

FISCAL UPDATE Article

Fiscal Services Division

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LSA GENERAL FUND BALANCE SHEET UPDATE (JANUARY 2018)

Revised Revenue Estimates. The Revenue Estimating Conference (REC) met December 11, 2017, and revised the FY 2018 and FY 2019 General Fund revenue estimates. The REC estimate for FY 2018 totaled \$7.238 billion, representing a decrease of \$2.5 million compared to actual FY 2017 net General Fund receipts after transfers. The FY 2019 estimate totaled \$7.527 billion, an increase of \$289.5 million (4.0%) compared to the revised FY 2018 estimate. The estimated revenue growth in FY 2019 is predominately personal income tax and sales/use tax receipts (**Table 1**).

	<u>Actual</u> <u>FY 2017</u>	<u>Dec Est</u> <u>FY 2018</u>	<u>FY 2018 vs</u> <u>FY 2017</u>	<u>Percent</u> <u>Change</u>	<u>Dec Est</u> <u>FY 2019</u>	<u>FY 2019 vs</u> <u>FY 2018</u>	<u>Percent</u> <u>Change</u>
Personal Income Tax	\$ 4,469.0	\$ 4,655.7	\$ 186.7	4.2%	\$ 4,865.9	\$ 210.2	4.5%
Sales/Use Tax	2,812.3	2,917.9	105.6	3.8%	3,018.4	100.5	3.4%
Corporate Income Tax	549.7	592.8	43.1	7.8%	599.4	6.6	1.1%
Other Taxes and Receipts	580.2	556.6	- 23.6	-4.1%	560.2	3.6	0.6%
Gross Tax & Other Receipts	\$ 8,411.2	\$ 8,723.0	\$ 311.8	3.7%	\$ 9,043.9	\$ 320.9	3.7%
Accruals	\$ 73.5	\$ - 13.3	\$ - 86.8	-118.1%	\$ 8.6	\$ 21.9	-164.7%
Refunds (Accrual Basis)	- 1,520.2	- 1,581.5	- 61.3	4.0%	- 1,636.8	- 55.3	3.5%
Total Net Receipts	\$ 6,964.5	\$ 7,128.2	\$ 163.7	\$ 0.0	\$ 7,415.7	\$ 287.5	4.0%
Transfers	\$ 275.5	\$ 109.3	\$ - 166.2	-60.3%	\$ 111.3	\$ 2.0	1.8%
Net Receipts Plus Transfers	\$ 7,240.0	\$ 7,237.5	\$ - 2.5	0.0%	\$ 7,527.0	\$ 289.5	4.0%

Changes to the federal tax code were signed into law on December 22, 2017. The significant changes affecting State revenues were the reductions of corporate and personal income tax rates. An analysis from the Iowa Department of Revenue estimates State personal income tax revenues will increase by \$11.2 million in FY 2018 and by \$110.8 million in FY 2019, due to Iowa's federal deductibility statute. The Department of Revenue has not yet estimated the impact of the federal tax law on corporate income tax. Additional information on the impact of the federal tax law changes on the State budget is provided in the Legislative Services Agency (LSA) report [Summary of the Governor's FY 2018 and FY 2019 Recommendations](#). The LSA will continue to analyze the potential impact of the Federal Tax Cuts and Jobs Act as more information becomes available.

Updated Balance Sheet. The General Fund balance sheet included in this update incorporates the December REC estimates and increases associated with the federal tax law changes, and includes revised appropriation estimates for FY 2018 and a projection of the condition of the General Fund budget for FY 2019.

Fiscal Year 2018 Budget Update. The current estimate for FY 2018 available funds totals \$7.249 billion, which includes the December REC estimate and an \$11.2 million increase associated with the federal tax

law change. The General Assembly enacted appropriations totaling \$7.265 billion for FY 2018. The appropriations have been adjusted to reflect a required \$13.0 million appropriation to the Economic Emergency Fund and estimated supplemental appropriation needs of \$11.3 million.¹ The estimated shortfall for FY 2018, prior to any legislative action, is \$34.7 million.

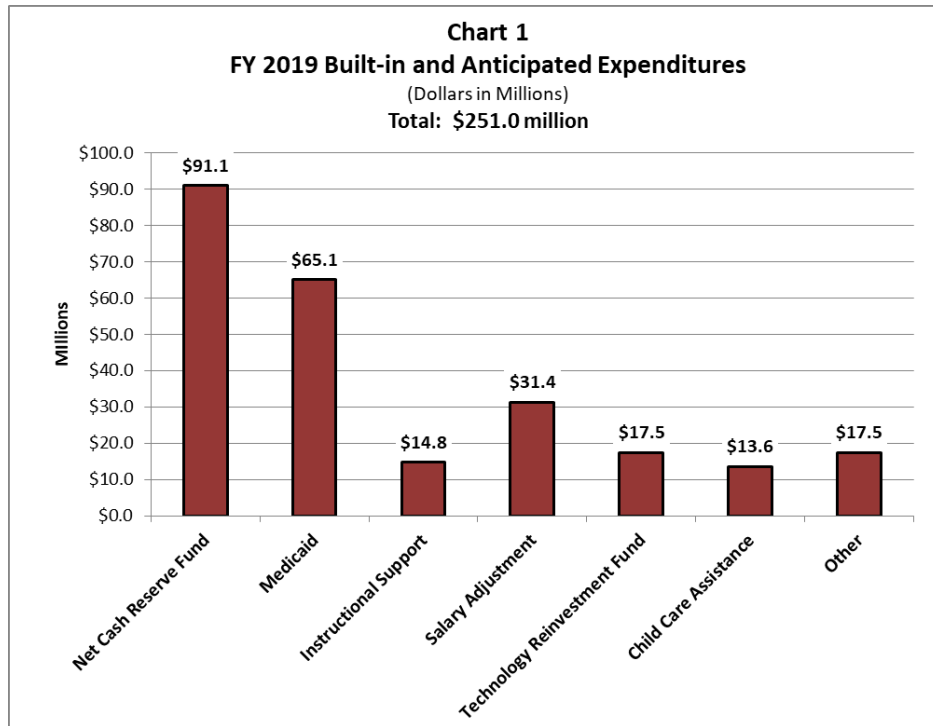
Fiscal Year 2019 Budget Projection. The FY 2019 projection is intended to assist the General Assembly in evaluating budget decisions for the next fiscal year. The appropriation estimates for FY 2019 are largely based on the following assumptions:

- The FY 2019 REC revenue estimate of \$7.527 billion is the basis for the Legislative Services Agency (LSA) FY 2019 projection. The REC estimate is based on tax laws and other revenue policies in place at the time the estimate was adopted.
- An increase of \$110.8 million associated with an adjustment for the federal tax law changes is assumed.
- The expenditure limitation for FY 2019 is estimated to be \$7.561 billion, which represents 99.0% of the estimated available revenues (\$7.638 billion).
- The enacted appropriations from FY 2018 (\$7.269 billion) are used as the baseline for FY 2019 appropriations.
- Appropriations and expenditures for FY 2019 are analyzed by LSA staff to account for automatic increases or decreases (built-in and anticipated expenditures) over and above the baseline estimate prior to legislative action. These appropriation changes are generally established in the Iowa Code; however, in some instances reasonable assumptions are applied to the estimates. The LSA does not assume the enactment of legislation impacting tax policy or the funding of new programs in the budget projection. The built-in and anticipated expenditure estimates currently total \$251.0 million. **Chart 1** summarizes these expenditure increases for FY 2019. A more in-depth explanation of the built-in and anticipated expenditures are available [here](#).
- Reversions are estimated to total \$5.0 million for FY 2019. Reversions are appropriated funds that remain unexpended at the close of the fiscal year and are deposited back in the General Fund.

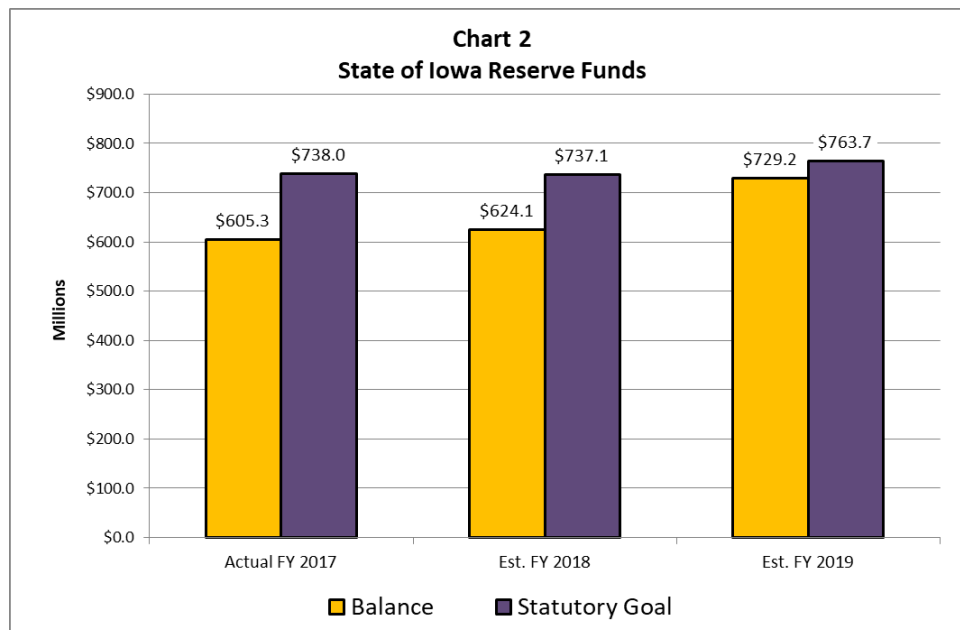
Table 2 shows the projected General Fund budget for FY 2019 based on the above assumptions. The estimated expenditure limitation exceeds the projected appropriations by \$41.8 million. Based on the current estimates and assumptions listed above, the FY 2019 General Fund surplus is projected to total \$123.2 million.

¹ The estimated FY 2018 appropriations have been adjusted to reflect the repayment of \$13.0 million in FY 2018 for the FY 2017 transfer from the Economic Emergency Fund to the General Fund. The adjustments also include estimated supplemental appropriations of \$6.5 million for Child Care Assistance, \$2.3 million for Medicaid, \$2.0 million for Indigent Defense, and \$450,000 for increased utility expenses on the Capitol complex.

	Actual	Estimated	LSA
	FY 2017	FY 2018	Projection
			FY 2019
Funds Available:			
Net Receipts (REC December 2017)	\$ 7,095.9	\$ 7,237.5	\$ 7,527.0
Cash Reserve Transfer	131.1	0.0	0.0
Economic Emergency Fund Transfer	13.0	0.0	0.0
Net General Fund Receipts	<u>7,240.0</u>	<u>7,237.5</u>	<u>7,527.0</u>
Adjustment for Federal Tax Law Change	0.0	11.2	110.8
Surplus Carryforward	18.2	0.0	0.0
Total Funds Available	<u>\$ 7,258.2</u>	<u>\$ 7,248.7</u>	<u>\$ 7,637.8</u>
Expenditure Limitation			\$ 7,561.4
Estimated Appropriations and Expenditures:			
Enacted Appropriations/FY 2019 Baseline	\$ 7,351.7	\$ 7,264.5	\$ 7,268.6
Transfer to Economic Emergency Fund	0.0	13.0	0.0
Supplemental/Deappropriations	- 88.2	11.3 ¹	0.0
Built-in and Anticipated Increases	<u>0.0</u>	<u>0.0</u>	<u>251.0</u>
Total Before Balance Adjustment	7,263.5	7,288.8	7,519.6
Adjustment to Balance Budget	0.0	- 34.7	0.0
Total Appropriations	<u>\$ 7,263.5</u>	<u>\$ 7,254.1</u>	<u>\$ 7,519.6</u>
Reversions	- 5.3	- 5.4	- 5.0
Net Appropriations	<u>\$ 7,258.2</u>	<u>\$ 7,248.7</u>	<u>\$ 7,514.6</u>
Ending Balance – Surplus	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 123.2</u>
<p>¹ The estimated supplemental appropriations include: \$6.5 million for a projected shortfall in Child Care Assistance; \$2.3 million for Medicaid; \$450,000 for increased utility expenses on the Capitol complex; and \$2.0 million for State Public Defender Indigent Defense costs.</p>			



Reserve Funds. At the close of FY 2017, the balances in the State’s two reserve funds totaled \$605.3 million, which was \$132.7 million below the statutory goal of \$738.0 million. The balances are projected to increase to \$624.1 million in FY 2018 and to \$729.2 million in FY 2019. The statutory goals of the reserve funds are equal to 10.0% of the adjusted revenue estimate for each fiscal year. For FY 2018, the estimated reserve fund balances are \$113.0 million (15.3%) below the statutory goal of \$737.1 million, and for FY 2019, they are \$34.5 million (4.5%) below the statutory goal of \$763.7 million (Chart 2).



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