



Committee on Accountable Government Review Governor Culver's Fiscal Year 2008 Budget

Prelude

This is a budgeting process review of Governor Culver's Fiscal Year 2008 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 2008 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.
- Medicaid, an ongoing expense, is currently funded with \$65 million from the Senior Living Trust Fund (SLTF), a time-limited revenue source.
- The Governor recommends for the FY 08 budget transferring \$35.3 million from the Healthy State Medicaid Expenditures – The FY 2007 State appropriation of \$759.2 million includes the following fund sources:
 - An additional \$57.5 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.

- The Power fund was implemented for a partial fiscal year.

Avoid multi-year accelerating commitments.

- The Governor's FY 2008 budget includes \$273.6 million in funding that is associated with the FY 2008 estimated built-in and anticipated expenditures. This includes \$222.4 million for the statutory built-in expenditures and \$51.2 million for the anticipated increases.

Avoid new automatic, or "standing," appropriations.

- Iowa Power Fund proposed to spend \$25 million over the next four years.
- The Governor's FY 2008 budget includes \$273.6 million in funding that is associated with the FY 2008 estimated built-in and anticipated expenditures. This includes \$222.4 million for the statutory built-in expenditures and \$51.2 million for the anticipated increases.

Accurately determine revenue and expenses.

- + This sound budgeting principle is being followed.

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.
- The Governor's FY 2008 budget includes \$273.6 million in funding that is associated with the FY 2008 estimated built-in and anticipated expenditures. This includes \$222.4 million for the statutory built-in expenditures and \$51.2 million for the anticipated increases.
- 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.
- The Governor's FY 2008 budget includes \$273.6 million in funding that is associated with the FY 2008 estimated built-in and anticipated expenditures. This includes \$222.4 million for the statutory built-in expenditures and \$51.2 million for the anticipated increases.

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 25.9 %
 - Ag Land and Family Farm = under-funded by 11.5%

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 \$ 30 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 Review Iowa Legislature's Fiscal Year 2008 Budget

Prelude

This is a budgeting process review of the Iowa Legislature's FY 2008 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 2008 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 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 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 2008.
- + Reduces reliance on the Senior Living Trust Fund through a \$36 million reduction in a Medicare appropriation from this fund. A general fund appropriation is increased to offset this reduction.
- Medicaid, an ongoing expense, is funded in FY08 with \$65 million from the Senior Living Trust Fund (SLTF), a time-limited revenue source.
- An additional \$9.0 million in shifted general fund expenses are funded with the Senior Living Trust Fund.
- The Legislature maintains approximately \$5 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 equates to a \$173.9 million commitment this year, an increase of \$34.6 million. This program increases the FY 2009 General Fund appropriations to the Student Achievement and Teacher Quality Program by \$75 million to a total of \$248.9 million.
- Provides for a three-year accelerating commitment for “market factor salaries”: FY07 - \$3.4 million; FY08 - \$3.4 million; FY09 - \$7.5 million, and FY10 - \$6.6 million.

Avoid new automatic, or “standing,” appropriations.

- Provides for a four-year accelerating commitment to the Iowa Power Fund FY08 - \$25 million; FY09 - \$25 million; FY10 - \$25 million FY11 - \$25 million.
- + Eliminates a \$2 million general fund standing appropriation for substance abuse. This expenditure is moved to the Healthy Iowans Tobacco Trust Fund.

Accurately determine revenue and expenses.

- + This sound budgeting principal is being followed.

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 \$160 million in the FY2007 ending fund balance to fund FY2008 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 fund this year. Contrary to state law, the following property tax credits are under-funded by these percentages: Homestead = under-funded by 25.9%; Ag Land and Family Farm = under-funded by 11.5%;
- \$10 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.

- + Establishes the Technology Reinvestment Fund (TRF) with general fund monies to avoid future non- statutorily authorized diversions from the Rebuild Iowa Infrastructure Fund (RIIF). Technology related items will now be funded with general fund monies, rather than with diversions from RIIF.
- Diverts \$30 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.