

State Budget Outlook for FY 2017

Iowa Association of School Boards, Jan. 8, 2016



State Budget Outlook for FY 2017

Revenues

The December Revenue Estimating Conference (REC) set the stage for this upcoming legislative session when it provided the revenue estimates for FY 2016 and FY 2017. Based on the revised revenue estimates the REC agreed upon and the non-partisan Legislative Services Agency (LSA) state General Fund Balance sheet (12/2015), the IASB estimates that **under statute**, there is about \$242 million in additional available funds compared to the estimated FY 2016 state General Fund appropriations.

Expenditures

In addition to the state General Fund revenues available for FY 2017, there are built-in expenditure increases (like Medicaid and state school aid) and anticipated increases that will require funding increases compared to the prior fiscal year. The LSA has estimated those to total \$262 million.

While it is problematic that the built-in and anticipated increase expenditures (\$262 million) are larger than additional available revenues (\$242 million), **the legislature has discretion to make changes that may impact both available revenues and appropriation levels**. At this point, the state **reserve funds are full** and are estimated to total about \$718 million at the end of FY 2016.

However, the Legislature may choose not to tap reserve funds and will have difficult decisions when deciding on a budget for FY 2017.

State School Aid

School aid accounts for the largest line item in the state General Fund budget - estimated at 41.1 percent in FY 2016. The major policy decision impacting the amount of state school aid is the Supplemental State Aid (SSA) state percent of growth. When the legislature sets that rate, it determines the amount of per pupil funding increase and how much funding (both state aid and property tax) a school district will receive. Legislators need to set the SSA state percent of growth rate for FY 2017 and are urged to do so within the first month of the Session.

The following table provides the State school aid estimates at various SSA state percent of growth rates. At a 0.0 percent SSA rate, the increase in State aid will cost approximately \$60 million compared to FY 2016. Note that this amount includes \$50 million for districts receiving teacher leadership supplement (TLS) funding through the school aid formula for the first time in FY 2017 and also the restoration of a \$15 million state aid reduction made to area education agencies (AEA) made in FY 2016. Additionally, the LSA built-in increase includes SSA at 0.0 percent for FY 2017 (based on the December estimate). Generally, each additional 1.0 percent increase in SSA increases the state aid amount by about \$41-\$43 million.

IASB: Estimated FY 2017 State School Aid Totals at Various SSA Rates

SSA - State Percent of Growth	Per Pupil Funding Growth - SCPP and DCPP	State Aid Impact on State General Fund	State Aid Impact w/o New TLS Funding or Restored AEA State Aid Reduction	Impact of 1.0% SSA on FY 2016 in Millions
0.00%	\$ -	\$ 59.9	\$ (5.1)	\$ -
1.00%	\$ 64	\$ 100.9	\$ 35.9	\$ 40.9
2.00%	\$ 129	\$ 142.8	\$ 77.8	\$ 41.9
2.45%	\$ 158	\$ 161.7	\$ 96.7	
3.00%	\$ 193	\$ 184.5	\$ 119.5	\$ 41.7
4.00%	\$ 258	\$ 227.6	\$ 162.6	\$ 43.1

Notes:

SCPP = State Cost Per Pupil

DCPP = District Cost Per Pupil

TLS = Teacher Salary Supplement

Preliminary IASB estimates subject to change (1/8/2016).

State aid amounts include an additional \$50 million in FY 2017 for districts that received Teacher Leadership grants initially in FY 2016.

State aid impact without new TLS funding or AEA State aid reduction removes \$50 million for TLS and \$15.0 million of funding to restore the AEA State aid reduction from FY 2016.

With additional revenue available totaling \$242 million for FY 2017 and built-in funding commitments totaling \$262 million, it appears to be another difficult year in determining the SSA state percent of growth.

For more information on the state budget outlook, contact IASB Finance Support Director Shawn Snyder at ssnyder@ia-sb.org or (515) 247-7054 or IASB Finance Support Director Patti Schroeder at pschroeder@ia-sb.org or (515) 247-7031.