

Legislative Services Agency

Fiscal Services Division

The Basics of the General Fund Budget for the State of Iowa

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Introduction

The State budget consists of a multitude of taxes, user fees, federal receipts, interest earnings, and revenues from numerous fines and other miscellaneous sources.

By statute, all revenues remitted to the state are directed to specific funds to be used for specified purposes. For example, the State's motor vehicle fuel tax is directed to the Road Use Tax Fund to be used for the administration, maintenance, and construction of state and local roads. Much of the state wagering tax on casino profits is deposited into the Rebuild Iowa Infrastructure Fund and used primarily for construction and improvement to state buildings, vertical infrastructure projects, and environmental programs. In total, these revenues amount to approximately \$15.0 billion per year¹.

The focus of this presentation is on Iowa's General Fund, which is the state's main operating fund and the fund from which most discretionary spending is provided. This is also the fund that receives most of the attention by law makers during the legislative session.

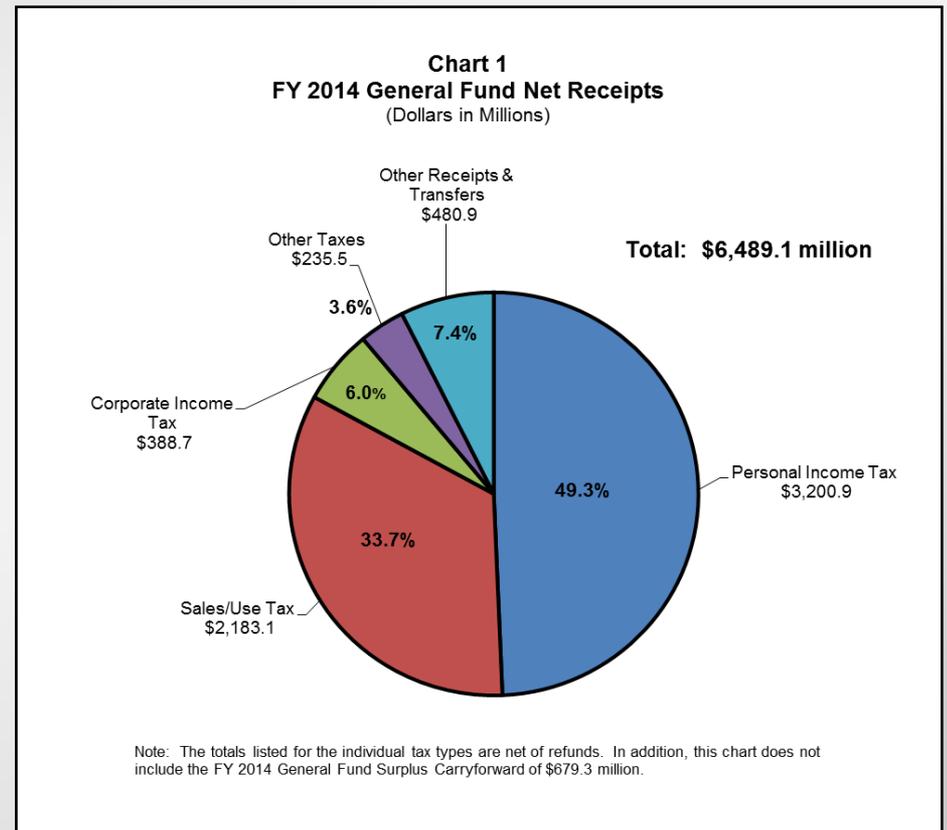
For a more in-depth understanding of how the General Fund is related to Generally Accepted Accounting Principles (GAAP) and budgetary controls, see the Department of Management's document entitled "[Information about the State of Iowa's Budget.](#)"

¹ As reported in the State of Iowa Comprehensive Annual Financial Report, Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds.

General Fund Overview

General Fund Receipts

Iowa's General Fund budget consists largely of revenues derived from the state's individual income tax, and the state sales and use taxes. Together, the two sources comprise over 80% of the total General Fund revenues. The remaining 20% comes from other sources including corporate income tax, the inheritance tax, insurance premium tax, as well as a host of other taxes, fees, and receipts. In FY 2014, net General Fund receipts (after refunds) totaled \$6.489 billion.

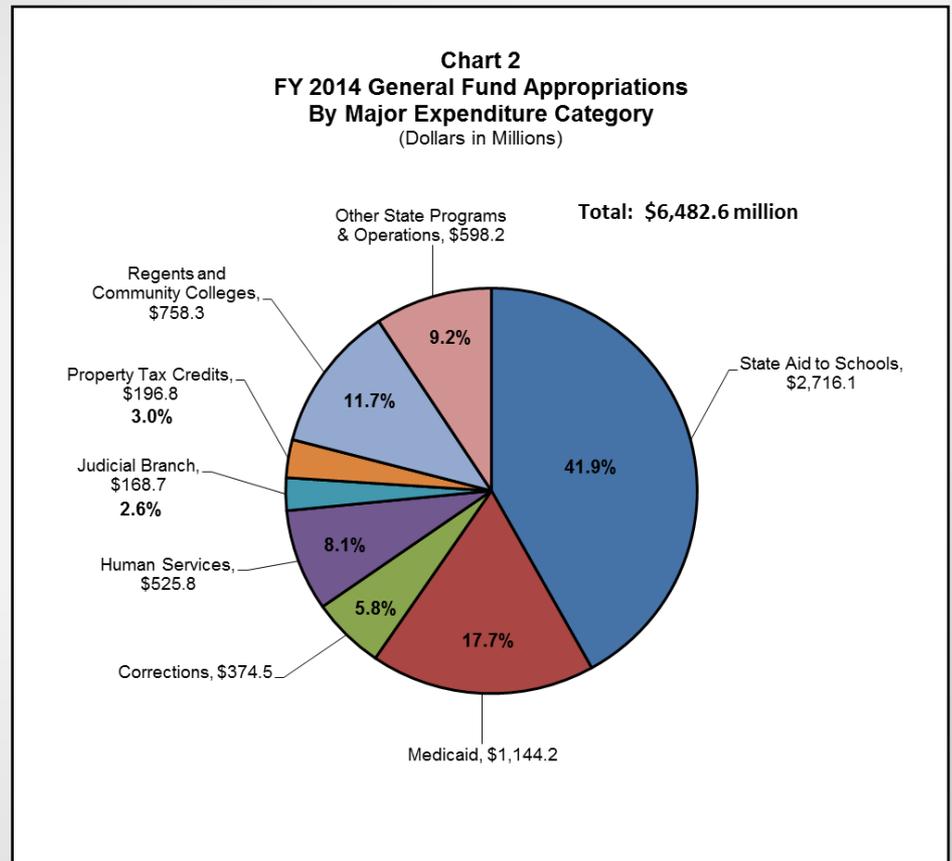


General Fund Overview

General Fund Expenditures

Spending from the General Fund is accomplished through annual appropriations enacted by the General Assembly and signed into law by the Governor. Appropriations act as spending authority for state agencies and departments and are the means by which law makers can control spending.

Chart 2 shows the appropriations by major expenditure category. Spending for K–12 education makes up 41.9% of all General Fund appropriations. The other major General Fund expenditures are Medicaid, Regents and Community Colleges, Corrections, Human Services, the Judicial Branch and Property Tax Credits.



General Fund Overview

General Fund Balance Sheet

The balance sheet provides an understanding of the financial position of the state's General Fund budget. The summarized balance sheet to the right incorporates the surplus carryforward funds and appropriation reversions into the budget.

The surplus carryforward dollars represent the ending balance from the previous fiscal year after certain statutory obligations are paid. These include the requirement to maintain a minimum balance in the state's reserve funds, the Taxpayers Trust Fund allocation, and obligations from other enacted appropriations.

Reversions represent the appropriated funds that remain unspent at the close of a fiscal year and returned to the General Fund.

General Fund Balance Sheet				
(Dollars in Millions)				
	Actual FY 2012	Actual FY 2013	Actual FY 2014	Est FY 2015
Funds Available				
Net Receipts	\$ 6,311.1	\$ 6,768.7	\$ 6,489.1	\$ 6,767.4
Surplus Carryforward	381.4	572.1	679.3	642.2
Total Funds Available	<u>\$ 6,692.5</u>	<u>\$ 7,340.8</u>	<u>\$ 7,168.4</u>	<u>\$ 7,409.6</u>
Expenditures				
Appropriations	\$ 6,012.5	\$ 6,431.7	\$ 6,482.6	\$ 6,994.3
Reversions	- 8.1	- 18.6	- 21.0	- 5.0
Net Appropriations	<u>\$ 6,004.4</u>	<u>\$ 6,413.1</u>	<u>\$ 6,461.6</u>	<u>\$ 6,989.3</u>
Ending Balance - Surplus	<u>\$ 688.1</u>	<u>\$ 927.7</u>	<u>\$ 706.8</u>	<u>\$ 420.3</u>
Surplus Obligations				
Reserve Funds	\$ 9.8	\$ 56.5	\$ 26.5	\$ 21.2
Taxpayer Trust Fund	60.0	60.0	0.0	0.0
Appropriations	46.2	131.9	38.1	12.0
Total	<u>116.0</u>	<u>248.4</u>	<u>64.6</u>	<u>33.2</u>
Surplus Carryforward	<u>\$ 572.1</u>	<u>\$ 679.3</u>	<u>\$ 642.2</u>	<u>\$ 387.1</u>

Legislative Budget Process

Budget Timelines

- **Fiscal Year:** The State fiscal year runs from July 1 to June 30.
- **June to September:** State agencies develop budget requests and are required to submit the requests to DOM by October 1 . On October 1, the department requests are made available to the Legislative Services Agency (LSA).
- **October to January:** DOM works with state agencies to clarify their budget requests. The LSA works with DOM and state agencies and produces an analysis of the department budget requests for presentation to the General Assembly.
- **December:** The Revenue Estimating Conference (REC) meets to establish the official General Fund revenue estimate for the fiscal year that begins on July 1 of the following year. Iowa law requires this estimate be used by both the Governor and the General Assembly in establishing the budget for the next fiscal year. A more in-depth discussion of the REC is provided later in this document.

Legislative Budget Process

Budget Timelines (Cont'd)

- **January to February:** The Governor's budget recommendations are made public and released to the General Assembly. The LSA conducts an analysis of the Governor's budget for use by the General Assembly.
- **January to April/May:** The Legislative Session begins the second Monday of January and generally lasts for 100 to 110 day. The Joint (House/Senate) Appropriation Subcommittees begin meeting in mid January to hear budget presentations from executive branch agencies and to gather budget information for the purpose of making recommendations to the Senate and House Appropriation Standing Committees. Appropriation bills are drafted and proceed through the normal legislative process. For information on how a bill becomes law, visit: [How a Bill Becomes Law](#).
- **April to May/June:** Appropriation bills passed by the General Assembly are sent to the Governor. The Governor has three options: sign the bill, veto the bill (or item veto an appropriations bill), or take no action.

Legislative Budget Process

The annual budget process is used by the Governor and legislators for establishing both revenue and spending policies for the succeeding fiscal year. To accomplish this, legislators and the Governor rely on revenue projections in order to set spending policies.

While the General Assembly has a general budget process in place, it tends to function more as a flexible set of guidelines rather than a rigid set of requirements. The process explained on the following slides discusses a typical legislative budget process. However, in practice the process can vary significantly.

The legislative committees that play the most prominent role in the development of the budget are the ways and means and appropriation committees in the House and Senate. All legislation that addresses tax and revenue collections are considered by the ways and means committees, while the appropriation committees are responsible decisions on all spending bills (also referred to as appropriation bills).

Legislative Budget Process

To facilitate the decision making process on spending, the House and Senate created joint appropriation subcommittees. These subcommittees were established for the purpose of reviewing different areas of the state budget and making recommendations to the full appropriations committees in the House and Senate. Currently, there are seven appropriation subcommittees, although the number of subcommittees and the responsibilities of each subcommittee have changed over time.

Each are comprised of five senators and nine representatives. In order for a subcommittee bill draft to be considered a joint House/Senate bill, the recommendation must receive the affirmative votes of a majority of the House members and a majority of the Senate members. If the required number of votes are not received, the House and Senate will start separate subcommittee bills in each chamber.

The chart on the next slide lists the seven joint appropriation subcommittees.

Iowa General Assembly

**House Appropriations
Committee**

**Senate Appropriations
Committee**

**Administration &
Regulation**

Education

Justice System

**Agriculture &
Natural Resources**

**Economic
Development**

**Health &
Human Services**

**Transportation,
Infrastructure, &
Capitals**

Legislative Budget Process

Budget Targets

One of the General Assembly's key components of the budget process is the setting of budget targets. Targets provide direction to the appropriation subcommittees and help to align overall spending with proposed revenue policy for the General Fund budget. Budget targets are developed by legislative leadership of the House and Senate. The targets are not required by law, but are a budgeting tool used by the legislature to help craft a balanced budget.

When the House and Senate leadership agree on the budget targets, they are considered joint targets. Often times, the House and Senate cannot come to an agreement resulting in each chambers having their own set of budget targets. This increases the likelihood that the spending in many of the budget bills will be decided in a conference committee.

Each subcommittee that appropriates General Fund dollars receives a spending target (a dollar amount) that is not to be exceeded. The subcommittees are generally free to decide how and where to spend their allotted dollars as long as the total does not exceed the subcommittee's budget target.

Legislative Budget Process

Modified Biennial Budget

During the 2011 legislative session the General Assembly began approving a modified biennial budget (two-year budget). The budget that was adopted that session included funding for all of FY 2012 and partial funding for FY 2013. The partial funding for the second year consisted of appropriating 50% to state agencies for their operating budget needs, with the understanding that the remaining need would be considered in the next legislative session.

The modified biennial budget arose out of a negotiated settlement between the Governor's Office, who favored a full two-year budget, and a split legislature that was could not agree with committing to a two-budget.

Since the 2011 session, the current practice is to pass a modified biennial budget every odd numbered session. During the even numbered sessions the General Assembly adopts a one year budget . The table below illustrates this process:

<u>Legislative Session</u>	<u>Full Budget</u>	<u>Partial Budget</u>
2011 Session	FY 2012	FY 2013
2012 Session	FY 2013	--
2013 Session	FY 2014	FY 2015
2014 Session	FY 2015	--
2015 Session	FY 2016	FY 2017

Significant Statutory Budget Requirements

Significant Statutory Budget Requirements

To facilitate an understanding of the Iowa Code requirements on the state General Fund budget, examples are provided on the following slides to show how the FY 2015 budget was developed during the 2014 Legislative Session.

Revenue Estimating Conference: Section 8.22A

Iowa Code section 8.22A establishes the Revenue Estimating Conference (REC). The REC is a three-person panel that meets three times per year to review and establish revenue estimates for the state's General Fund. The REC estimates revenues for the current fiscal year in progress and the fiscal year that begins the following July 1.

The REC estimates set at the meeting prior to December 15 are 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 revises the December estimate at its meeting held during the regular legislative session (March or April), the Governor and the General Assembly are required to use the lower of the two estimates when calculating the expenditure limitation for the next fiscal year. The table below shows the REC estimates for FY 2015 that were agreed to in December 2013 and March 2014. The REC did not change the December estimate of \$6,983.2 million at their March meeting.

REC Estimates for FY 2015

Net General Fund Receipts
(Dollars in Millions)

<u>Dec-13</u>	<u>Mar-14</u>
\$ 6,983.2	\$ 6,983.2



Adjusted Revenue Estimate: Section 8.54

An important aspect of the state budget process is the determination of the Adjusted Revenue Estimate. This number is used to determine three components of the budget:

- The maximum balances that can be retained in the state's Reserve Funds.
- The expenditure limitation for the next fiscal year's budget that begins on July 1.
- The amount to be deposited in the Taxpayers Trust Fund.

The Adjusted Revenue Estimate is arrived at 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 estimated net General Fund revenue. (Adj. Revenue Estimate = REC estimate + New Revenues)

Definition of New Revenue – Moneys received due to increased tax rates and fees or newly created taxes and fees that exceed the REC estimate.

The Iowa Code is silent on how revenue decreases are to be considered in the calculation of the adjusted revenue estimate. The LSA & Department of Management have an agreement to apply revenue decreases to the adjusted revenue estimate.

Adjusted Revenue Estimate: Section 8.54

FY 2015 Adjusted Revenue Estimate Calculation		
(Dollars in Millions)		
		Leg. Action FY 2015
Dec 2013 REC Estimate		\$ 6,983.2
<u>Revenue Adjustments</u>		
HF 2296	Unclaimed Property	-0.3
HF 2446	Fuel Trailers/Seed Tenders Sales Exemption	-0.4
HF 2453	Cultural Affairs Tax Credit Programs	-1.3
HF 2454	Beginning Farmer Tax Credit	-0.1
HF 2459	Fireman/EMS Tax Credit	-0.8
HF 2460	Economic Development Appropriations Act	-1.8
HF 2464	Sales Tax Rebate for Raceway	-0.1
HF 2468	Adoption Tax Credit	-0.8
SF 2283	Abandoned Savings Bonds	0.2
SF 2296	Fees paid to DOC/DHS	-0.3
SF 2340	Solar Energy Tax Credits	-1.7
SF 2341	Iowa Speedway Sales Tax Rebate	-0.4
SF 2344	Biofuel Tax Credit et al.	-2.7
SF 303	Military Pension Exemption	-9.1
	Total Enacted Revenue Adjustments	<u>-19.6</u>
	FY 2015 Adjusted Revenue Estimate	<u>\$ 6,963.6</u>

Reserve Funds: Sections 8.55 – 8.57

The State of Iowa has two reserve funds and a deficit reduction fund that are funded from the year-end surplus of the General Fund. These include:

- Cash Reserve Fund
- GAAP Deficit Reduction Fund
- Economic Emergency Fund

Reserve Funds: Sections 8.55 – 8.57

Cash Reserve Fund

- ❑ Receives funding from the General Fund surplus until the Fund reaches a balance equal to 7.5% of the Adjusted Revenue Estimate.
- ❑ The General Assembly may appropriate from the Fund for nonrecurring, emergency expenditures. However, an appropriation that lowers the Fund balance to below 3.75% of the Adjusted Revenue Estimate requires a three-fifths majority in both chambers.
- ❑ Interest earned is deposited into the Rebuild Iowa Infrastructure Fund.
- ❑ The excess funds are transferred to the GAAP Deficit Reduction Account.

Reserve Funds: Sections 8.55 – 8.57

GAAP Deficit Reduction Account

- ❑ Established to eliminate a deficit that was created as a result of transitioning the State into using Generally Accepted Accounting Principles.
- ❑ The GAAP deficit was eliminated in 1994. All funds transferred to the GAAP Deficit Reduction Fund from the Cash Reserve Fund pass through to the Economic Emergency Fund.

Reserve Funds: Sections 8.55 – 8.57

Economic Emergency Fund

- ❑ Receives the excess revenue from the GAAP Deficit Reduction Account until the balance is equal to 2.5% of the Adjusted Revenue Estimate.
- ❑ Up to \$50.0 million of the Fund may be automatically appropriated for preventing a deficit in the General Fund if certain conditions are met. The General Fund must reimburse the Economic Emergency Fund in the next fiscal year.
- ❑ A standing unlimited appropriation is provided to the Executive Council for Performance of Duty obligations.
- ❑ Interest earned is deposited into the Rebuild Iowa Infrastructure Fund.
- ❑ The first \$60.0 million of the excess is transferred to the Taxpayers Trust Fund.
- ❑ The remainder of the excess surplus is transferred to the General Fund.

Reserve Funds: Sections 8.55 – 8.57

The tables below show the calculation of the statutory maximum balances of the Cash Reserve Fund and the Economic Emergency Fund for FY 2015.

Cash Reserve Fund Calculation	
	<u>FY 2015</u>
Adjusted Revenue Estimate	\$ 6,963.6
% set by Code	<u>7.5%</u>
FY 2015 Maximum Balance	\$ 522.3

Economic Emergency Fund Calculation	
	<u>FY 2015</u>
Adjusted Revenue Estimate	\$ 6,963.6
% set by Code	<u>2.5%</u>
FY 2015 Maximum Balance	\$ 174.1

Expenditure Limitation: Section 8.54

The primary goal of the expenditure limitation law is to ensure that General Fund revenues exceed expenditures to help lawmakers enact a balanced budget and to build sufficient cash reserves for cash flow and emergency purposes. 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 carried forward from the prior year's General Fund surplus (via the Economic Emergency Fund) are added to the expenditure limitation at 100.0%.

The following table shows how the FY 2015 expenditure limitation was calculated.

Expenditure Limitation: Section 8.54

Expenditure Limitation Calculation			
(Dollars in Millions)			
	FY 2015		
	Amount	%	Expend. Limit
Dec 2013 REC Estimate	\$ 6,983.2	99%	6,913.4
<u>Revenue Adjustments:</u>			
HF 2296 Unclaimed Property	\$ - 0.3	100%	\$ - 0.3
HF 2446 Fuel Trailers/Seed Tenders Sales Exemption	- 0.4	100%	- 0.4
HF 2453 Cultural Affairs Tax Credit Programs	- 1.3	100%	- 1.3
HF 2454 Beginning Farmer Tax Credit	- 0.1	100%	- 0.1
HF 2459 Fireman/EMS Tax Credit	- 0.8	100%	- 0.8
HF 2460 Economic Development Appropriations Act	- 1.8	100%	- 1.8
HF 2464 Sales Tax Rebate for Raceway	- 0.1	100%	- 0.1
HF 2468 Adoption Tax Credit	- 0.8	100%	- 0.8
SF 2283 Abandoned Savings Bonds	0.2	95%	0.2
SF 2296 Fees paid to DOC/DHS	- 0.3	100%	- 0.3
SF 2340 Solar Energy Tax Credits	- 1.7	100%	- 1.7
SF 2341 Iowa Speedway Sales Tax Rebate	- 0.4	100%	- 0.4
SF 2344 Biofuel Tax Credit et al.	- 2.7	100%	- 2.7
SF 303 Military Pension Exemption	- 9.1	100%	- 9.1
Subtotal Revenue Adjustment	<u>\$ - 19.6</u>		<u>\$ - 19.6</u>
Transfer from Economic Emergency Fund	\$ 745.7	100%	\$ 745.7
Expenditure Limitation	<u>\$ 7,709.3</u>		<u>\$ 7,639.5</u>

Taxpayers Trust Fund: Sections 8.54 & 8.57E

Taxpayers Trust Fund: The amount the Taxpayers Trust Fund may receive in a fiscal year is limited to the difference between the actual net General Fund revenue of the preceding fiscal year and the Adjusted Revenue Estimate used in establishing the budget for that fiscal year. The maximum amount is limited to \$60.0 million per year. For example, the amount that the Fund received in FY 2014 was calculated by subtracting the Adjusted Revenue Estimate for the FY 2013 budget from the actual year-end net General Fund receipts for FY 2013.

In FY 2015, moneys in the Trust Fund will be used to provide a nonrefundable tax credit to qualified individuals for income tax returns filed for tax year 2014 (spring of 2015). The maximum amount of the credit is determined by dividing the funds available in the Taxpayers Trust Fund by the number of taxpayers of the previous tax year. Each taxpayer will be allowed the credit, up to either the tax credit maximum for that year, or the amount of income tax liability, whichever is less.

The maximum tax credit for tax year 2013 was \$54 per taxpayer and the credit for tax year 2014 was \$15.

Taxpayers Trust Fund: Sections 8.54 & 8.57E

- ❑ Fund can receive up to \$60.0 million in a given fiscal year from the Economic Emergency Fund excess.
- ❑ Funds can only be used pursuant to appropriations made by the General Assembly for tax relief.
- ❑ The amount the Fund can receive in a fiscal year is limited to the lesser of \$60.0M or the difference between the actual net General Fund revenue of the preceding fiscal year and the adjusted revenue estimate used in establishing the budget for the preceding fiscal year.

Taxpayers Trust Fund: Section 8.54 & 8.57E

Taxpayers Trust Fund Calculation for FY 2014

	<u>FY 2013</u>
Actual Net General Fund Receipts	\$ 6,768.7
Adjusted Revenue Estimate	<u>6,224.3</u>
Difference (Revenue Growth)	<u>\$ 544.4</u>

The difference is greater than \$60.0M.

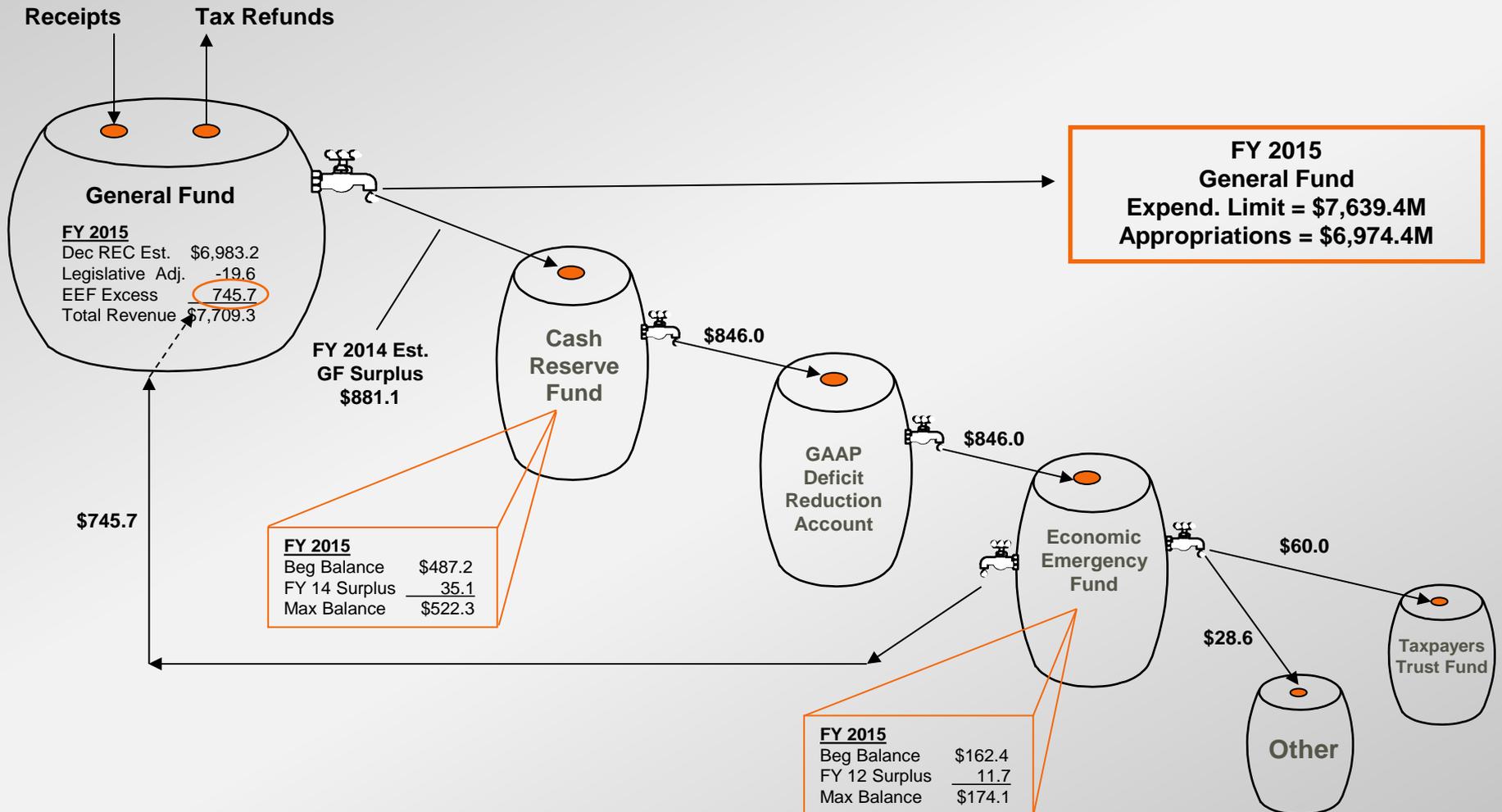
Taxpayers Trust Fund receives \$60.0M of the Economic Emergency Fund excess.

Taxpayers Trust Fund

(Dollars in Millions)

	<u>FY 2014</u>
Beginning Balance	\$ 60.0
Economic Emergency Excess	<u>60.0</u>
Reversion	<u>0.0</u>
Total	<u>120.0</u>
Estimated Tax Credits	88.1
Ending Balance	<u>\$ 31.9</u>

Flow of the FY 2014 General Fund Surplus



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