Life in the red: Inefficiency in the Iowa state budget process

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Thesis Report:

LIFE IN THE RED: INEFFICIENCY IN THE IOWA STATE BUDGET PROCESS

by

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July 31, 1992
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INTRODUCTION

"1991 was a year when Iowa government got off track. Persistent overspending resulted in a nearly unmanageable budget deficit. Painful, difficult decisions had to be made - and still we are not done."

Iowa Governor Terry Branstad
Condition of the State Message
January 14, 1992

On June 24, 1991 Iowa Governor Terry Branstad announced a 3.25% "across the board" cut for all state-funded agencies and groups receiving money through the Iowa budget. The cuts were necessary to balance the Iowa budget for fiscal year 1992, and resulted in $104.6 million of budgeted aid being removed from standing and contingent appropriations. Iowans felt the pressure of the cuts in many different ways. Jobs were eliminated as hiring freezes were put into effect and many programs were left thousands, even millions of dollars short of amounts counted on for proper
But while the cuts were getting much attention, an even more startling figure remained hidden. In the midst of all the budget cuts and cutbacks, revenues for the state of Iowa in fiscal year 1991 increased 4.7%, a total of $142.1 million. Early forecasts for fiscal year 1992 - which had just received the $105 million in cuts - showed that revenues would increase by 6.8%, or $215.9 million.

An obvious question developed: "Why, when the state's revenues are increasing, is the state budget calling for cuts in spending and why does such a huge budget deficit exist?" This question and some of the answers I have found to it led to my thesis.

It has been said by many that the United States government is the most inefficient "business" in the world. In the past decade, we have seen a national budget deficit soar to nearly $400 billion. There have been enough political financial scandals, $500 hammers, and lavish waste stories that it does become difficult
to make the inefficiency claim invalid.

But amongst news of the troubles in the federal government, many state and local governments have also become to know what is often called "life in the red" (Koretz, pg. 12). Our own state of Iowa has been one of these states, with an estimated deficit last year that totalled nearly $340 million. Long range estimates have predicted that if the current situation is not improved, the deficit could be $15 billion by the year 2000.

I have proposed in my thesis that this deficit, and some of the extreme financial problems in the state of Iowa, can be explained and solved, in part, by a study of and improvement on inefficiency in the state's budget-process and procedure. I have focused on a number of problems that exist in the budget process and have examined them from both an analytical and a practical/social approach.

The body of my thesis will focus on the following three areas:

* The process involved in developing the Iowa
State Budget.

* The problems and inefficiency associated with the budget and how they have harmed the financial well-being of the state.

* Possibilities for solutions and actions that need to be addressed for a more efficient and effective process.
"...Many believe the budget is the most significant financial document produced by a governmental unit."

Government Accounting Standards Board
Code Section 100.119

Budgeting is a very complex and difficult task. Yet it is a task critical to the effectiveness of any type of operation which relies heavily on finances. The complexities arise from the fact that there are many different philosophies and methods for producing a budget, each one subject to the basic premise of attempting to predict relatively uncertain events. Like any forecast or prediction, a relative degree of error becomes a component of the budget, where small errors can make a very big difference.

The process used to develop the operating budget for the state of Iowa, as in any government unit, is key to its financial success. Government use of budgets is extremely important when compared to a regular business, as budgets are the primary financial
documents produced by governments (Granof, pg. 28). The Financial Accounting Standards Board (FASB) as well as the Government Accounting Standards Board (GASB) have recognized the unique role of the budget in the public sector, stating that "budgets are central not only in allocating resources but in obtaining them. They are pivotal in establishing the level of dues, taxes or fees to be imposed, the level of services to be provided and the desired relation between the two." The GASB contends that the budget is much more than a chief financial document. It states that it also may be an expression of public policy, a financial expression of intent, a form of control and a basis for evaluation of performance (Granof, pg. 29).

As will be discussed later, the process is not controlled entirely by financial inputs and constraints. Social, ethical, and political forces hold a strong influence over what goes into the budget and how it comes out. This fact, added to the relative degree of risk and uncertainty that accompanies any figures that are mere predictions of future actions make budgeting the difficult process that it is. But
because it is so important, it becomes even more critical that the highest degree of care and strategy, including highly efficient planning and implementation, are involved.

The state of Iowa uses what is called a "modified zero-based" budget system. The budget "evolves" in two stages. The frame or skeleton of the budget comes from the previous fiscal year. Each "line item" receives 75% of the amount budgeted from the previous year as a starting point. The funding beyond that initial frame is the result of specific budget requests from state-funded groups and agencies. Money is allocated according to how much revenue is available, and based on the policy decisions of the governor and state legislators. These factors will ultimately determine how the rest of the money is apportioned in the budget.

The actual process begins with a three-person team of financial analysts who make up the Budget Revenue Estimating Committee. This group meets quarterly at the Revenue Estimating Conference to estimate and revise previous estimates of the state's forthcoming revenues. These revenues, as can be seen from the
chart on page 46, come from a number of sources, and their estimates involve complex data and formulas, as well as a great deal of financial analysis. Because the budget actually begins with the revenue estimates, the process is very critical to the entire development of a budget. As will be discussed later, this estimating activity can be the source of much criticism and debate. The starting point and perhaps the most critical area in determining what actual amounts will be used in the budget may also be the most difficult part, subject to the greatest amount of error.

Once revenues for the upcoming fiscal year have been estimated, the committee will report to the governor. The governor will immediately hold hearings, usually in November and December, for groups and departments to give their budget requests to him. The governor, with help from members in the State Department of Management and a small Governor's Budget Committee, will then draw up his proposed budget recommendations for the next fiscal year.

It should be noted that in Iowa, as opposed to many other states where the budget is developed more
from outside committees, the budget is a very direct product of the governor and his or her decisions as to where the money will be allocated. The power of the governor in the process is unique in that although the legislators in the state must approve the budget, it normally remains intact as to what the governor had initially proposed.

The governor will release his proposed budget recommendations for the next fiscal year in his Condition of the State address and report in January. From there it will be dissected, analyzed and interpreted by the non-partisan Legislative Fiscal Bureau, who will present it to the legislators. Specific appropriations committees and subcommittees in the Iowa House and Senate will meet with the budget information broken down into useful sections. These committees will review the budget requests of the specific agencies and groups who have funds appropriated to them in the budget, and make recommendations as to any changes they may feel are necessary. Once the budget has been through committees and any revisions have been made, the budget will be final.
voted on in both the house and senate of the Iowa Legislature and then will passed back to the governor for a final approval.

The process in its pure form is rather specific and easy to explain. In reality, as we have seen very clearly and dramatically this past year, it is an extremely complicated and difficult process. Revenue estimation is critically important, yet extremely difficult and subject to constant error and revision. The decisions and recommendations of the governor are personal and complex, influenced deeply by individual values and other political, social and ethical considerations. The committee meetings will also be made more complex by groups who lobby for a better standing in the budget and by legislators with differing opinions. External influences, such as party loyalty, inside knowledge or lack of knowledge in certain areas, and other political, social and ethical influences will greatly affect the final budget. In addition, a few specific complicating characteristics have developed in the Iowa process.

First, the Revenue Estimating Committee has had a
tendency, under pressures of a need for a larger budget, to estimate revenues at a level that is higher than is actually received. This will be discussed further in the inefficiency and problems section.

Also, the legislature has a tendency to "pass forward" a budget that spends less than the estimated revenues. There are several theories as to why states will either over- or underbudget according to planned revenues. Conservatism, a desire for more discretionary funds, or pressures from funded programs for more money are a few examples (Gentry, pg. 429). In Iowa, it appears that the legislature attempts to do so for political reasons, as the House and Senate are dominated by Democrats attempting to confront and "underspend" the Republican governor. Underbudgeting in the legislature allows for discretionary funds which may be used later in the fiscal year for specific groups or funds that may need more money or have extra political bargaining power. Legislators thus gain back some of the power in the budget process and can influence specific areas of the state's operations, making themselves and/or their particular party look
good to the public.

What evolves is a budget that has a good deal of political and other external tampering. These, as will be discussed later, may result in serious inefficiency.

In understanding the process of making a budget, it also becomes necessary to answer the following three questions, which lie at the very heart of budgeting:

* "Where does the money come from?"
* "Where is it going?"
* "How does it get there?"

The first two questions can be answered with reported financial information. How it gets there is the fascinating part of the Iowa budget process. It is also the area that leads to the most inefficiency.

"Where Does the Money Come From?"

The sources of funds that are used to provide for operations in the state are varied. Because of budget
cuts, aid from the federal government has been reduced as a percentage of the Iowa revenues. Thus, more government revenue comes directly from the people of the state.

An evaluation of the chart on page 46 in the back gives the general picture of what amounts have been and are expected to be collected in the next year, and where they are coming from. Taxes compose the majority of state revenues, with individual income tax making up 47% of the total. Social Security, Corporate Income, General and Selective Sales, Excise and Property taxes account for the rest of the total tax revenue. What is interesting is that Iowa is third in the nation in gas and tobacco tax rates, 17th in individual income and property taxes and in the upper half of states with its corporate income tax rates. The recent increase in sales tax from four to five percent also brings in an additional $230 - $260 million each year, putting Iowa above the average for state sales tax.

In dealing with revenues, a characteristic which exists is that it appears most residents/taxpayers in Iowa have little idea of the large amount of tax
dollars in total that they submit. Mark Edelman, a Public Policy Economist with Iowa State University and a member of the Public Policy Education Project, states that "too many Iowans are unaware of where their money is going. The people receive very little publicized information as to where and how much revenue is being spent." This lack of accountability, and how it results in a government that is free to be inefficient, will be discussed later.

Finally, as the graph on page 47 shows total revenues in Iowa have increased every year since 1982, including increases of 4.7% in fiscal year 1991 and 6.8% in fiscal year 1992. The estimate for fiscal year 1993 showed an expected increase of 3.7%, but with the new sales tax, that increase will jump to over 11% as approximately $250 million will be added to the state revenues.

"Where Does the Money Go?"

The chart on page 48 gives the general breakdown for general fund in Iowa for fiscal year 1991. Iowa
spends 58% of all of its revenues on education, and another 21% on Health and Human Services.

Even more than in the revenue area, expenditures depend heavily on the individual choices and decisions of our leaders. Where the money goes depends greatly on the values and priorities of a few people. Although this may not be inefficient as such, it forces Iowans to leave a great deal of trust in the people who spend our money.

An important point to make in looking at expenditures is that in the budget for the past several years, the expenditures area has come under much criticism. Governor Branstad has continually said that the state has over-spent and must control this area to regain management of a balanced budget. On the surface, this appears to be correct, as the state has distributed more than its revenues for the last three fiscal years (see the graph on page 49). But "spending" may not be the actual problem. As is common in many aspects of American society today, the solution to a problem may only be the solution to a result of the problem. The real problem, in this case
inefficiency in the system, is overlooked by what appears to be too much spending. With revenues increasing each year, expenditures need not be cut, just efficiently controlled to match revenue growth. In an efficient system, given the net increases in revenue each year, Iowa spending could increase by the very same amounts as are currently used. In other words, there are no reasons to be experiencing budget cuts in the present system when revenues are increasing at the current rate.

One final point to be made about where the money is going is that in the next two decades, a greater amount of money will be going to the Health and Human Service area for health care of the elderly. Iowa will continue to have the second oldest population in the United States, and the costs of caring for these people will be enormous. Iowa government will need to do a great deal of planning and research into providing as efficient and low cost care as is possible.

"How Does it Get There?"
This is perhaps the most important area to examine in terms of the budget process. "Appropriations" are the means used by governments to set the amount of money that is funded to separate areas. Two types of appropriations exist. The first, "standing appropriations", are fixed amounts in the budget that are controlled automatically by legislation. At this time, about 60% of the Iowa budget expenditures are required to go into the budget through these legislative standing appropriations. The more flexible allocations, contingent appropriations, are the budgeted amounts that are given on the basis of policy, need, or merit according to what is left in the budget and according to the revenue estimate.

An interesting complication in the appropriation system is the use of budgeting formulas. These are mathematical formulas used to set in advance the increases and amounts of appropriations for state-funded programs. The formulas, enacted by legislation, have set increases for certain programs to levels much higher than the average revenue growth. This system will be discussed more below.
"A $338 million deficit has now accumulated..."

Richard Johnson, State Auditor
January 1, 1992

The outcomes of the Iowa budget and the state and local government's efforts on it have outraged state citizens, particularly those who have a direct interest in state programs. Few would disagree that there are serious problems with the financial condition of the state and many doubt the ability of the government to effectively solve those problems. There are, as I have found in my research, several components to the problems in the Iowa state budget. I have attempted in my research to get below the "apparent" problems of overspending, specific program inefficiency and lack of revenue to find ways to use the allocation and budget process to correct some of those "resulting" problems.

- Revenue Estimation
The budget process described above leaves itself open to a great deal of inefficiency. Perhaps the biggest and most critical exists at the very beginning, in the revenues estimating area.

I have defined the inefficiency in two ways. First of all, there is an information source inefficiency. The Revenue Estimating Committee consists of only three members: Gretchen Tegler, Dennis Prouty, and Jay Seldon. Their sources of information are limited to the computer program they use to analyze the current economic situation. The formulas they use to develop the revenue estimation have not been producing estimates that are as accurate as should be expected and used in an efficient system. In fiscal year 1991, for example, the committee predicted a 5.2% increase in revenue in its final estimate, which was well above the 4.7% actual increase (State Auditor's Office). In his article "Do State Revenue Forecasters Utilize Available Information," Gentry suggests that a number of useful social and economic predictors, including previous errors and relationships among taxes and social responses, may be left out of the revenue
estimation process (pg. 429). In the critical area of estimating revenue, it would seem very important to establish an efficient budget base by using a comprehensive system of information including efficient inputs like those suggested by Gentry to get a more accurate estimate.

Also, the Fisher Report has identified several shortcomings in the revenue estimation process. Because the Conference meets only quarterly, the General Assembly can use only the December and March estimates when making appropriations decisions. If the revenue estimate is expected to be different between December and March, the General Assembly typically waits until after the March estimate to prepare the final budget. This results in two problems. First, appropriations are often delayed to the last part of the legislative session which limits the amount of time available to give serious consideration to all programs. In recent years, it has also pushed approval of the budget beyond the regular legislative session. Second, when the March estimate exceeds the December estimate, current year appropriations are often
increased without taking into consideration that the increased revenue estimate will result in higher appropriations for the next fiscal year (Fisher Report, pg. 85).

The inefficiency that exists from not using all of the best information at the correct times is compounded by the fact the no emergency reserve fund currently exists in the budget. The National Conference of State Legislatures recommends that states maintain emergency reserve funds equal to three to five percent of their General Fund. This permits states to budget with a greater degree of certainty (Fisher Report, pg. 85). As a result, the state has little capability to deal with revenue shortfalls and expenditure increases resulting from abrupt economic changes (Fisher Report, pg. 85). Thus, any variance in the revenue estimation must be corrected directly in the budget through selective cuts and cutbacks. If an emergency fund existed, variations would be controlled in that fund and no changes in the approved budget for that fiscal year would be required.

Second, there is disruptive political and social
interference. The Revenue Estimating Committee is a government committee. The head, Dennis Prouty, also serves as the director of the Legislative Fiscal Bureau. Thus, the committee is involved in the budget process beyond revenue estimation and comes under a great deal of political pressure and influence. As was mentioned above, the increasing demands for a larger budget to work with has tended to cause revenue estimates to be on the upward side. This tendency results in an inefficiency in the planning of a correct budget. Gentry suggests inefficiency can result in that, "Optimistic forecasts might allow states with...balanced budget requirements to have ex post deficit finance. Also, high revenue estimates might allow new spending programs which once instituted might be difficult to cut." In Iowa, which does have the balanced budget requirement, this trend has existed.

The upward bias in revenue estimation obviously leads to higher appropriations and budget expenditures. Thus, cuts at the end of a fiscal year, or when planning the budget for a subsequent year, have become necessary when actual revenues fall short of the
overstated estimated levels. This was the case in the 3.25% cut last year. This inefficiency, as it did in 1992, may lead to severe economic consequences in state operations.

- Annual Modified Zero-Based Budgeting

As explained above, Iowa uses a modified zero-based budgeting system. This process, where 75% of the previous year's budget is used as a base, fosters inefficiency. It provides little incentive for departments to economize, nor does it provide for a regular review of the effectiveness of programs or the efficiency with which services are delivered (Fisher Report, pg. 83). Appropriations are given up to the 75% point with little or no review, and the contingent appropriations are based mostly on political policies.

Efficiency in the performance of government services is of major importance in solving the financial crisis. Improving the budget process and requiring "efficiency reviews" in determining the budgeted amounts for specific agencies may also be a
solution in making government services more productive and efficient. In effect, one efficiency may solve several other areas of inefficiency. A good example of this can be found in how most public sector budgets work. At the University of Northern Iowa, for example, departments are allocated certain amounts of money by which they will operate. If they have been able to operate under the amount allocated, they must return the money to the general fund at the end of the fiscal year. It is then reduced from the budget base in that department for the next fiscal year. Thus, if money is saved, it means that the base budget will automatically be reduced during the next fiscal year. Rather than lose part of the budget base, a department receives the incentive to spend all of its money to save any cut in the budget for next year. What occurs is, at the end of the fiscal year, any surplus will be spent in a sort of "shopping spree" manner. Indeed, the Fisher Report stated that about 40 percent of government budgets are spent during the last quarter of the fiscal year (pg. 86). Under a system which provided for incentives to economize and a review of the programs and their
budgets, the inefficiency could be removed. As was evident in this year's "budget struggle", the annual process has become very difficult and inefficient. The four extra days of the special session the legislature used to "hammer out" the current budget cost Iowans almost $150,000. And the amounts of time spent in preparing the budget, both for the governor and for the legislators, has taken away from time that could perhaps be used to better serve the people of the state. The annual process disallows adequate time for either the legislative or the executive branch to engage in planning, program evaluation or the improvement of management systems (Fisher Report, pg. 84). Further, the process would allow for more efficient review of revenue estimation trends and would provide the incentive to look further ahead in planning.

- Government Lack of Accountability

This area of inefficiency covers several levels of
government operations. Before I cover them, I will explain the background.

State and local governments have traditionally been viewed as much different than regular business entities. Governments use a different set of accounting principles, emphasizing the use of "funds" to keep such areas as profitable operations and individual social services separate. Because governments, for the most part, are in the business of running a separate, organized area (such as a town, county, state country), I would propose that governments have been incorrectly defined as inherently different than "business". Indeed the operations and functions can be compared heavily between any service organization and governments whose main function and existence is based on providing services.

Because of this traditional separation, government units, in strong contrast to private enterprise, have not been regulated and controlled in the same manner. Only since 1984 has the Government Accounting Standards Board (GASB) existed to provide regulations and authoritative accounting guidelines and standards for
local and national governments to use. And only in the past few years have their pronouncements been widely accepted. Neither are governments controlled by anti-trust rules and regulations, and many have proposed that they operate as an inefficient, uncontrolled monopoly on the services they provide (Hay).

The result is a lack of accountability to any regulating body. And the states have taken advantage of their freedom. Hoyle comments that "Unless a government is required to have an independent audit, compliance with official pronouncements is a voluntary matter...Thus, a significant portion of the reporting units in this country are not necessarily complying with appropriate guidelines at any point in time" (Hoyle, pgs. 844-845). Granof and Mayper provide several examples of "arcane devices used to achieve a required balanced budget" in Texas. Actions such as transferring millions of dollars from special revenue funds to the general fund on the last day of the year and then transferring the money back on the first day of the next fiscal year were used.

The freedom and lack of regulation has caused a
serious problem in Iowa as well. In 1983, Iowa adopted what was termed the "legal" accounting system, as it was approved and enacted into state law. The system, which allowed for accruals of revenue and deferrals of expenses, was far from being "legally" correct.

In 1983, the state of Iowa began "accruing" revenues and expenses at year end in an attempt to show a balanced budget. Taxes which had been collected, but not received were being placed in revenues to cover the expenses that had gone over the revenue point. In 1983, $112.7 million was accrued from 1984 collections to balance the budget. As can be seen form the graph on page 50 in the back section, the amount of annually accrued revenues has grown every year since then. The "legal" system accrues enough revenue from the subsequent fiscal year to balance the budget for that year. In reality, expenditures surpassed the revenue collected, and a large deficit resulted. In fiscal year 1991, for example, the "legal" accounting system used by Iowa showed a surplus of $11 million at year end. According to GAAP, that amount should have been a $298 million deficit. The discrepancy in the
"accounting" methods on the balance of the Iowa budget for the past ten years can be seen on the bottom of page 50.

The Iowa deficit can be broken down into two areas. A "structural deficit" exists to the extent that appropriations (expenditures) have exceeded the revenues collected. According to state auditor data, under Generally Accepted Accounting Principles (GAAP), which are the authoritative principles that guide accounting methods used in the private sector, this deficit has averaged $110 million per year for the last three years. If we look at annual general fund appropriations versus general fund revenues on a straight cash basis (no accruals or deferrals), the average deficit over the past three years has been $123 million.

The second part of the deficit is the "GAAP" deficit - a result of using the "legal" accounting system for the last 9 years as opposed to generally accepted accounting principles. Iowa, under the requirement of GASB Statement 11, has now moved towards adopting the GAAP methods of accounting, and is taking
steps to be in the system for fiscal year 1995. This will mean that approximately $338 million will need to be in reserve for that time to eliminate the GAAP deficit. The total deficit, when combining the structural and GAAP components, lies in the area of $450 million dollars. The debt is a direct result of mismanagement, which was able to exist because of a lack of accountability.

A second level of a breakdown in accountability is emerging. As was mentioned above, Iowans are taxed at a level much above average, and are not aware of the fact that their money may be subject to a great amount of waste. For example, the June 23, 1992 Des Moines Register ran a front page story exposing the fact that $20,000 of state money was used to produce a video about horses in the state of Iowa. The story explained that the source of the request was unknown, yet the appropriation passed through the budget process. Clearly, the people of Iowa have not held the state and its governor or legislators accountable for their actions. Another example of this shows how a state government should again be compared to a
business. Stockholders of a corporation would no doubt be attempting to get rid of a CEO and/or managers if their business had lost $338 million over the past ten years. They would be lucky if the corporation and their money still existed. In Iowa, taxpayers pour an enormous amount of money into "shares" of the state, only to see it spent and to see the state in deep financial trouble. Yet the people seem to ignore the actions of their failing "corporation". Thus, the fundamental problem of lack of accountability exists in city, county, and state governments, and citizens are the ones who should be held partly responsible for not taking action. The inefficiency has cost the people of Iowa far too much of their tax dollar "investments".

- Funding Formulas and Uncontrolled Appropriations

The system of appropriating money and determining the amounts to be appropriated has become a great inefficiency in the Iowa process. A "structural deficit" has existed in Iowa for the past three years, in that appropriations have exceeded revenues. This
has largely been the result of funding formulas. For fiscal year 1993 as an example, the "built-in increase" formulas have automatically called for appropriations to increase $328 million dollars. The revenue growth for 1993 is only estimated to be $123.5 million. Thus, the formulas have already put the state of Iowa in a deficit in excess of $200 million. The chart on page 52 shows the excess of appropriations over revenues for the past two fiscal years.

Page 54 gives a review of the "built-in increases" for fiscal year 1993. These are the results of enacted formulas and must automatically be added to the budget appropriations. The K-12 school aid area has been under considerable criticism for the very large formula increase it receives. Its annual increase averages 9.7% (State Auditors Office), obviously much higher than the average revenue increase during the last decade. This is the best example for answering the initial question of "Why, when the revenues are increasing, are cuts necessary?" When a group like K-12 school aid is automatically getting a 9.7% increase, other programs can not be funded to match the revenue
growth, many are even cut to make room.

The bottom line is that mismanagement has caused an inefficient allocation of funds. State Auditor Richard Johnson, in his report to the Governor's Committee on Government Spending Reform, said plainly, "Present programs that provide for formula increases do not take into account the ability of the General Fund to sustain those increases. It is imperative that these be restructured to limit future increases to a sustainable level."
POSSIBLE SOLUTIONS

"It's time to get government back on track...We must give Iowans a government as good, as sound, as honest and as clean as Iowans themselves...We must reestablish fiscal integrity. Automatic increases and spending formulas have been instrumental in creating a structured deficit...Spending less will require fundamental changes in the way state money is appropriated. The State's Budget is our most important challenge...The solutions must begin this year."

Iowa Governor Terry Branstad
Condition of the State Message
January 14, 1992

The purpose of my thesis was not to report on solutions to the inefficiency. Any usable solutions will require much thought and creativity, and will require a highly structured and well planned approach in attempting to solve the problems. I have, however, developed several possibilities and ideas of what things may be done. In many cases, the possible
solutions I found in research led to discoveries of inefficiency in the process that I had not previously looked at. I have discussed a few of these below.

First, much work will need to be done in improving and refining the revenues estimation process. The inefficiency exists, in most part, because not enough attention is placed in this area, and because it is subject to government influence.

My proposal would be to make the committee a group of independent experts from differing backgrounds. Mathematicians, environmentalists, sociologists and similar other experts could combine their skills to produce a computer program that would take into account all practical economic, political and social factors and relationships in determining a revenue estimate. The committee would be able to pull up new estimates on the program at any time, providing the General Assembly with the lead time necessary to implement program reviews and evaluations before finalizing the budget.

Also, by keeping the group as independent of government as possible, the bias and influence on the
estimation can be removed. Thus, the governor and the legislators will be given the correct estimation and will have to plan the budget in a more realistic way. Pressures for more money will no longer be solved by a phony estimation of higher revenues, resulting in cuts and reductions.

The Fisher Committee has also recommended that the emergency reserve fund be implemented to compliment the revenue estimating function. Thus, if revenue estimates do vary from the actual revenue collections, the emergency fund would be able to absorb the difference.

The improvement of the revenues estimation process will also make it easier and more effective to change to a "performance and program" based budget system, and the use of a biennial budget cycle. This plan, which is part of the Governor's Committee on Government Spending Reform report, would be a major step in saving money within the budget process and would call for a much higher level of efficiency in the entire budget system. According to the report, a performance and program based budget system focuses on results rather
than just on outputs and costs. This type of budgeting system requires the establishment of both effectiveness and efficiency measures for each major program and activity administered by a department. Thus, programs that are working well, such as many semi-private health care facilities or specific state funded universities would be rewarded, while others would have the incentive to improve.

This type of budget system also generally incorporates quarterly departmental reviews and lends itself to the establishment of a performance based compensation system for top government executives. Adoption of this type of budget system would result in a reduction in the oversight of day-to-day decisions of department managers by the Departments of Management, General Services, Personnel and Revenue and Finance. On the other hand, department managers would be expected to shoulder a higher degree of accountability for their actions and their compensation would be based on their performance (pg. 83). The report contains evidence showing that government entities which have adopted the performance and program based budget system
have generally experienced 10 to 20 percent budget reductions following implementation. The savings are a result of a better understanding of what services are most highly valued and from identifying ways to improve the productivity in the provision of public services. The adoption of this system, through the review, would also directly involve the individuals who work with the budgeted money in the process, allowing those who would likely have the best ideas of where money could be saved or how greater efficiency could be achieved to share input. The incentive to save money and to perform better is now incorporated into the system.

The use of a biennial budget cycle will also be a "kick start" in attempting to get government to be a more efficient and better planning entity. It will take away the inefficiency of "hammering out" a budget every year, which has become such a complex problem that extra days are needed in the legislative sessions. A move towards developing the budget every two years will require both the executive and legislative bodies, as well as the agencies that they fund, to use "wider" vision. Better planning and longer-range thought will
be required to plan a budget. It also would give the departments a longer period to perform the effectiveness and efficiency studies needed in the performance and program based budget system. The use of a two-year budget will also eliminate the "dumping" of funding at the end of a fiscal year, as money will be needed over the second year as well. It may also give an incentive to save and economize for a longer period of time than just the immediate year.

Most Americans, not just Iowans, have reached a level of high dissatisfaction with their government leaders. Corruption, scandal and mismanagement have led to a very negative image of government officials. And rightly so. The truth is, especially in Iowa, that the government has done a poor job of handling the difficult economic challenges. The use of the "legal" accounting system was a farce. Lowell Norland, who served in the Iowa House at the time it was implemented, commented that they all knew it was not a solution, only an "easy escape for showing a balanced budget." Allowing spending formulas into the budget
appropriations process was a case of poor political actions overriding the knowledge that these formulas would mean disaster in the budget. Norland commented again, "It was simply a case of not wanting to say 'No'."

The lack of accountability that led to the huge GAAP deficit as well as the structural deficit is now starting to be controlled. The Government Accounting Standards Board is receiving wider acceptance and state and local governments are now falling under its jurisdiction. GASB Statement 11, which will be in effect starting June 15, 1994 "should have a significant impact in forcing government accounting to more closely parallel the financial reporting used in business and industry" (Hoyle, pg. 844). A greater realization that governments should be required to report as and be subject to regulations similar to those of regular business enterprises must continue to occur. As Richard Greene comments, "When cities get into financial trouble, few citizens know about it until the day the interest can't be met or the teachers paid. Had the books been kept like any decent
corporation's that could never have happened" (pg. 92).

Mayper and Granof specifically suggest that to eliminate inherent biases in budgetary practices and to control budget variances, the GASB should prescribe that governmental budgets be presented on the GAAP basis and independent budget reviews be conducted. In Iowa, this has become a critical need and is a "must" solution in attempting to gain some level of government accountability. Blatant errors, such as the appropriations built-in increase formulas and the "legal" system of accounting should never have happened, and an independent review would be able to control those inefficient decisions.
CONCLUSIONS

"Iowa can lead the way in government reform. We must reform spending and redefine government in our state, while focusing on quality and striving for continuous improvement. We can no longer afford business as usual in state government. This is a time that calls for fundamental change. Government at all levels must become less bureaucratic, more innovative and responsive to rapid change."

Iowa Governor Terry Branstad

Condition of the State Message

January 14, 1992

Inefficiency exists in the Iowa budget process. As the state's financial and political climates continue to worsen each year, these must be explored and eliminated to provide better programs and services, as well as a more dependable and trustworthy government for the citizens of Iowa. There is no question that major changes will need to take place.

But although a great deal of work will need to be
done, my feeling is positive about the possibility of success. Steps are being taken in the right direction. The state government has accepted the GAAP method of accounting and is now in the first year of a three year financial plan to eliminate the GAAP deficit. The state is also in the midst of attempting to control and eliminate the formulas that automatically allocate more money than the revenues allow for. More innovative and creative approaches to solving existing problems and developing future plans for success are being used, as is evident in the report and research of Dr. Robert Waller. His book, *Iowa: Perspectives on Today and Tomorrow*, was distributed to all of the Iowa Legislature in an attempt to expose them to creative possibilities for Iowa's future.

Further, the Governor's Committee on Government Spending Reform has completed their report, setting forth "long" and "short" vision, practical solutions for a more efficiently operating system. A list of some of the top opportunities for making government operations and services more efficient and estimates of how much those may save the state are listed at the
back of the data section. They total a possible $600 million in savings which could be achieved by taking practical steps to economize and run programs more efficiently. In my opinion, the report is a major advance towards solving the financial crisis. However, in order to effectively implement the ideas and cuts outlined in the report, it will become even more necessary to solve the initial inefficiency that now penetrates the system.

Finally, a comment should be made about attitude. No changes or improvements will be possible unless a strong commitment to making the ideas and solutions work is instilled not only in our government, but also in the citizens of Iowa. Personal, ethical discipline will be needed by all people in Iowa in attempting to eliminate inefficiency and abuse of government services. A "common good" attitude in the legislature AND the public will be needed to combat the difficulties of trying to get back on track. Bureaucratic boundaries will need to broken and political decisions must become more practical.

Achieving efficiency in the Iowa budget process
will require the effective interaction of internal and external solutions. It will require dedication and discipline, a return to a strong work ethic and respect for the entire environment, especially the people who have suffered through the inefficiency.

Most importantly, "Iowa has a chance to show the world something about how life ought to be lived. We, in this place between the rivers, have our own failings, our own serious problems - mostly because we have created them ourselves. Still, through some combination of skill, intelligence, and just plain good luck, we yet have the personal and natural resources to create our own Eden" (Waller, pg. 312).

If we fall back on our high quality of education, our morals and values, our practicality; if we use common sense and are not only accountable to those around us, but show respect for them; if we use the creative, intellectual and practical vision common to Iowans, a better system will result, and inefficiency and budgeting will longer be of concern.
### FY 1993 Estimated General Fund Receipts


![FY 1993 Estimated General Fund Receipts](image)

**Total: $3,498.5**

### FY 1990-FY 1993 Revenue Projection for the General Fund

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal Income Tax</strong></td>
<td>$1,445.6</td>
<td>$1,526.2</td>
<td>5.6</td>
<td>$1,590.0</td>
<td>4.2</td>
<td>$1,657.0</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Sales Tax</strong></td>
<td>728.5</td>
<td>764.7</td>
<td>5.0</td>
<td>801.8</td>
<td>4.9</td>
<td>835.0</td>
<td>4.1</td>
</tr>
<tr>
<td><strong>Use Tax</strong></td>
<td>114.3</td>
<td>120.9</td>
<td>5.8</td>
<td>122.5</td>
<td>1.3</td>
<td>126.2</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Corporate Income Tax</strong></td>
<td>230.7</td>
<td>239.4</td>
<td>3.8</td>
<td>244.1</td>
<td>2.0</td>
<td>252.0</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Inheritance Tax</strong></td>
<td>65.1</td>
<td>69.0</td>
<td>6.0</td>
<td>72.1</td>
<td>4.5</td>
<td>76.0</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>Insurance Premium Tax</strong></td>
<td>87.0</td>
<td>92.3</td>
<td>6.1</td>
<td>85.0</td>
<td>2.9</td>
<td>98.0</td>
<td>3.2</td>
</tr>
<tr>
<td><strong>Cigarette Tax</strong></td>
<td>82.6</td>
<td>85.3</td>
<td>3.7</td>
<td>95.4</td>
<td>14.3</td>
<td>95.0</td>
<td>(0.4)</td>
</tr>
<tr>
<td><strong>Tobacco Tax</strong></td>
<td>2.6</td>
<td>3.1</td>
<td>19.2</td>
<td>3.8</td>
<td>16.1</td>
<td>4.0</td>
<td>11.1</td>
</tr>
<tr>
<td><strong>Beer Tax</strong></td>
<td>12.6</td>
<td>12.7</td>
<td>0.8</td>
<td>12.8</td>
<td>0.8</td>
<td>13.0</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Franchise Tax</strong></td>
<td>25.5</td>
<td>25.0</td>
<td>(2.0)</td>
<td>26.5</td>
<td>6.0</td>
<td>28.0</td>
<td>5.7</td>
</tr>
<tr>
<td><strong>Miscellaneous Tax</strong></td>
<td>0.6</td>
<td>0.6</td>
<td>0.0</td>
<td>0.1</td>
<td>(83.3)</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total Special Taxes</strong></td>
<td>2,795.1</td>
<td>2,937.4</td>
<td>5.1</td>
<td>3,064.0</td>
<td>4.3</td>
<td>3,184.3</td>
<td>3.9</td>
</tr>
</tbody>
</table>

**Other Receipts**

- **County Reimbursements**
  - 50.7
  - 46.3 (8.7)
  - 53.6
  - 15.8
  - 51.8 (3.7)

- **Liquor Transfers**
  - **A. Profits**
    - 20.5
    - 21.6
    - 5.4
    - 23.1
    - 6.9
    - 23.0
    - (0.4)
  - **B. 7% Gross Revenues**
    - 9.0
    - 9.0
    - 0.0
    - 9.0
    - 0.0
    - 9.0
    - 0.0

- **Interest**
  - 14.0
  - 11.8
  - (15.7)
  - 10.0
  - (15.3)
  - 10.5
  - 5.0

- **Fees**
  - 12.0
  - 16.7
  - 39.2
  - 76.7
  - 359.3
  - 85.5
  - 11.5

- **Judicial Revenue**
  - 35.3
  - 35.7
  - 1.1
  - 40.5
  - 13.4
  - 42.0
  - 3.7

- **Third Party Payments**
  - 55.2
  - 59.1
  - 7.1
  - 61.6
  - 4.2
  - 58.9
  - (4.4)

- **Miscellaneous Receipts**
  - 16.4
  - 14.3
  - (12.8)
  - 21.8
  - 52.4
  - 19.0
  - (12.8)

- **Pari-Mutuel Receipts**
  - 8.8
  - 7.2
  - (18.2)
  - 14.7
  - 104.2
  - 14.7
  - 0

**Total Receipts**

- $3,017.0
- $3,159.1
- 4.7
- $3,375.0
- 6.8
- $3,498.5
- (3.7)

Percent Increase in Revenue

Significant Events:

*1 (FY84) Increased sales/use tax rates from 3% to 4% on March 1, 1983.

*2 (FY87) Conformed with most major Federal Corporate Income Tax changes. Also, conducted a tax amnesty program.

SOURCE: Department of Management
General Fund and Lottery Expenditures
Fiscal Year 1991 Budget Percent by Functional Area

SOURCE: Department of Management
State General Fund and Lottery Funds
Revenues vs. Expenditures in Constant 1982 Dollars
(In Millions)

SOURCE: Iowa Department of Management
Amount of Accrued Revenues Included in Reported General Fund Year End Balances

Effect of Accrued Revenues on Reported General Fund Balances

Source: State Auditor's Office
GENERAL FUND
BUDGET BASIS

NET REVENUES - NET APPROPRIATIONS

Millions of Dollars

1991 1992
Fiscal Year Ending June 30

Net Revenues  Net Appropriations

GENERAL FUND
BUDGET BASIS

APPROPRIATIONS IN EXCESS OF CURRENT REVENUES

Millions of Dollars

1991 1992
Fiscal Year Ending June 30

(178) (58)

Source: State Auditor's Office (7/16/91)
General Fund
DOM Budget Basis

Appropriations in Excess of Current Revenues

Fiscal Year Ending June 30

General Fund
Year End Balances/Deficit

Fiscal Year Ending June 30

Source: State Auditor's Office
## Projected FY 1993 Built-In Increases (In Millions)

Source: Legislative Fiscal Bureau, December 1991

<table>
<thead>
<tr>
<th>Built-In Increases</th>
<th>FY 1993 vs. FY 1992¹</th>
<th>Percent of Total Built-In-Increase</th>
<th>FY 1992 3.25% Across the Board Reduction</th>
<th>FY 1992 3.25% Built-in Increase without restoration of 3.25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 School Aid</td>
<td>$126.8</td>
<td>38.6%</td>
<td>$36.8</td>
<td>$90.0</td>
</tr>
<tr>
<td>Medicaid</td>
<td>38.8</td>
<td>11.8</td>
<td>7.8</td>
<td>31.0</td>
</tr>
<tr>
<td>Community College Funding Formula</td>
<td>20.3</td>
<td>6.2</td>
<td>3.4</td>
<td>16.9</td>
</tr>
<tr>
<td>Mental Health</td>
<td>20.1</td>
<td>6.1</td>
<td>0.0</td>
<td>20.1</td>
</tr>
<tr>
<td>Resource Enhancement and Protection (REAP)Fund</td>
<td>19.4</td>
<td>5.9</td>
<td>0.3</td>
<td>19.1</td>
</tr>
<tr>
<td>Foster Care</td>
<td>16.8</td>
<td>5.1</td>
<td>1.7</td>
<td>15.1</td>
</tr>
<tr>
<td>Insurance Reserves</td>
<td>12.0</td>
<td>3.0</td>
<td>0.0</td>
<td>12.0</td>
</tr>
<tr>
<td>Family Farm Tax Credit</td>
<td>10.0</td>
<td>3.0</td>
<td>0.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Corrections</td>
<td>9.3⁶</td>
<td>2.8</td>
<td>0.0</td>
<td>9.3</td>
</tr>
<tr>
<td>Property Tax Replacement</td>
<td>7.8</td>
<td>2.4</td>
<td>2.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Homestead Credit</td>
<td>7.4</td>
<td>2.3</td>
<td>3.3</td>
<td>4.1</td>
</tr>
<tr>
<td>Trust Fund Buy Back</td>
<td>5.3</td>
<td>1.6</td>
<td>0.0</td>
<td>5.3</td>
</tr>
<tr>
<td>Aid to Dependent Children</td>
<td>5.0</td>
<td>1.5</td>
<td>1.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Machinery &amp; Computers Replacement</td>
<td>4.8</td>
<td>1.5</td>
<td>0.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Regent - Tuition Replacement</td>
<td>4.3</td>
<td>1.3</td>
<td>0.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Instructional Support</td>
<td>4.0</td>
<td>1.2</td>
<td>0.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Education Excellence Fund</td>
<td>3.4</td>
<td>1.0</td>
<td>0.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Community College 2000 Account</td>
<td>3.1</td>
<td>0.9</td>
<td>0.0</td>
<td>3.1</td>
</tr>
<tr>
<td>ICN (Telecommunications Network)</td>
<td>2.2</td>
<td>0.7</td>
<td>0.2</td>
<td>2.0</td>
</tr>
<tr>
<td>Capitals</td>
<td>1.9</td>
<td>0.6</td>
<td>0.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>5.6⁵</td>
<td>1.7</td>
<td>2.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Total</td>
<td>328.3</td>
<td>1.7</td>
<td>2.7</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Contingent Appropriations

- GAAP (Generally Accepted Accounting principles) \( \$283.5² \)
- Salary Contingency \( \$76.5³ \)
- Pension Refund Contingency \( \$50.0 \)
- Foreign Subsidiary Income Inclusion Contingency \( \$25.0 \)
- Total \( \$435.0 \)
- Total Built-In Increases and Contingent Appropriations \( \$763.3 \)

Notes:

1. Built-in Increases and Contingent Appropriations are the best estimates available as of December 1991.
2. This is a FY 1992 estimate, no estimate is available for FY 1993.
3. This is the FY 1993 estimate for all employees. See the detail for additional information.
4. The estimates for the DHS built-in increases do not include the Department of Management’s estimated supplemental appropriations totaling $38.0 million for FY 1992. If supplemental appropriations are appropriated, the increase will be smaller.
5. Includes Child Development, Franchise Tax Reimbursement, Extraordinary Credit, Community College Staff Development Account, Agricultural Land Credit, 411 Retirement System, and Military Service Credit.
6. The corrections built-in increase relates to several appropriations so no 1992 appropriation or across the board reduction is identified.
Projected FY 1993 Built-in Increases and Contingent Appropriations

<table>
<thead>
<tr>
<th>BUILT-IN INCREASES</th>
<th>FY 1993</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 School Aid</td>
<td>$99.3</td>
<td>36.4%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>$24.9</td>
<td>9.1%</td>
</tr>
<tr>
<td>Community College Funding Formula</td>
<td>$21.0</td>
<td>7.7%</td>
</tr>
<tr>
<td>Mental Health</td>
<td>$20.1</td>
<td>7.4%</td>
</tr>
<tr>
<td>Resource Enhancement and Protection (REAP) Fund</td>
<td>$19.4</td>
<td>7.1%</td>
</tr>
<tr>
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<td>$12.0</td>
<td>4.4%</td>
</tr>
<tr>
<td>Corrections</td>
<td>$10.8</td>
<td>4.0%</td>
</tr>
<tr>
<td>Family Farm Tax Credit</td>
<td>$10.0</td>
<td>3.7%</td>
</tr>
<tr>
<td>Foster Care</td>
<td>$8.3</td>
<td>3.0%</td>
</tr>
<tr>
<td>Education Excellence Fund</td>
<td>$6.6</td>
<td>2.4%</td>
</tr>
<tr>
<td>Property Tax Replacement</td>
<td>$5.8</td>
<td>2.1%</td>
</tr>
<tr>
<td>Trust Fund Buy Back</td>
<td>$5.3</td>
<td>1.9%</td>
</tr>
<tr>
<td>Machinery &amp; Computers Replacement</td>
<td>$4.8</td>
<td>1.8%</td>
</tr>
<tr>
<td>Regent - Tuition Replacement</td>
<td>$4.3</td>
<td>1.6%</td>
</tr>
<tr>
<td>Homestead Credit</td>
<td>$4.0</td>
<td>1.5%</td>
</tr>
<tr>
<td>Community College 2000 Account</td>
<td>$3.1</td>
<td>1.1%</td>
</tr>
<tr>
<td>Aid to Dependent Children</td>
<td>$3.0</td>
<td>1.1%</td>
</tr>
<tr>
<td>Instructional Support</td>
<td>$2.5</td>
<td>0.9%</td>
</tr>
<tr>
<td>ICN (Telecommunications Network)</td>
<td>$2.0</td>
<td>0.7%</td>
</tr>
<tr>
<td>Capitals</td>
<td>$1.9</td>
<td>0.7%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$3.3</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$272.4</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONTINGENT APPROPRIATIONS</th>
<th>COST</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP (Generally Accepted Accounting Principals)</td>
<td>$283.5</td>
</tr>
<tr>
<td>Salary Contingency</td>
<td>$76.5</td>
</tr>
<tr>
<td>Pension Refund Contingency</td>
<td>$50.0</td>
</tr>
<tr>
<td>Foreign Subsidary Income Inclusion Contingency</td>
<td>$25.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$435.0</strong></td>
</tr>
</tbody>
</table>

Total Built-In Increases and Contingent Appropriations: $707.4

Notes:
1. Built-in Increases and Contingent Appropriations are the best estimates available as of October 1991.
2. This is a FY 1992 estimate, no estimate is available for FY 1993.
3. This is the FY 1993 estimate for all employees. See the detail for additional information.
4. The estimates for the DHS built-in increases assumes that the Department of Management's July 21, 1991 estimated supplemental appropriations totaling $24.3 million are approved by the 1992 General Assembly, and that there are no other supplemental appropriations to DHS for FY 1992.
5. The Legislative Fiscal Bureau estimates that $24.3 million level will be inadequate to fully fund existing programs at projected caseloads, and is developing a detailed projection.
6. Includes Child Development, Franchise Tax Reimbursement, Extraordinary Credit, Community College Staff Development Account, Agricultural Land Credit, Peace Officer Retirement, and Military Service Credit.
### SUMMARY OF TOP OPPORTUNITIES

<table>
<thead>
<tr>
<th>OPPORTUNITY</th>
<th>PAGE</th>
<th>SAVINGS POTENTIAL (all funds -$millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>FY 1993</td>
</tr>
<tr>
<td>1. Centralize state collection efforts</td>
<td>39</td>
<td>$0.3</td>
</tr>
<tr>
<td>2. Require payments of debts to the State prior to receipt of licenses and</td>
<td>41</td>
<td>$1.5</td>
</tr>
<tr>
<td>expand the use of offsets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Sale of State owned farm land and the DNR nursery</td>
<td>43</td>
<td>$6.7</td>
</tr>
<tr>
<td>4. Establish a youth correctional facility</td>
<td>45</td>
<td>$0.2</td>
</tr>
<tr>
<td>5. Develop an Enterprise plan for technology</td>
<td>46</td>
<td>$1.0</td>
</tr>
<tr>
<td>6. Knowledge based system for DHS eligibility assessment</td>
<td>47</td>
<td>-0-</td>
</tr>
<tr>
<td>7. Common management/consolidation of data processing centers</td>
<td>49</td>
<td>$0.6</td>
</tr>
<tr>
<td>8. Comprehensive K-12 education finance reform</td>
<td>52</td>
<td>$127.8</td>
</tr>
<tr>
<td>9. Use provider funds to leverage Medicaid dollars</td>
<td>63</td>
<td>$45</td>
</tr>
<tr>
<td>10. Adopt a mental health funding formula</td>
<td>64</td>
<td>$15</td>
</tr>
<tr>
<td>11. Decategorize Foster Care/Change Spending</td>
<td>65</td>
<td>$4.8</td>
</tr>
<tr>
<td>12. Re-allocate $50 million in motor vehicle use tax revenues to the</td>
<td>67</td>
<td>$50</td>
</tr>
<tr>
<td>General Fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Alternatives to the mental health institutes in Clarinda and Mt.</td>
<td>70</td>
<td>$1</td>
</tr>
<tr>
<td>Pleasant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Eliminate funding provision for the Resource</td>
<td>71</td>
<td>$30</td>
</tr>
<tr>
<td>Enhancement and Protection (REAP) fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Reduce the number of driver's license locations from 141 to 19 and</td>
<td>72</td>
<td>$9.5</td>
</tr>
<tr>
<td>allow DOT to assume responsibility for motor vehicle registration and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>titling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. County administrative collaboration (30 centers)</td>
<td>74</td>
<td>-0-</td>
</tr>
<tr>
<td>17. Revise community college funding enhancements</td>
<td>77</td>
<td>$33.1</td>
</tr>
<tr>
<td>18. Create a statewide assessment system</td>
<td>81</td>
<td>-0-</td>
</tr>
<tr>
<td>19. Improve the State's budgeting process</td>
<td>82</td>
<td>$4.5</td>
</tr>
<tr>
<td>20. Restructure employee benefits</td>
<td>87</td>
<td>$11.5</td>
</tr>
<tr>
<td>21. Restructure executive branch organization</td>
<td>91</td>
<td>$6.3</td>
</tr>
<tr>
<td>22. Program eliminations, reductions, deferrals and efficiencies</td>
<td>96</td>
<td>$39.6</td>
</tr>
</tbody>
</table>

**Note:** Savings from knowledge based DHS system will be between $7.6 and $9.4 million annually beginning in 1995.
Other Recommendations

Recommendations

1. Report past due obligations to national credit bureaus.  
   Savings Potential
   FY 1993  FY 1994
   $140,000  200,000
2. Establish a state lien filing system.  
   $270,000  270,000
3. Create incentive for debtors to pay.  
   TBD  TBD
4. Disclose names of persons owing funds to the state.  
   TBD  TBD
5. Study expansion of electronic funds transfer systems.  
   TBD  TBD
   TBD  TBD
7. Identify unrecognized receivables.  
   200,000  200,000
8. Move forward with Iowa Communications Network.  
   TBD  TBD
9. Review personal computer acquisitions.  
   TBD  TBD
10. Initiate local government coordination of information systems.  
    TBD  TBD
11. Expand use of voice mail.  
    TBD  TBD
12. Defer investment in Wallace Technology Foundation.  
    1,000,000  1,000,000
13. Consolidate printing facilities.  
    450,000  450,000
14. Subcontract janitorial services.  
    175,000  175,000
15. Subcontract nursing services at Iowa Veterans Home.  
    2,240,000  2,240,000
16. Use prison industries to supplement printing service.  
    150,000  150,000
17. Subcontract liquor warehousing and delivery fleet operations.  
    930,000  630,000
18. Eliminate state aircraft pool, or consolidate with I.S.U. aircraft pool.  
    619,000  19,000
19. Eliminate seed testing at Department of Agriculture.  
    70,000  70,000
20. Partially eliminate Weights and Measures Division in Dept. of Agriculture.  
    758,000  643,000
21. Reduce higher education assistance by the Iowa Student College Aid Commission and study the Iowa Tuition Grant programs.  
    3,900,000  3,900,000
22. Revert savings from regents institutional restructuring to General Fund.  
    12,000,000  12,000,000
23. Require regents institutions to obtain tort liability insurance.  
    TBD  TBD
24. Incorporate interest earned by institutions into budget process.  
    2,500,000  2,500,000
25. Review Universities Retirement Program.  
    TBD  TBD
26. Use increase in tuition to offset need for General Funds.  
    TBD  TBD
27. Revert 50 percent of Univ. of Iowa Hospitals and Clinics profit to General Fund.  
    4,000,000  4,000,000
28. Adopt managed care statewide for Medicaid.  
    325,000  725,000
29. Cut optional Medicaid eligibility categories  
    33,000,000  33,000,000
30. Cut optional Medicaid services for mandatory eligibility categories  
    15,000,000  15,000,000
31. Develop guidelines for the retention of investment earnings.  
    500,000  500,000
32. Develop a uniform financial reporting and accounting system.  
    TBD  TBD
33. Review policies governing property exempt from property taxation.  
    TBD  TBD
34. Reduce the State’s GAAP deficit.  
    TBD  TBD
35. Analyze tax expenditures.  
    TBD  TBD
36. Develop a statewide system for delivery of services.  
    TBD  TBD
37. Merge Community Based Corrections (CBC) boards into a central board system.  
    TBD  TBD
38. Increase use of intensive supervision at CBC facilities.  
    1,000,000  1,000,000
39. Reduce the number of DOT maintenance garages.  
    TBD  TBD
40. Modify distribution and administration of vaccines under Title XIX.  
    289,000  289,000
41. Eliminate Regional Library System.  
    1,200,000  1,200,000
42. Adopt “contractual services” system for indigent defense.  
    650,000  650,000
43. Transfer Historical Sites to local governments or organizations.  
    173,000  173,000
44. Reduce the Agricultural Extension and/or fund education portion through user fees.  
    5,800,000  5,800,000
45. Coordinate townships and counties to eliminate duplication of services.  
    810,000  810,000
46. Implement Federal Funds Management System.  
    5,800,000  5,800,000
47. Total  
    $95,149,000  $94,594,000

TBD = To Be Determined
SOURCES


Gold, Steven D. The ABC's of Iowa Government Spending: Should it be Limited?. Des Moines, IA: Drake University, 1980.


