Legislative Services Agency

MINUTES

Legislative Property Tax Study Committee

September 12, 2007 — First Meeting

MEMBERS PRESENT:

Senator Joe Bolkcom, Co-chairperson (by speakerphone) Senator Staci Appel Senator Roger Stewart Senator Ron Wieck Senator Mark Zieman Public Members (Nonvoting): Ms. Lu Barron Ms. Margaret Buckton Mr. Rick Dickinson Ms. Christine Hensley Mr. Tim Johnson Ms. Joanne Mangold Mr. Terry Wegener Mr. Tom Zucker	Representative Phil Wise, Co-chairperson Representative Tyler Olson Representative Doug Struyk Representative Jamie Van Fossen Representative Roger Wendt Governor's Appointees (Nonvoting): Mr. Dale Hyman, Department of Revenue Mr. Charles Krogmeier, Department of Management Ms. Diane Foss (replacing Mr. Williams, Department of Economic Development) Members Absent (Nonvoting): Mr. Edward T. Wallace Mr. Allen Williams

MEETING IN BRIEF

Organizational staffing provided by: Susan Crowley, Senior Legal Counsel, (515) 281-3430

Minutes prepared by: Mike Goedert, Senior Legal Counsel, (515) 281-3922

I. Procedural Business

Call to Order. The first meeting of the Legislative Property Tax Study Committee was called to order by temporary Co-chairperson Wise at 10:09 a.m. on Wednesday, September 12, 2007, in Room 103 of the State Capitol in Des Moines, Iowa.

Election of Co-chairpersons. Senator Stewart moved that temporary Co-chairpersons Bolkcom and Wise be elected permanent co-chairpersons. The motion was seconded by Representative Van Fossen and adopted by voice vote.

Proposed Rules. Co-chairperson Wise noted that a copy of the proposed rules for the Committee was provided to the members. Ms. Susan Crowley of the Legislative Services Agency stated that these proposed rules are the standard rules used by legislative study committees. Senator Stewart moved the proposed rules be made the rules of the Committee. The motion was seconded and adopted by voice vote.

Adjournment. The Committee was adjourned at 3:16 p.m.

II. Introduction of Committee Members

At Co-chairperson Wise's invitation, the members of the Committee proceeded to introduce themselves. The legislative members and Governor's appointees were limited to identifying themselves and who they represented. The public nonvoting members were requested to make a few brief comments.

Ms. Buckton, representing the Iowa Association of School Boards (IASB), distributed a handout that contained position statements concerning school infrastructure and student and tax equity. She stated that IASB proposes increasing the state sales tax as a substitute for the local 1 percent sales tax for school infrastructure purposes and revising the school foundation formula to provide more equity between school districts. Ms. Buckton emphasized that there are competing types of taxing authorities that can conflict. School districts' levies are budget-limited while the levies of other local governments are rate-limited, she said. She also described the inequality in school district valuations. Ms. Buckton briefly discussed tax increment financing and opined that this mechanism should be looked at in a more statewide economic development approach.

Ms. Barron, representing the Iowa State Association of Counties, emphasized the need to consider the diverse nature of Iowa's counties and the difficulty of finding solutions that fit all of those counties.

Mr. Zucker, representing commercial property owners, declared that commercial property taxes are the single largest problem facing Iowa's small business owners. According to the National Taxpayer's Conference Report of July 2006, Iowa has the fifth highest commercial property taxes in the country. In order for workable tax legislation to pass, a legislative mindset must be established that has no concern for party, author, credit, or possible reelection. He stated that the ultimate goal of property tax reform should be to lower the amount that is paid, rather than to shift the burden from one class of property to another. When government has a surplus a new program is set up, he said. Even now advertising is being done to get people to use programs the state set up that people are not using. This means there really was not a need for that program, he averred.

Mr. Wegener, representing Iowa telecommunications property taxpayers, stated that, for purposes of property taxation, the Department of Revenue (DOR) centrally assesses local telephone companies' property based upon land, buildings, all machinery and equipment, revenues, and equity of the company. He noted that because of this approach, the property tax for these companies is really a business valuation tax. This methodology was created when these companies were monopolies, he said. Now, there is competition in the marketplace from other types of telecommunications companies that provide similar services. However, they are still assessed differently. Property tax assessment should be equitable in order to ensure future development and growth of advanced services, regardless of the technology used to deliver the service. He informed the Committee that the task force with which he is involved concerning valuation of telecommunications companies has proposed that these companies be valued and taxed similar to commercial property, i.e., on only their land and buildings.

Ms. Mangold, representing residential taxpayers, presented a sample listing of five residential properties located in Des Moines, Urbandale, and Adel to show the differing amounts of valuation and of property taxes between the three cities. She noted that compared to other states, Iowa valuations and taxes are much higher. The effect of high property taxes, she said, is to reduce the buying power of an individual or family which in turn may affect whether an individual or family can afford to buy a home.

Mr. Johnson, representing agricultural property taxpayers, stated that one of the first questions that needs to be discussed is the goals of the Legislative Property Tax Study Committee. Many people believe that the current system is in need of reform, he said, but reforming the property tax system has different meanings to different people. Mr. Johnson noted that $3.6 billion in property taxes were levied in FY 2006-2007, while less than $2.4 billion were levied 10 years previously. Residential taxable values have increased by 5 percent a year for the past 10 years, even after the rollback was applied. He stated that, because the property tax demographic is unique to each taxing district, the Committee must look at the smaller picture because any change in the property tax structure may cause widely different impacts on various counties or other taxing authorities.

Ms. Hensley, representing the Iowa League of Cities, admitted that as a bank representative she also has a role as business advocate. She stated that cities should have alternative revenue sources such as impact fees, additional user fees, and franchise fees. If other revenue sources were available, property taxes could be reduced, she said. She cited as an example the authorization by the General Assembly that enabled the creation of the Des Moines Area Regional Transit Authority to provide bus transportation in the metro area without resorting to property taxes for funding. Also, Des Moines increased its gas and electric franchise fees, and this allowed for a reduction in property taxes. Ms. Hensley distributed a chart showing that when the City of Des Moines raised the franchise fee from 4 percent to 5 percent, it was able to lower the city's property tax rate by 70 cents. If the 5 percent franchise fee was eliminated, the city would need to raise its property tax rate by $2.24, she said. She also emphasized that nearly 40 percent of the property in Des Moines is exempt from property tax, and the franchise fee on gas and electric charges is a means for these properties to pay the city for services received.

Mr. Tom Jarrett, sitting in for Mr. Wallace who represents industrial property taxpayers, stated that property taxes need to be predictable and stable. The Committee needs to look at the whole of the property tax system and not provide a type of stopgap solution. He further stated that the Committee needs to look at what property taxes currently pay for and what they should pay for.

Mr. Dickinson, representing the interests of economic development groups, stated that the Committee has to realize that all similar taxing authorities have the same rates and limitations but that some localities are prospering and others are not. It is important that the Committee understands the need to serve and assist in the expansion of businesses in the state in order for prosperity to exist in all areas of the state.

Co-chairperson Wise stated that there needs to be a balance between the taxpayers and the service providers. He also noted that if the Committee's goal is to reduce property taxes, then alternative revenue sources for local jurisdictions must be considered.

III. Assessment of Property

Mr. Hyman, Administrator of the Property Tax Division in the Department of Revenue, made a presentation on the assessment of property for taxation purposes and the department's role in that process. The DOR is responsible for providing technical assistance, educational programs, testing, and certification for local assessors, he said. In addition, DOR also issues equalization orders to county auditors every two years and centrally assesses railroads, utilities, and pipelines in the state. Mr. Hyman discussed the timeline that exists from the completion of a structure to its first property tax payment. The example used showed a July 1, 2007, completion date would result in the first tax payment being due on the building in September 2009. Mr. Hyman presented data on statewide assessed valuation changes by class of property for the 2007 assessment year. This indicated that the overall increase for agricultural property was 16.4 percent, for residential property it was 10.2 percent, and for commercial property it was 8.5 percent. According to the information he provided, for the 2007 assessment year, residential property, representing 63 percent of the total valuation, paid 43 percent of the total taxes. Charts were provided that indicated, by county, the respective valuation increases. Mr. Hyman also presented projections on property valuations for the 2008, 2009, 2010, and 2011 assessment years. Mr. Hyman noted that as long as agricultural values continue to increase as is predicted, residential property tax valuations will increase by 4 percent even if residential market values decrease by 20 percent.

Mr. Hyman provided an explanation of the valuation of agricultural property by means of the capitalization of agricultural income (productivity formula). This is done by determining statewide the gross income received from the various uses of agricultural land. Total expenses, a dwelling adjustment, and real estate taxes are subtracted to arrive at a net income per acre. Net income per acre is capitalized at 7 percent. A five-year rolling average is computed and the result is the valuation for the assessment year. For example, the 2009 assessment year will be based upon productivity values for 2003 through 2007. Mr. Hyman discussed the issue of the market value to productivity value ratios applied to agricultural buildings and the lack of uniformity across the state in application of the ratios. Mr. Hyman's presentation ended with his statement of the goals of the Property Tax Division, which include fewer equalization orders, more assessor revaluations, and open communications with local officials.

IV. Urban Renewal and Tax Increment Financing

Mr. Mike Albers, Local Government Division of the Department of Management, and Mr. Jeff Robinson, Fiscal Services Division of the Legislative Services Agency, made a joint presentation on urban renewal and tax increment financing (TIF). Mr. Albers provided information showing the growth in the percent of TIF increment valuation to total valuation. The TIF increment valuation increased from 2.3 percent of the total valuation in FY 1995-1996 to 6.31 percent of the total valuation in FY 2007-2008. His data also showed that 95.15 percent of TIF revenues to be collected in FY 2007-2008 will be collected by 342 cities. Mr. Albers described how city urban renewal TIF areas are created. Some cities create one or more stand-alone areas while others will create one or more areas but treat them as one area for spending purposes. In addition, cities will often amend their TIF areas with each amended area typically having a different lifespan. He stated that there are some cities that designate the whole city as a TIF area. A description of the computation of the base valuation amount and TIF valuation amount was also provided by Mr. Albers. He noted that when the rollback provisions are applied, the dollar amount of the rollback for an entire urban renewal area is subtracted from the base. Thus, it is possible for the base valuation to be reduced to zero. If this occurs, then the excess amount is subtracted from the incremental valuation. Both Mr. Albers and Mr. Robinson responded to a query by stating that they did not have figures that provide the total valuation loss to the base as a result of the rollback provisions. Mr. Albers concluded his comments with descriptions of the base valuation establishment dates, statutory time limits on urban renewal areas, levies that are exempt from being collected as TIF revenues, and certification to county auditors of urban renewal debt to be paid from TIF revenues.

Mr. Robinson stated that TIF areas are the largest economic development tool in the state, and that TIF is being used more and the urban renewal statute is being more broadly interpreted. For FY 2007-2008, the amount of tax dollars devoted to economic development through TIF is $237 million, he said, which represents about 6 percent of total property tax dollars. He noted that the impact on the state resulting from TIF is over $39 million which is paid by the state under the school aid formula. Mr. Robinson had data that listed the top 10 school districts with significant TIF increment. It was pointed out by Ms. Buckton that school districts will increase their levy rates to make up for the lost revenue from TIF but some property-poor districts may avoid raising the full amount lost. In response to Mr. Dickinson's comment that a benefit occurs as a result of growth through the use of TIF areas, Mr. Robinson stated that one must consider to what extent such growth might otherwise have occurred. In order to put a perspective on the $237 million of TIF property tax dollars to be collected in FY 2007-2008, Mr. Robinson noted that reducing the state insurance premium tax from 2 percent to 1 percent cost the state $105 million, eliminating the sales tax on residential utilities cost the state $100 million, and increasing the cigarette tax by $1 a pack increased state revenues by $131 million. Data presented by Mr. Robinson also showed that during FY 2003-2004 and FY 2004-2005, the total TIF property tax revenue collected by cities and counties was approximately $354 million with increased TIF debt of $179.2 million over that same time period. Mr. Robinson's data also showed comparative rates of growth in Iowa economic indicators with assessed value in TIF increments over eight years averaged 10.6 percent per year.

Co-chairperson Wise stated that the General Assembly made changes in the urban renewal law circa 1985 to allow economic development areas, and the charts provided by Mr. Robinson show the steady increase in TIF valuations since that time. The school districts with significant TIF increments have school property tax levy rates higher than the state average, he noted. Co-chairperson Wise opined that he did not think that TIF is generating the growth that one would anticipate.

V. Local Revenue Sources and Cost of Government

Mr. Jim Prosser, City Manager of the City of Cedar Rapids, discussed in general the factors that affect state and local tax policy and the negative impact of the overreliance on property taxes. Mr. Prosser presented 10 financial facts relating to the City of Cedar Rapids. Cedar Rapids has a diversified tax base; however, 48.2 percent of the base is commercial/industrial property valuation, whereas the optimum level is 25-33 percent. Mr. Prosser stated that a significant tax redistribution has occurred in Cedar Rapids over the past 20 years, with residential taxes covering less than one-half the cost of services to residential property. He stated that, for the cities of Cedar Rapids, Des Moines, and Davenport, total city revenue per capita is less than comparable cities in the Midwest. Mr. Prosser stated that, in general, Iowa cities lack revenue diversity and are overly reliant on property taxes as a source of revenue. He further stated that commercial and industrial taxpayers provide a substantial subsidy to residential property. In Cedar Rapids, for example, it costs the city, on average, $3,300 to provide services to a single-family home, yet the taxes paid on that home average $1,000. A certain amount of subsidization is okay, he said, but the high rate of commercial and industrial property taxes in Iowa is making the state uncompetitive with other states. For purposes of economic development, the state's law on urban renewal and tax increment financing is very good. However, he noted, 29 states have authorized the imposition of impact fees to help pay the infrastructure costs related to economic development. Mr. Prosser concluded by listing best practices for Iowa cities. These include controlling cost of government with sustainable development, diversifying revenue sources, allowing cities to buy down commercial/industrial property taxes, and developing incentives for in-fill development.

Co-chairperson Wise stated that if the Committee pursues alternative revenue sources they will have to consider what these sources should be. Mr. Prosser felt that a city needs at least four primary sources of revenue, with no one source accounting for more than 30 percent of total revenue. Representative Van Fossen stated that he already pays a number of fees related to his residence, and he wondered what other fees could be imposed. Mr. Prosser stated that not all services come with fees attached, but the ones that do have fees used to be paid with property taxes. He also noted that several states allow imposition of a local option sales tax without a referendum requirement. Co-chairperson Wise and Senator Stewart stated that the issue of in-fill development versus green field (open space) development needs to be addressed in such a way that results in a cost incentive for in-fill development. Ms. Hensley stated that police and fire service comprise a major portion of a city's operating budget. She stated that with the high amount of tax-exempt property in Des Moines, a user fee for those services would be appropriate.

Co-chairperson Wise requested that Mr. Robinson provide fiscal information on the amount of local option sales tax revenue collected by those cities and counties that currently impose the tax. He also requested that the Department of Management provide information on the amount of non-property tax revenue currently collected by cities and what those sources of revenue are.

VI. School Finance

Mr. Jim Addy, Administrator, Division of School Support and Information, Department of Education, provided an overview of how K-12 education is funded in Iowa. He described the various components which are contained in the school foundation formula, as well as additional school levies such as the instructional support levy and the physical plant and equipment levy. The major components of the foundation formula are the combined district cost made up of the regular program district cost and the special education support services district cost. An allowable growth amount per pupil is added to each of these cost figures each year. This allowable growth amount is determined by multiplying the regular program state cost per pupil and the special education support services state cost per pupil by an allowable growth percentage agreed to by the General Assembly and the Governor. The foundation formula provides that the state will guarantee that a school district receives 87.5 percent of the regular program state cost and 79 percent of the special education support services state cost. However, each school district must impose a uniform levy of $5.40 per $1,000 of assessed valuation for purposes of the regular program, and the difference between the 87.5 percent of the regular program state cost and the amount raised by the uniform levy comprises the amount of state aid. The regular program state cost is computed by multiplying the regular program state cost per pupil by the number of pupils in the school district as of the previous year. The number of actual students may be increased, or weighted, for certain situations such as special education, English language learners, sharing teachers, and at-risk students. The result is referred to as a district's weighted enrollment. For FY 2007-2008, the district cost per pupil ranges from a high of $5,508 to a low of $5,333. No school district can be below the state cost per pupil which is $5,333 for FY 2007-2008. Total state foundation aid for FY 2007-2008 will equal $2.145 billion, said Mr. Addy. During FY 2004-2005, school district general fund revenues were comprised of 57.4 percent state funds, 37.4 percent local property taxes, and 5.2 percent federal funds. Mr. Addy finished his presentation by describing current statutory efforts aimed at providing additional state aid for those school districts whose additional levy exceeds the statewide average. In response to a question from Representative Wendt, Mr. Addy stated that for FY 2007-2008, $12 million is appropriated to provide this additional state aid, and in FY 2008-2009, $18 million is appropriated. He noted, however, that to bring all school district additional levies down to the statewide average in FY 2008-2009 would require $48 million.

VII. Discussion — Next Meetings

Discussion. Co-chairperson Wise stated that Mr. Prosser, in his presentation, introduced the following issues that are deserving of further exploration by the Committee: what is property tax to be used for; if property taxes are reduced, are services to be reduced or are alternative revenue sources to be found; what policies are needed to control cost of government; and should there be incentives for in-fill development over open-space development.

Ms. Barron said funding of mental health, mental retardation, and developmental disabilities services needs to be considered as a state obligation. Ms. Buckton stated that a discussion of a statewide sales and use tax increase to replace the school local option tax should be held as well as a discussion of the effect TIFs have on school district inequality. Ms. Hensley opined that taxation of nonprofit entities as well as tax exempt properties needs to be considered by the Committee.

Co-chairperson Wise distributed professional biographies of persons that the National Conference of State Legislatures identified as experts in the area of public finance, including state and local taxation. With the concurrence of the other Committee members, Co-chairperson Wise instructed Ms. Crowley to contact these persons with a request for information pertaining to the services they could provide to the Committee.

Next Meetings. The Committee decided that the next two meeting days will be held on Wednesday, November 7, 2007, and Wednesday, December 5, 2007, at the State Capitol.

VIII. Materials Filed With the Legislative Services Agency

The following materials listed were distributed at the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the <Additional Information> link on the Committee's Internet Webpage:
http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=209.

1. Public Member Statement and Supporting Documents - Margaret Buckton.
2. Public Member Statement Supporting Document - Joanne Mangold.
3. Public Member Statement - Tom Zucker.
4. Public Member Statement - Terry Wegener.
5. Public Member Statement - Tim Johnson.
6. Public Member Statement Supporting Document - Christine Hensley.
7. Assessment of Property - Dale Hyman Presentation.

8A. Urban Renewal and Tax Increment Financing - Mike Albers Presentation.

8B. Urban Renewal and Tax Increment Financing - Jeff Robinson Presentation.

9. Local Revenue Sources and Cost of Government - Jim Prosser Presentation.
10. School Finance Overview - Jim Addy Presentation.

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