

MINUTES
LEGISLATIVE FISCAL COMMITTEE
of the LEGISLATIVE COUNCIL
December 6, 2000

The Legislative Fiscal Committee of the Legislative Council met December 6, 2000, in the Speaker's Conference Room, State Capitol Building, Des Moines, Iowa. Co-chairperson, Representative Dave Millage, called the meeting to order at 10:07 a.m. Other members present were:

Senator Gene Maddox
(designee for Senator JoAnn Johnson)
Representative Libby Jacobs
Representative Pat Murphy
Representative Don Shoultz
Representative Carmine Boal
(designee for Representative Jamie Van Fossen)

REVENUE UPDATE

Dennis Prouty, Director, Legislative Fiscal Bureau (LFB), presented a revenue update. The Revenue Estimating Conference will be meeting December 8. Receipts for the first five months of FY 2001 are \$2.0 billion or a 1.7% increase over FY 2000.

Attachment 1 is a projected condition of the General Fund using the revenue estimate made in October 2000 by the REC. There is an estimated \$139.1 million carried over from the Economic Emergency Fund. The \$4,872.9 million is the current FY 2001 money appropriated by the Legislature last year before they adjourned. The built-ins and anticipated changes for FY 2002 are \$184.5 million. The estimated ending balance will be \$109.6 million if all assumptions come true.

Glen Dickinson, LFB, reviewed **Attachment 2**, Salaries and Collective Bargaining. He reviewed the framework and timeline for the bargaining process with the unions representing State employees. **Attachment 2** included a summary of the opening offers of the various collective bargaining units and the State's response. For each 1.0% increase in salaries for State employees, it costs the General Fund approximately \$10.0 million.

Representative Millage asked for an estimated cost for the annualization of the step increases, last year's health insurance and this year's health insurance. Mr. Dickinson responded that he did not have that information with him, but would provide it.

SECTION 8.39 APPROPRIATIONS TRANSFERS

Christina Schaefer, LFB, presented an *Issue Review*, "Section 8.39 Appropriations Transfers," (**Attachment B**). The *Issue Review* provided an update on the Section 8.39, Code of Iowa, transfers made by State Agencies from FY 1995 – FY 2000 and detailed transfers made during FY 2000. Also included was an overview of other states' appropriation transfer procedures.

SUMMARY REPORT ON STATE INDEBTEDNESS

Dave Reynolds, LFB, reviewed **Attachment C**, a Summary Report on State Indebtedness as of June 30, 2000.

Based on information collected, the total outstanding debt as of June 30, 2000, was \$2.335 billion. This included debt incurred by all State agencies and authorities affiliated with the State. Of the total outstanding debt, 59.9% is principal and 40.1% is interest. The Iowa Finance Authority and the Board of Regents together comprise 79.8% of the total State debt.

Of the total State debt, \$354.3 million (15.2%) is considered a liability of the State. The debt from all entities is scheduled to be retired by FY 2031, whereas the State liability debt will be retired by FY 2016.

Of the total \$2.157 billion of bond debt, \$246.7 million (11.4%) is considered a liability of the State. All of the \$99.8 million of current certificate of participation debt is considered a liability of the State. The total debt from other financing arrangements is \$77.7 million. Of this, \$7.8 million (10.0%) is considered a State liability.

Representative Millage asked if the Vision Iowa debt was included and if it would be considered a State liability. Mr. Reynolds responded that it would likely be considered a statewide liability. Representative Millage asked if the Vision Iowa Fund includes both the \$300.0 million for projects and the \$50.0 million for schools. Mr. Reynolds answered yes.

TOBACCO SECURITIZATION UPDATE

Beth Lenstra, LFB, presented an update on the Tobacco Securitization Issue (**Attachment D**). The Tobacco Settlement Authority hired the Ahlers Law Firm, in cooperation with Hawkins, Delafield, & Wood, as special counsel. The Authority also hired the Dorsey and Whitney Law Firm for its expertise in the area of Iowa's legislation and investment options. The law firms will be compensated only if Iowa's tobacco settlement is securitized.

Ms. Lenstra reviewed a variety of risks involved with the Master Settlement Agreement between the states and the tobacco companies, and options for the tobacco settlement payments.

Representative Millage asked if the law firms were paid hourly or on a contingent basis and, if contingent, what is their percentage. Ms. Lenstra responded on a contingent basis, the rate was not discussed.

Representative Millage stated he is concerned that there is a contingent fee arrangement that will carve several million dollars off of the settlement.

Representative Millage asked what the anticipated tobacco receipts are for next year. Ms. Lenstra responded approximately \$55.0 million, the same as last year. Representative Millage asked if any of the tobacco companies have considered taking bankruptcy. Ms. Lenstra answered none of the companies are expected to file for bankruptcy.

FEDERAL FUNDS UPDATE

Phil Buchan, Director, Office for State Federal Relations in Washington, D.C., presented an update on Federal Funds, (**Attachment 3**). He reviewed various bills and issues that concern Iowa residents. These included the Medicaid Upper Payment Limit and the Iowa Senior Living Trust; State Children's Health Insurance Program (S-CHIP); Synar Cuts in State Substance Abuse Block Grant funding; and the Labor, Health and Human Services, Education Appropriations Bill (LHHS Bill).

Doug Wulf, LFB, reviewed **Attachment 4**, Federal Funding Issues. Current estimates are that the State of Iowa will receive approximately \$2.674 billion in federal funding for FY 2001, with the Department of Human Services receiving the largest amount (54.8%).

SALARY ADJUSTMENT/INSURANCE RESERVES

Ron Robinson, LFB, presented the impact of the shortfall in FY 2001 for salary adjustments and insurance reserves. He reviewed **Attachment 5**, the Health Insurance and Salary Adjustment Shortages for FY 2001, and **Attachment 6**, a memo from the Department of Transportation (DOT), regarding the health insurance premium costs.

Two items not addressed in this **Attachment** are the DOT receipts and FY 2001 salary appropriations act from the Road Use Tax Fund. The Department of Management (DOM) refused to distribute the appropriation to the DOT so that the distribution would be equivalent to what all agencies faced. The second item is the salary adjustment for tuition-funded vacant positions to the Board of Regents.

Representative Jacobs stated that some departments have great detail explaining how they are going to adjust their budgets, while others are very evasive. She asked if specifics are available showing exactly what they have done, and what they plan on doing. Mr.

Robinson responded that would require a line-item comparison with the original budgets and changes made at the end of the year.

Representative Jacobs stated that each department could be asked to tell the appropriations subcommittee members where the adjustments were made at the time they make their budget requests for next year.

Frank Stork, Executive Director, Board of Regents; and Pam Elliot, Regents Board Office; were available to respond to questions concerning the impact on the budgets for the Regents Institutions (**Attachment E**). Mr. Stork stated the Regents were having to use more tuition money for salary and benefits than intended.

APPROVAL OF MINUTES

Representative Jacobs made a motion to approve the minutes of the Legislative Fiscal Committee meeting held November 15, 2000, (**Attachment A**). The minutes were approved.

MEDICAID ENHANCED CLAIMING

As a follow-up from the November 15 meeting, the Request for Proposal on Medicaid Enhanced Claiming was discussed (**Attachment F**). Randy Bauer, Budget Director, Department of Management; Karla McHenry, Department of Human Services (DHS); and Stacey Cyphert, Assistant Director of Statewide Health Services, University of Iowa Hospitals and Clinics (UIHC); were present to respond to questions.

Karla McHenry, DHS, reviewed **Attachment F**, Enhanced Medicaid Claiming. Stacy Cyphert, UIHC; served as a resource person to the State agencies on this project. Representative Millage asked when they were first contacted by the Department of Management (DOM) about enhancing these Medicaid funds. Mr. Cyphert responded the first meeting was in January 2000.

Representative Millage asked who was responsible for estimating the amount of money to be realized with these advanced collections? Ms. McHenry responded the estimate was prepared by the consultant.

Representative Millage asked why the Governor included \$4.0 million in the FY 2000 budget when the Request for Proposal (RFP) has just been issued 11 months later, and why the delay. Ms. McHenry responded the Department of Human Services (DHS) was contacted on June 5 to prepare an RFP and the University of Iowa was contacted the first part of July.

Representative Millage asked Randy Bauer, DOM, for the same information. Mr. Bauer answered the estimates were on a five-year basis. No recommendations were prepared for an appropriations package. The \$4.0 million estimate was not believed to be a significant difference in the overall picture.

Representative Millage asked why would you tell the Legislature this is going to generate \$4.0 million when we rely upon your information for the appropriations bill and you don't get an RFP underway until 11 months later. Mr. Bauer responded the plan was to issue the RFP and have until the end of the fiscal year to get legal approval. Sometimes projects take longer to get off the ground and to determine how they work than anticipated.

Representative Millage asked if the Revenue Estimating Conference (REC) has included this in their FY 2001 estimate. Mr. Bauer answered yes.

Representative Millage asked who is responsible for the delay in issuing the RFP. Mr. Bauer responded there was probably some miscommunication before the project was underway between DOM and DHS, and the legislation does not specify who the agent for the State should be.

Representative Millage asked the cost for the consultant who came up with this plan. Mr. Bauer stated a consultant was not paid. Representative Millage asked Mr. Bauer how do you respond to the University's statement that they try to look for every way possible to obtain this money and the representative doesn't seem very confident that there is \$12.0 million available. Mr. Bauer answered this particular consultant has done work in other states, and hospital systems in recouping these resources. We issued our RFP and those estimates are accurate.

Representative Jacobs asked who has overall responsibility for this project. Mr. Bauer responded the DHS people. Representative Jacobs asked who do we look to at the end of this fiscal year to find out if these were met, DHS or DOM. Mr. Bauer stated DOM.

GOVERNOR'S BUDGET PRIORITY HEARINGS

A discussion was held regarding the FY 2000 costs and projected FY 2001 costs for the Governor's Budget Priority Hearings. This was a follow-up from the November 15 meeting. Elisabeth Buck, Governor's Office, explained the statewide budget priority hearings are more than public hearings, they are for enterprise-wide outreach.

Representative Millage asked if the agencies were told in December 1999, that they would be billed for these public hearings. Ms. Buck answered yes. Representative Millage asked why were they not billed until July. Ms. Buck responded she didn't know, but would find out.

Representative Millage asked if money for the Governor's office for these budget hearings was included in his budget request. Ms. Buck answered no. Representative Millage asked why there was not a decision package for the Legislature to consider and why it was not included in the budget request for the Governor's Office, He also asked why didn't the agencies include in their requests last year a line-item for this expense.

Ms. Buck responded we thought the enterprise-wide outreach would pool all the resources.

Representative Jacobs asked what the total cost of this enterprise is. Ms. Buck stated it is \$34,950 based on the operating budget.

Representative Jacobs asked if this was done on a percentage basis and if so, how are the percentages determined. Mr. Bauer stated the operational budget for the intended budget year was the basis, using each line item and applying the percentage for the \$35,000. Some small agencies were not included because the amounts were so small, that it was more of an administrative problem than the funds involved. This information was given to each individual department manager showing their amounts and how it was calculated.

Representative Jacobs asked where is this line item in the department budgets. Mr. Bauer answered it is in the operational budget, not usually split out as the amount is very small compared to the overall budget.

INTERAGENCY BILLINGS

Christina Schaefer, LFB, presented an *Issue Review*, "Interagency Billings" (Attachment 7).

In addition to providing services to the citizens of Iowa, State agencies provide services to other State agencies. Many of these services are funded through a direct appropriation to the service-providing agency; others are funded through a form of repayment from the service-receiving agency. The authority for interdepartmental billing is established through various measures.

The approach to funding services by administrative agencies has varied as there is a lack of uniformity regarding how the services are funded, how payments are classified in the budget system, and the amount of billings each year. The lack of uniformity presents concerns.

Ms. Schaefer reviewed background information, the current situation, alternatives, and the budget impact.

Representative Millage expressed concern that it appears departments are spending approximately \$66.0 million to bill one another for services plus it has to cost something to keep track of that \$66.0 million. Mr. Prouty explained that some interagency billing was implemented as a means to draw federal funds for programs.

EDUCATION FUNDING PER PUPIL

Mary Shipman, LFB, presented information on Education Funding Per Pupil (Attachment G). This does not include infrastructure but does include federal funding.

TEACHER RECRUITMENT AND RETENTION INCENTIVES

Robin Madison and Mary Shipman, LFB, reviewed teacher recruitment and retention incentives. (**Attachments H and I**)

Ms. Madison reviewed **Attachment H**, a memo on Teacher Recruitment and Retention Incentives.

Ms. Shipman reviewed **Attachment I**, a memo on Teacher Education Graduate Information, including a 1997-98 Institutional Survey of Teacher Education Graduates from Public and Private Institutions in Iowa.

Representative Murphy asked if certification standards are tougher in Iowa. Ms. Shipman responded that Iowa's standards are much higher than many states.

DECLINING ENROLLMENTS AND BUDGET GUARANTEE

Shawn Snyder, LFB, presented an *Issue Review*, "Declining Enrollments and Budget Guarantee". (**Attachment J**). The *Issue Review* examined the trend of enrollments of individual school districts and provided a brief history of the budget guarantee. It also provided background information, the current situation, and alternatives and budget impact. The *Issue Review* provided information for Budget Guarantee Comparisons for schools, district by district, enrollment changes by school district 1996-2000, and the FY 2002 Budget Guarantee alternatives.

LUNCH BREAK

The Committee recessed at 12:15 pm for lunch. Representative Millage reconvened the meeting at 1:10 p.m.

SENIOR LIVING PROGRAM

Deb Anderson, LFB, reviewed an *Issue Review*, "Senior Living Program" (**Attachment K**). The *Issue Review* provided an overview of Iowa's Senior Living Program and acuity-based nursing facility reimbursement. It provided background information, including the reimbursement methodology utilized for the Medicare rate for Medicaid reimbursed nursing services. It also reviewed the current situation, and the budget impact.

IOWA AGRICULTURAL FINANCE CORPORATION

Duane Acker, Board Chairman; Leslie Miller, Treasurer; Steve Morain, Secretary; and Bill Horan, Board Member; Iowa Agricultural Finance Corporation (IAFC), were present. Duane Acker reviewed **Attachment L**. Included in this information was a review of the IAFC's accomplishments, IAFC's tecTERRA Food Capital Fund. The IAFC's report on corporate governance and professionals, accomplishments, investments to date, producer

involvement, public purpose pursuit, market development, income, State's security of loan payment and a summary were reviewed.

Attachment L also provided responses to questions submitted earlier to IAFC by Fiscal Committee members.

Board members Leslie Miller, Bill Horn, and Steve Morain, shared their views from personal experiences in their professions, relating to the functions and purpose of the IAFC.

ADVANCED RESEARCH AND COMMERCIALIZATION PROGRAM (ARC)

Bob Henningsen, Division Administrator, Business Development Division, Department of Economic Development; presented **Attachment M**, Advanced Research and Commercialization Program (ARC).

The ARC Program was passed during the 1999 Legislative Session with \$4.0 million appropriated annually for FY 2000 and FY 2001. Investments are to be made in projects involving value-added agriculture, biotechnology, and advanced technology. Mr. Henningsen provided a summary of the Program and reviewed some projects that have received funding from the ARC Program.

Representative Millage stated one of the fears of the Program is that it would be a program funded for university type projects. He asked if geographical diversity is a part of this Program. Mr. Henningsen responded it was a part of the Program.

Representative Millage expressed concern that geographical diversity is disregarded. He asked how do we know if these projects would have progressed without this Program. University research parks have been very successful in driving economic development before this Program was implemented. Mr. Henningsen responded you never know precisely whether these projects will move forward without these programs.

COORDINATION OF BUSINESS/INCENTIVE/TRAINING PROGRAMS

Dwayne Ferguson, LFB, reviewed **Attachment 10**, a memo regarding an Evaluation of Coordination of Economic Development Programs.

This Committee had expressed an interest in obtaining an outside critique of the coordination of the State's economic development business incentive and training programs. The evaluation would be performed by an individual or organization not employed by the Legislative Branch or the Department of Economic Development. Mr. Ferguson reviewed some options available and the process to accomplish this.

The cost is driven by two elements, the scope of research project, and the budget. The more groups involved and the more questions asked, the more costlier the project.

For private research program companies to do this project, the estimated cost is \$200,000. Committee members discussed options and types of audits by various groups or organizations.

Representative Millage commented that one of the first things he wants this Committee to do next year (if he is chair) is to get a handle on this. The Legislative Council did give this Committee authority to hire outside consultants as long as both caucuses of both houses agree. It would be appropriate to do it early next interim.

TERRACE HILL

Dave Cordes, Terrace Hill Administrator; and Bob Helmick, Chairperson of the Terrace Hill Commission; were present to discuss questions on the recent garage construction at Terrace Hill (**Attachment N**).

They reviewed the Terrace Hill Capital Campaign for restoration, education, operations, and endowment. Funds have been a combination of private and public funds. The total project is estimated to cost \$5,680,500 with a goal of 50% of the funds from private contributions and 50% from public funds.

Mr. Helmick explained the grounds original programming was initiated in 1997 and is included in Phase 3 and 4. He reviewed the various phases on restoration. The garage is in Phase 3 and approximately \$780,000 short of the financial goal. The State is providing 75% of the funds, at a total cost of approximately \$358,000 for a five-stall, earthen-covered and landscaped garage.

Mr. Cordes emphasized that the real cost associated with the garage was not related to amenities or frills but related to make it fit into the historic environment.

DEPARTMENT OF TRANSPORTATION REST AREA CONSTRUCTION

Mark Masteller, Chief Landscape Architect, Department of Transportation, was present to discuss rest area construction along the interstates in Iowa. There are 39 interstate rest areas on the system, originally built in the mid to late 1960s. Some have been rebuilt or relocated four or five times.

Representative Millage commented that the new buildings at rest areas appear to be much larger than the older ones and asked why this change. Mr. Masteller explained that by combining features of several buildings on the complex into one, the maintenance costs would be less. One of the features of this change is that restrooms are not totally closed for repairs or cleaning. These buildings have been designed to meet twenty-five-year

projections for traffic and usage. The cost of these buildings range between \$650,000 and \$1.0 million.

Representative Murphy asked if the Department of the Blind still operates the vending machines. Mr. Masteller responded, yes, a federal law requires the State name a beneficial agency to receive those revenues and in Iowa that is the Department of the Blind.

ADJOURNMENT

Representative Jacobs made a motion to adjourn the meeting at 2:40 p.m.