



[SF 550](#) – Local Option Sales Tax and Natural Resources Trust Fund (LSB1461SV)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – New

Description

[Senate File 550](#) is composed of 12 divisions related to sales/use tax and property tax, including:

- **Division I** relates to the State sales and use taxes.
- **Division II** relates to the water service tax.
- **Division III** relates to the local option sales and services tax.
- **Division IV** replaces the current Homestead Property Tax Credit, over a period of years, with a property tax exemption. The Bill eliminates the State General Fund appropriation that currently finances the credit.
- **Division V** makes changes to the Elderly Property Tax Credit.
- **Division VI** increases the Military Property Tax Exemption and reduces then eliminates the State General Fund reimbursement to local governments that finances a portion of the exemption.
- **Division VII** reduces the percentage of assessed value at which pipeline property is taxed (rollback) from the current 100.0000% to 90.0000% over two years. The Division also reduces the percentage of assessed value at which commercial, industrial, and railroad property is taxed from the current 90.0000% to 80.0000% over two years.
- **Division VIII** amends the distribution of moneys credited to the Natural Resources and Outdoor Recreation Fund to the various accounts within the Fund.
- **Division IX** repeals the Charitable Conservation Contribution Tax Credit.
- **Division X** restricts the application of new commercial and residential property tax abatements within the Urban Revitalization program.
- **Division XI** relates to the diversion of school finance property taxes through Tax Increment Financing (TIF) when the source of the TIF revenue is wind energy conversion property.
- **Division XII** relates to funding for transit programs for the city of Des Moines.

Divisions I and III — State Sales Tax, Use Tax, and Local Option Sales and Services Tax

Divisions I and III Background and Description

Iowa's current sales tax rate and use tax rate, with minor exceptions, is 6.0% of the purchase of products and services subject to State General Fund taxation. One percentage point of the rate is devoted to local school infrastructure through the Secure an Advanced Vision for Education (SAVE) Fund created in Iowa Code chapter [423F](#) (Statewide School Infrastructure Funding). Local governments also have the option to add 1.0% to the purchase price on sales that are subject to the State sales tax. As specified in Iowa Code section [423B.5](#), the local option sales and service tax does not apply to sales subject to the State use tax. **Figure 1** provides a six-fiscal-year history of State and local sales and use tax collections with the following four columns:

- **State Sales/Use Tax (Gross Deposits)** — The amounts listed include moneys that are later transferred to the SAVE Fund but do not include moneys that are deposited into the Local Option Sales Tax Fund.

- SAVE Fund — One percentage point of the State 6.0% sales/use tax rate is transferred to the SAVE Fund to be distributed to local school districts for infrastructure funding.
- Local Option Sales Tax — Amounts deposited into the Local Option Sales Tax Fund for distribution to cities and counties where the local option sales and services tax is in place. Most, but not all, local areas in Iowa currently have the local option sales and services tax in place.
- Local Option as a Statewide Sales Tax Rate — This column is the result of dividing the Local Option Sales Tax column by the State Sales/Use Tax column. This column shows that as of FY 2022, the local option tax is very close to a statewide 1.00% sales tax, and this leads to a conclusion that nearly all the revenue deposited to the State General Fund as sales/use tax is regarded as State sales tax and only a relatively small amount is regarded as State use tax where the local option sales and services tax would not apply.

Figure 1

Sales and Use Taxes				
Dollars in Millions				
	State Sales/Use Tax	SAVE Fund	Local Option Sales Tax	Local Option as a Statewide Sales Tax Rate
FY 2017	\$ 2,831.5	\$ 460.4	\$ 333.2	0.71%
FY 2018	2,949.6	480.8	320.2	0.65%
FY 2019	3,056.1	503.1	350.9	0.69%
FY 2020	3,182.3	507.6	443.0	0.84%
FY 2021	3,574.1	560.4	500.7	0.84%
FY 2022	3,798.7	571.3	606.3	0.96%

The Bill increases the current 6.0% State General Fund sales tax and use tax rates to 7.0% from January 1, 2025, through December 31, 2050. On January 1, 2051, the rates return to 6.0%. The Bill also eliminates the 1.0% local option sales and services tax. Effective tax rates by program funded under current law and as proposed in the Bill are listed in **Figure 2** (sales tax) and **Figure 3** (use tax). Abbreviations and terms used in the two figures include:

- CY — Calendar year.
- SAVE — Secure an Advanced Vision for Education.
- NRORF — Natural Resources and Outdoor Recreation Trust Fund.
- Local — Distributions to all cities and counties to replace the repealed local option sales and services tax.

Figure 2

State Sales Tax Effective Rates					
Distribution by Program					
<u>Time Period</u>	<u>State Sales Tax Rate</u>	<u>Sales Tax Rate to SAVE</u>	<u>Sales Tax Rate to NRORF</u>	<u>Sales Tax Rate to Local</u>	<u>Sales Tax Rate to General Fund</u>
Current Law	6.000%	1.000%	0.000%	0.000%	5.000%
CY 25 - CY 27	7.000%	1.000%	0.375%	1.400%	4.225%
CY 28	7.000%	1.000%	0.375%	1.350%	4.275%
CY 29	7.000%	1.000%	0.375%	1.300%	4.325%
CY 30 - CY 43	7.000%	1.000%	0.375%	1.250%	4.375%
CY 44 - CY 50	7.000%	1.000%	0.375%	1.250%	4.375%
CY 51 and After	6.000%	0.000%	0.375%	1.250%	4.375%

Figure 3

State Use Tax Effective Rates					
Distribution by Program					
<u>Time Period</u>	<u>State Use Tax Rates</u>	<u>Use Tax Rate to SAVE</u>	<u>Use Tax Rate to NRORTF</u>	<u>Use Tax Rate to Local</u>	<u>Use Tax Rate to General Fund</u>
Current Law	6.000%	1.000%	0.000%	0.000%	5.000%
CY 25 - CY 27	7.000%	1.000%	0.000%	1.000%	5.000%
CY 28	7.000%	1.000%	0.000%	1.000%	5.000%
CY 29	7.000%	1.000%	0.000%	1.000%	5.000%
CY 30 - CY 43	7.000%	1.000%	0.000%	1.000%	5.000%
CY 44 - CY 50	7.000%	1.000%	0.000%	0.000%	6.000%
CY 51 and After	6.000%	1.000%	0.000%	0.000%	5.000%

Divisions I and III Assumptions and Fiscal Impact

Revenue projections for the various programs funded under current law and under the Bill are based on the following assumptions:

- The impact of the changes in the Bill begins in mid-FY 2025. With the changes effective January 1, 2025, the changes impact the second half of FY 2025.
- The level of retail sales subject to the sales/use tax in FY 2025 is estimated by dividing the amount of sales/use tax revenue projected by the Revenue Estimating Conference for cash fiscal year 2024 (\$3,924.7 million) by the current State tax rate (6.0%). This FY 2024 result is then increased by 3.5% and used as the FY 2025 estimate of retail sales subject to either the State sales tax or the State use tax during FY 2025.
- Retail sales subject to the State sales/use tax for fiscal years after FY 2025 are assumed to increase 3.5% annually.
- For all years, the level of retail sales subject to sales/use tax is assumed to be the same under current law and under the Bill.
- Based on the information provided in **Figure 1**, it is assumed that a significant majority of sales/use tax revenue deposited to the State General Fund under current law is generated through the State sales tax. For FY 2023 and future fiscal years, 95.0% of all combined sales and use tax revenue is assumed to be generated through the State sales tax.
- The annual amount of sales/use tax refunded each year is a small percentage of gross sales/use tax. For simplification, sales and use tax refunds are ignored in the calculations.

Figure 4 provides the estimated revenue distributed to each program financed through State and local sales/use tax under current law (**Part I**), under the Bill (**Part II**), and the fiscal impact of Divisions I and III of the Bill (**Part III**). Notes for interpreting **Figure 4** include the following:

- **SAVE Fund** — Secure an Advanced Vision for Education Fund (school infrastructure funding).
- **Sales Tax to Locals and Local Supplement Fund** — Funding under the Bill to replace and enhance funding that comes from the local option sales and services tax.
- **Natural Resources Fund** — The NRORT Fund was created in Iowa Code section [461.31](#). Changes to the distribution of moneys deposited to that Fund are contained in **Division VIII** of the Bill.

Figure 4

Part I — State and Local Sales/Use Tax Projection — Current Law							
Program	In Millions						
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
State General Fund	\$ 2,970.6	\$ 3,268.9	\$ 3,385.1	\$ 3,503.5	\$ 3,626.2	\$ 3,753.1	\$ 3,884.4
SAVE Fund	749.7	655.8	677.0	700.7	725.2	750.6	776.9
Local Option Tax	589.0	621.4	643.2	665.7	689.0	713.1	738.0
Total Sales/Use	\$ 4,309.3	\$ 4,546.1	\$ 4,705.3	\$ 4,869.9	\$ 5,040.4	\$ 5,216.8	\$ 5,399.3

Part II — State and Local Sales/Use Tax Projection — Proposed Law							
Program	In Millions						
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
State General Fund	\$ 2,970.6	\$ 3,268.9	\$ 3,135.9	\$ 2,987.6	\$ 3,092.2	\$ 3,218.3	\$ 3,367.8
SAVE Fund	749.7	655.8	677.0	700.7	725.2	750.6	776.9
Sales Tax To Locals	589.0	621.4	771.8	931.9	964.6	980.5	977.9
Local Supplement Fund	0.0	0.0	16.9	35.0	36.3	37.5	38.8
Natural Resources Fund	0.0	0.0	120.6	249.6	258.4	267.4	276.8
Total Sales/Use	\$ 4,309.3	\$ 4,546.1	\$ 4,722.2	\$ 4,904.8	\$ 5,076.7	\$ 5,254.3	\$ 5,438.2

Part III — State and Local Sales/Use Tax Projection — Difference							
Program	In Millions						
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
State General Fund	\$ 0.0	\$ 0.0	\$ -249.2	\$ -515.9	\$ -534.0	\$ -534.8	\$ -516.6
SAVE Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales Tax To Locals	0.0	0.0	128.6	266.2	275.6	267.4	239.9
Local Supplement Fund	0.0	0.0	16.9	35.0	36.3	37.5	38.8
Natural Resources Fund	0.0	0.0	120.6	249.6	258.4	267.4	276.8
Total Sales/Use	\$ 0.0	\$ 0.0	\$ 16.9	\$ 34.9	\$ 36.3	\$ 37.5	\$ 38.9

Division II — Water Service Tax

Division II Background and Description

The water service tax was created in 2018 Iowa Acts, chapter [1001](#), as a 6.0% tax on the sale or furnishing of water by a water utility to consumers or users. The tax is defined as an excise tax and not a sales or a use tax. Currently, 50.0% of the revenue derived from the tax is deposited to the [Water Quality Financial Assistance Fund \(WQFAF\)](#), and the remainder is deposited to the State General Fund. Iowa Code section [423G.7](#) provides for the automatic repeal of the water service tax on July 1, 2029, or when the State sales tax is increased, whichever occurs first.

The Division requires that all water service tax be deposited in the General Fund and eliminates the automatic repeal of the tax.

Division II Assumptions and Fiscal Impact

A total of \$34.0 million in water service tax revenue was received by the State in FY 2022, with \$17.0 million deposited to the WQFAF and \$17.0 million deposited to the State General Fund. The FY 2022 total is assumed to increase by 3.5% per year through FY 2029.

Increasing the State sales tax rate to 7.0% (**Division I** of the Bill), striking the automatic repeal of the water service tax and changing the destination of the tax will decrease WQFAF revenue and increase State General Fund revenue by the following estimated amounts:

- FY 2025 = \$9.4 million
- FY 2026 = \$19.5 million
- FY 2027 = \$20.2 million
- FY 2028 = \$21.6 million
- FY 2029 and after = \$44.8 million

Division IV — Homestead Property Tax Credit and Exemption

Division IV Background and Description

Iowa Code section [425.1](#) provides a property tax credit to benefit the owner of a qualified homestead property. Through the credit, the State General Fund pays the annual property tax due on up to \$4,850 of a homestead's value. At the FY 2023 statewide average residential property tax rate of \$33.65 per \$1,000 of taxed value, the annual benefit to the homestead owner averages \$163. The statewide total number of qualified homestead credits for FY 2023 is 750,259 (includes disabled veteran credits described below). The homestead credits are paid to the local property tax system through transfers from the Homestead Tax Credit Fund. That fund receives an annual standing appropriation from the State General Fund. The portion of the FY 2023 General Fund appropriation that covers the regular homestead credit is estimated to be \$121.0 million.

Iowa Code section [425.15](#) provides a tax credit that covers the full property taxes owed on the homestead of a qualified disabled veteran. The same State General Fund appropriation that finances the regular homestead credit also finances this disabled veteran credit. The portion of the FY 2023 General Fund appropriation that covers the disabled veteran tax credit is estimated to be \$25.7 million.

The Bill phases out the current regular homestead credit and phases in a replacement homestead exemption. After phase-in, the homestead exemption for property owners aged 65 and over will equal \$16,500 and will equal \$10,000 for all other qualified owners. The existing credit is eliminated and the transition to the new exemption is complete for taxes due in the fall of 2028 and the spring of 2029 (FY 2029).

The Bill also transitions the disabled veteran homestead credit to a homestead exemption. This transition is not phased in, but instead occurs in full for FY 2026.

The changes to the existing regular and disabled veteran homestead property tax credits will reduce and then eliminate the current State General Fund appropriation that finances the existing credits. The new homestead exemption will reduce local government property tax revenue. A portion of the reduction that is created by switching to an exemption will be backfilled through the State General Fund appropriation for school aid.

The Division also strikes a portion of Iowa Code section [25B.7](#), switching full funding of enacted property tax credits and exemptions, and also exempts the changes made in the Bill to the homestead credit from the application of Iowa Code section 25B.7.

The changes are effective for property taxes due in the fall of 2025 and the spring of 2026 (FY 2026).

Division IV Assumptions and Fiscal Impact

The projected tax and revenue implications of the change from a homestead credit to an enhanced homestead exemption are based on the following assumptions:

- There are 750,259 homestead credits claimed for FY 2023. Disabled veteran claims are assumed to equal 8,700, and claims for the regular homestead exemption are assumed to equal 741,559. Claim levels are assumed to remain static.
- Based on the FY 2023 average statewide property tax rate of \$33.65 for residential property, the regular homestead credit is assumed to equal \$163 under current law, and the average disabled veteran claim is assumed to equal \$2,961. The average disabled veteran

homestead is assumed to have a value subject to property tax of \$88,000. To simplify calculations, the same rate and value assumptions are used for future years.

- The disabled veteran homestead credit will switch to a disabled veteran homestead exemption for FY 2026. With the exception of the school finance \$5.40 basic levy, this will shift the cost of the program to local governments and away from the State General Fund for FY 2026 and after.
- The regular homestead credit will shift to a homestead exemption over the course of FY 2026 through FY 2029. With the exception of the school finance \$5.40 basic levy, this will shift the cost of the program to local governments and away from the State General Fund. The shift will occur in stages from FY 2026 to FY 2029.
- The percentage of the 741,559 regular homesteads that are owned by at least one owner aged 65 or older is not known. For this projection, it is assumed that 35.0% have an owner aged 65 or older, and that percentage is assumed for all years.

The changes to the existing homestead property tax credit will decrease property taxes owed by homestead owners, produce a net decrease in the annual General Fund appropriations to finance homestead property tax benefits, and decrease local government property tax revenue. The projected changes are displayed in **Figure 5**.

Figure 5

	Projected Change in Property Tax Owed, State Appropriations, and Local Government Property Tax Revenue			
	In Millions			
	Change in Property Tax Owed by Homestead Owners	Change in State General Fund School Aid Approp.	Change in State General Fund Homestead Approp.	Change in Local Government Property Tax Revenue
FY 2026	\$ -46.3	\$ 16.4	\$ -56.0	\$ -85.9
FY 2027	-92.8	28.7	-86.1	-150.2
FY 2028	-139.2	41.0	-116.3	-214.5
FY 2029	-185.3	53.3	-146.8	-278.8
FY 2030	-185.3	53.3	-146.8	-278.8

Division V — Elderly Property Tax Credit

Division V Background and Description

Iowa Code section [425.16](#) provides a tax credit, or alternatively a rent reimbursement, for low-income persons who are disabled and/or are 65 years of age or older. Calculation of the credit for an individual homeowner or renter is provided in Iowa Code section [425.23](#). A portion of this property tax credit program further limits property taxes for qualified low-income homeowners aged 70 or older.

The Bill modifies the low-income portion of the property tax credit for those aged 70 or older to account for the application of any homestead tax credit within the tax credit calculation.

Division V Assumptions and Fiscal Impact

The changes related to the calculation of the potential property tax credit for low-income taxpayers aged 70 or older are projected to have a modest negative impact on local government property tax revenue.

Division VI — Military Service Property Tax Exemption and Credit

Division VI Background and Description

Iowa Code section [426A.11](#) creates a Military Service Property Tax Exemption to benefit qualified former military personnel. For most beneficiaries, the exemption applies to \$1,852 of taxed value. A State standing unlimited appropriation is created in Iowa Code section [426A.2](#) that credits the local property tax system for \$6.92 per \$1,000 of property value exempted. The State General Fund school aid appropriation also reimburses the local school finance system for an additional \$5.40 per \$1,000 of exempted value.

The Bill increases the exempt value in two stages. For FY 2026, the exempt value is increased to \$2,055. For FY 2027 and after, the exempt value is \$4,000. The Bill also reduces and then eliminates State funding for a portion of the exemption. For FY 2026, the \$6.92 per \$1,000 of otherwise taxable value is limited to \$945 of value. Effective for FY 2027 and after, the Bill eliminates the annual appropriation to specifically fund a portion of the exemption.

The Bill also strikes a portion of Iowa Code section 25B.7, which requires full funding of enacted property tax credits and exemptions, and also exempts the changes made in the Bill to the Military Service Property Tax Exemption and Credit from the application of Iowa Code section 25B.7.

The changes in this Division are effective for FY 2026 and after.

Division VI Assumptions and Fiscal Impact

The projected tax and revenue implications of the Bill's increase in the Military Service Property Tax Exemption and the elimination of the State appropriation to fund a portion of that credit is based on the following assumptions:

- Based on Department of Management property tax value and rate files, for FY 2023, there are an estimated 121,624 beneficiaries of the Military Service Property Tax Exemption. Additionally, the annual number of beneficiaries has decreased at an average rate of 5,258 per year for the past four years. That rate of decrease is assumed to continue from the FY 2023 number of beneficiaries through FY 2028.
- The FY 2023 statewide average property tax rate for residential property is \$33.65. This rate is assumed for all years.
- Increasing the exempt amount while decreasing the State reimbursement for program claims will decrease property taxes owed by program claimants, decrease and then eliminate the State Military Service Property Tax Exemption Credit appropriation, increase the State appropriation for school aid, and decrease local government property tax revenue. The fiscal impact on each of these items is displayed in **Figure 6**.

Figure 6

Projected Change in Property Tax Owed, State Appropriations, and Local Government Property Tax Revenue				
In Millions				
	Property Tax Change	Change in General Fund Credit Appropriation	Change in General Fund School Aid Appropriation	Change in Local Property Tax Revenue
FY 2026	\$ -0.7	\$ -0.7	\$ 0.1	\$ -1.3
FY 2027	-7.2	-1.3	1.2	-7.4
FY 2028	-6.8	-1.2	1.1	-7.0

Division VII — Taxable Value Decrease for Pipeline and Other Business Property

Division VII Background and Description

Real property is taxed on a percentage of its value as determined through an assessment process. The percentage of assessed value that is subject to taxation is referred to as a rollback. Certain property classes are assigned a static rollback, and other classes have a rollback calculated annually by formula. For assessment year 2022 (taxes due during FY 2024), the rollback percentages by property class are as follows:

- Commercial, industrial, and railroad — Fixed at 90.0000% of assessed value.
- Agricultural — Variable at 91.6430% of assessed value (with the assessed value determined through a productivity formula).
- Residential — Variable at 54.6501% of assessed value.
- Rate-regulated gas, electric, and water utilities — Subject to a different limitation system.
- Other utility property — Variable at 100.0000% of assessed value. A small rollback for utility property has occurred 4 times in the past 40 years.

The first \$150,000 of a commercial, industrial, or railroad property is taxed at the rollback percentage for residential property. Any assessed value above \$150,000 is taxed at 90.0000% of the value above \$150,000. Pipeline property is considered part of other utility property and as such is currently taxed at 100.0000% of its assessed value.

The Bill lowers the rollback percentage for pipeline property to 90.0000% over two years and lowers the rollback for commercial, industrial, and railroad property above \$150,000 to 80.0000% over two years. Decreases in the rollback reduce the taxable value of a class of property and reduce property taxes owed. Through the action of Iowa’s school aid formula, decreases in the rollback also increase the annual appropriation from the State General Fund to support local schools.

The changes are first effective for FY 2026 property taxes.

Division VII Assumptions and Fiscal Impact

The fiscal impact of the rollback enhancements for pipelines and commercial, residential, and railroad property classes was estimated using the following assumptions (see **Figure 7**):

- The combined assessed value of pipeline, commercial, industrial, and railroad property for FY 2024 is \$64,445.9 million.
- The average annual increase in total assessed value of each of the four property classes from FY 2017 through FY 2023 was determined through assessment records. For each of

the four property classes, the average annual increase for the class was applied for two years to produce an estimate of the statewide assessed value of that class for FY 2026. The combined assessed value for the four classes is estimated to be \$72,453.7 million.

- To simplify calculations, the projected FY 2026 levels of assessed value are also used for the FY 2027 calculation.
- For existing law, the current rollback percentage for each class is applied to the assessed value to produce a preliminary taxable value.
- For commercial, industrial, and railroad property, the preliminary taxable value is further adjusted for the taxable value reduction that is the result of the current Iowa law provision that taxes the first \$150,000 of the taxable value of a property at the residential rollback percentage.
- To compute the estimated property taxes owed for each property class, the FY 2023 statewide average property tax rate for each class was calculated and used as the property tax rate for FY 2026 and FY 2027.
- The property taxes owed by the four property classes under current law are estimated to be \$2,146.1 million.

Figure 7

Projected Property Taxes Under Current Law						
Dollars in Millions						
Property Class	Assessed Value	Rollback	Adjustment for \$150,000 *	Taxed Value	Tax Rate	Current Law Taxes
Commercial	\$ 50,559.9	90.0000%	\$ -3,027.3	\$ 42,476.6	\$ 36.99	\$ 1,571.2
Industrial	14,750.2	90.0000%	-290.6	12,984.6	30.44	395.3
Railroad	3,332.3	90.0000%	-12.4	2,986.6	27.82	83.1
Pipeline	3,811.3	100.0000%	0.0	3,811.3	25.33	96.5
Total	\$ 72,453.7		\$ -3,330.3	\$ 62,259.2		\$ 2,146.1

* The first \$150,000 of a commercial, industrial, or railroad property's value is taxed at the residential rollback.

For the proposed law, the same estimating process was used with only the reduced rollback percentages provided in the Bill changed within the calculation. The estimated property taxes owed by class for FY 2026 and FY 2027 under both current law and the proposed law are displayed in **Figure 8**. The resulting property tax reduction for each fiscal year is displayed in the shaded columns. The property tax reduction continues in future fiscal years, increasing at a rate similar to the annual rate of increase in assessed value for each class.

Figure 8

Projected Property Tax Change Under the Division VII — FY 2026 and FY 2027					
Dollars in Millions					
Property Class	Current Law Property Tax FY 2026	Proposed Law Property Tax FY 2026	Property Tax Change FY 2026	Proposed Law Property Tax FY 2027	Property Tax Change FY 2027
Commercial	\$ 1,571.2	\$ 1,477.7	\$ -93.5	\$ 1,384.2	\$ -187.0
Industrial	395.3	372.8	-22.5	350.4	-44.9
Railroad	83.1	78.5	-4.6	73.8	-9.3
Pipeline	96.5	91.7	-4.8	86.9	-9.6
Total	\$ 2,146.1	\$ 2,020.7	\$ -125.4	\$ 1,895.3	\$ -250.8

The projected reduction in property taxes for the four property classes has two impacts on government finance. First, the reduction in taxable value will automatically increase the State General Fund appropriation for schools by an amount equal to \$5.40 per \$1,000 of reduced value. Second, local government property tax revenue will be reduced by the amount of the reduction in property taxes owed that is not covered by the State General Fund appropriation for schools. The changes in government finance for FY 2026, FY 2027, and beyond are projected to be as follows:

- FY 2026 — A \$19.6 million increase in the State General Fund appropriation for schools and a \$105.8 million decrease in local government property tax revenue.
- FY 2027 — A \$39.2 million increase in the State General Fund appropriation for schools and a \$211.6 million decrease in local government property tax revenue.
- Fiscal years beyond FY 2027 — The appropriation increase and property tax revenue decrease continue, growing by the percentage increase in assessed value for the four property classes.

Division VIII — Natural Resource and Outdoor Recreation Trust Fund

Division VIII Background and Description

On November 2, 2010, Iowa voters approved an amendment¹ to the Iowa Constitution that provided for the establishment of a Natural Resources and Outdoor Recreation Trust Fund (Trust Fund). As provided in the amendment, no revenue is to be credited to the Trust Fund until the sales tax rate is raised above the level established at the time of the adoption of the amendment. The Bill increases the sales tax rate to 7.0%, which will trigger the funding of the Trust Fund. The funding requirements only apply to the revenue raised by three-eighths of the 1.0% increase in the sales tax rate, so the remaining five-eighths of the 1.0% increase in the sales tax rate and the full 1.0% increase in the use tax rate are not required to trigger the funding of the Trust Fund.

The Trust Fund is created in Iowa Code chapter [461](#) for the purpose of implementing Article VII, section 10, of the Constitution of Iowa. The Trust Fund was enacted in 2010 Iowa Acts, chapter [1158 \(SF 2310 — Natural Resources and Outdoor Recreation Trust Fund Act\)](#). The Trust Fund primarily receives sales tax revenue, as provided in the Constitution, but may also receive any additional funding as provided by law. Currently, the Trust Fund is partitioned to seven separate accounts through specified percentages of the revenue stream. The seven account partitions sum to 100.0% of the available revenue. The Trust Fund retains interest earnings, and any unencumbered balance at the end of a fiscal year does not revert to any other fund.

Natural Resources and Outdoor Recreation Trust Fund

The Bill makes the following changes to the Trust Fund:

- Establishes a Legislative Natural Resources and Outdoor Recreation Trust Fund Review Committee as a committee of the Legislative Council. The Committee is required to meet in calendar years 2030, 2040, and 2050. The Committee is required to review the operation and management of the Trust Fund and its various accounts and report the Committee's considerations and recommendations to the Council.
- Adds definitions of the following terms:
 - [Iowa Nutrient Reduction Strategy](#)
 - Nonpoint source
 - Point source
 - Public use area

¹ The text of the amendment is included at the end of this document.

- Water trail
- Alters the definition of the term “recreational purpose” by doing the following:
 - Restricting the definition to only the items listed in the definition. Under current law, the definition “includes” the items listed.
 - Adding biking, recreational shooting, archery, and using land or water trails to the list of activities included in the definition.
 - Removing the term “other summer and winter sports” from the definition.
- Allows the use of up to 5.0% of the financial resources of the Trust Fund revenue allocated to an account for administration.
- Assigns administration of the Trust Fund to the Department of Management and makes that Department responsible for the annual report to the Governor and General Assembly. The Bill requires that the annual report includes an evaluation of how the Trust Fund has been used to achieve the goals of the Iowa Nutrient Reduction Strategy.
- Requires departments to prioritize expenditures that further the goals of the Iowa Nutrient Reduction Strategy and allows funding to be provided for expenditures on projects having primarily a recreational purpose only in cooperation with the Economic Development Authority.
- Requires funding decisions for initiatives supporting public use areas to prioritize the improvement of existing public use areas.
- Requires sponsors of public trail initiatives to demonstrate how the trail is to be maintained by other sources of revenue.
- Prohibits the use of the Trust Fund to fund projects that establish, improve, or expand a baseball or softball diamond, tennis court, golf course, swimming pool, or other group or organized sport facility.
- Prohibits the use of the Trust Fund to support projects that require the exercising of the power of eminent domain.
- Allows departments to transfer funds between the various accounts of the Trust Fund in specified circumstances.
- Allows the Legislature to allocate Trust Fund moneys to the various accounts of the Trust Fund through annual legislation, notwithstanding the allocation percentages in the Iowa Code.
- Changes are effective January 1, 2025, and Iowa Code chapter [461](#) establishing the Trust Fund is repealed December 31, 2051.

Natural Resources Account

The Bill does the following:

- Changes the name of the Natural Resources Account to the Natural Resources Trust Account.
- Reduces the percentage of Trust Fund revenue that is dedicated to this Account from 23.0% to 18.0%.
- Adds State park management and the construction or improvement of facilities as allowed uses of Account funds.
- Adds the costs associated with roads on State-owned lands under the jurisdiction of the Department of Natural Resources (DNR) as an allowed use of Account funds (the Bill removes DNR roads from access to Road Use Tax Fund moneys for road construction, maintenance, and repair).
- Removes the improvement of water trails as an allowed use of Account funds.
- Prioritizes initiatives supporting maintenance, preservation, or restoration of land over initiatives that support the purchase or acquisition of land.

- Requires that the DNR develop an assessment mechanism to be used in the approval process for any Account expenditure that requires the purchase of land and requires that the DNR develop an index that justifies the removal of land from private ownership and use.
- Removes a requirement that the DNR is to consider its comprehensive plan (Iowa Code section [456A.31](#)) when making Account funding decisions.

Soil Conservation and Water Protection Account

The Bill does the following:

- Changes the name to the Soil Conservation and Nonpoint Source Water Protection Trust Account.
- Increases the percentage of Trust Fund revenue that is dedicated to this Account from 20.0% to 34.0%.
- Allocates 47.0% of the financial resources of the Account to support the following:
 - The Water Quality Agriculture Infrastructure Programs created in Iowa Code section [466B.43](#). The Programs provide cost-share funding to agricultural landowners where infrastructure projects are intended to capture or filter nutrients, associated contaminants, and sediment. The Department of Agriculture and Land Stewardship (DALs) may use up to 4.0% of the funds distributed to the Water Quality Agricultural Infrastructure Programs for administration.
 - The Water Quality Urban Infrastructure Program created in Iowa Code section [466B.44](#). The purpose of the Program is to support watershed projects and advance implementation of the Iowa Nutrient Reduction Strategy. Program support may include demonstration projects that decrease erosion, precipitation-induced surface runoff, and storm water discharges and that increase water infiltration rates. The Program provides financial assistance on a cost-share basis or through cooperative agreements with watershed projects funded through Iowa Code section [466B.199](#) (Water Resource Restoration Sponsor Program). The DALs may use up to 4.0% of the funds distributed to the Water Quality Urban Infrastructure Program for administration.
- Allocates the remainder (53.0%) of the financial resources of the Account to support the following initiatives:
 - Soil conservation and watershed protection.
 - The conservation of highly erodible land.
 - Soil conservation or crop management practices used on land producing biomass for biorefineries.
- Permits unencumbered or unobligated funds from the 53.0% Account allocation to be transferred to support the purposes of the 47.0% Account allocation.

Watershed Protection Account

The Bill does the following:

- Changes the name of the Watershed Protection Account to the Water Protection Trust Account.
- Increases the percentage of Trust Fund revenue that is dedicated to this Account from 14.0% to 15.0%.
- Directs 47.0% of the Account's financial resources to the Water Quality Financial Assistance Fund (WQFAF) (Iowa Code section [16.134A](#)). The WQFAF is allocated by percentage as follows:
 - 40.0% to the Wastewater and Drinking Water Treatment Financial Assistance Program (Iowa Code section [16.134](#)). Financial assistance under this Program is to be used to install or upgrade wastewater treatment facilities and systems and drinking water treatment facilities and systems, including source water protection projects, and for

- engineering or technical assistance for facility planning and design. The Iowa Finance Authority may use up to 1.0% of the funds distributed to the Program for administration.
- 45.0% to the Water Quality Financing Program Fund (Iowa Code section [16.153](#)). The Fund is administered by the Iowa Finance Authority as a revolving fund. The Fund provides financial assistance, including loans, forgivable loans, and grants, to eligible entities. The Fund is required to be administered in such a manner as to provide a permanent source of water quality project financial assistance to eligible entities. The Authority may use up to 1.0% of the funds distributed to the fund for administration.
 - 15.0% to the Water Quality Urban Infrastructure Program (Iowa Code section [466B.44](#)) (see Program description above).
 - Directs 26.5% of the Account's financial resources to support DNR water quality resource projects as follows:
 - Water quality resource projects through the provision of financial assistance to communities for watersheds, including the Water Resource Restoration Sponsor Program (Iowa Code section [455B.199](#)).
 - Regional and community watershed assessment, planning, and prioritization efforts, including as provided in Iowa Code chapter [466B](#) (Surface Water Protection, Flood Mitigation, and Watershed Management).
 - Water quality protection programs provided in Iowa Code section [466.7](#) that relate to the administration of watershed geographic information systems, water quality monitoring, floodplain permitting, and flood protection education.
 - Directs 26.5% of the Account's financial resources to the DALs for water protection projects and practices as described in the Iowa Nutrient Reduction Strategy, including support to the Conservation Buffer Strip Program (Iowa Code section [466.4](#)) and the Conservation Reserve Enhancement Program (Iowa Code section [466.5](#)).
 - Permits unencumbered or unobligated funds from the two 26.5% Account allocations to be transferred to the WQFAF (Iowa Code section 16.134A).

Iowa Resources Enhancement and Protection (REAP) Fund Allocation

The Bill does the following:

- Decreases the percentage of Trust Fund revenue that is dedicated to the REAP Fund (Iowa Code section [455A.18](#)) from 13.0% to 10.0%. The allocation of moneys within the REAP Fund is provided in Iowa Code section [455A.19](#). The first \$350,000 is allocated annually to the Conservation Education Program Board for the purposes specified in Iowa Code section [455A.21](#). One percent of REAP funds may be used for administration. The remaining funds are allocated to the following REAP purposes:
 - 28.0% to the Open Spaces Account.
 - 20.0% to the County Conservation Account.
 - 20.0% to the Soil and Water Enhancement Account.
 - 15.0% to the Parks and Open Spaces Account for cities.
 - 9.0% to the State Land Management Account.
 - 5.0% to the Historical Resource Grant and Loan Fund (Iowa Code section [303.16](#)).
 - 3.0% to the Living Roadway Trust Fund (Iowa Code section [314.21](#)).
- Repeals the annual \$20.0 million General Fund appropriation to REAP. This annual appropriation is scheduled to end after FY 2023 under current law.
- Repeals the Iowa Congress on Resources Enhancement and Protection and replaces it with regional meetings to be held every four years, with the first meeting to be held in 2024.
- Repeals the County Resource Enhancement Committee effective July 1, 2025.

Local Conservation Partnership Account

The Bill does the following:

- Changes the name of the Local Conservation Partnership Account to the Local Conservation Partnership Trust Account.
- Decreases the percentage of Trust Fund revenue that is dedicated to this Account from 13.0% to 9.0%.
- Adds a watershed management authority as an entity that is eligible to participate in projects financed through the Account.
- Adds the maintenance and improvement of forests as an eligible Account project.
- Removes water trails as an eligible Account project.
- Requires a minimum local cost-share match for projects financed through the Account. The minimum cost-share requirements are:²
 - 10.0% for communities located in a county with a population of 15,000 or less.
 - 25.0% for communities located in a county with a population between 15,001 and 100,000.
 - 75.0% percent for communities located in a county with a population of 100,000 or more.

Trails Account

The Bill does the following:

- Changes the name of the Trails Account to the Water and Land Trails Trust Account.
- Decreases the percentage of Trust Fund revenue that is dedicated to this Account from 10.0% to 4.0%.
- Requires the allocation of 50.0% of the Account's financial resources to land trails and 50.0% to water trails. Under current law, the Account is required to be used for land trails and may be used for water trails.
- Requires stream restoration to be a priority of the water trails portion of the Account.
- Allows the transfer of unencumbered or unobligated funds between the land trails and water trails portions of the Account.
- Allows the transfer of unencumbered or unobligated water trails funds to other Trust Fund accounts.

Lake Restoration Account

The Bill does the following:

- Changes the name of the Lake Restoration Account to the Lake and Stream Restoration Trust Account.
- Increases the percentage of Trust Fund revenue that is dedicated to this Account from 7.0% to 10.0%.
- Adds the stabilization and restoration of stream banks as an eligible Account project.
- Adds the furtherance of the goals of the Iowa Nutrient Reduction Strategy as a project prioritization factor for the Account.

Other Changes

Division VIII makes the following additional changes:

- Strikes Iowa Code section [8.57\(5\)\(f\)\(1\)\(c\)](#), which allocates \$15.0 million of wagering tax receipts per fiscal year through FY 2039 to the Water Quality Infrastructure Fund (WQFIF).
- Amends Iowa Code section [8.57B\(1\)](#) to remove references to wagering tax receipts and the water service tax as sources of revenue for the Water Quality Infrastructure Fund (WQFIF).
- Removes DNR facility roads from the list of allowed purposes of the Road Use Tax Fund Parks and Institutional Roads allocation (Iowa Code section [307.24\(5\)](#)). The 45.5% share

² Iowa currently has 48 counties with a population of 15,000 or less and 5 counties with a population greater than 100,000.

that currently goes to the DNR is reallocated in the Bill to the remaining seven institutions and agencies provided for in the apportionment of the allocation.

Division VIII Assumptions and Fiscal Impact

As provided in **Division I** of the Bill, increasing the sales tax rate on January 1, 2025, will trigger funding of the Trust Fund as required by the Iowa Constitution. Under current law, the Trust Fund has no annual revenue. The increase in the sales tax rate will generate revenue for the Trust Fund beginning January 1, 2025. The projected revenue increase is \$120.6 million for FY 2025 and \$249.6 million for the first full fiscal year (FY 2026). In addition to providing funding for the Trust Fund, the Bill changes the allocation percentages to the various accounts of the Trust Fund and also modifies the names of the accounts. **Figure 9** provides a five-year revenue and allocation projection for the Trust Fund. The top portion of **Figure 9** provides the allocation under the existing percentages, and the middle portion provides the allocations under the Bill. The bottom portion provides a difference calculation, with positive numbers reflecting additional funding above what would occur if the sales tax rate increase occurred under existing law. Note that the projections are based only on the sales tax revenue and do not include any interest or other revenue the Trust Fund might receive.

Figure 9

Natural Resources and Outdoor Recreation Trust Fund Allocations					
Under Current Law Allocations and Under the Bill					
In Millions					
Trust Fund Revenue from Sales Tax	\$ 120.6	\$ 249.6	\$ 258.4	\$ 267.4	\$ 276.8
<u>Allocations Under Current Law</u>					
<u>Account Name (Current Law)</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
Natural Resources Account	\$ 27.7	\$ 57.4	\$ 59.4	\$ 61.5	\$ 63.7
Soil Conservation and Water Protection Account	24.1	49.9	51.7	53.5	55.4
Watershed Protection Account	16.9	34.9	36.2	37.4	38.8
Iowa Resources Enhancement and Protection Fund	15.7	32.4	33.6	34.8	36.0
Local Conservation Partnership Account	15.7	32.4	33.6	34.8	36.0
Trails Account	12.1	25.0	25.8	26.7	27.7
Lake Restoration Account	8.4	17.5	18.1	18.7	19.4
Rounding Adjustment	0.0	0.1	0.0	0.0	-0.2
Total	\$ 120.6	\$ 249.6	\$ 258.4	\$ 267.4	\$ 276.8
<u>Allocations Under Bill</u>					
<u>Account Name (Amended)</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
Natural Resources Trust Account	\$ 21.7	\$ 44.9	\$ 46.5	\$ 48.1	\$ 49.8
Soil Conservation and Nonpoint Source Water Protection Trust Account	41.0	84.9	87.9	90.9	94.1
Watershed Protection Trust Account	18.1	37.4	38.8	40.1	41.5
Iowa Resources Enhancement and Protection Fund	12.1	25.0	25.8	26.7	27.7
Local Conservation Partnership Trust Account	10.9	22.5	23.3	24.1	24.9
Water and Land Trails Trust Account	4.8	10.0	10.3	10.7	11.1
Lake and Stream Restoration Trust Account	12.1	25.0	25.8	26.7	27.7
Rounding Adjustment	-0.1	-0.1	0.0	0.1	0.0
Total	\$ 120.6	\$ 249.6	\$ 258.4	\$ 267.4	\$ 276.8
<u>Revenue Differences Due to Allocation Changes</u>					
<u>Account Name (Amended)</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
Natural Resources Trust Account	\$ -6.0	\$ -12.5	\$ -12.9	\$ -13.4	\$ -13.9
Soil Conservation and Nonpoint Source Water Protection Trust Account	16.9	35.0	36.2	37.4	38.7
Watershed Protection Trust Account	1.2	2.5	2.6	2.7	2.7
Iowa Resources Enhancement and Protection Fund Allocation	-3.6	-7.4	-7.8	-8.1	-8.3
Local Conservation Partnership Trust Account	-4.8	-9.9	-10.3	-10.7	-11.1
Water and Land Trails Trust Account	-7.3	-15.0	-15.5	-16.0	-16.6
Lake and Stream Restoration Trust Account	3.7	7.5	7.7	8.0	8.3
Rounding Adjustment	-0.1	-0.2	0.0	0.1	0.2
Total	\$ -0.0	\$ -0.0	\$ -0.0	\$ 0.0	\$ -0.0

The Bill amends existing Trust Fund provisions to allow the relevant departments to expend up to 5.0% of Trust Fund allocations for administrative purposes. If fully utilized, the administrative expenditure would total approximately \$12.5 million per full fiscal year. Additionally, several of the programs funded by the Trust Fund have within them administrative expenditure permissions and limits.

Changes to the funding sources of the Water Quality Financial Assistance Fund (WQFAF) and the Water Quality Infrastructure Fund (WQIF) will reduce annual financial resources available to those funds by approximately \$20.0 million and \$15.0 million, respectively. As provided in Division II of the Bill, State General Fund revenue will increase due to the WQFAF change. The reduction in funding for the WQFAF will increase revenue available to the Rebuild Iowa Infrastructure Fund.

Removing the DNR from the list of agencies with access to the Road Use Tax Fund Parks and Institutional Roads allocation will reduce the funds available to the DNR by an estimated \$4.6 million per year. The amount will be reallocated to the roads of seven other agencies and institutions that currently share the allocation.

Division IX — Charitable Conservation Contribution Tax Credit Repeal

Division IX Background and Description

The [Charitable Conservation Contribution Tax Credit](#) (CCCTC) was created in 2008 Iowa Acts, chapter [1191](#). The CCCTC is available to taxpayers who donate a real property interest in property located in Iowa where the donation is to a qualified organization, for a conservation purpose, in perpetuity, and without conditions. Land valued at more than \$35.0 million was donated through the CCCTC during calendar years 2008 through 2018. From FY 2009 through FY 2022, CCTC redemptions totaled \$8.4 million (an average of \$600,000 per year). The credit is not refundable, but any unused credit may carry forward to future tax years.

The Bill ends availability of the CCCTC on January 1, 2025, for new donations. Credits earned for qualified donations made prior to that date and carryforward credits from previous donations are not impacted by the change and will remain available to the taxpayer.

Division IX Assumptions and Fiscal Impact

The following fiscal impact assumptions and estimate were developed by the Department of Revenue with modest Legislative Services Agency adjustments to the assumptions:

- The CCCTC average tax credit award level over the most recent three years was \$500,000 per year. This award level is assumed for all future years.
- The CCCTC is not transferable or refundable. The redemption of CCCTC awards occurs over a number of fiscal years. Once an award is received, redemptions are assumed to occur as follows:
 - Fiscal years 1 and 2 — 20.0% each year.
 - Fiscal years 3 through 5 — 15.0% each year.
 - Fiscal year 6 — 10.0%.
 - Fiscal year 7 — 5.0%.
- The redemption of tax credits that are not refundable decreases the amount of revenue generated through the local option income surtax for schools. Eliminating the CCCTC will reduce tax credit redemptions and thereby increase surtax revenue. The increase is assumed to equal 2.4% of the amount of the projected State individual income tax increase associated with elimination of the tax credit.

Based on the preceding assumptions, individual income deposited in the General Fund is projected to increase by the following amounts:

- FY 2026 = \$0.1 million
- FY 2027 = \$0.2 million
- FY 2028 = \$0.3 million
- FY 2029 = \$0.4 million
- FY 2030 = \$0.4 million
- FY 2031 and after = \$0.5 million

Revenue generated by the local option income surtax for schools is projected to increase by \$2,400 for FY 2006, reaching a projected \$12,000 for FY 2031 and succeeding fiscal years.

Division X — Urban Revitalization Property Tax Abatement Restrictions

Division X Background and Description

A property tax abatement exempts all or a portion of a property’s otherwise taxable value from property tax for a period of time. Iowa Code chapter 404 (Urban Revitalization) provides several exemption schedules for cities and counties to abate taxes on property that qualifies under programs established by a city or a county.

Abatements decrease property tax revenue available to cities, counties, schools, and other local governments. Also, the State General Fund appropriation for school aid backfills \$5.40 per \$1,000 of exempted value, so \$1.0 million in property tax abatements on property that would otherwise be taxed increases the State General Fund appropriation to school finance by \$5,400.

The Department of Revenue reports that \$2,390.7 million in taxable value is exempt through urban revitalization property tax abatements for FY 2023 (assessment year 2021). If the abated properties been taxed and not abated, an estimated \$82.0 million in property taxes would have been owed, and the State General Fund appropriation for school aid would have been \$12.9 million lower for FY 2023. The remaining \$69.1 million in reduced property taxes represents local government (city, county, schools, etc.) revenue (**Figure 10**).

Figure 10

Assessment Year 2021 Abatements by Property Class						
Value and tax revenue in millions of dollars. Rates in dollars per \$1,000						
Property Class	2021 Assessed Value	2021 Taxable Value	FY 2023 Average Tax Rate	Abated Property Tax	School \$5.40 Levy	Local Prop. Tax Revenue
Residential	\$ 1,725.7	\$ 974.9	\$ 33.65	\$ 32.8	\$ 5.3	\$ 27.5
Agricultural	2.6	2.4	24.50	0.1	0.0	0.1
Commercial	565.1	508.6	36.30	18.5	2.7	15.8
Industrial	491.8	442.6	30.44	13.5	2.4	11.1
Multiresidential	818.2	462.2	36.99	17.1	2.5	14.6
Total	\$ 3,603.4	\$ 2,390.7		\$ 82.0	\$ 12.9	\$ 69.1

The Division creates the following additional restrictions on new and existing abatement authority under Iowa Code chapter 404:

- Cities and counties may not provide commercial property abatements within new areas under Iowa Code chapter 404 unless the property owner enters into a written assessment

agreement. The same requirement is also added for new commercial property abatements within existing areas.

- Cities and counties are prohibited from offering residential property abatements within new areas and may not provide new residential property abatements within existing areas. The prohibition will also extend to properties that have previously been classified as multiresidential.
- The changes are effective July 1, 2024.

Division X Assumptions and Fiscal Impact

The requirement that commercial property owners enter into a property assessment agreement to receive a property tax abatement may reduce the number and amount of such abatements. The amount of reduction, if any, cannot be estimated at this time.

The prohibition on new residential (including multiresidential) property tax abatements will reduce the number and value of those abatements over time. Any reduction in the use of residential property tax abatements may increase local government revenue and decrease the annual State General Fund appropriation for school aid. The amount of reduction cannot be estimated at this time.

Division XI — Tax Increment Financing, Wind Conversion Property

Division XI Background and Description

The authority for cities and counties to create Tax Increment Financing (TIF) areas is provided in Iowa Code chapter [403](#) (Urban Renewal). TIF allows for the division of property tax revenue between the taxing authority that levies a tax and the taxing authority that creates a TIF area. Through TIF, nondebt payment property taxes collected on the portion of the property value referred to as the increment value is credited to the taxing authority that created the TIF and not the taxing authority that levied the tax.

Wind conversion property (turbine machines that turn wind energy into electrical energy) is classified as industrial property and often subject to a TIF division of revenue through a TIF created by the county in which the property is located. Iowa Code section [427B.26](#) allows a county board of supervisors to grant a special property valuation to wind conversion property.

The Bill provides that for wind conversion property subject to the special valuation provisions of Iowa Code section 427B.26, the school \$5.40 basic levy will not be subject to the TIF division of revenue but instead will be paid to the school district. The change is effective July 1, 2023, and applies to property taxes for FY 2026 and after.

Division XI Assumptions and Fiscal Impact

The Legislative Services Agency reviewed FY 2023 property taxing district records to identify wind conversion TIF increment areas within the State. The review identified TIF increment areas that were entirely composed of industrial property value and were located in the rural portions of a county, and at least one of the following two situations were identified for the taxing district:

- The title of the taxing district contained the term “wind” or “turbine.”
- The TIF increment value was \$18.0 million or more, and a map of the taxing district indicated that the property value contributing to the TIF was likely wind conversion property.

The review identified 80 TIF increment areas with a combined taxable value of \$886.8 million operating during FY 2023. The property tax paid to finance county TIFs by the owners of the identified wind conversion properties included a total of \$4.8 million that was generated through

the school finance basic levy (\$5.40). Excluding the school basic levy revenue from the TIF diversion will increase annual school district property tax revenue beginning with FY 2026 and decrease the annual appropriation from the State General Fund for school aid by an estimated \$4.8 million.

Division XII — City of Des Moines Transit System Funding

Division XII Background and Description

Current Iowa law allows cities to grant a franchise to an entity providing services such as electric light/power, heating, cable television, etc. and to add a franchise fee of up to 5.0% to the entity's customer billings to be collected as city revenue. Current law also allows a city that meets specific circumstances related to a judgement or court order to establish a franchise fee of up to 7.5% for up to seven years. The authority to establish a franchise rate above 5.0% is repealed under existing law on July 1, 2030.

Additionally, Iowa Code chapter [28M](#) allows a county with a population in excess of 175,000, along with participating cities and contiguous counties through an Iowa Code chapter [28E](#) agreement, to establish a regional transit district and levy a property tax not to exceed \$0.95 per \$1,000 of taxed value to finance a regional transit district.

The Bill eliminates the repeal date for the 7.5% special maximum franchise rate provision and modifies the authority so that the 7.5% rate is available to a city with a population exceeding 200,000. The revised authority allows for funds derived from the portion of a franchise rate above 5.0% to be used solely for the reduction of property tax levies associated with a transit system or to maintain the service levels of a transit system. The modified authority takes effect July 1, 2024.

Des Moines is the only Iowa city with a population in excess of 200,000. The city of Des Moines participates in the Des Moines Area Regional Transit Authority (DART). The FY 2023 property tax rate levied for DART on property within Des Moines is \$0.95 per \$1,000 of taxed value. The FY 2023 levy raised \$8.5 million for DART and \$1.1 million for City of Des Moines TIF projects. The FY 2023 Des Moines city budget indicates that FY 2021 utility franchise fee revenue collected by the city totaled \$14.4 million.

Division XII Assumptions and Fiscal Impact

The change to the maximum franchise rate that the City of Des Moines may add to utility bills has no identifiable fiscal impact on tax revenues. The change is optional for the city. If Des Moines implements a franchise rate higher than 5.0%, it may use the revenue to reduce DART property tax levies or maintain existing transit services or both.

Fiscal Impact Summary

Fiscal impacts of the Bill include changes to several State funds as well as local government finance.

State General Fund — The Bill impacts State General Fund revenue and State General Fund appropriations as shown in **Figure 11**.

State General Fund revenue impacts include:

- The increase in the State sales and use tax rates to 7.0% in combination with provisions that allocate State sales and use tax revenue to local governments, along with funding of the Natural Resources and Outdoor Recreation Trust Fund (Trust Fund).

- The change in the allocation of water service tax revenue.
- The repeal of the Charitable Conservation Contribution Tax Credit.

State General Fund appropriation impacts include:

- The two provisions that eliminate property tax credits.
- The reduction in the taxable value of pipeline, commercial, industrial, and railroad property.
- Exempting the school basic levy from the division of revenue associated with wind conversion property and Tax Increment Financing.

Figure 11

Projected General Fund Revenue Increases (+) and Decreases (-)						
In Millions						
Bill Divisions	Bill Revenue Item	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Div. I and III	Sales/Use Tax Changes *	\$ -232.3	\$ -481.0	\$ -497.7	\$ -497.3	\$ -477.7
Div. II	Water Service Tax	9.4	19.5	20.2	21.6	44.8
Div. IX	Charitable Cons. Cont. Tax Credit Ends	0.0	0.1	0.2	0.3	0.4
	Total Revenue	\$ -222.9	\$ -461.4	\$ -477.3	\$ -475.4	\$ -432.5

Projected General Fund Appropriation Increases (+) and Decreases (-)						
In Millions						
Bill Divisions	Bill Appropriation Item	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Div. IV	Homestead Credit Ends	\$ 0.0	\$ -56.0	\$ -86.1	\$ -116.3	\$ -146.8
Div. IV	Homestead Exemption School Aid	0.0	16.4	28.7	41.0	53.3
Div. VI	Military Service Credit Ends	0.0	-0.7	-1.3	-1.2	-1.2
Div. VI	Military Service Exemption School Aid	0.0	0.1	1.2	1.1	1.1
Div. VII	Business Rollbacks School Aid	0.0	19.6	39.2	40.6	42.0
Div. XI	Wind Conversion Property School Aid	0.0	-4.8	-4.8	-4.8	-4.8
	Total Revenue	\$ 0.0	\$ -25.4	\$ -23.1	\$ -39.6	\$ -56.4

* Sales/use tax changes include the sales/use tax rate increases, sales and use taxes to local governments, and transfers to the Natural Resources and Outdoor Recreation Trust Fund.

Secure an Advanced Vision for Education (SAVE) Fund — There is no fiscal impact to the SAVE program. The allocation of sales and use tax revenue to SAVE remains at one percentage point of each year’s State sales and use tax rates.

Natural Resources and Outdoor Recreation Trust Fund — The Trust Fund has not been financed since its creation in 2010. The Bill deposits an estimated \$120.6 million to the Trust Fund for FY 2025 and \$249.6 million for FY 2026. The annual amount of sales tax deposited in the Trust Fund is expected to increase with the rate of growth in the sales tax base.

Parks and Institutional Roads Allocation — The Bill removes the DNR from the list of agencies and institutions with roads funded through an allocation from the Road Use Tax Fund. This will reduce the resources available for park and other DNR roads by an estimated \$4.6 million per year, starting in FY 2025. The \$4.6 million will then be available each year to the remaining seven agencies eligible for funding under the program.

Water Quality Financial Assistance Fund (WQFAF) — The Bill repeals an annual allocation of water services tax revenue to the WQFAF beginning January 1, 2025. This is projected to decrease WQFAF revenue by the following estimated amounts:

- FY 2025 = \$9.4 million
- FY 2026 = \$19.5 million
- FY 2027 = \$20.2 million

- FY 2028 = \$21.6 million

The Bill adds the WQFAF as an allowed use of moneys within the Soil and Water Conservation and Nonpoint Source Water Protection Account of the Trust Fund.

Water Quality Infrastructure Fund (WQIF) — The Bill repeals an annual \$15.0 million allocation of wagering tax revenue to the WQIF beginning January 1, 2025. The repeal will reduce revenue to the WQIF by \$15.0 million per year from FY 2026 through FY 2039 and increase resources available to the Rebuild Iowa Infrastructure Fund by the same amount.

The Bill adds the WQIF as an allowed use of moneys within the Soil and Water Conservation and Nonpoint Source Water Protection Account of the Trust Fund.

Local Government Revenue — The Bill impacts local government revenue by:

- Allocating State sales tax revenue to cities and counties.
- Allocating State use tax revenue to a supplemental fund for cities and counties.
- Repealing the local option sales and services tax.
- Phasing out two property tax credits that are currently funded by State General Fund appropriations and replacing them with property tax exemptions that lower the property tax base available to local governments.

The provisions with a projected impact on local government revenue are presented in **Figure 12**.

Figure 12

Projected Local Government Revenue Increases (+) and Decreases (-)						
In Millions						
Bill						
Division	Bill Item	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Div. II	State Sales Tax to Locals	\$ 450.2	\$ 931.9	\$ 964.6	\$ 980.5	\$ 977.9
Div. II	State Use Tax to Locals	16.9	35.0	36.3	37.5	38.8
Div. II	Local Option Tax Repealed	-321.6	-665.7	-689.0	-713.1	-738.0
Div. IV	Homestead Exemption	0.0	-85.9	-150.2	-214.5	-278.8
Div. VI	Military Service Exemption	0.0	-1.3	-7.4	-7.0	-7.0
Div. VII	Business Rollbacks	0.0	-105.8	-211.6	-219.0	-226.7
	Total	\$ 145.5	\$ 108.2	\$ -57.3	\$ -135.6	\$ -233.8

Property tax abatements, exemptions, and increased rollbacks reduce the property taxes owed by the owners of the properties benefiting from the abatements, exemptions, and rollbacks. However, they do not fully reduce overall property taxes paid by all taxpayers or overall revenue collected by local governments. Some levies, such as much of school finance and local government debt levies, require a certain amount of revenue each year, and the property tax levy available to raise the revenue is not limited. Reduced taxable value available to local governments in these instances results in a higher property tax rate. For these types of situations, the revenue reductions projected for the homestead and military service exemption as well as the business rollbacks (**Figure 12**) are more of a tax shift to all property taxpayers and less of an actual revenue reduction for local governments.

Sources

State Accounting System
Department of Management property tax rate and value files
Department of Revenue
Revenue Estimating Conference
Des Moines city budget
Legislative Services Agency analysis

Text of Constitutional Amendment

A natural resources and outdoor recreation trust fund is created within the treasury for the purposes of protecting and enhancing water quality and natural areas in this state including parks, trails, and fish and wildlife habitat, and conserving agricultural soils in this state. Moneys in the fund shall be exclusively appropriated by law for these purposes.

The general assembly shall provide by law for the implementation of this section, including by providing for the administration of the fund and at least annual audits of the fund.

Except as otherwise provided in this section, the fund shall be annually credited with an amount equal to the amount generated by a sales tax rate of three-eighths of one percent as may be imposed upon the retail sales price of tangible personal property and the furnishing of enumerated services sold in this state.

No revenue shall be credited to the fund until the tax rate for the sales tax imposed upon the retail sales price of tangible personal property and the furnishing of enumerated services sold in this state in effect on the effective date of this section is increased. After such an increased tax rate becomes effective, an amount equal to the amount generated by the increase in the tax rate shall be annually credited to the fund, not to exceed an amount equal to the amount generated by a tax rate of three-eighths of one percent imposed upon the retail sales price of tangible personal property and the furnishing of enumerated services sold in this state.

/s/ Jennifer Acton

March 28, 2023

Doc ID 1370971

The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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