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To: Committee Chairpersons Phil Wise and Joe Bolkcom

From: Jeff Robinson, LSA

Date: January 17, 2008

Subject: Revised November 2007 Property Tax Revenue Projection

In response to comments and concerns expressed by two Committee members at the December meeting, the Committee asked that the paper presented to the Committee addressing potential property tax growth be reviewed with interested parties to determine if revisions were necessary. Several revisions to the paper were made and the review process and revision details are discussed at the end of this revised paper.

At the request of the Committee Chairpersons, I have completed work on projecting potential additional property tax revenue available due to 1) agricultural productivity growth, and 2) the probable non-operation of the residential/agriculture tie over the next six years.

To make the comparison across years consistent, I used the same tax rate for each year and that tax rate was the statewide average for FY 2008. The average was calculated separately for each of the two classes and for each category of levy authority. For school taxes, only the Uniform Levy and non-revenue limited levies outside of the School Aid Formula were included (the additional levy was excluded).

The table below shows the average annual revenue growth each category experienced (using the static average tax rate) over the most recent six years and the projection for the next six years. The four attached charts show what this means by year for cities, counties, and schools, as well as one graph that includes those three plus all other categories.

Potential Average Annual Tax Revenue Increase
In Millions

	Average Growth - FY 03 thru FY 08	Average Growth - FY 09 thru FY 14
County	$6.6	$40.5
City	16.3	40.5
School	10.7	47.3
Com College	0.8	3.8
Hospitals	0.9	3.6
Other	0.6	4.7
Total - All Ag & Residential Property Taxes	$36.0	$140.4
State School Aid Impact	$-5.8	$-27.6

Please Note: This is the growth associated with residential and agricultural property only. The taxable value growth of the other classes should not be impacted by agricultural productivity or the residential/agricultural tie.

As I think the graphs show clearly, the near future is going to be considerably different than the near past. For instance, using a constant tax rate, cities would have had a total of $97.8 million in potential tax revenue growth over the past six years, but will have $243.0 million of potential growth over the next six years. The impact on counties is even more dramatic, $39.6 million versus $243.0 million.

For local governments, this means better budget times ahead, a chance to lower rates and/or improve services. For residential taxpayers, this means acceleration in the growth of their share of the total property tax burden. For commercial taxpayers, their share will have less upward pressure and it will likely decrease some. It is hard to determine what the net impact on agricultural taxpayers will be, as that class will see an increase in taxable value per acre, but will also benefit from increased residential taxable value growth.

The factors used in producing the projections are fairly concrete for FY 2009 through FY 2012. For FY 2013 and FY 2014, the projection does depend somewhat on the price and volume of corn and soybeans harvested in 2008 and 2009. The projection also assumes continued new residential construction over the time period, although at a substantially reduced level compared to recent years.

The following four charts show the projected growth in property tax revenue for cities, counties, schools, and for all local governments collecting property tax. The graphs show the property tax dollars associated with the taxable value growth for each year multiplied by a constant tax rate. The constant tax rate is the FY 2008 average statewide rate for that level of local government. Taxable value growth for FY 2003 through FY 2008 is actual growth; FY 2009 through FY 2014 is projected.

For **Chart 3** depicting school property tax, only the tax dollars associated with the Uniform Levy along with most levies outside of the School Aid formula are included. This excludes the Additional Levy and other budget-limited levies. By law the levy rate must fluctuate in response to available taxable value. Therefore, the paper's major assumption concerning fixed tax rates cannot apply to budget-limited levies.

The school property tax graph also includes the impact of taxable value growth on the State General Fund appropriation for School Aid. All taxable property value growth reduces the appropriation needed by $5.40 per thousand of taxable valuation. Therefore, years with greater taxable value growth require less additional State General Fund dollars than years with low taxable value growth.

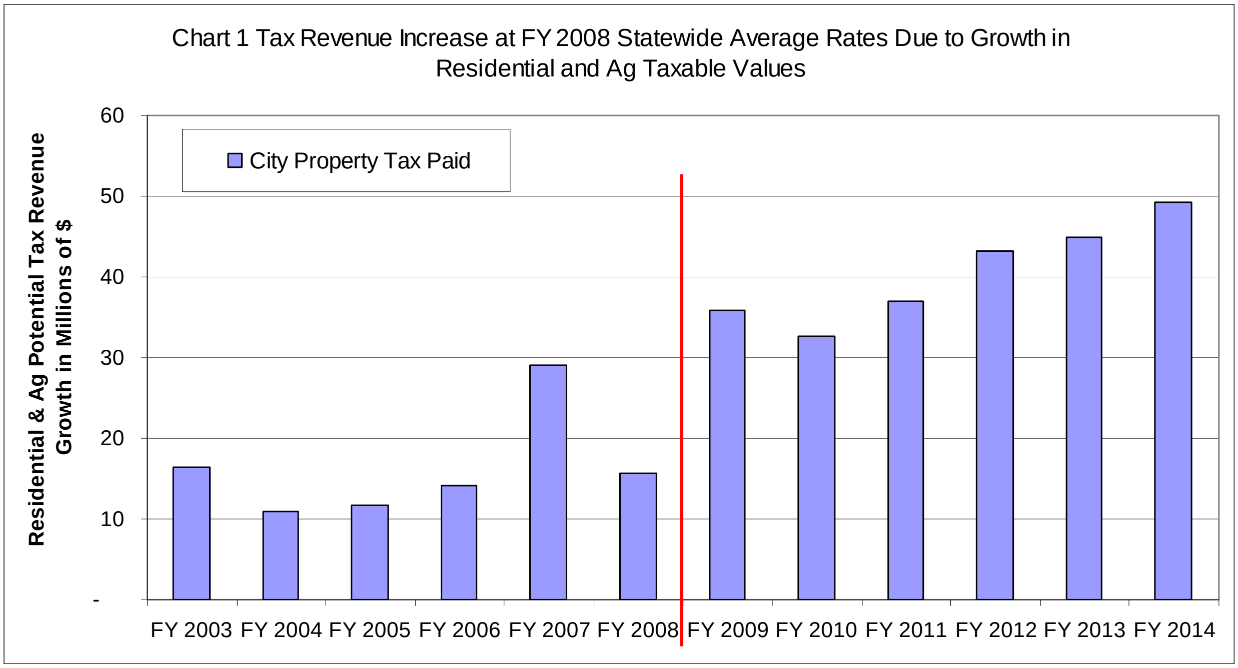


Chart 1 Tax Revenue Increase at FY 2008 Statewide Average Rates Due to Growth in Residential and Ag Taxable Values
Residential & Ag Potential Tax Revenue Growth in Millions of $
City Property Tax Paid
60
50
40
30
20
10
-
FY 2003 FY 2004 FY 2005 FY 2006 FY 2007 FY 2008 FY 2009 FY 2010 FY 2011 FY 2012 FY 2013 FY 2014

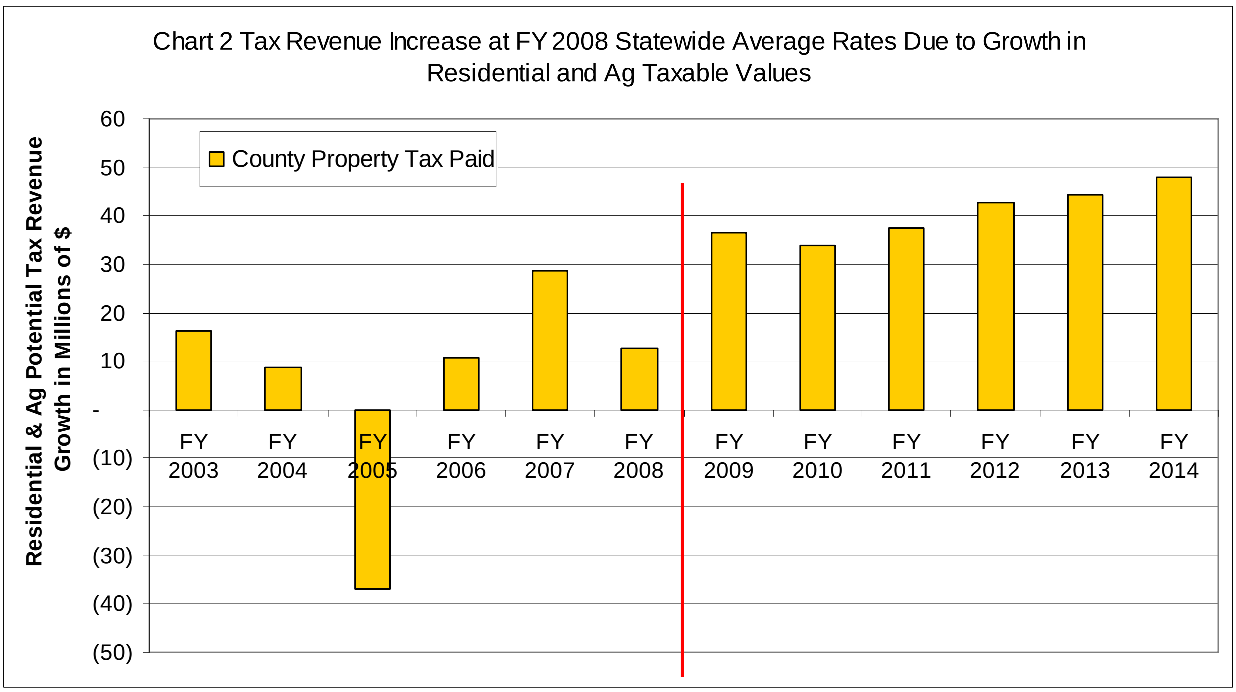


Chart 2 Tax Revenue Increase at FY 2008 Statewide Average Rates Due to Growth in Residential and Ag Taxable Values
Residential & Ag Potential Tax Revenue Growth in Millions of $
County Property Tax Paid
60
50
40
30
20
10
-
(10)
(20)
(30)
(40)
(50)
FY 2003 FY 2004 FY 2005 FY 2006 FY 2007 FY 2008 FY 2009 FY 2010 FY 2011 FY 2012 FY 2013 FY 2014

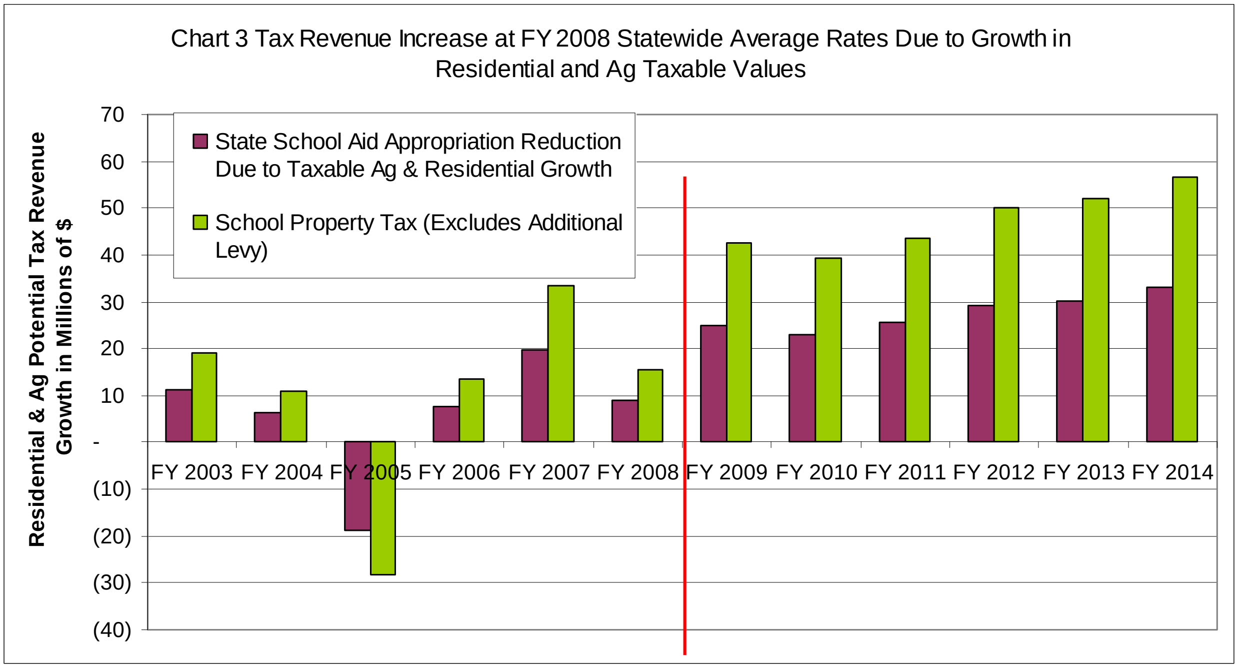


Chart 3 Tax Revenue Increase at FY 2008 Statewide Average Rates Due to Growth in Residential and Ag Taxable Values
Residential & Ag Potential Tax Revenue Growth in Millions of $
State School Aid Appropriation Reduction Due to Taxable Ag & Residential Growth
School Property Tax (Excludes Additional Levy)
70
60
50
40
30
20
10
-
(10)
(20)
(30)
(40)
FY 2003
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014

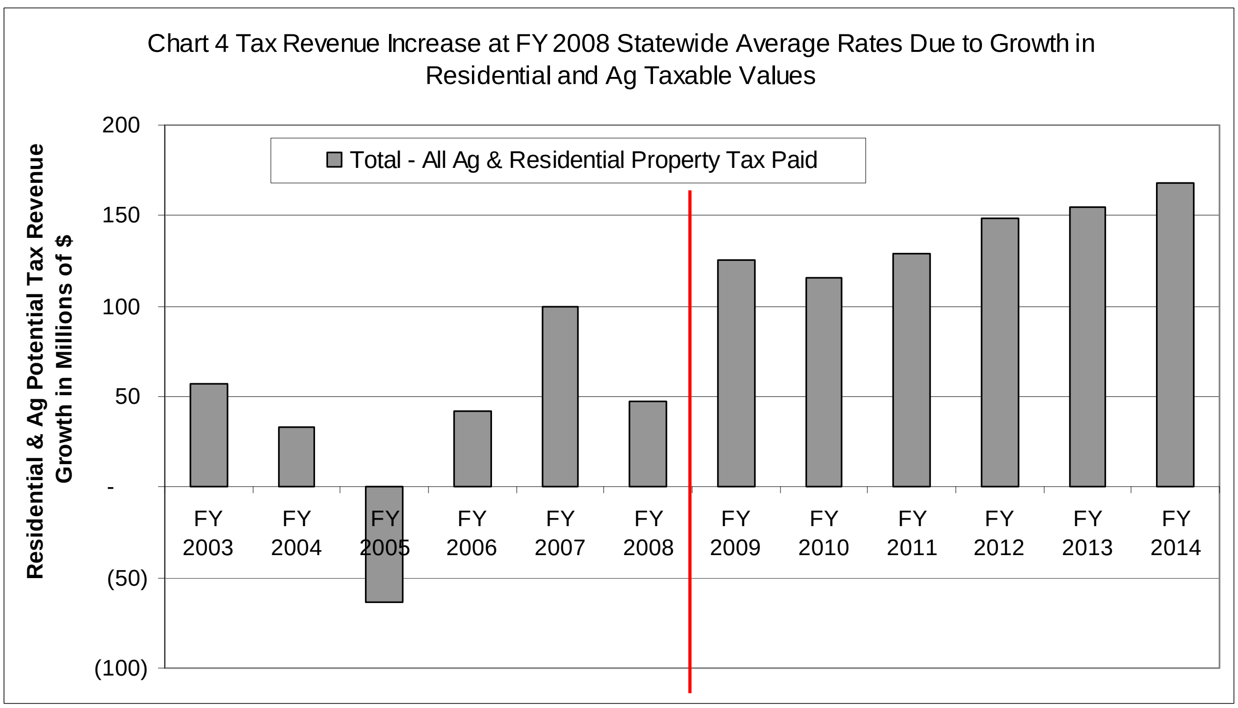


Chart 4 Tax Revenue Increase at FY 2008 Statewide Average Rates Due to Growth in Residential and Ag Taxable Values
Residential & Ag Potential Tax Revenue Growth in Millions of $
Total - All Ag & Residential Property Tax Paid
200
150
100
50
-
(50)
(100)
FY 2003
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014

Revision Appendix

The groups contacted either by phone, email, and/or by personal meeting included:

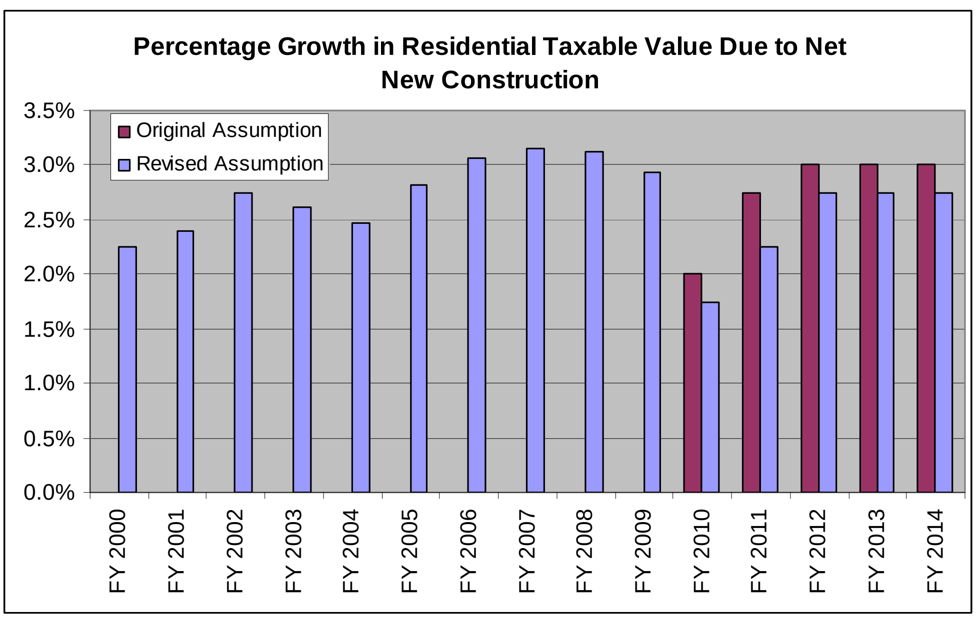
- Iowa Department of Revenue (Dale Hyman and Dick Davidson)
- Iowa Department of Management (Mike Albers)
- Iowa League of Cities
- City of Des Moines
- City of West Des Moines
- Iowa State Association of Counties (Jay Syverson)
- Iowa Association of School Boards
- Iowa Farm Bureau Federation (Tim Johnson)
- Legislative Services Agency (Shawn Snyder)

Revisions to the paper include:

Minor adjustments to the spreadsheet equations

Minor taxable value corrections suggested by the Department of Revenue

Reductions in the assumed residential taxable value growth due to net new construction at the suggestion of the Iowa League of Cities. The revised growth assumptions produced modest reductions in overall taxable value growth and modest reductions in potential future tax revenue projections.



Inclusion of the School Aid Uniform Levy ($5.40) in the calculations

- The intent of the paper was to discuss potential increases in property tax resulting from increases in agricultural and residential taxable values. The Uniform Levy is property tax and therefore should not have been excluded.

Exclusion of the School Aid Additional Levy in the calculations

- School property tax rates are composed of three general parts, the $5.40 Uniform Levy, the Additional Levy, and various levies outside of the School Aid Formula. Of the three parts, the Additional Levy is budget limited, along with roughly 20.0% of levies outside of the formula. By law the budget-limited levy rates must fluctuate in response to available taxable value. Therefore, the paper's major assumption concerning fixed tax rates cannot apply to budget-limited levies.

- For the above reason, the revised estimated impact of potential tax revenue growth only includes the Uniform Levy and 80.0% of levies outside of the School Aid Formula. The rates applied to taxable value growth were:

    - Uniform Levy: $5.40 for all property

    - Residential Levies Outside of the Formula: $5.08 times 80.0% = $4.06

    - Agricultural Levies Outside of the Formula: $3.80 times 80.0% = $3.04

- The percentage growth in taxable value across all classes of property over the next six years will likely exceed the percentage growth in revenue necessary to fully fund the Additional Levy, so the statewide average Additional Levy will likely decrease from FY 2008 to FY 2014. Therefore, excluding the Additional Levy from the calculations likely produces an over-estimate of the additional agriculture and residential school property tax revenue growth over the time period. However, estimating the portion of any rate reduction that should be assigned to the increased growth in agricultural and residential taxable value is beyond the scope of this paper.

Filename: Ag-Residential Tax Growth Projections Nov 2007-Revised.Doc