

Committee on Accountable Government Review Iowa's Fiscal Year 2026 Final Budget

Prelude

The Committee on Accountable Government ("Committee") of the Iowa Taxpayers Association ("ITA") has completed a review of the Iowa General Assembly's 2025 budgeting process and final budget for FY26. The Committee created what is known as the ITA Sound Budgeting Principles ("Principles") in 2001, and ITA revised these Principles in 2024 for style, but not substance. These Principles serve as a tool for the governor and the General Assembly to achieve greater accountability in state budgeting. An annual review evaluates adherence to the Principles and encourages Iowa's key fiscal policy developers and lawmakers to continue applying the criteria below in future budgets. ITA is not attempting to provide subjective judgment or declaratory comments on the merits of individual state programs but rather to complement the use of the Principles previously set forth by ITA.

Each of ITA's three Principles is listed below. Each Principle is accompanied by examples, if applicable, from the Legislature's FY26 budget. Pursuant to the evaluation, a plus sign (+) indicates the Legislature's budget abided by the Principle, a negative sign (-) indicates the Legislature deviated from the Principle, and a plus-minus sign (+ -) indicates the Legislature does not fully abide by or entirely deviates.

Sound Budgeting Principles Review:

Accurately determine revenue and expenses.

- + The budget abides by this Principle.
- + - NOT diverting funds statutorily authorized for a specific objective to other purposes.
- + NOT shifting program funding to property taxes or fees.

Iowa's nonpartisan Revenue Estimating Conference (REC) reviews tax receipts, including any rate reductions going into effect for that fiscal year, and many economic indicators to project state revenues. Estimating revenue six to 24 months in advance is exceedingly difficult.

The Rebuild Iowa Infrastructure Fund (RIIF) is statutorily required to be used for public vertical infrastructure projects, as directed by the General Assembly. "Vertical infrastructure" includes only land acquisition and construction; major renovation and major repair of buildings; routine, recurring maintenance; all appurtenant structures; utilities; site development; recreational trails; renewable fuel infrastructure programs; and debt service payments on

academic revenue bonds issued for capital projects at Board of Regents institutions. “Vertical infrastructure” does not include operational expenses or leasing of a building, appurtenant structure, or utility without a lease-purchase agreement.

The RIIF was first funded in the 1995 legislative session when an appropriation of \$50.0 million was deposited into the account. The following year, during the 1996 session, the Legislature approved state wagering tax receipts over \$60.0 million to be deposited in the RIIF account. Since then, the original intent has remained, but the General Assembly has not always honored the statute’s intent. In some years, they have been much worse at following the law. ITA encourages the next General Assembly to find other means of funding for items that do not meet the definition of Iowa Code 8.57(5)(c), which limits the use of RIIF as described above.

In the FY26 RIIF budget, the Legislature made substantial improvements on noncompliance with Iowa Code 8.57(5)(c). There were only twelve instances where a “notwithstanding” exception to Iowa Code 8.57(5)(c) was used this year. That is four fewer instances of divergence from the purpose of RIIF than last year. Many primary ones have been used in the last several years. The most significant concern is continued noncompliance with the purpose of RIIF. Shifting general fund expenditures to RIIF violates ITA’s stated sub-principle of not diverting funds statutorily authorized for a specific objective to other purposes. The Legislature did eliminate the following non-compliant expenditures in this year’s RIIF budget compared to the previous year:

- \$10.0 million for levee improvement
- \$250,000 for community forestry grants
- \$2.5 million for the DPS equipment fund
- \$481,200 for renovation and furniture in the Dallas County justice center
- \$111,000 for renovation and furniture in the Johnson County justice center
- \$168,388 for the replacement of cemetery equipment at the Iowa Veteran’s Cemetery

A few new amounts that do not comply with Iowa Code 8.57(5)(c) were added in FY26, including:

- \$40,000 for Underground Railroad historical markers
- \$50,000 increase (from \$700,000) in the distribution to the regional sports authorities

That is more than \$13.4 million less in non-compliant appropriations from RIIF than in the previous year. ITA commends the Legislature on this significant improvement over last year and continues to strongly encourage them to

adhere to the statutorily defined purpose. Notably, there were six additional instances of “notwithstanding” in the FY26 RIIF budget. However, those were to allow unused and unobligated moneys in other funds to revert to RIIF at the end of the fiscal year.

Aligns expenses and revenue in the same fiscal year.

- + The budget abides by this Principle.
 - + NOT establishing new automatic, or “standing,” appropriations.
 - + NOT creating multi-year accelerating commitments.
 - + NOT creating new programs for a partial fiscal year.

There continues to be concerns about the number of standing appropriations in correlation to the overall budget. While the Legislature did not introduce any new standing appropriations this session, FY26 will realize the full implementation of the standing appropriation for 2023 HF 68, Educational Savings Accounts, with a fiscal impact of \$314.8 million, or \$96.8 million more than FY25. Senate File 659, the Standings bill, reduced the standing appropriations for FY26 by \$66.7 million compared to the existing law; overall, the standing appropriations for FY26 exceed those for FY25 by \$199.7 million.

Uses one-time or time-limited sources for one-time, not ongoing, expenses.

- The Legislature did not abide by this Principle.

Under Iowa law, this year, the spending limitation allows for spending up to \$10.946 billion, which includes the carryforward. The carryforward balance from FY 2025 is projected to be \$2.076 billion. However, this is one-time money. The spending limitation of the ongoing revenue for FY 2026 is projected to be \$8.422 billion. \$463.60 million transferred from the Taxpayer Relief Fund (TPRF) to the General Fund by operation of law. While this is one-time money, similar to the carryforward balance, the TPRF was created for tax relief or reductions in income tax rates. The transfer partially covers the expected loss of General Fund revenue from 2022 HF 2317 and 2024 SF 2442. The fiscal estimate for 2022 HF 2317, the income tax reduction bill, estimated a decline in General Fund revenues in FY26 of \$1.084 billion (\$948.2 million from individual income tax rate reductions and \$135.3 million from corporate income tax rate reductions). The fiscal estimate for 2024 SF 2442, the flat income tax bill, estimated a \$605.3 million decline in General Fund revenues in FY26 due to individual income tax rate reductions. The combined fiscal impact of the tax cuts for FY26 was expected to be a \$1.689 billion decline in General Fund revenues. ITA recommends the Legislature use the TPRF to fully cover any shortfall in expected General Fund revenues compared to budgeted General Fund dollars or the estimated loss in General Fund revenues due to tax relief in future fiscal years, whichever is lower.

The Legislature appropriated \$9.422 billion, or \$552.19 million more than the total ongoing revenue available, plus the TPRF transfer. The Legislature spent 86.08% of the statutory expenditure limitation plus the TPRF transfer and 106.22% of ITA's Principles limitation.

In addition to covering ongoing general fund obligations with one-time surplus carryforward, the Legislature also utilized the existing balance of the Sports Wagering Fund to fund \$5.0 million for the Special Education Division within the Department of Education. This replaces a \$5.0 million reduction in General Fund appropriations for this purpose. \$14.0 million from the Sports Wagering Fund was also used to fund the paraeducator pay increase, which will be an ongoing cost. The Sports Wagering Fund brought in \$14.3 million in new revenues in FY24.

2025 State Budget Summary

Iowa's budget is balanced according to the premise of revenue projections holding true. The March REC estimated that FY25 would lag FY24 in net revenues by 6.1%, which holds true according to non-final FY25 figures through June 30th. That said, Iowa is well managed, the budget is safely balanced, reserves are at their statutory maximums, and the Taxpayer Relief Fund is projected to have a \$4.0 billion balance at the end of FY 2025.

However, low agricultural commodity prices, increasing agricultural input costs, interest rates, and trade uncertainty due to federal tariff policy may have a continuing impact on Iowa's economy going into FY26.

The 2025 Iowa Legislature passed a \$9.422 billion state general fund budget for FY26, compared to \$8.955 billion budget they passed last year for FY25, representing a 5.22% increase. However, the FY25 budget was revised to \$8.947 billion.

The total spending for FY26 for the general fund and other funds* is projected to be \$11.023 billion. The total final action budget for FY26 is \$398.8 million (3.75%), exceeding the amount passed in the last legislative session. However, FY25 was adjusted during the year to \$10.600 billion. The FY26 budget is projected to be \$380.0 million (3.57%) over the adjusted FY25 total appropriations.

**Other funds include resources from the Primary Road Fund, Health Care Trust Fund, Rebuild Iowa Infrastructure Fund, Sports Wagering Fund, Opioid Settlement Fund, Temporary Assistance for Needy Families Fund and numerous other state-held funds.*