ISSUE REVIEW

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State of Iowa Expenditure Limitation Process

Revised with updated information

ISSUE

This ***Issue Review*** examines Iowa's expenditure limitation law and includes statutory and session law changes that have modified the process. The report provides updated information on law changes that have been enacted since the previous ***Issue Review*** on this topic was published in March 2017.

The ***Issue Review*** includes examples to illustrate the various aspects of the expenditure limitation law as it applies to legislative decision making. At the end of this report is a schematic showing the distribution of FY 2019 General Fund surplus revenues when the expenditure limitation provisions are applied. For comparison purposes, this report also provides some general information on other states' revenue estimating and expenditure limitation practices.

RELEVANT CODE SECTIONS

Iowa Code sections 8.22A, 8.53, 8.54, 8.55, 8.56, 8.57, and 8.57E

BACKGROUND

Each year the Iowa General Assembly is charged with the responsibility of adopting a balanced State budget for the purpose of maintaining government services and programs. Sections 2 and 5 of Article VII of the Iowa Constitution, together with various statutory provisions in the Iowa Code,[1] require that the Governor and the General Assembly enact a balanced budget and avoid budget deficits. This interpretation has been summarized in a 1992 opinion of the Iowa Attorney General.[2] In an effort to help ensure the passage of a balanced budget, an expenditure limitation law was enacted in 1992 that established statutory guidelines for the General Assembly and the Governor to follow for the enactment of annual budgets.[3]

The term "expenditure limitation law" is often used in reference to a broader concept relating to Iowa's budget development process that incorporates the flow of excess General Fund moneys through a network of reserve funds and a taxpayer relief fund. In a narrower sense, the term "expenditure limitation" refers to a specific limit on the amount of General Fund revenue the Governor and General Assembly are allowed to appropriate during a legislative session for the next fiscal year, as outlined in Iowa Code section 8.54.

[1] Iowa Code section 8.54(7) requires the Governor and General Assembly to pass a budget that does not exceed the State General Fund expenditure limitation. This section also prohibits the Governor from vetoing or item vetoing appropriation bills in a manner that would cause the final budget to exceed the expenditure limitation. Iowa Code section 8.55(3)(c) provides an appropriation of up to 1.0% of the Adjusted Revenue Estimate to the General Fund from the Economic Emergency Fund in the event that a deficit occurs with the fiscal year in progress, assuming certain conditions are met.

[2] Office of the Attorney General, 1992 Op. Iowa Att'y Gen. 97 (3/16/92).

[3] 1992 Iowa Acts, ch. 1227 (State Budget and Financial Control).

The expenditure limitation law was first used to develop the FY 1994 budget. Since the law's inception, various Iowa Code provisions that comprise the expenditure limitation law have been amended numerous times.

REVENUE ESTIMATING CONFERENCE

One of the more important aspects of the State budgeting process is revenue estimating. Before the adoption of a budget that provides State agencies with spending authority for the next fiscal year, the Governor and General Assembly must determine available revenue. This is also a precursor to the application of any expenditure limitation policies. The State of Iowa adopted a revenue estimating process in 1986 through the creation of the Revenue Estimating Conference (REC).

Iowa Code section 8.22A establishes the REC, a three-person panel with two individuals representing the Legislative and Executive branches, respectively, and a third member of the general public chosen by the other two members. The REC uses a process based on consensus of the members for determining estimates. The following outlines Iowa's revenue estimating process:

- The REC is allowed to meet as often as necessary but is required to meet at least three times per year to review and establish estimates for General Fund revenues, refunds, and accruals of revenue collected but not remitted by June 30. The REC typically meets in October, December, and March. Statute requires the REC to meet at least once in March of each year.
- The REC estimate established 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 sets a higher revenue estimate, compared to the December estimate, at its meeting held during the regular legislative session, the Governor and the General Assembly are required to use the lower December estimate when calculating the expenditure limitation for the next fiscal year. If the REC sets a lower revenue estimate after the December meeting but prior to the end of the regular legislative session, the Governor and the General Assembly are required to use that lower estimate.
- If, during the legislative session, a lower estimate is agreed to that causes the Governor's recommended budget to be out of balance, the Governor has 14 days from the date that the lower estimate was established to resubmit a balanced budget using the lower estimate.[4] The REC has lowered the December estimate eight times since the inception of the expenditure limitation law.[5] This most recently occurred on March 15, 2019, when the REC lowered the FY 2020 estimate by $20.0 million compared to the December estimate.
- Use of the lower estimate also applies to the General Assembly if a special session is held before the start of the new fiscal year.[6]
- Although the REC may agree to other preliminary estimates, only the December estimate or a subsequent lower estimate can be used to calculate the expenditure limitation.
- At the March meeting, the REC is required to set an additional revenue estimate that begins July 1 of the following calendar year. For example, at the March 15, 2019, meeting, the REC revised the estimates for the current fiscal year in process at that time (FY 2019) and

[4] Iowa Code section 8.21 (Budget Transmitted).

[5] The Revenue Estimating Conference has lowered the December estimate on eight occasions since the inception of the expenditure limitation law in 1992. These lower estimates were established at REC meetings that occurred in March or April during the 2001, 2002, 2003, 2009, 2015, 2016, 2017, and 2019 legislative sessions.

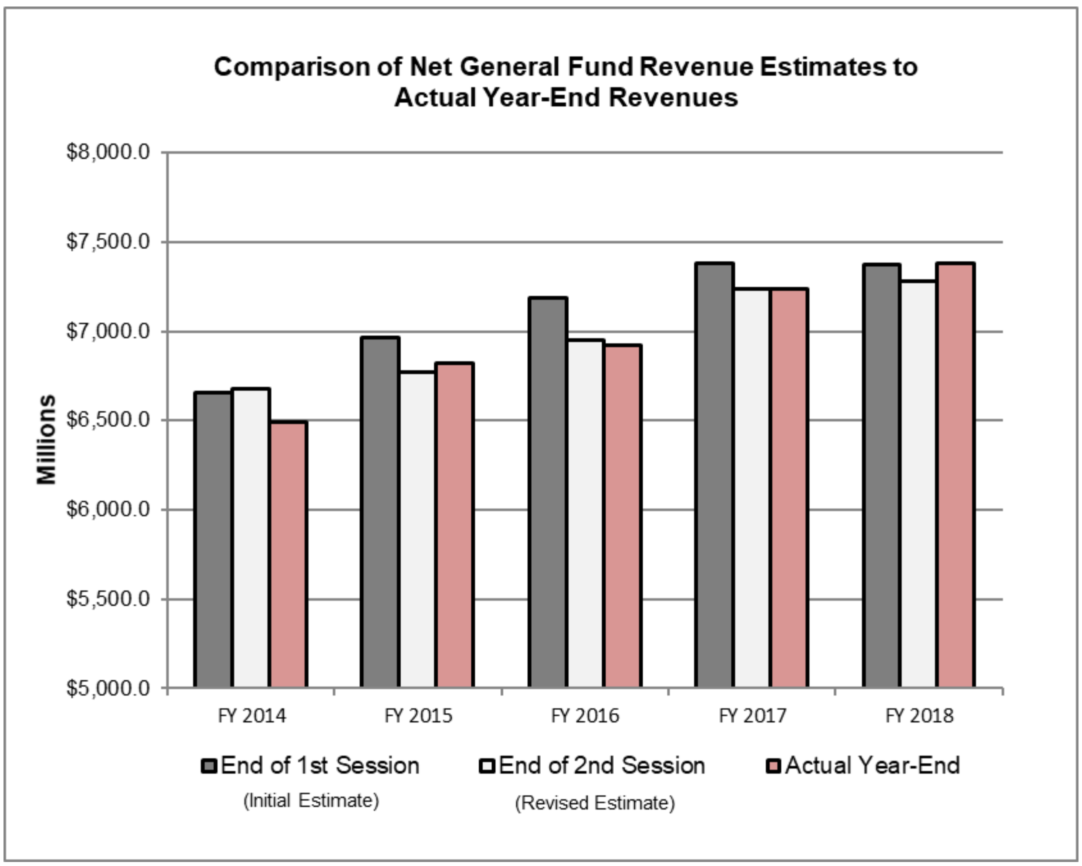
[6] Iowa Code section 8.22A(3) (Revenue Estimating Conference).

the fiscal year beginning July 1, 2019 (FY 2020). The REC also provided an estimate for the following fiscal year, which will begin on July 1, 2020 (FY 2021). However, Iowa Code section 8.22A specifies that the additional estimate is considered preliminary and is not to be used for calculating the State General Fund expenditure limitation for that fiscal year.

Figure 1 compares two revenue estimates for each fiscal year from FY 2014 to FY 2018 to the actual year-end revenues. The gray bar (left) represents the estimate at the close of the legislative session for which the initial budget was approved for the respective fiscal year. The estimate includes the March REC estimate plus estimated revenue adjustments signed into law during that legislative session. The middle white bar represents the revised revenue estimate set during the following legislative session for each fiscal year. The pink bar (right) shows the actual net General Fund revenues at the close of each fiscal year.

For four of the five fiscal years (FY 2014-FY 2017), the actual year-end revenues were below the initial estimate by an average of $192.3 million (2.8%). In addition, the revised estimates (white bars) for FY 2015-FY 2018 were all lower than the initial estimates. For FY 2017 and FY 2018, this resulted in estimated budget shortfalls that necessitated the General Assembly and the Governor to deappropriate funds from State agencies and programs and to transfer dollars from the reserve funds to the General Fund to balance the budgets. For FY 2018, the actual year-end revenues were $13.4 million (0.2%) more than the initial estimate. These mid-year budget adjustments were not required in FY 2015 and FY 2016 as there were sufficient surplus carryforward funds available to cover the estimated revenue reductions.

Figure 1



ADJUSTED REVENUE ESTIMATE

Once the revenue estimate has been set by the REC, the next step of the budgeting process is to determine the Adjusted Revenue Estimate. The Adjusted Revenue Estimate is a calculated number used to establish the State budget for the next fiscal year. [7]

The Adjusted Revenue Estimate is utilized to help determine the following key components of the budget:

- The expenditure limitation for the budget, which begins on July 1.
- The maximum balances of the Cash Reserve Fund and the Economic Emergency Fund.
- The amount from the General Fund surplus that can be deposited in the Taxpayer Relief Fund.

The Adjusted Revenue Estimate is calculated 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 the net General Fund revenue estimate (see **Figure 2**).

Changes in federal tax laws can also impact State income taxes, primarily due to Iowa's federal deductibility law. Any changes in State tax revenue due to federal law changes are incorporated into the REC estimate if the federal law changes are enacted at the time the REC meets. If the federal law changes are enacted after the REC meets, the resulting projected increased revenue is added to the REC for purposes of calculating the expenditure limitation.

Figure 2

Example
Adjusted Revenue Estimate Calculation
(Dollars in Millions)

	Fiscal Year
REC Estimate	$ 7,700.0
Net Revenue Adjustments	50.0
Adjusted Revenue Estimate	$ 7,750.0

EXPENDITURE LIMITATION

The primary goal of the expenditure limitation law is to make certain that General Fund revenues exceed expenditures to help to ensure a balanced budget and to build sufficient cash reserves for cash flow and emergencies. In calculating the expenditure limitation:

- The base revenue estimate adopted by the REC is multiplied by 99.0%.
- Estimates of new revenue enacted 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 from the prior year's General Fund surplus (after the reserves are filled to the statutory maximum balance) are added to the expenditure limitation at 100.0%.
- The sum of these calculations becomes the expenditure limit on appropriations for the next fiscal year.

[7] Iowa Code section 8.54 (General Fund Expenditure Limitation).

A basic example of how the expenditure limitation is calculated is shown in **Figure 3**.

Figure 3

Example
Calculation of the Expenditure Limitation
(Dollars in Millions)

		Fiscal Year Estimates			Expenditure Limit Calculation
1.	REC Estimate	$ 7,700.0	X	99.0%	$ 7,623.0
2.	Revenue Adjustments				
	Revenue Increases	$ 75.0	X	95.0%	$ 71.3
	Revenue Decreases	-25.0	X	100.0%	-25.0
	Total Net Revenue Adjustments	$ 50.0			$ 46.3
3.	Adjusted Revenue Estimate	$ 7,750.0			
4.	General Fund Surplus (EEF Excess)	$ 120.0		100.0%	$ 120.0
5.	Expenditure Limitation				$ 7,789.3

Notes:

1. *Official revenue estimate set by the REC (represents the lower estimate from the December or March meeting).*
2. *Estimated revenue increases and decreases passed by the General Assembly that are not included in the REC estimate.*
3. *(REC Est. + Revenue Adjustments).*
4. *Dollars remaining from the previous fiscal year surplus after the balances in the reserve funds have reached the statutory maximum.*
5. *Sum of the individual calculations listed above, representing the maximum amount the General Assembly and the Governor can appropriate for the next fiscal year.*

DISTRIBUTION OF SURPLUS REVENUES

Once the State's finances for a fiscal year are finalized, the General Fund surplus (ending balance) is distributed to various funds, including the Cash Reserve Fund, the Generally Accepted Accounting Principles (GAAP) Deficit Reduction Account, and the Iowa Economic Emergency Fund. In addition, if certain conditions are met, excess surplus funds may also be distributed to the Taxpayer Relief Fund. The reserve funds provide the necessary proceeds to allow the State to cashflow expenditures so the General Fund maintains a positive cash balance throughout the fiscal year. The reserve funds also provide sources of revenue that policymakers can use to assist in balancing the budget during fiscal years that experience unexpected reductions in tax revenue.

Attachment A provides a schematic representation of the distribution of the FY 2019 General Fund surplus to the reserve funds and the flow of the General Fund surplus.

Cash Reserve Fund: Iowa Code sections 8.56 and 8.57 establish the Cash Reserve Fund (CRF) and dictate both the flow of surplus revenues to the CRF and the uses of the Fund. The General Fund surplus is transferred to the CRF until the Fund reaches 7.5% of the Adjusted Revenue Estimate. If the CRF is not at the maximum of 7.5% of the Adjusted Revenue Estimate, a General Fund appropriation of up to 1.0% of the Adjusted Revenue Estimate is made to the Fund.

The General Assembly may pass a bill to appropriate from the CRF for nonrecurring emergency expenditures if the appropriation is the only subject matter of the bill and the appropriation does not cause the Fund's balance to be less than 3.75% of the Adjusted Revenue Estimate. An appropriation that reduces the balance below 3.75% must be approved by a three-fifths majority in both the Senate and the House and must be signed by the Governor.

Any excess revenue remaining after the CRF is full is transferred to the GAAP Deficit Reduction Account if a GAAP deficit exists; otherwise, the excess is transferred to the Economic Emergency Fund. The interest earnings of the CRF are credited to the Rebuild Iowa Infrastructure Fund (RIIF).

Iowa Code section 8.56(1) allows the CRF to be used for General Fund cash flow purposes provided that the funds are returned to the CRF by the close of the fiscal year. This has allowed the State to pay its bills on time without using temporary borrowing.

GAAP Deficit Reduction Account: Iowa Code section 8.53 requires the Governor and the General Assembly to provide sufficient funds to eliminate any deficit that is reported in the State's Comprehensive Annual Financial Report (CAFR). This requirement was enacted in 1992 with the purpose of transitioning the State to conform to GAAP by the end of FY 1995.[8] The purpose of GAAP is to ensure that financial reporting is consistent between state and local governments. The principles of GAAP for state and local governments are established by the Governmental Accounting Standards Board (GASB).

The Iowa Code directs any excess moneys from the CRF to the GAAP Deficit Reduction Account for the purpose of eliminating any identified GAAP deficit. The State now uses accounting procedures that are consistent with GAAP. The State's GAAP deficit was eliminated in 1994, a year earlier than required. Therefore, the excess funds from the CRF flow directly to the Economic Emergency Fund (EEF).

Iowa Economic Emergency Fund: Iowa Code section 8.55 establishes the EEF and specifies the uses of the Fund. The statute provides that the EEF receives the excess revenue from the CRF, via the GAAP Deficit Reduction Account, until the Fund reaches 2.5% of the Adjusted Revenue Estimate.

An appropriation of up to 1.0% of the Adjusted Revenue Estimate from the EEF is made available for the purpose of preventing a deficit in the General Fund;[9] however, all of the following conditions must be met:

- The year-end General Fund balance is negative prior to the EEF appropriation being made.
- The Governor issues an official proclamation and notifies the Legislative Fiscal Committee and the Legislative Services Agency (LSA) that the balance of the General Fund is negative and that an appropriation from the EEF brings the budget into balance.

In the event that an appropriation is made to eliminate a year-end deficit, a standing appropriation from the General Fund is made to the EEF in the succeeding fiscal year to reimburse the EEF.

[8] 1992 Iowa Acts, ch. 1227 (State Budget and Financial Control).
[9] Iowa Code section 8.55 (Economic Emergency Fund).

Other uses of the EEF include:

- As with the CRF, the EEF can also be used for General Fund cash flow purposes if the funds are returned to the EEF by the close of the fiscal year.
- A standing unlimited appropriation is provided from the EEF to the Executive Council to pay the expenses that are approved through the Performance of Duty appropriation.[10] The primary purpose of the Performance of Duty appropriation is to fund emergency repairs to State property if sufficient funds are not available in a State agency budget. The appropriation can also be used for disaster-related costs of governmental subdivisions. All expenditures from the Performance of Duty appropriation must be approved by the Executive Council.
- The interest earnings on the EEF are credited to the RIIF.

Of any excess funds remaining from the General Fund surplus, once the statutory maximum balance of the EEF is reached (2.5% of the adjusted revenue estimate), up to $60.0 million is required to be allocated to the Taxpayer Relief Fund, if certain criteria are met. An explanation of how the amount of that transfer is determined is on page 8. Any excess surplus funds remaining after the Taxpayer Relief Fund obligations are met are transferred to the General Fund (see **Attachment A**).

Figure 4 shows the calculations for the CRF and EEF based on the Adjusted Revenue Estimate example used in **Figure 2**. The statutory balances of the reserve funds are recalculated annually at the conclusion of the legislative session and after the Governor has signed the budget into law. The balances in the reserve funds will fluctuate from year to year. During periods of economic recession, when State tax revenues have usually declined, the General Assembly and Governor have appropriated funds from the reserves to prevent significant reductions to State appropriations. **Attachment B** shows the combined balances of the CRF and EEF and the statutory maximum balances for FY 1996 to FY 2018.

Figure 4

Example
Reserve Fund Calculations for the Succeeding Fiscal Year
(Dollars in Millions)

Cash Reserve Fund Calculation	
Adjusted Revenue Estimate	$ 7,750.0
% Set by Iowa Code	X 7.5%
Maximum Balance	$ 581.3
Economic Emergency Fund Calculation	
Adjusted Revenue Estimate	$ 7,750.0
% Set by Iowa Code	X 2.5%
Maximum Balance	$ 193.8

[10] Iowa Code section 7D.29 (Performance of Duty — Expense).

Taxpayers Trust Fund/Taxpayer Relief Fund: The Taxpayers Trust Fund and its successor the Taxpayer Relief Fund were created to provide tax relief for Iowans using the General Fund surplus that is in excess of the amount needed to maximize the balances in the reserve funds.[11] While the overall purpose of the two funds was similar, there were some fundamental differences in how the funds function. Requirements associated with the two funds are highlighted below:

Taxpayers Trust Fund: The Taxpayers Trust Fund was created in 2011[12] and later modified and first funded in 2013.[13] The legislation enacted in 2013 also created the Iowa Taxpayers Trust Fund Tax Credit, which was the mechanism to be used to transfer dollars from the Taxpayers Trust Fund to qualified taxpayers. Restrictions on the Trust Fund included:

- Moneys in the Trust Fund could only be used pursuant to appropriations or transfers made by the General Assembly for tax relief.
- The Trust Fund could only be used for General Fund cash flow purposes if the funds were returned to the Trust Fund by the close of the fiscal year.
- The interest earned by the Trust Fund was retained in the Trust Fund.
- The Trust Fund could receive up to $60.0 million in a given fiscal year from the excess General Fund surplus dollars after the reserve funds were fully funded. The amount that the Taxpayers Trust Fund could receive in a given fiscal year was limited to the difference between the actual net General Fund revenue for the preceding fiscal year and the Adjusted Revenue Estimate used to establish the budget for that fiscal year, or $60.0 million, whichever is less. This concept of linking the transfer amount to the difference between the estimated and actual revenues was based on the idea that if there was revenue growth during the previous year that exceeded the estimated revenues used for budgetary purposes, a portion of that growth would be returned to the taxpayers in the form of a tax credit.[14]

Taxpayer Relief Fund: 2018 Iowa Acts, ch. 1161 (State and Local Taxation, Revenue, and Finance Act), amended the Taxpayers Trust Fund provisions as follows:

- The name of the Fund was changed to the Taxpayer Relief Fund.
- The use of the Fund was changed to specify that the moneys can only be used pursuant to appropriations or transfers made by the General Assembly for tax relief, including but not limited to increases in the general retirement income exclusion under Iowa Code section 422.7(31), or reductions in income tax rates.
- The Iowa Taxpayers Trust Fund Tax Credit was repealed.
- Beginning July 1, 2020 (FY 2021), the $60.0 million cap on funds that can be annually transferred from the General Fund surplus is repealed. However, the annual transfer amount will still be limited to the difference between the actual net General Fund revenue for the preceding fiscal year and the Adjusted Revenue Estimate used to establish the budget for that fiscal year.

Figure 5 shows two separate calculations for the Taxpayers Trust Fund and one calculation for the Taxpayer Relief Fund. The first calculation, to determine the FY 2014 amount, resulted in the allocation of $60.0 million to the Trust Fund due to the actual year-end revenues exceeding

[11] Iowa Code section 8.57E (Taxpayer Relief Fund).
[12] 2011 Iowa Acts, ch. 123 (Miscellaneous Supplemental Appropriations and Public Funding Measures).
[13] 2013 Iowa Acts, ch. 123 (State and Local Taxation of Property and Income).
[14] The statutory criteria that allows a tax credit to be issued was only met twice. Tax credits of $54 and $15 per qualified taxpayer were issued for tax years 2013 and 2014, respectively.

the FY 2013 Adjusted Revenue Estimate by $544.4 million. However, in determining the FY 2015 allocation, the actual net General Fund revenues for FY 2014 fell $7.5 million below the FY 2014 Adjusted Revenue Estimate, resulting in no allocation of funds. The FY 2019 allocation to the Taxpayer Relief Fund of $13.4 million was based on the revenue and estimate data from FY 2018.

Figure 5

Taxpayers Trust Fund/Taxpayer Relief Fund Calculations
(Dollars in Millions)

Calculation to Determine FY 2014 Allocation

Taxpayers Trust Fund	FY 2013
Actual Net General Fund Revenue	$ 6,768.7
Adjusted Revenue Estimate	- 6,224.3
Difference	$ 544.4

→ Taxpayers Trust Fund Receives $60.0 million for FY 2014

Calculation to Determine FY 2015 Allocation

Taxpayers Trust Fund	FY 2014
Actual Net General Fund Revenue	$ 6,489.1
Adjusted Revenue Estimate	- 6,496.6
Difference	$ - 7.5

→ Taxpayers Trust Fund **Does Not** Receive $60.0 million for FY 2015

Calculation to Determine FY 2019 Allocation

Taxpayer Relief Fund	FY 2018
Actual Net General Fund Revenue	$ 7,383.9
Adjusted Revenue Estimate	- 7,370.5
Difference	$ 13.4

→ Taxpayer Relief Fund Receives $13.4 million for FY 2019

SIGNIFICANT CHANGES TO THE EXPENDITURE LIMITATION LAW

There have been numerous statutory changes to the expenditure limitation law since it was originally enacted in 1992. The significant changes are summarized below:

- In 1994, a requirement was enacted that prohibited the use of estimated reversions for the purpose of complying with the expenditure limitation.[15]
- Also in 1994, the General Assembly created the Rebuild Iowa Infrastructure Account (later renamed the Rebuild Iowa Infrastructure Fund) for the purpose of funding public infrastructure-related projects. The legislation included a provision allowing the General Assembly to transfer funds deposited in the GAAP Deficit Reduction Account to the Rebuild Iowa Infrastructure Account in lieu of an appropriation of the moneys to the EEF. In 1995,

15 1994 Iowa Acts, ch. 1181 (State Budget Processes).

the interest earnings on the CRF and the EEF were credited to the RIIF to be used as an ongoing revenue source for infrastructure projects.[16]

- In 1996, a requirement was enacted for the REC to include an estimate of gambling revenues and interest earned on the reserve funds that are deposited in the RIIF.[17]
- In 2001, a provision was added that required the REC to include an estimate of accrued revenues. Prior to this change, accruals were included on the General Fund balance sheet, but the estimates were not part of the REC's formal consensus estimate.[18]
- In 2001, changes were made to provisions of the EEF to allow up to $50.0 million from the EEF to be used for deficit reduction if certain conditions were met.[19]
- In 2002, the requirement directing excess moneys in the EEF to be transferred to the General Fund was changed to require the excess to be transferred to the Endowment for Iowa's Health Account and the Senior Living Trust Fund until a certain dollar amount of transfers was reached.[20] The Senior Living Trust Fund amount was originally set at $51.0 million and was changed to $300.0 million in the 2006 Legislative Session. The requirement to transfer funds to the Endowment for Iowa's Health Account was repealed in FY 2005, and the $300.0 million transfer requirement for the Senior Living Trust Fund was met at the end of FY 2010. Use of the Senior Living Trust Fund was discontinued after FY 2011.
- Legislation enacted during the 2002 Second Extraordinary Session[21] changed the statutory maximum balances (percentage goals) that can be retained in the CRF and the EEF. The CRF percentage goal was increased from 5.0% to 7.5% of the Adjusted Revenue Estimate, and the EEF percentage goal was decreased from 5.0% to 2.5%. Legislation enacted in 2003 delayed the effective date to July 1, 2004 (FY 2005).[22]
- In 2004, a provision was added to require the use of the expenditure limitation during special sessions that commence prior to the end of the fiscal year. Prior to this change, the General Assembly was not required to adhere to the expenditure limitation during a special session.[23]
- During the 2011 Legislative Session, legislation was enacted that created the Taxpayers Trust Fund and the mechanism to transfer up to $60.0 million per year from the excess General Fund surplus after the reserve funds have reached their maximum statutory balance.[24] The provision included a delayed effective date, and as a result, the first year that the Trust Fund was eligible to receive any revenue was FY 2013.
- In 2011, the General Assembly permanently moved the funding for the Performance of Duty standing appropriation to the EEF.[25] The change was effective beginning FY 2012. Prior to FY 2012, the Performance of Duty appropriation was funded from the General Fund, although other funding sources had been used periodically in place of General Fund dollars.

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16 1995 Iowa Acts, ch. 214 (State Financial Provisions).
17 1996 Iowa Acts, ch. 1218 (Appropriations — Transportation, Infrastructure, and Capital Projects).
18 2001 Iowa Acts, 2nd Extraordinary Session, ch. 2 (State Budgeting Practices).
19 2001 Iowa Acts, 2nd Extraordinary Session, ch. 6 (Miscellaneous Funding Restoration, Reductions, and Other Provisions).
20 2002 Iowa Acts, ch. 1169 (Economic Emergency Funds — Transfer to Tobacco Settlement and Senior Living Trust Funds).
21 2002 Iowa Acts, 2nd Extraordinary Session, ch. 1001 (Miscellaneous Appropriations, Reductions, Transfers, and Other Provisions).
22 2003 Iowa Acts, ch. 179 (Miscellaneous Appropriations, Reductions, Revenue Adjustments, and Other Matters).
23 2004 Iowa Acts, ch. 1175 (Government Funding, Administration, and Regulation — Appropriations and Miscellaneous Changes).
24 2011 Iowa Acts, ch. 123 (Miscellaneous Supplemental Appropriations and Public Funding Measures).
25 2011 Iowa Acts, ch. 131 (State and Local Government Financial and Regulatory Matters — Appropriations and Miscellaneous Changes).

- In 2015, the Iowa Code was amended to require the REC to meet at least once in March of each year.[26] During the March meeting, the REC is required to provide a revenue estimate for an additional fiscal year; however, the estimate is to be considered preliminary and is not to be used for calculating the General Fund expenditure limitation. The intended purpose of the additional estimate is to provide a revenue estimate for the years in which the General Assembly enacts a biennial budget.
- In 2018, the Iowa Code was amended to change the requirements associated with a contingent appropriation from the EEF that can be used to prevent a limited budget deficit in the General Fund under certain circumstances.[27] Under the amended provisions, the Governor may transfer up to 1.0% of the Adjusted Revenue Estimate for purposes of eliminating a year-end deficit in the General Fund. For this appropriation to become effective, the following conditions must be met:
  - The balance in the General Fund at the end of the fiscal year is negative.
  - The Governor issues an official proclamation and notifies the Legislative Fiscal Committee and the LSA that the balance in the General Fund is negative.

  One percent of the adjusted revenue estimate in FY 2018 would be equal to $73.7 million. This amendment replaced a previous provision that allowed up to $50.0 million to be appropriated under similar conditions from the EEF if there was a year-end deficit of the General Fund.
- In 2018, the Iowa Code was amended to change the name of the Taxpayers Trust Fund to the Taxpayer Relief Fund. The changes also included various provisions associated with how the Taxpayer Relief Fund moneys can be spent as well as the repeal of the $60.0 million cap on funds that can be annually transferred from the General Fund surplus beginning in FY 2021.[28] See page 8 for additional information regarding these changes.

EXPENDITURE LIMITATION PROVISIONS TEMPORARILY SUSPENDED

While the 99.0% expenditure limitation law has been adhered to since inception, other provisions of the law have been temporarily suspended by the General Assembly and the Governor to help balance the budget. Notable provisions that have been temporarily suspended in past legislative sessions are listed below:

- For FY 2002 through FY 2004, the General Assembly temporarily suspended the requirement to transfer the interest from the reserve funds to the RIIF and instead directed the funds to the General Fund. This provided additional General Fund revenue of $31.1 million in FY 2002, $15.5 million in FY 2003, and $7.6 million in FY 2004.
- For FY 2006,[29] FY 2007,[30] and FY 2009,[31] the provision requiring the General Assembly to use the December REC estimate was temporarily suspended to allow the use of later estimates that were higher than the respective December estimates. This allowed the General Assembly to appropriate an additional $84.2 million in FY 2006, $45.7 million in FY 2007, and $48.6 million in FY 2009.

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[26] 2015 Iowa Acts, ch. 138 (State and Local Government Financial and Regulatory Matters — Appropriations and Miscellaneous Changes).
[27] 2018 Iowa Acts, ch.1028 (Appropriation Reductions, Transfers, and Supplementals).
[28] 2018 Iowa Acts, ch. 1161 (State and Local Taxation, Revenue, and Finance).
[29] 2005 Iowa Acts, ch. 177 §13 (Compensation for Public Employees and Additional Provisions).
[30] 2006 Iowa Acts, ch. 1185 §9 (State and Local Government Financial and Regulatory Matters — Appropriations and Miscellaneous Changes).
[31] 2008 Iowa Acts, ch. 1191 §7 (State and Local Government Financial and Regulatory Matters — Appropriations and Miscellaneous Changes).

- During the 2005 and 2006 Legislative Sessions, the General Assembly temporarily suspended the requirement to transfer General Fund surplus to the CRF and instead transferred approximately $160.0 million from each year's surplus to the Property Tax Credit Fund to fund property tax credits for the subsequent fiscal years (FY 2006 and FY 2007).
- For FY 2006, the General Assembly temporarily suspended the requirement that an appropriation of up to 1.0% of the Adjusted Revenue Estimate be made to the CRF if the CRF is not at 7.5% of the Adjusted Revenue Estimate. During the 2005 Legislative Session, the estimated balance in the CRF was approximately 6.0% of the Adjusted Revenue Estimate. If this provision had not been suspended, an appropriation of $49.9 million would have been required for FY 2006.

REVENUE ESTIMATING, EXPENDITURE LIMITATIONS, AND RESERVE FUNDS IN OTHER STATES

The National Association of State Budget Officers (NASBO) published a report in 2015 entitled "Budget Processes in the States" that provides a comparative analysis of the budget practices of all 50 states.[32] The findings in the report are based on surveys completed by executive state officers in each state. The NASBO study focuses primarily on states' operating budgets, referred to as the general fund budget in most states. Included in the report are the states' practices relative to revenue forecasting and limitations on taxes and spending.

Revenue Forecasts: Estimating revenues is an essential component for the budget development process in all states. While revenue estimating processes and procedures can differ considerably between states, every state has a process in place for estimating revenues. In Iowa, the REC uses an estimating process based on consensus that includes representatives from the Executive and Legislative branches and the private sector. Executive and Legislative branch staff also play a key role in the revenue estimating process by providing technical expertise. In addition to Iowa, there are 24 other states that use some form of consensus revenue forecast. The majority of these groups have representatives from both the executive and legislative branches of government.

A total of 31 states have formal revenue estimating groups in place; however, not all use a consensus estimating process. The majority of the remaining 19 states have revenue estimates prepared informally by an executive branch agency or the governor's office. The table in **Attachment C** shows which states have a formal revenue estimating group versus another method. In eight of these states, the executive branch agency that oversees the budget is solely responsible for revenue forecasting. Twenty-one of the 50 states have a council of economic advisors that provides the assumptions for the revenue estimates used for the governors' budgets.

Tax and Expenditure Limitations: The expenditure limitation discussed here refers to legislative action on annual appropriations (spending authority) rather than a limit on states' ability to issue debt. According to the information compiled by NASBO, there are a total of 28 states that have some form of budgetary limitation on the growth of state government. These limitations can be in the form of tax growth and/or annual spending authority.

Some of the limitations restrict spending in relation to growth in personal income, population, inflation, or a combination of factors. In Oregon, South Carolina, and Texas, for example, annual appropriations are limited to the rate of personal income growth. In Nevada, the

[32] National Association of State Budget Officers, "Budget Processes in the States," 2015.

governor cannot propose general fund spending that exceeds the level of spending during the 1975-1977 biennium, adjusted for inflation and population growth.

Other states have spending limitations similar to Iowa's that represent a percentage of an overall general fund revenue estimate. In Mississippi, appropriations are limited to 98.0% of estimated revenue, while in Rhode Island, the limitation is 97.0%. Many of the expenditure limitation laws in place today date back to the late 1970s to mid-1990s. Illinois, which enacted limitation legislation in 2011, is the most recent state to adopt an expenditure limitation process. The states that have a tax and/or expenditure limitation are identified in **Attachment C**.

Reserve Funds (Budget Stabilization Funds): According to NASBO's 2015 report, nearly all states have at least one budget reserve fund, also known as a rainy day fund. The only state not listed as having a budget reserve fund is Montana. In addition, Kansas does not have a separate reserve fund, but has a statutory requirement that an enacted budget must leave an uncommitted balance of 7.5% of expenditures, which serves as a reserve balance.

The structure and requirements of reserve funds vary widely from state to state. **Attachment D** is a table from the NASBO report that lists the various requirements and characteristics of reserve funds in all 50 states and the District of Columbia.

IMPACT OF IN-PROGRESS (MIDYEAR) FISCAL YEAR ESTIMATES

As previously discussed, the REC updates the revenue estimate for the remaining months of the fiscal year in progress at each of its meetings. Significant changes in the revenue estimate for the fiscal year in progress that occur in December or later months affect the State budget process in the following ways:

- Additional revenues added to the current year estimate are eligible to fund supplemental appropriations. In addition, the expenditure limitation provisions only apply to the fiscal year that begins on the following July 1. The expenditure limitation does not apply to the fiscal year in progress.
- An increase in the revenue estimate can also increase the projected General Fund surplus for the current fiscal year if the increased dollars are not used for supplemental appropriations. The surplus from the current fiscal year can be used to fund appropriations in succeeding fiscal years by allowing the appropriated funds to carry forward and not revert at the close of the current fiscal year. This process has been used periodically by the General Assembly and the Governor to help balance the General Fund budget. Under current statute, the General Fund surplus is first to be distributed to the reserve funds. If the reserve funds are at their maximum balances, an increase in the current year's surplus will carry forward to the next fiscal year and is available for appropriation by the Governor and General Assembly.
- If the REC lowers the current year estimate to a level such that a deficit is projected, the Governor may use that information to order across-the-board reductions to General Fund appropriations, and the General Assembly may implement deappropriations. In FY 2002, FY 2003, and FY 2010, General Fund tax revenues were significantly reduced due to severe downturns in Iowa's economy. As a result, the REC lowered estimates to a level that required across-the-board reductions and significant deappropriations.

SUMMARY

The expenditure limitation law was first used by the General Assembly and the Governor for the enactment of the FY 1994 budget. Since then, the various statutes that comprise the law have assisted lawmakers in passing balanced budgets and setting aside tax dollars in reserve funds. Iowa, along with 24 other states, has a revenue estimating process based on a consensus between the Executive and Legislative branches of government. This has proved beneficial for the annual budget process as the revenue estimates serve to provide both branches with a common starting point for budget development.

In addition to annually limiting appropriations to 99.0% of revenues, the expenditure limitation law requires the General Assembly and the Governor to use common revenue estimates of the REC. The law also created the CRF, amended provisions of the EEF, established a mechanism to eliminate the GAAP deficit, and redirected the flow of the General Fund surplus to fund the reserve funds and the GAAP deficit.

Over the years, the 99.0% expenditure limitation requirement has resulted in surplus dollars being carried forward into succeeding fiscal years and added to the expenditure limitation during the budget development process. It should be noted that the use of surplus revenues for recurring expenditures may not be sustainable in the long term. The General Fund surplus is a one-time revenue source that becomes available as a function of the balance sheet.

The funding of the State's reserve funds has provided several benefits to the State, which have included:

- Providing cash flow for State expenditures so the General Fund maintains a positive cash balance throughout the fiscal year. This has significantly reduced the need for the State to borrow funds on a short-term basis for cash flow purposes.
- Allowing transfers from the reserve funds to the General Fund to balance the budget in times of declining revenues. At the close of FY 2009 and FY 2017, the General Fund budget was experiencing deficits of $45.3 million and $13.0 million, respectively, due to reductions in tax revenue collections. As a result, provisions of Iowa Code section 8.55 were implemented and funds were transferred from the EEF to the General Fund to balance the budget. In FY 2010 and FY 2018, General Fund appropriations were made to reimburse the EEF for the previous year transfers.
- Allowing policymakers to use certain sources of revenue to assist in balancing the budget during fiscal years that experienced significant tax revenue declines. In FY 2011, $268.8 million was appropriated from the CRF in place of General Fund appropriations due to a revenue shortfall in the General Fund. In FY 2017, $131.1 million was transferred from the CRF to the General Fund to help cover a projected budget shortfall.

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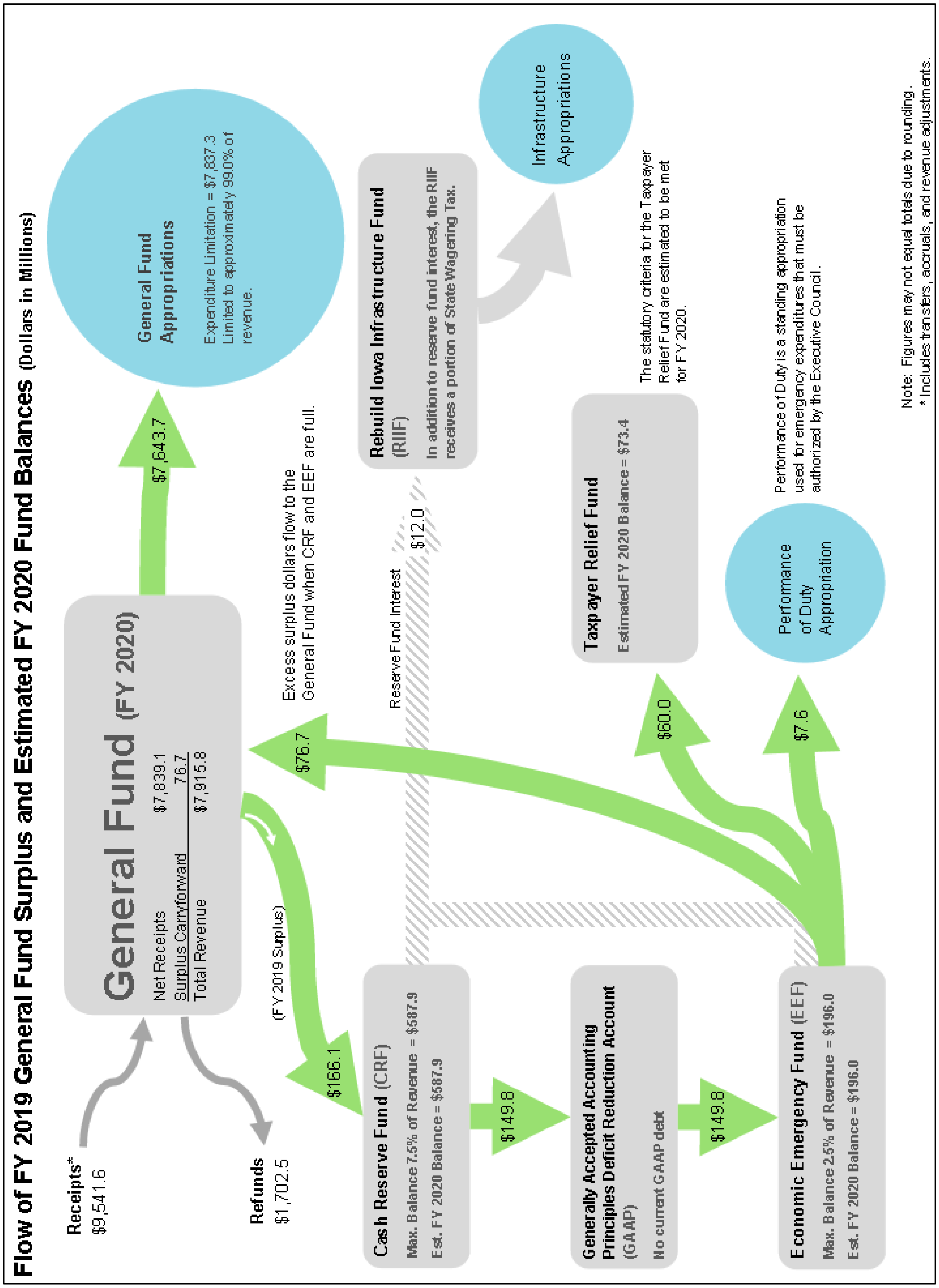
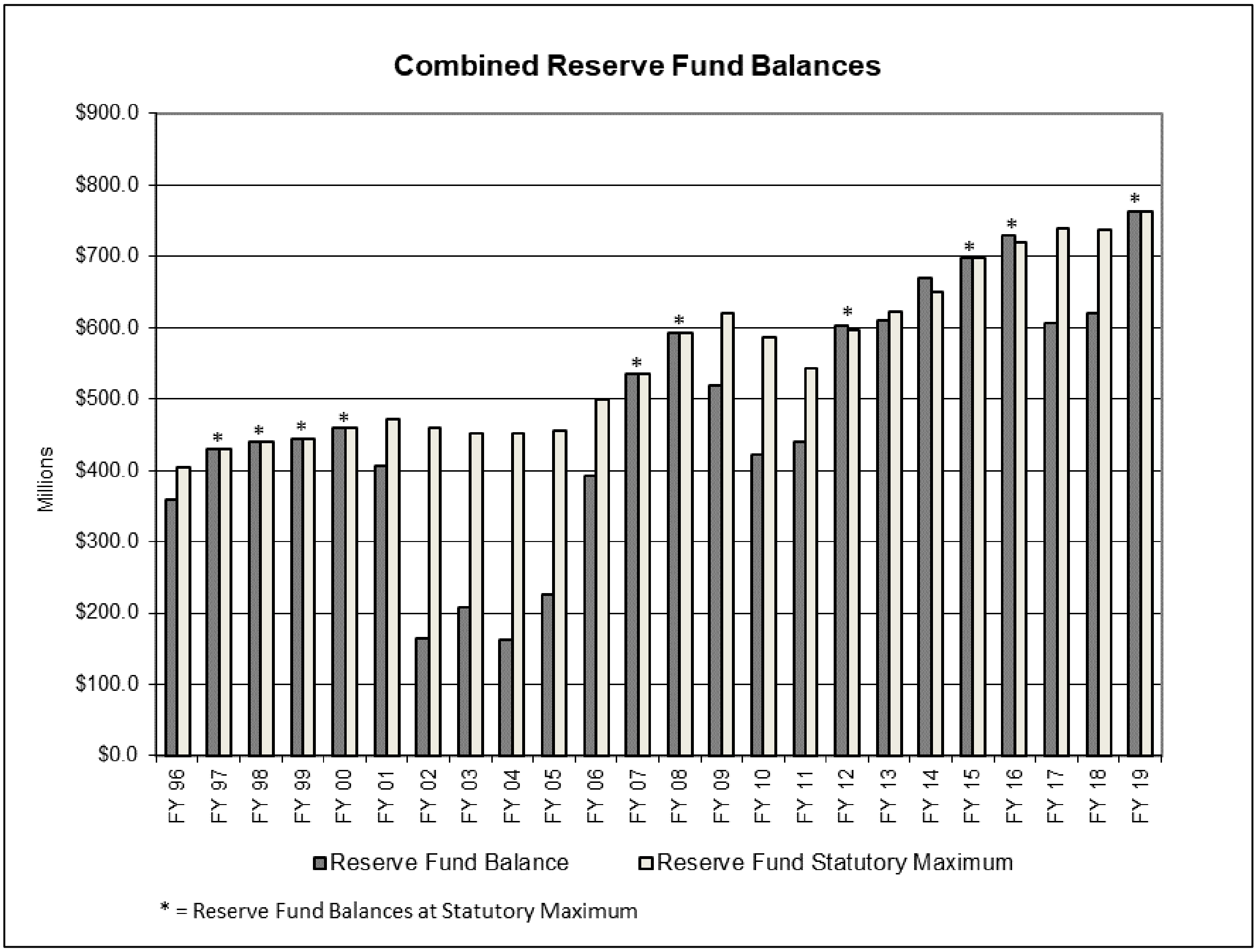
ATTACHMENT A



ATTACHMENT B



ATTACHMENT C

Comparison of States' Budget Practices

	Formal Revenue Estimating Group	Consensus Revenue Estimating Group	Economic Advisors	Tax & Expenditure Limitations
Alabama	X			
Alaska				X
Arizona				X
Arkansas				
California	X			X
Colorado	X			X
Connecticut		X		X
Delaware	X	X		
Florida	X	X		X
Georgia			X	
Hawaii	X		X	X
Idaho				X
Illinois	X		X	X
Indiana	X	X		X
Iowa	X	X		X
Kansas	X	X	X	
Kentucky	X	X		
Louisiana	X			X
Maine	X	X	X	X
Maryland	X	X	X	
Massachusetts		X	X	
Michigan	X	X	X	X
Minnesota	X		X	
Mississippi	X		X	X
Missouri		X		X
Montana				
Nebraska	X	X		
Nevada	X			X
New Hampshire				
New Jersey			X	X
New Mexico		X		
New York	X	X		
North Carolina	X	X		X
North Dakota		X		
Ohio			X	X
Oklahoma	X	X		X
Oregon	X		X	X
Pennsylvania				
Rhode Island	X	X	X	X
South Carolina	X	X	X	X
South Dakota			X	
Tennessee	X	X	X	X
Texas				X
Utah		X	X	X
Vermont	X	X	X	
Virginia	X	X	X	
Washington	X		X	X
West Virginia				
Wisconsin	X			
Wyoming	X			
Total	31	25	21	28

Source: National Association of State Budget Officers

Table 14: Budget Stabilization or "Rainy Day" Fund

State	Fund Name	Funding Source and Method to Determine Deposits	Minimum Size Required	Maximum Size Required	Procedure for Expenditure	Legal Source
Alabama	Education Trust Fund Rainy Day Fund	Funding Source—Alabama Trust Fund 6.5% of the previous fiscal year's total appropriations from the ETF, less outstanding amounts		6.5% of the previous fiscal year's total appropriations from the ETF less outstanding amounts	Governor declared "proration" when anticipated revenues are not sufficient to fund appropriations. Proration is the Governor's ability to cut appropriations across the board without legislative approval.	Constitution (Amendment 803)
	General fund Rainy Day Fund	Funding Source—Alabama Trust Fund 10% of the previous fiscal year's total appropriations from the GF, less outstanding amounts		10% of the previous fiscal year's total appropriations from the ETF, less outstanding amounts	Governor declared "proration" when anticipated revenues are not sufficient to fund appropriations. Proration is the Governor's ability to cut appropriations across the board without legislative approval.	Constitution (Amendment 803)
	Education Trust Fund Budget Stabilization Fund	Funding Source—Education Trust Fund Any excess, after the ETF Rainy Day is repaid in full, of total revenues deposited in the ETF during the immediately preceding fiscal year over that same fiscal year's appropriation cap.		20% of the current fiscal year's appropriations from the ETF	Governor declared "proration" when anticipated revenues are not sufficient to fund appropriations. Proration is the Governor's ability to cut appropriations across the board without legislative approval.	Statute
Alaska*	Budget Reserve Account	Unexpended balance and appropriations			Appropriation	Statute (Alaska Stat. § 37.05.540)
	Constitutional Budget Reserve Fund	Oil and Gas litigation/disputes settlements			3/4 Vote of Legislature	Constitution
	Permanent Fund & Earnings Reserve	At least 25 percent of all mineral lease rentals, royalties, royalty sales proceeds, federal mineral revenue-sharing payments and bonuses received by the state be placed in a permanent fund, the principal of which may only be used for income-producing investments			The Alaska Constitution says that the principal may not be spent. The earnings in the earnings reserve may be spent by the Legislature for any public purpose, including the Permanent Fund Dividend distribution.	Constitution
Arizona	Budget Stabilization Fund	Annual general fund revenue growth in excess of the seven-year average growth is deposited into the Budget Stabilization Fund.		7.0% of current year general fund revenue	Automatic deposits into the general fund if general fund revenue growth is less than 2% and less than the seven-year average growth	Statute
Arkansas*	Budget Stabilization Fund	1/2 interest on state treasury balances			Distributes money (when available) to various fund accounts	Statute
California	Special Fund for Economic Uncertainties (SFEU)	General Fund, Deposits determined by the Governor			Upon direction of the Governor for emergencies or upon appropriation by the legislature	Statute
	Budget Stabilization Account (BSA)	Fifty percent of the sum of the following: 1) Portion of capital gain revenues in excess of 8 percent of General Fund tax revenues that are not required to fund Proposition 98 expenditures and 2) 1.5 percent of annual General Fund revenues.		10% of General Fund tax revenues	Upon appropriation after Governor declares budget emergency.	Constitution
Colorado	General Fund Appropriations Reserve	6.5% of State General Fund Appropriations (appropriations which are subject to the appropriations limit)	6.5%	Depends on the mechanisms set by the General Assembly for that fiscal year. It has differed by year.	Reserve would need to be refilled if spent unless the statute authorizing the 6.5% were amended.	Statute
Connecticut	Budget Reserve Fund	Unappropriated surplus after the books are closed for the fiscal year		10 percent of the General Fund	Deemed appropriated for purposes of funding a deficit	Constitution and Statute
Delaware	Budget Reserve Account	The excess of any unencumbered funds remaining from the said fiscal year shall be paid into the Budget Reserve Account, provided, however, that no such payment will be made which would increase the total of the Budget Reserve Account to more than 5 percent of the estimated State General Fund revenue			Three-fifths vote of General Assembly, to be used for unanticipated deficit, or to fund revenue reduction enacted by General Assembly	Constitution and Statute
Florida	Budget Stabilization Fund (BSF)	An amount equal to at least 5% of the last completed fiscal year's net revenue collections for the General Revenue (GR) fund. Legislature could appropriate more deposits if desired.			Used to cover revenue shortfalls or Governor—declared emergencies	Constitution
Georgia	Revenue Shortfall Reserve	Any funds received in the General Fund over and above the amount expensed for operations during the fiscal year are lapsed to the RSR.		15% of prior year net treasury receipts	1% of prior year revenues are appropriated annually in the mid-term budget for K-12 enrollment growth. The Governor may also include funds from the RSR in his revenue estimate if the total balance of the RSR exceeds 4% of prior year net revenues.	Statute
Hawaii*	Emergency and Budget Reserve Fund (EBRF)	The EBRF receives money from three sources: (1) tobacco settlement monies, (2) appropriations made by the legislature, and (3) 5% of the state general fund balance under conditions established by the Hawaii State Constitution and Section 328L-3, Hawaii Revised Statutes.			2/3 vote of legislature	Statute

Table continued on next page.

Table 14: Budget Stabilization or "Rainy Day" Fund (continued)

State	Fund Name	Funding Source and Method to Determine Deposits	Minimum Size Required	Maximum Size Required	Procedure for Expenditure	Legal Source
Idaho*	Budget Stabilization Fund	If the General Fund receipts exceed the previous year by more than 4%, receipts up to 1% of the actual collections of the previous fiscal year are transferred. Other amounts can be transferred if approved by the legislature.		10% of the total General Fund receipts of the previous fiscal year.	Board of Examiners may approve a transfer to the General Fund if monies are insufficient to meet appropriation.	Statute
	Public Education Stabilization Fund	Discretionary funds appropriated over actual support unit amounts are transferred to PESF. School District Building Acct funds over the distribution amount are also transferred.		Funds over 8.334% of the current fiscal year's total appropriation of state funds for public schools support are transferred to the bond levy equalization fund	Transfer by state controller if appropriated discretionary funds are less than necessary for actual support units; for school building maintenance matching funds; and by the Board of Examiners or legislature if there is a General Fund shortfall.	Statute
	Economic Recovery Reserve Fund	Originally funded with cigarette tax revenue			Legislature must appropriate for meeting General Fund revenue shortfalls, disaster expenses, or one-time tax relief payments to the citizens of Idaho.	Statute
Illinois*	Budget Stabilization Fund	"monies appropriated or transferred to that Fund, as provided in Section 6z-43 [seed money from the Master Tobacco Settlement] and as otherwise provided by law"			State Comptroller may direct transfers to the General Revenue Fund in order to meet cash flow deficits resulting from timing variations between disbursements and the receipt of funds within a fiscal year; any such transfers must be returned by June 30	Statute
Indiana	Economic Stabilization Fund (Rainy Day Fund)	General Fund transfers in and out are determined by the annual growth rate of adjusted personal income.			Funding cannot be spent only transferred to the General Fund based on the annual growth rate of adjusted personal income.	Statute
	Medicaid Contingency and Reserve Account	Appropriations may be made to account and the Budget Agency may transfer excess Medicaid appropriations into the account			Dollars are transferred to Medicaid for expenditure when the Budget Director determines that existing appropriations and/or allotments are insufficient.	Statute
	State Tuition Reserve Fund	Appropriations may be made to account and the Budget Agency may transfer money to the account.			If the Budget Director determines that General Fund revenues are insufficient to fully fund tuition support distributions in the Budget Bill, then this fund may be used to cover the distribution.	Statute
Iowa	Cash Reserve Fund	Previous year's General Fund surplus		7.5% of adjusted revenues for that fiscal year	Appropriations are allowed out of the Cash Reserve Fund if the monies are used for non-recurring emergency expenditure. The appropriation is approved by a simple majority if the Fund is not reduced to below 3% of adjusted revenues. 60% approval is needed if the fund is reduced below 3.75%.	Statute
	Economic Emergency Fund	Excess funds from the Cash Reserve Funds (after the Cash Reserve Fund hits the 7.5% maximum)		2.5% of adjusted revenues for that fiscal year.	Appropriations are allowed for an emergency expenditure in the current fiscal year. Also an appropriation from the fund can occur to reduce a negative ending balance in the General Fund. This is limited to $50.0 million and certain contingencies must be met.	Statute
Kansas*	See footnote.					
Kentucky	Budget Reserve Trust Fund	Surplus revenues and unexpended General Fund appropriations and sometimes, direct appropriations.		5% of actual General Fund receipts collected during the fiscal year just ended.	Prescribed in a budget reduction plan or prescribed non-sum-specific appropriations within budget bills.	Statute
Louisiana	Budget Stabilization Fund	Mineral revenues exceeding $850 million and 25% of nonrecurring revenues up to the cap of the fund.		4% total state revenue receipts for the previous fiscal year less federal disaster assistance. The FY14 cap is $800.68 million.	(1) If the official forecast of recurring money for the next fiscal year is at least 1% less than the official forecast for the current fiscal year; (2) If a deficit for the current fiscal year is projected due to a decrease in the official forecast. Limited to 1/3 of the balance of the fund.	Constitution with further requirements set in statute
Maine	Budget Stabilization Fund	After transfers to the State Contingent Account and the Loan Insurance Reserve Fund, 48% of the General Fund unappropriated surplus remaining after all required deductions of appropriations, budgeted financial commitments and adjustments, is transferred to the Budget Stabilization Fund.	Amounts in the stabilization fund may not be reduced below 1% of total General Fund revenue in the immediately preceding state fiscal year.	Amounts in the stabilization fund may not exceed 12% of total General Fund revenues in the immediately preceding state fiscal year.	Amounts in the stabilization fund may be used to offset a General Fund shortfall, pay death benefits, state valuation adjustments, and emergency management assistance compact transfers.	5 MRSA §1532

Table continued on next page.

Table 14: Budget Stabilization or "Rainy Day" Fund (continued)

State	Fund Name	Funding Source and Method to Determine Deposits	Minimum Size Required	Maximum Size Required	Procedure for Expenditure	Legal Source
Maryland*	Revenue Stabilization Account	Mandated appropriations based on the size of the balance of the fund as a percentage of estimated General Fund revenues. There is an additional mandated appropriation to the account based on the unappropriated surplus as of June 30 of the second preceding year that exceeds $10 million.			The Governor may transfer amounts in excess of 5% of estimated General Fund revenues as specifically authorized in the State Budget. If a transfer would result in a balance that was less than 5% of estimated General Fund revenues, the transfer must be authorized by an act of the General Assembly.	Statute
Massachusetts	Commonwealth Stabilization Fund	Year-End Surplus & Excess Capital Gains Revenue		15% of Annual Revenue	Requires Legislative Authorization	Statute
Michigan*	Countercyclical Budget and Economic Stabilization Fund	General fund deposits may be triggered by annual growth in Michigan personal income or by legislative action to increase the Rainy Day fund balance. All deposits require an appropriation.		Balance may not exceed 10% of the combined general fund and school aid fund revenue for the fiscal year.	Withdrawals/expenditures may be triggered by a decline in Michigan personal income, an unemployment rate of 8% or more, a balance in excess of the statutory limit, or by legislative action to support state programs and services. All expenditures require an appropriation.	Statute
	School Aid Stabilization Fund (SASF)	Deposits include any remaining unreserved fund balance in the School Aid Fund at year-end; money statutorily dedicated to the SASF; and money appropriated to the SASF.			State law provides for an appropriation from the SASF when School Aid Fund appropriations exceed School Aid Fund revenues	Statute
Minnesota	Budget Reserve Account	The reserve is a bookkeeping account in the general fund. Deposits to the account occur from legislative action and a deposit rule that allocates 1/3 of a November forecast balance to the budget reserve.		Based on total general fund revenues and volatility of tax structure. $1.9 billion for FY 2014-15.	Minnesota Management Budget with the approval of the Governor and after consulting the Legislative Advisory Council. The legislature may also authorize its use.	Statute—Minnesota Statutes 16A.152
	Cash Flow Account	The cash flow account is a bookkeeping account in the general fund funded by one-time appropriations.		Set in statute at $350 million	Legislative action is required to reduce amounts in the account. Used if needed to meet cash flow deficiencies resulting from uneven distribution of revenue collections and required expenditures during a fiscal year.	Statute (Minnesota Statutes 16A.152)
Mississippi*	Working Cash Stabilization Reserve Fund	General Funds/Ending Cash Transfers and/or Appropriation		7.5 Percent of General Fund Appropriation	Appropriation, Cover projected deficits except for $40m	Miss. Code Ann. § 27-103-203 (2013)
Missouri	Budget Reserve Fund	General Revenue—The fund must have 7 1/2% of the net general revenue collections for the previous fiscal year. The fund also collects interest on the balance.	7 1/2% of net general revenue collections for the previous fiscal year.	10% of net general revenue collections for the previous fiscal year, with legislative approval.	The Governor may determine a shortfall or disaster and then request action by the legislature. The legislature may authorize an emergency appropriation out of the fund with a two-thirds majority. Only one-half of the fund may be used for rainy day or disaster purposes.	Constitution
Montana						
Nebraska	Cash Reserve Fund	Primarily General Fund receipts in excess of a certified consensus revenue forecast for a fiscal year			None are made directly from the Cash Reserve Fund. Transfers out of the Cash Reserve Fund to be used for expenditure from another fund are only at the direction of the Legislature.	Statute
Nevada*	Account to Stabilize the Operation of the State Government	At the close of the fiscal year, subtract 7 percent of General Fund (GF) balance from the ending GF balance, then transfer 40% of the remainder to the stabilization fund.		Stabilization balance must not exceed 20% of the operational appropriations from the General Fund.	If a) Actual revenue is 5% or more less than budgeted; or b) the Legislature or Legislative Interim Finance Committee (IFC) and the Governor declare a fiscal emergency, the Executive Branch can ask IFC. In addition, the Legislature may allocate stabilization funds "to be used for any other purpose"	Statute
New Hampshire*	Revenue Stabilization Reserve Account	At the close of each fiscal biennium, any general fund surplus as determined by the official audit pursuant to RSA 21-I:8, II(a) shall be transferred to the special revenue stabilization reserve account, which is a general fund, non- lapsing general ledger account.		Any single fiscal year transfer of general fund surplus to the revenue stabilization reserve account cannot exceed 5% of the actual general fund unrestricted revenues for the most recently completed fiscal year.	See footnote.	Statute
New Jersey*	Surplus Revenue Fund	50% of amount by which actual General Fund revenue exceeds anticipated revenues added to the fund, subject to statutory adjustments.			The Governor certifies to the Legislature that revenues are estimated to be less than certified. The Legislature appropriates the funds. Also, if the Governor declares an emergency and the Legislature approves.	Statute

Table continued on next page.

Table 14: Budget Stabilization or "Rainy Day" Fund (continued)

State	Fund Name	Funding Source and Method to Determine Deposits	Minimum Size Required	Maximum Size Required	Procedure for Expenditure	Legal Source
New Mexico	Appropriation Contingency Fund	General Fund revenues from a variety of sources			Subject to appropriation by the Legislature	Statute
New York	Tax Stabilization Reserve Fund	General Fund surplus at end of fiscal year, provided that such amount to be transferred shall not exceed 0.2 percent of the General Fund norm.		The reserve fund shall not increase to an amount in excess of 2 percent of General Fund norm.	Transfer to the General Fund to finance a cash basis operating deficit.	Statute
	Rainy Day Reserve Fund	Transfers from the General Fund		Not to exceed 5 percent of the amount projected to be disbursed from the General Fund.	The Fund may only be used to meet General Fund financial plan shortfalls attributable to economic downturns or to finance expenses related to catastrophic events.	Statute
North Carolina	Savings Reserve Account	General Fund Unreserved Balance	1/4 of Credit Balance	8% of the amount appropriated	The Controller shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year.	143C-4-2
North Dakota	Budget Stabilization Fund	After the biennial budget is set, the amount that would bring the BSF up to its maximum amount is transferred to the BSF from the General Fund.		10% of appropriated general fund expenditures.	Actual revenues must be 2.5 percent below forecast before the Governor can access the BSF.	Statute
	Foundation Aid Stabilization Fund	10% of the Oil Extraction Taxes			If revenues fall below forecast, foundation aid, transportation aid for schools and special education are made whole by a transfer from this fund.	Constitution
Ohio	Budget Stabilization Fund	Transfers from the general revenue fund		Up to 5% of total prior year receipts deposited into the general revenue fund	Legislative action is necessary for expenditure	Statute
	Medicaid Reserve Fund	Transfers from the general revenue fund			Legislative action or Controlling Board approval is necessary for expenditure	Statute
Oklahoma	Constitutional Reserve Fund	Actual revenue collections in excess of 100% of the estimate.		15% of the prior year General Revenue collections.	3/8—current year shortfall 3/8—next year shortfall 1/4—emergency approved by 2/3 vote of the Legislature & Governor	Constitution
Oregon*	Rainy Day Fund	1% of GF appropriations in previous biennium from ending balance to the RDF. If the ending balance does not equal or exceed 1% of the amount of GF appropriations, an amount equal to the ending balance shall be transferred to the RDF. Plus dedicated portion of Corp. Taxes.		Cap of 7.5 percent of General Fund revenue in the previous biennium	3/5 vote of legislature if certain revenue or economic conditions are met. Can spend up to 2/3 of balance in a biennium.	Statute
	Education Stability Fund	Funding source is 18% of net lottery proceeds.		Cap of 5 percent of General Fund revenue in previous biennium.	3/5 vote of legislature if certain revenue or economic conditions are met, or 3/5 vote of legislature and Governor declares emergency.	Constitution and statute
Pennsylvania	Budget Stabilization Reserve Fund	Revenue to the Budget Stabilization Reserve Fund is provided through an annual transfer of 25 percent of the General Fund fiscal year ending surplus.		If the fund's ending balance would equal or exceed six percent of actual General Fund revenues for the fiscal year in which the surplus occurs, the General Fund transfer would be reduced to ten percent.	2/3 legislative vote with the Governor's request	Statute
Rhode Island	Budget Reserve and Cash Stabilization Fund	Three percent (3.0%) of general revenues are deposited to the Rainy Day Fund. Calculated as part of the annual audit.		Five percent (5.0%) of general revenue resources.	Funds may be appropriated from the Rainy Day Fund by the General Assembly, but must be paid back in the following fiscal year.	Constitution
South Carolina	General Reserve	General Fund revenue collections. One time transfer at the beginning of the next fiscal year.	5% of revenues for the most recently completed fiscal year.		Used only in event of statewide General Fund deficit, after completely eliminating the State's 2% Capital Reserve.	Constitution and Statute
	Capital Reserve	General Fund revenues of the budgeted year. One time transfer at the beginning of the fiscal year.	2% of general fund revenues for the most recently completed fiscal year.		Appropriations are set aside until end of fiscal year. This reserve must first be applied towards a year-end operating deficit, if necessary. The residual may then be appropriated for capital related and nonrecurring expenditures in the next fiscal year.	Constitution and Statute
South Dakota	Budget Reserve fund	Automatic deposit of any unspent general funds at year end.		5% of General Fund in prior year's General Appropriations Act	Legislative appropriation	Statute
Tennessee	Reserve for Revenue Fluctuations	Ten percent of state tax revenue growth allocated to General and Education Fund.			Appropriations guided by statute if there is a revenue shortfall.	Statute

Table continued on next page.

Table 14: Budget Stabilization or "Rainy Day" Fund (continued)

State	Fund Name	Funding Source and Method to Determine Deposits	Minimum Size Required	Maximum Size Required	Procedure for Expenditure	Legal Source
Texas	Economic Stabilization Fund	Transfer to the economic stabilization fund one-half of any unencumbered positive balance of general revenues on the last day of the preceding biennium.		During each fiscal biennium, the amount in the economic stabilization fund may not exceed an amount equal to 10 percent of the total amount, excluding investment income, interest income, and amounts borrowed from special funds, deposited in general revenue during the preceding biennium.	Legislature may appropriate the fund for any purpose if two-thirds vote of the members present	Article III Section 49-g
Utah	General Fund Budget Reserve Account	General Fund automatic transfers of 25% of year-end surplus, plus any repayments		Up to 8% General Fund Appropriation threshold for automatic surplus transfers	Must be appropriated by the Legislature and approved by the Governor	Statute
	Education Fund Budget Reserve Account	Education Fund (primarily income taxes), automatic transfers of 25% of year-end surplus, plus any repayments		Up to 9% General Fund Appropriation threshold for automatic surplus transfers	Must be appropriated by the Legislature and approved by the Governor	Statute
	Medicaid Growth Reduction and Budget Stabilization Account	General Fund automatic surplus transfer, subject to certain conditions related to Medicaid growth			Must be appropriated by the Legislature and approved by the Governor	Statute
Vermont *	Budget Stabilization Reserve	General Fund—capped at 5% of prior year appropriations.			Automatic when deficit occurs at year end.	Statute
	Balance Reserve	Determined by the Emergency Board			Laid out in statute.	Statute
Virginia	Revenue Stabilization Fund	15% of average annual revenue form individual, corporate and retail sales taxes for the prior 3 years.		Capped at 15% of average annual revenue form individual, corporate and retail sales taxes for the prior 3 years.	Legislative appropriation	Constitution (Article X Section 8)
Washington	Budget Stabilization Account	One percent of general state revenues and Investment income			Requires majority vote of Legislature if: 1) forecasted state employment growth is less than 1%; or 2) the Governor declares an emergency resulting from an event that requires action to protect life/public safety. Other withdrawals may be made by 3/5ths vote of Legislature, ratified by voters.	Statute (RCW 43.79.490)
West Virginia	Revenue Shortfall Reserve Fund	The first 50% of all General Revenue surplus at the end of each fiscal year (up to 13% of General Revenue appropriations for the fiscal year just ended). Also funded from investment earnings.		If fund reaches 13% of General Revenue appropriations for the fiscal year just ended then there is no further deposit required.	Legislature is authorized to make appropriations from the fund for revenue shortfalls, emergency revenue needs caused by acts of God or natural disasters or for other fiscal needs as determined solely by the Legislature.	Statute
	Revenue Shortfall Reserve Fund—Part B	Consists of monies transferred from the WV Tobacco Settlement Medical Trust Fund and all interest and other return earned on the monies invested.			No funds may be expended from this fund unless all monies in the Revenue Shortfall Reserve Fund have first been expended—then only for revenue shortfalls, emergency revenue needs caused by acts of God or natural disasters or for other fiscal needs as determined solely by the Legislature.	Statute
Wisconsin	Budget Stabilization Fund	Fifty percent of unanticipated revenues			Legislative Appropriation	Statute
Wyoming	Budget Reserve Account				Legislative Appropriation	
	Legislative Stabilization Reserve Account				Legislative Appropriation	
District of Columbia*	Fiscal Stabilization Reserve Fund	From uncommitted unassigned funds at year-end	2.34 percent of adjusted expenditures		May be used by the Mayor, as certified by the Chief Financial Officer, with approval of the Council by act.	Statute
	Cash Flow Reserve Fund	From uncommitted unassigned funds at year-end	8.33 percent of operating budget		By the Chief Financial Officer to cover cash-flow needs.	Statute

* See Notes to Table 14 on page 80.