



Iowa League of Cities

# Special Report

## Budget Special Report for Fiscal Years (FY) 2013-14

**Reminder: All city budgets must be completed using the form 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](http://www.dom.state.ia.us/local/city/index.html).**

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As another budget season approaches, city officials in Iowa will again be making difficult decisions as they balance the needs of the community while maintaining a fiscally responsible budget.

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 2013 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](http://www.iowaleague.org).

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## Revenues

### Assessment Limitation Order – Rollback

The January 1, 2012 property valuation serves as the basis for calculating property taxes in fiscal year (FY) 2014. 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. Below you will find a chart that lists the rollback figures for FY 2014 as compared to FY 2013 through FY 2011:

Table 1

Rollback Figures				
Property Class	FY 2014	FY 2013	FY 2012	FY 2011
Residential	52.8166%	50.7518%	48.5299%	46.9094%
Commercial	100%	100%	100%	100%
Agricultural	59.9334%	57.5411%	69.0152%	66.2715%
Industrial	100%	100%	100%	100%

There have been several proposed changes to the property tax system during the last two legislative sessions and it is safe to assume that more will be forthcoming. Cities are encouraged to stay informed of these potential changes by communicating with their legislative representatives and League staff.

■ *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 631B). The expense would be shown on the Expenditures Schedule (Form 631A) under the appropriate activity in the special revenues fund (column D), or the revenue may be transferred 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; 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 Excise 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 (IDOM).

#### **Franchise Fee Legislation**

In 2009, 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 to property taxes. 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](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.

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.

Table 2

IDOT RUTF Per Capita Forecast (includes Time-21)	
Fiscal Year	Current IDOT Per Capita Forecast
FY 2013	\$94.00
FY 2014	\$96.50
FY 2015	\$98.00
FY 2016	\$99.50
FY 2017	\$100.50

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 increases in the forecasts below; the increases are generally a result of the higher vehicle registration fees passed into law in 2008 and the addition of TIME-21 funding.

**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, Road Use Tax account 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 the *Code of Iowa* Chapter 312 and any terms and conditions of the 28E agreement.

■ FY 2013 estimates are available online at [www.iowaleague.org](http://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 2013 statewide LOST estimate is \$295,787,568, a slight decline from the FY 2012 estimate of \$298,099,773. 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](http://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](http://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](http://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.statelibraryofiaowa.org/ld/e/enrich-ia](http://www.statelibraryofiaowa.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 IDR 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 (877) 829-5500 or download the forms at [www.irs.gov/formspubs](http://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 2012, is 2 percent higher than it was in September 2011. 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 1.9 percent from September 2011 to September 2012.

■ *The most recent CPI 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. That reduction was extended through 2012 after additional legislative action. 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 2013 unless legislation extends the reduction again. The League will provide information if such legislation occurs.

In 2012, 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) is \$110,100 in 2012 and \$113,700 in 2013; 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 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. Also, 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 schedule a consultation with an IPERS representative should they have any questions about their retirement account.

Table 3

IPERS Contribution Rates Regular Class Members			
Regular Class Members	July 1, 2011	July 1, 2012	July 1, 2013
Employee Rate	5.38%	5.78%	5.95%
Employer Rate	8.07%	8.67%	8.93%
Combined Rate	13.45%	14.45%	14.88%

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 Protection Class Members			
Protection Class Members	July 1, 2011	July 1, 2012	July 1, 2013
Employee Rate	6.65%	6.84%	6.76%
Employer Rate	9.97%	10.27%	10.14%
Combined Rate	16.62%	17.11%	16.90%

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 2013) are 6.84 percent for the employee and 10.27 percent for the employer, resulting in a combined rate of 17.11 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 the IPERS office at (800) 622-3849 or visit their Web site at [www.ipers.org](http://www.ipers.org) for more information.

Table 5

MFPRSI Contribution Rates			
MFPRSI City Contribution Rates	July 1, 2012	July 1, 2013	July 1, 2014 (estimate)
Employee Rate	9.40%	9.40%	9.40%
Employer Rate	26.12%	30.12%	32.26%
Combined Rate	35.52%	39.52%	41.66%

**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, 2013, will be 30.12 percent. The city's contribution rate effective July 1, 2014 is estimated to be 32.26 percent.

### **Mileage**

While cities are not required to match the Internal Revenue Service (IRS) rate, any changes made to 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, 2012. Rates for 2013 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 have remained the same the last few years. The state hourly wage is \$7.25 and the hourly wage for employees working less than 90 days is \$6.35. 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 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 \$25,300 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 IWD can be found at [www.iowaworkforce.org](http://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 2013 and budgeting for FY 2014, 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 2012 General Assembly is included in the *New Laws of Interest to Cities* report, which can be found on the League Web site at [www.iowaleague.org](http://www.iowaleague.org).

#### **HF2370 – Lis Pendens Action Notification Requirements**

- Severs the interest of a person or entity which claims to have an interest in real estate which has not been filed of record, if a petition or municipal infraction citation affecting the real estate has been properly indexed in the lis pendens docket, unless the claimant (1) intervenes in the lawsuit – which would typically be a nuisance abatement or municipal infraction lawsuit – before a court judgment is entered, or (2) files an application to reopen and proves that the city had actual notice of the claim of interest and identity of the claimant before the city indexed its petition or municipal infraction citation (must be filed within 90 days after the entry of judgment in such a case).
- Section 617.11.

#### **HF2460 – Tax Increment Finance Reform**

- Makes changes to Iowa's TIF laws for cities and counties, including new auditing requirements, reporting requirements, transparency measures and anti-piracy provisions.
- Various Sections.

Please see the *New Laws of Interest to Cities* report as well as information on the League's Web site for a detailed explanation of HF2460.

#### **HF2473 – Iowa Economic Development Authority (IEDA) Program Changes**

- Changes various definitions in the High Quality Jobs program and related assistance and programs.
- Clarifies limitations on providing assistance to a business which is moving operations within Iowa.
- Changes the calculation of a fiscal impact ratio.
- Amends the definition of a “qualifying wage threshold” to a “laborshed wage” as defined in the bill.
- Adds new requirements to the agreement required between a business seeking financial assistance and the IEDA.
- Makes changes to the existing targeted industries program dealing with advanced manufacturing, biosciences and information technology.
- Various Sections in Chapters 15, 15E, 266 and 455B.

**SF2212 – Economic Development Authority Policy Changes**

- Clarifies that for purposes of the targeted jobs tax credits withholding eligibility under *Code of Iowa* Section 403.19A, government entities will not be considered a “business” under the program.
- Extends the ability of cities to apply to create Enterprise Zones, under Section 15E.192, to July 1, 2014.
- Amends Section 455I.2 defining an “environmental response project” to include a plan or work performed for flood control.
- Various Sections.

**SF2217 – Flood Mitigation Program**

- Creates a flood mitigation board for the purposes of approving flood mitigation project plans proposed by cities.
- Projects can be funded by capturing growth in local sales tax revenues, up to 70 percent or \$15 million, or the use of monies from a new state flood fund. Cities must:
  - Competitively bid contracts.
  - Receive 20 percent or \$30 million, whichever is less, in federal matching funds specifically for hazard mitigation.
  - Have their project plan approved by the state flood board.
  - Adopt a resolution approving the use of sales tax increment, if using it as the funding source for the project.
  - Come up with local matching funds amounting to at least 50 percent of the total cost of the project.
  - Demonstrate that the project will result in nonpublic investment in the city of an amount equal to 50 percent of the total cost of the project.
- Cities can submit project plans to the board until July 1, 2016.
- Various Sections in Chapters 29C.8, 418.4, 418.8, 418.10, and 418.12.

**HF2168 – Deposit of Public Funds**

- Expands the current authorized public deposits program to include insured deposits.
- Expands a current program that allows Iowa banks to participate in a national program in which, with the consent of the public body, 100 percent of the public bodies’ deposit can be fully insured by the Federal Deposit Insurance Corporation (FDIC) in Certificates of Deposit in \$250,000 increments. Addition of the fully insured money market account (MMA) product allows the public body the use of their funds while it is held in the account.
- Sections 12B.10, 12C.22 and 12C.23A.

**HF2455 – Small City Oversight**

- Eliminates four-year audits for cities between 700 and 2,000 in population, and creates a new “pool” for cities less than 2,000 in population or less than \$1 million in annual budgeted gross expenditures to be subject to periodic examination by the auditor.
- Cities in the examination pool will pay an annual fee to the auditor.
- Cities fewer than 2,000 in population but greater than \$1 million in budgeted gross expenditures will not pay the examination fee but will be required to pay the full cost of an examination. A city must rise above \$1 million in annual budgeted gross expenditures for two consecutive years in order to be subject to a full cost of examination in the second year. Cities must be examined at least once during an eight-year period.
- The total annual fees the auditor can collect are capped at \$375,000 and any amount collected in excess must go toward finance training for local officials.
- Section 11.6.

*Note: Fees will be determined by the auditor through rulemaking on a sliding-scale based on the city's budgeted gross expenditures and cannot be charged until Fiscal Year 2014. Rules will be promulgated by the auditor to determine the scope of an "examination," which is currently defined as something less than an audit. Any city that conducts a full audit and pays the audit filing fee will not be subject to an examination fee in that year.*

**HF2465 – Minimum Amount for Installment Payments of Special Assessments**

- Requires special assessments for nuisance abatement including weeds, repair and replacement of sidewalks, driveway approaches, water stop boxes or similar improvements to be at least \$500 before a city can permit the assessment to be paid in up to ten annual installments.
- Requires special assessments for public improvements to be at least \$500 before a city can allow the assessment to be paid in up to 15 annual installments.
- Sections 364.13, 384.60 and 384.65.

**SF413 – Funding of Emergency Management Commissions**

- Requires cities to fund emergency management commissions.
- Requires mayors to attend all meetings in which the budget is discussed, but allows the mayor to designate an alternate for other meetings.
- Allows cities to use other funding sources allowed by law to fund the commission.
- Sections 29C.9 and 29C.17.

**SF2342 – Tax Credits for Car Washes**

- Provides for a sales tax exemption for water and electricity used in car washes.
- Section 423.3(96).

*Note: In advance of formal rulemaking, the Department of Revenue has issued the following guidance:*

- For stand-alone vehicle wash and wax facilities ("car washes"), the Department's presumption is that 100 percent of the electricity and water purchased will be used for the exempt vehicle wash and wax service.
- For other businesses that provide vehicle wash and wax services (convenience stores, gas stations, automobile dealerships, etc.), the Department's presumption is that less than 100 percent of the water and electricity purchased will be used in the vehicle wash and wax service. The best solution would be to have separate meters for the water and electricity used in the vehicle wash and wax service. If that is not possible, the retailer should determine and document a reasonable basis for the exempt percentage of water and electricity. That amount should be affirmatively communicated to the local water and electricity carriers so that they may bill appropriately.

## Other Budget Issues

### 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 an 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](http://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.

*Note: The penalty of being unable to certify taxes does not take effect until the 2013 reporting deadline for cities that do not file the Urban Renewal Report by December 1.*

■ *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](http://www.iowaleague.org).*

### 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 League, IDOM and the State Auditor’s office recorded a webinar training on completing the certification form. The webinar and other helpful information can be found at [www.iowaleague.org](http://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, 2013 while electronic forms have a deadline of April 1, 2013. 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 W-2 in Box 12 using Code DD. For cities filing fewer than 250 W-2 forms this requirement is optional.

**Bid and Quote Thresholds for Iowa Cities**

On January 1, 2013, changes will be made to the bidding and quotation thresholds for public improvement projects and road, street, bridge and culvert projects.

Table 6

<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

**Current Bid/Quote Thresholds**

Table 7

<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	\$125,000	\$125,000
Competitive Quote Required	\$48,000	\$69,000

Table 8

<b>2013 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	\$49,000	\$70,000
Competitive Quote Required	N/A	N/A

**2013 Bid/Quote Thresholds**

Table 9

<b>2013 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	\$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](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 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](http://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](http://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.....	\$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 Attorney Association Annual Seminar .....	\$60
City Finance 101 .....	\$30

**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 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.

### 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 7
- Budget work session(s) with finance officer and city council..... January 21 (and February 4)
- Council receives and adopts final proposed budget and orders notice of hearing..... February 18
- Notice of hearing on adoption of final budget published ..... February 21

**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 4
- Adoption of final budget .....March 4
- 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 schedules.

## ***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:

**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*

[www.iowaleague.org/members/Publications/propertytaxspecialreport.pdf](http://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)