Governor Ray's
Committee on Cities + Towns
Report

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REPORT OF THE GOVERNOR'S CITIES AND TOWNS COMMITTEE

February 1970

STATE OF IOWA

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REPORT OF THE GOVERNOR'S CITIES AND TOWNS COMMITTEE

INTRODUCTION

The overriding concern of municipal officials in Iowa is how to obtain the money necessary to provide the services expected by residents of their cities and towns. This concern is not unique to Iowa. Magazines of state municipal leagues and organizations such as the National League of Cities and National Municipal League document an equal concern on the part of city officials throughout the nation. Problems of obtaining sufficient revenues to support expanding (or declining) populations, upgrade deteriorated physical facilities, and provide new and expanded services seem to abound everywhere.

The Governor's Cities and Towns Committee was established during March, 1969, to gather the facts pertaining to the financial problems of Iowa's cities and towns. The purpose of this report is to present the results of the Committee's study.

The report is divided into 4 major sections. Section 1 is a "Summary of Committee Findings". Section 2 is "Committee Conclusions". Section 3 is entitled "The Setting of Municipal Finance in Iowa". The final section of the report concerns "Incomes and Expenditure Patterns of Iowa's Cities and Towns".

Questions on this report may be directed to individual committee members or to Mr. Kenneth C. Henke, Jr., Director, Division of Municipal Affairs, Office for Planning and Programming, State Capitol, Des Moines, Iowa.

SUMMARY OF COMMITTEE FINDINGS

The purpose of this section is to summarize the primary findings of the Governor's Cities and Towns Committee. The primary findings are listed below and are presented in the order in which they appear in the report.

1. Iowa's cities and towns represent just one of several kinds of local government units. In Iowa there are approximately 1788 units of local government of which slightly over half or 954 are cities and towns. The remaining units of local government are composed of 99 counties, 280 special districts and 455 school districts.

2. Cities and towns perform a wide variety of functions ranging from street maintenance and law enforcement to collection of refuse and provision of recreational and cultural facilities. The financing of municipal government is a very complex process which is rarely appreciated by those not directly involved.

3. Only 10.9 percent of all direct state aid to local governments goes to cities and towns to help finance the broad range of municipal services. The largest amounts of direct state aid to local governments currently are directed to school districts and to county governments to support their programs. The latest figures estimate total direct state aid to local governments at $312.5 million. The $312.5 million is divided among (a) schools, $175.2 million (56.0%), (b) counties, $103.3 million (33.1%), and (c) cities and towns, $34.0 million (10.9%).

4. The use of property tax credits in Iowa is extensive. These credits not only confuse the state aid picture, but also frequently serve to reduce

the actual amount of money available to cities and towns and other units of local governments. Latest annual figures estimate tax credits at $85.8 million. The $85.8 million is divided among (a) schools, $47.7 million; (b) counties, $17.9 million; and, (c) cities and towns, $20.2 million.

5. The property tax is the only tax which municipal governments are empowered to levy. Expenditures are increasing more rapidly than the tax base is expanding. During 1963 - 1968, the property tax base for cities and towns increased an average of only 4.0 percent a year, while expenditures increased by 10.5 percent a year.

6. Property tax increases, other revenues and debt are making up the difference between the growth of expenditures due to inflation, new and expanded services, and the growth of the tax base.

a. The flexibility of the cities and towns to increase revenues by increasing taxes is restricted by the 30 mill limit on the 7 functional funds. Fifty-three cities and 292 towns are currently at or near the 30 mill limit (e.g., levying 28 or more mills). Other revenues and debt, therefore, are being heavily relied upon by municipalities to raise sufficient revenue to meet their increasing needs.

b. Total revenue increased 65.3 percent during the period 1963 - 1968 from $182.4 million to $301.5 million, representing an 10.9 percent increase per year. Other revenue, which includes such items as licenses and permits, user fees, federal aids, state aids, etc., increased 95.1 percent during the same period, from $101.7 million to $198.4 million, representing a

15.9 percent increase per year. Tax revenue on the other hand increased only 27.8 percent during the 1963 - 1968 period from $80.7 million to $103.1 million, representing a 4.6 percent increase per year.

One of the primary causes of the significant increase in other revenues is the trend toward greater reliance on user fees. This trend is in response to the pressures of increased operating costs and additional service demands which must be financed by tax revenue through the 7 functional funds. User fees are being increasingly utilized to finance services formerly financed in part or entirely from tax revenues. Such services include sewer and water facilities, parking facilities, refuse collection and disposal operation, swimming pools, ice skating rinks, airports, museums, and similar items. User fees are also increasing in response to increasing operating costs.

c. Indebtedness is the other source of income for cities and towns which allows them to cope with increased demands for services and increased operating costs. One of the reasons for the increased use of indebtedness as a revenue source is that the tax dollars to retire the indebtedness can be levied outside the 30 mill limit. Cities and towns, in effect, are forced to delay day-to-day maintenance and certain small projects until they can be lumped together in a debt financed project. Deficit financing is encouraged by the inflexible 30 mill limit.

General obligation indebtedness increased from $92.2 million in 1963 to $158.4 million in 1968. This amounted to a 71.8 percent increase over the period, representing an average annual increase of 12.0 percent.

7. Additional costs have been imposed upon cities and towns by state and federal action without a corresponding increase in state aid or taxing authority to help offset the additional expense. Examples of such action include: (a) reduction of firemen's work week, (b) mandated improvement of pension benefits of municipal employees; and (c) federal requirement for secondary sewage treatment.

8. The property tax base has been eroded by state action without a corresponding replacement of revenue. Examples of such erosion include: (a) repeal of the moneys and credits tax, (b) adjustment of the personal property tax credit in 1967, and (c) the mandated devaluation of utilities ordered in 1969.

9. The pressures on cities and towns due to increased operating costs, demands for new and expanded services, and state and federal mandated minimum operating standards require revenue levels that the current municipal revenue structure cannot adequately meet.

CONCLUSION

The inescapable fact which emerges from the study of the Governor's Cities and Towns Committee is that most cities, and many of the towns of Iowa are faced with an increasingly urgent and immediate financial problem. Costs of materials and wages for present services are increasing rapidly. Citizens are demanding new and expanded services. Additionally, higher state and federal standards are being imposed for existing services. A significant number of cities and towns are at or near the 30 mill limit. The property tax base is not keeping pace with expenditure requirements. In short, the financial pressures on most cities and towns require revenue levels that the current municipal revenue structure cannot adequately meet.

The critical question facing an increasing number of those responsible for municipal budgets is, "What do we do if no change is made in the revenue structure of municipal government?" The answers are limited and unappealing. The major alternatives available to municipal government are to:

(a) reduce the present level of services at a time when local pressures are expanding such services;

(b) avoid new programs at a time when citizens are demanding new services, and when the state and federal governments are demanding increased municipal government participation, particularly in the area of ecology;

(c) postpone presently needed programs at a time when the backlog of such delayed programs is growing at a significant rate; and,

(d) institute new user fees and increase existing user fees which tend to weigh most heavily upon low and fixed income groups.

The committee feels these limited alternatives are not acceptable. The time has arrived for immediate action to relieve the financial plight found in most of the state's cities and towns.

More than any other units of government, cities and towns have been under extra burdens of proof in their quest for additional revenues. Concerted efforts have been made in recent years to increase the financial resources available to the state government, and to the school districts. No one will question the desirability and worth of these efforts. Cities and towns, however, seem to be asked for extra proof each time they make their case. To date, little has been done by the state to improve Iowa's cities and towns financially.

Cities and towns are continually being required to play a game of "catch up". Funds are budgeted this year for projects that should have been undertaken three years ago. Problems are set aside to fester and grow because available revenues to cover existing programs are stretched so thin that nothing is available for new ones. This is a disturbing fact and constitutes a financial crisis in many of Iowa's cities and towns.

It is time for the state to face its responsibilities to its urban people. The cities and towns must be given the resources to meet the needs and demands of its citizens. Additionally, if the state orders the installation of a new sewage plant or orders an increase in the pensions of municipal employees or establishes a minimum standard for a facility or service, it must take responsibility for helping to pay the additional cost.

The information in this report documents the basic facts concerning municipal finances in Iowa. The Governor's Cities and Towns Committee hopes that this report will be of assistance in improving the financial condition of Iowa's municipalities. The financial problems of many cities and towns require urgent and immediate action. Now is the time for action to permit the municipalities to take advantage of state action in preparing their 1971 budgets. Bankruptcy will not wait for debate.

THE SETTING OF MUNICIPAL FINANCE IN IOWA

CITIES AND TOWNS AS UNITS OF LOCAL GOVERNMENT

When speaking of "local government" one normally thinks of cities and towns. However, it is important to recognize that cities and towns represent only one kind of local government unit. In Iowa there are 1,788 units of local government of which only slightly more than one half are cities and towns. The 1,788 units of local government are comprised of 99 counties, 280 special districts, 455 school districts, and 954 cities and towns.

According to law, any incorporated place over 2,000 population is a city and any incorporated place under 2,000 is a town. On this basis, there are currently 135 cities and 819 towns. Cities have about 80 percent of the total city and town population, while towns comprise the other 20 percent. The total city and town population is about two-thirds of the state's entire population, while the 135 cities alone contain somewhat over one-half of the state's population.

WHAT CITIES AND TOWNS DO

Cities and towns are charged with a wide variety of duties and responsibilities, many of which are taken for granted. Municipal government services range from street construction and maintenance, law enforcement, fire protection and waterworks operations to city planning, library services, tree planting and provision of recreation and cultural facilities. Figure 1 on page 9 presents in outline form a list of activities which municipalities are required or permitted to do according to state law. Of course, not all cities and towns provide each of the activities listed. Nor, do cities and towns of similar size carry on the same activity on the same scale. <u>The extent and level of municipal services is determined by the wants, needs, and resources of the</u>

FIGURE 1

FUNDS OF IOWA CITIES

(With listing of activities and functions which may be financed from each fund)

GENERAL FUND*

General Operation (Offices of mayor, council, clerk, assessor, etc.)
Building and Sites
City Hall Maintenance and Repair
City Planning
Elections
Legal Services

STREET FUND*

Maintenance of Streets
Construction of Streets
Equipment
Snow Removal
Buildings for Street Purposes
Bridges
Tree Planting, Care, Removal

PUBLIC SAFETY FUND*

Police Protection Activities
Fire Protection Activities
Public Safety Buildings
Courts
Flood Control

SANITATION FUND*

Sewage Lines and Disposal
Dump Facilities
Garbage Collection and Disposal
Street Cleaning
Health Department

MUNICIPAL ENTERPRISES FUND*

Cemetery
Library
Hospital
Airport
Memorial Hall

RECREATION FUND*

Community Center
Playground
Swimming Pool
Art Center
Parks
Band
Golf

UTILITIES FUND*

Waterworks Operations
Electric Plant Operations
Street Lighting

DEBT SERVICE FUND

Judgments
Interest and Principal Payments on General Obligation Bonds Issued for such Purposes as:
- Streets
- Community Centers and playgrounds
- Sewers
- Municipal buildings
- Public library
- Public safety buildings
- Airport
- Hospital
- Bridges

TRUST AND AGENCY FUNDS

Pension and Retirement Funds
Cemetery Perpetual Care Fund
Urban Renewal Fund

SPECIAL PURPOSE FUNDS

Parking Meter Fund
Parking Lot Fund
Liquor Profits Fund
Road Use Tax Fund (Streets)
Sewer Rental Fund
Special Assessment Fund
Revenue Bond Fund

*Seven functional funds against which the 30 mill limit applies.

individual municipality.

All services performed by municipalities are prescribed by state law. The law may be either mandatory or permissive. If the law states that a municipality "must" or "shall" perform some function, this is a mandatory direction and the municipality has no choice but to follow the dictate. If the law says a municipality "may" perform a particular service, the municipality may decide for itself whether the service is to be performed or not. Moreover, the law frequently stipulates the manner in which a particular service is to be carried out. It is frequently argued that this system of legislative control is unduly restrictive in that municipalities are forced to wait for legislative approval to undertake some function which they consider important, or they are forced to perform a service in a certain way that does not correspond with local needs. Although a constitutional amendment authorizing municipalities to exercise a measure of "home rule" has been approved by the voters, the extent to which this provision will allow municipalities freedom of action has not yet been determined.

SOURCES OF MUNICIPAL GOVERNMENT REVENUE

Revenue for use by cities and towns comes from three primary sources; property tax, state and federal aid, and other revenues.

Property Tax:

The property tax is the only tax which municipalities are empowered to levy. It is a tax on the assessed value of real and tangible personal property. All real and tangible personal property subject to taxation is to be valued at its fair market value and assessed at the rate of 27 percent of such fair market value. The 27 percent of fair market value is referred to as the taxable value or property assessment. The total of all such taxable values is referred to by the term *property tax base*. The taxable value or property tax base is multiplied by the millage rate to determine the amount of taxes due or to determine how much revenue can be anticipated from the property being taxed.

Real property is defined as land and improvements to land, such as buildings. Tangible personal property includes a great variety of items such as business furniture, fixtures and inventories; livestock and farm machinery; household furniture; clothing; jewelry; pleasure boats and similar items. The sixty-second General Assembly exempted from the property tax the first $2,500 of taxable tangible personal property.

State and Federal Aids:

State aid to Iowa's cities and towns is received from two sources. The first source is a share of the road use tax fund, while the second is a percentage of gross liquor sales. No other direct state aid is available to cities and towns to assist them in financing their programs and services.

1. Road Use Tax.

   Cities and towns receive 15% of the receipts paid to the road use tax fund.1/ The road use tax funds include (a) proceeds from the registration of motor vehicles; (b) proceeds derived from use tax on motor vehicles, trailers and motor vehicle accessories and equipment; (c) part of the proceeds of the motor vehicle fuel tax; and, (d) 10% of the proceeds from the general retail sales tax.

1/ The percentage was increased from 13 percent to 15 percent by the first session of the 63rd General Assembly. The remaining 85 percent is allocated 47 percent to the primary road fund, 29 percent to the counties secondary road fund and 9 percent to the farm-to-market road fund.

The 15 percent of the road use tax fund is apportioned to individual cities and towns according to population. Funds received by municipalities from the road use tax fund must be expended for: (a) purposes for which the street fund money may be used, except for parking facilities; (b) acquisition and installation of traffic control signals and devices required as part of a street construction project; (c) sidewalk expenditures required as part of a street construction project; (d) payment of principle and interest on bonds issued for street, bridge, viaduct, and storm sewers; and, (e) construction of storm sewers and other drains for controlling and providing adequate drainage along newly constructed streets.

2. Gross Liquor Sales.

   Cities and towns receive an amount equal to 10 percent of the gross sales of liquor by state operated stores. The percentage was increased from 5 percent by the 62nd General Assembly. The individual city or town allotment is apportioned in accordance with population. There are no restrictions on the use of this money.

Cities and towns also receive money direct from the federal government. The federal funds are for specific purposes. The primary aim of these aids is to stimulate programs in which a strong federal interest exists. Federal funds are provided for such items as (a) model cities projects, (b) urban renewal, (c) airport construction, (d) municipal and urban planning, (e) water and sewer facilities, (f) waste treatment facilities, (g) open space projects, (h) housing for low and moderate income families; and, (i) senior citizen housing.

Additional federal funds are available through programs administered by the state. Such programs include (a) urban highway construction, (b) law enforcement planning and action programs, (c) highway safety programs, (d) summer youth employment programs and (e) park development projects. Most of the federal programs require local matching funds which absorb a share of local revenues.

Other Revenues:

Cities and towns receive important amounts of revenue from sources other than the property tax and state and federal aids. These "other revenue" sources include income from (a) license and permit fees, (b) fines and forfeitures, (c) sale of bonds, (d) investment of idle funds, (e) parking meter collections, and (f) sale of services (i.e., user fees such as sewer and water rental, refuse collection and disposal charges, airport landing fees, admission charges to parks, swimming pools, golf courses, and zoos).

Sale of Bonds:

Cities and towns are authorized to incur debt for a wide variety of purposes. Indebtedness is generally incurred for (a) financing the capital costs of self-supporting projects such as water, sewer and other utility systems; (b) financing projects which are large and costly in relation to the financial resources of the municipalities and which have a long and useful life (e.g., municipal building, roads, and recreation facilities); and, (c) financing an emergency situation which requires extensive and unusual expenditures.

Cities and towns have available to them four main categories of indebtedness: (a) general obligation bonds, (b) revenue bonds, (c) special assessment bonds; and, (d) industrial revenue bonds.

General obligation bonds are the most common. They are often called "full faith and credit bonds" because the entire taxable valuation of all real and personal property of the municipality is pledged to pay them. Only general obligation bonds are counted when computing a municipality's debt limit, currently set at 5 percent of the actual value of its taxable property as shown on the last tax list.

Revenue bonds, in contrast to general obligation bonds, are not fully guaranteed by a municipality. They are guaranteed only from the money received from certain revenue sources designated in the bond resolution. For example, revenue bonds are usually issued for extensions or improvements of waterworks facilities and are payable from water charges to customers.

Special assessment bonds are, in a sense, a type of revenue bond. They are retired through special assessment charges to properties which benefit from the public improvements being financed in whole or in part by special assessment bonds.

Industrial revenue bonds are used by municipalities to finance the purchase, construction or lease of industrial facilities for rent to any industry for the purpose of manufacturing, processing, or assembling of agricultural or manufactured products. Existing facilities may also be purchased, improved, and equipped by receipts from industrial revenue bonds. The bonds are redeemed solely from the revenues received from renting the facilities.

EXPENDITURE CONTROLS

Iowa law requires that money raised from specific tax levies and other revenue sources can be spent for financing only specifically designated municipal functions. The law establishes the funds which must be used, and specifies the municipal activities which are to be supported from each fund. The fund system was identified in Figure 1 on page 9. The first seven funds listed (general, street, public safety, sanitation, municipal enterprise, recreation, and utilities) are commonly known as the "seven functional funds". Together, they account for the bulk of municipal expenditures. Municipalities may levy taxes up to but not exceeding 30 mills for the operation of these seven funds. Levies may also be made for debt service and trust and agency funds, but these are "outside" the 30 mill limit.2/ Certain special purpose funds are also authorized.

The requirement that cities and towns may levy only thirty mills to support the seven functional funds is one of the most controversial elements in the municipal financial picture. Most simply stated, the 30 mill limit means that a municipality may levy only $30 taxes for each $1,000 of assessed valuation in the community. If the community has an assessed valuation of $65,000, the 30 mill maximum levy would produce $1,950 in tax revenue. If the community had an assessed valuation of $30,000,000, the 30 mill levy would produce $900,000. The effect is that there is an inflexible "ceiling", dependent upon property valuation, on the potential of the property tax to support municipal services.

2/ In addition, municipalities are empowered to levy one mill for emergency purposes. Such emergency levy cannot be made without the approval of the State Comptroller.

INCOME AND EXPENDITURE PATTERNS OF CITIES AND TOWNS

As the Governor's Committee on Cities and Towns proceeded with its assignment, it became evident that its analysis identified certain basic statements or propositions that could be made concerning municipal finances. These propositions identify and put into perspective the major issues, problems, and questions of municipal finance.

This section will identify the major propositions of the committee and present statistical data to support those propositions. The data used in this section was obtained primarily from Municipal Finances in Iowa, a report published annually by the State Auditor's Office. Unpublished reports submitted by county auditors to the State Comptroller were also used to obtain additional information about finances in the 22 largest cities. The base period used for the Committee's analysis is the 6 year period of 1963 - 1968. The year 1968 is the last year for which complete figures are available.

The propositions discussed at length in this section are the following:

1. Expenditures are increasing more rapidly than the property tax base is expanding.
2. Property tax increases, other revenues and debt make up the growing difference between revenue increases generated by the growth of the property tax base and expenditure requirements which are increasing at a significantly higher rate.
3. Only a small percentage of state and federal aid to local governments goes to cities and towns.
4. Costs have been imposed on cities and towns by state and federal

action without a corresponding increase in aid or revenues raising authority.

5. The property tax base has been eroded for municipal purposes by state action without provision being made for replacement of lost revenue.
6. Demands for new and expanded services, accompanied by increased operating costs and new problems, require revenue levels that the current municipal revenue structure cannot adequately meet.

1. <u>Expenditures are increasing more rapidly than the property tax base is expanding</u>.

The property tax is the only tax which municipalities are empowered to levy to help finance their services and activities. During the 1963 - 1968 period, total city expenditures increased over 65 percent while the property tax base increased only 24.3 percent. These trends are shown graphically on charts I and II. The experience of the state's 22 largest cities during the 1963 - 1968 period was consistent with that of all cities. Total expenditures increased by over 73 percent while the taxable base increased only 25.2 percent.

During the same period, expenditures for the 819 towns increased 42.8 percent while the property tax base increased 23.2 percent. Charts III and IV show for the towns the 6 year experience for taxable property and total expenditures.

The IV charts clearly demonstrate that the growth of the

CHART I

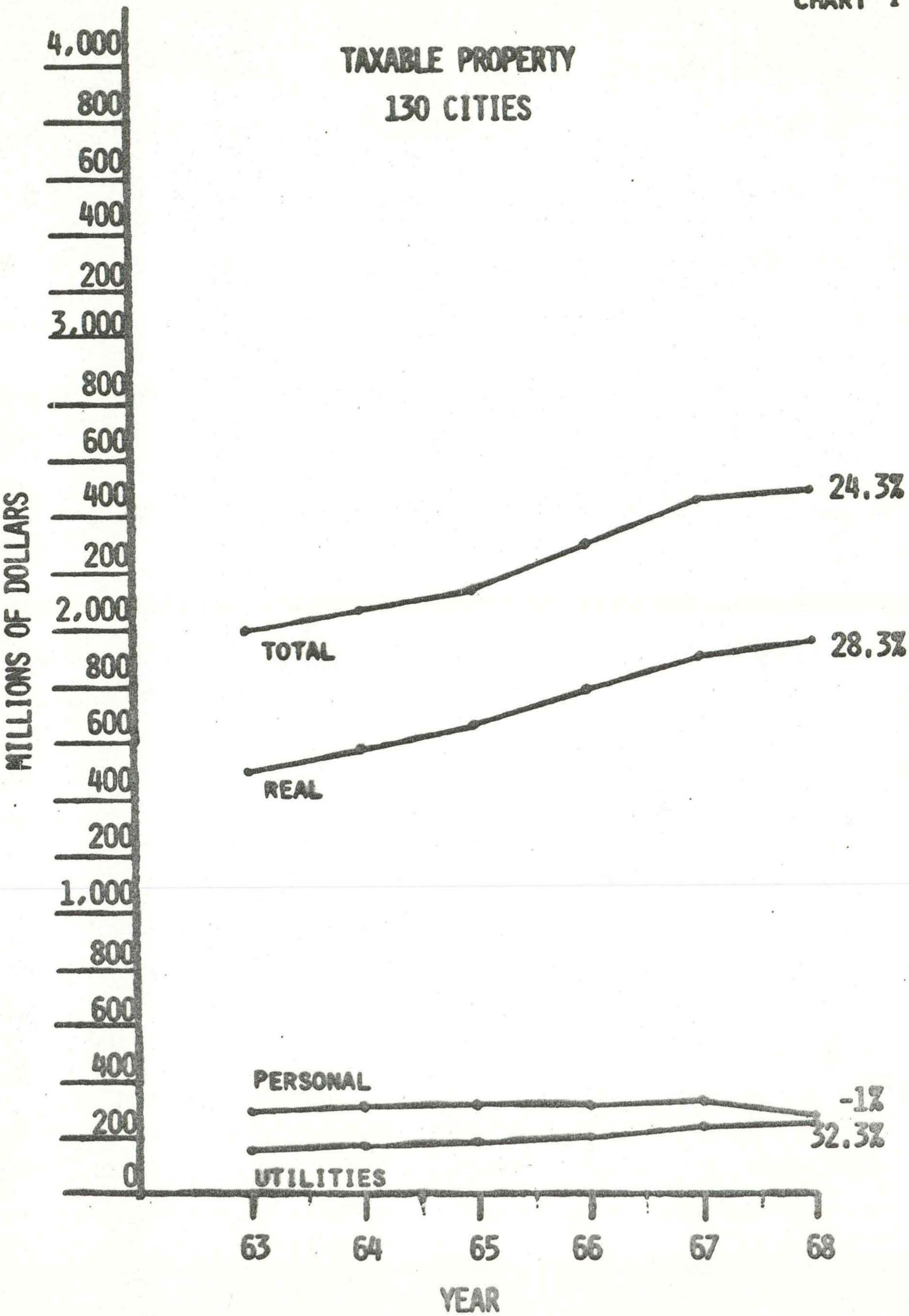

TAXABLE PROPERTY
130 CITIES
MILLIONS OF DOLLARS
4,000
800
600
400
200
3,000
800
600
400
200
2,000
800
600
400
200
1,000
800
600
400
200
0
TOTAL
24.3%
REAL
28.3%
PERSONAL
-1%
32.3%
UTILITIES
63
64
65
66
67
68
YEAR

CHART II

TOTAL EXPENDITURES

130 CITIES

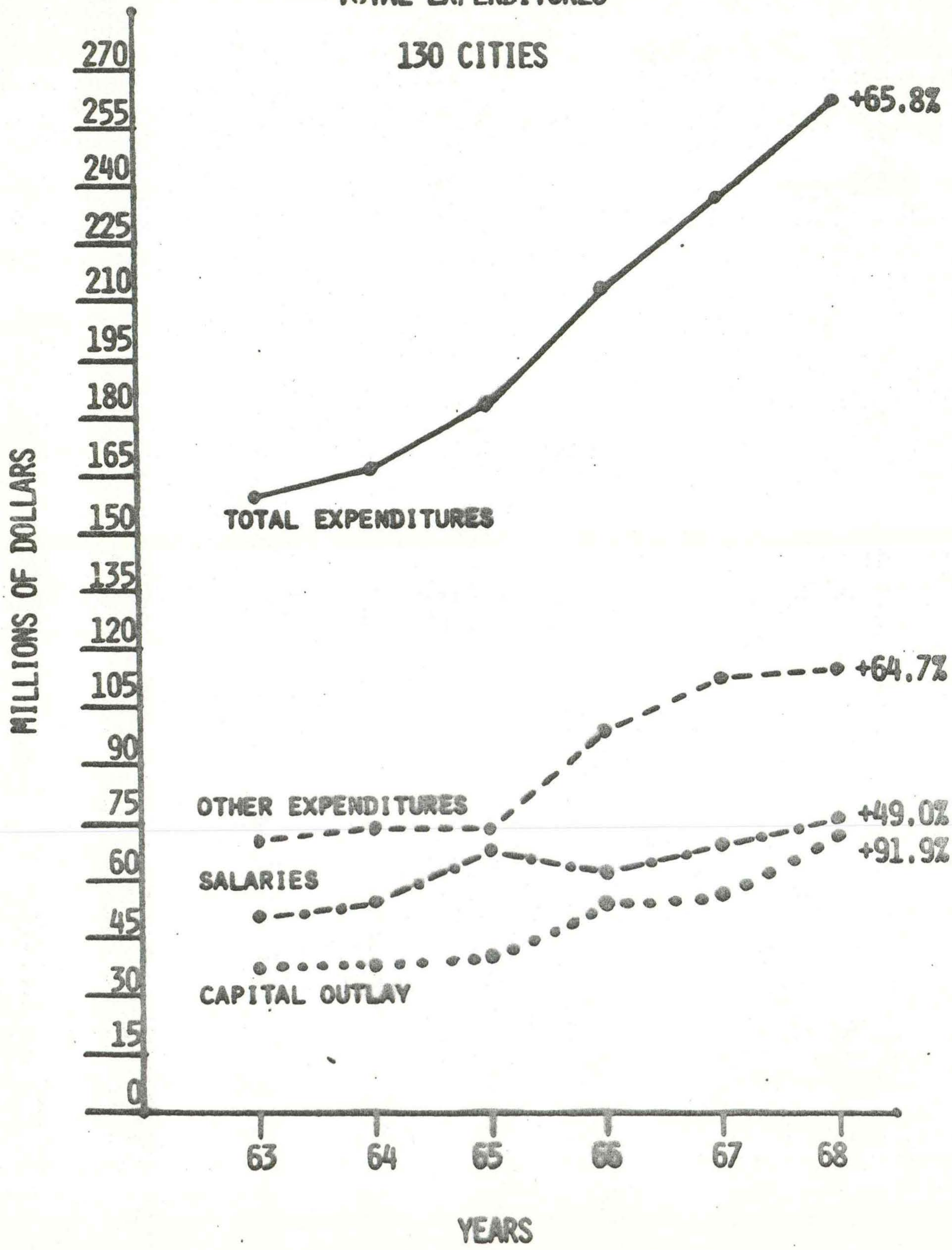


CHART III

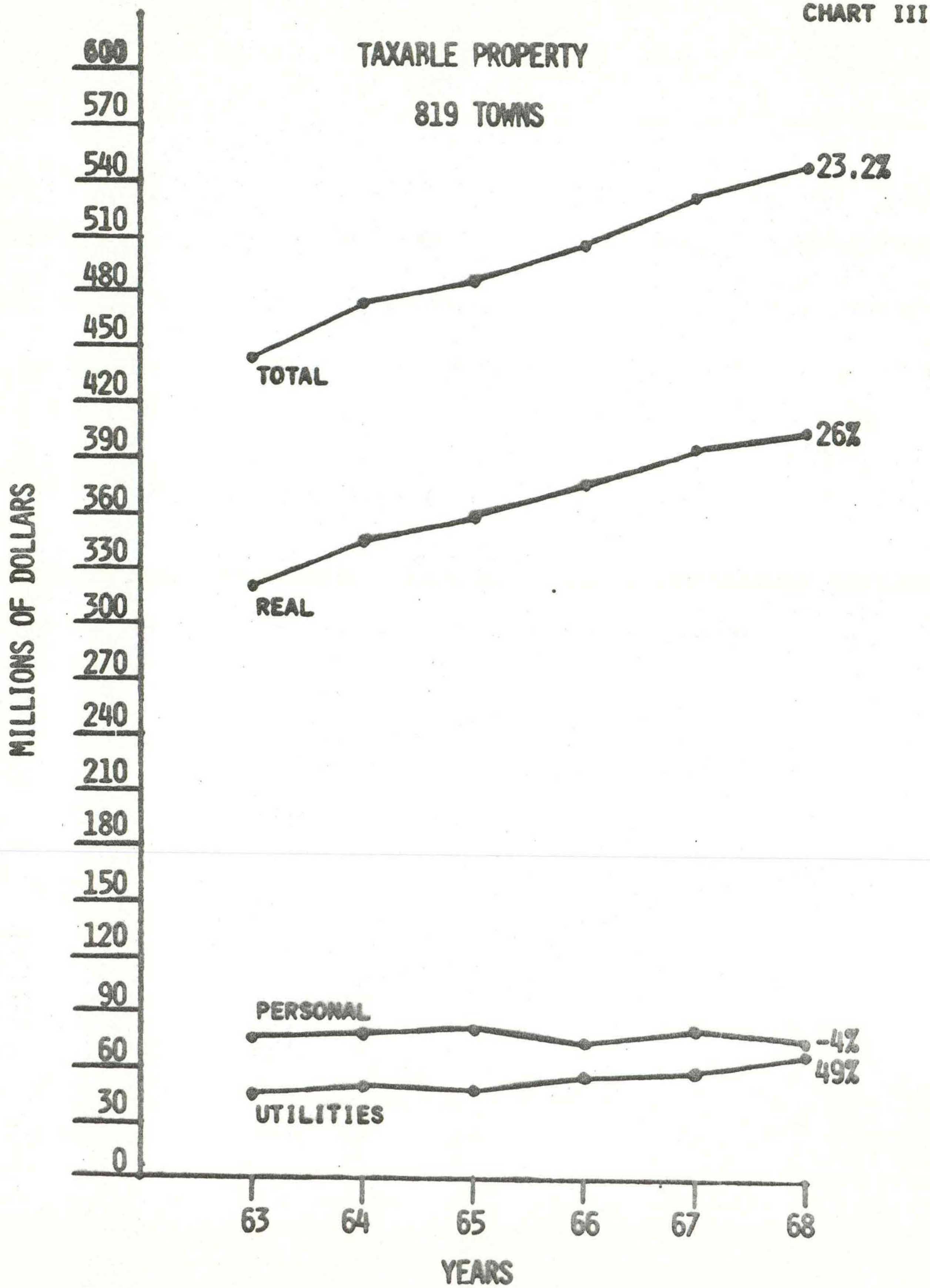
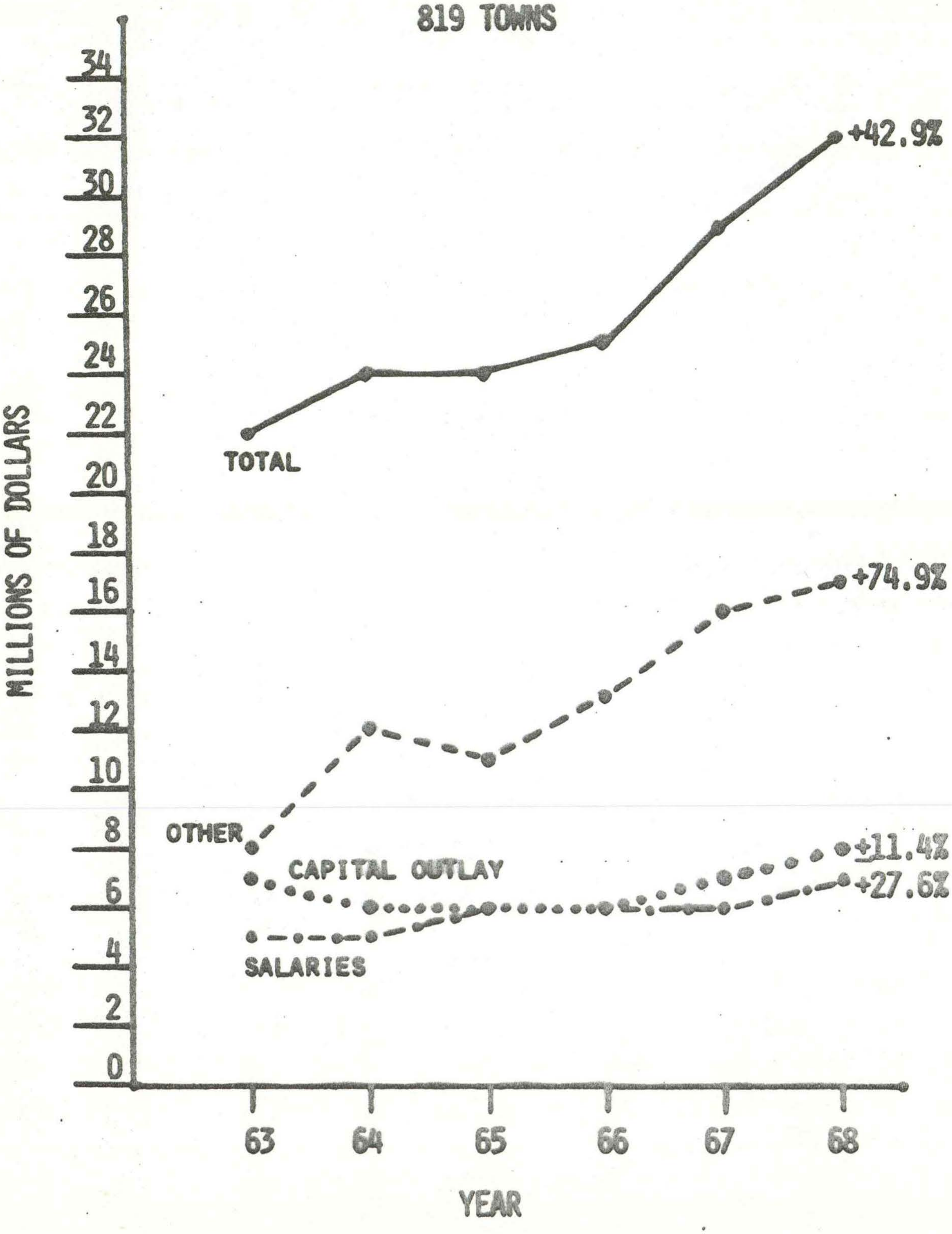

TAXABLE PROPERTY
819 TOWNS
MILLIONS OF DOLLARS
600
570
540
510
480
450
420
390
360
330
300
270
240
210
180
150
120
90
60
30
0
TOTAL
23.2%
REAL
26%
PERSONAL
-4%
49%
UTILITIES
63
64
65
66
67
68
YEARS

CHART IV

TOTAL EXPENDITURES

819 TOWNS



property tax base is not keeping pace with the expenditure needs of either the cities or towns.

There are several primary reasons for the significant increase in municipal expenditures. First and most important are salary increases. Municipal officials generally estimate that salary costs represents 60 to 70 percent of their municipal budgets. A recent study reports that in the period 1957 through 1967 average annual earnings of municipal employees throughout the nation increased 59 percent, an average annual increase of 5.4 percent. (Municipal Yearbook, 1969, p. 119). This increase does not take into account additional personnel added to the city work force. If this factor were added, the percentage increase in salary costs would be even greater.

Recent studies of municipal salaries in Iowa indicate that salary increases have been comparable to those found nationwide. Current trends toward higher salaries for municipal employees are expected to continue at an accelerated rate.

A second reason for the significant increase in municipal expenditures is the increasing cost of materials, supplies, and equipment. These are items required in performing current operations of the city such as garbage collection, street cleaning, fire protection, general administration, and so forth. If the quality of service is to be maintained, cities and towns must spend additional money to obtain the necessary supplies, equipment, and materials. These are the same types of price increases that are so noticeable in the size of family expenditures.

A third reason for increased expenditures is the effect of the 30 mill ceiling on the property tax. Cities and towns are forced to shift to debt financing of major improvement projects. While there are sound arguments for this type of financing, it is more expensive than a pay-as-you-go program.

Finally, cities and towns are being required to perform additional and improved services. Pressures for new and improved services come from three directions--the municipal voters; the state government; and, the federal government. Citizens worried by the nationwide crime and pollution problems, aware of more leisure time on their hands, and faced with increased traffic congestion, are demanding improved police protection, increased anti-pollution efforts, new and better recreation and cultural facilities; and wider, safer, and better controlled streets. All of these demands and many others require funds for implementation. The state and federal governments, by imposing new standards and new programs without providing new revenue to help pay for them, are contributing to the financial problems of Iowa's cities and towns.

2. <u>Property tax increases, other revenues and debt make up the growing gap between revenue increases generated by the growth of the property tax base and expenditure requirements which are increasing at a significantly higher rate</u>.

   a. The flexibility of the cities and towns to increase revenues by increasing taxes is restricted by the 30 mill limit on the 7 functional funds. Fifty-three cities and 292 towns are currently at or near the 30 mill limit (e.g., levying 28 mills or more). Other revenues and indebtedness, therefore, are being heavily relied upon by municipalities to raise sufficient revenue to meet their increasing needs. It is anticipated that the number of cities and towns at or near the 30 mill limit will be significantly larger next year, as will the reliance on other revenues and debt if no legislative action is forthcoming during this session to relieve the pressure on the property tax.

The number of cities and towns at or near the 30 mill limit (28 mills or more) decreased slightly from 355 in 1969 to 345 in 1970. (See Table I.) This decrease was not due to a reduction in the revenue requirements of cities and towns. There are 4 primary factors which explain the slight reduction and they are presented below. It should be noted that the factors are either non-recurring or will not significantly increase next year to permit retention of the millage at current levels.

The first factor in the explanation of the reduction in the number of municipalities at or near the 30 mill limit was a one-time payment of state aid from the "municipal tax relief fund". The $2 million municipal tax

TABLE I

MILLAGE LEVY INFORMATION ON CITIES AND TOWNS 1968-1970 INCLUSIVE

INFORMATION CATEGORY		1968	1969	1970
Municipalities Levying Emergency Mill		9	15	24
Municipalities at 30 Mill Limit (29.5 or more)		117	233	177
Levying over	28 mills	228	355	345
	25 mills	*	536	566
	20 mills	*	742	767
	15 mills	*	870	878
Municipalities with Total Levy Over	50 mills	0	3	5
	40 mills	13	38	41
	35 mills	*	140	152
	30 mills	*	406	424
	25 mills	*	668	689
	20 mills	*	801	817
Municipalities with Debt Service Over	5 mills	218	250	256
	10 mills	33	43	50
	15 mills	5	9	13
	20 mills	1	3	6
Municipalities with Trust and Agency Levy Over	1 mill	143	161	220
	2 mills	51	63	99
	3 mills	19	27	35
	4 mills	12	13	18
	5 mills	5	9	12

* Not available
Source: County Auditor reports to State Comptroller for years indicated.

relief fund was established as part of the legislation which repealed the sales tax on new construction and advertising. This special state aid payment was made during January 1970 to all municipalities in accordance with population, and will not recur next year.

The second factor was the increase in the municipal share of the road use tax fund from 13 percent to 15 percent authorized by the first session of the 63rd General Assembly.

The third factor is that the property tax base increased significantly in 1970 over 1969, helping to relieve temporarily some of the pressure on municipalities at or near the 30 mill limit. The larger-than-normal increase in the property tax base was due primarily to the state mandated reassessment and equalization of real property. Table II indicates that the property tax base for the cities increased an average of 6.0 percent, the base for towns between 1,000 - 2,000 population increased 5.6 percent. A similar increase is not anticipated for next year.

The final factor is that more cities and towns have transferred items from the seven functional funds to debt service and trust and agency funds which are outside the 30 mill limit. This conclusion is supported by the fact that, although the number of cities and towns at or near

TABLE II

COMPARISON OF PROPERTY TAX VALUATIONS
FOR
CITIES AND TOWNS
OF
1,000 POPULATION AND OVER

Size of Municipality	1969 Valuation (000)	1970 Valuation (000)	Change Amount	Change Percent
50,000 and over	$1,132,799	$1,198,719	$65,920	5.82
15,000 - 50,000	636,125	673,383	37,258	5.88
5,000 - 15,000	437,174	467,932	30,758	7.04
2,000 - 5,000	306,800	324,094	17,294	5.64
Total Cities	$2,512,898	$2,664,128	$151,230	6.02
1,000 - 2,000	192,879	203,656	10,777	5.59
0 - 1,000	not tabulated			

Source: County Auditor reports to State Comptroller for years indicated.

the 30 mill limit has decreased slightly, no similar reduction is noted when the total levy is analyzed. Table III clearly indicates an upward movement in total mills, debt service mills, and trust and agency mills.

b. Other revenues are helping to make up the difference between tax revenue and expenditure needs. Chart V shows the revenue picture for cities during the 1963 - 1968 period. Total revenue increased from $159.5 million in 1963 to $267.6 million in 1968, an increase of 67.8 percent, or 11.3 percent per year. Chart V clearly indicates that the "other revenues" category provided the bulk of the increase. Other revenue increased 95.6 percent during the 6 year period from $91.3 million to $178.6 million. Tax revenue increased 30.5 percent during the period. Comptroller's data for the 22 largest cities shows much the same picture as for all cities. During the 1963 - 1968 period other revenues increased 98.5 percent while property tax revenue increased 37.5 percent.

The experience of the 819 towns is similar to that found for the cities. Other revenues during the 1963-1968 period increased 90.0 percent compared with a 12.4 percent in tax revenue. Chart VI shows the revenue pictures for towns during the 1963 - 1968 period.

One of the primary causes of the significant increase in other revenues is the trend toward greater reliance on user fees. This trend is in response to the pressures of

TABLE III

MILLAGE LEVY INFORMATION ON CITIES AND TOWNS
BY POPULATION CATEGORY

1969 TAXES PAYABLE IN 1970

INFORMATION CATEGORY	SIZE OF MUNICIPALITY Over 50,000	15,000 to 50,000	5,000 to 15,000	2,000 to 5,000	1,000 to 2,000	Under 1,000	Total All Mun.
No. of Municipalities	7	15	39	74	11	708	954
Mun. Levying Emergency Mill	2	2	3	4	5	8	24
Mun. at 30 Mill Limit*	5	2	4	7	8	151	177
Levying over 28 mills	7	6	10	30	36	256	345
25 mills	7	11	29	52	70	397	566
20 mills	7	13	35	70	100	542	767
15 mills	7	15	38	73	109	636	878
Mun. with Total Levy Over							
50 mills	-	-	-	-		5	5
40 mills	6	2	1	4	6	22	41
35 mills	6	6	11	26	22	81	152
30 mills	7	12	29	54	57	265	424
25 mills	7	14	37	69	93	469	689
20 mills	7	15	39	73	107	576	817
Mun. with Debt Service Over							
5 mills	6	7	15	39	47	142	256
10 mills	-	1	1	7	9	32	50
15 mills	-	-	-	1	2	10	13
20 mills	-	-	-	-	-	6	6
Mun. with Trust & Agency Over							
1 mill	7	14	28	35	25	111	220
2 mills	7	12	20	11	7	22	99
3 mills	7	8	4	1	3	12	35
4 mills	5	4	2	1	2	4	18
5 mills	3	3	1	-	1	4	12

Source: County Auditor reports to State Comptroller.

CHART V

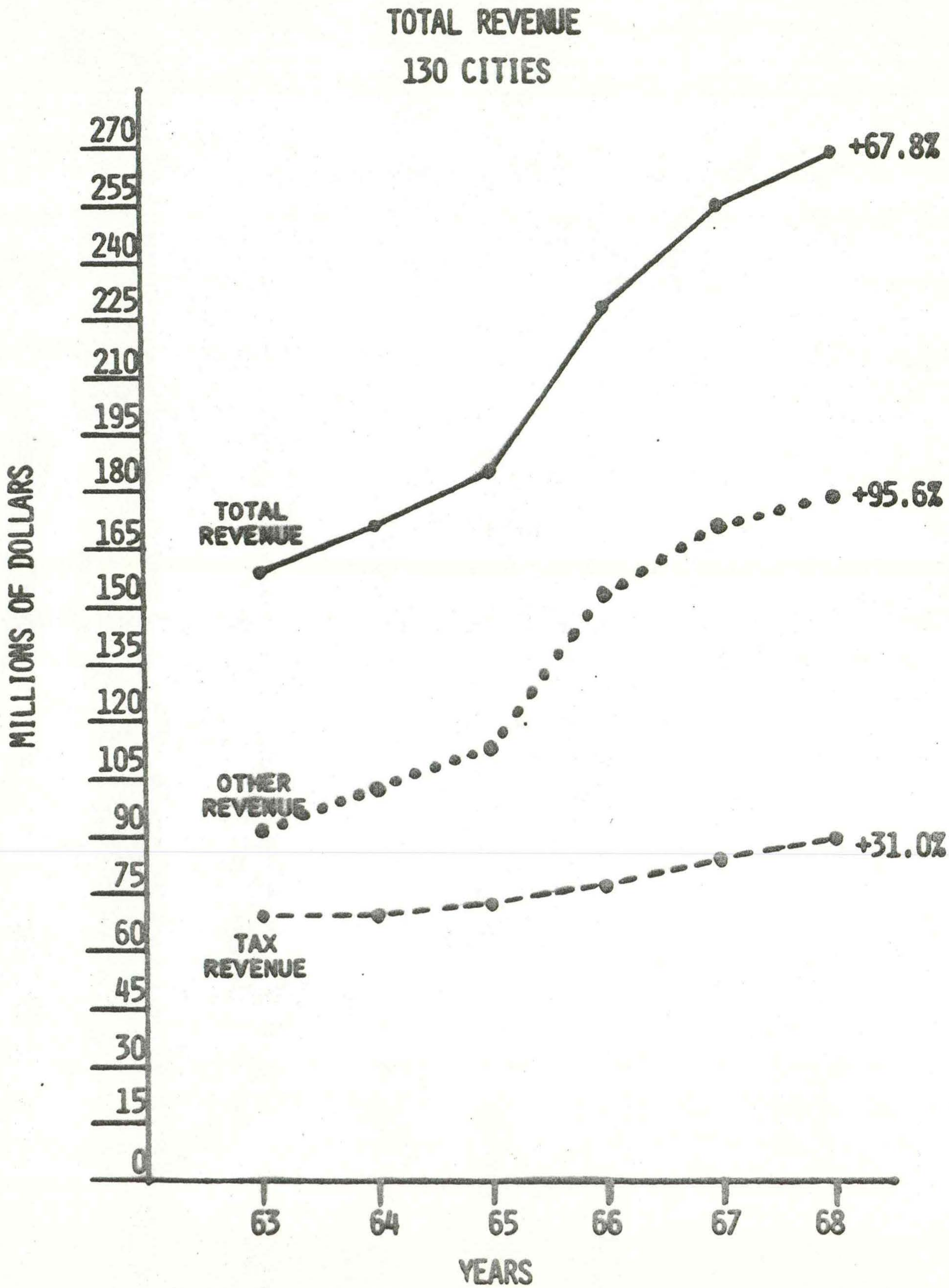
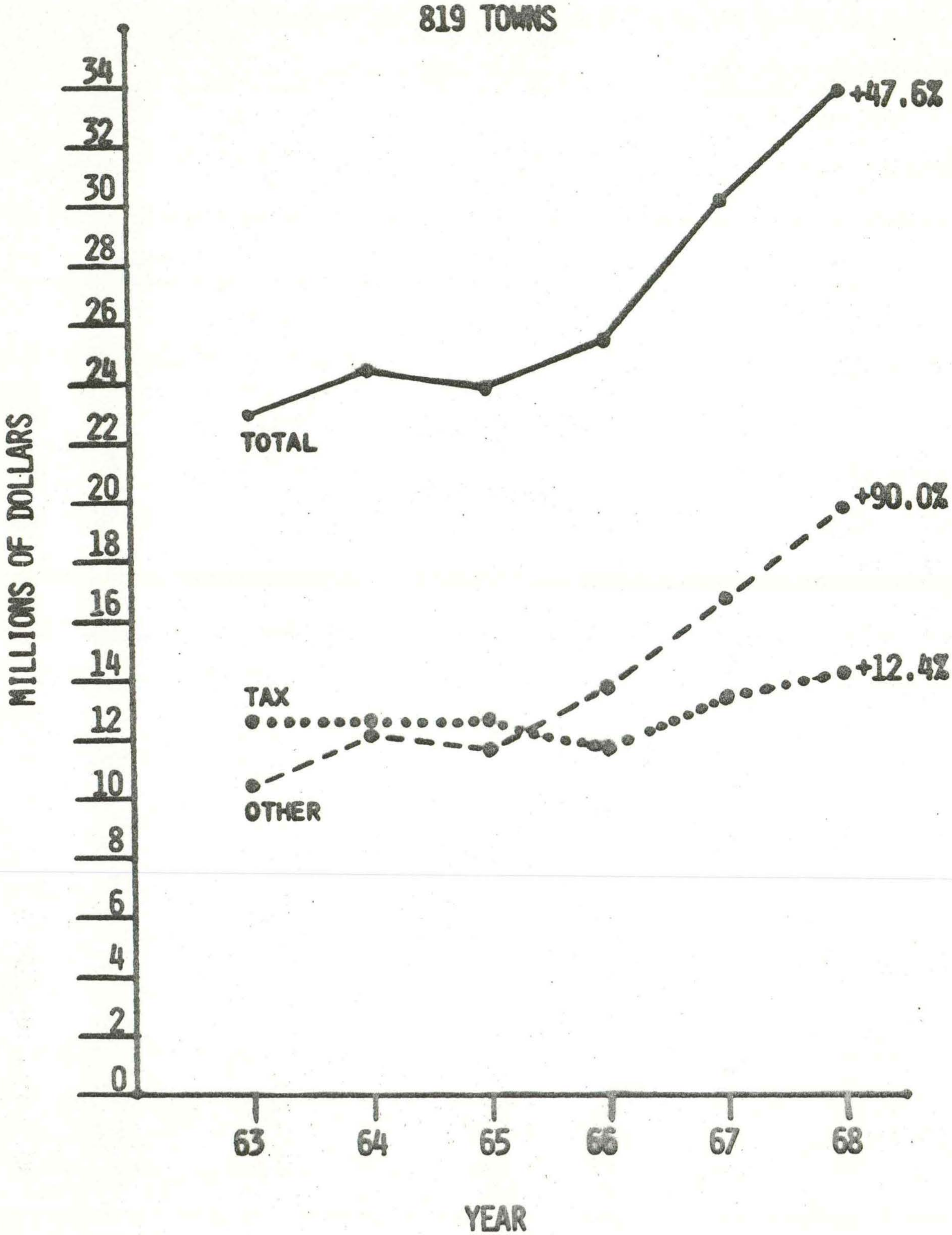

TOTAL REVENUE
130 CITIES
MILLIONS OF DOLLARS
270
255
240
225
210
195
180
165
150
135
120
105
90
75
60
45
30
15
0
TOTAL REVENUE
OTHER REVENUE
TAX REVENUE
+67.8%
+95.6%
+31.0%
63
64
65
66
67
68
YEARS

CHART VI

TOTAL REVENUE

819 TOWNS



increased operating costs and additional service demands which must be financed by tax revenue through the 7 functional funds. Cities and towns are being forced to user fees to finance services traditionally financed in whole or in part by tax revenue. For example, user fees are being increasingly used to finance sewage treatment plants, waterworks operations, parking facilities, refuse collection and disposal operations, airports, swimming pools, skating rinks, parking meter enforcement, park development, etc. User fees are also increasing in response to increasing operating costs.

Imposition or increase of a user charge is equivalent to a tax increase, particularly when the user charges are to support vital municipal functions such as sewage treatment and waterworks operations. These are services no citizen can do without. Such user fees are highly regressive, that is, they hit hardest those people with low or fixed incomes that are least able to pay for them.

c. Indebtedness is the other source of income for cities and towns which allows them to cope with increasing demands for services and higher operating costs. Charts VII and VIII clearly indicate the upward trend of indebtedness in Iowa cities and towns. Total city general obligation indebtedness increased 76.8 percent, from $82.8 million in 1963 to $146.4 million in 1968. Total town general obligation indebtedness during the period increased 28.1 percent,

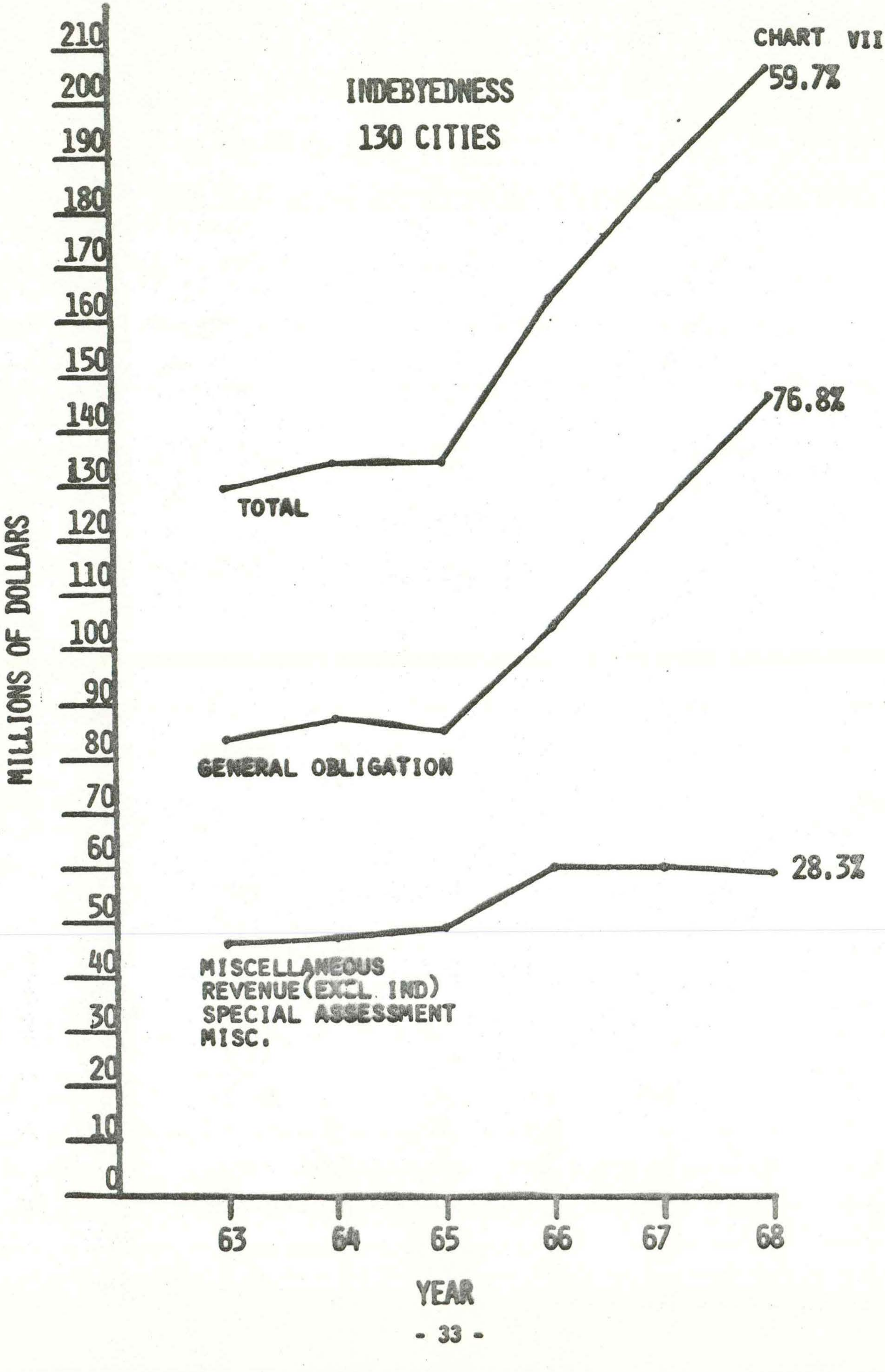
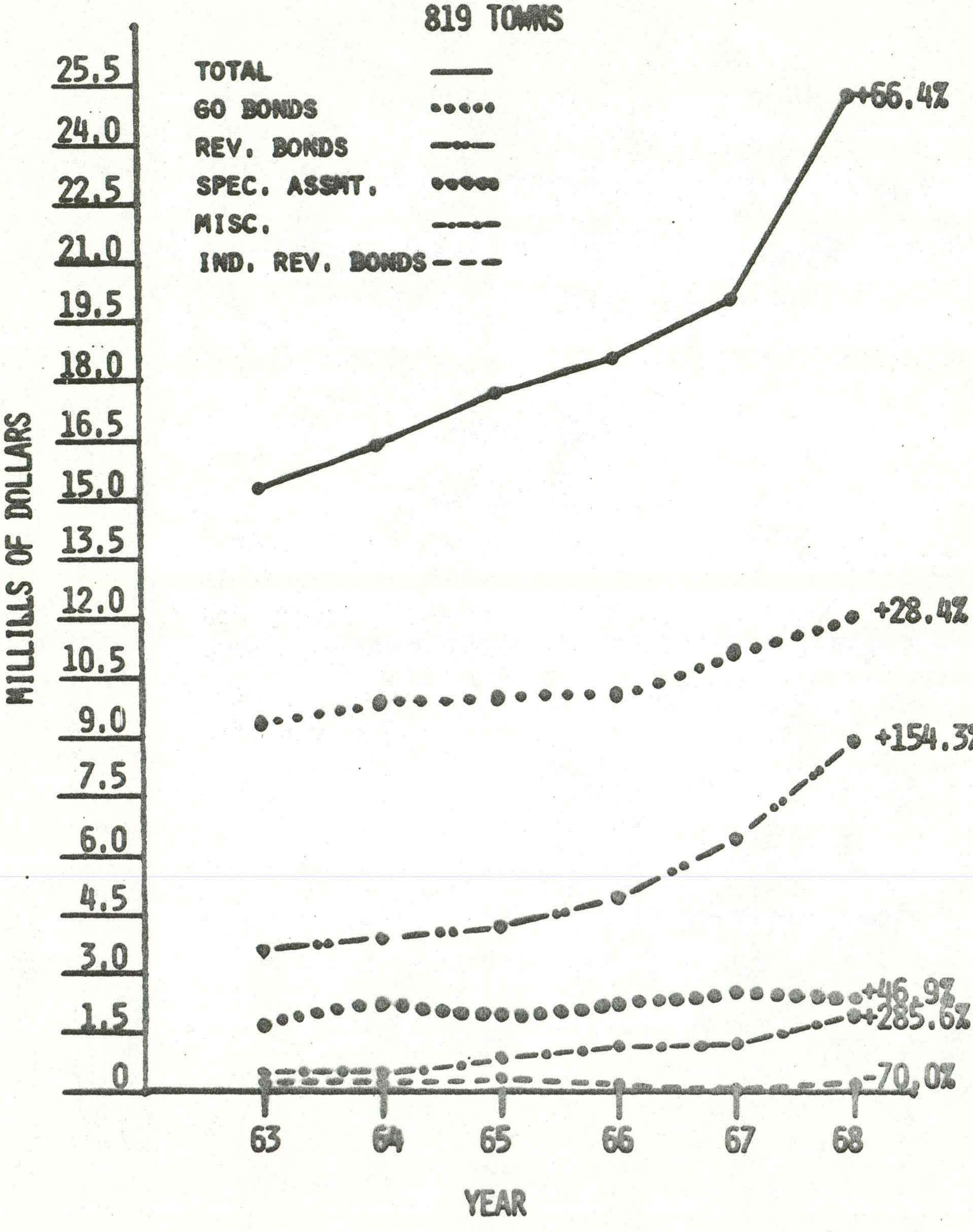


CHART VII
INDEBYEDNESS
130 CITIES
59.7%
76.8%
28.3%
TOTAL
GENERAL OBLIGATION
MISCELLANEOUS
REVENUE(EXCL IND)
SPECIAL ASSESSMENT
MISC.
MILLIONS OF DOLLARS
210
200
190
180
170
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
63
64
65
66
67
68
YEAR

CHART VIII

TOTAL INDEBTEDNESS

819 TOWNS



from $9.4 million to $12.0 million. Only general obligation have tax revenues pledged to help pay the principal and interest.

One of the primary reasons for the increased use of indebtedness as a revenue service is that principal and interest to retire the bonds can be levied outside the 30 mill limit. Cities and towns, in effect are forced to delay day-to-day maintenance and certain small projects until they can be lumped together in a debt financed project. Citizens must endure minor irritation of cracked streets, dead elm trees, unpainted bridges and park facilities, and the like, until the municipality can put together a major remedial project. Deficit financing is encouraged by the inflexible 30 mill limit.

3. Only a small percentage of state and federal aid to local governments go to cities and towns.

In 1969, state government in Iowa provided almost $400 million to local governments (schools, counties, and municipalities). Of this total, approximately $312.5 million, or 78.1 percent, was returned as direct state aids and the remaining $85 million was returned as indirect state aid in the form of tax credits. Iowa municipalities received only $34.0 million or 10.9 percent of the total direct state aid to local governments. Schools received $175.2 million (56.0%) and counties $103.3 million (33.1%) of direct state aid. Indirect state aid in the form of tax credits were divided among (a) schools, $47.7 million, (b) counties, $17.9 million, and (c) municipalities, $20.2 million. (See charts IX and X.)

Table IV identifies the state program under which the state aids were made and shows the receiving unit of local government.

Local units of government also receive certain sums of money from the federal government each year. These funds are available for an extremely broad spectrum of activities ranging from urban renewal to school lunch programs. Some of the federal money goes directly to schools, counties, or cities, while the remainder is channeled through state agencies to the local units. Although it is difficult to obtain precise figures on federal money coming into the state, it is estimated that in 1966 - 67 approximately $190 million in federal funds was channeled through the state government to municipalities and another $10 million was received by the cities directly from the federal government.

A list of 1967 federal aids to local government in Iowa that were handled through a state agency is presented on page forty.[3/] In most cases the aid levels are about the same as that received during 1969. Similar detailed figures for direct aid to cities are not currently available.

3/ The information was obtained from a State Comptroller's report entitled "Federal Grant in Aid Programs for the State of Iowa". March 1967.

CHART IX

STATE AID - TAX CREDITS
TO
SCHOOLS, COUNTIES, AND MUNICIPALITIES
(IN MILLIONS)

1969

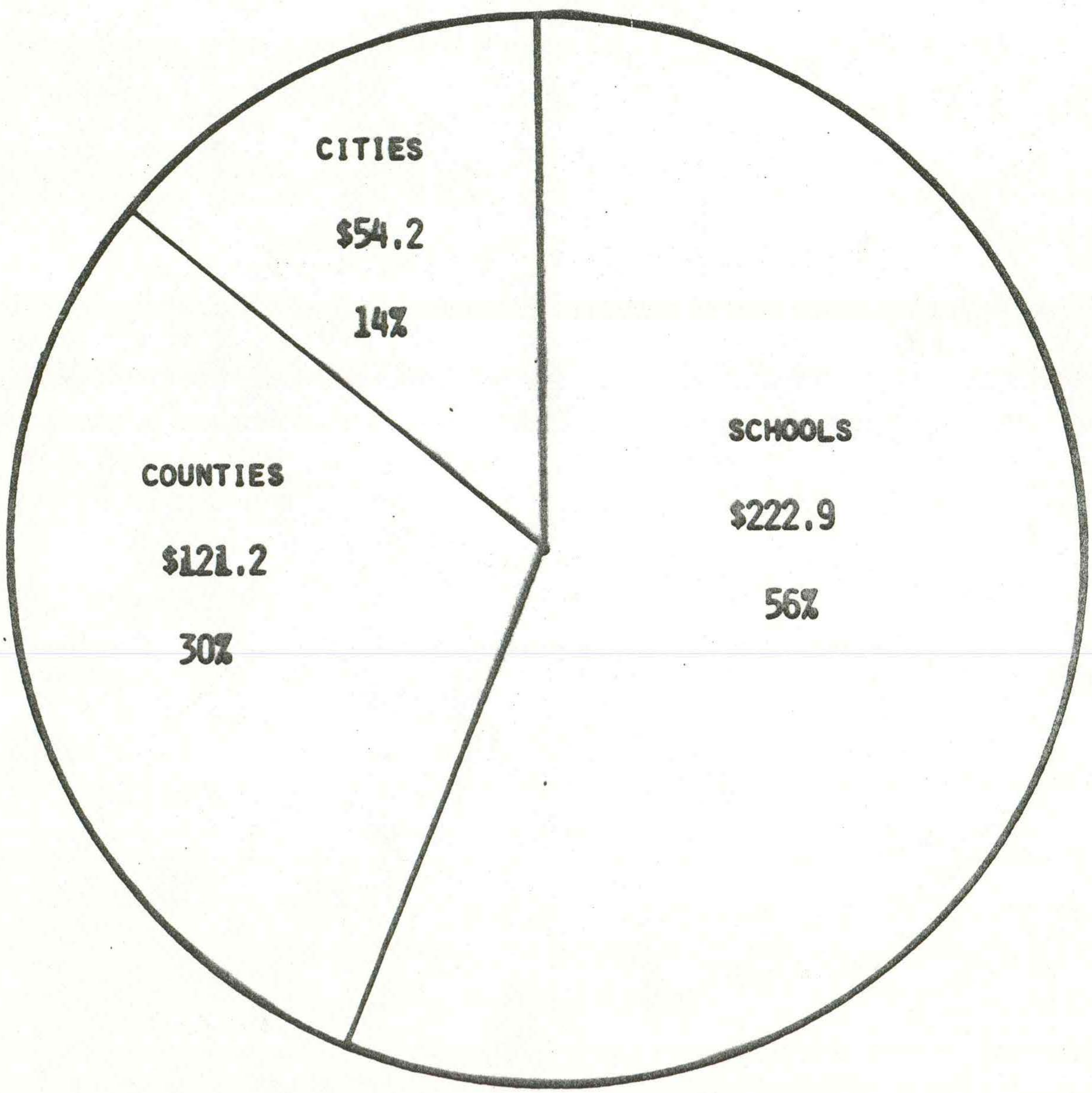


CHART X

STATE AID - TAX CREDITS
TO
CITIES AND TOWNS
(IN MILLIONS)

1969

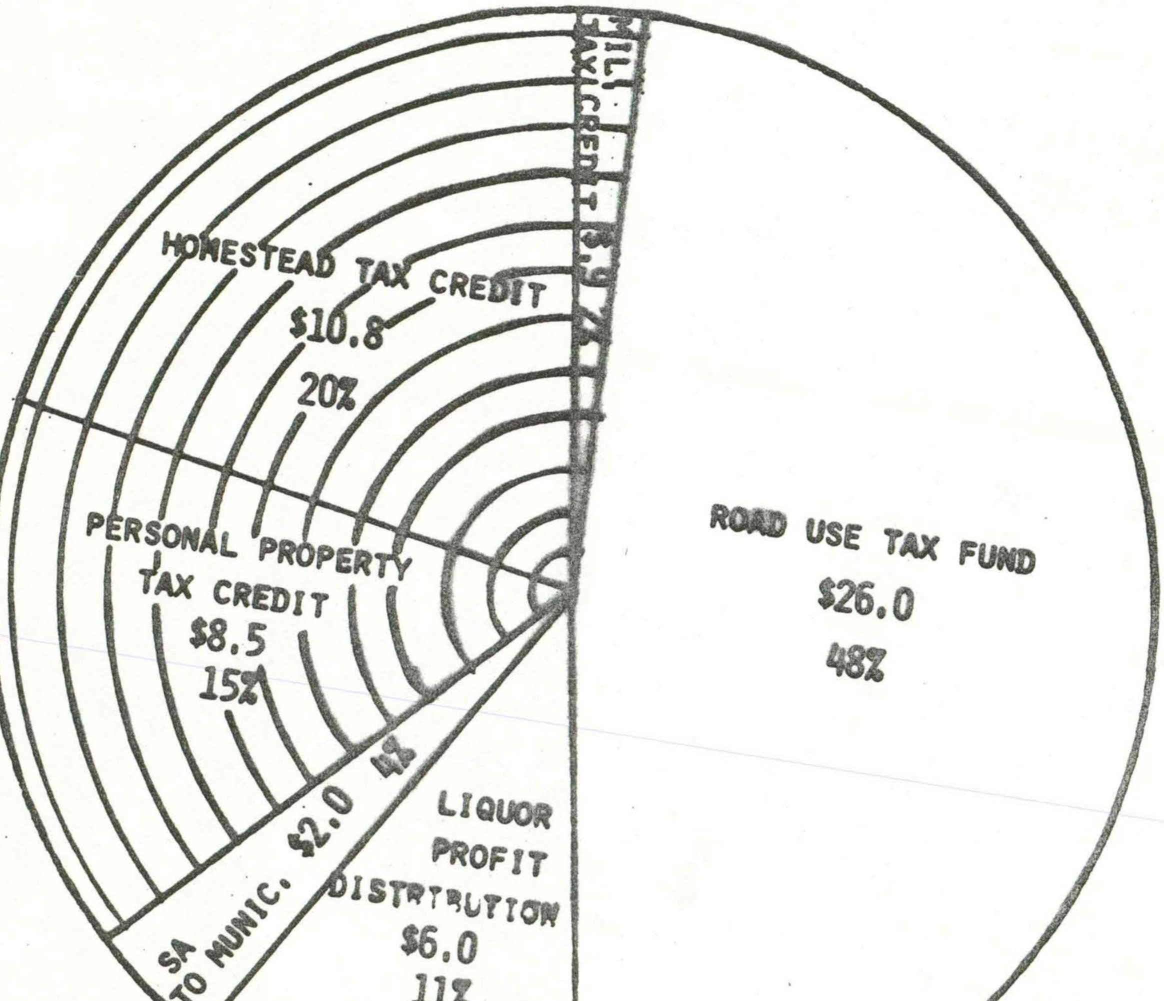


TABLE IV

STATE AIDS AND TAX CREDITS IN IOWA
TO UNITS OF LOCAL GOVERNMENT
(Millions of Dollars)

DIRECT STATE AID	SCHOOLS	COUNTIES	MUNICI-PALITIES	TOTAL LOCAL GOVT.
Public School District Aid	$165.5			$165.5
Area Schools & Junior Colleges	9.7			9.7
Farm to Market Roads (Road Use Tax Fund)		$ 15.0		15.0
Other Secondary Roads (Road Use Tax Fund)		50.0		50.0
For City Streets (Road Use Tax Fund)			$26.0	26.0
Welfare (OAA, ADC, AB)		35.3		35.3
Other Public Assistance		3.0		3.0
Liquor Profits Distribution			6.0	6.0
Special Aid to Municipalities			2.0	2.0
Subtotal	$175.2	$103.3	$34.0	$312.5
INDIRECT STATE AID - TAX CREDITS				
*Personal Property Tax	14.1	5.7	8.5	28.3
*Homestead Tax Credit	19.8	5.4	10.8	36.0
*Agricultural Land Tax Credit	11.7	6.3	-	18.0
*Military Tax Credit	1.7	.5	.9	3.1
*Tax Free Land Reimbursement	.4	-	-	.4
Subtotal	$ 47.7	$ 17.9	$20.2	$ 85.8
TOTAL	$222.9	$121.2	$54.2	$398.3

*These credits and replacements are indirect aids, for they are either credits on property tax bills or are in lieu of property taxes that would otherwise have been levied. The amounts of credit for each unit of government are based on the estimated proportional share of the property taxes paid for each unit.

TABLE V

FEDERAL AIDS TO IOWA LOCAL GOVERNMENT
ADMINISTERED BY STATE AGENCIES

FEDERAL AIDS FOR SCHOOL DISTRICTS

School Equipment and Instruction	$ 1,000,000
School Libraries	1,500,000
Guidance, Counseling, etc.	350,000
Adult Basic Education	156,000
Manpower and Development Training (School)	1,000,000
Vocational Education (George-Barden)	1,350,000
Vocational Education (Smith-Hughes)	122,000
Vocational Education Act of 1963	3,000,000
Education of Children from Low Income Families	16,000,000
School Lunch Program	4,000,000
TOTAL	$ 28,478,000

FEDERAL AIDS FOR COUNTIES

Secondary Road Construction	7,600,000
Aid to Dependent Children	13,500,000
Aid to Blind	700,000
Old Age Assistance	19,600,000
Aid to Disabled	1,100,000
Child Welfare	700,000
Aid to Indians	73,000
TOTAL	$ 43,273,000

FEDERAL AIDS FOR MUNICIPALITIES

Airport Construction	$ 1,600,000
Municipal and Urban Planning	200,000
Urban Highway Construction	2,700,000
Water Pollution (Sewage Treatment Plants)	3,300,000
TOTAL	$ 7,800,000

FEDERAL AIDS FOR COUNTIES AND MUNICIPALITIES

Outdoor Recreation Program	$ 500,000
Library Services	430,000
Library Construction	250,000
Neighborhood Youth Corps	110,000
Hospital Construction	$ 4,300,000
Mental Retardation Facilities	200,000
Community Mental Health Center Construction	1,200,000
TOTAL	$ 6,990,000

FEDERAL AIDS FOR COMMUNITY PROGRAMS

Commission for the Aging	200,000
Manpower Development and Training	1,750,000
Office of Economic Opportunity	120,000
Community Services Planning for Elderly	200,000
TOTAL	$ 2,270,000

The topic of state and federal aids is important to the discussion of municipal finance for a number of reasons:

a. The state contributes a significant portion of the cost of local governments, close to 40 percent. However, of all direct state aid, 89.1 percent is directed to schools and counties to support their programs. Only 10.9 percent goes to cities and towns to help finance the broad gamut of municipal services and to help deal with increasing city and town problems.

b. There are over $85 million in property tax credits in Iowa. Few other states in the nation use this device to the extent Iowa does. Tax credits confuse the state aid picture, because while these aids put considerable pressures on the state treasury, state and local government officials and much of the public apparently do not consider the tax credits as state aids.

Moreover, these credits operate chiefly to the aid of individuals rather than cities and towns. Replacement revenues to cities and towns from the state to replace tax revenues formerly allocated to local governments from sources such as personal property do not amount to as much money as when cities and towns were receiving the benefits of taxes levied on these sources.

c. Because of the large amounts of money involved, the area of state aids is the major area of decision-making for preparation and enactment of state budgets. Most of the time, information in this area has been made available to governors and legislators on a piecemeal basis which has impeded an understanding of the overall picture.

d. When state and federal aids are used, the level of government that raises the money is not the same as the level at which it is spent. The state and federal governments have responsibilities for effective usage of money they raise. When it is distributed to local governments, it is usually accompanied by federal or state standards or controls regarding its usage.

e. Sometimes state and federal aids serve to redirect local priorities. For example, if state aid is available for improvement of arterial streets, but not for residential streets, cities might tend to emphasize improvement of arterial streets to the detriment of neighborhood streets. Moreover, federal programs usually require a local matching share which tends to further increase the pressure on municipal revenues.

4. <u>Costs have been imposed upon cities and towns by state and federal action without a corresponding increase in aid or revenue raising authority to help offset the additional expense</u>. An example of this is the legislation that reduced firemen's work weeks to 56 hours. The impact of this action was that many municipalities were forced to hire additional firemen or

decrease the quality of municipal fire protection. The legislature also has frequently adjusted pension plans for municipal employees at additional costs to the cities and towns without providing assistance to help meet the increased expense of such improved benefits. Additionally, the legislature often establishes standards that require the hiring of additional personnel. These are just three of many examples of how additional costs have been imposed on cities and towns without corresponding increases in aid or revenue raising authority.

Federal action has tended to operate in parallel with that of the state. One primary example is the federal requirement for secondary sewage treatment. One has only to read the daily newspapers to get an idea of the scope of national concerns that cities and towns are expected to solve with varying degrees of federal assistance. Any such list would include air and water pollution, transportation, housing, crime, unemployment and discrimination, to name just a few.

The key factor in federal-local programs is that the federal government provides varying amounts of dollars to match municipal contributions. In many cases, municipal contributions necessary to meet the federal match for these new programs will be impossible to come by (a) if existing services are to be maintained; or, (b) if new revenues are not provided.

5. <u>The property tax base has been eroded for municipal purposes by state action without provision being made for replacement of lost revenue</u>. Examples of such erosion by legislative action include (a) repeal of the money and credits tax; (b) adjustment of the personal property tax credit

in 1967; and (c) the devaluation of utility plants ordered in 1969.

6. Demands for new and expanded services, accompanied by increased operating costs and new problems, require revenue levels that the current municipal revenue structure cannot adequately meet.

The pressures driving municipal expenditures upward are continuing for cities and towns of all sizes. Current service levels are costing more due to inflation increasing the cost of supplies, materials, equipment and salaries. Cities and towns are being called upon to provide new services. A current example is the provision of ambulance service. Private companies are dropping out of the ambulance business, and municipalities are being pressed to undertake the function. The situation is the same with bus companies. Private mass transit systems state that they are losing money, and so suspend or reduce operations. Municipalities are then asked to assume the operation or subsidize transit operations. Additionally, municipalities are being called upon to improve existing services. The area of code enforcement is a prime example. Rigorous enforcement of housing, building, plumbing, electrical, and other codes is increasingly being demanded to provide for the health, safety, and welfare of urban residents. Code enforcement is an expensive program to administer, as it requires the employment of numerous skilled personnel. Upgrading of law enforcement efforts is another area where service improvements are being demanded. Such improvement usually involves additional personnel, more equipment and training facilities, all at additional cost to the community. The listing of pressures on municipalities could be expanded through the entire range of municipal services.

The expenditure pressures increase but the revenue from the current municipal revenue structure has not kept pace. The property tax base expands at a rate much less than expenditure needs. A significant number of cities and towns are at or near the 30 mill limit which restricts their ability to meet their needs through tax increases. A increasing number of municipalities have transferred all possible expenditures from the seven functional funds to the debt service and trust and agency funds. Indebtedness and user fees are being used to finance services and projects traditionally financed entirely or in part from tax revenues. And still many municipalities lack sufficient revenues to adequately meet the pressures and demands placed upon them.

The conclusion is clearly that the current municipal revenue structure is not adequate to meet the needs of a growing number of Iowa's cities and towns. Action, therefore, is indicated. Action in the form of legislation to increase the financial ability of the municipalities to carry out its assigned responsibilities. If that action is not forthcoming the alternatives are equally clear. The municipalities will have to (a) reduce the present level of service, (b) avoid new programs, (c) institute new user fees and increase existing user fees, (d) increase the reliance on indebtedness; and/or, (e) shift traditionally local services to the state. These alternatives are clearly unacceptable. The time has arrived for immediate action to relieve the financial plight found in most of the state's cities and towns. Additional delay will cause unreasonable hardships on many cities and towns.

APPENDIX I

Cities (130)
(Amounts in Thousands)

Municipal Finance Category	1963	1964	1965	1966	1967	1968	Inc. or Decrease	% of Change
Total Revenue	$ 159,481	$ 172,399	$ 184,834	$ 228,642	$ 254,372	$ 267,607	+$108,126	+ 67.80
Tax Revenue	68,174	69,954	71,919	75,943	83,207	88,978	+ 20,804	+ 30.52
Other Revenue	91,307	102,445	112,915	152,699	171,165	178,629	+ 87,322	+ 95.64
Total Expenditures	158,015	165,912	182,984	213,360	236,952	262,131	+ 104,116	+ 65.89
Salaries	51,173	54,496	67,673	62,333	69,205	75,929	+ 24,756	+ 48.38
Capital Outlay	36,998	38,449	41,217	53,515	55,837	71,177	+ 34,179	+ 92.38
Other Expenditures	69,844	72,967	74,094	97,512	111,910	115,025	+ 45,181	+ 64.69
Total Indebtedness*	128,876	133,986	134,073	164,178	185,668	205,576	+ 76,700	+ 59.7
General Obligation Bonds	82,809	86,691	85,465	104,417	125,542	146,434	+ 63,625	+ 76.83
Industrial Revenue Bonds	3,362	2,845	2,658	63,009	148,333	211,333	+ 207,971	+693.3
Miscellaneous	46,067	47,294	48,607	59,761	60,125	59,143	+ 13,076	+ 28.3
* Ind. Rev. Bonds Excluded.								
Property Subject to Taxation**	1,997,300	2,071,121	2,143,062	2,302,905	2,445,542	2,482,205	+ 484,905	+ 24.3
Real & Agricultural Prop.	1,526,403	1,589,633	1,646,327	1,786,841	1,895,597	1,958,259	+ 431,856	+ 28.29
Personal	300,267	304,923	306,880	312,700	329,077	297,539	- 2,728	- .91
Utilities	170,630	176,565	189,855	203,364	220,868	226,407	+ 55,777	+ 32.69

**Monies & Credits Excluded.

(Source: Auditor of State "Report of Municipal Finances" for years ended December 31, 1963 through December 31, 1968.)

APPENDIX II

Towns (819)

(Amounts in Thousands)

Municipal Finance Category	1963	1964	1965	1966	1967	1968	Inc. or Decrease	% of Change
Total Revenue	$ 22,941	$ 24,689	$ 23,888	$ 25,529	$ 30,073	$ 33,852	+$ 10,911	+ 47.56
Tax Revenue	12,552	12,528	12,393	11,626	13,416	14,113	+ 1,561	+ 12.44
Other Revenue	10,389	12,161	11,495	13,903	16,657	19,739	+ 9,350	+ 89.99
Total Expenditures	22,462	23,995	23,971	24,649	29,359	32,071	+ 9,609	+ 42.78
Salaries	5,219	5,058	6,469	5,551	6,093	6,658	+ 1,439	+ 27.57
Capital Outlay	7,477	6,457	6,336	5,857	7,412	8,332	+ 855	+ 11.44
Other Expenditures	9,766	12,481	11,166	13,241	15,854	17,081	+ 7,315	+ 74.90
Total Indebtedness*	14,975	16,068	17,070	18,490	20,903	25,151	+ 10,176	+ 66.7
General Obligation Bonds	9,356	9,780	9,948	10,558	11,159	11,989	+ 2,633	+ 28.14
Revenue Bonds (Excl.Ind.)	3,492	3,832	4,258	4,862	6,378	8,879	+ 5,387	+154.27
Special Assessment Bonds	1,643	2,044	1,930	2,026	2,226	2,413	+ 770	+ 46.87
Industrial Revenue Bonds	183	209	303	89	12	65	- 128	- 69.95
Miscellaneous (Certificates, Judgments, Misc.)	485	412	934	1,044	1,140	1,870	+ 1,385	+285.57
*Ind. Rev. Bonds (Excluded)								
Property Subject to Taxation**	444,356	474,580	485,383	506,837	531,436	547,615	+ 103,259	+ 23.2
Real and Agricultural Prop.	320,576	344,321	356,964	374,936	394,276	403,765	+ 83,189	+ 25.95
Personal	76,402	78,021	80,794	75,420	78,998	73,197	- 3,205	- 4.19
Utilities	47,378	52,238	47,595	56,481	58,161	70,653	+ 23,275	+ 49.13

**Monies & Credits excluded.

(Source: Auditor of State "Report of Municipal Finances" for years ended December 31, 1963 through December 31, 1968.)