



HANDOUTS

Property Taxation Review Committee

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Legislative Guide to Local Property Tax
Provided by Susan E. Crowley, LSA, Legal Services Division

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LEGISLATIVE GUIDE TO LOCAL PROPERTY TAX



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About the Author:

Susan Crowley, J.D., University of Iowa, 1988, is a Senior Legal Counsel with the Legal Services Division of the Legislative Services Agency. She has been employed by the Agency since 1990. She staffs the Ways and Means and Local Government Committees and drafts legislation in the areas of taxation, elections, and local government.

Ms. Crowley can be reached by telephone at (515) 281-3430 or by e-mail at:
susan.crowley@legis.state.ia.us.

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I. Introduction.

The property tax is the mainstay of local government revenues in Iowa. This Legislative Guide provides an overview of the property tax system and endeavors to provide the reader a basic understanding of the property tax system.¹ References in this Guide to the Iowa Code are to the 2003 Iowa Code and 2003 Iowa Code Supplement. References to the Iowa Administrative Code and case law are to references published as of October 2003. The Guide addresses the property tax from several different perspectives, including the assessment/collection process, the tax as revenue to local governments, property tax credits and exemptions, and use of the tax as a community/economic development tool.

The property tax in Iowa is used solely by those local government entities expressly permitted by state statute to impose the tax. The power to authorize a local government entity to levy a property tax is expressly reserved to the state in the local government Home Rule Amendments of the Iowa Constitution.² The property tax is levied on the assessed value of real property. The consolidated tax rate differs in each locality and is a composite of county, city, school district, and special levies. Revenue information in this Guide was supplied or verified by the Iowa Department of Revenue and the Legislative Services Agency, Fiscal Services Division.

II. Structure of Property Tax.

A. Rates.

The tax levy rates are expressed in dollars and cents per \$1,000 of assessed valuation. The property tax due and payable in a fiscal year is determined by taking the property's assessed value determined as of January 1 of the year preceding the year in which the fiscal year begins, i.e., 18 months prior, adjusted by statutory exemptions and the applicable rollback, and multiplying this amount by the consolidated levy rate, i.e., the total levy rates of all jurisdictions in which the property is located. In many instances, the Iowa Code uses the terms "assessed value" and "taxable value" interchangeably when referring to the amount of value subject to the imposition of the levy rate after statutory exemptions and the assessment limitation (i.e., the rollback) have been applied. To avoid confusion, this Legislative Guide uses the term "assessed value."³

At one time, the rates were expressed in mills per dollar, i.e., millage rate. One mill equals one-tenth of a cent or one-thousandth of a dollar. Converting the millage rate to dollars and cents per \$1,000, 1 mill equals \$1 per \$1,000 of assessed value. However, at

¹ In 2003 Iowa Acts, First Extraordinary Session, ch. 1 (H.F. 692), Division I changes the method by which certain property is assessed and taxed for property tax purposes. The Act takes effect July 1, 2005, and applies to assessment years beginning on or after January 1, 2006, and applies to tax collections in fiscal years beginning on or after July 1, 2007. Under this Act, all taxable structures would be assessed for taxation on a square-footage basis with the January 1, 2005, assessment as the base assessment. Agricultural land would continue to be assessed based on productivity. A land tax would be assessed against all other taxable real estate. For more detail, see the summary of H.F. 692 at <http://www.legis.state.ia.us/GA/80GA/Session.1/Summary/taxa.htm> or contact the Legislative Services Agency, Legal Services Division, for a paper copy of the summary. House File 692 can be accessed at <http://www.legis.state.ia.us> or contact the Legislative Services Agency, Legal Services Division, for a paper copy of the legislation.

² Iowa Const. Art. III, §§ 38A (municipalities) and 39A (counties).

³ Iowa Code § 441.21(3) defines the terms "actual value," "taxable value," or "assessed value" as the value after application of the assessment limitation, i.e., the rollback. See Part III, paragraph F.2. of this Guide for a discussion of the rollback.



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the time the millage rate was used, property was assessed for taxation at 27 percent of its market value, but the millage rate conversion was applied to property assessed at 100 percent of market value. Therefore, the millage rate had to be adjusted down to 27 cents per \$1,000 of assessed value to reflect the proportion of property subject to tax. This explains why a number of property tax levies are multiples of 27 cents. For example, the \$5.40 school levy was once 20 mills and the \$8.10 city general fund levy was once 30 mills. It also may explain why proposed new levies and increases to existing levies are often in multiples or fractions of 27 cents.

B. County Levies.

A county is permitted by state statute to impose two primary, or basic, levies. The rural services levy is imposed only against property located in the unincorporated areas of the county and is deposited in the rural services fund to pay for those services provided primarily to the residents of the unincorporated areas of the county. The rural services levy may not exceed \$3.95 per \$1,000 of assessed value. The general services levy, which is imposed countywide, may not exceed \$3.50 per \$1,000 of assessed value and is deposited in the general fund to pay for those services provided to all county residents.⁴ A county is also permitted to levy a supplemental property tax levy for only those purposes specified in Iowa Code section 331.424. The amount of the supplemental levy rate is not limited by statute. Senate File 69, enacted in 1995, removed the authority to levy taxes to pay various mental health, mental retardation, and developmental disability service expenditures by supplemental levy and established a separate fund for such expenditures with a limited levy rate determined by formula for each county.⁵

A county board of supervisors may certify additions to each of the basic levies (general services levy and rural services levy), if the county has experienced unusual circumstances which create a need for additional property taxes in excess of what can be raised under the basic or supplemental levies. Special notice of an addition to a basic levy is required to be given simultaneously with notice of the required public hearing on the county budget.⁶

Finally, a county may certify an addition to a levy in excess of the amounts permitted under the basic levy and any additions to the basic levy if the additional levy is approved at a special election by a simple majority of votes cast.⁷

C. City Levies.

A city certifies its taxes to the county auditor to be levied and collected by the county. A city is permitted by state statute to impose a property tax levy rate for the city general fund not to exceed \$8.10 per \$1,000 of assessed value.⁸ A city is permitted to certify supplemental levies for only those purposes, and at only those rates, specified by Iowa Code section 384.12. Both the \$8.10 levy and the supplemental levies are general fund

⁴ Iowa Code § 331.423.

⁵ Iowa Code §§ 331.424A, 331.438 through 331.440.

⁶ Iowa Code § 331.426.

⁷ Iowa Code § 331.425.

⁸ Iowa Code § 384.1.



levies. A city may certify a tax levy which exceeds that permitted by statute if the additional levy is approved at a special election by a simple majority of votes cast.⁹

In addition to the general fund levies, cities are allowed to levy property taxes for the following funds established by state statute: 1) debt service fund;¹⁰ 2) trust and agency funds;¹¹ and 3) capital improvements fund.¹² Cities are also allowed to establish an emergency fund, for which property taxes not to exceed 27 cents per \$1,000 of assessed value may be levied each year. Transfers from the emergency fund to the city general fund are governed by rules promulgated by the City Finance Committee, a committee of city officials and others, staffed by the Department of Management.¹³

D. Education Levies.

1. School District Levies.

Since 1971, K-12 school districts in Iowa have been funded using a school foundation formula that combines state foundation aid and local property taxes. The formula generates funding for each school district on a per pupil basis. The school foundation level, i.e., the maximum portion of a district's basic allowable spending funded by the state, is currently set at 87.5 percent. The school district foundation property tax levy is \$5.40 per \$1,000 of assessed value.¹⁴ Since the foundation property tax levy and state aid do not fully fund the school district's basic allowable spending, the school district imposes an additional property tax levy.¹⁵ However, K-12 school districts are allowed to levy income surtaxes and property taxes in addition to the \$5.40 per \$1,000 of assessed value and the additional property tax levy to fund specified needs. Some, but not all, of these funding mechanisms require district voter approval. A description of additional sources of school district revenue is found in Part VIII of this Guide. For a more detailed review of the school foundation formula and school funding, see the Legislative Guide entitled "Basic Iowa Education Finance."

2. Community College Levies.

A community college board of directors must annually certify for levy a property tax of 20 and 1/4 cents per \$1,000 of assessed value in the community college's area to pay expenditures for operation of the community college.¹⁶ A board of directors may certify for levy an additional 20 and 1/4 cents per \$1,000 of assessed value for a period of time not to exceed 10 years for specified purposes if approved by the voters at the annual school election. The revenues from the additional levy may be used for the purpose of maintaining, remodeling, improving, or expanding the community college, and specifically for the purchase of grounds, construction of buildings, payment of debts contracted for the construction of buildings, purchase of buildings

⁹ Iowa Code § 384.12(20).

¹⁰ Iowa Code § 384.4.

¹¹ Iowa Code § 384.6.

¹² Iowa Code § 384.7.

¹³ Iowa Code § 384.8. For composition and duties of the City Finance Committee, see Iowa Code §§ 384.13 through 384.15.

¹⁴ Iowa Code § 257.3.

¹⁵ Iowa Code § 257.4.

¹⁶ Iowa Code § 260C.17.



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and equipment for buildings, the acquisition of libraries, and payment of utilities. Proceeds from the tax are to be deposited in the voted tax fund and used solely for the purpose for which the tax was voted. A board of directors may enter into loan agreements in anticipation of the tax revenues.¹⁷ Finally, the board of directors may certify for levy an annual tax of not more than 3 cents per \$1,000 of assessed value for equipment replacement for the community college. However, the rate certified may exceed the 3 cent limit if the excess is used for purposes of program sharing between community colleges or for the purchase of instructional equipment. The excess certified for levy shall not cause the entire amount certified to exceed 9 cents.¹⁸

E. Township Levies.

Township trustees may levy property taxes sufficient to pay for condemnation or purchase of lands for the use of cemeteries, a community center, or juvenile playgrounds and for necessary improvements to and maintenance of cemeteries in the township and in adjoining townships and for necessary improvements to and maintenance of public parks acquired by gift, devise, or bequest.¹⁹ Township trustees may also levy a tax not to exceed 6 and 3/4 cents per \$1,000 of assessed value of taxable property to improve and maintain a cemetery not owned by the township if the cemetery is devoted to general public use.²⁰ Township trustees may also levy a tax not to exceed 20 and 1/4 cents per \$1,000 of assessed value to build or acquire a public hall.²¹ Finally, township trustees may levy a tax to provide emergency services, i.e., ambulance and fire protection, to the residents of the township. Limits on the levy for emergency services are as follows:

- For townships having a service agreement with a special charter city, 74 and 1/4 cents per \$1,000 of assessed value.
- For townships located in a county with a population of 300,000 or more, 87 and 3/4 cents per \$1,000 of assessed value.²²
- For all other townships, 60 and 3/4 cents per \$1,000 of assessed value.

A township may establish a reserve fund for the purchase or replacement of supplies and equipment needed to provide emergency services and may credit up to 30 cents per \$1,000 of its emergency services levy to the reserve fund.²³

F. Other Levies.

1. County Hospitals and Area Hospitals.

If a county hospital is established, the board of supervisors may levy a tax not to exceed 54 cents per \$1,000 of assessed value for the erection and equipment of the hospital. The board may also levy a tax not to exceed 27 cents per \$1,000 of

¹⁷ Iowa Code § 260C.22.

¹⁸ Iowa Code § 260C.28.

¹⁹ Iowa Code § 359.30.

²⁰ Iowa Code § 359.33.

²¹ Iowa Code § 360.2.

²² Iowa Code § 359.43.

²³ Iowa Code § 359.43.



assessed value for the improvement, maintenance, and replacement of the hospital. However, in counties with a population of 225,000 or more, the levy for improvements and maintenance of the hospital shall not exceed \$2.05 per \$1,000 of assessed value.²⁴ County hospitals supported by hospital revenue are also authorized by state statute. In the event revenues are insufficient to support the hospital, the board of hospital trustees is permitted to levy a property tax not to exceed \$1.08 per \$1,000 of assessed value.²⁵

Any county, township, school district, or city may consolidate to acquire and operate an area hospital for the benefit of residents in the merged area.²⁶ The written plan for the area hospital must include the maximum amount of property taxes to be levied for debt service and for operation and maintenance of the area hospital.²⁷ Property taxes are prorated among the various political subdivisions forming a part of the merged area and calculated based on the assessed value of property in each political subdivision.²⁸ Voters in the merged area may vote to increase the maximum levy under the plan for a period of five years. The amount of the voted increase may not exceed 25 percent of the maximum levy amount approved under the plan.²⁹

2. Benefited Districts.

Residents of a county, or a particular portion of a county, may petition the board of supervisors to establish benefited districts to provide certain services. Approval of establishment of a district often includes approval of the levy of a property tax on property owners within the district. The property tax levies for benefited districts are as follows:

- Water districts -- 81 cents per \$1,000 of assessed property in the district if special assessments collected against the property are insufficient to pay bonded indebtedness.³⁰
- Fire districts -- not more than 60 and 3/4 cents per \$1,000 of assessed property in the district.³¹
- Street lighting districts -- not more than 54 cents per \$1,000 of assessed property in the district.³²
- Law enforcement districts -- not more than \$1 per \$1,000 of assessed property in the district (agricultural land cannot be included in a district).³³

²⁴ Iowa Code § 347.7.

²⁵ Iowa Code § 347A.3

²⁶ Iowa Code § 145A.1.

²⁷ Iowa Code § 145A.3.

²⁸ Iowa Code § 145A.14.

²⁹ Iowa Code § 145A.19.

³⁰ Iowa Code § 357.22.

³¹ Iowa Code § 357B.3.

³² Iowa Code § 357C.7.

³³ Iowa Code § 357D.8.



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- Recreational lake and water quality districts -- for a combined recreational lake and water quality district, not more than \$4 per \$1,000 of assessed property in the district; for a recreational lake district, not more than \$4 per \$1,000 of assessed property in the district; and for a water quality district only, not more than 25 cents per \$1,000 of assessed property in the district (agricultural land cannot be included in a district).³⁴
- Emergency medical services districts -- not more than \$1 per \$1,000 of assessed property in the district (agricultural land cannot be included in a district).³⁵
- City emergency medical services districts -- not more than \$1 per \$1,000 of assessed property in the district (which does not include agricultural land within a city).³⁶
- Rural improvement zones -- a standby tax of not less than 50 cents per \$1,000 of assessed property in the district and not more than \$2.50 per \$1,000 of assessed property in the district, but only if incremental taxes are insufficient to pay the amount of certificates sold for funding.³⁷
- Sanitary districts -- not more than 54 cents per \$1,000 of assessed property in the district for administrative expenses, but only if special assessments levied are insufficient.³⁸
- Real estate improvement districts -- not more than 54 cents per \$1,000 of assessed property in the district for administrative expenses, but only if special assessments levied are insufficient.³⁹

III. Assessment of Property.

Most real property is assessed locally by either the county or city assessor. Any city having a population in excess of 10,000 may provide by ordinance for the office of city assessor.⁴⁰ Local assessors are charged with classifying taxable real property located in their jurisdictions. Real property is placed in one of four classes for assessment locally: agricultural, residential (including agricultural dwellings), commercial, or industrial.⁴¹ Commercial property includes buildings containing three or more separate residences, except condominiums, multiple-housing cooperatives, and certain nonprofit housing.⁴² The classification of the real estate is determined as of January 1 of the year in which the assessment is made.⁴³ Taxable real property is assessed at 100 percent of market value,

³⁴ Iowa Code § 357E.8.

³⁵ Iowa Code § 357F.8.

³⁶ Iowa Code § 357G.8.

³⁷ Iowa Code § 357H.8.

³⁸ Iowa Code § 358.18.

³⁹ Iowa Code § 358C.14.

⁴⁰ Iowa Code § 441.1.

⁴¹ Iowa Code § 441.21.

⁴² Iowa Admin. Code 701-71.1(4)-(5).

⁴³ Iowa Admin. Code 701-71.1(1).



except for agricultural property.⁴⁴ Also, in determining the market value of property leased to low-income persons for purposes of the low-income housing credit under the Internal Revenue Code, the assessor is required to take into account the actual earning capacity of the property and its restricted use.⁴⁵

A. The Assessment/Appeal Process.

The assessment year commences January 1 of each calendar year.⁴⁶ Assessors have from January 1 to April 15 to complete assessments and to notify taxpayers.⁴⁷ The property owner or taxpayer wishing to appeal⁴⁸ an assessment must file for appeal to the local board of review between April 16 and May 5.⁴⁹ Also, any local government official or a taxpayer of the political subdivision where the property is located may appeal an assessment of property in the same manner as an appeal by the owner or taxpayer of the property.⁵⁰ An appeal of an assessment must be confined to one or more of the following grounds:

- The assessment is not equitable as compared with assessments of other like property in the taxing district.
- The property is assessed at more than its actual value.
- The property is not assessable, is exempt from taxes, or is misclassified.
- There is an error in the assessment.
- There is fraud in the assessment.⁵¹

The local board of review is in session from May 1 through May 31 to consider appeals of assessments. However, the Director of Revenue may extend the session of a local board of review to not later than July 15.⁵² The action of the board of review may be appealed to the district court of the county in which the board holds its sessions. The appeal to district court must be made within 20 days after the board's adjournment or May 31, whichever is later. The appeal to district court must be on the same grounds that the appeal to the local board of review was taken. The assessor also has the right to appeal the board's action to district court.⁵³

Final abstracts of assessment are submitted by assessors to the Department of Revenue by July 1.⁵⁴ Every two years in the odd-numbered year, local assessors are

⁴⁴ Iowa Code § 441.21(1).

⁴⁵ Iowa Code § 441.21(2).

⁴⁶ Iowa Code §§ 428.4 and 441.46.

⁴⁷ Iowa Code § 441.28.

⁴⁸ The Iowa Code also refers to appeals as "protests" of assessment.

⁴⁹ Iowa Code § 441.37.

⁵⁰ Iowa Code § 441.42.

⁵¹ Iowa Code § 441.37.

⁵² Iowa Code § 441.33.

⁵³ Iowa Code § 441.38.

⁵⁴ Iowa Code § 441.45.



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required by statute to conduct a reassessment of all real property in their jurisdictions.⁵⁵ Also, every two years in the odd-numbered year, equalization orders are issued by the Department of Revenue. (See paragraph F of this part.)

The valuation of property determined as of January 1 of the assessment year is for taxes due and payable in the fiscal year beginning July 1 of the following calendar year, i.e., 18 months after the January assessment date.⁵⁶ Thus, a building added to property in the 1999 calendar year after January 1, 1999, will first be assessed for taxation and placed on the property tax rolls on January 1, 2000, and will have taxes levied upon it which are due and payable in the fiscal year beginning July 1, 2001.

B. Assessment of Agricultural Property.

The assessment of agricultural property, excluding agricultural dwellings, is based exclusively on its productivity, or net earning capacity, capitalized at a statutory rate of 7 percent.⁵⁷ Agricultural dwellings are valued as rural residential property and are assessed at the same percentage of actual value as is all other residential property.⁵⁸ The land underneath the dwelling is assessed as agricultural land, i.e., based on productivity. Productivity is determined by a five-year average productivity study, originally developed by Iowa State University. The productivity study is based on each county's actual crop yields, prices, and expenses and the resulting formula reflects the average net income per acre for five years.⁵⁹ For example, the 1997 assessments were based on the years 1991-1995. The 1999 assessments were determined by replacing years 1991 and 1992 with 1996 and 1997. Agricultural assessments based on productivity result in more stable values over the years.

Agricultural land in a county is assigned a corn suitability rating (CSR). A corn suitability rating measures suitability of the land for producing corn (i.e., row crops) and its yield potential. A corn suitability rating is an agronomist's way of measuring soil type. The assessor usually uses aerial photographs to identify various soil types and agricultural land use classifications present in the county. Soil maps are used to show variations in the soil that indicate differences in crop-producing ability.⁶⁰ Corn suitability ratings range from 5 to 100. A 100 rating is reserved for those soils located in areas of most favorable weather conditions for Iowa, that have high crop yield potential, and that can be continuously row cropped with little soil erosion.⁶¹ A corn suitability rating based on soil type may be adjusted for a number of reasons, including when the use of the land for row crops is impractical due to limited accessibility, when the land is subject to overflow by streams,

⁵⁵ Iowa Code § 428.4.

⁵⁶ Iowa Code § 441.46.

⁵⁷ Iowa Code § 441.21(1)(e)-(g).

⁵⁸ Iowa Code § 441.21(6).

⁵⁹ Iowa Admin. Code 701-71.12(1).

⁶⁰ Iowa Code § 441.21(1) provides that "[i]n counties or townships in which field work on a modern soil survey has been completed since January 1, 1949, the assessor shall place emphasis upon the results of the survey in spreading the valuation among individual parcels of such agricultural property."

⁶¹ Iowa Department of Revenue, "Real Property Appraisal Manual," p. 8-6.



when drainage of the land is limited due to lack of an outlet, and when the land is covered with scattered timber or is heavily timbered.⁶²

The following example illustrates how the productivity value for agricultural land is adjusted and distributed throughout a county:

Nation County, Iowa, has 2,000 taxable acres of agricultural land. The productivity/net earning capacity of agricultural land in Nation County is \$700 per acre. The market value of agricultural land in Nation County for the same assessment year is \$2,100 per acre. The agricultural factor (ratio of productivity value to market value) for Nation County is 33 percent (\$700 per acre divided by \$2,100 per acre). The productivity value per acre is multiplied by the number of taxable acres to arrive at an aggregate whole (land and buildings) of \$1.4 million (\$700 times 2,000 acres). The agricultural buildings are assessed at their actual value of \$400,000 by the Nation County assessor. The assessor then applies the agricultural factor to the actual value of the buildings to arrive at a productivity value of \$132,000 (\$400,000 times .33), which is spread out over the buildings. The productivity value of the buildings is subtracted from the aggregate whole to arrive at the amount of agricultural value that will be spread out over the agricultural land in the county (\$1.4 million minus \$132,000 = \$1,268,000). This amount is not assigned at an equal value per acre. That is, the assessor does not simply divide \$1,268,000 by 2,000 acres. Agricultural land that is timberland or pasture has less value as agricultural land (i.e., a lower CSR) than does land that is used to grow row crops. Therefore, the crop acres are assigned a higher value, in general, than the timberland or pastureland.

C. Exempt Property.

The local assessor is responsible for determining the taxable status of all property.⁶³ In situations where no claim is required to be filed to obtain a tax exemption, taxable status is determined as of July 1 of the fiscal year which commences during the assessment year for which the determination is being made.⁶⁴ In situations where a claim is required to be filed, the status of property during the fiscal year for which an exemption is claimed, i.e., July 1 of the fiscal year commencing in the assessment year, determines the property's eligibility for tax exemption. Taxes are prorated if the property was exempt for only a portion of the fiscal year.⁶⁵ The use of the property is the controlling factor in determining the taxable status of property.⁶⁶ If a claim for exemption is required to be filed but no specific filing deadline is provided in statute, the claim must be filed by July 1 of the assessment year.⁶⁷

The exemption statutes are to be strictly construed in favor of the taxing body and the burden of proof is on the taxpayer to show that exemption should be granted. If there is

⁶² Id. at 8-33.

⁶³ Iowa Admin. Code 701-78.1(1).

⁶⁴ Iowa Admin. Code 701-78.6(1).

⁶⁵ Iowa Code § 427.19; Iowa Admin. Code 701-78.6(2).

⁶⁶ *Evangelical Lutheran G.S. Society v. Bd. of Review of Des Moines*, 200 N.W.2d 509, 511 (Iowa 1972); *Northwest Community Hospital v. Bd. of Review of Des Moines*, 229 N.W.2d 738, 741 (Iowa 1975).

⁶⁷ Iowa Code § 441.46.



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any doubt as to the taxable status of property, the property is subject to taxation.⁶⁸ If property which may be exempt is acquired after July 1 by a person, the state, or a political subdivision, the exemption is not allowed for that fiscal year.⁶⁹ The assessor's determination of the taxable status of property may be appealed to the local board of review.

The following property tax exemptions are provided by statute:

1. Military Service Tax Exemption (effective 1886).

A military service tax exemption of \$2,778 for World War I veterans and \$1,852 for other veterans is allowed for active or reserve duty service in the armed forces of the United States. Periods of "active duty" are specified by statute.⁷⁰ Local governments are partially reimbursed by the state for providing the military service property tax exemption in an amount equal to the amount the local government would have collected had a consolidated levy rate not to exceed \$6.92 per \$1,000 of assessed value been levied against the exempted valuation.⁷¹ However, beginning with property taxes payable in the 2000-2001 fiscal year, the value of the exemption will vary if the amount of the state appropriation funding the exemption is insufficient to fund reimbursement at \$6.92 per \$1,000 of assessed value.⁷²

2. Low-Rent Housing for Elderly and Disability Exemption (effective 1976).

To receive the low-rent housing for the elderly persons and persons with disabilities exemption, the housing must be both owned and operated by a nonprofit organization. The exemption extends only until the original low-income housing development mortgage on the property has been paid in full or expires.⁷³ For the purposes of this exemption, "elderly" means at least 62 years of age and "persons with physical or mental disabilities" means a person who is unable to engage in substantial gainful employment.⁷⁴

3. Speculative Shell Buildings Exemption (effective 1990).

A city council or county board of supervisors may enact an ordinance granting property tax exemptions for value added as a result of new construction, reconstruction, or renovation of speculative shell buildings owned by community development organizations, for-profit entities, or not-for-profit cooperative associations. The percentage of exemption and period of time during which the exemption may be allowed are established by the council or board in the ordinance authorizing the exemption. The exemption applies to all qualifying property within that jurisdiction.⁷⁵

⁶⁸ Evangelical Lutheran G.S. Society at 511; Southside Church of Christ of Des Moines v. Des Moines Bd. of Review, 243 N.W.2d 650, 654 (Iowa 1976); Aerie 1287, Fraternal Order of Eagles v. Holland, 226 N.W.2d 22, 24 (Iowa 1975).

⁶⁹ Iowa Code § 427.18.

⁷⁰ Iowa Code §§ 35.1 and 426A.11.

⁷¹ Iowa Code § 426A.2.

⁷² Iowa Code § 25B.7.

⁷³ Iowa Code § 427.1(21).

⁷⁴ Iowa Admin. Code 701-80.4(3)-(4).

⁷⁵ Iowa Code § 427.1(27); "not-for-profit cooperative associations" under Iowa Code ch. 499 added in 1995.



4. Pollution-Control Property Exemption (effective 1975) and Recycling Property Exemption (effective 1994).

To be eligible for the pollution-control and recycling exemptions, the taxpayer must include a certification from the Iowa Department of Natural Resources with the application for exemption. The department must certify that the primary use of the property is to control or abate air or water pollution or to enhance the quality of any air or water in the state, or that the primary use is for recycling.⁷⁶

5. Industrial Property Exemption (effective 1981) and Cattle Facilities Exemption (effective 1987).

A city council or county board of supervisors may enact an ordinance granting partial exemption from property taxation of the value added to industrial real estate as a result of the new construction of industrial real estate, research-service facilities, warehouses, distribution centers, and the acquisition of, or improvement to, industrial machinery, equipment, and computers. The ordinance may include a partial exemption from taxation of actual value added to owner-operated cattle facilities, not including slaughter facilities, either by new construction or by the retrofitting of existing facilities. The actual value added to either industrial property or cattle facilities is eligible for a partial exemption from taxation for five years.⁷⁷

6. Wind Energy Conversion Property Exemption (effective 1993).

A city council or county board of supervisors may provide by ordinance for the special valuation of wind energy conversion property. The Iowa Code prescribes the special valuation schedule to be followed by the city or county. If the ordinance is repealed, the special valuation continues to apply through the nineteenth assessment year following the first year the property was assessed. Public utility property may also qualify for the special valuation.⁷⁸ This exemption is in lieu of the valuation provisions in Iowa Code section 441.21, subsection 8, paragraphs "b" and "c," for the construction of a solar energy system. Those paragraphs provide that construction of a solar energy system shall not increase the value of the property for five full assessment years following construction.

7. Methane Gas Conversion Property Exemption (effective 1993).

Property is exempt from property taxation if it is used in an operation connected with a publicly owned sanitary landfill to collect methane gas or other gases produced as a by-product of waste decomposition and to convert the gas to energy or if it is used to collect waste that would otherwise be collected by, or deposited with, a publicly owned sanitary landfill in order to decompose the waste to produce methane gas or other gases and to convert the gas to energy.⁷⁹

⁷⁶ Iowa Code § 427.1(19).

⁷⁷ Iowa Code §§ 427B.1 through 427B.7.

⁷⁸ Iowa Code § 427B.26.

⁷⁹ Iowa Code § 427.1(29).



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8. Value-Added Exemption (effective 1994).

Under the Department of Economic Development's New Jobs and Income Program, the community in which the business is creating jobs may exempt from property taxation all or a portion of the actual value added by improvements to real property directly related to the new jobs. The exemption period may not exceed 20 years.⁸⁰

9. Forest and Fruit-Tree Reservations Exemption (effective 1924).

Land not less than two acres in area containing a permanent forest reservation or land not less than one nor more than 10 acres and containing a fruit-tree reservation is exempt from taxation.⁸¹ A forest reservation is to contain not less than 200 growing forest trees on each acre. One acre is excluded from the total reservation area if any buildings are located on the area.⁸² Not more than one-fifth of the total number of trees in a forest reservation may be removed in any one year, except in cases where they die naturally.⁸³ "Forest trees" is defined by statute.⁸⁴

A fruit-tree reservation must, at all times during the period of exemption, contain at least 40 apple trees, or 70 other fruit trees, per acre.⁸⁵ A fruit-tree reservation tax exemption may be granted for no more than eight years after planting.⁸⁶ "Fruit tree" is defined by statute.⁸⁷

Livestock are not permitted on forest and fruit-tree reservations receiving a tax exemption.⁸⁸

If a property ceases to meet the eligibility criteria for exempt status as a forest or fruit-tree reservation, the property shall be assessed for taxation and is subject to a recapture tax. The property is subject to taxes levied against the assessment made as of January 1 of the calendar year in which the property ceased to qualify for exemption. In addition, the property is subject to the tax which would have been levied against the assessment made as of January 1 of each of the five preceding years for which the property received an exemption. However, an area is not subject to the recapture tax if it was owned for at least 10 years by the owner or the owner's direct antecedents or descendants.⁸⁹

10. Impoundment Structures Exemption (effective 1975).

Impoundment structures and any land underlying an impoundment are exempt from property taxation. An impoundment structure is a dam, earthfill, or other structure

⁸⁰ Iowa Code § 15.332.

⁸¹ Iowa Code § 427C.2.

⁸² Iowa Code § 427C.3.

⁸³ Iowa Code § 427C.4.

⁸⁴ Iowa Code § 427C.5.

⁸⁵ Iowa Code §§ 427C.7 and 427C.9.

⁸⁶ Iowa Code § 427C.7.

⁸⁷ Iowa Code § 427C.8.

⁸⁸ Iowa Code § 427C.10.

⁸⁹ Iowa Code § 427C.12.



used to create a reservoir or pond (impoundment), which has a storage capacity of at least 18 acre-feet of water or sediment at the time of construction.⁹⁰

11. Natural Conservation or Wildlife Areas Exemption (effective 1983).

Real property in parcels of two acres or more which is recreation lakes, forest cover, river and stream, river and stream banks, or open prairie and which is utilized for the purposes of providing soil erosion conservation or wildlife habitat, or both, may be eligible for this exemption. The property must be certified as eligible for exemption by the commissioners of the soil and water conservation district in which the property is located and approved for exemption by the county board of supervisors.⁹¹ In addition, before property which is a restored or reestablished open prairie receives a property tax exemption, the county board of supervisors must provide for certification that the property has adequate ground cover consisting of native species and that all primary and secondary noxious weeds are being controlled to prevent the spread of seeds by wind or water.

12. Native Prairie and Wetlands Exemption (effective 1990) and Wildlife Habitat Exemption (effective 1983).

Property certified by the Department of Natural Resources as eligible native prairie, wetland, or wildlife habitat (not exceeding two acres) is exempt from property taxation.⁹² In addition, before property which is a restored or reestablished wildlife habitat receives a property tax exemption, the county board of supervisors must provide for certification that the property has adequate ground cover consisting of native species and that all primary and secondary noxious weeds are being controlled to prevent the spread of seeds by wind or water.

13. Enterprise Zone Property Exemption (effective 1997).

Cities and counties may exempt from taxation all or a part of the value added by improvements to property of eligible businesses located in designated economic development enterprise zones. The Department of Economic Development must approve establishment of the zones and eligibility of businesses within the zones to receive tax benefits. The exemption may be allowed for up to 10 years.⁹³

For more information on the enterprise zone program, see the Legislative Guide entitled "Legislative Guide to Enterprise Zones."

14. Barn and Schoolhouse Preservation Exemptions (effective 2000).

One hundred percent of the increase in value due to improvements made to a farm structure to preserve it as a barn is exempt from taxation. The structure must have been built and used as a barn before 1937. The exemption lasts as long as the structure is used as a barn. The same exemption is available for the increase in value of a one-room schoolhouse due to improvements made to preserve the structure. The exemption is ongoing as long as the structure is not used as a dwelling and is

⁹⁰ Iowa Code § 427.1(20).

⁹¹ Iowa Code § 427.1(22).

⁹² Iowa Code § 427.1(23)-(24).

⁹³ Iowa Code § 15E.196(5).



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preserved as a schoolhouse. The exemption applies even though the structure is no longer used for instructional purposes.⁹⁴

15. Indian Housing Authority Property Exemption (effective 2001).

Property owned by an Indian housing authority, as defined in federal law, is exempt from taxation if a cooperative agreement has been made with the local governing body agreeing to the exemption.⁹⁵

16. Other Property Eligible for Exemption From Property Taxation Under Iowa Code Chapter 427.

- Federal and state property.⁹⁶
- Municipal and Iowa National Guard property.
- Public grounds and cemeteries and property of cemetery associations.
- Fire company buildings and grounds.
- Property of associations of war veterans.
- Public and private (not-for-profit for public use) library and art gallery buildings and grounds.
- Property of religious, literary, and charitable societies.⁹⁷
- Property of educational institutions.
- Homes for soldiers.
- Agricultural produce.
- Government lands.
- Public airports.
- Property of rural water nonprofit corporations and municipal joint water utilities.
- Railway right-of-way if an option to purchase is held by the Iowa Finance Authority.
- Public television station grounds and buildings.
- Storm shelters in mobile home parks.

⁹⁴ Iowa Code § 427.1(31)-(32).

⁹⁵ Iowa Code § 427.1(33).

⁹⁶ For leases entered into on or after July 1, 2003, nursery land or farmland leased by the Department of Corrections or the Department of Human Services to an entity other than an entity which is exempt from property taxation is subject to property taxation for the term of the lease. See 2003 Iowa Acts ch. 130, amending Iowa Code § 427.1(1).

⁹⁷ For a more detailed review of exempt property of religious, literary, and charitable societies, see the Legislative Guide entitled "Charitable Property Tax Exemptions."



D. Computers and Industrial Machinery and Equipment.

Computers and industrial machinery and equipment acquired on or before December 31, 1994, are to be assessed at not more than 30 percent of the property's net acquisition cost through the 1998 assessment year.⁹⁸ Subsequent to the 1998 assessment year, these computers, machinery, and equipment are to be valued as follows:

- For the assessment year beginning January 1, 1999, at 22 percent of net acquisition cost.
- For the assessment year beginning January 1, 2000, at 14 percent of net acquisition cost.
- For the assessment year beginning January 1, 2001, at 6 percent of the net acquisition cost.
- For subsequent assessment years, at 0 percent of net acquisition cost.⁹⁹

Computers and industrial machinery and equipment acquired after December 31, 1994, and not previously assessed in Iowa, are exempt from tax.¹⁰⁰ Computers and industrial machinery and equipment, the incremental taxes from which are used to pay certificates issued to fund an Iowa industrial new jobs training project undertaken pursuant to Iowa Code chapter 260E prior to June 30, 1995, will continue to be assessed at not more than 30 percent of net acquisition cost until the certificates are paid, refinanced, or refunded.¹⁰¹

State reimbursement to local taxing jurisdictions for lost revenue due to the phaseout of taxation on computers and industrial machinery and equipment is provided for fiscal year 1996-1997 through fiscal year 2003-2004.¹⁰²

E. Centrally Assessed Property.

All lands, buildings, machinery, and equipment belonging to electric companies (including rural cooperatives), gas companies (including pipelines), railway companies, and telephone/telegraph companies are assessed by the Department of Revenue and subject to property taxation by local governments.¹⁰³ Real property and tangible personal property assessed by the department are not eligible for statutory property tax exemptions available to locally assessed property. Companies whose property is centrally assessed have property located throughout the state. Because of this, it is more efficient for the department to assess the property and assign the proportion of the property located within each county or other political subdivision. Central assessment also helps to prevent local disputes over how such property valuation is distributed.

If comparable sales data is available, that data is taken into consideration in arriving at the centrally assessed property's market value. However, if comparable sales data is not

⁹⁸ Iowa Code § 427B.17(1).

⁹⁹ Iowa Code § 427B.17(3).

¹⁰⁰ Iowa Code § 427B.17(2).

¹⁰¹ Iowa Code § 427B.17(6).

¹⁰² Iowa Code §§ 427B.19A, 427B.19B, and 427B.19D. The state reimbursement time period was shortened by two years in 2003 Iowa Acts ch. 178, §§ 5 through 7.

¹⁰³ Iowa Code §§ 428.24 through 428.29. See also, Iowa Code chs. 433, 434, 437, and 438.



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available, the department values the property using the three following unit value approaches in descending order of usefulness: 1) the stock and debt approach (50 percent); 2) the income capitalization approach (40 percent); and 3) the cost approach (10 percent).¹⁰⁴ The stock and debt approach to unit value estimates the market value of the operating property by combining the market values of the common stock, preferred stock, debt, current liabilities, other liabilities, leases, and deferred credits associated with the operating property of the company.¹⁰⁵ The income capitalization approach estimates the market value of the operating property by dividing the income stream generated by the operating assets by a market-derived capitalization (or discount) rate based on the costs of the various sources of capital utilized, or available for use, to purchase the assets generating the income stream.¹⁰⁶ The cost approach to unit value is determined by combining the original cost of the operating properties of the company and deducting an allowance for depreciation.¹⁰⁷

A company's total unit value is then allocated to the State of Iowa in the ratio that the company's property and activity in the State of Iowa bear to the company's total property and activity. In turn, that portion allocated to the State of Iowa is reallocated to counties and other political subdivisions in the ratio that the company's property and activity in the county or political subdivision bear to the State of Iowa's allocation.¹⁰⁸

As a result of legislation enacted in 1998, the central assessment procedures utilized by the Department of Revenue in valuing property for property tax purposes of entities involved in the generation, delivery, and transmission of electricity and natural gas in the state were replaced by excise taxes on generation, delivery, and transmission effective for the assessment year beginning January 1, 1999. The adoption of the excise taxes to replace property tax on these centrally assessed properties was deemed necessary to maintain the competitiveness of Iowa electric and natural gas industries due to the advent of the restructuring of the electric and natural gas industries.¹⁰⁹ The rates of tax for generation and transmission are set by statute.¹¹⁰ The delivery tax rates by service area are calculated by the Department of Revenue based on a statutory formula and published annually by the department in the Iowa Administrative Bulletin.¹¹¹ In addition to the excise taxes, an annual statewide property tax is imposed at a rate of 3 cents per \$1,000 of assessed value on all property which is primarily and directly used in the generation, transmission, or delivery of electricity or natural gas and which is owned or leased by anyone subject to the replacement tax. The proceeds of the statewide property tax are to be used to administer the collection of the excise tax.¹¹²

¹⁰⁴ Iowa Admin. Code 701-77.7 and 701-76.7.

¹⁰⁵ Iowa Admin. Code 701-77.4(1) and 701-76.4(1).

¹⁰⁶ Iowa Admin. Code 701-77.5(1) and 701-76.5(1).

¹⁰⁷ Iowa Admin. Code 701-77.6 and 701-76.6.

¹⁰⁸ Iowa Admin. Code 701-77.8 and 701-76.8.

¹⁰⁹ 1998 Iowa Acts ch. 1194.

¹¹⁰ Iowa Code §§ 437A.6 and 437A.7.

¹¹¹ Iowa Code §§ 437A.4 and 437A.5. For excise tax rates for payment in fiscal year 2002-2003, see IAB, Vol. XXIII, No. 26, 6/27/01. For changes to the rates for payment in fiscal year 2002-2003, see IAB, Vol. XXIV, No. 26, 6/26/02. For excise tax rates for payment in fiscal year 2003-2004, see IAB, Vol. XXV, No. 12, 12/11/02. For changes to the rates for payment in fiscal year 2003-2004, see IAB, Vol. XXV, No. 26, 6/25/03.

¹¹² Iowa Code §§ 437A.18 and 437A.23.



F. Computations Following Assessment.

1. Equalization.

In each odd-numbered year, the Department of Revenue is directed by statute to conduct a statewide review of the level of assessment of property within each class and is directed to order the equalization of the levels of assessment of any class of property if the aggregate assessed valuation of that class of property is at least 5 percent above or below the valuation of that class of property statewide, as determined by the Director of Revenue. Equalization is accomplished by increasing or decreasing the aggregate valuations of certain classes of property within jurisdictions by the percentage necessary to adjust the level of assessment to actual value.¹¹³ These "equalization orders" are intended to prevent wide variations between assessments statewide of real property in any one class. Equalization also ensures that each class of property in each assessing jurisdiction is assessed at actual value as required by law.¹¹⁴ This is important because it provides a uniform basis for the distribution of state aid to schools under the school foundation formula in Iowa Code chapter 257. It also provides a comparable base between jurisdictions for determining the constitutional limitation on local government bonded indebtedness.¹¹⁵

Final equalization orders are issued by the department to county auditors on October 1. After receiving the final equalization order, a local assessor must adjust the targeted class of property up or down by the percentage specified for that class of property in accordance with the order. Equalization orders are restricted to equalizing the aggregate valuations of entire classes of property and may not adjust the valuations of individual properties. An alternative method of equalization may be approved by the department; however, the overall result of the reassessment must be an adjustment by the percentage amount specified by the department. The local board of review is required to convene in special session from October 15 to November 15 to hear assessment protests from affected owners or taxpayers whose valuations have been adjusted by the equalization order.¹¹⁶

The property tax equalization order published by the county auditor must contain the following statement: "Assessed values are equalized by the Department of Revenue every two years. Local taxing authorities determine the final tax levies and may reduce property tax rates to compensate for any increase in valuation due to equalization."¹¹⁷

2. Rollback.

The assessed value subject to taxation may be a percentage of the assessed value as a result of statewide limitations on annual growth in assessed values. These

¹¹³ Iowa Code § 441.47; Iowa Admin. Code 701-71.11 and 701-71.12.

¹¹⁴ Iowa Code § 441.21.

¹¹⁵ Iowa Constitution, Article XI, section 3, provides as follows: "No county, or other political or municipal corporation shall be allowed to become indebted in any manner, or for any purpose, to an amount, in the aggregate, exceeding five per centum on the value of the taxable property within such county or corporation — to be ascertained by the last state and county tax lists, previous to the incurring of such indebtedness."

¹¹⁶ Iowa Code § 441.49.

¹¹⁷ Iowa Code § 441.49.



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statewide limitations, or rollback provisions, were enacted for residential and agricultural property in 1977 to apply to assessments beginning with the 1978 assessment year, and in 1978 for all other classes of property beginning with the 1979 assessment year. The limitation on growth was originally set at 6 percent for all classes except utilities (10 percent). Since the 1980 assessment year, the limitation has been 4 percent (8 percent for utilities).¹¹⁸ In November of each year, the Director of Revenue certifies the limitation percentages to county auditors.¹¹⁹ The rollback percentage is multiplied by the actual value to obtain the assessed value of the property subject to taxation.

Increases in the assessment of residential and agricultural property are tied to each other. The annual increase in each class of property is limited to the smaller of the two increases in either class of property.¹²⁰ For example, if in the same year the increase in residential property valuations was 4 percent and the increase in agricultural property valuations was only 2 percent, then the increase in the residential valuations would be rolled back by 2 percent, resulting in an increase of only 2 percent for each of the two classes of property (i.e., the lower percentage increase of the two classes).

The rollback percentages for the past several fiscal years are as follows:¹²¹

<u>Assessment Year</u>	<u>Fiscal Year</u>	<u>Residential</u>	<u>Industrial</u>	<u>Commercial</u>	<u>Agricultural</u>
1990	1991-1992	79.5	--	--	--
1991	1992-1993	73.1	--	--	--
1992	1993-1994	72.7	--	--	--
1993	1994-1995	68.0	--	--	--
1994	1995-1996	67.5	--	--	--
1995	1996-1997	59.3	--	97.3	--
1996	1997-1998	58.8	--	--	--
1997	1998-1999	54.9	--	97.4	96.4
1998	1999-2000	56.5	--	--	--
1999	2000-2001	54.9	--	98.8	96.3
2000	2001-2002	56.3	--	--	--
2001	2002-2003	51.67	--	97.77	--

¹¹⁸ Iowa Code § 441.21(4)-(5).

¹¹⁹ Iowa Code § 441.21(9).

¹²⁰ Iowa Code § 441.21(4).

¹²¹ Federal law requires that railroad property be assessed at the same level as commercial, industrial, and utility property. Therefore, the actual value of railroad property is rolled back to the same extent as the largest rollback on those three classes of property. For example, for the 2003 assessment year, the rollback percentage for railroad property is 99.26 percent.

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2002	2003-2004	51.39	--	--	--
2003	2004-2005	48.46	--	99.26	--

IV. Credits Applied to Property Tax.

Beginning with property taxes payable in the 1998-1999 fiscal year, the state is required to fully reimburse local governments for all newly enacted property tax credits granted to taxpayers on or after January 1, 1997, and for certain current property tax credits. If full reimbursement is not made, the amount of the credits granted to taxpayers will be prorated.¹²² Prior to fiscal year 1998-1999, only the agricultural land property tax credit and the family farm property tax credit had been prorated by statute.¹²³ Information on amounts paid by the state for property tax credits can be found on the Iowa Department of Revenue website.¹²⁴

A. Homestead Credit.

The homestead credit was enacted in 1937 to provide property tax relief and to encourage home ownership. The current credit is equal to the actual levy on the first \$4,850 of actual value.¹²⁵ To be eligible for the credit for each year, the taxpayer must own and occupy the property as a homestead on July 1 of each year, declare residency in Iowa for income tax purposes, and occupy the property for at least six months each calendar year. Persons in military service or residing in nursing homes who would otherwise qualify are also eligible for the credit.¹²⁶

Claims for the homestead property tax credit must be filed on or before July 1 in the first assessment year for which the credit is claimed. In other words, if a homestead credit is to be allowed for taxes payable in the 1999-2000 fiscal year, the claim must be filed by July 1, 1998. A claim is allowed for successive years without further filing as long as the taxpayer is eligible.¹²⁷

B. Elderly and Disabled Property Tax Credit and Rent Reimbursement.

The elderly and disabled property tax credit and rent reimbursement provisions were incorporated into the homestead tax credit law in 1974 to provide additional relief to the low-income elderly and low-income persons with disabilities.¹²⁸ The credit was also intended to provide property tax relief to all low-income homeowners (beginning 1994), and to low-income renters in the form of reimbursement payments (beginning 1995), but moneys have never been appropriated to fund that portion of the statute. To be eligible for the low-income elderly and disabled property tax credit and rent reimbursement, the taxpayer must have a household income of less than \$16,500 and must be 65 or older or totally disabled. To be eligible for the low-income rent reimbursement or low-income

¹²² Iowa Code § 25B.7

¹²³ Iowa Code §§ 425A.6 and 426.7.

¹²⁴ The Iowa Department of Revenue website is <http://www.state.ia.us/tax/index.html>. Once there, click on "Publications/Classes," then "Statistical Reports," then "Annual Reports."

¹²⁵ Iowa Code § 425.1.

¹²⁶ Iowa Code § 425.2.

¹²⁷ Iowa Code § 425.2.

¹²⁸ Iowa Code § 425.16.



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property tax credit, a claimant must be at least 23 years of age or a head of household and have household income of less than \$16,500. If a person has attained the age or disability status to qualify for the elderly and disabled credit or reimbursement, that person is not eligible for the low-income tax credit. A rent reimbursement claimant who lives in Iowa and pays rent during any portion of the base year (the calendar year preceding the year in which the claim is filed) qualifies for reimbursement for the entire amount of rent paid while living in Iowa. A person who lives in Iowa and incurs a liability to pay property taxes due in the fiscal year beginning after the base year qualifies for the property tax credit.¹²⁹ Beginning with claims filed in calendar year 2000, the \$16,500 income limitation will be annually adjusted for inflation.¹³⁰ For both the credit and the reimbursement, "household" was redefined to include only the claimant and the claimant's spouse, if living with the claimant. Each eligible household member living in the same residence (excluding a husband and wife) may file a separate claim for rent reimbursement or property tax credit using their individual income and proportionate share of the rent paid or property taxes due.¹³¹

Property tax credit claims must be filed with the county treasurer by June 1 preceding the fiscal year in which the property taxes are due.¹³² Rent reimbursement claims must be filed with the Department of Revenue by June 1 following the year in which the rent is paid.

C. Manufactured or Mobile Home Tax Credit.

The manufactured or mobile home tax credit was enacted as a supplement to the elderly and disabled property tax credit.¹³³ The credit's objective is to provide those homeowners, whose manufactured or mobile homes are taxed by square footage rather than assessed value, with equivalent property tax relief. A claimant must be age 23 or older with household income of less than \$16,500. The credit is provided in the form of a rate reduction based upon income. Claims for the manufactured or mobile home tax credit must be filed on or before June 1 of each year. Beginning with claims filed in calendar year 2000, the \$16,500 will be adjusted for inflation.¹³⁴

D. Agricultural Land Property Tax Credit.

The agricultural land property tax credit was established in 1946 to partially offset the school property tax burden borne by agricultural real estate.¹³⁵ Current law allows a credit for any school general fund tax in excess of \$5.40 per \$1,000 of assessed value.¹³⁶ Land used for agricultural or horticultural purposes in tracts of 10 acres or more is eligible for the credit. Buildings or other structures are excluded.¹³⁷ Landowners are not required to file a claim for the agricultural land property tax credit. The county auditor determines the

¹²⁹ Iowa Code § 425.17.

¹³⁰ Iowa Code § 425.23(4).

¹³¹ Iowa Code § 425.17(8).

¹³² Iowa Code § 425.20.

¹³³ Iowa Code § 435.22.

¹³⁴ Iowa Code § 435.22.

¹³⁵ Iowa Code § 426.3.

¹³⁶ Iowa Code § 426.6.

¹³⁷ Iowa Code § 426.2.



amount of eligible credit applicable to each taxpayer.¹³⁸ Beginning with fiscal year 1994-1995, a standing appropriation of \$39.1 million is made each year to the Agricultural Land Credit Fund of which \$10 million is to be used for family farm property tax credits. If state funds are insufficient to fully reimburse all credits, only a pro rata reimbursement of credits is allowed.¹³⁹

E. Family Farm Property Tax Credit.

The family farm property tax credit was established in 1990 to partially offset the school property tax burden borne by agricultural real estate owned by active farmers. Current law allows a credit for any school general fund tax in excess of \$5.40 per \$1,000 of assessed value.¹⁴⁰ Generally, the family farm property tax credit is only intended to benefit tracts of agricultural land that are owned by certain individuals or enumerated legal entities if the owner or other specified persons are actively engaged in farming the agricultural land for which the credit is claimed. Land used for agricultural or horticultural purposes in tracts of 10 acres or more is eligible for the credit. Buildings or other structures are excluded.¹⁴¹ A claim for the credit must be filed before November 1 preceding the fiscal year for which the credit is claimed. After the first filing and approval, the owner need not file again until there is a change in the person identified as actively engaged in farming the land.¹⁴² The county auditor determines the amount of eligible credit applicable to each taxpayer.¹⁴³ Like the agricultural land property tax credit, if the money available is insufficient to fully fund the total eligible credits, only a pro rata reimbursement of each credit is allowed.¹⁴⁴

The family farm property tax credit is funded entirely by the appropriation made for the agricultural land property tax credit.¹⁴⁵ Beginning with fiscal year 1994-1995, \$10 million in family farm tax credits has been paid each year by the state.

V. The Tax Collection Process.

A. Payment of Taxes.

Property taxes in Iowa are collected locally by county governments and distributed by the county treasurers to the other tax-certifying bodies in the county. The county treasurer is required to mail a property tax statement to each taxpayer.¹⁴⁶ The tax may be paid in two annual installments, the first of which becomes delinquent October 1 and the second which becomes delinquent April 1. However, if the last day of September or March is a Saturday or Sunday, the amount due becomes delinquent on the second business day in October or April, respectively. In order to avoid delinquency, the county treasurer must receive the tax payment on the last business day of September or March, or, if mailed, the payment envelope must bear a postmark date preceding October 1 or April 1. If the last

¹³⁸ Iowa Code § 426.6.

¹³⁹ Iowa Code §§ 426.7 and 426.8.

¹⁴⁰ Iowa Code § 425A.3.

¹⁴¹ Iowa Code § 425A.2.

¹⁴² Iowa Code § 425A.4.

¹⁴³ Iowa Code § 425A.5.

¹⁴⁴ Iowa Code §§ 425A.6 and 425A.7.

¹⁴⁵ Iowa Code § 426.1.

¹⁴⁶ Iowa Code § 445.5.



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calendar day of September or March is a Saturday, Sunday, or a holiday, the payment must be postmarked before the delinquent date. If paid by electronic means, the payment must be initiated by midnight on the last day of the month preceding the delinquent date.¹⁴⁷ Delinquent taxes draw interest at a rate of 1.5 percent per month until the parcel is sold at tax sale or the taxes are paid by the taxpayer.¹⁴⁸

The county treasurer may allow property taxpayers to make partial payments of taxes. If the treasurer elects to permit partial payments, the authorization shall apply to all taxpayers in the county. The treasurer is allowed to establish a minimum payment amount. Partial payments of taxes may also be made on delinquent taxes as long as the parcel has not been sold at tax sale.¹⁴⁹

B. Tax Sale.

Each year, on the third Monday in June, the county treasurer offers at public sale all parcels on which property taxes are delinquent. For tax sales held on or after February 17, 1999, a county treasurer may designate a date in June other than the third Monday in June on which to hold the annual tax sale if, for good cause, the sale cannot be held on the third Monday in June.¹⁵⁰ Besides publication in a newspaper, the county treasurer is required to mail notice by regular mail of the tax sale to the owner of a parcel on which taxes are delinquent. If requested, regular mail notice is also provided to any person who has an interest of record in the property.¹⁵¹ Service fees are included as a part of the costs of collecting the taxes. These service fees and publication costs are assessed against the person redeeming the property.¹⁵²

The sale must be for the total amount of taxes, interest, fees, and costs due.¹⁵³ Therefore, the amount bid for at a public tax sale is the percentage amount of undivided interest the tax sale certificate holder will have in the property if the property is not redeemed. The person bidding the total amount of taxes due for the smallest percentage of undivided interest in the property is issued the tax sale certificate which operates as a lien against the parcel.¹⁵⁴ Taxes for a subsequent year may not be paid by the purchaser at tax sale (tax sale certificate holder) until 14 days following the date from which an installment becomes delinquent.¹⁵⁵

If a parcel has been offered for sale at a tax sale for a period of one year or more, it then can be offered for sale at a public bidder sale where the county or a city may purchase the parcel without payment of any money.¹⁵⁶

¹⁴⁷ Iowa Code § 445.37.

¹⁴⁸ Iowa Code § 445.39.

¹⁴⁹ Iowa Code § 445.36A.

¹⁵⁰ Iowa Code § 446.7.

¹⁵¹ Iowa Code § 446.9.

¹⁵² Iowa Code §§ 446.10 and 447.13.

¹⁵³ Iowa Code § 446.7.

¹⁵⁴ Iowa Code § 446.16.

¹⁵⁵ Iowa Code § 446.32.

¹⁵⁶ Iowa Code §§ 446.18 and 446.19.



C. Redemption of Property and Issuance of Tax Deed.

For most parcels sold at tax sale, the parcel may be redeemed at any time within two years of the sale upon payment of the delinquent taxes, interest, penalty, fees, and other costs. After a parcel is sold at tax sale, the amount due draws 2 percent interest per month.¹⁵⁷ One year and nine months from the date of sale or nine months from the date of a public bidder sale, the certificate holder is required to send to the taxpayer and any other person who has an interest of record in the property a notice of expiration of redemption.¹⁵⁸ If the delinquent taxes are not redeemed within 90 days of completed service of the notice, a treasurer's deed to the property is issued to the tax certificate holder.¹⁵⁹ As a result of legislation enacted in 1998, a county may redeem property sold for delinquent taxes on behalf of a person who establishes that the person is unable to contribute to the public revenue in the same manner that the county may abate the taxes of a person unable to contribute to the public revenue.¹⁶⁰

Beginning with the tax sale held in June of 1999, a city or county may bid on parcels containing abandoned property, which is assessed as residential or commercial multifamily housing property, at the annual tax sale. Previous law allowed these entities to bid on parcels after the parcel had been offered at tax sale and not been sold. "Abandoned property" is property that has remained vacant and in violation of the applicable local housing code for a period of six or more consecutive months. Cities and counties may also purchase tax sale certificates from a holder of such a certificate. Cities or counties may assign tax sale certificates for abandoned property to low-income or moderate-income families or to organizations that assist low- or moderate-income families in obtaining housing.¹⁶¹ The redemption period on a parcel containing abandoned property which is bid on and purchased by a city or county shall be nine months from the date of sale rather than one year and nine months from the date of sale.¹⁶²

VI. The Property Tax As Economic or Community Development Tool.

A. Tax Abatement in Urban Revitalization Areas.

Iowa Code chapter 404, "Urban Revitalization Tax Exemptions," was enacted in 1979, and allows cities or counties to establish urban revitalization areas according to procedures outlined in the statute, including development of an urban revitalization plan and provision of notice and public hearings. The city or county may then exempt portions of new assessed value added to qualified property located in the urban revitalization area if the new value is the result of improvements made to the property as part of a revitalization project. "Improvements" includes new construction or rehabilitation of existing structures.¹⁶³

¹⁵⁷ Iowa Code § 447.1.

¹⁵⁸ Iowa Code § 447.9.

¹⁵⁹ Iowa Code § 448.1.

¹⁶⁰ Iowa Code § 447.9.

¹⁶¹ Iowa Code § 446.19A.

¹⁶² Iowa Code § 447.9.

¹⁶³ Iowa Code § 404.3.



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The statute requires that a specified minimum amount of value be added to the property before subsequent new value can be exempted.¹⁶⁴ The value of the property for purposes of determining the amount of exempted value added is the lower of the assessed value of the property in the year the improvements are begun or the price paid by the owner of the property in an arm's-length sale.¹⁶⁵ Schedules setting out the percentage of new value which is exempt for each year and the duration of the exemption must be as prescribed in Iowa Code chapter 404, unless a different schedule is adopted in the required urban revitalization plan.¹⁶⁶

B. Tax Increment Financing (TIF) — Urban Renewal Areas.

Iowa Code chapter 403, "Urban Renewal," was enacted in 1957 and allows municipalities (originally, cities only) to establish urban renewal areas in areas of the municipality designated as slum, blighted, or economic development areas.¹⁶⁷ Development may be commercial, industrial, or residential. Once a municipality has adhered to the procedures outlined in the Code for establishment of these areas, a municipality may begin projects in the area to rehabilitate or otherwise develop the area, and may use property tax dollars to assist private developers and investors in financing the development. In 1991, the law was amended to allow counties to establish urban renewal areas. This authority was limited, however, to unincorporated areas of the county classified as industrial property.¹⁶⁸ In 1994, the law was again amended to allow counties to finance development of commercial and residential property, as well as industrial property.¹⁶⁹

Once indebtedness has been issued to finance an urban renewal project, assessments on taxable property in the urban renewal area are frozen at the level of assessment in the calendar year preceding the calendar year the indebtedness is first certified to the county auditor for payment. However, if affected taxing entities agree, the assessment level may be frozen at the level of assessment on January 1 of the calendar year preceding the effective date of the ordinance providing for the division of revenue. Revenues from the consolidated levy rate imposed on increases in assessments in the urban renewal area above that frozen level may be used to secure indebtedness issued to finance development in the urban renewal area. However, that portion of the consolidated levy rate committed to funding debt service for the tax-certifying bodies of the municipality must be diverted from the incremental property tax revenues before any other apportionment and distribution is made of those revenues.¹⁷⁰ Also diverted is any portion of a school district physical plant and equipment levy that is not needed to pay urban renewal debt incurred before July 1, 2001.¹⁷¹

Urban renewal areas may use incremental tax revenues to fund single-family and multi-family residential development for low or moderate income families and to fund public

¹⁶⁴ Iowa Code §§ 404.2 and 404.3(7).

¹⁶⁵ Iowa Code § 404.5.

¹⁶⁶ Iowa Code §§ 404.2 and 404.3.

¹⁶⁷ Iowa Code § 403.4; the "economic development area" designation was added in 1985.

¹⁶⁸ 1991 Iowa Acts ch. 214.

¹⁶⁹ 1996 Iowa Acts ch. 1204.

¹⁷⁰ Iowa Code § 403.19.

¹⁷¹ Iowa Code § 403.19.



improvements related to residential housing development. "Low or moderate income families" is defined in Iowa Code section 403.17 as those families, including single person households, earning no more than 80 percent of the higher of the median family income of the county or the statewide nonmetropolitan area as determined by the latest Section 8 income guidelines issued by the U.S. Department of Housing and Urban Development. If tax increment financing revenues are used for public improvements related to residential development, the municipality is required to devote a specified portion of tax increment funds to the development of low and moderate income housing in the community.¹⁷² Tax increment financing in urban renewal areas designated as economic development areas is limited to 20 years in duration. Tax increment financing for housing projects is generally limited in duration to 10 years.

A municipality that has established an urban renewal program is required to annually report information on urban renewal indebtedness to the Department of Management and the county auditor. The annual financial report must be submitted on or before December 1. If the annual report is not filed by the deadline, the county treasurer must withhold disbursement of tax increment revenues to the municipality.¹⁷³

For a more detailed review of urban renewal law and tax increment financing, see the Legislative Guide entitled "Urban Renewal and Tax Increment Financing."

C. Iowa Industrial New Jobs Training Program.

The Iowa Industrial New Jobs Training Act (Iowa Code chapter 260E) was enacted in 1983. Programs created under this Act provide training services to new employees of businesses which are either new, expanding, or relocating from another state to Iowa. An Iowa industrial new jobs training program is funded through federally tax-exempt and taxable certificates sold by community colleges on behalf of the business.¹⁷⁴ The certificates are repaid through the diversion of increased income tax withholding receipts generated through additional jobs resulting from the business' expansion and new training efforts.¹⁷⁵ Repayment may also come from the diversion of increased property taxes resulting from the business' investment in their facility or in new equipment in much the same manner that incremental property tax revenues are collected in urban renewal areas.¹⁷⁶

VII. Limitations on Property Tax.

Iowa law imposes a number of limitations on the collection of property taxes by local government entities. The various maximum levy rate amounts prescribed in statute are limitations on the property tax. The 4 percent limitation on increases in assessments by class of property is a limitation on property taxes. Prescribing the allowable uses for revenues collected from supplemental levies is a limitation on property taxes. Biennial state equalization orders are a limitation on property taxes.

¹⁷² Iowa Code § 403.22.

¹⁷³ Iowa Code § 403.23.

¹⁷⁴ Iowa Code § 260E.6.

¹⁷⁵ Iowa Code § 260E.5.

¹⁷⁶ Iowa Code § 260E.4.



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The most comprehensive limitation on property taxes was that contained in Iowa Code sections 444.25A through 444.27 from 1993-1998. Under these sections, the maximum amount of property tax dollars which may be certified by a county was limited to the amount certified in the immediately preceding fiscal year. There were exceptions from the limitation allowed for levies against certain assessments, such as new construction, and for levies made for certain expenditures, such as debt service, hospitals, and emergency management. A more general exception was provided for levies made resulting from unusual need for additional moneys to finance existing programs which would provide substantial benefit to county residents or for a compelling need to finance new programs which would provide substantial benefit to county residents. An increase under this exception was limited to the product of the amount of taxes certified in the immediately preceding fiscal year and an economic growth indicator based upon government purchases. A county could also exceed the amount of property tax dollars certified under the limitation by petitioning the state appeal board for a property tax increase. Only circumstances specified in statute could be used to justify this type of increase.

The limitation was first enacted in 1992 and applied to both counties and cities for the 1993-1994 and 1994-1995 fiscal years.¹⁷⁷ In 1994, the limitation was reenacted to apply only to counties in the 1995-1996 and 1996-1997 fiscal years.¹⁷⁸ Senate File 69, enacted in the 1995 Session, extended the limitation on counties through the 1997-1998 fiscal year.¹⁷⁹

VIII. Additional School District Levies.

A. Instructional Support Program.

The instructional support program was established in 1989. The program allows school districts to increase their budgets by up to 10 percent of the regular program district cost, funded either exclusively through property taxes, or in combination with an income surtax (up to a maximum of 20 percent). The method of funding is determined by the school board, and the funds generated may be utilized for any school district general fund purpose. A majority of school districts have some form of instructional support program. It may be established by the school board for a five-year duration without voter approval (although subject to reverse referendum), or for a maximum of 10 years with voter approval. Limited state aid matching a portion of the amount raised locally is provided.¹⁸⁰

B. Educational Improvement Levy.

The educational improvement levy was enacted in 1989 to provide additional funding in school districts in which the regular program district cost per pupil for a budget year is more than 110 percent of the regular program state cost per pupil for the budget year and which have approved the use of the instructional support program. Imposition of a levy for educational improvement is subject to the same hearing and notice requirements of the instructional support program. However, approval of the electorate is required before the board of directors may impose the levy. The authority to participate in an educational

¹⁷⁷ 1992 Iowa Acts, Second Extraordinary Session, ch. 1001.

¹⁷⁸ 1994 Iowa Acts ch. 1163.

¹⁷⁹ 1995 Iowa Acts ch. 206.

¹⁸⁰ Iowa Code § 257.18.



improvement program continues until rescinded by the board of directors or the electorate of the district vote to discontinue the program. Initially, an educational improvement program could only be funded through a local property tax. In 1993, the law was amended to permit the use of a local income surtax, not to exceed 20 percent, in combination with the property tax.¹⁸¹

C. Gifted and Talented Education Program.

School districts are allowed to finance a gifted and talented education program through local property taxes levied as additional allowable growth as determined by the state. Previous law allowed up to 75 percent of the program to be financed in this manner with the remaining 25 percent to be financed through the general operating funds of the district. Beginning with the 1999-2000 school budget year, \$38 million in state funding was added to the regular program allowable growth to fund the gifted and talented education programs through the state school aid formula. This represented the 75 percent of the program costs that previously was financed by local property tax levies as a result of additional allowable growth. A school district must still fund the remaining 25 percent through the general operating funds of the district.¹⁸² A gifted and talented program and budget must be approved by the Department of Education.¹⁸³

D. Drop-Out and Drop-Out Prevention Programs.

School districts are allowed to finance drop-out and drop-out prevention programs through local property taxes levied as additional allowable growth as determined by the state. Up to 75 percent of the program may be financed in this manner with the remaining 25 percent to be financed through the general operating funds of the district. Programs may be geared either to drop-out prevention or to lowering drop-out rates, or for programs designed for former drop-outs returning to the school system.¹⁸⁴

E. Schoolhouse Levy.

If a school district prior to July 1, 1989, had authorized a schoolhouse levy approved by the electorate for up to 10 years at up to 67.5 cents per \$1,000 of taxable valuation, the district may continue to impose the levy until the authorization expires. Revenue collected from the schoolhouse levy may be used for capital expenditures, including purchase of grounds, construction of buildings, repair or remodeling, expanding buildings, opening roads, repairing roads, improving grounds or facilities, and renting facilities.¹⁸⁵

F. Asbestos Projects.

A school district may, with voter approval, levy a property tax, or combination of property tax and income surtax, for a five-year period for the purposes of funding an asbestos project. The income surtax imposed may not exceed 20 percent. An asbestos project includes inspection and reinspection, sampling, analysis, assessment, response

¹⁸¹ Iowa Code § 257.29.

¹⁸² See Iowa Code § 257.46, as amended by 1999 Iowa Acts ch. 178 and 2000 Iowa Acts ch. 1151.

¹⁸³ Iowa Code § 257.46.

¹⁸⁴ Iowa Code § 257.41.

¹⁸⁵ Iowa Code § 298A.5.



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actions, operations and maintenance, training, periodic surveillance, developing of management plans, and recordkeeping requirements relating to the presence of asbestos in school buildings and its removal or encapsulation.¹⁸⁶

G. District Management Levy.

The management levy is a levy deposited in the district management fund to pay costs incurred for unemployment, early retirement, liability, health and medical insurance coverage, self-insurance, tort judgments against the district, and loss of property. A district management levy does not require the approval of the electorate.¹⁸⁷

H. Physical Plant and Equipment Levy.

The physical plant and equipment levy is limited to \$1.67 per \$1,000 of assessed valuation in the district. The board may approve 33 cents of the levy on its own motion. The remaining \$1.34 must be approved by the voters after July 1, 1997. If the additional voter-approved levy was approved prior to July 1, 1997, the limit is 67 cents until subsequently reapproved. The levy may be imposed with a combination of property tax and income surtax. The amount raised by a combination levy is limited to the amount that would have been raised from a levy of \$1.34 per \$1,000 of property valuation. The levy is for major building repair and improvement, large equipment or technology acquisition, and energy or transportation-related equipment or expenditures.¹⁸⁸

I. Enrichment Levy.

The enrichment levy is no longer available, but it may continue until expiration in districts already utilizing it. The levy increased the school district's budget by up to 15 percent of the state cost per pupil times enrollment. Originally, the enrichment levy was intended to provide funding for educational research, curriculum, maintenance, or development of innovative programs.¹⁸⁹ These restrictions were eventually dropped. Districts using the enrichment levy may not also make use of the instructional support program funding.¹⁹⁰

J. Cash Reserve Levy.

School districts may levy property taxes to hold in reserve for cash flow purposes. As opposed to other levies, this does not have the effect of increasing spending authority. The cash reserve can be utilized if state foundation aid is reduced -- such as for across-the-board cuts -- or if property taxes are not collected.¹⁹¹

K. Education and Recreation (Playground) Levy.

The board of directors may authorize a levy of up to 13.5 cents per \$1,000 of assessed valuation to be directed toward the purchase of playgrounds and recreational facilities on public school property within the district and for the costs of community

¹⁸⁶ Iowa Code § 279.53.

¹⁸⁷ Iowa Code § 298.4.

¹⁸⁸ Iowa Code § 298.2.

¹⁸⁹ 1991 Iowa Code ch. 442.

¹⁹⁰ Iowa Code § 257.28.

¹⁹¹ Iowa Code § 298.10.

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education. Voter approval is required. Once enacted, the levy remains in place until rescinded by either the board or the voters.¹⁹²

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¹⁹² Iowa Code § 300.2.