BUDGET SPECIAL REPORT
Fiscal Years (FY) 2024-25

IOWA LEAGUE of CITIES

Iowa's property tax system will once again go through significant changes due to action taken by the Iowa Legislature and it is anticipated that city budgets will be directly impacted in the coming fiscal year and beyond. These changes, combined with previous legislation, will likely exacerbate local budget conditions that many city officials are concerned about.

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/cities.

500 SW 7th Street,
Suite 101
Des Moines, IA 50309
Phone (515) 244-7282
Fax (978) 367-9733
www.iowaleague.org

Table of Contents

Revenues

A wide variety of factors have impacted municipal revenues in recent years, including major changes to the property tax system, the COVID-19 pandemic, property valuations, the 2020 Census, global inflation 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, 2023 property valuation serves as the basis for calculating property taxes in fiscal year (FY) 2025.

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 further overhauled the system. Additionally, the Iowa Legislature approved a major bill in 2023 that will fundamentally alter 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.

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 estimates this appropriation will not be sufficient by FY 2029 as affected properties grow in value over that time. This change took effect in FY 2024.

Moving to the 2023 legislation, several sections will 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 will take effect immediately. 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 2025	FY 2024	FY 2023	FY 2022
Agricultural	71.8370%	91.6430%	89.0412%	84.0305%
Commercial	90%*	90%*	90%	90%
Industrial	90%*	90%*	90%	90%
Railroad	90%*	90%*	90%	90%
Residential	46.3428%	56.4919%	54.1302%	56.4094%
Multi-Residential	*Class eliminated, matches residential*	*Class eliminated, matches residential*	*Class eliminated, matches residential*	67.5%

*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 will significantly reduce the levies available for use and implements 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. The system utilizes FY 2024 as the base year and then has two non-TIF taxable value growth thresholds – 3% and 6%. If a city's annual non-TIF taxable value exceeds the thresholds, its CGFL will be reduced as detailed below.

Annual Non-TIF Taxable Value Growth = Less than 2.99%	CGFL is not impacted, but if rate is above $8.10 it becomes the maximum
Annual Non-TIF Taxable Value Growth = 3%-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 the 3% or 6% 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 3% 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 3% in a particular year. In data provided by the Legislative Services Agency, nearly all cities exceeded 3% 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 next four fiscal years.

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 2024	$132.00
FY 2025	$133.00
FY 2026	$134.00
FY 2027	$135.00
FY 2028	$136.00

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 2024 estimates from the IDR show a statewide increase of 11.6% 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 tax.iowa.gov/local-option-tax-information-local-government.

More detailed information may be obtained by contacting the IDR at (800) 367-3388 or tax.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 tax.iowa.gov/iowa-hotel-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.org/ld/e/enrich-ia.

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 2023 increased 3.7 percent from September 2022. 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 3.2 percent from September 2022 to September 2023.

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 4.8 percent from September 2022 to September 2023.

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 $160,200 and will increase to $168,600 in 2024. 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, 2022	July 1, 2023	July 1, 2024
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 Protection Class Members

Protection Class Members	July 1, 2022	July 1, 2023	July 1, 2024
Employee Rate	6.21%	6.21%	6.21%
Employer Rate	9.31%	9.31%	9.31%
Combined Rate	15.52%	15.52%	15.52%

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 2025. City officials are encouraged to consult with an IPERS representative should they have any questions about their retirement account.

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

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, 2023, is 22.98 percent. The rate will see a slight drop to 22.66 percent for FY 2025.

MFPRSI Contribution Rates			
MFPRSI City Contribution Rates	July 1, 2022	July 1, 2023	July 1, 2024
Employee Rate	9.40%	9.40%	9.40%
Employer Rate	23.90%	22.98%	22.66%
Combined Rate	33.30%	32.38%	32.06%

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 65.5 cents per mile was set in January 1 and is valid until December 31, 2023. Rates for 2024 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 $36,100 of each employee's gross salary (this will increase to $38,200 in 2024). 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 2024 and budgeting for FY 2025, 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 2023 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.

HF 718 | Property Tax Omnibus

Makes large changes to city and county budgeting by consolidating and limiting levies, altering property tax credit eligibility, increasing General Corporate Purpose bonding thresholds and more. Visit the League's website for updated information.
Creates and amends numerous chapters, including 384, 425, 404, 24, 39 and more | Multiple effective dates

SF 181 | Re-calculation of the Residential Rollback

Changes the formula used to calculate the residential rollback by removing mobile home parks, manufactured housing, land lease communities, assisted living facilities, and commercial properties used for residential living that contains three or more dwelling units. This change altered the taxable values for budgets certified in 2023.
Amends Section 441.21 | Effective January 1, 2023

SF 418 | Restrictions on Investment of Public Funds

Prevents public funds, which is defined as IPERS, MFPRSI, Treasurer of State, State Board of Regents, and judicial retirement system, from investing in prohibited companies, which is defined as a business owned or controlled by the Chinese government, Chinese military, or businesses on one of several federal restricted lists outlined in the newly created Chapter 12K.
Amends Sections 12.8 and 12F.3, creates Chapter 12K | Effective July 1, 2023

SF 445 | Local Board of Review Protests

Allows a 10-member board of review for contesting assessment and valuations of property to split into three-member subgroups to hear protests and make recommendations to the full board.
Amends Section 441.31 | Effective April 4, 2023

HF 318 | Extension of Filing for Property Tax Credit

Changes the date that a property taxpayer can file for an extension in the event that the payer is ill, disabled, absent, or for good cause as deemed by the county treasurer from September 30 of the same calendar year to March 31 in the year taxes are due.
Amends Sections 425.20 and 435.22 | Effective May 26, 2023

SF 565 | Department of Revenue Omnibus

Division 10 clarifies which forms of pensions or annuities are considered "income" in regards to the eligibility of the Elderly and Disabled Property Tax Credit. This may increase the number of individuals eligible who qualify though this language is intended to reflect current practices rather than change policy.
Amends Section 425.17| Effective June 1, 2023

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 https://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.

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 (https://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 https://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 https://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 https://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

The American Rescue Plan Act (ARPA) was approved by Congress in early 2021 and included significant funding for local governments. As the plan was developed, cities were required to request ARPA funding through the state government and the funds were provided to Iowa 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 Final Rule from the U.S. Department of the Treasury on ARPA uses was released on January 6, 2022, and took effect on April 1, 2022. As part of the Final Rule, a standard allowance for revenue loss up to $10 million was established. This allowed recipients to utilize the funding broadly for government services and streamlined the reporting requirements.

It is important to note that the rules allow cities until December 31, 2024 to allocate how the ARPA funds will be spent, and until December 31, 2026 to spend all ARPA funds the city received. Also, cities that receive ARPA funds will be required to continue to comply with reporting requirements as set by the U.S. Department of the Treasury through April 2027.

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 improvements with $550 billion slated for "new" investments/programs.

Local governments are to receive considerable funding through IIJA/BIL programs, but unlike ARPA, cities must formally apply to specific grant programs to potentially receive funds for a project. Iowa stands to gain at least $5 billion in funding over a 5-year period of 2022-2026. Investments from IIJA would provide funding for a number of needs including, but not limited to:

- Water infrastructure
- 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
- Protection against cyberattacks

The Buy America, Build America Act (BABA) is part of the requirements of IIJA. 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 *Horizontal Infrastructure – Roads, streets, bridges, culverts*		
	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 *Vertical Infrastructure – Buildings, parking facilities, utilities, trails*		
	Cities Less Than 50,000	Cities Greater Than 50,000
Competitive Bid Required	$196,000	$196,000
Competitive Quote Required	$81,000	$109,000

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), which replaced the state sales and use tax on charges for water service. The WET became effective July 1, 2018 and has a rate of six percent. 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 https://tax.iowa.gov/WET.

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/members/Pages/GASB54FundBalanceClassifications.aspx.

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 auditor.iowa.gov/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/gasb-77-resources.

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 15. A form is provided by the IDOM and cities are to provide the following information:

1. The sum of the current fiscal year's actual property taxes certified for a levy for all of the city's levies and the combined property tax rate per $1,000 for such tax amount for the current fiscal year;
2. The combined effective property tax rate for the city calculated using the sum of the current fiscal year's actual property tax certified for levy of all of the city's levies above;
3. The combined amount of the property tax dollars to be certified for all of the city's levies for the budget year and the proposed combined property tax rate per $1,000 for such levies;
4. If the property tax dollars specified under (3) exceed the current fiscal year's actual property tax dollars certified for levy specified in (1), a detailed statement of the major reasons for the increase, including the specific purposes or programs for which the district is proposing an increase;
5. An example comparing the amount of property taxes on a residential property with an actual value of $100,000 in the current fiscal year and such amount on the residential property using the proposed property tax dollars for the budget year, including the percentage difference in such amounts;
6. An example comparing the amount of property taxes on a commercial property with an actual value of $100,000 in the current fiscal year and such amount on the commercial property using the proposed property tax dollars for the budget year, including the percentage difference in such amounts;

7. The city's percentage of total property taxes certified for levy in the owner's or taxpayer's taxing district in the current fiscal year among all taxing authorities;
8. The date, time, and location of the city's public hearing on the information contained in the statements; and
9. Information on how to access the city's internet site, the city's statements under this section, and other budget documents for prior fiscal years.

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 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 22 (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 4
City submits Proposed Tax Rate form to Iowa Department of Management	March 15* (This is the deadline set in state code; to help expedite the process at all levels of government, it is better to target early March to complete this legally required step)
Notice of hearing on Proposed Tax Rate published	March 21
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 1
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 needs to be set up as a separate, regular council meeting)	April 1
Notice of hearing on adoption of final budget published	April 4
Budget hearing and adoption of final budget by resolution	April 15
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*

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.

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.

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 • 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/cities
Iowa Department of Revenue Fuel Tax Refund Forms	tax.iowa.gov/other-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	tax.iowa.gov/local-option-tax-information-local-government
Minimum Wage	The Iowa Division of Labor | www.iowadivisionoflabor.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

IOWA LEAGUE of CITIES

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

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