



**Auditor of State
Mary Mosiman, CPA**

***State of Iowa FY19
Budget Review***

July 2018

State of Iowa Budget

Remarks today will focus on:

- Review Standard:
Sound Budgeting Principles
- A Review of the Numbers
- Budget Highlights

State of Iowa Budget Sound Budgeting Principles

- Avoid use of one-time resources for ongoing expenses.
- Avoid multiyear accelerating commitments.
- Avoid new automatic, or “standing,” appropriations.
- Accurately determine revenue and expenses.
- Align expenses and revenue in the same fiscal year.
- Avoid shifting program funding to property taxes or fees.
- Avoid diversion of funds statutorily authorized for a specific objective to other purposes.

Source: Iowa Taxpayers' Association

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State of Iowa Budget Sound Budgeting Principles

Following sound budgeting principles produces budgets which are:

- Complete
- Transparent
- Sustainable

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State of Iowa Budget Recap: FY 2018 Challenges

- FY17 revenues lower than expected
- \$131.1 million cash reserve appropriation after March 2018 REC for FY17
- \$20 million appropriated to be repaid in FY18, and remaining \$111.1 million intended to be repaid in FY19

Update:

- FY19 budget repays cash reserves, filling cash reserves to statutory maximum
- SF2417 addresses revenue predictability for future years

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State of Iowa Budget Projected Condition of the General Fund Budget (\$ in Millions)

	Actual FY17	Final Action FY18	Revised Final Action FY18	Final Action FY19
Resources:				
Receipts	\$8,411.2	\$8,825.0	\$8,723.0	\$9,043.9
Refunds	(1,059.8)	(1,091.3)	(1,108.5)	(1,143.1)
School Infrastructure Refunds	(460.4)	(494.2)	(473.0)	(493.7)
Accruals (Net)	73.5	23.1	(13.3)	8.6
Transfers	275.5	101.9	109.3	111.3
Subtotal Net Receipts	<u>\$7,240.0</u>	<u>\$7,364.5</u>	<u>\$7,237.5</u>	<u>\$7,527.0</u>
Revenue Adjustments	-	6.0	43.1	113.4
Surplus Carryforward	18.2	0.0	0.0	0.8
Total Available Resources	<u>\$7,258.2</u>	<u>\$7,370.5</u>	<u>\$7,280.6</u>	<u>\$7,641.2</u>
Expenditure Limitation		\$7,296.7		\$7,545.0
Estimated Appropriations and Expenditures:				
Enacted Appropriations	\$7,351.7	\$7,268.6	\$7,264.6	\$7,480.2
Net Appropriation Adjustments	<u>(88.2)</u>	-	<u>(10.3)</u>	-
Total Appropriations	\$7,263.5	\$7,268.6	\$7,254.3	\$7,480.2
Reversions	(5.3)	(5.0)	(5.4)	(5.0)
Governor's Line Item Vetoes	-	<u>(0.4)</u>	-	<u>(0.2)</u>
Net Appropriations	<u>\$7,258.2</u>	<u>\$7,263.2</u>	<u>\$7,248.9</u>	<u>\$7,475.0</u>
Ending Balance - Surplus	<u>\$0.0</u>	<u>\$107.3</u>	<u>\$31.7</u>	<u>\$166.2</u>

Source: LSA

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**State of Iowa Budget
General Fund Appropriations
(\$ in Millions)**

	Final Action FY18	Final Action FY19	FY18-19 Change
Admin & Reg	\$581.1	\$678.3	\$97.2
Ag & Natural Resources	38.9	39.3	0.4
Economic Development	38.4	40.2	1.8
Education	4,100.5	4,146.6	46.1
Health & Human Services	1,766.4	1,821.8	55.4
Justice	743.3	754.0	10.7
Transportation	-	-	-
Total Appropriations - General Fund	<u>\$7,268.6</u>	<u>\$7,480.2</u>	<u>\$211.6</u>

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**State of Iowa Budget
Other Funds Appropriations
(\$ in Millions)**

	Final Action FY18	Final Action FY19	FY18-19 Change
Admin & Reg	\$57.8	\$58.6	\$0.8
Ag & Natural Resources	90.2	90.9	0.7
Economic Development	44.8	32.9	(11.9)
Education	40.6	40.6	-
Health & Human Services	426.2	420.2	(6.0)
Justice	15.5	17.4	1.9
Transportation	536.8	533.3	(3.5)
Total Appropriations - Other Funds	<u>\$1,211.9</u>	<u>\$1,193.9</u>	<u>(\$18.0)</u>

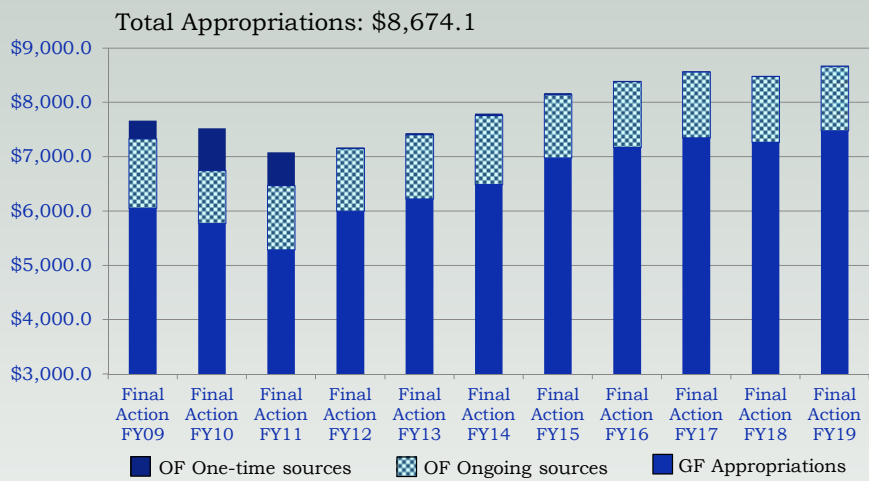
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State of Iowa Budget Total Appropriations (\$ in Millions)

	Final Action FY18	Final Action FY19	FY18-19 Change
Admin & Reg	\$638.9	\$736.9	\$98.0
Ag & Natural Resources	129.1	130.2	1.1
Economic Development	83.2	73.1	(10.1)
Education	4,141.1	4,187.2	46.1
Health & Human Services	2,192.6	2,242.0	49.4
Justice	758.8	771.4	12.6
Transportation	536.8	533.3	(3.5)
Total Appropriations - All Funds	<u>\$8,480.5</u>	<u>\$8,674.1</u>	<u>\$193.6</u>

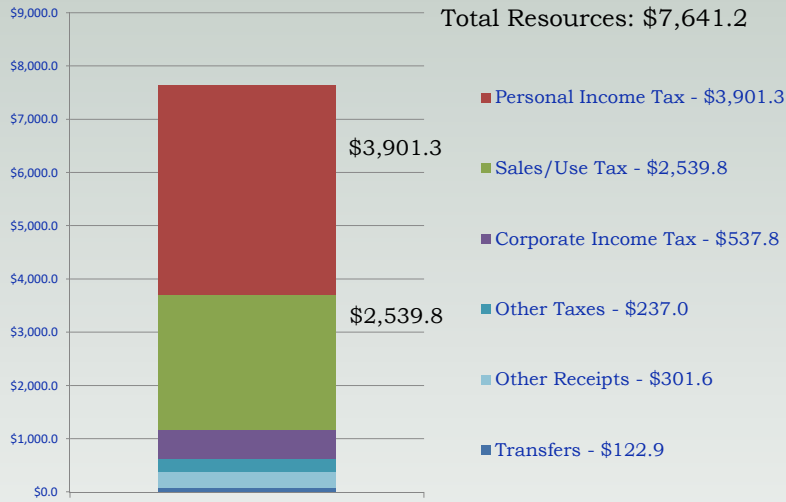
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State of Iowa Budget Total Appropriations – General Fund (GF) and Other Funds (OF) (\$ in Millions)



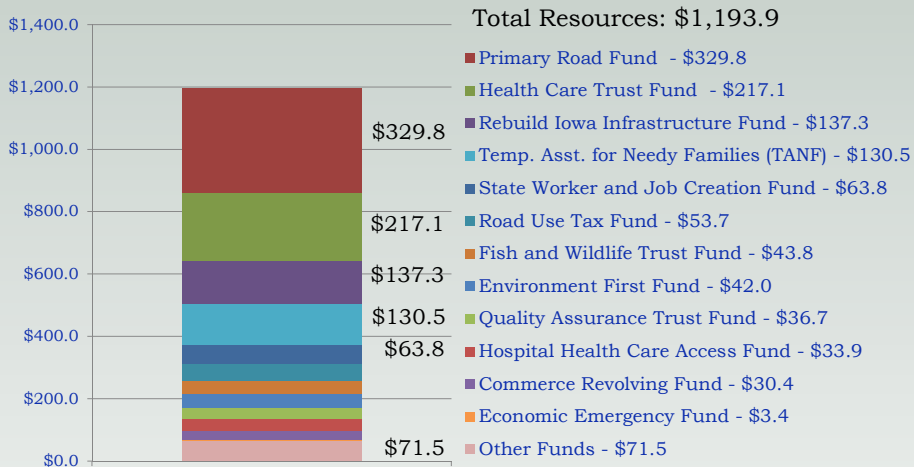
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State of Iowa Budget FY19 Resources – General Fund (\$ in Millions)



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State of Iowa Budget FY19 Resources Supporting Other Fund Appropriations (\$ in Millions)



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State of Iowa Budget Resources

(\$ in Millions)

	Final Action FY19
March 2018 REC GF Revenue Estimate	\$7,545.5
Revenue Adjustments	94.9
Surplus Carryforward	<u>0.8</u>
Adjusted GF Revenue Estimate	7,641.2
Resources Supporting Other Fund Expenditures	<u>1,193.9</u>
Budgeted Resources	8,835.1
Resources Subject to Spending Limitation	<u>(96.2)</u>
Resources Supporting State Budget	<u><u>\$8,738.9</u></u>

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State of Iowa Budget Budget Summary

(\$ in Millions)

	Final Action FY19
Resources Supporting State Budget	\$8,738.9
Total Appropriations – All Funds	<u>(8,674.1)</u>
Surplus	<u><u>\$64.8</u></u>

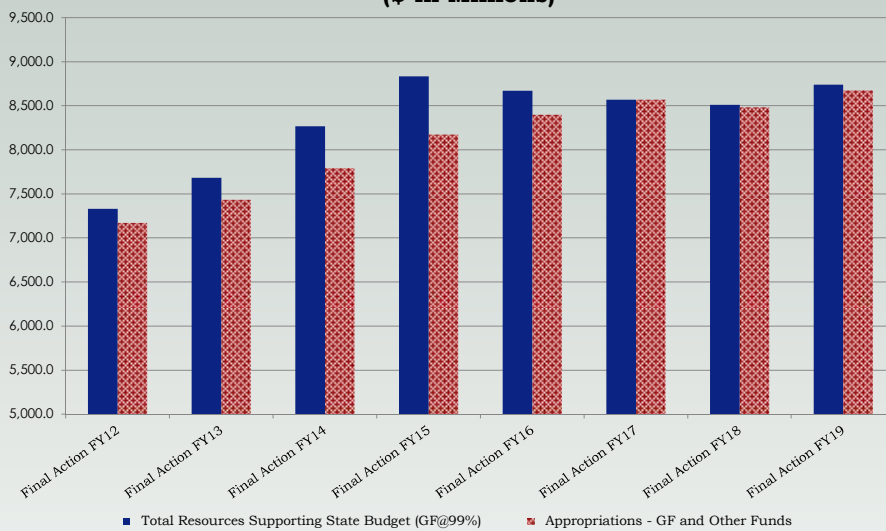
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State of Iowa Budget Reconciliation to LSA Surplus (\$ in Millions)

	Final Action FY19
AOS Calculated Surplus	\$64.8
Resources Subject to Spending Limitation	96.2
Reversions	5.2
LSA Ending Balance - Surplus	\$166.2

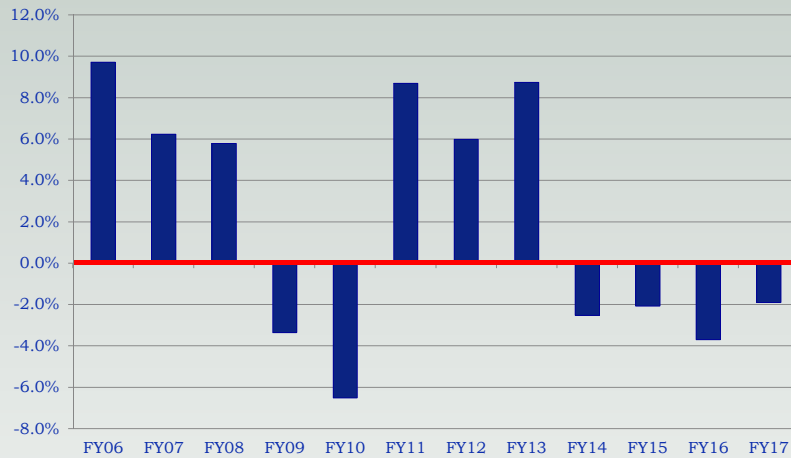
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State of Iowa Budget Comparison: Resources/Appropriations (\$ in Millions)



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State of Iowa Budget Actual General Fund Revenue Variance From December REC Revenue Estimate



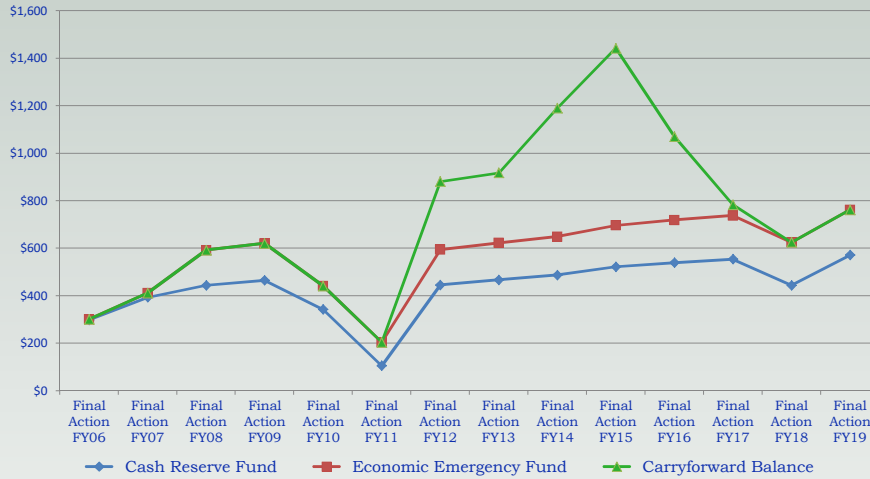
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State of Iowa Budget

- Budgeting Principle – “Avoid using one-time resources for ongoing expenses.”
- Surplus carryforward is not a reliable, ongoing source of revenue. It is now almost gone.
- \$3.4 million of appropriations from the Economic Emergency Fund – a one-time/limited time source.

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State of Iowa Budget Combined Reserve Funds (\$ in Millions)



State of Iowa Budget FY19 Budget Topics

- Tax Reform
- HHS and Education
- Tax Credits
- Pension Systems
- Federal Funds

State of Iowa Budget Tax Reform – SF2417

Highlights:

- Reduces individual and corporate tax rates and conforms with federal law.
- Further reduces individual tax rates/brackets in TY23 if revenue targets are met.
- Expands sales/use tax to cover more categories – notably digital goods and new economy purchases.
- Tax credit changes.

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State of Iowa Budget Tax Reform – SF2417

Table 1 – Income Tax Rates

Taxed Income Brackets*		Current Law Tax Rates	TY 2019 Rates
Lower Limit	Upper Limit		
\$ 0	\$ 1,628	0.36%	0.33%
\$ 1,629	\$ 3,256	0.72%	0.67%
\$ 3,257	\$ 6,512	2.43%	2.25%
\$ 6,513	\$ 14,652	4.50%	4.14%
\$ 14,653	\$ 24,420	6.12%	5.63%
\$ 24,421	\$ 32,560	6.48%	5.96%
\$ 32,561	\$ 48,840	6.80%	6.25%
\$ 48,841	\$ 73,260	7.92%	7.44%
\$ 73,261	And Over	8.98%	8.53%

*Estimated TY 2019 brackets. Iowa tax brackets are indexed annually for inflation.

Source: SF2417 Fiscal Note - <https://www.legis.iowa.gov/docs/publications/FN/965637.pdf>

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State of Iowa Budget Tax Reform – SF2417

Table 9 – State and Local Revenue Impact
Projected Change Compared to Current Law
(In Millions)

State General Fund Revenue Impact							
Item	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Individual Income Tax	\$ -0.8	\$ -186.0	\$ -408.9	\$ -471.5	\$ -494.8	\$ -540.7	\$ -753.3
Corporate Income Tax	0.0	25.6	20.8	5.2	-41.4	-48.3	-44.9
Sales/Use Tax	0.0	55.8	117.3	126.3	134.1	142.4	148.5
Tax Credits	0.6	4.5	7.9	8.6	8.0	7.7	7.5
General Fund Revenue Impact	\$ -0.2	\$ -100.1	\$ -262.9	\$ -331.4	\$ -394.1	\$ -438.9	\$ -642.2

Local Government Revenue Impact							
Item	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2023
School Income Surtax	\$ 0.0	\$ -1.8	\$ -11.8	\$ -13.7	\$ -14.3	\$ -14.8	\$ -21.7
School Infrastructure (SAVE) Fund	0.0	11.0	23.2	25.0	26.5	28.2	29.4
Local Option Sales Tax	0.0	8.7	18.3	19.7	20.9	22.3	23.2
Local Government Revenue Impact	\$ 0.0	\$ 17.9	\$ 29.7	\$ 31.0	\$ 33.1	\$ 35.7	\$ 30.9

Source: SF2417 Fiscal Note - <https://www.legis.iowa.gov/docs/publications/FN/965637.pdf>

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State of Iowa Budget Medicaid

- Budgeting Principle – “Accurately determine resources and expenses.”
- FY15 and FY16 Final Action budgets underfunded the forecast by \$53 million and \$41 million, respectively.
 - Supplemental appropriation of \$42 million and \$82 million were necessary to cover the FY15 and FY16 shortfalls.
- FY17 and FY18 were underfunded by \$13 million and \$5.9 million, respectively; no supplemental was needed.
- The FY19 Final Action budget no longer underfunds Medicaid.
 - Total does not include any additional expenditure resulting from negotiations with Medicaid providers on reimbursement rates.

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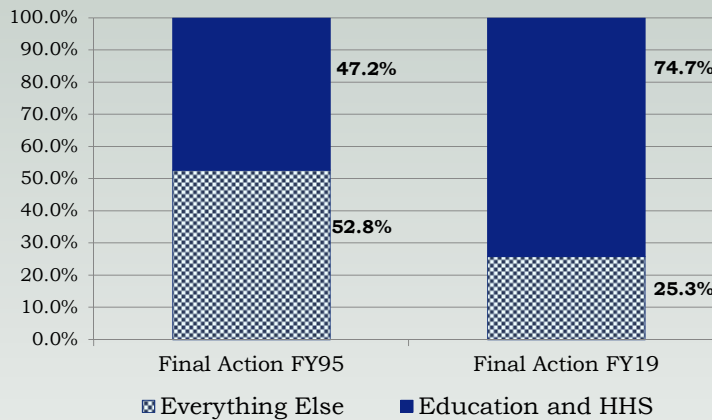
State of Iowa Budget Medicaid - FMAP

<u>Calendar Year</u>	<u>Federal FMAP % ACA</u>	<u>Federal FMAP % Non-ACA</u>
2016	100.00%	55.07%
2017	95.00%	56.28%
2018	94.00%	58.05%
2019	93.00%	59.57%
2020	90.00%	60.71%
FY 2019 Impact	\$7,200,000	(\$58,940,360)

FMAP – Federal Medical Assistance Percentage
Source: LSA

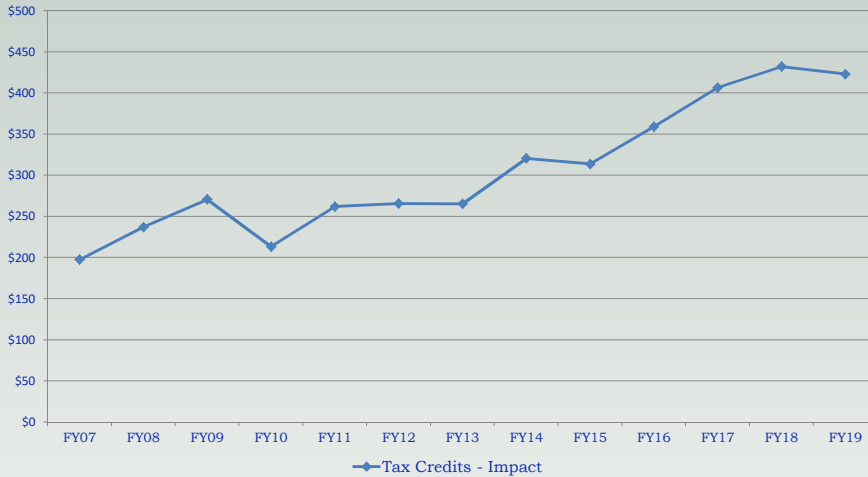
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State of Iowa Budget HHS and Education (\$ in Millions)



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State of Iowa Budget Impact of Tax Credits (\$ in Millions)



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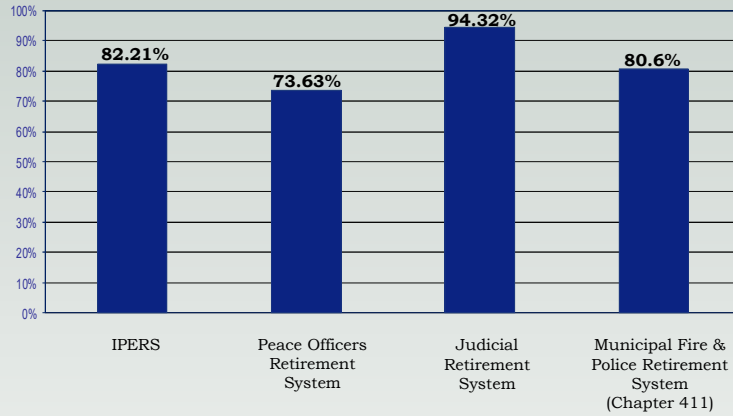
State of Iowa Budget Impact of Tax Credits

- From FY07-FY19 General Fund revenue tax credits have increased from \$197.6 million to \$422.9 million
 - \$225.3 million increase in 12 fiscal years (114%)
- Examples of Tax Credit impact:
 - Earned Income Tax Credit \$68 million for FY19
 - Research Activities Tax Credit \$69.1 million for FY19
 - Historic Preservation tax credit increased from \$17.7 million to \$64.5 million
 - High Quality Job Program credit increased from \$20.3 million to \$43.1 million
 - Workforce Housing Tax Incentive increased from \$0 to \$17.1 million

Source: LSA, End of Session Information 2018, General Fund Balance Sheet, p. 8

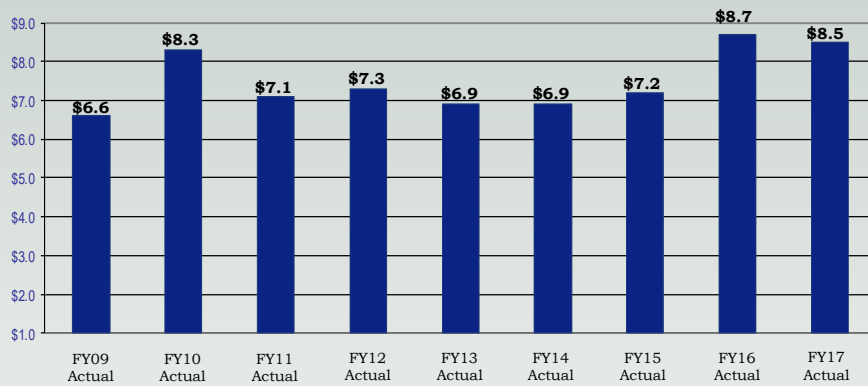
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State of Iowa Budget Iowa's Pension Systems FY17 Net Pension Liability



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State of Iowa Budget Reliance on Federal Monies (\$ in Billions)



Source: AOS, State of Iowa Single Audit Reports, FY09- FY17

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State of Iowa Budget Highlights

- FY2019 budget is balanced
- Resources are in line with appropriations
- Sound budgeting principles are being used; minimal deviation
- Revenue predictability addressed through tax code changes
- Reserve funds restored to statutory maximums

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State of Iowa Budget Challenges

- Revenue predictability
- Anticipated growth in HHS and Education
- Impact of federal government funding on state services
- Pensions
- Medicaid

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State of Iowa Budget Conclusion

The State of Iowa started FY19 with a balanced budget. Resources are in-line with appropriations.

The State managed the revenue challenges of Fiscal Years 2017 and 2018 and replenished its reserve funds.

Like last year, the challenge for the future is to strive for greater predictability on the revenue side. Changes to the tax code may help in that regard, but they also take future revenue off the table. We must be mindful of that in future budgets. Following sound budgeting principles consistently positions us well for whatever the future brings.

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State of Iowa Budget Investigative Reports and Impacts – FY2018

6/29/2018	Mitchell County Treasurer	\$	5,964.00
6/7/2018	Huxley Fire Association	\$	5,581.19
6/7/2018	UNI International	\$	6,691.15
5/24/2018	Kids Corner	\$	278,362.58
5/24/2018	UNI STEP	\$	14,956.53
3/27/2018	City of Bayard	\$	31,623.64
3/27/2018	City of Yale	\$	29,174.36
3/23/2018	City of Richland	\$	57,990.34
1/22/2018	City of Johnston	\$	13,608.37
1/18/2018	ICN	\$	379,547.65
12/21/2017	SUI Physics Department	\$	99,805.67
12/19/2017	Maquoketa CSD	\$	20,138.45
12/15/2017	City of Webster	\$	5,436.83
12/12/2017	Poweshiek County Sheriff	\$	6,990.00
12/8/2017	Mahaska Animal Shelter	\$	13,412.43
11/15/2017	BooSt/CARES	\$	66,451.10
11/8/2017	Clarinda CSD	\$	48,541.78
9/28/2017	Cass County	\$	1,334.39
9/27/2017	City of Armstrong	\$	100,650.10
7/27/2017	Carroll County Sheriff	\$	128,710.00
7/27/2017	Polk City Police Department	\$	3,648.89

TOTAL: \$1,318,619.45

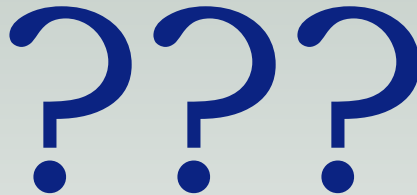
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State of Iowa Budget Sources and References

- LSA, End of Session Information 2018
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- LSA, 2005-2018 Session Fiscal Reports
- State of Iowa CAFR, Fiscal Year 2017
- Fiscal Year 2017 Audit Reports for Peace Officers' Retirement, Accident and Disability System, Judicial Retirement System
- Fiscal Year 2017 Annual Report for MFPRSI
- LSA, Issue Review – Federal Medical Assistance Matching Rates,
<https://www.legis.iowa.gov/docs/publications/IR/401788.pdf>

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Questions



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