

and LFB work monthly to arrive at the figures. The Healthy and Well Kids in Iowa (hawk-i) program's figures indicate that 13,559 (preliminary) children were served per month and the projected expenditures were \$9.4 million for FY 2001-2002. The expenditures will be \$2.9 million less than budgeted with the excess carried over to FY 2002-2003. This will result in DHS having available to it the amount it requested for the program. Mr. Leto stated the Medicaid Program figures project a surplus of \$1.5 million for FY 2001-2002 which will not revert to the General Fund. For FY 2002-2003 the amount available for the program is \$501 million, but it is estimated that an additional \$55-60 million will be needed.

Salary Costs and Funding. Mr. Glen Dickinson, LFB, highlighted FY 2002-2003 funding of salaries and personnel costs. He noted that \$41.1 million in other funding sources was used to support the General Fund cost of salary increases which the Department of Management estimated was \$14.5 million less than the amount needed. For FY 2003-2004, an additional appropriation of \$18.3 million is needed to fund the salary annualization costs which are the increased full-year cost of funding employee positions for the previous fiscal year. Another \$10.1 million is needed to fund step increases, \$7.1 million is needed to fund the cost-of-living adjustment for the entire year as opposed to the nine months of FY 2002-2003 in regard to employees covered by AFSCME, and \$1.1 million for full-year health insurance increases. Mr. Dickinson noted that additional costs for FY 2003-2004 would total \$95.5 million without consideration of any new contract. It was pointed out that a 1 percent increase in salaries would cost \$15 million. The deadline for completion of union contracts is March 15, 2003.

Governor's Office on Deficit. Mr. John Cacciatore of the Governor's Office addressed the issue of the current projected deficit for FY 2002-2003 given the Supreme Court ruling on the gambling tax rates. He stated that the Governor's Office does not feel that the ruling will cause a deficit for two reasons: (1) The FY 2001-2002 ending balance is higher than anticipated, thus the growth for FY 2002-2003 should be higher; and (2) The revenues for July 2002 are coming in at a much higher percentage than July 2001.

Transfers and Lease-Purchase. Ms. Holly Lyons, LFB, provided the following notice of proposed transfer of funds within the department: (1) Department of General Services of up to \$499,940 for Capitol interior restoration and \$35,000 for operations, (2) Department of Revenue and Finance for cigarette stamp printing of up to \$6,000, and (3) Department of Public Health for numerous needs of up to \$509,153. Mr. Reynolds provided information on the lease-purchase notification submitted by the Department of General Services totaling \$509,300 for lighting and air handler upgrades on the Capitol Complex.

Court Cases Update. Attorney General Thomas J. Miller briefed the Committee on the Iowa court cases involving the Federal Fair Labor Standards Act (FLSA) and gambling tax rates. He opined that the FLSA case would cost at most \$9 million, with the money coming from the services that funded the workers, mostly the Road Use Tax Fund. He felt that any refunds resulting from the gambling rate case could be paid over four years and that it would be constitutional to retroactively impose tax rate increases on gambling gross receipts. Mr. Miller said that for pending tort lawsuits and claims against the state, the amount would not exceed in the aggregate \$10 million. The amount for tax cases is approximately \$5.2 million.

Restoration of Old Capitol. Mr. Mark Braun, representing the State Board of Regents (board), stated that the cost of repairing the fire damage at the Old Capitol in Iowa City is \$6.16 million, excluding stabilization, recovery, and millwork costs. He also stated that the board carries a \$2 million deductible insurance policy and requires contractors to carry damage insurance for \$2 million. The Attorney General's Office, attorneys at the University of Iowa (U of I), and counsel for the board are working to collect this \$2 million.

University of Iowa Hospitals and Clinics. Ms. Mary Shipman, LFB, distributed information related to funding for the University of Iowa Health System. The board in October 1995 authorized funding of \$18.9 million and an additional \$12 million in March 1999. For FY 2000-2001 about 7.5 percent of the total operating revenue for the health system was provided in the form of a General Fund appropriation for the Indigent Patient Program. The U of I College of Medicine funding would be part of the General Fund appropriation to the U of I for general university purposes. For FY 2000-2001, 61.7 percent of the operating revenue for general university purposes was from the General Fund, but the exact percentage of this amount used for the College of Medicine was not shown at that time. A representative of the health system stated that a very small percentage of its revenues are from the General Fund, because the majority is generated from fees and charges and federal matching funds.

Next Meeting. The next meeting is to be held on Thursday, August 22, at the State Capitol in Des Moines.

FISCAL COMMITTEE OF THE LEGISLATIVE COUNCIL

June 20, 2002

Revenue Update. Mr. Dennis Prouty, Director, Legislative Fiscal Bureau (LFB), provided a General Fund balance sheet that was compiled as of June 13, 2002. It shows the FY 2001-2002 General Fund ending balance at an estimated \$1.1 million and FY 2002-2003 at an estimated \$0.1 million. Mr. Prouty noted that the FY 2001-2002 estimates were based upon the Revenue Estimating Conference estimates of a drop in revenues from the previous fiscal year of 3.2 percent. At present, the decline is 1.8 percent. If continued, this would mean an increase in the FY 2001-2002 ending balance of approximately \$70 million. Mr. Prouty noted that this amount would be transferred to the Cash Reserve Fund.

Mr. Prouty also commented on the General Fund summary data chart that indicated the net total appropriations for FY 2002-2003, after taking into consideration transfers from other funds, salary adjustments, and the Governor's item vetoes, of \$4.468 billion. This compares to the FY 2001-2002 amount of \$4.610 billion and to the FY 2000-2001 amount of \$4.9 billion. Mr. Prouty commented that the Governor's item vetoes contain no significant financial impact.

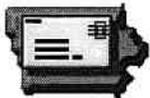
Built-in and Anticipated Expenditures. Mr. Prouty provided the Committee with projected FY 2003-2004 incremental built-in and anticipated expenditure changes. The built-in changes amount to an increase of \$246.8 million. The largest built-in expenditure involve K-12 school foundation aid. An estimated \$53.4 million is needed to fund the FY 2003-2004 allowable growth plus an additional \$45 million is needed for the FY 2002-2003 aid that was paid from the state's reserve funds. The next highest amount is the \$97.7 million needed to fund the growth in the state's Medical Assistance (Medicaid) Program. The anticipated increases in expenditures equal an estimated \$146.9 million. The largest amount involves the collective bargaining salary package. There are two components; the first is the cost for FY 2003-2004 of \$41.1 million, which does not include any new collective bargaining agreement entered into for that fiscal year. The second component involves the payment for salary adjustments that were appropriated from non-General Fund sources for FY 2002-2003. This amounts to \$41.1 million.

Gambling Tax Receipts. Mr. Prouty commented that the Supreme Court decision providing for the unconstitutionality of the state's taxing of racetracks and riverboats at different rates will potentially cost the state \$110 million to \$120 million in tax refunds in addition to a \$38.7 million loss of revenues for FY 2002-2003. The effect of the loss in revenue will mean that the Rebuild Iowa Infrastructure Fund will have a negative FY 2002-2003 ending balance of \$39.4 million. Mr. Ron Robinson, LFB, described

charts distributed to the members. The charts indicate what the General Fund revenues would be based upon certain gambling tax rates compared to the rate under current law prior to the Supreme Court decision. These rates are 20 percent, 24 percent, 26 percent, and 30 percent. The 20 percent rate is the rate now in effect as a result of the Supreme Court decision. This rate indicates decreases in potential revenues for FY 2002-2003 of \$38.7 million, FY 2003-2004 of \$44.46 million, and FY 2004-2005 of \$47.52 million. The 30 percent rate indicates increases in potential revenues for the same fiscal years of \$3.15 million, \$43.14 million, and \$40.08 million, respectively. Mr. Robinson said the 30 percent rate is listed in the chart because it will generate an increase in potential revenues for FY 2002-2003. Concern was expressed by members on the effect that the gambling tax refunds, loss in gambling tax revenues, and the payment of back overtime pay to Department of Public Safety employees will have on the FY 2002-2003 budget and what if anything needs to be done prior to the meeting of the next regular session of the General Assembly.

Transfers. Ms. Holly Lyons, LFB, discussed two transfers of appropriated funds reported to LFB. These are \$1,027,744 from the Medical Assistance (Medicaid) Program to the State Supplementary Assistance Program and \$36,000 from the general office of the Governor to the Terrace Hill quarters and operations. Question was raised as to the reason for the transfer from the Medicaid Program when the General Assembly arranged to appropriate additional funds for the program from a number of non-General Fund sources. Ms. Sue Lerdal, LFB, responded that the appropriations bill allows for such transfer and that the need for the transfer was anticipated when funds were appropriated for the Medicaid Program.

Interim Issues and Next Meeting. Discussion was held on issues the Committee should consider during the interim. Some of the ones mentioned are: Medicaid, hawk-i Program, gambling tax revenues, teachers' salaries, and property taxes. The Committee decided to meet monthly, if at all possible, and set Thursday, July 25, 2002, as the next meeting date. The agenda will be announced later.



Comments? lsbinfo@staff.legis.state.ia.us.

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