



January 28, 2008

TO: Committee Chairpersons Phil Wise and Joe Bolkcom  
FROM: Alan Kemp, Executive Director  
SUBJECT: Legislative Property Tax Study Committee Requests

At the November 7<sup>th</sup> meeting, the Legislative Property Tax Study Committee requested that the Iowa League of Cities provide further information on several different subjects. The Committee's request included: a more detailed description of the menu of alternative revenue sources the League provided at the end of its presentation document, the fiscal and revenue information broken out further in terms of cities over 8,000, and finally, a breakdown of the "Other City Taxes" general fund category. The packet of information provided here responds to those requests.

### City Alternative Revenues

**Please Note:** These alternative revenue options were compiled at the request of the committee. The Iowa League of Cities does not necessarily support or oppose these varied alternative revenue sources. The League surveyed other state municipal leagues, asking them to provide information on alternative revenue sources used by their member cities. A compilation of their responses, this list shows the wide range of alternative revenue options used by municipalities in other states. The League has also provided more focused information on the three priority alternative revenue sources for the Iowa League of Cities' members. These include, increasing the hotel/motel tax from seven to nine percent, gas and electric franchise fees, and sales tax rebate. The League also generally supports other proposals for alternative revenue sources that will help lessen Iowa cities' reliance on property taxes.

### Tax Options

*Sales and Gross Receipts* is a tax issued by municipalities on businesses on their total gross receipts, the rate is usually dependent on the type of firm being taxed (National Conference of State Legislatures 1997a).

*Local Option Sales Tax* is imposed on all non-exempt goods and services and is considered ad valorem (meaning the amount is based on the value of the product or service sold). Due to this fact local option sales taxes will rise with inflation (U.S. Census Bureau 1998).

*Serving Iowa's cities  
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*Local-Option Excise Tax* is imposed only on selected items (Hotel/motel, food, tobacco, fuel) and the amount is usually on a per unit basis. This tax amount is usually raised only by a rate increase (U.S. Census Bureau 1998).

*Local Option Income and Wage Tax* is imposed on personal income and has made a large impact in the states of Pennsylvania and Ohio. These taxes can either be imposed as a percentage rate or a low flat rate on all the residents living or working within the taxing jurisdiction (Brunori 2003).

*Local Option Business Tax* is imposed separately from taxes on real property. Instead, it is imposed on a business and its activities, which can include taxing gross receipts, net income, payroll, licenses or business personal property (Brunori 2003).

*Business Personal Property Tax* is a form of tax that a local government can impose on top of its general property tax on businesses personal property. This is done in a variety of states including Indiana, where municipalities impose rates of 1.5 to 5.4 percent (Papke 2000).

*Payroll Tax* is a tax on the employer of a business based on the total payroll or wage paid to the taxing authority or on the number of workers employed (Brunori 2003).

*Occupation Privilege Tax* is a tax on the employee who performs services within the taxing jurisdiction. This tax is implemented in the city and county of Denver, Colorado with the stipulation that the employee is being compensated by at least \$500 in one calendar year.

### **Nontax Options**

*Development and Impact Fees* require any person who improves real property to pay a fee. Because new development results in impacts on public infrastructure such as schools, roads, and public safety facilities, impact fees attempt to shift a pro rata share of public capital improvement costs to the developments that create the need for those improvements.

*Charges to Services* include fees and charges on such things as “parks and recreation, sanitation, sewage, hospital, parking and airport services” (Brunori 2003).

*Business License Fees* are charged to anyone conducting a business within the city or county limits and are usually used to show that a business is in compliance with current health and safety or other regulations required within that jurisdiction. California is an example of a state with business license fees.

*Service for fee and utility revenues* are earned by operating public utilities and other enterprises such as water, electric, gas and transit.

### **Works Cited**

- Brinori, David. Local Tax Policy: A Federalist Perspective. Washington D.C.: Urban Institute Press, 2003.
- National Conference of State Legislatures (NCSL). 1997a. *Critical Issues of State-Local Fiscal Policy, A Guide to Local Option Sales Tax*. Denver: National Conference of State Legislatures
- Papke, James A. 2000. "Rethinking Local Business Taxation: Substituting a State Value-Added Tax for a Local Ad Valorem Tax on Business Personal Property." *State Tax Notes* (February 28): 669-82.
- U.S. Census Bureau. 1998. State tax data. Washington D.C.: Government Printing Office

# Hotel Motel Tax Changes

For Fiscal Year 2007:

72% of Iowa's cities that have implemented the Hotel Motel Tax are at the maximum 7% tax rate

98% of these cities are at or above a 5% rate on Hotel Motel Taxes

Numbers for this study were obtained from the Iowa Department of Revenue



2007 Iowa Code, 423A.7



At least **fifty percent** of the revenues derived therefrom for the acquisition of sites for, or constructing, improving, enlarging, equipping, repairing, operating, or maintaining of

**recreation, convention, cultural, or entertainment facilities...**

**for the promotion and encouragement of tourist and convention business in the city...**

**If each city was currently at the 7% Hotel Motel Tax Rate\* and increased it to 9%, it would generate an additional**

**\$9,902,287 total for all the cities' General Funds.**

**If each city with a Hotel Motel Tax \* could increase its current rate to 9%, this would generate an additional**

**\$10,832,481 total for all the cities' General Funds.**



**\*This study includes the cities of:**

Adair, Algona, Altoona, Ames, Anamosa, Ankeny, Arnolds Park, Avoca, Bellevue, Bettendorf, Boone, Burlington, Cantril, Carter Lake, Cedar Falls, Cedar Rapids, Centerville, Charles City, Cherokee, Clear Lake, Clinton, Clive, Cofax, Coralville, Council Bluffs, Cresco, Creston, Davenport, De Soto, Decorah, Denison, Des Moines, Dewitt, Dubuque, Dyersville, Eldridge, Elk Horn, Emmetsburg, Estherville, Evansdale, Fairfield, Forest City, Fort Dodge, Fort Madison, Grimes, Grinnell, Guttenberg, Hampton, Harlan, Ida Grove, Independence, Indianola, Iowa City, Iowa Falls, Jefferson, Johnston, Keokuk, Keosauqua, Knoxville, LeClaire, LeMars, Maharishi Vedic City, Maquoketa, Marion, Marshalltown, Mason City, McGregor, Missouri Valley, Monticello, Mount Ayr, Mount Vernon, Mt. Pleasant, Muscatine, Nevada, Newton, Okoboji, Orange City, Osceola, Oskaloosa, Ottumwa, Pella, Perry, Pleasant Hill, Riverside, Sergeant Bluff, Sheldon, Shenandoah, Sioux Center, Sioux City, Spencer, Spirit Lake, Storm Lake, Story City, Strawberry Point, Stuart, Toledo, Urbandale, Wahpeton, Walcott, Waterloo, Waverly, West Bend, West Burlington, West Des Moines, West Union, Williamsburg, Windsor Heights and Winterset

# Hotel Motel Tax Changes

## Individual City Statistics

City	Current Rate	Actual Payment Distributions FY07	Payment Distributions with Proposed 9% Raise	City	Current Rate	Actual Payment Distributions FY07	Payment Distributions with Proposed 9% Raise
Adair	0.05	\$35,369	\$63,664	Jefferson	0.07	\$24,294	\$31,236
Algona	0.05	\$51,925	\$93,465	Johnston	0.07	\$321,792	\$413,732
Altoona	0.07	\$537,045	\$690,486	Keokuk	0.07	\$240,097	\$308,696
Ames	0.07	\$1,254,850	\$1,613,378	Keosauqua	0.07	\$16,670	\$21,433
Anamosa	0.05	\$18,408	\$33,134	Knoxville	0.07	\$48,058	\$61,788
Ankeny	0.07	\$638,255	\$820,613	LeClaire	0.07	\$161,698	\$207,897
Arnolds Park	0.05	\$181,391	\$326,504	LeMars	0.05	\$91,912	\$165,442
Avoca	0.07	\$65,661	\$84,421	Maharishi Vedic City	0.05	\$24,769	\$44,584
Bellevue	0.05	\$6,162	\$11,092	Maquoketa	0.05	\$49,586	\$89,254
Bettendorf	0.07	\$742,038	\$954,049	Marion	0.07	\$151,381	\$194,632
Boone	0.07	\$124,688	\$160,313	Marshalltown	0.07	\$272,190	\$349,958
Burlington	0.07	\$499,839	\$642,650	Mason City	0.05	\$318,186	\$572,734
Cantril	0.07	\$7	\$9	McGregor	0.07	\$24,418	\$31,395
Carter Lake	0.06	\$498,133	\$747,200	Missouri Valley	0.07	\$98,474	\$126,609
Cedar Falls	0.07	\$563,501	\$724,502	Monticello	0.05	\$15,002	\$27,004
Cedar Rapids	0.07	\$2,637,484	\$3,391,051	Mount Ayr	0.07	\$7,709	\$9,912
Centerville	0.07	\$70,254	\$90,327	Mount Vernon	0.07	\$50,493	\$64,920
Charles City	0.07	\$116,404	\$149,662	Mt. Pleasant	0.07	\$124,035	\$159,474
Cherokee	0.07	\$58,468	\$75,173	Muscatine	0.07	\$338,818	\$435,623
Clear Lake	0.05	\$242,666	\$436,799	Nevada	0.06	\$12,673	\$19,009
Clinton	0.07	\$303,726	\$390,505	Newton	0.07	\$243,369	\$312,902
Clive	0.07	\$889,546	\$1,143,702	Okoboji	0.05	\$224,391	\$403,903
Colfax	0.07	\$51,540	\$66,266	Orange City	0.05	\$34,489	\$62,080
Coralville	0.07	\$1,841,590	\$2,367,758	Osceola	0.07	\$240,679	\$309,444
Council Bluffs	0.07	\$2,203,473	\$2,833,037	Oskaloosa	0.05	\$96,584	\$173,852
Cresco	0.07	\$16,319	\$20,982	Ottumwa	0.07	\$327,702	\$421,332
Creston	0.07	\$116,725	\$150,075	Pella	0.07	\$262,838	\$337,935
Davenport	0.07	\$1,611,593	\$2,072,049	Perry	0.07	\$64,985	\$83,552
De Soto	0.07	\$11,451	\$14,723	Pleasant Hill	0.07	\$90,618	\$116,508
Decorah	0.07	\$215,602	\$277,202	Riverside	0.07	\$84,427	\$108,549
Denison	0.07	\$85,692	\$110,176	Sergeant Bluff	0.07	\$24,548	\$31,562
Des Moines	0.07	\$3,848,692	\$4,948,319	Sheldon	0.05	\$42,033	\$75,659
Dewitt	0.05	\$23,277	\$41,898	Shenandoah	0.07	\$9,915	\$12,748
Dubuque	0.07	\$1,569,743	\$2,018,241	Sioux Center	0.01	\$9,643	\$86,790
Dyersville	0.07	\$85,348	\$109,733	Sioux City	0.07	\$894,945	\$1,150,644
Eldridge	0.07	\$44,177	\$56,798	Spencer	0.05	\$135,271	\$243,488
Elk Horn	0.03	\$11,410	\$34,229	Spirit Lake	0.05	\$107,234	\$193,021
Emmetsburg	0.07	\$88,794	\$114,163	Storm Lake	0.07	\$146,870	\$188,833
Estherville	0.07	\$64,127	\$82,449	Story City	0.07	\$80,869	\$103,975
Evansdale	0.07	\$51,095	\$65,694	Strawberry Point	0.05	\$2,929	\$5,272
Fairfield	0.07	\$117,717	\$151,351	Stuart	0.05	\$80,195	\$144,352
Forest City	0.07	\$39,832	\$51,213	Toledo	0.05	\$54,633	\$98,339
Fort Dodge	0.07	\$435,103	\$559,418	Urbandale	0.07	\$1,067,931	\$1,373,054
Fort Madison	0.07	\$155,997	\$200,567	Wahpeton	0.05	\$27,383	\$49,289
Grimes	0.07	\$55,680	\$71,589	Walcott	0.07	\$103,410	\$132,956
Grinnell	0.07	\$201,603	\$259,204	Waterloo	0.07	\$872,439	\$1,121,707
Guttenberg	0.06	\$15,485	\$23,227	Waverly	0.07	\$144,854	\$186,240
Hampton	0.05	\$33,524	\$60,342	West Bend	0.05	\$13,160	\$23,688
Harlan	0.07	\$18,831	\$24,211	West Burlington	0.07	\$34,876	\$44,840
Ida Grove	0.07	\$25,208	\$32,411	West Des Moines	0.07	\$2,200,708	\$2,829,482
Independence	0.07	\$63,563	\$81,723	West Union	0.06	\$31,296	\$46,944
Indianola	0.07	\$61,949	\$79,649	Williamsburg	0.07	\$76,224	\$98,002
Iowa City	0.07	\$683,410	\$878,670	Windsor Heights	0.07	\$3,881	\$4,990
Iowa Falls	0.07	\$92,440	\$118,852	Winterset	0.07	\$23,423	\$30,115

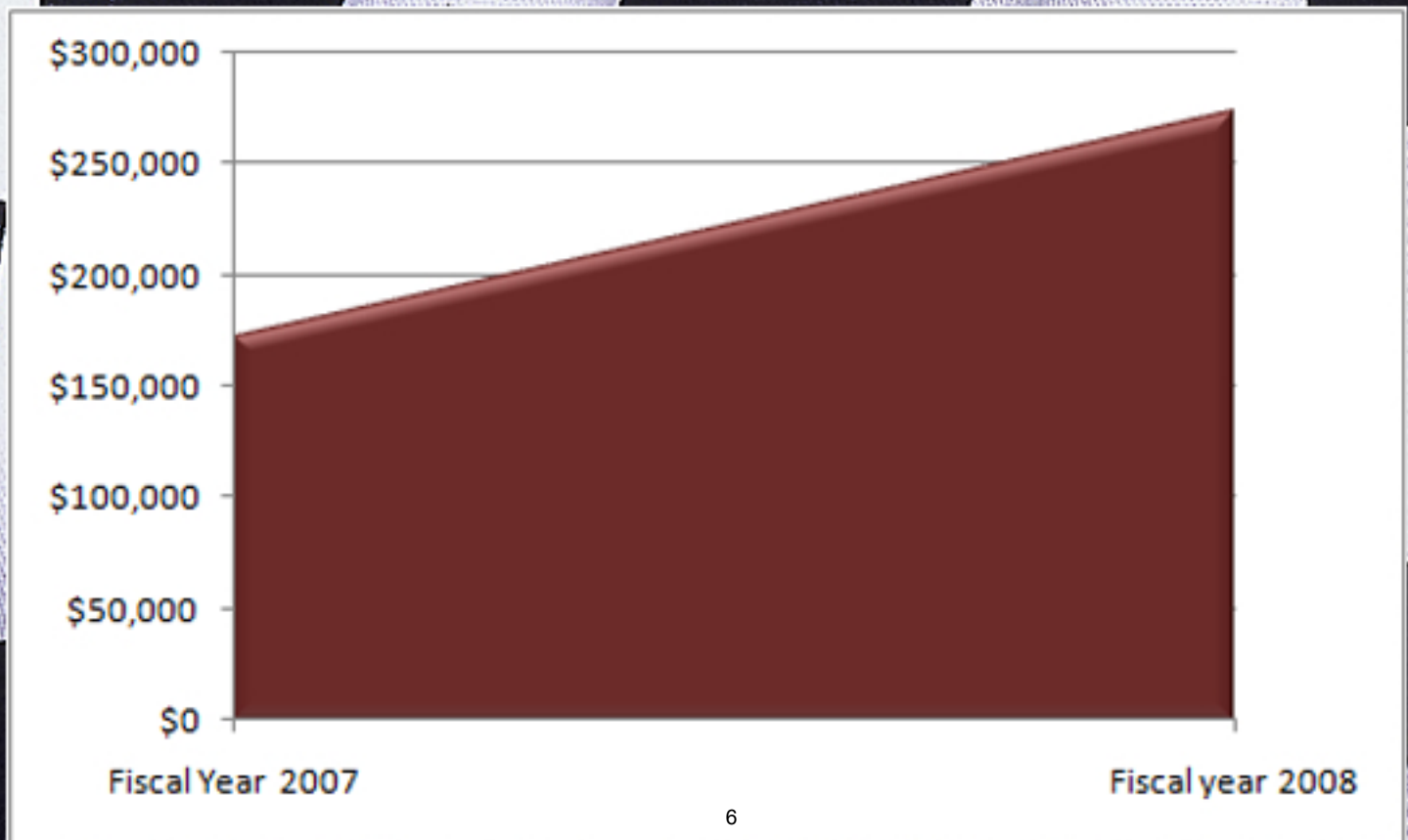


# Newton Shows How Alternative Revenues Work

One option for Iowa cities is a sales tax rebate tied directly to a specific event-driven or tourism-related project in a community. For example, Newton's speedway was made possible by carefully tailored legislation authorizing a state sales tax rebate beginning January 1, 2006. With the addition of the speedway, the implementation of a local option sales tax and increases in hotel motel tax revenues have generated new revenue for Newton, and for surrounding communities that also benefit from the local option sales tax distribution formula.

In addition to the **\$101,235** that Newton earned in hotel motel taxes, **\$628,375** was earned from its new local option sales tax.

Hotel Motel Tax Earning from Fiscal Year 2007 to 2008



# Gas and Electric Franchise Fees



Gas and Electric Franchise fees allow cities to diversify their revenue base.

Iowa local governments have used gas and electric franchise fees to diversify their revenue base—Oskaloosa has had a franchise fee since 1897; Sioux City has had a fee since 1922.

Franchise fees help to provide revenue diversity in an equitable manner by spreading costs to all service users, including nonprofits who don't pay property taxes. Some cities have chosen to exempt schools from imposition of the franchise fees.

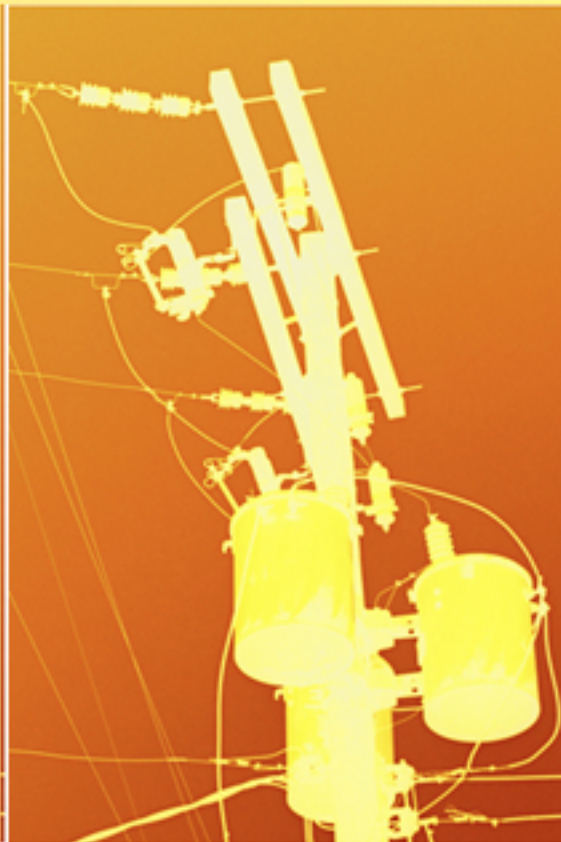
Allowing cities to require gas and electric franchise fees up to 5% will help to achieve the legislative objective of providing commercial property tax relief.



Gas and Electric Franchise Fees have been a key tool in helping cities reduce property taxes. Without the ability to rely on franchise fees, property taxes will go up or services will be significantly or drastically reduced.

A March 2007 report by the Iowa Legislative Services Agency concluded: "A significant decrease in the city [tax] rate of Des Moines is due at least in part to the increase in the utility bill franchise fee. . ." "City [tax] rates decreased, led by a \$.78/thousand drop in the Dubuque city rate. Dubuque implemented a 2% gas & electric utility bill franchise fee in 2003."

In Des Moines, utility franchise fees comprise nearly 10% of the city's General Fund budget (\$12,600,000).

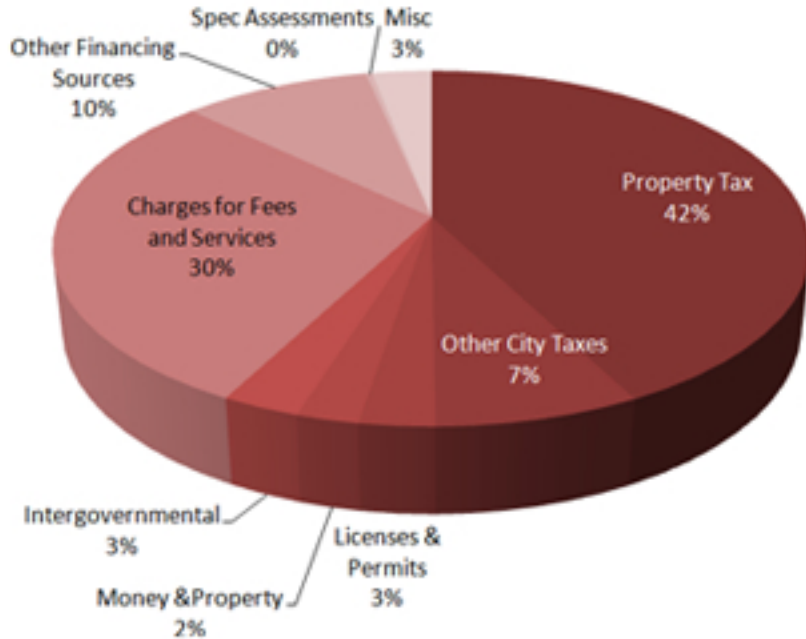






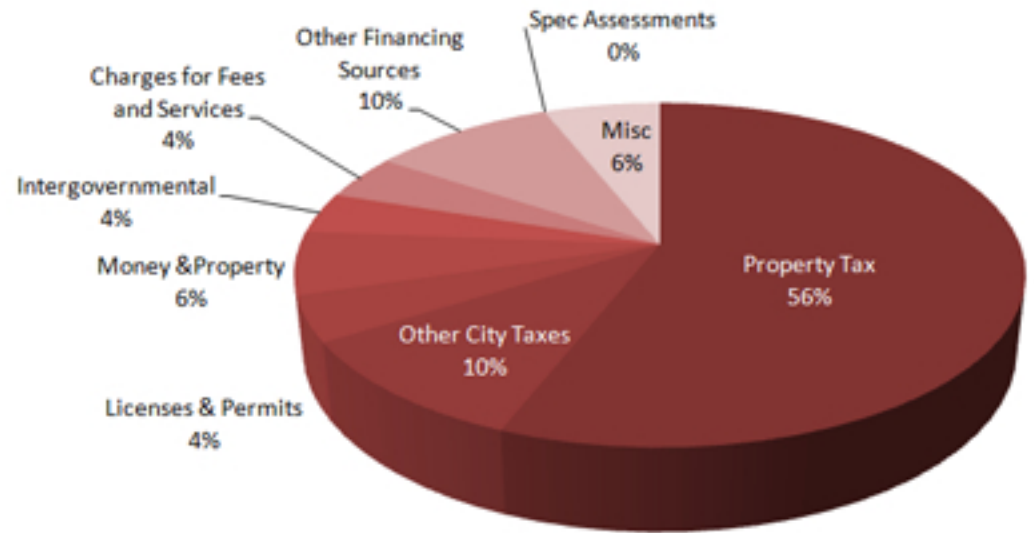
# General Fund Revenues by City Size

\*For Cities 8,000+, split into two groups



Total Revenues, Population 8,000-20,000  
Representing 22 Cities

General Fund Revenue	Total Revenue
Property Tax	\$61,432,915
Other City Taxes	\$10,762,519
Licenses & Permits	\$3,953,023
Money & Property	\$3,271,748
Intergovernmental	\$4,119,927
Charges for Fees and Services	\$42,615,825
Other Financing Sources	\$13,788,747
Spec Assessments	\$463,600
Misc	\$4,376,521



Total Revenues, Population 20,000+  
Representing 22 Cities

General Fund Revenue	Total Revenue
Property Tax	\$332,793,005
Other City Taxes	\$59,633,644
Licenses & Permits	\$25,236,931
Money & Property	\$35,329,391
Intergovernmental	\$22,754,834
Charges for Fees and Services	\$24,872,031
Other Financing Sources	\$57,122,735
Spec Assessments	\$454,350
Misc	\$35,988,895

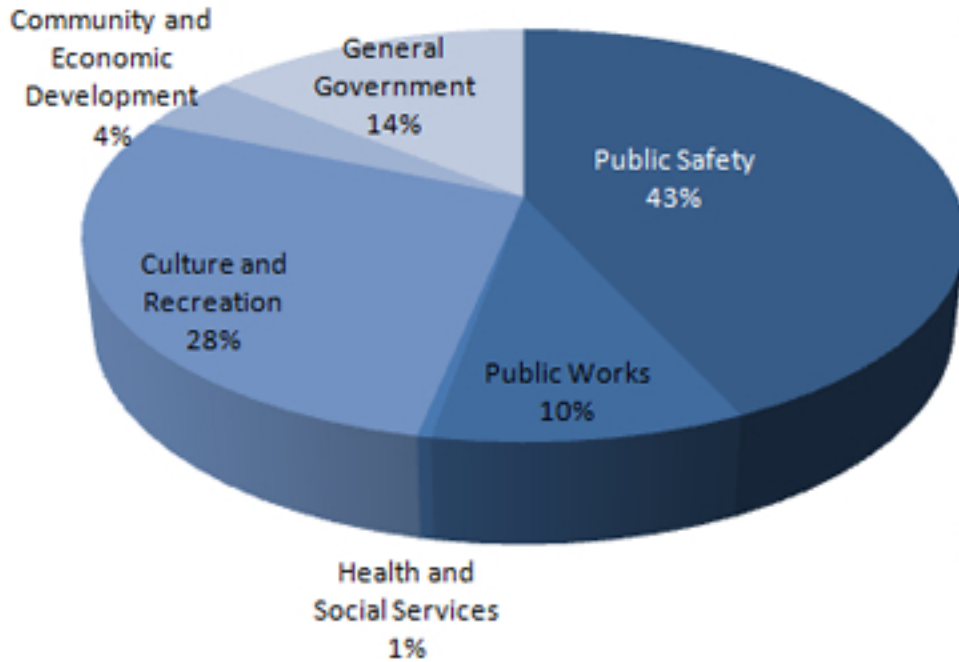




# General Fund Expenditures by City Size

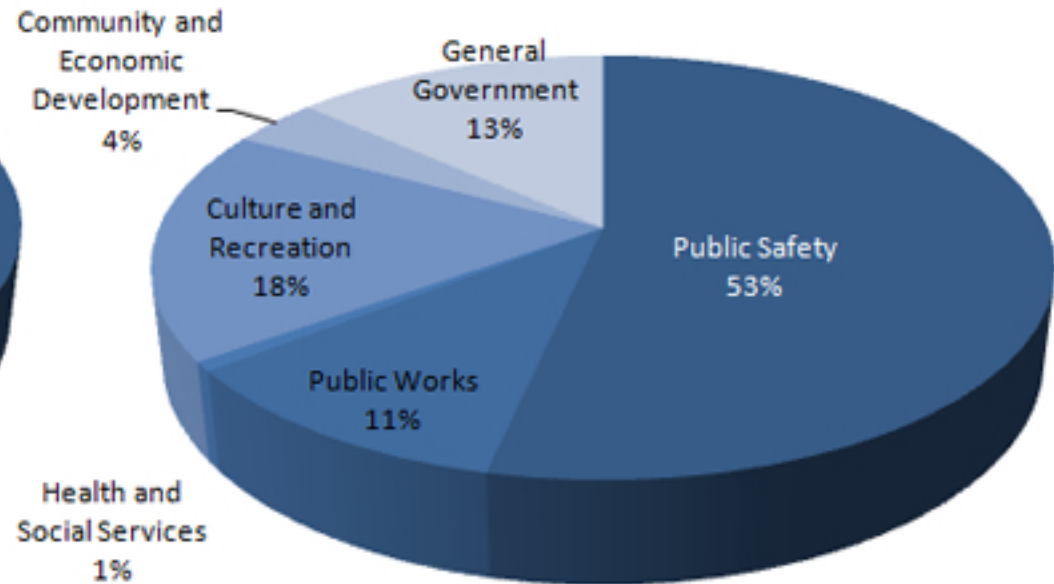
\*For Cities 8,000+, split into two groups

*Note: Capital Projects and Debt Service were intentionally left out of these graphs, as they make up such a small percentage of each population groups overall expenditure*



Total Expenditures, Population 8,000-20,000  
Representing 22 Cities

General Fund Expenditures	Total Expenditures
Public Safety	\$53,519,531
Public Works	\$11,903,138
Health and Social Services	\$538,291
Culture and Recreation	\$34,996,099
Community and Economic Development	\$5,486,322
General Government	\$17,511,438



Total Expenditures, Population 20,000+  
Representing 22 Cities

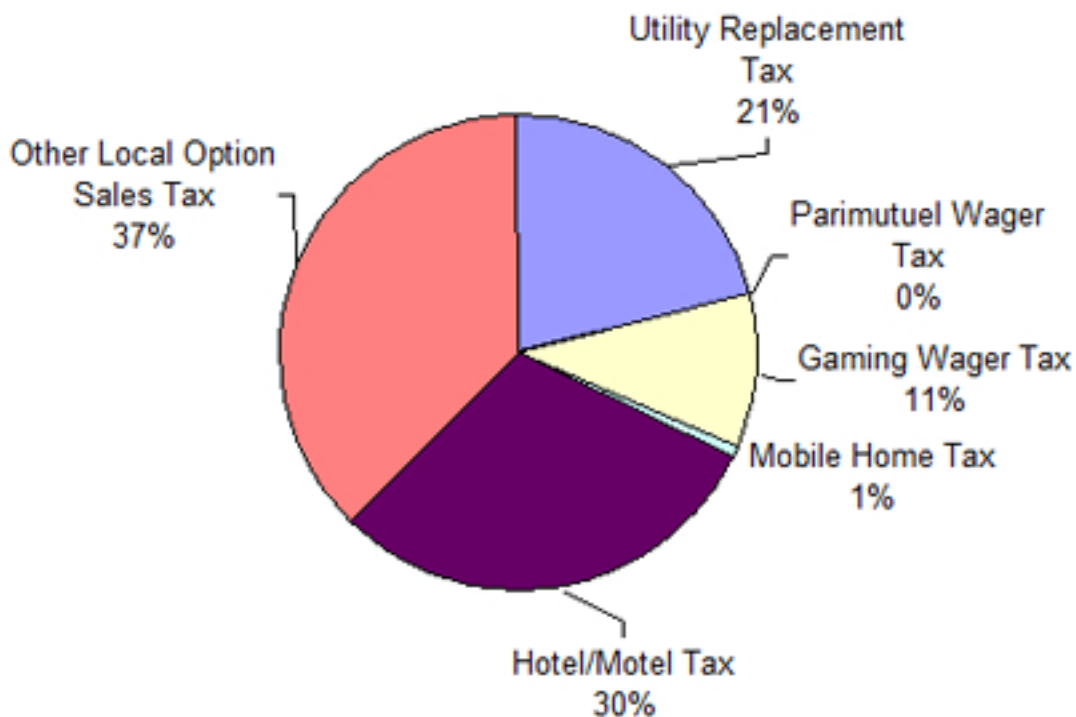
General Fund Expenditures	Total Expenditures
Public Safety	\$388,555,320
Public Works	\$79,492,373
Health and Social Services	\$5,265,660
Culture and Recreation	\$128,791,531
Community and Economic Development	\$27,048,159
General Government	\$97,874,500

+Note that Newton's Health and Social Service value was left out of these values as it was skewing the results of the study

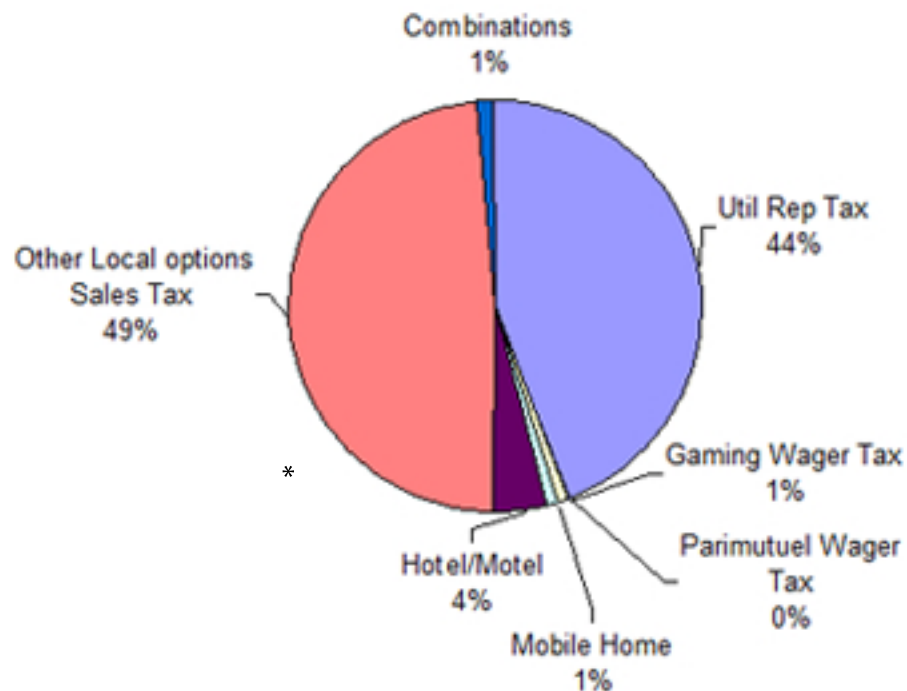


The following graphs represent "Other City Taxes" contained in the General Fund of Iowa cities

## Revenue Distribution City Taxes



## What percentage of cities use which taxes?



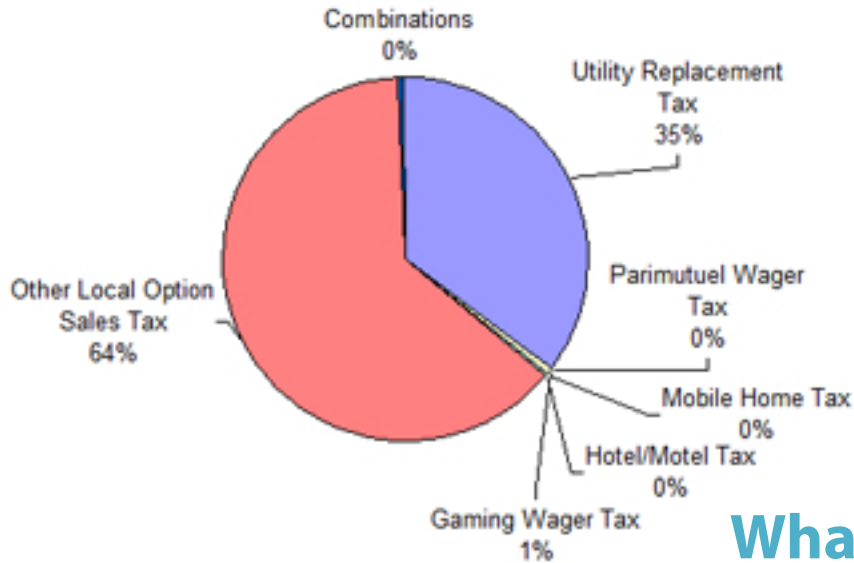
Tax Type	Revenue
Utility Replacement Tax	\$20,983,305
Parimutuel Wager Tax	\$116,952
Gaming Wager Tax	\$10,465,727
Mobile Home Tax	\$570,618
Hotel/Motel Tax	\$29,589,791
Other Local Option Sales Tax	\$37,662,458

\*This graph represents the percentage of cities that depend on the different types of taxes included in the "Other City Taxes" category of cities' General Funds. In order to understand how this breaks down within different city population categories see page 10.

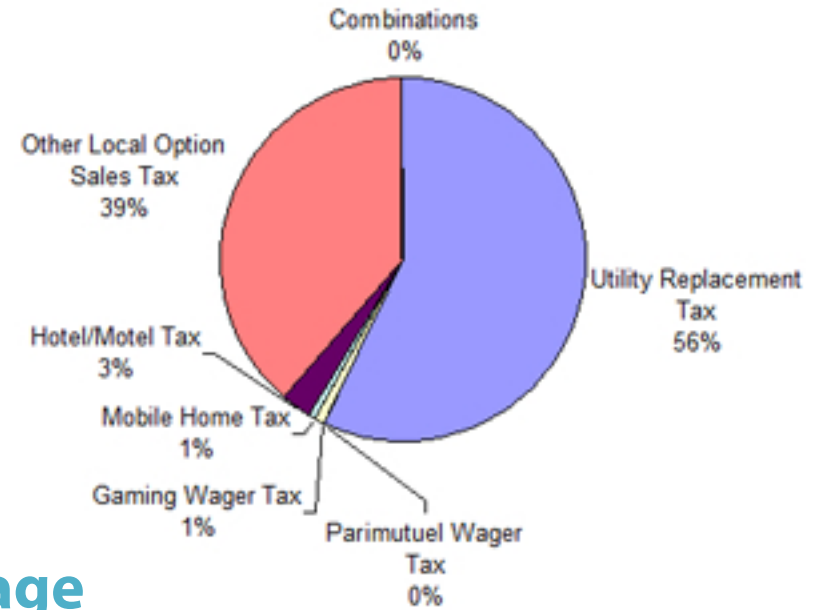


# General Fund and City Taxes by City Size

The following graphs represent "Other City Taxes" contained in the General Fund of Iowa cities



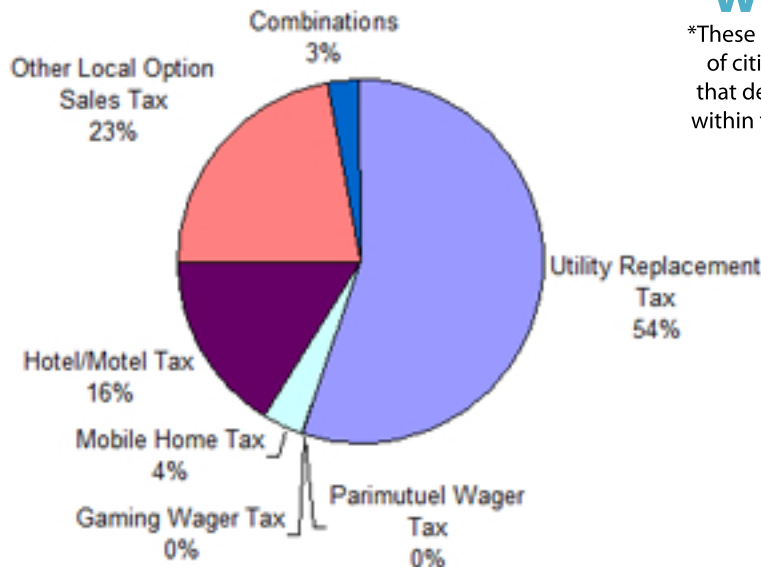
Cities with population 0-499  
(42 Cities)



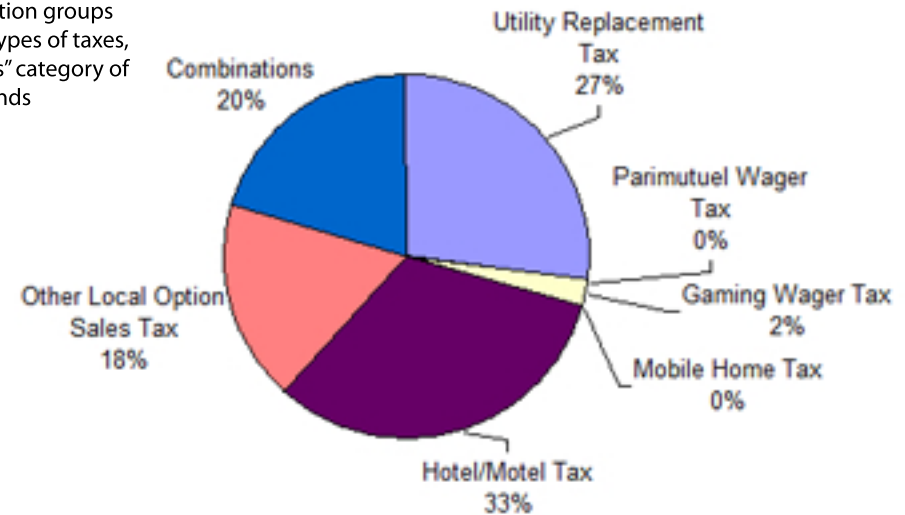
Cities with populations 500-1,999  
(157 Cities)

## What percentage of cities use which taxes?

\*These graphs represent the percentage of cities in certain population groups that depend on different types of taxes, within the "Other City Taxes" category of cities' General Funds



Cities with populations 2,000-7,999  
(99 Cities)



Cities with populations 8,000+  
(43 Cities)