
FISCAL TOPICS

Fiscal Services Division

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Reinvestment Districts Sales Tax Funding

History and Purpose

The [Reinvestment District Program](#) was created in [2013](#). The Program provides a State funding source to finance economic development projects undertaken by local governments. The Program is funded by a diversion of revenue generated by the State sales tax and the State hotel and motel tax (the 5.0% sales tax that applies to the rental of hotel and motel rooms) from businesses located within an approved district. The Program is administered jointly by the Iowa Economic Development Authority (Authority) and the Department of Revenue (Department).

The diversion of State tax revenue is limited in total to \$200.0 million for the life of the Program, with \$100.0 million available for applications approved on or before July 1, 2018, and \$100.0 million for applications approved after July 1, 2020, but before July 1, 2025. Through the application and approval process, the Authority allocates the available sales tax diversions to the approved local governments. The initial \$100.0 million was allocated to the local governments listed in **Figure 1**. The commencement date listed in **Figure 1** is the first day for which taxed retail sales within a district may be subject to sales tax diversion.

Municipality	Approved Amount	District Name	Commencement Date
Coralville	\$ 12.0	Iowa River Landing District	7/1/2019
Des Moines	36.5	Convention Headquarters District	4/1/2018
Grinnell	6.9	Downtown and Grinnell College Campus District	1/1/2020
Mason City	9.1	Downtown District	1/1/2020
Muscatine	10.0	Hotel, Convention Center, and Parking District	7/1/2017
Sioux City	13.5	Convention Center Hotel District	10/1/2019
Waterloo	12.0	TechWorks District	7/1/2016
Total	\$ 100.0		

In 2021, the Authority preliminarily approved a total of \$100.0 million to six additional projects in six Iowa communities. The preliminary awards are listed in **Figure 2**. Three of the six projects have received final Authority approval. Three projects have not received final Authority approval and are listed in **Figure 2** as preliminary.

More Information

Iowa Reinvestment Districts: iowaeda.com/reinvestment-districts
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Figure 2
New and Preliminary Reinvestment Districts (2021/2022)
Dollars in Millions

Municipality	Approved Amount	District Name	Commencement Date
Ames	\$ 10.0	Lincoln Way, Aquatics Center, and Hotel District	Prelim.
Cedar Rapids	9.0	Cedar Rapids Central District	1/1/2025
Des Moines	23.5	Soccer Stadium, Entertainment, and Hotel District	Prelim.
Des Moines/Urbandale	26.5	Merle Hay District	10/1/2023
Fort Dodge	17.0	Corridor Plaza District	7/1/2023
Newton	14.0	Maytag Buildings Reinvestment District	Prelim.
Total	\$ 100.0		

Once an application is approved for final funding and established construction milestones have been met, the Department begins calculating the amount of sales tax revenue generated through new retail establishments and new retail lessors located within a district using the requirements established in Iowa Code section [15J.5](#):

- For districts established before July 1, 2020, an amount equal to 4.0% of sales subject to the State sales/use tax plus an amount equal to 5.0% of sales subject to the State hotel and motel tax is deposited to an account established for the pertinent district.
- For districts established on or after July 1, 2020, the 4.0% and 5.0% diversion calculations apply, but the diverted amounts are additionally calculated as increased sales above a base level established during the 12-month period prior to the establishment of the district.

In both versions of the calculation, no provision is made in the determination of the amount available to local governments for ordinary retail sales growth within the area. Once initiated, the diversion period is limited to a maximum of 20 years (or 25 years if extensions are granted by the Authority). The total amount diverted across all years to a specific district is limited to the amount established by the Authority, either through the initial approval process or through amendment. The total amount diverted either to a specific district or to all districts in a single fiscal year is not limited.

Diverted funds are available to the local governments for economic development project financing within the district and may only be used by the local government in accordance with the approved district plan. Local governments are permitted to issue bonds that will be repaid with the sales tax revenue made available under the Program.

Current Budget Impact

The Program is funded by diversions of State sales tax receipts. The diversions, dollar for dollar, reduce State General Fund revenue. The first sales tax diversion occurred in FY 2018 and the first transfer to local governments occurred in FY 2019. From FY 2018 through FY 2023, a total of \$10.8 million has been diverted from the State General Fund and transferred to seven local governments approved under the Reinvestment District Program. At the end of FY 2023, no money remained in the State Reinvestment District Fund. **Figure 3** provides the five-year history of diversions, transfers, and fund ending balances.

Figure 3

State Reinvestment District Fund

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Total
Beginning Balance	\$ 0	\$ 265,081	\$ 359,147	\$ 909,147	\$ 605,000	\$ 11,804	\$ 0
Sales Tax Revenue	\$ 265,081	\$ 1,457,368	\$ 2,422,453	\$ 872,222	\$ 2,430,239	\$ 3,362,512	\$ 10,809,875
Distributions:							
Des Moines	\$ 0	\$ 1,053,776	\$ 1,226,083	\$ 530,321	\$ 1,381,525	\$ 1,604,142	\$ 5,795,847
Coralville	0	0	174,875	181,801	615,269	624,374	1,596,319
Grinnell	0	0	42,250	31,158	111,491	100,172	285,071
Mason City	0	0	12,714	158,572	147,955	137,009	456,250
Muscatine	0	114,398	162,673	92,702	234,484	244,755	849,012
Sioux City	0	0	20,934	105,962	341,219	495,372	963,487
Waterloo	0	195,128	232,924	75,853	191,492	168,492	863,889
Total Distributions	\$ 0	\$ 1,363,302	\$ 1,872,453	\$ 1,176,369	\$ 3,023,435	\$ 3,374,316	\$ 10,809,875
Ending Balance	\$ 265,081	\$ 359,147	\$ 909,147	\$ 605,000	\$ 11,804	\$ 0	\$ 0

Although each approved district has an established maximum level of State funding and the Program in total has a \$200.0 million lifetime cap, the annual total amount diverted is not limited. Therefore, the annual fiscal impact of the Program on State General Fund revenue will increase in coming years.

Documents and Reports

The initial applications for the second round of funding, as well as 2022 annual reports from ongoing projects, are available from the [Authority](#). Application documents from the first round of funding are no longer available on the Authority website. The latest annual (2023) reports from ongoing projects were due to the Authority by October 1, 2023. As of the date of this **Fiscal Topic**, those reports have not been posted. Also, the Authority website provides access to the required Authority Board's 2022 Iowa Reinvestment District Program Annual Report but does not include the required 2023 edition of the report, which is due to the Governor and General Assembly by January 15, 2024.

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