



Iowa General Assembly

2003 Legal Updates

Legislative Services Agency – Legal Services Division

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Purpose. *Legal update briefings are prepared by the nonpartisan Legal Services Division of the Legislative Services Agency. A legal update briefing is intended to inform legislators, legislative staff, and other persons interested in legislative matters of recent court decisions, Attorney General Opinions, regulatory actions, federal actions, and other occurrences of a legal nature that may be pertinent to the General Assembly's consideration of a topic. Although a briefing may identify issues for consideration by the General Assembly, a briefing should not be interpreted as advocating any particular course of action.*

URBAN RENEWAL AREAS AND INDEBTEDNESS

Filed by the Iowa Supreme Court
June 11, 2003

Karen Fults and Wayne Siems vs. City of Coralville, No. 57/02-1857

<http://www.judicial.state.ia.us/supreme/opinions/20030611/02-1857.asp>

Overview. The Iowa Supreme Court affirmed a Johnson County District Court ruling that upheld the legality of the actions of the Coralville City Council in combining two noncontiguous urban renewal areas into one urban renewal area and that held that debt issued by the city for an urban renewal project does not constitute debt subject to the constitutional debt limitation.

Factual Background. The City of Coralville had created two urban renewal areas. At a later date, the city amended the urban renewal areas to include the Interstate 80 corridor as a connector between the two areas and combined the two areas into one urban renewal area. The city issued bonds and notes for an urban renewal project in the newly combined urban renewal area. The amount of the bonds and notes was \$33 million. The indebtedness was subject to a nonappropriation clause, i.e., the notes and bonds were contingent obligations subject to repayment only if the city would annually appropriate the funds necessary for repayment. The city already had outstanding indebtedness in the amount of \$39 million. The constitutional debt limitation for the city is \$50 million.

Issues.

1. Did the city council act arbitrarily, unreasonably, or capriciously when it combined the two urban renewal areas by means of a highway connector?
2. Did the city council exceed its constitutional debt limitation when it issued \$33 million in bonds and notes for the urban renewal project?

Analysis.

1. The Court ruled that the actions taken by the city in combining the two urban renewal areas by way of a highway connector were appropriate actions by the city to increase the viability of both areas and the proposed urban renewal project. The Court noted that chapter 403 authorized the city council to adopt an urban renewal plan based solely upon the existence of an economic development area and the city council's finding that an economic development area existed was reasonable. The Court stated that Iowa Code chapter 403 gave a municipality wide discretion to make the necessary findings that an area is appropriate for urban renewal. Because the city council followed the requirements of chapter 403 in designating the consolidated areas as an economic development area and because the appellants failed to show that the city's actions in designating the economic development area were arbitrary, capricious, or unreasonable, the Court declined to interfere with the city's decision. The Court noted that the record showed that it is not uncommon for a municipality to consolidate existing urban renewal areas nor is it unusual for a municipality to use a highway right-of-way to join urban renewal areas.
2. The Court ruled that the notes and bonds issued by the city for the urban renewal project did not constitute debt for purposes of the constitutional limitation on indebtedness of a municipality because there is no legally enforceable obligation to continue repayments in the future. The Court stated that debt subject to the constitutional limitation is that which a municipality obligates itself to pay without further action on the part of the city. The Court stated that the

repayment of debt that is not certain to take place is not subject to the constitutional debt limitation because the city cannot be held legally responsible for the debt for a year other than one in which funds for repayment have been appropriated. Therefore, the city's obligation is restricted to the fiscal year within which the city council appropriates money for repayment.

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