
10 Financial Considerations that Changed as a Result of HF718/SF 2442 and Tips for Budgeting in the Future

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AGENDA FOR 10 FINANCIAL CONSIDERATIONS REGARDING:

- HF718/SF 2442 which
- Budgeting Tips
- Future Auditing – Internal Control Tips
- State Legislature?

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LEADERSHIP AMID CHALLENGING TIMES

House File 718: Divisions Impacting Cities

Division 2:

Consolidation of levies and creation of a newly-defined adjusted city general fund levy (ACGFL)

Levy limitation based on property tax valuation growth "tiers"

Division 5:

New homestead exemption for residential property owners of age 65 or more

Division 6:

New military service exemption expansion

Division 7:

Property tax abatement agreements and limits

Division 8:

Regional transit funding

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LEADERSHIP AMID CHALLENGING TIMES

House File 718: Divisions Impacting Cities (continued)

Division 9:

County auditor reports to distinguish revaluation and other additions to tax base

Division 10:

Requires new statement to be mailed to each property owner

Changes to the budget timelines, forms, hearings and processes

Division 13:

Single date annually for bond elections

Division 14:

Bond financing and reporting requirements

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HF 718 IMPACTS #1: PROPERTY TAX VALUATIONS

Property Tax Valuations

Tax Increment Finance (TIF)

- HF 718, Division II is based non-TIF valuation
- For Fiscal Years 2025-2028**
 - If more TIF increment factors into valuations, the city may be less likely to fall into Tier 2 or 3 (and reduce CGFL / revenue growth)
 - If less TIF increment factors into valuations, the city may be more likely to fall into Tier 2 or 3 (and reduce CGFL / revenue growth)

**Written prior to SF 2442

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HF 718 IMPACTS: PROPERTY TAX VALUATIONS

Property Tax Valuations

New Construction

- New construction was not exempted from the valuation growth “triggers”
- The new CGFL will still apply across all property, incl. new construction; however, the same potentially lower levy limit applies to all taxable valuation.

Revaluation

- Revaluation, and the assessment timeline is not factored into the valuation growth “triggers.” Cities will be more likely to hit a trigger to lower their CGFL.

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HF 718 IMPACTS: PROPERTY TAX VALUATIONS

How many cities will be impacted by the FY25-28 CGFL “ratcheting?”

Most.

- 821 of 929 cities (for which data was available) would have hit a Tier II or III growth at least once over the 4 year period 2020-2023 (88%).
 - Caveats:
 - Consider the years over that history, but want to compare similar number of years to the span in the law
 - Adding/comparing more years = more triggers
 - LSA fiscal note analysis on saw 96% of cities impacted at least once over a 6-year period (2017-2023), and 77% of cities over the 6% threshold at least once in the same time period.
- On eliminating levies, LSA notes says that “by FY29, the fiscal impact can be expected to reduce and eliminate much of the \$86M currently raised by the additional [general fund additional] levies, and eliminate the full \$12M raised by the emergency levy (FY23).”

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HF 718 IMPACTS #2: ABATEMENT

Division 7: Residential Property Tax Abatement

- Requires minimum assessment agreement for commercial properties within new areas under chapter 404 – urban revitalization. Also applies to new commercial property abatements within existing areas.
- Removes school property taxes from residential property abatements within new urban revitalization areas and new residential abatements within existing areas.

Rough estimation of the impact of this portion:

\$975M taxable value from residential x (\$14.39/\$1,000) = \$14M Plus
 \$462 million from multi-residential (now res) x (\$14.67/\$1,000) = \$7M
 =\$21 million removed from property tax abatement

That leaves about \$50 million of abated property tax from the abatements (non-school levy)

The average is roughly a 30 percent reduction in property tax abatement from residential properties (FY23)

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HF718 IMPACTS #3 HOMESTEAD CREDIT & EXEMPTION

DIVISION V – Homestead Credit & Exemption

- Retains the homestead credit and adds a homestead exemption for individuals 65 and over
 - *SF 2442 requires that the county recorder county treasurer, county assessor city assessor or other government body maintain confidentially the names, addresses, and dates of birth of persons receiving the 65+ homestead tax exemption.*

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HF718 IMPACTS #4 DIVISION VI – MILITARY EXEMPTION

- Increases the military exemption to \$4,000 for AY23 / FY25 and after
- Current military exemption is \$1,852
 - *The military exemption will not be funded by the state in any amount beginning in FY25 and going forward.*

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HF718 IMPACTS #5 PROPERTY TAX LEVIES – VOTED LEVY

- Voted Permissible
 - All have been removed except Unified Law Enforcement
 - Requires a 28E organization be established
 - Levy must go to a vote of the citizens before it can be used

Voted Other Permissible Levies	
28E.22	150000 Unified Law Enforcement

28E.22 Referendum for tax.

1. The board of supervisors, or the city councils of a district composed only of cities, may, and upon receipt of a petition signed by eligible electors residing in the district equal in number to at least five percent of the registered voters in the district shall, submit a proposition to the electorate residing in the district at any general election or at a special election held throughout the district. The proposition shall provide for the establishment of a public safety fund and the levy of a tax on taxable property located in the district at rates not exceeding the rates specified in [this section](#) for the purpose of providing additional moneys for the operation of the district.



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HF718 IMPACTS #6 PROPERTY TAX LEVIES – EMPLOYEE BENEFITS

- Special Revenue
 - Police & Fire Retirement
 - Must be a city included in the MFPRSI (410/411)
 - FICA & IPERS
 - Cannot be used until CGFL is at the max (individually calculated max)
 - Employers share of the withholdings
 - Other Employee Benefits
 - Employer share of other benefits offered by the city
 - [Admin Rules 545](#)

Special Revenue Levies	
384.6	Amt Nec Police & Fire Retirement
	Amt Nec FICA & IPERS (if general fund at levy limit)
Rules	Amt Nec Other Employee Benefits



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SPECIAL REVENUE LEVIES – EMPLOYEE BENEFITS

- 545-4.1
 - Employer's Share
 - FICA
 - IPERS
 - Police & Fire Retirement
 - Insurance Benefits (Current Employees)
 - Retiree Medical Benefits
 - Pursuant to 364.25
 - Worker's Comp Insurance
 - Unemployment
 - Counseling Programs
- Deferred Compensation for management employees not in IPERS or MFPRSI:
 - City Managers
 - Fire & Police Chiefs
- Wellness Programs adopted by Council
- OSHA Required Tests
- Post-employment Physicals



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HF718 IMPACTS #7 CAPITAL IMPROVEMENT RESERVE LEVY

Debt Service Levy 76.10(6)	Amt Nec
Capital Projects (Capital Improv. Reserve)	0.67500

- Used to fund reserve for Capital Projects
 - Limited to \$0.67500 per 1,000 of taxable value
 - Covered by 384.7
- What the Code Says:
 - "levied for the fund for the purpose of accumulating moneys for the financing of specified capital improvements, or carrying out a specific capital improvement plan"
 - Rate and time frame that the levy may be used is up to a vote of the public; can be closed by vote as well



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HF718 IMPACTS #8 DEBT SERVICE LEVY

Debt Service Levy 76.10(6)	Amt. Need
Capital Projects (Capital Improv. Reserve)	0.67500

- Used to long term debt of the City
 - Only limited by the amount necessary.
 - Covered by 384.4 and 76
- What the Code Says:
 - “A city shall establish a debt service fund and shall certify taxes to be levied for the debt service fund in the amount necessary to pay:
 - Judgments against the city, except those authorized by state law to be paid from other funds.
 - Interest as it becomes due and the amount necessary to pay, or to create a sinking fund to pay, the principal at maturity of all general obligation bonds issued by the city
 - Payments required to be made from the debt service fund under a lease or lease-purchase agreement.
 - Payments required to be made from the debt service fund under a loan agreement.



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HF 718 IMPACTS #9

Division 13: Bond Election

- Limited to single date annually for bond elections (November only – same date as regular government elections)

Best practice note:

- If a city wants to pass a TIF-funded project that requires a resolution calling for a public hearing in case of reverse referendum, the best practice would be to have these hearings timed to allow the city to plan for the debt in the upcoming budget (should the city want to pre-levy for the debt payment).

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HF718 IMPACTS #10

Credit Ratings impacts include:

- Tax base characteristics, such as:
 - flexibility/ability to generate revenues with decreased availability of levies, (property taxes a key piece in Iowa)
 - revenue/expense ratio
 - ability to repay debt
 - unemployment rate
 - valuation per capita

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HF718 DIVISION II – CITY RATE CONSOLIDATION

- Sets the max rate for this combined levy at \$8.10 in future years
- Consolidates several General Fund levies and the Emergency levy into a combined general fund levy
- Provides a mechanism for levy rate to be reduced if non TIF taxable growth triggers are met or exceeded
- Goal is to bring all levies back under or to the \$8.10 max rate in FY29

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HF718 IMPACTS CITY LEVIES

- Expressly authorized under State Code
- A levy represents the total amount of funds a city may collect on a tax rate
 - It is a cap on the amount of property tax dollars a local government is allowed

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HF718 DIVISION II – CITY RATE CONSOLIDATION

- | | |
|--|--------------------------------------|
| ▪ Regular General | ▪ Memorial Building |
| ▪ Emergency | ▪ Symphony Orchestra |
| ▪ Contract for Use of Bridge | ▪ Cultural / Scientific Facilities |
| ▪ Rent / Ins / Maintenance of Non-owned Civic Center | ▪ County Bridge |
| ▪ Operation & Maintenance of Owned Civic Center | ▪ Border River Bridges |
| ▪ Planning of San. Disposal Project | ▪ Aid to Non-Gov Transit Company |
| ▪ Levy Improv. Fund in Special Charter City | ▪ Maintain Gift / Devise Institution |
| ▪ Inst./ Vocal Music Groups | ▪ City EMS |
| | ▪ Support Public Library |

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LEVY RATES NOT AFFECTED BY HF718

- Operation & Maintenance of Publicly-owned Transit (\$0.95000)
- Aviation Authority (\$0.27000)
- Liability, Property/Casualty & Self-insurance (Amount Necessary)
- Support of Local Emergency Management Commission (Amount Necessary)
- Unified Law Enforcement (\$1.50)
- Ag Land (\$3.00375)
- Employee Benefits
- Police & Fire Retire, FICA/IPERS, Other Employee Benefits (Amount Necessary)
- Capital Improvement Reserve (\$0.67500)
- Debt Service (Amount Necessary)

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HF718 DIVISION II – CITY RATE RATCHET DOWN

- Provides a mechanism for levy rate to be reduced if non-TIF taxable growth triggers are met or exceeded
- Goal is to bring all levies back under or to the \$8.10 max rate over time
- HF718 Reduced levy by constraining growth by 2% or 3% each year, depending on the trigger hit
 - Non-TIF taxable growth under 3%, no reduction
 - Non-TIF taxable growth over 3% but less than 6%, 2% reduction factor applied

SF442 which just passed impact these tier thresholds.
<https://iowaleague.org/resource/sf-2442/>

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BUDGET TIPS

- **Planning - A Business Plan**
- **Control**
- **Monitoring/Reporting**
- **Amending**

Department of Management (DOM)



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BUDGET TIP #1

- Expenditures are nearly completely controlled by the City, and therefore may take longer to budget. IPERS & 410/411 contributions, insurance premiums, debt payments and FICA withholding payments have limited city control or are completely out of city control
- Items to remember: Insurance premiums, employee benefits and payroll costs should be budgeted on each department line affected, rather than as a bulk number under General Government

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BUDGET TIP #2

- **9 expenditure programs, 7 funds.**

Be sure that the expenditures are placed in the right program and out of the correct fund.

FUNDS:

- General
- Special
- TIF Special
- Debt Service
- Capital Improvement
- Permanent
- Proprietary

PROGRAMS:

- Public Safety
- Public Works
- Health & Social Services
- Leisure & Recreation
- Community & Economic Development
- General Government
- Debt Service
- Capital Improvements
- Enterprise Funds

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BUDGET TIP #3

- If the city is paying for employee benefits with the employee benefits levy, the expenditure must be shown under the Special Revenue column or a transfer to General from Special must be budgeted
- **MATCH REVENUES AND EXPENDITURES BY FUND!**
- All payroll and benefits for Proprietary enterprise employees must be paid from the Proprietary fund and cannot be levied for

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BUDGET TIP #4

Revenue Budget (cont.)

- **Items to remember (cont.)**
 - Miscellaneous Revenues
 - Claim payments from insurance
 - Donations or grants from non-governmental sources
 - Fines
 - Transfers In
 - Money coming from another City fund
 - Every transfer in must be balanced by a transfer out
 - Transfers from TIF go on line 38, all other transfers go on line 37
 - Proceeds of Capital Asset Sales is where sales of land or large equipment should be budgeted



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BUDGET TIP #5

- General Obligation (GO) debt payments must be made out of the Debt Service fund column on the Debt Service line (Line 54 of ExpP2) Non-GO payments can be made directly from the fund paying the debt
- Non-GO debt payments out of Proprietary must be budgeted on Line 70 of ExpP2, rather than being budgeted on the operation line of the utility paying the debt

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BUDGET TIP #6

- Road Use, Employee Benefits, LOST expenditures can all be budgeted directly from the Special Revenue column
- Emergency fund revenues must be transferred out of Special Revenue and into General before they can be budgeted to be expended

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BUDGET TIP #7: LIMITS/RESTRICTIONS

- **State Imposes Limits**
 - Revenue types
 - Amount available through levy limits HF718
 - Amount available through statute limits (Hotel/Motel tax, Local Option Sales Tax)
- **State requires certain expenditures**
 - Mandates

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BUDGET TIP #8 BUDGET ADOPTION

- **Regulated by state**
- **Budget is an appropriation**
 - Authorization to spend
- **Transparency**
 - Public work sessions
 - Publication and hearings requirements
 - Social Media posting guidelines

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BUDGET TIP #9 - BUDGETS IN IOWA BUDGET PROCESS CHANGES AGAIN – SF 2442

- **New budget submission deadline of April 30**
 - Applies to all local governments who issue a tax
- **New mailing directly to property owners is required**
 - Requires cooperation between local governments, County Auditor, and DOM
- **New hearing on full property tax rate is required**
 - Must have its own publication/posting and included in the mailed notice
 - Hearing must be separate and stand alone. No other action than the hearing.

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BUDGET TIP #10 - BUDGETS IN IOWA

DIVISION X - BUDGET NOTICE MAILING PROCESS

- Creates new *Code of Iowa* Section 24.2A, which requires a notice showing the proposed city, county and school property tax rates and revenues for the budget year be mailed to each taxpayer by **March 15**
- Cities, counties, and schools are required to provide certain information to the County Auditor by **March 5th** each year

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IOWA MUNICIPAL OVERSIGHT LAW

- Amended Chapter 11.6 of the Code of Iowa
- Passed in 2012 took effect July 1, 2013
- **Purpose:** To provide additional oversight of cities with population of fewer than 2,000
- https://www.auditor.iowa.gov/media/cms/cityscape_1_DA3A1E31EC351.pdf

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IOWA MUNICIPAL OVERSIGHT LAW, CONT.

- **Audit VS. Examination**
 - Chapter 11.6 defines “examination” as:
“Procedures that are less in scope than an audit but which are directed toward reviewing financial activities and compliance with legal requirements.”
- <https://www.auditor.iowa.gov/city-resources/city-exam-resources/>



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IOWA MUNICIPAL OVERSIGHT LAW, CONT.

- **Annual examination required:**
 - City population less than 2,000
 - \$1 million or more in budgeted expenditures in **two consecutive** years
- **Periodic examination required:**
 - City population less than 2,000
 - Less than \$1 million in budgeted expenditures or \$1 million or more in budgeted expenditures in a single year

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AUDIT / EXAMINATION

- Audit is not a dirty word (there are 5 letters)
- Audit or Examination is required
 - Helps your understanding
 - Helps your credibility
 - Good references



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INTERNAL CONTROL

- Council involvement
- Finance Committee
- City Purchasing Policy
 - Council approval
 - Levels and authority
 - Credit Card and online purchases
 - Resolution to authorize early payments

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INTERNAL CONTROL EXERCISE

- Internal Control Activities
 - Review List of Key Duties
- Note if performed by:
 - A: Mayor
 - B: Council
 - C: City Clerk
 - D: Utility Clerk
 - E: Deputy Clerk
 - F: Other (specify)



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COMMON FINDINGS

- Lack of Segregation of Duties
 - Incompatible duties
 - Incorporate independent reviews
 - Utilize existing available staff
 - Utilize elected officials
- *Acknowledging the difficulty of small town Iowa having large staffs to avoid this audit finding.

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COMMON FINDINGS

- Reconciliations
 - Lack of bank to book reconciliations
 - Variances not resolved
 - No independent review
 - Supporting documentation (deposits in transit/outstanding checks list) not maintained and/or inaccurate
 - Investments not included
 - Improper cut-off period
 - Aides for Reconciliations are available, just give me a call.

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COMMON FINDINGS

- Financial Reporting
 - Transactions, receipts, disbursements and/or balances between City reports and/or Annual Financial Report do not agree
 - Undocumented/unsubstantiated adjustments made to City reports and/or balances
 - Chart of Accounts not utilized; all funds not reported or reported incorrectly (wrong fund used)

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COMMON FINDINGS

- For Each Utility Billing Period:
 - A listing of delinquent customer accounts was not prepared and reconciled to Utility billings and collections for each billing period and/or throughout the year
- In other words:
 - The amount of **Utility Billings**
 - Less the amount **Collected**
 - Should reconcile to **Delinquent customer account balances**

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COMMON FINDINGS

- Receipts
 - Use pre-numbered receipts
 - Initial listing of collections not prepared
 - Deposits not made in timely manner
- Disbursements
 - Original invoices not retained
 - Some invoices/disbursements not approved by Council
 - Blank checks signed in advance
 - Need counter-signature of checks with supporting documentation
 - No credit card policy or controls

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COMMON FINDINGS

- Payroll
 - Timesheets not prepared and/or no independent supervisory review
 - Wages not authorized by Council
 - Vacation/comp time earned and/or used not adequately tracked or reviewed
 - Wage and withholding rates not independently entered or reviewed

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COMMON FINDINGS

- Miscellaneous
 - Outdated bank signature cards
 - Checks not restrictively endorsed upon receipt
 - Lack of supporting documentation, review or approval for interfund transfers or journal entries (adjustments)
 - Council minutes not published or not published timely
 - Questionable disbursements – lack of addressing public purpose criteria

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COMMON FINDINGS

- Tax Increment Financing (TIF)
 - Chapter 403.19 of the Code of Iowa requires Cities to certify TIF indebtedness to the County Auditor who is then required to divide the property tax to repay the certified indebtedness.
 - TIF revenue may only be used to repay principal and/or interest on certified indebtedness
- Urban Renewal Annual Report required to be filed with DOM by December 1st

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HF718 / SF 2442 TIP SUMMARY

- Strategic Plan and Long-Range Capital Plan w/Finance Plan
- Consider your TIF requests to the County in November
- Review your timing if you want a pre-levy for the upcoming budget and if it includes a possible reverse referendum
- Consider levies left for a City to use!
- EXPENDITURES!
- Budget Workshops & Training
- Be aware of your community's property valuation trends

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WHAT QUESTIONS DO YOU HAVE?

Thank you!

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