

The state budget debate in Iowa: Tax cuts for the rich and famous, budget cuts for the rest of us?

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What is at Stake?



What Public Services and Structures do you use?

- Taking your children to libraries
- Enjoying parks & trails with friends
- Safely eating at a restaurant
- Driving, biking, walking on roads and highways
- Drinking clean water
- Living in safe neighborhoods
- Knowing that if you fall on hard times, your children won't go without health care
- Knowing that your doctor is competent
- Educating our children and the future workforce

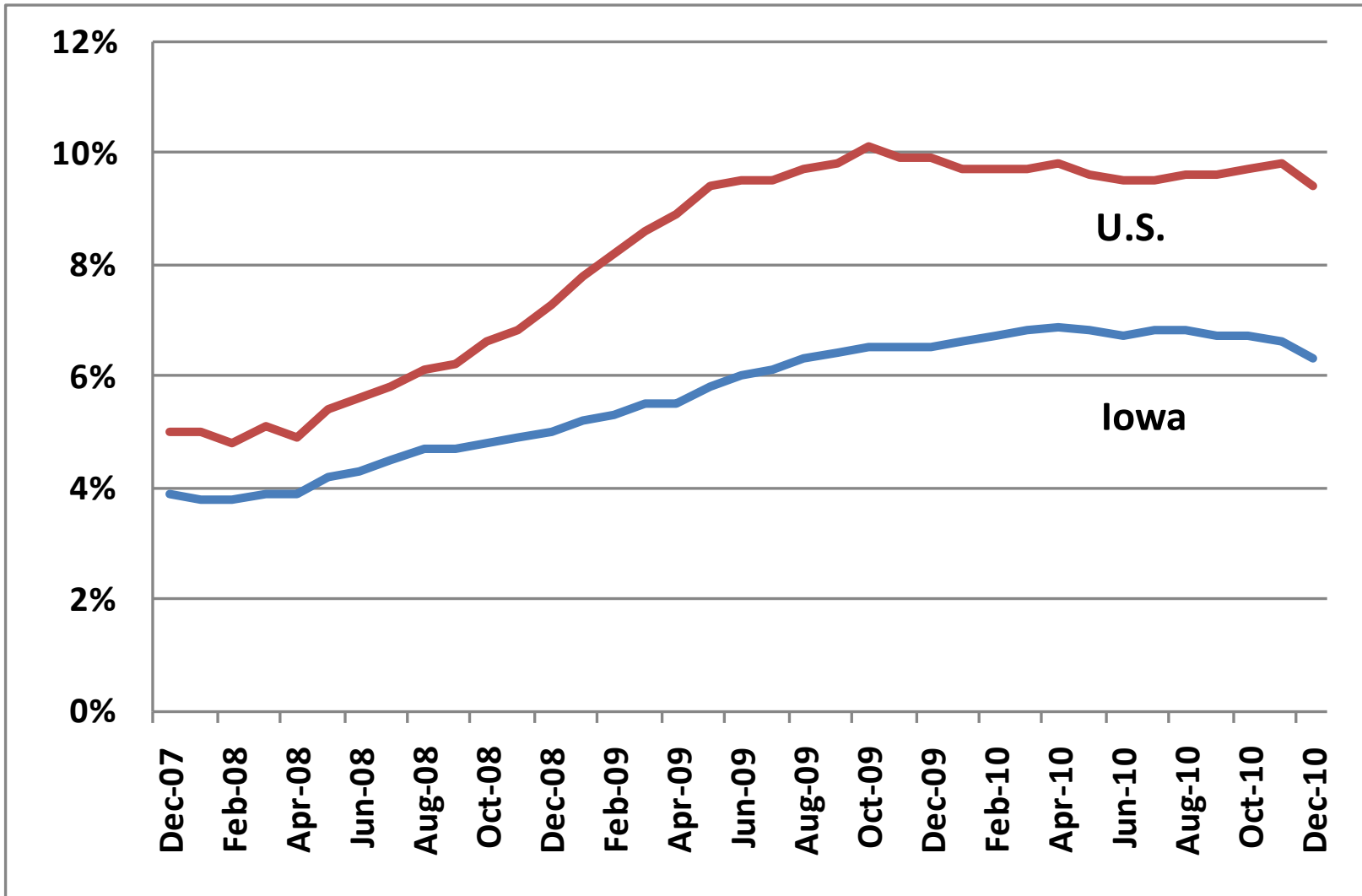


Setting the Stage for the Budget Debate

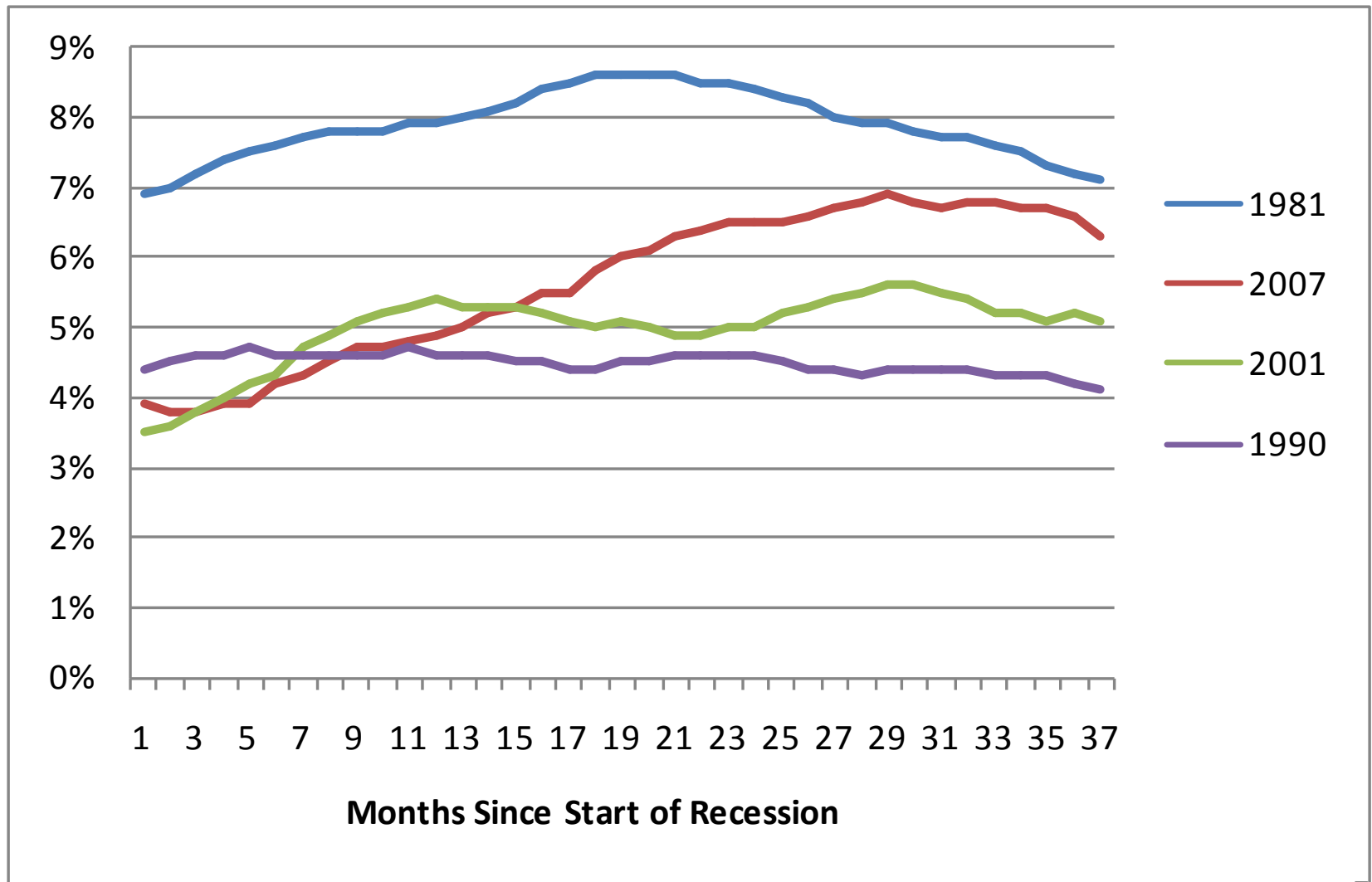
- We have a deep fiscal crisis, cuts are unavoidable
- Government spending has been growing out of control
- Taxes have been rising and are too high
- Business taxes are uncompetitive
- Public employees are overcompensated

The Great Recession and the Myth of a Fiscal Crisis

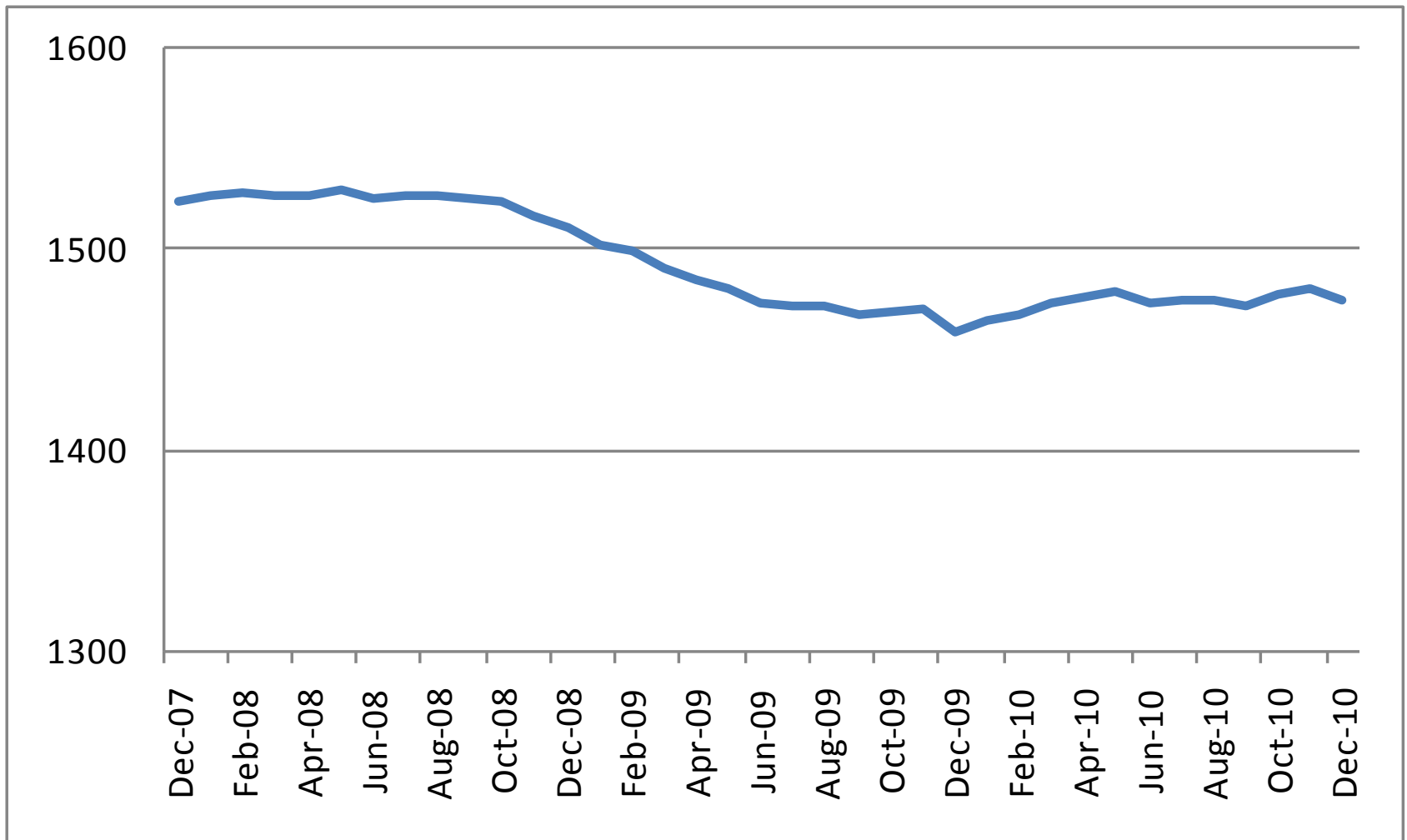
Iowa Unemployment Lower than US



Last 4 Recessions: Unemployment Rate in Iowa



Non-farm Employment Slow to Recover: Dec. '07 – Dec. '10



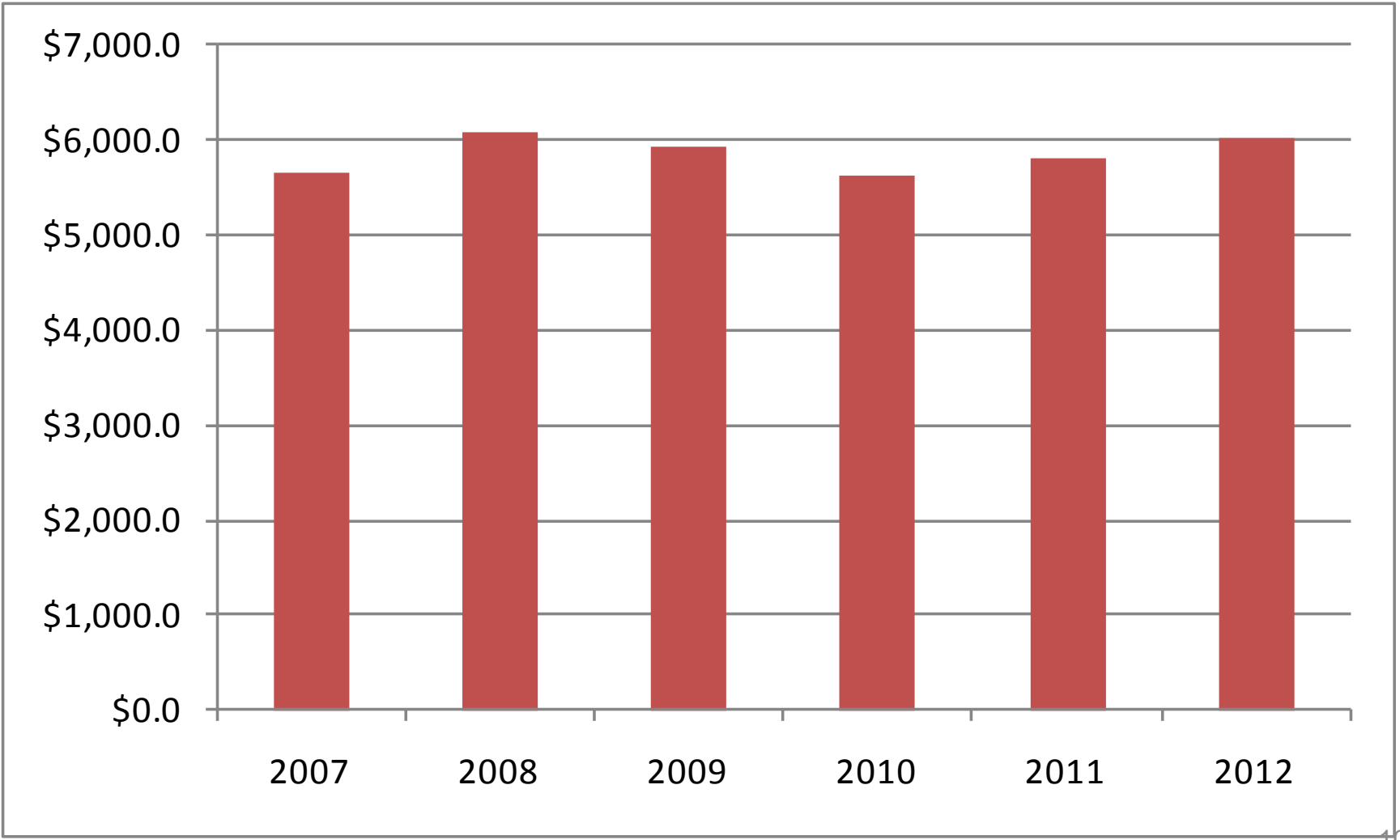
So How Bad is the State's Fiscal Situation?

\$700 million shortfall?

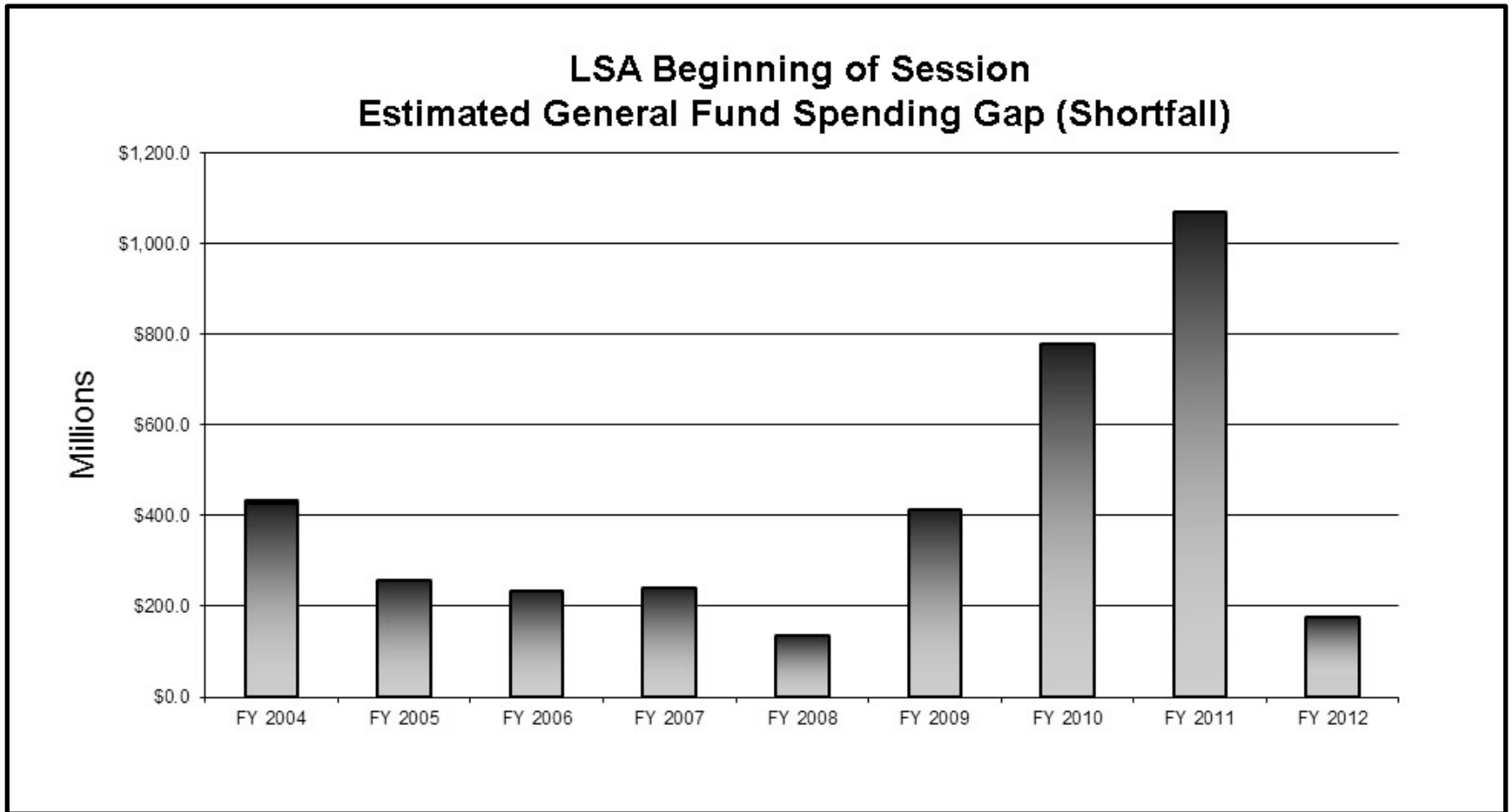
\$900 million surplus?



General Fund Revenue 2007-12



Budget Gap is 2nd SMALLEST in past 9 years





Projected Spending: FY2012

\$6.56 billion

Current (FY2011) appropriations	5,279.1
Built-in and anticipated increases	<u>1,282.2</u>
FY 2012 "Constant Services Budget"	6,561.3



FY2012 Shortfall: Version 1

\$590 million, or 9% of Spending

Estimated Receipts (December)	6,031.3
Funds available with expenditure limit	5,971.0
Less: Projected Spending	6,561.3
Shortfall	(590.3)



Shortfall: Current Best Estimates \$100 million, or 1.5% of Spending

Estimated Receipts (March)	6,188.9
Funds available with expenditure limit	6,127.0
Adjustment for IRC updates	(57.7)
FY 11 year-end balance to general fund	<u>391.4</u>
Total Funds Available	6,460.8
Less: Projected Spending	<u>6,561.3</u>
Shortfall	(100.5)



And: The Rainy Day Funds are Full

(Millions of \$)

Funds Capped at 10% of FY12 Revenues

Shortfall	100.5
Rainy Day Funds	618.9
Shortfall as a percent of rainy day funds	16%



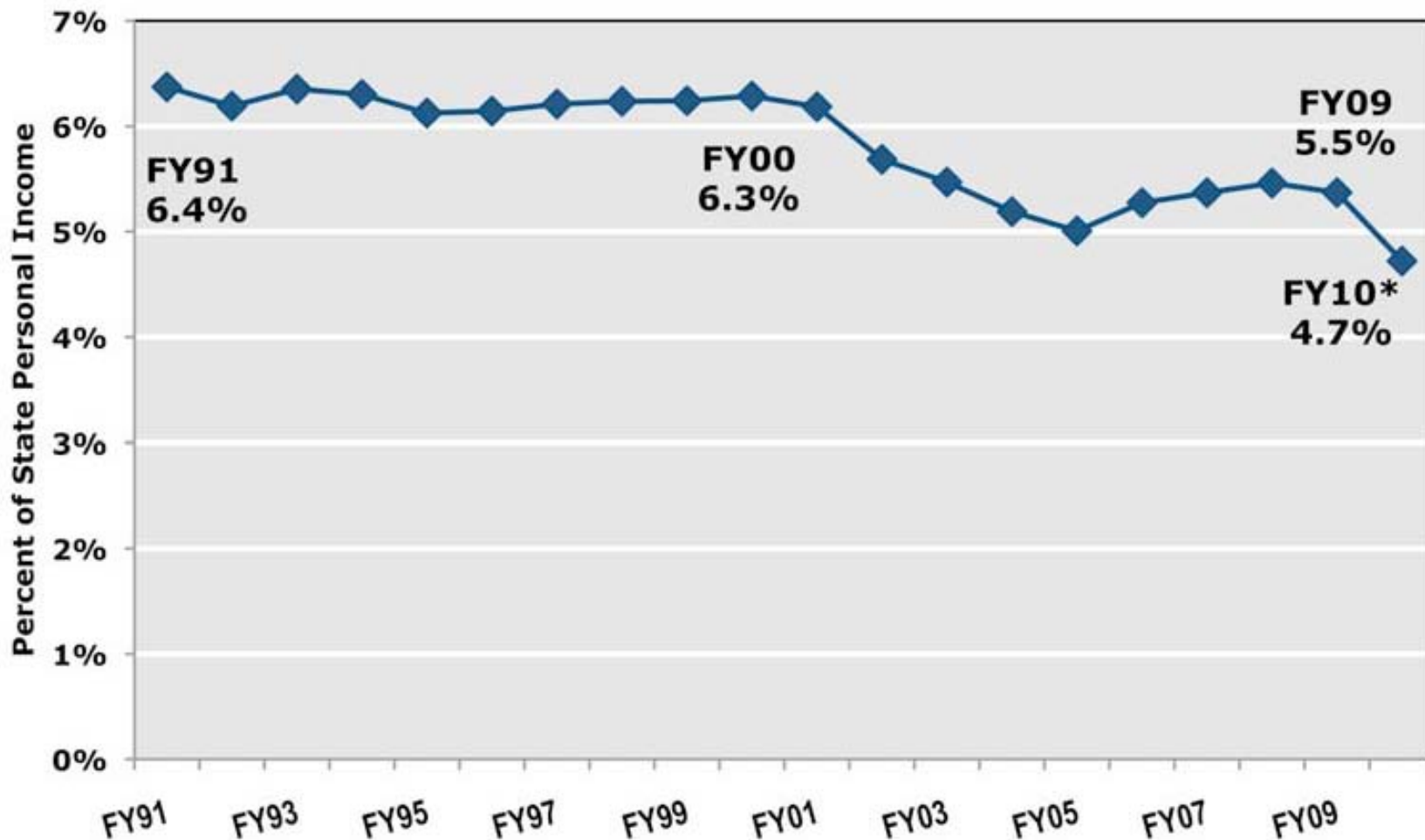
Other Options to Eliminate the Shortfall

Fund employee compensation increases
from within existing budget **\$103.5 million**

Adopting 2011 budget year practices on property tax
replacement, preschool, and the Iowa Power Fund
\$ 80 million

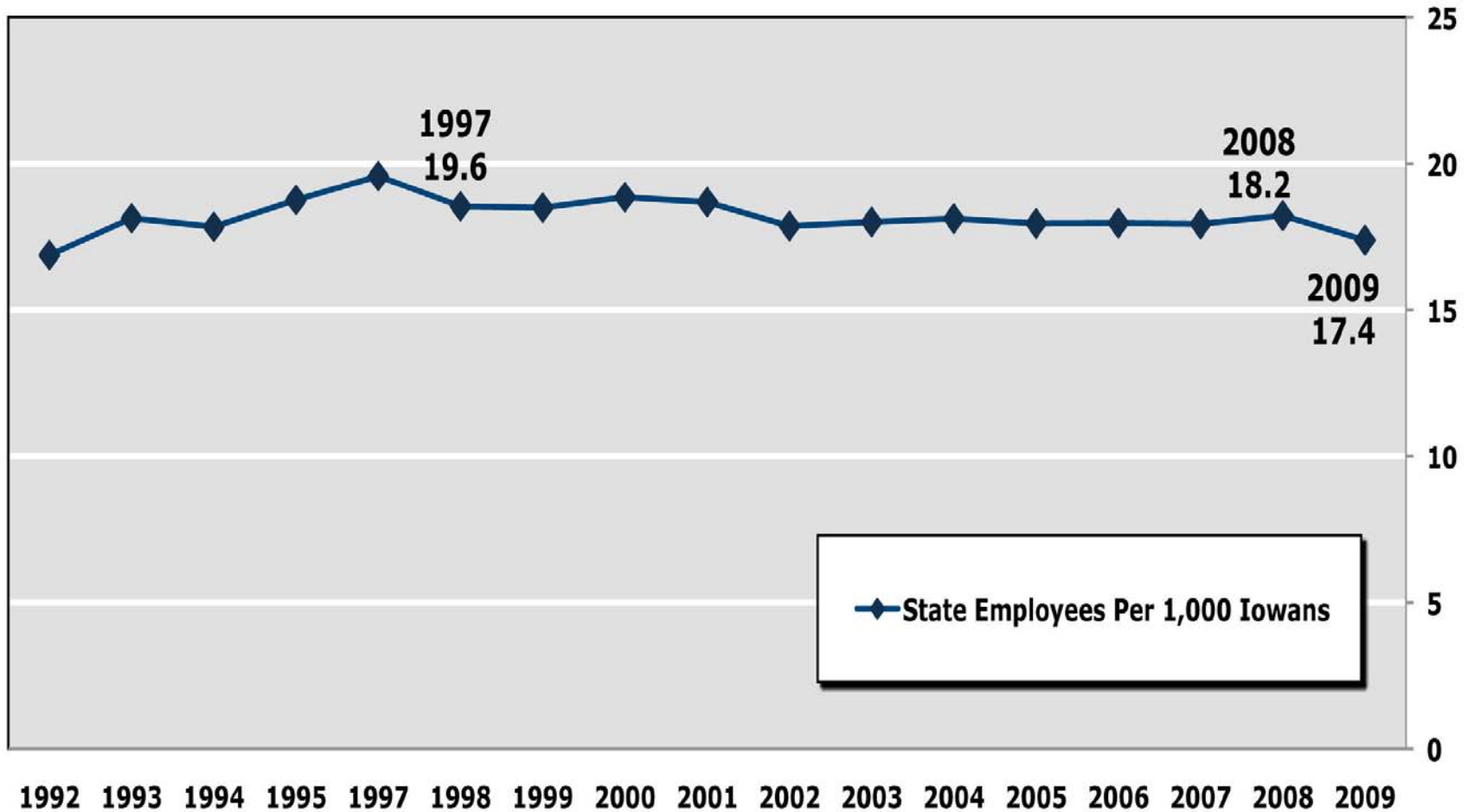
The Leviathan Myth

State Spending has Decreased as a Percent of Personal Income



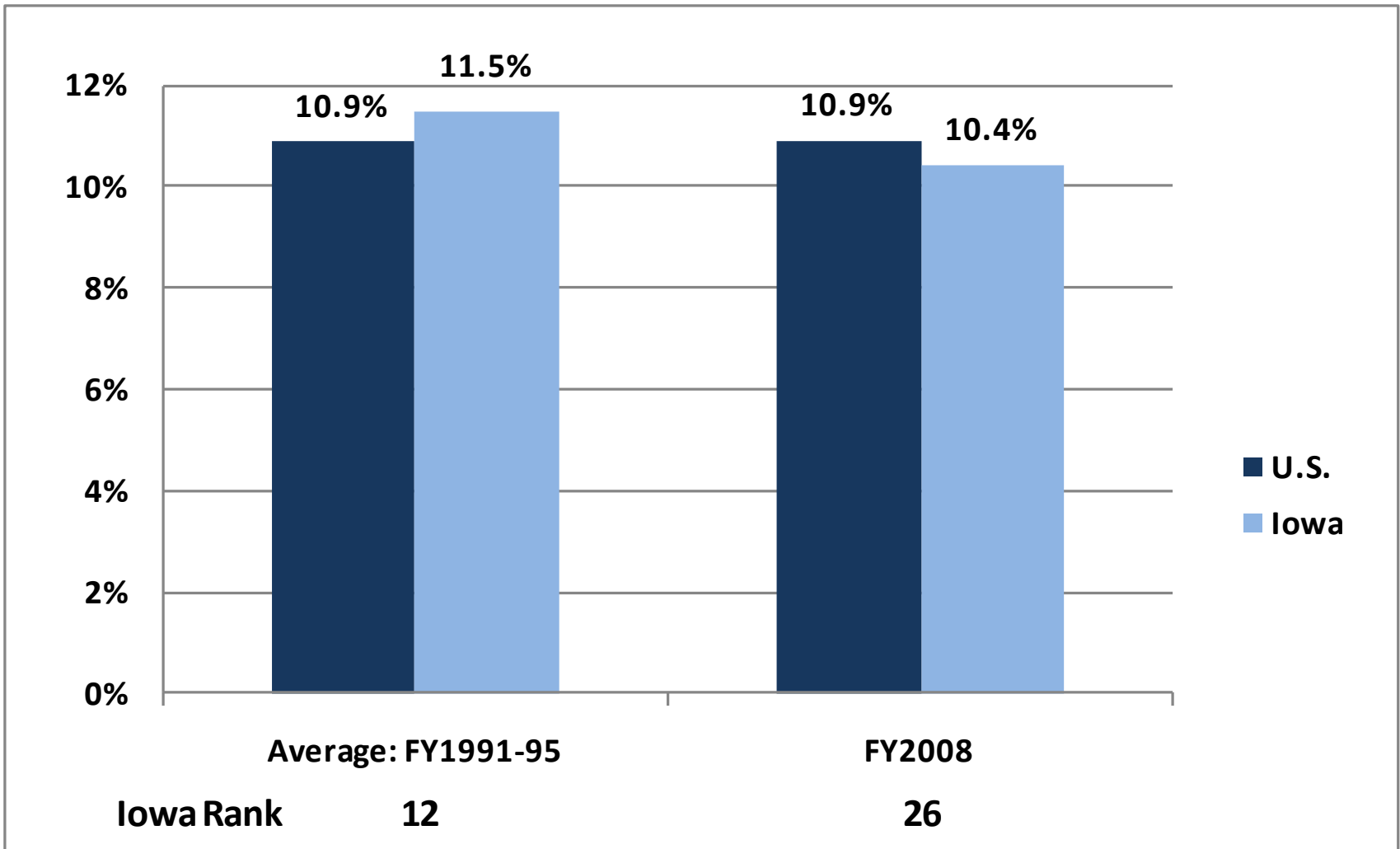
Public Employment has been Stable

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

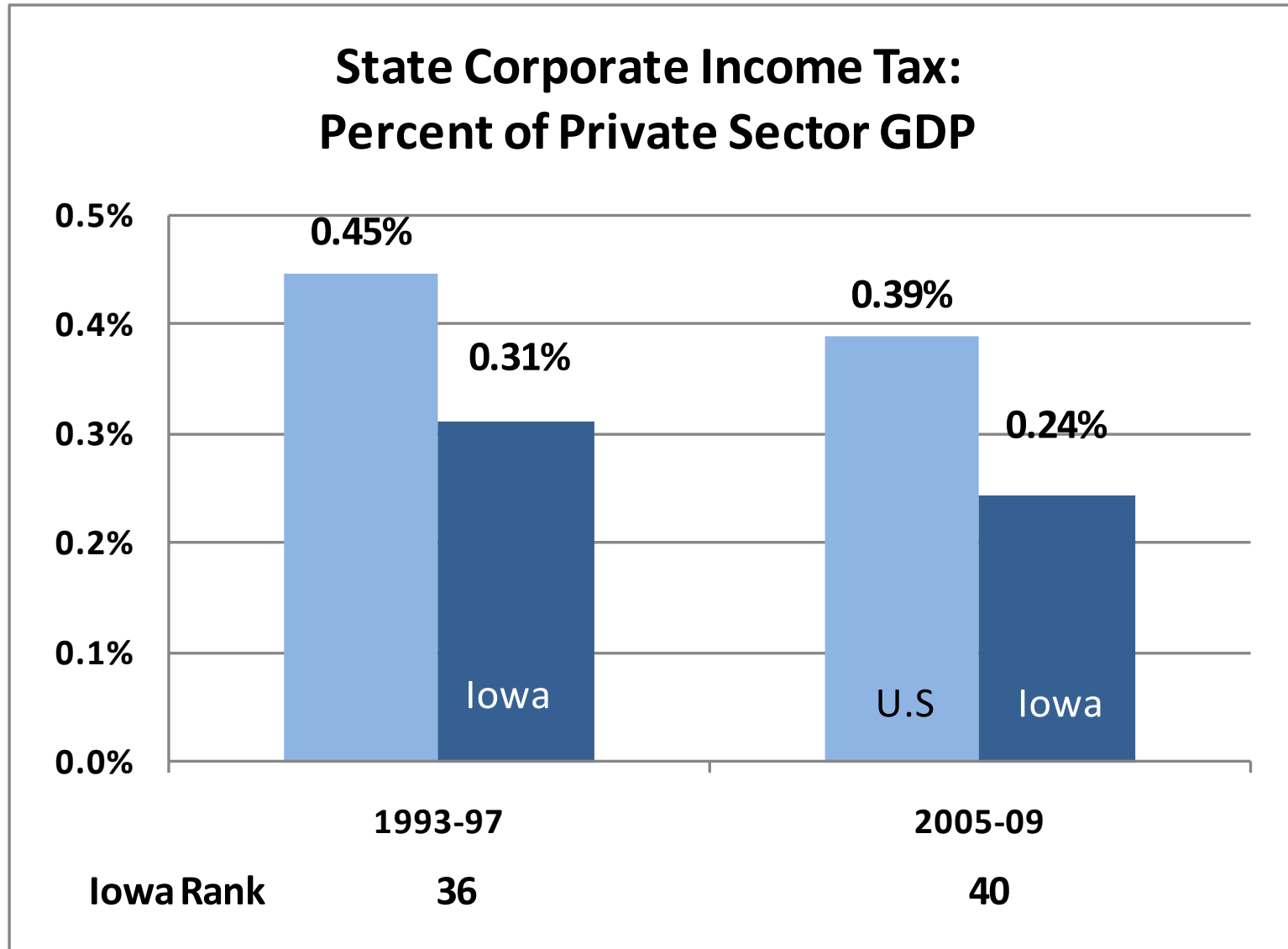


The High Tax Myth

Iowa Taxes Are Below Average, and Have Fallen

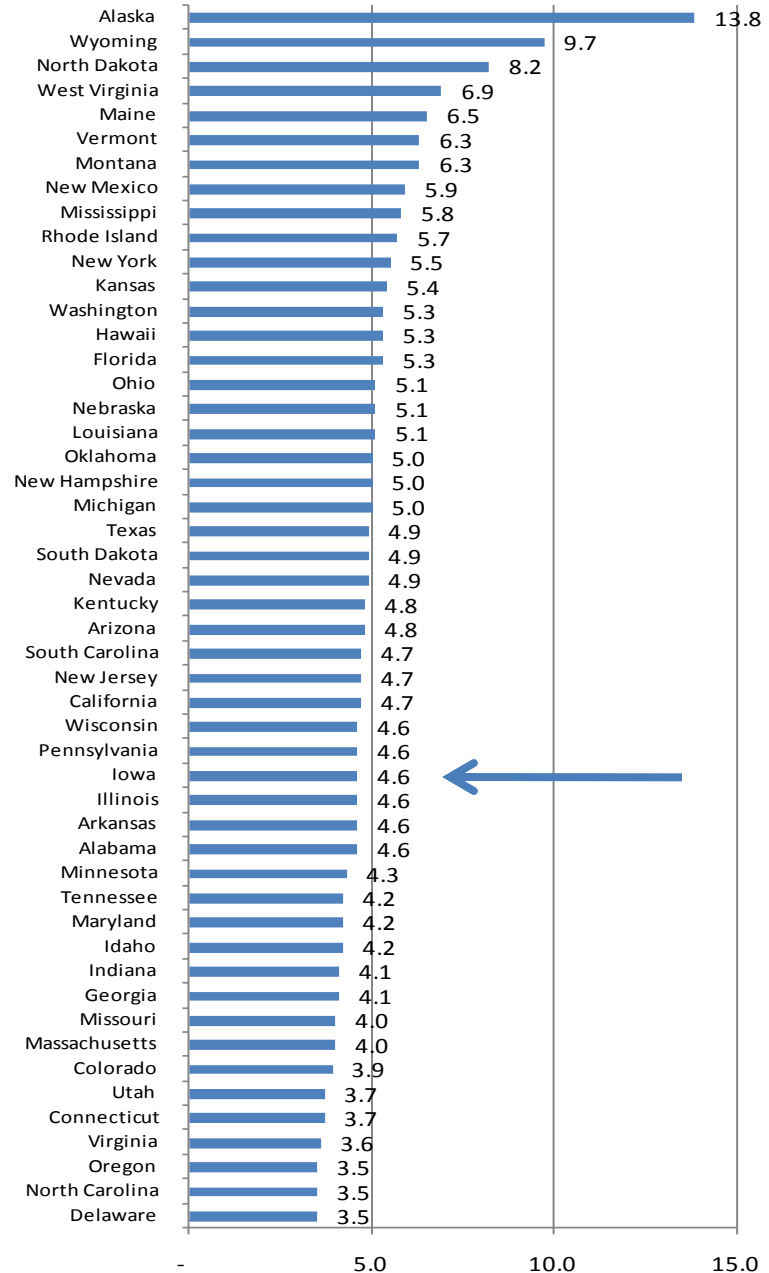


Corporate Income Tax Low



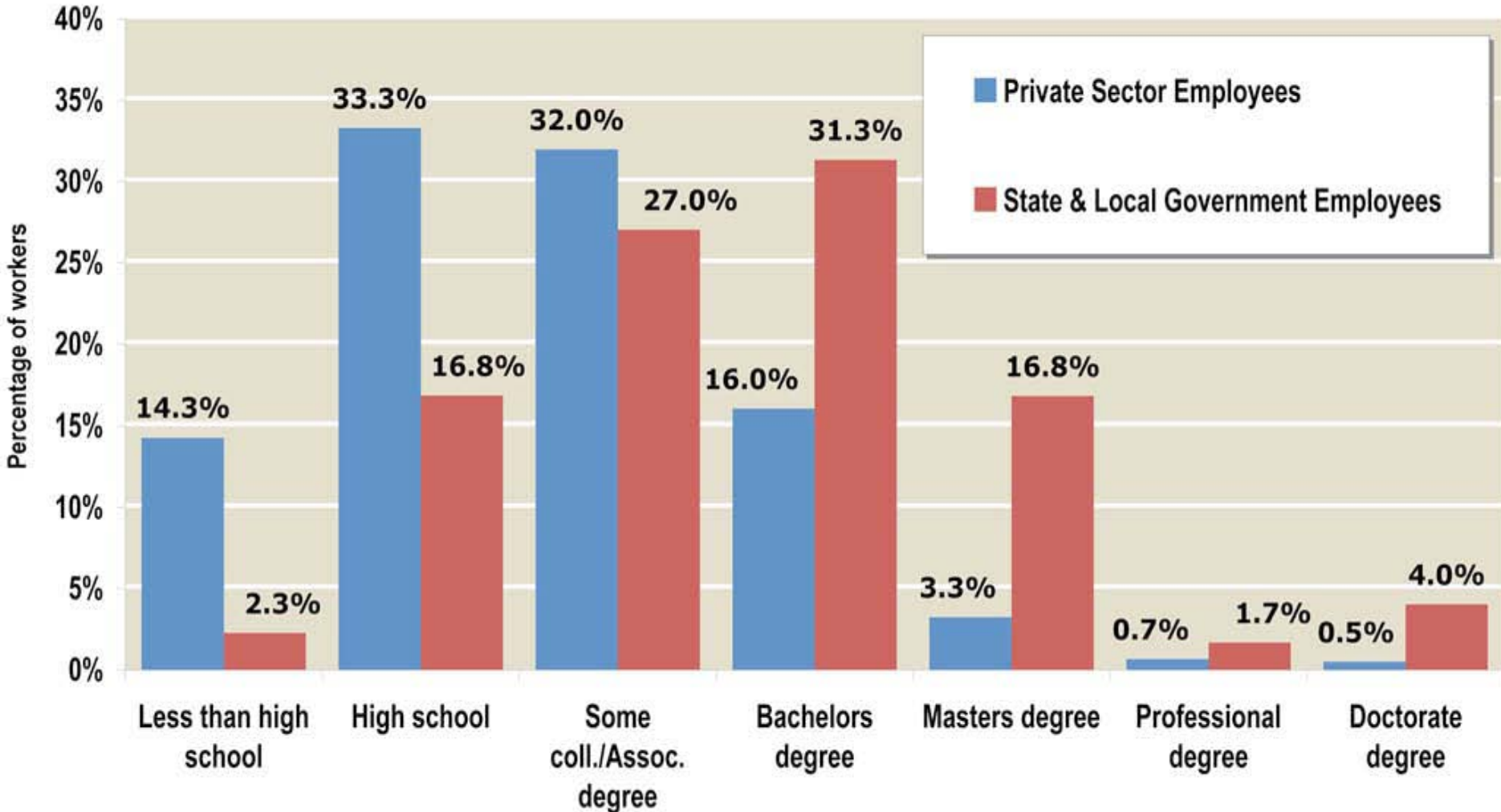
Ernst and Young:
 Considering all state
 and local taxes on
 business as a share of
 the private economy,
 Iowa was in a 6-way
 tie for 30th; only 15
 states tax business
 lower.

State and local business taxes as a share
 of private sector GDP, FY2009



The Myth of the Overpaid Public Worker

Public Employees Have More Education



Public Employees in Iowa are Undercompensated (Controlling Only for Education)

	Private Sector	Public Sector	Difference	Penalty
Bachelors	\$70,521	\$59,786	(\$10,734)	-15.20%
Masters	\$86,980	\$75,586	(\$11,394)	-13.10%



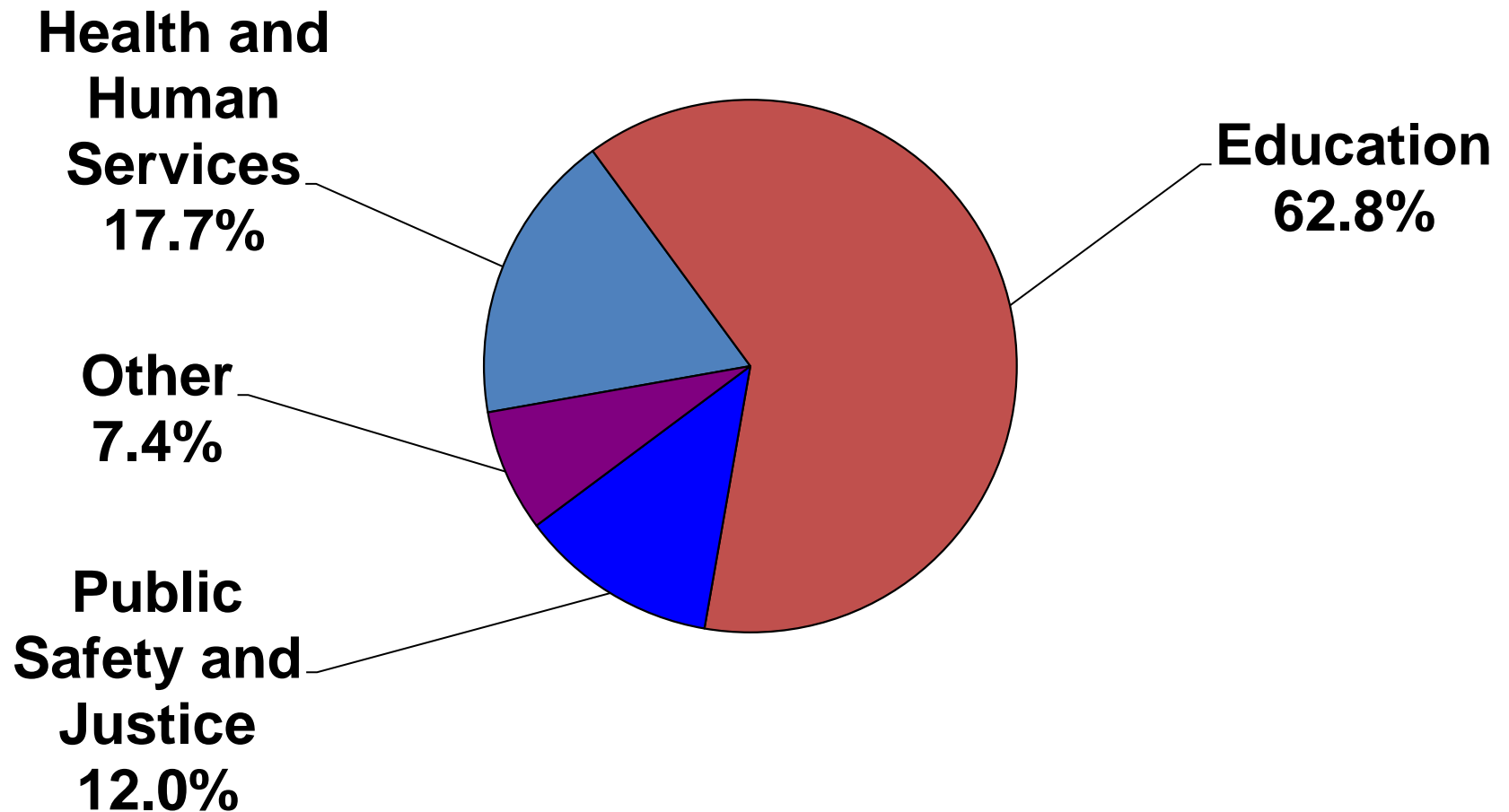
The Public Sector Compensation Penalty in Iowa (Controlling for Demographics as well)

	Earnings	Total Compensation
Men		
State Gov.	-9.3%	-6.1%
Local Gov.	-14.0%	-9.3%
Women		
State Gov.	-13.3%	-8.4%
Local Gov.	-19.3%	-12.8%

**So: Where is the Budget Ax
Likely to Fall?**



State General Fund: 63% is Education





Governor's Budget

- Cuts contemplated:
 - Universal voluntary pre-school (**\$35-80m**),
 - Area Education Agencies (**\$20m**)
 - K-12 Education: “Zero Allowable Growth”
 - Regents Institutions (**\$35m**),
 - Medicaid (**\$42m**)
- Another **\$103 m** out of state agencies: more layoffs on top of staff reductions past 2 years

Budget Cuts are Job Killers: State FTE Employees

	FY2009	FY2010	Change	Percent Change
Regents	27,672	27,205	-467	-1.7%
All Other	24,613	23,583	-1,030	-4.2%
Total State	52,285	50,788	-1,497	-2.9%

**If We Have a Fiscal Crisis, Why are
So Many Tax Cuts on the Agenda?**



Major Tax Cuts Proposed

- 20% Individual Income Tax Cut:
 - **\$700 mill.** / yr by 2013
- Cut corporate income tax rate in half:
 - **\$200 million** / yr by 2013
- Cut commercial property taxes by 40%:
 - **\$600 million** / yr by 2016
- **TOTAL: \$1.5 billion** in tax cuts proposed out of a \$6.2 billion budget– almost 25%

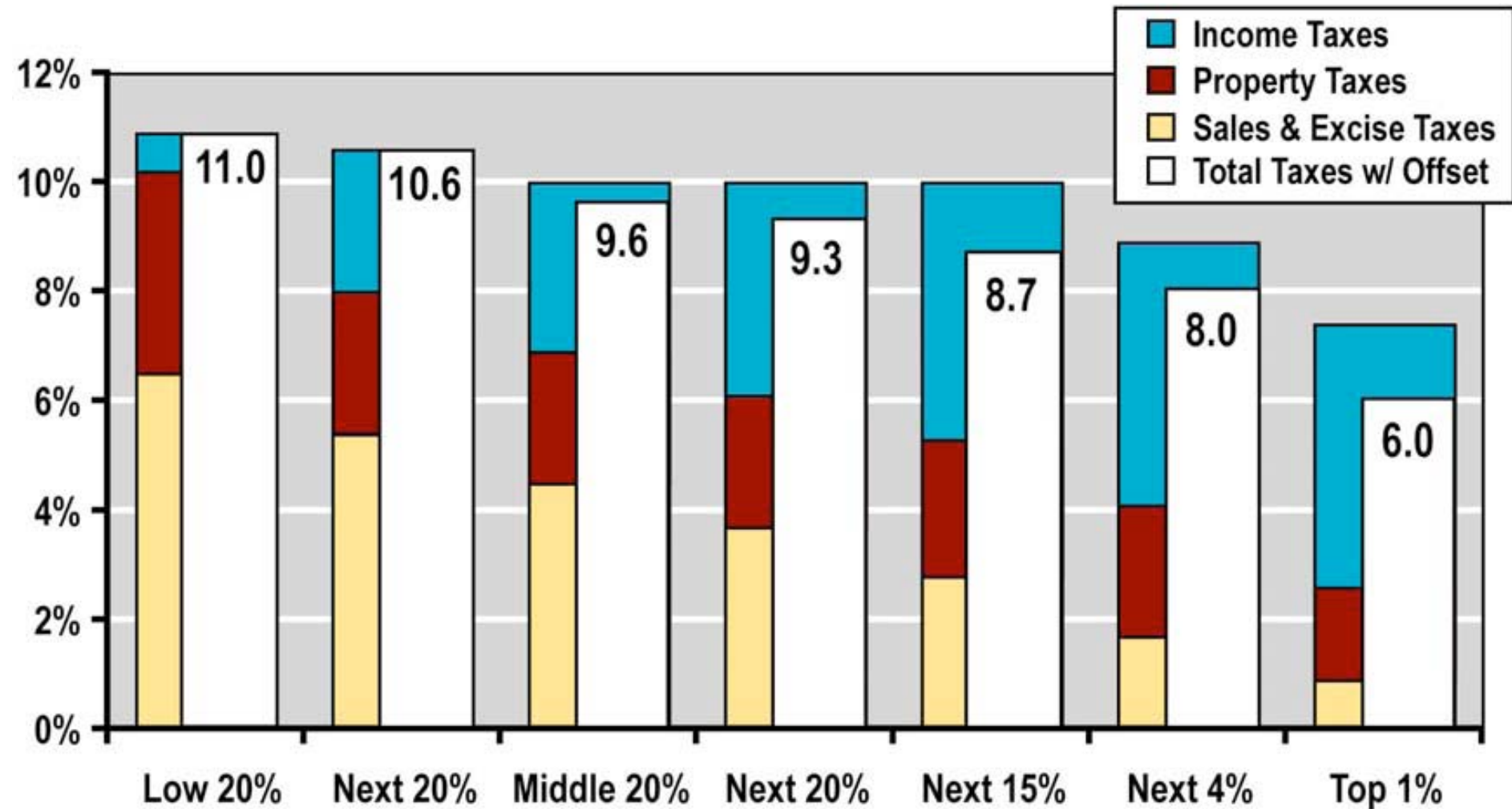
Wealthy Benefit Most from 20% Income Tax Cut

Average Tax Cut by Income

- Over \$358,000 \$6,822
 - \$57,000 to \$86,000 \$410
 - \$38,000 to \$57,000 \$239
 - Under \$21,000 \$18
-
- Middle Income lowans: About \$1 a day



Iowa's Overall Tax System is Regressive





**But won't all this business tax cutting
spur economic growth?**

- **No.**

State and Local Taxes Too Small to Matter Much

- For all businesses: State and local taxes just 1.8% of total business costs
- Corporate income tax: 9.5% of all state and local business taxes (if we believe COST)
- **Cutting the corporate tax rate** in half thus cuts business costs by $.018 \times .095 \times .5 = .009$
– **9 hundredths of a percent!**

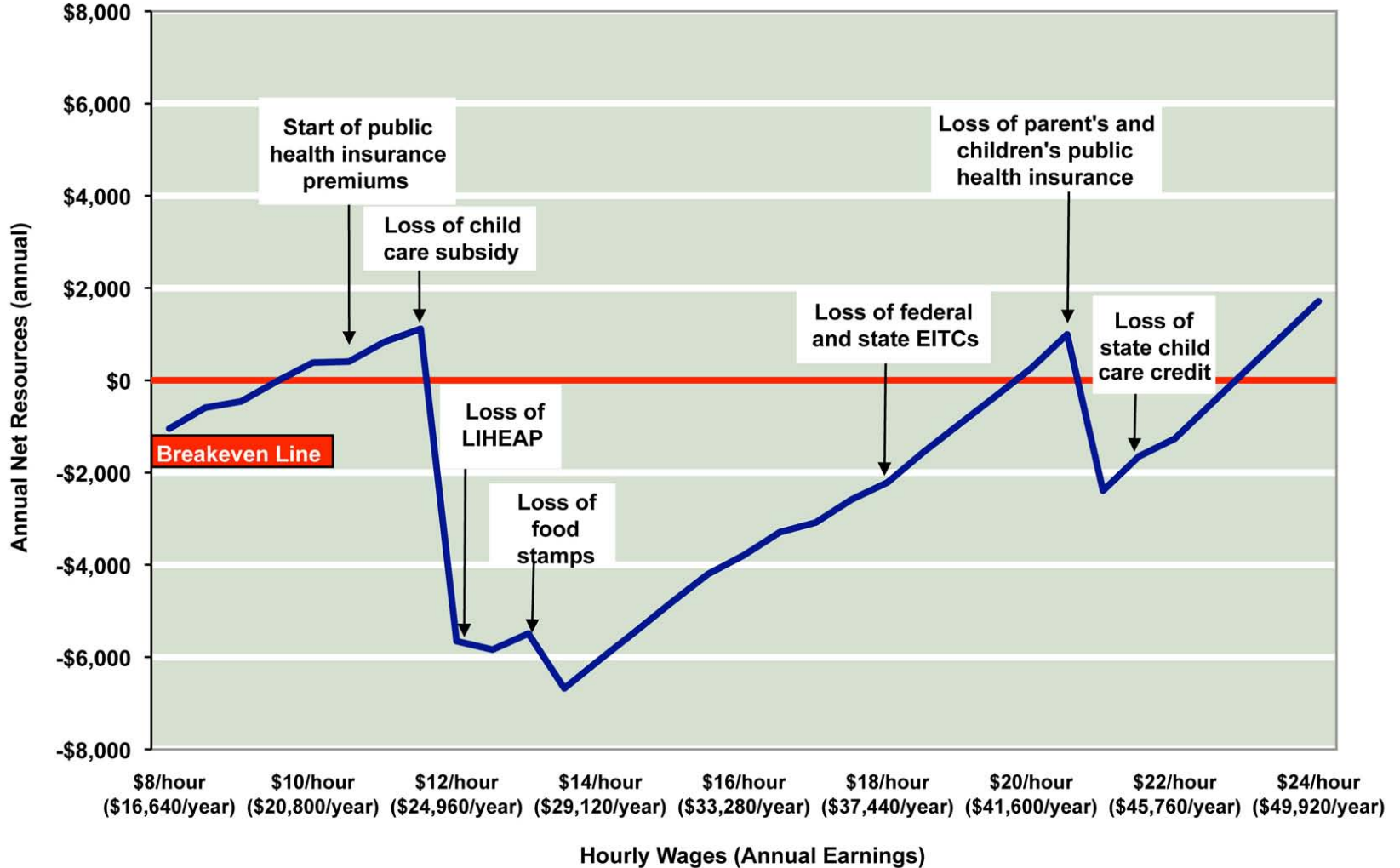
The Outlines of an Alternative State Budget

What We Should be Talking About

- Expanding pre-school education
- Expanding work supports such as the EITC and child care assistance, family leave insurance, paid sick days
- Making community colleges and universities more accessible, not less so
- Investing in public facilities
- Promoting a green economy

As Pay Increases, Net Resources Fluctuate for Des Moines Family

Single parent, working full time with two children, ages 2 and 6



Source: National Center for Children in Poverty's Family Resource Simulator, Iowa 2008 <www.nccp.org/tools/frs>. When eligible, the family receives the following work supports: federal and state tax credits, SNAP/food stamps, LIHEAP, public health insurance, and a child care subsidy. Budget numbers are from the Iowa Policy Project's The Cost of Living in Iowa. Calculation includes updated food assistance eligibility as of January 2011.



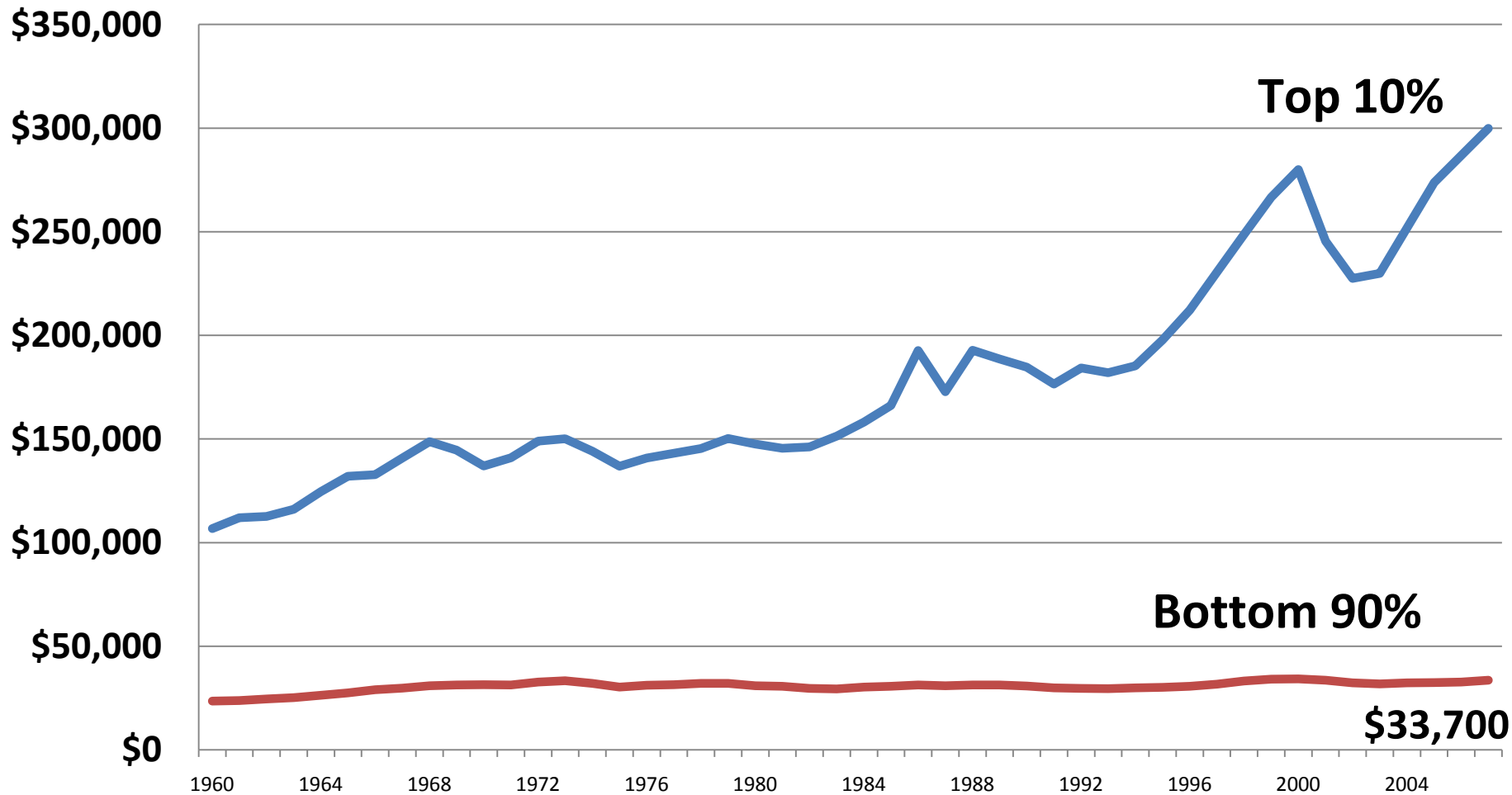
How We can Finance It

- Use \$100m of rainy day funds
- Income surtax on high incomes, or eliminate federal deductibility (\$25-\$100m)
- Rein in corporate tax subsidies and stop enabling tax avoidance (\$150 m.)
- Raise taxes on our unregulated monopolies: Casinos (\$200 m. +)

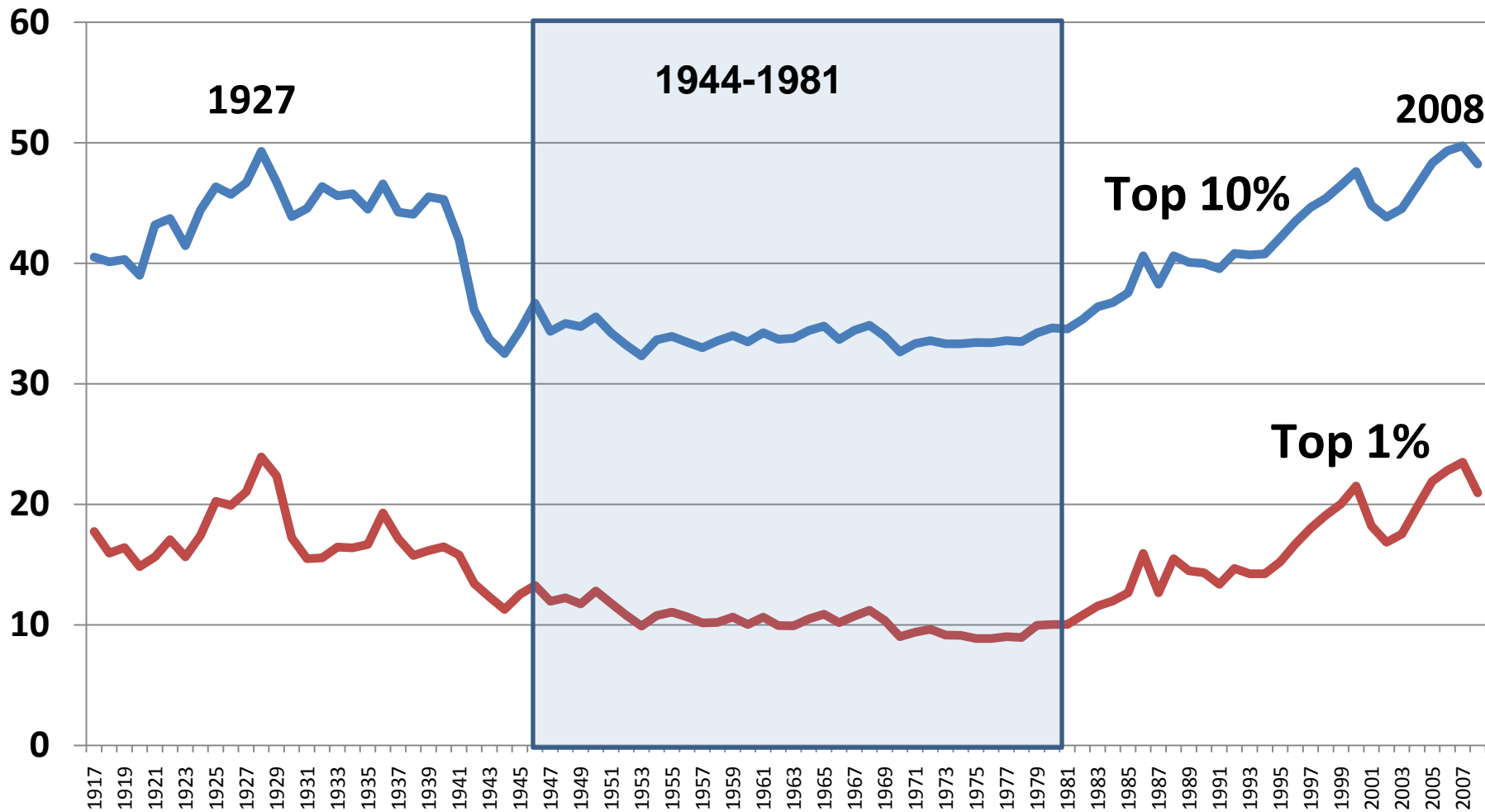


U.S. Income Gains in the Past 50 years Have Gone to the Top 10%

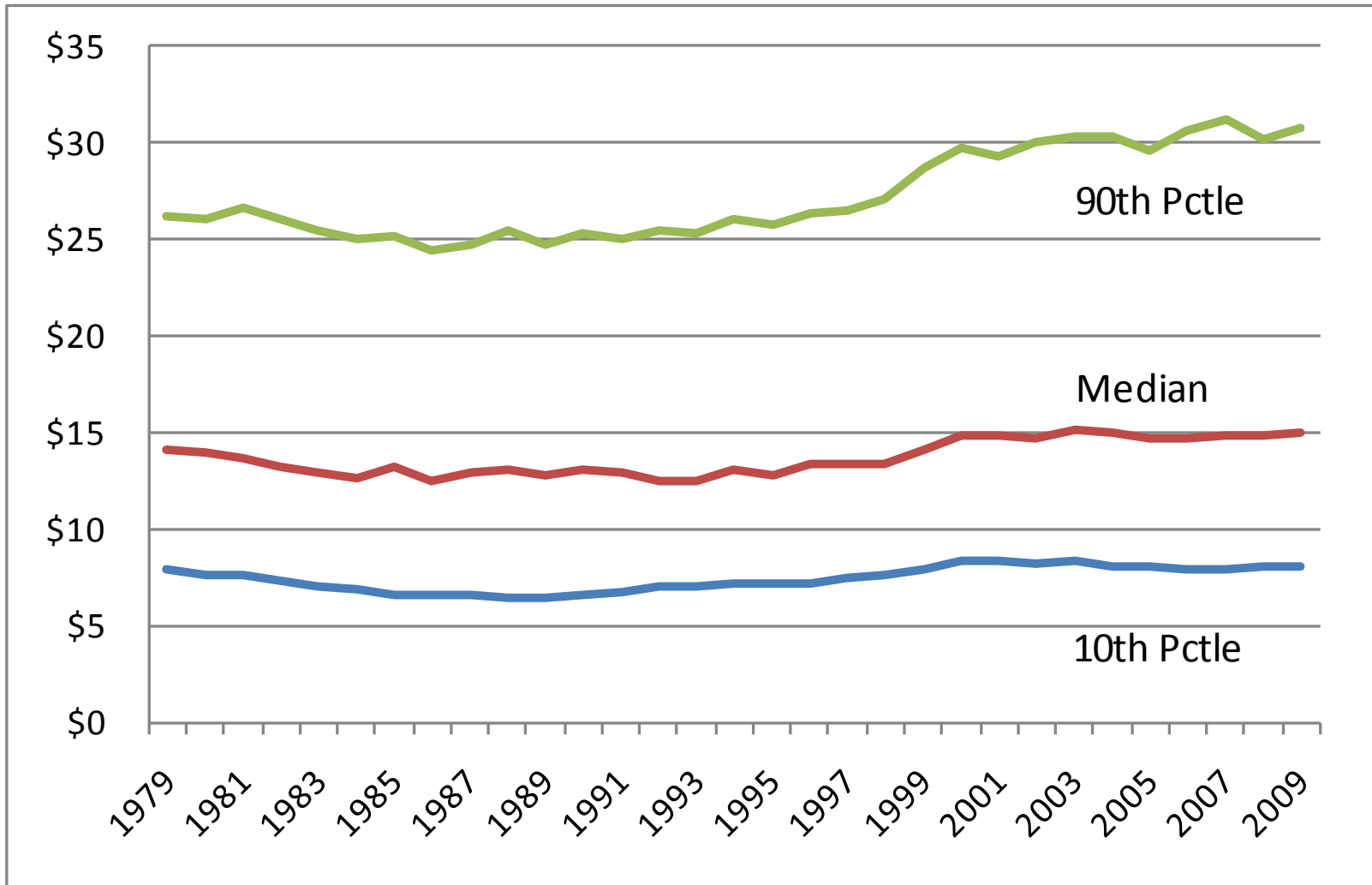
(Average Income in 2007 Dollars, 1960-2007)



Income Inequality Returns to Levels of the 1920s: Income Shares

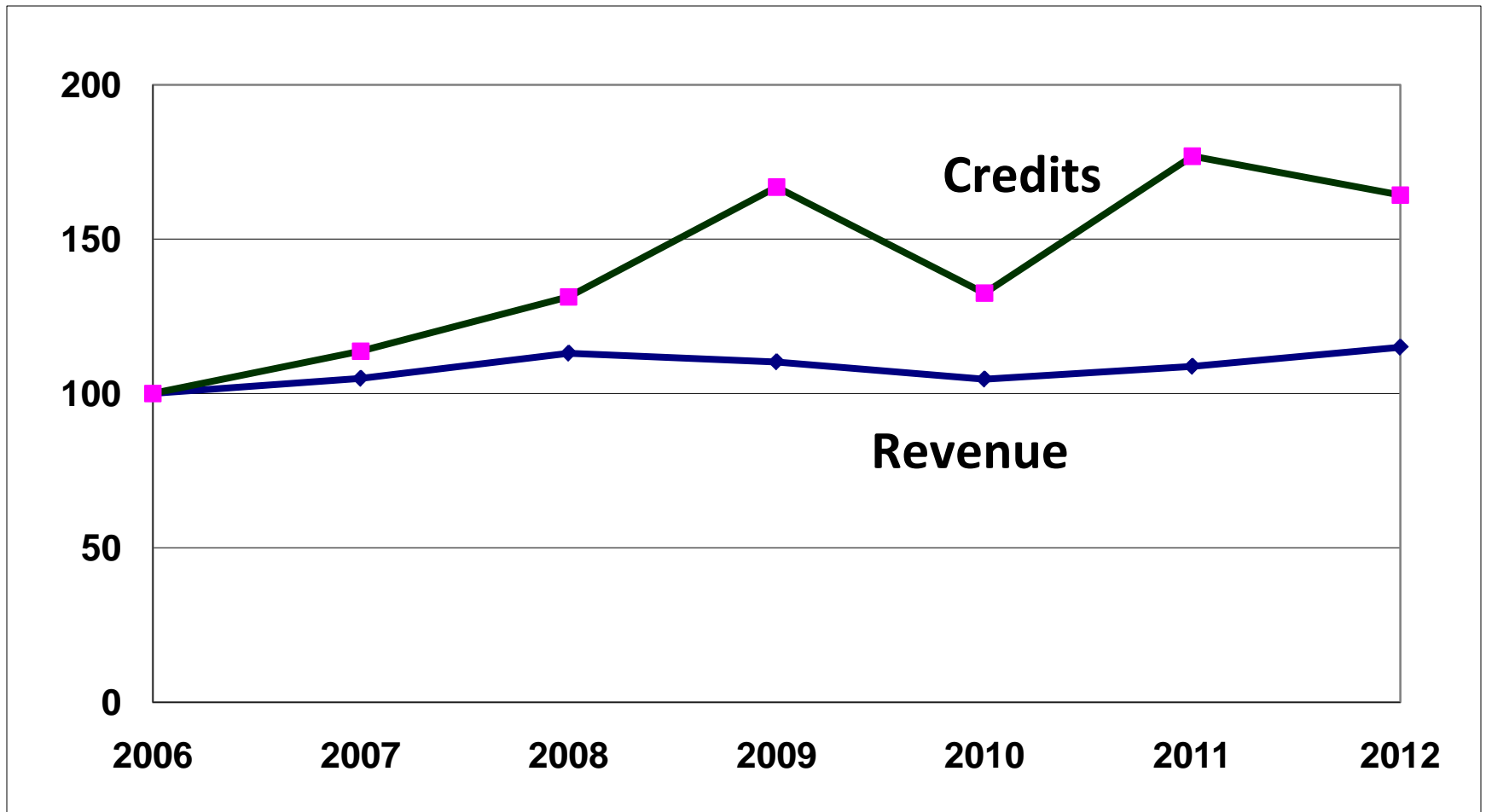


Hourly Wage for Most in Iowa has Stagnated (1979-2009, in 2009 \$)





Growth of General Fund Revenue and Business Tax Credits, FY 2006 - 2012



Iowa's Business Tax Credits: \$250 Million This Year

The Growth of Business Tax Credits: Fiscal Years 2006 to 2012 (millions of dollars)

	Projected		
	FY 2010	FY 2011	FY 2012
Iowa Industrial New Job Training Program (260E)	\$47.3	\$52.1	\$54.6
Research Activities Tax Credit	22.7	51.8	51.5
High Quality Job Creation Program & Predecessors*	36.8	36.8	28.9
Enterprise Zone Program	29.0	22.6	23.2
Historic Preservation Tax Credit	7.2	39.4	30.4
Ethanol, biodiesel and soy-based oil credits	10.4	15.4	12.2
Film, Television, and Video Project Promotion Program**	14.9	7.0	5.8
Accelerated Career Education Tax Credit	5.3	4.3	4.3
Endow Iowa Tax Credit	2.1	2.2	2.7
Seven Other Credits***	9.1	14.9	15.5
Total Business Credits	\$184.7	\$246.5	\$229.0

Research Activities Credit

Top 6 Recipients:

- Rockwell Collins \$ 14,213,205
- Deere & Co \$ 12,797,619
- DuPont \$ 5,949,495
- John Deere Construction \$ 2,198,830
- Monsanto \$ 1,848,480
- Pfizer \$ 942,184

127 other corporations pay no income tax and get checks from the state



The Budget Choices We Face

\$165 million

Cutting the Statwide
Preschool Program, FY12
and FY13, and eliminating
Iowa Power Fund

OR

\$173 million

Governor's proposed
corporate income tax
reduction, FY11 and FY12

\$39 million

Cuts to Board of Regents
institutions, FY12

OR

\$42 million

"Bonus" depreciation
benefitting big corporations,
FY12

More Budget Choices

\$243.9 million

Combined cuts to preschool, regents, and departments under Governor's FY12 proposal

OR

\$327.4 million

Diversion of excess rainy day funds to "tax relief" fund, FY12

The Big Question: What Kind of a State do we Want?