Governor Branstad released revisions to his proposals for the Fiscal Year 2018 and Fiscal Year 2019 budgets on Tuesday, as well as his proposal to address the anticipated budget shortfall in FY 2017.

To fill the $131.1 million shortfall in the current FY 2017 budget, the Governor is proposing to transfer $131.1 million from the Cash Reserve Fund. The Governor repays those funds by expecting that the Revenue Estimating Conference projection will be correct and that the FY 2018 ending balance of $104.8 million would flow into the Cash Reserve Fund. He then proposes to appropriate the remaining $26.3 million to the Cash Reserve Fund in FY 2019.

For Fiscal Year 2018, the Governor has called for the state to spend $7.2836 billion from the General Fund. This is an increase of $24 million over the revised FY 2017 budget. Funding for K-12 education remains the same as what was agreed to in this year’s Supplemental State Aid bill, an increase of $40.1 million over FY 2017.

Major changes in the proposed budget are found in the Department of Human Services. The Governor is now expecting costs to grow by $34.5 million in FY 2018, down from the $42 million projection in his initial budget. The Governor has also lowered the increase he is proposing to fund for nursing home cost rebasing, from $7.6 million to $2.5 million. The Governor’s revised budget includes a number of Medicaid cost containment initiatives to be implemented in FY 2018. These efforts cover the expected cost growth in the program and additional funding needed for the Family Investment Program, child care assistance, and child and family services. The Governor’s revised budget also lowers appropriations to the various DHS institutions.

Funding for the Education budget appears to take a $50 million reduction in FY 2018, but this is due to the last part of Teacher Leadership funding - $51 million – being shifted into the school aid formula. There are some reductions to the Department of
Education programs and services. Funding for higher education is slightly reduced, as the Governor proposes a $1.2 million reduction to community colleges and a total of $3 million in reductions to the state’s three public universities. Funding for the Iowa Tuition Grant program, helping students at the state’s private colleges, is unchanged by the Governor.

For the Justice Systems and Courts budgets, funding for the Department of Corrections is reduced by $1.2 million. The Department of Public Safety receives an increase of $2 million over its revised figure for the current year. The Courts budget remains the same as it is currently, at $175.7 million.

One of the bigger changes in the Governor’s proposal is to have the Technology Reinvestment Fund paid out of the Rebuild Iowa Infrastructure Fund, instead of the General Fund. This has resulted in the Governor reducing his requests for funding to the State Historical Building maintenance, state park maintenance, and funding to local airports. The Governor did not make any changes to the funding for the Student Innovation Center at Iowa State University.

Governor Branstad also revised his budget proposal for FY 2019. The Governor now expects to increase spending in that fiscal year by $236.5 million. This maintains the proposal for 2 percent in Supplemental State Aid to schools and provides a 2 percent increase to higher education. The budget also assumes a $78 million increase in Medicaid costs in FY 2019 as well as moving Technology Reinvestment Fund to the General Fund.

**IPERS’ Investment Board Adopts New Economic Assumptions**

On Friday March 24, the Iowa Public Employee Retirement System’s (IPERS) investment board held their quarterly meeting. At which time the board voted to approve changes to economic assumptions used in calculating IPERS’ liabilities. Cavanaugh Macdonald, a consulting actuarial firm out of Bellevue, NE, presented a study to the Board Friday, which gave them their rational for voting to approve the new assumptions. The following is a press release issued by IPERS, explaining the highlights of the study and the new assumptions that were approved by the board:

The new assumptions are:
- Inflation drops from 3 percent to 2.6 percent
- Interest on member accounts drops from 3.75 percent to 3.5 percent
- Investment return drops from 7.5 percent to 7 percent
- Wage growth drops from 4 percent to 3.25 percent
- Payroll growth drops from 4 percent to 3.25 percent

The study applied these assumptions to the 2016 data to illustrate their impact on key funding measurements. The funded ratio is a “snapshot in time” and indicates the financial health of a pension system. Using the new assumptions, with the 2016 data, IPERS’ funded ratio dropped from 84 percent to 80 percent.

These assumptions will first be applied in the June 30, 2017 valuation, which will be used to determine the contribution rates effective July 1, 2018.

The net result of these changes will be a lower funded ratio and an increase in liabilities of $1.4 billion. Even though these changes will have a negative impact on IPERS’ funded ratio, the Investment Board believes that these modifications will provide a more accurate valuation of future liabilities. Each year an investment return is less than the assumed return adds to the liability and increases the needed return in future years which can lead to even higher contribution rates.

Today, as expected in a mature retirement system, IPERS pays out more in benefits than it collects in contributions. Therefore, IPERS relies to a great extent – nearly 70 percent – on investment returns to pay current benefits. This also makes the System’s funding more sensitive to market downturns.

IPERS, established in 1953, is the largest public pension system in Iowa with 350,000 members. Over 114,000 retirees and beneficiaries receive IPERS retirement benefits. IPERS paid $1.8 billion in retirement benefits during the last fiscal year, with $1.6 billion paid in Iowa. IPERS is a prefunded system which means contributions from employees and employers are pooled and invested over the member’s career. The average IPERS member retires after 22 years of services, earning an annual pension of $16,000.

**UPDATE FROM THE CAPITOL AND NEWS FROM DISTRICT 88**

This week the House passed a lot of bipartisan legislation designed to better serve all Iowans. Finding compromise and support on both sides of the aisle is always refreshing. I have listed some of my favorite bills below.

**HF 263 protecting victims of domestic abuse and stalking**

This bill ensures that habitual domestic abusers serve a minimum amount of time in prison. This will provide survivors and victims of abuse with more time to remove themselves from a bad situation while abusers serve their sentence.

**HF 233 more patient and medical provider control over healthcare**

This piece of legislation provides a number of exceptions so that patients can get the medicine they need without having to go through treatments that aren’t effective as a way for insurance companies to save money. This will ensure that sick Iowans get the medications that their doctors
recommend without having to go through a number of ineffective treatments first.

**HF 410 Protecting Iowa’s farms against Palmer Amaranth**

Palmer Amaranth is a noxious weed that has the potential of taking yield losses up to 80% in a field of corn or soybeans if it is left untreated. Palmer Amaranth is currently found in 49 of Iowa’s counties. 1. This bill puts Palmer Amaranth on the primary noxious weed list and list of invasive plants that are prohibited to import, sell, or distribute in Iowa 2. Palmer Amaranth is an edible flowering plant that crowds out crops such as corn, soybeans, and cotton. It is found in 49 Iowa counties currently.

The House has also begun working through the very beginnings of the budget process for FY18. We’re looking at many different ways to stay within the parameters of our budget. The Governor has already put his budget proposals out. His revised budget spends $173 million less than his original budget proposal released in January, but it still increased FY 18 spending by $24 million. Now it’s up the House and Senate to work on our own respective budget plans before reaching an agreed upon budget within the next few weeks.

I would like to thank you all again for your prayers, letters, emails, visits, and phone calls throughout this legislative session. Your support and input is crucial to my role here at the capitol.

**Visitors this week:**

Caught up with my old friend Kevin Karr from the Iowa Woodland Owners Association and discussed preserving Iowa’s woodlands for future generations to enjoy.

I also had the great privilege of meeting with student members of the Mediapolis FFA group and members of the Iowa Corn Growers Association. I took them on a tour of the House Chambers and we had a good Q/A session in a House committee meeting room.