FISCAL UPDATE August 14, 2000

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Legislative Fiscal Committee

**Fiscal Committee Meeting** The Legislative Fiscal Committee met in Des Moines on August 2 and discussed the following:



* Revenue update - Dennis Prouty, Legislative Fiscal Bureau (LFB).
* Lease purchase notification from the Auditor of State for $199,000 for remanufactured modular furniture – Dave Reynolds, LFB.
* Update on Fort Dodge prison – follow-up from questions at June 22 meeting - Beth Lenstra, LFB.
* Tobacco securitization update - Beth Lenstra, LFB .
* Federal funding and issues update – Phil Buchan, State/Federal Office, provided an update on recent federal action via teleconference.
* Studies approved by the Legislative Council - Doug Wulf, LFB.
* Vision Iowa and Community Action and Tourism (CAT) Fund - ***Issue Review -*** Dwayne Ferguson, LFB, and a presentation by Nancy Landess, Tourism Director, Department of Economic Development.
* School Infrastructure Program - ***Issue Review*** - Robin Madison, LFB.
* Appropriation transfer of up to $15,000 to the General Office of the Department of Management from the Governor’s Office, State/Federal Relations.
* Underfunding of Health Insurance Costs & the Use of Insurance Reserves - Randy Bauer, Budget Director, Department of Management.



**Next Meeting** The next meeting of the Fiscal Committee is scheduled for Wednesday, September 6, at the juvenile institution in Eldora. Future meeting dates include:

* September 26 – University of Iowa
* November 15 – Des Moines
* December 6 – Des Moines

**More Information** For more information, please contact the Fiscal Bureau.

STAFF CONTACT: Holly Lyons (Ext. 17845)

Senior Living Trust Fund Update



**Senior Living Trust Fund** The Legislative Fiscal Committee discussed on August 2 the status of federal funding for Iowa’s Senior Living Trust Fund. The Fund was established in HF 2408 (2000 Senior Living Program Act) to administer federal funds received as a result of revised billing practices under the Medicaid Program. The revised billing entails claiming the “Upper Payment Limit” reimbursement for government-owned nursing facilities and includes the following steps:

* The State pays the maximum allowable amount (the Medicare rate) to qualified facilities and thereby maximizes the federal match received by the State.
* The State then requires nursing facilities receiving the maximum allowable reimbursement to return a portion of the reimbursement to the State. The amount to be returned is the difference between the maximum allowable amount paid (the Medicare rate) and the usual rate paid (the Medicaid rate).
* The State is able to use the money returned from the nursing facilities to fund other Medicaid expenses.



Trust Fund

**Proposed Expenditures** Iowa has proposed that the returned money be placed in the Senior Living Trust Fund and used to fund alternative long-term care services. Proposed long-term care alternative expenditures include $20.0 million per year to convert nursing facilities to assisted living, $5.0 million in FY 2001 to convert nursing facility reimbursements to a case-mix methodology, $12.8 million in FY 2001 to maintain the 70th percentile reimbursement for nursing facilities, and between $6.5 million and $12.2 million per year for alternative long-term care services.

**Classification of States** The federal Health Care Financing Administration (HCFA) has recently expressed concern over states’ use of this funding mechanism, in part because states are using the money returned from the nursing facilities for expenditures that are not Medicaid-related. A Notice of Proposed Rulemaking has been drafted which would phase out states’ ability to claim federal reimbursement based on the Upper Payment Limit. Three classifications of states have been identified:

* States with state plan amendments pending but not approved: These states are likely to have their amendments disapproved at the earliest possible date.
* States with approved state plan amendments but whose plans have been in effect for a short period of time: These states are likely to receive a very limited phase-out period.
* States with approved state plan amendments whose plans have been in effect for a long period of time: These states are likely to receive an extended phase-out period.



**Iowa’s Classification** Iowa received approval for its state plan amendment in April 2000, and would thus be classified as the second type of state (approved plan with a short effective period). When Iowa initially submitted its plan amendment, the Iowa Department of Human Services (DHS) estimated Iowa would receive approximately $80.0 million in each of FY 2001 and FY 2002, and would receive approximately $65.0 million, $35.0 million, and $10.0 million in FY 2003, FY 2004, and FY 2005, respectively. These estimates have been revised based upon indications from the federal Health Care Financing Administration. The DHS now estimates Iowa will receive approximately $95.0 million in FY 2001, $10.0 million in FY 2002, and nothing thereafter. If federal funding is received as now anticipated and expenditures from the Senior Living Trust Fund continue as originally planned, the Senior Living Program funds will be depleted in FY 2004.

**More Information** The LFB will continue to monitor and report developments relating to the Senior Living Program.

STAFF CONTACT: Deb Anderson (Ext. 16764) Sue Lerdal (Ext. 17794)

Department of Corrections Board Meeting

**Board Meeting** The Department of Corrections met August 4 in Cedar Rapids. The Board reviewed and approved pending administrative rules for offender telephone commissions, Newton and Fort Dodge Correctional Facility visits, and offender labor.

#### FY 2002

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**FY 2002 Budget**  The Board reviewed FY 2002 budget presentations from the Iowa Medical and Classification Center (Oakdale), Newton Correctional Facility, Fort Madison Correctional Facility, Anamosa Correctional Facility, Mount Pleasant Correctional Facility, and the First, Sixth, Seventh, and Eighth Judicial District Departments of Correctional Services (Community-Based Corrections – CBC). Highlights of the Institutions’ budget requests include:

* $880,500 for increased costs of natural gas and motor fuel.
* $683,000 for increased costs for support services, including electricity, maintenance agreements, professional service agreements, and dental costs.
* $251,000 and 1.5 FTE positions to prepare for the deployment of the Iowa Corrections Offender Network (ICON) in the Institutions.
* $52,900 to provide matching funds for a substance abuse treatment grant at Anamosa.
* $6.1 million and 115.4 FTE positions to annualize staffing costs for the new 200-bed Special Needs Unit at Fort Madison.
* $321,000 for an electrical power upgrade to accommodate the Special Needs Unit.
* $205,000 to hook up to the City of Coralville water system at Oakdale.
* $101,000 for increased wastewater treatment and health care costs at Newton.

**CBC Requests** Highlights of the CBC requests include:

#### FY 2002

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* $262,000 and 5.0 FTE positions to fund the Field Services workload formula in the Sixth, Seventh, and Eighth CBC District Departments.
* $28,000 for increased treatment program contracts in the First and Sixth CBC District Departments.
* $53,000 to replace expiring federal funds in the First CBC District Department (Youthful Offender Program) and the Eighth CBC District Department (Domestic Violence Program).
* $95,000 and 2.5 FTE positions to annualize staffing costs for additional residential beds in Dubuque.

**Next Meeting** The next meeting of the Board is scheduled for September 8 in Des Moines to review FY 2002 requests from the remaining institutions and CBC District Departments.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

State Soil Conservation Committee ConDUCTS Tour AND HOLDS Meeting in Waterloo

**Conservation Committee** The State Soil Conservation Committee sponsored a tour of various projects in Iowa on July 27. The projects included:



* A tour of the Cedar Hills Sand Prairie State Preserve near Waterloo led by Mark Loeschke. The tour included a discussion of the fen that is located in the Preserve. A fen is a specialized wetland that has saturated organic soil from groundwater seepage.
* A discussion led by Charles Kiepe on the Beeds Lake Watershed Project located in Franklin County. The Beeds Lake Watershed Project has targeted the reduction of sediment and other nutrient loading by encouraging farm producers to develop and implement Water Quality Resource Management Plans.
* A presentation on the Wright County Water Quality Project by Sean McCoy. He discussed how the County has 19 water quality monitoring sites that monitor for ammonia, nitrates, and phosphorus.
* Dean Lemke presented a review of the closure of agriculture drainage wells in Wright County. He explained that there are 38 drainage wells in the County. The area has received a Section 404 permit for wetland mitigation and there are 27 agriculture drainage wells that will be closed for an approximate cost of $3.3 million.
* Darwin Hartnett gave a tour of the quarry operations at Martin-Marietta Aggregates in Hardin County. The quarry processes over $9.0 million in crushed stone each year.
* A discussion on the South Fork Watershed Project by Kent Holmgaard. The Project strives to improve water quality in Wright, Franklin, Hamilton, and Hardin Counties.
* A discussion on Watershed Development Grants in Black Hawk County by John Schuler. The County is working to coordinate water quality ordinances between the urban and rural areas.

**Meeting in Waterloo** The State Soil Conservation Committee met on July 28 in Waterloo. The following items were discussed:

* John Sellers provided an overview of the Conservation Report presented at the National Governor’s Association meeting.



* Jim Gulliford, Division of Soil Conservation Director, provided an update on the Watershed Task Force that met in Decorah. There will be a report completed by the end of the year to submit to the General Assembly.
* Jim Gillaspey, Department of Agriculture and Land Stewardship, discussed the increased expenditures for the Soil Conservation District Field Offices for FY 2000. He provided an update on the Buffer Strip Initiative. He explained that each district would receive $5,000 for buffer strip initiatives that would not require matching funds. This money would be used to provide technical assistance to landowners. Each district would receive an additional $5,000 that would require a one-to-one match by the landowner. This money would be used for similar activities and for the purchase of equipment, such as seeders and planters.
* Ken Towe, Department of Agriculture and Land Stewardship, discussed federal regulations on mining reclamation. He explained that Iowa is one of the 12 states that does not have active mining operations, but is eligible for federal funds for emergency projects.
* Dean Lemke, Department of Agriculture and Land Stewardship, discussed the closing of additional agriculture drainage wells. There will be three new projects in Wright County and two new projects in Humboldt County. He attended a conference hosted by the American Society of Engineers that included a discussion of Total Maximum Daily Loads (TMDL). The discussion addressed the development and use of TMDL computer models and their accuracy.



* Jim Gulliford discussed the programs that are part of the Water Quality Initiative and the necessity for additional staff to implement the programs. He reported that Ann Robinson attended the national Conservation Reserve Enhancement Program (CREP) and reported it is likely that Iowa will be approved for the Program. Mr. Gulliford discussed the livestock management demonstration farm and how the Department will be holding eight focus group meetings to provide producers’ input for the project.
* Jim Gulliford asked the Committee to approve the new appointments of staff in the Soil Conservation District Field Offices. The appointments were approved. The Committee discussed awards to be presented at the annual meeting held in September.

**Next Meeting** The next meeting will be held on September 5 in Des Moines. The annual meeting will be held in Des Moines on September 6 and 7.

STAFF CONTACT: Deb Kozel (Ext. 16767)

LOTTERY REVENUES AND EXPENDITURES FOR FY 2000

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**FY 2000 Rev./Expenditures** Through June, FY 2000 Lottery game revenues decreased $5.6 million from the FY 1999 level. Lottery prize expenses decreased $3.6 million, operating expenses decreased $1.2 million, and transfers to other State funds decreased $0.8 million. The following table details revenues, expenditures, and balances of the State Lottery. Rows and columns may not add, due to rounding.

**Comparison to FY 1999** Fiscal year sales through June, compared to the same time period of FY 1999, were as follows:



* Instant ticket sales decreased $551,000 (1.0%).
* Iowa Lotto/Supercash/Pick 3 sales increased $210,000 (9.6%).
* Multi-State Powerball sales decreased $2.3 million (9.3%).
* Multi-State Daily Millions/Cash 4 Life sales decreased $319,000 (16.6%).
* Daily Game sales decreased $99,000 (4.4%).
* Pull-tab sales decreased $950,000 (5.3%).

**Ticket Sales** Total Lottery sales for June were $12.5 million, a decrease of $5.7 million (31.6%) compared to June 1999. June 2000 sales for Pick 3 were above sales for June 1999. In addition, Freeplay Replay, which was not offered in FY 1999, had June sales of $73,000, which is $46,000 below May 2000 sales.

**Estimated Transfers** The April Revenue Estimating Conference (REC) projected FY 2000 Lottery profit transfers to the General Fund will total $35.5 million. Actual General Fund transfers for FY 1999 were $36.5 million. Therefore, the REC is currently estimating General Fund Lottery transfers will be $1.0 million lower in FY 2000 than in FY 1999. Through June, fiscal year transfers to the General Fund are $0.8 million below FY 1999 and $0.2 million above the REC estimate for FY 2000.



**Expenditures** The following chart shows what happened to an average dollar expended on a lottery ticket in Iowa. For FY 2000, 55.0% was returned to the players as prizes, 20.2% was used to administer the lottery (including retailer and vendor compensation), 4.7% was transferred to the State as sales tax, and 20.3% was transferred to the State as profit. Percentages do not add to 100.0% due to changes in the Lottery's ending balance. Sales tax transfers do not equal 5.0% due to the inclusion of interest and fees in the revenue amounts.

**Sales Tax** In addition to the amount transferred to the State as profits, the Lottery has transferred $8.5 million in sales tax during FY 2000.

STAFF CONTACT: Ron Robinson (Ext. 16256)

Department of Revenue and Finance Files Rule to Collect An Administrative Fee on Local Option Sales and Services Taxes – *C O R R E C T I O N*



 FEE

**New Administrative Fee** The Department of Revenue and Finance is imposing a fee for FY 2001 to recover the direct costs of administrating local option sales and services taxes. The total cost recovery is estimated to not exceed $397,000. The Department intends to recapture the cost on the basis of the number of times the county appears on the returns processed by the Department during FY 2001. The Department estimates the fee to be approximately $0.65 per return.

**Taxes Processed** The Department estimates that approximately $253.9 million of local option sales and services taxes will be processed during FY 2001. The administrative fee represents approximately 0.2% of the total local option sales and services taxes.

**Rules Committee Meeting** The Rules Review Committee of the Legislative Council will meet on August 2 at 9:00 AM in Room 24 of the State Capitol to discuss the proposed rules.

**Public Hearing** A public hearing has been set for August 15 at 1:30 PM in the conference room on the fourth floor of the Hoover State Office Building. Persons may present their views concerning the fee at this hearing either orally or in writing.

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**Public Hearing**

**Authorizing Language** During the 2000 Session of the Legislature, HF 2545 (Administration and Regulation Appropriations Act) *as passed by the appropriations subcommittee*, included language that permits the Department of Revenue and Finance to charge a fee to recover the direct cost of administration related to the collection and distribution of local sales and services taxes. The language was retained during the budget negotiations with the Governor. *A previous edition of the* ***Fiscal Update*** *erroneously stated that the language was included at the request of the Governor.*

STAFF CONTACT: Ron Robinson (Ext. 16256)

*Issue Review* -- School Infrastructure Program

***Issue Review***  The LFB recently released an ***Issue Review*** concerning the School Infrastructure Program and the status of implementation by the Department of Education.

**Grants to School Districts** The Program will provide $50.0 million in grants to school districts over a three-year period and will be funded by the issuance of bonds. The General Assembly has appropriated $5.0 million annually from gambling revenues to pay the bonds. The ***Review*** includes proposed administrative rules that detail the criteria to be used in awarding grants. Other provisions highlighted in the ***Review*** include:



* Individual awards capped at $1.0 million.
* Local match requirement.
* Schedule for the three annual award cycles.
* Allocation requirements to ensure equity among districts of varying size.
* Provisions for unawarded funds to carry forward.

**Copies Available** Copies of the ***Issue Review*** are available upon request from the LFB.

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