

MINUTES
LEGISLATIVE FISCAL COMMITTEE
of the LEGISLATIVE COUNCIL
November 20, 2002

The Legislative Fiscal Committee of the Legislative Council met November 20, 2002, in Room 116, in the State Capitol Building, Des Moines, Iowa. Co-chairperson, Representative Dave Millage, called the meeting to order at 10:05 a.m. Other members present were:

Senator Jeff Lamberti, Co-chairperson
Senator Robert Dvorsky
Senator Pat Harper
Senator Paul McKinley
(Designee for
Senator Larry McKibben)
Representative Pat Murphy
Representative Don Shoultz
Representative Jamie Van Fossen

APPROVAL OF MINUTES

Representative Murphy made a motion to approve the minutes of the Legislative Fiscal Committee meeting held September 25, 2002 (**Attachment A**). The minutes were approved.

REVENUE UPDATE

Dennis Prouty, Director, Legislative Fiscal Bureau (LFB), presented a revenue update. The September Revenue Estimating Conference (REC) set revenue growth for FY 2003 at zero percent growth. Receipts as of today are 2.9%. He reviewed **Attachment 10**, FY 2002 General Fund Balance Sheet, which shows an ending balance of \$100.7 million. Mr. Prouty reviewed the FY 2003 Budget Outlook. Departments are in the process of submitting budgets for FY 2004. He noted that in FY 2003, \$250.0 million was appropriated from other funds for General Fund items. The revenue growth rate will need to be 5.0% to maintain the \$250.0 million appropriations from the General Fund. Mr. Prouty stated that the FY 2003 supplemental need is not known, but that Medicaid is running short.

Dave Reynolds, LFB, reviewed **Attachment 1**, Rebuild Iowa Infrastructure Fund, and **Attachment 2**, Environment First Fund, which show the gambling tax shortfall on these funds. When the REC met in May the wagering tax was estimated at \$210.0 million for FY 2003.

After the lawsuit and subsequent court ruling, they adjusted that estimate down to \$181.3 million. After filtering all of the allocations that come from the wagering tax, General Fund, Vision Iowa, and the endowment funds, (approximately \$155 million) the estimate to RIIIF is \$26.3 million. When all transfers are taken into consideration, it leaves a shortfall in the RIIIF of approximately \$17.7 million.

Representative Millage asked if the Governor has made any recommendation concerning the increase in tax rates for the land-based casinos and for the gambling boats. Mr. Reynolds responded not that he was aware of. Joel Lunde, Department of Management, responded the Governor has not made any formal recommendations.

Jeff Vonk, Department of Natural Resources; and Mary Jane Olney, Department of Agriculture; reviewed how their departments are handling the budget reductions as a result of the RIIIF shortfall. Mr. Vonk discussed programs that were either reduced or cut as a result of the reduction in funds available from the Environment First Fund. Many other programs are on hold until funds become available to move forward. His appeal to Committee members and legislators was to understand how the budget reductions interact with the availability of federal funds for various programs.

Mary Jane Olney, Department of Agriculture, discussed various cost share programs that have been reduced or placed on hold as a result of the budget reductions including \$3.5 million for soil districts on soil conservation and watershed programs.

STATE OF IOWA DEBT REPORT

Dave Reynolds, LFB, reviewed **Attachment B**, State of Iowa Net Tax-Supported Debt Report. Net Tax-Supported Debt includes debt which the General Assembly and the Governor have authorized and committed specific revenues to retire the debt. The debt includes revenue bonds, certificates of participation, and certain lease purchase agreements entered into by State agencies. In FY 2003, the State will pay a total of \$84.8 million in debt service for bonds and lease purchases.

FOLLOW-UP QUESTIONS ON ENDOWMENT FOR IOWA'S HEALTH ACCOUNT

Dave Reynolds, LFB, reviewed **Attachment 3**, Follow-up questions on Endowment for Iowa's Health Account. This is in response to Senator Lamberti's request for a comparison of how spending has affected the endowment in recent fiscal years.

HAWK-I PROGRAM MONTHLY UPDATE

Sam Leto, LFB, presented **Attachment C**, the monthly update on the *hawk-i* Program. This included the final FY 2002 update on expenditures and enrollment and the FY 2003 update through September.

Senator Lamberti stated the minutes of the September 16 *hawk-i* Board meeting, indicated there was no funding provided for the federal Health Insurance Portability and Accountability Act (HIPAA) in FY 2003 and inquired about the possibility of expenditures for that being absorbed from the projected ending balance of the *hawk-i* Trust Fund.

Senator Lamberti asked if money had been appropriated from the tobacco funds, what is the status of funds for HIPAA, how is this paid. Mr. Leto responded there were no funds appropriated for HIPAA specifically. The funds appropriated went to Medicaid and facilities affected by the HIPAA process.

Jan Clausen, Department of Human Services, stated that \$2.1 million was appropriated to the Department for HIPAA. Because this was less than requested, funds were devoted primarily to other areas of the Department and areas of the State that will be affected including the *hawk-i* Program.

Senator McKinley asked if a person is eligible for *hawk-i* but on a private pay plan, living 30 minutes or 30 miles from a provider do they automatically become eligible for *hawk-i*. Ms. Clausen responded that she would follow up on this as she did not have the answer.

Senator Lamberti asked dates for compliance with HIPAA. Ms. Clausen stated the first deadline is October 2003 and April 2004 is second deadline.

MEDICAID PROGRAM MONTHLY UPDATE

Sam Leto, LFB, presented **Attachment D**, a monthly update on the Medicaid Program. This included the final FY 2002 update (data included State funds only) and the FY 2003 update through September. The number of recipients has grown in FY 2003 at the rate of .7% per month.

APPROPRIATIONS TRANSFERS AND LEASE PURCHASE NOTICES

There were no appropriations transfers or lease purchase notices since the last meeting.

IOWA PUBLIC EMPLOYEES RETIREMENT SYSTEM (IPERS)

Greg Cusack, Chief Benefits Officer, IPERS, and Molly Anderson, Director, Department of Personnel and Acting Chief Executive Officer for IPERS, reviewed **Attachments E and F**. Kathy Comito, Chief Investment Officer, IPERS, and Pat Beckham, Actuary Counsel for IPERS, with Milliman, USA, were also present.

The Committee requested information from IPERS on the following topics: How has it been affected by the stock market (last fall and this summer). Can they meet their obligations? Is the system actuarially sound? Compare Iowa to neighboring states such as Wisconsin and Illinois whose retirement systems are rumored to be in financial trouble.

Ms. Anderson reviewed **Attachment E**, including an overview of IPERS, IPERS membership graphs, economic value of IPERS benefit payments to Iowa, investment information, actuarial information, comparison to peers, and IPERS action plan.

Ms. Comito reviewed how IPERS has been affected by the stock market. IPERS investment returns have ranked in the top quartile of public pension funds for 1, 3, and 5-year periods, and in the second quartile (above the median) for the 10-year period. Fiscal year 2002 finished in the negative, for the second year. Reviewing a 22-year investment history, only three of those years have ended with a negative return. Those negative return years were all less than 5% negative return. IPERS has a very diversified portfolio, including bonds and real estate in addition to the stock market investments. The current portfolio balance is \$14.4 billion.

Ms. Beckham explained the IPERS' Funded Status and the process for determining this information. For the next 10 years, on an average annual basis, the funds should earn 7.26% per year. There is a 60/40 ratio for the stock market investment.

How does IPERS' funded status compare with other states' public pension funds? The most comprehensive survey of U.S. public pension funds' financial status is the Wilshire Associates, Inc., annual survey. Wilshire's 2002 Report on State Retirement Systems covers 93 participating U.S. statewide public pension funds.

Wilshire's survey wisely neutralizes the effects of differing actuarial methods between the participating pension funds, by comparing each pension fund's simple market value of assets to their total liabilities. IPERS ranks 40th of 93 funds in ratio of asset market value to total liabilities. IPERS ranks 33rd of 93 funds in asset market value less total liabilities.

IPERS has in the past faced the need to raise contribution rates and has resolved this problem with the assistance of members, employers, and the General Assembly. IPERS staff will continue to examine all elements of possible resolution and anticipate having a recommendation(s) for the Governor and General Assembly in 2003.

Mr. Cusack stated IPERS will provide recommendations to the legislators which could include creating a different retirement program for new hires. The recommendations will show possibilities under various scenarios including pros and cons for each recommendation or program.

COLLECTIVE BARGAINING AND SALARIES

Ed Cook, LSB, and Molly Anderson, Director, Department of Personnel, were present to review the Collective Bargaining process.

Molly Anderson stated the State's proposal for collective bargaining and salaries would be delivered to the American Federation of State, County, and Municipal Employees (AFSCME) union this afternoon and therefore she could not share information on the proposal this morning. She requested an opportunity to set up a session at a later date to answer questions the Committee members would have, to talk about Chapter 20, Code of Iowa, and invite a representative from the firm used as a special negotiator to talk about arbitration. They could answer questions about what the Legislature's role is in this process, what the Governor's role is, and present proposals and costs relative to each.

Ed Cook, LSB, summarized Chapter 20, Code of Iowa, which establishes the process required in Collective Bargaining. Chapter 20 establishes the mechanism by which a binding contract is created. It is a statutory process that can be modified. Within Chapter 20 there are two provisions that yield financial situation, one is pre-contract consideration that deals with binding arbitration. There are four factors considered, looking at past contracts, wage comparisons, interests and welfare of public, power of public employer to levy taxes and appropriate funds for the operation. These factors guide what the arbitrator decides. The review process of arbitration is similar to workman's compensation process.

Representative Millage asked if furloughs are within the scope of negotiations. Ms. Anderson responded they are not used in contract negotiations at the present time. However, temporary layoffs are a part of the discussion with the union and within the scope of negotiations.

IOWA PRIORITY PROGRAM

Russ Trimble, LFB, introduced David Fries, Iowa Priority; Anne Kinzel, Department of Public Health; and Jerry Karpling, Iowa Pharmacy Association Board member. Mr. Fries reviewed **Attachment G**, answers to follow-up questions at the September 25 meeting.

A listing of the Board of Directors for Iowa Priority was provided to the Committee members. Mr. Fries stated that discounts between Argus and the manufacturers are not available as they are confidential and rates vary with the manufacturer. Because of variance in discounts, no average rate of discount is available.

Membership is approximately 24,000, approximately 40% of the members use their card on a monthly basis.

The dispensing fee paid to the pharmacist for filling prescriptions is \$2.50 up to \$3.25 per prescription. This is by contract with Argus for all pharmacists participating in the program within the State of Iowa.

Representative Murphy asked how much of the budget is allocated to Argus for this next year, \$180,000 was spent this year and \$280,000 is budgeted for next year. Mr. Fries explained that transaction fees depend upon the number of transactions received by Argus and are not a set fee.

Currently 24,500 members are in the Program, and they are in the process of building a partnership, which within two months could increase membership to 75,000. Senator Lamberti stated that in the new budget, \$350,000 (approximately 20% of the grant) is designated to the Department of Public Health and asked what are these funds used for. Ms. Kinzel responded that she just recently started in this position so didn't have the answer.

Senator Lamberti asked if there was a full-time employee in the Department for this grant. Ms. Kinzel stated she did not know.

Senator Lamberti asked about the issue of reducing the reimbursement to pharmacists' dispensing fees. Mr. Fries responded that the dispensing fee went from \$6.50 for a preferred drug as well as generic, down to \$2.50 for a brand or preferred drug and \$3.25 for generic drugs. Senator Lamberti asked what the difference in funding would be with this change. Mr. Fries stated he did not know.

Mr. Fries said a Pharmacy Advisory Committee (10 pharmacists) has been created and one topic being considered is how to move toward a concept that will enhance additional savings for seniors working with pharmacists.

LUNCH BREAK

The Committee recessed for lunch at 12:30 p.m. Representative Millage reconvened the meeting at 1:15 p.m.

UPDATE ON JUDICIAL BRANCH REORGANIZATION

Jennifer Dean, presented **Attachments H, I, and J**, providing an update on the Judicial Branch Reorganization.

Attachment H was a memo to update members on the Judicial Branch Reorganization, including a previous proposal and the current proposal.

Attachment I is a map showing the eight judicial districts and 14 judicial election districts.

Attachment J is a comparison of the supply of FTE Judicial Officers and Weighted Caseload Demand for FTE Judicial Officers in Current and Proposed New Judicial Districts.

Representative Millage asked if the Supreme Court has the authority to move Judicial officers around to districts that need them. David Boyd, Judicial Branch, responded the Chief Justice has statutory authority to make temporary reassignments of judicial officers to help with workloads. He noted that several judges will be retiring in the near future.

GOVERNMENT RESTRUCTURING

Cynthia Eisenhower, Director, Department of Management, presented an update on Government Restructuring (**Attachments L & M**).

Attachment L is a memo to Senator Lamberti and Representative Millage on reorganization of State government. Ms. Eisenhower explained the purpose of the reorganization, and options available.

The Department of Transportation reorganization created a one-time windfall of \$4.5 million. The Department of Human Services and Department of Natural Resources have also reorganized and realized significant savings. A proposal to merge four departments and part of another into one administrative agency would save an estimated \$3.1 million in the first year. Ms. Eisenhower reviewed other ideas that have also been proposed. Each agency in the Executive Branch is doing a self-assessment to improve efficiency.

The Department of Management proposed moving into a contract with a reinvention partner, with cost of the proposal based upon usage by the State agencies. The DOM has went through the RFP process and contracted with Public Strategies Group to be the reinvention partner. The reinvention partner will look at opportunities in State government to streamline or improve, or save money. Only if accomplished will they get paid. The partner will be paid approximately 10% of savings generated, depending on the project. These are based on increased receipts or achieved savings.

PROGRAM ELIMINATION COMMISSION

Doug Wulf, LFB, presented an update on the Program Elimination Commission (PEC) (**Attachment 12**). The memo is a summary of the meetings of the Commission and proposals being considered for recommendation to the General Assembly.

BOARD OF REGENTS

Mary Shipman, LFB, reviewed various documents relating to the Board of Regents. Pam Elliott from the Board office was present as were each of the university liaisons.

Ms. Shipman reviewed **Attachment 4**, which shows Board of Regents Revenues, Actual FY 2000 to Budgeted FY 2003 Total Funds and General Operating Funds. The difference between the Total Funds and General Operating Funds is restricted funds.

Representative Millage asked Ms. Elliott for an explanation on why the Regents complain about budget cuts, since the documentation presented by the LFB reflects a 6% growth in

general operating fund revenues for FY 2003. He asked how he could take seriously their cries about blaming the General Assembly's budget cuts as a reason for increasing tuition when total general operating funds were reduced by \$17 million, but tuition was increased by \$60 million, far in excess of the General Assembly's reductions. Ms. Elliott responded that the total operating revenues include the general operating money for the entire university, not solely for educating students. A portion of the general operating funds are used for other purposes and can't all be used to offset reductions by the General Assembly. Tuition is used only for educating students.

Senator McKinley asked if any "other revenues" are restricted funds other than federal support reimbursed costs. Ms. Elliott answered some are restricted. Senator McKinley asked if sales and service are restricted by source. Ms. Elliott stated some are restricted.

Representative Van Fossen stated he is receiving questions from parents asking if the increase in tuition is because the State is cutting funding or is it because the Regents are not running the operation efficiently. Ms. Elliott did not have the answer.

Attachment N - Issue Review – Board of Regents Unit Cost of Instruction This is a summary of a document by the Regents as to the cost to educate students.

Attachment 5 – A memo on Board of Regents Proposed Tuition Increases. This shows what tuition increases have been since 1989 thru 2003-2004 proposed.

Attachment 6 – Update on enrollment for Fall 2002. For the first time this year, the community colleges' enrollment was higher than Regents schools in head count.

Attachment 7 – Update on Organizational Review – Phases II and III.

Attachment 8 – Bonding Issue Costs – This is a summary of bonds issued over the past three years.

COMMUNITY COLLEGE GOVERNANCE

Robin Madison, LFB, reviewed **Attachment O**, an *Issue Review*, Community College Governance; and **Attachment 9**, Iowa Community Colleges, Sources of Unrestricted Revenue, FY 1991-FY 2002.

Attachment O provides information regarding statewide governance and coordination of community colleges. This includes background information, the current situation, current concerns, and alternatives.

Senator McKinley requested additional information on sources of funds for other income, how many dollars are outstanding and where they are; and a break down of students enrolled in specific areas, such as liberal arts. Ms. Madison will provide this information.

SCHOOL AID FUNDING FY 2002 – 2004

Dwayne Ferguson, LFB, reviewed **Attachment P**, an *Issue Review* titled School Aid Funding FY 2002 – 2004. Iowa school districts received a 4.3% across-the-board reduction in State aid for allowable growth during FY 2002 and will not receive the full State aid portion of school aid in FY 2003. This *Issue Review* examines the impact of these actions to local school districts.

DISCUSSION OF TOPICS FOR DECEMBER 19 MEETING

The Committee discussed the following topics for the December meeting

- The collective bargaining process and the status of negotiations.
- A presentation on how to keep the wagering tax settlement revenue neutral and what the alternatives are. Will there be a surtax. What agreement has been reached for refunds to the gambling boats. Representative Millage stated the Fiscal Committee should make a recommendation to the 2003 Legislature concerning this issue.

ADJOURNMENT

The meeting adjourned at 2:40 p.m.