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Legislative Property Tax Study Committee
December 5, 2007

Testimony of William C. Brown
Partner, BrownWinick Law Firm, Des Moines
Treasurer, ABI Board of Directors

The Iowa Association of Business and Industry (ABI) represents more than 1,300 businesses operating in the state, employing more than 300,000 Iowans. Our members, from a vast variety of industries, range in size from over 10,000 employees to one-person sole proprietors. A common thread amongst all of ABI members, however, is that they all pay commercial or industrial property taxes.

While it is common place to hear complaints about taxes in general, ABI members and the business community at large understands and appreciates the necessity of tax collection to pay for municipal services the public deserves. ABI members also deeply value the quality of Iowa education and recognize the sizable proportion of property taxes that are devoted to preparing children for the workforce. Without question, business taxpayers value the public services and public education funded primary with property tax dollars in Iowa.

The growth in property taxes, especially over the past decade, is of great concern. According to the Iowa Department of Revenue, total collections of property taxes have risen from \$2.4 billion in FY97 to \$3.4 billion in FY06. This exceedingly rapid growth in the collection of property taxes by \$1 billion in a ten-year time period is astonishing. This spiral cannot be allowed to continue if Iowa has any hopes of growing its economy or experiencing population growth.

Iowa taxpayers shoulder the expensive burden to support too many government entities, creating excessive bureaucracy and inefficiency. The \$1 billion growth in property tax collections in the past decade illustrates this point very clearly. In order for the Interim Committee to recommend any meaningful changes, ABI recommends that the Committee also look at elimination and/or merger of government subdivisions and programs to create a more accountable and cost effective delivery of government services.

ASSOCIATION OF BUSINESS AND INDUSTRY

A 2006 study by the National Taxpayers Conference ranks Iowa above the national average for every single property classification. (The report doesn't include agricultural land). Our state continues to rank consistently in the top twenty for industrial and residential properties, while commercial and apartment properties rank in the top ten. Iowa also ranks eighth in the nation for the number of FTE local government employees per 1000 residents, according to the Iowa Coalition for Innovation and Growth.

Being in the top ten states for highest commercial and industrial property taxes is especially troubling. The burden on commercial and industrial taxpayers puts Iowa at a competitive disadvantage for job growth. Our members salute the attention given by policy makers in recent years to make Iowa more attractive to job creators. The Grow Iowa Values Fund, the Iowa Fund of Funds for venture capital, as well as quality job creation tax credit programs and workforce training programs have positioned Iowa for a prosperous future.

Similarly, Iowa has made improvements in its regulatory climate with modifications in several areas including environmental policy, workers' compensation, unemployment compensation and civil justice reforms in order to be more competitive with other states. Unfortunately, the property tax burden for businesses wishing to expand or locate in Iowa has worsened. Many businesses call the commercial and industrial tax burden the "white elephant in the room" when it comes to Iowa's overall economic development strategy and goals. As a state, we simply cannot ignore this part of the economic development equation any longer and expect Iowa to grow.

Ideas for Change

Stop the shifting tax burden between the classes of property. Because of the residential rollback and agriculture productivity formula limiting those property valuation increases, more and more burden falls on commercial and industrial currently taxed a 99% of valuation. Assessments are inconsistent and do not reflect true market value.

I am reminded what Larry Countryman, CFO of Wilson Trailer in Sioux City, chair of the ABI Tax Committee has said, "If our facility here every burned down, there's absolutely no way that we would rebuild on this side of the river just because of the property tax burden."

Fund property related services first. Property tax reform will be successful, only when it is established as to what property taxes should fund. Most taxpayers generally believe that property taxes should pay for services directly related to their property such as fire protection, public safety, and road maintenance to name a few. In reality, it's been discovered that property taxes fund many other programs and projects beyond property related services.

Hold city councils and county board of supervisors accountable for increased tax burdens by requiring a vote of the councils or board of supervisors to occur on increases in property tax revenues. Citizens often hear from their elected officials that they “did not raise taxes” or “increase the property tax rates.” However, citizens see their property tax bills rising. The valuations on their homes and businesses have increased because of its market value; thus property taxes go up because the elected officials spend the increased revenues and fail to lower the property tax rates. Regardless if property tax revenues increase due to a rate increase or a property valuation increase, our elected officials should be held publicly accountable for the increase in citizens’ property tax bills.

Provide transparency in the system by abolishing the county compensation board and requiring the county supervisors to set annual salaries. Currently the county compensation board, appointed by the elected officials in the county, set the salaries for the elected officials. The supervisors are only allowed to reduce each increase by the same percentage. They are not allowed to adjust salaries in any other way. Currently, supervisors have complete control of the final outcome of the budget process, except for the salaries of the elected officials. If the compensation board is eliminated, the supervisors will have the ability to set all of the elected officials’ salaries. Removal of this sometimes misunderstood process will allow more transparency in the setting of elected official’s salaries at the county level.

And finally, enact a spending limitation for government subdivisions at all levels. The growth in property tax assessments (increased over \$1 Billion in 10 years as I mentioned earlier) along with continued burden shifting on commercial and industrial taxpayers directly corresponds to the increases in government budgets. Yes, the price for goods and services go up and so one would expect that increases in municipal budgets would increase as well. The rapid growth, above the consumer price index and other inflationary measurements, however, simply cannot continue.

Governments, like in the private sector, must meet their obligations to their employees for wages and benefits. In the private sector, those items reflect the marketplace. Legacy costs like health insurance and pensions that have bankrupted several US companies have changed the way companies negotiate and structure benefits. Governments, in many cases, have not changed or responded to the market. It would be a great assistance to our local municipalities to control their costs by eliminating state mandated pension contribution rates. Additionally, cities could be assisted if binding arbitration were eliminated in salary negotiations.

I want to thank the Committee for the invitation to be here and hope that my comments reflect a “taxpayer” perspective of employers large and small in Iowa. Thank you.