

Jan. 13, 2017

UEN Analysis of Governor's Jan. 10, 2017 Budget Recommendation Follows. Please see the UEN Web Site for updates, priorities, issue briefs and talking points: <http://www.uen-ia.org/legislation.htm>

Highlights of Gov. Branstad's State of the State Address: On Tuesday morning, January 10, Gov. Branstad delivered what looks to be his final state of the state address, as he awaits Senate confirmation of his appointment as USA Ambassador to China. He stated "We have stayed the course with an unwavering commitment to create jobs, increase family incomes, reduce the size of government, and give Iowa students a globally competitive education." Find the text of his entire speech and links to the Department of Management budget documents [here](#).

He shared some good news about the condition of Iowa's economy:

- "We've seen unemployment in our state drop from 6.2 percent to 3.8 percent.
- The state has helped attract more than 13 and a half billion in private-sector capital investment, which has translated into great-paying jobs across Iowa.
- More Iowans have been employed these past few years than at any other period in our state's history.
- We have provided significant tax relief for Iowans the past five years, especially for commercial property taxpayers."

Education Reform: He championed the Teacher Leadership initiative, proud that every public school district is participating and singled out Lt. Gov. Reynolds' leadership in the STEM initiative.

Health Insurance Benefits: Gov. Branstad discussed the growing cost of health insurance under "our antiquated collective bargaining system that has led to over 500 health-care plans, many of which are inefficient and way too costly for public employees and Iowa taxpayers." His plan is to replace "this system with one comprehensive statewide health-care contract to spread the risk and dramatically reduce costs."

Growing the State's Talent Pipeline: He welcomed students from Jefferson Elementary School in Des Moines, Bondurant-Farrar Middle School and Waukee High School, "which has one of the premier work-based learning programs in our state." In several places throughout his speech, he talked about the link between education, skill development, skills gap, and workforce. He and Lt. Gov. Reynolds set the Future Ready Iowa goal that 70% of Iowans in the workforce should have education or training beyond high school by 2025. "Today, less than half of our workforce does."

Comprehensive computer science initiative: The Governor and Lt. Governor are encouraging every high school to offer at least one high-quality computer science course, every middle school to provide exploratory computer science, and every elementary school to include an introduction to computer science. "All students need to learn how computers operate because it is fundamental to life and work today. Computer science will provide students a chance to join one of the fastest-growing and best-paying fields."

Education Funding: Gov. Branstad also stated that "the state has significantly increased funding for education since 2011, amounting to over 654 million additional dollars. Education and job training are the foundation for our future economic growth." His budget recommendation includes an increase of \$73 million for K-12 education for FY 2018 and another \$61 million for FY 2019, 2% increase in the state cost per pupil each year. He also encouraged the legislature to get it done within 30 days.

Note on Water Quality: The Governor said in his speech that HF 2451 from the 2016 session was a good bi-partisan start to finding an ongoing source of revenue for water quality (passed the House with 65 votes.) The bill redirected sales revenue from the sale of water by utilities, instead calling it an excise

Jan. 13, 2017

tax on water sales, which builds up to \$21 million annually by FY 2022. This amount of funding would be an additional hit to the state general fund since it is already being collected. It is well short of what 3/8th of a penny of sales tax would deliver (just under \$160 million annually), but does not depend on diverting fund from the school infrastructure penny to support water quality. As a reminder, Iowa voters approved a constitutional amendment in 2010 that would dedicate 3/8th of a penny of sales to the environment and recreation, but the legislature has not acted to increase the sales tax, which is required for the constitutional amendment to take effect.

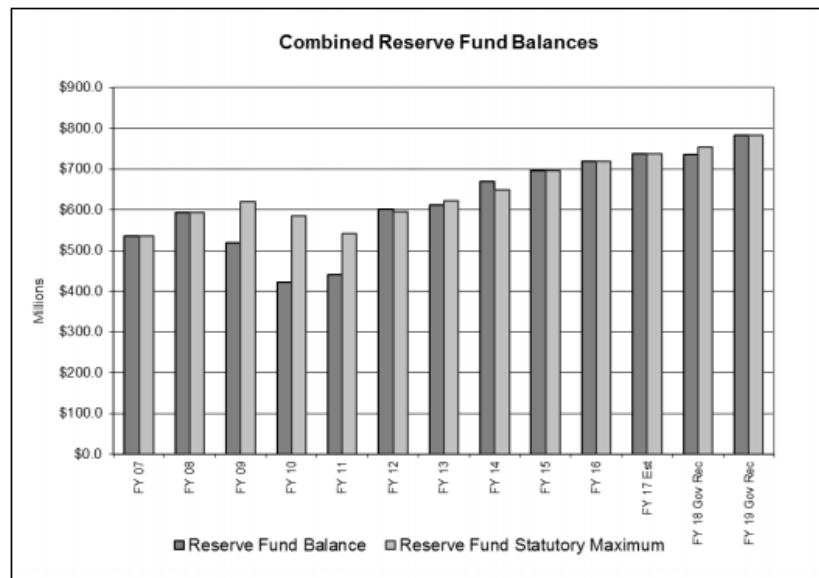
The remainder of this analysis is based on the Legislative Services Agency's Analysis of the Governor's Budget Recommendation. Source: PRELIMINARY SUMMARY GOVERNOR'S GENERAL FUND BUDGET RECOMMENDATIONS for FY2017, FY 2018 and FY 2019, Legislative Services Agency: <https://www.legis.iowa.gov/docs/publications/LAGRP/851273.pdf>

The size of the budget and FY 2017 changes: The Governor recommends revision to the current FY 2017 budget including

- A net revenue increase of \$3.3 million which includes transfers to the state general fund from other funds of \$33.2 million and a reduction of \$29.9 million to couple with federal IRS changes. (His recommendation does not include coupling with IRC Section 179 accelerated depreciation for qualified business purchases.)
- Supplemental appropriation of \$4.3 million for the Indigent Defense Program
- Deappropriations of \$114.4 million from the current fiscal year, the largest of which are
 - \$-25.6 million Board of Regents
 - \$-20.3 million Department of Human Services
 - \$-15.0 million Department of Corrections
 - \$-13.9 million DHS (Medical Assistance, or Medicaid)
 - \$-8.7 million Community Colleges
 - \$-7.7 million Judicial Branch
 - \$-5.5 million Department of Education

Fund Balances: The governor's recommendation has an estimated combined reserve fund balance of \$735.3 million for FY 2018 (made up of the economic emergency fund and the cash reserve fund combined balances.) The FY 2018 recommendation amount is \$18.3 million below the 10% statutory maximum of \$753.6 million. His FY 2018 reserve balance total is a combined \$783.6 million, which meets the 10.0% statutory maximum.

State Cost per Pupil FY 2018: The Governor is recommending an appropriation of \$3.223 Billion for state aid to schools for FY 2018. The 2% increase in the cost per pupil requires an increase of \$132.8 million, which is an increase of 4.3% compared to the FY 2017 funding level. However, \$55.1 million of



Jan. 13, 2017

that is increase is TLC, transitioning the districts which implemented through grant funding in FY 2017 to formula funding for FY 2018. The LSA analysis states “All school districts are now funded for this program through the State aid formula and future year increases will more closely reflect the State percent of growth.” Additionally, the state’s continuation of the Property Tax Replacement Program, through which the state absorbs the cost of the per pupil increase that would otherwise be property tax, grows another \$9.3 million. This raises the state contribution through the PTRP from \$74 per student in FY 2017 to \$90 per student in FY 2018, which is a 20.4% increase. The total also reduces the AEAs by \$15 million compared to what the formula would otherwise deliver, which is an action similar to the last prior years’ activity. This effectively restores the last minute \$3.75 million cut to the AEA’s at the end of the 2016 Session, but still leave them short what the formula would otherwise deliver.

State cost per Pupil FY 2019: The Governor recommends another 2.0% increase in the state cost per pupil for FY 2019.

Other Education Appropriations FY 2018: Department of Education: Total of \$290.3 million for FY 2018. This is a decrease of \$59.0 million (20.3%) compared to estimated FY 2017 which includes:

- A decrease of \$54.0 million associated with the phase-in completion of the Teacher Leadership Compensation System in FY 2017. Beginning in FY 2018, the Teacher Leadership Compensation System will be funded entirely through the State School Aid formula.
- A decrease of \$4.6 million for Community College General Aid.
- A new \$3.5 million for the Reading Coaching and Professional Learning Program. The Governor’s recommendation continues this \$3.5 million in FY 2019.
- An increase of \$1.2 million for the Early Literacy Early Warning System.
- A decrease of \$536,000 for the Child Development/At Risk standing appropriation.
- A decrease of \$1.0 million associated with the AEA Distribution appropriation.
- A decrease of \$500,000 for administrator mentoring.
- Eliminates competency based education and fine arts beginning teacher mentoring programs.
- The Governor also recommends slight reductions in FY 2018 to several items in the education budget, including CTE administration, Early Childhood Iowa, Early Head Start Projects, Jobs for America’s Graduates, AEA support, and the ELL Pilot Project
- (Note: There is no appropriation for mandated summer school for non-proficient third graders which first becomes effective summer 2018.)
- Includes a new appropriation of \$6.1 million for LEA Assessment first appears in FY 2019 (the DE requested \$10 million for FY 2018.).

Tax Credits: The LSA Summary of the Governor’s Budget Recommendation also includes an explanation of growth in tax credits. The analysis states: “Another factor influencing General Fund revenues are tax credits claimed against personal and corporate income. From FY 2007 to FY 2016, claimed tax credits have increased from \$197.6 million to \$353.8 million. This represents an increase of \$156.3 million and equates to an average annual increase of 6.7%. According to the Iowa Department of Revenue, tax credit claims are projected to increase to \$404.3 million (14.3%) in FY 2017 and to \$426.9 million (5.6%) in FY 2018.” Education advocates interested in the health of the state’s general fund might consider advocating for budget and outcomes accountability for tax credits, to require that they are producing anticipated jobs and economic growth in order to continue.

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