

Testimony of Victor Elias, Senior Associate, Child & Family Policy Center

House File 45 ostensibly is directed to the 2011 state budget, but it also takes several major actions related to the 2012 state budget and poses enormous challenges for the future. It makes decisions that should be subject to much fuller debate and spelled out in much greater detail before enactment.

Specifically, House File 45 creates an additional budget shortfall of \$327 million in the 2012 budget that must be addressed by very significant budget cuts over those already in place. It takes \$327 million in surplus 2011 funds that under current statute would be available for the 2012 budget and places these into a “Tax Relief Fund.”

According to Legislative Services Agency numbers, under current spending limits the 2012 budget can meet its statutory requirements by freezing budgets at 2011 levels, building in increases required by statute and law (including maintenance of the Medicaid program and school aid formula provisions and funding of the collective bargaining agreement) and finding \$263 million in either expenditure reductions or revenue increases. [Chart One]

Lawmakers historically have come up with such funding through partially funding property tax credits and collective bargaining agreements and funding other programs at prior year levels rather than statutory amounts written into prior legislation. Moreover, federal action to extend the 2001-3 tax cuts was not factored into the revenue estimating conference’s budget projections. Together, taking measured actions in these areas can produce a balanced 2012 budget. [Chart Two]

Such a budget would still require many tough decisions: whether to provide any minimum allowable growth rate for K-12 education, how much of collective bargaining agreement costs are to be incorporated into agency budgets, how to respond to critical shortages in mental health services and corrections staffing, and how to respond to other priorities for meeting essential services. Those decisions would be based upon finding further spending reductions or limiting current tax expenditures. Adding an additional \$327 million to the shortfall, however, more than doubles this challenge.

Overall, Iowa’s spending has not been “out of control,” but the opposite. Iowa’s overall spending and its overall taxes on businesses are well below the average among other states. Further forced reductions in Iowa spending and investment will have serious impacts on Iowa’s ability to provide essential services that are necessary for Iowa’s future growth and prosperity. Legislative actions should not be taken to force additional budget cuts without first carefully reviewing state budget needs.

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CHART ONE
Legislative Services Agency: 2011-12 Budget Picture
Under Current Law and HF45 Adjustment

	Current Law FY2012 Budget	HF45 Adjustment
Funds Available		
Estimated Revenues (REC)	\$ 6,031.3 M	\$ 6,031.3 M
Excess surplus transfer from Emergency fund	\$ 327.4 M	-Eliminated-
99% of Above – Expenditure limitation	\$ 6,298.3 M	\$ 5,971.0 M
Budget Freeze Appropriations		
2011 Appropriations		\$ 5,279.1 M
Built-in Increases (school aid/0% allowable growth, Medicaid, collective bargaining agreement, backfill ARRA and one-time trust fund expenditures, fully fund property credits to local governments, etc.)		\$ 1,282.2 M
Total for budget freeze + built-in increases		\$ 6,561.2 M
Adjustments Needed to Meet Statutory Required		
Ending Balance	\$ - 263.0 M	\$ - 590.9 M

CHART TWO
Additional Factors and Measures to Address \$263.0 M Shortfall
Not Included in LSA BUDGET

Adjustments for federal tax law and increases in state revenue (to be part of next REC)	Up to \$140 M
Funding of Iowa Power Fund at 2011 level (\$38 million not \$50 million in Statute) and Revised Estimate of Preschool for All Cost (\$69 million not \$81M)	Up to \$ 24 M
Funding Property Tax Replacement Funds at 2011 Formula Levels	Up to \$ 55 M
Addressing Collective Bargaining Costs through Existing Appropriations Line Items	Up to \$103 M
Maximum Total Available from Four Sources	Up to \$322 M