

Senate File 294 - Introduced

SENATE FILE 294

BY CHAPMAN

A BILL FOR

1 An Act relating to state financing involving the state
2 general fund expenditure limitation by revising calculation
3 requirements for the limitation, creating a safety net fund,
4 making transfers, and providing for related state personal
5 income tax rate reductions, and including effective date and
6 applicability provisions.

7 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 8.54, subsection 1, Code 2019, is amended
2 by adding the following new paragraphs:

3 NEW PARAGRAPH. *Ob.* "Iowa wage and salary component" means
4 the wage and salary component of the state personal income
5 table for Iowa issued each quarter by the bureau of economic
6 analysis of the United States department of commerce. For
7 purposes of this paragraph and paragraph "c", "quarter" means
8 the calendar year quarter identified in the table issued by the
9 bureau.

10 NEW PARAGRAPH. *c.* "Wage and salary growth factor" means
11 one-half of the percentage increase, if any, in the average
12 of the second quarter Iowa wage and salary component issued
13 immediately prior to the meeting of the revenue estimating
14 conference held by December 15 in accordance with section
15 8.22A, subsection 3, and the Iowa wage and salary components
16 for the three quarters immediately preceding such second
17 quarter component, as compared to the average of the four
18 quarters of the Iowa wage and salary component immediately
19 preceding the oldest quarter used to calculate the first
20 average.

21 Sec. 2. Section 8.54, subsections 2 and 3, Code 2019, are
22 amended to read as follows:

23 2. a. There is created a state general fund expenditure
24 limitation for each fiscal year calculated as provided in
25 this section. An expenditure limitation shall be used for
26 the portion of the budget process commencing on the date the
27 revenue estimating conference agrees to a revenue estimate for
28 the following fiscal year in accordance with section 8.22A,
29 subsection 3, and ending with the governor's final approval
30 or disapproval of the appropriations bills applicable to that
31 fiscal year that were passed prior to July 1 of that fiscal
32 year in a regular or extraordinary legislative session.

33 b. A wage and salary growth factor for the following
34 fiscal year shall be calculated jointly by the department of
35 management and the legislative services agency for use in the

1 budget process for the following fiscal year in accordance with
2 this section. The wage and salary growth factor calculation
3 for the following fiscal year shall be issued concurrently
4 with the meeting of the revenue estimating conference held by
5 December 15 in which the estimates used to develop the adjusted
6 revenue estimate for the following fiscal year are agreed to
7 by the conference.

8 3. Except as otherwise provided in this section, the state
9 general fund expenditure limitation for a fiscal year shall be
10 ninety-nine the lesser of the following amounts:

11 a. Ninety-nine percent of the adjusted revenue estimate for
12 the fiscal year.

13 b. The percentage derived from adding to one hundred percent
14 the wage and salary growth factor calculated for the fiscal
15 year multiplied by the final state general fund expenditure
16 limitation for the prior fiscal year.

17 Sec. 3. Section 8.54, subsection 5, Code 2019, is amended by
18 striking the subsection.

19 Sec. 4. Section 8.55, subsection 2, unnumbered paragraph 1,
20 Code 2019, is amended to read as follows:

21 The maximum balance of the fund is the amount equal to two
22 and one-half percent of the adjusted revenue estimate for the
23 fiscal year. If the amount of moneys in the Iowa economic
24 emergency fund is equal to the maximum balance, moneys in
25 excess of this amount shall be distributed as follows in the
26 following order:

27 Sec. 5. Section 8.55, subsection 2, Code 2019, is amended by
28 adding the following new paragraph:

29 NEW PARAGRAPH. 0a. The initial excess, not to exceed the
30 amount necessary for the safety net fund to reach its maximum
31 balance, shall be transferred to the safety net fund created
32 in section 8.57G.

33 Sec. 6. Section 8.55, subsection 2, paragraph a, Code 2018,
34 as amended by 2018 Iowa Acts, chapter 1161, section 55, is
35 amended to read as follows:

1 ~~a.~~ b. The Following a transfer pursuant to paragraph "0a",
2 the remainder of the excess, if any, of the difference between
3 the actual net revenue for the general fund of the state for
4 the fiscal year and the adjusted revenue estimate for the
5 fiscal year shall be transferred to the taxpayers trust fund
6 created in section 8.57E.

7 Sec. 7. Section 8.55, subsection 2, paragraph b, Code 2019,
8 is amended by striking the paragraph.

9 Sec. 8. Section 8.57E, subsection 2, Code 2019, is amended
10 to read as follows:

11 2. a. Moneys in the taxpayer relief fund shall only be used
12 pursuant to appropriations or transfers made by the general
13 assembly for tax relief, including but not limited to increases
14 in the general retirement income exclusion under section 422.7,
15 subsection 31, or reductions in income tax rates.

16 b. No later than June 30 in each fiscal year, the entire
17 balance of the taxpayer relief fund, if any, is transferred to
18 the general fund of the state.

19 c. The moneys transferred to the general fund of the state
20 in accordance with paragraph "b" shall not be considered new
21 revenue for purposes of the state general fund expenditure
22 limitation under section 8.54, but instead shall be considered
23 as replacing a like amount included in the expenditure
24 limitation for the fiscal year in which the transfer is made.

25 Sec. 9. NEW SECTION. 8.57G Safety net fund.

26 1. A safety net fund is created. The fund shall be separate
27 from the general fund of the state and the balance in the fund
28 shall not be considered part of the balance of the general fund
29 of the state. The moneys credited to the fund are not subject
30 to section 8.33 and shall not be transferred, used, obligated,
31 appropriated, or otherwise encumbered except as provided in
32 this section.

33 2. The maximum balance of the fund is the amount equal to
34 two percent of the adjusted revenue estimate for the fiscal
35 year.

1 3. Moneys in the safety net fund shall only be used pursuant
2 to appropriations or transfers made by the general assembly
3 to augment appropriations made for important education,
4 employment, health, human services, and other programs to aid
5 individuals and families with low income.

6 4. a. Moneys in the safety net fund may be used for cash
7 flow purposes during a fiscal year provided that any moneys so
8 allocated are returned to the fund by the end of that fiscal
9 year.

10 b. Except as provided in section 8.58, the safety net fund
11 shall be considered a special account for the purposes of
12 section 8.53 in determining the cash position of the general
13 fund of the state for the payment of state obligations.

14 5. Notwithstanding section 12C.7, subsection 2, interest
15 or earnings on moneys deposited in the safety net fund shall
16 be credited to the fund.

17 Sec. 10. Section 8.58, Code 2019, is amended to read as
18 follows:

19 **8.58 Exemption from automatic application.**

20 1. ~~To the extent that moneys appropriated under section~~
21 ~~8.57 do not result in moneys being credited to the general fund~~
22 ~~under section 8.55, subsection 2, moneys~~ Moneys appropriated
23 under section 8.57 and moneys contained in the cash reserve
24 fund, rebuild Iowa infrastructure fund, environment first
25 fund, Iowa economic emergency fund, taxpayer relief fund,
26 ~~and state bond repayment fund, and safety net fund~~ shall
27 not be considered in the application of any formula, index,
28 or other statutory triggering mechanism which would affect
29 appropriations, payments, or taxation rates, contrary
30 provisions of the Code notwithstanding. To the extent that
31 moneys projected to be transferred from the taxpayer relief
32 fund to the general fund of the state pursuant to section 8.57E
33 replace revenues reduced pursuant to section 422.5B, such
34 revenue reduction shall not be considered by such arbitrator or
35 in such negotiations in the application of such mechanisms that

1 affect appropriations, payments, or taxation rates.

2 2. ~~To the extent that moneys appropriated under section~~
3 ~~8.57 do not result in moneys being credited to the general fund~~
4 ~~under section 8.55, subsection 2, moneys~~ Moneys appropriated
5 under section 8.57 and moneys contained in the cash reserve
6 fund, rebuild Iowa infrastructure fund, environment first
7 fund, Iowa economic emergency fund, taxpayer relief fund, and
8 state bond repayment fund, and safety net fund shall not be
9 considered by an arbitrator or in negotiations under chapter
10 20. To the extent that moneys projected to be transferred
11 from the taxpayer relief fund to the general fund of the state
12 pursuant to section 8.57E replace revenues reduced pursuant to
13 section 422.5B, such revenue reduction shall not be considered
14 by such arbitrator or in such negotiations in the application
15 of such mechanisms that affect appropriations, payments, or
16 taxation rates.

17 Sec. 11. Section 422.5, subsection 1, paragraph a, Code
18 2019, is amended to read as follows:

19 a. A tax is imposed upon every resident and nonresident
20 of the state which tax shall be levied, collected, and paid
21 annually upon and with respect to the entire taxable income as
22 defined in this division at rates as provided in section 422.5A
23 reduced as provided in section 422.5B.

24 Sec. 12. NEW SECTION. 422.5B Taxpayer relief fund — rate
25 reduction.

26 For the tax year beginning January 1 immediately preceding
27 July 1 of any fiscal year in which a transfer is made from the
28 taxpayer relief fund to the general fund of the state pursuant
29 to section 8.57E, subsection 2, paragraph "b", each rate in
30 section 422.5A shall be reduced, and rounded to the nearest
31 one-hundredth of one percent, by the percentage that the amount
32 transferred during the fiscal year from the taxpayer relief
33 fund to the general fund bears to the actual net revenue for
34 the general fund for the fiscal year immediately preceding
35 the fiscal year in which such transfer was made. A tax rate

1 reduction provided in this section only applies to the tax year
2 which is the subject of the rate reduction and shall not affect
3 tax rates in any successive tax year. The department shall
4 draft the income tax form for any tax year in which rates are
5 reduced under this section to provide information to taxpayers
6 necessary to calculate the tax due.

7 Sec. 13. Section 422.16, subsection 1, paragraph a, Code
8 2019, is amended to read as follows:

9 a. Every withholding agent and every employer as defined
10 in [this chapter](#) and further defined in the Internal Revenue
11 Code, with respect to income tax collected at source, making
12 payment of wages to a nonresident employee working in Iowa,
13 or to a resident employee, shall deduct and withhold from the
14 wages an amount which will approximate the employee's annual
15 tax liability on a calendar year basis, calculated on the
16 basis of tables to be prepared by the department and schedules
17 or percentage rates, based on the wages, to be prescribed by
18 the department, and calculated without regard to the rate
19 reductions provided in section 422.5B. Every employee or
20 other person shall declare to the employer or withholding
21 agent the number of the employee's or other person's personal
22 allowances to be used in applying the tables and schedules or
23 percentage rates. However, no greater number of allowances
24 may be declared by the employee or other person than the
25 number to which the employee or other person is entitled
26 except as allowed under sections 3402(m)(1) and 3402(m)(3)
27 of the Internal Revenue Code and as allowed for the child
28 and dependent care credit provided in [section 422.12C](#). The
29 claiming of allowances in excess of entitlement is a serious
30 misdemeanor.

31 Sec. 14. EFFECTIVE DATE. This Act takes effect July 1,
32 2020.

33 Sec. 15. APPLICABILITY. The following are first applicable
34 to calculate the state general fund expenditure limitation for
35 the fiscal year beginning July 1, 2020:

- 1 1. The sections of this Act amending section 8.54.
- 2 2. The sections of this Act amending section 8.55.
- 3 Sec. 16. APPLICABILITY. The following apply to tax years
- 4 beginning on or after January 1, 2021:
- 5 1. The section of this Act amending section 422.5.
- 6 2. The section of this Act enacting section 422.5B.
- 7 3. The section of this Act amending section 422.16.

8 EXPLANATION

9 The inclusion of this explanation does not constitute agreement with
10 the explanation's substance by the members of the general assembly.

11 This bill relates to the state general fund expenditure
12 limitation by revising calculation requirements for the
13 limitation, creating a safety net fund, making transfers,
14 and providing for related state personal income tax rate
15 reductions.

16 The bill amends Code section 8.54, relating to the state
17 general fund expenditure limitation, to provide an additional
18 method for calculating the limitation. Under current law, the
19 limitation is 99 percent of the adjusted revenue estimate for
20 the following fiscal year based on an estimate approved by the
21 revenue estimating conference in a meeting held by December
22 15. The new calculation method in the bill is based on the
23 growth in the average wage and salary component of the state
24 personal income table for Iowa issued each quarter by the
25 bureau of economic analysis of the United States department of
26 commerce. Under the new method, the department of management
27 and the legislative services agency are directed to apply the
28 component issued for the quarters of a two-year period to
29 jointly calculate a wage and salary growth factor percentage.
30 One-half of this percentage amount, combined with 100 percent,
31 is applied to the amount of the state general fund expenditure
32 limitation for the prior fiscal year (fiscal year in progress).
33 The lesser amount identified by the two methods is required to
34 be used as the state general fund expenditure limitation in the
35 budget process for the following fiscal year.

1 Under current law, if a surplus is anticipated for the
2 general fund of the state at the close of a fiscal year, any
3 excess remaining, after the surplus is applied to bring state
4 reserve funds to their maximum balances, is transferred back
5 to the state general fund for the following fiscal year. The
6 original state general fund expenditure limitation for that
7 following fiscal year is required to be readjusted to reflect
8 the amount of excess anticipated to be transferred. The bill
9 strikes the current law requirements for the excess in Code
10 sections 8.54(5) and 8.55(2) and instead requires the excess
11 to be transferred to the safety net fund created by the bill,
12 up to the maximum balance for the safety net fund which is
13 established at 2 percent of the adjusted revenue estimate for
14 the fiscal year, and then entire remainder to be transferred to
15 the taxpayer relief fund.

16 The bill creates a safety net fund separate from the
17 general fund. Moneys in the fund must only be used pursuant
18 to appropriations or transfers made by the general assembly
19 to augment appropriations made for important education,
20 employment, health, human services, and other programs to aid
21 individuals and families with low income. Moneys in the safety
22 net fund are treated similarly to other reserve funds under
23 Code section 8.58 and exempted from automatic application in
24 triggering mechanisms which affect appropriations, payments, or
25 taxation rates, and cannot be considered by an arbitrator or in
26 collective bargaining negotiations under Code chapter 20.

27 Moneys transferred to the taxpayer relief fund are required
28 to be transferred to the general fund of the state by the
29 end of the same fiscal year and treated as a replacement of
30 revenue resulting from the individual income tax rate reduction
31 provided for in the bill.

32 For tax years beginning January 1 immediately preceding July
33 1 of a fiscal year in which a transfer is made from the taxpayer
34 relief fund to the general fund, the rates for each of the nine
35 tax brackets of the individual income tax are required to be

1 reduced by the percentage that the amount transferred to the
2 general fund bears to the state's actual net revenue for the
3 preceding fiscal year. Tax rate reductions only apply for one
4 tax year and do not affect tax rates in any successive tax
5 year. Withholding agents and employers are prohibited from
6 factoring in such an individual income tax rate reduction in
7 their calculation of appropriate employee withholding amounts
8 during a tax year. Under the bill, the tax year beginning
9 January 1, 2021, is the first tax year to which the individual
10 income tax rate reduction may apply.

11 The bill takes effect July 1, 2020. However, the provisions
12 affecting calculation of the state general fund expenditure
13 limitation are first applicable for the budget process for FY
14 2020-2021.