

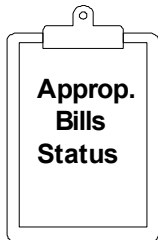
FISCAL UPDATE

February 10, 2004

Legislative Services Agency

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STATUS OF APPROPRIATIONS BILLS



Appropriations Subcommittee Bills			
Appropriations Subcommittee		LSB/File#	Status
Transportation		LSB 5007JA	Passed Joint Subcommittee on February 4.
Other Appropriations Bills			
98.0% General Fund Expenditure Limitation		HF 2039	Passed Senate Appropriations Committee on February 4.
Birth Certificate Registration Fees		SF 2059	Passed Senate on February 3.

IOWA SUPREME COURT RULING ON STATE WAGERING TAX RATES

Racetrack Ruling



U.S. Supreme Court

The Iowa Supreme Court ruled on June 12, 2002, that the different tax rate imposed on racetrack establishments compared to riverboat casinos was unconstitutional (*Racing Association v. Fitzgerald*). The ruling lowered the tax rate on racetrack establishments from 32.0% to 20.0%, effective June 12, 2002, and also required the State to reimburse the racetracks an estimated \$112.0 million for the years the tracks were taxed above the 20.0% rate.

The State Attorney General appealed the case to the United States (U.S.) Supreme Court. On June 9, 2003, the U.S. Supreme Court reversed the Iowa Supreme Court's ruling, and held that the different tax rates were constitutional under the Equal Protection Clause of the U.S. Constitution. The case was then remanded to the Iowa Supreme Court.

Iowa Supreme Court

On February 3, 2004, the Iowa Supreme Court ruled the State's taxation of racetrack casinos at a different rate than riverboat casinos was unconstitutional pursuant to the equality provision of the Iowa Constitution.

Fiscal Impact

As a result of the Iowa Supreme Court ruling, the Rebuild Iowa Infrastructure Fund (RIIF) is projected to have a shortfall of \$29.3 million for FY 2004 due to decreased wagering tax receipts. The FY 2004 shortfall will be corrected by either increasing revenues to the Fund from alternative sources, or by decreasing the FY 2004 appropriations.

Case Status

The case is now at the District Court for further proceedings. The State

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Attorney General is considering the option of re-appealing the case to the U.S. Supreme Court.

More Information

Additional information is available from the LSA upon request.

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**TRANSPORTATION APPROPRIATIONS SUBCOMMITTEE
 PASSES APPROPRIATIONS BILL – LSB 5007JA**

Appropriations Bill



The Transportation Appropriations Subcommittee passed LSB 5007JA (FY 2005 Transportation Appropriations Bill) on February 4. The Bill appropriates a total of \$274.1 million to the Department of Transportation (DOT), which includes \$41.2 million from the Road Use Tax Fund, \$232.9 million from the Primary Road Fund, and 3,421.0 FTE positions. This is a decrease of \$7.5 million (2.7%) and 21.0 (0.6%) FTE positions compared to estimated net FY 2004. The following table summarizes the appropriations.

Operations Division

The Bill includes an appropriation of \$38.1 million for the Operations Division

**Department of Transportation
 (in millions)**

	Estimated Net FY 2004	Proposed Legis. Action for FY 2005	Change	Percent Change
Road Use Tax Fund	\$ 46.2	\$ 41.2	\$ (5.0)	-10.8%
Primary Road Fund	235.4	232.9	(2.5)	-1.1%
Total	\$ 281.6	\$ 274.1	\$ (7.5)	-2.7%

for FY 2005. This is a decrease of \$430,000 and an increase of 1.0 FTE position compared to estimated net FY 2004, which includes a decrease of \$725,000 from the Road Use Tax Fund and an increase of \$295,000 from the Primary Road Fund as follows:



- An increase of \$73,000 to fund inflationary increases on existing leases.
- A decrease of \$418,000 to transfer funds to the County Treasurer Support appropriation for drivers' licenses, vehicle registrations, and titles.
- An increase of \$65,000 and 1.0 FTE position to transfer a position from the Motor Vehicle Division to the Information Technology Division.
- A decrease of \$150,000 due to savings on lease expenditures at the Park Fair Mall and reconfigured office space at the Ames office complex.

Highway Division

The Bill includes an appropriation of \$180.3 million for the Highway Division for FY 2005. This is decrease of \$1.6 million and 21.0 FTE positions from the Primary Road Fund. The change is due to a net savings resulting from the transfer of road jurisdictions.

Special Purpose Projects



The following summarizes Special Purpose appropriations:

- Workers' Compensation – An appropriation of \$2.4 million for FY 2005, which is an increase of \$403,000 compared to estimated net FY 2004. This includes an

increase of \$18,000 from the Road Use Tax Fund and an increase of \$385,000 from the Primary Road Fund. The increase is due to an adjustment in premium calculations.

- County Treasurer Support – An appropriation of \$1.1 million for FY 2005 from the Road Use Tax Fund for resources to issue drivers' licenses, vehicle registrations, and titles at County Treasurers' Offices. This is a new recommendation for FY 2005, which includes:
 - \$30,000 recommended in previous years as a separate appropriation for the county issuance of drivers' licenses.
 - \$418,000 for existing automation and telecommunications costs at counties that issue drivers' licenses, vehicle registrations, and titles. This amount will be transferred from the Operations Division base budget.
 - \$648,000 for costs associated with improving data transmission between counties and the DOT. This includes upgrading the current system to meet Internet protocol (necessary for the redesigned Vehicle Registration System) and increasing capacity and speed.

Capital Projects

Included is a new request of \$650,000 from the Primary Road Fund to fund infrastructure improvements to various buildings at the DOT complex.

Bill Summary

The Notes on Bills and Amendments (NOBA) for LSB 5007JA is available on the LSA web site at: <http://www3.legis.state.ia.us/noba/index.jsp>.

STAFF CONTACT: Mary Beth Mellick (Ext. 18223)

ADMINISTRATION AND REGULATION APPROPRIATIONS SUBCOMMITTEE MEETING

Subcommittee Meeting

The Administration and Regulation Appropriations Subcommittee met on February 3 and 4 and conducted the following business:

Dept. of Management



Director Cynthia Eisenhauer, Nicki Whitaker, and Mike Albers, Department of Management (DOM), provided an update on the I/3 Budget System. Sharon Sperry and Julie Economaki, Department of Administrative Services (DAS), also contributed. The DOM did not have an estimate on the number of positions that could be eliminated due to the efficiencies created by the new system.

Dept. of Personnel

Director Mollie Anderson, DAS, provided a review of federal over billing and the additional funding request of \$3.0 million. Denise Sturm, DAS, also added that without the additional funding, the federal government will increase the fines and penalties the State is required to pay, including the loss of \$20.0 million in federal indirect cost recovery.

Public Strategies Group

Director Eisenhauer, DOM, and Bob Rafferty, Public Strategies Group (PSG), provided an update on payments to the PSG.

Charter Agencies

Director Eisenhauer and Jim Chrisinger, DOM, provided a review of Charter Agencies and grants with additional input from Director Jeff Vonk, Department of Natural Resources, and Lynn Walding, Administrator, Alcoholic Beverages Division, Department of Commerce.

Local Government Fund



More Information

In addition, Director Eisenhauer and Steve Ford, DOM, provided a review of the Local Government Innovation Grant/Loan Fund. The Local Government Innovation Fund Committee received 70 applications for grants or loans totaling \$5.1 million by the January 31, 2004, deadline. Loans will be for a maximum of \$200,000, with \$100,000 provided as a loan and \$100,000 provided as a grant. The loans will be for five years and the interest rate will be 2.0%.

Copies of agendas, minutes, and selected handouts distributed to Subcommittee members are available on the LSA web site at:
http://staffweb.legis.state.ia.us/lfb/legis_committees.htm

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**ECONOMIC DEVELOPMENT APPROPRIATIONS
SUBCOMMITTEE MEETING**

Subcommittee Meeting



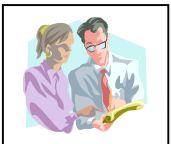
The Economic Development Appropriations Subcommittee met on February 3 and 4 and conducted the following business:

On February 3, Tom Rial, Director, Iowa Export Assistance Center, provided an overview of the Center's programs and activities. The Center is a partnership between the U.S. Department of Commerce and the Greater Des Moines Partnership to facilitate the trade of Iowa goods and services overseas.

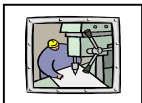
Workforce Development

On February 4, the Subcommittee received an update from Deputy Director Jane Barto, Department of Workforce Development, and Joe Bervid, Department Legal Counsel, on the federal Reed Act funds appropriated to the Department during the 2003 Legislative Session for unemployment compensation activities. The Department received a total of \$80.7 million for FY 2004 that was appropriated for the following:

- \$40.0 million for the Unemployment Compensation Trust Fund for continued payment of benefits. This was to partially offset unemployment compensation contributions that would be diverted to the Unemployment Compensation Reserve Fund. The interest earned on the Fund will eventually fund rural and satellite workforce development offices when the Administrative Contribution surcharge is reduced and repealed.
- \$20.0 million for automation and technology for the Unemployment Tax and Claim System.
- \$20.7 million for infrastructure improvements and administrative and technology costs associated with enhanced services for unemployment benefit claimants for workforce and labor exchange services.



Shared Work Program



Vincent Newendorp, Vermeer Manufacturing Company, provided information on how the Voluntary Shared Work Program, which is funded under the federal Reed Act, assisted in the retention of workers at the Company.

More Information

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HEALTH AND HUMAN SERVICES APPROPRIATIONS SUBCOMMITTEE MEETING

Subcommittee Meeting

The Health and Human Services Appropriations Subcommittee met the week of February 2 and conducted the following business:

- On February 3, Mary Nelson and Wendy Rickman, Department of Human Services (DHS), provided an overview of Child and Family Services and information regarding the status of the Child Welfare Redesign.
- On February 4, information on the federal Medicare Prescription Drug Bill was provided as follows:
 - LSA staff provided an overview of the federal legislation and the impact for the State.
 - Karla Fultz McHenry, Iowa Medical Society, provided the impact for Iowa physicians.
 - Greg Boattenhamer, Iowa Hospital Association, provided the impact for Iowa hospitals.

More Information

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JUSTICE SYSTEM APPROPRIATIONS SUBCOMMITTEE MEETING

Subcommittee Meeting

The Justice System Subcommittee met on February 3 and 4. On February 3, the following was discussed:

- Ellen Gordon, Department of Homeland Security and Emergency Management Division, discussed the receipt of federal funds and how the money is allocated to Iowa counties.
- Tom Becker, State Public Defender, also spoke to the Committee regarding an efficiency report required by SF 439 (FY 2004 Justice System Appropriations Act).

Public Safety

Commissioner Kevin Techau, Department of Public Safety (DPS), presented information to the Subcommittee on February 4 regarding:

- An overview of DPS functions.
- Impact of the previous years' budget reductions.
- An overview of State Trooper functions.

More Information

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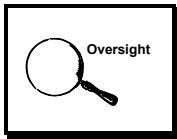
GOVERNMENT OVERSIGHT COMMITTEE MEETING

Committee Meetings

The Government Oversight Committee met on February 3 and 4 and conducted the following business:

Property Taxes

The Committee discussed the effects of changes in property tax valuation on agricultural land productivity formulas, property tax credits, and available funding for various entities. Presenters included:



- Representative Kurtenbach provided an update of the Property Tax Limitation Committee's activities.
- Dick Stradley, Department of Revenue, provided the Committee with an overview of the property tax assessment process and information on land valuations.
- Joe Johnson, Iowa Farm Bureau Federation, discussed the Bureau's position regarding agriculture land values and the effects changes in property tax assessment formulas could have on rural Iowa.
- Matt Caswell, Iowa Soybean Association, provided comments that supported the Farm Bureau's position.
- Stacey Johnson, Iowa Taxpayers Association, stated that the current property tax assessment process needs improvement to be more equitable among the various classifications of property.
- John Easter and Jay Syverson, Iowa State Association of Counties (ISAC), provided an overview and historical analysis of how property valuation and tax assessments have impacted the ability of many counties to maintain current services.
- Mike Wentzien, Iowa Association of County Supervisors, discussed how the impact of lower agricultural land values has affected the revenues of 1,600 townships.
- Susan Judkins, Iowa League of Cities, discussed the impact of shifting property taxes from agricultural to residential and commercial. The League recommends the floor for residential valuation rollbacks be no less than 50.0% and the capitalization rate increase from 5.0% to 6.0%.
- Gene Gardner, Iowa Association of Trustees, and Steve Ovel, Kirkwood Community College, provided an overview of the funding sources available for community colleges. Concerns were expressed that tuition has become the main funding source and that State Aid has been reduced due in part to the changes in property valuations and property assessed for tax purposes.
- Margaret Buckton and Larry Sigel, Iowa Association of School Boards, discussed school district funding and the implications property valuations and assessments have on these revenues. It was noted that school districts have the authority to increase property tax levies to make up shortfalls in State Aid.
- Jim Wise, Urban Network, and Eric Witherspoon, Superintendent of Des Moines Public Schools, discussed the implications of property tax valuations on larger school districts. It was noted that 70.0% of the Iowa students live in lower



property valued school districts. The immediate need for tax revenue equalization and guarantees among all school districts was also expressed.

More Information

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http://staffweb.legis.state.ia.us/lfb/legis_committees.htm

Nelson (Ext. 25822)

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SENATE PASSES BIRTH CERTIFICATE REGISTRATION FEES BILL – SF 2059

Birth Certificate Fees

The Senate passed SF 2059 (Birth Certificate Registration Fees Bill) on February 3. The Bill appropriates fees from the registration of birth certificates to primary and secondary child abuse prevention programs and the Birth Defects Institute Central Registry.

Vital Statistics



The fees are collected by the Bureau of Vital Statistics, Department of Public Health, and are deposited into the General Fund. The current registration fee is \$15.00 and fees are collected for an estimated 24,000 births each year. Effective in FY 2006, the fee will be raised to \$20.00, as required by Section 144.13A(1)(b), Code of Iowa.

Fee Appropriation

The Bill appropriates \$10.00 of the \$15.00 fee for primary and secondary child abuse prevention programs and \$5.00 for the Birth Defects Institute Central Registry in both FY 2004 and FY 2005.

Fee Increase

Beginning in FY 2006, the Bill appropriates \$10.00 of the \$20.00 fee for primary and secondary child abuse prevention programs and \$10.00 for the Birth Defects Institute Central Registry.

Fiscal Impact

It is estimated that \$360,000 in fees will be collected in both FY 2004 and FY 2005, and \$480,000 in FY 2006. The table below shows how the fees will be

	Birth Registration Fees		
	FY 2004	FY 2005	FY 2006
Revenue			
Fees	\$ 360,000	\$ 360,000	\$ 480,000
Distribution			
Child Abuse Prevention	\$ 240,000	\$ 240,000	\$ 240,000
Birth Defects Institute	120,000	120,000	240,000
Total	\$ 360,000	\$ 360,000	\$ 480,000

distributed.

NOBA Information

The Notes on Bills and Amendments (NOBA) for SF 2059 is available on the LSA web site at: <http://www3.legis.state.ia.us/noba/index.jsp>.

STAFF CONTACT: Lisa Burk (Ext. 17942)

STATE TAXABLE VALUATION ESTIMATE FOR SCHOOL AID REVISED

Taxable Property

The Department of Management has revised the estimated taxable property valuation from \$101.6 billion to \$98.7 billion, a decrease of \$3.0 billion. The new estimate reflects a decrease of 2.9% in 2003 property valuations, rather than the 2.0% decrease used for earlier estimates. The 2003 property valuations are the basis for FY 2005 State Aid calculations for local school districts. The taxable valuations are expected to be finalized by May 2004.

Fiscal Impact



The revision for taxable valuations reduces the amount that the Uniform Levy contributes to the State Aid Formula and increases the State Aid paid from the General Fund by a corresponding amount. With this revision and allowable growth for FY 2005 at 2.0%, FY 2005 State Aid is estimated to be \$1,893.2 million, an increase of \$121.0 million compared to FY 2004 after the across-the-board reduction. The new estimate shows the cost in State Aid to be \$5.1 million more than previously estimated.

More Information

Additional information is available from the LSA upon request.

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MEDICAL ASSISTANCE ADVISORY COUNCIL MEETING

Advisory Council



The Medical Assistance Advisory Council (MAAC) met on February 4. The Council elected Jerry Karbeling as Chairman and Mark Pelton as Vice-Chairman. In addition, updates were provided regarding Medicaid enrollment and expenditures, the Preferred Drug List, and the Medicaid Enterprise (the Request for Proposals for the new fiscal agent contract). The Council also discussed rules for quorum requirements.

More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Jennifer Vermeer (Ext. 14611)

DEPARTMENT OF PUBLIC HEALTH – REQUIRED REPORTS

Required Reports



The Department of Public Health has completed the following required reports, which may be accessed on the Department's web site at: http://www.idph.state.ia.us/resources_legmand.asp.

- Child Death Review Team Annual Report, pursuant to Section 135.43, Code of Iowa.
- Obstetrical Care Access Annual Report as pursuant to Section 135.11(19), Code of Iowa.
- Organ Procurement Annual Report pursuant to Section 142C.17, Code of Iowa.
- Substance Abuse Treatment Program Success Rates as required by HF 685 (FY 2004 Healthy Iowans Tobacco Trust Appropriations Act).
- Tobacco Use and Prevention Progress Report pursuant to Section 142A.4(12), Code of Iowa.

More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Lisa Burk (Ext. 17942)

**UPDATE ON FEDERAL CHILD AND FAMILY SERVICES
REVIEW – PROGRAM IMPROVEMENT PLAN****Family Services**

The Department of Human Services (DHS) submitted the required Child and Family Services Program Improvement Plan to the federal Administration for Children and Families on January 20. The Plan provides performance goals, action steps, benchmarks, timeframes, and descriptions for measuring progress in the areas where the State was found not to be in substantial conformity during the federal review conducted in May 2003.

Federal Review

The Review focused on two primary areas, including outcome measures that ensure results in safety, permanency, and well-being of at-risk children and families, and systemic measures, such as the State's computer infrastructure system, staff training, and recruitment of foster and adoptive parents, which impact the State's ability to deliver services.

Report Copies

Copies of the federal review and the Program Improvement Plan may be accessed on the DHS web site at:

<http://www.dhs.state.ia.us/Publications/IACFSR%20Final%20Report.doc>

Impact to State

The Program Improvement Plan must be approved by the federal Administration for Children and Families. It is not known when the DHS will be informed regarding the status of approval, but negotiations regarding the Plan are underway. The State will have two years to implement the Plan and will be reevaluated at that time.

Fiscal Impact

The State could lose up to \$662,000 in federal funds due to the non-conformity findings; however, the withholding of funds is suspended during the implementation of the approved Program Implementation Plan. If the State is successful in correcting any of the areas of non-conformity, either through successful completion of the Program Improvement Plan or through a subsequent federal review, the withholding of funds will be rescinded in those areas.

More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Lisa Burk (Ext. 17942)

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