Iowa Budget Update:
What's in Store for the 2011 General Assembly

2011-2012 Budget Picture

Improved revenues coupled with very significant spending cuts have resulted in a substantial budget surplus for Fiscal Year 2011 and a much improved revenue picture for FY2012. The December Revenue Estimating Conference concluded that the Iowa General Fund budget will have a year-end surplus of $496.5 million on June 30, 2011, and general fund receipts for 2011-12 will be $6,031.3 million.

These figures assumed that temporary federal tax cuts would expire and not be extended, so they significantly understate what Iowa will receive in both individual income and corporate income tax. The overall impact on the REC estimates for the actions taken by Congress to extend the federal tax cuts early had been estimated by the Iowa Department of Revenue to provide an additional $40 million in state general fund receipts for the fiscal year ending June 30, 2011, and an additional $100 million in 2011-12 receipts.

The Legislative Services Agency has used the Revenue Estimating Conference figures to make a projection of what will be required under current law and a "status quo" budget (assuming no changes to current 2011 funding levels except where current statutes require funding changes, as with the school finance law, Medicaid law, and selected other Code provisions). The LSA report projects that $263 million in adjustments are needed to balance the 2011-2 budget. (See Table 1.)

That shortfall includes the following assumptions:

- The Revenue Estimating Conference's December estimates without correcting for the extension of federal tax cuts (which could add about $140 million to the revenue available for 2011-12)
- An increase of $231 million in school aid funding (representing 0 percent allowable growth and including an estimated $81 million for voluntary preschool in 2011-12, with the preschool estimate subsequently revised down to $69 million to better reflect actual use)

Table 1. Smaller 2011-12 Shortfall Than Often Portrayed (LSA Figures)

	Current Law FY2012 Budget
Funds Available	
Estimated Revenues (REC)	$6,031.3M
Excess surplus transfer From Emergency Fund	$ 327.4M
99% of Above — Expenditure Limitation	**$6,298.3M**
Budget Freeze Appropriations	
2011 Appropriations	$5.279.1M
Built-in Increases (school aid 0% allowable growth, Medicaid, coll. barg. agreement, etc.)	$1,282.2M
Total for budget freeze plus built-in increases	**$6,561.2M**
Adjustments Needed	**$ - 263.0M**

- Full funding of all property tax credits back to the counties according to current state law (historically, lawmakers have often voted to temporarily set aside these statutory provisions and provided only a portion of these funds; if lawmakers take the same action in 2011-12 as they did last year and only partially fund these credits, this would result in $55.4 million less in state expenditures)
- A $50 million commitment to the Grow Iowa Values Fund as per current law (again, lawmakers have set aside this provision the last two years and provided an appropriation of $38 million in 2010-11)
- Adding $103.5 million to the budget to honor the collective bargaining agreement (lawmakers have not always included the costs of the agreement in their budgets, instead requiring agencies to come up with the funding within their appropriations).

Taken together, changing these assumptions to reflect prior legislative actions and new federal law would add $322 million to the plus side of the balance sheet and more than eliminate the $263 million projected by the LSA as a shortfall that needs to be addressed. (See Table 2.) It also would result in a much lesser amount of "one-time funding" (including cash reserves) for the state budget in 2011-12. While not totally closing the structural deficit Iowa has experienced over the years, it substantially reduces that amount and makes closing it — absent any additional unfunded tax expenditures or spending increases — achievable.

Trend Data on Taxes and Spending

To develop long-term sustainability in the budget, it is important to examine what has given rise to current budget imbalances. Iowa's long-term structural budget deficit has occurred in significant measure because lawmakers have adopted various tax breaks and reductions not because they have expanded programs and services. Iowa's overall state and local revenue growth over the last three decades has lagged state economic growth, while new business tax breaks have been enacted.

For instance, in fiscal 2006 business tax credits totaled $139 million, but are projected to reach $254 million this fiscal year, an 82.5 percent increase in just five years.

Table 2. Additional Factors and Measures To Address	
Adjustments for federal tax law and increases in state revenue	Up to $ 140M
Funding of Iowa Power Fund at 2011 level ($38 million not $50 million in statute) and revised estimate of preschool for all cost ($69 million not $81 million)	Up to $ 24M
Funding property tax replacement funds at 2011 formula level	Up to $ 55M
Addressing collective bargaining costs through existing appropriations line items	Up to $ 103M
Maximum total available (four sources)	**Up to $ 322M**

Conclusions

- While 2011-12 will be a tight budget year and Iowa still has to work to eliminate its long-term structural budget deficit, additional cuts to essential public services are not needed to balance the 2011-12 budget.
- A balanced approach that emphasizes tax expenditure transparency and accountability can eliminate Iowa's budget deficit in the long term.
- Any increases in state spending (both appropriations and tax expenditures) beyond 2010-11 funding and any new statutory commitments into the future should be paid for by other changes to revenues or expenditures (e.g. a state equivalent to federal pay-as-you-go rule, which already exists for state appropriations but needs to be extended to tax policy).