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1. 2008 Session Begins; Partisan Commentary Marks First Day Of Session

There's enough money for Iowa lawmakers to keep the promises they made last year, even though "naysayers out there" are casting doubt, Democratic leaders said Monday, the first day of the Iowa Legislature's 2008 session.

"I'm telling you that we will keep our commitments," Senate Majority Leader Mike Gronstal said. "You have my word on it."

That includes increasing pay for teachers, expanding preschool, creating a fund to spur development of renewable energy, and providing more Iowans with health insurance, said Gronstal, a Democrat from Council Bluffs.

"Too often in the past dozen years, the Legislature has failed to keep its promises," he said. "And when you fail to keep your promises, people wonder if you will ever do what you say you will do."

Meanwhile, Republicans came out swinging, complaining that the Democrats won't overhaul the state's property tax system as promised, or cut taxes for low- and middle-income Iowans, prevent gay marriage, or protect the state's highways and bridges from an incident like the collapse of the Interstate Highway 35W bridge in Minnesota. Republican leaders said they're worried, and they think the people of Iowa should be worried, too.

"Literally, all of government in the state of Iowa is under control of the Democrats," said Ron Wieck, the Senate minority leader. He said it

troubles him that the Democratic majority keeps proposing policies that are "anti-business, anti-growth, anti-student, and anti-job."

Most troubling is a looming property tax increase, said Christopher Rants, the House minority leader. Homeowners and farmers could shoulder an extra \$500 million in property taxes over the next six years, according to a report by the nonpartisan Legislative Services Agency. That would be the increase in city and county property taxes after six years if those governments keep their tax rate at the current level.

"If you think your taxes are high now, you ain't seen nothin' yet," said Rants, a Sioux City Republican.

For 20 years, the percentage of a home's value subject to property tax has been going down, which has held down property taxes. But in the next six years, the trend will reverse. That's because state law ties the taxable value of homes to agriculture. When farm productivity goes up, so do the tax bills on homes.

Wieck, who is also a Republican from Sioux City, said overspending would cause the state to be short about \$450 million dollars for next year's budget.

There will be no shortfall, said House Majority Leader Kevin McCarthy. Lawmakers typically have "wish list budget items," and will have to whittle down spending on some of them to balance the budget.

"It is going to be a tight budget, but there is no structural hole," said McCarthy, a Des Moines Democrat. "Fully funding all of our wishes is different than an actual shortfall."

Priorities will be \$100 million over four years for the so-called Iowa Power Fund for renewable energy development, \$15 million in the coming year for expanded preschool, \$75 million for teacher pay increases and about \$10 million to cover about 6,000 more children and 9,000 parents with Hawk-I health insurance.

## 2. Culver Outlines Plans For 2008 Legislature

Governor Chet Culver this week charted a 2008 legislative course that seeks to close corporate tax loopholes, expand the scope of Iowa's container-deposit law, address workforce-related issues and invest more in infrastructure upgrades.

"I believe our goals this session are simple - protect our priorities, balance

the budget and address some unmet needs," Culver said in delivering his first Condition of the State address this morning to a joint session of the General Assembly.

Culver touted the accomplishments he and the Democratic-led Legislature made during their first year in office, but warned a tight eye on spending will be required in 2008 to fulfill funding commitments and to address new challenges. The governor's \$6.4 billion spending plan calls for a \$540 million boost in appropriations, but only about 3 percent of that total represents new funding initiatives. The other 6 percent in increases represents previous commitments to boost teacher pay, expand preschool and establish the Iowa Power Fund that require multi-year spending jumps.

Much of the \$176.8 million in new general fund spending beginning July 1 goes to state employee salaries (\$88 million), growth in Medicaid spending (\$37 million), corrections (\$14.2 million) and \$11.8 million for higher education (\$8.3 million to regents' institutions and \$3.5 million to community colleges).

To help meet existing obligations and cover new initiatives, Culver called for revamping Iowa's corporate tax structure to close "an outdated tax loophole" that allows multi-billion dollar companies located outside of Iowa doing business here to avoid paying state income taxes. Culver aides said the change in combined corporate tax reporting could bring an extra \$75 million into state coffers. The governor noted that 20 other states - including five in the Midwest - have taken similar action and he moved to thwart naysayers by noting that seven rank in Forbes magazine's list of top 10 best states in America to do business.

Culver's 2008 legislative package also included an idea that already is drawing considerable resistance from lawmakers - raising and expanding the state's bottle-deposit law from five cents to 10 cents but only returning eight cents to consumers. He says this is a way to generate more money for environmental programs and help struggling redemption centers by providing the first raise in 30 years.

"I believe expanding the bottle bill is an idea whose time has come," Culver said in detailing a proposal he called "practical and workable."

Under the plan, the deposit would be expanded beyond plastic and aluminum soda and alcoholic beverage containers to include bottled water, juice and energy drinks. Consumers who pay the 10-cent deposit would receive eight cents per returned container and the remaining funds would be split between local recyclers and the state's Resource

Enhancement and Protection (REAP) program.

"One more cent will go to your local recycler, one cent to permanently protect our environment and the rest goes right back in the consumer's pocket where it belongs," the governor said. Each penny increase would generate about \$20 million and allow the state to capture \$13.2 million in uncollected bottle deposits for the general fund.

Culver also signaled his support for giving local communities the authority to regulate smoking in public places, telling the Legislature, "if you send me a bill to ban smoking at the local level, I will sign it."

Regarding other environment-related issues, Culver called for implementing a renewable energy portfolio standard that would require 25 percent of all energy produced in Iowa be from a renewable source by 2025. He also backed efforts to fund more infrastructure for dispensing 85-percent ethanol-blended and bio-diesel fuels to increase the demand for flex-fuel vehicles and consumption of renewable energy.

The governor's fiscal 2009 budget plan includes \$1 million to begin a field-based, odor-management program led by Iowa State University researchers to address air quality concerns. He also urged lawmakers to seek common ground on challenging issues related to water quality, siting, zoning and local control of contained livestock feeding operations.

During his televised speech, Culver called for investing roughly \$250 million to replace the maximum-security prison in Fort Madison and to make upgrades in corrections facilities in Mitchellville, Anamosa and Rockwell City.

He also said he stands ready to work toward bipartisan agreement to generate revenue to meet the roughly \$200 million yearly shortage in transportation infrastructure needs that has been identified by state experts. But he remains opposed to a state gas-tax increase as an option for consideration.

Turning to a projected worker shortage in Iowa as more Iowa "baby-boomers" reach retirement age, Culver called for investments to make college more affordable, expand community college workforce training programs and double the number of math and science teachers being trained in Iowa to help prepare high school graduates for the 21st century job market.

The governor also pledged his support to institute model core curriculum statewide standards for Iowa schools by 2010 that are designed to

encourage more students to take more advanced math and science courses.

Culver also called for more focus on raising Iowa wages, which rank 41st nationally, and reaching consensus on labor-management issues to address the needs of front-line workers in Iowa.

"We can all agree we must pay our workers competitive wages. We can all agree that the right to bargain collectively in the workplace is an important right. We can all agree that companies should be held accountable for hiring illegal workers, and we can all agree that it's critical to have healthy and productive labor-management relations in our state," he said. "So, for the benefit of working Iowans, I challenge you to try to find consensus, and to not be afraid to debate difficult issues like prevailing wage, independent contractor reform, choice of doctor, fair share and the right to bargain matters like employee discipline and discharge," the governor added.

In the area of health care, Culver said he supports efforts to achieve universal coverage for Iowa's children by expanding access to another 7,500 needy kids. He also recommended a minimum physical activity standard in schools to address childhood obesity and called for taking steps to support healthier food choices for schoolchildren. The governor also promoted wellness and fitness by urging every state employee, all who were assembled in the House chamber for his speech, and all Iowans to join him and Judge in a 100-day challenge to lose weight and exercise more.

### 3. Culver Proposes Tax, Fee Increases

Iowa residents and businesses would pay more than \$100 million in additional fees and taxes under the proposals that Governor Chet Culver presented Tuesday, according to estimates from the Iowa Department of Management. Among those fees includes a plan that would add a 2-cent tax to purchases of bottles and cans - part of which would go to environmental programs - and increase Iowa's 5-cent deposit to 8 cents.

Culver also called for altering a law that allows multistate corporations to not pay Iowa income taxes, saying his change would close a loophole. Opponents of the ideas almost immediately raised concerns, and key Democrats said such proposals face tough legislative hurdles.

"My biggest point is economic development," Ed Wallace of the Iowa

Taxpayers Association said about the corporate tax law. "Companies are not going to expand or relocate here if they know we have this setup. It's one more reason not to do business in Iowa."

The tax law Culver is targeting allows companies not headquartered in Iowa to avoid Iowa taxes on their in-state operations. Ending the practice would pump an estimated \$75 million into the state's budgets. A 2006 study from the U.S. Small Business Administration found that states that have adopted laws to require more tax payments report having higher entrepreneurship rates. At least 21 states have adopted such laws, including Minnesota, North Dakota, Nebraska, Kansas and Illinois. Earlier this year, an Iowa Policy Project report said that adopting a process called combined reporting would have generated an extra \$100 million for the state in 2002. Iowa currently uses separate entity filing, which allows large retailers and other corporations to legally avoid paying some taxes by setting up subsidiaries in other states.

"It's just not fair that big, out of state, multibillion-dollar corporations that do tens of millions of dollars of business in Iowa avoid paying Iowa income taxes because of an outdated tax loophole," Culver said to tepid applause.

The bottle return proposal would change the state's 30-year-old 5-cent deposit. It would also expand the law to include water, tea and sport drink bottles along with the carbonated beverage and alcohol containers it now covers. Consumers would only get 8 of their 10 cents back under Culver's proposal. One cent would go to bottle handlers or redemption centers, and the other penny - totaling roughly \$20 million - would support outdoor projects under a program known as the Iowa Resource Enhancement and Protection program. Currently, consumers receive the entire 5 cents back. Beverage distributors pay a 1-cent handling fee to redemption centers. Deposits that are never reclaimed stay with the store. Under the new proposal, the money from unreturned bottles would go into the state's general budget. Currently, that amounts to about \$12 million.

The ideas didn't gain immediate support from some Democrats.

Senate Majority Leader Mike Gronstal, a Democrat from Council Bluffs, said he has reservations on the bottle bill expansion as well as the corporate tax plan outlined by Culver. House Majority Speaker Pat Murphy, D-Dubuque, said he senses both initiatives face high hurdles.

"One thing I've learned in the Legislature is never say never, but I definitely think this is an uphill climb," Murphy said.

House Minority Leader Christopher Rants criticized the governor for not

focusing more aggressively on property tax reductions. A report last month by the Legislative Services Agency projects that Iowa residents will pay nearly \$500 million over the next six years as a result of increases in the taxable value of residential and agricultural property.

"We have a half a billion property tax increase on the horizon," Rants said. "The governor knows it, the Democrats know it and we've heard not one Democrat stand up in two days and lay out any ideas on how to deal with it. ... Instead, we're hearing about \$100 million in tax increases."

#### 4. Other Issues: Culver Statement Makes Business Group Nervous; House D's Introduce Illegal Worker Bill

In his condition of the state address, Governor Culver stated "So, for the benefit of working Iowans, I challenge you to try to find consensus, and to not be afraid to debate difficult issues, like, prevailing wage, independent contractor reform, choice of doctor, fair share, and the right to bargain matters like employee discipline and discharge." These comments sent shivers down the spine of interest groups such as the National Federation of Independent Businesses. Here's an excerpt from their legislative bulletin:

\* Prevailing Wage or state-mandated wages and benefits for public construction projects. This issue would increase the cost of public construction projects by 10% to 15% by requiring higher Davis-Bacon like standards for public projects.

\* Independent Contractor Reform already introduced - HF 2026 (see below for more information) changes Iowa and presumes all workers to be employees unless proven otherwise.

\* Choice of Doctor in workers' compensation cases, meaning changing Iowa's 90 year-old law from employer choice of doctor to employee choice of doctor thereby increasing workers' compensation insurance, according to the National Council on Compensation Insurance (NCCI) would increase premiums by at least 15%. Some NFIB members reported increases of 20% to 25% when asking their own insurance agents.

\* Fair Share or gutting Iowa's Right-to-Work Law gives every business in Iowa or considering Iowa a big reason not to expand or locate here.

\* Employee Discipline and Discharge - While Culver gave no specifics many NFIB members argue current law is too burdensome on these issues and I do not get the impression Culver was interested in reducing burdens to business with this phrase.

The pre-session talk on many of these contentious issues was that, in an election year, there was simply not the willingness by many legislators to address these issues. Governor Culver's remarks have reversed the unwillingness and now those issues are alive and must be considered "live rounds" by NFIB.

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House File 2026 was introduced this week by House Democrats. The legislation is this caucus' attempt to address the employment of illegal workers. Highlights of the legislation include:

- \* Prohibits employers from employing illegal immigrants and subjects employers to a \$10,000 fine for violation.
- \* If eligibility was verified through the E-Verify system the employer is not held liable. Repeated offenses by a corporate officer will be considered a serious misdemeanor.
- \* Purpose of the new Code section on independent contractors is to, "... address the practice of misclassifying employees and independent contractors."
- \* Requires Division of Labor Services, Division of Unemployment Services, and the Department of Revenue and Finance to "share information" and work jointly to seek out violators of the new independent contractor standards.
- \* Iowa law would now presume a person working for a contractor is an employee unless two different conditions can be met: Individual performs services free from control of the contractor, and Sole Proprietor or partnership performs services free from direction or control and the independent contractor complies with 13 additional criteria outlined in bill.
- \* Increases contractor registration fees from \$25 to \$100

## 5. Bill Tracking

The following legislation was introduced this past week in the Iowa House and Senate. For full details of the legislation, please visit [www.legis.state.ia.us](http://www.legis.state.ia.us)

HF 2026 HIRING UNAUTHORIZED ALIENS Establishes civil and criminal penalties for employers who hire unauthorized aliens. Establishes provisions to prevent contractors from misclassifying employees as

independent contractors. Contains provisions to help state agencies enforce these measures. Contains other related provisions.

HSB 510 / SSB 3029 ELECTRICIAN LICENSING Changes the requirements for granting a license to a Class B master electrician or journeyman without examination from having worked since 1990 to meeting specific requirements as to the number of hours worked (clean-up bill from 2007 licensing bill).

SSB 3042 CONTRACTOR REGISTRATION FEE (Labor) Increases the contractor registration fee to \$50.

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