



## 2008 Session Ends with Unprecedented Spending Increases and Loss of Local Vote on School Infrastructure Tax

### **TOTAL SPENDING INCREASES APPROVED DURING FIRST TWO YEARS OF CULVER ADMINISTRATION WILL EXCEED THE ENTIRE EIGHT YEARS OF SPENDING INCREASES UNDER GOVERNOR VILSACK:**

The old line you often hear said in jest is: “Grab your wallet, the Legislature is back in town.” Unfortunately, there was nothing funny about the final days of the 2008 Session of the Iowa General Assembly and Iowa taxpayers will be paying these bills for years to come.

Much of the legislation passed during the final week of the Session is still sitting on Governor Culver’s desk awaiting his final decisions. He has 30 days to act on those bills he receives after the Legislature has adjourned for the year and, thus, much of the final analysis of the 2008 Session will wait until all these matters have been settled.

As such, please watch for a series of Interim Reports from *The Watchdog* in the coming weeks and months that provide more in depth looks at the various outcomes of the 2008 Session.

However, in the way of a quick and dirty look at the 2008 Session, here are three negatives and three positives from 2008:

### **NEGATIVES**

1. **SPENDING GROWTH:** True state spending increases adopted by the Legislature this year, and in 2007, total **\$916 million (or 17.2%)**. In just two years, this Legislature and Governor (assuming the bulk of this spending is approved by the Governor) will have **spent more than the total spending increases adopted throughout the entire eight years of the Vilsack administration.**

These huge spending increases have put Iowa in a precarious position heading into Fiscal Year 2009 (begins on July 1, 2008). With a national economy on the brink of recession (if not already there) and with a state economy fueled by an ethanol fuel bubble, just a slight disruption in our state economy will put our state budget seriously out of balance.

2. **LOCAL VOTERS STRIPPED OF THEIR RIGHT TO APPROVE SCHOOL TAX:** The Iowa Senate gave final approval, and Governor Culver has already signed, legislation to strip local voters of their right to approve a one cent local option tax to fund school infrastructure spending.

While some groups hail the move to make this tax a permanent statewide penny as a great achievement of the 2008 General Assembly, we are sadly confident those same groups will be lamenting this change just a few years in the future.

In fact, in a last minute back room deal, the statewide pool created by this legislation was significantly reduced for its first five years when an amendment was added to another bill that exempts the sales tax receipts from sales tax rich Linn and Johnson Counties from the shared statewide pool for five years.

## Quick and Dirty Review of the 2008 Session, continued...

This means Linn and Johnson Counties will NOT have to share their huge revenue streams with other schools for the next five years. This significantly shrinks early estimates and means other school districts will be receiving LESS than they were originally promised. From our perspective, this is just the first of many efforts to divert revenue from this fund to other purposes.

Need more evidence? The Iowa State Education Association (the teachers' union--one of the most powerful special interest groups in Iowa) recently distributed its 2008 candidate questionnaire and it asks candidates **whether or not they would support using some portion of the new school infrastructure fund for other purposes.** Note: the ISEA supports using at least 50% of this revenue for purposes other than school construction and property tax relief.

3. **SUB PRIME PRISON A REALITY:** In one of the last bills passed this year, the Legislature approved the construction of a new prison in Fort Madison using borrowed money. In fact, the funding mechanism that will be used to construct this prison will rely on interest only borrowing for the first four or five years of the debt instrument.

Why are we borrowing money to build a prison when the state has a dedicated fund for infrastructure projects that has more than enough annual resources to fund this construction project? Why? Because the Governor and Legislature are shifting \$75 million of general fund spending into this fund for FY09 and are unwilling to set aside other spending projects to make this happen on a pay-as-you-go basis.

### POSITIVES

1. **FEDERAL DEDUCTIBILITY INTACT:** When the new General Assembly convened in January 2007 there was much speculation an effort would be made to "reform" our state income tax and eliminate the ability of Iowans to fully deduct federal income tax payments on their Iowa income tax returns.

Federal deductibility has been a cornerstone principle of Iowans for Tax Relief and we have successfully turned back numerous attempts to take this deduction from Iowans. We support federal deductibility as a matter of simple fairness--no tax on a tax. In addition, history shows any rate reductions coupled with its repeal tend to be temporary.

Iowans for Tax Relief launched a preemptive strike early in 2007 to protect federal deductibility and shortly thereafter legislative leaders took the issue off the table for both 2007 and 2008. This was a victory for Iowa taxpayers, but, could be short-lived as those same legislative leaders have made it clear this issue will resurface in 2009 should they retain their current majorities in the House and Senate.

2. **STOPPED \$53 MILLION CAR TAX INCREASE:** The original legislation to make the local option tax for school infrastructure a permanent statewide tax included a \$53 million increase in the motor vehicle use tax. This would have increased the purchase price of all new and used vehicle sales by one percent (meaning a \$25,000 car would have generated a \$250 tax increase).

Iowans for Tax Relief used an aggressive media and member contact campaign to oppose this tax increase (and the entire bill) and the Iowa House Ways and Means Committee voted to remove the motor vehicle use tax increase from the bill.

3. **NO NEW LOCAL OPTION TAXES OR FEES:** At least three pieces of proposed legislation would have created new local option taxes or provided local governments with additional opportunities to impose new fees (one such bill cleared the Iowa Senate). However, Iowans for Tax Relief successfully lobbied to stop all three bills.

Watch for more editions of *The Watchdog* in the coming weeks and months as we continue our analysis of the 2008 Session of the Iowa Legislature.

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The Watchdog is a weekly update of issues which are being considered by the Iowa Legislature. It is a service to members of Iowans for Tax Relief. Permission is granted to forward this to any interested individuals.

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