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**AN ANALYSIS OF THE TRANSFER OF FUNDS FROM WEAK RETAIL COUNTIES
TO STRONG RETAIL COUNTIES IN IOWA VIA LOCAL OPTION SALES TAXES**

by

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Introduction

This study analyzes the transfer of funds among counties as a result of local option sales taxes in Iowa. Iowa has two local option sales taxes. The “regular” local option sales tax (LST) passed by the Iowa Legislature in 1985, provides for the imposition of a local option sales tax up to one percent, is adopted at the town (jurisdiction) level and is can be used for a wide variety of projects, including improvements to infrastructure such as roads or water and sewer systems, construction of public facilities like fire stations and law enforcement centers, and support of existing facilities such as parks and libraries. Many jurisdictions also give property tax relief. The School Infrastructure Local Option (SILO) tax, passed by the Iowa Legislature in 1998, is designated strictly for public school infrastructure. It is adopted at the county level and is apportioned to k-12 public schools based on the number of students residing in the county. Currently, over two-thirds of Iowa’s jurisdictions have adopted the LST and more than one-third of the counties have adopted the SILO tax.

Retail trade is not evenly distributed across Iowa’s counties. In fiscal year 2002, only nineteen of Iowa’s ninety-nine counties had a retail trade “surplus”; that is, sales in the county amounted to more than the county residents spent. The remaining 80 counties had retail sales “leakages.” Consequently, local option sales taxes create inequities in public funding because they redistribute tax dollars from “retail poor” areas to “retail rich” areas.

This study examines this potential transfer of funds from Iowa’s more rural areas to more urban areas via local option sales taxes. County retail sales are estimated and used to calculate the sales taxes that would be collected should each county adopt the local option sales taxes. Using population, income and average spending figures, these amounts are then attributed to county residents or non-residents to analyze the magnitude of redistribution that could occur.

For example, if each of the 19 surplus counties were to pass the SILO tax, they would collect an estimated \$2.4 billion over the next 10 years. Of this amount, \$1.9 billion would come from host county residents while approximately \$500 million would come from residents of other counties.

The primary conclusion of the study is that local option sales taxes in Iowa have the potential for transferring over \$800 million from essentially rural counties to urban counties over a 10-year period. Local option sales taxes are arguably unfair in that they allow the top retail centers to capture funds from consumers in surrounding rural counties, who did not have a vote in approving the tax. Since the major trade centers typically provide jobs and services for many people in the surrounding area, Iowa's LST can be justified by arguing that rural consumers should help pay for infrastructure in the cities such as streets and parks since non-residents are as free to use them as residents. However, this logic does not seem to apply to the SILO tax, where the revenue can only be used for infrastructure of the county's schools. Consumers from outlying rural counties pay large amounts toward the urban counties' schools, yet non-residents have little opportunity to send their children to the schools in these "retail rich" counties. The findings of this study will contribute to the on-going debate concerning the appropriate scope of economic development policy. In the spirit of a more regional approach to rural development, this analysis suggests that the proceeds from the SILO tax, and perhaps even the LST, should be reinvested on a regional basis, not solely within the county or city with the large retail center.

Trends in Iowa Retailing

Iowa's retail sales are increasingly being concentrated in the urban areas. Figure 1 shows that the eight cities above 50,000 population have increased their retail market share from about 36 percent of the state total in the late 1970s to nearly 42 percent in 2002. Conversely, smaller

towns have been losing more and more retail sales. The market share for towns with 2,500 population or less dropped from over 22 percent of the state market in the late 1970s to 15.4 percent in 2002, a decline of approximately 30 percent.

Figure 1

Market Share by Town Size
Iowa, FY76 and FY02

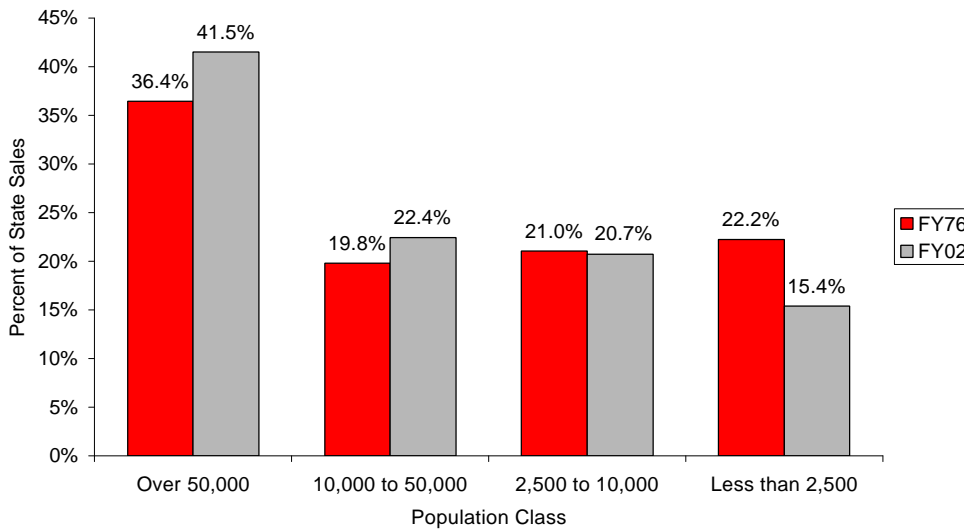


Figure 2 shows retail surplus or leakage for Iowa's 99 counties. In 2002, Iowa had 19 surplus counties. Surplus means that the sales for the county were more than the county residents spent and sales were attracted from beyond the county. Conversely, there were 80 leakage counties. Leakage means that, on balance, county residents made some of their consumer purchases in counties other than their own.

Derivation of County Retail Surplus or Leakage. County retail surplus or leakage is determined by subtracting potential sales for the county from actual sales. If actual sales are larger than potential sales, the county has a surplus. If actual sales are less than potential sales, the county has a leakage. Potential sales are defined in the equation below:

Figure 2



$$PS = POPc * PCSs * Iic$$

Where: PS = Potential Sales
POPc = County Population
PCSs = Per Capita Sales (statewide)
Iic = Index of Income (county)(county per capita income divided by the state per capita income)

For example, if a county had 10,000 population, the state per capita sales was \$10,000, and the per capita income was the same as the state's, then POP = 10,000; PCSs = \$10,000; and Iic = 1.0. Potential sales (PS) are determined by multiplying; 10,000 x \$10,000 x 1.0 and equal \$100 million. If the county had sales of \$110 million, it would have a \$10 million surplus. Conversely, if the county had sales of \$90 million, it would have a leakage of \$10 million.

The actual retail sales by county and for the state as a whole are published annually by the Iowa Department of Revenue and Finance. The county population and income data were obtained from the 2000 census.

Iowa's Surplus Counties

Table 1 lists Iowa counties from the greatest percentage surplus to the greatest percentage leakage for fiscal year 2002. Polk County is the premier retail county in the state, drawing nearly \$1.65 billion per year in retail sales from outside Polk County. Now that Polk County has passed the SILO tax, it will collect nearly \$60 million the first year, including nearly \$17 million from outside the county. At the other end of the spectrum, Warren County has the highest dollar leakage at nearly \$260 million. Warren County consumers will likely pay over \$2.5 million toward Polk County school infrastructure during the first year of SILO collections by Polk County and nearly \$30 million over a 10-year period.

Table 1
2002 Iowa County Retail Surplus or Leakage
Descending Order by % Surplus or Leakage

<i>County</i>	<i>2000 Census Population</i>	<i>Index of Income</i>	<i>Actual Sales (in millions)</i>	<i>Potential Sales (in millions)</i>	<i>Surplus or Leakage (in millions)</i>	<i>Surplus or Leakage as a % of Potential</i>
Polk	380,657	1.19	\$6,052.83	\$4,398.61	+\$1,654.22	+37.6%
Clay	17,255	0.93	\$213.40	\$155.86	+\$57.54	+36.9%
Cerro Gordo	45,713	0.92	\$555.70	\$408.03	+\$147.66	+36.2%
Dickinson	16,526	1.03	\$218.97	\$164.35	+\$54.63	+33.2%
Webster	40,101	0.89	\$457.21	\$344.71	+\$112.49	+32.6%
Linn	193,825	1.16	\$2,721.09	\$2,173.89	+\$547.20	+25.2%
Scott	158,810	1.09	\$1,947.30	\$1,681.02	+\$266.28	+15.8%
Union	12,202	0.79	\$107.65	\$93.17	+\$14.48	+15.5%
Iowa	15,816	0.96	\$168.71	\$147.00	+\$21.70	+14.8%
Woodbury	103,508	1.00	\$1,147.70	\$1,006.26	+\$141.44	+14.1%
Black Hawk	127,777	0.97	\$1,361.68	\$1,203.76	+\$157.91	+13.1%
Des Moines	41,968	0.97	\$440.39	\$394.97	+\$45.43	+11.5%
Ringgold	5,432	0.74	\$43.29	\$38.95	+\$4.35	+11.2%
Carroll	21,186	0.94	\$211.87	\$194.04	+\$17.83	+9.2%
Wapello	36,032	0.80	\$300.98	\$280.37	+\$20.61	+7.3%
Dubuque	89,046	1.03	\$946.24	\$889.86	+\$56.38	+6.3%
Johnson	112,955	1.12	\$1,275.76	\$1,224.13	+\$51.63	+4.2%
Pottawattamie	87,790	1.01	\$888.56	\$856.87	+\$31.69	+3.7%
Emmet	10,852	0.82	\$88.06	\$86.13	+\$1.93	+2.2%
Marshall	39,393	0.92	\$353.54	\$352.39	+\$1.15	+0.3%
Hardin	18,553	0.86	\$151.63	\$154.98	-\$3.35	-2.2%
Jefferson	16,115	0.95	\$138.18	\$147.75	-\$9.57	-6.5%
Jasper	37,356	0.97	\$323.26	\$353.01	-\$29.75	-8.4%
Buena Vista	20,259	0.86	\$153.66	\$170.02	-\$16.37	-9.6%
Clinton	49,807	0.89	\$385.23	\$429.11	-\$43.89	-10.2%
Cass	14,513	0.81	\$102.96	\$114.76	-\$11.80	-10.3%
Montgomery	11,563	0.79	\$79.19	\$88.85	-\$9.66	-10.9%
Story	80,209	1.06	\$712.82	\$823.34	-\$110.52	-13.4%
Appanoose	13,582	0.70	\$77.54	\$92.11	-\$14.57	-15.8%
Muscatine	41,852	1.03	\$350.91	\$418.64	-\$67.73	-16.2%
Lee	37,446	0.92	\$275.32	\$334.61	-\$59.28	-17.7%
Winneshiek	21,392	0.93	\$158.63	\$192.81	-\$34.18	-17.7%
O'Brien	14,937	0.85	\$100.14	\$122.60	-\$22.46	-18.3%
Allamakee	14,497	0.85	\$96.51	\$120.12	-\$23.61	-19.7%
Humboldt	10,321	0.90	\$71.89	\$89.72	-\$17.83	-19.9%
Mahaska	22,350	0.92	\$158.60	\$199.28	-\$40.68	-20.4%
Kossuth	16,833	0.83	\$107.06	\$136.21	-\$29.15	-21.4%
Clarke	9,125	0.84	\$56.68	\$74.10	-\$17.42	-23.5%
Greene	10,133	0.82	\$60.63	\$80.32	-\$19.70	-24.5%
Sioux	31,830	0.96	\$223.18	\$296.16	-\$72.97	-24.6%
Adair	8,061	0.84	\$49.17	\$65.62	-\$16.45	-25.1%
Crawford	16,966	0.83	\$100.96	\$136.29	-\$35.33	-25.9%
Cherokee	12,916	0.87	\$80.56	\$108.90	-\$28.34	-26.0%
Fremont	7,879	0.91	\$51.47	\$69.72	-\$18.25	-26.2%
Winnebago	11,602	0.91	\$75.15	\$102.43	-\$27.28	-26.6%
Jones	20,239	0.89	\$127.24	\$174.96	-\$47.72	-27.3%
Wright	14,169	0.88	\$87.95	\$121.25	-\$33.30	-27.5%
Poweshiek	18,874	0.93	\$124.19	\$171.22	-\$47.02	-27.5%
Henry	20,289	0.93	\$130.85	\$183.07	-\$52.21	-28.5%

2002 Iowa County Retail Surplus or Leakage
Descending Order by % Surplus or Leakage

<i>County</i>	<i>Population Estimate</i>	<i>Index of Income</i>	<i>Actual Sales (in millions)</i>	<i>Potential Sales (in millions)</i>	<i>Surplus or Leakage (in millions)</i>	<i>Surplus or Leakage as a % of Potential</i>
Floyd	16,608	0.84	\$95.66	\$135.19	-\$39.54	-29.2%
Fayette	21,759	0.85	\$126.66	\$180.29	-\$53.63	-29.7%
Adams	4,404	0.75	\$22.08	\$32.00	-\$9.92	-31.0%
Ida	7,687	0.90	\$45.99	\$67.50	-\$21.51	-31.9%
Palo Alto	10,032	0.87	\$57.54	\$84.48	-\$26.95	-31.9%
Shelby	13,031	0.87	\$73.84	\$110.37	-\$36.53	-33.1%
Howard	9,868	0.87	\$55.78	\$83.49	-\$27.71	-33.2%
Marion	32,630	0.99	\$208.82	\$312.78	-\$103.97	-33.2%
Sac	11,347	0.82	\$58.72	\$89.83	-\$31.11	-34.6%
Benton	25,721	0.98	\$157.15	\$243.31	-\$86.16	-35.4%
Monona	9,872	0.82	\$50.37	\$78.54	-\$28.17	-35.9%
Washington	21,004	0.92	\$119.95	\$187.69	-\$67.73	-36.1%
Bremer	23,415	1.00	\$142.83	\$227.40	-\$84.57	-37.2%
Chickasaw	13,078	0.92	\$73.46	\$117.12	-\$43.66	-37.3%
Jackson	20,292	0.87	\$106.55	\$171.09	-\$64.54	-37.7%
Hamilton	16,232	0.94	\$90.63	\$148.04	-\$57.41	-38.8%
Delaware	18,277	0.93	\$101.01	\$165.45	-\$64.43	-38.9%
Osceola	6,943	0.83	\$34.17	\$56.18	-\$22.01	-39.2%
Hancock	11,942	0.90	\$63.31	\$104.86	-\$41.55	-39.6%
Page	16,837	0.84	\$82.40	\$136.89	-\$54.49	-39.8%
Davis	8,611	0.81	\$40.49	\$67.50	-\$27.01	-40.0%
Mitchell	10,736	0.85	\$53.14	\$88.64	-\$35.50	-40.1%
Boone	26,265	1.00	\$151.44	\$254.83	-\$103.39	-40.6%
Tama	18,045	0.87	\$89.86	\$152.49	-\$62.63	-41.1%
Clayton	18,512	0.85	\$88.92	\$152.67	-\$63.75	-41.8%
Franklin	10,666	0.92	\$55.42	\$95.62	-\$40.19	-42.0%
Monroe	7,926	0.86	\$38.28	\$66.13	-\$27.86	-42.1%
Plymouth	24,830	1.04	\$144.52	\$251.26	-\$106.74	-42.5%
Dallas	42,594	1.20	\$285.14	\$497.97	-\$212.83	-42.7%
Madison	14,211	1.02	\$78.34	\$141.19	-\$62.84	-44.5%
Lyon	11,714	0.86	\$54.31	\$98.19	-\$43.89	-44.7%
Lucas	9,466	0.76	\$38.74	\$70.17	-\$31.43	-44.8%
Buchanan	20,973	1.00	\$110.55	\$204.50	-\$93.95	-45.9%
Pocahontas	8,484	0.83	\$36.11	\$68.16	-\$32.05	-47.0%
Guthrie	11,294	0.97	\$54.65	\$106.07	-\$51.42	-48.5%
Audubon	6,699	0.86	\$28.43	\$56.22	-\$27.80	-49.4%
Grundy	12,333	0.97	\$57.11	\$115.59	-\$58.48	-50.6%
Decatur	8,667	0.73	\$29.12	\$61.13	-\$32.01	-52.4%
Van Buren	7,756	0.77	\$26.63	\$58.09	-\$31.46	-54.2%
Taylor	6,924	0.75	\$22.75	\$50.11	-\$27.36	-54.6%
Cedar	18,212	0.98	\$78.75	\$173.69	-\$94.94	-54.7%
Harrison	15,671	0.92	\$63.14	\$140.18	-\$77.04	-55.0%
Butler	15,163	0.85	\$56.37	\$125.34	-\$68.97	-55.0%
Wayne	6,667	0.76	\$21.78	\$48.90	-\$27.12	-55.5%
Calhoun	10,990	0.83	\$38.54	\$88.07	-\$49.54	-56.2%
Warren	41,064	1.13	\$192.51	\$451.80	-\$259.28	-57.4%
Worth	7,816	0.84	\$24.34	\$63.32	-\$38.98	-61.6%
Keokuk	11,396	0.85	\$33.89	\$94.20	-\$60.31	-64.0%
Mills	14,576	1.03	\$48.55	\$145.10	-\$96.55	-66.5%
Louisa	12,215	0.96	\$27.87	\$114.13	-\$86.25	-75.6%

10 Year Projections

Surplus Counties. The SILO tax has a 10 year sunset provision. The tax can only be collected for 10 years unless county voters approve a renewal at the end of that term. Therefore, projections for each county's collections from the SILO tax are projected over the next 10 years. Trend lines were developed for each county's actual retail sales as well as its potential sales and surpluses. The trend lines were then extended for the next 10 years to determine estimates of the total collections that would occur. Table 2 lists the general sources of SILOtax collections if the tax were adopted for each of the 20 counties that are projected to have a surplus over the ten-year period. The first column shows the estimated total collections over a 10-year period for each of the counties. The second column shows the estimated amounts that would be collected from within the surplus counties if the tax were adopted. The last column shows the estimated amounts that would be collected from outside the surplus counties.

It can be seen that about \$206 million of Polk County's sales tax for school infrastructure will be paid by non-Polk County residents over the next 10 years. Non-residents will pay nearly \$29 million of Scott County's school tax. Similarly, over \$19 million of Blackhawk County's school taxes will be paid by non-residents. Some of the smaller counties such as Clay, Dickinson, Wapello, Union and Carroll have relatively small surpluses and would collect only small amounts from outside the county.

Table 2
**SOURCES OF LOCAL OPTION SALES TAXES
 FOR IOWA SURPLUS COUNTIES FOR 10 YEARS***

COUNTY	TOTAL COLLECTED OVER 10 YEARS (\$ Mil.)	AMOUNT COLLECTED FROM COUNTY RESIDENTS OVER 10 YEARS (\$ Mil.)	AMOUNT COLLECTED FROM OUTSIDE OF COUNTY, 10 YEARS (\$ Mil.)
Polk	\$743.11	\$537.30	\$205.81
Linn	\$345.36	\$266.29	\$79.06
Scott	\$236.42	\$207.11	\$29.31
Johnson	\$166.19	\$150.25	\$15.94
Black Hawk	\$164.40	\$145.88	\$18.52
Woodbury	\$138.73	\$122.67	\$16.06
Pottawattamie	\$115.92	\$105.41	\$10.52
Dubuque	\$113.37	\$108.81	\$4.56
Cerro Gordo	\$68.88	\$47.33	\$21.56
Webster	\$56.15	\$39.97	\$16.18
Des Moines	\$52.70	\$46.70	\$6.00
Wapello	\$34.73	\$32.29	\$2.44
Dickinson	\$26.97	\$19.48	\$7.49
Clay	\$26.87	\$18.07	\$8.80
Carroll	\$25.27	\$23.32	\$1.94
Iowa	\$20.32	\$17.56	\$2.75
Hardin	\$18.30	\$17.91	\$0.38
Jefferson	\$18.20	\$17.54	\$0.66
Union	\$14.26	\$10.70	\$3.56
Emmet	\$10.47	\$9.95	\$0.52
TOTAL	\$2,396.61	\$1,870.86	\$451.70

* Estimates based on trend line analysis through FY 2002. These are potential collections for one LST. Several counties do not collect one or either of the taxes.

Leakage Counties. Table 3 shows the projected leakages for the 79 leakage counties for the next 10 years. Both Dallas County and Warren County are projected to suffer leakages of approximately \$3 billion over the next 10 years. Assuming that Polk County will capture most of the leakage (90%), over \$55 million in local option sales taxes will be transferred from these two counties to Polk County.

Table 3
ESTIMATED RETAIL LEAKAGE OVER NEXT 10 YEARS FOR
IOWA'S 79 LEAKAGE COUNTIES

COUNTY	TOTAL 10 YR RETAIL LEAKAGE (\$ Million)	10 YR LEAKAGE AT 1 PERCENT (\$ Million)	COUNTY	TOTAL 10 YEAR RETAIL LEAKAGE (\$ Million)	10 YEAR LEAKAGE AT 1 PERCENT (\$ Million)
Warren	-\$3,275.00	-\$32.75	Crawford	-\$509.79	-\$5.10
Dallas	-\$2,931.27	-\$29.31	Franklin	-\$496.28	-\$4.96
Plymouth	-\$1,434.50	-\$14.35	Winneshiek	-\$463.06	-\$4.63
Buchanan	-\$1,306.28	-\$13.06	Worth	-\$443.41	-\$4.43
Benton	-\$1,268.23	-\$12.68	Wright	-\$446.95	-\$4.47
Boone	-\$1,293.60	-\$12.94	Shelby	-\$433.26	-\$4.33
Mills	-\$1,265.44	-\$12.65	Mitchell	-\$438.14	-\$4.38
Cedar	-\$1,187.48	-\$11.87	Decatur	-\$426.01	-\$4.26
Story	-\$1,135.86	-\$11.36	Floyd	-\$410.15	-\$4.10
Marion	-\$1,176.07	-\$11.76	Allamakee	-\$392.96	-\$3.93
Louisa	-\$1,098.59	-\$10.99	Van Buren	-\$394.27	-\$3.94
Bremer	-\$1,092.31	-\$10.92	Howard	-\$388.31	-\$3.88
Sioux	-\$1,063.15	-\$10.63	Winnebago	-\$379.41	-\$3.79
Harrison	-\$1,001.73	-\$10.02	Kossuth	-\$390.30	-\$3.90
Poweshiek	-\$791.24	-\$7.91	Monroe	-\$380.55	-\$3.81
Washington	-\$897.15	-\$8.97	Audubon	-\$358.81	-\$3.59
Lee	-\$934.42	-\$9.34	Pocahontas	-\$344.91	-\$3.45
Jasper	-\$639.93	-\$6.40	Davis	-\$334.45	-\$3.34
Delaware	-\$820.86	-\$8.21	Wayne	-\$348.26	-\$3.48
Henry	-\$773.09	-\$7.73	Monona	-\$333.29	-\$3.33
Jackson	-\$809.47	-\$8.09	Cherokee	-\$341.54	-\$3.42
Butler	-\$806.32	-\$8.06	Taylor	-\$321.45	-\$3.21
Tama	-\$794.86	-\$7.95	O'Brien	-\$307.47	-\$3.07
Clayton	-\$791.53	-\$7.92	Sac	-\$285.26	-\$2.85
Keokuk	-\$781.13	-\$7.81	Ida	-\$301.81	-\$3.02
Hamilton	-\$775.61	-\$7.76	Palo Alto	-\$301.35	-\$3.01
Muscatine	-\$743.26	-\$7.43	Buena Vista	-\$283.07	-\$2.83
Madison	-\$742.78	-\$7.43	Clarke	-\$233.69	-\$2.34
Fayette	-\$737.14	-\$7.37	Greene	-\$270.23	-\$2.70
Grundy	-\$702.36	-\$7.02	Fremont	-\$245.09	-\$2.45
Guthrie	-\$664.58	-\$6.65	Osceola	-\$233.92	-\$2.34
Jones	-\$670.44	-\$6.70	Appanoose	-\$223.79	-\$2.24
Mahaska	-\$632.54	-\$6.33	Humboldt	-\$208.80	-\$2.09
Page	-\$652.23	-\$6.52	Montgomery	-\$226.49	-\$2.26
Calhoun	-\$608.42	-\$6.08	Adair	-\$176.72	-\$1.77
Lyon	-\$583.82	-\$5.84	Cass	-\$120.17	-\$1.20
Clinton	-\$548.19	-\$5.48	Adams	-\$113.71	-\$1.14
Chickasaw	-\$545.08	-\$5.45	Ringgold	-\$65.17	-\$0.65
Hancock	-\$526.33	-\$5.26	Marshall	-\$26.31	-\$0.26
Lucas	-\$462.49	-\$4.62			

Transfer of Funds to Surplus Counties

Current Surplus Counties With LST. Table 4 shows the transfer of funds to surplus counties currently with one, or both local option sales taxes. The amounts are the projected amounts that will come from outside the subject county.

Table 4
**TRANSFER OF FUNDS FROM RURAL COUNTIES TO URBAN COUNTIES
 VIA LOCAL OPTION SALES TAXES IN IOWA FOR NEXT 10 YEARS**

COUNTY	10 YEAR TOTAL REGULAR LOCAL OPTION SALES TAX FROM OTHER COUNTIES (\$ Million)	10 YEAR TOTAL SCHOOL LOCAL OPTION SALES TAX FROM OTHER COUNTIES (\$ Million)	10 YEAR TOTAL ALL LOCAL OPTION SALES TAXES FROM OTHER COUNTIES (\$ Million)
Polk**	\$0.00	\$205.81	\$205.81
Linn**	\$0.00	\$0.00	\$0.00
Scott	\$29.31	\$29.31	\$58.62
Johnson	\$0.00	\$0.00	\$0.00
Black Hawk	\$18.52	\$18.52	\$37.04
Woodbury	\$16.06	\$16.06	\$32.12
Pottawattamie	\$10.52	\$10.52	\$21.03
Dubuque	\$4.56	\$4.56	\$9.13
Cerro Gordo	\$21.56	\$21.56	\$43.11
Webster	\$8.09	\$8.09	\$16.18
Des Moines	\$6.00	\$6.00	\$12.01
Wapello	\$7.49	\$0.00	\$7.49
Dickinson	\$8.80	\$8.80	\$17.60
Clay	\$1.94	\$0.00	\$1.94
Carroll**	\$0.00	\$0.00	\$0.00
Iowa	\$3.56	\$0.00	\$3.56
Hardin	\$0.38	\$0.00	\$0.38
Jefferson	\$0.66	\$0.00	\$0.66
Union	\$0.00	\$3.56	\$3.56
Emmet	\$0.00	\$0.52	\$0.52
TOTAL	\$137.47	\$333.31	\$470.78

* LOST for Webster County is 1/2 %.

** Some towns within the county have adopted the regular LST, but the major retail center has not.

The first column shows the amounts from the regular LST while column two shows the amounts from the SILO tax. Counties may have one, neither or both taxes. Column three shows the total LST taxes that each county is projected to collect from outside the county. As indicated in column one, approximately \$137 million will be transferred through the regular LST to the 14 surplus LST counties from other places over the next 10 years. It should be noted that neither Polk nor Linn Counties have yet passed the regular LST, even though each has tried. In addition, these figures may vary slightly since some small towns in the LST counties may not have approved the regular LST.

Column two shows that the twelve surplus counties that have passed the school infrastructure local option are projected to collect \$333 million from outside their respective counties over the next 10 years. Polk County will collect over \$205 million of this. Column three shows that the total transfer of funds to surplus counties over the next 10 years will be nearly \$471 million.

Potential Transfer if All Surplus Counties Pass Local Option Sales Taxes. The regular LST has become nearly a de-facto statewide tax. It is conceivable that in the future, most of the surplus counties could pass both the regular and the school LST. Table 5 shows the amount of funds that would be transferred to retail surplus counties over the next 10 years if all of them pass both LSTs. It can be seen that these counties would collect approximately \$452 million from outside the counties for each of these two LSTs, or a total of nearly \$905 million over the next 10 years. As shown in Table 3, a big share of these funds would come from relatively rural counties that are close to the surplus counties. However, virtually all counties would contribute to Polk County since it is the state capital and draws people from all over the state for events such as sports tournaments and the state fair.

Table 5
**MAXIMUM TRANSFER OF FUNDS FROM RURAL COUNTIES TO URBAN COUNTIES
VIA LOCAL OPTION SALES TAXES IN IOWA FOR NEXT 10 YEARS**

COUNTY	10 YEAR TOTAL REGULAR LOCAL OPTION SALES TAX FROM OTHER COUNTIES (\$ Million)	10 YEAR TOTAL SCHOOL LOCAL OPTION SALES TAX FROM OTHER COUNTIES (\$ Million)	10 YEAR TOTAL ALL LOCAL OPTION SALES TAXES FROM FROM OTHER COUNTIES (\$ Million)
Polk	\$205.81	\$205.81	\$411.62
Linn	\$79.06	\$79.06	\$158.12
Scott	\$29.31	\$29.31	\$58.62
Johnson	\$15.94	\$15.94	\$31.88
Black Hawk	\$18.52	\$18.52	\$37.04
Woodbury	\$16.06	\$16.06	\$32.12
Pottawattamie	\$10.52	\$10.52	\$21.03
Dubuque	\$4.56	\$4.56	\$9.13
Cerro Gordo	\$21.56	\$21.56	\$43.11
Webster	\$16.18	\$16.18	\$32.37
Des Moines	\$6.00	\$6.00	\$12.01
Wapello	\$2.44	\$2.44	\$4.89
Dickinson	\$7.49	\$7.49	\$14.98
Clay	\$8.80	\$8.80	\$17.60
Carroll	\$1.94	\$1.94	\$3.89
Iowa	\$2.75	\$2.75	\$5.51
Hardin	\$0.38	\$0.38	\$0.77
Jefferson	\$0.66	\$0.66	\$1.32
Union	\$3.56	\$3.56	\$7.13
Emmet	\$0.52	\$0.52	\$1.03
Total	\$452.08	\$452.08	\$904.16

* Webster County LST & SILO are 1/2 %.

Sources of Funds for Polk County

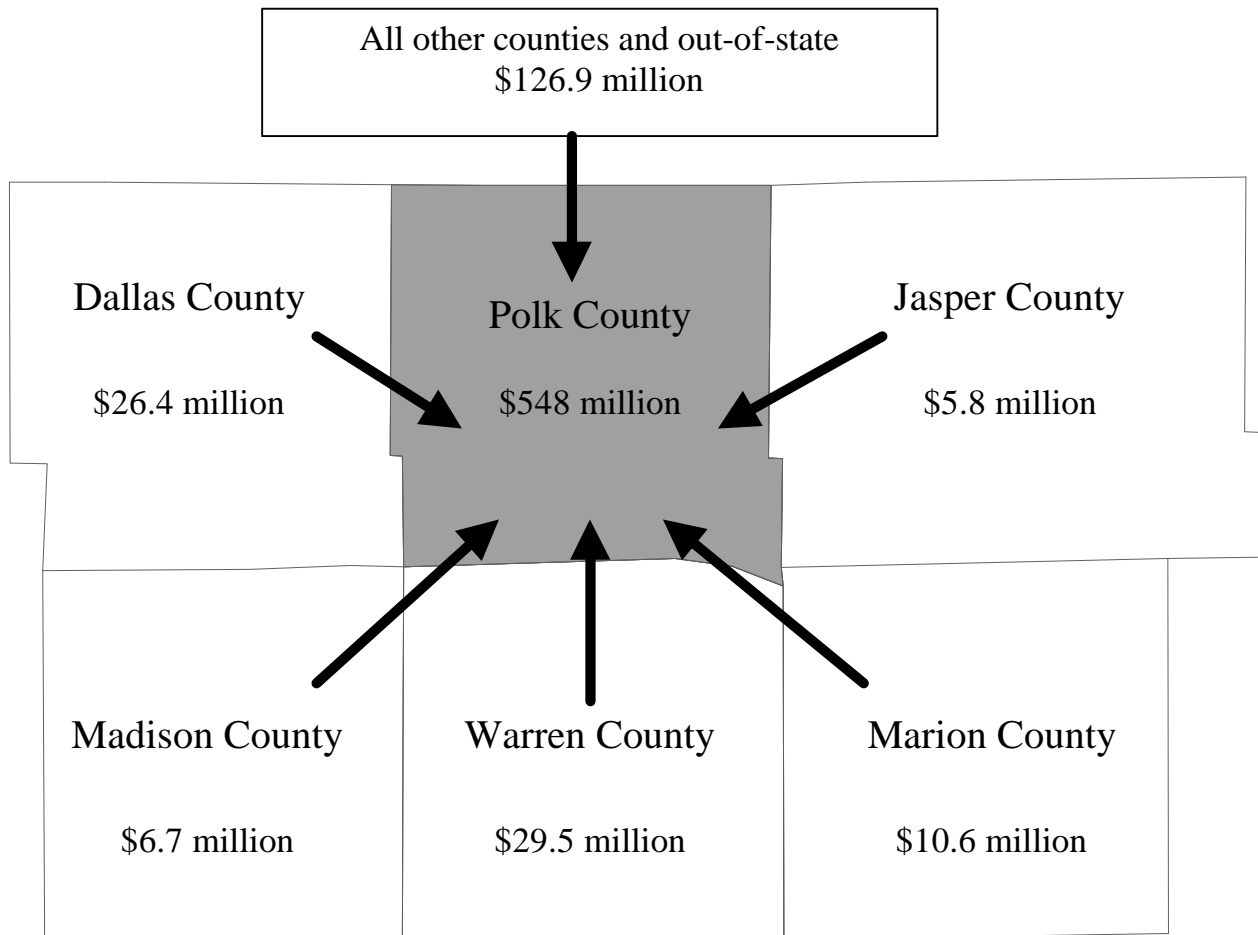
Polk County is by far the dominant retail trade center in the state. With retail sales of more than \$6 billion, Polk County alone accounted for 21 percent of Iowa's retail sales in fiscal year 2002. Figure 3 is a map of Polk County and surrounding counties showing the sources and estimated amounts of the SILO tax collected over a 10-year period.

Figure 3

Sources of Local Option Sales Tax for Schools for Polk County

Total Local Option Sales Tax
10-Year Total for Polk County
\$754 Million Total Collections

\$205 Million From Outside of County



It is estimated that the county will collect approximately \$754 million from the local option sales tax over the next 10 years. Polk County residents will pay approximately \$548 million of this, leaving \$205 million to be drawn from outside the county. Since Polk County is the dominant retail county in the state and it is relatively isolated from the other large retail centers, it is assumed that it captures 90 percent of the leakage from each of the adjacent counties shown. The remaining first and second tier counties would also contribute substantial amounts to the Polk County local option tax collections. As shown in figure 4, Polk County will likely collect approximately \$126.9 million in additional funds from other counties in the state and from out-of-state.

Interestingly, the retail situation in Polk County is changing. A growing number of retail establishments in the Des Moines metropolitan area are being built beyond the Polk county line, particularly into Dallas County. Consequently, Polk County's retail sales seemed to have peaked and may decline substantially in the future. Additionally, a new super regional mall (Jordan Creek) is being built in suburban West Des Moines, located in Dallas County. The new mall is projected to open in 2004 and has the potential for generating \$500 million in annual sales once fully built. We estimate that half of these sales may be captured from Polk County, particularly from its three existing shopping malls. Therefore, it is possible that Polk County's SILO tax collections could be reduced by approximately \$2.5 million per year for the last few years of its collection period. Since Polk County's school districts have already committed the funds based on projected collections prior to the proposed mall, this dramatic change in the retailing landscape may have serious repercussions for Polk County tax-payers in the future.

Analysis of Results

Local option sales taxes are arguably unfair in that they allow the top retail centers to capture funds from consumers in surrounding rural counties, who did not have a vote in approving the tax. Since the major trade centers typically provide jobs and services for many people in the surrounding area, Iowa's regular LST can be justified by arguing that rural consumers should help pay for infrastructure in the cities such as streets and parks since non-residents are as free to use them as residents. However, this logic does not seem to apply to the SILO tax, where the revenue can only be used for infrastructure of the county's schools. Consumers from outlying rural counties pay large amounts toward the urban counties' schools, yet non-residents have little opportunity to send their children to the schools in these "retail rich" counties.

Figure 4 shows the estimated amount of SILO tax collections per student in fiscal year 2002 for each of Iowa's ninety-nine counties if the counties were to pass the tax. If the state had adopted a statewide 1% sales tax designated for school infrastructure and distributed it on a per-student basis, we estimate that each county would have received \$584 per student in fiscal year 2002. Under the current law, only fifteen counties would receive an amount per student exceeding the state average. Polk County, which adopted the SILO tax in 2000, will receive approximately \$940 per student, while Louisa County, if it were to pass the SILO tax, would collect only \$111 per student.

The inequity of the local option sales tax for schools is at odds with the state's goal of equalizing education funding across districts; a goal that underlies the state foundation aid program's elaborate financing formula. Many people recognize a link between educational quality and school funding. However, by implementing a funding system that depends on a

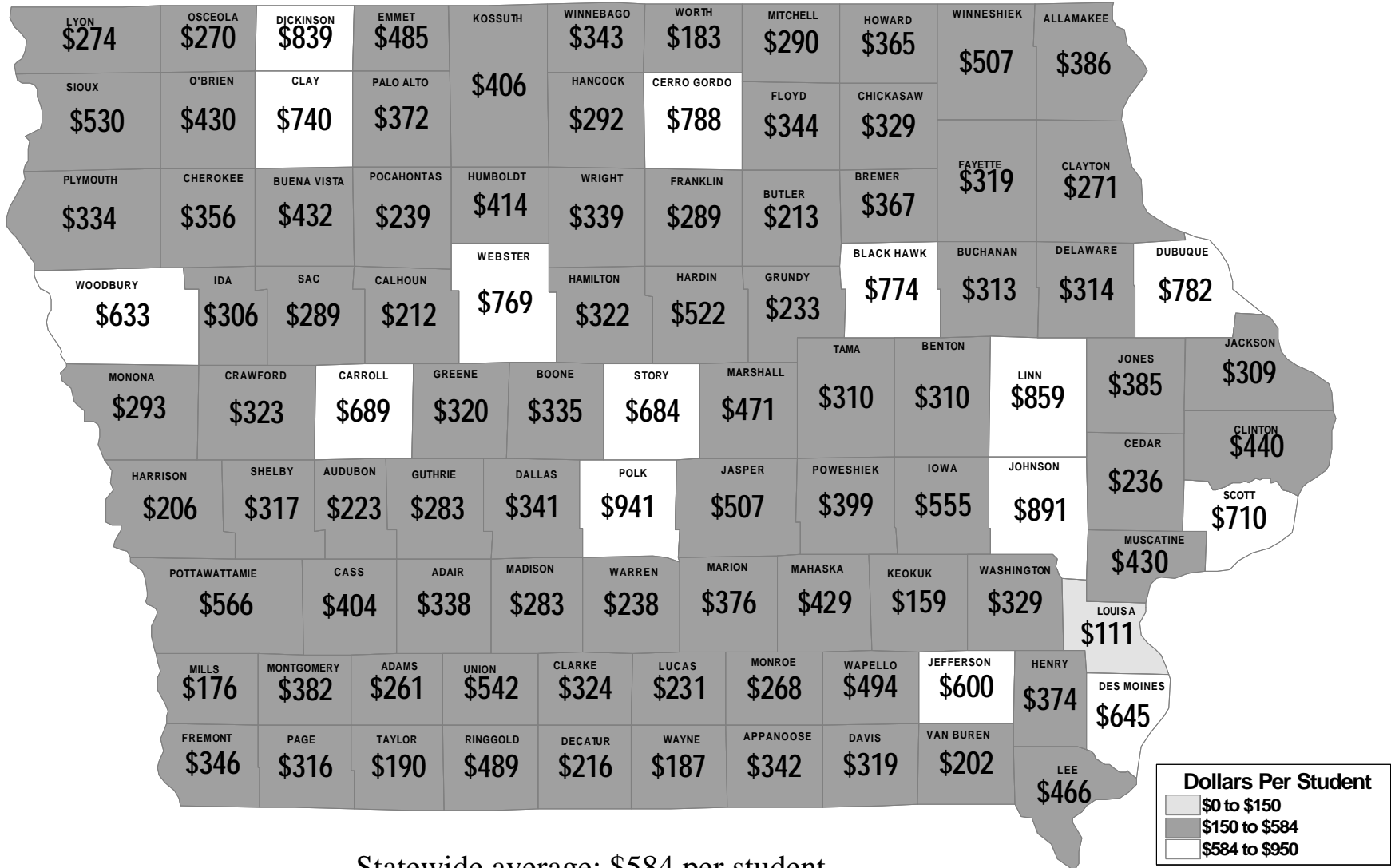
retail base that is unequally distributed across the state, state lawmakers have restricted residents' ability to choose their level of school funding and thus educational quality. Succinctly stated, "So long as the retail base of a given county is the major determinant of how much a city therein can spend on its schools, only a county with a large retail base is able truly to decide how much it cares about education" (Craft, 2002).

Conclusion

Local option sales taxes in Iowa have the potential of transferring nearly one billion dollars from "retail poor" to "retail rich" counties over a 10-year period. While the state's major trade centers do provide jobs and services for a majority of the state's residents, the relationship is reciprocal; non-residents supply labor and support businesses for these centers. In the spirit of a more regional approach to rural development, this analysis suggests that the proceeds from the SILO tax, and perhaps even the LST, should be reinvested on a regional basis, not solely within the county or city with the large retail center.

Figure 4

Estimated SILO Collections Per Student, 2002



Statewide average: \$584 per student

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