

Legislative Services Agency

Fiscal Services Division

The Basics of the General Fund Budget for the State of Iowa

November 23, 2020

Table of Contents

- ❑ Introduction
- ❑ General Fund Overview: Includes an overall review of revenues and expenditures that comprise the General Fund budget
- ❑ Legislative Budget Process
- ❑ Significant Statutory Budget Requirements

Introduction

The State budget consists of a multitude of taxes, user fees, federal receipts, interest earnings, and revenues from numerous fines and other miscellaneous sources.

By statute, all revenues remitted to the State are directed to specific funds to be used for specified purposes. For example, the State's motor vehicle fuel tax is directed to the Road Use Tax Fund to be used for the administration, maintenance, and construction of State and local roads. Much of the State wagering tax on casino profits is deposited into the Rebuild Iowa Infrastructure Fund and used primarily for construction and improvement to State buildings, vertical infrastructure projects, and environmental programs. In total, these revenues amount to approximately \$15.0 billion to \$16.0 billion per year.¹

The focus of this presentation is on Iowa's General Fund, which is the State's main operating fund and the fund from which most discretionary spending is provided. This is also the fund that receives most of the attention by lawmakers during the legislative session.

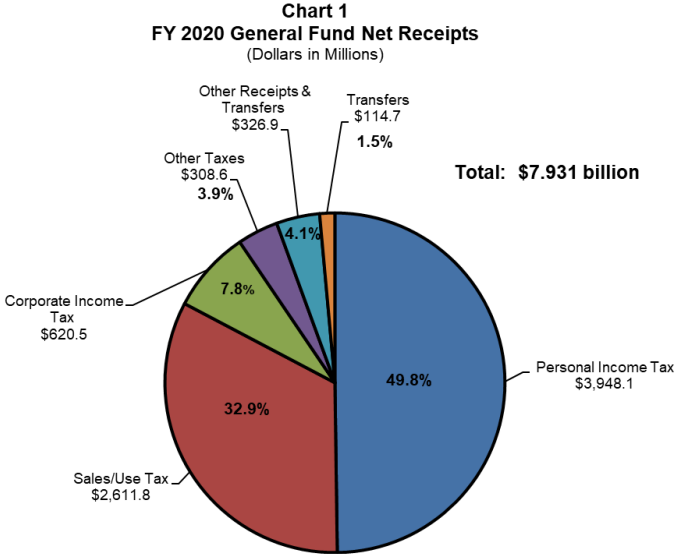
For a more in-depth understanding of how the General Fund is related to Generally Accepted Accounting Principles (GAAP) and budgetary controls, see the Department of Management's document entitled "[State Budget Information](#)."

¹ As reported in the State of Iowa Comprehensive Annual Financial Report (CAFR), Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds.

General Fund Overview

General Fund Receipts

Iowa's General Fund budget consists largely of revenues derived from the State's individual income tax and the State sales and use taxes. Together, the two sources comprise nearly 83.0% of the total General Fund revenues. The remaining 17.0% comes from other sources including corporate income tax, inheritance tax, and insurance premium tax, as well as a host of other taxes, fees, and receipts. In FY 2020, net General Fund receipts (after refunds) totaled \$7.931 billion.



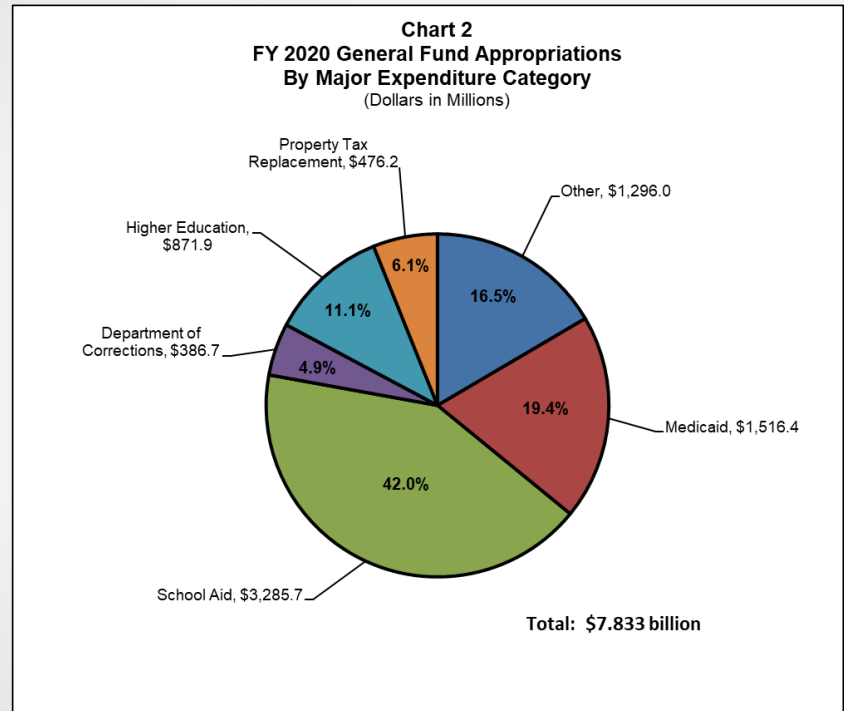
Note: The totals listed for the individual tax types are net of refunds.

General Fund Overview

General Fund Expenditures

Spending from the General Fund is accomplished through annual appropriations enacted by the General Assembly and signed into law by the Governor. Appropriations act as spending authority for State agencies and departments and are the means by which lawmakers can control spending.

Chart 2 shows FY 2020 appropriations by major expenditure category. Spending for K-12 education makes up 42.0% of all General Fund appropriations. The other major General Fund expenditures are Medicaid, Regents and Community Colleges, Corrections, Human Services, and Property Tax Replacement.



General Fund Overview

General Fund Balance Sheet

The balance sheet provides an understanding of the financial position of the State's General Fund budget. The summarized balance sheet to the right incorporates the surplus carryforward funds and appropriations reversions into the budget.

The surplus carryforward dollars represent the ending balance from the previous fiscal year after certain statutory obligations are met.

These include the requirement to maintain a minimum balance in the State's reserve funds, the Taxpayer Relief Fund allocation, and obligations from other enacted appropriations.

Reversions represent the appropriated funds that remain unspent at the close of a fiscal year and are returned to the General Fund.

General Fund Budget

(Dollars in Millions)

	Actual FY 2017	Actual FY 2018	Actual FY 2019	Actual FY 2020
Resources				
Net Receipts	\$ 7,240.0	\$ 7,383.9	\$ 7,858.9	\$ 7,930.6
Surplus Carryforward	18.2	0.0	71.0	195.6
Total Resources	<u>\$ 7,258.2</u>	<u>\$ 7,383.9</u>	<u>\$ 7,929.9</u>	<u>\$ 8,126.2</u>
Appropriations				
Enacted Appropriations	\$ 7,263.5	\$ 7,261.1	\$ 7,646.0	\$ 7,832.9
Reversions	- 5.3	- 4.5	- 5.4	- 12.2
Net Appropriations	<u>\$ 7,258.2</u>	<u>\$ 7,256.6</u>	<u>\$ 7,640.6</u>	<u>\$ 7,820.7</u>
Ending Balance – Surplus	<u>\$ 0.0</u>	<u>\$ 127.3</u>	<u>\$ 289.3</u>	<u>\$ 305.5</u>

Numbers may not equal totals due to rounding.

Legislative Budget Process

Budget Timelines

- ❑ **Fiscal Year:** The State fiscal year runs from July 1 to June 30.
- ❑ **June to September:** State agencies develop budget requests and are required to submit the requests to the Department of Management (DOM) by October 1. On October 1, the department requests are made available to the Legislative Services Agency (LSA).
- ❑ **October to January:** The DOM works with State agencies to clarify their budget requests. The LSA works with the DOM and State agencies and produces an analysis of the department budget requests for presentation to the General Assembly.
- ❑ **December:** The Revenue Estimating Conference (REC) meets to establish the official General Fund revenue estimate for the fiscal year that begins on July 1 of the following year. Iowa law requires this estimate to be used by both the Governor and the General Assembly in establishing the budget for the next fiscal year. A more in-depth discussion of the REC is provided later in this presentation.

Legislative Budget Process

Budget Timelines (Cont'd)

- ❑ **January to February:** The Governor's budget recommendations are made public and released to the General Assembly. The LSA conducts an analysis of the Governor's budget for use by the General Assembly.
- ❑ **January to April/May:** The legislative session begins the second Monday of January and generally lasts for 100 to 110 days. The Joint (House/Senate) appropriations subcommittees begin meeting in mid-January to hear budget presentations from Executive Branch agencies and to gather budget information for the purpose of making recommendations to the Senate and House appropriations standing committees. Appropriations bills are drafted and proceed through the normal legislative process. For information on how a bill becomes law, visit: [How a Bill Becomes Law](#).
- ❑ **April to May/June:** Appropriations bills passed by the General Assembly are sent to the Governor. While the Legislature is in session, the Governor has three options: sign the bill, veto the bill (or item veto an appropriations bill), or take no action, in which case the bill becomes law after three calendar days. Bills received by the Governor during the last three calendar days of the legislative session must be signed or vetoed by the Governor within 30 calendar days.

Legislative Budget Process

The Governor and General Assembly establish revenue and spending policies for the succeeding fiscal year through the annual budget process. To accomplish this, legislators and the Governor rely on revenue projections in order to set spending policies.

While the General Assembly has a general budget process in place, the process tends to function more as a flexible set of guidelines rather than a rigid set of requirements. The process explained on the following slides illustrates a typical legislative budget process. However, in practice the process can vary significantly.

The legislative committees that play the most prominent role in the development of the budget are the Ways and Means and Appropriations Committees in the House and Senate. All legislation that addresses tax and revenue collections is considered by the Ways and Means Committees, while the Appropriations Committees are responsible for making decisions on all spending bills (also referred to as appropriations bills).

Legislative Budget Process

Subcommittee Process

To facilitate the decision making process on spending, the House and Senate created joint appropriations subcommittees. These subcommittees were established for the purpose of reviewing different areas of the State budget and making recommendations to the full appropriations committees in the House and Senate.

Currently, there are seven appropriations subcommittees, although the number of subcommittees and the responsibilities of each subcommittee have changed over time.

Each subcommittee is comprised of five Senators and nine Representatives. In order for a subcommittee bill draft to be considered a joint House/Senate bill, the recommendation must receive the affirmative votes of a majority of the House members and a majority of the Senate members. If the required number of votes is not received, the House and Senate will start separate subcommittee bills in their respective chambers. The chart on the next slide lists the seven joint appropriations subcommittees.

Iowa General Assembly

**House Appropriations
Committee**

**Senate Appropriations
Committee**

**Administration &
Regulation**

Education

Justice System

**Agriculture &
Natural Resources**

**Economic
Development**

**Health &
Human Services**

**Transportation,
Infrastructure, &
Capitals**

Legislative Budget Process

Budget Targets

One of the General Assembly's key components of the budget process is the setting of budget targets. Targets provide direction to the appropriations subcommittees and help to align overall spending with proposed revenue policy for the General Fund budget. Budget targets are developed by legislative leadership of the House and Senate. The targets are not required by law, but are a budgeting tool used by the Legislature to help craft a balanced budget.

When the House and Senate leadership agree on the budget targets, these targets are considered joint targets. Often, the House and Senate cannot come to an agreement resulting in each chamber having its own set of budget targets. This increases the likelihood that the spending in many of the budget bills will be decided in a conference committee.

Each subcommittee that appropriates General Fund dollars receives a spending target (a dollar amount) that is not to be exceeded. The subcommittees are generally free to decide how and where to spend their allotted dollars as long as the total amount spent does not exceed the subcommittee's budget target.

Legislative Budget Process

Modified Biennial Budget

During the 2011 Legislative Session, the General Assembly began approving a modified biennial budget (two-year budget). The budget that was adopted during the 2011 Session included funding for all of FY 2012 and partial funding for FY 2013. The partial funding for the second year consisted of appropriating 50.0% to State agencies for their operating budget needs, with the understanding that the remaining need would be considered in the next legislative session.

The modified biennial budget process arose out of a negotiated settlement between the Governor’s Office, which favored a full two-year budget, and a split Legislature that could not agree with committing to a two-year budget.

From the 2011 to the 2018 Legislative Session, the practice was to pass a modified biennial budget in every odd-numbered session. During the even-numbered sessions the General Assembly adopted a one-year budget. The table below illustrates this process:

Legislative Session	Full Budget	Partial Budget
2011 Session	FY 2012	FY 2013
2012 Session	FY 2013	--
2013 Session	FY 2014	FY 2015
2014 Session	FY 2015	--
2015 Session	FY 2016	FY 2017
2016 Session	FY 2017	--
2017 Session	FY 2018	FY 2019
2018 Session	FY 2019	--

Since 2018, the General Assembly has returned to passing annual budgets.

Significant Statutory Budget Requirements

Significant Statutory Budget Requirements

To facilitate an understanding of the Iowa Code requirements for the State General Fund budget, examples are provided on the following slides to show how the FY 2020 budget was developed during the 2019 Legislative Session.

Revenue Estimating Conference: Section [8.22A](#)

Iowa Code section [8.22A](#) establishes the Revenue Estimating Conference (REC). The REC is a three-person panel that meets three times per year to review and establish revenue estimates for the State's General Fund. The REC estimates revenues for the fiscal year in progress and the fiscal year that begins the following July 1.

The REC estimates set at the meeting prior to December 15 are required to be used by the Governor and the General Assembly in preparing the General Fund budget for the fiscal year beginning on the subsequent July 1.

If the REC revises the December estimate at its meeting held during the regular legislative session in March, the Governor and the General Assembly are required to use the lower of the two estimates when calculating the expenditure limitation for the next fiscal year. The table below shows the REC estimates for FY 2020 that were agreed to in December 2018 and March 2019. Because the REC's estimate in March was \$20.0 million lower than the December estimate, the General Assembly was required to use the March estimate of \$7.848 billion.

REC Estimates for FY 2020	
Net General Fund Receipts (Dollars in Millions)	
Dec 2018	Mar 2019
\$ 7,868.4	\$ 7,848.4

Adjusted Revenue Estimate: Section [8.54](#)

An important aspect of the State budget process is the determination of the adjusted revenue estimate. This number is used to determine four components of the budget:

- The maximum balances that can be retained in the State's Reserve Funds.
- The expenditure limitation for the next fiscal year's budget, which begins on July 1.
- The amount to be deposited in the Taxpayers Relief Fund.
- A contingent appropriation from the Economic Emergency Fund to eliminate a General Fund deficit.

The adjusted revenue estimate is arrived at by adding the net General Fund revenue estimate of the REC (adopted at the December meeting, or a subsequent meeting if the subsequent estimate is lower) to the law changes enacted by the General Assembly and signed into law by the Governor that increase or decrease estimated net General Fund revenue.

(adjusted revenue estimate = REC estimate + new revenues)

Definition of New Revenue: Moneys received due to increased tax rates and fees or newly created taxes and fees that exceed the REC estimate.

The Iowa Code is silent on how revenue decreases are to be considered in the calculation of the adjusted revenue estimate. The LSA and Department of Management have an agreement to apply revenue decreases to the adjusted revenue estimate.

Adjusted Revenue Estimate: Section 8.54

FY 2020 Adjusted Revenue Estimate Calculation	
(Dollars in Millions)	
	Leg. Action FY 2020
March 2019 REC Estimate	\$ 7,848.4
<u>Revenue Adjustments</u>	
SF 220 Corporation Section 179	\$ - 0.4
HF 778 Beginning Farmer Tax Credit	-0.4
HF 772 Broadband and Housing Incentives	-2.2
SF 617 Sports Wagering	0.9
SF 597 Blood Processing Sales Tax Exemption	-0.7
HF 779 Tax Code Changes Act	-6.4
SF 615 Public Safety Survivor Benefits - Lottery	-0.1
Total Enacted Revenue Adjustments	\$ - 9.3
FY 2020 Adjusted Revenue Estimate	<u>\$ 7,839.1</u>

Reserve Funds: Sections [8.55](#) – [8.57](#)

The State of Iowa has two reserve funds and a deficit reduction fund that are funded from the year-end surplus of the General Fund. These are:

- ❑ Cash Reserve Fund
- ❑ GAAP Deficit Reduction Account
- ❑ Economic Emergency Fund

Reserve Funds: Sections 8.55 – 8.57

Cash Reserve Fund

- ❑ Receives funding from the General Fund surplus until the Fund reaches a balance equal to 7.5% of the adjusted revenue estimate.
- ❑ The General Assembly may appropriate from the Fund for nonrecurring, emergency expenditures. However, an appropriation that lowers the Fund balance to below 3.75% of the adjusted revenue estimate requires a three-fifths majority approval in both chambers.
- ❑ Interest earned is deposited into the Rebuild Iowa Infrastructure Fund.
- ❑ The excess funds are transferred to the GAAP Deficit Reduction Account.

Reserve Funds: Sections 8.55 – 8.57

GAAP Deficit Reduction Account

- ❑ Established to eliminate a deficit that was created as a result of transitioning the State into using Generally Accepted Accounting Principles (GAAP).
- ❑ The GAAP deficit was eliminated in 1994. All funds transferred to the GAAP Deficit Reduction Account from the Cash Reserve Fund pass through to the Economic Emergency Fund.

Reserve Funds: Sections 8.55 – 8.57

Economic Emergency Fund

- ❑ Receives the excess revenue from the GAAP Deficit Reduction Account until the balance is equal to 2.5% of the adjusted revenue estimate.
- ❑ An amount of up to 1.0% of the adjusted revenue estimate may be automatically appropriated for preventing a deficit in the General Fund if certain conditions are met. The General Fund must reimburse the Economic Emergency Fund in the next fiscal year.
- ❑ A standing unlimited appropriation is provided to the Executive Council for Performance of Duty obligations.
- ❑ Interest earned is deposited into the Rebuild Iowa Infrastructure Fund.
- ❑ The remainder of the surplus is divided between the Taxpayer Relief Fund and the General Fund.

Reserve Funds: Sections 8.55 – 8.57

The tables below show the calculation of the statutory maximum balances of the Cash Reserve Fund and the Economic Emergency Fund for FY 2020.

Cash Reserve Fund Calculation	
	<u>FY 2020</u>
Adjusted Revenue Estimate	\$ 7,839.1
% Set by Code	<u>7.5%</u>
FY 2020 Maximum Balance	\$ 587.9

Economic Emergency Fund Calculation	
	<u>FY 2020</u>
Adjusted Revenue Estimate	\$ 7,839.1
% Set by Code	<u>2.5%</u>
FY 2020 Maximum Balance	\$ 196.0

Expenditure Limitation: Section 8.54

The primary goal of the expenditure limitation law is to ensure that General Fund revenues exceed expenditures to help lawmakers enact a balanced budget and to build sufficient cash reserves for cash flow and emergency purposes. In calculating the expenditure limitation:

- ❑ The base revenue estimate adopted by the REC is multiplied by 99.0%.
- ❑ Estimates of new revenue enacted by the General Assembly that were not included in the REC estimate are multiplied by 95.0%.
- ❑ All estimated revenue decreases enacted by the General Assembly that were not included in the REC estimate are applied at 100.0%.
- ❑ Any excess funds carried forward from the prior year's General Fund surplus are added to the expenditure limitation at 100.0%.

The following table shows how the FY 2020 expenditure limitation was calculated.

Expenditure Limitation: Section 8.54

Expenditure Limitation Calculation

(Dollars in Millions)

	FY 2020		
	Amount	%	Expend. Limit
March 2019 REC Estimate	\$ 7,848.4	99%	7,769.9
<u>Revenue Adjustments:</u>			
SF 220 Corporation Section 179	\$ - 0.4	100%	\$ - 0.4
HF 778 Beginning Farmer Tax Credit	- 0.4	100%	- 0.4
HF 772 Broadband and Housing Incentives	- 2.2	100%	- 2.2
SF 617 Sports Wagering	0.9	95%	0.9
SF 597 Blood Processing Sales Tax Exemption	- 0.7	100%	- 0.7
HF 779 Tax Code Changes Act	- 6.4	100%	- 6.4
SF 615 Public Safety Survivor Benefits - Lottery	- 0.1	100%	- 0.1
Subtotal Revenue Adjustment	\$ - 9.3		\$ - 9.3
Transfer from Excess FY 2019 Surplus	\$ 76.7	100%	\$ 76.7
Expenditure Limitation			\$ 7,837.3

Taxpayer Relief Fund: Sections [8.54](#) & [8.57E](#)

Taxpayers Relief Fund: The amount the Taxpayers Relief Fund may receive in a fiscal year is limited to the difference between the actual net General Fund revenue of the preceding fiscal year and the adjusted revenue estimate used in establishing the budget for that fiscal year.

Prior to FY 2019, the moneys in the Taxpayers Relief Fund (formerly known as the Taxpayers Trust Fund) were used to provide a nonrefundable income tax credit to qualified individuals. Senate File 2417 (Income and Sales Tax Modification Act), enacted during the 2018 Legislative Session, made various changes to the Taxpayers Trust Fund and related statutes. The Act changed the name of the Fund to the Taxpayer Relief Fund and repealed the Taxpayers Trust Fund Tax Credit. The Act also removed a \$60.0 million cap that could be annually transferred from the excess General Fund surplus to the Taxpayer Relief Fund. This latter provision took effect on July 1, 2020 (FY 2021).

Beginning July 1, 2020 (FY 2021), the Fund can receive the entire difference between the actual net General Fund revenue of the preceding fiscal year and the adjusted revenue estimate used in establishing the budget for the preceding fiscal year.

Taxpayers Relief Fund: Section 8.54 & 8.57E

	FY 2019
Actual Net General Fund Receipts	\$ 7,733.6
Adjusted Revenue Estimate	- 7,621.9
Difference (Revenue Growth)	\$ 111.7

The difference exceeds \$60.0 million.

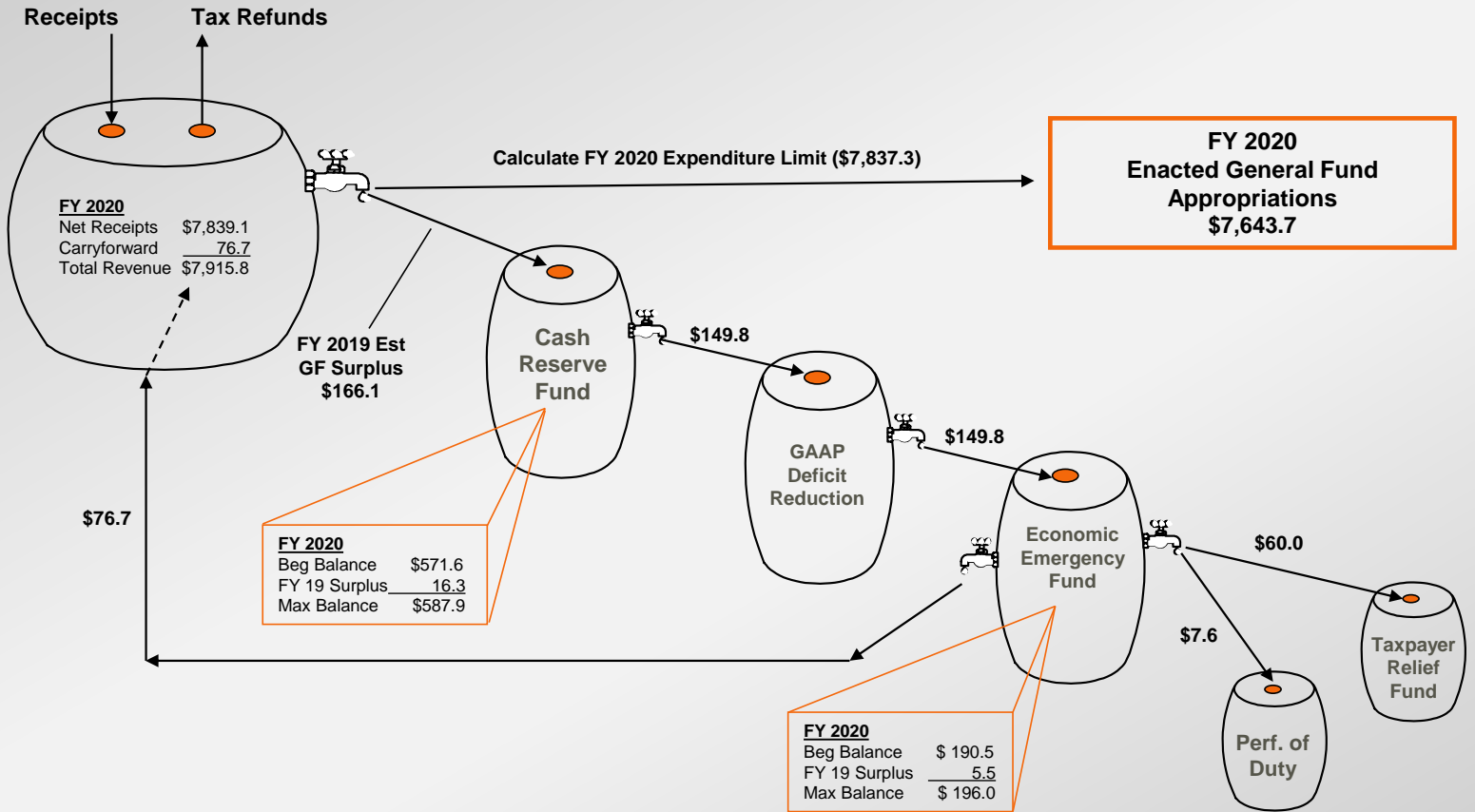
Taxpayers Relief Fund received \$60.0 million for FY 2020, the maximum allowed.

Taxpayers Trust Fund	
(Dollars in Millions)	
	FY 2020
Beginning Balance	\$ 13.4
Excess General Fund Surplus	60.0
Total	73.4

Note: Beginning July 1, 2020 (FY 2021), the Fund can receive the entire difference between the actual net General Fund revenue of the preceding fiscal year and the adjusted revenue estimate used in establishing the budget for the preceding fiscal year.

Distribution of Surplus Revenue

(Dollars in Millions)



Note: This diagram shows the estimated surplus, appropriations, and fund balances in place at the close of the 2019 Legislative Session.

Fiscal Services Division Websites

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