

Drake
Holmes
Doderer

HSB 751

WAYS AND MEANS

HOUSE FILE _____ SUCCESS
SE 02553
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL
BY CHAIRPERSON VAN FOSSEN)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the designation, valuation, and taxation of
2 property in a horizontal property regime and including an
3 effective date.

4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section 499B.3, Code 1999, is amended by adding
2 the following new unnumbered paragraph:

3 NEW UNNUMBERED PARAGRAPH. If the declaration is to convert
4 an existing structure, the declarant shall file the
5 declaration of the horizontal property regime with the city in
6 which the regime is located or with the county if not located
7 within a city at least forty-five days before being recorded
8 in the office of the county recorder to enable the city or
9 county, as applicable, to establish that the converted
10 structure meets appropriate building code requirements as
11 provided in section 499B.20. However, if the city or county,
12 as applicable, does not have a building code, the declarant
13 shall file the declaration with the state building code
14 commissioner instead of the applicable city or county at least
15 forty-five days before the recording of the declaration to
16 enable the commissioner to establish that the converted
17 structure meets the state building code.

18 Sec. 2. Section 499B.10, Code 1999, is amended to read as
19 follows:

20 499B.10 INDIVIDUAL APARTMENTS AND INTEREST IN COMMON
21 ELEMENTS ARE ALIENABLE.

22 When real property containing a building is committed to a
23 horizontal property regime, each individual apartment located
24 therein in the building and the interests in the general
25 common elements and limited common elements if any,
26 appurtenant thereto, shall ~~be-vested-as,~~ constitute for all
27 purposes a separate parcel of real property and shall be as
28 completely and freely alienable as any separate parcel of real
29 property is or may be under the laws of this state, except as
30 limited by the provisions of this chapter.

31 Sec. 3. Section 499B.11, subsection 1, Code Supplement
32 1999, is amended to read as follows:

33 1. All real property taxes and special assessments shall
34 be assessed and levied on each apartment and its respective
35 appurtenant fractional share or percentage of the land,

1 general common elements and limited common elements where
 2 applicable as ~~such~~ these apartments and appurtenances are
 3 separately owned, and not on the entire horizontal property
 4 regime. The fair market value determined for an apartment
 5 includes the value of its appurtenant share or percentage of
 6 the land, general common elements, and limited common
 7 elements.

8 Sec. 4. NEW SECTION. 499B.20 CONVERSIONS TO MEET
 9 BUILDING CODES.

10 After the effective date of this Act, an existing structure
 11 shall not be converted to a horizontal property regime unless
 12 the converted structure meets local city or county, as
 13 applicable, building code requirements in effect on the date
 14 of conversion or the state building code requirements if the
 15 local city or county does not have a building code. For
 16 purposes of this section, if the structure is located in a
 17 city, the city building code applies and if the structure is
 18 located in the unincorporated area of the county, the county
 19 building code applies.

20 Sec. 5. EFFECTIVE DATE. This Act, being deemed of
 21 immediate importance, takes effect upon enactment.

22 EXPLANATION

23 The bill specifies that a building unit, general common
 24 interests, and limited common interests, appurtenant to the
 25 building unit, in a horizontal property regime, i.e.,
 26 condominium complex, constitutes a separate parcel of real
 27 property. Also, the bill provides that for property taxation
 28 purposes, the fair market value determined for the building
 29 unit in a condominium complex includes the value of the land
 30 and general and limited common elements. After the effective
 31 date of the bill, existing structures meet shall not be
 32 converted to condominiums unless the structures the city or
 33 county, as applicable, building codes or the state building
 34 code, if the applicable city or county does not have a
 35 building code. The bill provides that 45-day notice must be

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S.F. _____ H.F. _____

1 provided to the applicable city, county, or state before the
2 filing of the declaration to convert a structure to a
3 condominium complex.

4 The bill takes effect upon enactment.

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Substituted by SD 2426
By P1257
4-5-00

MAR 23 2000

WAYS & MEANS CALENDAR

HOUSE FILE 2553

BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 751)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

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HF 2553

1 Section 1. Section 499B.3, Code 1999, is amended by adding
2 the following new unnumbered paragraph:

3 NEW UNNUMBERED PARAGRAPH. If the declaration is to convert
4 an existing structure, the declarant shall file the
5 declaration of the horizontal property regime with the city in
6 which the regime is located or with the county if not located
7 within a city at least sixty days before being recorded in the
8 office of the county recorder to enable the city or county, as
9 applicable, to establish that the converted structure meets
10 appropriate building code requirements as provided in section
11 499B.20. However, if the city or county, as applicable, does
12 not have a building code, the declarant shall file the
13 declaration with the state building code commissioner instead
14 of the applicable city or county at least sixty days before
15 the recording of the declaration to enable the commissioner to
16 establish that the converted structure meets the state
17 building code.

18 Sec. 2. Section 499B.10, Code 1999, is amended to read as
19 follows:

20 499B.10 INDIVIDUAL APARTMENTS AND INTEREST IN COMMON
21 ELEMENTS ARE ALIENABLE.

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23 horizontal property regime, each individual apartment located
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26 appurtenant thereto, shall ~~be-vested-as,~~ constitute for all
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34 be assessed and levied on each apartment and its respective
35 appurtenant fractional share or percentage of the land,

1 general common elements and limited common elements where
2 applicable as such these apartments and appurtenances are
3 separately owned, and not on the entire horizontal property
4 regime. The fair market value determined for an apartment
5 includes the value of its appurtenant share or percentage of
6 the land, general common elements, and limited common
7 elements.

8 Sec. 4. NEW SECTION. 499B.20 CONVERSIONS TO MEET
9 BUILDING CODES.

10 After the effective date of this Act, an existing structure
11 shall not be converted to a horizontal property regime unless
12 the converted structure meets local city or county, as
13 applicable, building code requirements in effect on the date
14 of conversion or the state building code requirements if the
15 local city or county does not have a building code. For
16 purposes of this section, if the structure is located in a
17 city, the city building code applies and if the structure is
18 located in the unincorporated area of the county, the county
19 building code applies.

20 Sec. 5. EFFECTIVE DATE. This Act, being deemed of
21 immediate importance, takes effect upon enactment.

22 EXPLANATION

23 The bill specifies that a building unit, general common
24 interests, and limited common interests, appurtenant to the
25 building unit, in a horizontal property regime, i.e.,
26 condominium complex, constitutes a separate parcel of real
27 property. Also, the bill provides that for property taxation
28 purposes, the fair market value determined for the building
29 unit in a condominium complex includes the value of the land
30 and general and limited common elements. After the effective
31 date of the bill, existing structures meet shall not be
32 converted to condominiums unless the structures the city or
33 county, as applicable, building codes or the state building
34 code, if the applicable city or county does not have a
35 building code. The bill provides that 60-day notice must be

1 provided to the applicable city, county, or state before the
2 filing of the declaration to convert a structure to a
3 condominium complex.

4 The bill takes effect upon enactment.

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**HOUSE FILE 2553
FISCAL NOTE**

A fiscal note for House File 2553 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

House File 2553 specifies that property qualifying under the horizontal property regime as specified in Section 499B.10, Code of Iowa, shall constitute a separate parcel of real property. Condominiums will be taxed based on how the individual unit is used rather than on the basis of the predominant use of the building in which the unit is located. The Bill further provides that after the effective date of the Legislation no existing structure may be converted to a condominium unless the individual units satisfy local or State building codes that apply to condominiums. Prior to converting a building to condominiums, a 60-day notice must be given to the applicable city, county, or the State.

BACKGROUND

Under current rules published in Chapter 71, Iowa Administrative Code, pertaining to property assessment practices, a condominium is classified for property tax purposes based on the predominant use of the building in which the condominium is located.

Currently, State law limits the annual rate of increase in the valuation of residential property to no more 4.0%. Furthermore, the statewide value of residential property cannot increase by a greater percentage in any given year by more than the rate of increase experienced by agricultural property. These provisions have resulted in the "rollback," or reduction, in the share of residential property subject to property tax. The rollback percentage for residential property for assessment year 1999 (FY 2001) is 54.8525%. In comparison, the rollback percentage for commercial property for assessment year 1999 is 98.7732%. The difference between these two rollback percentages means a \$100,000 condominium classified as residential property would be taxed on only \$54,853 of value versus \$98,773 for a condominium classified as commercial property, or a reduction of \$43,920 in taxable value.

Based on information collected from city and county assessors last year, the estimated market value of existing residential rental property with three or more units per building is \$3.426 billion. Based on information compiled by the Department of Economic Development, the value of residential building permits issued by the 49 largest cities in Iowa during 1999 equalled \$762.0 million. National mortgage loan information implies that about 7.0%, or \$53.3 million, of residential construction in these cities during 1999 was multi-family (i.e., commercial residential), property.

ASSUMPTIONS

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1. In recent years owners of apartment buildings have been converting these buildings to condominiums in order to obtain a reduction in the share of the property's value that is subject to property tax.
2. Approximately 50.0% of rental residential property with three or more units per building are located in the nine most urban counties in the State.
3. The average property tax rate in the State equals approximately \$32.00 per \$1,000 of taxable valuation.
4. Approximately 50.0% of rental residential property with three or more units per building located in the nine most urban counties in the State will be converted to condominiums.
5. Approximately \$50.0 million in new multi-family rental housing will be built as condominiums rather than apartments per year.
6. The residential rollback equals 54.8525% for assessment year 1999, and this percentage will likely decrease to 52.5% for assessment year 2000.
7. The commercial rollback equals 98.7732%, for assessment year 1999, and this percentage will likely increase to 100.0% for assessment year 2000.
8. The savings in property taxes resulting from converting residential rental property to condominium will be capitalized into the market value of the property at a rate of 10.0%, which will result in a 12.0% to 13.0% increase in value.
9. The uniform levy under the School Aid Foundation Formula equals \$5.40 per \$1,000 of taxable valuation.

FISCAL IMPACT

House File 2553 will result in a shift of property taxes among classes of property equal to \$10.5 million in FY 2001 and equal to \$11.2 million in FY 2002 resulting from the conversion of existing apartments to residential condominiums. In addition, the conversion of existing apartments to residential condominiums will result in an increase in State School Aid equal to \$1.8 million in FY 2001 and equal to \$1.9 million in FY 2002.

Beginning with FY 2003 an additional impact will result from new multi-family housing being constructed as residential condominiums rather than apartments. The fiscal impacts of new construction is an incremental increase in the shift of property taxes among property classes of \$1.6 million per year and an incremental increase in State School Aid equal to \$0.2 million per year.

SOURCES

Iowa Department of Revenue and Finance
Iowa Department of Economic Development

(LSB 6513hv, MAL)

FILED MARCH 29, 2000

BY DENNIS PROUTY, FISCAL DIRECTOR

**HOUSE FILE 2553
FISCAL NOTE**

A fiscal note for **House File 2553** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

House File 2553 specifies that property qualifying under the horizontal property regime as specified in Section 499B.10, Code of Iowa, shall constitute a separate parcel of real property. Condominiums will be taxed based on how the individual unit is used rather than on the basis of the predominant use of the building in which the unit is located. The Bill further provides that after the effective date of the Legislation no existing structure may be converted to a condominium unless the individual units satisfy local or State building codes that apply to condominiums. Prior to converting a building to condominiums, a 60-day notice must be given to the applicable city, county, or the State.

BACKGROUND

Under current rules published in Chapter 71, Iowa Administrative Code, pertaining to property assessment practices, a condominium is classified for property tax purposes based on the predominant use of the building in which the condominium is located.

Currently, State law limits the annual rate of increase in the valuation of residential property to no more 4.0%. Furthermore, the statewide value of residential property cannot increase by a greater percentage in any given year by more than the rate of increase experienced by agricultural property. These provisions have resulted in the "rollback," or reduction, in the share of residential property subject to property tax. The rollback percentage for residential property for assessment year 1999 (FY 2001) is 54.8525%. In comparison, the rollback percentage for commercial property for assessment year 1999 is 98.7732%. The difference between these two rollback percentages means a \$100,000 condominium classified as residential property would be taxed on only \$54,853 of value versus \$98,773 for a condominium classified as commercial property, or a reduction of \$43,920 in taxable value.

Based on information collected from city and county assessors last year, the estimated market value of existing residential rental property with three or more units per building is \$3.426 billion. Based on information compiled by the Department of Economic Development, the value of residential building permits issued by the 49 largest cities in Iowa during 1999 equalled \$762.0 million. National mortgage loan information implies that about 7.0%, or \$53.3 million, of residential construction in these cities during 1999 was multi-family (i.e., commercial residential), property.

ASSUMPTIONS

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1. In recent years owners of apartment buildings have been converting these buildings to condominiums in order to obtain a reduction in the share of the property's value that is subject to property tax.
2. Approximately 50.0% of rental residential property with three or more units per building are located in the nine most urban counties in the State.
3. The average property tax rate in the State equals approximately \$32.00 per \$1,000 of taxable valuation.
4. Approximately 20.0% of rental residential property with three or more units per building located in the nine most urban counties in the State will be converted to condominiums.
5. Approximately \$50.0 million in new multi-family rental housing will be built as condominiums rather than apartments per year.
6. The residential rollback equals 54.8525% for assessment year 1999, and this percentage will likely decrease to 52.5% for assessment year 2000.
7. The commercial rollback equals 98.7732%, for assessment year 1999, and this percentage will likely increase to 100.0% for assessment year 2000.
8. The savings in property taxes resulting from converting residential rental property to condominium will be capitalized into the market value of the property, plus due to each unit now being treated as a separate parcel of property and available for sale on this basis, the value of converted property is assumed to increase by 30.0%.
9. The uniform levy under the School Aid Foundation Formula equals \$5.40 per \$1,000 of taxable valuation.

FISCAL IMPACT

House File 2553 will result in a shift of property taxes among classes of property equal to \$3.1 million in FY 2001 and equal to \$3.4 million in FY 2002 resulting from the conversion of existing apartments to residential condominiums. In addition, the conversion of existing apartments to residential condominiums will result in an increase in State School Aid equal to \$0.5 million in FY 2001 and equal to \$0.6 million in FY 2002.

Beginning with FY 2003 an additional impact will result from new multi-family housing being constructed as residential condominiums rather than apartments. The fiscal impacts of new construction is an incremental increase in the shift of property taxes among property classes of \$1.6 million per year and an incremental increase in State School Aid equal to \$0.2 million per year.

SOURCES

Iowa Department of Revenue and Finance
Iowa Department of Economic Development
Ames City Assessor

(LSB 6513HV.2, MAL)

FILED APRIL 5, 2000

BY DENNIS PROUTY, FISCAL DIRECTOR