

REVENUE DEPARTMENT[701]

Regulatory Analysis

Notice of Intended Action to be published: Iowa Administrative Code 701—Chapter 274
“Local Option Sales Tax Urban Renewal Projects”

Iowa Code section(s) or chapter(s) authorizing rulemaking: 421.14 and 423B.7

State or federal law(s) implemented by the rulemaking: Iowa Code sections 423.2A, 423B.1, 423B.7 and 423B.10

Public Hearing

A public hearing at which persons may present their views orally or in writing will be held as follows:

October 25, 2023
9 a.m. to 12 noon

Via video/conference call
meet.google.com/cox-brcn-tok?hs=122&authuser=0

Public Comment

Any interested person may submit written or oral comments concerning this Regulatory Analysis. Written or oral comments in response to this Regulatory Analysis must be received by the Department of Revenue no later than 4:30 p.m. on the date of the public hearing. Comments should be directed to:

Alana Stamas
Department of Revenue
Hoover State Office Building
P.O. Box 10457
Des Moines, Iowa 50306-3457
Phone: 515.350.3932
Email: alana.stamas@iowa.gov

Purpose and Summary

The purpose of this proposed rulemaking is to readopt Chapter 274. The chapter provides the Department’s rules for administering the Local Option Sales Tax (LOST) Urban Renewal Projects. The rules provide explanations to local governments and the public about the process for the calculation, collection, and distribution of funds used for the projects as well as the information required of local governments to assist the Department in this process. The Department proposes revisions to the rules to remove portions that the Department has determined are unnecessary, obsolete, or duplicative of statutory language. The Department also renumbered some rules due to the other edits and for organizational reasons.

Analysis of Impact

1. Persons affected by the proposed rulemaking:

- Classes of persons that will bear the costs of the proposed rulemaking:

The proposed rulemaking does not create costs for any classes of persons beyond what is imposed by statute.

- Classes of persons that will benefit from the proposed rulemaking:

Taxpayers and local governments will benefit from the guidance about the requirements related to urban renewal projects in addition to the calculations and distributions made related to the funding of those projects. The rulemaking also provides clarification about the information needed by local governments to ensure the process of calculating and distributing the funding is accurate and efficient.

2. Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:

- Quantitative description of impact:

There is no economic impact of the proposed rulemaking beyond what is provided for in statute. If local governments do not understand the calculation process, they may not provide the needed information and affect the accuracy of the calculations.

- Qualitative description of impact:

The proposed rulemaking reduces uncertainty about what elements make up the calculation process for the funding of urban renewal projects. The failure to adopt them would lead to confusion and potential errors in calculations, which could affect the amount of funding distributed to those projects.

3. Costs to the State:

- Implementation and enforcement costs borne by the agency or any other agency:

There are no costs to the Department beyond what is otherwise required in statute to administer the program.

- Anticipated effect on state revenues:

There is no anticipated effect on state revenues.

4. Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:

The cost of not proposing this rulemaking would be failing to follow statute and would risk confusion and inaccurate results. Further, the cost of inaction would be failing to amend the rules to remove unnecessary, obsolete, or duplicative statutory language, which could lead to confusion.

5. Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:

The proposed rulemaking is not costly or intrusive beyond what would be required to administer the statute. The benefit of the rulemaking is to provide explanations to local governments and the public about the process for the calculation, collection, and distribution of funds used for urban renewal projects, including providing the Department with needed information. Without these rules, there is risk of miscalculations, which could result in obtaining an inaccurate amount of funding for projects.

6. Alternative methods considered by the agency:

- Description of any alternative methods that were seriously considered by the agency:

Because the rules are required under statute, the Department did not consider proceeding without rules. The Department did think carefully about the language in the rules and eliminated language that was unnecessary, outdated, or duplicative of statutory language.

- Reasons why alternative methods were rejected in favor of the proposed rulemaking:

The Department must have rules on these processes, so no other alternatives are available. Without these rules, there is a risk of confusion by the public and local governments about the processes related to the funding of urban renewal projects.

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking's compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

This rulemaking does not have a substantial impact on small business. There are no special distinctions made based on a business's size. This rulemaking does not impose any requirements on businesses other than what is imposed by the underlying statute.

Text of Proposed Rulemaking

ITEM 1. Rescind 701—Chapter 274 and adopt the following **new** chapter in lieu thereof:

CHAPTER 274
LOCAL OPTION SALES TAX URBAN RENEWAL PROJECTS

701—274.1(423B) Purpose and definitions. This chapter sets forth the department of revenue’s rules on administration of the calculation, collection, and distribution of funds to be deposited for use to fund urban renewal projects as described in Iowa Code chapter 423B. For purposes of this chapter, “local sales and service tax” means the local tax imposed by a jurisdiction pursuant to an election authorized by Iowa Code section 423B.1 and described in Iowa Code section 423B.5. All other terms have the same meaning as defined in Iowa Code sections 423B.1 and 423B.10.

701—274.2(423B) Establishing sales and revenue growth. For purposes of establishing the sales amount in the base year and the revenue growth in subsequent fiscal years, the department will calculate sales as described in Iowa Code section 423B.10(3).

701—274.3(423B) Requirements for cities adopting an ordinance.

274.3(1) Within at least 90 days following the adoption of an ordinance, an eligible city must notify the director of the department of revenue of its intent to pursue funding for an urban renewal project based upon the increase in local sales and services tax revenue. The notification must include the following information:

- a.* A copy of the resolution of the board of supervisors from each county in the urban renewal area from which local sales and services tax revenues are to be collected approving the collection and use of local sales and services tax;
- b.* A copy of the urban renewal plan and the resolution adopting the city’s urban renewal plan;
- c.* A copy of the adopted ordinance, including:
 - (1) The current and original, if applicable, purpose or purposes for which the local option sales and services tax was enacted; and
 - (2) The amount and proportion of revenue that will be redistributed from each current revenue purpose to fund urban renewal within the urban renewal area;
- d.* The legal description of the urban renewal area covered by the ordinance;
- e.* A map showing the geographic boundaries of the urban renewal area; and
- f.* A geographic information system boundary file, if available, showing the geographic boundaries of the urban renewal area.

274.3(2) Each urban renewal area must have its own separate ordinance, and the department shall be notified separately for each urban renewal area. Notification shall be mailed or otherwise submitted to: Director, Iowa Department of Revenue, Hoover State Office Building, 1305 E. Walnut Street, Des Moines, Iowa 50319.

274.3(3) Each urban renewal area must have its own separate resolution of the board of supervisors from each county from which local option sales and services tax revenues will be collected and used for urban renewal projects located within the urban renewal area.

701—274.4(423B) Identification of retail establishments. The eligible city shall assist the department of revenue in identifying retail establishments in the urban renewal area that are collecting the local sales and services tax. The department of revenue will identify sales tax permit holders within the urban renewal area using the geographic information system boundary file, if available, provided to the department. If no boundary file is provided, the department will rely upon the map submitted by the eligible city. If any of the urban renewal area boundaries submitted are street centerlines, the information provided to the department shall indicate whether only retail establishments within the bounded area should be considered part of the urban renewal area, or if in addition to the retail establishments within the bounded area, retail establishments immediately adjacent to the bounded area should also be included.

701—274.5(423B) Calculation of base year taxable sales amount. The calculation of the base year taxable sales amount is as follows:

274.5(1) The base year taxable sales and services amount will be the total taxable sales and services subject to the local sales and services tax that are made by retail establishments within the urban renewal area during the base year.

274.5(2) Taxable sales of tangible personal property and services that are subject to the local sales and services tax that are made by retail establishments or service providers located within the urban renewal area include only those sales that are sourced to the county in which the urban renewal area is located.

274.5(3) Those sales made by retail establishments or service providers located within the urban renewal area that are sourced outside of the county are not subject to the local sales and services tax. For sourcing rules, more information can be found in Iowa Code section 423.15 and 701—Chapter 205.

701—274.6(423B) Determination of tax growth increment amount. The local sales and services tax growth increment amount for the urban renewal area will be computed for each fiscal year following the base year. The annual local option sales and services tax growth increment amount is equal to the current year taxable sales and services subject to the local sales and services tax that are made by retail establishments located in the urban renewal area minus the corresponding base year taxable sales and services amount for the urban renewal area multiplied by the current local sales and services tax rate applicable to the jurisdiction.

701—274.7(423B) Distribution of tax base and growth increment amounts. The revenues from the local sales and services tax growth amount for urban renewal areas in jurisdictions that have enacted ordinances pursuant to Iowa Code section 423B.10 shall be determined annually and shall be distributed to the city within 120 days following the end of the fiscal year in which they are collected.

These rules are intended to implement Iowa Code sections 423.2A, 423B.1, 423B.7, and 423B.10.