

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

The Legislative Fiscal Committee of the Legislative Council met July 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:

Representative Dave Millage, Co-Chairperson
Senator Tom Flynn
Senator Pat Harper
Senator Larry McKibben
Senator Neal Schuerer
Representative Libby Jacobs
Representative Pat Murphy
Representative Don Shoultz
Representative Jamie Van Fossen

APPROVAL OF MINUTES

Representative Van Fossen made a motion to approve the minutes of the Legislative Fiscal Committee meeting held July 20, 2002 (**Attachment A**). The minutes were approved.

REVENUE UPDATE

Dennis Prouty, Director, Legislative Fiscal Bureau (LFB), presented a revenue update. He reviewed **Attachments 1, B, C, D, E, F, and G**. **Each of these attachments is for fiscal years 2002-2003.**

- **Attachment 1** shows the General Fund Balance, and the Rebuild Iowa Infrastructure Fund (RIIF). This information was requested to reflect the Supreme Court decision on gambling revenue. Due to the Supreme Court decision, the \$38.7 million will not be going to the RIIF account from gambling receipts. The Supreme Court decision will cost an estimated \$38.7 million since the three race tracks were being charged at an unequal tax rate in comparison to the riverboats.

Representative Millage stated that the decision is not final as the Supreme Court has been asked to review the case. If the Supreme Court reverses the decision,

what will happen to the revenue that has been lost. Mr. Prouty responded it would depend upon what the decision is.

- **Attachment B** shows the Flow of General Fund Revenues after Expenditure Limitation. Mr. Prouty stated that receipts vary a great deal in July and August, and are now 16% to 20% ahead of last year. The lowering of the stock market has not been reflected in the receipts at this time.
- Dave Reynolds, LFB, noted that each of the following balance sheets will be revised for interest rate estimates in the near future and the new projections reviewed based on new estimated rates for FY 2003.
- **Attachment C** is the Tobacco Settlement Trust Fund – Endowment for Iowa’s Health Account was presented by Dave Reynolds, LFB. The ending balance for FY 2003 is projected to be \$28 million.
- **Attachment D** is the Tobacco Settlement Trust Fund, Restricted Capital Fund. The estimated FY 2003 ending balance is \$272 million in one-time money that has to be spent by FY 2007.
- **Attachment E** is the Healthy Iowans Tobacco Trust Fund Balance Sheet with an estimated FY 2003 ending balance of \$423.
- **Attachment F** is the Rebuild Iowa Infrastructure Fund (RIIF) Balance Sheet showing an estimated ending balance for FY 2003 of \$374,000 but does not reflect the Supreme Court decision. Gaming receipts are presently coming in higher than estimated and if that continues, it could provide a cushion in this account.
- **Attachment G** is the Environment First Fund Balance Sheet showing funds transferred to the General Fund and appropriations that were adjusted.

Senator Harper asked Mr. Prouty if there is a listing of trust fund totals. Mr. Prouty stated he could get the information, but does not have it today.

Senator Lamberti requested additional information for the next meeting. When the endowment was established upon entering into the securitization, there were estimates as to where the endowment would be over time, and requested a column be added to the spread sheet to track the endowment and where we thought we would be.

APPROPRIATIONS FY 2000, 2001, 2002, 2003 ESTIMATED

Dave Reynolds, LFB, reviewed appropriations for fiscal years 2000, 2001, 2002, and the estimated 2003 (**Attachment 2**). Estimated FY 2003 appropriations are reduced approximately 6.2% compared to FY 2000, FY 2003 appropriations are reduced

approximately 8.6% compared to FY 2001, and estimated FY 2003 compared to FY 2002 is a 3.1% reduction in appropriations.

FULL TIME EMPLOYEE POSITIONS

Dave Reynolds, LFB, presented an update on the full time employee positions (FTEs) for FY 2001, FY 2002 vs. FY 2003 estimated. This includes all FTE positions associated with appropriated funds. Positions authorized were used rather than actual numbers. Those with significant reductions include the Department of Transportation, Courts, and Regents. Full time employees not associated with the State General Fund number approximately 10,000.

hawk-i PROGRAM MONTHLY UPDATE

Sam Leto, LFB, reviewed a monthly update on the *hawk-i* Program (**Attachment H**). This is an analysis of the *hawk-i* Program that was requested by the Committee at the last meeting and shows revenues and expenditures for the Program. Enrollment data included is premium cost per *hawk-i* child, projected average cost per Medicaid expansion child, and actual average cost per Medicaid expansion child.

Cathy Anderson, Department of Human Services, stated that when donations are received, they usually are specified to provide health insurance coverage for a family who would otherwise not be able to pay their health insurance premium. She also stated the information presented is updated monthly.

Representative Murphy requested information on the number of individuals currently enrolled in *hawk-i* but who qualify for Medicaid.

MEDICAID PROGRAM MONTHLY UPDATE

Sam Leto, LFB, presented the monthly update on the Medicaid Program (**Attachment I**). This data included State funds only, showing a detail of Medicaid Revenues and Expenditures.

Representative Jacobs stated that it would be helpful to have the actual number compared to the projected number of enrollees in the Medicaid Program.

FY 2003 AND 2004 PROJECTED SALARY COSTS/FUNDING

Glen Dickinson, LFB, discussed the FY 2003 salary costs and funding and the projected cost of funding the current salary package projected in FY 2004. Funding of \$41.1 million from non-General Fund sources to support the General Fund cost of salary increases was passed by the Legislature.

Other FY 2003 actions included furloughs with an estimated \$33.5 million in savings and Early Out Programs offered. He also reviewed the FY 2004 cost considerations of

annualization costs, and prior year costs. Negotiations on a new collective bargaining agreement will begin this fall.

In the first Early Out Program, 594 employees participated, 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.

PROJECTED DEFICIT PER SUPREME COURT RULING

John Cacciatore, Governor's Office, was present to respond to the issue of the current projected deficit for FY 2003 given the ruling by the Supreme Court on the gaming tax. The Department of Management estimates that if the Court decision stands, it will reduce the FY 2003 receipts by \$28.5 million.

At the current time, the Governor believes there will not be a deficit in FY 2003. General Fund collections for FY 2002 were \$9.2 million higher than estimated by the Revenue Estimating Conference (REC). Revenues for FY 2003 in July are ahead of July 2002.

APPROPRIATIONS TRANSFERS

Holly Lyons, LFB, reviewed **Attachments J and K**.

- **Attachment J** has three 8.39 appropriations transfers.
 - \$499,940 from the Department of General Services Metropolitan Medical Center Option to Purchase to Capitol Interior Renovation.
 - \$35,000 from Department of General Services Property Management to General Services Operations
 - \$6,000 from Department of Revenue and Finance Compliance, to Revenue and Finance – Cigarette Stamp Printing.
- **Attachment K** is an 8.39 appropriations transfer for \$509,153 from the Department of Public Health, various divisions (Child & Adolescent Wellness, Chronic Conditions, Elderly Wellness, Infectious Diseases, Injuries, and Resource Management) to various divisions (Addictive Disorders, Adult Wellness, Community Capacity, Environmental Hazards, Public Protection)

LEASE PURCHASE

Dave Reynolds, LFB, presented a lease purchase for the Department of General Services in the amount of \$509,300 for lighting and air handler upgrades in several buildings on the Capitol Complex (**Attachment L**).

**UPDATE ON FEDERAL LABOR STANDARDS ACT (FLSA) COURT CASE
AND THE RACING AND GAMING COURT CASE**

Tom Miller, Attorney General updated the Committee on the Federal Labor Standards Act (FLSA) court case and the Racing and Gaming court case (petition for rehearing Attachment M).

The Supreme Court could act upon the Racing and Gaming Court Case petition for a rehearing at any time, and will probably do so when they meet on August 9. If the Court denies the petition, the decision stands. If they grant the petition, it may take a period of time to write a new opinion, which may or may not reverse the result. Mr. Miller reviewed various related issues and the possible consequences.

The FLSA (overtime issue) court case, dealing with the Department of Public Safety (DPS) employees has been tried, and is pending a decision. About one half of plaintiffs (150 out of 300) were employed by the DPS. The plaintiffs' counsel has talked in terms of \$30 million for all plaintiffs, \$15 million for DPS employees as plaintiffs. Mr. Miller reviewed the various categories involved in this case.

If the Court rules in favor of the plaintiffs, the money to pay the settlement typically would come from the source that originally paid the salaries. Most of those salaries were paid from the Road Use Tax Funds, not the General Fund. The two other major cases were with the Department of Transportation (DOT) and the Department of Corrections (DOC). In this case, approximately one half are Public Safety employees, and one fourth are DOT employees, for which funds would come from the Road Use Tax Fund, and one fourth for DOC employees would come from the General Fund.

PENDING COURT CASES AGAINST THE STATE

Attorney General Tom Miller reviewed the pending court cases against the State that could potentially cost the State money. At the present time there are 115 tort claims pending against the State of Iowa with claims exceeding \$1 million each. Some involve treatment at the University of Iowa Hospitals and Clinics (UIHC) and many involve allegations by inmates of mistreatment at correctional institutions. These claims are often frivolous and are routinely denied by the State Appeal Board (45 of these claims are by one inmate).

Mr. Miller reviewed amounts paid for tort claims and settlements and judgments from various State of Iowa funds for FY 2001, FY 2002, and FY 2003 to date.

LUNCH BREAK

The Committee recessed for lunch at 11:40. Senator Lamberti reconvened the meeting at 12:40.

OLD CAPITOL RESTORATION

Mark Braun, Associate Director of Governmental Relations, University of Iowa, presented an update on restoration of the Old Capitol in Iowa City, which was damaged by fire last November.

The cost of repairing the fire damage is estimated at \$6.161 million, excluding stabilization, recovery, and millwork costs. The costs will be paid through a combination of funds including reimbursements from the contractor and its liability insurer and from the University's property and casualty insurance policy. No State funds are being sought to assist in the fire recovery and related fire restoration.

The restoration includes four construction phases, which include both fire-related and non fire-related improvements. Plans are that the dome will be completed next year.

UNIVERSITY OF IOWA HOSPITALS AND CLINICS

Mary Shipman, LFB, reviewed **Attachment N**, a response to the Des Moines Register article regarding University of Iowa Hospitals Clinics (SUIHC) Clinic System.

Senator Lamberti stated the role of this agenda item is to receive background material on the issues. The Oversight Committee is also looking into this issue. The purpose today is to receive introduction information and determine what role, if any, this Committee wants.

Ms. Shipman stated that approximately 7% of the total operating revenue for SUIHC is provided in the form of a State General Fund appropriation for the Indigent Patient Program. She did not know how much State funding is received by the SUI College of Medicine.

Senator Schuerer stated he felt those entities should be accountable to the Legislature and the Legislature has a role of oversight in that responsibility. He asked if a statutory change is necessary. He requested a report stating what the reason is for them, why they were put into place, and where they are going.

Senator Schuerer requested information on the acquisition of assets, what was purchased, what was paid for in the clinics; and the current value of those assets. Of the \$31 million transferred to those corporations, what percent was used for operations and what percent was used for asset purchases. Stacey Cyphert, University of Iowa, responded with a brief history of the clinics, why there were started and the purpose thereof. She noted that the clinics allow opportunities to provide medical education outside the system.

In FY 2001, operating funds of \$532.9 million comprised of 89% paying patient revenues, 5% other operating revenues and 6% State appropriations were received. The \$33 million State appropriation was specifically for indigent care. Federal dollars were leveraged so the appropriation was only \$12.0 million State dollars as opposed to \$33

million. Services valued at \$56.6 million were provided with that appropriation. The College of Medicine waived \$22.3 million for professional fees for a total of \$78.9 million in services provided for a \$33.0 million appropriation that cost the State approximately \$12.0 million. In FY 2001 the College of Medicine's operating budget was \$375.1 million, 39% from research grants and gifts, 33% from patient revenues (practice plan), 13% from the VA and other professional services, and 15% from general education funds (5% research and direct cost recoveries, 3% is tuition, 7% is State appropriations).

General education funds from the University of Iowa spent were 69% faculty salaries and fringe benefits; 24% other salaries and fringe benefits, and 7% to general expense.

The mission of the University of Iowa Community Medical Services is to provide excellent patient care services to educate physicians and other health care professionals and provide a full spectrum of services supporting community organizations.

As for specific allocations, Mr. Cyphert will provide a copy of the UIHC's (the parent company) audited financial statements to the Legislative Fiscal Bureau when they become available in approximately two weeks. This information will be included in the Committee members' packets for next month.

Senator Lamberti referenced a copy of a letter from the Attorney General's office, dated September 8, 1994, providing background material for this issue. A copy was provided to Committee members.

Senator Lamberti stated the Oversight Committee has scheduled more discussion in October on this topic. This Committee will wait until the requested information is received before deciding what to do.

REVENUE FORECASTING DISCUSSION

Beth Ingram, Associate Professor, Institute for Economic Research at the University of Iowa Tippie College of Business, was invited but had other conflicts. She would be available in August for a presentation over the ICN or at the September meeting in person. The Committee received a Power Point handout from Ms. Ingram.

The Committee discussed the problems involved in receiving current information for forecasting revenues. Most of the information is outdated by the time it is received. The Governor has suggested increasing the number of members on the Economic Forecasting Council to include more private sector members.

A handout provided was the *NCSL News, State Budget & Tax Actions 2002*. Included are highlights of NCSL's annual survey on recent state budget and tax actions.

COMMITTEE DISCUSSION – TOPICS FOR AUGUST MEETING

A discussion was held regarding topics for the August meeting. Suggestions included:

- Medicaid Monthly Update
- hawk-i Monthly Update
- Beth Ingram via ICN
- An update on the gaming court case
- A report on the impact of recent stock market activity to the IPERS funds
- Infrastructure report on the Capitol restoration
- The status of organizational changes in State Government
- Technology needs for the Department of Revenue and Finance to have more current detail information available on State revenues
- Update on Capitol security, how is it going, what is it costing, how many employees, and any recommendations
- Sales tax receipts
- Concerns of pharmacists – a Pharmacy Association representative and an Iowa Priority Prescription Corp. representative present
- An update on what is being lost on catalog and Internet sales, what is being done on a federal level

OTHER BUSINESS

The Committee discussed changing the date of the October meeting and rescheduled it for Monday, October 14, 2002.

If members prefer to receive their meeting packets by mail rather than email, they are to let Holly Lyons know.

ADJOURNMENT

Representative Van Fossen made a motion to adjourn the meeting at 1:35 p.m.