FISCAL UPDATE February 25, 2002

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Revenue Estimating CONFERENCE Revises General Fund Revenue Estimates

**REC Meeting** The Revenue Estimating Conference (REC) met February 21 to review FY 2002 and FY 2003 estimated General Fund revenues. Net revenues for the two fiscal years decreased a total of $253.2 million.

**FY 2002 Estimate Decreased** The REC revised downward the total FY 2002 General Fund tax and other receipts estimate established in December to $5.080 billion, which is 0.7% less than the FY 2001 level.



**Net Receipts** Net receipts (total taxes, other receipts, transfers, and accrued revenues, minus refunds) were revised downward from $4.673 billion to $4.552 billion, reflecting decreased estimates for all five major taxes sources. The REC action resulted in an estimated FY 2002 net General Fund receipts decrease of $92.9 million (2.0%) compared to actual FY 2001 net receipts.

**FY 2003 Estimate** The REC also revised downward the FY 2003 total tax and other receipts estimate established last October to $5.171 billion, which is 1.8% above the revised FY 2002 estimate.

**FY 2003 Net Receipts** Estimated net receipts (total taxes, other receipts, transfers, and accrued revenues, minus refunds) were set at $4.612 billion. The REC action resulted in estimated FY 2003 net General Fund receipts growth of $60.1 million (1.3%) compared to the new FY 2002 net receipts estimate.

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| **IN THIS ISSUE:** | REC Revises General Fund Estimates, pg. 1 | HF 2338 – Sex Offender Registration, pg. 8 |
|  | Ways & Means Bills, pg. 3 | HF 2404 – Limited English Student Weighting, pg. 8 |
|  | SSB 3175-Property Tax Reform Bill, pg. 4 | Teacher Shortage Areas Revised, pg. 8 |
|  | New Proposed Dept. - Admin Services., pg. 6 | New Responsibilities for FEMA, pg. 9 |
|  | HF 2345 – Violence Against Women, pg. 7 | High-Speed Internet Access Report, pg. 9 |
|  | SF 2100 – Dating Violence, pg. 7 | Iowa Turkey Marketing Council Audit Report, pg. 10 |
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**Gambling Revenue Estimates** The Conference increased the FY 2002 and FY 2003 estimate for gambling receipts deposited to other funds by $2.2 million and $2.3 million, respectively. 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. The Lottery estimate for FY 2002 was raised $600,000, and FY 2003 was not changed.



**Spreadsheet Change** The Second Special Session of the 2001 General Assembly added estimation of accrued revenues to the duties of the REC. Accrued revenues are those revenues received after the June 30 close of a cash year that are the result of taxable events during the prior July 1-to-June 30 year. For example, income taxes withheld by an employer for paydays occurring from June 16 to June 30, 2001, were in many instances due to the State by July 10, 2001. The money received by the Department of Revenue and Finance on July 10 is deposited to the General Fund and treated as FY 2002 revenue on a cash year basis. However, for accounting purposes, the revenue is accrued back to FY 2001. The REC now includes a projection of net accrued revenues, equal to $3.9 million in FY 2002. The net accrued amount is positive, which means the REC is projecting accrued revenues at the end of FY 2002 will exceed accrued revenues from the end of FY 2001 by $3.9 million.

**Estimates by Source** The following spreadsheet details the latest REC estimates by source of revenue.



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Ways & Means Bills

**Ways & Means Bills** The following is an update of the status of significant Ways & Means bills as of February 22:

**Venture Capital** House File 2078 – Venture Capital Contingent Tax Credit Bill – The Bill creates a contingent tax credit system to be used to guarantee the principal and rate of return for investors in a venture capital fund. The tax credits cannot be utilized for at least five years. The fiscal note for the Bill did not determine a fiscal impact because the likelihood of the tax credits being used cannot be determined. The Senate amended the House File on January 28 by adding provisions related to taxation of Subchapter S corporations. That amendment would reduce General Fund receipts by $900,000 in FY 2003 and $800,000 in FY 2004 and beyond. The House accepted the amendment and passed the Bill on January 29. The Bill will now be sent to the Governor.



Tax Credit



**IRC Update** House File 2116 – Internal Revenue Code (IRC) Update Bill – The Bill updates Iowa’s revenue code to match recent changes to the federal tax code. The Bill also changes the tax status of Iowa’s school district income tax surcharge and restricts the Executive Branch’s ability to rescind, enter into, and modify tax reciprocity agreements with other states. The Bill is projected to decrease General Fund revenues by $3.3 million in FY 2003 and $6.0 million in FY 2004 and beyond. The Bill passed the House on January 31. On February 14, the Senate Ways & Means Committee removed the school surtax provision and approved the Bill with the amendment. The amendment increased the negative fiscal impact of the Bill by $1.7 million per year.

**Employee Stock Options** House File 2079 – Employee Stock Option Tax Deduction Bill – The Bill deducts a portion of the gain from employee stock options from Iowa taxable income. The Bill is projected to reduce FY 2004 General Fund receipts by $1.0 million and by $3.0 million in FY 2005 and beyond. The Bill was approved by the House Ways & Means Committee and is now on the House calendar.

**Seed Capital Tax Credit** House File 2271 – Seed Capital Tax Credit Bill – The Bill provides a 20.0% tax credit to investors in qualified community-based seed capital funds and qualified start-up Iowa companies. The tax credits apply to investments made starting January 1, 2002, but cannot be utilized for three years. The total tax credits allowed are limited to $3.0 million the first and second years and $4.0 million the third year. The Bill has been approved by the House and Senate and will now be sent to the Governor.

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Property Tax Reform Bill– SSB 3175 passes Senate local government committee

**SSB 3175** Senate Study Bill 3175 (Property Tax Reform Bill) passed the Senate Local Government Committee on February 21. The Bill provides for a number of property tax revisions, including:



* Eliminating the Homestead Property Tax Credit and Ag. Land/Family Farm Property Tax Credit. Approximately $148.3 million was appropriated for these credits in FY 2002.
* Eliminating the percentage rollback provision that applies to assessed valuations by class and eliminating the agriculture productivity formula that is applied to assessed value of agriculture properties.
* Providing dollar rollback amounts for qualifying individual properties by class. The maximum amount of rollback by class for each unit is:
* $20,000 for each residential property.
* $50,000 for each agriculture property.
* $25,000 for each commercial property or industrial property.



* Placing restrictions on the county levy amount by class. The restrictions include:
* No more than 0.375% of the taxable value of the urban residential class.
* No more than 0.75% of the taxable value of the rural residential class.
* No more than 0.5% of the taxable value of the urban agricultural class.
* No more than 0.75% of the taxable value of the rural agricultural class.
* No more than 0.75% of the taxable value of the urban commercial and industrial class.
* No more than 1.5% of the taxable value of the rural commercial and industrial class.
* Placing restrictions on the city levy amount by class. The restrictions include:
* No more than 1.0% of the taxable value of the residential and agriculture class.
* No more than 1.5% of the taxable value of the commercial and industrial class.
* Placing restrictions on the discretionary school levy amount by class. The restrictions include:
* No more than 0.5% of the taxable value of the residential and agriculture class.
* No more than 1.0% of the taxable value of the commercial and industrial class.
* Placing an additional restriction that property tax by class cannot increase by more than the Consumer Price Index (CPI) for the preceding 12 months.

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* Increasing the School Aid Regular Program Foundation level from 87.5% to 98.4%.
* Requiring that revenues from school districts’ property taxes imposed in an urban renewal area that is utilizing tax increment financing shall not be paid to the municipality implementing the urban renewal plan, but will be paid to the school district unless the municipality can certify that it needs the revenue to pay the urban renewal area’s indebtedness.
* Requiring that land in a forest reserve is exempt from school district levies only.



* Limiting the pollution control property tax exemption for agricultural landowners to $100,000 of the value and requiring that it only be eligible if the pollution control property is on agricultural land eligible for the family farm tax credit.

**More Information** For further information pertaining to this Bill, contact the Legislative Fiscal Bureau.

STAFF CONTACT: Shawn Snyder (Ext. 17799)

Department of Administrative Services – LSB 6922YC passes Out of House State Government Committee

**LSB 6922YC – New Dept.** The Department of Administrative Services Creation Bill, LSB 6922YC, passed out of the House State Government Committee on February 21.

**Departments Consolidated** The Bill provides for the consolidation of several departments of State government. These include the following:

* Department of General Services



* Department of Personnel
* Information Technology Department
* Accounting functions of the Department of Revenue and Finance

**Four Divisions** Under the Bill, the new department will consist of four divisions:

* Human Resources Division
* Physical Resources Division
* Financial Services Division
* Information Technology Division

**Purpose of New Dept.** The Bill specifies that the purpose of the new department is to manage and coordinate the major resources of State government, including personnel, financial, physical, and information assets. The Bill also provides the current directors of the three departments, which will now be divisions, are no longer appointed by the Governor, but are appointed by the Director of the new department.



**ICN Not Included** The Governor’s proposal for the new department had included the Iowa Communications Network (ICN); however, the Bill as passed by the Committee does not incorporate the ICN. The Governor had estimated a savings of $3.1 million from the creation of the department. However, with the ICN not included, the savings is estimated to be $2.1 million.

**Exec. Council Repealed** The Bill also provides for repeal of the Executive Council and transfer or elimination of the duties of the Council.

STAFF CONTACT: Douglas Wulf (Ext. 13250)

Violence Against Women Act - HF 2345 Passes the House

**HF 2345 – Victim Asst.** The House passed HF 2345, which authorizes the Victim Assistance Program in the Department of Justice to administer the Violence Against Women Act federal grants. The Office of Drug Control Policy currently administers the grants.



**Federal Funds** Federal funds currently received by the Office of Drug Control Policy are estimated to be $2.3 million during FY 2003: $1.8 million for the STOP Violence Against Women Program and $500,000 for the Rural Domestic Violence and Child Victimization Discretionary Grant.

**Personnel Costs** There are currently two positions at the Office of Drug Control Policy that administer these programs. Total personnel costs are $120,000, of which $30,000 is a General Fund appropriation. The appropriation is required to meet the federal “matching funds” requirement.



**Fiscal Impact** There is no fiscal impact associated with HF 2345. Administrative costs remain at $120,000 annually. However, HF 2345 transfers the federal portion of this cost ($90,000) but the Bill does not transfer $30,000 in General Fund matching requirements. These funds remain at the Office of Drug Control Policy.

STAFF CONTACT: Beth Lenstra (Ext. 16301) Lisa Burk (Ext. 16765)

Dating Violence - SF 2100 Signed by the Governor



Governor

Signed

**Governor Signed** The Governor signed SF 2100 on February 22. The Bill provides no-contact orders for persons in an intimate relationship or have been in an intimate relationship and have had contact within the past year of the assault. The intimate relationship need not include sexual involvement. The Bill exempts intimate relationship domestic abuse from enhanced penalties for domestic abuse, but victims are eligible for no-contact orders. The court may order a person convicted of intimate relationship domestic abuse to participate in a batterer’s treatment program.

**Jail Admissions** Senate File 2100 is expected to increase jail admissions by 16 during FY 2003, and by 33 each year thereafter. Each person admitted to the county jail will serve 10 days.



**Fiscal Impact** State General Fund costs (Indigent Defense and Judicial Branch) are estimated to be $6,000 for FY 2003 and $12,000 during FY 2004. County costs for jail operations are estimated to range from $2,400 to

 $4,000 during FY 2003; FY 2004 costs are estimated to range from $5,000 to $8,200.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

Sex Offender Registration – HF 2338 passes House

**Sex Offender Registration** House File 2338 passed the House on February 19. The Bill requires students or employees at an institution of higher education to register with the sheriff’s office within five days of becoming a student, being employed, or engaging in a vocation at the institution.



**Fiscal Impact** If enacted, the Bill would have no fiscal impact. If the Bill is not passed this Session, a 10.0% penalty would take effect November 20, 2002. The 10.0% penalty would be applied annually to Byrne Funding received by the State until the legislation is enacted. The impact for FY 2003 would be a loss of $563,000 in federal funding. The Office of Drug Control Policy received $5.6 million in FFY 2001/SFY 2002. Forty-four percent of that amount goes to State agencies and 56.0% goes to local agencies. The money is used for law enforcement prevention and treatment programs.

STAFF CONTACT: Jennifer Dean (Ext. 17846)

Limited English Proficient Student Weighting – HF 2404 Passes House Education Committee



**English Proficient Weighting** The House Education Committee passed HF 2404 (Limited English Proficient Student Weighting Bill). The Bill increases the weighting for students identified as limited English proficient from 0.19 to 0.22. This weighting increase would be applied to enrollments starting in September 2002 and would have an impact on school district budgets in FY 2004. The estimated impact of this Bill is an increase in State aid of $1.2 million and a statewide increase in local property taxes of approximately $200,000 in FY 2004.

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

STAFF CONTACT: Shawn Snyder (Ext. 17799)

TEACHER SHORTAGE AREAS REVISED

**Teacher Shortage Areas** The Department of Education has finalized the list of designated teacher shortage areas for the 2001-2002 and 2002-2003 academic years. The shortage areas are determined by comparing the number of open teaching positions reported by school districts and the number of educators teaching with conditional licenses. Consideration is also given to subject areas that are difficult to fill because of career opportunities outside the teaching profession. The shortage areas determined by the Department are used to determine eligibility for the Teacher Shortage Forgivable Loan Program administered by the College Student Aid Commission.



**Subjects Added** Subject areas added to the list include:

* Music
* Foreign Language
* Family and Consumer Science
* Agriculture

**Subjects Removed** Subject areas removed from the list include:

* Health
* Reading
* Driver and Safety Education

STAFF CONTACT: Mary Shipman (Ext. 14617)

New Responsiblities for the Federal Emergency Management Agency (FEMA)

**New FEMA Responsibilities** In 2001, the Federal Emergency Management Agency (FEMA) responded to 45 major disasters. After September 11, FEMA was designated the focal point of the national anti-terrorism effort. FEMA is now responsible for dispensing money and providing training to police, firefighters, emergency workers, and citizens groups in the domestic war against terrorism.

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**FEMA Budget** President Bush asked Congress to set aside $3.5 billion in FY 2003 to help police, firefighters, and emergency personnel deal with terrorist attacks. FEMA will be responsible for distribution of the money and to monitor how the money is spent. The President also requested Congress to double FEMA’s budget, making their FY 2003 appropriation $6.4 billion. The President requested that FEMA receive an additional $230.0 million to coordinate and help expand the Citizens Corps, a volunteer initiative for community emergency response teams.



**Plans for Distribution** Prior to releasing the $3.5 billion in aid to the State and local police, firefighters, and emergency medical workers, FEMA would require the governors to sign plans detailing how the money would be spent and setting goals. The Federal Government wants the States to channel as much as 85% of the assistance to local communities.

STAFF CONTACT: Jennifer Dean (Ext. 17846)

Required Report on High-Speed Internet Access in Iowa Received



**Report Received** A report from the Iowa Utilities Board entitled “Assessing High-Speed Internet Access in the State of Iowa: Second Assessment”, was submitted to the Legislative Oversight Committee in February 2002. The report was a second-year follow-up to determine the extent to which private sector providers were making high-speed Internet connections available in both rural and urban areas of the State.



**Future Growth** According to the report, “This latest assessment report projects the greatest future growth will come in rural communities, where an estimated 55.0% are projected to have high-speed access by year’s end. More than 64.0% of the urban communities will have high-speed Internet access within 12 months. For purposes of this study, communities with populations under 2,500 were considered rural.”

**Copies Available** Copies of the report can be obtained from the Iowa Utilities Board by calling 281-5979 or by contacting the Legislative Fiscal Bureau at 281-5279.

STAFF CONTACT: Douglas Wulf (Ext. 13250)

AUDIT REPORT - IOWA TURKEY MARKETING COUNCIL

**Audit Report** On January 31, the State Auditor issued the FY 2000 and FY 2001 Audit Report for the Iowa Turkey Marketing Council.

**Background**  The purpose of the Iowa Turkey Marketing Council is to develop and expand the market for turkeys and turkey products and to improve production and marketing within Iowa.

**Reportable Conditions**The Report indicated there were no reportable conditions.

**More Information** For more information on these comments, please contact the Legislative Fiscal Bureau.

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