Public Money in Public Hands for the Public Good: A People’s Budget for Iowa

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Prepared by the People’s Budget Working Group

Sponsored by

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Public Money in Public Hands for the Public Good:
A People’s Budget for Iowa

All political power is inherent in the people. Government is instituted for the protection, security, and
benefit of the people, and they have the right, at all times, to alter or reform the same, whenever the public
good by require it.

Bill of Rights to the Iowa Constitution, Article I, Political Power, Section 2

Does it feel like Iowa government agencies are keeping public money in public hands for the public good? Or does it
feel like the public money is being spent on things that are for private gain? Does it seem like something is terribly
wrong with how the Iowa taxpayer money is being spent? Does it seem like your values are not reflected in the areas
where state government is spending money?

Iowa’s political conversation rarely moves beyond the notion that government’s primary responsibility is to grow the
economy. Hence we give corporations tax breaks, but slash funding for health care, environmental protections and
public interest research at our three state universities.

We hold a different view of government and that is government is the
trustee of all the things we share - public roads and bridges, water,
wildlife, air, public universities, state parks, education and public
health. These things we share, sometimes known as the commons, are
the basis of the cornerstones of the well-being of our state. There is little
or no economic activity without the public goods provided by things like
roads, water, and education. Therefore, protecting, enhancing and
restoring our shared public wealth is the central responsibility of
government.

The state budget is the financial statement for the state government. The
governor sets overarching goals for the administration, including
financial expenditures. The values and priorities of the governor are
reflected in the direction that the governor provides to the agencies. The
agencies deliver the services to the public based on the financial direction
set in the budget.

In order for the budget to protect the things we share and to reflect our
values, citizens like you can and should get involved in the budget
process.

A new view of government—the public trust doctrine and protecting the commons

A new view of government is being advanced across the state and the country. This view of the role of government
is based on something called the public trust doctrine. The public trust doctrine has two components.

1. The first is that the responsibility of government is to maintain, protect and enhance the commons now and into
the future. Essentially, that government holds these things we share as a public trust.
2. The second component is that community members hold the right to benefit from the commons - the things we share, such as water, wildlife, air, public universities, state parks, education and public health, as well as public roads and bridges.

Under the public trust doctrine, government is the trustee of all the things we share, sometimes called “the commons”. The commons are the cornerstones of the economy, including Iowa’s economy. Our economy relies on the commons. Without an educated populace, we can’t fill jobs. Without the roads and bridges, we cannot get the grain to market. Without clean air and water, we have poor health.

These rights and responsibilities under the public trust doctrine are not limited to water, the atmosphere and wildlife. They apply to all of the common assets of the state, including the public universities, roads, parks and even the institutions of government itself.

Even if you subscribe to the view that the primary task of government is economic support, the commons are key to successful fulfillment of that task. There would be little or no economic activity without the public goods like clean water, clean air, roads and education. Therefore, protecting, enhancing and restoring our shared public wealth and health, and providing equal access to these public goods is the central responsibility of government.

Government is the Trustee of the Things We All Share

Funding the care of our common assets is quite different from funding corporations to grow the economy. Under the public trust, Iowa state government has a fiduciary duty to manage public money and common assets for the public good - the good of all, not just the few, and not favoring private corporations.

A fiduciary duty is a legal obligation to take care of assets for the sole benefit of a designated beneficiary. The public entrusts its money and common assets to government to manage for the benefit of the public. Government cares for the common wealth and public health for present and future generations. The public gets the benefit of the public money and the common assets. “Public good” specifically means public and not private. Private interests must pay their fair share because they receive the benefits of the public good.

As mentioned above, past budgets reflected an outdated but prevailing view of government that its primary responsibility is to grow the economy and create jobs. Under that view a great deal of public money is spent on tax incentives given to private corporations while things like clean water and our public schools are neglected. This use of public money for private gain is a violation of the state’s fiduciary duty. Similarly, neglecting the health of the water and other commons is a violation of the state’s fiduciary duty to care for the common assets.

There are some essentials that are best provided by government since privatizing these public services results in higher cost - corporations make a profit off these public services when privatized even while the public pays for them.

It is time to trust that private corporations can fend for themselves. It is time for government to return to its primary function of serving the public good, the common good.

How can we implement the public trust doctrine?

Several state constitutions contain provisions that assert that the state has a public trust duty to care for the natural resources of the state. Iowa is not one of them. Pennsylvania’s constitution is a good example. It says “The people have a right to clean air, pure water, and to the preservation of the natural, scenic, historic and esthetic values of the environment. Pennsylvania's public natural resources are the common property of all the people, including generations yet to come. As trustee of these resources, the Commonwealth shall conserve and maintain them for the benefit of all the people.”
However the public trust role does not have to be enshrined in the state constitution. It can be implemented in state laws. The public trust can also be designed into the state budget.

Public money in public hands for the public good

The basic recipe that expresses that duty is “public money in public hands for the public good.”

Public or Common Good: There are five key areas that fall under the public good:

1. education,
2. public health,
3. the environment,
4. infrastructure such as roads and bridges, and
5. government services such as the courts.

All five of these must be funded sufficiently.

Public Money: Money which is secured through taxes such as sales or income taxes or fees on such things as hunting or license plates must be used for the public good, specifically the five categories listed above.

Public Hands: Public money should be held in public hands and not transferred to private interests for private gain.

State budget principles

One look at the state budget reveals the beliefs and priorities of the administration in power. The values reflected in the budget should reflect the values of the people in Iowa. We must tie the budget to our priorities.

Underlying the budget are some guiding principles:

1. The common wealth is the foundation of the economy. The common wealth and public health are the basis of the economy. The roads, clean water, clean air, schools and public health are the underpinnings of economic activity. For example, grain cannot get to market without public roads.

2. Tailor the budget to the public assets. The state budget should be tailored to the public assets that are in the state’s jurisdiction—drinking water and rivers, parks, schools, roads, and public health.

3. Corporations must pay their fair share. The Iowa State Constitution specifies that corporations must be taxed in the same manner as individuals, yet they have been given all sorts of special treatment such as the research tax credit.

4. No privatization of essential governmental responsibilities. Privatization of essential governmental responsibilities ultimately costs taxpayers more and should be avoided for fundamental services such as prisons and roads.

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1 Some of these principles were adapted from the Iowa Policy Project, Sensible Improvements for Iowa Tax Policy, www.iowapolicyproject.org/2017docs/171019-IFP-realtaxreform.pdf
5. **Fund solutions that solve more than one problem.** Care of the common assets ripples throughout the entire system. Solutions to problems such as water pollution result in benefits, including financial benefits, in other areas such as health care and education.

6. **Prevent problems** rather than clean up the mess later. Prevention is the most cost-effective approach to problems such as water pollution.

7. **Keep public money within the state.** Public money should be spent on goods and services operating in the state to the maximum extent possible, recirculating the money many times over.

8. **Budget and spending processes should be transparent and accountable.** Government officials who prepare the budget, spend money or use tax expenditures should be accountable for their proper use, with public disclosure that enables public participation and independent review.

9. **Taxes should be fair.** Taxes should be based upon ability to pay; and those with similar ability to pay should have similar tax responsibilities.

10. **Tax incentives should benefit the public good and the commons.** Tax incentives should promote some public purpose.

11. **Revenue should be adequate to care for the common wealth and public health.** Taxes must produce sufficient revenues to finance care of the public’s assets and essential state and local public services.

12. **Revenue streams should be stable and predictable.** A tax base should be stable and predictable to facilitate planning in both the public and private sectors.

13. **The tax system should be simple.** The tax system should be easy for citizens to understand and taxpayers to comply with, and it should be easy for the government to collect the tax and audit compliance.

**The budget process**

The steps of the budgeting process are:

1. The revenue estimating conference meets to determine how much money is expected to be brought into the state coffers. Based on those numbers, the governor can begin the budgeting process.

2. Budget instruction guidelines are sent to state agencies in June or July. The governor gives overall guidance to departments in the administration, legislature, and judiciary.

3. Each department compiles its budget needs and presents that to the governor. Agency requests are submitted to the governor by October 1. The governor’s office reviews those needs and adjusts them as needed to fall within the expected revenue.

4. Agency hearings are held in November and December.

5. Public hearings are held in December.
6. The governor submits his or her proposed budget to the Iowa State Legislature by February 1. The governor is constitutionally and statutorily required to submit a balanced budget. The budget is offered to the legislature as appropriations bills.

7. Both the House and Senate review the governor’s proposed budget and then come to an agreement on the final appropriations. Legislative committees and subcommittees review and debate the appropriations bills. The governor’s appropriations can change during the legislative process, via amendments. The legislature adopts a budget in April or May. The legislature is statutorily required to adopt a balanced budget.

8. Once the governor is presented with the appropriations bills, the governor can approve the appropriations bill in full, can line-item veto, or can veto the bill which returns it to the legislature for further work. Iowa is one of 44 states in which the governor has line item veto authority, which allows the governor to exclude individual line items from the budget bills passed by the legislature.

9. Changes in the tax and revenue collection are considered by the Iowa House and Senate Ways and Means committees. Once the governor is presented with those bills, the governor can approve the bill in full or can veto the bill which returns it to the legislature for further work.

10. The fiscal year begins in July.

**How can you get involved**

You can influence Iowa’s budget by:

1. Attending the public hearings in November and December
2. Writing the governor
3. Writing your state senator and state representative

**Recommendations**

Ask your elected officials to implement the following recommendations:

1. Setting goals is the first step in government fulfilling its fiduciary responsibility to care for the common assets and public money. This is what governors do when they submit their budget proposals to the legislature. We propose goals for the state of Iowa that reflect the fiduciary responsibilities of government to care for the things we share and to ensure equal access to benefits like health, clean water, roads, schools and everything else in the common wealth. Here are 6 budget goals that reflect the true needs of Iowa and that are based on the basic recipe of keeping public funds in public hands for the public good. By working to meet these goals, we will be able to build the foundation of a regenerative economy and a sustainable Iowa, which fosters the health and well-being of the land and people.

- World-class public education, from kindergarten to college, with emphasis on continuing education and student-centered education, including ecological, civic, holistic education, and development of social skills and working cooperatively
- Support physical and mental health from birth to death, including prevention and public health, for the greatest good for all people in Iowa, while creating the healthiest people and robust public health; publicly and not privately, funded and, managed
- Re-wild Iowa to protect, preserve, expand wildlands and natural areas, water, and air in Iowa, including restoration, preservation, regeneration
• Agriculture that feeds Iowans first and cares for the land, water, community; urban agriculture; reinvent the cooperative model and transitioning from the industrial model

• Develop and support energy for the future and a healthy environment; creating the world’s most innovative energy policy; focused on renewables, energy efficiency, distributed generation; equitable and people-centered; while avoiding, mitigating, and adapting to climate change

• Charging research and public university institutions with a public interest research agenda rather than a private corporate research agenda

2. Designate a legal guardian for future generations who would review regulations and the budget for their impact on the common assets such as water, state parks, transportation, public health, and public schools.

• Have state agencies evaluate the common assets they manage and determine the costs for adequate care as a first step in setting the budget.

• Each agency should set measurable goals for the protection, restoration and enhancement of common assets.

• Require the state auditor to audit the state’s common assets and the success of public expenditures in protecting the common assets, and report to the legislature.

• Create a program to repair and restore public assets, specifically restoring prairie, woodland, and river ecosystems, modeled on the Works Progress Administration (WPA). The WPA was a program begun in 1933 that put about 3 million people to work building or restoring public roads, buildings, theaters and airports. An Iowa WPA would focus on restoring ecological integrity.

3. Establish robust funding for essential government services, particularly the judicial branch of government and education, both of which have been neglected in recent years’ budgets.

• Eliminate other financial give-aways to corporations and use those funds for environmental programs.

• Establish the environment and public health as key state budget goals, prioritizing clean water.

• The Department of Natural Resources and the Department of Public Health should develop ways to measure the health impacts of Iowa’s contaminated water.

4. Establish the corporate tax rate at an appropriate level to fund the key state budget goals. A start would be to return them to pre-2018 levels.

5. Eliminate corporate tax incentives such as the research tax credit and re-allocate the refunds from the research credit to the public universities. The research tax credit creates refunds when the tax credit exceeds a company's or individual's state tax liability and no state income tax is owed. In 2017, those checks for companies and individuals totaled $46 million, the department of revenue reports. Much of the tax credits in 2017 went to big corporations, including:

   Rockwell Collins, which claimed $13.9 million in R&D tax credits
   Deere & Co., which claimed $7.5 million in R&D tax credits
   Green Plains Inc., which claimed $5.3 million in R&D tax credits
   Pioneer DuPont, which claimed $2.6 million in R&D tax credits

6. Hold public meetings around the state after state agencies have made their budget proposals. Solicit public input on the condition of the local commons and the finances needed to protect or restore them.
7. Provide the public with clear information about where money comes from and how it is spent. At present, it is almost impossible to understand what money comes from the federal government, excise taxes, or special funds, or to understand where the money goes. Data is not up to date and the budget numbers are not all in one place.

8. Establish a state bank, as North Dakota has done. At present, a large percentage of Iowa’s public money is housed at Wells Fargo, a private bank that has been sanctioned for fraud. Creating a state bank would provide financial mechanisms for ensuring that Iowa’s money could be leveraged for Iowa goals. Finally, it would guarantee Iowa could fulfill its fiduciary duty to manage the public’s money for the public good.

Conclusion

Iowa has utterly failed in fulfilling its fiduciary duty to care for the common assets of the state. There is no better exhibit of that failure than the condition of Iowa’s waters. The 2018 budget established by Governor Reynolds has several goals which target corporate well-being and jobs but neglect any mention of the actual necessities of public health, a clean environment, or management of those assets for which the state is directly responsible.

We recognize that 2/3 of Iowa’s state budget is spent on education and health care. That still leaves more than 2 billion dollars to be spent in fulfillment of the fiduciary duty to protect the water, the public schools and other public assets. The budget process must begin with the common assets managed by the state. Revenue must be raised to match the need instead of cutting taxes and revenue to the point where government cannot function.

You may wonder since Iowa has had to cut spending several years in a row, how could we possibly afford more spending on things like the public universities and clean water? There are two parts to the answer. The first is that we don’t know how much money we need until we actually assess the condition of the common assets. We need to raise the revenue necessary for the state to take care of those assets. The second part of the answer is that we’ve misallocated money to fund corporations at the expense of the public good. We can reallocate that money in fulfillment of the state’s fiduciary duty.

We have been impoverishing the state and enriching corporations under the misguided view that government’s sole responsibility is to grow the economy. That view has resulted in polluted water, crumbling infrastructure and increased tuition at the universities while corporations’ shareholders have grown rich on our dime.

We can do better. This plan aims to do that, starting with a clear understanding of what government is for and measuring the budget against principles that will guarantee that government fulfills its fiduciary duty to the public now and in the future.

“... Why should a 62-year-old man have to pay for maternity care?

I ask, why should I pay for a bridge I don’t cross, a sidewalk I don’t walk on, a library book I don’t read?

Why should I pay for a flower I won’t smell, a park I don’t visit, or art I can’t appreciate? Why should I pay the salaries of politicians I didn’t vote for, a tax cut that doesn’t affect me, or a loophole I can’t take advantage of?

It’s called democracy, a civil society, the greater good. That’s what we pay for.”

Barbara Rank,
in a letter to the editor of the Dubuque Telegraph Herald,
reprinted in the Cedar Rapids Gazette, May 17, 2017
Glossary

**Appropriations bills** – legislation passed by the Iowa House and Senate and signed by the governor that authorize the government branches, agencies, and departments to spend the taxpayer money. The bills lay out the line items of the budget and the amount that can be spent. The budget is passed in several appropriations bills.

**Appropriations committees** – The Iowa House and Senate each have a committee of legislators whose purpose is to review the budget request from the governor, to work on amendments, and to recommend that the chambers pass the appropriations bills.

**Balanced budget** – when the expenditures are at or below the revenue coming into the state. Iowa law requires that the budget be balanced.

**Bonds** – for certain government activities authorized by the legislature, the state treasurer can raise money by selling bonds through the bond market. The bonds are paid back, with interest, over a period of years.

**Cash reserve fund** – surplus money is deposited into the cash reserve fund. The legislature has established a maximum amount that can held in the cash reserve fund; once that amount has been reached, further surplus is moved to the GAAP Deficit Reduction Fund (Economic Emergency Fund). The cash reserve funds are placed in interest-bearing accounts; the interest is placed in the Rebuild Iowa Infrastructure Fund.

**Common assets** – physical items of the commons

**Commons** - the things we share, such as public roads and bridges, water, wildlife, air, public universities, state parks, education and public health.

**Consent of the governed** – majority consensus

**Deappropriation** – a decrease in the amount that was appropriated in a fiscal year. This is done to make budget adjustments before the end of the fiscal year, such as during times of recession when the revenue brought in does not meet the expected budgeted revenue.

**Dedicated funds** – a fund in the state treasury that is set aside for a specific purpose. See special purpose funds.

**Economic Emergency Fund** – The economic emergency funds are used to prevent a deficit in the general fund, with the next fiscal year’s budget required to replace those funds. The Economic Emergency funds are placed in interest-bearing accounts; the interest is placed in the Rebuild Iowa Infrastructure Fund. The legislature has established a maximum amount that can held in the Economic Emergency fund; once that amount has been reached, further surplus is moved to the Taxpayers Trust Fund and to the General Fund.

**Fiduciary** – one who manages the money and property of another person or group of persons; a caretaker of the funds and property. In this context, the government manages the commons that we all share.

**Fiduciary duty** - a legal obligation to take care of assets for the sole benefit of a designated beneficiary. The public entrusts its money and common assets to government to manage for the benefit of the public.

**Fiscal year** – the state’s financial year, which runs from July 1 to June 30.

**GAAP Deficit Reduction Fund** – The GAAP Deficit Fund is an obsolete fund that was used when the state moved to a new accounting system. The funds that are deposited in the GAAP Deficit Fund are automatically transferred to the Economic Emergency Fund.

**General fund** – the budget that holds the revenue and expenses for the operation of government. There are special-purpose funds that are set up to handle very specific revenue sources and expenses.
**Greater good** – for the benefit of the public

**Gross domestic product (GDP)** - The GDP is the measure of the monetary value of all goods and services produced within the nation’s borders.

**Legislative Services Agency** – an agency that is part of the legislative branch of government. One of its functions is to assist the legislature in the budgeting and appropriations processes, including writing the appropriations bills and analyzing the financial implications of the bills.

**Line item veto** – the governor can reject particular lines of the appropriations bill, without rejecting the entire appropriations bill. No other types of bills can be line-item vetoed.

**New revenue** – money received in the state treasury from newly established taxes and fees or from increased taxes and fees

**Nonrefundable tax credits** – non-refundable tax credits reduce the amount owed to the government. If the nonrefundable tax credit reduces the amount of tax owed to zero, the balance of the tax credit is not paid to the taxpayer.

**Prioritizing the commons** – putting protection and funding of the commons above other priorities, such as giving corporations tax breaks.

**Progressive tax** - A progressive tax is one that imposes a lower tax rate on low-income earners than those with higher incomes. It is based on the taxpayer's ability to pay.

**Property tax abatement** – property tax abatements reduce or eliminate the amount of property taxes that are paid. The abatement is usually applied to new construction or major improvements.

**Public or Common Good** - Key areas that fall under the public good include education, public health, the environment, infrastructure such as roads and bridges, and government services such as the courts.

**Public Hands** - Public money held in public treasury which will be used for public good and not transferred to private interests for private gain.

**Public Money** - Money which is secured through taxes such as sales or income taxes or fees on such things as hunting or license plates must be used for the public good.

**Public trust doctrine** - The public trust doctrine has two components. The first is the right of community members to benefit from the commons. The second is the responsibility of government to maintain, protect and enhance the commons now and into the future.

**Rainy day fund** – money that is held in the state treasury and used to keep the government running when the normal income declines or is interrupted, such as during a recession.

**Refundable tax credits** - refundable tax credits reduce the amount owed to the government plus if the refundable tax credit reduces the amount of tax owed to zero, the balance of the tax credit is paid to the taxpayer. Some refundable tax credits may limit the amount of the refund.

**Regressive tax** - A progressive tax is one that imposes a higher tax rate on low-income earners than those with higher incomes.

**Revenue Estimating Conference** – a three-person board that estimates how much revenue is expected to be generated by the state for the general fund. The information is used to create the budget. The board members include a person who represents the governor’s office, the Director of the Legislative Services Agency, and a third person selected by the other two members of the Revenue Estimating Conference. The conference meets each quarter.
Revenue sources – the money that flows into the state treasury. Among the sources of revenue for the state treasury are state sales tax, income tax, use taxes, inheritance tax, and the insurance premium tax. Also federal money is given to the state of Iowa for specific purposes.

Reversion – appropriated funds that are not spent by the end of the fiscal year.

Shared public services – things that we have agreed to share the costs of through the payment of taxes, such as police, fire protection, courts, sewers, water lines, education, and roads.

Special purpose funds - Special-purpose funds are set up to handle very specific revenue sources and expenses; the moneys generated by these funds are not deposited in the general fund. Special purpose funds cannot be re-allocated to other projects or activities. Among the funds that are diverted from the general fund are the Flood Mitigation Program, Reinvestment Districts, Health Care Trust Fund, Gaming Revenues, Judicial Revenues, Road Use Tax Fund, and the Real Estate Transfer Tax.

State budget – the plan that lays out expenses that fund the legislative, judicial, and administrative branches of the government and the income that is brought into the state treasury.

Supplemental appropriation – additional money that the legislature appropriates during the fiscal year, that increases the amount of money currently appropriated to a budget item.

Tax credit – a tax credit is an amount of money that can be subtracted from taxes owed to the government. Tax credits reduce the taxes owed. They are not based on the income of the taxpayer nor are they subject to the tax rates.

Tax increment financing - Tax increment financing is a scheme whereby a developer of a building project, the owner of a business, industry, or an investor group are able to fund the project by diverting some of their property taxes to pay for the project. The project can be a remodeling project, a building addition, or a new building. It can be commercial property or housing units.

Tax loophole - loopholes are written into tax laws to provide means for individuals and companies to remove certain kinds of income from being taxed or to being taxed at lower rates.

Taxpayers Trust Fund – the funds in the Taxpayer Trust Fund are returned to the taxpayers, as a non-refundable tax credit, when they file state income tax returns. The legislature must approve an appropriation for the tax relief.

Trustee – the fiduciary.