Ways and Means Acts – Fiscal Notes

HF 205 – Barrel Tax Revenues, Brewpubs (LSB1365HV.2)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – Final Action

Description

House File 205 changes the deposit destination for certain State barrel (beer) tax revenues from the State General Fund to the Wine and Beer Promotion Board Fund. The change applies to the tax revenue received from locations within Iowa where the beer is manufactured and sold at retail at the site of manufacture (brewpubs). The change is effective July 1, 2023 (FY 2024).

Background

The control of alcoholic beverages in the State is regulated through Iowa Code chapter 123, and the tax on beer sales is established in Iowa Code section 123.136. The beer tax is $5.89 per 31-gallon barrel ($0.19 per gallon). The beer tax applies to:

- Beer manufactured in Iowa for sale or sold at wholesale in Iowa.
- Beer imported into Iowa for sale or sold at wholesale in Iowa.
- Beer manufactured in Iowa and sold at retail on the manufacturing premises for consumption off the premises.
- Beer manufactured in Iowa by special class "A" permittees for consumption on the manufacturing premises. Special class "A" permittees are commonly known as brewpubs.

The gallonage tax does not apply to the following situations:

- Beer shipped outside of Iowa.
- Sales by a class "A" or special class "A" permittee to another class "A" or special class "A" permittee.

Iowa Code section 123.136(2) provides that all beer tax shall be deposited to the State General Fund. However, Iowa Code section 123.143(2) provides that beer tax revenues collected on beer manufactured by a class "A" permittee that owns and operates a native brewery shall be credited to a special barrel tax fund to be used by the Economic Development Authority for the purposes of Iowa Code section 15E.117 (promotion of Iowa wine and beer). This exception to the General Fund tax deposit requirement does not apply to beer manufactured and sold at retail on the premises.

The special barrel tax fund is called the Wine and Beer Promotion Board Fund. The Fund received $0.2 million in beer tax generated by native beer sales and $0.2 million in wine tax generated from native wine sales during FY 2022. The Fund also received a transfer of $1.0 million from the Liquor Control Act Fund.

Major FY 2022 expenditures from the Fund include:

- Iowa State University — $250,000

- State aid to various organizations — $124,000
- Iowa Restaurant Association — $53,000
- Personal services (Economic Development Authority) — $50,000
- Advertising and publicity — $39,000

The Fund began FY 2022 with a balance of $0.4 million and ended with a balance of $1.3 million.

Assumptions

The Alcoholic Beverages Division estimates that beer tax currently collected from special class "A" permittees and deposited to the State General Fund totaled approximately $60,000 during FY 2022. This equates to the sale of 316,000 gallons of beer manufactured and sold at retail by Iowa brewpubs.

Fiscal Impact

Changing the destination of beer tax revenue generated from beer manufactured and sold at retail by Iowa brewpubs from the State General Fund to the Wine and Beer Promotion Board Fund is projected to decrease General Fund tax revenue by $60,000 in FY 2024 and future fiscal years. Revenues deposited to the Wine and Beer Promotion Board Fund will increase by the same projected amount.

The initial cost of Alcoholic Beverages Division information technology updates needed to implement the change is projected to be less than $20,000. The increased costs would be financed through the Liquor Control Act Fund. Once computer and other tax collection systems are updated, no ongoing additional costs are expected.

Effective Date

This Act is effective July 1, 2023.

Enactment Date

This Act was approved by the General Assembly on March 7, 2023, and signed by the Governor on March 22, 2023.

Sources

Alcoholic Beverages Division
State Accounting System

HF 258 – Commercial Driver's Licenses, National Drug and Alcohol Clearinghouse (LSB1217HV.2)
Staff Contact: Maria Wagenhofer (515.281.5270) maria.wagenhofer@legis.iowa.gov
Fiscal Note Version – Final Action

Description

House File 258 aligns various provisions of Iowa Code chapter 321 with mandatory Federal Motor Carrier Safety Administration (FMCSA) regulations.

Prior to issuing a Commercial Driver's License (CDL) or Commercial Learner's Permit (CLP), the Department of Transportation (DOT) must request information from the federal Drug and Alcohol Clearinghouse (DACH) if required under federal regulations. If the DACH response indicates the applicant is prohibited from operating a commercial motor vehicle, the DOT may not issue, renew, or upgrade the CDL or CLP and must initiate established procedures for downgrading the CDL or CLP. This Act requires the DOT to establish rules that include procedures for notifying the downgraded status to the Commercial Driver's License Information System, for termination of a downgrade process, and for reinstatement of a license after a downgrade.

House File 258 also removes references to outdated fine amounts for the following three violations and instead states that the fine amount for each violation will be in accordance with the civil penalty provided under federal regulations:

- The fine for an individual who violates an out-of-service order.
- The fine for employers that knowingly allow, require, permit, or authorize an employee to drive a commercial motor vehicle in violation of an out-of-service order.
- The fine for employers that allow, require, permit, or authorize a driver to operate a commercial motor vehicle in violation of railroad grade crossing regulations.

Background

Docket ID FMCSA-2017-0330 established requirements for states to access and use information obtained through the DACH. Iowa is required to comply with the federal DACH rules by November 18, 2024. The 2021 Annual Performance Review by FMCSA found Iowa Code sections to be noncompliant for the penalty amount for certain commercial driver or employer violations. Iowa is required to comply with the federal penalty amount for violations by July 1, 2023. According to the DOT, failure to comply with each of these changes would result in the loss of federal highway funding under 49 U.S.C. 31314 and 49 C.F.R. 384.401 and may impact Iowa's authority to issue CDLs and CLPs. 49 C.F.R. 384.401 provides that an amount up to 4.0% of the Federal-aid highway funds required to be apportioned to a state must be withheld the first year following noncompliance and an amount up to 8.0% must be withheld the second year and each subsequent year following noncompliance.

Current federal regulations would make the following changes to the fine amounts for the three violations:

- Increase the fine for an individual who violates an out-of-service order from between $2,500 and $5,000 to between $3,471 and $6,943.

- Increase the fine for employers that knowingly allow, require, permit, or authorize an employee to drive a commercial motor vehicle in violation of an out-of-service order from between $2,750 and $25,000 to between $6,269 and $34,712.
- Increase the fine for employers that allow, require, permit, or authorize a driver to operate a commercial motor vehicle in violation of railroad grade crossing regulations from not more than $10,000 to not more than $17,995.

Federal fine amounts are increased regularly. Over the past four calendar years, the DOT has issued nine citations under Iowa Code section 321.208A(1) and no citations under the other two affected Iowa Code sections. Fine revenue is deposited into the Road Use Tax Fund (RUTF).

Assumptions

- According to the DOT, noncompliance will result in a loss of $22.2 million the first year and $44.4 million the second year and each year thereafter.
- Iowa will be found in compliance with FMCSA regulations following passage of this Act.
- Similar to the years prior, there will be nine citations issued under Iowa Code section 321.208A(1) and zero citations issued under Iowa Code sections 321.208A(2) and 321.343A in future fiscal years.

Fiscal Impact

House File 258 would put Iowa in compliance with federal requirements, and the DOT would retain $22.2 million in federal highway funds in FY 2024 and $44.4 million in FY 2025 and each year thereafter.

There would be an annual increase of $17,000 to the RUTF from the increased fine amounts. There may be increased fee revenue in future years if federal regulations adjust fine amounts to be greater than the amounts currently set forth.

Effective Date

This Act is effective July 1, 2023.

Enactment Date

This Act was approved by the General Assembly on May 2, 2023, and signed by the Governor on June 1, 2023.

Source

Iowa Department of Transportation

HF 265 – Midwives, Licensure (LSB1036HV.2)
Staff Contact: Christopher Ubben (515.725.0134) chris.ubben@legis.iowa.gov
Fiscal Note Version – Final Action

Description

House File 265 requires a person practicing midwifery in Iowa to obtain a license through the Board of Nursing in order to practice beginning July 1, 2024, with exclusions listed for certain classes. The Act prohibits any person other than a licensed midwife from using the title "licensed midwife." The Act also creates a Midwifery Advisory Council under the Board of Nursing to advise the Board regarding licensure, continuing education requirements, standards of practice, professional ethics, disciplinary actions, and other issues related to midwifery.

House File 265 also limits the liability of a health care provider that accepts clients transferred from a licensed midwife. The Act requires insurance providers to extend maternity benefits to cover maternity services provided by licensed midwives on the same terms as similar services provided by other health care providers.

Assumptions

- The Department of Health and Human Services (HHS) will require start-up costs for the new licensing board, including for the following: staff time needed to establish the new licensing board; time for researching and developing administrative rules for licensure and discipline; and time for updating the licensing software application to establish the new board and all of the associated requirements for licensure.
- The number of current and future certified professional midwives (CPMs) is unknown. It is estimated that there are approximately 14 active CPMs practicing in the State of Iowa.

Fiscal Impact

The HHS reports that initial start-up costs of establishing a new licensing board would require an estimated $149,000 in FY 2024. Of this amount, $94,000 is attributable to database modification costs, $25,000 is for administrative and staffing costs, and $30,000 is for support costs paid to the Attorney General's Office.

Ongoing costs are anticipated by the HHS to be $43,000 annually. Of this amount, $13,000 is for administrative and staffing costs and $30,000 is for support costs paid to the Attorney General's Office.

The Act directs the Board of Nursing to establish a licensing fee through the administrative rules process based on these costs.

Effective Date

This Act is effective July 1, 2023.

Enactment Date

This Act was approved by the General Assembly on May 3, 2023, and signed by the Governor on June 1, 2023.

Sources

Department of Health and Human Services
Board of Nursing

HF 352 – Pass-Through Business Entity Tax and Deduction (LSB1209HV.3)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – Final Action

Description

House File 352 creates a new voluntary pass-through entity income tax (PTE tax) to be paid by partnerships and Subchapter S Corporations (S Corporations) business pass-through entities.

The Act also creates a new income tax credit to be passed through to the individual owners of a partnership or S Corporation that has elected to pay the PTE tax. The credit flows to the PTE owners to reflect and adjust for the fact that the PTE tax was paid at the business entity level, and the credit is distributed to an entity's owners in the same proportion that the income of an entity is distributed to its owners. The credit, to be used by an entity's owners and not the entity itself, is refundable to the individual taxpayer through the filing of individual income tax returns.

The Act is effective upon enactment, and the new PTE tax and tax credit apply retroactively to tax year (TY) 2022.

Background

Note: For this ***Fiscal Note***, partnership and S Corporation pass-through entities are referred to as "PTE businesses," and the owners of the PTE businesses are referred to as "owners" and "taxpayers."

Pass-through entities such as partnerships and S Corporations are generally not subject to federal or State income tax. Instead, the income generated by the entities is passed through to the owners of the entities, where it becomes income to the entities' owners.

Federal legislation enacted in 2017 increased the standard deduction and also limited the amount of State and local taxes (property tax and either income or sales tax) a taxpayer may deduct from the taxpayer's income for federal individual income tax purposes.

The increased standard deduction changed a significant percentage of federal taxpayers from itemized deduction filers to standard deduction filers. For standard deduction filers, the amount of State and local taxes paid does not enter into the calculation of federal individual income taxes. For itemized deduction filers, any amount of State and local taxes above $10,000 ($5,000 for married taxpayers filing separate returns) does not enter into the calculation of federal individual income taxes. The portion of the 2017 federal tax legislation that created the State and local tax (SALT) limit expires at the end of calendar year 2025.

This Act is a SALT limit workaround that would allow certain individual income taxpayers (owners of partnerships and S Corporations who make a voluntary election) to pay an Iowa income tax through their pass-through partnerships and S Corporation businesses. That State PTE tax would be treated as a business expense, which would lower the taxable income that flows out of the pass-through entity to the individual tax returns of the owners of the pass-through entities. The Act also provides a State income tax credit that will compensate the entity owners for the PTE tax that was paid, and that tax credit is split between the owners of the pass-through entity to be used when filing individual income tax returns. In this manner, the entity owners are allowed to deduct State taxes at the entity level that would be useless to them for federal income tax purposes if the taxes were paid at the individual income tax level.

Assumptions

- The federal SALT deduction limitation workaround created in this Act will lower the income distributed by PTE businesses for federal tax purposes (if the PTE makes the voluntary election), and this will lower the federal individual income taxes owed by the PTE taxpayers.
- Since distributed PTE business income for federal tax purposes is also used as income for Iowa income tax calculations, the Act will also lower the taxpayers' Iowa income tax.
- In addition to the lowered income for State tax purposes, the taxpayers will also receive a tax credit equal to a percentage of the PTE tax paid by the PTE business to be used on the individual income tax returns of the PTE's owners (taxpayers). The PTE tax credit percentage each tax year is equal to 100.0% minus the top individual income tax rate for the applicable tax year, with the result multiplied by the amount of the PTE tax. Reducing the PTE tax amount by the top individual income tax rate adjusts for the fact that the PTE tax paid at the entity level reduced not only the federal taxable income distributed by the entity, but also State taxable income.
- For Iowa taxpayers living within a school district that has in place a local option income surtax for schools, tax items that lower Iowa individual income tax liability (with the exception of refundable tax credits) also lower the income surtax owed by the taxpayer.
- The local option income surtax for schools does not apply to the PTE taxes paid by PTE businesses.

Fiscal Impact

The creation of the new PTE tax will result in decreased PTE income passed through to PTE owners, thereby lowering State taxable income and State individual income tax. The revenue generated by the PTE tax will increase State tax revenue, while the new PTE tax credit will return the PTE tax paid at the entity level to the PTE owners. The PTE credit is designed to return the PTE tax to the owners while also adjusting for the fact that paying PTE tax lowered the amount of pass-through income that is subject to State income tax.

It is projected that the State General Fund revenue benefit due to the new PTE tax will be fully offset when the new refundable PTE tax credit is redeemed through the filing of individual income tax returns by the PTE owners.

Since the PTE tax credit is refundable, the redemption of the credit will not impact the calculation of the local option income surtax for schools. However, the fact that PTE tax paid at the entity level reduces reported individual income for the entity owners will result in some reduction in the amount of local option income surtax for schools. The cumulative surtax reduction over four tax years (TY 2022 through TY 2025) is projected to be $0.1 million statewide.

The creation of a new tax and new tax credit, along with the potential for a significant number of amended returns filed for TY 2022, will increase administrative expenses incurred by the Department of Revenue. The Department was not able to provide an estimate for the expense increase.

Effective Date

This Act is effective May 11, 2023 and applies retroactively to tax years beginning on or after January 1, 2022.

Enactment Date

This Act was approved by the General Assembly on April 26, 2023, and signed by the Governor on May 11, 2023.

Sources

Department of Revenue
Legislative Services Agency analysis

HF 590 – Flying Our Colors License Plate, Sunset Repeal (LSB2331HV.2)
Staff Contact: Maria Wagenhofer (515.281.5270) maria.wagenhofer@legis.iowa.gov
Fiscal Note Version – Final Action

Description

House File 590 eliminates the July 1, 2023, repeal of language that requires the Treasurer of State to transfer license plate revenue from the Statutory Allocations Fund to the Flood Mitigation Fund. Under House File 590, special fees collected by the Flying Our Colors license plates would continue to be deposited into the Flood Mitigation Fund.

Background

Under current law, individuals may obtain the Flying Our Colors license plate at an initial special fee of $35 and an annual special fee of $10. These special fees are deposited in the Road Use Tax Fund (RUTF) and then the same amount credited monthly from the Statutory Allocations Fund to the Flood Mitigation Fund.

The Flood Mitigation Fund was created in 2012 Iowa Acts, chapter 1094, and is under the control of the Flood Mitigation Board within the Department of Homeland Security and Emergency Management. Moneys in the Fund are used to provide grants, loans, and forgivable loans of up to $4.0 million in any one fiscal year to governmental entities. The Fund has provided funding to a flood mitigation project for the Platteville Drainage District.

Approximately $84,000 in FY 2021 and $137,000 in FY 2022 was deposited into the Flood Mitigation Fund from the Statutory Allocations Fund. As of May 8, 2023, the year-to-date transfer amount for FY 2023 is approximately $87,000. The transfer from the Statutory Allocations Fund is the Flood Mitigation Fund's only source of revenue.

Under current law, the Flood Mitigation Fund would cease to be funded by the special fees collected for the Flying Our Colors license plates on July 1, 2023.

Assumptions

Annual special fees collected from the Flying Our Colors plate is estimated to equal the average amount collected between FY 2021 and FY 2022.

Fiscal Impact

House File 590 is estimated to maintain annual funding of approximately $111,000 from the Statutory Allocations Fund to the Flood Mitigation Fund.

Effective Date

This Act is effective July 1, 2023.

Enactment Date

This Act was approved by the General Assembly on May 4, 2023, and signed by the Governor on June 1, 2023.

Sources

Integrated Information for Iowa (I/3)
Iowa Department of Homeland Security and Emergency Management
Legislative Services Agency calculations

HF 660 – Raceway Facility Sales Tax Rebate, Extension (LSB1446HV.2)
Staff Contact: Maria Wagenhofer (515.281.5270) maria.wagenhofer@legis.iowa.gov
Fiscal Note Version – Final Action

Description

House File 660 extends the date that sales tax receipts collected on sales of tangible personal property or services furnished by retailers at an eligible raceway facility can be rebated to an eligible raceway facility from June 30, 2025, to June 30, 2030.

This Act also makes a technical correction to 2023 Iowa Acts, House File 718 (Property Tax, Assessments, and Bond Elections Act), to add the word "percent" to specific county levy rate calculations.

Background

The sales and use tax rebate for eligible raceway facilities was created in 2014 Iowa Acts, chapter 1102 (Sales and Use Tax Rebate — Raceway Facility Act). Under current law, the sales tax receipts collected on sales of tangible personal property or services furnished by retailers at an eligible raceway facility are rebated to the raceway facility until June 30, 2025, or until the total rebate amount equals $1.8 million, whichever is earliest.

Assumptions

- Information on the actual amount of rebate claims paid since inception of the racetrack rebate is not available.
- It is assumed that through FY 2023, approximately $1.0 million was claimed in sales tax rebates.
- It is estimated that $225,000 in rebates will be claimed between FY 2024 and FY 2025.
- Based on the first three assumptions, rebate claims through FY 2025 will be $575,000 below the $1.8 million limit when rebate availability ends under current law.
- With the program end date extended through FY 2030 as proposed in this Act, it is assumed that the $1.8 million rebate cap will be met by FY 2030.

Fiscal Impact

It is estimated that HF 660 will decrease revenue to the General Fund by approximately $575,000 between FY 2026 and FY 2030 before the $1.8 million cap is reached.

Effective Date

This Act is effective July 1, 2023.

Enactment Date

This Act was passed by the General Assembly on May 4, 2023, and signed by the Governor on June 1, 2023.

Sources

Department of Revenue
LSA calculations

HF 666 – Department of Agriculture and Land Stewardship, Omnibus (LSB1218HZ.2)
Staff Contact: Austin Brinks (515.725.2200) austin.brinks@legis.iowa.gov
Fiscal Note Version – Final Action

Description

House File 666 contains four divisions, which are outlined below:

Division I

This Division changes the definition of "pet shop" to exclude a facility that receives less than $1,000 from the sale or exchange of vertebrate animals, excluding fish, during a 12-month period or a facility that sells or exchanges fewer than 12 vertebrate animals, excluding fish, during a 12-month period. The Division also removes a person's tax identification number from the information required to apply for or renew an authorization for the operation of a commercial establishment.

Division II

This Division makes various nonsubstantive changes to language in the Iowa Code. In addition, the Division increases the allowable duration of a credit-sale contract to 15 months from the date the contract is executed. The Division also changes the fiscal year of the Grain Indemnity Fund to begin on September 1 and end on August 31 of each year and changes the start dates of each quarter to begin on September 1, December 1, March 1, and June 1.

This Division takes effect upon enactment.

Division III

This Division changes the frequency of inspections of motor fuel pumps from annual to biennial, and creates a motor fuel pump inspection annual license fee that is due the day the license is issued. The fee varies by the class of the device inspected. This license expires on June 30 of each year. The Division also creates definitions for "renewable diesel" and "coprocess" and amends 2019 Iowa Acts, chapter 151, to require the Department of Agriculture and Land Stewardship (DALS) to provide biennial inspections of each charging station through which electric fuel can be dispensed. The effective date of the Electric Fuel Excise Tax in 2019 Iowa Acts, chapter 151, is July 1, 2023.

Division IV

This Division makes changes to the Iowa Code and allows the DALS to use unobligated or encumbered funds from the Water Quality Urban Infrastructure Program for the water quality agriculture infrastructure programs.

Background

Currently, the definition of "pet shop" excludes an establishment that receives less than $500 from the sale or exchange of vertebrate animals or sells or exchanges fewer than 6 animals during a 12-month period.

The DALS currently conducts annual inspections of motor fuel pumps and charges a fee for these inspections. The amount of the fee is determined by the class or section of the device as determined by the National Institute of Standards and Technology.

The water quality agriculture infrastructure programs and Water Quality Urban Infrastructure Program are part of the Water Quality Initiative and are administered by the Division of Soil and Water Quality in the DALS. The purpose of the water quality agriculture infrastructure programs is to support projects for the installation of infrastructure, including conservation structures, practices, or other measures that reduce contributing nutrient loads, associated sediment, or contaminants from sources to surface waters. The purpose of the Water Quality Urban Infrastructure Program is to support watershed projects and advance the implementation of the Iowa Nutrient Reduction Strategy, which may include demonstration projects that decrease erosion, precipitation-induced surface runoff, and storm water discharges that increase water infiltration rates.

Assumptions

- The DALS will require 1.0 full-time equivalent (FTE) position and relevant equipment to conduct the required charging station inspections.
- The DALS will require new equipment to inspect electric vehicle charging stations.

Fiscal Impact

Divisions I, **II**, and **IV** have no fiscal impact.

For **Division III**, the DALS estimates that 1.0 FTE position would cost approximately $143,000 annually, and the DALS would incur a one-time expense for electric vehicle charging station testing equipment which would cost approximately $190,000. The license fee created in this Act is estimated to create no change in revenue.

Effective Date

Division II of this Act is effective June 1, 2023 and the remaining Divisions are effective on July 1, 2023.

Enactment Date

This Act was approved by the General Assembly on May 3, 2023, and signed by the Governor on June 1, 2023.

Sources

Legislative Services Agency
Department of Agriculture and Land Stewardship

HF 670 – Veterinary Auxiliary Personnel (LSB1917HZ.2)
Staff Contact: Austin Brinks (515.725.2200) austin.brinks@legis.iowa.gov
Fiscal Note Version – Final Action

Description

House File 670 adds and changes various definitions related to veterinary medicine in the Iowa Code. This Act also does the following:

- Authorizes certain individuals to provide authorized veterinary medical services under the direct supervision of a licensed veterinarian.
- Changes the definition of "practice of veterinary medicine" to include veterinary acupuncture, acutherapy, acupressure, manipulative therapy based on techniques of osteopathy and chiropractic medicine, or other similar therapies as specified by the Board of Veterinary Medicine.
- Defines "veterinary auxiliary personnel" as a veterinary assistant, registered veterinary technician, veterinary student, veterinary technician student, or graduate of a foreign college of veterinary medicine who does not have a veterinary license or temporary permit.
- Provides the level of supervision required to delegate tasks to veterinary auxiliary personnel.
- Establishes the duties of a supervising veterinarian, registered veterinary technician, registered veterinary technician student, and graduate of a foreign veterinary college.
- Requires the Board of Veterinary Medicine to issue certificates of registration to qualified veterinary technicians and provides the procedures for certification, as well as the renewal of certification. A certificate of registration issued prior to July 1, 2024, does not expire.
- Creates a simple misdemeanor if a person falsely indicates that the person is a registered veterinary technician.
- Adds practicing veterinary medicine without a valid license or temporary permit to Iowa Code section 714.8 on fraudulent practice.
- Directs the Board of Veterinary Medicine to submit rules to implement this Act prior to January 1, 2024.

This Act is effective July 1, 2024; however, the section of this Act that requires the Board of Veterinary Medicine to adopt administrative rules takes effect upon enactment.

Background

Iowa Code chapter 169 regulates veterinary practice, including the licensing requirements and exceptions. Currently, the practice of veterinary medicine means to, for a fee, diagnose, treat, correct, change, relieve, or prevent any animal disease, deformity, defect, injury, or other physical or mental conditions or cosmetic surgery. This includes the prescription or administration of any drug, medicine, biologic, apparatus, anesthetic or diagnostic substance, or technique to evaluate or correct sterility or infertility. The practice also includes representing oneself as willing to perform acts listed as veterinary practice and to use any title, words, abbreviation, or letters in a manner that would give the belief that a person is qualified to practice veterinary medicine.

A person may not practice veterinary medicine in the State unless the person is a licensed veterinarian or has a valid temporary permit issued by the Board of Veterinary Medicine. The Board issues certificates to veterinary medicine students who have been certified by an instructor to practice veterinary medicine. In addition, a veterinary assistant employed by a licensed veterinarian may be certified to practice veterinary medicine, except for diagnosing, prescribing, or performing surgery, if the veterinary assistant has met educational, experience, and testing requirements established by the Board.

The penalty for fraudulent practice ranges from a simple misdemeanor to a Class C felony depending on the amount of money or value of property or services involved. A Class C felony is punishable by confinement for up to 10 years and a fine of at least $1,370 but not more than $13,660. A Class D felony is punishable by confinement for up to five years and a fine of at least $1,025 but not more than $10,245. An aggravated misdemeanor is punishable by confinement for up to two years and a fine of at least $855 but not more than $8,540. A serious misdemeanor is punishable by confinement for up to one year and a fine of at least $430 but not more than $2,560. A simple misdemeanor is punishable by confinement for up to 30 days and a fine of at least $105 but not more than $855.

Assumptions

- The following will not change over the projection period: charge, conviction, and sentencing patterns and trends; prisoner length of stay (LOS); revocation rates; plea bargaining; and other criminal justice system policies and practices.
- A lag effect of six months is assumed from the effective date of this Act to the date of first entry of affected offenders into the correctional system.
- Marginal costs for county jails cannot be estimated due to a lack of data. For purposes of this analysis, the marginal cost for county jails is assumed to be $50 per day.

Correctional Impact

House File 670 creates a new simple misdemeanor if a person falsely indicates they are a registered veterinary technician. This Act also expands the violation of fraudulent practice and adds practicing veterinary medicine without a valid license to the definition of fraudulent practices. The correctional impact cannot be estimated for this Act due to a lack of existing conviction data. There have been no convictions under Iowa Code chapter 169 in FY 2022. **Table 1** below shows estimates for sentencing to State prison, parole, probation, or Community-Based Corrections (CBC) residential facilities; LOS under those supervisions; and supervision marginal costs per day for all convictions of Class C felonies, Class D felonies, aggravated misdemeanors, and serious misdemeanors. A conviction for a simple misdemeanor does not result in a prison sentence, but does carry the possibility of confinement for up to 30 days. Marginal county jail costs are estimated to be $50 per day. Refer to the Legislative Services Agency (LSA) memo addressed to the General Assembly, ***Cost Estimates Used for Correctional Impact Statements***, dated January 20, 2023, for information related to the correctional system.

Table 1 — Sentencing Estimates and Length of Stay (LOS)

Conviction Offense Class	Percent Ordered to State Prison	FY 22 Avg LOS In Prison In Months (All Releases)	FY 22 Marginal Cost Per Day Prison	Percent Ordered to Probation	FY 22 Avg LOS on Probation In Months	FY 22 Avg Cost Per Day Probation	Percent Sentenced to CBC Residential Facility	FY 22 Marginal Cost Per Day CBC	Percent Ordered to County Jail	Marginal Cost Per Day Jail	FY 22 Avg LOS on Parole In Months	FY 22 Marginal Cost Per Day Parole
C Felony (Non-Persons)	84.2%	20.9	$23.42	67.4%	38.7	$7.27	12.0%	$20.67	31.5%	$50.00	22.8	$7.27
D Felony (Non-Persons)	83.9%	13.9	$23.42	68.0%	33.5	$7.27	13.3%	$20.67	31.4%	$50.00	15.5	$7.27
Aggravated Misdemeanor (Non-Persons)	31.4%	7.5	$23.42	45.6%	20.7	$7.27	3.3%	$20.67	72.2%	$50.00	8.2	$7.27
Serious Misdemeanor	1.9%	5.5	$23.42	51.2%	13.7	$7.27	0.9%	$20.67	73.3%	$50.00	0.5	$7.27

Minority Impact

House File 670 establishes a new simple misdemeanor and also adds practicing veterinary medicine without a license or permit to the fraudulent practice violations. As a result, the Division of Criminal and Juvenile Justice Planning (CJJP) of the Department of Human Rights cannot use existing data to estimate the minority impact of this Act. Refer to the LSA memo addressed to the General Assembly, ***Minority Impact Statement***, dated January 20, 2023, for information related to minorities in the criminal justice system.

Fiscal Impact

House File 670 establishes a new simple misdemeanor and adds practicing veterinary medicine without a license or permit to the fraudulent practice violations. The fiscal impact cannot be estimated due to a lack of existing conviction data. **Table 2** below shows the average State cost per offense for a Class C felony, Class D felony, aggravated misdemeanor, serious misdemeanor, and simple misdemeanor. The estimated impact to the State General Fund includes operating costs incurred by the Judicial Branch, the Indigent Defense Fund, and the Department of Corrections (DOC). The cost would be incurred across multiple fiscal years for prison and parole supervision.

Table 2 — Average State Cost Per Offense	
Class C Felony	$12,100 to $25,100
Class D Felony	$9,500 to $17,400
Aggravated Misdemeanor	$5,000 to $9,600
Serious Misdemeanor	$400 to $5,600
Simple Misdemeanor	$35 to $375

Effective Date

This portion of this Act that requires the Board of Veterinary Medicine to adopt administrative rules takes effect June 1, 2023, and the rest of the Act is effective July 1, 2024.

Enactment Date

This Act was approved by the General Assembly on April 24, 2023, and signed by the Governor on June 1, 2023.

Sources

Division of Criminal and Juvenile Justice Planning, Department of Human Rights
Legislative Services Agency

HF 672 – Permanent Teaching Licensure (LSB2019HZ.1)
Staff Contact: Michael Peters (515.281.6934) michael.peters@legis.iowa.gov
Fiscal Note Version – Final Action

Description

House File 672 requires the Board of Educational Examiners (BOEE) to eliminate renewal requirements for practitioners who hold a master's or doctoral degree and have been employed as a practitioner for at least 10 years. The Act provides that for practitioners not subject to renewal requirements, the BOEE is required to review the sex offender registry, the Iowa Court Information System, the registry for child abuse information, and dependent adult abuse records for information on those practitioners every five years. The Act also permits the BOEE to charge a reasonable fee to practitioners who are not subject to renewal requirements for the review of these systems and records. Lastly, the Act removes the BOEE's requirement and ability to verify the completion of mandatory trainings of licensees who hold a master's or doctoral degree.

Background

Iowa Code section 272.10 requires the BOEE to finance all activities through licensing fees. Pursuant to Iowa Code section 272.10, 25.0% of fees collected annually by the BOEE are credited to the General Fund, and the remainder is retained and used by the BOEE. The BOEE has 14.0 full-time equivalent (FTE) positions.

Iowa Code sections 279.13 and 279.69 currently allow the BOEE and school districts to review the sex offender registry, the Iowa Court Information System, the central registry for child abuse information, and the central registry for dependent adult abuse information and to complete a background check in conjunction with hiring decisions and continuation of employment for education practitioners.

The current $10 criminal history background check fee for renewals remains unchanged under the Act.

Assumptions

- An average of 4,193 individuals with a master educator teaching license, professional administrator license, or professional service license renew or extend a license each year.
- The BOEE charges an $85 processing fee per application for renewals, which would be decreased to $50 under the Act. The BOEE estimates that 80.0% of licenses issued meet the 10-year requirement. The Act will affect approximately 3,311 applications.

Fiscal Impact

House File 672 is estimated to reduce BOEE revenues by $116,000 per year beginning in FY 2024. Revenue reductions may decrease the number of FTE positions within the BOEE by 1.0 FTE position. In addition, the Act will result in a decrease of approximately $37,000 to the General Fund annually.

Effective Date

This Act is effective July 1, 2023.

Enactment Date

This Act was approved by the General Assembly on May 4, 2023, and signed by the Governor on May 26, 2023.

Source

Board of Educational Examiners

[HF 685](#) – Medicaid, Liens and Third-Party Recovery (LSB1182HZ.2)
Staff Contact: Eric Richardson (515.281.6767) eric.richardson@legis.iowa.gov
Fiscal Note Version – Final Action

Description

[House File 685](#) relates to the Medicaid program, including third-party lien recovery, taxation of managed care organization (MCO) premiums, and nursing facility licensing and financing.

Division I — Medicaid Program Third-Party Recovery

Description and Background

Division I relates to the duties of third parties, defined in the Division, and includes insurance companies. **Division I** does the following:

- Provides that third-party obligations specified in the Division are a condition of doing business in Iowa.
- Requires that a third party that is an insurance carrier enter into a health insurance data match program with the Department of Health and Human Services (HHS) to compare beneficiaries between State and third-party systems.
- Prohibits a third party from denying any claim submitted by a Medicaid payor, including an MCO, to a third party solely due to procedural reasons.
- Allows the HHS to adopt administrative rules to administer **Division I**.
- Specifies that it is the intent of the General Assembly that Medicaid payors be the payor of last resort for medical services.
- Allows a Medicaid payor to assign its rights under the Division to another Medicaid payor, a provider, or a contractor.
- Requires a Medicaid recipient or the recipient's agent to inform the Medicaid payor of any third-party benefits the recipient is eligible to receive.
- Specifies that a Medicaid payor is automatically eligible to collect a debt and has an automatic lien upon the collateral for the full amount of medical assistance provided by the Medicaid payor for medical services furnished as a result of any covered illness or injury for which a third party is or may be liable.
- Allows a Medicaid payor to institute, intervene in, or join in any legal or administrative proceeding to recover damages in an action derivative of the rights of the recipient, and requires that the Medicaid payor provide written notice to the recipient no later than 30 days after filing a derivative action against a third party.
- Makes the entire amount of a settlement between a recipient and a third party subject to a Medicaid payor's claim for reimbursement of the amount of medical assistance provided. The Division establishes a rebuttable presumption that in a tort action against a third party, all Medicaid payors collectively receive two-thirds of the remaining amount recovered or the total amount of medical assistance provided by the Medicaid payors, whichever is less, after attorney and filing fees. The Division allows the recipient to contest the calculation in

court. If there are competing claims of Medicaid payors, each payor is entitled to the respective pro rata share of the available recovered amount.
- Allows a Medicaid payor to make settlements with third parties.

Iowa Code section 249A.37, which is stricken in Division I, currently relates to health care information sharing by health insurers. The section allows the State to request information regarding a patient from health insurers, requires that health insurers accept the State's right of recovery from the insurers for Medicaid expenses, mandates a response from health insurers based on a State request regarding a claim, and requires a health insurer to agree not to deny claims based on a procedural reason.

Medicaid third-party liability refers to the legal obligation of third parties, such as health insurers, to pay part or all of the expenditures for medical assistance provided under a Medicaid state plan. Under federal law, third parties are the primary payor of medical expenses when coverage also includes Medicaid. State Medicaid programs may contract with MCOs to provide health care to beneficiaries, and based on Section 1902(a) of the federal Social Security Act, may delegate responsibility and authority to the MCOs to perform third-party discovery and recovery activities. The Medicaid program may authorize the MCO to use a contractor to complete these activities. According to 42 U.S.C. §1396a(a)(25)(I), when third-party liability responsibilities are delegated to an MCO, third parties are required to treat the MCO as if it were the State, including providing access to third-party eligibility and claims data to identify individuals with third-party coverage, adhering to the assignment of rights from the State to the MCO of a beneficiary's right to payment by health insurers for health care services, and refraining from denying payment of claims submitted by the MCO for procedural reasons. In FY 2022, Iowa MCOs recovered $227.7 million in third-party liability from other insurers.

In 2022, the U.S. Supreme Court ruled in *Gallardo v. Marstiller* that state Medicaid programs are permitted to seek reimbursement from settlement payments allocated for future medical care. This ruling validated a state's right to collect tort recoveries from Medicaid beneficiaries, and allows Iowa and a Medicaid payor to expand its ability to recoup health care costs from third parties, including settlements and judgments.

Assumptions/Fiscal Impact
According to the HHS, the fiscal impact of **Division I** due to third-party liability recoveries is expected to be minimal and cannot be estimated due to lack of data. Future recoveries may affect capitation rate-setting for Medicaid MCOs.

Division II — Medicaid Managed Care Organization Taxation of Premiums

Description and Background
Division II establishes a new 2.5% tax on MCO premiums received and taxable, set to begin on January 1, 2024. The tax will be paid on or before March 1 of the year following the calendar year when the tax is due. The MCOs are expected to prepay the tax, with one-half of the MCO's liability for the preceding calendar year due on or before June 1 and the other half of the prepayment due on or before August 15. Any excess prepayment may be credited to the following year or refunded, as specified in the Division. A Medicaid MCO Premiums

Fund is created in the Division, and all MCO premium tax revenue will be deposited into the Fund and appropriated to the HHS to use for the Medicaid program. Moneys in the Fund do not revert and are permitted to carry forward. Any interest earned is credited to the Fund.

Currently, there are a number of sources of State revenue used as matching funds to access federal resources in the Medicaid program, outside of the annual State Medicaid appropriation, which was $1.510 billion in 2022 Iowa Acts, House File 2578 (FY 2023 Health and Human Services Appropriations Act). Iowa Code section 249A.21 specifies an assessment (not to exceed 6.0% for actual paid claims) for intermediate care facilities for persons with an intellectual disability (ICF/ID), which is paid by facilities to the HHS to use for federal matching funds for Medicaid services. The ICF/ID also has a 1.5% penalty on the amount owed to the HHS. Other assessments in statute for Medicaid include the Nursing Facility Quality Assurance Assessment Program (Iowa Code chapter 249L) and the Hospital Health Care Access Assessment Program (Iowa Code chapter 249M).

Assumptions/Fiscal Impact

- According to the HHS, the 2.5% premium tax received from State-funded MCO premiums is to be reimbursed to MCOs through the capitation rate-setting process.
- MCOs pay the entire premium tax for calendar year (CY) 2024 on March 1, 2025 (FY 2025), while the 50.0% prepayments for CY 2025 are made on June 1, 2025 (FY 2025) and August 15, 2025 (FY 2026).
- Prepayment of CY 2026 taxes begins on June 1, 2026 (FY 2026).
- Federal reimbursement using State MCO premium tax revenue is based on blended Federal Medical Assistance Percentage (FMAP) rates of 70.0% federal funds and 30.0% State funds.
- According to the HHS, in FY 2025 the MCO premium tax will create $66.8 million from State-funded premiums and $155.8 million from federally funded premiums.
- According to the HHS, in FY 2026 and beyond, the MCO premium tax will create $44.5 million from State-funded premiums and $103.9 million from federally funded premiums.
- Decisions on how to allocate the State net revenue from the MCO premium tax have not been made by the HHS and the General Assembly and are not identified in the Act.

Figure 1 summarizes the revenue impact from **Division II** of the Act. Revenues are to be deposited into the Medicaid MCO Premiums Fund created in **Division II**.

Figure 1 — HF 685 (Division II) — MCO Premium Tax Revenue (In Millions)

Fiscal Year	MCO Premium Tax	MCO Reimbursement from State	State Net Revenue
FY 2024	$ 0.0	$ 0.0	$ 0.0
FY 2025	222.6	-66.8	155.8
FY 2026	148.4	-44.5	103.9

Division III — Nursing Facility Licensing and Financing

Description and Background

Division III relates to the imposition of a temporary moratorium for new construction or an increase in bed capacity of nursing facilities. **Division III** does the following:

- Starting July 1, 2023, allows the Department of Inspections, Appeals, and Licensing (DIAL), in consultation with the HHS, to impose a temporary moratorium on the submission of applications for new construction of nursing facilities or a permanent change that increases bed capacity for existing nursing facilities for an initial period of 12 months. The DIAL may extend the moratorium in 6-month increments but for no longer than 36 months.
- Allows the DIAL, in consultation with the HHS, to waive the moratorium if there is a need for specialized-needs beds or if the average occupancy of all licensed nursing facility beds located within the county and contiguous counties of the location of the proposed increase in nursing facility bed capacity exceeded 85.0% during the three most recent calendar quarters as published by the Centers for Medicare and Medicaid Services (CMS).
- Requires the DIAL to publish any request for a waiver of the moratorium and any explanation approving or denying the waiver request.
- Requires applicants to the DIAL for a nursing facility license to provide information related to the following:
  - The organizational and ownership structures of the applicant.
  - Any related party transactions and associated reimbursement structures.
  - The financial suitability of the applicant to operate a nursing facility.
  - Whether the applicant has voluntarily surrendered a license while under investigation in another licensing jurisdiction.
  - Whether another licensing jurisdiction has taken disciplinary action against the applicant relating to the applicant’s operation of a nursing facility.
  - Whether there are complaints, allegations, or investigations against the applicant in another licensing jurisdiction.
  - Supporting documentation regarding the resolution of any disciplinary action against the applicant in another jurisdiction.
  - Whether a nursing facility owned or operated by the applicant has been subject to a court-appointed receiver or temporary manager.
- Allows the DIAL to request additional or supplemental information with the application, including verification of cash or liquid reserves to maintain nursing facility operations for at least two months.
- Allows the DIAL to require an applicant for a nursing facility to establish an escrow account containing funds sufficient to support full-service operation of the facility for at least a two-month period, which is required to be terminated no later than five years from the date of initial commencement of operation of a nursing facility.
- Requires the HHS to develop a publicly available dashboard by January 1, 2024, detailing the number of nursing facility beds available in the State, the overall quality rating of the available nursing facility beds as specified by the CMS, any increase or decrease in the number of available nursing facility beds in each county, and an explanation of the causes of any increase or decrease in available nursing facility beds.

- Prohibits hospitals participating in the Hospital Directed Payment Program from passing on a directed payment increase to non-Medicaid payors, with a penalty of being reimbursed at the base rate provided under Medicaid for one year from the date the violation is discovered.
- Prohibits a nursing facility from passing the quality assurance assessment on to non-Medicaid payors, including as a rate increase or service charge.
- Requires the HHS to convene a workgroup to review the existing nursing facility bed need formula, with a report of recommendations of the workgroup regarding improvement to the formula submitted to the Governor and the General Assembly by December 2, 2024.

Iowa Code chapter 249L outlines the quality assurance assessment, which was created in 2009 Iowa Acts, chapter 160 (Nursing Facilities — Quality Assurance Assessments and Provider Reimbursements Act), and is imposed on nursing facilities to be used for federal reimbursement of Medicaid-eligible services. In FY 2022, $49.5 million was collected from the assessment to use for Medicaid.

2023 Iowa Acts, Senate File 514 (State Government Alignment Act), transfers the responsibility for licensing of nursing facilities from the Iowa Department of Public Health to the DIAL effective July 1, 2023.

Assumptions/Fiscal Impact

Division III of the Act is expected to have no fiscal impact. It was reported by the HHS that the section of the Act requiring the HHS to create a dashboard detailing nursing facility bed data can be performed utilizing existing department personnel and contracts.

Effective Date

This Act is effective July 1, 2023.

Enactment Date

This Act was approved by the General Assembly on May 1, 2023, and signed by the Governor on June 1, 2023.

Sources

Department of Health and Human Services
Centers for Medicare and Medicaid Services
Iowa Judicial Branch
Legislative Services Agency analysis

HF 703 – Hoover Tax Credit Extension (LSB1647HV.2)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – Final Action

Description

House File 703 relates to the Hoover Presidential Library Tax Credit. Under current law, this tax credit may be awarded through the end of calendar year (CY) 2023. The Act extends award availability through the end of CY 2024.

Background

The Hoover Presidential Library Tax Credit equals 25.0% of a taxpayer's qualified donation to the Hoover Presidential Library Foundation for use through the Hoover Presidential Library and Museum Fund. The total amount of tax credits that may be awarded under this tax credit program is $5.0 million, representing $20.0 million in potential donations. The credit is not transferable or refundable. Unused credits may be carried forward for up to five additional tax years.

The tax credit was first available for donations starting January 1, 2021. Through December 31, 2022, tax credits totaling $469,000 have been awarded. Under current law, tax credits may be awarded through December 31, 2023.

Assumptions

- Tax credit awards during CY 2023 are assumed to total $750,000.
- Total credit awards will not reach the $5.0 million program limit by December 31, 2023.
- With the extension contained in the Act, tax credit awards during CY 2024 are assumed to total $750,000.
- Tax credit awards are assumed to be redeemed 75.0% in the fiscal year following the year of award and 5.0% each fiscal year for the next five fiscal years.

Fiscal Impact

Extending the tax credit award deadline will allow credits to be awarded that will not be available without a law change that extends the availability of the tax credits. The tax credit extension is projected to reduce General Fund revenue by the following amounts:

- FY 2025 = $560,000.
- FY 2026 through FY 2030 = $38,000 per fiscal year.

Effective Date

This Act is effective July 1, 2023.

Enactment Date

This Act was approved by the General Assembly on May 3, 2023, and signed by the Governor on June 1, 2023.

Sources

Department of Revenue
Contingent Liabilities Report (March 2023)
Hoover Presidential Foundation annual report
Legislative Services Agency

HF 710 – Sports Wagering Receipt and County Endowment Funds (LSB1521HZ.3)
Staff Contact: Maria Wagenhofer (515.281.5270) maria.wagenhofer@legis.iowa.gov
Fiscal Note Version – Final Action

Description

House File 710 relates to the Endow Iowa Tax Credit and makes appropriations from the Sports Wagering Receipts Fund.

Division I appropriates $7.0 million in FY 2023 from the Sports Wagering Receipts Fund (SWRF) to the General Fund for purposes of the Endow Iowa Tax Credit Program. This provision is effective upon enactment.

Division II increases the maximum amount of tax credits authorized for tax year (TY) 2023 from $6.0 million to $13.0 million for the Endow Iowa Tax Credit. This provision takes effect upon enactment and applies retroactively to the tax years beginning on or after January 1, 2023, but before January 1, 2024.

Division III provides that the changes made in 2022 Iowa Acts, chapter 1002, to the maximum amount of tax credits authorized for the Endow Iowa Tax Credit do not apply to endowment gifts made to an Endow Iowa qualified foundation prior to January 1, 2023. This provision takes effect upon enactment and applies retroactively to January 1, 2023.

Background

The SWRF was established in FY 2020 by 2019 Iowa Acts, chapter 132 (Sports Wagering and Fantasy Sports Act), which authorized sports wagering and fantasy sports contests in the State. The Fund receives sports wagering taxes and Internet fantasy sports contest taxes.

Figure 1 includes the FY 2020, FY 2021, FY 2022, and FY 2023 year-to-date revenue and appropriations from the SWRF.

Figure 1 — Sports Wagering Receipts Fund

	FY 2020	FY 2021	FY 2022	FY 2023*
Revenue				
Beginning Account Balance	$ 0	$ 1,499,735	$ 5,846,701	$ 12,228,656
Pari-Mutuel Receipts	1,788,241	6,091,872	9,603,539	10,450,866
Interest	11,494	5,094	28,416	271,769
Total Revenues	$ 1,799,735	$ 7,596,701	$ 15,478,656	$ 22,951,291
Appropriations				
Sports Tourism Program	$ 0	$ 0	$ 1,500,000	$ 1,500,000
Gambling Treatment Program	300,000	1,750,000	1,750,000	1,750,000
Other	0	0	0	0
Total Appropriations	$ 300,000	$ 1,750,000	$ 3,250,000	$ 3,250,000
Reversion	0	0	0	0
Ending Balance	$ 1,499,735	$ 5,846,701	$ 12,228,656	$ 19,701,291

Source: Integrated Information for Iowa (I/3)
*Year-to-date as of May 3, 2023.

The Endow Iowa Tax Credit is equal to 25.0% of a taxpayer's gift to a permanent endowment fund within a qualified community foundation or community affiliate organization for the benefit of Iowa charitable causes. The tax credit is allowed up to $100,000 of the aggregate annual award limit for a single taxpayer. Ten percent of the aggregate annual award limit each year is reserved for gifts in amounts of $30,000 or less, but after September 1, if the entire 10.0% amount is not awarded, the remaining tax credits are available to any gift size.

The Iowa Economic Development Authority (IEDA) awards credits up to a fiscal year cap that is currently at $6.0 million. The tax credit can be claimed against corporate income tax, individual income tax, franchise tax, insurance premium tax, and moneys and credits taxes. Credits are awarded on a first-come, first-served basis.

Assumptions

- The full amount of the annual cap will be awarded for TY 2023.
- Tax credits will begin to be awarded in 2023 to be first claimed against corporate income, individual income, franchise, insurance premium, and moneys and credits taxes.
- Initial fiscal impact for claims under this Act will occur in FY 2024.
- The tax credit is nonrefundable, and any credit in excess of the tax liability may be carried forward for up to five years.

- Based on Department of Revenue historical claim data, 84.3% of the tax credit awards will be claimed. The following timing of claims is assumed:
  - Year 0: 0.2% of awards claimed
  - Year 1: 40.5% of awards claimed
  - Year 2: 30.6% of awards claimed
  - Year 3: 6.0% of awards claimed
  - Year 4: 3.1% of awards claimed
  - Year 5: 1.4% of awards claimed
  - Year 6: 2.2% of awards claimed
  - Year 7: 0.3% of awards claimed
- According to the Department of Revenue, it is estimated that school district surtax collected will be reduced by 2.5% due to the change in individual income tax liability.

Fiscal Impact

Figure 2 includes the fiscal impact to the SWRF and General Fund for FY 2023 through FY 2028 when including the increase to the General Fund from the SWRF appropriation and the anticipated timing of the Endow Iowa Tax Credit award claims from the increased award limit.

Figure 2 — Fiscal Impact by Fund
(in millions)

	Sports Wagering Receipts Fund	General Fund
FY 2023	$ -7.0	$ 7.0
FY 2024	0.0	-2.8
FY 2025	0.0	-2.1
FY 2026	0.0	-0.4
FY 2027	0.0	-0.2
FY 2028	0.0	-0.1

The following decreases in school district surtax collected are estimated:
- FY 2024: $71,000
- FY 2025: $54,000
- FY 2026: $11,000
- FY 2027: $5,000
- FY 2028: $2,000

Effective Date

All Divisions of this Act are effective on June 1, 2023. **Division II** applies retroactively to TY 2023 only, and **Division III** applies retroactively to January 1, 2023.

Enactment Date

This Act was approved by the General Assembly on May 3, 2023, and signed by the Governor on June 1, 2023.

Sources

Department of Revenue
Integrated Information for Iowa (I/3)
Iowa Racing and Gaming Commission sports wagering revenue reports
LSA analysis and calculations

HF 718 – Property Tax, Assessments, and Bond Elections (LSB1284HV.3)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – Final Action

Description

House File 718 is composed of 14 divisions related to taxation, fees, and local government budgeting, including:

- **Division I** creates new limits on county property tax rates.
- **Division II** creates new limits on city property tax rates.
- **Division III** repeals the Public Education and Recreation Tax Levy (PERL).
- **Division IV** strikes a county sheriff fee report.
- **Division V** creates a new homestead exemption for homeowners aged 65 and over.
- **Division VI** increases the Military Property Tax Exemption and eliminates the State General Fund reimbursement to local governments that finances a portion of the exemption.
- **Division VII** places restrictions on new commercial and residential property tax abatements within the Urban Revitalization program.
- **Division VIII** relates to funding for city of Des Moines transit programs.
- **Division IX** relates to annual county property tax value reports.
- **Division X** relates to city, county, and school district budgets. The Division also requires that county auditors mail individual statements to each property owner or taxpayer.
- **Division XI** creates a new fee for driver's license and identification cards issued to persons who are not residents of, or do not own property within, the issuing county.
- **Division XII** relates to county writing fees.
- **Division XIII** relates to bond elections.
- **Division XIV** relates to county and city debt authority.

Note on Property Tax Rates

All property tax rates used in this document are reflected as rates that are applied per $1,000 of taxed property value. Taxed property value is the value determined through the assessment process, adjusted (reduced) for any rollback for the property class, and after property tax exemptions have been applied.

Division I — County Levy Rates

Division I Background

Iowa Code chapter 331 (County Home Rule) provides the authority for counties to tax real property, with additional authority provided in Iowa Code chapter 422D (Optional Taxes for Emergency Medical Services) and Iowa Code chapter 28E (Joint Exercise of Governmental

Powers). Certain county tax levies apply to all taxed property within the county (general levies), while other levies apply only to property that is outside of incorporated cities (rural levies). Properties located in cities are only subject to the general levies, while rural properties are subject to both general and rural levies.

Current law authority for county general levies includes:

- Iowa Code section 331.423(1) — The authority for general services is limited to a maximum of $3.50.
- Iowa Code section 331.426 — The authority for additions to the $3.50 general county services levy is unlimited, but use of the additional levy requires a finding of one or more of the following seven circumstances:
  - An unusual increase in population.
  - A natural disaster or other emergency.
  - Unusual problems related to major new functions required by State law.
  - Unusual staffing problems.
  - Unusual financing required to permit the continuance of a program that provides substantial benefit to county residents.
  - An unusual need for a new program that provides substantial benefit to county residents.
  - A reduced or unusually low growth rate in the county property tax base.
- Iowa Code section 331.424(1) — If the general services levy and additions are not sufficient, supplemental general services levies are allowed for any of nine enumerated services, including:
  - Charges the county is required to pay by statute for inpatient and outpatient substance abuse and for certain persons attending special schools and hospitals.
  - Court-ordered foster care.
  - Elections and voter registration.
  - Employee benefits.
  - Tort liability and other insurance.
  - Maintenance and operations of courts.
  - Court-ordered costs associated with domestic relations conciliation.
  - A joint county indigent defense fund pursuant to an agreement with one or more other counties.
  - Maintenance and operation of an emergency management agency.
- Iowa Code section 331.424B — A general levy of up to $0.0675 is available for the repair and maintenance of cemeteries.
- 2019 Iowa Code section 331.424A(6) — A former (repealed) general levy used to fund the County Mental Health and Disabilities Services Fund. Funding for this function is now provided through a State General Fund appropriation.
- Iowa Code section 331.422(3) — A general levy for debt service payments.
- Iowa Code section 422D.5 — A general levy of up to $0.75 for emergency medical services (voter-approved).

Current law authority for county rural services levies includes:

- Iowa Code section 331.423(2) — The authority for the rural services levy is limited to a maximum of $3.95.

- Iowa Code section 331.426 — The authority for additions to the $3.95 rural services levy is unlimited, but use of the additional levy requires a finding of one or more of seven unusual circumstances listed above as additions to the general services levy.
- Iowa Code section 331.424(2) — If the rural services levy and additions are not sufficient, supplemental rural services levies are allowed for two enumerated services, including:
  - Employee benefits associated with rural services employees.
  - An aviation authority.
- Iowa Code section 28E.22 — If approved by voters, a levy of up to $1.50 is available for the purposes of a 28E agreement related to unified law enforcement.

In addition to the above general and rural levies, Iowa Code section 331.425 allows voter-approved additions to levies otherwise specified.

Figure 1 provides a breakdown of the total revenue raised and the number of counties utilizing the property tax levies available to counties. Information is provided for FY 2017 and FY 2023. From FY 2017 through FY 2023, the statewide average total countywide levy for all purposes decreased from $6.35 to $5.94, and the average rural levy for all rural purposes decreased from $3.36 to $3.22. During the period, two law changes occurred that directly impacted the revenue portion of county budgets. Funding for the County Mental Health and Disabilities Services Fund was transferred to the State General Fund, and the State General Fund appropriation to counties to backfill the property tax reduction that was the result of a 10.00% decrease in the taxable value of commercial and industrial property began a phaseout period.

Figure 1

County Property Tax Levies — FY 2017 and FY 2023
Dollars in millions

Levy	FY 2017	Number of Counties	FY 2023	Number of Counties
General Services Levy	$ 532.7	99	$ 682.9	99
General Services Levy Additions	13.3	26	20.7	30
General Services Supplemental	258.4	95	355.3	93
Cemetery	0.3	20	0.3	19
Mental Health/Disabilities Services	87.9	97	0.0	0
Emergency Medical Services	0.0	0	0.6	1
Debt Service	82.3	61	116.3	74
Total General	$ 974.9		$ 1,176.1	
Rural Services Levy	$ 205.0	99	$ 253.4	99
Rural Services Levy Additions	1.1	5	0.9	3
Rural Services Supplemental	2.7	9	3.1	8
Unified Law Enforcement	0.5	1	0.5	1
Total Rural	$ 209.3		$ 257.9	
Total General and Rural	$ 1,184.2		$ 1,434.0	

Division I Description

The Act makes the following changes:

- Consolidates several county functions that are currently financed through a combination of general county services, rural county services, and additions to general/rural county services levies. The consolidation first occurs for FY 2025.
- Repeals the authority for additions to county basic levies (Iowa Code section 331.426).
- Creates additional limits on the maximum allowed general and rural county services tax rates. The new limits apply to FY 2025 through FY 2028 and will be specific to each county.
- Establishes maximum general county and rural county services rates for FY 2029 and after that will apply to all counties. The maximum rates for FY 2029 and after are $3.50 for general county services and $3.95 for rural county services.
- Restricts the use of voter approved additions allowed under Iowa Code section 331.425 to the general services and rural services levies.
- Removes "(a)ny other purpose which is necessary for the operation of the county or the health and welfare of its citizens" from the definition of the term "general county purpose" as that term is used in Iowa Code chapter 331, part 2 (County Levies, Funds, Budgets, and Expenditures).

The new county-specific general services tax rate limits for FY 2025 are based on rates in place for FY 2024, including the consolidation within the general or rural services levies of any Iowa Code section 331.426 levies utilized by the county during FY 2024. For four fiscal years (FY 2025 through FY 2028), maximum county-specific tax rates are based on growth in county taxed value and county tax rates. For FY 2025 though FY 2028, the application of new county general service levy limits will fall into one of three categories depending on the situation in each county each year:

- **Category 1** — Counties with general services tax base growth that exceeds 3.00% but is less than 6.00%: A county in this category will have its maximum property tax dollars reduced by 2.00 percentage points for the budget year through a reduction in the maximum tax rate.
- **Category 2** — Counties with general services tax base growth that equals or exceeds 6.00%: A county in this category will have its maximum property tax dollars reduced by 3.00 percentage points for the budget year through a reduction in the maximum tax rate.
- **Category 3** — Counties with general services budget year tax base growth of 3.00% or less: Counties in this category will be able to utilize all growth in the property tax base, and if the county's current-year rate is below $3.50, the county may raise the budget year general services rate to $3.50.

For FY 2029 and after, the maximum county general services rate for all counties is limited to $3.50.

Rural county services tax rates are limited in the same manner as discussed above, but the limit is based on the rate of growth in a county's rural tax base and the current year's rural county services tax rate, with references to the $3.50 tax rate changed to $3.95.

For FY 2025 through FY 2028, individual counties may and often will fall into a different category depending on their budget year tax base growth and current year tax rate. Regardless of the category a particular county occupied in a previous year, its maximum general or rural services tax rate returns to at least $3.50/$3.95 if the county's applicable tax base growth does not exceed 3.00% for a year. At any time, a county may establish a tax rate below the calculated maximum. However, doing so for FY 2025 through FY 2027 will reduce the county's maximum tax rate if the county does not fall within category 3 the following year.

Division I Assumptions and Fiscal Impact

General and Rural County Services

Actual statewide general county services tax base growth between FY 2017 and FY 2023 exceeded 3.00% for each of the six years, but did not exceed 6.00% for a year over the period. The average of the six annual statewide tax base growth rates was 4.3%. All 99 counties experienced general services tax base growth above 3.00% for at least one of the six years and 70 counties experienced tax base growth in excess of 6.00%.

The FY 2023 statewide average general county services rate is just above $3.50 at $3.55, and general county services levies in 30 counties exceed $3.50 (see the top portion of **Figure 2**).

Figure 2

FY 2023 General County Services Basic Levy in Excess of $3.50

In dollars per $1,000 of taxed value

County	Rate	County	Rate	County	Rate
Allamakee	$ 0.35	Guthrie	$ 0.50	Lucas	$ 0.57
Appanoose	1.30	Hamilton	0.45	Pottawattamie	0.19
Clarke	1.25	Hardin	1.50	Ringgold	1.00
Clayton	0.58	Henry	1.33	Washington	0.60
Clinton	0.65	Humboldt	0.60	Wayne	0.54
Davis	1.43	Jasper	0.95	Winnebago	0.85
Decatur	3.09	Jefferson	0.21	Winneshiek	0.78
Emmet	0.30	Jones	0.15	Woodbury	0.28
Fremont	0.25	Keokuk	0.30	Worth	0.75
Greene	0.20	Louisa	0.91	Wright	0.70

FY 2023 Rural County Services Basic Levy in Excess of $3.95

In dollars per $1,000 of taxed value

County	Rate	County	Rate	County	Rate
Audubon	$ 1.41	Winnebago	$ 0.44	Wayne	$ 0.17

Actual statewide rural services tax base growth between FY 2017 and FY 2023 exceeded 3.00% for each of the six years, but did not exceed 6.00% for any year over the period. The average of the six annual statewide tax base growth rates was 4.2%. All 99 counties experienced rural services tax base growth above 3.00% for at least one of the six years and 78 counties experienced tax base growth in excess of 6.00%.

The FY 2023 statewide average rural services rate is well below $3.95 at $3.18. The three counties with an FY 2023 rural services rate exceeding $3.95 and the levy amounts above $3.95 are listed in the bottom portion of **Figure 2**.

For four fiscal years, the new county-specific rate limits will reduce the maximum allowed general and rural county services tax rates in any county where tax base growth exceeds 3.00% for one or more of the four years. For counties with a general or rural county services tax base that grows more than 3.00%, the maximum tax rate for the next year is lowered by either two or three percentage points, with counties experiencing tax base growth in excess of 6.00% subject to the three-percentage point rate reduction.

The fiscal impact of the county tax rate restrictions will reduce statewide property taxes paid for county services and property tax revenue received by counties. The magnitude of the fiscal impact is not projectable as the impact on property taxes will depend on the FY 2025 through FY 2028 growth in the general tax base and rural tax base of the individual counties. While the most observable impact will be in the general services levies of the 30 counties currently above $3.50 and the rural services levies of three counties currently above $3.95 (**Figure 2**), there will also be a projected tax reduction in any county where the tax base grows by more than 3.00% for any of the FY 2025 through FY 2028 period.

The property tax reduction fiscal impact will continue for FY 2029 and future years when all counties will be subject to a maximum general services tax rate of $3.50 and a maximum rural services tax rate of $3.95. While the two maximum rates are what is allowed under current law, authority under Iowa Code section 331.426 for additions to the general levies will no longer be available to counties. For FY 2023, a total of 32 counties utilized additions to the general services, rural services, or both levies and the total additional property tax raised $21.6 million.

Division II — City Levy Rates

Division II Background

Iowa Code chapter 384 (City Finance) provides the authority for cities to tax real property with additional authority provided in Iowa Code section 357G.8 (City Emergency Medical Services Districts) and chapter 24 (Local Budgets). City tax levies apply to taxable property located within the boundary limits of the city, although in limited cases, particular classes of property are excluded from the levy.

Current law authority for city general fund purposes includes:

- Iowa Code section 384.1 — The authority for the general fund levy is limited to a maximum of $8.10. That maximum rate applies to all classes of property, with the exception of property classified as agricultural. The tax rate that applies to agricultural property is limited to $3.00375.
- Iowa Code section 384.12 — The authority for additions to the $8.10 general fund levy extends to 21 enumerated purposes. Some of the purposes have rate limits, and others are unlimited. Additions to the $8.10 general fund levy are available to do the following:
  - Support instrumental or vocal music groups (voter-approved, rate limited to $0.135).
  - Develop, maintain, and operate a memorial building or monument (voter-approved, rate limited to $0.81).
  - Support a symphony orchestra (voter-approved, rate limited to $0.135).
  - Operate a cultural or scientific facility (voter-approved, rate limited to $0.27).
  - Construct a county bridge (voter-approved).
  - Aid a company constructing a highway or combination highway/railroad bridge across a boundary river of the State where the bridge has a terminus within the city
    (voter-approved, rate limited to $1.35).

  - Purchase a bridge that is a highway or combination highway/railroad bridge across a boundary river of the State where the bridge has a terminus within the city
    (voter-approved, rate limited to $3.375).
  - Carry out the terms of a contract to purchase a bridge (rate limited to $0.675).
  - Aid a public transportation company (voter-approved, rate limited to $0.03375).
  - Support operation and maintenance of a municipal transit system or regional transit district (rate limited to $0.95).
  - Lease a civic center building or complex.
  - Support operation and maintenance of a civic center (rate limited to $0.135).
  - Plan a sanitary disposal project (rate limited to $0.0675).
  - Support an aviation authority as provided in Iowa Code section 330A.15 (rate limited to $0.27).
  - Finance a levee improvement fund (authority limited to special charter cities located on a river, rate limited to $0.0675).
  - Maintain an institution received as a gift or devise (voter-approved, rate limited to $0.205).
  - Finance city insurance costs.
  - Finance a medical service district under Iowa Code chapter 357G (voter-approved with a 60.0% requirement, rate limited to $1.00 with an option for an unlimited additional rate).
  - Exceed any levy limit specified in Iowa Code chapter 384 (voter-approved).
  - Support a public library (voter-approved, rate limited to $0.27).
  - Support a local emergency management commission established under Iowa Code chapter 29C.
- Iowa Code section 384.4(1) — A general levy in the amount necessary for debt service payments.
- Iowa Code section 384.6(1) — A general levy in the amount necessary to pay pension and other employee benefits.
- Iowa Code section 384.7(1) — A general levy of up to $0.675 for the financing of a capital improvements reserve fund (voter-approved).
- Iowa Code section 384.8 — A general levy of up to $0.27 for the financing of an emergency fund.
- Iowa Code section 24.48 — Allows a city to appeal to the State Appeal Board for approval of suspension of statutory property tax levy limitations under the following specified circumstances:
  - Unusually low growth in the property tax base.
  - A reduction in the property tax base or an unusually low growth rate for any of the following reasons:
    - An unusual increase in population.
    - A natural disaster or other emergency.
    - Unusual problems related to major new functions required by State law.
    - Unusual staffing problems.
    - Unusual financing need to permit continuance of a program that provides substantial benefit to county residents.
    - Unusual need for a new program which will provide substantial benefits to county residents.
- Iowa Code section 28E.22 — A levy of up to $1.50 is available for the purposes of a 28E agreement related to unified law enforcement (voter-approved).

Figure 3 provides a breakdown of the revenue raised and the number of cities utilizing the available property tax levies. Information is provided for FY 2017 and FY 2023. From FY 2017 through FY 2023, the statewide average total city levy decreased from $13.90 to $13.66. During the period, a law change occurred that directly impacted the revenue side of city budgets. The State General Fund appropriation to cities to backfill the property tax revenue decrease that was the result of a 10.0% reduction in the taxable value of commercial and industrial property began a phaseout period.

Figure 3

City Property Tax Levies — FY 2017 and FY 2023

Dollars in millions

Levy	FY 2017	Number of Cities	FY 2023	Number of Cities
General Fund ($8.10)	$ 705.3	945	$ 913.3	940
General Fund Additions	67.9	674	85.6	698
General Fund Agland	1.3	826	1.7	765
Emergency Levy	9.3	408	11.9	438
Debt	246.8	421	300.1	417
Employee Benefits	249.9	626	318.4	656
Capital Improvements	1.4	21	1.8	24
Total	$ 1,281.9		$ 1,632.8	

Division II Description

The Act makes the following changes:

- Consolidates current law authority for the city general fund ($8.10) levy, 16 of 21 additions to the city general fund levy (Iowa Code section 384.12), the emergency levy (Iowa Code section 384.8), and any levy increases that are the result of the suspension of statutory levy limits approved by the State Appeals Board under Iowa Code section 24.48. Separate authority for the emergency levy is stricken, and the 16 levy purposes are removed from the list of additions to the city basic levy in Iowa Code section 384.12. In addition, the State Appeals Board is allowed to approve the suspension of a city statutory levy limit only in the event of a natural disaster, unusual problems related to major new functions required by State law, or an unusual need for a new program that will provide substantial benefits to county residents.
- Creates additional limits on the maximum allowed city general fund tax rate.
- Strikes Iowa Code section 384.24(4)(i), which includes "(a)ny other purpose which is necessary for the operation of the city or the health and welfare of its citizens" as a general corporate purpose of a city in relationship to the authority to issue general obligation bonds.

The Act creates new city-specific general fund tax rate limits for FY 2025 that are based on FY 2024 rates, and for FY 2025 through FY 2028, city-specific tax rates are based on growth in city taxed value and the previous year's city tax rate. For FY 2025 through FY 2028, the application of new city general fund rate limits will fall into one of three categories depending on the situation in each city:

- **Category 1** — Cities with tax base growth that exceeds 3.00% but is less than 6.00%:
  A city in this category will have its maximum property tax dollars reduced by 2.00 percentage points for the budget year through a reduction in the maximum tax rate.
- **Category 2** — Cities with tax base growth that equals or exceeds 6.00%: A city in this category will have its maximum property tax dollars reduced by 3.00 percentage points for the budget year through a reduction in the maximum tax rate.
- **Category 3** — Cities with budget year tax base growth of 3.00% or less: A city in this category will be able to utilize all growth in the property tax base, and if the city's current-year rate is below $8.10, the city may also raise the budget year rate to $8.10.

For FY 2029 and after, the maximum city general fund tax rate for all cities is limited to $8.10.

From FY 2025 through FY 2028, individual cities may and often will fall into a different category depending on their budget year tax base growth and current year tax rate. Regardless of the category a particular city occupied in a previous year, its maximum general fund tax rate equals at least $8.10 if the city's applicable tax base growth does not exceed 3.00% for a year. At any time, a city may establish a tax rate below the calculated maximum. However, doing so in FY 2025 through FY 2027 will reduce the city's maximum tax rate if the city does not fall within category 3 the following year.

Division II Assumptions and Fiscal Impact

City General Fund Levy Rates

Actual statewide city tax base growth from FY 2017 through FY 2023 exceeded 3.00% for each of the six years and the average statewide city tax base growth rate was 3.9% for the period. **Figure 4** divides Iowa cities into four groups based on the total taxed value of the property within the city for FY 2023. The smallest 333 cities, representing 1.0% of FY 2023 Iowa urban taxed value, was the only group that saw average tax base growth for the six years below 3.0%. The remaining three groups of larger cities each experienced annual average tax base growth of at least 4.0%. However, as indicated in the right two columns of **Figure 4**, all four groups experienced at least one year of growth above 3.0% (95.7% of cities) and 77.2% of cities experienced at least one year of tax base growth in excess of 6.0%. **Figure 4** demonstrates that over the four years of potential tax base growth restrictions provided in the Act, a significant majority can expect to see their property tax rate trimmed by at least 2.0 percentage points for at least one of the upcoming four years.

Figure 4

Growth in City Tax Base by City Group Size, FY 2017 Through FY 2023

Number of Cities	Taxed Value in Billions	Percent of Statewide City Taxed Value	Annual Growth Tax Base (TB) Rate *	Number of Cities At Least 1 Year Above 3% TB Growth	Number of Cities At Least 1 Year Above 6% TB Growth	Percent of Cities At Least 1 Year Above 3% TB Growth	Percent of Cities At Least 1 Year Above 6% TB Growth
25	$ 73.5	62.6%	4.6%	25	18	100.0%	72.0%
115	29.3	25.0%	4.1%	112	90	97.4%	78.3%
468	13.4	11.4%	4.0%	451	370	96.4%	79.1%
333	1.1	1.0%	2.5%	313	248	94.0%	74.5%
941	$ 117.3	100.0%	3.9%	901	726	95.7%	77.2%

*Average of the tax base growth rate for each of the six years.

The fiscal impact of the city tax rate restrictions will reduce statewide property taxes paid for city services and in property tax revenue received by cities. The magnitude of the fiscal impact is not projectable as the impact on property taxes will depend on the FY 2025 through FY 2028 growth in the tax base of the individual cities. While the most observable impact will in the property taxes paid and collected by cities utilizing the emergency and/or additional levies that are in excess of the $8.10 basic rate, there will also be a tax reduction fiscal impact in any city where the tax base grows by more than 3.00% for any of the FY 2025 through FY 2028 period.

As provided in the right half of **Figure 3**, 698 Iowa cities utilized the general fund additional levies (raising $85.6 million in FY 2023 property tax dollars) and 438 cities utilized the emergency levy (raising $11.9 million in FY 2023 property tax dollars). The Act combines many of the available purposes for additional levies and the separate emergency levy with the general fund levy beginning with FY 2025, subjects the new combined general fund tax rate to reduction if the city tax base grows in excess of 3.00% for a year from FY 2025 through FY 2028, and limits the new combined general fund rate to no more than $8.10 for FY 2029 and after. By FY 2029, the fiscal impact of this combination of changes can be expected to reduce and then eliminate much of the $85.6 million currently raised by the additional levies and eliminate the full $11.9 million currently raised by the emergency levy.

Division III — Public Education and Recreation Tax Levy (PERL)

Division III Background and Description

Iowa Code chapter 300 allows the board of directors of a school district to establish a program to provide public recreation places and playgrounds within the public school buildings and grounds of the school district. The program requires voter approval and is financed through a property tax levy of up to $0.135 per $1,000 of taxed value. A total of 29 Iowa school districts utilize this levy, each with a tax rate of $0.135. Across the 29 districts, the levy is budgeted to raise $4.0 million during FY 2023, an amount that is equal to 0.92% of the total property tax revenue raised by the 29 school districts.

The Act makes the following changes effective July 1, 2027 (FY 2028), with the exception noted below:

- Repeals Iowa Code chapter 300 (Education and Recreation Tax).
- Shifts school board authority to provide funding for a community education program from Iowa Code chapter 300 to Iowa Code chapter 423F (Statewide School Infrastructure Funding).
- Prohibits voter approval of a new PERL (effective upon enactment).
- Restricts the PERL rate for FY 2027 to no more than one-half of the PERL rate established for FY 2026 and discontinues any existing PERL at the conclusion of FY 2027 (effective upon enactment).
- Requires any PERL funds remaining at the conclusion of FY 2027 to be expended for the purposes authorized in Iowa Code chapter 300.

Division III Assumptions and Fiscal Impact

Lowering the maximum FY 2027 PERL rate to one-half of the FY 2026 rate and then eliminating the levy for FY 2028 and after will reduce property taxes and school property tax revenue in 29 school districts by an estimated $2.0 million for FY 2027 and $4.0 million for FY 2028 and after.

Division IV — County Sheriff Fee Report

Division IV Background, Description, and Fiscal Impact

Iowa Code section 331.655(5) requires that the Iowa State Sheriffs' and Deputies' Association submit a report to the Legislative Services Agency (LSA) and the chairpersons and ranking members of the Ways and Means Committees. The report was first due in 2016, with updates every six years thereafter. The report is related to fees collected by county sheriffs, the amount expended for the services related to those fees, and the impact on property taxes for each county that is the result of the fees and costs related to the services. Reports were filed by the Association in 2016 and 2022. The Act strikes the required report. This provision has no identifiable fiscal impact.

Division V — Homestead Property Tax Credit and Exemption

Division V Background and Description

Iowa Code section 425.1 provides a property tax credit to benefit the owner of a qualified homestead property. Through the credit, the State General Fund pays the annual property tax due on up to $4,850 of a homestead's value. At the FY 2023 statewide average residential property tax rate of $33.65 per $1,000 of taxed value, the annual benefit to the homestead owner averages $163. The statewide total number of qualified homestead credits for FY 2023 is 750,259 (includes disabled veteran credits described below). The homestead credits are paid to the local property tax system through transfers from the Homestead Tax Credit Fund. That Fund receives an annual standing appropriation from the State General Fund. The portion of the FY 2023 General Fund appropriation that covers the regular homestead credit is estimated to be $121.0 million.

Iowa Code section 425.15 provides a tax credit that covers the full property taxes owed on the homestead of a qualified disabled veteran. The same State General Fund appropriation that finances the regular homestead credit also finances this disabled veteran credit. The portion of the FY 2023 General Fund appropriation that covers the disabled veteran tax credit is estimated to be $25.7 million.

The Act phases in a homestead property tax exemption for property owners aged 65 and over. The exemption will be in addition to the homestead credit. The new exemption equals $3,250 of taxed value for FY 2026 and $6,500 for FY 2027 and after. The new homestead exemption will reduce local government property tax revenue. A portion of the reduction will be backfilled through the State General Fund appropriation for school aid. Iowa Code section 25B.7(1) (State funding of new property tax credits and exemptions) is made inapplicable to the new homestead exemption.

The changes are effective for property taxes due in the fall of 2025 and the spring of 2026 (FY 2026).

Division V Assumptions and Fiscal Impact

The projected tax and revenue implications of changing the homestead credit to an enhanced homestead exemption are based on the following assumptions:

- There are 750,259 homestead credits claimed for FY 2023. Disabled veteran claims are assumed to equal 8,700, and claims for the regular homestead exemption are assumed to total 741,559. Disabled veteran homesteads are exempt from property tax under current law. Claim levels are assumed to remain static.
- All homesteads are assumed to have a taxable value of at least $11,350 (the combined credit and exemption value).
- The percentage of the 741,559 regular homesteads that are owned by at least one owner aged 65 or older is unknown. This projection assumes that 35.0% have at least one owner aged 65 or older, and that percentage is assumed for all years.
- The FY 2023 statewide average residential property tax rate of $33.65 is assumed for all years. The uniform basic levy for schools represents $5.40 of the average residential rate.

Creating a new homestead exemption for homes with owners who are age 65 or older will decrease property taxes owed by homestead owners, increase the annual General Fund school aid appropriation, and decrease local government property tax revenue. The projected changes are displayed in **Figure 5**.

Figure 5

Projected Change in Property Tax Owed, State Appropriation, and Local Government Property Tax Revenue

In Millions

	Change in Property Tax Owed by Homestead Owners	Change in State General Fund School Aid Approp.	Change in Local Government Property Tax Revenue
FY 2026	$ -28.4	$ 4.6	$ -23.8
FY 2027	-56.8	9.1	-47.7
FY 2028	-56.8	9.1	-47.7

Division VI — Military Service Property Tax Exemption

Division VI Background and Description

Iowa Code section 426A.11 creates a Military Service Property Tax Exemption to benefit qualified former military personnel. For most beneficiaries, the exemption applies to $1,852 of taxed value. Under current law, a State standing unlimited appropriation is established in Iowa Code section 426A.2 that credits the local property tax system for $6.92 per $1,000 of property value exempted. The State General Fund school aid appropriation also reimburses the local school finance system for an additional $5.40 per $1,000 of exempted value.

The Act increases the exempt value to $4,000 for FY 2026 and after. Effective for FY 2026 and after, the Act also eliminates the annual appropriation that funds a portion of the exemption.

The Act strikes a portion of Iowa Code section 25B.7, which requires full funding of enacted property tax credits and exemptions.

The changes are effective for FY 2026 and after.

Division VI Assumptions and Fiscal Impact

The projected tax and revenue implications of the Act's increase in the Military Service Property Tax Exemption and the elimination of the State appropriation to fund a portion of that credit is calculated using the following assumptions:

- Based on Department of Management (DOM) property tax value and rate files, there are an estimated 121,624 beneficiaries of the Military Service Property Tax Exemption for FY 2023. Additionally, the annual number of beneficiaries has decreased at an average rate of 5,258 per year for the past four years. That rate of decrease is assumed to continue from the FY 2023 number of beneficiaries through FY 2028.

- The FY 2023 statewide average property tax rate for residential property is $33.65. This rate is assumed for all years.
- Increasing the property tax exemption while eliminating the State reimbursement for a portion of program claims will decrease property taxes owed by program claimants, eliminate the State Military Service Property Tax Exemption Credit appropriation, increase the State appropriation for school aid, and decrease local government property tax revenue. The fiscal impact on each of these items is displayed in **Figure 6**.

Figure 6

Projected Change in Property Tax Owed, State Appropriations, and Local Government Property Tax Revenue
In Millions

	Property Tax Change	Change in General Fund Credit Appropriation	Change in General Fund School Aid Appropriation	Change in Local Property Tax Revenue
FY 2026	$ -7.6	$ -1.4	$ 1.2	$ -7.8
FY 2027	-7.2	-1.3	1.2	-7.4
FY 2028	-6.8	-1.2	1.1	-7.0

Division VII — Urban Revitalization Property Tax Abatement Restrictions

Division VII Background and Description

A property tax abatement exempts all or a portion of a property's otherwise taxable value from property tax for a period of time. Iowa Code chapter 404 (Urban Revitalization) provides several exemption schedules for cities and counties to abate taxes on property that qualifies under Urban Revitalization programs established by a city or a county.

Abatements decrease property tax revenue available to cities, counties, schools, and other local governments. Also, the State General Fund appropriation for school aid backfills $5.40 per $1,000 of exempted value, so $1.0 million in property tax abatements on property that would otherwise be taxed increases the State General Fund appropriation to school finance by $5,400.

The Department of Revenue reports that $2,390.7 million in taxable value is exempt through urban revitalization property tax abatements for FY 2023 (assessment year 2021). If the abated property value had been taxed and not abated, an estimated $82.0 million in property taxes would have been owed on the properties (**Figure 7**). Of that amount, $48.1 million represents local governments that are not schools (city, county, community college, etc.). The remaining $33.9 million is abated school property tax. Through the school aid formula, the State General Fund replaces (backfills) $12.9 million of the reduced school property tax.

Figure 7

Assessment Year 2021 Abatements by Property Class

Value and tax revenue in millions of dollars. Rates in dollars per $1,000

Property Class	2021 Assessed Value	2021 Taxable Value	FY 2023 Average Tax Rate	FY 2023 School Tax Rate	Abated Property Tax	Nonschool Prop. Tax Revenue	School Property Tax
Residential	$ 1,725.7	$ 974.9	$ 33.65	$ 14.39	$ 32.8	$ 18.8	$ 14.0
Agricultural	2.6	2.4	24.50	12.49	0.1	0.1	0.0
Commercial	565.1	508.6	36.30	14.57	18.5	11.1	7.4
Industrial	491.8	442.6	30.44	12.92	13.5	7.8	5.7
Multiresidential	818.2	462.2	36.99	14.67	17.1	10.3	6.8
Total	$ 3,603.4	$ 2,390.7			$ 82.0	$ 48.1	$ 33.9

The Division creates the following additional restrictions on new and existing abatement authority under Iowa Code chapter 404:

- Cities and counties may not provide commercial property abatements within new areas under Iowa Code chapter 404 unless the property owner enters into a written assessment agreement. The same requirement is also added for new commercial property abatements within existing areas.
- For residential property abatements within new urban revitalization areas and new residential abatements within existing areas, the property tax abatement does not apply to school property taxes.
- The changes are effective July 1, 2024.

Division VII Assumptions and Fiscal Impact

The requirement that commercial property owners enter into a property assessment agreement to receive a property tax abatement may reduce the number and dollar amount of commercial property abatements. The annual reduction, if any, cannot be estimated at this time.

Exempting school property tax levies from new Urban Revitalization residential (including multiresidential) abatements will reduce the abatement impact on school finance and the State General Fund appropriation for school aid. Over a number of years, the residential abatement restriction will reduce the annual amount of property tax backfill provided to schools through the school aid appropriation by an estimated $12.9 million.

Division VIII — City of Des Moines Transit System Funding

Division VIII Background and Description

Current Iowa law allows cities to grant a franchise to an entity providing services such as electric light/power, heating, cable television, etc., and to add a franchise fee of up to 5.0% to the entity's customer billings to be collected as city revenue. Current law also allows a city that meets specific circumstances related to a judgement or court order to establish a franchise fee of up to 7.5% for up to seven years. The authority to establish a franchise rate above 5.0% is repealed under existing law on July 1, 2030.

Additionally, Iowa Code chapter 28M allows a county with a population in excess of 175,000, along with participating cities and contiguous counties through an Iowa Code chapter 28E agreement, to establish a regional transit district and levy a property tax not to exceed $0.95 per $1,000 of taxed value to finance a regional transit district.

The Act eliminates the repeal date for the 7.5% special maximum franchise rate provision and modifies the authority so that the 7.5% rate is available only to a city with a population exceeding 200,000. The revised authority allows for funds derived from the portion of a franchise rate above 5.0% to be used solely for the reduction of property tax levies associated with a transit system or to maintain the service levels of a transit system. The modified authority takes effect July 1, 2024.

Des Moines is the only Iowa city with a population over 200,000. The city of Des Moines participates in the Des Moines Area Regional Transit Authority (DART). The FY 2023 property tax rate levied for DART on property within Des Moines is $0.95 per $1,000 of taxed value. The FY 2023 levy raised $8.5 million for DART and $1.1 million for Des Moines Tax Increment Financing (TIF) projects. The FY 2023 Des Moines city budget indicates that FY 2021 utility franchise fee revenue collected by the city totaled $14.4 million.

Division VIII Assumptions and Fiscal Impact

The change to the maximum franchise rate that the city of Des Moines may add to utility bills has no identifiable fiscal impact on tax revenues. The change is optional for the city. If Des Moines implements or maintains a franchise rate higher than 5.0% for FY 2025 and after, the city must use the revenue to reduce DART property tax levies or maintain existing transit services or both.

Division IX — County Auditor Valuation Reports

Division IX Background, Description, and Fiscal Impact

Current law requires county auditors to provide annual reports to the DOM and to local taxing authorities listing the aggregate valuation of each class of property for each taxing district in the county. The Act requires that the annual reports provide a more detailed breakdown of the year's assessment changes for each property class in each taxing district. The additional detail shall distinguish between revaluation changes and other types of valuation changes.

The information required to be added to the two annual reports is part of the assessment process and part of the annual report submitted to the Department of Revenue under Iowa Code section 441.45. An additional, unknown one-time cost to counties to modify the current DOM and taxing authority reports is expected.

Division X — Local Government Budgets and Statements Mailed to Taxpayers

Division X Background and Description

The Act modifies budget requirements for cities, counties, and school districts. The Act also requires an individual property tax statement to be mailed to every property owner or taxpayer. The statement will provide property tax rate and budget information for every local government that levies a property tax on the individual property. The county auditor, using information provided by the (DOM), is required to produce and distribute the individual property tax statement.

The Act makes Iowa Code section 25B.2(3) (State funding of mandates) inapplicable to the required local government notifications. The new requirements apply to budgets for FY 2025 and after.

Division X Assumptions and Fiscal Impact

- According to the Department of Revenue property tax reconciliation report, there were 1,294,000 properties classified as residential, multiresidential, commercial, and industrial for FY 2023. A parcel count for agricultural property and for centrally assessed property (pipelines and public utilities) is not provided in the Department report.
- The unit cost of providing annual local government budget and tax rate statements to individual taxpayers is not known. For this calculation, an average cost of $1.50 per notice is used.
- The cost to program and reprogram property tax system software that is currently used in the State to produce the required notifications is not known at this time.

The requirement for an annual local government budget and tax rate statement mailing to property owners/taxpayers will create a new cost for local governments. The statewide annual mailing cost is projected to exceed $1.9 million. There will be an additional unknown programming cost associated with the development or modification of the tax system software to produce the annual notifications.

Division XI — New Fee for Driver's Licenses and Identification Cards

Division XI Background and Description

Currently, counties are authorized to retain $7.00 of the total fees collected for each issuance or renewal of driver's licenses and nonoperator's identification cards. The Department of Transportation (DOT) reports 327,577 transactions for issuance of a driver's license or nonoperator's identification card at the county level in calendar year (CY) 2022. Of that total, 71,733 transactions were performed by county treasurers for nonresidents. These 71,733 transactions were 21.9% of total transactions by counties in CY 2022.

The DOT reports that in CY 2022, 12 counties issued 30.0% or more of their driver's licenses or nonoperator's identification cards to individuals who did not reside in the county. Jones County had the highest volume of issuance to nonresidents with 7,192 (61.7%) driver's licenses or nonoperator's identification cards issued to individuals who did not reside in the county.

The Act allows, but does not require, Iowa counties to charge a $10.00 fee for the issuance or renewal of a driver's license or nonoperator's identification card to individuals who are not a resident of, or property owner in, that county. If a county charges the new fee, the Act authorizes the county to retain the fee revenue in its General Fund. The change is effective July 1, 2023.

Division XI Assumptions and Fiscal Impact

For the calculation of the fiscal impact, all counties are assumed to charge the new $10.00 fee, and annual transaction totals are assumed to be similar to CY 2022. The combination of the two assumptions produces a projected annual net fee revenue increase for counties of up to $717,000, beginning with FY 2024.

The DOT labor costs may increase if licensees decide to use a DOT service center instead of a county site for issuance of a driver's license or nonoperator's identification card to avoid additional fees. In addition, there would be a one-time information technology (IT) cost to the DOT of approximately $6,000 associated with the new fee. The DOT expects to absorb these labor and IT costs within its existing staff and resources.

Division XII — Writing Fees

Division XII Background and Description

Current law provides for a writing fee of $1.25 for each "privilege" under Iowa Code chapter 462A. The Act clarifies that applications for a water vessel certificate of title or perfection of a security interest are subject to the writing fee. In addition, the writing fee is increased to $2.00. The Act also applies similar changes to the writing fees associated with snowmobiles (Iowa Code chapter 321G) and all-terrain vehicles (Iowa Code chapter 321I).

Division XII Assumptions and Fiscal Impact

For calendar year 2022, counties collected writing fees on a total of 58,000 water vessel, snowmobile, and all-terrain vehicle transactions. Increasing the writing fee from $1.25 to $2.00 is projected to increase annual county writing fee revenue by $44,000, beginning with FY 2024.

Division XIII — Bond Elections

Division XIII Background, Description, and Fiscal Impact

Current law generally allows local government special elections to be held on various specified days throughout a calendar year. The Act restricts special elections that involve debt issuance to the first Tuesday following the first Monday of November. The Act also requires local governments to mail a notice of an upcoming indebtedness election and a full text of the public measure to be voted on to each registered voter.

The Act makes Iowa Code section 25B.2 (State funding of mandates) inapplicable to the bond election changes. The changes are effective July 1, 2023, and apply to elections involving the issuance of debt occurring on or after that date.

The requirement for a public notice mailing to registered voters will create a new cost for any local government proposing an election to approve new public debt. The requirement that special elections dealing with the issuance of public debt may only be held on the date of the general election will reduce the number and total cost of special elections. The mailing cost and election savings cannot be estimated at this time.

The election date change is not projected to have a direct fiscal impact other than a reduction in the cost of administering debt elections, as debt elections will be restricted to once per calendar year.

Division XIV — County and City Debt Authority

Division XIV Background, Description, and Fiscal Impact

Iowa Code chapter 331 (County Home Rule) and Iowa Code chapter 384 (City Finance) provide county and city debt approval and issuance authority. The Act makes the following changes related to county and city debt authority:

- Increases the dollar amount threshold requirements for cities and counties to enter into leases, lease-purchase contracts, loan agreements, and bonded indebtedness without an election following a petition. Thresholds are increased by 30.00%.
- Requires a city or county Annual Financial Report to include a list of bonds, notes, and other obligations.
- Requires an annual report to be prepared by the Department of Management and delivered to the General Assembly each year by December 1. The new report shall specify updated population thresholds for city and county bond issuance and shall also include information regarding the amount of bonds issued that utilized the population-based thresholds.
- The changes are effective July 1, 2024.

The Act increases by 30.00% the dollar thresholds for counties and cities to enter into bond and other debt arrangements without the need for voter approval. While this change is not expected to have an identifiable fiscal impact, local governments may find it easier and/or less expensive to borrow amounts above the existing limits but below the new limits, and this may lead to more borrowing in certain circumstances. The increase in regular debt authority limits may also lead to a decrease in borrowing through Tax Increment Financing arrangements.

Effective Dates

This Act is generally effective July 1, 2023. Divisions with specific enactment and/or applicability dates include:

- **Division III**, related to the Public Education and Recreation Tax Levy, is effective May 4, 2023.

- **Divisions V** and **VI**, creating a new homestead property tax exemption and increasing the existing military service property tax exemption, are effective May 4, 2023, and apply retroactively to tax years beginning on or after January 1, 2023.
- **Divisions VII**, **VIII**, and **XIV**, related to local government property tax incentives, transit funding, and county and city financing, are effective July 1, 2024.

Enactment Date

This Act was approved by the General Assembly on May 2, 2023, and signed by the Governor on May 4, 2023.

Sources

Department of Revenue
Department of Management property tax rate and value files
Assessment year 2021 property reconciliation reports
State Accounting System
Department of Transportation
County Recorders
Legislative Services Agency analysis

SF 181 – Residential Assessment Limitations (LSB1566SV.2)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – Final Action

Description

Senate File 181 relates to property taxes and income taxes. **Division I** relates to the calculation of the assessment limitation (rollback) for residential property. The Division specifies that property that was classified as multiresidential property (apartments, nursing homes, mobile home parks, etc.) prior to January 1, 2022, and that has been included within the residential property classification on and after January 1, 2022, shall not be considered in the calculation that determines the residential rollback for assessment year 2022 and after.

Division I also delays local government budget process timelines to allow local governments time to adjust proposed FY 2024 budgets.

The Act also makes two technical changes related to income taxes:

- **Division II** specifies that for the purposes of the Employer Child Care Tax Credit, the amount of qualified employer expenditures related to child care that may be used in calculating the tax credit is limited so as to include only qualified expenditures made in Iowa. The change is effective upon enactment and applies retroactively to the date of initial availability of the tax credit (January 1, 2023).
- **Division III** relates to income tax withholding on pension income. Beginning January 1, 2023, most pension and other retirement income received by Iowa taxpayers is exempt from Iowa income tax. The Act specifies that income tax withholding is only required if the pension or other retirement income is subject to Iowa income tax.

Background

Rollback — The growth in the aggregate taxable value of all Iowa residential property,[1] due to the revaluation of property that existed in the previous assessment year, is restricted by Iowa law to no more than 3.0% per year. To limit annual residential taxable value growth to no more than 3.0%, the Department of Revenue (Department) each year calculates a percentage that is referred to as a rollback. In simplest form, the residential rollback for an assessment year is calculated by dividing the allowed aggregate taxable value of all residential property in Iowa as restricted by the 3.0% growth limit by the total aggregate actual value (as determined by the assessor) of the same properties. For any given property's actual value, a higher rollback percentage will result in a higher taxable value.

An example rollback of 55.1234% means that 55.1234% of the actual value of a property is subject to taxation by relevant local governments, so a property with an actual value of $1,000,000 would have a taxable value of $551,234. In recent years, the rollback percentage for residential property has fluctuated between 54.1302% and 56.9391%.

[1] Rollbacks are also computed separately for other classes of property.

School Finance — Iowa school funding (for kindergarten through grade 12) is funded primarily through a combination of property tax revenue and financial aid provided by the State through the school aid formula. As part of the formula, all taxed property value within the State is subject to a school finance basic tax levy equal to $5.40 per $1,000 of taxed value. All else being equal within the formula, additional taxed value increases the property tax portion and reduces the State aid portion of school finance by the amount raised by the $5.40 basic levy.

Division I relates to the residential rollback calculation. 2013 Iowa Acts, chapter 123 (Taxation of Property and Income Act), created a new property classification called multiresidential. That new classification encompassed properties that were used for human habitation but did not qualify under the definition of residential property. In addition to establishing the new property classification, the Act also initiated a process whereby properties within the multiresidential classification would benefit from a declining rollback percentage through assessment year (AY) 2021, after which the classification would be assigned the calculated residential rollback each year.

The multiresidential provisions of the 2013 Act were amended in 2021 Iowa Acts, chapter 20 (Taxation of Property Act), by eliminating the separate property classification of multiresidential property and folding the properties from the previous multiresidential classification into the residential classification, with the class combination first occurring with AY 2022.

When implemented through an annual order by the Department in October 2022, the combination of the previously separate property classes within the residential rollback calculation resulted in an AY 2022 residential rollback percentage that was higher than would have been the case had the 2021 legislation not been enacted. The Department calculated that the AY 2022 residential rollback with the multiresidential and residential property classes combined within the calculation equals 56.4919%. The LSA has determined, and the Department has confirmed, that had the two classes remained separate, the residential and multiresidential rollback percentages for AY 2022 would equal 54.6501%. The difference means that for a residential property with an actual value of $200,000, the taxable value would be $3,684 higher than without the implementation of the 2021 Act. For a $500,000 multiresidential property, the increase in taxable value calculates to $9,209. The unintended increase also applies to all future assessment years.

Assumptions

Division I, Residential Rollback Calculation:

- AY 2022 assessments apply to property taxes due in the fall of 2023 and the spring of 2024 (FY 2024).
- For AY 2022, the aggregate actual value of all residential and multiresidential property in Iowa totals $214.905 billion. At a rollback of 56.4919%, the aggregate taxable value of residential property equals $121.404 billion, while at a rollback of 54.6501%, the total would be $117.446 billion.
- The difference between the two rollback calculations results in an increase in taxable value statewide of $3.958 billion and that amount of taxable value subject to the school finance $5.40 levy would result in a $21.4 million increase in property taxes paid by residential and multiresidential property owners and a $21.4 million reduction in State aid to schools. Due to the nature of the rollback calculation, the shift to property tax from State school aid is annual and permanent.
- For calculating the potential maximum property tax increase associated with the 2021 Act, the FY 2023 average residential property tax rate of $33.65 per $1,000 of taxed value, minus the $5.40 basic levy is used ($28.25).

- Iowa property tax law provides that every commercial, industrial, or railroad property unit benefits from the residential rollback on the first $150,000 of property value. The implementation of the 2021 Act also caused an increase in the taxable value of properties within those three classes. The annual aggregate impact on the three classes is projected to be much smaller in aggregate than the impact on residential and multiresidential properties. Due to data source limitations, the actual impact on those classes cannot be estimated at this time.

Division II (Employer Child Tax Credit) and **Division III** (Pension and Other Retirement Withholding) are technical and clarifying changes that do not impact the underlying fiscal impact implications of the original enacting legislation.

<u>Fiscal Impact</u>

The implementation of 2021 property tax legislation inadvertently increased the contribution of property tax to Iowa school finance by an estimated $21.4 million per year, beginning with
FY 2024, and decreased the State aid appropriation by the same annual amount. The provisions of **Division I** of this Act related to the calculation of the residential rollback will reverse the 2021 legislation's fiscal impact on property taxpayers and the State school aid appropriation.

Beyond the school basic levy impact, the 2021 legislation also likely increased the taxes owed for FY 2024 and after by residential and multiresidential taxpayers through an increase in the taxable value of their properties above what would have been the case without the legislation. The impact on those two classes of properties is a projected maximum annual property tax increase of $111.8 million each year (excludes the $5.40 impact discussed above). The actual property tax increase will be lower than this maximum, since the extra taxable value will in some cases result in lower property tax rates. This Act will also eliminate this additional potential increase in property taxes due to the 2021 Act.

<u>Effective Date</u>

This Act was effective February 20, 2023. **Division I**, related to assessment limitations, applies retroactively to the January 1, 2022. The remainder of the Act applies retroactively to January 1, 2023.

<u>Enactment Date</u>

This Act was approved by the General Assembly on February 15, 2023, and signed by the Governor on February 20, 2023.

<u>Sources</u>

Department of Management property tax value and tax rate files
Department of Revenue rollback calculations
Legislative Services Agency analysis
Iowa League of Cities

SF 549 – Captive Insurance (LSB1871SZ.2)
Staff Contact: Xavier Leonard (515.725.0509) xavier.leonard@legis.iowa.gov
Fiscal Note Version – Final Action

Description

Senate File 549 relates to captive insurance and does the following:

- Allows for the formation of captive insurance companies.
- Establishes tax rates for captive insurance premiums.
- Decreases the applicable percent tax rate for insurance companies' tax in Iowa Code chapter 432.
- Establishes requirements for the operation of captive insurance companies, including reporting and examination requirements.
- Permits the Commissioner of Insurance to suspend or revoke certificates to conduct business.
- Creates a Captive Insurance Regulatory and Supervision Fund, into which all revenue sources under new Iowa Code chapter 521J will be deposited.
- Permits the formation of protected cell captive companies and provides guidelines for their operation.
- Requires the Iowa Insurance Division (IID) of the Department of Commerce to create rules to administer the provisions of the Act.

Background

Captive insurance companies are a form of self-insurance where the insurance provider is owned entirely by the insurance holder. Currently, captive insurance companies are not allowed to operate or sell insurance in the State. There are captive insurance companies headquartered in Iowa that must do business outside of the State. Captive insurance companies often work with traditional companies and may be an option for businesses to manage risks by underwriting their own insurance rather than paying premiums to a third-party insurer.

All insurance companies and associations of any kind, not including fraternal beneficiary associations or nonprofit hospital and medical service corporations, must, as required by law, pay an applicable percent of the gross amount of premiums received during the preceding calendar year on contracts of insurance covering risks resident in Iowa during the preceding year, including contracts for group insurance and annuities and without including or deducting any amounts received or paid for reinsurance. The applicable percent is currently 1.0%.

Assumptions

- The regulation of a newly introduced insurance market to the State will require the IID to hire 3.0 additional full-time equivalent (FTE) positions to carry out the provisions of this Act.
  - The IID will hire a Captive Insurance Bureau Chief at an annual cost between approximately $166,000 and $243,000, an Examiner Specialist at an annual cost between approximately $111,000 and $166,000, and an Examiner at an annual cost between approximately $96,000 and $142,000.
  - The IID will need additional office space and supplies for these positions.
  - Each of these positions will begin at the start of FY 2024.

- The State will see a new revenue source as a result of the Act; however, the total revenue impact cannot be determined at this time.
- Net taxable premiums will be $15.000 billion in CY 2023.
- Net taxable premiums will increase 6.0% annually.
- Calculations on a fiscal-year basis assume net taxable premium are evenly distributed across a calendar year.

Fiscal Impact

The introduction of captive insurance companies to the State and the tax on premiums of captive insurance will increase General Fund revenue; however, the amount cannot be determined.

The Act also reduces the applicable percent for the net taxable premiums, which would reduce General Fund revenue by the amounts estimated in **Figure 1**.

Figure 1 — 6.0% Annual Growth in Net Taxable Premiums, Dollars in Millions

	2023	2024	2025	2026	2027	2028	2029
Net Taxable Premium	$ 15,000.0	$ 15,900.0	$ 16,854.0	$ 17,865.2	$ 18,937.2	$ 20,073.4	$ 21,277.8
Applicable Percent, Current	1.000%	1.000%	1.000%	1.000%	1.000%	1.000%	1.000%
Applicable Percent, Proposed	1.000%	0.975%	0.950%	0.925%	0.900%	0.900%	0.900%
Tax Collection, Current	$ 150.0	$ 159.0	$ 168.5	$ 178.7	$ 189.4	$ 200.7	$ 212.8
Tax Collection, Proposed	150.0	155.0	160.1	165.3	170.4	180.7	191.5
Tax Collection, CY Difference	$ 0.0	$ -4.0	$ -8.4	$ -13.4	$ -18.9	$ -20.1	$ -21.3
Tax Collection, FY Difference	**0.0**	**-3.9**	**-8.2**	**-13.0**	**-18.4**	**-19.5**	**-20.7**

The annual cost of SF 549 to the Insurance Division includes the hiring of 3.0 FTE positions, the promotion of the captive insurance industry, and a reduction in General Fund revenue due to the reduction in the applicable percent for the net taxable premiums. The annual cost of hiring the FTE positions and promoting the captive insurance industry is estimated to be between $403,000 and $681,000. The total cost of the Captive Insurance Bureau Chief, Examiner Specialist, and Examiner is estimated between $373,000 and $551,000. Additional office space and supplies will cost approximately $29,000 annually. The promotion of the captive insurance industry will cost $100,000 in travel, marketing, and promotion annually.

Effective Date

The portion of this Act that repeals Iowa Code chapter 521G and the portion of this Act that is enacting section 521J.17 is effective January 1, 2025. The rest of the Act is effective July 1, 2023.

Enactment Date

This Act was approved by the General Assembly on April 24, 2023, and signed by the Governor on June 1, 2023.

Sources

Iowa Insurance Division, Department of Commerce
Legislative Services Agency

SF 565 – Department of Revenue Omnibus (LSB1239SV.2)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – Final Action

Description

Senate File 565 is composed of 16 divisions. This Act relates to taxes, the State school aid calculation, and the administrative procedures of the Department of Revenue (Department). This Act has various effective dates, including immediate effective dates and retroactive applicability dates.

Divisions with No Projected Fiscal Impact

- **Division II** — Bonus depreciation and increased expensing clarification.
- **Division III** — Tax filing status clarification, conformity to federal tax return.
- **Division V** — Tax year (TY) 2026 tax rate reference correction.
- **Division VI** — Department Director settlement authority, tax assessment appeal period, and sales tax return examination period.
- **Division VII** — Tax preparer identification number requirement.
- **Division VIII** — Department setoff fee authority.
- **Division XI** — Department electronic communications rules.
- **Division XII** — Composite return filing for financial institutions subject to bank franchise tax.

Divisions with Minor Projected Fiscal Impacts

- **Division I — Contribution and designation due dates.** Current Iowa law allows a taxpayer to make tax-deductible contributions to an Iowa educational savings plan trust (529 account) for a tax year up to the due date of the tax return for that tax year (April 30). The Act extends the contribution deadline if the taxpayer lives in an area that has been declared a natural disaster area by the Governor and the Department Director has extended the tax return filing deadline for the disaster area. The Act also makes the same deadline allowance for beneficiary designations for a first-time homebuyers savings account. The 529 account deadline extension will allow taxpayers to make deductible 529 account contributions for the previous tax year that they would not be able to make without the law change. The annual number of taxpayers benefiting from this change is expected to be minimal, and the State General Fund fiscal impact is projected to be negative and low.
- **Division IV — Individual income tax withholding.** The Act rewrites Iowa Code section 422.16 relating to income tax withholding agents and the withholding of Iowa income tax from the wages and other income of residents and nonresidents. The changes do not alter income tax liability, but the changes may alter when and if income tax is withheld. Changes to withholding may result in fiscal impacts across fiscal years as income tax withheld in one fiscal year often becomes a component of the tax liability calculation for a tax return filed in the following fiscal year.
- **Division IX — Homestead Tax Credit.** The Act redefines “owner” as it relates to qualifications for the Homestead Tax Credit. While much of the definition change is to improve clarity, the change also allows persons who own a home but do not own the land on which

the home is located to be considered an owner in regard to credit qualifications. This change is projected to increase the total number of owners qualifying for the property tax credit. The statewide number of owners of homes who do not own the land on which the home is located is not known. For every 100 such homes, the annual fiscal impact on the State General Fund Homestead Tax Credit appropriation would be an increase of approximately $14,000.

- **Division X — Elderly and Disabled Property Tax Credit.** Current Iowa law includes the term "any pension or annuity" within the definition of "income" that is used to determine eligibility for the Elderly and Disabled Property Tax Credit. The Act adds language listing specific types of pension and annuity income, including income received pursuant to a farm tenancy agreement covering real property. The language may result in an increase in the number of people qualifying for the State-funded property tax credit and the associated rent reimbursement payment and manufactured and mobile home tax reductions. The Department reports that the change will codify current practice related to the determination of income.
- **Division XIII — Retired farmer income exclusions.** The Act amends the definition of "materially participated" in regards to two Iowa individual income tax preferences available to farmers (Iowa Code sections 422.7(13) and 422.7(14)). Under current law, the definition cites federal law. The amendments make inapplicable to the definition a provision of federal law that relates to a taxpayer who died or is the surviving spouse of a deceased taxpayer. While the negative annual fiscal impact of this change to the State General Fund is likely to be under $100,000, the impact to specific taxpayers could be significant.
- **Division XIV — Transfers of individual income surtax.** The income surtax for schools applies a surtax to the State individual income tax liability of income taxpayers who reside in a school district where the surtax is in place. When received, surtax amounts are deposited to the State General Fund. Under current practice, accumulated surtax is moved out of the General Fund to a separate fund monthly, with 75.0% to 85.0% of the transferred amount for a fiscal year (a total of $118.3 million in FY 2022) transferred during the months of March through June. The following December and February, moneys within the separate fund are distributed to the school districts that had a surtax in place for the previous tax year. The Act codifies a scheduled monthly transfer of surtax from the General Fund to the separate fund. The change does not have a projected General Fund fiscal impact as long as the codified schedule does not change the fiscal year to which any of the monthly transfers out of the General Fund to the separate fund are recorded.
- **Division XV — Calendar year 2022 composite returns of an estate.** Current Iowa law requires a composite tax return and associated composite tax payment, if applicable, for nonresident beneficiaries of an estate or trust. A certificate of acquittance is a statement from the Department certifying that all income taxes due from the estate or trust have been paid in full based on the income and deductions reported to the Department. The Act makes inapplicable provisions of Iowa law that require a composite tax return and composite tax payment if an estate with a tax year of 2022 received a certificate of acquittance from the Department without having filed a composite tax return for the estate. The fiscal impact of this change is not known. While the law change will cause the composite tax to no longer be owed, persons receiving taxable distributions from the estates may be required to pay any inheritance tax that remains due.

Division XVI Background and Fiscal Impact — Property Tax Payments to School Districts

Iowa Code section 441.21(5) provides that up to $150,000 of the assessed value of commercial and industrial property shall be taxed at the lower residential rollback percentage instead of at the fixed 90.0000% rollback for commercial and industrial property. This provision lowers the taxes owed for each commercial or industrial property, with the exception of specified wind energy conversion property. Iowa Code section 441.21(5)(e) provides a standing General Fund appropriation of up to $125.0 million per year to reimburse the local property tax system for the tax reduction that is the result of the residential rollback provision. Iowa Code section 441.21(5)(e)(6) provides that the General Fund payments to the property tax system shall be apportioned to the levy authorities that tax the property, and the payments shall be treated the same as property taxes paid.

The Act clarifies that the business property tax exemption payments from the State General Fund to the local property tax system are to be considered property tax within the State school aid formula. While this clarification does not have a fiscal impact, the result is an estimated $16.0 million reduction in the FY 2024 State General Fund appropriation for school aid from the level assumed for FY 2024 budgeting purposes.

Effective Dates

This Act is generally effective July 1, 2023. Divisions with specific enactment and/or applicability dates include:

- **Division II**, related to bonus depreciation, is effective June 1, 2023, and applies retroactively to tax years beginning on or after January 1, 2023.
- **Division III**, related to the filing status for individual income tax, applies retroactively to tax years beginning on or after January 1, 2023.
- **Division V**, correcting a tax reference, is effective January 1, 2026.
- **Division VI**, related to Department settlement authority, is effective January 1, 2024.
- **Division VIII**, related to fees for the setoff system, is effective upon the adoption of specified Department rules.
- **Division IX**, related to the homestead property tax credit, is effective June 1, 2023, and applies to taxes due in fiscal years beginning on or after July 1, 2024.
- **Division X**, related to property tax credits and rent reimbursements for low income residents, is effective June 1, 2023, and applies to property tax and mobile home tax owed in fiscal years beginning on or after July 1, 2024, and rent reimbursement claims for base years beginning on or after January 1, 2023.
- **Division XII**, related to a certain pass-through entities, is effective June 1, 2023, and applies retroactively to tax years beginning on or after January 1, 2023.
- **Division XIII**, related to an existing income exclusion for retired farmers, is effective June 1, 2023, and applies retroactively to tax years beginning on or after January 1, 2023.
- **Division XV**, providing an exception for the filing of composite tax returns, is effective June 1, 2023.
- **Division XVI**, clarifying the property tax status of certain State payments to school districts, is effective June 1, 2023.

Enactment Date

This Act was approved by the General Assembly on May 1, 2023, and signed by the Governor on June 1, 2023.

Sources

Department of Revenue
Department of Management
Legislative Services Agency analysis

SF 575 – Economic Development Authority Policy Act (LSB1164SZ.2)
Staff Contact: Molly Kilker (515.725.1286) molly.kilker@legis.iowa.gov
Fiscal Note Version – Final Action

Description

Senate File 575 relates to various programs within the Iowa Economic Development Authority (IEDA).

Division I — Tax Credits

Description

Division I of the Act changes the Renewable Chemical Production Tax Credit (RCPTC) program, the Workforce Housing Tax Credit, and the Innovation Fund Tax Credit (IFTC). The Division removes serine, threonine, and lysine from the definition of "building block chemical" in regard to the RCPTC and increases the annual tax credit limit for companies that have been in existence for five years or more to $1.0 million. The Division extends the availability of the RCPTC through FY 2036 and extends the future repeal date to July 1, 2039. **Division I** of the Act also extends the future repeal date for taxes imposed under Iowa Code sections 422.10B and 422.33 from January 1, 2033, to January 1, 2041. The Act also eliminates the wait list for the RCPTC.

Portions of the Workforce Housing Tax Credit criteria are also amended. Under current law, a housing project that is located in a small city, meets program requirements under Iowa Code section 15.353, and is developed at a greenfield site may qualify for the Workforce Housing Tax Credit. Division I provides that instead, a project may consist of the construction of new dwelling units at a greenfield site, among other potential qualifying criteria for the project.

The Act also eliminates the wait list for the IFTC and extends the time the IEDA may certify an Innovation Fund from FY 2023 to FY 2028.

Background

The RCPTC is available to approved businesses that produce renewable chemicals from biomass feedstock in Iowa. The tax credit is equal to $0.05 per pound of renewable chemicals produced. To qualify for the credit, a business must apply to and enter into an agreement with the IEDA prior to the production of any pound of chemical that will earn the tax credit. The tax credit is available for qualified renewable chemicals produced from January 1, 2017, through December 31, 2035. In each fiscal year beginning on or after July 1, 2023, and ending on or before June 30, 2036, the IEDA may award an amount of tax credits under the RCPTC not to exceed $5.0 million. By January 31 of each year, the IEDA Board, in cooperation with the Iowa Department of Revenue (IDR), must submit a report describing the activities of the program for the most recent calendar year to the General Assembly and the Governor. Iowa Code section 15.320 details the content requirements of the report.

The Workforce Housing Tax Credit is a program administered by the IEDA that assists in the construction or rehabilitation of housing in communities with workforce housing needs. The program provides tax benefits to developers to provide housing in Iowa communities, especially focusing on projects that use abandoned, empty, or dilapidated properties. The program benefit is limited to $1.0 million per project and provides tax incentives that include a refund of sales, service, or use taxes paid during construction. Developers may receive a State investment tax credit of up to 10.0% of the investment directly related to the construction or rehabilitation of the housing, or if qualifying under the Small Cities portion of the program, may receive a tax credit of up to 20.0% of the investment. The tax credit is based on the new investment used for the first $150,000 of value for each home or unit, is earned when the home or unit is certified for occupancy, and can be carried forward for up to five additional years or until depleted, whichever occurs first.

The IFTC allows equity investments to be made into an Innovation Fund, which is administered by the IEDA. A certified Innovation Fund makes investments in promising early-stage companies whose principal business operations are located in Iowa if those companies are engaged primarily in advanced manufacturing, biosciences, and information technology.

Assumptions

- The proposed changes to the RCPTC program will not impact current RCPTC award recipients. Participating companies will continue to receive certificates prior to the existing deadline until five certificates have been awarded to each eligible business.
- Changes to program limits will not have a significant impact to the General Fund and are not included in the fiscal estimate.
- One new renewable chemical facility will qualify under the terms of Division I in each of the next three years.
- For the first renewable chemical facility, the production will begin in CY 2025, the first certificate will be issued in FY 2026, and the first fiscal impact will occur in FY 2027. The other two plants will follow the same fiscal pattern as the first renewable chemical facility.
- The production in each of the new plants will be sufficient each year to be awarded the maximum credit of $1.0 million per year for five years.
- The timing of future RCPTC claims will be similar to the historic timing of claims.
- The elimination of the wait list for the RCPTC and the IFTC will not reduce revenue as neither program has reached the tax credit cap.
- The IEDA assumes that there would be a negligible net impact to the General Fund for currently participating companies that have been in existence for five or more years.
- **Table 1** shows the timing of RCPTC claims by year based on historical trends.

Table 1 Timing of Refundable Tax Credits	
Year 1	35.4%
Year 2	37.6%
Year 3	26.1%
Year 4	0.9%
Total	**100.0%**

Fiscal Impact

The initial impact of the RCTPC program to the General Fund under **Division I** is projected to occur by FY 2027. The revenue reductions in the first four years, FY 2028 to FY 2031, are a result of the new awards and additional companies participating in the RCTPC program. The RCTPC program is estimated to reduce General Fund revenue by a total of $9.3 million by FY 2031, as shown in **Table 2**.

Table 2 General Fund Revenue Reduction ($ Millions)		
FY 2027	$	-0.4
FY 2028		-1.1
FY 2029		-2.1
FY 2030		-2.7
FY 2031		-3.0

The fiscal impact of the change in criteria to qualify for the Workforce Housing Tax Credit cannot be estimated with current data.

The extension of the sunset from FY 2023 to FY 2028 for the IFTC will decrease General Fund revenue as shown in **Table 3**.

Division II — Iowa Wine, Beer, and Spirits Promotion Board

Description

Division II of SF 575 broadens the membership of the Iowa Wine and Beer Promotion Board to include spirits. Correspondingly, the Board's membership is increased from three members to four, each representing one of the three entities of the Board (wine, beer, and spirits) with a single representative from the IEDA. Moneys appropriated to the Authority from the Wine Gallonage Tax, Barrel Tax

Revenue, and Beer and Liquor Control Fund as well as moneys transferred to the Authority may be used by the Authority to promote Iowa wine, beer, and spirits, including administrative expenses incurred under the promotion.

Division II transfers the lesser of $250,000 or up to 1.0% of native distilled spirits revenue to the Board. The transfer from the Department of Commerce to the IEDA would be used to promote beer, wine, and spirits made in Iowa, as well as for administrative expenses related to the Board.

Assumptions

- Native distilled spirit sales are estimated to be between $1.4 million and $1.6 million annually.
- The predictions are based on historical sales data.

Fiscal Impact

Senate File 575 is estimated to decrease revenue to the General Fund by approximately $130,000 to $160,000 per year beginning in FY 2024 and transfers the money to the IEDA to be used to support the Wine and Beer Promotion Board.

Summary of Fiscal Impact

Table 3 summarizes the estimated fiscal impact to the General Fund.

Table 3 — Estimated Total Fiscal Impact ($ in Millions)

Division	General Fund Impact	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
I	Renewable Chemical Production Tax Credit	$ 0.0	$ 0.0	$ 0.0	$ -0.4	$ -1.1
I	Innovation Fund Tax Credit	-0.1	-1.3	-3.2	-2.9	-4.4
II	Wine and Beer Promotion Board	-0.1	-0.1	-0.1	-0.1	-0.1
	Total Revenue Reduction	**$ -0.2**	**$ -1.4**	**$ -3.3**	**$ -3.4**	**$ -5.6**

Effective Date

This Act is effective July 1, 2023 and applies retroactively to tax years beginning on or after June 30, 2023.

Enactment Date

This Act was approved by the General Assembly on May 3, 2023, and signed by the Governor on June 1, 2023.

Sources

Iowa Department of Revenue
Iowa Economic Development Authority
Alcoholic Beverages Division, Department of Commerce
Tax Credit Award, Claim, and Transfer Administration System (CACTAS)

General Fund Fiscal Impact Estimates for 2023 Approved Legislation

Act	Short Title/Provision	Revenue Changed/Tax Type	FY 2023	FY 2024	FY 2025
HF 205	Barrel Tax Revenues, Brewpubs Act	Beer Tax	0	- 60,000	- 60,000
HF 672	Permanent Teaching Licensure Act	Fees, Licenses, and Permits	0	- 37,000	- 37,000
HF 703	Hoover Tax Credit Extension Act	Personal Income Tax	0	0	- 560,000
HF 710	Sports Wagering Receipt and County Endowment Funds Act				
	Sports Wagering Transfer	Transfers	7,000,000	0	0
	Endow Iowa TY 2023 Increase	Personal Income Tax	0	- 2,800,000	- 2,100,000
SF 513	Motor Vehicle Enforcement Bureau, Department of Public Safety Act	Other	0	- 250,000	- 250,000
SF 549	Captive Insurance Act	Insurance Premium Tax	0	- 3,900,000	- 8,200,000
SF 575	Economic Development Authority Policy Act	Miscellaneous Tax	0	- 200,000	- 1,400,000
Total Revenue Adjustments			$ 7,000,000	$ - 7,247,000	$ - 12,607,000

Note: The totals listed on this table may not tie to the totals on the General Fund Revenue Adjustment table due to rounding.