

## **Getting Public Value Out of Our Public Dollars**

*Do Iowa's Spending Choices Represent Iowa's Values?*

**By Andrew Cannon**

Days before the end of his tenure as director of the Department of Natural Resources, Rich Leopold spoke to *The Des Moines Register* about the difficulties of running a chronically underfunded agency. At the same time that state parks are experiencing record use, DNR has insufficient funds to staff those parks. "We have cut back on mowing, cleaning bathrooms, on emptying garbage, on keeping trails open," Leopold told the *Register*.<sup>1</sup>

In state fiscal year 2011, DNR was appropriated \$15.6 million, down from \$22 million in FY2009.<sup>2</sup> Apart from reducing maintenance of the parks that thousands of Iowans enjoy each year, the agency has been forced to cut other services on which businesses and Iowans rely. "I have gotten I don't know how many complaints from legislators and small business owners about, 'You used to do this and now you don't any more,'" Leopold told the *Register*. "[Y]ou want smaller government, this is what it looks like."<sup>3</sup>

Clean, well-maintained parks represent just one of the many public services and structures that Iowans value. Quality education is widely recognized as the key to keeping Iowa's economy strong. To assure that a quality education system is maintained and strengthened, the state and local school districts must work together to attract and keep good teachers, continually develop curriculum and invest in their buildings and equipment to strive for cutting-edge performance. It takes a sustained, strategic commitment of resources by all Iowans, from the State Capitol to Main Street, carefully allocating federal dollars, setting priorities for state dollars, and permitting flexibility to meet locally identified needs in the coordinated drive to help Iowa's young people achieve.

Many farmers and growers, who represent a substantial portion of Iowa's economy, use the expertise of agriculture specialists at Iowa State University. Over 260,000 Iowa children have access to health care through state programs.<sup>4</sup> The Supplemental Nutrition Assistance Program, or SNAP (formerly known as Food Stamps) helped a monthly average of more than 295,000 Iowans meet basic food needs in 2009.<sup>5</sup> All Iowans, in businesses, in their homes and while traveling, depend upon police officers and firefighters to assure the safety of their families, on courts to provide justice and on prisons to keep criminals off the street. And all conceivable economic activity makes use of publicly funded roads and highways, water mains and sewer lines.

These are all examples of public structures and services. They are people, plans and institutions that must be in good operating condition to protect Iowans' health and safety, and promote a strong economy. As the DNR episode illustrates, the past several years have brought unprecedented threats to

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these foundations of Iowa’s economy and culture, through loss of resources, and misleading rhetoric. Iowa’s public services and structures must be funded and staffed at a level that ensures that they function as Iowans need and expect.

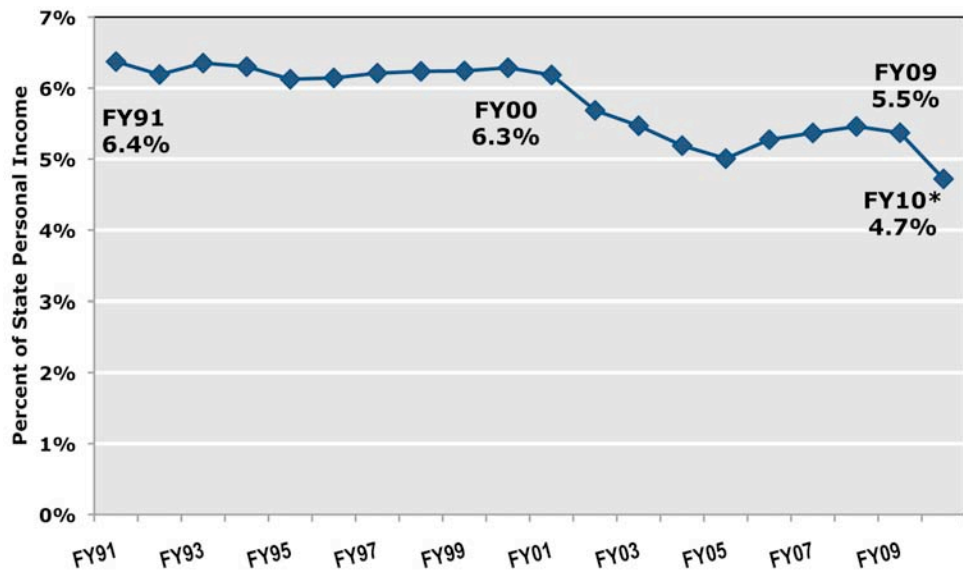
It is difficult to determine what the proper level of funding and staffing for state agencies should be. Every year, heads of executive agencies make those determinations based on their legislated functions and submit their needs to be part of the Governor’s budget proposal. Though members of the public may not have the expertise to gauge what is a sufficient staff for DNR, for example, we can examine historical funding and staffing. When historical levels of funding and staffing are compared to recent levels, it is apparent that funding and staffing of state services and structures has not grown excessively, as some claim. In fact, when population growth is taken into account, funding and staffing for many public services and structures has held steady and in many cases, actually decreased.

### State Expenditures

The DNR story cited above provides a vivid example of how agencies must respond when their funding is cut. Data reveal that DNR is not alone — all state agencies and functions have seen declines in funding. When compared to the growth in personal incomes within the state, state general fund appropriations actually shrank by more than one full percentage point in the first part of the 2000s. Figure 1 illustrates that general fund appropriations as a percent of personal income has been significantly lower in the past decade than it was during the 1990s. Between FY04 and FY09, spending had been on an upward trend; it must also be noted, however, that spending levels since FY04 have remained around a full percentage point lower than the high-watermark years of the 1990s. However, FY10 illustrates the effects of the recession and the Governor’s 10 percent across-the-board budget cut.

State spending as a share of state personal income — a measure of the size of Iowa’s economy and the ability of Iowans to pay for public services — is the best overall measure of the size of government. It takes into account population growth, inflation, and income growth by measuring whether the total amount spent has grown more or less rapidly than total income.

**Figure 1. State General Fund Spending has Decreased as Percent of Personal Income**



\*FY10 is an estimate. Sources: Iowa Legislative Services Agency; State Fact Books, 1993-2008; and U.S. Department of Commerce, Bureau of Economic Analysis.

### State Employees

Another way to measure the size of government is to look at the number of employees on the state’s payroll. By the simplest measure — number of state employees — state government has grown only

slightly since the early '90s. However, when state employment is measured relative to Iowa's population, a better measurement, the size of government has actually decreased.

In 2008, the state employed 54,547 full-time equivalent employees, compared to 53,280 in 1995. On average, the state has employed 53,672 employees each year since 1995, with a high of 55,200 in 2000 and a low of 52,325 in 2002.<sup>6</sup> These figures include all employees of the state's three Board of Regents universities, but do not include K-12 teachers, who are employed by the local school district.

Within most areas of state government, employee levels have remained relatively stable over time. Table 1 displays the number of state employees by function or service from 1992 to 2008. The two major exceptions to stability are corrections and natural resources personnel. While the number of full-time equivalent corrections employees has grown by over 1,140 employees since 1995, the number of natural resources full-time equivalent employees has shrunk by over 700. Since the early 1990s, there has also been considerable growth in education personnel. Table 1 makes clear, however, that the growth in education personnel occurred in the mid-'90s — clearly not the result of runaway hiring in recent years. It should be noted that Table 1 and Figures 2 and 3 do not include FY10, when the governor's 10 percent across-the-board cut forced vast reductions in the number of public employees or FY11 when early retirements shed nearly 2,500 workers from the payroll.<sup>7</sup>

**Table 1. State Employment by Department Shows State Priorities in Tight Budget Times**

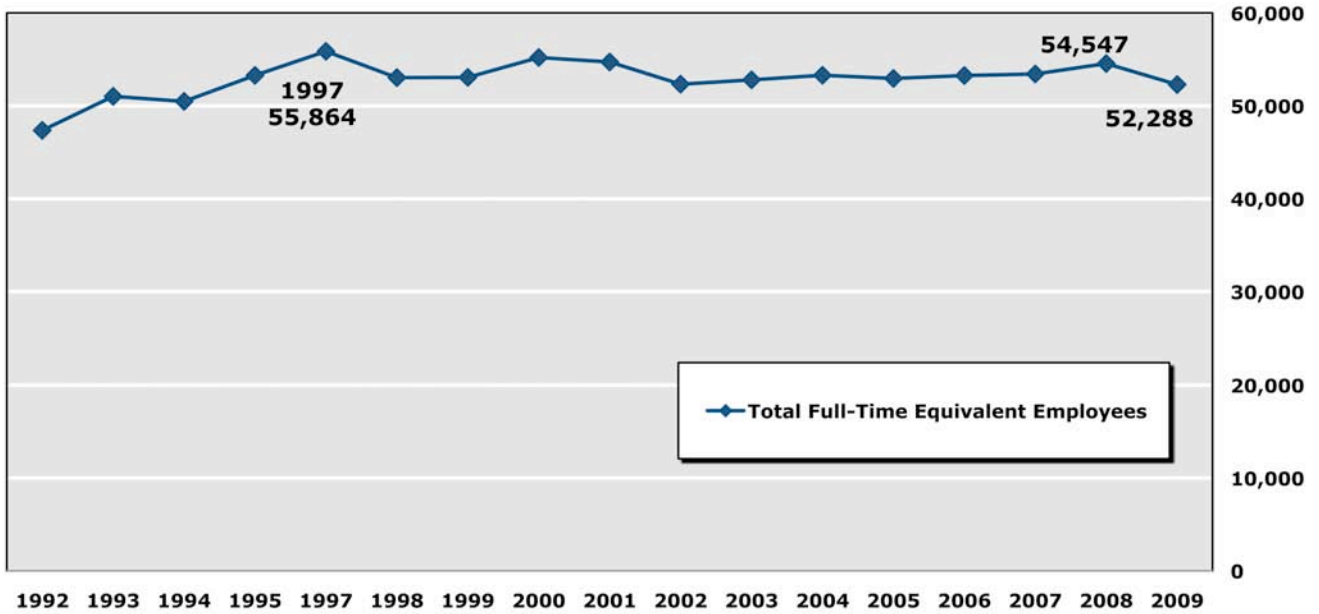
Year	Corr.	Nat. Res.	Educ.	Admin.	Judicial, Legal, Police	Highways	Public Welfare	Health	Hosp.	Social Ins. Admin	Parks and Rec	All Other
1992	2,091	2,866	19,649	1,897	2,912	2,764	3,289	298	8,508	333	152	2,593
1993	2,184	2,828	21,986	1,704	2,863	2,860	3,339	294	9,298	315	149	3,198
1994	2,228	2,851	22,449	1,690	3,024	2,675	3,357	312	8,133	315	158	3,283
1995	2,326	2,442	25,870	1,780	3,153	2,675	2,744	325	8,058	414	182	3,311
1997	2,399	2,901	27,478	2,224	3,226	2,975	3,242	328	7,761	414	122	2,794
1998	2,727	2,931	24,632	2,110	3,288	2,975	2,751	315	7,703	358	111	3,131
1999	3,123	2,972	24,667	2,195	3,387	2,852	2,769	329	7,367	352	109	2,937
2000	3,368	3,016	25,270	2,348	3,472	2,920	2,834	359	7,931	346	109	3,227
2001	3,449	3,057	25,175	2,176	3,509	2,873	2,894	388	7,433	346	112	3,306
2002	3,219	2,083	25,489	1,964	3,235	2,563	2,712	392	7,050	315	108	3,195
2003	3,195	1,896	25,897	1,921	3,157	2,532	2,633	411	7,089	760	109	3,195
2004	3,223	1,607	27,266	1,932	3,154	2,531	2,759	408	6,774	694	117	2,827
2005	3,138	1,720	26,515	1,954	3,154	2,488	2,823	412	6,895	872	120	2,855
2006	3,214	1,732	26,462	1,941	3,203	2,488	2,970	432	7,105	692	114	2,905
2007	3,213	1,925	26,335	1,746	3,325	2,423	3,050	429	7,359	679	118	2,825
2008	3,466	1,724	26,190	1,789	3,354	2,410	3,138	445	8,295	679	131	2,946
2009	3,415	1,748	23,702	1,720	3,424	2,400	3,232	467	9,368	725	131	2,956

Source: U.S. Census of Governments, 1992-2009

Comparing the number of state employees to the number of Iowans is another useful way to gauge the size of the state government. The number of state employees grew by 1,267 from 1995 to 2008. Over the same period, Iowa's population grew by 153,127. When factoring in population growth, however, this actually meant a slight decrease in the number of state employees per 1,000 Iowans. Employees per 1,000 residents peaked in 1997, at 19.6, and by 2009, had fallen to 17.4. Figure 2 below illustrates the

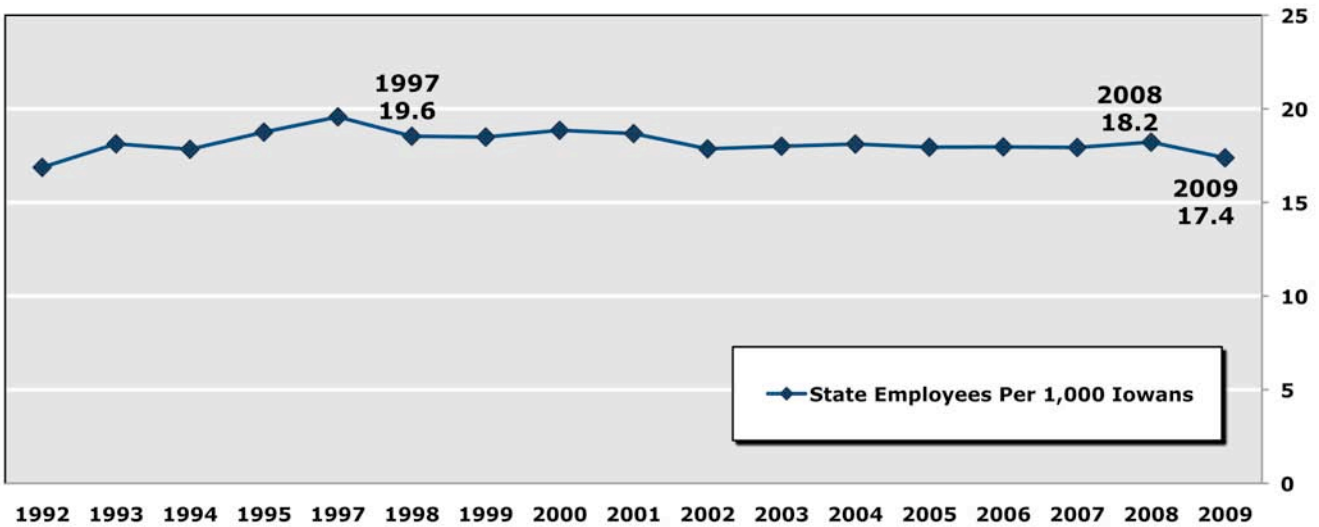
number of state employees from 1992 to 2008. Figure 3 shows the number of state employees per 1,000 Iowans has held steady since the early 1990s, with a drop-off in 2009.

**Figure 2. Number of State Employees Has Remained Stable Over Time**



Source: U.S. Census Bureau, 1995-2008 Annual Survey of State and Local Government Employment and Payroll

**Figure 3. Number of State Employees Per Thousand Iowans Has Held Steady**



Sources: U.S. Census Bureau, 1995-2008 Annual Survey of State and Local Government Employment and Payroll and Population Estimate Branch

### Why Has State Government Shrunk?

While state employment has held steady over the past decade and a half, private sector employment and income has grown, so that state government has shrunk as a share of the Iowa economy. The primary reason is that Iowa’s constitution requires the state to have a balanced budget. Given the level of state revenues, state government has been forced to reduce its size.

But why have revenues shrunk? Iowa's population, as noted above, has grown by over 150,000 people since 2005. Personal income in the state more than doubled between 1991 and 2009.<sup>8</sup> There are four main reasons that state government has shrunk since the 1990s.

- The rapid growth of corporate tax credits — In an effort to spur economic growth, Iowa offers a number of tax credit programs to businesses. Businesses that qualify for the credits can use them to reduce their taxes and may even receive refund checks if the credit exceeds their tax liability. While their benefits are uncertain, Iowa's tax credit programs have severely and increasingly cut into state revenues. One such program, the Research Activities Credit, cost more than \$70 million in FY09, and is forecast to reduce state revenues by more than \$178 million over five years between June 30, 2009, and June 30, 2014.<sup>9</sup> The five costliest corporate tax credits — the Research Activities credit, the Film and TV credit, the Industrial New Job Training credit, the High Quality Job Creation credit and the Enterprise Zone credit are projected to cost more than \$600 million between FY11 and FY14.<sup>10</sup>
- The failure to close tax loopholes — Every year, Iowa loses \$60 to \$120 million in corporate tax revenue because large corporations are able to transfer profits to subsidiaries in states that do not have corporate income tax.<sup>11</sup> Adopting combined reporting would bring millions of dollars of needed revenue to the state, while affecting very few corporate income tax filers.
- Tax cuts — Since the late 1990s, Iowa has enacted a number of income tax reductions. A 10 percent across-the-board cut in 1997 reduced revenues by \$228 million by FY01.<sup>12</sup> Apart from reducing the revenues needed to fund critical services, many income tax reductions, such as the 1997 across-the-board reduction, disproportionately help the wealthiest Iowans. At the same time, Iowa has come to rely on the sales tax more, the burden of which is disproportionately borne by lower-income Iowans.<sup>13</sup>
- The Great Recession that began in December 2007 caused tax receipts to sag far below their expected levels in 2008 and 2009. As thousands of Iowans lost their jobs, saw their wages stagnate, and reduced their spending on consumer goods and services, state revenue decreased by \$30 million — nearly 1 full percent from FY08 to FY09.<sup>14</sup> Lagging tax revenues prompted Governor Culver to cut state general spending across the board by 10 percent last fall, meaning many departments saw and will see layoffs and early retirements.<sup>15</sup> The federal American Recovery and Reinvestment Act provided the state with funding to prevent the staffing cuts in state agencies and in school districts from being even worse.

## **Conclusion**

Publicly provided services are part of the foundation of all Iowans' private and economic lives. Facing budget and political pressure, state policymakers may be tempted to cut some of these structures in the next legislative session, but they and their constituents need a firm grasp of budget context and impacts, beyond political talking points. Up until Fiscal Year 2009, staffing and spending for Iowa's critical services were being maintained at levels comparable to those of the past 20 years, even while the population served grew. While lawmakers have faced difficulty in balancing the budget, much of the challenge is due to the recent national recession and the rapid escalation of state spending on tax credits that frequently benefit only large, out-of-state corporations. The size of Iowa's government — all the public services and structures that Iowans use and rely on for their economic and recreational activity — should be not be dictated by numbers pulled out of thin air. Rather, the size of Iowa's government should represent the values of Iowans. It should be staffed and funded sufficiently to maintain Iowa's parks, to educate our children, to keep our neighborhoods safe, to keep the public healthy and to allow our businesses to grow.

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- <sup>1</sup> William Petroski, DNR Chief Blasts Cuts in Funding, *Des Moines Register*. August 31, 2010. <<http://www.desmoinesregister.com/article/20100831/NEWS10/8310362/DNR-chief-blasts-cuts-in-funding>>.
- <sup>2</sup> Session Fiscal Report, Fiscal Services Division, Legislative Services Agency, August 2010. <[http://staffweb.legis.state.ia.us/lfb/docs/graybook/2010\\_graybook/tracking.pdf](http://staffweb.legis.state.ia.us/lfb/docs/graybook/2010_graybook/tracking.pdf)>.
- <sup>3</sup> Petroski, August 31, 2010.
- <sup>4</sup> Charles Bruner and Carrie Fitzgerald, "Health Reform: Covering Iowa Children Better," Iowa Fiscal Partnership. July 27, 2010. <<http://iowafiscal.org/100727-HCR-children.html>>.
- <sup>5</sup> Supplemental Nutrition Assistance Program: Average Monthly Participation (Persons), USDA, August 3, 2010. <<http://www.fns.usda.gov/pd/15SNAPpartPP.htm>>.
- <sup>6</sup> U.S. Census Bureau, Government and Employment Payroll, 1995-2008. <[http://www.census.gov/govs/apes/historical\\_data\\_2002.html](http://www.census.gov/govs/apes/historical_data_2002.html)>.
- <sup>7</sup> Press Release: Preliminary Departmental Plans Released on State Budget Cuts, Wednesday, October 21, 2009. <[http://www.governor.iowa.gov/index.php/press\\_releases/single/148/](http://www.governor.iowa.gov/index.php/press_releases/single/148/)>.
- <sup>8</sup> U.S. Department of Commerce, Bureau of Economic Analysis. State Quarterly Personal Income. <<http://www.bea.gov/regional/sqpi/drill.cfm>>.
- <sup>9</sup> Iowa Department of Revenue, Tax Credits Contingent Liabilities Report, August 19, 2010. <<http://iowa.gov/tax/taxlaw/0810RECREport.pdf>>.
- <sup>10</sup> Tax Credits Contingent Liabilities Report,
- <sup>11</sup> "Three Steps to Meeting Iowa's Budget Needs with Accountability and Balance," Iowa Fiscal Partnership. March 17, 2010. <<http://www.iowafiscal.org/2010docs/100317-IFP-meetingneeds.pdf>>.
- <sup>12</sup> Peter Fisher and Charles Bruner, "Tax Policy and Economic Growth in Iowa: Who Benefitted in the 1990s? Iowa Fiscal Partnership. January 22, 2002. <<http://www.iowafiscal.org/documents/020122-full-whogained.pdf>>.
- <sup>13</sup> See, for example, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," Institute on Taxation and Economic Policy, November 18, 2009. <[http://www.itepnet.org/state\\_reports/whopays.php](http://www.itepnet.org/state_reports/whopays.php)> For Iowa specific information, see <[http://www.itepnet.org/wp2009/ia\\_whopays\\_factsheet.pdf](http://www.itepnet.org/wp2009/ia_whopays_factsheet.pdf)>.
- <sup>14</sup> Iowa Revenue Estimating Conference, March 11, 2010. <<http://www.legis.state.ia.us/lsadocs/QRE/2010/QRJWR002.PDF>>.
- <sup>15</sup> Press Release: Governor Culver's Statement on Budget Reduction Plans, Wednesday, October 28, 2009.

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## Iowa Fiscal Partnership

*The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans.*