

MINUTES
LEGISLATIVE FISCAL COMMITTEE
of the LEGISLATIVE COUNCIL
September 14, 2011

The Legislative Fiscal Committee of the Legislative Council met September 14, 2011, in Room 116, in the Capitol Building. The meeting was called to order at 10:08 a.m. by Senator Robert Dvorsky, Co-Chairperson, with the following members present:

- Representative Scott Raecker, Co-Chairperson
- Senator Joe Bolkcom
- Senator Jeff Danielson
- Senator Steve Kettering
- Senator Brad Zaun
- Representative Peter Cownie
- Representative Dave Jacoby
- Representative Tyler Olson
- Representative Thomas Sands

Co-Chairperson Dvorsky indicated that Co-Chairperson Raecker would be chairing this meeting and that he, Co-Chairperson Dvorsky, would be chairing the next meeting that would be held at the University of Iowa in October. Co-Chairperson Dvorsky added that the third planned meeting would be held after the Revenue Estimating Conference (REC) meeting in December.

The following agenda items were discussed:

- **Rules of Procedure:** Upon a motion by Senator Kettering, the proposed Rules of Procedure for the 2011-2012 Interim were approved as presented.
- **Session Overview and Budget Update:** Ms. Holly Lyons, Fiscal Division Director of the Legislative Services Agency (LSA), reviewed a handout noting FY 2010 – FY 2013 fiscal information impacting Iowa revenues and expenditures. Mr. Dave Reynolds, LSA, explained that there were no item vetoes of General Fund appropriations, but that the Governor had item vetoed two revenue adjustments that decreased estimated revenues. Mr. Reynolds indicated that as a result of the vetoes, the estimated revenues were increased by \$3.3 million in FY 2011, \$14.8 million in FY 2012, and \$13.7 million in FY 2013. The revenue adjustments that were vetoed were the FY 2011 Save Our Small Business Fund transfer and the increase in the percentage of the Earned Income Tax Credit. (see **Attachment B**)

In response to a request from Senator Bolkcom, Mr. Reynolds indicated that the next edition of the balance sheet would include information showing the contingent tax credit liabilities.

Mr. Reynolds reviewed the Reserve Funds balance sheets, explaining that the statutory maximum in FY 2012 is estimated to be \$593.9 million and \$619.9 million in FY 2013. Senator Dvorsky inquired as to the estimated funds available for the Taxpayer Trust Fund. Mr. Reynolds replied that there is an estimated \$38.3 million in FY 2013 for that Fund. Mr. Reynolds added that actual FY 2012 revenues would need to be known before an actual amount for the Fund would be available. The statute requires that the annual amount that can be transferred to the Taxpayer Trust Fund not exceed \$60.0 million.

Other items reviewed by Mr. Reynolds included:

- Beginning in FY 2012, the Performance of Duty standing appropriation will be funded through the Economic Emergency Fund and is estimated at \$40.0 million for the next two fiscal years.
- A \$20.0 million FY 2013 appropriation for the Environment First Fund would occur from the General Fund if not addressed by the 2012 General Assembly.
- The estimated FY 2013 balance in the Rebuild Iowa Infrastructure Fund (RIIF) of \$34.0 million does not include an FY 2013 appropriation of \$25.0 million to the Board of Regents for Tuition Replacement appropriation.

Mr. Reynolds highlighted the significant item vetoes from **Attachment C**:

- HF 646 (Administration and Regulation Appropriations Act): Appropriations totaling \$1.6 million in FY 2013 from the Medicaid Fraud Fund.
- SF 517 (Economic Development Appropriations Act): A requirement that the Department of Iowa Workforce Development (IWD) maintain the same number of Field Offices that existed in FY 2009.
- SF 517 (Economic Development Appropriations Act): The transfer and appropriation of \$3.3 million from the Save Our Small Business Fund for funding the IWD Field Offices in FY 2012.
- HF 649 (Health and Human Services Appropriations Act): A requirement for the Department of Human Services (DHS) to review reimbursement methodologies for certain providers.
- SF 510 (Justice Systems Appropriations Act): A requirement for the Department of Corrections to transfer funds from the institutions' canteen funds to support the inmate education program.
- HF 648 (Infrastructure Appropriations Act): An appropriation of \$75,000 from the RIIF for the Water Trails and Low-Head Dam Program.
- HF 648 (Infrastructure Appropriations Act): An appropriation increase of \$10.0 million from the RIIF in FY 2013 for the Community Attraction and Tourism Program.
- SF 209 (Tax Changes and Supplemental Appropriations Act): The Earned Income Tax Credit (EITC) and the Internal Revenue Code update provisions. The vetoes were never incorporated in the General Fund balance sheet as they were item vetoed in April 2011, well before the end of the 2011 Session.
- SF 533 (Standings Appropriations Act): The item vetoes included language prohibiting State employee bonuses, the Medication Therapy Management Program and funding, and the changes to the EITC.

Senator Bolkcom expressed the belief that with recently released national poverty statistics and bipartisan support, that the change in the EITC amount would have been the quickest method to bring people out of poverty.

In response to a question from Co-Chairperson Raecker, Ms. Sue Lerdal, LSA, explained that the State financial system does provide up-to-date expenditure information of the Iowa Veterans Home, but expected federal revenues that are not known until October are not usually updated in the state accounting system.

This results in less information for the members of the Health and Human Services Appropriations Subcommittee.

Co-Chairperson Raecker asked that a summary of the FY 2011 Medication Therapy Management Pilot Program be provided at the next meeting of the Fiscal Committee.

- **State Revenue Update:** Mr. Jeff Robinson, LSA, provided an update on year-to-date General Fund receipts for FY 2012 (see **Attachments E and S**). He noted that the current 1.4% cash year net revenue increase compares to an adjusted 2.7% REC projected increase with the adjustment related to a recent change in the destination of a portion of annual cigarette and tobacco tax revenue. Mr. Robinson explained that revenues for the month of September 2011 will be the most important to watch for a trend of three months of revenues for FY 2012. Mr. Robinson provided clarification of FY 2011 revenues. Mr. Shawn Snyder, LSA, explained the impact of school infrastructure sales tax revenue and the impact on the Property Tax Equity Relief (PTER) Fund. Mr. Snyder noted that no legislative action was taken during the past session that addressed the PTER Fund and that the Department of Revenue had reviewed their internal processes in the PTER Fund allocations. The members agreed to receive more information at the next Fiscal Committee regarding the issue.

Senator Bolkcom indicated that due to the recent change in fund destination for a portion of cigarette and tobacco tax revenue, greater transparency is needed regarding how this revenue is reported in documents and discussion. Mr. Robinson commented that the Total Tax Revenue monthly document does provide a complete accounting of cigarette and tobacco tax revenue on a monthly basis.

Mr. Robinson and Mr. Reynolds reviewed the impact of HF 148 (REC Estimates and Appropriation Transfer Act) on **Attachment F**, including but not limited to two-year revenue projections, and percentages of the total General Fund appropriation and individual appropriation transfer limitations. Co-Chairperson Raecker requested that future Appropriation Transfer Notices be summarized by the LSA to include year-to-date totals of percentages of the limitations specified in HF 148 before distribution of the information.

- **Information Technology Consolidation Update:** Ms. Lorrie Tritch, Chief Operating Officer of the Department of Administrative Services (DAS) reviewed **Attachment G**. She commented that the estimated savings from other states noted on Slide 4 of the power point will not necessarily match the savings achieved with the consolidation in Iowa State government. Representative Jacoby inquired as to the status of streamlining and sharing information between departments. Ms. Tritch replied that the DAS is not yet working with the larger departments and have focused on the smaller departments; however the DHS and the IWD do share information regarding the PROMISE JOBS Program. Ms. Tritch added that SF 2088 (2010 State Government Reorganization Act) required the DAS to focus on reducing hardware purchases and software contracts.

Co-Chairperson Dvorsky inquired as to the status of employment of an Information Technology “czar” expressing the belief that the “czar” hiring should occur before decisions are made concerning consolidation. Ms. Tritch replied that there has been discussion between the DAS and the Department of Management for the Chief Information Officer (CIO) and that the actions can take place in tandem. Ms. Tritch continued to review the provided information including:

- Significant progress being made with smaller departments for technology efficiencies.
- The improved services being provided centrally with the DAS will be a springboard for future consolidation discussions.
- The number of computer servers have been consolidated with only two data centers, located at the Hoover State Office Building on the Capitol Complex and at the Armory at Camp Dodge.

- A portion of cost savings is cost avoidance, in not needing to replace certain consolidated items in the future, and additional savings due to economies of scale.
- Ms. Tritch reviewed a power point slide indicating that the projected streamlining and savings is “right in line” with four other surveyed states and that the targeted savings is \$15.0 million for Iowa. In response to an inquiry from Representative Jacoby, Ms. Tritch explained the percentage of “spam” e-mail and the difference between automatic rejection of the e-mail and the quarantine process requiring review of an e-mail. Senator Danielson indicated that the transition of governors was part of the difficulty in filling the CIO position and emphasized the need for continuity of technology consolidation goals.
- **Master Marketing Contract:** Mr. Terry Rich, CEO of the Iowa Lottery Authority reviewed the master marketing contract (see **Attachment H**). Mr. Rich explained advantages and disadvantages of a master contract, noting that certain departments would emphasize certain specialty marketing areas, such as the Lottery Authority utilizing retailers. He added that there was a disadvantage when one single agency is used for a single contract resulting in possible mediocrity. Upon conclusion of a meeting with various departments in State government that have most of the advertising purchases, Mr. Rich indicated that representatives of those departments agreed that using the DAS for standardized Requests for Proposals (RFPs) may be advantageous. He indicated that he committed the Lottery Authority to assisting smaller agencies with their advertising contracts.

Mr. Rich stated that having fewer advertising contracts would not necessarily save money but may result in greater efficiencies. He noted that there may always be dilemmas with ads that legislators may or may not like, and that sometimes creativity in advertising causes controversies. Focusing on pricing/savings alone does not always result in the greatest success, Mr. Rich stated.

- **Iowa Prison Industries:** Mr. Dan Clark, Deputy Director of Iowa Prison Industries (IPI) reviewed **Attachment I** with members of the Committee. He explained that the IPI has three Programs: Traditional Industries, Farms, and Private Sector Programs. Mr. Clark stated that a typical inmate earns a net of less than \$2.00 per hour working with the IPI Programs. He reviewed the FY 2010 and FY 2011 sales and operating expenses for the three Program categories.

In response to an inquiry from Co-Chairperson Raecker, Mr. Clark indicated that the IPI submits their budget and expenditure plan to the Department of Corrections Deputy Director of Administration. Ms. Beth Lenstra, LSA, added that the LSA Fiscal Services Division receives monthly financial reports from the IPI. Co-Chairperson Raecker asked about the division of the “surplus/profit” funds to either the corrections institution or the State General Fund. Mr. Clark replied that the division is a statutory requirement in Iowa Code Section 904.809(5)(c)(3). Per law, for any private sector jobs created after July 1, 2004, a certain percentage may be dedicated to staff supervision costs for the Private Sector Program.

Co-Chairperson Raecker inquired as to determination of new investment expenditures by the IPI. Mr. Clark replied that in consultation with the Advisory Board, the majority of investment is usually repair or replacement of existing equipment.

- **Performance of Duty and Disaster Recovery and 2011 Disaster Update:** Mr. Reynolds, LSA, reviewed **Attachment J** pertaining to the Performance of Duty appropriations. Mr. Reynolds discussed the fluctuations in Performance of Duty expenditures and funding levels since from FY 2002 to FY 2013.

Mr. John Benson, Legislative Liaison of the Homeland Security and Emergency Management Division (HSEMD) of the Department of Public Defense, reviewed **Attachment K** regarding disaster recovery. Mr. Benson noted that the HSEMD role extends from when the disaster strikes and application for disaster recovery funding is made to when the improvements are completed and the disaster funds are

expended. He commented that in the case of the 2008 disasters, State funding remains obligated, and most are the larger construction projects, such as Hancher Auditorium at the University of Iowa, and the storm sewer project in Cedar Rapids.

Mr. Benson stated that the current federal “freeze” of Federal Emergency Management Agency (FEMA) funding may delay receipt of funds, and that may also delay construction projects. If the federal funds are delayed by six months, \$400.0 million in expenditures will be delayed.

Co-Chairperson Dvorsky requested an update of the Missouri River flooding and FEMA funding. Mr. Benson replied that the FEMA has determined that the disaster ending date was August 1 and that homeowners are just beginning to determine damage due to the delay in the water diminishing from their properties. Mr. Benson added that the Governor is appealing the FEMA ruling and if not successful, the State may need to review other assistance options for the property owners.

Senator Danielson asked as to the accuracy of expenditure projections. Mr. Benson commented that compared to past ice storms and the floods of 1993, the HSEMD has become more accurate in damage estimates and funding needs due to the availability of historical data. The number of significant disasters in recent history has made the response and recoveries more efficient, Mr. Benson added. In response to a question from Senator Danielson regarding the maximum expenditure of State disaster funds, Mr. Pat Hall, HSEMD, replied that an estimated \$40.0 million would be the maximum expended in a fiscal year, but it would depend on the significance of the disaster.

Senator Bolkcom commented that the State share of obligated funding for recovery of disasters needs to be more transparent on fiscal documents. He added that with disasters being more frequent, it might benefit the HSEMD to pay close attention to climate experts. He further stated that utilizing a standing appropriation for disaster recovery may be beneficial in future fiscal years.

Mr. Marvin Shultz of the DHS, reviewed the individual assistance program and expenditures relating to the natural disasters. Mr. Shultz expressed the belief that with the General Assembly changing the reimbursement methodology to a voucher system, the process has been made more efficient for those needing the funds.

Co-Chairperson Raecker requested that disaster recovery be an agenda item at a future Committee meeting. Co-Chairperson Dvorsky requested additional data that indicated the process and expenditure categories of funding from the Executive Council for the Performance of Duty appropriation.

The Committee recessed for lunch at 12:20 p.m. and reconvened at 1:10 p.m.

- **Tobacco Settlement Funding:** Mr. Reynolds, LSA, reviewed **Attachment L** regarding tobacco settlement payments and securitization. Mr. Reynolds explained that the State uses 78% of annual payments from the tobacco industry to pay the debt service on bonds that were issued in 2001 and restructured in 2005. The other 22% is deposited in the RIIF and totals between \$11.0 million and \$16.0 million annually. In response to a question from Co-Chairperson Raecker, Mr. Reynolds indicated that both the Endowment for Iowa’s Health Account and the Healthy Iowans Tobacco Trust have been closed out.
- **Court Debt Collections:** Ms. Jennifer Acton, LSA, reviewed **Attachment M**, relating to SF 2383 (Debt Collection Act). The Act provided multiple methods for increases in court debt collections, including but not limited to amnesty, utility billings, vehicle registrations, private debt collection, a State debt coordinator, liens, and greater use of the Centralized Collection Unit (CCU) in the Department of Revenue. In response to an inquiry from Representative Cownie, Ms. Acton indicated the total court debt is an estimated \$558.0 million.

Co-Chairperson Dvorsky asked Ms. Acton to provide the estimated amount of court debt that has been collected due to SF 2383 at the next Committee meeting. Co-Chairperson Raecker asked Ms. Acton

how actual receipts from the Debt Amnesty Program compared to the Fiscal Note estimate. Ms. Acton stated that actual receipts were \$300,000 more than the estimate.

Ms. Lesa Collum of the Black Hawk County Attorney's Office reviewed **Attachment N** relating to county attorney debt collection. Ms. Collum noted that a great percentage of defendants with court debt are "frequent fliers" with multiple delinquent cases. She added that due to methods of receipt calculations, county attorneys are collecting more debt than reflected in the statistics. Ms. Collum commented that garnishment is available, with 25% after tax income collectable.

Senator Danielson summarized a recent constituent issue in Black Hawk County concluding that there may be a need for a one-stop shop for court debt collection rather than the county treasurer, county attorney, clerk of court, and other offices being involved in collecting court debt locally.

Co-Chairperson Raecker requested additional detail and clarification for the total amount of funds that county attorneys collected where compensation was not received for the effort. Ms. Collum explained that the issue was not one of concern of county attorneys, rather a point of clarification of the statistics.

Ms. Jennifer Miller, County Attorney from Marshall County, continued the discussion from a perspective of a smaller county. She indicated that additional staffing has permitted additional court debt collections and the County is in the process of developing a web-based collections process.

In response to a question from Co-Chairperson Dvorsky, Mr. Corwin Ritchie, Director of the County Attorney Association, stated that one way that the Association is promoting court debt collection efforts in counties is by encouraging county attorneys and their staff to visit the Black Hawk County Attorney's Office for training.

Mr. Stu Vos of the Department of Revenue, addressed the Committee and explained the CCU role. The CCU has assisted with the collection of court debt since July 1996, with approximately \$35.0 million collected annually. The CCU retains 10.0% of the collections. In response to a question from Senator Bolckom, Mr. Vos indicated that the employment of a State debt coordinator was a decision of the Governor.

Co-Chairperson Raecker inquired as to other debt that the CCU collects. Mr. Vos replied that there were years where the CCU collected debt on behalf of the College Student Aid Commission, but those funds are mostly federal funds and returned to the federal government when collected. Mr. Vos stated that the collection of student loan debt was turned over to the Commission several years ago.

Representative Sands asked for an estimate of how much of the specified court debt is collectable. Mr. Vos expressed his belief that approximately 35.0% is collectable. Mr. Vos replied to a follow-up question from Representative Sands that the current economic climate does make collections more challenging.

Ms. Betty Buitenwerf of the State Court Administrator's Office in the Judicial Branch reviewed a handout (**Attachment R**) including but not limited to debt collection tools used by the Judicial Branch, an explanation of 30-day and 60-day time frames for noncompliance of payments, an update on the Court Debt Collections Project, an explanation of a statutory requirement for attempted debt collection from deceased obligors, and current challenges to debt collection.

Ms. Buitenwerf responded to a question from Representative Jacoby that 47% of the court debt was more than five years old. Senator Bolckom indicated that amnesty may have greater success due to the state of the economy, age of the debt, delay in a debt coordinator being appointed, and the previously delineated estimate that only 35% of the debt is deemed to be collectable.

Chief Judge Kurt Wilke from District 2 and Chairperson of the Judicial Council's Collections Committee reviewed the recommendations from the Committee for debt collection improvements for future consideration by the Judicial Branch. These included: uniform rules across the State for

collections, education and training for collection improvements, uniform court-ordered installment payment plans when 100% cannot be collected at the time of the order by a judge, and require 100% payments on the date of the fine or court order when possible. Judge Wilke indicated that the goal of the Committee is to remove the Judicial Branch from the debt collection process entirely and to utilize the CCU. Co-Chairperson Dvorsky expressed the belief that the process has been archaic in the past and that the process is moving forward and is encouraged by the models, such as Black Hawk County, shown at this meeting.

- **Medicaid:** Mr. Jess Benson, LSA, updated the Committee on the status of FY 2011 and FY 2012 funding for the Medicaid Program from **Attachment O**. Mr. Benson indicated that the rate of growth has slowed compared to the past two fiscal years. He added that Iowa had received over \$500.0 million in federal American Recovery and Reinvestment Act funding. Mr. Benson explained that the Medicaid Management Information System (MMIS), that the General Assembly approved, is scheduled for RFPs at the end of the week (September 16) and that with the 90% federal funding available, the MMIS project's total cost is estimated at \$145.0 million.

In response to a question from Co-Chairperson Raecker, Mr. Benson indicated that at the current time, the middle of the need range for the FY 2012 Medicaid appropriation is zero, so the current appropriation of \$910.0 million would be deemed adequate at this time. Senator Danielson inquired as to the large decreasing eligibles in certain months of data. Mr. Benson replied that the number of eligible individuals will fluctuate month by month and is one of the difficulties in generating the estimates. Discussion continued between members regarding the \$29.5 million of expected carryforward from FY 2011 used for the FY 2012 budget when appropriations were determined.

Next meeting: Co-Chairpersons Dvorsky and Raecker announced that the next Fiscal Committee meeting would be Tuesday, October 18, at the University of Iowa. This is to include at least 2.5 hours from the Board of Regents, including the Board and special schools, and the three institutions of higher education having one-half per institution. The Co-Chairpersons requested that the focus be on the budgets of the Board, schools, and institutions. Other items for the agenda received from the Co-Chairpersons included:

- FY 2011 final financial information.
- School infrastructure sales tax revenue: Secure an Advanced Vision for Education and PTER Fund allocations.
- An update of disaster recovery, including flood damage in Western Iowa.
- Medicaid FY 2011 final expenditure information and an update for FY 2012.

Senator Bolkcom asked the Co-Chairpersons to consider an agenda item of an update of the 2008 Flood recovery efforts at the University of Iowa. The Co-Chairpersons requested that members submit other ideas for the agenda for the October and December meetings to them.

- **Adjournment** – The meeting adjourned at 2:53 p.m.

The following is a link the Legislative Fiscal Committee website listing the attachment discussed at the meeting. <http://www.legis.iowa.gov/Schedules/committeeDocs.aspx?GA=84&CID=46>