

**House File 597 - Introduced**

HOUSE FILE 597

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**A BILL FOR**

1 An Act relating to water quality by increasing the sales and  
2 use tax rates, amending the natural resources and outdoor  
3 recreation trust fund and establishing transfers to the  
4 fund, reducing the individual income tax rates, creating a  
5 water service excise tax and related sales tax exemption and  
6 establishing transfers of the excise tax revenues, amending  
7 the wastewater treatment financial assistance program,  
8 making appropriations, and including effective date and  
9 other applicability provisions.

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

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DIVISION I

SALES AND USE TAXES AND THE NATURAL RESOURCES AND OUTDOOR  
RECREATION TRUST FUND

Section 1. Section 423.2, subsection 1, unnumbered paragraph 1, Code 2017, is amended to read as follows:

There is imposed a tax ~~of six percent~~ at the rate specified in subsection 14 upon the sales price of all sales of tangible personal property, consisting of goods, wares, or merchandise, sold at retail in the state to consumers or users except as otherwise provided in [this subchapter](#).

Sec. 2. Section 423.2, subsections 2 and 3, Code 2017, are amended to read as follows:

2. A tax ~~of six percent~~ at the rate specified in subsection 14 is imposed upon the sales price of the sale or furnishing of gas, electricity, water, heat, pay television service, and communication service, including the sales price from such sales by any municipal corporation or joint water utility furnishing gas, electricity, water, heat, pay television service, and communication service to the public in its proprietary capacity, except as otherwise provided in this subchapter, when sold at retail in the state to consumers or users.

3. A tax ~~of six percent~~ at the rate specified in subsection 14 is imposed upon the sales price of all sales of tickets or admissions to places of amusement, fairs, and athletic events except those of elementary and secondary educational institutions. A tax ~~of six percent~~ at the rate specified in subsection 14 is imposed on the sales price of an entry fee or like charge imposed solely for the privilege of participating in an activity at a place of amusement, fair, or athletic event unless the sales price of tickets or admissions charges for observing the same activity are taxable under [this subchapter](#).

A tax ~~of six percent~~ at the rate specified in subsection 14 is imposed upon that part of private club membership fees or charges paid for the privilege of participating in any athletic

1 sports provided club members.

2 Sec. 3. Section 423.2, subsection 4, paragraph a, Code 2017,  
3 is amended to read as follows:

4 a. A tax of six percent at the rate specified in subsection  
5 14 is imposed upon the sales price derived from the operation  
6 of all forms of amusement devices and games of skill, games of  
7 chance, raffles, and bingo games as defined in [chapter 99B](#), and  
8 card game tournaments conducted under [section 99B.27](#), that are  
9 operated or conducted within the state, the tax to be collected  
10 from the operator in the same manner as for the collection of  
11 taxes upon the sales price of tickets or admission as provided  
12 in [this section](#). Nothing in [this subsection](#) shall legalize any  
13 games of skill or chance or slot-operated devices which are now  
14 prohibited by law.

15 Sec. 4. Section 423.2, subsection 5, Code 2017, is amended  
16 to read as follows:

17 5. There is imposed a tax of six percent at the rate  
18 specified in subsection 14 upon the sales price from the  
19 furnishing of services as defined in [section 423.1](#).

20 Sec. 5. Section 423.2, subsection 7, paragraph a,  
21 unnumbered paragraph 1, Code 2017, is amended to read as  
22 follows:

23 A tax of six percent at the rate specified in subsection 14  
24 is imposed upon the sales price from the sales, furnishing, or  
25 service of solid waste collection and disposal service.

26 Sec. 6. Section 423.2, subsection 8, paragraph a, Code 2017,  
27 is amended to read as follows:

28 a. A tax of six percent at the rate specified in subsection  
29 14 is imposed on the sales price from sales of bundled  
30 transactions. For the purposes of [this subsection](#), a "*bundled*  
31 *transaction*" is the retail sale of two or more distinct and  
32 identifiable products, except real property and services to  
33 real property, which are sold for one nonitemized price. A  
34 "*bundled transaction*" does not include the sale of any products  
35 in which the sales price varies, or is negotiable, based on

1 the selection by the purchaser of the products included in the  
2 transaction.

3 Sec. 7. Section 423.2, subsection 9, Code 2017, is amended  
4 to read as follows:

5 9. A tax of six percent at the rate specified in  
6 subsection 14 is imposed upon the sales price from any mobile  
7 telecommunications service, including all paging services,  
8 that this state is allowed to tax pursuant to the provisions  
9 of the federal Mobile Telecommunications Sourcing Act, Pub.  
10 L. No. 106-252, 4 U.S.C. §116 et seq. For purposes of this  
11 subsection, taxes on mobile telecommunications service, as  
12 defined under the federal Mobile Telecommunications Sourcing  
13 Act that are deemed to be provided by the customer's home  
14 service provider, shall be paid to the taxing jurisdiction  
15 whose territorial limits encompass the customer's place of  
16 primary use, regardless of where the mobile telecommunications  
17 service originates, terminates, or passes through and  
18 shall in all other respects be taxed in conformity with  
19 the federal Mobile Telecommunications Sourcing Act. All  
20 other provisions of the federal Mobile Telecommunications  
21 Sourcing Act are adopted by the state of Iowa and incorporated  
22 into this subsection by reference. With respect to mobile  
23 telecommunications service under the federal Mobile  
24 Telecommunications Sourcing Act, the director shall, if  
25 requested, enter into agreements consistent with the provisions  
26 of the federal Act.

27 Sec. 8. Section 423.2, subsection 11, paragraph b,  
28 subparagraph (2), Code 2017, is amended to read as follows:

29 (2) Transfer from the remaining revenues the amounts  
30 required under Article VII, section 10, of the Constitution  
31 of the State of Iowa to the natural resources and outdoor  
32 recreation trust fund created in section 461.31, ~~if applicable~~.

33 Sec. 9. Section 423.2, subsection 14, Code 2017, is amended  
34 by striking the subsection and inserting in lieu thereof the  
35 following:

1 14. *a.* For the period beginning January 1, 2018, and ending  
2 December 31, 2018, the sales tax rate is six and one-eighth  
3 percent.

4 *b.* For the period beginning January 1, 2019, and ending  
5 December 31, 2019, the sales tax rate is six and one-fourth  
6 percent.

7 *c.* For the period beginning January 1, 2020, and ending  
8 December 31, 2029, the sales tax rate is six and three-eighths  
9 percent.

10 *d.* Beginning January 1, 2030, the sales tax rate is five and  
11 three-eighths percent.

12 Sec. 10. Section 423.5, subsection 1, unnumbered paragraph  
13 1, Code 2017, is amended to read as follows:

14 Except as provided in paragraph "c", an excise tax at the  
15 ~~rate of six percent~~ specified in subsection 5 of the purchase  
16 price or installed purchase price is imposed on the following:

17 Sec. 11. Section 423.5, subsection 5, Code 2017, is amended  
18 by striking the subsection and inserting in lieu thereof the  
19 following:

20 5. *a.* For the period beginning January 1, 2018, and ending  
21 December 31, 2018, the use tax rate is six and one-eighth  
22 percent.

23 *b.* For the period beginning January 1, 2019, and ending  
24 December 31, 2019, the use tax rate is six and one-fourth  
25 percent.

26 *c.* For the period beginning January 1, 2020, and ending  
27 December 31, 2029, the use tax rate is six and three-eighths  
28 percent.

29 *d.* Beginning January 1, 2030, the use tax rate is five and  
30 three-eighths percent.

31 Sec. 12. Section 423.43, subsection 1, paragraph b, Code  
32 2017, is amended to read as follows:

33 *b.* Subsequent to the deposit into the general fund of the  
34 ~~state and after the transfer of such~~ pursuant to paragraph "a",  
35 the department shall do the following in the order prescribed:



1 sales and use tax rates enacted in this Act, and shall certify  
2 such amount to the governor and general assembly.

3 (2) For each tax year beginning in the period beginning  
4 January 1, 2018, and ending December 31, 2029, the rates of  
5 tax in paragraphs "a" through "i" shall be reduced as provided  
6 in subparagraph (3) by an amount that will in the aggregate  
7 reduce the individual income tax revenues for the applicable  
8 tax year by the dollar amount certified by the department of  
9 revenue pursuant to subparagraph (1) for the relevant fiscal  
10 year ending June 30 during the applicable tax year.

11 (3) (a) The rate reduction for a tax year shall be  
12 accomplished by applying the applicable dollar amount to a  
13 reduction in the rate imposed in paragraph "a", but not below  
14 zero.

15 (b) If such rate reduction in subparagraph division (a) does  
16 not accomplish the full rate decrease required by subparagraph  
17 (2), the remaining applicable dollar amount shall be applied to  
18 a reduction in the rate imposed in paragraph "b", but not below  
19 zero.

20 (c) If such rate reduction in subparagraph divisions (a)  
21 and (b) do not accomplish the full rate decrease required by  
22 subparagraph (2), the remaining applicable dollar amount shall  
23 be applied to a reduction in the rate imposed in paragraph "c",  
24 but not below zero.

25 (d) If such rate reduction in subparagraph divisions  
26 (a) through (c) do not accomplish the full rate decrease  
27 required by subparagraph (2), the remaining applicable dollar  
28 amount shall be applied to a reduction in the rate imposed in  
29 paragraph "d", but not below zero.

30 (e) If such rate reduction in subparagraph divisions  
31 (a) through (d) do not accomplish the full rate decrease  
32 required by subparagraph (2), the remaining applicable dollar  
33 amount shall be applied to a reduction in the rate imposed in  
34 paragraph "e", but not below zero.

35 (f) If such rate reduction in subparagraph divisions

1 (a) through (e) do not accomplish the full rate decrease  
2 required by subparagraph (2), the remaining applicable dollar  
3 amount shall be applied to a reduction in the rate imposed in  
4 paragraph "f", but not below zero.

5 (g) If such rate reduction in subparagraph divisions  
6 (a) through (f) do not accomplish the full rate decrease  
7 required by subparagraph (2), the remaining applicable dollar  
8 amount shall be applied to a reduction in the rate imposed in  
9 paragraph "g", but not below zero.

10 (h) If such rate reduction in subparagraph divisions  
11 (a) through (g) do not accomplish the full rate decrease  
12 required by subparagraph (2), the remaining applicable dollar  
13 amount shall be applied to a reduction in the rate imposed in  
14 paragraph "h", but not below zero.

15 (i) If such rate reduction in subparagraph divisions  
16 (a) through (h) do not accomplish the full rate decrease  
17 required by subparagraph (2), the remaining applicable dollar  
18 amount shall be applied to a reduction in the rate imposed in  
19 paragraph "i", but not below zero.

20 (4) The rates of tax for paragraphs "a" through "i", as  
21 determined under this paragraph "0j" for tax years beginning  
22 on or after January 1, 2018, but before January 1, 2029, shall  
23 only apply to the tax year for which they are calculated. The  
24 rates of tax for paragraphs "a" through "i", as determined under  
25 this paragraph "0j" for the tax year beginning January 1, 2029,  
26 shall apply to all tax years beginning on or after January 1,  
27 2029.

28 Sec. 16. Section 422.5, subsection 1, paragraph j, Code  
29 2017, is amended to read as follows:

30 j. (1) The tax imposed upon the taxable income of a  
31 nonresident shall be computed by reducing the amount determined  
32 pursuant to paragraphs "a" through "i" "0j" by the amounts of  
33 nonrefundable credits under [this division](#) and by multiplying  
34 this resulting amount by a fraction of which the nonresident's  
35 net income allocated to Iowa, as determined in section



1 422.8, subsection 2, paragraph "a", is the numerator and the  
 2 nonresident's total net income computed under [section 422.7](#) is  
 3 the denominator. This provision also applies to individuals  
 4 who are residents of Iowa for less than the entire tax year.

5 (2) (a) The tax imposed upon the taxable income of a  
 6 resident shareholder in an S corporation or of an estate  
 7 or trust with a situs in Iowa that is a shareholder in an S  
 8 corporation, which S corporation has in effect for the tax  
 9 year an election under subchapter S of the Internal Revenue  
 10 Code and carries on business within and without the state,  
 11 may be computed by reducing the amount determined pursuant to  
 12 paragraphs "a" through "~~i~~" "oj" by the amounts of nonrefundable  
 13 credits under [this division](#) and by multiplying this resulting  
 14 amount by a fraction of which the resident's or estate's  
 15 or trust's net income allocated to Iowa, as determined in  
 16 section 422.8, subsection 2, paragraph "b", is the numerator  
 17 and the resident's or estate's or trust's total net income  
 18 computed under [section 422.7](#) is the denominator. If a resident  
 19 shareholder, or an estate or trust with a situs in Iowa  
 20 that is a shareholder, has elected to take advantage of this  
 21 subparagraph (2), and for the next tax year elects not to take  
 22 advantage of this subparagraph, the resident or estate or  
 23 trust shareholder shall not reelect to take advantage of this  
 24 subparagraph for the three tax years immediately following the  
 25 first tax year for which the shareholder elected not to take  
 26 advantage of this subparagraph, unless the director consents to  
 27 the reelection. This subparagraph also applies to individuals  
 28 who are residents of Iowa for less than the entire tax year.

29 (b) This subparagraph (2) shall not affect the amount of  
 30 the taxpayer's checkoffs under [this division](#), the credits from  
 31 tax provided under [this division](#), and the allocation of these  
 32 credits between spouses if the taxpayers filed separate returns  
 33 or separately on combined returns.

34 Sec. 17. EFFECTIVE DATE. This division of this Act takes  
 35 effect January 1, 2018.

1     Sec. 18. APPLICABILITY. This division of this Act applies  
2 to tax years beginning on or after January 1, 2018.

3                                   DIVISION III

4                   WATER QUALITY AND WATER SERVICE EXCISE TAX

5     Sec. 19. Section 16.134, Code 2017, is amended to read as  
6 follows:

7     **16.134 Wastewater and drinking water treatment financial**  
8 **assistance program.**

9     1. The Iowa finance authority shall establish and  
10 administer a wastewater and drinking water treatment financial  
11 assistance program. The purpose of the program shall be to  
12 provide financial assistance to enhance water quality. The  
13 program shall be administered in accordance with rules adopted  
14 by the authority pursuant to [chapter 17A](#). For purposes of  
15 this section, "program" means the wastewater and drinking water  
16 treatment financial assistance program and "committee" means the  
17 water quality financing review committee created in subsection  
18 10.

19     2. A wastewater and drinking water treatment financial  
20 assistance fund is created and shall consist of appropriations  
21 made to the fund and transfers of interest, earnings, and  
22 moneys from other funds as provided by law. Moneys transferred  
23 to the fund pursuant to section 423G.6 are appropriated to the  
24 authority for purposes of the program. Moneys in the fund are  
25 not subject to [section 8.33](#). Notwithstanding [section 12C.7,](#)  
26 [subsection 2,](#) interest or earnings on moneys in the fund shall  
27 be credited to the fund.

28     3. Financial assistance under the program shall be used  
29 to install or upgrade wastewater treatment facilities and  
30 systems and drinking water treatment facilities and systems,  
31 including source water protection projects, and for engineering  
32 or technical assistance for facility planning and design.

33     4. The authority committee shall distribute approve  
34 financial assistance ~~in~~ from the fund in accordance with the  
35 following:

1 ~~a.~~ The goal of the program shall be to base awards on the  
2 impact of the grant combined with other sources of financing to  
3 ensure that sewer rates do not exceed one and one-half percent  
4 of a community's median household income.

5 ~~b.~~ a. Communities shall be eligible for financial  
6 assistance by qualifying as Priority shall be given to  
7 projects in which a disadvantaged community and is seeking  
8 financial assistance for the installation or upgrade of  
9 wastewater treatment facilities ~~due to regulatory activity~~  
10 ~~by the department of natural resources~~ or drinking water  
11 treatment facilities. For purposes of **this section**, the term  
12 "*disadvantaged community*" means the same as defined by the  
13 department.

14 ~~c.~~ b. Priority shall be given to projects in which the  
15 meeting criteria established in section 455B.199B in which the  
16 applicant seeks financial assistance is to be used to obtain  
17 with financing under the water pollution control works and  
18 drinking water facilities financing program pursuant to section  
19 16.131 or other federal, ~~or~~ state, or private financing.

20 ~~d.~~ c. Priority shall also be given to projects whose  
21 completion will provide significant improvement to water  
22 quality in the relevant watershed.

23 ~~e.~~ d. Priority shall also be given to communities that  
24 employ an alternative wastewater treatment technology pursuant  
25 to **section 455B.199C**.

26 ~~f.~~ e. Priority shall be also given to those communities  
27 where sewer or water rates are the highest as a percentage of  
28 that community's median household income.

29 f. Priority shall be given to communities that employ  
30 technology to address the latest version of the Iowa nutrient  
31 reduction strategy initially presented in November 2012 by the  
32 department of agriculture and land stewardship, the department  
33 of natural resources, and Iowa state university of science and  
34 technology.

35 g. Financial assistance in the form of grants shall be

1 issued on an annual basis.

2 *h.* An applicant shall not receive a grant that exceeds five  
3 hundred thousand dollars.

4 5. A utility management organization formed under chapter  
5 28E or operated by a rural water system organized under chapter  
6 357A or chapter 504 shall be considered eligible for financial  
7 assistance under the program.

8 ~~5.~~ 6. The authority in cooperation with the department  
9 of natural resources shall ~~share~~ provide information and  
10 resources to the committee when the committee is determining  
11 the qualifications of a community for financial assistance from  
12 the fund.

13 ~~6.~~ 7. The authority shall enter into agreements with  
14 financial assistance recipients and distribute moneys under the  
15 program pursuant to financial assistance determinations made  
16 by the committee. The authority may use an amount of not more  
17 than ~~four~~ one percent of any moneys appropriated for deposit in  
18 the fund for administration purposes.

19 8. By October 1 of each year, the authority shall submit  
20 a report to the governor and the general assembly itemizing  
21 expenditures under the program during the previous fiscal year.

22 9. a. Beginning September 1, 2026, and every ten years  
23 thereafter, a program review committee is established for  
24 purposes of reviewing the wastewater and drinking water  
25 treatment financial assistance program. By December 1 of  
26 the same year, the review committee shall file a report  
27 with the governor and the general assembly that reviews the  
28 effectiveness of the program during the prior ten fiscal years.

29 b. The program review committee shall consist of the  
30 following members:

31 (1) The governor or the governor's designee.

32 (2) The secretary of agriculture or the secretary's  
33 designee.

34 (3) The executive director of the authority or the executive  
35 director's designee.

1     (4) The director of the department of natural resources or  
2 the director's designee.

3     (5) Four members of the general assembly, with two from the  
4 senate and two from the house of representatives and not more  
5 than one member from each chamber being from the same political  
6 party. The two senators shall be designated one member each  
7 by the president of the senate, after consultation with the  
8 majority leader of the senate, and by the minority leader of  
9 the senate. The two representatives shall be designated one  
10 member each by the speaker of the house of representatives,  
11 after consultation with the majority leader of the house of  
12 representatives, and by the minority leader of the house of  
13 representatives.

14     c. Staffing services shall be provided by the authority.

15     10. a. A water quality financing review committee is  
16 created consisting of the secretary of agriculture or the  
17 secretary's designee, the executive director of the authority  
18 or the executive director's designee, and the director of the  
19 department of natural resources or the director's designee.

20     b. The committee shall review and approve or deny  
21 applications for financial assistance under the wastewater  
22 and drinking water treatment financial assistance program  
23 established pursuant to this section.

24     Sec. 20. Section 423.3, Code 2017, is amended by adding the  
25 following new subsection:

26     NEW SUBSECTION. 103. a. The sales price from the sale or  
27 furnishing by a water utility of a water service in the state  
28 to consumers or users.

29     b. For purposes of this subsection:

30     (1) "Water service" means the delivery of water by piped  
31 distribution system.

32     (2) "Water utility" means a public utility as defined in  
33 section 476.1 that furnishes water by piped distribution system  
34 to the public for compensation.

35     Sec. 21. NEW SECTION. 423G.1 Short title.

1 This chapter may be cited as the "*Water Service Tax Act*".

2 Sec. 22. NEW SECTION. **423G.2 Definitions.**

3 1. All words and phrases used in this chapter and defined in  
4 section 423.1 have the same meaning given them by section 423.1  
5 for purposes of this chapter.

6 2. As used in this chapter, "*water service*" and "*water*  
7 *utility*" mean the same as defined in section 423.3, subsection  
8 103.

9 Sec. 23. NEW SECTION. **423G.3 Water service tax.**

10 An excise tax at the rate of six percent is imposed on the  
11 sales price from the sale or furnishing by a water utility of a  
12 water service in the state to consumers or users.

13 Sec. 24. NEW SECTION. **423G.4 Exemptions.**

14 The sales price from transactions exempt from state sales  
15 tax under section 423.3, except section 423.3, subsection 103,  
16 is also exempt from the tax imposed by this chapter.

17 Sec. 25. NEW SECTION. **423G.5 Administration by director.**

18 1. The director of revenue shall administer the water  
19 service tax as nearly as possible in conjunction with the  
20 administration of the state sales and use tax law, except that  
21 portion of the law that implements the streamlined sales and  
22 use tax agreement. The director shall provide appropriate  
23 forms, or provide on the regular state tax forms, for reporting  
24 water service tax liability.

25 2. The director may require all persons who are engaged  
26 in the business of deriving any sales price or purchase  
27 price subject to tax under this chapter to register with  
28 the department. The director may also require a tax permit  
29 applicable only to this chapter for any retailer not  
30 collecting, or any user not paying, taxes under chapter 423.

31 3. Section 422.25, subsection 4, sections 422.30, 422.67,  
32 and 422.68, section 422.69, subsection 1, sections 422.70,  
33 422.71, 422.72, 422.74, and 422.75, section 423.14, subsection  
34 1, and sections 423.23, 423.24, 423.25, 423.31 through  
35 423.35, 423.37 through 423.42, and 423.47, consistent with the

1 provisions of this chapter, shall apply with respect to the tax  
2 authorized under this chapter, in the same manner and with the  
3 same effect as if the excise taxes on the sale or furnishing of  
4 a water service were retail sales taxes within the meaning of  
5 those statutes. Notwithstanding this subsection, the director  
6 shall provide for quarterly filing of returns and for other  
7 than quarterly filing of returns both as prescribed in section  
8 423.31. All taxes collected under this chapter by a retailer  
9 or any user are deemed to be held in trust for the state of  
10 Iowa.

11 Sec. 26. NEW SECTION. **423G.6 Deposit of revenues.**

12 1. All moneys received and all refunds shall be deposited in  
13 or withdrawn from the general fund of the state.

14 2. Subsequent to the deposit in the general fund of the  
15 state, the department shall first transfer one-sixth of the  
16 revenues collected under 423G.3 to the secure an advanced  
17 vision for education fund created in section 423F.2, and then  
18 from the remaining revenues shall transfer the following  
19 amounts to the wastewater and drinking water treatment  
20 financial assistance fund created in section 16.134:

21 a. For revenues collected on or after January 1, 2018, but  
22 before January 1, 2019, one-sixth of the revenues.

23 b. For revenues collected on or after January 1, 2019, but  
24 before January 1, 2020, one-third of the revenues.

25 c. For revenues collected on or after January 1, 2020, but  
26 before January 1, 2021, one-half of the revenues.

27 d. For revenues collected on or after January 1, 2021, but  
28 before January 1, 2022, two-thirds of the revenues.

29 e. For revenues collected on or after January 1, 2022, but  
30 before January 1, 2023, five-sixths of the revenues.

31 f. For revenues collected on or after January 1, 2023, one  
32 hundred percent of the revenues.

33 Sec. 27. NEW SECTION. **423G.7 Future repeal.**

34 This chapter is repealed January 1, 3031.

35 Sec. 28. EFFECTIVE DATE. This division of this Act takes

1 effect January 1, 2018.

2 DIVISION IV

3 NATURAL RESOURCES AND OUTDOOR RECREATION

4 Sec. 29. Section 461.2, Code 2017, is amended by adding the  
5 following new subsection:

6 NEW SUBSECTION. 3A. *"Iowa nutrient reduction strategy"*  
7 means the latest version of the Iowa nutrient reduction  
8 strategy initially presented in November 2012 by the department  
9 of agriculture and land stewardship, the department of natural  
10 resources, and Iowa state university of science and technology.

11 Sec. 30. Section 461.11, Code 2017, is amended by adding the  
12 following new subsections:

13 NEW SUBSECTION. 3. When collaborating in making funding  
14 decisions for a subsequent fiscal year, the heads of the  
15 departments receiving trust fund moneys shall give a preference  
16 to supporting those initiatives which are research-based water  
17 quality initiatives that at least meet the state water quality  
18 objective provided in section 461.31, subsection 1A.

19 NEW SUBSECTION. 4. When collaborating in making funding  
20 decisions for a subsequent fiscal year, the heads of the  
21 departments receiving trust fund moneys shall determine the  
22 amount of trust fund moneys required to be expended to support  
23 research-based water quality initiatives in order to at least  
24 meet the state water quality objective provided in section  
25 461.31, subsection 1A.

26 Sec. 31. Section 461.21, Code 2017, is amended by adding the  
27 following new subsection:

28 NEW SUBSECTION. 1A. The auditor of state shall notify  
29 the heads of the departments receiving trust fund moneys  
30 whether the amount of trust fund moneys expended to support  
31 research-based water quality initiatives under this chapter for  
32 the fiscal year subject to the audit has at least met the state  
33 water quality objective provided in section 461.31, subsection  
34 1A. If the amount of trust fund moneys expended to support  
35 research-based water quality initiatives does not at least



1 meet that state water quality objective, the auditor of state  
2 shall notify the heads of the departments of the percentage  
3 shortfall.

4 Sec. 32. Section 461.22, Code 2017, is amended by adding the  
5 following new subsection:

6 NEW SUBSECTION. 1A. The expenditures used to support  
7 initiatives which are research-based water quality initiatives  
8 that at least meet the state water quality objective provided  
9 in section 461.31, subsection 1A.

10 Sec. 33. Section 461.31, Code 2017, is amended by adding the  
11 following new subsection:

12 NEW SUBSECTION. 1A. a. For each fiscal year, at least  
13 sixty percent of the trust fund moneys credited to the trust  
14 fund shall be expended exclusively to support research-based  
15 water quality initiatives under this chapter. A research-based  
16 water quality initiative, includes but is not limited to a  
17 practice described in the Iowa nutrient reduction strategy.  
18 In addition, a research-based water quality initiative must  
19 satisfy all the following:

20 (1) Have a life expectancy of more than twenty-four months.

21 (2) Provide for multiple natural resource benefits.

22 b. If the auditor of state notifies the heads of the  
23 departments receiving trust fund moneys of a percentage  
24 shortfall as provided in section 461.21, the percentage of  
25 trust fund moneys to support research-based water quality  
26 initiatives shall be adjusted for the fiscal year following the  
27 fiscal year that the auditor provides the notification. The  
28 amount of the adjustment shall be an amount necessary to reach  
29 the sixty percent required to meet the water quality objective  
30 as described in paragraph "a" plus a percentage shortfall for  
31 each prior fiscal year that has not been previously added to  
32 the sixty percent.

33 Sec. 34. Section 461.31, subsection 2, paragraph d, Code  
34 2017, is amended to read as follows:

35 d. Trust fund moneys shall only be used to support voluntary

1 initiatives and shall not be used for regulatory efforts,  
2 enforcement actions, or litigation. Trust fund moneys shall  
3 not be used as part of an activity that involves condemning  
4 property or otherwise exercising the power of eminent domain.

5 Sec. 35. Section 461.32, subsection 3, Code 2017, is amended  
6 to read as follows:

7 3. The department of natural resources shall ~~to every extent~~  
8 ~~possible~~ consider its comprehensive plan provided in section  
9 456A.31 when making funding decisions.

10 EXPLANATION

11 The inclusion of this explanation does not constitute agreement with  
12 the explanation's substance by the members of the general assembly.

13 This bill relates to water quality by increasing the  
14 sales and use tax rates, amending the natural resources and  
15 outdoor recreation trust fund, reducing individual income tax  
16 rates, creating a water service excise tax and related sales  
17 tax exemption, amending the wastewater treatment financial  
18 assistance program, and making appropriations.

19 DIVISION I — SALES AND USE TAXES. Division I of the bill  
20 relates to state sales and use taxes and to an amendment to  
21 the Iowa Constitution ratified on November 2, 2010, which  
22 created a natural resources and outdoor recreation trust fund  
23 (fund) and dedicated a portion of state revenues to the fund  
24 for the purposes of protecting and enhancing water quality and  
25 natural areas in the state including parks, trails, and fish  
26 and wildlife habitat, and conserving agricultural soils in  
27 the state (Article VII, section 10). The fund is codified in  
28 Code section 461.31. Pursuant to the amendment, the amount  
29 credited to the fund will be equal to the amount generated  
30 by an increase in the state sales tax rate occurring after  
31 the effective date of the constitutional amendment, but shall  
32 not exceed the amount that a state sales tax rate of 0.375  
33 percent would generate. The state sales tax rate has not  
34 been increased since the effective date of the constitutional  
35 amendment, so no amounts have been credited to the fund. The

1 division increases the sales tax rate and the use tax rate  
2 from 6 percent to 6.125 percent on January 1, 2018, from 6.125  
3 percent to 6.25 percent on January 1, 2019, and from 6.25  
4 percent to 6.375 percent on January 1, 2020. The division  
5 also amends the transfer of use tax revenues to the secure  
6 an advanced vision for education fund (SAVE) in Code section  
7 423F.2 to ensure that SAVE receives approximately the same  
8 proportion of the total use tax revenue as it did prior to the  
9 use tax rate increases provided in the division.

10 The division takes effect January 1, 2018.

11 DIVISION II — INDIVIDUAL INCOME TAXES. Division II relates  
12 to the individual income tax. The division requires the  
13 department of revenue (department) to calculate the amount  
14 of sales and use tax revenue generated for each fiscal year  
15 from the increases in the sales and use tax rates provided in  
16 division I of the bill, and certify each fiscal year the amount  
17 to the governor and general assembly (certified amount).

18 For each tax year beginning in the 12-year period of January  
19 1, 2018, through December 31, 2029, the division reduces the  
20 nine statutory individual income tax rates by an amount that  
21 will in the aggregate result in a reduction in individual  
22 income tax revenues equal to the certified amount for the  
23 fiscal year ending June 30 during the applicable tax year. The  
24 required rate reduction is accomplished by reducing the income  
25 tax rates successively, starting with the lowest rate. Each  
26 tax rate shall be reduced to zero before any remaining required  
27 rate reduction is applied to the next successive tax rate. The  
28 tax rate reductions shall only apply to the tax year for which  
29 they are calculated, and future tax year tax rate reductions  
30 are applied to the statutory tax rates. However, the tax rates  
31 determined for the tax year beginning January 1, 2029, shall  
32 become permanent and apply to all tax years beginning on or  
33 after that date.

34 The division takes effect January 1, 2018, and applies to tax  
35 years beginning on or after that date.

1 DIVISION III — WATER QUALITY PROGRAM AND WATER SERVICE  
2 EXCISE TAX. Division III amends the wastewater treatment  
3 financial assistance program and creates a water service excise  
4 tax and related sales tax exemption.

5 The division exempts from the state sales tax the sales  
6 price from the sale or furnishing by a water utility of a water  
7 service in the state to consumers or users. "Water service"  
8 and "water utility" are defined in the division.

9 By operation of Code section 423.6, an item exempt from the  
10 imposition of the sales tax is also exempt from the use tax  
11 imposed in Code section 423.5.

12 The division creates an excise tax at the rate of 6 percent  
13 on the sales price from the sale or furnishing by a water  
14 utility of a water service in the state to consumers or users  
15 (Code chapter 423G). The director of revenue is required to  
16 administer the water service tax as nearly as possible in  
17 conjunction with the administration of the state sales and  
18 use tax laws, and, to that end, the division incorporates by  
19 reference numerous Code sections that relate to general tax  
20 administration and the sales and use tax laws.

21 Water service tax revenues are deposited in the general  
22 fund of the state and, after transferring one-sixth of the  
23 revenues to the secure an advanced vision for education fund  
24 in Code section 423F.2, the division requires an increasing  
25 portion of the remaining water service tax revenues collected  
26 each year to be transferred to the wastewater and drinking  
27 water treatment financial assistance fund to support the  
28 wastewater and drinking water treatment financial assistance  
29 program, as amended in the division and described below.  
30 Transfers to the fund initially equal one-sixth of the water  
31 service tax revenues collected on or after January 1, 2018, but  
32 before January 1, 2019, and increases to one-third, one-half,  
33 two-thirds, and five-sixths over the next four years. All  
34 water service tax revenues collected on or after January 1,  
35 2023, will be transferred to the fund.

1 The water service tax is repealed January 1, 3031.  
2 The division amends the wastewater treatment financial  
3 assistance program administered by the Iowa finance authority  
4 (IFA) in Code section 16.134. Currently, the program provides  
5 financial assistance in the form of grants from IFA to  
6 disadvantaged communities to install or upgrade wastewater  
7 treatment facilities and systems, and for engineering or  
8 technical assistance for facility planning and design. The  
9 division adds drinking water treatment facilities and systems,  
10 including source water protection projects, to the program.  
11 The division also removes the requirement that a community  
12 qualify as a disadvantaged community in order to receive  
13 financial assistance, instead providing that such disadvantaged  
14 communities shall receive priority under the program. The  
15 division also modifies other priority designations under the  
16 program and modifies goals of the program, and provides that  
17 a utility management organization formed under Code chapter  
18 28E or operated by a rural water system organized under Code  
19 chapter 357A or 504 shall be considered eligible for financial  
20 assistance under the program. The division also adds reporting  
21 and review requirements to the program, modifies the permitted  
22 use of fund moneys for administrative purposes, and creates  
23 a water quality financing review committee consisting of  
24 three members, as provided in the division, to review and  
25 approve applications for financial assistance under the  
26 program. Finally, the division requires IFA to submit a  
27 report by October 1 of each year to the governor and general  
28 assembly detailing expenditures for the previous year under  
29 the program, and creates a program review committee consisting  
30 of eight members, as provided in the division, to review the  
31 effectiveness of the program every 10 years, beginning in 2026.

32 DIVISION IV — NATURAL RESOURCES AND OUTDOOR RECREATION.  
33 Division IV relates to the natural resources and outdoor  
34 recreation trust fund (Code chapter 461), which was enacted  
35 in 2010 to implement Article VII, section 10, of the Iowa

1 Constitution. The division requires that at least 60 percent  
2 of the moneys credited to the trust fund each fiscal year shall  
3 be expended exclusively to support research-based water quality  
4 initiatives under Code chapter 461 (spending threshold). The  
5 division describes a research-based water quality initiative  
6 to include a practice that is described in the Iowa nutrient  
7 reduction strategy, as defined in the division, that has a  
8 life expectancy of more than 24 months, and that provides for  
9 multiple natural resource benefits. If in any particular  
10 fiscal year the auditor of state determines that the spending  
11 threshold has not been met, the required spending threshold  
12 shall be increased in the following fiscal year to make up the  
13 deficiency.

14 The division requires the heads of departments charged with  
15 making funding decisions with trust fund moneys to determine  
16 the amount of trust fund moneys that must be spent to satisfy  
17 the spending threshold each fiscal year, and to give preference  
18 to research-based water quality initiatives that would satisfy  
19 the spending threshold.

20 The division prohibits trust fund moneys from being used  
21 as part of an activity that involves condemning property or  
22 otherwise exercising the power of eminent domain.