



**LEGISLATIVE
SERVICES AGENCY**

Serving the Iowa Legislature

Fiscal Facts 2009

**IOWA
Legislative Services Agency
Fiscal Services Division
May 2009**

To: Members of the Iowa General Assembly

From: Holly M. Lyons, Division Director
Fiscal Services Division

Re: Fiscal Facts

Date: May 2009

Fiscal Facts contains data relating to overall revenues and expenditures of State government, as well as information regarding the most pertinent and discussed topic areas. Additional detailed data and information are available from the Fiscal Services Division of the Legislative Services Agency.

The FY 2009 data are estimates since the document is being issued prior to the close of FY 2009. **The data provided for FY 2010 represents action taken by the 2009 General Assembly, and does not reflect veto action by the Governor.**

If you would like further information regarding any of the data provided within Fiscal Facts or have any comments and suggestions regarding this document, please do not hesitate to contact me at 515-281-5279 or holly.lyons@legis.state.ia.us.

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**IOWA FISCAL FACTS
TABLE OF CONTENTS**

	Page
2009 Legislative Session Overview	
State of Iowa General Fund Balance.....	1
State of Iowa General Fund Balance and ARRA Funding Summary.....	2
The Year in Review.....	3
Distribution of Estimated FY 2010 State General Fund Appropriations.....	6
Federal Stimulus Funding	7
Disaster Recovery.....	10
Bonding Bills.....	14
Health Care Omnibus II.....	19
Court Fees.....	20
Department of Commerce Revolving Fund.....	22
Deer Hunting License Fees.....	23
Natural Resources and Outdoor Recreation Trust Fund.....	24
Tax Issues.....	25
Government Finance and Taxation	
Expenditure Limitation.....	29
Iowa's Reserve Funds (Rainy Day Funds).....	30
Cash Reserve Fund.....	32
Economic Emergency Fund.....	32
State Funding Sources.....	33
State Expenditures - Governmental Funds.....	34
Sources of General Fund Growth.....	35
General Fund Receipts History	36
General Fund Expenditures Shifted to Other Funding Sources.....	37
General Fund Receipts.....	38
Distribution of Major State and Local Tax Sources.....	39
Iowa's Cash Management Practices.....	40
Debt Administration.....	40
Debt Management.....	41

**IOWA FISCAL FACTS
TABLE OF CONTENTS**

	Page
Budgets and Appropriations	
Iowa's Budget Process.....	42
Other Fund Appropriations.....	43
Salary Adjustment.....	44
Collective Bargaining Settlements.....	45
Infrastructure Funding	46
Infrastructure Appropriations.....	47
Environment First Fund.....	48
Tobacco Settlement.....	50
Status of Restricted Capital Tobacco Funds.....	51
Senior Living Trust Fund.....	53
State and Local Government	
Budgeted County Expenditures.....	55
Iowa Economy	
Economic Summary.....	56
Education	
Paying for Public Education - The Iowa School Foundation Formula.....	58
General Fund Appropriations for K-12 State Aid.....	63
General Operating Expenditures K-12.....	64
General Operating Expenditures K-12 by Function.....	65
Human Services	
Human Services Program Descriptions.....	66
Human Services Major Program Funding.....	69
Children's Health Insurance (CHIP) Program.....	70
Crime/Enforcement/Transportation	
Year-End Prison Population, Staffing, and Budget	71
Average Prison Population and Average Cost Per Prisoner.....	71
Iowa's Transportation Funds.....	72
State Profile	
Iowa's Population Change by County.....	77
Iowa's Population	78

STATE OF IOWA
GENERAL FUND BALANCE
(\$ in millions)

	<u>FY 2009 Estimated</u>	<u>FY 2010 Legislative Action</u>
Estimated Funds:		
Estimated Receipts		
Rev. Est. Conference (3/09)	\$ 7,087.9	\$ 6,970.2
Legislative Action Rev. Adj.	22.7	99.5
Total Receipts	7,110.6	7,069.7
School Infra. Refunds	-760.0	-821.0
Tax Refunds	- 357.5	- 401.9
Accruals	- 0.1	8.6
Total Funds	<u>5,993.0</u>	<u>5,855.4</u>
Est. Appropriations:		
General Fund	6,151.5	5,768.3
1.5% Across-the-Board Cut	-89.1	
FY 2009 Supplementals	20.8	
FY 2009 Deappropriations	-122.3	
Reversions	- 12.5	- 12.5
Net Appropriations	<u>5,948.4</u>	<u>5,755.8</u>
Ending Balance	<u>\$ 44.6</u>	<u>\$ 99.6</u>
Approps./Transfers to Other Funds		
Senior Living Trust Fund	22.3	24.6
Cash Reserve Fund	22.3	75.0
Total	<u>\$ 44.6</u>	<u>\$ 99.6</u>

Prior to action by the Governor.

**STATE OF IOWA
GENERAL FUND
and ARRA FUNDING SUMMARY
(\$ in millions)**

	FY 2009 Legislative Action	FY 2010 Legislative Action
General Fund		
Appropriations	\$ 5,960.9	5,768.3
Total	\$ 5,960.9	\$ 5,768.3
ARRA Funding (Total Available \$883.6 mil)		
Medicaid	\$ 110.0	144.9
Education Stabilization	40.0	321.0
Government Stabilization	0.0	63.4
Total	\$ 150.0	\$ 529.3
Total GF & ARRA Funding	\$ 6,110.9	\$ 6,297.6

ARRA Funding Remaining for FY 2011:

	Estimated Available FY 2009 - 11	Remaining Available FY 2011
Medicaid	\$ 329.9	75.0
Medicaid (Unemployment)	\$ 81.3	81.3
Education Stabilization	386.4	25.4
Government Stabilization	86.0	22.6
Total	\$ 883.6	\$ 204.3

Prior to action by the Governor.

ARRA = American Recovery and Reinvestment Act

THE YEAR IN REVIEW**FY 2008**

Iowa ended FY 2008 with a surplus of \$196.4 million. The revenue growth rate was 9.5% before refunds and accruals; up from the FY 2007 growth rate of 6.4%. Of the \$196.4 million surplus, \$99.8 million was distributed to the Property Tax Credit Fund for FY 2009 property tax credits; \$48.3 million was appropriated to the Senior Living Trust Fund; and \$48.3 million was deposited in the Cash Reserve Fund.

Weather-related Disasters in Iowa - Spring & Summer 2008.

Iowa experienced severe weather, including tornadoes and flooding during the spring and summer months of 2008. Eighty-five of the 99 counties were declared Presidential federal disaster areas. The storms and flooding caused billions of dollars in damage to property, businesses, and homes. Iowa continues to receive federal aid for disaster assistance. See the section on Disaster Recovery for more information.

FY 2009

Revenue growth in Iowa peaked in April 2008, and began to slow significantly in the first quarter of FY 2009. The October Revenue Estimating Conference (REC) adjusted the FY 2009 net revenue estimate downward from estimated 1.8% growth to 1.2% to reflect economic conditions. Amid growing concerns about the national and state economies, the December REC further reduced the net revenue growth estimate downward to -0.5% or \$5,991.3 million for FY 2009.

The FY 2009 revenue reduction set by the December REC resulted in a projected shortfall in the General Fund budget. In response, the Governor signed Executive Order 10 in December 2009 ordering a 1.5% across-the-board reduction (\$89.1 million). The General Assembly made further General Fund reductions to FY 2009 in January by deappropriating \$30.3 million.

THE YEAR IN REVIEW (Continued)

According to a November report released by the National Conference of State Legislatures (NCSL), the condition of many state government's finances were deteriorating, and by January 2009, 47 states were reporting that they were "pessimistic" about the outlook for FY 2009 and FY 2010. Thirty-nine states reported spending or "budget gaps", ranging from 1.2% (Minnesota) of the General Fund budget to 15.7% (Arizona). Iowa was one of three states that had closed its budget gap through an across-the-board reduction and deappropriations.

In March, the REC again lowered the FY 2009 revenue growth estimate from -0.5% to -2.6%. Through the end of April, personal income taxes remained stable as farm income tax return payments came in strong, presumably due to high commodity prices in the summer and fall. Non-farm personal income tax returns remain stable, but refunds, both corporate and personal, were considerably higher than the estimate, dragging the growth estimate down.

Deappropriations were also made to Medicaid and School Aid appropriations and federal American Recovery and Reinvestment Act (ARRA) funds were used to backfill the reductions. The 2009 General Assembly also enacted revenue adjustments totaling \$22.7 million and passed General Fund supplemental appropriations totaling \$20.8 million for FY 2009.

FY 2010

The December REC estimate for FY 2010 reflected a negative growth rate of 0.4%, but due to the worsening state, national and global economies, the March REC lowered the FY 2010 growth estimate to -2.8%, requiring the Governor to resubmit a General Fund budget in early April. Action at the federal level resulted in the ARRA, a nationwide effort to create jobs and provide economic assistance, and Iowa will receive approximately \$2.5 billion over a 27-month period in federal stimulus money. Federal funds will be received through existing formula grants, demand-based funding (e.g. extended and increased unemployment benefits), education government services stabilization funds coming directly to the State, and competitive grants.

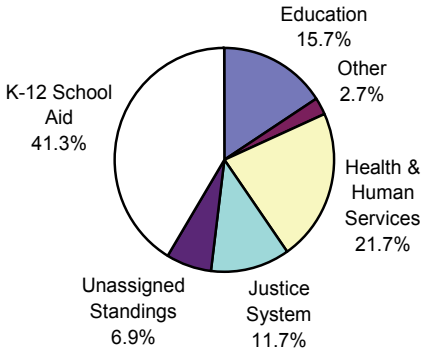
THE YEAR IN REVIEW (Continued)

Of this \$2.5 billion, approximately \$883.6 million is available for FY 2009, 2010, and 2011 for Medicaid, education stabilization, and general government stabilization. The Governor proposed using stimulus funds to balance the FY 2009 and FY 2010 budgets and the General Assembly passed legislation appropriating \$150.0 million in FY 2009 and \$529.3 million in FY 2010 to help balance the General Fund budget (see the section on Federal Stimulus Funding).

There continues to be concern about the State and national economy. It was declared that the nation has been in a recession since December 2007, with Iowa entering a recession approximately four months later, in April 2008. The Iowa economy is not expected to hit bottom until sometime in mid-FY 2010, and historically, Iowa is slow to recover from recessions. In Iowa, economic factors have contributed to reductions in the revenue growth. In addition, tax reductions, tax credits, and other revenue adjustments enacted by the General Assembly have also played a role in reducing the rate of General Fund net revenue growth over the past five years and contributing to the structural budget gap.

The Iowa General Assembly appropriated \$5.768 billion from the General Fund for FY 2010. Prior to any item vetoes by the Governor, the projected General Fund ending balance is \$99.6 million.

**DISTRIBUTION OF ESTIMATED FY 2010
STATE GENERAL FUND APPROPRIATIONS
(\$ in millions)**



Subcommittee	Est. FY 2010 Appropriations	Percent of Total
Admin. & Regulation	\$ 67.8	1.2%
Ag. & Natural Resources	39.4	0.7
Economic Development	45.5	0.8
K-12 Education - School Aid	2,385.0	41.3
Education	907.8	15.7
Health & Human Services	1,254.1	21.7
Justice System	677.5	11.7
Transportation and Infra.	1.5	0.0
Unassigned Standings	389.7	6.9
Total	\$ 5,768.3	100.0%

Note:

"Other" includes Administration and Regulation, Agriculture and Natural Resources, Economic Development, and Transportation and Infrastructure.

**FEDERAL STIMULUS FUNDING
AMERICAN RECOVERY
AND REINVESTMENT ACT**

The Department of Management estimates that Iowa could receive up to a total of \$2.5 billion in federal stimulus and stabilization funding in fiscal years FY 2009 – 2011.

Links:

<https://idomservice.dabbledb.com/page/arra2009informationandactions/gZykPwCJ>

www.iowa.gov/recovery

www.legis.state.ia.us/lfb/docs/EconomicStimulus/FinalFedStim_Detail.pdf

Federal funds will be received through existing formulas, demand-based funding (e.g. extended and increased unemployment benefits), education, and government services stabilization funds coming directly to the State and competitive grants.

During the 2009 Legislative Session the General Assembly appropriated portions of the education and government services stabilization funding, as well as a portion of Medicaid funds for FY 2009 and FY 2010. The chart below shows the funds appropriated through HF 820 (Federal Block Grant Bill) and HF 811 (Health and Human Services Appropriations Bill).

ARRA Funding Summary

(Dollars in Millions)

	Estimated Available	HF 820 Appropriations		Funds Available
		FY 2009	FY 2010	FY 2011
Medicaid	\$ 329.9	\$ 110.0	\$ 144.9	\$ 75.0
Medicaid (Unemployment)	81.3	0.0	0.0	81.3
Education Stabilization	386.4	40.0	321.0	25.4
Government Stabilization	86.0	0.0	63.4	22.6
Total	\$ 883.6	\$ 150.0	\$ 529.3	\$ 204.3

FEDERAL STIMULUS FUNDING AMERICAN RECOVERY AND REINVESTMENT ACT (Continued)

State School Aid – HF 820 provided \$40.0 million for FY 2009 and \$202.5 million for FY 2010 to be used to fulfill funding for a portion of State school aid. The FY 2009 amount will be distributed with May 2009 State aid payment to school districts if the ARRA funding is available at that time, otherwise it will be distributed with payments in the first month the funding is available. The amounts will be distributed equally with the monthly payments to school districts for the FY 2010 year.

Instructional Support State Aid – HF 820 provided \$13.1 million in lieu of State aid for the Instructional Support Program in FY 2010. SF 478 (FY 2010 Standing Appropriation Bill) eliminated State funding for the Program for FY 2010. School districts with the Program are also required to providing local funding through a local property tax or income surtax.

Teacher Professional Development – HF 820 provided an FY 2010 appropriation of \$2.0 million of ARRA education stabilization funds to be allocated to school districts for the purpose of funding professional development for the model core curriculum. This is a one-time appropriation that will be distributed to school districts and cannot be used to supplant any additional professional development funding.

Regents Universities – HF 820 provided an FY 2010 appropriation of \$80.3 million in ARRA Education Stabilization funds to the Department of Management for distribution to the Regents universities. Senate File 470 (FY 2010 Education Appropriations Bill) made total reductions of \$80.3 million compared to estimated net FY 2009 to the Regents budget units under the control of the Education Appropriations Subcommittee. These federal funds did not offset the Regents' FY 2010 reductions from the Economic Development Appropriations Subcommittee and the Agriculture and Natural Resources Appropriations Subcommittee.

Community Colleges – HF 820 provided an FY 2010 appropriation of \$23.1 million in ARRA education stabilization funds and \$2.5 million in ARRA government stabilization funds to the Department of Management for distribution to the community colleges. Senate File 470 made total reductions of \$22.2 million compared to estimated net FY 2009 for general aid to community colleges. In addition, the FY 2010 community college

**FEDERAL STIMULUS FUNDING
AMERICAN RECOVERY AND
REINVESTMENT ACT (Continued)**

salary appropriation in SF 470 is \$561,000 less than the estimated net FY 2009 appropriation. The salary funding becomes part of the colleges' base for general aid in the subsequent year.

Medicaid – HF 811 provided \$110.0 million for FY 2009 and \$144.9 million for FY 2010 to be used to supplement the Medicaid Program. Funding is received through an enhanced Federal Medical Assistance Percentage (FMAP) match of 6.2%. This means the federal government pays an extra 6.2% for every dollar the State spends on the Program. The new federal FMAP rate with the additional federal support is 67.05% for FY 2009 and 69.49% for FY 2010. The additional funds for FY 2009 are currently being collected.

Justice System – HF 820 provided an FY 2010 appropriation of \$14.0 million in ARRA government stabilization funds to the Department of Corrections prison system and Central Office. The Bill also uses ARRA government stabilization funds to make FY 2010 appropriations of \$180,000 to the Department of Public Defense's Military Division and \$750,000 to the Department of Public Safety.

Related Legislation - Senate File 197 (Unemployment Insurance Modernization Bill) relates to unemployment benefits and brings Iowa into compliance with federal law. This will result in the receipt of one-time additional federal funding of approximately \$70.8 million by the State's enactment of an extended training period, codifying the part-time worker provision, and the State's enactment of an alternative base period. Annual benefit payments from the Unemployment Trust Fund will increase by approximately \$20.2 million annually and General Fund expenses will increase by approximately \$350,000 annually for Iowa Workforce Development administrative expenses.

DISASTER RECOVERY

Disasters:

During the summer months of 2008, the majority of the State was impacted by severe weather, tornadoes, and flooding. Of the 99 counties, 85 were declared Presidential federal disaster areas.

Executive Branch:

Governor Culver issued Executive Order Seven that created the Rebuild Iowa Office (RIO) and the Rebuild Iowa Advisory Commission (RIAC). The RIAC met multiple times and issued a 45-day report and a 120-day report including recommendations and suggested action steps. The reports can be found at <http://www.rio.iowa.gov/index.html>.

Jumpstart Iowa Recovery:

The Governor redirected \$40.0 million to address housing needs in storm-impacted communities and to help small businesses damaged by the severe conditions. Additional federal money is available. The Iowa Finance Authority and the Department of Economic Development administer the Jumpstart Iowa Housing Assistance Program and the Jumpstart Iowa Small Business Assistance Program. Information regarding these Programs can be found at <http://www.iowafinanceauthority.gov/> and <http://www.iowalifechanging.com/jumpstart>

General Assembly:

The General Assembly created the Senate and House Rebuild Iowa Standing Committee and the Rebuild Iowa and Disaster Recovery Standing Committee respectively. Legislation sent to the Governor is included in the following pages. Funding made available and the delineated sources of the funding is included.

The General Assembly created the Rebuild Iowa Office in HF 64 (Disaster Recovery Assistance Act). The Office is repealed on June 30, 2011. The Office has multiple funding sources and the operational budget is included in HF 809 (FY 2010 Administration and Regulation Appropriations Bill).

DISASTER RECOVERY (Continued)

HF 64 Disaster Assistance Appropriations Bill	<p>Created the Jumpstart Housing Assistance at the Iowa Finance Authority, the Unmet Needs Disaster Grant Program with the Department of Human Services and the Community Disaster Grant Program with the Department of Public Defense Homeland Security and Emergency Management Division. Total appropriations were \$56.0 million in FY 2009 from the Economic Emergency Fund (EEF).</p> <p>Created the Rebuild Iowa Office. The Office is repealed June 30, 2011.</p>
HF 414 FY 2009 Appropriations Adjustment Bill	<p>Miscellaneous Appropriations Bill that included various Divisions as a result of the disaster recovery. These included:</p> <ul style="list-style-type: none"> • Captured various unexpended FY 2009 State and other funds and transferred them to the Jumpstart Small Business Disaster Recovery Financial Assistance Program and the Jumpstart Housing Assistance Program, and enacted the majority of the Governor's transfers that took place prior to the Legislative Session. • Made an FY 2009 General Fund supplemental appropriation to the Department of Natural Resources for flood damage to State parks. • Made an FY 2009 General Fund supplemental appropriation for vaccinations used during the 2008 summer disasters that were not reimbursed by the Federal Emergency Management Administration (FEMA).
HF 705 Rebuild Iowa Policy, Safe Rooms	<p>Requires the Commissioner of Public Safety to adopt optional construction standards for safe rooms and storm shelters in new construction. Requires a best practices report.</p>
SF 44 Local Option Sales Tax for Disasters	<p>Permits a city or unincorporated area located in a 2008 Presidential disaster area that does not currently have a local option sales tax (LOST) to expedite the process of voting on and implementing a LOST. Requires the election to be held on March 3, 2009, or May 5, 2009, and if approved, be effective April 1, 2009, or July 1, 2009.</p>

DISASTER RECOVERY (Continued)

SF 81 - School District Disaster Relief Adjustments	Permits disaster-impacted school districts to levy for an emergency property tax levy with approval of the School Budget Review Committee. Permits the Department of Education to grant waivers from statutory obligations to school districts if the school district is unable to meet the requirements due to a disaster.
SF 280 - Emergency Aid Immunity	Includes a disaster emergency within the civil damages immunity for a person rendering care without compensation.
SF 289 - Jumpstart Housing Loan Forgiveness	Reduces the loan forgiveness period from 10 years to five years. The loan will be forgiven at the rate of 20.0% per year for each year the recipient remains in the home.
SF 377 - Prescription Drug Donation Repository Program	Permits the Department of Public Health to access drugs from the Iowa Drug Donation Repository Program in a disaster situation.
SF 457 - Local Government Bonding	Legalizes certain actions taken and proceedings conducted by cities and counties in response to a natural disaster, designates certain activities as essential purposes, amends local bonding authority and contract letting requirements, amends emergency contract letting requirements for joint governmental entities and institutions under the control of the Board of Regents, amends city and county lease contracts and loan agreements, modifies municipal support of certain projects, amends expenditures from certain revolving loan funds, and authorizes cities and counties to create disaster revitalization areas.
SF 336 - Community Attraction and Tourism Program Waiver	Permits the Vision Iowa Board to grant waivers of required local match monies from recipients of funds from the Community Attractions and Tourism Program or the River Enhancement Program if the applicant is located in an area declared a disaster area by the Governor or Federal Official.

DISASTER RECOVERY (Continued)

- SF 478 - Standing Appropriations Decreases the \$10.0 million EEF appropriation for FY 2009 to the DHS for the Unmet Needs Program to \$7.9 million. Adds an FY 2009 EEF appropriation of \$1.5 million for grants to tornado-impacted cities.

- HF 759 - Flood Insurance for Cities and Counties Requires counties and cities with flood hazard areas to participate in the National Flood Insurance Program. Requires preparation of a Flood Insurance Report by the Insurance Commissioner.

- HF 822 - Infrastructure Appropriations Creates and funds the Iowa Flood Center at the University of Iowa; makes various Rebuild Iowa Infrastructure appropriations attributed to the disaster recovery.

Please refer to the section on Bonding Bills passed during the 2009 Legislative Session for information on bonding for disaster-related projects.

BONDING BILLS

The 2009 General Assembly passed several bills providing authorization for new bond issuances. In March 2009, the Governor proposed a \$750.0 million I-JOBS initiative guaranteed by wagering tax revenue. The final bills passed by the General Assembly are a result of negotiations between the Governor and the General Assembly to merge their respective bonding plans. The Governor recommended bonding for roads, bridges, and multimodal transportation projects. The General Assembly included the bridges in the bonding plan, but provided for the other transportation projects from the Rebuild Iowa Infrastructure Fund (RIIF) in HF 822 (FY 2010 Infrastructure Appropriations Bill).

Senate File 376 (Revenue Bonding and I-JOBS Program Bill)

The Bill creates the I-JOBS Program, Board, and Fund. The Treasurer of State is authorized to issue revenue bonds with net proceeds of \$545.0 million. As the bonds are issued, interest will be capitalized, so the first debt service payment will be in FY 2011. Debt service payments are estimated to be approximately \$49.1 million per year for the period of FY 2011 through FY 2032. In FY 2033 and FY 2034 the debt service payment will be approximately \$8.0 million per year as the debt service reserve fund is used to pay the last of the debt. The last bond payment is expected to be in FY 2034. Estimated debt on the issuance is \$635.9 million of principal and \$562.8 million of interest, for a total of \$1.2 billion in projected new debt. Projected interest rate on the revenue bonds is approximately 5.7%. The funds for the debt service payments are allocated from wagering tax revenue. Before the legislation, there was \$80.0 million of wagering tax revenue allocated before the remainder was deposited in the RIIF. For FY 2011, estimated gambling revenue to the State is \$278.4 million, with \$198.4 million expected to be deposited in the RIIF. The issuance of revenue bonds will reduce RIIF revenues by \$49.1 million annually for the life of the debt. For FY 2011, the impact is a 24.7% decrease in wagering tax revenue deposited in the RIIF.

Any revenue bonds pledged with wagering tax revenue must include a secondary source of funds because of a concern that there could be a loss of revenue due to

BONDING BILLS (Continued)

potential changes in county laws. Every 10 years, the counties with casinos must vote whether or not to authorize continued gambling. The existing Vision Iowa and School Infrastructure bonds have lottery revenues pledged as their respective secondary sources. Senate File 376 provides a secondary source of funding, the Beer and Liquor Control Fund, in the event wagering tax revenue funding is not sufficient. The Bill also includes moral obligation language to assure continued solvency of any bonds issued.

Of the \$545.0 million in net proceeds, \$185.0 million is appropriated from the new Revenue Bonds Capitals (RBC) Fund for FY 2009, primarily to restore funding for \$128.9 million of FY 2009 projects that were delayed because the planned securitization of the remaining tobacco payments did not occur, as well as appropriating funding for projects that were not a part of the planned securitization. In addition, the Bill appropriates \$360.0 million from the RBC Fund, including \$118.5 million to the I-JOBS Board for competitive grants for local infrastructure for projects related to disaster and flood rebuilding and prevention, \$46.5 million for targeted flood recovery rebuilding projects in Linn County, Cedar Rapids, and specified cities, and \$50.0 million for the new Bridge Safety Fund that will be used by the Department of Transportation to repair functionally obsolete and structurally deficient bridges.

Senate File 376 includes expanded authority for counties to bond for capital projects for the construction, reconstruction, improvement, repair, or equipping of bridges, roads, and culverts if the projects relate to damage caused by a disaster as defined in Section 29C.2, Code of Iowa, or if the projects are designed to prevent or mitigate damage from future disasters.

Senate File 477 (Phase III Bonding Bill)

The Bill creates the Appropriation Bonds Capitals Fund (ABC Fund) to receive net bond proceeds of \$105.0 million from the issuance of appropriation bonds in FY 2011. The Bill appropriates \$5.0 million from the ABC Fund to the Iowa Energy Center for the Alternate

BONDING BILLS (Continued)

Energy Revolving Loan Program and \$100.0 million from the ABC Fund to the new Vertical Infrastructure Restricted Capitals Fund (VIRC). The General Assembly will be able to appropriate from the VIRC during the 2010 Legislative Session.

The Bill authorizes the Treasurer of State to issue appropriation bonds. Appropriation bonds are a special type of limited obligation bond that do not require a designated revenue stream as does a typical revenue bond, thus the State may opt for any source of funds for repayment. Appropriation bonds also do not require the State to pledge its full faith or credit through taxes and resources or charge against the general credit or General Fund of the State as would be required for General Obligation (GO) bonds. Iowa does not have any outstanding GO bonds. Appropriation bonds are expressly conditioned on the State making an affirmative act to appropriate funds for repayment each fiscal year. Debt service on the proposed bonds is estimated to be \$8.4 million per year if a debt service reserve fund is needed. In contrast to revenue bonds, appropriation bonds are marketable without a reserve fund. For a revenue bond, the source of repayment is a designated revenue stream and the debt service reserve fund is needed to protect bondholders in case the revenue stream is inadequate. For appropriation bonds, the source of funds for repayment is flexible and bondholders may not require a reserve fund. Bonds will be issued and interest will be capitalized. The first debt service payment will be in FY 2012 and bonds will have a duration of approximately 22 years. The last bond payment is expected to be in FY 2034. Estimated debt on the issuance is \$117.2 million in principal and \$95.8 million in interest for a total of \$213.0 million in projected debt. The projected interest rate on the revenue bonds is approximately 4.9%.

Senate File 474 (Regents Bonding Bill)

The Bill authorizes the Board of Regents to issue and sell academic revenue bonds totaling \$100.0 million for flood recovery efforts at the University of Iowa and \$15.0 million for the Iowa State University (ISU) Phase II Veterinary Laboratory. The \$100.0 million in net proceeds will be used to provide the State match to leverage Federal Emergency Management Agency (FEMA) funding and provide funding for repairs and

BONDING BILLS (Continued)

replacement of facilities that were damaged during the flooding on the University of Iowa campus in June 2008. Total damage from the 2008 floods is estimated to be \$743.0 million. According to the Board of Regents, the funding for flood recovery is from several sources:

- \$478.0 million in federal funding from FEMA.
- \$80.0 million from insurance proceeds.
- \$30.0 million in private funds.
- \$30.0 million in bond proceeds from the self-supporting University of Iowa Parking System.
- \$25.0 million in bond proceeds from the bonding authorization approved in prior years.
- \$100.0 million in bond proceeds from the authorization in this Bill.

The \$15.0 million in net proceeds for ISU will provide a portion of the estimated \$38.0 million for Phase II of the Veterinary Laboratory project that includes renovation and modernization of the area formerly occupied by the large animal area for expanded clinical services for a small animals hospital.

Academic revenue bonds must be authorized by the General Assembly and Governor. In recent years, SF 2298 (FY 2005 Omnibus Appropriations Act) from the 2004 Legislative Session and HF 920 (Regents Bonding Act) from the 2007 Legislative Session authorized the Board to issue bonds totaling \$120.0 million and \$131.4 million, respectively. The Board approves a schedule for bond issuances for projects at the three universities under its jurisdiction. The 2007 bonding authorization has two remaining issuances scheduled in calendar year 2009 and one scheduled for 2010.

Academic revenue bonds are guaranteed by student tuition fees, but the General Assembly annually appropriates funds to the Board to pay the debt service and minimize tuition increases. The Board of Regents advises that without the tuition replacement appropriation, the aggregate increase in tuition fees could be 5.0%.

BONDING BILLS (Continued)

The tuition replacement appropriation provides most of the annual debt service, but a portion of the debt service is paid from reserve fund interest. For example, in FY 2009 the total debt service payment will be \$29.8 million, but the tuition replacement appropriation is \$24.3 million. Projections for total debt on all outstanding academic revenue bonds that will include all 2007 authorized bonds once they are issued, is estimated to be \$600.2 million. Of this amount, the total estimated tuition replacement needed is \$503.8 million. Debt service is scheduled through FY 2035. Total debt for academic revenue bonds with the additional 2009 authorized bonding is estimated to be \$852.8 million. Of this amount, the total estimated tuition replacement need is \$758.0 million. This is an increase of \$254.2 million compared to the tuition replacement from the 2004 and 2007 bonding authorizations. In addition, debt service payments will continue until FY 2040. The increase in the tuition replacement appropriation will not occur until FY 2013, when the amount needed will be \$29.3 million.

HEALTH CARE OMNIBUS II

During the 2009 Legislative Session, the General Assembly passed SF 389 (Health Care Omnibus II). The Bill creates the Legislative Health Care Coverage Commission to consider options for health care coverage for lowans, exempts the value of health insurance from State income tax for dependents between the ages of 18 and 25, provides health insurance coverage for all children of families with incomes up to 300.0% of federal poverty level, adds specialty health care provider offices to the existing list of eligible entities under the Volunteer Health Care Provider Program (VHCPP) under the Department of Public Health (DPH), establishes the Health Care Workforce Shortage Fund under the DPH and implements provisions related to transparency and gifts to health professionals.

The total fiscal impact of SF 389 is an estimated General Fund cost of \$7.9 million for FY 2010 and \$22.0 million for FY 2011.

House File 820 (FY 2010 Federal Block Grant Bill) appropriates the following amounts from the Human Services Reinvestment Fund to fund the activities provided for in SF 389 for a total of \$7,516,000 for FY 2010:

- \$7,181,000 and 17.00 FTE positions to the Department of Human Services for services related to providing additional health care coverage for children.
- \$20,000 to the Department of Public Health for increased staff workload associated with the Volunteer Health Care Provider Program.
- \$200,000 to the Legislative Services Agency for administrative support costs for the Legislative Health Care Coverage Commission.

COURT FEES

Senate File 478 (FY 2010 Standing Appropriations Act) increased various fees estimated to generate an additional \$760,000 in FY 2009 and \$16.7 million in revenue for the General Fund in FY 2010.

The Bill increased the following fees:

- Filing and docketing of civil cases from \$100 to \$185 (except the filing and docketing fee for domestic relations and adoptions remain at \$100.)
- Filing and docketing of modifications of dissolution decrees from \$50 to \$100.
- Appeals from a judgment in small claims cases from \$75 to \$185.
- Filing fee for liens from \$20 to \$50.
- Certification of Court Records from \$10 to \$20.
- Certification of a Change in Real Estate Title from \$20 to \$50.
- Establishes a Lis Pendens filing fee of \$50. Lis Pendens refers to “suit pending” regarding certain real estate property claims.
- Filing and docketing of a simple misdemeanor, scheduled traffic, and non-scheduled traffic case from \$50 to \$60.
- Appeals from a simple misdemeanor to District Court from \$50 to \$75.
- Court reporter services from \$15 to \$40.
- Filing and docketing a small claims case from \$50 to \$85.
- Settlement fee on an estate with a value in excess of \$25,000, from \$25 to \$50.
- Criminal Penalty Surcharge from 32.0% to 35.0%.

The increase in the Criminal Penalty Surcharge is also estimated to generate approximately \$109,000 for the Victim Compensation Fund and \$34,000 for county and local governments.

COURT FEES (Continued)

Of the fee increases, the Bill appropriates the following:

- Provides an FY 2009 supplemental appropriation to the Judicial Branch of \$760,000.
- Increases the General Fund appropriation to the Judicial Branch in SF 472 (FY 2010 Judicial Branch Appropriations Bill) by \$11.0 million.
- Increases the General Fund appropriations for Community-Based Corrections in SF 475 (FY 2010 Justice System Appropriations Bill) for Drug Courts by \$2.2 million.
- Increases the General Fund appropriation to the Department of Public Safety in SF 475 by \$1.6 million.
- Increases the General Fund appropriation to the Office of Attorney General for Victim Assistance Grants in SF 475 by \$1.0 million.

DEPARTMENT OF COMMERCE REVOLVING FUND

During the 2009 Legislative Session, the General Assembly passed HF 809 (Administration and Regulation Appropriations Bill) which included the creation of the Department of Commerce Revolving Fund in the State Treasury. The Fund consists of moneys collected by the Banking Division, Credit Union Division, Insurance Division, Utility Division, and the Office of Consumer Advocate within the Justice Department. Nearly all costs for operating the Divisions and the Office of Consumer Advocate are to be paid from the Revolving Fund, subject to an appropriation by the General Assembly.

Each Division and the Office of Consumer Advocate is permitted to temporarily use funds from the General Fund to pay expenditures in excess of the amount of money available in the Revolving Funds to meet cash flow needs; the General Fund must be reimbursed by the close of the fiscal year. Each Division and the Office of Consumer Advocate generates fees by charging their specifically regulated industry. The agencies may only charge the regulated industry up to the amount that they are appropriated.

The General Assembly allocated \$26.2 million to the Department of Commerce Revolving Fund for FY 2010 from the General Fund. This decreased appropriations to specific Divisions within the Department of Commerce by a total of \$23.1 million and decreased the Office of Consumer Advocate's appropriation from SF 475 (Justice System Appropriation Bill) by \$3.1 million. Each Commerce Division and the Office of Consumer Advocate's funding was returned to the estimated net 2009 level.

NONRESIDENT DEER HUNTING LICENSE FEES

Senate File 478 (FY 2010 Standing Appropriations Bill) increased nonresident hunting license fees as follows:

- Hunting license for 18 years of age or older -- \$80 to \$110.
- Antlered or any sex deer hunting license -- \$221 to \$295.
- Antlerless deer hunting license, required with purchase of antlered or any sex deer license -- \$101 to \$125.
- Antlerless deer hunting license -- \$151 to \$225.

The fiscal impact of these fee increases is estimated to generate \$1.8 million that will be deposited in the Fish and Game Protection Fund. The Agriculture and Natural Resources Appropriations Subcommittee appropriates funds from the Fish and Game Protection Fund to the Department of Natural Resources to pay for expenditures in the Law Enforcement Bureau, Wildlife Bureau, and the Fisheries Bureau.

NATURAL RESOURCES AND OUTDOOR RECREATION TRUST FUND

House Joint Resolution 1 proposes to amend the Constitution of the State of Iowa by creating a Natural Resources and Outdoor Recreation Trust Fund. The Resolution specifies that funding for the Trust Fund will be from three-eighths of one percent of the sales tax collected on retail sales and services sold in Iowa. It is estimated this would generate \$150.0 million. However, funds will not be collected until the next sales tax increase.

The Legislative Council created the Sustainable Funding for Natural Resources Study Committee in 2007, with the charge to determine how best to provide sustainable funding for natural resources. The Committee was also to cooperate with members of the Sustainable Natural Resource Funding Advisory Committee established in 2006, and other interested persons in performing the study.

The 18-member Sustainable Natural Resource Funding Advisory Committee completed a needs assessment. This included a review of current funding sources and budgets. The Advisory Committee identified annual needs of \$150.0 million above current funding.

This is the second General Assembly to adopt the proposed Amendment. The Amendment will now be submitted to the electorate for ratification.

TAX ISSUES

Expanded Historic Preservation and Cultural & Entertainment District Tax Credits

SF 481 – Historic Preservation

- Increases the maximum annual amount of tax credits that may be awarded under the historic preservation and cultural & entertainment district tax credit program to \$50.0 million from the current maximum of \$20.0 million.
- Requires the annual tax credits available to be initially allocated as follows:
 - 10.0% to projects with rehabilitation costs of \$500,000 or less.
 - 30.0% to projects in cultural and entertainment districts.
 - 20.0% to disaster recovery projects.
 - 20.0% to projects that involve more than 500 jobs.
 - 20.0% to any eligible project.

The program expansion will increase available tax credits by \$30.0 million per year. Provisions in the Bill limiting redemptions will delay the full General Fund impact several fiscal years.

Expanded Wind Energy Tax Credits

HF 810 – Small Wind Innovation Zones

- Provides for the establishment of wind innovation zones. A small wind innovation zone requires the adoption of a model ordinance.
- Allows small wind projects (less than 100 kilowatt nameplate capacity) to qualify for the 1.5 cent per kilowatt-hour production tax credit available under Chapter 476C, Code of Iowa.
- Directs the Iowa Utilities Board to develop a small wind innovation zone model utility interconnect agreement by June 1, 2010.

TAX ISSUES (Continued)**SF 456 – Wind Energy Production Tax Credits**

- Increases the total nameplate capacity that may be approved under Chapter 476C, Code of Iowa, from 180 megawatts to 330 megawatts. This Chapter provides a tax credit of 1.5 cents per kilowatt-hour of qualified electricity generated.
- Decreases the total nameplate capacity that may be approved under Chapter 476B, Code of Iowa, from 450 megawatts to 150 megawatts. This Chapter provides a tax credit of 1.0 cent per kilowatt-hour of qualified electricity generated.
- Allows projects approved under Chapter 476B, Code of Iowa, to also take advantage of property tax abatements and sales tax exemptions not previously available to projects approved under the Chapter.
- Provides a 30 megawatt maximum nameplate capacity for a project approved under Chapter 476B, Code of Iowa.
- Permits projects initiated by Board of Regents institutions, private colleges and universities, community colleges, public and accredited nonpublic elementary and secondary schools, and public hospitals to qualify under Chapter 476B, Code of Iowa.

HF 817 – Innovative Renewable Energy Generation Components Tax Credit

- Increases the maximum amount of tax credits that may be awarded under the innovative renewable energy generation components tax credit program from the existing \$1.0 million to \$2.0 million (see Section 15.335(1), Code of Iowa).
- Transfers \$1.0 million from the Grow Iowa Values Fund to the State General Fund.

TAX ISSUES (Continued)**SF 478 – Standings Bill**

- Permits two special projects in Cerro Gordo County to qualify for wind energy production tax credits under Chapter 476B, Code of Iowa.
- Permits that the special projects to earn a production tax credit equal to 1.5 cents per kilowatt-hour of qualified electric generation.

SF 471 – Office of Energy Independence

- Provides up to \$1.0 million annually in innovative renewable energy generation component tax credits. The credits are in addition to those available under Section 15.335(1), Code of Iowa.
- Transfers up to \$1.0 million annually from the Power Fund to the Department of Economic Development to fund any additional tax credits awarded under the innovative renewable energy generation tax credit program.

The program expansion and changes will increase production tax credits and innovative renewable energy generation components tax credits issued by \$102.6 million over the next 14 fiscal years.

Expanded Film Production Tax Credits**SF 480 – Film Production**

- Includes compensation, up to specified thresholds, paid to the principal director, producer, and cast members in the calculation of two 25.0% film, television, and video production tax credits.
- Specifies that the production tax credits are “up to” a maximum of 25.0% of allowed expenditures.
- Requires income earned under the program as tax exempt income to be claimed over four tax years.

TAX ISSUES (Continued)

- Permits the Department of Economic Development to charge a fee for administration of the program.

The program expansion and other changes are projected to reduce the General Fund impact of the tax credits and tax exemptions available under the program by \$3.2 million over five years. However, if the changes entice a single film project with \$20.0 million in qualified Iowa expenditures, Iowa will issue \$10.0 million in transferable tax credits to the project sponsors.

EXPENDITURE LIMITATION



In the 1980s and early 1990s, Iowa experienced serious financial problems including tax revenues below expectations; expenditures above budget; and a lack of reserves. The Legislature established spending limits and reformed the budget process restoring fiscal integrity, improving cash flow, and creating balances in reserve funds.

The Governor and the General Assembly have statutory responsibility to balance the budget. In 1992, several statutory reforms were enacted to provide long-term solutions to the State's budget problems. These included the "Expenditure Limitation" laws.

- Spending is limited to 99.0% of adjusted revenues, 95.0% of any new revenue implemented in a fiscal year, and any carryover from the previous year.
- The Governor and the General Assembly are required to use the revenue estimates agreed to by the December Revenue Estimating Conference or a later estimate during the legislative session, if it is lower, as a basis to determine the General Fund budget for the following fiscal year. If the General Assembly holds an Extraordinary Session, the lower estimate applies, and the Governor and the General Assembly are required to use the lower estimate.
- Three reserve accounts or funds have been created: the Cash Reserve Fund; the GAAP Deficit Reduction Account; and the Economic Emergency Fund (Rainy Day Fund).
- Expenditures from these reserve funds are limited by statute.

IOWA'S RESERVE FUNDS (RAINY DAY FUNDS)

Iowa's reserve funds are comprised of the Cash Reserve Fund and the Economic Emergency Fund. Together, the ending balance in these funds is projected to total \$441.3 million in FY 2010.

Cash Reserve Fund

- The year-end General Fund Surplus (ending balance) is appropriated to the Cash Reserve Fund. An amount equal to 1.0% of the adjusted revenue estimate is appropriated from the General Fund Surplus to the Senior Living Trust Fund before funds are transferred to the Cash Reserve Fund. If the surplus is less than 2.0% of the adjusted revenue estimate, then the amount appropriated is equal to one-half of the surplus. The appropriation to the Senior Living Trust Fund will continue each year until a total of \$300.0 million has been appropriated.
- The maximum balance the Fund may attain is equal to 7.5% of the General Fund adjusted revenue estimate, as established by the REC.
- Moneys in the Cash Reserve Fund may be used for cash flow purposes but are to be returned by the end of the fiscal year.
- Expenditures from the Cash Reserve Fund are limited to nonrecurring emergency expenditures.
- For FY 2010, \$22.3 million of the FY 2009 General Fund surplus is appropriated to the Senior Living Trust Fund and \$22.3 million to the Cash Reserve Fund.

Generally Accepted Accounting Principles (GAAP) Deficit Reduction Fund

- Unexpended money from the General Fund, after the Cash Reserve Fund target is made, is also deposited to the GAAP Fund.
- Funds are appropriated for the purpose of eliminating the State's GAAP deficit. The GAAP deficit was eliminated during FY 1995.

IOWA'S RESERVE FUNDS (RAINY DAY FUNDS) (Continued)

- The General Assembly appropriated a total of \$145.3 million from the Cash Reserve Fund for FY 2010. This includes:
 - \$65.0 million to the General Fund.
 - \$25.6 million to the Executive Council for disaster-related costs.
 - \$54.7 million to the Property Tax Credit Fund.

The Economic Emergency Fund

- Established in 1984 and modified in recent years.
- The maximum balance the Fund may attain is equal to 2.5% of the General Fund adjusted revenue estimate.
- Once all GAAP obligations are retired, remaining funds are credited to the Economic Emergency Fund.
- Moneys in the Economic Emergency Fund may be used for cash flow purposes but are to be returned by the end of the fiscal year.
- Spending from the Fund is limited to emergency expenditures.
- Allows for an appropriation from the Economic Emergency Fund to reduce a negative ending balance in the State General Fund. The appropriation is limited to \$50.0 million and is contingent on certain circumstances.
- Moneys in excess of the maximum balance are to first be transferred to the Senior Living Trust Fund (SLTF) until the balance of the SLTF reaches \$300.0 million. Once this requirement is met, the excess moneys are transferred to the General Fund.
- House File 64 (Disaster Assistance Appropriations Bill) provides a \$56.0 million supplemental appropriation from the Economic Emergency Fund for disaster assistance Programs.

Cash Reserve Fund
(Dollars in Millions)

	FY 2009	FY 2010
Balance Forward	\$ 444.3	\$ 465.2
General Fund Surplus	48.3	22.3
Total Revenue	\$ 492.6	\$ 487.5
Transfer to Gen Fund	0.0	-65.0
Executive Council Approp	0.0	-25.6
Property Tax Credit Fund	0.0	-54.7
Transfer to EFF	-27.4	0.0
Ending Balance	\$ 465.2	\$ 342.2
Max. 7.5%	\$ 465.2	\$ 439.2

Economic Emergency Fund
(Dollars in Millions)

	FY 2009	FY 2010
Balance Forward	\$ 148.1	\$ 99.1
CRF Excess	27.4	0.0
Total Revenue	\$ 175.5	\$ 99.1
Transfer to SLTF	-20.4	0.0
Rebuild Iowa Approp	-56.0	0.0
Ending Balance	\$ 99.1	\$ 99.1
Max. 2.5%	\$ 155.1	\$ 146.4

Summary

	FY 2009	FY 2010
Total Combined Balance	\$ 564.3	\$ 441.3
Total Combined Goal	620.3	585.5
Difference	\$ -56.0	\$ -144.2

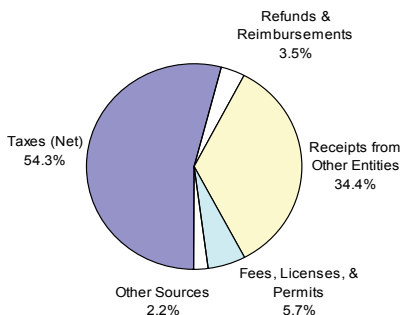
STATE FUNDING SOURCES

Most State operations are accounted for through governmental fund types (as specified in the Iowa Comprehensive Annual Financial Report). Governmental revenues and other financing sources totaled \$12.2 billion for FY 2008. Net tax receipts increased \$519.2 million (7.6%) compared to FY 2007. Refunds and reimbursements increased \$19.8 million (4.8%) and receipts from other entities increased \$670.5 million (19.0%) compared to FY 2007.

FY 2008 State Revenue Sources

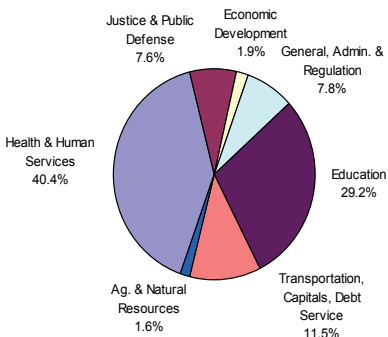
Governmental Revenues & Other Financing Sources
Excludes Refunds

FY 2008 State Revenue by Source

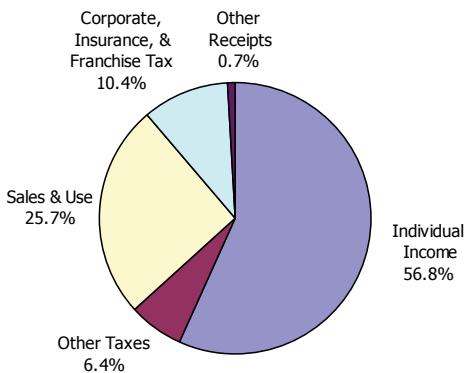


STATE EXPENDITURES GOVERNMENTAL FUNDS

FY 2008 State Governmental Expenditures

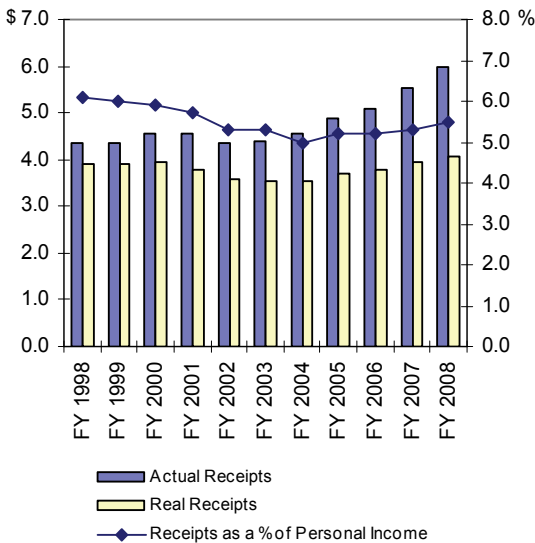


- Includes General Fund and all other governmental funds. (Comprehensive Annual Financial Report)
- Governmental expenditures totaled \$11.4 billion for FY 2007, an increase of \$785.3 million (7.4%) compared to FY 2006.
- Revenues for FY 2008 exceeded expenditures by \$757.3 million. Net transfers and other financing uses resulted in a positive net Fund balance change of \$167.8 million.

**SOURCES OF GENERAL FUND GROWTH
FY 1998 - FY 2008**

-
- The chart above does not include transfers to the General Fund from other funds, or accrued revenue, and has not been adjusted for refunds.
 - Since FY 1998, growth in personal income tax accounted for 56.8% of the total increase in gross General Fund receipts. Sales and use tax was second, and accounted for 25.7% of the total increase. Taxes paid by businesses (corporate income tax, franchise tax, and insurance tax) account for 10.7% of the increase. The percentages in this paragraph have not been adjusted for refunds.

GENERAL FUND RECEIPTS HISTORY
FY 1998 - FY 2008
(\$ in billions)



- Actual General Fund receipts are net of refunds but are not adjusted for accrued revenue or transfers.
- Real receipts are actual net General Fund receipts adjusted for inflation, using the Consumer Price Index - (CPI-U).
- Receipts as a percentage of personal income are actual net receipts divided by personal income. This is a measure of the change in the magnitude of the General Fund relative to the income of all Iowans.
- From FY 1998 through FY 2008, Iowa General Fund net receipts grew \$1.670 billion (38.2%). During that same period, Iowa's total State personal income grew \$38.4 billion (53.6%).
- In FY 2008, Iowa General Fund net receipts equaled 6.1% of total State personal income. In FY 2007, net General Fund receipts equaled 5.5% of personal income.
- Adjusted for inflation, General Fund net receipts increased 2.9% from FY 1998 to FY 2008.

**GENERAL FUND EXPENDITURES
SHIFTED TO OTHER FUNDING SOURCES
(\$ in millions)**

**General Fund Expenditures
Shifted to Other Funding Sources
(\$ in millions)**

	Est. FY 2009	Est. FY 2010
Property Tax Credits	\$ 115.5	\$ 58.5
Medicaid	111.8	39.1
Department of Commerce	0.0	26.2
Human Service Programs (HSRF)	9.4	7.5
IowaCare Account Programs	36.2	27.3
Grow Iowa values Fund	50.0	45.0
Technology Reinvestment Fund	17.5	14.5
Community Attraction and Tourism Fund	7.0	7.0
Substance Abuse Treatment	13.8	0.0
Tuition Replacement	24.3	24.3
Elderly Services	8.5	8.5
Soil Conservation Cost Share	7.0	7.0
DHS Provider Increases	3.9	0.0
DNR Park Operations	2.5	2.5
DAS Distribution Account	2.0	3.7
Other	1.9	1.3
Total	<u>411.3</u>	<u>272.4</u>
Federal Recovery & Reinvestment Fund*	150.0	511.7
Total	<u>\$ 561.3</u>	<u>\$ 784.1</u>

* Implementation of the federal American Recovery and Reinvestment Act (ARRA) resulted in various General Fund appropriations being shifted to the Human Services Reinvestment Fund (HSRF).

DHS = Department of Human Services
DNR = Department of Natural Resources
DAS = Department of Administrative Services

**NON-GENERAL FUND EXPENDITURES
SHIFTED TO OTHER FUNDING SOURCES
(\$ in millions)**

**Non-General Fund Expenditures
Shifted to the General Fund
(\$ in millions)**

	Est. FY 2009	Est. FY 2010
Property Tax Credits	15.7	57.7
Medicaid	35.0	35.0
Human Service HITT Programs	0.0	4.4
IowaCare Account Programs	0.0	9.0
Public Health HITT Programs	0.0	24.8
Corrections Drug Courts	0.0	1.9
Total	<u>50.7</u>	<u>132.8</u>

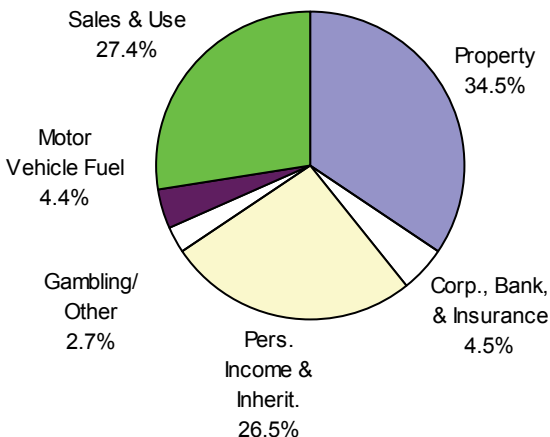
HITT = Healthy Iowans Tobacco Trust

GENERAL FUND RECEIPTS
(\$ in millions)

	Estimated FY 2010 REC	Percent of Total Receipts
Tax Receipts		
Personal Income Tax	\$ 3,363.1	47.4%
Sales/Use Tax	2,355.1	33.2
Corporate Income Tax	407.3	5.7
Inheritance Tax	78.4	1.1
Insurance Premium Tax	112.9	1.6
Cigarette Tax	217.0	3.1
Tobacco Tax	21.8	0.3
Beer Tax	14.7	0.2
Franchise Tax	33.5	0.5
Miscellaneous Tax	1.0	0.0
Total Tax Receipts	6,604.8	93.2%
Other Receipts		
Institutional Payments	13.7	0.2%
Liquor Profits	81.6	1.2
Interest	14.7	0.2
Fees	71.6	1.0
Judicial Revenue	93.3	1.3
Miscellaneous	39.5	0.6
Racing and Gaming	60.0	0.8
Transfers	108.7	1.5
Accruals (Net)	(0.1)	0.0
Total Other Receipts	483.0	6.8%
Total Receipts	7,087.8	100.0%
Refunds	-1117.5	-15.8%
Net Receipts	\$ 5,970.3	84.2%

REC = Revenue Estimating Conference (March 2009)

**DISTRIBUTION OF MAJOR STATE AND LOCAL
TAX SOURCES - ACTUAL FY 2008
(\$ in millions)**



Tax	Rate	Actual FY 2008	Percent of Major Tax Sources
Property	Varies	\$ 3,942.1	34.5%
Individual Income	0.36% - 8.98%	2,857.2	25.0%
Sales & Use	5.00%	2,244.5	19.6%
Local Option Sales	1.00% to 2.00%	581.9	5.1%
Local Option Income	up to 20.0% of state tax	91.9	0.8%
Local Option Hotel/Motel	up to 7.00%	34.9	0.3%
Motor - Fuel	\$ 0.190 to \$0.225	477.2	4.2%
Environ. Prot. Fee	\$0.01 per gallon	21.3	0.2%
Corporate Income	6.00% - 12.00%	371.9	3.3%
Insurance Premium	1.00%	111.7	1.0%
Cigarettes & Tobacco	\$1.36 per pack	250.2	2.2%
Beer & Wine	\$0.19 per gallon	20.7	0.2%
Gambling/Other	Varies	308.2	2.7%
Inheritance	1.00% - 15.00%	77.4	0.7%
Franchise	5.0% of net income	34.2	0.3%
Total		\$ 11,425.3	100.0%

Notes:

Totals may not add due to rounding.

Property tax includes Tax Increment Financing revenue.

Property tax includes gas & utility replacement tax.

Sales/use includes motor vehicle use tax and fee for new registration.

Cash Basis - July 1 through June 30.

IOWA'S CASH MANAGEMENT PRACTICES

Iowa's cash is managed by the State Treasurer's Office. To earn the most interest possible, cash is invested as soon as it is collected, while enough cash remains on hand to pay State bills. Funds of State agencies that are temporarily available for investment are pooled together and invested in certificates of deposit, U.S. Treasury bills and notes, and other corporate debt instruments as allowed by law. Investment goals are set by statute:

- Safety - restrictions on types of investments, limits on credit risk, maturities, and use of leverage is prohibited.
- Liquidity - always have the next 60 days of bills funded; purchase liquid securities.
- Yield - core portfolio invested for longer periods; use of laddered maturities.

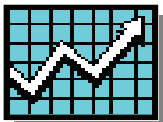
The current size of the investment pool is approximately \$2.8 billion. The realized cash annual rate of return for FY 2008 was 4.48%.

DEBT ADMINISTRATION

The Constitution of the State of Iowa prohibits the State from exceeding a maximum of \$250,000 in general obligation debt without voter approval. However, statute authorizes the issuance of Tax and Revenue Anticipation Notes (TRANS), provided the total issuance does not exceed anticipated revenue receipts for the fiscal year and the total issuance mature during the fiscal year.

- In FY 2008, the State issued \$500.0 million in TRANS.
- To date in FY 2009, the State has not issued any TRANS.

DEBT MANAGEMENT



The State of Iowa reported total outstanding debt of \$10.945 billion on June 30, 2008, for all governmental entities. This represents an increase of \$591.8 million (5.7%) compared to FY 2007.

Entities that reported increases in debt during FY 2008 include: cities - \$132.0 million (5.7%), counties - \$47.3 million (9.0%), community colleges - \$61.2 million (16.8%), the Board of Regents - \$148.4 million (16.0%), and State Authorities - \$278.7 million (13.9).

Entities that reported decreases in debt during FY 2008 include: schools - \$18.3 million (0.8%) and State agencies \$55.3 million (19.5%).

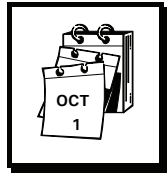
Debt financing is used for a variety of purposes, including: construction and renovation of public buildings, schools, housing and urban development, utilities, jails and prisons, park and recreational facilities, and local streets and parking lots.

A variety of financing mechanisms are available for use by the State and local units of government for public infrastructure improvements. These include:

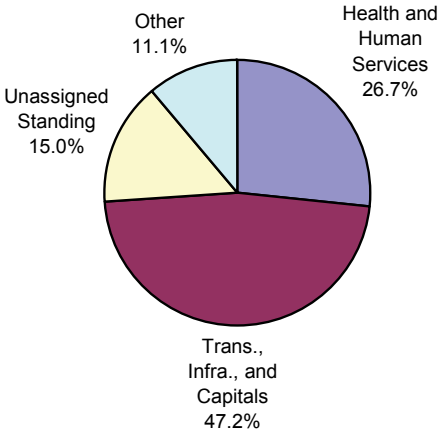
- General obligation bonds
- Revenue bonds
- Certificates of participation (lease purchase)
- Special assessments on property
- Tax increment financing
- Special tax allocation and dedication of revenue sources, such as hotel and motel taxes

IOWA'S BUDGET PROCESS

- The Governor and the General Assembly allocate State resources and set revenue collection levels through the budgeting process.
- The process begins in June of each year for the fiscal year that starts 12 months later on July 1.
- State agencies prepare budget requests within the guidelines set by the Governor and submit their requests by October 1.
- Statute permits agencies to use a “75% modified based budget” method in determining the future fiscal year budget. In this method, 75.0% of the prior year budget is assumed to be recommended and decision packages to reinstate the remaining 25.0% are submitted to the Department of Management. For FY 2007 through FY 2010, this statute has been notwithstanding and agencies are required to submit estimates of their expenditure requirements, including every proposed expenditure. The estimates are to be accompanied by performance measures for evaluating the effectiveness of the program or results.
- The Revenue Estimating Conference meets before December 15 to set revenue estimates that will serve as a basis for the General Fund budget for the following fiscal year.
- The Governor submits annual recommendations to the General Assembly in January.
- By statute, the Governor’s budget must be balanced and must meet expenditure limitations.
- The General Assembly conducts budget hearings during January and February. Recommendations from the seven joint budget subcommittees and the Oversight Committee are passed on to the full Appropriations Committees and to the floor for debate in each chamber.
- The State Constitution permits the Governor line-item veto authority over appropriations bills.



**OTHER FUND APPROPRIATIONS
ESTIMATED FY 2010
(\$ in millions)**



	Est. FY 2010 Appropriations	Percent of Total
Administration and Regulation	\$ 44.2	2.6%
Ag. and Natural Resources	85.2	5.0
Economic Development	57.0	3.3
Education	0.0	0.0
Health and Human Services	453.9	26.7
Justice System	3.1	0.2
Trans., Infra., and Capitals	804.3	47.2
Unassigned Standing	255.3	15.0
Total	\$ 1703.0	100.0%

1. Sources of other fund appropriations include, but are not limited to: federal funds, the Road Use Tax Fund, the Primary Road Fund, the Tobacco Settlement Fund, and the Rebuild Iowa Infrastructure Fund.
2. "Other" includes Administration and Regulation, Agriculture and Natural Resources, Economic Development, and the Justice System.

SALARY ADJUSTMENT



Salary adjustment is an increase allocated to each State department's personnel services budget to provide funding for such things as Cost of Living Adjustments (COLA), changes in the cost of health insurance premiums, salary annualization, and merit step increases that will take place sometime during the upcoming fiscal year.

For FY 2010, no funds were appropriated from the General Fund to the Salary Adjustment Fund administered by the Department of Management. The estimated FY 2010 need was identified as \$67.3 million.

Salary annualization is the amount needed to pay for merit step increases that were not included in the prior year's salary adjustment. For example, if an employee received a merit step increase in March 2009, an amount sufficient to pay the merit step increase for three months during FY 2009 would have been included in the FY 2009 salary adjustment. Salary annualization would be included in the FY 2010 salary adjustment for the employee's merit step from July 2009 to March 2010 (nine months).

If all employees had review dates at the beginning of the fiscal year, there would be no salary annualization due to merit step increases. However, if this was the case, the cost of salary adjustment would increase proportionately.

**COLLECTIVE BARGAINING SETTLEMENTS
FY 2010 - FY 2011**

The values listed in the table below are the across-the-board adjustments specified by State employee collective bargaining contracts.

	<u>FY 2010</u>	<u>July 1, 2010</u>	<u>Jan. 1, 2011</u>
AFSCME	0.00%	2.00%	1.00%
JUD. AFSCME	0.00%	2.00%	1.00%
IUP	0.00%	2.00%	2.00%
SPOC	0.00%	1.00%	1.00%
UFI	0.00%	3.00%	0.00%
PPME	0.00%	2.00%	1.00%
COGS	0.00%	0.00%	0.00%
SEIU	1.75%	2.00%	2.00%

Note:

All contracts are effective July 1, 2009, and allow for merit step increases for employees granted merit steps for both FY 2010 and FY 2011.

AFSCME = American Federation of State, County, and Municipal Employees

IUP = Iowa United Professionals

SPOC = State Police Officers Council

UFI = United Faculty of Northern Iowa

PPME = Public Professional and Maintenance Employees

COGS = Campaign to Organize Graduate Students

SEIU = Service Employees International Union/
Tertiary Health Care Unit, University of Iowa

INFRASTRUCTURE FUNDING

Appropriations from infrastructure revenue sources include funding for new construction projects, vertical infrastructure projects, major and routine facility maintenance, environmental projects, and technology projects, as well as debt service on certain bonds. The 2009 General Assembly made appropriations for infrastructure-related projects from the following funding sources:

- Rebuild Iowa Infrastructure Fund (RIIF)
- Restricted Capital Fund (RCF)
- Technology Reinvestment Fund (TRF)
- Revenue Bonds Capitals Fund (RBC)
- Appropriation Bonds Capitals Fund (ABC)

The 2006 General Assembly created the TRF with the purpose of funding technology improvements for State government and provided a standing appropriation from the General Fund of \$17.5 million. For FY 2009 and FY 2010, the funding source for the TRF was shifted to the RIIF. For FY 2010, that appropriation was reduced to \$14.5 million.

The 2009 General Assembly provided for new infrastructure funding, including flood recovery rebuilding, sewer infrastructure, and bridge rehabilitation, by creating the RBC and ABC Funds and providing the authorization for the bond issuances that will deposit net proceeds into those funds. SF 376 (Revenue Bonding and I-JOBS Program Bill) and SF 477 (Phase III Bonding Bill) authorize bond issuances with net proceeds of \$545.0 million and \$105.0 million, respectively. For a detailed discussion on the bonding bills, see the *Legislative Session Overview* section of this publication.

INFRASTRUCTURE FUNDING (Continued)

In addition to SF 376 and SF 477, the 2009 General Assembly passed HF 822 (FY 2010 Infrastructure Appropriations Bill). The three Bills appropriate funds over three fiscal years as follows:

**INFRASTRUCTURE APPROPRIATIONS
(\$ in millions)**

<u>Bill</u>	<u>Fund</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
HF 822	RIIF	\$ 69.2	\$ 67.7	\$ 13.7
HF 822	RCF	0.2	0.0	0.0
HF 822	TRF	14.3	0.0	0.0
SF 376*	RBC	360.0	0.0	0.0
SF 477**	ABC	0.0	105.0	0.0
		<u>\$ 443.7</u>	<u>\$ 172.7</u>	<u>\$ 13.7</u>

- * In addition, SF 376 appropriates \$185.0 million from the RBC Fund for FY 2009 adjustments, so total funding from the RBC Fund is \$545.0 million.
- ** The bond issuance that will provide proceeds to the ABC Fund will not occur until FY 2011.

Appropriations that were previously enacted are not included in these totals.

ENVIRONMENT FIRST FUND

The Environment First Fund was created by the 2000 General Assembly to provide funding for the protection, conservation, enhancement, or improvement of natural resources or the environment. The Environment First Fund receives an annual appropriation from the Rebuild Iowa Infrastructure Fund (RIIF). The standing appropriation is \$42.0 million per year and the Agriculture and Natural Resources Appropriations Subcommittee appropriates the funds.

For FY 2010, \$15.7 million was appropriated to the Department of Agriculture and Land Stewardship for conservation programs and \$500,000 was appropriated to the Department of Economic Development for the Brownfield Redevelopment Program. The Department of Natural Resources (DNR) received appropriations totaling \$25.8 million for environmental programs. Included in the DNR funding is an \$18.0 million appropriation for the Resource Enhancement and Protection (REAP) Fund. This is no change in funding compared to estimated FY 2009.

ENVIRONMENT FIRST FUND (Continued)
(\$ in millions)

Resources	FY 2010
Rebuild Iowa Infrastructure Fund	<u>\$ 42.0</u>
 Expenditures	
Department of Agriculture	
Conservation Reserve Enhancement Program	\$ 1.5
Watershed Protection Fund	2.6
Farm Management Demonstration	0.8
Agricultural Drainage Wells	1.5
Soil Conservation Cost Share	7.0
Conservation Reserve Program	1.5
Southern Iowa Conservation Dev. Authority	0.3
Loess Hills Development Authority	0.6
Total Department of Agriculture	<u>\$ 15.7</u>
 Department of Natural Resources (DNR)	
REAP	\$ 18.0
Volunteers and Keepers of the Land	0.1
Park Operations & Maintenance	2.5
GIS Information for Watershed	0.2
Water Quality Monitoring	3.0
Water Quality Protection Fund	0.5
Air Quality Monitoring	0.4
Animal Feeding Operations	0.4
Water Quantity Program	0.5
Resource Conservation and Development	0.3
Total DNR	<u>\$ 25.8</u>
 Department of Economic Development	 \$ 0.5
 Total Expenditures	 <u><u>\$ 42.0</u></u>

REAP = Resource Enhancement and Protection Fund

GIS = Geographical Information Systems

NOTE: Totals may not add due to rounding.

TOBACCO SETTLEMENT

On November 20, 1998, 46 states approved a settlement agreement with the four major tobacco industry manufacturers comprising 99.4% of the United States cigarette market.



The manufacturers agreed to a settlement valued at \$206.4 billion to be paid over 25 years to settle tobacco-related lawsuits filed by the states.

Iowa will receive approximately \$1.9 billion (0.87%) of the total funds allocated for distribution to the states. From FY 1998 through FY 2001, Iowa received \$144.4 million under the Master Settlement Agreement (MSA). Iowa securitized 78.0% of the payment stream in 2001 and the Tobacco Settlement Authority (TSA) restructured this debt in 2005. As a result, 78.0% of the payments are made to the trustee to pay the bond obligations. The remaining 22.0% is paid directly to the Endowment for Iowa's Health Account. For FY 2009, the balance in the Endowment for Iowa's Health Account (\$21.9 million), is transferred to the General Fund.

The following table summarizes the net (spendable) proceeds received or projected to be received by the State from tobacco securitizations since 2001.

**Tobacco Securitization
Net Proceeds
(\$ in millions)**

	Series 2001	Series 2005	Total
Net Proceeds			
Taxable Bonds	\$ 39.6	\$ 50.2	\$ 89.8
Tax-Exempt Bonds	540.0	100.5	640.5
Total	\$ 579.6	\$ 150.7	\$ 730.3

The taxable bond proceeds are deposited in the Endowment for Iowa's Health Account. The tax-exempt bond proceeds are deposited in a series of restricted capital funds that are being used primarily to fund large capital projects.

**STATUS OF RESTRICTED CAPITAL
TOBACCO FUNDS****Restricted Capital Fund (RCF) and Endowment for
Iowa's Health Restricted Capitals Fund (RC2)**

The 2009 General Assembly appropriated the remaining estimated \$196,000 from the RCF to the Department of Administrative Services (DAS) for major maintenance. This appropriation is expected to deplete the funds available and reduce the RCF balance to zero.

In HF 414 (FY 2009 Appropriations Adjustments Act) the 2009 General Assembly deappropriated \$36.9 million from the RC2 by deappropriating funding for the New State Office Building and appropriated \$40.1 million for FY 2009 from the RC2. These appropriations are expected to deplete the funds available and reduce the RC2 balance close to zero.

In HF 822 (FY 2010 Infrastructure Appropriations Bill), the 2009 General Assembly provided for the transfer of any remaining unencumbered and unobligated balances in the RCF and RC2 to transfer to the DAS for major maintenance at the close of FY 2010. The exact amount of the transfer cannot be estimated because it is unknown how much interest the funds will earn for FY 2009 and FY 2010. Both the RCF and RC2 consist of tax-exempt bond proceeds and must be expended within the timeframe of the tax certificate. Although all funds in the RCF and RC2 have been appropriated, there has been enough of a balance in the respective funds to continue to earn interest. In order to expend the funds, the transfer to the DAS will provide a way to capture any remaining interest that is earned. The DAS is required to report to the Legislative Services Agency and the Department of Management the amount transferred.

FY 2009 Tax-Exempt Restricted Capital Fund (RC3)

At the beginning of the 2009 Legislative Session, the General Assembly was advised that the RC3 did not receive proceeds because the bonds had not been issued due to market conditions. In addition, the General Assembly was advised of increased concerns about the stability of the revenue stream from tobacco payments due to the increases in the cigarette tax in several states, an increase to the Federal Excise Tax

**STATUS OF RESTRICTED CAPITAL
TOBACCO FUNDS (Continued)**

on cigarettes, and declining tobacco consumption in the United States. The FY 2009 projects funded by the RC3 had been on hold pending the receipt of bond proceeds.

The 2009 General Assembly restored all or partial funding to the former RC3 projects through the new bonding proposal in SF 376 (Revenue Bonding and I-JOBS Bill) and from the Rebuild Iowa Infrastructure Fund (RIIF) in HF 822 (FY 2010 Infrastructure Appropriations Bill). Some of the funding in HF 822 reflects FY 2010 appropriations to remedy the FY 2009 RC3 projects.

**Status of Endowment for Iowa's Health Account
(Endowment)**

With the 22.0% unsecuritized tobacco payments remaining available, the 2009 General Assembly transferred the balance of the Endowment for Iowa's Health Account and the Healthy Iowans Tobacco Trust to the General Fund before the close of FY 2009. The transfer is estimated to be \$21.9 million.

Beginning in FY 2010, and continuing in succeeding years, after the tobacco payments are deposited in the Endowment, the balance will transfer to the RIIF.

SENIOR LIVING TRUST FUND

House File 811 (FY 2010 Health and Human Services Appropriations Bill) provides appropriations totaling \$50.9 million from the Senior Living Trust Fund to the Iowa Finance Authority (IFA) and the Departments of Elder Affairs, Human Services (DHS), and Inspections and Appeals for FY 2010 as follows:

- \$40.4 million to the DHS for the Medical Assistance (Medicaid) Program.
- \$8.5 million to the Department of Elder Affairs for the Senior Living Program.
- \$1.3 million to the Department of Inspections and Appeals for assisted living and adult day services oversight.
- \$700,000 to the IFA for the Rent Subsidy Program.

It is estimated that at the close of FY 2010, the Fund will have an ending balance of zero as shown in the table on the following page.

SENIOR LIVING TRUST FUND (Continued)**Senior Living Trust Fund
(\$ in millions)**

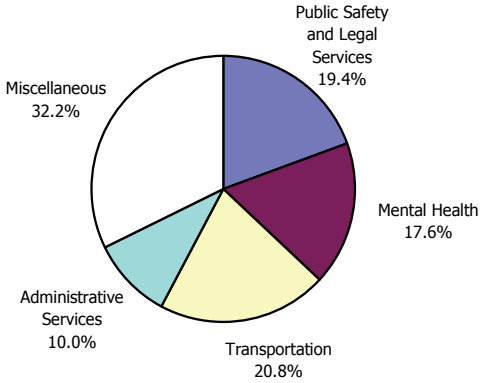
	<u>Estimated FY 2010</u>
Revenues	
Beginning Balance	\$ 26.8
General Fund Transfer	23.6
Economic Emergency Fund Transfer	0.0
Interest	0.5
Total Revenues	<u>\$ 50.9</u>
Expenditures	
IFA - Rent Subsidy Program	0.7
Department of Human Services Medicaid	40.4
Department of Elder Affairs Senior Living Program	8.5
DIA - Assisted Living & Adult Day Care	1.3
Total Expenditures	<u>\$ 50.9</u>
Ending Balance	<u><u>\$ 0.0</u></u>

IFA = Iowa Finance Authority

DEA = Department of Elder Affairs

DIA = Department of Inspections and Appeals

**BUDGETED COUNTY EXPENDITURES
FY 2009**



Budgeted County Expenditures	Estimated FY 2009
Public Safety and Legal Services	\$ 401.6
Mental Health	364.2
Transportation	430.2
Administrative Services	207.7
Miscellaneous	
State & Local Gov't. Services	71.3
Physical Health and Social Services	200.0
County Environment	124.5
Debt Service	63.2
Capital Projects	200.0
Other	7.1
Total	\$ 2,069.8

Note:

The FY 2009 ending fund balances for all counties is estimated to be \$456.1 million.

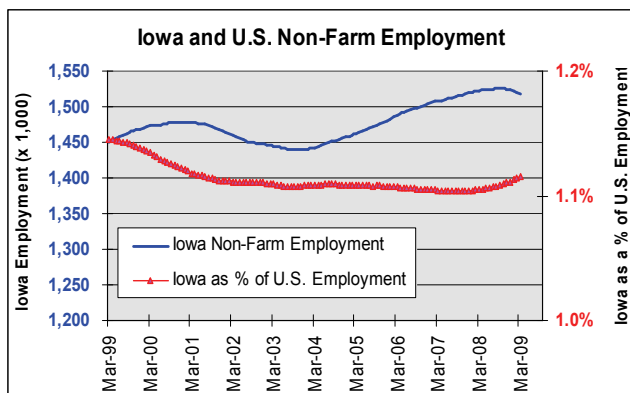
ECONOMIC SUMMARY

Iowa non-farm employment was reported at 1,477,600 for the month of March 2009 (not seasonally adjusted), 32,000 lower (- 2.1%) than March 2008.

Iowa's 12-month average employment is presented in a graph below. The average non-farm employment pre-recession peak was February 2001 (1,478,700), and the recession low was September 2003 (1,439,900). The 12-month average peaked again in October 2008, 46,700 above the 2001 peak and 85,500 above the recession low. The current 12-month average reading is now 1,517,200 so annualized Iowa non-farm employment is 8,200 below the October 2008 peak.

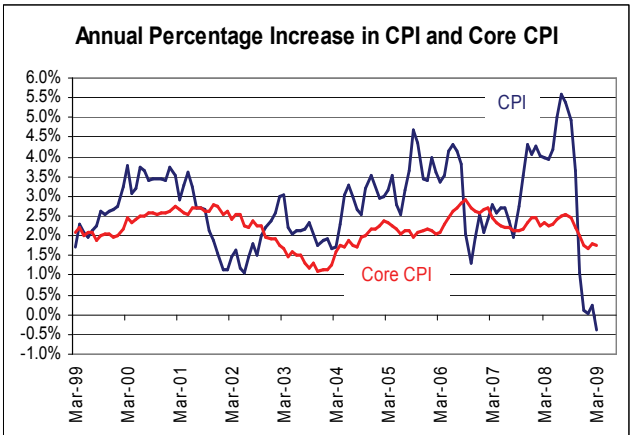
The chart below also presents Iowa non-farm employment as a percent of U.S. non-farm employment. Iowa's share of national non-farm employment decreased noticeably from 1998 through 2002. The decline continued at a much slower pace from 2002 through 2007. Iowa's share of U.S. non-farm employment has been expanding since June 2008 as the rate of economic decline nationally has exceeded the rate of decline in Iowa.

The Consumer Price Index (CPI-U) through March 2009 was 212.7 (1983/84=100). The annual rate of inflation peaked at 5.6% in June 2008 and decreased rapidly in the following months. The annual rate now stands at negative 0.4%, the first negative annual rate since August 1955.



**ECONOMIC SUMMARY
(Continued)**

Core CPI, an inflation measure excluding food and energy expenditures, increased in March 2009 and stands at 1.8%, year-over-year. The core inflation rate declined considerably from the early 1990s through January 2004 when the rate bottomed at 1.1%. The core inflation rate accelerated from that point, with most readings between 2.0% and 3.0%. With the onset of the recent recession, the annual core inflation rate has declined and has now been below 2.0% for four months. For the two components excluded from the core rate, energy prices are down 23.0% year-over-year while food prices are up 4.3%.



PAYING FOR PUBLIC EDUCATION THE IOWA SCHOOL FOUNDATION FORMULA

The Iowa School Foundation Formula was created between 1970 and 1972, for the school year beginning July 1, 1972. This Formula is a student-driven financing mechanism that works to equalize revenues from State sources and property taxes. The Formula was revised in 1989 to equalize per pupil spending, provide an enrollment cushion (phantom students), increase property tax relief, and provide for increased local discretion. In 1992, further revisions to the Formula included eliminating advanced funding for increasing enrollment, eliminating the enrollment decline cushion (phantom students), and requiring the Governor and General Assembly to establish the allowable growth rate each year, which was previously established by a formula.



In the 1995 Session, the determination of allowable growth was changed again. The General Assembly is required to set allowable growth two years in advance and within 30 days of the submission of the Governor's budget.

School districts with declining enrollments have been eligible to receive additional funding, called a "budget guarantee." During the 2001 Legislative Session, the budget guarantee was changed beginning in FY 2005; it was no longer based on the previous year's total regular program district cost (regular program cost plus budget guarantee). Now school districts with declining enrollments are eligible for one of two options. They receive the higher of:

- 101.0% budget adjustment based on the previous year's regular program district cost without any previous budget guarantee adjustment.
- A step-down budget guarantee based on a percentage of the FY 2004 total regular program district cost. For FY 2005, the percentage was 90.0%. This percentage will be scaled down 10.0% each year until FY 2014. In FY 2010, the scaled-down percentage is 40.0%.

**PAYING FOR PUBLIC EDUCATION
THE IOWA SCHOOL FOUNDATION FORMULA
(Continued)**

In the 2006 Legislative Session, the School Foundation Formula was modified to increase the English as a Second Language Program weighting for an additional year and a provision was included to buy down the additional levy property tax rates in the school districts with the highest Foundation property tax rates. There was a \$6.0 million appropriation for the property tax rate buy-down in FY 2007. The appropriation is increased \$6.0 million annually until it reaches \$24.0 million in FY 2010 and subsequent years.

The additional levy rate buy-down has no impact on the total amount of funding received by the school districts.

During the 2007 Legislative Session, the supplementary weightings for school districts that whole grade share and that reorganize after whole grade sharing and the uniform levy rate reduction incentive for school districts that merge or dissolve were reactivated. New supplementary weightings were added to the School Foundation Formula for shared operational functions and use of Iowa Communications Network (ICN) virtual classes. These new supplementary weights are estimated at approximately \$2.9 million for FY 2009.

Also during the 2007 Legislative Session, the statewide Voluntary Preschool Program for four-year-olds was created. Four-year-old students are eligible unless they are participating in a preschool program already funded by State or federal funds. Appropriations of \$15.0 million per year for FY 2008 through FY 2010 and \$16.2 million for FY 2011 were made for initial start-up of the local programs. The funding for the second and subsequent years is driven by the prior year's preschool budget enrollment in a manner similar to the School Foundation Formula. The "Preschool Foundation Aid" is the product of 60.0% of the actual enrollment of eligible preschool students from the previous October 1 count multiplied by the State cost per pupil from the School Foundation Formula. The FY 2010 Preschool Foundation Aid is estimated to be \$33.5 million.

**PAYING FOR PUBLIC EDUCATION
THE IOWA SCHOOL FOUNDATION FORMULA
(Continued)**

The Program's funding is accounted for separately from School Foundation Aid by the school districts, even though payments are made through the School Foundation standing unlimited appropriations, and the pre-school pupils are not counted in the school districts' regular budget enrollments. The Program does not include a property tax component.

During the 2008 Legislative Session the following changes were made that impact the school foundation formula:

- Home School Assistance Program Weight Reduction – The weight generated by resident students receiving competent private instruction from licensed staff provided by the public school district was reduced from 0.6 to 0.3 retroactive to October 2007. This adjustment reduces school district budget enrollments and for FY 2009, reduces enrollment counts by 1,446. The estimated impact in FY 2009 due to the reduction is approximately a decrease of \$7.3 million in State aid to local school districts.
- Enactment of HF 2663 (State Sales/Use Tax for School Infrastructure Act) will provide additional property tax relief through the school aid formula beginning in FY 2011.
- Passage of the State Categorical Funding School Aid Formula will provide funding for the Student Achievement/Teacher Quality (SATQ) Teacher Compensation Program and Educational Excellence Phase II, SATQ Professional Development, and Early Intervention Class Size Reduction beginning in FY 2010 on a per pupil basis through the school aid formula. Beginning in FY 2011, per pupil funding for these programs will be increased based on an allowable growth rate to be set by the General Assembly.

**PAYING FOR PUBLIC EDUCATION
THE IOWA SCHOOL FOUNDATION FORMULA
(Continued)**

The 2001 General Assembly reduced the FY 2002 funding Area Education Agencies (AEAs) received through the Formula by \$7.5 million and later codified this reduction making it permanent. Beginning with FY 2004, the General Assembly made additional reductions to the AEA budgets:

- FY 2004—\$10.0 million (plus \$1.8 million for the across-the-board reduction).
- FY 2005—\$11.8 million
- FY 2006—\$11.8 million
- FY 2007—\$8.0 million
- FY 2008—\$5.3 million
- FY 2009—intent language that the reduction be no more than \$2.5 million
- FY 2010—intent language that there will be no additional reduction.

The AEAs have been allowed to shift funding for the Special Education Services Program from the Media Services Program and the Educational Services Program in order to maintain the level of services required for the Special Education Support Services Program.

Due to the national recession and a decline in State revenues, the Governor ordered an across-the-board General Fund reduction of 1.5% for FY 2009 through Executive Order 10. The overall school aid reduction for FY 2009 totaled \$33.4 million. Of the reduction, \$31.9 million was a reduction in State aid to school districts and \$1.4 million was to AEAs.

During the 2009 Legislative Session, the General Assembly approved the use of American Recovery and Reinvestment Act (ARRA) Education Stimulus funding to eliminate the need for additional State aid reductions. For FY 2009, the General Assembly used \$40.0 million in ARRA Education Stimulus funding in lieu of \$40.0 million in State aid. For FY 2010, the General Assembly maintained the 4.0% allowable growth established during the previous Legislative Session, but capped the

**PAYING FOR PUBLIC EDUCATION
THE IOWA SCHOOL FOUNDATION FORMULA
(Continued)**

appropriation for State school aid at \$2.588 billion and used \$202.5 million in ARRA Education Stimulus in lieu of State General Fund dollars. FY 2010 was also the first year that the State Categorical Supplements (teacher salary, professional development, and early intervention) were funded through the school aid formula. The General Assembly specified that despite the overall cap on State aid, these supplements would be fully funded at \$309.0 million.

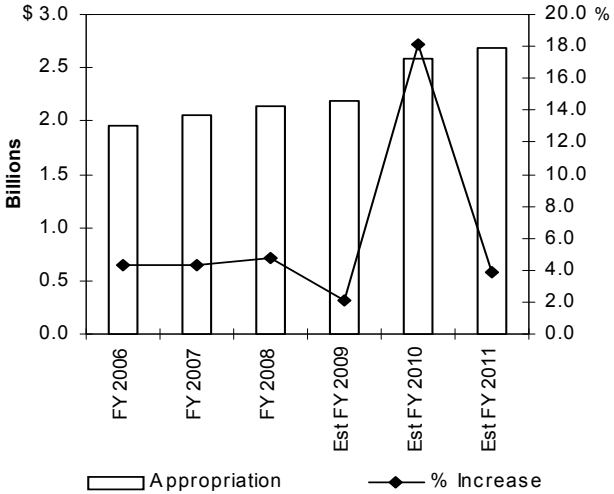
The 2009 General Assembly also established the FY 2011 allowable growth rate for school aid and the State categorical supplements at 2.0%. Although federal ARRA Education Stimulus funding may be used to fund school aid in FY 2011, no ARRA funding was designated for FY 2011 during the Session.

The following provides a funding breakdown for estimated FY 2009 through estimated FY 2011.

School Foundation Formula Funding
(\$ in Millions)

	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011
Unadjusted Regular School Aid	\$ 2,209.9	\$ 2,280.9	\$ 2,316.7
Additional AEA Reduction	-2.5	-2.5	N.A.
State Aid Reduction	-33.4	-33.4	N.A.
State Aid change for ARRA Funding	-40.0	-202.5	N.A.
ARRA Education Stimulus	40.0	202.5	N.A.
Total Regular School Aid	\$ 2,174.0	\$ 2,245.0	\$ 2,316.7
Preschool Aid	\$ 17.1	\$ 33.5	\$ 53.5
Teacher Salary Supplement	N.A.	251.3	257.6
Professional Development Supplement	N.A.	28.5	29.2
Early Intervention Supplement	N.A.	29.2	30.0
Total State Categorical Supplement	N.A.	\$ 309.0	\$ 316.8
Total School Aid State/ARRA Funding	\$ 2,191.1	\$ 2,587.5	\$ 2,687.0

**K-12 STATE AID GENERAL
FUND APPROPRIATIONS
FOR FY 2006 - 2011**

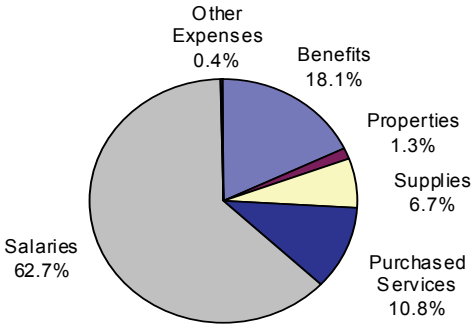


	Appropriations	Change	Percent Change
FY 2006	\$ 1,963,203,523	\$ 81,929,759	4.4%
FY 2007	2,048,342,992	85,139,469	4.3%
FY 2008	2,145,614,028	97,271,036	4.7%
Est. FY 2009	2,191,063,007	45,448,979	2.1%
Est. FY 2010	2,587,500,000	396,436,993	18.1%
Est. FY 2011	2,687,059,027	99,559,027	3.8%

Notes:

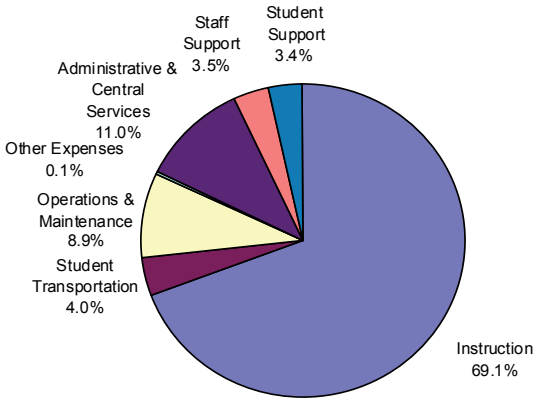
1. FY 2009 - FY 2011 includes Preschool Foundation Aid.
2. FY 2009 includes a 1.5% across-the-board adjustment that resulted in a reduction of \$33.4 million. The amount displayed also includes \$40.0 million from the American Recovery and Reinvestment Act (ARRA) Education Stimulus funding.
3. FY 2010 is based on a capped appropriation amount. Beginning in FY 2010, the State categorical supplements are funded through the school aid formula (\$309.0 million) and are included in the total appropriation amount. Additionally, the total includes \$202.5 million from the ARRA Education Stimulus funding.

GENERAL OPERATING EXPENDITURES K-12 FOR IOWA SCHOOL YEAR



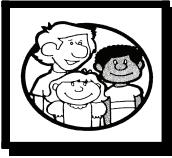
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- From FY 1998 to FY 2007, expenditures for salaries decreased 2.1% and expenditures for benefits increased 2.6% as a percentage of total operating fund expenditures.

**GENERAL OPERATING EXPENDITURES K-12
BY FUNCTION FOR IOWA SCHOOL YEAR
2006-2007**



-
- Statewide average administrative expenditures for FY 2007 are 11.0% of total operating fund expenditures. This is an increase of 0.1% compared to FY 2006.

HUMAN SERVICES PROGRAMS



The Department of Human Services is projected to spend over \$4.0 billion for all programs, including Medical Assistance, the Family Investment Program, and the Food Stamp Program during FY 2010 (all funding sources). Federal and other non-general funds are projected to account for approximately 70.0% of these expenditures. The Medical Assistance Program is projected to serve an average of 344,436 individuals per month during FY 2010. The Family Investment Program is projected to serve an average of 17,078 households each month. The Food Stamp Program is projected to serve an average of 318,775 persons each month during FY 2010.

The Family Investment Program (FIP) provides direct cash grant assistance to needy families when the children are deprived of parental care or support due to absence, death, incapacity, or unemployment of one or both parents. In FY 1997, the federal government began to block grant \$131.5 million to Iowa annually from the Temporary Assistance for Needy Families (TANF) Block Grant. Revenues from child support recoveries also finance the Program. The Program was created in FY 1994 as part of a welfare reform effort that changed the structure and benefits of the previous Aid to Families with Dependent Children (AFDC) to reduce economic disincentives to employment.

The Supplemental Nutrition Assistance Program (SNAP) is a federally-funded program administered by the U.S. Department of Agriculture with the goal of preventing hunger and malnutrition. Recipients of the Family Investment Program are automatically eligible for food stamps. Individuals or families may also qualify for food stamps without receiving Family Investment Program benefits.

**HUMAN SERVICES
PROGRAMS (Continued)**

The Child Support Recovery Unit is responsible for collecting child support for families receiving FIP benefits and other families requesting assistance. Other activities include establishing paternity and child and medical support orders, locating absent parents, and reviewing and adjusting support orders upon the request of either parent.

The Medical Assistance Program pays for low-income aged, blind, and disabled citizens, residents of institutions, and other low-income lowans that meet certain criteria. Federal law requires coverage of specified services and eligibility groups. In addition, the State of Iowa is currently covering most of the optional services and eligibility groups for which federal matching funds are available.

The State Children's Health Insurance Program began in FY 1999, including an expansion of Medical Assistance eligibility for children of families with incomes up to 133.0% of the federal poverty level and coverage up to 300.0% of the federal poverty level in the Healthy and Well Kids in Iowa (hawk-i) using private insurance coverage.

The Foster Care Program provides 24-hour temporary care for children unable to remain in their own homes, while offering services to families and children to implement plans for permanent placement.

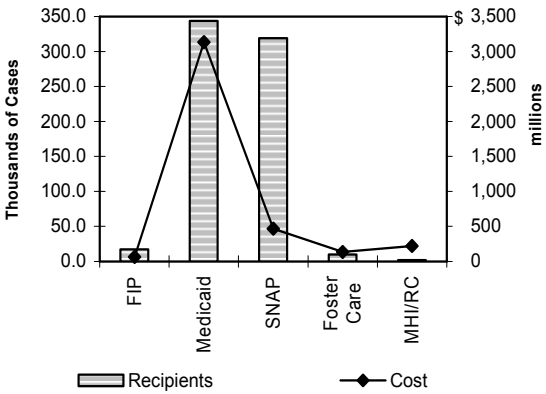
The four Mental Health Institutes, located in Cherokee, Independence, Clarinda, and Mount Pleasant, provide critical access to quality acute psychiatric care for Iowa's adults and children needing mental health treatment, and provide specialized mental health related services. The specialized services include substance abuse treatment, dual diagnosis treatment for persons with mental illness and substance addiction, psychiatric medical institute for children (PMIC), and long-term psychiatric care for the elderly (gero-psychiatric). The Institutes also provide limited outpatient services. Two of the Institutes, Clarinda and Mount Pleasant, share campuses and select support resources with adult correctional facilities operated by the Department of Corrections.

HUMAN SERVICES PROGRAMS (Continued)

The two Resource Centers, located in Glenwood and Woodward, provide a variety of treatment and outreach services to individuals with mental retardation or other developmental disabilities. The facilities assist residents to reach their individual goals so they can live in the least restrictive environment of their choice.

The Civil Commitment Unit for Sexual Offenders (CCUSO) provides a secure, long-term, and highly structured environment for the treatment of sexually violent predators. Patients have served their prison terms but in a separate civil trial have been found likely to commit further violent sexual offenses. Established in 1999, CCUSO is located on the campus of the Cherokee Mental Health Institute.

HUMAN SERVICES MAJOR PROGRAM FUNDING



* Foster Care = Family Foster Care, Group Care, & Adoption Subsidy

	Average Monthly Recipients Per Program	Total Program* Cost
FIP (Households)	17,078	\$ 66,343,865
Medicaid	344,436	3,133,100,000
SNAP	318,775	470,251,735
Family Foster Care	2,884	27,327,054
Group Care	1,065	37,783,474
Adoption Subsidy	8,689	69,140,905
MHI/RC	730	222,802,080

Notes:

The number of recipients per program may be overestimated. Recipients may participate in more than one program causing the number of cases shown here to be inflated.

*Total Program Costs include additional funding from the American Reinvestment and Recovery Act of 2009.

FIP = Family Investment Program

MHI/RC = Mental Health Institutes/Resource Centers

CHILDREN'S HEALTH INSURANCE (CHIP) PROGRAM

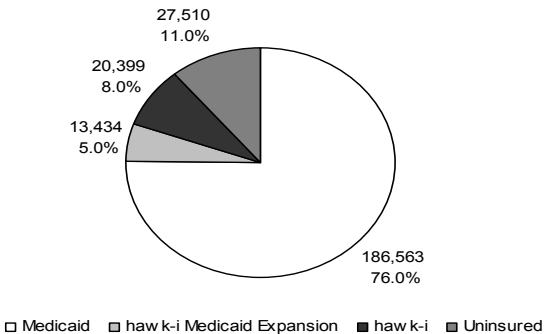
Congress enacted the Children's Health Insurance Program, with federal funds available on October 1, 1997, to provide insurance for children in families with incomes up to 200.0% of the Federal Poverty Level (FPL). In February of 2009, the President signed an extension of the Program and increased coverage to children in families with incomes up to 300.0% of FPL. The extension also included an option for dental only coverage for children in families up to 300.0% who already have health insurance.

The *hawk-i* Program was enacted in 1998, establishing a private insurance program for children in families with incomes between 133.0% and 185.0% of the FPL. The Program was expanded to 200.0% in 2003. Senate File 389 (FY 2010 Health Care Reform II Bill) expanded coverage to children up to 300.0% of FPL with a dental only option for children that currently have insurance.

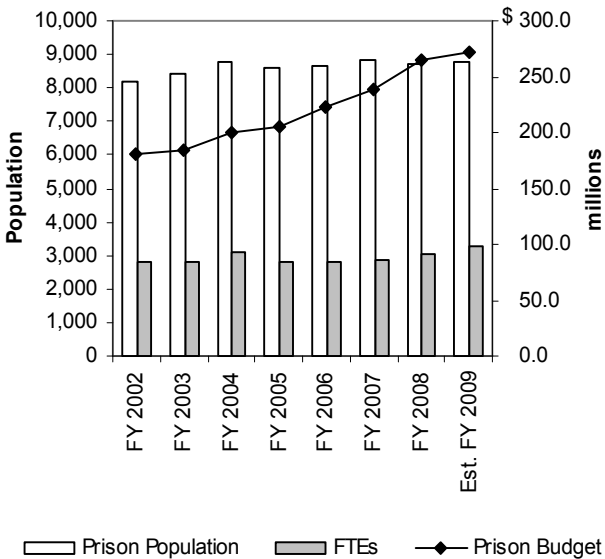
House File 811 (FY 2010 Health and Human Services Appropriations Bill) appropriates \$16.3 million along with \$6.0 million in carryforward funds. House File 820 (FY 2010 Block Grant Bill) appropriates \$3.9 million for a total from all funding sources of \$26.2 million.

The US Census Bureau estimates that there are currently 27,510 uninsured children in the State with family incomes at or below 300.0% of FPL. As of March 2009, 33,383 children were enrolled in the *hawk-i* Program.

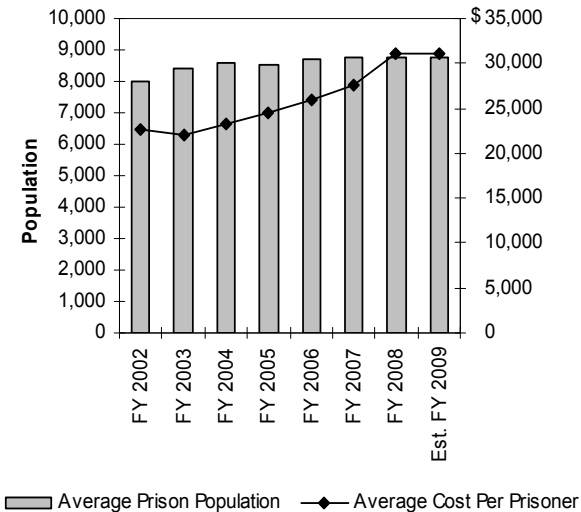
Number of Children Below 300.0% FPL



YEAR-END PRISON POPULATION, STAFFING, AND BUDGET



AVERAGE PRISON POPULATION AND AVERAGE ANNUAL COST PER PRISONER



IOWA'S TRANSPORTATION FUNDS



The Road Use Tax Fund is comprised of revenue sources that include taxes on fuels and fees collected from vehicle registrations. Prior to FY 2009, a use tax was collected on motor vehicle purchases and related equipment, and was also deposited in the Road Use Tax Fund.

Except for administrative costs, all vehicle registration fees and motor vehicle fuel taxes are constitutionally mandated to be spent exclusively for the construction, maintenance, and supervision of the State's public highways (Section 8, Article VII, Constitution of the State of Iowa). The use tax on motor vehicles and equipment, however, was exempt from the constitutional mandate.

Senate File 2420 (Time 21 Transportation Funding Act), enacted during the 2008 Legislative Session, replaced the motor vehicle use tax with a Fee for New Registration for the purpose of constitutionally protecting the revenues to be spent for road-related purposes.

A portion of the Road Use Tax Fund revenues is appropriated either through standing appropriations established in the Code of Iowa, or through the annual appropriations process. These expenditures are referred to as "off-the-top" allocations, and are used to fund programs, equipment purchases, and department operations. After the off-the-top allocations are funded, the remaining revenues are distributed based on formulas to the Primary, Secondary, Farm-to-Market, and Municipal Road Funds. The formulas remain unchanged under SF 2420; however, certain provisions of the Act affected the funding structure of the Road Use Tax Fund beginning in FY 2009.

**IOWA'S TRANSPORTATION FUNDS
(Continued)**

The following table shows estimated Road Use Tax Fund revenues, allocations, and distributions for FY 2009 through FY 2011, based on the Department of Transportation's (DOT) five-year forecast.

**ROAD USE TAX FUND
PROJECTED RECEIPTS, ALLOCATIONS, AND DISTRIBUTIONS
FY 2009 – FY 2011
(\$ in millions)**

	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011
Receipts			
Motor Vehicle Registration Fees*	\$ 390.8	\$ 434.6	\$ 461.3
Transfer to TIME-21 Fund	0.0	-42.6	-69.3
Net Motor Vehicle Registration Fees	390.8	392.0	392.0
Motor Vehicle Fuel Tax	\$ 433.4	\$ 435.1	\$ 436.9
Fee for New Registration	269.0	271.7	275.2
Interest	13.0	13.0	13.0
Underground Storage Tank Fees	21.9	22.1	22.3
Other**	12.2	10.8	13.0
Transfer from Statutory Allocations Fund	10.1	6.0	4.0
Total Receipts	\$ 1,150.4	\$ 1,150.7	\$ 1,156.4
Total Allocations	\$ 163.2	\$ 166.0	\$ 168.0
Total Available for Distribution	\$ 987.2	\$ 984.6	\$ 988.3
Distribution			
Primary Road Fund (47.5%)	\$ 468.92	\$ 467.7	\$ 469.5
Secondary Road Fund (24.5%)	241.9	241.2	242.1
Farm-To-Market Road Fund (8.0%)	79.0	78.8	79.1
Municipal Road Fund (20.0%)	197.4	196.9	197.7
Total Formula Allocation	\$ 987.2	\$ 984.6	\$ 988.3

NOTE: Numbers may not equal totals due to rounding.

* Includes motor carrier fees & prorate.

** Includes miscellaneous licenses, permits, and fees.

IOWA'S TRANSPORTATION FUNDS (Continued)

Transfer of Jurisdiction Fund

Beginning in FY 2004, the jurisdiction and control of approximately 700 miles of primary (State) roads, classified as Local Service Roads, were transferred to cities and counties. As a result, 1.75% of Primary Road Fund monies are transferred annually to a Transfer of Jurisdiction Fund. The allocation, effective until FY 2014, is distributed to cities and counties by formula.

The following table shows estimated Jurisdiction Fund revenues and distributions for FY 2009 – FY 2011, based on the DOT's five-year forecast.

TRANSFER OF JURISDICTION FUND PROJECTED RECEIPTS AND DISTRIBUTION FY 2009 – FY 2011 (\$ in Millions)

	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011
Total Receipts*	<u>\$ 8.2</u>	<u>\$ 8.2</u>	<u>\$ 8.2</u>
Distribution			
Cities and counties that assumed jurisdiction of primary roads (75.0%)			
Secondary Road Fund (90.0%)	\$ 5.5	\$ 5.5	\$ 5.5
Municipal Road Fund (10.0%)	0.6	0.6	0.6
Secondary Road Fund - all counties (22.5%)	1.8	1.8	1.8
Municipal Road Fund - all cities (2.5%)	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
Total Distribution	<u>\$ 8.2</u>	<u>\$ 8.2</u>	<u>\$ 8.2</u>

NOTE: Numbers may not equal totals due to rounding.

* 1.75% of Primary Road Fund

**IOWA'S TRANSPORTATION FUNDS
(Continued)**

STATUTORY ALLOCATIONS FUND

The Statutory Allocations Fund includes items that were funded from the motor vehicle use tax prior to its repeal in FY 2009. The following table shows estimated Statutory Allocations Fund revenues and distributions for FY 2009 – FY 2011, based on the DOT's five-year forecast.

**STATUTORY ALLOCATIONS FUND
PROJECTED RECEIPTS AND DISTRIBUTION
FY 2009 – FY 2011
(\$ in Millions)**

	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011
Receipts			
Driver's License Fees	\$ 16.9	\$ 12.7	\$ 10.9
Trailer Registration Fees	11.8	15.9	15.9
Title Fees	17.5	17.5	17.5
Salvage Title Fees	0.3	0.3	0.3
Title Surcharge Fees	5.2	5.2	5.2
Use Tax*	0.7	0.7	0.7
Car Rental Tax	3.0	3.0	3.0
Total Receipts	<u>\$ 55.5</u>	<u>\$ 55.3</u>	<u>\$ 53.5</u>
Transfers to TIME-21 Fund			
Trailer Reg. Fee Increase	-4.9	-8.8	-8.8
Title & Salvage Title Fee Increase	-10.3	-10.3	-10.3
Total to TIME-21 Fund	<u>\$ -15.2</u>	<u>\$ -19.2</u>	<u>\$ -19.2</u>
Net Receipts	<u>\$ 40.2</u>	<u>\$ 36.1</u>	<u>\$ 34.3</u>
Distribution			
Underground Storage Tank Fund	\$ 17.0	\$ 17.0	\$ 17.0
Public Transit Assistance	11.1	11.2	11.4
Motorcycle Rider Education Fund	0.6	0.4	0.4
Special Plate Funds	1.5	1.5	1.5
Railway Finance Authority	0.0	0.0	0.0
Primary Road Fund (Bordering Bridges)	0.0	0.0	0.0
Net to Road Use Tax Fund	10.1	6.0	4.0
Total Distribution	<u>\$ 40.2</u>	<u>\$ 36.1</u>	<u>\$ 34.3</u>

NOTE: Numbers may not equal totals due to rounding.

* Includes: (1) The use tax on mobile homes and manufactured homes and on leased vehicles not subject to registration and (2) The fee for new registration for trailers.

**IOWA'S TRANSPORTATION FUNDS
(Continued)**

TIME - 21 FUND

The TIME-21 Fund includes revenues generated from a portion of motor vehicle and trailer registration fees, and title and salvage title fees. The revenues are allocated to the State, cities, and counties based on formula. The following table shows estimated TIME-21 Fund revenues and allocations for FY 2009 - FY 2011, based on the DOT's five-year forecast.

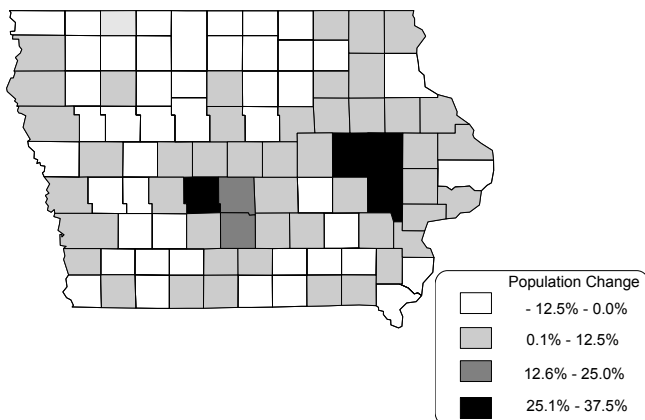
**TIME-21 FUND
PROJECTED RECEIPTS AND DISTRIBUTION
FY 2009 – FY 2011
(\$ in Millions)**

	Estimated FY 2009	Estimated FY 2010	Estimated FY 2011
Receipts			
Trailer Reg. Fee Increase	\$ 4.9	\$ 8.8	\$ 8.8
Title & Salvage Title Fee Increase	10.3	10.3	10.3
Motor Vehicle Registration Fees*	0.0	42.6	69.3
Total Receipts	<u>\$ 15.2</u>	<u>\$ 61.7</u>	<u>\$ 88.5</u>
Distribution			
Primary Road Fund (60.0%)	\$ 9.1	\$ 37.0	\$ 53.1
Secondary Road Fund (20.0%)	3.0	12.3	17.7
Municipal Road Fund (20.0%)	3.0	12.3	17.7
Total Distribution	<u>\$ 15.2</u>	<u>\$ 61.7</u>	<u>\$ 88.5</u>

NOTE: Numbers may not equal totals due to rounding.

* Registration fees in excess of \$392.0 million.

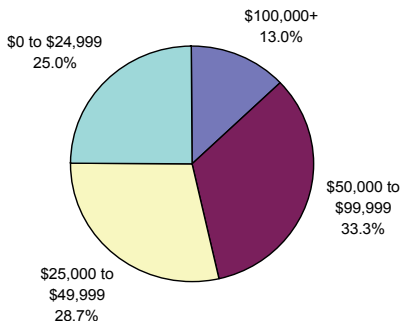
IOWA'S POPULATION CHANGE BY COUNTY 1990 - 2008



- Iowa's population was estimated at 3,002,555 in 2008.
- The State experienced a negative population growth rate between the years 1979 and 1988, while the national average growth rate was fairly constant at 1.0%.
- Iowa experienced a 7.5% growth in the population rate from 1990 to 2008, which was concentrated in and around metropolitan areas.
- The State experienced growth in population from 2000 to 2008 of 2.5%.
- Dallas County reported the greatest gains in population, increasing by 32.0% from 2000 to 2008. Pocahontas County experienced the largest decline, with a loss of 9.1% during the same period.
- Just under 50.0% of the State's population resides in ten counties in the State. These include Black Hawk, Dallas, Dubuque, Johnson, Linn, Polk, Pottawattamie, Scott, Story, and Woodbury.
- The most populous county in the State is Polk County with a growth rate of 11.8.% from 2000 to 2008.

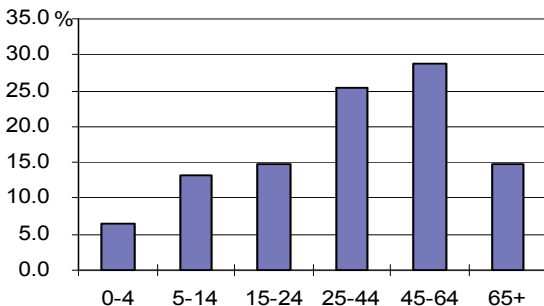
IOWA'S POPULATION

HOUSEHOLD INCOME



- The average Iowa household has 2.5 members.
- Median household income in 2007 was \$46,399.
- The median age of an Iowan is 38.0 years compared to the national average of 35.3 years.

AGE DISTRIBUTION OF IOWANS



- The percentage of Iowans age 65 or older is 14.7% compared to the national average of 12.4%.
- In 2008, the marriage rate was 6.7 per 1,000 population.

IOWA'S POPULATION (Continued)

- In 2007, the divorce rate was 2.6 per 1,000 population.
- In 2006, the percentage of births to unmarried women was 33.8%.
- In 2007, the infant death rate per 1,000 live births was 5.5.
- It is estimated that 90.0% of Iowans are covered by health insurance, ranking third in the nation.
- In 2007, 89.6% of Iowa's population age 25 and older reported graduating high school or higher.
 - The percentage of Iowans age 25 and older with a bachelors degree is 24.3% compared to the national average of 27.0%.
 - Iowa's high school dropout rate was 2.9% compared to the national average of 7.9%.
- Iowa ranks 34th in the nation with 3,011 crimes per 100,000 population.
- Iowa had 295 state prisoners per 100,000 population, ranking 39th nationally.
 - The median age for inmates is 34 years old.
 - Men are 91.6% of the inmate population.
 - 72.3% of the inmate population is white, 25.2% is African-American, 0.8% is Asian, 1.6% is American Indian or Alaska Native, and 0.1% is unknown.
- Iowa has a civilian labor force of 2.1 million persons. Women comprise 46.8% of the work force.
- Iowa ranks eleventh highest in the nation for home ownership with 73.7% owner-occupied homes.

IOWA'S POPULATION (Continued)

2008 NON-FARM EMPLOYMENT

Construction	4.3%
Education and Health	12.2%
Financial	6.2%
Government	15.1%
Information	1.9%
Leisure and Hospitality	8.1%
Manufacturing	13.7%
Natural Resources and Mining	0.1%
Other Services	3.4%
Professional and Business Serv.	7.3%
Trade, Transportation, and Utilities	18.4%