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## MEMORANDUM

TO: Legislative Fiscal Committee

FROM: Dave Reynolds, Fiscal Services Division

DATE: September 12, 2019

RE: General Fund Budget Update

**General Fund Balance Sheet.** The most recent General Fund balance sheet that was released by the Legislative Services Agency (LSA) reflects the March estimates of the Revenue Estimating Conference (REC) and legislation enacted during the 2019 Legislative Session. The LSA will update the balance sheet after the REC meets in October to incorporate the new estimates for FY 2020 and FY 2021, as well as the year-end revenues and expenditures for FY 2019.

The surpluses for FY 2019 and FY 2020 are currently estimated to be \$166.1 million and \$277.1 million, respectively. The most recent balance sheet published in June 2019 is attached to this memo. Below is a list of the changes and updates that will affect the General Fund estimates in October:

- Final year-end net revenues, including accruals, for FY 2019. Changes to FY 2019 revenues will also impact the FY 2020 and FY 2021 budgets.
- Final adjustments to FY 2019 standing appropriations. The current estimate is a reduction of \$5.4 million to the budgeted appropriations. Data from the State financial system shows the reduction may be closer to \$4.5 million.
- FY 2019 final reversions. The current estimate is \$5.2 million. State agencies' FY 2019 operating budgets are still being reconciled and actual reversions will not be known until late September.
- FY 2019 final Performance of Duty (POD) appropriation funded through the Economic Emergency Fund. Expenditures funded through the POD appropriation are authorized by the Executive Council. The appropriation provides funding for emergency repairs to State property if sufficient funds are not available in a State agency budget. The appropriation is also used to fund disaster-related expenses for local governments and individuals. Changes to this appropriation impact the surplus carryforward balance into FY 2020. The amount budgeted for POD for FY 2019 was \$14.2 million. Data from the State financial system shows the expenditures will be closer to \$19.1 million.
- Estimated supplemental appropriation need for Medicaid in FY 2020. According to the Department of Human Services (DHS) budget request, a supplemental appropriation of \$106.6 million will be needed for FY 2020. The attached General Fund balance sheet does not include the Medicaid supplemental appropriation for FY 2020. The Medicaid Forecasting Group will be meeting in October to review estimates for FY 2020 and FY 2021.
- Revised REC revenue estimates for FY 2020 and FY 2021 will be included.
- Estimates for Built-In and Anticipated Appropriation changes will be incorporated into an FY 2021 balance sheet to provide a preliminary assessment of the FY 2021 General Fund budget.

**Taxpayer Relief Fund.** It is estimated that the Taxpayer Relief Fund will have a balance of \$73.4 million in FY 2020. This includes a General Fund surplus transfer of \$13.4 million during FY 2019 and an estimated transfer of \$60.0 million in FY 2020.

The following factors determine how much of the General Fund surplus can be transferred to the Taxpayer Relief Fund:

1. The size of the General Fund surplus of the previous fiscal year.
2. The balances in the Cash Reserve Fund and the Economic Emergency Fund must be at the statutory maximum, which is a combined 10.0% of the adjusted revenue estimate. In addition, the final expenses of Performance of Duty appropriation from the Economic Emergency Fund must be accounted for. After both reserve funds are at the statutory maximum, a portion of the remaining surplus dollars are available for deposit in the Taxpayer Relief Fund, but the amount is limited to the factor list in Item 3.
3. If the actual net General Fund revenues for the previous fiscal year are greater than the adjusted revenue estimate for the previous fiscal year, the amount of the difference up to \$60.0 million is transferred to the Taxpayer Relief Fund.
4. For FY 2021, the \$60.0 million cap is repealed. As a result, the amount of the surplus to be transferred in FY 2021 will be limited to the difference between the actual FY 2020 net revenues and the FY 2020 adjusted revenue estimate. The FY 2020 adjusted revenue estimate is \$7,848.4 million and was established in the 2019 Legislative Session.

**Medicaid.** A Medicaid balance sheet is attached to the end of this memo. The FY 2019 numbers on the balance sheet reflect the Medicaid Forecasting Group's estimate at the June projection meeting. Final numbers for FY 2019 will be available by the end of September.

As previously mentioned, the supplemental need for FY 2020 is \$106.6 million. This is based on projections provided by the DHS budget book. The changes comprising the \$106.6 million need include:

- \$9.1 million for the projected Medicaid shortfall factored into the appropriation for FY 2020 during the 2019 Legislative Session.
- \$67.8 million for an FY 2020 rate increase for the two Managed Care Organizations (MCOs). The two MCOs signed new contracts the first part of July agreeing to a State funding increase of \$114.8 million (7.8%). Of this total, \$47.0 million was due to changes approved by the Governor and General Assembly in the HHS Appropriations Bill (House File 766). Adjusting for legislatively mandated changes, the increase for the MCOs was \$67.8 million (4.6%).
- \$7.9 million due to changes in State revenues (mainly the Health Care Trust Fund). Revenues and projections by the Department of Revenue for the Health Care Trust Fund continue to decline. The estimates assumed \$209.7 million in revenues in FY 2019 and \$208.5 million for FY 2020. Actual revenues for FY 2019 were \$7.1 million below the estimate and due to the reduction, the FY 2020 estimate has now been decreased by \$7.9 million.
- \$17.3 million due to lower drug rebates and other recoveries.
- \$4.4 million due to other changes (enrollment, other costs).

**State of Iowa**  
**Projected Condition of the General Fund**  
(Dollars in Millions)

	<b>Actual FY 2018</b>	<b>Est Net FY 2019</b>	<b>Enacted FY 2020</b>
<b>Resources</b>			
Receipts (Dec 2018 Est)	\$ 7,383.9	\$ 7,728.6	\$ 7,868.4
March REC Adjustment	0.0	5.0	- 20.0
Net Receipts	7,383.9	7,733.6	7,848.4
Revenue Adjustments	0.0	- 0.2	- 9.3
Subtotal Receipts	7,383.9	7,733.4	7,839.1
Surplus Carryforward	0.0	71.0	76.7
<b>Total Available Resources</b>	<b>\$ 7,383.9</b>	<b>\$ 7,804.4</b>	<b>\$ 7,915.8</b>
<b><i>Expenditure Limitation</i></b>			<b>\$ 7,837.3</b>
<b>Estimated Appropriations and Expenditures:</b>			
Appropriations	\$ 7,268.6	\$ 7,480.3	\$ 7,643.7
Adjustment to Standing Appropriations	15.8	- 5.4	0.0
Supplemental/Deappropriations	- 23.3	168.6	0.0
<b>Total Appropriations</b>	<b>\$ 7,261.1</b>	<b>\$ 7,643.5</b>	<b>\$ 7,643.7</b>
Reversions	- 4.5	- 5.2	- 5.0
<b>Net Appropriations</b>	<b>\$ 7,256.6</b>	<b>\$ 7,638.3</b>	<b>\$ 7,638.7</b>
<b>Ending Balance - Surplus</b>	<b>\$ 127.3</b>	<b>\$ 166.1</b>	<b>\$ 277.1</b>
<b><i>Under (Over) Expenditure Limitation</i></b>			<b>\$ 193.6</b>

NOTE: The Governor did not item veto any appropriations or revenue adjustments from legislation passed by the General Assembly during the 2019 Legislative Session.

**State of Iowa**  
**General Fund Revenue Adjustments by Act**  
(Dollars in Millions)

<b>Bill No.</b>	<b>Description</b>	<b>Enacted</b>	
		<b>FY 2019</b>	<b>FY 2020</b>
SF 220	Corporation Section 179	\$ - 0.6	\$ - 0.4
HF 778	Beginning Farmer Tax Credit	0.0	- 0.4
HF 772	Broadband and Housing Incentives	0.0	- 2.2
SF 617	Sports Wagering	0.0	0.9
SF 597	Blood Processing Sales Tax Exemption	0.0	- 0.7
HF 779	Tax Code Changes Act	0.4	- 6.4
SF 615	Public Safety Survivor Benefits - Lottery	0.0	- 0.1
<b>Total Revenue Adjustments</b>		<u>\$ - 0.2</u>	<u>\$ - 9.3</u>

## State of Iowa Reserve Funds

(Dollars in Millions)

	Actual FY 2018	Est Net FY 2019	Enacted FY 2020
<b><u>Cash Reserve Fund</u></b>			
<b>Funds Available</b>			
Balance Brought Forward	\$ 422.4	\$ 442.4	\$ 571.6
General Fund Transfer from Surplus	0.0	127.3	166.1
Special General Fund Appropriation	20.0	113.1	0.0
<b>Total Funds Available</b>	<u>\$ 442.4</u>	<u>\$ 682.8</u>	<u>\$ 737.7</u>
Transfer to Economic Emergency Fund	0.0	- 111.2	- 149.8
<b>Balance</b>	<u>\$ 442.4</u>	<u>\$ 571.6</u>	<u>\$ 587.9</u>
<i>Maximum 7.5%</i>	<u>\$ 552.8</u>	<u>\$ 571.6</u>	<u>\$ 587.9</u>
<b><u>Economic Emergency Fund</u></b>			
<b>Funds Available</b>			
Balance Brought Forward	\$ 182.9	\$ 177.9	\$ 190.5
Excess from Cash Reserve	0.0	111.2	149.8
Executive Council – Performance of Duty	- 18.0	- 14.2	- 7.6
Transfers to and from the General Fund	13.0	0.0	0.0
<b>Total Funds Available</b>	<u>\$ 177.9</u>	<u>\$ 274.9</u>	<u>\$ 332.7</u>
Excess Surplus	\$ 0.0	\$ - 84.4	\$ - 136.7
<b>Balance</b>	<u>\$ 177.9</u>	<u>\$ 190.5</u>	<u>\$ 196.0</u>
<i>Maximum 2.5%</i>	<u>\$ 184.3</u>	<u>\$ 190.5</u>	<u>\$ 196.0</u>
<b><u>Distribution of Excess Surplus</u></b>			
Transfer to General Fund	\$ 0.0	\$ 71.0	\$ 76.7
Transfer to Taxpayer Relief Fund	0.0	13.4	60.0
<b>Total</b>	<u>\$ 0.0</u>	<u>\$ 84.4</u>	<u>\$ 136.7</u>
<b><u>Combined Reserve Fund Balances</u></b>			
Cash Reserve Fund	\$ 442.4	\$ 571.6	\$ 587.9
Economic Emergency Fund	177.9	190.5	196.0
<b>Total</b>	<u>\$ 620.3</u>	<u>\$ 762.1</u>	<u>\$ 783.9</u>
<b><u>Statutory Maximum</u></b>			
Cash Reserve Fund	\$ 552.8	\$ 571.6	\$ 587.9
Economic Emergency Fund	184.3	190.5	196.0
<b>Total</b>	<u>\$ 737.1</u>	<u>\$ 762.1</u>	<u>\$ 783.9</u>

## Taxpayer Relief Fund

(Dollars in Millions)

	<u>Actual FY 2018</u>	<u>Est Net FY 2019</u>	<u>Enacted FY 2020</u>
<b>Funds Available</b>			
Balance Brought Forward	\$ 8.3	\$ 8.4	\$ 13.4
General Fund Surplus Transfer	0.0	13.4	60.0
Interest	0.1	0.0	0.0
<b>Total Funds Available</b>	<u>\$ 8.4</u>	<u>\$ 21.8</u>	<u>\$ 73.4</u>
<b>Expenditures</b>			
Transfer to the General Fund	\$ 0.0	\$ - 8.4	\$ 0.0
<b>Ending Balance</b>	<u><u>\$ 8.4</u></u>	<u><u>\$ 13.4</u></u>	<u><u>\$ 73.4</u></u>

## Taxpayer Relief Fund Calculation

(Dollars in Millions)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Actual /Estimated	\$ 7,240.0	\$ 7,383.9	\$ 7,733.6
Adjusted Revenue Estimate	- 7,380.0	- 7,370.5	- 7,621.9
Difference	<u><u>\$ - 140.0</u></u>	<u><u>\$ 13.4</u></u>	<u><u>\$ 111.7</u></u>

## Adjusted Revenue Estimate and Reserve Fund Goal Calculations

(Dollars in Millions)

	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
REC Estimates	\$ 7,357.4	\$ 7,364.5	\$ 7,527.0	\$ 7,848.4
Revenue Adjustments	22.6	6.0	94.9	-9.3
Adjusted Revenue Estimate	<u>\$ 7,380.0</u>	<u>\$ 7,370.5</u>	<u>\$ 7,621.9</u>	<u>\$ 7,839.1</u>
Reserve Fund Goals				
Cash Reserve Fund (7.5%)	\$ 553.5	\$ 552.8	\$ 571.6	\$ 587.9
Economic Emergency Fund (2.5%)	184.5	184.3	190.5	196.0
Total	<u>\$ 738.0</u>	<u>\$ 737.1</u>	<u>\$ 762.1</u>	<u>\$ 783.9</u>

## State Tax Credit Expected Claims Projection

(Dollars in Millions)

Tax Credit Program	Actual FY 2018	Est FY 2019	Est FY 2020
<b><u>Capped Programs</u></b>			
Historic Preservation Tax Credit	\$ 60.2	\$ 55.4	\$ 58.1
High Quality Jobs Program	37.8	53.3	44.4
Workforce Housing Tax Incentive Program	9.0	17.2	16.5
School Tuition Organization Tax Credit	11.7	11.5	12.2
Enterprise Zone Program – Housing Component	8.0	10.0	3.7
All Other Programs	36.3	45.4	42.8
<b>Total Capped Programs</b>	<b>\$ 163.0</b>	<b>\$ 192.8</b>	<b>\$ 177.8</b>
<b><u>Uncapped Programs</u></b>			
Earned Income Tax Credit	\$ 68.2	\$ 70.5	\$ 71.2
Research Activities Tax Credit	70.7	68.9	65.9
Iowa Industrial New Jobs Training Program (260E)	37.7	43.7	42.7
Biodiesel Blended Fuel Tax Credit	17.5	19.6	22.2
Tuition and Textbook Tax Credit	14.9	15.1	15.2
All Other Programs	23.4	27.5	26.5
<b>Total Uncapped Programs</b>	<b>\$ 232.5</b>	<b>\$ 245.3</b>	<b>\$ 243.7</b>
<b>Tax Credit Program Total</b>	<b>\$ 395.5</b>	<b>\$ 438.1</b>	<b>\$ 421.5</b>

Notes:

These estimates are based on the Tax Credit Expected Claims Projection published by the Department of Revenue in March 2019 in the Tax Credits Contingent Liabilities Report. The table above reflects the tax credits that are likely to be claimed in a given fiscal year based on the previous year.

The numbers may not equal totals due to rounding.



## Medicaid Balance Sheet

	Actual FY 2018	Estimated FY 2019	Estimated FY 2020
<b>Medicaid Funding</b>			
Carryforward from Previous Year	\$ 44,841,621	\$ 36,170,463	\$ 0
Carryforward Due to Shift in Emerging Trends Payment	54,664,353	0	0
Palo Replacement Generation Tax	1,152,046	1,408,668	1,220,387
Health Care Trust Fund	213,193,427	209,730,000	200,600,000
Nursing Facility Quality Assurance Fund	35,701,241	36,705,208	58,570,397
Hospital Trust Fund	33,920,554	33,920,554	33,920,554
Medicaid Fraud Fund	610,032	603,262	75,000
Transfer Decategorization Reversion	1,016,278	500,000	500,000
<b>Total Non-General Fund Sources</b>	<b>\$ 385,099,552</b>	<b>\$ 319,038,155</b>	<b>\$ 294,886,338</b>
<b>General Fund Appropriation</b>	<b>1,282,992,417</b>	<b>1,337,646,375</b>	<b>1,427,379,707</b>
General Fund Supplemental	0	150,300,000	0
<b>Total General Fund Sources</b>	<b>\$ 1,282,992,417</b>	<b>\$ 1,487,946,375</b>	<b>\$ 1,427,379,707</b>
<b>Total Medicaid Funding</b>	<b>\$ 1,668,091,969</b>	<b>\$ 1,806,984,530</b>	<b>\$ 1,722,266,045</b>
<b>Estimated State Medicaid Need</b>	<b>\$ 1,620,575,055</b>	<b>\$ 1,662,307,658</b>	<b>\$ 1,756,287,378</b>
FMAP Changes	-66,600,000	-58,940,360	-53,120,556
Health and Wellness Program Expenditures	17,300,000	7,200,000	16,900,000
Adjustment due to Gov. Line Item Veto	0	-195,000	-195,000
MCO Capitation Increase	60,646,451	109,907,245	67,834,927
Risk Corridor Payments	0	21,817,026	0
Habilitation Risk Pool Adjustment	0	40,425,283	0
MCO Incentives	0	9,600,000	0
CY 2018 Health Insurer Fee Payment	0	14,622,555	0
Increased Reimbursement ACT	0	0	211,332
Increased Reimbursement Critical Access Hospitals	0	0	1,500,000
CMH Core Services	0	0	423,110
Increased Reimbursement for Tiered Rates	0	0	1,000,000
Nursing Facility Increase Due To Assessment	0	0	13,385,247
Nursing Facility Increase Due To Rebase	0	0	23,401,942
CMH Waiver Wait List Reduction	0	0	1,200,000
<b>Total Estimated Medicaid Need</b>	<b>\$ 1,631,921,506</b>	<b>\$ 1,806,744,407</b>	<b>\$ 1,828,828,380</b>
<b>Balance (Underfunded If Negative)</b>	<b>\$ 36,170,463</b>	<b>\$ 240,123</b>	<b>\$ -106,562,335</b>
MCO – Managed Care Organization	FMAP – Federal Medical Assistance Percentage		
CMH – Children's Mental Health	ACT – Assertive Community Treatment		