Committee on Accountable Government Review
Iowa's Fiscal Year 2027 Final Budget

Prelude

The Committee on Accountable Government ("Committee") of the Iowa Taxpayers Association ("ITA") has completed a review of the Iowa General Assembly 2026 budgeting process and final budget for FY27. 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 the governor and General Assembly use to accomplish more 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 FY27 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 or entirely deviates.

Sound Budgeting Principles Review:

Accurately determine revenue and expenses.

+- The budget partially 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 6 to 24 months ahead 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.

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 exceeding $60.0 million be deposited into the RIIF account. Since then, the original intent remains, 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 FY27 RIIF budget, the Legislature continued and accelerated noncompliance with Iowa Code 8.57(3)(c). There were fourteen instances where a "notwithstanding" exception to Iowa Code 8.57(3)(c) was used this year. After improvement on this metric in last year's RIIF budget, which this Committee noted positively in last year's report, this amounts to two more instances of divergence from the purpose of RIIF compared to FY26. Many are the primary ones that have been used in the last several years. The most significant concern is continued noncompliance with the RIIF's purpose. 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 or reduce the following non-compliant expenditures in this year's RIIF budget compared to the previous year:

- $40,000 for underground railroad historical markers
- $3,640,166 reduction in RIIF expenditure for the statewide interoperable communications system

A few new amounts that do not comply with Iowa Code 8.57(3)(c) were added in FY26, including:

- $10,000,000 deposit in the strategic infrastructure program fund
- $250,000 increase (from $750,000) in the distribution to the regional sports authorities
- $250,000 for financial assistance or a city or nonprofit hosting the National Junior Olympics

- $1,000,000 for assistance to communities to address abandoned buildings by promoting waste abatement, diversion, selective dismantlement of building components, and recycling
- $1,600,000 for matching funds for federal grants awarded to replace public transit vehicles and construct or expand vehicle facilities
- $8,045,098 increase in the transfer to the Technology Reinvestment Fund (TRF)

That is more than $17.4 million in non-compliant appropriations from RIIF compared to last year. That is after a $13.4 million reduction in non-compliant appropriations in last year's RIIF budget. On net, this General Assembly increased non-compliant RIIF appropriations by approximately $4.0 million. ITA cautions the Legislature from diverting RIIF funds statutorily authorized for a specific objective, public vertical infrastructure projects, to other purposes, and continues to strongly encourage them to follow the definition in the statutes.

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. 51.3% of the state general fund budget is standing appropriations. House File 2800, the Standings bill, reduced the standing appropriation for FY26 by $67.3 million compared to existing law; overall, the standing appropriations for FY27 exceed FY26 by $110.1 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 $9.808 billion, which includes the carryforward. The carryforward balance from FY 2026 is projected to be $1.488 billion. However, this is one-time money. The spending limitation of the ongoing revenue for FY 2027 is projected to be $8.320 billion.

Also, $617.8 million transferred in FY27 from the Taxpayer Relief Fund (TPRF) to the General Fund by operation of law. While this is one-time money like the carryforward balance, the TPRF was created for tax relief or reductions in income tax rates, and the transfer partially covers the expected loss of General Fund revenue from 2022 HF 2317 and 2024 SF 2442. Additionally, 2026 SF 2472, the property tax bill, included a $125M appropriation to the TPRF in FY28 and FY29, which will help bolster the long-term health of the fund.

The fiscal estimate for 2022 HF 2317, the income tax reduction bill, estimated a decline in General Fund revenues in FY27 of $1.579 billion, $1,397.1 million from individual income tax rate reductions and $182.1 million from corporate income tax rate reductions. The fiscal estimate for 2024 SF 2442, the flat income tax bill, estimated a $97.0 million decline in General Fund revenues in FY27 due to individual income tax rate reductions. The combined fiscal impact of the tax cuts for FY27 was expected to be a $1.676 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 $9.645 billion or $707.0 million more than the total ongoing revenue available plus the TPRF transfer. The Legislature spent 92.5% of the statutory expenditure limitation plus the TPRF transfer and 107.9% of ITA's Principles limitation.

2026 State Budget Summary

Iowa's budget is balanced according to the premise that revenue projections hold true. Currently, FY 2026 revenue is lagging the March projection. The March REC estimated that FY26 would lag FY25 actuals by 9.5% in net revenues. Through June 30th, the nearly finalized FY26 net revenues are 9.8% less than FY25. That said, emergency reserves are at their statutory maximums and the Taxpayer Relief Fund is projected to have a $2.6 billion balance at the end of FY 2027.

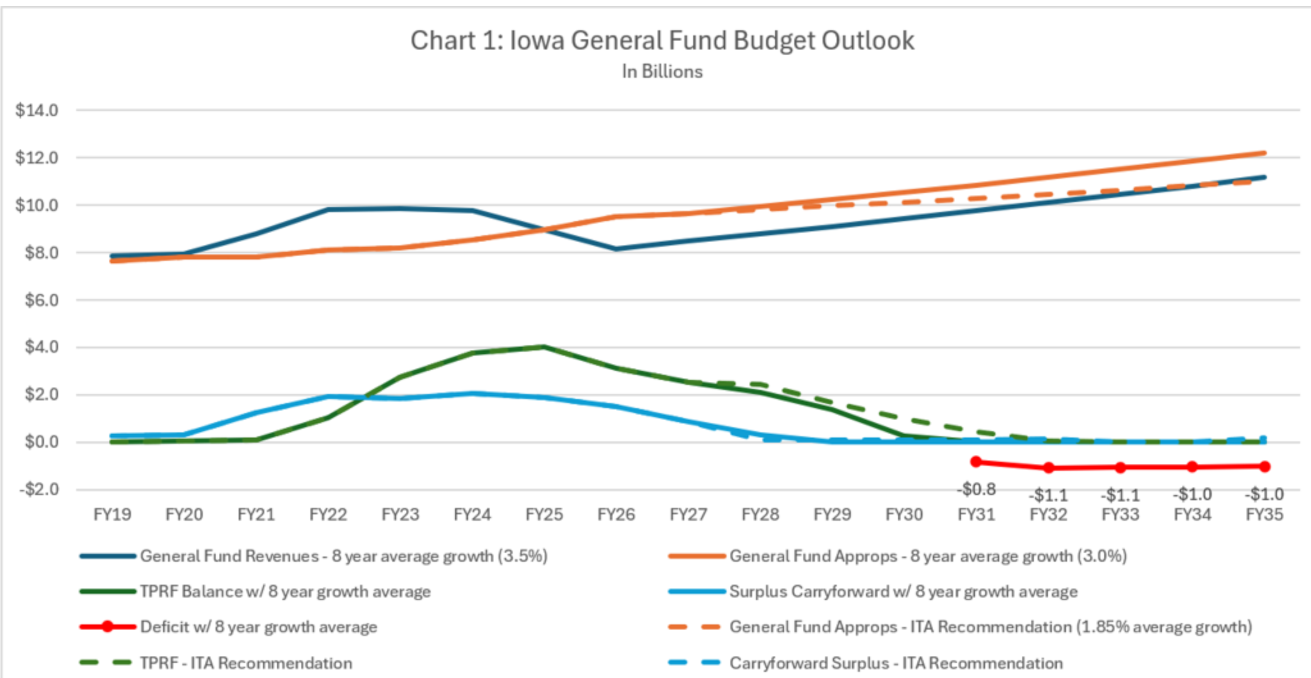
However, low agricultural commodity prices, rising agricultural input costs, interest rates, trade uncertainty due to federal tariff policy, and higher energy and transportation costs stemming from Middle East unrest may have an acute impact on Iowa's economy for the remainder of FY26 and FY27.

With the projected Medicaid shortfall for FY26, the Governor proposed a retroactive, temporary tax increase on health maintenance organizations (HMOs), which the General Assembly passed as HF 2739. That bill also transferred an additional $347M from the TPRF to the general fund in FY26 and increased the appropriation for Medicaid by $89M.

The 2026 Iowa Legislature passed a $9.645 billion state general fund budget for FY27, compared to the FY26 budget of $9.420 billion they passed last year, a 2.38% increase. However, HF 2739 increased the FY26 budget to $9.509 billion. From that reset FY26 baseline, the FY27 budget represents a 1.42% increase.

In March, ITA recommended limiting state general fund spending increases to 1.85% annually to prevent exhausting the TPRF by FY30. Continued adherence to averaging 1.85% annual increases in the state general fund budget from the pre-HF 2739 FY26 budget ($9.420B) will ensure the state ongoing revenues exceed state general fund revenues by FY35 without exhausting the TPRF. See Chart 1.

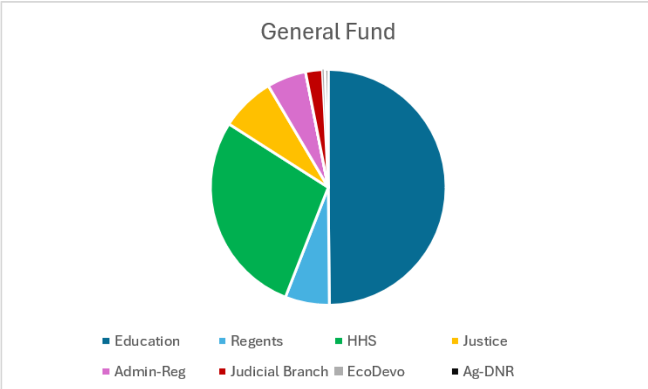
Chart 1:

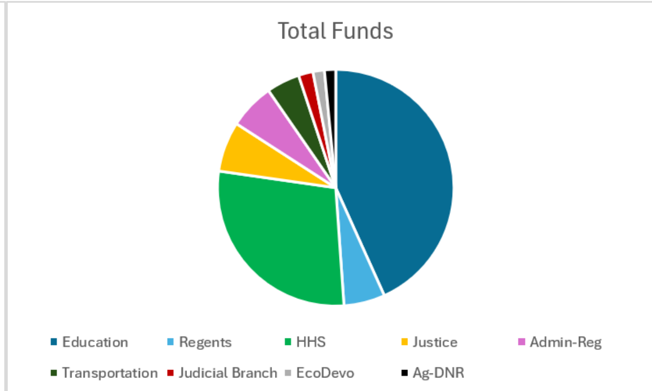


Continued adherence to averaging 1.85% annual increases in the state general fund budget from the pre-HF 2739 FY26 budget ($9.420B) will ensure the state's ongoing revenues exceed state general fund revenues by FY35 without exhausting the TPRF.

The total spending for FY27 for the general fund and other funds* is projected to be $11.212 billion. The majority of the general fund budget funds K-12 education and regent universities, and over a quarter of the total budget funds HHS, including Medicaid and other entitlement programs. See Chart 2. In addition to the appropriated state revenues, 2025 SF 626 appropriated $443 million of federal block grants each year in FY26 and FY27 to economic development, health and human services, public safety, and transportation.

Chart 2:





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