

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 voters in 2010 approved a constitutional amendment to create a trust fund to guarantee more funding for outdoor recreation and water quality. Ten years later, a plan would put money into the trust fund.

But Governor Kim Reynolds is not offering what voters approved in authorizing a three-eighths-cent sales-tax increase for the Natural Resources and Outdoor Recreation Trust Fund.

*See the full four-page report at
www.iowafiscal.org*

The governor is offering:

- **Less funding overall than what voters could expect;** she diverts part of the increase.
- **Less funding for designated purposes than planned,** because she changes the rules that were set before the referendum — namely, in the distribution of funds from the trust fund.
- **Less new funding for the designated purposes;** she shifts a majority of the funding from the trust fund to existing programs — also contrary to the rules voters understood in 2010.
- **A higher sales tax, to a full penny,** with the majority being used to cut income and property taxes, compounding a system that taxes the poor at a greater rate than the rich.
- **A net decrease in revenue because of the other tax cuts,** pitting environmental and outdoor advocates against Iowans seeking better funding of education and other priorities.

The smaller pie

The state sales tax, as typically understood inside and outside the Capitol, means the sales and use tax, the latter applying to purchases from elsewhere brought into the state. They are tied together; when the sales tax rate has changed, the use tax rate has changed as well. **While the Governor would raise both rates by a penny,** her first breach of trust is to apply the voters' three-eighths-cent increase only to the sales tax portion. She also excludes the new sales taxes on digital goods and services. The result is less going into the trust fund.

Re-slicing the smaller pie

The next violation of trust comes with the Governor's **after-the-fact revisions to the formula** voters had reason to expect would be followed when the trust fund was approved. The Governor claims "the challenges we face today and will face tomorrow are different than what we understood them to be 10 years ago, so it's time to amend the formula." She has not articulated those new challenges or how they justify changing the voters' rationale to support a trust fund.

In fact, the actual priorities that Iowa voters overwhelmingly supported in 2010 would only get about two-fifths of what they should receive from the sales-tax increase voters authorized if her proposal passes. The figure below shows each of the areas of funding voters approved and what these programs will actually receive in new money under the governor's plan.

Outdoor recreation, trails, REAP and much funding to the Department of Natural Resources lose in a re-sliced pie that better reflects priorities of industrial agriculture than those of people who sought the constitutional amendment in the first place.

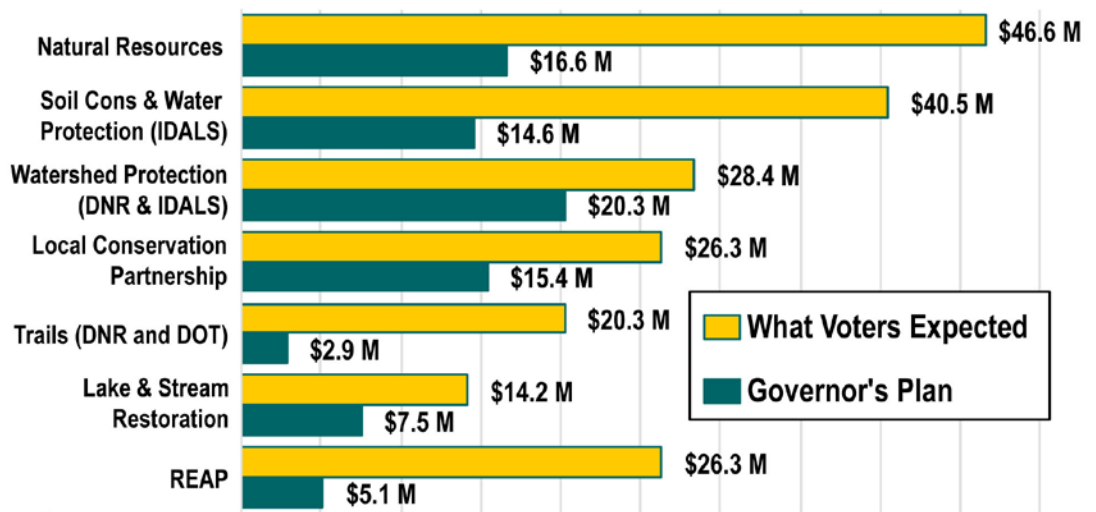
Substituting old pie for new pie

Chapter 461 gave voters the ground rules for the trust fund vote. Not only did it specify how the funding would be apportioned among various purposes (noted above). It also ordered that the first three-eighths-cent increase in the sales tax would be **new** money for those purposes:

“Trust fund moneys shall supplement and not replace moneys appropriated by the general assembly to support the constitutional purposes provided in section 461.3.” (emphasis added)

Despite the statute clearly specifying that the revenue going into the fund should be new and additional funding, over half of the funds allocated under the Governor’s plan are simply transfers from existing programs. Data from the Legislative Services Agency shows Governor Reynolds’ proposal

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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generates only \$70-80 million in new funding for the purposes voters wanted expanded by creating the Trust Fund, instead of the \$200 million or more voters should expect.

Larger implications — further inequity and challenges for other priorities

Finally, the Governor is agreeing to deliver on the voters’ consent to a tax increase only on the condition that she can cut other taxes — unwarranted and significant income-tax cuts that disproportionately benefit those at the top. Lower- and middle-income taxpayers already pay a greater share of their income in sales tax than those who have greater income.

In a cruel irony, voters who supported the trust fund and agreed to a sales tax to fund it will find that farm operations that cause the pollution problems will be the big winners. Their operations will not pay the increased sales tax. From fertilizer and soil amendments to combines and tractors, farm operations are exempt from the sales taxes. At the same time, the wealthiest Iowans, some of whom are farmers, will get a big income-tax cut as well.

On top of this, the net result of this plan is a reduction in revenue for the general fund. This will necessitate cuts in other services, from education to corrections to safety-net supports that already are challenged by chronic underfunding.