



SF 278 – Dilapidated Home Renovations, Property Taxes (LSB1492SV)
Analyst: Jeff Robinson (Phone: (515-281-4614) (jeff.robinson@legis.iowa.gov)
Fiscal Note Version – New

Description

Senate File 278 allows a city council or county board of supervisors to exempt from property taxation, the value added to residential property in certain situations. The value-added subject to tax exemption would be the value increase associated with the renovation and improvement of property that the council or board had “deemed” a public nuisance under a definition provided in this Bill. The exemption may be for up to 10 years. The new exemption is available beginning July 1, 2015. This Bill provides that Iowa Code section **25B.7**, related to State funding of new property tax credits and exemptions, does not apply to this new exemption.

Background — Existing Urban Revitalization Residential Exemptions

Iowa Code chapter **404** (Urban Revitalization Tax Exemptions) currently provides cities and counties with the authority to exempt value-added residential property value from property taxation. The power to do so under that Iowa Code chapter requires the city or county to first adopt an ordinance specifying the area that is subject to Urban Revitalization and property tax exemptions are only available within those specified Urban Revitalization Areas. The residential exemptions currently available include:

- **Iowa Code section 404.3(1)** – All Qualified Residential Real Estate Exemption – 115.0% of the added value, but not to exceed \$20,000.
- **Iowa Code section 404.3(2)** – All Qualified Residential Real Estate Exemption – Sliding scale, 10-year exemption, starting at 80.0% of the value added (year one) and ending at 20.0% of added value (year 10).
- **Iowa Code section 404.3B(3)** – All Qualified Residential Real Estate Exemption – 100.0% exemption for three years.
- **Iowa Code section 404.3B(4)** – All Qualified Residential Real Estate Exemption – 100.0% exemption for 10 years.
- **Iowa Code section 404.3A** – Residential Development Area Exemption – Up to \$75,000 of added value may be exempt for up to five years.
- **Iowa Code section 404.3B(2)** – Abandoned Real Property Exemption – Sliding scale, 15-year exemption, starting at 80.0% of the value added (year one) and ending at 20.0% of added value (year 15).
- **Iowa Code section 404.3B(3)** – Abandoned Real Property Exemption – 100.0% exemption for five years.

Background — Proposed New Residential Exemption

This Bill creates a new residential property tax exemption that could be available anywhere and will not be limited to only properties located within a designated Urban Revitalization Area. Therefore, the pool of potentially benefited residential properties is much larger than under current law. To qualify for the value-added property tax exemption the Council or Board must adopt an enabling ordinance and the specific property must be deemed by the Council or Board to exhibit one or more of the qualifications under the definition of a public nuisance. The Bill defines public nuisance to be:

“A building that is a menace to the public health, welfare, or safety, or that is structurally unsafe, unsanitary, or not provided with adequate safe egress, or that constitutes a fire hazard, or is otherwise dangerous to human life, or that in relation to the existing use constitutes a hazard to the public health, welfare, or safety by reason of inadequate maintenance, dilapidation, obsolescence, or abandonment.”

The Iowa Code uses this same definition of public nuisance in Iowa Code chapter [657A](#) (Abandoned or Unsafe Buildings). Under that Iowa Code chapter, the finding that a property is a public nuisance brings with it potentially onerous obligations on the property owner. This Bill does not require that the property also be a public nuisance under Iowa Code chapter [657A](#).

The new exemption created in this Bill does not require any minimum level of property value improvement and it does not require the property owner to remedy the issue that caused the property to qualify for the exemption as a public nuisance.

The Bill sets a maximum value-added exemption of 10 years and 100.0%, but it also allows the Council or Board to set a lower benefit level.

Background — State and Local Impact of Current Residential Exemptions

Across all property classes and for assessment year 2014, a total of \$3.707 billion of property value is exempt from taxation due to Urban Revitalization and other property value exemption programs. Of that amount, \$0.970 billion is residential property value.

Property that is exempt from property taxation, but would otherwise be subject to property tax, reduces the revenue raised by local government property tax rates. Exemption of value that would otherwise be taxable also increases the State General Fund appropriation for school aid by \$5.40 per thousand dollars of exempt taxable value. **Table 1** provides the estimated reduction in local revenue and increase in State General Fund school aid associated with current residential property tax exemptions.

Table 1
Current Law Residential Exemptions
Impact on Government Revenue

Impacted Government	Tax Rate Per Thousand	Estimated Revenue Reduction
K-12 School	\$9.83	\$5,530,000
City	13.72	7,719,000
County	6.40	3,601,000
Other	2.38	1,339,000
Local Government Total	\$32.33	\$18,189,000
		Appropriation
	Tax Rate	Increase
State General Fund	\$5.40	\$3,038,000
Total	\$37.73	\$21,227,000

Estimate based on \$0.970 billion in currently exempt residential value and average urban residential tax rates for FY 2015.

Assumptions

- The extent to which City Councils and Boards of Supervisors will be willing to offer this new exemption to residential property owners is not known.
- For this Fiscal Note, the increase in value-added property tax exemptions above the current \$0.970 billion level is assumed to equal 1.5% for AY 2016, and grow 1.5 percentage points per year from AY 2017 through AY 2025.
- The residential rollback is assumed to equal 58.0% for all years.
- The average urban residential tax rate is assumed to be \$37.73 per thousand dollars for all years. The \$37.73 average tax rate includes a statewide urban residential rate of \$15.23 per thousand dollars, and that average school rate includes a \$5.40 basic school rate and \$9.83 in additional school tax rates. When property value that would otherwise be taxable is made exempt from taxation, the operation of the Iowa School Aid formula automatically increases the General Fund appropriation for school aid by \$5.40 per thousand dollars of exempted taxable value.
- All exemptions are assumed to last 10 years.
- Offering property tax exemptions has as a possible outcome that the statewide total of residential and multi-residential property value will be higher than would be the case without the new tax exemption. In instances where this is the case, the exemption has no direct property tax impact as the foregone property tax is tax that would not have been realized anyway. However, if the value exempted is value that would have been added to the specific building anyway, or if the value added in one location represents value that would have been added somewhere else in Iowa but for the available exemption, the new exemption has a negative impact on total statewide local revenue and increases the State appropriation for school finance.

Fiscal Impact

The fiscal impact of the new residential property tax exemption contained in [SF 278](#) depends on how willing City Councils and Boards of Supervisors are to extend the exemption to property within their city or county. Based on the above background and assumptions, the exemption is expected to increase the State General Fund school aid appropriation and decrease local government revenue by the levels indicated in **Table 2**.

Assesment Year	Fiscal Year	State GF Appropriation Increase	Local Revenue Reduction
2016	2018	\$ 50,000	\$ 270,000
2017	2019	90,000	550,000
2018	2020	140,000	820,000
2019	2021	180,000	1,090,000
2020	2022	230,000	1,360,000
2021	2023	270,000	1,640,000
2022	2024	320,000	1,910,000
2023	2025	360,000	2,180,000
2024	2026	410,000	2,460,000
2025*	2027	460,000	2,730,000

* Impacts extend past AY 2025 at similar levels

Once the exemption period for a particular property ends, it is possible the impact of the exemption will be positive for both the State General Fund and local governments. But this positive impact will be case-by-case and will only occur if the exemption increases the total amount of taxed residential and multi-residential property value statewide to a level higher than it would have been without the new exemption.

Sources

Department of Management property value and tax database
Department of Revenue exempt property value files
Legislative Services Agency analysis

/s/ Holly M. Lyons

March 17, 2015

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.
