



Committee on Accountable Government Fiscal Year 2007 Budget Review

Governor Vilsack's Budget Recommendations

Prelude

This is a budgeting process review of Governor Vilsack's Fiscal Year 2007 budget recommendations. The goal of this review is to encourage the key fiscal policy developers and lawmakers of Iowa to consider these criteria as the budgeting process moves forward in 2006. **To be clear, it is not the purpose or intent of this effort to render subjective judgment or declaratory comment on the merits of individual programs sanctioned by the various legislative or executive department actions.**

Each of the Iowa Taxpayers Association's eight "Principles for Sound Budgeting" is listed below. Each principle is accompanied with examples, if applicable, from the Governor's FY 2007 proposed budget recommendations. A plus sign (+) indicates the Governor's budget recommendation abided by the principle and a negative sign (-) indicates the Governor's recommendation deviated from the principle.

The Governor Abided by 38% of the Sound Budgeting Principles

Sound Budgeting Principles/Review

Avoid the use of one-time or time-limited sources for ongoing expenses.

- The State continuously relies upon the use of one-time and time-limited sources of revenue for ongoing general fund expenses. When those funds no longer exist, a large gap in the budget will be present and a new revenue source will need to be identified to fund those expenditure commitments.
- Medicaid, an ongoing expense, is currently funded with \$100 million from the Senior Living Trust Fund (SLTF), a time-limited revenue source. This fund is nearing depletion with a \$41 million FY06 ending fund balance.

The Governor recommends for the FY 07 budget transferring \$73.4 million from the Healthy Iowans Tobacco Trust Fund with moneys generated from a proposed cigarette tax increase. The Governor then recommends funding Medicaid with \$105.6 million from the SLTF. The proposed ending fund balance for FY07 is \$3.0 million.

- An additional \$9.1 million in shifted general fund expenses are funded with the Senior Living Trust Fund.
- The Governor maintains approximately \$7.5 million of shifted expenditures in the Environment First Fund.
- + Partially funds the homestead, elderly & disabled, agricultural land, and military service property tax credits from the general fund rather than the previous year surplus which is statutorily required to be deposited into the reserve funds.

Avoid implementing new programs for a partial fiscal year.

- + New programs have not been implemented for a partial fiscal year.

Avoid multi-year accelerating commitments.

- Proposes a five-year \$30 million per year increase in the Student Achievement and Teacher Quality Program. This equates to a \$450 million commitment.

Avoid new automatic, or "standing," appropriations.

- + There are no new standing appropriations recommended, and current ones appear to have been reviewed.
- * The tobacco settlement refinancing proceeds generated an additional \$100 million in one-time revenues. The Governor has created several new programs to be funded with the one-time revenue for a specified amount of time. There is concern that the new programs will become "standing appropriations" and will continue to be funded past the designated time period.

The Governor recommends \$50 million over three years for investment in the Battelle Group infrastructure recommendations for the Regents University system and \$50 million over three years to improve Iowa's water quality.

- * The Governor also recommends \$20 million over three years to restore the water quality of Iowa's lakes and \$10 million over three years to fund water treatment local initiatives.

Accurately determine revenue and expenses.

This sound budgeting principle will be evaluated on an annual basis in a report to be released this fall.

Align expenses and revenue in the same fiscal year.

- + Builds upon a performance based budgeting process, "Budgeting for Results." The theory is to start with all revenues currently available and expend those resources only on the expenditures that achieve the most value and the ultimate goal identified by the State. Rather than building upon the current base budget, the Governor has attempted to align available revenues to those identified expenses in the same fiscal year. As a practice, this is a good first step.
- Perpetuates the difficulties in aligning expenses with actual revenues collected in the same fiscal year, when there is a continued reliance on one-time and time-limited sources for ongoing expenses.
- Utilizes a portion of the FY2006 budget surplus to fund FY2007 expenditure for property tax credits.

Avoid shifting program funding to property taxes or fees.

- Funds property tax credits below projected levels of demand with the exception of the military tax credit and the elderly and disabled tax credit which the Governor recommends to fully fund this year. Contrary to state law, the following property tax credits are under-funded by these percentages:
 - Homestead = under-funded by 24.5%
 - Ag Land and Family Farm = under-funded by 81%

The effect is an approximate \$180.4 million shortfall in funding for property tax credits which could result in increased property taxes or not fully funding these tax credits to those who qualify.

Avoid diversion of funds statutorily authorized for a specific objective to other purposes.

- Diverts \$42.2 million from the Rebuild Iowa Infrastructure Fund (RIIF) to non-infrastructure items. This diversion is contrary to existing law and has been accomplished through “notwithstanding” the statutory requirement.
- Diverts \$2.3 million from the Tobacco Securitization Restricted Capital Fund to non-infrastructure items. This diversion is contrary to existing law and has been accomplished through “notwithstanding” the statutory requirement.
- Diverts \$4.6 million from the Vertical Infrastructure Fund to non-infrastructure items. This diversion is contrary to existing law and has been accomplished through “notwithstanding” the statutory requirement.

The Rebuild Iowa Infrastructure Fund, the Tobacco Securitization Restricted Capital Fund and the Vertical Infrastructure Fund are all authorized by law for specific objectives and therefore we oppose the use of “notwithstanding” language which diverts resources from these funds.