

KNOWING YOUR CITY'S FISCAL HEALTH

IOWA MUNICIPAL FINANCE OFFICERS ASSOCIATION

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DO YOU HAVE QUESTIONS ABOUT YOUR CITY?



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ASSESSED VALUE OR TAXABLE VALUE

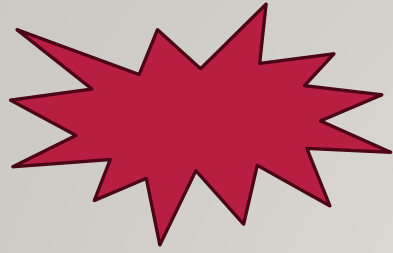
- **Assessed Valuation is 100% of all values located within your City limits. This is “actual” or full value.**
- **Taxable Valuation is the remaining valuation after all rollbacks by classification are applied. A City levies property taxes on a Taxable Valuation.**
- **Rollbacks for FY 2027**
 - **Commercial & Industrial 90%**
 - **Residential 44.5345%**
 - **Agricultural 59.4401%**

Senate File 2472 re-established a future multi-residential rollback that will not be higher 6% more than the annual residential rollback.

FY 2028 – 3% Plus Residential

FY 2029/Beyond – 6% Plus Residential





SENATE FILE 2472 - ALERT



2% Cap on Combined General Fund Levy (CGFL)

Caps total general fund property tax collections

NO CAP on: Debt Service, Tort/Property Insurance, Employee Benefits

\$8.10 Limitation remains but deadline extended from FY 2029 to FY 2031

New Construction counted outside the cap

All new construction property tax receipts (outside of TIF & Abatement) will not be limited to 2% cap

Re-think a City's approach in year 1 to TIF or Abatement Schedule



PROPERTY TAX CONSTRAINTS

Problem

Consideration

Combined General Fund Levy (CGFL) constraints



Roll expenses out for employee benefits, insurance, capital improvement reserve

Cannot keep a City Clerk, Police or Public Works employee



Share services with another City

Need to bring more dollars into the City for funding



Does your City charge a franchise fee, hotel/motel tax or capital improvement reserve

We used to fund street sweepers out of our general fund but can no longer afford that



Consider a GO debt issuance to be paid with a debt service levy

These considerations may lead to more fees or a higher property tax rate, but with restrictions on your City's budget this may be necessary to offer your citizens with the services they expect.



DEBT CAPACITY

- **DEBT CAPACITY IS THE LEGAL LIMIT ALLOWABLE FOR OUTSTANDING GENERAL OBLIGATION INDEBTEDNESS**
- **UNABLE TO ISSUE MORE IN GENERAL OBLIGATION DEBT THAN YOUR DEBT CAPACITY ALLOWS**

- **CALCULATION:**

100% ACTUAL VALUE

X

5% = DEBT CAPACITY

Examples:

\$150,000,000 X 5% = \$7,500,000

\$25,000,000 X 5% = \$1,250,000



REMAINING DEBT CAPACITY

- **TOTAL DEBT CAPACITY MINUS**
 - **GENERAL OBLIGATION PRINCIPAL INDEBTEDNESS OUTSTANDING**
 - **REBATE AMOUNT OR ANNUAL APPROPRIATION AMOUNT OUTSTANDING**
 - **SALES TAX REVENUE PRINCIPAL AMOUNT OUTSTANDING**
 - **TIF REVENUE PRINCIPAL AMOUNT OUTSTANDING**

**SHOULD NOT HAVE DEBT/OBLIGATIONS OUTSTANDING THAT
EXCEEDS 80% - 85% OF TOTAL CAPACITY**

- **WATER/SEWER REVENUE INDEBTEDNESS DOES NOT COUNT AGAINST DEBT CAPACITY**



DEBT CAPACITY CALCULATION

Example City, Iowa

Computation of Legal Debt Limit as of July 1, 2026

Actual Value for Debt Limit Calculation	\$ 142,222,949
Times 5% of Actual Value for Debt Limit Calculation	0.05
Legal Debt Limit for Fiscal Year 2026-2027	<u>\$ 7,111,147</u>
Outstanding Bonds/Notes Applicable to Debt Limit:	
General Obligation Corporate Purpose Bonds, Series 2022	1,055,000
Local Option Sales Tax Revenue Bonds, Series 2024	955,000
	<u>\$ 2,010,000</u>
Add <u>Annual Appropriation</u> of TIF Rebates	165,000
Total Debt Applicable to Debt Limit	<u>\$ 2,175,000</u>
Remaining Legal Debt Margin	\$ 4,936,147

*Preliminary Subject to change.



CAPITAL IMPROVEMENT PLANNING (CIP)

- CIP is a process the Mayor, Council, Clerk and possibly community members outline “wants and needs” for the City over a 3-5-10 year look forward.
- The CIP should include all projects, small or large across all departments.
- Possible funding of each project should be identified, and not all of it is going to be borrowed funds.
- CIP’s should be implemented and re-visited on an annual basis, to identify changes needed.
- Don’t be afraid to move things up from later years or take things off the CIP, times change what is important to Cities.
- This process will allow the City to do more accurate budget forecasting from year to year.

THE FINAL STEP IS IDENTIFYING **SOURCE OF FUNDS/BORROWING** FOR CIP PROJECTS



CAPITAL IMPROVEMENT PLANNING (CIP)

STREET/PARKS

Elm Street Reconstruction - \$1,200,000
Splash Pad at Oriole Park - \$450,000
Downtown Sidewalk Plan - \$550,000

WATER/SEWER UTILITY

Water Meter Upgrade - \$85,000
Water Tower Replacement - \$2,500,000
Sewer Main Lining - \$250,000
Sewer Lift Station - \$900,000

CITY HALL POLICE/FIRE

City Hall New Computers - \$25,000
Police Vehicle - \$45,000
Fire Pumper Truck - \$425,000
Police Station Improvements - \$250,000

Cities should consider different methods for funding projects, and multiple types of funds could be used on one project. Funds to be considered:

Fund Balance
Debt Borrowing

Local Options Sales Tax
Franchise Fees

28E Agreement Funds
User Fees



ESSENTIAL PURPOSES VS. GENERAL PURPOSES

ESSENTIAL CORPORATE PURPOSE (ECP)

- Streets/Bridge/Sidewalks
- Water / Sewer Utility
- Fire / Police / Ambulance Equipment
- Street Department Equipment
- Dilapidated/Dangerous buildings
- Rehab/Improve Existing City Parks
- Urban Renewal Projects (Chapter 403)

GENERAL CORPORATE PURPOSE (GCP)

- Public Buildings (City Hall, Fire Station, Police Station, Library, Community Center, Swimming Pool, Golf Course)
- Build a New Park (land, equipment)

GCP DEBT ISSUANCE VOTER THRESHOLD
commonly called

Reverse Referendum Public Hearing

Population 5,000 or less \$553,799

Population 5,001 to 75,000 \$969,149

Population 75,001 or greater \$1,384,499



TAX EXEMPT AND TAXABLE DEBT

- **Tax Exempt debt obligations allow investors to earn interest that is exempt from federal income taxes. As a result, investors generally do not have to report the interest they receive as taxable income on their federal income tax forms.**
 - **Double Tax Exempt in Iowa is possible if the project is an urban renewal project, this means it is tax exempt from Iowa income taxes also.**
- **Taxable debt obligations typically are for private purpose activities or operating costs. The investors of taxable bonds to pay federal income tax on the interest you pay them.**
- **Bond Counsel will determine the taxability of the issuance.**



FUND BALANCES

- Expenses or liabilities are subtracted from revenues or assets. Positive fund balances occur when there are more revenues than expenditures.
- Use June 30 reports as a good indicator of fund balance when identifying remaining balances. This balance is calculated after all revenues have come in and expenses have been paid out.
- Allows Cities to monitor inflows and outflows.
- Cities may have many different funds that are tracked separately and combined.
- Assigned or Restricted fund balances indicate that the City plans to use those funds or will be required to use those funds in the future and should not be considered eligible for use anywhere else.
- Cities should work towards positive fund balances and be able to explain negative fund balances as possibly a one-time expense with revenues coming in to offset.



FUND BALANCE

EXAMPLE FUNDS

- General Fund
- Debt Service Fund
- TIF Fund
- Proprietary (Water/Sewer/Stormwater)
- Capital Projects Fund
- Special Revenue

GENERAL FUND GUIDELINES

- Best Practices by GFOA

<https://www.gfoa.org/best-practices>

- Formalize a policy for unrestricted general fund balance that should be maintained.
- Recommendation of 25 – 35% of annual budget expenditures in unrestricted funds (General Fund)





SENATE FILE 2472 - ALERT



The General Fund (GF) caps un-assigned cash balances at 35% of general fund budgeted expenditures.

This bill does create an “obligated funds account” for money budgeted/saved for large equipment or infrastructure purchases or projects that is not part of the cap on reserve funds.

THIS DOES NOT MEAN YOU HAVE TO SPEND DOWN CASH. YOU NEED TO STRATEGICALLY “ASSIGN” THE FUNDS IN EXCESS OF THE 35% CAP TO OTHER PURPOSES





SENATE FILE 2472 - ALERT



City's can no longer issue debt for operational costs that will be serviced by a
debt service levy.

- ❖ Reflects the importance of cash fund balances in the general fund
- ❖ Reflect the importance budgeting and meeting budgeting deadlines

Bonding for direct and indirect capital expenditures or large expenses/infrastructure projects are EXEMPTED from restrictions



WORKING CAPITAL GOALS/TARGETS FOR PROPRIETARY FUNDS

- GFOA Best Practices recommends no less than 90 days of working capital (3 months) revenues as a baseline for a proprietary fund.
- You should consider strength of collections practices and historical consumption of inventories or prepaids when setting this amount.
- Most small Cities in Iowa should consider 180 days or 6 months of working capital as a fund balance. Some Cities consider 365 days or 12 months of working capital as a fund balance.
- **Consider designated or restricted fund balances outside (over and above) working capital for upcoming capital projects.**



RATING AGENCY ARE MY BONDS RATED?

- **Not every bond issue sold has a rating.**
- **Ratings provide a third party financial, economic and debt/pension analysis**
- **Determining factors for having an issuance rated are:**
 - **Financial health of a City**
 - **Size of the issuance**
 - **Cost of the rating**
 - **Prior rating experience**
 - **Audited Financials (required)**
- **Ratings typically provide more investors looking at the issuance, along with lower interest rates associated with rating level.**
- **Four rating agencies**
 - **Moody's**
 - **S & P**
 - **Fitch**
 - **Kroll**



RATING AGENCY SCALES

Moody's

Aaa

Aa1

Aa2

Aa3

A1

A2

A3

Baa

S & P and FITCH

AAA

AA+

AA

AA-

A+

A

A-

BBB+

Kroll

AAA

AA

A

BBB

*Kroll may assign a + or – to indicate lower or higher risks



BOND INSURANCE

Competitive Bond Sales - City may purchase up front insurance to enhance the marketability of the bonds. (City's expense)

City may offer "Bidder's Option" which makes the insurance the option and expense of the winning underwriter

Negotiated Bond Sales may require insurance at the City's expense for their credit approval.

- Bond Insurance is an insurance policy that ensures investors are paid their principal and interest payments if the City is unable to do so.
- Bond Insurance Premium is based on total debt service of the bond issue and risk related to the Issuer.
- Risk is based on the Insurance Company's financial review of your City.
- Becoming more popular in the market

2 Firms Offering Municipal Bond Insurance:

Build America Mutual (BAM) – current rating AA

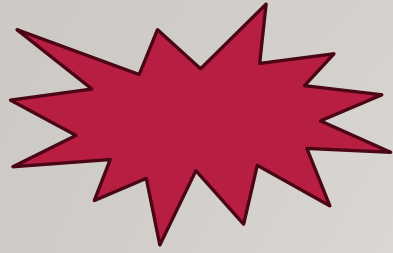
Assured Guaranty (AG) – current rating AA



AUDITS AND ANNUAL EXAMINATIONS

- **Audited Financial Statements** are completed by third party audit firms that take a broad scope look at financials, procedures and compliance.
- **Annual Examinations** are less in scope than an audit that reviews financial activities and compliance with legal requirements.
- **Annual Examinations** cost less than full Audits
- **Cities with populations larger than 2,000 people** need an audit annually
- **Cities with populations under 2,000 people and two consecutive years of \$1m in budgeted expenditures** need an annual examination
- **Cities with populations under 2,000 people and less than \$1m in budgeted expenditures** require a periodic examination.
- **Single Audit** is required in any year the city spends \$750,000 or more in federal awards





SENATE FILE 2472 - ALERT



Tax Increment Financing (TIF) Repeals IA Code 403.22 LMI (Low to Moderate Income)

All existing LMI funds on hand must still be used for LMI related projects/persons

Your City may have LMI requirements currently in your TIF Rebate Housing Agreements or on your GO borrowing related to a TIF Housing Project

Review your current Rebate Agreement

Contact Bond Counsel to discuss a possible Amended Agreement

If you asked for FY 2027 TIF Receipts for LMI, you should fund the LMI since that asking was before the law was signed into law.

Should affect your FY 2028 and beyond TIF Receipts for Housing Projects





SENATE FILE 2472 - ALERT



OTHER SF 2472 CHANGES/UPDATES

- ❖ **Increases the EMS Levy, by Counties, from \$0.75 to \$1.50. Those at \$0.75 will need a new taxpayer vote to go up to \$1.50.**
- ❖ **Schools will lose up to 25% of their current SAVE (one cent) revenue over the next 5 years. This may create some downgrades of ratings on debt outstanding for schools.**
- ❖ **Lowers the School Foundation Levy that can be levied from \$5.40 to \$4.90 over 3 years. (Will have an effect on your City's TIF TAX RATE if you collect TIF)**
- ❖ **DOM must use League of Cities Taxpayer form for March mailing related to the budgets.**





SENATE FILE 2472 - ALERT



OTHER SF 2472 CHANGES/UPDATES

TIF Changes:

- ❖ **23 yr sunset on all future TIF districts**
 - ❖ **Counties may automatically shut off TIF receipts on an area with a 23 yr life.**
- ❖ **Perpetual TIF districts – normal for next 20 years, then capped at 60% of collections from area.**
 - ❖ **Blight areas can still exist but will be subject to this cap of funds restriction**
 - ❖ **New blight areas can start, with no LMI, so this is no longer benefit of blight**
 - ❖ **New blight areas are subject to 23 yr sunset**



WHAT CAN YOU DO TO MAKE YOUR CITY BETTER

Attend Iowa League of Cities Budget Workshops!

Watch Department of Management Webinars!

Encourage your Mayor and Council to be Informed!

**Encourage other City Clerks/Finance Directors within your County or around
you to also stay informed!**

Communicate with others: Share ideas!

