

# Consequences of New Revenue Cap on Existing Levy Limitations



## EXPLANATION OF PROBLEM:

House File 718 (2023) requires cities to reduce their Consolidated General Fund Levy (CGFL) to \$8.10 by FY29. Cities across the state have been actively working toward compliance, with more than half already at or below the limit and the remainder on track to meet the deadline.

Layering a 2% revenue growth cap on top of this existing levy limit — before the FY29 transition is complete — creates a conflicting policy structure. It limits cities' ability to phase in reductions responsibly and disproportionately impacts communities with little or no property value growth.

## IMPACTS OF THE PROBLEM:

As a result, cities — especially smaller, low-growth communities — will face the following impacts:

- **Double constraint on low-growth cities:** 163 Iowa cities are working to reduce their CGFL while also experiencing growth below 2%. These communities are effectively restricted twice, unable to grow revenue while being required to reduce their levy rates. Most of these communities have populations under 2,000.
- **Compounding constraints:** Cities must reduce levy rates while also being restricted by a 2% cap, accelerating revenue loss beyond original expectations.
- **FY29 “cliff effect”:** The combined policies create steeper, compressed adjustments as cities approach the deadline imposed by HF 718.
- **Service and viability risks:** Smaller communities face increasing pressure on core services, with long-term risks that could include disincorporation.

## SOLUTION:

Update Iowa Code 384.1, subsection 3, paragraph d, to reflect the newly established property tax system established by the Legislature by striking the following:

~~d. For each fiscal year beginning on or after July 1, 2028, a city's tax levy rate for the general fund, except for levies authorized in section 384.12, shall not exceed eight dollars and ten cents per thousand dollars of assessed value used to calculate taxes in any fiscal year.~~