

March 2009

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

POLICY

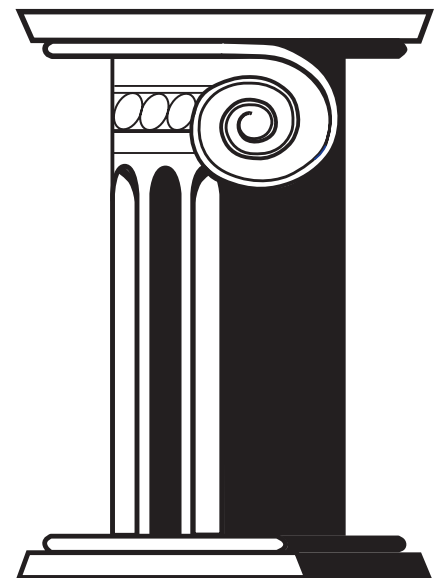
STUDY

No. 09-4

by

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PUBLIC INTEREST



I N S T I T U T E

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Public Interest Institute

**Dr. Don Racheter,
President**

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

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Executive Summary

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.

Budget negotiations are ongoing in the state. 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.

The recently-adopted economic stimulus package provides bailout funds to the 50 states. 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.

“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.”

Iowa's State Budget

“A 2002 Public Interest Institute Policy Study warned of a coming fiscal crisis if state spending were not put under more stringent controls.”

Introduction

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 budget crisis under the previous Iowa Governor.

In the first two years under the Vilsack Administration, the state went on a spending binge. Governor Vilsack and the State Legislature increased total state spending between Fiscal Years 1999 and 2001 by more than \$434 million, an increase of 8.6%. By overspending when the state was awash in revenue, the Governor and State Legislature set us up for severe budget problems when the revenue streams dried up.¹

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.

Recent Budget History

In January 2007 Democrats in the Iowa Legislature began the legislative session in complete control of both the House of Representatives and the Senate. They were joined by the newly-elected Governor, Chet Culver, also a Democrat, who was replacing Democrat Governor Tom Vilsack, who chose not to run for a third term.

The Legislature and Governor are subject to the state's expenditure limitation law when adopting a budget, which limits spending to “99.0% of adjusted revenues, 95.0% of any new revenue implemented in a fiscal year, and any carry-over from the previous year.”² A Revenue Estimating Conference (REC) meets quarterly to estimate the amount of revenue the Legislature will have available to spend during the upcoming fiscal year. The REC is made up of three members, “the Governor or the Governor's designee, the Director of the Legislative Services Agency or the Director's designee, and a third member agreed to by the other two.”³ The Governor typically designates the Director of the Iowa Department of Management, the “Governor's chief

financial advisor,”⁴ to serve on the REC as the Governor’s representative. Charles Krogmeier became Governor Culver’s designee on the REC when he was appointed Director of the Department of Management. In January, Krogmeier assumed the role of Chief of Staff to the Governor, but will continue as a member of the REC. Holly Lyons, the Fiscal Services Division Director of the Legislative Services Agency, also serves as a member of the REC. The third REC member, agreed upon by the other two, is David Underwood, “retired CEO and Treasurer, AADG, Inc. in Mason City, Iowa.”⁵

“The Governor and the Legislature are required to use the revenue estimates agreed to by the December Revenue Estimating Conference, or a later estimate during the legislative session, if it is lower, as a basis to determine the General Fund budget for the following fiscal year.”⁶ The members of the Revenue Estimating Conference estimated at their December 2006 meeting that revenue growth for FY 2007 would be 4.9%, up from the 4.0% growth estimated at the REC’s October 2006 meeting.⁷ The REC also increased their estimate of the total revenue for FY 2008 from \$6,233,800,000 to \$6,269,800,000.⁸ Armed with what they perceived as a green light to increase state spending, Governor Culver proposed a 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.

During the 2007 Legislative session, the “statewide voluntary preschool program” was adopted by the Legislature and signed into law by Governor Culver. The budget approved by the Iowa Legislature provided \$15 million for Fiscal Year 2008 to begin implementing the program. By FY 2014, the Iowa Department of Education projected that total annual state funding for the state-run preschool program will be \$108.9 million.⁹

In April 2007, Governor Culver signed into law legislation increasing the pay of Iowa’s teachers. Senate File (SF) 277 appropriated funds to increase the average teacher salary by \$5,400 over two years, as well as increase the minimum salaries for beginning teachers to \$26,500.¹⁰ The Act appropriates an additional \$69.6 million for FY08 and \$75 million for FY09 to pay for the increases in teacher salaries.¹¹ While this legislation only funded the salary increases for two years, once in place the higher salaries will become the new baseline and funds will have to be found to keep up with the new salary levels, as well as future increases in teacher salaries.

The Iowa Power Fund legislation that was signed into law

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“The Governor and the Legislature are required to use the revenue estimates agreed to by the December Revenue Estimating Conference, or a later estimate during the legislative session, if it is lower, as a basis to determine the General Fund budget for the following fiscal year.”

Iowa's State Budget

“However, our elected officials have found a way around that requirement, by simply adding the word ‘notwithstanding’ to any legislation they pass that violates the 99% expenditure limitation law.”

in May 2007 establishes a \$100 million fund “to invest in cutting edge research and development that is required in the new energy economy.”¹² The law also creates the Office of Energy Independence to administer the fund, as well as a Power Fund Due Diligence Committee and a Power Fund Board. The Iowa Power Fund Appropriation Act (HF 927) appropriated \$24.7 million for the Iowa Power Fund’s first year, and \$25 million each year for Fiscal Years 2009, 2010, and 2011.¹³

By the end of the session, Legislators and the Governor had approved a General Fund budget for FY 2008 of \$5,856,300,000.¹⁴ This was an increase of nearly \$500 million from the FY 2007 budget of \$5,392,900,000 – passed during the final year of Governor Vilsack’s term.¹⁵

At the December 2007 meeting of the REC, Conference members estimated General Fund receipts of \$6,742,100,000 for Fiscal Year 2009.¹⁶ The law requires the Legislature and Governor to use the December REC estimate to craft the General Fund budget, unless a subsequent REC estimate during the Legislative session is lower than the previous December’s estimate. In that case, the lower figure should be used. However, our elected officials have found a way around that requirement, by simply adding the word “notwithstanding” to

any legislation they pass that violates the 99% expenditure limitation law.

That is exactly what happened during the 2008 Legislative session. When the REC met in April 2008, revenue estimates were raised yet again, making an additional \$78.8 million available to the General Fund for FY 2008 and an additional \$49.1 million available for FY 2009. There were signs that the overall economy was beginning to weaken, as reported by the Legislative Services Agency:

The majority of the states, 33, reported a “concerned” fiscal outlook in the National Conference of State Legislatures’ *April 2008 State Budget Update*. Based on information collected from legislative fiscal directors in April, the report covers the revenue and expenditure situation for the first three quarters of fiscal 2008 for most states. Iowa was among 10 states reporting a “stable” outlook. The number of states reporting shortfalls rose to 16 in April, up from seven in November 2007. Iowa is not yet experiencing the problems that are beginning to affect many other parts of the nation.¹⁷

Apparently Legislators and the Governor thought Iowa would be immune from the economic downturn, as they crafted a budget that pushed state General Fund spending over the \$6 billion mark for the first time in Iowa history, appropriating \$6,133,200,000 for Fiscal Year 2009.¹⁸

In May 2008, shortly after the end of the 2008 Legislative session, Iowa's State Auditor David Vaudt issued another warning about the troubles ahead for our state budget. This was not the Auditor's first warning on budgetary issues, as he has been doing so for a number of years, and while both Democrats and Republicans have been in control of the Legislature. Auditor Vaudt said of the recently-adopted budget for the fiscal year beginning in July 2008, "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."¹⁹ Iowa's 99% expenditure limitation has failed to control the overspending by our elected officials. "The Fiscal Year 2009 budget shifts a record \$443.7 million in General Fund expenditures to other funds and special accounts. Auditor Vaudt said, '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.'²⁰

It certainly was not a lack of revenue that caused the shortfall that the Auditor was concerned about last May. "Despite almost 10% revenue growth over a two-year period, expenditure growth outpaced revenue growth by 52%." Rather prophetically, the Auditor cautioned, "If we can't make ends meet with nearly 5% average annual growth, how will we make it if revenues flatten out or decline, as they do in a recession?"²¹

In October 2008, while in Washington D.C. discussing a federal bailout for the states, Governor Culver indicated that "if state tax revenues continue to slow down...that 'might trigger' the need for a mid-year, across-the-board cut in the state budget."²² The day after this statement, the Legislative Services Agency, a non-partisan agency of the Iowa Legislature, "predicted...that tax collections would grow by \$7 million over this [fiscal] year, but programs approved by the Legislature would increase spending over that period by \$552.9 million."²³

The following month Governor Culver ordered the first of several minor cuts he would make in the current fiscal year's (FY09) budget. In late November, the state government's department heads were asked to submit ideas to cut up to \$40 million from the FY09 budget. Culver also recommended delaying the construction of

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Iowa's State Budget

“The key budget question now is what will be the impact of the federal stimulus funds – will Legislators treat these funds as the one-time funding source they are intended to be, or will these funds be used to increase our state’s budget yet again, kicking the problem down the road a few years?”

a new state office building to replace the Wallace Building, which would have cost \$37 million.²⁴

The December 2008 meeting of the Revenue Estimating Conference yielded a reduction in the projected revenue for this fiscal year – the REC projected that “for FY 2009, the revised estimate of net General Fund receipts totals \$6,052.0 million, which is \$99.5 million less than the October 2008 REC estimate. This would reflect growth over FY 2008 actual receipts of -0.5%.”²⁵ The news that the state will be taking in less tax and other revenue this year than last year prompted Governor Culver to call for an additional 1.5% across-the-board cut in this year’s budget, with an exemption for public safety.

The REC also provided an estimate for the next fiscal year at the December meeting, stating “for FY 2010, the revised estimate of net general fund receipts totals \$6,025.8 million, which is \$132.6 million less than the October 2008 REC estimate.”²⁶

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.

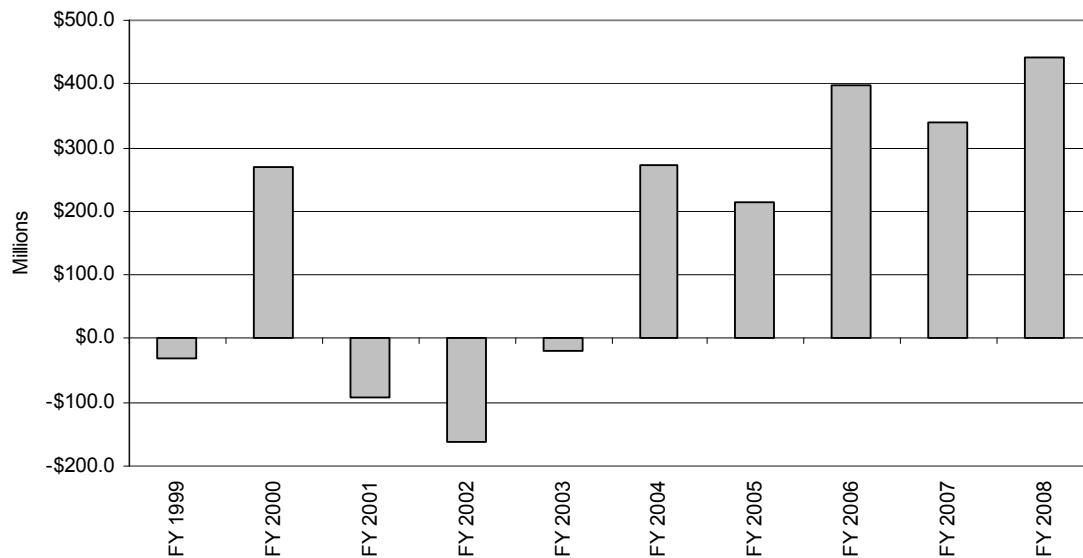
On the federal level, the recently-adopted economic stimulus package provides bailout funds to the 50 states. Iowa’s share of the funding will be around \$1.9 billion.²⁷ The key budget question now is what will be the impact of the federal stimulus funds – will Legislators treat these funds as the one-time funding source they are intended to be, or will these funds be used to increase our state’s budget yet again, kicking the problem down the road a few years?

Unsustainable Spending

The problems Iowa’s budget is currently experiencing stem from the fact that 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. It does not require an economics degree to know that the boom times do not last forever; a rudimentary understanding of history demonstrates that reality. In fact, a look at General Fund revenue growth for the prior ten fiscal years, in Table 1, shows that the state suffered an economic downturn just a few years ago that impacted revenue growth.

While Net General Fund Revenue totals were increasing,

Table 1. General Fund Revenue Growth (Excludes Transfers)



Source: Legislative Services Agency, Fiscal Services Division, “State of Iowa FY 2008 Year End Report on General Fund Revenues and Appropriations,” January 2009, p. 2.

General Fund Appropriations also increased by an equal or greater percentage, as can be seen in Table 2. 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 the Governor is hoping most Iowans won’t dig too deeply into the actual numbers. The Governor said this about his proposed budget for FY 2010:

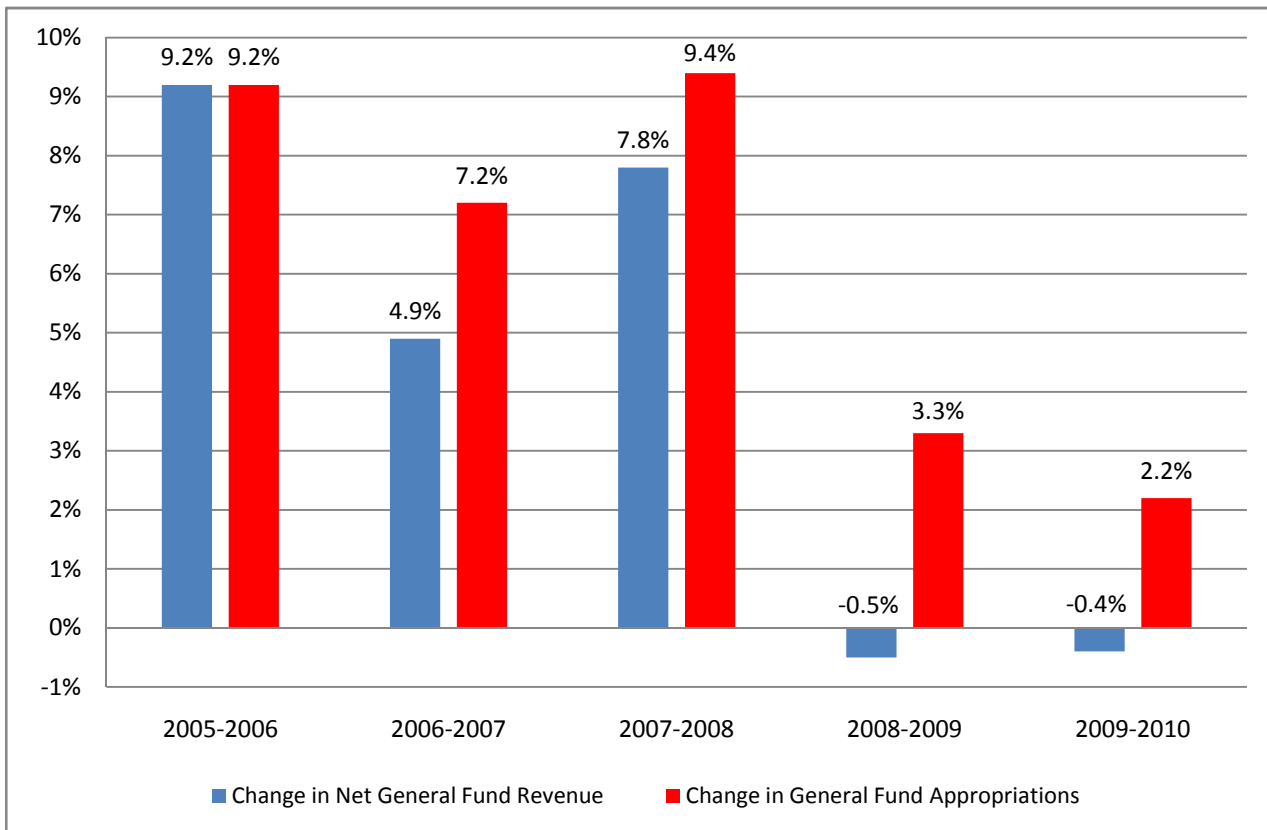
My budget proposal for fiscal year 2010 will reflect a 6.5 percent cut

to almost every state department and program...In fact, 207 of the 253 line items in my budget proposal will be cut by 6.5 percent. That represents a savings of \$400 million to Iowa taxpayers.²⁸

It may be true that 207 of the line items in Governor Culver’s budget received a cut, but at least some of the other 46 line items apparently received a spending increase, because his overall General Fund budget for FY 2010 increases by 2.2% over his recently revised recommendation for the FY 2009 budget.²⁹ A Legislative Services Agency report on the Governor’s recommendations indicates a spending total for the Gen-

“However, if revenues are going down, prudence dictates that spending should also decrease.”

Table 2. Change in Net General Fund Revenues and General Fund Appropriations, FY 2005-2010



Source: Legislative Services Agency, Fiscal Services Division, “2007 Iowa Factbook” and “FY 09 & FY10 Governor Recommendations;” Revenue Estimating Conference December 12, 2008 meeting. FY 2009 and FY 2010 are estimates by LSA and REC. Appropriation for FY 2010 is from Governor’s recommendation.

“No matter the semantics, the numbers show that the General Fund budget proposed by the Governor for FY10 spends more than in FY09.”

eral Fund of \$6,094,811,669 for FY 2009 and a spending total for the General Fund of \$6,230,500,000 for FY 2010.³⁰ No matter the semantics, the numbers show that the General Fund budget proposed by the Governor for FY10 spends more than in FY09.

In late February, Iowa Legislative Democrats established their budget targets “which will be used by appropriations subcommittees to build a budget” for FY 2010.³¹ At a total of \$6,076,511,695, these FY 2010

budget targets are \$18.3 million less than the revised total for the current Fiscal Year’s (FY 2009) budget.³² The majority Legislators should be commended for proposing an actual, if small, cut in spending, rather than the Governor’s budget “cuts” that result in an overall budget that is higher than any other state budget in Iowa history. But the question of whether federal stimulus funds will be used to help meet those budget targets, or to exceed those budget targets, has yet to be answered.

General Fund vs. Non-General Fund

There is more to the state budget than just General Fund appropriations. This is how our 2002 Study, *Iowa’s State Budget: Spending Our Way to a Crisis*, describes the state’s budget:

There are two basic portions of the Iowa budget, the General Fund and the Non-General Fund. The General Fund is one budget fund that has many limits and controls imposed on it by Iowa law. By contrast, the Non-General Fund is composed of many different funds, including the Road Use Tax Fund, the Rebuild Iowa Infrastructure Fund, and the Tobacco Fund. Iowa law puts fewer restrictions on the Non-General Fund. For example, many Iowans are under the mistaken impression that the state law which limits spending to 99% of revenues applies to the entire Iowa budget. In fact, it applies only to the General Fund. Thus, Legislators can evade the spending limitations by increasing state spending in the Non-General Fund. In the past few years, that is exactly what has happened.³³

Unfortunately, the habit of going outside of the spending limitation law by using Non-General Funds to supplement state General Fund spending has not subsided. For example, “a \$50.0 million appropriation for the Grow Iowa Values Fund was funded from the Rebuild Iowa Infrastructure fund (RIIF) for FY 2009.”³⁴ The RIIF also was used to fund other spending, such as \$7 million for the Community Attraction and Tourism Fund.³⁵ Table 3, from the Legislative Services Agency’s May 2008 *Fiscal Facts*, shows these and other General Fund expenditures that have been shifted to Non-General Fund sources.

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Table 3. General Fund Expenditures Shifted to Other Funding Sources (\$ in millions)

GENERAL FUND EXPENDITURES SHIFTED TO OTHER FUNDING SOURCES (\$ in millions)		
	Est. FY 2008	Est. FY 2009
Property Tax Credit	\$ 131.8	\$ 115.5
Medicaid	100.2	111.8
IowaCare Account Programs	53.2	36.2
Grow Iowa Values Fund	0.0	50.0
Technology Reinvestment Fund	0.0	17.5
Community Attraction and Tourism Fund	0.0	7.0
Substance Abuse Treatment	13.8	13.8
Tuition Replacement	10.3	24.3
Elderly Services	8.3	8.4
Soil Conservation Cost Share	7.0	7.0
DHS Provider Increases	3.9	3.9
DNR Park Operations	2.5	2.5
DAS Distribution Account	2.0	2.0
Other	1.4	1.9
Total	\$ 334.4	\$ 401.8

Source: Legislative Services Agency, Fiscal Services Division, “Fiscal Facts,” May 2008, p. 39.

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The Auditor of State David Vaudt continues to warn of the difficulties for Iowa's budget created by shifting General Fund spending to Non-General Fund sources. This spending shift has been going on for several years, as can be seen in Table 4, from a January 2009 presentation by Auditor Vaudt.³⁶ Auditor Vaudt shows the "true total expenditures," which are the "true costs of providing General Fund services – no matter the source of the funds to pay those costs."³⁷ The Governor's proposed bud-

get for FY 2010 continues the trend of shifting expenditures, as can be seen in Table 5, from a February presentation by Auditor Vaudt.³⁸ The Governor's proposed budget for the General Fund is \$6.2 billion, however his proposal also includes shifting \$211 million in Non-General Fund money to cover General Fund expenditures, as well as \$89 million in underfunded costs. The Auditor reports that this brings the Governor's FY 2010 "true total expenditures" to \$6.5 billion.³⁹

Table 4.

State of Iowa - General Fund Budget Historical Perspective - Lack of Clarity (\$ in Millions)

	<u>Reported Expenditures</u>	<u>Expenditures Shifted</u>		<u>"True Total Expenditures"</u>
		<u>Amount</u>	<u>%</u>	
FY2000	\$ 4,763.6	-	-	\$ 4,763.6
FY2001	\$ 4,886.9	\$ 86.1	1.8	\$ 4,973.0
FY2002	\$ 4,607.5	\$ 265.8	5.8	\$ 4,873.3
FY2003	\$ 4,534.4	\$ 316.5	7.0	\$ 4,850.9
FY2004	\$ 4,517.4	\$ 258.8	5.7	\$ 4,776.2
FY2005	\$ 4,557.5 (A)	\$ 430.0	9.4	\$ 4,987.5
FY2006	\$ 5,027.6	\$ 397.0	7.9	\$ 5,424.6
FY2007	\$ 5,347.1	\$ 392.7	7.3	\$ 5,739.8
Estimate FY2008	\$ 5,875.5	\$ 422.1	7.2	\$ 6,297.6

(A) Excludes \$45.6 million Cash Reserve Fund repayment.

Source: David A. Vaudt, Auditor of State, "Budgeting – Iowa's Future," presentation, January 2009, p. 5, <http://auditor.iowa.gov/press/Budget_Jan_2009.pdf>.

Table 5.

State of Iowa
FY09 & FY10 General Fund Budget
(\$ in Millions)

	FY09		FY10
	Original Budget (A)	Revised Budget (B)	Governor's Proposal
Revenues:			
REC estimate	\$6,189	\$6,052	\$6,026
Tax credit caps/elimination	-	-	31
Other revenue adjustments	14	-	-
IowaCare Account	<u>78</u>	<u>75</u>	<u>80</u>
Total	<u>\$6,281</u>	<u>\$6,127</u>	<u>\$6,137</u>
True total expenditures:			
General Fund budget	\$6,133	\$6,095	\$6,210
Shifted expenditures (C)	444	445	211
Underfunded costs	12	-	89
Other	<u>-</u>	<u>13</u>	<u>-</u>
Total	<u>\$6,589</u>	<u>\$6,553</u>	<u>\$6,510</u>
Revenues available (D)	\$6,218	\$6,066	\$6,076
True total expenditures	<u>6,589</u>	<u>6,553</u>	<u>6,510</u>
Spending gap	<u>\$ (371)</u>	<u>\$ (487)</u>	<u>\$ (434)</u>

- (A) Before revenue reductions and supplemental appropriations
- (B) As proposed by the Governor based upon REC revenue reduction and supplemental appropriations.
- (C) Non-General Fund resources (includes IowaCare Account)
- (D) Reflects 99% expenditure limitation

REC = Revenue Estimate Conference

Source: David A. Vaudt, Auditor of State, "State Auditor Vaudt Reviews Governor's Fiscal Year 2010 Budget," Auditor of State Press Briefing, February 16, 2009, p. 19, <http://auditor.iowa.gov/press/Briefing_2-16-09.pdf>.

Iowa's State Budget

“This limit must be a Constitutional limitation...it must also apply to both General Fund and Non-General Fund spending.”

Recommendations for the Future

In the immediate future, 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.

A recent example of a potential budget problem is the legislation setting allowable growth for schools at two percent for FY 2011. The Legislature sets the allowable growth rate for schools a Fiscal Year in advance, so schools can plan for future budgeting. Despite decreasing revenues to the state, the Legislature will increase state aid to schools by \$55.8 million in FY 2011.⁴⁰ “Legislative Democrats and Governor Chet Culver intend to use a share of the state’s \$388 million allocation to education in the federal economic stimulus approved by Congress to fund the increase,” said Representative Roger Wendt (D-Sioux City). However, that increase in state aid to schools is then built in to future budgets. “When the federal stimulus money is gone, what are we going to do then?” asked Representative Dave Heaton (R-Mount Pleasant). If state revenue is still down, will state aid to schools be reduced back to the level of our current Fiscal Year? Not likely. As a result, that funding will have to

come from elsewhere, possibly through an increase in state taxes.

While some of the federal stimulus funds come with strings attached as to how they can be spent, the bulk of these funds should be spent on one-time projects, such as flood or tornado relief. The Governor’s FY10 budget proposal includes “a \$200.0 million transfer from the Cash Reserve Fund.”⁴¹ The Legislative Democrats’ FY10 budget targets transfers “about \$100 million from reserve funds.”⁴² Rather than using the reserve funds while also using federal stimulus funds, the reserve funds should be maintained, even increased using stimulus funds if possible, so that healthy reserve funds are available in the future, in the event that the economy has not bounced back before the federal stimulus funds run out.

For a more long-term solution, we suggest expenditure limits for the state budget that would limit 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. In our 2002 Policy Study, *Iowa’s State Budget: Spending*

Our Way to a Crisis, this is how we described the proposed expenditure limit:

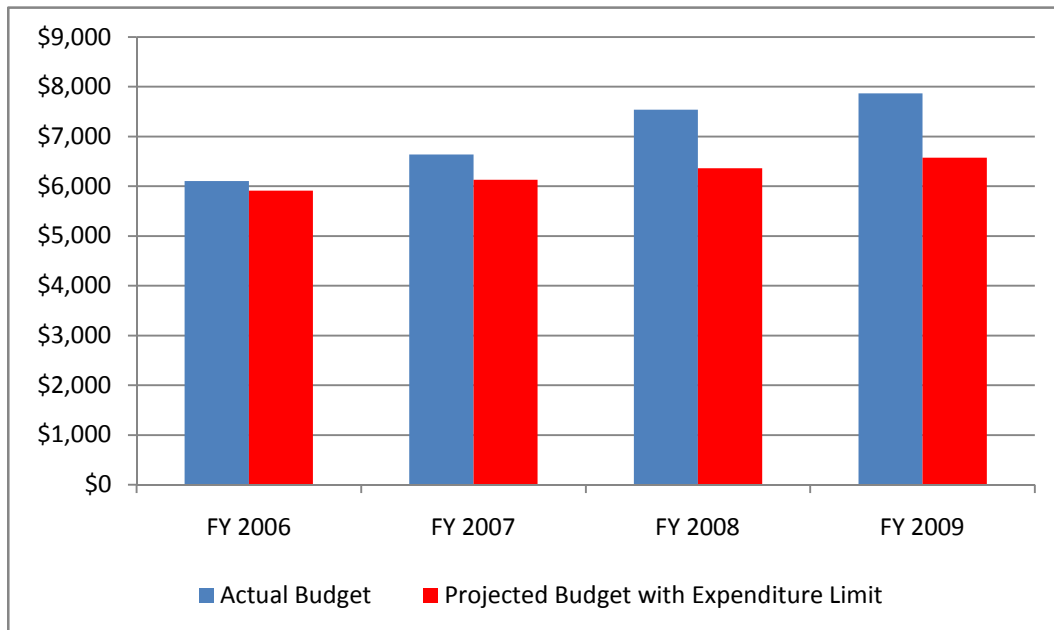
This study projects what the Iowa budget situation would look like today had [an expenditure limit] been adopted in 1995. The first budget [the expenditure limit] would have applied to would have been the budget of FY 1997. Thus, the spending increase for FY 1997 is projected by using the amount of the budget of FY 1996 and adding increases based on population growth and

inflation for calendar year 1996. The increase for FY 1998 is projected by using the projected amount of the budget for FY 1997 and adding increases based on population and inflation for calendar year 1997. This process is repeated through FY 2003. From FY 1997-FY 2003 total budget savings would have been more than \$2.5 billion.⁴³

Using the same expenditure limit methodology from the 2002 study, the impact on Iowa's budget of an expenditure limit is demonstrated, using

Spending Our Way to a Crisis Again

Table 6. Actual Iowa Budget vs. Projected Iowa Budget with Growth Limits (\$ in millions)



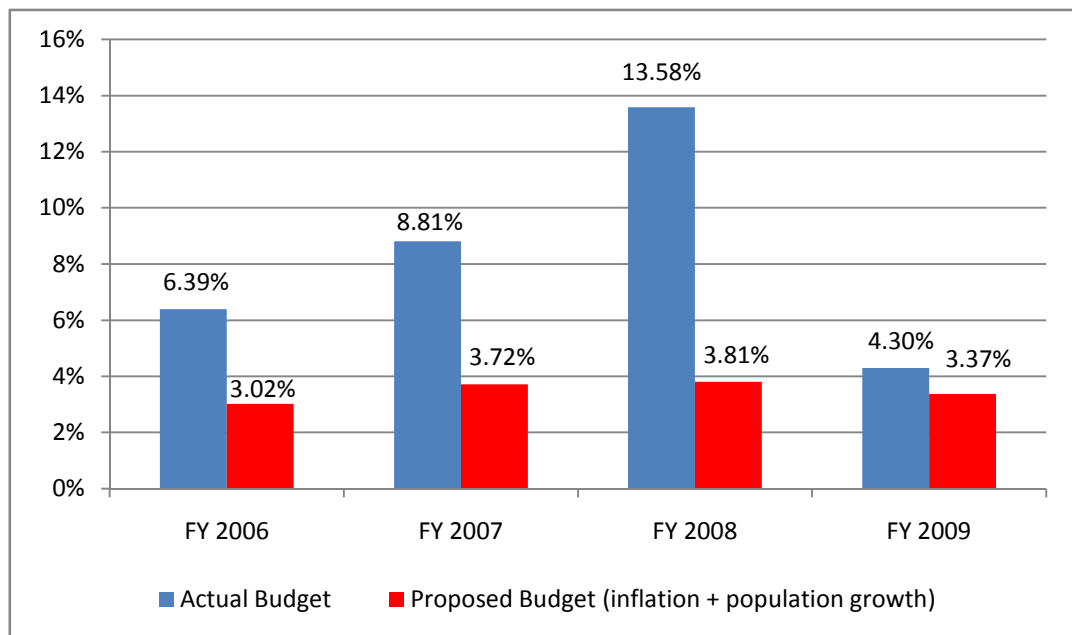
Sources: Bureau of Labor Statistics, <ftp://ftp.bls.gov/pub/special.requests/cpi/cpiat.txt>, and www.inflationdata.com (inflation); Bureau of Economic Analysis, <http://www.bea.gov/regional/spi/drill.cfm> (Iowa population); Legislative Services Agency, Fiscal Services Division, “2007 Iowa Factbook” and “FY 09 & FY10 Governor Recommendations,” <http://staffweb.legis.state.ia.us/lfb/> (actual budget).

Iowa's State Budget

Fiscal Years 2005-2009. Table 6 shows the total General Fund and Non-General Fund budgets (Actual Budgets) and the proposed budget totals if budget growth were limited to inflation plus state population growth for FY 2006-2009. Even with the expenditure limit, the budget continues to increase, but at a slower rate of growth. Table 7 shows the rate of growth for the actual budget and proposed budget for each of those fiscal years. This expenditure limit allows the budget to grow,

but at a more manageable and sustainable rate. As the calculations in Appendix 1 demonstrate, 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.

Table 7. Change in Actual Iowa Budget vs. Change in Projected Iowa Budget with Growth Limits



Sources: Bureau of Labor Statistics, <ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt>, and www.inflationdata.com (inflation); Bureau of Economic Analysis, <http://www.bea.gov/regional/spi/drill.cfm> (Iowa population); Legislative Services Agency, Fiscal Services Division, “2007 Iowa Factbook” and “FY 09 & FY10 Governor Recommendations,” <http://staffweb.legis.state.ia.us/lfb/> (actual budget).

Conclusion

In 2002 Public Interest Institute recommended a Constitutional expenditure limit to control state government spending to avoid future budget crises. Unfortunately our recommendation was ignored, and state spending continued to increase, to unsustainable levels, particularly in the last two years. Since taking office, Governor Culver, with help from the now-majority Democrats in the Iowa Legislature have increased our state's General Fund spending by nearly \$1 billion. In addition, they have continued the spending practice of using Non-General Fund funding sources to circumvent Iowa's 99% expenditure limit law. Once again, we implore our state elected officials to adhere to an expenditure limit that would limit the growth in ALL state spending to the growth in state population plus inflation. How many budget crises will Iowans have to endure before our big-spending politicians mend their ways?

Endnotes

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Appendix 1: Projected Budget Based on Inflation and Population Growth Limits

Fiscal Year	Inflation	Population growth	Projected Budget Increase	Projected Budget	Actual Budget	Difference (Actual - Projected)
2005					\$5,736,400,000	
2006	2.68%	0.34%	\$173,239,280	\$5,909,639,280	\$6,103,000,000	\$193,360,720
2007	3.39%	0.33%	\$219,838,581	\$6,129,477,861	\$6,640,600,000	\$511,122,139
2008	3.24%	0.57%	\$233,533,107	\$6,363,010,968	\$7,542,136,938	\$1,179,125,970
2009	2.85%	0.52%	\$214,433,470	\$6,577,444,437	\$7,866,511,669	\$1,289,067,232
					Total:	\$3,172,676,061

Notes: Population growth is the rate of growth in the state of Iowa. The calculation for the projected budget increase for FY 2006 is [Actual Budget FY 2005 * Inflation] + [Actual Budget FY 2005 * Population Growth]. All subsequent projected budget increases are based on the projected budget of the previous fiscal year. For example, the calculation for the projected budget increase for FY 2007 is [Projected Budget FY 2006 * Inflation] + [Projected Budget FY 2006 * Population Growth].

The inflation and population growth rates used for each calculation are the rates for the calendar year previous to the start of each fiscal year. For example, FY 2006 began July 1, 2005. Thus, the inflation and population growth rates from calendar year 2004 are the ones used to calculate the projected increase for FY 2006.

Sources of data: U.S. Bureau of Labor Statistics, <ftp://ftp.bls.gov/pub/special.requests/cpi/cpia1.txt>, and www.inflationdata.com (inflation); U.S. Bureau of Economic Analysis, <http://www.bea.gov/regional/spi/drill.cfm> (Iowa population); Iowa Legislative Services Agency, Fiscal Services Division, “2007 Iowa Factbook” and “FY 09 & FY10 Governor Recommendations,” <http://staffweb.legis.state.ia.us/lfb/> (actual budget).

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