

# **Fiscal Note**



Fiscal Services Division

HF 2221 - Dual Classification of Single Property (LSB 5697YH.1)

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Fiscal Note Version – HF 2221 as amended by H-8068 Requested by Representative Kirsten Running-Marquardt

## **Description**

Amendment <u>H-8068</u> to <u>HF 2221</u> is a strike after amendment. The amendment allows dual classification of a single property in a specific circumstance. The dual classification will allow classification of the space above a commercial structure that was used for human habitation to be classified as residential property, while the ground floor of the building remains classified as commercial. The dual classification will only be allowed in buildings that are no more than three stories in height and where the residential portion contain no more than two separate living units.

The new limited dual classification provision will not be allowed in areas where a division of revenue (tax increment financing) ordinance is in place prior to July 1, 2012.

The change will be first effective in tax year 2013 (FY 2015).

### **Background**

The current commercial rollback is equal to 100.00% and is projected to remain at or near that level for the next eight fiscal years. This means that for the foreseeable future, property classified as commercial will be taxed at its full market value.

The current residential rollback is equal to 50.75% (FY 2013) and is projected to rise eight to eleven percentage points over the next eight fiscal years. This means that for the foreseeable future, property classified as residential will be taxed at 50.75% to 62.00% of its full market value.

Property that moves from the commercial classification to the residential classification, assuming the market value does not change, will pay approximately 44.00% less in property taxes over the next eight tax years.

### **Assumptions**

- The Statewide amount of taxable commercial property that may benefit from the commercial to residential change allowed in the Bill is not known. For estimating purposes, the number of structures impacted statewide is estimated to be 800, and the average value converted from commercial to residential is assumed to be \$60,000. This yields a statewide impacted taxable value of \$48.0 million.
- The property tax reduction is assumed to be 44.0%. This results in a statewide taxable value reduction of \$21.1 million.
- The Statewide average commercial property tax rate for FY 2012 is \$38.41 per \$1,000 of taxable valuation. Of that amount, \$5.40 per \$1,000 is the school foundation basic levy.

## **Fiscal Impact**

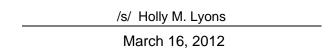
House File 2221, as amended by H-8068, is projected to reduce property taxes owed by the owners of impacted building by \$811,000 annually. Of that amount, \$114,000 will be the increased cost to the State General Fund through the School Aid Formula, and \$697,000 will be the revenue reduction for local governments.

Number of Buildings Impacted	800
Average Impacted Value	\$ 60,000
Statewide Impacted Value	\$ 48,000,000
Tax Reduction %	44.0%
Taxable Value Reduction	\$ 21,120,000
Average Tax Rate	\$ 38.41
Tax Reduction	\$ 811,000
State School Aid Impact	\$ 114,000
Local Government Impact	\$ 697,000

There will also be a local assessor expense associated with this change. Iowa law currently requires singularly-titled properties to be classified within one property classification based on the property's primary use. The current assessor system and procedures would need to be modified in order to allow a single property to be classified in two different property classifications.

#### Sources

Legislative Services Agency analysis



The fiscal note for this bill was prepared pursuant to <u>Joint Rule 17</u> and the correctional and minority impact statements were prepared pursuant to Iowa Code <u>section 2.56</u>. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.