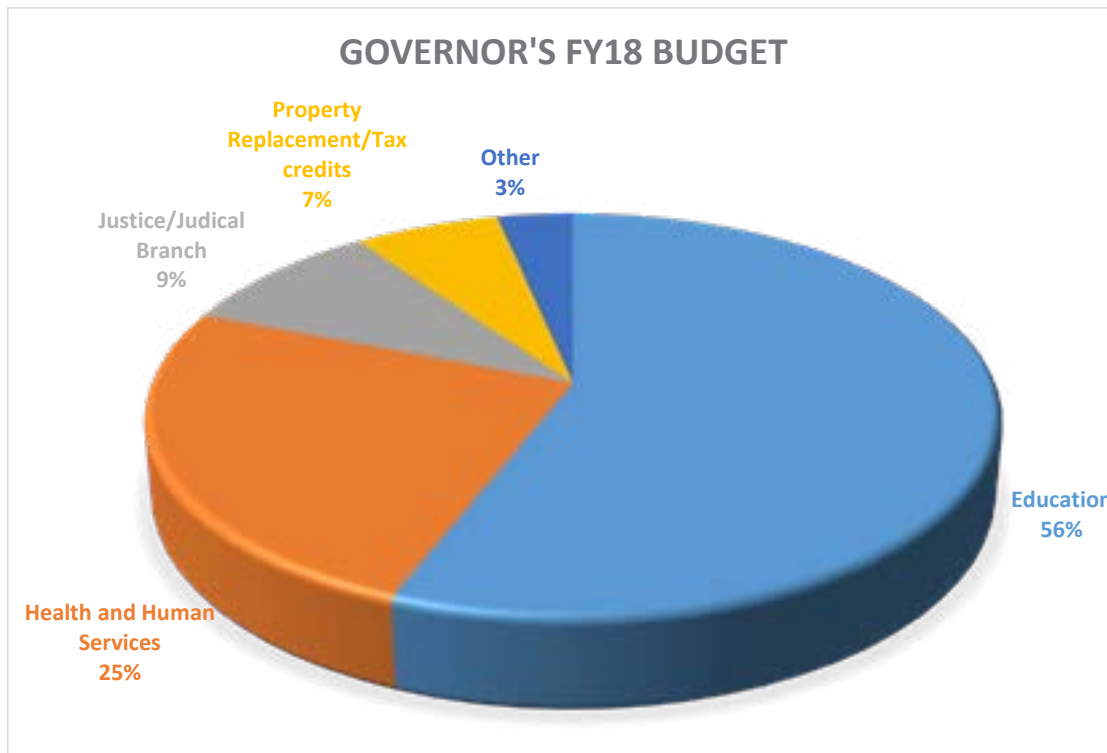


Budget Prospects for the 2017 Legislative Session

By Jennifer L. Crull

On Monday, January 9, 2017, the legislative leaders gaveled in the start of the 87th General Assembly, which marks the first time in 20 years that Republicans control the House, Senate, and the Governor's office. All eyes are on Des Moines to see if the gridlock we have had for the last few years continues or if there is a smoother process of deciding our budget figures. However, the discussion of the coming year's budget is being overshadowed by the \$110 million in budget reductions that have to be made this fiscal year, which ends June 30, 2017.¹

When the Iowa Legislature tries to set the budget amount for the coming year, it relies on the projections of the Revenue Estimating Conference (REC). The General Fund, which is the main funding stream of the state, is composed of tax revenue from:



Source: Iowa Department of Management, "Governor's Budget Proposal for FY18 and FY19," January 10, 2017, p. 62 <https://dom.iowa.gov/sites/default/files/documents/2017/01/bib_final_fy2018.2019.pdf> accessed on January 15, 2017.

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- Cash tax receipts for July 1 through June 30
- Other receipts to the General Fund for July 1 through June 30
- Lottery transfers and other transfers to the General Fund for July 1 through June 30
- Accruals of tax receipts, other receipts, and transfer revenues associated with the fiscal year held open for a period after June 30
- Refunds paid from fiscal year receipts
- School infrastructure transfers from fiscal year receipts²

The REC usually meets in October, December, and March/April to set the estimates for upcoming General Fund revenue. The December 2016 meeting of the REC sets the amount the Governor uses for his budget proposal and which the House and Senate will also utilize.

The three members of the REC must be: the Governor, or his designee; the Director of the Legislative Services Agency; and a third member agreed upon by the other two.³ The current REC members are: Dave Roederer, the Governor's designee and the Director of the Iowa Department of Management; Holly Lyons, Fiscal Division Director of the Legislative Services Agency; and David Underwood, retired CFO and Treasurer of AADG, Inc., in Mason City.⁴

The October 2016 REC meeting estimated the projected revenue for FY17 at \$7.31 billion and FY18 at \$7.61 billion. When the REC met in December, both estimates had decreased. While these percentages are still increasing the growth has just slowed down slightly. The FY17 revenue is now projected to be \$7.21 billion, and FY18 is \$7.56 billion and the FY17 revenue is down \$100 million, and FY18 projections are down \$50 million.⁵ The \$100 million in decreased revenue estimated for FY17 has necessitated spending cuts of approximately \$100 million from the current year's budget, while the Governor is now using the \$7.56 billion estimate as the basis for his FY18 budget as identified in his Condition of the State address.

With the revised projection for FY17, the FY18 budget will have \$320 million in new money for the fiscal year. However, we have to remember that a large percentage of the money is already spoken for by previous legislation, such as the Teacher Leadership Grant and the rollbacks in property tax are just a few. The chart, on page 1, lays out Governor Branstad's proposed budget for FY18.

The October 2016 meeting of the REC projected that revenue growth for FY17 would be 5.6 percent, and the December meeting lowered that growth to 4.2 percent.⁶ It is important to note that Iowa's revenues are not negative; they are still increasing. A growth of 4.2 percent is a substantial increase in revenue when you consider the cost-of-living adjustment for 2016, which is only 0.3 percent.⁷ The REC also increased the projected growth for FY18 from 4.1 percent to 4.8 percent.⁸ So as one can see, it is going to be a fight for any new money. The state has committed to funding the property tax rollbacks for five years and there is the addition

of retention in third grade along with the switch to Smarter Balance test for Education that are just a few of the things that will be competing for the new money along with increased costs to the other Departments. The Iowa Legislature has some difficult choices ahead.

The following table outlines the reductions by department that the Governor is recommending:

Departments

Department of Administrative Services	\$(318,910)
Auditor of State	\$(39,935)
Department of Commerce	\$(65,053)
Executive Council	\$(3,825)
Governor's Office	\$(62,640)
Governor's Office of Drug Control Policy	\$(10,195)
Department of Human Rights	\$(106,501)
Department of Inspections and Appeals	\$(516,180)
State Public Defender	\$(720,011)
Department of Management	\$(151,470)
Department of Revenue	\$(1,000,000)
Secretary of State	\$(122,476)
Treasurer of State	\$(45,849)
Department of Agriculture & Land Stewardship	\$(952,837)
Department of Natural Resources	\$(650,773)
Department of Cultural Affairs	\$(256,560)
Department of Economic Development	\$(706,287)
Iowa Workforce Development	\$(749,086)
Public Employment Relations Board	\$(57,054)
Department of Blind	\$(63,205)
College Aid Commission	\$(475,498)
Department of Education	\$(5,505,905)
Community Colleges	\$(8,703,601)
Vocational Rehabilitation	\$(265,036)
Iowa Public Television	\$(343,138)
Board of Regents	\$(25,562,429)
Department of Aging	\$(591,829)
Department of Public Health	\$(2,523,282)
Department of Human Services	\$(20,296,531)
Department of Veterans Affairs	\$(199,348)
Iowa Veterans Home	\$(322,787)
Attorney General	\$(727,783)
Department of Corrections	\$(15,017,157)
Law Enforcement Academy	\$(42,637)
Board of Parole	\$(36,137)
Department of Public Defense	\$(293,212)
Department of Homeland Security	\$(94,759)
Department of Public Safety	\$(3,813,122)
Judicial Branch	\$(7,725,931)
Legislative Branch	\$(1,396,125)

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Department of Human Services-Medical Assistance	\$(13,855,709)
Department of Inspections and Appeals/State Public Defender-Indigent Defense	\$4,300,000
Total Adjustments	\$(110,090,803)

Source: Iowa Department of Management, "Governor's Budget Proposal for FY18 and FY19," January 10, 2017, p.74 <https://dom.iowa.gov/sites/default/files/documents/2017/01/bib_final_fy2018.2019.pdf> accessed on January 15, 2017.

Iowa is now at a crossroads. So now that the Legislature has the Governor's budget and the proposed budget decrease, we will have to wait and see what Speaker of the House Linda Upmeyer and Senate Majority Leader Bill Dix do next. Will the House and Senate Republicans be able to show the restraint, such as not budgeting up to the 99 percent, that the people of Iowa are requesting? As the session is underway, we know that the House and Senate has approved \$118 million in budget cuts for the current fiscal year.⁹ These are a few of the difficult questions facing the Legislature. Hopefully, they will remember the people of Iowa are paying the bill.

Endnotes

¹ Brianne Pfannenstiel and William Petroski, "Branstad outlines budget with \$110 million in cuts," *Des Moines Register*, January 10, 2017, <<http://www.desmoinesregister.com/story/news/politics/2017/01/10/branstad-outlines-budget-110-million-cuts/96397776/>> accessed on January 12, 2017.

² Iowa Department of Management, "What is the Revenue Estimating Conference?" <<https://dom.iowa.gov/faq/what-revenue-estimating-conference>> accessed on January 10, 2017.

³ Ibid.

⁴ Ibid.

⁵ Department of Management, "REC December Projection Spreadsheet," December 12, 2016, <https://dom.iowa.gov/sites/default/files/documents/2016/12/16-12_rec_final.pdf> accessed on January 8, 2017.

⁶ Department of Management.

⁷ Social Security Administration, "Cost of Living Adjustment," <<https://www.ssa.gov/OACT/COLA/colaseries.html>> accessed on January 13, 2017.

⁸ Department of Management.

⁹ Brianne Pfannenstiel, "\$118 million in budget cuts head to governor's desk," *Des Moines Register*, January 30, 2017, <<http://www.desmoinesregister.com/story/news/politics/2017/01/30/118-million-budget-cuts-head-governors-desk/97253230/>> accessed on January 31, 2017.