
ISSUE REVIEW

Fiscal Services Division

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Iowa Property Tax and Local Government Finance Trends

ISSUE

This **Issue Review** discusses the changes in taxable value, average property tax rates, and the resulting local government revenue from FY 2001 through FY 2020. This **Issue Review** also discusses the changes in revenue received by local governments from the State through various State General Fund property tax replacement appropriations, as well as local option taxes.

AFFECTED ENTITIES

Local governments (schools, cities, counties, etc.)

State General Fund through the State School Aid Appropriation

State General Fund through the Commercial and Industrial Replacement Appropriation

PROPERTY TAX BACKGROUND¹

Property Classes – Iowa property is divided into the following property classes:

- Residential
- Agricultural land and buildings
- Commercial
- Multiresidential
- Industrial
- Railroads
- Gas, electric, and water rate-regulated utilities
- Other utilities

Rollback. Iowa property tax law allows the total taxable value of residential and agricultural property (separately) to increase by no more than 3.0% per year.² This limit applies to the revaluation of existing property. To adjust assessed property value to account for this revaluation limit, Iowa developed a system of assessed value rollbacks. A rollback is the percentage of a property's assessed value that is subject to tax. A rollback of 60.0% means

¹ Resources for detailed explanations of Iowa's property tax system include the [Iowa Department of Revenue](#) and the Legislative Services Agency, Legal Services Division publication [Legislative Guide to Local Property Tax](#).

² The 3.0% limit applies only to the growth due to revaluation of existing property. New construction also adds to taxable value growth, and growth due to new construction is not limited. Prior to FY 2015, agricultural and residential revaluation growth was limited to 4.0% per year. Commercial, industrial, and railroad property is assigned a rollback of 90.0% for FY 2016 and beyond. For FY 2015, commercial, industrial, and railroad property was assigned a rollback of 95.0%. Prior to FY 2015, those three property classes were taxed at or near 100.0% of assessed value. The Department of Revenue maintains a [spreadsheet](#) showing the annual rollback percentages.

that 60.0% of the assessed value (minus any applicable tax exemptions) of each property within a class is subject to tax that year.

Agricultural Assessment. For most types of property, Iowa uses market value as the basis for assessing real property for tax purposes. One exception to the use of market value is the agricultural assessment process. On a county-by-county basis, agricultural property (land and farm buildings, but not farm residences) is assessed through a five-year average productivity calculation that is based on one-half of the revenue realized from the sale of grain crops from all agricultural land in the county. Expenses are subtracted from revenue to arrive at a net revenue amount. This five-year average net revenue amount from all agricultural property in the county is capitalized at a statutory rate of 7.0%. The capitalized productivity of the agricultural property in the county is then divided by the county assessor among all agricultural acres in the county. Market value does not play a role in the assessment of agricultural property for tax purposes. The assigned value for each agricultural parcel is then subject to the applicable rollback percentage for the assessment year.

Agricultural (Ag) Tie. Iowa further limits the growth in taxed value through a statutory tie between agricultural and residential property taxable values. This additional limitation is referred to as the “Ag Tie.” The Ag Tie provides that in addition to the 3.0% revaluation limitation, agricultural and residential property are each further limited to no more than the positive growth in taxable value due to revaluation of the other class. Over the years, this additional limit has served to decrease the percentage of residential assessed value that is subject to property tax.

Tax Rates. Iowa expresses property tax rates as dollars per \$1,000 of taxed property value. Taxed value equals assessed value, minus any value exemptions, times any applicable rollback. A tax rate of \$30 means \$30 of tax owed per \$1,000 of taxed value. A tax rate of \$30 per \$1,000 is the equivalent of 3.0% of taxed value.

Property Tax Changes (SF 295). The 2013 General Assembly enacted [SF 295](#) (Property Tax and Income Tax Credit Act). This Act made several changes to the property tax system, which has existed since the late 1970s. Major changes include:

- A reduction in the allowed annual statewide revaluation growth rate for residential and agricultural property from 4.0% to 3.0%, starting with 2013 assessments (FY 2015).
- The implementation of a special rollback for commercial, industrial, and railroad property equal to 95.0% for FY 2015 and 90.0% for FY 2016 and after. Local governments are generally reimbursed through a State General Fund appropriation for the revenue reduction that results from the special rollback for commercial and industrial property. Local government reimbursement claims totaled \$174.4 million for FY 2020 and the annual statewide total standing appropriation is limited to \$152.1 million, so the appropriation covered 87.2% of the FY 2020 property tax reduction that resulted from the special rollback.
- The creation of a new Business Property Tax Credit for properties classified as commercial, industrial, or railroad. The credit is funded through a \$125.0 million annual State General Fund standing appropriation. This credit results in the State General Fund paying a portion of each eligible property’s property tax assessment.
- The creation of a new property class, called multiresidential, for property that is not classified as residential property and is used for extended human habitation (apartments, nursing homes, etc.). This new class of property is assigned a declining rollback over a number of years until it is assigned the same value as the residential rollback in assessment year 2022 (FY 2024).
- The creation of a new property value exemption for telecommunications companies.

Local Governments. Iowa allows a number of types of local governments to tax property. With the exception of a very small amount, State government does not receive any property tax dollars. The local government types allowed to tax real property include:

- Public school districts (K-12)
- Cities
- Counties
- Community colleges
- Public hospitals
- Agricultural extension
- Assessor offices
- Townships
- Specified special use and special purpose districts

Each local government allowed to tax property has its own tax rate. The total of all local tax rates that apply to a single property is commonly referred to as the consolidated tax rate.

A significant portion of the annual growth in public school property tax revenue is controlled by the General Assembly and Governor through the [State School Aid Formula](#). The annual growth in the property tax revenue for other (nonschool) governments is controlled by property tax rate limits and the actions of the boards, councils, and other local government governing bodies.

ECONOMIC CONDITIONS AND LAW CHANGES IMPACTING PROPERTY TAXATION

From FY 2001 through FY 2020, Iowa business owners, farmers, landowners, and homeowners have experienced economic conditions and law changes that have significantly impacted both the taxable value of real property and the tax rate at which property is taxed. The most significant changes over the time period include:

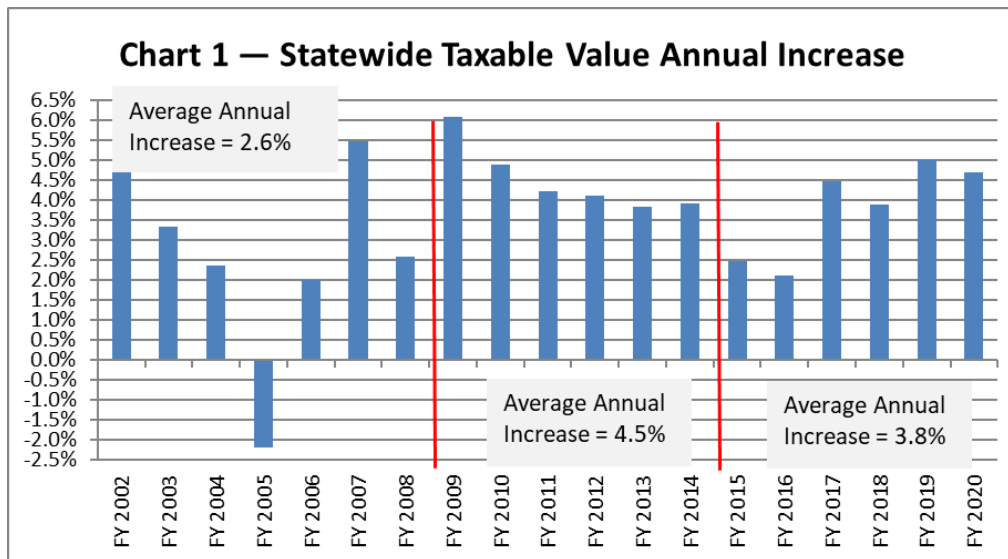
- The creation in the 1990s of local option sales taxes for school districts, cities, and counties to supplement or supplant property tax revenue. As the coverage of these new taxes expanded, the demand for property tax revenue was lower than it otherwise would have been.
- A significant period of increasing market value for commercial and residential property starting in the 1990s and lasting through assessment year 2007, followed by a major U.S. recession that negatively impacted the Iowa economy and State General Fund revenue beginning with FY 2009. The U.S. recession also produced stagnant or falling market values for commercial and residential property from assessment year 2008 through 2012. This period produced significantly less new construction property value when compared to earlier years. Positive residential and commercial revaluation growth returned in FY 2017. However, the assessment growth rates remain well below the growth rates experienced prior to the recession.
- A period of depressed farm commodity prices between crop years 1997 and 2005. This period resulted in low and negative growth in agricultural land taxable value for FY 2001 through FY 2008. With very little growth in agricultural taxable value, the Ag Tie kept residential revaluation taxable value from increasing during those years, despite the fact that residential property was showing healthy increases in market value. This caused the residential rollback to decrease. As part of the low commodity price period, statewide agricultural taxable value declined 18.3% in FY 2005 alone, as two poor crop years (2000 and 2001) replaced two relatively good crop years (1995 and 1996) in the five-year formula used to determine the productivity value of agricultural property.

- A period of significant crop price increases, along with generally improving crop yields, from 2007 through 2012. This period resulted in increased taxable value for agricultural property. These increases allowed the taxable value of residential property to increase as the Ag Tie did not restrict residential revaluation. During this period, the taxable value of residential property was allowed to increase through revaluation by the maximum 4.0% each year.
- A period of stable agricultural and residential taxable value growth from FY 2015 through FY 2020. Although agricultural grain prices declined from earlier highs, a rollback that developed during the high commodity price period kept residential and agricultural revaluation growing at the maximum annual rate of 3.0%, as the Ag Tie did not impact revaluation growth.
- The creation of additional components of the State School Aid Formula that increased State General Fund property tax replacement appropriations to schools. The availability of the additional property tax replacement appropriations³ reduced the demand for revenue raised through school property taxes.
- A reduction, beginning in FY 2011, in the annual rate of allowable growth for per-pupil kindergarten through 12th grade public school spending. The annual growth in allowed per-pupil spending is set each year by the Iowa Legislature and Governor. The decrease in annual per-pupil expenditure growth reduced the annual increases in school property tax revenue. The average of the annual allowable growth percentages for the individual years in each of three time frames was:
 - FY 2002 through FY 2008 = 3.0%
 - FY 2009 through FY 2014 = 2.3%
 - FY 2015 through FY 2020 = 1.9%
- The 2013 enactment of provisions in [SF 295](#) that lowered the taxable value of business property and reduced the allowed maximum revaluation taxable value growth of residential and agricultural property from 4.0% per year to 3.0% (described above).

TAXABLE VALUE GROWTH

From FY 2001 through FY 2020, the total taxable statewide property value in Iowa increased at an average annual rate of 3.6%. However, due to the economic and law change issues cited above, the taxable value growth in the early, middle, and final years of this time frame varied considerably.

³ See Iowa Code sections [257.15\(4\)](#), [257.16A](#), and [257.16B](#).



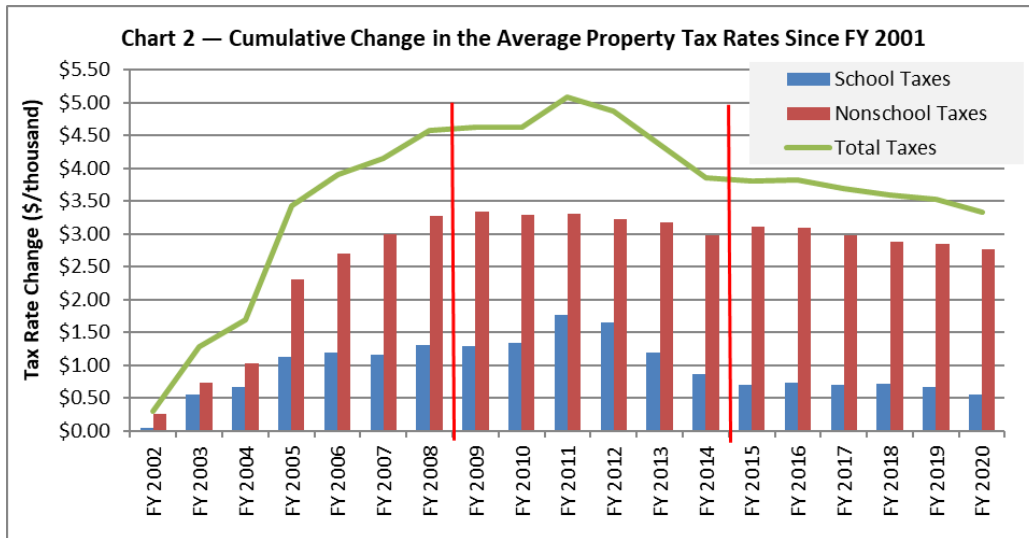
As shown in **Chart 1**, statewide taxable value growth averaged 2.6% from FY 2001 through FY 2008 (early period), 4.5% from FY 2008 through FY 2014 (middle period), and 3.8% from FY 2014 through FY 2020 (final period).

- The slow growth in taxable value of the early period occurred despite good overall economic conditions. The slow growth in taxable value during the early period was caused by low grain prices and the Ag Tie, which together restricted annual agricultural and residential taxable value growth.
- The higher taxable value growth rate in the middle period occurred despite a significant U.S. recession that began in December 2007. Higher grain prices that increased the calculated net income of agriculture allowed agricultural and residential revaluation taxable value gains to overwhelm the negative property value impacts of the U.S. recession.
- Agricultural taxable values remained at a sufficient level during the final period to make the Ag Tie inactive throughout those years. This allowed residential and agricultural taxable values to grow at the maximum revaluation rate. However, the enactment of [SF 295](#) lowered that maximum annual rate from the previous 4.0% to 3.0%. The Act further reduced the taxable value of commercial, industrial, railroad, multiresidential, and telecommunications property, and those reductions contributed to muted taxable value growth in FY 2015 and FY 2016. The waning of the 2007 recession allowed new construction value to increase and allowed revaluation of commercial property to once again contribute to overall growth in taxable value.

PROPERTY TAX RATE CHANGES

The different rates of taxable value and per-pupil allowable growth over the three periods influenced the annual average property tax rate of school and nonschool local governments.⁴ The green line on **Chart 2** depicts the growth in the statewide average property tax rate since FY 2001. The line shows that the statewide average property tax rate increased \$4.58 in the seven years between FY 2001 and FY 2008. Over the next six fiscal years, the statewide average property tax rate decreased \$0.72, and then decreased another \$0.53 over the final six years.

⁴ State General Fund property tax replacement appropriations also influenced average property tax rates (discussed in the following Tax Revenue section).



The bar chart portion of **Chart 2** breaks down the total rate increase (green line) into a school district portion (blue bars) and all remaining levels of local governments (red bars, labeled “Nonschool”). School districts have a significantly different procedure for determining the level of property taxation than exists for other types of local governments. The majority of the property tax revenue to be raised in a fiscal year by a school district is set by formula, with a significant component of that formula set annually by the General Assembly and Governor (allowable growth). Local governments that are not schools do not have budgets established by an outside formula.

For schools, the blue bars show that average rates increased \$1.30 over the first seven years. With the exception of FY 2011 and FY 2012, average school rates have remained level or declined since FY 2008.

The red bars show that as a group, nonschool local governments collectively produced significant rate increases during the low taxable value growth years of the early period and have generally set declining tax rates over the middle and final periods when taxable value growth was stronger.

Table 1 provides a breakdown of the statewide average school and nonschool property tax rates for selected years. Rates are presented for FY 2001 (initial year of the data), FY 2008 (the year tax rates peaked), FY 2014 (the year prior to the first impacts of [SF 295](#)), and the current year, FY 2020. **Table 1** shows that average property tax rates increased significantly during the early years when taxable value grew slowly, and the average rates decreased during the middle years when taxable value growth accelerated. During the final period, marked by the impact of [SF 295](#) on taxable value growth, property tax rates also decreased, although at a slower rate than the middle period. The overall statewide average consolidated property tax rate equaled \$32.88 by FY 2020, \$3.33 (11.3%) higher than the \$29.55 average for FY 2001.

	Average Tax Rate FY 2001	Average Tax Rate FY 2008	Average Tax Rate FY 2014	Average Tax Rate FY 2020	Rate Change FY 01 to FY 08	Rate Change FY 08 to FY 14	Rate Change FY 14 to FY 20
School	\$ 13.07	\$ 14.37	\$ 13.94	\$ 13.63	\$ 1.30	\$ -0.43	\$ -0.31
Nonschool	16.48	19.76	19.47	19.25	3.28	-0.29	-0.22
Total	\$ 29.55	\$ 34.13	\$ 33.41	\$ 32.88	\$ 4.58	\$ -0.72	\$ -0.53

TAX REVENUE

In FY 2001, local governments collected a total of \$2.856 billion⁵ in property tax revenue. In FY 2020, local governments will collect a total of \$6.171 billion. This is an increase of \$3.315 billion (116.1%), and the average annual property tax revenue growth rate is 4.1%. Over the 19 years, school taxes increased at an average annual rate of 3.8%, while nonschool property tax growth averaged 4.4%.

However, the time frame from FY 2001 through FY 2020 witnessed an expansion of local option taxes⁶ that provided an additional funding source for the activities of schools, counties, and cities.⁷ In addition, State General Fund appropriations were created that replaced local government revenue that previously was raised through property taxes.

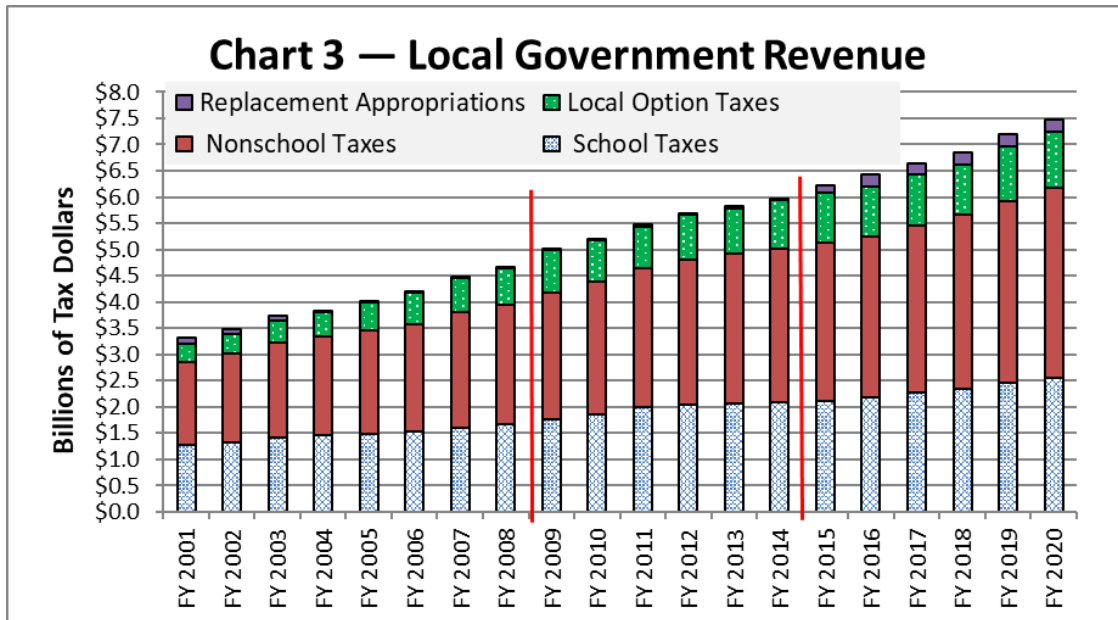
In addition, provisions of [SF 295](#) provided for a backfill appropriation from the State General Fund to replace commercial and industrial property tax revenue reductions that were the result of that Act.

Combining the three revenue streams (**Chart 3**), Iowa local governments collected a total of \$3.314 billion in property tax, local option tax, and property tax replacement revenue for FY 2001. For FY 2020, local governments will collect a total of \$7.478 billion. This is an increase of \$4.164 billion (125.6%), and the average annual growth rate is 4.4%.

⁵ For all years, State General Fund payments for the Homestead, Agricultural Land, Family Farm, Military Service, and Low-Income/Elderly Tax Credits are included as property tax revenue. Starting FY 2015, the State General Fund payment for the Business Property Tax Credit is also included as property tax revenue. All of these credits represent the State General Fund paying a portion of the property tax owed by the taxpayer.

⁶ Local option taxes include the local option income surtax for schools, the hotel/motel tax, the local option sales tax for cities and counties, and the sales tax dedicated for school infrastructure.

⁷ In FY 2001, there was an optional sales tax of up to 1.0% dedicated to school infrastructure purposes. In FY 2009, the local option sales tax became a 1.0% State sales tax, with the revenue from that 1.0% distributed to local school districts for infrastructure and property tax rate reductions. The dedicated sales tax revenue from this tax is counted in this document as a local option tax for all years.



The statewide local option tax and State General Fund property tax replacement appropriation amounts can be converted to property tax equivalent rates by dividing annual revenue amounts from the non-property tax sources by the statewide taxable value of property for that same year. **Table 2** adds this calculated property tax equivalent to the statewide tax rate information provided in **Table 1**.

Table 2 shows that the local option property tax equivalent rate was equal to \$3.48 in FY 2001, increased to \$6.14 in FY 2008, and decreased to \$5.65 over the next 12 years. This pattern is the result of higher local option tax adoption rates during the early years, followed by years where the rate of local option tax revenue growth did not keep pace with taxable property value growth.

In FY 2001, a relatively small amount of property tax replacement money contributed the property tax equivalent of \$0.16 to school finance. Additional property tax replacement components of the State School Aid Formula added after FY 2001 increased the property tax equivalent rate to \$0.50 for FY 2020.

In FY 2001, three property tax replacement appropriations from the State General Fund contributed the property tax equivalent of \$1.10 to local government finance.⁸ Those appropriations ended after FY 2003, and the withdrawal of this State support likely contributed to the property tax rate increases of the early period. The creation of a State General Fund property tax replacement appropriation (FY 2015) for commercial and industrial property added the equivalent of \$0.81 to the FY 2020 statewide total property tax rate.

The total line in **Table 2** shows the growth in the equivalent property tax rate for local governments from FY 2001 through FY 2020. The conclusion from **Table 2** is that overall rates increased substantially during the early years when taxable value growth was low, while the overall property tax rate declined during the middle years when taxable value growth was high. In the final years, when taxable value growth was restricted by the provisions of [SF 295](#), the decline in the overall equivalent property tax reversed, as decreases in actual property tax rates were more than offset by increases in State General Fund support for local governments.

⁸ The other General Fund property tax replacement appropriations available in FY 2001 include appropriations for franchise tax, personal property, machinery, and equipment.

	Average Tax Rate FY 2001	Average Tax Rate FY 2008	Average Tax Rate FY 2014	Average Tax Rate FY 2020	Rate Change FY 01 to FY 08	Rate Change FY 08 to FY 14	Rate Change FY 14 to FY 20
School	\$ 13.07	\$ 14.37	\$ 13.94	\$ 13.63	\$ 1.30	\$ -0.43	\$ -0.31
Nonschool	16.48	19.76	19.47	19.25	3.28	-0.29	-0.22
Local Option	3.48	6.14	6.05	5.65	2.66	-0.09	-0.40
General Fund School PTR	0.16	0.21	0.28	0.50	0.06	0.07	0.22
Other General Fund PTR	1.10	0.00	0.00	0.81	-1.10	0.00	0.81
Total	\$ 34.29	\$ 40.48	\$ 39.74	\$ 39.84	\$ 6.19	\$ -0.74	\$ 0.10

PTR = Property Tax Replacement

SUMMARY

Over the past 20 years, economic conditions and law changes have significantly influenced the pattern of taxable value growth in Iowa, and this in turn influenced the rates of change in statewide property tax rates. Local governments responded to the low taxable value growth period of the early years by raising property tax rates and imposing local option taxes and responded to the higher taxable value growth period of the middle years by lowering property tax rates. During the final six years, years that included restrictions on taxable value growth and increases in State General Fund support for local governments, the actual property tax rate declined for both school and nonschool local governments. However, once adjustments are made for State General Fund appropriations, the decline in statewide property tax equivalent rates reversed.

Local option sales tax and property tax replacement payments from the State General Fund accounted for 13.8% of the FY 2001 total tax revenue for local governments generated by the tax rates presented in **Table 2**. By FY 2020, this percentage increased to 17.5%. This increase in local governments' reliance on other tax sources helped lower actual property tax rates over the years.

In recent years, the growth in local option tax revenue has not kept pace with the growth in taxable value. In addition, the State General Fund property tax replacement appropriations to local governments are generally standing limited annual amounts that, without additional legislation, are not likely to keep pace with the growth in taxable property value. Therefore, the percentage of total local government revenue provided by local option taxes combined with State property tax replacement appropriations will likely drift lower in coming years, and this could increase upward pressure on property tax rates.

Due to the delayed impact of the five-year agricultural productivity formula used to assess agricultural property, taxable value due to revaluation can be expected to continue to increase at least through FY 2022, and this should lessen the need for property tax rate increases in the near future.⁹ However, the changes made in [SF 295](#) will continue to result in a lower level of annual statewide taxable value growth than would have otherwise been the case.

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⁹ The assessment year 2018 (FY 2020) agricultural rollback equaled 56.1234%. For the statewide taxable value of agricultural and residential property to stop growing at the maximum 3.0% annual growth rate, the agricultural rollback must equal 100.0000%.