

IOWA BUDGET REPORT

The Governor's FY06 Budget for Iowa
Purchasing Results

RE:NEW Iowa



RE:SULTS

January 2005

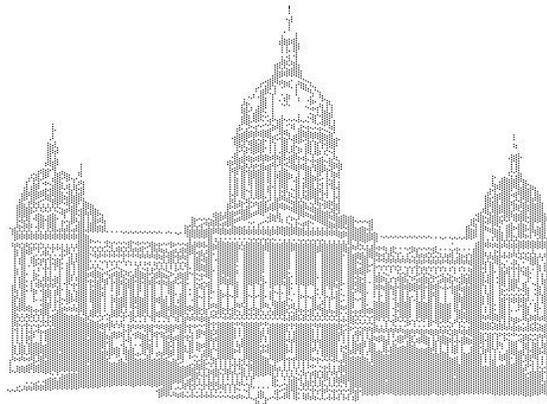
This budget document was prepared for

**Governor Tom Vilsack and
Lieutenant Governor Sally Pederson**

by the Department of Management

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January 31, 2005

TO THE MEMBERS OF THE 81ST GENERAL ASSEMBLY:

Thank you for your efforts to transform Iowa's economy and preserve Iowa values. The FY 2006 budget we present to you today was built from the ground up and is the result of a budget process that focuses on priorities and results. Faced with difficult choices, we are heartened by the progress we have achieved with your cooperation and collaboration.

Fulfilling our responsibility to Iowa children, together we have focused resources on reducing class sizes and reversed an eight-year decline in test scores. As a result, Iowa students have achieved four straight years of improved test scores, ranking among America's best.

Working together, we have expanded health care for our most vulnerable Iowans: children, veterans and seniors. Today, 15,000 more children have health insurance, 38,000 more veterans are receiving health care benefits, and over 28,700 more seniors, as a result of the Senior Living Trust, are living in their own homes with greater dignity and independence.

Working together, we have learned that Iowa has the people, the power and the resources to transform the economy. By embracing Vision Iowa, the Community Attraction and Tourism (CAT) program, electrical utility restructuring, and the Iowa Values Fund, we have changed the economic landscape of our state. Vision Iowa and CAT grants have supported 170 projects and leveraged over a billion dollars of investment throughout the state. At the same time, the number of college-educated workers grew by over 50,000 in the last three years alone.

Six new power facilities are the first in the last twenty years; and when the power from those facilities is added to the expansion of wind and renewable energy, Iowa will have true energy independence. Investments in the Iowa Values Fund have supported thousands of good paying jobs in life sciences, information solutions, and advanced manufacturing, gaining Iowa a national reputation as a leader in biotechnology and insurance.

We propose to continue our work together to make Iowa the best place to live, work and raise a family through the Iowa values of opportunity, responsibility and security.

To offer Iowa children a first class education system that prepares them for global competition and success in life, we are proposing to fully fund allowable growth, more than double our commitment to teacher compensation, and make a promise to our youngest citizens that they will get the best start in life through an integrated system of early care and learning with a \$40 million down payment.

By targeting resources, schools and communities will be able to expand educational opportunities, strengthen the curriculum, increase graduation requirements and streamline transitions between high schools and college.

Building on Iowa's educational and economic development successes, we propose an \$800 million investment in economic growth over the next five years to add 50,000 good paying jobs that support families and communities, expand cultural and recreational opportunities, and result in a cleaner environment.

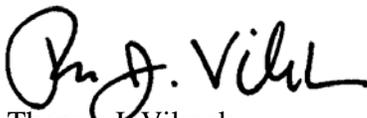
The budget we present to you today will live up to the expectations Iowans have of their policy makers to provide health care security for vulnerable Iowans. Every year smoking costs all Iowans over \$235 million in medical related expenses for smoking related illnesses and deaths, while cigarette taxes only generate \$88 million. It is only fair to increase cigarette taxes to save lives and provide health care security for all Iowans. Our proposed budget dedicates all increased cigarette tax revenue to health care.

Under this plan, the State can adopt an honest budget that covers the full costs of Medicaid services to children and older Iowans, makes a commitment to early childhood education at the same time it restores \$40 million to the Senior Living Trust Fund, and puts over \$100 million back into our rainy day funds. At the end of this year, the State would have nearly 6% of its General Fund budget in reserve to manage emergencies.

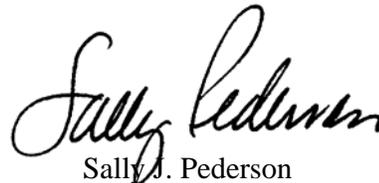
State government has been reorganized, streamlined and works continuously to achieve efficiencies and become more accountable. The price of state government as a percent of personal income is the lowest it has been in 33 years. That important work will continue. We look forward to working with you and local governments to identify opportunities to eliminate barriers to a streamlined state and local government structure.

Please join us in the adoption of a budget that will transform Iowa's economy and preserve Iowa values.

In a spirit of cooperation,



Thomas J. Vilsack
Governor



Sally J. Pederson
Lt. Governor

HISTORIC OVERVIEW

State Budgets and Finances

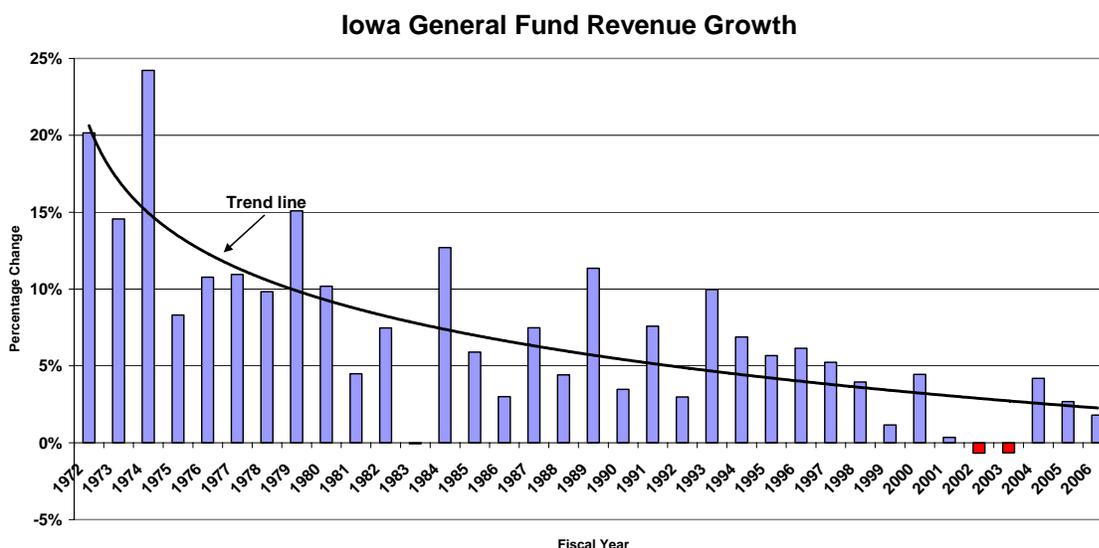
Iowa, like most states, has struggled to deal with tough fiscal times in recent years. Spurred by the national recession and the impacts of 9/11, nearly every state has had to cope with revenue shortfalls and budget deficits. In its latest survey of the states, the National Governors Association and National Association of State Budget Officers wrote:

“After the most severe fiscal downturn in 60 years, state finances have improved somewhat, although they are still below long-term national averages. Overall, revenues are exceeding projections and expenditure growth is occurring although balances continue to remain below adequate levels and states still face significant spending pressures.”

Iowa finds itself in a similar situation. While revenues exceeded expectations in Fiscal Year (FY) 2004, revenue growth in both FY 2005 and FY 2006 is projected to be below average levels from previous years, and costs for education, health care, and security will continue to grow.

Iowa Revenues Not Meeting Historic Expectations

Over the past 35 years, Iowa’s tax structure has generated, on average, growth of a little over 5% a year, but this level has not been attained in any of the last eight years. In fact, for the first time since before the Korean War, the state had two successive years of revenues being smaller than the previous year, in FY 2002 and FY 2003. While revenues performed better than expected in FY 2004, the projected levels for both FY 2005 and FY 2006 continue the below average trend of the past decade. The following chart shows how revenue levels have declined in recent years compared to the past:

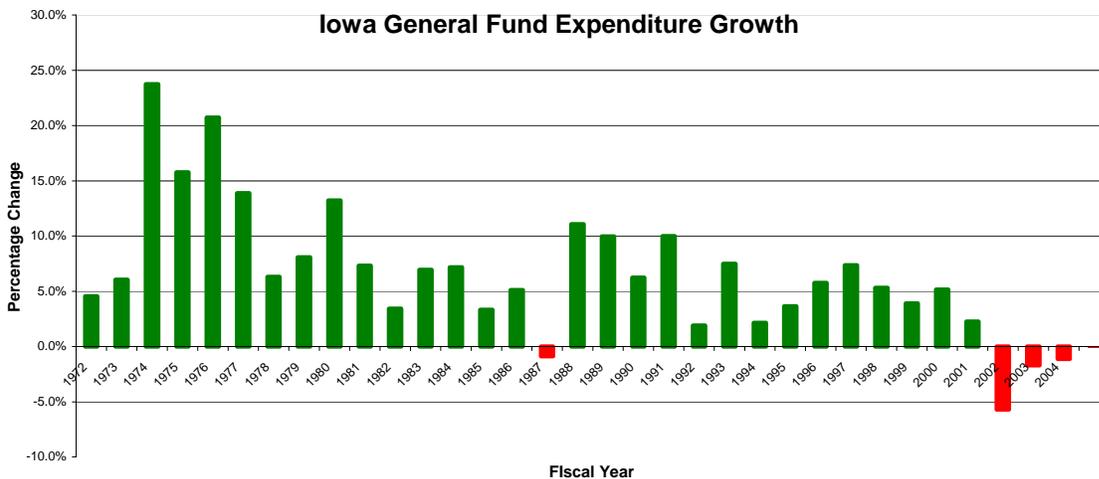


While it is true that some of the recent performance can be attributed to a sluggish national economy, the state economic data is much better than the revenue data. For example, over the last four years, Iowa’s personal income has increased 13%, while state Fiscal Year revenues have grown by just 3%. Without a doubt, part of Iowa’s poor revenue performance is the result of past decisions to make broad-

based and targeted tax cuts. The State has made tax cuts every year since FY 1996, and the aggregate amount of these tax cuts and property tax replacement now totals over \$6 billion. On an annual basis, the Fiscal Year budget has reduced revenue or replaced property taxes by over \$1 billion in FY 2005.

Iowa Spending Has Been Cut to Deal with Revenue Losses

Prior to FY 2002, the State of Iowa had only experienced an actual reduction in spending compared to the previous year once, during the farm crisis in 1987. However, in each of the last four Fiscal Years, Iowa's General Fund spending has been below the previous year. In fact, the 5.7% reduction in the FY 2002 budget was the largest percentage reduction of any of the fifty states, according to the National Conference of State Legislatures. The following chart illustrates this dramatic change in Iowa's budget experience:



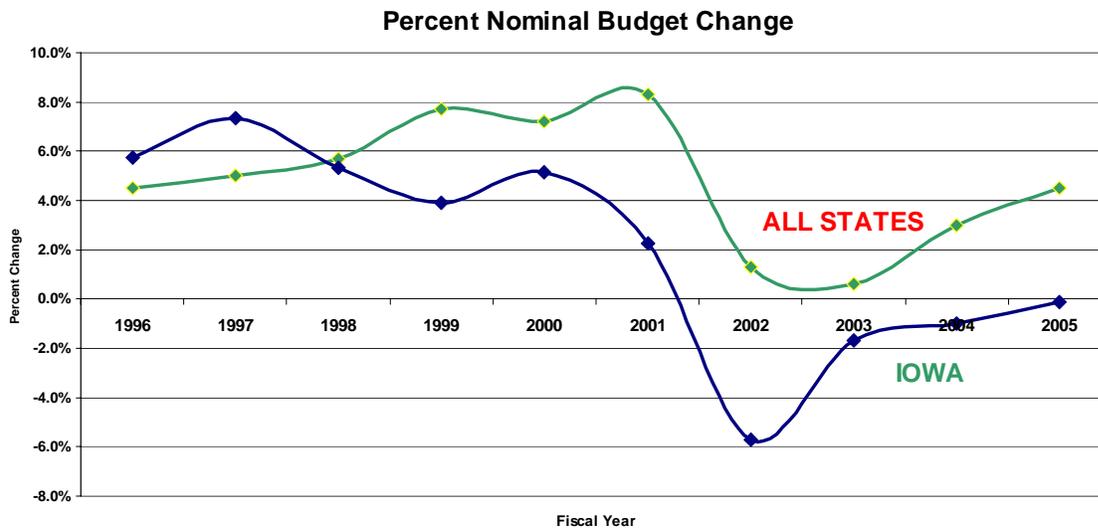
The State of Iowa has utilized a variety of measures to reduce spending. These include three rounds of an early retirement program, voluntary wage concessions by the State's largest state employee union, and extensive restructuring and consolidation of executive branch departments. As a result, the State executive branch workforce is 9% smaller than it was on July 1, 2001.

At the same time, the vast majority of Iowa's Fiscal Year spending is dedicated to a few key priorities. Education makes up over 60% of the budget, and children, family and senior services (primarily health care) make up another 17%. When you add in public safety (which includes the Highway Patrol, general prison operations, the Court system, and the National Guard) you have 89% of Iowa's Fiscal Year budget. As medical and other costs continue to increase, it is impossible to keep pace with the demand for quality services with continually fewer tax dollars.

National Actions by States to Balance Budgets

Forty-nine of the fifty states, including Iowa, have either a constitutional or a statutory requirement to have a balanced budget. In 1992, Iowa adopted a budget reform proposal that required the Legislature and Governor to spend no more than 99% of revenue, and maintain reserve funds to deal with unexpected budget issues. The wisdom of that action has shown in recent years, as Iowa has been able to reduce the impact of revenue losses through prudent use of its reserve funds. It is notable that the recent bipartisan budget reform agreement in California is patterned on the Iowa law.

Across the country, States have used a variety of mechanisms for coping with budget problems. While the states as a whole have reduced spending, Iowa started the process of reducing spending earlier and to a greater extent than the combined 50 states. The following chart illustrates the changes in spending for Iowa and the combined 50 states:



Besides reducing budgets, many states have begun to raise taxes and fees. According to the National Governors Association and National Association of State Budget Officer's Survey of the States, "in FY 2005, 24 states enacted tax and fee changes totaling a net increase of \$3.5 billion. In addition, they enacted other measures that enhance Fiscal Year revenue but that do not affect taxpayer liability totaling \$3.4 billion." This follows action in FY 2004, when net tax and fee increases totaled \$9.6 billion, and FY 2003, when the total was \$8.3 billion. Over the past four Fiscal Years, total enacted state revenue changes are almost \$22 billion. In contrast, Iowa continued to reduce taxes in each of those years.

During the 1990s, the states as a whole did a good job of building their reserves, and during recent years, those reserves have been tapped to deal with budget issues. In FY 2003, for example, 25 states drew on their reserve funds to help balance their budgets. While Iowa has drawn on its reserve funds, it has done so to a lesser extent than most states. In FY 2005, Iowa is projected to have \$225.6 million in its reserves, which is 5.0% of its budgeted expenditures. By contrast, the states as a whole are projected to have an average of 3.4% in reserve.

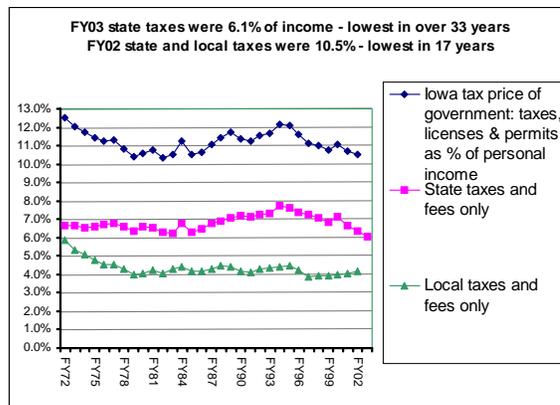
Iowa has also managed revenue shortfalls without the use of debt financing or accounting tricks, which have been utilized in a number of states. These sorts of budget balancing ploys have been criticized on numerous occasions by the national rating agencies. It is notable that both of the premier national rating

agencies, Standard and Poor's and Moodys Investors Services, continue to give Iowa their second highest rating, AA+ and Aa1 respectively, and both continue to list Iowa's financial outlook as stable. In contrast, among our neighboring states, Illinois, Wisconsin, and Minnesota have all been subject to rating downgrades in recent years.

Iowa's Price of Government

One common measure for determining the cost that citizens pay for their government is to compare tax revenues to personal income. This reflects how much people pay, as a percent of their income, for their government services. This allows comparisons over time without having to adjust for inflation or changes in economic conditions.

In FY 2003, Iowa's price of state government (state tax revenues as a percent of personal income) is at the lowest level in 33 years. When combined with local government revenues, it is at the lowest level in 17 years. The chart below shows this change over time:



In conclusion, Iowa government has done an excellent job of managing its finances. Levels of spending are below national averages, and Iowa has balanced its budget without resorting to gimmicks or tricks that end up costing states in the long run.

NATIONAL ECONOMIC REVIEW AND FORECAST

Economy.com's perspective:

The State of Iowa contracts with Economy.com, which, along with Global Insight, Inc., is used by a number of states for national forecasting data and information. According to Economy.com, the U.S. economy is enjoying strong growth, with real GDP expanding at a 4% annualized rate, with households, businesses, government and exports contributing to the gain. They view the only significant economic drag as continued growth in imports.

Economy.com notes that even the job market, the last part of the economy to rebound, is improving. About 2.2 million payroll jobs were created in 2004, and employment will soon surpass its previous peak set nearly four years ago. In their view, the economy has moved from the recovery to the expansion phase of the business cycle.

Economy.com believes that growth will slow in the coming year. By year-end 2005, they expect real GDP to be growing at close to a 3% pace. They predict that fading monetary stimulus and fiscal policy restraint, which will weigh on household and government contributions to growth, and the end of the inventory and replacement cycle, which will crimp businesses' contribution, will be primary factors in the slowdown. The expected slowdown would be even more pronounced if not for the weaker dollar and the salutary impact this will ultimately have on the nation's trade position. While the trade deficit is not expected to narrow much this year, any reversal at all would be a substantial improvement after years of substantial erosion.

The recent actions of the Federal Reserve have tightened monetary policy, which began last summer. Economy.com believes that the moves are designed to slow economic growth to just over 3%. They predict that policymakers will continue to hike the funds rate target by 25 basis points at each Fed Open Market Committee meeting until growth is at the target level. Consistent growth above 4% would prompt more aggressive tightening, and growth below 3% would induce policymakers to pause in their efforts.

Economy.com predicts that policymakers are expected to continue tightening in this measured way until the funds rate target is equal to the neutral rate, which is the rate that neither supports nor constrains growth and is equal to long-run nominal GDP growth. Economy.com estimates this to be 4.5%, which is equal to the sum of 3% real GDP growth and targeted 1.5% inflation. They believe it will take all of this year and part of next for policymakers to raise the current 2.25% funds rate target to its neutral rate.

Federal fiscal policy is also quickly turning from supporting growth to restraining it. The federal deficit is set to narrow from last year's record of over \$400 billion. Federal outlay growth is slowing. Policymakers are reducing growth of discretionary non-defense spending, which has come to a virtual standstill. It was not long ago that spending was expanding at a double-digit rate. Barring a significant increase in defense outlays necessary to support military efforts in Iraq, overall spending growth this year will just keep pace with the growth in GDP.

According to Economy.com, growth in the coming year would be even slower if not for an expected improvement in the nation's trade situation. The real trade deficit, which will reach a record \$600 billion this year, is expected to narrow in 2005. While the decline in the deficit will be small, it will be the first in a decade, and trade will go from being a sizable drag on growth to a source of modest support.

Behind the anticipated improvement is the three-year long, 15% decline in the real broad trade weighted dollar. The dollar is off by more than one-third vis-à-vis the Euro, 25% against the Canadian dollar, and 10% against the yen. The impact of the lower dollar on trade has been slow in coming, due to the expanded prevalence of currency hedging and long-term contracting. But this is changing, as evidenced by rising prices of imported goods from Europe and Canada.

Economy.com believes that the nation's trade situation will receive another boost when the Chinese revalue the yuan and begin a process towards a freely-floating currency. While the Chinese are publicly holding firm to their yuan-dollar peg, both external and internal pressures to change are mounting. A revaluation is expected sometime this year.

Conclusions. The economy is expected to experience sturdy growth this year. Real GDP growth will slow from last year's strong pace as the sources of growth begin to shift. Consumer spending, investment, and federal government spending growth will moderate, as monetary and fiscal policy stimulus fade into restraint, and pent-up investment demand is satisfied. Some of the slack will be made up by a stabilizing trade deficit. All of this is expected to go smoothly, but given that the catalyst for this shift is a lower U.S. dollar and somewhat higher inflation and interest rates, there are not inconsequential risks that there will be a bump or two along the way.

Federal Reserve Bank of Chicago's Economic Outlook Symposium's perspective:

The nation's economic growth in 2005 will be more moderate than in 2004, inflation will ease, and the unemployment rate will edge down, according to the median forecast of participants at the Federal Reserve Bank of Chicago's Economic Outlook Symposium.

The consensus outlook for 2005 shows real Gross Domestic Product (GDP) increasing 3.3% (down from an expected 4.4% in 2004); inflation, as measured by the Consumer Price Index, at 2.4% (down from 2.7%); and the unemployment rate averaging 5.4% (down from 5.5%).

The eighteenth annual Symposium, held in Chicago on December 3, drew participants from manufacturing, banking, consulting and service firms, and academia. One part of the Symposium involves the generation of a consensus economic outlook. This year, 28 individuals provided forecasts for major components of real GDP as well as several key statistics for the U.S. economy.

With the exception of net exports, all major components of real GDP are expected to contribute to the moderation expected in economic growth from 2004 to 2005, particularly a sharp slowdown in residential investment. Importantly, most major real GDP components are forecast to continue expanding next year, albeit at a slower pace than in 2004. Housing starts, however, are seen falling from an expected 26-year high of 1.93 million units in 2004 to 1.83 million in 2005. Industrial production is forecast to rise at a faster pace than real GDP next year for the first time since 2000. Light vehicle sales are projected to be 16.8 million units in 2005, up slightly from the high level expected for 2004.

Symposium participants anticipate that interest rates will be higher, on average, in 2005 than in 2004, which may be a factor contributing to forecasts of lower housing starts next year. Oil prices are expected to be higher, on balance, averaging just over \$43 per barrel in 2005, while the dollar is forecast to weaken somewhat further.

Iowa Economic Review and Forecast

In November, 2004, the University of Iowa's Institute for Economic Research updated their quarterly forecast for the Iowa economy. Their forecast for real personal income growth in Iowa is a robust 5.5% in 2004 and 4.0% in 2005. Real personal income growth is forecasted to be 3.2% for 2004 and 1.9% for 2005.

They project that employment growth will continue a slow recovery. They predict an increase of 0.5% in 2004 and 0.9% in 2005.

State Economic And Demographic Information

General Information

The State of Iowa has a population of approximately 2.94 million and occupies 56,000 square miles of land located in the North Central Region of the United States. The State is bordered on the east by the Mississippi River and on the west by the Missouri River. Des Moines is the State's capital and largest city. The metropolitan statistical area (MSA) that includes Des Moines had a population of 456,022 in 2000 and an estimated 502,761 in 2003.

In terms of population, Iowa has become an increasingly urbanized state. By 2000, 61.1 percent of Iowa residents lived in cities and towns. While Iowa has been traditionally characterized as a rural state, the number of inhabitants who live outside towns and cities has declined for most of the last 100 years.

Iowa's economy is supported by a diverse mixture of industry, agriculture, services and government employment. For example, in 1980, agriculture accounted for 11% of Iowa's gross state product, business services 11%, and the finance, insurance, and real estate sector 13%. By 2002, the shares of Iowa's gross state product had changed to 4%, 18%, and 16%, respectively.

However, agriculture continues to play an important role in the State economy. Iowa is a leader in the production of corn, soybeans, hogs and cattle. In addition, a larger part of Iowa's non-farm personal income is earned in agriculture-related industries, such as agricultural services, food and kindred products, leather and leather products, and chemicals, in addition to farm machinery.

Iowa's Population

In 2000 the State ranked 30th in number of inhabitants among the fifty states, the same as in 1990. Table A-1 below shows U.S. and Iowa population and changes in population for certain years from 1980 through 2000.

Total Resident Population of the United States and Iowa				
Year	Population		Percent Change	
	U.S.	Iowa	U.S.	Iowa
1980	226,504,825	2,913,808	11.4%	3.2%
1990	248,709,873	2,776,755	9.8	(4.7)
2000	281,421,906	2,926,324	13.2	5.4

Source: U.S. Census Bureau

Personal Income and Employment

Personal Income. The University of Iowa Institute for Economic Research's latest outlook is for personal income in Iowa to grow by 5.5% in 2004, 3.9% in 2005, and 4.0% in 2006. Iowa's personal income is rebounding better than the nation as a whole. In the last two quarters of 2003-04 Fiscal Year, Iowa's personal income, not seasonally adjusted, grew at a rate of 5.2% and 5.3% respectively; this was above the nation as a whole, which had personal income growth of 3.2% and 2.8%.

Iowa's personal income for calendar year 2003 was lower than the nation as a whole. Iowa's personal income grew at 2.1%, compared to the national average of 3.2%. Contributing to Iowa's personal income was higher growth in Finance and Insurance (8.1%), Health Care and Social Assistance (5.0%), and Manufacturing (4.9%). Lower farm income (-12.9%) kept the growth down below the national average.

For the first half of 2004, personal income growth is higher than the nation as a whole. Iowa's personal income grew at an estimated 5.6% compared to the first half of 2003, which was the 12th largest percentage growth among the states. For the nation as a whole, personal income grew 5.0% compared to the first half of 2003.

Farmland Values. The most recent survey of area bankers indicates that farmland values are rising. The Federal Reserve Bank of Chicago surveys farm bankers in the area four times a year to determine their best estimates of farmland values. In their July 2004 survey, Iowa farmland values had risen 12% compared to the 2003 survey. Gains were registered throughout each region in the State, with the North Central region growing the most (14%), and the South East region showing the smallest increase (8%). In their July 2003 survey, Iowa farmland values had risen 8% compared to the July 2002 survey. The July 2002 survey showed a 2% increase over 2001.

The July 2001 survey estimated that Iowa farmland values increased 2% over 2000. The 1999 survey had shown a 3% decline in values compared to 1999.

Employment. Iowa continues to have an average unemployment rate below the rate of the nation as a whole. Throughout most of the decade, Iowa's unemployment rate has been between one and two percentage points below the national average. The U.S. unemployment rate for December 2004 was 5.4%, compared to 5.7% in December 2003. The seasonally adjusted percent unemployed for the State in December 2004 was 4.7%, which decreased 0.1% from the November 2004 rate. The Iowa unemployment rate for December 2003 was 4.6%. In December 2004, Iowa had the 26th lowest unemployment rate among the 50 states. In December 2004, there were 1,553,500 employed Iowans. This compares with the record level of 1,630,500 employed Iowans in September 2002.

Iowa has a greater percentage of labor force employed compared to the nation as a whole and also has a larger percentage of its population actively participating in the labor force. While Iowa's personal income lags that of the nation, its high levels of employment help maintain median household income at levels at or near the national average. In 2003, Iowa's median household income was \$41,985, slightly below the national average of \$43,527.

Exports. The rise in exporting industries has been an important factor in Iowa economic growth since the 1990's. Growth in exports of industrial machinery, instruments and measurement devices, electronics, specialized transportation equipment, chemicals and pharmaceuticals, and processed food products have helped diversify Iowa's economy. When combined with traditional farm commodities and livestock, total exports from Iowa increased by 22%, 11% and 13% in the years 1995 through 1997. A variety of factors led to declines of 3% and 16% in 1998 and 1999. A general weakness in the economies of the Pacific Rim nations significantly reduced trade opportunities. At the same time, strong harvests worldwide led to an oversupply of agricultural commodities. The strong U.S. dollar also made it more challenging for U.S. products to be competitive in international markets.

Iowa's export of value-added and manufacturing goods has increased since 2000 by 4.4% in 2001, 2.0% in 2002 and 10.1% in 2003. In 2003, Mexico replaced Japan as the second leading export country behind Canada partially due to the increase of value-added products shipped to Mexico and also due to the decline in meat and meat products shipments to Japan due to BSE.

Iowa's record level of exports has been fueled by large percentage increases in machinery, electrical machinery, cereals, milling, and organic chemicals. Overall, for the first quarter 2004, exports are up 22.2% compared to the first quarter 2003.

Gross State Product. In 2001, Iowa's gross state product was \$90.9 billion, which reflected 1.4% growth over the previous year. The largest shares of the Iowa gross state product were manufacturing (22%), services (18%), and finance, insurance, and real estate (16%). Agriculture accounted for just 4% of Iowa's gross state product. The gross state product is the U.S. Commerce Department's measure of the value of all goods and services produced in the State each year. The nation's gross domestic product (\$10.1 trillion) grew by 2.5% between 2000 and 2001.

The table below sets forth U.S. and Iowa per capita personal income for certain years from 1980 through 2003.

United States and Iowa Per Capita Income			
Year	U.S.	Iowa	Iowa as % of U.S.
1980	\$10,114	\$ 9,585	94.8%
1990	19,477	17,389	89.3
1998	26,883	24,701	91.9
1999	27,939	25,118	89.9
2000	29,847	26,554	89.0
2001	30,580	27,178	88.9
2002	30,795	27,905	90.6
2003	31,459	28,398	90.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis

The table below summarizes the State's personal income, monthly initial jobless claims, new incorporations and average unemployment rates for certain years from 1980 through 2003. It appears that the dramatic increase in new incorporation filed in 2002 was the result of previously unincorporated sole proprietorships choosing to become limited liability companies.

Iowa Economic Statistics				
Year	Personal Income (\$Billions)	Initial Jobless Claims Per Month	New Incorporations Filed	Average Annual Unemployment Rate
1980	\$28.2	22,411	6,956	5.8%
1990	48.3	13,123	5,486	4.3
1998	71.3	11,637	6,366	2.8
1999	72.9	12,767	6,386	2.5
2000	77.7	12,778	6,251	2.6
2001	80.2	17,647	6,987	3.3
2002	81.9	17,426	9,678	4.0
2003	83.6	16,593	9,825	4.5

Sources: Labor Market Information Unit, Iowa Workforce Development, U.S. Department of Commerce, Secretary of State of the State of Iowa

The table below summarizes the unemployed and employed members of the State's residential civilian labor force for certain years from 1980 through 2003.

Iowa Resident Labor Force (000's)								
	1980	1990	1998	1999	2000	2001	2002	2003
Residential Civilian Labor Force	1,432.0	1,449.0	1,593.3	1,599.7	1,586.0	1,622.89	1,633.0	1,612.3
Unemployed	82.0	61.8	44.1	40.8	41.2	53.6	66.6	72.2
Percent Unemployed	5.75	4.35	2.8%	2.5%	2.6%	3.3%	4.0%	4.5%
Employed	1,350.0	1,387.2	1,549.26	1,558.9	1,544.8	1,569.2	1,596.5	1,540.1
Percent Employed	94.3%	95.75	97.25	97.5%	97.45	96.75	96.0%	95.5%

Source: Labor Market Information Unit, Iowa Workforce Development

Components of the Iowa Economy

Nonagricultural Economy. Over the past 13 years, significant changes have occurred in the mix of nonfarm wage and salary employment. While payroll jobs in Iowa grew by 17%, jobs in the business services sector grew by 52% and the financial services sector grew by 37%. Conversely, manufacturing jobs increased by only 0.5%. Table A-5 summarizes the Iowa's nonagricultural workforce by industry category for certain years from 1990 through 2003.

Iowa Employment by Industry* (000's)							
	1990	1998	1999	2000	2001	2002	2003
Nonagricultural wage and salary	\$1,226.4	1,442.8	1,468.6	1,478.5	1,465.6	1,447.3	1,440.3
Mining	2.0	2.2	2.2	2.1	2.0	2.0	1.9
Construction	44.9	63.3	65.8	63.9	64.2	64.4	64.7
Manufacturing	218.9	250.9	252.8	251.5	240.2	227.1	220.0
Trade, Transportation, Utilities	269.5	308.6	313.6	315.8	311.3	305.9	303.1
Information	29.9	35.7	38.7	40.4	37.4	35.1	33.7
Financial Activities	69.5	86.3	89.0	89.7	92.0	93.9	95.4
Professional and Business Services	69.0	104.3	106.7	107.6	107.3	105.6	105.2
Educational and Health	146.6	176.0	178.0	181.9	185.4	188.0	189.8
Leisure and Hospitality	101.4	124.1	126.0	125.5	124.1	124.6	125.5
Other Services	55.6	55.3	56.4	56.8	56.3	56.6	56.2
Government	219.0	236.2	239.5	243.3	245.2	244.0	244.8

*Includes non-residents

Source: Labor Market Information Unit, Iowa Workforce Development

The table below summarizes Iowa's nonagricultural employment, as a percentage of total nonagricultural wages and salaries paid, for certain years from 1990 through 2003.

Iowa Nonagricultural Wage And Salary Employment							
	1990	1998	1999	2000	2001	2002	2003
Mining	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Construction	3.7	4.4	4.5	4.3	4.4	4.4	4.5
Manufacturing	17.8	17.4	17.2	17.0	16.4	15.7	15.3
Trade, Transportation, Utilities	22.0	21.4	21.4	21.4	21.2	21.1	21.0
Information	2.4	2.5	2.6	2.7	2.6	2.4	2.3
Financial Activities	5.7	6.0	6.1	6.1	6.3	6.5	6.6
Professional and Business Services	5.6	7.2	7.3	7.3	7.3	7.3	7.3
Educational and Health	12.0	12.2	12.1	12.3	12.7	13.0	13.2
Leisure and Hospitality	8.3	8.6	8.6	8.5	8.5	8.6	8.7
Other Services	4.5	3.8	3.8	3.8	3.8	3.9	3.9
Government	17.9	16.4	16.3	16.5	16.7	16.9	17.0

Source: Labor Market Information Unit, Iowa Workforce Development

The growing diversification of Iowa's economy has caused the State's economy to more closely resemble that of the nation. Growth in professional and business services, education and health has offset relative declines in manufacturing and government.

The following two tables summarize Iowa's total earned income, by industry type, for the years 1980 through 2003 on a nominal dollar basis. The data in the first table are based on the 1987 Standard Industrial Classification ("SIC"). Beginning with the year 2002, the U.S. Department of Commerce is using the North American Industry Classification System ("NAICS"), and the data in the second table are based on that system.

Iowa Income by SIC Industry* (\$ Millions)						
	1980	1990	1998	1999	2000	2001
Agriculture	\$ 683	\$ 2,550	\$ 2,391	\$ 1,402	\$ 1,656	\$ 1,716
Mining	108	76	112	112	114	121
Construction	1,391	1,856	3,214	3,440	3,379	3,493
Manufacturing	5,730	7,946	11,233	11,489	11,997	11,974
Transportation and Utilities	1,487	2,144	3,337	3,604	3,742	3,828
Wholesale Trade	1,546	2,291	3,529	3,777	3,755	3,661
Retail Trade	2,176	3,323	4,712	4,956	5,158	5,298
Finance, Insurance and Real Estate	1,093	2,110	4,131	4,397	4,764	5,086
Services	3,350	6,792	11,303	12,283	13,136	13,485
Government	3,154	5,860	8,333	8,715	9,236	9,650
Total Earned Income	\$20,838	\$34,963	\$52,646	\$64,569	\$57,336	\$58,708

*Income includes wages and salaries, other labor income, proprietor's income, and corporate dividends that originate within a given industry in Iowa.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Iowa Income by NAICS Industry* (\$ Millions)		
	2002	2003
Agriculture	\$ 1,651	\$ 1,438
Mining	125	127
Construction	3,605	3,823
Manufacturing	11,567	12,052
Wholesale Trade	3,280	3,324
Retail Trade	4,727	4,827
Transportation and Warehousing	2,321	2,408
Information	1,602	1,637
Finance and Insurance	4,621	4,996
Educational Services	759	806
Health Care and Social Assistance	5,989	6,285
Arts, Entertainment, and Recreation	541	570
Accommodation and Food Services	317	312
Other Services, except Public Administration	1,773	1,833
Government and Government Enterprises	9,949	10,322
Total Earned Income	\$60,348	\$62,716

*Income includes wages and salaries, other labor income, proprietor's income, and corporate dividends that originate within a given industry in Iowa.

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Agricultural Economy. Fluctuating conditions, both in terms of world production and local crop conditions, continue to plague Iowa's agricultural economy. Increasingly, direct government payments are the determining factor in net farm income. Direct government payments peaked in 2000 at \$2,302.1 million, then declined to \$1,971.7 million in 2001 and \$737.1 million in 2002 and increased in 2003 to \$1,050.6 million.

The table below summarizes realized gross and net income from farming in Iowa for certain years from 1990 through 2003.

Realized Gross and Net Income from Farming in Iowa (\$ Thousands)								
	1980	1990	1998	1999	2000	2001	2002	2003
Final Crop Output	\$4,224,930	\$4,656,318	\$6,392,847	\$5,003,247	\$4,921,485	\$5,000,441	\$6,365,886	\$5,889,845
Final Animal Output	5,459,875	6,106,778	4,814,418	4,726,029	5,775,466	5,919,413	5,195,129	6,023,492
Services and Forestry	662,456	619,474	993,825	1,028,520	1,012,793	1,050,767	1,255,231	1,208,325
Final Agricultural Sector Output	10,347,261	11,382,714	12,176,084	10,757,797	11,709,744	11,970,621	12,784,246	13,121,622
Net Farm Income	\$468,725	\$2,574,394	\$2,249,423	\$1,667,293	\$2,340,718	\$2,173,158	\$2,044,232	\$2,022,623

Source: Economic Research Service, U.S.D.A.

The components of Iowa's farm economy have, for a number of years, been split about equally between livestock and crops. The following table summarizes cash receipts from the various components of farming in Iowa for the years 1980 through 2003.

Realized Gross and Net Income from Farming in Iowa (\$ Thousands)								
	1980	1990	1998	1999	2000	2001	2002	2003
Final Crop Output	\$4,224,930	\$4,656,318	\$6,392,847	\$5,003,247	\$4,921,485	\$5,000,441	\$6,365,886	\$5,889,845
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Source: Economic Research Service, U.S.D.A.

BUDGET PROCESS

The General Fund is primarily comprised of the State's major tax revenues, such as Personal Income Tax, Sales and Use Tax, and Corporate Income Tax. For FY 2005, these taxes are estimated to make up approximately 87% of the General Fund revenue. The remaining 13% is a combination of lesser taxes such as Inheritance Tax, Insurance Premium Tax, Cigarette and Tobacco Tax, Franchise Tax, along with fees and other revenue sources. Transfers from other funds to the General Fund also occur.

All expenditures from the General Fund must be appropriated by the Legislature. The appropriations from the General Fund expire at the end of the State's Fiscal Year, unless the Legislature specifically provides for those funds to carry forward into the following Fiscal Year.

Annual Statutory Budget Process

Iowa's Fiscal Year begins July 1 and ends June 30. Early in the Fiscal Year, departments in state government begin planning for the next budget year. Iowa's statutory budget process allows departments to begin their budget work by calculating 75% of the previous year's budget, which becomes their base. This base is not subjected to further scrutiny in the statutory budget process.

After assuming funding of their base, departments develop "decision packages" to restore their budget to the previous year's level. They may then add additional packages for new initiatives over and above the previous year's budget levels. Departments are required to submit detailed information on each of these packages. Their entire budget must be transmitted to the Department of Management by October 1st.

This year, the Governor and Lt. Governor decided that, as well as submitting the statutorily required budget information, departments would submit their entire budgets as "offers" to achieve results. This "Purchasing Results" process, which subjects the entire budget to scrutiny, is a zero-based budget approach that moves away from incremental decisions based on previous budgets and focuses much more on the results that departments will seek to achieve with their budgeted resources.

Official Revenue Estimates

As with a family budget, state government must live within its means, and the Iowa Constitution prohibits deficit spending. To help ensure accurate estimates, the state has a consensus revenue estimating process, where both the executive branch and the legislative branch must agree on a revenue estimate to be used in the budget process.

The revenue forecast is made by a three-person panel (Revenue Estimating Conference) consisting of a representative of the Legislature (the Director of the Legislative Services Agency), a representative of the Governor (currently the Director of the Department of Revenue), and a third person agreed upon by the other two. They meet quarterly and arrive at the official revenue estimate used by all parties in the budget process. In December of each year they establish the official estimate that will be used by the Governor and the Legislature in crafting the next year's state budget. By statute, both the Governor and Legislature cannot spend more than 99% of this revenue estimate.

Governor's Budget Recommendations

After October 1st, when departments submit their statutory budget requests, the Governor begins a process of fashioning his budget recommendations for the coming year. By law, the Governor must submit his budget recommendations to the Legislature by February 1st.

Unlike past years, the budget formulation process started with the Governor and Lt. Governor choosing the results they wanted government to achieve. As part of this Purchasing Results process, departments submitted their budgets as offers to “Buying Teams” comprised of members of the Governor’s policy staff, Department of Management fiscal and policy staff, and other experts both within and outside of state government. These teams ranked the offers and submitted their recommendations to the Governor and Lt. Governor for their consideration. The final recommendations of the Governor and Lt. Governor have also been ranked within the major results categories the Governor and Lt. Governor identified at the beginning of the budget process.

Legislative Budget Process

After the Governor presents his budget, the Legislature fashions the actual budget for the coming. Currently, the Legislature has seven joint budget subcommittees, each of which deal with a portion of the budget. Each subcommittee holds a series of hearings where departments present their budget requests and answer questions.

Sometime after the Governor releases his budget, legislative leaders release budget targets for each of the subcommittees. These targets tell each budget subcommittee how much they may appropriate for the programs under their purview. Each subcommittee then crafts an appropriations bill to be considered by the full legislature.

The subcommittee appropriations bills are divided up between the two chambers, and first start in the Appropriations Committee. After the Committee makes any modifications, it is presented to the full House or Senate. After consideration by that chamber, it is sent to the other chamber, and the process is repeated. The Appropriations Committee offers amendments, and those, plus any additional amendments are considered on the floor.

The bills are ultimately agreed upon by the two chambers and sent to the Governor. The Governor may choose to approve the entire bill, veto it in its entirety, or item veto parts of it. If the Governor item vetoes parts (or vetoes the whole bill), it is returned to the Legislature. If the Legislature chooses, it may attempt to override the Governor’s veto. This requires a 2/3rds majority vote in both chambers of the Legislature.

The Enacted Budget

Once the Legislature and Governor approve the budget for the coming year, the Department of Management works with departments to execute the decisions. The budgeted items are entered into the state budget system, and each department is notified of its levels of appropriations for the year. The state’s financial accounting system, which is administered by the Department of Administrative Services, is merged with the budgeted amounts; and the Department ensures that departments do not spend more than they have been allocated by the Legislature.

On occasion, unforeseen circumstances may arise that make it impossible for a department to properly operate within the appropriated budget. For example, the federal government might mandate that new services be provided, a building might be destroyed by fire, or costs of providing required services might rise faster than expected. In these instances, the Department of Management can authorize the transfer of appropriated funds from other parts of the budget to deal with the shortfall. These transfers require notification to the Legislature and the approval of the Governor.

Basis for Budgeting

For budgeting and certain internal reporting purposes, applicable State statutes and administrative procedures govern the State’s practices. Such practices are referred to as “Budget Basis.” The Department of Administrative Services and the Department of Management believe that the present Budget Basis accounting practices conform to Generally Accepted Accounting Principles (GAAP) as applicable to governments, except a significant number of funds would be classified differently under GAAP than is done under the State’s Budget Basis accounting practices.

Reserve Funds

Cash Reserve Fund

A Cash Reserve Fund (the “Reserve Fund”) is created by Iowa Code Section 8.56. The Reserve Fund is separate from the General Fund and is not a part of the General Fund of the State except in determining the cash position of the State. Moneys in the Reserve Fund may be used for cash flow purposes provided that any funds so allocated are returned to the Reserve Fund by the end of each Fiscal Year. The maximum balance of the Reserve Fund is an amount equal to 7.5% of the adjusted revenue estimate for the General Fund of the State for the current Fiscal Year. The present balance of the Reserve Fund, after the transfer of the FY 2004 ending balance to the Reserve Fund is \$336.4 million. Last year, the Legislature appropriated \$159.6 million from the Reserve Fund for property tax credits previously funded from the General Fund. There is also a standing appropriation to the Reserve Fund in any Fiscal Year where the balance in the Reserve Fund is less than 7.5% of net Fiscal Year revenues. For FY 2005, this required an appropriation of \$45.5 million to the Fund. As a consequence, the Reserve Fund is projected to contain \$222.3 million in FY 2005; the target level of funding for the Reserve Fund is \$358.5 million.

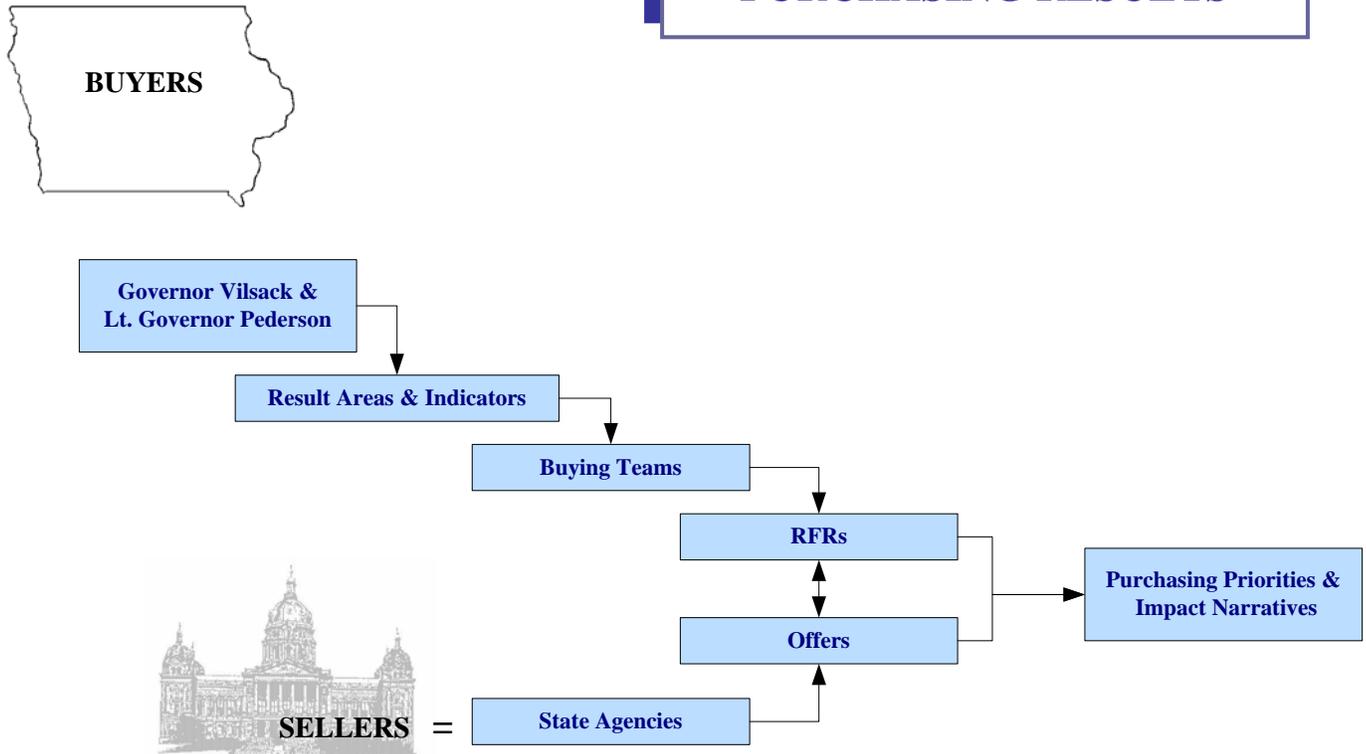
Except as provided in Iowa Code Section 8.58, the balance in the Reserve Fund may be used in determining the cash position of the General Fund for payment of State obligations.

Iowa Economic Emergency Fund

Iowa Code Section 8.55 establishes the Iowa Economic Emergency Fund (the “Emergency Fund”). The Emergency Fund is separate from the General Fund and the balance in the funds shall not be considered a part of the General Fund. The moneys in the Emergency Fund shall not revert to the General Fund at the end of each Fiscal Year as otherwise provided in Iowa Code Section 8.33. The Fund shall be considered a special account for the purposes of determining any GAAP deficit pursuant to Iowa Code Section 8.53. The maximum balance of the Emergency Fund is set by statute to equal 5.0% of the adjusted revenue estimate for the Fiscal Year.

Presently the balance of the Emergency Fund is \$3.3 million. Except as provided in Iowa Code Section 8.58 (related to application of certain formulae, index, or other statutory triggering mechanism affecting appropriations, payments or taxation rates) the balance in the Emergency Fund may be used in determining the cash position of the General Fund for the payment of State obligations.

PURCHASING RESULTS



“Purchasing Results” is a new and better way to budget. Traditional budgeting fails state government and fails Iowans. Traditional government budgeting starts with last year’s numbers and then adjusts some up and some down.

- All the energy is invested at the margin; the vast majority of spending is never reviewed.
- Inertia maintains current spending. Good, new ideas rarely break through and mediocre programs rarely go away, even in bad budget times.
- The focus is on the money, not the value Iowans get for the money.

Purchasing Results turns the old way upside down. It starts from scratch and uses an entirely different dynamic to invest each dollar to achieve the best results for Iowans.

Think of the Governor and Lt. Governor – with the Legislature – as buyers of government services on Iowans’ behalf. Think of state agencies as sellers of these services. Purchasing Results sets up a marketplace where buyers try to get the best deal they can from sellers. Conversely, sellers have a strong incentive to offer high value because value drives buyers’ decisions. The better the results per dollar, the better the chance an Offer will be funded.

The mechanics of Purchasing Results work like this:

1. Results Areas and Indicators

Governor Vilsack and Lt. Governor Pederson start the process by listening to Iowans. That input forms the basis for **Results Areas and Indicators**, which identify the overall results Iowans want, with indicators that tell us how well we are doing. The five main Result Areas are:

- **Improve Student Achievement**
- **Transform the Economy**
- **Improve the Health of Iowans**
- **Improve Community Safety, Particularly for Vulnerable Iowans**
- **Improve the Quality of Our Natural Resources**

Two more complete the picture:

- **Improve Government Accountability**, which includes the services needed to support all activities, for example: human resources, information technologies, and revenue.
- **Improve the State's Infrastructure**, which provides buildings, highways, technology systems, and more.

An example of an Indicator, in this case for Improve Student Achievement, is the percentage of 4th grade students achieving “proficient” or higher in reading.

2. Buying Teams and Requests for Results

The Governor and Lt. Governor then ask Buying Teams to help them purchase results in each of the Result Areas. Each Buying Team, which consists of staff from the Office of the Governor and Lt. Governor and the Department of Management, issues a **Request for Results (RFR)** to the sellers.

Each RFR, which is very much like a Request for Proposals (RFP), guides sellers. *“This is what we want to buy. These are the priorities. Here are the strategies we think work best.”* Each RFR consists of the Indicators, a Strategy Map, and Purchasing Strategies for that Result Area.

3. Offers

With the RFRs as their guide, state agencies prepare **Offers** for the Buying Teams. Each Offer is just that, an offer to provide quantified results for a given price. The Buying Teams encourage agencies to be creative, collaborate with others, and submit any offer they want, to any Buying Team, as long as it responds to an RFR. Existing activities are not exempted. Agencies know that if they want to do something in FY 2006, it has to be in an Offer. Each Offer consists of a Description, Justification, Performance Measures, and Price with Revenue Source.

4. Purchasing Priorities

The Buying Teams evaluate the Offers, negotiate with sellers for better deals, and rank the final offers in priority order as recommendations to the Governor and Lt. Governor. Each Buying Team has an allocation of the total appropriated revenues and can see how much of their prioritized list that allocation allows them to purchase.

These lists, **Purchasing Priorities**, include all state appropriated funds and show the Offers in priority order from top to bottom, with a line drawn to show where the money runs out.

The Purchasing Priorities make the hard choices clear. Higher priority Offers rise above the line and are recommended for funding. Lower priority Offers slip below the line and cannot be funded with the money available. For each Purchasing Priorities list, a brief “**Impact Narrative**” describes what happens for Iowans when the priorities are funded.

Next

Purchasing Results provides a better framework for budget choices. Decision makers can engage sellers in discussions about Offers. They can reorder the priorities by moving Offers up or down the Purchasing Priorities. They can decide how many dollars should be available overall and how many should be allocated to each Result Area. Ultimately, they decide which Offers provide the best value for Iowans.

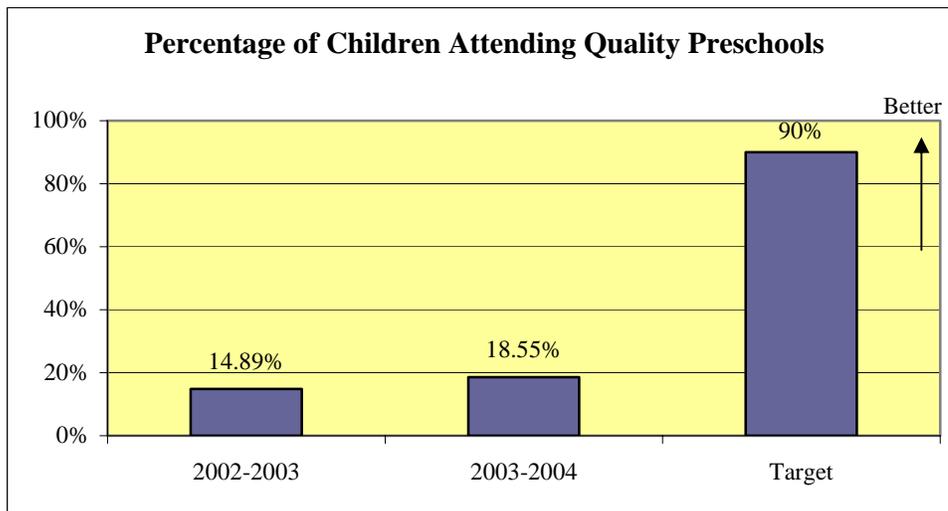
REQUESTS FOR RESULTS

Improve Student Achievement

Result: *IMPROVE STUDENT ACHIEVEMENT*

Indicators:

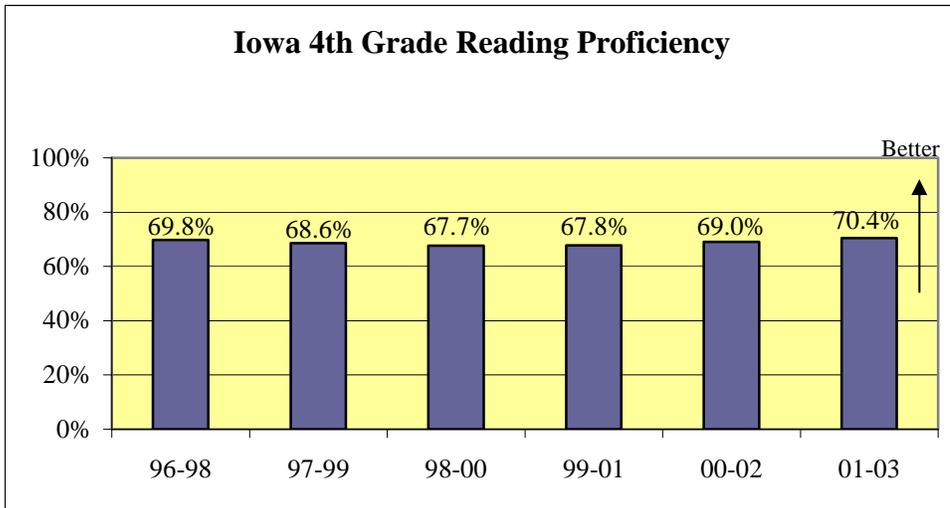
Each indicator reflects a critical outcome for each phase of learning; early childhood, K-12, and post secondary. They are not meant to directly connect to all strategies improving student achievement.



Data Sources: Iowa Department of Education Shared Visions and District Data, Iowa Department of Human Services Access Data System; NAEYC Website: Accredited Program Search; Head Start Program Information Report for 2002-2003: Total Actual Enrollment

- **Percentage of children attending quality preschool.**

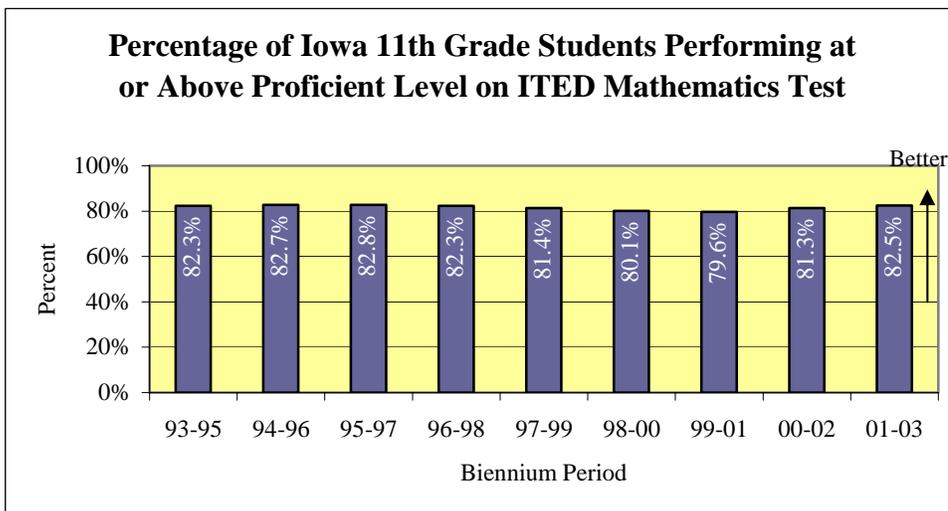
* The percentage of Iowa children, ages three and four, who have participated in a preschool program that is NAEYC (National Association for the Education of Young Children) accredited and/or meets Head Start program performance standards, or meets a comparable set of standards. This data is currently being collected to track progress on the Leadership Agenda goal that 90% of Iowa's children have a quality preschool experience. In the absence of a statewide measure that gauges what children know and can do at the time of school entry, the team chose the percentage of children attending quality preschool. Offers should include comprehensive strategies that include, but are not limited to, preschool, because good evidence shows that multiple strategies are needed to achieve school readiness. In future iterations of this process, a more comprehensive indicator of early childhood education may be available.



Data Source: University of Iowa, Iowa Testing Programs

- **Percentage of 4th grade students achieving proficient or higher in reading.**

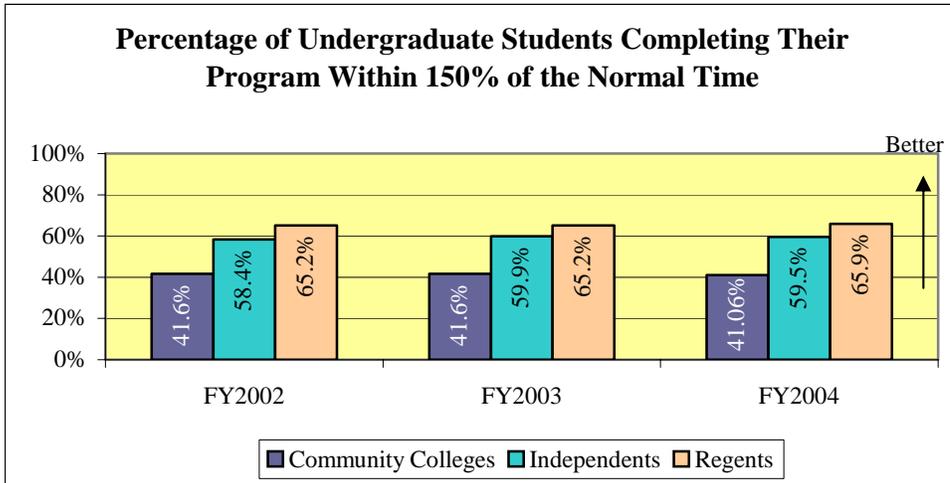
* Based on Iowa Tests of Basic Skills results. Research supports the importance of reading and math as foundational skills in the workplace. Students lacking adequate skills in these areas are found to have an increased chance of dropping out, less interest in post-secondary or lifelong learning and less earning power in their lifetimes.



Data Source: University of Iowa, Iowa Testing Programs

- **Percentage of 11th grade students achieving proficient or higher in mathematics.**

* Based on Iowa Tests of Educational Development results. Research supports the importance of reading and math as foundational skills in the workplace. Students lacking adequate skills in these areas are found to have an increased chance of dropping out, less interest in post-secondary or lifelong learning and less earning power in their lifetimes.



Data Sources: Iowa Department of Education; Iowa Community College, Management Information System; Iowa College Student Aid Commission, Information Digest of Post Secondary Education; Iowa Board of Regents

- Percentage of full-time undergraduate post-secondary students completing their program within 150% of the normal length of study.**

* Normal length of study is based on Regent institutions' six-year graduation rate; community colleges' three-year persistence rate; and independent colleges' six-year graduation rate from IPEDS (Integrated Postsecondary Education Data System). Research is clear that as individuals obtain more post-secondary training, positive indicators like earning power and health increase while negative indicators like unemployment and crime rates decrease. This indicator supports the Leadership Agenda goal of 90% of Iowa's population having post-secondary experience. All Regent institutions, community colleges and independent colleges in Iowa must be accredited so an assumption of quality can be made. High school graduation rate or the % of public high school graduates/seniors pursuing or intending to pursue post-secondary education or training were not chosen as indicators because they are intermediate indicators supporting the overall indicator of completing post-secondary training. The team also considered using the % of employed Iowans with a college degree but concluded that would be more directly related to the Transform the Economy result than the Student Achievement result.

Strategy Map:

The Strategy Map depicts the spectrum of education supports – early childhood through post-secondary – and the factors influencing these categories of supports. Since learning is built on the foundation of prior learning, and children's earliest learning experiences are fundamental to their brain development and long-term educational success, the quality of the very earliest learning experiences helps to shape the overall quality of education at all levels. By ensuring excellence in education in early learning and in the primary grades, children obtain a solid foundation for success throughout their lives. Ultimately, these efforts link to the number of students who will successfully complete a postsecondary education and prosper in the modern economy.

Strategies:

Student achievement is affected by four major components:

Create Great Learning Environments – The overall quality of experience offered to learners is determined by: available tools and support, breadth and diversity of curriculum, access to programs, quality and effectiveness of instruction offered, support given to teachers and staff, quality of facilities, and the transitions between levels of education. These learning resources are essential to improving student achievement.

Produce Ready-to-Learn Students – Students at all ages will achieve more when they are physically healthy, safe, well-nourished and rested, have supportive relationships, and are exposed to educational opportunities and challenges.

Ensure Students have Secure and Nurturing Families – The family environment is a critical factor in student achievement. Supportive parents and other adults that are involved in learning read to their children, attend activities, understand the importance of education, have an adequate income, and provide a secure and stable home to develop learners more capable of high levels of achievement.

Create Safe and Supportive Communities – Community support is essential to student achievement as it affects both students and learning environments. Communities affect learning through cultural dynamics, awareness and availability of information about the importance of student achievement, providing care for dependents, promoting positive youth development activities and the availability of transportation and housing.

** The Education Buying Team sees Great Learning Environments and Ready-to-Learn Students as the components that will most directly improve student achievement and therefore, see the bulk of the Education investment being made in these two areas.*

Purchasing Strategies - The Education Buying Team seeks offers that:

1. Increase the effectiveness of comprehensive early childhood care, health and education;
2. Assure that all learners have access to a broad set of educational opportunities;
3. Invest in staff quality and effective instruction;
4. Enhance the affordability of early childhood and postsecondary opportunities;
5. Build results-oriented partnerships among education institutions, government, families, communities, businesses, non-profits, and others;
6. Implement evidence-based best practices;
7. Increase the proportion of the resources devoted to direct instructional activities; and
8. More fully engage learners and their families in their learning environments.

All Offers Should:

1. Be Innovative and bold.

This is not business as usual. Offers must be made up of ideas and improved services that produce results in the most effective and innovative ways. Offers are not limited to services the State of Iowa currently provides. If an offer includes a service the State currently provides, the offer must improve upon those services. Adapt best practices to Iowa.

2. Use the principles of smarter sizing, smarter spending, smarter management and smarter leadership.

The State of Iowa must work smarter to produce better results with the available resources. Some principles that will do that include:

- *Consolidating services in a smart way;*
- *Buying services competitively;*
- *Using flexibility to produce accountability;*
- *Giving Iowans choices;*
- *Giving money to Iowans, rather than institutions;*
- *Making administrative systems allies, not enemies;*
- *Improving work processes and productivity;*
- *Improving the availability, quality, use, and sharing of data;*
- *Purchasing prevention, not remediation;*
- *Separating steering and rowing;*
- *Producing voluntary compliance;*
- *Targeting subsidies;*
- *Purchasing less mistrust; and*
- *Blending or braiding revenue streams.*

3. Divest in lower value strategies so that there is money to invest in higher value strategies.

The State of Iowa cannot continue providing all of the services it currently provides, because many of those services do not directly relate to the results Iowans want most. In order to provide those results, the State must target its resources toward services and programs that will directly impact those result areas. Investments must also target populations, regions or aspects of a delivery system that most need attention.

4. Encourage collaboration and partnerships.

The State of Iowa cannot do everything alone. Iowans want state departments to work with each other, as well as other levels of government, and the private sector. The State's investments must build upon and work with community based organizations and initiatives. Partnerships require incentives. The state cannot construct a budget based on the hope that partners will fund a portion of the service, if those deals have not been discussed with the partners.

5. Show measurable results.

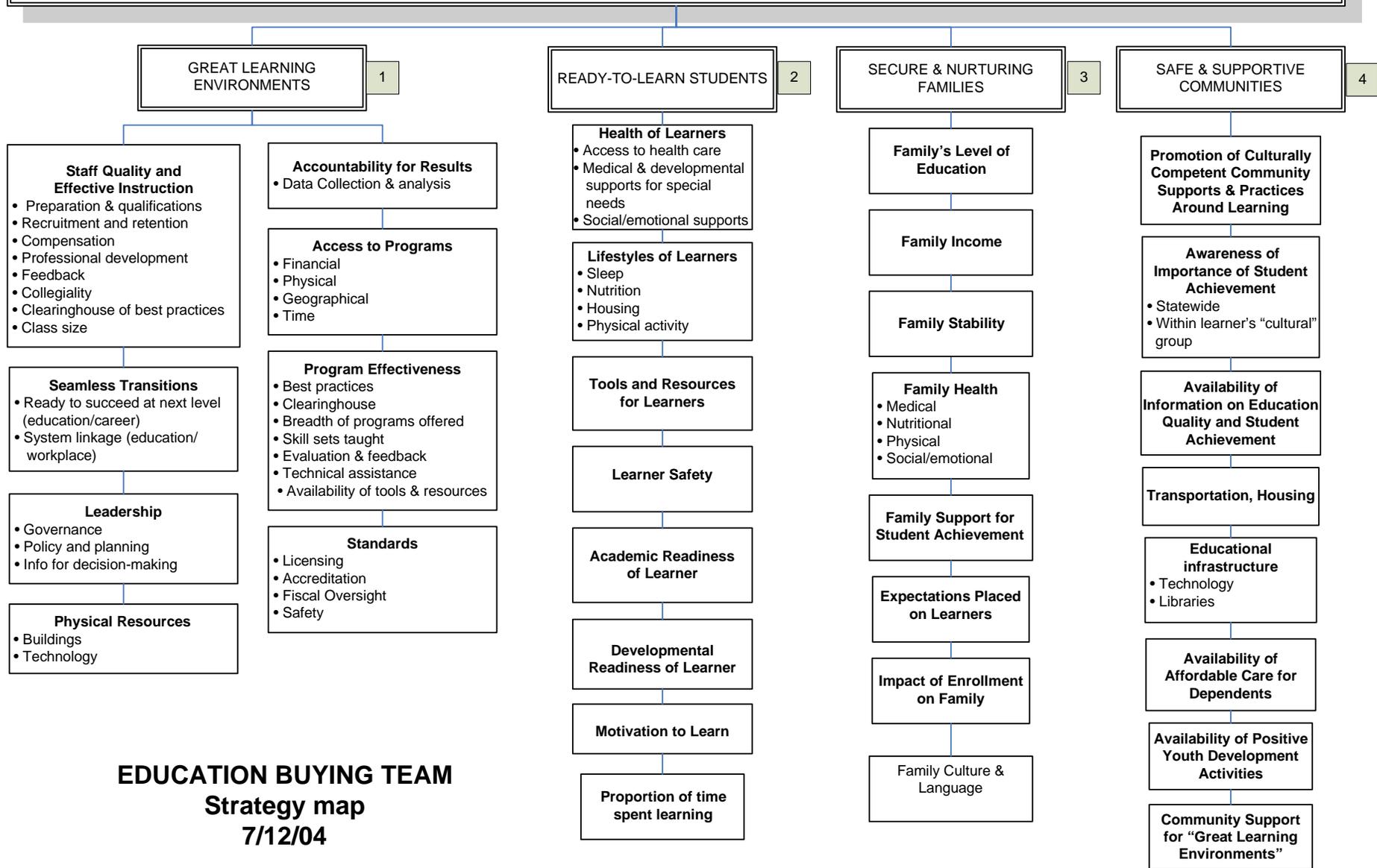
6. Build on organizational core competencies.

When offers are made to fund existing state services, they must build upon that service's strengths. Offers should improve upon the areas that Iowans expect and want from state government, not abandon the core service.

7. Promote cultural competence.

Diversity is important to the future of Iowa. All offers must welcome and serve diverse populations.

IMPROVE STUDENT ACHIEVEMENT

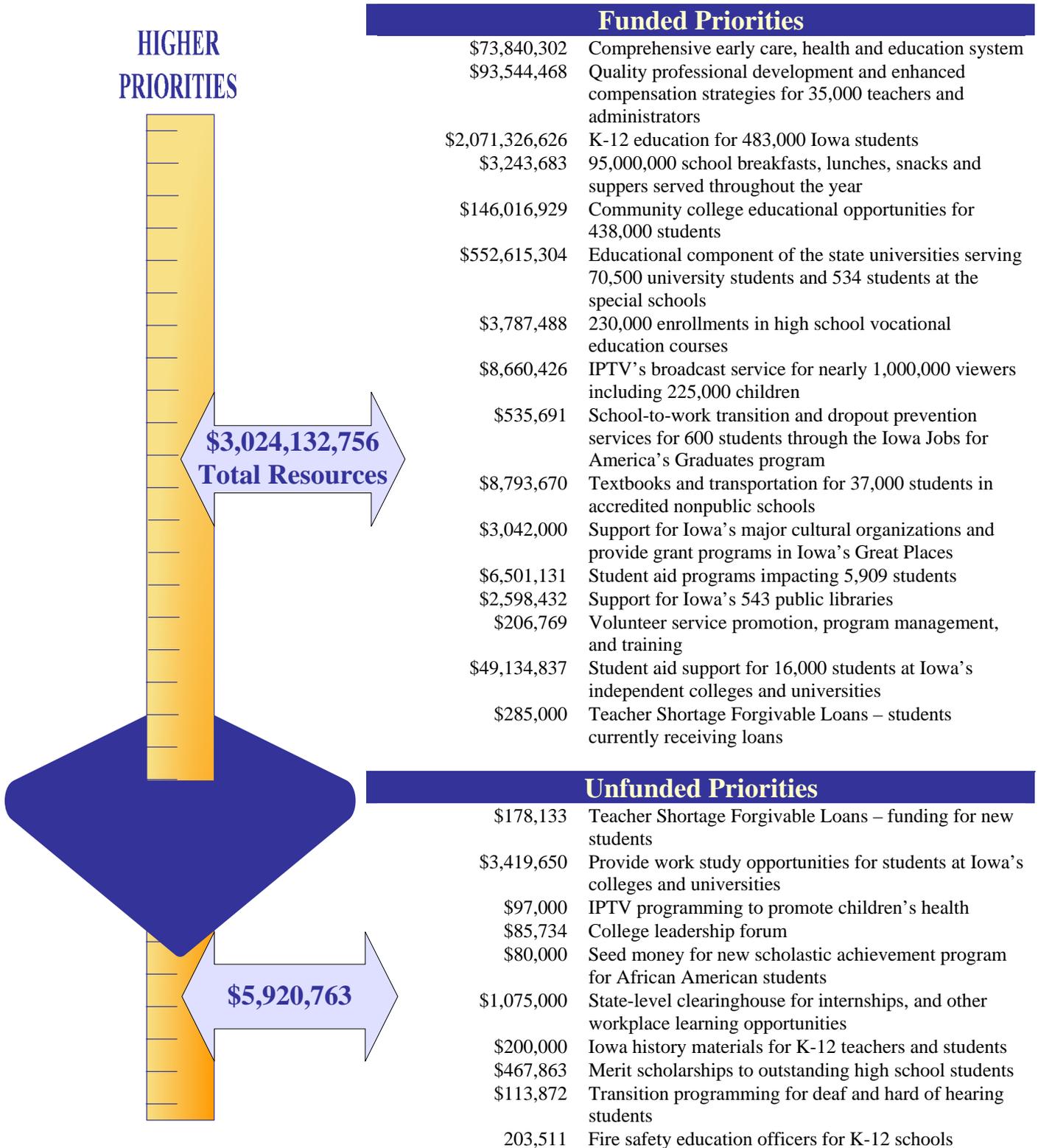


EDUCATION BUYING TEAM
Strategy map
7/12/04

Covers all levels of education, early childhood, K-12 & postsecondary. The Buying Team acknowledges that terminology varies among sectors

PURCHASING PRIORITIES

IMPROVE STUDENT ACHIEVEMENT



IMPACT NARRATIVE

Improve Student Achievement

Offers falling “Above the Line” for funding:

Central to our ability to accomplish the goal of creating an Iowa that is the best place to live, work and raise a family is a world-class education program. Offers identifying a direct impact on student achievement, especially in priority areas of early childhood, teacher quality, professional development and opportunities for students leading to successful completion of a post-secondary experience were given preference in the process.

The offers the Student Achievement team proposes funding are responsive to our RFR and strategy map, fit with the Vilsack/Pederson Leadership Agenda, and make progress toward the goal of 90 percent of children having access to quality preschool and 90 percent of students having at least 2 years of post-secondary experience. These offers are also consistent with the Iowa Learns Council recommendations. Each offer is described briefly in the comments section of the Purchasing Priorities document.

The team recommends a significant increase in funding for early childhood. The top ranked offer combines seven individual offers that were submitted by the Departments of Education, Human Services and Management - Community Empowerment. This offer establishes an infrastructure for a coordinated, integrated early care, health and education system to provide technical assistance to communities. It allows private/public partnerships to be formed, increases access to quality preschool, implements early learning standards and a child care rating system, and increases funding to community empowerment areas for high quality initiatives. Overall, this is a \$39.1 million increase compared to current year funding. Each component of this offer focuses on quality which will make strides relative to the 90/90 goal.

We recommend an increase of almost \$50 million for educator quality, which will revamp the Teacher Quality program, adding a program for administrators. Another significant increase is recommended for the State Aid to Districts. The recommendation includes educational excellence and class size at current levels and increases state aid by four percent allowable growth. The offer also includes \$400,000 for AEAs to manage and promote sharing. Districts would receive state grants in FY06 estimated at \$6.1 million and supplementary weight in FY07 for sharing non-teaching operational staff. This is an important step in encouraging all districts to review and move toward providing the best possible set of opportunities for all students.

Other increases recommended by the Student Achievement team include \$20 million for the Regents universities; funding four percent allowable growth for community colleges and special schools; \$500,000 for IPTV; \$2.6 million for the Cultural Affairs “Great Places” concept (funds the Cultural Trust at \$1 million); and \$1.6 million increase for the Iowa Tuition Grants.

Offers falling “Below the Line” for funding:

Offers that did not directly relate to student achievement, did not contain adequate performance measures and did not document a positive return on investment were given lower rankings by the team.

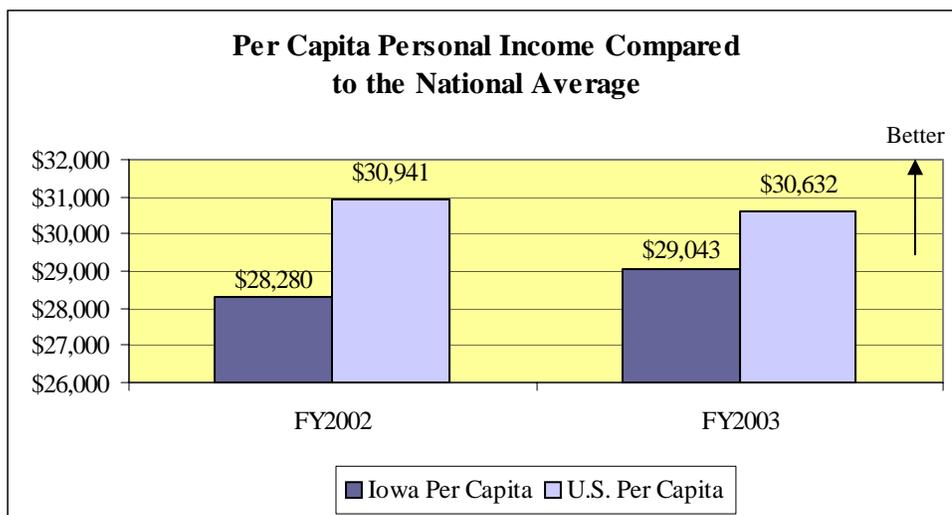
REQUESTS FOR RESULTS

Transform Iowa's Economy

Result: *TRANSFORM IOWA'S ECONOMY*

Indicators:

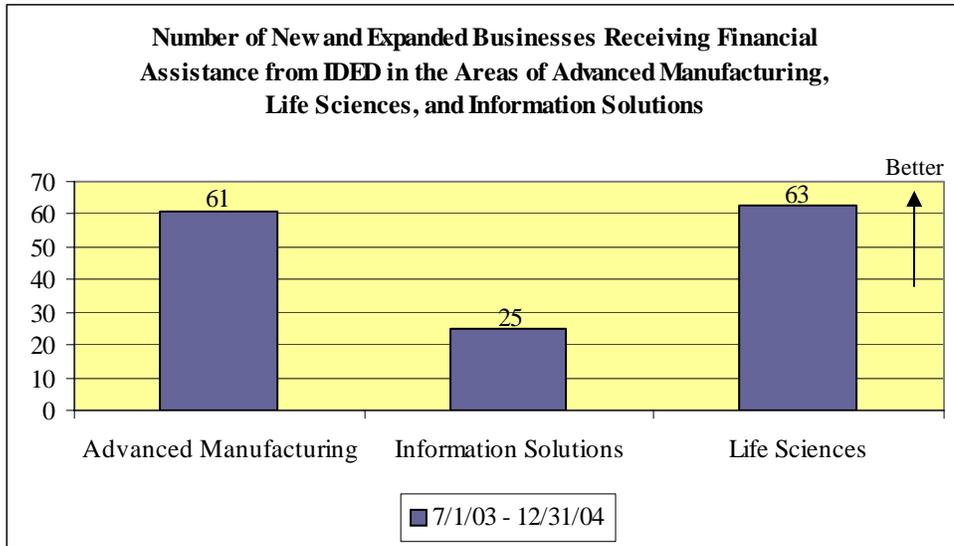
Indicators are based on the following facts: Iowa has a 20th century economy based on commodities, while the national economy has moved to an information-based global economy; Iowa's agriculture and manufacturing commodities are usually shipped out of the state prior to value-added processing which has led to stagnant population growth and per capita income; recent analysis of the Iowa economy has recommended more business activity in the areas of advanced manufacturing, life sciences and information solutions.



Data Source: U.S. Department of Commerce, Bureau of Economic Analysis

- **Per Capita Personal Income Compared to the National Average.**

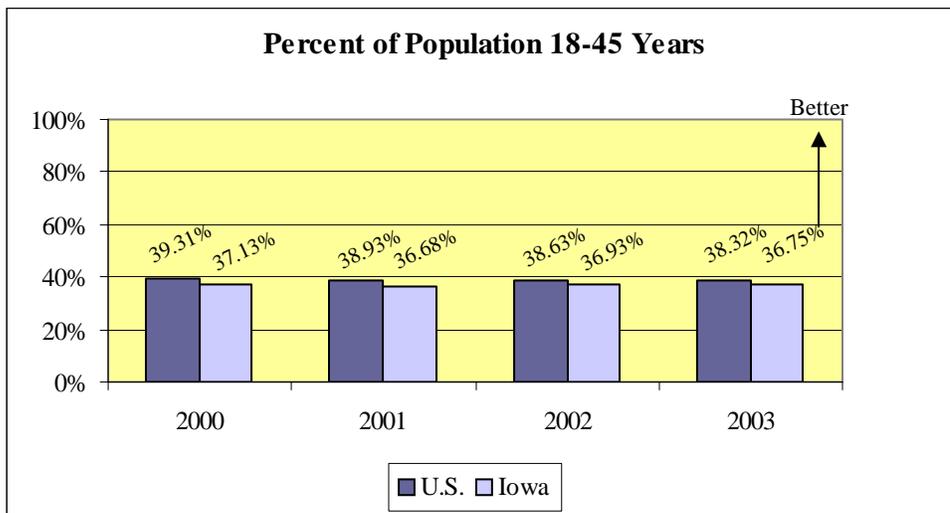
* Growth in personal income across all segments of the population indicates a vibrant economy that will support continued re-investment. For the past decade, Iowa's per capita income has remained at about 90% of the national average, and is ranked 38th of the states. While broader, it is inclusive of the Leadership Agenda initiative to increase the number of high paid jobs that require post secondary education. The team felt that median personal income would more accurately reflect economic changes, but data is not readily available and cannot be compared nationally. An alternative indicator of the poverty rate was rejected as it was noted that Iowa has a low poverty rate in comparison to the national average and that Iowa's middle class has experienced income stagnation in comparison to the national average.



Data Sources: Iowa Dept. of Economic Development (IDED)

- **Growth in targeted businesses - number of new and expanded businesses in the areas of advanced manufacturing, life sciences and information solutions.**

* Transforming the economy requires a focus on more than just increasing the number of new businesses. Iowa must focus on these specific business areas that will sustain growth. Growth in these businesses will support development of associated services.



Data Sources: Bureau of Census, US Dept. of Commerce

- **Attracting and retaining an educated workforce - percentage of the population growth within the age group of 18 to 45.**

* The State is losing its college educated citizens to other states. A growth in this age group indicates people are staying in Iowa and moving into Iowa. This age group would be the higher paid workforce for the new and expanded businesses. The team believed this was a broader measurement of the transformation than looking at migration rates, which is a lagging indicator that would not capture the

effect of retaining well-educated youth. The team also discussed an indicator capturing quality of life issues, such as the density of cultural organizations, but it was determined to be too narrow to capture the many quality of life issues. No other benchmark to capture such issues was believed a viable indicator.

Strategy Map:

The strategy map shows the five major causal factors to transforming Iowa's economy.

Strategies:

Factors are listed in priority order based on their importance to the Result.

Develop an Educated, Productive Workforce – The availability of a quality workforce is crucial to attracting new business to the state. New or expanding businesses look to locations that have a workforce that is educated and trained in the fields of knowledge-based businesses. Key factors include skills, attitude and availability. Iowa ranks 48th among the states in percent of the adult population with graduate and professional degrees, 33rd in the country in IT professionals and 37th in scientists and engineers. It is crucial that Iowa have in place the mechanisms to provide quality education and life-long learning. This includes the ability to re-train the current workforce in fields covered by new businesses. The team identified skills in math, science and information technology as crucial areas of expertise required by the targeted businesses.

Evidence: College Student Aid Commission, survey of placements; US Census Bureau, Progressive Policy Institute.

Create a Supportive Business Climate – A supportive business climate includes access to capital, entrepreneurial and partnership behavior, useful tools, effective taxes and regulations. Programs or policies that encourage risk taking and the development of effective partnerships among academia and the public and private sectors provide the support for the development of targeted businesses. There must also be a means to commercialize the results of these partnerships. Appropriate regulation must be tailored to the new economy and foster voluntary compliance.

Evidence: "Process Improvements in Advanced Manufacturing and Beyond", Indiana Economic Development; Battelle; SRI; US Bureau of Economic Analysis; CFRD Report Card.

Build the Infrastructure For a New Economy – A solid infrastructure includes facilities, communications, transportation, energy and natural resources. Businesses rely on efficient telecommunication and high-speed internet access. 67% of Iowans have access to internet, yet access in underserved areas remains a concern. Iowa is ranked 38th for broadband access. Traditional modes of mobility also support attracting, developing or expanding businesses. Infrastructure also includes access to efficient, economic energy and water sources. This infrastructure development must not sacrifice quality in the air, water and soil resources. It is important to develop alternative energy sources. Iowa is 4th in the country for wind energy generation and has potential for developing other renewable energy resources.

Evidence: CFED & PPI; American Wind Energy Association, 2003; Progressive Policy Institute; "Internet Based ED for Rural Counties" Iowa State University, 2001.

Improve upon Local Economic Development – Effective local and regional economic development efforts are critical to transforming Iowa's economy and positioning communities across Iowa to assist in, and benefit from, the economic transformation. Successful local and regional economic development efforts require quality leadership, regional initiatives, effective partnerships, access to capital and entrepreneurial support. The retaining of Iowa businesses, the

fostering of entrepreneurs and the attracting of new businesses all rely upon successful local economic development.

Evidence: “Innovative Local Economic Development Programs” Georgia Institute of Technology, 1999, “Competitive Regionalism: Beyond Individual Competition” University of Toledo, “Innovative State Policy Options to Promote Rural Economic Development”, National Governors Association.

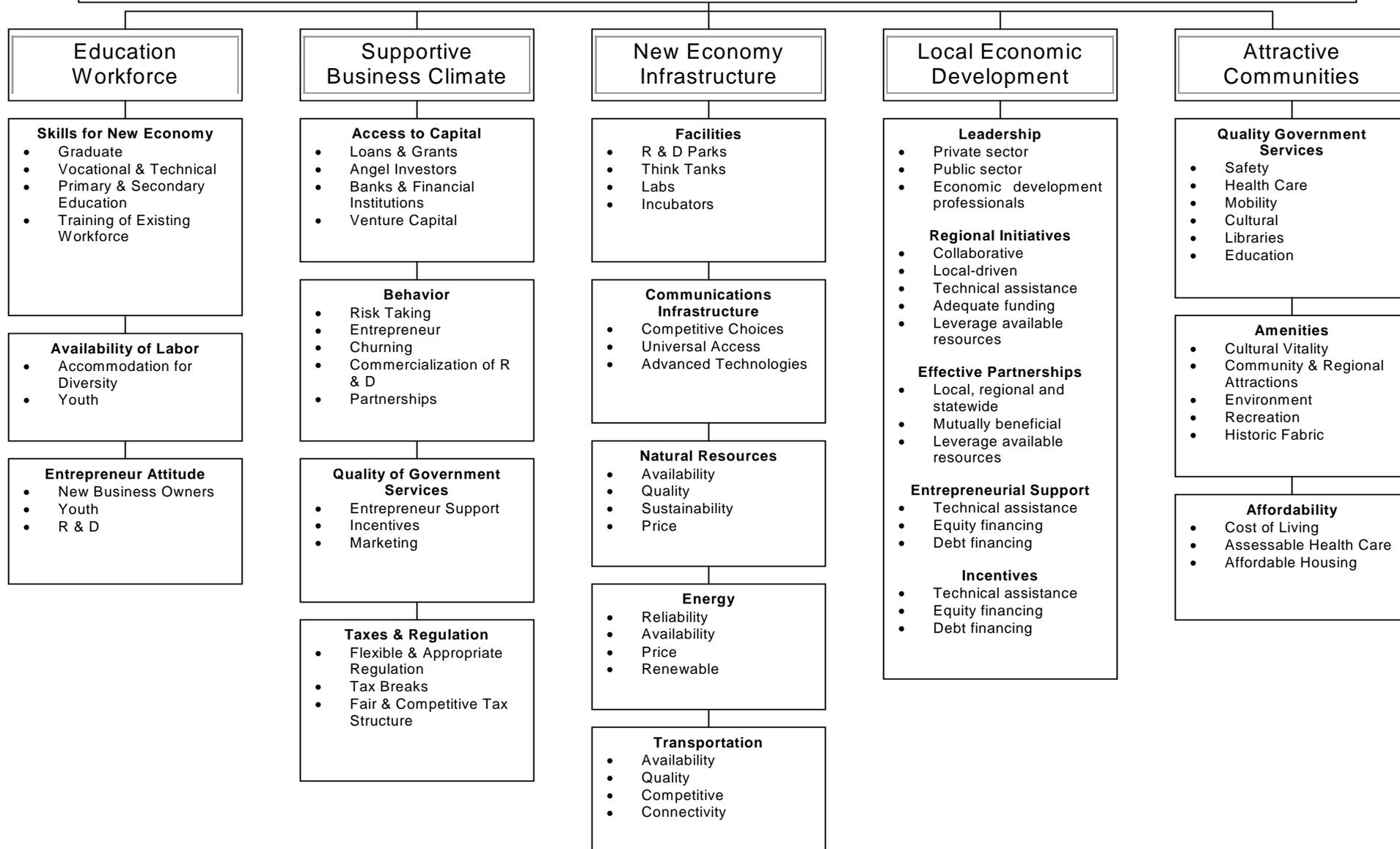
Create Attractive Communities – Iowa must develop and support communities in which individuals, families and businesses find it desirable to live, work or visit. The critical factors to having attractive communities are quality government services, amenities, diversity and affordability. The state must help to maintain and enhance the attractiveness of Iowa communities.

Evidence: National Center for Charitable Statistics, Quality of Life Indicators, William Penn Foundation; CFED; U.S. Census Bureau; CPI; “Importance of Quality of Life in the Location Decisions of New Economy Firms” UNC, Chapel Hill 2002, US Department of Commerce, “A Key to Regional Competition.”

Purchasing Strategies - The Transform the Economy Buying Team seeks offers that:

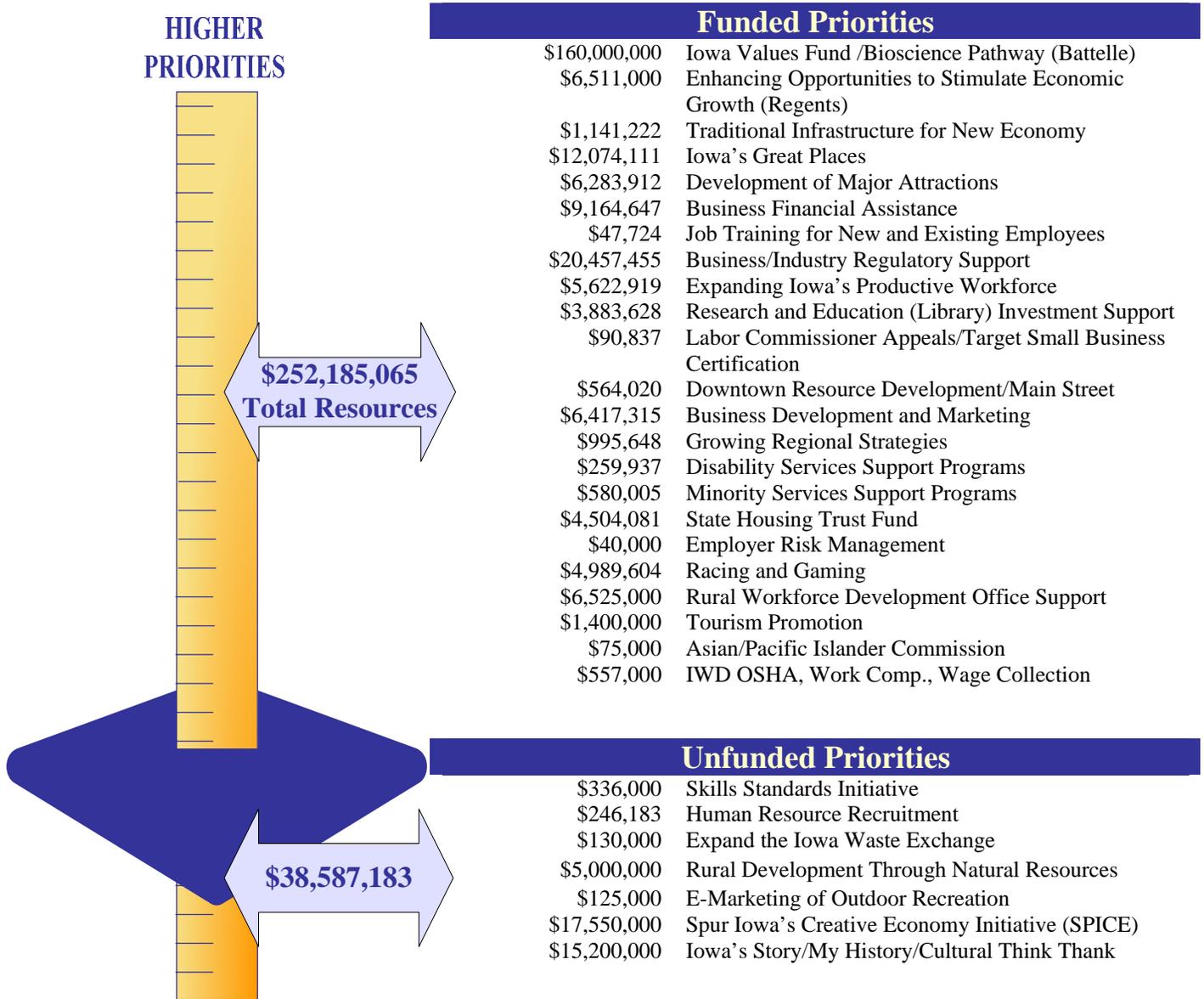
1. Are innovative and bold to position Iowa’s workforce for the new economy.
This includes all aspects of educating, training and attracting an educated and culturally competent workforce. Offers must raise expectations and opportunities for advanced training in the areas of mathematics, natural sciences and information and management sciences. Offers must also encourage and provide opportunities for interdisciplinary learning, increase exposure to the cultures of other nations and peoples, and provide for the training of a core of teachers that will have the knowledge, skills and creativity to educate the workforce of this new economy;
2. Use the principles of smarter sizing, smarter spending, smarter management and smarter leadership in building to provide a supportive business climate for expanding advanced manufacturing, life sciences and information solutions and supportive businesses;
3. Eliminate ineffective tax credits or subsidies and reinvest those resources in programs that support investment in a transformed economy;
4. Encourage collaboration and partnerships.
Offers must build effective economic development partnerships among education institutions, governments, communities, businesses, non-profits and others. They must also support leadership, entrepreneurship, innovation and risk taking at the local and regional levels to transition to the new economy;
5. Show measurable results in increasing the workforce of scientists, engineers, and information technology professionals or in creating jobs that require at least two years of college education; and
6. Develop or improve an infrastructure to support the new economy.
Offers must build upon the quality of government services that support an attractive community that is safe, culturally alive, healthy and provide a quality educational experience to all members of the community. They must also build upon and sustain the state’s natural resources and renewable energy resources; maintain and improve the infrastructure of transportation and communication; and expand the research and development infrastructure of the state.

Transform Iowa's Economy



PURCHASING PRIORITIES

Transform Iowa's Economy



IMPACT NARRATIVE

Transform Iowa's Economy

Offers falling “Above the Line” for funding:

The Transform the Economy Team recommends the following offers because they will impact the key elements of establishing and supporting new businesses in the areas of advanced manufacturing, life sciences and information solutions. They also implement key principles, including:

- Promoting public-private partnerships, leveraging outside money
- Promoting entrepreneurship
- Stimulating investment in new economy businesses
- Securing labor force training in skills supporting new economy industries

The Bioscience Pathway Offer touches upon all three of the team's indicators and most closely embodies the effort to Transform the Economy. It proposes building upon the strengths of our educational institutions in the area of bioscience and technological innovations. It also establishes the support and infrastructure needed to commercialize the technological innovations from the institutions. It establishes a strong base for investment in new economy businesses that employ individuals at a higher per capita income and acts toward keeping our college population in Iowa.

The Great Places Offer is a bold and innovative offer that pulls together the many efforts already underway in the State to support communities in maintaining and/or becoming great, attractive communities. Business incentives alone are not sufficient to grow the economy. We must also build upon the attractiveness of our communities as an incentive to business growth.

The team recommends funding the regulatory functions that did not pertain directly to Transform the Economy, but were still considered essential to the overall needs of businesses and consumers in the state.

Offers falling “Below the Line” for funding:

Offers falling below the line continued business as usual, with no attempt to provide a link to new economy skills or support for the new economy. They may have also offered services that were included in other offers or could be obtained elsewhere.

Some of the other offers that fell below the line were funded at a reduced price. This may result in a backlog of cases before the Civil Rights Division, less outreach and service in areas under the Human Rights Division, support to community libraries and minimal development programs. However, we hope that some of the services can be built into the program offerings in workforce training, business development and community development.

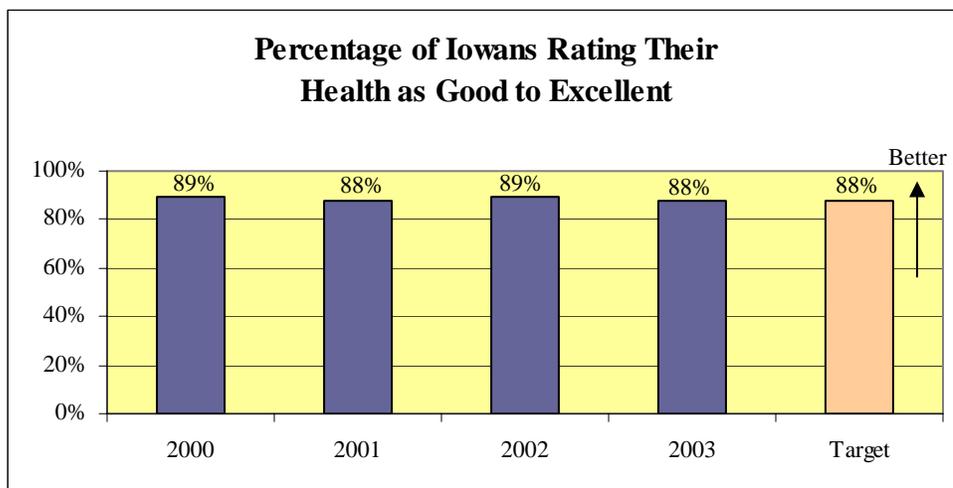
REQUESTS FOR RESULTS

Improve the Health of Iowans

Result: *IMPROVE THE HEALTH OF IOWANS*

Indicators:

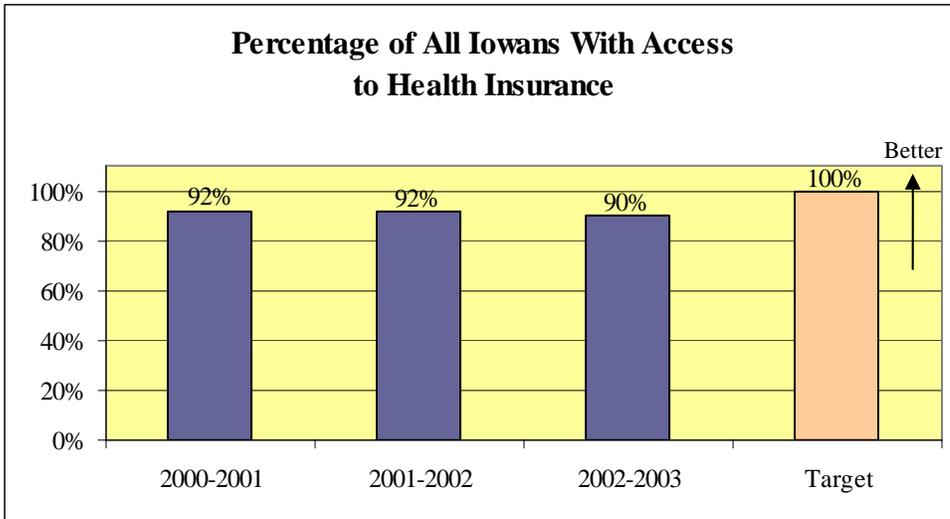
Indicators include several components from preventative strategies to care access.



Data Source: Iowa Department of Public Health, Behavioral Risk Factor Surveillance System (BRFSS)

- **Percent of Iowans responding Very Good or Excellent to the question, “How is your health, in general?”**

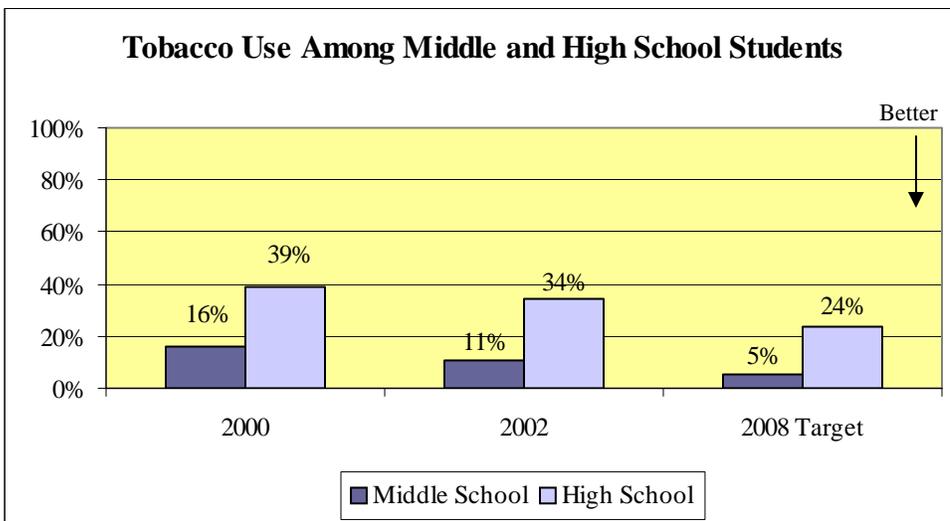
* The annual Iowa Behavioral Risk Factor Surveillance Survey (BRFSS) asks a representative sample of Iowans to rate their own health as excellent, very good, good, fair or poor. This question is generated by CDC and has comparable data nationwide. This indicator provides an overall health outcome as well as components of quality of and customer satisfaction with care.



Data Source: U.S. Census Bureau Current Population Survey

- **Percent of Iowans who have access to health insurance.**

* Percent of all Iowans with health insurance and percent of Iowa children with health insurance based on US Census Bureau and Current Population Survey data. These data sources are updated annually and capture the percent of Iowans who have access to the care and services they need in order to be healthy.



Data Source: U.S. Census Bureau Current Population Survey

- **Tobacco use among middle and high school students.**

* The data source for this indicator is the Iowa Youth Tobacco Survey (IYTS), which is conducted every two years. (The team chose an indicator for healthy behaviors as opposed to the diseases that healthy behaviors reduce because it is important for the indicator to assess the effectiveness of preventative and education strategies. However, it is difficult to pick a single measure as a gauge for all healthy behaviors. A tobacco indicator was chosen because it is one of the leading causes of death. Indicators on physical activity and nutrition were considered because of their relationship to obesity. In future iterations of this process, this indicator could be replaced with a healthy behavior that targets obesity as trends show that obesity is a growing problem.)

Strategy Map:

When taking a broad overview of improving the health of Iowans, it is important to balance providing the services that Iowans need to be healthy and the preventative measures that allow them to avoid those services all together. Both are important.

The map identifies five broad categories of strategies to improve the health of Iowans. The two most important categories are implied in the opening paragraph: All Iowans Have Access to Quality Care and Improve Preventative Strategies and Health Education with access being the most important category because of its relationship to the Leadership Agenda. The next most important category is Improve Quality of Life with the final two categories receiving equal weight: Mitigate Against Outside Risk Factors and Improve the Health Care System.

There is an overlap and interplay between the categories (in some cases quite significant). However, simplifying the chart was more important than attempting to draw a diagram that fails to capture that complexity and gives disproportionate importance to one or several components of the overlap and interplay.

These strategies can and should be addressed at the individual-level, community-level and environmental/policy-level.

The map also includes a set of overarching principles/themes that are important to consider in conjunction with all of the strategies to be most effective in improving the health of Iowans. Those principles are the affordability of services and cost effectiveness of systems, the preservation of personal dignity and preference, reduction of health disparities among diverse populations, geographic distribution of services and community support.

Strategies:

Ensure All Iowans Have Access to Quality Care – This strategy focuses on access to the types of care/services that Iowans need to be healthy, including financial access to care as well as content of care. The content of care includes preventative, primary, chronic/long term, emergency/acute, and behavioral/developmental (including substance abuse and mental treatment) care. It is also important to have continuity of care including regular/financial access, content of care and portability of care/records.

Improve Preventative Strategies and Health Education – Strategies that increase healthy behaviors and stop problems before they start play a significant role in the long-term health of Iowans. It is important to have the necessary consumer knowledge to make good lifestyle choices and know about and access preventative treatments.

Improve Quality of Life – There is a minimum set of conditions that form a baseline for a healthy life on both micro and macro levels. On the micro level, individuals must have a minimum level of stability and security before they can improve their health outcomes - those conditions form the basis of the quality of life category. They include a safe and healthy living environment, a strong family, community based services and culturally appropriate practices.

Mitigate Against Outside Risk Factors – On the macro level, the minimum set of conditions that form a baseline for a healthy life are components of an individual's surroundings. They include

outside factors such as exposure to hazardous materials and conditions, clean water, clean air, safe and adequate food and limited exposure to infectious disease.

Improve the Health Care System – It is not simply enough to have access to care. The overall system of care must be of a high quality. This particular category of strategies has a strong relationship and interplay to the other categories and is often necessary for those strategies to be effective. Strategies to improve the overall quality of the system include health care planning, care coordination, data collection, analysis and dissemination, cross system coordination (the interaction/communication between health and other service systems), physical access to care and availability of quality health providers.

Purchasing Strategies - The Health Buying Team seeks offers that:

1. Increase access to health care for children;
2. Integrate prevention strategies and early childhood education;
3. Encourage collaboration between schools and preventative/education strategies;
4. Incorporate preventative strategies into care/service delivery;
5. Emphasize community-based services to keep people out of institutions longer;
6. Target at-risk/vulnerable populations;
7. Reduce health disparities among diverse populations;
8. Emphasize innovative approaches and best practices for affordability and cost-effectiveness of health systems; and
9. Increase efficiencies of health care/service delivery including the removal of barriers.

All Offers Should:

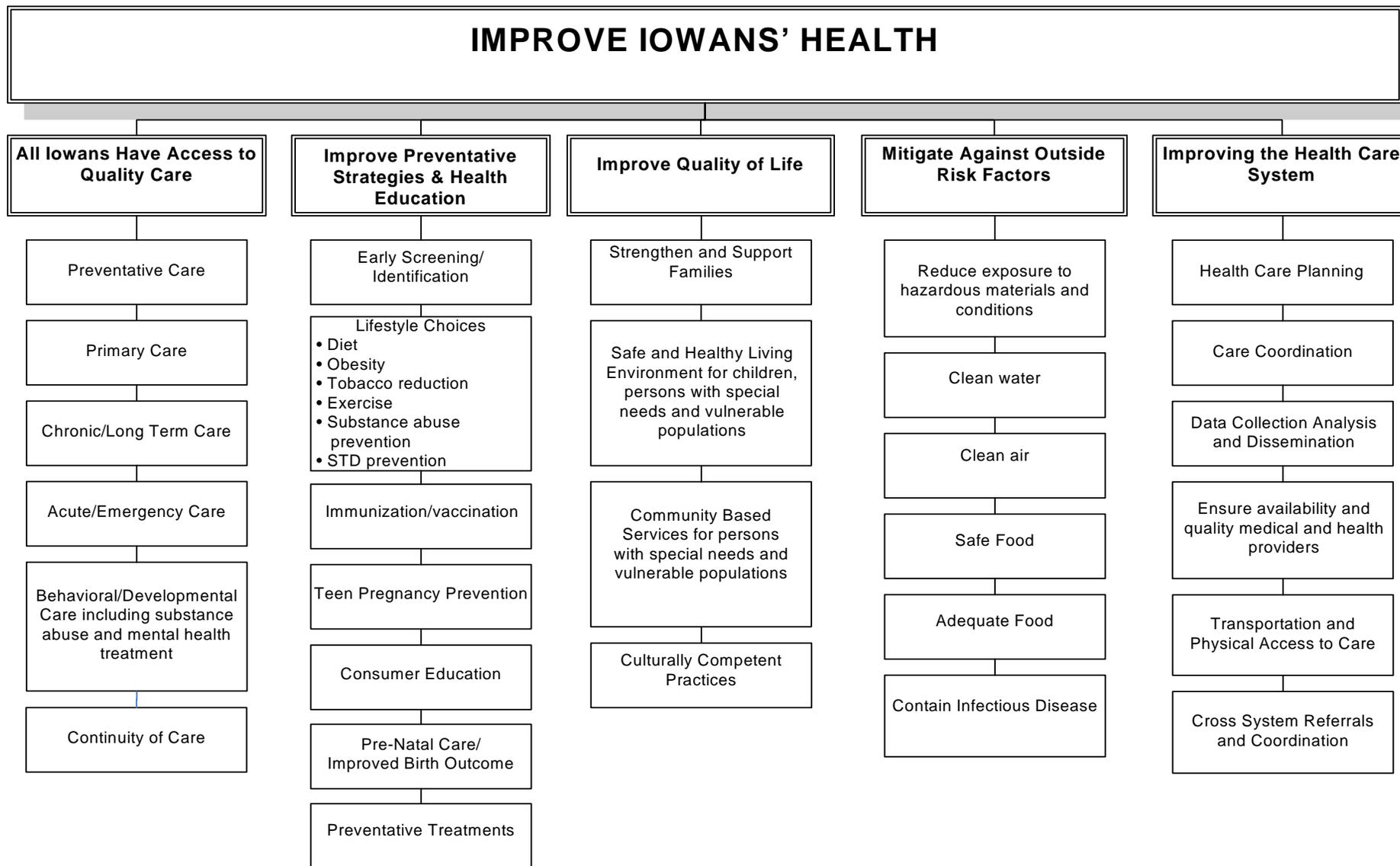
1. Be Innovative and bold.
This is not business as usual. Offers must be made up of ideas and improved services that produce results in the most effective and innovative ways. Offers are not limited to services the State of Iowa currently provides. If an offer includes a service the State currently provides, the offer must improve upon those services. Adapt best practices to Iowa.
2. Use the principles of smarter sizing, smarter spending, smarter management and smarter leadership.
The State of Iowa must work smarter to produce better results with the available resources. Some principles that will do that include:
 - *Consolidating services in a smart way;*
 - *Buying services competitively;*
 - *Using flexibility to produce accountability;*
 - *Giving Iowans choices;*
 - *Giving money to Iowans, rather than institutions;*
 - *Making administrative systems allies, not enemies;*

- *Improving work processes and productivity;*
 - *Improving the availability, quality, use, and sharing of data;*
 - *Purchasing prevention, not remediation;*
 - *Separating steering and rowing;*
 - *Producing voluntary compliance;*
 - *Targeting subsidies;*
 - *Purchasing less mistrust; and*
 - *Blending or braiding revenue streams.*
3. **Divest in lower value strategies so that there is money to invest in higher value strategies.**
The State of Iowa cannot continue providing all of the services it currently provides, because many of those services do not directly relate to the results Iowans want most. In order to provide those results, the State must target its resources toward services and programs that will directly impact those result areas. Investments must also target populations, regions or aspects of a delivery system that most need attention.
4. **Encourage collaboration and partnerships.**
The State of Iowa cannot do everything alone. Iowans want state departments to work with each other, as well as other levels of government, and the private sector. The State's investments must build upon and work with community based organizations and initiatives. Partnerships require incentives. The State cannot construct a budget based on the hope that partners will fund a portion of the service, if those deals have not been discussed with the partners.
5. **Show measurable results.**
6. **Build on organizational core competencies.**
When offers are made to fund existing state services, they must build upon that service's strengths. Offers should improve upon the areas that Iowans expect and want from state government, not abandon the core service.
7. **Promote cultural competence.**
Diversity is important to the future of Iowa. All offers must welcome and serve diverse populations.

Overarching Principles

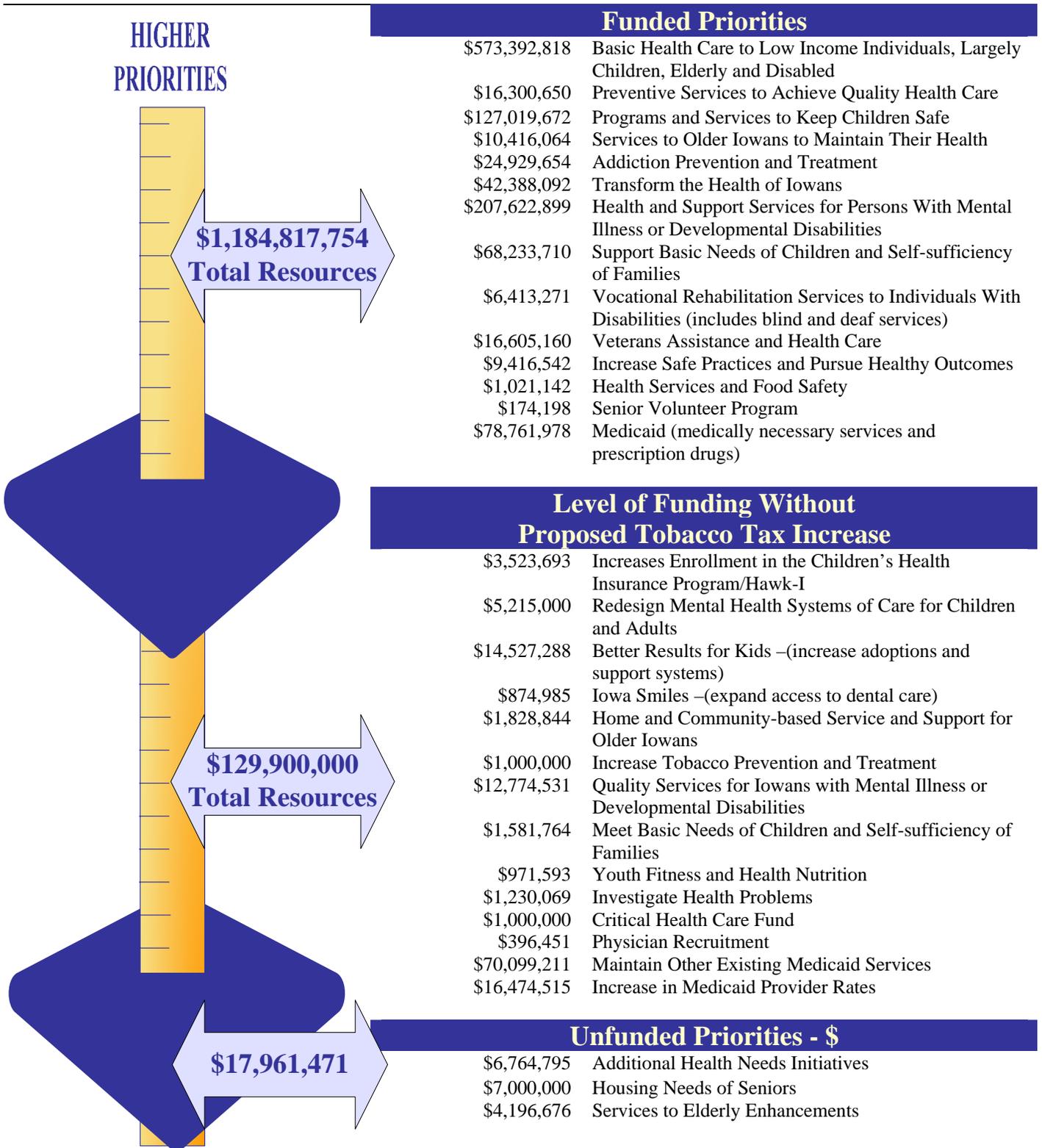
- Affordability of Services and Cost Effectiveness of Systems
- Preservation of Personal Dignity and Preference
- Reduction of Health Disparities Among Diverse Populations
- Serve the Entire State/Geographic Distribution
- Encourage Community Support

HEALTH BUYING TEAM STRATEGY MAP



PURCHASING PRIORITIES

Improve the Health of Iowans



IMPACT NARRATIVE

Improve the Health of Iowans

Offers falling “Above the Line” for funding:

A natural theme occurred at the top of the Health Buying Team Purchasing Priorities document. Many of the highest ranking items centered on providing children with access to quality health care. Quite simply, this was *the* priority purchasing strategy. Additionally, in many cases, providing children with access to quality care, in and of itself, is a preventative strategy (prevention being another heavily weighted purchasing strategy).

Examples of offers that ensure the health security of children include the Children’s Health Insurance program and Hawk-I, which will provide health care for 33,688 children, and core Medicaid services, which provide health care for 294,000 Iowans, including 156,000 children.

Strategies that increase healthy behaviors and stop problems before they start play a significant role in the health security of Iowans. The next tier of high ranking offers is split between preventative strategies and broader access strategies. These were priority purchasing strategies and in many cases, meet additional purchasing strategies such as targeting at risk and/or vulnerable populations and reducing health disparities among diverse populations. Examples of prevention activities that impact the health security of children are prenatal care, immunization, lead testing, dental services and tobacco prevention and treatment.

Another theme that is present toward the top of the Purchasing Priorities is that home and community based services were given priority as means of providing long term living support. The Health Buying Team believes this to be both a customer focused and cost effective way to provide Iowans with quality care. An example of this is the Consumer Choice, Support and Education program offer. This is an approach that represents a best practice model that has been successful in a number of other states by identifying consumers’ needs and educating them about the services available; they select the most cost effective services because they represent what consumers want.

Offers falling “Below the Line” for funding:

The Health Purchasing Priorities document is different than the other purchasing priorities documents. On the health list, there are two lines. The first line represents where the line would be drawn with the current level of funding. This line indicates that a budget based solely on available revenues will under fund health care and will fail to keep faith with the Iowa promise of health care security for seniors needing long term care, for people with mental illness or physical disabilities needing specialized care, and for our children. There would not be the

resources to fully fund Medicaid optional services such as targeted case management, adult rehabilitation option services, dental services and other practitioners. In large part, these offers provide alternatives that reduce the need for more expensive care in the long term.

The health security of Iowans is further threatened by the use of tobacco products - costing us all in dollars and cents, and some with our lives. Each year smoking costs all Iowans in increased medical costs and lost productivity. Last year alone the state spent more than \$235 million in medical related expenses for smoking related illnesses while the state only collected \$88 million in cigarette taxes. To preserve the State's commitment to health care, smokers must assume greater responsibility of the costs of smoking-related illnesses. By increasing the cost of every pack of cigarettes, we are able to move the health priorities line to adequately fund the Medicaid program, keep faith with seniors for their long-term living needs, preserve care for people with mental illness and physical disabilities, ensure that fewer children will begin smoking, and expand substance abuse treatment and smoking prevention programs.

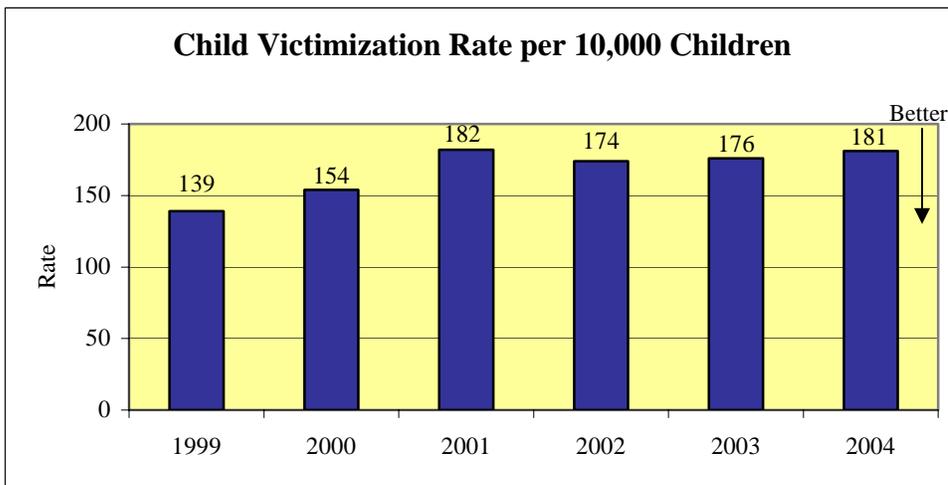
Offers falling below the second line would still provide efforts toward improving the health of Iowans. There were a number of offers that were ranked low, largely because they were not as directly linked to the results that the Health Buying Team was looking to achieve. In some cases, the offer did not lay out a compelling case that it was a proven effective and/or cost effective way to achieve the result.

REQUEST FOR RESULTS

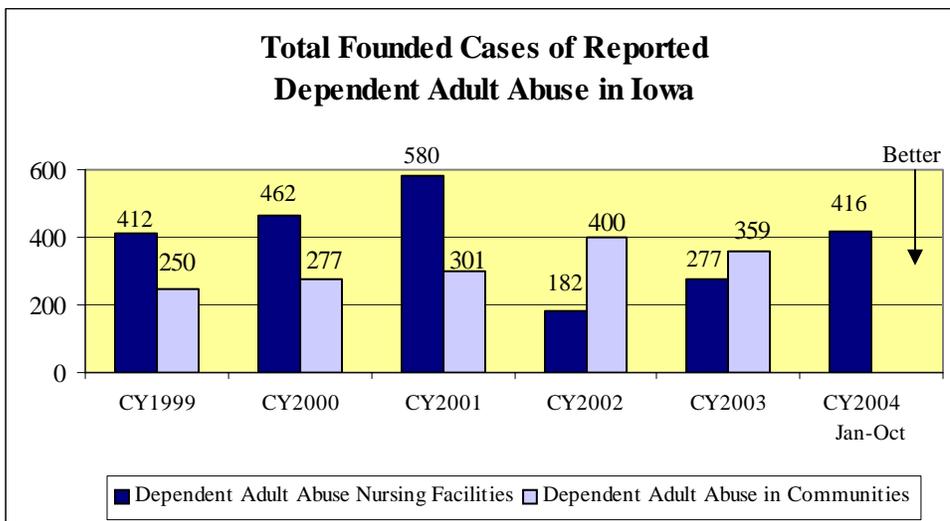
Improve Community Safety, Particularly for Vulnerable Iowans

Result: *IMPROVE COMMUNITY SAFETY, PARTICULARLY FOR VULNERABLE IOWANS*

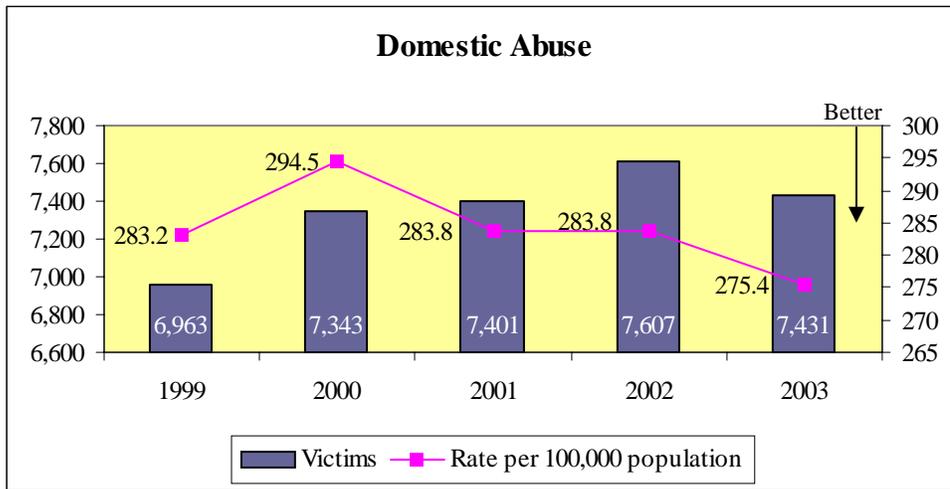
Indicators:



Data Source: Child Welfare League of America National Data Analysis System (www.ndas.cwla.org)



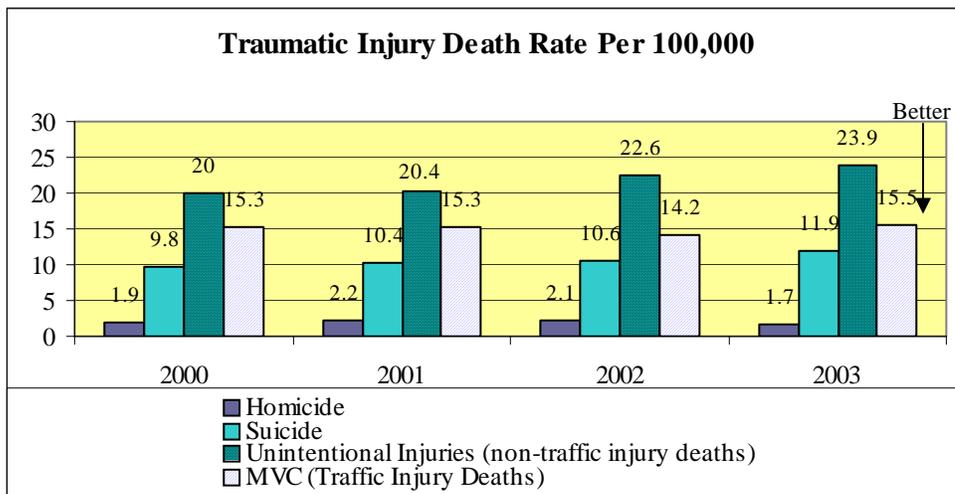
Data Source: Iowa Department of Inspections and Appeals (DIA), Iowa Department of Human Services (DHS)



Data Source: Iowa Department of Public Safety

- **Percent of Vulnerable Population Known to be Abused**

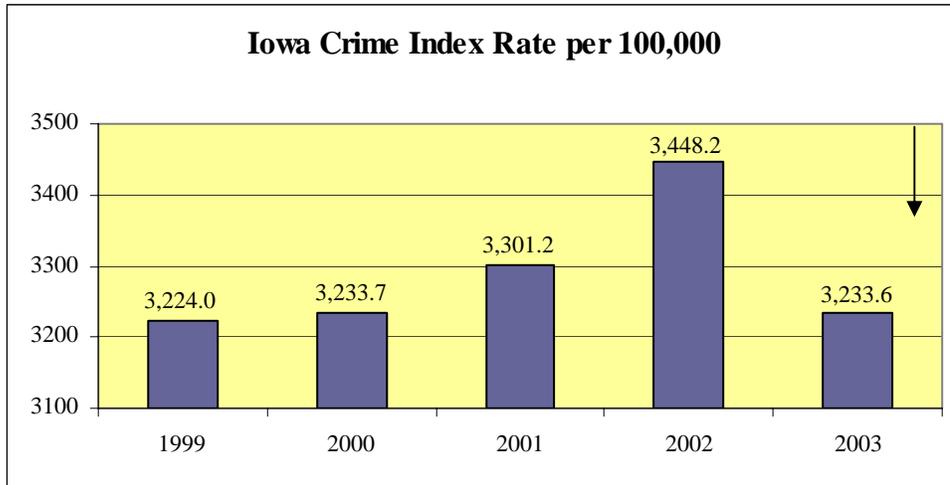
* Vulnerable populations will be defined as children who are neglected or abused, dependent adult abuse and domestic violence. The Child Welfare Information System at DHS and the Crime Victim Report at the Attorney General's Office produce the data sources annually. The components of this measure are data that is collected by other states.



Data Source: Iowa Department of Public Health, Center for Health Statistics, Vital Statistics of Iowa Publications, Table 4

- **Traumatic Injury Death Rate**

* This indicator measures the number of Iowans that die due to a traumatic injury, including fatal injuries that are accidental, avoidable or crime related, and suicide. This is known as the Injury Mortality Rate, which is reported for each state by the CDC's National Center for Health Statistics and generated by the Department of Public Health.



Data Source: FBI, “Crime in the United States”

- **Crime Index Rate**

* The Crime Index Rate measures what is commonly known as serious crime. The index includes: violent crimes of murder, forcible rape, robbery and aggravated assault and the property crimes of burglary, larceny and motor vehicle theft. This data is collected by the FBI under the Uniform Crime Reporting (UCR) Program and reported by the Department of Public Safety.

Strategy Map:

The Strategy Map focuses on three main strategies to create safe communities. Those strategies include prevention, response and recovery, and preparedness. The map places an emphasis on vulnerable populations, including children, dependent adults and victims of domestic violence.

Strategies:

Prevention – Taking steps to reduce the potential for harm due to crime, abuse, emergencies or other incidents offers the best opportunity to create safe communities. A well-rounded approach will achieve both long-term and short-term results. Beginning with a focus on youth development, vulnerable children will receive the help when they need it most. Creating adult self-sufficiency, with an emphasis on offenders re-entering society, reduces the risk of first time and re-offending criminals. Multiple studies, including the Iowa Department of Public Health’s Outcome Monitoring System emphasize the effectiveness of prevention strategies in reducing crime and abuse. Engaging the community and citizens in this effort, including establishing safe behaviors and activities, are the remaining essential components in creating safe communities through prevention efforts.

Response and Recovery – Successfully responding to and recovering from incidents that endanger public safety are critical to minimizing injury and the potential for subsequent harm. This includes successfully managing the crises at hand to minimize further harm as well as recovery efforts. It specifically requires assistance to victims, to assist in their future protection and restoration. Finally, the bedrock of any safe community requires an equitable, timely and complete justice process that insures a balanced and appropriately weighted response that is basic to our very rights.

Preparedness – Being prepared is a critical tactic for communities to lessen the hazardous effects of a crisis, disaster or emergency. Allocating time and resources to become prepared will bring families in crisis or a community that is hit with a disaster back to the quality of life they had prior to the emergency. Collaboration between federal, state and local authorities is essential for communities to be prepared. The most effective strategies to prepare a community include planning, training and providing adequate resources.

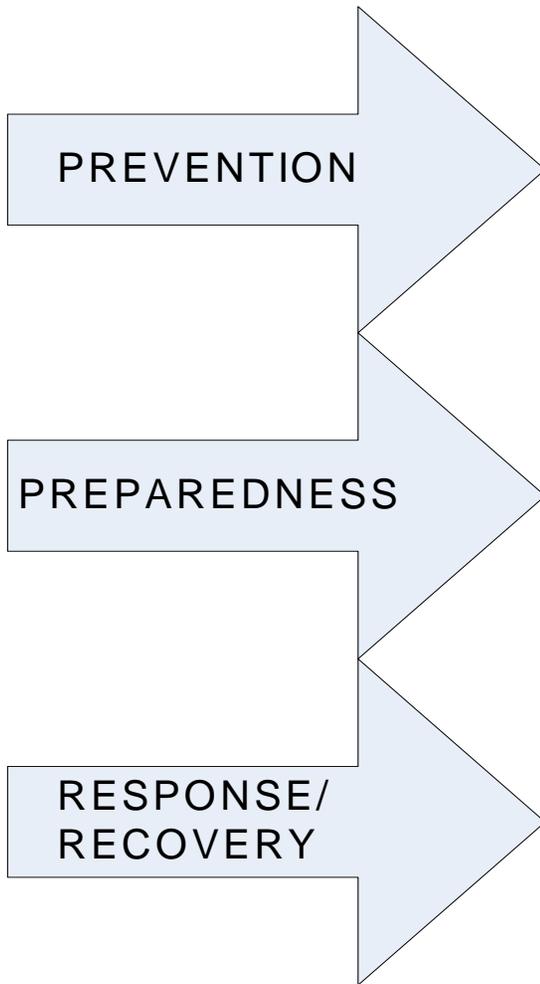
Purchasing Strategies - The Safe Communities Buying Team seeks offers that:

1. Focus on vulnerable populations, including children, dependent adults and those at risk of domestic violence;
2. Emphasize prevention, with a special focus on early childhood and youth development through state and local partnerships and leveraging non-state funds;
3. Include approaches to address bullying, and other types of school violence at their roots;
4. Create a community-based, community-integrated, transparent system to encourage a more secure environment for seniors;
5. Encourage voluntary compliance with laws that reduce the need for enforcement;
6. Invest in offender re-entry strategies that reduce recidivism;
7. Focus on a restorative justice process;
8. Increase coordination and communication across federal/state and local resources that expand community capacity to respond to disasters and crises;
9. Focus on education to decrease traumatic death and preventable injury; and
10. Craft a suicide prevention approach that focuses on mental health and substance abuse.

All Offers Should:

1. Be Innovative and bold.
This is not business as usual. Offers must be made up of ideas and improved services that produce results in the most effective and innovative ways. Offers are not limited to services the State of Iowa currently provides. If an offer includes a service the State currently provides, the offer must improve upon those services. Adapt best practices to Iowa.
2. Use the principles of smarter sizing, smarter spending, smarter management and smarter leadership.
The State of Iowa must work smarter to produce better results with the available resources. Some principles that will do that include:
 - *Consolidating services in a smart way;*
 - *Buying services competitively;*
 - *Using flexibility to produce accountability;*
 - *Giving Iowans choices;*
 - *Giving money to Iowans, rather than institutions;*

- *Making administrative systems allies, not enemies;*
 - *Improving work processes and productivity;*
 - *Improving the availability, quality, use, and sharing of data;*
 - *Purchasing prevention, not remediation;*
 - *Separating steering and rowing;*
 - *Producing voluntary compliance;*
 - *Targeting subsidies;*
 - *Purchasing less mistrust; and*
 - *Blending or braiding revenue streams.*
3. **Divest in lower value strategies so that there is money to invest in higher value strategies.**
The State of Iowa cannot continue providing all of the services it currently provides, because many of those services do not directly relate to the results Iowans want most. In order to provide those results, the State must target its resources toward services and programs that will directly impact those result areas. Investments must also target populations, regions or aspects of a delivery system that most need attention.
 4. **Encourage collaboration and partnerships.**
The State of Iowa cannot do everything alone. Iowans want state departments to work with each other, as well as other levels of government, and the private sector. The State's investments must build upon and work with community based organizations and initiatives. Partnerships require incentives. The State cannot construct a budget based on the hope that partners will fund a portion of the service, if those deals have not been discussed with the partners.
 5. **Show measurable results.**
 6. **Build on organizational core competencies.**
When offers are made to fund existing state services, they must build upon that service's strengths. Offers should improve upon the areas that Iowans expect and want from state government, not abandon the core service.
 7. **Promote cultural competence.**
Diversity is important to the future of Iowa. All offers must welcome and serve diverse populations.



SAFE COMMUNITIES

PREVENTION

Youth and Child Development

- Prepared for schools
- Succeed in schools
- Healthy and socially competent
- Prepared for productive adulthood
- Are in safe, supportive families, schools and communities

Adult Self-Sufficiency

- Good paying jobs
- Reduce substance abuse
- Improve mental health
- Strengthen coping skills, including anger management
- Education, workplace skills

Citizen Involvement

- Community policing/problem solving
- Increasing community volunteerism
- Positive cultural and gender specific role models and mentors
- Neighborhood networks
- Coalitions
- Faith-based initiatives

Successful Reentry of Offenders

- Continuum of sanctions to manage the risk with the proper level of supervision
 - Reduce risk of re-offending
 1. Programs, treatments, employment

Safety Behaviors, Activities and Standards

- License drivers and regulate driver behavior
- Reduce risk behaviors
- Regulate professionals and institutions who affect public safety and public health
- Enforce Codes and safety requirements

RESPONSE/RECOVERY

Managing Crises

- Detection and reporting of crises
- Response to accidents, fires, disasters, crimes, threats, and other emergencies
- Mobilize multi-jurisdiction responses to large-scale emergencies
- Complete, timely and thorough investigations
- Preliminary interventions
- Removing children and vulnerable adults from abusive environments

Child and Adult Crime and Abuse Victim Assistance

- Maintain children in safe environment, including the use of foster care
- Shelter care
- Crime and abuse victim medical assistance
- Counseling and other supportive services
- Advocacy
- Compensation/Restitution

Justice

- Fair, equitable and timely justice process (civil, criminal and administrative)
- Implementation of effective sentencing and services to offenders and violators

Recovery from Emergencies

- Resource coordination of government agencies and private organizations
- Dissemination of public information
- Awareness to public of issues and options
- Assistance and restoration for victims and communities

PREPAREDNESS

Planning

- Research and evaluation
- Needs, risk and gap assessment
- Results monitoring
- The interoperability of information systems
- Communication
- Coordination of efforts

Training

- Exercises
- Standards based
- Accessibility

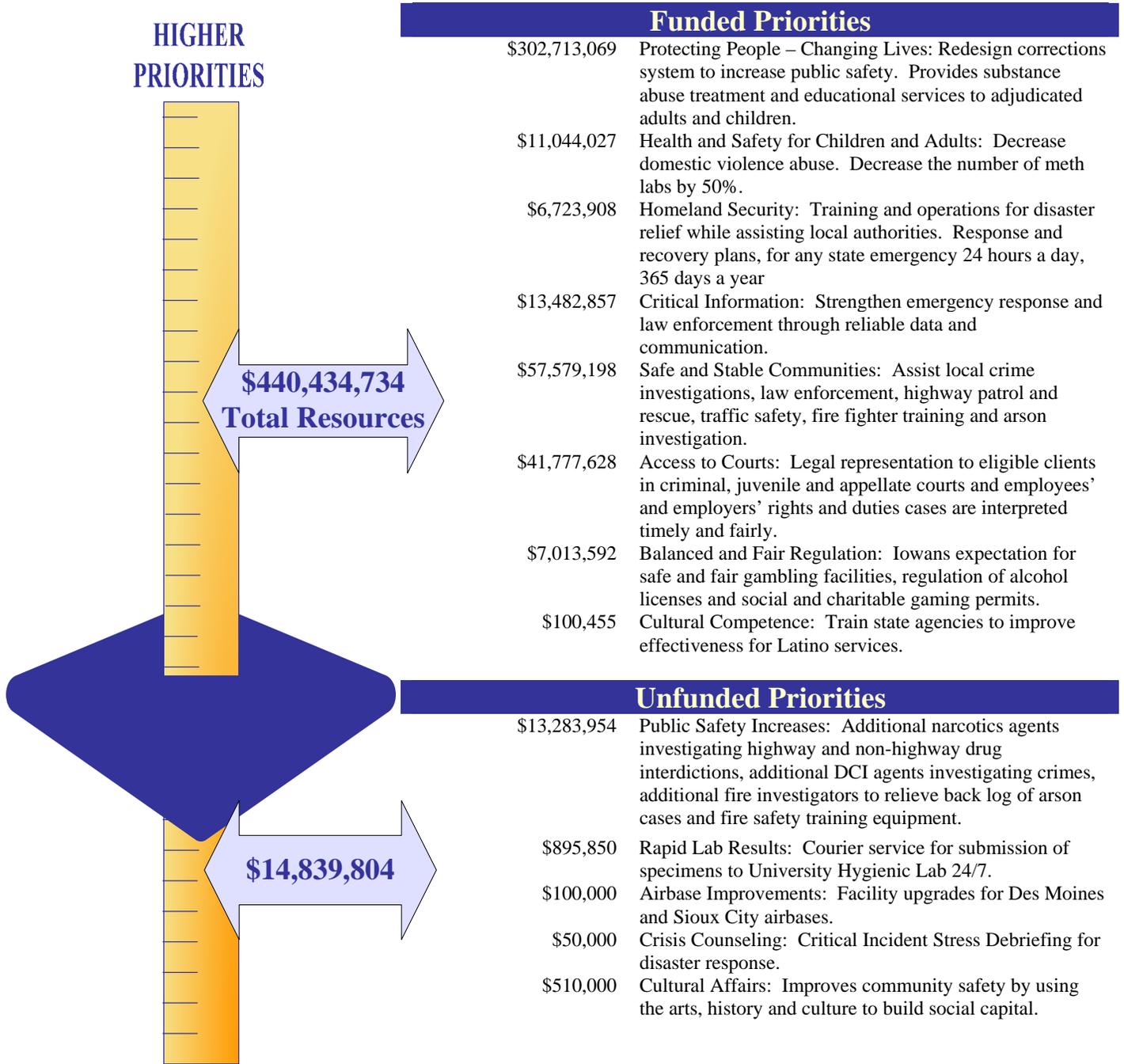
Adequate Resources

- People
- Equipment and services
- Interoperability for emergency responders
- Distribution of Resources

SAFE COMMUNITIES BUYING TEAM
Strategy map
7/12/04

PURCHASING PRIORITIES

Improve Community Safety, Particularly for Vulnerable Iowans



IMPACT NARRATIVE

Improve Community Safety, Particularly for Vulnerable Iowans

Offers falling “Above the Line” for funding:

Protecting its citizens from harm is the basic function any civilized society must perform. Immigrants and refugees cite safety as one of the most important reasons to leave their homeland when they feel threatened or harmed by natural or manmade disasters. The offers selected by our team will ensure that Iowans, particularly children and those that are vulnerable, feel safe and secure living in their community.

Our strategy map focuses on three main strategies to create safe communities: prevention, response and recovery, and preparedness.

Our purchasing strategies focus on vulnerable populations, early childhood and youth development, dependent adults, and those at risk of domestic violence. We emphasize prevention through state and local partnerships and leveraging non-state funds.

Our team looked for innovative offers that focused on our purchasing strategies, made an impact on our strategy map, and landed on our result; these offers gained favor with a higher score. We also looked for offers that created partnerships with other departments and agencies, leveraged resources, results that are evidenced based, or are mandated core functions.

The budget proposals made by the Safe Communities Buying Team will make communities safer, offer safer living choices for children and older Iowans, and reduce future costs to society of crime and substance abuse. Following are some features of the offers the team recommends purchasing.

Iowa will have a correctional system that is balanced along the corrections continuum of services: pre-sentencing, community based services, treatment, incarceration, and reentry that is supported by evidenced-based programming. The Department of Corrections will redesign the way 68,600 offenders enter the corrections continuum and reenter society. The Department of Human Services is responsible for 640 adjudicated children, therefore, we recommend substance abuse treatment and educational services for children that enter the legal system.

All children should be able to grow up and live in a safe, stable and healthy living environment. When there is clear and convincing evidence that the child cannot be returned safely home, parental rights are terminated, and adoption is pursued and 6,600 Iowa families are offering a permanent and stable living arrangement for these children.

There are as many as 1,500 dependent adults identified as having been abused in Iowa each year. It is estimated as many as 30,000 adults are at risk of debilitating accidents and catastrophic health problems due to abuse or neglect either from a person who abuses them or self-neglect. Our human services agencies will conduct 3,500 inspections for places serving the elderly and investigate 3,700 adult and children abuse complaints.

We must respond rapidly in caring for the safety and health of children near hazardous methamphetamine labs and in other dangerous drug environments. Authorities shut down over 1,400 meth labs this year and we favor an offer to reduce meth labs by half.

The Iowa National Guard and Homeland Security will train and equip 9,750 individuals capable of performing response and recovery plans and federal disaster relief while assisting local authorities for any state emergency 24 hours a day, 365 days a year.

The Department of Public Safety plays a direct role in offering services that assist local crime investigations, law enforcement and Amber Alert utilization; highway patrol and rescue; traffic safety; fire fighter training and arson investigation. With reliable communication and data sharing we can direct effective decision-making for criminal justice, law enforcement, and emergency response.

Our team recommends that offers should be funded for over 70,000 Iowans who need legal representation in criminal, juvenile and appellate courts, provide that 150 employees' and employers' rights and duties cases are interpreted timely and fairly, and ensure safe and fair gambling facilities, regulation of alcohol licenses and social and charitable gaming permits.

Offers falling “Below the Line” for funding:

Offers that did not implement purchasing strategies or did not articulate clear results based evidence or data fell below the line. These included: Three additional narcotics agents investigating 2,600 highway and non-highway drug interdictions, five additional DCI agents investigating crimes victimizing older Iowans, ten additional DCI agents assisting local authorities with 140 more major investigations, four additional fire investigators to relieve back log of arson cases, fire safety training equipment, courier service for submission of specimens to University Hygienic Lab 24/7, facility upgrades for Des Moines and Sioux City airbases, critical Incident Stress Debriefing for disaster response and offer promoting community safety by using the arts, history and culture to build social capital.

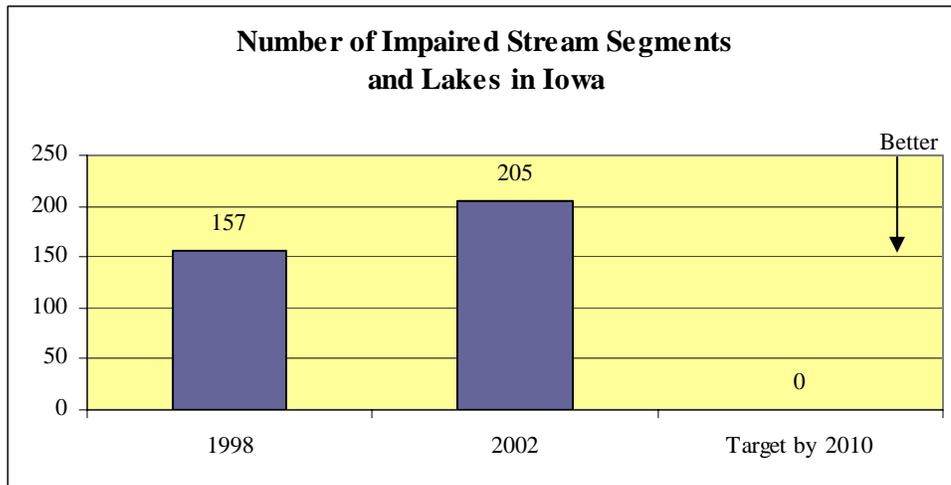
REQUEST FOR RESULTS

Improve the Quality of Iowa's Natural Resources

Result: *IMPROVE THE QUALITY OF IOWA'S NATURAL RESOURCES*

Native Americans called Iowa “the beautiful land.” Our management and protection of Iowa’s natural resources – water, land and air – is intrinsically linked to our awareness, appreciation and interaction with these natural resources. Iowa’s natural resources provide for our recreational and cultural needs and are the working infrastructure for our economy, making Iowa a desirable place to grow businesses and to live. The great majority of Iowa’s natural resources are privately owned. For Iowa to remain “the beautiful land,” engaging the cooperation of Iowa’s private landowners is essential.

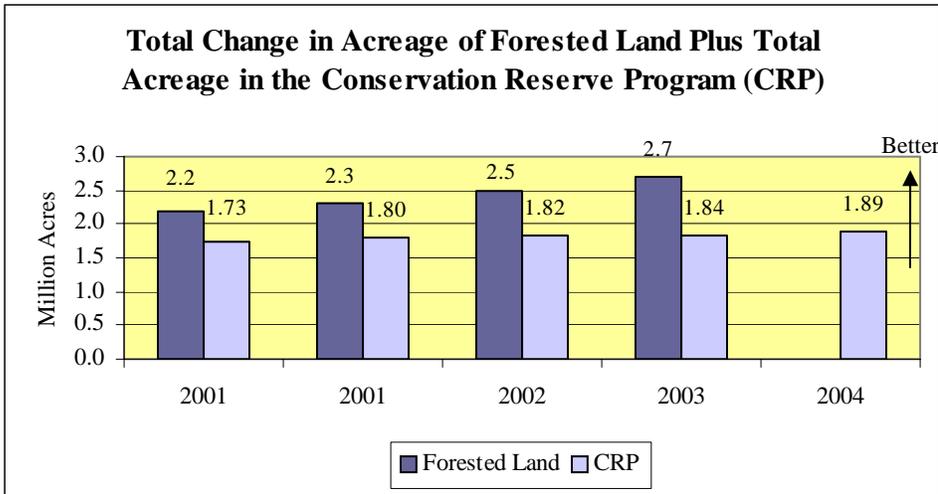
Indicators:



Data Sources: Iowa Department of Natural Resources; U.S. Environmental Protection Agency, List of Impaired Waters

- **Number of impaired stream segments and lakes in Iowa as measured bi-annually through the EPA’s 303(d) “impaired waters” list.**

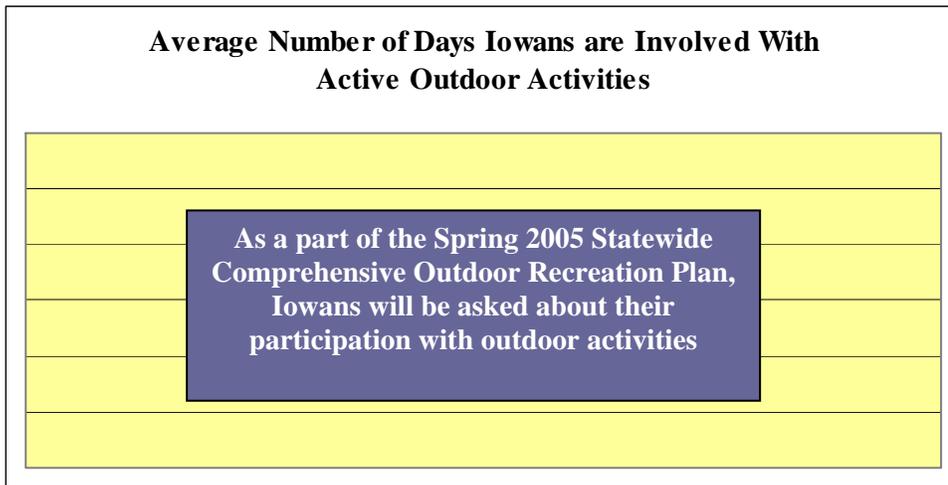
* This indicator was selected because it identifies those waters that do not meet one or more required water quality standards. Recent improvements in water quality monitoring will help ensure sound assessments to determine listings for the future. The Department of Natural Resources (DNR) proposes water bodies to be placed on the list every two years with the United States Environmental Protection Agency (EPA) providing final approval of the listed water bodies. Draft numbers for the 303(d) list for 2004 will be available in July.



Data Source: U.S. Forest Service Inventory; U.S. Natural Resources and Conservation Service Data

- **Total change in acreage of forested land plus total acreage in the Conservation Reserve Program (CRP) as measured annually by the US Forest Service and the US Natural Resources Conservation Service.**

* This indicator reflects land that is enrolled in the CRP plus forested lands. The CRP is a federal program that pays landowners to remove their land from agricultural production and is part of the Federal Farm Bill. Iowa's row crop agriculture provides a strong economic foundation, but also provides challenges to maintaining water quality and diverse ecosystems. Total acreage figures are tracked annually and provide the best indicator the Team could identify as a surrogate for land cover diversity.



- **Average number of days Iowans are involved with active outdoor activities.**
- * Engaging Iowans with their natural resources will help them directly relate their participation in outdoor activities to the need to protect and enhance these resources. This measure will also assist with evaluating the effectiveness of selected recreational strategies.

Strategy Map:

The strategy map reflects two major goals and seven strategies that support *Improving the Quality of Iowa's Natural Resources*. Two major goals must be achieved to reach the desired result – manage and protect Iowa's natural resources; and develop and improve Iowa's recreational opportunities.

Protecting natural resources and developing recreational opportunities work together to enhance Iowans' quality of life. How well we manage our natural resources directly impacts our health, safety and economic well-being.

The left side of the map illustrates the areas needed for achieving environmental protection, including improving water quality, conserving ecosystems, promoting sustainable resources and maintaining air quality. The right side of the map emphasizes the increased demand for outdoor activities and the need to enhance Iowa's natural recreational resources and assets.

Strategies:

Improve Water Quality – Achieving improvement in Iowa's water quality is needed to move Iowa forward in environmental protection and natural resource enhancement. A 1999 survey by ISU Extension found that 87% of Iowans are concerned about the quality of their drinking water. The Leadership Agenda calls for eliminating all impaired waterways by 2010. In 1998, 157 water bodies were listed as impaired. That number had increased to 205 by the year 2002. Currently, 18% of Iowa water bodies assessed are impaired. As state standards for nutrients are adopted the number of impaired waters will rise. Strategies that result in demonstrable improvements in water quality are preferred. Particular consideration will be given to offers that utilize the watershed approach, demonstrate local and regional involvement and address non-point source issues. Strategies that include habitat and recreational enhancements are also important.

Conserve Wildlife, Fish and Ecosystems – The management of Iowa's wildlife and fish are vital to maintaining Iowans' recreational opportunities. According to the 2001 National Survey of Fishing, Hunting and Wildlife Related Activities, the economic impact of these activities to Iowa is \$691 million annually (fishing = \$336 million, hunting = \$167 million and wildlife watching = \$188 million). Other ecosystems require sound conservation practices to enhance the management of wildlife and fish. Offers that protect or restore forests, prairies, or preserves are desired. Offers should also address opportunities to increase vegetation diversity along with protecting endangered species.

Promote the Use and Development of Sustainable Resources – The development of sustainable resources results in environmental and economic gains. The Leadership Agenda calls for making Iowa a net exporter of energy, thereby increasing the number of high skilled jobs in Iowa. Iowa ranks tenth in wind resources (10th windiest city) and is fourth in wind energy capacity. Looking at the potential returns of a 1,000 MW capacity wind energy project shows approximately 75 high skilled jobs would be created, and between 125 to 250 construction and skilled trade jobs would be required to construct the project. Tax payments back to the host county would start around \$1 million in the first year of operation and grow to \$7 million annually thereafter. The positive link between energy sufficiency and economic development are also echoed in a recent report by the Apollo Alliance that found energy efficiency creates 21.5 jobs for every \$1 million invested (compared to 11.5 jobs in natural gas generation). The same report reflects positively

on job creation resulting from renewable energy, with studies showing four times as many jobs per megawatt of installed capacity as natural gas and 40% more jobs per dollar invested than coal. Renewables especially support creation of substantial numbers of new jobs in manufacturing and construction. Strategies that promote energy efficiency, use and development of renewable resources and innovative technologies are preferred. Opportunities to leverage economic incentives are desired.

Improve Air Quality – Iowa is one of eleven states nationwide currently in attainment with national air quality requirements. Remaining in attainment with these requirements helps protect the health of Iowans. Attainment means Iowa can offer a more flexible air permitting program to business, reducing the cost of doing business and helping Iowa maintain economic competitiveness – all without decreasing the engineering and technical review conducted by DNR to ensure regulated entities meet required standards. Because air quality as a whole is good in Iowa, efforts should be targeted to addressing specific community and regional concerns.

Improve Public Parks, Lakes and Waterways – Iowans will use their parks, lakes and waterways if they feel safe in these environments, and if the related infrastructure and amenities are improved. Iowa parks are visited fifteen million times a year. 78,000 acres of parks and preserves and 87,000 acres of water – publicly owned lakes and U.S Army Corps of Engineers reservoirs – are among Iowa’s most important areas for recreation and economic stimulus. Iowans’ prime concern about their parks is water quality. A recent study of lakes in Iowa by ISU’s Center for Agriculture and Rural Development (CARD) found that the quality of the water was the most important factor in choosing lakes to visit. Interest in outdoor recreation is growing and shows no sign of slowing. A 1999 national survey by Roper reported that 67% of all Americans participate in some sort of recreational activity at least once a month. The CARD study found that 62% of Iowans use an Iowa lake and those who have used one visit them an average of eight times each year. Certain parks should be developed as resort destinations to attract more in and out of state visitors.

Develop non-park public and private recreational areas – Public lands including recreational areas, wildlife management areas, wildlife refuges, waterfowl production areas and public boat access areas provide access to recreation. All public lands (except for parks) account for seven hundred thousand acres. Similarly, access to private lands through easements, good will, friendships or leases is another important aspect of recreation. Because most of Iowa’s land, 32 million acres, is privately held, looking at opportunities to provide access to recreation for these areas is important. Developing diverse habitats such as ponds, wetlands, prairie, forests and pasture can provide economic dividends to landowners, as well as opportunities for hunting, fishing and nature enjoyment. This improves water quality and habitats. Strategies to improve the licensing process and the availability of hunting and fishing licenses are needed.

Create more opportunities for outdoor activities – The Leadership Agenda includes promoting health and providing quality of life for seniors and adults with disabilities. Americans are seeking greater diversity in their outdoor activities. Biking, canoeing, bird watching, snowshoeing and rock-climbing are among the trends being followed by recreational advocates. All segments of society benefit from increased access to recreational opportunities. A survey conducted in 2001 of 500 parents with children between the ages of four and 14 found that 80%

of respondents believed that participating in outdoor activities strengthened family relationships. Investments in land and improved infrastructure to enhance outdoor recreational activities are needed.

Purchasing Strategies - The Environment Buying Team seeks offers that:

1. Prioritize watersheds approach to improving water quality.
Offers must lead to a demonstrable water quality improvement and enhance the watershed approach. Offers must also emphasize local and regional involvement and address non-point source;
2. Integrate environmental, recreational and economic benefits.
Acceptable offers will 1) result in measurable increases in water quality, and 2) integrate environmental, recreational and economic benefits;
3. Provide measurement and reporting on indicators.
Offers will be favored that include research, monitoring and assessment to build on scientific data and maintain integrity;
4. Incorporate methods of encouraging compliance in addition to enforcement.
Offers must improve performance and compliance through, prevention, education, technical assistance, recognition, voluntary actions, and incentives;
5. Engage private citizens and the cooperation of private landowners.
Because much of the state's recreational land is in private ownership it is essential to creatively involve private landowners to reach the intended results;
6. Conserve wildlife, fish, and ecosystems.
Offer must be able to show how they conserve and protect forest and prairies, and promote vegetation diversity through education;
7. Promote the use and development of sustainable resources.
Offers will be favored that promote public and private investment, address economic incentives and support innovative technologies;
8. Improve public parks and waterways.
Offers must address safety, improving infrastructure, water quality, and create "resort parks;" and
9. Develop non-park public and private lands for recreation.
Offers should encourage diverse recreation use and cooperation/collaboration with private landowners, improve habitat, increase access to lands and increase infrastructure.

All Offers Should:

1. Be Innovative and bold.
This is not business as usual. Offers must be made up of ideas and improved services that produce results in the most effective and innovative ways. Offers are not limited to services the State of Iowa currently provides. If an offer includes a service the State currently provides, the offer must improve upon those services. Adapt best practices to Iowa.

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The State of Iowa must work smarter to produce better results with the available resources.

Some principles that will do that include:

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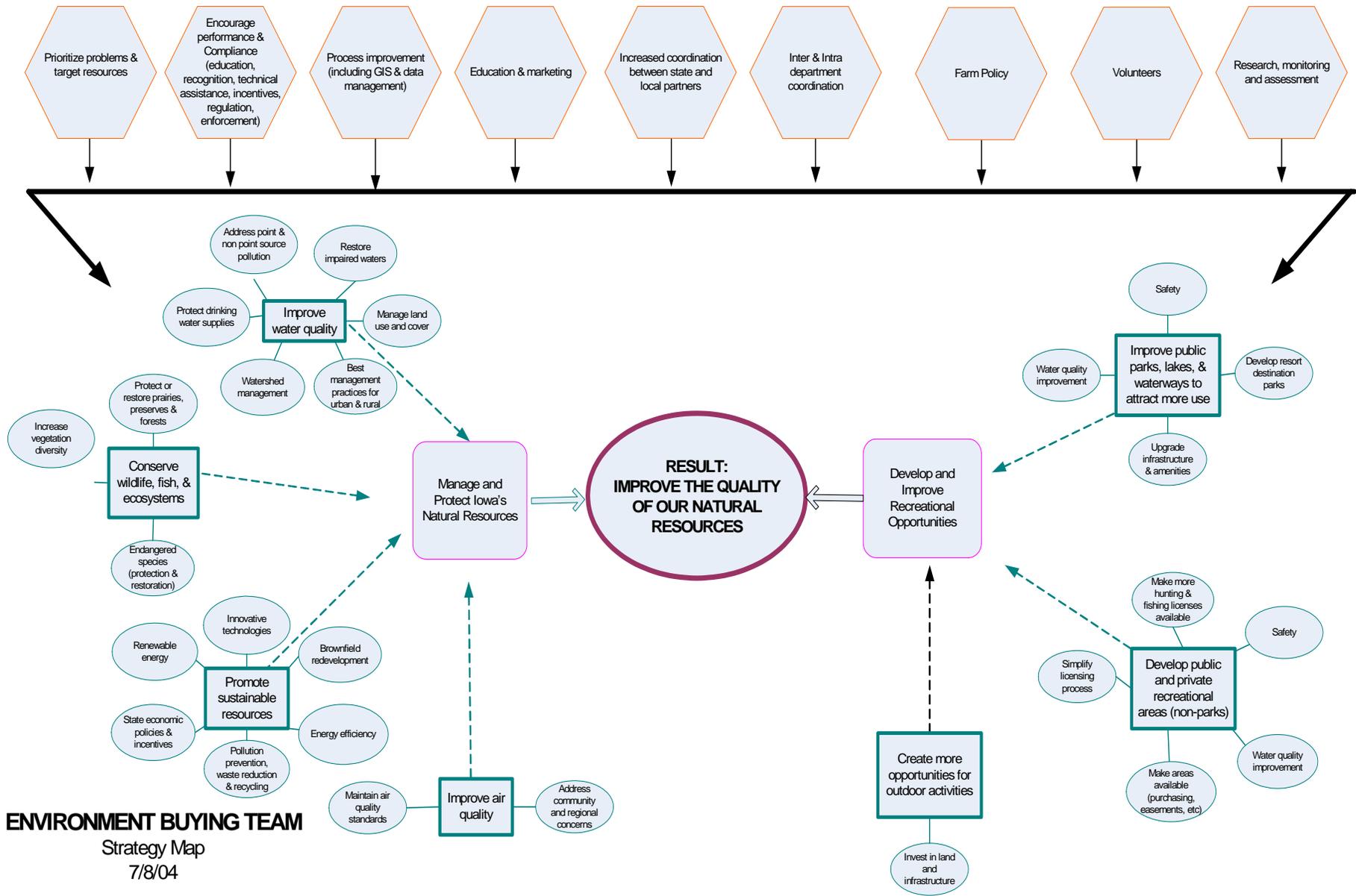
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Diversity is important to the future of Iowa. All offers must welcome and serve diverse populations.

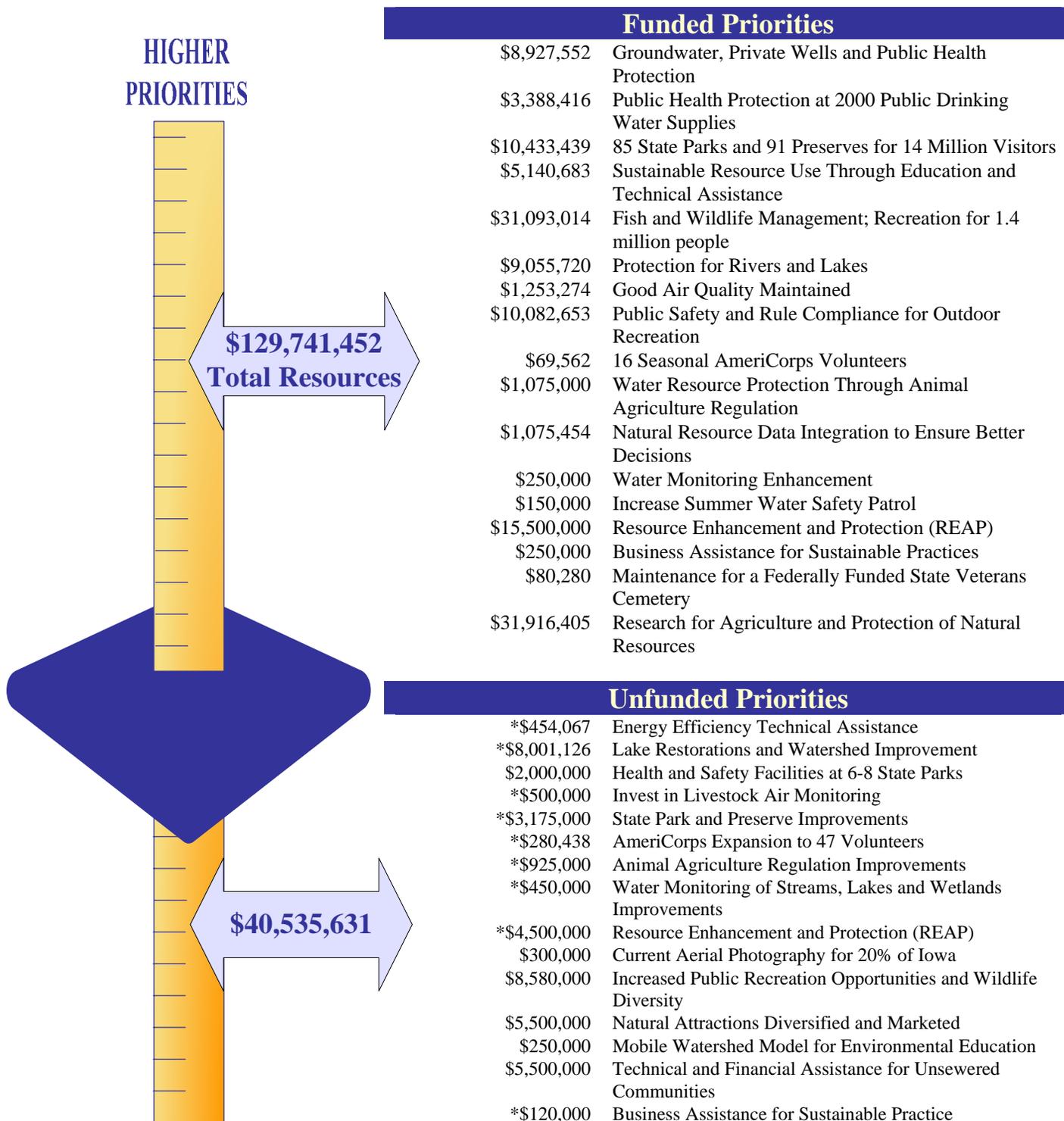
TECHNIQUES



ENVIRONMENT BUYING TEAM
 Strategy Map
 7/8/04

PURCHASING PRIORITIES

Improve the Quality of Iowa's Natural Resources



*Partially not funded

IMPACT NARRATIVE

Improve the Quality of Iowa's Natural Resources

Offers falling “Above the Line” for funding:

The Environmental Buying Team continually looked back at the goals we laid out in our strategy map. How do we manage and protect our natural resources and develop and improve recreational activities? Our team favored the offers that showed real measurable results in water quality, recreational opportunities or had significant economic benefit. The highest ranked offers have multiple benefits. Improving our water quality promotes a quality of life that Iowans desire. Additional benefits include improved health, more recreational opportunities and a more robust economy.

Most of the innovation and improvements will be preventative measures that are creatively using leveraged dollars, much like the groundwater protection fund. Only 11 percent of the nearly \$14 million will come from the General Fund.

Offers that show collaboration with other organizations to educate and implement best management practices were ranked high. The team does not expect indicator data to move very quickly in the environmental areas, as improvements in water quality and state infrastructure will take some time to realize.

Since 1998, the state has reduced the amount of solid waste reaching our landfills by 32 percent and reduced the health risk in more than 4,000 sites. The state has also established regional collection centers covering 67 counties, reduced household hazardous materials reaching landfills and assisted 115 communities with drinking water problems. It is very important to build on these successes and continue to reduce environmental health risks. This approach, combined with the integrated watershed offer that focuses on local stakeholders, will produce great results. The public will see a difference in highly visible areas that include water quality, air quality, parks, public lands, trails, pollution prevention and volunteerism.

Currently, Iowa parks and recreation areas generate \$155 million in economic activity annually. The infrastructure needs for campgrounds alone exceed \$19 million for drinking water, wastewater and electrical upgrades. Expanding the Parks Friends Group from the current 25 members will increase volunteerism, fundraising and park planning projects.

Offers falling “Below the Line” for funding:

Offers that did not provide a good return on investment or were not closely related to the team’s desired results were not funded or ranked very low. These include the Regents offer with the Experiment Station, Livestock Disease Research, The Leopold Center and the Recycling and Reuse Technology Transfer Center. The team did not feel that a great effort was put into the offer to show innovation, collaboration or better results. Each activity is very important, but the team felt maintaining the status quo was not good enough. The offer gives a very nice summary of the current activities but shows no creativity or innovation on how the appropriation can be better utilized.

Other offers the team does not recommend funding include two that proposed bonding as a quick infusion of cash for faster results. One promoted an accelerated REAP program and the other a watershed protection program with local leadership and investment. Both offers deserve consideration if the state is willing to bond. Un-sewered communities did not make the cut because the resources needed did not show a good return on investment. Different funding levels for REAP were also below the line.

BUDGET HIGHLIGHTS

After three years of negative revenue growth and General Fund budget cuts, an improved economic outlook provides a unique opportunity for Iowa to make much needed investments in education, health care, and economic opportunity. Through prudent budgeting and a focus on efficiency, Iowa has been able to weather the toughest economic times for the states as a whole in 60 years. It is time to build on that progress.

As with most states, Iowa has encountered serious budget problems in recent years. As the national economy faltered, starting in FY 2001, on-going revenues did not keep pace with the spending necessary to maintain Iowa's values. To address the budget problems, the State used a variety of methods to reduce spending, including early retirement, reorganization of departments, and across the board and selective budget cuts. State employees also voluntarily deferred scheduled pay increases. Other one-time resources, including rainy day funds, have also been used as a bridge to maintain essential services.

Now, as the economy rebounds, the State has begun to restore its Rainy Day Funds and other one time resources. The budget recommended by the Governor and Lt. Governor will continue to build on that progress while also building on past commitments in key priority areas.

Fiscal Year 2004 Summary

The originally enacted General Fund budget of \$4,573.3 million was predicated on 0.1% growth in General Fund revenues, as projected by the State's Revenue Estimating Conference (REC). While General Fund revenue growth had been negative in both of the previous two Fiscal Years, the estimate reflected the expectation that revenue growth would return with the end of the recession; the National Bureau of Economic Research determined that the national economy returned to economic expansion in November 2001.

However, at their October 2003 meeting, the REC lowered their General Fund revenue estimate, to \$4,497.5 million. With concerns that revenue trends had turned and expenditure pressures were growing, Governor Vilsack signed Executive Order Number Thirty-one, which ordered all non-Charter state agencies to implement a 2.5% across the board budget reduction for FY 2004. This reduced General Fund appropriations by \$82.6 million.

In March, the REC revised upward its FY 2004 General Fund revenue estimate, to \$4,513.4 million. Revenue growth in both April and May was much stronger than the REC projections, with annual growth at the end of May up 4.2%, more than double the REC estimate of 1.8%. As a consequence, in June 2004, Governor Vilsack signed Executive Order Number Thirty-six, which modified the across the board budget reduction to 2.25% from the 2.5% order in Executive Order Number Thirty-one. This restored General Fund appropriations in the amount of \$8.3 million.

Because of a very strong rebound in the last quarter of the Fiscal Year, actual revenue collections exceeded expectations, growing by 4.2% for the year. As a result, the State finished the year with a General Fund surplus of \$166 million. This increased the balance in the State's Rainy

Day Reserve Funds to a combined \$233.9 million, which is 5.2% of General Fund expenditures. This is above the 5% minimum level of reserves recommended by the national credit rating agencies. By contrast, the states as a whole had an average of 4.8% in reserve.

Fiscal Year 2005 Update

After legislation was passed and Governor's actions taken into account, FY 2005 started on July 1 with estimated Total Net General Fund Receipts at \$4,540.0 million. Net General Fund appropriations for FY 2005 were at \$4,497.6 million, which includes a \$45.5 million appropriation from the General Fund to the Cash Reserve Fund. This left an ending balance for the General Fund of \$42.4 million.

The Legislature met in special session in September 2004 and made revenue adjustments of - \$119.2 million and spending adjustments of \$9.6 million.

At subsequent meetings of the REC, the General Fund revenue estimate was revised upward, and is now \$4,746.5 million. This leaves a projected General Fund ending balance of \$239.6 million.

Revenues continue to exceed the REC's projected level of growth. Through December 2004, General Fund revenue growth was 7.1%. The official REC estimate is for total receipt growth of 2.7% for FY 2005. There are, however, scheduled tax reductions, such as the additional phase out of 1% of the sales tax on residential utilities, effective January 1, 2005, that will have an impact on overall revenue growth during the balance of the Fiscal Year.

During the last legislative session, there was widespread concern that the budget appropriated for Medicaid was insufficient to meet the demand for covered services. A federal entitlement, Medicaid provides health care for children and disabled Iowans as well as nursing home care for seniors. Despite adopting a series of efficiency measures, the Medicaid budget continues to exceed its budget.

In fact, as General Fund budgets have been reduced in each of the past three Fiscal Years, a variety of necessary services have been reduced as well. In some instances, these threaten the health and safety of Iowans. As a consequence, the Governor and Lt. Governor are recommending supplemental General Fund appropriations of \$212.8 million. Of that amount \$40 million is to restore funds borrowed from the Senior Living Trust Fund, meaning actual new expenditures are \$172.8 million. Of the \$212.8 million, the largest share, \$160.0 million, is for Medicaid. This will ensure that services for disabled Iowans, children, and seniors are maintained throughout this year and next. Besides Medicaid, the recommended supplemental appropriations would increase early childhood education services, increase funding for operations of the Law Enforcement Academy, Department of Public Safety, and the Courts.

Fiscal Year 2006 Recommendations

Even through this fiscal crisis, Governor Vilsack and Lt. Governor Pederson have provided unwavering support for the financial responsibility of the State. This support allows the State to continue to enjoy high credit ratings. Standard and Poor's, in their latest update on the State's ratings, continues to give the State a rating of AA+, the second highest possible rating, along

with an outlook as stable. Moody's ratings for the state continue to be Aa1, also the second highest rating, and also with a stable outlook.

Governor Vilsack and Lt. Governor Pederson have developed their FY 2006 budget recommendations around the fundamental principle of a balanced budget that looks not only at the short term but also long term. Their FY 2006 budget is balanced and meets the 99% expenditure limitation. It also reduces the use of one-time funds and expands on revenue diversification through corporate income tax generation, along with an increase in the cigarette tax. These increases bring these lagging taxes more into line with other tax generators.

With the recommended budget changes, the State will end the current Fiscal Year with a projected positive ending balance of \$60.8 million – nearly \$20 million more than the budget originally enacted by the Legislature. Even with the changes, current year General Fund spending will be less than was appropriated in FY 2000 – the Governor and Lt. Governor's first year in office.

General Fund Recommendations

Student Achievement

\$94.0 million increase to local school districts to provide for 4% allowable growth in the school aid formula, which was promised by statute in the last legislative session. This funding will increase funding by \$190 per student, which will allow outdated textbooks to be replaced, continue funding for approximately 3,900 teachers and additional instructional support staff, and continue to build upon the gains made in student achievement and reducing class sizes.

\$29.3 million for the reauthorization of the class size initiative to continue funding for approximately 800 beginning teachers and to keep class sizes at both elementary and secondary levels from growing.

\$47.4 million increase for educator quality, which will revamp the Teacher Quality program, including adding a program for administrators.

\$39.1 million recommended as a supplemental appropriation in FY 2005 will be available for use in FY 06 and will establish an infrastructure for a coordinated, integrated early care, health and education system to provide technical assistance to communities. It will allow private/public partnerships to be formed, increase access to quality preschool, implement early learning standards and a child care rating system, as well as increase funding to community empowerment areas for high quality initiatives.

\$1.7 million increase in the Iowa Tuition Grant program to provide \$4,000 awards to 16,000 students.

\$5.2 million increase to Community Colleges to deal with necessary operational increases in expenses.

\$0.4 million for Jobs for America's Grads to assist with employment and training for targeted youths.

\$20.0 million to the Regents institutions to deal with necessary operational increases in expenses. In the past four years, the General Fund budget for the Regent institutions has been reduced by over \$100 million.

Healthy Iowans

\$1.8 million increase to the Family Investment Program for the continuation of minimum maintenance of effort to match federal funds.

\$74 million increase to maintain Medicaid services. Without this funding, over 403 children aging out of the foster care system but not yet 21 would lose health care; 144,163 adults, many of whom are elderly or have disabilities would no longer be able to access prescription drugs; 17,008 elderly or persons with disabilities will not receive help in their own home or community; 1,964 Iowans seeking hospice services will not receive them.

\$5 million increase for Medical contracts to assure that Medicaid payments are made in a timely, and cost effective fashion for the state.

\$3.5 million for HAWK-I so an additional 3,687 children will have access to health care.

\$1.4 million increase for civil commitment for sexual offenders to maintain levels of funding necessary to maintain commitment of offenders.

\$6.6 million increase for Glenwood and Woodward Resource Centers to pay for state share of clients and meet the requirements of the federal Department of Justice.

\$5.2 million to redesign the state mental health system to be more focused on clients and community alternatives for care and to develop a system of care for children.

\$13.4 million increase for child and family services to replace reduced federal funding and increased numbers of children in subsidized adoption.

\$1.2 million to develop an assessment process to match frail elderly and disabled persons with needed services at the community level.

Governor Vilsack and Lt. Governor Pederson also recommend that in FY 2006, savings and efficiencies be identified in the Medicaid program to lower by \$10 million the appropriation from the Senior Living Trust Fund to Medicaid. They also recommend that one half of the General Fund ending balance, up to 1% of net General Fund revenues, be transferred at the end of the Fiscal Year to the Senior Living Trust Fund. Combined with \$40 million returned to the Trust Fund in FY 2005, this will ensure the continued viability of the Fund and the services it provides to allow seniors to receive care and stay in their homes rather than be forced to live in nursing homes.

Safe Communities

\$7.5 million increase to the Department of Corrections to cover necessary increases in operations, improve mental health treatment, and to meet safety needs through increased staffing.

\$10.6 million increase to the Judicial branch budget, which the Governor is, by law, required to recommend without change from the Court's request in his budget.

\$4.2 million increase to the Department of Public Safety for increases in operational expenses and additional positions in critical safety areas.

\$3.4 million increase to maintain constitutionally required funding of the Public Defender and Indigent Defense.

Economic Opportunity

Provides \$800 million over 5 years, through bridge financing, to support the Iowa Values Fund. The funds would be utilized in the following areas:

- Business Development and Assistance - \$255 million
- University Research and Development - \$60 million
- Workforce Training - \$67 million
- Regional Economic Development - \$40 million
- Quality of Life - \$69 million
- Strategic Marketing - \$14 million
- Water Quality Improvement Grants - \$50 million
- State or Local Infrastructure - \$245 million

General Fund Revenues

The Revenue Estimating Conference at their December 14, 2004 meeting set the amount of General Fund revenue for FY 2006 that must be used by both the Governor and Legislature in developing their respective budgets. The REC set Total Net Receipts to the General Fund at \$4,903.0 million or 3.3% growth over FY 2005. It should be noted that this level assumes continuation of phased-in tax reductions, including an additional 1% reduction in the sales tax on residential utilities, reductions in the insurance premium tax, and the estate tax.

In order to continue to provide essential state services for Iowa, Governor Vilsack and Lt. Governor Pederson recommend the following General Fund revenue adjustments for FY 2005 and FY 2006:

Increase in the cigarette tax, effective April 1, 2005, by \$0.80 per pack for a revenue increase of \$34.3 million in FY 2005 and \$129.9 million in FY 2006.

Require corporations to file combined reports for Iowa corporate income tax purposes for a revenue increase of \$25.0 million.

Increase traffic fines for a revenue increase of \$1.7 million.



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ISSUE BRIEF Early Childhood

Critical Issue

Research has established a clear and compelling connection between the quality of children's learning experiences and later success in school and also in life. Brain research proves that eighty-five percent of brain growth occurs in the first six years of life. Child and family participation in quality early childhood programs leads to higher school completion rates, less reliance on social welfare programs, lower teen birth rates and criminal activities. The bottom line: enriched early learning experiences in the home and quality early childhood education programs lead to children being more productive adults. Yet our children's early years, from birth through school entry, receive less attention and lower levels of public investment, than any other stage. We need to make a comprehensive commitment to early childhood in order to uphold our responsibility to ensure every child in Iowa reaches his or her full potential.

Initiative

To ensure all children are healthy and have a real chance for success, we must make a more comprehensive commitment to our young children that integrates and coordinates efforts at early care, health and education. This proposal expands efforts in each of the following areas:

- Increase access to high quality preschool - \$20 million
- Increase childcare financial assistance to parents - \$11.8 million
- Increase investment in Community Empowerment - \$5 million
- Establish a Quality Rating System for childcare - \$1.7 million
- Professional development and training opportunities - \$.6 million

Cost

The down payment toward an integrated early care, health and education system is \$39.1 million.

Results:

Since learning is built on the foundation of prior learning, and children's earliest experiences are fundamental to their brain development and long-term educational success, the quality of the very earliest learning experiences helps to shape the overall quality of education at all levels. By ensuring excellence in the early years, we create a solid foundation for success throughout children's lives. Ultimately, these efforts link to the number of students who will successfully complete a postsecondary education and prosper in the modern economy.



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ISSUE BRIEF
Educator Quality

Critical Issue

High quality classroom instruction and professional development supports for teachers and administrators are essential for improving the learning of all students and upholding our responsibility to ensure all students reach their full potential. Research has consistently shown that factors present in higher performing schools include: a focus on academic content that supports student needs; the provision of opportunities for teachers to learn new instructional skills and improve existing skills; the provision of opportunities for professional collaboration; a commitment to the use of effective, research-based professional development processes; and extensive, high quality support from school leaders. High quality classroom instruction is the primary factor influencing student performance and high quality professional development is the primary factor influencing high quality classroom instruction.

Initiative

This initiative builds upon the original Student Achievement and Teacher Quality Program concept, weaving together a set of incentives and supports to accelerate accomplishment of the program's goals. The initiative will create regional teacher development academies designed to provide intensive, research-based professional development for classroom teachers. These academies will support the development of "teacher fellows," a career ladder category that recognizes teachers for exemplary performance in the classroom. The initiative also provides added resources for enhancement of teacher salaries and purchases two additional professional development contract days for every teacher in the state. Current efforts on teacher mentoring and induction, National Board Certification, and teacher evaluation are also supported.

The initiative also supports the continued development of educational administrators by providing for systems of statewide administrator standards, new administrator mentoring and induction and high quality administrator evaluation systems.

Cost

The cost of this initiative is \$99.12 million for fiscal year 2006.

Results

Districts will be able to provide higher quality supports for teacher and administrator professional development. This will directly work to improve the quality of instruction in classrooms across Iowa and will result in improved student performance. Accordingly, teacher compensation will be improved.



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ISSUE BRIEF
Supplementary Weighting Incentives for
Local School District Sharing

Critical Issue

Iowa's budget concerns have, in recent years, affected the ability of local school districts to provide a quality educational program. Additional factors such as increased costs of operation, agricultural land devaluation, and the removal of the school district budget guarantee have compelled local districts, particularly smaller districts, to seek ways to improve efficiencies in operation. Reducing duplicative program supports or sharing programs between districts serves to make additional funds available to support the educational program. At a time of tightening budgets and sluggish economic growth, ensuring maximum operating efficiencies in all aspects of state operations, including local school districts, demonstrates good stewardship of available funds.

Initiative

To encourage school districts to efficiently operate Iowa's educational systems, a new supplementary weighting is proposed that will provide funds that enable districts to expand student opportunities, add additional teaching staff, and/or improve the salaries of instructional staff. Additional funding would be provided to districts that share operational functions (staff) of business managers, human resources, transportation or operation and maintenance for a minimum of 20 percent of time each year.

Cost

The cost of this initiative is \$6.1 million for fiscal year 2006. Starting in fiscal year 2007, the supplementary weighting (two hundredths per pupil) will be rolled into the state foundation aid formula.

Results

Overall system operations will become more efficient, teachers' salaries will be improved and/or additional courses will be offered so that we uphold our responsibility to provide the best set of educational opportunities for all students. Every high school student should have access to at least four years of mathematics, science, and English/language arts, including advanced placement courses in each area. This initiative promotes efforts to share programs and services between districts.



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ISSUE BRIEF

Protecting All Our Children: Anti-Harassment/Bullying Initiative

Critical Issue

Too many young people experience school as a frightening, hurtful, and lonely place because they are victims of bullying and harassment. Bullying, whether it is emotional, verbal, physical, psychological, racial, or sexual in nature, is a form of abuse; and the effects of that abuse can have lasting, far-reaching consequences. New research shows that victims of bullying can go on to suffer from serious long-term emotional problems, and bullies are more likely to grow up to commit more severe acts of violence and abuse. When students are afraid of being bullied at school, they cannot learn and perform in the classroom to their best potential. When students see that some bullying students are able to get away with abusing other kids, they are likely to lose respect for the teachers, principals, and adult authority figures that are supposed to protect them.

Initiative

In order to create a safe learning environment for all our children, it is essential to protect all students from harassment and bullying in our schools. No student should be subject to harassment or bullying at school and school functions. To achieve this aim, school districts are required to develop a policy that includes the following:

- Statement prohibiting harassment and bullying
- Definition of harassment and/or bullying that meets criteria in the legislation
- Description of the type of behavior expected from each faculty member, staff member, volunteer, and student
- Procedure for the prompt investigation of complaints
- Range of sanctions and remedial actions that can be taken once a harassment or bullying incident has been confirmed
- Procedure for reporting an act of harassment or bullying to the Department of Education

The Department of Education will assist school districts in this process by developing model policies that districts may reference and use. If funding is available, school districts are encouraged to establish programs that are designed to eliminate harassment or bullying, such as staff trainings.

Cost

There is no cost to the general fund for this initiative.

Results

No child's experience of growing up should be defined by bullying and harassment. By developing guidelines for local school districts to implement harassment and bullying policies, the State will help create a safe school environment where all our children are capable of reaching their potential. All members of the school community will be treated with dignity and respect. This in turn will allow schools to better focus on providing a high quality education to our students and students to better focus on learning and developing.



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ISSUE BRIEF
Iowa Values Fund

Critical Issue

The Iowa Values Fund is the single largest economic development tool the State has ever created. The number of companies expressing interest in locating or expanding a business in Iowa grew as a result of this program from 51 in January of 2003 to over 400 today, in addition to the 220 projects receiving state assistance over the same period. Since its creation, the Values Fund has led to the creation or retention of over 14,000 high-paying and high tech jobs, primarily in the life sciences, advanced manufacturing, and the insurance and financial services sectors, with a total capital investment of \$2.2 billion in our state. With interest rates low, the State's solid credit rating, and increasing revenue from gaming, the time will never be better to make a substantial investment in our future. Continued economic opportunity in Iowa is contingent upon a commitment to fully and permanently fund the Iowa Values Fund.

Initiative

Business Development and Assistance - \$255 million
University Research and Development - \$60 million
Workforce Training - \$67 million
Regional Economic Development - \$40 million
Quality of Life - \$69 million
Strategic Marketing - \$14 million
Water Quality Improvement Grants - \$50 million
State or Local Infrastructure - \$245 million

Cost

Invest \$800 million over five years through bridge financing.

Results

Fully and permanently funding the Iowa Values Fund will grow Iowa. The dividend of this investment will result in 50,000 good paying jobs that support families and communities, expansion of cultural and recreational opportunities, well-maintained critical infrastructure, and cleaner water. This investment will help realize Iowa's vision for being the best place to live, work, and raise a family.



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ISSUE BRIEF
Income Tax Reform

Critical Issue

Over the past two years, Governor Vilsack and Lt. Governor Pederson have made transforming Iowa's economy and providing greater economic opportunity to every Iowan a priority. Focus has been on creating and expanding businesses and high-tech, high-wage jobs to fulfill the mission to grow Iowa. An impediment to further growth and business expansion is the complex and cumbersome nature of our state income tax. National rankings often place Iowa very low in tax competitiveness surveys as a result of Iowans' ability to deduct their federal taxes from their state income tax. This occurs because Iowa appears to have a top income tax rate of nearly nine percent; but in actuality, the top rate in Iowa is closer to six percent once federal deductibility is considered. Now is the time to simplify our income tax system and make Iowa competitive.

Initiative

Simplify Iowa's income tax system by eliminating federal deductibility, lowering income tax rates and dropping the number of rates to four, eliminating the tax on social security and pension benefits, and increase the earned income tax credit while making it refundable.

Cost

Reforming the Iowa income tax will have minimal impact to the state general fund because the adjustments are made to be revenue neutral. Simplification will result in savings to Iowa taxpayers in the form of reduced tax preparation costs.

Results

Elimination of federal deductibility and simplification of our income tax system will allow Iowa to be competitive in the national and global race for economic opportunity. At the same time, seniors and low-income Iowans receive tax relief in a revenue neutral manner while making it easier for Iowans to file their own tax returns.



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ISSUE BRIEF

Deregulation of Business Telecommunications Service

Critical Issue

Emerging technologies such as wireless, cable telephony, Voice over Internet Protocol, and broadband over power lines are challenging current regulatory structures and urging the transition away from a price regulated system to market based prices. While full-blown competition has not developed yet in all markets and regions, the transition to a new regulatory structure should begin. Iowa should initiate the transition by deregulating rates for retail telephone service for business customers.

Initiative

The focus of this initiative is to encourage telecommunications opportunities at reasonable prices for businesses across the state. It would deregulate rates for retail telephone service for business customers in Iowa. The IUB would continue to regulate service quality. The bill includes a provision for re-regulation by the IUB if, after notice and opportunity for hearing, it finds that one or more companies have market power in a particular market.

Cost

There will be minimal fiscal impact.

Results

The deregulation of business retail rates will encourage the growth of telecommunications opportunities at reasonable rates for businesses across Iowa. This will provide increased connectivity for businesses of all sizes and serve as an economic development incentive.

Specifically:

- Deregulation would likely reduce rates for businesses with a choice of providers, especially smaller businesses located in larger communities (the larger businesses typically already have competitive choice).
- There is a potential that local exchange carriers will reduce *all* business service prices in the short term, to bolster the case for further deregulation.
- It is possible that the market and the FCC are already headed in this direction, so deregulation would remove potentially obsolete statutes before they become a problem.
- Deregulation may ultimately reduce rates even in areas that are currently less competitive; initial rate increases may make it easier for new providers to enter the market, increasing competition and ultimately decreasing rates.
- Deregulating business service may provide a preview of some of the benefits and pitfalls associated with deregulation of residential service.



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ISSUE BRIEF

**Improving the Quality of Care: Consumer Choice,
Support and Education Initiative**

Critical Issue

Iowans deserve health security throughout their lives. At some point in their lives, all older Iowans and their families are confronted with difficult choices about their long term living needs. Unfortunately, all too often, they are unaware of all the services available and which services will best meet their needs. Older Iowans deserve the freedom to choose from a variety of living and service options that guarantee their dignity, autonomy and independence. It is crucial that Iowans get the services that they need in a manner that is both cost effective and respects their personal choices.

Initiative

The purpose of a Consumer Choice, Support and Education program is to provide older Iowans more information regarding and choices in the services which allow them to age successfully. Participation in the Consumer Choice Support and Education program shall be completed prior to admission to all licensed nursing facilities and the Medicaid Elderly Home and Community Based Services program.

Activities of the Consumer Choice Support and Education Program shall include but not be limited to:

- 1) developing a standardized process to identify an individual's functional and cognitive capacity, health conditions, supportive service needs, environment, and preferences and develop an initial plan of care.
- 2) evaluating the consumer choice, support and education program including quality outcomes, consumer satisfaction and fiscal impacts
- 3) utilizing a competitive procurement process to contract with entities to conduct the consumer choice, support and education process.
- 4) ensuring that the consumer choice, support and education process is coordinated and complies with all applicable federal and state requirements and programs.

Cost

There is an initial cost to the Senior Living Trust fund of \$1 million for this initiative. In the out years, this initiative will be paid for through the savings that it generates.

Results

The Consumer, Choice, Support and Education Act will establish a program that insures older Iowans and their families understand what their choices are for long term living services. By helping older Iowans better understand what services they need and what services are available to them, we will provide them with the ability to make informed choices about the type of quality care that is best for them. The Consumer Choice Support and Education program will protect the health security of older Iowans by helping our health care system deliver the care older Iowans want in the most cost effective manner.



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ISSUE BRIEF

**Affordability of Health Care: Reducing Insurance
Costs for Small Employers**

Critical Issue

Increasing costs of health care are having a significant impact on the security of our small businesses. In Iowa, businesses have faced double-digit increases the last few years. At that rate, the cost of health insurance premiums doubles within four to five years. These increases force our small businesses to choose between their employees' health security and investing in needed equipment or supplies. Iowa small businesses need both healthy employees and resources to invest in their future to grow and thrive. Without a healthy workforce, businesses pay a cost in lost time and productivity. Furthermore, to attract a strong workforce in a competitive environment, small businesses must be able to offer a comprehensive health benefit package.

Initiative

In order to improve the economic environment and promote the health security of Iowans, the Vilsack/Pederson Administration proposes taking steps to reduce the cost of insurance for small employers.

We will introduce legislation to eliminate the practice of "rating up" for small employers so that small businesses are encouraged in, not punished for, providing insurance to their employees. Small employers with two to nine employees should have rates based on their actual experience not an insurance carrier's belief that their experience will be unfavorable because they are a small group.

We will take administrative action to tighten rules on participation for small employer groups. This would prevent individuals from cherry picking their coverage and thereby driving up group costs. We will also propose a study of the options available for purchasing pools.

There is significant potential to provide small businesses with access to health care coverage at an affordable rate by pooling their resources. However, this will only be successful if a purchasing pool is effectively designed and implemented. To that end, we will ask the Insurance Division to study and recommend options for implementing a small business purchasing pool in Iowa.

Cost

There is no cost to the General Fund for this initiative.

Results

Individually, each of these steps will improve the affordability of health insurance for Iowa's small businesses. Collectively, they will improve the health security of Iowans by making health care more affordable and accessible.



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ISSUE BRIEF

Access to Health Care: Mental Health/Substance Abuse Parity

Critical Issue

Mental illness and substance abuse touch all of us in different ways. These are diseases that impair family bonds, challenge friendships, and cost businesses in lost time and productivity. Data indicates that more than 65% of the people currently in Iowa's corrections system have mental illness and/or substance abuse problems. If properly treated, people with mental illnesses or substance abuse problems can become productive members of our communities. While we recognize that mental illness and substance abuse can have devastating effects on individuals and families, just like physical illnesses, we still treat mental illness and substance abuse differently denying health security to thousands of Iowans. It is a matter of equity and fairness that our health insurance benefits cover all illness not just select illnesses. Our values demand it.

Initiative

Governor Vilsack and Lt. Governor Pederson propose that all group health care plans provide for parity for mental health and substance abuse benefits. This would include the state employees health benefit plans. The proposal covers the following serious mental illnesses:

- Schizophrenia;
- Schizo-affective disorder;
- Bipolar disorder;
- Major depressive disorder;
- Obsessive-compulsive disorder;
- Autism;
- Pervasive developmental disorder;
- Panic disorder;
- Paranoia and other psychotic disorders;
- Eating disorders, including but not limited to bulimia nervosa and anorexia nervosa.

The proposal would exempt any group health plan that demonstrates a rate increase in excess of 3% due to parity.

Cost

It is projected that there will be minimal fiscal impact.

Results

By extending health care plan coverage to mental illness and substance abuse, our health care system will have the equity and fairness that truly protects the health security of all Iowans. The enactment of mental health and substance abuse parity will provide a greater opportunity for many Iowans to receive the care they need to live healthy and productive lives. It will provide Iowa employers a healthier, more productive workforce.



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ISSUE BRIEF
Maintaining Access to Care:
Critical Care Fund Initiative

Critical Issue

The health security of Iowans is dependent on access to the care they need. While Iowa's medical malpractice experience is better than the national average, unpredictable increases in medical malpractice costs can reduce Iowans access to doctors in certain high risk specialties. In order to maintain Iowans access to the doctors and care they need, it is important to help reduce the costs of malpractice insurance.

Initiative

To help reduce the costs of malpractice insurance, we will implement a mandatory Critical Care Fund (CCF), governed by a board of state officials and individuals representing the private sector. The Critical Care Fund will cover physicians (including osteopaths) and hospitals. If necessary and desirable, an expansion could be considered in the future. The CCF will make available both claims-made and occurrence coverage, with required underlying limits of \$1 million/\$3 million (per occurrence/aggregate).

The CCF will be funded by assessments on providers. Assessments in the aggregate should be sufficient to cover anticipated claims and expenses. The rates will be set by the board with approval by the Insurance Commissioner to ensure rates are reasonable and adequate. The CCF will be actuarially sound, requiring the maintenance of surplus adequate to fund some adverse level of claims.

Cost

We propose an initial \$1 million appropriation to capitalize the CCF. CCF funds will be segregated from other state funds to limit the possibility of the state using the accumulated assets for other purposes.

Results

Iowa's medical malpractice experience is better than the national average. As the U.S. Chamber of Commerce study on liability indicates, Iowa has fair and reasonable juries. A Critical Care Fund which pays only Iowa-based claims will be able to capture the better Iowa experience and lower malpractice rates for Iowa doctors. A Critical Care Fund will enhance the health security of Iowans by enabling doctors to stay in high risk specialties thereby maintaining Iowans' access to quality care.



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ISSUE BRIEF
Meth Lab Reduction Act

Critical Issue

Over the last three years, the Department of Human Services reports 960 cases of Iowa children classified as victims of abuse due to parents manufacturing meth or possessing meth precursors. We are in the midst of a plague, one that is man-made and frighteningly easy to spread. It takes only a handful of times for methamphetamine to hook its victims. Family and friends end up looking on helplessly as their addicted loved one spirals downward endangering those closest to them.

Meth is being cooked in homes, apartments, parks, vacant buildings, and cars and is perilous for families and especially children. A record 1,425 clandestine meth labs have been dismantled by law enforcement agencies in 2004. Iowa currently ranks 3rd highest in meth lab busts per capita in the nation. The security of our families and their neighborhoods are at great risk with the proliferation of methamphetamine production.

Initiative

Pseudoephedrine is the key ingredient in the meth manufacturing process. Without pseudoephedrine, you cannot make meth. Under this initiative, regular package quantities of pseudoephedrine in tablet form will be available only in pharmacies and require both a signature and photo identification to purchase. Single and double dose packages of pseudoephedrine will still be available anywhere over-the-counter medicines are sold.

Cost

No cost to the state, however, the savings will be significant to law enforcement agencies, courts, corrections, and public safety.

Results

With the passage of this legislation, we expect safer and more secure environments for families, children, and neighborhoods. Oklahoma passed similar legislation last year and has shown significant success in just a few months.

To do nothing in Iowa as this most dangerous, damaging, and insidious drug is being manufactured in our communities is unacceptable.



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ISSUE BRIEF
Election Accountability Act

Critical Issue

State elected officials are accountable to the citizens of this state and are elected to represent the interests of all Iowans. In order for voters to make an informed decision about which candidate will best represent their interests, they are entitled to know the source of financial contributions made to the candidate's committee. Voters should also be assured that the campaign funding was contributed for a specific candidate seeking a specific office. Current law provides for neither.

Initiative

The reform package being proposed requires state candidates to file a disclosure report seven days prior to the primary and general election and restricts candidates from accepting financial contributions during the seven days prior to a primary or general election. The legislation also restricts committee to committee transfers of funds from a federal committee or PAC to a state committee.

Cost

The election reform proposal has no cost to the state general fund.

Results

The result of such a reform measure is to develop a policy of full public disclosure of financial contributions prior to an election so voters can be fully informed and instill greater accountability of candidates by Iowa voters. If voters have the responsibility of making informed decisions, then state government has the responsibility of providing all of the information prior to an election.



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ISSUE BRIEF

Sustaining a Sound Pension System

Critical Issue

Contribution rates paid to Iowa Public Employees' Retirement System's (IPERS) have not changed for 25 years. At the same time, costs have increased due to demographic changes, benefit improvements, and losses from a multi-year downturn in the stock market. One important demographic change that had a major impact on costs is the increasing life expectancies of members. All together these increasing costs have resulted in a growing unfunded actuarial liability (UAL), which has grown to \$2.18 billion as of the end of fiscal year 2004. Action must be taken to ensure a sustainable and sound pension system into the future.

Initiative

Beginning in fiscal year 2006, the IPERS contribution rate would be increased by one percentage point a year for four years. By fiscal year 2009, the contribution rate increase would be fully phased in at 13.45 percent. After attaining the phase in of contribution rates to 13.45 percent, IPERS would be authorized to adjust contribution rates, either up or down, as actuarially determined. Any variation would be within strictly defined margins that would never exceed one percentage point. This year the IPERS Investment Board joined the IPERS Benefit Advisory Committee, who for a second year in a row, called for an increase in contribution rates.

Cost

The cost increase to the general fund is approximately \$2.7 million for fiscal year 2006. For each year in which there is an additional one percentage point increase (FY 2007, 2008 and 2009) there would be an additional cost of \$2.7 million.

Results

This proposal creates a sustainable and sound pension system that will enable IPERS members, teachers and other public servants, to receive the benefits they have earned and deserve without negatively impacting employers and employees or passing the costs on to future generations. A sustainable and sound retirement system is important for the state's financial statements and ratings as well as its ability to attract qualified, dedicated teachers and public servants.

FINANCIAL STATEMENTS

State of Iowa

Estimated Condition of the General Fund

Financial Summary

(\$ in Millions)

	Actual FY2004	Estimate FY2005	Governor's Budget FY2006
Resources:			
General Fund Revenue	5,315.4	5,496.4	5,562.0
<i>Growth</i>		3.4%	1.2%
Accruals	83.0	(49.6)	9.8
Refunds	(715.0)	(700.6)	(668.8)
Proposed Revenue Adjustments		34.3	200.6
Total Resources	4,683.4	4,780.5	5,103.6
<i>Expenditure Limitation</i>			5,044.9
Appropriations:			
Enacted/Recommended Appropriations	4,573.6	4,464.6	4,971.3
Net Across the Board Reduction	(74.2)		
Enacted Supplemental Appropriations/Changes in Standings	2.4	9.3	
Cash Reserve Fund Appropriation		45.5	
Recommended Supplemental Appropriations		212.8	
Total Appropriations	4,501.8	4,732.2	4,971.3
Reversions/Estimated Reversions			
Regular Reversions	(7.0)	(10.0)	(10.0)
Operations Reversions		(2.5)	(2.5)
Adjustments to Standings	22.6		
Net Appropriations	4,517.4	4,719.7	4,958.8
Ending General Fund Balance	166.0	60.8	144.8

State of Iowa

Estimated Condition of the Cash Reserve, GAAP, and Economic Emergency Funds

(\$ in Millions)

	Actual <u>FY2004</u>	Estimate <u>FY2005</u>	Projected <u>FY2006</u>
<u>CASH RESERVE FUND</u>			
Balance Brought Forward	205.5	159.7	222.3
Estimated Revenues:			
Prior Fiscal Year Ending Balance		166.0	60.8
Transfer to General Fund to Close Out FY2003	(45.8)		
Transfer from Federal Funds fund		10.7	
Appropriation from General Fund		45.5	
Total Funds Available	<u>159.7</u>	<u>381.9</u>	<u>283.1</u>
Transfer to the RIIIF for Environment First	(17.5)		
Transfer from RIIIF - HF 2302	17.5		
Transfer to Property Tax Credits		(159.6)	
Ending Balance - Cash Reserve Fund	<u>159.7</u>	<u>222.3</u>	<u>283.1</u>
<i>Cash Reserve Fund Goal (5%/7.5%)</i>	226.3	341.3	367.7
<u>GAAP Retirement Account</u>			
Balance Brought Forward	-	-	-
Estimated Revenues:			
Transfer From Cash Reserve Fund	-	-	-
Total Funds Available	<u>-</u>	<u>-</u>	<u>-</u>
Excess to Economic Emergency Fund	-	-	-
Ending Balance - GAAP Retirement Fund	<u>-</u>	<u>-</u>	<u>-</u>
<u>Economic Emergency Fund</u>			
Balance Brought Forward	3.3	3.3	3.3
Estimated Revenues:			
Transfer From GAAP Retirement Account	-	-	-
Total Funds Available	<u>3.3</u>	<u>3.3</u>	<u>3.3</u>
Estimated Transfers Out:			
Appropriation to School Foundation Aid			
Total Transfers Out:	<u>-</u>	<u>-</u>	<u>-</u>
Ending Balance - Economic Emergency Fund	<u>3.3</u>	<u>3.3</u>	<u>3.3</u>

State of Iowa

General Fund Revenue (Appropriable Revenues)

Cash Basis

(\$ in Millions)

	Actual FY2004	Estimated FY2005	Estimated FY2006
Tax Receipts			
Personal Income Tax	2,592.3	2,716.7	2,766.9
Use Tax	1,732.3	1,766.8	1,801.9
Corporate Income Tax	234.8	230.6	266.5
Inheritance Tax	80.1	77.7	76.4
Insurance Premium Tax	138.2	145.0	145.0
Cigarette Tax	87.1	88.0	88.0
Tobacco Tax	8.0	8.2	8.2
Beer Tax	14.0	14.0	14.1
Franchise Tax	38.0	35.3	35.3
Miscellaneous Tax	1.1	1.0	1.0
Total Tax Receipts	<u>4,925.9</u>	<u>5,083.3</u>	<u>5,203.3</u>
Other Receipts			
Institutional Payments	13.7	13.0	13.0
Liquor Profits	58.0	60.1	60.1
Interest	7.6	7.0	7.5
Fees	79.8	65.1	66.8
Judicial Revenue	57.6	57.3	57.3
Miscellaneous Revenues	55.3	53.7	27.7
Racing and Gaming Revenues	60.0	60.0	60.0
Total Other Receipts	<u>332.0</u>	<u>316.2</u>	<u>292.4</u>
Total Tax & Other Receipts	<u>5,257.9</u>	<u>5,399.5</u>	<u>5,495.7</u>
	5.0%	2.7%	1.8%
Transfers			
Lottery	43.9	56.9	57.5
Other Transfers	13.6	40.0	8.8
Total Transfers	<u>57.5</u>	<u>96.9</u>	<u>66.3</u>
Total General Fund Receipts and Transfers	<u>5,315.4</u>	<u>5,496.4</u>	<u>5,562.0</u>
	2.7%	3.4%	1.2%

State of Iowa

General Fund Revenue

Proposed Revenue/Transfer Adjustments

(\$ in Millions)

	Proposed <u>FY2005</u>	Proposed <u>FY2006</u>
Revenue Adjustments:		
Cigarette and Tobacco Tax Increase	34.3	129.9
Combined Corporate Reporting		25.0
Interest from Reserve Funds		6.0
Increase in speeding fines		1.7
TRANS retained earnings interest		3.0
Transfer from Endowment for Iowa's Health		35.0
Total Revenue Adjustments	<u>34.3</u>	<u>200.6</u>

State of Iowa

General Fund Accrued Revenue Changes

(\$ in Millions)

	Actual <u>FY2004</u>	Estimated <u>FY2005</u>	Estimated <u>FY2006</u>
Tax Receipts:			
Personal Income Tax	157.1	158.0	164.5
Sales/Use Tax	130.5	126.0	132.0
Corporate Income Tax	24.8	20.0	22.0
Inheritance Tax	14.5	11.0	8.9
Insurance Premium Tax	(0.2)	-	-
Cigarette Tax	-	-	-
Tobacco Tax	0.8	0.6	0.8
Beer Tax	1.4	1.3	1.3
Franchise Tax	1.7	3.0	3.8
Miscellaneous Tax	(0.1)	-	-
Total Tax Receipts	<u>330.5</u>	<u>319.9</u>	<u>333.3</u>
Other Receipts:			
Institutional Payments	1.9	-	-
Liquor Profits	-	-	-
Interest	0.9	0.9	0.9
Fees	2.9	4.0	4.1
Judicial Revenue	6.3	5.6	6.1
Miscellaneous Receipts	21.8	12.0	6.3
Racing and Gaming	-	-	-
Total Other Receipts	<u>33.8</u>	<u>22.5</u>	<u>17.4</u>
Total Receipts	<u>364.3</u>	<u>342.4</u>	<u>350.7</u>
Transfers:			
Lottery	13.8	14.4	14.4
Other Transfers	37.0	7.2	7.2
Total Transfers	<u>50.8</u>	<u>21.6</u>	<u>21.6</u>
Additional One-Time Adjustments	(8.8)	1.5	1.5
Total Receipts and Transfers	<u>406.3</u>	<u>365.5</u>	<u>373.8</u>
Net Change	83.0	(49.6)	9.8

State of Iowa

General Fund Refunds of Taxes Paid

(\$ in Millions)

	Actual <u>FY2004</u>	Estimated <u>FY2005</u>	Estimated <u>FY2006</u>
Refunds:			
Personal Income Tax	(519.1)	(560.0)	(522.9)
Sales/Use Tax	(54.4)	(48.0)	(43.6)
Corporate Income Tax	(141.4)	(90.3)	(100.3)
Inheritance Tax	(2.8)	(2.0)	(2.0)
Cigarette Tax	(0.6)	(0.6)	(0.6)
Franchise Tax	(1.1)	(4.0)	(3.7)
Other	(1.0)	(1.0)	(1.0)
Total Gross Refunds	<u>(720.4)</u>	<u>(705.9)</u>	<u>(674.1)</u>
Less: Reimbursements	5.4	5.3	5.3
Total Net Refunds	<u><u>(715.0)</u></u>	<u><u>(700.6)</u></u>	<u><u>(668.8)</u></u>

State of Iowa

Recommended General Fund Supplemental Appropriations and Senior Living Trust Deappropriation

	Proposed <u>FY2005</u>
Governor Recommended Supplementals:	
General Fund Appropriations	
Early Childhood	
Department of Education	
Professional Development & Training Opportunities	604,500
School Ready Children Grants	4,465,156
High Quality Preschool	20,000,000
Department of Human Services	
Child Care Financial Assistance/Quality Rating System	13,531,985
Department of Management	
Community Empowerment Office	500,000
Additional Operational Appropriations	
Governor's Office	
NGA National Meeting	300,000
Racing and Gaming Commission	
Excursion Boat Regulation	50,000
Department of Management	
Innovations Fund	3,000,000
Department for the Blind	
Operations	100,000
Department of Human Services	
Medical Assistance	160,000,000
Medical Contracts	1,000,000
Glenwood	1,000,000
Woodward	1,000,000
CUSO-Sexual Predators	400,000
Judicial Branch	
Operations	1,500,000
Department of Corrections	
Oakdale	100,000
Central Office	414,416
Department of Inspections and Appeals	
State Public Defender Offices	1,584,115
Indigent Defense	2,896,042
Law Enforcement Academy	
Operations	150,000
Department of Public Safety	
Division of Criminal Investigation	150,000
Civil Rights Commission	
Operations	56,000
Total General Fund Supplemental Recommendations	<u><u>212,802,214</u></u>
Governor Recommended Deappropriation:	
Senior Living Trust Fund	
Senior Living Trust Appropriations	
Department of Human Services	
Medical Assistance	(40,000,000)
Total Deappropriation Recommendations	<u><u>(40,000,000)</u></u>

State of Iowa

Calculation of Cash Reserve Percentage Goal

Fiscal Year 2005 and Fiscal Year 2006

(\$ in Millions)

	<u>Current Revenue</u>
<u>Cash Reserve Percentage Goal - Fiscal Year 2005</u>	
December 2003 Revenue Estimating Conference	
Revenue Estimating Conference Estimate Cash Estimate	5,257.1
Accruals	5.4
Refunds	(712.1)
Total	<u><u>4,550.4</u></u>
Cash Reserve Percentage Goal	
Fiscal Year 2005 - 7.5%	341.3
 <u>Cash Reserve Percentage Goal - Fiscal Year 2006</u>	
December 2004 Revenue Estimating Conference	
Revenue Estimating Conference Estimate	5,562.0
Accruals	9.8
Refunds	(668.8)
Total	<u><u>4,903.0</u></u>
Cash Reserve Percentage Goal	
Fiscal Year 2006 - 7.5%	367.7

State of Iowa

Calculation of Statutory Expenditure Limit

Fiscal Year 2006

(\$ in Millions)

Statutory Expenditure Limit

	<u>FY2006</u>	<u>% Calculation</u>	
Revenue Estimating Conference Estimate	5,562.0	99%	5,506.4
Accruals	9.8	99%	9.7
Refunds	(668.8)	99%	(662.1)
Revenue Adjustments:			
Cigarette and Tobacco Tax Increase	129.9	95%	123.4
Combined Corporate Reporting	25.0	95%	23.8
Interest from Reserve Funds	6.0	99%	5.9
Increase in speeding fines	1.7	95%	1.6
TRANS retained earnings interest	3.0	99%	3.0
Transfer from Endowment for Iowa's Health	35.0	95%	33.3
Expenditure Limitation			<u><u>5,044.9</u></u>

State of Iowa

Estimated Condition of the Rebuild Iowa Infrastructure Fund Financial Summary

	Actual FY2004	Estimated FY2005	Governor's Recommendation FY2006
Resources			
Beginning Balance	1,174,860	14,801,235	11,347,982
Revenues:			
Gaming Revenues	69,728,686	60,900,000	60,900,000
Gambling Assessment on Boats		15,000,000	15,000,000
Table Game License Fee	10,000,000	13,000,000	
Marine Fuel Tax	2,352,388	2,300,000	2,300,000
Interest from Reserve Funds		3,000,000	
Interest	273,213	1,000,000	2,000,000
Endowment Transfer		10,966,960	
Miscellaneous Revenues	(282,625)		
Gaming Revenues Transferred to General Fund	(10,000,000)		
Total Revenues	<u>72,071,662</u>	<u>106,166,960</u>	<u>80,200,000</u>
Reversions from Environment First Fund			
Total Resources Available	<u>73,246,522</u>	<u>120,968,195</u>	<u>91,547,982</u>
Expenditures			
Appropriations			
Department of Administrative Services			
Pooled Technology	2,000,000	1,861,496	6,500,000
Wallace Building Evaluation	50,000		
Records Center Remodeling	4,750,000	5,000,000	-
Employee Relocation Assistance	631,449	2,271,617	1,824,000
Statewide Routine Maintenance	1,664,000	2,000,000	
Child Treatment Center Match	250,000		
African American Museum	300,000		
Relocation - Records & Prop. Ctr	729,237		
Major Maintenance		4,300,000	
Maonument Lighting		35,000	
Laboratory Facility - Routine Main/Operations		355,500	
State Fair			
Fair Improvements		250,000	
Commission for the Blind			
Orientation Center		67,000	
Department of Corrections			
Ft. Madison Electrical Upgrade	333,168	333,168	
Luster Heights Expansion	92,000		
Clarinda Lodge Conversion	730,400		
Maintenance Costs for Central Office			105,300
Davenport CBC Facility Construction		3,000,000	1,750,000
Department of Cultural Affairs			
Medal of Honor Kiosk	125,000	100,000	
Battle Flag Preservation	150,000		220,000
Historical Preservation Grant Program	830,000	500,000	500,000
Department of Economic Development			
RIIF Ace Infrastructure	3,000,000	5,500,000	
Community Attraction & Tourism		12,000,000	5,000,000
Lewis & Clark Bicentennial		50,000	
Non-Profit Family Recreation Grant		200,000	
National Special Olympics Games		500,000	
(continued)			

State of Iowa

Estimated Condition of the Rebuild Iowa Infrastructure Fund Financial Summary

	Actual <u>FY2004</u>	Estimated <u>FY2005</u>	Governor's Recommendation <u>FY2006</u>
(continued)			
Iowa Finance Authority			
Finance Authority-Housing Trust Fund	800,000		
Department of Education			
Enrich Iowa	600,000	600,000	900,000
Parker Building Remodel		303,632	
IPTV-High Definition Conversion		8,000,000	8,000,000
IPTV - Replace Transmitters			2,000,000
Vocational Rehabilitation Indirect Cost Replacement			101,164
Iowa Communications Network			
Part III Leases & Maint NW	2,727,000	2,727,000	2,727,000
Department of Management			
Environment First Appropriation	35,000,000	35,000,000	35,000,000
Vertical Infrastructure Fund Appropriation			15,000,000
Department of Natural Resources			
Destination Park		500,000	
Department of Public Defense			
Ft. Dodge Readiness Center	750,000	750,000	500,000
Iowa City Readiness Center	195,000	2,150,000	318,000
Facility Maintenance		1,269,636	
Boone Armory Addition		1,096,000	
Department of Public Safety			
Capitol Building Security	800,000	800,000	
Fire Service Revolving Loan Fund	500,000	500,000	
Regional Fire Training Fac.	50,000	150,000	150,000
Capitol Complex Security Upgrades		300,000	
AFIS Lease Purchase		550,000	550,000
Iowa System Grant Match		500,000	
Department of Revenue			
Secure An Advance Vision for Education (SAVE)		10,000,000	10,000,000
Board of Regents			
Tuition Replacement	350,000	858,764	
School for the Deaf Deferred Maint.	100,000	250,000	
IBSSS Deferred Maintenance	100,000	250,000	
UNI - Playground Safety Program	500,000	500,000	
Department of Transportation			
Misc. Airport/Aviation Programs	500,000	500,000	
Commercial Aviation Infrastructure		1,100,000	
General Aviation Airport Grants		581,400	
Treasurer of State			
County Fairs Infrastructure		1,060,000	
Veterans Affairs			
Veterans Trust Fund		1,000,000	
Total Appropriations	58,607,254	109,620,213	91,145,464
Reversions	(161,967)		
Net Available Balance Forward	14,801,235	11,347,982	402,518

State of Iowa

Estimated Condition of the Environment First Fund Financial Summary

	Actual <u>FY2004</u>	Estimate <u>FY2005</u>	Governor's Recommendation <u>FY2006</u>
Resources:			
Beginning Balance	7,695	10,779	10,779
Revenues:			
Rebuild Iowa Infrastructure Fund Appropriation	35,000,000	35,000,000	35,000,000
Miscellaneous Receipts	2,797		
Total Available Resources	<u>35,010,492</u>	<u>35,010,779</u>	<u>35,010,779</u>
Expenditures			
Appropriations			
Department of Agriculture and Land Stewardship			
Loess Hills Dev/Cons Auth	600,000	600,000	600,000
Southern Iowa Conservation Authority	300,000	300,000	300,000
Agricultural Drainage Well	500,000	500,000	500,000
Watershed Protection Fund	2,700,000	2,700,000	2,700,000
Farm Demonstration Program	850,000	850,000	1,000,000
Soil Conservation Cost Share	5,500,000	5,500,000	5,500,000
Wetland Incentive Program	1,500,000	1,500,000	2,000,000
Conservation Reserve Program	2,000,000	2,000,000	2,000,000
Department of Economic Development			
Brownfield Redevelopment Program	500,000	500,000	500,000
Department of Natural Resources			
GIS Information for Water	195,000	195,000	
Water Quality Monitoring	2,955,000	2,955,000	
Volunteer Water Quality Initiative	100,000	100,000	100,000
Air Quality Monitoring Equipment	500,000	500,000	
Water Quality Protection	500,000	500,000	
Lake Dredging	1,000,000	1,000,000	
Marine Fuel Tax Projects	2,300,000	2,300,000	2,300,000
REAP	11,000,000	11,000,000	15,500,000
Park Operations Maintenance	2,000,000	2,000,000	2,000,000
Total Appropriations	<u>35,000,000</u>	<u>35,000,000</u>	<u>35,000,000</u>
Reversions	(287)		
Net Appropriations	<u>34,999,713</u>	<u>35,000,000</u>	<u>35,000,000</u>
Ending Balance	<u>10,779</u>	<u>10,779</u>	<u>10,779</u>

State of Iowa

Tobacco Settlement Fund

Estimated Condition of the Tobacco Securitization Tax Exempt Bond Proceeds Restricted

Capital Fund

Financial Summary

	Actual FY2004	Estimated FY2005	Governor's Recommendation FY2006
Resources			
Beginning Balance	253,192,703	114,923,552	54,205,881
Revenues:			
Interest	11,263,696	7,475,989	1,800,000
Refunds and Reimbursements	682,285		
Total Revenues	<u>11,945,981</u>	<u>7,475,989</u>	<u>1,800,000</u>
Total Resources Available	<u>265,138,684</u>	<u>122,399,541</u>	<u>56,005,881</u>
Expenditures			
Administrative Oversight	581,505	200,000	200,000
Appropriations			
Department of Administrative Services			
Enterprise Resource Planning	6,131,075	6,049,284	
Capitol Interior Restoration		3,500,000	
Capitol Interior Restoration - NE Quadrant	6,239,000		
Major Maintenance	11,500,000		
Multipurpose Laboratory Facility	16,660,000		
State Fair Board			
Fair Board Capitals	500,000		
Department of Corrections			
Oakdale/Coralville Connection	7,500,000	11,700,000	11,700,000
Anamosa Kitchen			500,000
Davenport CBC Facility Construction			2,000,000
Department of Economic Development			
Accelerated Career Education Infrastructure	2,500,000		
Iowa Public Television			
DTV Conversion	10,000,000		
Iowa Communications Network			
Equipment Replacement			1,704,719
Department of Human Services			
CUSO Renovation			1,050,000
Department of Natural Resources			
Restore the Outdoors	2,500,000		
Destination Park	3,000,000		
Lewis and Clark Rural Water System	1,500,000	2,450,000	2,500,000
Department of Public Defense			
Armory Maintenance	1,269,636		
Boone Armory	1,095,000		
Estherville Armory	461,000		
Department of Public Safety			
Capitol Complex Security Upgrades	1,000,000		
(continued)			

State of Iowa

Tobacco Settlement Fund

Estimated Condition of the Tobacco Securitization Tax Exempt Bond Proceeds Restricted Capital Fund

Financial Summary

	Actual <u>FY2004</u>	Estimated <u>FY2005</u>	Governor's Recommendation <u>FY2006</u>
(continued)			
Board of Regents			
Tuition Replacement	10,610,409	10,437,174	10,329,981
SUI Journalism Building	7,200,000	3,575,000	
ISU Undergraduate Classrooms	10,177,300	1,949,100	
UNI - Innovation Teaching Center	6,490,000	9,880,000	
SUI Art Building	3,653,000		
UNI Steam Distribution System	4,390,000		
SUI Old Capitol Improvements	350,000		
Department of Transportation			
Commercial Air Service	1,100,000		
General Aviation Airport	581,400		
Recreational Trails	1,000,000		
Treasurer of State			
County Fair Improvements	1,060,000		
Community Attraction/Tourism	12,500,000		
ICN Debt Service	13,039,378	13,039,778	
Prison Infrastructure Debt Service	5,411,986	5,413,324	5,422,390
Litigation Fees	700,000		
Total Appropriations/Expenditures	<u>150,700,689</u>	<u>68,193,660</u>	<u>35,407,090</u>
Reversions	(485,557)		
Total Appropriations/Expenditures	<u>150,215,132</u>	<u>-</u>	<u>-</u>
Net Available Balance Forward	<u>114,923,552</u>	<u>54,205,881</u>	<u>20,598,791</u>

State of Iowa

Tobacco Settlement Fund

Estimated Condition of the Endowment for Iowa's Health Account

Financial Summary

	Actual FY2004	Estimate FY2005	Governor's Recommendation FY2006
Resources:			
Beginning Balance	25,800,690	27,187,148	38,845,800
Revenues:			
Bond Proceeds	-		
General Fund Appropriation	28,251,000	29,785,000	29,562,000
Wagering Tax	70,000,000	70,000,000	70,000,000
Tobacco Payments	12,541,189	12,122,000	12,320,000
Litigation Revenue		3,582,000	3,076,000
Interest	714,604	750,000	750,000
Reduction in General Fund Appropriation	(28,251,000)	(29,785,000)	(29,562,000)
Transfer to Healthy Iowans Tobacco Trust-Wagering Tax	(5,206,960)	(6,316,077)	(5,000,000)
Transfer for General Fund	(20,000,000)		(35,000,000)
Transfer to Rebuild Iowa Infrastructure Fund		(10,966,960)	
Total Available Resources	<u>83,849,523</u>	<u>96,358,111</u>	<u>84,991,800</u>
Expenditures			
State Appropriations			
Treasurer of State			
Healthy Iowans Tobacco Trust Fund	56,662,375	57,512,311	58,374,996
Total State Appropriations	<u>56,662,375</u>	<u>57,512,311</u>	<u>58,374,996</u>
Reversions of Appropriations	-		
Net Appropriations	<u>56,662,375</u>	<u>57,512,311</u>	<u>58,374,996</u>
Net Available Balance Forward	<u>27,187,148</u>	<u>38,845,800</u>	<u>26,616,804</u>

State of Iowa

Estimated Condition of the Healthy Iowans Tobacco Trust Fund

Financial Summary

	Actual FY2004	Estimate FY2005	Governor's Recommendation FY2006
Resources:			
Beginning Balance	1,526,749	107,654	263,806
Revenues:			
Interest	79,061	120,000	120,000
Other Revenue	2,322		
Transfer from Endowment	5,206,960	6,316,077	5,000,000
Appropriation from Endowment for Iowa's Health Account	56,662,375	57,512,311	58,374,995
Total Available Resources	<u>63,477,467</u>	<u>64,056,042</u>	<u>63,758,801</u>
Expenditures			
Appropriations			
Department of the Blind			
Newslines for the Blind		130,000	
Department of Corrections			
CBC District II	127,217	127,217	127,217
CBC District III	35,359	35,359	35,359
CBC District IV	191,731	191,731	191,731
CBC District V	255,693	255,693	255,693
Fort Madison Special Needs Unit	1,187,285	1,187,285	1,187,285
Newton Value Based Program	310,000	370,000	
Department of Education			
Iowa Empowerment Fund	2,153,250	2,153,250	2,153,250
Department of Human Services			
Breast Cancer Treatment	250,000	250,000	250,000
Medical Assistance Supplement	14,346,750	14,346,750	14,346,750
Point of Service Provider Increase	146,750	146,750	146,750
CHIP Expansion to 200% FPL	200,000	200,000	200,000
Physician Et Al Provider Increase	8,095,718	8,095,718	8,095,718
Dental Provider Increase	3,814,973	3,814,973	3,814,973
RTSS Provider Increase	3,243,026	3,243,026	3,243,026
Adoption, Il, Sc Hs Prov Increase	468,967	468,967	468,967
Hospital Provider Increase	3,035,278	3,035,278	3,035,278
Home Health Care Prov Inc	2,108,279	2,108,279	2,108,279
Critical Access Hospitals	250,000	250,000	250,000
Home Hlth & Hab. Day Care Exp	1,975,496	1,975,496	1,975,496
Respite Care Expansion	1,137,309	1,137,309	1,137,309
Other Service Providers	545,630	545,630	545,630
General Administration		274,000	274,000
Department of Public Health			
Smoking Cessation Products	75,000	75,000	75,000
Substance Abuse Prevention/Mentor	400,000		
Substance Abuse	11,800,000	11,800,000	11,800,000
Healthy Iowans 2010	2,346,960	2,346,960	2,622,960
Tobacco Use/Prevention Control	5,011,565	5,011,565	5,011,565
Defibrillator Grant Program		250,000	
Birth Defects Institute		26,000	
Total Appropriations	<u>63,512,236</u>	<u>63,852,236</u>	<u>63,352,236</u>
Reversions	(142,423)	(60,000)	
Net Appropriations	<u>63,369,813</u>	<u>63,792,236</u>	<u>63,352,236</u>
Ending Balance	<u>107,654</u>	<u>263,806</u>	<u>406,565</u>

State of Iowa

Estimated Condition of the Senior Living Trust Fund Financial Summary

	Actual FY2004	Estimate FY2005	Governor's Recommendation FY2006
Resources:			
Beginning Balance	366,831,373	283,060,758	171,668,873
Revenues:			
Interest	7,297,465	5,459,821	3,321,054
Intergovernmental Transfer	52,876,607	5,453,818	5,453,818
Transfer from Medical Assistance			10,000,000
Total Available Resources	427,005,445	293,974,397	190,443,745
Expenditures			
Appropriations			
Department of Elder Affairs			
Service Delivery and Administration	7,522,118	8,222,118	8,222,118
Department of Inspections and Appeals			
Assisted Living Inspections	800,000	800,000	800,000
Department of Human Services			
Nursing Conversions/Long Term Care Grants	20,000,000	20,000,000	-
Nursing Facility Case Mix Methodology	29,950,000	29,950,000	29,950,000
Medical Assistance	101,600,000	101,600,000	97,700,000
HCBS Elderly Waiver	1,733,406	1,733,406	824,483
Recommended Deappropriation		(40,000,000)	
Total Appropriations	161,605,524	122,305,524	137,496,601
Reversions of Appropriations	17,660,837		
Ending Balance	283,060,758	171,668,873	52,947,144

State of Iowa

Estimated Condition of the Iowa Values Bridge Financing Fund Financial Summary

Fund 0487	Governor's Recommendation FY2006
Resources:	
Revenues:	
Bonding Proceeds	400,000,000
Total Available Resources	<u>400,000,000</u>
Expenditures	
State Appropriations	
Department of Administrative Services	
Capitol Complex Electrical Distribution System	7,650,000
Department of Economic Development	
Accelerated Career Education (ACE) Program	5,500,000
Bioscience Pathway	21,900,000
Community Attraction and Tourism	6,257,067
Iowa Values Fund	74,500,000
Department of Natural Resources	
Destination Park	1,000,000
Lake Restoration	1,000,000
Water Protection	500,000
Department of Transportation	
Aviation Improvement Program	500,000
Commercial Aviation Infrastructure	1,500,000
General Aviation Airport Grants	750,000
Board of Regents	
Special School Maintenance	500,000
Total State Appropriations	<u>121,557,067</u>
Reversions of Appropriations	
Net Appropriations	<u>121,557,067</u>
Net Available Balance Forward	<u>278,442,933</u>

State of Iowa

Road Use Tax Fund

Source and Distribution of Funds

(Dollars in Thousands)

	Actual		Estimate		
	Fiscal Year		Fiscal Year		
	2003	2004	2005	2006	2007
SOURCE OF FUNDS:					
Motor Vehicle Registration	369,964	376,765	387,856	391,204	395,381
Motor Fuel Taxes	414,846	420,122	427,983	430,689	433,722
State Use Tax	216,438	224,435	230,825	233,262	236,225
Drivers' License Fees	12,985	18,865	15,919	11,468	17,538
Interest	8,275	4,921	4,921	4,971	5,020
Underground Tank Fees	20,502	20,612	20,818	21,026	21,026
Other	13,691	16,262	13,056	13,056	13,057
Total Source of Funds	<u>1,056,701</u>	<u>1,081,982</u>	<u>1,101,378</u>	<u>1,105,676</u>	<u>1,121,969</u>
DISTRIBUTION OF FUNDS:					
<i>Primary Road Fund</i>	473,288	476,595	482,475	487,225	494,416
Parks & Institutional roads	6,803	6,978	7,088	7,115	7,220
Secondary & Urban	500	500	500	500	500
Highway Grade Crossing Safety	700	700	700	700	700
Highway Grade Crossing Surface	900	900	900	900	900
Living Roadway Trust Fund	250	250	250	250	250
County Bridge Constr. Fund	2,000	2,000	2,000	2,000	2,000
<i>Secondary Roads - Counties</i>	236,495	241,952	245,306	247,789	251,552
<i>Farm-to-Market - Counties</i>	75,525	77,280	78,302	79,093	80,297
<i>Cities & Towns</i>	185,063	189,450	192,006	193,981	196,994
Transfer of Jurisdiction Fund	-	7,296	7,980	8,062	8,188
License Plate Costs & Other	2,450	3,750	3,100	3,100	3,100
County DL Issuance	30	30	1,096	1,096	1,096
Co. Treasurers' DP Equipment	650	650	650	650	650
Weather Information System	100	100	100	100	100
Interstate 35 Corridor	50	50	50	50	50
DOT Operations	34,392	34,765	39,750	40,148	40,549
Dept. of Transportation	288	288	306	306	306
Drivers Licenses	3,997	2,820	2,820	2,820	2,820
DOT Capitals	18	200	-	-	-
Department of Management	56	56	56	56	56
Department of Personnel	72	76	76	76	76
Public transit	10,121	8,368	10,992	11,102	11,235
Personal Delivery of Service	225	225	225	225	225
Special Tax Refunds	219	191	210	210	210
Revitalize Iowa's Sound Economy	11,970	12,071	12,342	12,420	12,509
Safety Projects	5,233	5,368	5,452	5,473	5,554
Motorcycle Education	271	433	306	189	376
Mississippi River Parkway	40	40	40	40	40
Vehicle Registration System	5,000	8,600	6,300	-	-
Functional Class	(5)	-	-	-	-
Total Distribution of Funds	<u>1,056,701</u>	<u>1,081,982</u>	<u>1,101,378</u>	<u>1,105,676</u>	<u>1,121,969</u>

State of Iowa

Estimated Condition of the Vertical Infrastructure Fund Financial Summary

	Governor's Recommendation <u>FY2006</u>
Resources:	
Revenues:	
Rebuild Iowa Infrastructure Fund Appropriation	15,000,000
Total Available Resources	<u>15,000,000</u>
Expenditures	
State Appropriations	
Department of Administrative Services	
Routine Maintenance	2,000,000
Major Maintenance	5,000,000
Terrace Hill Maintenance	571,000
Records and Property Building Remodel	4,700,000
Department of Corrections	
General Capitals	500,000
Department of Public Defense	
Iowa City Readiness Center	1,229,000
Facility Maintenance	1,000,000
Total State Appropriations	<u>15,000,000</u>
Reversions of Appropriations	
Net Appropriations	<u>15,000,000</u>
Net Available Balance Forward	<u>-</u>

STATE OF IOWA
HISTORY OF APPROPRIABLE RECEIPTS
(IN \$ THOUSANDS)
Cash Basis

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
SPECIAL TAXES:										
Personal Income Tax	1,875,023	2,000,898	2,123,126	2,288,427	2,233,710	2,375,919	2,426,519	2,372,022	2,417,614	2,592,271
Sales Tax	1,147,267	1,212,994	1,237,300	1,271,811	1,377,457	1,416,565	1,441,708	1,452,962	1,450,314	1,465,592
Corporation Income Tax	268,701	277,637	318,770	290,715	321,790	326,141	249,368	238,540	254,152	266,752
Use Tax	196,038	207,824	223,094	243,021	242,663	246,795	284,832	221,248	237,042	234,787
Inheritance Tax	89,224	95,898	109,347	109,811	90,142	114,771	104,578	100,351	88,136	80,121
Insurance Premium Tax	102,056	104,274	105,957	108,870	114,345	120,212	126,608	135,372	142,236	138,227
Cigarette & Tobacco Taxes	98,324	99,444	100,276	100,722	98,854	97,688	96,219	95,181	95,545	95,105
Beer & Liquor Taxes	12,420	12,550	12,476	12,671	13,115	13,586	13,569	13,767	13,918	14,003
Franchise Tax	28,908	26,476	35,643	36,405	33,756	31,764	31,247	30,916	35,256	38,011
Miscellaneous Taxes	996	935	1,191	1,300	1,064	1,289	1,297	1,463	1,088	1,079
TOTAL SPECIAL TAXES	3,818,957	4,038,930	4,267,180	4,463,753	4,526,896	4,744,730	4,775,945	4,661,822	4,735,301	4,925,948
Percentage Increase	5.31%	5.76%	5.65%	4.61%	1.41%	4.81%	0.66%	-2.39%	1.58%	0
OTHER RECEIPTS										
Institutional Payments	107,431	105,036	104,313	70,186	50,748	49,068	47,321	48,495	16,172	13,684
Liquor Transfers	35,353	37,972	37,802	40,000	41,320	45,000	46,500	47,500	49,000	58,000
Interest	17,336	13,466	17,959	30,569	34,059	25,974	18,166	25,318	18,070	7,558
Fees	57,309	61,767	63,596	65,381	58,400	66,349	72,483	70,227	72,131	79,869
Judicial Revenue	48,437	40,002	42,945	42,913	48,267	52,299	48,816	51,889	54,698	57,493
Miscellaneous Receipts	40,673	49,545	53,898	58,126	61,328	52,893	45,188	42,152	41,352	55,161
Racing & Gaming Receipts	28,497	57,847	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
TOTAL OTHER RECEIPTS	335,036	365,635	380,513	367,175	354,122	351,583	338,474	345,581	311,423	331,765
	9.83%	9.13%	4.07%	-3.51%	-3.55%	-0.72%	-3.73%	2.10%	-9.88%	0
TOTAL APPROPRIABLE RECEIPTS										
	4,153,993	4,404,565	4,647,693	4,830,928	4,881,018	5,096,313	5,114,419	5,007,403	5,046,724	5,257,713
Percentage Increase	5.66%	6.03%	5.52%	3.94%	1.04%	4.41%	0.36%	-2.09%	0.79%	0

STATE OF IOWA
FUNDING ELEMENTARY AND SECONDARY EDUCATION
 General Operating Fund Only (In Millions)

	Actual 93/94		Actual 94/95		Actual 95/96		Actual 96/97		Actual 97/98		Actual 98/99	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Uniform Property Taxes	396.3	16.96	410.1	17.00	422.0	16.59	427.8	15.72	438.9	15.42	461.4	12.84
Additional Property Taxes	397.3	17.00	411.9	17.07	431.4	16.96	369.7	13.59	382.4	13.43	405.6	11.29
ISL Property Taxes	33.7	1.44	38.2	1.58	41.3	1.62	43.5	1.60	46.1	1.62	49.6	1.38
State Foundation Aid	1,230.5	52.67	1,266.2	52.47	1,330.9	52.32	1,489.2	54.73	1,558.2	54.73	1,611.9	44.86
Other State Aid	94.3	4.04	94.3	3.91	94.6	3.72	126.6	4.65	127.8	4.49	144.6	4.02
Income Surtaxes	17.1	0.73	18.8	0.78	20.4	0.80	24.7	0.91	31.3	1.10	33.9	0.94
Other Miscellaneous	<u>167.2</u>	<u>7.16</u>	<u>173.5</u>	<u>7.19</u>	<u>203.3</u>	7.99	<u>239.5</u>	<u>8.80</u>	<u>262.3</u>	<u>9.21</u>	<u>278.5</u>	<u>7.75</u>
Total Funds	<u>2,336.4</u>	<u>100.00</u>	<u>2,413.0</u>	<u>100.00</u>	<u>2,543.9</u>	100.00	<u>2,721.0</u>	<u>100.0</u>	<u>2,847.0</u>	<u>100.0</u>	<u>2,985.5</u>	<u>83.1</u>

Formula (Weighted) Enrollment	547,285		548,681		554,493		562,275		566,798		569,723	
Actual Fall Enrollment	497,025		500,593		504,506		505,523		505,130		502,534	

	Actual 99/00		Actual 00/01		Actual 01/02		Actual 02/03		Estimated 03/04		Estimated 04/05	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Uniform Property Taxes	480.6	15.32	500.1	15.32	522.2	15.62	536.2	15.47	548.7	15.78	532.5	14.82
Additional Property Taxes	378.7	12.07	405.2	12.41	425.2	12.72	465.5	13.43	476.3	13.70	499.3	13.90
ISL Property Taxes	50.6	1.61	59.0	1.81	64.4	1.93	68.5	1.98	73.9	2.13	77.7	2.16
State Foundation Aid	1,698.5	54.15	1,747.3	53.52	1,725.1	51.60	1,784.1	51.47	1,776.7	51.11	1,881.2	52.35
Other State Aid	167.5	5.34	173.9	5.33	203.1	6.08	178.2	5.14	167.3	4.81	169.1	4.71
Income Surtaxes	38.2	1.22	36.3	1.11	42.1	1.26	47.3	1.36	47.0	1.35	47.0	1.31
Other Miscellaneous	<u>322.6</u>	<u>10.28</u>	<u>343.1</u>	<u>10.51</u>	<u>360.8</u>	<u>10.79</u>	<u>386.5</u>	<u>11.15</u>	<u>386.5</u>	<u>11.12</u>	<u>386.5</u>	<u>10.76</u>
Total Funds	<u>3,136.7</u>	<u>100.0</u>	<u>3,264.9</u>	<u>100.0</u>	<u>3,342.9</u>	<u>100.0</u>	<u>3,466.3</u>	<u>100.0</u>	<u>3,476.4</u>	<u>100.0</u>	<u>3,593.3</u>	<u>100.0</u>

Formula (Weighted) Enrollment	569,387		567,344		564,747		562,056		561,386		560,606	
Actual Fall Enrollment	498,607		494,290		489,522		487,021		485,011			

STATEWIDE FINANCIAL FUND SUMMARIES FOUND IN SEPARATE DOCUMENT