

Right-Sizing the 2% Cap: Focus on the General Fund Levy



EXPLANATION OF PROBLEM:

If a 2% cap is adopted, it should be limited to the general fund levy — not applied to levies that fund costs cities don't control.

These include costs such as:

- **Tort liability and Insurance (384.12(3))**
 - Insurance costs have increased significantly, averaging ~20% annually since 2020
 - Includes coverage for:
 - General property and casualty
 - Workers' compensation
 - Public officials liability
 - Cyber liability
 - Premiums are driven by market conditions and claims risk, not local policy decisions
 - Liability exposure is inherently unpredictable, making costs difficult to forecast or control
- **Trust and Agency (384.6)**
 - Funds are restricted by law and must be used for designated purposes
 - Includes costs related to employee benefits and payroll-related obligations
 - Key cost drivers include:
 - MFPRSI (411) and IPERS contribution rates are set outside of city control
 - Health insurance costs, driven by broader market trends
 - Collectively bargained benefits, which often increase above 2% annually, particularly with public safety agreements
 - These obligations are structurally fixed or externally driven, limiting local flexibility

IMPACTS OF THE PROBLEM:

Structural Mismatch Between Costs and the Cap

Costs are rising faster than the cap allows, creating a built-in budget gap.

- A rigid 2% cap does not reflect real-world cost growth, including inflation and market-driven increases
- Key cost drivers regularly exceed 2%, including:
 - Insurance (averaging ~20% annual increases since 2020)
 - Employee benefits and pensions
 - Fuel, construction materials, and contracted services
- When costs grow faster than the cap, cities are forced to:
 - Reduce services or staffing, or
 - Shift to debt to cover operating gaps
- Over time, this creates a structural imbalance, not a one-time budgeting challenge

Service Reductions Become Inevitable

- Cities cannot run deficits, so rising costs within a fixed cap force tradeoffs
- To stay within the cap, cities may:
 - Delay or scale back street maintenance and infrastructure repair
 - Reduce library, parks, and recreation services
 - Leave public safety and public works positions unfilled
- In effect, the policy forces communities to cannibalize core services to keep pace with uncontrollable cost increases.

Disproportionate Impact on Rural and Slow-Growth Communities

- Smaller and rural communities are less able to offset cost increases because they:
 - Have limited or no new valuation growth
 - Lack access to diversified revenue streams (e.g., LOSST, hotel/motel tax, permit activity)
- Unlike high-growth cities, they cannot “grow their way out” of rising costs
- This results in greater service pressure in the communities least able to absorb it

Limited Ability to Absorb Economic Shocks

- Smaller tax bases mean:
 - Less flexibility to manage unexpected cost spikes
 - Greater vulnerability to the loss of a major employer
- Many small cities already operate with lean budgets, leaving little room to adjust
- Without flexibility, even modest disruptions can lead to significant service impacts

Rising Input Costs Across All City Services

- Core city services rely on materials and inputs increasing faster than 2%, including:
 - Road salt, asphalt, and construction materials
 - Fuel and equipment
 - Contracted services (engineering, legal, solid waste collection, etc.)
- These cost pressures affect every community, but:
 - Communities with smaller tax bases face compounded challenges
- The result is a growing gap between what it costs to deliver services and what cities are allowed to raise

SOLUTION:

Align 2% Cap to the Consolidated General Fund Levy (CGFL) in HF 2745

Amend page 4, line 15 of HF 2745 to the following:

2. a. For the budget year beginning July 1, 2027, and each budget year thereafter, the maximum **aggregate** amount of property tax dollars that may be certified for levy ~~among all property tax levies imposed by a governmental entity for the general fund~~ against property that is not new valuation, except for levies authorized in sections 384.4, 384.6, and 384.12, shall not exceed an amount equal to the sum of one hundred two percent of the aggregate amount of property tax dollars certified for levy by the governmental entity among all property tax levies imposed by the governmental entity for the general fund for the current fiscal year.