Iowa Legislative Report

87th General Assembly, 2018 Session

Iowa Talented & Gifted Association

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It is hard to believe that this week we entered the month of March. Both chambers spent most of the week in floor work and there was precious little work on education issues.

Tax reform was a dominant topic as the Senate passed their reform plan SF **2383** on Wednesday. We sent you details of that bill last week when it was introduced. The non-partisan legislative fiscal bill released a fiscal note estimating it will mean $1000 per year in tax relief for the average working Iowans and cut taxes by $1 billion in one year. Iowa currently has the fourth highest top individual tax rate in the country. Questions have been raised about that happens to the state budget if taxes are cut that much so the discussion continues.

The Senate bill faces an uncertain future in the House where members seem to be more closely aligned with the **Governor's proposal** ($1.8 billion relief over five years). That bill is **HSB 671** which passed out of House subcommittee on Thursday. The Senate bill makes about $1.2 billion in tax cuts, with most of the cuts coming from the personal and corporate income tax. The bill also includes some increased sales tax collections and cuts to tax credits. HSB 671 does not include corporate tax cuts, but potentially makes bigger cuts ($1.7 billion) over six years. The House bill includes triggers designed to shut down the tax cuts if the state does not meet revenue growth targets. Both bills end the deduction in Iowa tax for the amount paid in federal taxes (federal deductibility) as part of an effort to simplify Iowa taxes. The recent cut in federal income taxes reduces the deduction allowed to many Iowa taxpayers and increases their Iowa tax liability. The state could see as much as $33 million in revenue increases this year due to the federal changes. Speaker Upmeyer said that while the House bill does not include corporate tax cuts, House Republicans are willing to discuss adding those cuts with the Senate. We will keep you informed.

A subcommittee was also held on Tuesday for a bill that would **phase out the backfill** for commercial and industrial property tax replacement claims by reducing it by one-third in FY 2019, two-thirds in FY 2020, and no further appropriation after that. The county association and many cities testified in opposition to **SF 2081**, citing the difficulty of implementing a cut in FY 2019 just as counties are certifying their budgets, and the potential reduction in services as a result. If passed this bill would have negative consequences for city and county budgets and employees so we are watching it closely.

Re: tax and money matters, legislators have still not reached agreement on the **current year de-appropriations bill** - the House has not taken up either Senate version. There is some discussion that they may not pass a de appropriations bill this year, but at this point strictly hearsay. We are at the end of the 8th week of the session and any cuts to the current budget year would have to be implemented by June 30th. Last year the Governor signed the de-appropriations bill by the end of the second week of the session.

Related to these tax and local government issues, the bill **Local Operating Funds SF 2155** passed out of a House State Government subcommittee on Wednesday. The bill **authorizes a political subdivision to invest operating funds in excess of 33% of the fund total to be invested in certificates of deposit with a maturity of five years or less rather than being limited to instruments with a maturity of 397 days or fewer under current law**. This could have ramifications for city and county budget health as well.

The other big issue debated this week was **HF 2456**, a bill to address gaps in the mental health system in the state. The bill reflects the recommendations of the Complex Service Needs Study Work Group, charged with giving recommendations to provide services to adult individuals with complex **mental health, disability, and substance use disorder needs**. The bill makes changes to procedures involving involuntary commitments, including on dismissal of actions, on disclosures of MH information by MH professionals to law enforcement to prevent or lessen threats to health and safety, and on MH/DS region reporting. Intensive Services: Requires the state MH/DS Commission have rules on assertive community treatment teams, access centers and intensive residential services and requires any matching federal funds under the Iowa Health & Wellness Plan to be made available, with service requirements across the state.

Finally, this next week the chambers will receive the **March 9th Revenue Estimating Conference(REC)** report pursuant to Iowa Code section **8.22A.** One of the most important aspects of the state budgeting process is revenue estimating. Before the adoption of a budget that provides state agencies with spending authority for the next fiscal year, the Governor and General Assembly must determine available revenue. This is also a precursor to the application of any expenditure limitation policies.

The REC is required to meet three times a year and makes projections about the state's economy and tax receipts which serve as the basis for the legislature's budgeting process. The panel consists of one individual from each of the following: the bipartisan Legislative Services Agency (LSA), the Department of Management, and the private sector. Together, these members consider many economic factors in different markets to estimate available General Fund revenue.

The REC estimate established at the meeting prior to December 15 is required to be used by the Governor and the General Assembly in preparation of the General Fund budget for the fiscal year beginning on the subsequent July 1. If the REC sets a **higher revenue estimate at its meeting held during the regular legislative session (this meeting March 9th),** compared to the December estimate, the Governor and the General Assembly are **required to use the lower December estimate** when calculating the expenditure limitation for the next fiscal year. If the REC sets a **lower revenue estimate after the December meeting**, but prior to the end of the regular legislative session, the Governor and the General Assembly are **required to use that lower estimate.**

The revenue estimate will clearly impact the appropriations for the next fiscal year and the de-appropriations currently being considered. Whatever the report says, we should quickly see a flurry of activity on budget and tax issues when the group releases their estimate on March 9th to release their projections.

That wraps it up for this week. If you have any questions or comments, please let us know. We have also attached a bill list. **Get any comments to us via Maureen re: bill positions h**ave a good and safe weekend!