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Legislative Newsletter

May 14, 2021

URBAN COUNTY COALITION

While the Iowa House remained adjourned this week, the Senate and Governor's Office offered tax bills to start brokering negotiations between the chambers to reach final adjournment. There is no indication of a session ending agreement to adjourn this year's session.

The interim final rule of the American Rescue Plan was released earlier in the week. There were no major surprises from what has been reported, though the definitions of infrastructure seem a bit narrower than reported. Outside of water, sewer, and broadband, it seems as though local governments will need to make a strong case that the need for funds arose or were made significantly worse from COVID-19. This includes public health infrastructure and behavioral health infrastructure.

In the Iowa General Assembly, the Senate worked on **Senate Study Bill 1276**, which was passed 9-5 by the Ways & Means Committee; it was renumbered as **Senate File 619** and passed the Appropriations Committee 12-6.

SF 619 is the Governor's compromise plan that she announced last week, and seems to indicate the start of a compromise between the House and Senate.

A House Appropriations subcommittee and full committee meeting is scheduled for Monday morning on **House File 893**, which is the House tax bill. As of this morning the House reflects no compromise has been reached in terms of language offered.

The Senate bill seems to indicate a buy-out looks like: a steady phase out the mental health levy and a move into a state-funded system. County levies would be reduced to somewhere in the $21 range, and eventually to $0. The regions are not disbanded, but will only have the ability to hire or terminate a region executive director.

On the backfill: This would likely start being phased out on June 1, 2022. Two schedules to phase out are proposed - one is five years and one is eight years.

The Senate Ways & Means Committee also unanimously passed **House File 837** (county land record system).

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Gov. Reynolds signed **House File 523:** This bill declares the purchase and construction of land and structures to protect property from flooding as an "essential county purpose" (not subject to voter approval in order to incur indebtedness). This bill passed both chambers unanimously.

See fiscal impact of SF 619

FISCAL IMPACT OF SF 619 SF 619 SENATE TAX OMNIBUS

The changes to the MH funding and the elimination of the property tax backfill affect state spending and local property taxes.

In FY 2022, the state will increase spending by about $60 million for MH services.

From FY 2023 to FY 2030, state appropriations are expected to increase from about $120 million to $145 million; the increase in property tax spending is offset by ending the backfill. Spending for the backfill related to non-school property taxes is expected to decrease over that period by $13.9 million in FY 2023 and grow to $92 million by FY 2030. Changes in school funding are intended to offset decreases to the loss of school share of the property tax back fill. Overall, the changes are expected to decrease non-school property taxes by about $117 million in FY 2023, declining to about $50 million by FY 2030.

The phase-out of the inheritance tax is expected to reduce revenues by $23 million in FY 2022, and expected to reduce state revenues by about $100 million annually after the tax ends.

The 2018 tax cuts require revenues to exceed $8.314 billion and 4% growth for the income tax cut/bracket reductions to occur in 2023. The latest REC estimate is for $8.385 billion but only 3.8% revenue growth in FY 2022. The strike of the two triggers means that the tax cuts will begin in 2023. The impact of the cuts will be about $154 million in FY 2023, $180 million in FY 2024 and will grow due to indexing of brackets.

Local option income taxes are also expected to decline. Corporate income taxes are expected to decline by $17.9 million in FY 2024 and bank/franchise taxes by $2 million in FY 2024. The bill reduces other taxes, allows transit districts to raise the motel/hotel tax and makes changes to the implementation of tax credits.

Not all the provisions have a fiscal impact, but impacts are expected in a number of areas. In the description on this page, provisions in the bill without a fiscal impact are omitted and only those areas with a fiscal impact are included. **Child Credits:** The increase in eligibility is expected to reduce the GF by $600,000 in FY 2021, growing to about $5.1 million by FY 2026.

COVID: The COVID income tax exclusions are expected to reduce revenues by $9.2 million in FY 2022 and $1.2 million in FY 2023. The PPP provisions are expected to reduce GF revenues by $5.3 million.

Installment Sales: The changes to capital gains are expected to decrease revenue by $11.1 million in FY 2023 and later years.

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Housing Trust: The changes to the real estate transfer taxes are expected to decrease GF revenues by $4 million.

Innovation/Equity: The changes in are expected to reduce GF revenues by $2 million in FY 2022 and $3 million in later years.

Telehealth: The telehealth parity provisions are expected to increase costs to the state health plan by $2.6 million.

Housing: The changes to the Workforce Housing credit are expected to decrease GF revenues by $5.3 million in FY 2022, grow to $9 million by FY 2023 and gradually decline to $5.1 million by FY 2027.

Brownfields: The changes to the brownfields credits are expected to be $900,000 in FY 2022 and grow to $16 million by FY 2027.

Bonus Depreciation: Conforming with accelerated federal bonus depreciation will reduce revenues from FY 2022-2024 (-$25 million, -$15 million, -$4.5 million). About 60% of the decline is from corporate income taxes. Most of that decline is recaptured in the next three years.

Beginning Farmer: The changes in eligibility are expected to increase the use of the credit, with an impact of $700,000 in FY 2023 and growing to $1.8 million in FY 2028.

Elderly: The expansion of the elderly property tax credit is not funded by the state. The reduction to local governments is expected to be $1.1 million in FY 2023 and grow to $36 million by FY 2029, due to an aging population.

Transit: The provisions affect the transit district in Polk County. If implemented, the provisions are expected to raise hotel/motel taxes by $13 million and to decrease property taxes by the same.

Property Taxes: Shifts MH funding to the state and ends the property tax backfill.

Income Tax: Strikes the triggers and allows the 2018 income tax changes to go forward.

Child Credit: Increases the income level for eligibility for the Child Dependent Development Credit to $90,000. COVID: Exempts COVID grants and PPP relief from the income tax. Repeals the grant relief provisions as of 2024.

Creates the Energy Infrastructure Revolving Loan Program. Prohibits the Energy Center from making new loans as of June 30, 2021 and transfers money into the new revolving loan fund. Gives the Iowa Energy Center administration duties. Requires the Center to develop a program for loans to encourage the development of energy infrastructure. Limits the EDA to using 5% of the funds for administration.

Housing: Increases the Workforce Housing credit allocation to $40 million, with $12 million reserved to small cities for FY 2022. Makes the allocation $30 million, with $15 million for small cities as of FY 2023. Requires additional submissions to the EDA to show the completion of the project. Allows the EDA to establish a disaster housing recovery period after the declaration of a federal disaster.

Downtown Loans: Establishes a Downtown Loan guarantee program to for investments to help downtowns recover from the COVID pandemic. Gives the EDA and IFA administration duties. Requires a building mortgage to be for less than $500,000 and for less than 50% of the value of the property to qualify.

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Includes other requirements for loan guarantees. Limits the guarantee to five years, with a possible five-year extension, and includes requirements for defaults.

Disasters: Creates a disaster recovery housing program. Allows the EDA to transfer certain unobligated money, subject to the approval of the Governor, into a revolving loan fund for a forgivable loan and grant program to help homeowners and renters whose primary residences have been affected by a disaster. Requires the disaster to have occurred between March 12, 2019 and the effective date of the bill in a county declared to be a disaster area. Allows the EDA to enter into agreements with various cities for the city to act as the local program administrator. Includes requirements for eligibility under the program. Requires the EDA to establish an Eviction Prevention program to award grants.

Elderly: Expands eligibility for the elderly property tax credit.

Transit: Allows a city or regional transit district to impose a 5% levy on the motel/hotel tax. Requires the approval of the levy at an election. Limits the use of the funds to spending on the transit system.