

MINUTES
LEGISLATIVE FISCAL COMMITTEE
OF THE LEGISLATIVE COUNCIL
December 17, 2001

The Legislative Fiscal Committee of the Legislative Council met December 17, 2001, in Room 116 in the State Capitol Building. Co-chairperson, Representative Dave Millage, called the meeting to order at 10:10 a.m. Other members present were:

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

APPROVAL OF MINUTES

Representative Shoultz made a motion to approve the minutes of the November 27, 2001, meeting (**Attachment A**). The motion carried.

REVENUE UPDATE

Dennis Prouty, Director, Legislative Fiscal Bureau (LFB), presented a revenue update. He reviewed **Attachment B**, the Revenue Estimating Conference (REC) report, as it appeared in the December 10 edition of the **Fiscal Update**; and **Attachment C**, the General Fund Projection, FY 2000 through FY 2003.

The REC revised downward the total FY 2002 and FY 2003 General Fund tax and other receipts. The REC did not revise the estimate for gambling receipts deposited to other funds for either year. The REC also now projects net accrued revenues.

Attachment C, a balance sheet, is a "work in progress" report that changes frequently. The "standings" will change when the Governor makes his budget recommendations. Approximately \$40.0 million in new money will be available for the Legislature to appropriate during the 2002 Legislative Session.

Jeff Robinson, LFB, presented **Attachment D**, Cash Flow Analysis. Due to insufficient beginning cash balance and due to cash flow issues related to revenue and expenditure streams, the State of Iowa General Fund does not have the necessary financial resources to keep the General Fund cash balance above zero for much of the fiscal year.

Mr. Robinson reviewed a document, Daily General Fund Cash Balance, a graph showing the fluctuation of the cash balance from July 3, 2000, through November 3, 2001. Another graph reflects the General Fund balance including reserves from July 3, 2000, through November 3, 2001.

Representative Millage asked if the Treasurer of State has issued Tax and Revenue Anticipation Notes (TRANS) and for how much. Mr. Robinson answered over \$500 million in TRANS Notes had been issued but the funds have not arrived yet and would not be a part of this Report.

FY 2002 GENERAL FUND BUDGET UPDATE

Holly Lyons, LFB, presented **Attachment E**, the Impact of the 4.3% Across-the-Board Budget Reduction in FY 2002. The LFB analysts have surveyed the departments to determine the impact of the Governor's 4.3% across-the-board reduction and subsequent legislative action. **Attachment E** is a compilation of department responses.

Attachment 1 is an updated version of **Attachment E**. A total of 537 layoffs (507.5 FTE positions) have been approved by the Departments of Management and Personnel and 144 have actually occurred.

On a nationwide basis, revenues are below forecasted levels in 44 states, spending is exceeding budgeted levels in 19 states, and 28 states are implementing or considering budget cuts or holdbacks. Seven states have convened or will convene special legislative sessions.

Representative Shultz asked why was there a \$6.0 million General Fund reduction for FY 2002 in the Department of Agriculture Funding. Deb Kozel, LFB, explained the majority of that was due to the shifting of funding sources for the Soil Conservation Cost Share Fund. It had been funded through the General Fund but \$5.5 million was shifted to the Environment First Fund. The Environment First Fund was created during the 2000 General Assembly with the passage of the Clean Water Initiatives Act. The Fund receives a standing appropriation of \$35.0 million each year from the Rebuild Iowa Infrastructure Fund (RIIF) for environmental programs.

SCHOOL FOUNDATION AID – FY 2002 BUDGET REDUCTION AND FY 2003 BUDGET ALTERNATIVES

Shawn Snyder, LFB, presented an *Issue Review*, School Foundation Aid – FY 2002 Budget Reduction and FY 2003 Budget Alternatives (**Attachment 3**). This *Issue Review* examines the impact of the 4.3% budget reduction to the FY 2002 standing appropriation for school

foundation aid and budget alternatives to the FY 2003 standing appropriation. It includes background information, the current situation, and alternatives and budget impacts.

FY 2003 SALARY ACT – UPDATE ON FY 2003 AND FY 2004 COSTS

Glen Dickinson, LFB, presented information on the FY 2003 Estimated Salary Adjustment Costs (**Attachment 3**) and a tentative list of assumptions for calculation of FY 2003 Salary Adjustment by the Department of Management (**Attachment 4**). This information is for the Executive Branch only.

Representative Millage asked how the cost-of-living-adjustments (COLA) are determined. Mr. Dickinson stated this is a negotiated item with AFSCME (American Federation of State, County, and Municipal Employees) and other collective bargaining units.

STATE DEBT REPORT

Dave Reynolds, LFB, reviewed **Attachment F**, Legislative Fiscal Bureau Summary Report on State Indebtedness for the Fiscal Year Ending June 30, 2001. The total outstanding debt as of June 30, 2001 was \$2.293 billion. This includes debt incurred by all State agencies and authorities affiliated with the State. Of the total outstanding debt, 61.9% is principal and 38.1% is interest. The Iowa Finance Authority and the Board of Regents together comprise 81.4% of the total State debt. All other entities make up the remaining 18.6%.

Mr. Reynolds presented the historical comparison, general tax revenue debt, annual debt service, bonds, certificates of participation and other financing arrangements (lease purchase arrangements).

Representative Shultz asked how Iowa's overall debt compares to other states including the Vision Iowa and School Infrastructure Programs. Mr. Reynolds will provide that information to Representative Shultz.

APPROPRIATIONS TRANSFERS

Holly Lyons, LFB, presented appropriations transfers received since the November 27 meeting.

- \$114,260 to the Department of Personnel, Customer Services & Benefits Management from the Department of Personnel, Administration & Program Operations. (**Attachment G**)
- A total of \$68,951 to the Department of Public Health (Environmental Hazards, Injuries, and Public Protection) to the Department of Public Health (Community Capacity and Resources Management). (**Attachment H**)
- \$25,000 to the Department of General Services, Operations, from the Department of General Services, Property Management. (**Attachment I**)
- FY 2002 Allocation Change of \$1,014,304 from the Indigent Defense Fund to the State Public Defender. (**Attachment J**)

Departments are in the process of reviewing funding and making budget adjustments due to the 4.3% across-the-board reduction. It is likely more appropriations transfers will be received.

LEASE PURCHASE NOTIFICATIONS/TOBACCO SECURITIZATION UPDATE

There were no lease purchase notifications and no Tobacco Securitization Update.

FOLLOW-UP INFORMATION FROM NOVEMBER 27 MEETING

- **Attachment K** – Iowa Crime Rates, Beth Lenstra, LFB. Iowa's violent crime rate has increased by 3.6% from 1990 to 2000. Since 1995, violent and property crimes have been trending downward. However, the number of offenders in prison increased by 34.36% from FY 1995 to FY 2000. The number of offenders under Community-Based Corrections supervision increased by 42.61% during the same period.
- **Attachment L** – Judicial Branch Case Filings by proposed district and court service areas, Jennifer Dean, LFB. This proposal has now been abandoned by the Supreme Court so was presented as information only.

REPORT BY IOWA VETERANS HOME

A Report by the Iowa Veterans Home was due December 1 pursuant to Section 7(2f) of HF 726, the FY 2002 Health and Human Rights Appropriations Act, which requires the Veterans Home to report to the Fiscal Committee regarding funding.

- **Attachment M - Issue Review**, Iowa Veterans Home, was presented by Russ Trimble, LFB. This *Issue Review* provides an overview of the operations and budget of the Iowa Veterans' Home in Marshalltown, including background information, the current situation, and the budget impact.

The cost for each veteran served is approximately \$66 per day net cost to the State. This includes room and board, prescriptions, lab work, transportation to and from medical facilities, all physician services and related supplies including optometry, dermatology, dental, medical, podiatry, psychiatry, and psychology.
- **Attachment N** – Report due to the Fiscal Committee December 1, 2001, regarding the FY 2001 budget.
- **Attachment O** – Iowa Veterans Home 2001 Annual Report, were reviewed by Commandant Jack Dack, Iowa Veterans' Home. Information in the Annual Report included Mission, Vision, Values, Philosophy, History of Veterans' Home, Achievements and Strategic Planning, and Financial Information.

Approximately 40.4% of the residents are over 65 years old with an average stay of four to five years.

LUNCH

The Committee recessed for lunch at 11:45. Representative Millage reconvened the meeting at 1:00 p.m.

UPDATE ON FEDERAL FUNDS

Phil Buchan, State/Federal Office in Washington, D. C. reviewed **Attachment P**, a Memo regarding End of Congressional Session Report.

Several major issues remain for consideration by Congress before adjourning next week. Some of these issues are under discussion for inclusion in either the economic stimulus package or one of the remaining appropriations bills. Major Issues Remaining include Federal Medicaid Assistance Percentage (FMAP), Accelerated Depreciation, Payroll Tax Holiday, Sales Tax Holiday, Full Funding for IDEA (Individuals with Disabilities Education Act) and Anti-Terrorism Funding. Mr. Buchan anticipates adjournment of Congress on December 21.

Representative Millage requested an updated report on issues when Congress has adjourned for the year.

Doug Wulf, LFB, reviewed **Attachment Q**, Federal Funding Issues. Current estimates are that in State FY 2002, the State of Iowa will receive approximately \$3.094 billion in federal funding, an increase of \$143.1 million compared to actual FY 2001 receipts. Over \$1.571 billion (50.8%) of this will be received by the Department of Human Services.

DEPARTMENT OF EDUCATION

Lee Tack and Ann McCarthy, Department of Education, discussed the federal education bill and the impact on Iowa.

Ms. McCarthy stated that pending legislation in Congress could increase the federal funds to Iowa. She urged Committee members to consider that most federal programs contain language that permit or prohibit the supplanting of funds. Also, with the added influence of census and poverty on several program formulas it is important to realize that Iowa may not realize the degree of increase compared to other states. She highlighted six programs including special education and Title I, a federal reading program. With special education, some supplanting is possible with new federal funds. Title I, however, does not allow supplanting of existing state funds with the new federal funds.

Ms. McCarthy reminded Committee members that several federal programs require states to maintain state effort as a condition of receiving the federal funds. During the Special Legislative Session, Area Education Agency 16 needed an additional State appropriation to

minimize the 4.3% cut in regards to Iowa's maintenance effort on special education. Congress is set to adjourn on December 21. Final federal allocations should be known at that time.

OTHER BUSINESS

Representative Millage stated the budgeting process in the Legislature involves setting targets based upon the revenue available. Given the uncertainty of revenues at this point, he and Senator Lamberti have discussed requesting that the Revenue Estimating Conference (REC) meet prior to March 7, which is the first week of the budget subcommittee meetings under the revised schedule that the Legislature is probably going to be operating under this year. The proposed revised schedule would be to consider policy bills the first half of the Session and budget bills the second half of the Session with the budget subcommittees starting to meet the last week of February or the first week of March.

Representative Millage and Senator Lamberti have discussed wanting a final estimate from the REC prior to issuing targets in early March so they are requesting this Committee discuss and pass a resolution today, recommending that the REC meet to decide their final estimates for FY 2002 and FY 2003 on or before March 7, 2002. If approved by this Committee, the recommendation will go to the Revenue Estimating Conference and to the Legislature since the Legislative Council will not be meeting again this interim.

Representative Millage phrased the resolution to state that the Fiscal Committee requests that the Revenue Estimating Conference meet to review the FY 2002 and FY 2003 estimates on or before March 7, 2002, and the Legislature is requested to adopt a similar resolution for early action on this request.

Representative Shultz asked where the REC gets their information. Mr. Prouty stated it is a combination of several sources including various economic models.

Representative Murphy asked how long the Governor has to revise his recommendations if the March 2002 estimate is lower than the December estimate. Representative Millage responded fourteen days.

The Resolution unanimously passed this Committee and will be presented to the Legislature and to the Revenue Estimating Conference.

ADJOURNMENT

Representative Van Fossen made a motion to adjourn the meeting at 2:00 p.m. The motion carried.

*All attachments referenced in these minute can be found on the LFB web site:
http://staffweb.legis.state.ia.us/lfb/subcom/fiscal_comm/handouts.htm*