FISCAL UPDATE July 10, 2001

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Special Session Passes Federal Rebate Tax Exemption Bill - HF 757



**HF 757 – Federal Rebate** The Legislature passed HF 757, Federal Rebate Tax Exemption Act of 2001, in Special Session on June 19, 2001. The Act exempts the impending federal tax rebate from State income taxes. The Act applies only to rebates received as checks from the federal government during calendar year 2001. The Act does not apply to persons who do not receive a rebate check, but qualify instead for a tax credit on their tax year 2001 federal tax returns.

**Rebates** The federal Congress passed tax reduction legislation in late spring, 2001. Part of that legislation provided for an advance refunding of tax year 2001 taxes in the form of a rebate check to be distributed in late summer and early fall. A single taxpayer will receive a maximum of $300, while a couple filing a joint return will receive a maximum of $600. A taxpayer filing under head-of-household status will receive a maximum of $500. A rebate check is being sent to qualified taxpayers who filed tax year 2000 returns in a timely manner. The rebate will be based on tax year 2000 information. Because Iowa allows taxpayer’s to deduct any amount paid in federal income tax from the taxpayers State income, the rebate would have the effect of raising the taxpayer’s income subject to Iowa taxation. Under the provisions of HF 757, the rebate checks would not increase a taxpayer’s Iowa income tax liability.

**Tax Credit in Lieu of Rebate** For taxpayers who do not file tax year 2000 returns in time for the rebate, or for those who would receive a larger rebate using tax year 2001 information, a special provision in the federal legislation will allow those persons to claim a tax credit in place of the tax rebate. House File 757 does not address the tax credit provision.

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**Fiscal Impact** Current law requires Iowa income tax to be paid on the impending federal tax rebate. The passage of HF 757 will reduce General Fund tax receipts in FY 2002 by $22.6 million compared to current law. The current estimate of the additional cost of including taxpayers who claim the rebate as a credit on their 2001 federal returns is $1.9 million. If enacted by the 2002 General Assembly, this action would reduce FY 2003 General Fund receipts.

STAFF CONTACT: Jeff Robinson (Ext. 14614)

Governor Signs Several Ways & Means Bills



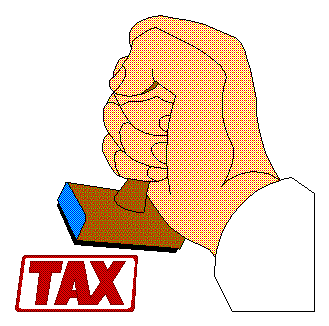
Governor Signed

**Ways & Means Bills** The Governor recently signed several Ways and Means Bills. A description of the Bills is included in the May 17 edition of ***Fiscal Update***. The Bills include:

* HF 716 - Ethanol Promotion Act
* SF 526 - Unclaimed Business-to-Business Property Act
* HF 723 - Irrigation Equipment Tax Exemption Act
* SF 140 - Internal Revenue Code (IRC) Update Act
* SF 523 - Value of Estates by Affidavit Act
* HF 707 – Warehouse Tax Reporting Act

STAFF CONTACT: Jeff Robinson (Ext. 14614)

Governor Vetoes Community Development and Business Day Care Tax Credit Bill - HF 714



**Development Tax Credits** The Governor vetoed HF 714, Community Development and Business Child Care Tax Credit Bill, on May 31. The Bill would have provided tax credits for business investment in qualified community development projects and also for business investment in employee day care. The credits were subject to Department of Economic Development approval, and the total value of statewide credits was limited to $4.0 million per year. The Bill was projected to decrease General Fund receipts by $1.0 million in FY 2002, $5.0 million in FY 2003, and $4.0 million in succeeding fiscal years.

**Contingent Effective Date** The tax credits would have been available beginning January 1, 2002. However, the Bill had a contingent effective date tied to a federal tax cut of sufficient size to raise Iowa income tax receipts by at least $7.9 million.



VETO

**Rationale for Veto** The Governor’s veto message stated that the philosophy of giving day care tax credits to businesses instead of parents is flawed. The Governor stated the decision to provide employee child care benefits should be based on business decisions of the company, not on the availability of a tax credit. The Governor also cited fiscal issues in FY 2002 as a reason for vetoing the Bill.

STAFF CONTACT: Jeff Robinson (Ext. 14614)

Governor Vetoes Employee Stock Option Bill - SF 521

**Stock Options** The Governor vetoed SF 521, Employee Stock Option Tax Credit Bill, on May 31. The Bill would have exempted 50.0% (25.0% in tax year 2001) of the capital gains on qualified stock options when the stock options were received due to employment with the company. The Bill was projected to decrease General Fund receipts by $1.0 million in FY 2003 and $3.0 million in succeeding fiscal years.



VETO

**Rationale for Veto** The Governor’s veto message stated the first step toward creating new jobs and capital in Iowa should be a venture capital initiative, particularly in the life sciences area. The Governor also cited fiscal issues in FY 2002 as a reason for vetoing the Bill.

STAFF CONTACT: Jeff Robinson (Ext. 14614)

Governor Vetoes Sub-Chapter S Corporation Income tax Reduction Bill - SF 516



VETO

**Subchapter S Corp.** The Governor vetoed SF 516, Sub-Chapter S Income Tax Reduction Bill, on May 31. The Bill would have allowed Subchapter S corporations to deduct 100.0% of federal taxes paid in determining the amount of income subject to Iowa taxation. Current law allows a 50.0% deduction. It is estimated the Bill would have reduced General Fund receipts by $900,000 in FY 2003 and subsequent fiscal years.

**Rationale for Veto** The Governor’s veto message stated that although he supports the tax change in the Bill, the State cannot afford the revenue loss at this time. The Governor suggested coupling the tax change with a venture capital bill during the 2002 Legislative Session.

STAFF CONTACT: Jeff Robinson (Ext. 14614)

governor item vetoes SF 531 - Administration and Regulation Appropriations Act



**Item Vetoed – SF 531** The Governor item vetoed and signed SF 531, the Administration and Regulation Appropriations Act, on May 30. The Act appropriates $81.5 million from the General Fund and 1,909.5 FTE positions. This is a decrease of $5.5 million (6.3%) and an increase of 5.6 (0.3%) FTE positions compared to the FY 2001 estimated net appropriation. The Governor item vetoed one section which did not change the total dollar amount appropriated by the General Assembly.

**Allocation** The Governor item vetoed Section 24, Subsection 1, unnumbered paragraph 3, which allocated $2,500 of the Secretary of State’s appropriation to pay for the Marshall County auditor to participate in an elections reform task force. The Governor stated that if it is a priority of the General Assembly to direct funds for this purpose, it should be included in a separate appropriation rather than using funding from the Secretary of State.

**Copies Available** Copies of the enacted version of SF 531 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: Christina Schaefer (Ext. 17942) Ron Robinson (Ext. 16256)

Governor Item Vetoes HF 718 - Economic Development Appropriations Bill



**Item Veto** The Governor item vetoed and signed HF 718, the Economic Development Appropriations Bill, on May 30. The Bill appropriates $35.7 million from the General Fund and 1,199.8 FTE positions to the Department of Workforce Development, Department of Economic Development, Public Employment Relations Board, and several programs at Board of Regents institutions. This is a decrease of $1.4 million (3.7%) and 41.5 (3.3%) FTE positions compared to the FY 2001 estimated net appropriation. The Governor’s vetoes did not affect the General Fund appropriations but made a reduction of 2.0 FTE positions. The item vetoes included:

* Intent language prohibiting Iowa Workforce Development from allocating additional Penalty and Interest revenues prior to January 30, 2002. The Governor commented that the requirement is unduly prescriptive, usurps normal Executive Branch functions, and could hamper administration of the funds. The same language was vetoed from last year’s appropriation bill.
* An appropriation of $500,000 and 2.00 FTE positions from Iowa Finance Authority funds to the Department of Economic Development for local housing needs and for the Shelter Assistance Fund and language requiring a transfer of $1.2 million from the Iowa Finance Authority to the Department of Economic Development for the Community Development Block Grant Account and for matching funds for the federal HOME Program. The Governor stated these sections pose a financial risk for the Iowa Finance Authority. “Moodys Rating Service has indicated that such actions will lead to a bond rating downgrade. A lower bond rating will increase borrowing costs resulting in increased costs for first time home buyers. It is more appropriate for the Authority to leverage their assets to address Iowa’s housing needs as recommended by the housing task force.”

**Copies Available** Copies of the enacted version of HF 718 and the veto message are available upon request from the Legislative Fiscal Bureau or on the LFB web site at: http://staffweb.legis.state.ia.us/lfb.

STAFF CONTACT: Dwayne Ferguson (Ext. 16561)

Governor Item Vetoes SF 65 - Low-Income Home Energy Assistance Program (LIHEAP) Supplemental Appropriations Act

**Item Veto** The Governor item vetoed and signed SF 65, the LIHEAP Supplemental Appropriations Act, on February 6. The Act appropriates $9.3 million in supplemental and reallocated funds to the energy assistance component of the LIHEAP for FY 2001.



**Supplemental Appropriations** Prior to the item vetoes, the Act provided a total of $14.2 million in supplemental and reallocated funds for energy assistance payments. This included supplemental appropriations of $11.3 million from the Innovations Fund, the Housing Program Fund, and the Groundwater Protection Fund. In addition, the Act reallocated $2.9 million to the energy assistance component of the LIHEAP by capping the amount of funds allowed for the weatherization and administration components of the Program.

**Transfer Vetoed** The Governor vetoed Section 2, which transferred $2.4 million from the Iowa Finance Authority’s Housing Program Fund. The Governor stated that these programs play an essential role in providing affordable housing to low-income families in Iowa.

**Veto Message** The Governor also stated in his veto message that the entire $6.6 million transferred from the Groundwater Protection Fund in Section 3 was not available. On February 28, 2001, $4.1 million was transferred from the Fund to the energy assistance component of the LIHEAP.

**Copies Available** Copies of the enacted version of SF 65 and the veto message are available upon request from the Legislative Fiscal Bureau, or on the LFB web site at: <http://www.staffweb.legis.state.ia.us/lfb>.

STAFF CONTACT: Lisa Burk (Ext. 16765) Jeff Robinson (Ext. 14614)

GOVERNOR ITEM VETOES HF 740 - SENIOR LIVING TRUST FUND APPROPRIATIONS ACT



**Item Vetoes** The Governor item vetoed and signed HF 740, the Senior Living Trust Fund Appropriations Act, on June 1. The Act appropriates $51.8 million from the Senior Living Trust Fund and 13.0 FTE positions to the Department of Elder Affairs and the Department of Human Services (DHS). The Governor’s vetoes include:

* Nursing Facility Conversion Grants. Section 3, Subsection 1 in its entirety. The language requires the DHS to focus nursing facility conversion grant awards on renovation of existing facilities. The Governor indicated the focus should be on providing the appropriate services for persons in need in the most effective manner, whether that be renovation of existing structures or new construction.
* Nursing Facility Occupancy Factor. Section 4, Subsection 3(b) in its entirety. The language requires an eighty-five (85.0) percent occupancy factor be applied when calculating the nondirect cost component of the modified price-based case-mix reimbursement rate. The Governor indicated the language would require the State to continue to pay for empty nursing home beds at a time when funding for many services has been cut.
* Nursing Facility Geographic Wage Index. Section 4, Subsection 3(g) final three sentences. The language allows nursing facilities to request an exception to the application of the geographic wage index based upon reasonable demonstration of wages, location, or total cost. The Governor indicated the language is flawed and the word ”or” should be “and”, and the technical correction will be clarified through the rulemaking process.
* Definition of Affordable. Section 6 in its entirety. The language amends Section 249H.3, Subsection 1, Code of Iowa, 2001, relating to the definition of “affordable”. The Governor indicated that application of this definition expands the scope of the population served by these funds and would use dollars that were intended to benefit Medicaid eligible people to subsidize those not eligible for Medicaid, which does not seem justifiable at a time when resources are limited.

**Copies Available** Copies of the enacted version of HF 740 and the veto message are available upon request 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) Sam Leto (Ext. 16764)

FY 2001 Allocation Transfer - Department of Corrections

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**Allocation Transfer** The Legislative Fiscal Bureau received notice of an allocation transfer under Section 904.116, Code of Iowa. The Section permits the Department of Corrections (DOC) to revise the General Fund allocations to the nine Institutions with notice to the LFB. The Fort Dodge Institution is transferring $350,000 to the Fort Madison Institution due to unexpected cost increases in utility and pharmaceutical expenditures. Funds were available to transfer from the Fort Dodge Institution due to savings in salaries, travel, supplies, uniforms and data processing.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

FY 2001 Allocation Transfer - Community-Based Corrections

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**CBC Allocation Transfer** The Legislative Fiscal Bureau received notice of an allocation transfer under Section 905.8, Code of Iowa. The Section permits the Department of Corrections (DOC) to revise the General Fund allocations to the eight Community-Based Corrections (CBC) District Departments with notice to the LFB. The First, Fifth, Sixth, Seventh and Eighth CBC District Departments are each transferring $10,000 to the Fourth CBC District Department. The Fourth CBC District Department needs $50,000 due to unexpected costs associated with personnel and travel (gasoline price increases).

STAFF CONTACT: Beth Lenstra (Ext. 16301)

FY 2001 Allocation Transfer - State Public Defender’s Office

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**Allocation Transfer** The Legislative Fiscal Bureau (LFB) received notice of an allocation transfer under Section 8.39, Code of Iowa. The State Public Defender is transferring $620,000 from the Indigent Defense Fund to the Office of the State Public Defender during FY 2001. The funds are needed by the Office of the State Public Defender for payroll and operating expenses.

**Indigent Defense Claims** The notification of this allocation transfer indicates the Indigent Defense Fund may be exhausted before all FY 2001 claims are paid. Appropriation transfers from other agencies during August may be necessary to pay FY 2001 indigent defense claims.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

FY 2001 Appropriation Transfer

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**Appropriation Transfer** The Legislative Fiscal Bureau (LFB) received notice of an appropriation transfer under Section 8.39, Code of Iowa. The Department of Corrections (DOC) is transferring up to $50,000 from the Fifth Judicial District Department of Correctional Services to the Iowa State Penitentiary at Fort Madison. The appropriation transfer is necessary because the Penitentiary experienced unexpected cost increases for utilities and pharmaceuticals. The Fifth Judicial District Department of Correctional Services has funds available to transfer due to salary savings related to vacant positions.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

FY 2002 Major Maintenance Projects

**Projects Approved** The Governor’s Vertical Infrastructure Advisory Committee approved a preliminary list of projects that will be funded from the appropriation for major maintenance. The General Assembly appropriated $11.5 million from the Rebuild Iowa Infrastructure Fund in FY 2002 for major maintenance projects at State facilities and institutions. State agencies submitted requests totaling nearly $40.0 million to the Advisory Committee.

**Approval Process** The process used by the Committee in determining which projects receive funding involved each State agency presenting a prioritized list of projects, including cost estimates, to the Committee. The Committee reviewed all the projects and has made recommendations for funding. The Committee is allowing agencies to submit comments on the proposed list until June 29, and the Committee will make its final recommendations on July 2. The final prioritized list adopted by the Committee will then be sent to the Governor for his review and approval.



**List of Projects** The following table lists the top 23 projects recommended to receive funding from the major maintenance appropriation. The list also includes five allocations that received funding prior to the project selection. These include two allocations to the Department of General Services to administer the Vertical Infrastructure Program and to cover costs incurred for providing project management services. The Committee has also set aside $500,000 for projects that address Americans with Disabilities Act compliance and $50,000 for maintenance and repair of State monuments. The Committee also allocated $739,000 for Phase 2 of the roof and gutter replacement project at the Cherokee Mental Health Institute (MHI), a project that was started in FY 2001.

**Total Cost** The total cost for all projects on the list exceeds the $11.5 million appropriation by approximately $350,000. The last project listed may be fully funded if there are cost savings from higher priority projects.

STAFF CONTACT: David Reynolds (Ext. 16934)

Board of Regents Meeting

**May Board Meeting** The Board of Regents met at the Iowa School for the Deaf in Council Bluffs on May 15-17. Significant agenda items included:

**Annual Reports** The Board received Annual Reports on:



* *Regional Study Centers* – The Board operates two graduate study centers – the Tri-State Graduate Study Center at Sioux City and the Quad Cities Graduate Study Center at Rock Island, IL. The Board also cooperates to provide the Southwest Iowa Resource Center located on the campus of the School for the Deaf in Council Bluffs.
* *Child Care* – Each of the three Regents universities provides on-campus care centers and participates in community referrals. All centers are operating at full capacity. Each of the universities is proposing to increase the general fund portion of the child care budgets as follows: University of Iowa (SUI) – 4.0%; Iowa State University (ISU) – 1.0%; and the University of Northern Iowa (UNI) – 3.0%.
* *Faculty Activity* – The Report provides information about the allocation of faculty effort, instructional productivity measures, and time spent by faculty on professional activities. In the area of faculty effort for 2000-2001, the faculty work week was reported at:

58.2 hours at SUI, a decrease of one hour compared to the previous year total of 59.2 hours.



Reports

58.2 hours at ISU, an increase of 1.2 hours compared to the previous year total of 57.0 hours.

55.2 hours at UNI, an increase of 0.5 hours compared to the previous year total of 54.7 hours.

The Board survey also includes a measure that reflects the percent of time spent teaching. This measure is broken out as follows:

Tenured Faculty = 49.2%

Tenure Track Faculty = 48.5%

Non-Tenured Faculty = 76.5%

Regent Kelly indicated his concern that members of the General Assembly view Regent faculty as “underworked and overpaid.” Board staff indicated that the Iowa Regent institutions’ workload data is comparable to data from peer institutions nationally. Regent Newlin indicated his concern that the survey response rate for SUI was much lower than the ISU response rate. Staff at SUI indicated that their survey process is confidential and responses from specific individuals are not tracked. At ISU, individual survey responses are identified by name so that individuals can be encouraged to return the survey.

**Allocation of Fees** The Board approved the allocation of mandatory student fees and designated tuition for the 2001-2002 academic year. The increase in various student fees was approved by the Board in October 2000. The Board approved the allocation of certain mandatory student fees and the allocation of a portion of the tuition specifically designated as student fees.

**Banking Committee** The Board received the Report of the Banking Committee and took the following action:



* Approved a resolution to issue debt to reimburse SUI Residence System for certain original expenditures paid in connection with certain projects, including:

Currier Residence Hall – Dining area renovation

Currier and Stanley Residence Halls – Upgrade fire protection

Burge and Daum Residence Halls – Upgrade fire protection

Burge Residence Hall – Remodel food service area.

The resolution was necessary per federal Internal Revenue Code to ensure maximum reimbursement of expenditures from future bond issues for payments made up to 60 days prior to the resolution.

* Discussed hiring an additional fixed income manager. Wilshire and Associates (the current financial consultant) recommended three firms, BlackRock, Western Asset Management, and Reams Asset Management, to consider interviewing at the June meeting. The Board maintains two investment portfolios – operating and endowment. The total endowment portfolio was $289.7 million as of December 31, 2000. A total of $127.1 million of the endowment portfolio is invested in fixed income (bonds).

**Faculty Consulting** The Board received the Biennial Report on Faculty Consulting Activities, for the period 1998 – 2000 providing information on faculty consulting. The Report was expanded this year to include more detail about how consulting activities are monitored and how conflicts of interest are resolved. The Report indicated the number of full-time faculty who consulted for pay increased at SUI and UNI and decreased at ISU. Overall, the total number of full-time Regents faculty that consulted for pay increased from 2,018 (1996-1998) to 2,230 in 1998-2000. This is an increase of 10.5%.

**Salary Policy** The Board reviewed the following proposed salary policies:



* Proposed Salary Policy for Professional and Scientific Staff for FY 2002 – Professional and scientific staff are one of five employee categories at the Regent institutions including institutional staff, faculty, professional and scientific staff, merit system employees, and students. The professional and scientific category includes positions such as administrative assistants, registered nurses, engineers, student advisors, accountants, research scientists, and various managers. There are approximately 9,300 Regent employees in this category. The salary proposal for pay grades for professional and scientific staff for FY 2002 includes:

SUI – increase minimums by 3.0% and maximums by 3.0%.

ISU – increase minimums by 3.0% and maximums by 5.0%.

UNI – increase minimums by 3.0% and maximums by 8.0%.

Special Schools – increase minimums by 2.0% and maximums by 3.0%.

Board Office – increase minimums by 3.0% and maximums by 3.0%.

* Proposed Salary Policy for Faculty at the Special Schools for FY 2002 – The Special Schools pay matrix is typical of pay schedules for K-12 schools. Increases for this pay matrix will be made at the June meeting when State funding has been finalized. The cost to provide a 3.0% increase plus merit steps would be 4.3% at the Iowa School for the Deaf and 5.2% at the Iowa Braille and Sight Saving School.
* Proposed Pay Plan for Regent Merit System – Increases for Merit System employees will be consistent with the collective bargaining agreement. Final numbers will not be available until the June meeting. There are approximately 8,200 permanent employees in the Regents Merit System.

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**FY 2002 Operating Budgets** The Board reviewed Conceptual General Fund Operating Budgets for FY 2002. The Board of Regents reviewed initial institutional budgets indicating planned budget reductions. Preliminary budgets for FY 2002 will be presented to the Board in June and final action will be taken in July. All institutions indicated that staff reductions will be necessary, mostly through attrition, although some furloughs and layoffs may be necessary.

**Student Teacher Placement** The Board approved a policy regarding placement of student teachers in non-public schools. A recent U.S. Supreme Court decision (Mitchell v. Helms – June 28, 2000) allows students from public universities to be placed as student teachers in non-public schools. Because of the limited availability of student teaching opportunities in public schools, the Regents approved a policy to utilize appropriate non-public school placement options for students who request such a placement.

**June Board Meeting** The Board of Regents met June 12 and 13 at Iowa State University in Ames. Significant agenda items included:

**Executive Director Resigns** The Board reluctantly accepted the resignation of Frank Stork, Executive Director of the Board since 1997. Mr. Stork has accepted a position with Wellmark beginning July 1. The Board appointed Deputy Executive Director Bob Barak as Interim Director. The Board will announce the selection of a search firm for the Director position at the July Board meeting.

**Budget Ceilings for FY 2001** The Board approved the following budget ceiling adjustments for FY 2001 budgets:



* University of Iowa (SUI) Oakdale Campus - $50,000 due to increased indirect cost recovery funds. The additional funds will be used to offset utility costs.
* SUI Hospitals and Clinics - $20.0 million for increased charges for pharmaceuticals and surgical supplies. The increased revenues are offset by increased expenditures in the same categories. Patient volume has exceeded budgeted levels and resulted in increased patient charges and expenditures in these categories.
* University of Northern Iowa (UNI) - $225,000 due to increased revenue from tuition and fees and indirect cost recoveries. The UNI will use these additional funds for new financial information system software.
* Iowa School for the Deaf - $75,000 due to increased revenue from Phase III of the Education Excellence Program ($1,000), interpreter fees ($40,000), sale of two vehicles ($20,000), and lease/rental income ($14,000). The School will use these additional funds to offset utility costs.
* Iowa Braille and Sight Saving School - $2,600 due to increased revenues from billable itinerant services with the Area Education Agencies. The additional funds will be used for building repairs.



**Revised FY 2002 Budgets** The Board reviewed preliminary budgets for FY 2002. Each of the institutions presented plans to absorb a reduction in funds of approximately 6.0% compared to FY 2001. Final FY 2002 budgets will be approved at the July meeting when FY 2002 salary allocations are known.

**Capital Improvement Plans** The Board approved capital projects totaling $359.6 million for FY 2002. Of this total, $46.8 million would be from State funds. Other sources of funds will include revenue bonds ($92.0 million), gifts ($86.9 million), UIHC Building Usage Funds ($60.5 million), improvement reserves from self-supporting enterprises ($30.8 million), Treasurer’s Temporary Investments income ($15.3 million), and other sources ($27.3 million). Approximately $489.1 million in previously approved projects are currently in progress. Of this amount, $218.9 million are expected to be completed in FY 2002.

**Retirement Plans** The Board Office has recommended continuation of the current Phased Retirement Program through June 30, 2007. The Board Office anticipates recommending elimination of the Early Retirement Program effective June 30, 2002, with a possible phase out through June 30, 2004. Final action on both retirement plans will occur at the July meeting.

**More Information** Additional information regarding the Regents meeting can be obtained by visiting the Board’s web site located at www2.state.ia.us/regents/ under the heading “Meetings.”

**Next Meeting** The next meeting of the Board of Regents is scheduled for July 18-19 at the University of Northern Iowa in Cedar Falls.

STAFF CONTACT: Mary Shipman (Ext. 14617)

College Student Aid Commission Meeting



**Commission Meeting** The College Student Aid Commission met on May 29 at the Commission offices in Des Moines. Significant agenda items included:

* Meeting Schedule – Historically, the Commission has met every other month on the third Tuesday afternoon. The Commission voted to change the meetings to the second Thursday morning of every other month beginning in July.



* Legislative Update – Commission staff reviewed final legislative action and the recent Governor’s line item vetoes. The Governor’s vetoes of three standing appropriations changes in SF 535, Education Appropriations Act, had the effect of restoring the following programs to the FY 2001 level:
* Tuition Grant Program – The total funding for FY 2002 will be $48.8 million. This is an increase of $2.5 million from the final legislative action and an increase of $1.1 million compared to the Governor’s revised recommendation for FY 2002.
* Vocational-Technical Grant Program – The total funding for FY 2002 will be $2.5 million. This is an increase of $149,000 from the final legislative action and an increase of $108,000 compared to the Governor’s revised recommendation for FY 2002.
* State of Iowa Scholarship Program – The total funding for FY 2002 will be $499,000. This is an increase of $30,000 from the final legislative action and an increase of $22,000 compared to the Governor’s revised recommendation for FY 2002.
* Federal Funds Report – Commission staff reported that Iowa is expected to receive approximately $322,000 in federal Leveraging Educational Assistance Partnership (LEAP) funding for FY 2002 based on the final State appropriation total. Iowa has in the past also qualified for Supplemental Leveraging Educational Assistance Partnership (SLEAP) funds of approximately $269,000. However, due to the reduced funding level for the Commission in FY 2002 it is unlikely that Iowa will qualify for SLEAP funds.



* Vocational-Technical Tuition Grants – The Commission approved the allocation of $63,000 of FY 2002 funds for second priority awards (late applications). This funding will allow approximately 100 second priority applicants to receive funding for the academic year 2001-2002. The Code of Iowa requires allocation of a portion of the total funds for the Grant Program to assist applicants who apply through August 1. The Commission has extended the second priority deadline to October 1.
* Osteopathic Forgivable Loan Program – The Commission authorized the purchase of $143,000 of Iowa Osteopathic Forgivable Loans and repayment contracts. The purchase of these loans will supplement funds appropriated to the Program and will enable the Program to provide $3,200 forgivable loans to 152 recipients during FY 2002. The Program provided $4,000 forgivable loans to 140 recipients in FY 2001. Total funding for the Program in FY 2002 is expected to be $488,000, which includes the following:
* $91,000 beginning balance.
* $254,000 from State appropriations ($100,000 from the General Fund and $154,000 from the Scholarship and Grant Reserve Fund).
* $143,000 loan sale proceeds.
* Disaster Relief Grant Extension – The Commission approved a proposal to invest $1.0 million in non-committed proceeds from the Commission’s reserve recall interest account to fund additional Disaster Relief Grants and approved the staff’s recommended institutional allocations.
* Revenue and Finance Collections Agreement – The Commission authorized staff to pursue a 28E agreement with the Department of Revenue and Finance for defaulted student loan collection assistance.
* Postsecondary Institution Registration – The Commission reviewed an application for registration with the Secretary of State submitted by the University of St. Francis located in Ft. Wayne, IN. The University has provided graduate courses through an Iowa entity known as Connecting Link. The Commission determined that insufficient information was available to approve the application and requested staff to investigate further with help from a task force of Commission members.

**Next Meeting** The next meeting of the Commission is scheduled for July 12 in Des Moines.

STAFF CONTACT: Mary Shipman (Ext. 14617)

State Board of Education Meeting

**Board Meeting** The State Board of Education met on May 10 and 11. The Board received and discussed updates on State and federal legislation and approved the FY 2002 certified budgets for the community colleges.



**Community Colleges** The FY 2002 budgets do not reflect the funding cut approved by the General Assembly in the Education Appropriations Bill (SF 535). In discussing the budgets and the reduced State funding, Joseph Borgen, President of Des Moines Area Community College, predicted that Iowa will have the highest community college tuitions in the nation next year. He also noted that the percentage of funding which Iowa community colleges receive from property taxes in Iowa is among the lowest in the nation.

**Other Possible Reductions** In addition to tuition and fee increases, other possible budget-cutting measures cited included elimination of vocational-technical programs, staff reductions, fewer hours and lower wages for student employees on work-study, hiring freezes, and the closing of instructional centers and small campuses.

**Improving High Schools** The Board received an update on initiatives aimed at improving Iowa’s high schools, including the implementation plans for 15 regional high school academies that received $10,000 planning grants in FY 2001. The presentation highlighted the use of technology and telecommunications among the regional academies. It also included a discussion of the future of on-line high school courses and programs. Detailed reports regarding the regional academies and on-line high school programming are due later in May.

**Inclusive Schools** The Board approved amendments to Chapter 12 of the Administrative Rules for Notice of Intended Action. Chapter 12 pertains to accreditation of local schools and school districts. The amendments add language reflecting state and federal laws and regulations regarding inclusive school environments. Three public hearings in regard to the amendments are scheduled throughout the summer in Council Bluffs, Des Moines, and Cedar Rapids. The Department is drafting a technical assistance manual to help school districts implement the changes.

**Revised Rules** The revised rules were developed over a two-year period, with input from a variety of interested parties. It was noted that Iowa will be the first state to link student achievement to socio-economic isolation in its rules and regulations for public schools. The amendments define a socio-economically isolated attendance center as one where enrollment of students eligible for free and/or reduced price lunch exceeds 75.0%. The amendments also define isolated attendance centers on the basis of disability, gender, and race.

Administrative

**Rules**

**New Requirements** The revised rules require a school district to determine whether an isolated attendance center has a significantly higher percentage of students achieving at a low performance level than the district as a whole. If so, the school must take specified steps in its comprehensive school improvement plan, including:

* Review student assignment policies and practices to ensure that they are not causing or contributing to the isolation.
* Specify steps to encourage more varied student enrollment.
* Allocate existing resources to assist students in achieving the same academic goals set for other attendance centers in the district.
* Provide ongoing documentation of the effectiveness of efforts to reduce the differences in achievement between the isolated attendance center and others in the district.

*On Thursday, May 31, Governor Vilsack ordered the Department of Education to withdraw these proposed rules, indicating that some of the provisions need to be rewritten*.

**Other Reports** The Board also received a report regarding a survey of personnel needs at the community colleges and an update on the Urban Education Network’s collaboration with the University of Northern Iowa to provide leadership development for aspiring urban school administrators.

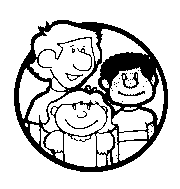
STAFF CONTACT: Robin Madison (Ext. 15270)

JUNE MEETING OF THE HAWK-I BOARD



**Hawk-I Board Meting** The Healthy and Well Kids in Iowa (HAWK-I) Board met on June 20 and conducted the following business:

* Review of correspondence
* A letter of resignation from Representative Osterhaus.
* Report on covering adults with HAWK-I funding. Congress is pursuing this option and will be providing states with new federal funding if approved.
* A New York Supreme Court decision allows legal immigrants to be covered under Medicaid. This decision is not binding outside New York, but it could have an impact on other states in the future for both Medicaid and Children’s Health Insurance Program (CHIP).
* Administrator’s Report
* 2001 budget
* Expenditures are running currently at 77.00% of budget. With two months remaining in FY 2000, an over expenditure is not expected. The HAWK-I Trust fund has accumulated approximately $380,000 in interest during the year. The balance in the fund is minimal.
* 2002 appropriation bill



* The Governor’s veto message was distributed and items pertinent to CHIP were discussed. A waiver has been submitted to federal authorities and if approved, additional funding will be required.
* Enrollment and statistics
* The number of children currently covered is over 26,000. Approximately 5,000 children have been added to Medicaid.
* Approximately 45.00% of all applications taken are referred to Medicaid.
* The number of applications made during May have dropped. The main reason is reduction in media advertisement resulting from budget constraints.
* SCHIP regulations update
* Final SCHIP regulations were delayed by the federal government. Latest information is that they will be effective June 25, 2001. Information received indicates that these regulations will be “State Friendly”. The Department of Human Services will do an analysis on the impact of the regulations and bring that information to the July 16, 2001, HAWK-I Board meeting.
* Update on Patti Walden Allen Proposal
* This unsolicited proposal was discussed at the May meeting. The HAWK-I Board was favorable to the proposal that would assist with marketing strategy for CHIP in Iowa. The only update is that outside funding for the plan is not yet finalized.
* Survey team report



* The National Academy for State Health Policy published a report entitled Why Eligible Children Lose SCHIP. The report examines three states which were surveyed about their children’s health program. Iowa is likely to be in the next set of states to be surveyed.
* Approval of health plan contract
* The HAWK-I Board was to review and approve FY 2002 contracts for Iowa Health Systems, John Deere, and Wellmark. There are some recent and substantial changes proposed by Wellmark that will require discussion and negotiation. The timeframe to resolve issues is very short and HAWK-I Board needs to approve by June 26, 2001. A special meeting via phone is being scheduled for June 25, 2001, at 3 p.m. specifically for the purpose of contract approval. If the contract cannot be approved at this time, then options to continue services must be determined.
* Clinical Advisory Committee update
* Dr. David Alexander, member of the Clinical Advisory Committee (CAC), spoke to the HAWK-I Board on their priorities for FY 2002. He discussed the survey instruments being used and how they might be improved. He also suggested resubmitting the legislative ideas proposed last year for benefit plans and meeting with key legislators. The CAC recommended a rotation for membership to 3-year and 1-year terms. He also stated that Dr. Reese was nominated as a new member to the CAC.
* Outreach update
* Iowa State Fair- A tent will be available near the Walnut Area to promote HAWK-I.
* St. Ambrose CEU Presentations- Sessions have happened in 14 cities and have included 400 participants.



* Indian Health Services
* Mark Merrick requested assistance to become a provider of health services for children of the Sac and Fox Tribes. The DHS staff are researching and will continue to work on this request.
* Covering Kids update
* This outreach program continues to deal with health and safety matters for children. Statewide planning continues for special promotional events for the back to school schedule in August.
* Administrative rules for discussion
* Amendments discussed included changes to the preamble, earned income from self employment, family size, citizenship and alien status, application not required, information and verification procedure, waiting lists, HAWK-I enrollee appears eligible for Medicaid, third party administrator, failure to select a plan, falsification of information, dissemination of application forms and information, records and reports, and a new rule on use of donations to the HAWK-I Program. Formal rules will be approved at the July meeting.
* Discussion of legislative proposals for 2002 session
* Items recommended for consideration for the 2002 legislative session included technical amendments and Clinical Advisory Committee proposals for 2001 session, development of electronic applications, employer sponsored health coverage buy-in, year three survey, additional staffing, eliminating six month waiting period, and meeting ongoing media needs.

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

STAFF CONTACT: Sam Leto (Ext. 16764)

Council on Human Services Meeting

**Council Meeting** The Council on Human Services met June 13 and conducted the following business:

**Rules Approved** The Council approved the following Administrative Rules:

* Implementation of the 60-month hardship exemption for the Family Investment Program (FIP). Families receiving benefits from the FIP continuously since January 1997 would not be eligible after December 2001 unless a hardship exemption is granted. For FY 2002 there is not a change in fiscal impact since the Department presumed that families reaching the 60-month limit would continue to be eligible under the hardship exemption. The FY 2003 impact was not provided.

Administrative

**Rules**

* Increasing the reimbursement rates for certain residential care facilities and in-home health-related care based upon federal pass-along requirements. The funding is entirely State funding but with declines in usage, the Department of Human Services is projecting a budget neutral impact for FY 2001.
* Increasing the income eligibility guidelines for the Emergency Food Assistance Program. Fiscal information indicates no financial impact.
* Adding a new Medicaid Program coverage group for certain women with breast or cervical cancer. The Department now predicts a State cost of $356,014 and a federal cost of $936,259, while $250,000 was appropriated from the Healthy Iowans Tobacco Trust for FY 2002 for the cost based upon the previously estimated cost.
* Revisions to the various average costs relating to nursing facility services under the Medicaid Program. The changes affect the period of ineligibility when a person has transferred assets to become eligible for Medicaid. Information included indicates the data is not available to project the fiscal impact.
* Allowing certain individuals to be part of a “Medicaid household” for purposes of determining the eligibility of other household members required by the Health Care Financing Administration (HCFA). Information indicates that the data is not available to estimate the cost of the change, although 37.14% of the cost would be a State General Fund responsibility.
* Permitting certain dental services to be provided at ambulatory surgical centers. There will not be a fiscal impact according to provided information.
* Adding a new service, a residential-based supported community living service, to the Home and Community Based Services Mental Retardation waiver. The State cost is $1.5 million and the federal cost is $2.5 million for FY 2002, which was included in the Medicaid budget, according to the Departmental information.
* Initiating a new service in Medicaid relating to child welfare targeted case management. Fiscal impact was not provided but has been requested.



* Adopting a modified price-based case-mix reimbursement system for the Medicaid-reimbursed nursing home facilities. Funds provided for the reimbursement system were derived as a combination of State General Fund, federal funds, and the Senior Living Trust Fund.
* Changes in various Medicaid reimbursement rates as determined by the 2001 General Assembly or federal law. Detailed information included in the information provided by the Department regarding the State and federal portions of the various rate changes is available from the Legislative Fiscal Bureau (LFB).
* Revising the Home and Community Based Waiver for Persons with a Brain Injury. State cost is $387,000 and the federal cost is $653,000, which, according to the information, was included in the FY 2002 appropriation.
* Increasing the mileage reimbursement from 16 cents to 21 cents per mile for the Promise Jobs Program and extending the time frame for the post-secondary education component of the Program. The Department was provided an additional $650,000 in funds from the Temporary Assistance for Needy Families (TANF) Program for the mileage reimbursement increase. The education component will not have a fiscal impact.
* Procedures for record check evaluations relating to employees of certain health care facilities and programs. There will not be a fiscal impact.
* Altering the monthly gross income for determination of eligibility of child care subsidy based upon changes in the federal poverty level. There will not be a fiscal impact.



* Freezing the reimbursement rates for adoption, independent living, and family planning services for FY 2002, as recommended by the Governor and enacted by the General Assembly.
* Increasing the daily foster family care and adoption payment rates. Information indicates that $272,000 was appropriated for this purpose. Additional information and clarification has been requested regarding the actual funds appropriated to maintain the 70.0% of the United States Department of Agriculture cost estimate to raise a child.
* Changing the number of years in the Medicaid Program for a nursing facility to be eligible for the Nursing Facility Conversion and Long-Term Care Services Development Grants. There will not be a fiscal impact.
* Eliminating the Wrap-Around Funding Program as recommended by the Governor and enacted by the General Assembly. The funding was eliminated for FY 2002.
* Freezing the reimbursement rates for FY 2002 for rehabilitative treatment and support services as recommended by the Governor and enacted by the General Assembly.

**Other Council Action** The Council:

* Provided Director’s Report of Notice for future action of proposed administrative rule changes not already reflected in the previous administrative rule action.
* Provided for an independent audit of rehabilitative treatment and support services at certain intervals.
* Heard from a member of the public regarding concerns of the survey which is used to develop child care subsidy rates.
* Discussed concerns of the Council members, including:

Impact of any administrative rule changes upon the actual individuals affected by the change.

Adequacy of the monthly amount provided by the Family Investment Program (FIP).

#### FY 2002

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Need for mental health insurance parity.

* Heard comments from Director Rasmussen, including:

Process under way for the FY 2003 budget, affected by revenue growth, tax cuts, future obligations, changes in manufacturing production in the State, underfunding of entitlements, use of one-time funds, and outreach for the Healthy and Well Kids in Iowa (HAWK-I) Program.

Impact of the FY 2002 appropriations, while maintaining current level of duties in the Department, increased demand for services, utilization of employee suggested cost saving process, identification of the most critical activities to conduct, and technology management.

Use of the July Council meeting for public input for the FY 2003 budget, to include input for efficiency suggestions.

Governor’s item vetoes of HF 732, Human Services Appropriations Act, impact of fewer employees in the regional offices, acceptance of possible targeted federal funds for the Iowa Marriage Initiative, and pharmaceutical costs for the Medicaid Program.

* Received a budget update not previously included in Director Rasmussen’s comments relating to:



Maintenance of effort concerns for several of the budget line-item appropriations.

Underfunding of salaries by an estimated $2.5 million for FY 2002.

Information technology system concerns.

Possible need of an FY 2002 supplemental appropriation for the State Cases Program.

Targeted case management efforts.

Mental Health Allowable Growth.

* Communicated over the Iowa Communications Network (ICN) with the Scott County Live Learning Lab.

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

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

Vertical Infrastructure Advisory Committee

**Advisory Committee** The Governor’s Vertical Infrastructure Advisory Committee met June 15 to hear presentations from State agencies regarding requests for major maintenance funding in FY 2002.



**Project Prioritization** The General Assembly appropriated $11.5 million from the Tobacco Settlement Trust Fund in FY 2002 for major maintenance projects. The Vertical Infrastructure Advisory Committee evaluates and prioritizes project proposals submitted by State agencies and allocates the appropriated funds accordingly.

 State agencies submitted requests totaling $41.4 million for 121 projects. Approximately 80.0% of the funding requests were from the Department of Human Services and the Department of Corrections. The following table shows the requests by State agency.

The Advisory Committee will meet in late June, via teleconference, to prioritize the agency requests.

**Copies Available** Copies of the FY 2002 Major Maintenance Project Request summary are available from the LFB upon request.

STAFF CONTACT: David Reynolds (Ext. 16934)

Legislative Fiscal Committee Meeting



**Fiscal Committee** The Legislative Fiscal Committee is scheduled to meet on July 24 at 10:00 in Room 116 of the State Capitol Building. Tentative agenda topics include:

* Review of the Fiscal Committee Statutory Charge - specifically Code of Iowa, Ch. 2.46(3) - examination/citations.
* Fire Marshal - brief presentation on how often State facilities are examined.
* Infrastructure Planning - presentation by Advisory Council.
* Vision Iowa Program Update.
* School Infrastructure Update.
* Teacher Compensation - update on rulemaking process and the status of the rules.
* Tobacco Securitization Update.
* ISU Extension Office.
* Medicaid Expenditures Update.

STAFF CONTACT: Holly Lyons (Ext. 17845) Tim Faller (Ext. 14615)

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