



HF 773 – City and County Property Tax Revenue Limitation (LSB1563HV)
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Fiscal Note Version – New

Description

House File 773 imposes city and county property tax and fund balance limitations beginning with FY 2021 government budgets and property taxes. The Bill:

- Removes the existing property tax levy rate limits for city general funds, county general funds, and county rural funds.
- Creates a property tax revenue annual growth limitation for counties (separately for general services and rural services) and cities. Property tax revenue growth is limited to 2.0% per year, plus an adjustment for changes to the tax base (new construction and annexations). The limit does not apply to county mental health and disabilities services, unified law enforcement, emergency services, debt service, and capital project levies, and to city unified law enforcement, debt service, and capital project levies.
- Moves funding for employee benefits to the city general fund. Employee benefits currently may be funded through the city general fund or through a special trust and agency levy.
- Limits the general fund ending fund balance for a city or a county to no more than 25.0% of the budgeted expenditures from the city or county general and rural funds unless any amount above 25.0% is nonspendable or is otherwise restricted, committed, or assigned for a specific future purpose. In a budget protest challenging any excess ending fund balance, the city or county shall have the burden of proving the excess is reasonably likely to be necessary for the city's or county's stated future purpose.
- Provides a process for cities and counties to exceed the property tax revenue limitations established in the Bill.

The Bill directly impacts city and county property tax revenue. All other levels of local governments (schools, assessors, townships, agricultural extension, etc.) would not be directly impacted by the Bill.

Background — Property Tax Terminology

The following terms and concepts are used throughout this document:

- **Assessed Value:** Assessed value is the value for each property established through the property assessment process. For most property classes, the assessed value is an estimate of the property's market value. In the case of agricultural property, the value is an estimated agricultural productivity value as determined by rules of the Department of Revenue. The term "assessed value" may be used to refer to a specific property, or to the aggregate value of all property within a jurisdiction.
- **Assessment Years and Fiscal Years:** The assessment process estimates the value of property as of January 1 of a year. The values determined for January 1, 2017, are referred to as assessment year (AY) 2017 values. Taxes owed for AY 2017 are due in the fall of 2018 and the spring of 2019. That period coincides with State and local fiscal year (FY) 2019. In other reports, this designation of FY 2019 may be labeled as FY 18/19 to reflect the portions of calendar years that make up the fiscal year.

- **Assessment Cycle:** Property in Iowa is generally reassessed (revalued for property tax purposes) every two years. For this reason, assessed valuation growth is concentrated in odd-numbered assessment years, while even-numbered years have little assessment value change.
- **Rollback:** The percent of a property's assessed value that is subject to income tax. A rollback of 55.5000% means that a property with an assessed value of \$100,000 has a taxable value of \$55,500. The annual rollback percentage for a property class applies to all taxed property within that class. Iowa's system of value rollbacks was put in place in the late 1970s to reduce the impact of high inflation on taxable value. The rollback limits the statewide growth in taxable value of residential and agricultural value (separately) to no more than 3.0% per year. If revaluation growth exceeds 3.0%, the rollback percentage will decrease. If revaluation is less than 3.0%, the rollback will increase. Prior to FY 2015, annual revaluation growth was limited to 4.0%. Commercial and industrial property is currently subject to a defined rollback of 90.0000%. Multiresidential property is currently subject to a rollback percentage that is annually declining.
- **Agricultural Tie:** Statewide residential revaluation growth is also at times limited to no more than any positive growth in agricultural revaluation. Agricultural revaluation last limited residential revaluation growth in AY 2006. Prior to that year, agricultural revaluation had limited residential revaluation growth for about 20 years. During that time, the residential rollback declined from 77.3604% (AY 1986) to 44.0803% (AY 2007).
- **Taxable Value:** The value of a property, or all property within a jurisdiction, after application of the applicable rollbacks. Taxable value is the value that may be subject to property tax, but some portion of taxable value may not be taxed due to property tax exemptions/abatements.
- **Property Tax Abatements:** An abatement is an exemption from property tax for a portion of the value of a specific property. The exemptions are for a specific time period and usually require the approval of a governmental body.
- **Taxed Value:** The value of a property or all property within a jurisdiction that is actually taxed (assessed value after rollback and abatements or other property tax exemptions).
- **Property Tax Rates:** Property tax rates in Iowa are expressed in dollars per \$1,000 of taxed value. A tax rate of \$10.00 means a property with a taxed value of \$100,000 will have a tax bill of \$1,000 (\$10.00 times \$100,000 divided by \$1,000).
- **Tax Increment Financing (TIF):** Iowa allows cities and counties to create Urban Renewal Areas and TIF Districts. The combination of Urban Renewal and TIF allows the TIF authority (a city or county) to sequester a large part of any increased property tax revenue that is generated in a specific area (a designated TIF District). The sequestered property tax revenue is referred to as the "increment" and the revenue is not part of general local government finance and is instead used for purposes specific to the Urban Renewal Area. Iowa law dictates how long a city or county may sequester property tax revenue increases within a TIF District. If and when a TIF District expires, the property tax revenue generated by the increment is distributed the same as all other property tax revenue.
- **Urban and City:** Iowa property is designated as either urban or rural property. Urban property is located within the corporate borders of a city, while rural property is outside of an incorporated area. The terms "city property" and "urban property" are synonymous.
- **County General and Rural Funds:** All taxed property within a county is subject to a general property tax rate. Property within rural areas of a county is also subject to an additional tax used to pay for services specific to rural areas.

Background — Property Tax Revenue Growth

The amount of property tax revenue a particular city or county receives increases or decreases over the years as a result of a combination of the following factors:

- Nonrevaluation changes, including:
 - New construction.
 - Annexation and severance.
- Fluctuations in the amount of taxed value sequestered within a TIF District.
- Expiration of tax abatements.
- Revaluation of existing property.
- Changes in the percent of assessed value that is subject to taxation (changes in the rollback). Changes to the rollback percentage for a class ensure that the total statewide taxable value of that class increases, due to revaluation of existing property, by the percentage required for that year by Iowa law.
- Changes in the property tax rate.

Background — FY 2019 City Property Tax Rate Components

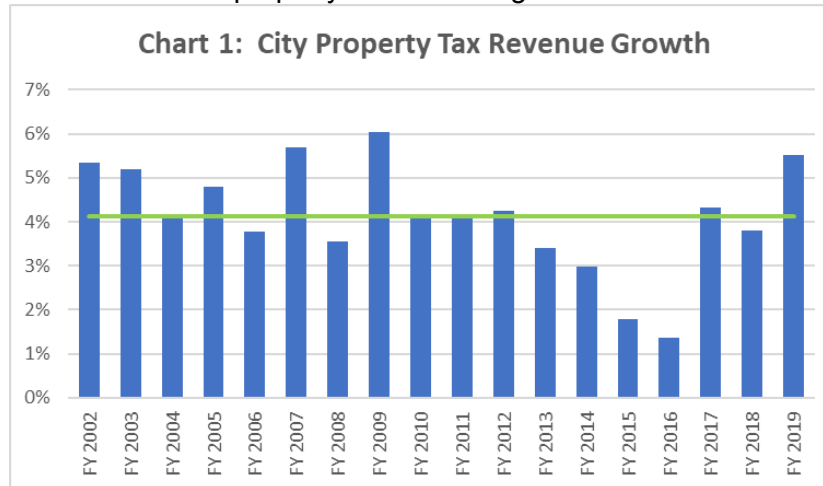
For FY 2019, the average city property tax rate in Iowa was \$13.82. **Table 1** provides a statewide breakdown of that average rate. The Bill will combine the revenue raised in the first three items of **Table 1** with the employee benefit portion of the trust and agency levies. Under the Bill, the annual amount of property tax revenue raised by the city will be limited to 102.0% of the revenue raised for those purposes in the previous year, plus an adjustment for the net value of nonrevaluation changes. The levies for debt service and capital improvements are not included within the revenue limits established in the Bill. The first year of the limitation is FY 2021 and that limit will be based on the revenue raised for the specified purposes in FY 2020.

Table 1		
FY 2019 City Levy Breakdown		
Property Value and Tax Collections in Millions of Dollars		
City Levy	Property Tax Collections	Statewide Average City Tax Rate \$ per \$1,000
General Levy (\$8.10)	\$ 775.1	\$ 7.76
General Levy Additional	75.7	0.76
Emergency Levies	9.1	0.09
Debt Levies	237.0	2.37
Trust and Agency Levies	281.9	2.82
Capital Improvement Levies	1.5	0.02
Total	\$ 1,380.3	\$ 13.82
City Property Tax from Ag Property	\$ 1.5	\$ 2.89
TIF Increment Revenue to Cities *	\$ 21.5	
Statewide Taxable City Regular Value	\$ 99,845.9	
Statewide Taxable City Ag Value	\$ 509.5	

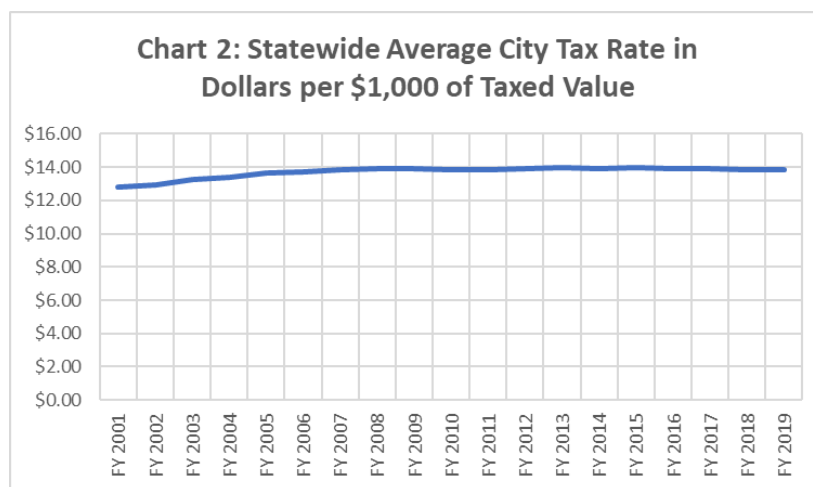
*Does not include TIF increment revenue that finances TIF.

Background — City Property Tax Historical Analysis

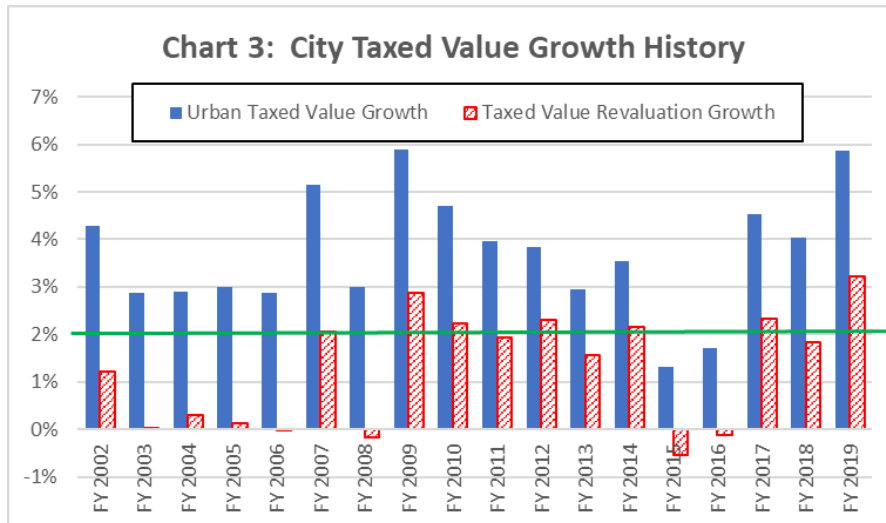
The bars in **Chart 1** depict the annual statewide growth in property tax revenue collected by all Iowa cities through their individual city property tax rates. The green line on the chart depicts the average annual rate (4.1%) of property tax growth for the 18 years. The growth is the net result of all the items listed in the property tax revenue growth section above.



All cities may tax property within the city at a rate of up to \$8.10 (limited to \$3.00375 for urban agricultural property). Cities also have available levies for other purposes if the circumstances of the city qualify and the city decides to access those additional levies. Over the years FY 2001 to FY 2019, the statewide average city tax rate, excluding agricultural property and property within a TIF increment area, increased from \$12.81 to \$13.82 (depicted in **Chart 2**). The average annual rate of increase over the 18 years was 0.4%.



The increase that did occur in the statewide average city tax rate occurred between FY 2001 and FY 2008, years in which the residential rollback tie to agricultural revaluation significantly curtailed the growth in residential taxable value. This issue is illustrated in **Chart 3**. The blue bars in **Chart 3** show the annual growth in the taxed value of Iowa cities. The growth includes both growth in revaluation of existing properties (after changes in the rollbacks are applied) and nonrevaluation changes. The red bars subtract the nonrevaluation growth from the blue bars, so the red bars depict just the rollback-adjusted revaluation growth. The green line depicts a growth rate of 2.0%. The Bill essentially replaces revaluation growth with a maximum growth of no more than 2.0%, regardless of actual revaluation.

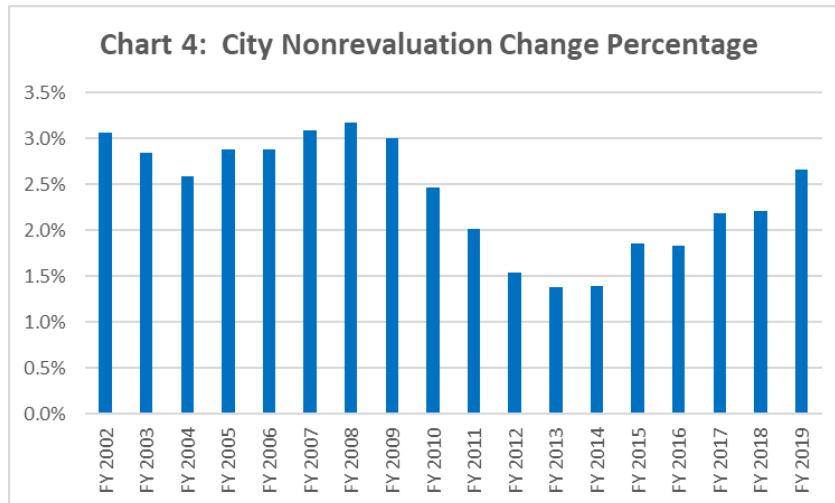


With the exception of FY 2007, annual revaluation growth from FY 2002 through FY 2008 did not reach 2.0%. This is due to the rollback’s agricultural tie component that limited residential taxable value growth to 0.0% in most of those years. To achieve property tax revenue growth in excess of nonrevaluation growth in those years, cities needed to increase tax rates. The increase is evident on the left side of **Chart 2**.

The rollback’s agricultural tie has not operated since FY 2008 and the impact of the tie is demonstrated in the red bars in **Chart 3**. With the exception of FY 2015 and FY 2016 (years in which revaluation growth was restricted due to the implementation of a 90.0000% rollback for commercial, industrial, and railroad property), city revaluation growth has been above or near 2.0% every year. Combining the information shown in the red bars of **Chart 3** and the **Chart 2** line produces the probable conclusion that, while the agricultural tie held down the growth in the taxed value of property within cities (and residential property specifically), the lack of revaluation growth that resulted from the operation of the agricultural tie caused cities to raise tax rates so sufficient tax revenue growth would be realized. Once the agricultural tie was not a factor, the increase in taxed value due to property revaluation has been sufficient to hold the statewide average city tax rate steady.

Chart 3 depicts how taxable value and tax revenue growth occurred on a statewide basis over the past 18 years. It does not indicate what the situation would have been in any particular city. If the property tax limitations in the Bill had been in place during the past 18 years, each city would have been impacted differently, as **Chart 3** would be different for every city.

Chart 4 depicts the annual percentage change in urban property assessed value that was the result of nonrevaluation changes. The percentage is calculated by dividing statewide urban annual nonrevaluation growth by the statewide total urban assessed value for the previous year. The vast majority of the nonrevaluation change is new construction. The decline in the rate of growth that begins in FY 2009 and continues through FY 2014 can be attributed to the effects of the national recession that began in December 2008. **Chart 4**, combined with **Chart 1**, shows that as a group, cities did not make up for the new construction growth decline by raising city property tax rates. Instead, city property tax revenue growth slowed as the national recession slowed new construction growth.



The Bill also places restrictions on city budgeted ending fund balances by requiring any ending balance in excess of 25.0% of budgeted expenditures to be reserved for a specific future purpose. Excess balances above 25.0%, if not reserved for a specific future purpose, must be reduced through reductions in the city’s property tax revenue limit.

City Annual Financial Reports for FY 2018 indicate that 774 cities had FY 2018 budgeted ending fund balances in excess of 25.0% of budgeted expenditures. Much of the excess is currently listed as designated for a future purpose. Also, the ending balances above 25.0% are not evenly distributed, as \$227.7 million of the amount above 25.0% is represented in the budgets of 10 cities. A total of 144 cities had ending balances below 25.0%, with the amount below 25.0% totaling \$28.8 million.

The 25.0% ending balance limitation could provide property tax reductions as early as FY 2021 as cities work to reduce ending balances above 25.0% that are not reserved for a specific future purpose. How much reduction is realized will depend on how well cities designate and defend ending balances in excess of 25.0%. The dollar amounts in **Table 2** indicate that the property tax reductions could potentially be substantial.

Number of Cities	Balance Variation from 25.0% of Expenditures
10	\$ 227.7
764	320.1
144	-28.8
918	\$ 519.0

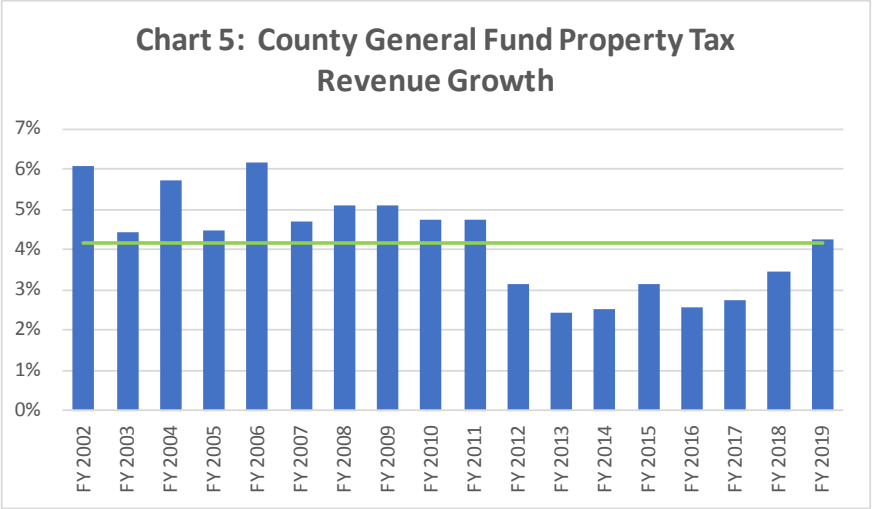
Background — FY 2019 County General Fund Property Tax Rate Components

For FY 2019, the average Iowa county general fund property tax rate was \$6.21. **Table 3** provides a statewide breakdown of that rate. The Bill will combine the revenue raised in the first three items in **Table 3**. The annual amount of property tax revenue raised by the county for general purposes will be limited to 102.0% of the revenue raised for those purposes in the previous year, plus an adjustment for the net value of nonrevaluation changes. The County Mental Health levy and Debt Service levy are not included within the revenue limits established in the Bill. The first year of the limitation is FY 2021 and that limit will be based on the revenue raised for the specified purposes in FY 2020.

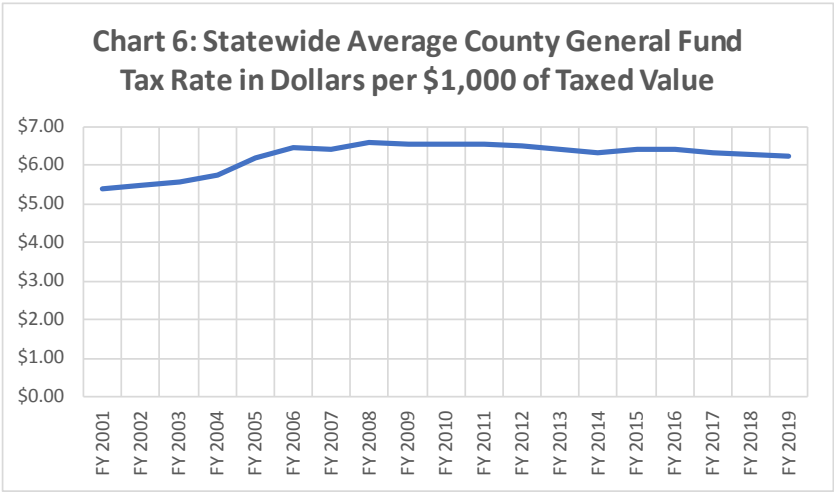
County Levy	Property Tax Collections	Statewide Average County General Rate \$ per \$1,000
General Basic Levy (\$3.50)	\$ 598.8	\$ 3.57
General Supplemental Levy	286.1	1.70
Cemetery Levy	0.3	0.00
County Mental Health Levy	72.8	0.43
Debt Service Levy	86.3	0.51
Total	\$ 1,044.3	\$ 6.21
 TIF Increment Revenue to Counties *	 \$ 6.7	
Statewide Taxable County Value	\$ 167,872.4	

Background — County Property Tax Historical Analysis

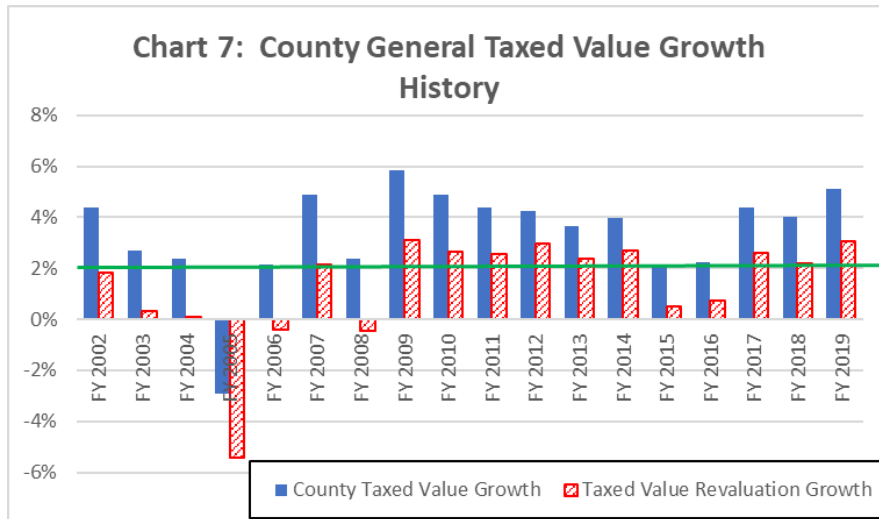
The bars in **Chart 5** depict the statewide annual growth in property tax revenue collected by all Iowa counties for general fund purposes through their individual county general property tax rates. The green line on the chart depicts the average annual rate (4.2%) of property tax growth for the 18 years. The growth is the net result of all the items listed in the property tax revenue growth section above.



All counties may tax property within the county at a rate of up to \$3.50, with additional authority to exceed that rate. Counties also have supplemental levy authority for general fund purposes, if the circumstances of the county qualify and the county decides to access the supplemental levy. All property within a county is subject to the levies listed in **Table 3** if the applicable county uses that levy. Over the years FY 2001 to FY 2019, the average county general fund tax rate, excluding property within a TIF increment area, increased from \$5.39 to \$6.21 (depicted in **Chart 6**). The average annual rate of increase in the tax rate over the 18 years was 0.8%.



The increase in the statewide average county general fund tax rate occurred between FY 2001 and FY 2008, years in which the taxable value of agricultural property decreased significantly and the residential rollback tie to agricultural revaluation curtailed the growth in residential taxable value. This issue is illustrated in **Chart 7**. The blue bars in **Chart 7** show the annual growth in the taxed value of all Iowa counties. The growth includes both growth in revaluation of existing properties (after the changes in the rollbacks are applied) and nonrevaluation changes. The red bars subtract nonrevaluation growth from the blue bars, so the red bars depict just the rollback-adjusted revaluation growth. The green line depicts a growth rate of 2.0%. The Bill essentially replaces actual revaluation growth with a maximum growth of no more than 2.0%, regardless of actual revaluation.

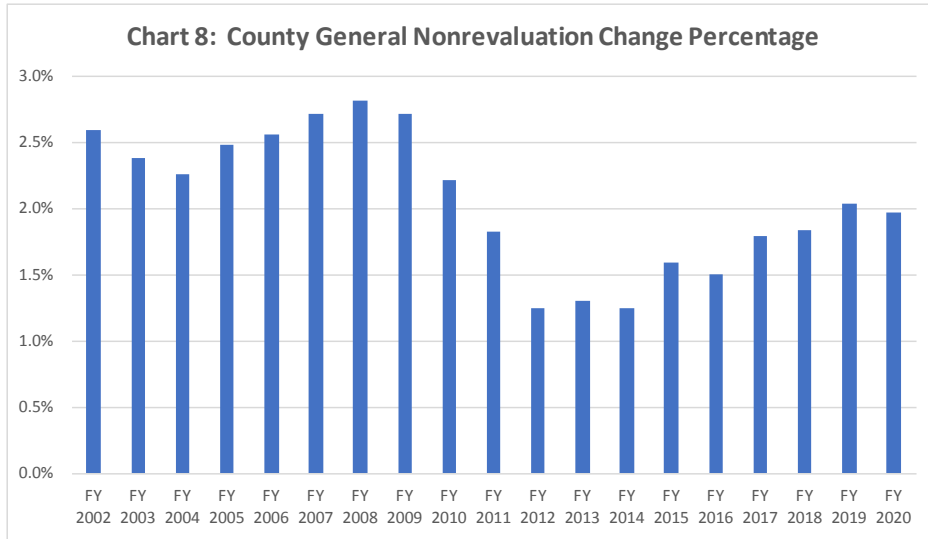


With the exception of FY 2007, revaluation growth from FY 2002 through FY 2008 did not reach 2.0%. This is due to the significant reduction in agricultural taxable value, and the rollback’s agricultural tie component that limited residential taxable value growth to 0.0% in most of those years. To achieve property tax revenue growth in excess of nonrevaluation growth in those years, counties needed to increase tax rates. The increase is evident on the left side of **Chart 6**.

Agricultural taxable value recovered beginning around FY 2009 and this has deactivated the residential tie to agricultural revaluation growth. The impact is demonstrated in the red bars in **Chart 7**. With the exception of FY 2015 and FY 2016 (years in which revaluation growth was restricted due to the implementation of a 90.0000% rollback for commercial, industrial, and railroad property), county revaluation growth has been above 2.0% every year. Combining the information shown in the red bars of **Chart 7** and the line in **Chart 6** produces the probable conclusion that the reduction in agricultural taxable value and the related limiting of residential revaluation taxable value growth led to the need for counties to raise their general property tax rates. Once agricultural taxable value growth returned, the increase in taxed value due to agricultural and residential property revaluation has allowed counties to reduce the general levy rate.

Chart 7 depicts how taxable value and tax revenue growth occurred on a statewide basis over the past 18 years. It does not indicate what the situation would have been in any particular county. If the property tax limitations in the Bill had been in place during the past 18 years, each county would have been impacted differently, as **Chart 7** would be different for every county.

Chart 8 depicts the annual percentage change in county assessed property value that was the result of nonrevaluation changes. The percentage is calculated by dividing the statewide annual dollar growth total for nonrevaluation changes by the statewide assessed value for the previous year. The vast majority of the nonrevaluation change is new construction. The decline in the rate of growth that begins in FY 2009 and continues through FY 2014 can be attributed to the effects of the national recession that began in December 2008. **Chart 8**, combined with **Chart 5** and **Chart 6**, shows that as a group, counties did not make up for the nonrevaluation growth decline by raising county property tax rates. Instead, county property tax revenue growth slowed as the national recession slowed new construction growth.



The Bill also places restrictions on county ending fund balances by requiring any ending balance in excess of 25.0% of budgeted expenditures to be reserved for a specific future purpose. Excess balances above 25.0%, if not reserved for a specific future purpose, must be eliminated through reductions in the county’s property tax revenue limit.

County Annual Financial Reports for FY 2018 indicate that Iowa’s 99 counties had a combined ending general fund balance that was 47.9% of expenditures. If the general fund balances of all counties equaled 25.0%, the ending balances would need to be reduced a combined \$266.1 million. However, much of the excess is likely being held for a future purpose. Also, the ending balances above 25.0% are not evenly distributed, as \$102.1 million (38.4%) of the excess is represented in the budgets of 10 counties. Only three counties had a general fund ending balance below 25.0%.

The 25.0% ending balance limitation could provide property tax reductions as early as FY 2021 as counties work to reduce ending balances above 25.0% that are not reserved for a specific future purpose. How much reduction is realized will depend on how well counties designate and defend ending balances in excess of 25.0%.

Background — FY 2019 County Rural Fund Property Tax Rate Components

For FY 2019, the average Iowa county general fund property tax rate was \$3.32. **Table 4** provides a statewide breakdown of that rate. The Bill will combine the revenue raised in the first two items in **Table 4**. The annual amount of property tax revenue raised by the county for rural purposes will be limited to 102.0% of the revenue raised for those purposes in the previous year, plus an adjustment for the net value of nonrevaluation changes. The levy for Unified Law Enforcement is not included within the revenue limits established in the Bill. The first year of the limitation is FY 2021 and that limit will be based on the revenue raised for the specified purposes in FY 2020.

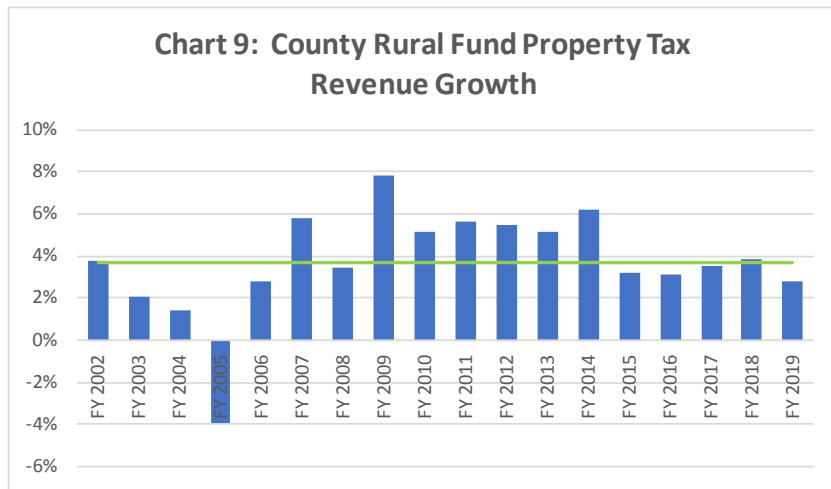
Table 4
FY 2019 County Rural Fund Levy Breakdown

Property Value and Tax Collections in Millions of Dollars

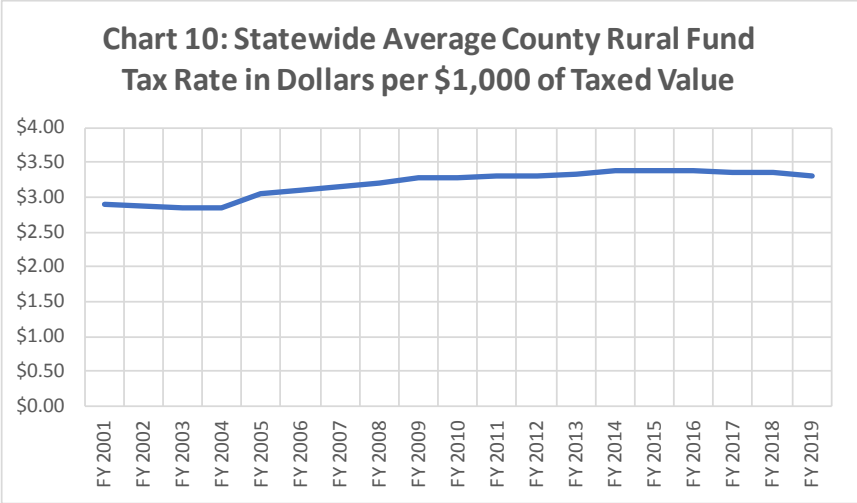
County Rural Levy	Property Tax Collections	Statewide Average County Rural Rate \$ per \$1,000
Rural Basic Levy (\$3.95)	\$ 220.5	\$ 3.27
Rural Supplemental Levy	2.6	0.04
Unified Law Enforcement Levy	0.5	0.01
Total	\$ 223.6	\$ 3.32
Statewide Taxable County Rural Value	\$ 67,464.0	

Background — County Rural Property Tax Historical Analysis

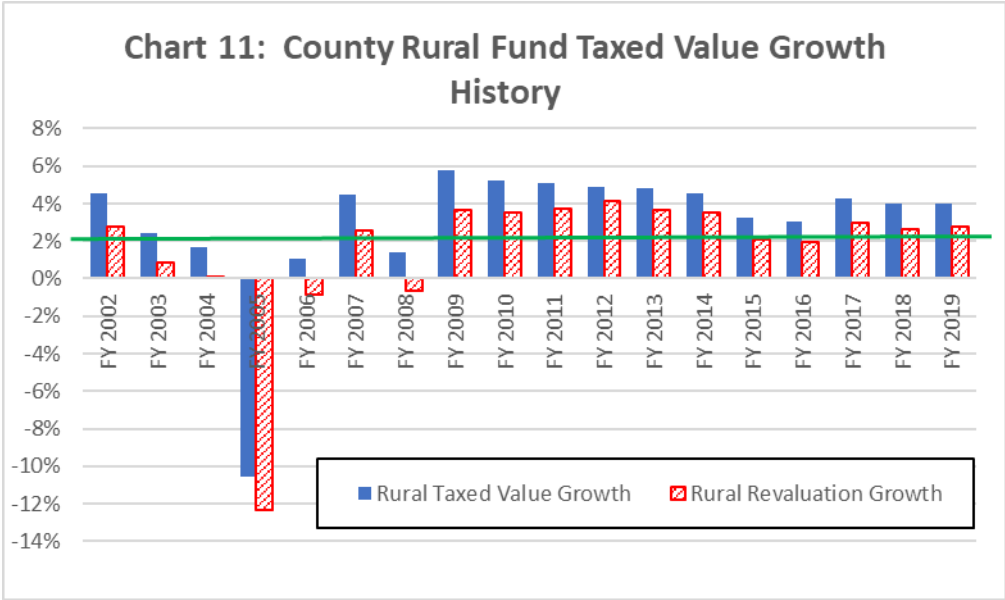
The bars in **Chart 9** depict the statewide annual growth in property tax revenue collected by all Iowa counties for rural purposes through their individual county property tax rates. The green line on the chart depicts the average annual rate (3.7%) of property tax growth for the 18 years. The growth is the net result of all the items listed in the property tax revenue growth section above.



Only rural property is subject to county rural levies. All counties may tax rural property within the county at an additional rural rate of up to \$3.95. Counties also have supplemental levy authority for rural purposes, if the circumstances of the county qualify and the county decides to access the supplemental levy. Over the years FY 2001 to FY 2019, the average county rural tax rate, excluding property within a TIF increment area, increased from \$2.89 to \$3.31 (depicted in **Chart 10**). The average annual rate of increase in the tax rate over the 18 years was 0.8%.

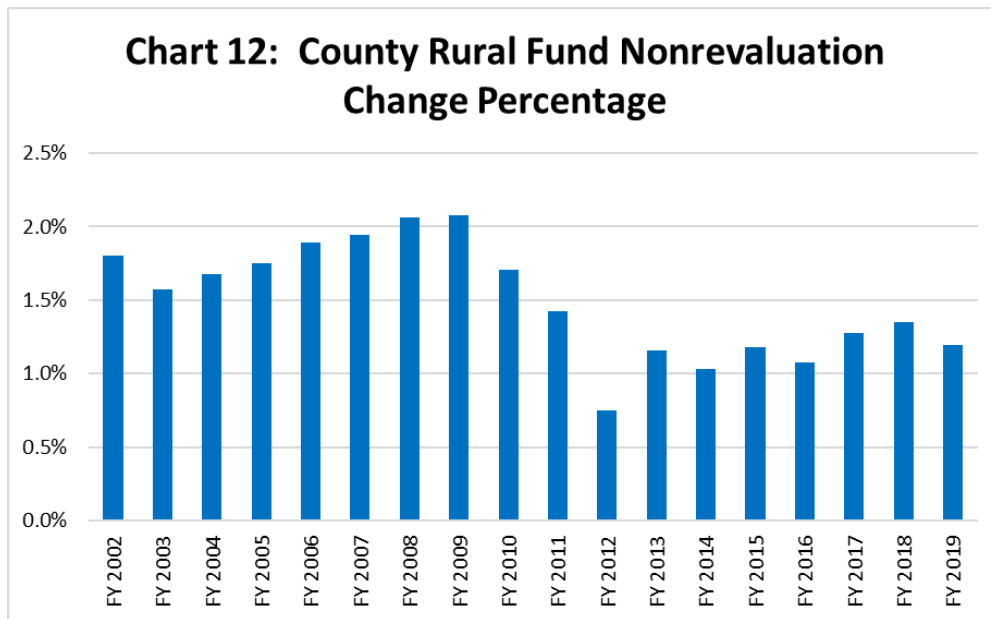


The statewide average county rural tax rate increased from FY 2001 (\$2.89) to FY 2014 (\$3.38), a time frame that includes FY 2002 through FY 2008, when rural taxable value increased very little as the taxable value of agricultural property declined. This issue is illustrated on the left half of **Chart 11**. The blue bars in **Chart 11** show the annual growth in the taxed value of the rural areas of all Iowa counties. The growth includes both revaluation of existing properties (after the changes in the rollbacks are applied) and nonrevaluation changes. The red bars subtract the nonrevaluation growth from the blue bars, so the red bars depict just the rollback-adjusted revaluation growth. The green line depicts a growth rate of 2.0%. The Bill essentially replaces actual revaluation growth with a maximum growth of no more than 2.0%, regardless of actual revaluation.



With the exception of FY 2002 and FY 2007, rural revaluation growth from FY 2002 through FY 2008 did not reach 2.0%. To achieve rural property tax revenue growth in excess of nonrevaluation growth in those years, counties needed to increase rural tax rates. The increase is evident on the left half of **Chart 10**. With the return of revaluation growth depicted in the red bars of **Chart 11** in FY 2009, the statewide average county rural property tax rate has been declining.

New construction taxable value is not as significant a factor in Iowa's rural areas. The percentage growth due to nonrevaluation changes in urban areas (**Chart 4**) is much higher than the nonrevaluation percentage change in rural areas (**Chart 12**). This is due to the fact that rural value is dominated by agricultural property and the annual percentage growth in agricultural value due to new construction is near zero. Nonetheless, county rural areas have not generated the same level of nonrevaluation growth that was evident prior to FY 2010. However, the lack of new construction value has not placed any noticeable upward pressure on county rural rates.



The Bill also places restrictions on county rural fund ending balances by requiring any ending balance in excess of 25.0% of budgeted expenditures to be reserved for a specific future purpose. Excess balances above 25.0%, if not reserved for a specific future purpose, must be eliminated through reductions in the county's property tax revenue limit.

County Annual Financial Reports for FY 2018 indicate that Iowa's 99 counties had a combined ending rural fund balance that was 100.0% of expenditures. If the rural fund balances of all counties equaled 25.0%, the ending balances would need to be reduced a combined \$56.9 million. However, much of the excess is likely being held for a future purpose. A total of 50 counties reported FY 2018 ending balances of at least 100.0% of expenditures. Four counties had a rural fund ending balance below 25.0%.

The 25.0% ending balance limitation could provide property tax reductions as early as FY 2021 as counties work to reduce ending balances above 25.0% that are not reserved for a specific future purpose. How much reduction is realized will depend on how well counties designate and defend ending balances in excess of 25.0%.

Fiscal Impact

[House File 773](#) removes levy rate restrictions currently in place for Iowa city and county budgets. The rate restrictions are replaced by an annual property tax revenue increase limit of 2.0%, plus an adjustment for new property value that is not the result of the revaluation of existing property.

Under the new system, if growth in taxable value due to revaluation exceeds 2.0%, tax rates can be expected to decrease as property tax revenue that is the result of revaluation will be limited to no more than 2.0% growth in a year. Over the past 10 fiscal years, annual revaluation growth for Iowa cities and counties has generally exceeded 2.0%. Therefore, the 2.0% property tax revenue limitation would have resulted in lower tax rates over those years. It should be noted that the existing system did result in an average property tax rate decline in city rates and in county general fund tax rates.

During the time frame of FY 2002 through FY 2008, taxable value growth due to revaluation of existing property was unusually low, as agricultural property values declined and the action of the agricultural tie limited residential revaluation growth to 0.0% in many years. City and county property tax rates did increase during that time frame. Had the proposed 2.0% revenue limit been in place during those years, the likely result would have been the same, as the law would have allowed property tax rates to increase in order to generate up to 2.0% revaluation revenue growth.

The future growth in Iowa assessed and taxable value is not known. The new system will begin in FY 2021 and it is important to consider revaluation growth in upcoming years. If annual revaluation growth exceeds an average of 2.0%, city and county property tax rates can be expected to decline under the 2.0% revenue growth limit. If revaluation growth is less than 2.0%, the new law will allow tax rates to increase enough to produce a 2.0% growth in property tax revenue.

Under current law, the rate limits and rollback provisions work to limit property tax revenue of cities and counties by limiting both the growth in property subject to tax and the rate at which property may be taxed. The proposed system works in much the same way. The result will depend significantly on the rate at which real property value appreciates in Iowa in the future.

[House File 773](#) also adds restrictions and requirements for city general fund and county general and rural fund balances. Ending balances in those three funds are limited to no more than 25.0% of budgeted fund expenditures for the year. If ending balances exceed 25.0%, the excess must be designated for a future purpose. Fiscal year 2018 ending balances for the three funds exceeded 25.0% across all cities and counties by a combined \$842.0 million. To the extent that the excess is reserved for a future purpose, cities and counties will be allowed to retain the amounts above 25.0%. If they are not able to sufficiently reserve and defend the balances against taxpayer protests, the excess may result in reduced property taxes in FY 2021 and after. It should be noted that by requiring any ending balance amount above 25.0% to be designated for a specific future purpose, the Bill allows an amount of up to 25.0% to be retained as an ending balance without a specified future purpose.

The Department of Management reports that the Bill will require the Department to develop a new system to accept and analyze data from counties not previously collected by the State. The Bill will also require the Department to make significant alterations to existing city and county online budget software. Based on an Office of the Chief Information Officer estimate for a new data collection system and Department of Management experience with resources needed to make considerable changes to form and function of budget forms, the Department estimates the system modifications to cost \$225,000 or more. Rulemaking and implementation would begin immediately upon adoption. The Department does not expect the Bill to require the addition of employees.

The Iowa League of Cities provided comments on possible negative fiscal implications to local budgets. A summary of those comments includes:

- The property tax revenue limitations in the Bill may result in some cities having added difficulty maintaining contributions to employee retirement systems and paying increased health insurance costs.
- The election requirements for cities seeking to exceed the 2.0% property tax revenue growth limit will add costs for the relevant cities.
- The possible reduction in ending fund balances could result in lower credit ratings for the relevant cities and a lower credit rating will increase borrowing costs.
- By lowering the amount of money readily available to a city, the possible reduction in ending fund balances could impact the ability to respond effectively to a natural or other disaster.

Sources

Department of Management property tax files
Department of Revenue property valuation reports
FY 2018 City and County Annual Financial Reports
Legislative Services Agency analysis

/s/ Holly M. Lyons

April 22, 2019

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

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