The Iowa County

August 2016

Property Tax Issue

The Iowa County

September 2016 * *Volume 45, Number 9*

The Iowa County: The official magazine of the
Iowa State Association of Counties
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West Des Moines, IA 50266
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Feature: Property Tax

ISAC
Iowa State Association of Counties

ISAC members are elected and appointed county officials from all 99 counties. *The Iowa County* (ISSN 0892-3795, USPS 0002-150) is published monthly by the Iowa State Association of Counties, 5500 Westown Parkway, Suite 190, West Des Moines, IA 50266. Periodicals postage paid at Des Moines, IA 50318. POSTMASTER: Send address changes to rbennett@iowacounties.org. Subscriptions: $25 per year.

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To promote effective and responsible county government for the people of Iowa.

ISAC's Vision:
To be the principal, authoritative source of representation, information and services for and about county government in Iowa.

*** The views and opinions expressed in articles authored by anyone other than ISAC staff are those of the authors and do not necessarily reflect the official policy or position of ISAC.*

Feature - Property Tax

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This month's edition of *The Iowa County* is dedicated primarily to property tax information. From an update on the SF295 Working Group and insights from Iowa State University's Iowa Government Finance Initiative to overviews of county property tax funds and the ag land assessment process, we hope this edition is informative now and one you keep nearby for review and reference later.

The 2016 legislative session brought relatively little action on the property tax front; a pretty welcome change following the major tax relief bill (SF 295) in 2013, technical cleanup bills in 2014, and changes to dual classification for multi-residential, to the eligibility for the disabled veterans tax credit, and to Rural Improvement Zones, as well as a new property tax exemption for broadband expansion in 2015. Perhaps the best news, if not the only news, coming out of the 2016 session related to property tax was that for the fourth year in a row all property tax credits were "fully funded" (to the degree required by law). Perhaps another article can discuss why I put that in quotes, but let's stick to the positive.

The funding by the state now includes $125 million for the Business Property Tax Credit as FY 2017 is the third year of a three year phase in from $50 million to $100 million to $125 million. The replacement claim funding to help local governments deal with the loss of revenue due to the legislatively imposed rollback for commercial and industrial property was $155 million for FY 2017. As you might recall the legislation called for fully funding the difference between 100% assessed and the 90% rollback for three years and then freezing at the FY 2017 level. It's hard to believe that time has already come, but the replacement claim funding will now be capped at $155 million.

Between the time that I'm writing and the time that you're reading, the Legislative Policy Committee will have met for the first time to consider proposals for the 2017 legislative session. Among the proposals will be objectives from the supervisors dealing with property tax reform (read reform not just relief) and tax increment financing. Time will tell if these make it to the final ISAC package, but these are certainly two areas in need of some attention. I can also say with confidence that we will see a fair number of bills dealing with property taxes in the next session that are not introduced on our behalf, but that will certainly be of interest to us. The November election should give us a pretty good idea of what types of bills might have a real shot at reaching the Governor's desk based on who holds the majority in each chamber. We will have much more to share during our legislative preview webinar in December.

Please enjoy this property tax edition of *The Iowa County magazine*, and as always please feel free to reach out to us with any feedback or questions you might have.

County Funds and Property Tax Levies

Grant Veeder
Black Hawk County Auditor

Iowa law establishes a significant degree of uniformity in funding and paying for county services. At first glance, county finance is complex and daunting. At second glance, it's downright terrifying. If we tried to cover it all here, before you finished you would lose interest, patience and quite possibly your will to live. This article, therefore, will stick with county funds and property tax levies.

First, some definitions are in order. "Fund" is the easy one. A fund is a sum of money set aside for some particular purpose. Iowa counties have a variety of funds in order to segregate sums that may be legally spent for different public purposes. For example, a county can't pay for mental health services from the road fund, and vice versa.

The term "levy," on the other hand, is frequently misunderstood. A levy is an amount of tax. Lots of people think it's a tax RATE, but it is not. According to *Webster's Dictionary*, it is "an imposing and collecting of a tax or other payment," or "the amount collected." As used in the *Iowa Code*, it is the amount that results from applying a tax rate to every thousand dollars of eligible property valuation, or **rate x valuation x .001 = levy.**

So when someone asks, "What's your rural levy?", DON'T say, "It's $3.22464." Heck, you couldn't knock down a mailbox for that, much less pave a road. What you should say is, "You mean my rural fund tax *rate*? It's $3.22464." Because that's the number they want to know, but you should try to answer them and educate them at the same time.

Now that the definitions are out of the way, let's move on to the meat of the article. There are three broad fund types for counties: (1) Governmental, for most county basic services; (2) Fiduciary, for assets held solely in a custodial capacity, like those of the County Assessor or Emergency Management, which look like county departments but technically aren't; and (3) Proprietary, which are divided into two subtypes: (a) Enterprise, for operations in cases that look like private business enterprises, and are seldom used in Iowa (unless you have, say, a county-run water or sewer system); and (b) Internal Services, for the financing of goods and services provided internally by one department for others, such as health insurance or self-funded insurance plans. It would take many pages, many hours and many Advil to describe all of these types of funds, so, in an act of mercy, we will here confine ourselves to Governmental Funds, which are budgetary funds. The others are (you guessed it) non-budgetary funds.

Some county funds have taxes levied into them, and all funds that directly receive property taxes have some sort of limitation. (Some are limited to a certain rate; others to certain uses; others to a certain dollar level, which, if you were paying attention to the second definition above, you'll know is called a levy.) Funds receiving property taxes may also receive dollars from other sources. Overall, property taxes will account for 49.7% of county revenues statewide in fiscal year 2017. Most of the rest of the money (31.9% of the total) comes from state and federal programs – mostly state. Yes, the Legislature saddles counties with unfunded mandates that cause us to justifiably gnash our teeth, but there are also FUNDED (at least partially so) mandates, and even though their portion has declined from 40% in FY 2007 to 32% in FY 2017**,** we should show our appreciation to our legislators for this consideration. (I just did – now it's your turn.)

FUNDS ELIGIBLE FOR PROPERTY TAX LEVIES

General Fund

The General Fund is the locus of the expenditures and revenues for "general county services," which cover most county departments and outside agencies supported by the county. Taxes may also be levied into this fund for the express purpose of transferring them into the Secondary Roads Fund. Taxes for the General Fund are levied against all the taxable valuation in the county. The General Fund is divided into two parts: the General Basic Fund and the General Supplemental Fund.

General Basic Fund

A maximum of $3.50 per $1000 of taxable value can be levied in a given fiscal year into the General Basic Fund. In my home county of Black Hawk (which I will use for examples to avoid embarrassing mistakes), the taxable valuation for FY 2017 is $5,100,593,464. Therefore, the maximum tax levy for Black Hawk County in the General Basic Fund for FY 2017 is $17,852,077: $3.50 (rate) x $5,100,593,464 (valuation) x .001 = $17,852,077 (levy).

The General Basic Fund limit may be exceeded in unusual circumstances. This was unheard of until a sharp decline in agricultural assessed values several years ago forced a number of counties to seek such a remedy. In FY 2017, 26 counties have General

Basic Fund tax rates over $3.50. Reasons to exceed the limit include the following:

- Unusual increase in population;
- Natural disaster or other emergency;
- Unusual problems due to new laws;
- Unusual staffing needs;
- Unusual need for money to continue a program that provides substantial benefit to residents;
- Unusual need for a new program that provides substantial benefit to residents; and
- Reduced or unusually low growth rate in property tax base.

General Supplemental Fund

The General Supplemental Fund has no dollar limit, but it may be used only if the General Basic Fund is levied at its $3.50/$1000 maximum, and only for the following purposes:

- Substance abuse costs;
- Certain juvenile care services;
- Elections and voter registration;
- FICA, IPERS, and unemployment associated with salaries for general county services;
- Insurance necessary for county operations;
- Maintenance and operations of the courts; and
- Miscellaneous expenses allowed under *Iowa Code* §331.424(1).

Most counties in the state need the Supplemental Fund levy to some extent – only four counties are not using it in FY 2017. Since the Supplemental Fund doesn't have a rate limit, you figure out the rate by inverting the formula used above: Levy ÷ valuation x .001 = rate

Or, for Black Hawk County in FY 2017: $5,492,472 ÷ $5,100,593.464 = $1.07683/$1000.

Mental Health and Disabilities Services Fund

This fund is exclusively for the purposes described in its title. The amount of property tax the county can levy into this fund is capped by state law. Black Hawk County's cap is about $5,779,000. (Each county has a different cap in this fund. Without getting too technical, the limit is based on the amount of money each county was spending on mental health services when the bill was passed in 1996.) Additional legislation in 2012 that changed mental health services delivery from county based to a regional system also put in place a spending limit of $47.28 per capita in each county or whatever the per capita rate was when the initial caps were put in place in 1996. As with the General Fund, this tax is levied against all the taxable valuation in the county. Mental Health Redesign also changed the funding coverage and now places the funding of all non-Medicaid services with the regional system while all Medicaid expenses are covered by a combination of state and federal dollars.

Since the property tax limitation is by levy amount rather than by tax rate, we will compute the rate as we did in the case of the General Supplemental Fund. Here's Black Hawk County's Mental Health Fund in FY 2017: $4,632,563 ÷ $5,100,593.464 = $0.90824/$1000.

Rural Fund

Any rural county service is payable from the Rural Fund. The *Iowa Code* defines rural services as those that "are primarily intended to benefit" rural residents. That definition has caused significant controversy, leading to budget appeals, lawsuits, attempts at pre-emptive legislative action, and sporadic thermonuclear exchanges, but that's an issue for another article. Like the General Fund, the Rural Fund is divided into basic and supplemental funds. Typically, a large portion of this fund's levy is dedicated to a Secondary Roads transfer like the one from the General Fund (only much bigger).

Rural Basic Fund

Property tax levied into this fund is limited to $3.95 per $1000 of taxable property in the *unincorporated* area of the county, so we're dealing with a new valuation pool here. Black Hawk's unincorporated taxable valuation for FY 2017 is $831,488,281, about 16% of our total. Twenty-three counties are at the $3.95 maximum in FY 2017, and five more were actually over it – the maximum can be exceeded for the same reasons listed above under the General Basic Fund.

Here's the Black Hawk calculation for Rural Basic: $2,569,374 ÷ $831,488.281 = $3.09009/$1000.

Rural Supplemental Fund
Expenditures in this fund are limited to FICA, IPERS, and unemployment associated with salaries for rural county services, and the fund can only be used if the Rural Basic Fund is at its $3.95/$1000 maximum. It is used in nine Iowa counties, but currently not in Black Hawk.

Debt Service Fund
Payments on the county's general obligation debt are made from the Debt Service Fund. The Iowa Constitution limits a county's debt to 5% of its assessed valuation. Over 80 of the counties in the state had debt as of the end of FY 2015, none of it anywhere near 5% of assessed value. The Debt Service Fund is unique in that its tax is levied against all of the normally taxable property in the county PLUS the value of the increments in the county's Tax Increment Finance districts, which otherwise is not eligible for general taxation. Black Hawk County's regular taxable valuation plus its TIF taxable valuation equals $5,662,557,401. Someone else can explain the finer points of TIFs. I get a sick headache just thinking about them.

Black Hawk County's Debt Service levy and rate for FY 2017: $5,440,029 ÷ $5,662,557.401 = $0.96070

Other Levied Funds
Those of you keeping a running total in your head should now have arrived at an overall Black Hawk County tax rate of $6.44577 for incorporated and $9.53586 for unincorporated properties. You can relax now: while we've only scratched the surface on the funds available in the Uniform Chart of Accounts, the above funds are the only ones that Black Hawk and most Iowa counties directly levy taxes into.

Iowa law permits a number of other seldom-used funds to have their own tax levies. Two such are the Pioneer Cemetery Levy (used in 20 counties), and the Unified Law Enforcement Levy (used in one county). Not currently in use is a levy for flood and erosion control purposes.

FUNDS NOT ELIGIBLE FOR PROPERTY TAX LEVIES
Aside from the non-budgetary funds, which I promised not to talk about, there are various other funds available for specific purposes that are not allowed the privilege of a tax levy. They derive their revenues from fees, other governmental entities, donations, the proceeds of bond sales, transfers from levied funds, etc. The most important of these from a county standpoint is the Secondary Roads Fund.

Secondary Roads Fund
As noted earlier, the Secondary Roads Fund receives transfers from the General and Rural Funds. These transfers are limited to $.16875 per $1000 of taxable valuation in the whole county from the General Basic Fund and $3.00375 per $1000 of taxable valuation in the unincorporated area from the Rural Basic Fund. Making transfers from other funds instead of levying directly into the Secondary Roads Fund encourages the arrangement by which rural dwellers, who use the secondary roads most of the time, pay most of the road tax, and city dwellers, who use those roads just some of the time, pay just some of the road tax. At a minimum, the county must fund 75% of the maximum in order to receive its full portion of state road use tax funds.

Black Hawk County levies 100% of the General Fund maximum and 95% of the Rural Fund maximum ($3.00375/$1000 x .95 = $2.85356/$1000). So our Secondary Road transfer for FY 2017 looks like this:

General Fund Transfer:	$0.16875 (rate) x $5,100,593.464 (countywide valuation x .001) =	$860,725
Rural Fund Transfer:	$2.85356 (rate) x $831,488.281 (unincorporated valuation x .001) =	$2,372,704
TOTAL FY 2017 SECONDARY ROADS TRANSFER:		$3,233,429

Conclusion
Each county sees funds and levies through the lens of its own experience. Despite its unconscionable length, this article is a limited overview from a single viewpoint. If you have unanswered questions about county budgets, I recommend the Department of Management and the State Auditor's Office as excellent resources. You can ask them about TIFs, too; just don't tell them I sent you.

Feature - SF 295

2013 Commercial Property Tax Reform

Julie Roisen
Property Tax Division Administrator
Iowa Department of Revenue

In June of 2013, Governor Branstad signed Senate File 295, Commercial Property Tax Reform. The landmark legislation contained several different key provisions with different implementation dates. To facilitate the implementation and help ensure success, the Iowa Department of Revenue (IDR) partnered with representatives from ISAA, ISACA, ISCTA, ISAC, tax administration software vendors, the Iowa League of Cities, the State of Iowa Department of Management (DOM), and the Office of the Chief Information Officer (OCIO). These partnerships became known as the ISAC Working Group.

The first property tax reform elements on the timeline were the Business Property Tax Credit (BPTC) and the Replacement Claim or "backfill" process. Those two provisions were to be effective for property tax due and paid in the fiscal year beginning July 1, 2014, so time was of the essence. Without the cooperation and dedication by all Working Group partners, we could not have implemented the BPTC in time for businesses to begin making their claims. The Group was able to implement the Replacement Claim process shortly thereafter. The ISAC Working Group is truly the embodiment of state and local governments working in partnership to improve service to their citizen.

As implementation of SF 295 continues, so does the ISAC Working Group in its role to drive the modernization of property tax initiatives and to better serve Iowans by improving the efficiency and delivery of government programs.

Business Property Tax Credit

Now in its third year, the BPTC Claim Fund has reached its $125 million cap. By law, 98% of the fund is distributed each year. For Assessment Year 2015 there were 76,481 property units (A Property Unit is in the same county, has the same classification (commercial, industrial or railroad), has the same owner, is a separate item on the tax bill, has a common use and purpose, and shares a common boundary.) that qualified for the credit, representing 100,323 parcels statewide. These credits will be reflected on property taxes payable in September of 2016 and March of 2017.

LocalGovExchange Web Portal

To facilitate calculation of the BPTCs and to provide the credit data to local governments in time for inclusion on current tax bills, Working Group members needed an efficient way to exchange the immense volumes of data between state and local governments. LocalGovExchange.iowa.gov web portal was created as a result. This groundbreaking portal represents extensive discussions, meetings, trainings, and testing by Working Group participants. ISAC members were integral in the creation of this web portal.

The Working Group has leveraged the portal's infrastructure to exchange data for the Replacement Claim process, as well. Assessors will also use LocalGovExchange to deliver their Permanent BPTC Files to IDR. The Working Group recognized the portal's potential to modernize processes for other property tax credits and exemptions. Participants are now providing guidance to facilitate portal processes for the Agland and Family Farm tax credit. Going forward, the Working Group will consider automating other appropriated property tax credits and exemptions. Moving from manual, paper-driven processes to electronic and digital data exchange saves time, resources, and taxpayer money.

GIS Subcommittee

For the BPTC, a Property Unit hinges in part upon whether or not parcels are contiguous. To facilitate this determination at the local level, the Working Group created a Geographic Information System (GIS) Subcommittee. The Subcommittee has embraced submitting the Assessors' Permanent BPTC File in a GIS "shape file" format. A shape file is a data storage format that stores the location, shape, and attributes of geographic features. Using a shape file is the most accurate way to identify and verify contiguous parcels. Because the approved property units are retained from one year to the next, assessors' and auditors' jobs are made easier. The GIS subcommittee is considering how best to serve local government with these tools.

Replacement Claims

Another component of SF 295 was a "rollback" for the amount of value of commercial, industrial, and railroad properties that is actually subject to the property tax. Prior to the legislation, 100% of the value of those property types was subject to the property tax. SF295 provided that only 95% of the values would be subject to property tax for the 2013 assessment year and only 90% for the 2014 assessment year and beyond. The legislation also created a Replacement Claim process or "backfill" to help reimburse local governments for the expected losses in their commercial and industrial property tax bases. In FY 2015, the state paid counties Replacement Claims totaling approximately $78 million and in FY 2016 that amount increased to approximately $160,700,000. The third cycle of the Replacement Claim is due for submission to the Department of Revenue in August 2016. As mentioned previously, LocalGovExchange is used to facilitate the Replacement Claim process. It appears to be running smoothly.

Multi-residential/Dual Classed Properties

The last component of SF 295 was the establishment of a new property classification: multi-residential. This new classification was implemented by assessors in January of 2015. Additionally, for the first time, certain property uses could be dual-classed. Properties with a primary use that is either commercial or industrial and a secondary use of human habitation may now class the portion used for human habitation as multiresidential. Subsequent legislation established that multiresidential could also be the primary class, with commercial or industrial property as the secondary class if appropriate. The Working Group has been involved in developing processes to implement dual classed property as well.

ISAC Working Group

The ISAC Working Group played a huge role in the successful implementation of SF 295. This example of government collaborating with stakeholders embodies the cooperative spirit of Iowans and serves as a model for public-private partnerships that improve the state as a whole.

Feature - Farmland Assessments

Dave Kubik
Dubuque County Assessor

Iowa Farmland Assessments

You're probably aware that the market value of farmland has skyrocketed in the last decade and with lower commodity prices recently, has fallen back to reduced levels. You may wonder how these market value spikes and valleys affect the assessed value of agricultural property. Many of you may be surprised to learn that there is no direct tie between the market value of farmland and the assessed value established for property tax purposes.

Although every other classification of property is assessed based upon its market value and farm dwellings are assessed on their market value, farm land and outbuildings that are primarily used for agricultural purposes are assessed using each parcel's "productive and net earning capacity." If you love spreadsheets, detailed crop reports, and complex calculations, this article isn't for you, but if you want to understand how all the pieces fit together in the agricultural assessment and taxation process, read on.

The process for establishing the assessed value on each farmland parcel starts with the Iowa Department of Revenue (IDR). The IDR is the entity that determines the total farmland assessed value for the county, performing these calculations for each county in the state. The IDR calculations start with five years of crop production records, including yields and input costs, and then goes on to gather prices received for each crop. These income calculations even include Conservation Reserve and most subsidy payments. They also add income for pasture, timber and waste land. Because these are "net" productivity calculations, there are also input expenses added for each crop or land use in an attempt to mimic the actual income stream to farmland. In the interests of brevity I'll end the details of these calculations here. If you want to dig deeper into the productivity formula there is a 101 page manual describing all the steps in painful detail.

What about livestock/animal income?

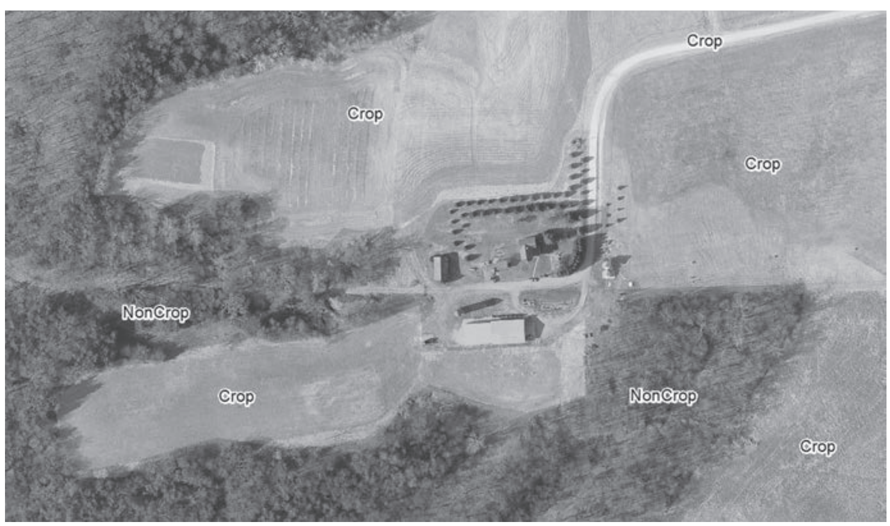
In an unexpected twist, you may be surprised to learn that there is no net income added into the productivity formula from any livestock or dairy.

The IDR performs these calculations every odd numbered year (2015, 2017, etc). The 2015 assessment was based on the 2009 through 2013 crop years. The 2017 assessment will use income and expenses from crop years 2011 through 2015.

The end result is an average net income per acre that is divided by 7% (specified in Iowa Code) to arrive at an average productivity value for each agricultural acre in the county. Assessors then take this "average productivity value" multiplied by the number of assessed acres in the county to arrive at the total agricultural value for the county.

With the total agricultural value for the county now known, assessors then need to spread that value equitably among all the parcels in the county. Not just on the farmland, but to allocate it to the farm buildings too.

In the last dozen years, there have been substantial changes put into place by the IDR and legislature to create more uniform agricultural assessments across county lines, both in the assessment of farm buildings, as well as the land. Farm building assessments were made more consistent by requiring an ag building factor be applied to each structure. That factor is determined by measuring the difference between the IDR productivity value and actual market values.



Farmland assessments were similarly changed by requiring assessors to adjust highly productive non-crop areas downward. This adjustment is calculated using the average productive rating of the crop land areas and the cash rent difference between crop and pasture acres. These non-crop adjustments are currently being implemented across the state and must be completed by the 2017 assessment year. Many assessors implemented this change for the 2015 assessment which will first be payable this September.

In spreading the value to individual parcels of farm land, assessors use soil maps. The same soil maps which are used by the USDA, Farm Service Agency and Iowa State University. Rather than use paper maps, assessors use an electronic version that works with each county's computerized mapping system (GIS or Geographic Information System). One of the pieces of information that is embedded within the computerized mapping layer is a soil productivity rating system called CSR2 (Corn Suitability Rating).

This rating system goes from a low of five which could be steep rocky ground, to a high of 100 which would be flat, highly productive soil. There are dozens of soil types in each county and each one is assigned its own productivity rating. Third-party software programs utilize the digital soil layer and the county's GIS to measure the amount of each soil on a parcel and then calculate the total number of adjusted CSR2 points for each parcel (after incorporating the non-crop adjustments mentioned above). When the total number of CSR2 points for the county is known, the assessor will do calculations similar to the ones below to determine the assessed value per CSR2 point.

The final step in the ag land assessment process is to take the dollar rate ($44.36 in this example) times the number of adjusted CSR2 points on each parcel to arrive at the assessed value for that parcel.

A.	IDR calculated net income per acre	164.64
B.	Capitalization rate	7.00%
C.	IDR indicated value per acre (A divided by B)	2,352
D.	Number of acres in the county	316,853
E.	Indicated total agricultural value (C times D)	745,238,256
F.	Value of ag outbuildings	40,586,900
G.	Value of ag land (E minus F)	704,651,356
H.	Number of adjusted CSR2 points in county	15,886,552.00
J.	Assessed value per adjusted CSR2 point:	$44.36

One important thing to remember in agricultural assessments is that if new buildings are built, or old buildings are removed, it has no effect on the total agricultural value for the county. For example, if your county doubled the amount of ag outbuildings for the 2017 assessment, it would affect individual property owners as their share of the total ag assessment would change, but the total value of the county would remain the same. This is because the total increase in building assessments are being offset by the same dollar amount, in the form of lower land assessments.

A further unintended consequence of the "no net value gain" productivity formula can be seen when new livestock facilities are built. The animal waste areas (the pit) of these buildings are typically exempted from taxation with a pollution control exemption. As stated above, new ag buildings don't add any additional value but rather divert more of the existing total land value to buildings assessments. When part of a new building is exempted, what was taxable land value, has been reassigned as exempt building value. The net effect of a new farm building with a pollution control exemption, is actually less taxable valuation for the county. Confusing, yes, but it is a reality of the guidelines and rules for this assessed classification.

I'm hopeful that this article gave you some insight into the overall process of how agricultural assessments are calculated for the county and how assessors perform the task of assigning individual ag parcel assessments.

Feature - Property Valuation Trends

Biswa Das and Amelia Schoeneman
Iowa State University

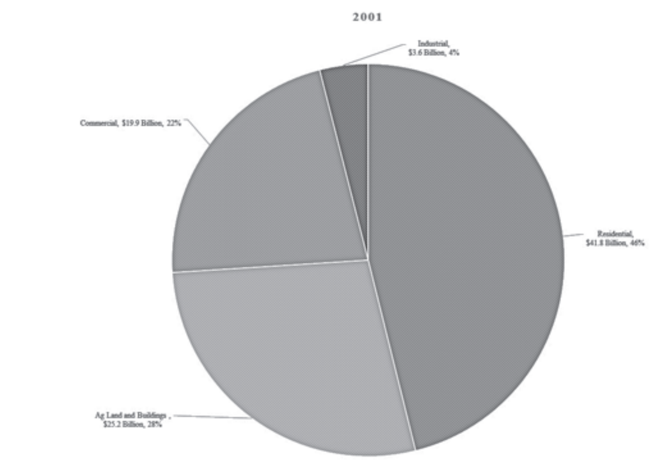
Property Valuation and County Fiscal Health in Iowa: Is There a Rural Urban Divide?

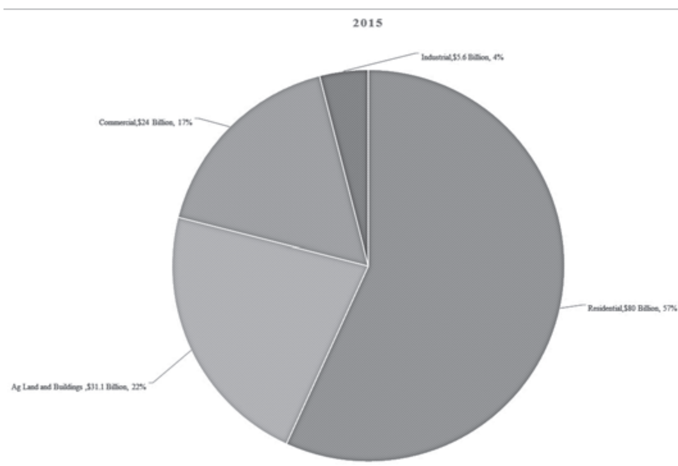
Local governments across the nation, including in Iowa, rely heavily on property taxes as a source of revenue. Property taxes are the only source of revenue for which local governments have the autonomy to set a rate and then leverage to expend on services, based on local needs and the willingness of local residents to pay. The property tax base for a jurisdiction is determined by the property tax levy rate and the value of property at a point in time. Property tax levy rates are determined by a set of variables that include the level of total spending necessary to provide services, non-property tax revenues and total assessed property valuation. Similarly, the total assessed property valuation is also determined by a host of factors: demographic size and growth, agricultural contribution to the area, age of housing stock, and the presence of commercial and industrial establishments. In addition, the prevailing economic conditions also influence the pressure on land to be developed and hence property valuation. The focus of this short article is twofold: to examine trends in property valuation at the county level across the state of Iowa, comparing rural and urban counties over a 15-year period, and to highlight, based on property valuation, ways it impacts their overall fiscal health.

Based on United States Department of Agriculture (USDA) classification, Iowa has 78 rural counties and 21 urban counties. While larger, urban counties continue to grow, both in population and the size of their economies, many rural counties continue to depopulate and experience economic decline. Based on U.S. Census estimates, while the 78 rural counties in Iowa account for approximately 47% of the total population, they account for about 44% of total employment. Further, among the rural counties, 66 counties have a population less than 50,000. The question based on these trends is if smaller and more rural counties experience challenges in delivering services or if they are uniquely, financially situated to function in a fiscally sustainable manner?

Economic, demographic and legislative changes provide the context in which counties continue to perform their functions while facing the challenge of managing resources to provide the mandatory services. Based on research and our interactions with county officials, the cycle of depopulation and changes in demographic mix, shrinking and changing economic and fiscal bases, aging infrastructure, general antipathy toward the government and restrictive tax and expenditure limitations has precipitated varying degrees of fiscal stress at the county level, both in urban and rural areas. An expanding tax base as a result of positive growth provides some counties with the chance to 'earn' and 'spend.' The same, however, might not be the case for the counties that are either small and/or shrinking in size. As population declines, the cost of delivering services increases. Part of that could be simply due to economies of size and scale. On the contrary, rural counties are now confronted with the task of providing services with fewer resources, and are effectively passing on the incidence of the higher costs on their residents or opting not to provide services at all. Under these prevailing circumstances, counties that are endowed with higher levels of income and wealth have a greater property tax base and are better equipped to deliver services. Further, the valuation of property in a county plays a significant role in determining the quality of life that residents enjoy.

Figure 1. Share of property valuation by class, 2001 and 2015





Broadly, there are four major classifications of property: residential, agricultural, commercial and industrial. Beginning in 2015, as a result of SF 295, a new property classification category, multi-residential, was added. Together residential and agricultural classes of property account for approximately 70% of all the valuation at the county level. An examination of the breakdown of the various classes of property, as illustrated in Figure 1, reveals that over the past 15 years, the relative importance of the residential sector has increased. This has happened at the expense of commercial classified property as well as through the creation of the new multi-residential property classification. The increasing reliance on residential property presents challenges to county governments in light of the new changes to cap the growth of residential property at 3%, instead of the previous cap of 4%, as well as periodic cycles of home price peaks and troughs.

Although not included in this article, a comparison of total valuations does provide evidence of a rural urban divide. This essentially means that urban counties have a much larger tax base compared to rural counties. It is not surprising that many urban areas that have witnessed population growth have higher total valuation, primarily driven by new homes and increasing value of homes as consumer demand outpaces supply. However, that divide becomes less apparent when the comparison is made on a per capita basis. As illustrated in Figure 2, barring the initial few years in early 2000, for most part of the last decade rural counties have witnessed higher growth, both compared to urban counties as well as the aggregate of all 99 counties in Iowa. The state witnessed an agricultural decline in the early 2000s, which translated into significantly lower property values in the agricultural sector, and hence the rural counties on the average witnessed a significant decline. However, urban counties were hit much harder during the last big recession and housing crisis, resulting in a much slower recovery of home values and relatively slower growth compared to that of rural counties. Therefore, it is erroneous to paint a broad brush simply based on county location and select characteristics.

While it is apparent that rural Iowa continues to depopulate and economic growth lags in comparison to its urban counterpart, with respect to property valuation, it is difficult to draw a blanket characterization of rural counties. Areas of the state endowed with natural resources that increase value of land, as well urban areas, possess a larger tax base. On a per capita basis, any urban-rural distinction is even harder to discern. The northwest and northeast counties perform well on the fiscal health index created as part of the Iowa Government Finance Initiative (IGFI) outreach efforts. Their relative fiscal health can be attributed to the strong natural capital the regions are endowed with. Tourism contributes to the regions' economies, which is in turn also reflected in the high value of properties in the regions. The southern portion of the state, with few exceptions, lagged compared to its peers in terms of per capita valuation and overall fiscal health.

The authors, in a prior article in this publication, developed an index that compared per capita property valuation across counties. Referred to as fiscal capacity, the approach evaluated county tax capacity by estimating the per capita assessed value that a uniform, hypothetical, representative tax system would produce in each county. Fiscal capacity reflects the county's relative assessed value per person. Based on the fiscal capacity index, it was also difficult to ascertain a clear rural-urban divide. Urban counties were equally split between high and low fiscal capacity. The same was also true of the rural counties. While there was clear evidence of the fiscal challenges that smaller and rural counties faced, this was not necessarily true of every county, and fiscal challenges were evident in larger and more urban counties as well

Figure 2. Growth in per capita property valuation, 2001-2015

This article is part of a larger effort to reach out to local governments of Iowa through IGFI. Please visit http://igfi.extension.iastate.edu/ to learn more about Iowa State University's public finance outreach program.

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Affiliate Highlights - Recorders

County Recorders Certification Program

The Iowa County Recorders Association recognized their third graduating class of the Iowa County Recorders Certification Program at a ceremony held on Thursday, June 23, 2016. The graduation event (pictured below) occurred in conjunction with the Iowa County Recorders Association Summer School at Honey Creek Resort in Moravia. A total of 19 Recorders and Deputy Recorders received certificates and pins for completing their first Certification Program.

The Certification Program provides Iowa County Recorders and Deputy Recorders with the opportunity to learn how to effectively and professionally fulfill their elected duties and to better serve their communities. Participants in the Program must complete 30 credit hours of training including 21 core credits and nine elective credits. The areas covered in the program are leadership and ethics, open meetings and open records, communications, human resources and office management, the Iowa Code and resources, technology applications, and local government and budgets.

Also recognized at the event were 46 recorders receiving recognition for maintaining their certified status. County recorders and deputy recorders who become certified must complete continuing education classes to retain their certification. To maintain certification status, a Recorder or Deputy Recorder must earn a minimum of 18 core credit hours and three elective credits over a period of three years from January 1 of the year following Certified Recorder or Certified Deputy Recorder status.

The completion of the program is a testimony to the dedication these graduates have to providing excellence in public service.

Congratulations to the 19 new Certified Iowa County Recorders and Deputy Recorders: Denise Baker, Wright County Recorder; Karen Benschoter, Kossuth County Recorder; Lindsay Boeckman, Webster County Recorder; Katie Carlton, Union County Deputy Recorder; Melissa Davis, Bremer County Recorder; Dawn Goldman, Keokuk County Recorder; Geralyn Greer, Shelby County Recorder; Stacie Herridge, Story County Recorder; Lisa Kent, Wapello County Recorder; Tracy Marshall, Hancock County Recorder; Val Mason, Polk County Deputy Recorder; Teresa Olson, Worth County Recorder; Diane Swoboda Peterson, Woodbury County Deputy Recorder; Tristen Richards, Guthrie County Deputy Recorder; Sue Ruppert, Palo Alto County Recorder; Lisa Schreiner, Des Moines County Recorder; Lisa Tallman, Mills County Recorder; Mary Ward, Cass County Recorder; and Paula White, Union County Recorder.

Congratulations to the 46 Re-Certified County Recorders and Deputy Recorders: Denise Allan, Nancy Auen, Teresa Bockman, Nancy Booten, June Brady, Carleen Bruning, Tracy Casady, Travis Case, Megan Clyman, Kristin Colby, Peggy Cummings, Ann Ditsworth, Marilyn Dopheide, Karen Ford, Jolynn Goodchild, Jo Greiner, Julie Haggerty, Melissa Helmold, Angie Horton, Laurie Hunter, Janice Jacobs, Kathy Jurries, Eldon Kruse, Deborah Kupka, Joan McCalmant, Denise Meeves, Cindy Messersmith, Sue Meyer, Shari O'Bannon, Kim Painter, Colleen Pearce, Julie Phillips, Sherry Pope, Veronica Rardin, Deborah Roberts, Arlene Schauf, Janelle Schneider, Karen Schwanebeck, Ann Skaggs, Lisa Smith, Kelly Spees, Lorie Thompson, Rita Vargas, Teddy Walker, Toni Wilkinson, and Deb Winke.

Affiliate Highlights - Recorders

Above - Picture of Graduates: 1st row: Missy Davis, Lisa Schreiner, Dawn Goldman, Denise Baker; 2nd row: Katie Carlton, Teresa Olson, Mary Ward, Diane Swoboda Peterson; 3rd row: Lindsay Boeckman, Sue Ruppert, Geralyn Greer, Tracy Marshall; and 4th row: Karen Benschoter, Tristen Richards, Stacie Herridge. Absent: Lisa Kent, Val Mason, Paula White, Lisa Tallman

Left - Re-Certification Picture: 1st row: Kris Colby, Ann Ditsworth, Cindy Messersmith, Karen Ford, Julie Haggerty; 2nd row: Colleen Pearce, Ann Skaggs, Angie Horton, Deb Winke, Jolynn Goodchild; 3rd row: Marilyn Dopheide, Shari O'Bannon, Denise Meeves; 4th row: Deborah Roberts, Toni Wilkinson, Denise Allan, Lorie Thompson, Melissa Helmold, Laurie Hunter; 5th row: Karen Schwanebeck, Kelly Spees, Teddy Walker, Eldon Kruse, Veronica Rardin

Right - 2nd Re-Certification Picture: Nancy Booten, Sherry Pope, Kim Painter, Travis Case, Sue Meyer, Deb Kupka, and Megan Clyman

Absent: Nancy Auen, Teresa Bockman, June Brady, Carleen Bruning, Tracy Casady, Peggy Cummings, Jo Greiner, Angie Horton, Janice Jacobs, Kathy Jurries, Joan McCalmant, Julie Phillips, Arlene Schauf, Lisa Smith, Rita Vargas

NACo - Annual Conference

Melvyn Houser
ISAC NACo Board Representative
Pottawattamie County Supervisor
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"The difference is local leadership."
Doug O'Brien, White House Rural Council

The NACo Annual Conference was held in Los Angeles County in the city of Long Beach. Long Beach got its name because there is a beach there that is really long. The beaches I saw in Maui and Kauai are much shorter and none of them are called Short Beach. Even though the conference was jam packed with meetings and workshops, I had a chance to walk down to the beach. It was a nice jaunt with lots of boats to look at but the beach was... Well, if you ever go to Long Beach don't bother going to the beach. The best attractions are the USS Iowa and the Queen Mary. The Iowa delegation took a tour of the Iowa, but they scheduled it during our Board of Directors meeting, and I was unable to go along. But, the Queen Mary is really worth having a look at. It was built in the 30's in Art Deco style. Really cool. It spent most of its time, though, as a troop transport during the war. I think my dad said he was on it, but he never said anything about the art and craftsmanship and detail of ship. Anyway, if you ever go to Long Beach make sure you see it.

At first I thought the conference was a little weak, with not much interesting for me. When I got home and started looking at my notes I realized how much there was to write about and how much I learned. Here are some highlights:

Thursday was Mobile Workshop day. I went on a tour of "Growing Experience." It is a seven-acre urban farm in a depressed area of the city. They have community gardens, CSAs and teaching programs. They also have an aquaponics system set up in a greenhouse raising fish in tanks and veggies in a vertical garden. They are making good steps in feeding their community. On the chalk board was a list of current produce going to the CSA. (Here is something good to know.) I saw purslane listed and pointed out to them that purslane is a weed. They knew that, but apparently chefs are crazy for the stuff to add to salads and other dishes. So they just harvest it and sell it! It really tastes rather good. According to nutritionists it is high in Omega-3 fatty acids and all kinds of stuff that is good for you. I've been putting it on my BLTs, or throwing some in with my cukes as a raw salad, and I'm going to try sautéing it. Maybe with bacon.

Our Ag and Rural Affairs Steering Committee was mostly consumed by a rewrite of our platform. But we did have time for some speakers. Clare Fox is the Executive Director of the Los Angeles County Local Food Policy Council. She said the Board of Supervisors recently passed a resolution encouraging owners of vacant parcels to rent to growers of local produce. If they agreed to a five-year contract, the parcel would then be assessed as agricultural rather than residential, thereby lowering the owners tax bill. I asked our assessor if something like that would work for us. He said it might if there were any vacant parcels to work with. Even in Council Bluffs there are very few. Something like that would probably only work in large metro areas like L.A. or Detroit that have large blighted areas. I'll bet purslane is already growing there.

Saturday was another busy day. At the Rural Action Caucus Doug O'Brien talked about the White House Rural Council's (WHRC) new initiative. The Rural Impact County Challenge (RICC). RICC is an effort to address rural poverty, food insecurity and early childhood education. With assistance from the Robert Woods Foundation, collective efforts at the local level can make a difference in rural populations. Doug, a Dubuque County farm boy, has been with USDA and now the WHRC since this administration took office. He has been all over the country and noted that those counties that seem to be successful have good leadership at the local level. We need to always remember that it is good county government that sets the tone for the rest of the community. If you are interested in RICC, then check it out on NACo's website. At another workshop, several presenters talked about the work they are doing in their counties to reduce the number of mentally ill folks in their jails. This is interesting. The three largest facilities is the United Staes that house the mentally ill are: the Los Angeles County jail, the Cook County jail and Ryker's Island in New York. Addressing this issue takes a strong collaborative effort locally by law enforcement, the courts, the hospitals, the providers, and many others. Plus, in Iowa, we need to do it regionally. Passing and signing a Stepping Up Resolution is the first good step to take.

Cass County Treasurer Tracy Marshall, ISAC President and Linn County Recorder Joan McCalmant, a bunch of Supervisors from Sioux County, and I attended the Membership Committee meeting. There are still 23 Iowa counties that are not NACo members! It doesn't have to be Supervisors advocating for membership. Any county official or even a department head can be advocates and maybe even find $450 in their budget for NACo dues. We're all part of a team to make our counties better. And being a member of NACo can help do that. And why is it that little counties like Sioux and Humboldt send all these officials to a conference and other counties aren't even members?

Kareem Abdul Jabbar and Jack Dangermond were featured speakers at the General Session. Jack is founder and president of ESRI, the global GIS software company. Several years ago I had the opportunity to sit in on a small meeting with him and some officials from Omaha and Douglas County, Nebraska. This guy has got a brain the size of a planet. He talked then and at the conference about big data, geospatial stuff, mapping, collaboration and getting rid of stove pipes or silos. I do remember the silo thing didn't resonate too well with the Omaha folks. Turf issues stink. How can you get anything done working in your own little world?

At the business meeting of the general membership there were a couple of issues that provoked a lot of discussion. The bylaws committee, of which Grant Veeder was a member, presented a controversial proposal. It stated that any platform resolution from a steering committee or the general membership would need a supermajority of 60% to pass. The idea is that NACo should have a unified voice on The Hill. A 50% plus one passage shows division and there is no point in our legislative staffers working on issues that will probably be defeated. I thought it was a good idea, but, alas, it failed by at least 60%. The other issue had to do with reapportioning of the members votes. They wanted to get the total number of votes back to a 1991 level. Every county's number of votes would be reduced proportionately. No county would lose or gain more than under 1% of their voting power. When the roll call vote was taken there appeared an obvious rural-urban split. The city folks won in a landslide.

Besides working and learning, another good part of a NACo conference is reuniting with friends. Liz Fukui from the Utah Association of Counties is your typical Japanese Mormon farm girl. Her ancestors immigrated during some war conflict in the late 1800s and started farming in northern Utah. When WWII broke out, the Feds tried to ship her grandparents to an internment camp. The local County Sheriff interceded and put the kibosh on it. Her grandparents were good upstanding folks of the community. And, besides, he was a good farmer and they needed his produce and milk production for the local community. Another fine example of local leadership doing the right thing. I also ran into Dagny from Nevada. When I'd first met her several years ago, I told her the only other Dagny I knew of was the character in the Ayn Rand novel, "Atlas Shrugged." Her mother read the book when she was 16 and named her after Dagny Taggert. I said that I read it when I was 16, and Dagny said she had too. Some critic commented that the only people who read "Atlas Shrugged" are 16 years old, of varying ages. Now, whenever I see a "Who is John Galt?" t-shirt, I think of Dagny. This doesn't have much to do with NACo, but I just like saying Dagny.

Well, those are some of my conference highlights. Check out the NACo website to learn more about NACo and the American County Platform. And remember, a NACo membership is a small price to pay for the betterment of your county. "Local Rules!"

And, we will conclude with a special note from the ISAC President and Linn County Recorder, Joan McCalmant.

A trip back in time on the USS Iowa

At the NACo Annual Conference this summer in Long Beach, CA, a group from the Iowa delegation had the pleasure and honor of taking a brief trip back in time by visiting the USS Iowa ship/museum in San Pedro. Guided by our fast-talking guide "Sloe" from New York, we were piped aboard the ship and given a grand tour of the upper decks of the vessel. Sloe entertained us with tales of the ship's glory days in WWII, and introduced us to an Arkasas Razorback tattooed covered Chief who regaled us with stories as well. It was a thoroughly enjoyable experience. Here are a few random facts we learned about the battleship named for our State:

- At 887 feet three inches in lengthv, the USS Iowa burned a gallon of fuel for each 11 feet she traveled at a top speed of 38 miles per hour (33 knots for you sailors).
- She was the lead ship of her class of "fast battleship" designs and was launched by First Lady Eleanor Roosevelt in 1943.
- She was made "ADA compliant" to a certain respect, as she carried President Franklin D. Roosevelt across the Atlantic with his chiefs of staff to meet with Churchill and Stalin in Algeria. She even has a bath tub and an elevator so the President could enjoy his time on board.
- On April 12, 2010 the Governor of Iowa signed into law SJR 2007 which officially formed a committee to raise about $5 million for the group responsible for the USS Iowa. We witnessed a memorial plaque in the officer's dining room, thanking the citizens of Iowa for their support.

There are many, many more fascinating facts about our namesake. I consider myself lucky to have been on deck and experienced a little about life aboard a battleship. I am grateful that I never had to serve on one, and grateful for those who did serve. They made the Pacific a safer place for young soldiers, like my father, who served our country in the Pacific at the end of WWII.

The USS Iowa is a "must see" if you ever find yourself in the San Pedro/Long Beach Area! A true treasure trove!

Michelle Rupp Wedmore and the Cherokee County Safety Committee
Iowa Municipalities Workers' Compensation Association (IMWCA)
www.imwca.org

Resetting Your Safety Culture: Cherokee County's Story

In early 2013, the Cherokee County Board of Supervisors presented the devastating news that each department was going to need to make substantial budget cuts for the next fiscal year. The reasoning: offset the rising cost of our workers' compensation coverage. This meant employee lay-offs, less money for road projects and office supplies, lower pay increases, etc. The worst part was this news meant our employees were not working carefully or going home safe to their families each night.

In October 2013, our Iowa Municipalities Workers' Compensation Association (IMWCA) loss control representative "encouraged" us to jump start our safety efforts. After electing employees representing each department in the county, our new Safety Committee got to work. Our former safety policy left much to be desired, so we started from scratch. This task initially seemed overwhelming, but organization and communication were the keys to our success.

We started with the Safety Policy itself. IMWCA has great model programs that we followed one section at a time, configuring it specifically to us. These models were extremely beneficial since none of us are safety experts or professional writers. We met monthly until all sections were complete. During this time (as always), it was extremely beneficial to have all departments represented on our safety committee. This ensured the policy was broad enough to cover the whole county, yet narrow enough to be department-specific if necessary. As we completed a section, we would email it to IMWCA for review and insight as to what works in other counties.

Communication is one of the key factors to our success thus far. That began by re-reviewing the completed safety policy with department heads. Their input not only guaranteed accuracy but also ensured all employees were given a voice in the policy. Knowing they had a hand in creating it has made it easier for everyone to abide by the policies. After nine months, numerous meetings and countless emails our Safety Policy was officially adopted in July 2014!

Next began the implementation phase. In a meeting with all department heads we explained the new claims reporting procedures, injury reporting and investigation, company nurse, designated healthcare provider, and return to work policies. The large-group meeting was imperative to ensuring expectations were clear and all questions were answered. Shortly after this, all employees were given copies of the policy and asked to return the acknowledgement pages. The safety policy was also put into all new employee packets.

Early on, the Safety Committee decided that training was going to be essential to reducing workplace injuries and lowering our Experience Modification Factor (MOD); thus decreasing workers' compensation rates. Using IMWCA and Occupational Safety and Health Administration (OSHA) resources, we created a list of safety training courses for each specific department. We take advantage of IMWCA's Online University for most of our training. It is extremely user friendly, and it is perfect when you can't gather all employees simultaneously in a classroom. It also lets us easily track everyone's progress throughout the year.

Now that safety expectations were clear to all employees and training was under way, the Safety Committee began department inspections. We created an inspection checklist and use it for department walk-throughs. Each department is inspected annually. The Committee uses staff from outside the department, which allows us to notice hazards those who work there each day may overlook. We don't use this process to punish anyone; rather, we point out areas for improvement and look for progress being made from year-to-year. We also introduced Safety Newsletters, a great way to get information out to our employees and keep them informed about changes or updates to policies. The newsletters are also a place to offer "kudos" to individuals or departments that go above and beyond in their safety efforts.

What did all of this mean for us? The most important thing is that our employees are going home safe at night. We are extremely thrilled that since we began revamping our safety program, that we have only had one employee with an indemnity claim (where they missed more than three days of work because of a work-related injury)! Our employees are all aware of safety standards and hazards and are overall working safer. Financially, this has benefited us as well. Our premium this past year was nearly $90,000 below the previous year. This number is astronomical for a county with approximately 12,000 people and just shy of 100 employees. This means more money for county projects, no lay-offs and improved employee morale.

Miscellaneous - ICAP

Iowa Communities Assurance Pool (ICAP)
www.icapiowa.com

"He said, 'We're not done here,' and he went to his briefcase. Then I saw the gun… I was going through my head, 'what am I going to do now? If he shoots, I might have a window…' This was all in a split second."

Larry "Buck" Koos, Jackson County Supervisor recalling the Jackson County Courthouse shooting from 2014

In September 2014, a lone gunman opened fire at a regularly scheduled meeting of the Jackson County Board of Supervisors. Larry "Buck" Koos, Jackson County Supervisor, reacted to the shooting instinctively, tackling the shooter to the ground and remaining on him until law enforcement officials arrived at the scene.

The shooter did not survive the incident. Fortunately, Buck did. Physically, he walked away with little more than a laceration. Mentally and emotionally, the impact was much more lasting. Buck shared his experience at ICAP's 2016 Educational Summit, which was held Wednesday, July 20, at the Johnston Hilton Garden Inn.

The Event
ICAP's 2016 Educational Summit attracted nearly 200 public officials and insurance agents from throughout the state. The event focused on the threat of the active shooter, specifically as related to planning and response measures for public entities. Representatives from 30 Iowa counties were in attendance to hear presentations from Buck Koos and Dr. Mike Clumpner, a highly regarded instructor for the Department of Homeland Security, as well as the President and CEO of Threat Suppression, Inc. Following Buck's presentation, which detailed the harrowing event that took place at the Jackson County Courthouse, Dr. Clumpner took the stage to offer a comprehensive overview of the active shooter threat. Dr. Clumpner's presentation featured statistical information, as well as recommendations and referrals that may help public officials interpret and respond to such threats in their own communities.

The Response
Feedback for the 2016 Educational Summit was overwhelming, with attendees stating "this was the best seminar I have ever attended," "the information was invaluable; it should be mandatory for all public officials," and "I think everyone in the room was on the edge of their seat." Based on the feedback received, ICAP has outlined a comprehensive active shooter response plan, which is available on the ICAP website (www.icapiowa.com). ICAP invites both member and non-member county officials to download and customize this plan to meet the needs of their respective entities. ICAP members are invited to contact their assigned loss control representative for assistance.

The Iowa Communities Assurance Pool (ICAP) was formed in 1986 as a group self-insurance program for Iowa public entities. The member-owned Pool provides property and casualty coverage, risk-sharing facilities and risk-management services to its members. ICAP is acclaimed for its stable rates, superior coverages and class of service that is second to none.

For additional information, please visit the ICAP website, www.icapiowa.com, or contact Kasi Koehler at 515.727.1585.

Miscellaneous - IMWCA

Continued from page 18.

Many people have asked about the willingness of employees to work safely; sometimes working safely means taking extra time or properly using equipment even when it seems like a hassle. I have found it is all in the approach. We have an "open door" policy when it comes to safety. At any time employees are encouraged to contact a member of the Safety Committee with questions, comments, concerns, etc., and these are immediately put on the agenda for the next month's meeting. When implementing new procedures, employees are not simply told WHAT to do, but also WHY it is necessary. We try to utilize real life examples when possible. When an incident does happen, we are quick to investigate and offer solutions to ensure it doesn't occur again. When someone brings an unsafe matter to our attention, we do our absolute best to rectify it immediately. We want all of our employees to know how valuable their input is and how important their safety is to us.

This article was provided by the Iowa Municipalities Workers' Compensation Association (IMWCA) and originally ran in the August 2016 issue of the Informer, *a publication of the IMWCA.*

Miscellaneous - NRS

Social Security for Nonprofit and Government Employees

Pensions are a traditional source of retirement income for many Americans, but some pensions can affect Social Security benefits. If you're an advisor who works with teachers, police officers, firefighters, government employees or the spouses of those workers, you need to be aware of these provisions and how they could affect your clients.

Nationwide Retirement Institute

The Nationwide Retirement Institute® provides practical thought leadership and comprehensive solutions to financial advisors and their clients. Through education and insights, client-ready tools and consultative support, we break down and simplify complex retirement challenges to help advisors and clients plan for a more secure financial future.

www.nationwidefinancial.com/360

While the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) differ in who they affect and how they impact benefits, both are aimed at reducing Social Security benefits for people who receive a pension from work in which they did not pay into the Social Security system.

Government Pension Offset (GPO)

The GPO reduces a government employee's Social Security spousal and survivor benefits by two-thirds of their government pension.

Normally, the Social Security spousal benefit is 50% or less of the retired or disabled worker's benefit and up to 100% of the deceased worker's benefit. GPO reduces the spousal and survivor benefit for spouses who also qualify for a government pension by two-thirds of the pension amount. If the pension from non-covered work is sufficiently large in comparison to the Social Security spousal or survivor benefit, GPO may eliminate the entire spousal or survivor benefit.

For example, Cindy worked in non-covered jobs her entire career and has a $3,000 a month pension. Her husband Bruce worked enough in Social Security-covered employment and is eligible for a $2,500 per month Social Security Benefit if he elects at age 66. Cindy is, therefore, eligible for a spousal benefit of up to $1,250 under Bruce's work history. However, under GPO Cindy's spousal benefit is reduced to $0 because two-thirds of her pension ($2,000) is greater than her spousal benefit ($1,250).

Upon Bruce's death, she would still get a survivor's benefit, but it would only be $500, rather than the $2,500 (at her full retirement age) she would get if the GPO did not apply.

GPO example	Bruce	Cindy
Social Security worker benefit	$2,500	$0
Monthly pension amount	$0	$3,000
Maximum spousal benefit	$0	$1,250
GPO reduction ($3,000 x .66)	$0	$2,000
Actual spousal benefit ($2,000 > $1,250 = $0)	$0	$0
Survivor benefit (What Cindy receives if Bruce dies)	$0	$500

Windfall Elimination Provision (WEP)

The WEP reduces the Social Security benefits of people who qualify for both a Social Security benefit and a government pension based on their own earnings.

In order to understand how WEP affects benefits, you first need to understand the basics of how Security benefits are calculated. In general, a worker's monthly Social Security benefit is based on his or her 35 highest-paid years in Social Security-covered employment. The worker's earnings are indexed to wage growth to bring earlier years up to a current basis, then divided by 35 years, and divided again by 12 months per year to determine the Average Indexed Monthly Earnings (AIME). Once a worker's AIME is established, the Social Security benefit formula is applied to arrive at their Primary Insurance Amount (PIA).

Factor	Average Indexed Monthly Earnings (AIME)
90%	of the first $856
32%	of earnings from $856 to $5,157
15%	of earnings over $5,157

Social Security benefit formula

As you can see, the formula is progressive, which means workers with low average lifetime earnings will receive a larger proportion of their earnings as a Social Security benefit.

For someone who worked in the private sector for 10 years then changed careers to become a public employee who didn't pay Social Security taxes, their AIME would be relatively low because their 10 years of income would be averaged over 35 years.

Therefore, the benefit formula would replace more of their earnings at 90% than someone who spent his or her full 35-year career in covered employment. This is known as a windfall. Under the WEP, instead of 90% of their first $856, this worker would only get 40%. Let's look at an example of someone with an AIME of $1,500.

Regular Benefit Formula

90% of the first $856	$770.40
32% of earnings from $856 to $5,157	$206.08
15% of earnings over $5,157	$0
Total PIA	$976.48

Windfall Elimination Formula

40% of the first $856	$342.40
32% of earnings from $856 - $5,157	$206.08
15% of earnings over $4,624	$0
Total WEP PIA	$548.48

The WEP reduced this worker's earnings by $428 per month. A worker's WEP reduction cannot exceed more than half of his or her pension. And workers who have 30 or more years of substantial earnings in Social Security-covered employment are exempt from WEP. For each year over 20 of "Substantial Earnings" a worker receives a 5% addition to the percentage in the first bend point. For example, a worker with 22 years of Substantial Earnings would have a 50% factor, rather than 40% of the first $856.

How many are affected?

According to the Social Security Administration(1), GPO and WEP affect a relatively small portion of the population. In December 2009, the SSA reported that nearly 522,000 Social Security beneficiaries, or about 1.6% of all retired worker beneficiaries, have spousal benefits reduced by the GPO and 1.2 million Social Security beneficiaries were affected by the WEP (about 3.3% of retired workers). Of those 1.2 million, only 8% were spouses and children of affected workers.

What's at stake?

The point of all this is to raise awareness of two issues: First, GPO and WEP affect a lot more people than even the government realizes. Second, there are ways to get more benefits for your clients by understanding these results and using our Social Security 360 Analyzer to identify optimal claiming strategies.

Let's go back to the first example outlined in the explanation of the Government Pension offset explanation. Cindy's entire spousal benefit was eliminated by GPO and after Bruce's death she would only have received about $300 as a survivor benefit. A simple analysis by their advisor would have revealed that if Bruce were to delay his benefit to 70, the survivor benefit to Cindy would be $1,300. That could easily make the difference between whether Bruce should elect at full retirement age or delay. In short, we are happy to now be able to provide a process that incorporates both the WEP and GPO.

As an advisor who works with government employees, you need to not only be aware of how these provisions work and who they affect, you also need to understand

that your clients are beginning to expect this kind of advice when it comes to Social Security. According to research conducted in 2013(2), 57% of married couples age 60-66 now expect Social Security advice from their financial planner. Another 93% said they would actually look for a new advisor if their current one didn't offer this kind of advice. In other words, when it comes to Social Security planning, your clients aren't the only ones who have something at stake.

Find out more during the *Do You Understand Social Security?* ISAC Fall School Educational Seminar from 10:00 am - 11:00 am on November 30 in Des Moines.

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution • Not insured by any federal government agency • May lose value
(1) Social Security Administration, Office of Research, Evaluation and Statistics, January 2010.
(2) The Emerging Cornerstone of Financial Practices," Social Security Timing, 2013 survey of 508 couples.
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2016 ISAC Preferred Vendors

Endorsed Elite Preferred Vendor
County Risk Management Services, Inc.
representing ICAP and IMWCA

Platinum Preferred Vendors
IPPathways

Platinum Preferred Vendors
Election Systems & Software
Henry M. Adkins and Son
Matt Parrott/ElectionSource
MidAmerican Energy
Iowa Interactive, LLC
Northland Securities, Inc.
"Solutions," Inc.
St. Luke Health Resources
The Schneider Corporation
Tyler Technologies
Wellmark Blue Cross Blue Shield of Iowa

Gold Preferred Vendor
CoreLogic
Cost Advisory Services, Inc.
DEVNET, Inc.
Diamond Mowers
Dorsey & Whitney LLP
ISG
ImageTek-Inc.
ITC Midwest, LLC
Murphy Tower Service LLC
Peterbilt
Purple Wave Auction, Inc.
Speer Financial, Inc.
The Samuels Group
Vanguard Appraisals, Inc.
The Caterpillar Dealers of Iowa

Silver Preferred Vendors
Cott Systems, Inc.
D.A. Davidson and Co.
Nyhart
The Sidwell Company

Endorsed Preferred Vendors
Iowa Public Agency Investment Trust (IPAIT)
National Association of Counties (NACo)
Nationwide Retirement Solutions
U.S. Communities

2016 Calendar

September 2016
13-14 CM&MHDS Annual Conference (West Des Moines Sheraton)
18-21 ISSDA Jail School (Holiday Inn Airport)
21-23 ISAC Board of Directors Retreat (Linn County)
29 ISAC LPC Meeting (ISAC Office)

October 2016
27-28 ISAC Board of Directors Meeting (ISAC Office)

November 2016
30-2 ISAC Fall School of Instruction (Veteran's Memorial Community Choice Credit Union Convention Center, Des Moines)

December 2016
4-7 ISSDA Winter School (Holiday Inn Airport, Des Moines)
6-8 ICEA Annual Conference (Scheman Building, Ames)
14 ISAC Board of Directors Meeting (ISAC Office)

If you have any questions about the meetings listed above or would like to add an affiliate meeting to the ISAC calendar, please contact Kelsey Sebern at ksebern@iowacounties.org.