



BUDGET SPECIAL REPORT

FISCAL YEARS (FY) 2025-26

Significant changes to Iowa's property tax system have been adopted by the Iowa Legislature the last several years which have directly impacted city budgets, causing concern among many city officials as they try to provide essential public services under growing constraints. At the same time, the cost of providing services continues to rise for all cities, making the important task of balancing the budget even more difficult.

The League's *Budget Special Report* contains the latest revenue and expenditure projections to aid city officials as they work through the annual budget process. It should be noted that the information detailed in this report is timely at publication and city officials need to continually monitor relevant data to make informed decisions.

Reminder:

All city budgets must be completed using the online system provided by the Iowa Department of Management (IDOM) and submitted electronically as prescribed by IDOM. The budget form must also be filed with the county auditor. Forms can be found at dom.iowa.gov/local-government/city-resources.

500 SW 7th Street,
Suite 101
Des Moines, IA 50309
Phone (515) 244-7282
www.iowaleague.org

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Revenues

A wide variety of factors have impacted municipal revenues in recent years, including major changes to the property tax system, property valuations, the 2020 Census and more. Each city can be affected differently and it is critical for city officials to carefully review revenues as they make budget decisions.

Assessment Limitation Order – Rollback and More Major Changes to Iowa's Property Tax System

The January 1, 2024 property valuation serves as the basis for calculating property taxes in fiscal year (FY) 2026.

Since 1978, residential and agricultural property has been subject to an assessment limitation order, or “rollback”, that limits annual growth of property values (all other classes of property were eventually added). Prior to the 2013 overhaul of the property tax system, property value growth was limited to 4 percent per year for agricultural, commercial, industrial and residential properties. If property values grew by more than 4 percent, the taxable value was rolled back to comply with the assessment limitation system.

In addition, the rollback included a formula that tied the growth of residential property to that of agricultural property. This connection is commonly referred to as “coupling” and limited the valuation of either property class to the smaller of the two. Since the law’s inception, residential property has always been subject to significant rollbacks while the other property classes did not grow as much and were often taxed at or near their full assessed value.

While the property tax rollback system remains in place, several major changes were made during the 2013 legislative session and additional measures passed in 2021 and 2022 that further overhauled the system. The Iowa Legislature then adopted legislation in both 2023 and 2024 that fundamentally altered key components of the system.

For each assessment year, beginning in 2013, residential and agricultural property value growth is now capped at 3 percent, or whichever is lowest between the two classes (the coupling provision remains).

A separate rollback was instituted for commercial, industrial and railroad which began at 95 percent for valuations established during the 2013 assessment year (affecting FY 2015) and went to 90 percent for the 2014 assessment year and thereafter. The rollback percentage for these properties will remain fixed at 90 percent regardless of how fast or slow valuations grow.

The legislature created a standing appropriation, beginning in FY 2015, to reimburse local governments for the property tax revenue reductions resulting from the new rollback for commercial and industrial property (railroad not included). The “backfill” was funded at 100 percent by the legislature for fiscal years 2015-2022 and cities received the funds in a similar manner as property tax revenue.

Part of the 2021 property tax legislation included a provision to reduce, and eventually eliminate, the backfill. Cities are divided into two categories based on property valuation growth from FY 2014 to FY 2021, which then determines the schedule they have for the reduction in backfill payments. The table below details these categories and the reductions.

Property Valuation Growth Less than Statewide Average of 31.24% (FY 2014-FY 2021)	Property Valuation Growth More than Statewide Average of 31.24% (FY 2014-FY 2021)
Backfill reduced over 8 years (1/8 of amount each year until it reaches zero)	Backfill reduced over 5 years (1/5 of amount each year until it reaches zero)
679 cities	261 cities

The reduction in backfill payments has begun and will continue on the respective schedules before it is eventually eliminated. Cities in the 5-year category will receive their last backfill payment in FY 2026, while the 8-year cities will have their final payment in FY 2029.

The backfill funds should be recorded as intergovernmental revenue from the state. For those using the standard Chart of Accounts the account number is 4464: Commercial/Industrial Replacement Claim Payments.

Another major component of the 2021 legislation eliminated the multi-residential property class, which had been created through the 2013 property tax law. The class was established in FY 2017 and included several types of properties, such as mobile home parks, assisted living facilities, and property primarily used or intended for human habitation containing three or more separate living quarters (including the portion of a building used for human habitation, even if human habitation was not the primary use of the building). Multi-residential property was given its own eight-year rollback schedule that resulted in a decline in taxable values over time. No backfill was created as part of the 2013 legislation.

Prior to the re-classifying of these properties in FY 2017, the vast majority were commercial properties and taxed at their full assessed value. The 2021 legislation moved these into the residential category going forward.

In 2022, the state legislature passed a bill that eliminated the Business Property Tax Credit and replaced it with the equivalent of a rollback on all commercial, industrial and railroad properties. While not all eligible properties applied for and received the previous tax credit, the legislation placed a rollback on the first \$150,000 of taxable value on all commercial, industrial and railroad properties that is equal to the residential rollback percentage (the value that exceeds \$150,000 will be subject to the commercial, industrial and railroad rollback of 90%).

The \$125 million state appropriation that funded the Business Property Tax Credit was converted to a backfill payment. Importantly, the Department of Revenue released a fiscal note that shows the appropriation is already insufficient due property valuation growth of affected properties. This change took effect in FY 2024.

Moving to the 2023 legislation, several sections have a direct impact on city budgets. First, a new Combined General Fund Levy (CGFL) is required to be used by cities that replaces the regular general fund levy. A variety of levies that had been previously available to city governments, including several that were approved by voters at the local level, were eliminated. There is also a mechanism in place that can automatically force a city's CGFL to decrease for those that experience certain levels of taxable property valuation growth. More details can be found in the following section.

The 2023 bill also expanded upon the Homestead Tax Credit by providing a new Homestead Exemption for property owners 65 and older as well as an expansion of the Military Service Exemption. The new Homestead Tax Exemption is not funded by the state. The entire Military Service Tax Credit, including the expansion and the portion that used to be partially state funded, is also not funded by the state. The impact is a lower taxable value on such properties.

New restrictions were put in place for property tax abatement programs by requiring the use of minimum assessment agreement for commercial properties. Such agreements must contain specified information, including a minimum actual value for the completed improvements, and must be certified by the assessor. This applies to revitalization areas created in FY 2025 and after, and for first-year exemption applications in existing revitalization areas filed on or after July 1, 2024.

Another important piece of the 2023 legislation restricted when city governments can put forward a referendum to voters for certain types of general obligation bonds. Such referendums can now only be held at November elections – previously, cities had the ability to schedule special elections for these types of bond referendums.

Finally, the 2023 changes altered the budget adopting and filing process in several important ways that took effect immediately. Further modifications were made in 2024 by the legislature. Please read the Budget Calendar section in this report for the full details and to see a revised recommended budget adoption schedule.

Property Class	FY 2026	FY 2025	FY 2024	FY 2023
Agricultural	73.8575%	71.8370%	91.6430%	89.0412%
Commercial	90%*	90%*	90%*	90%
Industrial	90%*	90%*	90%*	90%
Railroad	90%*	90%*	90%*	90%
Residential	47.4316%	46.3428%	54.6501%	54.1302%
*The first \$150,000 of taxable valuation on commercial, industrial and railroad properties is subject to the current residential rollback; any value over is subject to the 90% rollback				

Both separately and together, the recent legislation has greatly impacted local revenues and budgets. As always, it is crucial for city officials to understand the overall property tax system and analyze its ability to fund needed services. The League offers a variety of resources to help cities better understand the property tax system, including how assessments are done, analysis of levies that are utilized by cities and more. Please visit www.iowaleague.org to access these helpful resources.

Property Tax Levies

Prior to FY 2025, cities could levy up to \$8.10 per \$1,000 of taxable value on residential, commercial and industrial property and up to \$3.00375 per \$1,000 on the taxable value of agricultural property for their general fund (*Code of Iowa* Section 384.1).

In 2023, the Iowa Legislature approve legislation that significantly reduced the levies available for use and implemented a Combined General Fund Levy (CGFL) that may result in revenue reductions for most cities. A key provision establishes a system that automatically reduces a city's CGFL if it exceeds certain annual non-TIF taxable property valuation growth thresholds (this system was altered by 2024 legislation). The system utilizes FY 2024 as the base year and then has three non-TIF taxable value growth thresholds as detailed in the table below. If a city's annual non-TIF taxable value exceeds the thresholds, its CGFL will be reduced as detailed in the table.

Annual Non-TIF Taxable Value Growth = Less than 2.75%	CGFL is not impacted, but if rate is above \$8.10 it becomes the maximum
Annual Non-TIF Taxable Value Growth = 2.75-3.99%	CGFL revenue growth reduced by about 1%
Annual Non-TIF Taxable Value Growth = 4%-5.99%	CGFL revenue growth reduced by about 2%
Annual Non-TIF Taxable Value Growth = 6% or Higher	CGFL revenue growth reduced by about 3%

The formula used for these calculations is based on the city's non-TIF taxable valuations, which are provided by the county assessor. The total for each year is utilized to determine the growth figure on a year-over-year basis (with the FY 2024 values serving as the base year). As such, the first step is identifying the non-TIF taxable values and calculating the annual growth.

For cities that exceed one of the three thresholds in a given year, their CGFL will be reduced accordingly for the next annual budget and fiscal year. This is done through a formula established in state code. The Iowa Department of Management has a tool that includes the formula as required by the state code and calculates the resulting change, if necessary, to a city's CGFL.

The legislation requires cities to utilize the CGFL for FY 2025-2028. It is possible for cities that begin with a base CGFL over \$8.10 to continue to be above \$8.10 if they do not exceed the 2.75% taxable value growth threshold. Importantly, the law restricts a city's maximum CGFL to its previously established highest level within the four-fiscal year period, even if its taxable valuation growth is less than 2.75% in a particular year. In data provided by the Legislative Services Agency, nearly all cities exceeded 2.75% taxable valuation growth at least once in the past six years and therefore most cities can expect to have its CGFL reduced at some point over the four fiscal years covered by the system.

Finally, the legislation places a firm maximum on the CGFL at \$8.10 beginning in FY 2029 for all cities – regardless of taxable valuation growth or decline, past CGFL levels (including those that were above \$8.10) or other budgetary considerations.

The legislation also eliminated a number of levies cities could use to help support its general fund, including some that were voter approved and could be used for specific purposes. Below is a list of levies that can no longer be used by city governments.

- Regular General Fund Levy (replaced with CGFL, see above)
- Emergency Levy
- Instrumental/Vocal Music Groups
- Memorial Buildings
- Symphony Orchestra
- Cultural & Scientific Facilities
- County Bridge
- Mississippi or Missouri River Bridge Construction
- Bridge Purchase
- Contract for Use of Bridge
- Aid to a Transit Company
- Rent, Insurance, Maintenance of Civic Center
- Operation & Maintenance of City-Owned Civic Center
- Planning a Sanitary Disposal Project
- Levee Improvement Fund in a Special Charter City
- Maintain Institution Received by Gift/Devise
- City Emergency Medical District
- Support Public Library

Other levies that some cities utilize were not affected, including ones for debt service, pensions, employee benefits, and tort and self-insurance. More details on these can be seen here:

- A city may levy for the city's contribution under the Federal Insurance Contributions Act (FICA), the Iowa Public Employees' Retirement System (IPERS), the Municipal Fire and Police Retirement System of Iowa (MFPRSI) and certain other employee benefits. On the state budget forms, these are shown in the special revenues fund column of the Revenues Detail (Form 631B). The expense would be shown on the Expenditures Schedule (Form 631A) under the appropriate activity in the special revenues fund (column D). Alternatively, the city may need to transfer the benefits into the general fund where the expenses are recorded. (Section 384.6)
- Insurance premiums, including workers' compensation, necessary for the operation of the city and the costs of self-insurance or risk pools may also be levied outside the CGFL limit. The levy rate is the actual cost of the premiums divided by the total property tax base. Insurance costs on projects or improvements covered by revenue bonds and insurance on proprietary fund activities may not be levied, as these activities should fund themselves. These revenues are typically credited to the general fund even though they are restricted. (Section 384.12(17))
- A city may levy to cover principal and interest payments on general obligation bonds under debt service. Provided proper procedures were followed on lease-purchase or loan agreements, the annual principal and interest payments may also be levied under debt service. The debt service levy is the dollars needed to cover the annual debt obligations divided by the total property tax base. (Section 384.4)

- As permitted under administrative rules adopted by the City Finance Committee, cities may levy for the city's contribution to certain employee benefits. The definition of employee benefits includes workers' compensation costs or insurance premiums, unemployment benefits, employer's share of employee benefits plans, employee wellness and assistance programs, regularly-scheduled, city-required post-employment physicals for employees, police reserves and volunteer firefighters, and more.

Utility Replacement Tax

The Utility Replacement Excise Tax is collected on the generation, distribution and delivery of electricity and natural gas. This tax replaced the taxation on utility property in 1999. Cities are required to calculate their property tax revenues with and without utility property valuations. The difference that is calculated is necessary to establish the General Property Tax Equivalents, the basis for determining the distribution of the excise tax. The Iowa Department of Revenue calculates the amount of revenue that a city will receive and includes this information with the budget information cities receive from the Iowa Department of Management.

Franchise Fee Legislation

Cities are able to collect gas and electric franchise fees not to exceed five percent of the franchisee's gross revenues "without regard to the city's cost of inspecting, supervising, and otherwise regulating the franchise." Revenue from franchise fees can only be used for certain purposes outlined in the state code, but does include such items as public improvements, property tax relief, public safety, energy conservation and economic development activities. A bill approved during the 2015 legislative session requires cities to hold public hearings prior to increasing or amending a franchise fee.

Road Use Tax Fund

The Road Use Tax Fund (RUTF) is accumulated through motor vehicle registration fees, motor vehicle fuel taxes, an excise tax imposed on the rental of automobiles and a use tax on trailers. The state legislature approved a League-supported gas tax increase in 2015 to bring additional funding to the system for critical road infrastructure needs. The per gallon tax increase of 10 cents adds an estimated \$215 million annually to the fund, from which cities receive per capita distributions to pay for the construction, repair and maintenance of road infrastructure.

Results from the 2020 Census were certified in 2021, which directly impacted the statewide distribution formula and each city's per capita amount. The Iowa Department of Transportation (IDOT) released calculations that showed cities with more than 4.78 percent growth in population were expected to see an increase in RUTF allocations, while cities less than 4.78 percent growth in population were likely to have a reduction.

Cities are reminded that economic instability and fluctuating fuel consumption and costs can result in immediate changes in the fund. The IDOT issues per capita forecasts only and cities are only entitled to receive their share of the amount actually collected. The estimates are subject to dramatic changes and cities should consider using a conservative estimate.

Also, the estimates are based on current law regarding specific revenue to and disbursement from the RUTF. Any change in the law could change the per capita amount to be distributed to cities.

Fiscal Year	Iowa DOT Per Capita Forecast
FY 2025	\$139.50
FY 2026	\$140.50
FY 2027	\$141.50
FY 2028	\$142.50
FY 2029	\$143.50

Transfer of Road Jurisdiction: Cities Under 500

In 2004, counties in Iowa assumed responsibility for maintenance of Farm-to-Market (FM) roads in cities with a population less than 500. A transfer of RUTF money based on the total length of the FM roads in each of these cities was also transferred to the respective county. Many cities have entered into 28E agreements with the county to return a portion or all of the responsibility for the road back to the city, along with a corresponding amount of RUTF funds. The State Auditor's Office has stated that funds transferred back to the city from the county are still restricted in the same manner as all Road Use Tax revenue, because road use tax funds are restricted to be spent for roads by Article VII (8), Iowa Constitution. As such, the revenue received under the 28E agreement should be recorded in the city's Special Revenue Fund as:

- Intergovernmental
- Local Grants and Reimbursements

This revenue should not be recorded as road use tax revenue by the city since it is already recorded as road use tax revenue when received by the county. The money must also be spent in accordance with *Code of Iowa* Chapter 312 and any terms and conditions of the 28E agreement.

The IDOT modified how FM roads are designated, which altered the amount of such roads in some communities. Additionally, the 2020 Census resulted in ten cities dropping below 500 in population and therefore being subject to this law.

Local Option Sales and Service Tax

Cities in Iowa are allowed to establish a Local Option Sales and Service Tax (LOSST) upon approval by its citizens. Rates are limited to one percent and cities must specify on the ballot the purposes of the revenue, including any that will be used for property tax relief.

Beginning in FY 2023, the Iowa Department of Revenue (IDR) implemented a distribution system based on revenues actually collected, which replaced the previous system that based distributions on estimates.

FY 2025 estimates from the IDR show a statewide increase of 13.9% in distributions for all local governments with a LOSST from the previous year. It is important to note that LOSST distributions are based on a formula that includes a variety of local factors, such as sales tax collections, populations, property values and more, resulting in different actual distributions for each city.

The IDR has several helpful files regarding LOSST, including a history of revenues for each city, monthly estimates, and a tool that shows how distributions would be impacted by a city approving or rescinding a LOSST. Those files can be accessed at revenue.iowa.gov/taxes/tax-guidance/sales-use-excise-tax/local-option-sales-tax-lost.

More detailed information may be obtained by contacting the IDR at (800) 367-3388 or revenue.iowa.gov.

Hotel/Motel Tax

A city may impose a hotel/motel tax at a rate not to exceed 7 percent after successful approval of a simple majority vote within the city. State law requires that 50 percent of such revenues are used for acquiring, improving, operating or improving recreational, cultural or entertainment facilities or for the promotion and encouragement of tourist and convention business. The remaining revenues may be spent on any other lawful purpose.

The IDR has additional information, including files showing rates and quarterly payment distributions, at revenue.iowa.gov/taxes/tax-guidance/property-tax/iowa-hotel-and-motel-tax.

Enrich Iowa Funds for Libraries

The Enrich Iowa Program includes Direct State Aid, Open Access and Interlibrary Loan.

- Direct State Aid is a direct payment to public libraries and is intended to be used to improve and enhance library services.
- Open Access provides a partial reimbursement to participating libraries to make it possible for patrons to check out materials at other participating libraries.
- Interlibrary Loan provides partial reimbursement for interlibrary loans among all types of libraries.

Additional information on these programs is available at the State Library of Iowa website, www.statelibraryofiowa.gov/index.php/libraries/funding-grants/enrich-iowa.

Fuel Tax Refunds

Cities are eligible for refunds from both federal and state governments for taxes paid on gasoline. In most cases, cities must pay the fuel taxes at the pump and then file for a refund with the state and federal governments. Cities on a modified accrual accounting basis should not consider payment of the tax as an expenditure nor should they consider the refund as revenue. However, cities on a cash accounting basis should charge the tax as an expense and receipt the refund as revenue. In order to receive a refund from the state, the city must:

1. Have a refund number;
2. Keep a record of gallons purchased (cities are not required to send the actual invoices with the refund request); and
3. Apply for the refund within one year of purchase.

Cities may apply for a refund number and obtain forms necessary for filing the refund by contacting the Iowa Department of Revenue at (800) 367-3388 or download the forms by visiting tax.iowa.gov/other-iowa-motor-fuel-tax-information. Cities may also file for a refund by telephone and request direct deposit of their refunds.

If your city is entitled to a federal refund of \$750 or more per quarter for tax paid on gasoline purchases, you may file quarterly for a refund. If the refund is less than \$750 per quarter, you must file annually. To receive the refund on the gas tax, a refund request must be filed on Internal Revenue Service (IRS) Form 8849. See IRS Publication 510 Fuel Tax Credits and Refunds for further information.

You may request IRS forms by calling (877) 829-4933 or download the forms at www.irs.gov/forms-instructions.

Expenditures

U.S. Consumer Price Index

The U.S. Consumer Price Index (CPI) is a measure of the changes in retail prices of a fixed market grouping of consumer goods and services. The CPI for all urban consumers (not seasonally adjusted) for September 2024 increased 2.4 percent from September 2023. The CPI is based on the major expenditure categories of food and beverages, housing, clothing, transportation and energy, medical care, recreation, education and communication as well as other goods and services. The Midwest Region CPI rose 2.5 percent from September 2023 to September 2024.

The most recent CPI figures and more information can be obtained by visiting www.bls.gov/cpi.

U.S. Employment Cost Index

Another measure of cost trends, the U.S. Employment Cost Index (ECI), factors in expenses related to wages, benefits and total compensation. The ECI total compensation index for state and local government workers increased 4.7 percent from September 2023 to September 2024.

The most recent ECI figures and more information can be obtained by visiting www.bls.gov/ect.

FICA Deductions

The city (employer) and the employee each contribute 7.65 percent of wages for Social Security and Medicare. The maximum taxable earnings subject to the Social Security portion (6.2 percent) of the Federal Insurance Contributions Act (FICA) is currently \$168,600 and will increase to \$176,100 in 2025. There is no limit on the salary covered for the Medicare portion (1.45 percent) of FICA. Please note that rates may change during the fiscal year. Questions on FICA may be directed to the Des Moines office of the Social Security Administration (SSA) at (800) 772-1213.

You can also visit the SSA website at www.ssa.gov for questions, publications and other information.

Iowa Public Employees' Retirement System (IPERS)

IPERS Contribution Rates Regular Class Members			
Regular Class Members	July 1, 2023	July 1, 2024	July 1, 2025
Employee Rate	6.29%	6.29%	6.29%
Employer Rate	9.44%	9.44%	9.44%
Combined Rate	15.73%	15.73%	15.73%

IPERS contribution rates for employers and employees have been steady the past several years. Contribution rates for regular and protection class members will not change in FY 2026. City officials are encouraged to consult with an IPERS representative should they have any questions about their retirement account.

IPERS Contribution Rates Protection Class Members			
Protection Class Members	July 1, 2023	July 1, 2024	July 1, 2025
Employee Rate	6.21%	6.21%	6.21%
Employer Rate	9.31%	9.31%	9.31%
Combined Rate	15.52%	15.52%	15.52%

Employer and employee contribution rates are posted to the IPERS website at www.ipers.org/about/contribution-rates.

Important Note: All part-time elected officials must be covered by IPERS unless they specifically opt out of coverage. All employers will be audited on a regular cycle, based on the number of employees.

Questions may be directed to the IPERS office at (800) 622-3849 or visit their website at www.ipers.org for more information.

Municipal Fire and Police Retirement System of Iowa (MFPRSI)

MFPRSI Contribution Rates			
MFPRSI City Contribution Rates	July 1, 2023	July 1, 2024	July 1, 2025
Employee Rate	9.40%	9.40%	9.40%
Employer Rate	22.98%	22.66%	22.68%
Combined Rate	32.38%	32.06%	32.08%

The MFPRSI contribution rate formula is established in *Code of Iowa* Chapter 411 and currently sets the employee rate at a fixed 9.40 percent. Each year, the MFPRSI Board of Trustees sets the employer rate after the completion of an annual actuarial valuation. The city's contribution rate, effective July 1, 2024, is 22.66 percent. The rate will see a slight increase to 22.68 percent for FY 2026.

Mileage

Cities may reimburse city officials and employees using their own vehicles up to the amount allowable under Internal Revenue Service (IRS) rules. While cities are not required to use the IRS rate, any changes made in the city reimbursement rate should be done by resolution. The current IRS rate of 67 cents per mile was set in January 1 and is valid until December 31, 2024. Rates for 2025 have not yet been determined and will be available at www.irs.gov in December.

Minimum Wage Rate

Both the state and federal minimum wage have remained the same since 2009. The state hourly wage is \$7.25 and the hourly wage for youth employees working less than 90 days is \$6.35 (the lower rate only applies to employees under the age of 20). The federal minimum wage is also \$7.25 per hour. As a reminder, if there is a disparity between the federal and state minimum wage rate, employers are required to pay the higher of the two.

The state legislature approved House File 295 in the 2017 legislative session that, among other things, prohibits cities and counties from adopting local minimum wages that are higher than the state level. The bill nullifies all existing local minimum wage ordinances that differ from the state level.

Unemployment Compensation

Most cities are reimbursable for unemployment compensation upon application, unless they elect to be contributory by completing an additional form stating such. Cities must reimburse the state for actual unemployment benefits paid out by Iowa Workforce Development (IWD) within 30 days following the billing for any quarter in which the state has made payments to the city's former employees. If a city anticipates the possibility of layoffs during a fiscal year, they may want to budget for the expense of reimbursing unemployment benefits.

Contributory tax rates are based on the extent that tax payments made by the city are in excess of benefits paid out by IWD, and this reserve balance is then divided by the average taxable payroll. The tax due is found by taking the percentage calculated for the city multiplied by the first \$38,200 of each employee's gross salary (this will increase to \$39,500 in 2025). IWD will mail tax rate notices giving the percentage for each city in November. The city has 30 days from the Rate Notice Date on the form to appeal their contribution rate.

All cities have the option to change their status to contributory or reimbursable. Cities can change their status by December 1 for the next calendar year by contacting IWD for the appropriate forms in advance of the deadline. However, if a city opts to switch from contributory to reimbursable, it is required to pay to IWD any deficit that may be due to claims against its current account in excess of contributions.

Information regarding IWD can be found at www.iowaworkforcedevelopment.gov.

Workers' Compensation Insurance

Premium for workers' compensation coverage can be estimated using the audited payroll from the previous year with adjustments for cost of living and other increases, taking into consideration anticipated changes in personnel and/or operations. Once payroll has been adjusted for each class code, apply the rate for each code per \$100 of payroll. The city should check with its agent to see if any rate changes will go into effect prior to its renewal.

General Liability and Property Insurance

Liability coverage contribution is based on several factors such as number of employees, number and types of automobiles and expenditures. However, the easiest way to project cost of liability coverage is to apply the current inflation factor. Premium for liability coverage is based on the number of employees and a five percent increase to the entity's total budget. Rating for property and auto physical damage coverage is based solely on the total insured value (TIV) of the schedule. A simple way to project cost is to calculate the TIV of the previous year, divide it into last year's contribution and apply the factor to this year's TIV.

It is anticipated that cities will experience significant increases in property insurance premiums in FY 2025. City officials are encouraged to contact their insurance providers to help determine future expenses.

Legislation

When re-estimating revenues and expenditures for FY 2025 and budgeting for FY 2026, cities should be mindful of recent legislative actions that may have a significant fiscal impact on the city. Full coverage of the laws passed by the 2024 General Assembly is included in the *New Laws of Interest to Iowa Cities* report, which can be found on the League website at www.iowaleague.org.

SF 2442 | Property Tax Change Omnibus

This tax omnibus bill makes many changes that relate to various taxes. Alters thresholds within the Targeted Jobs Withholding Tax Credit. Allows a city that fails to file necessary information regarding property taxes with the Department of Management by the deadline to certify a levy that is not more than the previous year's budget. Changes the date that cities must report budget and levy information related to the Property Tax Notification Statement to the Department of Management from March 15 to March 5. Alters the information contained in the Property Tax Notification Statement which is mailed to each property owner. Allows a city which has a levy rate of \$0 for the prior fiscal year to certify a Budget Year General Fund Levy up to \$8.10. Allows for a limited extension of a Tax Increment Finance division of revenue with the approval of all taxing entities whose revenues would be affected. Creates a new tier of Consolidated General Fund Levy ratcheting which is based on the non-TIF taxable valuation growth that is between 2.75% and 4% growth. Incrementally changes the rollback applied to pipeline and cable property until it is equal to the commercial rollback.

Amends numerous sections in Chapters 8, 24, 384, 403, 422, 425, and 441 | Multiple effective dates

HF 2398 | Public Official Bonds or Insurance

Allows a public officer, such as a mayor or city clerk, to hold an insurance policy in lieu of a bond as required in *Code of Iowa* Chapter 64. Alters the provisions which regulate the failure to give bond so that suspension from office is first and removal from office can take place after a reasonable timeframe.

Creates Section 64.3 and amends Section 64.25 | Effective July 1, 2024

SF 2331 | Publication Requirements

Creates new regulations and requirements on Newspapers of Record in regards to accepting and publishing governmental notices that includes posting online, restrictions on charging local governments for proof of publishing, as well as the ability for cities to publish on their own website in the event a newspaper refuses to publish. Alters language about when a city clerk has to provide a meeting summary following a meeting of the council to a newspaper to be published.

Amends Section 372.13 and numerous sections of Chapter 618 | Multiple effective dates

SF 574 | MEGA Economic Development Program

Creates the Major Economic Growth Attraction (MEGA) Program for the purposes of attracting large economic development projects in the fields of advanced manufacturing, biosciences, or research and development to the State of Iowa. Administered within the Iowa Economic Development Authority. Limits the property tax exemption and local incentives to 20 years and cannot include school district taxes.

Creates numerous sections in Chapter 15 | Effective May 10, 2024

HF 2397 | Emergency Medical Service Transport Reimbursement

Allows emergency medical transport services to transport a person experiencing a mental health crisis to a mental health access center and directs the Department of Health and Human Services to reimburse for this service at rates similar to transportation to hospital emergency departments.

Creates Section 147A.19 | Effective July 1, 2024

HF 2680 | MFPRSI Benefits

Enhances the benefits within the Municipal Fire and Police Retirement System of Iowa, Chapter 411. Strikes the definite time and place language within *Code of Iowa* Chapter 411 and replaces it with “arising out of or in the course of the employment.” Stipulates that a mental incapacity that will be considered compensable under Chapter 411 will have to be demonstrated to be a readily identifiable work event manifesting from a sudden and traumatic experience that is unusual for firefighters or police. Allows for the conversion of ordinary disability to accidental disability. Clarifies that cities shall provide physical and mental medical attention and can utilize group health insurance to do so. Allows vested members to make claims related to employment up to three years after the last date of employment, subject to restrictions.

Amends numerous Sections of Chapter 400 and 411 | Effective January 1, 2024

HF 2661 | Sheriff Pension, Officer Relocation Grants, Enhanced Penalty for Assaulting an Officer

Enhances the pension benefits for Sheriff and Sheriff Deputies for retirements that occur after July 1 of 2024. Creates the crime of felonious assault of an officer and prevents bail from being awarded to a defendant who is charged with murdering a police officer. Creates an income tax credit for officers who move to Iowa.

Amends Sections 97B.49C, 811.1, and creates 422.12P | Multiple effective dates

Other Budget Issues

City Annual Financial Report

The Iowa Department of Management (IDOM) requires that the Annual Financial Report (AFR) forms be filed using an online reporting and filing system. The AFR portal can be found at dom-localgov.iowa.gov. The AFR is a statement of actual revenues, expenditures, and fund balances from the prior fiscal year. This report has a filing deadline of December 1 each year. The online report, a signed copy of the All Funds P1 summary page, and the proof of publication/affidavit of posting must be submitted and received by the Auditor of State's Office not later than December 1. The AFR must be completed and submitted before the city budget hearing process can be started. Failure to complete the AFR in a timely manner will lead to the next year's budget facing a financial penalty. Also, timely filing is required as the actual financial data from the AFR auto-fills to the budget forms.

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IDOM has a recorded training webinar on how to complete the AFR. The webinar and other helpful information can be found at dom.iowa.gov/local-government/city-resources#city-annual-financial-report-afr-tutorial.

Annual Urban Renewal Report

Legislation approved in 2012 requires all cities that have an urban renewal area, whether actively generating tax increment or not, to submit the Annual Urban Renewal Report. Cities must provide a variety of information for each of their urban renewal areas, including urban renewal plans, maps, tax increment financing ordinances, debt and financing data, and urban renewal projects.

The report is due December 1 of each year and must be completed and filed using the IDOM online reporting system (www.legis.iowa.gov/tif/la). The system requires users to upload associated documents in PDF format. City councils must approve the form prior to submittal. Failure to file the report by the deadline will result in the city being unable to certify their budget, which could lead to financial penalty of being held to the prior year's property tax revenue, and being placed on a list of delinquent cities sent to the Legislature and Governor.

The League and IDOM recorded training webinars on how to complete the report. Those webinars and other helpful information can be found at www.iowaleague.org and dom.iowa.gov/tax-increment-financing.

Certification of TIF Debt

Cities must certify debt payable with Tax Increment Financing (TIF) funds on or before December 1. *Code of Iowa* Section 403.19 requires cities to certify to the county auditor the amount of any “loans, advances, indebtedness, or bonds” that qualify for payment from TIF revenue from a TIF district. This certification of TIF debt is only required once. However, due to the unique nature of many TIF programs, some cities may need to file on an annual basis or make adjustments to the amount needed in the next year.

The county auditor is responsible for collecting and distributing the funds available from the increment in subsequent years until the entire certified amount is paid into the city’s tax increment fund. However, if additional debt is incurred, that amount must be certified by the following December 1 in order for the county auditor to make the proper distribution in the next fiscal year. Failure to certify the debt before December 1 will delay payments to the city by one year. IDOM and the State Auditor’s Office have developed a TIF Debt Certification form that cities may use when certifying their debt to the county auditor. Due to the unique nature of each urban renewal area and TIF request, be sure to proactively communicate with your County Auditor about your TIF request.

The League and IDOM recorded training webinars on how to complete the report. Those webinars and other helpful information can be found at www.iowaleague.org and dom.iowa.gov/tax-increment-financing.

City Budget Forms

IDOM requires that the city budget and subsequent budget amendments be completed in the online budget system at dom-localgov.iowa.gov. The budget form, which requires two separate hearings to approve, must be filed with IDOM and the county auditor by April 30. Be sure to complete the AFR by December 1 so that your city will be able to complete the budget process and file the budget by April 30. Late budgets are penalized by being restricted to the prior years’ property tax revenue.

American Rescue Plan Act and the Coronavirus State and Local Fiscal Recovery Fund

The American Rescue Plan Act (ARPA) was approved by Congress in early 2021, and included funding for local governments as a pass-through grant from the U.S. Department of Treasury. As the plan was developed, cities were required to request ARPA funding through the state of Iowa and the funds were provided to cities on a per capita basis. Following that process, cities received their first installment of funding that represented half of the total amount in the fall of 2022, and the remaining funding was distributed starting in the summer of 2023.

The ARPA grant funds are part of the U.S. Department of Treasury’s Coronavirus State and Local Fiscal Recovery Fund (SLFRF). When cities accepted the funding, they agreed to periodically file reports through Treasury’s SLFRF portal. As part of the reporting process, cities are required to report obligations and expenditures. The definition of obligation under Treasury rules means having an executed contract in place, and not just allocating how the funds are to be spent. Cities have until December 31, 2024 to fully obligate the funds they have received, and expend all funds before December 31, 2026. If cities do not meet the deadlines that have been established, it is likely the Department of Treasury will require the city to return any funds that have not been obligated or expended.

Infrastructure Investment and Jobs Act

The Infrastructure Investment and Jobs Act (IIJA), also known as the Bipartisan Infrastructure Law (BIL), was passed by Congress in November 2021. The law authorizes \$1.2 trillion for roads, bridges, water, broadband, and other uses through 2026. Unlike the ARPA pass-through grant cities received, local governments have and will be able to apply for funding through a competitive grant process for specific funding.

It is anticipated Iowa stands to gain at least \$5 billion in funding through 2026. The funds specific to Iowa have and will continue to be disbursed to state agencies such as the Iowa Finance Authority, Iowa Economic Development Authority, and the Iowa Department of Transportation. Cities interested in applying for Iowa's portion of IIJA funds apply directly through the applicable agency. The available funding serves a number of needs including, but not limited to:

- Water infrastructure including funding for lead service line replacement
- Highway aid to address highways in poor condition
- Bridge replacement and repairs
- Public transportation
- Airport infrastructure and upgrades
- Electric vehicle programs including funding for charging stations
- Broadband expansion

The Buy America, Build America Act (BABA) is part of the requirements of IIJA regardless if the grant is applied for through the federal government or a state agency. As it relates to infrastructure projects and awarding of funds, the following BABA requirements must be met:

- All iron and steel used on a project must be made in the United States;
- All manufactured products must be produced in the United States and must be greater than 55% of the total cost of all components of the manufactured product; and
- All construction materials must be made in the United States.

Bid and Quote Thresholds for Cities

The bid and quote thresholds for qualifying public improvement projects as defined in Chapter 26 of the *Code of Iowa* can be seen in the following tables.

Current Thresholds <i>Horizontal Infrastructure – Roads, streets, bridges, culverts</i>		
	Cities Less Than 50,000	Cities Greater Than 50,000
Competitive Bid Required	\$65,000	\$93,000
Competitive Quote Required	N/A	N/A

Current Thresholds <i>Vertical Infrastructure – Buildings, parking facilities, utilities, trails</i>		
	Cities Less Than 50,000	Cities Greater Than 50,000
Competitive Bid Required	\$196,000	\$196,000
Competitive Quote Required	\$81,000	\$109,000

January 1, 2025 Thresholds <i>Horizontal Infrastructure – Roads, streets, bridges, culverts</i>		
	Cities Less Than 50,000	Cities Greater Than 50,000
Competitive Bid Required	\$62,000	\$89,000
Competitive Quote Required	N/A	N/A

January 1, 2025 Thresholds <i>Vertical Infrastructure – Buildings, parking facilities, utilities, trails</i>		
	Cities Less Than 50,000	Cities Greater Than 50,000
Competitive Bid Required	\$206,000	\$206,000
Competitive Quote Required	\$82,000	\$114,000

For a detailed explanation of construction bidding and quotation procedures please visit the Resources section at www.iowaleague.org.

Water Service Excise Tax

Legislation adopted in 2018 created a new Water Service Excise Tax (WET) at a rate of six percent, which replaced the state sales and use tax on charges for water service. Cities must apply the WET to charges or fees related to the sale of water service, which can include usage charges and minimum monthly charges that may comprise a total water service charge. Local option sales tax is longer be applied to water service charges. A portion of the revenue collected will go to the state water quality infrastructure and water quality assistance funds.

Additional information can be found on the Iowa Department of Revenue's website, including examples of how the WET is applied to different water service charges, at revenue.iowa.gov/taxes/tax-guidance/sales-use-excise-tax/water-service-excise-tax.

W-2 and 1099 Forms

Cities are reminded that W-2 and 1099 forms are due to employees and vendors, respectively, by January 31 of each year. The deadline for filing W-2 forms (paper or electronic) with the Social Security Administration is also January 31. Similarly, 1099 forms (paper or electronic) must be filed with the IRS by January 31 if reporting nonemployee compensation payments in Box 7.

The Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan on an employee's Form W-2 in Box 12 using Code DD. For cities filing fewer than 250 W-2 forms this requirement is optional.

GASB 45

Governmental Accounting Standards Board Statement 45 (GASB 45) requires many public entities to reflect the value of post-employment benefits (health, life, dental, etc.) that are provided to retired employees in your future audited financial statements. Your auditor has likely informed you when (and if) your city will meet the requirements for compliance with this accounting standard.

GASB 54

Governmental Accounting Standards Board Statement Number 54 (GASB 54) provides guidance for fund balance categories and classifications and governmental fund type definitions. In Iowa, the Annual Financial Report, sent to the State Auditor's office by December 1 of each year, has been changed due to GASB 54. This means all cities in Iowa are impacted.

GASB 54 changed the way we look at cash balances, specifically reporting what cash balances, by major governmental fund type, are or are not available for public purposes. Additional information can be found at www.iowaleague.org/resource/gasb-54-fund-balance-classifications.

GASB 68

Governmental Accounting Standards Board Statement Number 68 (GASB 68) requires state and local government to make significant changes to how they account and report finances related to pension plans. This includes new requirements for reporting pension-related liabilities and obligations. The State Auditor's Office has created a variety of resources to help cities prepare for the requirements, which can be found at www.auditor.iowa.gov/city-resources/gasb-68-pensions.

GASB 77

Governmental Accounting Standards Board Statement Number 77 (GASB 77) requires governments to disclose in the notes to their financial statements the amount of revenues they promise to forgo through agreements with individuals or entities which promise to take specific actions after the agreements have been entered into that contribute to economic development or otherwise benefit the governments or the citizens of those governments.

GASB 77 also requires governments to disclose the portion of revenues which the government would have otherwise received that other governments have promised to forgo through their tax abatement agreements. The Iowa Department of Management has developed resources to help cities comply with these requirements, which can be seen at dom.iowa.gov/local-government/gasb-77.

Affordable Care Act

Cities are reminded to be in compliance with applicable provisions of the Affordable Care Act (ACA) or they could be subject to penalties for employers and individuals. With that in mind, cities need to know how the ACA affects them and their employees and prepare for any coming changes. The various aspects of the ACA could impact cities in many different ways and cities are encouraged to consult with their health care advisors to determine the best course of action.

Red Flag Rules

The Fair and Accurate Credit Transactions (FACT) Act of 2003 requires utilities and government entities to implement identity theft prevention programs. These provisions are known more commonly as the Red Flags Rule. Municipal utilities, local governments and any entity that can broadly be classified as a creditor should develop and implement a written identity theft prevention program. More information regarding this policy is available at www.ftc.gov/tips-advice/business-center/privacy-and-security/red-flags-rule.

Consumer Confidence Report

Cities are required to complete a Consumer Confidence Report, which is designed to inform consumers of their local water quality. A copy of the report must be mailed or otherwise directly delivered to each customer annually by July 1. A city with a population less than 10,000 with no violations during the past year may use a mailing waiver. If these cities choose to use the mailing waiver:

- For a city with a population less than 500, the mailing waiver must provide notice at least once per year to their customers by mail, door-to-door delivery or posting that the report is available upon request.
- For a city between 500 and 10,000 in population, the mailing waiver must inform customers that the report will not be mailed. The cities must publish the report in the newspaper and make the report available upon request.

Single Audit Act

Cities that expend a total of \$750,000 or more in federal assistance in a fiscal year must comply with the Single Audit Act, which requires a single or program-specific audit of city financial records.

Training Costs

The League and others offer several training events directed at city officials throughout the year. Be sure to check www.iowaleague.org throughout the year to get information about these events and the associated registration fees.

Budget Calendar

Legislation approved by the Iowa Legislature made significant changes to the city budget approval and filing process. Beginning with the FY 2025 budget, cities are required to complete a Proposed Tax Rate form and submit it to the Iowa Department of Management (IDOM) by March 5.

A form is provided by the IDOM and cities are to provide information related to its current property tax rate; the total amount of dollars to be collected via its proposed property tax rate; a statement explaining the reasons for an increase in the dollars collected from the previous fiscal year (if an increase is anticipated); examples comparing a property owner's tax obligation from the current fiscal year to the next; and information on the public hearing regarding the proposed property tax rate.

Then, by March 20, county auditors must compile each taxing entity's statements and mail each property owner or taxpayer within the county an individual statement that breaks out the information from each political subdivision.

The new law then requires cities to hold a public hearing on the proposed property tax levies and amounts as detailed in the Proposed Property Tax Rate form. ***This hearing must be held at a meeting that is separate from any other council meeting – no other business may be included in this hearing and meeting.*** At the hearing, the council shall receive oral or written testimony from any resident or property owner of the political subdivision. After such comments, the council may decrease (but not increase) the proposed property tax amount to be included in the city's budget.

Cities must provide notice of this hearing no less than 10 and no more than 20 days prior to the meeting where the hearing will be held by publishing a notice in a newspaper that is published at least once weekly and has general circulation in the city. Cities with populations 200 and fewer may meet the publication requirement by posting the notice in three public places in the city. All cities must also post an electronic link to the notice on any and all existing city websites and social media sites.

Notice of the hearing shall also be posted and clearly identified on the city's internet site for public viewing beginning on the date of the newspaper publication (or posting) and shall be maintained on the city's internet site with all prior year notices and copies of the statements mailed. Additionally, if the city maintains a social media account on one or more social media applications, the public hearing notice or an electronic link to the public hearing notice shall be posted on each such account on the same day as the publication of the notice.

The new law also states that a municipality shall not certify or levy in any fiscal year a property tax unless and until the estimates have been made, filed and considered. The verified proof of publication of the notice shall be filed in the office of the county auditor and preserved by the auditor.

Following that part of the process, cities can proceed to the traditional annual budget approval steps that have long included a notice of the proposed city budget, public hearing and resolution to approve the city budget. Cities must file the full annual budget by April 30.

The following schedule is an example for cities to follow during the budgeting process. The example assumes the city has a Thursday newspaper publication with a Tuesday deadline and the council meets on the first and third Monday. Cities should adopt a calendar that meets their specific circumstances and council meeting schedule.

Typical Budget Timeline

**Dates noted by an asterisk are statutory deadlines or requirements.*

Budget Timeline	Date
City elected officials and staff members meet to hold preliminary budget discussions and schedule formal work sessions and budget adoption dates	November and December
City department heads give budget and proposals to city finance officer	Early January
Budget work session(s) with staff members and city council	January 20 (some cities may hold additional work sessions and would add those into their schedule)
City finalizes budget plan to complete information required in Proposed Tax Rate form; council schedules Proposed Tax Rate public hearing	March 3
City submits Proposed Tax Rate form to Iowa Department of Management	March 5*
Notice of hearing on Proposed Tax Rate published	March 27
Public hearing on Proposed Tax Rate (state code requires this hearing to be held separately of any other city council meeting and no other business may be discussed)	April 7
Council receives and adopts final proposed budget and schedules public hearing (this can be done in the same evening as the Proposed Tax Rate hearing, but it must be set up as a separate, regular council meeting)	April 7
Notice of hearing on adoption of final budget published	April 10
Budget hearing and adoption of final budget by resolution	April 21
Certified budget to county auditor and filed with IDOM	April 30*
Persons affected by the budget have 10 days after the date of certification to file a written protest	May 10*
IDOM certifies taxes back to county auditor	June 15*
Budget takes effect	July 1*
<p>NOTICE REQUIREMENT: Notice of the hearing on the Proposed Tax Rate and of the proposed annual budget must be given not more than 20* days nor less than 10* days before the date of the hearing.</p> <p>DETAILED BUDGET: The detailed budget must be available for public inspection at least 10* days before the final budget hearing and 20* days before final date for certification, and is to be available at the clerk's and mayor's offices and the public library, or posted at three places designated by ordinance if there is no library.</p>	



One-Stop Web References

The League's website has numerous reports and resources on budget matters.

Resources	Website
Iowa League of Cities	www.iowaleague.org <ul style="list-style-type: none"> • Finance Section in Resources area • Publications on Iowa's Property Tax System, City Property Tax Levies, Property Tax Assessments, Franchise Fees, Tax Increment Finance and more
Iowa Department of Management	dom.iowa.gov/local-government/city-resources
Iowa Department of Revenue Fuel Tax Refund Forms	revenue.iowa.gov/taxes/tax-guidance/sales-use-excise-tax/iowa-fuel-tax-information
Iowa Public Employees' Retirement System	www.ipers.org
Iowa Workforce Development	workforce.iowa.gov
Internal Revenue Service	www.irs.gov
Local Option Sales and Service Tax Information	revenue.iowa.gov/taxes/tax-guidance/sales-use-excise-tax/local-option-sales-tax-lost
Minimum Wage	The Iowa Division of Labor dial.iowa.gov The U.S Department of Labor www.dol.gov
Municipal Fire & Police Retirement System of Iowa	www.mfprsi.org
Publication Rates	www.inanews.com
Social Security Administration	www.ssa.gov
State Library of Iowa Enrich Iowa Funds	www.statelibraryofiowa.gov
U.S. Department of Labor	Consumer Price Index www.bls.gov/cpi Employment Cost Index www.bls.gov/eci/home.htm



500 SW 7th Street, Suite 101 | Des Moines, IA 50309

Phone (515) 244-7282 | mbrsvcs@iowaleague.org | www.iowaleague.org