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NEWS RELEASE

Iowa Taxpayers Association Completes Review of Governor's Budget Proposal

ITA encourages lawmakers to start from scratch amid questions on how the budget proposal would remain balanced.

(Wednesday, March 3, 2010) Des Moines - The **Iowa Taxpayers Association (ITA)**, the state's leading nonpartisan business tax policy resource acknowledges that the state of Iowa has experienced an unprecedented drop in revenue over the past two fiscal cycles but has remained vigilant in reminding policymakers to adhere to our Sound Budgeting Principles when crafting the state's budget.

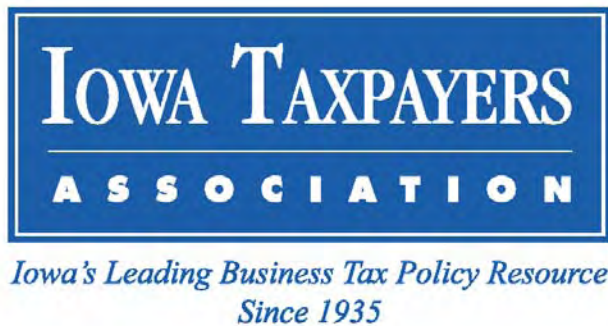
Today, ITA encourages state legislators to refrain from adopting the recommendations made in Governor Culver's budget proposal submitted last month and continue the process of ensuring a balanced budget from scratch. In January, ITA called for the Governor to abide by a series of well established guidelines as he completed his budget recommendation to the 83rd General Assembly. Upon extensive examination, many of those guidelines have been violated. The savings necessary to ensure that the state's general fund expenditure limitation is constitutionally met would require the legislature to act on a series of open ended consultant recommendations and incalculable expenditure shifts.

“The Governor’s budget recommendations rely too heavily on a series of consultant recommendations and an estimated General Fund Savings of \$341 million; legislative leaders would be best advised to continue to work on their own budget targets and strategies to see realistic savings” Ed Wallace, President of the Iowa Taxpayers Association said. The ITA Committee on Accountable Government cannot determine how such savings are achieved given the recommendation for increased school aid funding, the incalculable nature of using the consultant’s recommendations, and the use of one-time or time-limited sources for ongoing expenses.

Other specific concerns in Governor Culver’s budget are

- The use of Road Use Tax Fund dollars to pay for state troopers
- The de-appropriating from the Rebuild Iowa Infrastructure Fund
- The implementation of the 10% across the board budget cuts from FY 2010 and application to FY 2011
- The potential burden that will be felt by property tax payers as the previous year’s spending authority remains in place for K-12 education, despite moving from a 4% school allowable growth to a 2% (proposed) allowable growth.

ITA continues to appreciate the complexity involved with crafting a balanced budget but strongly encourages all policymakers to employ long-term budgeting strategies so that the state can adequately meet the needs of the citizens of Iowa.



ITA Committee on Accountable Government

Principles for Sound Budgeting Review of Governor Culver's FY 2011 Budget Recommendations

Prelude

This is a budgeting process review of Governor Culver's Fiscal Year 2011 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 during this legislative session.

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 2011 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.

- Relies continuously 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. Education, for instance, currently is funded partially with \$47.9 million from the American Recovery and Reinvestment Act (ARRA) which is expected to be depleted in the near future.
- + Funds the homestead, elderly & disabled, agricultural land, and military service property tax credits with monies from the general fund rather than from the cash reserve fund as has been done in the past.
- Uses \$100 million from the State Cash Reserve Fund to replace General Fund dollars.

- Directs the Temporary Assistance to Needy Families (TANF) and ARRA money totaling \$13.4 million toward the Family Investment Program and Child Care Development Fund. TANF and ARRA are both one-time sources of funding for FY 2011 (and will create a shortfall in FY 2012).

Avoid implementing new programs for a partial fiscal year.

- +/- Relies on SF 2088, the Government Reorganization and Efficiency Bill, to be realized in order to balance. In the original draft of the bill (when Governor Culver's budget was formed) there was language that attempted to secure a larger recovery for the state (10%) under Medicaid fraud actions. Any receipts would be for a partial year.

Avoid multi-year accelerating commitments.

- Calls for 2% allowable growth for schools and an extra \$100 million to schools in FY 2011. Allowable Growth is different than a schools "spending authority." By not addressing the 361 School Districts "spending authority" the effect is a multi-year accelerating commitment (whereby the districts may make up the difference by increasing property taxes).

Avoid new automatic, or "standing," appropriations.

- + There are no new standing appropriations recommended, and current ones 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.

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.
- 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.
- Difficulty exists 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 2010 supplemental appropriation of \$67 million to fund FY 2011 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 = -44.8%
 - Ag Land and Family Farm = -7.2%
 - Military = -0.1%
 - Elderly & Disabled = -2.9%

The effect is a 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 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.
 - Moves \$117.3 million from the Cash Reserve Fund to the General Fund to balance the budget
 - Diverts \$8.9 million in gaming fees to pay for DCI gaming enforcement which previously came from the General Fund.
 - Diverts \$50 million of expenditures for the Iowa State Patrol from Road Use Tax Fund to the General Fund.
 - Recommends de-appropriating from Environment First Fund and the Rebuild Iowa Infrastructure Fund for General Fund purposes.