

Local Option Sales and Service Tax: Special Report



The Iowa League of Cities has focused on the topic of local option sales and service tax (LOSST), the mechanics of how it works and the importance to the communities.



How it Works

Code of Iowa Chapter 423B authorizes cities and counties to implement a Local Option Sales and Service Tax (LOSST), subject to certain requirements if voted and approved by a majority vote of citizens at an election. Nearly all cities in Iowa have adopted a LOSST and use the revenues approved by the voters.

What is the current state sales tax and LOSST rate?

Since Fiscal Year 2009, the state sales tax rate has been 6%. LOSST is a 1% sales tax collection in addition to the state sales tax rate in those jurisdictions that vote for it. With a few exceptions, LOSST is charged on the same transactions as the state sales tax. Although 1% is collected in each jurisdiction that has imposed LOSST, the distribution formula for these revenues is more complex. For those cities that elect LOSST, revenues are often generated in part by visitors to the community. In some cases, this offsets costs incurred by others traveling through the community.

What is the distribution formula for LOSST revenues?

Jurisdictions do not receive the actual amount of LOSST collected by merchants in the locality. Instead, all LOSST collected within a county is placed in a special fund that is distributed to those jurisdictions within the county that impose LOSST, based on a specified formula. Each county's account is distributed based on population (75% weighting) and property tax levies (25% weighting). The population factor is based on the most recent certified federal census. The property tax factor is the sum of property tax dollars levied by boards of supervisors or city councils for the three years from July 1, 1982, through June 30, 1985.

The actual distribution is computed as follows:

$$D = (.75 \times P \times Z) + (.25 \times V \times Z)$$

D = distribution for the taxing jurisdiction

P = jurisdiction percentage of the population

V = jurisdiction percentage of the property tax levied

Z = the total collections for the county in which the jurisdiction is located.

When do cities get paid, and what is the new administrative process that begins in October 2022?

Beginning with the October 2022 LOSST payment, the administration of local government LOSST distribution payments will change, per SF 2367 passed during the 2021-22 legislative session. The Iowa Department of Revenue (IDR) will move away from the old annual estimated payments process and will begin making distributions based on actual LOSST receipts in the preceding month. July, August and September 2022 will be the final months that will use estimated payments; any adjustments or reconciliations to those will be made by December 30, 2022.

What was the previous 'annual estimated payments' process?

By August 15 of each fiscal year, IDR sent a written notice of the monthly estimated local option payments for the fiscal year to each locality. Ninety-five percent of these estimates were paid out evenly each month. A final reconciliation payment of any remaining tax due to a locality for the fiscal year was to be made before November 10 of the next fiscal year. If an overpayment to a locality occurred for the fiscal year, a reduction of monthly distributions to reflect the overpayment began with the November payment. Rarely, IDR sent updated estimates mid-year.

How does location of sale relate to when LOSST must be charged?

The sales tax applies if delivery of the tangible personal property occurs within a local option sales tax jurisdiction. Local option sales tax is imposed on a taxable service if the first use of the service occurs, or potentially could occur, within a local option sales tax jurisdiction. *Code of Iowa* Chapter 423B authorizes cities and counties to implement a Local Option Sales and Service Tax (LOSST), subject to certain requirements if voted and approved by a majority vote at an election. Nearly all cities in Iowa have adopted a LOSST and use

the revenues approved by the voters. Out-of-state retailers with a physical presence or nexus who make deliveries into Iowa must collect Iowa sales tax. Local option sales tax also applies if these deliveries occur in a local option jurisdiction.

Does this include online sales?

Iowa's tax reform law that went into effect on January 1, 2019, includes an economic nexus threshold. Remote sellers must collect Iowa sales tax if the remote seller has \$100,000 or more in gross revenue from Iowa sales.



[Click here for more information.](#)

What about marketplace facilitators?

Beginning January 1, 2019, marketplace facilitators that have \$100,000 or more in gross revenue from Iowa sales must also charge Iowa sales tax, including local option sales tax. Common examples are retailers that have a store in Iowa, send sales representatives to Iowa, or set up a temporary booth to sell items at fairs or trade shows in Iowa.



[Click here for more information.](#)

How can cities use LOSST funds?

Cities must use LOSST funds for lawful purposes and according to any property tax relief requirements. Cities must adopt a Revenue Purpose Statement that describes how the revenue will be used, which is included with the ballot at the time of election or per *Code* Chapter 423B for cities located in qualified counties that imposed LOSST after January 1, 2019. Cities can only issue bonds on the portion of LOSST revenues that are not designated for property tax relief purposes.

How does LOSST get on the ballot?

(source: IDR, <http://www.tax.iowa.gov>)

In order for a city to have a LOSST, a majority of the eligible electors in that city must approve it in a county-wide election to impose the local option sales tax. The local option sales tax is placed on the ballot through a petition of 5% of the county electors having voted in the last state general election or by a motion (or motions) of governing bodies within the county that represents at least half of the population of the county. The election for a LOSST can be held during any regular election or one of the special election dates allowed by state code. The election cannot be held sooner than 60 days following publication of notice of the ballot proposition in the newspaper. The election is county wide, but the LOSST will only apply in those incorporated or unincorporated areas of the county where the majority of the eligible electors approve the tax. The ballot must specify:

- The type of tax (in this case, Local Option Sales Tax)
- The tax rate (not more than 1%)
- The date it will be imposed
- The approximate amount of local option tax revenue that will be used for property tax relief, if any
- The specific purpose(s) for which local option tax revenues will be spent if for purposes other than property tax relief
- A sunset clause for termination of the tax (optional)
 - For the imposition, repeal or change of LOSST, within 10 days after a successful referendum, the county auditor must give written notice of the results and abstract of votes to the director of the IDR. This must be done 90 days before the effective date, which is on the ballot.

Local Option Sales and Service Tax: Local Stories

Given their popularity among local governments in Iowa, it would be easy to assume Local Option Sales and Service Taxes (LOSST) have been around as long as some cities' articles of incorporation. In fact, the tax was first established in 1985 and became an option for city and county residents.

Long before that, though, the Iowa League of Cities and its members called for a local option sales tax to be authorized in the state code as a mechanism to help pay for essential services. And from those early days, the focus has been on the key terms: "local" and "option." Supporters of the policy stressed that each individual community would have the ability to vote to approve a local sales tax or to reject such a proposal, and if approved, it would be used for specific local purposes as proposed in the referendum.

Since its inception, LOSST has been approved via local elections all over the state, as 923 cities currently have it in place. It's also important to note that leaves 17 cities that do not have a LOSST, showing that not all communities are alike and may have different ideas on how essential services should be funded.

That aspect of LOSST mirrors the importance of Home Rule, which is at the foundation of municipal government in Iowa by giving local leaders the authority necessary to make strategic decisions on behalf of their community. It's also reflected in how local governments must adopt a Revenue Purpose Statement that accompanies a LOSST referendum, detailing how those revenues will be used for local priorities.

The following is a detailed look at how some communities have utilized LOSST effectively to support the needs of their residents.

SOLON

Solon is a city of 3,018 nestled within a growing region of southeast Iowa, in the corridor of Cedar Rapids and Iowa City. Solon is one of Iowa's fastest-growing cities, increasing 48% since 2010.

Growth pressures and aging public safety infrastructure have placed increased demands on the city's volunteer regional fire department. The Solon Tri-Township Fire Department district covers 112 square miles — the largest in Johnson County. Solon's existing fire station was built in the 1950s and is too small for modern fire trucks and firefighting apparatus. Firetrucks are currently parked in tandem — one truck in front of the other — reducing fire department response times and resulting in equipment storage issues.

When considering available funding sources for a new station, the city identified a nearly \$2 million funding gap which was 50% of the total project budget. In response, the city decided to go to the voters to expand the use of LOSST revenue to include emergency services and recreation facilities. It was passed with overwhelming support.

City Administrator Cami Rasmussen talked about a great level of support for fire services in the community. "The all-volunteer fire department means you know your first responders and they know you. There is mutual community



care when an emergency occurs, and we all want to ensure that we take care of one another," Rasmussen said.

Rasmussen stressed the importance of LOSST revenue as a catalyst for increasing public safety through smart city investments. Solon utilized LOSST to leverage regional sales tax growth, capturing visitor purchases (nearby Lake McBride State Park is a tourist destination) and mitigating the growth of the property tax rate. As Rasmussen mentioned, the project would not have been possible without LOSST funding. "It is an investment in the region today as well as preparing us to manage growth for tomorrow."

SWISHER

Swisher is a community of 914 located just south of the Eastern Iowa Airport in Cedar Rapids in a region experiencing significant growth. However, as a smaller community, the city of Swisher receives limited funding for public improvements. Swisher's Clerk City, Tawnia Kakacek, noted that one of its main roads was in need of repair and, as a gateway to the community, was due to be updated.

This led the city to consider revenue options for the major infrastructure improvement and LOSST became the best funding solution to bring the project to fruition. The city embarked on a street redevelopment project with Johnson County. Since a portion of the road was outside the city limits, the county paid for half of that segment, to update streets, lighting, curbs, gutter, crosswalks and trees. Kakacek detailed the importance of the community investment. "Swisher has never had street design standards to this level. We're getting there; it takes time for a city of our size to move forward on projects like this."



Local option sales and service tax revenue was the catalyst for this city improvement, made possible by the city setting aside multiple years of LOSST revenue, an initial LOSST allocation of \$1 million was made and additional current LOSST funding is being used for bond payments. As LOSST continues to finance city infrastructure enhancements, consistency in LOSST revenue collections is key to maintaining steady revenue streams for bond repayment.

WAUKEE

Located in the Des Moines metro area, Waukee is another of the fastest-growing cities in the state, with a 2020 Census population of 23,940, a dramatic increase from its 2010 count of 13,790. With a young and growing community, resident demand has increased for sports complexes and recreational offerings.

In response, the city together with residents utilized public visioning activities to develop a plan for the 66-acre Triumph



Park, which opened in 2022 and features a sports complex with 12 softball/baseball fields, practice areas, concessions, accessible restrooms and 750 parking spaces. The complex hosts local ball teams as well as large tournaments and the 11-acre pond amenity provides a fishing destination along with a major stormwater management feature. Greenspaces are used for events, and three miles of trails will connect to area neighborhoods and regional trail systems. Accessibility to people of all abilities was a priority of the project, which also includes an EPIC inclusive playground, an ADA-compliant fishing pier and a Miracle League® field for special needs players to enjoy.

Waukee City Manager Brad Deets states that "this project has set the standard for future development in the Waukee." In addition to the expanded recreational amenities offered by the project, it has boosted economic development in the area while offering an intergenerational community space—the fishing pier is a meeting place for young and old to recreate together.

This \$20 million signature community project was possible due to LOSST funding—a steady and community-focused revenue source for new and existing City projects. LOSST proceeds are expected to fund over half of the project cost.

Mason City

In Mason City, LOSST has funded a great variety of projects and purposes since 2014.

These have included:

- Providing property tax relief
- Enhancing quality of life
- Improving infrastructure reliability
- Creating safe neighborhoods and improving security

The city has generated approximately \$52 million in LOSST revenues. Mason City has chosen to commit 50% of LOSST revenues toward property tax relief, about 40% to physical and infrastructure improvements, and 10% to police, fire and other city services. Since 2014, approximately 35% or over \$18 million of LOSST revenues have been generated by visitors outside the community who shop or use city services in Mason City.

A few highlighted projects completed with the use of LOSST include:



- Dam removal project – multiple dams on the Winnebago River were turned into kayak launches, white-water features and fish ladders
- A new fire engine to replace an obsolete engine
- Turn lanes were added on Highway 122 to reduce crashes and improve traffic flow

Another example is its Downtown Reinvestment District's River City Renaissance project, which included five main components. One of these was its ability to redevelop a vacant anchor department store building with a new city amenity. A multi-purpose arena was developed, including enhanced offerings for the local hockey community (semi-professional hockey team—North Iowa Bulls and various hockey leagues and skating clubs) and entertainment offerings.

Since opening the doors, there have been a number of opportunities presented to the city, from music concerts, speaking events, mixed martial arts events, and community events. Additionally, the multi-purpose arena houses the city's recreation department, which provides community programs year-round. This \$17 million project is funded by a variety of means, including LOSST. This project has expanded community amenities and enhanced local tourism and overall quality of life.

Sioux City

At a population of 85,797, Sioux City, located in northwest Iowa, is one of the state's largest communities.

One of its recent revitalization efforts and accomplishments is its Chris Larsen Park Riverfront Development, a redevelopment of 23 acres along the Missouri riverfront. The \$12 million investment to redevelop an area previously occupied by a riverboat casino is now home to a premier community space, focused on recreational offerings and advancing economic development. The project included construction of a new public park on the site and the development of spaces for community gatherings, native plantings, active recreation areas, fitness stations, three park shelters, restroom facilities, two basketball courts, a dog park, playground equipment, and enhancements to the recreational trail system.



Sioux City's LOSST purpose statement allows for 60% of funding to be used to offset property tax relief. This project would not have been developed to this scale without LOSST funding providing property tax relief and infrastructure investments.

Knoxville

Voters approved an extension of their LOSST last fall. Knoxville pledged to use 50% of its LOSST revenues toward property tax relief. The other 50% will be spent on capital improvement projects.



Knoxville estimates it received approximately \$1.3 million annually from LOSST funds. To date, Knoxville has repaired streets and sidewalks, completed trail extensions, revitalized city blocks, and supported the purchase of critical public safety needs such as patrol vehicles, ambulances, fire engines, gear and cardiac monitors with LOSST funds. A couple of specific initiatives supported by LOSST include Knoxville's Downtown Streetscape Project and its Vehicle and Equipment Replacement Fund (VERF) program. The Downtown Streetscape Project overhauled five city blocks, replacing 100-year-old infrastructure, including sanitary sewer, storm



sewer, water, streets and sidewalks. This project was a full revitalization effort that incorporated brick crosswalks, corner bump-outs and colored concrete. All infrastructure was designed so that there wouldn't be a need to tear up the new streets for additional repairs in the near future. The project's total cost was \$3.3 million and was funded through a general obligation bond paid by LOSST. Knoxville's VERF program is funded by LOSST revenues, road use tax and sewer enterprise funds. An annual contribution to the VERF is calculated based on city vehicle and equipment inventory using replacement standard, replacement cost, and resale value for current equipment. This helps ensure that when the time comes for vehicle and equipment replacement, funds are available and budgeted to do so. Examples of purchases funded through the VERF program include fire engines, patrol cars or mowers for the parks. This internal program has allowed continued city services without increasing property taxes through costly expenditures or additional bonding.

Harlan

In Harlan, voters approved the LOSST in 2005. Harlan dedicates 50% of its LOSST to property tax relief and 50% to infrastructure, parks and streets.

Harlan City Clerk Jane Smith noted that LOSST has enabled projects "that may not have been completed or purchased without these funds." Some examples included improvements to city streets and purchases of equipment to benefit the community parks and pool.



These are just a few projects that LOSST funds have helped complete since its inception in 1985. There are a wide variety of examples of how city governments use LOSST, including funding public safety, road infrastructure, community and economic development, parks and recreation enhancements, cultural amenities, and much more. For many local budgets, it's also been used as a way to suppress the property tax rate as one of the few consistent ways to diversify revenues. LOSST has provided many opportunities and benefits to cities across Iowa.



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- August 2022
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