

# FISCAL UPDATE

July 12, 2005

## Legislative Services Agency

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

### OFFICE OF STATE PUBLIC DEFENDER – APPROPRIATION REALLOCATION

#### Notification Received

The Legislative Services Agency (LSA) was recently notified that \$500,000 will be reallocated from the Indigent Defense Program to the Office of State Public Defender for FY 2005.

#### Reallocation Purpose

The reallocation is needed to fully staff the Office and is in addition to the \$1.6 million supplemental appropriation the Office received in SF 342 (FY 2005 Supplemental Appropriations Act). Any excess funds will be reallocated back to the Indigent Defense Program.

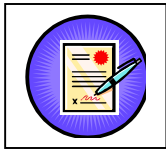
#### More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

### DEPARTMENT OF CORRECTIONS ENTERS AGREEMENT FOR SUSTAINED FISCAL IMPROVEMENT INITIATIVE

#### Contract Addendum



The Department of Corrections (DOC) signed an addendum to the partnership agreement with the Public Strategies Group (PSG) in April 2005 to provide support to the DOC to realign expenditures to maximize results. The PSG will use a subcontractor, Reference Point, to provide the Sustained Fiscal Improvement (SFI) process. The addendum covers the nine correctional institutions, Iowa Prison Industries, and the Central Office. Community-Based Corrections (CBCs) is not part of the agreement.

#### Streamline Services

Reference Point will discuss innovative and creative options to streamline services in the prison system. Director Maynard, DOC, will select the options that will be implemented.

#### Payments

The DOC has paid \$70,000 in commitment fees to the PSG. The amount was pro-rated across the nine prisons, the Central Office, and Iowa Prison Industries based on the number of employees. Under the contract addendum, the PSG will also receive 20.0% of the accepted savings amount in the first year. The accepted savings amount is the amount of the SFI-identified opportunities accepted by Director Maynard, at his discretion.

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**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

**GOVERNOR SIGNS EXECUTIVE ORDER 43 FOR MEDICAID  
CONSUMER-DIRECTED CARE OPTION**

**Executive Order**

The Governor signed Executive Order 43, which relates to the inclusion of consumer-directed care within the Medical Assistance (Medicaid) Program. The Department of Human Services (DHS) refers to this option as "Developing Choices – Empowering Iowans," which is nationally known as Cash and Counseling.

**Personal Assist. Options**

The option permits a Medicaid-eligible individual to choose who provides personal assistance in lieu of the DHS choosing the provider for the individual. The Order requires the Director of the DHS to meet with one representative of individual providers to achieve agreement with regard to various Program provisions.

**Current Status**



The DHS received a multi-year grant from the Robert Wood Johnson Foundation to implement the Program. The process for determining the amount of funds available for each eligible individual and the fiscal agent to be utilized for the independent financial transactions is under development. The DHS has applied to the federal Centers for Medicare and Medicaid Services (CMS) to amend the Ill and Handicapped Waiver to reflect this change and plans to request an amendment for each of the other five waivers.

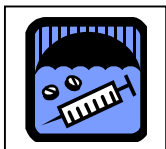
**Timeframes**

The DHS has submitted a plan to initiate the Program in the DHS Service Areas, beginning March 1, 2006, and to be implemented statewide by March 1, 2007. It is estimated that less than 15.0% of those currently receiving waiver services will request this option. Individuals that choose this option will continue to be considered within the limited number of waiver slots. The DHS is in the process of determining the fiscal impact, considering the expected savings from a reimbursement discount to those being reimbursed from the Program, the cost of the fiscal agent, and the possible cost of accountability for documentation purposes.

STAFF CONTACT: Sue Lerdal (Ext. 17794) Lisa Burk (Ext. 17942)

**MEDICAID ESTIMATES FOR FY 2005 AND FY 2006**

**Medicaid Estimates**



Staff members from the Department of Management, the Department of Human Services (DHS), and the Fiscal Services Division of the LSA met on June 24 to discuss estimated expenditures for the Medical Assistance (Medicaid) Program for FY 2005 and FY 2006. The three staffs meet monthly to discuss estimated expenditures for the current fiscal year and to agree on a range for expenditures.

**FY 2005**

Senate File 342 (FY 2005 Supplemental Appropriations Act) included a FY 2005 supplemental appropriation of \$70.0 million for Medicaid. The estimated range is a deficit of \$3.0 million to a surplus of \$3.0 million for FY 2005. The previous range was a surplus of \$7.0 million to \$0. As the fiscal year comes to a close, each set of Medicaid payments changes the year-end

estimate as the margin for error becomes smaller. A larger than expected payment in June increased the expenditure estimates for this month.

**FY 2006**



House File 825 (FY 2006 Health and Human Services Appropriations Act), as amended by HF 882 (FY 2006 Standing Appropriations Act) and HF 841 (IowaCare Medicaid Reform Act), includes total state funding of \$704.4 million for Medicaid for FY 2006. It was discussed during the 2005 legislative session that this level of funding is not likely sufficient to fully fund Medicaid and a shortfall is anticipated. The three staffs agreed to an estimated shortfall range of \$30.0 million to \$45.0 million for FY 2006. This is no change from the previous range.

The shortfall estimate includes the following assumptions:

- Enrollment growth of 5.0% to 6.4%. The FY 2006 appropriation is based on a 3.6% enrollment growth. This difference results in increased expenditures of between \$10.0 million and \$20.0 million. Enrollment growth is approximately 6.0% for FY 2005.
- An estimated net cost of \$12.4 million due to provisions included in HF 841 (IowaCare Medicaid Reform Act).
- A shortage of \$6.4 million due to the FY 2005 supplemental not being fully incorporated into the FY 2006 appropriation.
- Items where savings were assumed but the corresponding statutory changes were eliminated totaled \$3.1 million, including \$1.0 million for Pay and Chase, \$110,000 for a technical adjustment, and \$2.0 million for a reduction in HF 882.

**Waiver Waiting Lists**



House File 825 included an increase of \$6.0 million to eliminate the Home and Community-Based Services Waiver waiting lists. Since the waivers are not considered an entitlement, this would, typically, be delayed due to the shortfall in Medicaid. Legislative intent, however, was clear that this funding be allocated to waiting lists despite the known supplemental need.

In January 2005, it was estimated that \$6.0 million was needed to eliminate the waiting lists as of that time. Since the waiting lists may have increased or costs may have changed, the \$6.0 million may not fully eliminate waiting lists as of July 1, 2005. In addition, the intent was not that waiting lists be eliminated in total going forward. The \$6.0 million will be used to add as many as possible; then, as new individuals become eligible, they will be added to a new waiting list.

**Other Issues**

There is a settlement pending with the federal Centers for Medicare and Medicaid Services (CMS) related to financial audits of the Adult Rehabilitation Option (ARO) service providers. The CMS Report included findings against the State and providers of approximately \$6.0 million, which will be required to be repaid to the federal government. This will likely be an additional cost to Medicaid in FY 2006, which was not included in the FY 2006 appropriation.

It was discussed that if there is a surplus in FY 2005, the DHS may commit the surplus to pay as much of the amount owed as possible for this settlement to reduce the obligation in FY 2006.

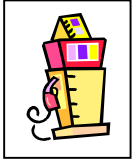
**Additional Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Jennifer Vermeer (Ext. 14611)

**GASOLINE TAX INCREASE FOR FY 2006**

**Fuel Tax Increase**



House File 716 (FY 2002 Ethanol Sales Promotion Act) provided for changes in fuel tax rates based on the gallons of ethanol-blended gasoline sold in the state between January 1 and December 31 of each year. The rates apply for the period beginning the following July 1 and ending June 30 of each year. The Act allowed the tax rates to change each July 1, depending on the percentage of ethanol-blended gasoline sold during the previous calendar year (CY). House File 868 (FY 2006 Grow Iowa Value Funds Act) established an excise tax of 17.0 cents per gallon on E-85 gasoline beginning January 1, 2006.

**Tax Schedule**

The following tax schedule was implemented on July 1, 2002, and will be effective through June 30, 2007. The Act provides that after June 30, 2007, the excise tax on gasoline will go back to 20.0 cents, and ethanol-blended gasoline will increase from 19.0 to 20.0 cents per gallon.

<u>Ethanol Percentage</u>	<u>Ethanol Tax</u>	<u>Gasoline Tax</u>
0% - 50%	19.0	20.0
50% - 55%	19.0	20.1
55% - 60%	19.0	20.3
60% - 65%	19.0	20.5
65% - 70%	19.0	20.7
70% - 75%	19.0	21.0
75% - 80%	19.3	20.8
80% - 85%	19.5	20.7
85% - 90%	19.7	20.4
90% - 95%	19.9	20.1
95% - 100%	20.0	20.0

**Fiscal Impact**

In CY 2004, the market share of ethanol-blended gasoline was 65.8%. Since this percentage is within the 65.0% to 70.0% range, the tax on gasoline increased by 0.2 cent on July 1, 2005, for a tax rate of 20.7 cents per gallon in FY 2006. The result is an estimated increase of \$3.3 million (3.5%) to the Road Use Tax Fund in FY 2006. The increased revenue will be used to offset losses in Road Use Tax Fund revenues due to the increasing market share of ethanol-blended gasoline.

**Prior Years**



Since the first fiscal year following implementation of the tax schedule, the tax on gasoline increased, while the tax on ethanol-blended gasoline remains at 19.0 cents per gallon.

- FY 2003 – In CY 2001, the market share of ethanol-blended gasoline was 53.6%, causing a tax increase of 0.1 cent per gallon on gasoline, for a tax rate of 20.1 cents per gallon. The result was an estimated increase of \$640,000 (0.5%) to the Road Use Tax Fund in FY 2003.
- FY 2004 – In CY 2002, the market share of ethanol-blended gasoline was 55.4%, causing a tax increase of 0.2 cent per gallon on gasoline, for a tax rate of 20.3

cents per gallon. The result was an estimated increase of \$1.8 million (1.5%) to the Road Use Tax Fund in FY 2004.

- FY 2005 – In CY 2003, the market share of ethanol-blended gasoline was 62.2%, causing a tax increase of 0.2 cent per gallon on gasoline, for a tax rate of 20.5 cents per gallon. The result was an estimated increase of \$2.8 million (2.5%) to the Road Use Tax Fund in FY 2005.

### Recent Months

The market share of ethanol-blended gasoline remained at approximately 72.0% in the months of February, March, and April of 2005, but increased to 76.1% in the month of May.

STAFF CONTACT: Mary Beth Mellick (Ext. 18223)

## LEGISLATIVE FISCAL COMMITTEE MEETING

### Fiscal Committee



The Legislative Fiscal Committee met on July 6. The Committee received the following updates:

- State revenue information from staff of the LSA, Fiscal Services Division.
- Reports from Fiscal Services Division staff concerning the status of fund balances for various State funding sources.
- Fiscal Year 2005 expenditure and FY 2006 budget information on the Medicaid Program and the Healthy and Well Kids in Iowa (*hawk-i*) Program from staff of the Fiscal Services Division.
- A review of the Governor's item vetoes in legislation passed by the 2005 General Assembly.
- Information regarding FY 2005 appropriations transfers.
- Information regarding a pending \$6.2 million Adult Rehabilitation Options repayment within the Medicaid Program required by the federal government.
- Information regarding expenditures within the federal Community Development Block Grant funds from staff of the Department of Economic Development.
- Information on three lease purchase notifications.

### Next Meeting

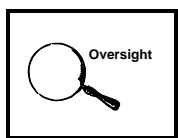
The next meeting is scheduled for September 28. All meeting handouts may be accessed on the LSA web site at:

[http://staffweb.legis.state.ia.us/lfb/subcom/fiscal\\_comm/handouts.htm](http://staffweb.legis.state.ia.us/lfb/subcom/fiscal_comm/handouts.htm) .

STAFF CONTACT: David Reynolds (Ext. 16934) Sue Lerdal (Ext. 17794)

## GOVERNMENT OVERSIGHT COMMITTEE MEETING

### Oversight Meeting



The Government Oversight Committee met on June 20-21. Significant agenda items included:

- State Auditor's Office – Overview and discussion regarding fees charged to state and other political subdivisions and an explanation of how fees are established. Also, a discussion of concerns regarding annual audit cost increases.
- Department of Administrative Services – Information on customer councils.



- Child Support Recovery Unit (CSRU) Update – An overview and discussion of the following:
  - The recovery process and the status of the collection and distribution of funds to eligible citizens, including collections by the Department of Revenue.
  - The response time to citizens regarding concerns.
  - Problem areas with collections or other areas that may need legislative action.
- Board of Regents – An overview and discussion of the following:
  - Iowa Braille and Sight Saving School in Vinton – Task Force report and recommendations regarding the future of the School.
  - State University of Iowa – Opening of a dental outreach office in Coralville and the impact on private dental practices located in the area.
  - Municipal Building Codes – State government entities not required to meet existing building code standards for new construction that are required of the private sector.
- Iowa Grants Enterprise Management System (GEM\$) – An update and discussion regarding the project, as well as needs for legislative action.
- State Amber Alert Plan – An overview of the State Plan and a discussion of “glitches” regarding the alert issued in Cedar Rapids on March 24, 2005.
- Overview of E911 Quarterly Report (January - March 2005).

**Next Meeting**

The next meeting is scheduled for July 18-19. An overview of the meeting may be accessed on the LSA web site at: <http://www.legis.state.ia.us/>.

STAFF CONTACT: Sam Leto (Ext. 16764) Douglas Wulf (Ext. 13250)  
Richard Nelson (Ext. 25822)

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**SOIL CONSERVATION COMMITTEE MEETING AND TOUR**

**Conservation Committee**

The State Soil Conservation Committee met on June 28 in Storm Lake. The Committee also sponsored a tour of various conservation projects located in the area on June 28-29. Senator Steve Kettering and Representative Mary Lou Freeman were in attendance.

**Committee Meeting**



On June 28, the Committee discussed the following:

- Martin Adkins, Natural Resources Conservation Service (NRCS), discussed the Conservation Security Program (CSP) and reported that over 2,400 applications had been received in Iowa. This is a voluntary program that provides financial and technical assistance to producers that improve soil, water, air, energy, plant and animal life, and other conservation projects.
- Jim Gillespie, Department of Agriculture and Land Stewardship (DALs), reported the allocation from the Soil Conservation Cost Share Fund was distributed the same as last year. Gillespie also reported that approximately \$1.8 million has been expended from the Watershed Protection Fund.

- Dean Lemke, DALs, reported that the problems relating to the Conservation Reserve Enhancement Program (CREP) have been resolved with the federal Corps of Engineers. This will move a number of projects from the design phase to the construction phase. Lemke also reported that 17 new CREP applications had been received.
- Ken Tow, DALs, reported on the following:
  - A web-based system being developed for the Soil Conservation Cost Share Fund.
  - The proposed timeline for implementing the Watershed Improvement Review Board that was created by the General Assembly in SF 200 (Watershed Improvement Board Act).
  - The progress of the annual meeting that will be held in Ames this fall.
- Patty Judge, Secretary of Agriculture, and Ken Tow discussed the proposed budget for the Soil Conservation Division for FY 2007. The proposed budget included the following requests:
  - \$421,000 from the General Fund for 10.0 FTE positions that have an estimated cost of \$321,000 and \$100,000 for training. These are new requests.
  - \$250,000 for District Soil and Water Conservation Commissioner's expenses, which is an increase of \$50,000 compared to the FY 2006 appropriation.
  - \$50,000 for administrative costs related to the Watershed Improvement Fund from the Underground Storage Tank Fund. This is no change compared to the FY 2006 appropriation.
  - \$23.9 million from the Environment First Fund, which is an increase of \$10.0 million compared to the estimated FY 2006 appropriation.
- The election of officers included the appointment of Madeline Meyer as the new Chairperson and Jennifer Hoy as Vice Chairperson.



## Conservation Tour



The tour included discussion of the following:

- A tour of the Storm Lake Watershed and the dredging project. This included discussion on sediment in water basins, wetland systems and water quality improvement, and an overview of the dredging process.
- A tour of four local farms to review:
  - Conservation practices that include terraces, grassed waterways, and no-till practices.
  - Conservation Reserve Program practices that include planting of native grasses, firebreaks, and filter strips along waterways.
  - Upgrade of a cattle feedlot that received funds from the federal Environmental Quality Incentive Program (EQIP). This included concrete barriers, filter fences, and filter strips.
  - A discussion on animal production that included an overview of pork and turkey production facilities, and on manure management.
- A tour of a riparian buffer site along Powell Creek.

- A tour of the Brooke Creek Watershed.
- A discussion of agriculture drainage wells and related research projects.
- An overview of CREP projects and respective benefits for improving water quality.
- A brief overview of the endangerment of the Topeka Shiner, a fish that has been declining in numbers due to increased water sediment.



*Dean Lemke, DALS, discusses agriculture drainage wells in Pocahontas County. Also pictured are Dr. William Crumpton and Dr. Matthew Helmers from Iowa State University,*

**Next Meeting**

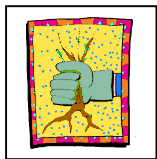
The next meeting is scheduled for August 4 in Des Moines. Additional information is available from the LSA upon request.

STAFF CONTACT: Debra Kozel (Ext. 16767)

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**INVASIVE SPECIES WORKSHOP**

**Invasive Species Awareness**



The Governor declared the month of June as "Invasive Species Awareness Month," to provide information about the prevention of invasive species on private and public lands. An invasive species includes non-native species that have been introduced into an ecosystem and often reproduce dramatically because there are no natural competitors such as disease or predators. As they increase in number, they affect the structure and function of the native ecosystem and can eliminate the native species.

**Workshops Held**

The Department of Natural Resources (DNR), in coordination with other State and local agencies, sponsored two workshops related to invasive species entitled, "Managing Invasives in the Natural Landscape." One workshop was held on June 17 at Lake Ahquabi State Park, and the other was held on June 24 at Kent County Park near Oxford. Information discussed included:

- Invasive plants that can alter or damage prairie and woodland areas. Some of the species discussed included:



- Garlic Mustard—a non-native biennial herb that grows in dense clusters and can displace native plants within a 10-year period. Beginning in the second year, each plant can produce up to 3,000 seeds that can remain in the soil for up to seven years.
- Canadian Thistle—a perennial plant that has extensive creeping rootstock that allows it to spread quickly. The thistle prevents the coexistence of other plant species through shading and competition for soil resources.
- Japanese Honeysuckle—a perennial vine that climbs and twists around vertical structures, including limbs and tree trunks. The plant has few natural enemies allowing it to spread widely and displace native plant species.



- Aquatic invasive species included discussion on Zebra Mussels, Eurasian Milfoil, Bighead Carp, Silver Carp, and Reed Canary Grass. The Bighead Carp and Silver Carp were introduced into Arkansas in 1973 from Asia. There have been no reports of this fish in Iowa, but they have been collected from the Mississippi and Missouri Rivers. The fish compete with native fish for food and can grow up to 50 pounds. This can cause boater safety problems as the fish react to the sound of motor boats by jumping into the air. Many accidents have been reported involving jumping fish that have hit boaters or persons on jet skis.
- Invasive plants that can alter roadside vegetation included discussion on Crown Vetch, Japanese Knotweed, Teasel, and Wild Parsnip. Crown Vetch has been used for roadside vegetation because it grows quickly and is inexpensive. The plant grows aggressively due to its seeding ability and the rapid spread of rhizomes.
- Invasive species related to tree damage included discussion on oak wilt, pine wilt, and the potential damage of the Emerald Ash Borer. This is a beetle from Asia that feeds on ash trees and has destroyed over 3,000 square miles of trees in southeast Michigan. It is estimated that more than five million ash trees are dead or dying.

#### More Information

Additional information is available from the LSA upon request. For more information on invasive species, access the DNR web site at: <http://www.iowadnr.com/forestry/invasive.html>.

STAFF CONTACT: Debra Kozel (Ext. 16767)

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