

FISCAL UPDATE

October 20, 2003

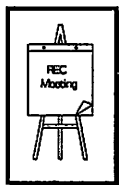
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OCTOBER REVENUE ESTIMATING CONFERENCE

REC Meeting



The Revenue Estimating Conference (REC) met on October 10 and decreased estimated net General Fund receipts by \$142.2 million for FY 2004. The estimated reduction includes, but is not limited to:

- Increased tax refunds estimate (\$-64.4 million).
- Reduced economic assumptions concerning income, corporate, sales, and use tax revenues (\$-55.9 million).
- Reduced insurance tax revenues due to assumptions associated with 2002 legislation that reduced Iowa's tax on insurance premiums (\$-19.3 million).

Refunds

In FY 2003, Iowa tax refunds totaled \$647.3 million (13.7% of the taxes received during the year). Recent analysis completed by the Department of Revenue projects a larger portion of gross tax receipts will be refunded in FY 2004. In response to the analysis, the REC reduced projected net receipts by \$64.4 million. Corporate tax refunds were increased due to a large backlog of refund requests anticipated to be resolved in FY 2004. Personal income tax refunds are also projected to increase.

Income Tax

Income tax receipts represent approximately 47.1% of all General Fund receipts prior to tax refunds. Therefore, minor changes in the percentage increase from the previous year result in large dollar changes in annual receipts. The previous REC estimate called for 4.0% growth in income tax receipts. The latest estimate is based on 3.0% growth, which reduced the revenue estimate by \$26.1 million.

IN THIS ISSUE:

October Revenue Estimating Conference, pg. 1
 Governor's Across-the-Board Reduction, pg. 4
 Charter Agency Agreements, pg. 4
 FY 2005 Budget Requests:
 Dept. of Agric./Land Stewardship, pg. 5
 Dept. of Natural Resources, pg. 6
 Dept. for the Blind, pg. 8
 Board of Regents, pg. 9
 College Student Aid Commission, pg. 9
 Dept. of Cultural Affairs, pg. 9
 Dept. of Education, pg. 10
 Iowa Public Television, pg. 11
 Dept. of HR/Ethics/Auditor/Treasurer, pg. 12
 Elder Affairs, pg. 13
 Veterans Affairs Commission, pg. 13
 Veterans Home, pg. 13
 Board of Parole, pg. 14
 Civil Rights Commission, pg. 14

FY 2005 Budget Requests (continued):
 Iowa Communications Network, pg. 15
 Dept. of Corrections, pg. 15
 Dept. of Justice, pg. 17
 Iowa Law Enforcement Academy, pg. 17
 Public Defender Office, pg. 17
 Dept. of Public Defense, pg. 18
 Dept. of Public Safety, pg. 18
 Status of Women Meeting, pg. 18
 Child Welfare Redesign/Monitoring Comm., pg. 19
 Child Welfare/Juvenile Justice Redesign, pg. 20
 Medical Assistance Advisory Council, pg. 21
 Council on Human Services Meeting, pg. 21
 Public Broadcasting Board Meeting, pg. 23
 Clerk of Court Public Office Hours, pg. 24
 Lottery Revenue/Expenditures, pg. 24
 Child Passenger Protection Education Grant, pg. 26
 Soil Conservation Committee Meeting, pg. 26

Sales/Use Tax

Sales and use tax receipts represent approximately 33.2% of all General Fund receipts prior to tax refunds. The previous REC estimate called for 2.0% growth in use tax and no growth in sales tax. The latest estimate is based on no growth from both sources, which reduced the revenue estimate by \$4.8 million.

Corporate Income Tax



Corporate income tax receipts represent approximately 4.6% of all General Fund receipts prior to tax refunds. The previous REC estimate called for 4.3% growth in income tax receipts. The latest estimate is based on negative 6.3% growth, which reduced the revenue estimate by \$25.0 million. Since June 1, 2003, corporate tax receipts growth has been significantly negative.

Insurance Premium Tax

Insurance premium tax receipts represent approximately 2.8% of all General Fund receipts prior to tax refunds. The previous REC estimate called for 5.0% growth in insurance tax receipts. The latest estimate is based on negative 8.6% growth, which reduced the revenue estimate by \$19.3 million. The reduction was necessary due to an interpretation by the Department of Revenue and the State Auditor that the budgeting method contemplated in SF 2318 (Insurance Premium Tax Rate Reduction Act of 2002) was not acceptable under Generally Accepted Accounting Principles (GAAP).

Senate File 2318 created a new June 30 prepayment that would offset the revenue lost during the first few years due to the rate reduction. The GAAP ruling allows only 50.0% of a calendar year's tax liability to be credited to the fiscal year in the first half of that calendar year. Since current law already required a June 1 prepayment of 50.0%, the new prepayment must be credited to the second fiscal year. The ruling did not change the amount of tax collected, but modified how the money was to be split between fiscal years. With the ruling, the State will have to recognize the reduced revenue stream several years earlier than originally anticipated.

Other Taxes

Other tax receipts represent approximately 4.6% of all General Fund receipts prior to tax refunds. Other taxes include inheritance, tobacco, beer, franchise, and miscellaneous taxes. The REC did not change estimates for these taxes.

Table Summary

The following table outlines the changes made in the REC estimate for FY 2004.

Revenue Estimating Conference Projection				
(\$ in millions)				
	Actual FY 2003	August FY 2004 Estimate	October FY 2004 Estimate	Estimate Increase (Decrease)
Income Tax	\$2,417.6	\$2,515.1	\$2,489.0	\$-26.1
Sales Tax	1,450.3	1,450.0	1,450.3	0.3
Use Tax	254.2	259.3	254.2	-5.1
Corporate Tax	237.0	247.1	222.1	-25.0
Insurance Tax	142.2	149.3	130.0	-19.3
Other Taxes	233.9	219.2	219.2	0.0
Total Taxes	\$4,735.2	\$4,840.0	\$4,764.8	\$-75.2
Other Receipts	\$311.5	\$344.7	\$343.1	\$-1.6
Transfers	129.0	87.7	88.0	0.3
Accruals (Net)	-44.9	22.9	21.6	-1.3
Refunds	-647.3	-655.6	-720.0	-64.4
Other Receipts & Adjustments	\$-251.7	\$-200.3	\$-267.3	\$-67.0
Net General Fund Receipts	\$4,483.5	\$4,639.7	\$4,497.5	\$-142.2

Receipts

In addition, the REC developed the first estimate for FY 2005 receipts. That estimate projects net revenues will be \$10.4 million below the level projected for FY 2004. Generally, the estimate assumes an improving economy that will generate additional tax revenues; however, the economy is not projected to improve enough to replace \$69.3 million in previously enacted tax reductions and \$40.0 to \$50.0 million in one-time revenue sources built into FY 2004 revenue. The following table provides a summary of the FY 2005 estimate and the changes compared to estimated FY 2004.

Revenue Estimating Conference Projection					
(\$ in millions)					
	Actual FY 2002	Actual FY 2003	Estimate FY 2004	Estimate FY 2005	FY 2005 Increase (Decrease)
Income Tax	\$2,372.1	\$2,417.6	\$2,489.0	\$2,580.3	\$91.3
Sales Tax	1,453.0	1,450.3	1,450.3	1,447.4	-2.9
Use Tax	238.5	254.2	254.2	264.5	10.3
Corporate Tax	221.2	237.0	222.1	207.4	-14.7
Insurance Tax	135.4	142.2	130.0	112.3	-17.7
Other Taxes	241.7	233.9	219.2	214.2	-5.0
Total Taxes	\$4,661.9	\$4,735.2	\$4,764.8	\$4,826.1	\$61.3
Other Receipts	\$345.6	\$311.5	\$343.1	\$292.8	\$-50.3
Transfers	305.8	129.0	88.0	67.2	-20.8
Accruals (Net)	30.6	-44.9	21.6	5.4	-16.2
Refunds	-663.1	-647.3	-720.0	-704.4	15.6
Other Receipts & Adjustments	\$18.9	\$-251.7	\$-267.3	\$-339.0	\$-71.7
Net General Fund Receipts	<u>\$4,680.8</u>	<u>\$4,483.5</u>	<u>\$4,497.5</u>	<u>\$4,487.1</u>	<u>\$-10.4</u>

Estimates by Source A more detailed spreadsheet of the FY 2004 and FY 2005 estimates is available at <http://staffweb.legis.state.ia.us/lfb/qre/qre.htm>.

More Information Additional information is available from the Legislative Services Agency (LSA) upon request.

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GOVERNOR ANNOUNCES ACROSS-THE-BOARD REDUCTION

2.5% Reduction On October 10, following the Revenue Estimating Conference (REC) meeting, Governor Vilsack signed Executive Order #31 ordering a 2.5% across the board reduction in State budgets for Executive Branch agencies for FY 2004. The reduction will reduce State expenditures by approximately \$82.6 million. Agencies designated as Charter Agencies are exempt from the reduction. These include the Departments of Corrections, Human Services, Natural Resources, Revenue, the Alcoholic Beverages Division, and the Iowa Veterans Home.

Decline in State Revenues The Governor stated the Executive Order was necessary due to the national economic situation resulting in lower employment levels and a continued decline in State revenues. He noted the REC reduced its projection of FY 2004 General Fund revenue for FY 2004 by \$142.2 million (see previous article), which would leave the State in a deficit situation if no action were taken.

More Information More information about the across-the-board reduction may be obtained from the Fiscal Division of the LSA.

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CHARTER AGENCY AGREEMENTS

Charter Agencies



One of the efforts the Public Strategies Group (PSG) is working on with the Department of Management (DOM) is the creation of Charter Agencies. Charter Agencies agree to a General Fund reduction or to increase General Fund receipts in exchange for certain operational benefits and flexibilities.

Designated Agencies

Six agencies signed Charter Agency agreements with the Governor on September 12, 2003, including the Departments of Corrections, Human Services, Natural Resources, Revenue, the Alcoholic Beverages Division, and the Iowa Veterans Home.

General Fund Changes

Each agency is committed to reducing General Fund expenditures, increasing General Fund revenues, or a combination of both. The agencies will receive certain benefits and flexibilities in operations to assist in maintaining quality services at reduced costs or for generating new receipts. The table below outlines the General Fund reductions as specified in the agreements.

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