

# FISCAL UPDATE

August 24, 2005

## Legislative Services Agency

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

### COMMUNITY COLLEGE TUITIONS AND FEES

#### FY 2006 Tuition Report



The Department of Education released the annual Community College Tuition and Fees Report for FY 2006. Tuition rates for FY 2006 at Iowa's 15 community colleges have increased an average of 5.9% compared to the previous year, while student fees have remained stable on average. The Tuition and Fees Report notes the average annual full-time tuition at Iowa's community colleges has increased 77.4% since FY 1997. The table below compares FY 2005 and FY 2006 tuition rates and fees by college.

#### Iowa Community College Tuition Increases 2005-2006 Academic Year Annual Tuition (based on 15 hours per term)



College	FY 2005 Resident	FY 2006 Resident	Percent Change	FY 2005 Fees	FY 2006 Fees	Percent Change
Northeast Iowa	\$2,376.00	\$2,520.00	6.06%	\$312.00	\$312.00	0.00%
North Iowa Area	2,124.00	2,232.00	5.08%	271.20	278.40	2.65%
Iowa Lakes	2,304.00	2,472.00	7.29%	350.00	350.00	0.00%
Northwest Iowa	2,208.00	2,376.00	7.61%	420.00	456.00	8.57%
Iowa Central	2,088.00	2,232.00	6.90%	240.00	240.00	0.00%
Iowa Valley-MCC	2,280.00	2,424.00	6.32%	528.00	528.00	0.00%
Iowa Valley-ECC	2,280.00	2,424.00	6.32%	540.00	540.00	0.00%
Hawkeye	2,232.00	2,352.00	5.38%	240.00	252.00	5.00%
Eastern Iowa	2,040.00	2,160.00	5.88%	0.00	0.00	0.00%
Kirkwood	2,136.00	2,280.00	6.74%	0.00	0.00	0.00%
Des Moines Area	2,169.60	2,280.00	5.09%	0.00	0.00	0.00%
Western Iowa Tech	2,160.00	2,232.00	3.33%	360.00	360.00	0.00%
Iowa Western	2,328.00	2,400.00	3.09%	240.00	240.00	0.00%
Southwestern	2,184.00	2,328.00	6.59%	288.00	288.00	0.00%
Indian Hills	2,184.00	2,376.00	8.79%	60.00	0.00	-100.00%
Southeastern	2,232.00	2,328.00	4.30%	0.00	0.00	0.00%
<b>Averages</b>	<b>\$2,355.04</b>	<b>\$2,494.40</b>	<b>5.92%</b>	<b>\$240.58</b>	<b>\$240.28</b>	<b>-0.12%</b>

Source: Department of Education

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**National Comparisons**

*The Chronicle of Higher Education* cited the FY 2004 average tuition rate at Iowa's community colleges as 73.0% above the national average. Iowa had the third highest tuition rate when compared to seven surrounding states, behind South Dakota and Minnesota.

**More Information**

The Tuition and Fees Report will be updated in November, when data on tuition as a percentage of revenue will be available. Additional information is available from the LSA upon request.

STAFF CONTACT: Robin Madison (Ext. 15270)

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

**Medicaid Estimates**



Staff members from the Department of Management, the Department of Human Services (DHS), and the Fiscal Services Division of the LSA met on August 8 to discuss estimated expenditures for the Medical Assistance (Medicaid) Program for FY 2005 and FY 2006. The three staffs meet monthly to discuss estimated expenditures for the current fiscal year and to agree on a range for expenditures.

**FY 2005**

Senate File 342 (FY 2005 Supplemental Appropriations Act) included a supplemental appropriation of \$70.0 million for Medicaid for FY 2005. The estimated range for FY 2005 is a deficit of \$3.0 million to a surplus of \$3.0 million. This is the same as the previous range. The completed data sets needed for analysis were not yet available to result in any changes to the range at the meeting. The three staffs will meet again on August 26 to again review the July payments and consider August payments based on June provider claims, which may adjust the FY 2005 range. As the fiscal year comes to a close, each set of Medicaid payments changes the year-end estimate as the margin for error decreases.

**FY 2006**



House File 825 (FY 2006 Health and Human Services Appropriations Act) included total State funding of \$704.4 million for Medicaid for FY 2006. It was discussed during the 2005 Legislative Session that this level of funding is not likely to fully fund Medicaid and a shortfall is anticipated. The three staffs agreed to an estimated shortfall range of \$30.0 million to \$45.0 million for FY 2006. This is no change from the previous range. The shortfall estimate includes the following assumptions:

- Enrollment growth of 5.0% to 6.4%. The FY 2006 appropriation is based on a 3.5% enrollment growth. This difference results in increased expenditures between \$10.0 million and \$20.0 million. Enrollment growth was 5.8% for FY 2005. Enrollment into the IowaCares Program and the federal Medicare Part D Prescription Drug Program may increase Medicaid enrollment.
- An estimated net cost of \$12.4 million due to provisions included in HF 841 (IowaCares Medicaid Reform Act).
- A shortage of \$6.4 million due to the FY 2005 supplemental not being fully incorporated into the FY 2006 appropriation.
- Items where savings were assumed but the corresponding statutory changes were eliminated totaled \$3.1 million, including \$1.0 million for Pay and Chase, \$101,000 for a technical adjustment, and \$2.0 million for a reduction in HF 882 (FY 2006 Standing Appropriations Act).

### Waiver Waiting Lists



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

The DHS has initiated the process for providing waiver services for those who have been on the waiting list. In January 2005, it was estimated that \$6.0 million was needed to eliminate the waiting lists as of that time. Since the waiting lists may have increased, or costs may have changed, the \$6.0 million may not fully eliminate waiting lists. In addition, the intent was not that waiting lists be eliminated in total going forward. The \$6.0 million will be used to add as many as possible; then, as new people become eligible, they will be added to the waiting list.

### Other Issues

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

In addition, payments to the Iowa Veterans Home are required to be adjusted due to enacted federal legislation, effective November 2004. This was not included in the FY 2005 estimated range or the FY 2006 appropriation.

Other minor unanticipated costs and unplanned revenues may also be determined prior to the FY 2005 mid-September expenditure finalization. It has been discussed that if there is a surplus in FY 2005, the DHS may commit the surplus to pay as much as possible of the amounts owed in order to reduce the obligation in FY 2006.

### More Information

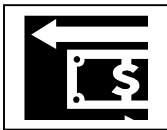
Additional information is available from the LSA upon request.

STAFF CONTACT: Sue Lerdal (Ext. 17794)

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## **NOTICE OF APPROPRIATIONS TRANSFERS TO THE DEPARTMENT OF INSPECTIONS AND APPEALS, IOWA LAW ENFORCEMENT ACADEMY, AND CIVIL RIGHTS COMMISSION**

### Appropriations Transfers



The Fiscal Services Division of the LSA has been notified that up to \$2.5 million will be transferred pursuant to Section 8.39, Code of Iowa, to the Department of Inspections and Appeals, Indigent Defense Program, for FY 2005 due to an increase in the number of indigent cases and claims. The Program reimburses private attorneys for providing legal counsel to indigent people accused of committing a crime.

In addition, up to \$50,000 will be transferred to the Iowa Law Enforcement Academy (ILEA) due to lower than expected attendance and reimbursements at the basic level law enforcement training academy in FY 2005. Also, up to

\$78,000 will be transferred to the Civil Rights Commission due to an unexpected reduction in federal reimbursements in FY 2005.

**Transfer From**

The funds will be transferred from the College Student Aid Commission; Department for the Blind; the Departments of Administrative Services, Commerce, Corrections, Cultural Affairs, Economic Development, Education, Elder Affairs, Human Rights, Human Services, Inspections and Appeals, Management, Natural Resources, Public Defense, Public Safety, Revenue, Transportation, Veterans Affairs, and Workforce Development; the Governor's Office of Drug Control Policy; and the Parole Board.

The specific transfer amounts will be determined when all other financial transactions have been completed at the end of the fiscal year.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Jennifer Acton (Ext. 17846)

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**FY 2006 JUDICIAL BRANCH GENERAL FUND OPERATING BUDGET**

**2006 Judicial Budget**

The Judicial Branch received a General Fund appropriation of \$120.5 million for FY 2006, an increase of \$420,000 and 15.0 FTE positions compared to estimated net FY 2005. In addition, HF 826 (Speed Limit Act) increased simple misdemeanor court costs from \$17 to \$30 and allowed the Judicial Branch to retain the estimated \$7.0 million in increased revenues for operations. The Judicial Branch also received \$4.9 million for salary adjustment in HF 881 (FY 2006 Salary Act).

**Budget Highlights**



The following highlights the Judicial Branch's spending plan for the overall increase in the FY 2006 General Fund operating budget:

- An increase of \$320,000 to partially fund 15.0 new Magistrate FTE positions. The remaining amount will be paid from existing funds.
- An increase of \$100,000 to fund a Youth Enrichment Pilot Project in the Fifth Judicial District.
- An increase of \$4.9 million for salary adjustment to provide 4.5% step increases on the eligibility date for exempt pay plan (non-contract covered) employees.
- Funds new District Associate Judgeships (including court reporter and court attendant positions) for Story, Dallas, and Warren Counties, effective October 1, 2005.
- Funds additional staff for the Clerks of Court offices in Districts Four and Five, additional District Court Administration staff for District Four, and additional Court Attendant positions with new funds and/or the reallocation of existing positions from other components in the Judicial Districts.
- Increases the mileage reimbursement rate from \$0.29 to \$0.35 per mile, effective July 1, 2005.
- Restores out-of-state travel and allows the restoration of regular travel rotations for Judicial Offices and Juvenile Court Officers.



- Funds the education and training budget to begin the implementation of the new Judicial Branch education and training program.
- Funds the Iowa Court Information System (ICIS) project to provide a statewide program for e-mailing orders and administrative notices.
- Funds an additional staff attorney for the Court of Appeals.
- Funds Judicial Branch building operations.
- Transfers a portion of the ICIS operating expenses back into the General Fund budget.
- Funds the Child Support Referee Pilot Project.

#### More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Jennifer Acton (Ext. 17846)

### SEX OFFENDER REGISTRY UPDATE

#### Sex Offender Registration

A sex offender is required to register with the Department of Public Safety (DPS) on the Sex Offender Registry for a period of 10 years unless the person was convicted of an offense that requires lifetime registration. The Registry was created and implemented in 1995 and the first group of eligible registered offenders was required to be removed as of July 1, 2005.

#### Registry Review

The DPS reviewed 2,000 cases of registered offenders convicted prior to July 1, 1995, and removed 641 from the Registry. As of August 1, there were 6,004 registered sex offenders in Iowa, and the DPS anticipates approximately 20 to 25 offenders being removed from the Registry each month.

#### More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Jennifer Acton (Ext. 17846)

### FEDERAL TRANSPORTATION FUNDS FOR IOWA COLLEGES

#### Federal Funds



President Bush recently signed a six-year \$286.4 billion Transportation Bill (HR 3) that returns federal gas tax revenue to the states for road construction projects. The Act provides approximately \$500.0 million for special projects at colleges and universities. The funds designated for Iowa colleges include:

- Drake University - \$1.5 million for street improvements.
- Iowa State University - \$10.0 million for the Center for Portland Cement Concrete Pavement Technology.
- University of Iowa - \$16.5 million for a field test of onboard computer assessment of highway-user fees.
- University of Northern Iowa - \$1.0 million for construction of and equipment for the Native Roadside Vegetation Enhancement Center.

**Lobbying Expenses**

According to *The Chronicle for Higher Education*, academic institutions have significantly increased funds spent on lobbying for transportation funds. Nationally, the funds spent on lobbying increased from \$23.4 million in 1998 to \$61.7 million in 2003. During the same period, the number of institutions employing lobbyists increased from 240 to 558.

**More Information**

Additional information is available from the Legislative Services Agency (LSA) upon request.

STAFF CONTACT: Mary Shipman (Ext. 14617)

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**FEDERAL REAL ID ACT – DRIVERS' LICENSE PROVISIONS  
IN THE EMERGENCY SUPPLEMENTAL ACT OF 2005**

**Federal Leg. Signed**

The President signed the 2005 Emergency Supplemental Appropriations for Defense, the Global War on Terror, and Tsunami Relief Act on May 11.

**REAL ID Act**



The Act contains several immigration-related provisions, including the REAL ID Act, which establishes numerous requirements for the issuance of drivers' licenses and identification cards. Prior to being issued a driver's license or identification card, persons are required to present the following:

- Photo ID (or non-photo ID if it includes both the person's full legal name and date of birth).
- Documentation showing the person's date of birth.
- Proof of the person's social security number or verification that the person is not eligible for a social security number.
- Documentation verifying the person's name and address.

**Federal Standards**

In addition, states are required to adopt numerous standards, including, but not limited to, the following:

- Employ technology to capture digital images of identity source documents.
- Confirm social security numbers with the federal Social Security Administration.
- Ensure the physical security of locations where drivers' licenses and identification cards are produced, as well as the security of document materials and papers from which drivers' licenses and identification cards are produced.
- Subject all persons authorized to manufacture or produce drivers' licenses and identification cards to appropriate security clearance requirements.
- Establish fraudulent document recognition training programs for appropriate employees engaged in the issuance of drivers' licenses and identification cards.
- Provide electronic access to information contained in the State's motor vehicle database to all other states.



**Implementation**

States have until May 11, 2008, to implement the REAL ID Act. After this, federal agencies will no longer accept a driver's license or identification card that does not meet requirements of the Act. Numerous states have expressed concern regarding implementation costs. Many of the Act's requirements were implemented in Iowa prior to enactment; however, it is

unknown if current practices are sufficient to meet requirements. It is also unknown how the various security measures specified in the Act will be implemented.

**Fiscal Impact**

The Department of Transportation will not know the fiscal impact of implementing the driver's license requirements of the REAL ID Act until federal regulations are released that specify details.

**More Information**

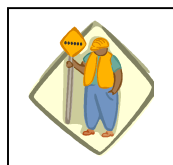
Additional information is available from the LSA upon request.

STAFF CONTACT: Mary Beth Mellick (Ext. 18223)

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**DEPARTMENT OF TRANSPORTATION COMMISSION  
APPROVES FY 2006 HIGHWAY PROGRAM**

**FY 2006 Highway Program**



The Department of Transportation (DOT) Commission approved \$489.3 million for the FY 2006 Highway Program on June 7, which includes the following projects:

- \$77.9 million for paving and bridge replacement along the east and west I-35/I-80 interchanges in Des Moines.
- \$35.0 million for Statewide consultant services.
- \$22.8 million for construction of the Le Mars bypass.
- \$21.0 million for construction of the Sheldon bypass.
- \$20.7 million for construction of the Fairfield bypass.
- \$17.3 million for construction of the Sibley bypass.
- \$16.0 million for Statewide contract maintenance.

**Five-Year Plan**

Prior to FY 2004, the DOT released an annual five-year plan for highway spending based on the allocations specified in the six-year reauthorization of the federal highway bill. The previous authorization (Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21)) was enacted June 9, 1998, for FY 1998 through FY 2003 and was extended 12 times over 22 months before reauthorization on August 10, 2005. Due to the uncertainty of future funding levels over the past two years, the DOT developed one-year plans for FY 2005 and FY 2006 instead of a five-year plan. As a result of the recent reauthorization, however, the DOT is able to develop a five-year plan for FY 2006 through FY 2010 and anticipates the plan's release within the next 90 days.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Mary Beth Mellick (Ext. 18223)

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## YEAR-END ROAD USE TAX FUND RECEIPTS

### RUTF Receipts



Road Use Tax Fund receipts increased by \$4.9 million (0.5%) in FY 2005 compared to FY 2004. In comparing actual versus projected receipts for FY 2005, actual receipts were \$14.5 million (1.3%) lower than the Department of Transportation's (DOT's) projection. Increases to the Fund were not significant, but were due to increases in motor vehicle use taxes, motor vehicle fuel taxes, vehicle registrations and titles, underground storage tank fees, and interest. Drivers' license fees and miscellaneous revenues decreased.

### Motor Vehicle Use Tax

Motor vehicle use tax receipts for FY 2005 increased by less than 0.1%, for a total increase of \$102,000 compared to FY 2004. Fluctuations in use tax are primarily attributed to new vehicle sales; however, new-vehicle sales data for FY 2005 is unavailable due to the implementation of a new program at the DOT.

### Motor Vehicle Fuel Tax



Motor vehicle fuel tax revenues for FY 2005 increased \$10.0 million (2.4%) compared to FY 2004. The increase is primarily due to a 1.3% increase in fuel consumption compared to FY 2004. Although fuel consumption has increased over the past year, the growth rate in fuel tax revenues was modest and mainly due to the increase in the market share of ethanol. The sale of ethanol-blended gasoline increased 11.3% in FY 2005 compared to FY 2004, while gasoline sales decreased 16.1%. As a result, the market share of ethanol increased from 63.5% in FY 2004 to 69.8% in FY 2005. Since ethanol was taxed at 1.5 cents less per gallon than gasoline in FY 2005, increasing the market share of ethanol decreased fuel tax collections. For FY 2006, ethanol is taxed at 1.7 cents less per gallon than gasoline.

### Driver's License Fees

Drivers' license fees for FY 2005 decreased \$4.6 million (24.3%) compared to FY 2004. The decrease is primarily due to the normal license issuance cycle but may also be attributed to the \$2.00 reimbursement increase to county treasurers for each driver's license and identification card issued, effective in FY 2005.

### Interest

Interest income to the Fund increased 14.3% in FY 2005 compared to FY 2004. The increase is primarily due to an increase in pooled interest rates. The average pooled interest rate in FY 2004 was 2.1%, while the average rate in FY 2005 was 2.6%.

### Other Revenues



Other revenues experienced a decrease of \$6.7 million (41.1%) in FY 2005 compared to FY 2004. Increases included reciprocity fees (74.8%), waste tire management fees (46.1%), motor vehicle dealer licenses (33.7%), and miscellaneous fees and permits (29.0%). The increases were offset by a decrease of \$7.4 million for payment of unpaid overtime wages resulting from the Supreme Court case *Raper v. State of Iowa*. Changes in other revenue sources were relatively insignificant in terms of total dollar changes.

### FY 2005 vs. FY 2004

The following table compares actual Road Use Tax Fund receipts by revenue type for FY 2004 and FY 2005. Of the total revenues, 47.5% is allocated to the Primary Road Fund, 32.5% to Secondary and Farm-to-Market Road Funds, and 20.0% to the Municipal Road Fund. Of the 47.5% allocated to the Primary Road Fund, 1.75% is transferred to a Transfer of Jurisdiction



Fund and allocated to cities and counties that assume jurisdiction of certain roads.

**Road Use Tax Fund Receipts**  
**Year End**

(Dollars in Millions)

	Actual FY 2004	Actual FY 2005	FY 2005 vs. FY 2004	Percent Change
Motor Vehicle Use Tax	\$ 224.4	\$ 224.5	\$ 0.1	0.0%
Motor Vehicle Fuel Tax	420.1	430.1	10.0	2.4%
Registration/Title Fees & Misc.	376.8	381.8	5.0	1.3%
Underground Tank Fees	20.6	21.0	0.4	1.9%
Driver's License Fees	18.9	14.3	-4.6	-24.3%
Interest	4.9	5.6	0.7	14.3%
Other	16.3	9.6	-6.7	-41.1%
<b>Total Receipts</b>	<b>\$ 1,082.0</b>	<b>\$ 1,086.9</b>	<b>\$ 4.9</b>	<b>0.5%</b>



**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Mary Beth Mellick (Ext. 18223)

**PRESIDENT SIGNS SAFE, ACCOUNTABLE, FLEXIBLE, AND EFFICIENT TRANSPORTATION EQUITY ACT**

**Reauthorization**



The President signed the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) on August 10. The Act is a six-year reauthorization of federal highway and transit programs and provides \$476.4 million in guaranteed spending for Iowa's transportation programs over six years. The following table is a summary of projects and allocations for Iowa:

**Federal Highway Act (SAFETEA-LU)**

**Summary of Iowa Earmarks**

(Dollars in Millions)

State Primary System	\$ 283.4
Local Streets and Highways	90.4
Transit	20.0
Rail	5.0
Trails	37.8
Scenic Byways	7.7
University Research	27.5
Historic Resources	4.6
<b>Total</b>	<b>\$ 476.4</b>

**More Information**

Additional information, including a complete list of Iowa's projects, is available from the LSA upon request.

STAFF CONTACT: Mary Beth Mellick (Ext. 18223)

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## AUDIT REPORT – DEPARTMENT OF INSPECTIONS AND APPEALS

### Audit Report

The LSA received a copy of the State Auditor's FY 2004 Audit Report for the Department of Inspections and Appeals. The Report included one finding related to cash management, and the Department's response to the finding was accepted by the Auditor.

### Cash Management



The Department operates several programs paid for with a combination of State and federal dollars. In several instances during FY 2004, federal funds were received from eight to 46 days after disbursement of State funds. Effective cash management procedures minimize the amount of time between the draw down (request for federal funds) and the disbursement of funds. Additionally, the amount of State funds used to operate a program until federal funds are received is minimized.

### Recommendation

The Auditor recommended the Department establish procedures to ensure federal funds are requested and received in a timely manner in order to minimize the amount of State funds used to operate programs.

### Response

The Department acknowledged that some requests for federal funds were not processed in a timely manner; however, half of the incidences cited were due to the implementation of the new State accounting system. Additionally, several requests were sent through the Department of Human Services, which was having similar problems with the new system. The functionality of the system has improved; however, seasonal workload priorities and unplanned staff absences could result in the delay of some federal fund draws in the future.

### More Information

A copy of the Audit Report is available from the LSA upon request.

STAFF CONTACT: Douglas Wulf (Ext. 13250)

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## AUDIT REPORT – DEPARTMENT OF AGRICULTURE AND LAND STEWARDSHIP

### Audit Report

The LSA received a copy of the State Auditor's FY 2004 Audit Report for the Department of Agriculture and Land Stewardship. The Report included the following findings:

### Internal Control



The Department collects fees and other receipts and records them on the Report of Funds Received Form. One person receives, records, and deposits the fees. There is no independent reconciliation to ensure the amount received is the amount deposited.

- **Recommendation** – The Department should establish procedures for the deposited fees to ensure all fees received are deposited.
- **Response** – The Department established new procedures to validate the fees received. An independent review of the receipts is also completed by the Accounting Bureau Chief.
- **Conclusion** – Response accepted.

**Statutory Findings**

Other findings related to statutory requirements included:

- State Apiarist – Section 160.1, Code of Iowa, requires the Secretary of Agriculture to appoint a State Apiarist. This position was eliminated in December 2001.
- Soil Conservation Loans – Section 161A.71, Code of Iowa, allows the Department to extend no-interest loans for permanent soil conservation practices and specifies that interest should be charged on delinquent loans. The Department is not charging interest on loans that are delinquent.
- Board of Veterinary Medicine Report – Section 169.5(7), Code of Iowa, requires the Board of Veterinary Medicine to submit an annual report to the Governor. The Report has not been submitted.
- Examinations – Section 200A.10, Code of Iowa, requires the Department to examine bulk dry animal nutrient products distributed in the State. The Department does not conduct these examinations.
- Licensed Grain Dealers – Section 203.9, Code of Iowa, requires the Department to inspect every licensed grain dealer and warehouse every 18 months. Twenty-six of the 238 licensed grain dealers and 51 of 243 licensed warehouses were not inspected.
- Department Tests – Section 214A.6, Code of Iowa, states the Department will test samples of motor vehicle fuel or oxygenate octane enhancer for a fee of \$2.00. The Department does not complete these tests.
- Iowa Economic Board Meetings – The Secretary of Agriculture's designee did not attend all of the monthly board meetings held by the Iowa Economic Board.

**Grain Indemnity Fund**

Grain Indemnity Funds were used to purchase three clocks to honor three retirees. The Auditor recommended that the Grain Indemnity Board document these types of purchases in meeting minutes to demonstrate that the purchases are approved.

**Surety Bonds**

A surety bond is required for mining reclamation projects. The surety bond database had not been updated to reflect the most recent activity.

**Service Contracts**

Service contracts executed by the Department were reviewed and there were 12 exceptions noted that did not meet the general guideline requirements as specified by the Department of Administrative Services.

**More Information**

A copy of the Audit Report is available from the LSA upon request.

STAFF CONTACT: Debra Kozel (Ext. 16767)

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**AUDIT REPORT – DEPARTMENT OF ELDER AFFAIRS**
**Audit Report**

The LSA received a copy of the State Auditor's FY 2004 report on the Department of Elder Affairs. The Report cites one finding related to internal control over the review of subrecipient audit reports.

**Audit Finding**



The Department is required by federal law to develop and maintain a subrecipient monitoring system under which subrecipient audit reports are reviewed in a timely manner to ensure that appropriate corrective action is taken within six months after an audit indicates non-compliance. The Auditor found that the Department had not reviewed these audit reports since FY 2002.

**Recommendation**

The Auditor recommended that the Department develop and implement procedures to ensure the timely review of these reports. The Department agreed to improve this process by logging subrecipient audit reports and monitoring the system to ensure timely review. The response was accepted by the Auditor.

**More Information**

A copy of the Audit Report is available from the LSA upon request.

STAFF CONTACT: Lisa Burk (Ext. 17942)

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**AUDIT REPORT – DEPARTMENT OF TRANSPORTATION**

**Audit Report**

The LSA received a copy of the State Auditor's FY 2004 report on the Department of Transportation. The Report cites several findings related to internal control and statutory requirements.

**Internal Control**



The Report includes the following recommendations, and the Auditor accepted the Department's responses for each recommendation:

- The Department should implement procedures to ensure restrictive endorsements are placed on checks immediately upon receipt instead of just prior to deposit.
- The Department should strengthen the receipts control process in the Office of Vehicle Services by preparing a receipt log that can be used in reconciling money received with applications processed and receipts deposited or entered into the cash drawer system.
- Field offices of the Office of Driver Services should review operating procedures to obtain the maximum internal control possible under the circumstances (including a limited number of office staff). Also, employees should sign or initial and date each duty performed to identify the employee performing the task.
- The Department should ensure a supervisor reviews the quarterly report that lists equipment disposals. The review was not done on a regular basis in FY 2004.

**Statutory Compliance**

Before a Department and county enter into a transfer of jurisdiction agreement, Section 313.2, Code of Iowa, requires the intent to execute the agreement be published in the county's official newspaper. For one of five projects, the intent was not published in a local newspaper. The Auditor recommended ensuring compliance, and the Department agreed.

**More Information**

A copy of the Audit Report is available from the LSA upon request.

STAFF CONTACT: Mary Beth Mellick (Ext. 18223)

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**NATURAL RESOURCE COMMISSION MEETING****Commission Meeting**

The Natural Resource Commission met on August 10 in Algona. The Commission approved the FY 2006 Capital Plan, which is summarized in the table below.



Department of Natural Resources – FY 2006 Capitals Plan				
Funding Source	FY 2005 Remaining Funds	FY 2006 Appropriations	Total Federal and Other Funds	Total Funds Available
Fish & Wildlife Trust Fund	\$ 0	\$ 6,886,000	\$ 3,638,500	\$ 10,524,500
Destination Park	885,000	-	8,000,000	8,885,000
Iowa Values Fund	475,806	1,000,000	438,306	1,914,112
Parks & Inst. Roads	0	2,890,000	0	2,890,000
<b>Rebuild Iowa Infr. Fund (RIIF)</b>				
Lake/Stream Restoration	1,003,000	1,929,000	1,025,000	3,957,000
Marine Fuel Tax	2,284,500	2,300,000	2,375,000	6,959,500
REAP Acquisition	1,338,894	3,132,360	2,015,653	6,486,907
REAP Land Management	251,845	1,006,515	0	1,258,360
Ft. Atkinson Funds	0	500,000	0	500,000
Waubonsie State Park	0	1,500,000	0	1,500,000
Restore The Outdoors	86,000	0	0	86,000
Sewage Revolving Loan	658,193	0	0	658,193
<b>Total</b>	<b>\$ 6,983,238</b>	<b>\$ 21,143,875</b>	<b>\$ 17,492,459</b>	<b>\$ 45,619,572</b>

**Operations Budget**

Linda Hanson, Department of Natural Resources (DNR), discussed the FY 2007 budget process. The Department will be developing a budget using the Purchasing for Results method, and additional information will be available at next month's meeting.

**Land Acquisition**

The following land acquisitions were approved:

- A permanent conservation easement in Winneshiek County for \$21,000.
- A 31-acre tract of land for \$75,000 and a 255-acre tract of land for \$606,000 in Harrison County adjacent to the Loess Hills State Forest.
- A 35.5-acre tract of land in Ringgold County for \$64,000 near Fogle Lake.

**Notice of Intended Action**

The following Administrative Rules were approved for action at a future meeting:

- Termination of rule changes related to dock management and lease agreements.
- Changes related to camping and the reservation process at State Parks and Forests.
- Changes related to sport fishing that prohibits snagging fish in designated areas.
- Changes related to the taking of map turtles.
- Changes related to the regulation of mussels that close the commercial harvest of them in waters of the Mississippi River near Wisconsin.

**Final Rule Action**

The following Administrative Rules were approved for final action:

- Changes relating to boating speeds and distance zoning at Little River Lake in Decatur County.

- Changes on waterfowl and coot hunting seasons.
- Changes on falconry hunting regulations.

**Land Trade**

The Commission approved a land trade and easement agreement for land in Waubonsie State Park between the Department and Ryan Knapp. The agreement provides road access to the landowner.

**Marine Fuel Grants**

The Commission approved 15 Marine Fuel Tax Grant projects that will receive a total of \$366,000. There were 18 projects submitted for total funding of \$612,000.

**Wildlife Habitat Grants**

The Commission approved six projects that will receive \$875,000 in funding from the Wildlife Habitat With Local Entities Grant Program.

**Off-Highway Parks**

The Commission designated two off-highway vehicle parks, one in Marshalltown and one in Tama. These parks will be eligible to apply for All-Terrain Vehicle Cost Share Program funds.

**More Information**

The next meeting is scheduled for September 8 at Brushy Creek. For review of Commission agendas, minutes, and other related information, access the DNR web site at: <http://www.iowadnr.com/>.

STAFF CONTACT: Debra Kozel (Ext. 16767)

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**STATE SOIL CONSERVATION COMMITTEE MEETING**

**Committee Meeting**

The State Soil Conservation Committee met on August 4 in Des Moines.

**Watershed Fund**



Mike Franklin, Department of Agriculture and Land Stewardship (DALs), summarized FY 2006 funding requests for watershed projects, which receive funds from the Watershed Protection Fund, the Water Protection allocation from the Resource Enhancement and Protection Fund (REAP), and federal Section 319 funds. For existing projects that received funding in FY 2005, \$8.5 million was requested, with another \$3.0 million requested for new project applications. Unobligated funds available to fund these requests totaled \$2.2 million, resulting in a shortfall of \$9.4 million.

**Hungry Canyons**

John Thomas and Shirley Frederikson presented information on the Hungry Canyons Alliance and projects that have been completed. The Alliance focuses on projects that address severe loss of land and infrastructure due to stream channel erosion in a 22-county area of western Iowa. Landowners participate in cost share programs where 20.0% of a project is paid by the landowner and 80.0% is paid with cost share funds.

**Budget Request**



Patty Judge, Secretary of Agriculture, and Ken Tow, DALs, discussed the budget request for the Soil Conservation Division for FY 2007. The Committee approved the following:

- The Department is requesting new funding of \$421,000 from the General Fund and 10.0 FTE positions for FY 2007 for the following:
  - \$321,000 and 10.0 FTE positions for field technicians.
  - \$100,000 for a training initiative.

- The Department is requesting \$23.0 million from the Environment First Fund, an increase of \$10.0 million compared to FY 2006 for the following:
  - \$8.5 million for the Conservation Cost Share Program, an increase of \$3.0 million.
  - \$5.4 million for the Watershed Protection Program, an increase of \$2.7 million.
  - \$1.6 million for the Integrated Farm and Livestock Demo Program, an increase of \$750,000.
  - \$3.0 million for the Conservation Reserve Enhancement Program (CREP), an increase of \$1.5 million.
  - \$2.0 million for the District Operations and Initiative, which is no change in funding.
  - \$500,000 to close agriculture drainage wells, an increase of \$2.0 million.



### More Information

The next meeting is scheduled for September 1 in Des Moines. For more information about the State Soil Conservation Committee, access the web site at: <http://www.agriculture.state.ia.us/scccommittee.htm>

STAFF CONTACT: Debra Kozel (Ext. 16767)

## BOARD OF REGENTS MEETING

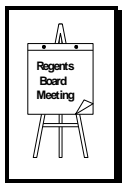
### Board Meeting

The Board of Regents met at the RiverCenter in Davenport on August 3-4. Significant agenda items included:

### Budgets

The Board gave final approval of detailed budgets for FY 2006. The total for operating budgets for all five institutions is \$3.3 billion (all funds) for FY 2006. Of this, approximately \$663.4 million (20.3%) is revenue from the General Fund and other fund appropriations.

### Presidents' Salaries



The Board approved the following salaries for University Presidents:

- \$308,000 for President Geoffrey (Iowa State University). This is a 5.0% increase compared to the current salary of \$290,000. The Board also approved contributing \$5,000 per month to a separate fund through June 2011 as a longevity bonus for Geoffrey if he stays through that time.
- \$302,000 for President Skorton (University of Iowa). This is a 3.0% increase compared to the current salary of \$293,000.
- \$243,000 for President Koob (University of Northern Iowa). This is a 5.0% increase compared to the current salary of \$232,000.

### Committee Reports

The Board received the following committee reports:

- Economic Development - The Committee members discussed use of Iowa Value Fund appropriations and strategies to provide evidence of successful use of the funds.
- Audit and Compliance - The Committee discussed the Claims and Activity Report, State of Iowa reports, and internal audits.

- Property and Facilities - The Committee discussed revising the policy for naming university buildings.

**Bond Resolutions**



The Board approved the following bond resolutions:

- Sale, award, and issuance of \$40.0 million of Athletic Facilities Revenue Bonds for the Kinnick Stadium Project at the University of Iowa. Of this, \$25.0 million will be double tax exempt.
- Preliminary authorization for \$15.0 million of academic revenue bonds for the University of Northern Iowa science buildings renovation project.
- Issuance of \$14.0 million of University of Iowa Facilities Corporation Revenue Bonds for the Old Capitol Town Center. The property consists of 68,000 gross square feet of condominium space located on two levels of the Old Capitol Mall.

**More Information**

The next meeting is scheduled for September 14-15 at the University of Northern Iowa in Cedar Falls. Additional information regarding the Board meeting, including the full text of agenda docket memos, is available at the Board's web site at:  
<http://www2.state.ia.us/regents/Meetings/DocketMemos/05Memos/aug05/aug05agendaitems.htm>

STAFF CONTACT: Mary Shipman (Ext. 14617)

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**STATE BOARD OF EDUCATION MEETING**

**Board Meeting**



The State Board of Education met on August 11-12 in Des Moines. The Board adopted administrative rules regarding unsafe school choice options and approved the notice of rules regarding open enrollment and teacher intern preparation. The Board gave continued approval or extended conditional approval to practitioner and leadership preparation programs at Ashford University, Simpson College, Northwest Missouri State University, and Viterbo University in Lacrosse, Wisconsin.

**Services for Blind Students**

Following a recommendation from the Iowa Braille and Sight Saving School Task Force, the Board approved the formation of a joint coordinating council with the Board of Regents to examine services for students who are blind or visually impaired. The Board of Regents has already agreed to formation of the council.

**FY 2007 Budget Request**

Department of Education staff presented information regarding the Purchasing Results process for submitting FY 2007 budget requests to the Governor. The Board and staff discussed budget priorities and potential "offers." It was noted that the community colleges will be requesting a 4.0% increase in general aid.

**Preschool Services**



Dean Ryerson, Superintendent, Wisconsin Rapids Public Schools, discussed Wisconsin's preschool program for four-year-olds. Wisconsin is one of four states that provides state funding for "4K" as part of its school funding formula. The 4K program is optional for school districts, and 25.0% of Wisconsin four-year-olds attend 4K in 50.0% of the state's school districts. School districts and nonpublic schools are permitted flexibility to design programs based on local needs and concerns. In the Wisconsin Rapids district, the 4K program consists of a standard curriculum taught by licensed



teachers in elementary schools, day care centers, preschools, churches, Head Start centers, and Montessori programs. Additional information is available from the Wisconsin Department of Public Instruction web site at: <http://www.dpi.state.wi.us/dpi/dltcl/bbfcsp/ec4yrpag.html> and at: <http://www.collaboratingpartners.com/4YearK.htm>.

### AEA Reorganization

The Board approved the reorganization plan for Area Education Agencies (AEAs) 4 and 12, as presented by Les Douma, Administrator for AEA 4. The plan calls for the newly combined AEA to begin operation July 1, 2006.

### Athletic Eligibility

The Board discussed the issue of athletic eligibility standards and, on a vote of 4-5, rejected a motion to increase the standard to require students to pass all classes. Under the current standard, students must pass a minimum of four classes with a grade of D-minus or better.

### Improving High Schools



The Board endorsed a document entitled, "Improving Rigor and Relevance in the High School Curriculum," developed by Department of Education staff. The document is available on the Department's web site at: <http://www.state.ia.us/educate/ootd/news/doc/rrhsc.html>.

A summary of information gathered from 85 high school review visits conducted by Director Judy Jeffrey throughout the State was also presented and discussed. The summary is available on the Department's web site at: <http://www.state.ia.us/educate/ootd/news/doc/hssummary05.pdf>.

The Board also reviewed an action plan for developing a model core curriculum as required by SF 245 (Model Core Curriculum Act), enacted during the 2005 Legislative Session.

### Community College Tuition

The Board received and discussed the Iowa Community Colleges Tuition and Fees Report for the 2005-2006 academic year. The average annual full-time tuition increased \$162 (5.9%) to \$2,916 from the previous year. Average fees charged equaled \$412 or 12.4% of the average tuition and fees combined. The Report will be revised in November, when updated information regarding tuition as a percentage of revenue becomes available. The Board also received an annual progress report on the Community College Five-Year Strategic Plan.

### Appeal Decision

The Board approved an administrative law judge decision to uphold a local school board's removal of the book The Misfits from the approved curriculum for grade six. The Board asked that the final decision include a statement clarifying that the Board was upholding the local board's authority to set curriculum but was not endorsing the decision itself.

### Technology Committee



The Board conducted a work session to review recommendations from the Technology Advisory Committee that was established by the Department in FY 2004. The recommendations represent the completion of the first phase of the Committee's work. The Board also received a brief overview of the second phase, which is the compilation and analysis of data collected from a random survey conducted in April and May of this year to determine the current status of educational technology in Iowa.

### Recommendations

The Committee's recommendations included updating the Code of Iowa in regard to the definition of educational technology and updating administrative

rules to require that all courses offered exclusively for K-12 credit must be taught by a licensed Iowa teacher. The Committee also recommended that the Code and administrative rules be amended so that only core courses required for graduation have to be offered in a face-to-face format. Current statute allows that classes may be offered at a distance but all classes must also be available to students in a face-to-face format.

The Committee recommended striking the current evaluation and reporting requirements related to telecommunications in Section 256.7(9), Code of Iowa, and in administrative rules, stating that the language is out of date. It is proposed that alternative data needs be identified as part of the second phase of the Committee's work, resulting in recommendations for evaluation and reporting.

The Committee chose to make no recommendations regarding supplemental weighting for classes taught via the Iowa Communications Network (ICN).

**More Information**

The next meeting is scheduled for September 15-16. Additional information is available from the LSA upon request.

STAFF CONTACT: Robin Madison (Ext. 15270)

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**PUBLIC BROADCASTING BOARD MEETING**

**Board Meeting**

The Iowa Public Broadcasting Board met August 10 at Iowa Public Television (IPTV) in Johnston. The Board elected officers for 2005-2006. B. J. Furgerson was re-elected President. Rob Hall was elected Vice President. In addition to routine business, IPTV staff described the FY 2007 budget process and presented proposals for new State funding.

**FY 2007 Budget Request**



In addition to base funding of \$7.6 million to maintain existing programming, Board members agreed to request an additional \$1.0 million in State funding for FY 2007 to fund the following proposals. Staff identified the first two as the agency's top priorities:

- \$371,000 for operation of four high-power digital transmitters that will come on-line this winter or next summer. The request includes 2.0 FTE positions, maintenance and supplies, and utilities for six months for one transmitter and 12 months for the other three. The FCC requires that completed digital transmitters be on-air, or IPTV may lose both the analog and digital licenses for the transmitters. Both digital and analog transmitters must be operated until the FCC's analog shut-off date, which is planned for 2009.
- \$247,000 for activities to support early literacy and child health awareness. The Department of Public Health will also be requesting \$35,000 in new funding for this effort. The funds will support Statewide activities to enhance the use of the Ready to Learn and Healthy Minutes programming by parents, educators, and child care providers. The funds could also support additional Healthy Minutes programming. The request includes 2.8 FTE positions, in-state travel, Iowa Communications Network (ICN) sessions, outreach, and evaluation.
- \$160,000 for the Life Long Learning Service to serve adults needing to improve their literacy or learning English as a second language and those seeking a GED or pursuing a college degree. The request includes 1.0 FTE position and acquisition of telecourses. The programming will build upon current efforts.



- \$210,000 for a combination of video production and related activities focusing on what local communities can do to improve high school programs and prepare students for post-secondary education and training. The request includes 2.8 FTE positions, travel, and contractual services.
- \$19,000 for an increase in Department of Administrative Services expenditures.
- \$32,000 for the Regional Telecommunications Councils to restore total funding to the FY 2004 level of \$1.3 million.

### Infrastructure Funding

The Board also agreed to request infrastructure funding of \$1.4 million for replacement of analog transmitters and \$315,000 for purchase and installation of an uninterruptible power supply.

### More Information

The next meeting is scheduled for October 12. Additional information is available from the LSA upon request.

STAFF CONTACT: Robin Madison (Ext. 15270)

## AUGUST COUNCIL ON HUMAN SERVICES MEETING

### Council Meeting

The Council on Human Services met via teleconference on August 10.

### Administrative Rules

The Council approved an administrative rule relating to changes in the Family Investment and PROMISE JOBS Programs that streamlines policies and procedures. The various changes are expected to result in a minimal net fiscal impact.

### Council Members' Update

Council members discussed the receipt of information regarding funding assistance for those with Phenylketonuria (PKU).

### Director's Report



Director Concannon, Department of Human Services (DHS), provided the following information:

- An update on the IowaCares Program - It is anticipated that there will be 14,500 enrollees in FY 2006. Currently, there are 5,300 enrolled. On August 11, at a meeting with the federal Centers for Medicare and Medicaid Services (CMS), the University of Iowa Hospitals and Clinics announced that transportation will be included as a service provided for those in need of care at the University.
- An update on the Medical Assistance Projections and Assessment Council - The first meeting will be held on August 31. The Council is statutorily required to review the IowaCares and the Medical Assistance (Medicaid) Programs.
- FY 2007 budget – The budget request format for the September meeting was explained.
- Visit to Maine - Grant funds will be used for judges and staff to visit Maine to review its child support modification nonlawyer process.
- Information on the federal 1115 waiver items not relating to the IowaCares Program, including implementation of maintaining electronic medical records. The DHS has interviewed various firms to gather further information.
- An update regarding the federal Food Assistance (formerly Food Stamps) Program.

- An update regarding seeking federal funding assistance to expand the mental health service workforce.

**More Information**

The next meeting is scheduled for September 13-14. This will include approval of the FY 2007 budget request for consideration by the Governor and the General Assembly. Additional information is available from the LSA upon request.

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

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**AGING AND DISABILITY RESOURCE CENTER MEETING**

**Resource Center Meeting**



A meeting involving the Aging and Disability Resource Center was held on August 3. The following information was provided:

- Semi-annual report regarding the grant awarded to the Department of Elder Affairs to create a virtual web site to coordinate aging and disability information and referral resources.
- Staff from the Research Institute for Studies in Education (RISE) from Iowa State University discussed the planned evaluation process for the grant expenditure.
- Information regarding the 2-1-1 telephone connection for various social services-related consumer and provider services.
- Update on the current status of related entities and work groups.
- Presentation on the marketing of the Aging and Disability Resource Center by Iowa State University Extension Service.

**More Information**

Additional information is available from the LSA upon request.

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

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**VETERANS CEMETERY COMMITTEE MEETING**

**Site Selection**



The Veterans Cemetery Committee met August 19 and made recommendations to the Governor for the site of the State Veterans Cemetery. The Committee selected a site near Van Meter and I-80 as their priority site. Additional sites are located at the State Hospital School at Woodward, Perry, and Pella. The Governor will make a recommendation to the National Cemetery Administration of the U.S. Department of Veterans Affairs.

**Project Costs**

The costs of planning and development will be available from the \$500,000 that the General Assembly allocated from the Veterans Trust Fund and will be reimbursed to the State during the construction process. A groundbreaking ceremony is planned for September 2006. Opening of the cemetery is scheduled for November 2007. Total project cost is estimated at \$6.8 million from federal funds, with annualized maintenance costs of \$324,000 from State funds beginning in FY 2008.

**More Information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Sue Lerdal (Ext. 17794)

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**OLMSTEAD REAL CHOICES CONSUMER TASK FORCE****Task Force Meeting**

The Olmstead Real Choices Consumer Task Force met on July 26. Significant agenda items included:

- The review of the recently submitted Real Choices System Transformation Grant application. The Iowa Medicaid Enterprise within the Department of Human Services (DHS) will be the entity responsible for coordinating grant activities if the grant is awarded.
- Discussion of recent activities of the Iowa Medicaid Enterprise and the initial implementation of the IowaCares Program and the relationship to placement in a community-based setting in lieu of an institutional setting, including:
  - The separate State Plan Amendment that has been submitted to the federal Centers for Medicare and Medicaid Services (CMS) for the long-term care rebalancing proposal.
  - The future case-mix adjustment for those in Intermediate Care Facilities for the Mentally Retarded (ICF/MRs).
  - Various required health assessments and Electronic Medical Records.
- Information from Task Force Subcommittees relating to Self-Direction, Youth Transition, and Quality Assurance.
- Information that the federal CMS is requiring completion of a 1915C waiver application for each of the six waivers for self direction/cash and counseling implementation. The implementation has been scheduled by the DHS to begin in March 2006 on a Service-Area-by-Service-Area basis, with statewide implementation completed by March 2007.
- Update on the various assessment tools piloted by those serving the mental health, elderly, and mentally retarded/developmentally disabled. The Level of Care Utilization System (LOCUS) and the Child and Adolescent Level of Care Utilization System (CALOCUS) software has been purchased for assessing adults and children with mental health needs. The Inventory for Client and Agency Planning (ICAP) is being utilized to assess those with mental retardation and developmental disabilities. Information provided at the meeting did not include possible assessment tools for the elderly.

**Other Updates**

The Taskforce also received updates regarding the following:

- Mental Health, Mental Retardation, Developmental Disabilities, and Brain Injury Commission Adult Redesign.
- Mental Health, Mental Retardation, Developmental Disabilities, and Brain Injury Commission Children's System Redesign.
- Aging and Disability Resource Center.
- Youth Development Grant status.

**More Information**

An ad hoc group of the Task Force will meet on September 9, and the next regular meeting is scheduled for October 25. Additional information is available from the LSA upon request.

STAFF CONTACT: Sue Lerdal (Ext. 17794)

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## **AUGUST BOARD OF CORRECTIONS MEETING**

### **Board Meeting**

The Board of Corrections met on August 5 at the Newton Correctional Facility. Warden Terry Mapes welcomed the Board and guests and provided an overview of the programs and security levels at the Facility.

### **DOC Update**

Deputy Director Larry Brimeyer provided the Board with a brief update of Department of Corrections (DOC) activities. Director Gary Maynard was attending a conference out of state.

### **Firearms Policy**

Director Curt Campbell, Eighth Community-Based Corrections (CBC) District Department, presented the District Department's Firearms Policy. The Board approved the policy after a brief discussion.

### **FY 2007 Budget Process**



Deputy Director John Baldwin provided an overview of the FY 2007 budget process. This is the second year the Executive Branch will use the Request for Results process. Deputy Director Baldwin indicated the information presented at the meeting is in "draft" form and requests may change during the budget process. He also explained that the DOC has been developing performance measures to tie funding to outcomes.

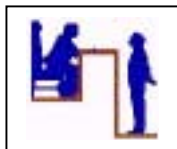
### **Performance Measures**

Ms. Merrie Murray and Barb Olk Long presented information regarding the process used to develop performance measures. It is the DOC's intent to be able to track performance using the Iowa Corrections Offender Network (ICON) system.

### **FY 2007 Budget Request**

The Eastern Division of the DOC presented information on the FY 2007 budget request. This includes the First, Sixth, Seventh, and Eighth CBC District Departments, as well as the Iowa State Penitentiary at Fort Madison, the Anamosa State Penitentiary, the Iowa Medical Classification Center at Oakdale, and the Newton and Mount Pleasant Correctional Facilities. The FY 2007 request will focus on the following:

- Offender re-entry to the community. The goal is to reduce recidivism of offenders released from the State prison system.
- Specialized program for mental health inmates. This Program provides specialized services at the CBC level.
- Workload issues. The goal is to improve supervision of high-risk offenders.
- Basic life care. This request includes increased costs for pharmacy, food, and utilities.
- Correctional education. This request provides funds for the DOC to contract with local community colleges to provide education in the Institutions.
- Connection of the Institution's water system to the City of Anamosa.
- Special Needs Unit at the Iowa Medical Classification Center at Oakdale. The 178-bed unit is scheduled to be completed in FY 2007. The estimated cost to open the facility is \$3.0 million for one-time equipment costs, plus \$9.0 million for six months of operating costs. There will be an additional \$9.0 million requested in FY 2008 to annualize operating costs.



**Additional Information**

The next meeting is scheduled for September 9 in Des Moines. Additional information is available from the LSA upon request.

STAFF CONTACT: Beth Lenstra (Ext. 16301)

**TOBACCO SETTLEMENT AUTHORITY MEETING****Election of Officers**

The Tobacco Settlement Authority met on August 11, at the State Capitol Building. Officers were elected, including State Treasurer Michael Fitzgerald as Chair, State Auditor David Vaudt as Vice Chair, and Department of Management Director Michael Tramontina as Secretary.

**Sources of Funds**

Stefanie Devin, State Treasurer's Office, presented a report on the sources and uses of funds under the control of the Authority for FY 2005. Approximately \$43.2 million was received from tobacco companies as payment under the terms of the Master Settlement Agreement. This amount represents 78.0% of the receipts that were securitized. An additional \$3.0 million was earned in interest, while approximately \$189,000 was received as judgments from enforcement activities.

**Use of Funds**

Approximately \$68,000 was used as operating expenses for the Tobacco Settlement Authority, and \$315,000 was paid to the Attorney General's Office for enforcement costs, such as salaries for attorneys and investigators, plus communications costs. There was \$37.1 million in bond principal and interest paid.

**Trapping Account**

Approximately \$18.9 million is currently held in a trapping account. In June 2003, R.J. Reynolds, Inc., was downgraded to below investment grade, creating a "trapping event." The payments from all tobacco companies associated with the securitization of 78.0% of Iowa's Master Settlement Agreement are used for debt service and fees. Any remaining funds, or residuals, are placed in the trapping account. After the required fees and debt service are met, the residual payments are held in the trapping account for a minimum of one year after the downgraded company is upgraded to investment grade or until 25.0% of the outstanding principal of the bonds is reached.

**Account Balances**

Approximately \$19.1 million is being held in the debt service fund, while \$48.1 million is being held as a capital reserve. An additional \$149,000 is being held by the State in an operating account. The total account balance is estimated at \$86.3 million.

**Pending Litigation**

Deputy Attorney General Gordon Allen updated the Authority regarding pending lawsuits. The original participating tobacco company manufacturers that signed the Master Settlement Agreement have filed a lawsuit to impose an 18.0% reduction in payments owed to states. The companies allege that the Master Settlement Agreement is a significant factor in the reduction of the companies' market share. If the lawsuit is settled in favor of the industry, each state must prove it diligently enforced the Master Settlement Agreement. Payments to states that cannot prove diligent enforcement will be reduced by 18.0%.

The Attorney General's Office anticipates that a "disputed account" will be established where the tobacco companies will deposit 18.0% of the payments due to the states, pending settlement of the lawsuit. Interest on

the disputed account balance will accrue at the prime rate plus 3.0%. The establishment of a disputed account will reduce the amount of the tobacco payment received by the State in April 2006. Both the amounts deposited in the Endowment for Iowa's Health Account and the Tobacco Settlement Authority will be reduced 18.0%. Public Financial Management (PFM) stated funds are adequate in FY 2006 to meet the bond principal and interest due to bond holders.

**Tobacco Securitization**



Jeanne Vanda, PFM, provided information on the tobacco market. No significant tobacco bonds were issued in Calendar Years 2003 or 2004 due to multiple litigations. The market has recovered in 2005, and the demand for bonds exceeds supply. Historically low interest rates have also improved the outlook for refinancing the outstanding tobacco bonds and issuing more debt. The Authority requested the Attorney General's Office research any legal issues that may be factors in the ability to refinance existing bonds. The Authority also agreed to form a new finance team comprised of bond counsel and underwriters to research the tobacco market and issues involved in refinancing and to make recommendations to the Authority. The team will operate at no cost to the State. Payments are made to the financial team only if securitization of the tobacco payment revenue stream occurs.

**Additional information**

Additional information is available from the LSA upon request.

STAFF CONTACT: Beth Lenstra (Ext. 16301) David Reynolds (Ext. 16934)

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