

---

# Iowa Fiscal Partnership

---

FOR RELEASE THURSDAY, JAN. 13, 2005, 11 A.M. -- NOTE EMBARGO  
Contact: Mike Owen, (319) 338-0773, or Victor Elias (515) 280-9027

## Chronic Budget Crisis Building in Iowa Report Examines State's Handling of Fiscal Crunch, and Solutions

DES MOINES, Iowa (Jan. 13, 2005) – Iowa will be hobbled by budget deficits as long as legislators keep avoiding a long-term solution, researchers said today.

In the final report in a five-part series, the Iowa Fiscal Partnership (IFP) examines how Iowa has balanced its budget and suggests changes that could help the state meet its obligations year to year. Iowa could modernize its tax system by closing tax loopholes, broadening the sales tax base and fixing the personal income tax, researchers said.

“Iowa lawmakers are returning to a chronic budget crisis, but they shouldn't be surprised,” said Charles Bruner, executive director of the Child & Family Policy Center and co-author of the report for the IFP. “By raiding special funds, they have shoved budget responsibilities to the next year. It gives the illusion of balancing the budget, when in fact it's building up a structural deficit.

“In short, it's time for a long-range look at Iowa's tax policies.”

Elaine Ditsler, research associate for the Iowa Policy Project (IPP) and also an author of the report, said the state's budget practices have hurt education and human services, at the same time pushing responsibilities off to local governments.

“These are really hidden deficits built into the structure of Iowa's budget,” Ditsler said. “Sooner or later, the bills come due. Iowans deserve a tax system that will adequately fund the Legislature's budget promises, during good economic times and bad.”

Among findings in the report by Ditsler, Bruner and IPP Research Director Peter Fisher:

- Faced with general-fund gaps of over \$3 billion between 2001 and 2005, the state cut \$1.4 billion in services and made \$2 billion in transfers from other sources. In turn, services funded by the other sources had to be scaled back.

- The number of full-time state workers decreased by 1,585 employees between FY2001 and FY2003 – and additional workers were laid off in private industry due to the spinoff effects state budget crisis.

- By 2005, cuts to key programs and services had not been fully restored in education or child and family services. Cuts have caused both increases in property taxes and an inability to meet service needs. For example, while child abuse cases grew by 20 percent, the child welfare budget remained flat; furthermore, over one-third of the state's mental health institute beds had been closed.

— m o r e —

■ The structural deficit will worsen as previously enacted tax cuts continue to be phased in, and service needs and costs will continue to rise, and federal budget impacts increasingly put new burdens on state government.

■ The Senior Living Trust Fund has been particularly hurt by the state's budget choices. Established in 2001 to provide services to help the elderly stay in their homes, it has instead been used to pay for programs previously supported out of the general fund.

"A lack of revenue is behind Iowa's chronic budget crisis," Fisher said. "Iowa's tax structure and rainy day fund have not allowed the state to keep its promises in an economic downturn. They need to be updated."

Specific proposals for Iowa included:

■ Adopt "combined reporting" to close loopholes in corporate income taxes, to assure that firms conducting business in Iowa cannot shift income on paper to another state just to avoid taxes.

■ Modernize the sales-tax structure to reflect the move from a goods-based to service-based economy, and encourage adoption of taxes on internet commerce to allow Iowa-based retailers to remain competitive.

■ Hold the line on repeal of Iowa's taxes on retirement income, which would erode Iowa's revenue base with the aging of the population, and also would make the tax system even less fair to working families than it is now. Less than one-third of Social Security recipients are taxed on their benefits, and for those taxpayers, the tax is not a substantial burden or an encouragement to leave the state, as some claim.

■ Encourage a more proportional overall state and local tax system by making the individual income tax more progressive.

■ Regularly review tax expenditures – business tax "incentives" – to examine their effectiveness and public benefit, and to allow better public scrutiny of their impact on the budget situation. Their eventual cost often is far greater than originally estimated.

The Iowa Fiscal Partnership is a joint initiative of two nonprofit, nonpartisan policy research organizations, the Iowa Policy Project in Mount Vernon and the Child & Family Policy Center in Des Moines. Reports from the IFP are available on the web at [www.iowafiscal.org](http://www.iowafiscal.org) <<http://www.iowafiscal.org>>.

The five reports in the current IFP series on the state budget crisis are available at that site. They include one paper comparing Iowa's handling of its fiscal challenges to efforts of other states; separate papers analyzing the impact of the budget crisis on education, human services and local government; and the final overview piece.

# # # # #