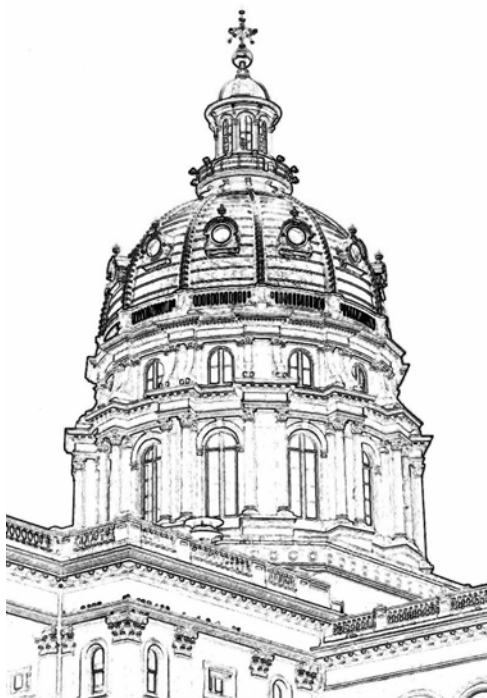


# Fiscal Facts 2007



**IOWA**  
**Legislative Services Agency**  
**Fiscal Services Division**  
**May 2007**

To: Members of the Iowa General Assembly

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

Re: Fiscal Facts

Date: May 2007

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 2007 data are estimates since the document is being issued prior to the close of FY 2007. **The data provided for FY 2008 represents action taken by the 2007 General Assembly, and does not reflect all 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](mailto:holly.lyons@legis.state.ia.us).

LSA web site:

<http://www.legis.state.ia.us/>

**Legislative Services Agency  
Fiscal Services Division  
Staff Listing**

**Holly M. Lyons, Director  
State Capitol, Room G01  
515-281-5279**

Fiscal Services Division Director	Holly Lyons	281-7845
Division Administrator	Doug Wulf	281-3250

**Committee Assignments**

**Appropriations Subcommittee:**

Admin. and Regulation	Sam Leto	281-6764
	Doug Wulf	281-3250

Ag. and Natural Resources	Debra Kozel	281-6767
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Economic Development	Ron Robinson	281-6256
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Education	Robin Madison	281-5270
	Mary Shipman	281-4617

Health and Human Services	Jess Benson	281-4611
	Lisa Burk	281-7943
	Sue Lerdal	281-7794

Justice System	Jennifer Acton	281-7846
	Beth Lenstra	281-6301

Transportation & Infrastructure	Mary Beth Mellick	281-8223
	Dave Reynolds	281-6934

Appropriations	Sue Lerdal	281-7794
	Holly Lyons	281-7845
	Dave Reynolds	281-6934

Education Standing	Dwayne Ferguson	281-6561
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Government Oversight	Sam Leto	281-6794
	Doug Wulf	281-3250

Ways and Means	Jeff Robinson	281-4614
	Shawn Snyder	281-7799

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**2007 LEGISLATIVE  
SESSION OVERVIEW**

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

	<u>FY 2007 Estimated</u>	<u>FY 2008 Legislative Action*</u>
<b>Estimated Funds:</b>		
Estimated Receipts		
Rev. Est. Conference (12/06)	\$ 6,124.9	\$ 6,328.3
Tax Law Changes	30.1	132.5
REC Adj. (04/07)**	15.9	1.6
Transfers & Adjustments	<u>0.4</u>	<u>39.6</u>
Total Receipts	6,171.3	6,502.0
Tax Refunds	- 568.8	- 602.3
Accruals	<u>11.3</u>	<u>25.6</u>
<b>Total Funds</b>	<u>5,613.8</u>	<u>5,925.3</u>
<b>Est. Appropriations:</b>		
General Fund	5,301.5	5,749.5
Salary Appropriation		106.8
FY 2007 Supplemental	71.0	
Reversions	<u>- 12.5</u>	<u>- 12.5</u>
<b>Net Appropriations</b>	<u>5,360.0</u>	<u>5,843.8</u>
<b>Ending Balance</b>	<u>\$ 253.8</u>	<u>\$ 81.5</u>
<b>Approps./Transfers to Other Funds</b>		
Approp to Prop. Tax Credit Fund***	\$ 131.9	\$ 0.0
Senior Living Trust Fund	53.5	40.8
Cash Reserve Fund	<u>68.4</u>	<u>40.8</u>
<b>Total</b>	<u>\$ 253.8</u>	<u>\$ 81.6</u>

\* Prior to action by the Governor.

\*\* Legislative action notwithstanding statute and permitted the expenditure of 99.0% of the REC adjustment revenue for FY 2006 and FY 2007.

\*\*\*Legislative action created the Property Tax Credit Fund and notwithstanding Section 8.57, Code of Iowa, appropriating \$159.7 million of the General Fund Surplus to the Property Tax Credit Fund. The remainder of the surplus is appropriated to the Cash Reserve Fund.



## THE YEAR IN REVIEW

### **FY 2006**

Iowa ended FY 2006 with a surplus of \$361.9 million. The revenue growth rate was 3.6% before refunds and accruals; down from the FY 2005 growth rate of 5.9%. Changes in withholding tables and insurance premium tax make the growth rate appear artificially low. Of the \$361.9 million surplus, \$159.9 million was deposited to the Property Tax Credit Fund for FY 2006 property tax credits; \$49.9 million was appropriated to the Senior Living Trust Fund; \$2.8 million was allocated to the Regents; and \$149.3 million was deposited to the Cash Reserve Fund.

### **FY 2007**

Revenue growth in Iowa continues to be strong in FY 2007, with the April Revenue Estimating Conference (REC) estimating growth in total receipts (before refunds and accruals) to be 5.9%, up from the December growth estimate of 4.9%. This is typical of other states, where, according to the National Conference of State Legislatures (NCSL), revenue growth continues to be stronger than anticipated in most states, although the growth rates do appear to be moderating. Thirty-eight of the 50 states have revised their revenue forecasts since November 2006; only seven of these revisions were downward. Through April, in Iowa, personal income tax receipts are below expectations, but corporate income taxes are showing strong growth for FY 2007. Iowa continues to fund some Medicaid expenditures from non-General Fund sources such as \$65.0 million from the Senior Living Trust Fund and \$35.3 million from the Healthy Iowans Tobacco Trust (HITT).

The 2007 General Assembly passed General Fund supplemental appropriations totaling \$71.0 million for the purposes listed below.

## THE YEAR IN REVIEW (Contd.)

**General Fund  
FY 2007 Supplemental Appropriations  
(\$ in millions)**

<u>Department</u>	<u>FY 2007 Suppl.</u>
Administrative Services	\$ 1.0
Executive Council-Disaster Grants	1.0
Governor's Office	0.2
Revenue	0.8
Office of Energy Independence	24.7
Natural Resources	0.1
Cultural Affairs	0.6
Economic Development	3.8
Inspections & Appeals	0.1
Education	4.7
Regents	0.5
Veterans Affairs	4.0
Public Health	0.7
Human Services	22.5
Corrections	5.3
Public Safety	1.0
Total Supplemental Appropriations	<u>\$ 71.0</u>

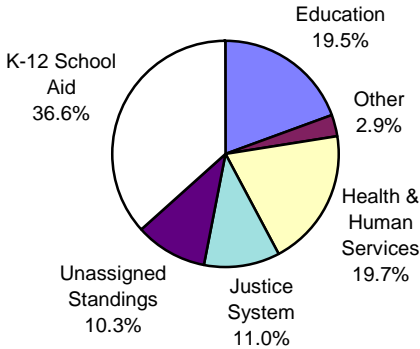
The projected General Fund ending balance for FY 2007 is \$253.8 million. The General Assembly notwithstanding Section 8.57, Code of Iowa, and appropriates \$131.9 million of the FY 2007 surplus to the Property Tax Credit Fund for partial payment of the FY 2008 property tax credits. Funding for the remainder of the tax credits (\$28.0 million) is appropriated from the General Fund. The remaining FY 2007 surplus (\$121.9 million) will be appropriated to the Cash Reserve Fund (\$68.4 million) and the Senior Living Trust Fund (\$53.5 million).

**THE YEAR IN REVIEW (Contd.)****FY 2008**

Revenue growth in Iowa is projected to remain stable for FY 2008, with the exception of the cigarette and tobacco tax. The tax was increased by \$1.00 per pack effective March 16 and is projected to generate an additional \$134.3 million in General Fund revenue. Like many other states, Iowa is cautiously optimistic about revenue growth in FY 2008 with sales and use tax collections generating some concern. The April REC projected growth in total receipts (before refunds and accruals) to be 4.7% for FY 2008. This includes the increase for the cigarette tax. There are signs that the Iowa economy is weakening, as is the case in many other states. In Iowa, economic factors have contributed to reductions in the revenue growth rate, but tax reductions 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 \$5.856 billion from the General Fund for FY 2008. Prior to any item vetoes by the Governor, the projected General Fund ending balance is \$81.5 million.

**DISTRIBUTION OF ESTIMATED FY 2008  
STATE GENERAL FUND APPROPRIATIONS  
(\$ in millions)**



<u>Subcommittee</u>	<u>Est. FY 2008 Appropriations</u>	<u>Percent of Total</u>
Admin. & Regulation	\$ 92.4	1.5%
Ag. & Natural Resources	41.6	0.7
Economic Development	39.7	0.7
K-12 Education - School Aid	2,144.1	36.6
Education	1,140.8	19.5
Health & Human Services	1,152.3	19.7
Justice System	644.1	11.0
Unassigned Standings	601.3	10.3
<b>Total</b>	<b>\$ 5,856.3</b>	<b>100.0%</b>

Note:

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

## CIGARETTE/TOBACCO TAX INCREASE AND HEALTH CARE TRUST FUND

During the 2007 Legislative Session, the General Assembly passed SF 128 (Cigarette/Tobacco Tax Increase and Health Care Trust Fund Act). The tax increase went into effect on March 16, 2007. The cigarette tax was last increased in 1991 when it was raised from \$0.31 per pack to \$0.36 per pack. The tobacco tax was also increased that year, moving from 19.0% to 22.0% of the wholesale price.

Senate File 128 increased the tax on cigarettes and other tobacco products and changed the tax method on moist snuff and some cigars. The changes are as follows:

- Increased the cigarette tax from \$0.36 per pack of 20 cigarettes to \$1.36.
- Increased the tobacco tax rate from 22.0% to 50.0% of the wholesale price (with the exception of snuff and some cigars).
- As amended by House File 923 (Department of Revenue Policy and Technical Bill which passed the General Assembly on April 28, 2007), cigars are taxed at 50.0% of the wholesale cost per cigar or \$0.50 per cigar, whichever is less.
- Changed the method of taxing snuff to a weight-based tax. The tax on moist snuff will be \$1.19 per ounce.

In addition to the tax increase, SF 128 created the Health Care Trust Fund and provides a standing appropriation of \$127.6 million. Moneys in the Fund are only to be used for purposes related to health care, substance abuse treatment and prevention, and tobacco-use prevention, cessation, and control.

### **Fiscal Impact**

The cigarette tax and tobacco tax increase fiscal impact is provided in the table below. The estimated total gross cigarette tax receipts for FY 2008 is \$217.9 million and the estimated total gross tobacco tax receipts are estimated at \$15.4 million for FY 2008.

**CIGARETTE/TOBACCO TAX INCREASE  
AND HEALTH CARE TRUST FUND  
(Contd.)**

<b>CIGARETTE/TOBACCO TAX INCREASE (\$ in millions)</b>			
	Est. Change <u>FY 2007</u>	Est. Change <u>FY 2008</u>	Est. Change <u>FY 2009</u>
Cigarette Tax Impact	\$ 32.7	\$ 129.4	\$ 134.0
Tobacco Tax Impact*	2.0	5.5	5.6

\*Tobacco tax impact reflects change in cigar tax implemented in HF 923.

Beginning in FY 2008, the Health Care Trust Fund will receive a standing appropriation from the General Fund that will be from the first \$127.6 million generated from cigarette and tobacco tax receipts.

<b>Estimated Health Care Trust Fund (HCTF) Impact (\$ in millions)</b>			
	Est. <u>FY 2007</u>	Est. <u>FY 2008</u>	Est. <u>FY 2009</u>
Appropriated to HCTF	\$ 0.0	\$ 127.6	\$ 127.6

## TEACHER PAY

During the 2007 Legislative Session, the General Assembly passed SF 277 (Student Achievement and Teacher Quality Act). The Act increases General Fund appropriations for the Student Achievement and Teacher Quality Program by \$69.6 million in FY 2008 and by another \$75.0 million in FY 2009:

- FY 2008—\$173.9 million
- FY 2009—\$248.9 million

The Act allocates the funding to the various components of the Program for each of the two years.

### Student Achievement and Teacher Quality Program Allocations

(Dollars in thousands)

	FY 2007	FY 2008	FY 2009
National Board Certification			
Awards	\$ 1,915	\$ 3	\$ 1,003
NBC Support Program	250	0	0
Ambassador to Education	85	85	85
Market Factor Incentives - Librarians, Counselors, Nurses	0	1,000	0
Total	\$ 2,250	\$ 1,088	\$ 1,088
Mentoring and Induction	4,650	4,650	4,650
Career/Prof. Dev. And Eval. Training	610	695	695
Add'l. Professional Development Day(s)	10,000	0	0
Professional Development	0	20,000	0
Teacher Dev. Academies	0	1,845	0
Market Factor Incentives	3,390	3,390	7,500
Pay for Performance*	850	1,000	2,500
Institute for Tomorrow's Workforce	150	0	0
Salaries or Professional Development	6,625	0	0
Teacher Compensation	75,819	141,276	232,511
Totals	\$ 104,344	\$ 173,944	\$ 248,944

NBC = National Board Certification

Other significant changes to the Student Achievement and Teacher Quality Program Include:

- Increasing the minimum salaries by \$1,000 as follows:
  - Beginning teachers—\$26,500
  - First-year career teachers—\$27,500
  - Other career teachers—\$28,500

**TEACHER PAY (Contd)**

- Expanding the Program to include all licensed, non-administrative staff and school nurses at Area Education Agencies (AEAs) and school districts.
- Establishing Teacher Development Academies for school-based teams of teachers and instructional leaders and to provide follow-up training and coaching.
- Establishing the Career Ladder Pilot Project to include up to eight career ladder planning pilots in FY 2008 and eight implementation projects in FY 2009. The Act limits the Pay for Performance Commission to conducting two pay-for-performance planning pilots in FY 2008 and two implementation projects in FY 2009.
- Ending the National Board Certification Awards as of December 31, 2007. No further awards or registration reimbursements will be granted after that date. Existing commitments to National Board Certification registrants and awardees will be fulfilled.
- Requiring school districts to establish Teacher Quality Committees to monitor the implementation of the Program and to make recommendations regarding the use and distribution of professional development funds.

Senate File 277 also requires school districts to have a licensed guidance counselor and a school nurse beginning July 1, 2007. It also requires districts to work toward the goals of one guidance counselor for every 350 students and one school nurse for every 750 students. The Act allocates \$1.0 million to be used by the Department of Education to help districts meet requirements for employing teacher librarians, guidance counselors, and school nurses. The Act also authorizes the Department of Education to grant waivers of the requirements for up to two years. The School Budget Review Committee (SBRC) is authorized to grant one-time modified allowable growth to districts in order to meet the requirements.



## IOWA POWER FUND BILLS

### House File 918

House File 918 (Iowa Power Fund Act) creates the Office of Energy Independence, the position of Director of the Office of Energy Independence, the Iowa Power Fund Board, a due diligence committee, and the Iowa Power Fund, in the new Chapter 469, Code of Iowa. The duties for the Office, Director, Board, and Committee are specified. Grants, loans, and investments, and other financial incentives made from the Fund are subject to approval by the Board.

The Act requires the Director to develop an Iowa Energy Independence Plan, with the assistance of the Department of Natural Resources and in association with public and private partners selected by the Director. The Act specifies plan parameters, and provides that the options and strategies developed in the Plan shall provide for achieving energy independence from foreign sources of energy by the year 2025.

The Act provides that the Iowa Power Fund shall be used to further the goals of increasing the development, production, and use of biofuels and other sources of renewable energy, improve energy efficiency, and reduce greenhouse gas emissions, and shall encourage, support, and provide for research, development, commercialization, and the implementation of energy technologies and practices. Further, the technologies and practices are intended to reduce the State's dependence on foreign sources of energy and fossil fuels, reduce greenhouse gas emissions, and meet the demand for energy in an economical manner, sustain the environment, and develop business in Iowa.

**IOWA POWER FUND BILLS (Contd.)**House File 927

House File 927 (Iowa Power Fund Appropriation Act) makes an FY 2007 General Fund supplemental appropriation of \$24.7 million to the Office of Energy Independence for deposit in the Iowa Power Fund. This is a new appropriation and unspent funds do not revert to the General Fund.

Of the moneys appropriated, \$2.5 million is allocated to the Department of Economic Development for workforce training and economic development funds for community colleges to develop and expand the energy industry.

The Act also appropriates \$25.0 million each year, beginning in FY 2009 through FY 2011, for awarding grants and making loans from the Iowa Power Fund. Unspent funds do not revert to the General Fund.

The Office of Energy Independence is permitted to use 1.5% of the amount appropriated from the Iowa Power Fund for administrative costs.

**ENTERPRISE ZONES**

During the 2007 Legislative Session, HF 648 (Enterprise Zone, Significant Lay-Offs) was enacted. House File 648 relates to distress criteria for enterprise zones and changes the business closure requirement, to a business closure or permanent layoff requirement. The permanent layoff must occur on or after February 1, 2007.

Sufficient information is not available to determine how many additional enterprise zones would be created by future unknown layoffs. However, should a county be added each year, FY 2007 through FY 2010, State General Fund revenue would be reduced as follows:

- \$1.2 million in FY 2009
- \$2.9 million in FY 2010
- \$5.1 million in FY 2011
- \$7.7 million in FY 2012
- \$9.1 million in FY 2013
- \$10.0 million in FY 2014
- The reduced revenue will be the greatest at \$10.5 million annually in FY 2015 through FY 2017.
- FY 2007 through FY 2009—\$2.0 million each year from the Grow Iowa Values Fund to provide cost share funds for biofuel infrastructure. The money is deposited in a new Renewable Fuels Infrastructure Fund. Allows the Department of Economic Development to use \$50,000 per year for administration of the Program.

### **TARGETED SMALL BUSINESS**

During the 2007 Legislative Session HF 890 (Targeted Small Business FY 2007 Supplemental Appropriations Act) was enacted, which makes FY 2007 supplemental General Fund appropriations totaling \$4.0 million to support the Targeted Small Business (TSB) Task Force recommendations, requires reports, and makes TSB Program changes. The appropriations include:

- Makes a new FY 2007 supplemental General Fund appropriation of \$900,000 to the Department of Economic Development (DED) for the establishment of TSB advocate service providers.
- Makes a new FY 2007 supplemental General Fund appropriation of \$2.5 million to the DED for deposit in the TSB Financial Assistance Program Account of the Strategic Investment Fund.
- Makes a new FY 2007 supplemental General Fund appropriation of \$225,000 and 1.0 FTE position to the DED for marketing, compliance activities, and administrative costs related to the TSB Financial Assistance Program and the Iowa TSB Procurement Act.
- Makes a new FY 2007 supplemental General Fund appropriation of \$225,000 to the DED for process improvement and administrative costs related to the TSB Financial Assistance Program and the Iowa TSB Procurement Act.
- Makes a new FY 2007 supplemental General Fund appropriation of \$150,000 and 1.0 FTE position to the Department of Inspections and Appeals (DIA) for a dedicated TSB Certification Employee.

## ELECTRICIANS LICENSURE BILL

The General Assembly passed HF 897 (Electricians Licensure Bill). The Bill provides for a statewide system of licensure for electricians, provisions regarding electrical inspections, and specifies related licensing and inspection fees. The new statewide licensure system supplements current licensure of electricians on a city-by-city basis permitting electricians to practice statewide, as well as on a local basis.

The provisions in the Bill establishing the Examining Board take effect upon enactment. The licensure provisions in the Bill take effect on January 1, 2008. The inspection provisions in the Bill take effect on January 1, 2009.

If the Board maintains the current maximum fee structure established in HF 897, by Calendar Year 2012, the Electrician and Installer Licensing and Inspection Fund is estimated to have a balance of \$23.0 million. Expenditures from the Fund are approved by the sole authority of the Board, in consultation with the Fire Marshal's Office.

## VETERAN'S-RELATED PROGRAMS

Below is a list of veterans-related legislation enacted during the 2007 Legislative Session. The total General Fund appropriation is \$20.2 million and the total Rebuild Iowa Infrastructure Fund appropriation is \$3.3 million.

<b>Bill Number</b>	<b>FY 2007 Supplemental</b>	<b>Funding</b>	<b>Funding Source</b>
SF 95	Home Buyers Assistance Program	\$ 2,000,000	GF
SF 95	Injured Veterans Assistance Program	2,000,000	GF
<b>FY 2008</b>			
HF 911	Gold Star Museum - Camp Dodge	1,000,000	RIIF
HF 911	American Veterans Disabled for Life Memorial	50,000	RIIF
HF 911	Iowa Battle Flags - Department of Cultural Affairs	220,000	RIIF
SF 601	Veterans Home Ownership Program	1,000,000	RIIF
SF 578	Vietnam Veterans Bonus	500,000	VTF
SF 562	Planning for Sesquicentennial of Civil War - Dept. of Cultural Affairs	50,000	GF
HF 911	Veterans Home - Planning for Infrastructure Improvements	532,000	RIIF
HF 909	State Education Assistance - Children of Deceased Veterans	27,000	GF
HF 909	Department of Veterans Affairs	863,457	GF
HF 909	County Veterans Grant Program	750,000	GF
HF 909	Veterans Home in Marshalltown	14,509,630	GF
<b>TOTAL VETERANS-RELATED FUNDING</b>		<b><u>\$23,502,087</u></b>	

GF = State General Fund

RIIF = Rebuild Iowa Infrastructure Fund

VTF = Veterans Trust Fund

## TAX AMNESTY PROGRAM

Senate File 580 (2007 Tax Amnesty Program Act) creates a tax amnesty program to be administered by the Department of Revenue. The amnesty period is September 4, 2007, through October 31, 2007. The Program covers tax liabilities delinquent as of December 31, 2006. Taxpayers utilizing the amnesty period will pay one-half of regular interest due and will not be subject to civil penalties or criminal prosecution.

Taxes covered by the amnesty include individual and corporate income tax, franchise (bank) tax, sales/use tax, inheritance/estate tax, drug stamp tax, cigarette tax, tobacco tax, hotel/motel tax, local option sales taxes, automobile rental tax, equipment tax, petroleum diminution fees, and motor fuel tax.

Iowa's last tax amnesty occurred September 2 through October 31, 1986. The Department of Revenue and Finance Report released in January 1987, concluded that collections under the Program totaled \$35.0 million, with \$9.0 million of that amount identified as revenue that would not have otherwise been collected. Almost all revenue collected was from General Fund taxes.

In 1986 tax amnesty applied mostly to General Fund taxes, and more than 99.0% of the revenue generated was deposited to the State General Fund. Since this amnesty applies to a wider range of taxes, more revenue could be generated for non-General Fund Accounts.

The Department of Revenue estimates that a total of \$53.9 million will be collected from General Fund revenue sources through the 2007 tax amnesty period, and that \$16.0 million will be revenue that would not otherwise be collected. All revenue will be deposited to FY 2008.

The Bill appropriates a total of \$860,000 to the Department of Revenue from the State General Fund to administer the Amnesty Program and to provide for increased auditing and enforcement.

# **GOVERNMENT FINANCE AND TAXATION**



## 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 carry-over from the previous year.
- The Governor and the Legislature 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 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)****Cash Reserve Fund**

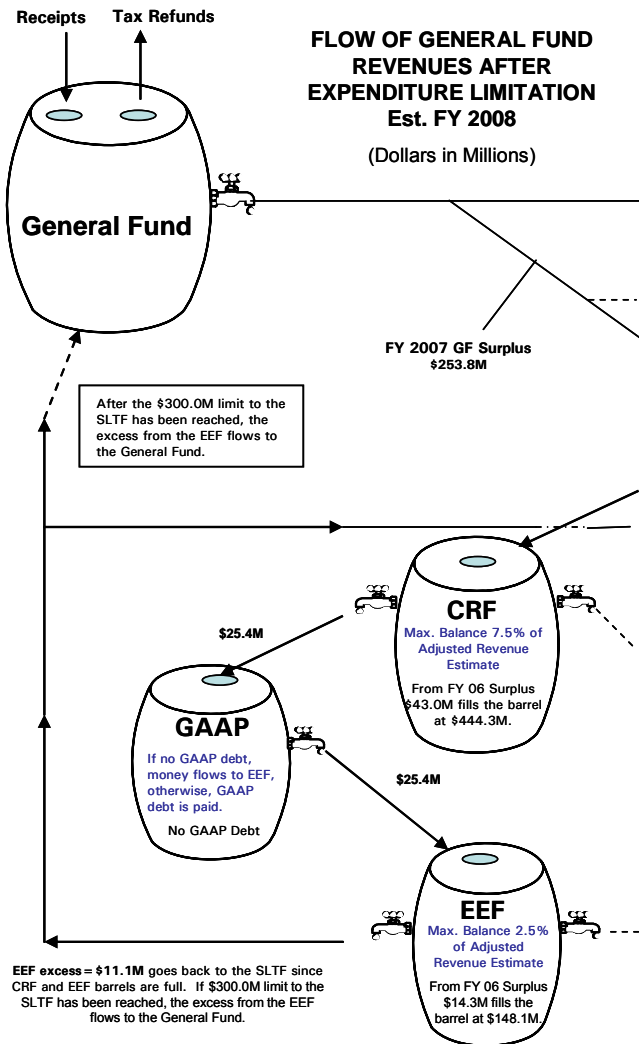
- The year-end General Fund Surplus (ending balance) is appropriated to the Cash Reserve Fund. Beginning in FY 2006, an amount equal to 1.0% of the adjusted revenue estimate is appropriated from the General Fund Surplus (ending balance) to the Senior Living Trust Fund before funds are transferred to the Cash Reserve Fund. If the surplus is less than 2.0% of the adjusted revenue estimate, then the amount appropriated will be 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 December REC.
- Moneys in the Cash Reserve Fund may be used for cash flow purposes but shall be returned by the end of the fiscal year.
- Expenditures from the Cash Reserve Fund are limited to nonrecurring emergency expenditures.
- For FY 2008, \$40.8 million of the ending General Fund surplus is appropriated to the Senior Living Trust Fund and \$40.8 million is appropriated 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) (Contd.)****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 shall 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 upon 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.



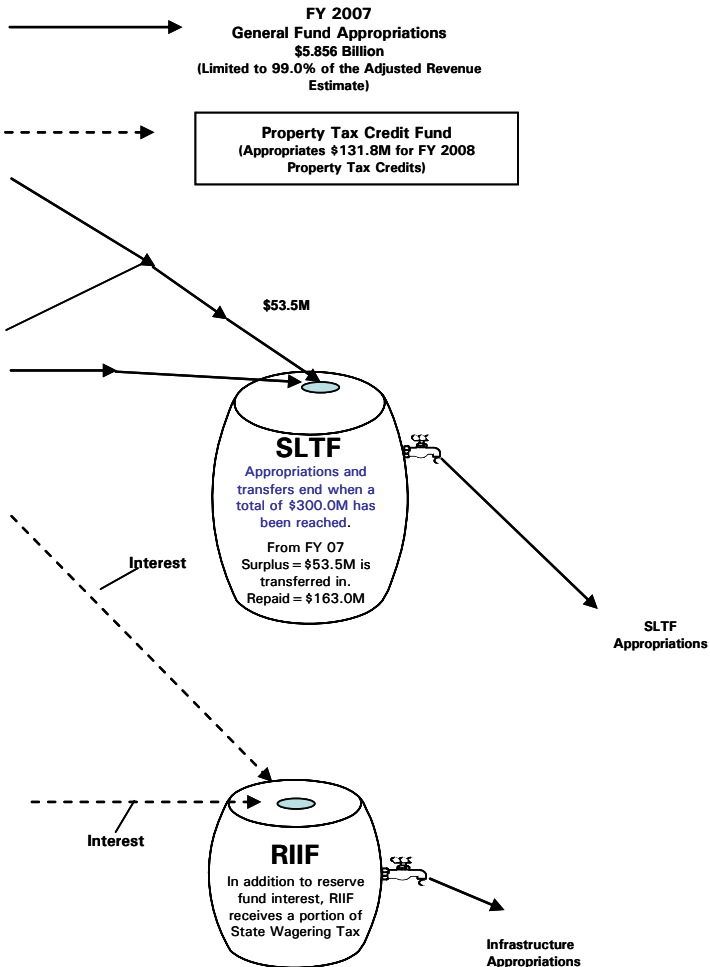
SLTF = Senior Living Trust Fund

CRF = Cash Reserve Fund

GAAP = Generally Accepted Accounting Principles Deficit Reduction Account

EEF = Economic Emergency Fund

RIIF = Rebuild Iowa Infrastructure Fund



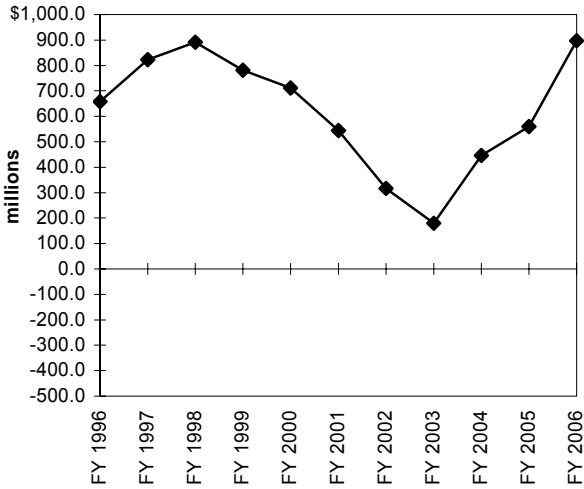
**Cash Reserve Fund**

	<u>FY 2007</u>	<u>FY 2008</u>
Balance Forward	\$ 374.3	\$ 401.3
Gen. Fund Surplus	149.3	68.4
Total Revenue	<u>\$ 523.6</u>	<u>\$ 469.7</u>
Transfer to EFF	-122.3	-25.4
Ending Balance	<u><u>\$ 401.3</u></u>	<u><u>\$ 444.3</u></u>
<i>Max. 7.5%</i>	\$ 401.3	\$ 444.3

**Economic Emergency Fund**

	<u>FY 2007</u>	<u>FY 2008</u>
Balance Forward	\$ 17.5	\$ 133.8
CRF Excess	122.3	25.4
Total Revenue	<u>\$ 139.8</u>	<u>\$ 159.2</u>
Transfer to Gen. Fund	-6.0	-11.1
Ending Balance	<u><u>\$ 133.8</u></u>	<u><u>\$ 148.1</u></u>
<i>Max. 2.5%</i>	\$ 133.8	\$ 148.1

**GENERAL FUND BALANCE  
UNRESERVED - GAAP BASIS  
FY 1996 - FY 2006**



GAAP = Generally Accepted Accounting Principles

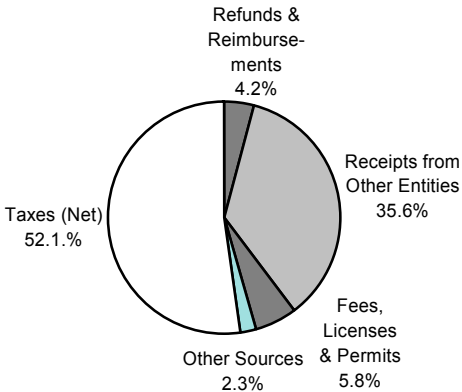
- Changes in the budgetary/legal basis fund balance will have a direct impact on the GAAP basis fund balance.

**STATE FUNDING SOURCES**

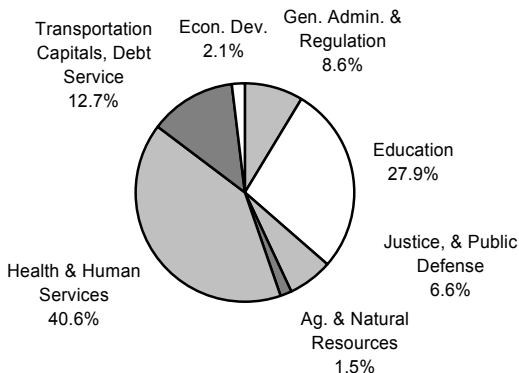
Most State operations are accounted for through governmental fund types (as specified in the Iowa Comprehensive Annual Financial Report). Governmental revenues and other financing sources totaled \$11.2 billion for FY 2006. Net tax receipts increased \$306.4 million (5.6%) compared to FY 2005. Refunds and reimbursements increased \$117.2 million (33.5%) and receipts from other entities increased \$388.0 million (10.8%) compared to FY 2005.

**FY 2006 State Revenue Sources**

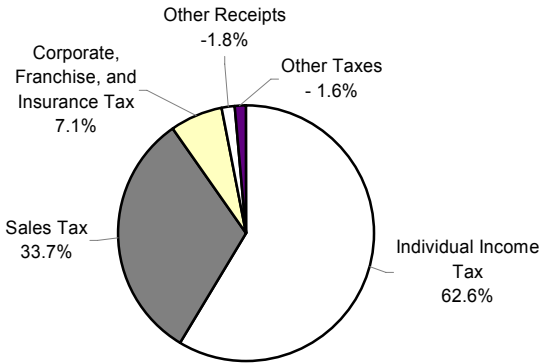
Governmental Revenues & Other Financing Sources  
Excludes Refunds





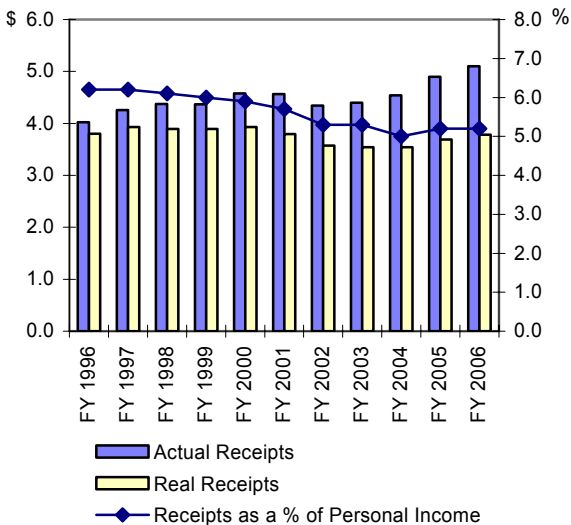
**STATE EXPENDITURES  
GOVERNMENTAL FUNDS****FY 2006 State Governmental Expenditures**

- 
- Includes General Fund and all Other Governmental Funds. (Comprehensive Annual Financial Report)
  - Governmental expenditures totaled \$10.5 billion for FY 2006, an increase of \$630.3 million (6.4%) compared to FY 2005.
  - Revenues for FY 2006 exceeded expenditures by \$604.3 million. Net transfers and other financing uses resulted in a positive net Fund balance change of \$265.6 million.

**SOURCES OF GENERAL FUND GROWTH  
FY 1996 - FY 2006**

- The chart above does not include transfers to the General Fund from other funds or accrued revenue, and percentages have not been adjusted for refunds.
- Since FY 1996, growth in personal income tax accounted for 62.6% of the total increase in General Fund receipts. Sales and use tax was second, and accounted for 33.7% of the total increase. Taxes paid by businesses (corporate income, franchise tax, and insurance tax) account for 7.1% of the increase. The percentages in this paragraph have not been adjusted for refunds.

**GENERAL FUND RECEIPTS HISTORY  
FY 1996 - FY 2006  
(\$ 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 - all urban consumers (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 lowans.
- From FY 1996 through FY 2006, Iowa General Fund net receipts grew \$1.160 billion (28.8%). During that same period, Iowa's total State personal income grew \$34.3 billion (52.8%).
- In FY 1996, Iowa General Fund net receipts equaled 6.2% of total State personal income. In FY 2006, net General Fund receipts equaled 5.2% of personal income.
- Adjusted for inflation, General Fund net receipts decreased 0.5% from FY 1996 to FY 2006.

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

	<b>Est. FY 2007</b>	<b>Est. FY 2008</b>
Property Tax Credits	\$ 159.9	\$ 131.8
Medical Assistance (Medicaid)	100.2	100.5
Iowa Care Account Programs	53.2	53.2
Substance Abuse Treatment	13.8	13.8
Tuition Replacement	10.3	10.3
Elderly Services	8.3	8.3
Soil Conservation Cost Share	5.5	7.0
DHS Provider Increases	4.4	3.9
DNR Park Operations	2.0	2.5
DAS Distribution Account	0.0	2.0
Prison Debt Service	5.4	0.0
Other	1.7	0.8
<b>Total</b>	<b>\$ 364.7</b>	<b>\$ 334.1</b>

**MAJOR STATE AND LOCAL  
TAX SOURCES**

<b>State Taxes</b>	<b>July 1, 2007 Rate</b>	<b>Description</b>
Individual Income Tax	0.36% to 8.98%	<ul style="list-style-type: none"> <li>• Tax is paid on personal net income earned in Iowa. Federal taxes paid are deducted from income. For tax year 2007, the filing threshold for a couple is \$13,500. The top rate applies to couple's taxable income in excess of \$60,435.</li> </ul>
Sales and Use Tax	5.00%	<ul style="list-style-type: none"> <li>• Tax is paid on the final sale of most goods and enumerated services. Food, prescription drugs, and professional services are the major exceptions.</li> </ul>
Motor Vehicle Fuel Tax		
Gasoline	\$0.207 per gallon	<ul style="list-style-type: none"> <li>• Tax is paid on purchases of various gas and fuel sources. Receipts are deposited in the Road Use Tax Fund.</li> </ul>
Ethanol	\$0.190 per gallon	
Diesel	\$0.225 per gallon	
Corporate Income Tax	6.00% to 12.00%	<ul style="list-style-type: none"> <li>• Tax is paid on net income of corporations doing business within Iowa. Top rate applies to taxable income over \$250,000.</li> </ul>
Insurance Premium Tax	1.00%	<ul style="list-style-type: none"> <li>• Tax is imposed on adjusted gross amount of premiums (excluding annuities) of every insurance company except fraternal beneficiary associations.</li> </ul>
Cigarette Tax	\$1.36 per pack	<ul style="list-style-type: none"> <li>• Tax is imposed on the sale of cigarettes.</li> </ul>
Tobacco Tax	50.00%	<ul style="list-style-type: none"> <li>• Tax is imposed on the wholesale price of tobacco, excluding tobacco subject to the cigarette tax.</li> </ul>
Franchise Tax	5.00%	<ul style="list-style-type: none"> <li>• Tax is imposed on the net income of most types of banks and financial institutions. Credit unions are taxed differently.</li> </ul>

### MAJOR STATE AND LOCAL TAX SOURCES (Contd.)

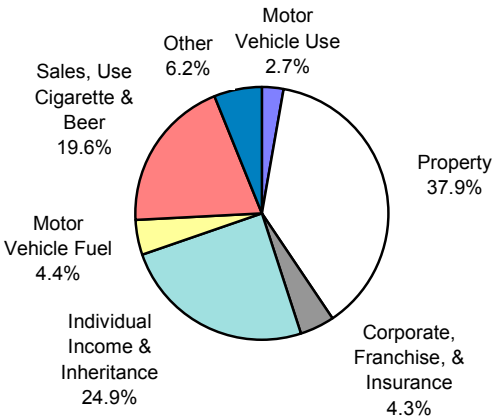
State Taxes	2007 Rate	Description
Inheritance Tax	1.00% to 15.00%	<ul style="list-style-type: none"> <li>• Tax is imposed on beneficiaries other than lineal descendants. Rates and brackets vary according to relationship of beneficiary to the deceased.</li> </ul>
Local Taxes	2007 Rate	Description
Property Tax	Varies - the residential average rate is approximately 3.37% of taxable valuation.	<ul style="list-style-type: none"> <li>• Tax is imposed on the taxable value of real property, including land and buildings. For FY 2007, residential property is taxed at 45.8% of its market value.</li> </ul>
Local Option Sales Tax	1.00%	<ul style="list-style-type: none"> <li>• Tax is added to general State sales tax but not to use tax. State remits collections to local cities and counties.</li> </ul>
Local Option Sales Tax for Schools	1.00%	<ul style="list-style-type: none"> <li>• Tax is added to general State sales tax but not to use tax. State remits collections to school districts.</li> </ul>
Hotel/Motel Tax	Varies - it may not exceed 7.00%.	<ul style="list-style-type: none"> <li>• Tax is imposed on the gross receipts of hotel and motel room rentals. Disbursed to local governments imposing the tax.</li> </ul>
Individual Income School District Surtax	Varies - it may not exceed 20.00% of State income tax liability.	<ul style="list-style-type: none"> <li>• Tax is imposed by school districts on residents' State income tax payments and disbursed to school districts imposing the tax.</li> </ul>

**GENERAL FUND RECEIPTS  
(\$ in millions)**

	Estimated FY 2008 REC	Percent of Total Receipts
<b>Tax Receipts</b>		
Personal Income Tax	\$ 3,175.4	48.9%
Sales/Use Tax	1,961.7	30.3
Corporate Income Tax	428.6	6.6
Inheritance Tax	81.2	1.3
Insurance Premium Tax	124.0	1.9
Cigarette Tax	219.7	3.4
Tobacco Tax	15.4	0.2
Beer Tax	14.3	0.3
Franchise Tax	38.7	0.6
Miscellaneous Tax	1.0	0.0
<b>Total Tax Receipts</b>	<b>6,060.0</b>	<b>93.5%</b>
<b>Other Receipts</b>		
Institutional Payments	12.6	0.2%
Liquor Profits	67.8	1.0
Interest	29.0	0.4
Fees	62.9	1.0
Judicial Revenue	67.9	1.0
Miscellaneous	38.3	0.6
Racing and Gaming	60.0	0.9
Transfers	63.9	1.0
Accruals (Net)	25.6	0.4
<b>Total Other Receipts</b>	<b>428.0</b>	<b>6.5%</b>
<b>Total Receipts</b>	<b>6,488.0</b>	<b>100.0%</b>
Refunds	- 602.3	- 9.3%
<b>Net Receipts</b>	<b>\$ 7,090.3</b>	<b>109.3%</b>

REC = Revenue Estimating Conference (April 2007)

**DISTRIBUTION OF MAJOR STATE AND LOCAL  
TAX SOURCES - ACTUAL FY 2006  
(\$ in millions)**



Tax	Rate	Actual FY 2006	Percent of Major Tax Sources
Property	Varies	\$ 3,795.3	37.9%
Individual Income	0.36% - 8.98%	2,420.6	24.2
Sales & Use	5.00%	1,848.9	18.5
Local Option Sales	1.00% - 2.00%	489.3	4.9
Local Option Inc.	20.0% IA inc. tax	75.7	0.8
Hotel/Motel	up to 7.00%	31.0	0.3
Motor - Fuel	\$0.190 - \$0.225	442.0	4.4
UST	\$0.01 per gallon	21.3	0.2
Corporate Income	6.00% - 12.00%	284.9	2.8
Motor Vehicle Use	5.00%	265.6	2.7
Insurance	1.00% to 1.25%	121.4	1.2
Cig/Tobacco	\$0.36 per pack	98.9	1.0
Beer	\$0.19 per gallon	14.3	0.1
Inheritance	1.00% - 15.00%	71.6	0.7
Franchise (Bank)	5.00%	32.1	0.3
<b>Total</b>		<b>\$ 10,012.9</b>	<b>100.0%</b>

**Note:**

Receipts are net of refunds.

Property Tax includes Tax Increment Financing revenue.

Property Tax includes Utility Replacement Tax.

Cigarette tax raised to \$1.36 per pack in March 2007.



**STATE GAMBLING**

**Wagering Tax Revenue  
(\$ in millions)**

<u>Fiscal Year</u>	<u>Pari-Mutuel</u>	<u>Riverboats</u>	<u>Slot Machines</u>	<u>Total</u>
1998	\$ 1.0	\$ 84.5	\$ 55.2	\$ 140.7
1999	0.8	92.9	65.4	159.1
2000	0.6	103.3	75.8	179.7
2001	0.5	106.3	80.8	187.6
2002	0.4	116.5	89.5	206.4
2003	0.4	120.9	57.8	179.1
2004	0.4	130.3	85.5	216.2
2005	0.4	144.7	72.3	217.4
2006	0.3	146.4	81.4	228.1
Est. 2007	0.4	161.8	102.1	264.3
Est. 2008	0.4	166.5	100.8	267.7

**Wagering Tax Allocations  
(\$ in millions)**

<u>Fund</u>	<u>Actual FY 2005</u>	<u>Actual FY 2006</u>	<u>Est. FY 2007</u>	<u>Est. FY 2008</u>
General Fund	\$ 60.0	\$ 60.0	\$ 60.0	\$ 60.0
Vision Iowa	15.0	15.0	15.0	15.0
School Infrastructure	5.0	5.0	5.0	5.0
Endowment for Iowa's Health Account	70.0	70.0	70.0	0.0
Rebuild Iowa Infrastructure Fund	107.2	106.3	126.1	199.0
<b>Total</b>	<b>\$ 257.2</b>	<b>\$ 256.3</b>	<b>\$ 276.1</b>	<b>\$ 279.0</b>

Notes:

- 1) On April 19, 2004, the General Assembly passed HF 2302 (FY 2004 Gambling Act) changing the tax rates from 20.0% for all riverboats and racetrack casinos to 22.0% for all riverboats and for Dubuque, 24.0% for Prairie Meadows, and 24.0% for Bluffs Run.
- 2) Cities and counties in which the gaming takes place, the Gamblers Treatment Fund, and a new County Endowment Fund each receive 0.5% of the adjusted gross receipts (AGR) for off-the-top allocations. During the 2006 Legislative Session, the General Assembly adopted HF 2791 (County Endowment Fund Act) which will increase the County Endowment Fund percentage to 0.8%.

**STATE GAMBLING (Contd.)**

- 3) In addition to the receipts from slot machines and pari-mutuel wagering, the State received \$23.6 million in FY 2004 as a retroactive gaming tax on FY 2003 and FY 2004 AGR of racetrack casinos in FY 2004.
- 4) In FY 2005, the racetrack casinos had a one-time opportunity to obtain a table games license at a cost of \$3.0 million for Dubuque and \$10.0 million for the other racetrack casinos. Those licenses were purchased by June 1, 2005.
- 5) In FY 2005 and FY 2006, all riverboats paid a Rebuild Iowa Infrastructure Fund (RIIF) assessment of 2.152% of AGR. This generated \$15.0 million each year.
- 6) Both the license fees for table games and the RIIF assessments can be used as a tax credit of 20.0% per year for five years beginning in FY 2009 and FY 2010, respectively.
- 7) The Racing and Gaming Commission approved the following four new excursion gambling boat licenses on May 11, 2005.
  - Wild Rose Emmetsburg, LLC - Palo Alto County Gaming Development Corporation.
  - Diamond Jo Worth, LLC - Worth County Development Authority.
  - IOC Black Hawk County, Inc. - Black Hawk County Gaming Association.
  - Washington County Casino Resort, LLC - Washington County Riverboat Foundation, Inc.The initial license fee for the new boats is based on county populations as follows:
  - Two licensees (Worth and Palo Alto) at \$5.0 million in counties with a population of less than 15,000.
  - One licensee (Washington) at \$10.0 million in a county with a population between 15,000 and 100,000.
  - One licensee (Black Hawk) at \$20.0 million in a county with a population over 100,000.The fee will be paid at the rate of 20.0% per year beginning within 30 days of May 11, 2005, and annually through FY 2009. It is estimated that the new boats will not become operational until FY 2008.
- 8) The Racing and Gaming Commission approved the division of the Catfish Bend Casino gaming license into two separate licenses to allow a permanent gaming facility at both Burlington and Fort Madison on June 8, 2006. The licensees have operated the riverboat for six months at each location each year. This will increase the total number of gambling operations in the State from 17 to 18 when the new location (Burlington) becomes operational.
- 9) On April 18, 2007, the General Assembly passed SF 263 (Gambling Structures Act) allowing excursion gambling boats and moored gambling vessels to convert to fully land-based structures.

## 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 which 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:

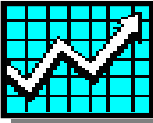
- Safety - restrictions on types of investments, limits on credit risk, maturities, and use of leverage is prohibited.
- Liquidity - always have the next 60 days of bills funded; purchase liquid securities.
- Yield - core portfolio invested for longer periods; use of laddered maturities.

The current size of the investment pool is approximately \$2.2 billion. The realized cash annual rate of return for FY 2006 was 3.79%.

## 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 2006, the State issued \$450.0 million in TRANS.
- To date in FY 2007, the State has issued \$500.0 million in TRANS.

**DEBT MANAGEMENT**

The State of Iowa reported total outstanding debt of \$9.511 billion on June 30, 2006, for all governmental entities. This represents an increase of \$884.2 million (10.3%) compared to FY 2005.

Entities that reported increases in debt during FY 2006 include: cities - \$114.6 million (3.2%), counties - \$44.0 million (11.1%), schools - \$274.4 million (15.8%), community colleges - \$26.7 million (9.4%), the Board of Regents - \$80.1 million (10.6%), and State Authorities - \$364.0 million (24.2%).

State agencies' outstanding obligations decreased by \$21.4 million (6.5%) for FY 2006 compared to FY 2005.


Debt financing is used for a variety of purposes which include: 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:

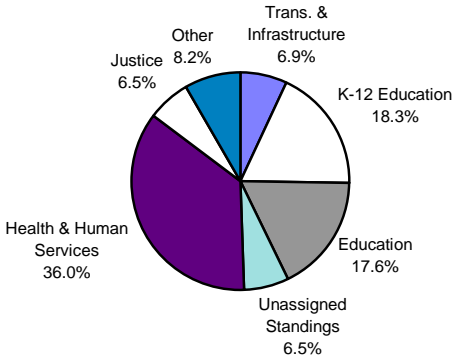
- General obligation bonds
- Revenue bonds
- Certificates of participation (lease purchase)
- Special assessments on property
- Tax increment financing
- Special tax allocation and dedication such as hotel and motel taxes

# **BUDGETS AND APPROPRIATIONS**

**IOWA'S BUDGET PROCESS**

- The Governor and the State Legislature allocate state resources and set revenue collection levels through the budgeting process.
  - The process begins in June of each year for the fiscal year which 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.
- 
- The Revenue Estimating Conference meets before December 15 to set revenue estimates which will serve as a basis for the General Fund budget for the following fiscal year.
  - The Governor submits annual recommendations to the Legislature in January.
  - By statute, the Governor's budget must be balanced and must meet expenditure limitations.
  - The Legislature conducts budget hearings during January and February. Recommendations from the seven joint budget subcommittees and the Oversight Committee are passed on to Appropriations Committees and the floor for debate in each chamber.
  - The State Constitution allows the Governor line-item veto authority over appropriations bills.
  - Beginning in FY 2006, the Governor and Lt. Governor implemented a new budgeting process entitled "Purchasing Results." The Executive Branch used this process again in FY 2007 in lieu of the historical practice of automatically recommending the statutory 75.0% of each agency's base budget with decision packages to reinstate the remaining 25.0%. Agencies submitted budgets using this process in FY 2008, but the new Governor did not make decisions using the Purchasing Results process.
  - Described as a "buying and selling" practice, the Governor and Lt. Governor acted as purchasers, or "buyers" of government services; the State agencies developed offers, or ideas, to "sell" to the Governor and Lt. Governor.

**APPROPRIATED SPENDING  
ESTIMATED FY 2008  
(\$ in millions)**

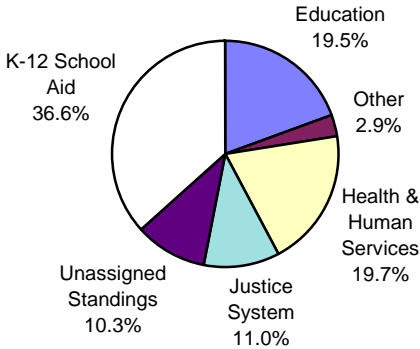


Categories	Est. FY 2008 Appropriations	Percentage
Admin. & Regulation	\$ 204.6	1.7%
Ag. & Natural Resources	171.9	1.5
Economic Development	586.5	5.0
K-12 Education - School Aid	2,144.1	18.3
Education	2,058.3	17.6
Health & Human Services	4,214.6	36.0
Justice System	762.4	6.5
Trans., Infrastructure, & Capitals	810.0	6.9
Unassigned Standings	768.8	6.5
<b>Total</b>	<b>\$ 11,721.2</b>	<b>100.0%</b>

Notes:

- 1) This represents appropriations from the General Fund, Federal Funds, and Other Funds.
- 2) "Other" includes Administration and Regulation, Agriculture and Natural Resources, and Economic Development.

**DISTRIBUTION OF ESTIMATED FY 2008  
STATE GENERAL FUND APPROPRIATIONS  
(\$ in millions)**



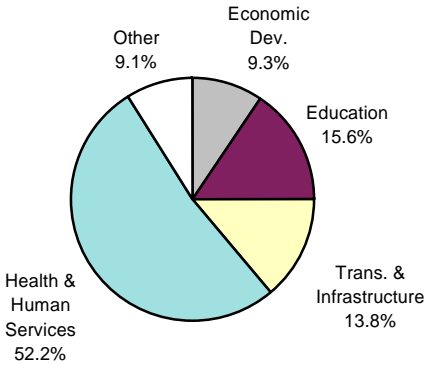
<u>Subcommittee</u>	<u>Est. FY 2008 Appropriations</u>	<u>Percent of Total</u>
Admin. & Regulation	\$ 92.4	1.5%
Ag. & Natural Resources	41.6	0.7
Economic Development	39.7	0.7
K-12 Education - School Aid	2,144.1	36.6
Education	1,140.8	19.5
Health & Human Services	1,152.3	19.7
Justice System	644.1	11.0
Unassigned Standings	601.3	10.3
<b>Total</b>	<b>\$ 5,856.3</b>	<b>100.0%</b>

Note:

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



**NON-GENERAL FUND APPROPRIATED FUNDS  
ESTIMATED FY 2008  
(\$ in millions)**

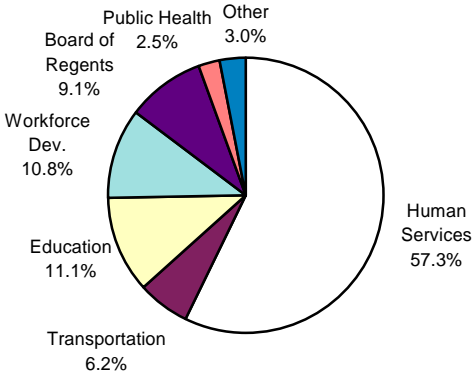


<u>Subcommittee</u>	<u>Est. FY 2008 Appropriations</u>	<u>Percent of Total</u>
Admin. & Regulation	\$ 112.1	2.0%
Ag. & Natural Resources	130.3	2.2
Economic Development	546.8	9.3
Education	917.6	15.6
Health & Human Services	3,062.3	52.2
Justice System	118.4	2.0
Trans. & Infrastructure	810.0	13.8
Unassigned Standings	167.3	2.9
<b>Total</b>	<b>\$ 5,864.8</b>	<b>100.0%</b>

Notes:

- 1) Sources of non-General 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, Justice System, and Unassigned Standings.

**FEDERAL FUNDS  
ESTIMATED FY 2008  
(\$ in millions)**



<u>Department</u>	<u>Est. FY 2008</u>	<u>Percent of Total</u>
Human Services	\$ 2,419.7	57.3%
Education	469.8	11.1
Board of Regents	382.2	9.1
Transportation	259.3	6.2
Workforce Development	456.6	10.8
Public Health	105.0	2.5
Other State Agencies	128.5	3.0
<b>Total</b>	<b>\$ 4,221.1</b>	<b>100.0%</b>

## SALARY ADJUSTMENT



Salary adjustment is an increase allocated to each 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 2008, \$108.6 million was appropriated from the General Fund to the Salary Adjustment Fund administered by the Department of Management.

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 2007, an amount sufficient to pay the merit step increase for three months during FY 2007 would have been included in the FY 2007 salary adjustment. Salary annualization would be included in the FY 2008 salary adjustment for the employee's merit step from July 2007 to March 2008 (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.

**INFRASTRUCTURE FUNDING**

Appropriations from infrastructure revenue sources include funding for environmental programs, technology projects, debt service on certain bonds, as well as capital and infrastructure projects. The 2007 General Assembly made appropriations for multiple years from the following funding sources:

- Rebuild Iowa Infrastructure Fund (RIIF)
- Endowment for Iowa’s Health Restricted Capitals Fund
- Vertical Infrastructure Fund
- Technology Reinvestment Fund.

The 2006 General Assembly created the Technology Reinvestment Fund for the purpose of funding technology improvements for State government. A General Fund standing appropriation of \$17.5 million was established for the Fund.

The General Assembly passed HF 911 (FY 2008 Infrastructure Appropriations Act), which appropriates funds over three fiscal years as follows:

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

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
RIIF	\$ 125.3	\$ 52.6	\$ 35.3
VIF	1.6	0.0	0.0
RC2	1.4	0.0	0.0
TRF	17.5	0.0	0.0
SAF	1.6	0.0	0.0
GF	-2.0	0.0	0.0
	<u>\$ 145.4</u>	<u>\$ 52.6</u>	<u>\$ 35.3</u>

RIIF = Rebuild Iowa Infrastructure Fund

VIF = Vertical Infrastructure Fund

RC2 = Endowment for Iowa's Health Restricted Capitals Fund

TRF = Technology Reinvestment Fund

SAF = State Aviation Fund

GF = General Fund

## 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 General Assembly increased the \$35.0 million standing appropriation to \$40.0 million in SF 601 (FY 2008 Standing Appropriations Bill) and the Agriculture and Natural Resources Appropriations Subcommittee appropriated the funds. For FY 2008, \$16.0 million was appropriated to the Department of Agriculture and Land Stewardship for a number of conservation programs. There was \$500,000 appropriated to the Department of Economic Development for the Brownfield Redevelopment Program and \$23.5 million was appropriated to the Department of Natural Resources (DNR) for environmental programs. Included in the DNR funding is a \$15.5 million appropriation for the Resource Enhancement and Protection (REAP) Fund. This is an increase of \$4.5 million compared to estimated FY 2007.

The General Assembly also appropriated funds for the following environment-related projects for FY 2008:

- \$5.0 million from the Endowment for Iowa's Health Account to the Treasurer of State for FY 2008 for the Watershed Improvement Program.
- \$8.6 million from the RIIF to the DNR for Lake Restoration projects.
- \$4.0 million from the RIIF for Water Quality Grants.
- \$2.5 million from the RIIF to the DNR for State Park infrastructure improvements.
- \$750,000 from the RIIF to the DNR for Volga River Recreation area.
- \$500,000 from the RIIF to the DNR for Carter Lake improvements.

**ENVIRONMENT FIRST FUND (Contd.)**

**Environment First Fund  
(\$ in millions)**

<b>Resources</b>	<b>FY 2008</b>
Rebuild Iowa Infrastructure Fund Approp.	<u>\$ 40.0</u>
 <b>Expenditures</b>	
<b>Department of Agriculture</b>	
Conservation Reserve Enhancement Program (CREP)	\$ 1.5
Watershed Protection Program	2.6
Farm Demonstration Program	0.8
Soil Conservation Cost Share	7.0
Agricultural Drainage Wells	1.4
Conservation Reserve Program (CRP)	1.5
Farm to School Program	0.1
Apiarist Program	0.0
Loess Hills Conservation Authority	0.6
Southern Iowa Conservation and Development Authority	0.3
Flood Prevention Study	0.2
Total Department of Agriculture	<u>\$ 16.0</u>
 <b>Department of Natural Resources</b>	
REAP Formula Allocation	\$ 15.5
Volunteer Keepers of the Land	0.1
Water Quality Monitoring Stations	3.0
Water Quality Protection	0.5
Air Quality Monitoring	0.3
Animal Feeding Operations	0.3
Air Quality Livestock	0.2
Animal Feeding Database	0.1
Water Quality	0.5
Resource Conservation and Development	0.3
Park Operations	2.5
Geographic Information System	0.2
Total Department of Natural Resources	<u>\$ 23.5</u>
 <b>Department of Economic Development</b>	
Brownfield Redevelopment Program	<u>0.5</u>
<b>Total Expenditures</b>	<u><u>\$ 40.0</u></u>

REAP = Resource Enhancement and Protection Fund

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. Iowa securitized 78.0% of the payment stream in 2001. Since that time, 78.0% of the payments are made to the trustee to pay the bond obligations. The remaining 22.0% is paid directly into the Endowment for Iowa's Health Account.

The Tobacco Settlement Authority (TSA) restructured the existing debt related to the Series 2001 bonds in November 2005. The restructuring was complete in accordance with Section 12.65, Code of Iowa. The funds were applied as follows:

### Distribution of Funds (\$ in Millions)

Escrow - Pay off Series 2001 Bonds	\$ 666.8
Debt Service Reserve Account - Series 2005 Bonds	59.2
Costs of Issuance	2.3
Proceeds to the State of Iowa	
Endowment for Iowa's Health - Restricted Capitals Fund	100.5
Endowment for Iowa's Health Account	50.2
Enforcement Reserve Account	3.0
Total	\$ 882.0

Proceeds from the restructuring of the tax-exempt bonds were placed in a new account, Endowment for Iowa Health – Restricted Capitals Fund. For legal reasons, the proceeds must be kept separate from the original tax-exempt bond proceeds. Expenditures from both Restricted Capitals Funds must comply with Internal Revenue Service (IRS) rules, and are restricted to depreciable assets.

The TSA created an Enforcement Reserve Account in the indenture related to the refinancing. This Fund remains under the control of the TSA; it must approve any expenditure from the Fund.

The following pages provide balance sheets that show the distribution of funds Iowa received under the Master Settlement Agreement.

**Tobacco Settlement Trust Fund  
Endowment for Iowa's Health Account  
(\$ in millions)**

	Estimated FY 2007	Estimated FY 2008
<b>Resources</b>		
Balance	\$ 109.7	\$ 85.0
General Fund Appropriation	17.8	0
Deappropriation	-17.8	0
<hr/>		
Wagering Tax Allocation	70.0	0.0
MSA Payment	11.6	16.5
Interest Earned	2.5	2.3
<b>Total</b>	<b>\$ 193.8</b>	<b>\$ 103.8</b>
<b>Appropriations</b>		
Healthy Iowans Tbc Trust Standing Approp.	\$ 59.3	\$ 60.1
Healthy Iowans Tbc Trust Transfer	10.9	9.1
Senior Living Trust Fund	25.0	0.0
<hr/>		
Treasurer-Watershed Protection	5.0	5.0
DNR Lake Restoration & Water Quality	8.6	0.0
<b>Total</b>	<b>\$ 108.8</b>	<b>\$ 74.2</b>
<b>Ending Balance</b>	<b>\$ 85.0</b>	<b>\$ 29.6</b>

MSA = Master Settlement Agreement

**Healthy Iowans Tobacco Trust Fund  
(Dollars in millions)**

	Estimated FY 2007	Estimated FY 2008
<b>Resources</b>		
Balance Forward	\$ 1.1	\$ 0.8
Endowment for Iowa's Health Account	59.3	60.1
Endowment Transfer	10.9	9.1
Interest	0.1	0.2
<b>Total</b>	<b>\$ 71.4</b>	<b>\$ 70.2</b>
<b>Appropriations</b>		
Dept. of Public Health	\$ 24.2	\$ 23.8
Dept. of Human Services	40.0	39.7
Dept. of Corrections	4.0	4.0
<hr/>		
Dept. of Education	2.3	2.5
Dept. for the Blind	0.1	0.0
Dept. of Econ. Development	0.1	0.1
<b>Total</b>	<b>\$ 70.7</b>	<b>\$ 70.1</b>
Reversions	-0.1	0.0
<b>Ending Balance</b>	<b>\$ 0.8</b>	<b>\$ 0.1</b>



**Tobacco Settlement Trust Fund  
Endowment for Iowa's Health Restricted  
Capitals Fund (RCF 2)  
(\$ in millions)**

	Estimated FY 2007	Estimated FY 2008
<b>Resources</b>		
Balance	\$ 102.4	\$ 0.8
Interest Earned	2.2	1.0
<b>Total</b>	<u>\$ 104.6</u>	<u>\$ 1.8</u>
<b>Appropriations</b>	\$ 103.8	\$ 1.4
<b>Ending Balance</b>	<u>\$ 0.8</u>	<u>\$ 0.4</u>

**Tobacco Settlement Trust Fund  
Restricted Capital Fund  
(\$ in Millions)**

	Estimated FY 2006	Estimated FY 2007
<b>Resources</b>		
Balance	\$ 0.4	\$ 0.2
Interest Earned	0.2	0.2
Tbco Settlement Authority	-0.2	-0.2
<b>Total</b>	<u>\$ 0.4</u>	<u>\$ 0.2</u>
<b>Appropriations</b>	\$ 0.0	\$ 0.0
<b>Ending Balance</b>	<u>\$ 0.4</u>	<u>\$ 0.2</u>

**SENIOR LIVING TRUST FUND**

The General Assembly passed HF 909 (FY 2008 Health and Human Services Appropriations Bill), which provided appropriations totaling \$75.2 million from the Fund to the Iowa Finance Authority (IFA) and the Departments of Elder Affairs, Human Services (DHS), and

Inspections and Appeals for FY 2008 as follows:

- \$65.0 million to the DHS for the Medical Assistance (Medicaid) Program.
- \$8.4 million to the Department of Elder Affairs for the Senior Living Program.
- \$1.1 million to the Department of Inspections and Appeals for assisted living and adult day services oversight. This amount includes a contingent appropriation of \$349,051 and 2.5 FTE positions. The additional funds are provided if SF 601 (FY 2008 Standing Appropriations Bill) is enacted, which includes language to transfer full responsibility for the oversight of assisted living programs, adult day service programs, and elder group homes from the Department of Elder Affairs to the DIA.
- \$700,000 to the IFA for the Rent Subsidy Program.

It is estimated that at the close of FY 2008, the Fund will have an ending balance of \$57.7 million as shown in the table on the following page.

## SENIOR LIVING TRUST FUND (Contd.)

Senior Living Trust Fund  
(\$ in millions)

	<u>Estimated FY 2008</u>
<b>Revenues</b>	
Beginning Balance	\$ 64.4
General Fund Transfer	53.5
Economic Emergency Fund Transfer	11.1
Interest	3.9
<b>Total Revenues</b>	<u>\$ 132.9</u>
<b>Expenditures</b>	
IFA - Rent Subsidy Program	<u>\$ 0.7</u>
Department of Human Services	
Medicaid	<u>\$ 65.0</u>
Department of Elder Affairs	
Senior Living Program	\$ 7.7
DEA & Contract Administration	0.7
DEA Total	<u>\$ 8.4</u>
DIA - Ass'd Living & Adult Day Care	<u>\$ 1.1</u>
<b>Total Expenditures</b>	<u>\$ 75.2</u>
<b>Ending Balance</b>	<u><u>\$ 57.7</u></u>

IFA = Iowa Finance Authority

DEA = Department of Elder Affairs

DIA = Department of Inspections and Appeals

# **STATE AND LOCAL GOVERNMENT**

**COLLECTIVE BARGAINING SETTLEMENTS  
FY 2008 - FY 2009**

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

	FY 2008	FY 2009
AFSCME	3.00%	3.00%
JUDICIAL AFSCME	2.00%	2.00%
IUP	1.00%	3.00%
SPOC	2.00%	2.00%
UFI	3.00%	4.00%
PPME	2.00%	2.00%
COGS	1.75%	1.75%
SEIU	4.20%	4.40%

Note:

Contracts allow for merit step increases for employees granted merit steps for both FY 2008 and FY 2009.

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

IUP = Iowa United Professionals

SPOC = State Police Officers Council

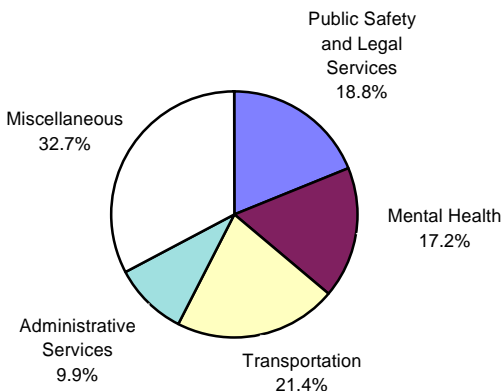
UFI = United Faculty of Iowa

PPME = Public Professional and Maintenance Employees

COGS = Campaign to Organize Graduate Students

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

**BUDGETED COUNTY  
EXPENDITURES  
FY 2007**



Budgeted County Expenditures	Estimated FY 2007
Public Safety and Legal Services	\$ 354.5
Mental Health	324.3
Transportation	403.4
Administrative Services	187.5
Miscellaneous	
State & Local Gov't. Services	62.4
Physical Health and Social Services	183.7
County Environment	107.6
Debt Service	49.1
Capital Projects	206.9
Other	6.9
<b>Total</b>	<b>\$ 1,886.3</b>

Note:

The FY 2007 ending fund balances for all counties is estimated to be \$417.1 million.

**GENERAL FUND FINANCIAL ASSISTANCE  
TO LOCAL GOVERNMENTS  
(\$ in millions)**

	Actual FY 2006	Est. FY 2007	Est. FY 2008
District School Aid	\$ 2,152.1	\$ 2,272.3	\$ 2,454.1
Preschool Aid	0.0	0.0	15.0
Community Empowerment	23.8	38.8	38.8
Community College Aid	149.6	159.6	172.0
Single County Contracts	9.2	9.2	9.2
Substance Abuse Grants	0.8	0.8	1.4
Elderly Services	2.1	3.6	4.0
Child & Family Services	107.5	112.4	120.5
Family Investment Program	40.4	42.6	42.7
Community Mental Health/ Mental Retardation Fund	17.8	18.0	18.0
Medical Assistance	507.7	752.3	618.9
Peace Officers Retirement Reimbursement	2.7	2.7	2.7
Fire Fighter Training	0.7	0.7	0.7
Homestead Tax Credit	102.9	102.9	99.3
Agriculture Land Tax Credit	34.6	34.6	34.6
Elderly/Disabled Property Tax Credit	19.5	19.5	23.2
Military Tax Credit	2.6	2.8	2.8
Mental Health	123.5	133.9	143.9
<b>Total Assistance</b>	<b>\$ 3,297.5</b>	<b>\$ 3,706.7</b>	<b>\$ 3,801.8</b>
 Total Assistance as a Percent of General Fund Expenditures	 65.5%	 69.0%	 64.9%

Notes:

- 1) District School Aid includes unassigned standing appropriations for schools plus the appropriations for nonpublic textbooks, Student Achievement/Teacher Quality, and beginning in FY 2008, Preschool Foundation Aid.
- 2) From FY 2005 through FY 2008, the property tax credit appropriations were not funded directly from the General Fund.
- 3) There was a \$97.1 million appropriation from the Health Care Trust Fund for Medical Assistance. This is a new appropriation for FY 2008.
- 4) In FY 2008, appropriations from other funds were made for Single County Contracts (\$1.2 million), Substance Abuse Grants (\$17.7 million), Elderly Services (\$7.7 million), Child and Family Services (\$3.8 million), and Mental Health (\$7.6 million).

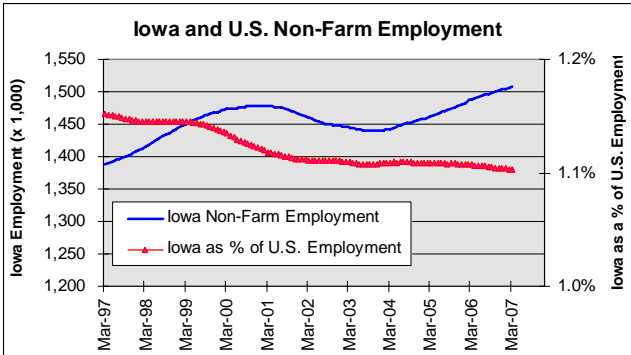
# **IOWA ECONOMY**



**ECONOMIC SUMMARY**

Iowa non-farm employment was reported at 1,502,300 for the month of March (not seasonally adjusted), 17,500 higher (1.2%) than March 2006.

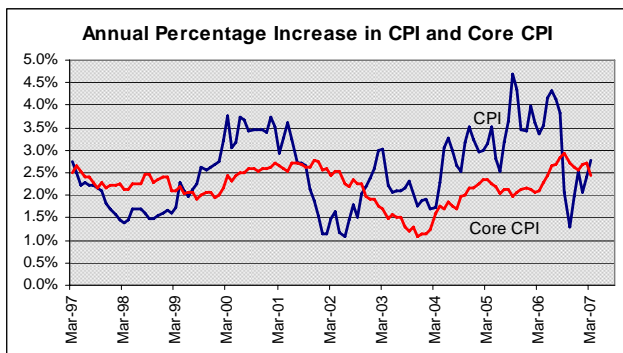
Iowa's 12-month moving average employment is presented in the graph below. The Iowa non-farm employment pre-recession peak was in January 2001 (1,478,700), and the recent low was September 2003 (1,439,900). The current average reading is 1,507,600, so annualized Iowa non-farm employment is 28,900 above its 2001 peak and 67,700 above the 2003 low. The chart 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 has slowed considerably since 2003, but the recent trend is still negative.



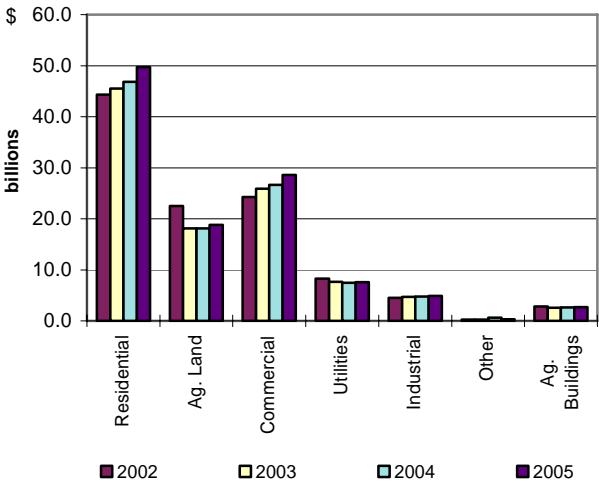
## ECONOMIC SUMMARY (Contd)

Consumer prices increased 0.9% during the month of March (not seasonally adjusted). The Consumer Price Index (CPI-U) through March 2007 was 205.352 (1983/84=100), 2.8% higher than one year ago. The overall inflation rate has generally increased since mid-2004, when the price of oil started to rise significantly.

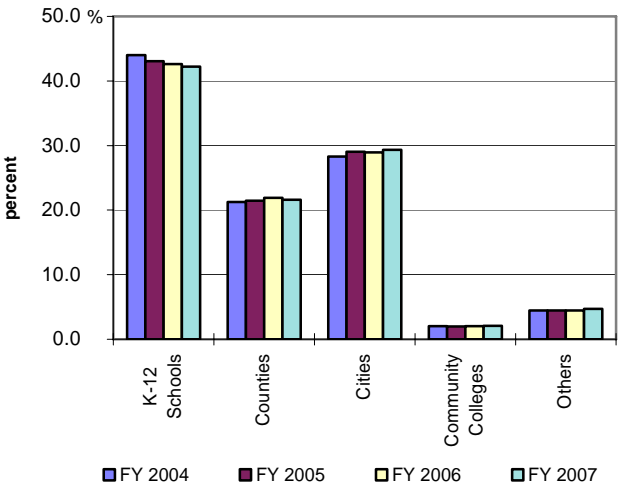
Core CPI, an inflation measure that excludes food and energy prices, increased 0.4% for March and the year-over-year change was 2.5%. The core inflation rate declined considerably from the early 1990's through March 2004. Since March 2004, inflation as measured by core CPI has more than doubled, moving from 1.2% to 2.5%.



**DISTRIBUTION OF NET TAXABLE VALUATION BY CLASS OF PROPERTY\***



**PERCENTAGE DISTRIBUTION OF PROPERTY TAXES BY TAXING AUTHORITY**



\*Class of property information is based on an assessment year. Tax Increment Financing (TIF) revenues go to the taxing authority issuing the TIF.

Note:

Between FY 1992 and FY 2006, net taxable valuation in the State increased from \$76.5 billion to \$106.7 billion.

# **EDUCATION**

## 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 that is 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. For FY 2005, the percentage was 90.0%. This percentage will be scaled down 10.0% each year until FY 2014. In FY 2008, the scaled-down percentage is 60.0%

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

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

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 supplemental 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 supplemental weightings were added to the School Foundation Formula for shared operational functions and use of Iowa Communications Network (ICN) virtual classes. These new and reactivated weightings will be included in the fall 2008 student counts and will impact the FY 2009 school budgets. The supplemental weighting for regional academies was eliminated affecting the FY 2008 school budgets.

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 Preschool Foundation Aid is projected to increase by approximately \$15.3 million each year plus inflation from the allowable growth rate, reaching a total of \$108.9 million in FY 2014. 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

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

appropriations, and the preschool pupils are not counted in the school districts' regular budget enrollments. The Program does not include a property tax component.

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 AEAs' 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.

Given the above changes, the Foundation Formula Funding for FY 2007 through FY 2009 is projected to be:

**FOUNDATION FORMULA FUNDING  
(\$ in millions)**

	Estimated FY 2007	Estimated FY 2008	Estimated FY 2009
K-12 State Foundation Aid	\$ 2,056.3	\$2,149.4	\$ 2,257.1
AEA Additional Reduction	-8.0	-5.3	-2.5
Added Supplemental Weightings	0.0	0.0	9.0
School District Foundation Aid	<u>\$ 2,048.3</u>	<u>\$2,144.1</u>	<u>\$ 2,263.6</u>
 Preschool Startup	 \$ 0.0	 \$ 15.0	 \$ 15.0
Preschool Foundation Aid	0.0	0.0	15.3
Total	<u><u>\$ 2,048.3</u></u>	<u><u>\$2,159.1</u></u>	<u><u>\$ 2,293.9</u></u>

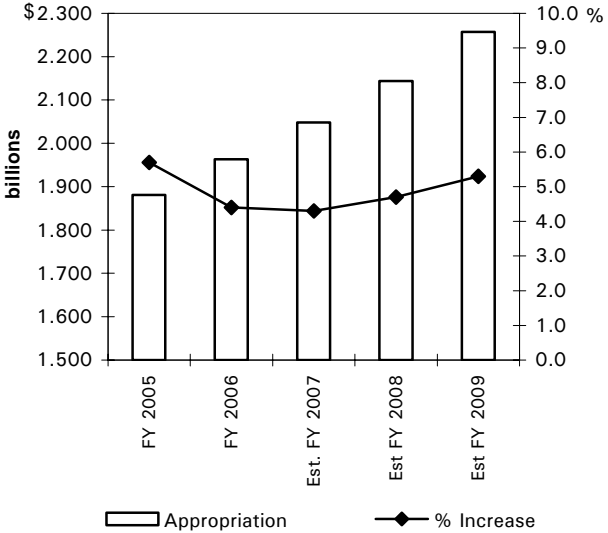
**PAYING FOR PUBLIC EDUCATION  
THE IOWA SCHOOL FOUNDATION FORMULA  
(Contd.)**

Other funding sources available to school districts on an optional basis in the general education fund area include drop out prevention programs, School Budget Review Committee authorizations, instructional support levy, cash reserve levy, management levy, and enrichment levy.

Local school districts have a number of optional funding sources available for non-general education fund activities. These levies are used for building construction, building maintenance, equipment purchases, and certain operational expenditures. These include the debt service levy, physical plant and equipment levy, and the educational and recreation levy.



**APPROPRIATIONS  
FOR K-12 STATE AID  
FY 2005 - FY 2009**



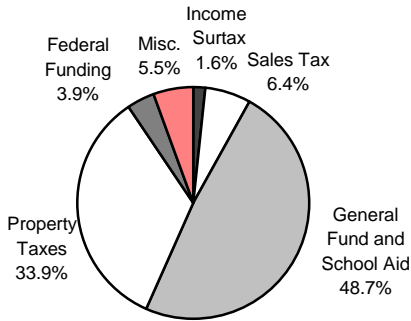
	<u>Appropriations</u>	<u>Change</u>	<u>Percent Change</u>
FY 2000	\$ 1,696,505,094	\$ 84,912,576	5.3%
FY 2001	1,751,721,662	55,216,568	3.3%
FY 2002	1,678,604,088	- 73,117,574	- 4.2%
FY 2003	1,738,962,243	60,358,155	3.6%
FY 2004	1,780,398,844	41,436,601	2.4%
FY 2005	1,881,273,764	100,874,920	5.7%
FY 2006	1,963,203,523	81,929,759	4.4%
Est. FY 2007	2,048,342,992	85,139,469	4.3%
Est. FY 2008	2,144,102,359	95,759,367	4.7%
Est. FY 2009	2,257,139,143	113,036,784	5.3%

Percentage increase FY 2004 - FY 2009 26.8%  
 Five-year average annual increase 5.4%

Notes:

- 1) FY 2002 and FY 2003 include \$45.0 million appropriated from other funds.
- 2) FY 2004 includes a \$45.4 million across-the-board reduction and a \$4.5 million restoration.

**K-12 SCHOOL DISTRICTS' REVENUE**  
**Estimated FY 2007**  
**(\$ in millions)**



	Amount	Percent of Total
General Fund and School Aid	\$ 2,301.9	48.7%
Property Taxes	1,600.9	33.9
Sales Tax	303.1	6.4
Federal Funding	183.6	3.9
Income Surtax	73.6	1.6
Miscellaneous	259.6	5.5
<b>Total</b>	<b>\$ 4,722.7</b>	<b>100.0%</b>

Note:

Approximately 66.51% of the revenue for K-12 school districts is derived through the basic funding formula.

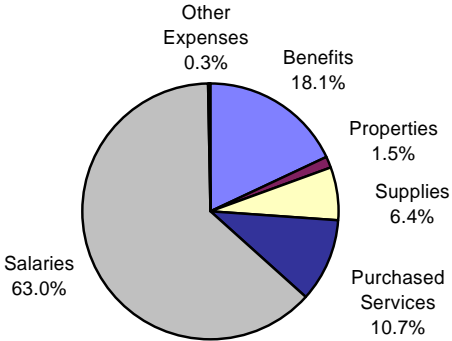
**K-12 SOURCE OF FUNDS  
ESTIMATED FY 2007 BUDGET DETAIL  
(\$ in millions)**

<u>Source of Funds</u>	<u>Amount</u>	<u>Percent</u>	<u># of Districts</u>
Combined District Cost			
Regular Program	\$ 2,483.1	52.5%	365
Budget Guarantee	13.8	0.3	149
Supplementary Weights	40.6	0.9	365
Special Education	360.9	7.6	365
AEA Media	21.8	0.5	365
AEA Education Services	24.1	0.5	365
AEA Special Education	125.4	2.7	365
Dropout SBRC	79.6	1.7	304
AEA Pro Rata Adjustment	- 15.5	- 0.3	365
Enrollment Adjustment	- 1.1	- 0.0	56
Adjusted Add'l Prop. Tax Levy	6.0	0.1	29
<b>Total Combined District Cost</b>	<b><u>\$ 3,138.7</u></b>	<b><u>66.5%</u></b>	
Other Taxes and Misc. Income			
Instructional Support	\$ 162.4	3.4%	334
Educational Improvement	0.5	0.0	4
Physical Plant and Equipment	112.9	2.4	333
School House Levy	0.0	0.0	0
Management Levy	100.3	2.1	361
Ed.and Rec. Levy (Playground	1.9	0.0	19
Bonds/Debt Service Levy	102.5	2.2	219
Cash Reserve Levy	118.1	2.5	287
SILO Sales Tax	303.1	6.4	365
Miscellaneous - Estimated			
State	239.1	5.1	365
Federal	183.6	3.9	365
Other	259.6	5.5	365
<b>Total Other Taxes and Funding</b>	<b><u>\$ 1,584.0</u></b>	<b><u>33.5%</u></b>	
<b>Total Budget</b>	<b><u>\$ 4,722.7</u></b>	<b><u>100.0%</u></b>	

AEA = Area Education Agency  
 SBRC = School Budget Review Committee  
 SILO = School Infrastructure Local Option

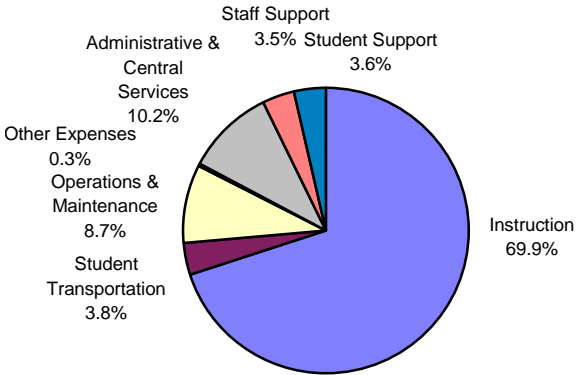
Sources  
 Iowa Department of Management  
 Iowa Department of Revenue

**GENERAL OPERATING EXPENDITURES K-12  
FOR IOWA SCHOOL YEAR  
2004 - 2005**



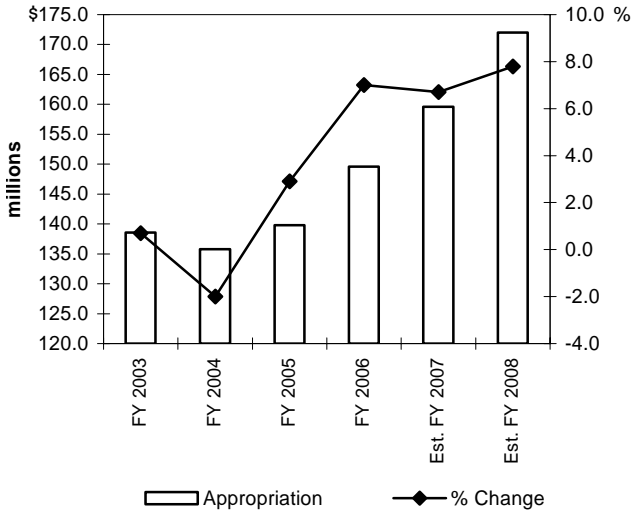
- 
- From FY 1986 to FY 2005, expenditures for salaries decreased by 4.6% and expenditures for benefits increased 5.0% as a percentage of total operating fund expenditures.

**GENERAL OPERATING EXPENDITURES K-12  
BY FUNCTION FOR IOWA SCHOOL YEAR  
2004 - 2005**



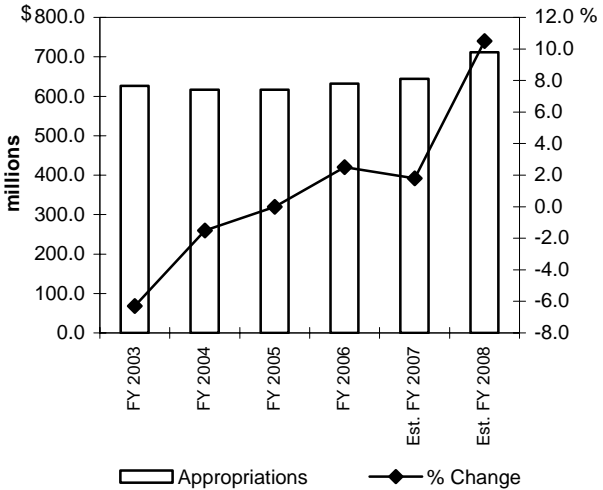
- Statewide average administrative expenditures for FY 2005 are 10.2% of total operating fund expenditures. This is the same percentage as in FY 1986.

**GENERAL FUND APPROPRIATIONS  
FOR COMMUNITY COLLEGES  
FY 2003 - FY 2008**



	<u>Appropriations</u>	<u>Change</u>	<u>Percent Change</u>
FY 2003	\$ 138,585,680	\$ 1,000,000	0.7%
FY 2004	135,779,244	- 2,806,436	- 2.0%
FY 2005	139,779,244	4,000,000	2.9%
FY 2006	149,579,244	9,800,000	7.0%
Est. FY 2007	159,579,244	10,000,000	6.7%
Est. FY 2008	171,962,414	12,383,170	7.8%
Percentage change FY 2003 - estimated FY 2008			24.1%
Five-year average annual change			4.8%

**GENERAL FUND APPROPRIATIONS  
FOR REGENTS INSTITUTIONS  
FY 2003 - FY 2008**

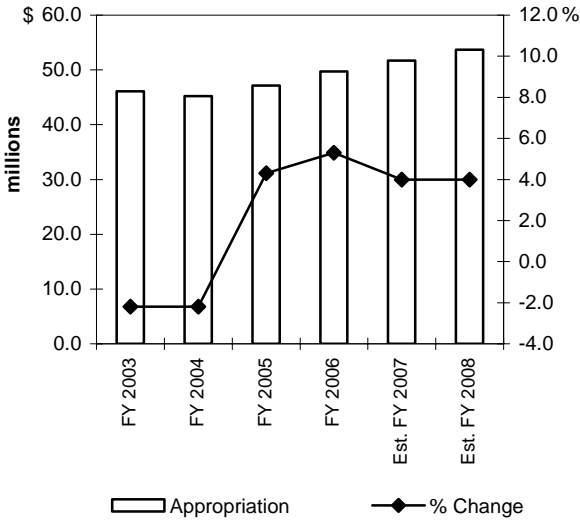


	Appropriations	Change	Percent Change
FY 2003	626,340,356	- 41,967,938	- 6.3%
FY 2004	617,022,987	- 9,317,369	- 1.5%
FY 2005	616,751,408	- 271,579	0.0%
FY 2006	632,340,696	15,589,288	2.5%
Est. FY 2007	643,990,327	11,649,631	1.8%
Est. FY 2008	711,670,765	67,680,438	10.5%
Percentage change FY 2003 - estimated FY 2008			13.6%
Five-year average annual change			2.7%

**Notes:**

- 1) Includes appropriations made by the Economic Development Subcommittee.
- 2) Totals include other funds for tuition replacement.
- 3) Totals for FY 2003 include other funds for salaries.
- 4) Includes operational funds only. Does not include funds for capitals or infrastructure.
- 5) Totals for FY 2006 and FY 2007 include funds appropriated from the IowaCare Account to the University of Iowa Hospitals and Clinics (UIHC). In FY 2005 and prior years, appropriations were made from the General Fund to UIHC.
- 6) FY 2007 includes \$40.1 million for salary adjustment.

**GENERAL FUND APPROPRIATIONS  
FOR TUITION GRANTS  
FY 2003 - FY 2008**



	<u>Appropriations</u>	<u>Change</u>	<u>Percent Change</u>
FY 2003	\$ 46,117,964	\$ - 1,037,418	- 2.2%
FY 2004	45,200,787	- 917,177	- 2.0%
FY 2005	47,157,515	1,956,728	4.3%
FY 2006	49,673,575	2,516,060	5.3%
Est. FY 2007	51,673,576	2,000,001	4.0%
Est. FY 2008	53,748,576	2,075,000	4.0%
Percentage increase FY 2003 - estimated FY 2008			16.5%
Five-year average annual change			3.3%

Note: For FY 2008, the total is separated as follows:  
 \$48,373,718 for nonprofit institutions.  
 \$5,374,858 for proprietary (for-profit) institutions.



**HEALTH AND HUMAN  
SERVICES**

**DEPARTMENT OF HUMAN SERVICES  
PROGRAMS**

The Department of Human Services is projected to spend \$4.261 billion combined for all programs, including Medical Assistance, the Family Investment Program, and the Food Stamp Program during FY 2008 (all funding sources). Federal funding is projected to account for \$2.543 billion, or 60.0% of these expenditures. Senior Living Trust Fund appropriations are \$65.0 million, or 0.8%. State General Fund appropriations are \$1.156 million, or 27.0%. The unfunded portion of the Medical Assistance Program accounts for an estimated \$12.0 million, or 0.1%. The Medical Assistance Program is projected to serve an average of 308,000 individuals per month during FY 2008. The Family Investment Program is projected to serve an average of 16,694 households each month. The Food Stamp Program is projected to serve an average of 265,909 persons each month during FY 2008.

The Family Investment Program (FIP) provides direct cash grant assistance to needy families in which 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) Program in order to reduce economic disincentives to employment.

The Food Stamp Program is a federally funded program administered by the U.S. Department of Agriculture which has 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.

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

**DEPARTMENT OF HUMAN SERVICES  
PROGRAMS (Contd.)**

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 who 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 to 133.0% of the federal poverty level and coverage up to 200.0% of the federal poverty level in the Healthy and Well Kids in Iowa (hawk-i) using private insurance coverage.

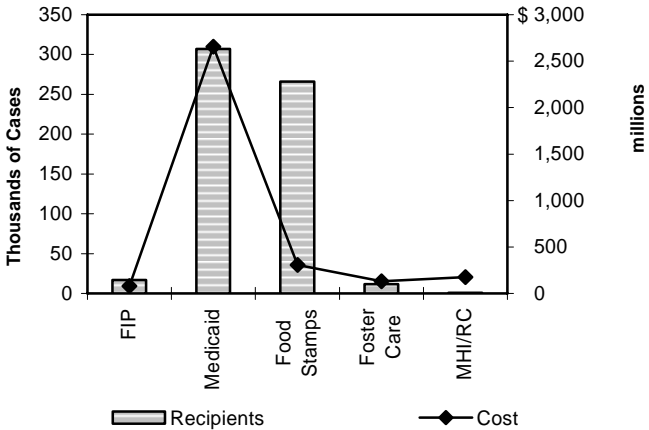
The Foster Care Program provides 24-hour temporary care for children unable to remain in their own homes, while offering services to families and children in order to implement plans for permanent placement.

There are four Mental Health Institutes for the mentally ill, located at Clarinda, Independence, Mt. Pleasant, and Cherokee. These Institutes provide a range of psychiatric and substance abuse services in an inpatient residential setting for those cases that community-based services cannot handle. The Institutes also provide limited outpatient services. Two of the Institutes, Clarinda and Mt. Pleasant, share campuses and selected support resources with adult correctional facilities operated by the Department of Corrections.

There are two Resource Centers which provide for the mentally retarded, located at Glenwood and Woodward. These Resource Centers provide diagnostic evaluation, treatment, training, care, rehabilitation, and support of mentally retarded persons. The Resource Centers also serve as the locations for various entities within the respective geographic areas which provide a wide variety of services to the area.

There is a Sexual Predator Civil Commitment Program located at the Mental Health Institute at Cherokee, which provides treatment for those who have served prison-time, consisting of three treatment components: assessment, treatment, and discharge planning.

DEPARTMENT OF HUMAN SERVICES  
FY 2008 MAJOR PROGRAMS



\* Foster Care = Family Foster Care, Group Care, and Adoption Subsidy

	Average Monthly Recipients Per Program	Total Program Cost
FIP (Households)	16,694	\$ 79,842,065
Medicaid	307,000	2,655,100,000
Food Stamps	265,900	307,842,614
Family Foster Care	2,902	30,707,923
Group Care**	1,069	42,624,571
Adoption Subsidy	7,478	57,002,154
MHI/RC**	862	176,633,831

\*\* Based on Average Daily Census, includes all funds.

Note:

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.

FIP = Family Investment Program

MHI/RC = Mental Health Institutes/Resource Centers

**TOTAL MEDICAL ASSISTANCE SPENDING**  
**FY 2006- FY 2008**  
**(\$ in millions)**

Category	Actual FY 2006	Est. FY 2007	Est. FY 2008
Inpatient*	\$ 282.4	\$ 287.7	\$ 282.5
Outpatient*	156.5	159.4	172.2
NF-Excluding MR*	436.3	452.5	460.7
NF-MR	243.1	250.4	271.2
Physicians Services*	169.5	172.6	205.8
Lab & X-ray Services*	3.7	3.8	4.2
Ambulance Services	2.7	2.7	3.5
Prescribed Drugs	423.1	451.4	458.4
HMO*	9.8	10.2	9.9
Medical Supplies	36.2	36.9	36.4
Dental Services	44.0	44.8	44.4
Optometric Services	7.8	8.0	9.0
Iowa Plan*	97.4	106.6	108.4
Waiver Services**	337.2	354.8	378.2
Other	231.3	235.6	210.3
<b>Total</b>	<b>\$ 2,481.0</b>	<b>\$ 2,577.4</b>	<b>\$ 2,655.1</b>

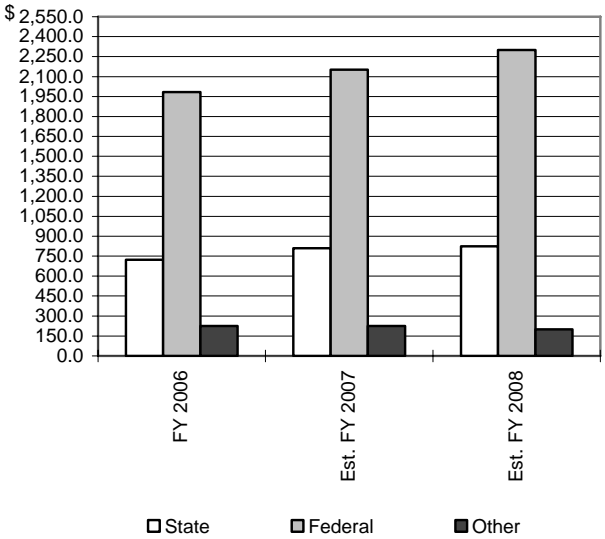
\* Mandatory Services.

\*\* Waiver Services - Mentally ill and handicapped waiver, AIDS waiver, brain injury waiver, mentally retarded waiver, elderly waiver, physical disabilities waiver, and home health.

Note:

Dollars include federal, State, and county dollars.

**TOTAL MEDICAL ASSISTANCE SPENDING (Contd.)  
FY 2006 - FY 2008  
(\$ in millions)**



- The federal government matches State spending of 38.2% with 61.8% of federal spending for FY 2008.

## CHILDREN'S HEALTH INSURANCE (CHIP) PROGRAM

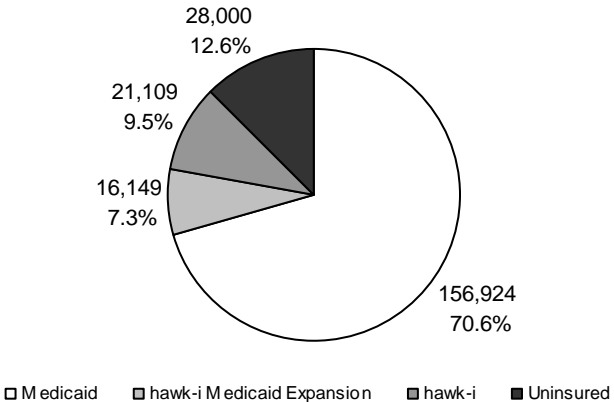
Congress enacted the Children's Health Insurance Program, with federal funds available on October 1, 1997, to provide insurance for children in families with incomes up to 200.0% of the Federal Poverty Level (FPL).

House File 909 (FY 2008 Health and Human Services Appropriations Act) appropriates \$23.2 million from the General Fund to provide Iowa's match for \$65.7 million in federal funds.

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. Statewide coverage is provided by one managed care plan and one indemnity plan. The Program was expanded to 200.0% of the FPL in FY 2003.

The Bureau of Census estimates 28,000 (3.7%) uninsured children in the State are at or below the 200.0% FPL. As of February 2007, 34,462 children were enrolled in the *hawk-i* Program.

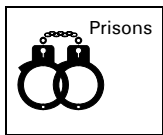
### Number of Children Below 200.0% FPL



**CRIME/ENFORCEMENT**



## PRISONS/CORRECTIONS



The State prisons were operating at 122.4% of current designed capacity on April 25, 2007, with a prison population of 8,880 offenders.

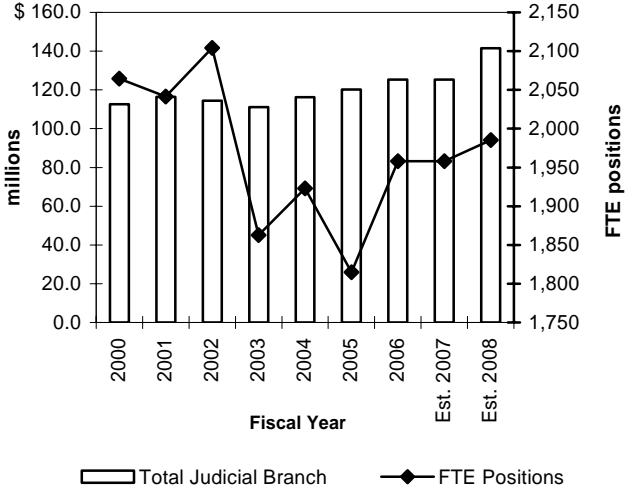
Current designed capacity is 7,256 beds. Designed capacity will increase to 7,434 beds when the 178-bed Special Needs Unit at Oakdale is constructed and operating (FY 2008).

The Criminal and Juvenile Justice Planning Division in the Department of Human Rights released its prison population forecast in December 2006. The Report stated that by FY 2016, the prison population is expected to reach 11,383 offenders if there are no changes to offender behavior, and justice system policies, trends, and practices remain unchanged.

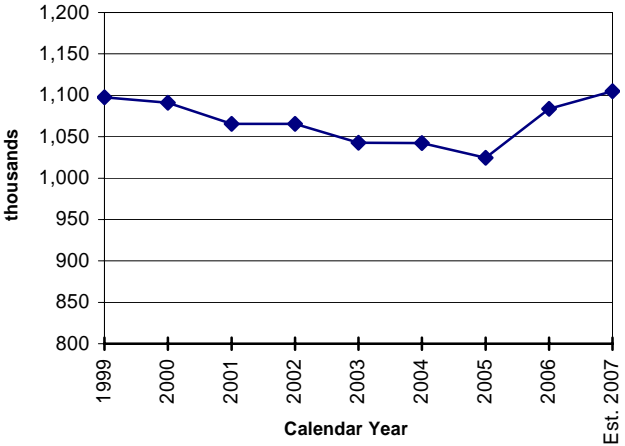
The forecast creates capacity issues because, based on the forecast, the prison system will be operating at 153.1% of current designed capacity by the end of FY 2016. According to the Department of Corrections, for every 1,000 increase in the inmate population, a new 800-bed prison will need to be constructed. This assumes each prison will operate at 125.0% of capacity.

If the prison population reaches 11,383 offenders, four new 800-bed prisons will need to be constructed due to overcrowding. The estimated construction cost is \$50.0 million for each prison; each prison will incur annual operating costs of \$29.0 million. Total capital costs are estimated to be \$200.0 million and annual operating costs are estimated to be \$116.0 million. If four new prisons are constructed and the population reaches 11,383 inmates, the prison system will be operating at 107.0% of designed capacity.

**JUDICIAL BRANCH  
APPROPRIATIONS AND FTE POSITIONS  
FY 2000 - FY 2008**

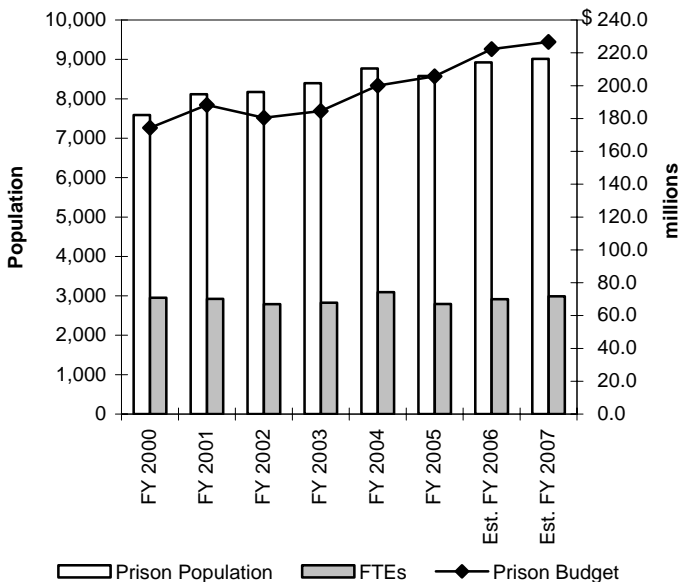


**COURT CASE FILINGS  
CY 1999 - CY 2007**

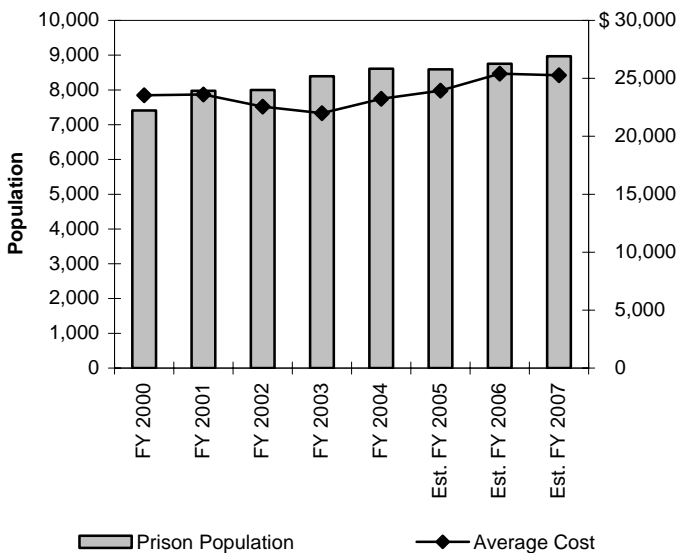


CY = Calendar Year

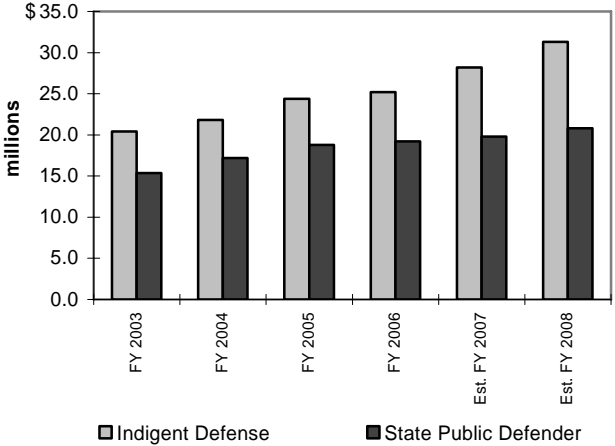
**YEAR-END PRISON POPULATION, STAFFING, AND BUDGET**



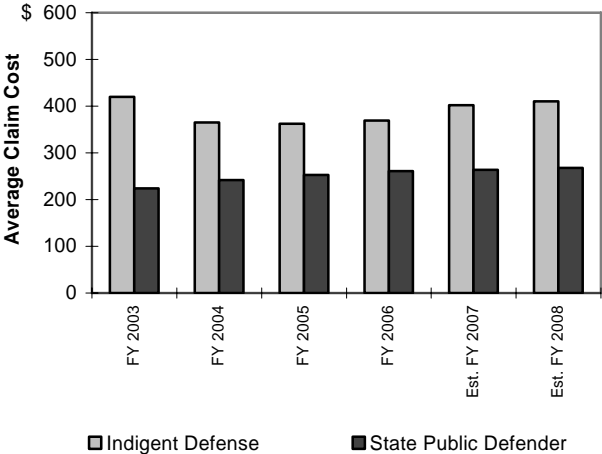
**AVERAGE PRISON POPULATION AND AVERAGE ANNUAL COST PER PRISONER**



### INDIGENT DEFENSE AND STATE PUBLIC DEFENDER EXPENDITURES FY 2003 - FY 2008



### INDIGENT DEFENSE AND STATE PUBLIC DEFENDER COSTS PER CLAIM FY 2003 - FY 2008



**Note:**

Costs for juvenile cases are included for the State Public Defender and for Indigent Defense.

# **TRANSPORTATION**

**ROAD USE TAX FUND**



The Road Use Tax Fund is comprised of revenue sources which include taxes on fuels; fees collected on vehicle registrations, titles, and driver licenses; and use tax collected on motor vehicle purchases and related equipment.

Except for administrative costs, all vehicle registration fees, license 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). However, the use tax on motor vehicles and equipment is exempt from the constitutional mandate.

The following table shows actual and estimated Road Use Tax Fund revenues for FY 2006 through FY 2008.

**ROAD USE TAX FUND  
(\$ in millions)**

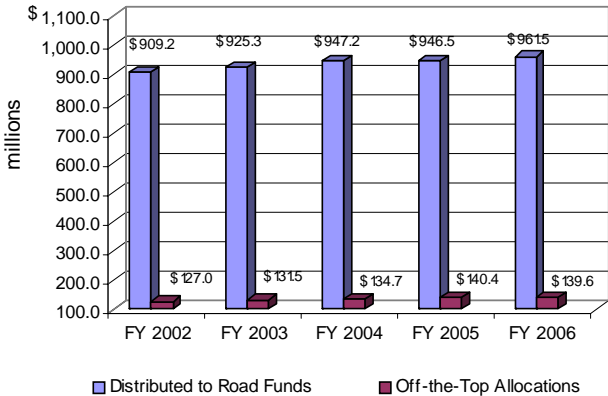
	<u>Actual FY 2006</u>	<u>Estimated FY 2007</u>	<u>Estimated FY 2008</u>
<b>Revenues</b>			
Fuel Tax	\$ 431.1	\$ 437.6	\$ 447.8
Registration Fees	390.2	393.8	399.5
Use Tax	220.1	215.9	213.7
Underground Tank Fees	21.3	21.5	21.5
Driver's License Fees	11.4	5.0	11.9
Interest	10.0	11.0	11.6
Other	17.0	15.6	16.7
<b>Total</b>	<u><u>\$1,101.1</u></u>	<u><u>\$1,100.4</u></u>	<u><u>\$1,122.7</u></u>

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.

## ROAD USE TAX FUND (Contd.)

The following chart shows the comparison between the funds distributed by formula to the State, city, and county road funds and total off-the-top allocations. Following the formula distributions to the four road funds, the remaining revenues are then transferred with the jurisdiction of certain roads, as detailed in the following section.

**Road Use Tax Fund Expenditures**



### Transfer of Road Jurisdictions

Effective 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.

In addition, 1.75% of Primary Road Fund moneys are transferred annually to a Transfer of Jurisdiction Fund. The allocation, effective until FY 2014, is distributed as follows:

- 75.0% to counties and cities that assume jurisdiction of primary roads.
- 22.5% to the Secondary Road Fund of all counties.
- 2.5% to the Street Construction (Municipal Road) Fund of all cities.

**ROAD USE TAX FUND (Contd.)**

Beginning in FY 2014, the Transfer of Jurisdiction Fund will be eliminated, and the 1.75% of Primary Road Fund moneys will be distributed to all cities and counties as follows:

- 1.575% to the Secondary Road Fund of all counties.
- 0.175% to the Street Construction Fund of all cities.

In FY 2005, jurisdiction and control of approximately 400 miles of farm-to-market road extensions in cities with a population of less than 500 was transferred to the respective counties. A portion of the Municipal Road Fund from cities that transferred the farm-to-market extensions is transferred monthly to the respective counties. The total amount transferred is approximately \$2.1 million annually.

The following table shows Transfer of Jurisdiction Fund apportionments to cities and counties in FY 2006, and estimated apportionments in FY 2007 and FY 2008.

**Transfer of Jurisdiction Fund**

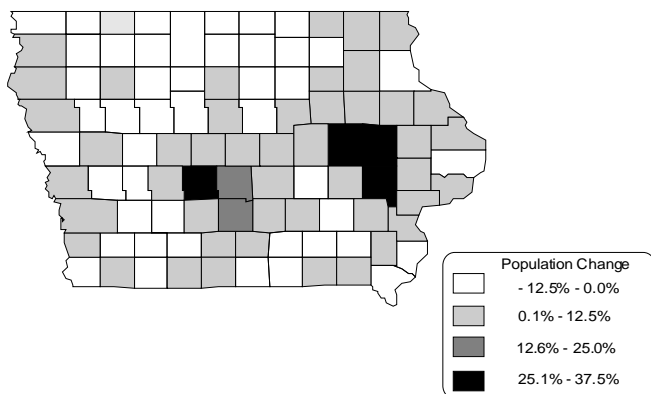
(\$ in Millions)

	<u>Actual FY 2006</u>	<u>Estimated FY 2007</u>	<u>Estimated FY 2008</u>
<b><u>Revenue</u></b>			
1.75% of Primary Road Fund	\$ 8.0	\$ 7.9	\$ 8.1
<b><u>Distribution</u></b>			
Cities and counties that assume jurisdiction of primary roads (75.0%):			
<i>Cities (10.4%)</i>	0.6	0.6	0.6
<i>Counties (89.6%)</i>	5.4	5.3	5.5
All counties (22.5%)	1.8	1.8	1.8
All cities (2.5%)	0.2	0.2	0.2
<b>Total Distribution</b>	<u><u>\$ 8.0</u></u>	<u><u>\$ 7.9</u></u>	<u><u>\$ 8.1</u></u>



# STATE PROFILE

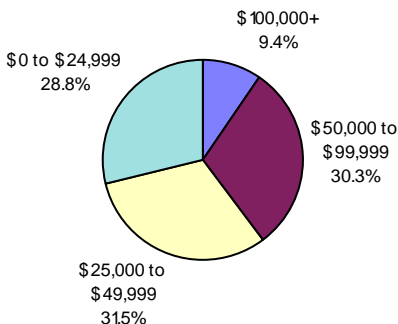
## IOWA'S POPULATION CHANGE BY COUNTY 1990 - 2000



- Iowa's population was estimated at 2,982,085 in 2006.
- The State experienced a negative population growth rate between the years 1979 and 1988, while the national average was fairly constant at 1.0%.
- Iowa experienced a 5.4% growth in the population rate from 1990 to 2000, which was concentrated in and around metropolitan areas.
- Dallas County reported the greatest gains in population, increasing by 37.0% from 1990 to 2000. Pocahontas County experienced the largest decline, with a loss of 9.1% during the same period.
- Just over 50.0% of the State's population resides in twelve counties in the State, which include Black Hawk, Cerro Gordo, Clinton, Dallas, Dubuque, Johnson, Linn, Polk, Pottawattamie, Scott, Story, and Woodbury.
- The most populous county in the State is Polk County, which reported a growth rate of 14.5% during the 1990s.

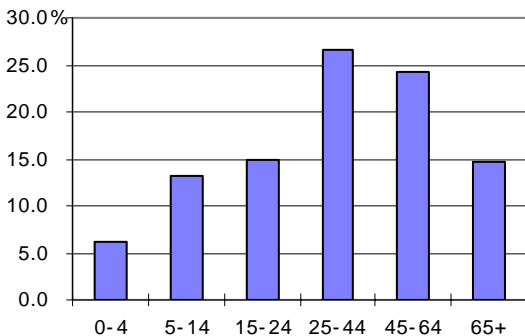
## IOWA'S POPULATION (as of 2003)

### HOUSEHOLD INCOME



- The average Iowa household has 2.5 members.
- Median household income in 2005 was \$42,278.
- The median age of an Iowan is 37.7 years of age compared to the national average of 35.9 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 2004, the marriage rate was 6.9 per 1,000 population.

**IOWA'S POPULATION (Contd.)**

- In 2004, the divorce rate was 2.8 per 1,000 population.
- In 2004, the percentage of births to unmarried women was 31.0%.
- In 2004, the infant death rate per 1,000 live births was 5.1.
- It is estimated that 90.0% of Iowans are covered by health insurance, ranking third in the nation.
- In 2005, 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 23.8% compared to the national average of 27.2%.
  - Iowa's high school dropout rate was 2.7% compared to the national average of 5.1%.
- Iowa's population includes 6.1% who receive food stamps, ranking 38th in the nation. The national average is 8.1%.
- Iowa's average household Family Investment Program (FIP) monthly payment is \$124 compared to a national average of \$168.
- Iowa ranks 34th in the nation with 3,176 crimes per 100,000 population.
- Iowa had 285 state prisoners per 100,000 population, ranking 39th nationally.
  - The median age for inmates is 33 years old.
  - Men are 92.0% of the inmate population.
  - 71.0% of the inmate population is white, 22.1% is African-American, 4.4% is Hispanic, and 2.5% is other minorities.
- Iowa has a civilian labor force of 1.5 million persons. Women comprise 47.0% of the work force.
- Iowa ranks fourth highest in the nation for home ownership with 73.8% owner-occupied homes.
- Iowa has the lowest auto insurance rates in the nation.

## IOWA'S POPULATION (Contd.)

## 2007 NON-FARM EMPLOYMENT

Construction	4.9%
Education and Health	13.5%
Financial	6.6%
Government	16.7%
Information	2.2%
Leisure and Hospitality	8.8%
Manufacturing	15.2%
Natural Resources and Mining	0.1%
Other Services	3.7%
Professional and Business Serv.	7.9%
Trade, Transportation, and Utilities	20.4%

**Legislative Services Agency  
Fiscal Services Division  
Capitol Complex  
Des Moines, IA 50319  
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FAX (515) 281-8027  
<http://staffweb.legis.state.ia.us/lfb>**