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Fiscal Note

Fiscal Services Division

SF 634 – City and County Property Tax Revenue Limitation (LSB2777SV)
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Fiscal Note Version – New

Description

Senate File 634 relates to property tax. The Bill:

- Removes the existing property tax rate limits for city general funds, county general funds, and county rural funds.
- Creates a property tax revenue annual growth limitation for counties (separately for general services and rural services) and cities effective in FY 2021. Annual property tax revenue growth is initially equal to 0.0%. A city council or board of supervisors (governing body) is allowed to establish a higher revenue growth percent of up to 2.0% for a year by resolution. If additional requirements are met, including two-thirds approval of the governing body, the revenue growth may be as high as 3.0% for a year.
  - For cities, funding for employee retirement and pension costs, debt service, and capital projects are excluded from the revenue limit calculation and may be funded separately through property tax revenue. In addition, several additional levies currently authorized under Iowa Code section 384.12 are allowed but not included in the revenue limit.
  - For counties, funding for employee retirement and pension costs, mental health and disability services, cemetery care, emergency services, debt service, and capital projects are excluded from the revenue limit calculation and may be funded separately through property tax revenue.
- In addition to the property tax growth of up to 3.0%, the property tax revenue budgets of cities and counties will be allowed to increase by the tax dollar impact of taxable value increases that are not the result of revaluation of existing property, such as new construction and annexation.
- Establishes a Property Tax Advisory Group to comprehensively analyze the existing property tax laws, rules, programs, and systems of Iowa. The Group is to annually provide input, feedback, and recommendations to the Department of Revenue (DOR). The Group is to provide an annual report to the DOR and the General Assembly by January 1 of each of the next six years (January 1, 2020, through January 1, 2025).
- Modifies the eligibility for the Homestead Property Tax Credit for taxpayers who are aged 65 or older and have household income of less than 250.0% of the federal poverty level. The modification freezes the property tax amount due on qualified properties, with the State General Fund paying all property taxes due that are above the frozen amount.
- Requires county and city assessors to use the most recent state appraisal manual available within two years of it becoming available. Upon request, the DOR may allow an extension of up to two additional years to comply with this requirement.

Background — Property Tax Revenue Limitation

A discussion of the 18-year history of city and county property tax is presented in the ***Fiscal Note*** for HF 773 (City and County Property Tax Limitation Bill) and that discussion is incorporated here by reference. The portions of the ***Fiscal Note*** for HF 773 that discuss city and county ending fund balances do not apply to this Bill, as this Bill does not limit city and county ending fund balances.

The statistics presented in the ***Fiscal Note*** for HF 773 may be summarized as follows:

- Over the past 18 years, the average annual rate of growth for property tax revenue has been:
  - Cities = 4.1%
  - County general services = 4.2%
  - County rural services = 3.7%
- Property tax revenue increases and decreases are due to two factors: changes in the tax base and changes to the tax rate. Over the past 18 years, the average annual rate of growth in tax rates equaled:
  - Cities = 0.4%
  - County general services = 0.8%
  - County rural services = 0.8%
- Changes to the tax base may be summarized in two broad categories, namely the revaluation of existing property and nonrevaluation changes (for the most part this means new construction). The average annual change in nonrevaluation over the past 18 years equals:
  - Cities = 2.4%
  - County general services = 2.1%
  - County rural services = 1.5%
- Revaluation changes to taxable value result from the revaluation of existing property, modified by Iowa's system of value rollbacks. The average annual change in rollback-modified revaluation over the past 18 years equals:
  - Cities = 1.3%
  - County general services = 1.3%
  - County rural services = 1.5%
- The rate of growth in revaluation was not consistent across the past 18 years.
  - For the first eight years, revaluation was dominated by low and negative growth in agricultural taxable value, combined with low growth in taxable value of residential property. The low residential taxable value growth was due to the residential rollback's tie to the taxable value of agricultural property.
  - The next 10 years witnessed a return to growth in taxable value of agricultural property, and that allowed residential taxable value to also increase.
- The increase in property tax rates over the past 18 years occurred during the initial eight years of slow growth in taxable value. Over the most recent 10 years, the average city and county general rates have fallen, and the average county rural rate is little changed.

Assumptions — Property Tax Freeze for Older Homeowners

Division III of the Bill creates an Elderly Property Tax Credit to offset increases in property tax levies of homesteads owned by persons who are at least 65 years of age and whose annual household income is not more than 250.0% of federal poverty guidelines. The new credit applies to claims filed on or after January 1, 2020, for assessment years beginning on or after January 1, 2019. The effect of the credit will be to ensure that the property tax payment of a qualified homeowner does not increase above a base year amount. The credit is funded by the State General Fund through the Homestead Tax Credit appropriation.

Fiscal impact assumptions include:

- Based on U.S. Census Bureau data, there are 117,347 homes owned in Iowa by persons 65 years of age or older with household income less than 250.0% of federal poverty guidelines. This eligible homeowner total of 117,347 is assumed to increase 2.8% per year.
- Based on U.S. Census Bureau data, the average assessed value of homes owned by eligible homeowners is assumed to be $127,039. With the residential rollback currently at 56.9180% of assessed value, the average taxable value, before credits, is $72,279. Taxable value is assumed to increase 2.0% per year.
- The FY 2019 average statewide residential property tax rate is $34.62 per $1,000 of taxable value. This tax rate is assumed to be constant for all years.
- To account for homeowners who sell their home, lose eligibility due to excess income, or otherwise no longer qualify for the tax freeze, the number of calculated homeowners will decrease by 1.35% per year.
- The Homestead Tax Credit will be fully funded in all years.
- Some homeowners eligible for the tax freeze will also be eligible for the Elderly and Disabled Property Tax Credit. The DOR estimates that $4.1 million in credits is already accounted for within the appropriation for the Elderly and Disabled Property Tax Credit. For this reason, the calculated fiscal impact is reduced $4.1 million for each year.

Fiscal Impact

Property Tax Revenue Limitations

The Bill basically replaces revaluation and tax rate growth with a limit on property tax revenue. The Bill allows county and city property tax revenue for general purposes to increase by up to 2.0% per year through a majority vote of the governing body. Over the past 18 years, city property tax revenue has increased, as a result of revaluation and rate increases, by an average of 1.7% per year. For county general and county rural property taxes, growth has averaged 2.1% and 2.3%, respectively. The remainder of property tax revenue growth for cities and counties over the past 18 years has been the result of nonrevaluation changes, and that for the most part means new construction.

This historical review is based on statewide totals for cities and counties. That means the composite result of more than 900 cities and 99 counties. An analysis of individual cities and counties would be informative. However, time and data limitations do not allow for an analysis at the local government level. In addition, the Bill applies to the future and an historical analysis tells little about what will happen in the future.

If the coming years produce little in the way of property revaluation, the Bill will allow cities and counties to increase property tax revenue as long as local governments are willing to approve the property tax rate increases needed to raise the allowed revenue. This situation becomes more likely if agricultural taxable values fall and the agricultural tie once again reduces residential taxable revaluating growth to zero.

Or, the situation could return to an era of significant inflation like that of the late 1970s and early 1980s. If this were to occur, actual property values will rise more quickly, and the property tax revenue restrictions will result in lower property tax rates.

Property Tax Freeze for Older Homeowners

The new credit designed to freeze property tax payments for qualified older Iowa homeowners is projected to increase the General Fund standing unlimited appropriation for the Homestead Property Tax Credit by the following amounts:

- FY 2021 = $1.7 million
- FY 2022 = $7.5 million
- FY 2023 = $13.4 million
- FY 2024 = $19.2 million
- FY 2025 = $24.9 million
- FY 2026 = $30.8 million
- FY 2027 = $36.3 million
- FY 2028 = $41.7 million
- FY 2029 = $47.1 million
- FY 2030 = $52.4 million

Growth in the General Fund appropriation will continue in future years until the number of qualified homeowners begins to decline.

Other Considerations

The new Property Tax Advisory Group will result in additional administrative expenses for the DOR and likely for the Department of Management.

Mandating that assessors use the most recent state appraisal manual may create additional training and other costs for city and county assessors who do not currently utilize the most recent manual.

The Department of Management reports that the Bill will require the Department to develop a new system to accept and analyze data from counties that is not currently collected by the State. The Bill will also require the Department to make significant alterations to existing city and county online budget software. Based on an Office of the Chief Information Officer estimate for a new data collection system and Department of Management experience with resources needed to make considerable changes to form and function of budget forms, the Department estimates the system modifications will cost $225,000 or more. Rulemaking and implementation would begin immediately upon adoption. The Department does not expect the Bill to require the addition of employees.

Sources

Department of Management property tax files
Department of Revenue property valuation reports
Fiscal Note for HF 773 (City and County Property Tax Limitation Bill)
Legislative Services Agency analysis
U.S. Census Bureau 2012-2016 American Community Survey
Regional Economic Models, Inc. (REMI)
U.S. Department of Health and Human Services

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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