COUNTY FINANCE & THE PROPERTY TAX SYSTEM

Lucas Beenken

Public Policy Specialist

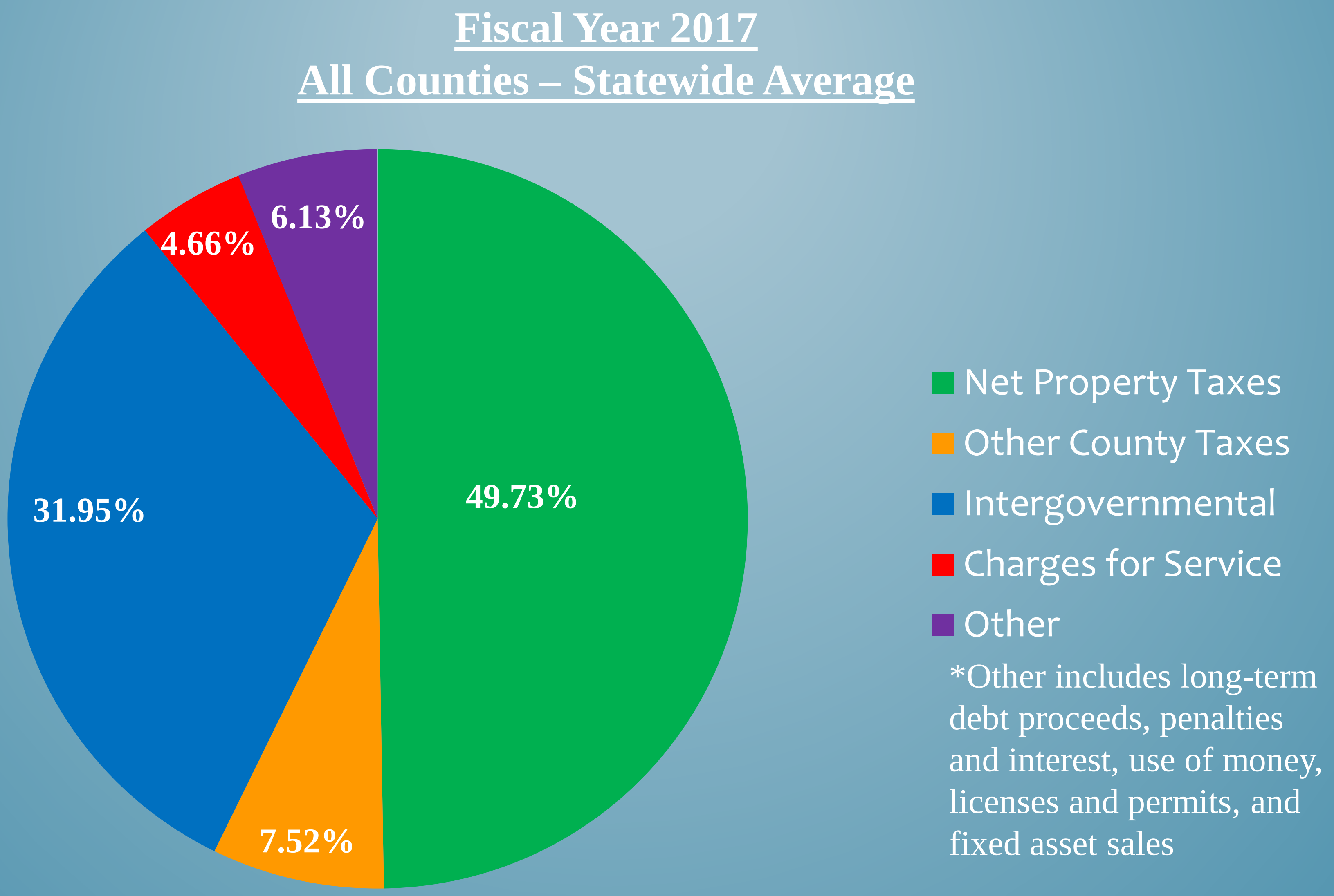
Iowa State Association of Counties

ISAC
Iowa State Association of Counties

Sources of County Revenue

- **<u>Property Taxes</u>**
- **<u>Intergovernmental</u>**
  (state road use taxes, franchise taxes, state replacement of property tax credits, state and federal grants, and pass-through revenues)
- **<u>Other County Taxes</u>**
  (local option sales tax, hotel/motel tax, gambling tax revenue, tax increment financing revenue, and utility replacement excise taxes)
- **<u>Charges For Service</u>**
- **<u>Other Miscellaneous Revenue</u>**
  (delinquent property taxes, licenses and permits, penalties and interest, use of money and property, long-term debt proceeds, and fixed asset sales)

Proportions of Revenue

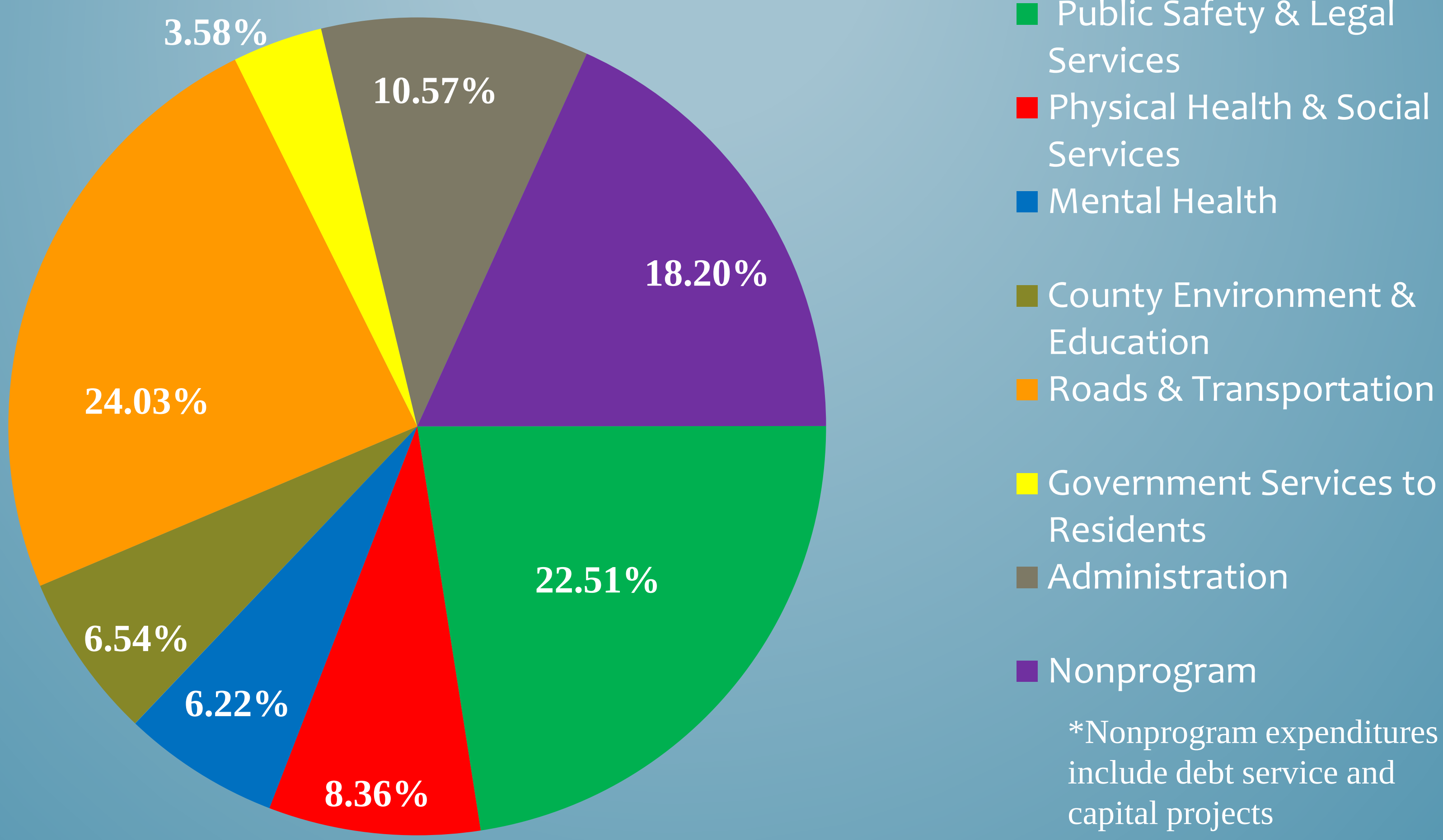


County Expenditures By Service Area

- **Public Safety & Legal Services**
- **Physical Health & Social Services**
- **Mental Health**
- **County Environment & Education**
- **Roads & Transportation**
- **Government Services to Residents**
  (many state-mandated services, such as elections, motor vehicle registration, and the recording of public documents)
- **Administration**
  (some employee salaries and wages, as well as many insurance costs and general office expenses)
- **Nonprogram Expenditures**
  (short-term debt, corrections from previous years, debt service, and capital projects)

Allocation of Funds

Fiscal Year 2017
All Counties – Statewide Average



*Nonprogram expenditures include debt service and capital projects

PROPERTY TAX 101

Property taxes account for an average of 49.7% of county revenues statewide

Valuation	x	Tax Rate	=	Levy
(taxable value of real property)		(amount of tax per $1,000 of value)		(property tax dollars generated)

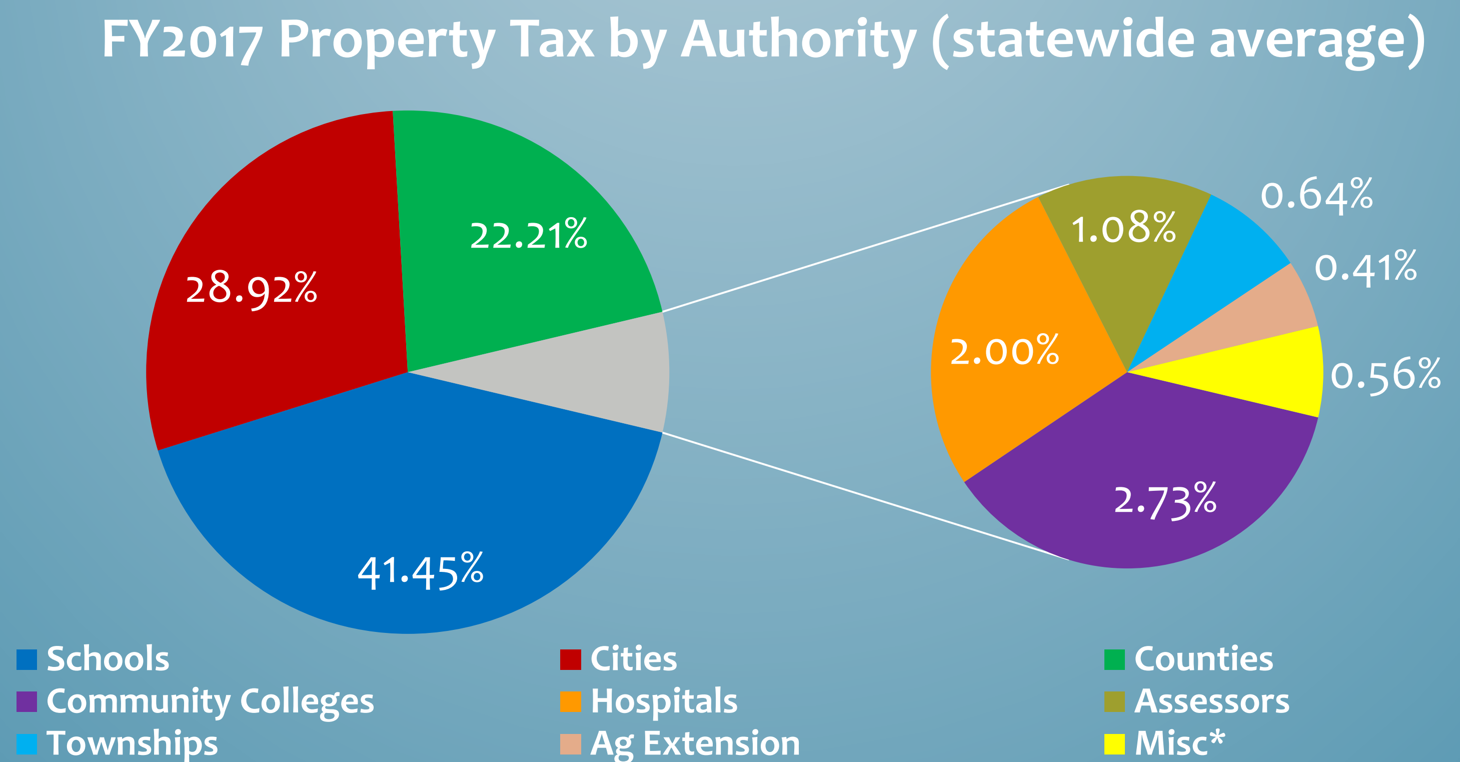
*Note: Because valuation is determined independently, governing boards can control rate or levy but not both.

PROPERTY VALUATION

- Property valuation is a key component of the property tax equation.
- Property valuation set by assessor or Department of Revenue depending on property class.
- Rate set by local governments to generate the desired levy amount
- At the most basic level, the taxable value is multiplied by the tax rate to determine the dollars generated.

Property Tax Jurisdictions

- Most local governmental entities tax property to generate revenue.
- The county treasurer collects property taxes for all of the taxing entities.



TYPES OF PROPERTY SUBJECT TO TAX BY LOCAL GOVERNMENTS

Real Property

- Land and any permanent improvements such as buildings or other structures

Personal Property

- Everything subject to ownership that is not real property, for example a car or boat.
- Iowa is among only a handful of states that exempt all personal property from property taxation.

Intangible Property

- Includes intangible financial assets, such as investments in stocks and bonds.
- Only a few states tax intangible personal property; Iowa is not among them.

WHO DETERMINES PROPERTY VALUE IN IOWA?

County Assessor

- Appointed by conference board comprised of the board of supervisors, mayors of each incorporated city, and school board members from each high school district.

City Assessor

- Any city with a population of 10,000 or more may adopt an ordinance to establish the office of city assessor. Currently Iowa has 8 city assessors.
- Appointed by conference board comprised of the board of supervisors, city council, and school board.

Department of Revenue

- Central assessment of specific industries whose companies have property throughout the state.

REAL PROPERTY CLASSIFICATIONS IN IOWA

Assessor

- Residential
- Multi-residential
- Commercial
- Industrial
- Agricultural

Property assessed every two years in odd-numbered years

Department of Revenue

- Gas
- Electric
- Railroad
- Telecommunications

Property assessed every year

PROPERTY CLASSES (continued)

- Properties are divided into classes based on the primary use

- Classification allows groups of property to be treated differently
    - Valuation method
    - Rollback
    - Tax credits

*Note: Property classification and zoning may be different.

DETERMINING ASSESSED VALUES

Residential, multi-residential, commercial, and industrial properties assessed at market value.

Valuation Methods:

- **Sales Method**
  - **Compare to recent sales of similar properties in the vicinity**
- **Cost Method**
  - **What would it cost to replace the property?**
- **Income Method**
  - **Capitalize anticipated annual income for the useful life of the property**

ASSESSMENT OF AG PROPERTY

- Agricultural property is assessed based on productivity formula rather than market value.
- The productivity formula is intended to measure the property's capacity to generate farm income.
- At basic level, net earning capacity is determined by 5 year rolling average of crop prices multiplied by yields minus expenses.
- Productivity value per acre is multiplied by taxable acres to get the aggregate whole.
- Ag buildings are assessed at their actual value and then multiplied by the ag factor (productivity value divided by market value)

AG PROPERTY (continued)

- Productivity value of the ag buildings is subtracted from the aggregate whole value of the ag land.
- After taking out the ag buildings, the aggregate whole value is apportioned to land based on Corn Suitability Rating (CSR) and other factors.
- Countywide aggregate value is limited, but not every acre will have the same value assigned.
- The addition of ag buildings is a net zero for taxable valuation because of this formula.
- In assessment year 2015, the productivity value as a percentage of market value was 27.4%.

DISPUTING ASSESSED VALUE

Informal Assessment Review

- A dissatisfied property owner may request an informal assessment review by the assessor on one or more grounds for protest outlined in Iowa Code between April 2 and April 25.
- Assessor may recommend the owner file a protest with the board of review and may make a recommendation to the board of review based on the informal review.
- Assessor may also enter into a written agreement with the owner authorizing the assessor to correct or modify the assessment.

DISPUTING ASSESSED VALUE

Board of Review

- Local board consisting of 3 or 5 members that evaluates assessment protests from property owners within the jurisdiction. Protests are submitted between April 2 and April 30, and the BOR meets between May 1 and May 31.

Property Assessment Appeal Board

- State board consisting of 3 members that hears appeals to decisions by a local board of review. Appeals are submitted within 20 days of the BOR decision or by May 31, whichever is later.

EQUALIZATION

- In odd-numbered years the Department of Revenue conducts a statewide review of assessments in each class of property, and the assessor abstracts are compared to the Department's sales assessment ratio study.
- If the assessments in a given jurisdiction for a certain class are more than 5% above or below the sales assessment ratio, IDR "equalizes" the class in that jurisdiction by raising or lowering the assessment.
- Equalization provides for consistency among the classes of property and across jurisdictions.

ASSESSED VS. TAXABLE VALUE

Assessed Value:

- The actual value of property as determined by the assessor.
- Approximates market value for all property except agricultural.

Taxable Value:

- The value of property that is subject to tax after exemptions and rollback.

PROPERTY TAX EXEMPTIONS

- Certain property may be wholly or partially exempt from property taxation because of the property itself, the owner, or the use.
- Exemptions for military service, elderly/disabled individuals, conservation practices, wind energy conversion, and many other specific uses.
- There is also property that is tax exempt because of the ownership such as property owned and used by the federal, state, or local government; non-profit organizations; churches or religious groups; educational institutions; public airports; and libraries.

GROWTH LIMITATION

- In response to rapidly rising residential values in the late 1970's, the Iowa Legislature put in place the assessment growth limitation.
- Originally just for residential and agricultural property, it soon applied to commercial and industrial property, and will include multiresidential.
- Started off as cap of 6% annual statewide growth, reduced to 4% for AY1980, and reduced to 3% in SF295 for AY2013 and beyond.
- Cap on annual statewide growth for particular class, not a limit on growth of individual property valuation.
- Residential and ag property are "coupled" and limited to the lesser growth if less than the cap.

ROLLBACK

- If the statewide increase in a class of property exceeds the growth limitation, the value is "rolled back" to equal the limitation amount.
- While the growth limitation is on the entire class, the rollback is applied to each individual property.

Example (not accounting for new construction):

$75B taxable value last year + 3% growth = $77.25B

$80B actual assessed value (6.66% growth)

$77.25B / $80B = 96.56% rollback

Taxable value of $100,000 house would be $96,560

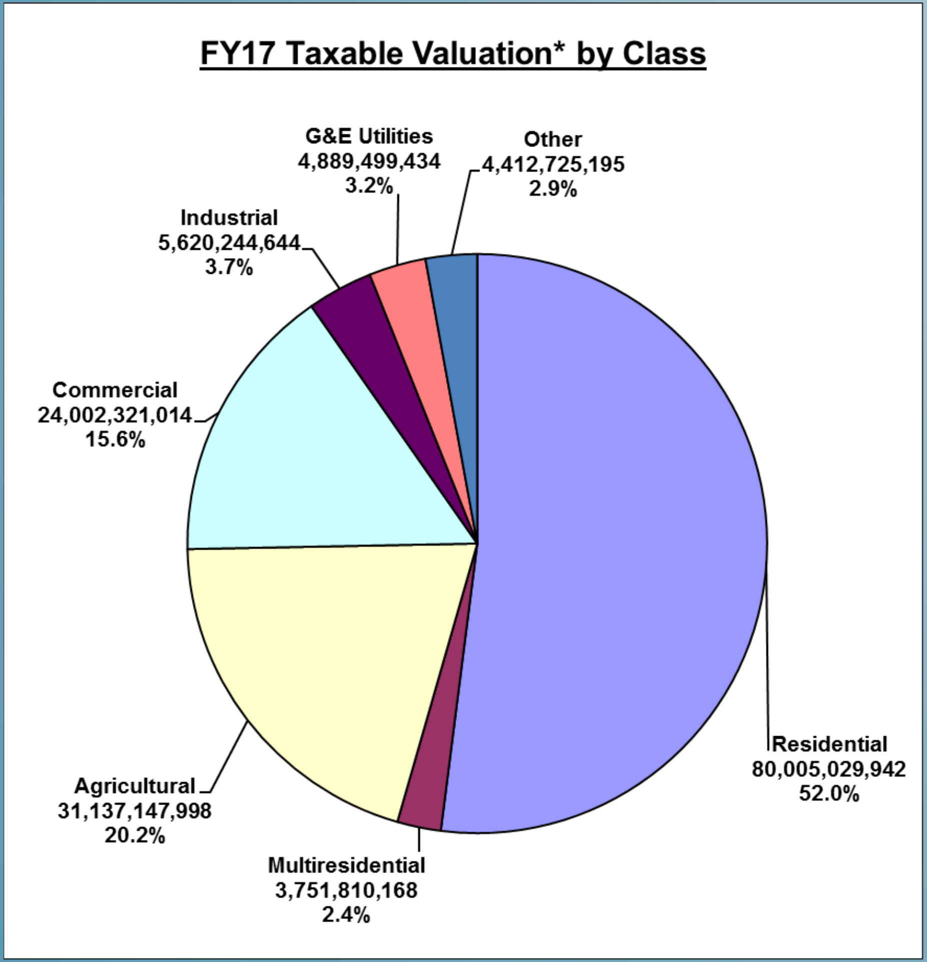
*As assessed value climbs and taxable value is limited, the rollback percentage continues to go down.

ROLLBACK

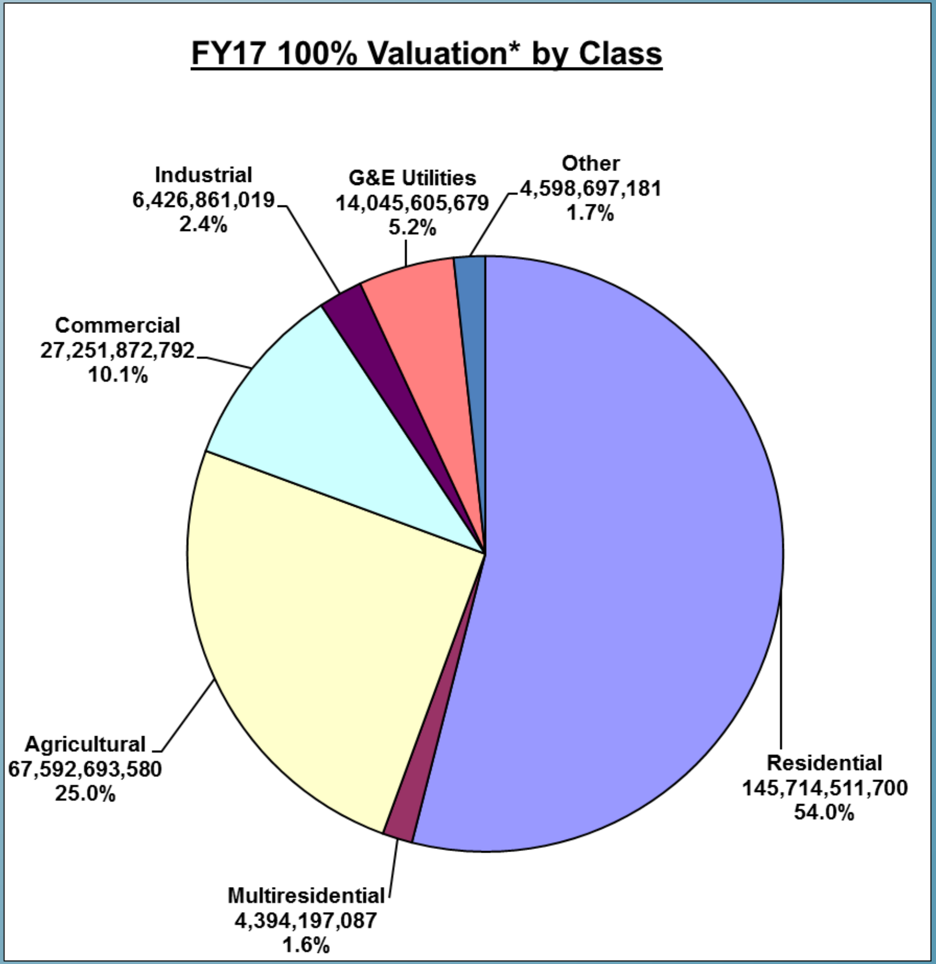
	FY16	FY17	FY18
Agricultural	44.70%	46.11%	47.50%
Commercial	90%	90%	90%
Industrial	90%	90%	90%
Residential	55.73%	55.63%	56.94%
Multi-residential	90%	86.25%	82.50%

- SF295 adjusted the Commercial and Industrial rollbacks to 95% in FY2015 and 90% thereafter.
- The Commercial rollback applied to Multi-Res until FY17 when it became it's own class. It will continue to decrease 3.75% per year until FY24 when it becomes coupled with Residential.

FY17 TAXABLE VS. ASSESSED VALUE

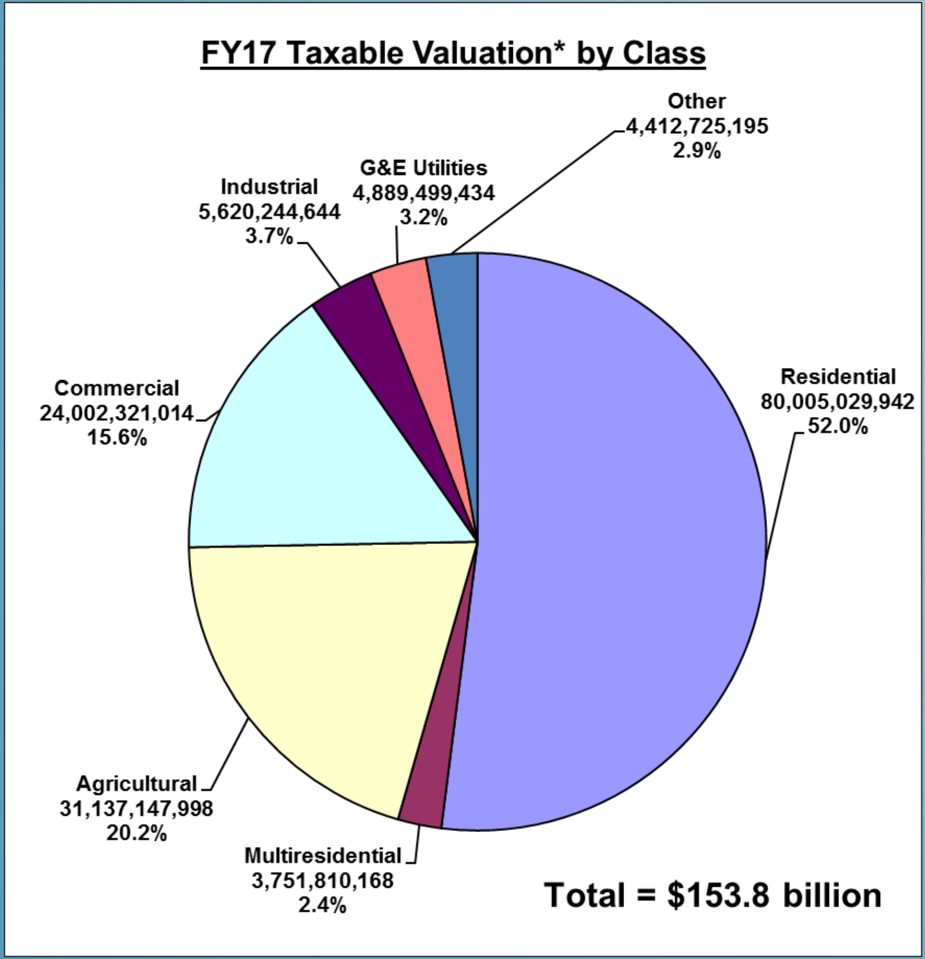


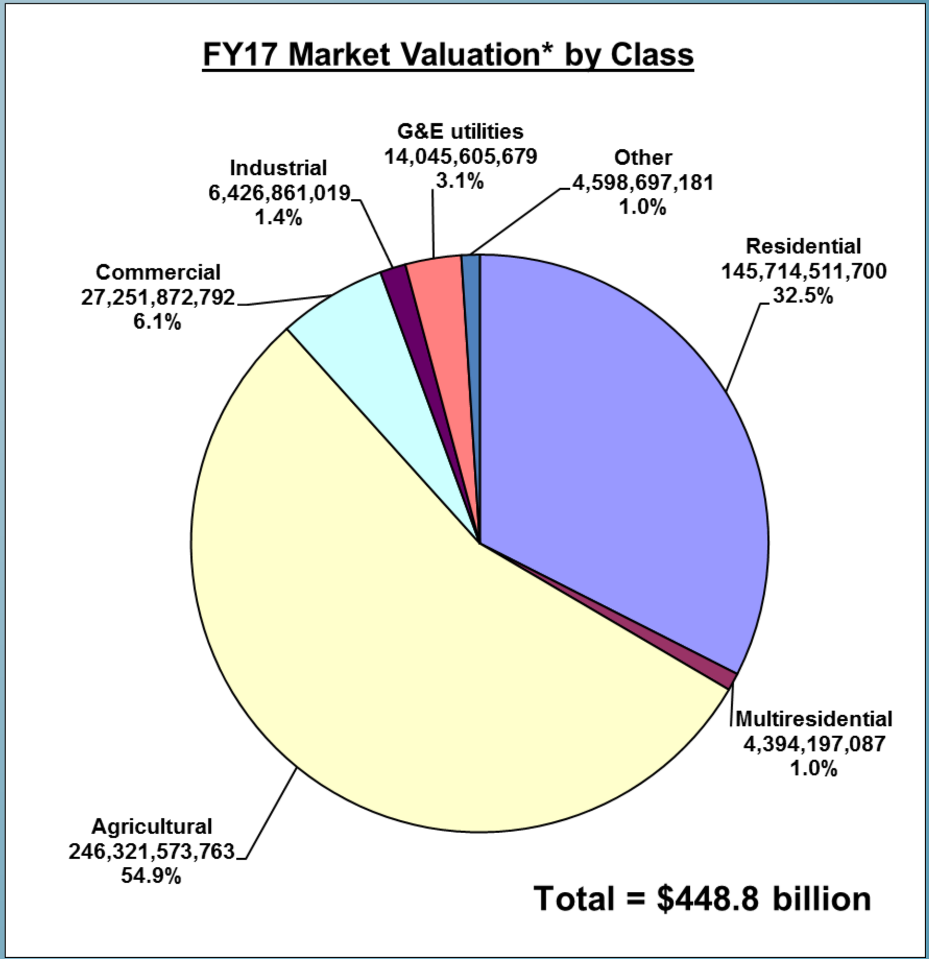
Total = $153.8 billion



Total = $270.0 billion

FY17 TAXABLE VS. MARKET VALUE





TIMELINE SNAPSHOT

January 1, 2017 – Assessment date

April 1, 2017 – Assessments complete, taxpayers notified

April 1 - 30, 2017 – Taxpayers may protest assessment

May 1 - 31, 2017 – Board of Review meets

July 1, 2017 – Assessment abstracts submitted to IDR

August 15, 2017 – IDR issues tentative equalization notices

October 1, 2017 – IDR issues final equalization notices

November 1, 2017 – IDR certifies assessment limitation percentages to county auditor

TIMELINE SNAPSHOT (continued)

<u>December 2017 - February 2018</u> – Taxing entities set levy rates and adopt budgets based on valuations

<u>July 1, 2018</u> – Beginning of fiscal year in which taxes are due and payable

<u>September 30, 2018</u> – First half of property taxes are due to county treasurer

<u>March 30, 2019</u> – Second half of property taxes are due to county treasurer

SF 295 OVERVIEW

Lucas Beenken

Public Policy Specialist

Iowa State Association of Counties

Iowa State Association of Counties

PROPERTY TAX REFORM – SF 295

- Business Property Tax Credit
- Commercial/Industrial Rollback
- Property Assessment Limitation
- Telecommunications Property
- Multi-residential Property

PROPERTY TAX REFORM – SF 295

- Business Property Tax Credit
  - $125 million state appropriation per year when fully implemented
  - Available for commercial, industrial, and railway property
  - With the credit in place, the first $255,000 (est.) of taxable value will pay the equivalent of the residential rate
  - Applies to property taxes due and payable in FY 2015 and after

PROPERTY TAX REFORM – SF 295

- Commercial/Industrial Rollback
  - Rollback of 95% for AY2013 and 90% for AY2014 and each year after for commercial, industrial, and railway property
  - Standing appropriation to backfill local governments for reduction in future revenue (commercial/industrial only)
  - Appropriation will fully fund the reduction in FY2015–FY2017, with future years capped at the FY2017 dollar amount (approx $155 million)

PROPERTY TAX REFORM – SF 295

- Property Assessment Limitation
  - Residential and Agricultural property remain coupled for purposes of property assessment limitation
    - Valuation growth for both classes limited to the lesser percentage growth of the two
  - Permissible allowable valuation growth percentage reduced from 4% to 3%
  - Retroactive to AY2013

PROPERTY TAX REFORM – SF 295

- Telecommunications Property
  - Property tax exemption based on value for telecommunications property
  - Full implementation by AY2014 with exemption equal to the sum of:
    - 40% of value between $0 - $20 million
    - 35% of value between $20 - $55 million
    - 25% of value between $55 million - $500 million
    - 20% of value over $500 million
  - No backfill to local governments for reduction in future revenue

PROPERTY TAX REFORM – SF 295

- Multi-residential Property
  - Creates new multi-residential classification that would include apartments, assisted living facilities, mobile home parks, etc.
  - 10 year phase-in with 3.75% reduction in taxable value per year until AY2022 when it becomes coupled with the rollback of residential property
  - No backfill to local governments for reduction in future revenue
  - LSA estimates a loss of $374.1 million over 8 years among all taxing jurisdictions.

IMPACTS TO COUNTY GOVERNMENT

- Decrease in assessment growth limitation can drive down taxable value
- No backfill for multi-residential rollback
- No backfill for telecommunications exemption
- No reimbursement for railway rollback
- Total appropriation for rollback replacement claims capped at FY2017 amount

QUESTIONS?

Lucas Beenken
Iowa State Association of Counties
lbeenken@iowacounties.org
(515) 369-7016

ISAC
Iowa State Association of Counties