

Local Option Sales Tax

The City of Keokuk first implemented a Local Option Sales Tax (LOST), a 1% fee on sales in the area as apportioned through the County, in 1991. The LOST fee was approved by a vote of the public. The ballot authorizing the Local Option Sales Tax stated in part “revenues from the sales tax are to be allocated in the City of Keokuk as follows: Fifty percent of the proceeds shall be used for property tax relief. The specific purposes for which the revenues shall otherwise be expended are forty percent for infrastructure and ten percent for human development services.”

Keokuk collects and budgets the usage of approximately \$1,500,000 annually from LOST fees. We place these in a special Local Option Sales Tax Fund account, then distribute to other funds during the course of the year in accordance with the authorized usage in the initial ballot language. The categories are strictly defined, yet broad within those categories. For example, human development as a category can be used for items such as support for the library, the swimming pool, the variety of parks within our community, the museum, and the arts. Yet it does not include departments such as the Police and Fire Department; the State of Iowa defines these as Public Safety functions, not human development.

Similarly, infrastructure has strict definitions by state statute, including a variety of project categories. These include street construction, sidewalk and trail construction, major building improvement projects (and the state has taken the time to make a distinction between minor and major building projects), and utility installation/rehab projects. The state has also taken the time to make clarifications on what can count as property tax relief.

The City of Keokuk was involved in one of the court cases which helped to verify what did and did not count as property tax relief in 2004, when the State Appeal Board considered whether the way in which Keokuk budgeted the usage of its Property Tax relief funds in its Fiscal Year 2004-2005 budget met the appropriate definition of Property Tax relief. A copy of the May 18, 2004 decision is located as a separate link within the Current Financial Landscape portion of our website, which you are encouraged to review. The end result of that case is that the City was found to have violated the law in its usage of a portion of those funds for which there was no identified levy that was lowered to offset the usage of funds. The City was ordered to reimburse the LOST funds that were moved into the General Fund that did not have an offset in a property tax levy.

The current year's (Fiscal Year 2026) has a similar structure to what occurred in 2004, in that the property tax relief funds budgeted to be transferred from LOST to the General Fund, \$750,000, only have one corresponding levy of \$84,000 (an amount that could have been levied by state law for supporting the Airport) that was not actually levied. The City will face a decision in how to account for this discrepancy in the current year: we can either retain the \$666,000 of LOST funds in that fund for future property tax relief, or retain levies collected to cover employee benefits in the employee benefits fund for usage in a future year. Either way, there will be \$666,000 less available in the General Fund than what was originally budgeted. A discussion of what FY2026 is likely to end up compared to what was originally budgeted will

need to be done. This will have to occur in a separate post, because it is part of setting the context for the structural deficit that will be present to address in Fiscal Year 2027.

The usage of the Infrastructure portion of Local Option Sales Tax requires the same justification process to occur. Keokuk budgeted for the \$600,000 of infrastructure funds within LOST (40% of the revenue) to be transferred to the General Fund. The amount that is transferred needs to be justified by the expenditure of City funds on actual infrastructure projects. There are three main infrastructure projects occurring in the General Fund in FY2026 that justify the usage of these funds. One is a trail along the riverfront, a project that is anticipated to cost \$1,350,000 with approximately \$950,000 of grant funds to offset it, leaving a net of about \$400,000 of City support. The second project occurred at the Airport Terminal, with a \$380,000 project requiring a City match of \$20,000. The final project that was paid for this Fiscal Year was for facility improvements at the Southeast Iowa Development Center (SID Center), a \$280,000 project financed by the Keokuk Economic Development Corporation (KEDC) and reimbursed by the City on the City facility. In total, these three projects accounted for over the \$600,000 figure in the Infrastructure category..

Moving forward, the City of Keokuk needs to ensure that LOST funds are used in accordance with the original authorizing ballot language. The usage of LOST funds can only be changed if the Council were to make a decision to put a proposition forward on a ballot initiative in the future, asking the public to approve a modification. The ballot initiative would need to pass the election with the proposed modified usage of funds to allow a new distribution.

Next topic: Road Use Tax Fund