Iowa Fiscal Partnership

NEWS RELEASE

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City Revenue and Smart Growth

Examining Local Options with Fairness, Accountability

IOWA CITY, Iowa (Nov. 13, 2008) —City revenue reform can help encourage sustainable, responsible and fair development, Iowa Fiscal Partnership (IFP) researchers said today.

In a new report, "City Revenue and Smart Growth," Beth Pearson and Peter Fisher analyze constraints on city finances and local tax systems, noting the issue has received fresh attention in the wake of the 2008 floods in Iowa.

"Legislators can provide tools that better recognize Iowans' ability to pay while encouraging smart growth strategies. Instead of expanding policies such as local-option sales taxes and utility franchise fees, they should consider enabling cities to use new options, such as local-option income taxes already used by school districts," said Pearson, research associate for the nonpartisan Iowa Policy Project (IPP), which is part of IFP.

Fisher noted that cuts in state support for local governments in the early part of the decade, along with a stagnant tax base and rising costs for cities, have led to a greater reliance on property taxes for revenue. In turn, that has prompted calls for other revenue options.

"Beyond the challenges already in place, cities hit hard by flooding this past summer face greater issues," said Fisher, IPP research director. "Their tax base actually may have declined due to a loss of business or residential property — but at the same time they're being asked for more services that require revenue. Cedar Rapids has estimated it will lose more than $2 million in property tax revenue due to flood effects.

"State legislators are being asked to respond to this situation, and they must be careful to meet cities' needs but not to provide tools that will hinder ability of lower-income Iowans to cope in this difficult economy."

The report, available on the IFP <http://www.iowafiscal.org/2008docs/081113-cityrevs.pdf>, says the heavy reliance on property taxes skews city revenues toward a less fair form of financing than one that taxes higher-income people at a higher rate than lower-income people. In addition, cities turn too frequently to tax-increment financing (TIF) schemes far removed from the original intent of the TIF concept.

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"The fairest way for city governments to raise additional revenue would therefore be to base new taxation on income, rather than on purchases or property," the report stated. "Instead, cities have often sought to increase the tax base through short-sighted economic development policies that undermine opportunities for regional cooperation."

According to the report, state policy makers should avoid further or new local use of local-option sales taxes, utility franchise taxes, local-option excise taxes (on cigarettes or alcohol, for example), gambling taxes or further uses of TIF.

Instead, they could consider allowing cities to implement local-option income taxes — already levied as income surtaxes by school districts across the state as an alternative to property tax — as well as impact fees that encourage more efficient land-use choices for development near existing services. They also could consider allowing cities more discretion in negotiating payments in lieu of taxes by tax-exempt entities, to contribute to public-safety protection services that cities provide.

The report incorporates fresh information about Iowa taxes from an IFP report released earlier this week, *Who Pays Iowa Taxes?* Both reports use data from the Institute on Taxation and Economic Policy, to illustrate effects of Iowa tax policy — sales taxes, income taxes and property taxes — on Iowa households at various incomes. For the *Who Pays Iowa Taxes?* report, see <http://www.iowafiscal.org/2008docs/081110-WhoPays.pdf>.

The Iowa Fiscal Partnership is a joint tax and budget policy analysis initiative of two Iowa-based, nonpartisan, nonprofit organizations, the IPP in Iowa City and the Child & Family Policy Center in Des Moines. IFP reports are on the web at www.iowafiscal.org.

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