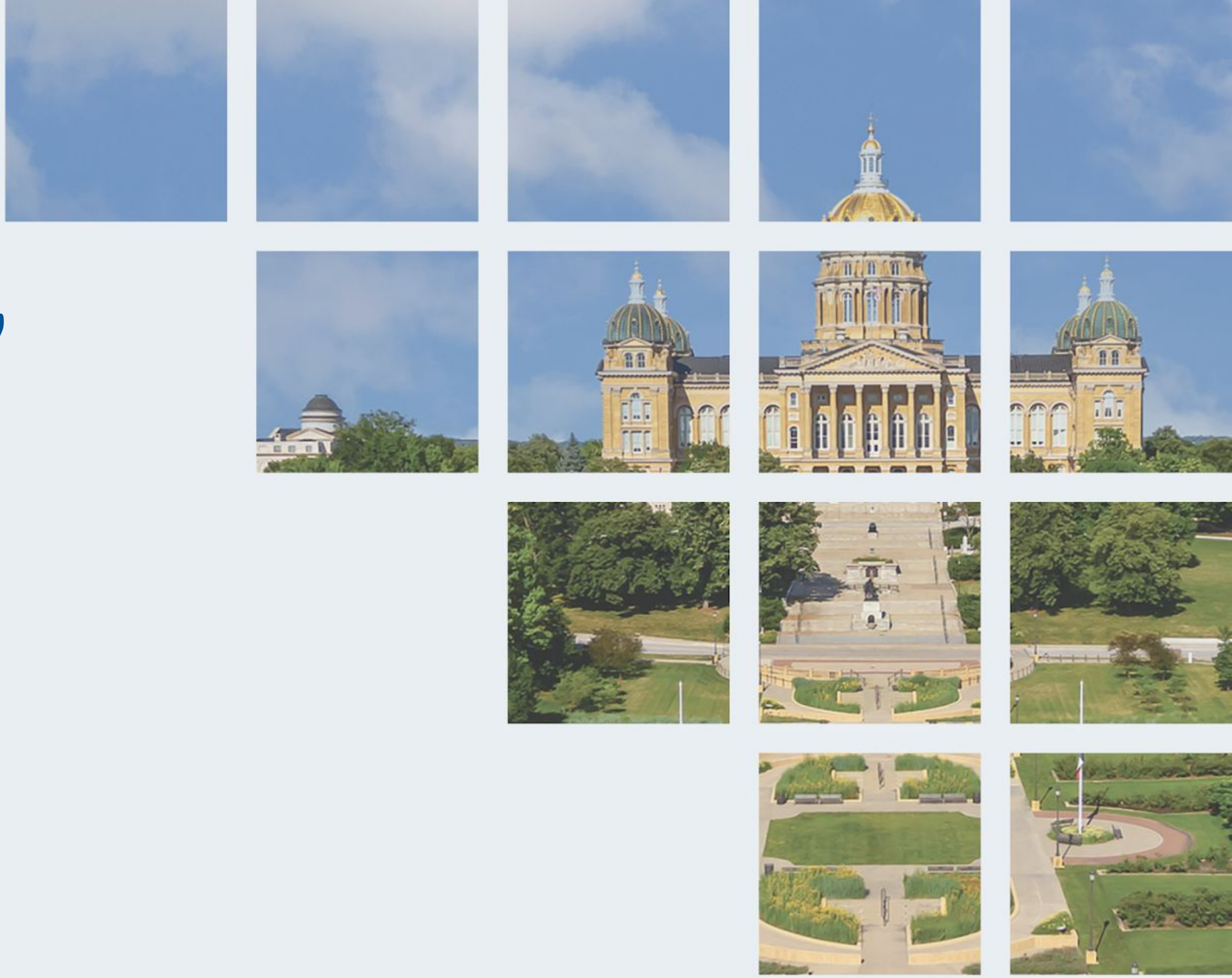
HSB 328 / SSB 1227
Brief Overview

DRAFT/Unofficial Analysis for the Iowa League of Cities



April 11, 2025

IOWA LEAGUE of CITIES

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Updated companion bills introduced by Ways & Means Chairs, Rep. Kaufmann & Sen. Dawson, released 4/9/25

Iowa League of Cities was invited to an presentation outlining updated bill provisions, alongside representatives from counties, school boards, and other stakeholders.

- Chairs will continue to meet with the League and other stakeholders to understand updated bill's impacts.
- Chairs shared the bill is **not** the final product - drafting issues exist throughout, are bills may still be tweaked depending on stakeholder feedback.

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.
- Accelerates the elimination the property tax rollback on all property classes, except ag, to **one year.**
- Implements a Budget Modifier to limit revenue, partially based on CPI.
  - 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 $50k homestead exemption, rather than previously $25k.

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.

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Division II: Restricting the CGFL

In Brief: **Restricts general fund revenues following a new "Budget Adjustment Factor"**

How does it work?

A formula lowers the CGFL to a levy rate that produces a restrictor on revenues generated by it beginning with FY27.*

The Budget Adjustment Factor (BAF) depends upon CPI growth and allows for an increased restriction when/if CPI increases to at least 4%, but does **not** allow for the same percentage as CPI growth:

If CPI (urban) is less than 4%, the restrictor is 2%
If CPI is between 4-5.99%, the restrictor is 3%
If CPI is between 6-7.99%, the restrictor is 4%
If CPI is over 8%, the restrictor is 5%

*Certain levies will remain outside of the revenue restrictions which will cause the percentage of growth to be slightly higher than 2%-5%

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Division II: Restricting the CGFL

In Brief: **Restricts general fund revenues using a new "Budget Adjustment Factor"**

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 formula
- Instead of slowing/"shaving a percentage of growth," this places a restriction
- The bill defines "new valuation" and exempts any valuation growth attributable to this definition from the revenue restrictions for that fiscal year
- TIF increment releases are not considered new construction/valuation for the purposes of these bills

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Division II: Restricting the CGFL

In Brief: **Restrictor of 2%-5% on general fund revenues**

What is the new CGFL formula under the bill?

⟶ CGFL (upcoming budget year) = 1,000* ((1+BAF%) * dollars levied by the current year CGFL) / (total taxable value of upcoming budget year – new valuation 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.* TIF is also impacted by the school aid section of the bill.

*The League is continuing conversations with legislators to ensure that existing TIF agreements are able to be maintained under HSB328/SSB1227

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Division IV: Removing Rollback (except for Ag)

In Brief: **Residential, commercial, industrial and rail property rollbacks phase-in up to 100% right away in FY27; Ag-residential coupling removed and Ag follows a productivity-based formula; re-establishes the multi-residential property tax class**

In FY27, rollbacks for listed classifications go to 100%.

All revenue generated by the CGFL is still capped at the BAF-based calculations in Division II, so this does not generate additional revenue from the CGFL.

Would represent a shift to residential homeowners unless offset by the expanded homestead exemption or school levy changes in other divisions of the bill.

Eliminates the state's $125M appropriation related to the conversion of the original Business Property Tax Credit to a 2-tiered rollback. This difference will be a decrease to local government revenues.

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Division IV: Removing Rollback (except for Ag)

***In Brief:* Residential, commercial, industrial and rail property rollbacks phase-in up to 100% right away in FY27; Ag-residential coupling removed and Ag follows a productivity-based formula; re-establishes the multi-residential property tax class**

Re-establishes the multi-residential property tax classification

- The League is learning more about this and its impacts

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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 homestead exemption.**

After FY26, the homestead **credit** equal to taxes due on the first $4,850 of taxable value phases out and is eliminated, all state funding is eliminated.

Beginning with FY27, the new expanded homestead is created to exempt the first **$50,000** of residential property taxable valuation. This may have a significant budgetary impact for local government taxing authorities. Impacts would vary dependent on the community's housing makeup.

- Using FY23 data from LSA for average consolidated tax rate and number of eligible homesteads, this would equal about a $1.3 billion annual impact (not including the additional homestead exemption for filers of age 65+) to all taxing entities.

The existing additional homestead exemption of $6,500 of taxable valuation for filers age 65+ would remain in addition.

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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.

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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% cap; restricts bonds or indebtedness payable from a rate-limited levy to fund general operations**

Currently authorized levies may not be imposed in FY27 unless they were imposed in the FY26 budget, but the amendment eliminates this lock-out after the FY27 budget year.

How does it work? A formula lowers the rate-limited levy to a levy rate that produces a 2% cap on revenues generated by it. If a city's non-TIF valuation would generate less than the 2%, it is guaranteed up to 0.5%.

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…

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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% 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.

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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.

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Division VIII: Property Tax Rates Study Committee

In brief: **During the Legislative Interim, a small group of lawmakers will meet to examine tax rates by all governmental entities**

- Goal of Study Committee → How do lawmakers re-engineer the system for the next (post-rollback) phase? What changes to code are needed that were not anticipated?
- Feedback will be solicited by taxing entities on necessary changes to make new system work in practice.
- The current makeup of the study committee is 3 Senators and 3 Representatives (2 Republican and 1 Democrat)

Feedback we are providing to lawmakers:

The addition of an inflationary metric is a welcome addition, but the 4% starting point is unlikely to keep up with city expenses

- Cost of goods and services unique to cities outpaces this rate.
- Wages/retaining/recruiting workforce, particularly for current public safety roles has outpaced 2%.
- Cities with special circumstances (disaster recovery) are more vulnerable to restriction.
- “Layers” with the expanded property tax exemptions and rate-limited levy restrictions, potentially increasing the actual percentage of growth above 2%.

Expanded property tax exemptions further restrict revenues

- Property poor, smaller, rural, higher residential percentage communities may experience an outsized impact.

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-prioritizing efforts.
- Non-growing cities may be at a disadvantage due to expenses outpacing valuations.
- TIF is also impacted by the decrease in the school management levy changes ($5.40) in another division of the bill.

“New Valuation” Section (see Div. 1, Sec. 7 & Div. 2, Sec. 13) needs adjustments:

- Should ensure TIF increment releases 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.
- When TIF increment is used, it does not impact the ratcheting, and disincentivizes sunsetting TIF.

Thank you!

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