



[SF 634](#) – City and County Property Tax Revenue Limitation (LSB2777SV.3)
Analyst: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – Final Action – Revised

Description

[Senate File 634](#) imposes additional limits on the amount of property tax revenue cities and counties may include in their budget, beginning with FY 2021. The Act also moves the annual certification deadline for city and county budgets from March 15 to March 31.

City Budgeting

The Act limits the amount of property tax dollars that may be levied for the upcoming budget year to no more than 102.0% of the amount levied in the current fiscal year if the budget is approved by a simple majority vote of the city council. If a city council approves an amount of taxes to be levied for the specified purposes that exceeds 102.0% of the amount raised in the current fiscal year, the vote must be by a two-thirds majority of the council.

For the purposes of the limit, property tax replacement taxes collected through Iowa Code chapter [437A](#) (gas and electric utilities) and [437B](#) (water utilities) are also included in the calculation. Property taxes levied on agricultural property within a city are not included in the calculation. The limit does not apply to any voter-approved city levy established under Iowa Code section [384.12](#)(19). Specifically, the limit applies to tax revenue raised through the following existing tax authorities of cities:

- City general fund (Iowa Code section [384.1](#))
- Employee pension and benefits (trust and agency, Iowa Code section [384.6](#))
- Emergency fund (Iowa Code section [384.8](#))
- City bridge contract (Iowa Code section [384.12](#)(8))
- Municipal transit (Iowa Code section [384.12](#)(10))
- Civic center lease (Iowa Code section [384.12](#)(11))
- Civic center operations (Iowa Code section [384.12](#)(12))
- Sanitary disposal project (Iowa Code section [384.12](#)(13))
- City insurance (Iowa Code section [384.12](#)(17))

County Budgeting

The Act limits the amount of property tax dollars that may be levied for the upcoming budget year to no more than 102.0% of the amount levied in the current fiscal year if the budget is approved by a simple majority vote of a board of supervisors. The limit applies and is calculated separately for county general purposes and county rural purposes. If a board of supervisors approves an amount of taxes to be levied for the specified purposes that exceeds 102.0% of the amount raised in the current fiscal year, the vote must be by a two-thirds majority of the board.

For the purposes of the limit, property tax replacement taxes collected through Iowa Code chapter [437A](#) (gas and electric utilities) and [437B](#) (water utilities) are also included in the

calculation. The limit does not apply to any voter-approved county levy established under Iowa Code section [331.425](#). Specifically, the limit applies to tax revenue raised through the following existing tax authorities of counties:

- Basic general county services (Iowa Code section [331.423\(1\)](#))
- Supplemental general county services (Iowa Code section [331.424\(1\)](#))
- Basic rural county services (Iowa Code section [331.423\(2\)](#))
- Supplemental rural county services (Iowa Code section [331.424\(2\)](#))
- Additions to basic county general or rural services (Iowa Code section [331.426](#))

Appraisal Manual

The Act requires county and city assessors to use the most recent state appraisal manual available within two years of it becoming available. Upon request, the Department of Revenue may allow an extension of up to two additional years to comply with this requirement.

Background — FY 2019 City Property Tax Rate Components

For FY 2019, the average city property tax rate in Iowa was \$13.82 per \$1,000 of taxed property value. **Table 1** provides a statewide breakdown of that average rate. The Act applies to many, but not all, of the levy categories in **Table 1**. The levies for debt service and capital improvements are not included within the revenue limits established in the Act. The first year of the limitation is FY 2021 and that limit will be based on the revenue raised for the specified purposes in FY 2020.

Table 1		
FY 2019 City Levy Breakdown		
Property Value and Tax Collections in Millions of Dollars		
City Levy	Property Tax Collections	Statewide Average City Tax Rate \$ per \$1,000
General Levy (\$8.10)	\$ 775.1	\$ 7.76
General Levy Additional	75.7	0.76
Emergency Levies	9.1	0.09
Debt Levies	237.0	2.37
Trust and Agency Levies	281.9	2.82
Capital Improvement Levies	1.5	0.02
Total	\$ 1,380.3	\$ 13.82
City Property Tax from Ag Property	\$ 1.5	\$ 2.89
TIF Increment Revenue to Cities *	\$ 21.5	
Statewide Taxable City Regular Value	\$ 99,845.9	
Statewide Taxable City Ag Value	\$ 509.5	

*Does not include Tax Increment Financing (TIF) revenue that finances TIF.

Background — FY 2019 County General Services Property Tax Rate Components

For FY 2019, the average county general services property tax rate was \$6.21 per \$1,000 of taxed property value. **Table 2** provides a statewide breakdown of that rate. The Act combines the revenue raised in the first three items in **Table 2**. The County Mental Health levy and Debt Service levy are not included within the revenue limits established in the Act. The first year of the limitation is FY 2021 and that limit will be based on the revenue raised for the specified purposes in FY 2020.

	Property Tax Collections	Statewide Average County General Rate \$ per \$1,000
<u>County Levy</u>		
General Basic Levy (\$3.50)	\$ 598.8	\$ 3.57
General Supplemental Levy	286.1	1.70
Cemetery Levy	0.3	0.00
County Mental Health Levy	72.8	0.43
<u>Debt Service Levy</u>	<u>86.3</u>	<u>0.51</u>
Total	\$ 1,044.3	\$ 6.21
TIF Increment Revenue to Counties *	\$ 6.7	
Statewide Taxable County Value	\$ 167,872.4	

Background — FY 2019 County Rural Services Property Tax Rate Components

For FY 2019, the average Iowa county rural services property tax rate was \$3.32 per \$1,000 of taxed property value. **Table 3** provides a statewide breakdown of that rate. The Act combines the revenue raised in the first two items in **Table 3**. The levy for Unified Law Enforcement is not included within the revenue limits established in the Act. The first year of the limitation is FY 2021 and that limit will be based on the revenue raised for the specified purposes in FY 2020.

Table 3
FY 2019 County Rural Fund Levy Breakdown

Property Value and Tax Collections in Millions of Dollars

	Property Tax Collections	Statewide Average County Rural Rate \$ per \$1,000
<u>County Rural Levy</u>		
Rural Basic Levy (\$3.95)	\$ 220.5	\$ 3.27
Rural Supplemental Levy	2.6	0.04
<u>Unified Law Enforcement Levy</u>	<u>0.5</u>	<u>0.01</u>
Total	\$ 223.6	\$ 3.32
Statewide Taxable County Rural Value	\$ 67,464.0	

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 Revenue Tax Limitation Act), 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 Act, as this Act 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 the return of 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.

Fiscal Impact

The Act allows city and county property tax revenue for the specified purposes to increase by up to 2.0% per year through a majority vote of the governing body, and the Act allows cities and counties to exceed 2.0% property tax revenue growth by a two-thirds vote of the governing body. The Act does not remove current tax rate limitations, so all decisions of governing bodies must also comply with existing limits on allowed maximum tax rates.

A 2.0% annual limit on the property tax revenue increases, that a simple majority of a city council or county board of supervisors may approve, has the potential to limit property tax growth in upcoming years. Over the past 18 years, city property tax revenue has increased by an average of 4.1% per year. For county general and county rural property taxes, growth has averaged 4.2% and 3.7%, respectively. This historical review is based on statewide totals for cities and counties (the composite result of more than 900 cities and 99 counties). In addition, the Act applies to the future and an historical analysis may provide minimal insight into what will happen in future years.

Sources

Department of Management property tax files

Department of Revenue property valuation reports

Legislative Services Agency analysis

Fiscal Note for [HF 773](#) (City and County Property Tax Revenue Limitation Act)

/s/ Holly M. Lyons

September 23, 2019

The fiscal note for this Act 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.