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Fiscal Note

Fiscal Services Division

HF 609 – Property Rollback & State Reimbursement (LSB 1481HV)
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Fiscal Note Version – New

Description

House File 609 modifies Iowa's existing system of property taxation by altering the process of calculating taxable value from assessed value (rollbacks). Property classified as commercial or industrial is provided a statutory rollback percentage of 95.0% for assessment year (AY) 2013 (AY 2013 = FY 2015) and that rollback decreases by five percentage points each year until it reaches 80.0% for AY 2016. Beginning AY 2017, the statewide taxable value of commercial property is allowed to grow no more than 2.0% each assessment year due to revaluation of existing property. The current annual revaluation growth limit is 4.0%. Also beginning AY 2017, industrial property is assigned the rollback value calculated for commercial property.

Beginning AY 2013, railroad property is assigned the rollback value of commercial property.

Beginning AY 2013, this Bill reduces the annual revaluation growth limit from its current 4.0% to 2.0% for property classified as agriculture or residential.

Beginning AY 2017, this Bill ties together the allowed revaluation growth rates of commercial, residential, and agricultural property, with a provision that none of those property classes may grow due to revaluation at a higher rate than any other of the classes.

This Bill establishes a standing unlimited appropriation to reimburse all levels of local government for the reduced tax revenue associated with the forced rollback to 80.0%. The reimbursement applies to commercial and industrial property value only. Beginning with values for AY 2017 (FY 2019), the annual appropriation is limited to no more than the reimbursement appropriation necessary in FY 2018. This appropriation is made exempt from the uniform appropriation reduction provisions found in Iowa Code section **8.31(5)** (Governor's authority for uniform appropriation reductions).

The amendment increases the School Aid foundation percentage from the current 87.5% of the state cost per-pupil funding level, to 95.0%. The increase occurs in stages from FY 2015 through FY 2018. When fully implemented, this adjustment will shift 7.5 percentage points of the State cost per-pupil funding level from property taxes to the State General Fund.

Assumptions

Base Projection – FY 2014 through FY 2024

1. 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.

2. 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:
    a. Cities = 4.8%
    b. County (Urban) = 5.3%
    c. County (Rural) = 4.1%
    d. Other Local Governments = 5.5%
3. 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 for FY 2015 through FY 2018 are held static at the FY 2014 levels.
4. 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.

Projection – FY 2014 through FY 2024

1. Property assessed value growth will be the same as the base projection above.
2. 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.
3. 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 for FY 2015 through FY 2018 are held static at the FY 2014 levels.
4. For portions of school district finance that are not controlled by the school aid formula, the management levy, and the instructional support levy, the tax rates are considered fixed and the tax rates do not increase as taxable value grows more slowly than the base projection.
5. Each year, revenue from TIF increments will equal the base scenario TIF revenue projection.

Fiscal Impacts

Impact on the State General Fund

House File 609 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 all reduced local government revenues that result from the forced rollback for commercial and industrial property, beginning FY 2015 through FY 2018. For FY 2019 on, the appropriation will continue, but the total amount of the appropriation may be no more than the FY 2018 level.
2. 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 thousand of reduced taxable valuation. This impact is the result of the additional rollbacks for residential, agricultural, and railroad property (moving from 4.0% to 2.0%).

3. The increase in the school aid foundation level from 87.5% to 95.0% will increase the State General Fund appropriation for school aid.

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	$77.6	$159.4	$248.0	$339.5	$339.5	$339.5	$339.5	$339.5	$339.5	$339.5
School Aid Gen. Fund Appropriation Increase	75.1	154.0	236.7	322.8	349.7	369.8	401.7	425.2	461.9	490.0
Total General Fund Impact	$152.7	$313.4	$484.7	$662.3	$689.2	$709.3	$741.2	$764.7	$801.4	$829.5

C/I = Commercial/Industrial

Impact on Local Government Revenue

1. Nonschool local governments will experience reduced taxable value through four pathways:
   a. The forced rollback for commercial and industrial property from its current projected rollback level of 100.0% to 80.0%. From FY 2015 through FY 2018, 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.
   b. After FY 2018, local governments may be impacted by the reduction in allowed commercial revaluation growth from the current 4.0% per year to 2.0% per year and from tying the industrial rollback to the commercial rollback. If commercial property grows by more than 2.0% per year due to revaluation, then local governments are impacted. If commercial revaluation does not average 2.0% per year, then the new 2.0% growth limitation does not have an impact and the 80.0% commercial and industrial rollback will begin to increase towards 100.0%.
   c. The taxed value of railroad property will decrease in line with the commercial rollback.
   d. 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 2.0%.
2. The taxable value reductions associated with items *b* through *d* 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 value. In instances where they are not willing or are not able to raise rates, local government revenue reductions 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 thousand of reduced taxable value. All tax revenue reductions beyond $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 the result of the changes to residential, agricultural, and railroad property will result in revenue reductions for school districts. This is the result of the assumption that nonSchool Aid Formula property tax rates are fixed and will not increase as taxable value decreases.

c. The increase in the school foundation level from the current 87.5% to 95.0% will reduce school property tax revenue and replace it dollar for dollar with State General Fund appropriated dollars. This will lower school property tax rates but not lower school revenue.

Table 2 provides the projected property tax reductions by the source of the reduction. The first two items are the result of the new and increased State General Fund appropriations, and the third and fourth 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	$77.6	$159.4	$248.0	$339.5	$339.5	$339.5	$339.5	$339.5	$339.5	$339.5
School Aid Gen. Fund Appropriation Increase	75.1	154.0	236.7	322.8	349.7	369.8	401.7	425.2	461.9	490.0
School Reduction for Other Levies	4.0	8.4	13.1	18.3	23.8	29.6	36.2	43.2	50.9	59.3
Non-School Local Gov. Revenue Reductions	0.4	1.1	3.7	6.2	20.7	35.6	59.1	68.8	104.2	125.5
Total Property Tax Reduction	$157.1	$322.9	$501.5	$686.8	$733.7	$774.5	$836.5	$876.7	$956.5	$1,014.3
% Reduction	3.0%	5.9%	8.7%	11.4%	11.7%	11.8%	12.2%	12.2%	12.7%	12.9%

C/I = Commercial/Industrial

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	$55.8	$115.6	$180.3	$249.4	$276.6	$332.0	$365.4	$425.5	$470.9	$544.1
Agricultural	18.6	38.1	58.7	79.7	88.1	100.3	110.1	122.9	134.2	151.0
Commercial	67.1	136.8	212.2	288.2	302.4	280.6	301.6	275.4	299.9	274.4
Industrial	12.8	26.7	41.6	57.9	60.3	57.1	60.6	56.3	61.0	56.2
Rail	2.1	4.4	6.7	9.1	9.3	8.6	9.0	8.2	8.6	8.0
Utility/Other	0.3	0.7	1.0	1.3	0.0	-0.9	-2.2	-3.2	-4.4	-5.2
Gas/Electric	0.4	0.7	1.0	1.3	-1.0	-2.2	-4.4	-5.8	-7.9	-9.2
Rounding Adjustment	0.0	-0.1	0.0	-0.1	-2.0	-1.0	-3.6	-2.6	-5.8	-5.0
Total	$157.1	$322.9	$501.5	$686.8	$733.7	$774.5	$836.5	$876.7	$956.5	$1,014.3

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	$0.2	$0.3	$1.0	$1.4	$7.3	$14.1	$23.9	$27.4	$43.3	$48.5
County Urban	0.1	0.2	0.5	0.7	3.8	7.4	12.5	14.6	22.7	25.7
County Rural	0.1	0.4	1.8	2.5	5.6	8.9	14.2	16.6	22.9	31.2
School	4.0	8.4	13.1	18.3	23.8	29.6	36.2	43.2	50.9	59.3
Other Authorities	0.1	0.2	0.4	1.5	4.0	5.2	8.5	10.1	15.4	20.2
Total All Prop Tax $	$4.5	$9.5	$16.8	$24.4	$44.5	$65.2	$95.3	$111.9	$155.2	$184.9

* Revenue reductions equal property tax reductions minus State reimbursements.

Impact on Tax Increment Financing

Tax Increment Financing 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. Three 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 2.0% per year, beginning 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. Tax Increment Financing areas in the state contain no railroad value and very little agricultural value, so taxable value changes to those classes of property will have no impact.
2. 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 FY 2019. If the reduction is not fully reimbursed, revenue may be less than projected from TIF areas that contain commercial and industrial value.
3. The increase in the school foundation level from 87.5% to 95.0% will reduce overall school property tax rates, thus reducing the revenue generated by a given level of TIF increment value.

The two 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, 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. Tax Increment Financing 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. Tax Increment Financing areas with existing frozen base values may access that value in order to protect the TIF revenue stream.

Future Impact of the Three-Class Tie

For the three-class tie to have any impact, one or more of the tied classes must have a calculated rollback of 100.0%. Revaluation history for residential and commercial indicates that those two classes will not likely reach 100.0% in the short or medium term, given the 2.0% allowed growth rate contained in this Bill.

However, the productivity value of agricultural property can fall very quickly if the price and/or the volume of corn and soybeans decrease significantly. While current Legislative Services Agency projections expect sufficient farm productivity to allow an agricultural rollback through FY 2024 and beyond, significant crop issues in 2013 and 2014 could result in a 100.0% agricultural rollback sooner than anticipated, and that in turn could limit local government taxable value growth through revaluation to less than 0.0% per year until the productivity formula allows another agricultural rollback to develop.

Sources

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

March 25, 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%