



Iowa League of Cities

# Special Report

## Budget Special Report for Fiscal Year (FY) 2012-13

**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. Forms can be found at [www.dom.state.ia.us/local/city/index.html](http://www.dom.state.ia.us/local/city/index.html).**

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Cities in Iowa will be facing another complex budget process as the national, state and local economies continue to slowly rebound. Many city officials will be making difficult decisions as they try to provide a high quality of life to their citizens while ensuring the city's budget remains fiscally sound.

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 critical to the city budget process, but are also likely to be major issues during the 2012 Iowa legislative session.

### Table of Contents

|   |    |
|---|----|
| <b>Revenues</b> .....   | 2  |
| • The rollback for residential property for Fiscal Year 2012-2013 is 50.7518 percent and commercial and industrial property taxable values are 100 percent.   |    |
| <b>Expenditures</b> .....   | 6  |
| • The IPERS regular contribution rates will increase July 1, 2012, with a 5.78 percent contribution rate for employees and 8.67 percent contribution rate for the employer.                                 |    |
| • The cost of many raw materials, goods and services is trending slightly upward. The Consumer Price Index for All Urban Consumers (CPI-U) was 3.9 percent higher in September 2011 than in September 2010. |    |
| <b>Legislation</b> .....  | 9  |
| • A review of legislation passed in 2011 that may affect city budgets.  |    |
| <b>Other Budget Issues</b> .....  | 11 |
| • Bid and quotation thresholds for public improvements and street projects will change January 1, 2012.   |    |
| <b>Budget Calendars</b> .....   | 13 |
| <b>Web Resources</b> .....  | 17 |

## Revenues

### Assessment Limitation Order – Rollback

The January 1, 2011 property valuation serves as the basis for calculating property taxes in fiscal year (FY) 2013. Since 1978, residential and agricultural property has been subject to an assessment limitation order, or “rollback”, that limits annual growth in property values to 4 percent (all other classes of property were eventually added). In addition, the rollback includes a formula that ties the growth of residential property to that of agricultural property. This connection is commonly referred to as “coupling” and limits 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 rolled-back from its full valuation to comply with the law. The limitation can also be applied to industrial and commercial property when necessary. In Table 1 you will find a chart that lists the rollback figures for FY 2013 as compared to FY 2012 through FY 2010.

Table 1

| Rollback Figures |          |          |          |          |
|------------------|----------|----------|----------|----------|
| Property Class   | FY 2013  | FY 2012  | FY 2011  | FY 2010  |
| Residential      | 50.7518% | 48.5299% | 46.9094% | 45.5893% |
| Commercial       | 100%     | 100%     | 100%     | 100%     |
| Agricultural     | 57.5411% | 69.0152% | 66.2715% | 93.8568% |
| Industrial       | 100%     | 100%     | 100%     | 100%     |

■ A special report with more detailed information on Iowa’s property tax system is available at [www.iowaleague.org](http://www.iowaleague.org).

### 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 631.B). The expense would be shown on the Expenditures Schedule (Form 631a) under the appropriate activity in the special revenues fund (column D) or as a transfer to the general fund.
- 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

### **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 Iowa General Assembly passed a bill that legalized gas and electric franchise fees that are based on a percentage of the franchisee's gross revenues "without regard to the city's cost of inspecting, supervising, and otherwise regulating the franchise." As a result of this legislative action, cities may consider this fee as an alternative revenue source. Revenue from franchise fees can only be used for certain purposes outlined in the bill, but does include items such 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](http://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 the 2008 legislative session. By 2012 it is estimated this fund will raise \$115 million annually to help fund essential infrastructure improvements on Iowa’s public roads system. Cities began to receive money from the TIME-21 program on January 1, 2009.

**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. In addition, city populations have changed recently as a result of the 2010 Census, resulting in an adjustment to road use tax distributions.

Table 2

| IDOT RUTF Per Capita Forecast<br>(includes Time-21) |                                  |
|---|----------------------------------|
| Fiscal Year   | Current IDOT Per Capita Forecast |
| FY 2012   | \$91.25                          |
| FY 2013   | \$94.00                          |
| FY 2014   | \$95.50                          |
| FY 2015   | \$97.50                          |
| FY 2016   | \$98.50                          |

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. You will notice significant per capita increases in the forecasts included in Table 2; the increases are generally a result of the higher vehicle registration fees passed into law in 2008 and the addition of TIME-21 funding. While the overall funding of the RUTF is not expected to decline, the per capita estimates are lower than previous forecasts due to an increase in the statewide municipal population following the 2010 Census.

**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 Office of Auditor of State 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
- County contributions

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 *Code of Iowa* Chapter 312 and any terms and conditions of the 28E agreement.

Many cities saw their population change recently after the 2010 Census results became official. If a city’s population dropped below 500, responsibility of FM roads transferred to the county on July 1. A city that previously was below 500 in population and increased its population above 750 after the Census assumed responsibility of FM roads in the city beginning July 1.

### **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

The 2011 General Assembly reduced the total appropriation to Enrich Iowa by more than \$500,000. This resulted in a 24.8 percent decrease in funding to libraries for FY 2012. Budget cuts will be distributed equally across all three programs.

■ *Additional information on these programs is available at the State Library of Iowa Web site, [www.statelibraryofiowa.org/ld/enrich-ia](http://www.statelibraryofiowa.org/ld/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:

- Have a refund number
- Keep a record of gallons purchased (cities are not required to send the actual invoices with the refund request)
- 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 download the forms by visiting [www.iowa.gov/tax/forms/motor.html](http://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 378 Fuel Tax Credits and Refunds for further information.

■ *You may request IRS forms by calling (800) 829-3676 or download the forms at [www.irs.gov/formspubs](http://www.irs.gov/formspubs).*

### Local Option Sales Tax

The Iowa Department of Revenue (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.

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

## 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) (CPI-U) for September 2011 was 226.889, which is 3.9 percent higher than September 2010. These figures are derived from eight major expenditure categories: food and beverages, housing, clothing, transportation, medical care, recreation, education and communication and other goods and services. The CPI-U is updated monthly.

■ *The most recent CPI-U figures and more information can be obtained by visiting [www.bls.gov/cpi/](http://www.bls.gov/cpi/).*

### FICA Deductions

As a result of the tax package passed by Congress in December 2010, a one year reduction on Social Security payroll taxes for employees was established for 2011. Currently, the employee contribution rate is reduced by 2 percent, from 6.2 percent to 4.2 percent. The rate is expected to return to its regular level beginning in 2012 unless legislation extends the reduction.

In 2011, the city (employer) contributes 7.65 percent of wages for Social Security and Medicare while the employee rate is 5.65 percent (due to the 2 percent reduction). The maximum taxable earnings subject to the Social Security portion (6.2 percent) of the Federal Insurance Contributions Act (FICA) for 2011 and 2012 is \$106,800; 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](http://www.ssa.gov) for questions, publications and other information.*

**Iowa Public Employees’ Retirement System (IPERS)**

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.

Other changes for regular class members beginning July 1, 2012 include the time to vest benefits will rise from four years to seven for members who have yet to earn benefits. Also, the average wage used in benefits calculations will change from the high three years to the high five years. Finally, benefits will be 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 schedule a consultation with an IPERS representative should they have any questions about their retirement account.

Table 3

| IPERS Contribution Rates<br>Regular Class Members |              |              |              |
|---|--------------|--------------|--------------|
| Regular Class Members                             | July 1, 2010 | July 1, 2011 | July 1, 2012 |
| Employee Rate                                     | 4.50%        | 5.38%        | 5.78%        |
| Employer Rate                                     | 6.95%        | 8.07%        | 8.67%        |
| Combined Rate                                     | 11.45%       | 13.45%       | 14.45%       |

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.

Table 4

| IPERS Contribution Rates<br>Protection Class Members |              |            |              |
|--|--------------|------------|--------------|
| Protection Class Members                             | July 1, 2010 | July, 2011 | July 1, 2012 |
| Employee Rate  | 6.64%        | 6.65%      | 6.84%        |
| Employer Rate  | 9.95%        | 9.97%      | 10.27%       |
| Combined Rate  | 16.59%       | 16.62%     | 17.11%       |

IPERS contribution rates for police and other protection class employees for FY 2013 will be 6.84 percent for the employee and 10.27 percent for the employer for a combined rate of 17.11 percent. Employer and employee contribution rates are posted to the IPERS Web site at [www.ipers.org/contributionrates.html](http://www.ipers.org/contributionrates.html). The rates for the current fiscal year (FY 2012) are 6.65 percent for the employee

and 9.97 percent for the employer, resulting in a combined rate of 16.62 percent.

**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 IPERS at (800) 622-3849 or visit their Web site at [www.ipers.org](http://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 contribution rate, effective July 1, 2012 will be 26.12 percent. The city’s contribution rate effective July 1, 2013 is estimated to be 30.90 percent. The current rate is 24.76 percent.

Actuarial projections show that the MFPRSI system could have city contribution increases over the next several years as a result of recent investment losses and the state phasing out its contribution to the fund.

### **Mileage**

While cities are not required to match the Internal Revenue Service (IRS) rate, any changes made in the city reimbursement rate should be done by resolution. Cities may reimburse city officials and employees using their own vehicles up to the amount allowable under IRS rules. The current IRS rate of 55.5 cents per mile is valid until December 31, 2011. The IRS increased its original 2011 mileage rate of 51 cents on July 1 to reflect rising gasoline prices. Rates for 2012 have not yet been determined and will be available at [www.irs.gov](http://www.irs.gov) in December.

### **Minimum Wage Rate**

Both the state and federal minimum wage was increased by legislative action in the last few years. The state hourly wage increased to \$7.25 effective January 1, 2008. The hourly wage for employees working less than 90 days increased to \$6.35 on January 1, 2008. The federal minimum wage increased to \$7.25 per hour on July 24, 2009. 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 stating such. 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 determined 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 \$24,700 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 from contributory to reimbursable status, or vice versa. Cities can change their status by December 1 for the next calendar year by contacting IWD for the appropriate forms in advance of the December 1 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 unemployment compensation can be found at [www.iowaworkforce.org](http://www.iowaworkforce.org).*

### **Workers' Compensation Insurance**

Premium 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 2012 and budgeting for FY 2013, 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 2011 General Assembly is included in the [New Laws of Interest to Iowa Cities report](#), which can be downloaded from the League Web site at [www.iowaleague.org](http://www.iowaleague.org).

### **HF45-Government Reorganization**

#### *Division VII*

- "Taxation Disclosure Act" directs IDOM, in consultation with IDR, by January 1, 2012, to create and maintain a searchable database and internet site of each tax rate for all taxing jurisdictions in the state to make citizen access to state and local tax rates open, transparent and publicly accessible. Directs that the site's information will include all applicable tax types imposed in the taxing jurisdiction and shall be organized, presented, and accessible by county, city and physical address for each residency or business.
- Requires that individual tax levies shall be further specified within each tax rate.
- Requires taxing jurisdictions to submit tax rates to IDOM annually.
- Various sections. Effective March 7, 2011.

### **HF454-Delinquent Utility Bill Certification**

- Permits the governing body of a city utility to delegate to a designee, named in a resolution, the city utility's authority to certify unpaid rates or charges to the county treasurer.
- Permits a city which is contracting with a city utility for joint billing or collection to enact an ordinance which delegates to the city utility the city's authority to certify unpaid rates or charges to the county treasurer.
- Section 384.84.

### **HF493-Convicted Public Employee Wage Reimbursement**

- Requires a public employee who is placed on a paid leave of absence due to criminal charges classified as a class "D" felony or greater, to pay to the public employer a civil penalty equal to the wage or severance payments received by the public employee that result from the termination of the public employee's employment contract, if the employee was convicted and terminated.
- Section 70A.27.

#### **HF512-GASB 45 Investment Trust**

- Allows cities and counties to invest in longer-term investments in a qualified trust established pursuant to GASB Statements 43 and 45, which pertain to improvement of the financial transparency of Other Post-Employment Benefits (OPEBs) such as health insurance.
- Section 12B.10.

#### **HF676-Fee Exemption for Leased Vehicles**

- Creates an exemption from the fee for new registration for vehicles leased to local, state, or federal governmental agencies or certain nonprofit entities and also for vehicles leased to a governmental agency and titled in an individual's name.
- Section 321.105A.

*Note: Current law allows for an exemption for vehicles that are sold to governmental agencies and certain nonprofit entities.*

#### **HF536-Duties and Responsibilities of Auditor of State**

- Distinguishes between an “audit” and an “examination.” Defines examination as being less in scope than an audit and “governmental subdivision” to include cities and administrative agencies, hospitals or health care facilities established by a city.
- Requires that cities subject to periodic “examination” under current law will hereafter be subject to periodic “audit”.
- Requires governmental subdivisions to contract with certified public accountants on the basis of competence and qualification for the services required and for a fair price using a process which includes a written request for proposals.
- Changes the number of eligible electors who can petition for a complete or partial re-audit of a governmental subdivision from 50 to 100.
- Requires that the written report of the audit include “the auditor’s opinion as to whether a governmental subdivision’s financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles or with another comprehensive basis of accounting.”
- Requires that an audit “include evaluation of internal control and tests for compliance with laws and regulations.”
- Specifies the format of examination and audit reports “comply with applicable professional accounting and auditing standards or procedures established by the auditor of state.”
- Various sections of Chapter 11.

#### **HF132-Tax Increment Finance (TIF) Ordinance**

- Requires that a copy of a TIF ordinance, once adopted, be filed with the county auditor.
- Section 403.19.

**SF533-Standing Appropriations**

*Division I, Section 7*

- Funds homestead tax credits at \$86.2 million for FY2012, which is slightly less than last year’s level of \$87.8 million.

*Note: The homestead property tax credits were funded at slightly lower levels than last year. The homestead credit has not been fully funded since 2001, but cities are held harmless for the underfunded amount, assuming the county imposes the difference on property tax bills.*

*Division XXIII: Housing Development Tax Status*

- Directs that any undeveloped residential lots platted between January 1, 2004, and December 31, 2010, get an “extra” five years before they are taxed at a rate as if they were developed, for a total time period of either eight or ten years, depending on county population.
- Removes the existing county population distinction, so going forward, all lots would get five years at the lower tax rate.
- Allows cities and counties by ordinance to extend this window for platted lots in the city for an additional five years.
- Specifies that the change does not entitle a property owner to a refund. Applies to assessment years beginning on or after January 1, 2012.
- Sections 405.1 and 441.72. Effective upon enactment.

*Note: Currently, these lots are taxed at a rate as if they were developed after either three or five years depending on county population.*

**Other Budget Issues**

**Bid and Quote Thresholds for Iowa Cities**

On January 1, 2012, changes will be made to the bidding and quotation thresholds for public improvement projects and road, street, bridge and culvert projects.

Table 5

| <b>Current Bid/Quote Thresholds</b>                                  |  |                                   |
|--|--|-----------------------------------|
| <i>Horizontal Infrastructure – Roads, streets, bridges, culverts</i> |  |                                   |
|  | <b>Cities Less Than or Equal to 50,000</b> | <b>Cities Greater Than 50,000</b> |
| Competitive Bid Required   | \$47,000                                   | \$67,000                          |
| Competitive Quote Required   | N/A  | N/A                               |

Table 6

| <b>Current Bid/Quote Thresholds</b>   |  |                                   |
|---|--|-----------------------------------|
| <i>Vertical Infrastructure – Buildings, parking facilities, utilities, trails</i> |  |                                   |
|   | <b>Cities Less Than or Equal to 50,000</b> | <b>Cities Greater Than 50,000</b> |
| Competitive Bid Required  | \$100,000                                  | \$100,000                         |
| Competitive Quote Required  | \$46,000                                   | \$67,000                          |

Table 7

| <b>2012 Bid/Quote Thresholds</b>                                     |  |                                   |
|--|--|-----------------------------------|
| <i>Horizontal Infrastructure – Roads, streets, bridges, culverts</i> |  |                                   |
|  | <b>Cities Less Than or Equal to 50,000</b> | <b>Cities Greater Than 50,000</b> |
| Competitive Bid Required   | \$47,000                                   | \$67,000                          |
| Competitive Quote Required   | N/A  | N/A                               |

Table 8

| 2012 Bid/Quote Thresholds   |                                     |                            |
|---|-------------------------------------|----------------------------|
| <i>Vertical Infrastructure – Buildings, parking facilities, utilities, trails</i> |                                     |                            |
|   | Cities Less Than or Equal to 50,000 | Cities Greater Than 50,000 |
| Competitive Bid Required  | \$125,000                           | \$125,000                  |
| Competitive Quote Required  | \$48,000                            | \$69,000                   |

■ For a more complete explanation of construction bidding and quotation procedures please visit the Member Resources section at [www.iowaleague.org](http://www.iowaleague.org).

**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 financial 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 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](http://www.gasb.org).

**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.....                         | \$175  |
| Budget Workshops .....                                   | \$30   |
| Small City Workshops .....                               | \$30   |
| Municipal Leadership Academy .....                       | Varies |
| Iowa Municipal Professionals Institute .....             | Varies |
| Iowa Municipal Professionals Academy.....                | Varies |
| Iowa Municipal Finance Officers Association .....        | \$100  |
| Iowa Municipal Attorneys Association Annual Seminar..... | \$60   |

**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.

**Certification Date for 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, the city 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. The Iowa Department of Management and the Office of the Auditor of the State have developed a TIF Debt Certification form that cities may use when certifying their debt to the county auditor. The form can be found at [www.dom.state.ia.us/local/city/index.html](http://www.dom.state.ia.us/local/city/index.html).

**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.

***Budget Calendar***

The following schedule is an example for cities to follow during the budgeting process. The following information 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 department heads give budget and proposals to city finance officer ..... January 3  
*(Normally held first Monday of January, however January 2 is an observed Holiday.)*
- Budget work session(s) with finance officer and city council ..... January 16 (and February 6)
- Council receives and adopts final proposed budget and orders notice of hearing ..... February 20
- Notice of hearing on adoption of final budget published ..... February 23

**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 5   |
| Adoption of final budget.....  | March 5   |
| 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.

**Timeline if city appeals to exceed the \$8.10/\$1,000 general fund levy limit but does not plan to hold election if appeal rejected:**

|   |             |
|---|-------------|
| City department heads give budget and proposals to city finance officer .....             | December 5  |
| Budget work session with finance officer and city council.....                            | December 19 |
| Council to determine whether appeal needed .....  | January 3   |
| <i>(Normally held first Monday of January, however January 2 is an observed Holiday.)</i> |             |

**NOTE:** Appeal must be made as soon as possible in order to allow time for the IDOM director's decision and appeal to City Finance Committee if the council determines to make further appeal.

|  |            |
|--|------------|
| Appeal to director, IDOM.....                                    | January 4  |
| Director, IDOM, issues decision on appeal.....                   | January 13 |
| Council to determine whether to appeal director's decision ..... | January 16 |

**NOTE:** The council may be required to hold a special meeting, depending on when the city is notified of the decision.

|   |                          |
|---|--------------------------|
| Appeal must be submitted to City Finance Committee.....   | on or before February 1* |
| City Finance Committee must notify city regarding its approval, modification or rejection of the appeal prior to 35 days before March 15* ..... | February 6               |
| Council receives and adopts final proposed budget and orders notice of hearing .....  | February 20              |
| Notice of hearing on adoption of final budget published.....  | February 23              |

**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 are 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 5   |
| Adoption of final budget.....  | March 5   |
| 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*   |

**Timeline for election to exceed the \$8.10/\$1,000 general fund levy limit:** A city may hold a special election to exceed the \$8.10/\$1000 limit or any other tax levy limit within *Code of Iowa* Chapter 384. This election may be held after rejection by the director of IDOM, after rejection by the City Finance Committee, upon appeal from the director or upon the council’s own initiative. A city’s property tax levy is limited to the prior year’s budget amount if the budget is certified after March 15. Due to the statutory requirements regarding the special election, canvass and notice of results, cities that hold a special election in 2012 will be unable to certify their budgets by March 15. A city has two choices in submitting a budget while awaiting results of the election.

**Option 1:** The city may follow the calendar guidelines at the beginning of this section and approve and adopt a budget within the levy limit. If the election results allow the city to exceed the limit, the voter approved levy will be applied by the county auditor and IDOM to the city’s budget. This method may require the city to amend the budget once into the fiscal year to increase expenditures that were approved at a lower level due to the levy limit.

**Option 2:** The city requests a waiver by writing a letter to the director of the IDOM documenting the reason that the March 15 deadline will not be met due to circumstances beyond their control. Timing becomes critical, particularly if the city waits until after the director and the City Finance Committee issue their decisions. The budget calendar will need to be advanced to allow sufficient time for requesting an election. The letter requesting a waiver must contain the new date the budget will be certified to the county auditor.

Council orders notice of special election to county commissioner of elections.....January 16  
*(last day for notice is February 10, 32 days before the second Tuesday in March\*)*

**NOTE:** The council may be required to hold a special meeting if the city is waiting on the decision of the City Finance Committee, depending on when the city is notified of the decision. The decision must be issued prior to February 9.

|   |                           |
|---|---------------------------|
| Publish election notice two times — first time at least two weeks before election* .....              | February 21 & February 28 |
| Special election on exceeding \$8.10/\$1,000 limit held; proposed rate must be stated* .....          | March 13                  |
| <i>(election is second Tuesday in March*)</i>   |                           |
| Canvass of election by county board of supervisors .....  | March 15                  |
| <i>(1 p.m. of second day following election*)</i>   |                           |
| Notice of results from county commissioner of elections (within two days of canvass*).....            | March 16-17               |
| Council receives election results and adopts final proposed budget and orders notice of hearing ..... | March 19                  |

Option 1 above, an informational letter with election results sent to IDOM.

**Option 2:**

|   |           |
|---|-----------|
| Notice of hearing on adoption of final budget published.....  | March 15  |
| Budget Hearing.....   | March 26  |
| Adoption of final budget.....   | March 26  |
| Certified budget to county auditor.....   | April 5*  |
| Persons affected by the budget have 10* days after the date of certification to file a written protest..... | April 15* |
| IDOM certifies taxes back to county auditor.....  | June 15*  |
| Budget takes effect.....  | July 1*   |

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

## **One-Stop Web References**

**Iowa League of Cities** – [www.iowaleague.org](http://www.iowaleague.org)

The League's Web site has numerous reports on budget matters, including:

**New League Salary Survey** - *Requires login to League's Members Only section*

[www.iowaleague.org/members/Pages/salariesurvey.aspx](http://www.iowaleague.org/members/Pages/salariesurvey.aspx)

**Iowa's Property Tax System Special Report** - *Requires login to League's Members Only section*

<https://www.iowaleague.org/members/Publications/propertytaxspecialreport.pdf>

**Tax Increment Financing Special Report** - *Requires login to League's Members Only section*

[www.iowaleague.org/members/Publications/TIFBrochure.pdf](http://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](http://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/2011LawEnforcementSpecialReport.pdf](http://www.iowaleague.org/members/Publications/2011LawEnforcementSpecialReport.pdf)

**Code of Iowa** - *Requires Entry of Chapter and Section numbers* | [www.legis.iowa.gov](http://www.legis.iowa.gov)

**Iowa Department of Revenue Fuel Tax Refund Forms**

[www.iowa.gov/tax/forms/motor.html](http://www.iowa.gov/tax/forms/motor.html)

**Iowa Public Employees' Retirement System** | [www.ipers.org](http://www.ipers.org)

**Iowa Workforce Development** | [www.iowaworkforce.org](http://www.iowaworkforce.org)

**Internal Revenue Service** | [www.irs.gov](http://www.irs.gov)

**Local Option Sales Tax Information** | [www.iowa.gov/tax/locgov/locgovLOST.html](http://www.iowa.gov/tax/locgov/locgovLOST.html)

**Minimum Wage**

The Iowa Division of Labor | [www.iowaworkforce.org/labor](http://www.iowaworkforce.org/labor)

The U.S Department of Labor | [www.dol.gov](http://www.dol.gov)

**Municipal Fire & Police Retirement System of Iowa** | [www.mfprsi.org](http://www.mfprsi.org)

**Publication Rates** | [www.inanews.com](http://www.inanews.com)

**Social Security Administration** | [www.ssa.gov](http://www.ssa.gov)

**State Library of Iowa Enrich Iowa Funds** | [www.statelibraryofiowa.org/ld/enrich-ia](http://www.statelibraryofiowa.org/ld/enrich-ia)

**U.S. Department of Labor** | [www.dol.gov](http://www.dol.gov)

**U.S. Department of Labor Consumer Price Index information** | [www.bls.gov/cpi](http://www.bls.gov/cpi)

