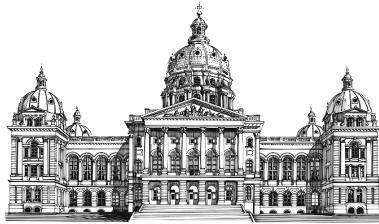


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Des Moines, IA 50319
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Local Option Taxes

ISSUE

This ***Issue Review*** provides background and recent activity of local option sales taxes.

AFFECTED AGENCIES

Department of Revenue and Finance

CODE AUTHORITY

Chapter 422B, Code of Iowa

BACKGROUND

Local option taxes were initially approved in SF 395 (Chapter 32, 1985 Iowa Acts). Local option taxes include two types of taxes, a local option sales and services tax and a local option vehicle tax. Because no local areas impose a local option vehicle tax, for the purposes of this ***Issue Review***, the primary focus will be the local option sales and services tax.

After approval by voters within the jurisdiction, the local option tax must be imposed on January 1, April 1, July 1, or October 1. Once the tax is imposed, it cannot be repealed until the tax has been in effect for one year.

A local option tax is imposed on the same basis as the State sales and services tax, not to exceed 1.0%. The tax may not be imposed on the sale of property or any service not taxed by the State. Additionally, motor fuel, properties taxed by Chapter 422A (hotel-motel tax), lottery tickets, natural gas or electricity (if subject to franchise or user fee), and sale of equipment by the Department of Transportation are exempt from the local option tax.

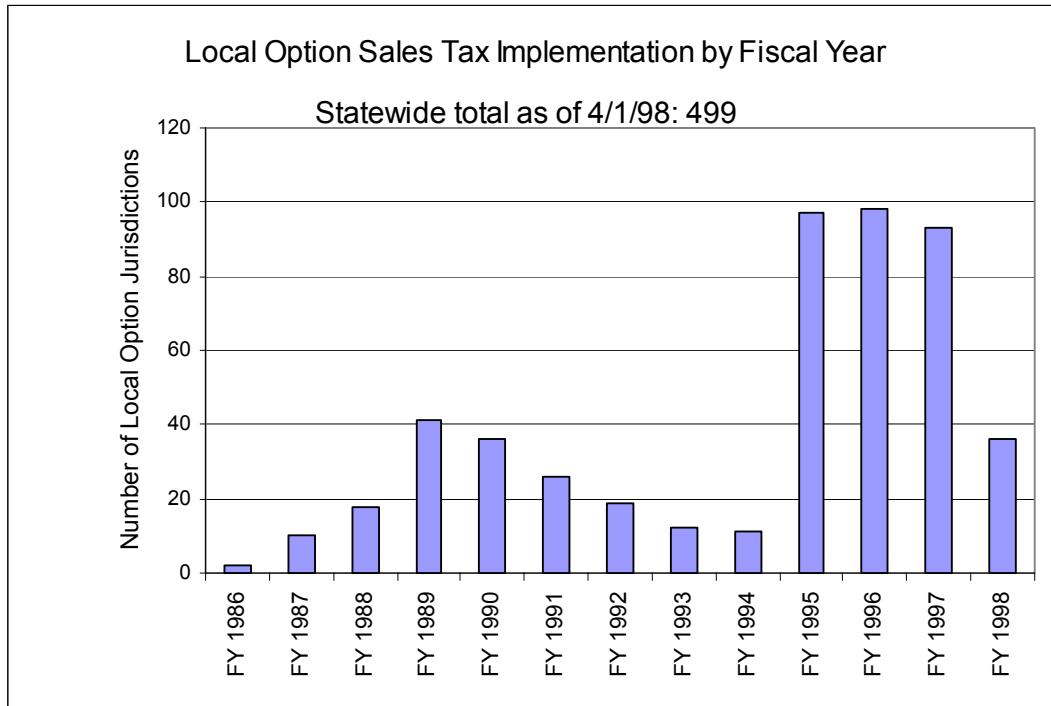
A local option sales tax may be imposed in a city, county, or unincorporated portion of a county. Local option sales tax revenue disbursed to a county is apportioned to the county and each city in the county where the tax is imposed based on two factors: population of the noncity areas of the county and respective cities (75.0%); and the amount of property tax dollars levied by the noncity areas of the county and respective cities over a specified three-year period (25.0%). The law contains no specific sunset for the tax and is effective until repealed.

CURRENT SITUATION

The number and collections of local option sales and services taxes has grown significantly in recent years. **Figure 1** shows the number of local entities which have implemented local option taxes by fiscal year.

As of April 1, 1998, 499 jurisdictions impose a local option tax. During the 1998 general election held in November, an additional 32 jurisdictions approved imposition of the tax. As of April 1, 1998, 54 of Iowa's 99 counties had at least one jurisdiction imposing a local option tax.

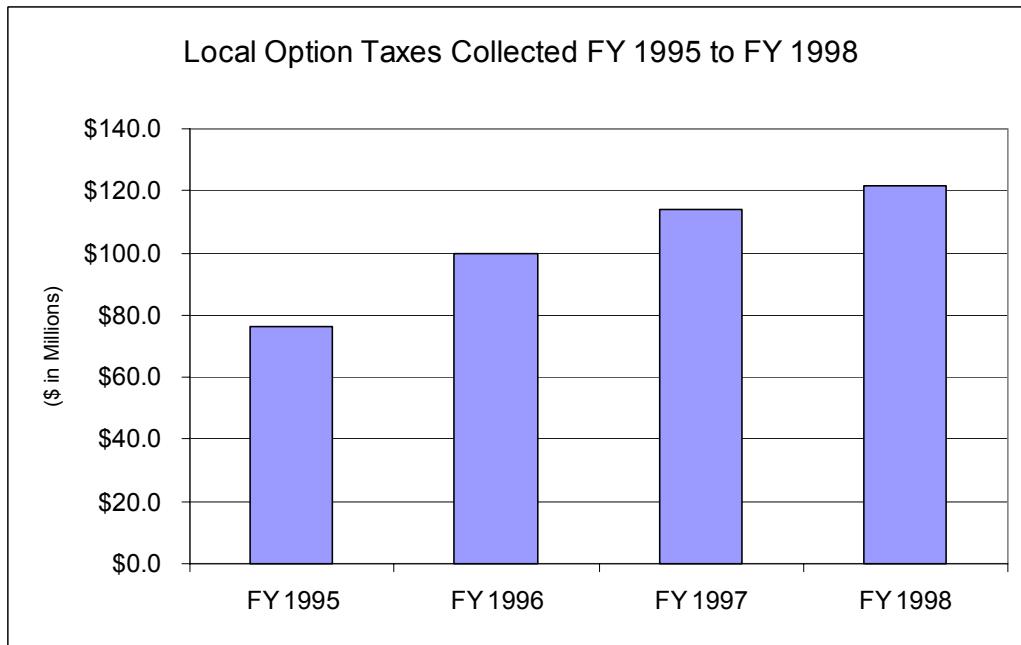
Figure 1



The pattern of revenue generated by local option taxes is illustrated in **Figure 2**. In FY 1998, \$120.6 million in local option tax was collected by all taxing jurisdictions. From FY 1995 to FY 1998, Statewide local option tax collections increased 58.7%. **Figure 3** shows the five largest tax jurisdictions and percent of total county local option collections for FY 1998.

In the five counties presented in **Figure 3**, the per capita amount of local option tax collected ranged from a high of \$114.19 (Scott County) to a low of \$97.52 (Pottawattamie County) based upon the 1990 Federal Census.

Cities and counties may use the funds for any lawful purpose of the city or county, including property tax relief and bond collateral. In the case of bond issuance, bonds may only be issued for the same purpose as specified in the original ballot measure. Bonds may not be issued from the portion of the local option tax designated for property tax relief.

Figure 2**Figure 3**
Five Largest Local Option Tax Collections

	City FY 1998 Collection	Total County FY 1998 Collection	City Collection as Percent of Total County Collection
Davenport	\$ 11,343,463	\$ 19,270,794	58.9%
Sioux City	8,345,712	10,895,343	76.6%
Waterloo	6,811,143	13,081,961	52.1%
Dubuque	5,811,358	9,175,909	63.3%
Council Bluffs	5,055,869	8,057,652	62.7%

During the 1998 Legislative Session, HF 2282 (Chapter 1130, 1998 Iowa Acts) was approved which allowed the imposition of an additional 1.0% local option tax for school infrastructure needs. The tax, unlike the regular local option tax which contains no time limitation, is limited to a maximum 10 years unless a specified shorter time frame is included in the ballot measure. Unlike the local option tax which may be imposed in a city or unincorporated portion of a county, the school infrastructure local option tax must be county-wide.

The definition of school infrastructure includes, "... construction, reconstruction, repair, purchasing or remodeling of schoolhouses, stadiums, gyms, fieldhouses, and bus garages and the procurement of schoolhouse construction sites and the making of site improvements." Additionally, the funds may be used for the payment or retirement of existing bonds or for payment on the issuance of bonds issued for school infrastructure needs.

Woodbury County is the only county which has approved a local option tax for school infrastructure, making their total local option tax 2.0%. Using FY 1998 local option collections as a baseline, it is

estimated that the additional one percent in Woodbury County will generate approximately \$11.4 million annually.

If you would like information on the amount of local option sales tax collected for a specific county or taxing district, please do not hesitate to contact the Legislative Fiscal Bureau. Data is available for FY 1995 through FY 1998.

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