

FEDERAL FUNDING ISSUES

Since 1990, the federal budget process has focused on avoiding increases in the annual deficit by imposing targets for various types of discretionary spending and limiting statutory changes that would increase entitlement spending. While unable to pass a balanced budget amendment, the 105th Congress did achieve the first budget surplus since 1969. The surplus of \$70.0 million for Federal Fiscal Year (FFY) 1998 was applied against the \$5.5 trillion national debt. The 106th and 107th Congress continued to hold spending in check and portions of the surpluses of \$107.0 billion for FFY 1999, \$237.0 billion for FFY 2000, and \$157.8 billion for FFY 2001, were also applied against the national debt.

Current estimates are that in State FY 2002, the State of Iowa will receive approximately \$3.094 billion in federal funding. This is an increase of \$143.1 million (4.9%) compared to actual FY 2001 receipts. Over \$1.571 billion (50.8%) of this amount will be received by the Department of Human Services (DHS), primarily for the Medical Assistance, Food Stamps, Children's Health Insurance, and Family Investment Programs. Other departments receiving large amounts of federal funds include:



- \$335.2 million for the Department of Education.
- \$321.6 million for the Department of Transportation.
- \$276.5 million for the Board of Regents Institutions.
- \$250.0 million for the Department of Workforce Development.

For State FY 2003, the State of Iowa anticipates receiving \$3.129 billion in federal funding. This would be an increase of \$34.6 million (1.1%) compared to estimated State FY 2002. Over \$1.642 billion (52.5%) of this amount will be received by the Department of Human Services. Other departments receiving large amounts of federal funds include:

- \$319.0 million for the Department of Education.
- \$306.7 million for the Department of Transportation.
- \$284.0 million for the Board of Regents Institutions.
- \$240.9 million for the Department of Workforce Development.

The estimated State FY 2002 and FY 2003 figures for federal funds are likely to be revised for a number of reasons including:

- Some departments historically underestimate the amount of federal funds they are likely to receive to ensure a conservative approach to planning expenditures.
- A number of adjustments are made each time the books are closed on a federal fiscal year. This could result in reversion of unexpended federal funds and, where federal law allows, the carry-forward of federal funds into the next fiscal year.
- Rule changes in many federal programs take time to be finalized and published, and those changes could impact the amount of funds states will receive and the distribution of the available funds.
- The impact of the September 11th disaster will likely result in funding higher than anticipated for FY 2002 and FY 2003 for the Department of Public Defense and the Emergency Management Division.
- The 4.3% across-the-board reduction in General Fund appropriations to most departments may result in loss of federal funding for several departments. The largest FY 2002 impact is currently estimated for the Department of Human Services at \$34.3 million.


Normally, by November of each year the Federal Funds Information Service (FFIS) provides an analysis of some of the major federal grant programs and estimated allocations for each state. However, due to the events of September 11th and the anthrax episodes at the National Capitol, Congress has not completed work on all of the appropriations bills at this time. As soon as the bills are passed and FFIS completes its state funding breakdown, the level of funding that Iowa can expect will be made available.

According to the National Conference of State Legislatures (NCSL), given the events of September 11th, the 107th Congress and the President currently are and will have to continue to confront some major issues that will impact Iowa:



- Homeland security.
- The potential threat of bioterrorism.
- An economic slow down or recession.
- The growing level of unemployment.

The General Assembly may wish to review the following issues:

- **Children's Health Insurance Program (CHIP)** – Iowa received its first allotment of this federal funding in October 1998. Unused funds for FY 1998 were scheduled to revert in January 2001 to a federal pool for redistribution among states that have exhausted their allotments. Iowa had unused funds of \$6.1 million for FY 1998. As a result of the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act, states with unused federal allotments were allowed to continue availability of part of the unused funds. Iowa was allowed to keep \$4.0 million of the unused FY 1998 allotment in accordance with requirements of the Act. For more information on this issue, please contact Sam Leto (281-6764).
- **Medicaid Funding** – House File 763 (Hospital Trust Fund Act), enacted by the General Assembly on November 8, 2001, authorizes the Department of Human Services to seek federal approval of the upper payment limit for non-State, government owned or operated hospitals. The Act also established a Trust Fund to deposit enhanced funds received from this new process. The Iowa Hospital Association and the DHS estimate \$25.0-\$29.0 million each year will be received into the Trust Fund. This mechanism is similar to the process for the Senior Living Trust Fund. For more information on this issue, please contact Sam Leto (281-6764).
- **Temporary Assistance for Needy Families (TANF)** – On September 30, 2002, the authorization for receiving TANF federal funds ends. At this time, Congress has not passed legislation to reauthorize funds for this welfare reform initiative, which began on October 1, 1997. Iowa currently receives \$131.5 million each year. Without this funding, the General Assembly will be required to provide other funds to maintain current cash assistance and services. For more information on this issue, please contact Sam Leto (281-6764). 
- **The impact of the federal transportation funding legislation** – The Transportation Equity Act for the 21st Century (TEA-21) provides an increase of \$565.3 million (42.7%) in Highway Program funds over the six-year authorization period, compared to the six-year apportionments made in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). Federal fund apportionments for FFY 2002 for public transit assistance and aviation improvements are unknown at this time due to the delay in Congressional action. For more information on this issue, please contact Mary Beth Mellick (281-8223).
- **Federal Department of Defense budget allocation** – In FFY 2001, the Iowa Department of Public Defense received \$23.0 million for the creation of an Iowa Technology Center (ITC). For FFY 2002, the Department will receive another \$35.0 million for continued development of the Center and total funding through FFY 2004 of an estimated \$80.0 million is expected. In addition to the federal funds the project will bring to Iowa, it is expected to generate other economic development benefits through partnerships in related software development with firms relocating or establishing offices in Iowa. The Iowa Technology Center currently has three

branches in Iowa at Camp Dodge, Urbandale, and Fort Dodge and a total of 70 employees. The Center expects to have over 150 employees within the next year.

- This federal funding will also support the Iowa National Guard in the following areas:
 - Development of a Consolidated Interactive Virtual Information Center (CIVIC).
 - Establishment of a Command and Control Wide Area Network.
 - Creation of a Military Interactive Multi-media Instruction Center at Camp Dodge.
- Other FFY 2002 federal funding for the Department of Public Defense includes:
 - \$2.7 million for construction of the Estherville Armory as part of the Estherville Community Center.
 - \$27.0 million for improvements to the Sioux City Air Base.
- For further information on federal funds received by the Department of Public Defense please contact Jennifer Dean (281-7846).

Some Executive Branch departments have not yet provided the full amount of federal funds anticipated for FY 2001. Others will likely be revising estimates prior to the release of the Governor's budget recommendations, based on the final appropriations bills remaining to be passed by Congress, new federal administrative rules that impact funding formulas, or access to discretionary funds. If departmental estimates are revised prior to the beginning of the Legislative Session, the LFB will provide the departments' updated estimates in the budget documents to be distributed to the respective Appropriations Subcommittees.