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To: Property Tax Review Committee

Thank you for the opportunity to speak with you today on two important issues.

**FIRST ISSUE: The property tax appeal system is broken and needs to be fixed.**

I am here to urge you to set up State wide appeal board for property tax appeals.

I believe this will promote equity among tax districts, save money for taxpayers, the State and the local communities and significantly improve citizen-government relations in this area.

Here are the reasons for doing this:

1. The district court system is expensive and takes too long. Both taxpayers and communities are forced to hire attorneys and professional appraisers. Appraisals of residential property typically cost several hundred of dollars and of commercial property can cost several thousand of dollars. And this does not include the fee the appraiser then charges to testify in court.
2. There is a wide variation in the competence and independence of the members of the local appeal boards, leading to both inequities among taxing districts and a sense that many local appeal boards are just rubber stamps for the local assessor.
3. It is a system that nickels and dimes the taxpayer, creating a great deal of resentment, which is not good for citizen-government relations. Although a homeowner may be over-assessed by \$30,000 - \$60,000 or a commercial property owner by \$75,000- \$150,000, it is not economical to go to court. Even if the taxpayer wins, the savings in taxes is offset by the high cost of going to court. Assessors and appeal boards recognize this and frequently point it out to the taxpayer.

There has to be a better way to handle this problem. I suggest the following:

1. Establish a fee schedule for filing appeals that would vary the fee in accordance with the value of the property.

This would defray some or all of the cost to the Appeal Board, and keep the system from becoming bogged down with frivolous disputes. Currently for small claims court actions with judgments of a few hundred to a few thousand dollars, the filing fee is \$50 fee. The fee for the property tax appeal should be more – I suggest you consider a minimum fee of \$100-150 and graduate it up depending on the value of the property or, perhaps, based on some ratio of the property value or the amount in dispute. I certainly would not deem it unreasonable if the fee graduates up to \$500.

2. Place reasonable time constraints on the appeal process.

3. Continue to allow appeals from the board to the local district court.

**SECOND ISSUE: Inequity in the taxation of residential properties.**

Another very significant issue is the unfairness in the taxation of residential properties. The current system is grossly unfair. Two examples:

1. The owner of a \$250,000 3-plex pays more than twice the taxes than the owner of a \$250,000 duplex even if each generates about the same income.
2. The owner-occupant of an \$80,000 condo pays less taxes than a tenant in a \$40,000 apartment pays through his rent.

A detailed illustration of this is the 10-plex built in 2002 located at 2522 Aspen Road, Ames:

<u>In 2002</u>	<u>Total</u>	<u>Per Unit</u>	<u>2003 (converted to condos)</u>	<u>Per Unit</u>
Assessed value:	\$633,000	\$63,000	Assessed value: \$725,900	\$72,500
Property Taxes: \$19,000		\$1,900	Property Taxes: \$10,766	\$1,077

Once the rollback of 48.4558 was applied in 2003, the new taxable value was only \$351,740. Thus, the total assessed value went up by 14.7%, but the taxes went down by 43.3%.

This means that the portion of the tenants' rent that went into property taxes went from \$158.33/mo to less than \$89.72/mo.

This is very unfair to tenants in other apartments that cannot be converted to condos and therefore are not classified as residential.

Now let's compare 2522 Aspen to 1300 Gateway, a 100+ unit complex I manage in Ames. 1300 Gateway was built in 1984. It has a higher value, higher rent, lower expenses than 2522 Aspen, BUT it has lower taxes.

	<u>2522 Aspen Road</u>	<u>1300 Gateway</u>	<u>Differences</u>
Assessed value per unit:	\$72,500	\$41,803	42 % less assessed value
Average square footage:	805	727	9.6 % less avg. sq. ft.
Landlord pays heat & water:	No	Yes	
Average Monthly Rent:	\$675	\$650*	3.7% lower rent
Taxes:	\$1,077	\$1,270	17.9 % higher taxes

\*\$30 adjustment for Landlord paid heat and water (\$680 – 30)

**The bottom line is that the current system is grossly unfair. It is not only unfair to the property owner, it is unfair to the tenant who is paying the taxes through their rent.**

A major concern you, as legislators, have is to make sure that the system is fair; and if there is any shift, it does not hurt the taxing districts. Please consider the following points:

1. Many, if not most, new apartments are being built as condos.
2. Whenever possible, existing apartments are converting to condos.
3. If the property has shifted from commercial classification to residential classification, the resulting decrease in property taxes means an increase in assessed value of approximately 17% just from the capitalization of the lower property taxes and an even higher percentage if the resulting condo is readily marketable.
4. In a market where new units are being built as condos and having a resulting tax advantage, it is and will continue to cause a reduction in value of existing properties, especially those built more than 10 years ago.

The process of conversion is happening. Owners are hiring real estate attorneys and are going to court achieving the conversion. So tax districts are erecting defenses to slow down or stop the process.

This is not good public policy and has created inequity within the tax classification by taxing some apartment complexes at residential (condo) rates and some at commercial rates.

To the degree that tax districts are successful, it deprives prospective buyers the opportunity to buy inexpensive, perfectly safe and acceptable homes.

Why should a person be limited to being a tenant paying \$650 rent to live in a 2 bedroom apartment assessed for \$50,000 when he/she could buy the same unit with no money down for \$60,000, (yielding a 20% increase in assessed value to the tax district), have monthly payments of \$424 (\$334 principal and interest, taxes of about \$60, and insurance of about \$30).

Shouldn't people have the opportunity to own a home with lower payments than what they are paying in rent? In fact they could pay \$70,000 for the unit and still have payments under \$500, a reduction of nearly 25% from their rent. If that tenant has a modest income, he/she may not be able to afford a more expensive, new home, townhouse or condo.

All this will be prevented if tax districts can prevent conversion of existing properties to condos.

For example,

<b>West Des Moines Addresses</b>	<b>Sale Date</b>	<b>Sale Price</b>	<b>Yearly Property Taxes</b>
9533 University # 6	7/04	61,500	\$ 796
9507 University #22	7/04	58,270	\$ 786
9557 University #16	6/04	59,300	\$ 796
9513 University # 6	3/04	46,000	\$ 796
1440 20 <sup>th</sup> St. # 8	7/04	\$80,000	\$ 1048
1410 20 <sup>th</sup> St. # 9	1/04	\$79,400	\$ 906
1440 20 <sup>th</sup> St. #12	5/04	\$80,000	\$ 1068

The above illustrates converted apartment units that offer affordable housing to modest income people. If conversions are blocked then there will be fewer affordable houses for modest income people to buy.

I understand that you, as legislators, have the responsibility of doing the right thing and being fair to everyone – at the same time you have the practical consideration of balancing whatever you do on the financial impact

upon cities, schools, and counties. I understand that is a reality and you cannot ignore it; however, if you consider carefully the above mentioned bullet points, I am confident that you will realize that the impact is not as great as what it would at first appear to be.

Much of it is already happening. If apartments are taxed as residential, values will automatically increase and the erosion of the existing apartment complexes' assessed values will be avoided. I encourage you to study real impact of my four points.

Dick Stradley tells me that the total value of commercial property in the State of Iowa is about 23%. He was not aware what percentage of commercial property was apartments. I checked with Greg Lynch of the Polk County Assessor's office and he told me that the Polk County percentage was about 14%. I do not know the statewide percentage and presume that the percentage in Ames, Iowa City and Cedar Falls is higher than the norm. I would also assume Polk County's 14% is higher than the statewide percentage. If the statewide ratio is 10%, then this would mean only 2.3 % of all property in the state ( $23\% \times 10\%$ ) is apartments.

Even if the Polk County percentage represented the statewide average, the percentage of apartments would only be 3.2 % ( $23\% \times 14\%$ ).

So according to my calculations, if a 50% residential rollback is applied first, then an increase of 17% due to capitalization in the lower taxes, and if we assume that the value of existing apartments goes down and others continue to convert, the impact may only be less than half of the theoretical 50% reduction.

When you consider that apartments may represent only 2.6% of the total value, the amount of impact may not be as big as what I think people fear that it might be. It may be less than  $1\frac{1}{2}\%$

Since the rollback was established many years ago, the amount of rollback applied to residential properties has increased dramatically. It is now more than 50%. The average increase in rollback has been more than 2% a year.

I suggest as one way of facilitating the change of apartments from commercial to residential classification but minimizing the overall impact, would be to freeze the amount of the residential rollback at what it is this year and then apply any rollbacks that might have applied to a phase-in the transition from commercial to residential over a several year period. If you kept the 2003 rollback (.484558) on residential property at the 2002 rollback rate (.513874) – which is a .029316 difference – **this would completely offset the shift of making apartments residential.**

In summary:

1. The current system is unfair to tenants. The market place is competitive now. Any reduction in taxes will be passed on to tenants.
2. Lower taxes on apartments will also spur more new apartments providing more choices to tenants
3. A change in the classifications will mean that cities will not erect artificial barriers to convert apartments to condos. If more units are converted then more ownership opportunities will be created for people of modest income.
4. Changing apartments from commercial to residential classification would put Iowa on the same basis as the other states in the Midwest.

Sincerely,

Keith Denner, President  
Professional Property Management, Inc.