



Iowa's State Budget: Spending Our Way to a Crisis Again

by Amy K. Frantz

A 2002 Public Interest Institute POLICY STUDY warned of a coming fiscal crisis if state spending were not put under more stringent controls. The aptly-titled study, *Iowa's State Budget: Spending Our Way to a Crisis*, recounted the spending binge of then-Governor Tom Vilsack and the State Legislature, adding \$434 million to the state budget in the Governor's first two years in office, and setting us up for severe budget problems when revenue streams dried up.

The lessons of the Vilsack Administration were apparently not taken to heart by our current Governor, Chet Culver, who along with the State Legislature increased spending by nearly \$1 billion in just two years, an increase even larger than in Governor Vilsack's first two years in office. Just as occurred then, finger pointing has ensued, blaming former President George W. Bush, the downturn in the economy, and the flooding and tornados that struck our state last year for the current budget crisis. However, no one forced the Governor and Legislature to overspend to a point that was unsustainable should tax revenue fall, as it has this year.

In his first year in office, Governor Culver proposed a Fiscal Year (FY) 2008 budget that would keep many of his campaign promises – among them providing funding for a state-run preschool program, increasing teacher pay, and establishing the Iowa Power Fund. By the end of the session, Legislators and the Governor had approved a General Fund budget that increased spending by nearly \$500 million over the previous year's budget.

The following year, despite signs that the overall economy was beginning to weaken, Legislators and the Governor crafted a budget that pushed state General Fund spending for FY 2009 over the \$6 billion mark for the first time in Iowa history.

As revenue grew over the last few fiscal years, Legislators and Governors Vilsack and Culver chose to increase spending to levels that were simply not sustainable if the state entered an economic downturn, which it now has, and revenue began to fall.

While Net General Fund Revenue totals were increasing, General Fund Appropriations also increased by an equal or greater percentage. Even now, when the estimates of the change in Net General Fund Revenue are negative for FY 2009 and FY 2010, the Governor's recommendations for General Fund Appropriations continue to go up, although at somewhat smaller rates than in the earlier years. However, if revenues are going down, prudence dictates that spending should also decrease.

Perhaps Governor Culver is hoping most Iowans won't dig too deeply into the actual numbers. The Governor has claimed that his "budget proposal for fiscal year 2010 will reflect a 6.5 percent

A Publication of: **Public Interest Institute at Iowa Wesleyan College**

600 North Jackson Street, Mount Pleasant, Iowa 52641-1328

If you wish to support our efforts, please donate by sending a check to us at the above address.

PII is a 501 (c) (3) non-profit organization and all contributions are tax deductible.

E-Mail: public.interest.institute@limitedgovernment.org

Website: www.limitedgovernment.org Phone: 319-385-3462 Fax: 319-385-3799

cut to almost every state department and program... That represents a savings of \$400 million to Iowa taxpayers.”¹ It may be true that many items in the Governor’s budget received a cut, but his overall General Fund budget for FY 2010 increases by 2.2% over his recently revised recommendation for the FY 2009 budget.²

Budget negotiations are ongoing in the current Legislature. Governor Culver has issued his budget proposal for FY 2010 (which begins in July 2009) as well as a revised budget proposal for the current fiscal year, FY 2009. Legislative Democrats have issued their budget targets for FY 2010, which are \$130 million less than the Governor’s proposal.

On the federal level, the recently-adopted economic stimulus package provides bailout funds to the 50 states. Iowa’s share of the funding will be around \$1.9 billion.³ Legislators and the Governor should take care to remember that the federal stimulus funding is a one-time, not an ongoing, funding source. Any new programs or increases in ongoing spending that are created using those funds will create shortfalls and cause problems down the road.

For a more long-term solution, we suggest expenditure limits for the state budget that would limit the state’s annual spending growth to the growth in state population plus inflation. This limit must be a Constitutional limitation, to prevent circumventing the limits through the use of “notwithstanding” language in legislation, as is done with our current 99% expenditure limit law for General Fund spending. The expenditure limit must also apply to both General Fund and Non-General Fund spending.

Even with such an expenditure limit, the budget would continue to increase, but at a slower rate of growth. Had this expenditure limit been enacted, total budget savings from FY 2006-FY 2009 would have been more than \$3.1 billion. Ideally, this is money that could have been returned to Iowa taxpayers or not collected from taxpayers to begin with. At any rate, with more reasonable spending increases, we would not be in the middle of the budget crisis we are today.

Public Interest Institute’s POLICY STUDY, “Iowa’s State Budget: Spending Our Way to a Crisis Again,” can be viewed at www.limitedgovernment.org.

Endnotes:

¹“Governor Culver Releases FY2010 Budget,” Press Release from the Office of the Governor and Lt. Governor, January 28, 2009, <http://www.governor.iowa.gov/news/2009/01/28_1.php> (February 27, 2009).

²“FY 09 & FY10 Governor Recommendations,” Legislative Services Agency, Fiscal Services Division, February 3, 2009, p. 1, <http://staffweb.legis.state.ia.us/lfb/Docs/GovernorRecFY09_FY10.pdf> (February 26, 2009).

³Legislative Briefing with elected officials, sponsored by the Mt. Pleasant Area Development Commission and Iowa Wesleyan College, February 28, 2009.

Amy K. Frantz is Research Vice-President with Public Interest Institute, Mount Pleasant, Iowa.

Permission to reprint or copy in whole or part is granted, provided a version of this credit line is used: "Reprinted by permission from INSTITUTE BRIEF, a publication of Public Interest Institute." The views expressed in this publication are those of the author and not necessarily those of Public Interest Institute. They are brought to you in the interest of a better-informed citizenry.