MINUTES
Tax Expenditure Committee

Wednesday, November 30, 2016

MEMBERS PRESENT

Senator Joe Bolkcom, Co-chairperson
Senator William A. Dotzler Jr.
Senator Herman C. Quirmbach
Senator Roby Smith

Representative Thomas R. Sands, Co-chairperson
Representative Dave Jacoby
Representative Zach Nunn
Representative Matt W. Windschitl

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I. Procedural Business

Call to Order. The Tax Expenditure Committee (committee) was called to order at 10:03 a.m. on November 30, 2016, in Room 103 (Supreme Court Chamber) of the State Capitol.

Adjournment. Upon conclusion of the presentations, public comments, and committee discussion, the meeting was adjourned at 12:25 p.m.

II. Introductory Comments from Co-chairpersons

Introductory Comments. Co-chairperson Joe Bolkcom described the purpose and background for the committee's creation and the committee's place in reviewing the growth of tax exemptions and credits as a portion of the overall budget. Co-chairperson Tom Sands acknowledged the six-year history of the committee and the ability for the current Co-chairpersons to find common ground on issues coming before the committee, even if differences remain on the solutions to those issues.

III. Property Tax Credits and Claims

A. Homestead Property Tax Credit. Dr. Tony Girardi, Senior Fiscal Policy Analyst, Iowa Department of Revenue (IDR), provided an overview of the criteria and operation of the homestead property tax credit under Iowa Code chapter 425. The homestead tax credit was enacted in 1937 and is available to Iowa residents who own a home in Iowa and occupy that property for at least six months of the year. Special occupancy rules apply for active duty military personnel and persons confined to nursing homes or other similar facilities. Only one homestead tax credit is allowed per taxpayer and the credit may be applied for with the local assessor.

The tax credit, when fully funded by the state, equals the amount of property taxes owed on the first $4,850 of taxable value of the homestead. This equates to a statewide average homestead property tax credit of $170. The tax credit application is made to the local assessor, and the IDR reimburses each county for its total claim amount through a standing unlimited appropriation. The tax credit has been fully funded by the state for the previous three fiscal years (FY 2014-2016). The total state funding amount was $131.7 million in FY 2014, $131.4 million in FY 2015, and $135.9 million in FY 2016. Dr. Girardi explained the reduction in funding during FY 2015 to be the result of an assessment limitation imposed on residential property. Despite fully funding the credit in recent years, the average state funding rate for the previous decade is 73 percent. Dr. Girardi explained the procedure used to prorate the tax credit claims when the state funding is capped.

The homestead credit provided to certain disabled veterans was enacted in 1990 as a component of the homestead property tax credit. The credit operates similarly to other homestead credits under Iowa Code chapter 425, but the credit is only available to a military veteran, including certain family members of a military veteran, if the veteran meets certain disability rating requirements or acquired the homestead under certain federal provisions relating to adaptive housing for disabled veterans. The disability thresholds for the credit are a permanent service-connected disability rating of 100 percent, as certified by the United States Department of Veterans Affairs, or a permanent and total disability rating based on individual unemployability that is compensated at the 100 percent disability rate, as certified by the United States Department of Veterans Affairs.

The disabled veteran homestead property tax credit applies to a maximum of one-half acre of urban land or 40 acres of rural land, and equals 100 percent of the property tax on the homestead. Dr. Girardi explained recent amendments to the tax credit that removed the income limitation and expanded eligibility. In the two most recent fiscal years, there were 2,128 claimants of the credit with a total state cost of $5.3 million and 2,261 claimants of the credit with a total state cost of $5.8 million, respectively.

B. Elderly and Disabled Property Tax Credit. The elderly and disabled property tax credit was enacted in 1983 and is available to homeowners and renters who are at least 65 years old, or totally disabled, and who have household income below a certain threshold amount ($22,584 for 2017). Dr.

Girardi explained that the credit amount does not increase as the result of age once the claimant reaches the minimum age requirement. The household income threshold is indexed to inflation each year and the tax credit rate decreases as the taxpayer's household income increases. Dr. Girardi analyzed the 2017 tax credit rate schedule by household income.

Homeowners receive a property tax credit and apply annually with the county treasurer. Renters receive a rent reimbursement and apply annually with IDR. The maximum property tax credit/rent reimbursement is $1,000 per year. Both are funded by the state through a standing unlimited appropriation. According to Dr. Girardi, the total cost to the state for the elderly and disabled property tax credit was $5.1 million in FY 2014, $5.0 million in FY 2015, and $4.9 million in FY 2016. He also explained the procedures for paying claims and for prorating claims when the state funding is capped.

Dr. Girardi also provided cost data related to the elderly and disabled rent reimbursement refunds. For FY 2014, there were 29,969 claimants with a total state cost of $18.4 million, and an average refund amount of $615. For FY 2015, there were 30,588 claimants with a total state cost of $19.1 million, and an average refund amount of $626. For FY 2016, there were 32,410 claimants with a total state cost of $19.6 million, and an average refund amount of $606.

C. Military Service Property Tax Credit. The military service property tax credit was enacted in 1987 and provides property tax relief to qualified veterans through a property tax exemption that exempts the first $1,852 of taxable value ($2,778 for World War I veterans) of property owned by the veteran. The state reimburses the counties for the property tax reduction associated with the tax rate of $6.92 per $1,000 of valuation, and the counties forgo the remaining amount of property tax associated with the tax exemption.

Dr. Girardi discussed the state funding for these claims over the previous three fiscal years (FY 2014-2016), the tax exemption distribution by county, and the average number of veterans benefiting each year from the exemption. Members of the committee shared information they received from the various veterans groups in the state concerning the tax exemption and whether the funds appropriated for the cost of the exemption would be better used for direct veterans services.

D. Agricultural Land and Family Farm Property Tax Credits. The agricultural land tax credit, enacted in 1939, and the family farm tax credit, enacted in 1990, both apply to land used for agricultural or horticultural purposes in tracts of 10 acres or more, and land less than 10 acres if contiguous to qualifying land of 10 acres or more. The family farm tax credit additionally requires ownership and active farming of the land. The credits are used to offset school taxes in school districts where the tax rate exceeds $5.40 per $1,000 of valuation. Both credits are funded by the state through a standing limited appropriation of $39.1 million, $10 million of which is allocated to the family farm tax credit. Dr. Girardi discussed fiscal year data on the tax credits by request and demand, state appropriation amount, and funding level. The average state funding for the credit over the last 14 years for the agricultural land tax credit and the family farm tax credit is 20 percent and 16 percent, respectively. Dr. Girardi noted that if the state were to fully fund these tax credits in FY 2017, it would cost an estimated $170 million.

E. Business Property Tax Credit and Commercial and Industrial Property Tax Replacement Claims. The business property tax credit and the commercial and industrial property replacement claims were both enacted in 2013. The business property tax credit applies to qualifying commercial, industrial, and railroad property units, and is funded by the state through a standing limited appropriation which began at $50 million for FY 2013, increased to $100 million in FY 2014, and has been set at $125 million since FY 2015. The tax credit application is made by the property owner and continues until ownership changes. Dr. Girardi discussed the tax credit calculation and provided data on tax credit distribution by county, and provided fiscal year data on the tax credits by state funding, maximum assessed valuation and credit, total units receiving the credit, and the percentage of property units with an assessed valuation that is less than the maximum. From assessment year 2013 to assessment year 2015, the percentage of property units receiving the credit that have an assessed value that is less than the maximum has grown from 36 percent to 70 percent as the annual appropriation increased to the $125 million level.

The commercial and industrial property replacement claims were established to backfill the phased-in 10 percent rollback for commercial and industrial property classes. Railroad property was also provided a phased-in 10 percent rollback, but that value is not included in the backfill funded through the replacement claims. The claims were funded by the state through a standing unlimited appropriation through FY 2017, but will be capped at $152.1 million per year after FY 2017 and claims will be prorated accordingly. Dr. Girardi presented historical data on state funding for the replacement claims by amount and by county.

Committee members engaged in discussion about the benefits of both the business property tax credit and the replacement claims as well as the likelihood of a long-term commitment to funding each program in the context of the larger state budget picture. The department acknowledged the analysis of the business property tax credit and the replacement payments is difficult due to each program's short history.

Additional discussion occurred between committee members regarding the merits of using state tax revenue to provide property tax benefits and the policy goals behind such measures. Victoria Daniels, IDR, urged the legislature to better identify policy goals and efficacy criteria in legislation. Ms. Daniels opined that the reviews of tax credits and programs conducted by the Department of Revenue and other agencies would be enhanced with such direction. Committee members responded that the policy goals and rationale for legislation may not be universal among legislators voting on a proposal.

IV. Sales Tax Levy for the Secure an Advanced Vision for Education (SAVE) Fund

Dr. Amy Rehder Harris, Administrator and Chief Economist, Tax Research and Program Analysis Section, IDR, presented an overview of the SAVE Program, a 1 percent statewide sales tax dedicated to the SAVE Fund enacted in 2008 to replace the 1 percent school infrastructure local option sales tax previously adopted by all 99 counties. Since FY 2015, 97.9 percent of the SAVE Fund revenues are distributed to school districts on a per-pupil basis, and 2.1 percent are distributed to the Property Tax Equity and Relief (PTER) Fund to provide tax relief to certain school districts that have an adjusted additional levy rate above the statewide average. Dr. Harris provided fiscal year data on per-pupil funding and PTER funding, and described the IDR's role in collecting, calculating, and distributing the SAVE Fund dollars. Dr. Harris also provided data on the historical and projected future SAVE Fund revenue amounts, including the projected future growth in the per-pupil SAVE distribution. Finally, Dr. Harris provided sample data on the estimated impact that several sales tax exemptions have on the SAVE Fund dollars and, more specifically, the per-pupil SAVE distribution.

Mr. Kent Ohms, Legislative Analyst, Fiscal Services Division, Legislative Services Agency, provided a short overview of the Department of Education's SAVE Annual Report for FY 2015, and used that report and other sources to present data on historical SAVE Fund revenues and expenditures for FY 2011-2015, as well as FY 2015 data on revenues and expenditures by school enrollment category, and expenditures by function and object. Committee members discussed the possibility of adjusting the permissible uses of SAVE Fund revenues as part of the decision-making process on whether to extend the program generally.

Committee members discussed how internet sales has impacted sales tax revenue in the state and the current status of federal legislation to address such issues. Representatives from IDR acknowledged that some retailers have started to voluntarily comply and other states have enacted legislation.

Committee members also engaged in a broader discussion of the circumstances under which the legislation was originally enacted, whether the SAVE Program is meeting the infrastructure needs of schools, and whether the sunset of the SAVE Program at the end of 2029 will begin to impact school districts' ability to bond against those revenues.

V. Materials Filed With the Legislative Services Agency

The following materials listed were distributed at or in connection with the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the "Committee Documents" link on the committee's Internet Site: https://www.legis.iowa.gov/committees/meetings/documents?committee=594&ga=ALL

1. Property Tax Credits, Tony Girardi, PhD, Iowa Department of Revenue.
2. Secure an Advanced Vision for Education (SAVE), Amy Rehder Harris, PhD, Iowa Department of Revenue.
3. Legislative Report, FY 2015 SAVE Annual Report, Iowa Department of Education.
4. FY 2015 Certified Annual Report, SAVE Fund Expenditures by Function and Object, Kent Ohms, Fiscal Division, Legislative Services Agency.
5. SAVE Annual Report Five Years, Kent Ohms, Fiscal Division, Legislative Services Agency.
6. SAVE Annual Report by Enrollment Category FY 2015, Kent Ohms, Fiscal Division, Legislative Services Agency.

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