



IOWANS FOR TAX RELIEF

— THE TAXPAYERS' WATCHDOG —

LEGISLATIVE ISSUE GUIDE

2019 LEGISLATIVE SESSION

Helping Iowa Grow

We work to make Iowa a place for families and businesses to grow and thrive. Despite everything our state has to offer, we often lose people, revenue, and business investment to other states. Iowa's economic policies impact us all, and current and prospective Iowans must be empowered with economic freedom through fiscal responsibility, free market solutions, and limited government at all levels.

Our state's economic challenges include high property taxes, an uncompetitive tax code, a reliance on the federal government, a Medicaid system potentially laden with fraud, and an overall appetite for increased government spending.

Through research and advocacy, Iowans for Tax Relief (ITR) serves as a resource for lawmakers and citizens who desire commonsense solutions for delivering economic freedom.

We invite you to review the issues and solutions proposed in this guide and continue a dialogue with us. In this Legislative Issue Guide, we discuss five key policy solutions that the legislature can implement this year to increase economic freedom in Iowa:

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The purpose of this guide is to serve as an informational tool with the goal of continuing the progress made in the previous two legislative sessions. The solutions put forth in this guide are the present policy initiatives supported by ITR. As new issues come to light in the 2019 legislative session, ITR will weigh in when appropriate.



Property Taxes



Uncle Sam's Dependent



Tax Rates Matter



Stop Medicaid Abuse



State Government Spending

ITR will remain the **taxpayers' watchdog** and will not relent in fighting for a better Iowa. If you have any questions about any of the information presented in this guide, please call 877-913-3600 or email itr@taxrelief.org.

PROPERTY OWNERS AREN'T A BLANK CHECK

Taxpayers Deserve Relief and Transparency!



The Problem

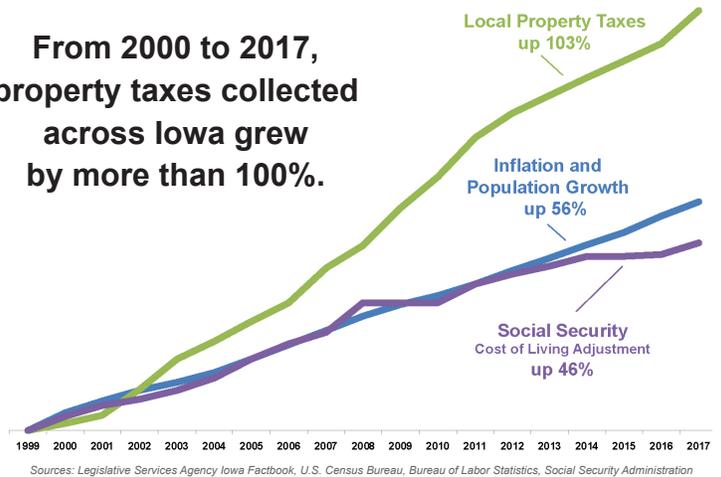
Local governments are expanding faster than the rest of the state.

“With no check, property taxes can become unaffordable.”

Gretchen Tegler
Taxpayers Association of Central Iowa

The Facts

From 2000 to 2017, property taxes collected across Iowa grew by more than 100%.



What Can Be Done?



Property tax growth limited to lesser of 2% or rate of inflation
60% voter approval to override the limit



Maintains same level of property taxes as prior year
Public notification with hearing and local official approval process to override

For Your Consideration:

- Property tax revenue has grown at a much faster rate than inflation, population, and General Fund spending.
- Current taxpayer protections are ineffective at limiting the increase of property tax bills.
- Effective taxpayer protection would control the growth of property taxes and ensure sufficient revenue to fund the priorities of local governments.
- All local revenue and fees should be reviewed for limitation. When only property tax revenue has been limited in other states, local governments have increased sales taxes, hotel/motel taxes, other local taxes, or increased fees to compensate for revenue they consider lost.

“Local governments should not receive an automatic 12 percent revenue increase simply because property valuations increased 12 percent.”

- Utah Taxpayers Association



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Property Taxes Are Quickly Becoming Unaffordable

“What I’ve worked 50 years to build up, they’re taking away from me. Pie in the sky assessments allow government to grow and prosper way beyond what property owners and other taxpayers can afford.” These are comments from a retired Iowa veteran and the data backs up his claim about affordability. Since 2000, total property tax revenue has increased over 100%. Over that same time, the state’s General Fund has increased by 60%, population growth and inflation have combined to increase by 56%, and the cost-of-living adjustment (COLA) provided to Social Security beneficiaries has only increased by 46%.

“What I’ve worked 50 years to build up, they’re taking away from me.”

Property taxes are quickly becoming unaffordable for too many Iowans. The property tax bills received by Iowans last fall continued to increase. Many local governments have avoided hiking property tax rates, instead relying on increased assessments to drive property tax revenue higher and higher.

What many elected officials misunderstand is that it’s the revenue, not the rate, that matters. The Iowa legislature can help provide taxpayers with property tax relief by establishing a revenue limit on property tax growth. A property tax revenue growth limit would not interfere with the assessment process, but it could control the increase of property tax bills while ensuring that local governments continue to have enough revenue to fund their priorities.

Perhaps the most effective property tax limitation would apply to increases in total tax revenue (property taxes and other types of local tax revenue) or aggregate spending. The revenue limit could be based on a fixed percentage, population growth plus inflation, or the Social Security COLA. A revenue limit would help solve the problem of taxpayers receiving a dramatic increase in their property tax bills because of higher assessments. Focusing on anything other than the radical growth of the budgets of local governments misses the root of the problem.



New York and Utah are two examples of states that are successfully limiting the growth of property taxes. Both focus on the revenue side of the property tax equation and provide mechanisms for additional revenue if approved at the local level. New York established a “property tax cap that limits the annual growth of taxes levied by local governments and school districts to two percent or the rate of inflation, whichever is less.” In addition, the New York provision allows taxpayers to override the cap if 60 percent of voters approve an increase. The Empire Center for Public Policy estimates that since the caps were enacted in 2011 they have saved taxpayers close to a billion dollars.

Utah’s approach to controlling property taxes is somewhat different than New York’s. Utah utilizes a “truth in taxation” system that requires local governments to only budget the same amount of property tax as the preceding year. This policy requires an extensive public notification and hearing process that not only notifies citizens of the intent to raise taxes, but also explains why additional revenue is needed.

The revenue growth limits that both of these states utilize help protect property owners from huge tax increases due to increased assessments. In describing the importance of truth in taxation, the Utah Taxpayers Association argues that “local governments should not receive an automatic 12 percent revenue increase simply because property valuations increased 12 percent.”

A property tax revenue limitation in Iowa’s code will help keep local government from growing beyond what property owners and other taxpayers can afford.

Uncle Sam's Dependent

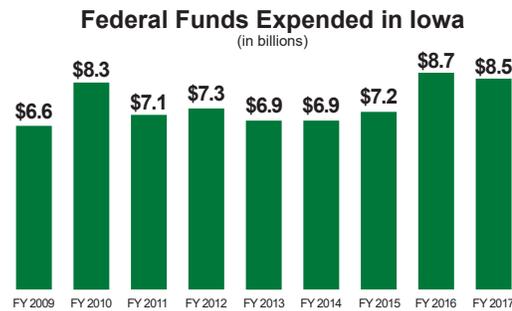
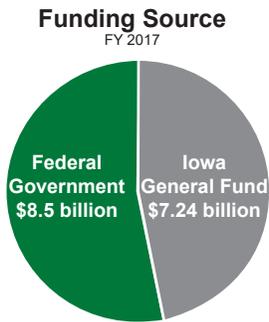
Iowa must protect itself from Washington's mismanagement.

The Facts

Over half of the money flowing through state government is subject to the next federal spending crisis.



I WANT YOU
TO DEPEND ON
MY MONEY & MY RULES



The Problem

Federal funding is never free money; there are ALWAYS strings attached.



Iowa is required to:

- **Commit additional funds**
- **Follow Uncle Sam's rules**



How is Iowa impacted if federal funds are reduced or eliminated?

The Solution

- 1 ITEMIZE ALL FEDERAL FUNDS IOWA RECEIVES**
so lawmakers and taxpayers can clearly and easily see the programs that are the ultimate recipients of those funds.
- 2 MEASURE THE DOLLARS & OBLIGATIONS**
Iowa must commit to so we all understand what strings are attached.
- 3 IDENTIFY THE END DATE**
scheduled or foreseeable, for funding that is likely to come to an end.
- 4 DEVELOP A CONTINGENCY PLAN**
to deal with potential federal cuts and the impact they would have on Iowa's budget and the services provided to citizens.



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Why an Inventory of all Federal Funds is needed in Iowa

We all know that the federal budget deficit created in Washington, D.C., is unsustainable. We also know federal budget fights lead to rash spending cuts and government shutdowns. But, did you know that the State of Iowa received \$8.5 billion from the federal government in 2017, an amount that eclipses our current state budget of \$7.5 billion?

Iowa's dependency on Uncle Sam is dangerous. Federal funds could be reduced or eliminated in a flash, such as in the case of a government shutdown. These funds also come with strings attached, often requiring additional state funding to support federal initiatives. Iowans should be concerned that over half of the money flowing through state government is subject to the repercussions of the next federal spending crisis.

Iowans should be concerned that roughly half of the money flowing through state government is subject to the repercussions of the next federal spending crisis.

To prove the danger of relying on federal dollars, the recent action of Congress to phase out the Children's Health Insurance Program will cost the state an estimated \$30 million annually. Because Iowa relied on the federal support to fund the Healthy and Well Kids in Iowa insurance program, the state is now on the hook to financially support this federally-created initiative.

Local programs are also subject to the repercussions of federal funding. Beginning in 2001, the Sioux City School District received a federal grant from the Safe Schools/Healthy Students initiative. This grant helped provide mental health services to students. As anticipated, this grant funding recently expired, and as a result, the school district is now asking for nearly \$800,000 from Woodbury County to continue to provide the grant-funded services.



Federal funding often disappears, and state and local taxpayers are left with the bill.

The point of a federal funds inventory is not to debate the merit of these federal initiatives, but rather to bring attention to a problem: Federal funding often disappears, and state and local taxpayers are left with the bill.

What steps does Iowa need to take to ensure we aren't reliant on the mercy of political outcomes in D.C.?

Itemize all federal funds coming into Iowa so lawmakers and taxpayers can clearly and easily see the programs that are the ultimate recipients of those funds.

Measure the dollars and obligations to which Iowa must commit so we understand what strings are attached.

Identify the end date, scheduled or foreseeable, for funding that is likely to come to an end.

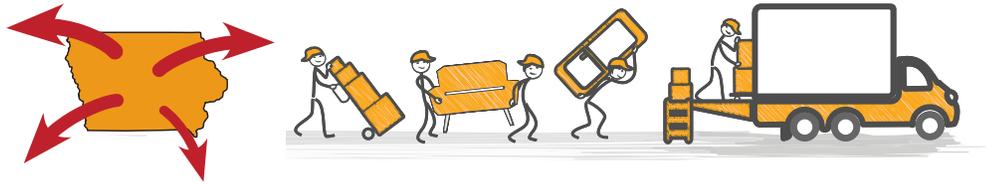
Develop a contingency plan to deal with potential federal cuts and the impact they would have on Iowa's budget and the services provided to citizens.

Taking a full inventory of federal funds will spotlight the impact of federal dollars, make clear where federal money is going and what regulations are being forced upon Iowa, and as a result, help us prepare for when Uncle Sam is no longer able to provide such generous support to our state.

TAX RATES MATTER!

Iowa's income tax rates must be competitive.

The Problem



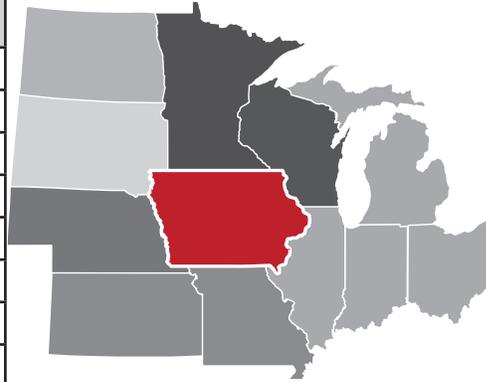
**Individuals, Entrepreneurs, and Businesses
VOTE WITH THEIR FEET!**

States with a low tax and regulatory climate will continue to be more attractive than Iowa.

IOWA'S TAX RATES REMAIN SOME OF THE HIGHEST IN THE NATION AND MIDWEST.

The Facts

Top State Individual Income Tax Rate	
South Dakota	No Income Tax
North Dakota	2.90%
Indiana	3.23%
Michigan	4.25%
Illinois	4.95%
Ohio	4.997%
Kansas	5.50%
Missouri	5.90%
Iowa	6.50%
Nebraska	6.84%
Wisconsin	7.65%
Iowa	8.53%
Minnesota	9.85%



Top State Corporate Income Tax Rate	
South Dakota	No Income Tax
Ohio	0.26% Gross Receipts Tax
North Dakota	4.31%
Michigan	6.00%
Indiana	6.25%
Missouri	6.25%
Kansas	7.0%
Nebraska	7.81%
Wisconsin	7.90%
Illinois	9.50%
Minnesota	9.80%
Iowa	9.80%
Iowa	12.00%

Iowa currently has a 8.53% top rate until 2023

Iowa currently has a 12.00% top rate until 2021

The Solution

1 Speed up future tax cuts.

2 Continue to lower tax rates.



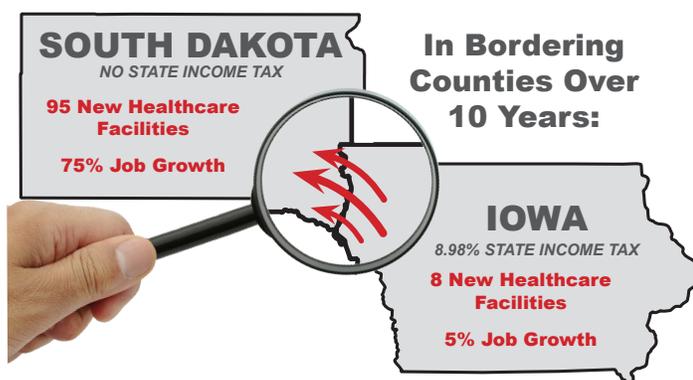
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Iowa's Income Tax Rates Must Be Competitive

During the last legislative session, the legislature passed a tax reform measure that begins the process of lowering rates, increases conformity with the federal tax code, and modernizes the state sales and use tax. This was the first major tax legislation passed by the legislature in 20 years. 2018's tax reform will begin to provide relief for Iowa taxpayers, but the work is far from complete.

Tax rates matter, and Iowa's tax code must become more competitive. While tax relief is off to a good start, **Iowa's tax rates remain some of the highest in the nation.** The Tax Foundation ranks Iowa in the bottom ten states (45 out of 50) for business climate. High tax rates deter economic growth and productivity. High tax rates also provide a competitive disadvantage as states race to attract and retain residents and businesses. Individuals, entrepreneurs, and businesses will vote with their feet by moving to states with the best regulatory and tax climates.

One of the best illustrations of this is Iowa's shared border with South Dakota. South Dakota has no state income tax. In the past ten years, the South Dakota counties that border Iowa have seen 75 percent job growth compared to 5 percent in Iowa's border counties. In the healthcare industry alone, South Dakota saw 95 new healthcare facilities open compared to only eight new healthcare facilities on the Iowa side of the border.



In this competitive climate where tax rates matter, how exactly does Iowa compare to our 11 Midwestern neighbors? When the first personal tax cut goes into effect in 2019, Iowa's top income tax rate of 8.53 percent will be 11th (highest) out of 12, and when the next scheduled cut to 6.5 percent occurs in 2023, we will improve to 9th out of 12. When the first corporate tax cut occurs in 2021, Iowa's top corporate income tax rate of 9.8 percent will be tied for the 11th (highest) out of 12.

Legislators should create a path of continued rate reductions.

The national economy is growing at a rate over 4 percent, and Iowa is benefiting from the pro-growth policies of tax and regulatory reductions. Daniel J. Mitchell, a noted economist, offers three points that Iowa policymakers need to consider regarding taxes:

1. Economic growth occurs when we increase the quantity and/or quality of labor and capital.
2. Taxes increase the cost of whatever is being taxed, and people respond by doing less of whatever is being taxed.
3. To get more prosperity, lower tax rates on productive behaviors such as work, saving, investment, and entrepreneurship.

It is vital that Iowa's policymakers continue their work to reduce tax rates. Ideally, all planned future tax cuts should be implemented sooner to allow taxpayers to keep more of their hard-earned income and fuel economic growth in Iowa. Additionally, legislators should create a path of continued rate reductions for individual and corporate income taxes.

STOP MEDICAID ABUSE

Iowa Needs Eligibility Verification

The Facts

Iowa's Largest General Fund Appropriations:

1. School Aid
- 2. MEDICAID**
3. Higher Education



Nearly
1 of 5
Iowans receive
Medicaid benefits

Federal and state governments combine to spend

\$5 BILLION
on Medicaid in Iowa every year

The Problem

It is unclear how much Medicaid abuse is present in Iowa. Other states have found:

 *Illinois uncovered more than 14,000 dead enrollees.*

 *Michigan identified thousands of lottery winners.*

 *Arkansas removed 25,000 receiving benefits in multiple states*

 *Louisiana randomly checked 100 recipients. 82 did not qualify.*



Iowa doesn't know!

The Solution

Protect resources for those who qualify.



Regularly review recipient eligibility.



Remove individuals from the rolls who abuse the system.

*A **Medicaid recipient** audit would control costs and ensure benefits reach the truly needy.*

More information on this issue is available from the Foundation for Government Accountability - thefga.org



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Iowa Must Ensure Resources Reach the Truly Needy

Abuse and fraud within Medicaid is a serious and costly issue. Jonathan Ingram, Vice President of Research at the Foundation for Government Accountability (FGA), has written that “Medicaid fraud weighs heavy on budgets — both state and federal — and robs important resources from the truly needy. Every dollar lost to waste, fraud, or abuse is a dollar that cannot go to fund services for those with genuine and urgent needs.”

“Every dollar lost to waste, fraud, or abuse is a dollar that cannot go to fund services for those with genuine and urgent needs.”

A Medicaid audit that regularly reviews recipient eligibility is a needed mechanism to ensure that benefits go to those Iowans who truly need the services. States that have begun the process of examining Medicaid eligibility abuse have found shocking results that are costing taxpayers millions. FGA previously outlined some of the findings of Medicaid eligibility abuse from other states:

- Michigan identified more than 7,000 lottery winners still collecting welfare, some with jackpots as high as \$4 million.
- Illinois uncovered more than 14,000 dead enrollees still on Medicaid.
- Arkansas removed 25,000 individuals from their Medicaid rolls because they were receiving benefits in multiple states.

This past November in Louisiana, the legislative auditor made a random selection of 100 Medicaid recipients and found that 82 of those individuals did not qualify to receive benefits. At this time, it is unclear how much Medicaid fraud is present in Iowa, but the

evidence from other states demonstrates that a Medicaid recipient audit is needed.

Iowa’s Medicaid program has expanded due to the Patient Protection and Affordable Care Act and now nearly one in five of Iowans receive Medicaid benefits.

While the federal government picks up most of the tab, Medicaid is still the second largest appropriation within Iowa’s General Fund, totaling \$1.3 billion in our state’s most recent budget. With this much money involved in delivering such needed care, Iowa taxpayers deserve to know that their hard-earned dollars are being spent appropriately.

A Medicaid audit that regularly reviews recipient eligibility is a needed mechanism.

A commonsense solution to halt Medicaid abuse should start with regular eligibility reviews of Medicaid recipients. These reviews should include:

- Earned and unearned income
- Residency status
- Death records
- Lottery winnings
- Other status changes that would otherwise make a recipient ineligible for assistance

Allowing Medicaid fraud and abuse doesn’t just fleece the taxpayer, but it is unfair to those Iowans who need the services Medicaid provides.



LET'S GET REAL ABOUT SPENDING

Strengthen Iowa's Government Spending Limit



How could Iowa have SAVED \$500 MILLION?

With a
**CONSTITUTIONAL
AMENDMENT**
limiting how much
government can spend.

Comparison of Enacted General Fund Appropriations to the Expenditure Limitation as Recalculated Under SJR 9 (Constitutional Amendment)

Fiscal Year	Enacted Appropriations	Spending Limit Under Amendment	Difference (Reduction of Amount Spent)
FY 2012	\$5,999.7	\$5,877.6	\$122.1
FY 2013	\$6,222.6	\$6,161.7	\$60.9
FY 2014	\$6,490.1	\$6,422.0	\$68.1
FY 2015	\$6,958.9	\$6,893.8	\$65.1
FY 2016	\$7,175.2	\$7,048.6	\$126.6
FY 2017	\$7,350.6	\$7,305.2	\$45.4

Total Reduction in Spending \$488.2 Million

Doesn't Iowa have a spending limit?

Iowa code currently limits the legislature to spending a maximum of 99 percent of projected revenue in a fiscal year. This is a weak spending limitation law and one that can always be cast aside by a future legislature.

What will the amendment do?

The measure would limit the annual increase in spending to the lesser of:

- 99% of the estimated revenue for that fiscal year
- 4% above the prior year's revenue.

How is the Iowa Constitution amended?

An amendment resolution must receive a simple majority in both the House and Senate from two successive Iowa General Assemblies and then be approved by a majority of Iowa voters.

Families and businesses often have to make difficult budget decisions.

Seldom does government, at any level, say they can function with less; it must always be more and more funding.

President Ronald Reagan was correct when he stated government never voluntarily reduces itself in size or function.



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Let's Get Real About Spending



“How can the state stop spending so much money?” This is a common question asked across Iowa. While there are many ways this could be accomplished, one of the broadest solutions would be to strengthen the existing spending limitation that exists in Iowa by adding language to our state’s constitution.

The Iowa legislature is restricted to spending 99 percent of the revenue they collect each year. Because this limit only exists as a statute, a future legislature could simply pass a new statute that further weakens this limit or removes it altogether. A constitutional

A constitutional amendment would be the strongest way to control the growth of government and control future spending.

amendment would be the strongest way to control the growth of government and future spending.

Since spending and tax limitations can take various forms, Matthew Mitchell, a senior fellow at the Mercatus Center, con-

tends that the most effective solution will have the following characteristics:

- A spending limitation formula based on the sum of inflation plus population growth.
- Be based upon spending rather than revenue.
- Require a supermajority rather than a majority to be overridden.
- Would immediately refund revenue collected in excess of the limit.
- Is written in the state constitution rather than in code.

During the 2017 legislative session, the Iowa Senate passed a resolution that could have created a spending limitation constitutional amendment. This measure would “limit the annual increase in spending from year to year to the lesser of 99 percent of the estimated revenue for that fiscal year, or 4 percent above the prior year’s revenue.” Fiscal analysis of by the Legislative Services Agency (LSA) applied the rules of the resolution to the past ten legislative sessions and found that “appropriations would have been lower than the enacted appropriations in seven of the fiscal years.”

State Senator Charles Schneider wrote that the analysis “shows that if the spending limit had been in place since fiscal year 2012, state government could have spent \$488.2 million less than it has.” The impact of this would have been substantial.

“Going into fiscal year 2017, we could have had a carryover surplus of at least \$442.8 million. Had that been the case, we would not have had to deappropriate funds for fiscal year 2017, and we would not have to dip into the cash reserve fund to fill the remaining budget gap for this fiscal year,” stated Senator Schneider.

Ensure the taxpayers remains on equal footing with the special interests.

Critics of spending limitations argue that they will deprive the state of the ability to fully fund government programs, but even the most stringent state limitations have demonstrated that they did not cut government spending but merely slowed its growth rate. Iowa policymakers should seriously consider a state spending limitation amendment to ensure the taxpayer remains on equal footing with special interests.

What we have heard across the state:



“Because of tax reform I gave my employees a raise and a bonus. My employees know we are all moving in the same direction.”

“If our tax rate was lower there would be less money for them to waste.”

“Time to tell government ‘We will meet your needs, not your wants.’”

“Get off our back with excessive regulations. Get out of our back pockets with excessive taxes.”

“There are too many paper pushers.”

“Revenue estimating sets the ceiling for spending, not the floor. They could always choose to spend less.”

“A state program coordinator told a business leader: We have all this grant money, and we have to spend it.”

“Businesses don’t pay taxes. Those taxes are passed on in the form of higher prices to consumers.”

“The state does not have a revenue problem. It has a spending problem.”

“Taxpayers are not an endless source of money. Government needs to be held accountable and responsible to those who pay the bills.”

“We need basic services from the government, but WE can decide what to do with our own money better than the government.”

“If we can’t cut spending, can we slow the rate of growth?”

“Iowa has some of the nation’s highest corporate and individual income tax rates. It doesn’t matter how beautiful, how safe, or how great our education system is, if people can’t afford to live here, they are not going to stay.”



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Principles of Sound Tax Policy

ITR knows the best way to create economic growth is by decreasing government spending, lowering tax rates for all, and reducing the regulatory burden. This is the economic blueprint that will serve the interests of the taxpayers while creating a better Iowa. David Stanley, ITR founder and a long-time Iowa legislator, often said, “It is easier for politicians to yield to the noisy special interest groups when the taxpayer keeps quietly paying the bills.”

Whether at the Capitol or across the state, we advocate for a real reduction in the tax burden on households and businesses in Iowa. But to what principles should Iowa’s tax code adhere?

ITR believes that taxes in Iowa should be:



Competitive: Iowa should have lower tax rates to make Iowa more competitive with our neighbors. The Iowa tax code should encourage, rather than hinder, economic growth.



Transparent: The Iowa tax code is complex and needs to be simplified. Taxpayers in Iowa deserve transparency and accountability when it comes to tax credits and incentives.



Limited: Taxes should only be collected to finance the essential functions of state government. It is immoral for government to believe it has an unlimited claim to the hard-earned income of individuals and businesses.



Protective of Freedom: Iowa’s tax code should promote freedom and should not be used for social engineering. Iowa shouldn’t create new taxes or substitute one tax for another.



Fair: Iowa’s tax code should not favor one group of taxpayers at the expense of another.

A tax code that follows these principles while reducing the tax burden on Iowans will allow everyone to keep more of their hard-earned dollars. This will encourage economic growth and boost additional investment, ultimately providing more revenue to address the priorities of state government.



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