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of the
Eightieth General Assembly
of the
State of Iowa

HELD AT DES MOINES, THE CAPITAL OF THE STATE

FIRST EXTRAORDINARY SESSION HELD FROM THE TWENTY-NINTH DAY OF MAY THROUGH
THE FOURTH DAY OF JUNE, A.D. 2003
IN THE ONE HUNDRED FIFTY-SEVENTH YEAR OF THE STATE

CHAPTER 1

TAXATION, ECONOMIC GROWTH AND DEVELOPMENT,
AND OTHER CHANGES — LIABILITY REFORM,
WORKERS' AND UNEMPLOYMENT COMPENSATION,
AND FINANCING CHARGES

H.F. 692

AN ACT concerning regulatory, taxation, and statutory requirements affecting individuals and business relating to taxation of property, income and utilities, liability reform, workers' compensation, financial services, unemployment compensation employer surcharges, economic development, and including effective date, applicability, and retroactive applicability provisions.

Be It Enacted by the General Assembly of the State of Iowa:

DIVISION I
PROPERTY TAXATION

Section 1. Section 441.19, subsections 1 and 2, Code 2003, are amended to read as follows:

1. Supplemental and optional to the procedure for the assessment of property by the assessor as provided in this chapter, the assessor may require from all persons required to list their property for taxation as provided by sections 428.1 and 428.2, a supplemental return to be prescribed by the director of revenue and finance upon which the person shall list the person's property and any additions or modifications completed in the prior year to a structure located on the property. The supplemental return shall be in substantially the same form as now prescribed by law for the assessment rolls used in the listing of property by the assessors. Every person required to list property for taxation shall make a complete listing of the property upon

supplemental forms and return the listing to the assessor as promptly as possible within thirty days of receiving the assessment notice in section 441.23. The return shall be verified over the signature of the person making the return and section 441.25 applies to any person making such a return. The assessor shall make supplemental return forms available as soon as practicable after the first day of January of each year. The assessor shall make supplemental return forms available to the taxpayer by mail, or at a designated place within the taxing district.

2. Upon receipt of such supplemental return from any person the assessor shall prepare a roll assessing such person as hereinafter provided. In the preparation of such assessment roll the assessor shall be guided not only by the information contained in such supplemental roll, but by any other information the assessor may have or which may be obtained by the assessor as prescribed by the law relating to the assessment of property. The assessor shall not be bound by any values or square footage determinations or purchase prices as listed in such supplemental return, and may include in the assessment roll any property omitted from the supplemental return which in the knowledge and belief of the assessor should be listed as required by law by the person making the supplemental return. Upon completion of such roll the assessor shall deliver to the person submitting such supplemental return a copy of the assessment roll, either personally or by mail.

Sec. 2. NEW SECTION. 441.20 LEGISLATIVE INTENT.

It is the intent of the general assembly that there be transparency in the property tax system. It is further the intent of the general assembly that property assessments for purposes of property taxation be equal and uniform within classes of property. It is further the intent of the general assembly to minimize the impact that maintenance and upkeep by the owner of property has on the assessment of that property and that there be predictability in increases of property assessments and that such predictability be based primarily on the actions of the property owner. It is further the intent of the general assembly to minimize the impact that increases in assessed value of property will have on property taxes paid and that any increases will be primarily the result of direct action taken by the local taxing authority in setting budget amounts rather than by increases in market value of property.

Sec. 3. Section 441.21, Code 2003, is amended by striking the section and inserting in lieu thereof the following:

441.21 ASSESSMENT OF STRUCTURES.

1. All real property, except land, subject to taxation shall be assessed on a value per square foot basis according to the provisions of this section.

2. a. Subject to paragraph "b", for valuations established as of January 1, 2006, and for subsequent assessment years, the assessed value per square foot of a residential structure shall be an amount equal to the valuation of the structure as determined for the assessment year beginning January 1, 2005, prior to application of the assessment limitation for that year, divided by the total number of square feet of the structure as of January 1, 2005.

b. (1) The assessed value per square foot of an existing residential structure purchased after January 1, 2005, shall be the purchase price of the structure divided by the cumulative inflation factor established for the assessment year following the year of purchase, divided by the total number of square feet of the structure as of January 1 of the assessment year. The assessed value per square foot of a residential structure newly constructed after January 1, 2005, shall be the market value of the structure, as determined by the assessor, divided by the cumulative inflation factor established for the assessment year following the year construction was completed, divided by the total number of square feet of the structure as of January 1 of the assessment year. However, when valuing an addition that substantially increases the square footage of a structure, only that portion of the structure comprising the addition shall be valued by the assessor under this subparagraph.

(2) If additions or modifications to an existing structure do not constitute a newly constructed structure, the valuation of the structure shall only increase if the square footage of the structure increases. The increased valuation, if any, equals the amount of increased square feet times the value per square foot of the structure prior to the additions or modifications.

3. a. Subject to paragraph "b" for valuations established as of January 1, 2006, and for subsequent assessment years, the assessed value per square foot of a commercial or industrial structure shall be an amount equal to the valuation of the structure as determined for the assessment year beginning January 1, 2005, prior to application of the assessment limitation for that year, divided by the total number of square feet of the structure as of January 1, 2005.

b. (1) The assessed value per square foot of an existing commercial or industrial structure purchased after January 1, 2005, shall be the purchase price of the structure divided by the cumulative inflation factor established for the assessment year following the year of purchase, divided by the total number of square feet of the structure as of January 1 of the assessment year. The assessed value per square foot of a commercial or industrial structure newly constructed after January 1, 2005, shall be the market value of the structure, as determined by the assessor, divided by the cumulative inflation factor established for the assessment year following the year construction was completed, divided by the total number of square feet of the structure as of January 1 of the assessment year. However, when valuing an addition that substantially increases the square footage of a structure, only that portion of the structure comprising the addition shall be valued by the assessor under this subparagraph.

(2) If additions or modifications to an existing structure do not constitute a newly constructed structure, the valuation of the structure shall only increase if the square footage of the structure increases. The increased valuation, if any, equals the amount of increased square feet times the value per square foot of the structure prior to the additions or modifications.

4. a. Subject to paragraph "b" for valuations established as of January 1, 2006, and for subsequent assessment years, the assessed value per square foot of an agricultural structure that is not an agricultural dwelling shall be an amount equal to the valuation of the structure as determined for the assessment year beginning January 1, 2005, prior to application of the assessment limitation for that year, divided by the total number of square feet of the structure as of January 1, 2005.

b. (1) The assessed value per square foot of an existing agricultural structure purchased after January 1, 2005, shall be the productivity value of the structure divided by the cumulative inflation factor established for the assessment year following the year of purchase, divided by the total number of square feet of the structure as of January 1 of the assessment year. The assessed value per square foot of an agricultural structure newly constructed after January 1, 2005, shall be the productivity value of the structure for the assessment year following the year construction was completed, as determined by the assessor, divided by the cumulative inflation factor established for the assessment year following the year construction was completed, divided by the total number of square feet of the structure as of January 1 of the assessment year. However, when valuing an addition that substantially increases the square footage of a structure, only that portion of the structure comprising the addition shall be valued by the assessor under this subparagraph.

(2) If additions or modifications to an existing structure do not constitute a newly constructed structure, the valuation of the structure shall only increase if the square footage of the structure increases. The increased valuation, if any, equals the amount of increased square feet times the value per square foot of the structure prior to the additions or modifications.

5. a. In determining the market value of newly constructed property, except agricultural structures, the assessor may determine the value of the property using uniform and recognized appraisal methods including its productive and earning capacity, if any, industrial conditions, its cost, physical and functional depreciation and obsolescence and replacement cost, and all other factors which would assist in determining the fair and reasonable market value of the property but the actual value shall not be determined by use of only one such factor. The following shall not be taken into consideration: special value or use value of the property to its present owner, and the goodwill or value of a business that uses the property as distinguished from the value of the property as property. However, in assessing property that is rented or leased to low-income individuals and families as authorized by section 42 of the Internal Revenue Code, as amended, and which section limits the amount that the individual or family pays for the rental or lease of units in the property, the assessor shall use the productive and earning capacity from the actual rents received as a method of appraisal and shall take into account

the extent to which that use and limitation reduces the market value of the property. The assessor shall not consider any tax credit equity or other subsidized financing as income provided to the property in determining the market value. Upon adoption of uniform rules by the department of revenue and finance covering assessments and valuations of such properties, the valuation on such properties shall be determined in accordance with such values for assessment purposes to assure uniformity, but such rules shall not be inconsistent with or change the foregoing means of determining the market value.

b. The actual value of special purpose tooling, which is subject to assessment and taxation as real property under section 427A.1, subsection 1, paragraph "e", but which can be used only to manufacture property which is protected by one or more United States or foreign patents, shall not exceed the fair and reasonable exchange value between a willing buyer and a willing seller, assuming that the willing buyer is purchasing only the special purpose tooling and not the patent covering the property which the special purpose tooling is designed to manufacture nor the rights to manufacture the patented property. For purposes of this paragraph, special purpose tooling includes dies, jigs, fixtures, molds, patterns, and similar property. The assessor shall not take into consideration the special value or use value to the present owner of the special purpose tooling which is designed and intended solely for the manufacture of property protected by a patent in arriving at the actual value of the special purpose tooling.

c. In determining the purchase price of a structure, the assessor shall consider whether the sale was a fair and reasonable exchange in the year in which the property was listed and valued between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and each being familiar with all the facts relating to the particular property. Sale prices of the property or comparable property in normal transactions reflecting market value, and the probable availability or unavailability of persons interested in purchasing the property, shall be taken into consideration in determining purchase price. In determining purchase price, sale prices of property in abnormal transactions not reflecting market value shall not be taken into account, or shall be adjusted to eliminate the effect of factors which distort market value, including but not limited to sales to immediate family of the seller, foreclosure or other forced sales, contract sales, or discounted purchase transactions.

d. If a county enters into a contract before May 1, 2003, for a comprehensive revaluation by a private appraiser and such revaluation is for the assessment year beginning January 1, 2006, the valuations determined under the comprehensive revaluation for that assessment year shall be divided by the cumulative inflation factor for the assessment year beginning January 1, 2006, and that quotient shall be considered the valuation of the property for the assessment year beginning January 1, 2005.

6. Notwithstanding any other provision of this section, the assessed value per square foot of a structure times the total number of square feet of the structure shall not exceed its fair and reasonable market value for the assessment year, except for agricultural structures which shall be valued exclusively as provided in subsection 4.

7. For purposes of this section:

a. "Annual inflation factor" means an index, expressed as a percentage, determined by the department by January 15 of the assessment year for which the factor is determined, which reflects the purchasing power of the dollar as a result of inflation during the twelve-month period ending September 30 of the calendar year preceding the assessment year for which the factor is determined. In determining the annual inflation factor, the department shall use the annual percent change, but not less than zero percent, in the gross domestic product price deflator computed for the calendar year by the bureau of economic analysis of the United States department of commerce and shall add all of that percent change to one hundred percent. The annual inflation factor and the cumulative inflation factor shall each be expressed as a percentage rounded to the nearest one-tenth of one percent. The annual inflation factor shall not be less than one hundred percent. The annual inflation factor for the 2005 calendar year is one hundred percent.

b. "Cumulative inflation factor" means the product of the annual inflation factor for the 2005

calendar year and all annual inflation factors for subsequent calendar years as determined pursuant to this subsection. The cumulative inflation factor applies to the assessment year beginning on January 1 of the calendar year for which the latest annual inflation factor has been determined.

c. "Newly constructed" includes, but is not limited to, structural replacement, additions that substantially increase the square footage, conversion into another class of property, and conversion from exempt property under section 427.1 to taxable property. For commercial and industrial property, "newly constructed" also includes an addition or removal to a structure of personal property taxed as real estate under chapter 427A.

d. "Structure" means any part of that which is built or constructed, an edifice or building of any kind, or any piece of work artificially built up or composed of parts joined together in some definite manner. For residential structures, structure includes only those parts of the structure, including basements and attics, that are or could be used as living space. "Structure" does not include the land beneath, or horizontal improvements relating to the structure, such as sidewalks, sewers, or retaining walls.

8. For the purpose of computing the debt limitations for municipalities, political subdivisions, and school districts, the term "actual value" means the "actual value" as determined under this section without application of any percentage reduction and entered opposite each item, and as listed on the tax list as provided in section 443.2, as "actual value".

Whenever any board of review or other tribunal changes the assessed value of property, all applicable records of assessment shall be adjusted to reflect such change in both assessed value and actual value of such property.

9. The provisions of this chapter and chapters 443, 443A, and 444 shall be subject to legislative review at least once every five years. The review shall be based upon a property tax status report containing the recommendations of a property tax implementation committee appointed to conduct a review of the land tax, square footage tax, the baseline assessment for the square footage tax, and other related provisions, to be prepared with the assistance of the departments of management and revenue and finance. The report shall include recommendations for changes or revisions based upon demographic changes and property tax valuation fluctuations observed during the preceding five-year interval, and a summary of issues that have arisen since the previous review and potential approaches for their resolution. The first such report shall be submitted to the general assembly no later than January 1, 2010, with subsequent reports developed and submitted by January 1 at least every fifth year thereafter.

Sec. 4. NEW SECTION. 441.21A PROPERTY CLASSIFICATIONS.

1. a. Agricultural land shall be valued at its productivity value. The productivity value of agricultural land shall be determined on the basis of productivity and net earning capacity of the land determined on the basis of its use for agricultural purposes capitalized at a rate of seven percent and applied uniformly among counties and among classes of property. Any formula or method employed to determine productivity and net earning capacity of land shall be adopted in full by rule.

b. In counties or townships in which field work on a modern soil survey has been completed since January 1, 1949, the assessor shall place emphasis upon the results of the survey in spreading the valuation among individual parcels of such agricultural land.

c. "Agricultural land" includes the land of a vineyard.

2. a. "Residential property" includes all lands and buildings which are primarily used or intended for human habitation, including those buildings located on agricultural land. Buildings used primarily or intended for human habitation shall include the dwelling as well as structures and improvements used primarily as a part of, or in conjunction with, the dwelling. This includes but is not limited to garages, whether attached or detached, tennis courts, swimming pools, guest cottages, and storage sheds for household goods. Residential property located on agricultural land shall include only buildings.

b. "Residential property" includes all land and buildings of multiple housing cooperatives

organized under chapter 499A and includes land and buildings used primarily for human habitation which land and buildings are owned and operated by organizations that have received tax-exempt status under section 501(c)(3) of the Internal Revenue Code and rental income from the property is not taxed as unrelated business income under section 422.33, subsection 1A.

c. "Residential property" includes an apartment in a horizontal property regime referred to in chapter 499B which is used or intended for use for human habitation regardless of who occupies the apartment. Existing structures shall not be converted to a horizontal property regime unless applicable building code requirements have been met.

d. Buildings for human habitation that are used as commercial ventures, including but not limited to hotels, motels, rest homes, and structures containing three or more separate living quarters shall not be considered residential property.

Sec. 5. Section 441.23, Code 2003, is amended to read as follows:

441.23 NOTICE OF VALUATION.

If there has been an increase or decrease in the valuation of the property, or upon the written request of the person assessed, the assessor shall, at the time of making the assessment, inform the person assessed, in writing, of the valuation put upon the taxpayer's property, and notify the person, if the person feels aggrieved, to appear before the board of review and show why the assessment should be changed. However, if the valuation of a class of agricultural property is uniformly decreased, the assessor may notify the affected property owners by publication in the official newspapers of the county. The owners of real property shall be notified not later than April 15 of any adjustment of the real property assessment. The notification shall include a supplemental return form for the person to list the person's property and any additions or modifications completed in the prior year to a structure located on the property, as required in section 441.19.

Sec. 6. Section 441.24, Code 2003, is amended to read as follows:

441.24 REFUSAL TO FURNISH STATEMENT.

1. If a person refuses to furnish the verified statements required in connection with the assessment of property by the assessor, or to list the corporation's or person's property, the director of revenue and finance, or assessor, as the case may be, shall proceed to list and assess the property according to the best information obtainable, and shall add to the taxable agricultural land and square footage valuation one hundred percent thereof, which valuation and penalty shall be separately shown, and shall constitute the assessment; and if the agricultural land or square footage valuation of the property is changed by a board of review, or on appeal from a board of review, a like penalty shall be added to the valuation thus fixed.

2. However, all or part of the penalty imposed under this section may be waived by the board of review upon application to the board by the assessor or the property owner. The waiver or reduction in the penalty shall be allowed only on the agricultural land or the square footage valuation of real property the structure against which the penalty has been imposed.

Sec. 7. Section 441.26, unnumbered paragraph 3, Code 2003, is amended to read as follows:

The notice in 1981 2007 and each odd-numbered year thereafter shall contain a statement that the agricultural property assessments and property assessed pursuant to section 441.21, subsection 2, paragraph "b", subparagraph (1), and subsection 3, paragraph "b", subparagraph (1), are subject to equalization pursuant to an order issued by the director of revenue and finance, that the county auditor shall give notice on or before October 15 by publication in an official newspaper of general circulation to any class of agricultural property affected by the equalization order, and that the board of review shall be in session from October 15 to November 15 to hear protests of affected property owners or taxpayers whose valuations have been adjusted by the equalization order.

Sec. 8. Section 441.26, unnumbered paragraphs 4 and 5, Code 2003, are amended to read as follows:

The assessment rolls shall be used in listing the property, the number of structures, and the total square footage of the structures by class of property, and showing the values affixed to agricultural land and the assessed value per square foot affixed to the property the structures by class of property of all persons assessed. The rolls shall be made in duplicate. The duplicate roll shall be signed by the assessor, detached from the original and delivered to the person assessed if there has been an increase or decrease in the valuation of the property. If there has been no change in the evaluation, the information on the roll may be printed on computer stock paper and preserved as required by this chapter. If the person assessed requests in writing a copy of the roll, the copy shall be provided to the person. The pages of the assessor's assessment book shall contain columns ruled and headed for the information required by this chapter and that which the director of revenue and finance deems essential in the equalization work of the director. The assessor shall return all assessment rolls and schedules to the county auditor, along with the completed assessment book, as provided in this chapter, and the county auditor shall carefully keep and preserve the rolls, schedules and book for a period of five years from the time of its filing in the county auditor's office.

Beginning with valuations for January 1, ~~1977~~ 2006, and each succeeding year, for each parcel of agricultural property and for each structure entered in the assessment book, the assessor shall list the classification of the property.

Sec. 9. Section 441.35, subsection 1, Code 2003, is amended by striking the subsection.

Sec. 10. Section 441.35, unnumbered paragraph 2, Code 2003, is amended by striking the unnumbered paragraph.

Sec. 11. Section 441.36, Code 2003, is amended to read as follows:

441.36 CHANGE OF ASSESSMENT — NOTICE.

All changes in assessments authorized by the board of review, and reasons therefor, shall be entered in the minute book kept by ~~said~~ the board and on the assessment roll. ~~Said~~ The minute book shall be filed with the assessor after the adjournment of the board of review and shall at all times be open to public inspection. In case the value of any specific property or structure or the entire assessment of any person, partnership, or association is increased, or new property or a new structure is added by the board, the clerk shall give immediate notice thereof by mail to each at the post-office address shown on the assessment rolls, and at the conclusion of the action of the board therein the clerk shall post an alphabetical list of those whose assessments are thus raised and added, in a conspicuous place in the office or place of meeting of the board, and enter upon the records a statement that such posting has been made, which entry shall be conclusive evidence of the giving of the notice required. The board shall hold an adjourned meeting, with at least five days intervening after the posting of ~~said~~ the notices, before final action with reference to the raising of assessments or the adding of property or structures to the rolls is taken, and the posted notices shall state the time and place of holding such adjourned meeting, which time and place shall also be stated in the proceedings of the board.

Sec. 12. Section 441.37, subsection 1, paragraphs a and b, Code 2003, are amended to read as follows:

a. That ~~said~~ the assessment is not equitable as compared with assessments of other like property or structures in the taxing district. When this ground is relied upon as the basis of a protest the legal description and assessments of a representative number of comparable ~~properties~~ structures, as described by the aggrieved taxpayer shall be listed on the protest, otherwise ~~said~~ the protest shall not be considered on this ground.

b. That the property or structure is assessed for more than the value authorized by law, stat-

ing the specific amount which the protesting party believes the property or structure to be overassessed, and the amount which the party considers to be its actual value and the amount the party considers a fair assessment.

Sec. 13. Section 441.39, Code 2003, is amended to read as follows:

441.39 TRIAL ON APPEAL.

The court shall hear the appeal in equity and determine anew all questions arising before the board which relate to the liability of the property or structure to assessment or the amount thereof. The court shall consider all of the evidence and there shall be no presumption as to the correctness of the ~~valuation of~~ assessment appealed from. Its decision shall be certified by the clerk of the court to the county auditor, and the assessor, who shall correct the assessment books accordingly.

Sec. 14. Section 441.42, Code 2003, is amended to read as follows:

441.42 APPEAL ON BEHALF OF PUBLIC.

Any officer of a county, city, township, drainage district, levee district, or school district interested or a taxpayer thereof may in like manner make complaint before ~~said the~~ board of review in respect to the assessment of any property or structure in the township, drainage district, levee district or city and an appeal from the action of the board of review in fixing the amount of assessment on any property or structure concerning which such complaint is made, may be taken by any of such aforementioned officers.

Such appeal is in addition to the appeal allowed to the person whose property or structure is assessed and shall be taken in the name of the county, city, township, drainage district, levee district, or school district interested, and tried in the same manner, except that the notice of appeal shall also be served upon the owner of the property or structure concerning which the complaint is made and affected thereby or person required to return said property or structure for assessment.

Sec. 15. Section 441.43, Code 2003, is amended to read as follows:

441.43 POWER OF COURT.

Upon trial of any appeal from the action of the board of review fixing the amount of assessment upon any property or structure concerning which complaint is made, the court may increase, decrease, or affirm the amount of the assessment appealed from.

Sec. 16. Section 441.45, subsections 1 and 2, Code 2003, are amended to read as follows:

1. The number of acres of land and the aggregate taxable values of the agricultural land, ~~exclusive of city lots~~, returned by the assessors, as corrected by the board of review.
2. The aggregate values of structures and the taxable square footage values of real estate structures by class in each township and city in the county and the aggregate value of agricultural land in each township and city in the county, returned as corrected by the board of review.

Sec. 17. Section 441.47, Code 2003, is amended by adding the following new unnumbered paragraph:

NEW UNNUMBERED PARAGRAPH. For the assessment year beginning January 1, 2007, and for all subsequent assessment years, only property classified as agricultural property and property assessed pursuant to section 441.21, subsection 2, paragraph "b", subparagraph (1), and subsection 3, paragraph "b", subparagraph (1), shall be subject to equalization by the director of revenue and finance under this section and sections 441.48 and 441.49.

Sec. 18. NEW SECTION. 441.47A EQUALIZATION OF INFLATION FACTORS.

The director of revenue and finance on or about August 15, 2007, and every two years thereafter, shall order the equalization of the assessed value per square foot resulting from the application of the cumulative inflation factor in the several assessing jurisdictions in each case as may be necessary to bring such values as fixed by the assessor in cases of purchases of property and newly constructed property to the values determined for the assessment year begin-

ning January 1, 2005. In equalizing the effects of the application of the cumulative inflation factor, the department shall make use of reports issued by Iowa state university of science and technology which reports shall more precisely indicate, on a county-by-county basis, annual and cumulative inflation factors for each county. If the cumulative inflation factor for an assessing jurisdiction as reported by Iowa state university of science and technology is five percent above or below the cumulative inflation factor as defined in section 441.21, subsection 7, the director shall notify the assessor by mail of the equalization of the effects of the cumulative inflation factor for the assessing jurisdiction. The assessor shall recompute the assessments made pursuant to section 441.21, subsection 2, paragraph "b", subparagraph (1), subsection 3, paragraph "b", subparagraph (1), and subsection 4, paragraph "b", subparagraph (1), by applying the equalized inflation factor. The assessor shall send notice of the equalized assessments to all affected property owners.

Sec. 19. Section 441.50, Code 2003, is amended to read as follows:

441.50 APPRAISERS EMPLOYED.

The conference board shall have power to employ appraisers or other technical or expert help to assist in the valuation assessment of property as provided in section 441.21, the cost thereof to be paid in the same manner as other expenses of the assessor's office. The conference board may certify for levy annually an amount not to exceed forty and one-half cents per thousand dollars of assessed value of taxable property for the purpose of establishing a special appraiser's fund, to be used only for such purposes. From time to time the conference board may direct the transfer of any unexpended balance in the special appraiser's fund to the assessment expense fund.

Sec. 20. Section 443.1, Code 2003, is amended to read as follows:

443.1 CONSOLIDATED TAX.

All square footage taxes which are uniform throughout any township or school district shall be formed into a single tax and entered upon the tax list in a single column, to be known as a consolidated tax, and each receipt shall show the percentage levied for each separate fund. The land tax shall be separately stated and each receipt shall show the percentage levied for each separate fund.

Sec. 21. Section 443.2, Code 2003, is amended to read as follows:

443.2 TAX LIST.

Before the first day of July in each year, the county auditor shall transcribe the assessments of the townships and cities into a book or record, to be known as the tax list, properly ruled and headed, with separate columns, in which shall be entered the names of the taxpayers, descriptions of lands, number of acres and value, numbers of city lots, their size in acres, and value, and each description of the square footage tax and the land tax, with a column for polls and one for payments, and shall complete it by entering the amount due on each installment, separately, and carrying out the total of both installments. The total of all columns of each page of each book or other record shall balance with the tax totals. After computing the amount of land tax and square footage tax due and payable on each property, the county auditor shall round the total amount of ~~tax taxes~~ due and payable on the property to the nearest even whole dollar.

The county auditor shall list the aggregate actual value and the aggregate taxable value of all taxable property within the county and each political subdivision including property subject to the statewide property tax imposed under section 437A.18 on the tax list in order that the actual value of the taxable property within the county or a political subdivision may be ascertained and shown by the tax list for the purpose of computing the debt-incurring capacity of the county or political subdivision. As used in this section, "actual value" is the value determined under section 441.21, subsections 1 to 3, Code 2005, prior to the reduction to a percentage of actual value as otherwise provided in section 441.21, Code 2005. "Actual value" of property subject to statewide property tax is the assessed value under section 437A.18.

Sec. 22. Section 443.3, Code 2003, is amended to read as follows:
443.3 CORRECTION — TAX APPORTIONED.

At the time of transcribing ~~said the~~ assessments into the tax list, the county auditor shall correct all transfers up to date and place the legal descriptions of all real estate in the name of the owner at ~~said that~~ date as shown by the transfer book in the auditor's office. At the end of the list for each township or city the auditor shall make an abstract thereof, and apportion the consolidated tax among the respective funds to which it belongs, according to the amounts levied for each. The auditor shall apportion the land tax as prescribed in section 443A.2.

Sec. 23. Section 443.6, Code 2003, is amended to read as follows:
443.6 CORRECTIONS BY AUDITOR.

The auditor may correct any error in the assessment or tax list, and the assessor or auditor may list for taxation any omitted land and may assess and list for taxation any omitted ~~property structure~~.

Sec. 24. Section 443.7, Code 2003, is amended to read as follows:
443.7 NOTICE.

Before listing for taxation any omitted land and before assessing and listing for taxation any omitted ~~property structure~~, the assessor or auditor shall notify by mail the person in whose name the ~~property land or structure~~ is taxed, to appear before the assessor or auditor at the assessor's or auditor's office within ten days from the date of the notice and show cause, if any, why the correction or assessment should not be made.

Sec. 25. Section 443.9, Code 2003, is amended to read as follows:
443.9 ADJUSTMENT OF ACCOUNTS.

If such correction or assessment is made after the books or other records approved by the state auditor of state have passed into the hands of the treasurer, the treasurer shall be charged or credited therefor as the case may be. In the event such listing of omitted land or listing and assessment of omitted ~~property structure~~ is made by the assessor after the tax records have passed into the hands of the auditor or treasurer, such correction or assessment shall be entered on the records by the auditor or treasurer.

Sec. 26. Section 443.12, Code 2003, is amended to read as follows:
443.12 CORRECTIONS BY TREASURER.

When ~~property land or a structure~~ subject to taxation is withheld, overlooked, or from any other cause is not listed, or is not listed and assessed, the county treasurer shall, when apprised thereof, at any time within two years from the date at which such listing and assessment should have been made, demand of the person, firm, corporation, or other party by whom the same should have been listed, or to whom it should have been listed and assessed, or of the administrator thereof, the amount the ~~property land or structure~~ should have been taxed in each year the same was so withheld or overlooked and not listed or not listed and assessed, together with six percent interest thereon from the time the taxes would have become due and payable had such ~~property land~~ been listed or such structure been listed and assessed.

Sec. 27. Section 443.13, Code 2003, is amended to read as follows:
443.13 ACTION BY TREASURER — APPORTIONMENT.

Upon failure to pay such sum within thirty days, with all accrued interest, the treasurer shall cause an action to be brought in the name of the treasurer for the use of the proper county, to be prosecuted by the county attorney, or such other person as the board of supervisors may appoint, and when such ~~property land~~ has been fraudulently withheld from listing or such structure fraudulently withheld from listing and assessment, there shall be added to the sum found to be due a penalty of fifty percent upon the amount, which shall be included in the judgment. The amount thus recovered shall be by the treasurer apportioned ratably as the taxes would have been if they had been paid according to law.

Sec. 28. Section 443.14, Code 2003, is amended to read as follows:

443.14 DUTY OF TREASURER.

The treasurer shall assess any ~~real property structure and shall list the acreage of any land~~ subject to taxation which may have been omitted by the assessor, board of review, or county auditor, and collect taxes thereon, and in such cases shall note, opposite the tract or lot assessed, the words "by treasurer".

Sec. 29. Section 443.15, Code 2003, is amended to read as follows:

443.15 TIME LIMIT.

The assessment shall be made within two years after the tax list shall have been delivered to the treasurer for collection, and not afterwards, if the ~~property~~ land or structure is then owned by the person who should have paid the tax.

Sec. 30. Section 443.17, Code 2003, is amended to read as follows:

443.17 PRESUMPTION OF TWO-YEAR OWNERSHIP.

In any action or proceeding, now pending or hereafter brought, to recover taxes upon ~~prop-erty~~ land not listed or agricultural land or a structure not listed and assessed for taxation during the lifetime of any decedent, it shall be presumed that any property, any evidence of ownership of property, and any evidence of a promise to pay, owned by a decedent at the date of the decedent's death, had been acquired and owned by such decedent more than two years before the date of the decedent's death; and the burden of proving that any such property had been acquired by such decedent less than two years before the date of the decedent's death shall be upon the heirs, legatees, and legal representatives of any such decedent.

Sec. 31. Section 443.18, Code 2003, is amended to read as follows:

443.18 REAL ESTATE — DUTY OF OWNER.

In all cases where ~~real-estate~~ land subject to taxation has not been listed or agricultural land or a structure subject to taxation has not been listed and assessed, the owner, or an agent of the owner, shall have the same done by the treasurer, and pay the taxes thereon; and if the owner fails to do so the treasurer shall list or list and assess the same and collect the tax assessed as the treasurer does other taxes.

Sec. 32. Section 443.19, Code 2003, is amended to read as follows:

443.19 IRREGULARITIES, ERRORS AND OMISSIONS — EFFECT.

~~No~~ A failure of the owner to have such ~~property~~ land listed or agricultural land or structure listed and assessed or to have the errors in the listing or assessment corrected, and ~~no~~ an irregularity, error or omission in the listing of such land or listing and assessment of such ~~property~~ agricultural land or structure, shall not affect in any manner the legality of the taxes levied thereon, or affect any right or title to such ~~real-estate~~ property which would have accrued to any party claiming or holding under and by virtue of a deed executed by the treasurer as provided by this title, had the listing and assessment of such property been in all respects regular and valid.

Sec. 33. Section 443.21, Code 2003, is amended to read as follows:

443.21 ASSESSMENTS CERTIFIED TO COUNTY AUDITOR.

All assessors and assessing bodies, including the department of revenue and finance having authority over the listing of land or listing and assessment of ~~property~~ agricultural land and structures for tax purposes shall certify to the county auditor of each county the number of acres of land and the assessed values of agricultural land and structures for all the taxable property in such county as finally ~~equalized and~~ determined, and the same shall be transcribed onto the tax lists as required by section 443.2.

Sec. 34. Section 443.22, Code 2003, is amended to read as follows:

443.22 UNIFORM ASSESSMENTS MANDATORY.

All assessors and assessing bodies, including the department of revenue and finance having

authority over the listing of land and listing and assessment of property agricultural land and structures for tax purposes, shall comply with sections 428.4, 428.29, 434.15, 438.13, 441.21, and 441.45. The department of revenue and finance, having authority over the listing and assessments, shall exercise its powers and perform its duties under section 421.17 and other applicable laws so as to require the uniform and consistent application of said that section.

Sec. 35. NEW SECTION. 443A.1 LAND TAX.

Effective for the fiscal year beginning July 1, 2007, and all subsequent fiscal years, a land tax shall be imposed against each acre or portion of an acre of land in a county.

Sec. 36. NEW SECTION. 443A.2 APPORTIONMENT OF LAND TAX.

1. The land tax for each county shall be apportioned as follows:

In the unincorporated area of the county, the land tax shall be distributed to the county, the school district located in the unincorporated area of the county, and other taxing entities located in the unincorporated area of the county in the same proportion that property taxes levied in the unincorporated area of the county for the fiscal year beginning July 1, 2006, were allocated to those entities.

In the incorporated areas of the county, the land tax shall be distributed to the city, the county, each school district located within the city, and other taxing entities located within the city in the same proportion that property taxes levied in the city for the fiscal year beginning July 1, 2006, were allocated to those entities.

2. The city finance committee and the county finance committee shall jointly determine the adjustments to be made to the allocation of the land tax in the case of boundary adjustments made to a taxing district on or after January 1, 2006.

3. After the auditor has computed the amount of land tax to be distributed to each taxing district, the auditor shall compute the rate of tax to be levied upon the square footage valuation of structures pursuant to chapter 444.

Sec. 37. Section 444.1, Code 2003, is amended to read as follows:

444.1 BASIS FOR AMOUNT OF TAX.

In all taxing districts in the state, including townships, school districts, cities and counties, when by law then existing the people are authorized to determine by vote, or officers are authorized to estimate or determine, a rate of taxation required for any public purpose, such rate shall in all cases be estimated and based upon the amount of land tax available to the district and the adjusted taxable square footage valuation of such taxing district for the preceding calendar year.

Sec. 38. Section 444.2, Code 2003, is amended to read as follows:

444.2 AMOUNTS CERTIFIED IN DOLLARS.

When an authorized square footage tax rate within a taxing district, including townships, school districts, cities and counties, has been thus determined as provided by law, the officer or officers charged with the duty of certifying the authorized rate to the county auditor or board of supervisors shall, before certifying the rate, compute upon the adjusted taxable square footage valuation of the taxing district for the preceding fiscal year, the amount of tax the rate will raise, stated in dollars, and shall certify the computed amount in dollars and not by rate, to the county auditor and board of supervisors and shall further certify the percentage of such amount to be levied against each class of property.

Sec. 39. Section 444.3, Code 2003, is amended to read as follows:

444.3 COMPUTATION OF SQUARE FOOTAGE RATE.

When the square footage valuations for the several taxing districts shall have been adjusted by the several boards for the current year, and the amount of land tax to be distributed to each taxing district has been deducted from the dollar amounts certified in section 444.2 for each taxing district, the county auditor shall thereupon apply such a rate, not exceeding the rate

authorized by law, or rates as will raise the amount required for such taxing district, and when combined with the land tax amount will raise an amount not exceeding the dollar amount authorized by law for the taxing district, and no will not raise a larger amount. For purposes of computing the square footage rate under this section, the adjusted taxable square footage valuation of the property of a taxing district does not include the valuation of property of a railway corporation or its trustee which corporation has been declared bankrupt or is in bankruptcy proceedings. Nothing in the preceding sentence exempts the property of such railway corporation or its trustee from taxation and the rate computed under this section shall be levied on the taxable property of such railway corporation or its trustee.

The square footage tax rate shall be expressed in dollars and cents per one hundred dollars of valuation per square foot.

Sec. 40. NEW SECTION. 444.9 COMPUTATION OF TAX.

The amount of tax imposed on any taxable property is the sum of the amounts computed in subsections 1 and 2.

1. LAND TAX. The product of the land tax rate times the number of acres or portion of an acre of the taxable property.

2. SQUARE FOOTAGE TAX. The product of the square footage tax rate times the valuation per square foot of the taxable structure times the number of square feet of the taxable structure. The square footage tax shall be computed separately for each structure located on the land.

Sec. 41. PROPERTY TAX IMPLEMENTATION COMMITTEE.

1. On or before July 1, 2003, the department of revenue and finance, in consultation with the department of management, shall initiate and coordinate the establishment of a property tax implementation committee and provide staffing assistance to the committee. The property tax implementation committee shall include four members of the general assembly, one each appointed by the majority leader of the senate, the speaker of the house of representatives, the minority leader of the senate, and the minority leader of the house of representatives. The committee shall also include members appointed by the department of revenue and finance representing the department of revenue and finance, the department of management, counties, cities, school districts, local assessors, commercial property taxpayers, industrial property taxpayers, residential property taxpayers, and agricultural property taxpayers, and other appropriate stakeholders. The department may consider participation on the committee of former state officials with expertise in budget and tax policy. The chairpersons of the committee shall be those members of the general assembly appointed by the majority leader of the senate and the speaker of the house of representatives.

2. The committee shall study and make recommendations relating to the land tax, square footage tax, the baseline assessment for the square footage tax, and other related provisions. The committee shall also study and make recommendations on issues relating to implementation of a land tax and square footage tax, including, but not limited to, whether or not maximum square footage rates and land tax rates should be imposed and, if such rates are recommended, the imposition of rates that have a revenue neutral impact on classes of property, the property tax financing portion of the school funding formula, treatment of current property tax credits and exemptions under a land tax and square footage tax and continued state reimbursement of any credits or exemptions, implementation of urban revitalization and urban renewal programs under the land tax and square footage tax, implementation of a payment in lieu of taxes program for local government services, and maintenance of equity among classes of taxpayers and among taxpayers within the same class. The property tax implementation committee shall also study the role of property taxes in funding local government services and the types of services currently funded by property taxes.

3. The property tax implementation committee shall direct three counties and cities within those counties to submit data as prescribed by the committee. The department of revenue and finance, in consultation with the department of management, shall select the three counties

and the cities within those counties that will be required to provide data to the committee. The committee shall devise a system for testing the data, including the necessary computer hardware and software to allow the selected counties and cities to prepare projected budgets, to determine the rates for the land tax and the square footage tax for those projected budgets, and to provide a sampling of the effect on the various classes of property in those jurisdictions. The committee shall use the data and the results of the projections to resolve, and make recommendations relating to, the issues described in subsection 2, and related issues, in a revenue neutral manner that will not result in a shift of property tax burden between classes of property. The committee shall submit to the general assembly by October 31, 2003, October 31, 2004, and October 31, 2005, a report for each of those years resolving the issues in subsection 2 and other related issues for implementation of this Act. The reports shall include detailed estimates of the cost to the counties and cities of providing the data and an estimate of the cost of statewide implementation of this Act.

Sec. 42. EFFECTIVE AND APPLICABILITY DATES.

1. The section of this division of this Act establishing the property tax implementation committee, being deemed of immediate importance, takes effect upon enactment.

2. The remainder of this division of this Act takes effect July 1, 2005, and applies to assessment years beginning on or after January 1, 2006, and applies to tax collections for fiscal years beginning on or after July 1, 2007.

Sec. 43. FUTURE REPEAL. This division of this Act is repealed effective June 30, 2005.

DIVISION II
INDIVIDUAL INCOME TAX
2004-2006 TAX YEARS

*Sec. 44. Section 422.5, subsection 1, paragraphs a through i, Code 2003, are amended to read as follows:

| | <u>2004</u> | <u>For tax years beginning in the calendar year:</u> | |
|--|-------------|--|-------------|
| | | <u>2005</u> | <u>2006</u> |
| a. On all taxable income from zero through one thousand dollars, thirty-six hundredths of one percent : | .35% | .34% | .32% |
| b. On all taxable income exceeding one thousand dollars but not exceeding two thousand dollars, seventy-two hundredths of one percent : | .70% | .68% | .65% |
| c. On all taxable income exceeding two thousand dollars but not exceeding four thousand dollars, two and forty-three hundredths percent : | 2.36% | 2.30% | 2.19% |
| d. On all taxable income exceeding four thousand dollars but not exceeding nine thousand dollars, four and one-half percent : | 4.37% | 4.27% | 4.05% |
| e. On all taxable income exceeding nine thousand dollars but not exceeding fifteen thousand dollars, six and twelve hundredths percent : | 5.94% | 5.80% | 5.51% |

* Item veto; see message at end of the Act

| | | | |
|---|-------|--------------|---------------|
| <p>f. On all taxable income exceeding fifteen thousand dollars but not exceeding twenty thousand dollars, six and forty-eight hundredths percent.:</p> | 6.29% | <u>6.14%</u> | <u>5.84%</u> |
| <p>g. On all taxable income exceeding twenty thousand dollars but not exceeding thirty thousand dollars, six and eight-tenths percent.:</p> | 6.60% | <u>6.45%</u> | <u>6.13%</u> |
| <p>h. On all taxable income exceeding thirty thousand dollars but not exceeding forty-five thousand dollars, seven and ninety-two hundredths percent.:</p> | 7.68% | <u>7.51%</u> | <u>7.14%</u> |
| <p>i. On all taxable income exceeding forty-five thousand dollars, eight and ninety-eight hundredths percent.:</p> | 8.71% | <u>8.51%</u> | <u>8.09%*</u> |

Sec. 45. EFFECTIVE AND APPLICABILITY DATE PROVISIONS. This division of this Act takes effect January 1, 2004, for tax years beginning on or after January 1, 2004, but before January 1, 2007.

DIVISION III
INDIVIDUAL INCOME TAX
2007 AND SUBSEQUENT TAX YEARS

*Sec. 46. Section 422.5, subsection 1, paragraphs a through i, Code 2003, are amended to read as follows:

For tax years beginning in the calendar year: 2007 and subsequent calendar years

| | |
|---|-------|
| <p>a. On all taxable income from zero through one thousand dollars, thirty-six hundredths of one percent.:</p> | .31% |
| <p>b. On all taxable income exceeding one thousand dollars but not exceeding two thousand dollars, seventy-two hundredths of one percent.:</p> | .62% |
| <p>c. On all taxable income exceeding two thousand dollars but not exceeding four thousand dollars, two and forty-three hundredths percent.:</p> | 2.09% |
| <p>d. On all taxable income exceeding four thousand dollars but not exceeding nine thousand dollars, four and one-half percent.</p> | 3.87% |
| <p>e. On all taxable income exceeding nine thousand dollars but not</p> | |

* Item veto; see message at end of the Act

exceeding fifteen thousand dollars, ~~six and twelve hundredths~~ percent: 5.26%

f. On all taxable income exceeding fifteen thousand dollars but not exceeding twenty thousand dollars, ~~six and forty eight hundredths~~ percent: 5.57%

g. On all taxable income exceeding twenty thousand dollars but not exceeding thirty thousand dollars, ~~six and eight tenths~~ percent: 5.84%

h. On all taxable income exceeding thirty thousand dollars but not exceeding forty-five thousand dollars, ~~seven and ninety-two hundredths~~ percent: 6.80%

i. On all taxable income exceeding forty-five thousand dollars, ~~eight and ninety-eight hundredths~~ percent: 7.71%*

Sec. 47. EFFECTIVE AND APPLICABILITY DATE PROVISIONS. This division of this Act takes effect January 1, 2007, for tax years beginning on or after January 1, 2007.

DIVISION IV
INDIVIDUAL INCOME TAX
2007 AND SUBSEQUENT TAX YEARS

*Sec. 48. Section 422.4, subsection 1, paragraphs b and c, Code 2003, are amended to read as follows:

b. "Cumulative inflation factor" means the product of the annual inflation factor for the ~~1988~~ 2007 calendar year and all annual inflation factors for subsequent calendar years as determined pursuant to this subsection. The cumulative inflation factor applies to all tax years beginning on or after January 1 of the calendar year for which the latest annual inflation factor has been determined.

c. The annual inflation factor for the ~~1988~~ 2007 calendar year is one hundred percent.*

*Sec. 49. Section 422.4, subsection 16, Code 2003, is amended to read as follows:

16. ~~The words "taxable income" mean means the net income as defined in section 422.7 minus the deductions allowed by section 422.9, in the case of individuals; in, In the case of estates or trusts, the words "taxable income" mean means the taxable income, (without a deduction for personal exemption), as computed for federal income tax purposes under the Internal Revenue Code, but with the adjustments specified in section 422.7 plus the Iowa income tax deducted in computing the federal taxable income and minus federal income taxes as provided in section 422.9.*~~

*Sec. 50. Section 422.5, subsection 1, Code 2003, as amended by 2003 Iowa Acts, Senate File 442, section 4, is amended by striking the subsection and inserting in lieu thereof the following:

1. a. A tax is imposed upon every resident and nonresident of the state which tax shall be levied, collected, and paid annually upon and with respect to the entire taxable income at rates as follows:

* Item veto; see message at end of the Act

(1) On all taxable income from zero through eight thousand dollars, one and eighty-five hundredths percent.

(2) On all taxable income exceeding eight thousand dollars but not exceeding one hundred thousand dollars, four and seventy-five hundredths percent.

(3) On all taxable income exceeding one hundred thousand dollars, four and ninety-nine hundredths percent.

b. (1) The tax imposed upon the taxable income of a nonresident shall be computed by reducing the amount determined pursuant to paragraph "a" by the amounts of nonrefundable credits under this division and by multiplying this resulting amount by a fraction of which the nonresident's net income allocated to Iowa, as determined in section 422.8, subsection 2, paragraph "a", is the numerator and the nonresident's total net income computed under section 422.7 is the denominator. This provision also applies to individuals who are residents of Iowa for less than the entire tax year.

(2) The tax imposed upon the taxable income of a resident shareholder in an S corporation which has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state may be computed by reducing the amount determined pursuant to paragraph "a" by the amounts of nonrefundable credits under this division and by multiplying this resulting amount by a fraction of which the resident's net income allocated to Iowa, as determined in section 422.8, subsection 2, paragraph "b", is the numerator and the resident's total net income computed under section 422.7 is the denominator. If a resident shareholder has elected to take advantage of this subparagraph, and for the next tax year elects not to take advantage of this subparagraph, the resident shareholder shall not reelect to take advantage of this subparagraph for the three tax years immediately following the first tax year for which the shareholder elected not to take advantage of this subparagraph, unless the director consents to the reelection. This subparagraph also applies to individuals who are residents of Iowa for less than the entire tax year.*

*Sec. 51. Section 422.5, subsection 2, Code 2003, is amended by striking the subsection and inserting in lieu thereof the following:

2. a. However, if the married persons' filing jointly or separately on a combined return, unmarried head of household's, or surviving spouse's net income exceeds thirteen thousand five hundred dollars or nine thousand dollars in the case of all other persons, the regular tax imposed under this division shall be the lesser of the product of eight percent times the portion of the net income in excess of thirteen thousand five hundred dollars or nine thousand dollars, as applicable, or the regular tax liability computed without regard to this paragraph.

b. Paragraph "a" does not apply to estates and trusts. Married taxpayers electing to file separately shall compute the alternate tax described in paragraph "a" using the total net income of the husband and wife. The alternate tax described in paragraph "a" does not apply if one spouse elects to carry back or carry forward the loss as provided in section 422.9, subsection 3. A person who is claimed as a dependent by another person as defined in section 422.12 shall not receive the benefit of paragraph "a" if the person claiming the dependent has net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable or the person claiming the dependent and the person's spouse have combined net income exceeding thirteen thousand five hundred dollars or nine thousand dollars as applicable.*

*Sec. 52. Section 422.5, subsection 5, Code 2003, is amended to read as follows:

5. Upon determination of the latest cumulative inflation factor, the director shall multiply each dollar amount set forth in subsection 1, paragraphs "a" through "i" of this section ~~paragraph "a"~~, by this cumulative inflation factor, shall round off the resulting product to the nearest one dollar, and shall incorporate the result into the income tax forms and instructions for each tax year.*

Sec. 53. Section 422.5, subsection 7, Code 2003, is amended by striking the subsection.

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*Sec. 54. Section 422.7, Code 2003, as amended by 2003 Iowa Acts, Senate File 442, section 5, and House File 674, sections 5 and 6, is amended by striking the section and inserting in lieu thereof the following:

422.7 "NET INCOME" — HOW COMPUTED.

The term "net income" means the adjusted gross income before the net operating loss deduction as properly computed for federal income tax purposes under the Internal Revenue Code, with the following adjustments:

1. The adjusted gross income is adjusted by adding the sum of the following:
 - a. Add the amount of federal income tax refunds received in a tax year beginning on or after January 1, 2007, but before January 1, 2010, to the extent that the federal income tax was deducted on an Iowa individual income tax return for a tax year beginning prior to January 1, 2007.
 - b. Add interest and dividends from foreign securities and from securities of state and other political subdivisions exempt from federal income tax under the Internal Revenue Code.
 - c. Add interest and dividends from regulated investment companies exempt from federal income tax under the Internal Revenue Code.
 - d. Add, to the extent not already included, income from the sale of obligations of the state and its political subdivisions. Income from the sale of these obligations is exempt from the taxes imposed by this division only if the law authorizing these obligations specifically exempts the income from the sale from the state individual income tax.
 - e. Add the amount resulting from the cancellation of a participation agreement refunded to the taxpayer as a participant in the Iowa educational savings plan trust under chapter 12D to the extent previously deducted as a contribution to the trust.
2. The adjusted gross income is adjusted by subtracting the sum of the following:
 - a. Subtract the amount of federal income taxes paid or accrued, as the case may be, in a tax year beginning on or after January 1, 2007, but before January 1, 2010, to the extent the federal tax payment is for a tax year beginning prior to January 1, 2007.
 - b. Subtract interest and dividends from federal securities.
 - c. Subtract the loss on the sale or exchange of a share of a regulated investment company held for six months or less to the extent the loss was disallowed under section 852(b)(4)(B) of the Internal Revenue Code.
 - d. (1) Subtract, to the extent included, the amount of additional social security benefits taxable under the Internal Revenue Code for tax years beginning on or after January 1, 1994. The amount of social security benefits taxable as provided in section 86 of the Internal Revenue Code, as amended up to and including January 1, 1993, continues to apply for state income tax purposes for tax years beginning on or after January 1, 1994.
(2) Married taxpayers, who file a joint federal income tax return and who elect to file separate returns or who elect separate filing on a combined return for state income tax purposes, shall allocate between the spouses the amount of benefits subtracted under subparagraph (1) from net income in the ratio of the social security benefits received by each spouse to the total of these benefits received by both spouses.
 - e. (1) For a person who is disabled, or is fifty-five years of age or older, or is the surviving spouse of an individual or a survivor having an insurable interest in an individual who would have qualified for the exemption under this paragraph for the tax year, subtract, to the extent included, the total amount of a governmental or other pension or retirement pay, including, but not limited to, defined benefit or defined contribution plans, annuities, individual retirement accounts, plans maintained or contributed to by an employer, or maintained or contributed to by a self-employed person as an employer, and deferred compensation plans or any earnings attributable to the deferred compensation plans, up to a maximum of six thousand dollars for a person, other than a husband or wife, who files a separate state income tax return and up to a maximum of twelve thousand dollars for a husband and wife who file a joint state income tax return.
(2) However, a surviving spouse who is not disabled or fifty-five years of age or older can only exclude the amount of pension or retirement pay received as a result of the death of the other

* Item veto; see message at end of the Act

spouse. A husband and wife filing separate state income tax returns or separately on a combined return are allowed a combined maximum exclusion under this paragraph "e" of up to the amount allowed for a husband and wife who file a joint state income tax return. The exclusion shall be allocated to the husband or wife in the proportion that each spouse's respective pension and retirement pay received bears to total combined pension and retirement pay received.

f. Notwithstanding the method for computing income from an installment sale under section 453 of the Internal Revenue Code, as defined in section 422.3, the method to be used in computing income from an installment sale shall be the method under section 453 of the Internal Revenue Code, as amended up to and including January 1, 2000. A taxpayer affected by this paragraph shall make adjustments in the adjusted gross income pursuant to rules adopted by the director.

The adjustment to net income provided in this paragraph "f" is repealed for tax years beginning on or after January 1, 2002. However, to the extent that a taxpayer using the accrual method of accounting reported the entire capital gain from the sale or exchange of property on the Iowa return for the tax year beginning in the 2001 calendar year and the capital gain was reported on the installment method on the federal income tax return, any additional installment from the capital gain reported for federal income tax purposes is not to be included in net income in tax years beginning on or after January 1, 2002.

g. Subtract, if the taxpayer is the owner of an individual development account certified under chapter 541A at any time during the tax year, all of the following:

(1) Contributions made to the account by persons and entities, other than the taxpayer, as authorized in chapter 541A.

(2) The amount of any savings refund authorized under section 541A.3, subsection 1.

(3) Earnings from the account.

h. (1) Subtract the maximum contribution that may be deducted for income tax purposes as a participant in the Iowa educational savings plan trust pursuant to section 12D.3, subsection 1, paragraph "a".

(2) Subtract, to the extent included, income from interest and earnings received from the Iowa educational savings plan trust created in chapter 12D.

(3) Subtract, to the extent not deducted for federal income tax purposes, the amount of any gift, grant, or donation made to the Iowa educational savings plan trust for deposit in the endowment fund of that trust.

i. Subtract, to the extent included, active duty pay received by a person in the national guard or armed forces military reserve for services performed on or after August 2, 1990, pursuant to military orders related to the Persian Gulf Conflict.

j. Subtract, to the extent included, active duty pay received by a person in the national guard or armed forces military reserve for service performed on or after November 21, 1995, pursuant to military orders related to peacekeeping in Bosnia-Herzegovina.

k. Subtract, to the extent included, the following:

(1) Payments made to the taxpayer because of the taxpayer's status as a victim of persecution for racial, ethnic, or religious reasons by Nazi Germany or any other Axis regime or as an heir of such victim.

(2) Items of income attributable to, derived from, or in any way related to assets stolen from, hidden from, or otherwise lost to a victim of persecution for racial, ethnic, or religious reasons by Nazi Germany or any other Axis regime immediately prior to, during, and immediately after World War II, including, but not limited to, interest on the proceeds receivable as insurance under policies issued to a victim of persecution for racial, ethnic, or religious reasons by Nazi Germany or any other Axis regime by European insurance companies immediately prior to and during World War II. However, income from assets acquired with such assets or with the proceeds from the sale of such assets shall not be subtracted. This subparagraph shall only apply to a taxpayer who was the first recipient of such assets after recovery of the assets and who is a victim of persecution for racial, ethnic, or religious reasons by Nazi Germany or any other Axis regime or is an heir of such victim.

l. Subtract, to the extent included, active duty pay received by a person in the national guard

or armed forces military reserve for service performed on or after January 1, 2003, pursuant to military orders related to Operation Iraqi Freedom, Operation Noble Eagle, and Operation Enduring Freedom.

m. Subtract, not to exceed one thousand five hundred dollars, the overnight transportation, meals, and lodging expenses, to the extent not reimbursed, incurred by the taxpayer for travel away from home of more than one hundred miles for the performance of services by the taxpayer as a member of the national guard or armed forces military reserve.

n. Subtract, to the extent included, military student loan repayments received by the taxpayer serving on active duty in the national guard or armed forces military reserve or on active duty status in the armed forces.

o. Subtract, to the extent not otherwise excluded, the amount of the death gratuity payable under 10 U.S.C. § 1475-1491 for deaths occurring after September 10, 2001.

3. a. In determining the amount of federal income tax refunds or taxes paid or accrued under subsection 1 or 2, for tax years beginning in the 2001 calendar year, the amount shall not be adjusted by the amount received during the tax year of the advanced refund of the rate reduction tax credit provided pursuant to the federal Economic Growth and Tax Relief Reconciliation Act of 2001, Pub. L. No. 107-16, and the advanced refund of such credit shall not be subject to taxation under this division.

b. In determining the amount of federal income tax refunds or taxes paid or accrued under subsection 1 or 2, for tax years beginning in the 2002 calendar year, the amount shall not be adjusted by the amount of the rate reduction credit received during the tax year to the extent that the credit is attributable to the rate reduction credit provided pursuant to the federal Economic Growth and Tax Relief Reconciliation Act of 2001, Pub. L. No. 107-16, and the amount of such credit shall not be taxable under this division.

4. The additional first-year depreciation allowance authorized in section 168(k) of the Internal Revenue Code, as enacted by Pub. L. No. 107-147, section 101, does not apply in computing net income for state tax purposes. If the taxpayer has taken such deduction in computing federal adjusted gross income, the following adjustments shall be made:

a. Add the total amount of depreciation taken on all property for which the election under section 168(k) of the Internal Revenue Code was made for the tax year.

b. Subtract an amount equal to depreciation taken on such property for the tax year using the modified accelerated cost recovery system depreciation method applicable under section 168 of the Internal Revenue Code without regard to section 168(k).

c. Any other adjustments to gains or losses to reflect the adjustments made in paragraphs "a" and "b" pursuant to rules adopted by the director.*

*Sec. 55. Section 422.8, subsection 2, paragraph a, Code 2003, is amended to read as follows:

a. Nonresident's net income allocated to Iowa is the net income, or portion of net income, which is derived from a business, trade, profession, or occupation carried on within this state or income from any property, trust, estate, or other source within Iowa. However, income derived from a business, trade, profession, or occupation carried on within this state and income from any property, trust, estate, or other source within Iowa shall not include distributions from pensions, including defined benefit or defined contribution plans, annuities, individual retirement accounts, and deferred compensation plans or any earnings attributable thereto so long as the distribution is directly related to an individual's documented retirement and received while the individual is a nonresident of this state. If a business, trade, profession, or occupation is carried on partly within and partly without the state, only the portion of the net income which is fairly and equitably attributable to that part of the business, trade, profession, or occupation carried on within the state is allocated to Iowa for purposes of section 422.5, subsection 1, paragraph "j" "b", and section 422.13 and income from any property, trust, estate, or other source partly within and partly without the state is allocated to Iowa in the same manner, except that annuities, interest on bank deposits and interest-bearing obligations, and dividends are allocated to Iowa only to the extent to which they are derived from a business, trade, profession, or occupation carried on within the state.*

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Sec. 56. Section 422.8, subsection 4, Code 2003, is amended by striking the subsection.

*Sec. 57. Section 422.9, subsection 1, Code 2003, is amended to read as follows:

1. An optional standard deduction, ~~after deduction of federal income tax~~, equal to one thousand two hundred thirty dollars for a married person who files separately or a single person or equal to three thousand thirty dollars for a husband and wife who file a joint return, a surviving spouse, or an unmarried head of household. ~~The optional standard deduction shall not exceed the amount remaining after deduction of the federal income tax.*~~

Sec. 58. Section 422.9, subsection 2, paragraph b, Code 2003, is amended by striking the paragraph.

Sec. 59. Section 422.9, subsections 6 and 7, Code 2003, are amended by striking the subsections.

*Sec. 60. Section 422.11B, subsection 1, Code 2003, is amended to read as follows:

1. There is allowed as a credit against the tax determined in section 422.5, subsection 1, paragraphs "a" through "j" for a tax year an amount equal to the minimum tax credit for that tax year.

The minimum tax credit for a tax year is the excess, if any, of the adjusted net minimum tax imposed for all prior tax years beginning on or after January 1, 1987, but before January 1, 2007, over the amount allowable as a credit under this section for those prior tax years.

If a minimum tax credit is available to a tax period beginning on or after January 1, 2007, the credit can be carried over to tax years beginning on or after January 1, 2007, but before January 1, 2010. The minimum tax credit is limited to the tax determined in section 422.5, subsection 1, paragraphs "a" and "b".*

*Sec. 61. Section 422.13, subsection 1, paragraph c, and subsection 1A, Code 2003, are amended to read as follows:

c. However, if that part of the net income of a nonresident which is allocated to Iowa pursuant to section 422.8, subsection 2, is less than one thousand dollars the nonresident is not required to make and sign a return ~~except when the nonresident is subject to the state alternative minimum tax imposed pursuant to section 422.5, subsection 1, paragraph "k".~~

1A. Notwithstanding any other provision in this section, a resident of this state is not required to make and file a return if the person's net income is equal to or less than the appropriate dollar amount listed in section 422.5, subsection 2, upon which tax is not imposed. A nonresident of this state is not required to make and file a return if the person's total net income in section 422.5, subsection 1, paragraph "j", "b", is equal to or less than the appropriate dollar amount provided in section 422.5, subsection 2, upon which tax is not imposed. For purposes of this subsection, the amount of a lump sum distribution subject to separate federal tax shall be included in net income for purposes of determining if a resident is required to file a return and the portion of the lump sum distribution that is allocable to Iowa is included in total net income for purposes of determining if a nonresident is required to make and file a return.*

*Sec. 62. Section 422.21, unnumbered paragraph 5, Code 2003, is amended to read as follows:

The director shall determine for the ~~1989~~ 2008 and each subsequent calendar year the annual and cumulative inflation factors for each calendar year to be applied to tax years beginning on or after January 1 of that calendar year. The director shall compute the new dollar amounts as specified to be adjusted in section 422.5 by the latest cumulative inflation factor and round off the result to the nearest one dollar. The annual and cumulative inflation factors determined by the director are not rules as defined in section 17A.2, subsection 11. The director shall determine for the 1990 calendar year and each subsequent calendar year the annual and cumulative standard deduction factors to be applied to tax years beginning on or after January 1 of that

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calendar year. The director shall compute the new dollar amounts of the standard deductions specified in section 422.9, subsection 1, by the latest cumulative standard deduction factor and round off the result to the nearest ten dollars. The annual and cumulative standard deduction factors determined by the director are not rules as defined in section 17A.2, subsection 11.*

Sec. 63. Section 422.11B, Code 2003, is repealed.

COORDINATING AMENDMENTS

*Sec. 64. Section 12D.9, subsection 2, Code 2003, is amended to read as follows:

2. State income tax treatment of the Iowa educational savings plan trust shall be as provided in section 422.7, ~~subsections 32, 33, and 34~~ subsection 1, paragraph "e", and subsection 2, paragraph "h", and section 422.35, subsection 14.*

*Sec. 65. Section 217.39, Code 2003, is amended to read as follows:

217.39 PERSECUTED VICTIMS OF WORLD WAR II — REPARATIONS — HEIRS.

Notwithstanding any other law of this state, payments paid to and income from lost property of a victim of persecution for racial, ethnic, or religious reasons by Nazi Germany or any other Axis regime or as an heir of such victim which is exempt from state income tax as provided in section 422.7, subsection ~~35~~ 2, paragraph "k", shall not be considered as income or an asset for determining the eligibility for state or local government benefit or entitlement programs. The proceeds are not subject to recoupment for the receipt of governmental benefits or entitlements, and liens, except liens for child support, are not enforceable against these sums for any reason.*

*Sec. 66. Section 422.120, subsection 1, paragraph b, subparagraph (3), Code 2003, is amended to read as follows:

(3) ~~The annual index factor for the 1997 calendar year is one hundred percent. For each subsequent the 1998 through 2006 calendar year years, the annual index factor equals the annual inflation factor for that calendar year as computed in section 422.4 for purposes of the individual income tax. For the 2007 calendar year and each subsequent calendar year the annual index factor shall be determined by the department by October 15 of the calendar year preceding the calendar year for which the factor is determined, which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in the calendar year preceding the calendar year for which the factor is determined. In determining the annual index factor, the department shall use the annual percent change, but not less than zero percent, in the gross domestic product price deflator computed for the second quarter of the calendar year by the bureau of economic analysis of the United States department of commerce and shall add all of that percent change to one hundred percent. The annual index factor and the cumulative index factor shall each be expressed as a percentage rounded to the nearest one-tenth of one percent. The annual index factor shall not be less than one hundred percent.~~*

*Sec. 67. Section 425.23, subsection 4, paragraph b, Code 2003, is amended to read as follows:

b. ~~The annual adjustment factor for the 1998 base year is one hundred percent. For each subsequent the 1999 through 2006 base year years, the annual adjustment factor equals the annual inflation factor for the calendar year, in which the base year begins, as computed in section 422.4 for purposes of the individual income tax. For the 2007 base year and each subsequent base year, the annual adjustment factor equals the annual index factor, in which the base year begins, as computed in section 422.120, subsection 1, for purposes of the livestock production tax credit.~~*

*Sec. 68. Section 450.4, subsection 8, Code 2003, is amended to read as follows:

8. On the value of that portion of any lump sum or installment payments which are received by a beneficiary under an annuity which was purchased under an employee's pension or retire-

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ment plan which was excluded from net income as set forth in under section 422.7, ~~subsection 31.~~*

*Sec. 69. Section 541A.2, subsection 7, unnumbered paragraph 1, Code 2003, is amended to read as follows:

An individual development account closed in accordance with this subsection is not subject to the limitations and benefits provided by this chapter but is subject to state tax in accordance with the provisions of section 422.7, subsection ~~28 2.~~ paragraph "g", and section 450.4, subsection 6. An individual development account may be closed for any of the following reasons:*

*Sec. 70. Section 541A.3, subsection 2, Code 2003, is amended to read as follows:

2. Income earned by an individual development account is not subject to state tax, in accordance with the provisions of section 422.7, subsection ~~28 2.~~ paragraph "g".*

Sec. 71. Division III of this Act is repealed.

CONTINGENT EFFECTIVE AND APPLICABILITY DATE PROVISION

*Sec. 72.

1. This division of this Act takes effect upon ratification prior to January 1, 2007, of an amendment to the Constitution of the State of Iowa requiring a three-fifths majority vote of each house of the general assembly in order to pass a bill that amends the state individual income tax by raising the rate or rates of the individual income tax or of an amendment to the Constitution of the State of Iowa requiring a statewide referendum in order to approve a bill that amends the state individual income tax by raising the rate or rates of the individual income tax.

2. If this division of this Act takes effect as provided in subsection 1, this division of this Act, except as provided in subsection 3, applies to tax years beginning on or after January 1, 2007.

3. The section of this division of this Act repealing section 422.11B applies to tax years beginning on or after January 1, 2010.*

DIVISION V SALES AND USE TAX STUDIES

Sec. 73. INDUSTRIAL PROCESSING EXEMPTION STUDY COMMITTEE. On or before July 1, 2003, the department of revenue and finance shall initiate and coordinate the establishment of an industrial processing exemption study committee and provide staffing assistance to the committee. It is the intent of the general assembly that the committee shall include representatives of the department of revenue and finance, department of management, industrial producers including manufacturers, fabricators, printers and publishers, and an association that specifically represents business tax issues, and other stakeholders.

The industrial processing exemption under the sales and use tax is a significant exemption for business. The committee shall study and make legislative and administrative recommendations relating to Iowa's processing exemption to ensure maximum utilization by Iowa's industries.

The committee shall study and make recommendations regarding all of the following:

1. The current sales and use tax industrial processing exemption.
2. The corresponding administrative rules, including a review and recommendation of an administrative rules process relating to the industrial processing exemption prior to filing with the administrative rules review committee.
3. Other states' industrial processing exemptions.
4. Recommendations for change for issues including effectiveness and competitiveness.
5. Development of additional publications to improve compliance.

The committee shall annually report to the general assembly by January 1 of each year through January 1, 2013.

* Item veto; see message at end of the Act

Sec. 74. IOWA SALES, SERVICES, AND USE TAX STUDY COMMITTEE. On or before July 1, 2003, the department of revenue and finance shall initiate and coordinate the establishment of a state sales, services, and use tax study committee and provide staffing assistance to the committee. It is the intent of the general assembly that the committee shall include representatives of the department of revenue and finance, department of management, an association of Iowa farmers and other agricultural interests, retail associations, contractors, taxpayers, an association that specifically represents business tax issues, and other stakeholders, two members of the general assembly, and a representative of the governor's office.

The committee shall study the current sales, services, and use tax law. Programs funded through special features of the tax code often escape regular review. It is intended that the study committee shall review the current sales, services, and use tax exemptions to improve government accountability.

The committee shall study and make recommendations regarding all of the following:

1. Retaining or eliminating current sales, services, and use tax exemptions or providing new exemptions. Such decisions shall be based at least partially on the issues of effectiveness and competitiveness and their impact on economic behavior.
2. Tax simplification and consistency issues in applying the tax, including recordkeeping burdens on retailers and application by the department of revenue and finance.
3. Streamlining sales tax implementation in Iowa.
4. The tax rate.
5. Comparison of Iowa sales, services, and use tax structure with other states.

The committee shall report to the general assembly by January 1, 2004. The report shall provide rationale for each decision made by the study committee.

Sec. 75. EFFECTIVE DATE. This division of this Act, being deemed of immediate importance, takes effect July 1, 2003.

DIVISION VI
GROW IOWA VALUES BOARD AND FUND

Sec. 76. Section 15.108, subsection 9, Code 2003, is amended by adding the following new paragraph:

NEW PARAGRAPH. g. Administer the marketing strategy selected pursuant to section 15G.108.

Sec. 77. NEW SECTION. 15G.101 DEFINITIONS.

As used in this chapter, unless the context otherwise requires:

1. "Board" means the grow Iowa values board established in section 15G.102.
2. "Department" means the Iowa department of economic development created in section 15.105.
3. "Director" means the director of the department of economic development.
4. "Fund" means the grow Iowa values fund created in section 15G.107.
5. "Grow Iowa values geographic regions" means the geographic regions defined in section 15G.105.

Sec. 78. NEW SECTION. 15G.102 GROW IOWA VALUES BOARD.

1. The grow Iowa values board is established consisting of eleven voting members and four ex officio, nonvoting members. The grow Iowa values board shall be located for administrative purposes within the department and the director shall provide office space, staff assistance, and necessary supplies and equipment for the board. The director shall budget moneys to pay the compensation and expenses of the board. In performing its functions, the board is performing a public function on behalf of the state and is a public instrumentality of the state.

2. a. The eleven voting members of the board shall be appointed by the governor, subject to confirmation by the senate.

- b. The four ex officio, nonvoting members shall be appointed as follows:
 - (1) One member appointed by the president of the senate.
 - (2) One member appointed by the minority leader of the senate.
 - (3) One member appointed by the speaker of the house of representatives.
 - (4) One member appointed by the minority leader of the house of representatives.
- c. All appointments shall comply with sections 69.16 and 69.16A.
- d. At least one member of the board shall be from each grow Iowa values geographic region.
- e. Each of the following areas of expertise shall be represented by at least one member of the board who has professional experience in that area of expertise:
 - (1) Finance and investment banking.
 - (2) Advanced manufacturing.
 - (3) Statewide agriculture.
 - (4) Life sciences.
 - (5) Small business development.
 - (6) Information technology.
 - (7) Economics.
 - (8) Labor.
 - (9) Marketing.
 - (10) Entrepreneurship.
- f. At least nine voting members of the board shall be actively employed in the private, for-profit sector of the economy.
- g. The board membership shall be balanced between representation by employers with less than two hundred employees and employers with two hundred or more employees.
- 3. The chairperson and vice chairperson shall be elected by the voting members of the board from the membership of the board. In the case of the absence or disability of the chairperson and vice chairperson, the voting members of the board shall elect a temporary chairperson by a majority vote of those voting members who are present and voting, provided a quorum is present.
- 4. The members of the board shall be appointed to three-year staggered terms and the terms shall commence and end as provided in section 69.19. If a vacancy occurs, a successor shall be appointed in the same manner and subject to the same qualifications as the original appointment to serve the unexpired term.
- 5. A majority of the voting members of the board constitutes a quorum.
- 6. A member of the board shall abstain from voting on the provision of financial assistance to a project which is located in the county in which the member of the board resides.
- 7. The members of the board are entitled to receive reimbursement for actual expenses incurred while engaged in the performance of official duties. A board member may also be eligible to receive compensation as provided in section 7E.6.

Sec. 79. NEW SECTION. 15G.103 BOARD DUTIES.

The board shall do all of the following:

- 1. Organize.
- 2. Receive advice and recommendations from the due diligence committee, the economic development marketing board, and the grow Iowa values review commission.
- 3. Assist the department in implementing programs and activities in a manner designed to achieve the goals set out in section 15G.106.
- 4. By December 15 of each year, submit a written report to the general assembly reviewing the activities of the board during the calendar year. The report shall include information necessary for the review of the goals and performance measures set out in section 15G.106. State agencies and other entities receiving moneys from the fund shall cooperate with and assist the board in compilation of the report.
- 5. Adopt administrative rules pursuant to chapter 17A necessary to administer this chapter. This delegation shall be construed narrowly.
- 6. Adopt a strategic plan pursuant to section 8E.204 by July 1, 2004.

Sec. 80. NEW SECTION. 15G.104 DUE DILIGENCE COMMITTEE.

1. A due diligence committee is established consisting of five members and is located for administrative purposes within the department. The director of the department shall provide office space, staff assistance, and necessary supplies and equipment for the committee. The director shall budget moneys to pay the compensation and expenses of the committee. In performing its functions, the committee is performing a public function on behalf of the state and is a public instrumentality of the state.

2. a. Membership of the due diligence committee shall consist of five voting members of the grow Iowa values board elected annually by the voting members of the board. Committee members shall have expertise in the areas of banking and entrepreneurship.

b. The chairperson and vice chairperson of the committee shall be elected by and from the committee members. The terms of the members shall commence and end as provided by section 69.19. If a vacancy occurs, a successor shall be appointed in the same manner and subject to the same qualifications as the original appointment to serve the unexpired term. A majority of the committee constitutes a quorum.

3. The committee, after a thorough review, shall determine whether a proposed project using moneys from the grow Iowa values fund is practical and shall provide recommendations to the grow Iowa values board regarding any moneys proposed to be expended from the grow Iowa values fund, with the exception of moneys appropriated for purposes of the loan and credit guarantee program and regarding whether a proposed project is practical. The recommendations shall be based on whether the expenditure would make the achievement of the goals in accordance with the performance measures set out in section 15G.106 more likely. The recommendations may include conditions or that a proposed expenditure be rejected.

4. The members of the committee are entitled to receive reimbursement for actual expenses incurred while engaged in the performance of official duties. A committee member may also be eligible to receive compensation as provided in section 7E.6.

Sec. 81. NEW SECTION. 15G.104A GROW IOWA VALUES REVIEW COMMISSION.

1. A grow Iowa values review commission is established consisting of three members and is located for administrative purposes within the office of the auditor of state. The auditor of state shall provide office space, staff assistance, and necessary supplies and equipment for the review commission. The auditor of state shall budget moneys to pay the compensation and expenses of the commission, including the actual expenses of the auditor of state incurred while engaged in the performance of official commission duties. In performing its functions, the review commission is performing a public function on behalf of the state and is a public instrumentality of the state.

2. Membership of the review commission shall include the auditor of state, one member appointed by the governor subject to confirmation by the senate, and one member appointed by the legislative council. The members appointed by the governor and the legislative council shall possess experience and expertise in the field of economics. The appointments shall comply with sections 69.16 and 69.16A. The chairperson of the review commission shall be the auditor of state. The members shall be appointed to three-year staggered terms and the terms shall commence and end as provided by section 69.19. If a vacancy occurs, a successor shall be appointed in the same manner and subject to the same qualifications as the original appointment to serve the unexpired term. A majority of the review commission constitutes a quorum.

3. The review commission shall analyze all annual reports of the grow Iowa values board for purposes of determining if the goals and performance measures set out in section 15G.106 have been met. By January 1, 2007, the review commission shall submit a report to the grow Iowa values board, the department, and the general assembly. The report shall include findings, itemized by grow Iowa values geographic regions, regarding whether the goals and performance measures were met. The report shall also include recommendations regarding the continuation, elimination, or modification of any programs receiving moneys from the grow Iowa values fund and whether moneys should continue to be appropriated to and from the

grow Iowa values fund. The recommendations shall be based on whether the goals in accordance with the performance measures are being achieved.

4. The members of the commission, including the auditor of state, are entitled to receive reimbursement for actual expenses incurred while engaged in the performance of official duties. A commission member may also be eligible to receive compensation as provided in section 7E.6.

Sec. 82. NEW SECTION. 15G.105 GROW IOWA VALUES GEOGRAPHIC REGIONS.

For purposes of applying the goals and performance measurements, the state shall be divided into five grow Iowa values geographic regions. The regions shall be the following:

1. The northwest region shall include the counties of Lyon, Osceola, Dickinson, Emmet, Kossuth, Winnebago, Sioux, O'Brien, Clay, Palo Alto, Hancock, Plymouth, Cherokee, Buena Vista, Pocahontas, Humboldt, Wright, Woodbury, Ida, Sac, Calhoun, Webster, and Hamilton.

2. The northeast region shall include the counties of Worth, Mitchell, Howard, Winneshiek, Allamakee, Cerro Gordo, Floyd, Chickasaw, Fayette, Clayton, Franklin, Butler, Bremer, Hardin, Grundy, Black Hawk, Buchanan, Delaware, Dubuque, Tama, Benton, Linn, Jones, and Jackson.

3. The southeast region shall include the counties of Poweshiek, Iowa, Johnson, Cedar, Clinton, Scott, Muscatine, Mahaska, Keokuk, Washington, Louisa, Monroe, Wapello, Jefferson, Henry, Des Moines, Appanoose, Davis, Van Buren, and Lee.

4. The southwest region shall include the counties of Monona, Crawford, Carroll, Greene, Harrison, Shelby, Audubon, Guthrie, Pottawattamie, Cass, Adair, Mills, Montgomery, Adams, Union, Clarke, Lucas, Fremont, Page, Taylor, Ringgold, Decatur, and Wayne.

5. The central region shall include the counties of Boone, Story, Marshall, Dallas, Polk, Jasper, Madison, Warren, and Marion.

Sec. 83. NEW SECTION. 15G.106 GOALS — PERFORMANCE MEASURES.

1. In performing the duties provided in this chapter, chapter 15, and chapter 15E, the grow Iowa values board, the due diligence committee, the economic development marketing board, the grow Iowa values review commission, and the department shall achieve the goals of expanding and stimulating the state economy, increasing the wealth of Iowans, and increasing the population of the state. For purposes of this section, "upper midwest region" includes the states of Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.

2. Goal achievement shall be examined on a regional basis using the grow Iowa values geographic regions on a statewide basis. Family farm performance indicators shall be calculated separately. The performance of the grow Iowa values geographic regions shall be compared to the performance of the state, the upper midwest region, and the United States. The baseline year shall be the calendar year 2002. In each grow Iowa values geographic region, the goal shall be to increase the baseline performance measure of Iowa's gross state product at a rate equal to or greater than the national economy.

3. a. In determining whether the goal of expanding and stimulating the state economy has been met, and using the calendar year 2002 as a baseline, performance measures shall be considered, including but not limited to the following, on a statewide basis or of those businesses that receive moneys originating from the grow Iowa values fund, as appropriate:

- (1) A net increase in a business's supplier network.
- (2) A net increase in business start-ups.
- (3) A net increase in business expansion.
- (4) A net increase in business modernization.
- (5) A net increase in attracting new businesses to the state.
- (6) A net increase in business retention.
- (7) A net increase in job creation and retention.

(8) A decrease in Iowa of the ratio of the government employment as a percentage share of the total employment in Iowa at a rate at least equal to the ratio of the upper midwest region.

b. By December 15 of each year, the department shall submit a report to the grow Iowa

values review commission and the grow Iowa values board that identifies information pertinent to the performance measures in paragraph "a", subparagraphs (3), (4), and (6), that the department gains through interviews with businesses in the state that close all or a portion of operations in the state. By December 15 of each year, based on the same interviews, the department shall submit a report to the general assembly providing suggested amendments to the Code of Iowa and the Iowa administrative code designed to stimulate and expand the state's economy.

c. By December 15 of each year the department shall submit a report to the grow Iowa values review commission and the grow Iowa values board that identifies prospective lost business development opportunities information pertinent to the performance measures in paragraph "a", subparagraphs (2) and (5), which indicate that the state has not been successful in the performance measures in paragraph "a", subparagraphs (2) and (5).

d. For purposes of the performance measure in paragraph "a", subparagraph (7), the department of economic development, in consultation with the department of workforce development and the auditor of state, shall determine average annual job creation and retention rates based on the ten years prior to 2003, for the state and the upper midwest region. During the fiscal years beginning July 1, 2003, July 1, 2004, and July 1, 2005, the department of economic development shall report the job creation and retention rate of those businesses that receive moneys originating from the grow Iowa values fund and the job creation and retention rate of those businesses that do not receive moneys originating from the grow Iowa values fund. The ten-year average annual job creation and retention rate shall be compared to the job creation and retention rates determined under this paragraph for the fiscal years beginning July 1, 2003, July 1, 2004, and July 1, 2005. The department of economic development shall assist the department of workforce development in maintaining detailed employment statistics on businesses that receive moneys originating from the grow Iowa values fund, on businesses that do not receive moneys originating from the grow Iowa values fund, and on industries in Iowa that those businesses represent. The auditor of state shall audit the reliability and validity of the statistics compiled pursuant to this paragraph.

4. In determining whether the goal of increasing the wealth of Iowans has been met, the following earning performance measures shall be considered:

a. The per capita personal income in Iowa shall equal or exceed the average per capita personal income for the upper midwest region.

b. The average earnings per job in Iowa shall equal or exceed the average earnings per job in the upper midwest region.

c. The average manufacturing earnings per employee in Iowa shall equal or exceed the average manufacturing earnings per employee in the upper midwest region.

d. The average service earnings per employee in Iowa shall equal or exceed the average service earnings per employee in the upper midwest region.

e. The average earnings per employee in the financial, insurance, and real estate industries in Iowa shall equal or exceed the average earnings per employee in the financial, insurance, and real estate industries in the upper midwest region.

5. In determining whether the goal of increasing the population of the state has been met, the following performance measures shall be considered:

a. Using the calendar year 2002 as a baseline year, a net increase in the retention of Iowa high school graduates that are employed in the Iowa workforce following a higher education degree.

b. The increase in higher education graduates.

Sec. 84. NEW SECTION. 15G.107 GROW IOWA VALUES FUND.

A grow Iowa values fund is created in the state treasury under the control of the grow Iowa values board consisting of moneys appropriated to the grow Iowa values board. Moneys in the fund are not subject to section 8.33. Notwithstanding section 12C.7, interest or earnings on moneys in the fund shall be credited to the fund. The fund shall be administered by the grow Iowa values board, which shall make expenditures from the fund consistent with this chapter

and pertinent Acts of the general assembly. Any financial assistance provided using moneys from the fund may be provided over a period of time of more than one year. Payments of interest, repayments of moneys loaned pursuant to this chapter, and recaptures of grants or loans shall be deposited in the fund.

Sec. 85. NEW SECTION. 15G.108 ECONOMIC DEVELOPMENT MARKETING BOARD — MARKETING STRATEGIES.

1. a. An economic development marketing board is established consisting of seven members and is located for administrative purposes within the department. The director of the department shall provide office space, staff assistance, and necessary supplies and equipment for the board. The director shall budget moneys to pay the compensation and expenses of the board. In performing its functions, the board is performing a public function on behalf of the state and is a public instrumentality of the state.

b. The membership of the board shall consist of seven members appointed by the governor, subject to confirmation by the senate. Five of the members shall have significant demonstrated experience in marketing or advertising. Two members of the board shall also be members of the grow Iowa values board.

c. The appointments shall comply with sections 69.16 and 69.16A.

d. The chairperson and vice chairperson of the board shall be elected by and from the board members. In case of the absence or disability of the chairperson and vice chairperson, the members of the board shall elect a temporary chairperson by a majority vote of those members who are present and voting.

e. The members shall be appointed to three-year staggered terms and the terms shall commence and end as provided by section 69.19. If a vacancy occurs, a successor shall be appointed to serve the unexpired term. A successor shall be appointed in the same manner and subject to the same qualifications as the original appointment to serve the unexpired term.

f. A majority of the board constitutes a quorum.

2. The board shall administer and implement the approval process for marketing strategies provided in subsection 3.

3. The economic development marketing board shall accept proposals for marketing strategies for purposes of selecting a strategy for the department to administer. The marketing strategies shall be designed to market Iowa as a lifestyle, increase the population of the state, increase the wealth of Iowans, and expand and stimulate the state economy. The economic development marketing board shall submit a recommendation regarding the proposal to the grow Iowa values board. In selecting a marketing strategy for recommendation, the economic development marketing board shall base the selection on the goals and performance measures provided in section 15G.106. The grow Iowa values board shall either approve or deny the recommendation.

4. The department shall implement and administer the marketing strategy approved by the grow Iowa values board as provided in subsection 3. The department shall provide the economic development marketing board with assistance in implementing administrative functions of the board and provide technical assistance to the board.

5. The members of the board are entitled to receive reimbursement for actual expenses incurred while engaged in the performance of official duties. A board member may also be eligible to receive compensation as provided in section 7E.6.

Sec. 86. NEW SECTION. 15G.109 FUTURE CONSIDERATION.

Not later than February 1, 2007, the legislative services agency shall prepare and deliver to the secretary of the senate and the chief clerk of the house of representatives identical bills that repeal the provisions of this chapter. It is the intent of this section that the general assembly shall bring the bill to a vote in either the senate or the house of representatives expeditiously. It is further the intent of this chapter that if the bill is approved by the first house in which it is considered, it shall expeditiously be brought to a vote in the second house.

DIVISION VII
VALUE-ADDED AGRICULTURAL PRODUCTS AND PROCESSES
FINANCIAL ASSISTANCE PROGRAM

Sec. 87. Section 15E.111, subsection 1, Code 2003, is amended to read as follows:

1. a. The department shall establish a value-added agricultural products and processes financial assistance program. The department shall consult with ~~the Iowa corn growers association and the Iowa soybean association~~ Iowa commodity groups. The purpose of the program is to encourage the increased utilization of agricultural commodities produced in this state. The program shall assist in efforts to revitalize rural regions of this state, by committing resources to provide financial assistance to new or existing value-added production facilities. The department of economic development may consult with other state agencies regarding any possible future environmental, health, or safety issues linked to technology related to the biotechnology industry. In awarding financial assistance, the department shall prefer producer-owned, value-added businesses and public and private joint ventures involving an institution of higher learning under the control of the state board of regents or a private college or university acquiring assets, research facilities, and leveraging moneys in a manner that meets the goals of the grow Iowa values fund and shall commit resources to assist the following:

a- (1) Facilities which are involved in the development of new innovative products and processes related to agriculture. The facility must do either of the following: produce a good derived from an agricultural commodity, if the good is not commonly produced from an agricultural commodity; or use a process to produce a good derived from an agricultural process, if the process is not commonly used to produce the good.

b- (2) Renewable fuel production facilities. As used in this section, "renewable fuel" means an energy source which is derived from an organic compound capable of powering machinery, including an engine or power plant.

(3) Agricultural business facilities in the agricultural biotechnology industry, agricultural biomass industry, and alternative energy industry. For purposes of this subsection:

(a) "Agricultural biomass industry" means businesses that utilize agricultural commodity crops, agricultural by-products, or animal feedstock in the production of chemicals, protein products, or other high-value products.

(b) "Agricultural biotechnology industry" means businesses that utilize scientifically enhanced plants or animals that can be raised by producers and used in the production of high-value products.

(c) "Alternative energy industry" includes businesses involved in the production of ethanol, including gasoline with a mixture of seventy percent or more ethanol, biodiesel, biomass, hydrogen, or in the production of wind energy.

(4) Facilities that add value to Iowa agricultural commodities through further processing and development of organic products and emerging markets.

(5) Producer-owned, value-added businesses, education of producers and management boards in value-added businesses, and other activities that would support the infrastructure in the development of value-added agriculture. Public and private joint ventures involving an institution of higher learning under the control of the state board of regents or a private college or university to acquire assets, research facilities, and leverage moneys in a manner that meets the goals of the grow Iowa values fund. For purposes of this subsection, "producer-owned, valued-added business" means a person who holds an equity interest in the agricultural business and is personally involved in the production of crops or livestock on a regular, continuous, and substantial basis.

b. Financial assistance awarded under this section may be in the form of a loan, loan guarantee, grant, production incentive payment, or a combination of financial assistance. The department shall not award more than twenty-five percent of the amount allocated to the value-added agricultural products and processes financial assistance fund during any fiscal year to support a single person. The department may finance any size of facility. However, the department shall may reserve up to fifty percent of the total amount allocated to the fund, for

purposes of assisting persons requiring ~~one~~ five hundred thousand dollars or less in financial assistance. The amount shall be reserved until the end of the third quarter of the fiscal year. The department shall not provide financial assistance to support a value-added production facility if the facility or a person owning a controlling interest in the facility has demonstrated a continuous and flagrant disregard for the health and safety of its employees or the quality of the environment. Evidence of such disregard shall include a history of serious or uncorrected violations of state or federal law protecting occupational health and safety or the environment, including but not limited to serious or uncorrected violations of occupational safety and health standards enforced by the division of labor services of the department of workforce development pursuant to chapter 84A, or rules enforced by the department of natural resources pursuant to chapter 455B or 459, subchapters II and III.

DIVISION VIII
ENDOW IOWA GRANTS

Sec. 88. NEW SECTION. 15E.301 SHORT TITLE.

This division shall be known as and may be cited as the "Endow Iowa Program Act".

Sec. 89. NEW SECTION. 15E.302 PURPOSE.

The purpose of this division is to enhance the quality of life for citizens of this state through increased philanthropic activity by providing capital to new and existing citizen groups of this state organized to establish endowment funds that will address community needs. The purpose of this division is also to encourage individuals, businesses, and organizations to invest in community foundations.

Sec. 90. NEW SECTION. 15E.303 DEFINITIONS.

As used in this division, unless the context otherwise requires:

1. "Board" means the governing board of the lead philanthropic entity identified by the department pursuant to section 15E.304.
2. "Business" means a business operating within the state and includes individuals operating a sole proprietorship or having rental, royalty, or farm income in this state and includes a consortium of businesses.
3. "Community affiliate organization" means a group of five or more community leaders or advocates organized for the purpose of increasing philanthropic activity in an identified community or geographic area in this state with the intention of establishing a community affiliate endowment fund.
4. "Endowment gift" means an irrevocable contribution to a permanent endowment held by a qualified community foundation.
5. "Lead philanthropic entity" means the entity identified by the department pursuant to section 15E.304.
6. "Qualified community foundation" means a community foundation organized or operating in this state that meets or exceeds the national standards established by the national council on foundations.

Sec. 91. NEW SECTION. 15E.304 ENDOW IOWA GRANTS.

1. The department shall identify a lead philanthropic entity for purposes of encouraging the development of qualified community foundations in this state. A lead philanthropic entity shall meet all of the following qualifications:
 - a. The entity shall be a nonprofit entity which is exempt from federal income taxation pursuant to section 501(c)(3) of the Internal Revenue Code.
 - b. The entity shall be a statewide organization with membership consisting of organizations, such as community, corporate, and private foundations, whose principal function is the making of grants within the state of Iowa.
 - c. The entity shall have a minimum of forty members and that membership shall include qualified community foundations.

2. A lead philanthropic entity may receive a grant from the department. The board shall use the grant moneys to award endow Iowa grants to new and existing qualified community foundations and to community affiliate organizations that do all of the following:
 - a. Provide the board with all information required by the board.
 - b. Demonstrate a dollar-for-dollar funding match in a form approved by the board.
 - c. Identify a qualified community foundation to hold all funds. A qualified community foundation shall not be required to meet this requirement.
 - d. Provide a plan to the board demonstrating the method for distributing grant moneys received from the board to organizations within the community or geographic area as defined by the qualified community foundation or the community affiliate organization.
3. Endow Iowa grants awarded to new and existing qualified community foundations and to community affiliate organizations shall not exceed twenty-five thousand dollars per foundation or organization unless a foundation or organization demonstrates a multiple county or regional approach. Endow Iowa grants may be awarded on an annual basis with not more than three grants going to one county in a fiscal year.
4. In ranking applications for grants, the board shall consider a variety of factors including the following:
 - a. The demonstrated need for financial assistance.
 - b. The potential for future philanthropic activity in the area represented by or being considered for assistance.
 - c. The proportion of the funding match being provided.
 - d. For community affiliate organizations, the demonstrated need for the creation of a community affiliate endowment fund in the applicant's geographic area.
 - e. The identification of community needs and the manner in which additional funding will address those needs.
 - f. The geographic diversity of awards.
5. Of any moneys received by a lead philanthropic entity from the state, not more than five percent of such moneys shall be used by the entity for administrative purposes.

Sec. 92. NEW SECTION. 15E.306 REPORTS — AUDITS.

By January 31 of each year, the lead philanthropic entity, in cooperation with the department, shall publish an annual report of the activities conducted pursuant to this division during the previous calendar year and shall submit the report to the governor and the general assembly. The annual report shall include a listing of endowment funds and the amount of tax credits authorized by the department.

Sec. 93. EFFECTIVE AND RETROACTIVE APPLICABILITY DATES. This division of this Act, being deemed of immediate importance, takes effect upon enactment and is retroactively applicable to January 1, 2003, for tax years beginning on or after that date.

DIVISION IX
COMMERCIALIZATION OF RESEARCH ISSUES

- Sec. 94. Section 262.9, Code 2003, is amended by adding the following new subsection:
NEW SUBSECTION. 29. By January 15 of each year, submit a report to the governor, through the director of technology in the office of the governor, and the general assembly containing information from the previous calendar year regarding all of the following:
- a. Patents secured or applied for by each university under the control of the board delineated by university and by faculty member and staff member responsible for the research or activity that resulted in the patent. In the initial report filed by January 15, 2004, the board shall include an inventory of patent portfolios with details concerning which patents are creating financial benefit and the amount of financial benefit and which patents are not creating financial benefit and the amount invested in those patents.
 - b. Research grants secured by each university under the control of the board from both

public and private sources delineated by university and by faculty member and staff member. The board shall also include the same information for grant applications that are denied.

c. The number of faculty members and staff members at each university under the control of the board involved in a start-up company.

d. The number of grant applications for research received by each university under the control of the board for start-up companies, the number of applications approved, and the number of applications denied.

e. The number of agreements entered into by faculty members and staff members at each university under the control of the board with foundations affiliated with the universities relating to business start-ups.

f. An accounting of the financial gain received by each university under the control of the board relating to patents sold, royalties received, licensing fees, and any other remuneration received by the university related to technology transfer.

g. The number of professional employees at each university under the control of the board who assist in the transfer of technology and research to commercial application.

Sec. 95. Section 262B.1, Code 2003, is amended to read as follows:

262B.1 TITLE.

This chapter shall be known and may be cited as the "~~University-Based Research and Economic Development~~ Commercialization of Research for Iowa Act".

Sec. 96. Section 262B.2, Code 2003, is amended by striking the section and inserting in lieu thereof the following:

262B.2 LEGISLATIVE INTENT.

It is the intent of the general assembly that the three universities under the control of the state board of regents have as part of their mission the use of their universities' expertise to expand and stimulate economic growth across the state. This activity may be accomplished through a wide variety of partnerships, public and private joint ventures, and cooperative endeavors, primarily in the area of high technology, and may result in investments by the private sector for commercialization of the technology. It is imperative that the investments and job creation be in Iowa, but need not be in the proximity of the universities. The purpose is to expand and stimulate Iowa's economy, increase the wealth of Iowans, and increase the population of Iowa, which may be accomplished through research conducted within the state that will competitively position Iowa on an economic basis with other states and create high-wage, high-growth employers and jobs. It is also the intent of the general assembly that real or virtual research parks will be established and maintained by the universities in close enough proximity to the ventures that cooperation between the academic, research, and commercialization phases will be encouraged. It is the intent of the general assembly that satellites of the research parks will expand and stimulate economic growth in other areas of the state.

Sec. 97. Section 262B.3, Code 2003, is amended to read as follows:

262B.3 ~~ESTABLISHMENT OF CONSORTIUM~~ DUTIES AND RESPONSIBILITIES.

1. The state board of regents or the universities under its jurisdiction, as part of its mission and strategic plan, shall establish consortiums mechanisms for the purpose of carrying out the intent of this chapter. The majority of consortium members shall be from the university community and the balance of members shall be from private industry. The members of the consortium shall be appointed by the president of the convening university and will serve at the pleasure of the president. In addition to other board initiatives, the board shall work with the department of economic development, other state agencies, and the private sector to facilitate the commercialization of research.

2. Activities to implement this chapter may include:

a. Developing strategies to market university research for commercialization in Iowa.

b. Matching university resources with the needs of existing Iowa firms or start-up opportunities.

- c. Evaluating university research for commercialization potential, where relevant.
- d. Developing a plan to improve private sector access to the university licenses and patent information and the transfer of technology from the university to the private sector.
- e. Disseminating information on research activities of the university.
- f. Identifying research needs of existing Iowa businesses and recommending ways in which the universities can meet these needs.
- g. Linking research and instruction activities to economic development.
- h. Reviewing and monitoring activities related to technology transfer.
- i. Coordinating activities to facilitate a focus on research in the state's targeted industry clusters.
- j. Surveying of similar activities in other states and at other universities.
- k. Establishing a single point of contact to facilitate commercialization of research.

Sec. 98. Section 262B.5, Code 2003, is amended to read as follows:

262B.5 ~~REGENTS AND DEPARTMENT OF ECONOMIC DEVELOPMENT REPORTING.~~

The state board of regents and the Iowa department of economic development shall enter into an agreement under chapter 28E to coordinate and facilitate the activities of the ~~consortiums~~. The state board of regents ~~and with input from~~ the Iowa department of economic development shall report annually to the governor and the general assembly concerning the activities of the ~~consortiums~~ conducted pursuant to this chapter.

*Sec. 99. NEW SECTION. 262B.6 DIRECTOR OF TECHNOLOGY — TECHNOLOGY TRANSFER AGENTS.

1. The governor shall appoint a director of technology to serve within the office of the governor. A position is created for a deputy director of technology within the office of the governor. The director and the deputy director shall be responsible for advancing technology transfer and commercialization issues in the state and shall coordinate the related activities at the institutions of higher learning under the control of the state board of regents. The director shall have demonstrated expertise and experience in the areas of business, industry, and academics.

2. Each institution of higher learning under the control of the state board of regents shall designate an employee to serve as a technology transfer agent to coordinate the activities of the institution with the director of technology within the office of the governor.

3. By December 1, 2004, the director shall conduct a study and develop recommendations for the advancement of technology transfer and commercialization issues. The director shall compile and submit the recommendations in written form to the general assembly by December 1, 2004. The recommendations shall include specific and detailed proposed amendments to the Code of Iowa necessary to advance the proposed recommendations.*

Sec. 100. Section 262B.4, Code 2003, is repealed.

DIVISION X
IOWA ECONOMIC DEVELOPMENT
LOAN AND CREDIT GUARANTEE FUND

Sec. 101. NEW SECTION. 15E.221 SHORT TITLE.

This division shall be known and may be cited as the "Iowa Economic Development Loan and Credit Guarantee Fund Act".

Sec. 102. NEW SECTION. 15E.222 LEGISLATIVE FINDING — PURPOSES.

1. The general assembly finds all of the following:
 - a. That small and medium-sized businesses, in general, and certain targeted industry businesses and other qualified businesses, in particular, may not qualify for conventional financing.

* Item veto; see message at end of the Act

b. That the limited availability of credit for export transactions limits the ability of small and medium-sized businesses in this state to compete in international markets.

c. That, to enhance competitiveness and foster economic development, this state must focus on growth in certain specific targeted industry businesses and other qualified businesses, especially during a time of war.

d. That the challenge for the public economic sector is to create an atmosphere conducive to economic growth, in conjunction with financial institutions in the private sector, which fill the gaps in credit availability and export finance, and that allow the private sector to identify the lending opportunities and foster decision making at the local level.

2. The general assembly declares the purposes of this division to be all of the following:

a. To create incentives and assistance to increase the flow of private capital to targeted industry businesses and other qualified businesses.

b. To promote industrial modernization and technology adoption.

c. To encourage the retention and creation of jobs.

d. To encourage the export of goods and services sold by Iowa businesses in national and international markets.

Sec. 103. NEW SECTION. 15E.223 DEFINITIONS.

As used in this division, unless the context otherwise requires:

1. "Financial institution" means an institution listed in section 422.61, subsection 1, or such other financial institution as defined by the department for purposes of this division.

2. "Program" means the loan and credit guarantee program established in this division.

3. "Qualified business" means an existing or proposed business entity with an annual average number of employees not exceeding two hundred employees. "Qualified business" does not include businesses engaged primarily in retail sales, real estate, or the provision of health care or other professional services. "Qualified business" includes professional services businesses that provide services to targeted industry businesses or other entities.

4. "Targeted industry business" means an existing or proposed business entity, including an emerging small business or qualified business which is operated for profit and which has a primary business purpose of doing business in at least one of the targeted industries designated by the department which include life sciences, software and information technology, advanced manufacturing, value-added agriculture, and any other industry designated as a targeted industry by the loan and credit guarantee advisory board.

Sec. 104. NEW SECTION. 15E.224 LOAN AND CREDIT GUARANTEE PROGRAM.

1. The department shall, with the advice of the loan and credit guarantee advisory board, establish and administer a loan and credit guarantee program. The department, pursuant to agreements with financial institutions, shall provide loan and credit guarantees, or other forms of credit guarantees for qualified businesses and targeted industry businesses for eligible project costs. A loan or credit guarantee provided under the program may stand alone or may be used in conjunction with or to enhance other loans or credit guarantees, offered by private, state, or federal entities. The department may purchase insurance to cover defaulted loans meeting the requirements of the program. However, the department shall not in any manner directly or indirectly pledge the credit of the state. Eligible project costs include expenditures for productive equipment and machinery, working capital for operations and export transactions, research and development, marketing, and such other costs as the department may so designate.

2. A loan or credit guarantee or other form of credit guarantee provided under the program to a participating financial institution for a single qualified business or targeted industry business shall not exceed one million dollars in value. Loan or credit guarantees or other forms of credit guarantees provided under the program to more than one participating financial institution for a single qualified business or targeted industry business shall not exceed ten million dollars in value.

3. In administering the program, the department shall consult and cooperate with financial institutions in this state and with the loan and credit guarantee advisory board. Administrative procedures and application procedures, as practicable, shall be responsive to the needs of qualified businesses, targeted industry businesses, and financial institutions, and shall be consistent with prudent investment and lending practices and criteria.

4. Each participating financial institution shall identify and underwrite potential lending opportunities with qualified businesses and targeted industry businesses. Upon a determination by a participating financial institution that a qualified business or targeted industry business meets the underwriting standards of the financial institution, subject to the approval of a loan or credit guarantee, the financial institution shall submit the underwriting information and a loan or credit guarantee application to the department.

5. The department, with the advice of the loan and credit guarantee advisory board, shall adopt a loan or credit guarantee application procedure for a financial institution on behalf of a qualified business or targeted industry business.

6. Upon approval of a loan or credit guarantee, the department shall enter into a loan or credit guarantee agreement with the participating financial institution. The agreement shall specify all of the following:

- a. The fee to be charged to the financial institution.
- b. The evidence of debt assurance of, and security for, the loan or credit guarantee.
- c. A loan or credit guarantee that does not exceed fifteen years.
- d. Any other terms and conditions considered necessary or desirable by the department.

7. The department, with the advice of the loan and credit guarantee advisory board, may adopt loan and credit guarantee application procedures that allow a qualified business or targeted industry business to apply directly to the department for a preliminary guarantee commitment. A preliminary guarantee commitment may be issued by the department subject to the qualified business or targeted industry business securing a commitment for financing from a financial institution. The application procedures shall specify the process by which a financial institution may obtain a final loan and credit guarantee.

Sec. 105. NEW SECTION. 15E.225 TERMS — FEES.

1. When entering into a loan or credit guarantee agreement, the department, with the advice of the loan and credit guarantee advisory board, shall establish fees and other terms for participation in the program by qualified businesses and targeted industry businesses.

2. The department, with due regard for the possibility of losses and administrative costs and with the advice of the loan and credit guarantee advisory board, shall set fees and other terms at levels sufficient to assure that the program is self-financing.

3. For a preliminary guarantee commitment, the department may charge a qualified business or targeted industry business a preliminary guarantee commitment fee. The application fee shall be in addition to any other fees charged by the department under this section and shall not exceed one thousand dollars for an application.

Sec. 106. NEW SECTION. 15E.226 LOAN AND CREDIT GUARANTEE ADVISORY BOARD.

A loan and credit guarantee advisory board is established consisting of seven members appointed by the governor, subject to confirmation by the senate. The advisory board shall provide the department with technical advice regarding the administration of the program, including the adoption of administrative rules pursuant to chapter 17A. The advisory board shall review and provide recommendations regarding all applications under the program. Members of the advisory board are entitled to receive reimbursement for actual expenses incurred while engaged in the performance of official duties. Advisory board members may also be eligible to receive compensation as provided in section 7E.6. The director of the department shall budget moneys to pay the compensation and expenses of the advisory board. The provisions of this section relating to the adoption of administrative rules shall be construed narrowly.

DIVISION XI
ECONOMIC DEVELOPMENT ASSISTANCE AND DATA COLLECTION

Sec. 107. NEW SECTION. 15E.118 BUSINESS START-UP INFORMATION — INTERNET WEB SITE.

The department shall provide information through an internet web site and a toll-free telephone service to assist persons interested in establishing a commercial facility or engaging in a commercial activity. The information shall include all of the following:

1. Assistance, information, and guidance for start-up businesses.
2. Information gathered by the department pursuant to section 15E.17, subsection 2.
3. Personal and corporate income tax information.
4. Information regarding financial assistance and incentives available to businesses.
5. Workforce availability in the state presented in a regional format.

**Sec. 108. NEW SECTION. 15E.119 ECONOMIC DEVELOPMENT-RELATED DATA COLLECTION.*

1. The department shall interview any business that considered locating in Iowa but decided to locate elsewhere. The department shall attempt to determine factors that affected the location decision of the business.

2. The department shall interview any business that closes major operations in the state or dissolves the business's corporate status in an effort to identify factors that led to the closure or dissolution.

*3. By January 15 of each year, the department shall submit a written report to the general assembly that summarizes the information collected pursuant to this section and provides suggested amendments to the Code of Iowa and the Iowa administrative code designed to stimulate and expand the state's economy.**

Sec. 109. INTERNET WEB SITE DEVELOPMENT. In developing the internet web site required in section 15E.118, the department of economic development shall examine similar efforts in other states and incorporate the best practices.

DIVISION XII
CULTURAL AND ENTERTAINMENT DISTRICTS

Sec. 110. NEW SECTION. 303.3B CULTURAL AND ENTERTAINMENT DISTRICTS.

1. The department of cultural affairs shall establish and administer a cultural and entertainment district certification program. The program shall encourage the growth of communities through the development of areas within a city or county for public and private uses related to cultural and entertainment purposes.

2. A city or county may create and designate a cultural and entertainment district subject to certification by the department of cultural affairs, in consultation with the department of economic development. A cultural and entertainment district shall consist of a geographic area not exceeding one square mile in size. A cultural and entertainment district certification shall remain in effect for ten years following the date of certification. Two or more cities or counties may apply jointly for certification of a district that extends across a common boundary. Through the adoption of administrative rules, the department of cultural affairs shall develop a certification application for use in the certification process. The provisions of this subsection relating to the adoption of administrative rules shall be construed narrowly.

3. The department of cultural affairs shall encourage development projects and activities located in certified cultural and entertainment districts through incentives under cultural grant programs pursuant to section 303.3, chapter 303A, and any other grant programs.

* Item veto; see message at end of the Act

DIVISION XIII
UNIVERSITY-BASED RESEARCH UTILIZATION PROGRAM

Sec. 111. NEW SECTION. 262B.11 UNIVERSITY-BASED RESEARCH UTILIZATION PROGRAM.

1. The department of economic development shall establish and administer a university-based research utilization program for purposes of encouraging the utilization of university-based research, primarily in the area of high technology, in new or existing businesses. The program shall include the three universities under the control of the state board of regents and all accredited private universities located in the state.

2. A new or existing business that utilizes a technology developed by an employee at a university under the control of the state board of regents may apply to the department of economic development for approval to participate in the university-based research utilization program. The department shall approve an applicant if the applicant meets all of the following criteria:

a. The applicant utilizes a technology developed by an employee at a university under the control of the state board of regents, provided that the technology has received a patent after the effective date of this Act. If the applicant has been in existence more than one year prior to applying, the applicant shall organize a separate company to utilize the technology. For purposes of this section, the separate company shall be considered the applicant and, if approved, the approved business.

b. The applicant develops a five-year business plan approved by the department. The plan shall include information concerning the applicant's Iowa employment goals and projected impact on the Iowa economy. The department shall only approve plans showing sufficient potential impact on Iowa employment and economic development.

c. The applicant meets a minimum-size business standard determined by the department.

d. The applicant provides annual reports to the department that include employment statistics for the applicant and the total taxable wages paid to Iowa employees and reported to the department of revenue and finance pursuant to section 422.16.

3. A business approved under the program and the university employee responsible for the development of the technology utilized by the approved business shall be eligible for a tax credit. The credit shall be allowed against the taxes imposed in chapter 422, divisions II and III. An individual may claim a tax credit under this section of a partnership, limited liability company, S corporation, estate, or trust electing to have income taxed directly to the individual. The amount claimed by the individual shall be based upon the pro rata share of the individual's earnings from the partnership, limited liability company, S corporation, estate, or trust. A tax credit shall not be claimed under this subsection unless a tax credit certificate issued by the department of economic development is attached to the taxpayer's tax return for the tax year for which the tax credit is claimed. The amount of a tax credit allowed under this subsection shall equal the amount listed on a tax credit certificate issued by the department of economic development pursuant to subsection 4. A tax credit certificate shall not be transferable. Any tax credit in excess of the taxpayer's liability for the tax year may be credited to the taxpayer's tax liability for the following five years or until depleted, whichever occurs first. A tax credit shall not be carried back to a tax year prior to the tax year in which the taxpayer redeems the tax credit.

4. For the five tax years following the tax year in which a business is approved under the program, the department of revenue and finance shall provide the department of economic development with information required by the department of economic development from each tax return filed by the approved business. Upon receiving the tax return-related information, the department of economic development shall do all of the following:

a. Review the information provided by the department of revenue and finance pursuant to this subsection and the annual report submitted by the applicant pursuant to subsection 2, paragraph "d". If the department determines that the business activities of the applicant are not providing the benefits to Iowa employment and economic development projected in the applicant's approved five-year business plan, the department shall not issue tax credit certifi-

ates for that year to the applicant or university employee and shall determine any related university share to be equal to zero for that year.

b. Effective for the fiscal year beginning July 1, 2004, and for subsequent fiscal years, issue a tax credit certificate to the approved business and the university employee responsible for the development of the technology utilized by the approved business in an amount determined pursuant to subsection 5. A tax credit certificate shall contain the taxpayer's name, address, tax identification number, the amount of the tax credit, and other information required by the department of revenue and finance.

c. (1) Determine the university share which is equal to the value of thirty percent of the tax liability of the approved business for purposes of making an appropriation pursuant to section 262B.12, if enacted by 2003 Iowa Acts, House File 683¹ or another Act, to the university where the technology utilized by the approved business was developed. A university share shall not exceed two hundred twenty-five thousand dollars per year per technology utilized. For each technology utilized, the aggregate university share over a five-year period shall not exceed six hundred thousand dollars.

(2) The department shall maintain records for each university during each fiscal year regarding the university share each university is entitled to receive through the appropriation in section 262B.12, if enacted by 2003 Iowa Acts, House File 683² or another Act. A university shall be entitled to receive the total university share for that particular university during the previous fiscal year.

d. For the fiscal year beginning July 1, 2004, not more than two million dollars worth of certificates shall be issued pursuant to paragraph "b". For the fiscal year beginning July 1, 2005, and every fiscal year thereafter, not more than ten million dollars worth of certificates shall be issued pursuant to paragraph "b".

5. The tax credit certificates issued by the department for each of the five years following the tax year in which the business is approved under the program shall be for the following amounts:

a. For the approved business, the value of the tax credit certificate shall equal thirty percent of the tax liability of the approved business. The value of a certificate issued to an approved business shall not exceed two hundred twenty-five thousand dollars. The total aggregate value of certificates issued over a five-year period to an approved business shall not exceed six hundred thousand dollars.

b. For the university employee responsible for the development of the technology utilized by the approved business, the value of the tax credit certificate shall equal ten percent of the tax liability of the approved business. If more than one employee is responsible for the development of the technology, the value equal to ten percent of the tax liability of the approved business shall be divided equally and individual tax credit certificates shall be issued to each employee responsible for the development of the technology. Each year, the total value of a certificate or certificates issued for a utilized technology shall not exceed seventy-five thousand dollars. For each technology utilized, the total aggregate value of certificates issued over a five-year period to the university employee responsible for the development of the technology shall not exceed two hundred thousand dollars.

6. The department of economic development shall notify the department of revenue and finance when a tax credit certificate is issued pursuant to subsection 4. The notification shall include the name and tax identification number appearing on any tax credit certificate.

Sec. 112. NEW SECTION. 422.11H UNIVERSITY-BASED RESEARCH UTILIZATION PROGRAM TAX CREDIT.

The taxes imposed under this division, less the credits allowed under sections 422.12 and 422.12B, shall be reduced by a university-based research utilization program tax credit authorized pursuant to section 262B.11.

Sec. 113. Section 422.33, Code 2003, is amended by adding the following new subsection: NEW SUBSECTION. 14. The taxes imposed under this division shall be reduced by a

¹ See chapter 2, §82 herein

² See chapter 2, §82 herein

university-based research utilization program tax credit authorized pursuant to section 262B.11.

DIVISION XIV
FUTURE REPEAL

Sec. 114. The divisions of this Act designated the grow Iowa board and fund, the value-added agricultural products and processes financial assistance program, the endow Iowa grants, the technology transfer advisors, the Iowa economic development loan and credit guarantee fund, the economic development assistance and data collection, the cultural and entertainment districts, the workforce issues,³ and the university-based research utilization program, are repealed effective June 30, 2010.

DIVISION XV
LIABILITY REFORM

Sec. 115. Section 625A.9, Code 2003, is amended to read as follows:

625A.9 EXECUTION ON UNSTAYED PART OF JUDGMENT — SUPERSEDEAS BOND WAIVED.

1. The taking of the appeal from part of a judgment or order, and the filing of a bond as above directed, does not stay execution as to that part of the judgment or order not appealed from.

2. If the judgment or order appealed from is for money, such bond shall not exceed one hundred ten percent of the amount of the money judgment.

3. Upon motion and for good cause shown, the district court may stay all proceedings under the order or judgment being appealed and permit the state or any of its political subdivisions to appeal a judgment or order to the supreme court without the filing of a supersedeas bond.

*Sec. 116. Section 668.12, Code 2003, is amended to read as follows:

668.12 LIABILITY FOR PRODUCTS — STATE OF THE ART DEFENSE DEFENSES.

1. In any action brought pursuant to this chapter against an assembler, designer, supplier of specifications, distributor, manufacturer, or seller for damages arising from an alleged defect in the design, testing, manufacturing, formulation, packaging, warning, or labeling of a product, a percentage of fault shall not be assigned to such persons if they plead and prove that the product conformed to the state of the art in existence at the time the product was designed, tested, manufactured, formulated, packaged, provided with a warning, or labeled.

2. Nothing contained in this section subsection 1 shall diminish the duty of an assembler, designer, supplier of specifications, distributor, manufacturer or seller to warn concerning subsequently acquired knowledge of a defect or dangerous condition that would render the product unreasonably dangerous for its foreseeable use or diminish the liability for failure to so warn.

3. An assembler, designer, supplier of specifications, distributor, manufacturer, or seller shall not be subject to liability under a theory of civil conspiracy unless the person knowingly and voluntarily entered into an agreement, express or implied, to participate in a common plan with the intent to commit a tortious act upon another. Mere membership in a trade or industrial association or group is not, in and of itself, evidence of such an agreement.*

*Sec. 117. Section 668A.1, subsection 1, Code 2003, is amended to read as follows:

1. In a trial of a claim involving the request for punitive or exemplary damages, the court shall instruct the jury to answer special interrogatories or, if there is no jury, shall make findings, indicating all of the following:

a. ~~Whether, by a preponderance of clear, convincing, and satisfactory evidence, the conduct of the defendant from which the claim arose constituted willful and wanton disregard for the rights or safety of another.~~

b. ~~Whether the conduct of the defendant was directed specifically at the claimant, or at the person from which the claimant's claim is derived.~~

³ The division of this Act designating workforce issues was in amendment H-1615 to House File 692; but it was stricken by amendment H-1623 to H-1615 to House File 692

* Item veto; see message at end of the Act

b. Whether, by a preponderance of clear and convincing evidence, the conduct of the defendant from which the claim arose constituted actual malice.*

*Sec. 118. NEW SECTION. 668A.2 DEFINITIONS.

As used in this chapter, the following terms shall have the following meanings:

1. "Clear and convincing evidence" means evidence which leaves no serious or substantial doubt about the correctness of the conclusions drawn from the evidence. It is more than a preponderance of evidence, but less than beyond a reasonable doubt.

2. "Malice" means either conduct which is specifically intended by the defendant to cause tangible or intangible serious injury to the plaintiff or conduct that is carried out by the defendant both with a flagrant indifference to the rights of the plaintiff and with a subjective awareness that such conduct will result in tangible serious injury.*

*Sec. 119. NEW SECTION. 668A.3 AWARD OF PUNITIVE OR EXEMPLARY DAMAGES — PROOF — STANDARD.

Punitive or exemplary damages shall only be awarded where the plaintiff proves by clear and convincing evidence that the plaintiff's harm was the result of actual malice. This burden of proof shall not be satisfied by proof of any degree of negligence, including gross negligence.*

Sec. 120. APPLICABILITY. This division of this Act, relating to liability reform, applies to cases filed on or after July 1, 2003.

DIVISION XVI WORKERS' COMPENSATION

*Sec. 121. Section 85.34, subsection 2, paragraph u, Code 2003, is amended by adding the following new unnumbered paragraph after unnumbered paragraph 2:

NEW UNNUMBERED PARAGRAPH. When an employee makes a claim for benefits under this subsection, the employer is not liable for that portion of the employee's present disability caused by a prior work-related injury or illness that was sustained by the employee while the employee was employed by a different employer. When an employee's present disability includes disability caused by a prior work-related injury or illness that was sustained by the employee while in the employ of the same employer, the employer is liable for compensating all of the employee's work-related disability sustained by the employee while in the employ of the employer, except that any portion of the disability that was previously compensated by the employer shall be deducted from the employer's obligation to pay benefits for the employee's present disability. If an employee's present disability is reduced by a portion of disability sustained from prior work-related injuries or illnesses for which the employee has already been compensated by the same employer, then the employee shall receive compensation for the remaining disability caused by the present work-related injury or illness plus an additional ten percent of the amount of the increase in disability.*

Sec. 122. Section 86.12, Code 2003, is amended to read as follows:

86.12 FAILURE TO REPORT.

The workers' compensation commissioner may require any employer to supply the information required by section 86.10 or to file a report required by section 86.11 or 86.13 or by agency rule, by written demand sent to the employer's last known address. Upon failure to supply such information or file such report within ~~twenty~~ thirty days, the employer may be ordered to appear and show cause why the employer should not be subject to civil penalty assessment of one ~~hundred thousand~~ dollars for each occurrence. Upon such hearing, the workers' compensation commissioner shall enter a finding of fact and may enter an order requiring such penalty assessment to be paid into the second injury fund created by sections 85.63 to 85.69. In the event the ~~civil penalty assessed~~ assessment is not voluntarily paid within thirty days the workers' compensation commissioner may file a certified copy of such finding and order with

* Item veto; see message at end of the Act

the clerk of the court for the district in which the employer maintains a place of business. If the employer maintains no place of business in this state service shall be made as provided in chapter 85 for nonresident employers. In such case the finding and order may be filed in any court of competent jurisdiction within this state.

The workers' compensation commissioner may thereafter petition the court for entry of judgment upon such order, serving notice of such petition on the employer and any other person in default. If the court finds the order valid, the court shall enter judgment against the person or persons in default for the amount due under the order. No fees shall be required for the filing of the order or for the petition for judgment, or for the entry of judgment or for any enforcement procedure thereupon. No supersedeas shall be granted by any court to a judgment entered under this section.

When a report is required under section 86.11 ~~or 86.13 or by agency rule, and that report has been submitted to the employer's insurance carrier and no report of injury has been filed with the workers' compensation commissioner~~ possesses the information necessary to file the report, the insurance carrier shall be responsible for filing the report ~~of injury~~ in the same manner and to the same extent as an employer under this section.

Sec. 123. NEW SECTION. 86.13A COMPLIANCE MONITORING AND ENFORCEMENT.

The workers' compensation commissioner shall monitor the rate of compliance of each employer and each insurer with the requirement to commence benefit payments within the time specified in section 85.30. The commissioner shall determine the percentage of reported injuries where the statutory standard was met and the average number of days that commencement of voluntary benefits was delayed for each employer and each insurer individually, and for all employers and all insurers as separate groups.

If during any fiscal year commencing after June 30, 2005, the general business practices of an employer or insurer result in the delay of the commencement of voluntary weekly compensation payments after the date specified in section 85.30 more frequently and for a longer number of days than the average number of days for the entire group of employers or insurers, the commissioner may impose an assessment on the employer or insurer payable to the second injury fund created in section 85.66. The amount of the assessment shall be ten dollars, multiplied by the average number of days that weekly compensation payments were delayed after the date specified in section 85.30, and multiplied by the number of injuries the employer or insurer reported during the fiscal year. Notwithstanding the foregoing, an assessment shall not be imposed if the employer or insurer commenced voluntary weekly compensation benefits within the time specified in section 85.30 for more than seventy-five percent of the injuries reported by the employer or insurer.

The commissioner may waive or reduce an assessment under this section if an employer or insurer demonstrates to the commissioner that atypical events during the fiscal year, including but not limited to a small number of cases, made the statistical data for that employer or insurer unrepresentative of the actual payout practices of the employer or insurer for that year.

Sec. 124. APPLICABILITY. This division of this Act, relating to workers' compensation, applies to an injury occurring on or after July 1, 2003.

DIVISION XVII
FINANCIAL SERVICES

Sec. 125. Section 537.2502, subsections 3 and 6, Code 2003, are amended to read as follows:

3. A delinquency charge shall not be collected under subsection 1, paragraph "a", on an installment ~~which that~~ is paid in full within ten days after its scheduled or deferred installment due date even though an earlier maturing installment or a delinquency or deferral charge on an earlier installment may not have been paid in full. For purposes of this subsection,

payments associated with a precomputed transaction are applied first to current installments and then to delinquent installments.

6. A delinquency charge shall not be collected under subsection 4 on a payment which associated with a precomputed transaction that is paid in full on or before its scheduled or deferred due date even though an earlier maturing payment or a delinquency or deferred charge on an earlier payment has not been paid in full. For purposes of this subsection, payments are applied first to amounts due for the current billing cycle and then to delinquent payments.

Sec. 126. Section 537.2601, subsection 1, Code 2003, is amended to read as follows:

1. ~~Except as provided in subsection 2, with~~ With respect to a credit transaction other than a consumer credit transaction, the parties may contract for the payment by the debtor of any finance or other charge as permitted by law. ~~Except with respect to debt obligations issued by a government, governmental agency or instrumentality, in calculating any finance charge contracted for, any month may be counted as one-twelfth of a year, but a day is to be counted as one three-hundred sixty-fifth of a year.~~

DIVISION XVIII UNEMPLOYMENT COMPENSATION SURCHARGE

Sec. 127. Section 96.7, subsection 12, paragraph a, Code 2003, is amended to read as follows:

a. An employer other than a governmental entity or a nonprofit organization, subject to this chapter, shall pay an administrative contribution surcharge equal in amount to one-tenth of one percent of federal taxable wages, as defined in section 96.19, subsection 37, paragraph "b", subject to the surcharge formula to be developed by the department under this paragraph. The department shall develop a surcharge formula that provides a target revenue level of no greater than six million five hundred twenty-five thousand dollars annually for calendar years 2003, 2004, and 2005 and a target revenue level of no greater than three million two hundred sixty-two thousand five hundred dollars for calendar year 2006 and each subsequent calendar year. The department shall reduce the administrative contribution surcharge established for any calendar year proportionate to any federal government funding that provides an increased allocation of moneys for workforce development offices, under the federal employment services financing reform legislation. Any administrative contribution surcharge revenue that is collected in calendar year ~~2002 2003, 2004, or 2005~~ in excess of six million five hundred twenty-five thousand dollars or in calendar year 2006 or a subsequent calendar year in excess of three million two hundred sixty-two thousand five hundred dollars shall be deducted from the amount to be collected in the subsequent calendar year 2003 before the department establishes the administrative contribution surcharge. The department shall recompute the amount as a percentage of taxable wages, as defined in section 96.19, subsection 37, and shall add the percentage surcharge to the employer's contribution rate determined under this section. The percentage surcharge shall be capped at a maximum of seven dollars per employee. The department shall adopt rules prescribing the manner in which the surcharge will be collected. Interest shall accrue on all unpaid surcharges under this subsection at the same rate as on regular contributions and shall be collectible in the same manner. Interest accrued and collected under this paragraph and interest earned and credited to the fund under paragraph "b" shall be used by the department only for the purposes set forth in paragraph "c".

Sec. 128. Section 96.7, subsection 12, paragraph d, Code 2003, is amended to read as follows:

d. This subsection is repealed July 1, ~~2003 2006~~, and the repeal is applicable to contribution rates for calendar year ~~2004 2007~~ and subsequent calendar years.

Sec. 129. EFFECTIVE DATE. This division of this Act, concerning the unemployment compensation surcharge, being deemed of immediate importance, takes effect upon enactment.

DIVISION XIX
ECONOMIC DEVELOPMENTSec. 130. NEW SECTION. 15E.18 CITIES, COUNTIES, AND REGIONS — SITE PREPARATION FOR TARGETED ECONOMIC DEVELOPMENT.

1. For purposes of this section, “region” means a group of two or more contiguous counties that establishes a single, focused economic development effort.

2. A city, county, or region, subject to the approval of the property owner, may designate an area within the boundaries of the city, county, or region for a specific type of targeted economic development. The specific type of targeted economic development shall be one of the following:

- a. Manufacturing.
- b. Light industrial.
- c. Warehouse and distribution.
- d. Office parks.
- e. Business and commerce parks.
- f. Research and development.

3. A city, county, or region that designates an area for a specific type of targeted economic development may apply to the department for purposes of certifying the area as a preapproved development site. The department shall develop criteria for the certification process.

4. Prior to a specific project being developed, a city, county, or region designating the area for targeted economic development pursuant to this section may apply for and obtain appropriate licenses, permits, and approvals for the type of targeted economic development project desired for the area.

Sec. 131. NEW SECTION. 15E.19 REGULATORY ASSISTANCE.

1. The department of economic development shall coordinate all regulatory assistance for the state of Iowa. Each state agency with regulatory programs for business shall maintain a coordinator within the office of the director or the administrative division of the state agency. Each coordinator shall do all of the following:

- a. Serve as the department of economic development’s primary contact for regulatory affairs.
- b. Provide regulatory requirements to businesses and represent the agency in the private sector.
- c. Monitor permit applications and provide timely permit status information to the department of economic development.
- d. Have the ability to require regulatory staff participation in negotiations and discussions with businesses.
- e. Notify the department of economic development regarding proposed rulemaking activities that impact a regulatory program and any subsequent changes to a regulatory program.

2. The department of economic development shall, in consultation with the coordinators described in this section, examine, and to the extent permissible, assist in the implementation of methods, including the possible establishment of an electronic database, to streamline the process for issuing permits to business.

3. By January 15 of each year, the department of economic development shall submit a written report to the general assembly regarding the provision of regulatory assistance by state agencies, including the department’s efforts, and its recommendations and proposed solutions, to streamline the process of issuing permits to business.

DIVISION XX
UTILITY SALES TAX EXEMPTION

*Sec. 132. *Section 422.45, subsection 61, paragraph b, subparagraphs (2), (3), (4), and (5), Code 2003, are amended to read as follows:*

(2) *If the date of the utility billing or meter reading cycle of the residential customer for the*

* Item veto; see message at end of the Act

sale, furnishing, or service of metered gas and electricity is on or after January 1, 2003, through ~~December 31, 2003~~ June 30, 2008, or if the sale, furnishing, or service of fuel for purposes of residential energy and the delivery of the fuel occurs on or after January 1, 2003, through ~~December 31, 2003~~ June 30, 2008, the rate of tax is three percent of the gross receipts.

(3) If the date of the utility billing or meter reading cycle of the residential customer for the sale, furnishing, or service of metered gas and electricity is on or after ~~January 1, 2004~~ July 1, 2008, through ~~December 31, 2004~~ June 30, 2009, or if the sale, furnishing, or service of fuel for purposes of residential energy and the delivery of the fuel occurs on or after ~~January 1, 2004~~ July 1, 2008, through ~~December 31, 2004~~ June 30, 2009, the rate of tax is two percent of the gross receipts.

(4) If the date of the utility billing or meter reading cycle of the residential customer for the sale, furnishing, or service of metered gas and electricity is on or after ~~January 1, 2005~~ July 1, 2009, through ~~December 31, 2005~~ June 30, 2010, or if the sale, furnishing, or service of fuel for purposes of residential energy and the delivery of the fuel occurs on or after ~~January 1, 2005~~ July 1, 2009, through ~~December 31, 2005~~ June 30, 2010, the rate of tax is one percent of the gross receipts.

(5) If the date of the utility billing or meter reading cycle of the residential customer for the sale, furnishing, or service of metered gas and electricity is on or after ~~January 1, 2006~~ July 1, 2010, or if the sale, furnishing, or service of fuel for purposes of residential energy and the delivery of the fuel occurs on or after ~~January 1, 2006~~ July 1, 2010, the rate of tax is zero percent of the gross receipts.*

DIVISION XXI EFFECTIVE DATE

Sec. 133. EFFECTIVE DATE. Unless otherwise provided in this Act, this Act takes effect July 1, 2003.

Approved June 19, 2003, with exceptions noted.

THOMAS J. VILSACK, Governor

Dear Mr. Secretary:

I hereby transmit House File 692, an Act concerning regulatory, taxation, and statutory requirements affecting individuals and business relating to taxation of property, income and utilities, liability reform, workers' compensation, financial services, unemployment compensation, employer surcharges, economic development, and including effective date, applicability, and retroactive applicability provisions.

House File 692 is approved on this date with the following exceptions, which I hereby disapprove:

I am unable to approve the items designated as Divisions II, III, and IV that consist of Sections 44 through 72, in their entirety. These sections would provide for a reduction in personal income taxes. I have repeatedly called on legislative leaders to reform and simplify the Iowa personal income tax code in a manner that would be revenue neutral. I laid out very clear parameters. I specifically told the Legislature I would not sign any personal income tax reduction that jeopardizes our ability to educate our children, provide health care to our senior citizens and families, protect our natural resources, and maintain the public safety.

Instead of reforming our tax system, which is still needed, the Legislature's plan would ultimately cost an estimated \$310 million with no reliable and fair source of state revenue to replace the lost dollars at a time when all sectors of our state, like other states, are adversely af-

* Item veto; see message at end of the Act

fectured by the national economic downturn. This would jeopardize the delivery of state services and would severely hinder budget planning in the future. It does not even provide any meaningful tax relief to lower-income Iowans who would receive refunds of between only 3 cents and 50 cents per week under this plan. The cuts in personal income taxes are really nothing more than cuts in services to all Iowans.

I am unable to approve the item designated as Section 99 in its entirety. This section directs the creation of two technology transfer advisors in the office of the governor. The governor's office performs many functions in a variety of different areas. The present staff is assigned to duties and receives administrative support in a manner that assures the efficient functioning of this office. Section 99 would disrupt the administration of this office and affect the delivery of services to the state. Furthermore, I believe the office of the governor should be able to control the administration of its funds and decide how best to staff its office. Section 99 would diminish this control by imposing on the governor's staffing and administrative decisions.

I am unable to approve the item designated as Section 108, which requires the Department of Economic Development to collect data about companies that considered locating in Iowa but decided to locate elsewhere, in its entirety. Requiring collection of such data would impose an additional burden on the Department of Economic Development and its resources and adversely impact the department's efficient delivery of services to the public.

I am unable to approve the items designated as Sections 116-120 in their entirety. The Sections will make it much harder to hold those who hurt others with unsafe products, on particularly egregious conduct, accountable for the harm they cause. I am not persuaded by the argument that Iowa has a poor business climate. Those who advance such an argument discount the work of highly productive Iowa workers and the study prepared by the U.S. Chamber of Commerce ranking Iowa the third best liability climate.

I am unable to approve the item designated as Section 121 in its entirety. While I appreciate the need for continued improvement to our workers' compensation system to maintain a just and balanced approach, Section 121 overreaches. A worker injured multiple times could be significantly under compensated for his or her injuries under Section 121. Section 121 in its current form destroys the just and balanced approach, which should be our goal.

I am unable to approve the item designated as Division XX that consists of Section 132, in its entirety. Section 132 postpones the phase out of the sales tax on residential utilities passed by the Iowa Legislature in 2001. The utility sales tax cut, as promised in current law, reflected recognition by the Legislature that escalating energy costs hit all consumers hard. Postponing the phase out of the utility tax will unnecessarily increase the utility bills of low- and middle-income Iowans, at a time when heating prices are expected to rise dramatically next winter.

I invite the Legislature to work in a bipartisan way to reform our income tax system and work for common sense improvements to our civil justice system and workers' compensation system.

For the above reasons, I respectfully disapprove these items in accordance with Article 3, Section 16 of the Constitution of the State of Iowa. All other items in House File 692 are hereby approved as of this date.

Sincerely,
THOMAS J. VILSACK, *Governor*