



Testimony to Department of Revenue, Public Hearing, Dec. 1, 2015

RE: Proposed Business Tax Cut ARC2239C

Thank you for the opportunity to comment regarding the proposed expansion of sales tax exemptions to business and manufacturing through a rules definition change. As the proposed rules, by Iowa Department of Revenue, add items to the list of business/manufacturing sales tax exemptions, meaning business won't pay sales tax on items currently taxed, the Urban Education Network, representing 17 of Iowa's largest school districts and nearly 40% of enrollment students, share the following concerns:

- 1) The first sentence of the sales tax statute states exemptions must be articulated in the Code: 423.2:

“There is imposed a tax of six percent upon the sales price of all sales of tangible personal property, consisting of goods, wares, or merchandise, sold at retail in the state to consumers or users *except as otherwise provided in this subchapter.*” The executive branch action to clarify via expanded definition goes beyond the scope of the exemptions already articulated in statute. The fact that legislation was proposed several times to accomplish this action, yet never passed, should give presumption to the necessity of legislative action in or to make a change of this significant magnitude. Concerning balance of power and authority:

 - a. Tax policy, such as defining exemptions, is under the control of the Legislature. Allowing the Department to create additional exemptions is beyond the authority of the executive branch and violates the balance of powers.
 - b. Allowing Department discretion in this case sets a bad precedent for future tax policy and other executive branch actions.
 - c. The Legislature should claim back their authority, since they will be responsible for both revenue generation and budget expenditures in the future.
 - d. Since this bill has been proposed several times and not been affirmed by the legislature is evidence that the legislature has traditionally had other priorities for tax relief, such as the 2013 commercial and industrial property tax cuts, still impacting the state budget significantly as the phase in period unfolds.
- 2) Expanded exemptions lowers resources for all of state government, schools included. The estimated impact on state general fund for the five cent state sales tax is likely between \$30 and \$70 million, depending on assumptions. One fifth of that amount, between \$7 million and \$14 million, is the impact of the tax cut on the SAVE fund, which goes for school infrastructure and property tax relief. (FYI, the proposed rule does not impact how schools spend SAVE funds, only the amount of money generated by the 6th penny.) **Impact on Students of lost state general fund:** lack of school funding, fewer adults working in schools, both translate into larger class sizes and less student opportunity for individualized attention and higher cost programs such as STEM and college level course work.



- 2) The jobs impact statement should consider lost jobs in the public sector with lower school funding and less construction resources. Jobs impact: for every \$1 million spent on school construction, 8.7 jobs are created, generating multiplier effects in manufacturing, service industry and retail sectors. These jobs contribute to state GDP, state and local tax revenues, according to Lahr, Fichtner and Heldrich, *“Economic Impacts of Planned School Construction Projects in New Jersey,”* Edward J. Bloustein School of Planning and Public Policy, Rutgers, The State University of New Jersey, July, 2008. (see chart below)

Based on the range of assumptions of the cost of the tax cut to the state general fund, assuming average school employee pay at \$35,000 per job (averaging out all employees) and assuming only 40% of the impact will be felt by schools, that’s an annual job loss of between 400-800 school employees. Although manufacturing and business tax savings may not be felt in every corner of the state and in every community, school job loss is. *(To determine local impact by school district, multiply resident enrollment by the low and high estimates to see the annual range, then multiply by 13 for the total impact through Dec. 2029.)*

Estimated impact of job loss:
“Economic Impacts of Planned School Construction Projects in New Jersey,”
 Edward J. Bloustein School of Planning and Public Policy, Rutgers, The State University of New Jersey, July, 2008.

Investments Per Million Dollars of Initial Investment

Table 2 displays the effects of \$1 million of spending (in 2008 dollars) of school construction projects as effected during the modeling process. The table supplies the state with a means of estimating any generic project for the project types listed.

Table 2.
Investments Per Million Dollars of Initial Investment

| Investment Component | Employment (job-years) | Income (\$) | Taxes (\$) | | Gross State Product (\$) |
|----------------------|------------------------|-------------|------------|--------|--------------------------|
| | | | State | Local | |
| School Construction | 8.7 | 469,072 | 13,421 | 16,044 | 610,929 |

Thank you for the opportunity to comment. The Urban Education Network would respectfully request the Department of Revenue to rescind the rule and allow the legislative authority and process to work as intended.

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