

MINUTES
LEGISLATIVE FISCAL COMMITTEE
OF THE LEGISLATIVE COUNCIL
July 24, 2001

The Legislative Fiscal Committee of the Legislative Council met July 24, 2001, in Room 116 of the State Capitol. Co-chairperson, Representative Dave Millage, called the meeting to order at 10:07 a.m. Other members present were:

Senator Jeff Lamberti, Co-chairperson
Senator Tom Flynn
Senator Pat Harper
Senator Larry McKibben
Representative Pat Murphy
Representative Don Shultz
Representative James Van Fossen

Representative Grundberg attended the afternoon session of the meeting.

APPROVAL OF MINUTES

Senator McKibben made a motion to approve the minutes of the joint meeting of the Legislative Fiscal Committee and Oversight Committee held June 25, 2001, (**Attachment A**). The minutes were approved.

REVENUE UPDATE

Dennis Prouty, Director, Legislative Fiscal Bureau (LFB), presented a revenue update. Revenue receipts for FY 2001 showed a 0.4% increase, falling short of the Revenue Estimating Conference (REC) estimate of 0.7%. Under the 0.7% estimate, the ending balance would have been \$8.9 million on June 30. The receipts were \$16.5 million less than the REC had estimated, with several adjustments to be made in the next two months.

July receipts on a day-to-day basis have varied from 75.0% positive compared to last year to a negative 8.0% compared to last year.

Representative Millage asked, given the shortfall of approximately \$16.0 million and the \$17.0 million Medicaid deficit, are any reversions to the General Fund anticipated. Mr. Prouty responded the transfer for the Medicaid deficit consisted of \$4.0 million from the General Fund and the remainder from the Senior Living Trust Fund.

Representative Millage asked if a balance sheet was available for the fiscal year end. Mr. Prouty answered, no, because of pending reversions and refunds. Representative Millage

requested a balance sheet be available at the Fiscal Committee meeting in August for FY 2001 and FY 2002.

Representative Shultz asked if any of the tax cuts have spurred growth recently to increase revenue coming into the State. Mr. Prouty stated that was the theory, but with the general downturn of the economy, most states are facing the same situation as Iowa. There is no specific way to measure tax cuts and the effect on the economy.

APPROPRIATIONS TRANSFERS

Holly Lyons, LFB, reviewed three notices of proposed transfers of funds under Section 8.39, Code of Iowa, that have been received by the LFB since the last Committee meeting (**Attachment B**).

- Transfer not to exceed \$25,000 from the Department of Economic Development to Iowa Public Employment Relations Board.
- Transfer not to exceed \$9,700 from the Department of Revenue & Finance, Internal Resource Management to Department of Revenue & Finance, Cigarette Stamp Printing.
- Transfer not to exceed \$22,800 from the Governor's Office, State-Federal Relations to the Governor's Office, General Office (\$20,000) and the Governor's Office, National Governor's Assoc. Dues (\$2,800).

MEDICAL ASSISTANCE

Cathy Anderson and Jan Clausen, Department of Human Services (DHS), reviewed the proposed \$19.9 million Code of Iowa, Section 8.39, transfer to the Medical Assistance Program from other appropriations in the Department (**Attachment C**).

Representative Millage stated the Senior Living Trust Fund does not come from the General Fund and asked how Senior Living Trust Fund receipts, funded by federal dollars, can be transferred to a General Fund shortfall. Ms. Anderson explained that once the money is received by the State it goes into the General Fund and is no longer considered federal funds. She also stated the DHS made a commitment to contribute \$80.0 million to the Senior Living Trust Fund over a four-year period, and that commitment will stand.

Representative Millage asked who is responsible for developing the estimate on drug rebates. A \$10.0 million increase in drug rebates was budgeted, yet, rebates are down. Ms. Anderson responded the estimate is done in cooperation with the fiscal agent in the DHS (**Attachment 1**).

Ms. Clausen clarified the transfer process from the Senior Living Trust. The funds are being transferred from the Senior Living Nursing Facility Fund to the Senior Living Medical Assistance Program, not to the General Fund.

Representative Millage stated that Dennis Headlee was the DHS Medicaid Administrator, and was scheduled to appear before this Committee today, but he resigned on Friday, why did he leave. Ms. Anderson explained that it was Mr. Headlee's decision to resign.

Representative Millage asked why the deficit increased from \$3.9 million in April to \$17.0 million today. Ms. Anderson responded there has been a steady increase in eligible persons and increased use of health care services provided by Medicaid. This normally levels off during the year but continued to increase in FY 2001.

Representative Millage asked why this deficit was not presented to the Legislature during the Special Session on June 20, and why Legislators were not told of the problem. Ms. Clausen stated the amount of the deficit was not known at that time. Representative Millage asked when the actual deficit amount would be known. Ms. Anderson responded probably at the end of August. Representative Millage expressed concern that this matter was not presented to the Legislature during the Special Session.

Representative Millage asked how many Medicaid recipients are in managed care. Ms. Clausen responded there are approximately 53,600 recipients in HMOs and approximately 194,000 recipients under the Iowa Plan.

Representative Millage asked if Medicaid would be under budget for FY 2002. Ms. Clausen responded that it is unknown what the trend will be for eligible persons. Representative Millage requested information on the projected deficit for FY 2002 be available at the next Fiscal Committee meeting. He also requested that a representative from the Governor's Office be present with information regarding a possible request for a supplemental appropriation for Medicaid.

Representative Millage asked LFB staff what impact this transfer will have on the Senior Living Program. Sue Lerdal, LFB, stated that FY 2003 appropriation would need to be increased from \$20.0 million to \$35.0 million.

Senator Harper asked if the money allocated to the State Children's Health Insurance Program (SCHIP) has been used in other areas. Ms. Clausen answered these funds have never been transferred to other funds.

Representative Millage reminded the Committee that one of their charges is to make recommendations to the Legislature on budgetary matters for the following fiscal year and this may be one area that the Committee needs to make a recommendation. The Committee needs to be told about potential shortfalls in programs so they can deal with them and explore options.

Senator Lamberti asked what is the impact of those agencies losing \$4.0 million in this transfer. Ms. Clausen responded these agencies were able to generate a surplus from their appropriations and the DHS has been very successful in recovery of child support from non-custodial parents.

Representative Millage stated that DHS had recently notified leadership of the Human Services Appropriations Subcommittee that the federal government would be auditing Iowa's Title 4A Program and that the DHS anticipated the State would potentially have to pay back millions of dollars. Apparently during session, the DHS knew this audit was coming, why was the Legislature not informed? Ms. Clausen stated they are doing a national audit of all programs. The DHS did not know the exact date.

Representative Millage asked if the DHS anticipates having to repay the federal government millions of dollars. Ms. Clausen stated the funds referenced were likely funds that had not been drawn. Some children thought to be eligible, were no longer eligible under the new regulations.

REVIEW OF THE FISCAL COMMITTEE STATUTORY CHARGE

Tim Faller, LFB, reviewed **Attachments D & E**. The Auditor has had no citations or decertification notices over the last three years.

On June 11, the Committee had questions and concerns about duties and responsibilities of Fiscal Committee. Specifically Code of Iowa, Section 2.46, deals with notices, citations and decertifications, official notices going to agencies and the requirement of those agencies to report it to the Fiscal Committee and the director of the Legislative Fiscal Bureau.

All State agencies were surveyed. Of those responding, no citations or notices of decertification have been received the last three years. During the past three years, four agencies have received official notices, the Board of Regents, Department of Corrections, Department of Human Services, and the Veterans Home at Marshalltown. A summary of the types of citations received by the agencies was reviewed.

Representative Millage stated the purpose of bringing this before the Committee was the Code of Iowa specifically states the Committee is to be immediately notified if any State facilities have been cited for violations of any federal, state, or federal law regulations. He asked if someone is auditing the contents of these reports. Mr. Faller answered not in the Legislative Branch.

Senator Flynn stated the Committee has the ability to learn but very little ability to act and cautioned the Committee how they want to be portrayed by other agencies and must be careful to not overstep boundaries.

Representative Van Fossen made a motion, seconded by Representative Shoultz, that the Legislative Fiscal Bureau develop a format for agencies/departments to report various code violations to the Committee periodically, but at least quarterly, to the Fiscal Committee. Motion carried.

FIRE MARSHAL – STATE FACILITIES EXAMINED

Fire Marshal George Howe and Fire Prevention Supervisor Jen Worthington, gave a brief presentation on examination of State facilities. Mr. Howe reviewed a handout showing the schedule for inspection of State-owned facilities.

Representative Shoultz asked if there were plans to do a better job and move forward in inspection of State facilities to provide better safety and fire prevention. Ms. Worthington answered there have been definite improvements, particularly in the Department of Corrections. Representative Schoultz asked if employees of the Fire Marshal's Office do a physical visit to facilities when inspecting. Ms. Worthington answered yes.

Representative Shoultz expressed concern on the turnaround time between inspections, correcting citations, and the delay in responding to the corrected citations of nursing home facilities. Mr. Howe stated that his Department is doing better. In April they had a backlog of 231 inspections and now the backlog is 23. They should be current soon and provide better service.

OSHA INSPECTIONS – STATE FACILITIES

Byron Orton, Labor Commissioner, discussed OSHA inspections, in relation to State facilities. Mary Bryant, Administrator of Iowa OSHA, reviewed **Attachment 2**, Public Sector Activity for Calendar Years 2000-2001. Mr. Orton stated the inspections and criteria for the public sector are the same as for the private sector. The State usually has 30 days to correct any deficiencies uncovered by an inspection.

Public sector employer consultation activities are frequently labor intensive and nursing homes are a high-hazard industry.

Senator Harper asked for a comparison of private and public sectors on safety. Mr. Orton stated that when a serious safety problem develops in the public sector, it is normally widespread. Larger employers in private industry usually have resources in house to correct problems for employee safety and health. Smaller employers are not usually equipped to provide this. However, when OSHA is called upon to serve smaller employers and public sector, the law requires preferential treatment for the small employers.

Representative Millage asked if there is a charge for inspections. Mr. Orton answered no, for consultation and education services, a federal grant covers approximately 90% of the costs and prohibits charging for these services.

Representative Millage asked how much funding is received from the federal government. Mr. Orton responded that for consultation it is a 90% federal, 10% state match; for education it is a 50% federal, 50% state match, and for enforcement it is a 50% federal, 50% state match.

LUNCH

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

INFRASTRUCTURE PLANNING PROGRAM

Dean Ibsen, Department of General Services, reviewed the Infrastructure Planning Program (**Attachment 3**). He explained the strategic plan, goals for major and routine maintenance, goals for ADA, monuments, capital projects, the decision-making process for distribution of funds and prioritized list of major maintenance projects. They work with twelve state agencies, maintaining a data-base of 10.8 million square feet supported by General Services.

Mr. Ibsen reviewed major maintenance, the plan to reduce/eliminate major maintenance backlog, and project priorities, project classifications, and routine maintenance, explaining the process for each. This agency is also responsible for making sure the ADA accessibility needs are met.

For FY 2001, the Department of General Services worked on 22 major projects. For FY 2002, requests have been received for 96 projects at a cost of \$46.0 million with the possibility of 23 of the projects being funded and completed. Funds for these projects are allocated to the institutions on the basis of square footage.

General Services also maintains an inventory of 68 monuments statewide and have targeted \$50,000 for maintenance. Mr. Ibsen also reviewed FY 2002 major maintenance top ranked projects.

VISION IOWA PROGRAM UPDATE

Michael Gartner, Vision Iowa Board Member, updated the Committee members on the Vision Iowa Program. He reviewed a handout, "Vision Iowa Board Award Decisions as of 7/24/01".

Grants have been awarded to Dubuque, Council Bluffs, Sioux City, and Des Moines. The Board is in active negotiations with Davenport, soon with Marquette, McGregor, and Waterloo. Negotiations with the City of Waterloo are on hold until the State Auditor completes the audit.

Eleven CAT grants have been awarded this year, ranging from \$42,000 to \$3.2 million. A total of \$8.65 million has been awarded.

Representative Shoultz asked how much had been requested by all projects. Mr. Gartner answered approximately \$1.0 billion, including projects that have been submitted but not completed.

VISION IOWA SCHOOL INFRASTRUCTURE GRANT AWARDS

Milt Wilson, Department of Education, reviewed the process for the infrastructure grant awards (**Attachment F**).

The Legislature appropriated \$50.0 million; \$10.0 million for FY 2001 and \$20.0 million for FY 2002 and FY 2003 each. The FY 2001 appropriation of \$10.0 million was divided among 12 school districts.

Mr. Wilson reviewed criteria considered for schools to qualify for Vision Iowa School Infrastructure Grant Awards. The total program was divided into four categories according to student population in size; small, medium, and large, with the fourth category as a "catchup or makeup area".

The Small School Category is for schools with a student population of 0 to 1,199, and received 46 applications, with total projects of \$90.0 million, requesting \$26.0 million in grant awards, with \$2.5 million awarded to the three schools receiving first year awards.

The Medium School Category is for schools with a student population of 1,200 to 4,749 students, and received 19 applications, with total projects of \$59.0 million, requesting \$13.0 million in grant awards, with \$2.5 million awarded in that category to three schools.

The Large School Category is for schools with a student population of 4,750 students and above, received six applications, with total projects of \$25.0 million. Three schools were funded, receiving \$5.2 million.

The Fourth category, open to all school districts, was ranked according to score without size of school considered. If one of the above schools fell below funding, extra funding was provided from this category and two additional districts were funded.

Representative Millage asked what the local school match requirement was. Mr. Wilson stated that the local match requirement was on a sliding scale, no less than 20% but no more than 50%. It was different for each district, depending upon the capacity of that district to raise funds.

TEACHER COMPENSATION

Ann McCarthy and Milt Wilson, Department of Education, reviewed the teacher compensation update on the rulemaking process.

The Department of Education has developed a web page on this topic providing information and an opportunity for questions to be sent to the Department. Ms. McCarthy reviewed this information, and the rulemaking process to date. The rules will be available in September or October.

Senator Harper asked if any money would be available for persons beyond their second year of teaching. Ms. McCarthy replied 50% is based on enrollment and 50% on teachers. If Option Two is selected, other requirements are involved.

Representative Grundberg asked the status of the appointment of a Legislative Committee that was to be appointed to work with the Department of Education on oversight of this project. Ms. McCarthy stated they were waiting to hear on the Legislative appointments.

Representative Grundberg asked if individual districts have the ability to allocate funds differently. Ms. McCarthy responded the Department does not have specific information at this point.

IOWA STATE UNIVERSITY EXTENSION OFFICE

Stan Johnson, Vice Provost for Iowa State University (ISU) Extension, (**Attachment G**) was present to review the ISU Extension proposed changes to meet the reduced budget of their Agency. Bill Bogue, Assistant to Vice Provost for Finance, was also present.

Mr. Johnson presented background information and explained the change for the 4-H Youth Development Fee: Enhancing Learning for Iowa's Youth. He reviewed the expenses by source of funds for ISU Extension from 1991 through FY 2000 and the ISU Extension Base Budget, State, federal, and county cost-share for FY 2001.

The Extension has received a 6.0% (\$1.6 million) reduction in funding for FY 2002. The Extension staff has distributed a target of \$339,240 for Youth and 4-H. To maintain this quality of service, the Extension Service is going to institute a program development fee of \$20, with \$10 going to the State ISU Extension Service, and \$10 going to the county ISU Extension Office. The fee will be assessed at the county level. Mr. Johnson stated that no child will be denied access to 4-H programs based on his or her ability to pay.

Senator Flynn asked if other Midwestern states have implemented such a program. Mr. Johnson answered yes, eight states charge between \$5 and \$15.

Senator Flynn expressed concern that a \$20 fee becomes prohibitive with some families in his area when there are several children in the family involved. Mr. Johnson responded it is a choice of a lower quality program or fewer people to administer the program. Counties have received guidelines of how to exempt families.

Representative Millage stated that in reviewing the budget information presented, there is a budget crunch. He also questioned the need for a new proposed ISU Extension Building on the ISU Campus. Mr. Johnson stated funding for operations has not been reduced to provide the building. Funds for the building, a total cost of \$4.5 million, are from the 4-H Foundation. All but approximately \$1.0 million has been received by the 4-H Foundation.

TOBACCO SECURITIZATION UPDATE:

Beth Lenstra, LFB, updated the committee on the Tobacco Securitization (**Attachment 4**).

The Tobacco Settlement Authority issued a Request for Proposal for a senior management investment banker. Nine firms were interviewed with *Solomon Smith Barney* selected as the Senior Manager and *Bear Stearns* as the Co-Senior Manager. If securitization occurs, the financial team will be paid from bond proceeds. The tentative timeline projects the securities will be sold in the financial markets during the first week of October.

The Tobacco Settlement Authority Committee consists of the Auditor of State, the State Treasurer, and the Director of the Department of Management.

OTHER BUSINESS:

Attachment H, a summary provided by the Department of Revenue and Finance of the major provision of the federal economic Growth and Tax Relief Reconciliation Act of 2001, was included for informational purposes only.

A copy of a document from Revenue & Finance titled, "Phase 1 Iowa Tax Expenditure Study" was provided to Committee members for informational purposes only.

DATE FOR NEXT MEETING

The tentative date for the next Fiscal Committee meeting is August 29, 2001, at 10:00 a.m. in Room 116 of the State Capitol Building.

Suggested Agenda topics include:

- An Update on the Economic Development Tax Relief
- Department of Management and other agencies to discuss layoff and spending reduction plans
- Revenue Estimating Conference report (will not have reversions available yet)
- Update charge of Fiscal Committee

Senator Harper asked if the Committee should recommend changes in the charge of this Committee. Representative Millage replied that it is out of date but would be a Legislative Council issue.

Representative Millage stated that at the December meeting tentatively plan are to formulate some recommendations to the Legislature from this Committee, one being the Medicaid shortfall.

Representative Van Fossen asked who administers the Senior Living Trust Fund on the federal level, if there is someone the Committee could visit with independent of DHS. Representative Murphy stated HICFA sends the funds.

Representative Millage stated this should be a part of the Medicaid update, to follow up on Senior Living Trust.

ADJOURNMENT

Representative Van Fossen made a motion to adjourn the meeting at 2:45 p.m. The motion carried.