

**From:** Krogmeier, Charles [IDOM]  
**Sent:** Thursday, June 19, 2008 12:55 PM  
**To:** Larew, James [IGOV]  
**Subject:** RE: Note from David Osterberg

All the more reason to avoid a special session.

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**From:** Larew, James [IGOV]  
**Sent:** Thursday, June 19, 2008 12:43 PM  
**To:** Dillon, Patrick [IGOV]; Krogmeier, Charles [IDOM]; Oshlo, Richard [IDOM]  
**Subject:** FW: Note from David Osterberg

FYI: Tax planning ideas with respect to rebuilding and recovery process.

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**From:** IPP/Mike Owen [mailto:mikeowen@iowapolicyproject.org]  
**Sent:** Thursday, June 19, 2008 9:11 AM  
**To:** Larew, James [IGOV]  
**Subject:** Note from David Osterberg

Hi Jim:

David Osterberg asked me to send this on to you. Please let us know how we may be of assistance on the policy questions ahead.

Mike

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Hello Jim,

We are impressed by the Governor's committed response to the flood to date and we are sure he will be doing more. Looking ahead to what may be a special session of the Legislature we see the possibility that some

proposals to relieve flooding hardship may not be good for the state in the long run.

As you consider demands on state funds for rebuilding and relief, it will also be important to resist pressures from those who will see this as an opportunity to build on the reckless tax-cutting of the 1990s, gutting current revenue streams, and the turn toward regressive taxation that needs to be reversed, not extended. We have upon us a seminal moment to illustrate the need for effective government, to champion those public structures that allow us to work together as citizens of our state and local communities.

We are writing to offer the assistance of the Iowa Fiscal Partnership (IFP) to the work group that we understand is being set up to plan for the potential special session. The two organizations working together as the IFP have substantial expertise in three areas that must be kept on the front burner of discussions involving flood responses: (1) low-income impacts, a specialty of the Child & Family Policy Center; (2) environmental policy considerations, a specialty of the Iowa Policy Project; and (3) fiscal sustainability and fairness, an area where both our partners should be considered the go-to resource in Iowa.

Specifically, given recent legislative behavior, we assume that someone will propose tax breaks of some sort and maybe of all sorts. It makes sense for the state to consider the same "Three T" approach for flood assistance that economists agree is the most effective approach in economic stimulus policy: Assistance should be timely, targeted and temporary.

At the Iowa Fiscal Partnership, we have demonstrated that tax cuts are often poorly targeted. Some businesses and homeowners in a designated "flood-affected area" will be hardly affected while others will be devastated. Tax breaks assigned based on geography rather than need don't make sense, especially when they can't take into account existing coverage offered by insurance policies. Grants to address specific problems can be more effective for those needing state help.

Secondly, tax breaks take time to have an impact. Especially the smallest firms and people need money now, not next April 30.

Finally, while direct expenditures will stop when the crisis is over, as you well know, tax breaks have a tendency to go on indefinitely. Building tax policy around reactions to natural disasters is a recipe for fiscal disaster down the road.

Direct expenditures are easier to pass with strings — conditions to assure

efficient and effective use of public dollars. For instance, funds can be used as an incentive for implementing green building standards. Or it can be required that funds be used to put HVAC systems someplace other than in the very lowest part of the basement to protect against the next flood. Also, direct expenditures recognize that some businesses (although probably not homeowners) will have substantial insurance that can offset state relief.

We at IPP and CFPC would be happy to talk to the Governor's staff or the Governor about the budget, tax and expenditure questions that you must address to keep the budget balanced while dealing effectively with the floods. Please stay in touch with us as you proceed.

Warm regards,  
David