

IOWA TRANSPARENCY NEWSLETTER



Iowa’s Tax Receipts are Still Rising, Even With Calls for Budget Cuts

By Amy K. Frantz, Public Interest Institute Vice President

Following the December 2016 meeting of Iowa’s Revenue Estimating Conference (REC), news outlets began to report that the Fiscal Year 2017 (FY17) state budget — which runs from July 1, 2016 to June 30, 2017 — would have to be cut. In a story in *The Des Moines Register*, David Roederer, Director of the Iowa Department of Management, stated, “A decline in projected state tax revenue will force \$100 million in spending cuts for the current state fiscal year.”¹



However, if you read that statement carefully, you will realize tax receipts themselves haven’t declined, just the “projected” amount of revenue

increase. In other words, revenue is going up, just not by as much as estimators thought it would. Governor Branstad acknowledged this in his Condition of the State address this January when he said, “While the December Revenue Estimate is lower than previous projections, the estimate still shows a modest increase in state revenues.”²

This scenario is a little like buying a new big-screen television and a surround-sound system for Christmas because you believe your boss is going to give you a big raise effective the following January 1 or that grandma is going to send you a big check as your gift this year. When the raise or the check turn out to be smaller than you thought, you find you have overspent your budget. Your “revenue” did go up, just not as much as you “projected” it would, and now you find yourself in budget trouble.

Unfortunately, the Legislature and Governor went ahead and decided to spend right up to the maximum allowed under the law. When the state’s revenue did not rise as much as anticipated after the budget was adopted, they had to make cuts to that budget. Last month, the Legislature approved a de-appropriations package cutting \$117.8 million from the budget, which “included \$88.2 million in targeted cuts and \$25 million in fund transfers.”³ The Governor signed the bill into law on February 1, 2017.

The Revenue Estimating Conference “was established in Iowa Code 8.22A as a way to arrive at consensus General Fund revenue estimates to be used by both the Governor and Legislature for the budget process.”⁴ The three-member body is made up of “two individuals representing the Legislative and Executive branches [of Iowa government] . . . and a third member of the

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general public chosen by the other two members."⁵ The current REC members are:

- David Roederer, Director of the Iowa Department of Management (Governor's designee)
- Holly Lyons, Fiscal Services Division Director of the Legislative Services Agency
- David Underwood, retired Chief Financial Officer and Treasurer, AADG, Inc., in Mason City, Iowa⁶

The REC meets at least three times a year and provides estimates of how much revenue Iowa's state government will take in and how much the Legislature and Governor are estimated to be able to spend. At the December 2016 REC meeting, members cut back their projection for FY17, but they are still estimating that tax receipts will rise from FY16 to FY17.

Public Interest Institute Has Relocated to Muscatine, Iowa

Public Interest Institute (PII) has recently relocated to Muscatine, Iowa from Mount Pleasant, Iowa. Originally based on the campus of Iowa Wesleyan University (IWU), Public Interest Institute is now located in the historic Octagon Place building in Muscatine, Iowa.

The mission of Public Interest Institute is to promote the importance of a free-enterprise economic system, limited government, and traditional values in society based upon individual freedom and responsibility. This mission is fulfilled through our numerous research-based publications, our weekly newspaper column *In the Public Interest*, and through speaking to interested groups throughout Iowa. PII holds that ideas have consequences and that involved citizens can make a difference in our republic.

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The chart below shows the change in the REC’s projections from the October meeting to the December meeting:

	Tax Receipts (\$ in Millions)	\$ Change From 2016 (in Millions)	% Change From 2016
FY16 (actual)	\$7,965.7		
FY17 (projected Oct. 2016)	\$8,381.5	\$415.8	5.2%
FY17 (projected Dec. 2016)	\$8,269.5	\$303.8	3.8%

Source: Iowa Department of Management, Revenue Estimating Conference projections, Oct. 2011 - Dec. 2016

As you can see, the REC still estimates that tax receipts will rise, just by less than previously projected. Instead of tax receipts rising by \$415.8 million, or just over 5 percent, the REC now believes tax receipts will rise by \$303.8 million, or just under 4 percent. However, because the Legislature and Governor decided to spend right up to the previously projected level, they found themselves in budget trouble and were forced to cut spending by \$118 million in the middle of the current fiscal year.

Over the last few years, tax receipts (actual receipts, not projections) have generally been growing. The chart below shows how much, in dollars, state tax receipts grew or declined and the percent change in each year.

	Tax Receipts (\$ in Millions)	\$ Change Year to Year (in Millions)	% Change Year to Year
FY09	\$6,530		
FY10	\$6,352	-\$178	-2.7%
FY11	\$6,680	\$328	5.2%
FY12	\$7,016	\$336	5.0%
FY13	\$7,558	\$543	7.7%
FY14	\$7,423	-\$135	-1.8%
FY15	\$7,796	\$373	5.0%
FY16	\$7,966	\$170	2.2%

Source: Iowa Department of Management, Revenue Estimating Conference projections, Oct. 2011 - Dec. 2016

In 1992, the Iowa Legislature enacted a General Fund expenditure limit, limiting state spending to 99 percent of the Revenue Estimating Conference’s December forecast of state tax revenue for the next fiscal year. But just because you can spend up to 99 percent of the REC estimate, that doesn’t mean you should spend the entire 99 percent of the REC estimate.

The Governor and Legislature were faced with budget trouble, necessitating cuts of \$118 million from the current fiscal year budget. But it is trouble of their own making. They chose to spend right up to the edge of the REC estimates without leaving a cushion. For the current fiscal year, FY17, tax receipts are still growing, just not enough to cover the additional spending based on the previous, larger estimate

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of tax receipts. **The state isn't taking in less money this fiscal year; the Governor and Legislature are spending too much** while assuming the REC's estimates won't change.

The goal for the Governor and Legislature should not be to spend the entire additional revenue estimated by the REC, but rather to leave a cushion. That way, if the REC estimates change, our elected officials will not have to scramble around in the middle of a fiscal year, looking for areas to cut. Instead, they can utilize that cushion to keep the commitments they made when they adopted the budget.

Endnotes:

¹ William Petroski, "State faces \$100 million in budget cuts," *The Des Moines Register*, December 12, 2016, <<http://www.desmoinesregister.com/story/news/politics/2016/12/12/state-faces-100-million-budget-cuts/95345448/>> accessed on December 20, 2016.

² "Gov. Branstad delivers the 2017 Condition of the State address to the Iowa General Assembly," *Office of the Governor of Iowa Terry Branstad*, January 10, 2017, <<https://governor.iowa.gov/2017/01/gov-branstad-delivers-the-2017-condition-of-the-state-address-to-the-iowa-general-assembly>> accessed on February 10, 2017.

³ James Q. Lynch, "Iowa legislature cuts \$118 million from this year's

budget," *The Cedar Rapids Gazette*, January 30, 2017, <<http://www.thegazette.com/subject/news/government/iowa-legislature-cuts-118-million-from-this-years-budget-20170130>> accessed on February 13, 2017.

⁴ "What is the Revenue Estimating Conference?," *Iowa Department of Management*, <<https://dom.iowa.gov/faq/what-revenue-estimating-conference>> accessed on February 13, 2017.

⁵ "State of Iowa Expenditure Limitation Process," *Issue Review, Legislative Services Agency Fiscal Services Division*, January 8, 2017, p. 2.

⁶ "What is the Revenue Estimating Conference?"