



# FACTS & OPINIONS

*On Public Interest Issues*

## Quotes

The American Dream is not to make everyone level with everyone else, but to create the opportunity for all people to reach as high as their God-given potential allows.

– Jack Kemp

You must be the change you wish to see in this world.

– Mahatma Gandhi

It is never too late to become what you might have been.

– George Eliot

## Appearances Can Be Deceiving

Doug Stout

If you follow the budget process and have been paying attention to the self-congratulatory rhetoric of Legislators, you might know that they correctly claim to have “filled up” the state’s reserve going into the current fiscal year. The so-called “rainy day” fund was provided with \$620 million dollars for Fiscal Year 2009, which began on July 1, 2008.<sup>1</sup>

This would seem to have been a wise and necessary move since the summer floods, brought on by far too many of those “rainy days,” seems to be a logical place to spend those reserve funds. Isn’t that what “reserve funds” are for...unexpected economic downturns, or unusual and emergency expenditures?

The Legislature also seemingly showed its “responsibility” by adopting a Fiscal Year 2009 budget which spends \$6,133,000,000 dollars **from**

**the General Fund**, when the Governor had proposed a budget spending \$6,399,600,000 dollars **from the General Fund**. So it would appear they can claim a record of fiscal responsibility, spending less than the Governor appealed for and not exceeding the **General Fund balance**, but appearances can be very deceiving.

I think some of you may be familiar with the adage of “robbing Peter to pay Paul?” How does our State Auditor describe the practices that have been going on in the back rooms of our Statehouse? As you may know, our state has more “funds” filled with the people’s money in them, than just the “General Fund”...and unfortunately, all of those funds have a lot less money in them than they used to have prior to the midnight raids by politicians looking for additional spending

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## FACTS & OPINIONS

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Dr. Don Racheter

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## Focus on Iowa Wesleyan College

Iowa Wesleyan College is making big strides into the future under first-year President Jay Simmons. The college brought in the largest class of freshmen in three decades this fall. Two hundred and fifty-eight new students came to campus, including one hundred and fifty freshmen and another one hundred and eight transfer students. This brought the total enrollment of the campus to 843 students. Since the 2006-2007 school year, there has been an eight percent increase in total enrollment.

Iowa Wesleyan also continues to be a leader in providing a diverse student body. Twenty-seven states are represented at the college as well as 76 international students coming from 25 nations. The college has also made substantial new investments in campus infrastructure, increased student resources and developed new scholarships. The college football Tigers also got into the spirit of progress this season, placing two players on the first team Mid-States Football Association.  
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*Call 800-582-2383  
for more information on  
Iowa Wesleyan College.*

## What's New at Public Interest Institute?

The Public Interest Institute enters the new year with a renewed enthusiasm to help concerned citizens to become better informed about public policy issues. Our nation and our state face many challenges and policy determinations that will shape our future. After any election cycle it is always important to remember the inspiring words of Winston Churchill. "Success is not final, failure is not fatal: it is the courage to continue that counts." Policy debates are never finished; they just begin once again from a new starting point.

The Institute continues its work to promote the importance of a free-enterprise economic system and limited government in society based upon individual freedom and liberty. To again quote Winston Churchill, this time on the merits of the free-enterprise system: "Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse, pulling a sturdy wagon."

The Public Interest Institute believes that ideas have

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## Appearances Can be Deceiving

*Doug Stout*

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money to keep special interests happy. The FY 2009 budget takes \$443,700,000 in general expenditures and pays for them out of funds and special accounts, which are supposed to be reserved for special purposes, not general expenditures! <sup>2</sup> To quote State Auditor David Vaudt directly: “Using this technique allows the Governor and the Legislature to get around our statutory expenditure limitation because that limitation only applies to the General Fund budget.”<sup>3</sup>

The State Auditor continued: “Despite almost 10% revenue growth over a two-year period, expenditure growth outpaced revenue growth by 52%.... While the Fiscal Year 2009 budget calls for a 4.7% increase in spending, it creates at least a 9.3% spending gap, \$569.3 million, which the next Legislature will have to address following the election this fall.”<sup>4</sup>

As a taxpayer, this should concern you. This analysis of the budget by State Auditor Vaudt was done last spring and did not take into account flood assistance, or

the revised budget estimates due to the slumping national economy. Even prior to those events our Legislators had fashioned their own financial train wreck. The only question had been whether it would hit this year or next. Unfortunately, the “economic slow down” the “rainy day” fund was designed to cushion is now hitting our national economy. So when the state needs it most....both to bolster slacking revenues from a lackluster federal economy, or to provide needed help to our flood victims...the money has really already been spent. It was needed to fill the gap, between what the Legislature said they spent...and what they actually spent for the current fiscal year.

The State Auditor’s report says it clearly: “Shifting expenditures out of the General Fund budget also allows the Governor and the Legislature to manipulate the size of the General Fund budget, which is the most widely used measure of state spending. Shifting General Fund expenditures off-budget allows our lawmakers to have their cake and eat it too. In the case of Fiscal Year 2009, the Legislature claimed credit for passing a fiscally responsible

budget while hiding record levels of shifted spending.”<sup>5</sup>

By the way, this is the same State Auditor who also warned of the deterioration of the integrity of the State Budget process when it was under Republican control. In March of 2004 the Auditor’s report criticized Governor Vilsack (D) and the Republican-controlled Legislature by saying: “Iowa faces an alarming structural deficit – the citizens of Iowa deserve to know if, when, and how the funds raided will be repaid... Neither the Republican’s budget nor the Governor’s budget adequately addresses repaying the millions of borrowings, which current law already requires to be repaid. Nor does the either budget address the staggering additional \$1.2 billion that will have been taken from over 30 different funds during the last few years.”<sup>6</sup>

Our Auditor has been sounding the alarm about legislative irresponsibility on a bi-partisan basis for years, but it has fallen on deaf ears. It seems that now, with a federal economic crisis and a state flood relief crisis... the state may be forced to face reality.

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## Appearances Can be Deceiving

*Doug Stout*

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They have been using Iowa's specialized funds as their own easy-to-access credit cards until they are maxed out...and then telling the taxpayers how responsible they have been. They bragged to Iowans that they had filled the piggy bank of our Cash Reserve Fund...so all was well and we should admire their fiscal restraint. Once again to quote the Auditor's report: "The Fiscal Year 2009 budget 'maxes out' Iowa's charge cards – the funds used the past several years to balance the budget. These funds include the Senior Living Trust Fund, various tobacco related funds, and the Property Tax Credit Fund."<sup>7</sup>

Now you can see what happened to some of the money Attorney General Tom Miller won for Iowa from the big tobacco companies. Those are the funds the Auditor refers to when he refers to the "various tobacco related funds." The Senior Living Trust Fund?... it was designed to allow senior citizens to stay at home longer and avoid institutional care, instead it has been drained to meet annual general operating expenses and fund new programs for the state.

On that issue, the Legislature appears to have been the most cynical. While passing legislation to replace some of the \$600 million that had been diverted from the fund for general expenditures, the Legislature did not put any limits on stealing from it again...and the budget anticipates them doing just that. The State Auditor's office anticipates that at the end of Fiscal Year 2009 there will be a balance of only \$37 million left in the Senior Living Trust Fund.<sup>8</sup>

But the appetite of many politicians for spending is insatiable. "The FY2009 budget diverts \$101 million worth of expenditures from the General Fund to the Rebuild Iowa Infrastructure Fund in Fiscal Year 2009. An additional \$92 million is diverted in Fiscal Year 2010."<sup>9</sup> That means bills which should have been paid for by the General Fund have been sent to the Rebuild Iowa Infrastructure Fund for payment. Yet another trust fund has become an easily accessible line-of-credit for meeting our ongoing state expenditures. We are like the gambling addict, maxing out one credit card after another, neglecting our responsibilities and misleading our families and friends about where all the money is going. It does little good to have budget limitations on the General Fund, with so many other trust funds for our Legislators to choose from to raid the state coffers. The problem is that sooner or later the chickens will

come home to roost.

So is that time upon us? Where will the necessary revenue come from to meet the gap? It does not currently look like it will come from an expanding federal economy.

If history serves us well, State Legislators, like all politicians who count on you to not pay too close attention to what they are actually doing with your money, will hope you never read a State Auditor's budget report. They will blame the problems created by their own irresponsible actions on the downturn in the national economy and "regretfully" inform the taxpayers that due to factors beyond their control, they have no choice but to ask for another tax increase. They had better hurry to do so. They will want that action safely out of the way in 2009...well before the elections again in 2010. Also, with more and more Iowans successfully kicking the tobacco habit, they may be running out of smokers to bear the additional tax burden to expand the scope of state government. They may be forced to go after another group of hard working Iowans to meet their own addiction needs...the need for an ever expanding state government.

To summarize the state's current budget situation, our cash reserve fund stands at \$620 million dollars. The actual

## Individuals like you who believe in individual liberty and free-market solutions envelope to make your tax-deductible contribution to this effort today.

spending gap in the FY2009 budget is \$569.3 million. So that pretty much takes care of the rainy day fund. The “rainy day” fund is a one-time pot of money; it does not recreate itself without drawing more funds down from incoming tax revenues. The spending gap consists of **ongoing expenditures**. If state revenues do not continue to grow to keep pace with the new obligations, we will have to cancel existing programs or raise more taxes. If our politicians were playing “straight” our rainy day funds would have to go just to cover the FY2009 spending gap...or to put it another way, under honest budgeting...our rainy day fund is actually empty, because it is needed to fill the trust funds that were pirated away.

So why did our state Legislators drain the trust funds and special accounts in their desire to create new programs and expand existing ones? In the immortal words of American gangster, Willie Sutton, when asked why he robbed banks, Sutton simply replied, “Because that’s where the money is.”<sup>10</sup> Constrained by good government responsibility, which is a trademark of Iowa responsibility and heartland common sense, the General Fund must be balanced. However, Legislators have used the “tricks of their trade” to avoid that inconvenient truth.

Isn’t there anyone out there who thinks we should pay for what we buy...actually when we buy it, and tell the taxpayer the whole truth about it?

In an ironic footnote, the *Des Moines Register* reported in late September that “Iowa’s bond rating has been upgraded to a AAA by Standard & Poor’s. The firm praised Iowa’s fiscal management.” Standard and Poor’s is quoted as saying “The stability and continuing diversification of the state’s economy and the sustained commitment to funding rainy-day reserves at statutorily mandated levels merits the upgrade.”<sup>11</sup> It seems they don’t care where the money to fill the “rainy-day funds” came from either.

The same day the *Des Moines Register* also reported that a \$40 million dollar “Jumpstart” program will be available to bring assistance to Iowa flood victims.<sup>12</sup> The article goes into detail on how the money will be allocated and the process to apply. It ends by mentioning funding for the program. “Culver diverted the \$40 million on his authority from a number of state funds.”<sup>13</sup> That is all it says on the subject. Does anyone care where the money came from? Apparently not...not at the state or at the federal level...its just money after all. It is not like someone actually has to pay for it at some point. Right?

(Endnotes)

<sup>1</sup> State Auditor Vaudt Reviews Adopted Fiscal Year 2009 Budget, Office of the Auditor of State, State of Iowa, May 28,2008< [http://auditor.iowa.gov/press/Briefing\\_05-28-08.pdf](http://auditor.iowa.gov/press/Briefing_05-28-08.pdf)> (September 30, 2008).

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> State Auditor Vaudt Reviews Republican FY 2005 Budget, Office of Auditor of State, State of Iowa, March 24, 2004<[http://auditor.iowa.gov/press/Briefing\\_03-28-05.pdf](http://auditor.iowa.gov/press/Briefing_03-28-05.pdf)>(September 30, 2008).

<sup>7</sup> State Auditor Vaudt Reviews Adopted Fiscal Year 2009 Budget, Office of the Auditor of State, State of Iowa, May 28,2008< [http://auditor.iowa.gov/press/Briefing\\_05-28-08.pdf](http://auditor.iowa.gov/press/Briefing_05-28-08.pdf)> (September 30, 2008).

<sup>8</sup> State Auditor Vaudt Reviews Adopted Fiscal Year 2009 Budget, Office of the Auditor of State, State of Iowa, May 28, 2008< [http://auditor.iowa.gov/press/Briefing\\_05-28-08.pdf](http://auditor.iowa.gov/press/Briefing_05-28-08.pdf)> (September 30, 2008).

<sup>9</sup> Ibid.

<sup>10</sup> Federal Bureau of Investigation, famous cases, quoting Willie Sutton. FBI History, Famous Cases, <<http://www.fbi.gov/libref/historic/famcases/sutton/sutton.htm>> (September 30, 2008).

<sup>11</sup> David Yepsen, “Yepsen: Culver making gains as he looks to 2010,” *Des Moines Register*, September 23, 2008, < <http://www.desmoinesregister.com/apps/pbcs.dll/article?AID=2008809230354>> (September 30, 2008).

<sup>12</sup> Jennifer Jacobs, “Governor announces flood allocations,” *Des Moines Register State Edition*, September 23, 2008.

<sup>13</sup> Ibid.

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## "Up in Smoke"

Doug Stout

If there is one thing consistently true in American politics...it is the adage that "talk is cheap"...Money on the other hand is relatively hard to come by. Of course at the federal level we have resolved that problem by borrowing money at an ever increasing rate. Thank goodness we don't have that kind of fiscal irresponsibility in the state of Iowa?

Just last year, the State of Iowa solved part of our "money is hard to come by" problem by raising the state tax on cigarettes by one dollar per pack. So by now we should all feel much healthier. Of course, our state budget coffers should feel pretty healthy too. Not only have we been paid over half a billion dollars in funds due to Iowa's share of the tobacco settlement agreement in 1998, (the total Iowa is expected to receive over the first 25 years of the settlement is estimated to be over 2 billion dollars,)<sup>1</sup> but we also raise well more than a hundred million additional dollars each year from our new cigarette tax. So at least until our taxpayer-funded efforts to prevent smoking prove to be effective...we have a lot of additional revenue pouring into our coffers.

Iowa has become a part of a new American movement to

place the burden of taxation to fund the general obligations of the state government on the back of the smoker. It works out very well. The politician can say that their true motive is to give the addicted smoker more reason to quit the habit and thus increase the healthy lifestyle of Iowans. At the same time, they can allude to the increased health care costs incurred by those who smoke on the rest of society and say it is only "fair" that smokers pay for that cost. Of course, that actual cost is difficult to actually calculate. Some studies have indicated that the medical health care costs passed on to the general taxpayer are not as high as some politicians have suggested.

"Currently anti-smoking groups in Utah are advocating for a \$2 per pack tax on cigarettes. In a study by Vanderbilt University by Professor Kip Viscusi, he found 'excise taxes on cigarettes equal or exceed the medical care costs associated with smoking.' He estimated the medical costs of smoking to be 23.6 cents per pack."<sup>2</sup>

However, even if the cost is higher than that study found...are much higher tobacco taxes a rational way to raise revenue? While they have the advantage of not directly impacting the non-smoking taxpayer, are they a reliable, consistent, and "fair" way to raise revenue? Well, logically no they are not. If part of the purpose is to help smokers quit smoking, then if

**According to a study published in Forbes magazine by the Pacific Research Institute which ranked the level of economic freedom enjoyed in the fifty states:**

**Iowa has dropped in rank from 16th place in 2004, to 22nd place in 2008.**

**The U.S. Economic Freedom Index: 2008 Report measures how friendly, or unfriendly, each state's government policies are toward free enterprise and consumer choice.**

the program is successful, the number of people and packs which are taxed will decrease every year. This means if the money is used for ongoing programs...the programs must be funded by some other means in the future, or they must be cut back.

Maryland passed a \$2 per pack cigarette tax increase in 2007 with the rationale that they would use the funds to expand health care coverage. Eight months later cigarette sales had fallen 25%. This might be a good thing if it meant that 25% fewer cigarettes were being smoked, but the *Wall Street*

*Journal* article concludes they are probably just going the short distance and buying them in nearby Virginia, where the tax is only thirty cents a pack, thus depriving Maryland of revenue and doing nothing to “help” the afflicted smokers kick the habit.<sup>3</sup>

But wait, it actually gets worse. The same article also says that the State of Maryland, in what appears to be an increasingly radical agenda of helping those poor afflicted smokers, who are also their constituents, kick the habit through bankrupting them, has actually stooped to criminalizing the buying of even small amounts of tobacco from Virginia or other apparently less enlightened states!

To quote the *Wall Street Journal*, “The Maryland pols are so afraid this is true that they’ve made it a crime for residents to carry two packs of cigarettes that weren’t purchased in the state. In other words, the state says it’s legal to smoke, so long as you use cigarettes that the government can tax and thus become a financial partner in your bad habit. But if you dare to buy smokes across state lines, you can be fined.”<sup>4</sup>

Understand, we are not talking about the more common state practice of forbidding purchase of low tax items from another state for resale. If you have three packs of cigarettes on your person, which were not bought in Maryland, you are a criminal. If you have five

packs of cigarettes on your person, three bought in Maryland and two in Virginia...you are a law abiding citizen.

Does something seem a little screwy to anyone else? Is there anyone who can say with a straight face that the purpose of the legislation is to stop people from smoking? And even if you make that difficult argument, what happened to the idea that goods should be able to travel freely between the states?

We should face up to the fact that these measures, in Iowa and elsewhere, have always been primarily about raising more revenue for state expenditures.

(Endnotes)

<sup>1</sup> “Tobacco Industry Pays \$42 Million to Iowa Tobacco Settlement Authority,” Iowa Attorney General’s office, April 16, 2003. <[http://www.iowa.gov/government/ag/latest\\_news/releases/apr\\_2003/Tob\\_payment.html](http://www.iowa.gov/government/ag/latest_news/releases/apr_2003/Tob_payment.html)> (September 30, 2008).

<sup>2</sup> John Nothdurft, “Research and Commentary: Utah Cigarette Tax is More than Meets the Eye,” *The Heartland Institute*, September 22, 2008, with information from the article by W. Kip Viscusi, “Regulation and Taxation through Legislation,” <<http://aei-brookings.org/admin/authorpdfs/redirect-safely.php?fname=../pdffiles/regch2.pdf>> (September 30, 2008).

<sup>3</sup> “Cigarette Tax Burnout,” *The Wall Street Journal online*, August 11, 2008, <[http://online.wsj.com/public/article\\_print/SB121841215866128319.html](http://online.wsj.com/public/article_print/SB121841215866128319.html)> (September 30, 2008).

<sup>4</sup> Ibid.

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## *FACTS & OPINIONS*

### **Question of the Quarter:**

**Should the State of Iowa consider an additional increase in the tobacco tax in order to raise additional state revenues?**

Send your thoughts on this issue to us at [public.interest.institute@limitedgovernment.org](mailto:public.interest.institute@limitedgovernment.org).

We may publish some of your ideas in the next issue of *FACTS & OPINIONS*.

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## **Focus on Iowa Wesleyan College**

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sociation Midwest League squad and taking significant strides towards improvement, with their best record since the 2005 season. It is a new exciting time for the college, under its energetic President Jay Simmons.

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*Have you renewed  
your membership with  
Public Interest  
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## **What's New at Public Interest Institute?**

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consequences, and involved individuals can make a difference. We continue to examine and explore the policy issues that impact the daily lives of Iowans and all Americans.

Since August of 1991, the Public Interest Institute has worked to offer positive solutions and alternatives to state and local officials, encourage economic freedom and opportunity, and promote the role of the private sector in providing services economically and efficiently.

Now, more than ever it is important that the average citizen engage in the great debates that will shape our future. Through our ongoing publications, as well as through our new efforts to bring greater transparency to government actions on our new transparency website, we will continue our efforts to help you stay informed and involved in the policy choices made at the federal, state, and local level. Best wishes for the New Year!

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