

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2771 - Property Tax Reform (LSB 6480 HV)

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Fiscal Note Version – New

Requested by Representative Danny Carroll

Description

House File 2771 makes changes to local government budgeting practices, the calculation of taxable values, and eliminates county compensation boards. The Bill:

- Permits cities and counties to certify a budget that is larger than the previous year's budget only after adopting a resolution and holding public hearings on the increase.
- Requires cities and counties to reduce funding for "real property related services" (fire; police; water; streets, sidewalks, bridges, and roads; garbage; sewage; snow removal; local emergency management; and emergency medical services) only after funding for other services have been reduced.
- Provides for a phase-in of city taxes for property that is involuntarily annexed.
- Ties together residential, agricultural, and commercial classes so that the percentage increase by each class is equal to the lowest percentage increase of the three. The 4.0% limit remains in place for all three classes. The industrial class can increase no more than the lowest percentage of the other three classes.
- Abolishes county compensation boards and transfers the duties to the county board of supervisors.

Assumptions

1. Public hearings cost a city approximately \$90 to \$110 each, and their costs are assumed to be immaterial for local governments.
2. The estimate for tying together of the taxable valuation growth for residential, agricultural, commercial, and industrial classes of property is based on the following assumptions:
 - a. Based on the growth in assessed valuations between 1995 and 2004, it is assumed that in future years residential assessed valuations will grow by 3.4% in even-numbered years and 12.4% in odd-numbered years; the agricultural assessed valuations will grow by 0.2% in even-numbered years and -0.4% in odd-numbered years; commercial assessed valuations will grow by 3.7% in even-numbered years and 9.8% in odd-numbered years; and industrial assessed valuations will grow by 4.8% in even-numbered years and 4.4% in odd-numbered years.
 - b. Based on the change in rollback percentages between 1995 and 2004, it is assumed that the residential rollbacks will increase at a rate of 0.6% in even-numbered years and decrease at a rate of 7.1% in odd-numbered years; the agricultural rollbacks will increase at a rate of 1.5% in even number years but not exceed 100.0% and decrease at a rate of 1.4% in odd-numbered years; commercial rollbacks will increase at a rate of 2.0% in even-numbered years but not exceeding 100.0% and decrease at a rate of 2.0% in odd-numbered years; and the industrial rollback is 100.0%.

- c. Based on the calculation by the Department of Revenue that tied the commercial and industrial rollback to the agricultural class, if the requirements of this Bill had been in place between 1995 and 2004, the commercial and industrial rollback will increase at a rate of 1.3% in even-numbered years but not exceed 100.0% and will decrease at a rate of 3.9% in odd-numbered years.
- d. Taxable valuations will be the assessed valuation times the rollback. It is assumed that growth due to new construction and other changes is accommodated by using averages for these values.
- e. Given the above growth rates, **Tables 1, 2, and 3** provide the assumed assessed valuations by class, rollbacks under current law and the proposed law, and the taxable valuations by class, for FY 2008 through FY 2017.

Table 1
Assessed Values by Property Class
(in Millions)

Fiscal Year	Residential	Agricultural	Commercial and Industrial		Total
			Industrial		
2008	\$ 111,667.0	\$ 21,521.7	\$ 27,392.6		\$ 160,581.3
2009	125,500.9	21,438.2	29,801.1		176,740.2
2010	129,731.5	21,484.4	30,962.6		182,178.5
2011	145,803.4	21,401.1	33,695.2		200,899.6
2012	150,718.4	21,447.1	35,006.3		207,171.9
2013	169,390.2	21,364.0	38,107.1		228,861.3
2014	175,100.4	21,409.9	39,587.6		236,097.9
2015	196,792.7	21,326.9	43,106.7		261,226.3
2016	203,426.6	21,372.8	44,778.9		269,578.3
2017	228,628.2	21,290.0	48,773.1		298,691.2

Table 2
Current and Proposed Projected Rollbacks by Class

Fiscal Year	Current Law				Proposed Comm. & Indust. Rollback
	Residential Rollback	Agricultural Rollback	Commercial Rollback	Industrial Rollback	
2008	46.2768%	100.0000%	100.0000%	100.0000%	100.0000%
2009	42.9866%	98.5517%	98.0887%	100.0000%	96.0993%
2010	43.2490%	100.0000%	100.0000%	100.0000%	97.3697%
2011	40.1740%	98.5517%	98.0887%	100.0000%	93.5716%
2012	40.4193%	100.0000%	100.0000%	100.0000%	94.8087%
2013	37.5455%	98.5517%	98.0887%	100.0000%	91.1104%
2014	37.7747%	100.0000%	100.0000%	100.0000%	92.3149%
2015	35.0890%	98.5517%	98.0887%	100.0000%	88.7140%
2016	35.3032%	100.0000%	100.0000%	100.0000%	89.8868%
2017	32.7932%	98.5517%	98.0887%	100.0000%	86.3806%
Change	-13.4836%	-1.4483%	-1.9113%	0.0000%	-13.6194%
% Change	-29.1%	-1.4%	-1.9%	0.0%	-13.6%

Table 3
Taxable Values by Property Class
(in Millions)

Fiscal Year	Current Taxable Values				Proposed Taxable Values		Change in Taxable Value
	Residential	Agricultural	Commercial and Industrial	Total	Commercial and Industrial	Total	
2008	\$ 51,675.9	\$ 21,521.7	\$ 27,392.6	\$ 100,590.2	\$ 27,392.6	\$ 100,590.2	\$ 0.0
2009	53,948.5	21,127.7	29,333.7	104,409.9	28,638.7	103,714.9	-695.0
2010	56,107.5	21,484.4	30,962.6	108,554.5	30,148.2	107,740.1	-814.4
2011	58,575.1	21,091.1	33,162.9	112,829.1	31,529.1	111,195.3	-1,633.7
2012	60,919.3	21,447.1	35,006.3	117,372.7	33,189.0	115,555.4	-1,817.3
2013	63,598.4	21,054.6	37,500.9	122,153.9	34,719.6	119,372.6	-2,781.4
2014	66,143.6	21,409.9	39,587.6	127,141.2	36,545.3	124,098.9	-3,042.3
2015	69,052.6	21,018.1	42,416.3	132,486.9	38,241.7	128,312.3	-4,174.7
2016	71,816.1	21,372.8	44,778.9	137,967.7	40,250.3	133,439.2	-4,528.6
2017	74,974.4	20,981.6	47,986.9	143,943.0	42,130.5	138,086.5	-5,856.4
Change	\$ 23,298.6	\$ -540.0	\$ 20,594.3	\$ 43,352.8	\$ 14,737.8	\$ 37,496.3	
% Change	45.1%	-2.5%	75.2%	43.1%	53.8%	37.3%	

- f. To the extent that taxing authorities are at their maximum permitted levies, property tax revenues will be reduced. Those that are not at the maximum levy rates will be able to adjust tax rates to compensate for changes in taxable value and “recapture” reduced revenues. Between FY 1997 and FY 2006, the consolidated property tax rate increased at an average annual rate of 1.19%. It is assumed the consolidated tax rate will continue to increase at the same rate under current law. Under the proposed law, it is assumed local governments will hold the required public hearings, adopt resolutions, and increase property tax rates and “recapture” 75.0% of the revenues that would otherwise be reduced by the decline in taxable value.
 - g. In regard to the School Foundation Formula, State Foundation Aid, which is paid from the General Fund, will increase to offset reductions in Uniform Levy revenues. The Additional Levy rate will increase to accommodate the decrease in taxable valuations and generate the same revenues for school districts as under current law.
 - h. Between 1996 and 2005 assessment years, average agricultural assessed value per acre increased at an annual rate of 0.4%; the average residential dwelling assessed value increased at an annual rate of 6.5%; the average commercial property assessed value increased at an annual rate of 6.4%; and the average industrial property assessed value increased at an annual rate of 4.8%. It is assumed a typical property will increase in value at these same rates when comparing examples of individual properties from each class.
3. Elimination of the county compensation boards may produce some savings for the counties. Information is not available to estimate these changes.

Fiscal Impact

The effect of House File 2771 is to reallocate property taxes among the classes. Residential and agricultural classes pay a larger portion of the property taxes, and commercial and industrial classes pay a smaller portion. **Table 4** describes those changes. Comparing the proposed law to the current law at the end of the ten-year period, the percentage of the total property tax revenues paid by the residential class will increase by 2.2% and the percentage

paid by the agricultural class will increase by 0.6%. The percentage of the total property tax revenues paid by the commercial and industrial classes' combined will decrease by 2.8%.

Table 4
Percentage of Property Taxes Paid by Each Class

Fiscal Year	Current Law			Proposed Law			Percentage Change (Proposed Law vs. Current Law)		
	Resident.	Agricultural	Comm. and Industrial	Resident.	Agricultural	Comm. and Industrial	Resident.	Agricultural	Comm. and Industrial
2008	51.4%	21.4%	27.2%	51.4%	21.4%	27.2%	0.0%	0.0%	0.0%
2009	51.7%	20.2%	28.1%	52.0%	20.4%	27.6%	0.3%	0.1%	-0.5%
2010	51.7%	19.8%	28.5%	52.1%	19.9%	28.0%	0.4%	0.1%	-0.5%
2011	51.9%	18.7%	29.4%	52.7%	19.0%	28.4%	0.8%	0.3%	-1.0%
2012	51.9%	18.3%	29.8%	52.7%	18.6%	28.7%	0.8%	0.3%	-1.1%
2013	52.1%	17.2%	30.7%	53.3%	17.6%	29.1%	1.2%	0.4%	-1.6%
2014	52.0%	16.8%	31.1%	53.3%	17.3%	29.4%	1.3%	0.4%	-1.7%
2015	52.1%	15.9%	32.0%	53.8%	16.4%	29.8%	1.7%	0.5%	-2.2%
2016	52.1%	15.5%	32.5%	53.8%	16.0%	30.2%	1.8%	0.5%	-2.3%
2017	52.1%	14.6%	33.3%	54.3%	15.2%	30.5%	2.2%	0.6%	-2.8%
Change	0.7%	-6.8%	6.1%	2.9%	-6.2%	3.3%			
% Change	1.4%	-31.9%	22.4%	5.7%	-29.0%	12.0%			

Table 5 shows the projected effects on revenues. The State General Fund will offset reductions in the Uniform Levy revenues with a corresponding increase in State Foundation Aid. This will cost an estimated \$3.8 million in FY 2009 when the first commercial and industrial rollback impact occurs and will increase to \$31.6 million in FY 2017.

It is projected that HF 2771 would decrease taxable values and local revenues beginning in the second year. If no adjustments were made to property tax rates, property tax revenues would decrease by \$24.1 million in FY 2009. Over the ten-year period, this reduction would grow to \$223.2 million. If local governments recapture 75% of the reduced revenues, plus the State Foundation Aid offset, then property tax revenues will decrease by \$2.3 million in FY 2009. By the end of the period, the reduction after the recapture would be \$24.2 million.

Table 5
Property Tax Revenues Allowing for 75.0% Recapture of Revenue Decreases
(Dollars in Millions)

Fiscal Year	Change in Taxable Value	Revenue Change with Current Projected Rates	Increase in State Found. Aid	Property Tax Recapture	Net Change in Property Tax
2008	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
2009	-695.0	-24.1	3.8	18.1	-2.3
2010	-814.4	-28.6	4.4	21.4	-2.7
2011	-1,633.7	-58.0	8.8	43.5	-5.7
2012	-1,817.3	-65.3	9.8	49.0	-6.5
2013	-2,781.4	-101.1	15.0	75.8	-10.3
2014	-3,042.3	-111.9	16.4	83.9	-11.5
2015	-4,174.7	-155.4	22.5	116.5	-16.3
2016	-4,528.6	-170.6	24.5	127.9	-18.2
2017	-5,856.4	-223.2	31.6	167.4	-24.2

Table 6 shows the projected total property tax revenues and average consolidated tax rates for current law and under the proposed law after recapturing 75.0% of the reduction. The first impact occurs in FY 2009 when average property tax rates are estimated to increase by 0.6% to adjust for the reduction in taxable value. By the end of the ten-year period, average rates are

projected to increase by 3.8% compared to current law and will average \$1.44 per one thousand dollars of assessed valuation higher than under current law.

Table 6
Property Tax Revenues and Consolidated Property Tax Rates
Allowing for 75.0% Recapture of Reduced Revenues

Fiscal Year	Property Tax Revenues (in Millions)	Current Prop. Tax Rates	Proposed Tax Revenue (in Millions)	Proposed Prop. Tax Rates	Change in Prop. Tax Rates	Percent Change
2008	\$ 3,446.3	\$ 34.26	\$ 3,446.3	\$ 34.26	\$ 0.00	0.0%
2009	3,619.8	34.67	3,617.5	34.88	0.21	0.6%
2010	3,808.2	35.08	3,805.5	35.32	0.24	0.7%
2011	4,005.3	35.50	3,999.6	35.97	0.47	1.3%
2012	4,216.2	35.92	4,209.7	36.43	0.51	1.4%
2013	4,440.1	36.35	4,429.9	37.11	0.76	2.1%
2014	4,676.4	36.78	4,664.9	37.59	0.81	2.2%
2015	4,931.0	37.22	4,914.7	38.30	1.08	2.9%
2016	5,196.1	37.66	5,177.9	38.80	1.14	3.0%
2017	5,485.7	38.11	5,461.5	39.55	1.44	3.8%
Change	\$ 2,039.3	\$ 3.8	\$ 2,015.2	\$ 5.3		
% Change	59.2%	11.2%	58.5%	15.4%		

The next section of this analysis examines the effect of HF 2771 on typical properties from each class over the ten-year projection period using the valuations, rollbacks, and tax rates provided above.

**Table 7
Typical Property Taxes for Current Law and with SF 2771**

Residential: \$100,000 FY 2008 Assessed Valuation					Agricultural: \$335,000 FY 2008 Assessed Valuation (500 acres)			
<u>Fiscal Year</u>	<u>Current Taxes</u>	<u>Proposed Taxes</u>	<u>Prop. Tax Change</u>	<u>Percent Change</u>	<u>Current Taxes</u>	<u>Proposed Taxes</u>	<u>Prop. Tax Change</u>	<u>Percent Change</u>
2008	\$ 1,585	\$ 1,585	\$ 0	0.00%	\$ 11,477	\$ 11,477	\$ 0	0.00%
2009	1,587	1,597	10	0.61%	11,495	11,565	70	0.61%
2010	1,721	1,733	12	0.68%	11,854	11,935	81	0.68%
2011	1,723	1,745	23	1.33%	11,873	12,030	157	1.33%
2012	1,868	1,894	26	1.42%	12,243	12,416	173	1.42%
2013	1,870	1,909	39	2.09%	12,262	12,519	257	2.09%
2014	2,027	2,072	45	2.20%	12,645	12,923	278	2.20%
2015	2,029	2,088	59	2.91%	12,665	13,033	369	2.91%
2016	2,200	2,267	67	3.03%	13,060	13,456	396	3.03%
2017	2,202	2,285	83	3.78%	13,080	13,575	495	3.78%
Change	\$ 617	\$ 700			\$ 1,603	\$ 2,097		
% Change	38.9%	44.1%			14.0%	18.3%		

Commercial: \$325,000 FY 2008 Assessed Valuation					Industrial: \$1.2 Million FY 2008 Assessed Valuation			
<u>Fiscal Year</u>	<u>Current Taxes</u>	<u>Proposed Taxes</u>	<u>Prop. Tax Change</u>	<u>Percent Change</u>	<u>Current Taxes</u>	<u>Proposed Taxes</u>	<u>Prop. Tax Change</u>	<u>Percent Change</u>
2008	\$ 11,135	\$ 11,135	\$ 0	0.00%	\$ 41,113	\$ 41,113	\$ 0	0.00%
2009	11,764	11,595	-169	-1.43%	43,615	42,168	-1,447	-3.32%
2010	12,917	12,663	-254	-1.96%	46,269	45,360	-909	-1.96%
2011	13,647	13,191	-456	-3.34%	49,085	46,538	-2,547	-5.19%
2012	14,985	14,408	-577	-3.85%	52,072	50,068	-2,004	-3.85%
2013	15,831	15,012	-818	-5.17%	55,241	51,384	-3,857	-6.98%
2014	17,383	16,400	-983	-5.66%	58,602	55,288	-3,314	-5.66%
2015	18,365	17,093	-1,271	-6.92%	62,168	56,758	-5,410	-8.70%
2016	20,165	18,675	-1,490	-7.39%	65,951	61,079	-4,872	-7.39%
2017	21,304	19,470	-1,833	-8.61%	69,965	62,722	-7,243	-10.35%
Change	\$ 10,169	\$ 8,336			\$ 28,851	\$ 21,608		
% Change	91.3%	74.9%			70.2%	52.6%		

House File 2771 will increase the property taxes for typical homeowners by approximately 3.8% over the ten-year period compared to current law, and they will pay approximately \$83 more than under current law. Typical agricultural taxpayers will also experience a 3.8% property tax increase after ten years and will pay \$495 more in property taxes in FY 2017. Typical commercial taxpayers will have their property taxes decrease by \$1,833 (8.6%), and industrial taxpayers will have a \$7,243 (10.4%) decrease by the end of the ten years.

Sources

Department of Revenue
 Department of Management
 Iowa League of Cities

/s/ Holly M. Lyons

April 5, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
