Iowa League of Cities

Special Report

Budget Special Report for Fiscal Years (FY) 2014-15

Reminder: All city budgets must be completed using the file provided by the Iowa Department of Management (IDOM) and submitted electronically as prescribed by IDOM. The budget form must also be filed with the county auditor. Forms can be found at www.dom.state.ia.us/local/city/index.html.

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Each year city officials around the state carefully consider the needs of their community and make difficult decisions when setting a fiscally responsible budget. This will only become more challenging as changes to Iowa's property tax system begin to take effect.

Information in this special report touches on the key issues needed to prepare your city budget and serves as a starting point for the upcoming budget process. It is also important to note that several topics covered in this report are not only important to the city budget process, but are also likely to be major issues during the 2014 Iowa legislative session.

Many of the numbers used in this report are projections only and may be subject to change based on actions by the legislature and the Governor. If the League becomes aware of changes to the numbers in this report, the information will be posted at www.iowaleague.org.

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Revenues

Rollback Figures				
Property Class	**FY 2015**	**FY 2014**	**FY 2013**	**FY 2012**
Agricultural	43.3997%	59.9334%	57.5411%	69.0152%
Commercial	95%	100%	100%	100%
Industrial	95%	100%	100%	100%
Railroad	95%	100%	100%	100%
Residential	54.4002%	52.8166%	50.7518%	48.5299%
Multi-Residential	*Begins in Assessment Year 2015			

Assessment Limitation Order – Rollback and Major Changes to Iowa's Property Tax System
The January 1, 2013 property valuation serves as the basis for calculating property taxes in fiscal year (FY) 2015. Since 1978, residential and agricultural property has been subject to an assessment limitation order, or "rollback", that limits annual growth of property values (all other classes of property were eventually added). Prior to an overhaul of the property tax system stemming from action taken during the 2013 legislative session, property value growth was limited to 4 percent per year. If property values grew by more than 4 percent, the taxable value was rolled back to comply with the assessment limitation system. In addition, the rollback included a formula that tied the growth of residential property to that of agricultural property. This connection is commonly referred to as "coupling" and limited the growth of residential property to 4 percent or the amount of growth in agricultural value, whichever is less. Since the law's inception, residential property has always been subject to significant rollbacks.

While the property tax rollback system remains in place, several major changes were made during the last legislative session. For each assessment year beginning in 2013, residential and agricultural property value growth will now be capped at 3 percent, or whichever is lowest between the two classes. Commercial, industrial and railroad property will now have their own rollback, which will be 95 percent for valuations established during the 2013 assessment year. For valuations established during or after the assessment year beginning January 1, 2014, commercial, industrial and railway property is rolled back to 90 percent. Thereafter, these classes will be taxed at 90 percent.

The legislature created a standing appropriation, beginning in FY 2015, to reimburse local governments for the property tax reductions resulting from the new rollback for commercial and industrial property (not for railroad reductions). Prior to FY 2018, the appropriation is a standing unlimited appropriation, but beginning in FY 2018, the standing appropriation is capped at the actual FY 2017 appropriation amount. As a result of the FY 2017 appropriation cap, cities will likely see an increasing rollback for commercial and industrial properties as their values grow over time.

A new property class was established for multi-residential property, which includes mobile home parks, manufactured home communities, land-leased communities, assisted living facilities and property primarily used or intended for human habitation containing three or more separate living quarters. Additionally, for buildings that are not otherwise classified as residential property, that portion of a building that is used or intended for human habitation can be classified as a multi-residential property, even if human habitation is not the primary use of the building and regardless of the number of dwelling units located in the building. The following rollback percentages will be phased in over 8 years, beginning in assessment year 2015 *(there is no backfill provision for this class):*

Multi-Residential Property Rollback Schedule	
January 1, 2015	86.25%
January 1, 2016	82.5%
January 1, 2017	78.75%
January 1, 2018	75%
January 1, 2019	71.25%
January 1, 2020	67.5%
January 1, 2021	63.75%
January 1, 2022 and thereafter	same as residential

Telecommunication businesses also received a partial property tax exemption that is based on a percentage of the value of the property:

- 40 percent of the actual value of the property that exceeds $0 but does not exceed $20 million.
- 35 percent of the actual value of the property that exceeds $20 million but does not exceed $55 million.
- 25 percent of the actual value of the property that exceeds $55 million but does not exceed $500 million.
- 20 percent of the actual value of the property that exceeds $500 million.

Other changes include a new business property tax credit funded by the state that can be claimed by commercial, industrial and railroad property owners; the creation of the Iowa Taxpayers Trust Fund, which makes individuals who file a tax return eligible for a tax credit; an extension of the Property Assessment Appeal Board to 2018; and an increase of the Earned Income Tax Credit from 7 to 14 percent.

With the sweeping changes to the property tax system, it may be challenging for cities to accurately forecast how their budget will be affected. The League will continue to study the impact of these changes and provide additional resources for cities to use.

Property Tax Levies

Cities may levy up to $8.10 per $1,000 of taxable value on residential, commercial and industrial property and up to $3.00375 per $1,000 on the taxable value of agricultural property for their general fund (*Code of Iowa* Section 384.1). If a city is unable to meet the essential costs for services within the $8.10/$1,000 levy limit, there are several other levies available.

- A city may levy for the city's contribution under the Federal Insurance Contributions Act (FICA), the Iowa Public Employees' Retirement System (IPERS), the Municipal Fire and Police Retirement System of Iowa (MFPRSI) and certain other employee benefits. On the state budget forms, these are shown in the special revenues fund column of the Revenues Detail (Form 631B). The expense would be shown on the Expenditures Schedule (Form 631A) under the appropriate activity in the special revenues fund (column D).
- Insurance premiums, including workers' compensation, necessary for the operation of the city and the costs of self-insurance or risk pools may also be levied outside the $8.10/$1,000 limit. The levy rate is the actual cost of the premiums divided by the total property tax base. Insurance costs on projects or improvements covered by revenue bonds and insurance on proprietary fund activities may not be levied, as these activities should fund themselves. These revenues are typically credited to the general fund even though they are restricted.
- An emergency levy rate of $0.27/$1,000 of taxable valuation that can be used for any governmental purpose (*Code of Iowa* Section 384.8). This is a special revenue that must be transferred to the general fund for expenditure prior to the end of the fiscal year.
- A city may levy to cover principal and interest payments on general obligation bonds under debt service. Provided proper procedures were followed on lease-purchase or loan agreements, the annual principal and interest payments may also be levied under debt service. The debt service levy is the dollars needed to cover the annual debt obligations divided by the total property tax base.

Code of Iowa Section 384.12 lists several other levies available to a city for specific purposes, some requiring a referendum. Non-voted levy activities include funding for the operation and maintenance of a publicly owned transit system; liability, property and self-insurance costs; a joint county-city building lease and rent; and operation and maintenance of a city-owned civic center. Activities requiring a voted levy include funding for instrumental or vocal music groups, memorial buildings, symphony orchestras, cultural and scientific facilities, aid to public transportation companies, library services and emergency medical districts.

Employee Benefits Levy

Cities may levy for the city's contribution to certain employee benefits. The definition of employee benefits includes:

- Retiree hospital/medical/prescription benefits pursuant to *Code of Iowa* Section 364.25
- Workers' compensation cost or insurance premiums
- Employer's share of employee benefit plan costs for employees and their dependents which would include only:
    - Hospital/medical/prescription benefits
    - Dental benefits
    - Disability insurance benefits
    - Life insurance benefits
    - Long-term care insurance benefits
    - Vision benefits
- Deferred compensation programs for city managers, fire chiefs and police chiefs who do not participate in either IPERS or MFPRSI
- Employee wellness programs that are a part of or included in a document approved by the city council
- Employee assistance programs providing free counseling for employees and their dependents
- Occupational Safety and Health Administration (OSHA) required tests
- Regularly-scheduled, city-required post-employment physicals for employees, police reserves and volunteer firefighters
- Under *Code* Section 384.6, cities may also use the Employee Benefits Levy for public safety service contracts with another governmental entity to pay for pension and other specified employee benefits.

Utility Replacement Tax

The Utility Replacement Excise Tax is collected on the generation, distribution and delivery of electricity and natural gas. This tax replaced the taxation on utility property in 1999. Cities are required to calculate their property tax revenues with and without utility property valuations. The difference that is calculated is necessary to establish the General Property Tax Equivalents, the basis for determining the distribution of the excise tax.

The Iowa Department of Revenue (IDR) calculates the amount of revenue that a city will receive and includes this information with the budget packet cities receive from the Iowa Department of Management.

Franchise Fee Legislation

In 2009, the state legislature passed a bill that legalized the collection of gas and electric franchise fees not to exceed five percent of the franchisee's gross revenues "without regard to the city's cost of inspecting, supervising, and otherwise regulating the franchise." Revenue from franchise fees can only be used for certain purposes outlined in the bill, but does include such items as public improvements, property tax relief, public safety, energy conservation and economic development activities.

For more information, please read the League's special report on franchise fees at www.iowaleague.org.

TIME-21

The Transportation Investment Moves the Economy in the 21st Century (TIME-21) Fund Act, enacted during the 2007 legislative session, allocates revenues from the TIME-21 Fund to the Primary Road Fund (60 percent), Secondary Road Fund (20 percent) and City Street Fund (20 percent). The act provides that the fund will sunset June 30, 2028. During the 2008 legislative session additional funding was established through increased fees collected on certain motor vehicles and trailer registrations and titles. No additional funds have been added to the TIME-21 Fund since 2008.

Road Use Tax Fund

The Road Use Tax Fund (RUTF) is accumulated through motor vehicle registration fees, motor vehicle fuel taxes, an excise tax imposed on the rental of automobiles and a use tax on trailers. Economic instability and fluctuating fuel costs can result in immediate changes in the fund.

IDOT RUTF Per Capita Forecast (includes Time-21)

Fiscal Year	Current IDOT Per Capita Forecast
FY 2014	$96.00
FY 2015	$97.50
FY 2016	$98.50
FY 2017	$99.00
FY 2018	$99.50

Cities are reminded that the Iowa Department of Transportation (IDOT) issues per capita forecasts only. Cities are only entitled to receive their share of the amount actually collected. The estimates are subject to dramatic changes and cities should consider using a conservative estimate.

Also, the estimates are based on current law regarding specific revenue to and disbursement from the RUTF. Any change in the law could change the per capita amount to be distributed to cities.

Transfer of Road Jurisdiction: Cities Under 500

In 2004, counties in Iowa assumed responsibility for maintenance of Farm-to-Market (FM) roads in cities with a population less than 500. A transfer of RUTF money based on the total length of the FM roads in each of these cities was also transferred to the respective county. Many cities have entered into 28E agreements with the county to return a portion or all of the responsibility for the road back to the city, along with a corresponding amount of RUTF funds. The State Auditor's Office has stated that funds transferred back to the city from the county are still restricted in the same manner as all Road Use Tax revenue, because road use tax funds are restricted to be spent for roads by Article VII (8), Iowa Constitution. As such, the revenue received under the 28E agreement should be recorded in the city's Special Revenue Fund as:

- Intergovernmental
- Local grants and Reimbursements

This revenue should not be recorded as road use tax revenue by the city since it is already recorded as road use tax revenue when received by the county. The money must also be spent in accordance with the *Code of Iowa* Chapter 312 and any terms and conditions of the 28E agreement.

FY 2014 farm-to-market RUTF estimates are available online at www.iowaleague.org.

Local Option Sales Tax

Cities in Iowa are allowed to establish a Local Option Sales Tax (LOST) upon approval by its citizens. Rates are limited to one percent and cities must specify on the ballot the purposes of the revenue, including any that will be used for property tax relief.

The IDR is required to send an estimate of the monthly tax revenues each city will receive for the year by August 15 of each fiscal year. Ninety-five percent of estimated tax receipts are paid to the city monthly. A final payment of any remaining tax due to a city for the fiscal year will be made before the due date of the first payment of the next fiscal year. If an overpayment to a city exists for a previous fiscal year, the first and/or second payment of the subsequent fiscal year will be adjusted to deduct the overpayment.

The FY 2014 statewide LOST estimate is $288,327,304, a decline from the FY 2013 estimate of $295,787,568. The IDR has several helpful files regarding LOST, including a history of revenues for each city, monthly estimates, and a tool that shows how distributions would be impacted by a city approving or rescinding a LOST. Those files can be accessed at www.iowa.gov/tax/locgov/locgovLOST.html.

More detailed information may be obtained by contacting the IDR at (800) 367-3388 or www.iowa.gov/tax/index.html.

Hotel/Motel Tax

A city may impose a hotel/motel tax at a rate not to exceed 7 percent after successful approval of a simple majority vote within the city. State law requires that 50 percent of such revenues are used for acquiring, operating or improving recreational, cultural or entertainment facilities. The remaining revenues may be spent on any other lawful purpose.

The IDR has additional information, including files showing rates and quarterly payment distributions, at www.iowa.gov/tax/educate/HotelMotelTax.html.

Enrich Iowa Funds for Libraries

The Enrich Iowa Program includes Direct State Aid, Open Access and Interlibrary Loan.

- Direct State Aid is a direct payment to public libraries and is intended to be used to improve and enhance library services.
- Open Access provides a partial reimbursement to participating libraries to make it possible for patrons to check out materials at other participating libraries.
- Interlibrary Loan provides partial reimbursement for interlibrary loans among all types of libraries.

Additional information on these programs is available at the State Library of Iowa Web site, www.statelibraryofiowa.org/ld/e/enrich-ia.

Fuel Tax Refunds

Cities are eligible for refunds from both federal and state governments for taxes paid on gasoline. In most cases, cities must pay the fuel taxes at the pump and then file for a refund with the state and federal governments. Cities on a modified accrual accounting basis should not consider payment of the tax as an expenditure nor should they consider the refund as revenue. However, cities on a cash accounting basis should charge the tax as an expense and receipt the refund as revenue. In order to receive a refund from the state, the city must:

1) Have a refund number
2) Keep a record of gallons purchased (cities are not required to send the actual invoices with the refund request)
3) Apply for the refund within one year of purchase

Cities may apply for a refund number and obtain forms necessary for filing the refund by contacting the Iowa Department of Revenue at (800) 367-3388 or by downloading the forms at www.iowa.gov/tax/forms/motor.html. Cities may also file for a refund by telephone and request direct deposit of their refunds.

If your city is entitled to a federal refund of $750 or more per quarter for tax paid on gasoline purchases, you may file quarterly for a refund. If the refund is less than $750 per quarter, you must file annually. To receive the refund on the gas tax, a refund request must be filed on Internal Revenue Service (IRS) Form 8849. See IRS Publication 510 Fuel Tax Credits and Refunds for further information.

You may request IRS forms by calling (877) 829-4933 or download the forms at www.irs.gov/formspubs.

Expenditures

U.S. Consumer Price Index

The U.S. Consumer Price Index (CPI) is a measure of the changes in retail prices of a fixed market grouping of consumer goods and services. The CPI for all urban consumers (not seasonally adjusted) for September 2013 is 1.2 percent higher than it was in September 2012. The CPI is based on the major expenditure categories of food and beverages, housing, clothing, transportation and energy, medical care, recreation, education and communication as well as other goods and services.

The Midwest Region CPI had a similar increase as the national index, rising 1 percent from September 2012 to September 2013.

The most recent CPI figures and more information can be obtained by visiting www.bls.gov/cpi/.

FICA Deductions

Contributions to Social Security and Medicare returned to their normal levels in 2013, as the city (employer) and employees each contribute 7.65 percent of wages. The employee contribution had been reduced by two percent in 2011 and 2012.

The maximum taxable earnings subject to the Social Security portion (6.2 percent) of the Federal Insurance Contributions Act (FICA) is $113,700 this year and is projected to be $115,500 in 2014. There is no limit on the salary covered for the Medicare portion (1.45 percent) of FICA. Please note that rates may change during the fiscal year. Questions on FICA may be directed to the Des Moines office of the Social Security Administration (SSA) at (800) 772-1213.

You can also visit the SSA Web site at www.ssa.gov for questions, publications and other information.

Iowa Public Employees' Retirement System (IPERS)

IPERS contribution rates for employees and employers will not be adjusted in FY 2015. As a result of action taken during the 2010 legislative session, IPERS made several significant changes in order to keep the system fully funded after market instability led to investment losses.

Employee and employer contribution rates for regular class members can now be adjusted by up to 1 percent without prior legislative approval (previously the maximum allowed adjustment was .5 percent). The rates are determined by an annual actuarial valuation, with employers paying 60 percent and employees paying 40 percent of the rate.

IPERS Contribution Rates
Regular Class Members

Regular Class Members	July 1, 2012	July 1, 2013	July 1, 2014
Employee Rate	5.78%	5.95%	5.95%
Employer Rate	8.67%	8.93%	8.93%
Combined Rate	14.45%	14.88%	14.88%

IPERS Contribution Rates
Protection Class Members

Protection Class Members	July 1, 2012	July 1, 2013	July 1, 2014
Employee Rate	6.84%	6.76%	6.76%
Employer Rate	10.27%	10.14%	10.14%
Combined Rate	17.11%	16.90%	16.90%

Other changes for regular class members began on July 1, 2012, including the time to vest benefits rising from four years to seven for members who have yet to earn benefits. Benefits can also be vested when a member reaches the age of 65 (previously 55). Additionally, the average wage used in benefits calculations changed from the high three years to the high five years. Finally, benefits are reduced for those who retire early. The law includes transition rules that preserve the benefits current employees have already earned. City officials are encouraged to consult with an IPERS representative should they have any questions about their retirement account.
It is also important to note changes made to the benefits of protection class members, including the removal of the .5 percent limit on how much the contribution rate can be adjusted from year to year. Contribution rates can now be changed as much as needed. Also, a cancer and infectious disease presumption was added to the disability benefits for protection class members.

Employer and employee contribution rates are posted to the IPERS Web site at www.ipers.org/contributionrates.html.

Important Note: All part-time elected officials must be covered by IPERS unless they specifically opt out of coverage. All employers will be audited on a regular cycle, based on the number of employees.

Questions may be directed to the IPERS office at (800) 622-3849 or visit their Web site at www.ipers.org for more information.

Municipal Fire and Police Retirement System of Iowa (MFPRSI)

The MFPRSI contribution rate formula is established in *Code of Iowa* Chapter 411 and currently sets the employee rate at a fixed 9.40 percent. Each year, the MFPRSI Board of Trustees sets the employer rate after the completion of an annual actuarial valuation. The city's contribution rate, effective July 1, 2014, will be 30.41 percent, a slight increase from the current rate. Recent actuarial projections show that the FY 2016 employer rate will likely be around 28 percent.

MFPRSI Contribution Rates

MFPRSI City Contribution Rates	July 1, 2013	July 1, 2014
Employee Rate	9.40%	9.40%
Employer Rate	30.12%	30.41%
Combined Rate	39.52%	39.81%

Mileage

Cities may reimburse city officials and employees using their own vehicles up to the amount allowable under Internal Revenue Service (IRS) rules. While cities are not required to use the IRS rate, any changes made in the city reimbursement rate should be done by resolution. The current IRS rate of 56.5 cents per mile is valid until December 31, 2013. Rates for 2014 have not yet been determined and will be available at www.irs.gov in December.

Minimum Wage Rate

Both the state and federal minimum wage have remained the same for several years. The state hourly wage is $7.25 and the hourly wage for youth employees working less than 90 days is $6.35 (the lower rate only applies to employees under the age of 20). The federal minimum wage is also $7.25 per hour. As a reminder, if there is a disparity between the federal and state minimum wage rate, employers are required to pay the higher of the two.

Unemployment Compensation

Cities are reimbursable for unemployment compensation upon application, unless they elect to be contributory by completing an additional form. Most cities in Iowa are reimbursable. Cities must reimburse the state for actual unemployment benefits paid out by Iowa Workforce Development (IWD) within 30 days following the billing for any quarter in which the state has made payments to the city's former employees. If a city anticipates the possibility of layoffs during a fiscal year, they may want to budget for the expense of reimbursing unemployment benefits.

Contributory tax rates are based on the extent that tax payments made by the city are in excess of benefits paid out by IWD, and this reserve balance is then divided by the average taxable payroll. The tax due is found by taking the percentage calculated for the city multiplied by the first $26,000 of each employee's gross salary. IWD will mail tax rate notices giving the percentage for each city in November. The city has 30 days from the Rate Notice Date on the form to appeal their contribution rate.

All cities have the option to change their status to contributory or reimbursable. Cities can change their status by December 1 for the next calendar year by contacting IWD for the appropriate forms in advance of the deadline. However, if a city opts to switch from contributory to reimbursable, it is required to pay to IWD any deficit that may be due to claims against its current account in excess of contributions.

Information regarding IWD can be found at www.iowaworkforce.org.

Workers' Compensation Insurance
Premiums for workers' compensation coverage can be estimated using the audited payroll from the previous year with adjustments for cost of living and other increases, taking into consideration anticipated changes in personnel and/or operations. Once payroll has been adjusted for each class code, apply the rate for each code per $100 of payroll. The city should check with its agent to see if any rate changes will go into effect prior to its renewal.

General Liability and Property Insurance
Liability coverage contribution is based on several factors such as number of employees, number and types of automobiles and expenditures. However, the easiest way to project cost of liability coverage is to apply the current inflation factor. Premium for liability coverage is based on the number of employees and a five percent increase to the entity's total budget. Rating for property and auto physical damage coverage is based solely on the total insured value (TIV) of the schedule. A simple way to project cost is to calculate the TIV of the previous year, divide it into last year's contribution and apply the factor to this year's TIV.

Legislation

When re-estimating revenues and expenditures for FY 2014 and budgeting for FY 2015, cities should keep in mind recent legislative actions that may have a significant fiscal impact on the city. Full coverage of the laws passed by the 2013 General Assembly is included in the *New Laws of Interest to Iowa Cities* report, which can be found on the League Web site at www.iowaleague.org.

SF295 – Property Tax Reform

- Implements a 10 percent rollback at 5 percent per year over two years beginning in FY 2015 on commercial, industrial and railway property, after which this property will be taxed at 90 percent. Includes some backfill for local governments.
- Taxable valuation growth reduction for agricultural and residential property from the current 4 percent to 3 percent.
- Creates a new "multi-residential" property tax class which will be rolled back to residential levels by January 1, 2022, without backfill to local governments.

- Makes changes to telecommunications property taxation without backfill to local governments.
- Extends and makes changes to the Property Tax Assessment Appeal Board.
- Creates a new business property tax credit.
- Creates transfers to the Iowa Taxpayers Trust Fund.
- Increases the earned income tax credit from 7 to 14 percent in 2013 and to 15 percent in 2014 and thereafter.

HF648 – One-time Appropriations of State Surplus and SF447 – Justice System Appropriations *(This bill was vetoed by the Governor)*

- Appropriates $50,000 for administrative support in the current fiscal year for the public safety training and facilities task force established by SF447.
- Public Safety and Training Task Force is created to develop a plan for the creation of a combined training facility amongst public safety disciplines.

SF452 – Standing Appropriations Bill

- Appropriates $208,351 for operational support grants and community cultural grants and $582,000 for regional tourism marketing.
- Appropriates $75,000 to the Iowa Public Information Board for salaries, support, maintenance and miscellaneous purposes. HF603 appropriated an additional $100,000 for the board.
- Creates rules for scenic highway advertising signage that is relocated due to the reconstruction, improvement, or relocation of the highway.
- Updates apportionment of transportation funds to 2010 federal census or as of the April 1, 2010, population estimates base as determined by the United States Census Bureau.
- Increases the amount of Historic Preservation and Cultural and Entertainment District Tax credits available to $55 million in FY15-FY17, which is an increase of $10 million. There is a $5 million increase to $50 million in FY 2018 and beyond. *(This provision was vetoed by the Governor)*

HF620 – Iowa Economic Development Tax Credit Programs

- Allows the City Development Board to charge application and processing fees for IEDA programs.
- Raises the aggregate tax credit limit for the IEDA from $120 million to $170 million.

HF641 – Iowa Reinvestment Act

- Allows the IEDA Board to approve the establishment of reinvestment districts in municipalities in existing Tax Increment Finance (TIF) or enterprise zones.
- These districts would be remitted new state sales tax, and hotel and motel excise tax revenues created in the district for the purposes of vertical improvement (building) constructed or substantially improved within a district.

SF433 – Targeted Jobs Program

- Extends the Targeted Jobs Withholding Tax Credit Program that allows the diversion of withholding funds paid by an employer to be matched by a designated city to create economic incentives to businesses within an urban renewal area.
- Also removes the requirement that projects be located in an urban renewal district.

SF436 – Historic Preservation Tax Credit Program Policy Bill

- Changes dollar amount threshold requirements and timing for completion of projects utilizing the State Historic Preservation and Cultural & Entertainment District Tax Credit Program.

SF388 – Sponsored Projects SRF Water Resource Restoration Program

- Amends the program to allow parking lot projects to be sponsored projects when the parking lot is constructed in a manner to improve water quality and construction is consistent with a Field Office Technical Guide published by the Natural Resources Conservation Service (NRCS) or the Iowa Stormwater Management Manual published by the IDNR.

HF627 – Property Tax Exemption for Fairgrounds Owned by a County or a Fair

- Creates a property tax exemption for fairgrounds that are owned by a county or a fair, which currently only affects five communities across the state. The use of these fairgrounds for non-profit or for profit purposes other than a fair event by the owner or by a lessee does not affect the tax exemption.
- Section 25B.7 does not apply to the property tax exemption created in the bill so the local jurisdiction is required to extend the property tax exemption.

HF638 – Rebuild Iowa Infrastructure Fund

- $1 million in FY2013-2014 for the Iowa Great Places Fund program projects that meet the definition of "vertical infrastructure" in Section 8.57.
- $500,000 in FY2013-2014 for equal distribution to regional sports authority districts certified by the economic development authority pursuant to Section 15E.321.
- The RECAT program receives $1 million in FY2013-2014, which is the same level of funding as previous years. (*This provision was vetoed by the Governor)*
- $8.6 million in FY2013-2014 for implementation of lake projects that have established watershed improvement initiatives and community support in accordance with the DNR's annual lake restoration plan and report.
- $1 million dollars is appropriated in FY2013-2014 for the administration of a water trails and low-head dam public hazard statewide plan.
- IDOT receives $3 million for acquiring, constructing, and improving recreational trails within the state.
- IDOT also receives $1.5 million for the Public Transit Infrastructure Grant Fund created in Section 324A.6A for projects that meet the definition of "vertical infrastructure" in Section 8.57(5)(c).
- $1.5 million for infrastructure improvements at the commercial service airports within the state.
- $750,000 for infrastructure improvements at general aviation airports within the state.
- Increases the appropriation for the CAT Program in FY2014 by $2 million to $7 million and extends the sunset through FY2015 with $5 million appropriated for that fiscal year.

HF524 – Utility Liens for Commercial Rental Properties

- Expands the lien exemption under Section 384.84 to also apply to the rates and charges that are paid directly by a tenant of a commercial rental property for water utility services, provided that the landlord of that rental property gives written notice to the city utility that the property is a commercial rental property and that the tenant is liable for those rates or charges.

Other Budget Issues

City Budget Form Changes

The Iowa Department of Management (IDOM) has updated the city budget form that is filed with the state. A tab has been added to the Excel file that accounts for the city's backfill revenue received from the state as part of the new rollback of commercial and industrial property valuations. Cities will need to record this revenue as a state grant and reimbursement and ensure that they include any other state revenue. As a reminder, the budget forms must be filed with IDOM and the county auditor by March 15.

Affordable Care Act

Several elements of the Affordable Care Act (ACA) began to be implemented in 2013, including the health insurance exchanges that were opened in October. Many more provisions take effect in 2014 and 2015, such as penalties for employers and individuals in noncompliance of the law. With that in mind, cities need to know how the ACA affects them and their employees and prepare for any coming changes. The various aspects of the ACA could impact cities in many different ways and cities are encouraged to consult with their health care advisors to determine the best course of action.

Additional information and recorded webinars that help explain the ACA are available at www.iowaleague.org.

Annual Urban Renewal Report

As a result of action taken during the 2012 legislative session, cities that have an urban renewal area are now required to submit the Annual Urban Renewal Report. Cities must provide a variety of information for each of their urban renewal areas, including urban renewal plans, maps, tax increment financing ordinances, debt and financing data, and urban renewal projects.

The report is due December 1 of each year and must be completed and filed using the IDOM online reporting system (www.dom.state.ia.us/local/tif/index.html). The system requires users to upload associated documents in PDF format. City councils must approve the form prior to submittal. *Failure to file the report by the deadline will result in the city being unable to certify their budget and being placed on a list sent to the legislature.*

The League and IDOM have recorded training webinars on how to complete the report. Those webinars and other helpful information can be found at www.iowaleague.org.

Certification of TIF Debt

Cities must certify debt payable with Tax Increment Financing (TIF) funds on or before December 1. *Code of Iowa* Section 403.19 requires cities to certify to the county auditor the amount of any "loans, advances, indebtedness, or bonds" that qualify for payment from TIF revenue from a TIF district. This certification of TIF debt is only required once. However, due to the unique nature of many TIF financing programs, some cities may need to file on an annual basis.

The auditor is responsible for collecting and distributing the funds available from the increment in subsequent years until the entire certified amount is paid into the city's tax increment fund. However, if additional debt is incurred, that amount must be certified by the following December 1 in order for the county auditor to make the proper distribution in the next fiscal year. Failure to certify the debt before December 1 will delay payments to the city by one year. IDOM and the State Auditor's Office have developed a TIF Debt Certification form that cities may use when certifying their debt to the county auditor.

Bid and Quote Thresholds for Iowa Cities

No changes will be made in 2014 to the bidding and quotation thresholds for public improvement projects as defined in Chapter 26 of the *Code of Iowa*.

Current Bid/Quote Thresholds *Horizontal Infrastructure – Roads, streets, bridges, culverts*		
	Cities Less Than or Equal to 50,000	**Cities Greater Than 50,000**
Competitive Bid Required	$49,000	$70,000
Competitive Quote Required	N/A	N/A

Current Bid/Quote Thresholds *Vertical Infrastructure – Buildings, parking facilities, utilities, trails*		
	Cities Less Than or Equal to 50,000	**Cities Greater Than 50,000**
Competitive Bid Required	$130,000	$130,000
Competitive Quote Required	$50,000	$72,000

For a more complete explanation of construction bidding and quotation procedures please visit the Member Resources section at www.iowaleague.org.

W-2 and 1099 Forms

Cities are reminded that W-2 and 1099 forms are due to employees and vendors, respectively, by January 31 of each year. Completed paper forms must be filed with the state and federal governments by February 28, 2014 while electronic forms have a deadline of March 31, 2014. For employees that claim exemption from federal income taxes, they must file a new form W-4 with the city by February 15.

The Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan on an employee's Form W-2 in Box 12 using Code DD. For cities filing fewer than 250 W-2 forms, this requirement is optional.

GASB 45

Governmental Accounting Standards Board Statement 45 (GASB 45) requires many public entities to reflect the value of post-employment benefits (health, life, dental, etc.) that are provided to retired employees in your future audited financial statements. Your auditor has likely informed you when (and if) your city will meet the requirements for compliance with this accounting standard.

GASB 54

Governmental Accounting Standards Board Statement Number 54 (GASB 54) provides guidance for fund balance categories and classifications and governmental fund type definitions. In Iowa, the Annual Financial Report, sent to the State Auditor's office by December 1 of each year, has been changed due to GASB 54. This means all cities in Iowa are impacted.

GASB 54 changed the way we look at cash balances, specifically reporting what cash balances, by major governmental fund type, are or are not available for public purposes. Additional information can be found at www.gasb.org.

Red Flag Rules

The Fair and Accurate Credit Transactions (FACT) Act of 2003 requires utilities and government entities to implement identity theft prevention programs. These provisions are known more commonly as the Red Flags Rule. Municipal utilities, local governments and any entity that can broadly be classified as a creditor should develop and implement a written identity theft prevention program. More information regarding this policy is available at www.ftc.gov/redflagsrule.

Training Costs

The League and others offer several training events directed at city officials throughout the year. The list below includes the planned workshops and their estimated registration price:

Annual Conference & Exhibit	$185
Budget Workshops	$35
Small City Workshops	$35
Municipal Leadership Academy	Varies
Iowa Municipal Professionals Institute	Varies
Iowa Municipal Professionals Academy	Varies
Iowa Municipal Finance Officers Association (per conference)	$100
Iowa Municipal Attorney Association Annual Seminar	$60
City Finance 101	$35

Consumer Confidence Report

As a result of the Clean Water Act, enacted in 1996, cities are required to complete a Consumer Confidence Report. The purpose of the report is to inform consumers of their local water quality. A copy of the report must be mailed or otherwise directly delivered to each customer annually by July 1. A city with a population less than 10,000 with no violations during the past year may use a mailing waiver. If these cities choose to use the mailing waiver:

- For a city with a population less than 500, the mailing waiver must provide notice at least once per year to their customers by mail, door-to-door delivery or posting that the report is available upon request.
- For a city between 500 and 10,000 in population, the mailing waiver must inform customers that the report will not be mailed. The cities must publish the report in the newspaper and make the report available upon request.

Single Audit Act

Cities that expend a total of $500,000 or more in federal assistance in a fiscal year must comply with the Single Audit Act, which requires a single or program-specific audit of city financial records.

Audits and Financial Examinations

Significant changes were made to the municipal oversight system during the 2012 legislative session as all cities are now required to complete either an annual audit, annual examination or periodic examination. Cities over 2,000 in population will continue to be required to have an audit completed each year. Cities 2,000 in population and under are now required to complete either an annual examination or periodic examination. Cities with $1 million or more in budgeted expenditures for two consecutive years must complete an annual examination. Cities with less than $1 million in budgeted expenditures will join a pool of such cities and pay an annual fee to the State Auditor's office; this fee will pay for the periodic examination, which each city will be required to complete at least once every eight years. The new law went into effect July 1, 2013.

Budget Calendar

The following schedule is an example for cities to use the budgeting process. The schedule assumes the city has a Thursday newspaper with a Tuesday deadline and the council meets on the first and third Monday. Cities should adopt a calendar that meets their specific circumstances.

** Dates noted by an asterisk are statutory deadlines or requirements.*

Typical Budget Timeline

City elected officials and staff members meet to hold preliminary budget discussions and schedule formal work sessions and budget adoption dates .... November and December

City department heads give budget and proposals to city finance officer .... January 6

Budget work session(s) with staff members and city council................ January 20 (and February 3)

Council receives and adopts final proposed budget and orders notice of hearing .... February 17

Notice of hearing on adoption of final budget published... February 20

NOTICE REQUIREMENT: Notice of the budget hearing must be given not more than 20* days nor less than 10* days before the date of the hearing.

DETAILED BUDGET: The detailed budget must be available for public inspection at least 10* days before the final budget hearing and 20* days before final date for certification, and is to be available at the clerk's and mayor's offices and the public library, or posted at three places designated by ordinance if there is no library.

Budget hearing..March 3

Adoption of final budget...March 3

Certified budget to county auditor...March 15*

Persons affected by the budget have 10 days after the date of certification to file a written protest...March 25*

IDOM certifies taxes back to county auditor...June 15*

Budget takes effect..July 1*

Cities might find that they need to exceed the general fund levy limit set by statute ($8.10 per $1,000 of taxable property value). If that is the case, a city may appeal to the IDOM/City Finance Committee and use a unique schedule and set of guidelines. Please contact the League for assistance with such schedules.

One-Stop Web References

Iowa League of Cities - *The League's Web site has numerous reports on budget matters*
www.iowaleague.org

League Salary Survey - *Requires login to League's Members Only section*
www.iowaleague.org/members/Pages/salarysurvey.aspx

Tax Increment Financing Special Report - *Requires login to League's Members Only section*
www.iowaleague.org/members/Publications/TIFBrochure.pdf

Franchise Fees Special Report - *Requires login to League's Members Only section*
www.iowaleague.org/members/Publications/franchise_fees_20102011.pdf

Law Enforcement Special Report *(including sample Training Reimbursement contract)*
Requires login to League's Members Only section
www.iowaleague.org/members/Publications/2011LawEnforcementSpecialReportwWebLinks.pdf

Index of Iowa Laws - *Requires login to League's Members Only section*
www.iowaleague.org/members/Pages/IndexofIowaLaws.aspx

Code of Iowa - *Requires Entry of Chapter and Section numbers*
www.legis.iowa.gov/index.aspx

Iowa Department of Revenue Fuel Tax Refund Forms
www.iowa.gov/tax/forms/motor.html

Iowa Public Employees' Retirement System
www.ipers.org

Iowa Workforce Development
www.iowaworkforce.org

Internal Revenue Service
www.irs.gov

Local Option Sales Tax Information
www.iowa.gov/tax/locgov/locgovLOST.html

Minimum Wage
The Iowa Division of Labor | www.iowaworkforce.org/labor
The U.S Department of Labor | www.dol.gov

Municipal Fire & Police Retirement System of Iowa
www.mfprsi.org

Publication Rates
www.inanews.com

Social Security Administration
www.ssa.gov

State Library of Iowa Enrich Iowa Funds
www.statelibraryofiowa.org/ld/e/enrich-ia

U.S. Department of Labor
www.dol.gov

U.S. Department of Labor Consumer Price Index information
www.bls.gov/cpi