

IOWA ECONOMIC SCORECARD

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Take Advantage of Doughnuts, Improve Education and Save Money

By Deborah D. Thornton

There are eight urban school districts in Iowa – Cedar Rapids, Council Bluffs, Davenport, Des Moines, Dubuque, Iowa City, Sioux City, and Waterloo. Des Moines is the largest, with just under 31,000 students, and Council Bluffs is the smallest with 9,207.¹ From 2004 to 2010, the certified enrollment in all Iowa public schools decreased by over 9,000 students, from 483,335 to 474,227. Like the rest of the 365 total districts in Iowa, most of the urban districts shrank in size. The overall urban district population, representing one-fourth of the total students, went from 122,737 to 120,425, a drop of over 2,300. During this period only Dubuque and Iowa City grew – by 273 students (2.6 percent) and 958 students (8.8 percent) respectively.

As a result of the continuing decline in numbers of young people, 12 school districts in Iowa are currently consolidating, bringing the statewide number of districts down to 353 next year.² More will need to consolidate in the future because of declining population growth. Iowa's population growth rate is currently 2.6 percent; nationwide, the rate is eight percent. In addition, the birth rate in the United States is 14.3 per 1,000, while in Iowa it is only 13.7.³ These trends will require significant changes in our statewide approach to public education.

The population size of school districts must be considered in light of student achievement. The non-profit, non-partisan Great Schools group, supported with funding from the Gates Foundation and others, ranks schools nationwide on factors such as standardized test scores, AP participation, and graduation rates. According to the Great Schools ranking, Cedar Rapids and Dubuque earned a "six" and Iowa City earned a "seven" of a possible ten. The other urban districts earned two's and three's.

In a doughnut-like ring around each of these districts there are a wide variety of suburban and rural districts, all much smaller and generally scoring better in the Great Schools rankings than their neighbors. For example, Waterloo, an urban district with 10,800 students, earned a three, while the doughnut districts around Waterloo – Cedar Falls, Denver, Dunkerton, Hudson, Janesville, Jesup, and Union earned from five to nine. In particular, the Cedar Falls district, with only 4,500 students, earned a nine.⁴ While socio-economic differences in these areas account for some of the difference, Waterloo could probably provide a better education if there were fewer students. If the doughnut hole (Waterloo) was smaller and the doughnut was bigger, students could benefit from being in smaller, higher achieving districts.

Funding of school buildings and repairs in both urban and suburban or rural districts must also be considered. School infrastructure funding comes from three sources, dedicated bonds, the Physical Plant and Equipment Levy (PPEL), and the School Infrastructure Local Option (SILO) sales tax. Traditionally, these were local taxes, decided upon by local voters and school boards. However, the SILO money was taken over by the state last year, and is now controlled at the state, not local, level.

This fund is now known as the SAVE fund – Secure and Advanced Vision for Education. Though this change left the tax money dedicated to building and upgrading school buildings, note that the name change removed any reference to infrastructure, in addition to removing local control. Dedicated funds

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are often the first to be raided by the Governor and State Legislature in tight budget times. The takeover of the SILO occurred less than a year after the 2007 vote by the last two counties without a SILO to adopt the tax, Linn and Johnson. Voters in these two counties agreed to implement the tax after legislative changes were made allowing them to keep 100 percent of the proceeds for the first five years, rather than sharing with the other districts. Linn County is home to the urban district of Cedar Rapids, and Johnson County, the Iowa City Community School District (ICCSA).

The ICCSD happens to be the urban district with the largest growth in the past six years, at almost nine percent. Following the passage in 2003 of a \$39 million school bond, the passage in 2004 of the maximum \$1.67 per \$1000 of assessed property value PPEL, and finally the passage of the SILO--and in response to this growth, the ICCSD has gone on a building and spending spree. The SILO alone was expected to generate over \$100 million in tax money, which must be spent.

As a result, the district has built four new school buildings in the last five years including an alternative high school, two elementary schools, and a new junior high school. These buildings cost over \$25 million.⁵ There is a fifth building, another new elementary school priced at \$12 million, beginning construction soon.⁶ During the last two summers, ICCSD has spent \$10.7 million on facility upgrades, with almost \$22 million total spent on additional maintenance projects in the last fiscal year.⁷ In addition, there is a movement to build a third comprehensive high school in the district, at an estimated cost of over \$32 million.⁸ All of this building and spending, to accommodate an increase of less than 1,000 students – while virtually every district in the rest of the state has empty classrooms and the tax base continues to decline.

One better solution, not only for Waterloo and the ICCSD, but also for all public school districts would be for the geographic area of all urban districts to be reduced. All the doughnut holes should get smaller, and the doughnuts larger. The resulting decrease in students in the urban districts would provide needed growth in the suburban and rural districts, countering student population declines and filling current classrooms. With a larger number of students, the small suburban and rural districts could provide advanced academic programs for their students, such as calculus, foreign languages, and physics.

For example near ICCSD the tiny Lone Tree district, 415 students K-12, does not have enough students for a calculus class and has combined with Highland (670 students K-12). These two districts, as well as Clear Creek Amana (1,480), Mid-Prairie (1,240), Solon (1,238), and West Branch (800) could all benefit from an additional 100-200 students from Iowa City being moved into their enrollment areas. This is already happening on an informal basis through the open enrollment process. ICCSD had an

Iowa Statewide Economic Indicators

Data source: <<http://www.iowaworkforce.org/trends>> <<http://www.iowa.gov/tax/taxlaw/econindicators.html>> October 22, 2010

Latest Economic Indicators	Updated as of:	Actual Number	Amount of Change	Time Period Reported
 New Vehicle Registrations	10/22/2010	79,541	3.6%	Sept. 2009 - Sept. 2010
 New Housing Permits	9/30/2010	4,905	-11.5%	August 2009 - August 2010
 Existing Home Sales	8/20/2010	70,800	24.6%	1st to 2nd Quarter 2010
 Total Resident Jobs	10/22/2010	1,561,600	-6,600	Sept. 2009 - Sept. 2010
 Non-Farm Employment	10/22/2010	1,470,200	3,200	Sept. 2009 - Sept. 2010
 Factory Jobs	10/22/2010	206,800	7,700	Sept. 2009 - Sept. 2010
 Initial Unemployment Claims	10/22/2010	14,321	-44.4%	Sept. 2009 - Sept. 2010
 Jobless Rate	10/22/2010	113,330	6.8%	August - September 2010
 Personal Income	4/9/2010	\$36,751	-1.6%	4th Qtr 2008 - 4th Qtr 2009
 Exports of Goods	1/2/2010	\$12,644 M	39.0%	January 2009 - current
 Farmland Values	9/3/2010	\$4,721	8.0%	July 2009 - July 2010

out-enrollment of 324 students in the 2009-2010 school year.⁹ Parents and students are already choosing to attend the smaller doughnut schools.

If ICCSD were to reduce total student population by 500 to 1,200 students then most of their space issues would be resolved, especially at the junior high and high school levels. Additionally, overall achievement might go up and many of the discipline issues lessened.

If all eight urban districts were to be geographically downsized, the benefits to both their students and those of the doughnut districts could be significant. Smaller doughnut holes and larger doughnuts are sometimes a good thing, providing a better education and saving significant amounts of taxpayer money.

(Endnotes)

¹ October 2009 and September 2004 Certified Enrollment Reports, Iowa Department of Education, <http://www.iowa.gov/educate/index.php?option=com_content&task=view&id=1348&Itemid=2410> 0910_pre_pub_dist_CE2009.2 and 0405_sfin_ce_summary-by-district (October 11, 2010).

² Staci Hupp, "Rural Iowa schools face tidal wave of mergers," *The Des Moines Register*, <<http://www.desmoinesregister.com/apps/pbcs.dll/article?AID=20109270311>> (October 25, 2010).

³ The Annual Condition of Education Report, 2009, Iowa Department of Education, pp. 14, 15, 18, and 19.

⁴ Great Schools, All Iowa School Districts, <<http://www.greatschools.org/schools/districts/iowa/IA>> (October 21, 2010).

⁵ Rob Daniel, "Center Vote is Likely Years Off," *Iowa City Press-Citizen*, <<http://www.press-citizen.com/apps/pbcs.dll/article?AID=201010210317>> October 21, 2010, P. A.1.

⁶ Mitchell Schmidt, "Iowa City's newest elementary school opens today," *The Daily Iowan*, <<http://www.dailyiowan.com/2010/08/19/Metro/18265.html>> (October 22, 2010).

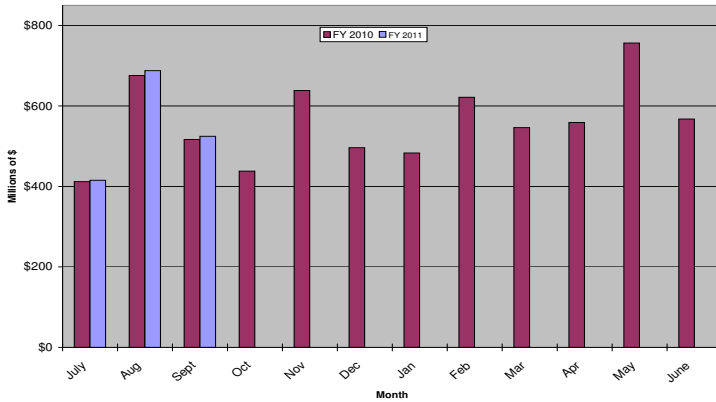
⁷ Rob Daniel, "District busy with building work," *Iowa City Press-Citizen*, June 29, 2010, P. A.1.

⁸ Summary Proposed Strategic Facility Improvement Plan, 2009 – 2014, Iowa City Community School District, <http://www.iowa-city.k12.ia.us/district/SFIP/district_facility_plan_2009-14.pdf> (October 22, 2010) p. 6.

⁹ October 2009 Certified Enrollment Report, Iowa Department of Education.

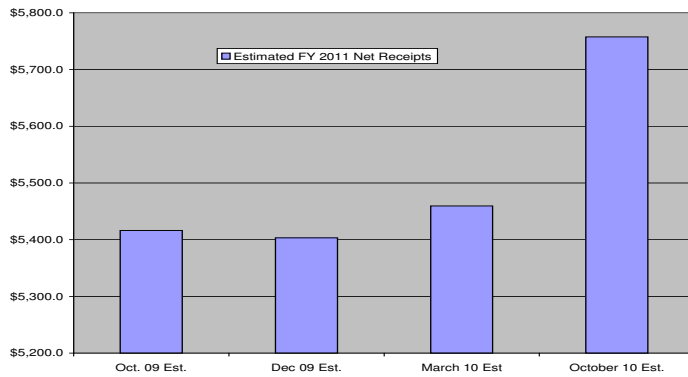
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Iowa's Monthly State Revenue and Estimated Net Yearly Revenue (in millions)



Iowa's Monthly State Revenue:

Monthly FY 2011 state revenue was \$524.5 million in September. This is \$7.6 million more than September 2009. Tax collections for FY 2011 year-to-date total \$1,627.7 million, \$12.9 million more than a year ago, but still down from \$1,696.0 million in FY 2009.

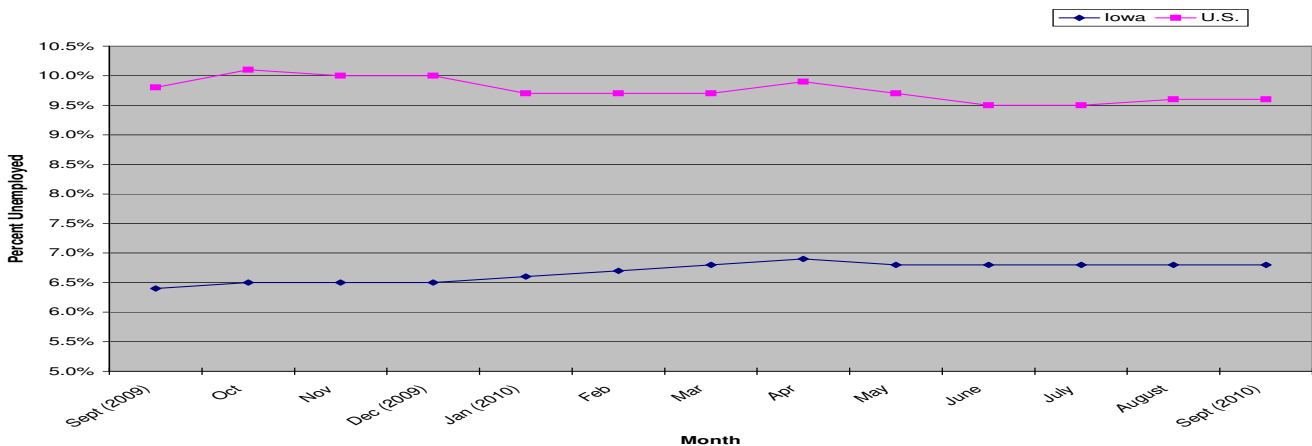


Iowa's Estimated Net Yearly Revenue:

The revised Revenue Estimating Conference October estimate of \$5,757.5 million for FY 2011 Net General Fund receipts was significantly higher than the official December 2009 estimate of \$5,403.2 million. As of June 30, the end of the fiscal year, actual tax revenues collected for FY 2010 were \$5,633.6.

Source: Legislative Services Agency "Monthly General Fund Revenue Memo," and Revenue Estimating Conference Report

U.S. and Iowa's Unemployment, September 2009 - Current

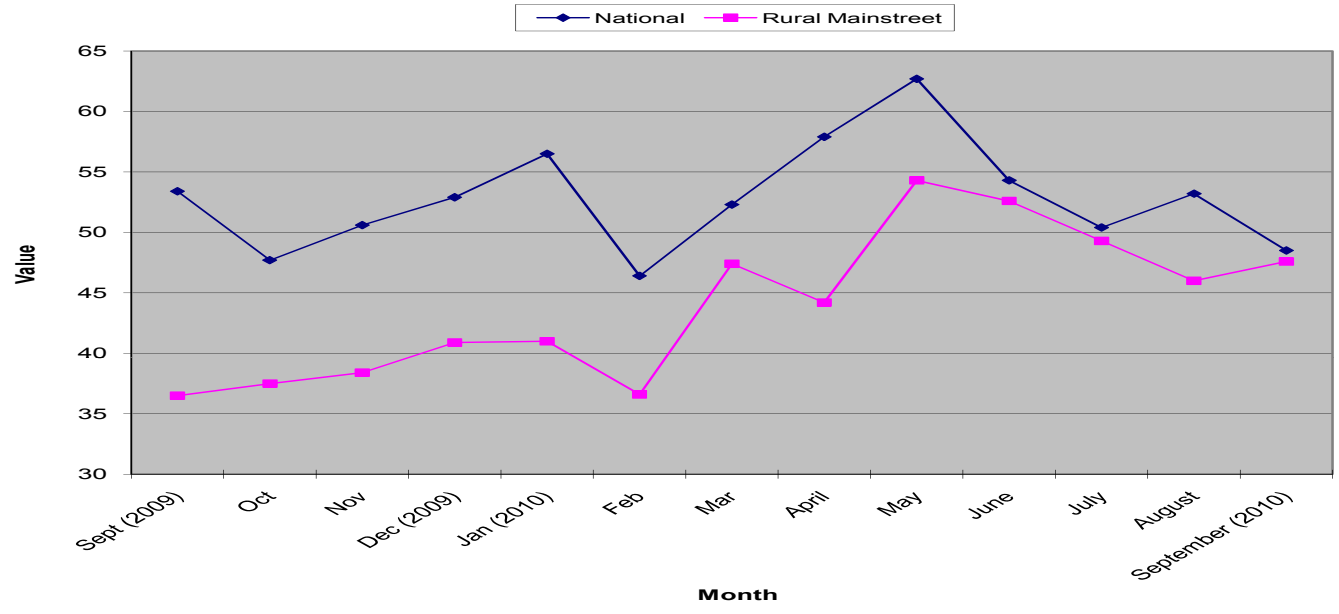


The U.S. unemployment rate in September 2010 was unchanged at 9.6 percent. The Iowa rate remains lower, at 6.8 percent for the third month in a row. Total Iowan employment in September was 1,561,600, down 6,600 from September 2009. The number unemployed was 13,300, up over 6,900 from September 2009. "Job growth is expected to remain uneven through the rest of 2010," said Elisabeth Buck, director of Iowa Workforce Development.

Source: Iowa Workforce Development, Labor Market Information Bureau, "Monthly Unemployment Rate News"

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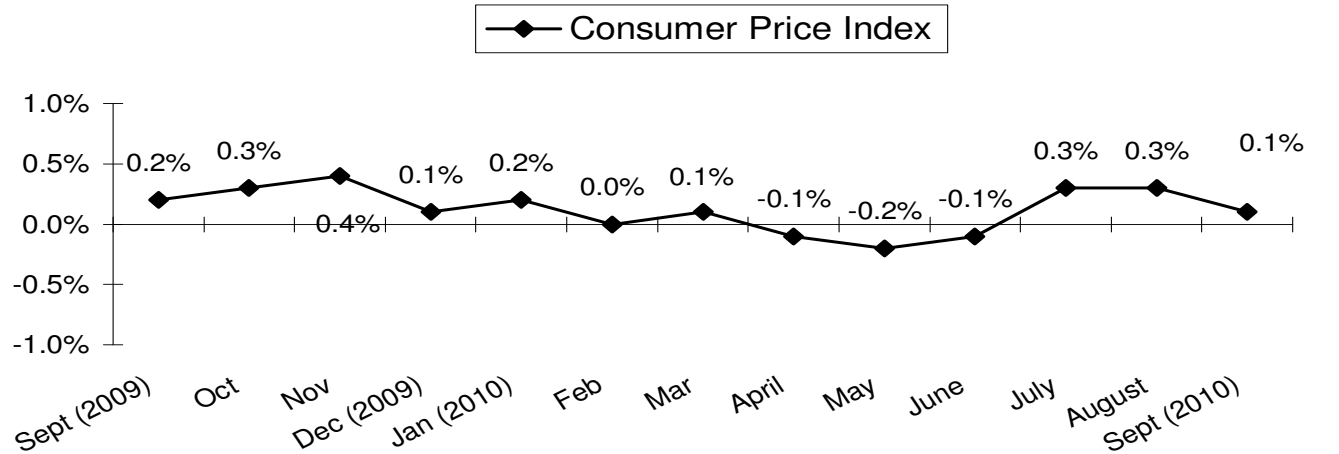
Consumer Confidence Index



The national Consumer Confidence Index (CCI) has both significantly risen, and then drastically dropped over the past ten months. Currently, it has fallen from a high of 62.7 in May to 48.5 in September, a drop of 14.2 points. The Iowa number has remained consistently lower, but is now almost equal to the overall U.S. rate, at 47.6. Creighton University economist Ernie Goss said, “While the farm sector is experiencing healthy growth, Rural Mainstreet businesses continue to report waning economic fortunes.”

Source: Conference Board, “Consumer Confidence Survey” and Creighton University

Consumer Price Index, Monthly Change



The seasonally adjusted Consumer Price Index increased 0.1% in September 2010, driven by significant increases in the health care index. Other indexes such as food, transportation, and housing remained mostly unchanged. Over the last 12 months, the index for all items less food and energy rose 0.8 percent, the lowest 12-month increase since March 1961.

Source: U.S. Department of Labor, Bureau of Labor Statistics

Huge Tax Hikes Coming Unless Congress Acts

By Alyssa Carducci, The Heartland Institute

President Obama campaigned on the promise that middle-income earners — those earning \$250,000 or less annually — would experience no tax increases. On the upcoming New Year's Day, however, virtually every American will be facing the possibility of higher taxes.

Lowered tax rates on a wide variety of items including personal income, capital gains, dividends, and estate taxes that became law in 2001 and 2003 are set to expire on January 1 unless Congress extends them.

“Everyone’s tax rates will go up; everyone will see significantly higher taxes,” said Curtis Dubay, a senior policy analyst for the Heritage Foundation. “For the middle class that were promised not to pay tax increases, they’ll certainly see a much smaller paycheck starting in January.”

\$1,540 per Family

Nationally, the typical middle-income family, which has a median income of \$63,366, would see its federal income tax burden increase by \$1,540 if the tax cuts expire, according to an analysis by the Tax Foundation.

“The Democrats are falling all over themselves promising the press and the American people that they will extend certain provisions of the 2001 and 2003 tax relief, patch the AMT, etc. However, this was not done before Congress recessed for the November election,” said Ryan Ellis, tax policy director for Americans for Tax Reform.

“In essence, they asked people to trust that Congress will act after people have had [their only] chance to punish Congress if they don’t,” he said. “There are many of us on the right who believe that they don’t care to extend any of the tax cuts. They need the revenue to fund their permanently higher government spending.”

Business Burdens

American families and individual taxpayers would not be the only ones affected by the tax hike that will result if Congress takes no action. Ellis says both large and small businesses also have no certainty right now.

“If you’re a large employer, the expiration of the tax extenders — particularly the research and experimentation credit — gives you no ability to plan,” he said. “So there’s no sense of stability there,” he said. He also pointed out many small businesses pay taxes at the rates applied to individuals. “No one is sure where those rates are going to be, but there’s an increasing sense among business owners that rates are going up in January. There’s also uncertainty about small business expensing and the death tax,” he said.

Hundreds of Billions More

Ellis said the combination of letting the 2001 and 2003 tax relief provisions expire, failing to “patch” the Alternative Minimum Tax (AMT), and implementing the ObamaCare tax hikes would raise the nation’s tax burden hundreds of billions of dollars a year.

The AMT was created 40 years ago to apply only to a handful of wealthy taxpayers to ensure they would pay a minimum amount of income tax, but it now affects millions of taxpayers because it has never been indexed for inflation. It does away with most deductions and tax credits, forcing people to pay more income tax. Congress has been “patching” the tax code in recent years to help some people who would otherwise be hit by the AMT avoid its higher taxes. “The tired old myth that the 2001 and 2003 tax cuts were just tax cuts for the rich will finally, once and for all, be proven false,” Dubay said.

FACTS ABOUT THE COMING TAX INCREASES:

If Congress allows the 2001 and 2003 tax cuts to expire, these are major changes that would happen:

- Income tax would increase by 3 to 5 percentage points for every bracket, including an end to the lowest tax bracket, currently 10 percent.
- Capital gains tax rates would rise from 15 percent to 20 percent, and dividends taxes would jump from 15 percent to 39.6 percent.
- The death tax would rise from zero to 55 percent on estates over \$1 million.
- The child tax credit would drop from \$1000 to \$500 per child.

Reprinted from *Budget & Tax News*, The Heartland Institute, October 2010,
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State of Iowa Twelve-Month Total Net Tax Receipts Through September 30, 2010

Summary of information from the Iowa Legislative Services Agency, October 21, 2010

At \$548.8 million, September 2010 net tax revenue was 17.2 percent above last September but below September 2008 and only 2.5 percent above three years ago. About one-half of the \$80.6 million September 2010 growth was due to the unusual way tax refunds were issued last year, with a very low level of tax refunds issued in July and August and a significant amount issued in September. This resulted in an inflated increase when comparing September 2010 to September 2009.

The modest positive growth (0.2 percent) over the most recent 12-month period is the first positive growth in the annual total since March 2009. Tax revenue is now positive year-over-year, but it remains 7.7 percent below the October 2008 peak.

During the 12-month period ending September 2010, net revenue from all taxes deposited to State funds totaled \$6.250 billion, an increase of \$15.2 million (0.2 percent) compared to the prior 12 months.

Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$7.8 million, 0.3 percent) and Sales/Use Tax (positive \$4.7 million, 0.2 percent) – The first positive readings after over 16 months of negative growth.
- Corporate Income Tax (positive \$8.2 million, 3.8 percent) – Corporate income tax had not shown positive growth in the annual amount for almost two years.
- Gambling Tax (negative \$6.8 million, - 2.4 percent) – According to Racing and Gaming Commission statistics, 10 of Iowa's 17 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending September 2010.
- Cigarette and Tobacco Tax (negative \$4.8 million, - 2.0 percent) – Economic conditions and an increase in the federal cigarette tax are potential causes.

The Legislative Services Agency Monthly General Fund Receipts report for September may be found at <http://www.legis.state.ia.us/lsadocs/MonMemo/2011/MMJWR001.PDF>

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Question of the Quarter:

Now that the 2010 elections are over, did you vote? And what do you think will be the significant economic issues to be addressed in the next year?

Send your thoughts on this issue to us at Public.Interest.Institute@LimitedGovernment.org.

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