

Balancing the FY 2009 General Fund Budget

This Fiscal Topic discusses the budget decisions of the General Assembly during the 2008 Legislative Session that eliminated a budget gap and balanced the FY 2009 General Fund budget.

In January 2008, the General Assembly was facing an FY 2009 budget gap of \$350.4 million. Projected revenue increases were not enough to offset the projected growth in appropriations. The Revenue Estimating Conference (REC) had met in December 2007 and adopted a revenue estimate of \$6,140.0 million for FY 2009, an increase of \$156.6 million (2.6%) over the FY 2008 estimate.

Although the revenue estimate totaled \$6,140.0 million, Iowa law imposes an expenditure limitation of 99.0% on General Fund spending. As a result, the General Assembly was limited to appropriating \$6,078.6 million for FY 2009.

The Legislative Services Agency (LSA) estimated that General Fund appropriations were going to increase to \$6,429.6 million. This represented an increase of \$569.6 million (9.7%) compared to the FY 2008 level. These expenditure increases are also referred to as Built-in and Anticipated Expenditures.

This resulted in a spending gap of \$350.4 million (\$6,078.6 - \$6,429.0). In order for the General Assembly to pass a balanced budget, they were faced with either increasing revenues, decreasing spending, re-prioritizing spending from non-General Fund sources, or a combination of all three.

Revenue Changes

The General Assembly enacted legislation that generated an estimated \$14.0 million in net revenue increases

for FY 2009. The net increase was the result of a combination of revenue increases and decreases. The General Assembly passed SF 2428 (Delinquent Debt Collection Act) that enhanced the State's ability to collect delinquent debt owed to the State and was estimated to generate \$22.5 million. This increase was offset by other legislation that had a net decrease of \$8.5 million in General Fund revenue.

In April 2008, the REC met again and revised the revenue estimates for both FY 2008 and FY 2009. The estimates were increased by \$78.8 million for FY 2008 and \$49.1 million for FY 2009, to reflect strong growth in income and sales/use taxes. Although statute requires the General Assembly and the Governor to use the December estimate if it is lower than the April estimate, the General Assembly notwithstanding the requirement and used the additional \$49.1 million for the FY 2009 budget.

The above actions provided a total of \$63.1 million in additional revenue for the FY 2009 budget. As a result, the expenditure limitation was adjusted upward to \$6,140.5 million.

Spending Changes

At the start of the 2008 Legislative Session, the General Assembly was facing built-in and anticipated expenditures increases of \$569.6 million for FY 2009. In balancing the FY 2009 budget, the General Assembly took the following actions with regard to appropriations:

Spending Reductions – The General Assembly reduced the projected increases in expenditures by \$76.2 million. The reductions include:

- \$44.0 million from property tax credits. These include: Homestead

FY 2009 General Fund Budget Highlights

- ◆ Net revenue increases = \$14.0 million
- ◆ Revenue estimate increase = \$49.1 million
- ◆ Spending reductions = \$76.2 million
- ◆ Spending shifts to other funds = \$244.1 million
- ◆ Spending increases = \$24.5 million

Tax Credit, Agricultural and Family Farm Tax Credit, Elderly and Disable Tax Credit, and the Military Service Tax Credit.

- \$9.8 million in school aid payments for Area Education Agencies and private instruction assistance.\$7.7 million in State employee salary increases.
- \$14.7 million reduction in other projected increases.

Use of Other State Funding Sources – A total of \$244.1 million of General Fund appropriations were funded from non-General Fund sources and the FY 2008 General Fund revenue surplus. These shifts are discussed below:

(over)

More Information

2008 Fiscal Report (Graybook):
<http://staffweb.legis.state.ia.us/lfb/docs/graybook/graybook.htm>

LSA Staff Contact:
Dave Reynolds
515-281-6934

dave.reynolds@legis.state.ia.us

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- A total of \$115.6 million for property tax credits was funded from other revenue sources. This includes: \$99.8 million from the FY 2008 General Fund surplus; \$14.0 million in unspent money from the FY 2008 Salary Adjustment Fund; and \$1.8 million from a revenue balance in the Property Tax Credit Fund.
- The total increase from all sources for Medicaid funding for FY 2009 was \$45.7 million. Of this amount, \$19.5 million was from increases in non-General Fund sources including the Senior Living Trust Fund, Health Care Trust Fund, and Property Tax Relief Fund.
- A \$50.0 million appropriation for the Grow Iowa Values Fund was funded from the Rebuild Iowa Infrastructure Fund (RIIF) for FY 2009. The Grow Iowa Values Fund normally receives an annual standing appropriation of \$50.0 million from the General Fund. This program is used to fund large economic development projects throughout the State.
- The Technology Reinvestment Fund receives an annual appropriation of \$17.5 million from the General Fund. For FY 2009, the General Assembly

shifted the funding for this program to the Rebuild Iowa Infrastructure Fund (RIIF).

- The Community Attraction and Tourism Fund received an appropriation of \$7.0 million from the RIIF for FY 2009. This program normally receives an annual appropriation from the General Fund.
- A net total of \$34.5 million in other General Fund appropriations were shifted to various non-General Fund sources.

FY 2009 General Fund Increases – A net increase in appropriations totaling \$24.5 million was funded from the General Fund. This includes:

- \$11.1 million increase for community colleges
- \$6.5 million for the Department of Workforce Development
- \$4.0 million to the University of Northern Iowa for science, technology, and engineering
- \$3.5 million for child care assistance
- \$2.5 million for All Iowa Opportunity Scholarships.
- A net decrease of \$3.1 million in all other funding.

Item Vetoes

The Governor line-item vetoed one General Fund appropriation of \$200,000 related to funding for the Peace Officers Retirement System.

Reversions

Reversions represent the amount of appropriated funds that do not get spent during the fiscal year. Reversions can happen for a variety of reasons. The most common of these can be unanticipated staff turn-over during the fiscal year. Reversions are estimated to total \$12.5 million in FY 2009. Statute prohibits use of reversions to offset General Fund appropriations for purposes of meeting the expenditure limitation.

Summary

At the conclusion of the 2008 Legislative Session, total revenues for FY 2009 were estimated at \$6,203.1 million. Appropriations, after the line-item veto, totaled \$6,133.0 million. This was \$7.5 million below the expenditure limitation.

Net appropriations totaled \$6,120.5 million, resulting in an estimated General Fund surplus of \$82.6 million.

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General Fund Budget		
(Dollars in Millions)		
	FY 2008 Estimated	FY 2009 Legislative Action
<i>Funds Available:</i>		
Receipts (Dec. 2007 REC)	\$ 5,983.4	\$ 6,140.0
REC Adjustment (April 2008)	78.8	49.1
Session Law Adjustments		14.0
Total Funds Available	\$ 6,062.2	\$ 6,203.1
Expenditure Limitation		\$ 6,140.5
<i>Appropriations and Expenditures:</i>		
Appropriations	\$ 5,859.4	\$ 6,133.2
Supplemental Appropriations	7.5	
Item Vetoes		- 0.2
Total Appropriations	\$ 5,866.9	\$ 6,133.0
Reversions	- 12.5	- 12.5
Net Appropriations	\$ 5,854.4	\$ 6,120.5
Ending Balance - Surplus	\$ 207.8	\$ 82.6
<i>Below (Over) Expenditure Limitation</i>		\$ 7.5