January 26, 1998 FISCAL UPDATE January 26, 1998

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Administration & Regulation Appropriations Subcommittee

**Admin./Regulation Sub.** The Administration and Regulation Appropriations Subcommittee met January 20, 21, and 22. Fiscal Year 1999 budgets for the Office of the Treasurer of State and the Office of the Auditor of State were presented on January 20.



**Treasurer’s Office** Michael Fitzgerald, Treasurer of State, presented the Treasurer’s budget for FY 1999. The Office is requesting $1.0 million and 27.8 FTE positions from the General Fund, an increase of $53,000 (5.5%) for salary annualization and no change in FTE positions compared to estimated FY 1998. The Treasurer also discussed the Second Injury Fund and the State investment portfolio.

**Auditor’s Office** Warren Jenkins, Chief Deputy Auditor of State, presented the Auditor’s budget for FY 1999. The Office is requesting $1.5 million and 112.5 FTE positions from the General Fund, an increase of $83,000 (5.9%) and no change in FTE positions compared to estimated FY 1998. Mr. Jenkins also discussed the joint studies being performed by the Legislative Fiscal Bureau and the Auditor’s Office.

**Other Presentations** On January 21, the Office of the Secretary of State and the Ethics and Campaign Disclosure Board presented their FY 1999 budgets.

**Secretary Of State** Paul Pate, Secretary of State, presented an overview of the Office of the Secretary of State’s budget for FY 1999. The Office is requesting $2.5 million and 42.0 FTE positions from the General Fund, a decrease of $52,000 (2.0%) and no change in FTE positions compared to estimated FY 1998. Secretary Pate also discussed the following items:

* Distribution of the Iowa Official Register through printed copies and on the Internet
* Certification and function of notaries public
* Voter Outreach Programs

**Ethics & Campaign Discl.** Kay Williams, Director, presented the budget for the Ethics and Campaign Disclosure Board. The Board is requesting $503,000 and 8.0 FTE positions from the General Fund, an increase of $63,000 (14.4%) and no change in FTE positions compared to estimated FY 1998. The Director also discussed the status of the electronic filing of campaign finance forms and the need to contract with an outside investigator in the event of complex or excessive complaints.

**Lottery Division** On January 22, Edward Stanek, Commissioner of the Iowa Lottery, presented the Lottery Division’s request of $8.0 million from lottery sales and 120.0 FTE positions. This is an increase of $16,000 (0.2%) for salary annualization and no change in FTE positions compared to estimated FY 1998.



**Revenue & Finance** Gerald Bair, Director, also presented the FY 1999 budget for Revenue and Finance on January 22. The Department is requesting $34.6 million and 656.0 FTE positions from the General Fund, an increase of $6.8 million (24.6%) and no change in FTE positions compared to estimated FY 1998. Mr. Bair also discussed tax processing and customer service.

**BFR - Inspections & Appeals** The Subcommittee also heard a presentation on Budgeting for Results (BFR) from Beverly Zylstra, Department of Inspections and Appeals, describing an overview of the process and the Department’s specific programs utilizing BFR.

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Agriculture and Natural Resources Appropriations Subcommittee

**Agric./Natl. Resources Sub.** The Agriculture and Natural Resources Appropriations Subcommittee met January 20, 21, and 22.



* On January 20, Pete Hamlin from the Air Quality Bureau, Department of Natural Resources, presented information on the operations and budget requirements of the Air Quality and Title V Programs.
* On January 21, Larry Wilson, Director of the Department of Natural Resources, presented the Departments’ budget requests for FY 1999. The Governor is recommending $25.4 million and 1,016.1 FTE positions, an increase of $790,000 (3.2%) and 11.0 FTE positions compared to FY 1998.
* On January 22, Dale Cochran, Secretary of Agriculture, presented the FY 1999 budget request for the Department of Agriculture and Land Stewardship. The Governor is recommending $24.6 million and 431.8 FTE positions, an increase of $280,000 (1.1%) and one FTE position compared to FY 1998.

STAFF CONTACT: Sherry Weikum (Ext. 17846) Deb Kozel (Ext. 16767)

Economic Development Appropriations Subcommittee

**Econ. Development Sub.** The Economic Development Appropriations Subcommittee met January 20, 21, and 22. On January 20, Phil Dunshee, Department of Economic Development (DED) Deputy Director, delivered the Department’s Budgeting for Results (BFR) presentation.

**Gov.’s Recommendations** Legislative Fiscal Bureau staff presented an overview of the Governor’s FY 1999 Economic Development Subcommittee recommendations on January 21. David Lyons, Director of the DED, presented an overview of the Department’s FY 1999 request. In addition, Nancy Landess, DED Tourism Division Administrator, and Bob Henningson, DED Business Development Administrator, presented specific information concerning those Divisions. The Department is requesting $26.1 million and 166.8 FTE positions, an increase of $1.7 million (7.2%) and 2.8 (1.7%) FTE positions.

**Workforce Development** On January 22, Cynthia Eisenhauer, Director of the Department of Workforce Development (DWD), presented an overview of the Department’s FY 1999 request. In addition, Iris Post, DWD Industrial Commissioner, and Byron Orton, DWD Labor Commissioner, presented specific information concerning the Industrial Services and Labor Divisions. The Department is requesting $12.7 million and 1,017.9 FTE positions, an increase of $5.7 million (82.5%) and 16.0 (1.6%) FTE positions.

**Board Chairman** Also on January 22, Bill Trent, Chairman of the Economic Development Board, discussed his views on the direction of Iowa’s economic development programs and answered questions from Subcommittee members.

STAFF CONTACT: Jeff Robinson (Ext. 14614)

Education Appropriations Subcommittee

**Education Subcommittee** The Education Appropriations Subcommittee met January 20, 21, and 22, and conducted the following business:



* January 20: Heard from representatives of the Department of Cultural Affairs regarding operational support grants and the archeologist position at the Department.
* January 21: Heard from representatives of community colleges regarding enrollments, tuition increases, property tax revenues, and a proposed new funding formula.
* January 22: Heard from representatives of the Iowa School for the Deaf and the Iowa Braille and Sight Saving School regarding fire safety and deferred maintenance needs.

**More Information** Additional detail is available upon request.

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Health and Human Rights Appropriations Subcommittee

**Health/Hum. Rts. Sub.** The Health and Human Rights Appropriations Subcommittee met January 20, 21, and 22.

**Dept. for the Blind** On January 20, Creig Slayton, Director of the Department for the Blind, presented the Department’s budget for FY 1999. Federal funding was discussed and Mr. Slayton indicated the basic support rate for vocational rehabilitation is 21.3% State and 78.7% federal. For the Independent Living Program, the match rate is 10.0% State and 90.0% federal. The Department is requesting $1.6 million from the General Fund and 95.0 FTE positions, an increase of $60,000 (3.9%) and no change in FTE positions compared to estimated FY 1998.

**Marketing Efforts** The Subcommittee was interested in the marketing efforts, if any, that are being implemented to educate people, including minorities, in the prevention of blindness by advising the public on its causes. Mr. Slayton indicated the Department was continuing with efforts to educate the public.

**Civil Rights Commission** Don Grove, Executive Director of the Civil Rights Commission, presented the Commission’s FY 1999 budget. Mr. Grove responded to questions regarding activities related to Housing and Urban Development federal funds, particularly the Fair Lending Grant which was completed in FY 1997. The Commission is requesting $1.2 million from the General Fund and 36.5 FTE positions, no change in funding and a decrease of 1.0 (2.7%) FTE position compared to estimated FY 1998.

**BFR - Public Health** On January 21, Chris Atchison, Director of the Department of Public Health, explained the Budgeting for Results process the Department had undertaken during the interim and presented the Department’s FY 1999 budget. Mr. Atchison presented the budget in a Budgeting for Results format. The Department is requesting $37.2 million from the General Fund and 322.3 FTE positions, an increase of $1.7 million (4.7%) and 3.3 (1.0%) FTE positions compared to estimated FY 1998.



**Alliance on Subst. Abuse** On January 22, Charles Larson, Coordinator of the Governor’s Alliance on Substance Abuse, presented the agency’s budget request using the Budgeting for Results format. Subcommittee members asked questions and expressed concern regarding the increased use of methamphetamine in Iowa; seizures of methamphetamines increased from 4,500 grams in FY 1994 to 51,000 grams in FY 1997. Following his presentation, Mr. Larson showed three public service announcements and a video on the SAFE Communities Project.

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Human Services Appropriations Subcommittee

**Human Services Sub.** The Human Services Appropriations Subcommittee met January 20, 21, and 22. On January 20, Doug Howard, Economic Assistance Division Administrator from the Department of Human Services (DHS), discussed federal Temporary Assistance for Needy Families (TANF) regulations and the Welfare Reform technology initiative. Mr. Howard remarked that the TANF regulations, issued in mid-November 1997, are extensive, and impose significant reporting requirements on the State. The DHS expressed concern that the regulations:

* Heavily emphasize monitoring, implying that states must be watched closely in order to protect the future of welfare reform.
* Could inhibit the DHS’s efforts to further involve communities in Welfare Reform by creating disincentives to actively participate in administration of the program.
* Establish a trend of federal micromanagement by prescribing detailed federal requirements.
* Are extremely process-oriented, with little or no recognition of the results states hope to achieve.
* Do not recognize Congress’ intent to maximize state flexibility.



**Governor’s Budget** Legislative Fiscal Bureau staff presented an overview of the Governor’s FY 1999 DHS budget recommendations on January 21. The analysis included funding changes compared to FY 1998 by division and stressed the importance of considering total program funding, including federal and other funds, due to significant transfers of funding sources in the FY 1999 budget recommendations.

**SCHIP** Don Herman, Medical Services Division Administrator from the DHS, also discussed the State Children’s Health Insurance Program (SCHIP), and described the Governor’s proposal to insure low-income children through phased Medicaid expansions up to 133.0% of the federal poverty level and through implementation of a new Iowa Kids Program. Mr. Herman also outlined significant issues the General Assembly must resolve:

* How should the Program be implemented? Should a stand-alone program be instituted by contracting for health insurance coverage for low-income children, or should Medical Assistance eligibility be expanded?
* What services beyond the required services should be offered?
* What level of co-pay or deductible should be required (if any)?
* What mechanism of delivery should be utilized?



**Child Welfare Services**  On January 22, the Subcommittee heard recommendations from the Child Welfare Services Work Group appointed by the Human Services Restructuring Task Force to recommend a strategy for developing a more flexible and holistic system for child welfare and juvenile justice services. Co-chairpersons Charles Burner and Arlene Dayhoff discussed the efforts of the Work Group to date, including priorities to guide system development, a long-term vision of the group, and the importance of building State and local capacity for service delivery to children and families. The Work Group is recommending that Rehabilitative Treatment and Support (RTS) services, Psychiatric Medical Institutes for Children (PMICs), and Clinical Assessment and Consultation Teams (CACT) be “delinked” from the Request for Proposal (RFP) to renew the managed care contract for mental health and substance abuse services. Gretchen Tegeler, Director of the Department of Management, who serves as a member of the Work Group, expressed her opposition to the recommendation of the Work Group. She remarked that she supported delinking the specified services from the managed care contract only if a clearly defined alternative for managing these services is available. Ms. Tegeler does not believe that such an alternative has yet been developed, and is concerned that the State may be subject to a financial audit by the federal Health Care Financing Administration (HCFA) if the State fails to include child welfare services in a capitated managed care environment. The Human Services Appropriations Subcommittee intends to discuss the recommendations of the Work Group at their meeting on January 28.

STAFF CONTACT: Deb Anderson (Ext. 16764) Margaret Buckton (Ext. 17942)

Justice System Appropriations Subcommittee

**Justice System Sub.** The Justice System Appropriations Subcommittee met January 20, 21, and 22 to hear budget presentations including budget requests, and the Governor’s recommendations; and discussed some issues from the following departments.

**Law Enforcement Acad.** Iowa Law Enforcement Academy (ILEA)

* The Governor is recommending $1.2 million from the General Fund and 27.1 FTE positions for the ILEA for FY 1999. This represents a decrease of $25,000 (2.1%) and an increase of 1.0 (3.8%) FTE position compared to estimated FY 1998.
* Continuing education needs for instructional staff.
* The use and effectiveness of the new Firearms Training System (FATS) machine to train officers for shoot/don’t shoot situations.
* The Drug Abuse Resistance Education (D.A.R.E.) program and the actual D.A.R.E. Surcharge collections compared to budgeted collections.

**Attorney General** Attorney General

* The Governor is recommending $12.4 million from the General Fund and 238.5 FTE positions for the Department of Justice for FY 1999. This is a decrease of $129,000 (1.)%) and an increase of 3.0 (1.3%) FTE positions compared to estimated FY 1998.
* Legal Services Poverty Grants and the services provided to low income persons.
* Technology and automation needs for the Office of the Attorney General.

**Public Def. & Ind. Defense** Public Defender and Indigent Defense



* The Governor is recommending $33.7 million from the General Fund and 199.0 FTE positions for the Indigent Defense Program and State Public Defender’s Office for FY 1999. This is an increase of $171,000 (0.5%) and no change in FTE positions compared to estimated FY 1998.
* The Governor’s proposal for indigent defense, including a $35 fee to establish a court fine payment plan and increased fee rates for private attorneys defending indigent clients in criminal cases.
* How counties have had to pay a portion of post-conviction relief cases when private attorneys are appointed and allowed rates above the $45 standard paid by the State.

**Public Safety** Department of Public Safety

* The Governor is recommending $48.0 million from the General Fund and 928.6 FTE positions for the Department of Public Safety for FY 1999. This is an increase of $10.1 million (26.6%) and 8.0 (0.9%) FTE positions compared to estimated FY 1998.
* Budgeting-for-Results.
* The DNA data base staffing funds needed when federal funds expire.
* The Sex Offender Registry costs and effectiveness for law enforcement purposes and for protection of the public.
* Replacement of federal funding for the Gang Unit and future funding for troopers hired under the Community Oriented Policing Services (COPS) grant.
* The Fire Marshal’s ability to perform all statutory duties due to a lack of funding.

**Parole Board** Parole Board

* The Governor is recommending $986,000 and 18.0 FTE positions for the Parole Board for FY 1999. This is an increase of $29,000 (3.1%) and no change in FTE positions compared to estimated FY 1998.
* The Governor’s proposal to create a vice-chairperson position.

* The effectiveness of computerization of records and procedures and the use of the Iowa Communications Network for parole interviews.



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Oversight and Communication Appropriations Subcommittee

**Oversight & Comm. Sub** The Oversight and Communication Appropriations Subcommittee met January 20 - 22.

**Joint Program Reviews** On January 20, Glen Dickinson, LFB, and John Stineman, Auditor’s Office, presented information related to the joint program reviews on the Manure Storage Indemnity Fund and the Department of Revenue and Finance tax processing proposal.

**ITS Budget Request** On January 21, James Youngblood, Director of Information Technology Services (ITS), presented and discussed the ITS budget request for FY 1999 and the Governor’s recommendation for creation of ITS as an independent office. The Governor is recommending $4.9 million and 158.0 FTE positions from the General Fund for FY 1999. This is a status quo budget request compared to estimated FY 1998. Mr. Youngblood asked that nonreversion language be added to the appropriation so that any savings generated by ITS could be used for re-investment in technology needs.

**ICN Budget Request** On January 22, Harold Thompson, Director of the Iowa Communications Network, presented and discussed the Governor’s recommendation related to the ICN budget request for FY 1999. The Governor has recommended $16.7 million and 98.0 FTE positions from the General Fund for FY 1999. This is an increase of $1.2 million (7.8%) and 15.0 (18.1%) FTE positions compared to FY 1998. This recommendation includes funding for video subsidization and ICN debt service.

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Transportation, Infrastructure, and Capitals Appropriations Subcommittee



**Tran., Infra., & Cap. Sub.** The Transportation, Infrastructure, and Capitals Appropriations Subcommittee met January 20 - 22. The Subcommittee heard presentations on the following subject areas:

* Department of Transportation - Budgeting for Results.
* Department of Public Safety - Request for operational support of the Road and Weather Information System.
* Department of Personnel - Proposed construction of a new building for the Iowa Public Employees Retirement System (IPERS).
* Department of Corrections - Governor’s FY 1999 capital project recommendations. The Governor is recommending $1.8 million from the Rebuild Iowa Infrastructure Fund for FY 1999. In addition, the Governor is recommending $7.1 million in capitol projects to be funded with bonds which will be used to match $8.9 million in federal funds.
* Department of Natural Resources - Governor’s FY 1999 capital project recommendations. The Governor is recommending $5.7 million from the Rebuild Iowa Infrastructure Fund for FY 1999. The recommendation includes shifting $2.3 million of Marine Fuel tax revenue to the Rebuild Iowa Infrastructure Fund and funding these projects (traditionally funded from Marine Fuel Tax revenues) from the Fund.
* Department of General Services - Governor’s FY 1999 capital project recommendations. The Governor is recommending $30.6 million from the Rebuild Iowa Infrastructure Fund for capital projects in FY 1999.

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DED Workforce Development Fund

**Board Approval** Section 15.34(3), Code of Iowa, requires the Director of the Department of Economic Development (DED) to submit proposed allocations of Workforce Development Funds to the DED Board for approval. The Section requires submission of any revisions to the current year allocation and the proposed allocation for the next fiscal year.



**Allocations** The DED Board approved proposed FY 1999 allocation and revisions to the FY 1998 allocation at the January 22 meeting. The FY 1998 allocation reduction was necessary due to decreased revenue projections. The approved allocations are shown in the following table.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  Program |  | Original FY 1998 |  | Adjusted FY 1998 |  | Approved FY 1999 |
| Iowa Jobs Training Program |  | $ 3,650,000 |  | $ 3,325,000 |  | $ 3,473,437  |
| Business Network Training |  | 828,720 |  | 600,000 |  | 463,125 |
| Apprenticeship Program |  | 600,000 |  | 600,000 |  | 694,688 |
| Targeted Industry Training |  | 300,000 |  | 275,000 |  | 271,875 |
| Innovative Skill Development |  | 300,000 |  | 200,000 |  | 271,875 |
| DED Sponsored Bus. Network |  |  |  |  |  | 1,000,000 |
| DED Sponsored Apprenticeship |  |  |  |  |  | 0 |
| Total |  | $ 5,678,720 |  | $ 5,000,000 |  | $ 6,175,000 |



**Projections** The amounts allocated include income tax withholding diverted from the General Fund pursuant to Section 422.16A, Code of Iowa, and principal and interest repayments on loans made with Fund monies. The amount available for allocation should grow each year until the statutory cap of $10.0 million per year is achieved (plus loan repayments). The amount of income tax withholding diverted from the General Fund is projected to be $4,750,000 in FY 1998 and $5,675,000 in FY 1999. The amount diverted in FY 1997 was $2,618,749.

**Purpose of Fund** The purpose of the Workforce Development Fund is to increase the growth of business and industry by increasing the skills of the current and future workforce and by increasing the size of the skilled workforce.

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Attorney General’s Opinion Released



**Opinion Issued** The Iowa Housing Corporation (IHC) is a private, non-profit entity created in March 1990 by the Iowa Finance Authority (IFA) (a State agency created in Chapter 16, Code of Iowa). In July and October of 1990, the Authority “irrevocably” granted a total of $8.0 million in excess Authority funds to the Corporation. The funds were to be used to provide grants, loans, subsidies, assistance, administration, and services to provide safe, decent, and affordable housing for low and very low income Iowans. In December 1990, the Director of the Authority resigned to become President of the Corporation.

**Questions Asked** On January 21, 1998, the Attorney General released an opinion concerning the Corporation. The opinion was requested by Representative Steven Churchill. The questions asked of the Attorney General were:

1. Did the Iowa Finance Authority exceed its legal authority by creating the Iowa Housing Corporation?
2. Does the method used to create and finance the Corporation make it an entity subject to state control?

**Question One** The opinion states that the Code of Iowa does not specifically allow the Authority to create a private corporation. However, a court may or may not find that the Authority had the power to create the Corporation, depending on the Court’s interpretation of Section 16.5, Code of Iowa (granting general powers to the authority). The Attorney General states that he “.*.strongly recommend(s) that any agency seeking to create a corporation or other separate entity obtain express legislative authority..”* (Page 3-5)

**Question Two** The opinion further states the Legislature specifically reserves the right to terminate the Iowa Finance Authority and/or redistribute its funds and assets. The Opinion concludes that a State agency cannot create an entity with powers in excess of those granted the agency by legislation. Therefore, the Authority cannot create an entity that the Legislature cannot terminate or redistribute its funds and assets. (Page 14) The opinion further states……*“On the facts as we understand them, it would appear that the Iowa Housing Corporation could likely be found to be a public, rather than private, corporation whose unencumbered assets remain subject to legislative control.”* (Page 5)

**Attorney General Conclusion** The opinion concludes:

 *“On the facts known to us, it would appear that the Iowa Housing Corporation, created without express statutory authority by the Iowa Finance Authority to carry out its duties and largely funded by bond proceeds, would constitute a program or activity of the Iowa Finance Authority. It could therefore be subject to legislative termination according to the legislative reservation of rights in the Finance Authority's enabling act. Unencumbered funds traceable to IFA monies could be subject to legislative diversion where diversion would not impair contractual obligations or violate trust conditions. IFA funds transferred to the Housing Corporation would remain subject to the public trust and conditions imposed in the transfer documents.” (Page 20)*

**IHC Finances** Since the Corporation’s inception, the majority of its revenue has been from interest and investment gain ($4.3 million) on the original IFA grant, while the majority of expenditures have been for salaries ($2.7 million) and other administrative expenses ($1.1 million). According to the annual audits of the Corporation (completed by KPMG Peat Marwick), the Corporation’s net worth at the end of FY 1997 was $9.9 million.

**Copies Available** Copies of the Attorney General’s opinion and an Iowa Housing Corporation ***Issue Review***, completed in February 1997, are available from the LFB.

STAFF CONTACT: Jeff Robinson (Ext. 14614)

Weekly Medical Assistance Program Expenditures



**Medical Assistance** For the week ending January 19, 1998, FY 1998 General Fund expenditures for the Medical Assistance Program in the Department of Human Services were $3.7 million (81.9% of budget). This is $827,000 below the weekly budget established by the Department. Year-to-date Medical Assistance General Fund expenditures are $181.8 million, which is $6.4 million (3.6%) above the amount budgeted for the fiscal year-to-date.

**Expenditures Monitored** The LFB will continue to monitor Medical Assistance Program expenditures and will provide regular updates to members of the General Assembly. More information is available from the Fiscal Bureau.



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1998 Appropriations Bills for Department of Energy and Water Development and Department of the Interior are Signed By President Clinton



**Federal Bills Signed** Two 1998 appropriations bills were signed by President Clinton for the Department of the Interior. They are the Department of the Interior and Related Agencies Appropriations Bill (H.R. 2107) and the Department of Energy and Water Development Appropriations Bill (H.R. 2203).

**Approved Budget Amounts** The President signed the FY 1998 Department of Energy and Water Development Appropriations Bill on October 13, 1997. Eight projects were cancelled by the President, including a $1.3 million project for copper mining research in the State of Arizona. The following table outlines the approved budget amounts for the Appropriations Bill.

 **FY 1998 DEPARTMENT OF ENERGY AND WATER\***

|  |  |
| --- | --- |
| **Description** | **Approved Amount**(000,000 Omitted) |
| FY 1997 Budget | $19,951 |
| FY 1998 House Budget | $20,003 |
| FY 1998 Senate Budget | $20,791 |
| FY 1998 President’s Request  | $22,634 |
| FY 1998 Budget | $20,732 |
| Dollar Change from FY 1997 to FY 1998 | $ 781 |
| % Change from FY 1997 to FY 1998 |  3.91% |

**Line Item Veto** The President signed the 1998 Department of the Interior and Related Agencies Appropriations Bill on November 14, 1997. A line item veto message on this Bill was signed by the President on November 20, 1997, eliminating two items for a total of $6.2 million. One was the provision which would have required the Department of the Interior to turn over $10 million in federal mineral rights to the State of Montana. The second was the construction of a dam on Forest Service land to create a lake for recreational use. The following table outlines the approved budget amounts for the Appropriation Bill.

**FY 1998 DEPARTMENT OF INTERIOR AND RELATED AGENCIES\***

|  |  |
| --- | --- |
| **Description** | **Approved Amount**(000,000 Omitted) |
| FY 1997 Budget | $12,490 |
| FY 1998 House Budget | $13,033 |
| FY 1998 Senate Budget | $13,754 |
| FY 1998 President’s Request  | $13,802 |
| FY 1998 Budget | $13,853 |
| Dollar Change from FY 1997 to FY 1998 | $ 1,363 |
| % Change from FY 1997 to FY 1998 |  10.91% |

\*Data from the National Conference of State Legislatures.

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