



FLOODING IN IOWA: A Responsible Response

Third in a series

August 2008

In Floods' Wake: Making Sense of Tax Ideas

Addressing Impacts Through Tax System Not Likely Efficient or Effective

As county treasurers begin to mail bills for property taxes due in September, some people have asked why they should pay taxes on a property rendered uninhabitable by Iowa's floods of 2008. This has led some policy makers to suggest state action to suspend or eliminate property taxes for property owners affected by flood, or to provide broader tax cuts in flooded counties. Clearly, many families in Iowa have been devastated by flooding, including its impact upon their property. At the same time, seeking to address the impacts through the tax system is not likely to be an efficient or effective response.

First, cities, counties and school districts have already passed budgets relying on these taxes, and in addition may face enormous unanticipated costs for flood recovery. Local governments can ill afford to forgive these taxes, and the state will have large responsibilities to provide matching funds for hundreds of millions of dollars of federal aid. Furthermore, property is periodically re-assessed so that it reflects the actual value of the property. Where property value has been dramatically reduced as a result of the flood, that will be reflected in future tax obligations. In short, property taxpayers affected by the flood are not, in the long run, being required to pay property taxes on more than the value of their property, compared with others not affected.

Of course, that does not mean that many of these property owners have not suffered serious financial hardship and deserve public support. It simply means that the property tax system is not likely to be an efficient or effective way to provide that support. A homeowner whose \$100,000 home has been damaged beyond repair and now has property worth at most \$20,000 is likely to face major needs in relocation and replacement in the tens of thousands of dollars. Elimination of a September property tax payment of \$600 to \$800 at best addresses only a fraction of this need. Other forms of relief are much more important to this homeowner and the homeowner's family. Similarly, commercial property tax relief would not differentiate between a business suffering minor inconvenience and one forced to close down as a result of the flood.

It is important to evaluate relief proposals by first thinking about principles that should guide any flood-related relief. In order for relief proposals to be efficient and effective, they should be targeted, timely and transitional, as well as simple and fair. They should target relief at those affected by the flood, and those whose property value was damaged the most and who have the least available means to address the damage themselves should get the most relief. Measures should be timely: People need immediate financial help. They should be transitional: Relief measures should be limited to the period necessary to provide relief and aid in recovery and not be ongoing. In particular, this is not a time to use the flood as an excuse to promote an agenda of broad-based tax cuts that permanently reduce local government

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revenue needed to finance rebuilding efforts. Relief should be simple to administer and to apply for, and it should be fair, focused on those with the most need. Those for whom rebuilding will be most problematic – the elderly and low-income families – should be helped first. Public resources are scarce and adhering to these principles is needed to ensure that relief is provided in the most cost-effective fashion.

Proposals to grant property tax forgiveness would be nearly impossible to administer in a manner that truly based relief on need (as well as only touching on the relief some families do need to rebuild their lives). Consider two homeowners, Fred and Martha, who each own a home worth \$150,000 that was flooded. Fred has no flood insurance, the home was heavily damaged, and he cannot occupy it until major renovations occur, if at all. Martha's home sustained relatively minor damage, but she was insured and the home will be repaired by October and reoccupied. Fred suffered a \$150,000 loss, Martha no financial loss on the home itself. It makes no sense to provide both with the same public aid in the amount of one year's property taxes, yet it would be very difficult to structure a property tax relief provision that distinguished between these two homeowners or recognized the many gradations that would come in between. This is neither a fair nor effective way of targeting limited funds in a way that will promote rebuilding. Furthermore, property tax relief does nothing to help the many renters who had no wealth in the form of a home to lose, but who nonetheless lost all of their possessions. In some if not most flooded areas, renters outnumber homeowners.

Even providing for deferral of property taxes is problematic and likely to be complicated. Deferrals impose additional burdens upon local governments to fund their own annual budgets (which would entail additional administrative costs in efforts to borrow money to cover the amount that is deferred). They also require subsequent collection efforts that can be complicated by locating those property owners who have moved as a result of the flood. It makes much more sense to assess the actual impacts and needs of those affected by the flood on an individual basis, and then determine the total amount of help that needs to be provided, taking into account all their

GUIDING PRINCIPLES DISASTER RESPONSES MUST BE:

TIMELY

- Focused relief efforts need to occur when people are experiencing the disruptions and have immediate need for relief (recognizing the phases that families are likely to experience in dealing with loss)
- Rebuilding opportunities need to be presented when there is a readiness and capacity to take advantage of the opportunity to rebuild

TARGETED

- Rebuilding efforts need to be focused upon those impacted by the disaster, with a particular emphasis upon those for whom rebuilding will be most problematic (low-income and limited resource families)
- Rebuilding efforts need to involve those impacted in the planning and, to the extent possible, make use of their own skills and talents in rebuilding
- Rebuilding efforts need to pay attention to 21st century demands and pay particular attention to "green" strategies and to inclusion in responding to an increasingly diverse Iowa population

TRANSITIONAL

- Although rebuilding efforts will take years, most policies should be designed as temporary and not permanent ones
- Accountability for results requires that clear, time-specific goals and objectives be established for investments

living-expense needs (relocation, replacement of damaged personal property, emergency food assistance, temporary relief caused by the loss of employment, and upcoming obligations that require payment, including property taxes).

While it may be appealing to offer property tax forgiveness as a response to the flood, this is neither an efficient nor an effective response to real needs. In fact, tax policy in general is recognized as a very poor vehicle for dealing with disasters, including floods, other natural disasters like hurricanes, or human disasters like theft or arson.

Proposals to provide broad tax cuts to all those residing in a flood-affected county, of course, make even less sense. Consider the owner of a multimillion-dollar apartment complex in Linn County that escaped the flood. The owner now finds the apartments in high demand due to the severe shortage of housing caused by the flood and may raise rents to take advantage of the situation. The property was thus made considerably *more* valuable by the flood, not less valuable. Why should taxpayers fund a tax rebate check to this apartment owner? Even less sensible are proposals to suspend sales taxes. There is no targeting whatsoever in such a proposal; residents of non-flooded areas or counties, even tourists, will benefit from such a tax suspension, which then robs the state and localities of revenue needed to match the federal flood-relief dollars coming in and to finance recovery.

Iowa should avoid the easy path of providing tax cuts that, while they may provide a little relief to some individual property owners with real needs, inevitably will be largely untargeted and will waste scarce resources on many without real needs or who do not require public help. Iowa should focus attention instead on real solutions that can be timely, effective and efficient in providing help where it is most needed. Tax expenditures should be held to the same review and standard as state or community appropriations of public funds.

Iowa Fiscal Partnership

The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans. IFP reports are available on the web at <http://www.iowafiscal.org>.

The Iowa Fiscal Partnership is part of the State Fiscal Analysis Initiative, a network of state-level organizations and the Center on Budget and Policy Priorities to promote sound fiscal policy analysis. IFP work is supported by the Stoneman Family Foundation and the Annie E. Casey Foundation.

The Iowa Policy Project

Founded in 2001, the Iowa Policy Project produces fact-based analysis to inform and engage Iowans on policy alternatives on economic opportunity, budget issues, energy and the environment. IPP's principal office is in Iowa City, with reports at <http://www.iowapolicyproject.org>.

CHILD & FAMILY POLICY CENTER

The Child & Family Policy Center was established in 1989 to "better link research and policy on issues vital to children and families and to advocate for evidenced-based strategies to improve child outcomes." CFPC, based in Des Moines, is on the web at <http://www.cfpciowa.org>.