

PROGRESS REPORT

**TAX FAIRNESS AND EQUITY
INTERIM STUDY COMMITTEE**

**Presented to the Legislative Council
and the Iowa General Assembly
January 1992**

Prepared by the Legislative Service Bureau

PROGRESS REPORT

TAX FAIRNESS AND EQUITY INTERIM STUDY COMMITTEE

December 1991

AUTHORIZATION AND APPOINTMENT

The Tax Fairness and Equity Interim Study Committee was established by the Legislative Council to "review Iowa's individual and corporate income, sales, property, and local tax structures, including property tax exemptions and diversions, and tax credits and expenditures to ensure tax fairness and vertical and horizontal equity. In addition, the review shall include tax abatement and tax increment financing. The committee will also review state taxation policies regarding retirees living out-of-state. The committee is authorized to hire a consultant to assist with their work." The Study Committee is required to obtain approval from the Legislative Council to hire and pay a consultant and must submit preliminary recommendations to the Legislative Council by September 1, 1992, and submit final recommendations to the Legislative Council by December 1, 1992.

Members serving on the Study Committee are:

Myrt Levin, Chairperson
Senator William Dieleman, Co-Vice Chairperson
Representative John Groninga, Co-Vice Chairperson
Senator Linn Fuhrman
Senator Larry Murphy
Senator Ralph Rosenberg
Senator Maggie Tinsman
Representative Wayne Bennett
Representative Kay Chapman
Representative Minnette Doderer
Representative Stewart Iverson
Jane Bell, Meyer & Gross Real Estate
John Keig, Mayor of the City of Muscatine
Mike Lux, Iowa Federation of Labor, AFL-CIO
Joanne Stockdale, Northern Iowa Die Casting

COMMITTEE PROCEEDINGS

The Study Committee was originally authorized two meeting days but was subsequently granted two additional days. The first two were held at the State Capitol Building in Des Moines on October 9, 1991, and October 30, 1991.

OCTOBER 9, 1991, MEETING

At the October 9 meeting the Study Committee heard from Carl Castelda, Deputy Director of the Department of Revenue and Finance, who provided a history of and information related to the major state and local taxes. The information provided included the amount of revenues generated from the various taxes, the date the taxes were first enacted, and a review of various changes, exemptions, and credits associated with these taxes. A list of sales and use tax exemptions was also distributed. Also making a presentation before the Study Committee was Paul Durand of the Legislative Fiscal Bureau, who presented results of studies that had been conducted on Iowa's tax system over the past several years.

The Study Committee discussed various items that were presented and also discussed the types of services the Study Committee would seek from a consultant, if a consultant were to be hired by the Study Committee. The Study Committee requested that the Legislative Service Bureau draft a Request For Proposal (RFP) which would contain in its "Scope of Services" the charge of the Committee as well as the various items that members felt should be performed by the consultant. This RFP was to be completed and sent to the members prior to the second meeting date, so that the members could review it for discussion of inclusions and deletions at the meeting.

OCTOBER 30, 1991, MEETING

At the second meeting of the Study Committee on October 30, a presentation was made by Jerry Musser, Johnson County Assessor, and Carl Castelda, Ed Henderson, and Dick Stradley, all of the Department of Revenue and Finance, regarding property taxation in Iowa. The presentations by the County Assessor and the Department of Revenue and Finance provided an overview of the process of assessment and taxation of real property in Iowa, the various types of real property which are exempt from property tax, and the various tax credits and abatements that are available. The intent of the presentation was to provide the Study Committee members with a better understanding of property taxation in the state.

After the presentations relating to property taxation, the Study Committee discussed the RFP draft that had been sent out previously to the members with regard to the Scope of Services and the items in the Scope of Services that the

members wished to elaborate on, delete, or clarify. The Study Committee did not decide whether or not it would be appropriate to retain an outside consultant but did direct the Legislative Service Bureau to make the suggested changes in the RFP. The revised RFP was sent to the members for approval and then was distributed to potential bidders.

REQUEST FOR PROPOSAL

The RFP was completed, and notice was placed in The Des Moines Register and the Midwest Region of The Wall Street Journal on November 8 and 11, 1991, and approximately 30 to 40 RFPs were sent to consultants, firms, and individuals. The Study Committee decided that proposals from consultants must be submitted no later than December 20, 1991, and that the Committee, if it elects to retain a consultant, would select the consultant by January 20, 1992. Approval of the Legislative Council will be needed in order to retain a consultant. A copy of the RFP is attached to this progress report.

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**Proposed Budget Relating To A
Comprehensive Tax Study of the State of Iowa
December 20, 1991**

The itemized budget(s) presented below reflect the projected cost of providing the entire set of deliverables and all other services identified in this Proposal. Consistent with the discussion in the Introduction (Part 1 of this proposal), this budget provides the Tax Fairness and Equity Study Commission with two options. **Option 1**, which has a total projected cost of \$ 364,722, encompasses: (1) the delivery of a comprehensive and quantitative analysis of Iowa's tax system; (2) on-going support services to the Committee; and (3) the delivery to the State of Iowa a personal-computer based, enhanced individual tax model and data base accompanied by user-friendly, menu driven software for analyzing the combined distribution and revenue effects of income, sales and property taxes.

Option 2, which projects a total cost of \$ 378,182, encompasses all the elements of Option 1 plus the delivery to the State of Iowa of a user-friendly, menu driven computer model of all Iowa sales and excise taxes.

This proposal and projected budget remain valued for a period of thirty (30)days, but may be extended by mutual agreement.

<u>Activity</u>	<u>Option 1</u>	<u>Option 2</u>
Initiation and Review of Iowa Economy and Fiscal System	\$ 13,404	\$13,404
Data Collection and Database Development	\$ 64,825	\$ 64,825
Analysis of Taxes and Committee Options	\$123,009	\$123,009
Preparation of Written Reports	\$ 54,792	\$ 54,792
Meetings, Public Hearings & Ongoing committee Support	\$ 75,970	\$ 75,970
Training & Software (Menu) Development	<u>\$ 13,540</u>	<u>\$ 26,292</u>
Total Professional Fees	\$345,540	\$358,292
Travel & Other Expenses	\$ 19,182	\$ 19,890
Total Projected Budget	<u>\$364,722</u>	<u>\$378,182</u>



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January 22, 1992

Mr. Michael J. Goedert
Senior Legal Counsel
Legislative Service Bureau
General Assembly of Iowa
State Capitol Building
Des Moines, Iowa 50319

Dear Mr. Goedert:

I am pleased to provide this response to your letter of January 20, 1992 regarding the Tax Fairness and Equity Study Committee's consulting firm selection process. We enjoyed meeting with you and the Committee last Friday and feel that we learned a great deal.

Based on our discussions and the directions outlined in your letter, we have reviewed our cost proposal and have identified several areas in which we believe we can realize cost savings without affecting our ability to perform the services we have proposed.

First, as we discussed during the meeting, the State already has the hardware and supporting software needed to run the models. Second, we learned a great deal about the existing models already in place (e.g., the sales tax and property tax models) and are convinced that they will provide a solid foundation for our analysis.

Taken together, we believe that savings in these two areas will allow us to reduce our cost by \$60,000 for a total of \$318,182 for the services described as Option 2 in our original proposal.

Again, let me say how much we enjoyed meeting with the Committee last week; it is our hope that we can be of service to the State.

Very truly yours,

KPMG Peat Marwick

Thomas E. Vasquez, Managing Partner

CLS:\iowa192.ltr



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February 18, 1992

MEMORANDUM

TO: CHAIRPERSON ARNOULD AND MEMBERS OF THE LEGISLATIVE COUNCIL

FROM: DIANE BOLENDER, DIRECTOR *DB*

RE: LEGISLATIVE COUNCIL MEETING

Chairperson Arnould has scheduled a meeting of the Legislative Council for 12:00 Noon on Thursday, February 20, 1992 in Committee Room 22. The purpose of the Legislative Council meeting is to act upon a report from the Tax Fairness and Equity Interim Study Committee relating to the hiring of a consultant to assist the Committee with its work. Enclosed is a copy of the Progress Report from the Tax Fairness and Equity Committee, dated December 1991, that outlines the Committee's charge and its activities through December.

Subsequent to filing the report, the Committee met on January 17, 1992, to listen to presentations from potential consultants and asked for additional information from those consultants who had bid on the project. The Committee met on January 23, 1992, and selected Policy Economics Group of Peat Marwick as the consultant for the project. Enclosed is a compilation of the Peat Marwick bid.

Also enclosed are minutes from the December 19, 1991, meetings of the Service Committee, Studies Committee, and Legislative Council and revised membership lists for the Legislative Council and its committees.

Please notify the Legislative Service Bureau if you will be unable to attend the meeting.