

# REPRINTED

FEB 7 1996  
WAYS & MEANS CALENDAR

HOUSE FILE 2165  
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 531.1)

Passed House, <sup>(P.323)</sup> Date 2/14/96 Passed Senate, Date 3/26/96 <sup>(P.1036)</sup>  
Vote: Ayes 95 Nays 0 Vote: Ayes 47 Nays 0  
Approved April 4, 1996

## A BILL FOR

1 An Act relating to industrial machinery, computers and equipment  
2 for purposes of sales taxation and property taxation and  
3 providing an effective date and applicability date.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 2165

1 Section 1. Section 422.45, subsection 27, Code Supplement  
2 1995, is amended to read as follows:

3 27. The gross receipts from the sale or rental ~~on or~~  
4 ~~after July 1, 1987 or on or after July 1, 1985, in the case of~~  
5 ~~an industry which has entered into an agreement under chapter~~  
6 ~~260E prior to the sale or lease,~~ of industrial machinery,  
7 equipment and computers, including replacement parts which are  
8 depreciable for state and federal income tax purposes, if the  
9 following conditions are met:

10 a. The industrial machinery, equipment and computers shall  
11 be directly and primarily used in the manner described in  
12 section 428.20 in processing tangible personal property or in  
13 research and development of new products or processes of  
14 manufacturing, refining, purifying, combining of different  
15 materials or packing of meats to be used for the purpose of  
16 adding value to products, or in processing or storage of data  
17 or information by an insurance company, financial institution  
18 or commercial enterprise, or in the recycling or reprocessing  
19 of waste products. As used in this paragraph:

20 (1) "Insurance company" means an insurer organized or  
21 operating under chapters 508, 514, 515, 518, 518A, 519, 520 or  
22 authorized to do business in Iowa as an insurer ~~and having~~  
23 ~~fifty or more persons employed in this state excluding~~  
24 ~~licensed insurance agents or a licensed insurance agent under~~  
25 chapter 522.

26 (2) "Financial institutions" means as defined in section  
27 527.2, subsection 9.

28 (3) "Commercial enterprise" includes businesses and  
29 manufacturers conducted for profit and includes centers for  
30 data processing services to insurance companies, financial  
31 institutions, businesses and manufacturers but excludes  
32 professions and occupations and nonprofit organizations.

33 b. The industrial machinery, equipment and computers must  
34 be real property within the scope of section 427A.1,  
35 subsection 1, paragraphs paragraph "e" or "j" ~~and must.~~ For

1 sales occurring after January 1, 1994, the property is not  
2 required to be subject to taxation as real property. This  
3 paragraph does not apply to machinery and equipment used in  
4 the recycling or reprocessing of waste products qualifying for  
5 an exemption under paragraph "a".

6 However, the provisions of chapters 404 and 427B which  
7 result in the exemption from taxation of property for property  
8 tax purposes do not preclude the property from receiving this  
9 exemption if the property otherwise qualifies.

10 The gross receipts from the sale or rental of hand tools  
11 are not exempt. The gross receipts from the sale or rental of  
12 pollution control equipment qualifying under paragraph "a"  
13 shall be exempt.

14 The gross receipts from the sale or rental of industrial  
15 machinery, equipment, and computers, including pollution  
16 control equipment, within the scope of section 427A.1,  
17 subsection 1, paragraphs "h" and "i", shall not be exempt.

18 Sec. 2. Section 427B.17, subsection 6, Code Supplement  
19 1995, is amended by striking the subsection.

20 Sec. 3. Section 427B.17, subsection 7, Code Supplement  
21 1995, is amended to read as follows:

22 7. For the purpose of dividing taxes under section 260E.4  
23 or 260F.4, the employer's or business's valuation of property  
24 defined in section 427A.1, subsection 1, paragraphs "e" and  
25 "j", and used to fund a new jobs training project which  
26 project's first written agreement providing for a division of  
27 taxes as provided in section 403.19 is approved on or before  
28 June 30, 1995, shall be limited to thirty percent of the net  
29 acquisition cost of the property. The community college shall  
30 notify the assessor by February 15 of each assessment year if  
31 taxes levied against such property of an employer or business  
32 will be used to finance a project in the following fiscal  
33 year. In any fiscal year in which the community college does  
34 rely on taxes levied against an employer's or business's  
35 property defined in section 427A.1, subsection 1, paragraph

1 "e" or "j", to finance a project, such property shall not be  
2 valued pursuant to subsection 2 or 3, whichever is applicable,  
3 for that fiscal year. An employer's or business's taxable  
4 property used to fund a new jobs training project shall not be  
5 valued pursuant to subsection 2 or 3, whichever is applicable,  
6 until the assessment year following the calendar year in which  
7 the certificates or other funding obligations have been  
8 retired or escrowed. ~~The taxpayer's valuation for such~~  
9 ~~property shall then be the valuation specified in subsection 1~~  
10 ~~for the applicable assessment year.~~ If the certificates  
11 issued, or other funding obligations incurred, between January  
12 1, 1982, and June 30, 1995, are refinanced or refunded after  
13 June 30, 1995, the valuation of such property shall then be  
14 the valuation specified in subsection 2 or 3, whichever is  
15 applicable, for the applicable assessment year beginning with  
16 the assessment year following the calendar year in which those  
17 certificates or other funding obligations are refinanced or  
18 refunded after June 30, 1995.

19 Sec. 4. Section 427B.19, Code Supplement 1995, is amended  
20 by adding the following new subsections:

21 NEW SUBSECTION. 5. For purposes of this section,  
22 "assessed value of the property assessed under section  
23 427B.17" does not include the value of property defined in  
24 section 427A.1, subsection 1, paragraphs "e" and "j", which is  
25 obligated to secure payment of certificates or other  
26 indebtedness incurred pursuant to chapter 260E or 260F.

27 NEW SUBSECTION. 6. For purposes of computing replacement  
28 amounts under this section, that portion of an urban renewal  
29 area defined as the sum of the assessed valuations defined in  
30 section 403.19, subsections 1 and 2, shall be considered a  
31 taxing district.

32 Sec. 5. Section 427B.19A, subsection 3, Code Supplement  
33 1995, is amended to read as follows:

34 3. The replacement claims shall be paid to each county  
35 treasurer in equal installments in September and March of each

1 year. The county treasurer shall apportion the replacement  
2 claim payments among the eligible taxing districts in the  
3 county. If the taxing district is an urban renewal area, the  
4 amount of the replacement claim shall be apportioned as  
5 provided in subsection 4.

6 Sec. 6. Section 427B.19A, Code Supplement 1995, is amended  
7 by adding the following new subsections:

8 NEW SUBSECTION. 4. a. If the total assessed value of  
9 property located in an urban renewal area taxing district is  
10 equal to or more than that portion of such valuation defined  
11 in section 403.19, subsection 1, the total tax replacement  
12 amount computed pursuant to section 427B.19 shall be credited  
13 to that portion of the assessed value defined in section  
14 403.19, subsection 2.

15 b. If the total assessed value of the property is less  
16 than that portion of such valuation defined in section 403.19,  
17 subsection 1, the replacement amount shall be credited to  
18 those portions of the assessed value defined in section  
19 403.19, subsections 1 and 2, as follows:

20 (1) To that portion defined in section 403.19, subsection  
21 1, an amount equal to the amount that would be produced by  
22 multiplying the applicable consolidated levy times the  
23 difference between the assessed value of the taxable property  
24 defined in section 403.19, subsection 1, and the total  
25 assessed value in the budget year for which the replacement  
26 claim is computed.

27 (2) To that portion defined in section 403.19, subsection  
28 2, the remaining amount, if any.

29 c. Notwithstanding the allocation provisions of paragraphs  
30 "a" and "b", the amount of the tax replacement amount that  
31 shall be allocated to that portion of the assessed value  
32 defined in section 403.19, subsection 2, shall not exceed the  
33 amount equal to the amount certified to the county auditor  
34 under section 403.19 for the budget year in which the claim is  
35 paid, after deduction of the amount of other revenues

1 committed for payment on that amount for the budget year. The  
2 amount not allocated to that portion of the assessed value  
3 defined in section 403.19, subsection 2, as a result of the  
4 operation of this paragraph, shall be allocated to that  
5 portion of assessed value defined in section 403.19,  
6 subsection 1.

7 NEW SUBSECTION. 5. For fiscal years beginning on or after  
8 July 1, 2006, a municipality in which is located an urban  
9 renewal district for which debt was incurred prior to June 30,  
10 1995, may appeal to the state appeal board for state  
11 assistance to meet the debt obligations for the fiscal year if  
12 the urban renewal area contains property which became exempt  
13 from property taxation by operation of section 427B.17,  
14 subsection 3, and if the agreement providing for a division of  
15 tax revenues does not contain an assessment agreement pursuant  
16 to section 403.6, subsection 19. The appeal shall be made by  
17 March 15 preceding the fiscal year on forms approved by the  
18 department of management.

19 Sec. 7. NEW SECTION. 427B.19C ADJUSTMENT OF CERTAIN  
20 ASSESSMENTS REQUIRED.

21 In the assessment year beginning January 1, 2005, the  
22 amount of assessed value of property defined in section  
23 403.19, subsection 1, for an urban renewal taxing district  
24 which received replacement moneys under section 427B.19A,  
25 subsection 4, shall be reduced by an amount equal to that  
26 portion of the amount of assessed value of such property which  
27 was assessed pursuant to section 427B.17, subsection 3.

28 Sec. 8. RETROACTIVE APPLICABILITY DATE. Section 2 of this  
29 Act, striking section 427B.17, subsection 6, applies  
30 retroactively to assessment years beginning on or after  
31 January 1, 1995.

32 Sec. 9. EFFECTIVE DATE. This Act, being deemed of  
33 immediate importance, takes effect upon enactment.

34 EXPLANATION

35 This bill makes several changes to the Iowa Code relating

1 to taxation of industrial machinery, computers and equipment.  
2 The bill rewrites the section that exempts such property from  
3 sales taxation.

4 The bill also eliminates in the definition of "insurance  
5 company", for the purposes of sales tax exemption, the  
6 requirement that 50 or more persons be employed by such an  
7 insurance company in order to be eligible for the exemption.  
8 The bill also includes in the definition of insurance company,  
9 mutual insurance associations operating under chapter 518A and  
10 licensed insurance agents under chapter 522.

11 This bill strikes the provision that requires that  
12 industrial machinery, computers and equipment located in an  
13 urban renewal area for which indebtedness has been incurred  
14 continue to be taxed at 30 percent of net acquisition cost.  
15 This property will now be subject to those current Code  
16 provisions which provide that on or after January 1, 1995,  
17 such property first assessed for taxation will be exempt from  
18 property taxation, and the taxable value of such property  
19 purchased before that date will be phased out over a four-year  
20 period.

21 The bill also requires a community college to notify a  
22 county assessor by February 15 of each year if a taxpayer's  
23 property will be taxed to finance either an industrial new  
24 jobs or small business training project in the coming fiscal  
25 year.

26 This bill also defines a tax increment financing district  
27 in an urban renewal area as a taxing district for purposes of  
28 allocation of replacement moneys, and provides for the method  
29 of allocation in those districts. The bill also allows a city  
30 or county to appeal to the state appeal board for state  
31 assistance in meeting debt obligations for certain urban  
32 renewal taxing districts.

33 The bill takes effect upon enactment, and the section  
34 repealing the tax on industrial machinery, computers and  
35 equipment located in an urban renewal area applies

1 retroactively to assessment years beginning on or after  
2 January 1, 1995.

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**HOUSE FILE 2165  
FISCAL NOTE**

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A fiscal note for House File 2165 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

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House File 2165 addresses some of the issues that arose due to the repeal of the property tax on machinery and equipment in SF 69 during the 1995 Legislative Session, and adds a sales tax exemption for computers purchased by small insurance companies and agents. The primary changes are as follows:

1. The Bill includes language that treats urban renewal tax increment financing (TIF) districts as "taxing districts" for the purpose of State reimbursement of reduced M&E taxes. This provision would eliminate an unintended effect of SF 69 that created an incentive for companies to relocate out of urban renewal TIF districts. The Bill also ensures that once M&E in these districts has been removed from the tax rolls, it will not return.
2. Job training bonds, established in Sections 260E and 260F of the Code of Iowa would be removed from the base calculation for State reimbursement. Thus, companies that have received job training assistance under these sections will continue to have their M&E assessed for the purpose of retiring the bonds that were issued on their behalf. The fiscal note on SF 69 assumed that M&E leveraged for this purpose would be treated this way, so there is no new fiscal impact associated with this provision.
3. House File 2165 ensures that M&E replacement moneys not required for bond retirement will be distributed to the other appropriate taxing authorities (schools, cities, counties, etc.).
4. Once State reimbursement as prescribed in SF 69 has ended (FY 2007), municipalities in which urban renewal TIF districts are located may appeal to the State Appeal Board for State assistance to meet urban renewal debt obligations affected by the M&E repeal. This is new language that was not addressed in SF 69. In some cases, the effect would be to continue State reimbursement for these taxing authorities after the point at which all other taxing authorities have had State reimbursement terminated. This provision is expected to assist those districts that failed to obtain minimum assessment agreements from companies located within their districts.
5. The Bill expands the definition of "insurance company" (for the purpose of the sales tax exemption on computers) to include companies with less than 50 employees as well as licensed insurance agents.

**ASSUMPTIONS**

1. There is approximately \$240.0 million of valuation in urban renewal TIF

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districts.

2. The average tax rate on M&E is assumed to be \$31.25 per thousand dollars of taxable valuation.
3. Assumes 8.3% of M&E is replaced each year. This estimate does not take into account any behavioral changes resulting from the Bill or any real growth in M&E purchases.
4. This estimate takes into account a provision in SF 69 that subtracts the exogenous increase in commercial and industrial (C&I) valuations from the local reimbursement to the extent that the offset does not exceed the appropriation for the last five years of the phase-out. This estimate assumes that decreases in C&I valuation will be counted as a zero increase. This feature in the proposal decreases the estimated appropriation by amounts between 62.0% in FY 2002 and 77.0% in FY 2006. This effect also applies to urban renewal TIF districts that will be included in the reimbursement formula under HF 2165.
5. This estimate assumes that approximately 7,700 consumers of computer equipment also have a license to sell insurance in Iowa but do not currently receive a sales tax exemption on computer purchases. Additionally, there are an estimated 615 insurance companies with fewer than 50 employees, employing a total of approximately 4,600 workers.
6. Each affected computer in the insurance industry is assumed to be replaced every four years. This estimate also assumes that computers are purchased for use by 75.0% of the workers employed by insurance companies with fewer than 50 employees.
7. Computers are assumed to have an average retail price of \$2,000.

#### FISCAL IMPACT

House File 2165 is expected to result in a decrease in General Fund revenues of approximately \$0.8 million in FY 1997 and \$1.4 million in FY 1998 compared to current law.

After FY 2007, the fiscal impact of HF 2165 will increase to the extent that the State Appeal Board approves State assistance to municipalities as provided for in Section 6 of the Bill. Although there is currently no precise estimate of the impact from this provision, the impact is not expected to exceed \$8.0 million annually, and would likely be considerably less than that amount.

The following table shows the impact by provision from FY 1997 through FY 2006.

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Fiscal Impact of HF 2165  
(Dollars in Millions)

	Change from Current Law State Reimbursement for Reduced M&E	Sales Tax Exemption for Insurance Computers	Combined General Fund Impact
FY 1997	\$ -0.5	\$ -0.3	\$ -0.8
FY 1998	-1.1	-0.3	-1.4
FY 1999	-1.6	-0.3	-1.9
FY 2000	-2.1	-0.3	-2.4
FY 2001	-3.7	-0.3	-4.0
FY 2002	-2.0	-0.3	-2.3
FY 2003	-2.2	-0.3	-2.5
FY 2004	-2.1	-0.3	-2.4
FY 2005	-1.8	-0.3	-2.1
FY 2006	-1.5	-0.3	-1.8

SOURCES

Department of Revenue and Finance  
 Department of Management  
County Business Patterns, Iowa, 1992  
 Department of Commerce, Insurance Division

(LSB 4219hv, JAM)

FILED FEBRUARY 9, 1996

BY DENNIS PROUTY, FISCAL DIRECTOR

## HOUSE FILE 2165

H-5066

Amend House File 2165 as follows:

1. Page 4, line 5, by inserting after the figure "4" the following: "unless the municipality elects to proceed under subsection 5".

2. Page 5, by striking lines 7 through 18 and inserting the following:

"NEW SUBSECTION. 5. In lieu of making a claim for replacement moneys under the allocation provisions of subsection 4 for any applicable fiscal year, a municipality may elect to reduce the amount of assessed value of property defined in section 403.19, subsection 1, by an amount equal to that portion of the amount of such assessed value which is assessed pursuant to section 427B.17, subsection 3. The applicable assessment roll and ordinance providing for the division of taxes under section 403.19 in the urban renewal taxing district shall be deemed to be modified to the extent of such annual adjustment without further action on the part of the city or county implementing the urban renewal taxing district."

3. Page 5, by inserting after line 27 the following:

"Sec. \_\_\_\_ . NEW SECTION. 427B.19D APPEAL FOR STATE ASSISTANCE.

For fiscal years beginning on or after July 1, 1996, a municipality in which is located an urban renewal district for which debt was incurred prior to June 30, 1996, may appeal to the state appeal board for state assistance to meet the debt obligations for the fiscal year if such debt is not secured by an assessment agreement pursuant to section 403.6, subsection 19, and if the urban renewal area contains property assessed pursuant to section 427B.17. The appeal shall be made by May 15 preceding the fiscal year on forms approved by the department of management."

4. By renumbering as necessary.

By LARSON of Linn

H-5066 FILED FEBRUARY 9, 1996

*Not Done*

*Motion to Suspend Rules*

*Adopted as Amended 2/14/96*

*(P. 323)*

HOUSE FILE 2165

H-5069

1 Amend the amendment, H-5066, to House File 2165 as  
2 follows:

3 1. Page 1, by striking lines 7 through 9 and  
4 inserting the following:

5 "NEW SUBSECTION. 5. A".

6 2. Page 1, lines 13 and 14, by striking the words  
7 "is assessed pursuant to" and inserting the following:  
8 "was phased out for the fiscal year by operation of".

9 3. Page 1, by striking line 18 and inserting the  
10 following: "modified for that fiscal year only to the  
11 extent of such adjustment".

12 4. Page 1, line 30, by striking the word "the"  
13 and inserting the following: "such".

By LARSON of Linn

H-5069 FILED FEBRUARY 13, 1996

*adapted 2/14/96 (P. 321)*

HOUSE FILE 2165

H-5065

1 Amend House File 2165 as follows:

2 1. Page 1, line 17, by striking the words  
3 "financial institution" and inserting the following:  
4 "professional corporation, financial institution,".

5 2. Page 1, by inserting after line 32 the  
6 following:

7 "(4) Professional corporation means a  
8 professional corporation organized or operating under  
9 chapter 496C or a foreign professional corporation  
10 organized under laws other than the laws of this  
11 state."

By NELSON of Pottawattamie

H-5065 FILED FEBRUARY 9, 1996

*Not germane - Motion to suspend rule lost 2/14/96  
(P. 320)*

HOUSE FILE 2165  
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 531.1)

(As Amended and Passed by the House, February 14, 1996)

Passed House, Date \_\_\_\_\_ Passed Senate, Date 3/26/96 (p. 1036)  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes 47 Nays 0  
Approved April 4, 1996

**A BILL FOR**

1 An Act relating to industrial machinery, computers and equipment  
2 for purposes of sales taxation and property taxation and  
3 providing an effective date and applicability date.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

5

6

House Amendments \_\_\_\_\_

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8

**HOUSE FILE 2165**

**S-5142**

1 Amend House File 2165, as amended, passed, and  
2 reprinted by the House, as follows:  
3 1. Page 1, by striking lines 22 through 25 and  
4 inserting the following: "authorized to do business  
5 in Iowa as an insurer and having fifty or more persons  
6 employed in this state excluding licensed insurance  
7 agents."

By COMMITTEE ON WAYS AND MEANS  
WILLIAM D. PALMER, Chairperson

S-5142 FILED FEBRUARY 28, 1996 Withdrawn 3/26/96 (p. 1036)

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1 Section 1. Section 422.45, subsection 27, Code Supplement  
2 1995, is amended to read as follows:

3 27. The gross receipts from the sale or rental ~~on or~~  
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6 ~~260E prior to the sale or lease,~~ of industrial machinery,  
7 equipment and computers, including replacement parts which are  
8 depreciable for state and federal income tax purposes, if the  
9 following conditions are met:

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11 be directly and primarily used in the manner described in  
12 section 428.20 in processing tangible personal property or in  
13 research and development of new products or processes of  
14 manufacturing, refining, purifying, combining of different  
15 materials or packing of meats to be used for the purpose of  
16 adding value to products, or in processing or storage of data  
17 or information by an insurance company, financial institution  
18 or commercial enterprise, or in the recycling or reprocessing  
19 of waste products. As used in this paragraph:

20 (1) "Insurance company" means an insurer organized or  
21 operating under chapters 508, 514, 515, 518, 518A, 519, 520 or  
22 authorized to do business in Iowa as an insurer ~~and having~~  
23 ~~fifty or more persons employed in this state excluding~~  
24 ~~licensed insurance agents~~ or a licensed insurance agent under  
25 chapter 522.

26 (2) "Financial institutions" means as defined in section  
27 527.2, subsection 9.

28 (3) "Commercial enterprise" includes businesses and  
29 manufacturers conducted for profit and includes centers for  
30 data processing services to insurance companies, financial  
31 institutions, businesses and manufacturers but excludes  
32 professions and occupations and nonprofit organizations.

33 b. The industrial machinery, equipment and computers must  
34 be real property within the scope of section 427A.1,  
35 subsection 1, paragraphs paragraph "e" or "j", and must. For

1 sales occurring after January 1, 1994, the property is not  
2 required to be subject to taxation as real property. This  
3 paragraph does not apply to machinery and equipment used in  
4 the recycling or reprocessing of waste products qualifying for  
5 an exemption under paragraph "a".

6 However, the provisions of chapters 404 and 427B which  
7 result in the exemption from taxation of property for property  
8 tax purposes do not preclude the property from receiving this  
9 exemption if the property otherwise qualifies.

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11 are not exempt. The gross receipts from the sale or rental of  
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19 1995, is amended by striking the subsection.

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26 project's first written agreement providing for a division of  
27 taxes as provided in section 403.19 is approved on or before  
28 June 30, 1995, shall be limited to thirty percent of the net  
29 acquisition cost of the property. The community college shall  
30 notify the assessor by February 15 of each assessment year if  
31 taxes levied against such property of an employer or business  
32 will be used to finance a project in the following fiscal  
33 year. In any fiscal year in which the community college does  
34 rely on taxes levied against an employer's or business's  
35 property defined in section 427A.1, subsection 1, paragraph



1 "e" or "j", to finance a project, such property shall not be  
2 valued pursuant to subsection 2 or 3, whichever is applicable,  
3 for that fiscal year. An employer's or business's taxable  
4 property used to fund a new jobs training project shall not be  
5 valued pursuant to subsection 2 or 3, whichever is applicable,  
6 until the assessment year following the calendar year in which  
7 the certificates or other funding obligations have been  
8 retired or escrowed. ~~The taxpayer's valuation for such~~  
9 ~~property shall then be the valuation specified in subsection 1~~  
10 ~~for the applicable assessment year.~~ If the certificates  
11 issued, or other funding obligations incurred, between January  
12 1, 1982, and June 30, 1995, are refinanced or refunded after  
13 June 30, 1995, the valuation of such property shall then be  
14 the valuation specified in subsection 2 or 3, whichever is  
15 applicable, for the applicable assessment year beginning with  
16 the assessment year following the calendar year in which those  
17 certificates or other funding obligations are refinanced or  
18 refunded after June 30, 1995.

19 Sec. 4. Section 427B.19, Code Supplement 1995, is amended  
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23 427B.17" does not include the value of property defined in  
24 section 427A.1, subsection 1, paragraphs "e" and "j", which is  
25 obligated to secure payment of certificates or other  
26 indebtedness incurred pursuant to chapter 260E or 260F.

27 NEW SUBSECTION. 6. For purposes of computing replacement  
28 amounts under this section, that portion of an urban renewal  
29 area defined as the sum of the assessed valuations defined in  
30 section 403.19, subsections 1 and 2, shall be considered a  
31 taxing district.

32 Sec. 5. Section 427B.19A, subsection 3, Code Supplement  
33 1995, is amended to read as follows:

34 3. The replacement claims shall be paid to each county  
35 treasurer in equal installments in September and March of each

1 year. The county treasurer shall apportion the replacement  
2 claim payments among the eligible taxing districts in the  
3 county. If the taxing district is an urban renewal area, the  
4 amount of the replacement claim shall be apportioned as  
5 provided in subsection 4 unless the municipality elects to  
6 proceed under subsection 5.

7 Sec. 6. Section 427B.19A, Code Supplement 1995, is amended  
8 by adding the following new subsections:

9 NEW SUBSECTION. 4. a. If the total assessed value of  
10 property located in an urban renewal area taxing district is  
11 equal to or more than that portion of such valuation defined  
12 in section 403.19, subsection 1, the total tax replacement  
13 amount computed pursuant to section 427B.19 shall be credited  
14 to that portion of the assessed value defined in section  
15 403.19, subsection 2.

16 b. If the total assessed value of the property is less  
17 than that portion of such valuation defined in section 403.19,  
18 subsection 1, the replacement amount shall be credited to  
19 those portions of the assessed value defined in section  
20 403.19, subsections 1 and 2, as follows:

21 (1) To that portion defined in section 403.19, subsection  
22 1, an amount equal to the amount that would be produced by  
23 multiplying the applicable consolidated levy times the  
24 difference between the assessed value of the taxable property  
25 defined in section 403.19, subsection 1, and the total  
26 assessed value in the budget year for which the replacement  
27 claim is computed.

28 (2) To that portion defined in section 403.19, subsection  
29 2, the remaining amount, if any.

30 c. Notwithstanding the allocation provisions of paragraphs  
31 "a" and "b", the amount of the tax replacement amount that  
32 shall be allocated to that portion of the assessed value  
33 defined in section 403.19, subsection 2, shall not exceed the  
34 amount equal to the amount certified to the county auditor  
35 under section 403.19 for the budget year in which the claim is

1 paid, after deduction of the amount of other revenues  
2 committed for payment on that amount for the budget year. The  
3 amount not allocated to that portion of the assessed value  
4 defined in section 403.19, subsection 2, as a result of the  
5 operation of this paragraph, shall be allocated to that  
6 portion of assessed value defined in section 403.19,  
7 subsection 1.

8 NEW SUBSECTION. 5. A municipality may elect to reduce the  
9 amount of assessed value of property defined in section  
10 403.19, subsection 1, by an amount equal to that portion of  
11 the amount of such assessed value which was phased out for the  
12 fiscal year by operation of section 427B.17, subsection 3.  
13 The applicable assessment roll and ordinance providing for the  
14 division of taxes under section 403.19 in the urban renewal  
15 taxing district shall be deemed to be modified for that fiscal  
16 year only to the extent of such adjustment without further  
17 action on the part of the city or county implementing the  
18 urban renewal taxing district.

19 Sec. 7. NEW SECTION. 427B.19C ADJUSTMENT OF CERTAIN  
20 ASSESSMENTS REQUIRED.

21 In the assessment year beginning January 1, 2005, the  
22 amount of assessed value of property defined in section  
23 403.19, subsection 1, for an urban renewal taxing district  
24 which received replacement moneys under section 427B.19A,  
25 subsection 4, shall be reduced by an amount equal to that  
26 portion of the amount of assessed value of such property which  
27 was assessed pursuant to section 427B.17, subsection 3.

28 Sec. 8. NEW SECTION. 427B.19D APPEAL FOR STATE  
29 ASSISTANCE.

30 For fiscal years beginning on or after July 1, 1996, a  
31 municipality in which is located an urban renewal district for  
32 which debt was incurred prior to June 30, 1996, may appeal to  
33 the state appeal board for state assistance to meet such debt  
34 obligations for the fiscal year if such debt is not secured by  
35 an assessment agreement pursuant to section 403.6, subsection

1 19, and if the urban renewal area contains property assessed  
2 pursuant to section 427B.17. The appeal shall be made by May  
3 15 preceding the fiscal year on forms approved by the  
4 department of management.

5 Sec. 9. RETROACTIVE APPLICABILITY DATE. Section 2 of this  
6 Act, striking section 427B.17, subsection 6, applies  
7 retroactively to assessment years beginning on or after  
8 January 1, 1995.

9 Sec. 10. EFFECTIVE DATE. This Act, being deemed of  
10 immediate importance, takes effect upon enactment.

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Revised HSB 531.1

WAYS AND MEANS

Succeeded By

SF/HF 2165

LARSON, ch  
Rants  
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HOUSE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL  
BY CHAIRPERSON HALVORSON)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

A BILL FOR

1 An Act relating to industrial machinery, computers and equipment  
2 for purposes of sales taxation and property taxation and  
3 providing an effective date and applicability date.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section 422.45, subsection 27, Code Supplement  
2 1995, is amended to read as follows:

3 27. The gross receipts from the sale or rental, ~~on or~~  
4 ~~after July 1, 1987 or on or after July 1, 1985, in the case of~~  
5 ~~an industry which has entered into an agreement under chapter~~  
6 ~~260E prior to the sale or lease,~~ of industrial machinery,  
7 equipment and computers, including replacement parts which are  
8 depreciable for state and federal income tax purposes, if the  
9 following conditions are met:

10 a. The industrial machinery, equipment and computers shall  
11 be directly and primarily used in the manner described in  
12 section 428.20 in processing tangible personal property or in  
13 research and development of new products or processes of  
14 manufacturing, refining, purifying, combining of different  
15 materials or packing of meats to be used for the purpose of  
16 adding value to products, or in processing or storage of data  
17 or information by an insurance company, financial institution  
18 or commercial enterprise, or in the recycling or reprocessing  
19 of waste products. As used in this paragraph:

20 (1) "Insurance company" means an insurer organized or  
21 operating under chapters 508, 514, 515, 518, 518A, 519, 520 or  
22 authorized to do business in Iowa as an insurer ~~and having~~  
23 ~~fifty or more persons employed in this state excluding~~  
24 ~~licensed insurance agents~~ or a licensed insurance agent under  
25 chapter 522.

26 (2) "Financial institutions" means as defined in section  
27 527.2, subsection 9.

28 (3) "Commercial enterprise" includes businesses and  
29 manufacturers conducted for profit and includes centers for  
30 data processing services to insurance companies, financial  
31 institutions, businesses and manufacturers but excludes  
32 professions and occupations and nonprofit organizations.

33 b. The industrial machinery, equipment and computers must  
34 be real property within the scope of section 427A.1,  
35 subsection 1, paragraphs paragraph "e" or "j" ~~and must.~~ For

1 sales occurring after January 1, 1994, the property is not  
2 required to be subject to taxation as real property. . This  
3 ~~paragraph does not apply to machinery and equipment used in~~  
4 ~~the recycling or reprocessing of waste products qualifying for~~  
5 ~~an exemption under paragraph "a".~~

6 ~~However, the provisions of chapters 404 and 427B which~~  
7 ~~result in the exemption from taxation of property for property~~  
8 ~~tax purposes do not preclude the property from receiving this~~  
9 ~~exemption if the property otherwise qualifies.~~

10 The gross receipts from the sale or rental of hand tools  
11 are not exempt. The gross receipts from the sale or rental of  
12 pollution control equipment qualifying under paragraph "a"  
13 shall be exempt.

14 The gross receipts from the sale or rental of industrial  
15 machinery, equipment, and computers, including pollution  
16 control equipment, within the scope of section 427A.1,  
17 subsection 1, paragraphs "h" and "i", shall not be exempt.

18 Sec. 2. Section 427B.17, subsection 6, Code Supplement  
19 1995, is amended by striking the subsection.

20 Sec. 3. Section 427B.17, subsection 7, Code Supplement  
21 1995, is amended to read as follows:

22 7. For the purpose of dividing taxes under section 260E.4  
23 or 260F.4, the employer's or business's valuation of property  
24 defined in section 427A.1, subsection 1, paragraphs "e" and  
25 "j", and used to fund a new jobs training project which  
26 project's first written agreement providing for a division of  
27 taxes as provided in section 403.19 is approved on or before  
28 June 30, 1995, shall be limited to thirty percent of the net  
29 acquisition cost of the property. The community college shall  
30 notify the assessor by February 15 of each assessment year if  
31 taxes levied against such property of an employer or business  
32 will be used to finance a project in the following fiscal  
33 year. In any fiscal year in which the community college does  
34 rely on taxes levied against an employer's or business's  
35 property defined in section 427A.1, subsection 1, paragraph

1 "e" or "j", to finance a project, such property shall not be  
2 valued pursuant to subsection 2 or 3, whichever is applicable,  
3 for that fiscal year. An employer's or business's taxable  
4 property used to fund a new jobs training project shall not be  
5 valued pursuant to subsection 2 or 3, whichever is applicable,  
6 until the assessment year following the calendar year in which  
7 the certificates or other funding obligations have been  
8 retired or escrowed. ~~The taxpayer's valuation for such~~  
9 ~~property shall then be the valuation specified in subsection 2~~  
10 ~~for the applicable assessment year.~~ If the certificates  
11 issued, or other funding obligations incurred, between January  
12 1, 1982, and June 30, 1995, are refinanced or refunded after  
13 June 30, 1995, the valuation of such property shall then be  
14 the valuation specified in subsection 2 or 3, whichever is  
15 applicable, for the applicable assessment year beginning with  
16 the assessment year following the calendar year in which those  
17 certificates or other funding obligations are refinanced or  
18 refunded after June 30, 1995.

19 Sec. 4. Section 427B.19, Code Supplement 1995, is amended  
20 by adding the following new subsections:

21 NEW SUBSECTION. 5. For purposes of this section,  
22 "assessed value of the property assessed under section  
23 427B.17" does not include the value of property defined in  
24 section 427A.1, subsection 1, paragraphs "e" and "j", which is  
25 obligated to secure payment of certificates or other  
26 indebtedness incurred pursuant to chapter 260E or 260F.

27 NEW SUBSECTION. 6. For purposes of computing replacement  
28 amounts under this section, that portion of an urban renewal  
29 area defined as the sum of the assessed valuations defined in  
30 section 403.19, subsections 1 and 2, shall be considered a  
31 taxing district.

32 Sec. 5. Section 427B.19A, subsection 3, Code Supplement  
33 1995, is amended to read as follows:

34 3. The replacement claims shall be paid to each county  
35 treasurer in equal installments in September and March of each



1 year. The county treasurer shall apportion the replacement  
2 claim payments among the eligible taxing districts in the  
3 county. If the taxing district is an urban renewal area, the  
4 amount of the replacement claim shall be apportioned as  
5 provided in subsection 4.

6 Sec. 6. Section 427B.19A, Code Supplement 1995, is amended  
7 by adding the following new subsection:

8 NEW SUBSECTION. 4. a. If the total assessed value of  
9 property located in an urban renewal area taxing district is  
10 equal to or more than that portion of such valuation defined  
11 in section 403.19, subsection 1, the total tax replacement  
12 amount computed pursuant to section 427B.19 shall be credited  
13 to that portion of the assessed value defined in section  
14 403.19, subsection 2.

15 b. If the total assessed value of the property is less  
16 than that portion of such valuation defined in section 403.19,  
17 subsection 1, the replacement amount shall be credited to  
18 those portions of the assessed value defined in section  
19 403.19, subsections 1 and 2, as follows:

20 (1) To that portion defined in section 403.19, subsection  
21 1, an amount equal to the amount that would be produced by  
22 multiplying the applicable consolidated levy times the  
23 difference between the assessed value of the taxable property  
24 defined in section 403.19, subsection 1, and the total  
25 assessed value in the budget year for which the replacement  
26 claim is computed.

27 (2) To that portion defined in section 403.19, subsection  
28 2, the remaining amount, if any.

29 c. Notwithstanding the allocation provisions of paragraphs  
30 "a" and "b", the amount of the tax replacement amount that  
31 shall be allocated to that portion of the assessed value  
32 defined in section 403.19, subsection 2, shall not exceed the  
33 amount equal to the amount certified to the county auditor  
34 under section 403.19 for the budget year in which the claim is  
35 paid, after deduction of the amount of other revenues

1 committed for payment on that amount for the budget year. The  
2 amount not allocated to that portion of the assessed value  
3 defined in section 403.19, subsection 2, as a result of the  
4 operation of this paragraph, shall be allocated to that  
5 portion of assessed value defined in section 403.19,  
6 subsection 1.

7 Sec. 7. NEW SECTION. 427B.19C ADJUSTMENT OF CERTAIN  
8 ASSESSMENTS REQUIRED.

9 In the assessment year beginning January 1, 2005, the  
10 amount of assessed value of property defined in section  
11 403.19, subsection 1, for an urban renewal taxing district  
12 which received replacement moneys under section 427B.19A,  
13 subsection 4, shall be reduced by an amount equal to that  
14 portion of the amount of assessed value of such property which  
15 was assessed pursuant to section 427B.17, subsection 3.

16 Sec. 8. RETROACTIVE APPLICABILITY DATE. Section 2 of this  
17 Act, striking section 427B.17, subsection 6, applies  
18 retroactively to assessment years beginning on or after  
19 January 1, 1995.

20 Sec. 9. EFFECTIVE DATE. This Act, being deemed of  
21 immediate importance, takes effect upon enactment.

22 EXPLANATION

23 This bill makes several changes to the Iowa Code relating  
24 to taxation of industrial machinery, computers and equipment.  
25 The bill rewrites for clarity the section that exempts such  
26 property from sales taxation.

27 The bill also eliminates in the definition of "insurance  
28 company", for the purposes of sales tax exemption, the  
29 requirement that 50 or more persons be employed by such an  
30 insurance company in order to be eligible for the exemption.  
31 The bill also includes in the definition of insurance company,  
32 mutual insurance associations operating under chapter 518A and  
33 licensed insurance agents under chapter 522.

34 This bill strikes the provision that requires that  
35 industrial machinery, computers and equipment located in an

1 urban renewal area for which indebtedness has been incurred  
2 continue to be taxed at 30 percent of net acquisition cost.  
3 This property will now be subject to those current Code  
4 provisions which provide that on or after January 1, 1995,  
5 such property first assessed for taxation will be exempt from  
6 property taxation, and the taxable value of such property  
7 purchased before that date will be phased out over a four-year  
8 period.

9 The bill also requires a community college to notify a  
10 county assessor by February 15 of each year if a taxpayer's  
11 property will be taxed to finance either an industrial new  
12 jobs or small business training project in the coming fiscal  
13 year.

14 This bill also defines a tax increment financing district  
15 in an urban renewal area as a taxing district for purposes of  
16 allocation of replacement moneys, and provides for the method  
17 of allocation in those districts.

18 The bill takes effect upon enactment, and the section  
19 repealing the tax on industrial machinery, computers and  
20 equipment located in an urban renewal area applies  
21 retroactively to assessment years beginning on or after  
22 January 1, 1995.

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HOUSE FILE 2165

AN ACT

RELATING TO INDUSTRIAL MACHINERY, COMPUTERS AND EQUIPMENT FOR  
PURPOSES OF SALES TAXATION AND PROPERTY TAXATION AND  
PROVIDING AN EFFECTIVE DATE AND APPLICABILITY DATE.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section 422.45, subsection 27, Code Supplement  
1995, is amended to read as follows:

27. The gross receipts from the sale or rental, ~~on or  
after July 17, 1987 or on or after July 17, 1985, in the case of  
an industry which has entered into an agreement under chapter  
260E prior to the sale or lease,~~ of industrial machinery,  
equipment and computers, including replacement parts which are  
depreciable for state and federal income tax purposes, if the  
following conditions are met:

a. The industrial machinery, equipment and computers shall  
be directly and primarily used in the manner described in  
section 428.20 in processing tangible personal property or in  
research and development of new products or processes of  
manufacturing, refining, purifying, combining of different  
materials or packing of meats to be used for the purpose of  
adding value to products, or in processing or storage of data  
or information by an insurance company, financial institution  
or commercial enterprise, or in the recycling or reprocessing  
of waste products. As used in this paragraph:

(1) "Insurance company" means an insurer organized or  
operating under chapters 508, 514, 515, 518, 518A, 519, 520 or  
authorized to do business in Iowa as an insurer ~~and having  
fifty or more persons employed in this state excluding  
licensed insurance agents or a licensed insurance agent under  
chapter 522.~~

(2) "Financial institutions" means as defined in section  
527.2, subsection 9.

(3) "Commercial enterprise" includes businesses and  
manufacturers conducted for profit and includes centers for  
data processing services to insurance companies, financial  
institutions, businesses and manufacturers but excludes  
professions and occupations and nonprofit organizations.

b. The industrial machinery, equipment and computers must  
be real property within the scope of section 427A.1,  
subsection 1, ~~paragraphs paragraph "e" or "j", and must. For  
sales occurring after January 1, 1994, the property is not  
required to be subject to taxation as real property. This  
paragraph does not apply to machinery and equipment used in  
the recycling or reprocessing of waste products qualifying for  
an exemption under paragraph "a".~~

~~However, the provisions of chapters 404 and 427B which  
result in the exemption from taxation of property for property  
tax purposes do not preclude the property from receiving this  
exemption if the property otherwise qualifies.~~

The gross receipts from the sale or rental of hand tools  
are not exempt. The gross receipts from the sale or rental of  
pollution control equipment qualifying under paragraph "a"  
shall be exempt.

The gross receipts from the sale or rental of industrial  
machinery, equipment, and computers, including pollution  
control equipment, within the scope of section 427A.1,  
subsection 1, paragraphs "h" and "i", shall not be exempt.

Sec. 2. Section 427B.17, subsection 6, Code Supplement  
1995, is amended by striking the subsection.

Sec. 3. Section 427B.17, subsection 7, Code Supplement  
1995, is amended to read as follows:

7. For the purpose of dividing taxes under section 260E.4  
or 260F.4, the employer's or business's valuation of property  
defined in section 427A.1, subsection 1, paragraphs "e" and  
"j", and used to fund a new jobs training project which  
project's first written agreement providing for a division of  
taxes as provided in section 403.19 is approved on or before

June 30, 1995, shall be limited to thirty percent of the net acquisition cost of the property. The community college shall notify the assessor by February 15 of each assessment year if taxes levied against such property of an employer or business will be used to finance a project in the following fiscal year. In any fiscal year in which the community college does rely on taxes levied against an employer's or business's property defined in section 427A.1, subsection 1, paragraph "e" or "j", to finance a project, such property shall not be valued pursuant to subsection 2 or 3, whichever is applicable, for that fiscal year. An employer's or business's taxable property used to fund a new jobs training project shall not be valued pursuant to subsection 2 or 3, whichever is applicable, until the assessment year following the calendar year in which the certificates or other funding obligations have been retired or escrowed. ~~The taxpayer's valuation for such property shall then be the valuation specified in subsection 1 for the applicable assessment year.~~ If the certificates issued, or other funding obligations incurred, between January 1, 1982, and June 30, 1995, are refinanced or refunded after June 30, 1995, the valuation of such property shall then be the valuation specified in subsection 2 or 3, whichever is applicable, for the applicable assessment year beginning with the assessment year following the calendar year in which those certificates or other funding obligations are refinanced or refunded after June 30, 1995.

Sec. 4. Section 427B.19, Code Supplement 1995, is amended by adding the following new subsections:

NEW SUBSECTION. 5. For purposes of this section, "assessed value of the property assessed under section 427B.17" does not include the value of property defined in section 427A.1, subsection 1, paragraphs "e" and "j", which is obligated to secure payment of certificates or other indebtedness incurred pursuant to chapter 260E or 260F.

NEW SUBSECTION. 6. For purposes of computing replacement amounts under this section, that portion of an urban renewal area defined as the sum of the assessed valuations defined in

section 403.19, subsections 1 and 2, shall be considered a taxing district.

Sec. 5. Section 427B.19A, subsection 3, Code Supplement 1995, is amended to read as follows:

3. The replacement claims shall be paid to each county treasurer in equal installments in September and March of each year. The county treasurer shall apportion the replacement claim payments among the eligible taxing districts in the county. If the taxing district is an urban renewal area, the amount of the replacement claim shall be apportioned as provided in subsection 4 unless the municipality elects to proceed under subsection 5.

Sec. 6. Section 427B.19A, Code Supplement 1995, is amended by adding the following new subsections:

NEW SUBSECTION. 4. a. If the total assessed value of property located in an urban renewal area taxing district is equal to or more than that portion of such valuation defined in section 403.19, subsection 1, the total tax replacement amount computed pursuant to section 427B.19 shall be credited to that portion of the assessed value defined in section 403.19, subsection 2.

b. If the total assessed value of the property is less than that portion of such valuation defined in section 403.19, subsection 1, the replacement amount shall be credited to those portions of the assessed value defined in section 403.19, subsections 1 and 2, as follows:

(1) To that portion defined in section 403.19, subsection 1, an amount equal to the amount that would be produced by multiplying the applicable consolidated levy times the difference between the assessed value of the taxable property defined in section 403.19, subsection 1, and the total assessed value in the budget year for which the replacement claim is computed.

(2) To that portion defined in section 403.19, subsection 2, the remaining amount, if any.

c. Notwithstanding the allocation provisions of paragraphs "a" and "b", the amount of the tax replacement amount that

shall be allocated to that portion of the assessed value defined in section 403.19, subsection 2, shall not exceed the amount equal to the amount certified to the county auditor under section 403.19 for the budget year in which the claim is paid, after deduction of the amount of other revenues committed for payment on that amount for the budget year. The amount not allocated to that portion of the assessed value defined in section 403.19, subsection 2, as a result of the operation of this paragraph, shall be allocated to that portion of assessed value defined in section 403.19, subsection 1.

NEW SUBSECTION. 5. A municipality may elect to reduce the amount of assessed value of property defined in section 403.19, subsection 1, by an amount equal to that portion of the amount of such assessed value which was phased out for the fiscal year by operation of section 427B.17, subsection 3. The applicable assessment roll and ordinance providing for the division of taxes under section 403.19 in the urban renewal taxing district shall be deemed to be modified for that fiscal year only to the extent of such adjustment without further action on the part of the city or county implementing the urban renewal taxing district.

Sec. 7. NEW SECTION. 427B.19C ADJUSTMENT OF CERTAIN ASSESSMENTS REQUIRED.

In the assessment year beginning January 1, 2005, the amount of assessed value of property defined in section 403.19, subsection 1, for an urban renewal taxing district which received replacement moneys under section 427B.19A, subsection 4, shall be reduced by an amount equal to that portion of the amount of assessed value of such property which was assessed pursuant to section 427B.17, subsection 3.

Sec. 8. NEW SECTION. 427B.19D APPEAL FOR STATE ASSISTANCE.

For fiscal years beginning on or after July 1, 1996, a municipality in which is located an urban renewal district for which debt was incurred prior to June 30, 1996, may appeal to the state appeal board for state assistance to meet such debt

obligations for the fiscal year if such debt is not secured by an assessment agreement pursuant to section 403.6, subsection 19, and if the urban renewal area contains property assessed pursuant to section 427B.17. The appeal shall be made by May 15 preceding the fiscal year on forms approved by the department of management.

Sec. 9. RETROACTIVE APPLICABILITY DATE. Section 2 of this Act, striking section 427B.17, subsection 6, applies retroactively to assessment years beginning on or after January 1, 1995.

Sec. 10. EFFECTIVE DATE. This Act, being deemed of immediate importance, takes effect upon enactment.

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RON J. CORBETT  
Speaker of the House

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LEONARD L. BOSWELL  
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 2165, Seventy-sixth General Assembly.

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ELIZABETH ISAACSON  
Chief Clerk of the House

Approved April 4, 1996

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TERRY E. BRANSTAD  
Governor