Iowa League of Cities

# Special Report

## Budget Special Report for Fiscal Years (FY) 2016-17

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

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Significant changes to Iowa's property tax system along with other economic factors will continue to impact the ability of city governments across the state to provide needed services while maintaining a responsible budget.

Information in this special report details 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 this city budget process, but are also likely to be major issues in the future.

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

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## *Revenues*

**Assessment Limitation Order – Rollback and Major Changes to Iowa's Property Tax System**

The January 1, 2015 property valuation serves as the basis for calculating property taxes in fiscal year (FY) 2017.

**Rollback Figures**

| Property Class | FY 2017 | FY 2016 | FY 2015 | FY 2014 |
|---|---|---|---|---|
| Agricultural | 46.1068% | 44.7021% | 43.3997% | 59.9334% |
| Commercial | 90% | 90% | 95% | 100% |
| Industrial | 90% | 90% | 95% | 100% |
| Railroad | 90% | 90% | 95% | 100% |
| Residential | 55.6259% | 55.7335% | 54.4002% | 52.8166% |
| Multi-Residential | 86.25% | *Begins FY 2017 | | |

Since 1978, residential and agricultural property has been subject to an assessment limitation order, or "rollback", that limits annual growth of property values (all other classes of property were eventually added). Prior to the 2013 overhaul of the property tax system, property value growth was limited to 4 percent per year for agricultural, commercial, industrial and residential properties. If property values grew by more than 4 percent, the taxable value was rolled back to comply with the assessment limitation system.

In addition, the rollback included a formula that tied the growth of residential property to that of agricultural property. This connection is commonly referred to as "coupling" and limited the valuation of either property class to the smaller of the two. Since the law's inception, residential property has always been subject to significant rollbacks while the other property classes did not grow as much and were usually taxed at or near their full assessed value.

While the property tax rollback system remains in place, several major changes were made during the 2013 legislative session. For each assessment year beginning in 2013, residential and agricultural property value growth is now capped at 3 percent, or whichever is lowest between the two classes (the coupling provision remains).

Commercial, industrial and railway property now have their own rollback, which began at 95 percent for valuations established during the 2013 assessment year (affecting FY 2015) and 90 percent for the 2014 assessment year and thereafter. The rollback percentage for these properties will remain fixed at 90 percent regardless of how fast or slow valuations grow.

The legislature created a standing appropriation, beginning in FY 2015, to reimburse local governments for the property tax reductions resulting from the new rollback for commercial and industrial property (railroad not included). The "backfill" was funded at 100 percent by the legislature for FY 2015 and FY 2016 and cities receive the funds in a similar manner as property tax revenue. Future backfill appropriations will be capped at the FY 2017 level. These funds should be recorded as intergovernmental revenue from the state. For those using the standard Chart of Accounts the account number will be 4464: Commercial/Industrial Replacement Claim Payments.

A new property class was established for multi-residential property, which first takes effect in FY 2017 and will likely have long-term impacts for many cities around the state. The definition of multi-residential property is broad and includes:

- Mobile home parks
- Manufactured home communities
- Land-leased communities
- Assisted living facilities
- Property primarily used or intended for human habitation containing three or more separate living quarters

- For buildings that are not otherwise classified as residential property, that portion of a building that is used or intended for human habitation can be classified as a multi-residential property, even if human habitation is not the primary use of the building and regardless of the number of dwelling units located in the building

| Multi-Residential Property Rollback Schedule | |
|---|---|
| FY 2017 | 86.25% |
| FY 2018 | 82.50% |
| FY 2019 | 78.75% |
| FY 2020 | 75% |
| FY 2021 | 71.25% |
| FY 2022 | 67.50% |
| FY 2023 | 63.75% |
| FY 2024 (and beyond) | Equal to residential |

Excluded properties include, hotels, motels and other buildings where rooms or dwelling units are typically rented for less than one month. Multi-residential properties will be subject to a separate rollback schedule for eight years, as shown in the table to the left, before reaching the residential rollback percentage. Unlike the rollback for commercial and industrial properties, there will be no backfill funding to offset revenue reductions for the multi-residential property rollback.

A new exemption for telecommunications companies was created that is based on "the actual value that is used by the companies in the transaction of telegraph and telephone business." The actual value for telecommunication companies focuses primarily on the lines used to operate telegraph and telephone services. Once the properties have been assessed, they will receive partial property tax exemptions based on their total value as detailed below:

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

With the sweeping changes to the property tax system, it may be difficult for cities to accurately forecast how their budget will be affected. The League will continue to study the impact of these changes and provide additional resources for cities to use, including the Property Tax Model which allows cities to enter in their own property tax valuations and see how their budget is affected. Please visit www.iowaleague.org to use the model and view other property tax resources.

**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). Alternatively, the city may need to transfer the benefits into the general fund where the expenses are recorded.
- 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 up to $0.27/$1,000 of taxable valuation that can be used for any governmental purpose (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.

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; support of a local Emergency Management Commission; 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* 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 calculates the amount of revenue that a city will receive and includes this information with the budget packet cities receive from the Iowa Department of Management.

### Franchise Fee Legislation

In 2009, the state legislature passed a bill that legalized the collection of gas and electric franchise fees not to exceed five percent of the franchisee's gross revenues "without regard to the city's cost of inspecting, supervising, and otherwise regulating the franchise." Revenue from franchise fees can only be used for certain purposes outlined in the bill, but does include such items as public improvements, property tax relief, public safety, energy conservation and economic development activities. A bill approved during the 2015 legislative session requires cities to hold public hearings prior to increasing or amending a franchise fee.

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

**IDOT RUTF Per Capita Forecast**

| Fiscal Year | Current IDOT Per Capita Forecast |
|---|---|
| FY 2016 | $120.50 |
| FY 2017 | $121.00 |
| FY 2018 | $121.00 |
| FY 2019 | $122.00 |
| FY 2020 | $123.00 |

**includes gas tax increase*

### 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. The state legislature approved a League-supported gas tax increase in 2015 that will bring additional funding to the system for critical road infrastructure needs. The per gallon tax increase of 10 cents is estimated to add $215 million annually to the fund, from which cities receive per capita distributions to pay for the construction, repair and maintenance of road infrastructure.

Cities are reminded that economic instability and fluctuating fuel consumption and costs can result in immediate changes in the fund. The Iowa Department of Transportation (IDOT) issues per capita forecasts only and cities are only entitled to receive their share of the amount actually collected. The estimates are subject to dramatic changes and cities should consider using a conservative estimate.

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

**Transfer of Road Jurisdiction: Cities Under 500**

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

- Intergovernmental
- Local grants and Reimbursements

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

*FY 2016 farm-to-market RUTF estimates are available online at www.iowaleague.org.*

**Local Option Sales Tax**

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

The 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.

The FY 2016 statewide LOST estimate is $313,905,492, an increase from the FY 2015 estimate of $298,538,961. 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 tax.iowa.gov/local-option-tax-information-local-government.

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

**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, improving, 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 tax.iowa.gov/iowa-hotel-motel-tax.*

### Enrich Iowa Funds for Libraries

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

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

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

### Fuel Tax Refunds

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

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

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

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

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

## 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 2015 is unchanged from September 2014. The CPI-U 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.

Closer to home the Midwest Region CPI decreased .8 percent from September 2014 to September 2015, largely attributable to declines in fuel prices.

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

**FICA Deductions**

The city (employer) and the employee each contribute 7.65 percent of wages for Social Security and Medicare. The maximum taxable earnings subject to the Social Security portion (6.2 percent) of the Federal Insurance Contributions Act (FICA) is currently $118,500 and is projected to remain the same in 2016. There is no limit on the salary covered for the Medicare portion (1.45 percent) of FICA. Please note that rates may change during the fiscal year. Questions on FICA may be directed to the Des Moines office of the Social Security Administration (SSA) at (800) 772-1213.

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

**IPERS Contribution Rates**
**Regular Class Members**

| Regular Class Members | July 1, 2014 | July 1, 2015 | July 1, 2016 |
|---|---|---|---|
| Employee Rate | 5.95% | 5.95% | 5.95% |
| Employer Rate | 8.93% | 8.93% | 8.93% |
| Combined Rate | 14.88% | 14.88% | 14.88% |

**IPERS Contribution Rates**
**Protection Class Members**

| Protection Class Members | July, 2014 | July 1, 2015 | July 1, 2016 |
|---|---|---|---|
| Employee Rate | 6.76% | 6.56% | 6.56% |
| Employer Rate | 10.14% | 9.84% | 9.84% |
| Combined Rate | 16.90% | 16.40% | 16.40% |

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

IPERS contribution rates have held steady the past couple of years after significant increases were previously necessary to keep the system fully funded due to market instability loading to investment losses several years ago. In addition, important changes for current and newly vested members were made in 2010 to help protect and grow the fund in the future. City officials are also encouraged to consult with an IPERS representative should they have any questions about their retirement account.

Employer and employee contribution rates are posted to the IPERS Web site at www.ipers.org/about-us/contribution-rates.

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

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

**MFPRSI Contribution Rates**

| MFPRSI City Contribution Rates | July 1, 2014 | July 1, 2015 | July 1, 2016 |
|---|---|---|---|
| Employee Rate | 9.40% | 9.40% | 9.40% |
| Employer Rate | 30.41% | 27.77% | 25.92% |
| Combined Rate | 39.81% | 37.17% | 35.32% |

**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, 2016, will be 25.92 percent, a slight decrease from the current rate. Recent actuarial projections show that future employer contribution rates could continue to decline slightly.

**Mileage**

Cities may reimburse city officials and employees using their own vehicles up to the amount allowable under Internal Revenue Service (IRS) rules. While cities are not required to use the IRS rate, any changes made in the city reimbursement rate should be done by resolution. The current IRS rate of 57.5 cents per mile is valid until December 31, 2015. Rates for 2016 have not yet been determined and will be available at www.irs.gov in December.

**Minimum Wage Rate**

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

**Unemployment Compensation**

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

Contributory tax rates are based on the extent that tax payments made by the city are in excess of benefits paid out by IWD, and this reserve balance is then divided by the average taxable payroll. The tax due is found by taking the percentage calculated for the city multiplied by the first $27,300 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 their status to contributory or reimbursable. Cities can change their status by December 1 for the next calendar year by contacting IWD for the appropriate forms in advance of the deadline. However, if a city opts to switch from contributory to reimbursable, it is required to pay to IWD any deficit that may be due to claims against its current account in excess of contributions.

*Information regarding IWD can be found at www.iowaworkforcedevelopment.gov.*

**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 2016 and budgeting for FY 2017, 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 2015 General Assembly is included in the New Laws of Interest to Iowa Cities report, which can be found on the League Web site at www.iowaleague.org.

### HF 616 – Primary Use Related to Multi-Use Properties

Strikes the "primary use" language from *Code of Iowa* Section 441.21 that was put in place by the property tax reform law, SF295, in the 2013 legislative session. Creates dual classification for properties that have three or more units of habitation, instead of determining the primary use before the tax assessment for the building. Amends Sections 426C, 441.21 and 441.26.

### HF 626 – Property Assessment Appeal Board

Extends the future repeal of the Property Assessment Appeal Board to 2021, and provides for the future repeal of the State Board of Tax Review no later than July 1, 2016. Amends Section 441.28.

### HF 660 – Public Hearing for Franchise Fee

Requires a city hold a public hearing before adopting or amending an ordinance imposing a franchise fee or increase to the rate of the fee. Also, requires that notice of the hearing be published at least once, not less than four nor more than 20 days before the date of the hearing, and that the publication must be in a newspaper published at least once weekly and having general circulation in the city. Does not impact the ability for a city to have a franchise fee or to increase the fee. Amends Section 364.2.

### SF 257 – Gas Tax Increase

Increases the state gas tax by 10 cents per gallon. This is estimated to provide $215 million additional revenue to the Road Use Tax Fund (RUTF), from which cities receive per capita distributions to pay for the construction, repair and maintenance of road infrastructure. Amends Section 452A.3.

### HF 507 – Delinquent Sewer Accounts

Allows wastewater providers, who do not also provide water services, to contract with water providers to allow the water provider to discontinue service to a customer who has a delinquent sewer account. Allows cutoff only for new customers, not existing customers that have already entered into a contract. Amends Section 384.84.

### SF 499 – Iowa Economic Development Authority Omnibus Bill – Abandoned Nuisance Properties

Includes language that helps cities address abandoned nuisance properties – properties that the owner no longer wants and are expensive to clean up. Division VI of the bill creates a loan program under IEDA for cities to access low-interest capital to address these properties, provides additional due process and enhanced notification to the property owner, and also extends the current process under Section 657A.10A to purely commercial properties, such as abandoned gas stations and warehouses. Amends Section 657A.10A.

**HF 650 – Rebuild Iowa Infrastructure Fund**

- Appropriates $5 million to the Community Attraction and Tourism (CAT) Grants fund. The CAT fund is one of three funds that comprise the Vision Iowa Program. The CAT fund was created to assist projects that will provide recreational, cultural, entertainment and educational attractions.
- Appropriates $1 million to the Iowa Great Places Fund. The Iowa Great Places Fund seeks to have a transformative impact on community vitality and quality of life for Iowans.

**SF 510 – Standing Appropriations**

- Appropriates $416,702 for FY 2015-2016 for operational support grants and community cultural grants under Section 99F.11.
- Appropriates $208,351 for FY 2016-2017 for operational support grants and community cultural grants under Section 99F.11.
- Workforce Housing Tax Incentives Program – Amends certain provisions of the program that was created along with the High Quality Jobs Program, and creates a 10 percent buffer if there is an overage on costs per unit. This will assist developers as they work to revitalize core neighborhoods.

## Other Budget Issues

**City Budget Form Changes**

The Iowa Department of Management (IDOM) has updated the city budget form that is filed with the state. The Long Term Debt Schedule has been revised to include information that will better assist the County Auditor in tracking the debt service of each city. A column has been added for denoting if the debt is a General Obligation (GO) or a Non-General Obligation (Non-GO) of the city. Another column has been added which will require the reporting of the resolution number of the resolution that approved the debt. The FY 2017 city budget form was also revised to include a space at the top of the Adoption of Budget and Certification of City Taxes form for the resolution number of the resolution which approved the city budget.

The budget amendment form has also been updated to include a Transfer In line under the revenue section and a calculator that shows the timeframe for publishing the public hearing notice. Also of note, the IDOM will pre-fill actual year data from each city's Annual Financial Report into the city budget form. As a reminder, the budget form must be filed with IDOM and the county auditor by March 15.

**Affordable Care Act**

Cities are reminded to be in compliance with applicable provisions of the Affordable Care Act (ACA) or they could be subject to penalties for employers and individuals. With that in mind, cities need to know how the ACA affects them and their employees and prepare for any coming changes. The various aspects of the ACA could impact cities in many different ways and cities are encouraged to consult with their health care advisors to determine the best course of action.

*Additional information is available at www.iowaleague.org.*

**Annual Urban Renewal Report**

Legislation approved in 2012 requires all cities that have an urban renewal area to submit the Annual Urban Renewal Report. Cities must provide a variety of information for each of their urban renewal areas, including urban renewal plans, maps, tax increment financing ordinances, debt and financing data, and urban renewal projects.

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

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

**Certification of TIF Debt**

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

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

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

**Bid and Quote Thresholds for Iowa Cities**

The bid and quote thresholds for qualifying public improvement projects as defined in Chapter 26 of the Code of Iowa can be seen in the following tables.

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

| Current Bid/Quote Thresholds<br>*Horizontal Infrastructure – Roads, streets, bridges, culverts* | | |
|---|---|---|
| | **Cities Less Than or Equal to 50,000** | **Cities Greater Than 50,000** |
| Competitive Bid Required | $50,000 | $72,000 |
| Competitive Quote Required | N/A | N/A |

| Current Bid/Quote Thresholds<br>*Vertical Infrastructure – Buildings, parking facilities, utilities, trails* | | |
|---|---|---|
| | **Cities Less Than or Equal to 50,000** | **Cities Greater Than 50,000** |
| Competitive Bid Required | $135,000 | $135,000 |
| Competitive Quote Required | $55,000 | $75,000 |

**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 29, 2016 while electronic forms have a deadline of March 31, 2016. For employees that claim exemption from federal income taxes, they must file a new form W-4 with the city by February 15.

The Affordable Care Act requires employers to report the cost of coverage under an employer-sponsored group health plan on an employee's Form W-2 in Box 12 using Code DD. For cities filing fewer than 250 W-2 forms this requirement is optional, although the IRS may lower this threshold in the future. Additional information on this requirement can be found at www.irs.gov/Affordable-Care-Act/Form-W-2-Reporting-of-Employer-Sponsored-Health-Coverage.

**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.iowaleague.org/members/Pages/GASB54FundBalanceClassifications.aspx.

**GASB 68**

Governmental Accounting Standards Board Statement Number 68 (GASB 68) requires state and local government to make significant changes to how they account and report finances related to pension plans. This includes new requirements for reporting pension-related liabilities and obligations. The State Auditor's Office has created a variety of resources to help cities prepare for the new requirements, which can be found at www.auditor.iowa.gov/pension/index.html.

**GASB 77**

Governmental Accounting Standards Board Statement 77 (GASB 77) issues new requirements for cities to disclose information regarding tax abatement programs. Cities must report the purpose of any tax abatement program, tax being abated, dollar amount of taxes abated, provisions for recapturing abated taxes and other commitments made in a tax abatement agreement, such as to build infrastructure assets. The new disclosures also require information about tax abatements entered into by other governments that reduce the reporting government's tax revenues, including the name of the government entering into the tax abatement, the tax being abated and the dollar amount of the reporting government's taxes abated.

**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.business.ftc.gov/privacy-and-security/red-flags-rule.

**Proposed Rule Change for Exempt Employees under Fair Labor Standards Act**

The U.S. Department of Labor issued a proposed rule change for exempt employees as defined by the Fair Labor Standards Act (FLSA). Currently, exempt employees are subject to a salary basis test which requires a minimum salary of at least $455/week or $23,660/year in order to qualify as exempt. The proposed rule change increases the annual salary to $47,892 beginning in 2016 (please keep in mind there are other standards an employee must meet under the FLSA in order to be classified as exempt). At the time of this writing this is only a proposed rule. If approved, it is expected to take effect in early 2016.

**Training Costs**

The League and others offer several training events directed at city officials throughout the year. Be sure to check www.iowaleague.org throughout the year to get information about these events and the associated registration fees.

**Consumer Confidence Report**

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

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

**Single Audit Act**
Cities that expend a total of $750,000 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 elected officials and staff members meet to hold preliminary budget discussions and schedule formal work sessions and budget adoption dates .................... November and December

City department heads give budget and proposals to city finance officer......................... January 4

Budget work session(s) with staff members and city council ............. January 18 (and February 1)

Council receives and adopts final proposed budget and orders notice of hearing...... February 15

Notice of hearing on adoption of final budget published ............................................ February 25

**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.

** 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 so, a city may appeal to the IDOM/City Finance Committee and use a unique schedule and set of guidelines. Please contact the League for assistance with such schedules.*

Budget hearing ..................................................................................................................... March 7

Adoption of final budget ...................................................................................................... March 7

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*

## One-Stop Web References

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

**Snapshot of Tax Increment Finance**
www.iowaleague.org/members/Publications/TIF%20Report_2015.pdf
*Requires login to League's Members Only section*

**Franchise Fees Special Report**
www.iowaleague.org/members/Publications/FranchiseFees2015.pdf
*Requires login to League's Members Only section*

**Law Enforcement Special Report (including sample Training Reimbursement contract)**
www.iowaleague.org/members/Publications/law%20enforcement%20special%20report_2014_UPDATE.pdf
*Requires login to League's Members Only section*

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

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

**Iowa Department of Revenue Fuel Tax Refund Forms**
tax.iowa.gov/other-iowa-motor-fuel-tax-information

**Iowa Public Employees' Retirement System -** www.ipers.org

**Iowa Workforce Development -** www.iowaworkforcedevelopment.gov

**Internal Revenue Service -** www.irs.gov

**Local Option Sales Tax Information -** tax.iowa.gov/local-option-tax-information-local-government

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

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

**Publication Rates -** www.inanews.com

**Social Security Administration -** www.ssa.gov

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

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

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