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## State of Iowa General Fund Budget Projection

### ISSUE

This **Issue Review** is intended to provide a longer-term perspective of the General Fund budget to assist the General Assembly in evaluating future budget decisions. The **Issue Review** provides two alternative projections for the purpose of analyzing current trends associated with revenues, expenditures, and fund balances and their impact on the condition of the General Fund budget. This **Issue Review** provides expenditure and revenue projections through FY 2020 based on two sets of listed assumptions related to future appropriation levels and revenue growth rates. A base scenario is assumed using a 12-year average General Fund revenue growth rate, and a recession scenario is provided, assuming a significant two-year revenue decline beginning in FY 2016, followed by a typical postrecession revenue recovery. The appropriation projections are based on rates of change taking into consideration historical trends, program activities, and recent legislative action that impacts future spending.

To help understand the projections in this report, basic information regarding how the General Fund budget functions relative to the decision-making process, is presented in **Appendix A**. Additionally, Iowa Code sections [8.22A](#) and [8.54 – 8.57E](#) provide the statutory requirements for the legislative budget process.

### CURRENT STATUS OF GENERAL FUND BUDGET

The FY 2013 General Fund budget ended the fiscal year with a record surplus of \$927.9 million. Net General Fund receipts totaled \$6.769 billion and a balance of \$572.1 million was carried forward from the previous year's surplus resulting in total available revenues of \$7.341 billion. Net appropriations (after reversion) totaled \$6.413 billion in FY 2013. (See **Appendix B**)

The FY 2014 budget, currently in progress, has an estimated surplus of \$867.2 million. Net General Fund receipts are estimated at \$6.695 billion, reflecting a decrease of \$73.5 million compared to FY 2013. The reduction is largely the result of law changes that reduced FY 2014 revenues by an estimated \$214.1 million. The FY 2014 budget includes an estimated surplus carry forward of \$677.7 million resulting in total available revenues of \$7.373 billion. Net appropriations (after reversion) are estimated at \$6.506 billion, a \$92.8 million (1.4%) increase compared to FY 2013.

The balances in the state's two reserve funds are also at a record level of \$649.6 million, which is the maximum allowed under Iowa statute. In addition, the state's Taxpayer Trust Fund contains a balance of \$120.0 million that will be used to provide income tax credits to eligible individuals for the 2013 tax year.

## **PROJECTION ASSUMPTIONS**

### **Revenue Assumptions - Base Revenue Scenario**

For FY 2014 and FY 2015, the General Fund net revenue projection developed at the October 2013 Revenue Estimating Conference (REC) is used. For FY 2016 through FY 2020, the annual revenue growth is assumed to equal 3.8%. This is equal to the average of the adjusted<sup>1</sup> annual revenue growth rates for FY 2002 through FY 2013.

The revenue assumptions for FY 2016 through FY 2020 are further adjusted, after application of the assumed annual revenue growth rate, for projected incremental changes to the Department of Revenue's [Contingent Liability Report](#).

### **Revenue Assumptions - Recession Revenue Scenario**

The Business Cycle Dating Committee of the National Bureau of Economic Research (NBER<sup>2</sup>) indicates that there have been 11 U.S. economic cycles since 1945, with the economic expansion portion of those cycles lasting an average of 58 months.<sup>3</sup> The most recent economic expansion began in June 2009, and is currently 53 months in length as of November 2013. Should the current expansion last until the end of FY 2015 (June 2015), the length would be 72 months. An expansion of 72 months would be longer than historic standards, but shorter than the two most recent economic expansions.

For the recession scenario, all previous assumptions remain the same, with the exception of the assumed annual revenue growth after FY 2015. For this scenario, the revenue growth percent is set at negative 2.0% for FY 2016 and FY 2017, and then set at positive 6.7% for FY 2018 through FY 2020. The recession revenue growth percent of negative 2.0% equals the average of the adjusted annual revenue growth rates for FY 2002, FY 2003, FY 2009, and FY 2010, four fiscal years that were significantly impacted by the two most recent U.S. economic recessions. The growth rate of 6.7% equals the average of the adjusted annual growth rates for the fiscal years between FY 2002 and FY 2013.

### **Appropriation Assumptions**

For purposes of forecasting General Fund expenditures, appropriations were first divided into groups to isolate the expenditures that have the largest impact on the state General Fund budget. Three categories of expenditures were identified for forecasting purposes because they

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<sup>1</sup> To calculate adjusted net General Fund revenue growth rates, actual net General Fund revenue, including transfer revenue, was adjusted for changes in the tax rate and deposit destination of cigarette and tobacco tax as well as changes to the deposit of gambling revenue. During the FY 2002 through FY 2013 timeframe, the cigarette and tobacco tax was increased with the increase deposited to the General Fund. Later, the cigarette and tobacco tax revenue was removed from the General Fund and deposited elsewhere. Changes to the deposit destination for gambling revenue also occurred over that time. This adjustment impacted FY 2007 (\$-35.4 million), FY 2008 (\$-116.6 million), FY 2009 (\$+11.9 million), FY 2012 (\$+107.9 million), and FY 2013 (\$+24.0 million).

<sup>2</sup> The NBER is widely recognized as the official organization that dates the turning points of the U.S. economy. More information on the NBER may be found at <http://www.nber.org/cycles/sept2010.html>.

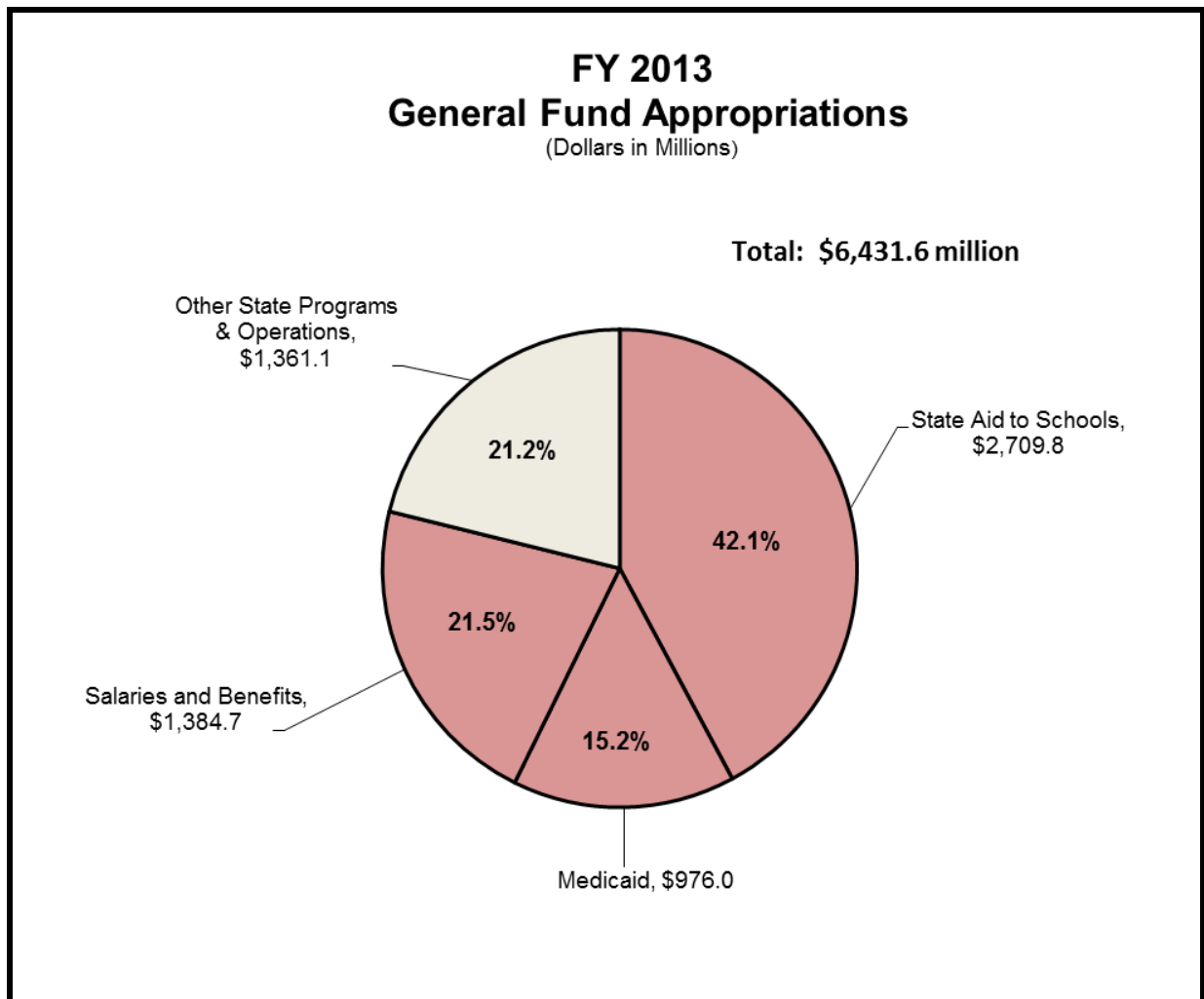
<sup>3</sup> The median length of expansions since 1945 is 45 months. The most recent two economic expansions were longer than average, with the expansion period that began March 1991 lasting 120 months (the longest on record) and the expansion that began November 2001 lasting 73 months. For a list of U.S. recession and expansion periods, see <http://www.nber.org/cycles/cyclesmain.html>.

comprise the vast majority of all General Fund expenditures. These include: State Aid to Schools, Medicaid, and Salaries and Benefits. A fourth group was also added that encompasses all other state programs and operational costs.

For the projection period of FY 2015 to FY 2020, two additional groups were added to account for legislation enacted during the 2013 Legislative Session that will require additional appropriations in order to meet future obligations of the legislation. These include the appropriations to fund [SF 295](#) (Commercial Property Tax Act) and [HF 215](#) (Education Reform Act).

**Expenditure Background and Projections**

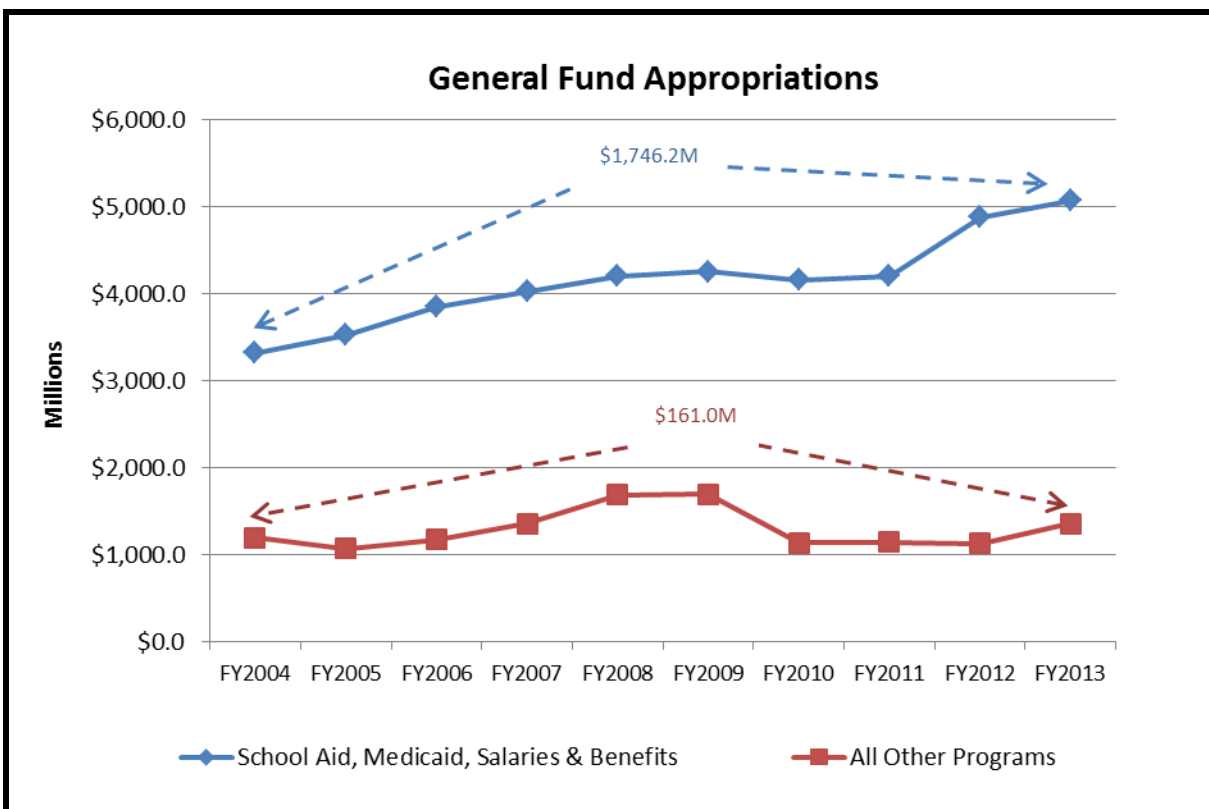
Of the four categories of expenditures that encompass General Fund appropriations, State Aid to Schools, Medicaid, and Salaries and Benefits comprise 78.8% of the total appropriations enacted in FY 2013. These three categories of expenditures also account for the majority of the growth in General Fund spending. Expenditures for all other state programs and operational costs made up the remaining 21.2% of FY 2013 appropriations.



Over the last 10 fiscal years, spending for State Aid to Schools, Medicaid, and Salaries and Benefits have accounted for 91.6% of the total increase in General Fund appropriations. From FY 2004 to FY 2013, General Fund appropriations increased \$1.907 billion (from \$4.525 billion to \$6.432 billion), an average annual increase of 4.0%. Of the total increase, \$1.746 billion was associated with State Aid to Schools, Medicaid, and Salaries and Benefits.

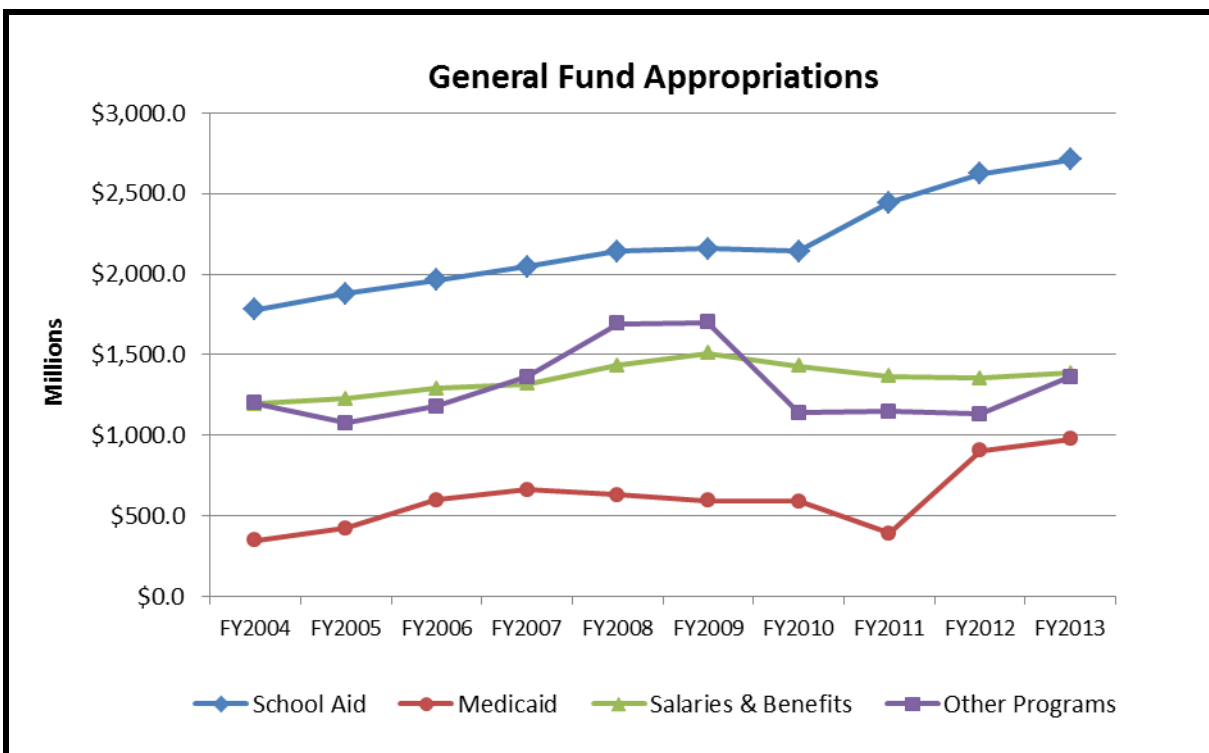
Appropriations for all other state programs and operational costs comprised \$161.0 million (8.4%) of the total increase. Between FY 2004 and FY 2009, appropriations for this category of expenditures increased at an average annual rate of 7.2%. In FY 2010, the year that was most impacted by the 2008 recession, the Governor implemented an across-the-board (ATB) reduction of 10.0%. This reduction had a more pronounced impact on other state programs category expenditures because the initial appropriations for FY 2010, prior to the ATB reduction, were already less than the amount appropriated for FY 2009. The 10.0% ATB reduction further reduced these appropriations, explaining the drop of the trend line on the chart below. By FY 2013, the category of expenditure had not recovered to the level of FY 2009.

In contrast, the initial appropriations for State Aid to Schools and Medicaid for FY 2010 were well above the FY 2009 level. The ATB reduction brought these appropriations closer to the FY 2009 levels. State personnel costs also experienced a reduction in FY 2010; however, the amount of the reduction was not significant enough to affect the trend line on the chart below.



The following chart shows the change for each individual category from FY 2004 to FY 2013. Increases for the four appropriation categories during this ten-year period are as follows:

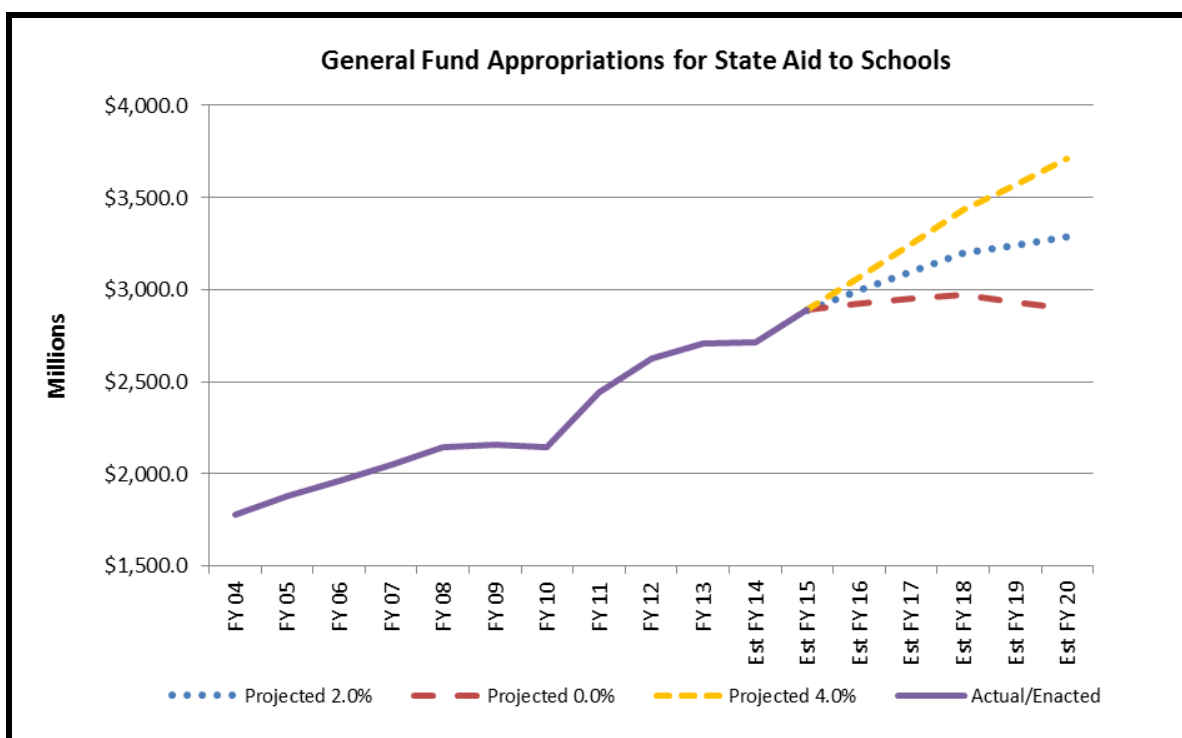
- State Aid to Schools increased \$929.4 million for an average annual increase of 4.8%.
- Medicaid increased \$627.3 million for an average annual increase of 12.1%.
- State Employee Salaries and Benefits increased \$189.5 million for an average annual increase of 1.6%.
- All Other Programs increased \$161.0 million for an average annual increase of 1.4%.



**State Aid to Schools:** State Aid to Schools is the single largest state appropriation, accounting for 42.1% of all FY 2013 General Fund spending. From FY 2004 to FY 2015, the appropriation for State Aid has increased \$1.107 billion for an average annual increase of 4.5%. In FY 2004, the State Aid appropriation was \$1.780 billion and for FY 2015 the appropriation is estimated at \$2.889 billion, based on the enacted 4.0% state percent of growth. One of the key factors that determine the growth of the State Aid appropriation from year to year is the state percent of growth rate set each year by the General Assembly. This determines the growth in the amount of funding that school districts receive on a per pupil basis. During the 12-year period from FY 2004 to FY 2015, there were five years when the state percent of growth rate was set at 2.0%, six years at 4.0%, and one year when the rate defaulted to 0.0% due to no legislative action.

For projection purposes, a 2.0% state percent of growth rate is assumed to project State Aid to Schools for the period of FY 2016 to FY 2020. The projection also incorporates a portion of the Education Reform legislation that requires funding for Teacher Leadership Grants and Aid to be included in the school aid formula.

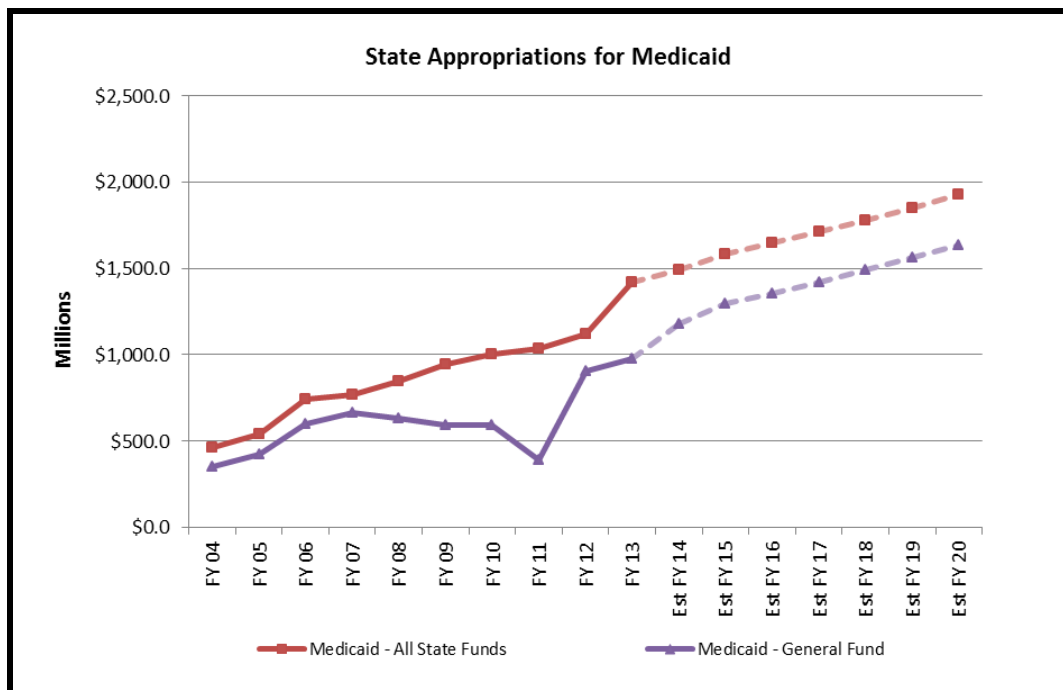
Based on these assumptions, the State Aid appropriation is projected to increase to \$3.289 billion by FY 2020, representing an average annual increase of 2.6% to the appropriation. It should be noted that using different state percent of growth rates to forecast State Aid could cause the projection to fluctuate significantly. For example, when a 0.0% or 4.0% rate is applied to the forecast, by FY 2020 the State Aid appropriation will fluctuate from \$-390.8 million below the 2.0% estimate to \$423.7 million above the 2.0% estimate. This is illustrated on the following chart.



**Medicaid:** State funding for Medicaid comprises 15.0% of total General Fund spending and is the fastest growing segment of the budget. From FY 2004 to FY 2013, General Fund appropriations for Medicaid have increased \$627.3 million, a 12.1% average annual rate of growth. The initial Medicaid appropriations for FY 2014 and FY 2015 were enacted during the 2013 Legislative Session. Both appropriations were funded at \$1.144 billion. Recently, the Medicaid Forecasting Group projected the FY 2014 appropriation is an estimated \$28.0 million short of meeting the projected need and the FY 2015 appropriation is \$139.1 million less than the projected need. The estimated increase for FY 2015 is largely due to a reduction in the Federal Medical Assistance Percentage (FMAP) rate. This reduction in the FMAP rate will shift a larger portion of the Medicaid Program to state funds. Other factors contributing to the increase include increased utilization and enrollment, reduction in non-General Fund revenue sources, and increased enrollment due to the federal Affordable Care Act.

For the projection period of FY 2016 to FY 2020, the appropriations required to adequately fund the Medicaid Program will continue to increase, albeit at a slower rate than previous years. By FY 2020, the General Fund Medicaid appropriation is estimated to total \$1.625 billion, \$341.8 million more than the revised FY 2015 funding level. This equates to a 4.8% average annual rate of growth. The projection assumes that the FMAP rate will not change from the current 56.14% and that enrollment and utilization will increase 4.0% annually.

Since FY 2004, a variety of non-General Fund sources have been appropriated for Medicaid to supplant General Fund dollars. When all funding sources are considered, the average annual rate of growth from FY 2004 to FY 2013 equals 13.2%. From FY 2009 to FY 2011, the state budget was significantly impacted by the 2008 recession and the state received a total of \$527.4 million through the federal American Recovery and Reinvestment Act (ARRA) to replace General Fund dollars for Medicaid during this three-year period. In addition, the General Assembly appropriated \$178.7 million from the Cash Reserve Fund in FY 2011 for Medicaid in place of a General Fund appropriation. Beginning in FY 2014, all of the state's cigarette and tobacco taxes, that currently total \$224.3 million, are appropriated for Medicaid. These receipts were previously deposited in the General Fund.

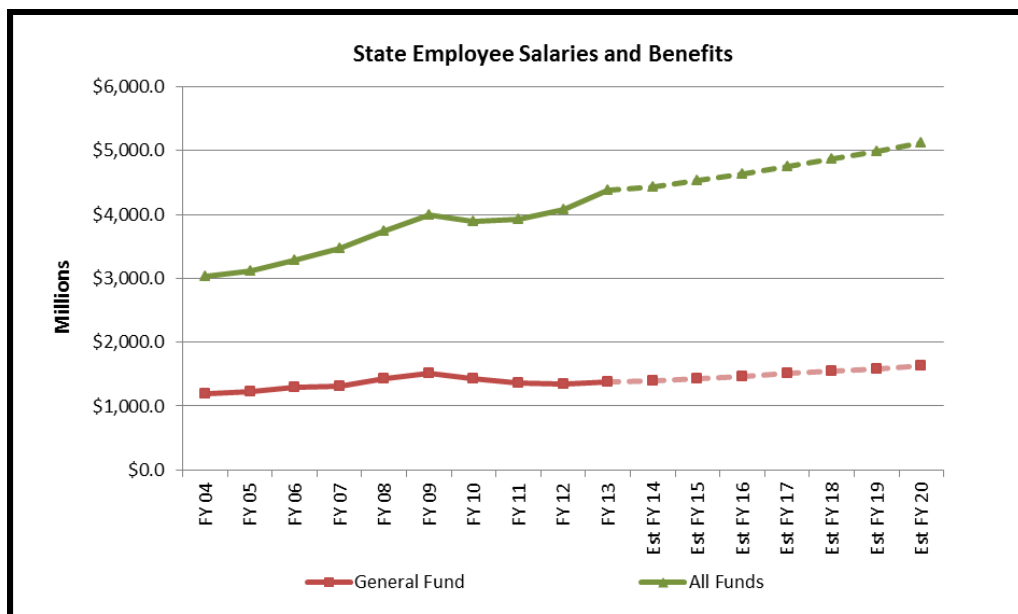


**State Employee Salaries and Benefits:** The second largest segment of the state's General Fund budget is salaries and benefits of state employees. This includes all salaries and state benefits for employees paid through state's Central Payroll System as well as employees of the Regents institutions. The state funded benefits include: health insurance; retirement; Federal Insurance Contribution Act (FICA), Old-Age, Survivors, and Disability Insurance (OASDI); dental insurance; deferred compensation; long-term disability; and life insurance.

While this segment of the budget comprises approximately 22.0% of total General Fund expenditures, it has been one of the slowest growing portions of the state budget. From FY 2004 to FY 2013, state employee salaries and benefits paid from the General Fund grew at an average annual rate of 1.6%. State employee salaries and benefits paid from all funding

sources increased at an average annual rate of 4.2%, suggesting that state agencies have shifted personnel costs from General Fund appropriated dollars to non-General Fund sources. In FY 2004, salaries and benefits from all funding sources totaled \$3.032 billion. Of this, 39.4% (\$1.195 billion) was funded from the General Fund. More recently, in FY 2013 personnel costs from all funding sources totaled \$4.386 billion and 31.6% (\$1.385 billion) was funded from the General Fund.

For projection purposes, it is assumed that salaries and benefits paid from the General Fund will increase at a slightly faster rate of 2.5% compared to the 1.6% growth that was experienced over the previous 10 years. This also assumes that the proportion of salaries and benefits funded from the General Fund will remain at approximately 32.0% of all salaries and benefits funded from all funding sources.



**Other State Programs and Operations:** In FY 2013, all other state programs and operational costs that are not part of State Aid to Schools, Medicaid, or Salaries and Benefits, totaled \$1.361 billion and comprised 21.2% of total General Fund appropriations. This category of expenditures is largely made up of programs that provide state aid to local governments and individuals. From FY 2004 to FY 2013, these appropriations increased at an average annual rate of 1.4%. For the projection period of FY 2016 to FY 2020, it is assumed that these appropriations will grow at the rate of inflation of 1.7%.

**Commercial Property Tax Act:** The 2013 General Assembly enacted [SF 295](#) (Commercial Property Tax Act) that made significant changes to Iowa’s property tax and local government finance system. The Act created a new property tax credit available to properties classified as commercial, industrial, or railroad. A standing limited General Fund appropriation was created to fund the new credit. The appropriation is equal to \$50.0 million for FY 2015, \$100.0 million for FY 2016, and \$125.0 million for FY 2017 and each year thereafter.

The Act also reduces the maximum annual taxable value growth percent, due to revaluation of existing residential and agricultural property, from the current 4.0% to 3.0%. In addition, commercial, industrial, and railroad property is assigned a “rollback” of 95.0% for assessment year (AY) 2013 and 90.0% for AY 2014 and each year thereafter. The Act creates standing



General Fund appropriations, beginning in FY 2015, to reimburse local governments for the property tax reductions resulting from the new rollback for commercial and industrial property (but not railroad). Prior to FY 2018, the appropriation is a standing unlimited appropriation. Beginning in FY 2018, the standing appropriation cannot exceed the actual FY 2017 appropriation amount.

The following table shows the estimated General Fund appropriations from FY 2015 to FY 2020 associated with the property tax changes.

Projected Property Tax Reimbursement						
(Dollars in Millions)						
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Commercial/Industrial Reimbursement	\$ 78.7	\$ 162.5	\$ 153.7	\$ 153.7	\$ 153.7	\$ 153.7
Commercial/Industrial/Rail Property Tax Credit	50.0	100.0	125.0	125.0	125.0	125.0
Total General Fund Appropriations	<u>\$ 128.7</u>	<u>\$ 262.5</u>	<u>\$ 278.7</u>	<u>\$ 278.7</u>	<u>\$ 278.7</u>	<u>\$ 278.7</u>

**Education Reform:** During the 2013 Legislative Session, the General Assembly enacted [HF 215](#) (Education Reform Act) that provided broad reforms and appropriations to the Iowa public education system. The two most significant provisions from a General Fund cost perspective are:

- Teacher Leadership Supplemental Aid – The Act requires an annual allocation, estimated at \$49.3 million, for payments to school districts to implement career paths, leadership roles, and compensation framework. In addition, the Act allocates \$700,000 to the Department of Education for administrative costs. The law also requires the \$49.3 million to be incorporated into the school aid formula for the next fiscal year.
- High-Need School Supplemental Assistance – The Act requires an allocation of \$10.0 million of state funding to allow school districts to develop extended learning time programs, hire instructional support staff, provide additional professional development, or supplement the salary of teachers in schools identified as high-need schools by the Department of Education.

The following table shows the estimated General Fund appropriations from FY 2015 to FY 2020 associated with the Education Reform requirements and also shows the estimated amount that is applied to the State School Aid projection in this report.

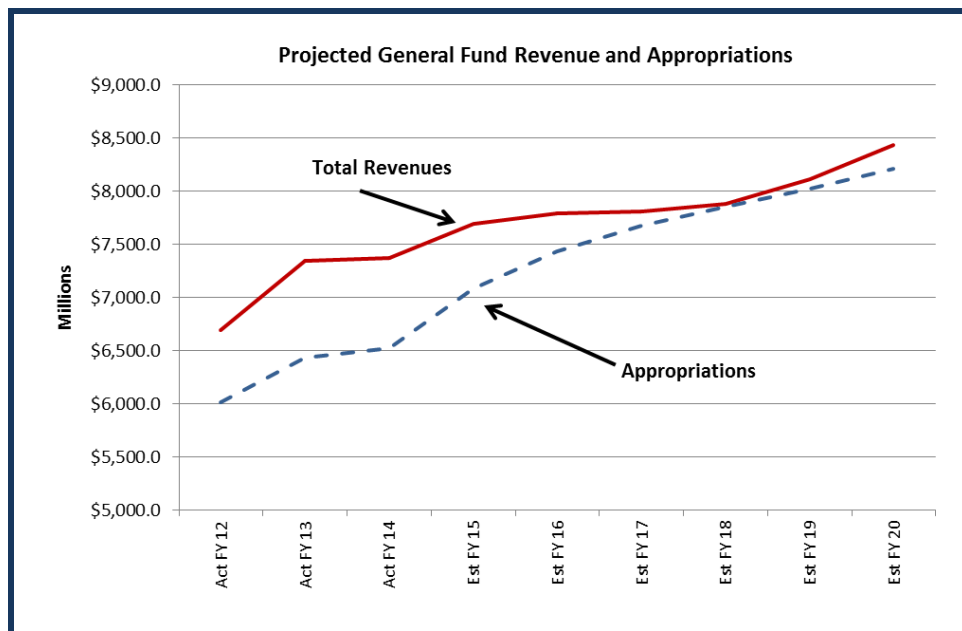
Education Reform						
(Dollars in Millions)						
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Teacher Leadership Grants and Aid	\$ 50.0	\$ 50.0	\$ 50.0	\$ 0.0	\$ 0.0	\$ 0.0
High Need School Supplemental Aid	10.0	10.0	10.0	10.0	10.0	10.0
Total General Fund Appropriations	<u>\$ 60.0</u>	<u>\$ 60.0</u>	<u>\$ 60.0</u>	<u>\$ 10.0</u>	<u>\$ 10.0</u>	<u>\$ 10.0</u>
Funded through School Aid Formula <sup>1</sup>	\$ 0.0	\$ 49.3	\$ 98.6	\$ 147.9	\$ 147.9	\$ 147.9

<sup>1</sup> HF 215 incorporates the appropriations to school districts for Teacher Leadership Grants into the School Aid formula for the next fiscal year. For this report, these estimates are included in the State School Aid projection.

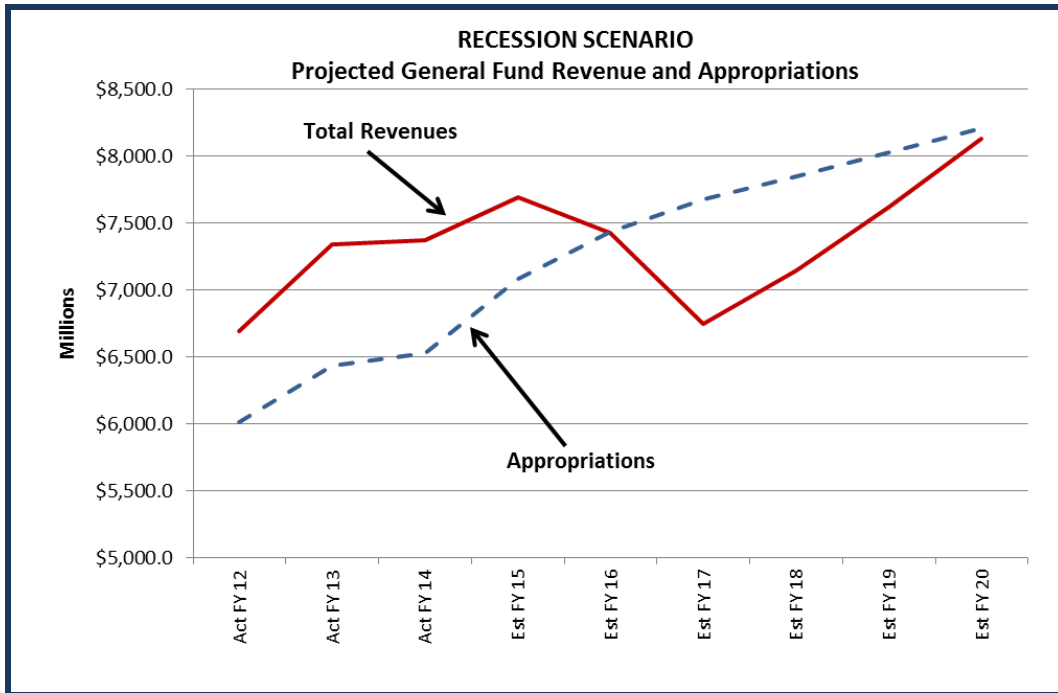
**FINDINGS**

**Base Scenario Revenues vs. Appropriations:** Based on the revenue projection of 3.8% annual growth, the total available General Fund revenues will be able to sustain the projected appropriation growth through FY 2017. In FY 2018, the appropriations exceed the expenditure limitation by \$40.1 million, requiring lawmakers to either reduce spending or increase revenue in order to balance the budget. For FY 2019 and FY 2020, the projected revenues are again sufficient to cover appropriations.

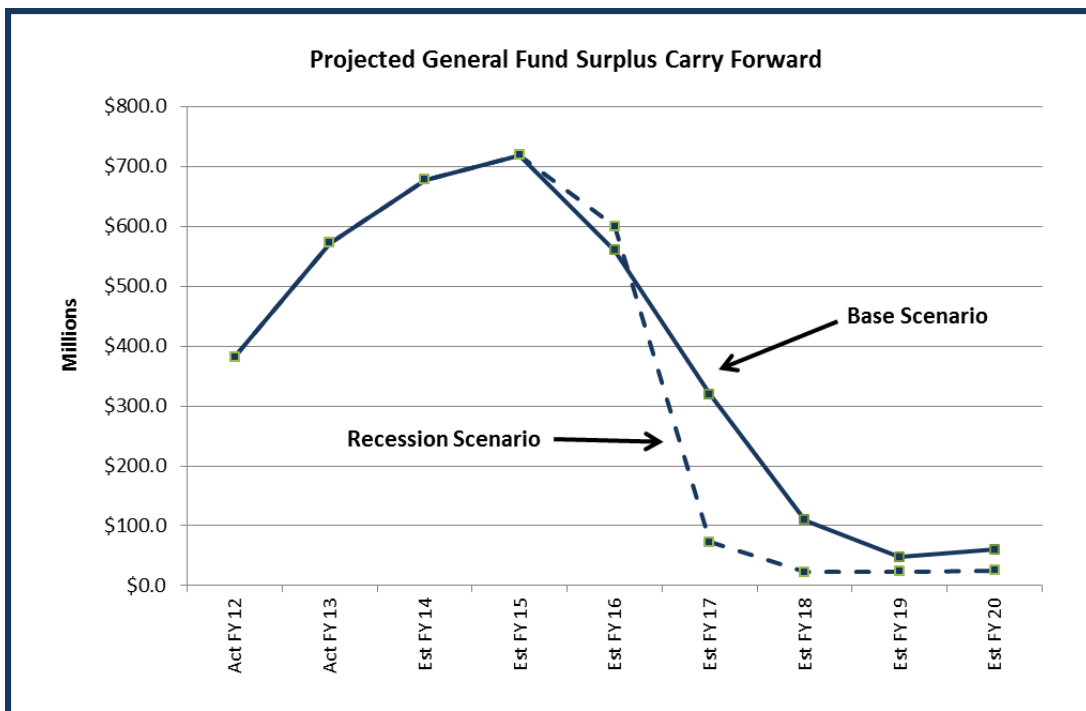
One of the primary reasons the budget becomes balanced in these last two years of the projection period is due to a slowdown in the rate of growth of the State School Aid appropriation beginning in FY 2019. This slowdown is due to the teacher leadership provision of the Education Reform Act, funded through the school aid formula, being fully implemented by FY 2018. The amount built into the state aid formula for the teacher leadership supplement totals \$49.3 million in FY 2016, \$98.6 million in FY 2017, and \$147.9 million in FY 2018. Beginning FY 2019, the amount no longer increases but remains at \$147.9 million. Detail of the Base Scenario projection can be found in **Appendix B**.



**Recession Scenario Revenues vs. Appropriations:** Based on this scenario, it is assumed that net General Fund receipts will decrease by 2.0% per year in FY 2016 and FY 2017, and then experience a recovery in the subsequent fiscal years with annual revenue growth of 6.7%. Without making any changes to the assumptions for expenditures, appropriations will exceed the expenditure limitation by \$66.8 million beginning in FY 2016. In FY 2017, the second year of negative revenue growth, the budget gap widens to \$993.3 million. As revenues recover in FY 2018 – FY 2020, the recovery is not enough to eliminate the projected budget shortfall, although it is reduced to \$159.6 million by FY 2020. Details of the Recession Scenario projection can be found in **Appendix C**.

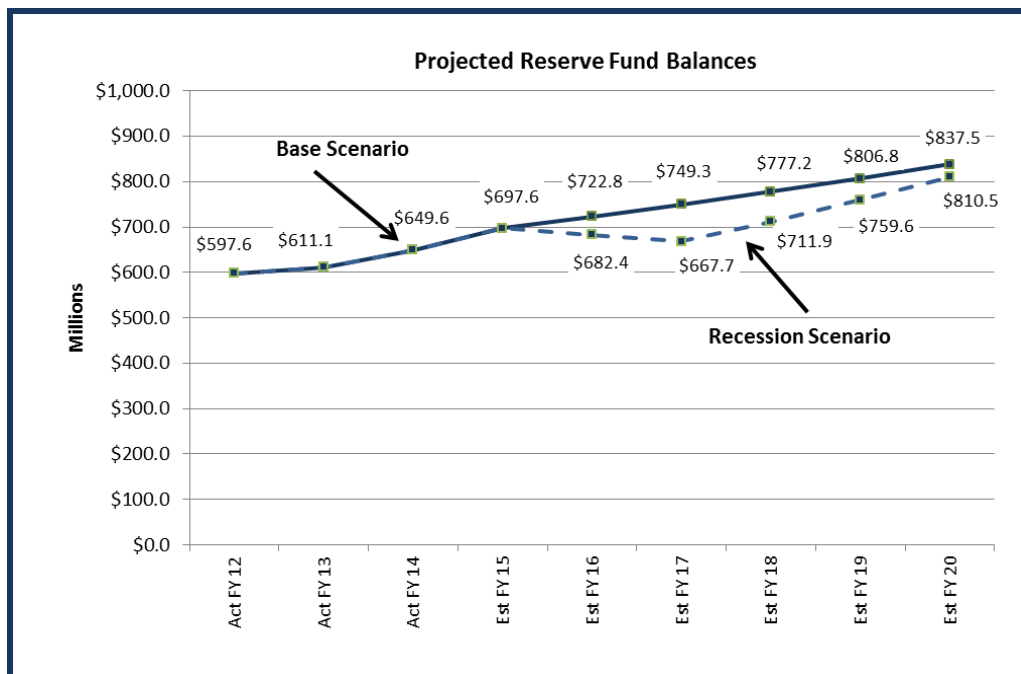


**Surplus Carry Forward:** Another key finding is that in order to maintain appropriations at the levels projected, the surplus carryforward will need to be used to make up for the shortfall in net General Fund receipts. The following chart shows the changes in the surplus carryforward funds under both scenarios. Under both scenarios, the carryforward funds decline substantially after FY 2016, although the reduction is more pronounced under the Recession Scenario.



**Reserve Funds:** Throughout the projection period of the Base Scenario, the balances in the Cash Reserve and Economic Emergency Funds will be fully funded and the annual balances will continue to increase as the overall budget grows. The current combined balance in the reserve funds total \$649.6 million and is projected to increase to \$837.5 million by FY 2020, an increase of 28.9%.

Under the Recession Scenario, it is highly probable that the reserve funds would be used to offset appropriation reductions forecasted during the projection period. During the last recession that impacted the General Fund budget during FY 2010 and FY 2011, a total of \$411.3 million was appropriated from the Cash Reserve Fund to replace General Fund appropriations. For this report, no attempt is made to try and estimate how much, if any, of the reserve funds would be appropriated to fund the budget reductions estimated under the Recession Scenario. The reserve funds remain fully funded, although at a slightly lower level compared to the Base Scenario.



**Taxpayer Trust Fund:** After FY 2015, the amount of funding for the Taxpayer Trust Fund cannot be determined due to the methodology that is required to calculate the allocation to the Fund. The amount that the Trust Fund can receive in a given fiscal year is determined by subtracting the adjusted revenue estimate used in establishing the previous year’s budget from the actual net General Fund receipts of the preceding fiscal year. Current statute limits the total amount allocated to the Trust Fund to no more than \$60.0 million annually. Because the actual year-end receipts are not yet known, the calculation cannot be made.

**SUMMARY**

Given differing sets of expenditure and revenue assumptions, a wide variety of long-range balance sheet projections for Iowa's General Fund budget may be developed. This **Issue Review** presents two scenarios. One projection is based on historic average General Fund revenue growth, with that average based on a 12-year history (revenue growth from FY 2001 to FY 2013), a time frame that includes two U.S. recessions in the average. The second projection assumes an economic recession that produces negative tax revenue growth for two fiscal years followed by above average revenue growth through FY 2020.

**Base Scenario Results** – This projection concludes that, given the expenditure and revenue assumptions specific to this projection, average General Fund revenue growth will fund projected General Fund appropriations through FY 2020, with a modest adjustment necessary to balance FY 2018. Throughout the projection, the state reserve funds remain at their statutory maximum balance.

**Recession Scenario Results** – The start of the next U.S. recession is not known. For this scenario, the current economic expansion is assumed to end and the next recession to begin, at the conclusion of FY 2015 (June 2015). The projection assumes a recession will reduce the General Fund revenue stream by 2.0% for FY 2016 and an additional 2.0% for FY 2017.

A recession of this magnitude will first require a budget adjustment (expenditure reduction or revenue increase) in FY 2016 equal to \$66.8 million in order to comply with expenditure limitation requirements. Beginning in FY 2017, the annual carryforward of excess General Fund revenue will be reduced significantly, and this will result in large budget adjustments necessary to meet expenditure limitation requirements throughout the remainder of the projection. Throughout the Recession Scenario, Iowa's reserve funds remain full, but only if they are not appropriated to the General Fund as a means of complying with the expenditure law.

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## APPENDIX A

### GENERAL FUND BALANCE SHEET AND BUDGET PROCESS

**Revenue Estimating Conference (REC):** The REC is a three-person panel that meets three times per year to review and establish revenue estimates for the state's General Fund. The REC estimate set at the meeting prior to December 15 is required to be used by the Governor and the General Assembly in preparation of the General Fund budget for the fiscal year beginning on the subsequent July 1. If the REC revises the December estimate at its meeting held during the regular legislative session (March or April), the Governor and the General Assembly are required to use whichever estimate is lower when calculating the expenditure limitation for the next fiscal year.

**Adjusted Revenue Estimate:** An important aspect of the state budget process is the determination of the Adjusted Revenue Estimate. This number is used to determine three components of the budget:

- The maximum balances that can be retained in the state's Reserve Funds.
- The expenditure limitation for the next fiscal year's budget that begins on July 1.
- The amount to be deposited in the Taxpayer Trust Fund.

The Adjusted Revenue Estimate is arrived at by adding the net General Fund revenue estimate of the REC (adopted at the December meeting, or a subsequent meeting if the subsequent estimate is lower) to the law changes enacted by the General Assembly and signed into law by the Governor that increase or decrease estimated net General Fund revenue.

**Expenditure Limitation:** The primary goal of the expenditure limitation law is to ensure that General Fund revenues exceed expenditures to help lawmakers enact a balanced budget and to build sufficient cash reserves for cash flow and emergency purposes. In calculating the expenditure limitation:

- The base revenue estimate adopted by the REC is multiplied by 99.0%.
- Estimates of new revenue enacted by the General Assembly that were not included in the REC estimate are multiplied by 95.0%.
- All estimated revenue decreases enacted by the General Assembly that were not included in the REC estimate are applied at 100.0%.
- Any excess funds carried forward from the prior year's General Fund surplus are added to the expenditure limitation at 100.0%.

**Reserve Fund Requirements:** The State of Iowa has two reserve funds: the Cash Reserve Fund and the Economic Emergency Fund. At the close of each fiscal year, the General Fund surplus is transferred to the Cash Reserve Fund until the Fund balance reaches 7.5% of the Adjusted Revenue Estimate. Once the Fund balance reaches the 7.5% maximum, the excess is transferred to the GAAP (Generally Accepted Accounting Principles) Deficit Reduction Account if a GAAP deficit exists; otherwise, the excess is transferred to the Economic Emergency Fund.

Once the Economic Emergency Fund accumulates a balance equal to 2.5% of the Adjusted Revenue Estimate, up to \$60.0 million of the excess is transferred to the Taxpayer Trust Fund and the remainder of the excess is transferred to the General Fund.

**APPENDIX A (Cont.)**

**Taxpayer Trust Fund:** The amount the Taxpayer Trust Fund may receive in a fiscal year is limited to the difference between the actual net General Fund revenue of the preceding fiscal year and the Adjusted Revenue Estimate used in establishing the budget for that fiscal year. The maximum amount is limited to \$60.0 million per year. For example, the amount that the Fund received in FY 2013 was calculated by subtracting the Adjusted Revenue Estimate for the FY 2012 budget from the actual year-end net General Fund receipts for FY 2012.

Beginning in FY 2014, moneys in the Trust Fund will be used to provide a nonrefundable tax credit to qualified individuals for income tax returns filed for tax year 2013 (spring of 2014). The maximum amount of the credit is determined by dividing the funds available in the Taxpayer Trust Fund by the number of taxpayers of the previous tax year. Each taxpayer will be allowed the credit, up to either the tax credit maximum for that year, or the amount of income tax liability, whichever is less.

The balance in the Taxpayer Trust Fund for FY 2014 totals \$120.0 million. This includes the \$60.0 million balance that carried forward from FY 2013 and the additional \$60.0 million credited in FY 2014. The maximum tax credit for tax year 2013 is estimated to be approximately \$54 per taxpayer.

## APPENDIX B

**Base Scenario**  
**State of Iowa**  
**General Fund Budget Projection**

(Dollars in Millions)

	Actual FY 2012	Actual FY 2013	Est FY 2014	Est FY 2015	Est FY 2016	Est FY 2017	Est FY 2018	Est FY 2019	Est FY 2020
<b>Funds Available:</b>									
Receipts	\$ 6,311.1	\$ 6,768.8	\$ 6,695.3	\$ 6,976.6	\$ 7,241.7	\$ 7,502.8	\$ 7,778.4	\$ 8,067.6	\$ 8,374.2
Revenue Adjustments									
Contingent Liabilities					-13.6	-9.1	-6.2	0.0	0.0
Tax Law Changes					0.0	0.0	0.0	0.0	0.0
Subtotal Receipts	\$ 6,311.1	\$ 6,768.8	\$ 6,695.3	\$ 6,976.6	\$ 7,228.1	\$ 7,493.7	\$ 7,772.2	\$ 8,067.6	\$ 8,374.2
Surplus Carryforward	381.4	572.1	677.7	724.7	569.6	328.8	117.6	48.1	59.8
<b>Total Funds Available</b>	<b>\$ 6,692.5</b>	<b>\$ 7,340.9</b>	<b>\$ 7,373.0</b>	<b>\$ 7,701.3</b>	<b>\$ 7,797.7</b>	<b>\$ 7,822.4</b>	<b>\$ 7,889.9</b>	<b>\$ 8,115.7</b>	<b>\$ 8,434.0</b>
<i>Expenditure Limitation</i>				7,631.5	7,725.4	7,747.5	7,812.1	8,035.0	8,350.2
<b>Appropriations and Expenditures:</b>									
State Aid to Schools	2,623.8	2,709.8	2,716.9	2,887.7	2,992.2	3,098.4	3,197.5	3,240.1	3,289.1
Medicaid	903.5	976.0	1,172.2	1,282.9	1,344.4	1,410.5	1,479.1	1,550.4	1,624.7
State Employee Salaries and Benefits	1,352.8	1,384.7	1,402.1	1,435.8	1,471.7	1,508.5	1,546.2	1,584.8	1,624.5
Other State Programs & Operations	1,132.4	1,361.1	1,229.0	1,282.1	1,301.3	1,320.9	1,340.9	1,361.2	1,381.8
Education Reform				60.0	60.0	60.0	10.0	10.0	10.0
Commercial Property Tax Appropriations				128.7	262.5	278.7	278.7	278.7	278.7
<b>Subtotal</b>	<b>\$ 6,012.5</b>	<b>\$ 6,431.6</b>	<b>\$ 6,520.2</b>	<b>\$ 7,077.2</b>	<b>\$ 7,432.0</b>	<b>\$ 7,676.9</b>	<b>\$ 7,852.3</b>	<b>\$ 8,025.2</b>	<b>\$ 8,208.7</b>
Adjustment to Meet Expenditure Limit				0.0	0.0	0.0	-40.1	0.0	0.0
<b>Total Appropriations</b>	<b>\$ 6,012.5</b>	<b>\$ 6,431.6</b>	<b>\$ 6,520.2</b>	<b>\$ 7,077.2</b>	<b>\$ 7,432.0</b>	<b>\$ 7,676.9</b>	<b>\$ 7,812.1</b>	<b>\$ 8,025.2</b>	<b>\$ 8,208.7</b>
Reversions	-8.1	-18.6	-14.4	-5.2	-5.0	-5.0	-5.0	-5.0	-5.0
<b>Net Appropriations</b>	<b>\$ 6,004.4</b>	<b>\$ 6,413.0</b>	<b>\$ 6,505.8</b>	<b>\$ 7,072.0</b>	<b>\$ 7,427.0</b>	<b>\$ 7,671.9</b>	<b>\$ 7,807.1</b>	<b>\$ 8,020.2</b>	<b>\$ 8,203.7</b>
<b>Ending Balance - Surplus</b>	<b>\$ 688.1</b>	<b>\$ 927.9</b>	<b>\$ 867.2</b>	<b>\$ 629.3</b>	<b>\$ 370.7</b>	<b>\$ 150.5</b>	<b>\$ 82.7</b>	<b>\$ 95.5</b>	<b>\$ 230.3</b>



## APPENDIX C

**Recession Scenario**  
**State of Iowa**  
**General Fund Budget Projection**

(Dollars in Millions)

	Actual FY 2012	Actual FY 2013	Est FY 2014	Est FY 2015	Est FY 2016	Est FY 2017	Est FY 2018	Est FY 2019	Est FY 2020
<b>Funds Available:</b>									
Receipts	\$ 6,311.1	\$ 6,768.8	\$ 6,695.3	\$ 6,976.6	\$ 6,837.1	\$ 6,687.0	\$ 7,125.3	\$ 7,596.1	\$ 8,105.0
Revenue Adjustments									
Contingent Liabilities					-13.6	-9.1	-6.2	0.0	0.0
Tax Law Changes					0.0	0.0	0.0	0.0	0.0
Subtotal Receipts	\$ 6,311.1	\$ 6,768.8	\$ 6,695.3	\$ 6,976.6	\$ 6,823.5	\$ 6,677.9	\$ 7,119.1	\$ 7,596.1	\$ 8,105.0
Surplus Carryforward	381.4	572.1	677.7	724.7	610.0	72.5	22.6	23.5	25.1
<b>Total Funds Available</b>	<b>\$ 6,692.5</b>	<b>\$ 7,340.9</b>	<b>\$ 7,373.0</b>	<b>\$ 7,701.3</b>	<b>\$ 7,433.5</b>	<b>\$ 6,750.4</b>	<b>\$ 7,141.7</b>	<b>\$ 7,619.6</b>	<b>\$ 8,130.1</b>
<b>Expenditure Limitation</b>				<b>7,631.5</b>	<b>7,365.2</b>	<b>6,683.7</b>	<b>7,070.5</b>	<b>7,543.6</b>	<b>8,049.0</b>
<b>Appropriations and Expenditures:</b>									
State Aid to Schools	2,623.8	2,709.8	2,716.9	2,887.7	2,992.2	3,098.4	3,197.5	3,240.1	3,289.1
Medicaid	903.5	976.0	1,172.2	1,282.9	1,344.4	1,410.5	1,479.1	1,550.4	1,624.7
State Employee Salaries and Benefits	1,352.8	1,384.7	1,402.1	1,435.8	1,471.7	1,508.5	1,546.2	1,584.8	1,624.5
Other State Programs & Operations	1,132.4	1,361.1	1,229.0	1,282.1	1,301.3	1,320.9	1,340.9	1,361.2	1,381.8
Education Reform				60.0	60.0	60.0	10.0	10.0	10.0
Commercial Property Tax Appropriations				128.7	262.5	278.7	278.7	278.7	278.7
<b>Subtotal</b>	<b>\$ 6,012.5</b>	<b>\$ 6,431.6</b>	<b>\$ 6,520.2</b>	<b>\$ 7,077.2</b>	<b>\$ 7,432.0</b>	<b>\$ 7,676.9</b>	<b>\$ 7,852.3</b>	<b>\$ 8,025.2</b>	<b>\$ 8,208.7</b>
Adjustment to Meet Expenditure Limit				<b>0.0</b>	<b>-66.8</b>	<b>-993.3</b>	<b>-781.8</b>	<b>-481.6</b>	<b>-159.6</b>
<b>Total Appropriations</b>	<b>\$ 6,012.5</b>	<b>\$ 6,431.6</b>	<b>\$ 6,520.2</b>	<b>\$ 7,077.2</b>	<b>\$ 7,365.2</b>	<b>\$ 6,683.7</b>	<b>\$ 7,070.5</b>	<b>\$ 7,543.6</b>	<b>\$ 8,049.0</b>
Reversions	-8.1	-18.6	-14.4	-5.2	-5.0	-5.0	-5.0	-5.0	-5.0
<b>Net Appropriations</b>	<b>\$ 6,004.4</b>	<b>\$ 6,413.0</b>	<b>\$ 6,505.8</b>	<b>\$ 7,072.0</b>	<b>\$ 7,360.2</b>	<b>\$ 6,678.7</b>	<b>\$ 7,065.5</b>	<b>\$ 7,538.6</b>	<b>\$ 8,044.0</b>
<b>Ending Balance - Surplus</b>	<b>\$ 688.1</b>	<b>\$ 927.9</b>	<b>\$ 867.2</b>	<b>\$ 629.3</b>	<b>\$ 73.2</b>	<b>\$ 71.8</b>	<b>\$ 76.2</b>	<b>\$ 81.0</b>	<b>\$ 86.1</b>