

FISCAL UPDATE

Legislative Fiscal Bureau

December 13, 2002

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<http://staffweb.legis.state.ia.us/lfb>

DECEMBER REVENUE ESTIMATING CONFERENCE

REC Meeting

The Revenue Estimating Conference (REC) met December 6 to review the FY 2003 General Fund revenue estimate and to establish an estimate for FY 2004.

FY 2003 Estimate Increased

The REC reviewed the September revenue estimate established for FY 2003. Total tax and other receipts was set at \$5.025 billion or .3% increase from the FY 2002 receipts. The FY 2003 Net General Fund estimate was set at \$4.520 billion, a decrease of \$161.5 million (- 3.5%) compared to actual FY 2002. The decrease to the Net General Fund is attributable to the decrease in transfers going to the General Fund and the change in Tax Refunds.

FY 2004 Estimate



The REC established an FY 2004 revenue estimate. Total tax and other receipts was set at \$5.106.8 billion or 1.6% increase from FY 2003. The Net General Fund estimate of \$4.526 billion is an increase of \$5.4 million (0.1%) compared to the FY 2003 estimate. The REC projected increases in personal and corporate income taxes offset by a decrease in transfers from other funds. Inheritance tax is projected to decrease due to reduced capital asset values combined with federal estate tax changes (phase-out of pick-up tax). There were no legislative revenue changes enacted since the September REC meeting. Therefore, all changes to the FY 2003 estimate were due to Conference assumptions concerning the economy and General Fund receipt patterns.

Gambling Revenue Estimates



The Conference did not revise the estimate for gambling receipts deposited to other funds for FY 2003 and established an FY 2004 estimate equal to the FY 2003 estimate. The estimate for both years is \$121.3 million. Gambling proceeds to the General Fund are statutorily capped at \$60.0 million, with the excess deposited to the Rebuild Iowa Infrastructure Fund, Vision Iowa Fund, and School Infrastructure Fund.

Estimates by Source

The following spreadsheet shows the estimates for the two years and the changes to the FY 2003 estimate by general area (dollars in millions). A more detailed version of this spreadsheet is available at this web address: <http://staffweb.legis.state.ia.us/lfb/gre/gre.htm>

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Revenue Estimating Conference Projections

	September FY 2003 Estimate	December FY 2003 Estimate	FY 03 Estimate Increase (Decrease)	December FY 2004 Estimate	Projected FY 2004 Increase
Income Tax	\$2,417.7	\$2,444.4	\$26.7	\$2,529.4	\$85.0
Sales Tax	1,467.5	1,449.2	-18.3	1,449.2	0.0
Use Tax	241.0	240.8	-0.2	240.8	0.0
Corporate Tax	221.7	226.2	4.5	241.2	15.0
Other Taxes	362.6	364.0	1.4	352.7	-11.3
Other Receipts	297.6	300.4	2.8	293.5	-6.9
Total Taxes & Other Receipts	\$5,008.1	\$5,025.0	\$16.9	\$5,106.8	\$81.8
Transfers	\$127.4	\$127.4	\$0.0	\$42.0	\$-85.4
Accruals	5.5	6.0	0.5	12.0	6.0
Refunds	-622.0	-638.0	-16.0	-635.0	3.0
Total Adjustments	\$-489.1	\$-504.6	\$-15.5	\$-581.0	\$-76.4
Net General Fund Receipts	\$4,519.0	\$4,520.4	\$1.4	\$4,525.8	\$5.4

STAFF CONTACT: Jeff Robinson (Ext. 14614)

LEGISLATIVE FISCAL COMMITTEE MEETING

Fiscal Committee



The Legislative Fiscal Committee is scheduled to meet on December 16 at 10:00 a.m. in Room 116 of the State Capitol. The tentative agenda includes:

- REC Update and discussion of FY 2004 revenue and budget outlook.
- Collective Bargaining - Department of Personnel to discuss timetable, mandatory subjects, costs of proposals received and offered to date, key issues affecting negotiations, settlement trends, and how the State's budget/economic outlook affect negotiations.
- Wagering Tax. What are the alternatives to keeping the tax "revenue neutral" in response to last summer's court ruling?
- FY 2004 Budget - Department Request Overview.
- State Trooper Back Pay issue – December 5 court ruling that found State officials owe supervisor-level troopers back pay for overtime worked between 1991 and 1998.
- Sexual Predator Program - update on cost, demographics, trends, etc.
- Iowa Priority Program – follow-up to questions from previous meetings.
- Impact of changing Iowa's OWI statute - reducing the blood alcohol content from .1 to .08 - **Issue Review**.

More Information

For more information, please contact the Legislative Fiscal Bureau.

STAFF CONTACT: Holly Lyons (Ext. 17845)

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BOARD OF CORRECTIONS NOVEMBER MEETING

Board Meeting



The Board of Corrections met November 15 in Central Office, Des Moines. Director Kip Kautzky said the Department of Corrections (DOC) is facing a “developing train wreck”. The prison system reached 8,280 inmates on November 15, a record high population. There were 614 offenders admitted to prison in October 2002, another record high. The number of admissions to prison from parole and probation revocations has increased substantially. According to the DOC, these offenders have failed under Community-Based Corrections (CBC) supervision primarily due to a lack of mental health and substance abuse treatment resources. Director Kautzky stated that the last two years’ of budget reductions have “deliberately eroded the capacity” in CBC.

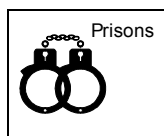
Federal Court Case

Director Kautzky cited a recent case in the federal court system, where the State of Arkansas was sued by an inmate for civil rights violations due to an insufficient number of prison staff. The U.S. Court of Appeals for the Eighth Circuit ruled that the State has a civic obligation to maintain safety within the prisons. Director Kautzky indicated that when staffing is inadequate and the level of violence increases, the federal courts will intervene.

Underfunding

Director Kautzky stated that the DOC is underfunded by \$16.5 million due to the furlough reduction, salary adjustment shortfall, vacancy factor, and increased medical costs. The DOC is currently holding approximately 355 positions vacant due to budget shortages. However, Director Kautzky believes the prisons are dangerously understaffed at this time. The DOC believes there are no methods to further reduce expenditures, especially when the prison population keeps increasing.

Staffing Levels



Director Kautzky reiterated that each prison was at or below critical staffing levels. He indicated that, even if the 355 positions currently held vacant remain vacant for the remainder of FY 2003, the DOC could not quite reach a level of savings to meet the projected \$16.5 million shortage. The Director will clarify this statement at the December Board meeting. The DOC believes that it is risking a major incident at this level of staffing, that the federal courts may intervene, and “If there is just one problem, the DOC will fill all vacant correctional officer positions immediately.”

Medical Needs

Dr. Deol, the DOC medical director, and Marilyn Sales, RN and the DOC Administrator of Nursing, presented the changing medical needs of the prison system. Dr. Deol stated the prison system must meet the standard of care for what is available in the community. The infirmary at the Iowa State Penitentiary is no longer operating due to budget reductions. The only infirmary remaining in the prison system is the six-bed unit at Anamosa State Penitentiary.

Clinical Pathways System

The DOC implemented a Clinical Pathways system, where all inmates are treated the same way for certain illnesses. This attempt to reduce long-term costs has been offset by the increasing prison population, the increasing average age of prisoners, and increased costs of health care. Dr. Deol and Marilyn Sales indicated the system is critically short on doctors and nurses. The DOC provided information showing that Iowa ranks 48th in the nation for Corrections spending, at \$54.03 per capita.

Special Needs Unit

Warden Rusty Rogerson, Iowa Medical Classification System, updated the Board on the construction of the 170-bed Special Needs Unit. The DOC approved the design and the site preparation package is currently being bid. Site work should start the week of December 6. The DOC is advocating a change in the definition of "indigent care" so the Special Needs Unit at Oakdale would be included. Currently, inmates are transported to the University Hospitals in Iowa City, and the Indigent Care Fund is billed for the majority of medical care costs. The DOC incurs costs of staff and transport for inmates. By changing the definition, medical care could be provided at the Special Needs Unit at Oakdale and the Indigent Care Fund would still be billed for certain medical costs. This would be a cost containment effort for the DOC, and care could be provided in a more secure setting.

Civil Commitment Unit

Warden Rogerson also indicated that the Civil Commitment Unit for Sexual Offenders is scheduled to move to the Mental Health Institute at Cherokee next spring. Since the DOC laid off its staff when the Unit opened, it has no staff to utilize that vacant space.

Next Meeting

The December Board meeting has been postponed.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

MEETING OF THE MEDICAID INFRASTRUCTURE WORKGROUP

Workgroup Meeting

The Medicaid Infrastructure Workgroup met on November 20 and conducted the following business:

Meetings Attended



Real Choices workgroup

Members attended meetings with the Real Choices Workgroup, and the Community-Based Alternative Services Workgroup. The meetings were to provide connections with the Personal Assistance Services work being done and to raise awareness of the goals of this Workgroup.

Linking with Real Choices Workgroup: The Workgroup continued discussion that would make the linkage possible. A meeting of the two workgroups is to be scheduled to further promote the linking of the Personal Assistance Services with Real Choices. Implementation of the Olmstead court decision is considered the common goal for both Workgroups.

Future Meetings

The Workgroup plans to reach out to various other groups that promote services to the aging and disabled persons in Iowa, to raise awareness of the Personal Services Workgroup. These groups include advocacy as well as State agencies.

Waiver Consolidation Update

Eileen Creager, DHS, updated the Workgroup on the work being done in the Department to consolidate the existing six Medicaid waivers to possibly three waivers. The Workgroup was provided with handouts and asked to give the Department feedback regarding the consolidation effort.

Coordinator

Personal Assistance Services Coordinator: The Department is in the process of hiring a coordinator for the Personal Assistance Services Program. The coordinator will be responsible for leading activities of the Workgroup. No anticipated hiring date was indicated. Funding for the position is from the federal grant.

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Action by Workgroup

The Workgroup agreed to:

- Continue the outreach activities, including sending letters to various agencies and organizations regarding the Personal Assistance Services Program, and presentations by Workgroup members.
- Finalize the brochure for Personal Assistance Services.
- Update the report and executive summary issued to the General Assembly in August 2001.
- Continue work on the development of a consumer and provider handbook/training manual.

Next Meeting



The next meeting is scheduled for December 18.

STAFF CONTACT: Sam Leto (Ext. 16764)

UPDATE ON THE IOWA COMMUNICATION NETWORK'S (ICN) FINANCIAL STATEMENTS

Financial Statements

The following is information on ICN financial statements:

Video Services

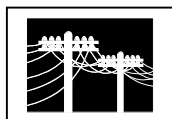


The Iowa Technology and Telecommunications Commission approved rates to determine video revenues. Rates are set every September by the Commission. Billings for video services in October 2002 are ahead of last year by approximately \$598,000. The increased billings can be attributed to the eligible discounts for the K-12 Video Consortium. The ICN General Fund video subsidy is approximately \$379,000 below FY 2002 levels. The ICN produced 31,285 hours during October 2002, down from the 34,587 hours produced during October 2001. The budget request for FY 2004 has a video subsidy of \$500,000 and FY 2005 budget request predicts the subsidy being eliminated based on K-12 and library users ability to receive Universal Service Funding for its video usage.

Voice Services

According to the ICN Five Year Financial Plan, voice revenues are projected to grow approximately 2.0% annually. Voice revenues for FY 2003 continue to be closely aligned with budget projections. The largest sources of revenue are toll free usage, local access, and inmate calling.

Data Services



Gross revenue from data services are below budget projections, but are ahead of where revenues were in October 2001 by approximately \$119,000. Data revenues are comprised of transmission revenues earned through the data circuits. In October 2002, e-mail services were moved to the Iowa Technology Department and will no longer be a source of revenue for the ICN. The revenue from the e-mail service had been approximately \$20,000 a month.

Installation Revenues

Installation revenues are \$25,000 ahead of the first four months of FY 2002. Revenue is generated through Internet gateway services, enterprise messaging, compressed video services, the installation of new services, transmitter service fees, and router subscription services.

Expenses

Operating expenses for the ICN include utility costs, network repair costs, professional fees, and rental expenses. The interest portion of debt service is an ICN expense as well as the amortization of deferred bond costs.

Administrative expenses include personnel, data processing, professional fees, and other administrative-related expenses.

Part III Tail Circuits

Part III leased tail circuit costs are included in the Rebuild Iowa Infrastructure Fund (RIIF) appropriation. The leases for these tail circuits begin to expire in FY 2003 and will need to be renewed. The appropriation for Part III is \$2.7 million per year. According to Chapter 8D, Code of Iowa, the Iowa Communications Network cannot accept ownership of the Part III tail circuits. Currently, Adesta is the only company that has made an offer to pass the tail circuits on to the schools. If the schools do not want to be responsible for the ownership and maintenance of the tail circuits, the responsibility would fall upon the State. A legislative change would need to be approved if the State were to buy out the remainder of the Adesta Part III leases that expire after FY 2003. The cost to buy out would be similar to the annual lease cost. Adesta currently owns 67 Part III tail circuits. The company filed Chapter 11 bankruptcy in November 2001. The ICN is also in the process of negotiating with the other Part III vendors regarding the arrangements that will be made upon the expiration of the leases. At this point in time, McLeod has indicated that they are not interested in gifting the Part III tail circuits.



ATMs

The ICN was appropriated \$5,000,000 to finish the installation of the **Asynchronous Transfer Modes (ATMs)**. The transport equipment has been acquired and needs to be installed on the backbone or on the rings themselves. The second part of the process is to install the codecs. The final rings (2 and 3) should be installed by mid-December. The ICN will continue to convert classrooms from the old codecs to the new MPEG codecs. This project should be completed in the spring of 2003. There are currently 220 codecs in Western Iowa and the ICN has begun moving traffic onto the new transports.

STAFF CONTACT: Jennifer Dean (Ext. 17846)

STATE LEGISLATION MONITORING REPORT: FY 2002

Report Released

The Criminal and Juvenile Justice Planning Division (CJJPD) of the Department of Human Rights released its preliminary report entitled, "State Legislation Monitoring Report: FY 2002". The report monitors the impact of SF 543 (Criminal Sentencing Act) passed during the 2001 Legislative Session, and HF 2338 (Sex Offender Registration) and SF 2197 (Sex Offender Residency Requirements) passed during the 2002 Legislative Session.

Sentencing Changes



Senate File 543 provided four sentencing changes effective July 1, 2001:

- An alternative determinate prison sentence for certain Class D felons.
- An aggravated misdemeanor penalty for first offense Burglary 3rd Degree of an unoccupied motor vehicle or vessel. Previously, this offense was classified as a Class D felony.
- A serious misdemeanor penalty for first offense Attempted Burglary 3rd Degree of an unoccupied motor vehicle or vessel. Previously, this offense was classified as an aggravated misdemeanor.
- Extended felony sentence reconsideration from 90 days to one year.

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- Determinate Terms** During FY 2002, 39 offenders were sentenced to determinate terms. The CJJPD estimates that approximately 53.8% of these offenders will serve more time in prison than if they had been sentenced to an indeterminate term. Most of these sentences are being handed down in the Seventh and Eighth Judicial Districts. The CJJPD projects that the prison population will increase by 33 inmates by December 31, 2004, as a result of this sentencing change.
- Burglary 3rd Degree** During FY 2002, 935 offenders were convicted of Burglary 3rd Degree and 196 offenders were convicted of Attempted Burglary 3rd Degree. This is a similar number of convictions as FY 2001, which was before the law changed. Fewer of these offenders are being sentenced to prison than in FY 2001. More of these offenders are receiving a sentence that includes county jail. However, their average length of stay in county jails (39 days) is less than under previous law (67 days).
- Sentence Reconsideration** There was no increase in the use of sentence reconsideration by a judge as a result of enactment of SF 543. However, lengths of stay increased by one month in FY 2002, compared to FY 2001.
- Correctional Impact** The correctional impact of the sex offender requirements cannot be determined at this time. The law changes were too recent (July 1, 2002) for sufficient data to be available for analysis.
- Copy Available** A copy of the Report is available by contacting the LFB.

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JUDICIAL BRANCH RETIREMENT FUND ISSUE REVIEW

- Issue Review** The Legislative Fiscal Bureau (LFB) recently released an *Issue Review* entitled, "Judicial Branch Retirement Fund". The *Issue Review* provides background information on the Fund, history on past legislative action, and current legislative action.
- Contribution Rate** During the FY 2002 Legislative Session, the General Assembly passed House File 2627 (FY 2003 Second Omnibus Appropriations Act), which notwithstanding Section 602.9104(4)(b), Code of Iowa, and decreased the employer's contribution rate to the Fund from 23.7% to 9.9% of covered salaries, and provided an appropriation of \$2.0 million. This was a decrease of \$1.0 million (32.9%) compared to the appropriation in FY 2002. Covered payroll for FY 2003, as of July 1, 2002, is estimated to be \$20.6 million. The July 1, 2002, actuarial report stated that the required annual employer contribution rate, as a percentage of pay, was 20.2%. The Judicial Branch Department request for FY 2004 is \$4.9 million, an increase of \$2.8 million compared to estimated FY 2003. This amount would fund the Judicial Retirement Fund at 23.7% of covered salaries.



STAFF CONTACT: Jennifer Dean (Ext. 17846)

LOTTERY REVENUES AND EXPENDITURES THROUGH SEPTEMBER

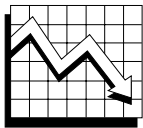
September Rev./Exp.



Through September, FY 2003 Lottery game revenues decreased \$9.5 million from the FY 2002 level. Lottery prize expenses decreased \$5.5 million, operating expenses decreased \$1.3 million, and transfers to State funds decreased \$2.4 million. The following table details revenues, expenditures, and balances of the State Lottery. Rows and columns may not add, due to rounding.

STATE LOTTERY				
July Through Sept.				
(Dollars in millions)				
	FY 2002	FY 2003	Increase/ Decrease	% Increase
Fiscal Year Beginning Balance	\$ 2.2	\$ 2.3	\$ 0.2	
Game Revenues	\$ 50.0	\$ 40.5	\$ -9.5	-19.0%
Interest	0.5	0.3	-0.2	-36.7%
Total Revenue	\$ 50.5	\$ 40.8	\$ -9.7	-19.1%
Prize Expense	\$ 28.7	\$ 23.1	\$ -5.5	-19.3%
Operating Expense	9.8	8.5	-1.3	-12.9%
Transfer of Profits	12.1	9.8	-2.4	-19.6%
Total Expense	\$ 50.6	\$ 41.4	\$ -9.2	-18.1%
Sept. Ending Balance	\$ 2.1	\$ 1.7	\$ -0.3	

Comparison to FY 2002



Fiscal year sales through September, compared to the same time period of FY 2002, were as follows:

- Instant ticket sales increased \$825,000 (4.7%).
- Pick 3 sales increased \$286,000 (27.6%).
- Multi-State Powerball sales decreased \$11.8 million (50.0%).
- Rolldown sales decreased \$419,000 (100.0%).
- Freeplay Replay sales decreased \$19,000 (19.8%).
- Daily Game sales decreased \$23,000 (2.2%).
- Pull-tab sales increased \$367,000 (5.9%).

Ticket Sales

Total Lottery sales through September were \$40.5 million, a decrease of \$9.5 million (19.0%) compared to September 2002. July through September 2002 sales for the Instant Tickets, Pull-Tabs, and Pick 3 were above sales for the same period during FY 2002.

Hot Lotto

Hot Lotto, which was not offered until April 7, 2002, had sales through September of \$1.3 million. Hot Lotto replaced Rolldown, which ended April 6, 2002.

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Estimated Transfers



The September 6 Revenue Estimating Conference (REC) projected FY 2003 Lottery profit transfers to the General Fund will total \$33.5 million. Actual profit transfer for FY 2002 was \$40.0 million. Therefore, the REC is currently estimating General Fund Lottery transfers will be \$6.0 million (15.0%) lower in FY 2003 than in FY 2002. Through September, FY 2003 transfers to the General Fund are \$2.4 million (19.6%) below FY 2002.

House File 2627 (FY 2003 Omnibus II – Second Special Session) required the lottery to deduct \$500,000 from its calculated retained earnings before making lottery proceeds transfers to the State General Fund during FY 2003. The impact was a one-time increased transfer of \$500,000.

Sales Tax

In addition to the amount transferred to the State as profits, the Lottery has transferred \$2.0 million in sales tax during FY 2003.

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