

Under the radar: Dangerous change to Iowa Constitution

Proposed amendment undercuts state's ability to meet responsibilities to Iowans

By Peter Fisher

A constitutional amendment to cap state spending — approved by the Senate and soon to be considered in the House — is a gimmick rather than real reform. The measure would do nothing to reduce the cost of educating our children, make it easier to repair bridges, or make our water cleaner. In fact, because the amendment would prohibit spending more than an arbitrary limit without two-thirds approval of both legislative chambers, it would impede elected representatives from making the kinds of public investments in Iowa's children, the state's infrastructure, and our environment that the people of Iowa say they want. Here's why:

- **It ties the hands of future lawmakers.** We elect representatives to decide how to wisely spend tax revenues to benefit the people of Iowa, yet this amendment only makes it more difficult for future legislators to do that. In an economic downturn, when people are losing their jobs and need to fall back on public supports to help them through difficult times, the amendment could severely limit the ability of the state to respond. It ties spending not to need but to revenues, and revenues fall when the economy is in recession, nor could rainy day funds be used as intended. The proposed amendment also fails to allow for emergency measures needed to recover from a flood or other natural disaster.
- **It could force cuts to schools and more.** The measure's fiscal note shows that in the last six years alone, if such a limit had been in place it would have caused nearly \$500 million in cuts to services.¹ Such cuts could hurt public schools, force tuition increases at community colleges and universities, and make it impossible to adequately address our water quality problem.
- **It would impede efforts to restore cuts after a recession.** The year following a recession, revenues might recover dramatically. But instead of being able to use that growth to restore programs that had been cut, the amendment would limit spending to just 4 percent above the depressed recession level of revenue. That 4 percent growth could leave the state with programs still funded below pre-recession levels.
- **It's unnecessary.** The amendment does not give the Legislature the power to do anything it cannot already do. Legislators can cut spending at any time. It also amounts to a solution in search of a problem since spending in Iowa is not high.

Lawmakers should reject this measure and turn their focus to the issues that Iowans most want to see addressed — building strong schools, updating our roads and bridges, and improving our environment so that we can have healthy, thriving communities.

The Constitutional Amendment Ties the Hands of Future Legislators

State law already constrains state spending by limiting appropriations to 99 percent of expected revenue. The proposed amendment would enshrine that rule in the Iowa Constitution and then go beyond it, tying the hands of future legislators to respond to changing needs or crisis situations.

The amendment further constrains budgeting decisions in four ways:

1. Under current law, we have rainy day funds, designed precisely to deal with the declining revenues and increased need that occurs periodically during an economic recession or disaster. The money saved in those funds can be used to supplement current revenues, allowing the state to not only help the victims of recession or a flood, but to put money back into the state economy. Under the proposed constitutional amendment, rainy day funds could not be used to exceed the budget limit, preventing those funds from being fully used in the way intended and limiting the ability of the state to respond to recession or disaster.
2. Currently, any budget surplus from the previous year is first used to fill reserve funds, including the rainy day funds; any remaining money can be carried forward and used to fund state services in the following year, in addition to the 99 percent of next year's revenue. The amendment would prohibit the use of the surplus in this way to increase allowable spending for the next year.
3. Currently, the 99 percent rule applies to all revenue, including any "new revenue" due to increases in tax rates or fees. Under the amendment, only 95 percent of new revenue can be spent.
4. The amendment adds a new constraint: appropriations for the next fiscal year cannot exceed 104 percent of current fiscal year revenues. The Legislature must pick the lower of the December or March estimates of current fiscal year revenues, and multiply by 1.04. The lower of the two constraints — the 104 percent rule and the 99 percent limit — becomes the ceiling for appropriations for the next fiscal year.

The amendment provides that the spending limitation could be exceeded, but only through approval of two-thirds of the Iowa House, two-thirds of the Senate, and the governor. The amendment, in other words, enshrines minority rule and prevents a simple majority of our democratically elected Legislature from doing what voters elected them to do.

The Amendment Could Force Further Cuts in Education and Other Services

The Legislative Service Agency has illustrated the effects of the amendment by calculating how much it would have forced in cuts each year if it had been in effect since the FY2008 budget was determined. In seven of the ten years, 2008 through 2017, the constitutional amendment would have forced lower appropriations, and the average budget cut for those seven years was \$75.6 million. Over the last six years, the cuts totaled \$488 million. Education at all levels accounts for over half of the state general fund, so it is fair to assume that at least some of those cuts would have come from reduced state funding of public schools, community colleges and universities.

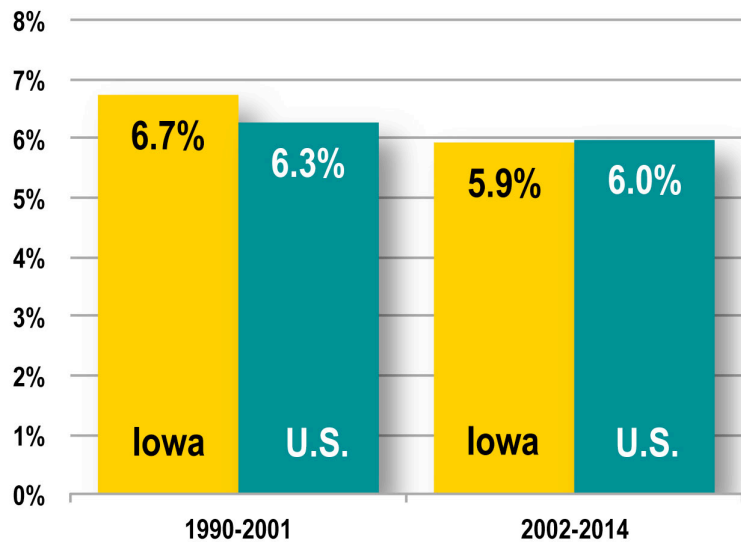
Those supporting this constitutional amendment should consider what the Legislature might have cut from the FY2016 budget to find the \$126.6 million necessary to fit under the limit set by this amendment. For FY2016, per pupil K-12 spending was allowed to grow just 1.25 percent, below what was needed just to cover increased costs due to inflation. With an additional \$126.6 million in cuts forced on the Legislature, would school funding even have reached this minimal level? If just \$50 million out of the \$126 million in cuts had to come from schools, that would have cut growth to zero.

While the Regents universities were able to freeze tuition from FY2012 through FY2015, this freeze was only a start on reversing a troubling long-term rise in tuition that was making a college education unaffordable for many Iowans. Then in FY2016, tuition rose 7.5 percent. During those five years, the constitutional limit would have forced \$443 million in budget cuts, making further tuition hikes likely; we would have found ourselves once again adding to the enormous debt burden our college grads face.

The Constitutional Amendment is Unnecessary

The constitutional amendment does not address a problem. Contrary to some claims, Iowa tax revenues, in recent years, have accounted for a smaller share of income than in the past, and a smaller share of income than the U.S. average. Iowa state tax revenue for the 13 years between 2002-2014 hovered around 5.9 percent of personal income, slightly below the average for state taxes in the United States, and well below the average in Iowa for the decade of the 1990s.

Iowa State Tax Share below U.S. Average and Past Levels
Total State Taxes as a Percent of State Personal Income



Source: Source: State & Local Government Finance Data Query System. <http://www.taxpolicycenter.org/slf-dqs/pages.cfm>. The Urban Institute-Brookings Institution Tax Policy Center. Data from U.S. Census Bureau, Annual Survey of State and Local Government Finances, Government Finances, Volume 4, and Census of Governments. The two time periods were selected because 2002 represented a break in the trend, when Iowa tax revenues fell below 6 percent for the first time; they remained below, or just slightly above, that figure through the most recent year available, 2014.



¹ Legislative Services Agency, Fiscal Note, SJR9 – Expenditure Constitutional Amendment, <https://www.legis.iowa.gov/docs/publications/FN/856170.pdf>

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