

**MINUTES**  
**LEGISLATIVE FISCAL COMMITTEE**  
**OF THE LEGISLATIVE COUNCIL**  
**October 24, 2002**

The Legislative Fiscal Committee of the Legislative Council met October 24, 2001, in the Legislative Dining Room in the State Capitol Building. 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 Pat Harper  
Senator Larry McKibben  
Senator Neal Schuerer  
Representative Libby Jacobs  
Representative Pat Murphy  
Representative Jamie Van Fossen

**REVENUE UPDATE**

Dennis Prouty, Director, Legislative Fiscal Bureau (LFB), presented a revenue update. He reviewed **Attachment B**, the October 11 report from the Revenue Estimating Conference (REC). The new estimate for FY 2002 after refunds is a \$16.8 million increase over FY 2001 in General Fund receipts. The REC also estimated a 1.9% increase in receipts using FY 2002 as a base for FY 2003. New money after refunds is estimated to be \$55.5 million.

Mr. Prouty also reviewed **Attachment C**, General Fund Projection, FY 2000 through FY 2003. Collective bargaining estimates were increased to \$79.0 million, with \$70.0 million appropriated from the General Fund this year and \$9.0 million from the Underground Storage Tank Fund deposited into the General Fund. He stated that historically we have always used the current costs for collective bargaining cost estimates for the next year.

Mr. Prouty also presented **Attachment D**, Flow of General Fund Revenues After Expenditure Limitation (barrels). He noted that the Cash Reserve Fund and Economic Emergency Fund are not quite full in FY 2002.

**DISCUSSION OF FY 2001 ENDING BALANCE AND FY 2002 BUDGET**

The Committee discussed the FY 2001 ending balance and FY 2002 budget including early retirement, retiree attrition, and the Medicaid shortfall. The following people were available to respond to questions: Dennis Prouty, LFB; Warren Jenkins, Auditor's Office, Mike Lipsman, Department of Revenue and Finance; Attorney General Tom Miller, Randy Bauer, Department of Management.

Mr. Prouty explained **Attachment E**, showing the calculation of General Fund Resources for FY 2001. He defined accruals as funds collected before June 30 but not remitted, by entities, for various taxes. The accruals vary greatly from year to year. He explained the procedure to include accruals in the estimated revenues and how and why they vary so much.

**Attachment E** explains how the accruals flow in and how the resources are determined during a given year. Accruals were estimated to increase \$27.5 million, but actually decreased \$26.0 million, creating a \$53.5 million problem. Members expressed concern as to what can be done differently in the future if anything, to try to project the accruals and especially how to cover if there is an ending deficit.

Mike Lipsman, Department of Revenue, explained the accrual process to the Committee members as it appears in **Attachment 1**, State of Iowa Tax Accruals. Members asked how State regulations compare with federal requirements for transmitting of taxes. Mr. Lipsman responded there are differences in due dates. The difference between federal standards and State standards is a concern. The Department of Revenue or the REC does not have the statutory requirement to look at accruals when considering revenue estimates. They have always been estimated by the Departments of Revenue and Management.

Representative Jacobs expressed concern that she was not hearing a unified message from the Department of Management (DOM) and Department of Revenue and Finance (DRF) saying they would take the necessary steps to make sure this doesn't happen again. What needs to be presented to Legislators is a plan on how to alleviate these problems in the future. It is critical that the Legislators hear from the departments involved as to what legislative action is needed.

Randy Bauer distributed a letter signed by Gerry Bair, Richard Johnson, and Dennis Prouty, providing alternatives for estimating accruals.

### **APPROVAL OF MINUTES**

Senator McKibben made a motion to approve the minutes of the September 26, 2001, meeting (**Attachment A**). The minutes were approved.

### **DISCUSSION OF FY 2001 ENDING BALANCE AND FY 2002 BUDGET (CONTINUED)**

**Attachment F** shows the Projected FY 2003 Incremental Built-in and Anticipated Expenditures.

**Attachment G** is a letter from Auditor Richard Johnson. Warren Jenkins, Deputy Director, reviewed the letter and the "Ten Point Plan to Address Revenue Shortfalls" recommended by Mr. Johnson. There is concern that the revenue estimates are still too high.

**Attachment S** is a copy of the Governor's Press Release (10/5/01) and a letter from Dennis Johnson, Attorney General's Office. Tom Miller, Attorney General, addressed two questions, one using the Cash Reserve Fund and the Economic Emergency Fund during the year for cash flow purposes. It was concluded that State government could do that. The language was at least ambiguous enough to allow the practice that had been so consistent to be done for cash flow purposes. The other question was with the other situation that had not been done before when the accruals dropped so dramatically. The Opinion utilized statutory construction. The Cash Reserve Fund, what ever was taken from that Fund had to be returned at the end of the fiscal year, however the Economic Emergency Fund does not have similar language. Thus the implication is that it is not a similar requirement and the funds could be returned at some other time.

Senator Lamberti asked Mr. Miller at what point in time his office was first contacted by someone from the Governor's Office about looking into this issue and was there a separate date when the formal request for the Opinion came. Mr. Miller responded we had discussions and did research when it looked like it was \$8.0 million or \$10.0 million deficit. A formal request was received when it looked like it was the \$60.0 million deficit.

Representative Millage cited the Code of Iowa, Section 8.55(3) (Iowa Economic Emergency Fund), and asked if the provision was considered when his Opinion was drafted. Mr. Miller responded, yes, there are two issues, one is what money is appropriated and how do you pay the bills with money that is appropriated. This statute does not give the Governor the option of using the money for things that were not appropriated. The other question was when you have a deficit, and have already paid the money, if you are allowed to do in the section, when do you have to pay it back. The Opinion in no way allows the Governor to appropriate money. The problem was he did not overpay what was appropriated, but paid what was appropriated although the funds were not there due to the decrease in revenues.

Representative Millage stated that the Economic Emergency Fund may be appropriated by the General Assembly, but it doesn't say it can be used by the Governor to fund appropriations. Mr. Miller responded that another section allows the Emergency Fund to be used for cash balance, for paying the appropriations already made.

#### **PENDING LITIGATION AGAINST THE STATE UNDER THE FAIR LABOR STANDARDS ACT.**

Tom Miller, Attorney General, stated the pending litigation against the State under the Fair Labor Standards Act is a suit filed by employees of the following departments: Public Safety, Transportation, Corrections, and Natural Resources for claims for back pay for overtime by supervisors. Due to potential litigation, the comments are limited. **Attachment M** is a letter from Julie Pottorff, Deputy Attorney General, providing an overview of the status of the Fair Labor Standards Act (FLSA) cases.

Mr. Miller explained the issues and current status of the suit. Damages would be paid through the State Appeal Board but many issues remain to be decided before damages can be calculated. This would not likely affect the budget during this fiscal year, but could have an impact on the budget for

the next fiscal year. An estimated impact of \$30.0 million is probably high. Committee members are interested in knowing if there is a need for legislative changes to avoid this situation in the future.

**Attachment H**, a tracking document showing the Governor's proposed 4.3% across-the-board reduction in General Fund appropriations for FY 2002 was reviewed.

Jan Claussen, Department of Human Services (DHS), reviewed **Attachment 2**, DHS Medical Assistance, FY 2002 Analysis of State Funds (10/22/01). This Program has over 25,000 more participants than was originally budgeted, and thus has a serious shortage in funding. If the economy continues downward, there is concern this number will increase, thus increasing the shortage of funds. This information is updated monthly to reflect changes.

### **WORKFORCE ATTRITION PROGRAM UPDATE**

Ron Robinson, LFB, presented **Attachment 9**, a Workforce Attrition Program Update. Mr. Robinson reviewed the proposed early retirement/early out program, including assumptions, and the fiscal effect. The estimated savings over a five-year period is \$10.3 million to the General Fund.

### **GOVERNOR'S GOVERNMENT REDESIGN EFFORT**

Christina Schaefer, LFB, presented **Attachment I**, the Governor's Government Redesign Effort. This is a memo from the Department of Management on Improving Government and is an update on the Governor's Government Redesign Effort.

### **HOW OTHER STATES ARE HANDLING THE ECONOMIC DOWNTURN AND POST-SEPTEMBER 11 ECONOMY**

Holly Lyons, LFB, presented:

- **Attachment J**, NCSL draft survey of states
- **Attachment K**, Article from Stateline.org "*State Budget Snapshot Not A Pretty Picture*"
- **Attachment L**, Survey of States from Stateline.org

These were presented for informational purposes only.

### **FEDERAL FUNDS UPDATE**

Federal Funds Update was presented by Phil Buchan, Director, State/Federal Office in Washington, D.C. He provided a summary of Washington legislation stating that this has not been a good year for states. The appropriations process remains unresolved. He anticipates a stimulus packet will be coming out soon. Congress is not in agreement yet, however states could be significantly harmed or significantly helped. Unfortunately any

taxes will not likely be helpful for Iowa. The spending tax cuts has money mostly for states directly effected by the September 11 attack on America. Federal tax cuts would have an impact on state revenues.

The Labor, Health, and Human Services Appropriations Bill has passed. It is the second largest appropriation bill. Representative Millage invited Mr. Buchan to return for the December 17 meeting of this Committee.

There are still many issues to be considered including the standardizing of medical records. Another program that is a problem for the states is the possible elimination of the Violent Offender Incarceration Truth in Sentencing Program. This Program has funded prison construction. Iowa received \$1.7 million from the Program last year, which was used for special needs in State prisons construction.

### **LUNCH**

The Committee recessed for lunch at 12:00 p.m. Senator Lamberti reconvened the meeting at 1:00 p.m.

### **TOBACCO SECURITIZATION UPDATE**

An *Issue Review* on Tobacco Securitization Update was presented by Beth Lenstra and Dave Reynolds, LFB, (**Attachment N**). This *Issue Review* provides an overview of Iowa's tobacco settlement, the securitization process, and the potential for cash flow problems during FY 2002.

### **DESTINATION STATE PARK**

Al Farris, Interim Administrator of the Parks and Preserves Division, Department of Natural Resources presented a status report on the Destination State Park. (**Attachment O**).

The proposed Destination State Park is located in Appanoose County, but involves a four county area. Elements currently underway include an Archaeological Survey, a Biological Assessment Survey, Wetland Survey, Design and Engineering Studies, Cooperative Agreement with the Chariton Valley RCD (Resource, Conservation, and Development), Road Pond, and Possible Road Construction. Mr. Ferris stated one thing has changed since **Attachment O** was prepared. Appanoose County has volunteered their county engineer to do the road design free of charge.

The estimated cost for maintenance after completion is \$250,000. The major investment for the State would be completion of the road and sewer at an estimated cost of \$5.0 million for all infrastructure, with approximately \$400,000 spent.

## **DEPARTMENT OF EDUCATION**

Lee Tack, Department of Education, reviewed the Federal Funds Historical Trends by program (**Attachments P, Q, 4, and 5**). Ann McCarthy, Department of Education, reviewed supplanting State funds with Federal Funds.

**Attachment P** is a memo from Shawn Snyder, LFB, on Iowa K-12 School Federal Funding. This provides a comparison with other states regarding the amount of federal funding for public K-12 education. **Attachment Q** is a spreadsheet showing Federal Funding for Iowa Education, FY 1998-FY 2001. This includes School Districts, AEA's and Community College funding. **Attachment 4** is a graph showing federal dollars for Iowa Education, FY 1997-FY 2001). **Attachment 5** is an updated version of **Attachment Q**, including FY 1997.

Special education has had the greatest increase in federal funds, with reduction in class size second. Approximately 3% of income from school districts is from the federal government. The AEAs share of federal funding is determined per pupil and a federal computation formula on special education. The formula is made up of special education count, total population, total enrollment and maybe poverty.

For supplanting State funds with federal funds for special education, Iowa has to show the State obligation is equal to the federal obligation.

Representative Millage asked if the AEA's are restructured, if there would be any impact on maintenance numbers. Mr. Tack responded, no, it is just like reorganizing school districts.

Ms. McCarthy stated the reduction in class size funding will be in the form of a Block Grant, as many of the education programs on the federal level will be. The Iowa Program requires hiring teachers, almost 95% of funds will go toward teachers salaries.

Senator Schuerer stressed that the Department make contacts with Senators and Congressman to assure Iowa receives as many federal funds as possible.

## **COMMUNITY COLLEGE FUNDING**

Janice Friedel, Administrator, Division of Community Colleges and Workforce Preparation, presented historical information on Community College Funding (**Attachment 6**). Ms. Friedel reviewed student enrollments, including total students, and a comparison of areas of enrollment.

## **TELECARE PILOT PROJECT - UPDATE**

**Attachment R** provides the language in the FY 2002 Human Services Appropriations Bill permitting the Department to participate in a pilot project if federal funding is available.

Cathy Anderson, Department of Human Services, answered questions that had been submitted to her earlier. These included:

1. The status of telemedicine as it relates to Medicaid. Response – the Legislature authorized the Program on Telecare Pilot Project for three years, through June 30, 2000.
2. What was learned from the Pilot Project. Response – Three barriers were identified as to why the program was not as successful as hoped for.
  - a. The restrictions on participating providers, the evaluation forms were too cumbersome to complete.
  - b. The form was modified but did not have an impact on utilization.
  - c. There were two main issues related to coverage of telemedicine under Medicaid, payment of the service, and the cost of using the equipment and the hook up for the equipment. Currently, only the medical profession is paid, not the equipment.

There was insufficient data available to determine if there would be a high utilization or how it would be for individuals receiving that type of service because utilization was so low.

3. Another question was what would it take to have a federal grant to match for telemedicine. Response – need to submit a plan to the State Medicaid plan on telemedicine. If we did that would also need State matching funds for this service.
4. Final question was the potential savings of new life in telemedicine. Response – It is difficult to determine because the utilization was so low. Available information indicates that it might increase services in certain areas of the State. As for costs, that information is not available.
5. Legislature in HF 732, sec. 13 – gave the Department permission to participate in the Federal Pilot Program if federal money became available. To our knowledge there is not a Federal Pilot Program available at this time.

### **APPROPRIATIONS TRANSFERS**

Dave Reynolds, LFB, presented Code of Iowa, Section 8.39 appropriation transfers that have been received since the last meeting.

- Not to exceed \$921,000 to the Department of General Services, Lucas Building Restoration, Capitol Building Restoration, and Major Renovation of State Buildings, from the Department of General Services, Executive Hills, and Capitol Annex Demolition.

- Not to exceed \$80,000 to the Department of Natural Resources, Parks Division from the Environmental Division. Park receipts are not coming in as expected.

### **LEASE PURCHASE NOTIFICATIONS**

Dave Reynolds, LFB, presented a lease purchase notification:

- \$269,508, Iowa State University – two lease purchase agreements for laptop computers in the College of Design. (**Attachment 8**)

Mr. Reynolds stated the rate of interest on the two lease purchase agreements were different with one at 3.5% and the other 5%.

### **FUTURE MEETINGS**

The Committee discussed topics and location for the November 27 meeting. The meeting will be in Des Moines rather than Fort Madison due to budget restraints. However, the Department may give a presentation to the Committee, if they would like.

Possible topics for the November meeting include:

- Revenue Update
- Review of criminal justice population trends for the last ten years.
  - Case load data in the court system, CBC, and prison system
  - Impact of criminal sentencing policies and practices
  - General Fund expenditures for the last ten years
- Judicial Branch
  - Case load comparison of the eight judicial districts within the court system
  - Comparison of salaries and duties of District Judges, District Associate Judges, and Magistrates
  - Potential impact of re-drawing the boundaries of the eight judicial districts
  - FY 2002/2003 Budget Information
- Department of Public Safety
  - FY 2002 budget reduction details and explanation of “national obligation” for each division
- Department of Corrections
  - Impact of FY 2002 budget reductions

- County Confinement Account – outcome of negotiations with counties, average cost per date by county, average length of stay in local jails pending revocation hearing
- Tobacco securitization update
- Discussion of infrastructure
- Federal government funds
- REC report

**OTHER BUSINESS:**

Future meetings are November 27 and December 17, both in Des Moines.

**ADJOURNMENT**

The meeting adjourned at 2:15 p.m.