ISSUE REVIEW

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State of Iowa Expenditure Limitation Process

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ISSUE

This ***Issue Review*** examines Iowa's expenditure limitation law and recent statutory and session law changes that have modified the process. This ***Issue Review*** also includes examples to illustrate the various aspects of the expenditure limitation law as they apply to legislative decision making. At the end of this ***Issue Review*** is a schematic showing the distribution of FY 2016 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, 8.54, 8.55, 8.56, and 8.57

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

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 tax 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 that would cause the final budget to exceed the expenditure limitation. Iowa Code section 8.55(3)(c) provides an appropriation of up to $50.0 million 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, Opinion No. 92-4-2(L), March 16, 1992.

[3] 1992 Iowa Acts, ch. 1227 (SF 2351 — State Budget and Financial Control Act).

REVENUE ESTIMATING CONFERENCE

One of the most 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 has adopted a revenue estimating process 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 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 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 at its meeting held during the regular legislative session, compared to the December estimate, 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 a lower estimate is agreed to during the legislative session 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 budget using the lower estimate.[4] The REC has lowered the December estimate six times since the inception of the expenditure limitation law.[5] This most recently occurred on March 16, 2016, when the REC lowered the FY 2017 estimate by $46.4 million compared to the December estimate, plus adjustments for federal law changes, requiring the Governor to submit a revised General Fund budget on March 31, 2016.
- 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.
- 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.
- The REC is required to meet at least once in March of each year. 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 16, 2016, meeting, the REC revised the estimates for the current fiscal year (FY 2016), and the fiscal year beginning July 1, 2016 (FY 2017). The REC also provided an estimate for the following fiscal year that will begin on July 1, 2017 (FY 2018). However, Iowa Code section 8.22A specifies that the additional

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

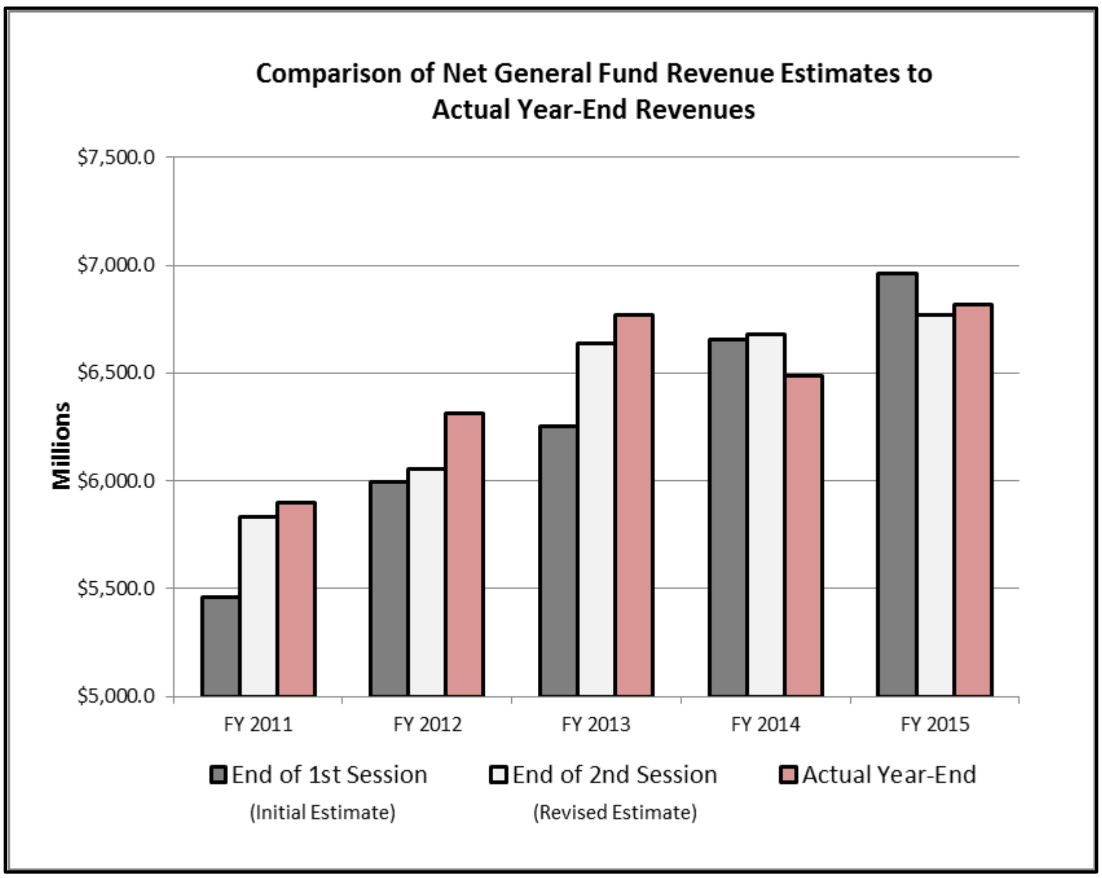
[5] The Revenue Estimating Conference has lowered the December estimate on six occasions since the inception of the expenditure limitation law in 1992. These lower estimates were established at REC meetings that occurred in March or April during the 2001, 2002, 2003, 2009, 2015, and 2016 legislative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

estimate is considered preliminary and is not to be used for calculating the State General Fund expenditure limitation.

Figure 1 compares two revenue estimates for each fiscal year from FY 2011-2015, 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 estimates 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 three of the five fiscal years (FY 2011-2013), the actual year-end revenues exceeded the initial estimate by an average $424.5 million (7.2%). The disparity can largely be explained by considering the timing of the estimates. During this period, the state was recovering from the economic recession of 2008 and initial estimates for each of those three fiscal year budgets were relatively cautious due to economic uncertainty. For FY 2014 and FY 2015, the initial estimates for those budgets exceeded the year-end revenues by an average of $155.8 million (2.3%). The slower revenue growth in FY 2014 and FY 2015 was largely influenced by legislative action that permanently transferred more than $180.0 million in cigarette/tobacco taxes and state wagering tax revenue from the General Fund to other funding sources.

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. [6]

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

- The expenditure limitation for the budget that 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 Taxpayers Trust 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 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 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%.

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

- The sum of these calculations becomes the expenditure limit on appropriations for the next fiscal year.

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%	$ 7,623.0
2.	Revenue Adjustments				
	Revenue Increases	$ 75.0	X	95%	$ 71.3
	Revenue Decreases	-25.0	X	100%	-25.0
	Total Net Revenue Adjustments	$ 50.0			$ 46.3
3.	Adjusted Revenue Estimate	$ 7,750.0			
4.	Economic Emergency Fund Excess	$ 120.0		100%	$ 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. *The Adjusted Revenue Estimate (REC Est. + Revenue Adjustments).*
4. *These funds represent the dollars remaining from the previous fiscal year surplus after the balances in the reserve funds have reached the statutory maximum.*
5. *The expenditure limitation is the sum of the individual calculations listed above and represents 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 that include 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 Taxpayers Trust Fund. The reserve funds provide the necessary proceeds to allow the state to cash flow state 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 2016 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 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 of Representatives, and 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. Furthermore, the interest earnings of the CRF are credited to the Rebuild Iowa Infrastructure Fund (RIIF).

Iowa statute 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 with Generally Accepted Accounting Principles (GAAP) by the end of FY 1995.[7] 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).

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. Prior to FY 2010, the excess revenue was transferred to the Senior Living Trust Fund until a cumulative total of $300.0 million was transferred. The $300.0 million transfer requirement was met at the end of FY 2010.

An appropriation of up to $50.0 million from the EEF is made available for the purpose of preventing a deficit in the General Fund;[8] however, all of the following conditions must be met:

- Either the fourth-quarter REC estimate was, or actual year-end receipts are, 0.5% less than the third-quarter REC estimate.
- The Governor implemented across-the-board appropriation reductions during the fiscal year that were not sufficient to prevent the deficit. This condition does not apply if the Governor could not implement the reductions due to the lateness of the realization of the deficit.
- The year-end General Fund balance was negative.

[7] 1992 Iowa Acts, ch. 1227 (SF 2351 — State Budget and Financial Control Act).
[8] Iowa Code section 8.55 (Economic Emergency Fund).

- The Governor must issue an official proclamation and notify the Legislative Fiscal Committee and the Legislative Services Agency that a deficit occurred and that across-the-board reductions were either insufficient to eliminate the deficit or could not be implemented.

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.

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 to the Executive Council to pay the expenses that are approved through the Performance of Duty appropriation.[9] 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 Taxpayers Trust Fund. An explanation of how the amount of that transfer is determined is discussed on page 8. Any excess surplus funds remaining after the Taxpayers Trust Fund obligations are met are transferred to the General Fund (see **Attachment A**).

Figure 4 shows the calculations for the Cash Reserve Fund and Economic Emergency Fund 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 programs. Since FY 2012, the combined balance in the reserves have totaled 10.0% of the Adjusted Revenue Estimate. In FY 2017, the total reserve funds balances are estimated to be $738.0 million. **Attachment B** shows the combined balances of the CRF and EEF and the statutory maximum balances for FY 2008 to FY 2017.

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

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

Taxpayers Trust Fund: The Taxpayers Trust Fund was created for the purpose of returning excess General Fund revenue to Iowans.[10] Requirements associated with the Trust Fund are highlighted below:

- Moneys in the Trust Fund can only be used pursuant to appropriations made by the General Assembly for tax relief.
- The Trust Fund can be used for General Fund cash flow purposes if the funds are returned to the Trust Fund by the close of the fiscal year.
- The interest earned by the Trust Fund is retained in the Trust Fund.
- The Trust Fund can receive up to $60.0 million in a given fiscal year from the excess General Fund surplus dollars after the CRF and EEF are fully funded. The amount that the Taxpayers Trust Fund can receive in a given fiscal year is 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. For example, the amount that the Fund may receive in FY 2017 will be calculated by subtracting the Adjusted Revenue Estimate for the FY 2016 budget from the actual year-end net General Fund receipts for FY 2016. This concept was based on the idea that if there was revenue growth 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.

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

Since its inception in 2011, the Taxpayers Trust Fund has received allocations in FY 2013 and FY 2014. These allocations were used to fund tax credits in tax years (TY) 2014 and 2015 to qualified taxpayers. The tax credits disbursed a total of $84.6 million for TY 2014 and $27.7 million for TY 2015, resulting in income tax credits of $54 and $15 per qualified taxpayer, respectively.

[10] Iowa Code section 8.57E (Taxpayers Trust Fund).

Figure 5

Taxpayers Trust Fund Calculation
(Dollars in Millions)

Calculation to Determine FY 2014 Allocation

	FY 2013	
Actual Net General Fund Revenue	$ 6,768.7	Taxpayers Trust Fund Receives $60.0 million for FY 2014
Adjusted Revenue Estimate	- 6,224.3	
Difference	$ 544.4	

Calculation to Determine FY 2015 Allocation

	FY 2014	
Actual Net General Fund Revenue	$ 6,489.1	Taxpayers Trust Fund **Does Not** Receive $60.0 million for FY 2015
Adjusted Revenue Estimate	- 6,496.6	
Difference	$ - 7.5	

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.[11]
- In 1994, the General Assembly also 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 Infrastructure Fund in lieu of an appropriation of the moneys to the EEF. In 1995, 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.[12]
- In 1996, a requirement was enacted for the REC to include an estimate for gambling revenues and the interest earned on the reserve funds that are deposited in the RIIF.[13]
- In 2001, a provision was added that required the REC to include an estimate of accrued revenues in the quarterly estimate. 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.[14]
- 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 are met.[15]
- In 2002, the requirement directing excess moneys in the EEF to be transferred to the General Fund was changed to require the excess be transferred to the Endowment for Iowa's Health Account and the Senior Living Trust Fund until a certain dollar amount of

[11] 1994 Iowa Acts, ch. 1181 (State Budget Processes).
[12] 1995 Iowa Acts, ch. 214 (State Financial Provisions).
[13] 1996 Iowa Acts, ch. 1218 (Appropriations — Transportation, Infrastructure, and Capital Projects).
[14] 2001 Iowa Acts, 2nd Extraordinary Session, ch. 2 (State Budgeting Practices).
[15] 2001 Iowa Acts, 2nd Extraordinary Session, ch. 6 (Miscellaneous Funding Restoration, Reduction, and Other Provisions).

transfers was reached.[16] The Senior Living Trust Fund amount was originally set at $51.0 million and changed to $300.0 million in the 2006 Legislative Session. The requirement to transfer funds to the Endowment 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.

- Legislation enacted during the 2002 Second Extraordinary Session[17] 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).[18]
- 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.[19]
- 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.[20] The provision included a delayed effective date, and as a result, the first year that the 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.[21] 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.
- In 2015, the Iowa Code was amended to require the REC to meet at least once in March of each year.[22] 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.

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

- For FY 2006[23], FY 2007[24], and FY 2009[25], the provision requiring the General Assembly to use the December REC estimate was notwithstood to allow the use of later estimates that were higher than the respective December estimates. This allowed the General Assembly

[16] 2002 Iowa Acts, ch. 1169 (Economic Emergency Funds — Transfer to Tobacco Settlement and Senior Living Trust Funds).
[17] 2002 Iowa Acts, 2nd Extraordinary Session, ch. 1001 (Misc. Appropriations, Reductions, Transfers, and Other Provisions).
[18] 2003 Iowa Acts, ch. 179 (Miscellaneous Appropriations, Reductions, Revenue Adjustments, and Other Matters).
[19] 2004 Iowa Acts, ch. 1175 (Government Funding, Administration, and Regulation — Appropriations Miscellaneous Changes).
[20] 2011 Iowa Acts, ch. 123 (Miscellaneous Supplemental Appropriations and Public Funding Measures).
[21] 2011 Iowa Acts, ch. 131 (State and Local Government Financial and Regulatory Matters).
[22] 2015 Iowa Acts, ch. 138 (State and Local Government Financial and Regulatory Matters).
[23] 2005 Iowa Acts, ch. 177, § 13 (Compensation for Public Employees and Additional Provisions).
[24] 2006 Iowa Acts, ch. 1185, § 9 (State and Local Gov't Financial and Regulatory Matters - Appropriations and Misc. Changes).
[25] 2008 Iowa Acts, ch. 1191, § 7 (State and Local Gov't Financial and Regulatory Matters - Appropriations and Misc. Changes).

to appropriate an additional $84.2 million in FY 2006, $45.7 million in FY 2007, and $48.6 million in FY 2009.

- During the 2005 and 2006 legislative sessions, the General Assembly notwithstood the requirement to have the General Fund surplus transferred 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 notwithstood the requirement that an appropriation of up to 1.0% of the Adjusted Revenue Estimate be made to the CRF if the Fund 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 notwithstood, an appropriation of $49.9 million would have been required for FY 2006.
- For FY 2002 through FY 2004, the General Assembly notwithstood the requirement to have the interest from the reserve funds transferred 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.

REVENUE ESTIMATING AND EXPENDITURE LIMITATIONS 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.[26] 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 state's 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 a consensus revenue forecast.[22] 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 are based on 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 provide the assumptions for the revenue estimates used for the governors' budgets.

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

Tax and Expenditure Limitations: The expenditure limitation discussed here refers to legislative action on annual appropriations (spending authority) rather than the limitation of states 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 the 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 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 and 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 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**.

IMPACT OF CURRENT FISCAL YEAR ESTIMATES

As previously discussed, the Iowa REC estimates revenues for the remaining months of the current fiscal year, although the expenditure limitation provisions do not apply to the fiscal year in progress. Significant changes in the revenue estimate for the current fiscal year 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.
- An increase in the revenue estimate can also increase the projected General Fund surplus for the current fiscal year in progress if the increased dollars are not used for supplemental appropriations. Previously, the surplus from the current fiscal year has been 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 certain criteria are met with respect to revenue growth, up to $60.0 million may be transferred to the Taxpayers Trust Fund instead of the General Fund.
- If the REC lowers the current year estimate to a level that a deficit is projected, the Governor may use that information to order across-the-board cuts to General Fund appropriations or 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 make up 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 of government 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 Cash Reserve Fund, 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.

The funding of the state's reserve funds has provided several benefits to the state that have included:

- Provides 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.
- Has allowed transfers from the reserve funds to the General Fund to balance the budget in times of declining revenues. At the close of FY 2009, the General Fund budget was experiencing a deficit of $45.3 million due to a drop in tax revenue brought on by the economic recession of 2008. As a result, provisions of Iowa Code section 8.55 were implemented and $45.3 million was transferred from the EEF to the General Fund to balance the budget. In FY 2010, a General Fund appropriation of $45.3 million was made to reimburse the EEF.
- Has allowed sources of revenue that policymakers have used 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.

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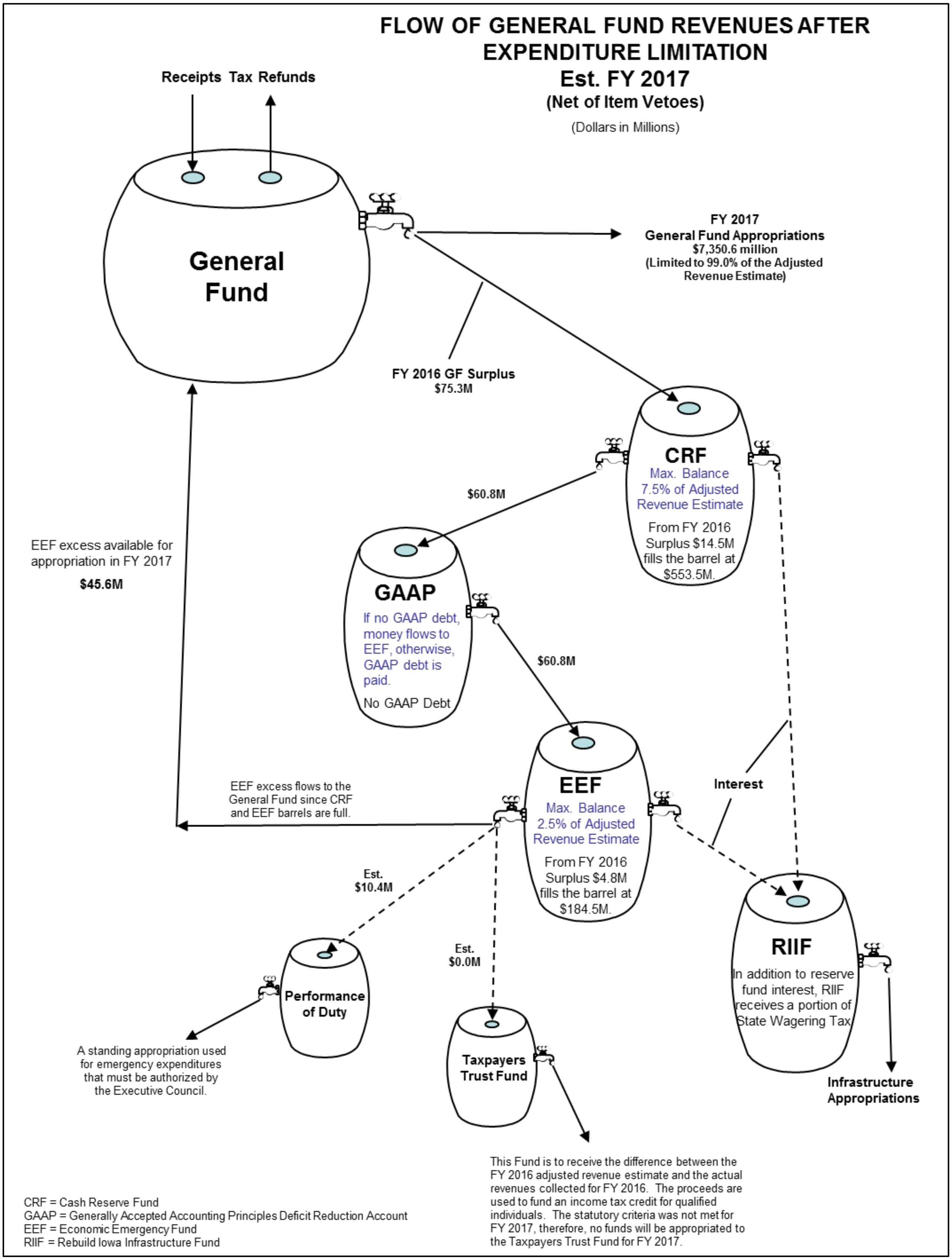
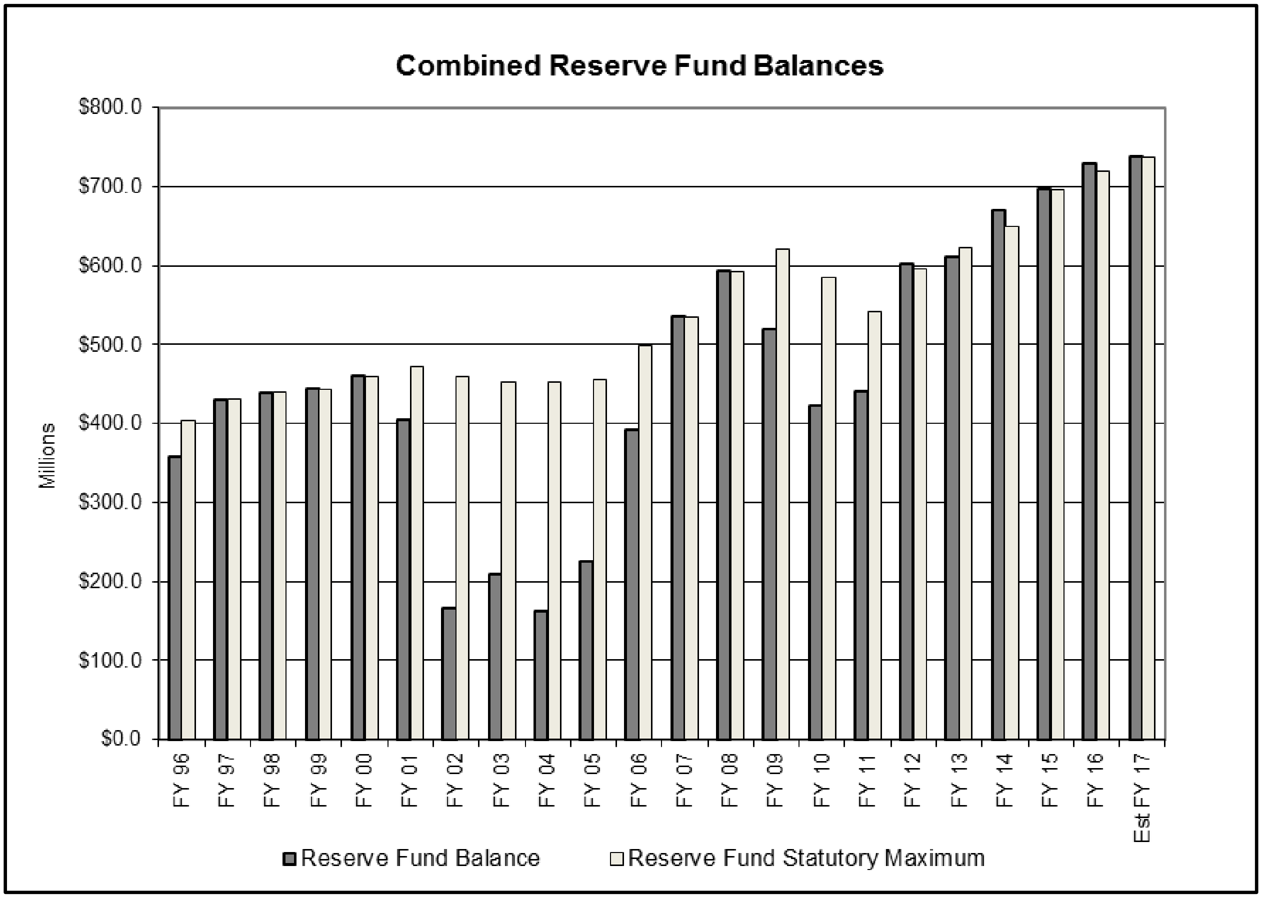

FLOW OF GENERAL FUND REVENUES AFTER EXPENDITURE LIMITATION
Est. FY 2017
(Net of Item Vetoes)
(Dollars in Millions)
Receipts
Tax Refunds
General Fund
FY 2017
General Fund Appropriations
$7,350.6 million
(Limited to 99.0% of the Adjusted Revenue Estimate)
FY 2016 GF Surplus
$75.3M
CRF
Max. Balance
7.5% of Adjusted Revenue Estimate
From FY 2016 Surplus $14.5M fills the barrel at $553.5M.
$60.8M
GAAP
If no GAAP debt, money flows to EEF, otherwise, GAAP debt is paid.
No GAAP Debt
$60.8M
EEF excess available for appropriation in FY 2017
$45.6M
EEF
Max. Balance
2.5% of Adjusted Revenue Estimate
From FY 2016 Surplus $4.8M fills the barrel at $184.5M.
EEF excess flows to the General Fund since CRF and EEF barrels are full.
Interest
Est.
$10.4M
Est.
$0.0M
Performance of Duty
A standing appropriation used for emergency expenditures that must be authorized by the Executive Council.
Taxpayers Trust Fund
This Fund is to receive the difference between the FY 2016 adjusted revenue estimate and the actual revenues collected for FY 2016. The proceeds are used to fund an income tax credit for qualified individuals. The statutory criteria was not met for FY 2017, therefore, no funds will be appropriated to the Taxpayers Trust Fund for FY 2017.
RIIF
In addition to reserve fund interest, RIIF receives a portion of State Wagering Tax
Infrastructure Appropriations
CRF = Cash Reserve Fund
GAAP = Generally Accepted Accounting Principles Deficit Reduction Account
EEF = Economic Emergency Fund
RIIF = Rebuild Iowa Infrastructure Fund

ATTACHMENT B



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