



*“Iowa’s Leading Business Tax Policy Resource”*

# **Four-Year Historical Report of the State Budget Reviews**

**By the Iowa Taxpayers Association  
Committee on Accountable Government**

**December 6, 2005**

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## About the Iowa Taxpayers Association

The Iowa Taxpayers Association (ITA) is the only statewide organization focused exclusively on promoting a fair, equitable, and competitive tax environment for business. Since 1935, the Iowa Taxpayers Association has been at the forefront of nonpartisan business tax policy research, education, and issue advocacy in the state.

The Iowa Taxpayers Association represents a broad spectrum of business taxpayers in Iowa — small and large companies, manufacturers, multi-national corporations, accounting and law firms, other professional associations. In essence, these are the state's most exemplary corporate citizens and organizations that strive for fair and predictable administration of business tax statutes and rules. They work together with the goal of making Iowa a positive, competitive environment in which to do business.

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Iowa Taxpayers Association: Four-Year Historical Report of the State Budget Reviews

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## Prelude

The Iowa Taxpayers Association Committee on Accountable Government releases this four-year historical report for all those interested in the state budget development process. This report will summarize the Iowa Taxpayers Association's position and perspective on accountable government; provide background information on the sound budgeting principles and corresponding budget reviews; and present a four-year historical summary of the budget reviews conducted on the Governor's budget recommendations and the Iowa Legislature's final budget actions since Fiscal Year 2003.

## I. Accountable Government Policy Statement

The Iowa Taxpayers Association (ITA) supports the development and use of responsible standards and criteria by fiscal policymakers to produce accountable, sustainable budgets that Iowa taxpayers can rely on year after year.

A sound budget development process does the following:

- avoids the use of one-time or time-limited sources for ongoing expenses.
- avoids implementing new programs for a partial fiscal year.
- avoids multi-year accelerating commitments.
- avoids new automatic, or "standing," appropriations.
- accurately determines revenue and expenses.
- aligns expenses and revenue in the same fiscal year.
- avoids shifting program funding to property taxes or fees.
- avoids diversion of funds statutorily authorized for a specific objective to other purposes.

## II. Sound Budgeting Principles & the Committee on Accountable Government

In 2001, the Iowa Taxpayers Association (ITA) developed the Committee on Accountable Government. The work of this group complements and reinforces the goals of the Accountable Government Act passed in 2001. By focusing on what ITA believes are sound budgeting and financial practices, the Office of the Governor and members of the General Assembly are offered tools by this Committee through which they can provide more accountability in the practice of government.

Beginning with Fiscal Year 2003, the Iowa Taxpayers Association Committee on Accountable Government has conducted reviews of state budget proposals and final budget action at several specific points-in-time each year, making public its findings. A list of criteria was developed to analyze the State budget development process. Through continued encouragement of and feedback to those involved with the budget process, the hope is that --- over time --- taxpayers will arrive at a comfortable level of confidence and assurance that each year's budget is sustainable in the future. The expectation is that the use of these accountable budgeting practices will foster long-term fiscal stability and sound tax policy in Iowa.

The eight sound budgeting principles developed by this Association and listed above, are incorporated into each budget review. These eight standards may change over time as the process evolves. In fact, the eighth principle was adopted by ITA after cycling through the Association's decision making process in 2004. The Committee conducted a comprehensive review of the principles in 2005, and concluded that the budgeting principles should stand as currently stated.

The goal of each review is to encourage the key fiscal policy developers and lawmakers of Iowa to continue their consideration of these criteria as the budgeting process moves forward every year. Though the primary focus of this Committee is not to suggest, develop, or endorse legislative proposals, ITA does hope to effectively complement the significant standards set forth in the Accountable Government Act and assist Legislators and the Governor in their work to make Iowa government accountable to its citizens and taxpayers.

### III. Historical Report of Budget Reviews

The Governor's budget recommendations and the Legislature's final budget actions have been reviewed each year since Fiscal Year 2003. The reviews have revealed that although the Governor and the Iowa General Assembly have spoken very favorably of the principles and the need to observe them, there is, in fact, a great need for them to strengthen their resolve in that respect. The reviews have shown that the Executive and Legislative branches have adhered to, *on average*, half of ITA's sound budgeting principles. Please refer to Appendix 2.

The comparison grid (Appendix 2) reveals that in Fiscal Year 2003, with historical declines in the economy and significant state budget difficulties, the Governor and Legislature's final budget only adhered to 33% of the sound budgeting principles. In FY04, there was moderate improvement at 43%. The Governor made significant improvement in FY05 with 75% adherence, while the Legislature steadily improved to 50%. As the economy steadily improved and state revenues began to increase, the Governor only adhered to 25% of the sound budgeting principles and the Legislature maintained its 50% adherence.

**The most consistent and significant deviations have occurred in the use of one-time or time-limited sources for ongoing expenses.**

The Governor and the Legislature have made strides in reducing the state's reliance on the use of one-time and time limited sources to fund general fund expenditures; however, there remains a significant reliance on various funding sources including the Senior Living Trust Fund which is expected to be depleted in the near future. As those funds are depleted, a large gap in the budget, estimated to be \$350 - \$400 million in FY 2006, will be present and a new revenue source will need to be identified to fund those ongoing expenditure commitments.

The Legislative Services Agencies reports that \$316.5 million in general fund expenditures were covered by other funding sources in FY 2003; \$258.9 million in FY 2004; and \$430 million in FY 2005. This totals over a billion dollars in a three-year time period.

**Recurring deviations are found in the accurate determination and alignment of revenue and expenses.**

One area of promise to rectify this recurring deviation is in the state's movement towards performance based budgeting. Rather than building upon the current base budget, an attempt is made to align available revenues to those identified expenses in the same fiscal year. As a practice, this is a good first step towards aligning revenue and expenses within the same fiscal year.

**Both the Governor and the Legislature have diverted funds statutorily authorized for a specific objective to other purposes the past two budget years.** Such diversions run contrary to the intent of the law that established the funds.

**The Governor and the Legislature have done a good job of avoiding the implementation of programs for partial years, creating new standing appropriations.**

The Governor has done an exceptional job in avoiding new "standing" appropriations, while the Legislature has done a similarly excellent job of avoiding the implementation of new programs for partial fiscal years.

**One last principle of concern is the shifting that has occurred from general fund revenue sources to property taxes.**

This has primarily occurred in the Governor's and Legislature's decision to under-fund various property tax credits. For instance in FY06, the effect is an approximate \$33.2 million decrease in funding for property tax credits which can result in pressure on local governments and overall property tax burdens.

#### IV. Summary – What Does It Mean?

The Governor and the Legislature have deviated from a number of the sound budgeting principles, and as a result the state continues to experience significant budget pressures. The continued use of one-time and time limited sources of revenue for ongoing expenditures has resulted in budget deficits and expenditures outpacing general fund revenues.

The Iowa Taxpayers Association does recognize the difficult economic conditions under which the Legislature has operated in recent years, and the efforts made to continue government services at a reasonable level while not imposing additional tax burdens on Iowans. However, the ITA similarly recognizes the need to maintain a consistency in its evaluations of the accounting practices of the Governor and the Legislature, emphasizing the need to adhere to these budgeting principles in order to ensure a sound economic basis for years to come.

## Appendix 1: Sound Budgeting Principles

Committee on Accountable Government

### Principles for Sound Budgeting

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

When a non-recurring source of revenue is used to fund an ongoing expense, an “automatic increase” is built into the budget for the following year. This is because with the original source gone, another way must be found to fill the gap, plus provide for any growth that may occur. If a budget is already stressed in being able to fund annual growth with the annual increase in revenue, this can cause considerable additional pressure.

- **Avoid implementing new programs for a partial fiscal year.**

In tight budget years, it is difficult to find funding for new programs. Sometimes, if the full amount of funding cannot be found, a program will be initiated in the middle of the upcoming year and funded at half the annual amount in the budget. This makes it appear that the program costs less than it really does, and yet when it comes back for funding the following year its need will at least double. Once the program has started, it has a constituency; plus it is much harder to take something away than to say “no” up front. So, the result is another “built-in increase” in the budget in order to annualize its cost.

- **Avoid multi-year accelerating commitments.**

Iowa’s budget is stretched to accommodate basic inflationary growth in any given year. There is no flexibility to do much beyond paying for current service levels; cuts in other areas must be made to finance new initiatives. In making multi-year accelerating commitments, decisions are being made without knowing what the trade-offs will be. Plus, financial conditions can change dramatically over time. Multi-year accelerating commitments create more “built-in increases.”

- **Avoid new automatic, or “standing,” appropriations.**

Standing appropriations reside in the Iowa Code and authorize spending to occur each year without any annual legislative action. Once such an appropriation is created, the legislature never needs to revisit it again – the spending will occur automatically. Initially, standing appropriations were intended to give the executive branch flexibility to finance certain unavoidable expenses that are difficult to estimate. For example, there is a standing appropriation for expenses relating to natural disasters. Over time, standing appropriations have been created for certain high-priority items that officials wished to protect from the competition that occurs in the annual budgeting process. In other words, these items are effectively “off the table” and spending the entire amount requested is automatically authorized. The problem with standing appropriations is that they are extremely difficult to cut or eliminate. Unlike a regular appropriation where a gubernatorial veto can eliminate the spending, a veto of standing appropriation language in a bill means the law reverts to the pre-existing Code language. Restricting legislative authority to reduce spending through the use of standing appropriations is a practice that should be avoided.

- **Accurately determine revenue and expenses.**

Iowa's Revenue Estimating Conference and associated laws are a model in the nation for solid estimating performance. Iowa's method effectively neutralizes any pressure to inflate revenue estimates to cope with budgeting pressures. There is no such neutralizing force on the spending side, however. Expenses can be deliberately underestimated as a means to cope with budget pressure. Of course, the result is a need for supplemental (mid-year) appropriations. Therefore, the measure of accuracy in estimating expenses is the presence or absence of supplemental appropriations, though sometimes it is obvious even before the fiscal year begins.

- **Align expenses and revenue in the same fiscal year.**

Spending that occurs in a given fiscal year should be financed with revenue generated in that fiscal year, and not in a prior fiscal year. Using a supplemental appropriation (from unspent funds in the current year) to finance a program that will not begin until a subsequent fiscal year creates another "built in increase" in the future. It is not unlike the idea of using one-time funding for ongoing expenses.

- **Avoid shifting program funding to property taxes or fees.**

Typically, budget pressure exists in the State General Fund. One way to find money for spending is to shift the source of funding from the General Fund to property taxes or fees. Sometimes these shifts are referred to as "hidden property tax increases." They are tax increases, nonetheless, unless the money saved in the General Fund is rebated back to taxpayers (which has never happened).

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

By legislative action, express permission to levy a tax or collect fees for a specific, stated purpose has been granted to the Executive Department from time to time over the years. On occasion a state legislature will use statutorily authorized funds to fill gaps in their general fund budget. The authority to levy such a tax or collect such fees is premised on the use of the proceeds for the purposes stated in the legislative act and any funds collected pursuant to that authority should be used for the stated reasons only.

**Appendix 2: Comparison Grid**

ITA Committee on Accountable Government

Principles for Sound Budgeting 4-Year Historical Report

SOUND BUDGETING PRINCIPLES	GOVERNOR				LEGISLATURE			
	FY03	FY04	FY05	FY06	FY03	FY04	FY05	FY06
Avoid the use of one-time or time-limited sources for ongoing expenses.	-	+/-	+	+/-	-	+/-	-	+/-
Avoid implementing new programs for a partial fiscal year.	+	+	+	-	+	+	+	+
Avoid multi-year accelerating commitments.	-	-	+	-	-	+	-	+
Avoid new automatic, or “standing,” appropriations.	+	+	+	+	+	-	+	-
Accurately determine revenue and expenses.	-	-	-	-	-	-	-	+
Align expenses and revenue in the same fiscal year.	x	-	+/-	+/-	x	-	+	+/-
Avoid shifting program funding to property taxes or fees.	-	+/-	+	-	-	+/-	+	-
Avoid diversion of funds statutorily authorized for a specific objective to other purposes.	n/a	n/a	+/-	-	n/a	n/a	-	-
<b>% of Principles the State Abided By</b>	<b>33%</b>	<b>43%</b>	<b>75%</b>	<b>25%</b>	<b>33%</b>	<b>43%</b>	<b>50%</b>	<b>50%</b>

- +: the State predominately abided by the principle.
- : the State predominately deviated from the principle.
- +/-: the State equally abided by and deviated from the principle.
- x: the principle was not evaluated in this budget year.

Budget Review Footnotes

Two things of import to note: 1) the eighth sound budgeting principle had not been established until FY 2005; and 2) the final budget as enacted into law was reviewed in FY 03 (the marks reflect the budget as approved by the Legislature and the Governor).

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting – FY03 Budget Review**

This is a review of the Fiscal Year 2003 Iowa State Government budgeting process. 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 2003 and each year thereafter. **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 seven “Principles for Sound Budgeting” is detailed below. Each principle is accompanied with examples, if applicable, from the FY 2003 General Fund budget. A plus sign (+) indicates the State abided by the principle and a negative sign (-) indicates the State deviated from the principle. ITA recognizes that in certain areas of the budget such as with Medicaid and entitlement programs it is difficult to determine the projected expense because of federal factors. ITA also recognizes the decline in the economy and budget difficulties of states nationwide; however, we maintain that adhering to these budgeting principles will ensure a sound budget in years to come. The Fiscal Year 2004 review will be undertaken as the Governor and Iowa Legislature release their budget recommendations.

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

- + The State avoided the use of one-time money to the General Fund by not transferring moneys from the Road Use Tax Fund
- \$22 million of tax-exempt bond proceeds from the School Infrastructure Fund was transferred to the Local Sales and Services Tax Fund and then subsequently transferred to the General Fund. This transfer was contingent upon the State Treasurer’s determination that the transfer did not adversely affect the tax-exempt status of the Bonds.
- \$40 million was used in FY 2002 to fund teacher’s compensation through the tobacco endowment fund and tobacco settlement funds, which will create a hole in the future.
- \$16+ million was appropriated from the Senior Living Trust Fund (moneys in this fund are projected to deplete within next three years) to Medicaid, which perpetuates the hole/problem in the future.
- A new general fund appropriation was made for the Student Achievement and Teacher Quality Program, which received moneys from the Healthy Iowans Tobacco Trust Fund in FY 02.

**Avoid implementing new programs for a partial fiscal year.**

- + The budget did not reflect implementation of new programs for a partial fiscal year.

**Avoid multi-year accelerating commitments.**

- Collective bargaining units provide for annual negotiated pay adjustments.

**Avoid new automatic, or “standing,” appropriations.**

- + The standing appropriation for the School Improvement and Technology Program was eliminated
- + Various earmarks and standing appropriations were eliminated in the Department of Economic Development budget due to consolidation of programs.
- + Existing standing appropriations to all three branches were decreased.
- + No new standing appropriations were made.

**Accurately determine revenue and expenses.**

- + Reduced the set education allowable growth rate from 4% to 1%. The 4% rate was set in 2001. Realizing that there was not enough revenue to fund allowable growth at 4%, the rate was decreased in 2002.
- The Revenue Estimating Conference (REC) lowered their initial estimate of FY 02 revenues 6 times, with the latest adjustment occurring two months prior to the end of the fiscal year.
- The REC only estimates the revenue side of the budget.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting – FY03 Budget Review Continued**

- The Department of Economic Development was appropriated a lump sum and was given the authority to appropriate the money for various programs to meet specified goals (set by the legislature). This could make it difficult to determine the amount of revenue and expenses within this particular Department.

**Align expenses and revenue in the same fiscal year.**

**Avoid shifting program funding to property taxes or fees.**

- + The machinery and equipment property tax replacement credit was fully funded and increased.
- Education allowable growth was not fully funded by the State which could result in a shift to property taxes.
- The following standing appropriations were limited this year: personal property tax replacement, homestead property tax credit, and the agricultural land tax credit. Limiting these appropriations results in county budgets absorbing the cost in this year's budget and may result in increased property taxes or not fully funding these tax credits to those who qualify.
- The confinement bill mandates a study of phosphorous by the Department of Natural Resources without giving the DNR funding for the study, which could result in increased fees to cover the cost of the study.
- DNR was given the authority to use Stormwater Discharge Permit Fees to fund the Total maximum Daily Load Program and for the review of Flood Plain Permit Applications.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting Review of Governor Vilsack’s FY04 Budget Recommendations**

**Prelude**

This is a budgeting process review of Governor Vilsack’s Fiscal Year 2004 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 2003 and each year thereafter. **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 seven “Principles for Sound Budgeting” is listed below. Each principle is accompanied with examples, if applicable, from the Governor’s FY 2004 proposed budget recommendations. A plus sign (+) indicates the Governor abided by the principle and a negative sign (-) indicates the Governor deviated from the principle. ITA recognizes that in certain areas of the budget such as with Medicaid and entitlement programs it is difficult to determine the projected expense because of federal factors. ITA also recognizes the historical declines in the economy and budget difficulties of states nationwide; however, we maintain that adhering to these budgeting principles will ensure a sound budget in years to come.

**ITA applauds Governor Vilsack for utilizing the “principles for sound budgeting” in developing his proposed budget recommendations.**

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

- + Replaces a portion of the one-time funding utilized last year with general funds this year.
- + Replaces \$45 million from non-general fund sources used in funding school aid in FY 03 with general funds.
- + Replaces \$27.9 million from non-general fund sources used to fund the Student Achievement and Teacher Quality Program in FY03 with general funds.
- \$64 million of one-time revenue sources which is comprised of \$34 million from the Endowment for Iowa’s Health (tobacco), \$20 million from the Rebuild Iowa Infrastructure Fund, and \$10 million from the Underground Storage Tank Fund is transferred into the general funds.
- \$47.3 million from the cash reserve fund is transferred to the general fund. The cash reserve fund is a time-limited source with dwindling resources.
- \$65 million in additional Senior Living Trust Funds are transferred for Medicaid. Moneys in this fund are projected to deplete within the next few years. Using this time-limited source perpetuates the Medicaid problem in the future. A plan is being developed to lessen the reliance on this funding source.

**Avoid implementing new programs for a partial fiscal year.**

- + The budget recommendations do not reflect implementation of new programs for a partial fiscal year.

**Avoid multi-year accelerating commitments.**

- Collective bargaining units provide for multi-year negotiated pay increases.

**Avoid new automatic, or “standing,” appropriations.**

- + No new standing appropriations are recommended.
- + Standing appropriations for various property tax credits are reviewed by the Governor.
- The standing limited appropriation for the early intervention block grant is due to sunset this year. A recommendation is made to extend the sunset which continues this standing appropriation.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting Review of Governor Vilsack's FY04 Budget Recommendations Continued**

**Accurately determine revenue and expenses.**

- + The Revenue Estimating Conference (REC) is watching refunds more closely so that projections become more accurate
- Medicaid projected expenses (\$78-110m) do not align with the proposed revenue of \$57 million. However, a proposal for Medicaid reform is being crafted.
- Various revenue increases are dependent upon legislative action. Furthermore, the projected increases resulting from legislation such as the streamlined sales tax project are built largely upon assumptions. No assurances can be given that the projected revenues will be realized.
- The increase in Rebuild Iowa Infrastructure Fund revenue is based upon the assumption that the U.S. Supreme Court will overturn the Iowa Supreme Court's decision regarding the differing tax rates for racetracks and riverboats.

**Align expenses and revenue in the same fiscal year.**

- The reliance on revenue collected in FY 2004 from passage of the streamlined sales tax project (SSTP) is premature. Even with passage of the proposed legislation, too many factors must be met before Iowa would realize any revenue in FY04. To begin with 10 states with at least 20% of the total population must also pass SSTP before it even takes effect. Furthermore, the legislation provides for voluntary compliance and many of the act's effective dates do not occur until 2006. For these reasons, the anticipated revenue would not be realized until a later fiscal year which results in this identified revenue stream not aligning with FY04 expenses.
- Actual Rebuild Iowa Infrastructure Fund revenues to be realized in FY04 are built upon an assumption and do not align with FY04 expenses.

**Avoid shifting program funding to property taxes or fees.**

- + The elderly and disabled property tax credits are fully funded.
- The homestead tax credit standing appropriation is limited again this year. Limiting this appropriation results in county budgets absorbing the cost in their budget and may result in increased property taxes or not fully funding these tax credits to those who qualify.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting Review of the Iowa General Assembly FY04 Budget**

**Prelude**

This is a budgeting process review of the Iowa Legislature’s Fiscal Year 2004 budget recommendations. The goal of this review is to encourage the key fiscal policy developers and lawmakers of Iowa to continue their consideration of these criteria in developing the budget year after year. **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 seven “Principles for Sound Budgeting” is listed below. Each principle is accompanied with *examples*, if applicable, from the Legislature’s FY 2004 proposed budget. A plus sign (+) indicates the Legislature abided by the principle and a negative sign (-) indicates the Legislature deviated from the principle. ITA recognizes that in certain areas of the budget such as with Medicaid and entitlement programs it is difficult to determine the projected expense because of federal factors. ITA also recognizes the historical declines in the economy and budget difficulties of states nationwide; however, we maintain that adhering to these budgeting principles will ensure a sound budget in years to come.

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

- + Replaces a portion of the one-time funding utilized last year with general funds this year.
- + Replaces \$13.3 million from non-general fund sources used in funding tuition replacement in FY 03 with general funds.
- + Replaces \$23.9 million from non-general fund sources used to fund the Student Achievement and Teacher Quality Program in FY03 with general funds.
- \$60.6 million of one-time revenue sources which is comprised of \$20 million from the Endowment for Iowa’s Health (tobacco), \$10 million from the Rebuild Iowa Infrastructure Fund, \$26.7 million from unclaimed property, and \$3.9 million from a legal settlement is transferred into the general funds.
- \$65 million in additional Senior Living Trust Funds are transferred for Medicaid. Moneys in this fund are projected to deplete within the next few years. Using this time-limited source perpetuates the Medicaid problem in the future.

**Avoid implementing new programs for a partial fiscal year.**

- + The budget recommendations do not reflect implementation of new programs for a partial fiscal year.

**Avoid multi-year accelerating commitments.**

- + The budget recommendations do not reflect new multi-year accelerating commitments.

**Avoid new automatic, or “standing,” appropriations.**

- + Standing appropriations were reviewed by the Legislature.
- The standing limited appropriation for the early intervention block grant was due to sunset this year. The sunset is extended which continues this standing appropriation.
- A \$25,000 standing appropriation to the Department of Revenue is created for the enforcement of the Tobacco Enforcement Act.

**Accurately determine revenue and expenses.**

- The projected revenue increases resulting from legislation such as the streamlined sales tax project are built largely upon assumptions. No assurances can be given that the projected revenues will be realized.
- The Department of Economic Development is appropriated a lump sum and given the authority to appropriate the money for various programs to meet specified goals set by the legislature.
- The Medicaid appropriation does not align with its projected expenses for FY 04. Medicaid reform measures contained within House File 619 are anticipated to meet this shortfall. If the reforms do not meet this anticipated revenue, then a supplemental appropriation will be needed next year.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting Review of the Iowa General Assembly FY04 Budget Continued**

**Align expenses and revenue in the same fiscal year.**

- The reliance on revenue collected in FY 2005 from passage of the streamlined sales tax project (SSTP) to finance the Grow Iowa Fund is premature. Even with passage of the proposed legislation, too many factors must be met before Iowa would realize any revenue in FY05. The anticipated revenue may not be realized until a later fiscal year which results in this identified revenue stream not aligning with the expenditure.

**Avoid shifting program funding to property taxes or fees.**

- + The Legislature adopted a provision precluding increases in property taxes to compensate for state funding reductions of various property tax credits.
- + The budget voids and repeals the county assessor requirement to reassess machinery and equipment property to replace the loss in funding from the state due to reductions in the Machinery & Equipment Replacement Fund. This provision assures that a property tax is not imposed on exempted m&e property.
- Funding for various property tax credits is reduced this year. Limiting this appropriation results in county budgets absorbing the cost in their budget and may result in increased property taxes or not fully funding these tax credits to those who qualify.
- The repeal of the county assessor requirement to reassess machinery and equipment property to replace the loss in funding from the state may result in an increase in overall property taxes.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting Review of Governor Vilsack’s FY05 Budget Recommendations**

**Prelude**

This is a budgeting process review of Governor Vilsack’s Fiscal Year 2005 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 2004 and each year thereafter. **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 2005 proposed budget recommendations. A plus sign (+) indicates the Governor abided by the principle and a negative sign (-) indicates the Governor deviated from the principle.

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

- + \$20 million is transferred from the General Fund back to the Senior Living Trust Fund to partially replenish previous utilization of this time-limited source to cover general fund expenses.
- + \$15.2 million is transferred back to the Medicaid Program to replace funds that were used to pay for FY04 salary adjustments.

**Avoid implementing new programs for a partial fiscal year.**

- + The budget recommendations do not reflect implementation of new programs for a partial fiscal year.

**Avoid multi-year accelerating commitments.**

- + The budget recommendations do not reflect multi-year accelerating commitments, other than those currently in effect.

**Avoid new automatic, or “standing,” appropriations.**

- + There are no new standing appropriations recommended, and current ones appear to have been reviewed.

**Accurately determine revenue and expenses.**

- Various revenue adjustments are dependent upon legislative action, as is the entire budget. However, the projected increases resulting from the proposed legislation are built largely upon assumptions which are not supported by sufficient details to justify such an assumption. No assurances can be given that the projected revenues will be realized.

**Align expenses and revenue in the same fiscal year.**

- +/- The Governor’s proposed budget attempts to align expenses and revenue in the same fiscal year, however the reliance on revenue collected in FY 2005 from passage of various tax law changes is premature and unstable which could result in expenses being under funded.

**Avoid shifting program funding to property taxes or fees.**

- + Funding increases are recommended to offset prior cuts for mental health allowable growth, the homestead property tax credit, and the elderly & disabled property tax credits.
- + Fully funding the school foundation aid allowable growth is recommended.
- The net effect is an approximate \$6.8 million decrease in funding for property tax credits which could result in increased property taxes or not fully funding these tax credits to those who qualify. This number includes the changes made last year that impact the FY05 budget.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting Review of Governor Vilsack's FY05 Budget Recommendations Continued**

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

+/- \$5 million in interest earned by the Cash Reserve and Economic Emergency Funds is to be deposited into the General Fund rather than deposited into the Rebuild Iowa Infrastructure Fund as statutorily required. This transfer has occurred the past two years through “notwithstanding” the statutory requirement. Although the Governor has proposed to divert these funds, he has also proposed to codify this diversion.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting Review of the Iowa General Assembly FY05 Budget**

**Prelude**

This is a budgeting process review of the Iowa Legislature’s Fiscal Year 2005 budget recommendations. The goal of this review is to encourage the key fiscal policy developers and lawmakers of Iowa to continue their consideration of these criteria in developing the budget year after year. **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 Legislature’s FY 2005 proposed budget. A plus sign (+) indicates the Legislature abided by the principle and a negative sign (-) indicates the Legislature deviated from the principle.

ITA recognizes the difficult economic conditions under which the Legislature operated this year, as did its counterpart bodies in many states, and the efforts made to continue government services at a reasonable level while not imposing additional tax burdens on Iowans. However, the ITA similarly recognizes the need to maintain a consistency in its evaluations of the accounting practices of the Legislature, emphasizing the need to adhere to these budgeting principles in order to ensure a sound economic basis for years to come.

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

- \$159.6 million is transferred from the Cash Reserve Fund to fund property tax credits.
  - A number of general fund expenditures were shifted to other funding sources totaling \$269.3 million.
  - \$143.3 million transferred from Senior Living Trust Fund for Medicaid.
  - \$81 million transferred from Tobacco Related Funds for Medicaid & substance abuse and debt service payments.
  - \$37.5 million transferred from Hospital Trust Fund for Medicaid.
  - \$7.5 million transferred from Environmental First Fund for soil conservation and park operations.
- Increased reliance on these time-limited sources perpetuates the state’s budget problem in the future.

**Avoid implementing new programs for a partial fiscal year.**

- + The budget does not reflect implementation of new programs for a partial fiscal year.

**Avoid multi-year accelerating commitments.**

- The Legislature set allowable growth for educational funding at 2% for FY 2005 and 4% for FY 2006.

**Avoid new automatic, or “standing,” appropriations.**

- + Current standing appropriations have been reviewed and many are limited.

**Accurately determine revenue and expenses.**

- The Legislature relies upon a \$26 million reversion from the University of Iowa Hospital and Clinics if the federal government approves an increase in the Medicaid reimbursement.

**Align expenses and revenue in the same fiscal year.**

- + The Legislature did not commit unknown gaming revenues to state programs; only a portion of the known gaming revenues were appropriated.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting Review of the Iowa General Assembly FY05 Budget Continued**

**Avoid shifting program funding to property taxes or fees.**

- + The homestead, agriculture land and family farm, military, elderly and disabled property tax credits are fully funded at their current levels.
- +/- Whether property taxes will rise as a result of the FY 2005 funding levels for education is difficult to determine, and will continue to be monitored.

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

- This budget diverts \$24.7 million from the Rebuild Iowa Infrastructure Fund (RIIF) to be used for items that do not meet the definition of “vertical infrastructure” as defined in Section 8.57, subsection 5, paragraph “c”, of the Code of Iowa. Such diversions run contrary to the intent of the law that establishes the RIIF.
- This budget diverts \$34.9 million from the Restricted Capitals Fund to be used for items that do not meet the definition of “vertical infrastructure” as defined in Section 12E.12, subsection 1, paragraph “b”, subparagraph (1), of the Code of Iowa. Such diversions run contrary to the intent of the law that establishes the Restricted Capitals Fund account of the Tobacco Settlement Trust Fund.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting Review of Governor Vilsack's FY06 Budget Recommendations**

**Prelude**

This is a budgeting process review of Governor Vilsack's Fiscal Year 2006 budget recommendations & Fiscal Year 2005 Supplemental Appropriations. 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 2005. **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 2006 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.

**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 expenditures. 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, for instance, currently is funded partially with \$134 million from the Senior Living Trust Fund which is expected to be depleted in the near future. The Governor has begun to take steps in reducing the State's reliance on this time-limited revenue source, by replacing those dollars with general fund revenues. Approximately \$60 million in general fund revenues have been appropriated to Medicaid to specifically replace one time fund dollars, which is a step forward.
- + Funds the homestead, elderly & disabled, agricultural land, and military service property tax credits from the general fund rather than from the cash reserve fund as done last year.
- \$136 million transferred from the Senior Living Trust Fund to various expenditures that were previously funded with general fund revenues.
- \$35 million transferred from the Endowment for Iowa's Health to the General Fund.

**Avoid implementing new programs for a partial fiscal year.**

- Implements a new program for a partial fiscal year in the supplemental budget recommendations. A new appropriation is created to establish voluntary statewide early learning standards for three and four-year olds. This was done last fall during the 2005 Fiscal Year.

**Avoid multi-year accelerating commitments.**

- Creates the "Iowa Values Bridge Financing Fund" which is financed through bond proceeds that will result in multi-year accelerating repayments.

**Avoid new automatic, or "standing," appropriations.**

- + There are no new standing appropriations recommended, and current ones appear to have been reviewed.

**Accurately determine revenue and expenses.**

- Relies on legislative action for various revenue adjustments, as is the entire budget. However, the projected increases resulting from the proposed budget are built largely upon assumptions. No assurances can be given that the projected revenues will be realized. Additionally, there is no indication as to what is not funded if the revenue adjustments are not enacted into law.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting Review of Governor Vilsack’s FY06 Budget Recommendations Continued**

**Align expenses and revenue in the same fiscal year.**

- + Implements a new budgeting process, “Purchasing 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.
- +/- Attempts to align expenses and revenue in the same fiscal year, however the reliance on revenue collected in FY 2006 from passage of various tax law changes is premature and unstable which could result in expenses being under funded. No plan is present in the event the increased revenue is not realized.
- +/- Appropriates nothing for anticipated salary increases; however, the collective bargaining process was underway at the time the Governor released his budget recommendations which did include an ending balance that was higher than required by the 99% spending limitation.
- Purports 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 FY 2005 supplemental appropriation of \$55.0 million to fund FY 2006 expenditures.

**Avoid shifting program funding to property taxes or fees.**

- Funds property tax credits below projected levels of demand. They are under funded by the following percentages:
  - Homestead = 21%
  - Ag Land and Family Farm = 49% (the Governor proposes to eliminate the ag land credit and double the allowed family farm tax credit from \$10m to \$20m)
  - Military = 3%
  - Elderly & Disabled = 11%The effect is an approximate \$45 million decrease 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 to the General fund a statutorily required \$45.5 million appropriation to the Cash Reserve Fund using “notwithstanding” language.
- Deposits Cash Reserve and Economic Emergency Fund interest into the General Fund rather than deposited into the Rebuild Iowa Infrastructure Fund as statutorily required. This transfer has occurred the past three years through “notwithstanding” the statutory requirement. The interest amount totals \$6.0 million.
- Diverts approximately \$44.8 million from designated vertical infrastructure programs for non-infrastructure items.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting Review of the Iowa General Assembly FY06 Budget**

**Prelude**

This is a budgeting process review of the Iowa Legislature’s Fiscal Year 2006 budget & Fiscal Year 2005 Supplemental Appropriations. 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 Legislature’s FY 2006 budget. A plus sign (+) indicates the Legislature’s budget abided by the principle and a negative sign (-) indicates the Legislature’s budget deviated from the principle.

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

- + The Legislature has begun to take steps in reducing the State’s reliance on the Senior Living Trust Fund, a time-limited revenue source, by replacing those dollars with general fund revenues. For instance, approximately \$35.5 million in general fund revenues have been appropriated to Medicaid to specifically replace one time fund dollars, which is a step forward. Any remaining FY 2006 Medicaid funds are required to be transferred to the Senior Living Trust Fund.
- + Funds the homestead, elderly & disabled, agricultural land, and military service property tax credits from the general fund rather than from the cash reserve fund as done last year. \$159.7 million of the ending fund balance is deposited into the newly created Property Tax Credit Fund.
- The State has relied upon the use of one-time and time-limited sources of revenue for ongoing general fund expenditures in recent years. As those funds are depleted, a large gap in the budget, estimated to be \$350-\$400 million, will be present and a new revenue source will need to be identified to fund those expenditure commitments. Medicaid, for instance, continues to be partially funded with \$100 million from the Senior Living Trust Fund which is expected to be depleted in the near future.
- + The State experienced revenue growth this year, and refrained from utilizing many time-limited sources. According to the Legislative Services Agency, zero funds were transferred from the following time-limited sources: the Cash Reserve Fund, Economic Emergency Fund, and Endowment for Iowa’s Health Account. Those expenditures previous funded from these sources are now funded with general fund dollars.
- Utilizes \$600,000 of the \$1.7 million Microsoft lawsuit funds to fund an ongoing FTE expense at the Department of Criminal Investigation.

Important to Note: The Legislature’s budget repeals the reimbursement provision for the Endowment for Iowa’s Health Account (\$171.5 million).

**Avoid implementing new programs for a partial fiscal year.**

- + Avoids implementation of new programs for a partial fiscal year.

**Avoid multi-year accelerating commitments.**

- + Avoids multi-year accelerating commitments.

**Avoid new automatic, or “standing,” appropriations.**

- + Repeals the Secure an Advanced Vision for Education (SAVE) fund standing appropriation and all current standing appropriations appear to have been reviewed.

**Appendix 3: FY03 – FY06 Budget Reviews**

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**Principles for Sound Budgeting Review of the Iowa General Assembly FY06 Budget Continued**

- Creates a new \$40 million standing appropriation from the Rebuild Iowa Infrastructure Fund (RIIF) for major renovation and repair needs including health, life, and fire safety needs and for compliance with the federal American Disabilities Act for state buildings under the purview of the Department of Administrative Services.
- Creates a new \$50,000 standing appropriation for the Endow Iowa Grants Program.
- Creates a new \$50 million each year for ten years standing appropriation for the Grow Iowa Values Fund.

NOTE: Standing appropriations reside in the Iowa Code and authorize spending to occur each year without any annual legislative action. Once such an appropriation is created, the legislature never needs to revisit it again – the spending will occur automatically. Over time, standing appropriations have been created for certain high-priority items that officials wish to protect from the competition that occurs in the annual budgeting process. The problem with standing appropriations is that they are extremely difficult to cut or eliminate. **Restricting legislative authority to reduce spending through the use of standing appropriations is a practice that should be avoided.**

**Accurately determine revenue and expenses.**

- + Despite estimating revenues at various points throughout the year, the Legislature did budget within the revenue projected for Fiscal Year 2006.

**Align expenses and revenue in the same fiscal year.**

- + Establishes a new performance based budget process for FY 2007. State Departments will no longer be allowed to submit their proposed budgets building upon 75% of their current budget. This was done in an attempt to align available revenues to identified expenses in the same fiscal year.
- The continued reliance on one-time and time-limited sources for ongoing expenses only compounds the difficulties in aligning expenses with actual revenues collected in the same fiscal year.

**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 which was fully funded this year. Contrary to state law, the following property tax credits were under-funded by these percentages:
  - Homestead = under-funded by 21%
  - Ag Land and Family Farm = under-funded by 11.5%
  - Elderly & Disabled = under-funded by 10.5%The effect is an approximate \$33.2 million decrease 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 to the Property Tax Credit Fund a statutorily required appropriation to the Cash Reserve Fund using “notwithstanding” language.
- Diverts approximately \$25.4 million from designated vertical infrastructure programs for non-infrastructure items.