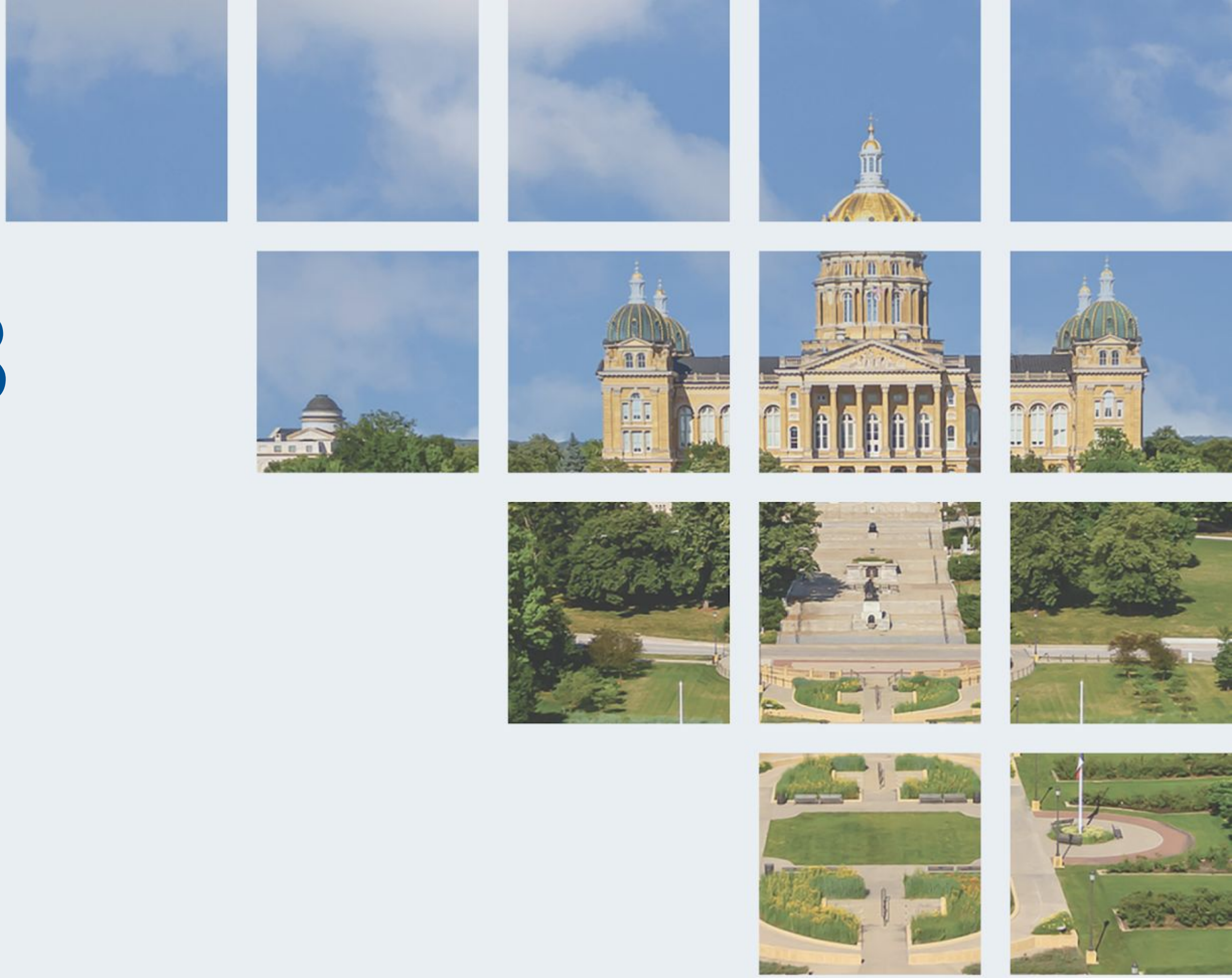
# HSB 313 / SSB 1208
# Brief Overview

## *DRAFT/Unofficial Analysis for the Iowa League of Cities*



March 14, 2025

IOWA LEAGUE of CITIES

# HSB 313 / SSB 1208

Companion Bills Introduced by Representative Kaufmann & Senator Dawson

Iowa League of Cities was invited to an overview presentation the day of its release, alongside representatives from counties, school boards, and other stakeholders.

- Legislators made clear the bill is not on a fast track. They will be meeting with the League and other stakeholders to improve the bill and understand its impacts

Stated purpose of the legislation from legislature:

- $400 million total property tax cut for Iowans
- Largest overhaul of property tax system since its current format was created in the 1970s
- Phases out the rollback over a 5-year period
- Implements a 2% revenue restriction
  - New valuation/growth as defined in bill is excluded from revenue restriction
  - Certain uncapped levies such as insurance and employee benefits also excluded
- Repeals various credits, replacing credits with a $25k homestead exemption

The stated goal upon full implementation is to have a less complicated tax system that allows property taxpayers to better plan for what future taxes may be.

# HSB 313 / SSB 1208

## Division II: Restricting the CGFL

***In Brief:*** **Hard cap of 2% on general fund revenues**

**How does it work?**

A formula lowers the CGFL to a levy rate that produces a 2% hard cap on revenues generated by it.*

**Isn't that what we have under HF 718?**

*Not exactly. Although this proposes using the CGFL, major differences include:*

- No "growth" triggers or "tiers" – all cities follow the same ratcheting formula
- Instead of slowing/"shaving a percentage of growth," this places a hard cap
- The bill defines "new construction" and exempts a certain portion of growth from the 2% cap (but note challenges in the next slide)

*Certain levies will remain outside of the hard cap

# HSB 313 / SSB 1208

## Division II: Restricting the CGFL

***In Brief:*** **Hard cap of 2% on general fund revenues**

### New Construction

- The definition is not clear on how Tax Increment Finance (TIF) is treated in relation to the 2% cap.
- Need to verify how property tax abatement at expiration is handled.
- The Department of Management confirmed that County Auditors should be tracking tax abatement in the new construction valuation data.
- **We are working to clarify whether property defined as "new construction" is exempted after its first year. If it isn't, it will delay its impact on the hard cap and levy ratcheting for one year.**

# HSB 313 / SSB 1208

## Division II: Restricting the CGFL

***In Brief:*** **Hard cap of 2% on general fund revenues**

**What is the new CGFL formula under the bill?**

⟶ CGFL (upcoming budget year) = 1,000* (1.02 * dollars levied by the current year CGFL) / (total taxable value of upcoming budget year – new construction as defined)

⟶ Existing TIF Valuation

- Although TIF valuation is not included in the levy “ratcheting” formula, it is still subject to the calculated CGFL levy. This will impact existing TIF agreements due to the lower levy rate.*

*The League is continuing conversations with legislators to ensure the current understanding HSB 313/SSB 1208 and how it relates to TIF

# HSB 313 / SSB 1208

## Division IV: Removing Rollback (except for Ag)

***In Brief:* Residential, commercial, industrial and rail property rollbacks phase-in up to 100% by FY31; Ag-residential coupling removed and Ag follows a productivity-based formula; shift of property taxes to residential and notably to multifamily properties.**

Over FY27 – FY31, rollbacks for listed classifications go to 100%

All revenue generated by the CGFL is still capped at 2% by Division II, so this does not generate additional revenue from the CGFL.

Would represent a shift to residential homeowners unless **partially** offset by the homestead exemption. Beginning in FY31, may slowly continue to shift to residential as the homestead exemption is fully phased-in.

Eliminates the state’s $125M appropriation related to the conversion of the original Business Property Tax Credit to a 2-tiered rollback. Multi-residential property is now classified as residential and will be impacted by the phase-in to 100% rollback and no homestead exemption.

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**Division V: Converts the homestead credit to an expanded homestead exemption**

***In brief:*** **the homestead credit is phased-out and eliminated – replaced with a phase-in of a homestead exemption without state support.**

Over FY28-FY31, the homestead credit phases out and is eliminated, all state funding is eliminated.

Over 27-FY30, the new expanded homestead is phased-in with no state funding.

Creates a reduction in property taxes for local governments, with various effects dependent on the community housing makeup.

# HSB 313 / SSB 1208

## Division VI: Expands Veteran/Military Property Tax Exemption

Over FY27-FY29, Increases the veteran/military property tax exemption from the current \$4,000 → \$7,000

# HSB 313 / SSB 1208

## Division VII: Restricts Other Rate-Limited City Levies

***In brief:*** **Aside from the CGFL, restricts all other rate-limited ad-valorem city levies to 2% hard cap; restricts bonds or indebtedness payable from a rate-limited levy to fund general operations**

*Currently authorized levies may not be imposed going forward unless they were imposed in the FY25 budget*

**How does it work?** A formula lowers the rate-limited levy to a levy rate that produces a 2% hard cap on revenues generated by it.

**What is the formula for this under the bill?**

Levy (upcoming budget year) = 1,000* (1.02 * dollars levied by the current year Levy) / (total taxable value of upcoming budget year)

- Does not exempt new construction from the 2% cap on these levies
- Ratcheting does not include non-rate-limited levies, such as the debt service levy, trust & agency levies, or the self-insurance/liability/property levy

*Continued on next slide…*

# HSB 313 / SSB 1208

## Division VII: Restricts Other Rate-Limited City Levies *(Continued)*

***In brief:*** **Aside from the CGFL, restricts all other rate-limited ad-valorem city levies to 2% hard cap; restricts bonds or indebtedness payable from a rate-limited levy to fund general operations**

- Restricts bonds or indebtedness payable from a rate-limited ad-valorem levy to fund general operations or use proceeds from sale of bonds to fund generation operations.
  (Excludes services financed by statutory funds other than a debt service fund.)
- Bond counsel has shared items in the "essential corporate purpose" definition of code 384.24 are protected from this.

# HSB 313 / SSB 1208

**Division VIII: Low-Income Elderly Property Tax Credit**

***In brief:*** **Expands the income threshold for eligibility of this credit from 250% of the federal poverty level to up to 350% of the federal poverty level.**

*Must be 70 years old or older (this did not change)

**What will this do?** → More Iowans will be eligible for this credit.

# Feedback we are providing to lawmakers:

**2% revenue restriction unlikely to keep up with city expenses**

- Cost of goods and services outpaces this rate
- Wages/retaining/recruiting workforce
- Cities with special circumstances (disaster recovery)
- "Layers" with the expanded property tax exemptions and rate-limited levy restrictions

**Expanded property tax exemptions further restrict revenues**

**Presents risks to economic development**

- Likely impacts the utility of TIF, and may also impact existing agreements
- Seeing a decrease in revenues, cities may struggle to afford providing essential city services and consider slowing growth and/or re-prioritzing efforts
- Non-growing cities may be at a disadvantage due to expenses outpacing valuations

**"New Construction" Section (see Div. 1, Sec. 7 & Div. 2, Sec. 13) needs adjustments:**

- Should ensure TIF increment and property tax abatement is included
- If TIF increment is not considered, will cities want to use TIF? When increment rolls off, it **greatly** impacts the city's CGFL and rate-limited levies applied across all non-TIF valuation.
- We are verifying whether the new construction exemption carries out longer than one year.
- When TIF increment is used, it does not impact the ratcheting, and disincentivizes sunsetting TIF.

# Thank you!

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