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State Auditor Mosiman Reviews Fiscal Year 2018 Final Action Budget

(Des Moines, Iowa) – State Auditor Mary Mosiman, the “Taxpayers’ Watchdog”, has completed her analysis of the Fiscal Year 2018 Final Action budget and is pleased to report directly to the people of Iowa on the condition of the State’s finances.

Highlights

Auditor Mosiman noted Iowa’s Fiscal Year 2018 budget spends less than it takes in. Mosiman said, “The Legislature and Governor’s Office showed fiscal discipline and budgeting responsibility by making sure the State’s expenditures did not exceed its resources.”

Auditor Mosiman also noted sound budgeting principles were used in the Fiscal Year 2018 budget, with minimal deviations. For example, the use of one time monies for ongoing expenditures has nearly been eliminated. Also, multiyear accelerating financial commitments have expired.

Challenges

Revenue predictability was a challenge throughout the fiscal year. Lower-than expected revenues following the March 2017 Revenue Estimating Conference (REC) resulted in \$131.1 million of cash reserves being used to cover a shortfall in current-year revenues. Mosiman said, “A variety of factors contributed to the reduction in State revenues. Gaining a better understanding of Iowa’s changing revenue environment and managing it will be one of the great challenges and opportunities of the coming year.”

Iowa budgets had a surplus carryforward balance at the end of the last several fiscal years. That surplus carryforward balance is depleted, though the Fiscal Year 2018 budget still retains \$625 million of reserve funds. Mosiman noted, “Adequate reserve funds are important to the overall stability of government.”

Conclusion

Mosiman said, “This year’s budget is stable, and it is responsible. The resources supporting Iowa’s Fiscal Year 2018 final action budget are in line with appropriations.

“This year reminds us there are two sides to the budgeting equation – expenditures and revenues. Our elected officials did a respectable job on the expenditure side of the equation. The challenge for the future is to strive for greater predictability and accountability on the revenue side. Following sound budgeting principles consistently allows us to impact the future, rather than simply react to it. This means not only managing our spending priorities, but also managing our revenues.”

Mary Mosiman has been serving as Iowa’s Auditor of State since May 2013. Mosiman is a graduate of Iowa State University and a Certified Public Accountant.

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June 26, 2017





**Auditor of State
Mary Mosiman, CPA**

***State of Iowa FY18
Budget Review***

June 26, 2017

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 FY 2018 Challenges

- FY2017 revenues lower than expected
- \$113.3 million of revenue transfers and appropriation reductions needed to balance the FY2017 budget after December REC
- \$131.1 million cash reserve appropriation after March REC
- \$20 million appropriated to be repaid in FY2018, and remaining \$111.1 million intended to be repaid in FY2019

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

| | Actual FY16 | Final Action FY17 | Revised Final Action FY17 | Final Action FY18 |
|---|-------------------------|-------------------------|---------------------------------|-------------------------|
| Resources: | | | | |
| Receipts | \$8,262.7 | \$8,682.8 | \$8,487.4 | \$8,825.0 |
| Refunds | (1,018.3) | (1,011.0) | (1,061.1) | (1,091.3) |
| School Infrastructure Refunds | (466.9) | (470.2) | (473.5) | (494.2) |
| Accruals (Net) | 14.2 | 29.6 | 29.1 | 23.1 |
| Transfers | <u>129.4</u> | <u>96.2</u> | <u>124.1</u> | <u>101.9</u> |
| Subtotal Net Receipts | \$6,921.1 | \$7,327.4 | \$7,106.0 | \$7,364.5 |
| Revenue Adjustments | - | 52.6 | 132.0 | 6.0 |
| Surplus Carryforward | <u>367.3</u> | <u>45.6</u> | <u>18.2</u> | <u>0.0</u> |
| Total Available Resources | <u>\$7,288.4</u> | <u>\$7,425.6</u> | <u>\$7,256.2</u> | <u>\$7,370.5</u> |
| Expenditure Limitation | | \$7,350.8 | | \$7,296.7 |
| Estimated Appropriations and Expenditures: | | | | |
| Enacted Appropriations | \$7,174.3 | \$7,350.6 | \$7,352.3 | \$7,268.6 |
| Net Appropriation Adjustments | <u>\$81</u> | <u>-</u> | <u>(92.7)</u> | <u>-</u> |
| Total Appropriations | \$7,254.8 | \$7,350.6 | \$7,259.6 | \$7,268.6 |
| Reversions | (10.5) | (5.0) | (5.0) | (5.0) |
| Governor's Line Item Vetoes | <u>-</u> | <u>-</u> | <u>-</u> | <u>(0.4)</u> |
| Net Appropriations | <u>\$7,244.3</u> | <u>\$7,345.6</u> | <u>\$7,254.6</u> | <u>\$7,263.2</u> |
| Ending Balance - Surplus | <u>\$44.1</u> | <u>\$80.0</u> | <u>\$1.6</u> | <u>\$107.3</u> |
| Source: LSA | | | | |

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

| | Final Action FY17 | Final Action FY18 | FY17-18 Change |
|--|-------------------------|-------------------------|-------------------|
| Admin & Reg | \$569.9 | \$581.1 | \$11.2 |
| Ag & Natural Resources | 43.1 | 38.9 | (4.2) |
| Economic Development | 43.1 | 38.4 | (4.7) |
| Education | 4,106.3 | 4,100.5 | (5.8) |
| Health & Human Services | 1,837.0 | 1,766.4 | (70.6) |
| Justice | 751.2 | 743.3 | (7.9) |
| Transportation | - | - | - |
| Total Appropriations - General Fund | <u>\$7,350.6</u> | <u>\$7,268.6</u> | <u>(\$82.0)</u> |

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

| | Final Action FY17 | Final Action FY18 | FY17-18 Change |
|---------------------------------------|-------------------------|-------------------------|-------------------|
| Admin & Reg | \$64.6 | \$57.8 | (\$6.8) |
| Ag & Natural Resources | 89.1 | 90.2 | 1.1 |
| Economic Development | 34.1 | 44.8 | 10.7 |
| Education | 40.6 | 40.6 | - |
| Health & Human Services | 439.1 | 426.2 | (12.9) |
| Justice | 13.4 | 15.5 | 2.1 |
| Transportation | 542.5 | 536.8 | (5.7) |
| Total Appropriations - Other Funds | <u>\$1,223.4</u> | <u>\$1,211.9</u> | <u>(\$11.5)</u> |

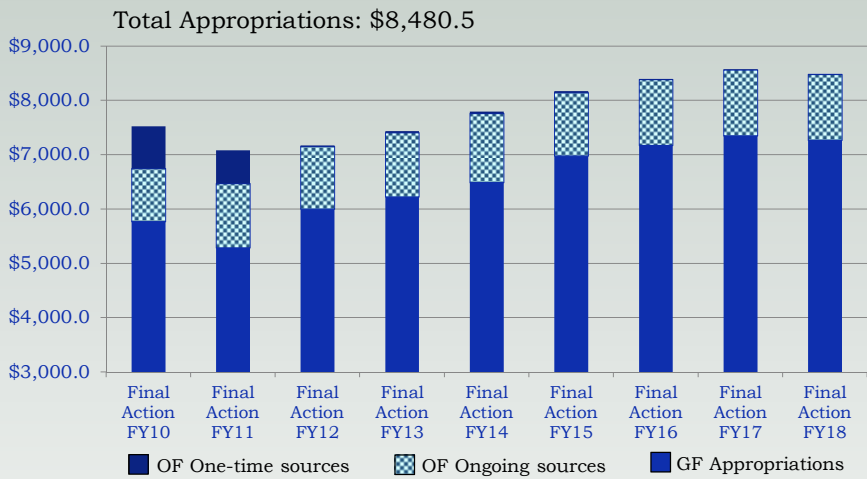
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State of Iowa Budget Total Appropriations (\$ in Millions)

| | Final Action FY17 | Final Action FY18 | FY17-18 Change |
|---|-------------------------|-------------------------|-------------------|
| Admin & Reg | \$634.5 | \$638.9 | \$4.4 |
| Ag & Natural Resources | 132.2 | 129.1 | (3.1) |
| Economic Development | 77.2 | 83.2 | 6.0 |
| Education | 4,146.9 | 4,141.1 | (5.8) |
| Health & Human Services | 2,276.1 | 2,192.6 | (83.5) |
| Justice | 764.6 | 758.8 | (5.8) |
| Transportation | 542.5 | 536.8 | (5.7) |
| Total Appropriations - All Funds | <u>\$8,574.0</u> | <u>\$8,480.5</u> | <u>(\$93.5)</u> |

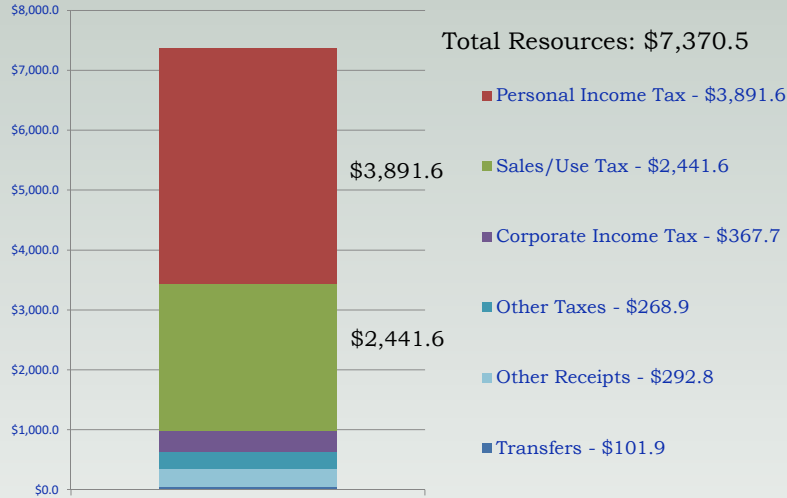
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State of Iowa Budget Total Appropriations – General Fund (GF) and Other Funds (OF) (\$ in Millions)



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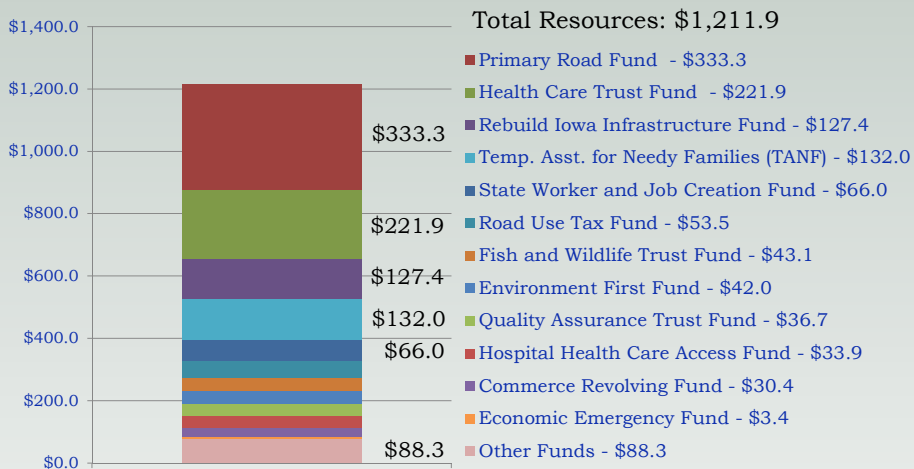
State of Iowa Budget FY18 Resources – General Fund (\$ in Millions)



Breakdown does not include \$6.0 million of legislative adjustments, but the adjustments are included in the total.

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State of Iowa Budget FY18 Resources Supporting Other Fund Appropriations (\$ in Millions)



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**State of Iowa Budget
Resources**

(\$ in Millions)

| | Final Action FY18 |
|---|-------------------------|
| | <u> </u> |
| March 2017 REC GF Revenue Estimate | \$7,364.5 |
| Revenue Adjustments | 6.0 |
| Surplus Carryforward | <u>0.0</u> |
| Adjusted GF Revenue Estimate | 7,370.5 |
| Resources Supporting Other Fund Expenditures | <u>1,211.9</u> |
| Budgeted Resources | 8,582.4 |
| Resources Subject to Spending Limitation | <u>(73.8)</u> |
| Resources Supporting State Budget | <u><u>\$8,508.6</u></u> |

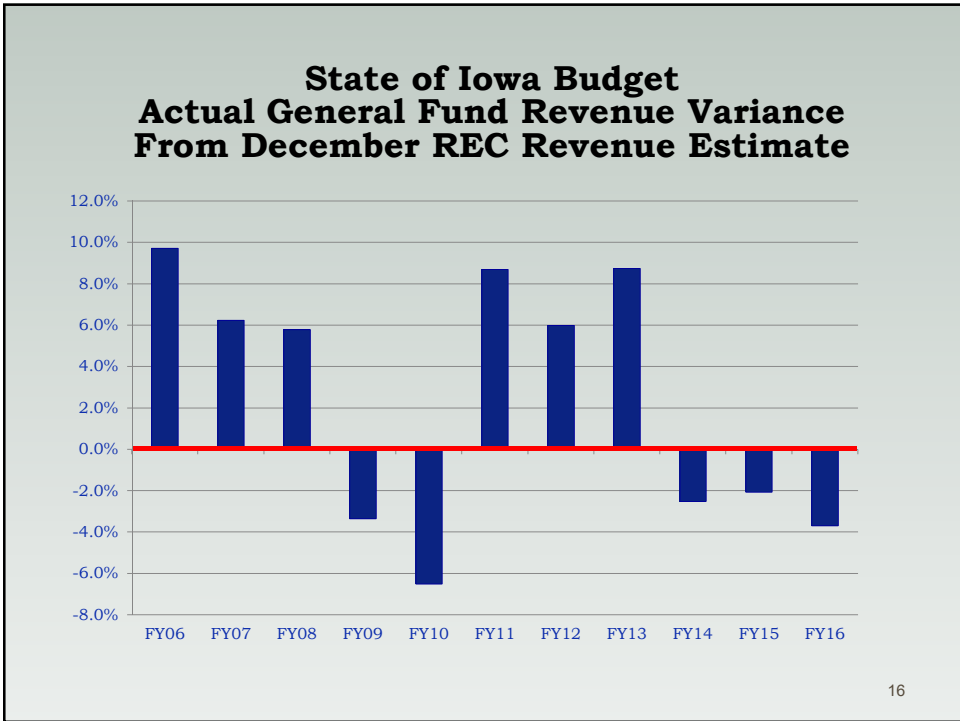
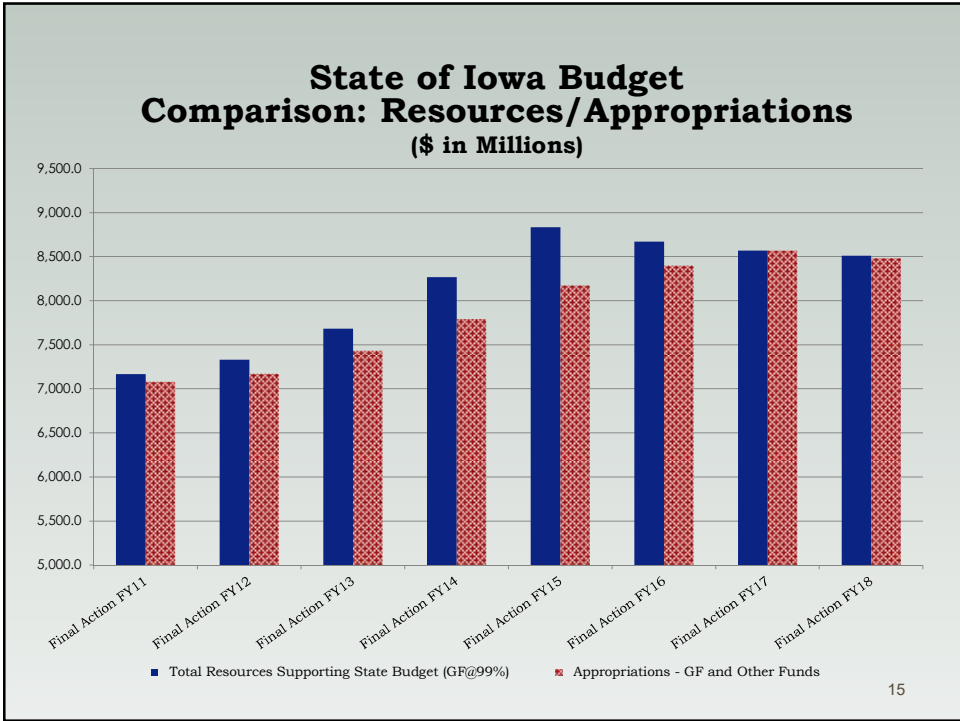
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**State of Iowa Budget
Budget Summary**

(\$ in Millions)

| | Final Action FY18 |
|--------------------------------------|-------------------------|
| | <u> </u> |
| Resources Supporting State Budget | \$8,508.6 |
| Total Appropriations – All Funds | <u>(8,480.5)</u> |
| Surplus | <u><u>\$28.1</u></u> |

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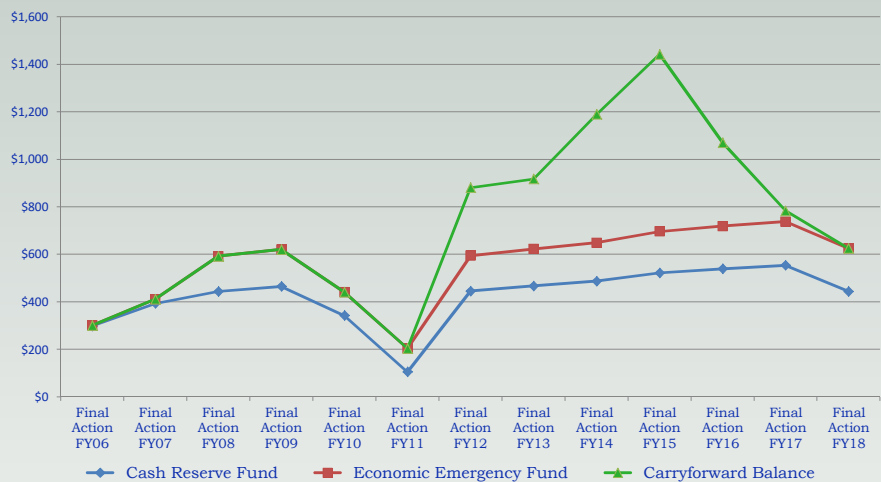


State of Iowa Budget

- Budgeting Principle – “Avoid using one-time resources for ongoing expenses.”
- Surplus carryforward was not a reliable, ongoing source of revenue. It is now 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)



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State of Iowa Budget FY18 Budget Topics

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

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State of Iowa Budget Property Tax Reform

- Budgeting Principle – “Avoid multiyear accelerating commitments.”
- The 2013 Property Tax Reform law had a multiyear accelerating commitment that started in FY15 with an impact of \$136 million.
- The FY16 impact of property tax reform is \$253 million. The FY17 impact is \$280 million. The FY18 impact is \$277 million.
- Legislatively capped at FY17 appropriation.

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State of Iowa Budget Medicaid

- Budgeting Principle – “Accurately determine resources and expenses.”
- The FY18 Final Action budget underfunds the forecast by \$5.9 million – the lowest underfunding total in years.
 - Total does not include any additional expenditure resulting from negotiations with Medicaid providers on reimbursement rates.
- 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 was underfunded by \$13 million; no supplemental was necessary.

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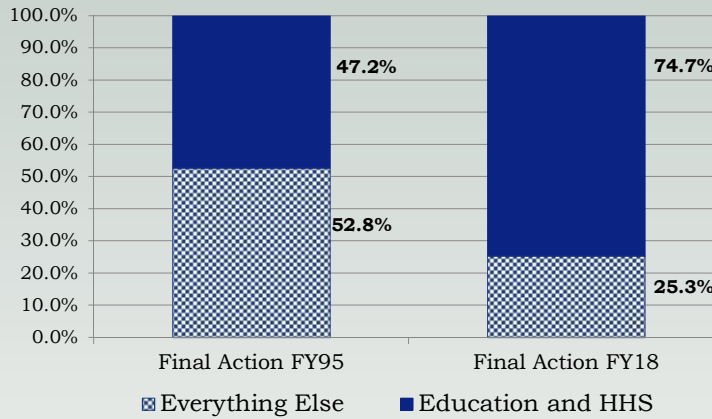
State of Iowa Budget Affordable Care Act

| <u>Calendar Year</u> | <u>Federal FMAP %</u> |
|----------------------|-----------------------|
| 2014 | 100.00% |
| 2015 | 100.00% |
| 2016 | 100.00% |
| 2017 | 95.00% |
| 2018 | 94.00% |
| 2019 | 93.00% |
| 2020 | 90.00% |
| 2021 | 90.00% |

FMAP – Federal Medical Assistance Percentage
 Note the FMAP percentage applies to only to new Medicaid patients enrolled as a result of the Affordable Care Act.

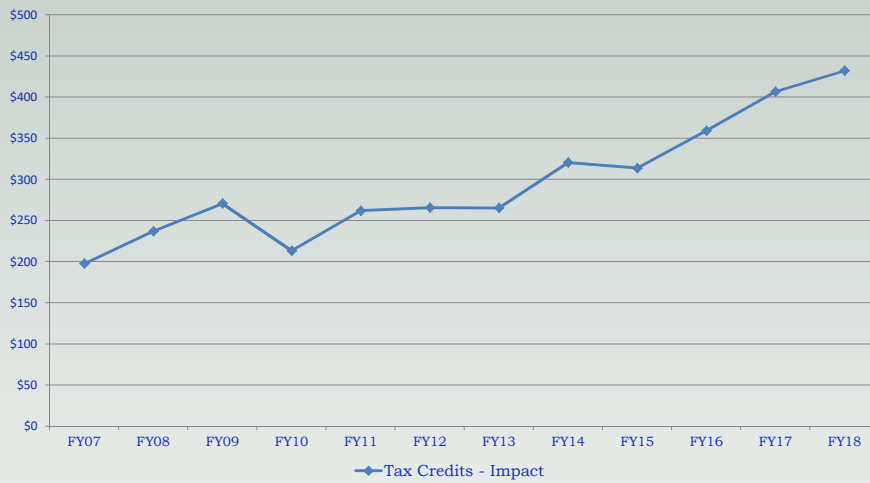
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State of Iowa Budget HHS and Education (\$ in Millions)



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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-FY18 General Fund revenue tax credits have increased from \$197.6 million to \$432.0 million
 - \$234.4 million increase in 11 fiscal years (118.6%)
- Examples of Tax Credit impact:
 - Earned Income Tax Credit \$70.5 million for FY18
 - Research Activities Tax Credit \$62.7 million for FY18
 - Historic Preservation tax credit increased from \$17.7 million to \$57.8 million
 - High Quality Job Program credit increased from \$20.3 million to \$52.1 million
 - Workforce Housing Tax Incentive increased from \$0 to \$15.9 million

Source: LSA, End of Session Information 2017, General Fund Balance Sheet, p. 8

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State of Iowa Budget GASB 77 – Tax Abatement Disclosures

- GASB Statement No. 77
 - Requires Tax Abatement Disclosures
 - Effective FY17 audits
- Definition of Tax Abatement (in part) – a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which one or more governments promise to forgo tax revenues to which they are otherwise entitled, and one promises to take specific action that contributes to economic development or otherwise benefits the government or citizens of the government.

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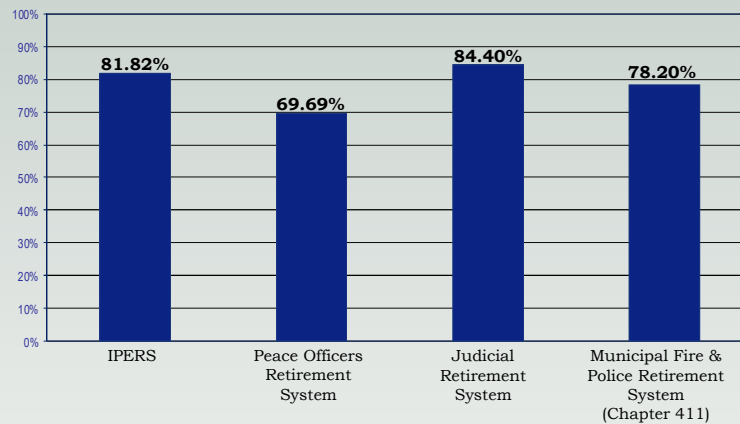
State of Iowa Budget GASB 77 – Tax Abatement Disclosures

New disclosure requirement applies to a number of tax credit programs, including:

- High Quality Jobs Program (HQJP)
- Historic Preservation and Cultural and Entertainment District Tax Credit
- New Jobs Training Program
- Workforce Housing Tax Incentive Program

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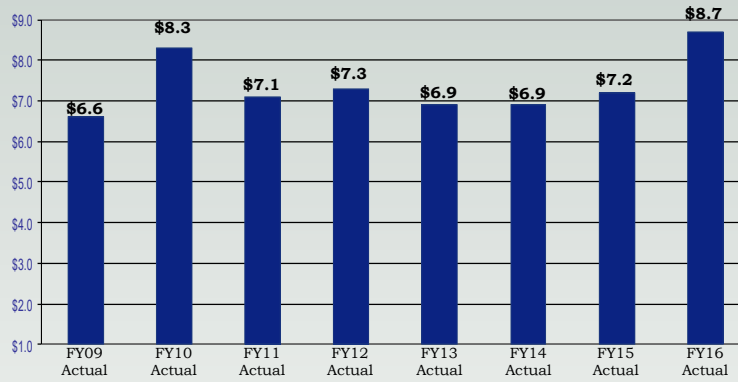
State of Iowa Budget Iowa's Pension Systems FY16 Net Pension Liability



Source: IPERS FY2016 CAFR and the individual FY2016 Annual Reports for the other Retirement Systems

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



Source: AOS, State of Iowa Single Audit Reports, FY09- FY16

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State of Iowa Budget Highlights

- FY2018 budget is balanced
- Resources are in line with appropriations
- Sound budgeting principles are being used; minimal deviation
- Timely reaction to changes impacting the budget

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State of Iowa Budget Challenges

- Revenue predictability
- Maintenance of reserve fund balances
- Anticipated growth in HHS and Education

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State of Iowa Budget Conclusion

“This year’s budget is stable, and it is responsible. The resources supporting Iowa’s Fiscal Year 2018 final action budget are in-line with appropriations.

“This year reminds us there are two sides to the budgeting equation – revenues and expenditures. Our elected officials did a respectable job on the spending side of the equation. The challenge for the future is to strive for greater predictability on the revenue side. Following sound budgeting principles consistently allows us to impact the future, rather than simply react to it. This means not only managing our spending priorities, but also managing our revenues.”

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State of Iowa Budget Investigative Reports and Impacts – FY2017

| | | | |
|------------|----------------------------------|----|------------|
| 6/1/2017 | Anthon Rescue Squad | \$ | 100,956.40 |
| 6/1/2017 | Substance Abuse Treatment Center | \$ | 82,859.17 |
| 6/1/2017 | School Nutrition Association | \$ | 166,898.25 |
| 5/25/2017 | SUI Athletics Travel | \$ | 6,224.85 |
| 4/1/2017 | City of Arcadia | \$ | 13,424.12 |
| 3/29/2017 | Benton Development Group | \$ | 49,634.36 |
| 3/2/2017 | Iowa Veterans Home | \$ | 1,800.00 |
| 2/15/2017 | South Iowa Area Crime Prevention | \$ | 13,278.30 |
| 2/1/2017 | Mount Pleasant CSD | \$ | 5,293.80 |
| 1/26/2017 | ISU CNDE | \$ | 71,490.93 |
| 1/13/2017 | DSM Roosevelt High School | \$ | 643,560.11 |
| 12/20/2016 | City of Delhi | \$ | 246,652.58 |
| 12/8/2016 | City of Riverton | \$ | 330,997.70 |
| 11/16/2016 | Muscatine County Sheriff | \$ | 82,400.00 |
| 11/2/2016 | Melcher Dallas CSD | \$ | 52,701.39 |
| 10/11/2016 | Cedar County Sheriff | \$ | 35,063.23 |
| 9/20/2016 | ISU CALT | \$ | 324,816.68 |
| 8/3/2016 | Cascade Municipal Utilities | \$ | 149,865.67 |
| 8/30/2016 | Fremont County Landfill | \$ | 39,599.38 |

TOTAL: \$2,417,516.92

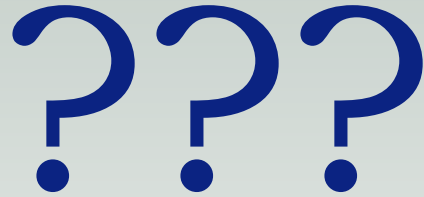
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State of Iowa Budget Sources and References

- LSA, End of Session Information 2017
<https://www.legis.iowa.gov/publications/fiscal/endofsession>
- LSA, 2005-2016 Session Fiscal Reports
- GASB Statement No. 77 of the Governmental Accounting Standards Board
[http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176166283745&acceptedDisclaimer=trueState of Iowa CAFR, Fiscal Year 2016](http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176166283745&acceptedDisclaimer=trueState%20of%20Iowa%20CAFR,%20Fiscal%20Year%202016)
- Fiscal Year 2016 Audit Reports for Peace Officers' Retirement, Accident and Disability System, Judicial Retirement System
- Fiscal Year 2016 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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