Iowa General Assembly

2007 Committee Briefings

Legislative Services Agency – Legal Services Division   http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=209

LEGISLATIVE PROPERTY TAX STUDY COMMITTEE

Meeting Dates: December 5, 2007 | November 7, 2007 | September 12, 2007

Purpose. *This compilation of briefings on legislative interim committee meetings and other meetings and topics of interest to the Iowa General Assembly, written by the Legal Services Division staff of the nonpartisan Legislative Services Agency, describes committee activities or topics. The briefings were originally distributed in the Iowa Legislative Interim Calendar and Briefing. Official minutes, reports, and other detailed information concerning the committee or topic addressed by a briefing can be obtained from the committee's Internet page listed above, from the Iowa General Assembly's Internet page at http://www.legis.state.ia.us/, or from the agency connected with the meeting or topic described.*

LEGISLATIVE PROPERTY TAX STUDY COMMITTEE
December 5, 2007

Co-chairperson: Senator Joe Bolkcom
Co-chairperson: Representative Philip Wise

Sales and Use Tax Exemptions. Mr. David Casey, Administrator, Compliance Division, Department of Revenue, provided information relating to Iowa's sales and use tax exemptions, including exemptions related to the sale of services, and the estimated cost, in lost revenue, of providing certain exemptions.

Assessment of Agricultural Property. Mr. Dale Hyman, Administrator, Property Tax Division, Department of Revenue, reviewed the results of a survey of local assessors regarding assessment of agricultural buildings and changes to assessments that have occurred subsequent to adoption of a 2005 administrative rule requiring that agricultural buildings be assessed at the same ratio of market value to productivity value, expressed as a percentage, that is applied to agricultural land. Mr. Hyman stated that the primary concern of the department is uniformity of assessment among assessors.

Mr. Tim Johnson, Research Specialist, Iowa Farm Bureau Federation, outlined the current method of valuing agricultural property for purposes of property taxation. Agricultural property is valued based on a productivity formula which involves computation of five years of data on income (yield times acres times crop price plus certain government payments) and expenses, such as crop inputs, fertilizer costs, insurance, and taxes, capitalized at a statutory rate of seven percent. For illustrative purposes, Mr. Johnson provided fiscal information on the taxes paid on a 400-acre farm in Palo Alto County. Fiscal year 2007-2008 taxes on the land and buildings of such a farm will exceed $13,000.

Mr. William Greazel, Johnson County Assessor, testified on the problems with the productivity formula for assessing agricultural property, particularly livestock confinement feeding buildings. Mr. Greazel stated that after application of the agricultural factor to the replacement cost of a building and after subtracting the value of the pollution control exemption, if granted, livestock confinement buildings are assessed at 10 to 15 percent of replacement cost. He recommended that a study of the true productivity of agricultural buildings be initiated and utilized. He stated that this would result in a more equitable distribution of the costs for services between the livestock intensive entities and the grain producers.

Commercial Valuation Process. Mr. Greazel stated that the income approach should be the preferred method when valuing commercial property with the understanding that all three approaches have their utility and, when possible, all three should be used in the valuation process. The benefit of the income approach over a market adjusted cost approach is that it gives weight to obsolescence, depreciation, entrepreneurial profit, vacancy, and extraordinary cost. It also factors the effective property tax rate into the capitalization rate of the net operating income of the property.

Impact Fees. Ms. Flora Schmidt and Mr. Ted Grob testified on behalf of the Homebuilders Association of Iowa. Ms. Schmidt provided data on beneficial effects to the overall economy of a strong housing market. A strong housing market means increased jobs and wages in the community, purchase of materials within the community, and an increase in the property tax base, the sales tax base, and the income tax base. Ms. Schmidt stated that regulatory fees and impact fees are passed on directly to the homeowner and a home price increase of just $5,000 would cause over 23,300 Iowans to be priced out of buying a home at the median Iowa value of $95,901. Mr. Grob noted that there is a correlation between high impact fees and high housing prices in other states. He stated that allowing more impact fees to be charged in Iowa will set in motion a very large tax increase in Iowa and will impede growth.

Mr. Patrick Murphy, representing the Iowa Association of Realtors, echoed the comments of Ms. Schmidt and Mr. Grob, stating that houses under $250,000 are selling robustly in the Des Moines metro area and increased impact fees will take affordable housing out of the picture for many people. He stated that, rather than focusing on ways to increase local government revenue, it is time for the state to take a look at government expenditures and consolidation of services between local governments.

Iowa State Association of Counties (ISAC). Mr. Jay Syverson, Fiscal Analyst, and Ms. Linda Hinton, Government Relations Manager, presented to the Committee on ISAC's legislative priorities related to property tax. These include changes to the laws on tax increment financing (urban renewal) and tax abatement (urban revitalization), mental health funding, assessment of agricultural buildings, condominiums, and certain cablevision property, flood and erosion control levies, manufactured home taxes, and authorizing a local option income tax. The overall effect of enactment of these priorities would be to stabilize the tax base, improve the fairness of the tax base, increase accountability for local governments, and impose a reasonable limit on local property taxes.

Association of Business and Industry (ABI). Mr. William Brown, Treasurer, ABI Board of Directors, stated that ABI members and the business community at large understand and appreciate the necessity of property tax collection to pay for municipal services and for education of Iowa's children. However, the growth in property taxes - $1 billion over the last decade - is of great concern to the business community because it hinders economic and population growth. The ABI recommends eliminating and/or merging political subdivisions and programs, eliminating the shift in tax burden between classes of property, requiring local governments to fund property-related services first, requiring city councils and boards of supervisors, when raising taxes, to vote separately from the vote on the budget, abolishing the county compensation board and requiring the board of supervisors to set elected officials' salaries, and enacting a spending limitation for all political subdivisions.

Taxation of Telecommunications Industry. Mr. Brian Pappaducas, Manager of Tax and Financial Analysis for Iowa Telecom, Mr. Andy Randol, General Manager of Panora Communications Cooperative and Board President of Rural Iowa Independent Telephone Association, and Ms. Kristin Kunert, Director of Government Relations, Iowa Telecommunications Association, testified about the lack of equity and fairness in property taxation of communications providers in Iowa. They noted the disparity of property tax burdens within the communications industry, with wireless services paying $3.50 per cell phone per year, cable TV services paying $12.42 per subscriber per year, and telephone companies paying $40.32 per phone line per year. Furthermore, because of the outmoded method of assessing property of telecommunications companies, the companies are assessed at approximately 350 percent of their market value. The telecommunications providers recommended that the property of telecommunications providers in Iowa be assessed and taxed the same as all other commercial property.

Committee Discussion. The Committee created a consultant subcommittee comprised of the legislative members of the Committee and directed staff to begin preparation of a Request for Proposals from consultants.

LSA Contacts: Susan Crowley, Legal Services, (515) 281-3430; Mike Goedert, Legal Services, (515) 281-3922

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LEGISLATIVE PROPERTY TAX STUDY COMMITTEE

November 7, 2007

Co-chairperson: Senator Joe Bolkcom
Co-chairperson: Representative Philip Wise

Overview. The second meeting of the Legislative Property Tax Study Committee was held on Wednesday, November 7, 2007, in Room 103, State Capitol, Des Moines. The third meeting of the Committee is scheduled for Wednesday, December 5, 2007.

Taxation of Assisted Living Facilities. Dr. Cindy Baddeloo, Iowa Health Care Association, and Ms. Jeanine Chartier, owner and operator of assisted living facilities in Lawton and Holstein, spoke to the Committee about the fiscal problems associated with assisted living facilities being classified as commercial property for property taxation purposes. Dr. Baddeloo stated that property taxes comprise $100 to $200 of the monthly assisted living rates charged to residents. She noted that a number of residents receive Medicaid assistance which means their income is about $600 per month. Ms. Chartier noted that many of the residents at the two assisted living facilities that she owns and operates are paying more in property taxes at the facilities than they did when they lived in their homes. Both Dr. Baddeloo and Ms. Chartier recommended that assisted living facilities be classified as residential property for property tax purposes.

MH/MR/DD Funding. Mr. Charles Leist and Mr. Jim Overland, both representing the Division of Mental Health and Disability Services in the Department of Human Services, described the sources of funding for mental health, mental retardation, and developmental disabilities (MH/MR/DD) services, with the lion's share of funding being from the federal government.

Ms. Linda Hinton, Government Relations Manager, Iowa State Association of Counties (ISAC), gave an overview of the legislative history of MH/MR/DD funding. She also presented information on the responsibilities of counties in providing human services, the most current MH/MR/DD levy rates by county, and historical information on county MH/MR/DD fund balances. Ms. Hinton briefly described an Iowa MH/MR/DD system redesign proposal adopted by ISAC. Any system redesign undertaken by the state must include adequate state funding to support the changes. On the local funding level, ISAC recommends that the dollar cap on county levies for MH/MR/DD services be replaced with a levy rate cap. The ISAC also recommends allowing counties to move to an "equalized" property tax contribution specific to each county's current levy rate for MH/MR/DD services.

Iowa League of Cities. Mayor Jim Fausett, Coralville, and Mr. Alan Kemp, acting Executive Director, Iowa League of Cities, presented the top four legislative priorities of the league. The first priority is to authorize cities to implement alternative revenue choices that fit the specific needs of the city, including but not limited to increasing the hotel/motel tax, imposing gas and electric franchise fees for general purposes, and implementing a sales tax rebate for specifically defined economic development. The second priority is increased funding for transportation and water/wastewater infrastructure needs of cities. The third priority is to preserve or expand economic development initiatives available to cities at the state level through programs such as Vision Iowa, Great Places, and Community Attractions funding and to prevent any changes to urban renewal law (tax increment financing or TIF) that would impair its use as an economic development tool. The fourth legislative priority is to control public pension costs, particularly by limiting any increased requirements imposed upon local governments by the state. Mr. Kemp provided the Committee with a great deal of fiscal information showing cities' heavy reliance on property taxes for general fund revenues, general fund revenues and expenditures by city size, and use of TIF by city size.

Rollback History. Mr. Jeff Robinson, Fiscal Analyst, LSA, gave a brief history of economic changes over time, the historical share of taxable value by class, the percent of value due to new construction since 1988, and the growth in the use of tax increment financing since FY 1981-1982. He focused primarily, though, on the history and impact of the assessment limitation (rollback), particularly the assessment limitation tie between agricultural and residential property. Mr. Robinson illustrated for the committee what the taxes on a residence and on a parcel of commercial property would be if there had not been an assessment limitation tie between agricultural and residential property, and the actual amount of taxes on those two properties under current law. He noted that the residential property taxes would be much higher if not for the assessment limitation tie. Mr. Robinson also provided projections on the residential rollback and on future taxable value growth among agricultural, residential, commercial, and industrial property.

Private Developer Perspective. Ms. Loree Miles, President, Miles Properties, LLC, discussed the impact of property taxes from the perspective of a private developer of commercial property. She has developed commercial property in California, Colorado, and Iowa (metro Des Moines area). She noted that development impact fees in Colorado and California are numerous and costly; in Iowa such fees are limited in number and extremely inexpensive. However, the property taxes assessed in Colorado and California are relatively low compared to Iowa. She stated that developers of commercial property favor paying high impact fees upfront, rather than an annual high property tax bill, because those impact fees can be capitalized as the initial cost of development and the developing finance costs are eventually retired. She said it also makes more sense for local governments to charge high impact fees to cover the cost of infrastructure necessitated by development, rather than collecting revenue slowly over time through property taxes. Ms. Miles provided the Committee with examples of the types of impact fees charged in Colorado and California.

City of Des Moines Perspective. Mr. Richard Clark, City Manager, stated that there are many reasons for Des Moines' high tax rate relative to surrounding suburban communities, including high demand for professional police and fire services, reduction in state appropriations over time, the large amount of exempt property located in Des Moines, the cost of supporting an aging infrastructure, and Des Moines' lower average residential valuations. He outlined for the Committee many of the actions taken by the city to reduce property taxes. The action taken that had the biggest impact was to raise the franchise fee. This accounted for $14.1 million annually, resulting in a 70-cent reduction in the city's property tax rate. Des Moines relies too heavily on property taxes, he said, noting that property taxes comprise 58 percent of the general fund and debt service funding sources of the city. He provided examples showing that this is a much larger percentage than of other cities of comparable size around the country. He noted that residents of Des Moines surveyed indicated that property tax is the least preferred method to pay for city services, while user fees and sales tax are the most preferred methods. Mr. Clark stated that the method of financing local government in Iowa must be changed by diversifying revenue streams, providing incentives for consolidating services, and encouraging smart growth development initiatives. In the short-term, however, he urged enactment of legislation affirming a city's authority to impose a franchise fee on gas and electric consumption.

Local Economic Development Panel. A panel comprised of representatives from the cities of Council Bluffs, Coralville, Humboldt, and Des Moines related their experiences in undertaking economic development activities in each of their cities.

- For the city of Council Bluffs, Mayor Tom Hanafan and Mr. Donald Gross, Community Development Director, described the project which brought Google to Council Bluffs. The project utilized TIF and the High Quality Jobs Program. Mr. Gross described other urban renewal projects in the city and the amount of TIF involved in those projects. He noted that the property tax disparity between Iowa and Nebraska has negatively affected Council Bluffs' economic development efforts.
- Mr. Kelly Hayworth, Coralville City Administrator, described the extensive brownfield redevelopment undertaken by the city as part of its economic development and revitalization efforts at Coralville's Iowa River Landing. Coralville utilized TIF, revenue bonds, and general obligation bonds, in addition to state and federal funding, for redevelopment of the land in the project to an entertainment, retail, and residential district. Cleanup of 160 acres of brownfields was a major aspect of the project. Brownfields are idled, abandoned, or underused industrial and commercial property whose resale or redevelopment has been hindered by known or suspected environmental contamination at the site. He stated that over the past six years the federal and state government have invested over $16 million for acquisition, assessment, and clean-up of brownfield sites in Iowa. He described state brownfield incentives in Missouri, Wisconsin, and Michigan.
- Ms. Lorie Bennett, Humboldt City Administrator, stated that 80 percent of economic growth in the county comes from the expansion of current industries within the county. For purposes of economic development, the city of Humboldt utilizes state programs, such as High Quality Jobs Creation, Enterprise Zones, and Revitalize Iowa's Sound Economy (RISE) Programs, in addition to local incentives and the United States Department of Agriculture's rural development programs. Tax increment financing is the largest tool in Humboldt's economic development toolbox. Tax increment financing is used for infrastructure improvements, brownfields cleanup, residential development, and to provide rebates on property taxes after completion of a project. She noted that the affected school district, county, and community college have all supported Humboldt's use of TIF because of the long-term benefit to all of these entities of the higher taxable valuation created by the development.
- Mr. Clark outlined the key issues affecting Des Moines' economic development efforts. The cost of development is high in older urban centers because of the cost of land assemblage and relocation, demolition, environmental remediation, structured parking, vertical construction, and rehabilitation/restoration of existing buildings. Even with these high costs, urban center development is more desirable than greenfield development because urban center development takes advantage of existing infrastructure and other public and private investments in the area. At the local level, Des Moines provides financial assistance to development through use of TIF and tax abatement, infrastructure assistance, reduced land prices, and parking. He noted that TIF is the single most important economic development tool available to cities. Mr. Clark stated that a statewide policy needs to be developed that helps sustain and rebuild older urban centers. This policy needs to include continued ability to use TIF, more collaboration among the various public entities providing economic development assistance, a commitment by the state not to give preference in the award of state incentives to businesses that are relocating from one Iowa city to another Iowa city, and continued and expanded use of "fair play agreements" among cities in a region.

LSA Contacts: Susan Crowley, Legal Services, (515) 281-3430; Mike Goedert, Legal Services, (515) 281-3922

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LEGISLATIVE PROPERTY TAX STUDY COMMITTEE

September 12, 2007

Co-chairperson: Senator Joe Bolkcom
Co-chairperson: Representative Phil Wise

Overview. The Legislative Property Tax Study Committee is charged with conducting a comprehensive review of the property tax system. The Committee is authorized to meet for three days during the 2007 Legislative Interim and during the 2008 Legislative Interim.

Assessment of Property. Mr. Dale Hyman, Administrator of the Property Tax Division in the Department of Revenue, made a presentation on assessment of property for taxation purposes. The presentation included information on the assessment calendar, qualifications and continuing education of assessors, and duties of assessors and the Department of Revenue pertaining to assessment of property. Mr. Hyman also presented information relating to statewide assessed valuation changes by class of property for the 2007 assessment year and predictions for the 2009 and 2011 assessment years. He provided an explanation of the capitalization of agricultural income for purposes of the productivity formula, and discussed the issue of the market value to productivity value ratio that is applied to agricultural building values. The goals of the Property Tax Division are fewer equalization orders, more assessor revaluation, and open communication to county officers and taxpayers.

Urban Renewal and Tax Increment Financing (TIF). Mr. Mike Albers, Local Government Division of the Department of Management, and Mr. Jeff Robinson, Senior Legislative Analyst with the Legislative Services Agency, made a joint presentation to the Committee on urban renewal and TIF. Mr. Albers explained how urban renewal areas and incremental valuations are established, the growth in incremental valuation over the years, types of local governments utilizing TIF, how assessment limitations (rollbacks) are applied in urban renewal areas, statutory limitations on urban renewal areas and on the use of incremental revenues, and certification to county auditors of urban renewal debt payable with TIF revenues.

Mr. Robinson provided detailed financial information on the use of TIF, including historical trends in the amount of property tax dollars devoted to economic development through TIF and historical trends on the impact that TIF has had on state school aid. Mr. Robinson also distributed information on recent increases in the in the amount of TIF revenue collected and recent increases in urban renewal debt reported as outstanding. To provide perspective on the use of urban renewal areas and TIF as an economic development tool, Mr. Robinson distributed information showing comparative rates of growth in Iowa economic indicators.

Local Revenue Sources and Cost of Government. Mr. Jim Prosser, Cedar Rapids City Manager, discussed in general the factors that affect state and local tax policy and the negative impact of Iowa local governments' overreliance on property taxes. He then used specific facts about property taxes in Cedar Rapids to illustrate that negative impact. Mr. Prosser presented some "best practices" that need to be utilized by cities in regards to local government revenue sources and cost of government, including developing sustainable development and in-fill development policies and diversifying revenue sources to meet city needs and costs and to lower the property tax burden on commercial and industrial property.

School Finance. Mr. Jim Addy, Administrator of the Division of School Support and Information in the Department of Education, provided an overview of how K-12 education is financed in Iowa. Mr. Addy also described the school foundation formula and the role of school district property tax collections in the formula. For FY 2004-2005 public school general fund revenues, on average, were comprised of 57.4 percent state funds, 37.4 percent local property taxes, and 5.2 percent federal funds. Mr. Addy also described current statutory efforts aimed at providing additional state aid to those school districts whose additional property tax levy rate under the school foundation formula greatly exceeds the average additional property tax levy rate under the formula.

Subsequent Meeting Dates. The second meeting of the Committee is scheduled for Wednesday, November 7, 2007, in Room 103 (former Supreme Court Chamber) at the State Capitol at 10:00 a.m. The third meeting of the Committee is scheduled for Wednesday, December 5, 2007, in Room 103 (former Supreme Court Chamber) at the State Capitol at 10:00 a.m.

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