A BETTER PATH

FORWARD

The Iowans for Tax Relief Foundation Magazine
December 2023

ITR FOUNDATION

IOWANS FOR TAX RELIEF
FOUNDATION

A Better Path Forward
The ITR Foundation Magazine
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Contents

2024 Legislative Session 3-6
- Income Tax Preview 3
- Conservative Budget Preview 4
- Constitutional Protection Preview 4
- Regulatory Reform Preview: Certificate of Need, Regulatory Sandbox, & Agency Deference 5
- Property Tax Preview 6

Local Governments Have No Reason to Increase Rates 7

Iowa is Federalism at Its Best 8-9

Local Elections and Property Taxes 10-11

The Course Ahead

By Chris Ingstad, President

In a world with constant change and shifting challenges, ITR Foundation remains focused on positioning Iowa to win the ongoing competition among the states for people, workers, and businesses. We won't rest on the accomplishments of recent years, but instead we will keep highlighting ways to make Iowa even better. That's why we are excited to bring you this edition of Forward, which includes a special section previewing a number of issues that the Iowa Legislature could (and should!) debate in 2024.

Iowa's remarkable legacy is built on our agricultural roots, but it's not bound by them. ITR Foundation understands that to thrive in the 21st century, our state needs to maintain a diversified economy while preserving the values that make Iowans unique. We know that Iowa's true strength lies in its people, their work ethic, and their sense of community.

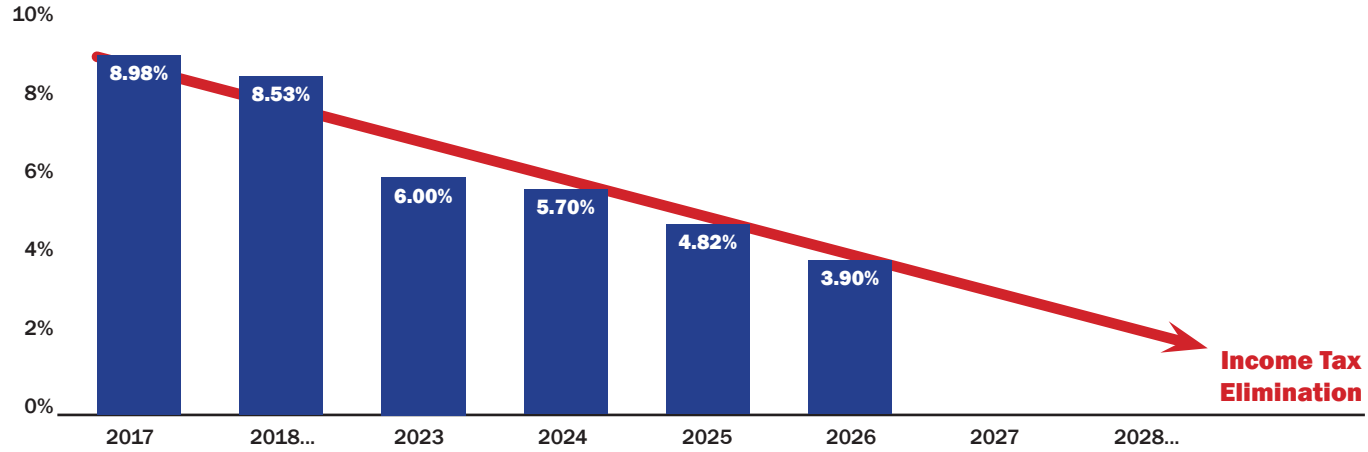
We don't shy away from the fact that at the core of our mission is the belief that a strong economy is built on the principles of limited government and individual freedom. ITR Foundation remains focused on advancing policies that spur progress in the private sector and foster personal responsibility. With your help, we are creating an environment where hardworking Iowans can find good jobs, raise their families, and pursue their dreams right here in their home state...and be rewarded for it!

The advances Iowa has made cannot be taken for granted. Conservative reforms are not easy to implement, and special interests will work endlessly to drown out the voice of the taxpayer. We invite you to partner with us to secure Iowa's future and promote policies that attract talent and businesses, foster innovation, and bolster economic growth.

Thank you for joining us in mapping out a better path forward for our state.

Session Preview: Income Taxes

Policymakers could seize the opportunity to place Iowa's income tax on a path toward elimination.



Iowa is in a strong position to enact even further income tax reforms in 2024, and it must. As more states cut income tax rates, Iowa cannot become complacent. The competition among the states for businesses, jobs, and people is fierce. This is especially true as more people can work remotely, and a mass exodus is occurring from high tax states.

In 2022, Iowa led what has been called a state-level "flat-tax revolution." Iowa's 2022 tax-reform was the most significant tax cut in state history and arguably the nation. When fully implemented by 2026, the measure will have replaced the nine-bracket progressive income tax and its top rate of 8.53 percent with a flat 3.9 percent rate. Similarly, the corporate income tax rate is shrinking in accord with a revenue trigger until it reaches a flat 5.5 percent.

Having paired three rounds of income tax cuts with conservative budgeting, Iowa is in a position not only to accelerate its tax rate reductions, but also to achieve an even lower flat tax rate. The first goal should be a 2.4 percent (or lower!) flat tax, which would be the lowest in the nation, surpassing Arizona's 2.5 percent rate. Even better, policymakers could seize the opportunity to place Iowa's income tax on a path toward elimination.

Having paired three rounds of income tax cuts with conservative budgeting, Iowa is in a position not only to accelerate its tax rate reductions, but also to achieve an even lower flat tax rate.

Reinforcing the possibility of this move is Iowa's Taxpayer Relief Fund, which the state created for the purpose of delivering income tax relief. That fund is estimated to grow to $3.6 billion in 2024. Leveraging this fund as a mechanism to further reduce or eliminate the income tax would certainly fulfill its tax relief mission. From an economic point of view, income taxes are the most harmful of all taxes because they punish growth, productivity, and increased earnings.

When Iowa closed Fiscal Year 2023 with a $1.83 billion surplus, Governor Kim Reynolds stated her desire to continue cutting taxes in 2024, "Some see a surplus as government not spending enough, but I view it as an over collection from the hard-working men and women of Iowa… I look forward to cutting taxes again next legislative session and returning this surplus back to where it belongs – the people of Iowa."

Senator Dan Dawson, who chairs the Ways & Means Committee, has already introduced legislation (SF552) that could serve as the framework to continue Iowa's tax reform progress. During the 2023 legislative session, Senator Dawson proposed speeding up already-planned cuts, and then continuing them on until a flat 2.5 percent rate is reached in 2028. Once the 2.5 percent flat rate is implemented, then the individual income tax would placed on a path of continuous cuts until it is eliminated altogether.

Whether Iowa leaders utilize existing plans to deliver additional income tax cuts or a completely new proposal is introduced, 2024 should shape up to be another historic year for the taxpayer.

Session Preview: A Conservative Budget

Pro-growth tax reform cannot occur without prudent budgeting and spending restraint.

Iowa's status as a national leader on tax policy would not be possible but for the less-heralded fact that Iowa is a national leader when it comes to conservative budgeting, as well. Sound budgeting is at the heart of all good public policy. Pro-growth tax reform cannot occur without prudent budgeting and spending restraint. Thanks to the wise priorities of both Governor Reynolds and the legislature, Iowa's fiscal foundation is strong.

Even with the phased-in tax cuts and national economic uncertainty, Iowa's budget has been generating substantial surpluses in recent years. During this past legislative session, the legislature enacted an $8.5 billion budget for fiscal year 2024, which only spends 88 percent of projected tax collections. Such restraint makes a bold statement, considering that the Iowa Code permits the legislature to spend up to 99 percent of projected revenue.

Additionally, 2024's spending plans are only a slight increase from the $8.2 billion fiscal year 2023 budget. Meanwhile, Iowa's reserve accounts (the Cash Reserve Fund and the Economic Emergency Fund) continue to be funded at their statutory limits, with a combined balance of over $961 million. Even while keeping spending growth restrained, the priorities of government are still being met, including increased funding for education.

Future tax reforms will have to be matched with the same fiscal discipline that Iowa has been demonstrating of late. Not only can it be easy for legislators to give into countless funding requests, but once they do, government will naturally begin to grow by leaps and bounds. It takes a vigilant effort to keep spending channeled to the core functions of government.

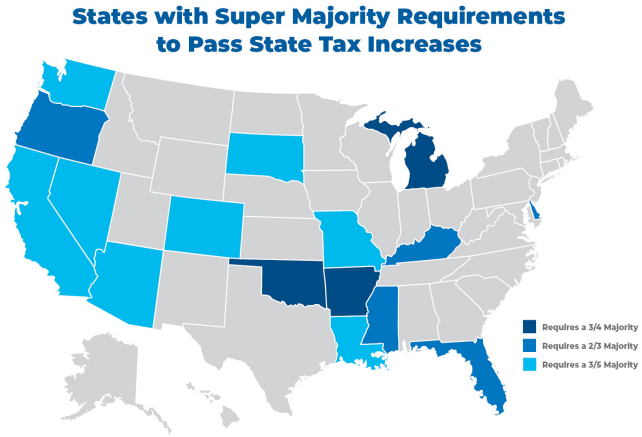
Session Preview: Constitutional Amendments

Diverting Taxpayer Relief Fund dollars to property tax relief would simply be another instance of the state subsidizing local government spending growth.

During the 2023 legislative session, the Iowa Legislature began to consider two important constitutional amendments that would provide protection for Iowa taxpayers. If lawmakers are interested in continuing to stand up for the taxpayer, they should again contemplate similar measures in 2024.

One needed safeguard would require a supermajority (two-thirds majority) vote of both chambers of the legislature to approve a tax increase. While this would be a strong taxpayer protection, it would not be unique to Iowa. Currently, 16 states have some form of supermajority requirement for tax increases, including seven with that protection enshrined in their constitutions.

The second pro-taxpayer amendment Iowans need is related to the Taxpayer Relief Fund. Because it belongs to the taxpayer, this fund — like others in the Iowa Constitution — deserves protection. Originally created for the specific purpose of income tax relief, the fund now has such an enormous balance ($3.6 billion in fiscal year 2024) that policymakers and special interests are tempted to spend the money rather than to honor its intent.



If the Taxpayer Relief Fund is ultimately enshrined in the Constitution, there is one key tenant it must contain: the Taxpayer Relief Fund should not be used for property tax relief until the income tax is eliminated. Diverting Taxpayer Relief Fund dollars to property tax relief would simply be another instance of the state subsidizing local government spending growth.

Session Preview: Regulatory Reform Trio

Regulations are not just rules; they are a hidden tax.

While some regulation is necessary, too much stifles economic growth. The elimination of "red tape" barriers will add to and amplify the multiple pro-growth and free-market reforms Iowa has passed in recent years. Cutting back unnecessary regulation will continue to move Iowa toward a better economic climate.

1. Improving Access to Health Care Through Repealing Certificate of Need

Policymakers in Iowa can increase access to health care and improve affordability by eliminating excessive restrictions on the expansion and introduction of medical facilities. Specifically, Iowa's Certificate of Need (CON) laws limit patient access and provider competition, providing monopoly power for established medical providers. If a new provider wants to establish a practice in the state, CON laws require the permission of existing providers.

In place since the 1970s, forty-five years of CON laws have not made healthcare in Iowa better or less expensive. To the contrary, healthcare costs have grown more than two and a half times as fast as the rate of inflation since CON was instituted. This is in no small part thanks to limited competition.

Egregious policies like this government-mandated monopoly should be addressed without the delay of lengthy review boards. Instead, the free market should determine where new health care services can be delivered. While more than 30 states have some form of CON law, state governments are beginning to wise up. In 2023, West Virginia and South Carolina both repealed their CON laws, suggesting this is the direction in which the nation is headed.

2. Encouraging Innovation Through Regulatory Sandboxes

In a rapidly evolving technological landscape, innovators in main street businesses and large corporations all need relief from outdated regulations. They often find themselves trapped in a vicious circle. Regulators are reluctant to change laws without evidence it's the right choice, but innovators can't demonstrate real-world proof without regulatory changes.

Regulatory sandboxes offer a solution to this conflict by enabling innovators to work with regulators and legislators to trial new products, services, and business models while regulations that don't apply to their innovative ideas are temporarily waived. This gives regulators insights into potential changes, while still allowing supervision and oversight of inventive ideas. These sandboxes maintain market regulation while allowing for much-needed flexibility to operate.

14 other states now have regulatory sandboxes that foster innovation and reduce hurdles, and Iowa should join them. To flourish, our state needs to be a haven for innovators in fields as diverse as insurance, agriculture, and financial technologies, allowing them to create new products that can improve lives, drive down costs, and spur countless new opportunities.

3. Agency Deference Tips the Scales in Government's Favor

The concept of agency deference has shaped the legal landscape of the United States since the Supreme Court issued a decision known as "Chevron". The Chevron deference, named after the energy company, was a legal principle where the courts would defer to an agency decision if there existed ambiguity in an enabling statute. Its aim was to allow agencies to interpret vague language in the statutes that govern their operation.

In practice, this deference to agencies results in a shift where the courts are not interpreting the law as they traditionally have; instead, they are deferring to the agency's interpretation of it. While it may seem like a minor matter of legal procedure, agency deference can have significant ramifications for those interacting with the law. This favoring of government agencies disturbs the balance of justice by tipping it in favor of the government.

The Iowa Legislature took several steps toward leveling the playing field for all during the 2023 legislative session. HF 645 passed the Iowa House unanimously and then advanced through the Senate Judiciary Committee, signaling the legislature's desire for legal clarity and a fair, impartial judicial system. Anything less represents a deviation from the true spirit of American justice.

Session Preview: Property Taxes

Iowa still ranks in the "Bottom 10" nationally when comparing property taxes.

To address the main cause of high property taxes, local government spending, the legislature could consider implementing spending limitations.

The Tax Foundation recently released its annual *2024 State Business Tax Climate Index*, which measures the tax competitiveness across the country. Iowa's standing on the index has been improving every year, and thanks to continuing tax reforms, the 2024 results continued the trend. Last year, Iowa ranked 38th overall; the state now ranks 33rd. Once Iowa's flat tax is completely phased in by 2026 it is estimated that Iowa will be ranked 15th overall.

But considering Iowa's ranking in each tax sub-category of Tax Foundation's provides a sense of where we've done well and where we need a sharper focus. And the property tax category, where Iowa is still a "bottom 10" state, stands out. Although the legislature recently passed a comprehensive property tax reform measure that will begin addressing the high property tax burden, more work is needed in this area.

Since 2000, total property taxes collected in Iowa have increased 119 percent — more than the increase in population, inflation, and the cost-of-living adjustment for Social Security. Iowans across the political divide, and those in both rural and urban communities, are demanding property tax relief and challenging local government officials' excuses for not lowering property tax bills.

To address the main cause of high property taxes, local government spending, the legislature could consider implementing spending limitations. When implemented wisely, spending limits do not prevent local governments from fulfilling their responsibilities; they simply require officials to earn the people's support and make government, and its spending, more accountable.

PROPERTY TAX BURDEN THE BOTTOM 10

STATE	RANK
Nebraska	40
Iowa	41
Maryland	42
New Hampshire	43
New Jersey	44
Illinois	45
Maine	46
Massachusetts	47
Vermont	48
New York	49
Connecticut	50

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Surprisingly, New York may be the state Iowa should emulate for property tax limitations. While not generally considered a fiscally-conservative state, residents of most New York communities benefit from one of the best pro-taxpayer laws in the country. The Empire State has a property tax cap in place, which limits the annual growth of property taxes levied by local governments and school districts to 2% or the rate of inflation, whichever is less. This delivers multiple benefits:

1. **Property Tax Relief:**
   The primary benefit is preventing excessive tax increases, providing relief to the bottom line of homeowners and businesses.

2. **Fiscal Discipline:**
   The spending limit encourages local governments to be fiscally responsible and to prioritize spending within their means. It discourages reckless spending and forces local officials to carefully consider budget allocations.

3. **Predictability:**
   Property owners can more accurately predict their property tax bills. This predictability can be particularly beneficial for fixed-income residents and businesses.

4. **Economic Growth:**
   By limiting property tax increases, the spending cap can create a more favorable environment for economic growth and business development. Lower property taxes help attract new businesses and encourage investment.

Local Elections Shape Our Communities and Our Property Tax Bills

By Sarah Curry, DBA

While national elections often steal the spotlight, it is these local contests that influence the daily life in our communities and our property tax bills.

Voting in local elections, which in Iowa this year included city council, school board, and new bond issues, is of critical importance for every citizen. While national elections often steal the spotlight, it is these local contests that influence the daily life in our communities and our property tax bills. They are the foundation of our system of government, where citizens have a direct say in shaping the policies and priorities that affect their neighborhoods, schools, and pocketbooks.

City councils and school boards play a pivotal role in determining the course of action for their respective jurisdictions. City councils oversee municipal budgets, infrastructure development, and public safety measures, while school boards are responsible for our children's education. Of course, these necessary services also come with a cost.

One critical aspect of local elections that often goes unnoticed is their direct impact on property tax bills. School boards and city councils are the two largest consumers of property tax dollars across the state. When these bodies allocate resources efficiently and responsibly, they can help keep property taxes in check. Conversely, if budgets balloon unnecessarily as local officials try to do too much, property tax bills can soar, creating a burden on homeowners.

November 2023 Bond Election Results

	Bonds	Percent	Dollars
Pass	22	49%	$ 951,870,000
Fail	23	51%	$ 773,055,000

Iowa counties, cities, and schools put forward bond questions for the elections on November 7 across 50 counties, covering 75% of the state's population and totaling a potential $1.72 billion in new spending. The decision facing taxpayers was whether or not they wanted to saddle themselves with new debt and higher property tax bills during a time of rising inflation and national economic uncertainty. Statewide, 366,488 ballots were cast, representing 16.68% voter turnout.

A total of 45 bonds were on the ballots for six counties, four cities, and 35 public school districts. Only 22 of the bonds

met the 60% threshold to pass, totaling $951.9 million in new spending, with the largest from the Polk County bond for the Des Moines Airport.

Voters responsible for Cedar Rapids Community School District (CSD) overwhelmingly defeated the largest school bond proposal in state history. Other large requests, such as those from Dubuque CSD and Lewis Central CSD, received majority support but failed to achieve the supermajority of 60% to pass.

Many of the school districts whose bond proposals failed yesterday have experienced declining enrollment over the last 10 years. However, some with declining enrollment still found a way to win over taxpayers: Durant CSD, Harris-Lake Park CSD, Mid-Prairie CSD, and North Tama CSD. The school districts in the Des Moines metro area with increasing enrollment overwhelmingly approved their bond measures.

City bonds in Linn, Story, and Marshall County failed, leaving Burlington as the lone winner. Turning to counties, four will be receiving new jails and law enforcement centers, but Webster County failed to receive the supermajority to fund a new jail proposal. Overall, the proposal with the strongest support was Van Meter's CSD bond, at 86%, while the bond with the least support was Schaller-Crestland CSD's, with only 35.5% support.

While Iowans do not have a say about the inflation that is squeezing our budgets, they just had the opportunity to weigh in on how much spending our local governments plan to do.

Iowa is an Example of Federalism at its Best

By John Hendrickson and Chris Ingstad

The more the federal government can stay out of the way, the better.

The battle for the Republican presidential nomination is heating up, and the national spotlight will continue to shine on Iowa as candidates flock to the Hawkeye State to court voters. In January, Iowa Republicans will hold the first-in-the-nation presidential caucus, but national attention is a result of more than just the campaigns. Presidential candidates and the media are focusing on Governor Kim Reynolds and Iowa's record of advancing conservative economic and social policies.

Iowa may rightfully lay claim to being the standard-bearer for conservative, state-based public policy, as no other state has matched what Reynolds and the Iowa legislature have accomplished since 2018. In light of those achievements, candidates would be wise to remember that none of those wins would be possible without effective leadership, which includes governing in collaboration with the legislative branch. Here in Iowa, the governor has partnered with a number of other elected officials, chief among them senate majority leader Jack Whitver. But these reforms also would not be possible without power resting with the states. Lives in Iowa are improved because of policies that are born here, and not because of mandates or programs that are forced on us from a very distant Washington, D.C.

The fact that Reynolds and her fellow lawmakers have been able to pass one signature piece of legislation after another stands in stark contrast to our federal government, where lawmaking often grinds to a halt even when control of Congress and the White House is held by a single political party. Under Reynolds's leadership, Iowa enacted a fetal-heartbeat bill on the heels of the Dobbs decision, universal education savings accounts (ESAs) that will be available to every Iowa student, a bill that reorganized and shrank the size of state government, multiple rounds of income-tax cuts that have reduced the top tax rate by almost 60 percent, and judicial-nominating reforms that wrested power away from the bar association and placed it in the hands of elected officials.

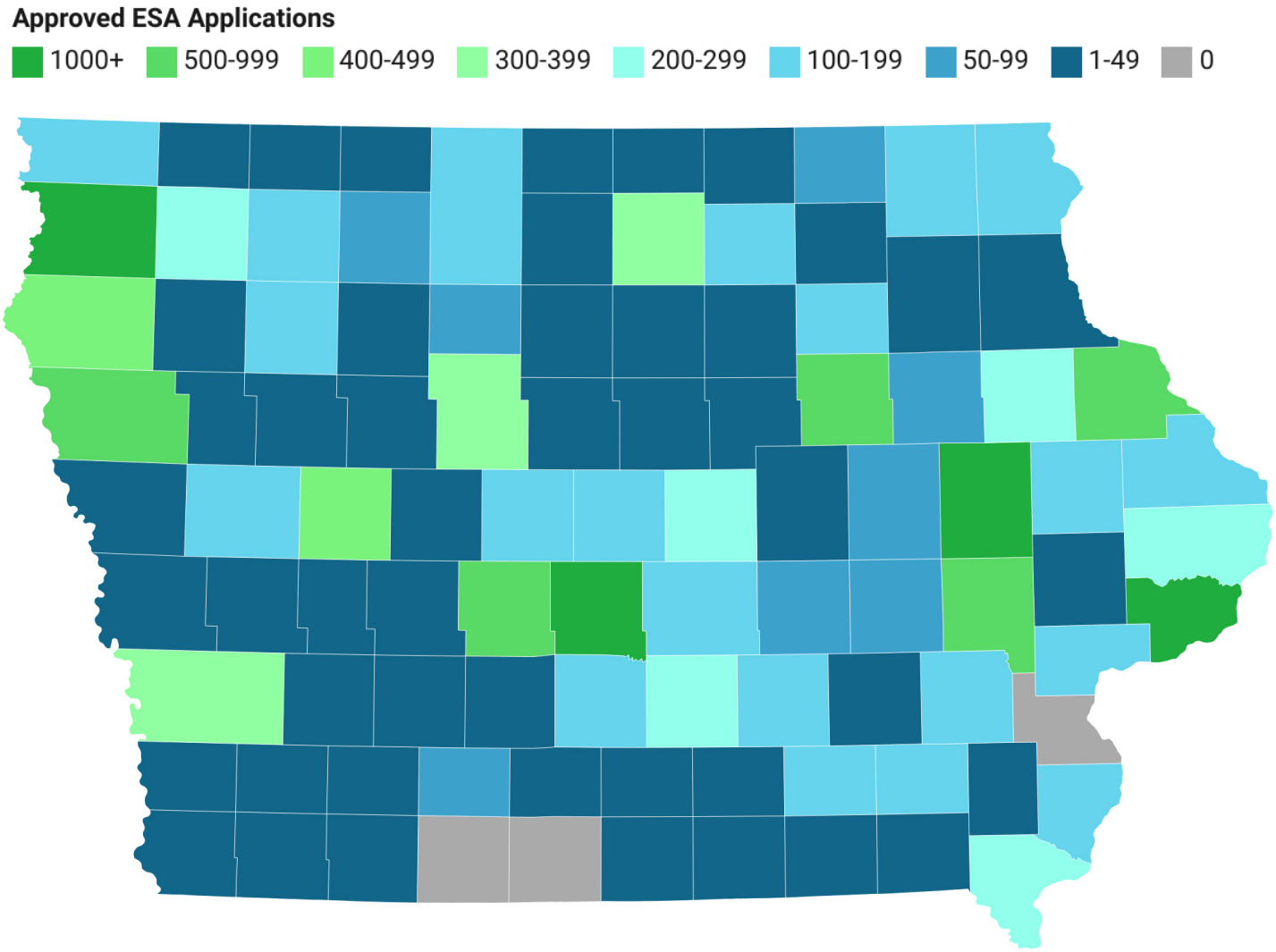
Iowa's policy achievements do not simply check another box on a conservative to-do list. These policies are actually improving lives.

Even though many officials at both the state and federal levels hid behind their masks throughout Covid, Iowa was the first state to pass significant liability protection for employers during the pandemic. This protection from frivolous lawsuits as a result of the pandemic was important for businesses, health-care workers and providers, and other institutions. Iowa was one of the few states to keep its economy open during the pandemic. Then in 2021, Reynolds signed laws that required schools to offer 100 percent in-person learning options, ended mask mandates for students, and delivered election-integrity reforms in the wake of 2020's election shenanigans across the country. The reward for passing so much legislation that places individuals and families ahead of the government and special interests was a landslide victory (19 points) for Reynolds in last year's election, and more Republican seats in the Iowa house and senate.

Presidential candidates of all stripes should learn lessons in leadership from Reynolds. More importantly, though, they can see how critical it is to let states set their own policy agendas and deliver the solutions that help people and improve lives. Preservation of federalism, a system that strikes a balance of power between states and the federal government, allows states to remain in control, driving their own policy solutions. The Iowa model demonstrates not only that federalism works, but that applying the same principles to national policy will help restore constitutional government.

Iowa's policy achievements do not simply check another box on a conservative to-do list. These policies are actually improving lives. The impact of three rounds of income-tax cuts has provided Iowa's largest employers with the confidence to continue hiring and expanding their operations. They specifically pointed to the tax-reform packages that were passed in 2022 as giving them "a great sense of optimism not just in the short term, but

Iowa's "Student First" ESA Approved Applicants



the long term." For families, 2023's landmark Students First Act created universal ESAs and is one of the most expansive school-choice policies in the nation. It already is proving to be extremely popular: Nearly 19,000 students will benefit from true educational freedom this fall, with more applications still being considered. The number of students who will use these brand-new ESAs far exceeds earlier estimates, highlighting the demand for options in K–12 education.

Iowa was once considered a swing state in national elections, having voted twice for both Barack Obama and Donald Trump. Even with the state now appearing reliably "red," it would be foolish for any candidate to assume they know exactly what this electorate wants, let alone what voters in the other 49 states are desiring. Leaders such as Kim Reynolds are so popular because they deliver on their promises. Whoever sits in the Oval Office in 2025 should recognize the importance of letting states serve as the catalysts of change, tailoring approaches that reflect local values. The more the federal government can stay out of the way, the better.

This article was published in National Review.

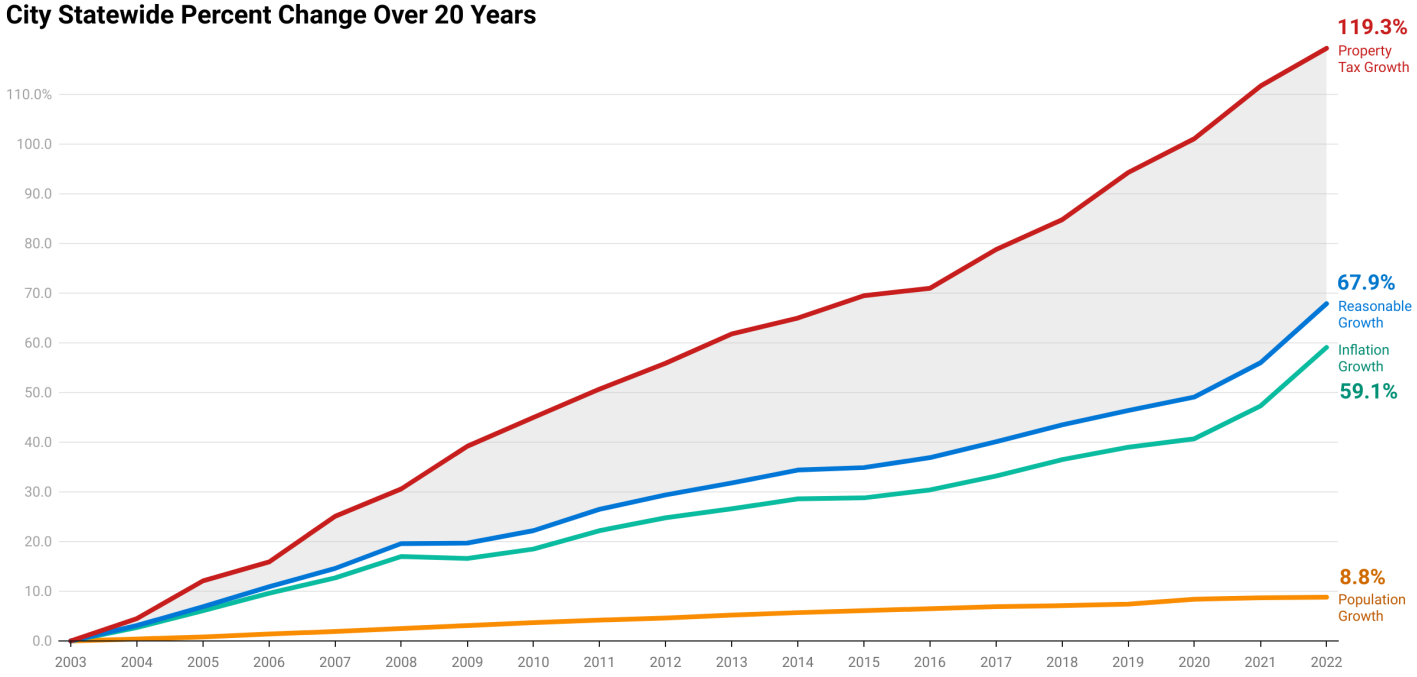
No More Blank Checks

It's not unreasonable for elected officials to find efficiencies and determine where to hold the line on their spending.

Despite claims of inflation fears, the data shows city and county budgets have been outpacing inflation for years.

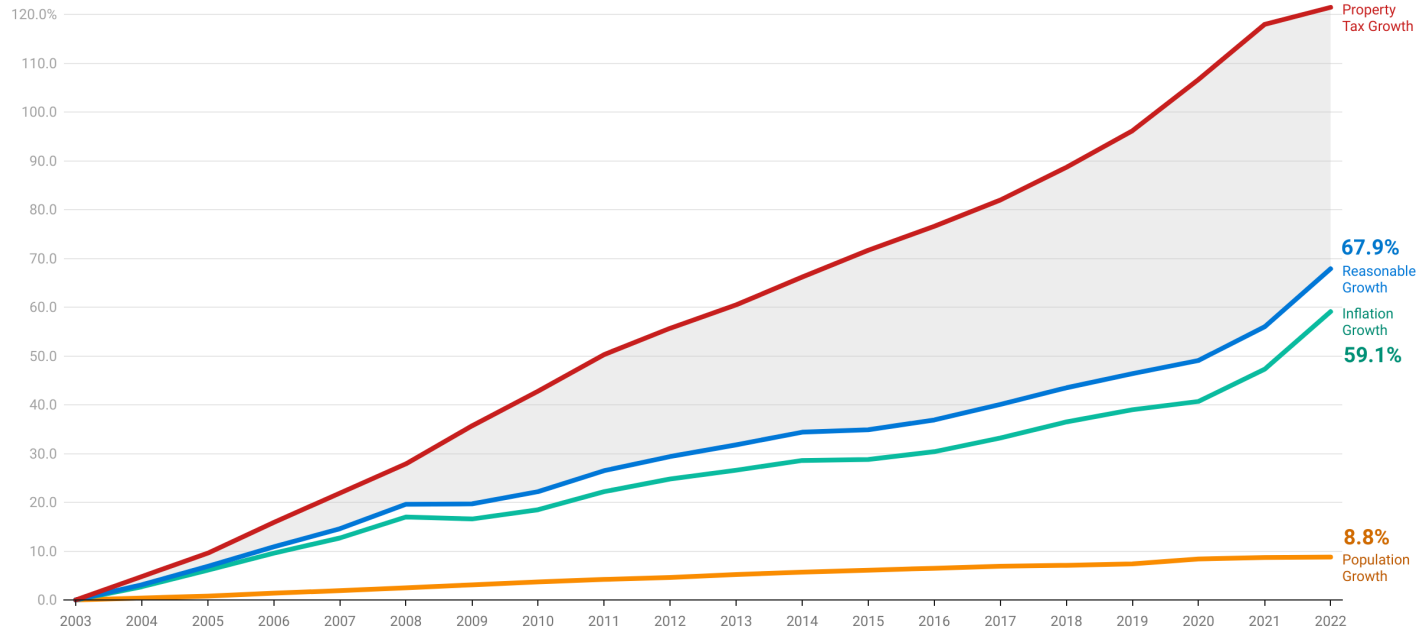
An *Axios Des Moines* article about recent property tax reforms really caught our eye. In the article, a handful of city and county leaders in Iowa were lamenting new changes to Iowa law meant to rein in the growth of property taxes. One city manager claimed changes wouldn't allow cities to keep up with inflationary pressures. The problem with that point of view is that for the past couple of decades, cities haven't been merely keeping up with inflation, they've actually far exceeded the combination of inflation and population growth, as the following chart illustrates.

City Statewide Percent Change Over 20 Years



Cities aren't alone in their worries. A county leader voiced concerns, too. As it turns out, counties have outpaced cities when it comes to the growth of property taxes.

We suspect that there are numerous cities and counties in Iowa that have moved beyond fulfilling the essential roles of government and now have trouble discerning between wants and needs. Doing so over the course of many years compounds the growth of local budgets to the point that trying to slow down that growth brings cries that the sky is about to fall. One mayor who oversees a budget that plans to spend more than $500 million even



seemed to imply his city wouldn't be able to fix the potholes anymore.

And here's one other thing to ponder: cities and counties often have reserve funds they can easily tap into. These reserve funds (technically the general fund's unassigned fund balance) have been built up by budget surpluses over the years and some have reached staggering amounts that exceed a whole year's worth of expenses. Instead of extracting more money from the taxpayer, local governments should think about using what they've already collected.

While it should be encouraging to hear government leaders acknowledge the challenges inflation brings to budgets, we wish they would consider the budget of their taxpayers. After all, it's the citizens and businesses in their communities that have to pay for their spending growth. When prices at the pump, in the grocery aisles, and so many other places are already taking their toll, it's not unreasonable for elected officials to think about what taxpayers truly expect from them, find efficiencies, and determine where to hold the line on their spending.

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Making a Difference Together

Let's be honest, big government is big bureaucracy, and common sense tells us big bureaucracy is ineffective. That's why ITR Foundation works to:

- Research principled solutions
- Educate Iowans about our solutions
- Activate Iowans in support of our solutions

By applying the principles of limited government, free enterprise, and the rule of law to public policy, we can ensure all Iowans will have the opportunity to succeed.

ITR Foundation set the policy groundwork for many recent taxpayer victories in Iowa:

- 2023 property tax reform
- A 3.9% flat individual income tax rate by 2026
- Elimination of income taxes on retirement income
- Elimination of inheritance tax
- Creating a path to reduce corporate income tax to 5.5%
- Phasing-out special tax incentives in the corporate tax code

ITR Foundation gains strength and you gain influence when we work together!

Please consider making a tax-deductible donation today.

Your contribution makes more pro-growth wins possible, positioning Iowa as a stark contrast to the madness of Washington, D.C. Scan the QR Code or visit itrfoundation.org/contribute on our website.