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Fiscal Note

Fiscal Services Division

[SF 295](#) – Property Tax Changes (LSB 1464SV.2)
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Fiscal Note Version – Conference Committee Report

Description

The Conference Committee Report is a strike after amendment and it becomes the Bill. The Bill, by Division:

- **Division I**: Creates a new property tax credit available to properties classified as commercial, industrial, or railroad. A standing State General Fund appropriation is created to fund the new credit. The appropriation is equal to $50.0 million for FY 2015, $100.0 million for FY 2016, and $125.0 million for FY 2017 and after.
- **Division II**: Reduces the maximum annual taxable value growth percent, due to revaluation of existing residential and agricultural property, from the current 4.0% to 3.0%. In addition, commercial, industrial, and railroad property is assigned a "rollback" of 95.0% for assessment year (AY) 2013 and 90.0% for AY 2014 and after. A rollback is the percent of a property's value that is subject to tax. This Division also creates a standing General Fund appropriation, beginning in FY 2015, to reimburse local governments for the property tax reductions resulting from the new rollback for commercial and industrial property. Prior to FY 2018, the appropriation is a standing unlimited appropriation. Beginning in FY 2018, the standing appropriation cannot exceed the actual FY 2017 appropriation amount.
- **Division III**: Creates a new property tax classification for human habitat commercial property (apartments, nursing homes, assisted living facilities, etc.). The new classification begins in AY 2015. Property included in the new classification is assigned a rollback percentage of 86.25% for AY 2015, and that percentage declines 3.75 percentage points each year through AY 2021. Beginning in AY 2022, the multiresidential classification is assigned a rollback equal to the residential rollback each assessment year.
- **Division IV**: Exempts a specified portion of the assessed value of every telecommunications company from property taxation. The exemption begins in AY 2013 and is fully implemented in AY 2014.
- **Division V**: Creates a new Taxpayer Trust Fund Income Tax Credit. The tax credit will first be available for individual income tax returns filed for tax year 2013 (spring of 2014). The maximum amount of the credit will be determined by dividing the funds available in the Taxpayer Trust Fund by the number of taxpayers the previous tax year. Each taxpayer will be allowed the credit, up to either the tax credit maximum for that year, or the amount of income tax liability, whichever is less.
- **Division VI**: Makes changes to the Property Assessment Appeals Board (PAAB) and repeals an existing July 1, 2013, sunset provision for the Board. This Division also makes changes to the procedure for property assessment protests, notifications, and hearings.
- **Division VII**: Increases the Iowa Earned Income Tax Credit (EITC) from the current level of 7.0% of the federal credit amount to 14.0% for tax year 2013 and to 15.0% for tax year 2014 and after.

Background – Taxpayer Trust Fund

The Taxpayer Trust Fund was created during the 2011 Legislative Session to finance future tax reductions and first received revenue in FY 2013. Under current law, the Fund is eligible to receive up to $60.0 million annually from the Economic Emergency Fund excess after the reserve funds are fully funded. Moneys in the Trust Fund can only be used pursuant to appropriations made by the General Assembly for tax reductions. The amount the Taxpayer Trust Fund can receive in a given fiscal year is limited to $60.0 million or the difference between the actual net General Fund revenue for the preceding fiscal year and the adjusted revenue estimate used in establishing the budget for that fiscal year, whichever is less. For example, the amount the fund receives in FY 2013 is calculated by subtracting the Adjusted Revenue Estimate for the FY 2012 budget from the actual year-end net General Fund receipts for FY 2012.

Assumptions

Property Tax Base Projection – FY 2014 through FY 2024

- Property assessed value growth will increase, due to revaluation of existing property and due to net new construction, by the annual percentages provided in a table at the end of this document.
- From FY 2014 through FY 2024, nonschool local governments will achieve annual revenue increases from property tax equal to the 12-year average experienced by each level of government. Those historic property tax annual revenue increases are:
  - Cities = 4.8%
  - County (Urban) = 5.3%
  - County (Rural) = 4.1%
  - Other Local Governments = 5.5%
- The school district finance allowable growth rate will be set by the General Assembly at 2.0% each year beginning in FY 2014. For the base scenario, the annual property tax revenue for schools is established using the projected property value growth and the 2.0% allowable growth rate. Additionally, enrollments and weightings are held static at the FY 2014 levels.
- The amount of statewide property tax value that is contained in Tax Increment Financing (TIF) increments will increase 5.1% per year, a percentage equal to its average growth from FY 2007 through FY 2013.

Property Tax Projection – FY 2014 through FY 2024

- With the exception of telecommunications property, property assessed value growth will be the same as the base projection.
- Due to the change in the assessment basis, the telecommunications property assessed value will be reduced by $249.0 million in AY 2013 and an additional $250.0 million in AY 2014.
- The statewide assessed value of multiresidential property is assumed to equal $4.0 billion in AY 2012 and that amount is assumed to grow at the rate of commercial value each assessment year.
- From FY 2014 through FY 2024, nonschool local governments will achieve annual revenue increases that are somewhat reduced from the base projection. The projection assumes that as the tax rate increase necessary to maintain the historic revenue growth gets larger, a smaller percentage of the revenue will be recovered through rate increases. The result will be greater property tax reductions for taxpayers and larger nonschool local government revenue reductions in later years.

- The school district finance allowable growth rate will be set by the General Assembly at 2.0% each year beginning in FY 2014. The annual property tax revenue for schools is based on the projected growth in taxable value and 2.0% annual allowable growth. Additionally, enrollments and weightings are held static at the FY 2014 levels. For the portions of school finance that are controlled by the school aid formula, this means that the provisions of the Bill reducing taxable value growth necessarily do two things; increase the appropriation for state school aid and increase school district tax rates.
- For portions of school district finance that are not controlled by the school aid formula, the tax rates for debt and the Physical Plant and Equipment Levy (PPEL) are considered fixed and school tax rates do not increase as taxable value grows more slowly than the base projection, while tax rates for the management and Instructional Support levies will increase due to reductions in valuations.
- Each year, revenue from TIF increments will equal the base scenario TIF revenue projection.

Taxpayer Trust Fund Tax Credit

- The new Taxpayer Trust Fund Tax Credit Fund and the existing Taxpayer Trust Fund are separate state funds. To simplify the discussion, they are treated below as one fund and referred to collectively as the Taxpayer Trust Fund.
- For calculation of the Taxpayer Trust Fund Tax Credit available when tax year 2013 individual income tax returns are filed, there will be $120.0 million available for the tax credit and the maximum tax credit allowed per taxpayer will equal $54.
- For calculation of the Taxpayer Trust Fund Tax Credit available when tax year 2014 individual income tax returns are filed, there will be $91.9 million available for credits and the maximum tax credit allowed per taxpayer will equal $43. After tax credits are issued for tax year 2014, an estimated $24.4 million will remain in the Taxpayer Trust Fund.
- For future tax years, whenever the balance in the Taxpayer Trust Fund exceeds $30.0 million will trigger the availability of tax credits the next tax year.

Property Assessment Appeal Board (PAAB)

- The PAAB will continue to be funded by an allocation from the Department of Revenue and the PAAB will continue to operate with the same staffing and use of resources as in the past, and the costs will grow by 1.0% annually.
- If the PAAB is allowed to sunset, some of the appeals will shift to the district court. The number that will shift has not been determined.
- The filing deadline change and the option to waive the 30-day notice will have a minimal impact on Board operations.

Fiscal Impacts

Property Tax Provisions - Impact on the State General Fund

The property tax provisions will have three direct impacts on State General Fund appropriations and the total projected impact is detailed in **Table 1**.

1. A new State General Fund appropriation will be created to replace reduced local government revenues that result from the forced rollback to 90.0% for commercial and industrial property.
2. A new State General Fund appropriation will be created to fund the new business property tax credit.

3. Any decrease in taxable value that is not reimbursed through the appropriation above will result in an increase in the State School Aid appropriation of $5.40 per $1,000 of reduced taxable valuation. This impact is the result of the additional rollbacks for residential, agricultural, and railroad property, as well as the changes to the taxable value of multiresidential and telecommunications property.

Table 1

State General Fund Appropriation Increases

Dollars in millions

Appropriation	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
New State C/I Reimbursement Appropriation	$78.7	$162.5	$153.7	$153.7	$153.7	$153.7	$153.7	$153.7	$153.7	$153.7
Com/Ind/Rail Property Tax Credit	50.0	100.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0	125.0
School Aid Gen. Fund Appropriation Increase	7.2	14.9	24.9	33.2	42.4	52.2	63.4	75.2	88.6	104.5
Total General Fund Impact	$135.9	$277.4	$303.6	$311.9	$321.1	$330.9	$342.1	$353.9	$367.3	$383.2

Property Tax Provisions - Impact on Local Government Revenue

1. Nonschool local governments will experience reduced taxable value through six pathways:
   a. The forced rollback for commercial and industrial property from its current projected rollback level of 100.0% to 90.0%. For FY 2015 through FY 2017, the revenue reduction will be 100.0% reimbursed through the new state appropriation. Due to the 100.0% reimbursement provision, nonschool local government tax rates and property tax revenue should not be impacted for those two fiscal years.
   b. After FY 2017, local governments will be impacted by the 90.0% rollback for commercial and industrial property if commercial and industrial property values increase beyond the FY 2017 level. At that point, the State General Fund reimbursement appropriation will not fully cover the impact of the 90.0% rollback.
   c. The taxed value of railroad property will decrease in line with the commercial rollback but will not be reimbursed.
   d. The taxed value of the new multiresidential classification will be reduced as that class of property transitions to the residential rollback. The multiresidential impact is not reimbursed after FY 2016.
   e. The taxed value of telecommunications property is reduced as the assessment basis is changed.
   f. The taxed value of residential and agricultural property will be lower due to the reduction in the allowed annual revaluation growth rate from 4.0% to 3.0%.
2. The taxable value reductions associated with items *b* through *f* above will result in higher tax rates in instances where local governments have the ability and are willing to raise rates to compensate for the reduced taxable value. In instances where they are not willing or are not able to raise rates, local government revenue that is lower than the base assumption will result.
3. School districts will see the same reduced taxable value issues as presented in number 1 above. However, the majority of school finance is revenue-restricted, not rate-restricted, so the impact on tax rates and tax revenue is different than nonschool local governments.
   a. The taxable value reductions for the portion of school finance that is dictated by the established allowable growth rate percent and through the school aid formula will result in increased State General Fund appropriations in the amount of $5.40 per $1,000 of reduced taxable value. All School Aid Formula taxable value

reductions besides the $5.40 per thousand will result in higher school property tax rates sufficient to replace all remaining reduced revenue.

b. For the portion of school finance not dictated by the School Aid Formula, the reduced taxable value that is not reimbursed by the State will result in revenue reductions for school districts. This is the result of the assumption that non-School Aid Formula property tax rates are fixed and will not increase as taxable value decreases.

Table 2 provides the projected property tax reductions by the source of the reduction. The first three items are the result of the new and increased State General Fund appropriations, and the fourth and fifth items are the result of unreimbursed reductions in local government tax revenue**.** **Table 3** distributes the projected property tax reduction among the various classes of property. **Table 4** provides a projected distribution of the unreimbursed reductions in local government revenue.

Table 2

Statewide Property Tax Reductions

Dollars in millions

Property Tax Reductions Due to:	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
New State C/I Reimbursement Appropriation	$78.7	$162.5	$153.7	$153.7	$153.7	$153.7	$153.7	$153.7	$153.7	$153.7
Com/Ind/Rail Property Tax Credit	49.0	99.0	124.5	125.0	125.0	125.0	125.0	125.0	125.0	125.0
School Aid Gen. Fund Appropriation Increase	7.2	14.9	24.9	33.2	42.4	52.2	63.4	75.2	88.6	104.5
School Reduction for Other Levies	2.5	5.3	8.8	11.8	15.0	18.6	22.5	26.7	31.5	37.1
Non-School Local Gov. Revenue Reductions	5.1	9.9	17.1	26.6	38.3	52.2	73.1	90.2	108.0	140.5
Total Property Tax Reduction	$142.5	$291.6	$329.0	$350.2	$374.4	$401.7	$437.7	$470.9	$506.7	$560.8
% Reduction	2.7%	5.3%	5.7%	5.8%	5.9%	6.1%	6.3%	6.5%	6.7%	7.1%

Table 3

Property Tax Reduction by Property Class

Dollars in millions

Property Class	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Residential	$10.1	$23.6	$32.8	$49.0	$67.0	$88.0	$114.0	$139.7	$168.0	$201.2
Agricultural	3.7	6.6	9.5	13.8	18.4	24.5	30.0	37.1	43.9	50.0
Commercial	103.3	212.7	218.2	215.3	214.4	210.8	211.4	207.4	202.8	203.1
Multi-Residential	0.0	0.0	19.4	25.4	32.5	39.5	48.3	56.3	66.4	86.3
Industrial	14.9	31.3	32.7	32.5	32.1	31.8	31.5	31.1	30.4	29.9
Rail	1.8	3.7	3.5	3.4	3.3	3.2	3.1	3.0	2.7	2.7
Utility/Other	-0.2	-0.5	-0.9	-1.1	-1.4	-1.6	-1.8	-2.0	-2.2	-2.5
Telecommunications	9.7	16.0	16.5	17.1	16.9	16.9	16.7	16.7	16.5	16.4
Gas/Electric	-0.9	-1.7	-2.8	-3.7	-4.5	-5.2	-5.9	-6.6	-7.3	-8.1
Rounding Adjustment	0.1	-0.1	0.1	-1.5	-4.3	-6.2	-9.6	-11.8	-14.5	-18.2
Total	$142.5	$291.6	$329.0	$350.2	$374.4	$401.7	$437.7	$470.9	$506.7	$560.8

Table 4

Statewide Revenue Reduction by Local Government Category

Dollars in millions

Local Government Revenue Reductions *	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
City	$2.5	$4.4	$7.6	$12.0	$17.6	$22.7	$33.8	$40.4	$47.5	$64.7
County Urban	1.2	2.1	3.6	5.8	8.7	11.3	16.9	20.3	24.0	32.7
County Rural	0.8	2.3	3.6	5.0	6.5	10.0	12.1	17.0	19.8	23.0
School	2.5	5.3	8.8	11.8	15.0	18.6	22.5	26.7	31.5	37.1
Other Authorities	0.6	1.2	2.3	3.7	5.4	8.2	10.4	12.5	16.9	20.2
Total All Prop Tax $	$7.6	$15.3	$25.9	$38.3	$53.2	$70.8	$95.7	$116.9	$139.7	$177.7

* Revenue reductions equal property tax reductions minus State reimbursements.

Property Tax Provisions - Impact on Tax Increment Financing

Tax Increment Financing (TIF) involves the diversion of property tax dollars that would under conventional circumstances be used to fund schools and other levels of local government. Instead, a TIF agreement directs the property taxes to a special revenue fund of the TIF authority (usually a city or county) where it is used to repay debt associated with Urban Renewal activities (**Iowa Code chapter 403**) of that city or county. Four provisions of this Bill could negatively impact TIF arrangements.

1. The provision that reduces the allowed revaluation growth for residential property from 4.0% per year to 3.0% per year, beginning in AY 2013. This provision will result in less taxable residential value than under current law, so a given TIF area with residential value included will generate less TIF revenue, all else being equal. The TIF areas in the state contain no railroad or telecommunications value and very little agricultural value, so taxable value changes to those classes of property will have no impact.
2. The creation of a multiresidential property class and transitioning that class to the residential rollback will result in lower taxable values in TIF areas containing that type of property.
3. The provision that caps the State General Fund reimbursement for reduced commercial and industrial value at the FY 2018 level may mean that some tax revenue reductions associated with commercial and industrial rollbacks will not be fully reimbursed beginning in FY 2018. If the reduction is not fully reimbursed, revenue may be less than projected from TIF areas that contain commercial and industrial value.

The issues above will not be abrupt and TIF finance will have several fiscal years to adjust to the altered valuation and taxation system. Several provisions of current law and this Bill will act to ameliorate the negative impacts on TIF finance. Those counterbalancing provisions include:

1. Most TIF arrangements are not fully obligated for all projected future revenue. That is, some cushion is allowed so that 100.0% of all projected revenue going forward will not be necessary to repay existing obligations.
2. Several provisions of this Bill will result in higher property tax rates than would be the case under current law, particularly the provisions related to lower allowed taxable value growth for residential, multiresidential, telecommunications, agricultural, and railroad property. A change that results in higher tax rates compared to current law will replace some of the revenue reduction that would otherwise result from lower taxable values.

3. The TIF areas with unused increment may access some or all of the unused increment to make up any revenue shortfall.
4. Current law allows all rollback impacts to first reduce the taxable value of the TIF base before impacting the TIF increment. The TIF areas with existing frozen base values may access that value to protect the TIF revenue stream.

Taxpayer Trust Fund Tax Credit

The new tax credit created in the Bill is estimated to provide a nonrefundable tax credit of $54 for approximately 1.6 million qualifying taxpayers in tax year 2013 (impacting FY 2014), and $43 per qualifying taxpayer in tax year 2014 (impacting FY 2015). The tax credit will reduce income taxes paid by Iowa taxpayers by the following projected total amounts:

- FY 2014 = $ -88.1 million
- FY 2015 = $ -67.5 million

The tax credit will reduce State General Fund revenue by the same amounts. In future fiscal years, the tax credit will reduce taxes paid and state tax revenue in any year when the balance in the Taxpayer Trust Fund is $30.0 million or higher. The State General Fund will be reimbursed in the same fiscal year of the tax revenue reduction by a transfer from the Taxpayer Trust Fund equal to the income tax revenue reduction, so the net impact on the State General Fund will be zero.

Earned Income Tax Credit (EITC) Increase

Increasing the Iowa EITC from the current 7.0% of the federal credit to 14.0% for tax year 2013, and then 15.0% for tax year 2014, and after will reduce net income tax liability of taxpayers by $29.8 million for tax year 2013 and $32.2 million by tax year 2017. The impact on net General Fund revenue by fiscal years is presented in the following table.

EITC to 14% then 15%
Fiscal Impact by Fiscal Year
in millions of dollars

	State General Fund
FY 2013	$ -0.2
FY 2014	-30.2
FY 2015	-34.5
FY 2016	-33.3
FY 2017	-32.7

The Iowa EITC is refundable. Changes to refundable tax credits do not impact the local option income surtax for schools calculation.

Property Assessment Appeal Board (PAAB) - If the PAAB is allowed to sunset as provided under current law, the cost of the Board operations will be eliminated. Repealing the sunset will increase state expenditures by $874,000 in FY 2014 and $883,000 in FY 2015.

Sources

Department of Management – historical property tax files
Legislative Services Agency School Aid Formula Projections
Legislative Services Agency property tax projections
Iowa State Association of Counties

May 22, 2013

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.

History and Projected Statewide Net New Construction and Revaluation Percents by Class

	Assessment Year	Residential Net New Construction	Residential Revaluation	Agricultural Net New Construction	Agricultural Revaluation	Commercial Net New Construction	Commercial Revaluation	Industrial Net New Construction	Industrial Revaluation
History	AY 1999	2.39%	7.09%	0.74%	7.91%	4.45%	5.36%	6.96%	0.28%
History	AY 2000	2.74%	1.01%	0.34%	-0.20%	4.37%	1.27%	4.72%	0.84%
History	AY 2001	2.61%	10.48%	0.33%	1.46%	3.66%	6.52%	3.62%	0.94%
History	AY 2002	2.47%	0.57%	0.52%	-0.21%	3.20%	-0.03%	2.98%	0.94%
History	AY 2003	2.81%	6.05%	0.40%	-18.64%	3.36%	4.88%	2.73%	-0.78%
History	AY 2004	3.06%	1.03%	0.34%	-0.12%	2.30%	-0.03%	3.73%	0.06%
History	AY 2005	3.15%	7.44%	0.60%	3.03%	2.78%	5.14%	2.81%	-0.29%
History	AY 2006	3.12%	0.97%	0.63%	-0.11%	3.28%	0.66%	2.90%	-1.49%
History	AY 2007	2.94%	7.49%	0.93%	15.43%	2.72%	4.46%	5.10%	0.08%
History	AY 2008	2.30%	0.56%	0.82%	-0.14%	2.38%	0.14%	5.97%	0.76%
History	AY 2009	1.57%	1.07%	0.80%	47.28%	2.76%	0.61%	6.58%	0.37%
History	AY 2010	1.38%	0.53%	0.35%	-0.17%	1.36%	-0.27%	3.29%	3.93%
History	AY 2011	1.24%	-0.55%	0.33%	24.74%	1.42%	-0.88%	7.32%	0.20%
History	AY 2012	1.29%	-0.08%	0.38%	-0.16%	1.37%	-0.17%	5.57%	-0.84%
Projection	AY 2013	1.40%	2.25%	0.40%	37.00%	1.75%	0.75%	4.75%	0.25%
Projection	AY 2014	1.80%	0.20%	0.40%	-0.15%	2.25%	0.25%	4.75%	0.25%
Projection	AY 2015	2.00%	4.00%	0.40%	8.00%	2.25%	2.00%	4.75%	0.25%
Projection	AY 2016	2.00%	0.40%	0.40%	-0.15%	2.25%	0.25%	4.75%	0.25%
Projection	AY 2017	2.00%	5.00%	0.40%	8.00%	2.50%	3.50%	4.75%	0.25%
Projection	AY 2018	2.00%	0.60%	0.40%	-0.15%	2.50%	0.25%	4.75%	0.25%
Projection	AY 2019	2.25%	5.25%	0.40%	0.00%	2.50%	4.00%	4.75%	0.25%
Projection	AY 2020	2.25%	0.80%	0.40%	-0.15%	2.90%	0.25%	4.75%	0.25%
Projection	AY 2021	2.50%	6.00%	0.40%	0.00%	2.90%	4.25%	4.75%	0.25%
Projection	AY 2022	2.50%	1.00%	0.40%	-0.15%	2.90%	0.25%	4.75%	0.25%