



## **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.*