

■ POLK ■ DES MOINES ■
TAXPAYERS
■ ASSOCIATION ■

January 2008

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**YOU ARE CORDIALLY INVITED
TO ATTEND THE POLK-DES
MOINES TAXPAYERS
ASSOCIATION 2008 ANNUAL
LUNCHEON MEETING ON
THURSDAY, FEBRUARY 7TH AT
THE DES MOINES EMBASSY
CLUB, 801 GRAND, 40TH FLOOR.**

**THE BUSINESS MEETING WILL
BEGIN AT 11:00 AM.**

**LUNCHEON WILL BE SERVED AT
12:00 NOON.**

**WE ARE PLEASED TO PRESENT
MARC HANSEN, COLUMNIST FOR
THE DES MOINES REGISTER**

**PLEASE RSVP BY
THURSDAY, JANUARY 31, 2008**

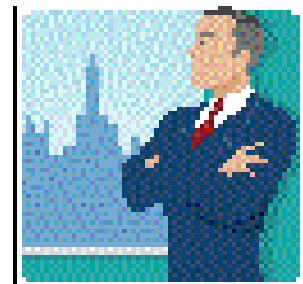
DES MOINES TIF

For several years, the City of Des Moines has included as a component of its tax increment financing needs, an annual reimbursement of \$750,000 for costs related to planning, management, legal, and fiscal services for the various projects in the tax increment districts. A majority of the Office of Economic Development (OED) expenses are devoted to these types of activities. The City Manager's Office, Community

Development, Park & Recreation, and Engineering spend a significant amount of time related to this effort.

For FY 2008, the State initiated a new reporting system related to TIF indebtedness and draw down requests. City staff did not feel they had an adequate system in place to track the amount of resources being allocated to the management of the tax increment supported projects, so no funds were requested for reimbursement. Because \$750,000 of TIF proceeds were not used for this purpose in FY 2008, approximately \$18 million of valuations were returned to taxing jurisdictions. For City operations, the \$18 million of valuations generated about \$225,000 of Operating property taxes. Over the past few months, staff reviewed the amount of effort dedicated to TIF, and feels the re-imbursement amount (\$500,000) for FY 2009 is reasonable and justifiable. An internal tracking system will be developed for departments to document the amount of time dedicated to TIF issues. For FY 2009, there has been sufficient valuation growth through new construction, return of abated values, or re-evaluations that the additional amount returned in FY 2008 can continue to be returned moving forward.

CITY OF DM



BREATHING ROOM

“Local governments are a key local economic actor – not just an extension of state government,” says Michael Pagano, a dean at the University of Illinois at Chicago. “They need to be nimble in the face of economic circumstances – just like a company does.”

Without flexibility, a locality is at the mercy of economic ups and downs and decisions made elsewhere. The locality can’t even work with its local business community and taxpayers to craft a system that might best meet all their needs.

Flexibility is also the key to global competitiveness, working to attract companies from all over the world and keep a highly mobile labor force in place. “Any restrictions on their ability to raise money to invest,” says Barry Bluestone, director of the Center for Urban and Regional Policy at Northeastern University, “can harm them” – and, by extension, the home states as well.

Yet a number of states hold local revenue streams hostage, even though most state and local tax experts agree that giving localities greater flexibility or breathing room – with **appropriate** controls by the state, of course – is solid fiscal policy. They also agree that it can lead, as Bluestone suggests, to more vibrant support for economic development.

When a locality has authority over its taxes, it can match its revenue-raising tools to the underlying economy. “If a state imposes a uniform revenue and tax structure on its localities,” says Chris Hoene, head of research for the national League of Cities, “it ignores the variation of its localities economic bases and their diverse spending needs.” It is, of course, up to each locality to figure out whether a particular revenue-raising tool is worth levying on its constituents – whether the administrative or transaction costs outweigh the amount of revenue the tax would raise.

At the same time, localities with a great deal of flexibility need to be cognizant of how their taxes and rates fit in with those the state is already levying – and make sure that the sum total doesn’t create an unsupportable tax burden or that different local variations on a single tax don’t impose unfair strains on a business in a state.

That said, flexibility is still key and one way states give cities or counties leeway is through a local option to control the tax rate and use the revenues they raise as they see fit – that is, without state earmarks. Localities also can breathe better if they have a range of taxes to use. For a locality to weather economic ups and downs, *it can’t be overly reliant on any one source of revenue* (my italics).

Most states limit localities to the property and sales tax as a source of revenue. A few keep their localities really short of breath, limiting them to one tax source. Cities, towns, and counties in many New England states, for instance, have access only to a local property tax. On its own, reliance on the property tax produces powerful inequities in development”, Bluestone says. “Rich communities get rich because they can provide better schools and police protection than communities with stagnant and falling property values.

The intersection between local authority and revenue independence is what’s known as “own-source capacity”. That is, the extent to which fiscal policy decisions made by local government officials actually determine the fiscal direction of the locality. In addition to the tax revenue, there are fees and charges that localities set and that flow into the general revenue coffers. These add to the own-source capacity and enhance a locality’s ability to pay for services it wants to provide. This is particularly important in localities that have the primary responsibility for their school funding.

GOVERNING JANUARY 2008

SCHOOL FINANCE – STATE OF IOWA RATING BY EDUCATION WEEK

OMG! Iowa ranks 19th out of 49 in school finance, according to *Quality Counts*, published by Education Week. Oh, wait. That's a B- (80.2), with 17 states receiving B+(89.5) to B-, and only two states receiving A's.

When generating a list on some topic and ranking entities, one must be careful, for it could lead to a knee-jerk reaction, sort of like the annual list of "*Average Teacher Salary*". So let's take a look. Data used in *Quality Counts* are from 2005.

The Finance grade is based on two items, 1) equity across the state, and 2) spending.

Equity is based on four categories. The first is Wealth Neutrality, that is, the relationship between district funding and local property tax wealth. Iowa's score is better than 16/18 of the states with the same grade or better, and beats all but 7 of the 49. This is because the State foundation Formula provides more funds to poorer districts.

The McLoone Index measures the actual spending as a percent of the amount needed to bring all students to the median level. Costs have been adjusted for regional differences and weighted for student needs. Only two states with the same or higher grades do better than Iowa, while overall Iowa's 10th.

The Coefficient of Variation is the third indicator. This measures the amount of disparity in spending across districts. Three states with the same or higher grade do better, while overall, Iowa is 7th (with ties at 4th and 6th).

Fifth is the Restricted Range. This is the difference in per pupil spending levels at the 95th and 5th percentiles, again corrected for regional cost differences and weighted for student needs. At \$2414, only two states with the same or better grade do better, and six overall.

As far as equity in state spending is concerned, then, Iowa does a very good job. That's not to say that tweaks could not be made to the formula. Weighting for Special Education could be adjusted to be closer to actual costs.

There could be additional weighting for Free/Reduced Lunch students, perhaps along the lines of Title 1. The weighting for ELL/ESL needs to be verified.

As for the *Spending* section, Iowa does less well. 17 out of 18 of the States with the same or higher grades spend more per student than Iowa (\$9026), as do 4 with lower grades.

28 out of 51 States have a higher percent of students in districts with Per Pupil Expenditures at or above the US Average. This is not surprising considering the equity across the state.

Neither is the Spending Index, per-pupil spending levels by the degree to which districts meet or approach the national average for expenditure. With a score of 95.9, 20 out of 51 score higher.

The final Spending category, Percent of Total Taxable Resources Spent of Education, is determined by the share of state resources spent on K-12 education, based on an analysis by the EPE Research Center from NCES statistics. Iowa is tied with six other states at 3.5%. Twenty-three other states have a higher percent.

The table tells us that Iowa does not spend enough on K-12 education, compared to many other states.

Iowa also earns a 'C-' on the State Achievement Index (along with 12 other states – 6 higher & 6 lower) with 8 others earning 'C's', 2 'C+'s, and 3 'B's'. A look at the list shows that of the 18 states ranked ahead of Iowa on Finance, only nine (out of 19) show up ahead of Iowa on Achievement. Hmmmm. Perhaps it not spending (gross dollars) as much as it is putting dollars where they are needed?



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