



HF 341 – City Self Funded Debt (LSB1663HV)

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Fiscal Note Version – New

Description

House File 341 authorizes cities to borrow money from surplus funds in reserve accounts or funds in order to self finance general or essential corporate purpose bond projects. The Bill requires the city to levy taxes to be deposited to the debt service fund in an amount sufficient to pay the principal and interest on such loans. The reserve funds or accounts of city utilities or combined city utilities are exempted from the provisions of this Bill, and borrowing from those funds or accounts is prohibited.

The Bill specifies that such loans cannot cause the balances in reserve accounts or funds to fall below any minimum prescribed by law. “Surplus” is defined as the cash balance available in a fund or account in excess of the amount of expenses and disbursements made in the previous three months plus the amount of transfers, payments, or disbursements required in the following three months. A loan issued under the provisions of this Bill must not result in a user fee, rate, or property tax increase.

The Bill requires that loan agreements issued under the new provisions establish an interest rate on the loan between the minimum rate established for state funds in accordance with [Iowa Code section 12C.6\(2\)\(a\)](#) and the maximum rate established for unpaid warrants in accordance with [Iowa Code section 74A.6\(2\)](#). The Bill limits the amount of indebtedness a city can incur under the provisions of the Bill to \$6.0 million.

Assumptions

Under current financial conditions, reserve funds invested in a public project are likely to earn a higher rate of return than they are currently earning. Self funding of bond projects reduces issuance expenses usually paid to bonding attorneys, financial consultants, and rating agencies.

Fiscal Impact

To the extent that the new provisions reduce bond issuance expenses for cities or result in greater investment earnings on reserve funds, **HF 341** may have a positive fiscal impact for cities. The extent to which the new provisions will be used and will result in reduced expenses and greater earnings is unknown.

Sources

City Administrator, City of Cedar Falls
LSA Analysis

/s/ Holly M. Lyons

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