



Committee on Accountable Government Review Iowa Legislature's Fiscal Year 2009 Budget

Prelude

This is a budgeting process review of the Iowa Legislature's FY 2009 budget. The goal of this review is to encourage the key fiscal policy developers and lawmakers of Iowa to consider these criteria in the future. These principles for Accountable

Government were developed by Iowa Taxpayers Association in 2003 and the practice of budget evaluation has continued regularly since then. **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 2009 budget. Pursuant to our evaluation, a plus sign (+) indicates the Legislature's budget abided by the principle and a negative sign (-) indicates the Legislature's deviated from the principle.

Sound Budgeting Principles/Review

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

- The Legislature's budget 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 gap as large as \$300 million in the budget will be present and a new revenue source will need to be identified to fund those expenditure commitments.
- The Legislature eliminated the requirement that an appropriation be made from the General Fund to the Cash Reserve Fund to maintain a minimum balance equal to 7.5% of the REC estimate for FY 2009.
- Medicaid, an ongoing expense, is funded in FY09 with \$ 111.8 million from the Senior Living Trust Fund (SLTF), a time-limited revenue source.
- An additional \$122.1 million in shifted general fund expenses are funded with the Senior Living Trust Fund.
- The Legislature maintains approximately \$40 million of shifted expenditures in the Environment First Fund.

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.

- Provides a multi-year increase in the Student Achievement and Teacher Quality Program. This program increases the FY 2009 General Fund appropriations to the Student Achievement and Teacher Quality Program by \$75 million.
- Provides for a three-year accelerating commitment for “market factor salaries; For FY09 - \$7.5 million, and FY10 - \$6.6 million.

Avoid new automatic, or “standing,” appropriations.

- Expansion of the Hawk-I health program in the amount of \$4.8 million for FY 2009, \$14.8 million for FY 2010, and \$24.8 million for FY 2011

Accurately determine revenue and expenses.

- + The budget abides by this principle.

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 Legislature has agreed with the Governor’s attempt to align available revenues to those identified expenses in the same fiscal year. As a practice, this is a good first step.
- Utilizes a minimum of \$99.8 million in the FY2008 ending fund balance to fund FY2009 expenditure for property tax credit funding and repayment to the Senior Living Trust Fund.

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 are under-funded by these percentages:

Homestead = under-funded by 29%

Ag Land and Family Farm = under-funded by 12%

- \$130.4 million was shifted from the Health Care Trust Fund for other uses.

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

- Diverts \$121 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.

The Rebuild Iowa Infrastructure Fund is authorized by law for specific objectives and therefore we oppose the use of “notwithstanding” language which diverts resources from these funds.



Committee on Accountable Government Fiscal Year 2009 Budget Review Governor Culver's Budget Recommendations

Prelude

This is a budgeting process review of Governor Culver's Fiscal Year 2009 budget recommendations. The goal of this review is to encourage the key fiscal policy developers and lawmakers of Iowa to consider these criteria in the future. These principles for Accountable Government were developed by Iowa Taxpayers Association in 2003 and the practice of budget evaluation has continued regularly since then. ***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 2009 proposed budget recommendations. Pursuant to our evaluation, 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.

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. An example would be the reliance on taxable bond proceeds from the tobacco securitization fund.
- + Medicaid, an ongoing expense, is not funded with any money from the Senior Living Trust Fund (SLTF), a time-limited revenue source.

Avoid implementing new programs for a partial fiscal year.

- + The budget abides by this principle.

Avoid multi-year accelerating commitments.

- The Governor's FY 2009 budget includes \$332.6 million in funding that is associated with the FY 2008 estimated built-in and anticipated expenditures.

Avoid new automatic, or "standing," appropriations.

- Expansion of the Hawk-I health program in the amount of \$4.8 million for FY 2009, \$14.8 million for FY 2010, and \$24.8 million for FY 2011

Accurately determine revenue and expenses.

- + The budget abides by this principle.

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. The Governor recommended \$81.8 million from the FY 2008 year-end General Fund surplus prior to its appropriation and distribution to the Senior Living Trust Fund and the Cash Reserve Fund and an FY 2009 General Fund appropriation of \$78.2 million. This is an increase of \$50.2 million from the General Fund for FY 2009, but funds the tax credits at the same level as FY 2008.

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 29%
 - Ag Land and Family Farm = under-funded by 12%

The effect is a 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 \$ 90 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. In total, the Governor’s Non-General Fund Appropriations Shifted to the General Fund total \$177.7 million.

The Rebuild Iowa Infrastructure Fund is authorized by law for specific objectives and therefore we oppose the use of “notwithstanding” language which diverts resources from these funds.