

**Department of Revenue**  
**2020 Property Tax Bill**  
**Background Memorandum**

The Iowa Department of Revenue (IDR) offers this bill to improve the administration of two elements of current property tax law as well as provide an option for local governments to assist property owners hoping to improve properties recently damaged by floods or other natural disasters.

Division I of this bill addresses the Business Property Tax Credit. In the months of May and June, counties must file data files to register every parcel record with identification associated to each record that is part of a unique unit as defined by Code chapter 426C. Once the counties have filed data files for this Unit ID number, IDR must issue unique identifiers to every property unit and every record so we ensure that only properly approved records, identified by the counties, are used in the overall calculation of the credit distribution to each parcel record. Once IDR assigns the unique Unit ID number, counties must import a data file with this information into their tax administration software. If counties don't register records with IDR or if the local governments make mistakes in the registration process, they must submit after the fact for corrections of the records that were either not provided to IDR or were not registered as eligible. By June 30 of each year, counties must then submit data files of every parcel record that includes the unique unit ID number in it, as well as all data associated with the ownership and valuations for the calculation of the credit.

Examples of past corrections include every single parcel that was entitled to the credit in some counties, up to 700 parcel records, and \$300,000 of errors in the process which results in the counties reissuing tax bills and a corrections process with the Department to reconcile the distribution of funds.

Additionally, the timing of the process requires IDR to utilize the consolidated levy rates published by the Department of Management in June. The calculation process relies upon these published rates to determine the credits to which each parcel record is entitled. There are approximately 95,000 records that are approved for the credit by counties. This changes each year as parcels transact and ownership changes and taxpayers are required to reapply for the credit. Auditors across the state file for replacement claim or backfill monies in August, after the conclusion of the Business Property Tax Credit process. In the replacement claim process, counties submit the actual consolidated levy rates used in the production of tax bills. There are always differences between the published rates by DOM and the actual rates used by counties in the production of tax bills. As a result, any levy rates that do not match what was published by DOM and used to calculate the business property tax credit, must have a correction and

recalculation of the credit for every parcel where the rates were not the same. This means that every year there are numerous and substantial corrections to tax bills, credit calculations and the accounting log for the distribution of the funds for the credit.

Once credits are calculated, the counties must come to an IDR portal and retrieve a data file with the calculated credits that is then imported into their tax administration software and included on tax bills the published in late July early August. Every year, there are issues and corrections which impact taxpayers and are burdensome for counties and IDR. The overall administrative burden for both counties and IDR is substantial.

IDR proposes to replace the application and calculation processes with an automatically applicable credit to all owners of appropriately classified property based on the first \$150,000 of valuation for each parcel. IDR believes these changes maintain the policy goals set forth in the 2013 legislation creating the Business Property Tax Credit while easing the administrative burden at the state and local level.

Divisions II and III address the multiresidential property classification. Multiresidential classification comprises approximately 2.4 percent of the total valuations for locally assessed properties across the state. There are seven assessing jurisdictions that have had no sales in the last four years and over 40 percent of the jurisdictions have less than fifty properties classified as multiresidential. At least 53 of the jurisdictions have six or less sales within a four year period.

Because of the low volume of sales, staffing limitations, and at the recommendation of mass appraisal expert, Robert Gloudemans, IDR implemented a statewide regression model to produce modeled appraisals to supplement the ratio studies used in the determination of statutory compliance for aggregate valuations. To implement the modeled appraisals. Significant data pertaining to the sales transactions and the attribute data for the sales must be obtained by staff and retained in order to perform the regression model. The collection of the data is substantial and no efficient method is available at this time to accommodate streamlining this process.

Additionally, sale information is statutorily required to be submitted to IDR 60 days after the end of each quarter. This means that sales from the year ending 2018, which are used are part of our equalization process, are not due to IDR until March 1, 2019. Once the documents are received by IDR, they must be processed to be made available to staff for their examination and determination if they should be included in the equalization process as valid arm's length sales. This process takes at minimum 30 days. Once the examination is completed, staff must then

gather the data necessary to enable us to perform a regression model and apply the modeled results to sample property for their inclusion in our ratio studies as surrogate sales to determine aggregate levels of assessment. This process takes an additional 30-60 days. IDR does not have the results of these modeled appraisals available until late June early July of the equalization year. Equalization orders are completed each odd year (2017, 2019, 2021, etc.) in July and finalized at the end of July and early August.

As a result of this timing, IDR is unable to provide any substantive information to assessors within a timeframe to be helpful to them when setting their valuations. Assessment notices for the public must be completed by assessors and provided to the public April 1, 2019 for the 2019 assessment. The process and timing prohibits the ability to provide the information and or results timely for assessors.

This bill proposes to eliminate the multiresidential classification effective January 1, 2021. This would eliminate the need for the equalization process after those properties are assessed in 2021. IDR believes these changes would alleviate the administrative burden for local governments and IDR while continuing to support the long-term intent of the 2013 legislation.

Division IV revises dates in a Code chapter enacted after widespread flooding in 2008. In 2009, the legislature enacted Code chapter 404B, "Disaster Revitalization Tax Exemptions," to provide assistance to owners of property impacted by 2008 flooding. It allowed for a 100 percent exemption on the increase in assessed value of the property, as compared to the property's assessed value on January 1, 2007, if the increase in assessed value was attributable to revitalization of the property occurring between May 25, 2008, and December 31, 2013. The chapter allowed local jurisdictions to enact ordinances to allow such an exemption subject to a sunset or repeal of December 31, 2016.

This division simply strikes and replaces years throughout Code chapter 404B to reactivate the chapter. In light of the widespread flooding throughout 2019, this would provide relief to property owners who repair or reinvest in their flood-damaged properties and would not impact the state General Fund.