

# Legislative E-Update ~ 3.19.10

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*Parts of these articles were excerpted from various news sources, including the Des Moines Register.*

### 1. Lawmakers Vote To Cut Economic Tax Credits

Iowa would cut millions of dollars in tax credits for a wide range of economic development activities under a bill passed in the Senate, 32-18. The bill, Senate File 2380, would cut the limit on economic development tax credits from \$185 million to \$120 million. However, because tax credits generally are cashed over several years, the state is not expected to see large savings right away. State analysts said the tax credit changes would save the state \$5.4 million in the next fiscal year, rising to as much as \$36 million in fiscal year 2014.

Tax credits let companies reduce their tax bills for engaging in approved activities. They long have been controversial, but they came under increased scrutiny last year when controversy erupted over tax credits offered to filmmakers. Critics said the

program was loosely administered, allowing filmmakers to fleece the state. Several economic development leaders lost their jobs, and the investigation continues. The state stopped granting new credits for films for at least two years.

The bill would trim limits on credits offered for such things as:

- Community college classes for firms' employees.
- Land and equipment leased to new farmers.
- Contributions to community endowments.
- Historic preservation projects.

The bill also would change the way tax credits are offered for corporate research, so the system would favor small businesses. Businesses with less than \$20 million in gross annual sales could get higher tax credits for research costs, and larger businesses would see smaller credits.

Proponents of the bill say the state grants nearly \$500 million in a wide array of tax credits, many of which are complicated and arcane. The bill would set up a committee to spend five years reviewing tax credits and suggesting changes.

That brought criticism from Republicans, who said tax credits are a way for businesses to legitimately reduce their tax bills. Reducing tax credits is a way to effectively raise taxes, not cut spending, they said.

The bill also would reduce money that the state guarantees to an economic-development program, the Fund of Funds. The program is designed to encourage venture capitalists to invest in Iowa businesses. The state previously has offered to guarantee up to \$100 million of such investments. The bill would reduce the figure to \$60 million. Supporters of the program said the cut would essentially freeze it. But critics said the program hasn't led to enough investment in Iowa companies, and it isn't worth risking \$100 million on.

One concept lawmakers considered was based on recommendations by a panel of state officials that the state end the practice of allowing companies to sell tax credits they obtain from the state, or to get cash reimbursements from the state for credits that exceed their tax bills.

But the Senate bill didn't do either of those things. Lawmakers said after the vote that those issues, known as transferability and refundability, would be studied by the new tax-credit committee. They say some tax credits need transferability and refundability to work, while others probably don't.

The bill also would reinstate Iowa's estate tax if the federal government reinstates its estate tax. Legislators said the move essentially would let the state get a cut of what large Iowa estates would have to pay to the federal government. That part of the bill could bring in \$46 million annually by fiscal year 2013, state analysts said.

When the bill came before the House late in the week, representatives voted not to cut the tax credit that helps young farmers get established. The House disagreed with the Senate to halve the annual cap on credits under the Iowa Beginning Farmer Tax Credit program. Representatives voted, 94-3, to keep the cap at \$6 million. The program rewards established farmers who lease or sell land or equipment to new farmers.

The House also voted, 87-10, not to trim a tax credit for private-school tuition. The Senate had voted to cut the annual cap on that credit from \$7.5 million to \$6.75 million.

The bill passed, 54-43, and will return to the Senate.

## [2. Senate Majority Leader Dismisses Schools "Doomsday" Criticism](#)

School officials have made "doomsday-scenario budgets" but the reality is much brighter, Iowa Senate Majority Leader

Michael Gronstal said in a statement this week.

In total, Iowa will spend \$2.349 billion on school foundation aid in the current fiscal year, which includes government stimulus money. Gov. Chet Culver has proposed to spend \$2.494 billion, an increase of \$145 million.

But some school district officials and many Republicans use different numbers. Estimates from the nonpartisan Legislative Services Agency said state school financing would be about \$170 million short. Fully paying for schools will cost \$2.664 billion, according to the agency's estimate.

Culver noted how much more he says each district would receive under his proposals as compared to earlier estimates. Des Moines would receive \$26.6 million more than what administrators expect; Cedar Rapids, \$12.5 million more; and Sioux City, \$12.1 million.

"The attempt of the governor was an attempt to let school districts know that the budgets many of them are talking about are not in fact realistic," Gronstal said.

### [3. Other News: Legislative Briefs](#)

Early adjournment appears near

The Iowa House and Senate continue to make progress in approving the Fiscal Year 2011 appropriation bills and remaining policy legislation. Legislative leaders have tentatively targeted next Friday, March 26th as the date of adjourning the 2010 session. Lawmakers shortened this year's session by 20 days to save costs given the tight budget situation, meaning legislative per diems expire on the 31st of March.

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## IPERS changes gain legislative passage

The Senate has approved adjustments to public-employee retirement plans to ensure they stay solvent. The main changes in House File 2518 involve the Iowa Public Employees' Retirement System, known as IPERS, which has about 300,000 members. Contribution rates would increase for employees and their government employers.

The changes also would require people to work seven years before they're fully vested in the plan. Currently, it is four years. The bill would reduce benefits for employees who retire before the minimum age and service time.

The bill also affects pension plans for state troopers and members of small-town police forces.

Republican senators contended the state should switch new employees to defined contribution plans, similar to 401(k) plans, instead of traditional, defined-benefit pension plans. The Democratic majority defeated those proposals.

The bill, which was passed earlier by the House, was approved 31-16 by the Senate. It goes to the governor.

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## Senate wants kids in back buckled up

Senators voted this week to require children younger than 18 to wear seat belts when riding in the back seat of a car. State law says everyone must be buckled up in the front seat, but it requires seat belts for back-seat passengers only younger than 11.

The change was included in Senate File 2381, a \$350 million appropriations bill for the Department of Transportation. The bill passed 31-16 and was sent to the House.

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## Republicans reject Power Fund nominee

Senate Republicans this week shot down a nominee for the Iowa Power Fund board. Gov. Chet Culver named Shearon Elderkin to the board last year after Senate Republicans blocked her nomination to the Environmental Protection Commission. The Senate also blocked his nomination of Carrie La Seur to the Power Fund board. The governor had the rejected nominees swap positions, which angered Republicans.

"The governor thumbed his nose at the Iowa Senate," said Sen. Merlin Bartz, R-Grafton.

La Seur withdrew from the environmental board. Elderkin needed Senate confirmation to continue on the Power Fund board, which makes grants for renewable energy projects. She needed 34 votes, but only received 31.

Elderkin, a Cedar Rapids Republican, said by phone that she was a "political pawn." She said her rejection had nothing to do with her service. "It has everything to do with the Republicans wanting to stick it to the governor."

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## Higher traffic fees pass another hurdle

Fines for various driving or vehicle violations would substantially increase under a bill approved by the House. One example: Illegally parking in a handicap spot would double to \$200.

The bill, Senate File 2378, approved earlier this week by the Senate, would raise about \$9 million through increases to dozens of traffic and court fees. The money would be used to

prevent further job losses in the state's court systems.

The House passed a provision of the bill that focuses almost entirely on traffic fees. House Democratic leaders said they thought that increasing court fees substantially was unfair because people often pay such fees even after they successfully challenge a traffic violation.

The House's version would raise about the same amount of money as the Senate version.

Speeding fines, now \$10 to \$90, would jump to \$20 to more than \$100. A person caught driving 20 or more mph over the limit would be fined \$100, plus \$5 for each mph over 20. Driving 77 in a 55 mph zone would cost \$110.

The bill passed the House 54-44, mainly along party lines. The bill heads back to the Senate for further consideration.

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### Transparency sought on insurance rates

Insurance carriers would have to immediately notify policyholders of a proposed rate increase, and public hearings would be mandatory under a provision to a bill introduced by a Polk County representative.

The proposal is largely in response to Wellmark's proposed 18 percent rate increase for the 80,000 Iowans who buy their own health insurance. After the Insurance Division approved the increase, the governor ordered an outside review.

Rep. Janet Petersen, D-Des Moines, introduced the amendment to Senate File 2201. "I'm worried now that people won't have a backbone to do it. This is something that, for the public, if they want more accountability and transparency, they need to have their voices heard because it's guaranteed the

insurance lobby will be working hard to prevent this from happening."

Iowa Insurance Commissioner Susan Voss said in an e-mail that the amendment would require more staff, perhaps costing "in the six figures."

The costs would be paid by insurance carriers, Petersen said.

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Greyhounds likely to keep on racing

A legislator briefly tried to persuade her colleagues to accept multimillion-dollar offers from gambling companies that want permission to quit holding greyhound races at their facilities.

Rep. Mary Mascher offered an amendment that would have allowed the state's two greyhound tracks to cease races. In return, the Dubuque and Council Bluffs tracks would have paid a total of \$10 million per year to the state. The move would have allowed the companies to focus on the profitable casinos they have at the tracks.

Mascher, D-Iowa City, called dog racing "a dying industry." She said only eight states, including Iowa, still have dog tracks. Attendance at dog races has plummeted, she said. "It is not a matter of if this industry will be eliminated. It is a matter of when," she said.

Mascher withdrew her amendment after House leaders told her it wasn't germane to the large budget bill to which she wanted to attach it.

House Majority Leader Kevin McCarthy said that the issue probably will not be debated again this session. He said that's largely because of concerns for the hundreds of dog breeders

the tracks support.

#### 4. Bill Tracking

The following legislative action took place this 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).

### **Issue related legislation:**

#### Senate Action

#### **Bills to the Governor:**

##### HF 2437 PRIVATE SEWER INSPECTIONS

Strikes requirements that a title abstract include documentation of a sewer inspection. Includes a requirement that any private sewers on a property have been inspected in the groundwater hazard statement. Pre-empts city and county sewer inspection ordinances.

S-5187 by Hogg - Strikes the pre-emption provisions.  
FAILED, 39-11

The Senate PASSED the bill, 50-0; it goes to the Governor

#### **Bills to RETURNED the House:**

##### HF 2459 WATERSHED COMMITTEE

Requires the DNR, in cooperation with DALS, to establish a Watershed Quality Planning Advisory Council. Gives the council duties and requires annual reports by December to the Governor and Legislature.

S-5279 by Hogg - Watershed Demonstration: Establishes provisions on watershed demonstration projects to be run by

the DNR and DALS in collaboration with the USDA Natural Resources Conservation Service and the Iowa Flood Center. Establishes goals for the program including maximizing soil water holding capacity, minimizing severe erosion and sand deposition, managing water runoff and reducing damage. Includes parts of SF 2317. Authorizes the creation of watershed management authorities. Allows cities, counties and soil and water conservation districts to create a watershed management authority. Allows the conservation districts to participate in more than one watershed management group and allows a local government not to participate. Requires the flood risks and a water quality in the district. Requires the watershed authority to coordinate activities with the DNR and DALS.  
ADOPTED

The [Senate](#) PASSED the bill as amended, 47-0; it RETURNS to the [House](#)

## **General business legislation:**

[Signed by the Governor](#)

### HF 2110 MILITARY UNEMPLOYMENT

Allows a spouse who quits a job to relocate due to the other spouse's relocation for military duty to collect unemployment. Does not charge the unemployment cost to the employer.

The [Senate](#) PASSED the bill, 35-14; the [House](#) PASSED the bill 55-44

[House Action](#)

[House Ways & Means Committee: Voted Out](#)

### HSB 738 TAX CREDIT REVIEW

Committee: Creates Tax Expenditure Committee in the

Legislative Council, with five members from each chamber. Gives the committee the duty to issue a statement on sound tax policy, to review tax expenditures and to report to the Legislature on tax expenditure and related matters. Requires the committee to create a system for making tax credit information available to the public. Requires the committee to make estimates of all tax expenditures for the budget process. Tax Credits: Reduces the DED credits from \$185 million to \$120 million. Suspends the film tax credit until July, 2012. Sets the value of the research credit: 3% for companies with more than \$20 million in revenues, and 10% for companies below that level. 10% cuts: Reduces the ACE credit to \$5.4 million; the Endow Iowa credits to \$2.7 million; the school tuition organization credit to \$6.75 million. Other cuts: Reduces the Iowa Fund of Fund liability to \$60 million. Reduces the reservations for the historic preservation and cultural/entertainment district credit to \$45 million. Eliminates the refundability of the Value-Added Ag Product credit. Eliminates the Economic Development Revolving Loan Program Credit & Venture Capital Fund Investment Credit. Estate Tax: Re-enacts the pick-up tax (estate tax) contingent on federal action to re-enact credits. Studies: Requests an interim study on enterprise zones and one on the industrial new jobs training program. AMENDED & PASSED, FM: Shomshor (Adds provisions on members, three majority party & two minority party, and changes the research credit rates for large companies 2.54%/3.38% or 4.23%)

#### SF 2363 DOR TECHNICAL TAX BILL

Makes changes to the technical administration of tax law. Repeals outdated sections on the enterprise job zone program. Requires cities to notify the DOR when imposing a franchise fee on utilities. Requires domestic corporations to give the DOR a copy of their federal return when filing for the Iowa Corporate income tax. Amends provisions regarding the underpayment of estimated tax liability. Requires a business that relocates to a different county to obtain a new sales tax

permit. Makes other corrections and updates. PASSED

## Senate Action

### Bills to the House

#### SF 2375 STREAMLINED SALES TAX

Adopts the latest changes to conform to the uniform provisions for the streamlined sales tax. Makes a number of language and reference changes. Requires the DOR to make reasonable efforts to notify sellers after sales tax changes. Adds electronic filing of simplified returns. Allows some sellers to register here without intending to make sales here. Eliminates a requirement that a remote seller file a return in the following month if it accumulates more than \$1,000 of state and local sales taxes. Directs the DOR to adopt a standard process for the remittance of sales tax payments. Effective don enactment.

The [Senate](#) PASSED the bill, 48-0; it now goes to the [House](#)

#### SF 2380 TAX CREDIT REVIEW

Committee: Creates Tax Expenditure Committee in the Legislative Council, with five members from each chamber. Gives the committee the duty to issue a statement on sound tax policy, to review tax expenditures and to report to the Legislature on tax expenditure and related matters. Requires the committee to create a system for making tax credit information available to the public. Requires the committee to make estimates of all tax expenditures for the budget process.

Tax Credits: Reduces the DED credits from \$185 million to \$120 million. Suspends the film tax credit until July, 2012. Sets the value of the research credit based on whether the company does more than \$20 million in revenues, or less. 10% cuts: Reduces the ACE credit to \$5.4 million; the Endow Iowa credits to \$2.7 million; the school tuition organization credit to \$6.75

million. Other cuts: Reduces the Iowa Fund of Fund liability to \$60 million. Reduces the reservations for the historic preservation and cultural/entertainment district credit to \$45 million. Eliminates the refundability of the Value-Added Ag Product credit. Eliminates the Economic Development Revolving Loan Program Credit & Venture Capital Fund Investment Credit. Estate Tax: Re-enacts the pick-up tax (estate tax) contingent on federal action to re-enact credits. Studies: Requests an interim study on enterprise zones and one on the industrial new jobs training program.

S-5270 by Bolckcom - Makes membership three majority party members and two minority party members. ADOPTED

S-5274 by Zaun - Strikes the changes to the tax credits and creates a study of tax credits. Strikes the re-enactment of the pick-up tax. FAILED, 31-19

S-5271, S-5275 - WITHDRAWN

The [Senate](#) PASSED the bill, 32-18; it now goes to the [House](#)

[Senate Ways & Means Committee](#): Voted Out:

SSB 3250 TAX CREDIT REVIEW

Committee: Creates Tax Expenditure Committee in the Legislative Council, with five members from each chamber. Gives the committee the duty to issue a statement on sound tax policy, to review tax expenditures and to report to the Legislature on tax expenditure and related matters. Requires the committee to create a system for making tax credit information available to the public. Requires the committee to make estimates of all tax expenditures for the budget process. Tax Credits: Reduces the DED credits from \$185 million to \$120 million. Suspends the film tax credit until July, 2012. Sets the value of the research credit: 3% for companies with more

than \$20 million in revenues, and 10% for companies below that level. 10% cuts: Reduces the ACE credit to \$5.4 million; the Endow Iowa credits to \$2.7 million; the school tuition organization credit to \$6.75 million. Other cuts: Reduces the Iowa Fund of Fund liability to \$60 million. Reduces the reservations for the historic preservation and cultural/entertainment district credit to \$45 million. Eliminates the refundability of the Value-Added Ag Product credit. Eliminates the Economic Development Revolving Loan Program Credit & Venture Capital Fund Investment Credit. Estate Tax: Re-enacts the pick-up tax (estate tax) contingent on federal action to re-enact credits. Studies: Requests an interim study on enterprise zones and one on the industrial new jobs training program. AMENDED & PASSED, 10-6

#### HF 816 DOR SUBPOENAS

Allows the DOR to subpoena records of cable companies, telephone companies, internet service providers, and utilities regarding persons with outstanding tax bills. Requires the Director to show reasonable cause. Prevents the DOR from extending subpoena authority beyond what is permissible by federal law. Allows the DOR to subpoena customer records but prevents the department from requesting the disclosure of transaction information, account activity, or proprietary information. Requires the DOR to comply with state and federal laws pertaining to the privacy or confidentiality of individuals or public or private utility companies. Effective date to January 1, 2011. PASSED, 12-3

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).

#### **Issue related legislation:**

NO ISSUE RELATED LEGISLATION WAS INTRODUCED THIS WEEK.

## **General business legislation:**

### HF 2527 TAX CREDIT REVIEW (*Successor to HSB 738*)

Committee: Creates Tax Expenditure Committee in the Legislative Council, with five members from each chamber ((three majority party & two minority party). Gives the committee the duty to issue a statement on sound tax policy, to review tax expenditures and to report to the Legislature on tax expenditure and related matters. Requires the committee to create a system for making tax credit information available to the public. Requires the committee to make estimates of all tax expenditures for the budget process. Tax Credits: Reduces the DED credits from \$185 million to \$120 million. Suspends the film tax credit until July, 2012. Sets the value of the research credit: 2.54%/3.38% or 4.23% for companies with more than \$20 million in revenues, and 10% for companies below that level. 10% cuts: Reduces the ACE credit to \$5.4 million; the Endow Iowa credits to \$2.7 million; the school tuition organization credit to \$6.75 million. Other cuts: Reduces the Iowa Fund of Fund liability to \$60 million. Reduces the reservations for the historic preservation and cultural/entertainment district credit to \$45 million. Eliminates the refundability of the Value-Added Ag Product credit. Eliminates the Economic Development Revolving Loan Program Credit & Venture Capital Fund Investment Credit. Estate Tax: Re-enacts the pick-up tax (estate tax) contingent on federal action to re-enact credits. Studies: Requests an interim study on enterprise zones and one on the industrial new jobs training program.

### SF 2380 TAX CREDIT REVIEW (*Successor to SSB 3250*)

Committee: Creates Tax Expenditure Committee in the Legislative Council, with five members from each chamber (three majority party & two minority party). Gives the committee the duty to issue a statement on sound tax policy, to review tax expenditures and to report to the Legislature on tax expenditure and related matters. Requires the committee to create a system for making tax credit information available to the public.

Requires the committee to make estimates of all tax expenditures for the budget process. Tax Credits: Reduces the DED credits from \$185 million to \$120 million. Suspends the film tax credit until July, 2012. Sets the value of the research credit: 2.54%/3.38% or 4.23% for companies with more than \$20 million in revenues, and 10% for companies below that level. 10% cuts: Reduces the ACE credit to \$5.4 million; the Endow Iowa credits to \$2.7 million; the school tuition organization credit to \$6.75 million. Other cuts: Reduces the Iowa Fund of Fund liability to \$60 million. Reduces the reservations for the historic preservation and cultural/entertainment district credit to \$45 million. Eliminates the refundability of the Value-Added Ag Product credit. Eliminates the Economic Development Revolving Loan Program Credit & Venture Capital Fund Investment Credit. Estate Tax: Re-enacts the pick-up tax (estate tax) contingent on federal action to re-enact credits. Studies: Requests an interim study on enterprise zones and one on the industrial new jobs training program.

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