

Governor's tax plan: Breaking trust with the Trust Fund

Voters would get much less of what they wanted — and extras they did not seek

IOWA CITY, Iowa (Feb. 14, 2020) — Iowa voters should be getting more than Governor Kim Reynolds is proposing for purposes they expected in approving a constitutional amendment in 2010 to improve outdoor recreation and water quality.

“The governor’s proposal provides only about two-fifths of what those designated priorities should receive from a three-eighths-cent sales tax increase,” said Peter Fisher, research director of the nonpartisan Iowa Policy Project (IPP).

“At the same time, the governor’s plan compounds inequities in Iowa tax law with a full penny sales-tax increase plus new income-tax cuts that voters did not support. The combined plan produces a net loss of revenue that will affect many other general fund priorities, such as education, public safety and family supports.”

Voters in 2010 approved a Natural Resources and Outdoor Recreation Trust Fund, to be filled with a three-eighths-cent sales tax increase. Governor Reynolds has proposed a full penny increase as part of a more comprehensive package that — with income-tax cuts favoring the wealthy — would result in a net loss of revenue.

Fisher and IPP environmental expert David Osterberg, in a report for the nonpartisan Iowa Fiscal Partnership, found:

- The Reynolds proposal generates only \$82 million in new funding for the purposes voters approved. Following voters’ intent would produce \$200 million or more.
- The plan diverts part of the increased sales and use tax revenue from an increase — the use tax share — to other purposes. She also excludes the new sales taxes on digital goods and services. The result is \$31 million less for the trust fund.
- Over half of the funds allocated to the trust fund under the Governor’s plan are simply transfers from existing programs.

“There are three reasons for the shortfalls: The total pie would shrink, program allocations would change, and a majority of the funds are not new money — a stipulation of the law that told voters what to expect,” Osterberg said.

Previous to the 2010 election, lawmakers set out in law the distribution of funds to be followed should the constitutional amendment pass. The law also told voters that money from the trust fund “shall supplement and not replace” money already appropriated for the stated purposes.

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“In other words, the new sales tax revenues are to be considered ‘new’ money — they are supposed to add to the insufficient spending on these environmental and recreation programs that prompted advocates to seek the amendment in the first place,” Osterberg said. “The governor’s plan violates the trust that voters put behind their votes.”

The 2010 law lays out the formula for use of the trust fund:

- Natural resources establishment, restoration and enhancement, 23 percent.
- Soil conservation and water protection, 20 percent.
- Watershed protection, 14 percent.
- Iowa Resources Enhancement and Protection fund (REAP), 13 percent.
- Local conservation initiatives, 13 percent.
- Trails design, maintenance and expansion, 10 percent.
- Lake restoration and water quality improvement, 7 percent.

The proposed new formula gets rid of much of the outdoor recreation funding that voters would have expected,

and cuts trails, REAP and much of the funding to the Department of Natural Resources.

“Some groups that opposed the constitutional amendment, like the Farm Bureau, are backing the plan. It’s not surprising.

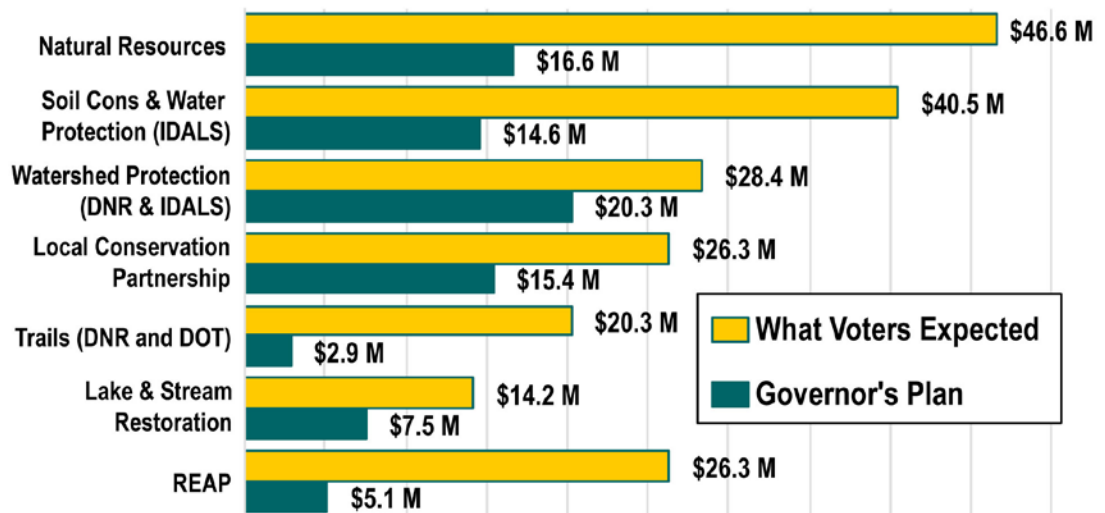
They have not wanted to accept any meaningful regulation or responsibility to clean up the water pollution problems that industrial agriculture has indisputably created,” Osterberg said.

The authors also noted the Governor’s condition that a sales-tax increase comes with greater cuts in other taxes is not what voters approved, and will further tilt Iowa’s regressive overall state and local tax structure to benefit the wealthiest.

“We need to be thinking of ways to enhance tax fairness, not worsen it, and assure we have revenues necessary for services that benefit all Iowans, not drive those priorities down. The Governor’s plan is pitting environmental community against education and other critical services — this is the inevitable impact of this plan,” Fisher said.

The Iowa Fiscal Partnership is a joint public policy research and analysis initiative of the Iowa Policy Project and the Child and Family Policy Center. Find reports at www.iowafiscal.org.

Figure 1. Governor’s plan diverts many millions from current sales-tax formula priorities
Sales-tax apportionment under 2010 law vs. Governor Reynolds’ 2020 proposal



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