FINAL REPORT

STATE BUDGET AND BUDGETING PRACTICES INTERIM STUDY COMMITTEE

Presented to the Legislative Council
and the Iowa General Assembly
February 1992

Prepared by the Legislative Service Bureau

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INTERIM STUDY COMMITTEE

January 1992

AUTHORIZATION AND APPOINTMENT

The State Budget and Budgeting Practices Interim Study Committee was established by the Legislative Council and directed to undertake a comprehensive review of the state budgeting process and budget reform measures, including but not limited to spending limitations, conformance with generally accepted accounting principles (GAAP), performance audits and evaluations, sunsetting of state programs, zero-based budgeting, standing appropriations, and executive branch management of monthly and quarterly allocations of state appropriations and to make recommendations to the Legislative Council for reform of the state budgeting process. The Study Committee was provided a completion deadline of December 20, 1991.

Members serving on the Study Committee were:

Senator Leonard Boswell, Co-chairperson
Representative Tom Jochum, Co-chairperson
Senator Jim Lind
Senator Derryl McLaren
Senator Richard Varn
Senator Joe Welsh
Representative Bill Bernau
Representative Roger Halvorson
Representative Tom Miller
Representative Charles Poncy

SUBCOMMITTEES ESTABLISHED - MEETING DAYS

The Study Committee established three subcommittees and the Legislative Council authorized each subcommittee to hold two separate meeting days. In addition, each subcommittee held a meeting following the initial meeting of the full Committee. In all, the full Committee met twice and there were nine subcommittee meetings.

The subcommittee membership, chairpersons, and charges were as follows (an asterisk denotes the subcommittee's co-chairpersons):

1. **STATUTORY SPENDING LIMITATION:** *Jochum*, Halvorson, Boswell, Varn*, Lind*

   Develop a realistic statutory spending limitation for the state general fund budget. May be based on HF 713, debated last session; State Auditor Richard Johnson's proposal; or other proposals. No tax increase shall be a part of the proposal.

2. **STANDING APPROPRIATIONS AND ENTITLEMENTS:** *Poncy*, Bernau, Miller, Welsh*, Lind*

   Review growth in standing appropriations and entitlements (in dollars and in percents) over the last decade; forecast five years ahead, if possible. Identify reasons for growth. Determine if a problem exists in standing/entitlement appropriation growth, what the problem is, and how to resolve it. Consider long-range and short-range planning or lack of planning, federal mandates (funded and unfunded), whether the current system rewards inappropriate behavior by agencies, providers, others; how formulas are constructed; etc.

3. **LEGISLATIVE BUDGETING:** *Boswell*, Poncy, Bernau*, Halvorson, McLaren*

   Review current legislative process used to develop the budget; and recommend improvements. Review should include other state legislatures' budgeting processes; how best to use subcommittee time before and during session; whether the current subcommittee process should be changed; membership of conference committees on budget bills; whether two separate legislative sessions should be held -- one dealing with nonbudget items, one solely for budget; and pros and cons of changing our fiscal year to coincide with the federal fiscal year.

<u>COMMITTEE AND SUBCOMMITTEE PROCEEDINGS</u>

A brief summary of each meeting follows. The summary groups each of the subcommittee's proceedings.

<u>Full Committee Meeting of September 30, 1991</u>

During the first meeting of the full Committee, testimony was received from a variety of sources concerning various budget issues.

Mr. David Fisher, Chairperson, Governor's Committee on Government Spending Reform, described the membership, charges, and timeline proposed for his Committee and its seven task forces. He noted that a new revenue possibility will not be considered as the study scope is limited to expenditures, that a consultant, Booz-Allen, has been retained, and that a final report would be issued in December 1991.

Mr. Calvin McKelvogue, Department of Revenue and Finance, provided information concerning GAAP and the state budget. He described that the purpose of GAAP is to provide consistency in financial matters so that budgets between states may be compared. He noted that the Governmental Accounting Standards Board (GASB), which develops the standards for states, has a goal of implementing new standards by the 1995 Fiscal Year. He also discussed how implementing these standards, which are currently under consideration as proposals, may have a positive effect upon Iowa's deficit under GAAP.

Mr. Larry Thornton, Deputy Treasurer of State, discussed various issues concerning the Tax and Revenue Anticipation Notes (TRANs) issued by the state for cash flow purposes. He explained that GAAP is an issue with lenders in that it provides an indicator as to the positive or negative direction of a state's financial condition from year to year.

Mr. Richard Johnson, Auditor of State, distributed and discussed his "Plan for Fiscal Responsibility" which involves shifting certain state use tax proceeds from the Road Use Tax Fund to different priorities. He expressed concern about the state's fiscal condition and the GAAP deficit in particular. He offered historical information concerning numbers of state employees to refute popular opinion that the numbers of state employees have grown rapidly in recent years.

Following discussion of the presentations, the full Committee adjourned and the various members convened in subcommittee meetings.

LEGISLATIVE BUDGETING SUBCOMMITTEE MEETINGS

September 30 Legislative Budgeting Subcommittee Meeting

At the first meeting of the Subcommittee, members discussed various issues, including changing the dates of the state fiscal year, holding preliminary appropriations subcommittee meetings during December, revising the conference committee processes to require that the scope of an initial conference committee be limited to the differences between the two chambers, and developing a listing of topics for future discussion.

October 25 Legislative Budgeting Subcommittee Meeting

At the second Subcommittee meeting, presentations were made concerning various budgeting issues. Mr. Jon Neiderbach, Legislative Fiscal Bureau, provided an analysis of the impact of changing the dates of the state fiscal year to match the federal fiscal year which commences on October 1 rather than July 1; Dr. Hugh Winebrenner, Dean of the College of Business and Public Administration, Drake University, presented his views concerning strategic vs. incremental decision making in state government; Mr. Dwayne Ferguson, Legislative Fiscal Bureau, presented information regarding various state's practices concerning conference committees; Mr. Bob Snyder and Mr. Leroy McGarrity, Legislative Fiscal Bureau, presented information concerning program performance-based budgeting and zero-base budgeting; and Dr. Mel Arslander, Professor, Drake University, presented his views concerning techniques to improve legislative oversight through the budget process. The meeting concluded with a roundtable discussion of the members' opinions concerning the presentations.

November 8 Legislative Budgeting Subcommittee Meeting

At the third meeting of the Subcommittee, members received information from staff in response to questions raised during the previous meeting and approved recommendations for the consideration of the full Committee. Mr. John Pollak, Legislative Service Bureau, provided information concerning the conference committee process used in Kentucky and procedures used in the 50 states concerning transmission of the court budget to the legislative branch for appropriation. The Subcommittee approved the recommendations which were ultimately adopted by the full Committee which are part of this report and listed under the heading "Legislative Budgeting." The full Committee agreed to modify the proposal concerning conference committee rules to apply to the 1992 Session rather than the 1993 Session as originally proposed by the Subcommittee.

STANDING APPROPRIATIONS AND ENTITLEMENTS SUBCOMMITTEE MEETINGS

September 30 Standing Appropriations and Entitlements Subcommittee Meeting

At the first meeting of the Subcommittee, members made general comments concerning the Subcommittee charge and developed information requests to be reported at future meetings.

November 1 Standing Appropriations and Entitlements Subcommittee Meeting

At the second meeting of the Subcommittee, members received comprehensive state budget financial information prepared by the Legislative Fiscal Bureau staff. The following documents were distributed: General Fund Standing Appropriations FY 1982-FY 1992; State General Fund Expenditures by Type FY 1982-FY 1992; Projected FY 1993 Built-in Increases and Contingent Appropriations; Projected 1993 Built-in Increases; and General Fund Budget and State Aid to Schools. Discussion centered on the contents of these documents and members requested additional information and clarifications from legislative staff and Mr. Lee Tack, Department of Education, and Mr. Lynn Barney, Department of Management, who were attending the meeting.

November 22 Standing Appropriations and Entitlements Subcommittee Meeting

At the third meeting of the Subcommittee, Mr. Jon Studer, Legislative Fiscal Bureau, discussed revised versions of the documents distributed at the previous meeting. Following this discussion, members proposed various potential recommendations to the full Committee and approved the following two recommendations: recommend Iowa Code changes to require that all standing appropriations are conditioned on direct appropriation by the General Assembly; and recommend that the full Committee investigate establishing a maximum percentage of the budget which may be expended for formula-driven appropriations for education (school aid formula, child development, instructional support levy, educational excellence, community college formula, etc.). These recommendations were ultimately replaced by a different recommendation during the full Committee's deliberations.

STATUTORY SPENDING LIMITATION SUBCOMMITTEE MEETINGS

September 30 Statutory Spending Limitation Subcommittee Meeting

At the first Subcommittee meeting, members discussed the House and Senate versions of HF 713, relating to state budget and financial control, which would implement a statutory spending limitation. This bill was considered but not enacted during the 1991 Session and the differences between the two chambers were not placed before the House Appropriations Committee prior to adjournment. It was suggested that the Auditor of State's proposal to redirect revenues from the state use tax from deposit in the Road Use Tax Fund could be meshed with a spending limitation proposal. Staff were directed to initiate processes necessary to invite National Conference of State Legislatures staff to make a presentation to the Subcommittee's next meeting. The Legislative Council subsequently approved this request.

October 17 Statutory Spending Limitation Subcommittee Meeting

At the second Subcommittee meeting, Mr. Ron Snell, Fiscal Program Manager, National Conference of State Legislatures, discussed Tax and Expenditure Limitation (TEL) statutes among the states. He noted that studies suggest that TELs have not been effective in limiting the growth of state budgets and identified factors which limit their effectiveness. He explained, however, that the Oklahoma and Delaware provisions, which are most similar to the approach used in HF 713, may be effective cash management devices to provide a reserve fund in the event revenues in a fiscal year do not meet expectations. Mr. Snell suggested that attention also be given to dealing with standing appropriations and other spending reforms, and discussed in detail, other state financial practices with members.

November 12 Statutory Spending Limitation Subcommittee Meeting

At the third Subcommittee meeting, members received additional information from staff concerning waiver provisions used in other states' TELs and an analysis as to how use tax moneys are currently obligated within the Road Use Tax Fund. The members extensively discussed various spending limitation approaches. There was agreement on establishing a state spending limitation to develop a five percent cash reserve amount. However, there was disagreement on the questions of requiring a majority vote of more than 51 percent of the membership in order to appropriate beyond a three percent reserve amount and of including the limitation and cash reserve requirements in the Iowa state Constitution. The Subcommittee did not adopt formal recommendations, however, the items listed under divisions "A" and "D" of the full Committee's final report were all transmitted to the full Committee without recommendation.

MATERIALS PROVIDED TO MEMBERS

Materials provided to Committee members during the course of the study include the following:

1. Background information compiled by the Legislative Service Bureau including excerpts from the document providing information for the issuance of Iowa Tax and Revenue Anticipation Notes (TRANs); a summary of spending limitation proposals considered by the Senate and House of Representatives during the 1991 Session; and an overview of a National Conference of State Legislatures (NCSL) presentation concerning state tax and expenditure limitation (TELs) proposals.
2. Background information prepared by the Legislative Fiscal Bureau summarizing the budget process used by the state of Iowa; financial

projections developed for a spending limitation proposal considered by the 1991 General Assembly; and a comparison table of state budgeting processes.

3. Information concerning the Governor's Committee on Government Spending Reform, including committee and task force charges, membership, and timelines.
4. Information concerning GAAP and the TRANs submitted by staff of the Department of Revenue and Finance and the Treasurer of State.
5. Information submitted by the Auditor of State.
6. Information submitted by Legislative Fiscal Bureau staff concerning the impact of changing the dates of the state fiscal year to match the federal fiscal year, program and performance-based budgeting, zero-base budgeting, various states' legislative budgeting processes, the financial documents referred to in the summary of the Standing Appropriations and Entitlements Subcommittee activities, and two analyses of use tax receipts which are deposited in the Road Use Tax Fund.
7. Information submitted by Legislative Service Bureau staff concerning conference committee processes utilized in the Kentucky Legislature, waiver provisions used in tax and expenditure limitation provisions, information regarding submission of state court budgets to the legislative branch, and summaries of the recommendations considered by the Governor's Committee on Government Spending Reform and its task forces.
8. Information concerning the Road Use Tax Fund prepared by staff of the State Department of Transportation.
9. Information concerning tax and expenditure limitation provisions submitted by staff of the National Conference of State Legislatures.
10. Information concerning state and federal mandates upon local governments prepared by the Iowa State Association of Counties, the Iowa League of Municipalities, and the Iowa State Association of School Boards.

STATE BUDGET AND BUDGETING PRACTICES STUDY COMMITTEE
Recommendations to the Legislative Council
and General Assembly
Adopted December 16, 1991

A. Statutory Spending Limitation and Cash Reserve

1. The state of Iowa should implement a statutory general fund spending limitation.
2. The scope of the spending limitation should cover all general fund receipts, including all use tax moneys and trust funds. The limitation should not include gifts, federal funds, constitutionally dedicated moneys, and pension moneys.
3. A state general fund cash reserve should be implemented in conjunction with the spending limitation. The cash reserve amount should be incrementally implemented until a five percent amount is reached. A similar five percent cash reserve requirement should be applied to the Road Use Tax Fund.
4. The statute should provide that moneys in excess of a three percent cash reserve amount are subject to appropriation by a simple majority of the General Assembly. However, if an appropriation or the sum of appropriations would cause the cash reserve moneys to be equal to or less than three percent, the appropriation could not be made unless a majority of both chambers of the General Assembly and the Governor approve a separate bill or joint resolution which states the need to appropriate those moneys.
5. If a new revenue source is considered or enacted into law, the fiscal estimates projected for the source and, if enacted, the actual revenues for the new source, would also be subject to the five percent cash reserve requirement.
6. If the state considers assuming or actually assumes a responsibility from another governmental entity, the cost projections and actual cost of that responsibility would be subject to the spending limitation. Accordingly, if the responsibility would include a revenue source, this source would also be subject to the five percent cash reserve requirement.

B. Legislative Budgeting

1. *Budget Conference Committees.* For the 1992 Session, amend the joint rules to require that the first conference committee be "closed" or limited to considering only the differences between the two chambers. If agreement cannot be reached, then a second and open

conference committee may be appointed in which any topic may be considered for inclusion in the conference committee report.

2. *December Revenue Projection.* Amend statutory provisions to require the General Assembly and the Governor to use the December revenue projection provided by the Revenue Estimating Conference (REC) in crafting a budget. If the REC subsequently projects increased revenues, budget revenues would still be tied to the December estimate. If the REC subsequently projects decreased revenues and the General Assembly is still in session, both the Governor and the General Assembly would be required to amend their budgets to account for the reduced revenue projection.

3. *Revenue Estimating Process.* Consideration should be given to identifying an economic model, methodology, or fiscal indicator to provide the basis for the REC estimate. If the REC deviates from the amount derived from the model, methodology, or indicator, the members would be required to formally indicate the rationale for the deviation.

4. *Performance-based budgeting, zero-base budgeting, and long-range planning.* Appropriation subcommittees shall each choose a program, department, or budget area to implement these measures (similar to the pilot project implemented in the 1991 Session by the Joint Health and Human Rights Appropriations Subcommittee with the addition of long-range planning). Start small, see what works, and in a couple of years recommendations can be considered for the full budget based on the experience with these pilot projects. Long-range planning would involve five year plans, reviewing populations served, revenues available, directions to consider, measures to implement, current programs to discard, etc.

5. *Separate Budget Session.* Consideration should be given to appointing a bipartisan committee to review the advantages and disadvantages of establishing a separate legislative budgeting session apart from the regular session of the General Assembly. The review should also consider whether a change in the dates of the state fiscal year would be necessary to implement a separate budgeting session, and this consideration should include the option of adopting the time period used for the federal fiscal year. Opportunity should be provided for the input of parties who may be affected by any change in the dates of the fiscal year.

C. Standing Appropriations and Entitlements

Standing Appropriation Limit. Establish a maximum percentage of overall revenue increases that may be used for increases in standing unlimited appropriations.

D. Additional Proposals

During the Study Committee's final meeting, there were insufficient votes for the following proposals to become formal recommendations of the Study Committee. However, there was consensus to list these items as part of the final report:

1. Concerning the cash reserve requirement, provide that a 3/5 majority vote of each chamber would be required if the sum of appropriations would cause the cash reserve amount to be reduced to less than the three percent minimum. This provision was deleted and replaced by spending limitation item 4, requiring passage of a separate bill or joint resolution, in order to reduce the reserve below the minimum amount.
2. Consideration should be given to writing the spending limitation and cash reserve provisions into the Iowa Constitution.

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