



Transparency in State Spending Encourages Limited Government

by John R. Hendrickson

The state budget of Iowa is projected to be about \$5.8 billion in fiscal year 2008. With growing budgets, taxpayers deserve more accountability and transparency in the state budget process. Iowa Legislators should consider legislation that would require transparency in government spending. If campaign contributions have to be fully disclosed and transparent, so should the state budget — line by line.

In 2006, President George W. Bush signed the Federal Funding Accountability and Transparency Act, which was co-sponsored by Republican Senator Tom Coburn and Democrat Senator Barack Obama. The legislation will require the Office of Management and Budget to create a searchable database on federal spending. The idea is to create more accountability and transparency in the federal budget process by allowing taxpayers to physically see how their money is being spent.

At the state level, Kansas has become the “first state in 2007 to sign into law comprehensive legislation mandating the creation of a website detailing state expenditure information.”¹ The Kansas legislation requires a website to be “up and running by March 1, 2008, which will disclose comprehensive state revenue and expenditure information, including annual expenditures such as disbursements by state agencies from funds in the state treasury, salaries and wages including compensation paid to individual state employees, contract services, capital outlays and commodities including amounts paid to vendors.”²

Both Texas and Indiana are currently working to establish what has become known as “Google Government,” named after the famous and popular internet search engine, which will require state agencies to establish a searchable, Google-like database for taxpayers to examine.

In Texas, Republican Governor Rick Perry has already allowed “expenditures made by the governor’s office” to be viewed, and the Comptroller has posted the state’s expenditures online.³ In Indiana, Republican Governor Mitch Daniels signed an Executive Order, “which directed the Department of Administration to log written state

contracts on the internet.”⁴ Other states are also working on legislation similar to the Coburn/Obama legislation to create a searchable database for government expenditures.

Governor Perry has put forward a bold and taxpayer-friendly budget reform plan, which calls for “a stricter state spending growth limit; using dedicated revenue sources strictly for dedicated purposes; constructing a budget with a more detailed listing of expenditures; requiring that individual state expenditures be posted online; and amending the Texas constitution to allow for tax refunds when surpluses occur.”⁵

Supporters in Colorado are also pushing for transparency legislation. In 1992, in response to their state’s lack of fiscal discipline and tax increases, voters passed the Taxpayers Bill of Rights (TABOR). The purpose of TABOR is to “reasonably restrain most of the growth of government.”⁶

In addition, policy analyst Fred Holden writes that TABOR “allows only those tax rate increases approved by voters; while fees are not directly restricted, state government spending is limited to growth of Colorado’s population-plus-inflation in the prior year.”⁷

Government spending and high tax rates are harmful to state and local economies that are trying, in a very competitive market, to attract business, people, and economic development to their regions. “Government spending inhibits innovation because government is more centralized and bureaucratic than the private sector, which is constantly seeking new opportunities and improvements to maximize the bottom line.”⁸

That is why having more accountability in the form of budget transparency is important for taxpayers. Iowa taxpayers should be able to see how and where their tax dollars are being spent on projects and investments, whether those programs consist of the Iowa Values Fund, to which the State has pledged \$700 million, or the \$100 million Power Fund for renewable energy funding.⁹ In addition, taxpayers have

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Dr. Don Racheter

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the right to know how the one-dollar-per-pack tobacco tax increase will be used.

State spending and budget transparency should be a bi-partisan issue, because it opens the curtains of government bureaucracy to sunshine. Supreme Court Justice Louis Brandeis, who was no conservative, said that sunlight is the best disinfectant, and as more taxpayers become aware of how their money is being spent, the more they will demand accountability.

Iowa should consider implementing a Google-style searchable database. In fact, a national coalition has been assembled to work toward implementing budget transparency at the state level. The coalition, which is called ShowMeTheSpending.org, is organizing a grassroots effort of organizations and activists to advance budget accountability and transparency.

The details of a budget accountability and transparency program would include a searchable website that allows taxpayers to see how tax dollars are being used, but also for citizens to examine grants, contracts, subcontracts, purchase orders, and other expenditures.¹⁰ Minnesota State Representative Erik Paulsen (R-Eden Prairie) has introduced legislation to require such a database. "It's time to shine light on state spending to help protect taxpayers from fraud, waste, and abuse. A public database is a powerful tool for the public that will provide transparency and bring accountability to state spending on grants and contracts," said Paulsen.¹¹

According to ShowMeTheSpending.org, Iowa does not have any budget accountability and transparency legislation that is currently being sponsored. With the close of the legislative session and a general fund that "is projected to grow by nearly \$500 million, or about 9 percent," it is time for the Legislature to implement budget accountability and transparency.¹² In this current era of increasing taxes and spending, taxpayers should be able to see what contracts are being dispersed, who are the recipients of grants and for what purpose and cost, and a department by department listing of how money is being spent through a searchable database.

On the federal level, the cost estimates for the Coburn/Obama legislation will factor in about \$4 million in 2007 and about \$15 million "over the 2007-2011 period."¹³ The fiscal cost of creating a Google-style search database for a state will be considerably lower than the cost estimate for the national government. Oklahoma, for example, estimates that \$40,000 would be needed in fiscal year 2008 to create "website development and programming."¹⁴ In addition, the "future costs to fully implement the website as originally conceived are calculated at \$245,000-\$260,000."¹⁵

Iowa should implement accountability and transparency legislation. If adopted, taxpayers would be able to see clearly on a searchable website, free of charge,

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how their money is being spent and for what purpose. The Tax Foundation has recently released a report demonstrating that state and local tax burdens have hit a 25-year high.¹⁶ The survey demonstrated that Iowa ranked 18th in terms of its taxing burdens, and 11 percent of an individual's income is taken to pay for state and local government.¹⁷ Serious budget and tax reform is needed, but transparency and accountability, supported by a searchable database, will provide taxpayers with the information they need to tighten the leash of state government. Taxpayers, regardless of political affiliation, should welcome an opportunity to make government more accountable, and perhaps, as Justice Brandeis stated, the sunlight will begin to disinfect the system.

(Endnotes)

¹ Americans For Tax Reform, "State Efforts to Increase Transparency in Government Spending," Updated Memo on Government Transparency, <<http://www.atr.org/state/projects/govtransparency.html>> (April 30, 2007).

² Ibid.

³ Americans For Tax Reform, "State Efforts to Increase Transparency in Government Spending," <<http://www.atr.org/state/projects/govtransparency.html>> (April 25, 2007).

⁴ Ibid.

⁵ Byron Schlomach, "Texas Governor Proposes Spending Reforms, More Accountability," *Budget & Tax News*, The Heartland Institute, December 2006.

⁶ Fred Holden, "A Decade of TABOR: Ten Years After: Analysis of the Taxpayer's Bill of Rights," Independence Institute, Issue Paper Number 8-2003, June 2003, p. 1.

⁷ Ibid.

⁸ Alison Acosta Fraser, "Colorado's Taxpayer's Bill of Rights Should Not Be Breached," Backgrounder No. 1873, July 28, 2005, The Heritage Foundation.

⁹ Robert N. Stewart, Laura P. Keith, Brad Cook, Jonathan Miltimore, Amy K. Frantz, and Dr. Donald Racheter, "The Iowa Values Fund," Policy Study No. 06-1, Public Interest Institute, p. 3.

¹⁰ "Sample Legislation" from Show Me The Spending Coalition, <http://www.showmethespending.org/Model_Legislation.html> (April 30, 2007).

¹¹ Rep. Erik Paulsen, "Paulsen calls for new accountability tool to better track state spending," News Release, January 25, 2007 <<http://www.house.leg.state.mn.us/members/pressreleases85.asp?district=42BPressid=17>> (April 30, 2007).

¹² Jason Clayworth and Jonathan Roos, "Legislators tout '07 achievements: Democrats call 2007 session 'historic'; Republican leader calls it 'a disaster,'" DesMoines Register.com, April 29, 2007, <<http://desmoinesregister.com/apps/pbcs.dll/article?AID=/20070429/NEWS10?704290388>> (April 30, 2007).

¹³ ShowMeTheMoney.org, "Issue Overview, the cost: link to Congressional Budget Office," <http://www.Showmethespending.org/Issue_Overview.html> (April 30, 2007).

¹⁴ Revised Fiscal Impact Report, "SB 1," March 30, 2007, Terry McKenna, Analyst.

¹⁵ Ibid.

¹⁶ Curtis S. Dubay, "State and Local Tax Burdens Hit 25-Year High," Tax Foundation, No. 153, April 2007.

¹⁷ Ibid.

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Iowa's Monthly State Revenue:

The April 2007 Revenue Estimating Conference predicted that the State of Iowa would collect \$6.109 billion in revenues. The Legislative Fiscal Bureau reports that this is a 5.9% increase from the "actual FY 2006 gross cash receipts."

Iowa's Estimated Net Yearly Revenue:

"Total gross cash receipts increased \$367.6 million (6.4%) compared to FY 2006, \$29.2 million more than projected. Overall, according to the Legislative Services Agency, "receipts are on target to meet Revenue Estimating Conference" estimates. Total gross receipts stand at \$6,138.3.

Source: Legislative Fiscal Bureau, "Monthly Revenue Memo," Revenue Estimating Conference Report

Iowa's Unemployment:

Iowa's unemployment rate has increased slightly this spring. In March the rate was at 3.2 percent and in May the rate increased to 3.6 percent. Iowa's WorkForce Development reports that some of the "weakness" in the employment rate from April was due in part to the construction industry, especially with the slowdown in the housing market. "The Iowa job market appeared to be back on track in May, as employers resumed hiring at a stronger pace." The national unemployment rate rests at 4.5%.

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

Consumer Confidence Index:

The Consumer Confidence Index fell from 108.5 in May to 103.9 in June. The spring decline is due to "a perceived softening in present-day business and employment conditions." In addition, the Conference Board states that "looking ahead, consumers remain rather subdued about short-term economic prospects." Iowa's region showed slightly more strength with an index rating of 105.6 in June.

Source: Conference Board, "Consumer Confidence Survey."

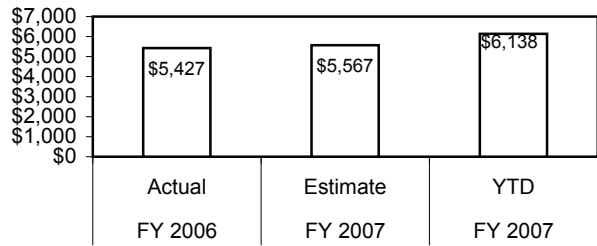
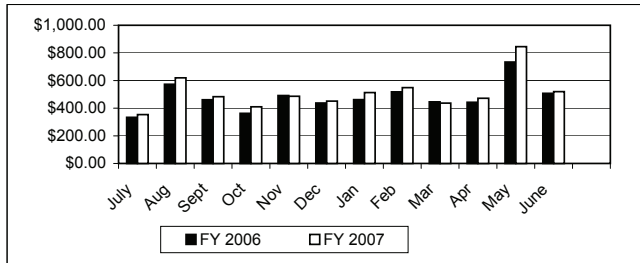
Consumer Price Index, Monthly Change:

The Consumer Price Index advanced 0.7 percent in May. The Bureau of Labor Statistics reported that the index for energy "increased sharply for the third consecutive month-- up 5.4 percent in May." The food index also increased and a moderate increase in the medical and shelter indexes were reported. Inflation is still a concern, but in mid-June Federal Reserve Chairman Ben Bernanke stressed the importance of healthy financial markets to the economy. In addition, some projections predict the U.S. economy will expand in the next few quarters.

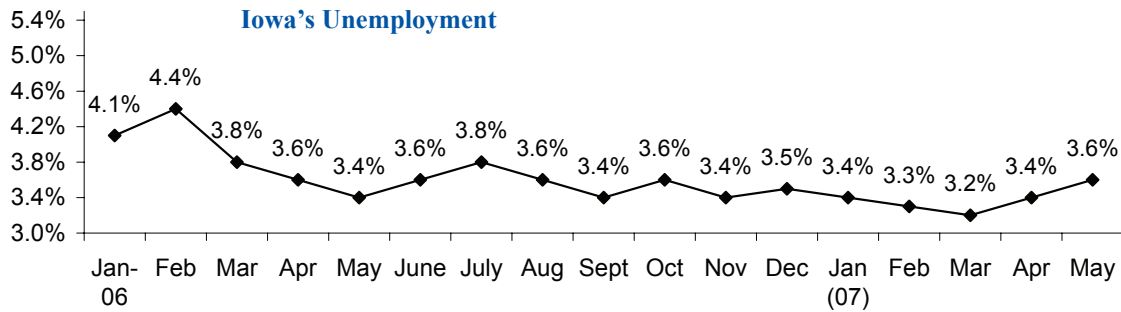
Source: U.S. Department of Labor, Bureau of Labor Statistics

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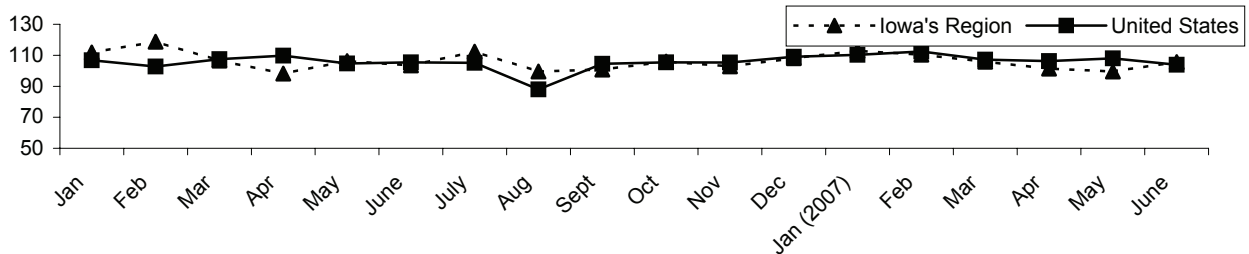
Iowa's Monthly State Revenue and Estimated Net Yearly Revenue



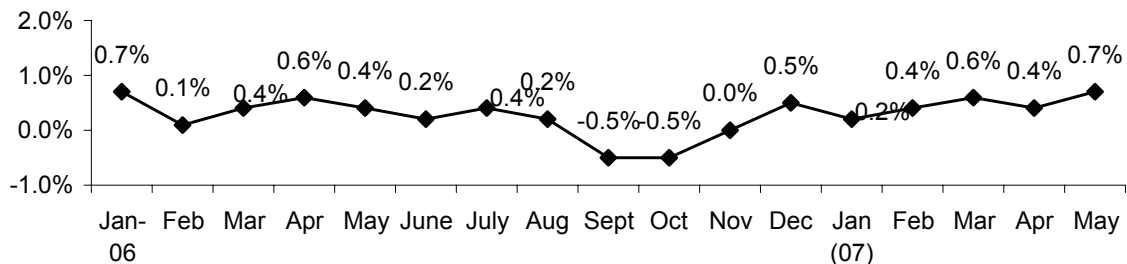
Iowa's Unemployment



Consumer Confidence Index



Consumer Price Index, Monthly Change



**REVENUE ESTIMATING CONFERENCE
ESTIMATE OF GENERAL FUND RECEIPTS**

Historical Figures

TAX RECEIPTS	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>% Change</u>
	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>FY 06 Act. Vs</u>
						<u>FY 05 Act.</u>
Personal Inc. Tax	2,372.1	2,417.6	2,592.3	2,782.3	2,854.2	2.6%
Sales and Use Tax	1,453.0	1,450.4	1,465.6	1,812.3	1,881.1	3.8%
Corporate Income Tax	221.2	237.0	234.8	280.9	348.6	24.1%
Inheritance Tax	100.3	88.1	80.1	78.4	73.1	-6.8%
Insurance Premium Tax	135.4	142.2	138.2	130.9	121.4	-7.3%
Cigarette Tax	88.0	88.1	87.1	87.4	89.5	2.4%
Tobacco Tax	7.1	7.4	8.1	8.7	9.2	5.7%
Beer Tax	13.8	14.0	14.0	14.0	14.2	1.4%
Franchise Tax	30.9	35.3	38.0	35.4	35.5	0.3%
Miscellaneous Tax	1.5	1.1	1.0	0.6	0.6	0.0%
Total Tax Receipts	4,661.8	4,735.4	4,925.9	5,230.9	5,427.4	3.8%
Other Tax Receipts						
Institutional Payments	48.6	16.2	13.7	12.7	13.0	2.4%
Liquor Profits	47.5	49.0	58.0	59.0	63.8	8.1%
Interest	25.3	18.1	7.6	9.7	17.5	80.4%
Fees	70.2	72.2	79.8	72.3	76.2	5.4%
Judicial Revenue	51.9	54.7	57.6	59.2	63.1	6.6%
Miscellaneous Receipts	42.2	41.3	55.3	65.1	49.7	-23.7%
Racing & Gaming	60.0	60.0	60.0	60.0	60.0	0.0%
Total Other Receipts	345.7	311.5	332.0	338.0	343.3	1.6%
Total Tax & Other Receipts	5,007.5	5,046.5	5,257.9	5,568.9	5,770.7	3.6%
Transfers						
Lottery	40.0	38.9	43.9	49.3	79.6	61.5%
Lottery-Touchplay						
DHS Intergovernmental Transfers						
Other Transfers*	265.8	90.0	13.6	39.1	64.4	64.7%
Total Transfers	305.8	128.9	57.5	88.4	144.0	62.9%
Total Receipts & Transfers	5,313.3	5,175.8	5,315.4	5,657.3	5,914.7	4.5%
Accruals (net)	31.7	(44.9)	83.6	(34.1)	54.0	
Refunds	(663.1)	(647.3)	(715.0)	(696.9)	(586.0)	-15.9%
Net Receipts	4,681.9	4,483.6	4,684.0	4,926.3	5,382.7	9.3%

Source: Iowa Department of Management, Revenue Estimating Conference

**REVENUE ESTIMATING CONFERENCE
ESTIMATE OF GENERAL FUND RECEIPTS**

Estimates from December 12, 2006

12/12 FY 07 ESTIMATE	% Change FY 07 Est. vs. FY 06Est.
3,027.0	6.1%
1,931.9	2.7%
433.3	24.3%
74.4	1.8%
110.0	-9.4%
89.5	0.0%
9.7	5.4%
14.5	2.1%
33.4	-5.9%
1.0	66.7%
5,724.7	5.5%
12.6	-3.1%
65.8	3.1%
23.3	33.1%
69.1	-9.3%
64.3	1.9%
35.8	-28.0%
60.0	0.0%
330.9	-3.6%
6,055.6	4.9%
54.0	-32.2%
8.4	-87.0%
62.4	-56.7%
6,118.0	3.4%
17.0	-3.2%
(567.6)	3.4%
5,567.4	22.7%

Estimates from April 6, 2007

04/06 REC FY 07 ESTIMATE	% Change FY 07 Est. vs. FY 06 Actual	10/06 REC FY 08 ESTIMATE	% Change FY 08 Est. vs. FY 07 Est.
3,033.9	6.3%	3,175.4	4.7%
1,905.7	1.3%	1,961.7	2.9%
440.5	26.4%	428.6	-2.7%
75.9	3.8%	81.2	7.0%
116.9	-3.7%	124.4	6.1%
122.2	36.5%	219.7	79.8%
11.6	26.1%	15.4	32.8%
14.2	0.0%	14.3	0.7%
36.9	3.9%	38.7	4.9%
1.0	66.7%	1.0	0.0%
5,758.8	6.1%	6,060.0	5.2%
12.6	-3.1%	12.6	0.0%
66.8	4.7%	67.8	1.5%
29.0	65.7%	29.0	0.0%
81.8	7.3%	62.9	-23.1%
64.3	1.9%	67.9	5.6%
35.8	-28.0%	38.3	7.0%
60.0	0.0%	60.0	0.0%
350.3	2.0%	338.5	-3.4%
6,109.1	5.9%	6,398.5	4.7%
53.4	-32.9%	55.5	3.9%
8.4			
61.8	-87.0%	8.4	
	-57.1%	63.9	
6,170.9	4.3%	6,462.4	4.7%
11.3	-3.0%	25.6	N/A
(568.8)	4.3%	(602.3)	5.9%
5,613.4	21.0%	5,885.7	4.9%

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We may publish some of your ideas in the October 2007 issue of
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Fred McLaughlin, a retired school teacher, responded to our question of the quarter in the April 2007 edition of IES asking whether the free market or the government is the best source for economic development.

Mr. McLaughlin wrote: "I believe that the free market is a far better source for economic development than any program the government can implement. In fact, the government does more to hinder economic development than to benefit it. Even during my 32-year teaching career, while surrounded by liberals with their hands out, I believed the free-market system could do more for the education system than government ever would.