
Iowa Fiscal Partnership

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Cuts, Costs Hitting Cities, Counties Report Shows State Policy Squeezing Local Government Services

DES MOINES, Iowa (Dec. 15, 2004) — State budget shortfalls and higher costs that hit Iowa cities and counties over the last four years have compromised basic services while driving local taxes up and fund balances down, a new study reports.

The report, the fourth in a series from the Iowa Fiscal Partnership about the impact of Iowa's budget crisis, illustrates a dilemma increasingly faced by local government officials: how to meet residents' demand for services with fewer or restricted means to pay for it.

"Short-sighted state policy is putting local policy-makers in an impossible situation," said Peter Fisher, research director of the Iowa Policy Project and co-author of the report for the Iowa Fiscal Partnership. "As our report illustrates, when the economy contracts, people demand more services – at the same time that the state is cutting back, property values are stagnant and costs are rising. In this climate, local officials are asked to do more with less.

"Like the state, local officials are turning to one-time sources of money for ongoing services, and they can't do that year after year."

The report noted:

- State support for local governments has fallen by 42 percent, or \$119 million, since FY2001.

- All but two of Iowa's 99 counties have reached or exceeded their general fund property tax levy limit, with 17 using their authority to go higher due to unusual circumstances. Only one county did that in FY2001.

- The percentage of cities at their general fund levy limit has gone from 71 percent in FY2001 to 78 percent in FY2005.

- Health insurance costs have increased for local governments just as they have for private employers. From FY2001 to FY04, the cost for county health premiums rose by 78.4 percent. Local governments have increasingly used special levies to finance the added costs. On average, about three-fourths of the increase in overall city property tax rates is due to employee benefit levies.

- Despite an increasing use of local-option sales taxes, this has not solved local governments' financial problems.

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■ The property tax base has not grown to keep pace with either higher costs or cuts in state support. This primarily is due to the state’s system of rollbacks, which has effectively reduced residential valuation to less than half of its market value, and to the system of valuing agricultural property based on productivity rather than market value.

“Our findings have critical implications for the coming debate on property tax reform in the Legislature,” said Victor Elias, senior associate at the Child & Family Policy Center and a co-author of the report. “We have a combination of limits on tax rates and slow growth in valuation. This has clearly constrained the ability of cities and counties to finance services.”

The Iowa Fiscal Partnership (IFP) is a joint initiative of two nonprofit policy research organizations, the Iowa Policy Project in Mount Vernon and the Child & Family Policy Center in Des Moines. Reports from the IFP are available on the web at www.iowafiscal.org <<http://www.iowafiscal.org>>.

The first three reports in the current IFP series on the state budget crisis are available at that site. They include an overview comparing Iowa’s handling of its fiscal challenges to efforts of other states; an analysis of the impact of the budget crisis on education; and an analysis of the impact on human services.

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