

MINUTES
LEGISLATIVE FISCAL COMMITTEE
OF THE LEGISLATIVE COUNCIL
September 26, 2001

The Legislative Fiscal Committee of the Legislative Council met September 26, 2001, in Room 207, Gilchrist Hall, University of Northern Iowa (UNI). Co-chairperson, Representative Dave Millage, called the meeting to order at 10:00 a.m. Other members present were:

Senator Jeff Lamberti, Co-chairperson
Senator Tom Flynn
Senator Pat Harper
Senator Paul McKinley
(designee for Senator Larry McKibben)
Senator Neal Schuerer
Representative Pat Murphy
Representative Don Shoultz
Representative Willard Jenkins
(designee for Representative Jamie Van Fossen)

APPROVAL OF MINUTES

Senator Schuerer made a motion to approve the minutes of the meeting August 29, 2001, (**Attachment A**) with a correction showing that Senator Schuerer was also present. The minutes were approved as corrected.

WELCOME

Owen Newlin, President, Board of Regents, and President Koob, UNI, welcomed the Fiscal Committee members to the UNI Campus.

President Koob stated UNI is experiencing excellence in its history. This is the fourth year of record enrollment. The growth is in Iowa residents, 93% of enrollment is Iowa residents, and over 70% of these stay in Iowa.

REVENUE UPDATE

Dennis Prouty, Director, Legislative Fiscal Bureau (LFB), presented a revenue update. He reviewed **Attachment B**, "General Fund Projection, FY 2000 through FY 2003."

The ending balance for FY 2001 is estimated as refunds, reversions, and accruals have not been finalized. The Revenue Estimating Conference (REC) will be meeting on October 11 to review the estimates for FY 2002 and establish estimates for FY 2003. Revenues yesterday were a negative 3.3% compared to revenues this time last year.

Legislators will have an idea on budget reductions necessary to keep the budget from a deficit balance after the October REC meeting.

GOVERNOR'S PROPOSED FY 2002 BUDGET REDUCTIONS

Cynthia Eisenhauer, Director, Department of Management (DOM), presented the Governor's proposed FY 2002 budget reductions. The Governor recently advised department directors that he will be asking approval for more deappropriations to reduce spending approximately \$108.0 million this fiscal year. He proposed a 7.0% reduction in agency operating budgets with some exceptions. School aid and related payments, entitlements like Medicaid, property tax credits, and the operating budgets of the Departments of Defense and Public Safety, and the Veterans Home are some of the exceptions.

Attachment R is the Governor's proposed appropriations reductions. The Committee discussed the Governor's proposed plan for budget reduction and the discrepancy of FY 2001 General Fund ending balance between the Legislative Fiscal Bureau and the Governor's information. Ms. Eisenhauer noted that the Revenue Estimating Conference will be meeting on October 11. After that meeting, the Governor will determine whether a \$108.0 million reduction in FY 2002 will be enough.

Ms. Eisenhauer stated that the Governor is continuing the government redesign efforts and has collected hundreds of ideas from department directors, state employees, customers and others to improve government and reduce costs. Senator Harper asked about the Governor's proposal to increase span of control that is currently reported to be 8 to 1. Will the Governor mandate that it be higher? Ms. Eisenhauer stated that the employee to supervisor ratio in the private sector is higher and that the Governor's goal is to achieve a 12 to 1 ratio.

Representative Millage expressed concern over the discrepancies in the FY 2001 ending balance reported by the Department of Management and the Legislative Fiscal Bureau. The LFB reports a \$2.8 million deficit and the Department of Management reports a positive \$200,000 balance. Ms. Eisenhauer responded that as soon as the Department of Revenue and Finance finalizes the allocation of costs to appropriate departments and funding sources this month, we will know the ending balance. Representative Millage stated that right now Ms. Eisenhauer is projected a \$200,000 ending balance. He asked if the Department of Management is shifting any money from the Economic Emergency Fund to cover the deficit. Ms. Eisenhauer responded that no, no money is being shifted from the Emergency Fund.

Representative Shultz commented that the Governor's recommended \$108.0 million reduction in appropriations does not include a large portion of the budget that is not appropriated by the Legislature such as tax credits and asked should we not look at all areas for potential savings? Ms. Eisenhauer responded that these areas were not included in the initial \$108.0 million reduction recommendation, but that in order to achieve a greater reduction in FY 2003, these areas will need to be reviewed and potentially reduced.

Senator McKinley asked what is the anticipated cost of the Governor's plan to give tax credits to students who stay in Iowa after graduation. Ms. Eisenhauer responded that they had not yet worked out the details.

Committee members expressed concern about the budget cuts to the Regents institutions and the community colleges if this problem is not addressed until January 2002 when the Legislature is in Session. Since the Regents and community colleges receive their appropriations in 12 equal monthly payments and the Governor does not have the authority to change this, those institutions are likely be taking a 14% reduction (7% total reduction, but implemented over a five month time period) when the Legislature comes back in Session in January. Ms. Eisenhauer responded that the Regents can plan and make reductions beginning now. Representative Millage stated that if we act sooner, it would facilitate targeted reductions. He asked Ms. Eisenhauer why the Governor won't call a Special Session so those reductions in aid payments can be made sooner. Ms. Eisenhauer responded that the Governor will not make a decision on a Special Session until after the October 11th Revenue Estimating Conference (REC) meeting.

Representative Millage asked if the Governor has given any thought to renegotiating the employee pay contracts for FY 2003 or FY 2002. Ms. Eisenhauer responded that yes, the Governor has talked to the employees union about the contract the costs for FY 2003 and FY 2002, noting that the increases negotiated for FY 2002 have already been allocated.

Representative Millage requested that DOM submit a report on the layoffs to the Fiscal Committee and the Legislative Fiscal Bureau. Ms. Eisenhauer stated that all spending plans from the agencies, including the scope of layoffs that could occur, will be provided.

Senator McKinley asked how the proposed FY 2002 spending plan reductions will be monitored so we don't find that even more needs to be cut from the budget at a later date. Ms. Eisenhauer stated that the Department of Management will be reviewing the plans monthly and has given some thought to the type of information to share with Legislators that shows progress or lack of progress.

LEASE PURCHASE NOTIFICATION

Dave Reynolds, LFB, reviewed a Lease Purchase Notification (**Attachment C**) for \$238,600 for the Information Technology Department for the lease purchase of routing and switching equipment for the computer network on the Capitol Complex.

CAMPUS TOUR

The Committee toured four buildings on the UNI Campus. Morris Mikkelsen, Director of Facilities Planning, UNI, led the tour. Lang Hall renovations were completed in 2001 at a cost of \$13.5 million. Lang Hall is used by the Communications Department, and includes many classrooms, labs, studios, computer labs, two ICN classrooms, and many faculty and campus offices.

The Physics Hall and East Gym are high priorities on the renovation list. The Physics Hall renovation is primarily fire safety renovation with some electrical work. The East Gym is first on the list of renovations. The Gallagher-Bluedorn Performing Arts Center is a new facility recently completed.

LUNCH

The Committee recessed for lunch at 12:00 p.m. Senator Lamberti reconvened the meeting at 12:30 p.m.

COMMUNITY COLLEGES

Robin Madison, LFB, presented an *Issue Review*, "Community College Funding" (**Revised Attachment D**). This is a review of the sources of funding for Iowa's community colleges, including comparisons to national statistics and trends. The operating budgets of Iowa's 15 community colleges are funded through a combination of student tuition and fees, local property tax, State aid, federal funds, and other income. Since 1991, the percentages of community college revenue generated by local property tax, State aid, and federal funds have decreased, while the percentage from tuition and fees has increased.

The Committee members discussed funding sources for the community colleges.

Community College enrollments:

Janice Friedel, Administrator, Division of Community College and Workforce Preparation, Iowa Department of Education, stated the status report on community colleges will not be transmitted to the Department of Education until October 14. She will provide enrollment information later this Fall.

Community colleges have evolved to become the State's largest provider of beginning undergraduate education. Community colleges' enrollment passes that of the three Regents institutions, and the independent colleges combined.

More than 50% of Iowans pursuing higher education begin in a community college. Data surveys conducted indicate more than 80% of students in community colleges stay in the State.

Unduplicated credited headcount enrollment in Iowa totals 98,714. The current trend is that a larger percentage of credit students are enrolled in arts and science programs as opposed to vocational technical programs. Approximately 73% of total credit student population is attending part time (less than 12 semester credit hours).

Gene Gardner, Executive Director, Iowa Association of Community College Trustees, reviewed **Attachment Q**. There continues to be an increase in the number of individuals starting at community colleges. Due to many layoffs in the Southeastern College area, programs have been designed to help those people and have attracted many new students to the community college.

President Robert Dunker, Western Iowa Tech, stated that community college has had a 4.6% increase in students this year, with all of that increase in the vocational area.

The Committee discussed the method of payment to the community colleges from the General Fund and the impact budget reductions would have if these reductions are not acted upon until January 2002.

Community College Presidents

Hawkeye Community College (Waterloo) – President Bettsey Barhorst presented concerns on tuition increases and funding issues. Ms. Barhorst stated revenue is the lowest in 18 years, it is a time of tough choices, time to set priorities, and chose investments wisely. It is time to focus limited resources on what is going to make the greatest impact for the future.

Northeast Iowa Community College (Calmar/Peosta) – President Robert Denson also discussed concerns regarding State funding to community colleges. He has frozen all travel in the college, in-state and out-of-state, and will be recommending another tuition increase next term. Mr. Denson stated every state in the Midwest has a need for highly skilled workers. Northeast Iowa Community College is the fastest growing community college in Iowa on a percentage basis. Forty-eight percent of the students at Northeast are part time.

Western Iowa Tech (Sioux City) – President Robert Dunker reviewed policies he has placed to reduce costs. No programs have been deleted from the college yet.

DEPARTMENT OF EDUCATION

Shawn Snyder, LFB, reviewed **Attachment 1**, “Estimated 2002 K-12 federal funding sources,” showing funds going to local school districts.

Representative Millage requested information on historical trends in federal funding, by category, such as what has been the growth in Chapter 1 Reading Funds from the federal government over the last 10 years or since the Program started and the historical trend for the Technology Fund. This information would be helpful in making General Fund appropriations.

It may be necessary to direct some funds in a different direction, if reading funds are going up for K-3, maybe some State funds should go to community colleges, or somewhere else. Representative Millage would like this at the next meeting.

Representative Shultz asked if information is available to compare what Iowa receives in federal education money to other states. Mr. Snyder will try to provide that information.

Shawn Snyder, LFB, presented **Attachment E** regarding Iowa K-12 School Funding Sources. The spreadsheet and charts detail FY 2002 State funding sources and estimated amounts for K-12 education. The spreadsheet lists education programs that are funded through State aid, local property tax, or income surtax. The charts provide percentage breakdowns for each area listed on the spreadsheet.

Shawn Snyder, LFB, presented an *Issue Review*, "Budget Guarantee Provision Changes", which examines how the changes made to the school district budget guarantee provision during the 2001 Legislative Session may impact school districts with declining enrollments.

BOARD OF REGENTS

Mary Shipman, LFB, reviewed **Attachment G**, Board of Regents Historical Budget Information. Included in this information were both revenues and expenditures in three categories, General Operating Fund Budget, funds used for daily operation of the institution; Restricted Funds Budget, funds designated for a specific purpose such as capitals; and Total Funds Budget, all funds which equals the total of general operating and restricted funds.

Ms. Shipman was also available to answer questions on the following attachments relative to Regents institutions:

- Tuition Rate Increases (**Attachment H**)
- Enrollment (**Attachment I**)
- Budget Reductions/Revised Spending Plans (**Attachment J**)
- Budget Ceiling Adjustments (**Attachment K**)
- Capitals – FY 2003 Request and Five-year Capital Plan (**Attachment L**)
- Fire Safety/Deferred Maintenance (**Attachments M & N**)

Board of Regents President Owen Newlin presented background information on the five Regents institutions. The Regents were started in 1909 and the enterprise has been built steadily and consistently. He reviewed the duties and responsibilities of the Board of Regent members to the institutions, State government, students, and residents of Iowa.

The Board emphasizes four key result areas through strategic planning, quality, access, diversity, and accountability. Each strategic plan is used to develop budgets with 43 measurements of progress developed. Some indicators reflect information accumulated

over a period of years while additional indicators are specific to each institution's strategic plan.

In 2001, Iowa State University (ISU) and the University of Iowa (SUI) attracted external funding of approximately \$500 million for research and development, coupled with tuition. The University of Iowa Hospitals and Clinics are the only statewide referral center, and an important aspect for the indigent patient care.

The Regent institutions operate and maintain over 30 million square feet of buildings on its campuses, with a replacement value exceeding \$5.00 billion.

Mr. Newlin reviewed a power point presentation on FY 2002 enrollment, budgeted general university expenditures, budgeted general university resources, general education funding for years 1980-81 to budgeted 2001-02 comparison of appropriations as % of expenditures and tuition revenue as % of expenditures, and percent of increases/decreases in State appropriations and tuition for the Board of Regents and the appropriation reductions for FY 2000 – FY 2002 and the proposed FY 2002 deappropriation.

Pam Elliott, Regents Office, and Doug True, University of Iowa, responded to questions from Committee members regarding resident and non resident tuition.

PROPOSED STUDIES OF LEGISLATIVE BRANCH AND JUDICIAL BRANCH

Discussion on proposed studies of Legislative Branch and Judicial Branch (**Attachment O**) was postponed until a future meeting.

FUTURE MEETINGS

The Committee discussed topics for the October 24 meeting in Des Moines, and the November 27 meeting in Fort Madison (justice issues).

Possible topics for October 24 include:

- Federal Funds Update – Phil Buchan, Washington D.C. State/Federal Office.
- State agencies review of FY 2002 to date – Governor's recommended FY 2002 reductions.
- Update on Governor's government redesign effort.
- Workforce attrition program update.
- Attorney General – status of negotiations of the settlement for back overtime pay for troopers and other State employees.
- Department of Natural Resources – update on destination park.
- Tobacco securitization update.

- Human Services issues – Telemedicine – potential savings on Medicaid.
- Closing of FY 2001 books with the Auditor, and representatives from the Department of Revenue and Finance and Department of Management present to answer questions.

OTHER BUSINESS:

Attachment P, an *Issue Review*, Iowa Braille and Sight Saving School, is for informational purposes only.

ADJOURNMENT

The meeting adjourned at 3:10 p.m.