

MINUTES
LEGISLATIVE FISCAL COMMITTEE
of the LEGISLATIVE COUNCIL
September 25, 2002

The Legislative Fiscal Committee of the Legislative Council met September 25, 2002, in Room 116, in the State Capitol Building, Des Moines, Iowa. Co-chairperson, Senator Jeff Lamberti, called the meeting to order at 10:10 a.m. Other members present were:

Senator Tom Flynn
Senator Pat Harper
Senator Larry McKibben
Representative Lance Horbach
(Designee for Rep. Dave Millage)
Representative Libby Jacobs
Representative Pat Murphy
Representative Don Shultz
Representative Jamie Van Fossen

Senator Paul McKinley was also present.

APPROVAL OF MINUTES

Representative Van Fossen made a motion to approve the minutes of the Legislative Fiscal Committee meeting held July 25, 2002, (**Attachment A**). The minutes were approved.

REVENUE UPDATE

Dennis Prouty, Director, Legislative Fiscal Bureau (LFB), presented a revenue update. He reviewed **Attachments B and C**.

Attachment B is the report of the Revenue Estimating Conference (REC) held September 6, 2002. The REC estimated a zero growth rate for FY 2003. The increase in FY 2002 over estimates was approximately \$60.0 million. Receipts as of today are 5.5% ahead of last year at this time.

Representative Van Fossen asked how much of this reflects the insurance premium tax change, or if it is filtered out. Jeff Robinson, LFB, responded the insurance premiums usually come in March and June.

Attachment C is an excerpt taken from the September 24 Fiscal Update reporting on the Revenue Estimating Conference increase FY 2003 estimate.

Jeff Robinson, LFB, reviewed **Attachment 1**, a General Fund Balance Sheet, reflecting reversions, accruals, and tentative final budget numbers for FY 2002. Transfers to the Cash Reserve Fund after closing FY 2002, will be an estimated \$67.0 million.

Mr. Prouty reviewed **Attachment 2** which shows the flow of General Fund Revenues after expenditure limitation to the Cash Reserve Fund (CRF) and Iowa Economic Emergency Fund (EEF). The ending balance for FY 2002 for the Cash Reserve Fund is approximately \$140.0 million; and the Economic Emergency Fund, approximately \$25.2 million. These estimates were prepared prior to the close of the fiscal year, actual amounts are showing differently because of the manner in which the estimates are derived and carried forward. Mr. Prouty stated that in FY 2003, there probably will not be enough funds in the Economic Emergency Fund to allow for a \$25.0 million transfer to school funding as was done in FY 2002.

Dave Reynolds, LFB, noted that each of the following balance sheets will be revised for interest rate estimates in the near future and the projections reviewed based on the new estimated rates for FY 2003.

Attachment D is the Rebuild Infrastructure Fund. This Fund will be significantly impacted by the Court ruling on the gaming tax.

Attachment E is the Healthy Iowans Tobacco Trust Fund. There was no significant change in this Fund with an estimated ending balance for FY 2003 of \$155,957.

Attachment F is the Restricted Capital Fund (Tobacco). Money in this Fund is required to be spent by FY 2007. The spread sheet shows the total amount of money, approximately \$100.0 million, will be available each fiscal year during this time period. Senator Harper asked if the money in this fund could be used for other purposes if so designated by the Legislature. Mr. Reynolds responded this is an Internal Revenue Service ruling, not a legislative issue.

Attachment G is the Endowment for Iowa's Health Account. The estimated ending balance for FY 2003 is \$31.8 million. Mr. Reynolds also presented another handout showing an estimate of Funds for the Endowment for Iowa's Health Account, FY 2002-FY 2030.

Senator Lamberti asked if information is available showing estimates when the original account was set up, comparing where it would be today and where it actually is. Mr. Reynolds answered yes, he would provide that information at the next meeting.

HAWK-I PROGRAM MONTHLY UPDATE

Sam Leto, LFB, presented **Attachment 3**, the monthly update on the *hawk-i* Program. This included the estimated FY 2002 revenues and expenditures and year-to-date for FY 2003, July and August. He also reviewed enrollment data.

Senator Flynn asked about the enhanced federal match. Mr. Leto explained it is a 25% state match and 75% federal match with the federal match based on a formula that can change from year to year.

MEDICAID PROGRAM MONTHLY UPDATE

Sam Leto, LFB, presented a monthly update on the Medicaid Program. This included all of FY 2002 and July FY 2003.

Senator Lamberti requested information on the actual budget numbers for the first few months of FY 2003, where it is running and what is seen in terms of number of users and the short fall.

SALES TAX FORECAST

Jeff Robinson, LFB, explained that traditionally "remote sales" were considered synonymous with catalog sales. However, in recent years the term has been expanded to include telephone sales and Internet-based transactions. Although the loss of tax revenues due to traditional catalog sales has concerned states for many years, the rise of telephone and Internet-based remote sales have heightened the concern. National estimates for these losses were \$13.3 billion in 2001. The estimate for Iowa tax revenue losses in 2001 was \$59.5 million for trend losses and \$111.8 million for e-commerce losses. **Attachment H** shows the impact of "Electronic Commerce on the Iowa Sales Tax Base, Executive Summary". **Attachment I** is a more detail document providing background information, national estimates of remote sales and electronic commerce impacts, Iowa tax revenue loss estimates, digitally delivered merchandise, a summary, and Iowa sales and use tax impact estimation methodology. Information in these two attachments was compiled by the Department of Revenue and Finance.

Don Cooper, Compliance Division Manager, Department of Revenue and Finance, presented an update on the streamlined sales tax project. At the present time there is a moratorium on new Internet sales tax for goods sold. States have joined together to create a more uniform sales tax system. This is a three-year project, starting as a working group, with every state that has sales tax represented on the Committee. The group is compiling uniform definitions, simplifying registration, pay structures, exemption certificates, and addressing the issues of remote sellers.

Iowa has four members on this Committee, Representative Van Fossen; Senator McKibben; Gerald Bair, and Don Cooper from the Department of Revenue and Finance. The Agreement is virtually done, with the implementing Committee likely to vote on it at

their November meeting. It requires a three-fifths majority vote for approval, then the states have to approve it. A final draft will likely be ready in November. A simplified system provides everybody with the same rules. This will be an ongoing project as changes are required from time to time.

TECHNOLOGY NEEDS OF THE DEPARTMENT OF REVENUE AND FINANCE

Mike Lipsman, Department of Revenue and Finance, presented the technology needs of the Department of Revenue and Finance (and associated cost) to collect and analyze the information needed to make more accurate financial forecasts.

Included in the power point presentation was:

- Tax Information System Components consisting of forms design, data entry, data verification and error resolution, data storage, data retrieval and analysis.
- Factors affecting data capture and analysis including department staff reductions, reliance on the Internal Revenue Service data, complexity of State Tax Code, seasonal variation in workload, processing time lags, and inter-agency coordination.
- Resource needed to enhance data capture and analysis including department staff, technology and outside services.
- Department of Revenue and Finance staff needs include data entry and customer accounts, information technology, and fiscal analysis and statistical reporting.
- Other legislative options

Mr. Lipsman emphasized the problem of not receiving data in a timely manner which makes it difficult to present accurate estimates. Information is frequently twelve months to eighteen months delayed. There are three dimensions to this issue: quality of data, quantity of data, and timeliness of data. Sales tax statistics are approximately one year behind. There is no electronic system to track individual information at this time. Mr. Lipsman reviewed suggestions to improve the system. He emphasized the need for additional staff to update the systems, gather information, and some costs involved.

EARLY RETIREMENT PROGRAM UPDATE

Molly Anderson, Director, Department of Personnel, reviewed **Attachments 5 through 10** to update the Committee on the Early Retirement Program. She reviewed the eligibility requirements, incentives, payment plans, future hiring restrictions, and savings for the State. She also explained how the savings was determined.

Attachment 5 provided information on the Early Out Programs. For the first Early Out Program, 594 employees (plus three legislative employees) participated, 146 (plus one legislative employee) participated in the early out program extension, in the second Early Out Program, there are only 23 participants to date. For the Years of Service Incentive Program, requests for 22 people to participate have been received.

Attachment 6 provided information on the cost and savings estimates (August 22, 2002) for the Early Out Program I as prepared by the Iowa Department of Management.

Attachment 7 provided information on the cost and savings estimates (August 23, 2002) for the Early Out Program II, prepared by the Department of Management.

Attachment 8 presented the number and percent of early out participants by department.

Attachment 9 presented the number and percent of Early Out Two participants by department.

Attachment 10 provided information on the Early Out Rehires as of August 23, 2002. Forty-five individuals were listed. Of these, 20 have left the payroll, nine will terminate by December 1, 2002, and 16 will terminate after December 1, 2002, or have no planned termination date.

Ms. Anderson reviewed the reasons departments have for rehiring and the savings from rehires. An update of this information will be available on October 1.

LUNCH BREAK

The Committee recessed for lunch at 12:05 p.m. Senator Lamberti reconvened the meeting at 1:05 p.m.

LEASE PURCHASE

Dave Reynolds, LFB, presented a lease purchase for Iowa State University for laptop computers for students in the College of Design (**Attachment K**). The total cost of the lease purchase is approximately \$412,000, \$378,000 for principal and \$34,000 interest over a three-year period.

APPROPRIATIONS TRANSFERS

Holly Lyons, LFB, reviewed **Attachment J**, a summary of the 8.39, Code of Iowa, Appropriations Transfers, showing the FY 2003 transfer and the FY 2002 transfers for the entire fiscal year.

2002 SESSION FISCAL REPORT

Robin Madison, LFB, demonstrated the 2002 Session Fiscal Report as it is on a CD and the LFB web site. Mr. Prouty presented a review of the information on the CD Rom, which was sent to each legislator. Using the CD Rom allows utilization for a great deal of information requiring a small storage space. In anticipation of the possible consolidation of three of the legislative staff agencies, some information from the Legislative Service Bureau is also included.

Ms. Madison reviewed the steps necessary to use the CD, the information available, how to reach the LFB web site, and information and forms available on the web site.

UPDATE ON RACING AND GAMING CASE

Beth Lenstra, LFB, presented an update on the Racing and Gaming Case. The Supreme Court refused to reconsider the case and the Attorney General's office is considering options.

CAPITOL SECURITY UPDATE

Jennifer Dean, LFB, reviewed **Attachment L**, a memo addressed to the Committee relative to Capitol Security Update. This included additional security measures effective January 13, 2002, in the Capitol Building, Capitol hours and entrances for the public, security officers and troopers, hourly wages and overtime, FY 2002 funding for additional security measures, FY 2003 funding for additional security measures and Homeland Security Initiative. She also presented a detailed Capitol Security and Equipment Expense Report for the FY 2002 Legislative Session.

Lt. Dave Garrison, Post 16, and Betsy Dittmore, Department of Public Safety, were present to answer questions. Lt. Garrison stated he was not aware of any complaints from the public in accepting the security changes, and the procedure has been accepted.

Mark Willemsen, General Assembly Facilities Manager, stated that a report from the National Legislative Security and Service, reported 15 states have x-ray machines, 29 states have restricted number of entrances, and 27 states have installed equipment to limit vehicle access to buildings.

CAPITOL INTERIOR RESTORATION UPDATE

Tom Johnson and Dean Ibsen, Department of General Services, updated the Committee on the Capitol interior restoration.

Restoration of the Capitol Building started in 1983 and currently both the House and Senate chambers are being restored. A financial status report on the interior Capitol restoration was reviewed. This includes the Architect & Engineering Fees, and Construction Contracts, showing the budget, contracted, expended, contracted-not

expended and under(over) budget for each contractor and architect & engineering fees. The report also included the Sales Tax Refunds and Appropriations for the project.

There is approximately \$183,810 remaining to contract for work on the interior of the Capitol. Presently, they are prioritizing the remaining phases in this project. The present renovation does not include costs that will be forthcoming after the Supreme Court personnel move from the Capitol to their new building.

IOWA PRIORITY PROGRAM

Russ Trimble, LFB, reviewed an *Issue Review*, Iowa Priority Program (**Attachment M**). This *Issue Review* provides an overview of the Iowa Priority Program, detailing how each component of the Program functions to achieve the Program goal of reducing prescription drug costs of Iowans eligible for Medicare. He presented background information; the current situation which included Iowa retail pharmacies, pharmaceutical manufacturers, pharmacy benefits manager; program concerns; and the budget impact.

David Fries, Interim Executive Director of the Iowa Prescription Drug Corporation, John Forbes, Community Pharmacist, Medicap Pharmacy, and Bob Egeland, Assistant Vice President of Pharmacy Operations for Hy-Vee Corporation were present.

David Fries reviewed the mission of Iowa Priority, the success of the brown bag assessments, and member savings. Utilization is remaining about the same but savings for Iowa seniors is increasing each month. Iowa Priority is in the process of creating an Iowa Pharmacy Advisory Committee as their input is needed to move forward in this endeavor.

John Forbes, Community Pharmacist, owns Medicap Pharmacies in Urbandale, Ames, and Altoona, shared with the Committee members, a review of the Program from a pharmacist's view. When this Program was introduced, the pharmacists felt it was good for seniors in Iowa. However, at first there was very little if any discount to seniors when they presented their Iowa Priority card. Participating pharmacies agreed to reduce prescription costs 10% for Iowa Priority members. Members were disappointed with the small savings of the Program. In July, the Board of Iowa Priority reduced the pharmacy dispensing fee 50%. This is when pharmacies became unhappy with the Program as they had agreed upon a set fee for a one-year period and it was changed six months into the year. Mr. Forbes stated more money has been saved for the members with the brown bag analysis than by the drug discount.

Bob Egeland, Assistant Vice President of Pharmacy Operations for HyVee Corporation, stated his pharmacists were not pleased with the fee changes either. Every day prices were lower in 31% of all prescription claims by Iowa Priority. Mr. Egeland is also a member of the Board of Trustees of the Iowa Pharmacy Association.

Senator Lamberti asked why Iowa Prescription Drug Corporation is a non-profit corporation as opposed to a program of the Department. He also requested information regarding who the board members are, who appointed the board members, a list of the board members, how do they get replaced, and who has the power to replace them. Senator Lamberti also requested information on the amount of the budget and how it is spent. Also, the Program was designed to be self-sustaining on the \$20 a year membership fee, can it sustain itself, what other funding sources are available and how does the savings given members compare to other entities. He stated the legislators need access to the budget information.

Mr. Fries will work with Russ Trimble, LFB, to provide answers to these questions. The Iowa Prescription Drug Corporation was established as a non profit organization as recommended by an Iowa work group, appointed by the Governor, to comply with a federal grant of \$1.5 million set aside for the Iowa Department of Public Health in the FFY 2000 Labor, Health and Human Services Appropriations Act, "for the establishment and operation of a mercantile prescription drug purchasing cooperative or non-profit corporation demonstration". There are eight Board members, an Executive Director, and four support employees.

The Board was self-selected and terms for each member selected. It is now the responsibility of the Board, including the Board Chairperson, to review budget projections to become self sustaining by 2004 when the federal grant expires. No State funds are provided.

Jerry Karbling, Iowa Pharmacy Association Board member, explained how the original contracts with Iowa Priority were implemented. He expressed disappointment in that after the pharmacists promoted the Program, the policy of reimbursement fees was changed in the middle of the year. At that point most pharmacists could not opt out of the Program with a clear conscious to their customers, to whom they had promoted the Program.

Committee members asked questions of those present as to the options and programs available to seniors using pharmaceuticals.

RESTRUCTURING OF STATE GOVERNMENT

Cynthia Eisenhauer, Director, Department of Management, was unable to attend this meeting, so the restructuring of State Government (**Attachments N and O**) issue will be placed on the agenda for another meeting.

PROGRAM ELIMINATION COMMISSION – UPDATE

John Pollak, Legislative Service Bureau, presented an update on the Program Elimination Commission (PEC). The Commission consists of eight members, five voting members, three non voting members, with the three non voting members, representing the three

branches of government. Each of the four leaders of the General Assembly appointed one voting member and the fifth member is an appointee of the Legislative Council.

The statute requires the staffing be joint with the Legislative Fiscal Bureau and the Legislative Service Bureau, providing services. Caucus staff are also providing staffing services to members of the Commission. The Commission has met three times with several additional meetings scheduled. The Commission has a goal of identifying a two percent savings for the State General Fund (approximately \$100 million). The Commission's recommendations are to be prepared in the form of a bill with the intent that the bill will be considered by procedures that limit consideration of amendments. The Commission will be dissolved effective December 31, 2002, unless action is taken to continue it. Mr. Pollak reviewed the activities of the Commission to date and their tentative plans for the remaining meetings.

FOLLOW UP INFORMATION ON UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Mary Shipman, LFB, presented a review of **Attachment P**, a memo regarding the University of Iowa Hospitals Clinics (SUIHC) Clinic System. This information included a brief funding history, and State Funding (no State General Fund money was included in the funds transferred to support the Health System or the clinic system.). **Attachment Q** provides information from the Board of Regents on the Financial Audit of UIHC Health System. **Attachment 11** is information from Senator Neal Schuerer, on a meeting he attended regarding the University of Iowa Health System and the network of clinics.

OTHER BUSINESS

The Committee discussed meeting dates. It was agreed to cancel the October meeting and meet on November 20 and December 19, with one of the meetings to include education issues.

ADJOURNMENT

The meeting adjourned at 3:00 p.m.