

Introduction

In 2013, the Iowa Legislature provided property tax relief to commercial, industrial and railroad property owners by rolling back the value for property taxation. The property tax replacement dollars, which began in FY 2015 and were fully implemented in FY 2016, are being sent back to local governments at an annual amount of \$152.1 million.

Executive Summary

The data in the following pages and charts shows that most of the cities and counties have adequately outgrown the state's property tax replacement dollars. However, there are cities where their growth has not kept pace. The answer appears to be that there are cities and counties that have clearly grown to a point that no longer need the property tax replacement dollars and there are clearly cities and counties that have not experienced the same growth.

Taking tax dollars collected at the state for one purpose and sending them back to local governments for another purpose does not follow ITA's Guiding Principles of Sound Tax Policy. The main purpose of taxation is to raise needed revenue. Taking a portion of state tax collections and sending it to local governments does one of two things. The state is either collecting more tax than it needs for revenue or there are state services that are being shorted.

Purpose and Objective

The Future of Iowa Foundation, which is the sister organization to the Iowa Taxpayers Association (ITA) focusing on research, commissioned Iowa State University (ISU) to gather data on property values and taxes in Iowa. In addition, ITA did additional research using data collected from the Iowa Department of Management on all cities and counties in the state of Iowa. Using all the data collected by both ISU and ITA this is what we found. Property tax burdens continue to grow faster than inflation, which leaves many larger businesses trying to find some relief by working with their local governments through negotiated economic development zones. Non-receiving deals frustrate many smaller businesses and the average taxpayers, who often won't qualify for such deals. This is not the only base-narrowing action that simply drives the property tax burden to those who are left paying a higher tax on a higher value. Unfortunately, this convoluted system limits the competitiveness of Iowa's tax code and imposes a tax burden that is far from neutral.

The total of all cities' assessments in 2018 that were used to determine property taxes for FY 2020 is 25.4% greater than the assessments used for FY 2014. Only 3% of the cities experienced no assessment growth, 71% of cities showed at least 2% growth per year and half of all cities had at least 3% growth per year. (See Figure 1.)

The state collects tax receipts to fund state government. However, the \$152.1 million the state sends back to local governments conflicts with the purpose of why the state collects tax receipts. These are not the only monies collected at the state that are redirected somewhere else for a different use.

The primary goal of this project is for ITA to determine if property tax assessments and property tax receipts have risen to the point where the property tax replacement dollars paid by the state to local governments are

still required. In addition, does taking dollars collected at the state for one purpose and sending them back to local governments for another purpose follow ITA's Guiding Principles of Sound Tax Policy?

Overview of Iowa Property Taxes

Property taxes are some of the oldest forms of taxation and remain one of the most significant sources of local government revenue. In the beginning, property taxes as a source of revenue for local education, city and/or county government made some sense. Today taxes have been added to income, purchases, uses and many other forms of taxation. The taxation on real property is a form of wealth tax applied to the owner of a capital asset. In many cases the ability to pay this form of taxation has not kept pace with the increase in asset value. This coupled with the increasing property tax burden and the lack of understanding of a convoluted system leaves many real property owners frustrated.

When compared to other states' property tax systems, Iowa ranks poorly. In 2013, the Tax Foundation ranked Iowa 42nd in the overall State Business Tax Climate Index and 37th in property tax. In the most recent State Business Tax Climate Index for 2020, the Tax Foundation ranked Iowa 42nd overall and 35th in property tax. With 1 being the best and 50 being the worst, Iowa has been and continues to be a higher-than-average property tax state in the ranking. The owners of real property continue to see property taxes increase faster than the rate of inflation. In many rural parts of the state the tax base continues to erode, main streets dry up, population falls and the burden of funding local governments continues to grow. In many cases, fewer property owners are facing a larger property tax burden. The state continues to send tax monies back to local governments at an annual cost of \$152.1 million to replace the perceived loss in property taxes from the drop in taxable values because of the 10% rollback for commercial and industrial property.

In 2013, the Iowa Legislature passed SF 295 that made substantial changes to state and local finances. The bill established a business property tax credit for three real property classifications: commercial, industrial and railway. This action was designed to reduce the property tax burden for smaller assessed properties in these classifications. The bill froze the taxable value for commercial, industrial and railroad property to 90% of the actual value. The state attempted to offset this potential reduction in revenue for local governments by sending a capped amount of \$152.1 million back on a prorated basis to local governments. These dollars are referred to as the property tax replacement dollars, or backfill.

In addition, there was a new property tax classification for multiresidential property. This new classification now treats similarly situated taxpayers the same; previously some were assessed as commercial and some as residential. The bill reduced the maximum annual taxable value growth percent, due to revaluation of existing residential and agricultural property, from 4% to 3%.

In this report, we provide an overview of the changes implemented in 2013 and make comparisons to what has happened since 2006. The key dates for changes to the property tax system are as follows:

1. Assessment Year 2013 or Fiscal Year 2015
 - a. The maximum annual taxable value growth percent for agricultural and residential properties moves from 4% to 3%.
 - b. Commercial, industrial and railroad property are assigned a rollback of 95%.
2. Assessment Year 2014 or Fiscal Year 2016
 - a. Commercial, industrial and railroad property are assigned a rollback of 90%.

3. Assessment Year 2015 or Fiscal Year 2017
 - a. A new real property classification begins, called multiresidential. Properties in this class will be assigned a rollback of 86.25%. This percentage will decline 3.75 percentage points each year through AY 2021.
4. Assessment Year 2022 or Fiscal Year 2024
 - a. The multiresidential class will be assigned a rollback that is equal to the residential class of property.

The bill also modified the provisions for the taxation of telecommunications company property and provided for the study of the taxation of telecommunications company property. Since 2013, the Legislature has acted on telecommunications company property and modernized their assessment process.

There have been many attempts to slow the growth of the property tax burden by former and present legislators. Attempts have ranged from slowing the growth of property value to placing a cap on certain levies. Both approaches had some merit, but the property tax burden continues to grow faster than the rate of inflation. This leaves property owners frustrated, upset and demanding action for a change. The real problem is the increasing amount of property taxes. This past year the Legislature passed a bill that will try to bring more transparency into the process of local cities and counties when approving their new tax levies.

Summary

There are many factors that can affect real property assessments, both economics and physical characteristics. These effects can vary a great deal from one location in Iowa to another and from year to year. The only assessment process change made in SF 295 exempted a specified portion of the assessed value of every telecommunications company from property taxation.

The total of all cities' assessments in 2018 that were used to determine property taxes for FY 2020 is 25.4% greater than the assessments used for FY 2014. Only 3% of the cities experienced no assessment growth, 71% of cities showed at least 2% growth per year and half of all cities had at least 3% growth per year. This lack of growth cannot all be attributed to SF 295. Lots of factors affect real property values. The same answer cannot accurately apply to all cities and counties. (See Figure 1.)

The factors affecting county assessments are like those affecting city assessments, but a major difference is agricultural assessments, which follow a productivity formula. While economics play a big role, the formula follows a five-year rolling average. This coupled with the larger changes in reevaluation in the odd-numbered years tends to fluctuate more than cities on a year-to-year basis. However, the total of all counties' assessments in 2018 that are used to determine property taxes for FY 2020 is 27.8% greater than the assessments used for FY 2014. There weren't any counties that had less than 2% per year assessment growth, 93.9% of the counties had at least 3% growth per year and 66% experienced at least 4% growth per year. (See Figure 6.)

Taxable valuations were affected by the changes in SF 295 and affected both cities and counties. The total of all cities' taxable valuations in 2018 that were used to determine property taxes for FY 2020 is 23.8% greater than the taxable valuations used for FY 2014. The total of all the county's taxable valuations in 2018 that were used to determine property taxes for FY 2020 is 24.7% greater than the taxable valuations used for FY 2014. There were 69.7% percent of the cities that had at least 2% annualized growth and 48% that had at least 3% average annualized growth in FY 2020 compared to FY 2014. Only four counties experienced 2% annualized growth in FY

2020 compared to FY 2014, 95% of the counties had greater than 2% annualized growth and 73% had at least 3% annualized growth for the same time period. (See Figure 2 and Figure 7.)

Over the last six years, both assessments and taxable valuations have grown greater than the rate of inflation for most of the cities and counties. But this is not a fair analysis, as you would need to allow for new construction valuations to accurately make this comparison. This information is not readily available and cannot be accurately compared. To further complicate the matters, not all cities and counties are experiencing the same amount of new value growth, if any at all. (See Figure 8 and Figure 9.)

Property tax revenue levied in FY 2020 for a statewide average of all cities was 22.3% higher than FY 2014. There were 70% of all cities with at least 2% average annualized growth and 57% of all cities with at least 3% average annualized growth. (See Figure 3.)

The average of all the cities for the combined property tax rates increased 3.1% in FY 2020 compared to FY 2014. The number of cities with a combined rate of 8.10 or less decreased by 27 cities, and there were 15 fewer cities that had a combined rate between 8.10 and 10 dollars per thousand. All the higher rates from 10 dollars per thousand and higher experienced growth in the number of cities, with the largest increase of cities that fell in between 10 and 12 dollars per thousand. (See Figure 4.) There were 55% of the cities that had 2% or less rate growth when comparing FY 2020 to FY 2014. But there were 25% of the cities that had 10% or greater growth comparing those same two fiscal years. (See Figure 5.)

Conclusion

Not all cities and counties are facing the same economic and population conditions. Those two factors were not impacted by SF 295 and can have a large impact on property values and property taxes, also. Some of the data in this report is the result of those economic and population conditions and not SF 295. The property tax replacement dollars were never intended to fix all problems, just fill the potential loss in revenue resulting from the commercial, industrial and railroad properties' 10% rollback. It is possible that the lack of growth in property values in some of the cities is the result of the 10% rollback, but there is at least just as good a chance the slow growth can be attributed to other economic conditions outside SF 295.

Therefore, most of the data in this report supports ending the property tax dollars over a period for local governments and reducing the overall tax collections or investing the \$152.1 million for state purposes.

Future of Iowa Foundation

Figure 1

Assessed Valuation for all Cities - ME Removed		
	2014-2020	% Change
Cities avg	25.4%	
0% or Less	31	3%
0 to 6%	78	8%
6% to 12%	164	17%
12% to 18%	192	20%
18% to 24%	173	18%
over 24%	304	32%
Total Cities	942	

Figure 2

Taxable Valuation for all Cities - ME Removed W/ TIF - NO AG		
	2014-2020	% Change
Cities avg	23.8%	
0% or Less	48	5%
0 to 6%	89	9%
6% to 12%	148	16%
12% to 18%	201	21%
18% to 24%	159	17%
over 24%	297	32%
Total Cities	942	

Figure 3

Property Tax Revenue for Cities w/Utility Replacement		
	2014-2020	% Change
Growth		
Cities avg	22.3%	
0% or Less	97	10%
0 to 6%	80	8%
6% to 12%	102	11%
12% to 18%	126	13%
18% to 24%	130	14%
over 24%	407	43%
Total Cities	942	

Figure 4

Combined City Property Tax Rates (Non-AG)			
	FY2014	FY2020	% Change
Cities avg rates	11.66	12.01	3.1%
Rates	Number of cities		
8.10 or less	207	180	
8.10 to 10.00	136	121	
10.00 to 12.00	161	182	
12.00 to 15.00	251	258	
15.00 to 18.00	139	144	
18.00	48	57	
Total Cities	942	942	

Figure 5		
Combined City Property Tax Rates (Non-AG)		
	2014-2020	% Change
0% or less	423	45%
0% to 2%	93	10%
2% to 4%	63	7%
4% to 7.5%	69	7%
7.5% to 10%	56	6%
10.0%	238	25%
Total Cities	942	

Figure 6		
Assessed Valuation for all Counties - ME Removed - W/ TIF		
FY14 to FY20		
County average	27.8%	
0% or Less	0	0%
0 to 6%	0	0%
6% to 12%	0	0%
12% to 18%	6	6%
18% to 24%	28	28%
over 24%	65	66%
Total Counties	99	

Figure 7		
Taxable Valuation for all Counties - ME Removed - W/ TIF		
2014-2020		
County average	24.7%	
0% or Less	0	0%
0 to 6%	0	0%
6% to 12%	4	4%
12% to 18%	22	22%
18% to 24%	26	26%
over 24%	47	47%
Total Counties	99	

Source: Iowa Department of Management

Figure 8

TAXABLE VALUATION - Military Exemption and AG REMOVED w/TIF
Years Shown in Fiscal Years
Percentage of cities in different growth brackets

	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
<=2%	42.89%	66.56%	30.04%	15.29%	21.55%	22.29%	25.16%
>2% and <5%	19.43%	18.58%	19.21%	54.78%	36.20%	56.58%	36.62%
>5% and <10%	23.57%	8.39%	28.45%	23.46%	25.69%	16.88%	26.86%
>10% and <15%	8.17%	4.14%	12.63%	3.82%	10.08%	2.55%	7.22%
>15% and <20%	3.08%	1.06%	5.84%	1.27%	4.14%	0.96%	2.12%
>20% and <25%	1.27%	1.06%	1.59%	0.42%	1.27%	0.21%	0.85%
>25%	1.59%	0.21%	2.23%	0.96%	1.06%	0.53%	1.17%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Figure 9

TAXABLE VALUATION - Military Exemption and AG REMOVED w/TIF
Percentage of cities in different growth brackets

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
<=2%	13.27%	54.67%	70.38%	43.52%	28.34%	44.80%	27.92%
>2% and <5%	64.76%	25.48%	20.59%	22.61%	51.59%	20.38%	53.93%
>5% and <10%	17.73%	13.06%	6.79%	22.82%	15.39%	23.89%	12.53%
>10% and <15%	2.12%	3.72%	1.38%	7.75%	2.87%	5.94%	3.82%
>15% and <20%	0.64%	1.80%	0.32%	2.23%	0.74%	2.76%	1.06%
>20% and <25%	0.96%	0.32%	0.42%	0.21%	0.32%	1.06%	0.21%
>25%	0.53%	0.96%	0.11%	0.85%	0.74%	1.17%	0.53%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Iowa Department of Management