

FISCAL UPDATE Article

Fiscal Services Division

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LSA GENERAL FUND BALANCE SHEET UPDATE (DECEMBER 2020)

Revised Revenue Estimates. The Revenue Estimating Conference (REC) met December 11, 2020, and revised the General Fund revenue estimates for FY 2021 and FY 2022. The REC agreed to an FY 2021 estimate of \$7.969 billion, an increase of \$38.7 million (0.5%) compared to actual FY 2020. The FY 2022 estimate agreed to by the REC is \$8.266 billion, which reflects an increase of \$296.4 million (3.7%) compared to the FY 2021 estimate.

FY 2020 and FY 2021 Budget Update. Figure 1 compares the General Fund budget estimates for FY 2020 and FY 2021 at the close of the 2020 Legislative Session to the actual FY 2020 numbers and the revised FY 2021 budget.

The FY 2020 General Fund budget ended the fiscal year with a \$305.5 million balance, which was \$7.4 million less than the previous estimate of \$312.9 million. Net receipts ended the fiscal year at \$7.937 billion, which was \$6.1 million (0.1%) below the estimate used at the close of the 2020 Legislative Session. Net appropriations ended the fiscal year \$1.3 million (0.02%) higher than estimated due to small changes in standing appropriation adjustments and reversions.

The revised estimate of total available resources for FY 2021 reflects an increase of \$120.1 million (1.5%) compared to the FY 2021 estimate at the close of the 2020 Legislative Session. The revised FY 2021 surplus is estimated at \$443.4 million.

Figure 1

General Fund Budget						
FY 2020 and FY 2021 Point-in-Time Comparisons						
(Dollars in Millions)						
	FY 2020			FY 2021		
	End of Session	Actual	Change	End of Session	Dec 2020 Estimate	Change
Resources						
Net Receipts	\$ 7,936.7	\$ 7,930.6	\$ - 6.1	\$ 7,837.5	\$ 7,969.3	\$ 131.8
Surplus Carryforward	195.6	195.6	0.0	264.4	252.7	- 11.7
Total Available Resources	<u>\$ 8,132.3</u>	<u>\$ 8,126.2</u>	<u>\$ - 6.1</u>	<u>\$ 8,101.9</u>	<u>\$ 8,222.0</u>	<u>\$ 120.1</u>
Appropriations and Expenditures						
Enacted Appropriations	\$ 7,642.6	\$ 7,642.6	\$ 0.0	\$ 7,778.5	\$ 7,778.5	\$ 0.0
Adjustments to Standing Appropriations	- 3.8	4.7	8.5	0.0	5.1	5.1
Net Supplemental/Deappropriations	185.6	185.6	0.0	0.0	0.0	0.0
Total Appropriations	<u>\$ 7,824.4</u>	<u>\$ 7,832.9</u>	<u>\$ 8.5</u>	<u>\$ 7,778.5</u>	<u>\$ 7,783.6</u>	<u>\$ 5.1</u>
Reversions	- 5.0	- 12.2	- 7.2	- 5.0	- 5.0	0.0
Net Appropriations	<u>\$ 7,819.4</u>	<u>\$ 7,820.7</u>	<u>\$ 1.3</u>	<u>\$ 7,773.5</u>	<u>\$ 7,778.6</u>	<u>\$ 5.1</u>
Ending Balance – Surplus	<u>\$ 312.9</u>	<u>\$ 305.5</u>	<u>\$ - 7.4</u>	<u>\$ 328.4</u>	<u>\$ 443.4</u>	<u>\$ 115.0</u>

Notes: Numbers may not equal totals due to rounding.

FY 2022 Budget Projection. The Legislative Services Agency (LSA) budget projection for FY 2022 shown in **Figure 2** provides a preliminary analysis of the condition of the General Fund budget for the next fiscal year. The estimates that comprise the FY 2022 projection are based on the following factors and assumptions:

- The FY 2022 REC revenue estimate of \$8.266 billion was set on December 11, 2020. The REC estimate is based on tax laws and other revenue policies in place at the time the estimate is adopted. This estimate is included in the calculation of the FY 2022 expenditure limitation.
- A carryforward balance of \$243.8 million from the revised FY 2021 General Fund surplus is expected after the estimated reserve fund and Taxpayer Relief Fund requirements are met.
- The expenditure limitation for FY 2022 is estimated to be \$8.427 billion.
- The enacted appropriations from FY 2021 (\$7.779 billion plus the FY 2021 standing adjustment for State School Aid) are used as the baseline for FY 2022 appropriations, which total \$7.784 billion.
- The LSA's estimated net built-in and anticipated expenditure changes for FY 2022 total \$9.4 million. The estimate reflects the net incremental increases above the baseline appropriation.
- Reversions are estimated to total \$5.0 million. Reversions are appropriated funds that remain unexpended at the close of the fiscal year and are deposited back in the General Fund.

Based on the above assumptions, the FY 2022 General Fund surplus is projected to total \$721.5 million.

Figure 2

State of Iowa Projected Condition of the General Fund (In Millions)			
	Actual FY 2020	Estimated FY 2021	LSA Projection FY 2022
Resources			
Net Receipts (Dec. 11, 2020, REC Est.)	\$ 7,930.6	\$ 7,969.3	\$ 8,265.7
Surplus Carryforward	195.6	252.7	243.8
Total Available Resources	<u>\$ 8,126.2</u>	<u>\$ 8,222.0</u>	<u>\$ 8,509.5</u>
Expenditure Limitation			\$ 8,426.8
Appropriations and Expenditures			
Appropriations	\$ 7,642.6	\$ 7,778.5	\$ 7,783.6
Adjustments to Standing Appropriations	4.7	5.1	0.0
Built-In and Anticipated Expenditures	0.0	0.0	9.4
Supplemental/Deappropriations	185.6	0.0	0.0
Total Appropriations	<u>\$ 7,832.9</u>	<u>\$ 7,783.6</u>	<u>\$ 7,793.0</u>
Reversions	- 12.2	- 5.0	- 5.0
Net Appropriations	<u>\$ 7,820.7</u>	<u>\$ 7,778.6</u>	<u>\$ 7,788.0</u>
Ending Balance – Surplus	<u>\$ 305.5</u>	<u>\$ 443.4</u>	<u>\$ 721.5</u>

Figure 3 summarizes the built-in and anticipated expenditures for FY 2022. The FY 2022 built-in and anticipated expenditures total of \$9.4 million is uncharacteristically low compared to estimates of prior fiscal years. There are two primary factors that are causing the number to be low. These include:

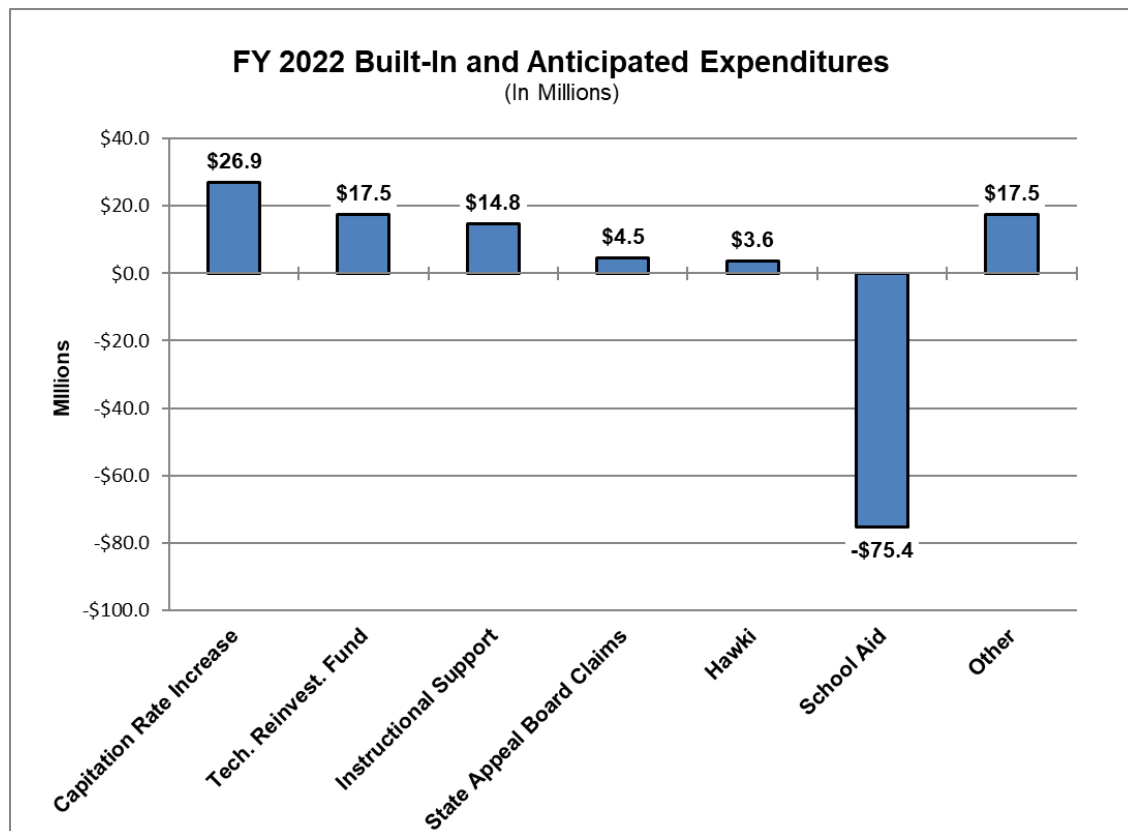
Medicaid. For FY 2022, the Medicaid Forecasting Group estimates Medicaid will have a surplus of \$48.1 million. The surplus is a result of the COVID-19-related enhanced Federal Medical Assistance Percentage (FMAP). This does not include an increase in capitation payments to the managed care organizations (MCOs) for FY 2022.

The Department of Human Services (DHS) and the two MCOs are currently negotiating Medicaid and Hawki capitation rates for the second half of FY 2021 and FY 2022. The LSA estimates the rates will increase by \$75.0 million for the 18-month period, but that increase will be offset by the \$48.1 million projected carryforward for FY 2022 in the Medicaid Program. Actual rates will not be set until agreed to by the DHS and the MCOs.

School Foundation Aid. The School Aid estimate for FY 2022 is projected to decrease by \$75.4 million compared to the FY 2021 appropriation. This decrease is primarily due to reductions in certified enrollment for K-12, reductions in preschool enrollment, and reductions in special education weightings. The estimate includes the following factors:

- A per pupil percent of growth of 0.00%.
- An increase in statewide taxable valuations of 3.9%.
- An increase of \$15.0 million to restore the additional reduction to Area Education Agencies (AEAs).

Figure 3



Reserve Funds. The balances in the State's two reserve funds (**Figure 4**) are projected to be at the statutory maximum for both FY 2021 and FY 2022. The combined balances are estimated at \$783.7 million for FY 2021 and are projected to increase to \$826.5 million in FY 2022.

Figure 4

State of Iowa Reserve Funds			
(In Millions)			
	Actual FY 2020	Estimated FY 2021	Projected FY 2022
Cash Reserve Fund			
Funds Available			
Balance Brought Forward	\$ 571.6	\$ 587.9	\$ 587.8
General Fund Transfer from Surplus	289.3	305.5	443.4
Total Funds Available	<u>\$ 860.9</u>	<u>\$ 893.4</u>	<u>\$ 1,031.2</u>
Transfer to Economic Emergency Fund	- 273.0	- 305.6	- 411.3
Balance	<u>\$ 587.9</u>	<u>\$ 587.8</u>	<u>\$ 619.9</u>
<i>Maximum 7.5%</i>	\$ 587.9	\$ 587.8	\$ 619.9
Economic Emergency Fund			
Funds Available			
Balance Brought Forward	\$ 185.6	\$ 189.5	\$ 195.9
Excess from Cash Reserve Fund	273.0	305.6	411.3
Executive Council – Performance of Duty	- 7.0	- 25.0	- 25.0
Total Funds Available	<u>\$ 451.6</u>	<u>\$ 470.1</u>	<u>\$ 582.2</u>
Excess Surplus	- 255.6	- 274.2	- 375.6
FY 2020 Perf. of Duty Expense Adjustment*	- 6.5	0.0	0.0
Emergency Appropriation - SF 2408	- 17.0	0.0	0.0
Iowa Coronavirus Relief Fund Transfer	17.0	0.0	0.0
Balance	<u>\$ 189.5</u>	<u>\$ 195.9</u>	<u>\$ 206.6</u>
<i>Maximum 2.5%</i>	\$ 196.0	\$ 195.9	\$ 206.6
Distribution of Excess Surplus			
Transfer to General Fund	\$ 195.6	\$ 252.7	\$ 243.8
Transfer to Taxpayer Relief Fund	60.0	21.5	131.8
Total	<u>\$ 255.6</u>	<u>\$ 274.2</u>	<u>\$ 375.6</u>
Combined Reserve Fund Balances			
Cash Reserve Fund	\$ 587.9	\$ 587.8	\$ 619.9
Economic Emergency Fund	189.5	195.9	206.6
Total	<u>\$ 777.4</u>	<u>\$ 783.7</u>	<u>\$ 826.5</u>
Statutory Maximum			
Cash Reserve Fund	\$ 587.9	\$ 587.8	\$ 619.9
Economic Emergency Fund	196.0	195.9	206.6
Total	<u>\$ 783.9</u>	<u>\$ 783.7</u>	<u>\$ 826.5</u>
* An adjustment of \$6.5 million was made to the FY 2020 Performance of Duty appropriation to account for actual year-end expenditures exceeding the previous estimate of \$7.0 million. The adjustment occurred during the FY 2020 "hold-open" period, which was after the excess FY 2019 General Fund surplus dollars were transferred back to the General Fund for FY 2020.			

Taxpayer Relief Fund. For FY 2022, the balance in the Taxpayer Relief Fund is estimated at \$222.0 million (**Figure 5**). Beginning in FY 2021, the \$60.0 million cap on the General Fund surplus transfer amount to the Taxpayer Relief Fund is repealed. This results in an estimated General Fund surplus transfer of \$131.8 million to the Fund in FY 2022.

Figure 5

Taxpayer Relief Fund			
(In Millions)			
	Actual FY 2020	Estimated FY 2021*	Projected FY 2022
Funds Available			
Balance Brought Forward	\$ 13.5	\$ 74.0	\$ 90.2
General Fund Surplus Transfer	60.0	21.5	131.8
Interest	0.5	0.0	0.0
Total Funds Available	\$ 74.0	\$ 95.5	\$ 222.0
Expenditures			
Homestead Tax Credit	\$ 0.0	\$ - 2.8	\$ 0.0
Elderly & Disabled Tax Credit	0.0	-2.5	0.0
Transfer to the General Fund	0.0	0.0	0.0
Ending Balance	\$ 74.0	\$ 90.2	\$ 222.0

* The \$60.0 million statutory limit is repealed beginning in FY 2021.

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