

PROPERTY TAX STUDY COMMITTEE

Report to the Legislative Council
and the Members of the
Second Session of the Sixty-sixth General Assembly
State of Iowa
1976

F I N A L R E P O R T

PROPERTY TAX STUDY COMMITTEE

January, 1976

At its meeting of July 26, 1975, the Legislative Council established the Property Tax Study Committee and assigned Senate Concurrent Resolution 65, Senate Concurrent Resolution 53, Senate Concurrent Resolution 44, Senate Concurrent Resolution 56, and House Concurrent Resolution 49 which were introduced during the 1975 Session of the Sixty-sixth General Assembly, to the Study Committee. The study resolutions requested the study of municipal finance for the purpose of allowing flexibility in the fiscal affairs of municipalities without placing increased tax burdens on property taxpayers, to study the feasibility of financing public improvements without the use of special assessments, to study the feasibility of imposing a property tax freeze and determine the need for revising the method of valuing agricultural land for tax purposes, to study the feasibility of providing a tax moratorium for improvements to property, and to study the feasibility of minimizing the expected sharp increases in local property taxes. The Legislative Council appointed the following 16 legislative members to the Study Committee:

Senator Bass Van Gilst, Chairperson
Representative Carl Nielsen, Vice Chairperson
Senator James E. Briles
Senator George R. Kinley
Senator Fred W. Nolting
Senator Berl E. Priebe
Senator Norman Rodgers
Senator Roger J. Shaff
Senator Elizabeth Shaw
Representative Wayne Bennett
Representative Diane Brandt
Representative C. W. Hutchins
Representative Lowell E. Norland
Representative Lyle Schcelhaase
Representative James C. West
Representative Henry C. Wulff

During the 1975 interim, the Property Tax Study Committee has held 1 one-day meeting and 4 two-day meetings. At its first meeting on August 27, 1975, the Study Committee elected Senator Bass Van Gilst as Chairperson and Representative Carl Nielsen as Vice Chairperson and adopted permanent rules of procedure. Concerning the objectives and direction of the Study Committee, it was agreed that the Study Committee should study local option taxation, special assessments, the feasibility of a tax moratorium on property improvements, and the methods of valuing property for tax purposes. To facilitate the study of these four topics, the Study Committee created three subcommittees and agreed to consider

the fourth topic as a full Committee. The subcommittees and their membership are as follows:

Subcommittee on Local Option Taxes

Senator Fred W. Nolting, Chairperson
Senator George Kinley
Senator Roger J. Shaff
Representative C. W. Hutchins
Representative James C. West

Subcommittee on Special Assessments

Representative Lowell E. Norland, Chairperson
Senator Berl E. Priebe
Senator Elizabeth Shaw
Representative Diane Brandt

Subcommittee on Tax Moratorium for Property Improvements

Senator Norman Rodgers, Chairperson
Senator James E. Briles
Representative Wayne Bennett
Representative Lyle Scheelhaase
Representative Henry C. Wulff

At its second meeting on September 11-12, 1975, the Study Committee heard testimony from Mr. William Stewart, Vanguard Appraisals, Incorporated; Professor Emeritus Herbert Howell, Iowa State University; Mr. Louis Nussbaum, State Board of Tax Review; Professor Norman Bailey, University of Iowa School of Business; and Mr. Robert Hastings, Pottawattamie County Assessor. The scope of the testimony at this meeting included the methods used for appraising or assessing property for tax purposes, the determination of capitalization rates, the differing appraisal techniques used to determine the actual value of property for which market value information is not available, and the role of assessors in the Iowa property tax structure. The Study Committee also received progress reports from the three Subcommittees.

During its third meeting on September 23-24, 1975, the Study Committee heard additional testimony relating to the assessment and equalization of property. A letter was received from Representative Delwyn Stromer requesting the Property Tax Study Committee to seriously consider recommending the calling of a special session of the General Assembly to consider potential local government budgetary problems resulting from the equalization order issued by the Department of Revenue. The Study Committee received additional testimony from Mr. Mel Grummert, Iowa Taxpayers Association; Mr. Charles O'Connor, Finance Director, City of Des Moines; Mr. Donald Cleveland, Iowa State Association of Counties; Mr. Lowell E. Gose, Iowa Farmers Union; Mr. Richard L. Goodson, Polk-Des Moines Taxpayers Association, Mr. Marvin Selden, State Comptroller; Mr. Harold Anderson, Iowa Farm Bureau Federation; Ms. Michael Oxley, Lynn County Supervisor; Senator Willard Hansen, School Finance Study Committee; and Mr. Jim O. Henry, Iowa Property Taxpayers Association. The scope of the testimony included

recommendations relating to improvements in the present procedures for the assessment and evaluation of property for tax purposes, the effect of the equalization orders on the state school foundation program, and the effect of local government budget limitations on local governmental programs. Concerning the possibility of reducing property valuations, Mr. Selden testified that this action could be taken by the General Assembly within the first three months of the 1976 Session and still be applied to the 1976-77 fiscal year.

At its October 20-21, 1975 meeting, the Study Committee received testimony from Mr. Joseph Vick, Administrator, Property Tax Division, State of Nebraska; Mr. Gerald Bair, Director, Department of Revenue; Mr. Gene Eich, Director, Property Tax Division, Department of Revenue; Dr. Wayne Truesdell, Professor of Education, University of Northern Iowa; Mr. Maynard C. Chance, City Clerk, New Providence, Iowa; Dr. Marvin Julius, Professor of Economics, Iowa State University; and Mr. Marvin Selden, State Comptroller. The testimony received by the Study Committee included the assessment and equalization procedures for agricultural land in Nebraska, the assessment and equalization procedures for industrial real estate, recommendations relating to school finance, recommendations relating to the taxation of agricultural land located within municipal corporate limits, and information related to the State of Iowa General Fund Statement, July 1, 1975. Following receipt of the testimony, the Study Committee began discussion of various property tax proposals suggested by its membership. The discussion of various proposals continued at its fifth meeting, November 3-4, 1975.

At its sixth meeting, December 15, 1975, the Study Committee reviewed and discussed the various property tax proposals prepared in draft bill form by the Legislative Service Bureau. An outline of the various property tax proposals is presented later in this report. The Study Committee discussed the equity and administrative feasibilities of the various proposals in light of the time limitations which must be met if property tax remedy is to be effective for the fiscal year beginning July 1, 1976. The Study Committee concluded its deliberations by adopting a proposal which provides for the reduction of 1975 assessed valuations, using the income approach to market value as of January 1, 1977, and directing the re-evaluation of all industrial property. The proposal was adopted by a roll call vote of eleven ayes and five nays. The Study Committee also referred the recommendations of the Subcommittee on Special Assessments and all other property tax proposals considered by the Study Committee without recommendation to the Standing Committees on Ways and Means.

SUBCOMMITTEE ON LOCAL OPTION TAXES

The Subcommittee on Local Option Taxes held three meetings during the 1975 interim. The objectives of the Subcommittee were to decide whether local option taxes should be recommended as a funding source for local government and, if so, what kind of taxes

should be authorized and what major provisions should be included in such authorization. The Subcommittee heard testimony from the League of Iowa Municipalities, the Iowa State Association of Counties, the Polk-Des Moines Taxpayers Association, the Iowa Farm Bureau Federation, and the Iowa Taxpayers Association.

After discussion of the testimony and issues relating to local option taxation, the Subcommittee reported that due to the effect of the equalization order on property evaluations, it would be premature to determine or recommend new revenue sources for local governments. Therefore, the Subcommittee makes no recommendations relating to the authorization of local option taxes.

SUBCOMMITTEE ON TAX MORATORIUM FOR PROPERTY IMPROVEMENTS

The Subcommittee on Tax Moratorium for Property Improvements held two meetings during which they received testimony relating to the feasibility of providing a tax moratorium to encourage the improvement and maintenance of property. The Subcommittee received written and oral testimony from Mr. Robert Hastings, Pottawattamie County Assessor; Mr. David Siefkas, Marshalltown City Assessor; Mr. Ernest Lund, Washington County Assessor; Senator William Gluba; and Representative Gregory Cusack. After discussion of the advantages and disadvantages of the feasibility and practical problems involved in implementing a property tax moratorium on improvements, the Subcommittee rejected a motion to request a draft bill to provide for a tax moratorium on property improvements. Therefore, the Subcommittee makes no recommendation for the enactment of a tax moratorium on improvements to property.

SUBCOMMITTEE ON SPECIAL ASSESSMENTS

The Subcommittee on Special Assessments held two meetings during which testimony was received relating to the administration and collection of special assessments. Ms. Marjorie Schneider, Franklin County Treasurer; Mr. Robert Harpster, League of Iowa Municipalities; Mr. David Siefkas, Marshalltown City Assessor; and representatives of the Office for Planning and Programming and the Department of Revenue present a testimony to the Subcommittee. After discussing the purposes for which special assessments are used and the effect of special assessments on the property tax value of affected property, the Subcommittee concluded that further information regarding how extensively the cities use special assessments and for what purposes would be needed before a recommendation could be made. The Subcommittee requested the Office for Planning and Programming, the Department of Revenue, and the League of Iowa Municipalities to send a questionnaire to the cities throughout the state requesting data on the expenditures, purposes, and future plans for the use of special assessments. At its December 15 meeting, the Subcommittee discussed and approved the following two recommendations to the full Study Committee:

1. Provide for the deferral of the payment of special assessments by persons who are receiving social security assistance or are otherwise financially hardship cases.

2. Provides for the change of the definition of the term "public improvement" in section 384.37 of the Code to be more restrictive.

PROPERTY TAX PROPOSALS CONSIDERED

The following property tax proposals are under consideration by the Study Committee and bill drafts requests for each proposal has been submitted to the Legislative Service Bureau.

The Property Tax Proposals Suggested by Chairperson Bass Van Gilst:

1. All commercial, industrial, public utilities, and agricultural land will be assessed on the basis of the income approach to valuation with a capitalization rate fixed by the State Board of Tax Review.

2. Residential property will be assessed at 85 percent of market value for tax purposes which is equal to agricultural land being assessed by the income approach with the present capitalization rate.

3. A spending limitation will be imposed on all state, city, and county budgets with an allowable growth formula. This proposal also includes the provisions of Senate File 343 relating to the consolidation of county funds.

4. The school aid foundation formula will also be affected by the reduced assessed values of a property resulting in a reduced shift of school costs to property taxpayers. The remaining amount of school costs shifted to property taxation by the equalization orders can be returned to state funding by increasing the state foundation support level from the present 73 percent to approximately 75 percent of the average state cost per pupil

The Property Tax Proposals Suggested by Senator Berl E. Priebe:

1. The assessed value of commercial, agricultural, and residential property will be reduced to 80 percent of its 1975 equalized full value.

2. A spending limitation will be imposed on all state, city, and county budgets with an allowable growth formula. This proposal would also include the provisions of Senate File 343 relating to the consolidation of the counties funds.

3. If increased state funding of local government costs are considered, the proposal also includes state funding of the county mental health and institution costs mandated by the state and the cost of court appointed attorneys.

The Property Tax Proposals Suggested by Representative James West and Senator Roger Shaff:

1. A spending limitation will be imposed on all city and county budgets with a nine percent allowable growth rate for the 1976-77 fiscal year.
2. One-half of the allowable growth will be funded from state revenue and one-half of the allowable growth will be funded by local tax revenue.
3. An emergency fund of approximately \$4 million will be created to cover emergency or unexpected expenditures which may occur in addition to the nine percent allowable growth.

The Property Tax Proposals Suggested by Senator Norman Rodgers:

1. Reduce all property tax levies an amount equal to the increases in the 1975 equalized property tax assessments. The amount of reduction will approximate 20 percent or to the level of the 1974 equalized actual values. The proposal also includes provision for a nine percent allowable growth rate.
2. The amount of the homestead tax credit will be doubled to a maximum of \$125 per homestead.
3. The agricultural land tax credit will be fully funded.

The Property Tax Proposals Suggested by Representative Diane Brandt:

1. The proposal provides for a property tax reimbursement or rent reimbursement program for all low-income persons 18 years of age or older. The maximum annual income for an eligible recipient will be \$5,000 and welfare recipients or persons who have been on a dependent status during the preceding three years will not be eligible for the reimbursement.

The Property Tax Proposals Suggested by Representative C. W. Hutchins:

1. County and city assessors will be authorized to use the market or sales approach, the income approach, or the cost approach to determining the actual value of property for tax purposes. Any of the three approaches to property value may be used by the assessors in defending property assessments in litigation.
2. The expenditures of the county court expense fund will be funded entirely from state revenue.

RECOMMENDATION

The Property Tax Study Committee recommends that:

1. The assessed valuations fixed for all taxable property as of January 1, 1975 be reduced by twenty percent for the 1976-77 and 1977-78 fiscal year budgets of the political subdivisions of the state.

2. Effective January 1, 1977, all assessed valuations of property be based upon the income approach to determining market value with special provisions made for the use of other acceptable appraisal methods where the income approach to value cannot be used to provide accurate valuation data.

3. A budget review committee be established to hear appeals from political subdivisions which have unusual financial circumstances relating to the 1976-77 and 1977-78 budgets and to allow additional property tax levies to meet such circumstances if justified.

4. The director of revenue be directed to revalue all industrial property.

The minutes of the Study Committee meetings, the Subcommittee meetings, written testimony present to the Study Committee or the Subcommittees and other supportive materials are available at the Legislative Service Bureau. The bill drafts requested by the Study Committee are being prepared by the Legislative Service Bureau.

Respectfully submitted,

PROPERTY TAX STUDY COMMITTEE
Senator Bass Van Gilst, Chairperson