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RUSH JOB?

The first week for speeches and the start of committee action is quite normal. The suspension of the House rules to quickly pass some bills for the governor to sign on Saturday for a press conference is outside of the norm.

The rush to get four education bills through the legislature in minimal time broke the rhetoric of transparency and accountability by the majority party. One bill would quickly allow the Department of Education to apply for federal funds tied to school choice reform initiatives, but the Iowa School Board Association is registered against the bill (HF 2033) since it further erodes local school board control. A second bill (HF2030) puts a nice face on Governor Culver's shift of education funding due to his 10% cut onto the property tax payers. Again, it dings local control and really maintains status quo for school property tax levies. Two more bills delay the setting of allowable growth in FY2012 for the regular school foundation aid (HF 2031) and the categorical programs like teacher compensation, professional development and class-size reduction (HF 2032). These two make more sense to support because the allowable growth factors are normally set eighteen months ahead without knowing the future financial picture for the state. All four bills will pass because they are part of the majority party's agenda.

Fact or Fiction?

Democrat Fiction: After the Governor's 10 percent across-the-board cut, the budget spends less than the FY2007 budget (the last budget approved by House Republicans).

Fact: After the ATB cut is applied to the Executive, Legislative and Judicial branches, the estimated *general fund* spending for FY 2010 is \$5.233 billion. The actual *general fund* spending for FY 2007 was \$5.385 billion, or \$152 million more than the estimated FY 2010 budget.

Fact: In FY 2010, the Democrats spent \$80.3 million from the cash reserve fund and \$591.9 million in federal stimulus funds for *general fund* purposes to include Medicaid, K-12 school aid and support, Regents, human services, community colleges, correction and public safety, and other miscellaneous programs.

Fact: When the additional \$672.2 million for *general fund* programs is included in the spending, true *general fund* spending for FY 2010 is \$5.9 billion, which is just short of the record \$6.088 billion spent in FY 2009.

Source: The nonpartisan Fiscal Services Division of the Legislative Services Agency

I will not vote for a budget that spends more than the State takes in!

Tax Credit Review Committee Issues Recommendations

In mid-November, Governor Culver ordered a comprehensive review of Iowa's tax credit programs. Accordingly, on Friday, January 8, Governor Culver's hand picked, seven-member tax credit review panel published their recommendations on how to reform Iowa's tax credit programs.

The committee recommended that lawmakers make several changes to various tax credit programs as well as change how the agencies responsible for administering tax credits do so. If every recommendation the panel had made were implemented as is, the General Fund will grow by \$55.2 million in FY11 and \$106.3 million in FY12. Furthermore, Governor Culver in his Condition of the State address Tuesday appeared to endorse the panel's suggestions by urging lawmakers to adopt the recommendations this session.

The panel recommendations and a summary of their rationale of why these changes are needed include:

Provide Greater Transparency: The panel is recommending requiring the Revenue Estimating Conference to make available for public dissemination a list of the types and amounts of tax credit claims in its Tax Receipts calculation at each REC meeting. The panel states that it is difficult to determine what is being spent on tax credits when the General Fund budget is printed.

Develop a Return on Investment Calculation: The panel reports it is difficult to compare the costs and benefits of tax credit programs and that there is a lack of data available for many tax credit programs. As a result of this finding, the panel recommends that the State should determine whether the public investment produces greater business activity that the recipient engaged in and, if so, how much and for how long. According to the panel, this calculation should also take into consideration whether the tax credit produced a net increase in economic activity; and measure whether or not a tax credit achieved a particular behavior which it was intended to achieve when created.

Eliminate the Transferability of Tax Credits: Currently, some tax credit programs allow entities that are awarded tax credits to sell (transfer) the tax credit, often at a discount; to a third party that then uses the full value of the credit when filing their Iowa taxes. The panel believes this practice is one factor that led to abuse in the film tax credit program and is proposing to eliminate it for all tax credits.

Sunset Tax Credits Every Five Years: Currently, only a handful of tax credit programs have sunset provisions. The panel believes that requiring a sunset provision for every tax credit will allow lawmakers and the public to know which tax credits are accomplishing their intended goals and which ones are not.

Cap Business Related Tax Credits: Last year the legislature placed a \$185 million cap on five tax credit programs. Moreover, the panel recommends moving all business related tax credits to also be placed under this cap. The panel believes this is necessary for “predictability and stability” for the state budget.

Eliminate Eight Tax Credit Programs: The panel suggests eliminating the following tax credit programs; Assistive Device Tax Credit, Disaster Recovery Housing Project Tax Credit, Early Childhood Development Tax Credit, Economic Development Region Revolving Fund Tax Credit, Film Television Promotion Expenditure and Investment Tax Credits, Venture Capital Qualified Business Tax Credit and Venture Capital – Capital Funds Tax Credit. The panel believes these tax credits need to be terminated because either they are not working or they are not being utilized. However, legislative Democrats attempted to eliminate the Assistive Device Tax Credit last session, but the Governor disagreed and vetoed the proposal from the Standings Appropriations bill.

Eliminate Refundability of Research Activities Tax Credit: The panel is proposing to eliminate the ability for a business that is eligible for the Research Activities Credit to claim an amount above their Iowa tax liability. When a tax credit is refundable, a recipient of that credit can claim the full amount of the credit regardless if their tax liability is below the amount of the tax credit. As a result, the recipient is eligible for a direct payment. The panel believes that the refundability portion of the RAC is “not equitable” and makes the credit “more costly than comparable credits in surrounding states.”

You can access the complete report on the web by directing your web browser to the following address:

http://www.dom.state.ia.us/tax_credit_review/files/TaxCreditStudyReviewReportFINAL18_2010.doc

While the panel made several recommendations, ultimately the legislature will review tax credit programs and make the changes they see fit. I believe that tax credit programs that are providing benefit to Iowa taxpayers should be maintained and those that are not should either be fixed or eliminated. Regardless of the result, I firmly believe that revenue generated by eliminating, capping or changing tax credits should not result in a windfall for the General Fund. Instead, it should be returned to the taxpayers through some type of tax relief.

Veteran’s Day at the Capitol

The date for the 2010 Veterans Day at the Capitol is set for Thursday, January 21. Many of Iowa’s honorable Veterans and Veterans Service Organizations will be in attendance to learn about and discuss the latest legislative activity. They will want to discuss with their representatives the issues that Veterans in Iowa are facing today.

The schedule for the day is as follows:

9 – 10 am – Sign-in and vendors tables will be available in the Rotunda

10 – 10:30 am – the Veterans Day Program will take place in the Rotunda, with invited guests for speaking including Gov. Culver, Sen. Beall, Rep. Zirkelbach, Sen. Seymour, and Rep. Chambers

10:30 – Noon – Vendors tables will be open and Veterans will be looking to speak with their representatives

Upcoming legislative forums with Senator Randy Feenstra and Rep. Dwayne Alons:

Friday, January 29, Cedar Rock Grill, Rock Valley, 12:00 noon

Friday, January 29, Market Place Grille, Inwood, 2:00 p.m. (Tentative)

Saturday, January 30, Forster Community Bldg, Rock Rapids, “Eggs and Issues”, 8:00 a.m.