

**MINUTES
LEGISLATIVE FISCAL COMMITTEE
of the LEGISLATIVE COUNCIL
December 17, 2003**

The Legislative Fiscal Committee of the Legislative Council met December 17, 2003. The meeting was called to order at 10:05 a.m. with the following members present:

- Senator Jeff Angelo for Senator Jeff Lamberti, Co-chairperson
- Representative Bill Dix, Co-chairperson
- Senator Robert Dvorsky
- Senator Joe Bolkcom
- Senator Doug Shull for Senator Larry McKibben
- Senator Neal Schuerer
- Representative Libby Jacobs
- Representative Mark Kuhn
- Representative Don Shoultz
- Representative Jamie Van Fossen

The following agenda items were discussed:

- **Minutes:** On a motion by Representative Jacobs, the minutes of the October 21, 2003, meeting were approved.
- **Revenue Update:** Received a revenue update including a report on current General Fund balances for FY 2003 and FY 2004.
 - Holly Lyons, Director, Fiscal Services Division, Legislative Services Agency (LSA), provided a revenue update and information from the December 8 meeting of the Revenue Estimating Conference (REC) including the revised FY 2004 and FY 2005 estimates for net General Fund receipts. An adjustment of \$258.0 million to revenues or expenditures will be necessary to balance the FY 2005 General Fund budget.
 - Dave Reynolds, LSA, presented an update on FY 2005 built-in and anticipated appropriation changes. School Aid, Medicaid, and salaries, comprise approximately 89.0% of the total increase.
- **Appropriation Transfer:** Randy Bauer, Budget Director, Department of Management, presented the Section 8.39 Appropriation Transfer for the Department of Public Safety from various other departments to replace funds from the 2.5% across-the-board reduction. Committee members discussed this transfer as it related to agreements with Charter Agencies.
- **Other Fund Balance Sheets for FY 2004 were reviewed by Dave Reynolds, LSA:** Endowment for Iowa's Health Account
 - Restricted Capital Fund
 - Rebuild Iowa Infrastructure Fund
 - Environment First Fund
 - Healthy Iowans Tobacco Trust was reviewed by Beth Lenstra, LSA
 - Senior Living Trust Fund was presented by Lisa Burk

- **Impact of 2.5% Across-the-Board Reduction on Education:**
 - K-12 school districts – Margaret Buckton, Iowa Association of School Boards (IASB), summarized a handout “2003 Across the Board Cuts to Education: Quick Facts”, prepared by the IASB. The Committee also heard testimony from the following school superintendents concerning budget difficulties associated with the mid-year reduction of 2.5% in State Aid.
 - Eric Witherspoon, Superintendent, Des Moines Independent Schools
 - Stan Sibley, Superintendent, Glenwood Community School
 - Marty Lucas, Superintendent, Charles City Community School; and
 - Greg Robinson, Superintendent, Urbandale Community School.
 - Community Colleges – Dr. Gene Gardner, Executive Director, Iowa Association of Community College Trustees; Mike Morrison, President of North Iowa Community College, Mason City; Robert Denson, President, Des Moines Area Community College; and Bettsey Barhorst, President, Hawkeye Community College, Waterloo. The presidents reviewed the impact of the mid-year reduction of 2.5% in State Aid to community colleges.
 - Board of Regents – Greg Nichols, Executive Director, summarized the impact of the 2.5% budget reduction on the Regents Institutions. Mr. Nichols stated the Board of Regents members would like to meet with legislators as to the future of higher education funding.
- **Update from the Tobacco Settlement Authority** – Stephanie Devin, Treasurer of State’s Office; and Jeanne Vanda, Public Financial Management; reviewed recent changes in tobacco settlement residual payments to Iowa as a result of the downgrade of R. J. Reynolds to below investment grade status.
- **State of Iowa Tax and Revenue Anticipation Note (TRANS) Issuance for FY 2004** – Stephanie Devin, Treasurer of State’s Office; and Jeanne Vanda, Public Financial Management, reviewed the status of the State of Iowa TRANS Note Issuance for FY 2004, including the Standard & Poor’s and Moody ratings on short-term and long-term debt for Iowa.
- **Update on Grow Iowa Value Funds** was presented by Michael Blouin, Director, Department of Economic Development. He reviewed projects that have received funding approved from the Grow Iowa Value Funds and stages of proposed projects and their value to Iowa.
- **An update on the FY 2003 Comprehensive Annual Financial Report (CAFR)** was received by Committee members as a written handout.
- **Progress Report on School District Insurance Pool Study** was presented by Susan Voss, Department of Commerce; and Glen Pelecky, Chairperson of the School Health Insurance Reform Team. They reviewed the responsibilities assigned to the Team, and progress of the study. A draft final report is currently under review by the Team members.
- **Update on the Actuarial Soundness of Retirement Systems:**
 - Iowa Public Employees Retirement System (IPERS) and the Judicial Retirement Fund were presented by Donna Mueller, Chief Executive Officer.
 - Police Officers Retirement System was presented by Pat Beckham, Actuary, and Dean Huhn.

- Municipal Fire and Police Retirement System was reviewed by Dennis Jacobs, Executive Director.
- Judicial Retirement System was reviewed by Peggy Sullivan.
- **Report on the State of Iowa Economy**
 - Ken Stone, Iowa State University, reviewed information on the Iowa Economy.
 - Jeff Robinson, LSA, reviewed an Economic Outlook Document, and Year-to-Date General Fund Net Revenue – Dollar Amount Change Compared to the Previous Fiscal Year.
 - Senator Bolkcom requested information for Fiscal Committee members regarding companies which transfer financial losses into Iowa, resulting in reductions of corporate income tax revenues.
- **Governor's Travel Budget** – Elisabeth Buck, Governor's Office, reviewed the Governor's travel expenditures for this fiscal year.
- **Summary of FY 2005 Departmental Budget Requests** – Dave Reynolds, LSA, presented a brief summary of the FY 2005 Department Budget Requests. A more detailed analysis of the request is available on the Fiscal Services Division web site.
- **State Indebtedness Report** was reviewed by Dave Reynolds, LSA.
- **Section 8.39 Code of Iowa FY 2004 Appropriation Transfers** were presented by Dave Reynolds, LSA. The transfers included:
 - Department of Human Rights - \$12,862
 - Department of Public Health - \$304,566
 - College Aid Commission - \$245,000
- **Update of FY 2004 Medicaid Costs and Projections** were reviewed by Jennifer Vermeer, LSA.
- **Update of FY 2004 Healthy and Well Kids in Iowa (*hawk-i*) Program Costs** were presented by Jennifer Vermeer, LSA.
- **Reinvent Government Progress Report** was presented by Sue Lerdal, LSA.
- Motion by Senator Bolkcom to adjourn the meeting at 3:55 p.m. The motion was seconded by Senator Shull, and passed unanimously.

**Attachments for Legislative Fiscal Committee Meeting
December 17, 2003**

- Attachment A – Minutes of the October 17, 2003, meeting
- Attachment B – Projected Condition of the General Fund for FY 2004
- Attachment C – Update on FY 2005 Built-in Increases and Decreases
- Attachment D – Other Fund Balance Sheets for FY 2004
 - Endowment for Iowa's Health Account
 - Restricted Capital Fund
 - Rebuild Iowa Infrastructure Fund
 - Environment First Fund
 - Healthy Iowans Tobacco Trust
 - Senior Living Trust Fund
- Attachment D.1 – Update on the FY 2003 Comprehensive Annual Financial Report Attachment E – Update from the Tobacco Settlement
- Attachment F – State of Iowa TRANS Note Issuance for FY 2004
- Attachment G – Iowa Public Employees Retirement System and the Judicial Retirement Fund
- Attachment H – Police Officers Retirement System
- Attachment I – Municipal Fire & Police Retirement System
- Attachment J – Judicial Retirement System
- Attachment L – Economic Outlook
- Attachment M – Year-to-Date General Fund Net Revenue-Compared to Previous Fiscal Year
- Attachment N – Status of the Grow Iowa Values Program
- Attachment O – Department of Public Safety Travel expense for Governor Vilsack
- Attachment P – Department of Economic Development Travel Costs related to trips by Governor Vilsack
 - Attachment P.1 – Governor's Travel, January 2003 – November 2003
- Attachment Q – Summary of FY 2005 Departmental Budget Requests
- Attachment R – Net Tax-Supported Debt
- Attachment S – Appropriation Transfer – Department of Human Rights
- Attachment T – Appropriation Transfer – Department of Public Health
- Attachment T.1 – Appropriation Transfer – Department of Public Safety
- Attachment U – Update of FY 2004 Medicaid Costs and Projections
- Attachment V – Update of FY 2004 *hawk-i* Program Costs
- Attachment W – Reinvent Government Progress Report
- Attachment 1 – Community Colleges' Response to 2.5% Across-the-Board Reduction
- Attachment 2 – Regents Response to 2.5% Across-the-Board Budget Reduction
- Attachment 3 – Appropriation Transfer – College Aid Commission
- Attachment 4 – Revenue Estimating Conference Report – December 8, 2003
- Attachment 5 – 2003 Across-the-Board Cuts to Education – Quick Facts
- Attachment 6 – Summary of Reductions by four school superintendents
- Attachment 7 – Iowa's rating by Standard & Poors and Moody's Investor Services
- Attachment 8 – Iowa Values Fund Review
- Attachment 9 – School Health Insurance Interim Study
- Attachment 10 – Updated Information on Iowa Public Employees Retirement System.
- Attachment 11 – State of Iowa Economy

Attachment 12 – Updated FY 2004 Medicaid & DHS Medicaid Leveraging and Cost Containment Initiatives.

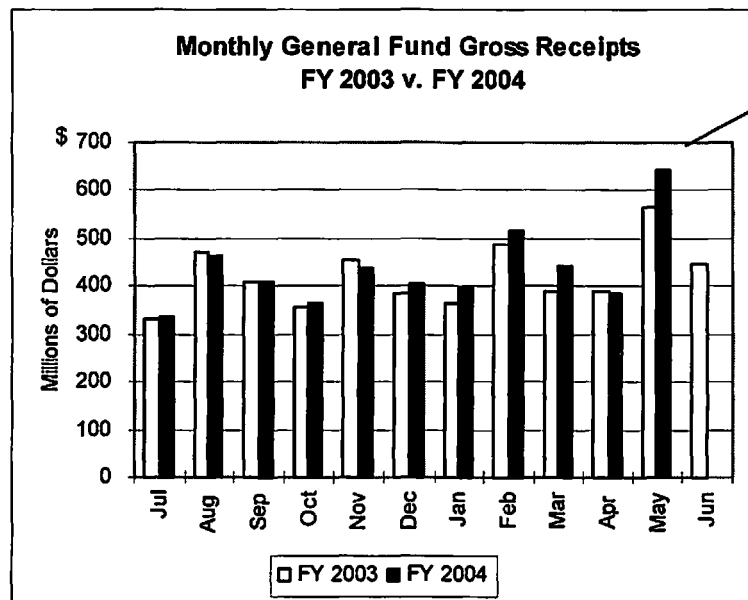
Attachments provided to the Committee for information:

- Foster Care/Adoption Subsidy
- Child/Family Services Monthly Report
- Certification of Savings – PSG
- Reinvention Update
- Impact of 2.5% ATB Reduction
- Charter Agencies Quarterly Report
- Required Reports by the General Assembly in 2003 Legislative Session Laws
- Monthly Military Pay Differential Report
- Update on National Highway Traffic Safety Funding for the Department of Public Safety

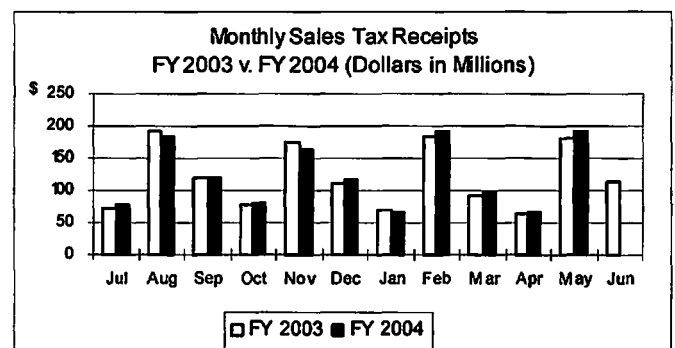
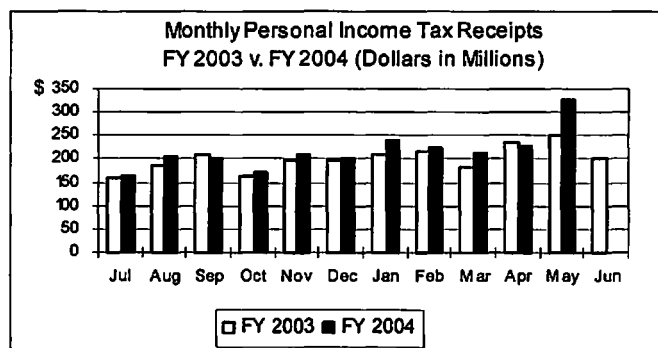
General Fund Receipts through May 31, 2004 (Dollars in Millions)

	Through May FY 2004	Through May FY 2003	\$ change	% change in growth
Gross Revenues (excl. transfers)	\$ 4,793.0	\$ 4,600.7	\$ 192.3	4.2%

	Mar. '04 REC Estimate FY 2004	Actual FY 2003	\$ change	Projected % change in growth
Gross Revenues (excl. transfers)	\$ 5,139.2	\$ 5,046.7	\$ 92.5	1.8%



**Growth of 13.9%
comparing May 2004
to May 2003. Largest
category of increase is
Personal Income Tax.**



The attached spreadsheet presents year-to-date FY 2004 General Fund receipts, with comparable figures for actual FY 2003. The figures can be compared to the FY 2004 estimate of \$5.139 billion set by the Revenue Estimating Conference (REC) on March 19, 2004.

A date for the next REC meeting has not been set.

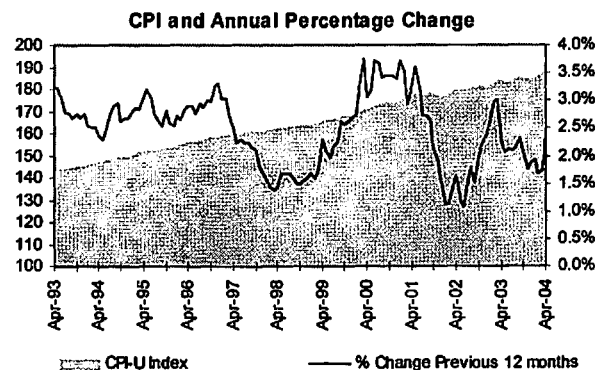
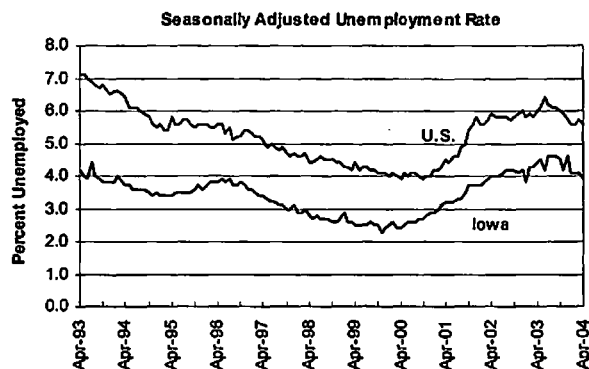
Status of the Economy

The April seasonally adjusted Iowa civilian unemployment rate was 3.9%, 0.2% lower than the March level and 0.5% lower than one year ago. Iowa's total adjusted April 2004 employment registered at 1,556,400, up 10,000 (0.6%) from last year's April level.

The number of unemployed persons in Iowa was reported at 62,800 in April, a decrease of 9,200 compared to April 2003.

The U.S. unemployment rate for April 2004 was 5.6%, 1.4 percentage points above the Iowa rate. The U.S. rate one year ago was 6.0%.

Consumer prices increased 0.3% during the month of April (not seasonally adjusted). The Consumer Price Index (CPI-U) through April 2004 was 188.0 (1983/84=100), 2.3% higher than one year ago. The following charts illustrate Consumer Price Index and U.S./Iowa unemployment comparisons through April.



Information related to State General Fund receipts is available on the Fiscal Services Division's web site at: <http://staffweb.legis.state.ia.us/lfb/revdebt.htm>.

GENERAL FUND RECEIPTS - FY 2003 vs. FY 2004 July 1 through May 31, in millions of dollars Dollars may not add due to rounding					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars FY 03 Actual Compared to FY 04 REC Estimate		
	FY 2003	FY 2004	Year to Date % CHANGE	May % CHANGE	Actual FY 2003	Estimate FY 2004	Projected % CHANGE
Personal Income Tax	\$ 2,215.5	\$ 2,388.7	7.8%	30.6%	\$ 2,417.6	\$ 2,534.0	4.8%
Sales Tax	1,337.2	1,352.9	1.2%	6.2%	1,450.3	1,437.3	-0.9%
Use Tax	239.0	252.4	5.6%	4.4%	254.2	266.9	5.0%
Corporate Income Tax	206.9	195.5	-5.5%	-9.3%	237.0	194.3	-18.0%
Inheritance Tax	81.0	72.5	-10.5%	-12.3%	88.1	76.7	-12.9%
Insurance Premium Tax	98.5	89.8	-8.8%	-25.6%	142.2	136.6	-3.9%
Cigarette Tax	79.3	78.3	-1.3%	-4.2%	88.1	86.3	-2.0%
Tobacco Tax	6.8	7.3	7.4%	-21.6%	7.4	7.9	6.8%
Beer Tax	12.6	12.7	0.8%	2.4%	13.9	14.0	0.7%
Franchise Tax	30.6	31.4	2.6%	-12.9%	35.3	40.6	15.0%
Miscellaneous Tax	3.6	1.7	-52.8%	-130.7%	1.1	1.5	36.4%
 Total Special Taxes	 \$ 4,311.0	 \$ 4,483.2	 4.0%	 13.7%	 \$ 4,735.2	 \$ 4,796.1	 1.3%
 Institutional Payments	 15.3	 11.9	 -22.2%	 -2.5%	 16.2	 14.7	 -9.3%
Liquor Transfers - Profits	36.5	42.5	16.4%	42.9%	40.0	45.0	12.5%
Liquor Transfers - 7% Revenues	8.3	8.3	0.0%	0.0%	9.0	9.0	0.0%
Interest	17.4	6.8	-60.9%	-45.3%	18.1	10.0	-44.8%
Fees	64.7	75.6	16.8%	20.4%	72.1	66.5	-7.8%
Judicial Revenue	49.0	51.7	5.5%	13.3%	54.7	57.3	4.8%
Miscellaneous Receipts	38.5	53.0	37.7%	19.7%	41.4	80.6	94.7%
Racing and Gaming Receipts	60.0	60.0	0.0%	0.0%	60.0	60.0	0.0%
 TOTAL GROSS RECEIPTS	 \$ 4,600.7	 \$ 4,793.0	 4.2%	 13.9%	 \$ 5,046.7	 \$ 5,139.2	 1.8%