



NEWS RELEASE

February 19, 2009
www.iowafiscal.org

FOR IMMEDIATE RELEASE THURSDAY FEB. 19, 2009

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NOTE: Graphs illustrating the points in this release are available in the report, or by contacting us.

The Revenue Roots of Iowa's Budget Crisis

IOWA CITY, Iowa (Feb. 19, 2009) — Revenues are at the roots of Iowa's current budget problems, a new Iowa Fiscal Partnership report illustrates.

“Revenue problems are the source of our current budget crisis. We’ve seen declining revenue estimates that have triggered mid-year cuts, and we’re not expecting good news next month, either,” said Beth Pearson, research associate for the nonpartisan Iowa Policy Project (IPP) and a co-author of the report for the partnership.

“But there’s more of a back story to the revenue side of the budget than just the past few months. And there is a lot more to our current budget situation than just the ‘spending problem’ jargon that has gotten thrown around a lot over the past few months.”

The IFP report shows general fund spending in Iowa grew at the same rate as the Iowa economy throughout the 1990s, dipped in 2001 with the previous recession, and has never recovered to pre-2001 levels as a share of the economy.

General fund expenditures hovered around 6.25 percent of personal income — a common measure of the size of the economy — during the 1990s.

As a share of the economy, expenditures declined steadily between 2000 and 2005 as Iowa struggled with the fiscal crisis, then increased slightly over the past three years. However, they never regained their pre-2001 recession levels. In 2008, spending was only 5.45 percent of the economy.

“That means spending is actually about 16 percent lower as a share of the economy than it was in the 1990s,” Pearson said.

Pearson noted what has happened to revenues following tax cuts in the late 1990s in Iowa.

“In 1998, the same year Iowa implemented a 10 percent across-the-board income-tax cut, revenues and economic growth began diverging,” Pearson said. “Legislators also made a number of other tax reductions between fiscal years 1996 and 2004 that cost the state an estimated \$650 million in forgone revenue in 2004 alone.

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“To talk about the budget and how we got to where we are now, we have to consider both the revenue and spending sides of the equation.”

Victor Elias, senior associate for the Child & Family Policy Center, said there is a need to examine spending — but all spending, including spending through the tax code.

“Spending through the appropriations process gets pretty significant review,” Elias said. “That’s not like the spending through the tax code.”

Elias added, “It is important for our policy makers to keep a long-term view, to keep the full economic cycle in mind.”

“Tax cuts that some considered attractive in the 1990s when the economy was booming and tax receipts were flush became unsustainable as the inevitable downturn occurred,” Elias said.

“There’s no question that the bulk of our current crisis is linked to the effects of the national recession, but it’s also true that Iowa’s budget was less well-positioned to cope with the downturn because of a weak revenue system.”

The Iowa Fiscal Partnership is a joint budget policy analysis initiative of two nonpartisan, nonprofit, Iowa-based groups – the Iowa Policy Project in Iowa City/Mount Vernon, and the Child & Family Policy Center in Des Moines. IFP reports are available at www.iowafiscal.org.

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