

Legislative Fiscal Bureau

Fiscal Note

HF 692 - Property Tax Reform, Part I (LSB 3432 HV)
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Fiscal Note Version — New

Description

House File 692 makes changes to the method of property assessment and taxation. For the assessment year beginning January 1, 2006, taxable structures are taxed on a square footage basis. Land is assessed separately and taxed on a per acre basis. The assessment process corrects for inflation using the consumer price index with the January 2005 assessment serving as the base. Residential, commercial, and industrial purchases made after January 1, 2005, use the purchase price in calculating the square footage value. The Bill permits the assessor to adjust purchase prices to reflect arm's-length transactions and market value. Adjustments are made to the taxable square foot value only when additions are made to the structure that change the number of taxable square feet of the structure.

Agricultural land continues to be taxed with the current productivity value method. Agricultural structures are to be taxed on an agricultural productivity basis using a value per square foot. Farm residences are to be treated as other residential property.

The Bill establishes an Implementation Committee to devise a system for testing and implementing the property taxation system. The Department of Management (DOM) and the Department of Revenue and Finance (DRF) are to initiate and coordinate the Committee, which includes representatives of DOM; DRF; counties; cities; school districts; local assessors; commercial, residential, and agricultural taxpayers; and other appropriate stakeholders. The Committee will oversee the design phase, testing in three counties during the second year, and statewide testing during the third year, with tax collections beginning under the new system in FY 2008. The Committee is to make recommendations relating to the land tax, square footage tax, tax rate limitations, computer hardware and software, data collection and system testing, implementation budgets, and related issues. The implementation of the new system is to be revenue neutral in its impact on classes of property and maintain equity among classes of taxpayers and among taxpayers in the same class.

The Bill provides that the property assessment and taxing process is subject to legislative review with the first report due by January 1, 2010.

The Bill also repeals personal income tax, contingent upon a replacement tax being enacted.

Assumptions

1. It is assumed that the Implementation Committee will comply with the requirements to implement a property tax system that is revenue neutral. Cities, counties, and schools will receive comparable funding under the new property tax system, and the tax burden will not immediately shift among classes of taxpayers.
2. Major costs for the Committee will be staffing, member expenses, software development, data collection, and testing.
 - a. The Vision Iowa Program budgeted approximately \$200,000 for staffing and support expenses for FY 2002. The Utility Tax Replacement Task Force held 13 meetings over four-years requiring an estimated expenditure of \$110,000 in staffing, programming, and related expenses.

- b. The programming costs to create the new taxing system will be affected by how readily the counties' and the State's present data systems can be adapted to the requirements of the new taxing system. To the extent that a generic program can be written and applied by all affected agencies with minimal modification, costs will be reduced. The converse should hold, and programming costs are likely to increase if each entity must develop an independent system. Current programming costs for private contractors range from approximately \$60 per hour for small companies to \$175 per hour for larger nationwide companies. Over the past few years, the Department of Corrections has completely replaced the information management system for prisons and Community-Based Corrections at a cost of just under \$2.0 million for programming and consultant. The Justice Data Warehouse System, managed by the Criminal and Juvenile Justice Planning Division, has developed a data storage system integrating information from the Courts and Corrections; their consultant and programming costs have totaled approximately \$813,000.

Fiscal Impact

The fiscal impact of the Bill will be determined by the implementation design to be prepared by the Implementation Committee. The three Committee reports, due by October 31 over the next three years, are to include cost estimates.

Sources

Department of Revenue and Finance
Department of Management
Department of Corrections
Criminal and Juvenile Justice Planning Division, Department of Human Rights
Story County Assessor

/s/ Dennis C Prouty

April 24, 2003

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.
