

## City Administrator Report to Mayor & City Council

September 5, 2014, Edition No. 142

### WEEKLY UPDATE:

1. Dates to Remember: October 23rd is the date for our tentative goal setting session at 5:00PM in the Lower Conference Room.
2. CVB: Attached is the updated summary of hotel/motel tax receipts through 6-30-14. We received payment for the 4th quarter of FY 2013/2014 today which brought the total for the fiscal year to \$415,041.27 which is the highest year so far. The CVB's funding allocation for FY 15 will be 25% of this amount or \$103,760. This is significantly higher than the budgeted amount of \$85,500.
3. IEDA: Dave Gobin and I met with Rebecca Howe and Andrew MacLellan with the Riverview Hotel Development yesterday. On the city side of things you will see us bringing forward the agreements and amendments to allow for the City TIF for the project as well as the ordinance creating the Iowa Reinvestment District over the next 2-3 months. Mrs. Howe intends to get the IEDA paperwork wrapped up in the next 6 weeks, but we will have a better idea after the meeting with IEDA this afternoon.
4. TJ: FI - The City has received the \$13M from IDOT for the transfer of jurisdiction. Staff is working on an RFQ for design and engineering services for the Miss Drive Corridor Project. Dan Burden will be in town on October 30th to participate in a visioning session for Miss Drive. We will also be shooting additional video footage of the Cedar Street Round-a-bout with Wellmark.
5. LOST: The State's estimate for Local Option Tax for FY 15 is \$2,622,884.19. This is \$65,000 higher than their estimate for FY 14 (2.55%). We won't know the final actual for FY 14 amount until late October or November. With 80% for sewers, that would be close to \$2.1 million of the total amount for the West Hill project.
6. Grant: Alliant Energy has awarded the City with a \$2,350 grant for the community garden project.
7. Healthy Living Fest: Please see the attached updated brochure and you can also check out the website at [www.healthylivingfest.com](http://www.healthylivingfest.com).
8. In-Depth Sessions: Here is the latest tentative schedule:

#### SEPTEMBER

Davenport Housing Code  
City Code (ATE Code Discussion)  
Wal-View TIF  
Meeker TIF District  
MUSCOM Agreement

#### OCTOBER

City Code - wrap up and discussion

UR Plan Amendments  
TIF Letters and Small Business Program  
Ethics Policy  
Waste Hauling  
Landfill Committee Update  
Library - maps and streamlined areas (Sept or Oct?)

NOVEMBER  
Zoning (TBD)  
CTRE Report  
CDBG Grant, Storm water and parking lot changes, housing, and facade program  
WPCP Staffing

DECEMBER  
City Hall and Art Center HVAC and Envelope Funding Plan

9. Landfill: Staff met with Barker Lemar who will be taking over the engineering services at the landfill. They will assist with developing short and longterm planning at the Landfill and well as meeting Landfill IDNR reporting requirements. Barker Lemar has extensive experience with landfills and comes highly recommended by our City Attorney.
10. Diane Fry: Just a quick update - this past week the City received \$11,445 in full restitution on this case.
11. Landfill Meeting: City staff met with Bill Trent and Greg Jenkins this past week in prep for the Landfill Committee meeting for next week. The Committee will report our its findings at a future in-depth session.
12. Property Taxes: Per the Iowa League - Last week, the Iowa Department of Revenue (IDR) began rulemaking related to the new multi-residential property class from SF295, legislation that reformed Iowa's property tax system, passed during the 2013 legislative session. In the Public Notice, the IDR made a substantial change from the original draft rules that were distributed in May related to legal interpretation of a specific component of this law, with significant impact to cities. The Public Notice contains information on how to comment on the rule, and more information about the change is summarized below. We are providing the SF295 Iowa Code final language, and draft rulemaking text that the League received in May, which contained the original interpretation, for comparison purposes. Please see attached. This could have significant impacts as we look for improve upper story housing in the downtown area.
13. Conferences: Here are my annual conference dates: ICMA (9/13-17), Iowa League (9/24-26), and National League of Cities (11/19 to 21).
14. Unemployment: According to Iowa's workforce development data, the unemployment rates for the City of Muscatine (not the County) are as follows:

## Muscatine - City Unemployment Rates

2011 1.5% unemployment  
2012 1.4% unemployment  
2013 0.9% unemployment  
2014 0.9% unemployment (year to date)

|              |      |
|--------------|------|
| Ames         | 3.7% |
| Bettendorf   | 4.7% |
| Burlington   | 5.9% |
| Cedar Rapids | 4.7% |
| Clinton      | 5.4% |
| Davenport    | 6.7% |
| Des Moines   | 5.0% |
| Dubuque      | 4.3% |
| Fort Dodge   | 6.1% |
| Iowa City    | 3.7% |
| Mason City   | 5.0% |
| Muscatine    | 0.9% |
| Sioux City   | 4.5% |
| Waterloo     | 5.4% |

15. Dog Park Update: Per Committee - Here are a few Dog Park notes that can be shared with the city council: The proposed design is going thru some final adjustments and will provide additional amenities. The plan calls for 4 distinct fenced areas ranging from 3 acres to 1/2, parking lot, access to the new trail system, and a main entrance shelter. Dr Matt Gordy (ISU) and his Landscape Students are assisting with the design. The final design will allow us to adjust the budget. The budget is a high-level budget and will be adjusted upon approval and once we have actual bids on the main elements of the Dog Park. Soil samples have been completed for the proposed land on Houser St and the results recommend adding sulfur to help establish the turf. We are working on getting a quote for the 800#/acre needed for the site. Awareness events continue along with some soft fundraising such as a Dog House Raffle and Barktober Fest. People and businesses are showing interest in donating larger amounts but we have been holding back on accepting large donations until we have finalized our donor plan and final approval by the city. The Steering Committee continues to meet monthly and had a Saturday work session in June to establish recommended Dog Park rules and fees structure. This will be included in the final Dog Park package to the City Council. We hope to present the total Dog Park package to the City Council during the Fall of 2014. Peggy Gordon.

## Enterprise Zone Program Proposal

The Enterprise Zone program (EZ) contains a “sunset” date after which no new zones can be designated. In 2011, IEDA offered a bill to revamp the program but the bill was not well considered or well received.<sup>1</sup> In 2012, instead of reoffering the 2011 bill, IEDA pushed for a two-year extension of the program in its current form. The intent of that change was to allow time to develop a new proposal.

Since 2012, IEDA has been engaged with a number of stakeholders about the future of the Enterprise Zone (EZ) program. A working group was assembled to consider the program’s effectiveness and to discuss how the economic development community’s needs can be best served in this policy area, at both the state and the local levels. The goal of these discussions was to reach some agreement on the future of the program, and this document summarizes the resulting legislative proposal.

### Proposal Summary

IEDA recognizes that local communities and developers have a great stake in the EZ program and that the program addresses some needs that no other IEDA program does. However, IEDA also recognizes that the program has significant administrative overhead as well as extensive overlap with the High Quality Jobs (HQJ) program, the IEDA’s largest tax-based business incentive program.

This goal of the proposed legislation is to keep the elements of the EZ program should be retained and amend or eliminate the ones that are duplicative. The bill itself has three main divisions, each one with a different purpose and a number of related changes.

#### Division I Summary

Division I makes a number of enhancements to the HQJ program to provide capabilities that it does not currently have. One notable feature of the EZ program is a clear focus on redevelopment of distressed areas, especially urban core areas. While HQJ has unemployment based distress criteria, there is currently no emphasis in HQJ on driving incentives into redevelopment of existing sites as opposed to green field development.

The bill adds the terms “brownfield” and “grayfield” into the HQJ program in order to provide additional incentives for redevelopment. The existing HQJ wage thresholds are 120% of the laborshed wage unless a project is in a distressed county. The bill would allow a 90% wage threshold for any project that is developed on a brownfield site and a 100% wage threshold for any project that is developed on a grayfield site. The definitions of brownfield and grayfield are borrowed from the existing Brownfield and Grayfield Redevelopment Tax Credits program. This change not only puts a thumb on the scale of redevelopment, it is more flexible than the existing EZ program because the brownfield and grayfield wage thresholds would not be limited to a designated “zone” of a city or county. These new thresholds could be used on a site by site basis.

But in Iowa, it is not only the urban areas that are economically distressed. While HQJ currently does have distress criteria, there are only 31 counties eligible under the existing criteria. The EZ program currently allows approximately 45 counties to be eligible under its distress criteria. Therefore, Division I of the bill also increases the number of counties that are eligible for HQJ distress criteria from 25 to 33 for both short term unemployment and long term unemployment measures.

<sup>1</sup> See 2011 SSB 1116 available at [http://coolice.legis.iowa.gov/linc/84/external/ssb1116\\_Introduced.pdf](http://coolice.legis.iowa.gov/linc/84/external/ssb1116_Introduced.pdf).

This change would result in a total of 41 eligible counties under the most current unemployment figures in use by IEDA. Below is the list of counties that would be eligible under the bill's changes:

**Allamakee, Appanoose, Cerro Gordo, Chickasaw, Clarke, Clayton, Clinton, Davis, Des Moines, Dickinson, Fayette, Floyd, Guthrie, Hamilton, Hancock, Hardin, Henry, Howard, Jackson, Jasper, Jefferson, Jones, Keokuk, Lee, Louisa, Madison, Mahaska, Marshall, Monona, Monroe, Montgomery, Muscatine, Page, Scott, Tama, Van Buren, Wapello, Webster, Winnebago, Worth, Wright.**

While the total number of counties eligible under the bill does not quite match the existing number of EZ counties, the EZ program limits total zone area to 1% of a county's area. Under HQJ's distress criteria, when a county qualifies as distressed, the entire county is eligible for the lowered wage thresholds. Therefore, not only does the bill put much more of the state's geography into the "distressed" category, it also greatly simplifies the administration of the program by dispensing with the need to create, track, manage, and market the approximately 1,400 existing enterprise zones, including the need for zone changes and incentive approvals at the local level.

## **Division II Summary**

Division II of the bill creates a new "Workforce Housing Tax Credits" program. The EZ program currently provides partially transferrable income tax credits and sales tax refunds to housing developers who develop eligible housing projects in enterprise zones. The bill creates a new program that is structured in a similar way to the Housing Enterprise Zone (HEZ) credits but with some modifications. First, the new credits are not tied to a zone. They can be developed anywhere in the state as long as the project itself meets one of four project based criteria:

1. It's a grayfield or brownfield site.
2. It's the repair or rehab of dilapidated existing housing stock.
3. It's an upper story project.
4. It's new construction in a community with demonstrated workforce housing needs.

Second, like the HEZ credits, the new credits are available for housing projects that include four or more single family dwelling units or three or more units of a multi-family dwelling, but they are also available in an upper story project that consists of two or more dwelling units.

Third, the new credits dispense with the local housing commissions and the need to submit information to such commissions. Instead, application materials are handled only and directly with IEDA and a standard application, project registration, and contract issuance process is created within IEDA so that the new credits can be administered in a manner similar to other existing IEDA credit programs such as the Brownfield and Grayfield Redevelopment Tax Credits program.

Fourth, the current HEZ credits allow incentives on the first \$140,000 of per unit value. The bill makes the first \$150,000 of investment eligible.

Fifth, the bill puts per unit cost caps on the credits to ensure they are targeted at middle-income housing. Projects with per unit cost up to \$200,000 are eligible, unless the project is a historic preservation project in which case it is eligible up to \$250,000 per unit.

Sixth, the bill simplifies the new credits in number of ways. First, by making all of the issued credits fully transferrable rather than just a few of them. This will ease administration by both IEDA and the department of revenue which have been separately tracking a subcap of transferrable credits under the program. Because this makes the financing more marketable, the bill also dispenses with certain IRS section 42 credit designations. Second, because the credit amounts issued under the program are relatively small and are no longer linked to HQJ or EZ program requirements, the bill sets the carryforward period on the tax credits at 5 years.

Finally, the new credits are capped at no more than \$1 million in benefits per recipient and no more than \$20 million in the aggregate. The program is also placed under IEDA's maximum aggregate tax credit cap.

### **Division III Summary**

Division III of the bill provides for the wind-down of the existing EZ program. The old code sections are eliminated, zone changes and new agreements are ended, and existing agreements are protected.

## **Program Background Information**

The above portion of this document describes the details of the legislative proposal. The remainder of the document contains IEDA's frank assessment of the current program and a comparison of the capabilities of both EZ and HQJ.

### **EZ Program Assessment**

Despite its strengths, EZ also has a number of weaknesses that IEDA believes are addressed by the above legislative proposal. The following items are some of the program weaknesses identified by IEDA:

#### **The process for certification and management of zones is complex**

The process of designating and certifying zones is cumbersome and inconsistent, and it involves many decision-makers. For example:

- Cities and counties have different designation requirements. While they both use "distress criteria" in order to make designations, the county criteria are different than the city criteria. In addition, cities actually have two alternative sets of criteria to use for designations.
- Incentives are restricted to projects located in zones, but the zones themselves are limited in geographic size, resulting in the designation of many small zones in order to drive benefits to the desired projects.
- Zones are 10 year designations with 10 renewals, meaning that zones rarely roll off the list even in areas where distress criteria have improved.
- The caps on total area cause many communities to amend existing zone boundaries in order to accommodate new projects.
- Each time a zone is amended, compliance with the applicable distress criteria must be reassessed and new approvals must be obtained at both the state and local levels.
- While the incentives are targeted to businesses in order to spur job creation, none of the zone certification criteria directly incorporate high unemployment.

#### **The policy goals of zone designation are not closely aligned with program design**

Despite the fact that the zone designation criteria are based on a number of holistic measures of distress, program benefits are exclusively tax-based incentives for non-retail businesses. In other words, communities

designate zones based on broad measures of distress, but the program isn't very good at delivering benefits that directly target the criteria. For example:

- Counties can designate zones if the *county* meets certain county-level criteria, but the *zones* themselves don't have to meet the criteria.
- Zones can be designated based on low wages and poverty measures, but the wage threshold is only 90% and it doesn't increase over the term of the contract.
- Zones can be designated based on vacant housing and county poverty rates, but nothing in the program *requires* that an eligible business actually hire residents of the zone or even of the county.
- Zones can be designated based on population loss and aging populations, but the program has no assistance targeted directly at labor issues. The program offers housing tax credits and 260E training, but it's unclear to what extent they actually counteract population loss and workforce shortages.
- Zones can be designated based on blighted conditions or property valuation losses, but program benefits are limited to business incentives. There is no assistance for brownfield clean-up. No assistance for historic preservation. No assistance for community development. And there are no tie-ins to the various state programs that do provide such assistance.
- Cities can designate "transportation enterprise zones" based on certain infrastructure criteria. But no assistance is available to local governments for building or repairing public infrastructure.
- In urban areas, residential areas often qualify as distressed, but are not compatible with industrial uses creating further asymmetry between the goals of zone designation and program benefits structure.
- All incentives flow to businesses and none to nonprofits or local governments, leaving all non-employment development needs unmet.

In short, the EZ program seems focused primarily on job creation rather than the broader needs of distressed areas. If the program is a job creation tool, then it's inferior to high quality jobs; but if it's an urban renewal or rural development tool, then it needs to offer more than business incentives.

### **Business incentives are not closely tied to job creation and are exclusively tax-based**

To be eligible for incentives under the program, a business must meet the following criteria:

- Be located in a designated zone.
- Not be inappropriately reducing or relocating operations.
- Not be a retail business.
- Provide sufficient benefits to employees.
- Pay at least 90% of the qualifying wage threshold.
- Create or retain 10 or more jobs.
- Make a capital investment of at least \$500,000.

The incentive for eligible businesses is a 10% investment tax credit (ITC). That is, it's 10% whether the business creates 10 jobs or 100. Whether it invests \$500,000 or \$5 billion. In contrast, the high quality jobs program (HQJP) uses a sliding scale to increase the incentive types and amounts as capital investment amounts and created jobs increase. Businesses in HQJP don't qualify for a 10% ITC until they invest \$100 million and create 100 jobs.

In addition, the EZ program's benefits are exclusively tax-based. Many business have no income tax liability or no eligibility for the R&D credit. In such cases, a loan/forgivable loan component often makes sense for a project, but the EZ program has no direct financial assistance for businesses.

### **The local commissions and the zone boundaries create bureaucracy at two levels**

Every eligible business must first apply to the local commission, which must make an initial determination of eligibility, and only then submit the application to the authority for final action. Since the final determination on the application rests with the authority, the requirement of approval by local commissions is an unnecessary and bureaucratic requirement in order to obtain state incentives. The red-tape is particularly thick in cases where, in order to accommodate an important new project, the geographic boundaries of the zone must first be amended at the local level and approved by the state before the usual local and state application approvals can be obtained. In addition, zones are designated by legal property descriptions and not by addresses, making it impossible at the state level to accurately map designated zones.

### **Significant overlap with the HQJ program creates complexity and additional administrative overhead**

The High Quality Jobs program (HQJ) and the EZ program have nearly identical capabilities. The following table compares the two programs:

|                                 | Enterprise Zones | High Quality Jobs | Comments                                   |
|---------------------------------|------------------|-------------------|--|
| <b>Investment Tax Credits?</b>  | X                | X                 | Corporate or individual income tax credits |
| <b>Sales Tax Refunds?</b>       | X                | X                 |  |
| <b>R&amp;D Tax Credits?</b>     | X                | X                 | Supplemental awarded credits               |
| <b>New Jobs Withholding?</b>    | X                |                   | Available under 15A.7 and 260E.            |
| <b>Insurance Tax Credits?</b>   | X                | X                 | Only insurers pay the premiums tax         |
| <b>Housing Tax Credits?</b>     | X                |                   | Targeted to developers                     |
| <b>Property Tax Exemptions?</b> | X                | X                 |  |
| <b>Wage Thresholds?</b>         | X                | X                 | 90% in EZ; 100% or 120% in HQJ             |
| <b>Benefits Requirement?</b>    | X                | X                 |  |
| <b>Retail Excluded?</b>         | X                | X                 |  |
| <b>Statewide Eligibility?</b>   |                  | X                 | EZ is limited to designated zones          |
| <b>Job Requirements?</b>        | X                | X                 | EZ has minimums; HQJ has a sliding scale   |
| <b>Loans/Forgivable Loans?</b>  |                  | X                 | EZ has no cash component; HQJ does         |
| <b>Distress Criteria?</b>       | X                | X                 | HQJ is county level unemployment           |
| <b>Contract Administration?</b> | X                | X                 |  |
| <b>Clawbacks?</b>               | X                | X                 |  |

KEY: Red = EZ only capability; Green = HQJ only capability; Black = Both Programs

As the above table illustrates, the capabilities of the two programs are remarkably similar. However, IEDA must currently administer parallel sets of eligibility, parallel rules, parallel compliance, and parallel board approval and contract administration procedures all in order to deliver essentially the same set of program benefits under different sets of eligibility criteria.

A closer look at the table reveals two things:

- (1) That HQJ has three critical capabilities that EZ doesn't have: statewide eligibility, county level distress criteria, and loan-based assistance; and
- (2) That if the housing credits, urban core/city-based distressed criteria, and the rural distress focus could be folded into HQJ, a single program could be made to do the work of what is now done under two programs. This would greatly simplify program offerings for businesses, remove unnecessary red-tape at the local level, and make program delivery more efficient at the state level.

IEDA believes that the legislative proposal addresses both of these items in a simple, effective, and efficient manner.

## Miscellaneous changes

The bill also makes a number of miscellaneous administrative changes, including the following:

- Previously remediated projects are made ineligible. Such projects include not only projects that have already been redeveloped but also projects that have already received an award under the program.
- The process for accepting, reviewing, registering, and scoring projects is clarified.
- Certain administrative provisions related to the issuance and claiming of the tax credit certificates are clarified.
- The requirement to enter into a contract with the authority is clarified.
- The future repeal of the program is eliminated.

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## Conclusion

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## Brownfield and Grayfield Redevelopment Tax Credit Proposal

The Brownfield and Grayfield tax credits have provided a great incentive for the redevelopment of environmentally challenged properties and for infill areas. However, the program is not designed to work with the other financing programs commonly used for such properties and often results in high levels of public funding going into a small amount of projects rather than a “last dollar necessary” approach which would spread available resources around to more projects.

IEDA proposes to change the program in order to make it work in a “competitive” fashion. That is, to incorporate negotiated awards for project much like the business development tax credits rather than automatic awards based on expenditures as used in the program today.

Because IEDA is subject to limitations on the amount of tax credits that can be awarded, it is important to deploy the available resources as efficiently as possible. By better leveraging the same amount of funding already devoted to the program, IEDA proposes to get more with less.

The proposal would also expand the scope of the program making public buildings eligible for the tax credits so that abandoned schools can be more readily redeveloped.

Finally, the proposal would make the tax credits refundable for nonprofit, tax exempt organizations.

### Proposal Summary

#### Public Buildings Eligible

The bill amends section 15.291 of the code by adding a definition for the term “abandoned public building.” “Abandoned public building” means a vertical improvement constructed for use primarily by a city, county, or other political subdivision of the state for a public purpose whose current use is outdated or prevents a better or more efficient use of the property by the current owner. Such property includes vacant, blighted, obsolete, or otherwise underutilized property. The term “Vertical improvement” is defined to mean the same as in the Iowa Reinvestment District Act.

The existing definition for “grayfield site” is amended to add “abandoned public building” which makes any such building eligible for the same tax credits available to existing grayfield sites.

#### Refundability for Nonprofits

The bill amends code section 15.293A to make the tax credits refundable under certain conditions. To be refundable, the taxpayer must be an entity organized under Iowa Code chapter 504 and qualifying as a 501(c)(3) organization for federal tax purposes.

In addition, the organization must establish eligibility for refundability during the application process. Unless established at application time, the credits are not refundable at the Department of Revenue.

#### Award Amounts Determined by Board and Council

The bill amends code section 15.293A and other related sections in a manner intended to allow the council and the board to determine the amount of tax credits awarded to each project on a “competitive basis.” To this end, the bill establishes a filing window and allows the board and the council to score the merits of each application based on factors such as financial need, project quality, project feasibility, and any other factors appropriate to a competitive application process.

# Certified Site Program

- Announced the first-round certifications
  - Dexter, Fort Dodge, Iowa Falls and Van Meter

**WEST METRO INTERSTATE  
AND RAIL PARK**  
DEXTER

**DIRECT INTERSTATE AND RAIL ACCESS**



[+]

**WEBSTER COUNTY  
AG CENTER**  
FORT DODGE



[+]

**IAWA FALLS/HARDIN COUNTY  
INDUSTRIAL SITE**  
IAWA FALLS

**FEATURES DUAL RAIL ACCESS**



[+]

**VAN METER  
VISION PARK**  
VAN METER

**IDEALLY SUITED FOR DATA CENTER**



[+]



IOWA

## Home Base Iowa

- A new non-profit, private-public partnership that will recruit veterans and active duty service members for private-sector job opportunities in Iowa
- Dedicated Staff – Kathy Anderson, Project Manager
- Website – [www.homebaseiowa.org](http://www.homebaseiowa.org)
  - Comprehensive source for job services available to veterans in Iowa
- Marketing outreach:
  - National advertising
  - In-person outreach
  - Social media campaign
  - Military publications
- Legislative Changes:
  - Military Pension Income Tax Exemption
  - Increases Military Homeowner Assistance
  - Permissive Veteran Preference in Employment
  - Streamlines Occupational Licensure
  - Automatic in-state tuition for veterans, spouses and dependents



# Agency Rulemaking Update

August 26, 2014

## New Multi-residential Property Rules Released

Last week, the Iowa Department of Revenue (IDR) began rulemaking related to the new multi-residential property class from SF295, legislation that reformed Iowa's property tax system, passed during the 2013 legislative session. In the Public Notice, the IDR made a substantial change from the original draft rules that were distributed in May related to legal interpretation of a specific component of this law, with significant impact to cities. The [Public Notice](#) contains information on how to comment on the rule, and more information about the change is summarized below. We are providing the [SF295 Iowa Code final language](#), and [draft rulemaking text](#) that the League received in May, which contained the original interpretation, for comparison purposes.

The League is engaged in ongoing Working Group meetings, participating with a group of local assessors, IDR, and the Iowa Association of Counties on the implementation of SF295. The League has also been involved in ongoing discussions with state officials about this new law, and met on Friday to discuss this specific component/change.

### Brief Background

SF295 made significant changes to property taxation in the State of Iowa. Division III addressed the creation of a new class of property, called "multi-residential." Property that meets the multi-residential definition would have its own eight-year rollback schedule before mirroring the residential rollback percentage. This class will be added in assessment year 2015, first affecting city budgets in FY2017.

Additionally, the new class of property is created before the commercial backfill cap is applied at the FY2017 appropriation level; this means that multi-residential property will not be eligible for backfill.

### Change in Legal Interpretation of SF295

IDR originally communicated through draft rules issued in May that all property that contained at least three dwelling units and also included commercial or industrial units would receive dual classification and be assessed separately. The League recently learned, as is echoed in the newly released Notice from IDR, that this is no longer the interpretation from IDR. IDR has received internal clarification that the *Iowa Code* will be interpreted in the following manner for these mixed-use properties:

- First, determine whether the parcel/building contains three or more dwelling units.
  - Multi-residential classification only applies to situations of property containing three

or more dwelling units.

- If yes, then what has the local assessor determined for the “primary use” is of the entire parcel/building.
  - If the “primary use” is determined to be commercial or industrial, then the building will have dual classification (on the same parcel). This means that the building will be assessed according to each portion’s separate classification. In other words, the commercial or industrial portion will be assessed and classified as commercial or industrial property. The multi-residential portion will be assessed and classified as multi-residential property.
  - However, if the “primary use” is determined to be multi-residential, then the **entire building/parcel will be classified (and taxed) as multi-residential**. This means that some property that would otherwise be classified as commercial or industrial-use, will be taxed at a lower rate (so long as multi-residential rollback percentage is lower than 90 percent). This could have significant impact to city revenues.

### **How does this impact local government finance?**

Since some otherwise commercial or industrial-use property contained in a mixed-use building will be classified and taxed as multi-residential property rates, significantly lower tax revenues would be anticipated for these properties. Additionally, the new multi-residential classification is **not** eligible for State backfill, described in the law as a replacement claim.

### **Are there other potential impacts to local governments in terms of planning?**

Yes. As local governments plan for growth and economic development, the fiscal impacts of this change should be considered. As it will be difficult to absolutely determine the “primary use” of a mixed-use building as this is not described in *Iowa Code*, anticipated tax revenues from future mixed-use development may be considerably lower. For this reason, there may also be an impact on future local government planning and zoning.

### **Key Question: How is “primary use” determined?**

Currently, the method for determining “primary use” is not codified. Each local assessor determines the primary use of a parcel. It is not strictly based on valuation, square footage proration, etc. It is this determination that will be used for tax purposes to determine how mixed-use property is taxed. Some assessors have noted that this flexibility will lead to differences in this definition county by county and has the potential for uneven opinions.

### **How can you make comments?**

There is an opportunity to provide written suggestions or comments on this Notice through **September 9, 2014**. Specific instructions on methods of doing so are noted in the introduction of the attached Notice, including submission by email to Jane Severson at [jane.severson@iowa.gov](mailto:jane.severson@iowa.gov). IDR is also putting together a public hearing and we will notify you of the date, time and location.

Please feel free to contact Erin Mullenix, the League’s Research and Fiscal Analyst at [erinmullenix@iowaleague.org](mailto:erinmullenix@iowaleague.org) or 515-244-7282 for more information or any questions. We appreciate your assistance in spreading the awareness that this impacts cities across Iowa.

### **Examples**

- *How will this work for a mixed-use property with a commercial business on the ground floor, and 3 apartments above it, with a primary use determined to be for human habitation?*

- *In this case the entire building will be classified as multi-residential.*
- *What if the same building has a primary use determined to be for commercial?*
  - *Then the building will be dual classed, and the commercial portion will be classified as commercial property, and multi-residential portion will be classified as multi-residential.*
- *What if a building contains two failing businesses but only one apartment above it, with a primary use determined to be for human habitation?*
  - *The entire building will be classified as residential property.*

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M U S C A T I N E

# HEALTHY LIVING

## Festival

Saturday, October 18th

EXPLORE HEALTHY LIVING IN YOUR OWN BACKYARD



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All Ages • All Fitness Levels • Handicapped Accessible

Run • Walk • Bike • Games • Prizes • Entertainment • Food • Guided Golf Cart Tours of the Trail System  
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**5:00 to 11:00 pm**

in Riverfront Park

**5 PM**

The Westbrook Singers  
High Energy Gospel

**7 PM**

The Curtis Hawkins Band  
Funky Blues, Soul and Latin Rhythms

**9:30 PM**

Hal Reed  
Authentic Mississippi Blues