FISCAL UPDATE May 22, 2002

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Governor Item Vetoes SF 2326 - FY 2003 Omnibus Appropriations Bill

**OMNIBUS**



**Item Veto – SF 2326** The Governor item vetoed and signed SF 2326, the FY 2003 Omnibus Appropriations Bill, on May 10. The Governor vetoed most of the Bill, citing a dramatic change in the State’s revenue projections. In the veto message, the Governor stated, *“…Due to recent action by the REC in lowering revenue projections, signing this bill would enact a general fund budget for fiscal year 2003 that results in a general fund deficit of more than $200 million and would be an irresponsible action. I cannot and will not do so.”*

**Sections Approved** The Governor approved most of Division IV of the bill, the Education appropriations, and all of Division IX, the Standing appropriations, and one section of Division VI, the Human Services appropriations. Each of the item vetoed divisions is discussed in a separate article in this *Fiscal Update*. Attached to this document (**Attachment 1**) is a spreadsheet reflecting all of the Governor’s General Fund item vetoes for FY 2003. The Governor item vetoed $1.4 billion from the $4.6 billion budget. Column headings include:

* Estimated net FY 2002 appropriation
* Revised Governor’s recommendation for FY 2003
* Final legislative action for FY 2003
* Governor’s item vetoes for FY 2003
* Net final action for FY 2003

**Special Session** The Governor has called the Legislature back for a Special Session to convene on May 28 to resolve the budget shortfalls for FY 2002 and FY 2003.

STAFF CONTACT: Mary Shipman (Ext. 14617) Holly Lyons (Ext. 17845)

Item vetoes - ADMINISTRATION AND REGULATION appropriations – Division I of SF 2326

**Item Vetoes – Division I** The Governor item vetoed Division I, Sections 1 through 33 of SF 2326, the FY 2003 Omnibus Appropriations Act, on May 10. Division I appropriated a total of $103.1 million and 1,969.7 FTE positions for the departments of the Administration and Regulation Appropriations Subcommittee. This included $80.0 million from the General Fund and $23.1 million from other funds. This is a decrease of $3.6 million from the General Fund, an increase of 7.8 FTE positions, and a decrease of $263,000 from other funds, compared to the FY 2002 estimated net appropriation.



**Appropriations** The FY 2003 General Fund appropriations represented a decrease of $17.7 million and an increase of 452.0 FTE positions compared to the Governor’s FY 2003 revised recommendations. Division I appropriated funds to the following entities:

Office of the Auditor of State

Ethics and Campaign Disclosure Board



Department of Commerce

Department of General Services

Office of the Governor and Lieutenant Governor

Department of Inspections and Appeals

Department of Management

Department of Personnel

Department of Revenue and Finance

Office of the Secretary of State

Office of the Treasurer of State

Information Technology Department

*Changes in HF 2623 (FY 2003 Salaries Act) resulted in a net of $100,000 for the Administration and Regulation Appropriations Subcommittee from the General Fund.*

**Copies Available**  Copies of the enacted version of SF 2326 and the veto message are available upon request from the Legislative Fiscal Bureau. The veto message can be found on the LFB web site at: <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Ron Robinson (Ext. 16256)

Item Vetoes - Agriculture and Natural Resources Appropriations – Division II of SF 2326



**Item Vetoes – Division II** The Governor item vetoed Division II, Sections 34 through 45 of SF 2326, the FY 2003 Omnibus Appropriations Act, on May 10. Division II appropriated $33.4 million from the General Fund and 1,503.3 FTE positions to the Department of Agriculture and Land Stewardship and the Department of Natural Resources. This is a decrease of $1.6 million (4.5%) and 11.3 FTE positions (0.8%) compared to the FY 2002 estimated net appropriation. This is a decrease of $570,000 (1.7%) and 3.0 FTE positions (0.2%) compared to the Governor’s revised recommendation for FY 2003. Division II appropriated the following:

**Dept. of Agriculture** Department of Agriculture and Land Stewardship - Appropriates a total of $17.5 million from the General Fund and 440.1 FTE positions, a decrease of $1.1 million (5.7%) and 11.3 FTE positions (2.5%) compared to the FY 2002 estimated net appropriation.



**Natural Resources** Department of Natural Resources - Appropriates a total of $15.9 million and 1,063.2 FTE positions, a decrease of $492,000 (3.0%) and no change in FTE positions compared to the FY 2002 estimated net appropriation.

**Copies Available**  Copies of the enacted version of SF 2326 and the veto message are available upon request from the Legislative Fiscal Bureau. The veto message can be found on the LFB web site at: <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Deb Kozel (Ext. 16767)

Item vetoes - Economic Development Appropriations – Division III of SF 2326



**Item Vetoes – Division III** The Governor item vetoed all of Division III of SF 2326 (Omnibus Appropriations Bill) on May 10. Division III appropriated $30.0 million from the General Fund and 463.6 FTE positions to the Department of Economic Development, Department of Workforce Development, Public Employment Relations Board, and several programs at Board of Regents institutions. This is a decrease of $4.4 million (12.8%) and 0.66 (0.1%) FTE position compared to the estimated net FY 2002 appropriation. The total General Fund appropriated amount is $1.4 million more than the Governor’s revised recommendation. The General Fund appropriations were distributed as follows:

* Department of Economic Development – An appropriation of $18.3 million, a decrease of $2.6 million (12.4%) compared to estimated net FY 2002.
* Iowa Workforce Development – An appropriation of $5.0 million, a decrease of $816,000 (14.1%) compared to estimated net FY 2002.
* Public Employment Relations Board – An appropriation of $834,000, which is no change compared to estimated net FY 2002.
* Regents University Programs – An appropriation of $5.9 million, a decrease of $1.0 million (14.6%) compared to estimated net FY 2002.

**Reason For Veto** The Governor stated that the veto of Division III was “necessary as a result of the REC’s lowering the revenue estimates,” and that he intends “to work with lawmakers in a special session this month to . . . reduce spending, reallocate existing resources, and balance this budget.”

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**Transfer Approved** The Governor approved Section 178 in Division IX, which transfers $2.7 million from the Title Guaranty Fund to the General Fund. An actuarial study during the 2001 interim determined that the balance in the Fund could be reduced and still meet the liabilities for title guaranties issued by the Title Guaranty Division of the Iowa Finance Authority.

**More Information** Additional detail about the appropriations item vetoed in Division III of SF 2326 is available in the Fiscal Update (page 8) dated April 22, 2002, from the Legislative Fiscal Bureau or on the web site at http://staffweb.legis.state.ia.us/lfb.

STAFF CONTACT: Dwayne Ferguson (Ext. 16561)

Governor Item Vetoes intent language in education appropriations – division iv of sf 2326

**Item Veto – Division IV** The Governor item vetoed intent language pertaining to two programs in Division IV, Education Appropriations, of SF 2326 (2003 Omnibus Appropriations Act).



**Intent Language** The vetoed intent language in Section 79, subsections 15 and 16, specified the intent of the General Assembly to cease providing state assistance for the Jobs for America’s Graduates (JAG) Program and the Americorps After-School Initiative beyond the fiscal year ending June 30, 2003.

**More Information** Copies of the enacted version of SF 2326 and the veto message are available upon request from the Legislative Fiscal Bureau. The veto message can be found on the LFB web site at <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Robin Madison (Ext. 15270) Mary Shipman (Ext. 14617)

Item Vetoes – health and human rights appropriations - Division V of sf 2326



**Item Vetoes – Division V** The Governor item vetoed Division V, Sections 87 through 98, and signed SF 2326, the FY 2003 Omnibus Appropriations Act, on May 10. Division V, Sections 87 through 98, appropriated a total of $50.0 million from the General Fund and 1,427.7 FTE positions to the seven departments of the Health and Human Rights Appropriations budget, a decrease of $35.9 million and 13.0 FTE positions compared to the FY 2002 estimated net appropriation.



**Appropriations** The FY 2003 General Fund appropriation represented a decrease of $2.0 million and an increase of 11.4 FTE positions compared to the Governor’s FY 2003 revised recommendations. The increase in FTE positions compared to the Governor’s FY 2003 revised recommendations was due to an adjustment made to the Department of Public Health’s estimated net FY 2002 FTE count due to fluctuating federal funds, which occurred after the Governor submitted his budget. The FTE positions in Division V of the Act accurately reflected the Governor’s decision packages.

**Highlights** Highlights of Division V, Sections 87 through 98, include:

* Department for the Blind – Appropriated $1.6 million from the General Fund and 106.5 FTE positions, a decrease of $124,000 and no change in FTE positions compared to the FY 2002 estimated net appropriation.
* Civil Rights Commission – Appropriated $951,000 from the General Fund and 35.8 FTE positions, a decrease of $112,000 and 1.0 FTE position compared to the FY 2002 estimated net appropriation.
* Department of Elder Affairs – Appropriated $4.1 million and 28.0 FTE positions, a decrease of $168,000 and 2.0 FTE positions compared to the FY 2002 estimated net appropriation.
* Governor’s Office of Drug Control Policy – Appropriated $412,000 and 11.0 FTE positions, a decrease of $63,000 and 2.0 FTE positions compared to the FY 2002 estimated net appropriation.
* Department of Public Health – Appropriated a total of $25.9 million from the General Fund and 365.0 FTE positions to the Department of Public Health, a decrease of $1.0 million and 4.0 FTE positions compared to the FY 2002 estimated net appropriation.
* Gambling Treatment Fund – Appropriated $3.3 million from the Gambling Treatment Fund to the Department of Public Health, which is no change compared to the FY 2002 estimated net appropriation.
* Department of Human Rights – Appropriated a total of $2.4 million and 35.4 FTE positions to the Divisions within the Department of Human Rights, a decrease of $177,000 and 0.7 FTE position compared to the FY 2002 estimated net appropriation.
* Veterans Affairs Commission – Appropriated a total of $14.6 million from the General Fund and 846.0 FTE positions to the Commission of Veterans Affairs, a decrease of $34.2 million and 3.3 FTE positions compared to the FY 2002 estimated net appropriation. The change included:
* A decrease of $34.1 million and 2.0 FTE positions to the Iowa Veterans Home compared to the FY 2002 estimated net appropriation. The decrease was largely due to the implementation of net budgeting, which would have been offset by $34.1 million in revenues the Home would have retained under net budgeting. The net effect would have resulted in an increase of $19,000.
* Revenue Adjustment – The implementation of net budgeting for FY 2003 would have resulted in a decrease of $30.4 million in General Fund revenues. The net effect to the General Fund, however, would have been zero, as General Fund expenditures would have been reduced by the like amount.

**More Information** Copies of the enacted version of SF 2326 and the veto message are available upon request from the Legislative Fiscal Bureau (LFB). The veto message can be found on the LFB web site at: <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Lisa Burk (Ext. 16765) Russ Trimble (Ext. 14613)

Human services appropriations - Division VI of SF 2326



**Item Vetoes – Division VI** The Governor item vetoed all of the Sections of Division VI except for Section 106 on May 10. The Division appropriated $780.1 million and 5,448.7 FTE positions to the Department of Human Services from the General Fund. This was an increase of $24.9 million and a decrease of 300.4 FTE positions compared to the estimated net FY 2002 appropriation. This was also an increase of $24.8 million and 67.2 FTE positions compared to the Governor’s revised recommendation for FY 2003.



**Impact of the Vetoes** House File 2623 (Salary Act) decreased the Medical Assistance Program appropriation by $3.7 million, appropriated an additional $1.5 million for the Children’s Health Insurance Program for the Healthy and Well Kids in Iowa ***(hawk-i***) Program, and altered the distribution of the FY 2003 Mental Health Allowed Growth monies. These were conditioned upon enactment of the respective Sections within SF 2326. With the item veto of the Medical Assistance Program appropriation in SF 2326, the reduction in HF 2623 does not apply. With the approval of the appropriation for the ***hawk-i*** Program in Section 106 of SF 2326, the increase approved within Section 109 of HF 2623 is also then effective. This results in the ***hawk-i*** Program receiving a State General Fund appropriation for FY 2003 of $11.5 million, an increase of $3.5 million compared to the estimated net FY 2002 appropriation, unless adjusted by future action of the General Assembly and the Governor.

**Mental Health Allowed Grwth** With the item veto of the Mental Health Allowed Growth appropriation in SF 2326, which reduced the previously enacted FY 2003 appropriation for Mental Health Allowed Growth, this action returns the appropriation to $14.9 million, or an increase of $6.0 million compared to the estimated net FY 2002 appropriation and distributes the funds as enacted in Chapter 176, 2001 Iowa Acts.

**Impact of Vetoes** Within HF 2623 there were other amendments relating to the Human Services areas that were not item vetoed, yet will not be enacted since the Sections that were amended were item vetoed in SF 2326. These include:

* Section 60, increasing the FY 2003 appropriation from Temporary Assistance to Needy Families (TANF) funds to the Family Investment Program.
* Section 61, relating to using TANF funds for an FTE position within the Department of Human Services.
* Section 62, specifying the reimbursement rate for nursing facilities.
* Section 64, relating to use of funds for a federal home telecare pilot project.

**More Information** Additional detail for the appropriations item vetoed in Division VI of SF 2326 is available in the ***Fiscal Update*** dated April 22, 2002, from the Legislative Fiscal Bureau or on the web site at <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Sue Lerdal (Ext. 17794) Sam Leto (Ext. 16764)

Item Vetoes - Justice System Appropriations – Division VII and Division VIII of SF 2326



**Item Veto – Div. VII & VIII** The Governor item vetoed all of the Sections in Division VII and Division VIII on May 10. These Divisions appropriated $473.6 million and 8,065.7 FTE positions from the General Fund to the Attorney General, Parole Board, Department of Corrections, Iowa Law Enforcement Academy, Department of Public Defense, State Public Defender, the Department of Public Safety, and the Judicial Branch. This was a decrease of $3.4 million and 156.1 FTE positions compared to the estimated net FY 2002 appropriation. This was also an increase of $48.8 million and 95.0 FTE positions compared to the Governor’s revised recommendation for FY 2003. This increase is primarily due to the Governor recommending that $55.5 million in Use Tax receipts be used to fund various operations of the Department of Public Safety (DPS). The General Assembly funded all operations for the DPS from the General Fund.

**More Information** Additional detail for the appropriations item vetoed in Division VII and Division VIII of SF 2326 is available in ***the Fiscal Update*** dated April 22, 2002, from the Legislative Fiscal Bureau or on the web site at <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Jennifer Dean (Ext. 17846) Beth Lenstra (Ext. 16301)

Governor Vetoes the Transportation Appropriations Bill – HF 2612



VETO

**Veto – Transp. Bill** The Governor vetoed the Transportation Appropriations Bill (HF 2612), which appropriated a total of $261.5 million to the Department of Transportation. The Governor stated that he has proposed a plan to provide resources to maintain the progress that has been made in education and health care while also providing funding from the Tobacco Settlement Restricted Capitals Account to ensure that highway construction is maintained at the same rate as planned. The Governor further stated that no road construction projects would be slowed or stopped under this plan and that enactment of HF 2612 would not allow for the implementation of this plan.

STAFF CONTACT: Mary Beth Mellick (Ext. 18223) David Reynolds (Ext. 16934)

Governor Signs the Infrastructure Appropriations Bill – HF 2614



Governor

Signed

**Governor Signed** The Governor signed the Infrastructure Appropriations Bill (HF 2614), which appropriated a total of $236.0 million in FY 2003, $52.6 million in FY 2004, $17.9 million in FY 2005, and $2.5 million in FY 2006. The Bill appropriated funds from the Restricted Capital Fund of the Tobacco Settlement Trust Fund, the State Wagering Tax allocation, the Rebuild Iowa Infrastructure Fund, and the Environment First Fund. The following table shows the amounts appropriated from the respective funds.



STAFF CONTACT: David Reynolds (Ext. 16934)

Governor signs the Oversight Government Reform Act – sf 2325

**Governor Signed** The Governor signed SF 2325 (Oversight Government Reform Act) on May 10.

**Reorganization** The Act provides for the reorganization of the following departments:



* Department of Inspections and Appeals
* Department of Natural Resources

**Committee Charges** The Act creates the Legislative Oversight Committee as a permanent committee of the Legislative Council and directs the Committee to systematically review the programs, agencies, and functions of the Executive and Judicial Branches to ensure that public resources are used in the most efficient manner.

**Birth Centers** The Act modifies the process for regulation of birth centers.

**More Information** More information is available at the Legislative Fiscal Bureau or contact the LFB web site at: <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Douglas Wulf (Ext. 13250) Glen Dickinson (Ext. 14616)

Governor Item Vetoes HF 2623 - Salary, Statutory Changes, and Corrective Changes Act

**Item Veto – HF 2623** The Governor signed and item vetoed HF 2623 (FY 2003 Salary, Statutory Changes, and Corrective Changes Act) on May 10. The Act provides $41.1 million of other funds for salary adjustment, makes adjustments to several General Fund and other fund appropriations in other bills, and makes a variety of statutory and corrective changes.



**Sections Vetoed** Following is a summary of the item vetoes (entire Sections were vetoed unless otherwise noted):

* Section 17 – This Section eliminated the requirement that innovation projects produce savings and eliminated the standing appropriation to repay the Innovations Fund for savings that do not directly accrue to a department. The Governor stated that this change would reduce the flexibility of the Program.
* Sections 18 through 21 and 33 through 35. These Sections relate to the authorization and requirement that State departments utilize credit card transactions for payments from customers. The Governor stated that no funding was provided for transitioning to this new payment method and no transaction fees were authorized.
* Section 42. This Section prohibits publication of the list of abandoned property that has reverted to the State by the State Treasurer between September 10 and November 10. The Governor stated this was in conflict with Section Nine of the Uniform Unclaimed Property Act of 1995 and would unduly restrict flexibility of the State Treasurer in scheduling staff workload.
* Section 49. This Section requires the Departments of General Services, Personnel, and Information Technology to consult with affected departments in identifying duplicative positions or studying reorganization within State government. The Governor stated that a study of duplicative positions and functions is currently being done.



* Section 52. This Section requires the Department of Agriculture and Land Stewardship and the Department of Natural Resources to provide data, on a quarterly basis, regarding all expenditures with moneys appropriated from the General Fund and other funds for the quarter and the number of full-time equivalent positions allocated during the quarter. The Governor stated that the Legislative Fiscal Bureau already has access to this data through the budget system and no reporting mandate is necessary.
* Sections 57 and 59. This Section eliminates the Scope of Practice Review Committee related to the Department of Public Health. The Governor stated that most health care organizations do not support eliminating the Committee.
* Section 58. This Section makes the appropriation to the Department of Human Rights, Division on the Status of African-Americans, contingent upon appointment of an administrator and all nine members of the Commission. The Governor stated that this jeopardizes funding for the entire Division, if a vacancy occurs.



* Section 65. This Section limits the costs for gambling enforcement that can be billed to riverboats and racetracks, which was an amount less than 100% of the costs for riverboat enforcement in FY 2003. If this Section had been retained, the cap in future years would have generated a lower percentage of actual costs in each future fiscal year. This Section would have generated $1.4 million in General Fund revenue in FY 2004. The Governor stated this would effectively cap enforcement costs and lead to a reduction in revenue that is not reflected in the Legislature’s budget assumptions.
* Sections 66 and 67. These Sections make changes in funding for Public Transit Assistance. The Governor stated that he approved funding for Public Transit Assistance in SF 2326 (FY 2003 Omnibus Appropriations Bill) and Section 67 proposes to reduce the amount appropriated from the General Fund for Public Transit Assistance by $1.1 million and these dollars have already been allocated and likely spent by the local systems.

**Copies Available**  Copies of the enacted version of HF 2623 and the veto message are available upon request from the Legislative Fiscal Bureau. The veto message can be found on the LFB web site at: <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Mary Shipman (Ext. 14617) Glen Dickinson (Ext. 14616)

Governor Signs FY 2003 Block Grant and Federal Funds Appropriations Act – HF 2582



Governor

Signed

**Governor Signed** The Governor signed HF 2582, the FY 2003 Block Grant and Federal Funds Appropriations Act, on April 12. The Act provides the mechanism for the State to receive an estimated $163.2 million in federal block grant funds, including:

* Substance Abuse Block Grant - $12.7 million
* Community Mental Health Services Block Grant - $3.6 million
* Maternal and Child Health Services Block Grant - $7.0 million
* Preventive Health and Health Services Block Grant - $1.9 million
* Drug Control and System Improvement Grant - $6.5 million
* Stop Violence Against Women Block Grant - $1.8 million
* Local Law Enforcement Block Grant - $342,000
* Residential Substance Abuse Treatment for State Prisoners Formula Grant Program - $838,000
* Community Services Block Grant - $7.0 million
* Community Development Block Grant - $31.8 million
* Low-Income Home Energy Assistance Program (LIHEAP) Block Grant - $31.1 million
* Social Services Block Grant - $17.6 million
* Child Care and Development Block Grant - $41.0 million

**Categorical Funds** In addition, the Act provides the mechanism for State agencies to receive $2.803 billion in categorical and nonstate funds.

**More Information** Additional information regarding the FY 2003 Block Grant and Federal Funds Appropriations Act is available from the Legislative Fiscal Bureau or on the LFB web site at: <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Lisa Burk (Ext. 16765) Russ Trimble (Ext. 14613)

Governor signs Healthy Iowans Tobacco Trust (HITT) Act – HF 2615



Governor

Signed

**Governor Signed** The Governor signed HF 2615, the FY 2003 Healthy Iowans Tobacco Trust Act, on May 10. The Act appropriates $65.2 million and 28.9 FTE positions from the Healthy Iowans Tobacco Trust (HITT) for various health-related appropriations. This is an increase of $4.9 million and a decrease of 46.6 FTE positions compared to the estimated net FY 2002 appropriation. The Act:

* Appropriates a total of $44.9 million from the Healthy Iowans Tobacco Trust to the Department of Human Services, including $42.8 million for Medicaid-related appropriations. The appropriations also include $2.1 million for the Health Insurance Portability and Accountability Act (HIPPA), a new appropriation for FY 2003.



* Appropriates $17.5 million and 11.0 FTE positions to the Department of Public Health for various prevention, treatment, and cessation programs.
* Appropriates $610,000 for four Judicial District Departments of Correctional services for day programming and drug courts.
* Appropriates $1.2 million for School Ready Grants for Iowa Empowerment.
* Appropriates $1.1 million and 17.9 FTE positions to the Department of Corrections for a special needs unit at Fort Madison. This is a new appropriation for FY 2003.

**Other Provisions** The Act also:

* Requires that $9.0 million of the $75.0 million of the FY 2003 appropriation from wagering taxes to the Endowment for Iowa’s Health Account of the Tobacco Settlement Fund be transferred to the Healthy Iowans Tobacco Trust.
* Eliminates the $27.0 million FY 2003 appropriation from the General Fund to the Endowment for Iowa’s Health Account of the Tobacco Settlement Trust Fund.
* Specifies that funds remaining from the FY 2002 appropriation of $2.0 million for a substance abuse treatment program at Knoxville be expended to supplement the appropriations for the poison control center in Sioux City and substance abuse treatment programs.

**More Information** Additional information is available in the ***Fiscal Update*** dated April 22, from the Legislative Fiscal Bureau or at the web site at <http://staffweb.legis.state.ia.us/lfb> .

STAFF CONTACT: Sue Lerdal (Ext. 17794) Russ Trimble (Ext. 14613)

Governor signed Tobacco Settlement Enforcement Act - SF 2317



Governor

Signed

**Governor Signed** The Governor signed SF 2317 on May 10, which provides a FY 2002 supplemental appropriation of $945,000 to the Treasurer of State for payment of litigation fees incurred pursuant to the Master Settlement Agreement. The appropriation is made from the tax-exempt bond proceeds of the Restricted Capital Fund. The General Assembly appropriated $10.6 million for litigation payments in FY 2002 from the Restricted Capital Fund in HF 755 (FY 2002 Standing Appropriations Act). Litigation payments are based on estimated quarterly Master Settlement Agreement receipts, which have decreased slightly from the original estimate.

**Item Vetoes** The Governor vetoed Sections One through Eight of SF 2317, which provides an enforcement mechanism for the Master Settlement Agreement. The Governor expressed concern that these Sections may place Iowa out of compliance with certain provisions of the Master Settlement Agreement, thereby jeopardizing tobacco settlement receipts due to Iowa under the Agreement.

STAFF CONTACT: Beth Lenstra (Ext. 16301) Dave Reynolds (Ext. 16934)

Governor signed Senior Living Trust Fund and Hospital Trust Fund Appropriations Act – HF 2613



Governor

Signed

**Governor Signed** The Governor signed HF 2613, the FY 2003 Senior Living Trust Fund and Hospital Trust Fund Appropriations Act, on May 10. The Act appropriates a total of $58.2 million and 13.0 FTE positions from the Senior Living Trust Fund to the Department of Elder Affairs and the Department of Human Services (DHS) for FY 2003. This is a decrease of $32.6 million and no change in FTE positions compared to the FY 2002 estimated net appropriations. In addition, the Act appropriates a total of $12.0 million from the Hospital Trust Fund to the DHS, which is a new appropriation for FY 2003.

**Highlights** Highlights of the Act include:

* Appropriates $6.6 million and 8.0 FTE positions from the Senior Living Trust Fund to the Department of Elder Affairs for the Senior Living Program for FY 2003, an increase of $1.2 million and no change in FTE positions compared to the FY 2002 estimated net appropriation.

* Appropriates a total of $51.7 million and 5.0 FTE positions from the Senior Living Trust Fund to the DHS, a decrease of $33.8 million and no change in FTE positions compared to the FY 2002 estimated net appropriation. The appropriations are as follows:
* Appropriates $21.7 million and 5.0 FTE positions to supplement the Medical Assistance Program (Medicaid) appropriation for the Elderly Home and Community-Based Waiver and the State Supplementary Assistance Program. This is a decrease of $19.0 million and no change in FTE positions compared to the FY 2002 estimated net appropriation.
* Appropriates $30.0 million for nursing facility provider reimbursements based on a case-mix reimbursement methodology, an increase of $5.2 million compared to the FY 2002 estimated net appropriation.
* Appropriates $12.0 million from the Hospital Trust Fund to the DHS to supplement the Medical Assistance Program (Medicaid) appropriation for FY 2003. This is a new appropriation for FY 2003.

**More Information** Additional information is available from the Legislative Fiscal Bureau or at the web site at: <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Lisa Burk (Ext. 16765) Sam Leto (Ext. 16764)

Governor Signs Animal Agriculture Act – SF 2293



Governor

Signed

**SF 2293–Animal Agriculture** The Governor signed SF 2293 (Animal Agriculture Act) on April 29. The Act changes the regulations for animal feeding operations and creates the Animal Agriculture Compliance Fund that will be administered by the Department of Natural Resources (DNR). The Animal Agriculture Compliance Fund can receive appropriations from the State, federal funds, private donations, and fines collected from penalties. The Act:

* Requires animal feeding operations to pay an annual fee of $0.15 per animal unit that will be deposited into the Assessment Account of the Animal Agriculture Compliance Fund. The fees will be used to fund 12.0 FTE positions for enforcement of the regulations outlined in the Bill.



* Requires animal feeding operations with more than 500 animal units to submit an annual manure management plan. The operator will pay a one-time filing fee of $250.
* Requires animal feeding operations with 1,000 or more animal units to obtain a construction permit and pay a $250 construction permit fee.
* Charges fees for the certification of manure applicators. The fee for a Confinement Site Applicator is $100 for a three-year period and the fee for a Commercial applicator is $200 per year.
* Specifies fines collected for civil penalties are deposited into the General Account of the Animal Agriculture Compliance Fund.



* Requires the DNR to conduct a comprehensive field study to monitor airborne pollutants emitted from animal feeding operations.
* Requires the DNR to process manure management plans using electronic files and specifies the manure management plans include phosphorus application rates.
* Requires the DNR to complete a comprehensive nutrient management strategy.
* Requires the DNR to complete an assessment of nutrient control technologies.
* Requires the DNR to develop water quality standards for phosphorus and complete a study that analyzes the effects of phosphorus originating from municipal and industrial sources and from farm, lawn care, and garden uses on the water bodies in the State.
* Allows the DNR to charge a monthly interest rate on delinquent fees or fines.



* Requires persons polluting State water bodies that destroy fish or wild animals to be responsible for the replacement of the wildlife. Funds will be deposited into the Fish and Game Protection Fund.
* Establishes the Master Matrix Technical Advisory Committee to assist in the development of the master matrix.

**More Information** More information is available at the Legislative Fiscal Bureau or contact the LFB web site at: <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Deb Kozel (Ext. 16767)

FY 2003 K-12 Public School Funding

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**K-12 Funding** The 2002 General Assembly appropriated $1.953 billion from the General Fund and Other Funds for programs pertaining to FY 2003 public K-12 education. Programs that received the funding include (percent of total K-12 funding in parentheses):

* School Aid (91.3%)
* Educational Excellence (3.4%)
* Student Achievement/Teacher Compensation Program (2.1%)
* Early Intervention/Class Size Reduction (1.5%)
* Instructional Support Program (0.8%)
* Child Development (0.6%)
* Technology/School Improvement (0.3%)

**Funding Sources** The table below provides the estimated FY 2002 and FY 2003 appropriated amounts and sources for the funds.

**More Information** For further information regarding this information, contact the Legislative Fiscal Bureau.

STAFF CONTACT: Shawn Snyder (Ext. 17799)

School Budget Review Committee Meeting



**Committee Meeting** On May 13, the School Budget Review Committee met and took action on the following FY 2002 modified allowable growth requests:

* Approved the New Hampton School District’s request of $18,000 for costs associated with asbestos removal.
* Tabled the Coon Rapids–Bayard School District’s request of $300,000 for costs associated with furnishing and equipping a building previously approved by the voters. The issue may be brought up in the September 2002 meeting.
* Approved the MFL Mar-Mac School District’s request of $44,000 for costs associated with boiler replacement.
* Approved the Estherville-Lincoln School District’s request of $48,000 for costs associated with the Limited English Proficient Program.
* Approved the Norwalk School District’s request of $163,000 for costs associated with equipping and furnishing a new building approved by the voters and $198,000 for costs associated with implementing a new program.
* Approved the West Des Moines School District’s request of $84,000 for costs associated with asbestos removal and $34,000 for costs associated with repair and treatment due to termite infestation.
* Approved the Ames School District’s request of $110,000 for costs associated with the Limited English Proficient Program.
* Approved the Washington School District’s request for $110,000 for costs associated with the Limited English Proficient Program.

**Next Meeting** The next meeting is scheduled for September 9, 2002.

STAFF CONTACT: Shawn Snyder (Ext. 17799)

Board of Regents Meeting - April

**Board Meeting** The Board of Regents met on April 17 at the Iowa School for the Deaf in Council Bluffs. Significant agenda items included:



* Election of Board President – Owen Newlin was re-elected to serve as President of the Board through April 30, 2004.
* Banking Committee – The Committee and the Board approved the following bond resolutions:
* $14.6 million Academic Building Revenue Refunding Bonds for the University of Iowa (SUI). These bonds will be used to refund the 2003 through 2015 maturities of the $19.6 million of bonds dated April 1, 1992.
* $4.9 million Academic Building Revenue Refunding Bonds for the University of Northern Iowa (UNI). These bonds will be used to refund the 2003 through 2015 maturities of the $5.5 million of bonds dated July 1, 1991.
* $6.3 million Parking System Revenue Bonds for Iowa State University (ISU).

**Lease Purchase Approved** The Committee and the Board also approved a lease purchase agreement for replacement of the scoreboard at Jack Trice Stadium at ISU.

* Regent Merit System Pay Plan Hearing – The Board set May 8 as the date for the hearing at the Memorial Union at Iowa State University.
* Residence System Rates for 2002-2003 – The Board approved the rate increases as proposed at the March meeting. Rate increases are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2001-02****Rate** | **2002-03****Proposed****Rate** | **Dollar****Increase** | **Percent****Increase** |
| SUI | $ 4,671 | $ 5,255 | $ 584 | 12.5% |
| ISU | 4,666 | 5,020 | 354 | 7.6% |
| UNI | 4,398 | 4,640 | 242 | 5.5% |



* Miscellaneous Fees and Charges - The Board approved non-tuition related fees as proposed at the March meeting. Non-tuition related fees include a variety of items ranging from course delivery fees to private music lessons. A summary of fee changes for FY 2003 includes:
* SUI – requested five new fees, increases in 21 fees ranging from $1 to $175, and two decreases in fees.
* ISU – requested two new fees, increases in 13 fees ranging from $1 to $50, and decreases in three fees.
* UNI – requested 11 new fees, increase in 12 fees ranging from $1 to $100, and decreases in six fees.
* Parking Rates – The Board approved parking fee changes as proposed at the March meeting. The Parking systems are self-supporting and do not receive State appropriated funds.
* Annual Report on Competition with Private Enterprise – State law precludes the Board of Regents institutions from competing with private enterprise, except in certain situations. To be in compliance with the law, the Board has adopted a policy that the institutions will not engage in competition with private enterprise unless the activity will assist in the education, research, extension, or service mission of the institutions. The Report summarizes competitive activities for the year, including complaints received. No complaints were received during calendar year 2001.
* Report on Legislative Session – The Report summarized information regarding appropriations for the Board of Regents institutions and other policy-related legislation approved by the General Assembly.

**Next Meeting** The next meeting of the Board will be May 15 and 16. The meeting on May 15 will be held at the Iowa Braille and Sight Saving School at Vinton. The Board will meet on May 16 at the University of Iowa.

STAFF CONTACT: Mary Shipman (Ext. 14617)

May Meeting of the Council on Human Services

**Council Meeting** The Council on Human Services met on May 8 and conducted the following business:

**Administrative Rules** Administrative Rule Action:



* Amends Chapters 41 and 93 of the Iowa Administrative Code for the Family Investment Program (FIP) and Promise Jobs Programs to eliminate well-being visits. The fiscal impact is a savings of $297,500 in FY 2002.
* Amends Chapters 51 and 52 of the Iowa Administrative Code relating to payment level increases for the State Supplementary Assistance Program. There is no fiscal impact expected.

**Future Action** Future administrative rule action will include:

* Rewrite of a previously noticed administrative rule change regarding county liability for a technical correction for the offset of county debt. There is no fiscal impact expected.
* Change rules related to the Home and Community Based Services waivers in the Medical Assistance Program.
* Change rules related to the federal requirement for conversion to the maintenance-of-payment-levels method in the State Supplementary Assistance Program.

**Comments by Members** The Council heard from Council members regarding:

* Discussion regarding the suggestions and requests from members of the Medical Assistance Advisory Council for input in the Medicaid estimating process.
* Significance of members of the Council visiting local offices and discussions with Departmental employees.
* The format for the FY 2004 budget public hearing and methods to increase the amount of testimony from members of the general public in lieu of specific associations.
* Determined the June Council Meeting will be held via conference call.
* Possible impact of the eligibility of school children for the State Supplementary Income (SSI) Program upon the Medical Assistance Program.

**Director’s Comments** The Council heard from Director Rasmussen regarding:

* The meeting of the Medicaid Work Group as required in HF 2245 (FY 2002 Medicaid Supplemental Act) on May 14.



* The impact of FY 2002 and FY 2003 budgets from revised estimates by the Revenue Estimating Conference’s May 7 meeting.
* Possible action upon FY 2003 appropriations bills and revenue increases which may be considered during the Special Session.
* Process planned for the FY 2004 budget may be impacted by expected State revenues.
* Discussion regarding the Medical Assistance Program will not necessarily be directly impacted by positive changes in the economy.
* Possible future news articles regarding various programs of the Department.

**Staff Comments** Staff from the Department of Management, Department of Human Services (DHS), and the Legislative Fiscal Bureau discussed the Medicaid expenditure projection process.

**Budget Issues** DHS staff discussed the status of budgets for FY 2002 and 2003. Information was distributed indicating the line items that may require an appropriation transfer from another budget unit to cover expenditures in FY 2002. The schedule of budget development for FY 2004 was also provided.

**Other Issues Discussed** The Council discussed the following:

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* **Iowa Juvenile Home -** The Council received information regarding the community services project underway at the Iowa Juvenile Home in Toledo.
* **Restructuring of the Dept. -** Received an update on the restructuring of the Department.
* An update regarding the status of the special session of the Iowa General Assembly and the FY 2003 budget and statutory changes impacting the Department.

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

STAFF CONTACT: Sue Lerdal (Ext. 17794) Sam Leto (Ext. 16764)

May Board of Corrections Meeting



**Board Meeting** The Board of Corrections met May 3 at the Riverview Release Center in Newton. Warden Mapes welcomed the Board to the Institution, and thanked his excellent staff for their hard work over the last year. The Institution has over 40 vacancies at this time, most of which are supervisory positions. Most vacancies will not be filled due to budget constraints.

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**Staff Issues** Director Kip Kautzky remarked that the Institutions have approximately 300 fewer staff than one year ago. He noted each correctional officer now supervises 20.0% more offenders. Workloads for nursing, foodservice, and counseling staff have increased proportionately. The Institutions are operating with a nursing staff shortage. Recently, there was a major incident at the Fort Dodge Correctional Facility. A fistfight involving multiple inmates occurred in the exercise yard that required correctional officers and other staff to stop. Director Kautzky said the prison system is “very fragile” and the Department needs to reduce safety risks to both staff and offenders. Director Kautzky stated, “The prison system can safely manage 7,800 offenders and no more”. The prison population was operating at 119.3% of capacity on May 3, with 8,079 inmates, and 300 fewer staff than a year ago. Director Kautzky indicated the Department needs to make a collaborative effort with the Board of Parole to move low-risk offenders back to the community as soon as possible. Director Kautzky stated, “We may have an incident in the community” and he expressed concern that budget reductions and salary adjustment shortfalls reduce the Department’s ability to provide services to offenders to create positive change.

**Length of Stay** Director Kautzky stated that Iowa’s length of stay for certain offender classes has increased by 100.0% in the last 10 years. Approximately 25.0% of inmates that are released from prison have served their full sentence in prison. This means that prisoners are released with no community supervision, which may impact public safety.

**TASC Program** Director Kautzky indicated that the Community-Based Corrections (CBC) budgets for the Treatment Alternatives to Street Crimes (TASC) Program have been “eviscerated”. Limited urinalysis is being conducted, which impacts accountability for offenders.

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**Budget Issues** Board Chair Suellen Overton indicated that Board members met with legislators before the start of the most recent Regular Session of the General Assembly to emphasize that the Department of Corrections (DOC) “faces a budget crisis” and certain tools needed to be provided:

* Increase judicial discretion.
* Reduce the number of low-risk offenders in the corrections system.
* Increase CBC programs.

 Chair Overton stated that the “Legislature failed to respond” and the DOC is continuously being asked, “to do more with less” and we are “sitting on a powder keg”.

**Constraints** Board member Don Tietz stated that the DOC is being required to operate above capacity with a reduction in staff. He indicated that three constraints prevent low-risk offenders from being moved through the system more quickly:

* Lack of money for supervision.
* Lack of political interest.
* Lack of innovative concepts.



**Joint Ventures** He stated that the DOC should increase joint ventures with local communities to utilize county jails and county homes to house and supervise offenders. The offenders could be paid the prevailing wage at the local level and be required to pay 100.0% of their stay in the jail. Chair Overton indicated that the majority of low-risk offenders are in prison due to mandatory minimum terms and cannot be released. Director Kautzky indicated the DOC needs to invest resources to limit community harm. Mr. Tietz stated the DOC needs to work with communities to find jobs for low-risk offenders. Board member Francis Colston said that “innovative concepts” sounds simplistic but it is not easy to administer. Board member Robyn Mills indicated that more resources are needed to meet offender needs, such as education and substance abuse treatment, to meet Board of Parole standards for release. However, these services have been reduced due to budget reductions.

**Work Release** Currently, there are 300 inmates who have been approved for work release but are waiting in prison for beds to open in CBC residential facilities. Over 400 inmates are held in prison longer than they need to be, due to a lack of primary substance abuse treatment.



Substance Abuse Treatment

**Treatment Needs** Assistant Director Lowell Brandt indicated that 80.0% of all prisoners admitted to the system need primary substance abuse treatment. The DOC needs to serve approximately 4,000 offenders annually. However, the DOC has 700 licensed primary substance abuse treatment beds. Approximately 65.0% of all offenders need some level of substance abuse treatment in CBC. Approximately 7,000 offenders annually in CBC need primary substance abuse treatment. However, private providers have approximately 500 treatment beds available. Substance abuse treatment capacity in the private provider system has not been increased in recent years.

**Impact of Reductions** The Violator Program and the InnerChange Freedom Initiative are operating in the Institutions. However, due to budget reductions, the following has occurred to substance abuse treatment:

* Eliminated at the North Central Correctional Facility in Rockwell City.
* Reduced by 50.0% at the Luster Heights Prison Camp.
* Reduced outpatient services by 50.0% at the Iowa Correctional Institution for Women in Mitchellville.
* Reduced services by 33.0% at the Newton Correctional Facility.
* Lost clinical supervision at the Anamosa State Penitentiary and the Newton and Fort Dodge Correctional Facilities.
* Counselors who leave prison employment will not be replaced.
* Eliminated the substance abuse assessment contract at the Iowa Medical Classification Center in Oakdale.



**Drug Courts** In CBC, four drug courts are operating without General Fund appropriations. The CBC District Departments rely primarily on private providers for substance abuse treatment; the District Departments have limited treatment dollars. In the Operating While Intoxicated (OWI) Treatment Program, offenders are paying a greater share of treatment program costs. Three CBC District Departments have eliminated the TASC Program, while the remaining five CBC District Departments have reduced TASC contracts.

**Program Statistics** Assistant Director Brandt stated that the prison system offers primary treatment that lasts four to six months. Most OWI Treatment Programs operated by the CBC District Departments last three to four months. The average length of stay in the private provider system is eight to nine days for outpatient treatment, 19 to 20 days for in-patient treatment, and four to six weeks for aftercare services. Private sector providers are reimbursed by the Department of Public Health’s (DPH) substance abuse managed care system, a sliding fee scale for clients, and private sector payers. The DPH is concerned about reduced treatment days and quality of care. The DOC is working closely with the DPH to improve the quality of treatment. Assistant Director Brandt stated the average monthly admissions to the prison system were 371 offenders in FY 1999 and 461 offenders in FY 2002. Admissions have increased by 24.3% while budgets have been reduced.



**Centralized Canteen System** Iowa Prison Industries Director Roger Baysden presented information on the centralized canteen system that is unique to the Iowa prison system. He stated it is a “food store in a prison system that operates as e-commerce”. The system serves six of the nine prisons. All canteen items are purchased and stored at a warehouse at the Newton Correctional Facility. Institutions receive weekly delivery of orders. The canteen employs four staff and 30 inmates. Approximately 100,000 hours of inmate work is generated annually through this system. Inmates learn skills such as inventory control, shelf management, order checking, and computer operations. Sales are expected to be $2.5 million annually with a 7.0% to 8.0% profit margin. Profits will be used to provide inmate education programs.

**Benefits** The centralized canteen system offers the following benefits:



* Improved security. Any item that may be fashioned into a weapon has been eliminated from the system, with the exception of V-8 juice cans.
* Decreased prices. Inmates are paying approximately 20.0% less than previously for the same or similar items.
* Increased inmate hours of work.

**Reduction Offset** Director Kautzky stated that the DOC would use money from Iowa Prison Industries and the Telephone Rebate Fund to offset the $2.8 million General Fund reduction to the Corrections Education Program.

**Next Meeting** The next Board meeting will be held June 7 at the Iowa Correctional Institution for Women at Mitchellville.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

Legislative Oversight Committee Meeting

**Oversight Committee** The Legislative Oversight Committee met on May 8, in Room 19 of the State Capitol Building.



**Meeting Dates** The Committee discussed meeting dates for the Interim and selected a variety of topics to focus on during the 2002 Interim. Meeting dates for the Committee are:

* June 20
* July 9 and 10
* August 26 and 27
* September 24 and 25
* October and November – no meeting scheduled
* December 16 and 17

**Agenda Topics** Topics selected to date include:

* Handling of student records at Iowa Central Community College.
* Review of the Iowa Revenue Estimating Conference process and comparison with the process used by other states and the private sector.
* Review of the previous effort by the Fisher Commission to identify areas to eliminate or restructure in State government and generate savings.
* Review of the Governor’s proposal for creation of new Department of Administrative Services.
* Review treatment options for children that currently attend the School for the Blind and alternative uses for the facilities.

**Proposed Dept. Review** At the September meeting the Committee will select the department and programs of State government that will come under review during 2003.



**Reorganization Efforts** The Committee also heard presentations related to reorganization efforts within the Department of Inspections and Appeals and the Department of Natural Resources.

* Steve Young, Director, Department of Inspections and Appeals, presented the Committee with an overview of the Child Advocacy Reorganization. He discussed funding for the Program, staff locations, personnel issues, and productivity.



* Jeff Vonk, Director, Department of Natural Resources, presented the Committee with an update on the reorganization within the Department. He stated progress had been made in the process and things were moving forward. He gave an overview of the individuals and their positions.

**SF 2325 – Oversight Bill** At the time of the meeting, SF 2325 (Oversight Government Reform Bill), which codifies the reorganizations, had not yet been signed by the Governor. The Governor did sign the Bill on May 10, 2002.

**Meeting Location** All meetings will be held in Room 19 of the Capitol.

**More Information** More information is available at the Legislative Fiscal Bureau or contact the LFB web site at: <http://staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Douglas Wulf (Ext. 13250) Glen Dickinson (Ext. 14616)

Iowa Telecommunications and Technology Commission (ITTC) April Meeting

**ITTC Meeting** The Iowa Telecommunications and Technology Commission met Thursday, April 9, at the STARC Armory. The meeting was called to order, the minutes from last meeting were approved, and the Commission addressed the following issues:

**ETC Issues** The Education Telecommunications Council (ETC) briefed the Commission and addressed the following issues: the affordability of rates, how to handle more Internet demand, the funding cuts of ETC people, and the status of Phase III.



**Phase 3 Leases** Tommy Thompson informed the Commission that the seven-year leases of Phase 3 are starting to expire. Some of the contractors are donating the tail circuits to the schools. If the school does not want the circuits, the circuits will then go to the ICN. Adesta Communications has seven lease agreements expiring at the end of June 2003. The ICN staff has met with McLeod regarding their leased tail circuits but no decision has been made.

**Advisory Committee Update** The Library Network Advisory Committee provided the Commission with an update. There were 8,461 billable hours throughout the State or 705 billable hours per month. The heaviest users of the ICN video transmission were Spencer, Harlan, and Belmond. The Committee estimated a cost savings of $228,247 by using ICN video conferencing vs. paying travel reimbursements incurred by having face-to-face meetings and training sessions.

**Waiver Requests Approved** The ITTC approved two waiver requests. The first waiver request was from the Maharishi University of Management in Fairfield regarding calling cards and Internet. The second waiver request was from Mount Mercy College regarding ICN Internet services.



Homeland Defense

**Homeland Defense** Tommy Thompson briefed the Commission on the progress with Homeland Defense. The two greatest risks cited were Cyber Terrorism and Bioagricultural Terrorism. Current groups involved in Homeland Defense discussions are the Army’s Creative Testing and Demonstration team, the Department of the Army Defense Network, the Rock Island Arsenal, and the Army Corps of Engineers. The ICN is interested in building a demo model for Homeland Security that would be used as a model across the nation.

**Common Carrier Status** The United State Telecommunications Association (USTA) has appealed the ICN’s status as a common carrier. The Court of Appeals said that the original decision stands and they would only address new grievances. The U.S. Court of Appeals asked the USTA to provide a dissertation describing the damages that were received from the Federal Communications Commission decision that the ICN is eligible for the e-rate program.

**Revenue** Denise Strum reported that revenue was not as high as projected for the ICN, especially in the area of installations, but outside maintenance and sub services ended the fiscal year under budget.

STAFF CONTACT: Jennifer Dean (Ext. 17846)

Economic Development Board Meeting



**Board Meeting** The Economic Development Board met on May 16 and elected Bob Boken of Ft. Dodge as the new chairperson. Next the Board made several decisions concerning departmental programs. Highlights include:

* **Community Economic Betterment Account (CEBA)** – The Board approved three projects. All of the projects have wages that exceed the local 90.0% wage threshold.
* Rock Valley / Valley Industrial Powder Coating, Inc., received a $37,500 forgivable loan for a start-up business that uses an advanced dry powder coating process on metal manufactured products. The business is to create 15 new jobs with an average wage of $11.57 per hour.
* Rock Valley / Poly-Tin, Inc., received a $37,500 five-year, 0.0% loan for an expansion project. The business combines plastic and metal processing to agricultural equipment, making products such as plastic coated metal heads for combines. Fourteen new jobs will be created with an average wage of $10.82 per hour.
* Cedar Rapids / Universal Engineering Corporation received a $200,000 1.0% forgivable loan. The company makes crushed stone products. The company was founded in 1906 and has been purchased several times. The current owner, Metsco Corporation of Finland, has decided to close or sell off the operation. A company management group formed Universal Engineering Corporation to buy the business. The business has 55 employees with an average wage of $19.84 per hour, which is almost twice the 90.0% wage threshold.
* **New Jobs and Income Program** – Cargill is planning to construct a $4.0 million multi-level facility in Monroe County to produce glucosamine from corn. Glucosamine is a dietary supplement to treat joint problems and arthritis. Currently, glucosamine is produced from shellfish, which can cause allergic reactions in some people. A corn-based product is less likely to cause allergic reactions. The Board waived the 50-job creation requirement. The project will create 15 new jobs with an average wage of $14.71 per hour, and Cargill will receive a 5.0% tax credit for its $30.0 million investment ($4.0 million for the building and $26.0 million for equipment).
* **Enterprise Zone Program** – Appanoose County received approval to add 39.05 acres to the Centerville Enterprise Zone.

**Dept. of Trans. Issues** The meeting concluded with a discussion by Mark Wandro, Director of the Department of Transportation, of the relationship between transportation systems and economic development and about the issues for highways, railroads, and airports. Comments were made about the budget, highway construction, and related issues.

STAFF CONTACT: Dwayne Ferguson (Ext. 16561)

State Board of Education Meeting

**Board Meeting** The State Board of Education met on May 9 and 10, welcoming new board members and electing officers for the coming year. The new members are Jim Billings of Spirit Lake and Sr. Jude Fitzpatrick of Davenport. Gene Vincent was elected president, and Sally Frudden was elected vice-president.

**Board Action** In addition to routine items of business, the Board:



* Gave final approval to administrative rules for teacher intern preparation programs.
* Received reports on teacher preparation programs at Graceland and Marycrest Colleges.
* Approved accreditation for Area Education Agency 16.
* Received a status report from the work group studying the achievement gap in Iowa schools.
* Discussed the Department of Education’s plans for meeting the requirements of the federal No Child Left Behind Act, the reauthorization of the Elementary and Secondary Education Act.
* Received the certified FY 2003 budgets for the community colleges and discussed community college funding with David England, President of Des Moines Area Community College.

**Next Meeting** The next meeting of the Board will be a retreat meeting June 19-21.

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

STAFF CONTACT: Robin Madison (Ext. 15270)

Medical Assistance Advisory Group Meeting

**Advisory Group Meeting** The Medical Assistance Advisory Group required in HF 2245 (FY 2002 Medical Assistance Supplemental Appropriation Act) met on May 14 to continue discussions on the funding issues, relating to the Medical Assistance Program in FY 2002 and in future years. The items discussed included:

**Projection Process** Presentation on Medical Assistance Program projection process:

* Staff from the Department of Human Services (DHS) reviewed its material and explained the process to currently develop annual budgets for the Medical Assistance Program. The presentation included the methodology used to project the number of persons eligible for the program (i.e. eligibility) and budget forecasting. The Group was also provided with information relating to projection methodologies for Medicaid programs in other states.
* Staff from the Legislative Fiscal Bureau (LFB) discussed the joint monthly meetings with staff of the DHS and Department of Management (DOM) to review eligibility projections and budget forecasts relating to FY 2002 and FY 2003.
* Staff from the LFB also discussed the possibility of a 10-year review of economic factors, such as unemployment, to determine parallels with the number of eligibles and expenditures in the Medical Assistance Program.
* The Staff Projection Workgroup plans to continue monthly meetings and will engage staff from other states regarding projections and forecasting models to be considered for use or adaptation in Iowa.

**Leveraging Strategies** Leveraging Strategies:

* A representative from Myers and Stauffer, a consultant for the DHS, presented leveraging strategies, which may reduce the State expenditures by increasing federal revenues in the Medical Assistance Program. The strategies discussed included a State Maximum Allowable Cost Program to control pharmaceutical drug costs, Medicare Cross-over claiming in Nursing Facilities, Provider Participation Fees, and reduced reimbursement for “holding” beds at Nursing Facilities.

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 **Drug Utiliz. Commission** Drug Utilization Review (DUR) Commission:

* The Project Coordinator for the Drug Utilization Review Commission provided the members with background on the Commission and its responsibilities. The presentation included areas the Commission may pursue to assure proper utilization of pharmaceutical drugs and which may produce savings in the Medical Assistance Program, such as expanding prior authorization.

**NCSL Presentation** Presentation by the National Council of State Legislators (NCSL):



* Staff from the NCSL presented via teleconference to the Group regarding the national perspectives of Medicaid costs and State budget issues, and options states are exploring or enacting to reduce state expenditures in Medicaid. The options include prescription drug options such as preferred drug lists, supplemental rebates, and ingredient and dispensing fee changes; provider taxes or user fees; recasting long-term care (Olmstead planning); selective contracting discussions; Health Insurance Flexibility and Accountability (HIFA) options and other federal options; and disease management activities.

**Next Steps** Next Steps:



**Projections**

* House File 2245 requires this Group to issue a report to the Legislative Fiscal Committee and to the Co-Chairpersons and members of the Human Services Appropriations Subcommittee by June 1, 2002, regarding the activities of the Group and proposed recommendations for systemic changes in the Medical Assistance Program.
* The Group determined it would draft a report, allow members to review and modify, and submit the report by June 1. The Group discussed the possibility of meeting in the future to continue discussions, receive updates from staff, and review new options for reducing Medical Assistance Program expenditures.

**More Information** Additional information is available from the Legislative Fiscal Bureau.

STAFF CONTACT: Sam Leto (Ext. 16764) Sue Lerdal (Ext. 17794)

Mental Health and Developmental Disabilities Commission

**Commission Meeting** The Mental Health and Developmental Disabilities Commission met on May 7 and conducted the following business:



* Received information from the Division of Behavioral, Developmental and Protective Services for Families, Adults, and Children representative regarding concerns of the FY 2002 and FY 2003 budgets toward the administrative support for the Commission.
* Took action upon various county waiver requests.
* Took action upon various accreditations.
* Met with the State County Management Committee. House File 2430 (Mental Health and Developmental Disabilities Act) eliminates this Committee and merges the duties with the Commission. Discussion included but was not limited to:
* Prioritization of the duties.
* Membership transition process and timing.
* Development of a work plan for the future.
* Timelines for specific duties, including:
* November 1, with the New Commission becoming effective.
* November 15, statutory deadline to recommend to the Governor and General Assembly the FY 2005 mental health allowed growth factor.
* December 1, statutory deadline for an annual report to the Governor and General Assembly reviewing the actions of the Commission and possible recommendation for statutory changes.
* January 1, 2003, a report to the Governor and General Assembly, review of available and extent of disability services, and a report regarding the Resident Advocacy Committees.

**Next Meeting** The next Commission meeting is scheduled for June 4, and the final State County Management Committee is scheduled for June 7.

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

STAFF CONTACT: Sue Lerdal (Ext. 17794)

Child Care Advisory Council Meeting

**Council Meeting** The Child Care Advisory Council of the Department of Human Services met May 9 and conducted the following business:



* Received information regarding the empowerment areas and the FY 2003 budget.
* Reviewed a power point presentation and information regarding the preliminary report of the Midwest Child Care Consortium, for the findings from the Midwest Child Care Research Study. The Study consists of data from child care settings in Iowa, Kansas, Missouri, and Nebraska. Copies of the presentation are available upon request.
* Heard information regarding a web site related to the Iowa Early Care and Education Professional Development at [www.iaeceprofdev.org](http://www.iaeceprofdev.org) authored by the Leadership Council for Child Care Training and Development.
* Discussed possible additional federal funding for child care and related activities, with a State match expected prior to eligibility for the additional funding.
* Commented upon the recent media coverage regarding child care licensure and regulation issues.
* Reviewed expectations for administrative rule changes based upon statutory changes made by the General Assembly for child care registration and inspections.
* Discussed the FY 2003 possible budget for child care expenditures.
* Recognized nine individuals for the Gold Seal Award for child care providers.
* Discussed changes in national reports regarding health and safety education for child care providers.

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

STAFF CONTACT: Sue Lerdal (Ext. 17794)

Appropriation Transfer Notice - Department of Human Services

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**Appropriation Transfer** The Legislative Fiscal Bureau has received a transfer notice regarding the Department of Human Services per Section 8.39, Code of Iowa. The Department of Management plans to transfer $1,027,744 from the Medical Assistance Program to the State Supplementary Assistance Program for FY 2002.

**Rationale for Transfer** The explanation for the transfer indicates that the funds are necessary to assure the State meets the federal maintenance of effort requirements of the State Supplementary Assistance Program and to avoid the risk of losing $1.2 billion federal Medicaid dollars. The amount of transfer would restore the 4.3% and additional 1.0% across-the-board reductions.

 Action on this transfer will not be finalized prior to May 22, 2002.

STAFF CONTACT: Sam Leto (Ext. 16764) Sue Lerdal (Ext. 17794)

Cherokee County Receives Rebuild Iowa’s Sound Economy (RISE) Grant

**RISE Grant Application** Cherokee County filed a RISE Immediate Opportunity Grant application in February, requesting $240,000 to grade and pave approximately 5,300 feet of F Avenue, from Iowa 3, one mile north to 480th Street. The project is necessary to provide paved access to a proposed ethanol plant to be constructed by Little Sioux Corn Processors. The total cost of the road improvement project is $720,000.

**Commission Approval** In March, the Department of Transportation (DOT) Commission approved the grant of $240,000, or up to 33.3% of the total RISE eligible project cost, whichever is less, from the County share of the RISE fund. The grant was approved, contingent on the following conditions:

* Utilization of the proposed economic development;
* Creation of 40 new jobs at Little Sioux Corn Processors within two years after completion of the RISE project; and
* Fulfillment of the legislative requirements for the RISE Program.

According to the application, the road project will assist in:

* Creation of 40 new jobs at Little Sioux Corn Processors, and
* $54.0 million in associated capital investment.

**Average Starting Wage** Little Sioux Corn Processors will be located about two miles east of Marcus. The average starting wage for new positions at the plant will be approximately $14.00 per hour compared to 75% of Cherokee County’s average wage rate of $7.79 per hour. A low turnover rate for employees at the plant is expected. The County proposes $480,000 (66.7%) local participation, in addition to the RISE request of $240,000, for the $720,000 project.

**Capital Investment** The RISE cost per job assisted will be $6,000, and there will be a total capital investment of $225 for each RISE dollar requested. The amount is based on the RISE cost per job assisted at other ethanol plants. Because ethanol plants have a high capital investment, the ratio of RISE dollars per capital investment is five to six times higher than other RISE projects.

**Little Sioux Corn** Little Sioux Corn Processors is an Iowa-registered company with 650 investors, 69% of which are farmers. The plant is anticipated to change the basis of corn value in northwest Iowa by $.10 or more.

STAFF CONTACT: Mary Beth Mellick (Ext. 18223)

Civil Reparations Trust Fund Notice

**Civil Reparations** As of March 28, 2002, the Civil Reparations Trust Fund has approximately $222,000. The money in the Civil Reparations Trust Fund is available for use for indigent civil litigation programs or assistance programs.

STAFF CONTACT: Jennifer Dean (Ext. 17846)

AUDIT REPORT - DEPARTMENT OF PUBLIC HEALTH

**Audit Report** The State auditor conducted and completed an audit of the Department of Public Health for FY 2001.

**Findings** Findings reported include:



1. Earmarking - The Department received Crime Bill Funds from the federal government and did not establish procedures to document the amount of Crime Bill Funds spent on Secondary Education. The Bill required that 25.0% of the Funds be earmarked for this purpose.
2. Subrecipient Monitoring – The subcontract between the Department and subrecipients requires the subrecipient to submit a quarterly report of program activities. One subrecipient did not do this for the entire year.
3. Segregation of Duties – Incompatible duties should not be performed by the same employee. An employee of the Department can initiate and approve payroll transactions.
4. Cash Receipts – An initial list of cash receipts is not prepared at the time the mail is opened in various divisions of the Department.
5. Cash Management – Effective cash management procedures provide for minimizing the amount of time between the drawdown/request for federal funds and the disbursement of those funds. It also minimizes the amount of State funds that must be used to operate the program until the federal funds are received. There were several instances where there were excessive negative cash balances during certain periods of FY 2001.
6. Equipment Management – Chapter 7A.30 of the Code of Iowa requires each department of the State to keep written, detailed, up-to-date inventory of all real and personal property belonging to the State. The Department utilizes computer software to maintain a listing of equipment, which includes equipment purchased by subrecipients with federal funds. Two of 25 items tested could not be located by the subrecipient who was listed as custodian of the equipment item, and one of 25 items was transferred to another subrecipient but the Department’s equipment inventory was not updated to reflect the change in custodian.

**Department Response** The Department’s responses to the findings included corrective action for all the findings, and the response was accepted by the State Auditor.

STAFF CONTACT: Russ Trimble (Ext. 14613)

Audit Report - Department of Public Defense

**Audit Report** The State Auditor completed a report on the Department of Public Defense for June 30, 2001. The Legislative Fiscal Bureau received the report April 30, 2002. The following are some of the report findings:



**Cash Management** Compliance with Cash Management Improvement Act – The Cash Management Improvement Act (CMIA) agreement between the State of Iowa and the United States Treasury is on a reimbursable funding basis requiring the State to submit a request for payment based on past expenditures within 14 days of those expenditures. The State will begin calculating a federal liability from the day the funds are disbursed until federal funds are received.

**Payroll Expenses** The Auditor found that for two of the twenty-six pay periods, payroll expenses for Security and the Air Base were requested and received before the payroll warrants were issued. For sixteen of the twenty-six pay periods, the request for reimbursement was submitted from fifteen to twenty-seven days after the end of the pay period. The Auditor’s Office recommended the Department develop procedures to ensure that federal funds for payroll are requested on a reimbursable and timely basis

 Response and Conclusion - The Military Division stated that Article VII Section 1 of the Constitution of Iowa made the reimbursement method of obtaining federal funds noncompliant. The Division is striving to put procedures in place to change the State/Federal cooperative agreement to an advance payment method and should be in place by October 1, 2002. The response was acknowledged and will be reviewed during the next audit period.

**Fed Fund Reimbursement** The Master Cooperative Agreement for the National Guard Special Military Operations and Projects provides that states on a reimbursement basis will expend the funds prior to requesting reimbursement of federal funds.

 Recommendation - The Department should develop procedures to ensure that State funds are being spent prior to requesting reimbursement of federal funds.

 Response and Conclusion - The Military Division is striving to put procedures in place to change the State/Federal Cooperative Agreement to an advance payment method. The procedures should be in place by October 1, 2002. The response was acknowledged and will be reviewed during the next audit period.

**Pre-Contract Questionnaire** The Iowa Department of Revenue and Finance requires that for all service contracts over $25,000, a pre-contract questionnaire be completed as a planning document. In addition, a Request for Proposal (RFP) process or other authorized competitive process shall be undertaken unless sole source conditions exist and can be clearly documented and justified on a “Report of Sole Source Procurement”.

 Recommendation and Response – The Military Division should implement and does have procedures in place to ensure that all contracts follow proper procedures and policies for procurement.

 Conclusion - The Military Division should contact the Attorney General’s Office to determine the applicability of Iowa Department of Revenue and Finance policies and procedures for service contracts. After contacting the Attorney General, the Military Division should contract the United States Department of Defense to resolve the issue.

**Time Records** The Department of Public Defense is required, under OMB Circular A-87, to keep appropriate time distribution records for employees who work on multiple activities or cost objectives. These time records were not kept for Department employees who allocate time between one or more federal programs. The Department did not obtain semi-annual certifications from those employees working solely on single federal award program or cost objectives.



Recommendation – The Department should maintain appropriate time distribution records to support payroll distribution costs among federal programs. The Department should also obtain single project certifications from employees working on single federal award programs or cost objectives semi-annually.

Response and Conclusion– The Department is going to implement the “WORK” reporting system in the Human Resource Information System (HRIS) to met the requirement of employees maintaining time distribution records. The Department is also waiting for FEMA to send a letter on the definition of “cost objective”. The system is planned to be in place July 1, 2002, and the Auditor will review the new reporting system during the next audit period.

**Internal Control Issues** The Report includes the following Military Division internal control issues:

* Three assets were incorrectly deleted from FY 2001. The assets should have been deleted from FY 2002.
* Two compressors were combined and capitalized. Each compressor was less than $2,000 and should therefore have been expensed rather than capitalized.
* An adjustment of $52,915 was made to buildings that was not supported.
* The fixed asset listing includes federal buildings on federal land which are not State property.

 Response – The Military Division has corrected these items. Currently, the Military Division does not have written policies and procedures related to fixed asset management. At the time of the next audit, progress toward new written policies and procedures will be reviewed.

STAFF CONTACT: Jennifer Dean (Ext. 17846)

President Bush Signs Farm Security Act of 2002

**Farm Security Act** The President signed the Farm Security and Rural Investment Act of 2002 on May 13. The following is a brief summary of some of the items included in the Farm Security and Rural Investment Act:

* Commodities—outlines the loan rates, direct payments, and target prices for grain commodities. Maintains the Milk Price Support Program and establishes the National Dairy Program that will provide assistance to milk producers. Specifies the payment limitations of all commodities programs and creates a commission to study farm payment programs.
* Conservation Practices—provides funding of $17.1 billion for conservation programs. They include the Conservation Reserve Program (CRP), the Wetlands Reserve Program, the Grasslands Reserve Program, the Farmland Protection Program, the Wildlife Habitat Incentives Program, the Environmental Quality Incentives Program (EQIP), the Water Conservation Program, the Conservation Security Program, the Small Watershed Rehabilitation Program, the Underserved States Program, and the Desert Terminal Lakes Program.
* Trade—provides funding of $1.1 billion for agriculture trade programs. They include the Market Access Program, the Technical Assistance for Specialty Crops Program, the Foreign Market Development Cooperator Program, the Food for Progress Program, and the Global Food for Education Initiative Program.
* Nutrition—provides funding of $6.4 billion for nutrition programs. This includes the reformation of the Food Stamp Program. Also increases funding for the Farmer’s Market Nutrition Program for senior citizens and low-income families.
* Credit—reauthorizes farm lending programs in the United States Department of Agriculture (USDA) and extends the duration of the loans.
* Rural Development—provides funding of $1.0 billon for rural development programs. This includes the Rural Local Television Broadcast Program, the Broadband Services in Rural Areas Program, the Rural Strategic Investment Program, the Funding for Rural Development Backlogs Program, and the Rural Firefighters and Emergency Personnel Grant Program.
* Research—provides funding of $1.3 billion for the reauthorization of current programs and the establishment of new research and extension programs related to agriculture.
* Forestry—provides new funding of $100.0 million for a forestry cost-share program.
* Energy—provides funding of $405.0 million for five energy programs. They include the Commodity Credit Corporation Bioenergy Program, the Biobased Product Purchasing Preference Program, the Biodiesel Fuel Education Program, the Renewable Energy System Program, and the Biomass Research and Development Program.

**More Information** More information is available from the Legislative Fiscal Bureau upon request or at the web site: <http://staffweb.legis.state.ia.us/lfb/subcom/ag_dnr/ag_dnr.htm>. For a summary of the Act refer to: <http://agriculture.senate.gov/Briefs/2001FarmBill/2001farmbill.html>

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This document can be found on the LFB web site: <http://staffweb.legis.state.ia.us/lfb/fupdate/fupdate.htm>