson stated she continues to receive complaints from companies with group coverage that think a large portion of their health care insurance premium increases is due to the contraceptive coverage mandate. A recent letter from the Iowa Bar Association indicated their 1.5% increase was due to contraceptive coverage, which increases the premium over \$100 per year. When the bill was passed, information provided Legislators stated the increase would be a minimum of \$1.20 up to \$4.00 per month. She asked Ms. Voss to respond to this concern. Ms. Voss stated she had checked with the Consumer Affairs Bureau before coming, and they are not receiving those types of questions about contraceptives, they are receiving complaints regarding

the general increase. The Insurance Division actuaries will review the basis for the requested rate increases.

Senator Johnson asked if they were breaking down what part is contraceptive coverage. Ms. Voss responded the Insurance Division could ask the companies to be very specific on the rate increases per the code restrictions on rates and rating bands. Senator Johnson stated that other states indicated it did not drive up costs, in fact they should go down and be cost effective. Ms. Voss will do some checking on this issue and report back.

Senator Harper asked if on the broader mandate, more than the price of drugs is included. Ms. Smitherman responded that when she met with the Insurance Division and Planned Parenthood personnel after the Legislative Session adjourned, the list for prescriptions and devices was broader than originally anticipated.

Marla Naumann added that coverage does include injectables and implants. When the original anticipated increases were considered, coverage was for oral contraceptives only. Later as the bill evolved, coverage was broader. On large groups, the demographics are considered. The State's population is an older population and the rates given for the State of Iowa group is \$2.75 on a single contract and \$6.40 on a family coverage which would be approximately a \$70 increase for family coverage.

Representative Murphy asked if this greater than anticipated coverage could be changed by administrative rule or if a law change is necessary to narrow down the services. Ms. Voss stated that the methods are FDA approved and anything that is FDA approved must be covered.

Senator Johnson asked if there would be any attempt to track the number of pregnancies, and calculate any unintended pregnancies that may have been prevented. Ms. Voss responded they do not have those numbers.

FOLLOW-UP ON TOBACCO SECURITIZATION

Beth Lenstra, LFB, updated the Committee on the Tobacco Securitization. She reviewed three documents (**Attachment M**) which included:

- "State Tobacco MSA Payment Plans" – U.S. Bancorp Piper Jaffray. This document provides an overview of each state's tobacco settlement, plus its securitization and expenditure plans.
- "Securitization: An option for State Tobacco Settlement Funds" – National Governor's Association Center for Best Practices. This document provides an explanation of securitization, potential benefits, and potential risks of the process.

- **Update on Tobacco Securitization.** This document provides a compilation of each state and local jurisdiction's tobacco securitization activities.

Since the Committee last met, the Tobacco Settlement Authority has hired a financial advisor, PFM (Public Financial Management). They have an office in Des Moines and are a national advisory firm. The Tobacco Settlement Authority anticipated having a plan out by mid November.

Senator McLaren commented unless you have specific large capital outlay, there is no need to do it. He stated no bond offering has been completed by any of the states, so there are no ratings to go by. It is assumed without the State pledging additional security to assure the payment, in order to sell bonds, you are going to have to insure if there is a shortfall in any one year, the State will back the bonds with some other source of revenue.

PER PUPIL FUNDING FOR EDUCATION

Mary Shipman, LFB, reviewed a spreadsheet on Education Funding for Iowa Students (**Attachment 5**). This document illustrates State funding only for actual operations, the general fund for school aid and property tax generated by that, divided by the enrollment to get the per pupil cost. For Regents, the general university line-items were used. None of their other special interest funding is included. Ms. Shipman emphasized this information is for three very different segments of education, and the kind of investment that is necessary at those levels varies per pupil.

FOLLOW-UP ON VISION IOWA QUESTIONS

Holly Lyons, LFB, presented **Attachment N**, a letter from Michael Gartner, Chairman, Vision Iowa Board, in response to administrative costs.

Representative Murphy said he understood the Vision Iowa Board has voted on some issues for administrative rules, including issues of wages.

Representative Murphy asked if people doing grant writing or lobbying, that would be receiving funds, had been discussed. Ms. Lyons responded they agreed no State funds would be used for this (2nd paragraph, 2nd sentence). Senator McLaren stated that local funds could be used for this purpose. Representative Murphy asked that these concerns be expressed to the Vision Iowa Board.

NEXT MEETING DATE AND POTENTIAL AGENDA ITEMS

The next meeting date is scheduled for November 15 at the State Capitol Building in Des Moines.

Representative Millage stated that a number of topics have been suggested for the next meeting including follow-ups of issues discussed today. If members have other items they would like on the next agenda, they are to contact Holly Lyons, LFB.

Representative Millage thanked personnel from the University of Iowa for their hospitality and for the tour. It is always interesting to see what has been done with State money and what infrastructure projects are proposed using State funds.

ADJOURNMENT

Representative Murphy made a motion to adjourn the meeting at 2:45 p.m.