County Financing in Changing Times

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Counties have always faced a challenge when it comes to generating enough revenue to fund the services their citizens want and need. Iowa's elected representatives have adopted laws and administrative rules to guide local leaders through the methods of funding local government. Many of the tools that are available to fund local government today were adopted many years ago. Tax levies, supplemental levies, debt service levies, levies by fund and methods to exceed the levy rate limits were all adopted years ago to meet the needs of local communities. As the environment changes, local leaders must adapt to the financial guidelines set forth in the Iowa Code to operate local government.

In recent years the residential rollback and tax increment financing (TIF) are two items that have dramatically impacted the taxable valuation available to levy taxes for the services that are needed. In Iowa the residential rollback for 2006 valuations is 45.6% and the average TIF value is over 6% based on 2005 valuations. These two items alone have a considerable effect on the taxable value used to figure tax rates for local government.

With these thoughts in mind, the purpose of this article is to address one of the tools that Iowa law allows local officials to use to generate revenue - the debt service fund and levy. In the past counties have used the debt service levy to fund either county buildings or jails approved by a vote of county citizens. However, in recent years, counties have been utilizing the debt service fund to pay for many other capital items that were once paid for through the general fund.

It is appropriate to review a scenario that suggests why the debt service fund has become a viable option in these changing times.

1) In many counties the general basic levy rate is already at the $3.50 limit and all allowable expenses have been shifted to the supplemental fund.
2) There has been a loss of taxable valuation due to the rollback or declining agricultural values.
3) Projects that have been put on hold in the past waiting for better times must now be completed for a variety of reasons.
4) There has been an increase in the amount of TIF increment value in the county that has limited the growth of the regular taxable valuation available to be used by the general fund.

The debt service levy is applied to all TIF valuation that has been certified, whereas the general fund only includes the regular base valuation. This allows a smaller tax rate in the debt service fund than in the general fund to generate the same amount of revenue. Just how much smaller depends on how much TIF increment exists in a given county.

There are two basic ways that a county can certify a debt service levy. One is by election following the procedures in Iowa Code §331.442. The other is by a public hearing process for qualified purposes. An increasing number of counties are using the public hearing process for certifying debt. Iowa Code §331.441 identifies the "essential county purposes" that qualify to be paid for through the debt service fund. Voting equipment and geographic information systems (GIS) are two essential purposes that several counties have funded through the debt service fund. Also common are public buildings subject to dollar limits based on the population of the county. The limits vary from $400,000 in the smallest counties to $1 million in the largest counties. If the county follows the proper procedures and authority for publishing and holding the hearings for issuing debt for "essential county purposes," the board action for issuing debt is final unless a citizen appeals to the district court and the court finds that the county exceeded its statutory authority.

Counties can also issue debt without an election for a "general county purpose" subject to dollar limitations again based on population. Any expense that is necessary for the operation of the county or the health and welfare of the citizens is a "general county purpose." Counties have used this authority to issue debt for sheriff and conservation vehicles, for example. The limits vary from $50,000 to $150,000 depending on population, and the public has the right to petition for an election. All debt paid by the debt service fund must be for items that qualify being paid for over the entire general tax base of the county. Items that are only paid by the rural fund cannot use the debt service levy that covers the whole tax base of the county. Also, a county must obviously issue debt in order to utilize the debt service levy.

As mentioned above, the average TIF value in the state of Iowa is 6%. What this means is the average debt service fund in counties across Iowa has 6% more value over which to spread the tax levy than the general fund. Borrowing costs for tax-exempt municipalities are between 4% and 5%, depending on a variety of factors. As a general rule of thumb, if you have TIF increment valuation greater than your borrowing costs then there is an economic advantage to using the debt service fund. It all comes down to your local situation. Some counties do not have any TIF increment and there are others that are well over 10% TIF increment. TIF increment is only one factor to consider in your decision to use the debt service fund. There could be several reasons why the debt service levy fits your county situation. As county officials, it is important that you consider all practical tools that are available in order to adapt to the changing times.