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Philip W. Buchan, Director

# Memo

**To:** Legislative Fiscal Committee  
**From:** Phil Buchan  
**Date:** 12/11/2001  
**Re:** End of Congressional Session Report

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## Summary

Congressional action is rapidly coming to a close for the first session of the 107<sup>th</sup> Congress. However, several major issues that could have an impact on Iowa's budget are still in play, and the Office for State-Federal Relations is actively advocating the state's interests with our delegation, other Congressional leaders, and the Administration. These issues are under discussion for inclusion in either the economic stimulus package or one of the remaining appropriations bills.

## Major Issues Remaining

1. **Federal Medicaid Assistance Percentage (FMAP):** The Senate Finance Committee-passed stimulus bill included a temporary increase in the FMAP for all states, with an additional increase for states that have high increases in unemployment. Similar legislation has recently been introduced in the House by a bipartisan coalition and is attracting cosponsors, including Representative Boswell from our state's delegation. An increase in the FMAP would reduce the amount of Iowa's match. This would free up some \$20 million for Iowa for each percentage point increase in the FMAP – proposals range from 1% to 2%. Unlike most federal funding changes, since this would simply reduce the amount we need to match, these funds would be essentially free of strings. The only requirement in the language under consideration is that the state not reduce current levels of services. Governor Vilsack, Senate President Kramer, Senate Minority Leader Gronstal, Speaker Siegrist and others were all on a call recently with Senator Grassley to support the inclusion of FMAP in the stimulus package.

2. **Accelerated Depreciation:** One item that has been in all versions of the stimulus package is an accelerated depreciation schedule for business property. The House-passed bill would allow new business property to be depreciated a bonus 30% in the first year the property was used. The provision would be in effect for 3 years. Although the total amount of the depreciation will be the same (the basis in

the property) over the term of the depreciation, this boost in first-year depreciation front-loads the process. The Committee-passed bill in the Senate has a more modest 10% boost for one year.

This change in depreciation schedules will have a significant impact on Iowa revenues. Iowa uses the federal schedule in calculating depreciation; an increase in depreciation will reduce taxable income, and therefore Iowa state income taxes paid. The Center for Budget and Policy Priorities has estimated that the Senate version will cost Iowa some \$20 million for its one year in effect; the House bill would cost \$60 million per year or \$180 million total over three years. The final stimulus package will certainly contain some form of this provision.

**3. Payroll Tax Holiday:** Another proposal that may increase Iowa's disposable funds is a proposed payroll tax holiday. Employers and employees would not have to pay the Social Security (FICA) tax that is normally withheld from paychecks, immediately pumping money into the economy for consumers and businesses alike. Lost revenues from the social security trust fund would be replaced by money out of the US general fund. There is bipartisan interest in this proposal and I anticipate it will be included in some form in the final package if the remaining issues can be resolved. Issues remaining include how quickly businesses could gear up to end the withholdings, concerns about progressivity of the proposal, and most importantly, what other provision in the package would be replaced by this.

Iowa would benefit by this proposal in three possible ways. First, as employers, the state pays a significant amount of this tax every month. Second, on the revenue side, employers who pay less deductible social security taxes for their employees will have higher taxable income, and therefore will pay somewhat more in state income taxes. Finally, the bonus money for the tax holiday month is anticipated to stimulate sales and could therefore increase sales tax revenues.

**4. Sales Tax Holiday:** This idea was under consideration for inclusion in the stimulus package and retailers are still supportive, though the provision was not included in either the House or Senate versions of the bill. State sales tax collections would be replaced by federal funds. Implementing this nationwide raises some significant logistical barriers, particularly in ensuring that states do not lose funds as a result of the program. It would also require each state to pass a law to authorize the sales tax holiday along the lines of the resolution passed by the Iowa legislature in the special session. While the impending legislative sessions in many states makes this easier, since it would not require states to declare special sessions expressly for this purpose, some states only meet every other year, and others may decline to act in the time frame specified. I think it is unlikely that this provision will be included in the final bill.

**5. Full funding for IDEA:** The Senate version of the ESEA reauthorization bill provides for mandatory full funding for the Individuals with Disabilities Education Act. This program provides funds for states to educate students with disabilities. While this program was authorized to fund states at 40% of the cost of this education, funding has always been less than half that, and currently Iowa receives just 16% of its special education costs. The ESEA reauthorization bill is in conference committee and this issue is currently unresolved.

**6. Anti-Terrorism Funding:** Congress is considering a bill to allocate \$20 million of emergency funding out of the \$40 million provided to the President immediately following the September 11<sup>th</sup> attacks. The provision has been added to the pending FFY02 Defense Appropriations Bill. Senate Appropriations Chair Robert Byrd has proposed to increase the level of emergency spending by \$15 million, but his amendment was ruled out of order.

Two significant areas of interest to Iowa are funding for emergency services and first responders, and funding to counter bioterrorism. The House-passed bill would provide some \$400 million (down from \$550 million in the Administration's request) that will go to counterterrorism aid to local law enforcement. If enacted this would be a new block grant program. State bioterrorism funding was included in the Byrd amendment but it presently appears that this proposal will fail, but it is possible that it will be folded into one of the other bills coming through.