Tax and Expenditure Limits II: Are There Additional Options?

March 2011

POLICY STUDY

No. 11-2

PUBLIC INTEREST INSTITUTE

by

Deborah D. Thornton
Public Interest Institute
Mt. Pleasant, IA

Tax and Expenditure Limits II: Are There Additional Options?

POLICY STUDY
March 2011
No. 11-2

Public Interest Institute
Dr. Don Racheter
President

POLICY STUDIES are published as needed. They are longer, analytical articles on important public issues.

POLICY STUDIES are published by Public Interest Institute *at* Iowa Wesleyan College, a nonpartisan, nonprofit, research and educational institute whose activities are supported by contributions from private individuals, corporations, companies, and foundations. The Institute does **not** accept government grants.

Contributions are tax-deductible under sections 501(c)(3) and 170 of the Internal Revenue Code.

If you have an article you believe is worth sharing, please send it to us. All or a portion of your article may be used. This publication is brought to you in the interest of a better-informed citizenry, because IDEAS DO MATTER.

We invite you to:
CALL us at 319-385-3462
FAX to 319-385-3799
E-MAIL to Public.Interest.Institute@LimitedGovernment.org
VISIT our Website at www.LimitedGovernment.org
WRITE us at our address on the back cover

Contents

“The taxpayer protection laws do not choke off all expenditures, nor do they eliminate entire government programs. Instead they encourage fiscal prudence in government and prioritize spending decisions…. The very same prudence one should exercise in running a business or raising a family on a budget. By prioritizing spending, cities and towns (and states) are forced to make decisions about what they can afford to do rather than doing more than what is in their means.”

- John Stephenson, National Taxpayers Union

Statement before the New Hampshire Senate Committee on Public and Municipal Affairs, February 22, 2011

Executive Summary

Since first passed in New Jersey in 1976, various forms and types of tax and expenditure limits (TELs) have been enacted in 27 states. These limits, either constitutional or statutory in nature, were supposed to prevent state Legislators from “growing expenditures faster than state income growth.”[1]

In theory, TELs should have helped to prevent the 1991, 2001, and now 2009, 2010, and even 2011 and 2012 budget situations.

There are various types of TELs. Those with constitutional limits that are established by citizen referendum are perceived as being stronger. TELs may address either spending or revenue, may include refunds of surpluses, and in some cases may only be overridden by either a Legislative “supermajority” or a vote of the citizens.

Additionally, TELs may prohibit unfunded mandates on local governments, including counties, cities, and school districts.

An important criteria of TELs is how the allowable growth factor is established, and whether inflation, population growth, state personal income, gross state product levels, or a combination of all these, are part of it.

A Public Interest Institute POLICY STUDY, “Tax and Expenditure Limits: Helping to Control Government Spending,” provides an overview of the TEL history in the United States, and suggestions for the potential impact in Iowa.

This study will further discuss recent analyses of the success or failure of TELs on a nationwide basis, with a focus on the current budget situation in Iowa and the six surrounding states, Illinois, Minnesota, Missouri, Nebraska, South Dakota, and Wisconsin.

Each state is in varying stages of fiscal budget crisis and each has varying forms of tax and spending limits. Some have been successful, others not so much.

One national study offers an additional suggestion of what the real solution to state budget problems might be – the effective use of the line-item veto by Governors during the initial establishment of the state budget. We will explore this issue and other options in some detail.

As President Harry S. Truman (1945-1953) said, “The buck stops here!”[2]

Another famous Truman quote might also be applicable for Governors dealing with their state Legislatures and trying to balance budgets:

> Carry the battle to them. Don’t let them bring it to you. Put them on the defensive and don’t ever apologize for anything.[3]

Tax and Expenditure Limits II

"45 of the 50 states, plus the District of Columbia, are projecting budget deficits totaling $125 billion for fiscal year 2012."

The Current Fiscal Situation

The "Great Recession" was officially over as of June 2009, so the Business Cycle Dating Committee of the National Bureau of Economic Research told us last September. According to their records, this was the longest recession since World War II, 18 months beginning December 2007.

Unfortunately this does not mean that "economic conditions since that month have been favorable," or that everything has returned to "normal."[4]

The National Association of State Budget Officers (NASBO) reported back in 2002 that the fiscal recovery from that recession could be "gradual" and state tax and budget problems would lag the national recovery by "12-18 months" based on the historical pattern from the recession in the 1990s.[5] That same pattern was predicted for this recovery.

According to the National Conference of State Legislatures (NCSL) the FY 2009 state budget gaps totaled $113.2 billion, with the FY 2010 gaps increasing to $145.9 billion.[6] Unfortunately, it has now been 21 months since June of 2009 and the "end" of the recession and significant state budget problems continue.

The Center on Budget and Policy Priorities (CBPP) recently reported that, "The worst recession since the 1930s has caused the steepest decline in state tax receipts on record. State tax collections, adjusted for inflation, are now 12 percent below pre-recession levels."[7]

Their summary data show that 45 of the 50 states, plus the District of Columbia, are projecting budget deficits totaling $125 billion for fiscal year 2012.

Following the 1991 recession, the budget deficits were 6.2 percent of general fund revenues, affecting 35 states and causing 28 to cut budgets, according to NASBO. After the 2001 recession, the deficits had increased to $40 billion, representing 7.8 percent of general fund revenues and affecting 40 states.[8] Now in 2011, the post-recession state fiscal crisis is even worse. In addition, there are longer-term "systemic" budget deficits, including pensions and borrowing, which many states must also address.

State budget years generally begin in July, versus October for the federal government. Therefore, state Legislatures and Governors are currently discussing, or cussing and fussing – and in some cases even leaving the state – over these budgets and the taxes used to fund them. Decisions are currently being made for the fiscal year 2012 that begins in July 2011.

National Analysis of TEL Success

There are several significant statistical national studies of state TEL results, including those done by Dr. Michael New, a Political Science Professor at the University of Alabama, and a more recent report by Matthew Mitchell of the Mercatus Center at George Mason University.

The majority of TELs, in 12 states, work by tying budget growth to the growth in state personal income. Another common limit ties the budget to the percentage of total state income taken by the government in taxes.

Dr. New's work ("U.S. State Tax and Expenditure Limitations: A Comparative Political Analysis" – Spring 2010, and "Limiting the Government Through Direct Democracy" – December 2001) shows that TELs which tie increases in both spending and revenue to a more restrictive combination, using both the inflation rate and population growth rate, have been the most successful.[9]

Further, the TEL must also have a refund provision in order to be successful, refunding any revenues collected over the allowable spending limits to the taxpayers. This can occur through an actual check or rebate refund, a lowering of the tax rate, or both.

Those TELs, of any type, which were passed and implemented as a result of citizen initiative, were found to be significantly more effective. For example, the statistical models Dr. New developed based on historical budget data revealed that citizen-driven initiatives were successful in reducing per capita state and local revenue collections by almost $36.00 per year.[10]

Though $70.00 a year for a couple might seem insignificant, in a state with a million adult citizens that amounts to $70 million.

The Colorado Taxpayer Bill of Rights (TABOR), driven entirely by citizen tax revolt, and the strictest and most successful thus far, actually reduced the annual growth of state government spending by $100 per capita between 1990 and 2000.[11]

The over age 18 population in Colorado is 3.2 million – therefore TABOR resulted in over $300 million per year which taxpayers kept in their pockets, spending and investing as they saw fit. A 3 percent reduction might not be considered impressive – but the result was.

These models also revealed that Legislative and Executive branch partisanship had little effect on state spending – a finding which neither political party is likely to appreciate.

However, the more "professional" a state Legislature is – the longer and more frequent the Legislative sessions and the more Legislators are paid – the more they spend. This finding correlates with the common retail marketing approach that the more time a shopper spends in a store, the more they buy. In that way Legislators are like

Are There Additional Options?

"The more 'professional' a state Legislature is – the longer and more frequent the Legislative sessions and the more Legislators are paid – the more they spend."

Tax and Expenditure Limits II

"More stringent TELs, such as those that are constitutionally imposed, those that have stronger spending limits, and those that automatically and immediately refund surplus funds, have the greatest impact, reducing spending by 6 percent."

"big box" shoppers, they just can't resist the next "bargain."

New's analysis also found that when strong TELs are in place economic growth results in a reduction in the amount per capita that a state spends. Higher employment and real income growth results in less money being collected from each worker for state and local budgets, on an average basis, and presumably less demand for government-provided social services.

The recent (December 2010) Mercatus Center-George Mason University working paper on TEL impact – "TEL It Like It Is: Do State Tax and Expenditure Limits Actually Limit Spending?" – offers another analysis of which TELs are most effective, or ineffective, in limiting state spending.

Research Fellow Matthew Mitchell reports that based on historical state budget growth, many TELs haven't been that effective. More effective versions limit spending to a combination of "inflation plus population growth," as Dr. New found. Strict balanced budget requirements also appear important in responding to budget imbalances caused by recessions.

Further, successful TELs require either a supermajority legislative or a public override vote to raise taxes or increase spending, as in the Colorado example.

Most importantly, Mitchell also found that the TELs which are established by citizen initiative; i.e. passed and required by voters, not the Legislature, and which are attached to the state constitution, are the most effective.[12]

The Mercatus study does an in-depth statistical analysis of all the various options for TELs and how they are used, breaking down the data by high- and low-income states.

It also shows that while TELs have a modest effect in reducing spending in "low-income" states (by approximately 3 percent), they actually have a slight opposite effect in "high-income" states, increasing spending from the average by less than 1 percent.[13]

In low-income states more stringent TELs, such as those that are constitutionally imposed, those that have stronger spending limits, and those that automatically and immediately refund surplus funds, have the greatest impact, reducing spending by 6 percent.

However, even these controls continued to have little impact in high-income states.

That study also found that the inflation rate plus population growth restriction had some impact on state budgets, when evaluating the budget as a share of total personal income.

The limit that had greater (though still minor) impact was tying the budget growth to state personal income growth. By using this definition, if the individual income of workers does not increase or grow then the state budget is prevented from growing.

In effect this type of limit forces Legislators and Governors to focus on increasing the personal incomes of their citizens if they want to spend more money. However, even this type of TEL was actually found to result in increased government spending in high-income states, though it was minor (less than 1 percent).

Inflation and population growth factors in TELs are less effective as they are more global in nature and independent of the financial success of citizens.

Though Legislators and Governors can justify the use of inflation and population as unbiased methods for increasing budgets, there is little tie to the corresponding ability of working citizens to fund state government operations from their salaries.

The supermajority vote override requirement, by either the Legislature or the citizens, was again determined to have the most impact on both state and local government budgets. This would seem to follow because there is immediate, direct public accountability for the action.

The Legislature must publicly act in a significant and uniform manner, which generally requires supporting votes from both Republicans and Democrats. Then they must personally deal with and justify the vote to their constituents.

If the TEL requirement is for a citizen vote, that ensures an even more public accounting of the purpose and amount of the spending. This requires Legislators and Governors to convince the voters that the increase is truly needed for the public good.

As with other special voting initiatives, groups both in support of and in opposition to the increase will likely become motivated and active in getting their message out and turning out their voters.

In his study Mitchell mentions, almost as a throwaway line, that his analysis found that use of the line-item veto by Governors had significant impact on state budgets. There are various types and limits on line-item vetoes, but a Governor who is focused on cutting spending and determined to implement his or her promised plans may use the veto during the initial establishment of the state budget to cut specific budget items.

This option provides both great power and great flexibility to our nation's Governors. It also puts the responsibility for good or bad decision-making solely on their shoulders as Chief Executives of the state. "The buck stops here," as President Truman said.

At the federal level, the line-item veto is a constitutional issue that has been proposed on several occasions and discussed

Are There Additional Options?

"In effect this type of limit forces Legislators and Governors to focus on increasing the personal incomes of their citizens if they want to spend more money."

Tax and Expenditure Limits II

"A recent study, specifically of municipal TELs, shows that approximately 1 of 8 cities in the United States with populations above 25,000 have a self-imposed TEL."

for many years.

Another Mercatus study, "Tax and Expenditure Limits for Long-Run Fiscal Stability," done in October 2009, also emphasizes the need for TELs to have the constitutional requirement in order to be effective. It notes that caps based on the previous year's revenues may have a negative effect, as the Colorado TABOR has had, because of downturns in collections in recessions.

Accordingly authors Emily Washington and Frederic Sautet also recommend incorporating a mechanism for using the previous year's average revenues to balance budget swings.[14]

For example, the revenue and budget increase or decrease cap might be set at X percent of the average tax collections from the previous five or ten years. While not necessarily enforcing a budget growth limit, it would smooth the fluctuations caused by broad national economic trends such as the recent recession, and allow for better long-term planning.

A recent study, specifically of municipal TELs, shows that approximately 1 of 8 cities in the United States with populations above 25,000 have a self-imposed TEL.

Most have been initiated by local political activists, separate from state expenditure limits and not necessarily in response to perceived over-taxation. The majority also require either a supermajority or voter-approved override process.

These TELs appear to be more successful than state government TELs at limiting revenue growth, both on a factual budget limit basis and an anecdotal basis.[15]

That study, "Constraining the Local Leviathan? The Existence and Effectiveness of Municipally-Imposed Tax and Expenditure Limits," offers encouragement to local fiscal restraint movements such as the Tea Party to go forward with aggressive local efforts to rein in government spending.

It also provides support for the efforts of those, like businessman Michael George, who recently started Strong America Now, to advocate for a national balanced budget.[16]

We have seen that various types of TELs have various impacts, some significant, some insignificant. We shall now look at how the Iowa state budget and regional state budgets have been impacted by the recent recession in the context of their various TEL requirements and budget processes.

TEL Status of Iowa and Six Surrounding States

The following table shows the current status of tax and expenditure limits in Iowa and the six surrounding states, Illinois, Minnesota, Missouri, Nebraska, South Dakota, and Wisconsin.

Illinois, Minnesota, and Nebraska have no TEL in place. Iowa and Wisconsin's are statutory in nature, and only Missouri and South Dakota's are constitutional. None are tied to the strict criteria of income, inflation, and population growth limits.

Missouri's would be considered the strictest, limiting revenue collections to 5.6 percent of the total state personal income (revenue collected therefore cannot increase unless state personal incomes increase). There are both supermajority and voter approval provisions. In addition, it provides for taxpayer refunds of any excess tax collections.

As we shall see in reviewing the individual state budget situations, Missouri is in somewhat better shape than other states. Based on the statistical analysis of successful TELs, this could be predicted.

The TEL in place in Iowa is considered one of the weaker versions. It requires the official budgeted spending to be no more than 99 percent of the estimated tax collections.

This estimate is generated by the Revenue Estimating Conference (REC), which meets quarterly. The REC is appointed by the Governor, and consists of either himself or his designee, generally his state Budget Director, the Director of the state Legislative Services Agency, and a third person agreed to by the other two.[17]

While these individuals

Are There Additional Options?

"The TEL in place in Iowa is considered one of the weaker versions."

State Tax and Expenditure Limits, Iowa and Surrounding States

State	Year Adopted	Constitution or Statute	How Imposed: Legislative, Initiative, or Referendum	Type of Limit	Expenditures Held to Inflation Plus Population Growth?	Main Features of the Limit	Budget and Spending Transparency	Budget cycle: 1 or 2 years	Line-item Veto
Illinois		None					No	1	Yes
Iowa	1992	Statute	Legislative	Spending	No	Appropriations limited to 99% of the adjusted revenue estimate from the 3-member Revenue Estimating Committee.	No	1	Yes
Minnesota		None					No	1	Yes
Missouri	1980	Constitution	Referendum	Revenue	No	Revenue limited to 5.6% of previous year's total state personal income.	Yes	1	Yes
	1996	Constitution	Referendum	Revenue		If the Governor declares an emergency, the Legislature can raise taxes by a 2/3 vote. Otherwise tax increases over approximately $70-77 million or 1% of state revenues, which ever is less, must be approved by voters. Overages must be refunded.		1	Yes
Nebraska		None					Yes	2	Yes
South Dakota	1996	Constitution	Initiative	Revenue		Article 11, Section 14, requires a 2/3 Legislative supermajority to raise all taxes unless agreed to by a popular vote of the citizens.	Yes	1	Yes
Wisconsin	2001	Statute	Legislative	Spending	No	Spending limit on qualified appropriations (some exclusions) limited to personal income growth rate.	No	2	Yes

Sources: Bert Waisanen, "State Tax and Expenditure Limits-2008," National Conference of State Legislatures, <http://www.ncsl.org/default.aspx?tabid=12633>, accessed on February 22, 2011.

Sunshine Review, States with Spendig online, <http://sunshinereview.org/index.php/States_with_spending_online>, accessed on February 27, 2011

Americans for Tax Reform Center for Fiscal Acountability, "States With A Supermajority Requirement to Raise Taxes," <http://www.fiscalaccountability.org/index.php?content=supersub1>, accessed on February 27, 2011.

are generally well-versed in financial matters, there is certainly little incentive to conservatively estimate future revenue collections – especially if it means that the projections may force the Governor to make budget cuts or reduce funding for a special project.

As the previous TEL study by the Public Interest Institute showed, the Iowa REC did not anticipate and accurately forecast the significant drop in tax revenues resulting from the recent recession.

"The Iowa REC did not anticipate and accurately forecast the significant drop in tax revenues resulting from the recent recession."

The Iowa Leading Indicators Index showed a steady downward trend both before and during the recession, yet the REC budget projections did not accurately reflect this trend. Therefore, neither did the state budgets adopted by the Legislature and signed by the Governor for FY 2009 and FY 2010.

Though the FY 2009 budget ended in balance, the FY 2010 drop was significant, requiring a major across-the-board budget cut in October 2009.

Though contiguous, and often grouped together as the "mid-west" or "mid-plains" states, each of these seven states is quite different in presentation.

Minnesota, Missouri, and Illinois would be considered "high-income" states, more industrial, with major American cities – Minneapolis-St. Paul, St. Louis, and Chicago. Nebraska and South Dakota, as well as Iowa, are significantly more rural, with much smaller populations. Wisconsin walks the line between the others. Personal income levels and gross state products (GSP) are also different.

Some of the most-watched economic numbers recently are the employment and unemployment rates. Nationally, the unemployment rate has hovered near 10 percent (8.9 percent currently) for many, many months.[18]

On a regional basis, our seven states have generally fared better, but not all – as both Illinois and Missouri are still hovering near 10 percent as of December 2010. Nebraska and South Dakota, though they have the fewest workers and lowest populations, also have the lowest unemployment rates, at below 5 percent.

The chart on the next page outlines the employment and unemployment status.

The state governments, including Legislative make-up, are different. Nebraska has a unicameral Legislature, the others bi-cameral. Some Legislatures are controlled by Democrats, others Republican, and others split or officially non-partisan.

In several cases control of one or both houses of the Legislature and the Governor's office changed in the 2010 elections.

In Iowa the Governor's office and House of Representatives both changed control to Republican and in Wisconsin Republicans won control of the House and the Senate, as well as the Governor's office.

In one important way they are all the same – all Governors have the line-item veto authority, though the provisions and requirements differ.

Both Nebraska and Wisconsin have a two-year budget cycle. Wisconsin and the proposed budget of new Governor Scott Walker (Republican) have been much in the news lately.

South Dakota has no state personal or corporate income tax. Iowa has the highest top personal income tax bracket, but is the only one which allows citizens to deduct from their state taxes the amount they pay to the federal government. This has the effect of reducing the top line rate significantly.

In Illinois, the personal income tax rate was only 3 percent, but was raised 66 percent at the end of 2010, to 5 percent, in an effort to generate additional tax revenues. All of these differences have an impact on current and future budget decisions.

Current Budget Situation, Iowa and Neighbors

The current and systemic budget deficits of the seven states are quite different, as Illinois has a $23.6 billion annual budget deficit and a projected total $120 billion

Are There Additional Options?

"All Governors have the line-item veto authority."

Regional Employment/Unemployment Report December 2010

State	Total Potential Workforce	Total Employed	Total Unemployed	Percent of Labor Force Unemployed	Regional Ranking - Low to High
Nebraska	973,872	930,671	43,201	4.4%	1
South Dakota	443,736	423,290	20,446	4.6%	2
Iowa	1,675,764	1,569,783	105,981	6.3%	3
Minnesota	2,953,801	2,748,029	205,772	7.0%	4
Wisconsin	3,050,103	2,822,425	227,678	7.5%	5
Illinois	6,687,503	6,066,897	620,606	9.3%	6
Missouri	3,003,800	2,718,685	285,115	9.5%	7

Source: U.S. Bureau of Labor Statistics, December 2010 Unemployment Report

Governor and Legislative Control after 2010 Elections

State	Governor	Legislature - House	Legislature - Senate
Illinois	Democrat	Democrat	Democrat
Iowa	Republican	Republican	Democrat
Minnesota	Republican	Republican	Republican
Missouri	Democrat	Republican	Republican
Nebraska*	Republican	None	Non-partisan
South Dakota	Republican	Republican	Republican
Wisconsin	Republican	Republican	Republican

* Unicameral and non-partisan Legislature

Sources: State government and Governors' Websites, February 2011.

deficit, while Nebraska's annual deficit – even following the recession – is less than $50 million, and South Dakota's is less than $500 million. In real terms they are dealing with only minor shortfalls, compared to horrendous numbers in Illinois.

In many cases, vendors to the state government in Illinois are simply not being paid for their products and services. Iowa ranks in the middle with a projected deficit of just over $2 billion.

"The states all have balanced budget provisions, which require the deficits to be addressed through either spending cuts or tax increases."

Though these are serious amounts, the states all have balanced budget provisions, which require the deficits to be addressed through either spending cuts or tax increases. Thus the ongoing discussions in the executive branches, the legislative branches, and public media.

Because dealing with millions and billions of dollars makes the numbers difficult to visualize, the chart on the next page shows the debt per capita – an important consideration for all taxpayers.

For FY 2010, Iowa ranks 16th, with $780 owed per adult citizen. Though significantly lower than Wisconsin at over $2,000 and Illinois at $1,837 per capita, we are still higher than Nebraska, South Dakota, and Missouri.

On a total debt basis, the citizens in Illinois currently owe over $25,000 per capita towards their state's total debt obligations, fifth highest in the nation. Though the FY 2010 number for Wisconsin reflects their current short-term budget difficulty, on a long-term basis, their situation is somewhat better as the total debt per capita is less than that in either Minnesota or Missouri.

The Missouri numbers are especially interesting, as the

State Budgets - FY 2010 Debt and Total Debt

State	FY 2010 Budget Gap (in thousands)	National Ranking	FY 2010 Outstanding Debt (in thousands)	Total State Debt (in thousands)	National Ranking
Illinois	$562,000	11	$236,109,740	$120,743,173	47
Iowa	$1,400,000	24	$2,342,414	$6,841,508	9
Minnesota	$3,400,000	34	$5,443,002	$21,206,734	25
Missouri	$1,700,000	29	$3,950,022	$18,249,257	24
Nebraska	$305,000	6	$42,692	$1,102,440	2
South Dakota	$48,000	4	$496,029	$803,305	1
Wisconsin	$3,200,000	33	$11,393,755	$17,971,519	23

Total State Debt includes: outstanding debt, Pension and OPEB UAAL's, unemployment trust funds, and the FY 2010 budget gap as of July 2010.

Source: State Budget Summaries, Sunshine Review, <http://sunshinereview.org/index.php/Transparency_in_your_state>, accessed on February 23, 2011

State Deficits Data, Sunshine Review, <http://sunshinereview.org/index.php/State_budget_issues,_2010-2011> and <http://sunshinereview.org/index.php/State_budget_issues,_2009-2010>, accessed on February 24, 2011.

State Profiles, State Budget Solutions, <https://spreadsheets0.google.com/ccc?authkey=CLfim9AN&hl=en&key=tXJ6QP8nTmQfRM9HNLh0oPg&hl=en&authkey=CLfim9AN#gid=0>, accessed on February 23, 2011.

short-term debt reflects strong action by the current Governor Jay Nixon (Democrat) to keep the budget in balance for FY 2010, but serious longer-term debt obligations.

In signing the FY 2010 budget last June, Nixon made over $300 million in budget cuts, following $450 million in Legislative cuts from his original proposal.[19] Nixon's determination to proactively address the impact of the recession is to be commended. This is a Governor who knows how to use the line-item veto. It also reflects the strong, constitutional TEL in place in Missouri. Yet Missouri is another state, like Wisconsin, which needs to be addressing their longer-term structural deficit issues.

The Wisconsin TEL, statutory in form and tied to the personal income growth rate, has arguably not worked, as both the state budget deficit and economic performance show. Accordingly, their Governor has proposed significant cuts in a wide variety of areas, notably education, local government, and health care.

The FY 2011 proposal has over $990 million (9 percent) in education cuts and $60 million (8.8 percent) in local government funding cuts. Additionally, Medicaid would be cut $500 million.[20] The Wisconsin Economic Performance ranking of 44th in the nation is almost as bad as Illinois' 48th place ranking.

Though the government unions and special interests may protest loudly, this analysis shows Walker's proposals merit serious consideration.

The Sunshine Review and National Tax Foundation

Are There Additional Options?

"Though the government unions and special interests may protest loudly, this analysis shows Walker's proposals merit serious consideration."

State Debt per Capita - FY 2010 and Total

State	FY2010 Debt per Capita	National Ranking	Total Debt per Capita	National Ranking
		Lower is Better		*Lower is Better*
Illinois	$1,837	32	$25,158	46
Iowa	$780	16	$5,593	5
Minnesota	$863	19	$9,497	16
Missouri	$668	11	$8,168	12
Neraska	$24	1	$1,420	1
South Dakota	$617	8	$2,464	2
Wisconsin	$2,024	35	$7,739	9

Source: State Budget Summaries, Sunshine Review, <http://sunshinereview.org/index.php/Transparency_in_your_state>, accessed on Februray 23, 2011.

State Deficits Data, Sunshine Review, <http://sunshinereview.org/index.php/State_budget_issues,_2010-2011> and <http://sunshinereview.org/index.php/State_budget_issues,_2009-2010>, accessed on February 24, 2011.

State Profiles, State Budget Solutions <https://spreadsheets0.google.com/ccc?authkey=CLfim9AN&hl=en&key=tXJ6QP8nTmQfRM9HNLh0oPg&hl=en&authkey=CLfim9AN#gid=0>, accessed on February 24, 2011.

Tax and Expenditure Limits II

"In terms of top bracket maximums for both personal income tax and corporate tax rates, Iowa is near the top nationally, ranking 4th and 1st respectively."

Website reports also show the various tax rates. In terms of top bracket maximums for both personal income tax and corporate tax rates, Iowa is near the top nationally, ranking 4th and 1st respectively. These high rates could be the reason our "economic performance ranking" is near the very bottom nationally, at 41st. However, the use of the federal deduction and other tax credits has the effect of reducing the real rates.

The corporate tax rate in Missouri, a state with many large corporations, is fairly low at 5.81 percent (less than half of Iowa's), and their state personal income tax rate is in the middle nationally. The economic outlook in Missouri is one of the highest in the region, ranking 15th – though the current real economic performance is lagging that expectation at 35th nationally.

In contrast, the Iowa economic outlook and performance rankings are lower than many of our neighbors, at 28 and 41 respectively, on a national basis. The economic performance number is especially low, above only Wisconsin and Illinois. The tax rates and economic comparisons are detailed in the chart below.

As if the Sunshine Review and National Tax Foundation numbers are not serious enough, according to the most recent report from the National Conference of State Legislatures (NCSL) the FY 2012 Illinois tax collection gap will be 45 percent of their estimated budget.[21]

The NCSL December 2010 report shows the overall budget deficits somewhat differently than the Sunshine Review,

Regional State Tax Rate and Economic Outlook Comparisons

State	Maximum Personal Income Tax Rate %	National Ranking	Maximum Corporate Income Tax Rate (a)	National Ranking	Economic Outlook Ranking	Economic Performance Ranking	Gross State Product 2009
Illinois	5.00%	36	7.30%	24	47	48	$621 billion
Iowa	8.98%	4	12.00%	1	28	41	$136 billion
Minnesota	7.85%	7	9.80%	4	38	36	$257 billion
Missouri	6.00%	22	6.25%	35	15	35	$236 billion
Nebraska	6.84%	15	7.81%	20	34	29	$84 billion
South Dakota	N/A	N/A	N/A	N/A	4	12	$38 billion
Wisconsin	7.75%	10	7.90%	19	23	44	$239 billion

(a) In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax.

Source: State Deficits Data, Sunshine Review, <http://sunshinereview.org/index.php/State_budget_issues,_2010-2011>, accessed on February 24, 2011.
State Profiles, State Budget Solutions, <https://spreadsheets0.google.com/ccc?authkey=CLfim9AN&hl=en&key=tXJ6QP8nTmQfRM9HNLh0oPg&hl=en&authkey=CLfim9AN#gid=0>, accessed February 24, 2011.
"State Corporate Income Tax Rates," National Tax Foundation, 2010, <http://www.taxfoundation.org/taxdata/show/230.html>, accessed on March 7, 2011

taking into account all funding and spending streams, not just general fund revenues.

Their data, gathered from state budget officers, also include the American Reinvestment and Recovery Act (ARRA) funds, and ongoing revisions to the FY 2010 budgets. Accordingly, it presents somewhat lower numbers.

Nevertheless the trends are consistent – Nebraska and South Dakota are reporting no deficits for FY 2010. Illinois and Wisconsin are showing the largest amounts. In comparing the state differences, neither Illinois nor Nebraska have TELs in place, yet Nebraska is operating in a fiscally sound manner, while Illinois is arguably not. According to the NCSL report, the situation in Illinois is "dire."[22]

The percent of the Iowa FY 2010 budget deficit is comparable to that of Minnesota, but because Iowa has a much smaller population and smaller initial budget, the real number is less than $1 billion versus the $2.6 billion figure for Minnesota.

The NCSL also issues a report on the structural debt, looking forward several fiscal years to project the results if no changes are made to the current state obligations.

This report is especially bleak for Illinois; again, on both a national and regional basis their fiscal situation is most difficult. Most telling is the comment in the NCSL report that while a long-term structural deficit is "acknowledged and discussed," nothing is being done about it.

The long-term structural budget gap projections for our regional states are outlined on the next page.

Are There Additional Options?

National Conference of State Legislatures FY 2010 Budget Deficit Report

State	Revised FY 2010 Deficit	Percent of General Fund Budget
Illinois	$7.29 Billion	21.2%
Iowa	$779 Million	15.0%
Minnesota	$2.6 Billion	14.7%
Missouri	$388 Million	5.3%
Nebraska	No Shortfall	
South Dakota	No Report	
Wisconsin	$3.1 Billion	20.1%

Source: "State Budget Update," November 2010, National Conference of State Legislatures,'

<http://www.ncsl.org/documnats/fiscal/november2010sbu_free.pdf>, accessed February 23, 2011.

Tax and Expenditure Limits II

"Budget officers, are also concerned about replacing and dealing with shortfalls caused by the use of federal one-time funding streams."

Issues Before the Regional Legislatures

The NCSL also generates a report on the expected top three issues of the current legislative sessions. This report, fairly detailed in nature, is a good way to review the specific concerns of each state, in addition to the broad budget concerns. Medicaid and health-care funding issues are top priorities in most of the states. For our friends in Illinois though – the budget is their only concern.

In Iowa, the main public focus over the past three months has been on the education structure and funding issues. According to the state budget officials, who submitted this report in November 2010, the Medicaid funding issues should be the top priority. They, and other budget officers, are also concerned about replacing and dealing with shortfalls caused by the use of federal one-time funding streams (ARRA).

The only state reporting a more pro-active budget stance is South Dakota, which reported that a new cabinet-level economic development agency was going to be proposed by the new Governor.

Governor Dennis Daugaard (Republican) has extensive experience in both the

NCSL Long-Term Structural Budget Gap Projections

State	FY 2012		FY 2013		FY 2014	
	Estimate (in millions)	Percent of General Fund Budget	Estimate (in millions)	Percent of General Fund Budget	Estimate (in millions)	Percent of General Fund Budget
Illinois	Amount Unknown		Amount Unknown		Amount Unknown	
Iowa	$228	3.7%	Unknown		Unknown	
Minnesota	$4,315	21.8%	$2,273	12.1%	$2,738	13.9%
Missouri	Unknown		Unknown		Unknown	
Nebraska	$420	11.0%	$460	11.0%	$460	11.0%
South Dakota	Amount Unknown		Amount Unknown		Amount Unknown	
Wisconsin	$1,232	9.2%	$1,279	9.6%	Not Applicable	

Source: NCSL Survey of state legislative fiscal offices, November 2010.

From the Report: "State Budget Update," November 2010, National Conference of State Legislatures, pp. 45-50.

and <http://www.ncsl.org/documents/fiscal/november2010sbu_free.pdf> accessed March 1, 2011.

private sector, as an attorney, farmer, and banker, and as a government official. He previously served as Lt. Governor for eight years.[23]

As both the short- and long-term budgets are in relatively good shape, and their tax structure is favorable, South Dakota is well positioned to actively recruit new businesses and pursue economic development. Unfortunately, they cannot do much about their climate.

The following table outlines the top three priorities of states in the Iowa region.

Role of Governors, the Line-item Veto, and Other Budget Control Options

As we are seeing, the leadership and executive role of Governors in determining the

Are There Additional Options?

Top Three Issues in 2011 Legislative Sessions

State	Issue	Comment	Issue	Comment	Issue
Illinois	Budget		Budget		Budget
Iowa	Health Care / Medicaid	The estimated need for the Medicaid program is porjected to increase by 10.8% in FY 2012. The porjected shortfall in state funding for Medicaid is $600 million, which is 50% of the estimated need. A major reason for the state funding shortfall is the loss of one-time fundng used in FY 2011 for the Medicaid program.	Education	School aid is porjected to increase by $231.1 million over the FY 2011 level. This assumes a 0% allowable growth rate.	Budget/End of ARRA and other One-Time funding
Minnesota	Budget	Balancing the budget. The budget problem is so large that it is hard to imagine other distinctive fiscal issues.			
Missouri	Taxes/Revenues	Revenues have experienced significant declines the last two years and have fallen back to the level of revenue in FY 2005.	Health Care / Medicaid	The state is expecting growth of approximately $200 million, which would require revenues to increase 3% to cover the growth in Medicaid.	Taxes/Revenues (tax credits)
Nebraska	Budget	Construct a balanced general fund budget for the biennium ending June 30, 2013.	Budget (structural imbalance)	Reducing the structural imbalance.	Rainy Day Fund/Reserves
South Dakota	Budget	Determining if budget reductions are necessary, including the magnitude and across-the-board versus specific programs.	Economic Development	New cabinet-level agency will be proposed by newly elected governor.	Budget/End of ARRA
Wisconsin	Health Care / Medicaid	Medical assistance funding.	Other	Court-ordered repayment of $200 million plus lost earnings and interest from the general fund to the Patients Compensation Fund.	Taxes/Revenues

Source: "Top Fiscal Issues for 2011 Legislative Session," National Conference of State Legislatures, November 2010, <http://www.ncsl.org/documents/fiscal/TopFiscalIssues.pdf>, accessed on February 23, 2011.

Tax and Expenditure Limits II

fiscal direction of their state is critical.

The Cato Institute has produced a report for the last ten years, "Fiscal Policy Report Card on America's Governors" which rates each governor. The scale is a familiar "A" to "F" ranking – where an "A" is the highest score possible. They use the Governor's actions on seven factors, including spending, revenue, and taxes, to determine the grade.

Few receive an "A," but for 2010 Minnesota Governor Tim Pawlenty, who as we have seen is a strong fiscal conservative, earned that grade.

In contrast to Pawlenty, new Minnesota Governor Mark Dayton (Democratic-Farmer-Labor party) proposed in February a new top state personal income tax level of 10.95 percent for joint filers with incomes of over $150,000.

All those making over $500,000 would have to pay a temporary tax surcharge of 3 percent. Additionally, he proposed increasing property taxes on homes valued over $1 million, as well as a variety of other tax increases.[24]

Though as of March 3rd

Overall Grades for Regional Governors

State	Governor	Political Party	Score	Grade	Comment on 2010 Actions	Current Situation
Illinois	Pat Quinn	Democrat	30	F	$1.1 billion tax increase including higher taxes on beer, wine, liquor, candy, beverages, cigarettes, hygiene products, and video gaming. Increased both the personal and corporate income tax rates.	Still in office
Iowa	Chet Culver	Democrat	47	D	Increased cigarette taxes in 2007. Converted local option sales tax to a statewide sales tax. Supportive of special tax breaks such as wind-energy and film credits	New Governor - Terry Branstad, Republican
Minnesota	Tim Pawlenty	Republican	66	A	Pro-growth tax reforms, opposed tax increases. Proposed state constitutional amendment to limit general fund spending growth.	New Governor - Mark Dayton, Democratic Farmer Labor Party (DFL)
Missouri	Jay Nixon	Democrat	59	B	Cut the state franchise tax. Not dealing with 61 different state tax credits for special industry groups.	Still in office
Nebraska	Dave Heineman	Republican	51	C	Proposed increases in general fund spending, previously a stronger proponent of tax cuts in personal income taxes, property taxes and estate tax.	Still in office
South Dakota	Mike Rounds	Republican	53	C	Supported cigarette tax increases, delayed scheduled property tax cut. Generally fairly frugal.	New Governor - Dennis Daugaard, Republican
Wisconsin	Jim Doyle	Democrat	35	F	$1.1 billion increase in 2009 on corporate and personal income, cigarette, and hospital taxes. Substantial spending increases for FY 2011.	New Governor - Scott Walker, Republican

Source: "Fiscal Policy Report Card on America's Governors: 2010," Cato Institute, No. 668, September 30, 2010, p. 3.

Dayton had retracted many of his proposals because of more favorable revenue estimates, the Minnesota House of Representatives and state Senate, controlled by Republicans, still voted against his proposals.[25]

The following table shows the results for the Governors of our seven states.

In the Mercatus report on TELs, there is a minor paragraph worth considering in this analysis:

> A special variety of veto power known as the item-reduction veto has also been shown to limit state budgets. This kind of veto gives the governor an option to write in a lower spending amount for a particular item. In contrast with other veto varieties, these have been shown to have a statistically significant impact on state spending.[26]

Mitchell states that use of the line-item veto results in per capita budget spending of 14 percent less than without the use of a line-item veto.

Every Governor in every state except Maryland has an appropriations veto option. In Maryland this option is not needed as the Legislature cannot pass, constitutionally, a budget requiring more spending than the Governor has proposed. Basically, the Governor cannot veto his own proposal.[27]

In six states (Indiana, Nevada, New Hampshire, North Carolina, Rhode Island, and Vermont) the veto authority only applies to the entire appropriations bill, not internal sections or programs.

Though there are a wide variety of variations in the line-item veto power of Governors, there is significant power in effectively using that option. In the most extreme case, a Governor may veto the entire appropriations bill and send it back to the Legislature to begin again.

Following a line-item veto, and depending on the timing of the action, Legislatures may then vote, using their standard supermajority provisions (either a two-thirds or three-fourths majority vote depending on the state) to override the Governor's actions.

In Iowa, the Governor may only veto a complete section of funding in an appropriations bill, which could include language relating to that funding and issue. Though a line-item veto is generally thought to be used to cut funding increases which a Governor does not support, it may also be used to restore funding and programs by deleting language and funding limits which cancel or reduce programs or require additional administrative oversight procedures. Former Iowa Governor Chet Culver used the line-item veto in this way in 2009, when he struck provisions requiring greater

Are There Additional Options?

"Mitchell states that use of the line-item veto results in per capita budget spending of 14 percent less than without the use of a line-item veto."

government transparency and limiting local taxing authority.[28]

The ability to strike specific funding for a particular item is the most detailed or narrow ability of the line-item veto and may therefore be used to most narrowly address provisions a Governor does not agree with.

Governor Pawlenty of Minnesota was especially proud of his use of the line-item veto in working to balance the Minnesota budget. At an Iowans for Tax Relief event in April 2010 he said, "As the Governor who holds the single-season record for vetoes in the state of Minnesota, I have a particular appreciation for the power of the line-item veto."[29]

Pawlenty set the record for the most vetoes ever in 2008. While Governor he vetoed a total of $7.5 billion in tax increases and almost 300 specific bills or line items.[30] Even with these efforts, Minnesota still is facing significant budget deficits, and tax rates that are not as competitive as many states (maximum personal rate of 7.85 percent and maximum corporate rate of 9.8 percent).

If a Governor is serious about cutting funding and reforming government, the line-

Line-Item Veto Authority of Regional Governors

State	Funding for a Particular Line Item	Funding for an Entire Program or Agency	Language Accompanying Appropriation	Language in Footnote	Proviso or Contingency Language	Entire Bill Only	Reduce (R) Amounts or Substitute (S) Amounts for Legislature to Consider	Other
Illinois	X*	X					Reduce	
Iowa	X*	X	X	X	X			X
Minnesota	X							
Missouri	X	X	X*				Reduce	
Nebraska	X	X	X*				Reduce	
South Dakota	X							
Wisconsin	X	X	X		X		Reduce*, Substitute*	

* Illinois — The governor has reduction veto power on a particular line item. The amount approved becomes law unless the veto is overridden by the legislature.

* Iowa — As a result of a state Supreme Court suit, the governor, in item vetoing, must veto a complete section. Can only be done in an appropriations bill. Before this suit the governor vetoed words.

* Missouri — Words that set out the purpose of an appropriation may be stricken only when the appropriation is vetoed.

* Nebraska — "Line items" for veto purposes are the same as an agency program. However, appropriations from different fund sources are individually listed in a bill and can be individually vetoed. The only case in which language can be vetoed is earmark language that contains an appropriation; the language and appropriation must be vetoed together.

* Wisconsin — The governor may reduce an appropriated amount by striking a digit. The governor also may strike an entire amount and write in a lower figure. This power is applicable only to appropriations, not to other numbers that may be in a bill.

Source: "Gubernatorial Veto Authority with Respect to Major Budget Bill(s) Table 6-3: Governors' Veto Power Regarding Appropriations Legislation," December 2008, National Conference of State Legislatures, <http://www.ncsl.org/IssuesResearch/BudgetTax/GubernatorialVetoAuthoritywithRespecttoMajor/tabid/12640/Default.aspx>, accessed on February 24, 2011.

item veto is their most powerful tool.

This is especially true if the Legislature is divided in political control, as Iowa is currently. While the Governor may not have the ability to convince both branches of the Legislature to pass specific legislation and budget proposals, it is unlikely that an override will occur.

This is especially true in the case of Iowa in 2011, as Republican Governor Terry Branstad has strong support from House Republicans and the Democrats in the Senate only have a two-vote majority. While the Senate may be able to defeat House proposals and force them to accept revisions, they are unlikely to muster the supermajority required to overturn a gubernatorial veto.

Another suggestion coming from the national analysis of TEL requirements is that a state budget be crafted using an "average" of the previous year's tax collections and spending provisions.

This proposal, by Washington and Sautet from Mercatus, could certainly be useful for groups such as the Iowa REC in estimating what "normal" tax collections were and therefore what might be expected in a "normal" year. This number could also be helpful in providing future estimates that take into consideration the effects of the recent recession.

For example, in the case of Iowa, the average of the FY 2006-2010 budgets – five years including the recession – is $5.729 billion. If the previous five years are also included, FY 2001 to FY 2005, the average is 10 percent lower at $5.207 billion. This method might be helpful in holding down spending increases.

While the 5-year average only results in a slight decrease ($50 million) from current proposals, the 10 year average is significantly lower than the $5.791 billion (FY 2011) and $6.031 billion (FY 2012) projected by the REC in December 2010.

When reviewing the final budget numbers from the last 10 years, the drops in FY 2009 and 2010 caused by the recession, compared to FY 2008, are readily apparent.

As a part of the background information and talking points for the FY 2011 budget, this is useful information. It would need to be broken down by specific agencies and programs to be truly helpful and would need to consider any changes in accounting procedures or budget revenue assignment categories.

However, it would be yet another tool for guiding officials in crafting budget proposals. The issue with using budget averages is that an unusually "flush" year or series of flush years, such as FY 2008 when the total Iowa budget was over $6 billion might then unduly influence future projections.

If used as a TEL criteria, in

Are There Additional Options?

"If used as a TEL criteria, in order to be most effective in holding down budget increases, a rolling ten-year or five-year average would be most effective if there were also a percentage increase cap tied to the average to address tax revenue spikes."

Tax and Expenditure Limits II

"The use of a rolling average would have helped to keep recent increases in check."

order to be most effective in holding down budget increases, a rolling ten-year or five-year average would be most effective if there were also a percentage increase cap tied to the average to address tax revenue spikes.

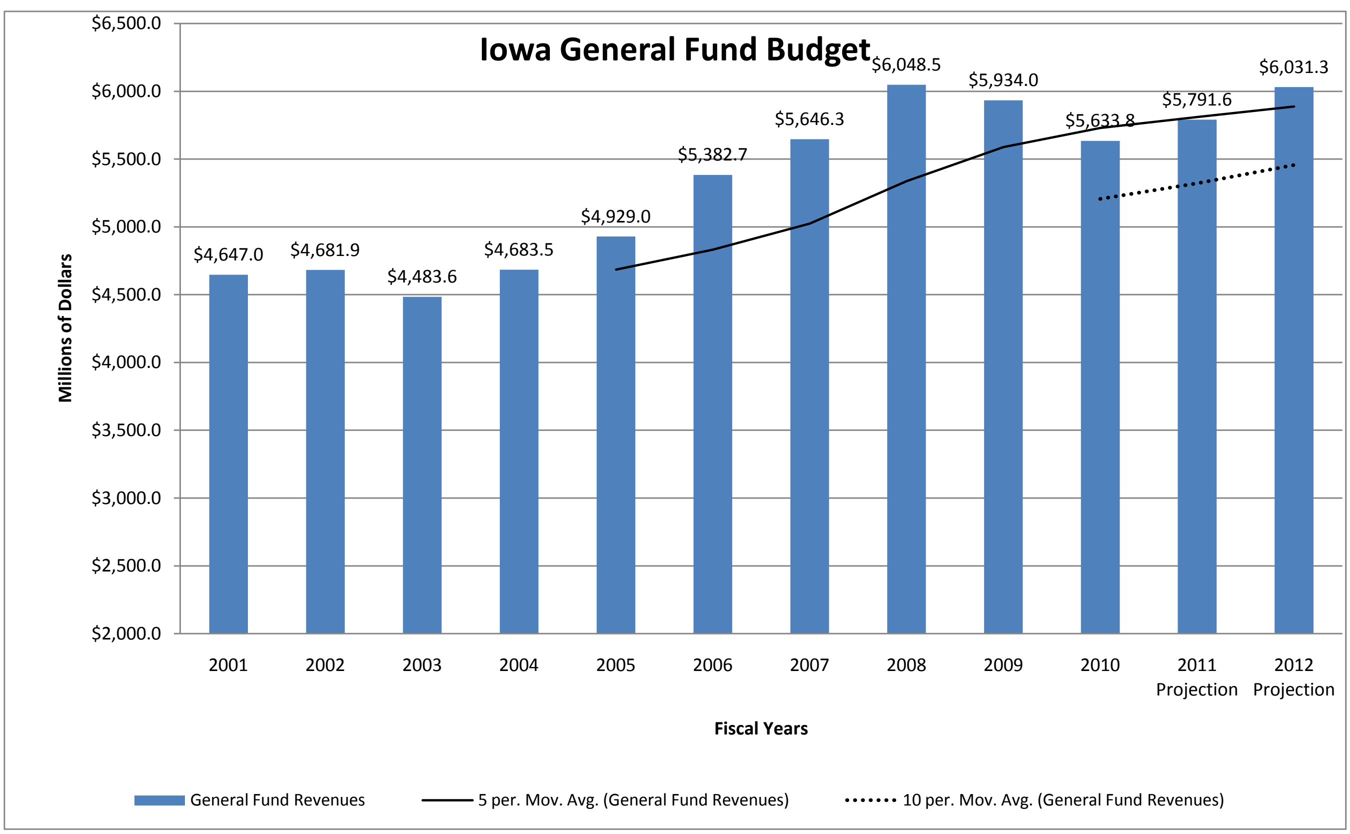
Additionally, as discussed by the various national TEL analysis reports, a constitutionally mandated TEL is most effective at preventing Legislators and Governors from making exceptions to a statutory-based rule. Unfortunately, Iowa does not allow a citizen initiative referendum to be placed on the ballot.

Instead there is a regularly scheduled opportunity (every ten years) for Iowans to vote on calling a constitutional convention. This occurred in 2010 and was defeated. It has been defeated every ten years since it was added to the Constitution.

The graphs below and on the next page show the actual ten-year budgets of the State of Iowa, along with projections based on the three-year, five-year and ten-year rolling averages.

As is readily apparent, recent budgets have been significantly higher, and the use of a rolling average would have helped to keep recent increases in check. Fiscal Year 2011 and 2012 potential budgets would be over $600 million less going into the discussion.

The significant increases



in the budgets of the last three years clearly show that the weak TEL of holding spending to 99 percent of the REC projected tax reveneue estimates has not held budget growth in check. Today, the proposed FY2012 budget is over $6.2 billion, versus the $5.2 billion which would be indicated by a 10-year rolling average.

Using rolling averages to control budget growth might have prevented the recent mid-year budget cuts caused by the recession, and improved the long-term structural deficit projections. This is much like a family who puts a short-term increase caused by overtime hours in the bank rather than rushing out to buy a new car which they can not afford later, when the plant cuts the overtime.

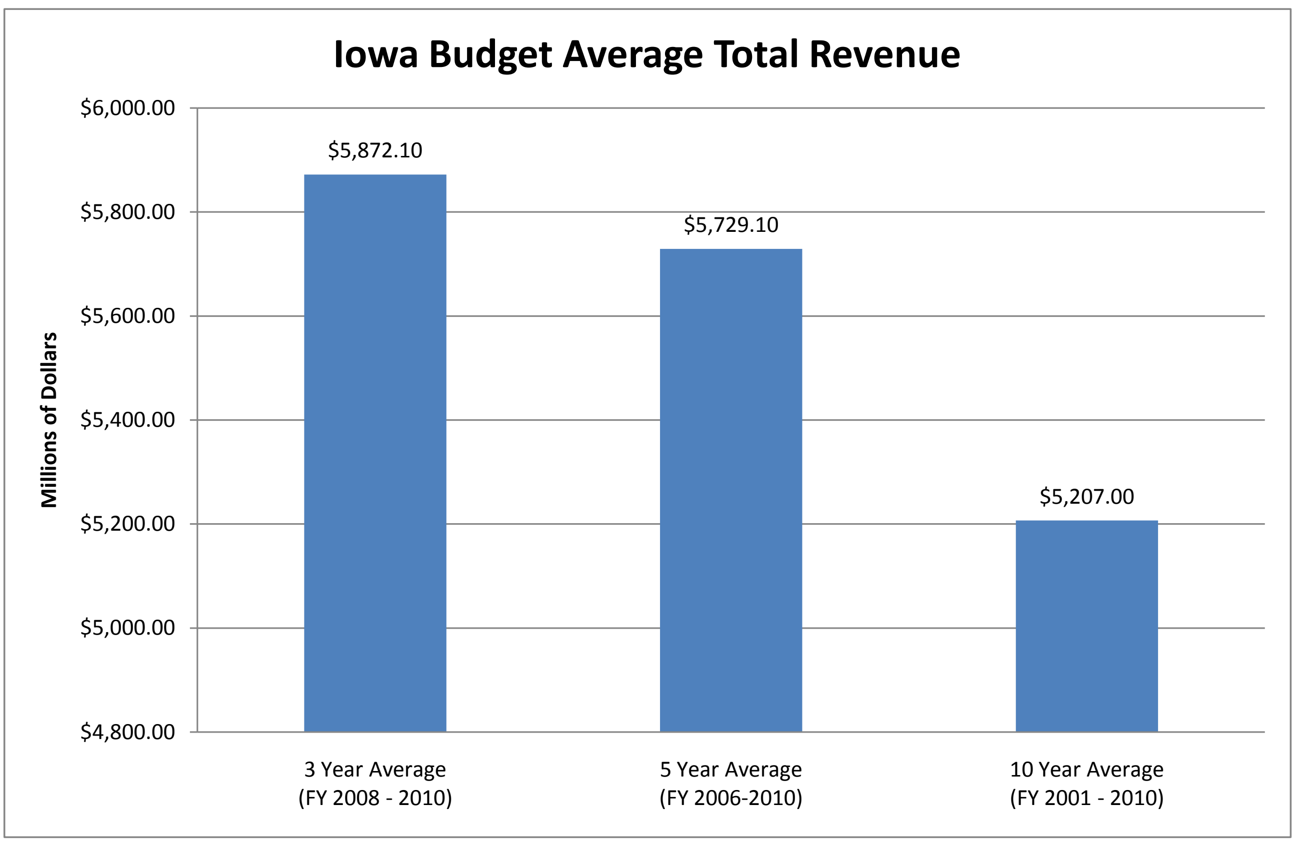
Suggestions for Voters, Legislators, and Governors in 2011 and Beyond

As we have seen, some options for controlling state budgets and deficit spending include establishing strong, constitutional TELs, using the line-item veto, and developing budgets based on rolling averages. Each has positive and negative aspects.

Strong TELs are constitutionally established, impose restrictions on both revenue and spending, have a

Are There Additional Options?

"The weak TEL of holding spending to 99 percent of the REC projected tax reveneue estimates has not held budget growth in check."



Tax and Expenditure Limits II

"Strong TELs are constitutionally established, impose restrictions on both revenue and spending, have a refund provision, and are tied to multiple standards such as population growth rate and inflation rate. As we have seen, if a TEL is not well designed it has little impact."

refund provision, and are tied to multiple standards such as population growth rate and inflation rate. As we have seen, if a TEL is not well designed it has little impact.

The line-item veto can be very effective, but if a Governor wants to spend and chooses not to use it, there is no impact. Rolling budget averages may impose a more even budget cycle and somewhat limit spending increases, but don't have significant structural results.

In doing an overall review of options for addressing the current state fiscal crisis, it seems appropriate to note the suggestions made by Chris Edwards of the Cato Institute before the Federal Reserve Bank of St. Louis conference on State and Local Government Finance and Economic Turbulence, in April 2010.

Edwards presented four suggested reforms or changes in state government operations that might help with state financial challenges while reducing the burden on taxpayers and businesses.

First is repealing state corporate income taxes. Of our regional comparison states, South Dakota already has no such tax, and they seem to be getting along in a solid fiscal manner. As only 2.6 percent of total state revenues, these taxes are seen as ineffective, distorting the market, and creating a regulatory and paperwork burden.[31]

Iowa Governor Terry Branstad has proposed and the Republican-controlled House of Representatives has passed both corporate and personal income tax reductions for Iowa citizens and businesses as of March 2011.

Next, Edwards promoted privatization of assets such as airports, railroads, energy utilities, and highways.

The sale of assets reduces debt levels and removes ongoing expenses. The services can be billed on usage and investment done on a private loan/profit basis.

This is already occurring in many European nations and some American states. In Iowa, the proposal to sell the Iowa Communications Network is an example of privatization.

Another example is the proposal to sell the Honey Creek State Park destination resort, which has lost money since opening.

Though we are not seeing widespread privatization proposals in Iowa and our neighboring states at this time, there are many potential areas for consideration.

Within state government budgets themselves, the Cato statement suggested reforming government worker compensation and addressing government-sector union issues.

Both of these areas have received extensive attention in the last month, as Governors in Wisconsin and Iowa, as well as other states, are attempting to revise wage and benefit packages and working to implement more flexibility for local governments in working with government unions.

Specific suggestions include raising retirement ages, addressing pension formulas and disability claims, reforming tenure, and reducing health care and other benefits.

In discussing government-sector union issues, Cato notes that only 7 percent of private sector workers are unionized today, compared with 39 percent of government-sector workers.

Further, according to Bureau of Labor Statistics data, government-sector benefit costs are 70 percent higher than the private-sector.[32] Layoffs are also less frequent, by two-thirds the rate in the private sector.[33]

Though the Cato presentation was a year ago – and before the significant political changes in states such as Iowa, Minnesota, and Wisconsin – it is interesting that these very issues are playing out today.

As we have seen, strong TELs can have a positive impact in reducing spending and holding budgets in check. Yet, they are not the complete answer.

Even states with strong TELs, such as Missouri, were impacted by the recession and are dealing with deficits and negative economic results. States such as Iowa, with weak TELs, will have to be more innovative in addressing budget shortfalls.

With significant long-term structural deficits projected for virtually all states, Governors and Legislatures should focus more on ideas such as the line-item veto and rolling budget averages.

The Cato ideas, dealing with the proper role of government and major structural reorganizations, are worth serious consideration.

Above all, the citizens and voters of our states must insist on fiscal accountability from their elected officials. If we have referendum and initiative options that will get the attention of our elected officials, we should use them.

We should also not be afraid to use the power of the ballot box in expressing our concerns; that is truly where "the buck stops." It will be interesting to see how the key political battles over taxes and spending continue to play out over the next election cycle.

Are There Additional Options?

"Above all, the citizens and voters of our states must insist on fiscal accountability from their elected officials. If we have referendum and initiative options that will get the attention of our elected officials, we should use them. We should also not be afraid to use the power of the ballot box in expressing our concerns."

Endnotes

[1] Matthew Mitchell, "TEL It Like It Is: Do State Tax and Expenditure Limits Actually Limit Spending?," Working Paper #10-71, Mercatus Center, George Mason University, December 2010, p.3.

[2] "Biographical Sketch, Harry S. Truman," The Harry S. Truman Library and Museum, <http://www.trumanlibrary.org/hst-bio.htm>, accessed on February 27, 2011.

[3] Harry S. Truman, "Quotations by Author," The Quotations Page, <http://www.quotationspage.com/quotes/Harry_S_Truman/>, accessed on February 27, 2011.

[4] Business Cycle Dating Committee, National Bureau of Economic Research, September 20, 2010,

<http://www.nber.org/cycles/sept2010.html>, accessed on February 24, 2011.

[5] “Fact Sheet: Quick Recovery? State Fiscal Recovery Could Be Gradual, Lag National Economy 12-18 Months,” National Association of State Budget Officers, March 12, 2002, <http://www.nasbo.org/LinkClick.aspx?fileticket=dCJu5BM7IgA%3D&tabid=83>, accessed on February 24, 2011.

[6] “State Budget Update 2009,” National Conference of State Legislatures, November 2009, <http://www.ncsl.org/?tabid=19251>, accessed on February 20, 2011.

[7] Elizabeth McNichol, Phil Oliff, and Nicholas Johnson, “States Continue to Feel Recession’s Impact,” Center on Budget and Policy Priorities, February 10, 2011, <http://www.cbpp.org/cms/?fa=view&id=711>, accessed on February 22, 2011.

[8] Fact Sheet, National Association of State Budget Officers.

[9] Michael J. New, “Limiting the Government Through Direct Democracy,” The Cato Institute Policy Analysis, No. 420, <http://www.cato.org/pub_display.php?pub_id=1279>, accessed on July 7, 2010.

[10] Michael New, “U.S. State Tax and Expenditure Limitations: A Comparative Political Analysis,” *State Politics and Policy Quarterly*, Vol. 10, No 1, Spring 2010, p. 34-35.

[11] Ibid. p. 36.

[12] Mitchell, p. 22-24.

[13] Mitchell, p. 11-16.

[14] Emily Washington and Frederic Sautet, “Tax and Expenditure Limits for Long-run Fiscal Stability,” No 67, Mercatus Center, George Mason University, October 2009, p. 3.

[15] Leah Brooks and Justin Phillips, “Constraining the Local Leviathan? The Existence and Effectiveness of Municipally-Imposed Tax and Expenditure Limits,” University of Toronto Working Paper, July 2010, p. 21-24, <http://www.columbia.edu/~jhp2121/workingpapers/LocalTELs.pdf>, accessed on February 27, 2011.

[16] Strong America Now, <http://strongamericanow.com/>, accessed on February 28, 2011.

[17] “Revenue Estimating Conference,” Iowa Department of Management, <http://www.dom.state.ia.us/state/REC/index.html>, accessed on February 28, 2011.

[18] “The Employment Situation - February 2011,” U.S. Bureau of Labor Statistics, March 4, 2011, <http://www.bls.gov/news.release/pdf/empsit.pdf>, accessed on March 7, 2011.

[19] “Governor Signs FY 2010 Budget Bills,” Missouri Senate Newsroom, June 14, 2010, <http://www.senate.mo.gov/newsroom/Documents/CapitolBriefing/2010/2010%20Interim/CapitolBriefing061410.htm>, accessed on March 1, 2011.

[20] “Walker budget cuts school/government funding, avoids tax/fee increases,” TwinCities.com, *Pioneer Press*, March 1, 2011, <http://www.twincities.com/news/ci_17510194?source=rss&nclick_check=1>, accessed on March 1, 2011.

[21] “State Budget Update, November 2010,” National Conference of State Legislatures, December 2010, p. 2, <http://www.ncsl.org/documents/fiscal/november2010sbu_free.pdf>, accessed on February 28, 2011.

[22] “State Budget Update,” p. 6.

[23] “South Dakota Governor Dennis Daugaard,” <http://www.sd.gov/governor/aboutdennis.aspx>, accessed on March 2, 2011.

[24] “Minnesota Governor’s Proposed Fiscal Year 2012-13 Budget Includes Tax Increases for Wealthy Taxpayers and Other Tax Changes,” Accounting and Tax Tips, February 21, 2011, <http://mastertype.blogspot.com/2011/02/minnesota-governors-proposed-fiscal.html>, accessed on March 3, 2011.

[25] Patrick Condon, “Minn. House, Senate reject Dayton income tax proposal, governor blasts ‘juvenile’ vote,” *Minnesota Star Tribune*, March 3, 2011, <http://www.startribune.com/local/117335698.html>, accessed on March 3, 2011.

[26] Mitchell, p. 25.

[27] “Gubernatorial Veto Authority with Respect to Major Budget Bill(s),” National Conference of State Legislatures, December 2008, <http://www.ncsl.org/default.aspx?tabid=12640>, accessed on February 22, 2011.

[28] James Q. Lynch, “Culver uses line-item veto on seven budget bills,” *The Quad Cities Times*, May 27, 2009, <http://qctimes.com/news/local/article_53fc5fe6-4af8-11de-9ca8-001cc4c002e0.html>, accessed on March 3, 2011.

[29] Emily Schettler, “Pawlenty touts fiscal bona fides in Iowa visit,” *The Iowa Independent*, April 18, 2010, <http://iowaindependent.com/32340/pawlenty-touts-fiscal-bona-fides-in-iowa-visit>, accessed on March 3, 2011.

[30] Mary LaHammer, “Pawlenty’s veto pen headed to history,” *The Minnesota Post*, December 29, 2010, <http://www.minnpost.com/marylahammer/2010/12/29/24505/gov_pawlentys_veto_pen_headed_to_history>, accessed on March 3, 2011.

[31] Chris Edwards, “State and Local Fiscal Reforms,” presented at Conference on State and Local Government Finance and Economic Turbulence, Federal Reserve Bank of St. Louis, Cato Institute, April 9, 2010, p. 4-12.

[32] “Employer Costs for Employee Compensation – June 2009,” U.S. Bureau of Labor Statistics, <http://www.bls.gov/news.release/archives/ecec_09102009.pdf>, accessed on February 28, 2011.

[33] “Job Openings and Labor Turnover Survey: September 2009,” U.S. Bureau of Labor Statistics, <http://www.bls.gov/news.release/archives/jolts_11102009.htm>, accessed February on 28, 2011.

Public Interest Institute
***at* Iowa Wesleyan College**
600 North Jackson Street
Mount Pleasant, IA 52641-1328

NONPROFIT ORGANIZATION
U.S. POSTAGE PAID
MAILED FROM ZIP CODE 52761
PERMIT NO. 338

This policy study is brought to you in the interest of a better-informed citizenry, because IDEAS DO MATTER. You can write Public Interest Institute at:

Public Interest Institute
600 North Jackson Street
Mount Pleasant, IA 52641-1328
or
Public.Interest.Institute@LimitedGovernment.org
www.LimitedGovernment.org