

FISCAL UPDATE

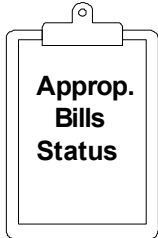
March 8, 2004

Legislative Services Agency

(515)-281-5279 FAX 281-8451

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

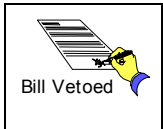
STATUS OF APPROPRIATIONS BILLS



Appropriations Subcommittee Bills		
Appropriations Subcommittee	LSB/File#	Status
Transportation	SF 2112	Passed House Appropriations Committee on February 23.
Other Appropriations Bills		
98.0% General Fund Expenditure Limitation	HF 2039	Item vetoed and signed by the Governor on February 12.
Birth Certificate Registration Fees	SF 2059	Passed House Appropriations Committee on February 18.
FY 2006 Allowable Growth Rate	SF 2124	Governor vetoed on March 5.
Public Health Disaster Funding	SF 2153	Passed Senate Appropriations Committee on February 18.

ALLOWABLE GROWTH RATE FOR FY 2005 AND FY 2006

Governor Vetoed



The House and the Senate passed SF 2124 (FY 2006 Allowable Growth Rate Bill) on February 17. On March 5, Governor Vilsack vetoed the Bill. With the veto, current law will remain in effect, which sets the FY 2005 allowable growth rate at 2.0%, and further legislative action will be required to establish the rate for FY 2006.

State Foundation Aid

Under current law, State Foundation Aid will cost the General Fund \$1,893.1 million in FY 2005. This is an increase of \$120.9 million compared to the estimated net FY 2004 appropriation. The increase includes:

- \$47.1 million for allowable growth. The assumptions for this estimate are available from the Legislative Services Agency (LSA).
- \$45.4 million for the across-the-board reduction to FY 2004 State Foundation Aid. The School Foundation Formula estimates costs are based on the spending authority from the previous year. Since an across-the-board reduction does not reduce spending authority, the estimate for the following year treats a reduction as a one-time reduction.
- \$16.2 million to offset the decline in property tax valuations that resulted in a decrease in Uniform Levy funding.
- \$10.0 million to return the general reduction in Area Education Agency funding to the FY 2003 level of \$7.5 million.
- \$2.2 million in various other adjustments.

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Fiscal Impact



The primary fiscal difference between current law for FY 2005 and the funding provided by SF 2124 is that State Foundation Aid was capped at \$1,881.7 million. The Area Education Agencies' funding was reduced to accommodate the cap. The general reduction of \$17.5 million was made permanent (eliminating the \$10.0 million increase mentioned above), and the \$1.8 million across-the-board reduction was added to the permanent reduction.

Veto Message

In his veto message, the Governor objected to the 2.0% allowable growth rate as too low, to continuing the FY 2004 reductions in Area Education Agency Funding, to infringing on local school districts' decision-making authority by allocating funds for textbooks and supplies, and to setting the allowable growth for the next budget year rather than two years in advance as in current law.

More Information

Estimates for State Foundation Aid at various allowable growth rates have been updated and are available on the LSA web site at: http://staffweb.legis.state.ia.us/lfb/subcom/ed_standing/spreadsheets.htm. The update includes preliminary tax valuations by district that were recently provided by the Department of Management (DOM).

STAFF CONTACT: Dwayne Ferguson (Ext. 16561)

IMPACT OF THE GAMBLING BILL ON THE REBUILD IOWA INFRASTRUCTURE FUND

RIIF Revenues



On February 3, the Iowa Supreme Court upheld a prior ruling, which reduced the tax rate on the State's racetrack establishments from 32.0% to 20.0% of a racetrack's adjusted gross receipts. As a result, the Rebuild Iowa Infrastructure Fund (RIIF) has a projected shortfall of \$29.4 million for FY 2004.

Current Law

Under current law, the Fund's revenues are estimated to total \$40.1 million in FY 2005. Of the revenue available in FY 2005, \$35.0 million is statutorily appropriated to the Environment First Fund and \$750,000 to the Department of Public Defense, leaving an estimated ending balance of \$4.3 million.

Gambling Bill

House File 2302 (Gambling Bill), as passed by the House, made numerous changes to the wagering tax rates and the allocation of wagering tax revenues. The Bill is estimated to generate an additional \$23.7 million in FY 2004 due to retroactive tax provisions. The Bill will also generate a total of \$51.0 million for the RIIF in FY 2005, an increase of \$14.2 million compared to the current estimate of \$36.8 million. Beginning in FY 2005, the Secure an Advanced Vision for Education (SAVE) Fund will receive up to \$10.0 million after \$47.0 million is allocated to the RIIF. Any remaining revenue after the allocation is made to the SAVE Fund is deposited into the RIIF.

Budget Deficit

The Bill, as passed by the House, does not generate sufficient revenue in FY 2004 to offset the projected shortfall to the RIIF. Under the tax structure of HF 2302, the RIIF will have an estimated shortfall of \$5.7 million. An ending balance of \$18.5 million is projected for FY 2005 after the standing appropriations to the Environment First Fund and the Department of Public Defense are funded.

Fiscal Analysis



The following table compares the RIIF estimates under current law with estimates for HF 2302 as passed by the House. The FY 2005 wagering tax estimate assumes all racetrack casinos will obtain table game licenses and operate these games for the last six months of the fiscal year.

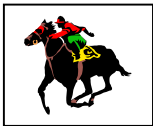
Rebuild Iowa Infrastructure Fund

(Dollars in Millions)

	Actual FY 2003	Current Law		HF 2302	
		Estimated FY 2004	Estimated FY 2005	Estimated FY 2004	Estimated FY 2005
Resources					
Balance Forward	\$ 13.9	\$ 1.0	\$ 0.0	\$ 1.0	\$ 0.0
Wagering Tax (Current Estimate)	27.6	34.9	36.8	34.9	36.8
Adj. To Wagering Tax (HF 2302)	0.0	0.0	0.0	23.7	14.2
Interest	0.9	1.0	1.0	1.0	1.0
Cash Reserve Fund Approp.	2.2	0.0	0.0	0.0	0.0
Marine Fuel Tax	2.3	2.3	2.3	2.3	2.3
Revenue Adjustment	-0.7	0.0	0.0	0.0	0.0
Wagering Tax Transfer to Gen. Fund	-15.5	-10.0	0.0	-10.0	0.0
Total Resources	\$ 30.7	\$ 29.2	\$ 40.1	\$ 52.9	\$ 54.3
Appropriations					
Environment First Fund Standing	\$ 18.4	\$ 35.0	\$ 35.0	\$ 35.0	\$ 35.0
Other Appropriations	11.2	23.6	0.8	23.6	0.8
Total Appropriations	\$ 29.6	\$ 58.6	\$ 35.8	\$ 58.6	\$ 35.8
Ending Balance	\$ 1.0	\$ -29.4	\$ 4.3	\$ -5.7	\$ 18.5

The sum of the numbers may not equal totals due to rounding.

Wagering Tax



House File 2302 increases the wagering tax on racetracks retroactive to July 1, 2002, and ending June 30, 2004. The rate changes are as follows:

- 24.0% for racetracks with annual adjusted gross receipts greater than \$100.0 million.
- 22.0% for racetracks with annual adjusted gross receipts less than \$100.0 million.

Other Changes

The Bill also increases the wagering tax on racetracks and riverboats beginning July 1, 2004, and allows for racetrack enclosures to operate table games with the purchase of a State license. The tax rates beginning July 1, 2004, are as follows:

- All riverboats and racetracks will be taxed at a minimum of 22.0%; however, if racetracks purchase a license to offer table games, the rates will be:
 - 22.0% for racetracks with annual adjusted gross receipts less than \$100.0 million.
 - 24.0% for racetracks with annual adjusted gross receipts greater than \$100.0 million and if there is a licensed riverboat located in the same county.
 - 24.0% for racetracks with annual adjusted gross receipts greater than \$100.0 million and if there is an unlicensed riverboat located in the same county. This tax rate applies regardless of whether or not a table game license is purchased.

Admission Fees

House File 2302 eliminates the admission fee for racetracks and replaces the fee with a regulatory fee to cover the State costs of regulating racetrack establishments. It is estimated that this will reduce State revenues by \$500,000 per year.

State Wagering Tax



The Bill also increases the amount of the State Wagering Tax allocated to the Gamblers Treatment Fund from 0.3% to 0.5%, which is estimated to generate an additional \$2.4 million for the Fund. The Bill also creates the County Endowment Fund and allocates 0.5% of the State Wagering Tax to the Fund, which will generate an estimated \$5.5 million for the Fund.

License Fees

In order for racetrack enclosures to operate table games, a license fee of \$3.0 million is required unless the racetrack has annual adjusted gross receipts of \$100.0 million or more, in which case the license fee is \$10.0 million. The Bill allows racetracks to apply for a tax credit for up to 20.0% of the fee amount per year. The license fees will be deposited into the General Fund.

More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: David Reynolds (Ext. 16934) Douglas Wulf (Ext. 13250)

**BOATING REGISTRATION BILL PASSES SENATE WAYS
AND MEANS COMMITTEE – SF 2216**

Boat Registration Fees



The Senate Ways and Means Committee passed SF 2216 (FY 2005 Boating Registration Bill) on March 2. The Bill does the following:

- Changes the boating registration period from two to three years and changes boat registration fees.
- Creates a triennial (\$12.50 per year) registration fee of \$37.50 for personal watercraft.
- Establishes an annual \$10.00 fee for a boat pilot license and an annual \$20.00 fee for a boat engineer license.
- Defines the qualifications of a peace officer and allows a peace officer or representative of the Department of Natural Resources (DNR) to inspect boats for hire or offered for hire at any time.
- Requires boat operators who are between 12 and 17 years of age to complete the Watercraft Safety Course offered by the DNR.
- Specifies any operator of a vessel with 10 or more horsepower, and is under the age of 12, must be accompanied by a responsible person 18 years or older.
- Specifies revenue received from the fee increase will be used for administration and enforcement of programs that control aquatic invasive species, monitoring and improvement of water quality at the State's public lakes, and enforcement of navigation laws and water safety.

Fiscal Impact

The estimated fiscal impact of SF 2216 is an increase in revenue of \$866,000 to the Fish and Wildlife Trust Fund for FY 2005 and every third year thereafter.

More Information

The fiscal note for SF 2216 is available on the LSA web site at:
<http://staffweb.legis.state.ia.us/lfb/fiscalnotes/index.jsp>.

STAFF CONTACT: Debra Kozel (Ext. 16767)

GROW IOWA VALUES FUND PROJECT AWARDS UPDATE**Iowa Values Projects**

House File 683 (FY 2004 Grow Iowa Values Fund Act) appropriated a total of \$86.0 million from the Grow Iowa Values Fund for Department of Economic Development programs for FY 2004 and FY 2005. As of March 4, the Grow Iowa Values Board has made the following awards:

**Grow Iowa Values Fund Project Awards
As of March 4, 2004**

<u>Company</u>	<u>Award Amount</u>	<u>Jobs Created</u>	<u>Jobs Retained</u>	<u>Average Hourly Wage</u>
Wells Fargo & Company	\$ 10,000,000	2,000		\$ 16.11
Gcommerce, Inc.	1,000,000	157		27.05
Trans Ova Genetics	9,000,000	235		21.85
Professional Computer Systems	329,000	27	20	21.42
Red Star LLC	500,000	80		20.40
Omaha Standard, Inc.	1,500,000	108	182	17.70
Lennox Manufacturing	6,600,000		1,118	18.65
Integrated DNA	5,000,000	207		16.89
NovaScan Technologies Inc.	200,000	25	4	21.06
McKesson Corporation	298,000	74		16.70
New Link Genetics Corp.	6,000,000	315	35	24.95
Phytodyne, Inc.	5,000,000	78	5	33.17
Golden Grain Energy	400,000	32		16.83
Midwest Renewables, LLC	400,000	33		16.83
BIOwa Neutraceuticals	250,000	8		23.08
Catalyst International	125,000	6		17.31
Chapman Lumber	200,000	30	48	13.46
Eden Farms	60,000	1	2	12.02
Total	\$ 46,862,000	3,416	1,414	

* Amounts awarded above may be obligated over several fiscal years.

More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Russell Trimble (Ext. 14613)

FEDERAL MEDICAID FUNDS AT RISK**Medicaid Program**

Federal actions over the past year have generated concern that the federal Centers for Medicare and Medicaid Services (CMS) may eliminate Intergovernmental Transfers (IGTs) in the Medical Assistance (Medicaid) Program. Intergovernmental Transfers generate \$67.7 million in annual federal revenue for the State.

Plan Disproval

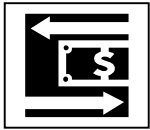


On February 27, the Department of Human Services (DHS) received notice from the CMS that two State Plan Amendments would not be approved. The disproval was based on the view of the CMS that the two Amendments are related to Iowa's IGT arrangements. The CMS offered the DHS the option of withdrawing the two Amendments and negotiating with the CMS on a phase-out of the IGTs. The impact of withdrawing the Amendments is a cost increase of approximately \$9.0 million in FY 2004.

Other States

According to a report on IGTs by the National Conference of State Legislatures (NCSL), at least 28 states have IGTs in place similar to Iowa's. At least three other states (Missouri, Alaska, and Hawaii) have recently experienced the same denial of State Plan Amendments with the option to negotiate the elimination of IGTs. It is anticipated that other states will also have this experience in the future.

Outlook



At this point, it appears that Iowa will be forced to give up at least a portion, if not all, current IGTs, beginning in FY 2005. The amount of the impact cannot be determined at this time, and current budget estimates for FY 2005 do not include funding for this issue. The CMS plans to issue the disproval on March 15. The DHS has until this date to determine a course of action.

Issue Review

The LSA recently published an **Issue Review** on IGTs that is available on the LSA web site at: <http://staffweb.legis.state.ia.us/lfb/ireview/ireview.htm>.

More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: Jennifer Vermeer (Ext. 14611)

IOWA LEARNS COUNCIL DRAFTING PRELIMINARY RECOMMENDATIONS

Iowa Learns Council

The Steering Committee of the Iowa Learns Council met on February 26 to hear preliminary recommendations from three work teams regarding coordination and transitions between early childhood care and education, K-12 education, higher education, and the work force.

Draft Reports

Each of the teams presented draft reports to the Steering Committee, which included the following:

Early Childhood



Team One (Early Childhood) built upon the work of Community Empowerment's Early Childhood Core Stakeholders and presented the following draft recommendations:

- Build an integrated, comprehensive early care, health, and education system.
- Support the implementation of Iowa's Early Learning Standards and assure the standards are incorporated into the Early Care, Health, and Education System.
- Promote seamless transitions between the System of Early Care, Health, and Education and the K-12 Education System by developing strategies that incorporate the implementation of comprehensive transition plans that involve key partners, including families, early childhood and K-12 programs, communities, and the State.
- Provide universal preschool using the Shared Visions model.

- Identify and provide communities and early childhood providers a resource guide of recommended research and/or evidence-based family support services, including child care, to support the parents of young children and to assist them in being their child's first and best teacher.

Secondary Education



Team Two (K-12 to Post Secondary) presented the following draft recommendations:

- Set clear expectations for students graduating from high school.
- Both secondary and post-secondary levels of education must provide for the development of teachers, for faculty, and for educational leaders.
- Provide leadership and support for ongoing and meaningful dialogue between secondary and post-secondary faculty to:
 - Communicate expectations for learning and achievement at both levels.
 - Provide professional development to educators at both levels in best practices for teaching.
 - Help address the needs of students with a broad range of needs and intentions concerning post-secondary pursuits.
- Provide leadership and support for mechanisms to individualize instruction and post-secondary planning and guidance.
- Provide leadership and support for the creation of a state-level clearinghouse for workplace learning opportunities for students, such as internships, externships, and job-shadowing experiences.
- Provide leadership and support for the creation of a comprehensive career guidance system.

Education Economic



Team Three (Education-Economic Growth) identified three priority skill sets for success in the Iowa Economy:

- Team Environmental Skills, including collaboration, contribution to group goals, and leadership.
- Thinking Skills, including problem solving, logical and critical thinking, and ability to learn.
- Basic Skills, including math (quantification skills), communication (reading, writing, listening, and speaking), computer literacy, and understanding of diversity.

Recommendations

The team presented recommendations for educators to improve outcomes in the skill sets. The team also identified possible strategies for improving connections between education experience and meaningful Iowa employment opportunities and to improve support for students in making thoughtful career decisions.

More Information

For more detailed information on the recommendations presented to the Iowa Learns Council Steering Committee, access the Iowa Learns Council web site at: <http://www.state.ia.us/iowalearns/screvmat/index.html>.

STAFF CONTACT: Robin Madison (Ext. 15270)

DEPARTMENT OF REVENUE LEASE PURCHASE

Lease Purchase



The Department of Revenue is entering into a lease purchase agreement for the purchase of desktop computers to replace those with slower processing speeds. The computers will be used for processing tax returns.

The total cost of the lease purchase agreement is \$116,000. This includes \$110,000 in principal and \$6,000 in interest at an estimated rate of 3.2%. The agreement will be for a period of three years. Annual payments will total approximately \$39,000 and will be paid from the Department's General Fund appropriation.

More Information

Additional information is available from the LSA upon request.

STAFF CONTACT: David Reynolds (Ext. 16934)

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