

Rushing to push local services and public workers aside

Proposals in closing days of Legislature challenge local choices

There are at least two significant policy thrusts of HF773. Both have long-term implications for local government ability to provide critical services, and for the quality of public-sector jobs, particularly in pensions. Both of these implications are denied by supporters, yet both are clear.

First, the legislation places new, arbitrary limits on funding of public services. These limits will make it unsustainable for public infrastructure to support economic growth, and defy democratic principles in which voters choose representatives at all levels of government to make decisions.

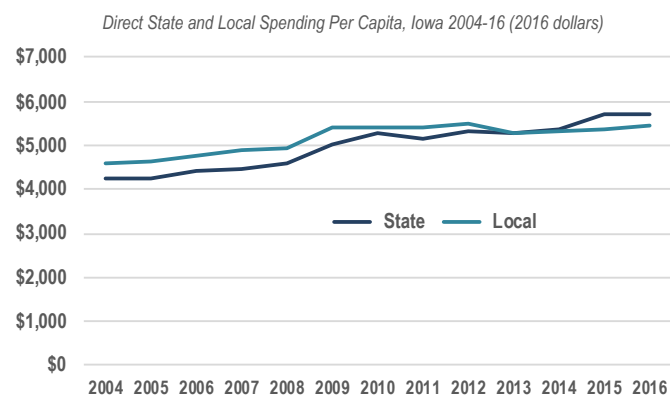
Second, the legislation muddles the picture for funding of public pensions. These pensions have long been a target of extreme conservative organizations and of private forces that would like to take over public pension management for profit, not dissimilar from the privatization of Iowa’s Medicaid system, now in turmoil. This pension change is less an element in separate legislation moving in the Senate, but may distract advocates from focusing on the first point, which may affect them and their issues as much. The move comes with little public input in the closing days of a legislative session, with many issues still in play. Satisfying the pension concerns temporarily in these final days — while important — is only one of the many issues with this legislation. Whatever happens on the pension side, Iowans should not miss the significant consequences for local public services.

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Getting the numbers right

To sell the first point, some exaggerate recent growth in local government spending. The real picture is one of stability (Figure 1). Numbers for spending and taxes are complicated, and thus vulnerable to cherry-picking to make a political point and justify a position. A better approach is to look at the numbers carefully and determine the fiscal landscape to determine whether policy changes are needed.

Figure 1. Stable Iowa State and Local Spending 2004-16



We generally use two measures to analyze trends in taxes or spending: real per capita, and as a percent of income. A common way to distort these trends is to ignore the fact that spending rises naturally as prices go up and as population grows. Serious analysis must control for those factors in spending and tax trends (real, inflation-adjusted dollars), and per person. Figure 1 shows Iowa state and local spending over 12 years, and Figure 2 shows state and local taxes over the same period.

An even better way to look at both public spending and taxes is as a percentage of income. The reason: When we have more income, we tend to buy more of everything, including state and local public services. As shown in Figure 3, local spending has slightly declined since 2009, while state spending has been relatively stable. In Figure 4, Iowa taxes have hovered around 10 percent as a share of personal income through this period, with little change from 2009 onward.

One reason to consider this measure is to offer context for taxes or public spending at a personal level. **If 10 percent of your income goes for state and local public services**, then you contribute \$10 of every \$100 you make to pay for better schools, good roads, etc., leaving you \$90 for everything else. **If your income goes up 10 percent**, then you now contribute \$11 for public services, but you have \$99 for everything else. So, when incomes rise, if the fraction going to government remains about the same (as it has in Iowa) you have considerably more to spend on other things; even with higher taxes, you have more to spend on everything else in your budget.

Long-term attack on pension funding

One could read HF773 several times over and not come away with a clear picture of the threat to IPERS as well as to police and fire and other public retirement systems. That's because the legislation is only part of a much larger effort to undermine public services and the employees who provide them. HF773 would arbitrarily limit the amount of local government revenues.

Figure 2. Stable Iowa State and Local Taxes Over Time

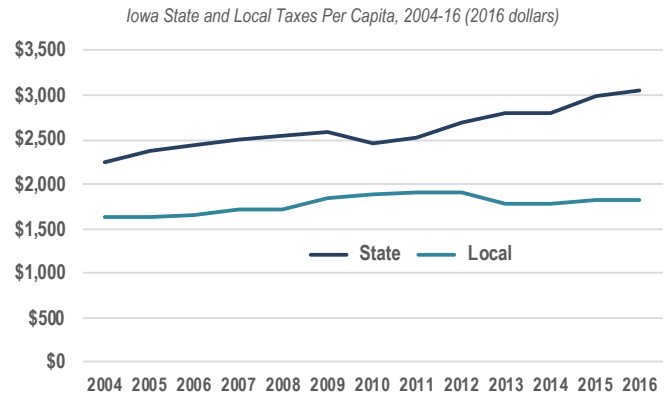


Figure 3. As Share of Income, Local Spending Has Dipped

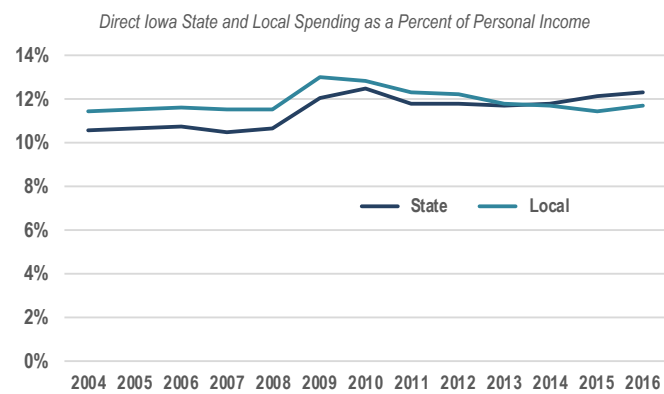
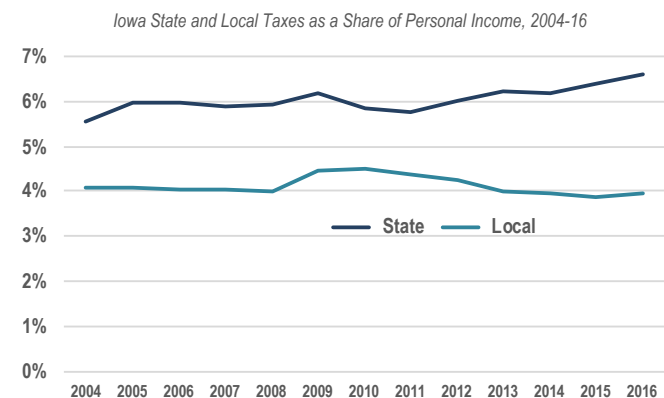


Figure 4. As Share of Income, Little Change in Iowa Taxes



Defenders of IPERS have been concerned about a provision that ends the option of cities and counties to impose an additional levy to meet their pension obligations — obligations that are already set by a separate state law. They still must meet those obligations under the current bill.

IPERS threats are twofold. First, it creates new competition for the general fund dollar. If IPERS has to be totally funded out of that pot of money, cities and counties can meet pension obligations for employees only by cutting back somewhere else, or by cutting down on the number of employees, thus reducing pension costs. Either way, Iowans lose services. Second is that this competition undermines support for IPERS — which is popular, as shown by the reversal in public statements by current leaders who not long ago promoted changes to a less-secure 401k setup.

Thus, the bill does in fact threaten IPERS no matter the political spin to the contrary.

For more information about the issues covered in this short brief, see other briefs and reports on the Iowa Policy Project and Iowa Fiscal Partnership websites, including:

[Undermining democracy: Local finance straitjacket](#), from IFP, by Peter Fisher of the Iowa Policy Project and David Swenson of Iowa State University. That report includes this graph illustrating the long-term stability in local property taxes:

Iowa property taxes have been stable as a share of income for two decades
Iowa Property Taxes as Percentages of Total Personal Income

