

Legislative E-Update ~ 5.13.11

in this update:

1. House Approves Property Tax Reform Proposal
 2. House Adopts Its Version Of Mental Health Reform
 3. Senate Bill Uses Health Rules To Block Abortion Clinic
 4. Divided Senate OK's \$846 Million For Universities, Community Colleges
 5. Other News: Legislative Briefs
 6. Bill Tracking
-

Editor's Note:

The Iowa House and Senate continue to negotiate on budget issues, but in conversations with legislative leadership, little if any additional policy work will be considered during the 2011 session. While the leaders are hopeful of negotiating a budget and property tax compromise prior to the Memorial Day holiday, prognosticators believe the only real negotiating tool and leverage that exist is the threat of a government shutdown if a budget is not passed by June 30, 2011.

Under the joint rules adopted by both chambers, the House and Senate will continue to "meet", but only with a skeleton crew of lawmakers. As a result, little news outside of negotiations is expected until a compromise is reached.

This will be the final weekly newsletter that is published until adjournment. However, you will receive an email alert if some type of "breaking news" or significant floor action occurs. This will provide you with more timely and substantive information.

In addition, we are looking at changing the format of this newsletter for the next legislative session. The content will be web driven, and information offered on a daily, rather than weekly basis. Please look for a survey in the upcoming weeks as we look to your input to assist us with the design of the website.

Thank you.

Parts of these articles were excerpted from various news sources state media outlets.

1. House Approves Property Tax Reform Proposal

A plan to restructure Iowa's property tax system to correct what some say is unfair treatment to businesses was approved this week by the Iowa House. But some local government advocates say the solution being considered by lawmakers would shift more of the tax burden to homeowners, raising tax rates by as much as 20 percent over five years by some estimates.

Democratic opposition and a competing Senate plan make the bill's future uncertain.

“There are so many darned moving pieces that it’s difficult to say where all this will shake out,” said Bill Peterson, executive director of the Iowa State Association of Counties.

Homes are currently taxed on less than half of their assessed values, while commercial and industrial businesses pay taxes on 100 percent of their assessments.

Gov. Terry Branstad and business advocates have said for decades that the disparity is unfair and makes it difficult for businesses to locate and expand in Iowa. The proposed solution in Senate File 522 would cut the value of a commercial property that is taxed from 100 percent to 60 percent over five years.

“I think everybody can agree that property taxes have been studied to death, and it is now time for action,” said Rep. Tom Sands, R-Wapello, who led House debate on the bill.

The plan when fully implemented would cut more than \$500 million a year in annual revenue to local governments, primarily cities, counties and schools.

Branstad has rejected the concerns, saying changes in the state’s tax structure will essentially keep local governments from experiencing revenue losses or tax shifts.

To further guard against a sudden shift of taxes onto homeowners, the bill calls for a cap of 2 percent property tax growth on homes and agricultural property, cutting the current cap in half. The state also would give local governments a growing sum, starting at \$50 million and rising up to \$250 million, to help offset the loss in commercial and industrial property tax revenue.

The Senate earlier this year took a different approach. Under its plan, the first \$30,000 of commercial property would be taxed at a rate that mirrors a home’s taxation. The loss of taxes to local governments would be covered through excess state revenue.

If the Senate program reached its maximum potential, an estimated \$340,000 of assessed valuation of a business or industrial property would be taxed at the lower rate, according to the Legislative Services Agency. The top savings for an individual property under that projection would be \$5,332 to \$6,856.

“I’ve heard many of those concerns from the communities including a couple that are in my district saying this bill will definitely shift the burden of property taxes to residential,” said Rep. Roger Thomas of Elkader, the top-ranking Democrat on the House Economic Growth Committee.

The Iowa League of Cities released estimates showing the plan could increase city taxes in many cities across the state by roughly 20 percent over the next five years. The Iowa State Association of Counties released information showing the state’s 99 county governments would see an estimated \$295.3 million loss over the next five years.

The estimates do not include the state’s proposed contribution to local governments to help offset possible revenue losses. Both groups said that money is not dependable, citing examples in the past decade where the state promised to help offset losses to local governments but didn’t follow through when budget times got tough.

Branstad's staff has said the estimates from local governments are skewed because they fail to include possible changes in the tax structure because of the rising valuation of agriculture land, as commodity prices have soared.

"If not now, when? If not this, what?" asked Ed Wallace, president of the Iowa Taxpayers Association, a group in Des Moines that represents more than 150 businesses. "Commercial property taxpayers have waited long enough for meaningful property tax relief."

The bill passed the House in a 58 to 40 vote, largely along party lines. It now heads to the Senate for further consideration.

"Sure, we ought to do something about commercial property taxes. But the Senate plan and the governor's plan are just too far apart, and cities are starting to respond that they can't stand that much of a jolt," Senate President Jack Kibbie, D-Emmetsburg said.

2. House Adopts Its Version Of Mental Health Reform

The Iowa House voted 85-12 this week for a bill paving the way for mental health reform, but Democrats complained that the bill falls far short of the transformation originally envisioned.

"What started out as a definite that we absolutely were not going to do one more study to fix the system, that this was the time for action, and we end up with this study," said Rep. Cindy Winckler, D-Davenport. "One more study."

The idea of Senate File 525 is to transform Iowa's 99-county system for providing mental health services into a more uniform, statewide system. The legislation aims to eliminate a list of hundreds of lowans waiting for mental health services across the state.

"The goal for mental health reform in Iowa is to have an integrated system of care that is equal for all lowans regardless of where you live or what kind of services you need," said Rep. Renee Schulte, D-Cedar Rapids, the bill's floor manager.

Democrats complained that the bill doesn't do much, and that money to make the change isn't included in the bill. They said the plan would eventually cost the state \$250 million a year, five years from now when fully implemented.

"I'm disappointed that we have fallen so short of what we were told we would have a few weeks ago," said Rep. Chuck Isenhardt, D-Dubuque, who said it will be several years before mental health reform is implemented.

Schulte defended the legislation as coming up with a plan for reform that didn't previously exist. She said the last time this issue was addressed was 1995 and it took three legislative sessions to come up with a plan.

"So the fact that we've come up with a plan and a direction and a road map in one session means we're moving along at a pretty good pace," she said.

The bill now returns to the Senate for further debate. This year's legislation won't be the

final word on the matter. A 12-member interim legislative committee with five work groups will meet between the 2011 and 2012 legislative sessions to work out the details.

3. Senate Bill Uses Health Rules To Block Abortion Clinic

Senate Democrats introduced legislation this week aimed at blocking a proposed abortion clinic in Council Bluffs by requiring the facility to meet certificate-of-need requirements under state health laws.

Sen. Joe Bolkcom of Iowa City said he believes his proposal, Senate Study Bill 1212, would set a standard that could not be met by Dr. LeRoy Carhart, who announced last November that he plans to open a so-called late-term abortion clinic in Council Bluffs.

Iowa Senate Majority Leader Michael Gronstal, D-Council Bluffs, an advocate of abortion rights, has been under pressure from some Council Bluffs residents to block the abortion clinic. In addition, 26 members of the Iowa Senate recently signed a so-called "discharge petition" in an effort to force a debate on another bill that would ban most abortions in Iowa after 20 weeks gestation in an effort to halt Carhart's plans.

Bolkcom's proposal is aimed at offering a compromise on the contentious issue without dramatically making major changes in Iowa's abortion laws. He said his bill would use the certificate-of-need process to ensure that a new abortion facility which performs abortions after 20 weeks post-fertilization is in close proximity to an Iowa hospital with the appropriate level of perinatal care to protect the life or health of the woman and the fetus.

Bolkcom stated that there is no hospital in Council Bluffs that meets the standard established by his proposal. The only Iowa hospitals that would meet the requirements are in Des Moines, Cedar Rapids, Davenport and Iowa City. The bill would not allow a Council Bluffs abortion facility to use nearby hospitals in Omaha, Neb., to meet the requirements, he added.

The bill was approved by a Senate committee, and is expected to be debated by the full Senate on Monday. Republicans are expected to draft numerous amendments in an attempt to restore the bill to the version passed earlier by the Iowa House.

4. Divided Senate OK's \$846 Million For Universities, Community Colleges

A sharply-divided Iowa Senate this week approved an education appropriations bill of \$846.8 million that includes money for state universities, community colleges, and preschool programs for the coming year. The bill must now be reconciled with an education package already approved by the Iowa House that sets a spending level of \$792 million.

Sen. Brian Schoenjahn, D-Arlington, the Senate bill's floor manager, warned that Iowa community college students and university students will face double-digit tuition increases unless education spending is authorized at the Senate's level. The bill was approved on a 26-23 party-line vote with Democrats in support and Republicans opposed.

“How can our students continue to get a world-class education when they will be in debt for it for the rest of their lives?” Schoenjahn asked.

The Senate bill would also continue universal preschool education statewide while the House plan would establish a pre-school voucher program based on a family’s ability to pay. Appropriations for kindergarten through 12th grade programs are funded by separate bills where the House and Senate also have major differences in funding levels.

Both Democrats and Republicans gave passionate speeches on both sides of the education funding issue.

“Senate Democrats believe in funding education. We know that education is the foundation of our economy. It is the future of our state,” said Sen. Robert Hogg, D-Cedar Rapids.

Republicans favor a “starvation budget” for Iowa’s schools, while Democrats want to give them the resources they need, he added.

Sen. Bill Dix, R-Shell Rock, accused Democrats of wanting to spend more money than the state can afford.

“To accuse anybody in this chamber of being anti-education is just simply wrong. As parents and grandparents we support and do everything that we can to make sure that our children can have the best educations possible.”

5. Other News: Legislative Briefs

Nominees to appellate court selected

Two judges and an assistant attorney general were selected this week by the State Judicial Nominating Commission as nominees to fill the vacancy on the Iowa Court of Appeals.

The vacancy occurred when former Court of Appeals Judge Edward Mansfield was appointed to the Iowa Supreme Court.

The three nominees are:

- Susan Christensen of Harlan, 49, a district associate judge appointed in 2007 in the Fourth Judicial District.
- Bruce Kempkes of Earlham, 55, an assistant attorney general.
- Michael R. Mullins of Washington, 58, district judge appointed in 2002 to the Eighth Judicial District

The names were picked by the commission after two days of interviews with 25 applicants. Gov. Terry Branstad now has 30 days in which to make the appointments to the court from this slate of nominees.

Iowa's April revenue drops \$41 million

Iowa's revenue for April fell 11.2 percent as compared to the same month last year, according to the most recent report released by the Legislative Services Agency. The \$41.5 million drop marks the second consecutive month of revenue declines as compared to 2010. The prior six months saw an increase of almost 9 percent as compared to the same period last year.

There is good news. Individual income withholdings are strong, a sign that employment and wage gains are continuing in Iowa, the report shows. April's decline is largely contributed to tax refunds.

6. 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.iowa.gov

Issue related legislation:

HOUSE COMMITTEE ACTION

House Appropriations: Voted Out

SF 533 ALLOWABLE GROWTH, EITC, SALARIES & STANDINGS

AMENDED & PASSED, a *Strike & Replace*: Changes include: Strikes the Allowable Growth and the EITC. Further limits standings appropriations beyond the Senate (for Executive Performance of duty (\$27 million below the Senate); tourism marketing (\$300,000); for at-risk programs (\$5.3 million); and cut AEA funding by \$20 million instead of \$10 million). Requires that union contracts be renegotiated and that all state employees be required to pay \$100 for health care benefits. Makes the \$106 million for the Health Care Trust Fund non-GF spending. Repeals the Grow Iowa Values Fund, Economic Enterprise Zones, Renewable Fuels Assistance and the Midwestern Passenger Rail Compact. Makes other changes.

General business legislation:

HOUSE FLOOR ACTION

Bills Returned to the Senate:

SF 522 BUSINESS PROPERTY TAX CREDITS

H-1716 by **Sands** A *Strike & Replace*: Replaces the language of **SF 522** with **HF 691 State School Aid**: Increases the state school foundation aid to 100% over 7 years. **Property Tax Assessments**: Sets the assessment limit for residential and farm property at 2%. Assesses commercial and industrial property at 92% of value as of 2012 and rolls back the assessments 8% a year until those assessments reach 60% in 2016. States the intent that the Legislature will fund any reductions to local governments. Makes appropriations. **Local Governments**: Establishes new spending limits for local governments based on maximum property tax spending in

the previous year, an annual growth rate and the amount of new net value. Allows spending above that limit if approved at a special election. Establishes requirements for ending balances. Limits ending balances to 25% unless the funds are reserved for a specific purpose. Includes other restrictions. Authorizes additional authority to levy property taxes for cities and counties that meet ending balance levels. Allows this to be carried forward through 2017 but does not allow the additional authority to be used when computing spending limits.

Amendments to H-1716

H-1719 by **Thomas** (**FAILED** 58-40) *A Strike & Replace*: Replaces the language of **SF 522**. Creates a business property tax credit, appropriates \$50 million to the DOR for the fund in the initial year, and appropriates an amount annually equal to the amount the Legislature appropriated the previous year. Appropriates an additional \$50 million if the REC certifies that revenues have grown by 4%. Limits the total appropriation to \$200 million. **Duties**: Requires the DOR to develop forms for the credit and for the county auditor to approve or disapprove the credit. Authorizes the county supervisors to review claims. Allows appeals to the district court. Requires assessors to maintain files on credits and requirements. **Credit**: Makes commercial and industrial property eligible if a permanent improvement is made on the property. Allows a person to claim one credit per property. Requires the DOR to calculate the total amount of eligible improvements. Establishes a formula for determining the amount of the credit.

H-1726 by **Hall** (**FAILED** 52-41) Increases the appropriation to the Property Tax Equity Fund from FY 2011 to FY 2018.

H-1725 by **Jacoby** (**FAILED** 53-43) Prohibits counties and cities from reducing funding for law enforcement, fire protection service, EMS and local emergency management services.

H-1728 by **Sands** (**ADOPTED** 57-38) Sets the valuation at 60% for a portion of new commercial and industrial construction that meets specific requirements (value attributable to construction or rehab work over 150% of the previously assessed value)

H-1729 by **Thomas** (**ADOPTED** 97-0) Requires that a part of a property that is used as a residence be assessed as residential even if the primary use of the property is not residential.

H-1724 - **WITHDRAWN**

H-1716, as amended, (**ADOPTED** 56-40)

The **House PASSED** the bill as amended, 58-40; it RETURNS to the **Senate**

Bills to the Senate:

HF 688 INVESTMENT TAX CREDITS

Eliminates the \$10 million cap for tax credits for investments in qualifying businesses and community-based seed capital funds and puts those credits under the DED aggregate tax credit limit. Requires that \$2 million of the aggregate limit be allocated for such credits. Changes an eligibility requirement that business not be primarily in other professional services to that the business not be services that require a professional license. Reduces the net worth for eligible businesses to \$5 million.

H-1714 by **Helland** (**ADOPTED**) Makes reference corrections.

The **House PASSED** the bill as amended, 98-1; it now goes to the **Senate**

HF 694 UNEMPLOYMENT ACCOUNT PAYMENTS

Bases the contribution rate of an employer with an inactive account for unemployment compensation who pays wages within 12 quarters of the end of the

last quarter in which the employer paid wages on the experience of the employer's reactivated account.

The **House PASSED** the bill 88-11; it now goes to the **Senate**

HOUSE COMMITTEE ACTION

House Government Oversight: Voted Out

HSB 244 UNEMPLOYMENT ACCOUNT PAYMENTS

Bases the contribution rate of an employer with an inactive account for unemployment compensation who pays wages within 12 quarters of the end of the last quarter in which the employer paid wages on the experience of the employer's reactivated account.

PASSED 8-1

The following legislation was introduced this past week in the Iowa House and Senate. For full details of the legislation, please visit www.legis.iowa.gov

Issue related legislation:

No issue related legislation introduced this week.

General business legislation:

HF 694 UNEMPLOYMENT ACCOUNT PAYMENTS *(Successor to HSB 244)*

Bases the contribution rate of an employer with an inactive account for unemployment compensation who pays wages within 12 quarters of the end of the last quarter in which the employer paid wages on the experience of the employer's reactivated account.

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