



## Committee on Accountable Government Review

### Iowa Legislature's Fiscal Year 2007 Budget

#### Prelude

This is a budgeting process review of the Iowa Legislature's FY 2007 budget. 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 2007. **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 2007 budget. A plus sign (+) indicates the Legislature's budget abided by the principle and a negative sign (-) indicates the Legislature's deviated from the principle.

#### The Legislature Abided by 44% of the Sound Budgeting Principles

#### Sound Budgeting Principles/Review

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

- + The Legislature is on target to fund the Cash Reserve Account to the statutorily required 7.5% level.
- + 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.
- 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 that may exceed \$300 - 400 million 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 funded in FY07 with \$65 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.

To meet this SLTF expenditure obligation in FY07, the Legislature transfers \$25 million from the Healthy Iowans Tobacco Trust Fund in addition to millions in ending fund balance monies which are statutorily obligated first to the Economic Emergency and Cash Reserve Funds.

(Note: the Legislature and Governor agreed to an ending general fund balance transfer to the SLTF until the aggregate amount transferred equals \$300 million. These time-limited monies will likely fund on-going expenditures, unless future legislative action is altered.)

- An additional \$9.0 million in shifted general fund expenses are funded with the Senior Living Trust Fund.
- The Legislature maintains approximately \$7.5 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 three-year \$35 million per year increase in the Student Achievement and Teacher Quality Program. This equates to a \$210 million commitment.
- Provides for a three-year accelerating commitment for "market factor salaries:" FY07 - \$3.4 million; FY08 - \$7.5 million; FY09 - \$10 million.
- Provides for a three-year accelerating commitment for "pay for performance program:" FY07 - \$1 million; FY08 - \$2.5 million; FY09 - \$5 million.
- Provides for a four-year accelerating commitment to reduce property taxes for landowners in certain school districts: FY07 - \$6 million; FY08 - \$12 million; FY09 - \$18 million; FY10 - \$24 million.

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

- + 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 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.**

- Utilizes a minimum of \$160 million in the FY2006 ending fund balance to fund FY2007 expenditure for property tax credit funding and repayment to the Senior Living Trust Fund.

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

**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 22%; Ag Land and Family Farm = under-funded by 79%; Elderly and Disabled = under-funded by 14%.

The effect is an approximate \$215 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.**

- + 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 \$20.3 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.*