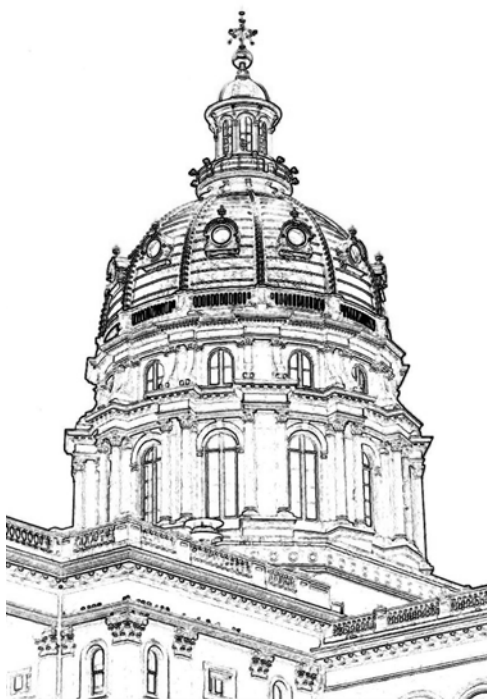


Fiscal Facts 2008



IOWA
Legislative Services Agency
Fiscal Services Division
May 2008

To: Members of the Iowa General Assembly

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

Re: Fiscal Facts

Date: May 2008

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

The FY 2008 data are estimates since the document is being issued prior to the close of FY 2008. **The data provided for FY 2009 represents action taken by the 2008 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.

Contents in this year's Fiscal Facts have been reduced slightly to avoid duplication with the LSA's Factbook published later in the year.

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	Deborah Helsen	281-6764
	David Reynolds	281-6964

Ag. and Natural Resources	Debra Kozel	281-6767
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Economic Development	Ron Robinson	281-6256
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Education	Dwayne Ferguson	281-6561
	Robin Madison	281-5270

Health and Human Services	Jess Benson	281-4611
	Phil Kauffman	725-2062
	Sue Lerdal	281-7794

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

Transportation & Infrastructure	Mary Beth Mellick	281-8223
	Marcia Tannian	281-7942

Standing Committee:

Appropriations	Sue Lerdal	281-7794
	Dave Reynolds	281-6934

Education	Shawn Snyder	281-7799
	Dwayne Ferguson	281-6561

Government Oversight	Marcia Tannian	281-7942
	Doug Wulf	281-3250

Ways and Means	Jeff Robinson	281-4614
	Shawn Snyder	281-7799
	Dwayne Ferguson	281-6561

Publications Coordinator	Mary Shipman	281-4617
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Subcommittee Staffing/Training Coordinator	Sue Lerdal	281-7794
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Appropriations Tracking Coordinator	Dave Reynolds	281-6934
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STATE OF IOWA
GENERAL FUND BALANCE
(\$ in millions)

	<u>FY 2008 Estimated</u>	<u>FY 2009 Legislative Action*</u>
Estimated Funds:		
Estimated Receipts		
Rev. Est. Conference (12/07)	\$ 6,633.0	\$ 6,802.6
Tax Law Changes	0.0	13.9
REC Adj. (04/08)**	78.8	49.1
Total Receipts	6,711.8	6,865.6
 Tax Refunds	 - 632.8	 - 673.4
 Accruals	 - 16.8	 10.8
Total Funds	6,062.2	6,203.0
Est. Appropriations:		
General Fund	5,859.4	6,133.2
FY 2008 Supplemental	7.5	
Reversions	- 12.5	- 12.5
Net Appropriations	5,854.4	6,120.7
Ending Balance	\$ 207.8	\$ 82.3
Approps./Transfers to Other Funds		
Property Tax Credit Fund***	\$ 99.8	\$ 0.0
Senior Living Trust Fund	54.0	36.8
Cash Reserve Fund	54.0	45.5
Total	\$ 207.8	\$ 82.3

*Prior to action by the Governor.

**The General Assembly notwithstanding the requirement to use the December estimate of the REC and instead used the April estimate for FY 2009.

***Legislative action notwithstanding Section 8.57, Code of Iowa, and appropriates \$99.8 million of the General Fund Surplus to the Property Tax Credit Fund. An additional \$44.4 million is appropriated from the General Fund, \$13.9 million is transferred from the FY 2008 Salary Adjustment Fund, and \$1.8 million is carried forward from FY 2008 to fund a total of \$159.9 million in property tax credits in FY 2009.

THE YEAR IN REVIEW

FY 2007

Iowa ended FY 2007 with a surplus of \$261.6 million. The revenue growth rate was 6.4% before refunds and accruals; up from the FY 2006 growth rate of 3.6%. Of the \$261.6 million surplus, \$131.9 million was distributed to the Property Tax Credit Fund for FY 2007 property tax credits; \$53.5 million was appropriated to the Senior Living Trust Fund; and \$76.2 million was deposited into the Cash Reserve Fund.

FY 2008

Revenue growth in Iowa continues to be strong in FY 2008, with the April Revenue Estimating Conference (REC) estimating growth in total receipts (before refunds and accruals) to be 8.8%, up from the December growth estimate of 6.9%. According to a recent report released by the National Conference of State Legislatures (NCSL), the condition of many states government's finances is deteriorating, in some cases considerably.

The majority of the states, 33, reported a "concerned" fiscal outlook in the NCSL's *April 2008 State Budget Update*. Based on information collected from legislative fiscal directors in April, the report covers the revenue and expenditure situation for the first three quarters of fiscal 2008 for most states. Iowa was among 10 states reporting a "stable" outlook. The number of states reporting shortfalls rose to 16 in April, up from seven in November 2007. Iowa is not yet experiencing the problems that are beginning to affect many other parts of the nation. Through the end of April, personal and corporate income tax revenue growth continues to be strong. 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 Fund (HITT) in FY 2008.

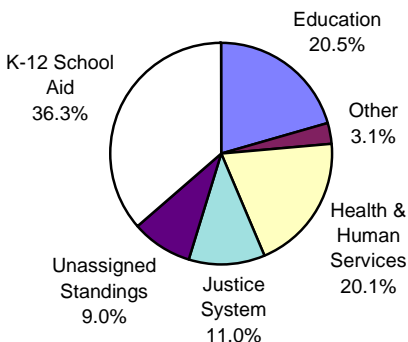
The 2008 General Assembly passed a net General Fund supplemental appropriation totaling \$7.5 million to fund a gap in Medicaid expenditures.

THE YEAR IN REVIEW (Contd.)**FY 2009**

Revenue growth in Iowa is projected to remain stable for FY 2009. The April REC projected growth in total receipts (before refunds and accruals) to be 2.6% for FY 2009, down considerably from the FY 2008 estimated growth rate, but up from the December REC estimate for FY 2009. High corn and soybean prices mean farmers are doing well and boosting the economy, but it is likely that the economic downturn may eventually catch up with the State. 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 \$6.133 billion from the General Fund for FY 2009. Prior to any item vetoes by the Governor, the projected General Fund ending balance is \$82.3 million. The General Assembly notwithstanding the statutory requirement to use the December Revenue Estimate and permits the spending of 99.0% of the additional \$49.1 million in growth projected by the April REC.

**DISTRIBUTION OF ESTIMATED FY 2009
STATE GENERAL FUND APPROPRIATIONS
(\$ in millions)**



Subcommittee	Est. FY 2009 Appropriations	Percent of Total
Admin. & Regulation	\$ 96.3	1.6%
Ag. & Natural Resources	44.4	0.7
Economic Development	48.4	0.8
K-12 Education - School Aid	2,226.8	36.3
Education	1,256.4	20.5
Health & Human Services	1,230.9	20.1
Justice System	677.1	11.0
Unassigned Standings	552.9	9.0
Total	\$ 6,133.2	100.0%

Note:

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

NEW EDUCATION PROGRAMS

Science, Technology, Engineering, and Mathematics (STEM) Collaborative Initiative

House File 2679 appropriated \$4.0 million for the STEM Collaborative Initiative. This funding establishes the Program at the University of Northern Iowa to coordinate efforts among stakeholders. The program is to coordinate efforts across K-12 schools, community colleges, the three Board of Regents universities, and the Department of Education. It focuses on recruitment to increase the number of math and science teachers; summer internships for current math and science teachers to increase retention; collaboration with the Department of Education to expand Project Lead The Way (PLTW), increase the number of PLTW certified teachers, and improve the rigor of math and science curriculum; and an increase in the number of STEM community college instructors.

Senior Year Plus

House File 2679 appropriated \$1.9 million to the Department of Education for the Senior Year Plus Program which is intended to increase access by high school students to college credit and advanced placement coursework. Graduating from high school with college credit is expected to reduce the time and cost of a college education. The Program consolidates and modifies a number of existing programs.

SCHOOL FOUNDATION FORMULA

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

- Home School Assistance Program Weight Reduction – The weight generated by resident students receiving competent private instruction from licensed staff provided by the public school district was reduced from 0.6 to 0.3 retroactive to October 2007. This adjustment reduces school district budget enrollments and for FY 2009, reduces enrollment counts by 1,446. The estimated impact in FY 2009 due to the reduction is approximately a decrease of \$7.3 million in State aid to local school districts.
- Enactment of HF 2663 (State Sales/Use Tax for School Infrastructure Act) will provide additional property tax relief through the school aid formula beginning in FY 2011. For more information regarding the impact, see the section detailing that Act on page 9.
- Passage of the State Categorical Funding School Aid Formula will provide that beginning FY 2010, funding for the Student Achievement/Teacher Quality (SATQ) Teacher Compensation Program and Educational Excellence Phase II, SATQ Professional Development, and Early Intervention Class Size Reduction will be funded on a per pupil basis through the school aid formula. Beginning in FY 2011, per pupil funding for these programs will be increased based on an allowable growth rate to be set by the General Assembly. For more information regarding the impact, see the section detailing that initiative on page 7.

SCHOOL AID ROLL-IN OF STATE CATEGORICAL FUNDING

Division V of HF 2679 (Education Appropriations Bill) requires funding for specified education standing appropriations to be provided on a per pupil basis through the State school aid formula beginning in FY 2010. These categorical standing appropriations include:

- The Student Achievement/Teacher Quality (SATQ) Teacher Compensation Program and Professional Development Program.
- The Early intervention/Class Size Reduction Program.
- The Educational Excellence Phase II Program.

School aid funding for these Programs will be funded entirely through State aid.

These State categorical program funds will be rolled into the school aid formula beginning in FY 2010. Educational Excellence Phase II and the SATQ teacher compensation funding will be combined to form the teacher salary supplement, the SATQ Professional Development will be funded through the professional development supplement, and Early Intervention/Class Size Reduction will be funded through the early intervention supplement. Beginning with FY 2011 (starting with the 2009 Legislative Session), the General Assembly will be required to set a categorical allowable growth rate for each of the supplements.

Beginning in FY 2011, school districts and area education agencies that experience a decline in enrollment that is not offset by the allowable growth rate will receive a budget adjustment that guarantees them the previous fiscal year's unadjusted supplement amount (100.0% budget guarantee). The budget adjustment will be made for each of the categorical supplements as required and will be funded entirely through State aid.

Any appropriations made to the SATQ teacher compensation or professional development, Educational Excellence Phase II, or Early Intervention/Class Size Reduction for any fiscal years on or after FY 2010, will be rolled into the school aid formula on a per pupil basis.

**SCHOOL AID ROLL-IN OF STATE
CATEGORICAL FUNDING (Contd.)**

The legislation also provides technical corrections regarding the Early Intervention/Class Size Reduction Program and the Educational Excellence Phase II Program including elimination of appropriations made to those programs beginning in FY 2010.

STATE SALES AND USE TAX INCREASE FOR SCHOOL INFRASTRUCTURE AND PROPERTY TAX RELIEF

During the 2008 Legislative Session, the General Assembly passed House File 2663 (State Sales and Use Tax for School Infrastructure and Property Tax Relief Bill). Major provisions in HF 2663 include the following:

- Repeals the school infrastructure local option sales tax (SILO).
- Increases the State sales and use tax from 5.0% to 6.0%, and requires the increase in the rate be designated for school infrastructure purposes or property tax relief.
- Eliminates the statewide distribution per student of \$575 and replaces it with a statewide rolling average.
- Requires revenues generated from the increase in the State sales and use tax to be distributed to school districts based on a distribution formula used to distribute SILO funds.
- Requires the Department of Revenue to use the FY 2008 SILO amounts by county as a base for future SILO distribution estimates and increase the county-by-county estimates by the Revenue Estimating Conference (REC) sales/use tax growth projections. Additional funds remaining from the Secure an Advanced Vision for Education (SAVE) Fund are deposited in the Property Tax Equity and Relief (PTER) Fund and will be used to provide property tax relief through the school aid formula.
- Specifies that it is the intent of the General Assembly that the purpose of the additional revenues from the increase in the State sales and use tax be used solely for school infrastructure or school district property tax relief.
- Reduces the State sales and use tax to 5.0% beginning January 1, 2030, and repeals the sales and use tax for school infrastructure and property tax relief provision on December 30, 2029.

Fiscal Impact

The estimated increase to the State General Fund resulting from interest earned is \$750,000 in FY 2010 and \$771,000 in FY 2011.

STATE SALES AND USE TAX INCREASE FOR SCHOOL INFRASTRUCTURE AND PROPERTY TAX RELIEF (Contd.)

Local School Districts: The following table provides a breakdown of the sales and use tax revenues designated to the SAVE Fund and the PTER Fund.

(\$ in millions)

	Estimated Sales and Use Tax Deposited to SAVE Fund	Estimated SILO Distribution from SAVE Fund	Estimated Amount Deposited from SAVE to PTER Fund	Property Tax Relief to School Districts
FY 2009	\$ 404.9	\$ 372.8	\$ 32.2	N.A.
FY 2010	416.3	383.2	33.1	N.A.
FY 2011	427.9	393.9	34.0	\$ 32.2
FY 2012	439.9	405.0	34.9	33.1
FY 2013	452.2	416.3	35.9	34.0
FY 2014	464.9	427.9	36.9	34.9

N.A. = Not Applicable

CORE CURRICULUM

During the 2008 Legislative Session, the General Assembly passed SF 2216 (Core Curriculum Bill) that requires the State Board of Education to establish a core curriculum that school districts must adopt prior to FY 2011 for grades nine through twelve and prior to FY 2015 for grades kindergarten through eight. The Act requires districts to develop an individual core curriculum plan for each student. The Department of Education is required to conduct a study of measures necessary for successful implementation of the core curriculum by school districts and accredited nonpublic schools.

As required by current statute, the Department has established and many school districts have begun implementing a voluntary model core curriculum in grades nine through twelve. Senate File 2216 makes the curriculum mandatory and expands it to the earlier grades.

The Department of Education will coordinate a state-wide network, via the Area Education Agencies (AEAs), to help school districts implement the curriculum. The network will be needed through FY 2015, the final year of implementation, at an estimated annual cost of \$2.6 million. House File 2679 (FY 2009 Education Appropriations Bill) includes a FY 2009 General Fund appropriation to the Department for this purpose in the amount of \$2.2 million.

HEALTH CARE REFORM

During the 2008 Legislative Session, the General Assembly passed HF 2539 (Health Care Reform Bill). The Bill defines a plan for healthcare reform in Iowa including health care coverage intended for children and adults, coverage for dependent children up to the age of 25, health information technology, end-of-life care decision-making, pre-existing conditions and dependent care coverage, medical homes, prevention and chronic care management, continuous eligibility for children under the Medical Assistance (Medicaid) Program, and disease prevention and wellness initiatives.

The Bill appropriates \$6.7 million for FY 2009, including \$4.8 million to cover additional children under the Medicaid and State Children's Health Insurance Program (SCHIP), and \$1.7 million to the Department of Public Health for various prevention, health and wellness related activities.

The Bill appropriates an additional \$10.0 million in FY 2010 and FY 2011 for a total of \$24.8 million appropriated over the next three fiscal years to cover all children.

TIME-21 TRANSPORTATION FUNDING

Senate File 2420 (TIME-21 Transportation Funding Act), enacted during the 2008 Legislative Session, increases the fees collected from certain motor vehicle and trailer registrations and titles, and allocates the additional revenues to the Transportation Moves the Economy in the 21st Century (TIME-21) Fund effective January 1, 2009. The amount allocated to the Fund from vehicle registration fees includes the amount of revenue generated in excess of \$392.0 million annually.

The following table shows estimated TIME-21 Fund revenues and allocations for FY 2009 – FY 2011. House File 932 (TIME-21 Fund Act), enacted during the 2007 Legislative Session, allocates revenues from the TIME-21 Fund to the Primary Road Fund (60.0%), Secondary Road Fund (20.0%), and City Street Fund (20.0%).

TIME-21 FUND ESTIMATED REVENUES & ALLOCATIONS (Dollars in Millions)

<u>Revenues</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Motor Vehicle Registrations	\$ 2.0	\$ 46.9	\$ 85.2
Trailer Registrations	4.4	8.8	8.8
Certificates of Title/Salvage Title	5.2	10.3	10.3
Total Revenues	<u>\$ 11.6</u>	<u>\$ 66.0</u>	<u>\$ 104.4</u>

Note: The fee increases take effect the second half of FY 2009.

<u>Allocations</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Primary Road Fund (State) 60.0%	\$ 7.0	\$ 39.6	\$ 62.7
Secondary Road Fund (Counties) 20.0%	2.3	13.2	20.9
City Street Fund (Cities) 20.0%	2.3	13.2	20.9
Total Allocations	<u>\$ 11.6</u>	<u>\$ 66.0</u>	<u>\$ 104.4</u>

Note: Totals may not add due to rounding.

TIME-21 TRANSPORTATION FUNDING (Contd.)

Senate File 2420 also replaced the motor vehicle use tax with a Fee for New Registration and established a Statutory Allocations Fund (SAF). The SAF includes revenues generated from items that are not constitutionally protected to be spent on public highways, and will fund items that were previously funded from the motor vehicle use tax. Moneys in excess of the amount necessary will be deposited in the Road Use Tax Fund. Estimated revenues and allocations for the SAF for FY 2009 - FY 2011 are shown in the following table.

Other Funds

**STATUTORY ALLOCATIONS FUND
ESTIMATED REVENUES AND ALLOCATIONS**
(Dollars in Millions)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Total Revenues	\$ 41.3	\$ 37.4	\$ 35.6
Total Allocations	30.1	30.0	30.2
Balance to Road Use Tax Fund	<u>\$ 11.2</u>	<u>\$ 7.4</u>	<u>\$ 5.4</u>

The estimated fiscal impact of SF 2420 for other funds is as follows:

**OTHER FUNDS
ESTIMATED FISCAL IMPACT**
(Dollars in Millions)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Net Road Use Tax Fund	\$ -0.5	\$ -13.3	\$ -12.4
State General Fund	0.0	0.0	-1.0
County General Fund	0.1	1.6	3.0
Motorcycle Rider Education Fund	0.3	0.2	0.2

SMOKE-FREE AIR

House File 2212 (Smoking Ban in Public Places Act), enacted during the 2008 Legislative Session, creates a new Code of Iowa chapter called the "Smoke-Free Air Act." The Act is to be enforced by the Department of Public Health (DPH) or the Department's designee, and is effective July 1, 2008.

The Act prohibits smoking in all enclosed locations within places of employment, and specified outdoor areas, including school grounds. In addition, the Act prohibits smoking in gambling structures, excursion gambling boats, and racetrack enclosures, with the exception of gaming floors, exclusive of any bar or restaurant located within the gaming floor. Other exceptions to the smoke-free requirement include the Iowa Veterans Home, State and county fairgrounds, and farm tractors, farm trucks, and implements of husbandry. Institutions administered by the Department of Corrections (DOC) and facilities of the Iowa National Guard are also exempt, except that smoking on the grounds is limited to designated areas.

The Act directs the DPH to provide a compliance education program for the public, employers, and business owners. Complaints may be filed with the Department or the Department's designee. Judicial magistrates are to hear and determine violations.

Fiscal Impact

The estimated fiscal impact of HF 2212 is a net reduction to the State General Fund, combining revenue increases, decreases, and increased expenditures, of \$8.7 million for FY 2009 and \$8.6 million for FY 2010 and future fiscal years. The reduction in Local Option Sales Tax (LOST) and School Infrastructure Sales Tax (SILO) revenue is projected to be \$0.4 million per year beginning in FY 2009.

SMOKE-FREE AIR (Contd.)

The net fiscal impact is the result of increased expenditures to implement and administer the Act, which are estimated at \$106,900 for FY 2009 and \$51,100 for FY 2010, and a reduction in cigarette sales. The following table shows estimated State General Fund and local government reductions from the cigarette sales impact:

Estimated Cigarette Sales Revenue Impact
(Dollars in Millions)

Fiscal Year	Cigarette Tax	State Sales Tax	Increased Income*	State	Local Gov.
				Net General Fund Impact	LOST-SILO** Taxes
2009	\$ -8.94	\$ -1.57	\$ 1.80	\$ -8.71	\$ -0.40
2010	-8.85	-1.58	1.80	-8.62	-0.42
2011	-8.75	-1.59	1.80	-8.54	-0.45
2012	-8.66	-1.59	1.80	-8.45	-0.48

* The estimated dollar amount generated if the dollars not expended on cigarettes are considered the same as increased income and expended as any other income.

** Local Option Sales Tax (LOST) and School Infrastructure Sales Tax (SILO).

TAX AMNESTY PROGRAM

Federal legislation enacted in early 2008 (H.R. 5140) provides a federal payment to qualified U.S. income tax payers to be distributed beginning May 2008. The payments equal a maximum of \$600 per single household and \$1,200 per married household, plus an additional \$300 per child. The payments are based on filed tax year 2007 returns.

Current Iowa law allows a deduction for federal income taxes paid in a tax year, adjusted for any refunds received. House File 2417 exempts the payments from Iowa income tax.

The Iowa Department of Revenue estimates that federal payments received by Iowa taxpayers will increase Iowa taxable income by \$1.08 billion and Iowa income taxes received in FY 2009 by \$67.5 million. The federal legislation is estimated to result in payments to 1.06 million Iowa households with an average payment amount of \$1,015.

House File 2417 will eliminate the \$67.5 million of increased Iowa income taxes that would otherwise result from the federal payment. The Bill will also eliminate a related increase in school local option income surtax liability of \$2.8 million.

COLLECTIVE BARGAINING CHANGES

The Collective Bargaining Changes Bill (HF 2645) adds all other terms and conditions of employment, except teacher discharge and most public retirement systems, to the list of mandatory public employment collective bargaining topics. Any party involved in the bargaining may require a topic to be bargained. The Bill also eliminates the option to appeal to the District Court an adjudicator's final decision regarding teacher terminations. Finally, public school employees will no longer have sick leave reduced by workers' compensation benefit payments.

Data is not available to:

- Determine how many, or what items, will be required to be bargained during public employment collective bargaining.
- Determine the number of teacher terminations filed annually.
- Determine the amount of sick leave reduction for teachers that collect workers' compensation payments.

Since data is not available, the legislation will have an unknown fiscal impact on the administrative functions of the Public Employment Relations Board (PERB), public employers, and public employees. Adding topics increases the possibility of increasing or decreasing costs for employers, including the State. The fiscal impact of changes to teacher terminations and sick leave amounts can also not be determined.

DELINQUENT DEBT

Senate File 2428 relates to the collection of delinquent debt owed the State and political subdivisions of the State by requiring offsets of gambling winnings, sanctioning of professional licenses, modifying provisions related to debt and tax collections, writing off certain delinquent court debt, modifying provisions relating to the deposit of certain funds in the Jury and Witness Fee Fund, and making penalties applicable.

Senate File 2428 does the following:

- Requires the Department of Administrative Services (DAS) to create and operate a Racing and Gaming Offset Program at casinos, riverboats, and racetracks for the collection of outstanding debt on winnings greater than \$10,000.
- Deems court debt delinquent if it is not paid within 30 days after the date it is assessed.
- Thirty days after the court debt has been assessed, or if an installment payment is not received within 30 days after the date it was due, the Judicial Branch may assign the case to the CCU, in the Department of Revenue, for a period of 60 days.
- The county attorney or the county attorney's designee may collect court debt after 90 days. If the county attorney is not collecting the court debt, the Judicial Branch may contract with a private collection designee for the collection of court debt.
- The county attorney will be allowed to retain 40.0% for the County General Fund and the State General Fund will receive 60.0%.
- Once the following thresholds are reached, the county attorney's office will retain an additional 12.0%, for a total of 52.0%, and the State General Fund total will be reduced to 48.0%. Counties are allowed to enter into a 28E agreement for the purposes of collecting delinquent court debt. The combined counties will be treated as a single county but the threshold will be attributed to the county with the largest population. The thresholds are as follows:

DELINQUENT DEBT (Contd.)

- A county with a population greater than 100,000, but no more than 150,000, may collect an amount up to \$400,000.
- A county with a population greater than 50,000, but not more than 100,000, may collect an amount up to \$250,000.
- A county with a population greater than 26,000, but not more than 50,000, may collect an amount up to \$100,000.
- A county with a population greater than 15,000, but less than 26,000, may collect an amount up to \$50,000.
- A county with a population equal to or less than 15,000 may collect an amount up to \$25,000.
- Any portion of the court debt in a case that remains uncollected after 65 years, will be written off as uncollectible and the case file will be closed. This will be handled on a case-by-case basis.
- Permits a person with a suspended driver's license to enter into a payment plan with the CCU or the County Attorneys.

Fiscal Impact

The fiscal impact of SF 2428 is:

	FY 2009	FY 2010	FY 2011
Three- to- Ten Year Old Debt Collections	\$ 11,616,000	\$ 11,616,000	\$ 0
Jury Witness Fund Revenue to the General Fund	3,600,000	3,600,000	100,000
Increased Collections on Current Debt	7,150,000	7,150,000	7,150,000
Racing and Gaming Offset Program	252,700	252,700	252,700
Delinquent Sales Tax Collections Limitation	(150,000)	(150,000)	(150,000)
Total	\$ 22,468,700	\$ 22,468,700	\$ 7,352,700

The cost to the Judicial Branch to implement the delinquent debt collection bill is \$312,000. This figure includes \$115,000 for one-time programming costs and \$197,000 and 3.0 FTE positions for additional staff.

PENSIONS

Senate File 2424 (Public Retirement Systems Bill) makes numerous changes to the public retirement systems: Peace Officer's Retirement, Accident, and Disability System (POR), Iowa Public Employees' Retirement System (IPERS), Municipal Fire and Police Retirement System (411), and the Judicial Retirement System.

FISCAL IMPACT BY RETIREMENT SYSTEM

Peace Officer's Retirement, Accident, and Disability System (POR)

The overall fiscal impact of the POR Section of SF 2424 is a cost increase of approximately \$779,000 to the State General Fund for FY 2009. Funding for this item was appropriated as part of salary adjustment dollars in HF 2700 (FY 2009 Standing Appropriations Bill).

Senate File 2424 requires, during the period July 1, 2008, through July 1, 2012, the State's contribution rate to increase by 2.0% per year of covered wages until the lesser of 27.0% or the normal contribution rate is attained. The increase in contributions for covered wages would be paid from the Department's operating budget and require additional General Fund salary adjustment allocations or an additional appropriation to cover the cost.

Iowa Public Employees' Retirement System (IPERS)

The overall fiscal impact of the IPERS Section of SF 2424 is an additional total cost increase of approximately \$7.8 million in contributions paid the first year from moving four occupations from IPERS regular membership to the protection occupation membership group. The overall increase in the present value of future benefits is \$130.0 million. The combined contribution rate will increase from 14.08% to 16.14%. This will impact both employees and employers moving into the protection occupation group and employees and employers currently covered by the protection occupation group. This rate increase will take effect in FY 2010. The additional cost to the IPERS Trust Fund from allowing members to buy back service credit in which

PENSIONS (Contd.)

prior to July 1, 1998, the member received a refund of the member's accumulated contributions and subsequently returned to covered employment as a full-time employee, ranges between \$400,000 to \$500,000. This takes effect January 1, 2009.

Current Law FY 2009 Percent of Pay	Employee Share	Employer Share	Total	
Regular IPERS Members	4.10%	6.35%	10.45%	Set by statute
Sheriffs and Deputies	7.52%	7.52%	15.04%	Adjustable
Protection Occupation	5.63%	8.45%	14.08%	Adjustable

Senate File 2424 requires the following fiscally significant changes to the IPERS System:

- Bonuses and Allowances** – The cost savings cannot be determined because employers do not report bonuses and allowances to IPERS separately from salary. Removing bonuses and allowances from the definition of IPERS-covered wages prevents inflating the final average wage used in the benefit formula.
- Setting Contribution Rates** – No fiscal impact from changing the entity that sets the rate. Only the General Assembly can change benefits affecting rates. The contribution rates for regular members, excluding any benefit increases the General Assembly may approve, is already set in statute through FY 2011. This provision would allow IPERS to change the rate up or down by a maximum of 0.5% a year for all groups based on current benefits. Between 2002 and 2007, inadequate contributions for benefits already authorized by the General Assembly increased IPERS unfunded actuarial liability by \$494.0 million.
- County Jailers, Military Installation Officers, Emergency Medical Providers, and County Attorney Special Investigators Added to Protection Occupation** – The overall fiscal impact is \$7.8 million in increased contributions and an increase in the total contribution rate from 14.08% to 16.14% for the first year. The present value of the increased future benefits is \$130.0 million.

PENSIONS (Contd.)**Judicial Retirement System**

The overall fiscal impact of the Judicial Retirement Section of SF 2424 is an increase in employee contributions of \$539,000 and an increased State contribution of \$2.2 million from the State General Fund for FY 2009. The funding for FY 2009 is appropriated in HF 2647 (FY 2009 Judicial Branch Appropriations Bill).

Senate File 2424 requires that for FY 2009, the Judges' contribution rate is 7.7% of covered wages. For FY 2010, the Judges' contribution rate will be 8.7%. Beginning in FY 2011 and until the System attains fully-funded status, the Judges' contribution rate will be 9.35%. Beginning July 1, 2008, until the Fund attains fully-funded status, the State's required contribution rate will be 30.6%.

PRISON EXPANSION BONDING

Senate File 2432 (FY 2009 Infrastructure Appropriations Bill) provided for approximately \$208.1 million in FY 2009 appropriations for prison construction projects recommended by the Durrant Group as a result of its comprehensive prison study. The funding will provide for the following:

- \$130.7 million for building a new Iowa State Penitentiary (ISP) at Fort Madison.
- \$47.5 million for expansion of the Iowa Correctional Institution for Women at Mitchellville. In addition, the Act appropriated \$20.5 million for FY 2011 and FY 2012 to complete this project.
- \$12.5 million for remodeling of the kitchens in the correctional facilities at Mount Pleasant and Rockwell City.
- \$5.3 million for the expansion of the community-based correctional facility at Sioux City.
- \$4.1 million for the expansion of the community-based correctional facility at Ottumwa.
- \$6.0 million for the expansion of the community-based correctional facility at Waterloo.
- \$1.0 million for architectural and engineering design costs associated with Ft. Madison and Mitchellville.
- \$500,000 for a project manager to oversee the prison construction projects.
- \$200,000 for a planning study for the Des Moines community-based correctional facility to find a potential and suitable location for a residential facility that adds no more than 170 beds.

The Act created a new FY 2009 Prison Bonding Fund (PBF) for the ISP and a new FY 2009 Restricted Capital Fund (RC3) for the other projects.

Expected proceeds for the new FY 2009 Prison Bonding Fund are \$131.0 million. Current debt for outstanding prison construction bonds will be \$59.7 million as of June 30, 2008. The debt service for

PRISON EXPANSION BONDING (Contd.)

current prison construction bonds is paid from the Prison Infrastructure Fund. Section 602.8108A, Code of Iowa, deposits the first \$9.5 million in court fines and other judicial branch revenue into the Prison Infrastructure Fund. The current annual debt service payments total \$8.4 million. The portion of the \$9.5 million not used for debt service is annually transferred to the General Fund.

According to the Treasurer of State, the new prison bonds for the FY 2009 Prison Bonding Fund will be issued in two series in 2010 and 2012. Total debt for the new prison bonds is expected to be \$221.6 million. The bond issuance has been structured so that annual debt service will remain at a fixed rate of approximately \$15.6 million per year from FY 2011 through FY 2027. Payments for the new debt service will be made from the Prison Infrastructure Fund. The Bill amends the Prison Infrastructure Fund to require the Treasurer's Office to certify the annual amount needed for the prison bond debt service. It is expected that an additional \$7.7 million will be needed to transfer from judicial branch revenue to the fund to ensure debt service payments and for coverage for the rating agency. Any remaining moneys will transfer to the General Fund as before. For FY 2009, judicial revenue is estimated to be \$90.8 million.

The new FY 2009 Restricted Capital Fund consists of net proceeds from the securitization of the remaining 22.0% in tobacco settlement payments that were being deposited into the Endowment for Iowa's Health Account. The estimated net proceeds are expected to be \$183.0 million from a tax-exempt bond issuance.

NATURAL RESOURCE AND OUTDOOR RECREATION TRUST FUND

Senate Joint Resolution 2002 proposes to amend the Constitution of the State of Iowa by creating a Natural Resources and Outdoor Recreation Trust Fund. The Resolution specifies that funding for the Trust Fund will be from three-eighths of one percent of the sales tax collected on retail sales and services sold in Iowa. It is estimated this would generate \$150.0 million. However, funds will not be collected until the next sales tax increase.

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

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

The current General Assembly adopted the proposed amendment, which will be referred to the Eighty-third General Assembly for adoption a second time, before being submitted to the electorate for ratification.

RIVER ENHANCEMENT COMMUNITY ATTRACTION AND TOURISM

The River Enhancement Community Attraction and Tourism Bill (SF 2430) appropriates a total of \$2.9 million from the interest on the Federal Economic Stimulus and Jobs Holding Fund (FES).

The Bill creates the River Enhancement Community Attraction and Tourism Grant Fund and Program by appropriating \$2.0 million from the FES interest. The Bill also extends, by three years, the \$5.0 million appropriation from the Rebuild Iowa Infrastructure Fund (RIIF) and the \$7.0 million appropriation from the General Fund, to the Community Attraction and Tourism Fund, through FY 2013.

The Bill establishes the Microenterprise Program and appropriates \$475,000 and 1.0 FTE position from the FES interest to the Department of Economic Development for competitive grants to community microenterprise development organizations to assist microenterprises.

The Bill requires the Department of Natural Resources (DNR) to establish a Water Trails and Low Head Dam Public Hazard Statewide Plan. The DNR is appropriated \$250,000 from the FES interest to develop the Plan.

The Bill appropriates \$150,000 and 0.5 FTE position from the FES interest to provide State matching funds for contributions to the Individual Development Accounts (IDA). The responsibility for IDA is transferred from the Department of Human Services to the Division of Community Action Agencies of the Department of Human Rights and changes are made to the operation and use of the Accounts.

OPTICAL SCAN VOTING SYSTEM

Senate File 2347 (Optical Scan Voting System Act) was signed into law on April 1, and requires counties to purchase optical scan voting systems for elections held on or after November 4, 2008. The Bill provides a total of \$6.9 million, which includes: an appropriation of \$4.9 million from the Rebuild Iowa Infrastructure Fund (RIIF) and a transfer \$2.0 million from the Voting Machine Reimbursement Fund to the Optical Scan Voting System Fund. In addition, the Secretary of State will use \$1.8 million in available federal Help America Vote Act (HAVA) funds. The total cost for replacing the voting systems and equipment in Iowa counties is estimated at \$8.7 million. Counties will be responsible for approximately \$1.9 million for costs associated with licensing, testing, installation, peripheral equipment, and back up units.

COUNTY PROGRAMS

Senate File 2134 (County Veteran's Offices Bill) requires counties to provide a minimum number of hours of service to veterans each week based upon the population of the county. The Bill specifies the duties of the County Director or Administrator and employees. The Bill creates a County Commission of Veterans Affairs Fund and provides a General Fund standing appropriation of \$1.0 million beginning FY 2010 to the Fund. The Bill provides each of the 99 counties annual grants of \$10,000 for veteran services-related costs, with the remaining \$10,000 per year allocated to the Iowa Department of Veterans Affairs for training costs.

HF 2700 (FY 2009 Standings Appropriations Bill) increases the FY 2010 county mental health growth appropriation by \$8.3 million compared to the FY 2009 appropriation in SF 2425 (FY 2009 Health and Human Services Appropriations Bill).

VETERANS LOTTERY GAME

The Veterans Lottery Game Act (House File 2359) requires the Chief Executive Officer of the Lottery Authority to develop and conduct two additional instant scratch games and two additional pull tab lottery games annually for the benefit of veterans. Moneys received from the games, minus prizes, are to be deposited in the Veterans Trust Fund, currently controlled by the Commission of Veterans Affairs, for the benefit of veterans, their spouses, and dependents.

The Act also reduces the minimum balance required in the Veterans Trust Fund from \$50.0 million to \$5.0 million. This minimum balance is required prior to the expenditure of interest and earnings from the Fund. It is the intent of the General Assembly that the Trust Fund reach a balance of \$50.0 million. However, if the balance of the Veterans Trust Fund is \$50.0 million dollars or more, the remaining moneys shall be appropriated to the Department of Revenue for distribution to county Directors of Veteran Affairs, with 50.0% of the money to be distributed equally to each county and 50.0% of the money to be distributed to each county based upon the population of veterans in the county, so long as the money distributed to a county does not supplant money appropriated by that county for the county Director of Veteran Affairs.

The impact on Lottery deposits into the General Fund is estimated to be minimal. The amount deposited annually into the Veterans Trust Fund is estimated to be \$3.3 million. The Gamblers Treatment Fund would receive an estimated additional \$52,000 annually.

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)

Iowa's reserve funds are comprised of the Cash Reserve Fund and the Economic Emergency Fund. Together, the balance in these funds is projected to total \$620.3 million in FY 2009.

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 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 REC.
- Moneys in the Cash Reserve Fund may be used for cash flow purposes but are to be returned by the end of the fiscal year.
- Expenditures from the Cash Reserve Fund are limited to nonrecurring emergency expenditures.
- For FY 2009, \$54.0 million of the FY 2008 General Fund surplus is appropriated to the Senior Living Trust Fund and \$54.0 million to the Cash Reserve Fund.

Generally Accepted Accounting Principles (GAAP) Deficit Reduction Fund

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

IOWA'S RESERVE FUNDS (RAINY DAY FUNDS) (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 are to be returned by the end of the fiscal year.
- Spending from the Fund is limited to emergency expenditures.
- Allows for an appropriation from the Economic Emergency Fund to reduce a negative ending balance in the State General Fund. The appropriation is limited to \$50.0 million and is contingent 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.

Cash Reserve Fund
(Dollars in Millions)

	FY 2008	FY 2009
Balance Forward	\$ 401.3	\$ 444.3
Gen. Fund Surplus	76.2	54.0
Total Revenue	\$ 477.5	\$ 498.3
Transfer to EFF	-33.2	-33.1
Ending Balance	\$ 444.3	\$ 465.2
<i>Max. 7.5%</i>	\$ 444.3	\$ 465.2

Economic Emergency Fund
(Dollars in Millions)

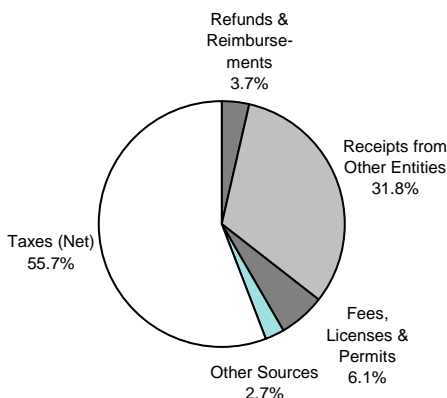
	FY 2008	FY 2009
Balance Forward	\$ 133.8	\$ 148.1
CRF Excess	33.2	33.1
Total Revenue	\$ 167.0	\$ 181.2
Transfer to SLTF	-18.9	-26.1
Ending Balance	\$ 148.1	\$ 155.1
<i>Max. 2.5%</i>	\$ 148.1	\$ 155.1

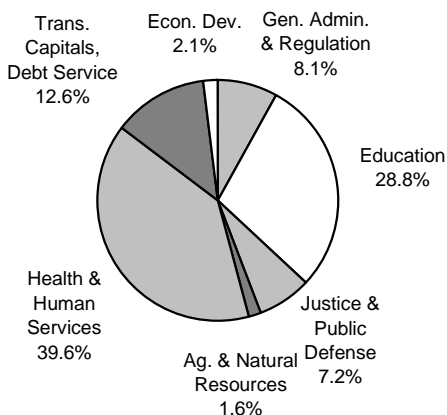
STATE FUNDING SOURCES

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 \$11.1 billion for FY 2007. Net tax receipts increased \$365.2 million (6.3%) compared to FY 2006. Refunds and reimbursements decreased \$55.2 million (-11.8%) and receipts from other entities decreased \$450.3 million (-11.3%) compared to FY 2006.

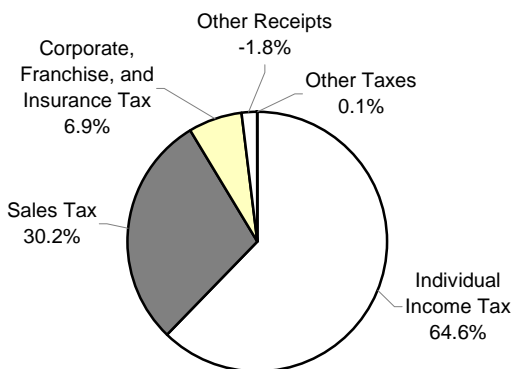
FY 2007 State Revenue Sources

Governmental Revenues & Other Financing Sources
Excludes Refunds



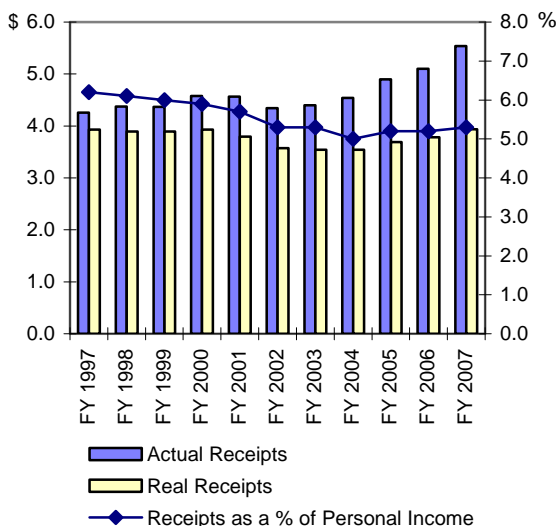
**STATE EXPENDITURES
GOVERNMENTAL FUNDS****FY 2007 State Governmental Expenditures**

- Includes General Fund and all Other Governmental Funds. (Comprehensive Annual Financial Report)
- Governmental expenditures totaled \$10.7 billion for FY 2007, an increase of \$112.6 million (1.1%) compared to FY 2006.
- Revenues for FY 2007 exceeded expenditures by \$429.9 million. Net transfers and other financing uses resulted in a negative net Fund balance change of \$77.8 million.

**SOURCES OF GENERAL FUND GROWTH
FY 1997 - FY 2007**

-
- 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 1997, growth in personal income tax accounted for 64.6% of the total increase in General Fund receipts. Sales and use tax was second, and accounted for 30.2% of the total increase. Taxes paid by businesses (corporate income, franchise tax, and insurance tax) account for 6.9% of the increase. The percentages in this paragraph have not been adjusted for refunds.

GENERAL FUND RECEIPTS HISTORY
FY 1997- FY 2007
(\$ in billions)



- Actual General Fund Receipts are net of refunds but are not adjusted for accrued revenue or transfers.
- Real Receipts are actual net General Fund Receipts adjusted for inflation, using the Consumer Price Index - (CPI-U).
- Receipts as a Percentage of Personal Income are actual net receipts divided by Personal Income. This is a measure of the change in the magnitude of the General Fund relative to the income of all Iowans.
- From FY 1997 through FY 2007, Iowa General Fund net receipts grew \$1.284 billion (31.9%). During that same period, Iowa's total State personal income grew \$36.4 billion (56.0%).
- In FY 1997, Iowa General Fund net receipts equaled 6.2% of total State personal income. In FY 2007 net General Fund receipts equaled 5.3% of personal income.
- Adjusted for inflation, General Fund net receipts increased 0.2% from FY 1997 to FY 2007.

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

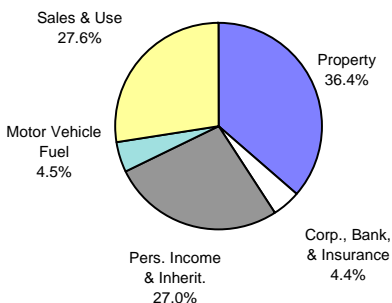
	Est. FY 2008	Est. FY 2009
Property Tax Credit	\$ 131.8	\$ 115.5
Medicaid	100.2	111.8
IowaCare Account Programs	53.2	36.2
Grow Iowa values Fund	0.0	50.0
Technology Reinvestment Fund	0.0	17.5
Community Attraction and Tourism Fund	0.0	7.0
Substance Abuse Treatment	13.8	13.8
Tuition Replacement	10.3	24.3
Elderly Services	8.3	8.4
Soil Conservation Cost Share	7.0	7.0
DHS Provider Increases	3.9	3.9
DNR Park Operations	2.5	2.5
DAS Distribution Account	2.0	2.0
Other	1.4	1.9
Total	<u>\$ 334.4</u>	<u>\$ 401.8</u>

GENERAL FUND RECEIPTS
 (\$ in millions)

	Estimated FY 2009 REC	Percent of Total Receipts
Tax Receipts		
Personal Income Tax	\$ 3,501.9	50.7%
Sales/Use Tax	2,054.7	29.7
Corporate Income Tax	424.2	6.1
Inheritance Tax	76.0	1.1
Insurance Premium Tax	127.1	1.8
Cigarette Tax	225.8	3.3
Tobacco Tax	20.9	0.3
Beer Tax	14.5	0.2
Franchise Tax	37.4	0.5
Miscellaneous Tax	1.0	0.0
Total Tax Receipts	\$ 6,483.5	93.8%
Other Receipts		
Institutional Payments	12.8	0.2%
Liquor Profits	70.5	1.0
Interest	19	0.3
Fees	77.7	1.1
Judicial Revenue	90.8	1.3
Miscellaneous	37.8	0.5
Racing and Gaming	60	0.9
Transfers	59.8	0.9
Accruals (Net)	1.2	0.0
Total Other Receipts	\$ 429.6	6.2%
Total Receipts	6,913.1	100.0%
Refunds	-724.0	-10.5%
Net Receipts	\$ 6,189.1	89.5%

REC = Revenue Estimating Conference (April 2008)

**DISTRIBUTION OF MAJOR STATE AND LOCAL
TAX SOURCES - ACTUAL FY 2007
(\$ in millions)**



Tax	Rate	Actual FY 2007	Percent of Major Tax Sources
Property	Varies	\$ 3,795.3	36.4%
Individual Income	0.36% - 8.98%	2,656.3	25.5
Sales & Use	5.00%	2,124.5	20.4
Local Option Sales	1.00% to 2.00%	566.8	5.4
Local Option Income	up to 20.0% of state tax	83.8	0.8
Local Option Hotel/Motel	up to 7.00%	35.2	0.3
Motor - Fuel	\$ 0.190 to \$0.225	448.4	4.3
Environ. Prot. Fee	\$0.01 per gallon	21.3	0.2
Corporate Income	6.00% - 12.00%	326.1	3.1
Insurance Premium	1.00%	105.2	1.0
Cigarettes & Tobacco	\$1.36 per pack	133.7	1.3
Beer & Wine	\$0.19 per gallon	20.3	0.2
Inheritance	1.00% - 15.00%	74.0	0.7
Franchise	5.0% of net income	32.4	0.3
Total		<u>\$ 10,423.3</u>	<u>100.0%</u>

Note:

Totals may not add due to rounding.

Property tax includes Tax Increment Financing Revenue.

Property tax includes Gas & Utility Replacement tax.

Sales & Use includes Motor Vehicle Use tax.

Cash Basis - July 1 through June 30.

Receipts are net of refunds.

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.

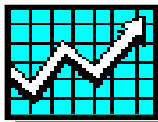
The current size of the investment pool is approximately \$2.4 billion. The realized cash annual rate of return for FY 2007 was 5.00%.

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 2007, the State issued \$500.0 million in TRANS.
- To date in FY 2008, the State has issued \$500.0 million in TRANS.

DEBT MANAGEMENT



The State of Iowa reported total outstanding debt of \$10.353 billion on June 30, 2007, for all governmental entities. This represents an increase of \$842.2 million (8.9%) compared to FY 2006.

Entities that reported increases in debt during FY 2007 include: cities - \$301.1 million (8.2%), counties - \$84.6 million (19.2%), schools - \$197.4 million (9.8%), community colleges - \$54.0 million (17.5%), the Board of Regents - \$90.7 million (10.9%), and State Authorities - \$139.4 million (7.5%).

State agencies' outstanding obligations decreased by \$21.8 million (7.2%) for FY 2007 compared to FY 2006.

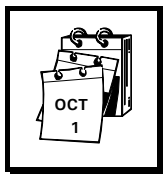
Debt financing is used for a variety of purposes which include: construction and renovation of public buildings, schools, housing and urban development, utilities, jails and prisons, park and recreational facilities, and local streets and parking lots.

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

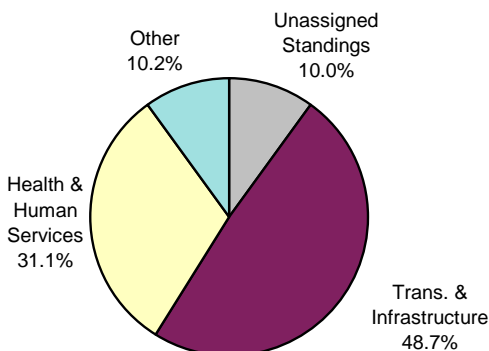
- General obligation bonds
- Revenue bonds
- Certificates of participation (lease purchase)
- Special assessments on property
- Tax increment financing
- Special tax allocation and dedication such as hotel and motel taxes

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 to 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".
- 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.
- 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 and FY 2009, but the new Governor did not make decisions using the Purchasing Results process.



**NON-GENERAL FUND APPROPRIATED FUNDS
ESTIMATED FY 2009
(\$ in millions)**



Subcommittee	Est. FY 2009 Appropriations	Percent of Total
Admin. & Regulation	\$ 20.5	1.2%
Ag. & Natural Resources	84.7	4.8
Economic Development	64.8	3.7
Education	2.7	0.1
Health & Human Services	550.6	31.1
Justice System	8.6	0.4
Trans. & Infrastructure	862.6	48.7
Unassigned Standings	177.2	10.0
Total	<u>\$ 1,771.7</u>	<u>100.0%</u>

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, Economic Development, Education, and Justice System.

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 some-time during the upcoming fiscal year.

For FY 2009, \$88.1 million was appropriated from the General Fund to the Salary Adjustment Fund administered by the Department of Management. The funding represents 89.4% of the estimated FY 2009 need.

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 2008, an amount sufficient to pay the merit step increase for three months during FY 2008 would have been included in the FY 2008 salary adjustment. Salary annualization would be included in the FY 2009 salary adjustment for the employee's merit step from July 2008 to March 2009 (nine months).

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

COLLECTIVE BARGAINING SETTLEMENTS FY 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:

All contracts are effective July 1, 2008, and 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

INFRASTRUCTURE FUNDING

Appropriations from infrastructure revenue sources include funding for new construction projects, vertical infrastructure projects, major and routine facility maintenance, environmental projects, and technology projects, as well as debt service on certain bonds. The 2008 General Assembly created two new funds: the FY 2009 Restricted Capital Fund and the FY 2009 Prison Bonding Fund and made appropriations for multiple years from the following funding sources:

- Rebuild Iowa Infrastructure Fund (RIIF)
- Endowment for Iowa's Health Restricted Capitals Fund (RC2)
- Restricted Capital Fund (RCF)
- Technology Reinvestment Fund (TRF)
- FY 2009 Restricted Capital Fund (RC3)
- FY 2009 Prison Bonding Fund (PBF)

The 2006 General Assembly created the Technology Reinvestment Fund (TRF) for the purpose of funding technology improvements for State government. A General Fund standing appropriation of \$17.5 million was established for the TRF. For FY 2009 and FY 2010, the funding source for the TRF was shifted to the Rebuild Iowa Infrastructure Fund.

The General Assembly passed Senate File 2432 (FY 2009 Infrastructure Appropriations Bill), which appropriates funds over four fiscal years as follows:

INFRASTRUCTURE FUNDING (Contd.)

**FY 2009 INFRASTRUCTURE
APPROPRIATIONS ACT
(\$ in millions)**

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
RIIF	\$ 144.8	\$ 120.1	\$ 28.5	\$ 23.8
RC2	5.1	0.0	0.0	0.0
RCF	3.3	0.0	0.0	0.0
TRF	17.5	0.5	0.0	0.0
RC3	182.8	0.0	0.0	0.0
PBF	130.7	0.0	0.0	0.0
	<u>\$ 484.1</u>	<u>\$ 120.6</u>	<u>\$ 28.5</u>	<u>\$ 23.8</u>

RIIF = Rebuild Iowa Infrastructure Fund

RC2 = Endowment for Iowa's Health Restricted Capitals Fund

RCF = Restricted Capital Fund

TRF = Technology Reinvestment Fund

RC3 = FY 2009 Restricted Capital Fund

PBF = FY 2009 Prison Bonding Fund

Note: Totals may not add due to rounding.

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 2009, the standing appropriation was increased to \$42.0 million in SF 2432 (FY 2009 Infrastructure Appropriations Bill). Of the total, \$15.8 million was appropriated to the Department of Agriculture and Land Stewardship for conservation programs. There was \$500,000 appropriated to the Department of Economic Development for the Brownfield Redevelopment Program and \$25.7 million was appropriated to the Department of Natural Resources (DNR) for environmental programs. Included in the DNR funding is an \$18.0 million appropriation for the Resource Enhancement and Protection (REAP) Fund. This is an increase of \$2.5 million compared to estimated FY 2008.

Environment First Fund (Contd.)
(\$ in millions)

Resources	FY 2009
Rebuild Iowa Infrastructure Fund	<u>\$ 42.0</u>
Expenditures	
Department of Agriculture	
Conservation Reserve Enhancement Program	\$ 1.5
Watershed Protection Fund	2.5
Farm Management Demonstration	0.9
Agricultural Drainage Wells	1.5
Soil Conservation Cost Share	7.0
Conservation Reserve Program	1.5
Southern Iowa Conservation Development Authority	0.3
Loess Hills Development Authority	0.6
Total Department of Agriculture	<u>\$ 15.7</u>
Department of Natural Resources (DNR)	
REAP	\$ 18.0
Volunteer Keepers of the Land	0.1
Park Operations & Maintenance	2.5
GIS Information for Watershed	0.2
Water Quality Monitoring	3.0
Water Quality Protection Fund	0.5
Air Quality Monitoring	0.3
Animal Feeding Operations	0.3
Water Quality Program	0.5
Resource Conservation and Development	0.2
Global Climate Change	0.1
Total Department of Natural Resources	<u>\$ 25.7</u>
Department of Economic Development	<u>\$ 0.5</u>
Total Expenditures	<u><u>\$ 42.0</u></u>

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 (TSA). Iowa securitized 78.0% of the payment stream in 2001 and the Tobacco Settlement Authority restructured this debt in 2005. As a result, 78.0% of the payments are made to the trustee to pay the bond obligations. The remaining 22.0% is paid directly into the Endowment for Iowa's Health Account.

The General Assembly passed SF 2432 (FY 2009 Infrastructure Appropriations Bill) during the 2008 Session, authorizing the TSA to issue tax-exempt bonds against the remaining 22.0% of the tobacco payments for not less than \$183.0 million. The following table summarizes the net (spendable) proceeds received or projected to be received by the State from tobacco securitizations since 2001.

Tobacco Securitization

Net Proceeds

(\$ in millions)

	Series 2001	Series 2005	Est. Series 2008	Total
Net Proceeds				
Taxable Bonds	\$ 39.6	\$ 50.2	\$ 0.0	\$ 89.8
Tax-Exempt Bonds	540.0	100.5	183.0	823.5
Total	<u>\$ 579.6</u>	<u>\$ 150.7</u>	<u>\$ 183.0</u>	<u>\$ 913.3</u>

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

The following pages provide balance sheets of the various tobacco-related funds.

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

	<u>Estimated FY 2008</u>	<u>Estimated FY 2009</u>
Resources		
Balance	\$ 2.9	\$ 3.2
Interest Earned	<u>0.3</u>	<u>0.1</u>
Total	<u>\$ 3.2</u>	<u>\$ 3.3</u>
Appropriations	\$ 0.0	\$ 3.3
Ending Balance	<u><u>\$ 3.2</u></u>	<u><u>\$ 0.0</u></u>

**Tobacco Settlement Trust Fund
Endowment for Iowa's Health Restricted
Capitals Fund (RC2)
(\$ in millions)**

	<u>Estimated FY 2008</u>	<u>Estimated FY 2009</u>
Resources		
Balance	\$ 3.8	\$ 4.8
Interest Earned	<u>2.4</u>	<u>0.3</u>
Total	<u>\$ 6.2</u>	<u>\$ 5.1</u>
Appropriations	\$ 1.4	\$ 5.1
Ending balance	<u><u>\$ 4.8</u></u>	<u><u>\$ 0.0</u></u>

**Tobacco Settlement Trust Fund
FY 2009 Restricted Capital Fund (RC3)
(\$ in millions)**

	<u>Estimated FY 2009</u>
Resources	
Expected Proceeds	\$ 183.0
Interest Earned	<u>0.0</u>
Total	<u>\$ 183.0</u>
Appropriations	\$ 182.8
Ending balance	<u><u>\$ 0.2</u></u>

SENIOR LIVING TRUST FUND

The General Assembly passed SF 2425 (FY 2009 Health and Human Services Appropriations Bill), which provides 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 2009 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.
- \$700,000 to the IFA for the Rent Subsidy Program.

It is estimated that at the close of FY 2009, the Fund will have an ending balance of \$37.6 million as shown in the table on the following page.

SENIOR LIVING TRUST FUND (Contd.)

Senior Living Trust Fund
(\$ in millions)

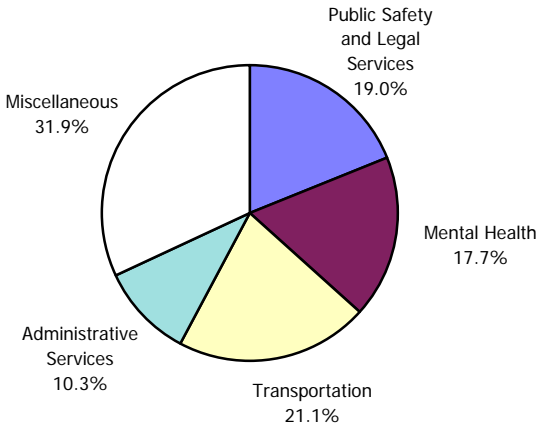
	Estimated FY 2009
Revenues	
Beginning Balance	\$ 76.1
General Fund Transfer	54.0
Economic Emergency Fund Transfer	26.1
Interest	3.5
Total Revenues	\$ 159.7
Expenditures	
IFA - Rent Subsidy Program	\$ 0.7
Department of Human Services Medicaid	\$ 111.8
Department of Elder Affairs Senior Living Program	\$ 7.7
DEA & Contract Administration	0.7
DEA Total	\$ 8.4
DIA - Asst'd Living & Adult Day Care	\$ 1.2
Total Expenditures	\$ 122.1
Ending Balance	\$ 37.6

IFA = Iowa Finance Authority

DEA = Department of Elder Affairs

DIA = Department of Inspections and Appeals

BUDGETED COUNTY EXPENDITURES FY 2008



Budgeted County Expenditures	Estimated FY 2008
Public Safety and Legal Services	\$ 370.7
Mental Health	345.5
Transportation	410.9
Administrative Services	200.5
Miscellaneous	
State & Local Gov't. Services	65.5
Physical Health and Social Services	194.7
County Environment	116.0
Debt Service	53.4
Capital Projects	186.2
Other	5.3
Total	<u><u>\$ 1,948.7</u></u>

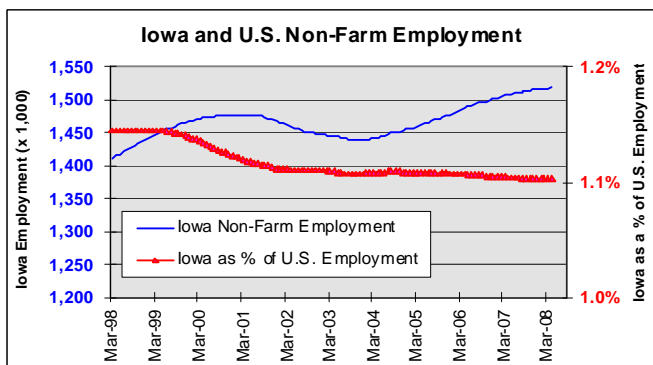
Note:

The FY 2008 ending fund balances for all counties is estimated to be \$431.2 million.

ECONOMIC SUMMARY

Iowa non-farm employment was reported at 1,508,100 for the month of March (not seasonally adjusted), 11,700 higher (0.8%) than March 2007.

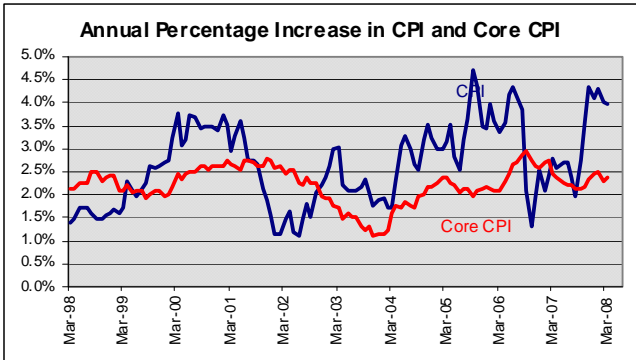
Iowa's 12-month moving average employment is presented in a graph below. The average non-farm employment pre-recession peak was February 2001 (1,478,700), and the recession low was September 2003 (1,439,900). The current average reading is now 1,519,800 so annualized Iowa non-farm employment is 41,100 above its 2001 peak and 79,900 above the 2003 low. The chart below also presents Iowa non-farm employment as a percent of U.S. non-farm employment. Iowa's share of national non-farm employment decreased noticeably from 1998 through 2002. The decline has slowed considerably since early 2002 but the trend remains negative.



Consumer prices increased 0.9% during March (not seasonally adjusted), the highest single-month rate since March 2007. The Consumer Price Index (CPI-U) through March 2008 was 213.5 (1983/84=100). The year-over-year change of 4.0% in March is the fifth straight month of at least 4.0% annual inflation. The overall inflation rate has generally increased since mid-2004, when the price of oil and other commodities started to rise significantly.

ECONOMIC SUMMARY (Contd)

Core CPI, an inflation measure that excludes food and energy prices, increased in March and now stands at 2.4%. The core inflation rate declined considerably from the early 1990's through March 2004. From March 2004 through September 2006, inflation as measured by core CPI more than doubled, peaking at 2.9%. The annual core rate has not been below 2.0% since August 2004. For the two components excluded from the core rate, energy prices are up 17.0% and food prices are up 4.4% year-over-year.



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 2009, the scaled-down percentage is 50.0%.

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

Also during the 2007 Legislative Session, the statewide Voluntary Preschool Program for four-year-olds was created. Four-year-old students are eligible unless they are participating in a preschool program already funded by State or federal funds. Appropriations of \$15.0 million per year for FY 2008 through FY 2010 and \$16.2 million for FY 2011 were made for initial start-up of the local programs. The funding for the second and subsequent years is driven by the prior year's preschool budget enrollment in a manner similar to the School Foundation Formula. The "Preschool Foundation Aid" is the product of 60.0% of the actual enrollment of eligible preschool students from the previous October 1 count multiplied by the State cost per pupil from the School Foundation Formula. The FY 2009 Preschool Foundation Aid is estimated to be \$17.1 million. The Program's funding is accounted for separately from School Foundation Aid by the school districts, even though payments are made through the School Foundation standing unlimited appropriations, and the preschool pupils are

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

not counted in the school districts' regular budget enrollments. The Program does not include a property tax component.

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

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

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:

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

- 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—\$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 2008 through FY 2010 is projected to be:

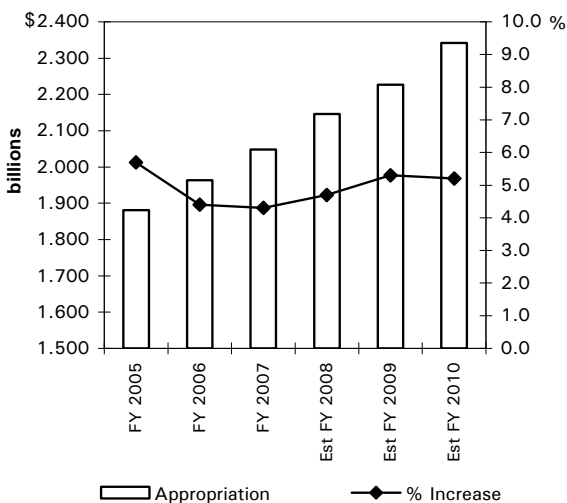
FOUNDATION FORMULA FUNDING (\$ in millions)

	Estimate FY 2008	Estimated FY 2009	Estimated FY 2010
K-12 State Foundation Aid	\$ 2,149.4	\$2,212.2	\$ 2,308.3
AEA Additional Reduction	<u>-5.3</u>	<u>-2.5</u>	<u>0.0</u>
School District Foundation Aid	\$ 2,144.1	\$2,209.7	\$ 2,308.3
Preschool Startup	\$ 15.0	\$ 15.0	\$ 15.0
Preschool Foundation Aid	<u>0.0</u>	<u>17.1</u>	<u>33.3</u>
Total	<u><u>\$ 2,159.1</u></u>	<u><u>\$2,241.8</u></u>	<u><u>\$ 2,356.6</u></u>

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 2010



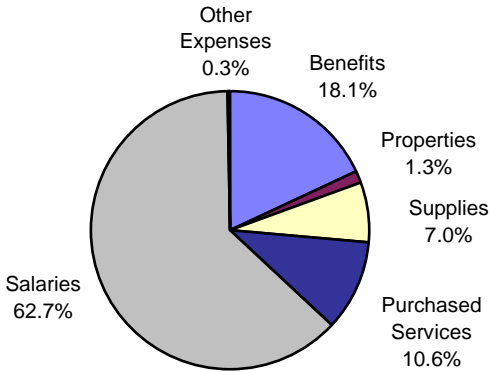
	Appropriations	Change	Percent Change
FY 2000	\$ 1,696,505,094	\$ 84,912,576	5.3%
FY 2001	1,751,721,662	55,216,568	3.3%
FY 2002	1,678,604,088	- 73,117,574	- 4.2%
FY 2003	1,738,962,243	60,358,155	3.6%
FY 2004	1,780,398,844	41,436,601	2.4%
FY 2005	1,881,273,764	100,874,920	5.7%
FY 2006	1,963,203,523	81,929,759	4.4%
FY 2007	2,048,342,992	85,139,469	4.3%
Est. FY 2008	2,145,614,028	97,271,165	4.7%
Est. FY 2009	2,226,791,118	81,177,090	3.8%
Est. FY 2010	2,341,631,401	114,840,283	5.2%

Percentage increase FY 2005 - FY 2010	24.5%
Five-year average annual increase	4.9%

Notes:

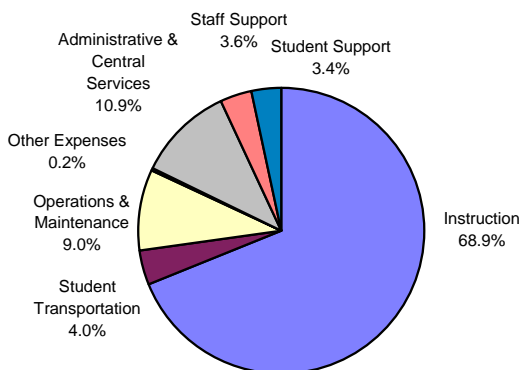
- 1) FY 2002 and FY 2003 include \$45.0 million appropriated from other funds.
- 2) FY 2004 includes a \$45.4 million across-the-board reduction and a \$4.5 million restoration.
- 3) FY 2009 - FY 2010 includes Preschool Foundation Aid.

**GENERAL OPERATING EXPENDITURES K-12
FOR IOWA SCHOOL YEAR
2005 - 2006**



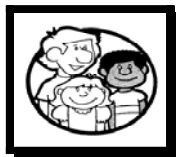
- From FY 1986 to FY 2006, expenditures for salaries decreased by 5.4% and expenditures for benefits increased 5.2% as a percentage of total operating fund expenditures.

**GENERAL OPERATING EXPENDITURES K-12
BY FUNCTION FOR IOWA SCHOOL YEAR
2005 - 2006**



- Statewide average administrative expenditures for FY 2006 are 10.9% of total operating fund expenditures. This increased 0.7% compared to FY 2005.

DEPARTMENT OF HUMAN SERVICES PROGRAMS



The Department of Human Services is projected to spend \$4.287 billion for all programs, including Medical Assistance, the Family Investment Program, and the Food Stamp Program during FY 2009 (all funding sources). Federal and other non-general funds are projected to account for \$2.922 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 311,523 individuals per month during FY 2009. The Family Investment Program is projected to serve an average of 15,429 households each month. The Food Stamp Program is projected to serve an average of 253,262 persons each month during FY 2009.

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.

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

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

The Medical Assistance Program pays for low-income aged, blind, and disabled citizens, residents of institutions, and other low-income lowans 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.

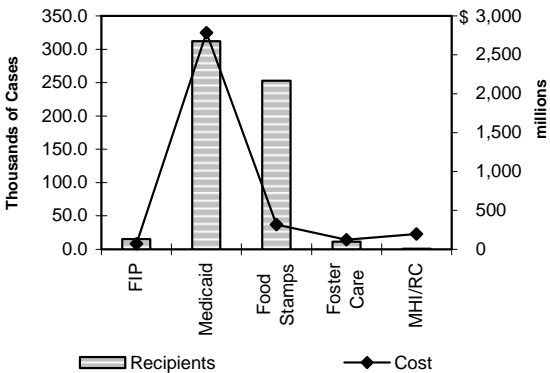
There are four Mental Health Institutes for the mentally ill, located at Clarinda, Independence, Mt. Pleasant, and Cherokee. These Institutes provide a range of psychiatric and substance abuse services in an inpatient residential setting for those cases that community-based services cannot manage. The 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.

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

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 2009 MAJOR PROGRAMS**



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

	Average Monthly Recipients Per Program	Total Program Cost
FIP (Households)	15,429	\$ 68,776,640
Medicaid	311,523	2,783,600,000
Food Stamps	253,262	319,000,000
Family Foster Care	2,533	25,165,969
Group Care**	1,004	37,185,628
Adoption Subsidy	8,098	62,308,614
MHI/RC**	784	197,105,973

** 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

CHILDREN'S HEALTH INSURANCE (CHIP) PROGRAM

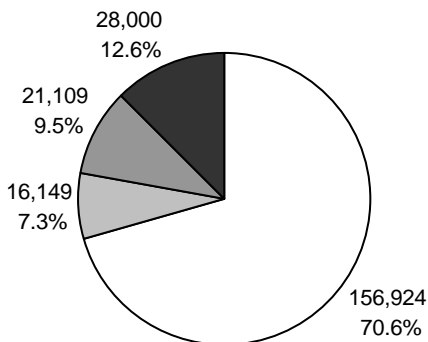
Congress enacted the Children's Health Insurance Program, with federal funds available on October 1, 1997, to provide insurance for children in families with incomes up to 200.0% of the Federal Poverty Level (FPL).

Senate File 2425 (FY 2009 Health and Human Services Appropriations Bill) appropriates \$13.9 million along with \$9.5 million in carryforward. House File 2539 (FY 2009 Health Care Reform Bill) appropriates an additional \$4.8 million to cover children under both **hawk-i** and Medicaid for a total of \$28.2 million from all sources. This funding is matched to provide an additional \$75.0 million in federal funding.

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.

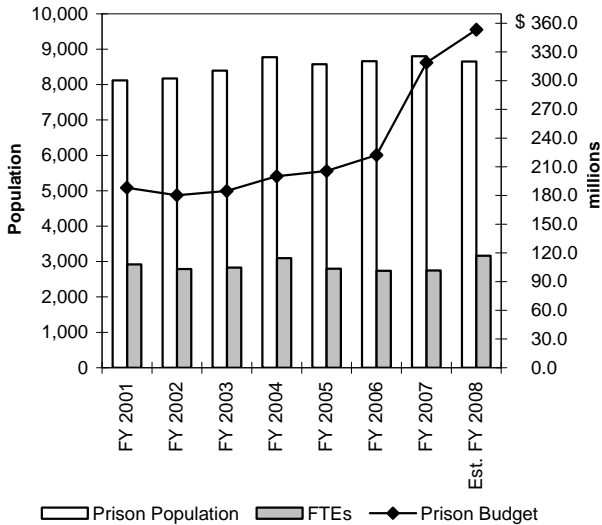
The Bureau of Census estimates 28,000 (3.7%) uninsured children in the State are at or below the 200.0% FPL. As of February 2007, 34,462 children were enrolled in the **hawk-i** Program.

Number of Children Below 200.0% FPL

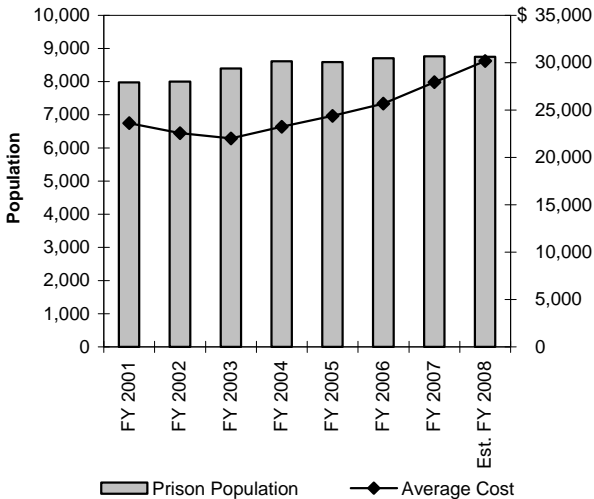


☐ Medicaid
 ☐ hawk-i Medicaid Expansion
 ☐ hawk-i
 ☐ Uninsured

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



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



ROAD USE TAX FUND



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

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

Senate File 2420 (Time 21 Transportation Funding Act), enacted during the 2008 Legislative Session, replaces the motor vehicle use tax with a Fee for New Registration for the purpose of constitutionally protecting the revenues to be spent on public highways. (Additional information on SF 2420 is provided on page 13).

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

ROAD USE TAX FUND (Contd.)

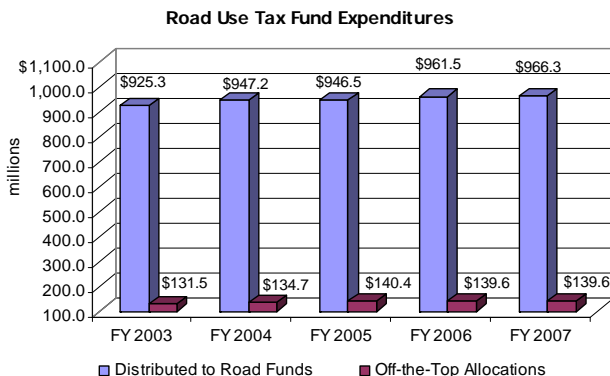
The following table shows actual and estimated Road Use Tax Fund revenues, allocations, and distributions for FY 2007 through FY 2009.

ROAD USE TAX FUND (\$ in millions)			
	Actual FY 2007	Estimated FY 2008	Estimated FY 2009
Revenues			
Fuel Tax	\$ 433.4	\$ 447.8	\$ 446.2
Net Registration Fees	403.4	399.5	392.0
Fee for New Registration	0.0	0.0	276.4
Net Use Tax	219.6	213.7	0.0
Driver's License Fees	7.0	11.9	16.6
Underground Tank Fees	21.3	21.5	21.9
Interest	11.4	11.5	13.0
Other	9.8	16.7	19.6
Titles	0.0	0.0	10.1
Special License Plate Fees	0.0	0.0	1.4
Total Allocations to SAF*	0.0	0.0	-41.3
Balance After Allocations to SAF*	0.0	0.0	11.2
Total Revenues	\$ 1,105.9	\$ 1,122.6	\$ 1,167.1
Total Allocations	\$ 139.6	\$ 144.2	\$ 163.1
Total Available for Distribution	\$ 966.3	\$ 978.4	\$ 1,004.0
Primary Road Fund (47.5%)	\$ 459.0	\$ 464.7	\$ 476.9
Secondary Road Fund (24.5%)	236.7	239.7	246.0
Farm-To-Market Road Fund (8.0%)	77.3	78.3	80.3
Municipal Road Fund (20.0%)	193.3	195.7	200.8
Total Formula Allocation	\$ 966.3	\$ 978.4	\$ 1,004.0

* Statutory Allocations Fund (SAF)

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.



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.)

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.

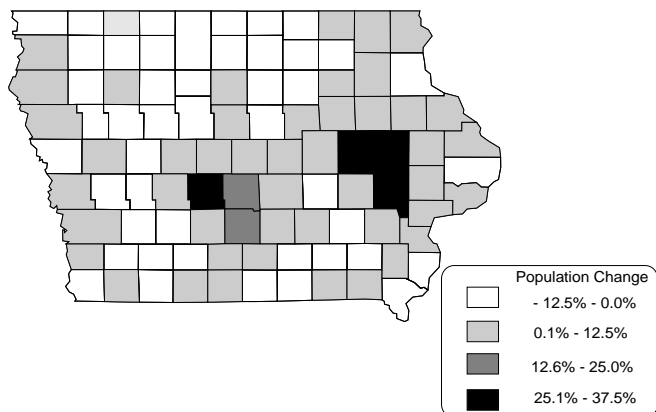
The following table shows Transfer of Jurisdiction Fund apportionments to cities and counties in FY 2007, and estimated apportionments in FY 2008 and FY 2009.

Transfer of Jurisdiction Fund

(\$ in Millions)

	Actual FY 2007	Estimated FY 2008	Estimated FY 2009
<u>Revenue</u>			
1.75% of Primary Road Fund	\$ 8.0	\$ 8.1	\$ 8.3
<u>Distribution</u>			
Cities and counties that assume jurisdiction of primary roads (75.0%):			
<i>Counties (89.6%)</i>	5.4	5.5	5.6
<i>Cities (10.4%)</i>	0.6	0.6	0.6
All counties (22.5%)	1.8	1.8	1.9
All cities (2.5%)	0.2	0.2	0.2
Total Distribution	<u>\$ 8.0</u>	<u>\$ 8.1</u>	<u>\$ 8.3</u>

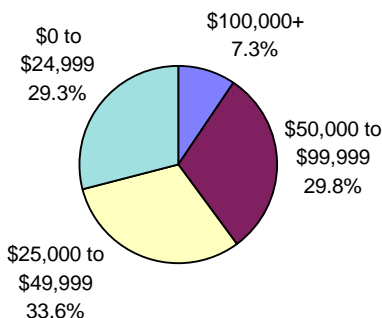
IOWA'S POPULATION CHANGE BY COUNTY 1990 - 2000



- 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 9.2% from 2000 to 2006.

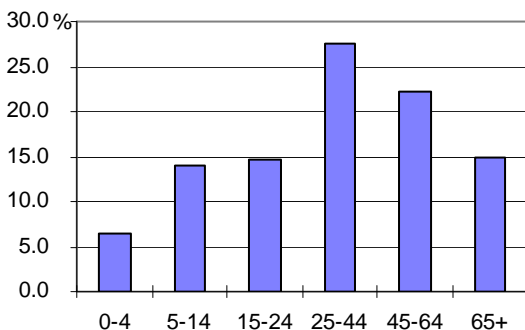
IOWA'S POPULATION (as of 2003)

HOUSEHOLD INCOME



- The average Iowa household has 2.5 members.
- Median household income in 2005 was \$42,865.
- The median age of an Iowan is 36.6 years of age compared to the national average of 35.3 years.

AGE DISTRIBUTION OF IOWANS



- The percentage of Iowans age 65 or older is 14.8% 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 2006, 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 3,127 crimes per 100,000 population.
- Iowa had 290 state prisoners per 100,000 population, ranking 40th nationally.
 - The median age for inmates is 34 years old.
 - Men are 92.0% of the inmate population.
 - 66.0% of the inmate population is white, 25.0% is African-American, 6.0% is Hispanic, and 3.0% 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.)

2008 NON-FARM EMPLOYMENT

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

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