



Getting a Grip on Revenues

Deteriorating Iowa Tax Revenues and the 2010 State Budget

A dramatically deteriorating revenue situation for Iowa demands a review, sooner rather than later, to help policy makers assure that adjustments during the current budget year protect services needed during a recession. Governor Culver and state legislators need an up-to-date forecast before the next scheduled projections in October, so they can make budget decisions with the best information available.

In March 2009, the Revenue Estimating Conference (REC) projected net general fund receipts for both the 2009 and 2010 Iowa fiscal years. At that time, the REC lowered its December 2008 general fund receipt projections for 2009 by 2.2 percent and for 2010 by 4.5 percent (See Table 1). The December projections themselves were lower than those made in October 2008, reflecting a worsening economy.

As required by law, the Governor and General Assembly enacted the 2010 state budget based upon REC revenue projections, also drawing upon funding through the American Recovery and Reinvestment Act (ARRA).

The REC bases its projections, in part, on an analysis of general fund net tax receipts, which are reported monthly by the Iowa

Department of Revenue. The most recent projections (in March) drew upon revenue reports through February. Since then, however, four additional Department of Revenue reports have shown a continued decline in state revenue (See Table 2).

As Table 2 shows, the October REC projections of very slow growth in state general fund receipts for FY2009 and FY2010 reflected very small growth in revenues over the previous three-months' reporting

**Table 1. Recent Iowa Revenue Projections on Decline:
Net General Fund Receipts (Millions of Dollars)**

REC Report	FY2009 Projection	% Change from Earlier	FY2010 Projection	% Change from Earlier
October 2008	\$6,089.6*		\$6,098.7	
December 2008	\$5,991.3	- 1.6%	\$5,969.8	- 2.1%
March 2009	\$5,861.6	- 2.2%	\$5,699.9	- 4.5%
August 2009	???	???	???	???

* Actual FY2008 net general fund receipts were \$6,019.6, so the figures all show Iowa's general fund receipts declining from 2008 as a result of the recession.

Source: Revenue Estimating Conference Reports from the Legislative Services Agency web page. <http://www.legis.state.ia.us/Fiscal/qre/>

The Iowa Policy Project

20 E. Market Street
Iowa City, IA 52245
(319) 338-0773 • www.iowapolicyproject.org

CHILD & FAMILY POLICY CENTER

1021 Fleming Building • 218 Sixth Ave.
Des Moines, IA 50309
(515) 280-9027 • www.cfpciowa.org

and anticipated some further downturns. The REC's downward revision in December reflected a flattening in revenues over the subsequent two months between the reports. The REC's further downward revision in March reflected a significant decline in revenues over the subsequent three-month period. Over that period, revenues were off by 6.7 percent over the same months for the prior fiscal year.

Since the March REC, the erosion of state revenues has accelerated. From March through June, revenues were off by 13.8 percent over the same months in the prior fiscal year. This resulted in a decline over the full fiscal year of 5.8 percent.

This double-digit decline in state revenues over this most recent period has implications for the state's FY2009 budget and its ending year balance, when the state closes its books on the FY2009 budget in September. Clearly, the overall decline in receipts of \$335 million over the 2009 year (\$5,418.8 million for 2009 compared with \$5,725.7 million for 2008) was greater than the projections of the March REC of a \$158 million difference in net general fund receipts over the same period (\$5,861.5 estimated in 2009 compared with \$6,019.6 actual in 2008). Transfers may be necessary to close the books on the FY2009 budget, which will likely impact Iowa's cash reserves and its currently uncommitted ARRA funding through the fiscal stabilization and TANF matching funds.

The major issue, however, relates to future fiscal years. If revenues continue to decline, the REC's March projection for FY2010 will need to be reviewed. If the current pattern of tax receipts continues, the FY2010 budget could be substantially out of balance.

Historically, the REC has met three times a year — in September or October to provide a framework for developing the state budget, in December to set the revenue estimate that the Governor and General Assembly must use in developing a budget for the subsequent fiscal year, and in March to consider revisions to the December estimate. If the REC lowers the estimate in March, the Governor is required to submit a revised budget to the General Assembly, and the General Assembly is required to use the lower estimate for developing next year's budget.

In 2000 and 2003, however, the REC met a fourth time, in August. Such action is warranted again this year. If there is need to revise the 2010 budget, it is preferable to make revisions earlier rather than later

Table 2. Sinking Trends in FY2009 in Net General Fund Tax Receipts FY2009 vs. FY2008 by Month (\$ Millions)

Month	FY08	FY09	% Diff
July	363.4	350.7	- 3.5%
August	599.9	629.8	5.0%
September	478.8	494.7	3.3%
July-Sep Cum.*	1,442.1	1,475.2	2.3%
October	376.8	360.8	- 4.2%
November	541.0	557.5	3.0%
Oct-Nov Cum.**	917.8	918.3	0.1%
December	426.4	363.1	-14.8%
January	479.8	492.7	2.7%
February	494.3	451.8	- 8.6%
Dec-Feb Cum.±	1,400.5	1,307.1	- 6.7%
March	321.5	292.8	-10.0%
April	374.5	314.2	-16.1%
May	784.7	678.4	-13.5%
June	512.3	432.4	-15.6%
Mar-Jun Cum.#	1,993.0	1,717.8	-13.8%
Jul-Jun Cum.	5,752.7	5,418.8	- 5.8%

* Information available for REC Oct 2008 Report

** Information available for REC Dec 2008 Report

± Information available for REC Mar 2009 Report

Information available after REC Mar 2009 Report

NOTE: The receipts listed above only include net tax receipts deposited in the general fund. REC projections (Table 1) also include other general fund receipts (liquor profits, interest, fees, judicial revenue, racing and gaming, institutional payments, other miscellaneous receipts, and other adjustments.) This accounts for the differences between Tables 1 and 2.

Source: Legislative Services Agency Monthly Net Tax Receipts Report from LSA web page.

<http://www.legis.state.ia.us/Fiscal/totaltax>

in the year, so any cuts can be accommodated over the full budget year. The Governor and the General Assembly could request that the REC meet no later than the end of August to provide an update of its March projections. This would enable both the executive and legislative branches the maximum time to explore options for addressing any developing budget shortfalls in the 2010 budget.

Both the revenue and expenditure sides of the state budget should be subject to review. Additional cuts in state expenditures almost surely will result in layoffs and exacerbate Iowa's recession and unemployment levels, which have continued to rise. Cuts to essential services will leave additional burdens for Iowans who are already struggling to get by. The Governor and the General Assembly made effective use of fiscal stabilization and Federal Medical Assistance Percentage (FMAP) funding available to Iowa through the ARRA to avert making drastic cuts in the 2010 budget, but further action may now be needed.

Iowa is not alone in experiencing a major state budget deficit. According to the Center on Budget and Policy Priorities (CBPP), 48 of the 50 states have deficits and many of these are continuing to grow. Increasingly, states are looking at their tax codes to address part of the deficit and have taken actions to raise revenues through changes in personal income taxes (11 states), sales taxes (12 states), business taxes (11 states), and tobacco and alcohol excise taxes (15 states). CBPP's analysis also showed that states that raised taxes during the 2001-04 recession did not experience lower economic growth rates over the 2004-07 period than states that did not. Some states that did not raise taxes (or that cut them) during that period, including Iowa, subsequently saw slower-than-average economic recovery.¹

Budgets are a two-sided ledger of revenues and expenditures. No magic answer to Iowa's budget challenges will be found in only one side of that sheet if a balanced budget also means a balanced approach to lawmakers' responsibilities to identify needs and to pay for them. Iowa's policy makers and the public can better address this challenge with sound information, and that starts with an updated forecast from the REC.

¹ Johnson, Nicholas, Andrew Nicholas and Steven Pennington. (July 2009). *Tax measures help balance state budgets: A common and reasonable response to shortfalls*. Center on Budget and Policy Priorities: Washington, D.C.

Iowa Fiscal Partnership

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

IFP is part of the State Fiscal Analysis Initiative coordinated by the Center on Budget and Policy Priorities. IFP work is supported by the Annie E. Casey Foundation and the Stoneman Family Foundation.