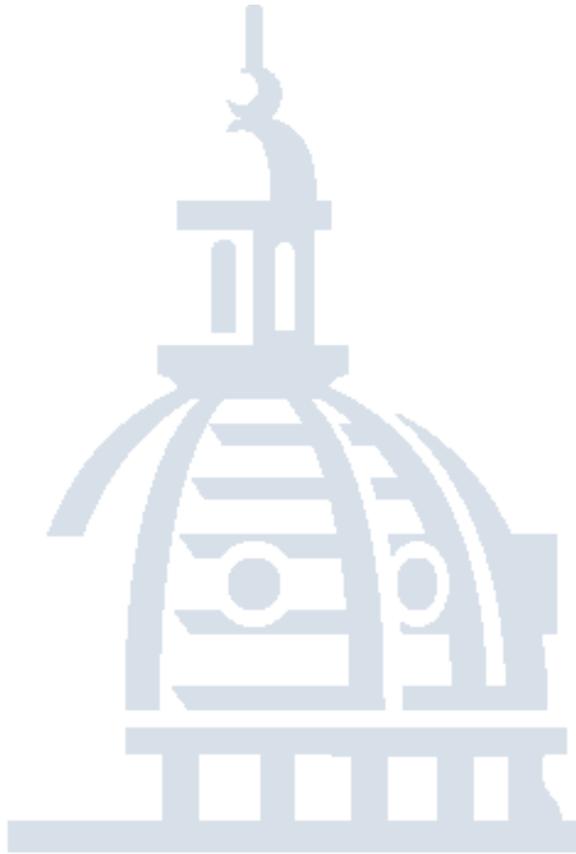

STATE OF IOWA
FY 2008
YEAR END REPORT ON
GENERAL FUND
REVENUES AND APPROPRIATIONS



FISCAL SERVICES DIVISION

JANUARY 2009



Serving the Iowa Legislature

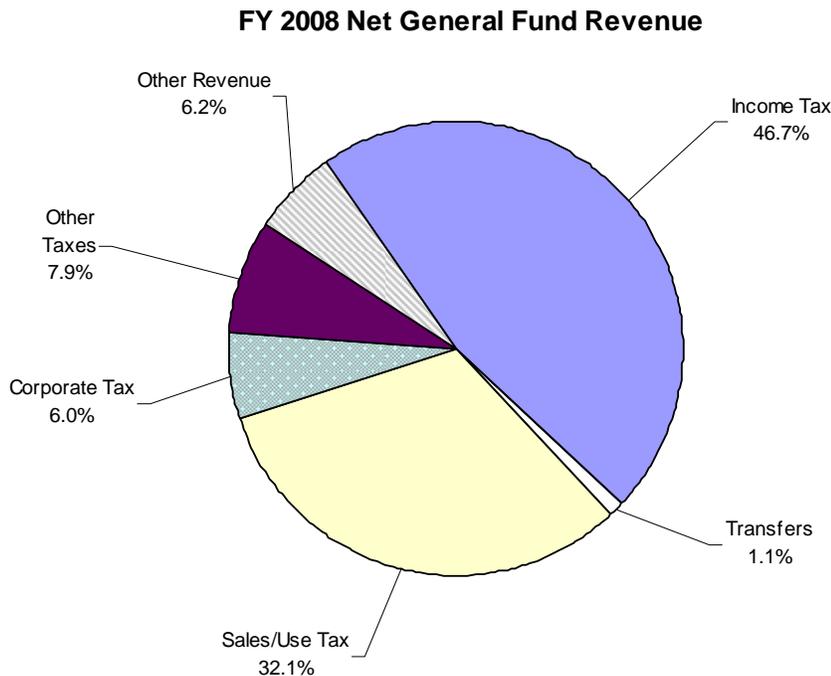
Introduction

This report examines the FY 2008 year-end revenues and appropriations for Iowa's General Fund. The report also includes a review of Iowa's reserve funds, a summary of the General Fund balance sheet, and historical data on revenues and appropriations.

The General Assembly and Governor enact appropriations that provide spending authority for State agencies. Some appropriations are granted authority to change throughout the fiscal year to fulfill statutory requirements. These are referred to as standing appropriations. This report reviews the standing appropriations that had significant changes. This report also reviews other activities affecting appropriated funds such as carry forward balances, transfers, and reversions.

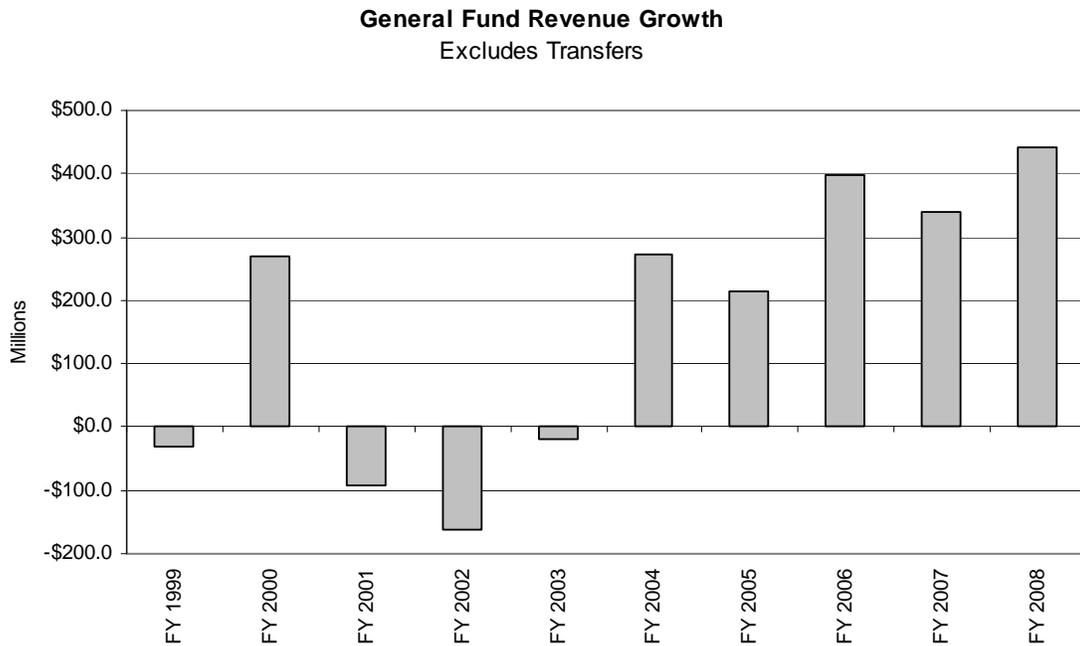
General Fund Net Revenues and Refunds

During FY 2008, the State General Fund collected \$6.759 billion in gross revenue, and refunded \$674.8 million, for net revenue of \$6.084 billion. This is an increase of \$438.2 million (7.8%) compared to FY 2007. Of the total \$6.084 billion, 78.8% (\$4.811 billion) is from income taxes and sales/use taxes. The following chart shows the sources of net General Fund revenue for FY 2008.



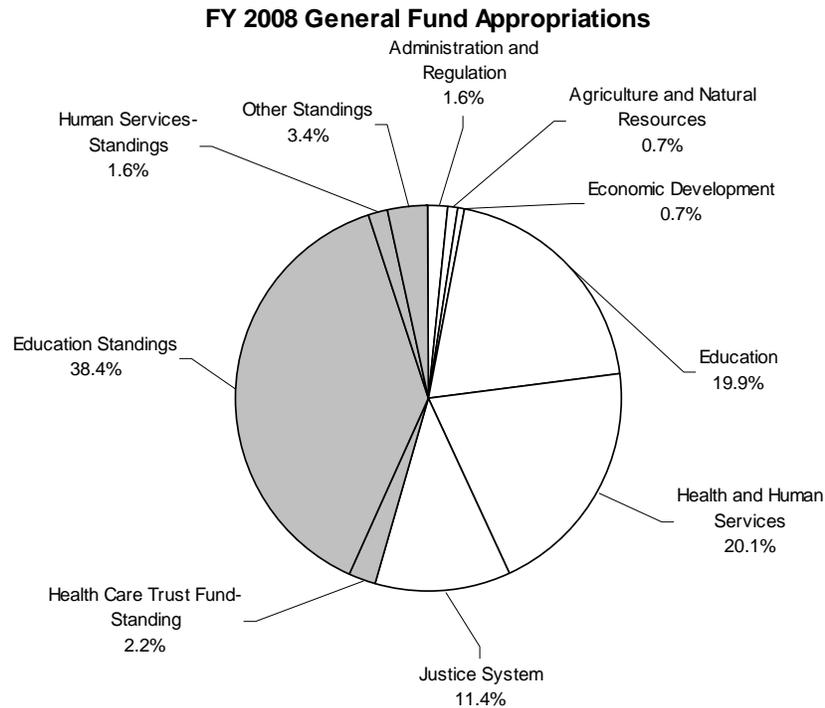
Since FY 1998, net General Fund revenue increased from \$4.428 billion to \$6.085 billion (37.4%). Net Income Tax revenue produced 53.1% of the growth, while net Sales/Use

Tax revenue produced 28.6% and net Corporate Tax produced 8.9%. Although General Fund revenue has grown at an average annual rate of 3.2% over the past 10 fiscal years, the rate varies considerably by year, with FY 2006 producing growth of 8.2%, while FY 1999, FY 2001, FY 2002, and FY 2003 showing negative growth. The FY 1999 growth was significantly impacted by a 10.0% income tax rate reduction. Fiscal Years 2001 through 2003 were impacted by an economic downturn. The following chart shows the annual dollar growth by year (excludes transfer revenue).



Appropriations

In FY 2008, General Fund appropriations totaled \$5.898 billion. This amount does not include tax refunds. For purposes of this report, tax refunds are treated as adjustments to revenues. The following chart shows the distribution of the FY 2008 appropriations by budget subcommittee area. The shaded sections represent standing appropriations.



NOTE: The shaded areas indicate standing appropriations.

The FY 2008 appropriations represent an increase of \$505.5 million (9.4%) compared to FY 2007. The largest increase was associated with the establishment of the Health Care Trust Fund, created as part of the cigarette and tobacco tax increase enacted in SF 128 (Cigarette/Tobacco Tax Increases and Health Care Trust Fund Act). The legislation deposited the increased taxes into the General Fund and appropriated the first \$127.6 million to the Health Care Trust Fund.

Other significant increases included: State Aid to Schools (\$94.0 million) and the Student Achievement/Teacher Quality Program (\$69.6 million). Together, appropriations to these three items accounted for \$291.2 million (57.6%) of the total FY 2008 increase.

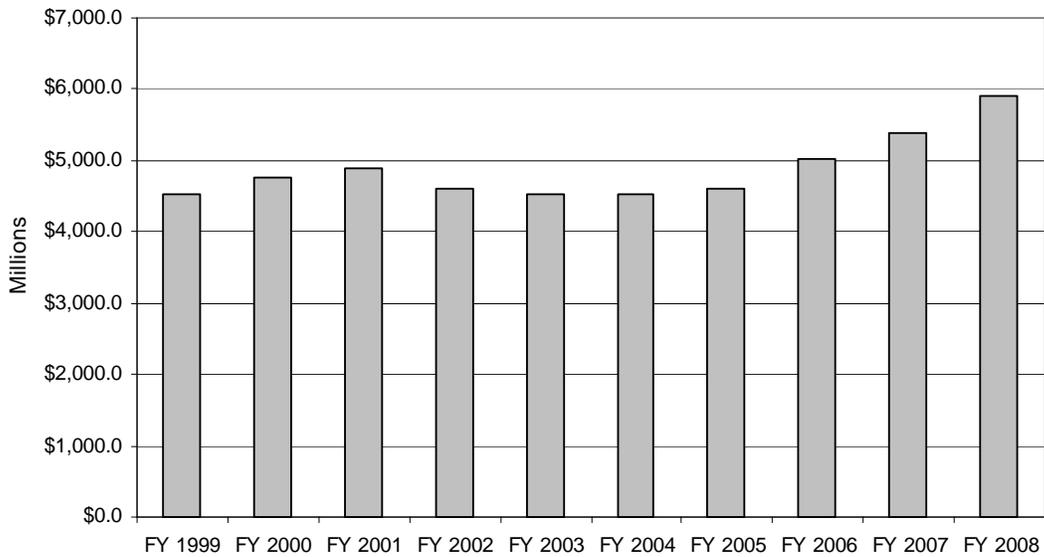
Significant General Fund Appropriation Increases
FY 2008 vs. FY 2007

| | FY 2007 | FY 2008 | FY 2008 vs FY 2007 | Percent of Total |
|-------------------------------------|-------------------|-------------------|-----------------------|---------------------|
| Health Care Trust Fund Transfer | \$ 0.0 | \$ 127.6 | \$ 127.6 | 25.2% |
| State Foundation School Aid | 2,048.0 | 2,142.0 | 94.0 | 18.6% |
| Student Achievement/Teacher Quality | 104.3 | 173.9 | 69.6 | 13.8% |
| Property Tax Credit Fund | 0.0 | 28.0 | 28.0 | 5.5% |
| University of Iowa - General Aid | 230.8 | 258.0 | 27.2 | 5.4% |
| Iowa State University General Aid | 180.2 | 205.1 | 24.9 | 4.9% |
| Oakdale Correctional Institution | 33.4 | 56.2 | 22.8 | 4.5% |
| Judicial Branch | 123.2 | 144.9 | 21.7 | 4.3% |
| Child Care Assistance | 21.8 | 37.9 | 16.1 | 3.2% |
| Appeal Board Claims | 9.6 | 25.2 | 15.6 | 3.1% |
| All Other Appropriations | 2,641.4 | 2,699.5 | 58.1 | 11.5% |
| Total | \$ 5,392.9 | \$ 5,898.4 | \$ 505.5 | 100.0% |

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

When compared to the past 10 years, General Fund appropriations have increase \$1.369 billion (30.2%) since FY 1999. Of the total increase, 78.8% went to four appropriations: State Aid to Schools (\$530.4 million), Medicaid (\$246.1 million), the Student Achievement/Teacher Quality Program (\$173.9 million), and the Health Care Trust Fund (\$127.6 million). The following chart and table show total appropriations for the last 10 years and the 10 appropriations that have received the largest increases since FY 1999.

General Fund Appropriations



**Significant General Fund Appropriation Increases
FY 2008 vs. FY 1999**

| | FY 1999 | FY 2008 | FY 2008 vs FY 1999 | Percent of Total |
|-------------------------------------|-------------------|-------------------|-----------------------|---------------------|
| State Foundation School Aid | \$ 1,611.6 | \$ 2,142.0 | \$ 530.4 | 38.8% |
| Medical Assistance (Medicaid) | 385.5 | 631.6 | 246.1 | 18.0% |
| Student Achievement/Teacher Quality | 0.0 | 173.9 | 173.9 | 12.7% |
| Health Care Trust Fund Transfer | 0.0 | 127.6 | 127.6 | 9.3% |
| Grow Iowa Values Fund | 0.0 | 50.0 | 50.0 | 3.7% |
| Judicial Branch | 103.2 | 144.9 | 41.7 | 3.1% |
| Oakdale Correctional Institution | 19.1 | 56.2 | 37.1 | 2.7% |
| Community Colleges | 135.4 | 172.0 | 36.6 | 2.7% |
| Adoption Subsidy | 0.0 | 32.0 | 32.0 | 2.3% |
| Early Intervention Block Grant | 0.0 | 29.3 | 29.3 | 2.1% |
| All Other Appropriations | 2,275.0 | 2,339.0 | 63.9 | 4.7% |
| Total | \$ 4,529.9 | \$ 5,898.4 | \$ 1,368.6 | 100.0% |

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

Summary of FY 2008 Appropriations Activity

General Fund appropriations are adjusted for several factors throughout the fiscal year. The General Assembly enacts the original appropriations, salary adjustment, and supplemental appropriations. In addition, standing unlimited appropriations are adjusted based on actual expenditures. Other activity associated with appropriated funds include: balances brought forward, transfers, and reversions. The following table summarizes the overall General Fund activity for FY 2008 appropriations.

Summary of General Fund Appropriations

| | FY 2008 |
|--|-------------------------|
| General Fund Appropriations | |
| Original Appropriation | \$ 5,766,536,251 |
| Salary Adjustment | 92,910,831 |
| Adjustments to Standings | 31,232,911 |
| Supplemental/Deappropriations | 7,756,995 |
| Total | 5,898,436,988 |
| Other Activity | |
| Balance forward from the previous year | 76,785,751 |
| Appropriation transfers in | 1,822,357 |
| Appropriation transfers out | -1,822,357 |
| Balance forward to the next year | -50,237,925 |
| Reversions | -10,364,172 |
| Total other activity | 16,183,654 |
| Total Net Appropriations Expended | \$ 5,914,620,642 |

Original Appropriations for FY 2008

General Fund appropriations approved by the 2007 General Assembly and signed by the Governor for FY 2008 totaled \$5.767 billion, excluding the salary adjustment appropriation. The original appropriation amount also includes the budgeted amounts for standing unlimited appropriations. These appropriations are adjusted throughout the fiscal year to reflect actual expenditures. These adjustments are included in the Adjustments to Standings total and are discussed in greater detail below.

Salary Adjustments

Section 15 of SF 601 (FY 2008 Standing Appropriations Act) appropriated a total of \$106.8 million for salary adjustment across all state agencies, including the Board of Regents. The appropriation was based on an estimate provided by the Department of Management in April of 2007. It was later determined that only \$92.9 million was needed to fund the salary and benefit increases in accordance with the collective bargaining agreement. The remaining \$13.9 million was later transferred to the Property Tax Credit Fund to fund a portion of the FY 2009 property tax credits. This transfer was enacted by the 2008 General Assembly.

The following table summarizes the salary adjustment allocations by state agency. A total of 74.1% of the salary adjustment dollars were allocated to the Board of Regents (44.1%), the Department of Human Services (15.4%), and the Department of Corrections (14.6%). The remaining 25.9% was allocated to all other state agencies.

Summary of FY 2008 General Fund Salary Adjustment Allocations

| | FY 2008 | Percent of Total |
|-------------------------------------|----------------------|---------------------|
| Board of Regents | \$ 40,978,201 | 44.1% |
| Department of Human Services | 14,328,996 | 15.4% |
| Department of Corrections | 13,556,210 | 14.6% |
| Judicial Branch | 6,771,248 | 7.3% |
| Department of Public Safety | 3,939,126 | 4.2% |
| Department of Veterans Affairs | 2,218,626 | 2.4% |
| Department of Inspections & Appeals | 1,476,946 | 1.6% |
| Department of Commerce | 1,259,745 | 1.4% |
| Department of Revenue | 1,171,053 | 1.3% |
| Department of Natural Resources | 1,106,854 | 1.2% |
| Department of Education | 1,105,972 | 1.2% |
| All Other State Agencies | 4,997,834 | 5.4% |
| Total | <u>\$ 92,910,811</u> | <u>100.0%</u> |

Adjustments to Standing Appropriations

There are numerous standing unlimited appropriations established in the Code of Iowa. The exact amount for each of these appropriations is not known until the close of the fiscal year. As the General Assembly develops the budget, an estimated appropriation amount is included for budgeting purposes. This estimated appropriation is then adjusted throughout the fiscal year to reflect actual expenditures. The following table shows the significant standing unlimited appropriations and the adjustments.

FY 2008 Standing Unlimited Appropriations

| | Budgeted | | Final |
|-------------------------------|-------------------------|----------------------|-------------------------|
| | Appropriation | Adjustment | Appropriation |
| State Appeal Board Claims | \$ 4,387,500 | \$ 20,806,230 | \$ 25,193,730 |
| National Guard Comp & Expense | 421,639 | 7,877,882 | 8,299,521 |
| Performance of Duty | 2,079,500 | 8,132,458 | 10,211,958 |
| Legislative Branch | 35,490,681 | -1,652,801 | 33,837,880 |
| School Aid | 2,145,614,028 | -3,643,633 | 2,141,970,395 |
| Other | 17,312,101 | -287,275 | 17,024,826 |
| Total | <u>\$ 2,205,305,449</u> | <u>\$ 31,232,861</u> | <u>\$ 2,236,538,310</u> |

Three standing appropriations experienced significant adjustments in FY 2008 and are summarized below.

- The State Appeals Board authorizes payment of claims against the State associated with court judgments and settlements. For FY 2008, \$4.4 million was budgeted for Appeal Board claims. Due to several large judgments against the State, the year-end claims totaled \$25.2 million, requiring an adjustment of \$20.8 million to the original budget amount. The significant claims included:
 - \$15.8 million in payments for the settlement of Lottery TouchPlay judgments.
 - \$3.3 million for reimbursements to the federal government and to a subcontractor, International Simulation and Training Systems (ISTS) for a settlement involving misspending of federal funds and the early termination of a contract with ISTS.
 - \$3.0 million for various claims against Regents institutions.
- National Guard activations are funded through the Compensation and Expense appropriation. During FY 2008, the Guard was activated in response to the natural disasters affecting the State. This resulted in a \$7.9 million increase to the appropriation. The State will receive approximately \$7.0 million in federal reimbursements through FEMA in FY 2009 for the FY 2008 activations.
- The Executive Council authorizes funding through the Performance of Duty appropriation for emergency repairs to State property if sufficient funds are not available in a State agency's budget. In FY 2008, a total of \$10.2 million was approved by the Council. This was \$8.1 million more than the amount budgeted. Most of the funding was for disaster-related expenses.

Supplemental Appropriations and Deappropriations

A net total of \$7.8 million in supplemental appropriations were funded from the General Fund for FY 2008. The 2008 General Assembly appropriated \$14.8 million to the DHS, which includes: \$7.5 million for the state's Medicaid Program and \$7.3 million for the State share of the Disproportionate Share payment and the IowaCare Account.

The General Assembly also deappropriated \$7.3 million from the University of Iowa Psychiatric Hospital. The deappropriated funds were replaced with an allocation from the IowaCare appropriation.

The Office of Consumer Advocate of the Department of Justice also received a \$257,000 increase to their FY 2008 appropriation. While this supplemental appropriation was not included as a line item in an appropriations bill, Section 475A.6, Code of Iowa, allows the Office to increase the appropriation if the increase is directly attributable to the performance of the advocate's duties involving persons subject to direct assessment by the Utilities Board. The Office also collects a fee for services for the same amount of the appropriation increase. The fee revenues are deposited into the General Fund.

FY 2008 Supplemental Appropriations and Deappropriations

| | |
|---|---------------------|
| DHS - Medical Assistance | \$ 14,821,954 |
| University of Iowa Psychiatric Hospital | -7,321,954 |
| Office of Consumer Advocate | 256,995 |
| Total | <u>\$ 7,756,995</u> |

Balances Brought Forward

State agencies carried forward a total of \$76.8 million from FY 2007 appropriations into FY 2008 and \$50.2 million from FY 2008 appropriations into FY 2009. There are several circumstances that result in appropriated funds being carried forward into the next fiscal year.

- Section 8.62, Code of Iowa, allows state agencies to use 50.0% of unspent appropriated funds for employee training, technology enhancement, or purchases of goods and services from Iowa prison industries.
- Some agencies are provided authorization through legislation to carry forward unspent appropriated funds for program expenses in the next fiscal year. The 2007 General Assembly appropriated \$71.0 million in supplemental appropriations in FY 2007 and allowed agencies to carry forward up to \$52.7 million into FY 2008 for program expenses. Of the \$52.7 million, \$22.7 million is associated with the supplemental balance forward provisions and \$24.7 million was deposited directly into the Iowa Power Fund, which included nonreversion provisions. The remaining \$5.3 million was expended in FY 2007.

- In addition, some appropriated funds become obligated during the fiscal year they were made. However, a portion of the payments against those obligations may not be paid until the following fiscal year. The funds that the Executive Council approves through the Performance of Duty account fall into this category. The majority of these funds have been approved for disaster relief by the Council. The following tables list the agencies with significant balances carried forward.

**Balances Brought Forward from
FY 2007 Appropriations**

| | Balance Carry Forward |
|------------------------------------|--------------------------|
| Department of Human Services | \$ 26,530,880 |
| Executive Council | 15,811,054 |
| Department of Management | 7,500,000 |
| Department of Veterans Affairs | 7,498,041 |
| Department of Education | 5,714,621 |
| Department of Economic Development | 5,565,665 |
| Department of Transportation | 1,249,773 |
| Department of Commerce | 1,066,048 |
| All Other State Agencies | 5,849,669 |
| Total | <u>\$ 76,785,751</u> |

**Balances Carried Forward from
FY 2008 Appropriations to FY 2009**

| | Balance Carry Forward |
|------------------------------------|--------------------------|
| Department of Human Services | \$ 21,317,681 |
| Executive Council | 13,097,512 |
| Department of Veterans Affairs | 4,134,582 |
| Department of Economic Development | 3,546,963 |
| Department of Education | 2,535,651 |
| All Other State Agencies | 5,605,536 |
| Total | <u>\$ 50,237,925</u> |

Appropriation Transfers

Section 8.39, Code of Iowa, allows the Governor to transfer funds between line-item appropriations if an appropriation is insufficient to meet the legitimate expenses of a department. During FY 2008, a total of \$1.8 million of appropriated funds were transferred. The following table summarizes the FY 2008 appropriation transfer amounts.

| 8.39 Appropriation Transfers | | | |
|---|-------------------------------|--------------------------------|---|
| FY 2008 Appropriations | | | |
| | Appropriation Transfers to | Appropriation Transfers out | Reason for Transfer |
| Governor's Office | | | |
| Operations | \$ 0 | \$ 60,000 | For unanticipated expenses. |
| Terrace Hill Quarters | 60,000 | | |
| Secretary of State | | | |
| Help America Vote Act Admin/Elections/Voter Registration | 12,382 | 12,382 | To provide State match required for the Help American Vote Act. |
| Natural Resources (DNR) | | | |
| Operations | 579,015 | | For disaster-related expenditures. |
| College Aid Commission | | | |
| Tuition Grant Program | 200,000 | 200,000 | For a shortfall in the Tuition Grant Program to meet FY 2008 award commitments. |
| Public Health | | | |
| Public Protection | 45,960 | | For disaster-related expenditures. |
| Human Services | | | |
| Adoption Subsidy | 925,000 | | Caseload was greater than budgeted and federal funding was less than anticipated. |
| Child and Family Services | | 925,000 | |
| State Supplementary Assistance | | 450,000 | Transferred to DNR. |
| State Supplementary Assistance | | 45,960 | Transferred to Public Health. |
| Health Insurance Premium Payment | | 50,000 | Transferred to DNR. |
| Inspections & Appeals | | | |
| Health Facilities Division | | 79,015 | Transferred to DNR. |
| Total | \$ 1,822,357 | \$ 1,822,357 | |

Reversions

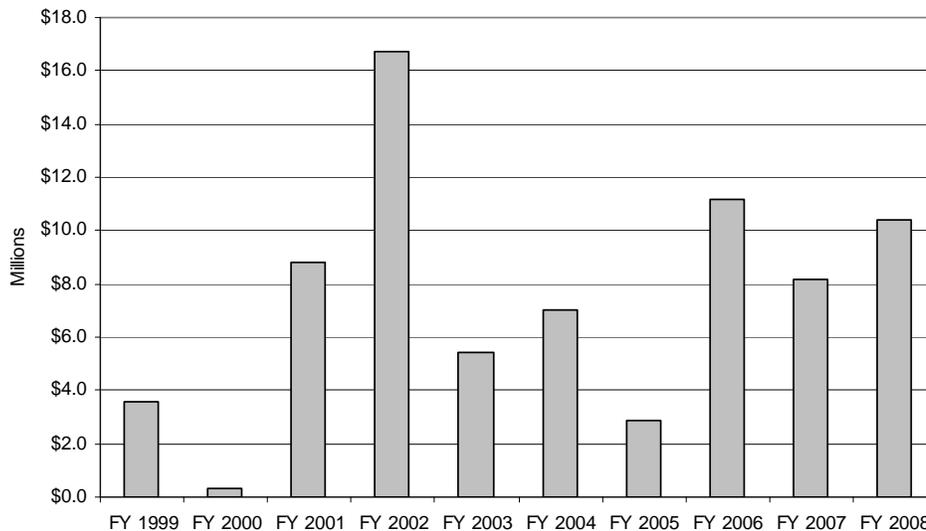
Unless an agency is allowed to carry forward unspent funds from an appropriation, the unspent funds will revert to the fund from which it was appropriated. State agencies reverted a total of \$10.4 million from FY 2008 appropriations. Seven agencies contributed to over 90% of the reverted funds. Agencies associated with the Department of Inspections and Appeals reverted a total of \$3.1 million. This was 29.6% of all funds reverted in FY 2008. Of this amount, \$2.1 million was from the appropriation for the Public Defender/Indigent Defense Program. The following table lists the significant reversions from FY 2008 appropriations by Department.

FY 2008 General Fund Reversions

| | Reversion Amount | Percent of Total |
|---------------------------------------|----------------------|---------------------|
| Department of Inspections & Appeals | \$ 3,059,949 | 29.6% |
| Department of Human Services | 2,231,607 | 21.6% |
| Department of Education | 1,730,519 | 16.7% |
| Department of Revenue | 906,433 | 8.8% |
| Department of Administrative Services | 836,064 | 8.1% |
| Department of Corrections | 428,224 | 4.1% |
| Department of Human Rights | 270,157 | 2.6% |
| All Other Agencies | 889,732 | 8.6% |
| Total | \$ 10,352,685 | 100.0% |

Over the last 10 years, reversions have averaged approximately \$7.5 million per year. However, the amount reverted can vary significantly from year to year. In FY 2000, reversions were less than \$1.0 million and in FY 2002, they reached nearly \$17.0 million. Over the last three fiscal years, reversions have average \$9.9 million, which is slightly higher than the ten-year average.

General Fund Reversions



General Fund Balance Sheet

The following table summarizes the General Fund over the last five years. The General Fund has maintained an annual surplus that has averaged 5.0% of total revenues. For FY 2008, the General Fund ended the year with a balance of \$196.4 million. This was 3.2% of total net revenues.

The FY 2008 surplus was distributed as follows:

- \$99.8 million was appropriated to the Property Tax Credit Fund to help fund a portion of the FY 2009 property tax credits to local governments.
- \$40.4 million was appropriated to the Senior Living Trust Fund in accordance with Section 8.57, Code of Iowa.
- \$49.4 million was transferred to the Cash Reserves in accordance with Section 8.54, Code of Iowa.

State of Iowa General Fund

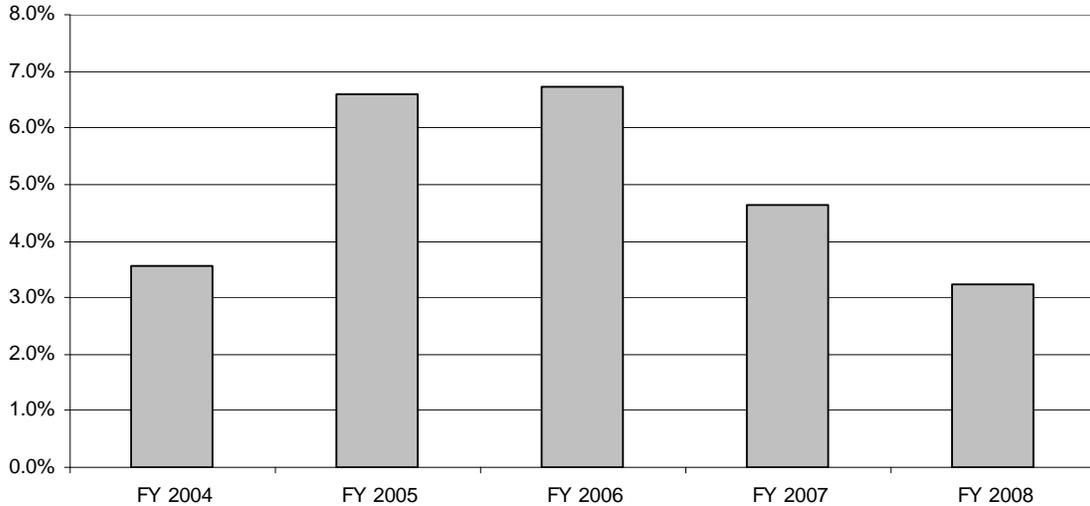
(Dollars in Millions)

| | <u>FY 2004</u> | <u>FY 2005</u> | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | | | | | |
| Receipts and Transfers | \$ 5,315.4 | \$ 5,657.3 | \$ 5,914.6 | \$ 6,206.8 | \$ 6,783.2 |
| Tax Refunds | - 715.0 | - 696.9 | - 586.2 | - 597.9 | - 674.8 |
| Accruals | <u>83.0</u> | <u>- 31.4</u> | <u>54.0</u> | <u>37.4</u> | <u>- 24.0</u> |
| Total Net Revenues | <u>4,683.4</u> | <u>4,929.0</u> | <u>5,382.4</u> | <u>5,646.3</u> | <u>6,084.4</u> |
| Expenditures | | | | | |
| Appropriations | 4,524.4 | 4,606.0 | 5,031.7 | 5,392.9 | 5,898.4 |
| Reversions | - 7.0 | - 2.9 | - 11.2 | - 8.2 | - 10.4 |
| Net Appropriations | <u>4,517.4</u> | <u>4,603.1</u> | <u>5,020.5</u> | <u>5,384.7</u> | <u>5,888.0</u> |
| Ending Balance - Surplus | <u>\$ 166.0</u> | <u>\$ 325.9</u> | <u>\$ 361.9</u> | <u>\$ 261.6</u> | <u>\$ 196.4</u> |
| Percent of Surplus to Revenues | 3.5% | 6.6% | 6.7% | 4.6% | 3.2% |
| Appropriations/Transfers to Other Funds | | | | | |
| Property Tax Credit Fund | \$ 0.0 | \$ 159.7 | \$ 159.9 | \$ 131.9 | \$ 99.8 |
| Senior Living Trust Fund | | | 49.9 | 53.5 | 48.3 |
| Regents Allocation | | | 2.8 | | |
| Cash Reserve Fund | <u>166.0</u> | <u>166.2</u> | <u>149.3</u> | <u>76.2</u> | <u>48.3</u> |
| Total | <u>\$ 166.0</u> | <u>\$ 325.9</u> | <u>\$ 361.9</u> | <u>\$ 261.6</u> | <u>\$ 196.4</u> |

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

Since FY 2004, the General Fund surplus has averaged 4.9% of total net revenues. However, over the last five years the surplus has varied on an annual basis. In FY 2005 and FY 2006, the surplus reached \$325.9 million and \$361.9 million respectively. This was 6.6% and 6.7% of net revenues. The following chart shows the percent of the surplus to net revenues for the past five years.

**FY 2008 General Fund
Percent of Surplus to Net Revenues**

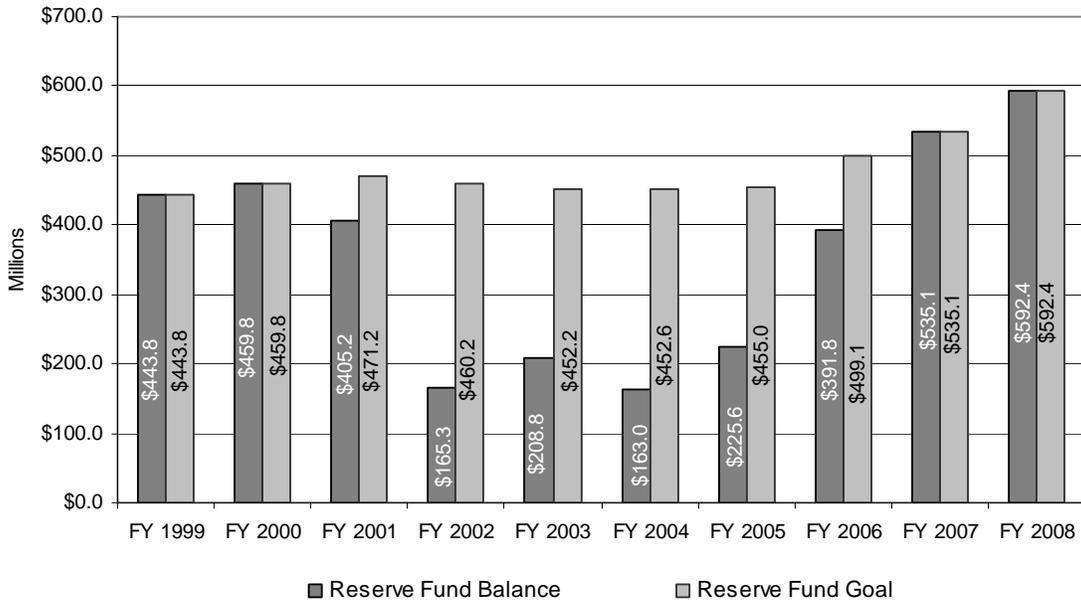


Reserve Funds (“Rainy Day Funds”)

The State’s Cash Reserve and Economic Emergency Funds had a combined balance of \$592.4 million in FY 2008. This represents an increase \$57.3 million (10.7%) over the FY 2007 balance. For both FY 2007 and FY 2008, the balance in the reserve funds have been at the statutory maximum.

The following chart compares the combined reserve fund balances to the statutory goal for the reserve funds for the last ten years. As illustrated on the chart, the reserve fund balance began to decrease in FY 2001 until it reached a low of \$163.0 million in FY 2004. During this period the reserve funds were used to help balance the General Fund budget due to declining tax revenues associated with the economic slowdown during that time. The balances in the funds began to increase again in FY 2005 and FY 2006 until they reached the statutory cap in FY 2007.

**State of Iowa
Combined Reserve Fund Balances**



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