

FOOD FOR YOUR HEAD AND MINE

By Thomas C. Gibbons

IOWA IN THE HOLE

Let us look forward to the day that a Democrat is elected governor of Iowa, takes office, and gets to work. Among other things our new governor would get involved with the state budget. So, imagine that happening, and a few days later the Des Moines Register comes out with a story that says Iowa has a budget deficit of a billion dollars. Then we hear a lot of noises that sound like explosions as, one by one, every Republican in the legislature becomes the victim of a head explosion. They all say, "Can you believe

it? We have had a Democratic governor for just a week, and already the government is in the hole for a billion dollars!”

That might happen. I wouldn't be surprised to hear them talk that way if we win next fall, and, let's face it, our responses are often kind of weak to such charges. A lot of people might believe the Democrat did it.

But the fact is this Des Moines Register Story **(1)** has already run, and it was most recently updated online March 12, 2026. The billion-dollar deficit is already here. The Revenue Estimating Conference has estimated revenue next year of \$8.47 billion, and the governor's

budget plans to spend \$9.67 billion for a deficit of \$1.2 billion. If you are wondering about the Iowa constitutional prohibition against deficit spending, don't worry. They plan to cover the deficit by tapping something called the Iowa Taxpayer Relief Fund, a pile of money they are sitting on that contains about \$4 billion.

Where did that \$4 billion come from? This fund, as well as some others, has been filled up by not spending as much as the state took in during previous years **(2)**. There have been some revenue windfalls during some of that time. For one thing the federal government has distributed a lot of money intended for

COVID relief, and Iowa appears to still have a lot of it. For another thing, there was a surge in consumer spending as the COVID restrictions were lifted. That generated extra tax revenue. Besides that, the Republican legislature has just refused to increase spending as much as it should have.

What does this do to state funding? Governor Reynolds has claimed **(3)** that per pupil state education funding has increased 21% in 10 years. It takes slightly less than 2% per year to do this, which does not keep up with inflation. I just used the inflation calculator of the American Institute for Economic Research **(4)** and found that a \$100 cost

in 2016 is equivalent to \$135 in 2026 for a 35% increase. So, state school funding increased 21% while inflation increased by 35% in the same time period.

Checking this, the US Bureau of Labor Statistics has a similar calculator **(5)** that gave 38% for the same period.

So that is how Iowa saved a bunch of money. I find on Ballotpedia **(6)** that in 2016 the governor's budget called for spending \$7.34 billion, while the 2026 budget was \$9.5 billion **(1)**. That is a 29.4% increase in the total budget, also short of inflation. And that was 11 years for the budget vs only 10 years for inflation.

So, they shorted us on spending and kept some COVID relief money to build up a large bank account, which they are now using to make up a revenue shortfall.

Where did that revenue problem come from? Well, from tax cuts, of course. If you remember, Iowa once had a fairly progressive, graduated tax rate schedule. The Republicans replaced it with a flat tax rate of 3.8%. According to the Des Moines Register article previously mentioned **(1)**, that is the main reason that the state revenue has collapsed. So, all those losing-ground-to-inflation spending cuts were intended to build up money to allow tax cuts which allowed

huge savings for people who had been in the higher brackets.

In 2020 there were 6 tax brackets **(7)** above the eventual single rate of 3.8%, and the highest was 8.53%, while there were only 3 brackets below 3.8%. So, there is plenty of room for wealthier people to benefit from the tax change.

They have said they intend to continue to use the extra funds to finance the revenue shortfall until revenue expansion due to an expanding economy catches revenue up to spending. It seems that spending cannot increase much if that is going to work. Also, the state's economy will have to grow a lot. That growth has been hovering around

4% **(8)** in recent years vs. less than 3% in government spending. If you assume 4% per year revenue growth and no spending growth, the revenue catches up during the 4th year. But with reasonable spending growth, the fund vanishes before it finishes its job. So, a new Democratic governor will have decisions to make. One pretty certain thing: They will publicly blame any new Democratic governor for the deficit within a few minutes of taking office.

IF A LINK DOESN'T WORK, COPY AND PASTE IT

1. [Iowa's estimated budget gap grows amid tax cuts. What to know: \(www.desmoinesregister.com/story/news/politics/2026/03/12/iowa-revenue-estimation-spending-kim-reynolds/89117144007/\)](https://www.desmoinesregister.com/story/news/politics/2026/03/12/iowa-revenue-estimation-spending-kim-reynolds/89117144007/)
2. [Why Does Iowa Have A \\$1.24 Billion Surplus? | Iowa Public Radio \(www.iowapublicradio.org/state-government-news/2021-09-29/why-does-iowa-have-a-1-24-billion-surplus\)](http://www.iowapublicradio.org/state-government-news/2021-09-29/why-does-iowa-have-a-1-24-billion-surplus)
3. [\(9\) In the last 10 years, per-pupil funding in... - Governor Kim Reynolds | Facebook \(www.facebook.com/IAGovernor/posts/in-the-last-10-years-per-pupil-](https://www.facebook.com/IAGovernor/posts/in-the-last-10-years-per-pupil-funding-in...-Governor-Kim-Reynolds)

[funding-in-iowa-has-risen-21-and-school-staff-has/1446683213479874/](#)

4. [Cost of Living Calculator: What is Your Dollar Worth Today? | AIER](#)

(aier.org/cost-of-living-calculator/?utm_source=Google%20Ads&utm_medium=Google%20CPC&utm_campaign=COLA&gad_source=1&gad_campaignid=1488531787&gbraid=0AAAAADn50P5A-vcx-4T4IFuBnkyP1xjiX&gclid=Cj0KCQjwpv7NBhCzARIsADkIfWyyubdU0BuNrOLaLMva4OgSDtQ_munIKroxYnbn5kSLdvlarxkDMEsaAjESEALw_wcB)

5. [CPI Inflation Calculator : U.S. Bureau of Labor Statistics](#)

(www.bls.gov/data/inflation_calculator.htm)

6. [Historical Iowa budget and finance information - Ballotpedia](http://ballotpedia.org/Historical_Iowa_Budget_and_Finance_Information)

(ballotpedia.org/Historical_Iowa_Budget_and_Finance_Information)

7. [State-Individual-Income-Tax-Rates-and-Brackets-for-2020-U.pdf](http://files.taxfoundation.org/20201130112944/State-Individual-Income-Tax-Rates-and-Brackets-for-2020-U.pdf)

(files.taxfoundation.org/20201130112944/State-Individual-Income-Tax-Rates-and-Brackets-for-2020-U.pdf)

8. [Iowa GDP \(2005-2025\)](http://www.macrotrends.net/5054/iowa-gdp)

(www.macrotrends.net/5054/iowa-gdp)