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

***The Governor’s Revised FY 2002 Budget***

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**Revised FY 2002 Budget** The Governor has submitted his revised budget for FY 2002 pursuant to Chapter 8.22A, Code of Iowa. The revised budget is required due to the lower Revenue Estimating Conference (REC) estimate of projected revenue growth made at the March 14 REC meeting. Net estimated revenues are projected to grow at a rate of .7% for FY 2001 and 4.3% for FY 2002. This is down from an original estimate of growth made last December of 3.5% and 4.4%. Estimates of tax refunds due were also increased resulting in a total revenue shortfall of $165.0 million in FY 2001 and $163.2 in FY 2002 from the December estimate.

**Revenue Changes** The Governor’s revised budget proposes revenue changes resulting in a net revenue increase of $211.2 million. Major revenue changes in the Governor’s FY 2002 General Fund budget recommendation are listed below. Items in italics are changes recommended in the ***revised*** budget. All other items were in his original estimate. All changes are compared to FY 2001.

* *Transfers $120.0 million from the* ***Economic Emergency Fund*** *to the General Fund. This will require legislative action to notwithstand the Expenditure Limitation Law. The balance in the Economic Emergency Fund is approximately $235.6 million. In prior years, once the reserve funds were at the maximum balance of 5.0%, the excess was transferred to the General Fund. In FY 2002, due to the declining revenues in FY 2001, there will be no excess to transfer to the General Fund. The Governor’s original recommendation included $71.6 million as a transfer of the FY 2001 Excess from the Economic Emergency Fund to the General Fund.*
* *Transfers $16.4 million of* ***Use Tax*** *to the General Fund.*
* *Transfers $4.0 million from the* ***Workforce Development Fund*** *to the General Fund. Currently, a maximum of $8.0 million is deposited in the Workforce Development Fund. This reduces the maximum to $4.0 million.*
* *Transfers $300,000 from the Scholarship and Grant Reserve Fund to the General Fund. This is the balance of the fund which has been historically used to fund possible over-commitments.*
* Various revenue adjustments of $102.1 million including the diversion of $70.0 million of gaming revenue from the Rebuild Iowa Infrastructure Fund. Other significant revenue changes are:

*$7.0 million transfer from the* ***Groundwater Fund***. Original recommendation was to transfer $9.9 million.

$9.4 million of additional revenue from **Accelerated Tax Gap Project.**

$3.0 million transfer from the **Waste Tire Management Fund.**

*Caps the Accelerated Career Education (ACE) Program at the present level of $2.5 million, representing an increase to General Fund revenue of $3.0 million.*



**FY 2002 Appropriations** The Governor’s original budget for FY 2002 was a 1.9% increase over FY 2001. The Governor’s original budget did not include funding for collective bargaining salary increases and funded teacher pay through an FY 2001 supplemental. The Governor’s original budget, with his current recommendation for collective bargaining and funding teacher pay in FY 2002, was a 4.7% increase over FY 2001. The Governor’s revised budget is a 2.6% increase over FY 2001 and includes:

* An increase of $91.0 million for salary adjustment purposes.
* $40.0 million for teacher salaries.
* A reduction of $4.3 million for retiree attrition. As employees retire over the next 15 months, agencies will not be allowed to fill the positions without the approval of the Department of Management. Savings of $4.3 million is anticipated in FY 2002.
* A reduction of $1.0 million for Information Technology Management. The responsibility for management of the desktop PC network will be shifted from selected individual departments to the Information Technology Department. The Governor’s revised budget estimates that this will result in a $1.0 million savings through more economical management.

**Ending Balance**  After accounting for estimated reversions of $15.4 million, the Governor’s FY 2002 ending balance under his revised budget is $50.5 million.



**Budget Reductions** The 6.0% budget reductions referred to in the Governor’s revised budget documents are reductions from his original FY 2002 budget and not reductions from the current FY 2001 budget. Many appropriations were reduced from the original recommendation, but property tax credits, K-12 funding, and a number of other standing appropriations were exempt from the Governor’s reductions. The Governor’s revised budget is a 2.6% increase over estimated FY 2001.

**Balance Sheet/Tracking** The Projected Condition of the General Fund (Balance Sheet) for FY 2001 and FY 2002 is attached. Also attached is a spreadsheet reflecting the Governor’s revised recommendation by appropriations subcommittee. For informational purposes, the $91.0 million for salary adjustment (collective bargaining) has been hypothetically spread to the agencies, using the FY 2000 allocation. The actual FY 2002 allocation will be different based upon current staffing. A difference column has been created comparing the Governor’s revised recommendation plus salary adjustment to the estimated net FY 2001. The Legislative Fiscal Bureau will be analyzing the Governor’s revised recommendation and will provide summary documents and spreadsheets for legislators to use during decision making.

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Impact of the Governor’s Revised Budget on the Reserve Funds

**E:\Clipart\MISC\Finance\BS04740.WMFReserve Fund Balances** The Governor’s revised budget recommendation transfers $120.0 million from the Economic Emergency Fund to the General Fund. This is a one-time transfer of funds and reduces the projected balance of the Fund to $113.4 million or 2.3% of the adjusted revenue. The Cash Reserve Fund remains “full” with an estimated FY 2002 balance of $246.1 million or 5.0% of the adjusted revenue estimate.



**New Fund** The Governor recommends a new fund, the Children’s First Endowment Fund. Under current law, once the Cash Reserve Fund and the Economic Emergency Fund have each reached the maximum level of 5.0% (for a total of 10.0% of adjusted revenues), any excess funds flows back to the General Fund and is available for expenditure the next year. The Governor recommends that these funds not go back to the General Fund, but be transferred into a separate fund, the Children’s First Endowment Fund. The principal in the endowment fund will not be spent, but the interest would be available for appropriation for children’s programs. Under the Governor’s revised budget, the endowment fund will not receive any funds in FY 2002.

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