

UEN Legislative Update Governor's Budget Recommendation

January 23, 2020

Preliminary Analysis of the Governor's Budget Recommendation:

The Legislative Services Agency provided the full analysis of the Governor's Budget Recommendation, found here: <https://www.legis.iowa.gov/docs/publications/LAGRP/1126622.pdf>

The following details were reported in that Analysis document.

Table 1 shows the Governor's budget recommendation and ending balances/surplus, expecting \$386.5 million in surplus at the end of FY 2021.

Table 1

| Projected Condition of the General Fund Budget | | | |
|---|-------------------|----------------------|--------------------|
| (In Millions) | | | |
| | Actual FY 2019 | Estimated FY 2020 | Gov Rec FY 2021 |
| Funds Available | | | |
| Net Receipts | \$ 7,858.9 | \$ 8,014.6 | \$ 8,249.0 |
| Revenue Adjustments | 0.0 | - 0.3 | - 7.3 |
| Surplus Carryforward | 71.0 | 195.6 | 232.6 |
| Total Funds Available | <u>\$ 7,929.9</u> | <u>\$ 8,209.9</u> | <u>\$ 8,474.3</u> |
| Expenditure Limitation | | | \$ 8,382.7 |
| Estimated Appropriations and Expenditures | | | |
| Appropriations | \$ 7,480.2 | \$ 7,642.6 | \$ 8,092.8 |
| Adjustments to Standings | - 2.8 | - 3.8 | 0.0 |
| Supplemental/Deappropriations | 168.6 | 111.1 | 0.0 |
| Total Appropriations | <u>\$ 7,646.0</u> | <u>\$ 7,749.9</u> | <u>\$ 8,092.8</u> |
| Reversions | - 5.4 | - 5.0 | - 5.0 |
| Net Appropriations | <u>\$ 7,640.6</u> | <u>\$ 7,744.9</u> | <u>\$ 8,087.8</u> |
| Ending Balance – Surplus | <u>\$ 289.3</u> | <u>\$ 465.0</u> | <u>\$ 386.5</u> |

Note: Numbers may not equal totals due to rounding.

The Governor's recommendation includes a proposal to increase the state penny sales tax by an additional penny, with a corresponding reduction in individual income tax.

Governor's Revenue Adjustments

The Governor's budget includes General Fund revenue adjustments of negative \$0.3 million for FY 2020 and negative \$7.3 million for FY 2021 (**Table 2**). The Governor's revenue adjustment recommendations include:

- A 1.0 percentage point increase in the State sales/use tax rate beginning January 1, 2021.
- A reduction in State individual income tax rates beginning with tax year 2021.
- Elimination of the water excise tax.
- Exempting purchases of diapers and feminine hygiene products from the sales/use tax.
- Increasing the income limit for calculation of the Early Childhood Development (ECD) and Child and Dependent Care (CDC) tax credits to \$95,000 (the current income limit is \$45,000).
- The creation of a new Preceptor Tax Credit to encourage existing medical care providers to supervise and train medical care residents.

Table 2

| General Fund Revenue Adjustments | | |
|--|--------------------|--------------------|
| (In Millions) | | |
| | Gov Rec FY 2020 | Gov Rec FY 2021 |
| Increase Sales/Use Tax Rate to 7.0% | \$ 0.0 | \$ 182.6 |
| Reduce Individual Income Tax Rates | 0.0 | -170.8 |
| Eliminate Water Excise Tax | 0.0 | -9.2 |
| Eliminate Sales/Use Tax on Specified Items | 0.0 | -4.5 |
| Expand ECD and CDC Tax Credits | -0.3 | -5.3 |
| Create Preceptor Tax Credit | 0.0 | -0.1 |
| Total Revenue Adjustments | \$ -0.3 | \$ -7.3 |

The Governor's Recommendation directs 3/8ths of the increased penny to the Natural Resources and Outdoor Recreation Trust Fund. This is estimated to generate \$83.6 million to the Trust Fund in FY 2021 and \$171.3 million in FY 2022.

State School Aid: The Governor is recommending an estimated General Fund appropriation of \$3.381 billion for State aid to schools in FY 2021, an increase of \$95.7 million compared to FY 2020. This amount is intended to reflect a supplemental State aid percent of growth rate of 2.50% and a \$15.0 million reduction to the Area Education Agencies (AEAs), which is in addition to the statutory reduction of \$7.5 million specified in the Iowa Code. The amount also reflects an adjustment to the Property Tax Replacement Payment (PTRP) funding per student, which is estimated to increase from \$110 to \$131. The amount further reflects an increase of \$1.0 million for the addition of work-based learning coordinators to the positions covered by operational sharing.

Mental Health and Disability Services (MHDS) Regional Services: The Governor is recommending a new appropriation for MHDS regional services to reduce the mental health property tax levy by \$77.1 million and to provide an additional \$3.5 million in funding for the regions.

Transportation Equity Fund: The Governor is recommending a General Fund appropriation of \$24.5 million to the Transportation Equity Fund, an increase of \$5.5 million compared to FY 2020. The Transportation Equity Fund was created to provide additional funding to school districts for public school transportation costs that exceed the statewide adjusted average cost per student.

Table 6 shows the estimated balances of Iowa's Reserve Funds based on the Governor's Budget Recommendation.

Table 6

| State of Iowa Reserve Funds | | | |
|---|-----------------|-----------------|-------------------|
| (In Millions) | | | |
| | Actual | Estimated | Gov Rec |
| Cash Reserve Fund | <u>FY 2019</u> | <u>FY 2020</u> | <u>FY 2021</u> |
| Funds Available | | | |
| Balance Brought Forward | \$ 442.4 | \$ 571.6 | \$ 587.9 |
| General Fund Transfer from Surplus | 127.3 | 289.3 | 465.0 |
| Special General Fund Appropriation | 113.1 | 0.0 | 0.0 |
| Total Funds Available | <u>\$ 682.8</u> | <u>\$ 860.9</u> | <u>\$ 1,052.9</u> |
| Transfer to Economic Emergency Fund | -111.2 | -273.0 | -434.8 |
| Balance | <u>\$ 571.6</u> | <u>\$ 587.9</u> | <u>\$ 618.1</u> |
| <i>Maximum 7.5%</i> | \$ 571.6 | \$ 587.9 | \$ 618.1 |
| Economic Emergency Fund | | | |
| Funds Available | | | |
| Balance Brought Forward | \$ 177.9 | \$ 185.6 | \$ 196.0 |
| Excess from Cash Reserve | 111.2 | 273.0 | 434.8 |
| Executive Council – Performance of Duty | -14.2 | -7.0 | -16.7 |
| Transfers to and from the General Fund | 0.0 | 0.0 | 0.0 |
| Total Funds Available | <u>\$ 274.9</u> | <u>\$ 451.6</u> | <u>\$ 614.1</u> |
| FY 2019 Perf. of Duty Expense | -4.9 | 0.0 | 0.0 |
| Excess Surplus | -84.4 | -255.6 | -408.1 |
| Balance | <u>\$ 185.6</u> | <u>\$ 196.0</u> | <u>\$ 206.0</u> |
| <i>Maximum 2.5%</i> | \$ 190.5 | \$ 196.0 | \$ 206.0 |
| Distribution of Excess Surplus | | | |
| Transfer to General Fund | \$ 71.0 | \$ 195.6 | \$ 232.6 |
| Transfer to Taxpayer Relief Fund | 13.4 | 60.0 | 175.5 |
| Total | <u>\$ 84.4</u> | <u>\$ 255.6</u> | <u>\$ 408.1</u> |
| Combined Reserve Fund Balances | | | |
| Cash Reserve Fund | \$ 571.6 | \$ 587.9 | \$ 618.1 |
| Economic Emergency Fund | 185.6 | 196.0 | 206.0 |
| Total | <u>\$ 757.2</u> | <u>\$ 783.9</u> | <u>\$ 824.1</u> |

UEN Talking Points about the Economy, Adequate School Funding, The Governor's Budget Recommendation and Study Bills in the House and Senate Setting SSA (school funding) for FY 2021.

Reflections on the Iowa Economy:

- REC estimate for FY 2020 is 2.1%. Revenues are up 6.7% year to date. REC estimate for FY 2020 is 2.9%.
- State reserve funds are full and surpluses are growing.
- In the Governor's Budget Recommendation:
 - the Taxpayer Relief Fund would be the recipient of the largest line-item dollar amount increase for FY 2021 if there wasn't an automatic transfer of additional surplus into the

fund (as opposed to being available for the state's general fund priorities (\$175.5 million transfer)

- Medicaid appropriations are the second largest dollar increase, at \$167 million.
- School aid and transportation equity are third, at \$101.2 million.
- The 2018 tax cuts are still being phased in and the SAVE extension provides additional property tax relief for the next 30 years.

This sets the stage for adequately funding schools. The Governor's Recommendation (and House's amount) of 2.5% would be the second largest increase in 11 years. Iowa's economy and school budgets have been constrained, but now that growth is positive, it's time for schools to be funded.

With the SSA bills moving out of subcommittees on Thursday this week, urban school advocates have this weekend through Tuesday to contact legislators, especially Senators, to encourage them to at least match the House and Governor's 2.5%. Thank all of them for quick action and meeting the 30-day deadline. And also thank them for working on the transportation and formula equity pieces of the school funding puzzle. See details of the subcommittee action and a comparison of the proposals below.

State Supplemental Assistance (per pupil cost increase): House and Senate bills were introduced this week on the state cost per pupil increase for FY 2021. The House sets the high bar, agreeing with the Governor's 2.5%, adding \$1.8 million to transportation equity above the Governor's number, includes \$5.8 million for formula equity and \$2.5 million for therapeutic classrooms/student behavior not in the Governor's Recommendation. The Senate agrees with the House but for 2.1% SSA.

| | Governor Recommendation | House HSB 587 & HSB 594 | Senate SSB 3096 & SSB 3097 |
|---|--------------------------------|------------------------------------|---------------------------------------|
| SSA % for FY 2021 | 2.50% | 2.50% | 2.10% |
| SCPP \$ increase | \$172 per pupil | \$172 per pupil | \$144 per pupil |
| State Aid Increase | \$94.7 million | \$94.7 million | \$75.7 million |
| Categorical Fund \$ Increase | \$15.9 million | \$15.9 million | \$14.0 million |
| PTRP per pupil | \$131 per pupil | \$131 per pupil | \$128 per pupil |
| PTRP \$ total | \$75.1 million | \$75.1 million | \$73.3 million |
| Transportation | \$5.5 million | \$7.3 million | \$7.3 million |
| Formula Equity per Pupil | \$0 | \$10 per pupil | \$10 per pupil |
| Formula Equity Total \$ | \$0 | \$5.8 million | \$5.8 million |
| Work-based Learning coordinator Operational Sharing | \$1.0 million | | |
| Therapeutic Classrooms Student Behavior | | \$2.5 million | \$2.5 million |
| Total Dollars: | \$101.2 million | \$109.5 million | \$91.3 million |
| Continued AEA reduction | \$22.5 million | \$22.5 million | \$22.5 million |

UEN requests that both priorities be accomplished with the current state revenue picture; 3.75% increase in SSA, fully fund the transportation equity payments, and accelerate closing the \$165 gap in the district cost per pupil.

Check out the FY 2020 [ISFIS New Authority Report](#) and compare the various proposals at 2.1% and 2.5% with the 3.75% UEN request. What additional resources would be available to your district? How would your district put those dollars to work for students?

Adequate Funding Talking Points: UEN's priority for adequate funding calls for 3.75% increase in SSA for FY 2021.

- THANK YOU to all legislators for working on SSA quickly to meet the 30-day deadline.
- 2.5% SSA does not allow schools to keep pace with cost increases or compete with the private sector for labor, let alone lower class sizes and increase educational opportunities for students.
- Iowa's schools statewide spend 62.6% of their General Funds on salaries, 19.6% on employee benefits and the remaining 18% on everything else (utilities, training, textbooks, bus fuel, educational software, assessments, etc.) There is little left to reduce expenditures after 11 years of low increases, but staffing.
- The Consumer Price Index, CPI, based on a market basket of goods, doesn't measure what schools buy, primarily people. Having said that, SSA hasn't even kept pace with CPI, as Sen. Quirnbach pointed out in the Senate Subcommittee discussion.
- Iowa's economy has strong Per Capita Personal income and Gross Domestic Product growth, both of which are good benchmarks to demonstrate why SSA has been short in the last decade. Iowa's full coffers and growing surpluses are a good indication the state can afford to adequately fund schools.
- Iowa's 2.6% unemployment rate, one of the best in the nation, puts pressure on all employers to hire qualified staff. Schools are no exception and will not be able to compete with private sector employers if we don't have adequate SSA. All across the state, it is harder to find bus drivers, support staff, special education teachers, STEM and ELL teachers, demonstrating that our schools do not have the resources to be competitive.