Common Good **Iowa**
Bold Policy for Families & Communities

April 6, 2021

SF 587 — Reckless, costly package of doubtful promises

Senate omnibus tax bill would also jeopardize COVID recovery funding

While many tax proposals still alive in the 2021 legislative session are costly, Senate File 587 compounds those problems with funding promises that the bill itself shows may not last.

At stake are not only revenues for state and local services, but a big share of aid from the federal COVID-19 relief package, the American Rescue Plan Act.

Senate File 587 makes several changes in state law. Among those, it would:

- **Remove the state backfill of property tax revenue** lost as a result of the 2013 state law that cut property taxes for businesses, but not most residential property taxpayers.
- **Remove state revenue safeguards, triggering more tax cuts** provided in the 2018 income-tax bill. That legislation has already cost the state over $400 million in lost revenue each year, with most of the benefits going to the wealthiest.
- **Shift mental health funding from property tax to the state general fund**, which is a less reliable source of funding for those services than a designated property tax levy and lessens the local commitment to those services.

When legislators cut property taxes on commercial property in 2013, they promised to make up the revenue lost to cities, counties and schools with a state backfill. This legislation breaks that promise, removing the backfill funding and forcing local governments to cut services or raise tax rates.

At the same time, it makes a new promise: to pay for mental health services with state funding instead of property taxes. Why should localities expect this promise to be kept any longer than previous one to make up for lost property taxes?

The bill promises to pay for mental health services with state funding instead of county property taxes.

But why should localities expect this promise to be kept any longer than the promise it's breaking, to make up for revenue lost from property tax cuts passed in 2013?

There are at least two ways to look at the financial costs of this legislation:

- **The direct impact on the state general fund, both from higher appropriations and lost revenues**. The April 2 fiscal note by the Legislative Services Agency indicates a total net cost to the general fund from provisions in this bill at $59.9 million in FY 2022, growing to $268.9 million by FY 2024.[1]

To learn more, contact deputy director Mike Owen at mowen@commongoodiowa.org or visit www.commongoodiowa.org.

- **The special impact caused by an accountability provision in the American Rescue Plan Act**. The provision assures that federal pandemic recovery funds are used as intended and not to pay for state tax cuts.[2] The state revenue-side changes in SF 587 include losses of $154.3 million in FY 2023, $179.6 million in FY 2024, and $29.4 million in FY 2025. The federal law doubles the impact of many of those cuts. The $333 million in net revenue losses caused by this legislation in those years will result in a dollar-for-dollar loss of federal ARP relief, unless the tax cuts are offset by tax increases.

---

1 Legislative Services Agency, Fiscal Note, SF587. Accessed at https://www.legis.iowa.gov/docs/publications/FN/1218222.pdf

2 Nicholas Johnson, "Rescue Plan Protects Against Using Federal Dollars to Cut State Taxes," March 11, 2021. Accessed at https://www.cbpp.org/blog/rescue-plan-protects-against-using-federal-dollars-to-cut-state-taxes