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***\*\*\*\*Special Edition\*\*\*\****

***The State’s FY 2001 & FY 2002 Budget***



**Revenue Estimates Lowered** The recent downturn in State revenues and weakening economy has resulted in the Revenue Estimating Conference (REC) revising and lowering FY 2001 and FY 2002 net General Fund receipts by $165.0 million and $163.2 million, respectively. These estimates are used by the Governor and the Legislature in preparing and enacting the State budget. For the first time since the Expenditure Limitation Act was enacted in 1991, the Governor will be required to resubmit a budget using the lower REC estimate for FY 2002. This ***Special Edition*** of the **Fiscal Update** is a collection of articles related to the current year’s State budget (FY 2001), as well as articles discussing the FY 2002 budget. The information is designed to provide answers to a variety of questions, such as:

* What are the new REC estimates? (pg. 1)
* How much were they revised? Why? Where are the shortages? (pg. 2)
* What is the current projected condition of the General Fund for FY 2001 (balance sheet)? (pg. 6)
* What about the “Reserve Funds”, the Cash Reserve Fund and the Economic Emergency Fund? (pg. 8)
* What is the national fiscal outlook? What’s happening in other states? (pg. 9)
* How have the “built-in expenditures” for FY 2002 been revised? (pg. 13)
* When will the Governor submit a revised budget? What are his plans? (pg. 14)
* What is the impact of a 6.0% budget reduction for FY 2002, as identified recently by the Governor? (pg. 16)

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* Some other frequently asked questions:

What are the historical growth rates in revenues and appropriations? (pg. 19)

What are the Reversion Technology Initiatives Account and the Pooled Technology Account and how are they funded? (pg. 20)

What are across-the-board reductions? How many have been implemented since 1980? (pg. 21)

**More Information** For more information on any of topics or other budget issues, please contact the Fiscal Bureau (281-5279).

Revenue Estimating Conference March 2001 Adjustments



**REC Meeting** The March 14 Revenue Estimating Conference (REC) reduced estimated net General Fund receipts by $165.0 million for FY 2001 and $163.2 million for FY 2002. The majority of the receipt reduction for both fiscal years was due to decreased estimates for tax receipts and increased estimates for tax refunds. The following tables show the general areas of revision (dollars in millions).



**Four Major Taxes** Fiscal year 2001 tax receipt estimates for four of Iowa’s top six tax receipt categories were decreased by the REC, including personal income tax, sales tax, use tax, and corporate income tax. The inheritance tax estimate remained the same and the insurance tax estimate was increased slightly. For the first three months of FY 2001, General Fund receipts growth reached a 10-day average of 8.7% at the end of September. However, for the next three months, receipts were below FY 2000 levels. January and February receipts showed slight positive growth.



**Income Tax** Income tax receipts represent approximately 46.5% 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 **E:\Clipart\MISC\Finance\FINAN057.WMF**in annual receipts. At the December REC, personal income tax was estimated to increase 6.2% in FY 2001. The March REC lowered the estimate to 1.9%, a decrease of $102.4 million for the year. Through March 14, the 10-day average increase for personal income tax receipts was 2.4% above FY 2000. The 10-day average increase has been decreasing steadily since peaking at 12.2% in October.



**Sales Tax** Sales tax receipts represent approximately 27.3% of all General Fund receipts (prior to tax refunds). At the December REC, sales tax was estimated to increase 3.7% in FY 2001. The March REC lowered the estimate to 2.2%, a decrease of $20.6 million for the year. Through March 14, the 10-day average increase for sales tax receipts was 1.3% above FY 2000. The 10-day average increase has been decreasing steadily since peaking at 6.2% at the end of September. Before the end of FY 2001, sales tax receipts will be impacted by two additional factors. First, the suspension of residential heating sales tax for two months will decrease receipts by an estimated $10.0 million. Second, an adjustment to the amount of money paid to local governments for local option sales tax will be made. The adjustment should increase FY 2001 sales tax receipts by $10.0 million.

**Use Tax** Use tax receipts represent approximately 4.7% of all General Fund receipts (prior to tax refunds). At the December REC, use tax was estimated to increase 2.5% in FY 2001. The March REC lowered the estimate to 0.9%, a decrease of $4.0 million for the year. Through March 14, the 10-day average increase for use tax receipts was 0.7% above FY 2000. Due to processing day issues, the 10-day average increase has been fluctuating in the past several months.

**Corporate Income Tax** Corporate income tax receipts represent approximately 6.2% of all General Fund receipts (prior to tax refunds). At the December REC, corporate income tax was estimated to decrease 2.0% in FY 2001. The March REC lowered the estimate to a decrease of 5.3%, which lowered projected revenues by $10.7 million for the year. Through March 14, the 10-day average decrease for corporate income tax was 6.3% compared to FY 2000. The majority of corporate tax comes from quarterly estimate payments. The third quarterly payment received in January was significantly below FY 2000. The final payment of the fiscal year will be received around April 28.

**Base Year Reduction** The March REC revision of the FY 2002 estimate of General Fund receipts reflects a reduction in the base year (FY 2001) estimate. The assumptions involving underlying economic growth remained relatively unchanged. Therefore, the dollar amount reduction for FY 2002 is very similar to the FY 2001 reduction ($163.2 million versus $165.0 million) and the estimated percentage change is now 3.1%, versus 3.0% at the December REC.



**Estimates by Source** The spreadsheet below details the latest REC estimates by source of revenue.



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Revenue Estimating Conference Revises the Estimate for Gambling Revenues

**Gambling Estimate Revised** The Revenue Estimating Conference (REC) reduced the estimate for gambling revenues by $3.8 million in FY 2001 and $2.8 million in FY 2002. The FY 2001 estimate was decreased from $194.3 million to $190.5 million. The FY 2002 estimate was decreased from $202.8 million to $200.0 million.



**Reason For Lower Estimate** The gambling revenue estimate was reduced due to receipts not keeping pace with projections. Gambling revenues through the end of February 2001 had increased 3.5% compared to the same period of FY 2000. In December, revenues were projected to increase by 5.7% for the fiscal year. In order for revenues to reach the 5.7% projection, gambling receipts for the remainder of the fiscal year would need to be 9.0% higher than the same period of FY 2000. Due to decreased attendance at the tracks in FY 2001, and attendance at the riverboats leveling off, it appeared unlikely that gambling receipts would reach the levels projected in December.

**Allocation of Receipts** The following table shows the State allocation of the gambling receipts. The Code of Iowa requires the first $60.0 million be deposited into the General Fund, the next $15.0 million to the Vision Iowa Fund, the next $5.0 million to the School Infrastructure Fund, and all remaining revenues to the Rebuild Iowa Infrastructure Fund (RIIF).

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**Rebuild Iowa Infrastructure Fund**

**Funds Available to RIIF** The lower gambling estimates reduce the funds available for expenditure through the RIIF in FY 2002 by $6.6 million. Before the revenue adjustment, the General Assembly had $94.6 million available for appropriation in FY 2002 for infrastructure-related projects. The revised estimate reduces this amount to $88.0 million. The following table shows the revised RIIF balance sheet for FY 2001 and FY 2002.

Rebuild Iowa

Infrastructure Fund

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Projected Condition of the General Fund FY 2001 And FY 2002

**FY 2001 Ending Balance** Based on the March 14 revenue estimate, the projected General Fund ending balance prior to the transfer to the Cash Reserve Fund is $7.3 million, down from the December estimate of $134.5 million.

**FY 2002 Ending Balance** The projected ending balance for FY 2002, using FY 2001 as a base and adding the built-ins for appropriations and the revised REC estimate is $-258.8 million. This balance is $324.6 million over the Expenditure Limitation. The Governor will be submitting a revised budget for FY 2002 on March 28.

**If Growth Rate Isn’t Met** If revenues continue to decline for FY 2001, and not meet the revised REC estimated growth of .7%, the Governor and the General Assembly will need to make decisions on how to reduce the FY 2001 budget. Some options include, but are not limited to: selective deappropriations, across-the-board reductions by the General Assembly or the Governor, program reductions or eliminations, reduction in force or furloughs, appropriations from the reserve funds.

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**Expenditure Limitation Law** In 1992, several statutory reforms were enacted to provide long-term solutions to the State’s budget problems. These included the “Expenditure Limitation” laws.

* Spending is limited to 99.0% of the adjusted revenues, 95% of any new revenue implemented in a fiscal year, and any carry-over from the previous year.
* In FY 2002, under the revised REC estimate, this amount is $4,793.5 million.
* The Governor and the Legislature are required to use the revenue estimates agreed to by the December REC as a basis to determine the General Fund Budget for the following fiscal year. However, if a later estimate is lower, the Governor and Legislature must use the lower estimate in determining the budget, and the Governor is required to submit a revised budget using the lower revenue estimate.
* The Expenditure Limitation laws created three new reserve accounts or funds: the Cash Reserve Fund, the GAAP Deficit Reduction Account, and the Economic Emergency Fund. Expenditures from these reserve funds are limited by statute. (See the next article for a discussion of these funds.)





**Balance Sheet** The following balance sheet reflects the latest REC estimate. It will be revised when the Governor submits a revised budget for FY 2002.

Cash Reserve Fund and Economic Emergency Fund

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**Reserve or Rainy Day Funds** The Cash Reserve Fund and Economic Emergency Fund are also known as the budget stabilization or Rainy Day Funds. The estimated FY 2001 balance of these funds is $471.2 million. The following points highlight how these funds can be utilized under current law.



**Cash Reserve Fund** **Cash Reserve Fund**



Cash Reserve

* The Cash Reserve Fund Account requires a balance of 5.0% of the adjusted revenue estimate for the General Fund.
* The year-end General Fund surplus (ending balance) is appropriated to the Cash Reserve Fund.
* Interest on moneys deposited in the Fund is credited to the Rebuild Iowa Infrastructure Fund (RIIF).
* Moneys in the Cash Reserve Fund may be used for cash flow purposes, but shall be returned by the end of the fiscal year.
* Appropriations from the Fund are allowed if:

The appropriation is made during the fiscal year that it is to be used.

The appropriation is for a non-recurring emergency expenditure.

Funding is contained in a bill or resolution in which the appropriation is the only subject matter.

The appropriation is approved by a majority of the members of both chambers and the Governor if the Fund is not reduced to below 3.0%. Approval of 60.0% of the members of both chambers and the Governor is required if the Fund is to be reduced below 3.0% of the adjusted General Fund revenue estimate.

* If funds are appropriated and the General Fund surplus is not adequate to rebuild the fund to 5.0%, then the following provisions apply. There is appropriated from the General Fund as a standing unlimited enough to bring the fund to 5.0% if the balance of the current year is between 4.0% and 5.0%. If the current year balance is under 4.0% there is appropriated from the General Fund as a standing unlimited enough to increase the fund 1.0%

**Economic Emergency Fund** **Iowa Economic Emergency Fund**

* **E:\Clipart\MISC\Finance\MNYBAGS.WMF**The maximum balance of the Economic Emergency Fund Account is 5.0% of the adjusted revenue estimate for the General Fund. Moneys in excess of the required 5.0% are transferred to the General Fund.
* Interest on moneys deposited in the Economic Emergency Fund is credited to the Rebuild Iowa Infrastructure Fund.
* Moneys in the Economic Emergency Fund may be used for cash flow purposes, but shall be returned by the end of the fiscal year.
* Appropriations from the Fund require approval of a majority of the members of both chambers and the Governor’s signature for an emergency expenditure.
* **E:\Clipart\MISC\Finance\CASH.WMF**Appropriations from the Fund are allowed if:

The appropriation is made during the fiscal year that it is to be used.

The appropriation is for an emergency expenditure.

* If funds are appropriated then the General Fund surplus fills the fund as available. There is not a direct appropriation to refill the fund.

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National Fiscal Outlook



**Survey of States** The National Conference of State Legislatures (NCSL) conducted a 50-state survey in February 2001 regarding the national economy and how recent evidence of a downturn is affecting state finances. This survey information serves as an update to information that was collected in December 2000. In general, the states’ fiscal condition has declined since December.

**Revenues *Revenues for FY 2001***

In December 2000, 44 states reported that revenues were on target or above forecast. In February 2001, the number of states reporting revenues on target or above forecast decreased to 33 leaving seventeen states now reporting revenues below forecast. In terms of regional patterns regarding revenues, states with strong revenue growth tend to be in the West, Northeast, or Middle Atlantic. States with below revenue forecasts tend to be in the South, Great Lakes, and Midwest. The following map illustrates the current state tally.

** FY 2001 State Revenue Update**

**Regional Observations** Revenues for the remainder of FY 2001 are uncertain. Western states are optimistic about continued strong revenue growth. Southern states and some others continue to have concerns about revenue growth or lack thereof. Lower-than-projected revenue growth is magnified in those states that are experiencing spending in excess of budget.

**FY 2001 Adjustments** ***Fiscal Year 2001 Budget Adjustments***



**Supplemental Needs *Supplemental Appropriations*** – A total of 31 states expect to make supplemental appropriations in FY 2001. Most of these would be for Medicaid (23 states). Other budget areas expected to receive supplemental appropriations include corrections (Colorado, Missouri, Oklahoma, and Texas) and education (Florida and Washington – due to low enrollments).



**Reductionsto FY 2001 *Budget Reductions*** – The decline in revenues has caused 11 states to indicate budget reductions will be necessary to balance FY 2001. These states include Alabama, Delaware, Florida, Iowa, Mississippi, Nevada, North Carolina, Virginia, Washington, West Virginia, and Wisconsin. An additional eight states indicated that budget cuts are possible, including Arkansas, Kentucky, Louisiana, Maine, Missouri, Ohio, South Carolina, and Texas. Examples of budget reductions include:

* Alabama – has implemented a 6.2% (approximately $266.0 million) cut for education programs because revenues for the Education Trust Fund (sales and income tax collections) are below estimate by 6.2%. Estimated revenue growth for FY 2002 is 1.0% for the General Fund and 2.5% for the Education Trust Fund.
* Delaware – The Governor is expected to order a 2.5% cut in agency budgets for cost overruns in Medicaid and information technology. Projected revenue growth is 2.1% for FY 2001 and 4.6% for FY 2002. The cut equates to approximately $60.4 million of the total budgeted expenditures of $2.4 billion for FY 2001.
* Mississippi – is anticipating $137.0 million in cuts, which equates to a reduction of approximately 3.8% of total budgeted expenditures of $3.6 billion for FY 2001.
* Nevada – is anticipating cuts of $20.0 million to $30.0 million in one-time expenditures, such as equipment and motor vehicles. This equates to a reduction of approximately 1.2% to 1.8% of total budgeted expenditures of $1.6 billion for FY 2001.
* North Carolina – is making large cuts to create a $1.0 billion escrow account to deal with a projected budget gap. Cuts include requiring $248.0 million in reversions from state agencies, delaying $39.5 million in repairs and renovations, and suspending retirement contributions for five months ($151.0 million). This equates to approximately 3.1% of total budgeted expenditures of $14.0 billion for FY 2001.
* Virginia – The Governor has implemented $122.0 million in targeted cuts and $67.0 million in across-the-board cuts. This equates to approximately 1.5% of total budgeted expenditures of $12.5 billion for FY 2001.
* West Virginia – The Governor has implemented a 3.0% across-the-board cut for all agencies except public education. The savings will be approximately $25.0 million (1.0%) of the total FY 2001 General Fund budget of $2.7 billion.
* Wisconsin – The Executive Branch implemented a hiring freeze, restricted travel, and required a 0.5% reversion for all agencies for FY 2001. This equates to a savings of approximately $55.4 million of the total FY 2001 budget of $11.0 billion.

**E:\Clipart\MISC\Finance\FINAN057.WMFReserve Funds *Reserve Funds*** – Five states reported that reserve (rainy day) funds will be tapped in FY 2001. These include North Carolina ($157.0 million), Oklahoma, Mississippi ($15.0 million, with an additional $35.0 million authorized), Washington, and Colorado. An additional six states indicate that tapping reserve funds is a possibility, including Florida, Indiana, Iowa, Ohio, Vermont, and West Virginia.

**Tax Changes *Anticipated Tax Changes*** – Twenty-two states indicated there will be no tax changes this year, while 10 states indicated tax increases were likely, and 18 states indicated tax reductions were possible. The summary by state is indicated in the table below.

**Anticipated Tax Changes During 2001**

|  |  |  |
| --- | --- | --- |
| No Change  (22 states) | Tax Increases  (10 states) | Tax Decreases  (18 states) |
| Alabama, Colorado, Georgia, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, Ohio, Oregon, Pennsylvania, South Dakota, Texas, Wisconsin, Wyoming | Alaska, Arkansas, Kansas, Louisiana, Maine, North Carolina, Tennessee, Vermont, Washington, West Virginia | Arizona, California, Connecticut, Delaware, Florida, Hawaii, Idaho, Iowa, Minnesota, New Jersey, New Mexico, New York, North Dakota, Oklahoma, Rhode Island, South Carolina, Utah, Virginia |

**Tax Changes Anticipated** Examples of tax changes already enacted or anticipated include:

* Arizona – plans $15.0 million in tax cuts for FY 2002 and $30.0 million for FY 2003.
* California, Delaware, and Florida – planning targeted tax reductions or credits.



* Iowa – suspended the sales tax on utilities for February and March of 2001 and will completely phase out the tax next year.
* New Jersey – enacted a $36.0 million corporate tax cut.
* Louisiana – may raise gambling taxes to fund teacher pay increases.
* Maine – The Governor has proposed increases in cigarette and meals and lodging taxes.
* Tennessee – The Governor has proposed an $800.0 million tax plan to cover a budget gap for FY 2002.

**FY 2002 Revenue Changes *Revenues for FY 2002***



**Revenue Forecasts** A total of 24 states indicate FY 2002 revenue growth will be lower than FY 2001, while 13 states anticipate higher revenue growth in FY 2002. Of the revenue forecasts that were used to prepare FY 2001 budgets, 23 projected increases of 4.0% or more. Currently, 24 states expect FY 2002 growth to be at least 4.0%. However, these forecasts may be revised. Iowa recently reduced the FY 2002 revenue estimate and Kansas and Kentucky are expected to reduce their estimates as well.

**Revenue Projections for Surrounding States**

(FY 2002 is top number / FY 2001 is bottom number)

 Source: NCSL and various State fiscal websites

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**Source** As mentioned above, the source of the information in this article is “State Fiscal Outlook for 2001 – February 2001” as published by NCSL. The entire text of this report is available on the NCSL website at [www.ncsl.org/programs/fiscal/upsfo2001.htm](http://www.ncsl.org/programs/fiscal/upsfo2001.htm).

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Tax Revenue Slowdown Experienced Nationwide

**Recent Report** According to a report recently released by Nelson A. Rockefeller Institute of Government in Albany, New York, states had a prosperous year in 2000. However, tax collections grew by 4.0% in the fourth quarter of calendar year 2000, making it the slowest quarter since the spring of 1993. After inflation adjustments, real tax revenue growth was only 1.6 percent, the weakest quarter in eight years.



REPORT

**Report Online** The report, authored by Nicholas W. Jenny and Elizabeth I. Davis, and available online at: <http://www.rockinst.org/publications/fiscal_studies/RR_43.PDF>, states that the downturn is the greatest in the Plains states and the Southeast states which experienced an overall revenue growth of 2.0% and 2.2% respectively. Iowa was cited as one of 7 states that experienced a decline in personal tax income revenue growth in the fourth quarter. Certain regions like the Great Lakes states and the Plains states had nearly no growth in sales tax revenue.

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**Reasons Cited** The authors attribute the slowing growth in states to three general reasons:

* Reduced revenue resulting from a seventh straight year of tax cuts.
* Differences in states’ tax collection systems.
* Tax law changes affecting the fourth quarter of calendar year 2000.

**Outlook** The economic outlook is uncertain and the report states that if growth continues at the same level or decreases further, states may not have much money for large tax cuts or spending increases, but may have to choose between tax cuts or spending increases, or do less of each. Ms. Davis states, “It really impacts how much the states can spend and how much they can cut taxes. The last few years, they’ve been able to do both.”

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Estimated FY 2002 Built-in and Anticipated Expenditure Changes



**“Built-ins” Revised Upward** The Legislative Fiscal Bureau (LFB) has revised the projected General Fund built-in and anticipated expenditure increases. The LFB is projecting these expenditure increases to total $204.5 million for FY 2002. The expenditures include $103.7 million in built-in increases and $100.8 million in anticipated increases. The previous estimate, issued in January, totaled $187.8 million.

**Reason for Increase** The majority of the projected expenditures either remained unchanged or were reduced compared to the January estimate. The one significant increase involved collective bargaining, which was revised upward from $42.2 million to $92.0 million. The increase is the result of the final negotiated agreement for salaries and benefits between the Governor’s Office and the State employee unions.

**Explanation of “Built-in”** The following is a brief explanation of built-in and anticipated expenditures:

* A built-in expenditure is an entitlement program funded by a standing appropriation or a prior appropriation for a future fiscal year which increases or decreases compared to the prior year.
* An anticipated expenditure is an anticipated increase or decrease based on prior obligation or action and requires legislative action.



**FY 2002 Changes** The following tables summarize the projected built-in and anticipated changes for FY 2002.

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Governor’s Revised Budget For FY 2002



Revised

**Must Use Revised Estimate** The Revenue Estimating Conference (REC) met on March 14. At that meeting, the estimate for the FY 2001 and FY 2002 General Fund revenues was decreased. Chapter 8.22A, Code of Iowa, requires that if the REC “agrees to a different estimate at a later meeting which projects a lesser amount of revenue than the initial estimate amount, the governor and the general assembly shall use the lesser amount in the budget process for that fiscal year.”

**New Budget Required** The Code of Iowa Chapter 8.21, states that “if the Governor is required to use a lesser amount in the budget process because of a later meeting of the state revenue estimating conference under section 8.22A, subsection 3, the governor shall transmit recommendations for a balanced budget meeting this requirement within fourteen days of the later meeting of the state revenue estimating conference.” The Governor will be required to submit a new budget by March 28.

**Governor’s Press Release** The following article is a March 14, 2001, press release from the Governor’s Office outlining his plans to deal with revised REC estimates.

***Vilsack Outlines Plan To Manage Revenue Shortfall***

*Des Moines – A sudden and severe slowing of the national economy has sharply reduced state revenue projections according the Revenue Estimating Conference. Accordingly, Governor Tom Vilsack and Lt. Governor Sally Pederson will provide revisions to their proposed budget for state government for 2002. Vilsack and Pederson are presented with a challenge and opportunity to reorganize state government and refocus its core mission through revisions to next year’s and future years’ budgets.*

*“The budget situation presents an opportunity for us to create a comprehensive, well thought out plan to mange this problem,” Vilsack said. “Today we are outlining a framework for balancing the state’s checkbook and provide a vision for future budget decisions.”*

*Vilsack outlined the approach as:*

1. *Making selected cuts from the new initiatives he proposed in January and an additional 6% across the board cut to his FY 02 budget recommendations. The cuts will not apply to the state’s funding for local school aid, teacher compensation to improve student achievement, and protecting people from abuse.*
2. *Creating a long-term plan to assure Iowans that the state will not spend more than is taken in each year. In order to balance the checkbook every year into the future, Vilsack and Pederson will critically review the entire state budget, organizational structure, and services the state provides to Iowans. This will require more reductions in state spending in future years to reorganize state government and refocus the state on its core mission.*
3. *Completing the Budget Reform Act of 1992 by establishing an endowment fund to save the 1% surplus created in that law. Currently that 1% is available to be spent in future budgets. Once our current reserve funds are fully funded, the interest generated from this endowment will create and build a “Children First Fund” to be invested in pre-school and early education opportunities for Iowa’s children.*

*“Iowa’s precipitous drop in revenue is a combination of the dramatic slowdown in the national economy and the state’s 46 tax cuts over the past 6 years amounting to over $800 million annually,” Vilsack said. “This limits our flexibility in managing the current problem.”*

*“To avoid encountering these problems in the future, we are recommending an endowment investment approach to provide educational opportunities to children. Iowa’s children deserve a quality education that will help them succeed throughout life,” Vilsack said. “We must look at this situation as an opportunity to create a better way of providing services to Iowans.”*

*Governor Vilsack will provide the detail of his revisions to his budget within 14 days of today’s Revenue Estimating Conference actions as required by law.*

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DISTRIBUTION OF A 6.0% ACROSS-THE-BOARD REDUCTION

**6.0% Reduction** The Governor has mentioned the need for a 6.0% reduction in the FY 2002 budgets to offset the decreased revenue growth. A straight across-the-board reduction to all appropriations generates $292.7 million. The Governor also discussed exempting some appropriations from the reduction; local schools were the largest exemption mentioned. The exemption of school aid reduces the across-the-board by $104.8 million. School aid has been included in the Department of Education line item below.

**Impact by Department** The following table shows the impact of a 6.0% reduction by department (dollars in millions) and the corresponding percentage that reduction is of the total:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Department** |  | Net FY 2001 |  | **6% ACB** |  | **% of Total** |  | **Cumulative %** |
| Education Department |  | $ 2,115.6 |  | $ 126.9 |  | 43.4% |  | 43.4% |
| Human Services Department |  | 878.2 |  | 52.7 |  | 18.0% |  | 61.4% |
| Board of Regents |  | 723.1 |  | 43.4 |  | 14.8% |  | 76.2% |
| Revenue And Finance |  | 311.9 |  | 18.7 |  | 6.4% |  | 82.6% |
| Corrections Department |  | 251.1 |  | 15.1 |  | 5.1% |  | 87.7% |
| Judicial Branch |  | 116.6 |  | 7.0 |  | 2.4% |  | 90.1% |
| Public Safety Department |  | 64.3 |  | 3.9 |  | 1.3% |  | 91.4% |
| College Student Aid Comm. |  | 58.8 |  | 3.5 |  | 1.2% |  | 92.6% |
| Veterans Affairs |  | 47.8 |  | 2.9 |  | 1.0% |  | 93.6% |
| Inspections & Appeals |  | 46.2 |  | 2.8 |  | 0.9% |  | 94.6% |
| Public Health |  | 31.0 |  | 1.9 |  | 0.6% |  | 95.2% |
| Legislative Branch |  | 26.6 |  | 1.6 |  | 0.5% |  | 95.8% |
| Agr. & Land Stewardship |  | 24.8 |  | 1.5 |  | 0.5% |  | 96.3% |
| Economic Development |  | 21.9 |  | 1.3 |  | 0.4% |  | 96.7% |
| Commerce Department |  | 20.7 |  | 1.2 |  | 0.4% |  | 97.1% |
| Natural Resources |  | 19.0 |  | 1.1 |  | 0.4% |  | 97.5% |
| General Services |  | 15.1 |  | 0.9 |  | 0.3% |  | 97.8% |
| Attorney General |  | 14.5 |  | 0.9 |  | 0.3% |  | 98.1% |
| Treasurer of State |  | 14.1 |  | 0.8 |  | 0.3% |  | 98.4% |
| Transportation Department |  | 14.0 |  | 0.8 |  | 0.3% |  | 98.7% |
| Management Department |  | 10.3 |  | 0.6 |  | 0.2% |  | 98.9% |
| Iowa Workforce Development |  | 6.8 |  | 0.4 |  | 0.1% |  | 99.1% |
| Public Defense Department |  | 6.4 |  | 0.4 |  | 0.1% |  | 99.2% |
| Cultural Affairs |  | 6.4 |  | 0.4 |  | 0.1% |  | 99.3% |
| Elder Affairs Department |  | 5.1 |  | 0.3 |  | 0.1% |  | 99.4% |
| Personnel Department |  | 4.9 |  | 0.3 |  | 0.1% |  | 99.5% |
| Human Rights Department |  | 3.7 |  | 0.2 |  | 0.1% |  | 99.6% |
| Telecomm. & Technology |  | 3.2 |  | 0.2 |  | 0.1% |  | 99.7% |
| Secretary of State |  | 2.7 |  | 0.2 |  | 0.1% |  | 99.7% |
| Executive Council |  | 2.7 |  | 0.2 |  | 0.1% |  | 99.8% |
| Governor/Lt. Governor |  | 2.2 |  | 0.1 |  | 0.0% |  | 99.8% |
| Iowa Comm. For The Blind |  | 1.9 |  | 0.1 |  | 0.0% |  | 99.9% |
| Law Enforcement Academy |  | 1.4 |  | 0.1 |  | 0.0% |  | 99.9% |
| Auditor of State |  | 1.4 |  | 0.1 |  | 0.0% |  | 99.9% |
| Civil Rights Commission |  | 1.2 |  | 0.1 |  | 0.0% |  | 99.9% |
| Parole Board |  | 1.1 |  | 0.1 |  | 0.0% |  | 100.0% |
| Public Employ. Relations Brd. |  | 0.9 |  | 0.1 |  | 0.0% |  | 100.0% |
| Gov's Office of Drug Control |  | 0.6 |  | 0.0 |  | 0.0% |  | 100.0% |
| Ethics & Campaign Disclosure |  | 0.5 |  | 0.0 |  | 0.0% |  | 100.0% |
| Total |  | $4,878.4 |  | $292.7 |  | 100% |  |  |

**Impact by Function** The following table shows the impact of a 6.0% reduction (dollars in millions) by functional area and the corresponding percentage that reduction is of the total:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Net FY 2001 |  | **6% ACB** |  | **% of Total** | **Cumulative %** |
| Local Tax Credits & Program Aids | $ 2,437.2 |  | $ 146.2 |  | 50.0% | 50.0% |
| Assistance Payments & Programs | 734.2 |  | 44.1 |  | 15.1% | 65.0% |
| Board of Regents Institutions | 721.7 |  | 43.3 |  | 14.8% | 79.8% |
| Executive Operations & Programs | 500.8 |  | 30.0 |  | 10.3% | 90.1% |
| Adult Corrections Institutions | 244.7 |  | 14.7 |  | 5.0% | 95.1% |
| Judicial Operations & Programs | 116.4 |  | 7.0 |  | 2.4% | 97.5% |
| Human Services Institutions | 69.4 |  | 4.2 |  | 1.4% | 98.9% |
| Self Supporting Operations | 26.6 |  | 1.6 |  | 0.5% | 99.4% |
| Legislative Operations & Prgms. | 26.6 |  | 1.6 |  | 0.5% | 100.0% |
| Capital Programs & Projects | 0.9 |  | 0.1 |  | 0.0% | 100.0% |
|  |  |  |  |  |  |  |
| ***Total*** | $ 4,878.4 |  | $ 292.7 |  | 100% |  |

Please note - due to coding inconsistencies, the totals may not correspond by functional area between tables.

**Gen. Fund Expenditures** The following pie chart depicts similar information to that shown in the tables above. Approximately 75.0% of General Fund expenditures are for education (including K-12 school finance) or human service programs (59% and 16.0%).

$4.88 billion

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Historical Growth Rates in Revenues and Expenditures

**Growth Rates** The table below lists the net General Fund receipts growth rate since 1991. Net receipts are calculated after transfers and refunds. The significant decrease in FY 1998 and FY 1999 reflect tax reductions enacted by the General Assembly.



|  |  |  |
| --- | --- | --- |
| **Fiscal Year** |  | **% Growth** |
| FY 1991 |  | 7.5% |
| FY 1992 |  | 5.1% |
| FY 1993 |  | 8.3% |
| FY 1994 |  | 6.1% |
| FY 1995 |  | 6.3% |
| FY 1996 |  | 5.3% |
| FY 1997 |  | 5.8% |
| FY 1998 |  | 2.6% |
| FY 1999 |  | -0.2% |
| FY 2000 |  | 4.8% |
| FY 2001Est. |  | 1.3% |
| FY 2002Est. |  | 3.1% |

**Revenue & Approps.** The following chart reflects the annual percentage increases in General Fund revenue and appropriations since 1974.

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Technology Funding Through the Reversion Technology Initiatives Account and the Pooled Technology Account

**Statutory Requirement** As provided in Section 8.33, Code of Iowa, “On August 31, or as otherwise provided in an appropriations Act, following the close of each fiscal year, all unencumbered or unobligated balances of appropriations made for that fiscal term revert to the state treasury and to the credit of the funds from which the appropriations were made…”



**Training/Technology** Additionally, Section 8.62, Code of Iowa, notwithstands Section 8.33, and allows that not more than 50.0% of the unexpended and unobligated balance in an operational appropriation may be encumbered by the agency to which the operational appropriation was made. The use of these funds is restricted to employee training, technology enhancement, or purchase of goods and services from Iowa Prison industries. Any funds encumbered under this Section remaining on June 30 of the following fiscal year shall be deposited in the cash reserve fund on June 30. Non-operational appropriations were not exempted from the reversion requirement of Section 8.33.



**Accounts Created** The Reversion Technology Initiatives Account and the Pooled Technology Fund were created to provide a funding source to support various technology projects. The language that created both accounts notwithstood Section 8.62 for operational appropriations, and Section 8.33 for non-operational appropriations and deposited the funds into these accounts. The differences are explained below.

* For the Reversion Technology Initiatives Account, Section 5.1 of HF 762 (FY 2000 Oversight and Communications Appropriations Act) provided that 75.0% of funds unexpended or unencumbered for FY 1999 that would have otherwise reverted to the General Fund from operational appropriations were appropriated to the Account. The remaining funds remained with the entity to which the operational appropriation was made to be used as specified in Section 8.62. Additionally, 100% of unexpended and unencumbered funds for FY 1999 that would otherwise have reverted to the General Fund from non-operational appropriations were appropriated to the Account.
* For the Pooled Technology Account, Section 5.1 of SF 2433 (FY 2001 Oversight and Communications Appropriations Act) provided for the same notwithstanding language for unexpended and unencumbered funds remaining at the end of FY 2000, with the exception that the first $7.5 million subject to reversion and appropriation to the Account were required to be deposited into the General Fund. Additionally, funds remaining in several other accounts on the effective date of the Act were transferred to the Account.

**Priorities Established** The General Assembly specified how the funds would be used, but again there was a difference between the funds being expended from the Account.

* For the Reversion Technology Initiatives Account, the specific projects and the amount of funding that could be expended on each project were enumerated in priority order in the Act. A total of $11.0 million was allocated from the Account for 14 different projects. The funds were allocated directly to the department that had requested and been approved for funding. There were sufficient reversions to fully fund the allocations.
* For the Pooled Technology Account, four specific allocations were made in priority order and one was vetoed. For those, the funding was allocated directly to the departments that had requested the funds. Additionally, a list of 24 other projects were specified as projects that could be funded by up to $21.0 million from the Account and the funds were allocated to the new Information Technology Department, specifying that the funds could only be used on the projects listed in the Act. A total of $19.0 million was received by the Account from the transfers and reversions. The first $6.0 million went for the three specified projects and the remaining $13.0 million is being used by the Department to complete as many projects as possible from the list of projects in the Act. Some projects have received no allocation by Information Technology Department and some have received allocations less than they had requested.

**FY 2002 Recommendations** For FY 2002, there has been $79.3 million in projects that have been recommended from the Pooled Technology Account by the Information Technology Council.

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Balancing the Budget - Across-the-board Reductions 1980-2001

**Governor’s Power** The Governor and the General Assembly have statutory responsibility to balance the budget. However, once the General Assembly has exercised its power and appropriated funds in legislation, the Governor’s ability to restrict spending is limited. The Governor may do so in only one of four ways:



* Through the item veto power under the Iowa Constitution Article III, Section 16.
* Through transfers within and among departments under Chapter 8.39, Code of Iowa.
* Through reductions in force under Chapter 19A. 9(14), Code of Iowa.
* Through an across-the-board reduction in spending under Chapter 8.31, Code of Iowa.

**Across-the-Board Reductions** The Governor, through Executive Order, has enacted across-the-board reductions six times since 1980. Governor Ray issued two of these Orders and Governor Branstad issued four. Section 8.31, Code of Iowa, authorizes the Governor to reduce quarterly allotments of appropriations in amounts sufficient to avoid an overdraft or deficit. While the actual appropriation amount will remain unchanged, the reduction in allotments will reduce spending and will increase reversions.

**Exemptions** The statute specifically exempts the Legislative Branch and the Judicial Branch from across-the-board reductions made by the Governor under Executive Order. The Governor cannot exempt any appropriations from across-the-board reductions; the reduction must be applied across-the-board uniformly and “prorated between all departments, agencies and establishments upon the basis of their respective appropriation”. Attorney General opinions in 1980 and 1989 stated that the Governor may not make selective mandatory reductions in appropriations through the practice of “targeted reversions”.

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**General Assembly Power** The General Assembly reduces enacted appropriations through “reduction in appropriations bills”, more commonly referred to as deappropriation bills. Reductions are usually made selectively to appropriations, but across-the-board reductions have been made to appropriations already enacted by the General Assembly. The General Assembly has the authority to selectively exempt certain appropriations from the across-the-board reductions or to apply different percentages to different appropriations. This type of across-the-board reduction occurred during the Second Extraordinary Session in 1992, when the General Assembly reduced some appropriations by 5%, others by 2%, and exempted others such as school aid and human services programs. In the 1987 Session, all appropriations were reduced by .1% by the General Assembly prior to enactment by the Governor.

**1980-2001** The following table reflects the across-the-board reductions made through Executive Order during the period 1980-2001.

**Across-the-Board Reductions 1980-2001**

| Date | Fiscal Year | Exec. Order | Governor | Budget Shortfall | % Reduction | Comments |
| --- | --- | --- | --- | --- | --- | --- |
| 8/12/1980 | 1981 | #38 | Ray | $63.0 mil | 3.6% | General Assembly also passed $8.0 million in deappropriations. |
| 12/15/1980 | 1981 | #40 | Ray | $46.1 mil | 1.0% | Second across-the-board reduction for FY 1981, making total reduction of 4.6% or $78.4 million. Total impact of across-the-board and other adjustments was $100.0 million. |
| 9/3/1983 | 1984 | #4 | Branstad | $91.0 mil | 2.8% | $2.8% reduction amounted to $55.1 million. There were additional deappropriations of $17.6 million. |
| 9/18/1985 | 1986 | #19 | Branstad | $91.1 mil | 3.85% | 3.85% reduction amounted to $81.4 million. A 1.0% Legislative reduction realized another $10.8 million. |
| 7/1/1991 | 1992 | #42 | Branstad | $92.7 mil | 3.25% | 3.25% across-the-board reduction amounted to $105.0 million. The Governor implemented a two-phase “reduction in force” which resulted in 1,400 layoffs. |
| 4/8/1991 | 1992 | #43 | Branstad | $15.7 mil | .62% | The second across-the-board reduction for FY 1992, amounted to $19.1 million. The General Assembly restored approximately $14.9 million of the reductions. |

This document can be found on the LFB web site: <http://staffweb.legis.state.ia.us/lfb/fupdate/fupdate.htm>

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