INSTITUTE BRIEF

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

by David Hogberg and Amy K. Frantz

Public Interest Institute (PII) recently released a new Policy Study titled "Iowa's State Budget: Spending Our Way to a Crisis."[1] While other analyses have blamed the recent budget crisis in Iowa on factors such as insufficient tax revenue and the recession, PII's Policy Study examines the spending side of the crisis. Indeed, spending is the largest part of the current budget crisis. The primary reason is that under the first two years of the Vilsack Administration, the state went on a spending binge.

In the first two years under Vilsack, total state spending increased more than $434 million, a total increase of 8.6%.[2] This increase in spending was not at all necessary. The average increase in state spending for each of the first two years was 4.23%. During that same period, inflation averaged 1.89%, and state population grew an average of 0.46%. In short, state spending grew at more than twice the rate of inflation, and more than *nine* times the rate of population growth. Had spending in Vilsack's first two years been held to increases for inflation and population growth, the state would have saved more than $359 million.

The study also examined the spending trends of specific budget functions from Fiscal Year (FY) 1999, the year before Governor Vilsack's first budget, to FY 2003, the year of Vilsack's most recent budget. Despite recent budget cuts, functions like Education and Justice are up 5.31% and 7.42%, respectively, over FY 1999 funding levels. Functions like Administration and Regulation; and Transportation, Infrastructure, and Capitals are up 15.54% and 22.11%, respectively, over FY 1999 funding levels. These last two functions even saw funding increases during FY 2002 and FY 2003 when other parts of the budget were being cut.[3]

Despite the total spending increase of $434 million in Vilsack's first two budgets, the spending cuts in the subsequent two budgets have amounted to only $158 million. This is symptomatic of the fiscally irresponsible way Governor Vilsack and the State Legislature responded to the budget crisis. Instead of making spending cuts, they have "fixed" budget shortfalls with infusions from the Rainy Day Fund and the various other budget funds like the Environment First Fund, the Prison Infrastructure Fund, and the Pooled Technology Fund. The total infusions from these funds in FY 2001 and FY 2002 amounted to more than $400 million. The strain on the Rainy Day Fund has been tremendous; it has declined more than 60% since FY 2001.

As FY 2003 limps forward, it is quite possible that state revenue collections will not match the funding levels in the FY 2003 budget. To solve this, the Policy Study proposes making more budget cuts. The best way to do this is to make an across-the-board cut of 2.2% in the General Fund portion of the state budget. This would save the state government just over $100 million.

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Yet, this is only a temporary solution. To prevent future budget crises, the state must adopt long-term solutions. One such solution is to limit the pay raises for state employees. Salaries for employees of the state of Iowa are some of the most generous in the nation. Prior research conducted by PII has found that, on average, state employees are paid 46% more than private sector employees in Iowa.[4] This is the result of state contracts that do nothing to restrain pay raises. In FY 2001, the 3% pay raise for state employees resulted in a $92.7 million liability for the Iowa budget. Had the raise been restricted to inflation, the state would have saved more than $24 million. Future contracts must be negotiated to include fair and reasonable pay raises that do not put inordinate pressure on state finances.

Another long-term solution to Iowa's budget problems is the imposition of strict growth limits on the budget. Spending increases should be limited to increases for inflation plus state population growth. The State Legislature last considered growth limits like these in the Taxpayers' Rights Amendment in 1995.[5] Had this Amendment been enacted, the budget for FY 1997 would have been the first to have such growth limits imposed on it. The Policy Study projected what the budget situation would look like today if growth limits had been imposed on the budget for FY 1997 and every budget since. The projections demonstrated that the state would have saved more than $2.6 billion between FY 1997-FY 2003, and would still have a surplus of $186 million. To avoid future crises, Iowa must adopt a Constitutional limit on the growth of the state budget.

Governor Vilsack, with the acquiescence of the State Legislature, used the budget process to massively increase state spending. With the Iowa budget so bloated at the end of Vilsack's first two years in office, the stage was set for a serious budget crisis. That is exactly what happened when the economy fell into a recession. It will take some time for Iowa to climb out of the current budget hole. But with more spending cuts and the adoption of long-term solutions, it can.

ENDNOTES:

[1]David Hogberg and Amy K. Frantz, "Iowa's State Budget: Spending Our Way to a Crisis," Policy Study, No. 02-4, September 2002, Public Interest Institute.
[2]All calculations were based on money spent in the General Fund and Non-General Fund minus federal funding.
[3]From FY 2001 - FY 2003, spending on Administration and Regulation grew $22,971,873, and spending on Transportation, Infrastructure, and Capitals grew $33,938,908.
[4]Steven B. Garrison, "Iowa's Privileged Class I—State Government Employees," Institute Brief, Vol. 9, No. 13, May 2002, Public Interest Institute.
[5]A copy of the "Taxpayers' Rights Amendment to Iowa Constitution" can be found at <http://www.taxrelief.org/tax_info/index.htm.>

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