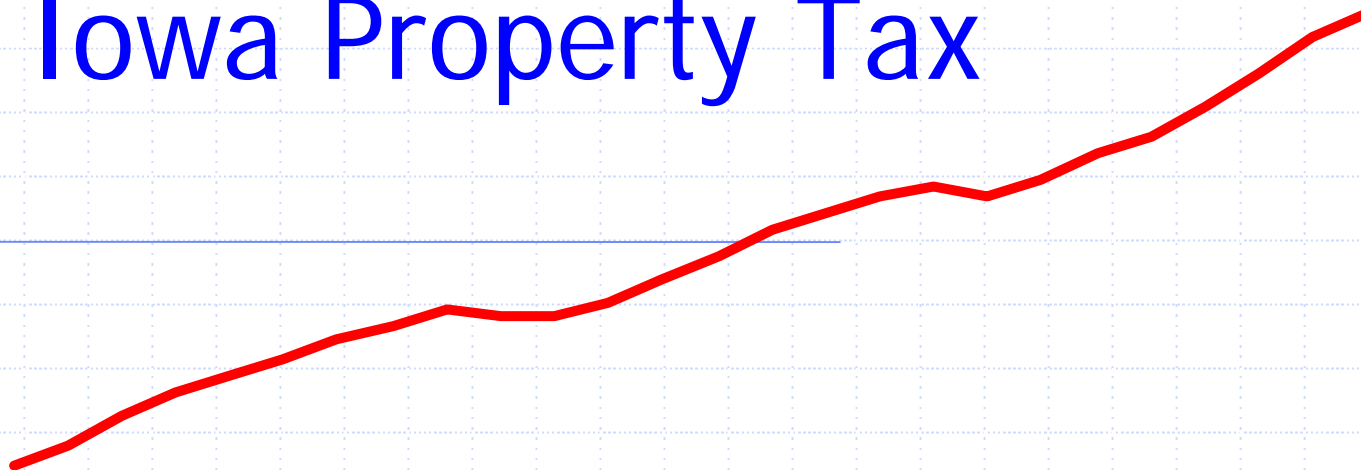


Iowa Property Tax



Jeff Robinson - Fiscal Services Division

Presentation to the Property Tax Implementation Committee

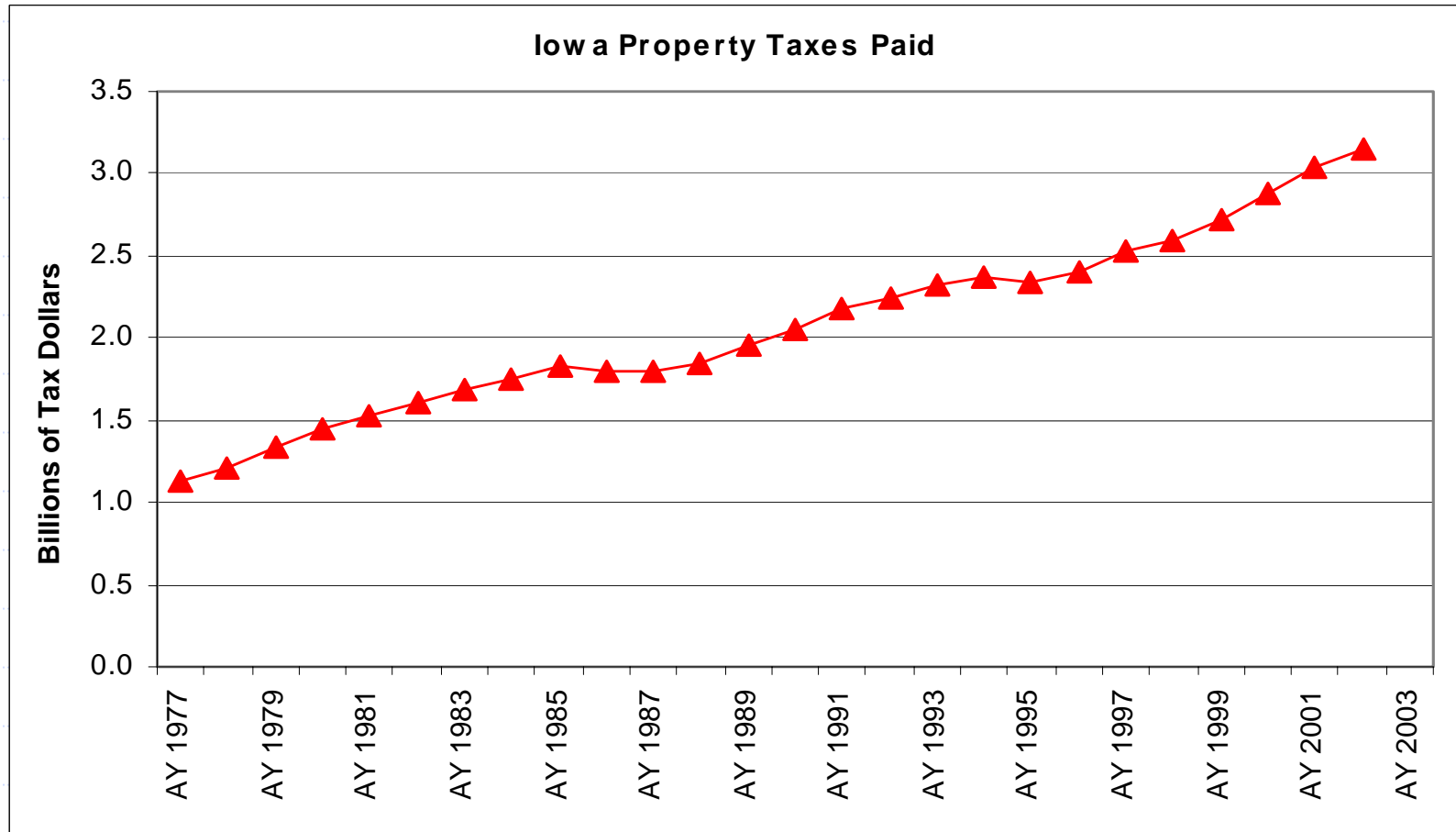
February 5, 2004

Section 1

Historical Comparisons –

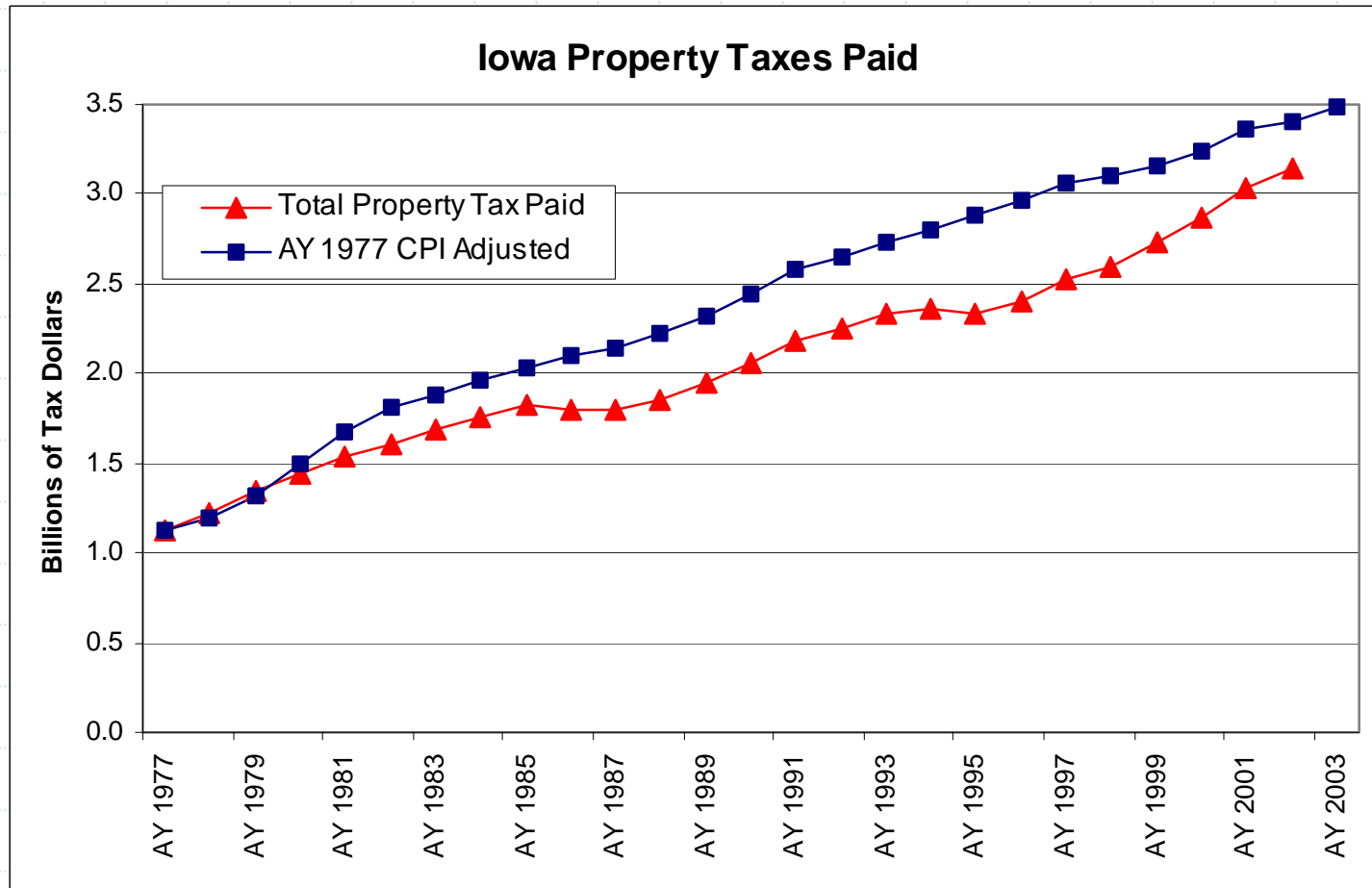
Based on Department of Management Tax History and federal income and gross state product data

Iowa Property Tax Paid – All Classes

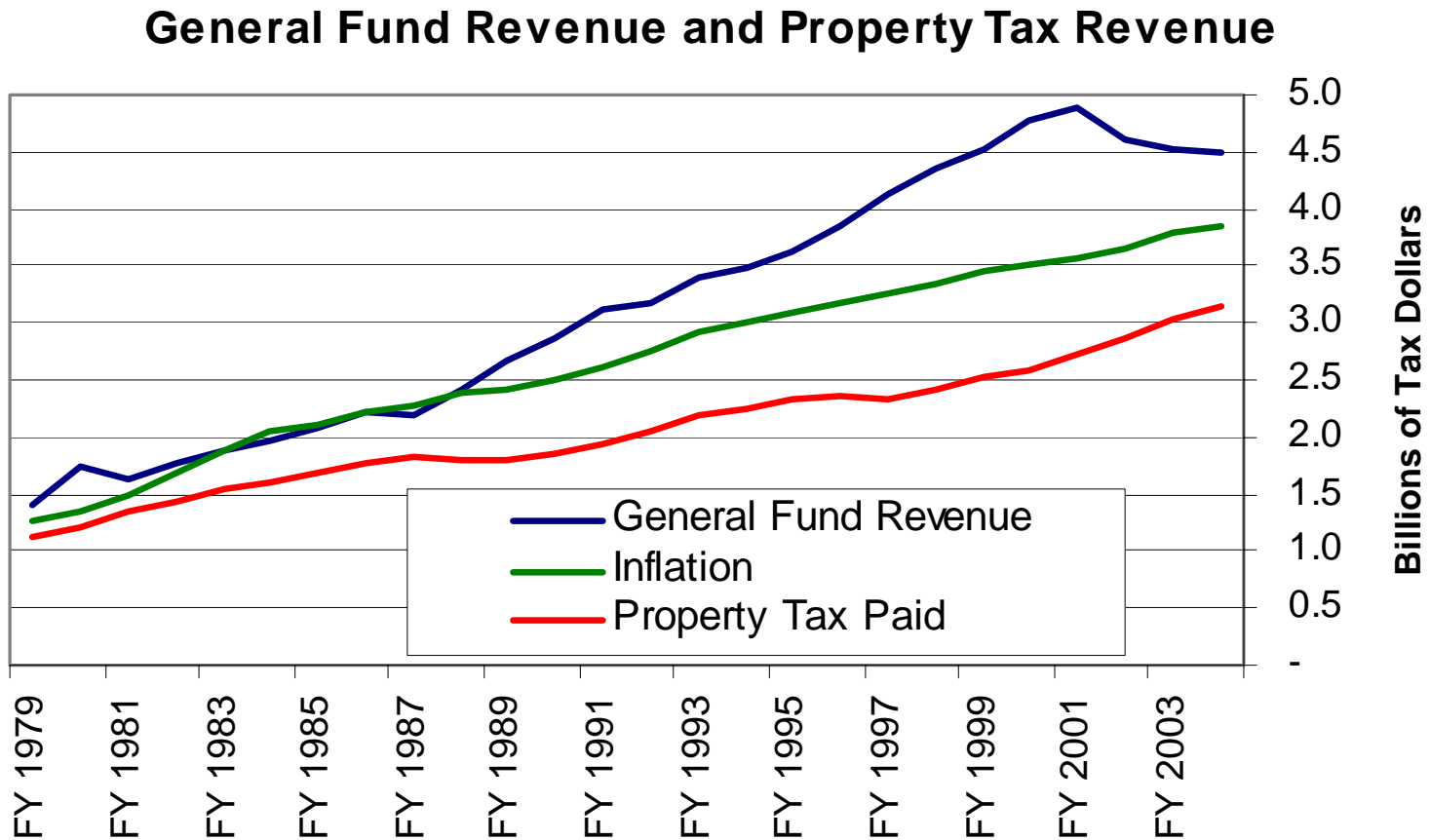


Iowa Property Tax Paid – All Classes

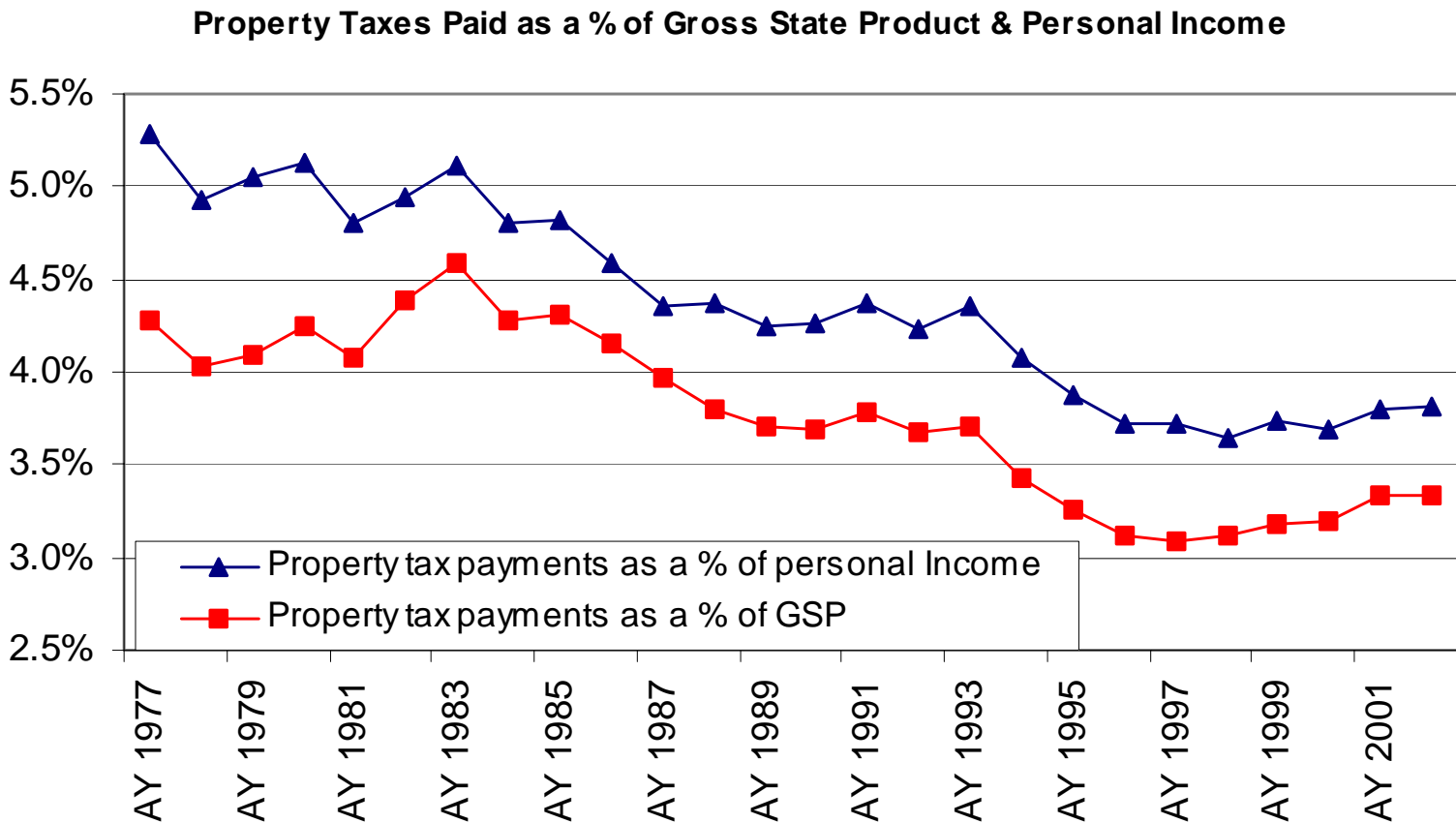
Compared to Inflated 1977



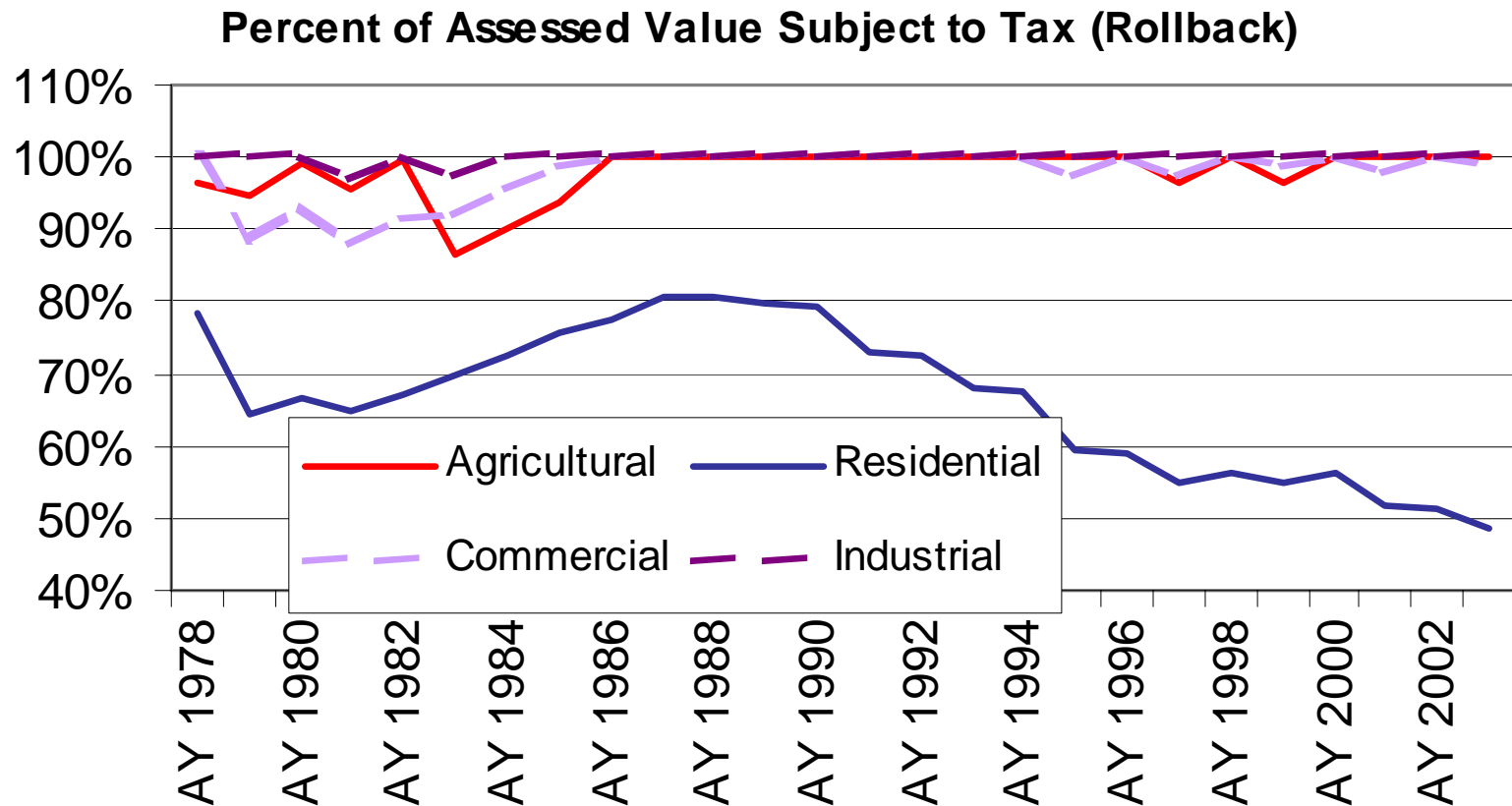
From FY 1979, State General Fund revenues have outpaced inflation, while property tax revenues have trailed it. The two together have been very close to the rate of inflation through FY 2004.



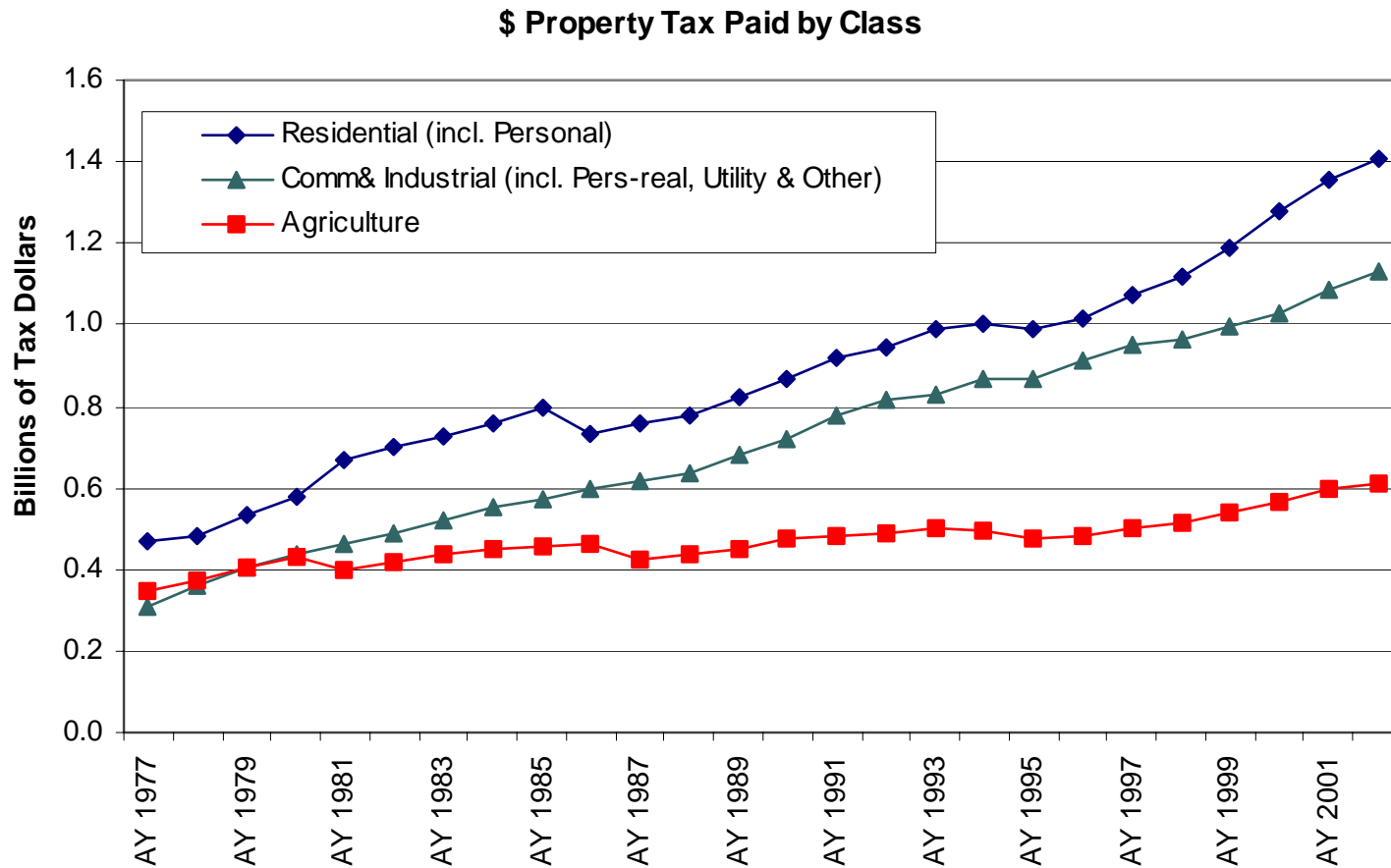
Iowa Property Taxes as a Percent of: Gross State Product & Personal Income



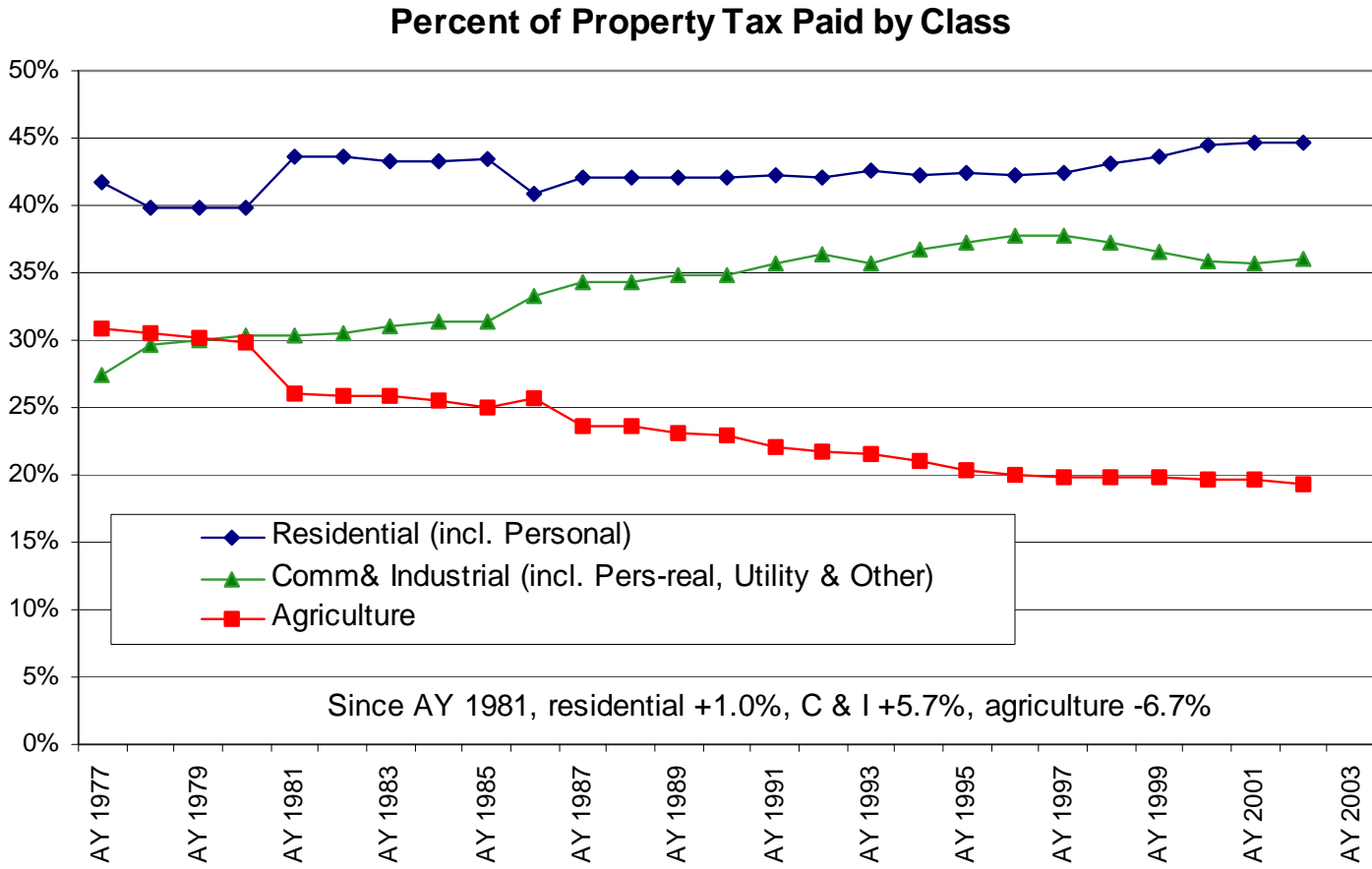
Rollback – Residential property taxed significantly under market value, agricultural property assessed on a productivity basis.



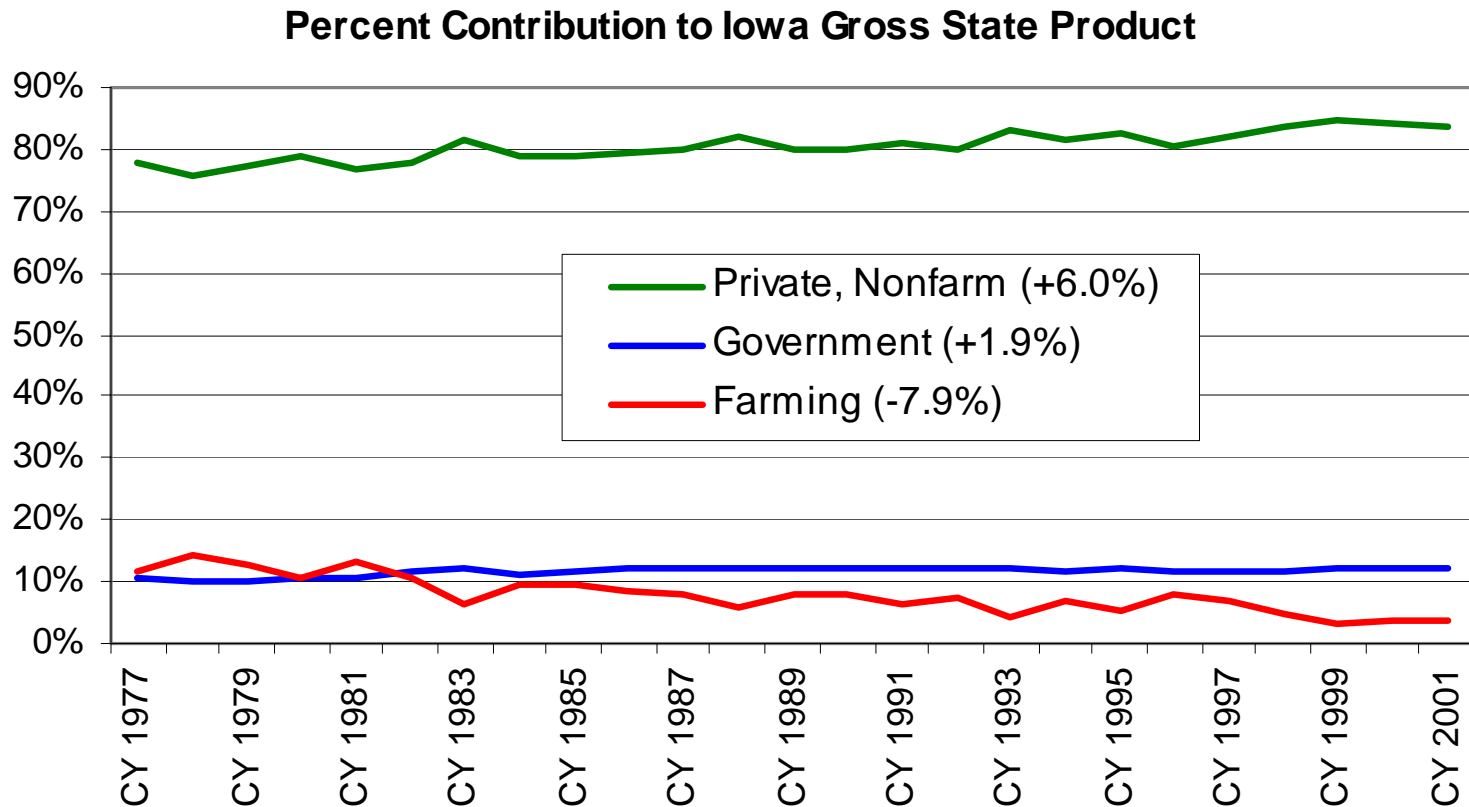
Property tax dollars paid by residential and commercial/industrial have generally increased faster than dollars paid by agriculture.



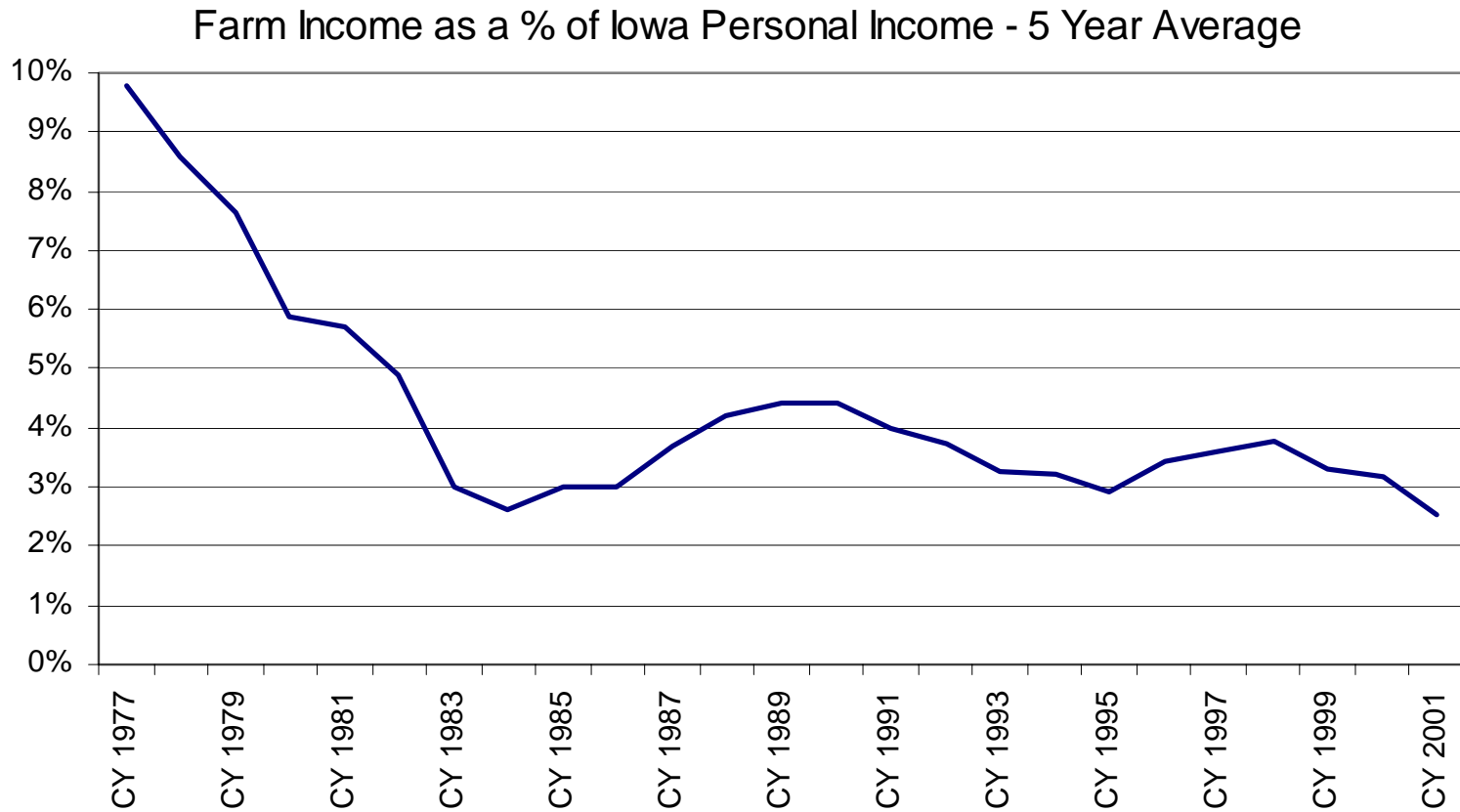
As a percent of property tax paid, residential has increased modestly, commercial/industrial more pronounced, and agriculture has declined significantly.



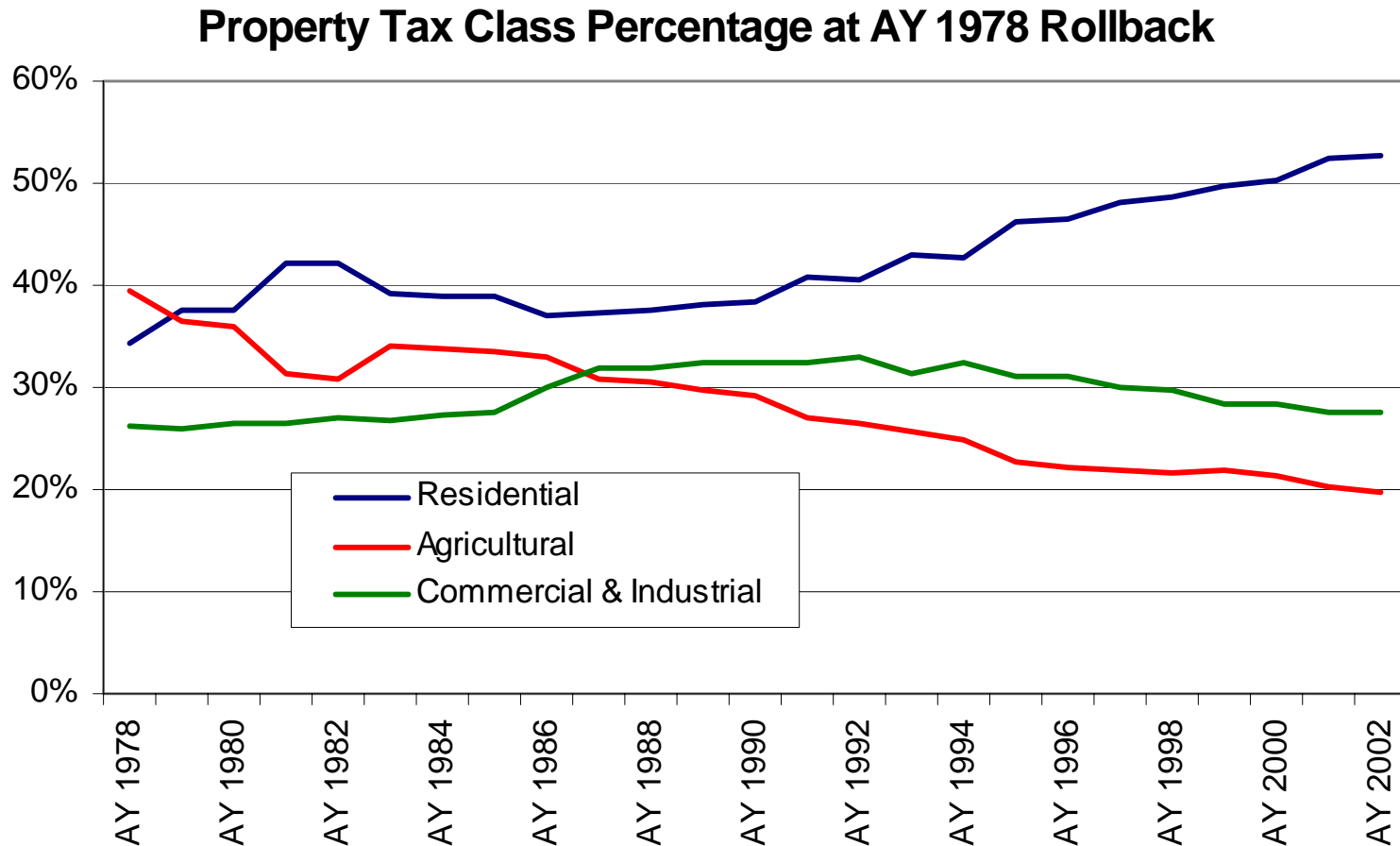
Farming has declined significantly as a percent of Iowa Gross State Product, while the private, non-farm sector has increased.



Farm income as a percent of Iowa personal income has decreased significantly in the last 25 years.

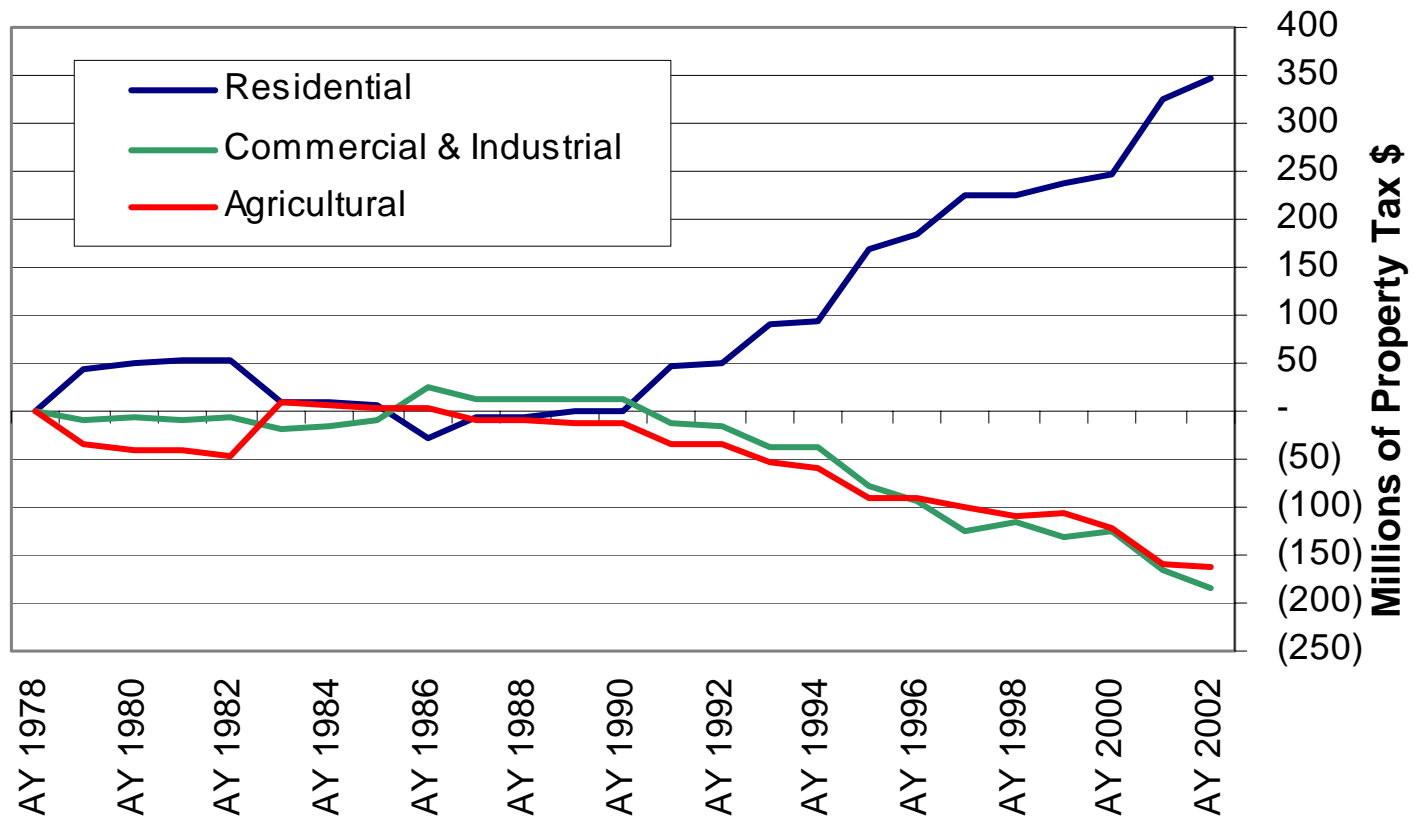


If the rollbacks were frozen at the 1978 level, residential would be paying 52.7% of all property taxes, instead of the current 44.7%.



If the rollback percentages had remained at the 1978 level for each class, residential would be paying \$347.5 million more in taxes, C & I \$184.6 million less, and agriculture \$162.8 million less.

Property Tax Difference if Rollbacks Remained at AY 1978 Levels





Section 2

Simulated Impacts –

Raising the residential rollback percentage or
decreasing the agriculture capitalization rate



Rollback and Capitalization Rate Adjustment Simulations

- ◆ The following four examples are based on FY 2004 information on tax rates by levy authority and property values by taxing district.
- ◆ Two simulations are provided:
 - The impact of raising the residential rollback from 51.3874% to 54.3874% (3.00%).
 - The impact of lowering the agriculture productivity capitalization rate from 7.0% to 6.0%.
 - For each simulation, a static local budget version and a version where the local governments tax the increased authority is provided.
 - School district budgets remain static in all examples, with the exception of replacing lost State school aid.

Adding 3.00% to the FY 2004 residential rollback, with local governments retaining additional revenue would increase residential property taxes by 5.3% and local revenues by \$1.59 million (\$1.15 million after school aid reduction that results from the increased taxable value).

Residential Rollback Plus 3.00% Example

Five Counties - Iowa Lakes C.C. Area
Change in Tax Source and Destination

Local Governments Retain Added Revenue

Source				
Property Class	Current Tax	After Rollback Change	Increase/Decrease	% Change
Residential	\$35,021,099	\$36,862,722	\$1,841,623	5.3%
Agriculture	34,722,206	34,590,216	-131,990	-0.4%
Commercial/Industrial	23,017,308	22,900,443	-116,865	-0.5%
Total	\$92,760,612	\$94,353,381	\$1,592,769	1.7%

Destination				
Tax Authority	Current Tax Revenue	After Rollback Change	Increase/Decrease	% Change
Schools	\$44,135,099	\$44,579,482	\$444,383	1.0%
Cities	14,559,225	15,056,651	497,426	3.4%
Counties	25,068,768	25,487,938	419,170	1.7%
Community College	2,702,029	2,761,418	59,389	2.2%
Other	6,295,492	6,467,891	172,399	2.7%
Total	\$92,760,613	\$94,353,380	\$1,592,767	1.7%

Adding 3.00% to the FY 2004 residential rollback, with local government budgets static, increases residential property taxes by 3.6% and local revenues by \$444,000, the exact amount of the school aid reduction that results from the increased taxable value.

Residential Rollback Plus 3.00% Example

Five Counties - Iowa Lakes C.C. Area
 Change in Tax Source and Destination
 Static Local Government Budgets

Source				
Property Class	Current Tax	After Rollback Change	Increase/Decrease	% Change
Residential	\$35,021,099	\$36,270,804	\$1,249,705	3.6%
Ag Land & Buildings	34,722,206	34,362,159	-360,047	-1.0%
Industrial/Commercial	23,017,308	22,572,032	-445,276	-1.9%
Total	\$92,760,612	\$93,204,995	\$444,383	0.5%

Destination				
Tax Authority	Current Tax Revenue	After Rollback Change	Increase/Decrease	% Change
Schools	\$44,135,099	\$44,579,482	\$444,383	1.0%
Cities	14,559,225	14,559,225	0	0.0%
Counties	25,068,768	25,068,768	0	0.0%
Community College	2,702,029	2,702,029	0	0.0%
Other	6,295,492	6,295,492	0	0.0%
Total	\$92,760,613	\$93,204,996	\$444,383	0.5%

Reducing the capitalization rate to 6.0%, with local governments retaining additional revenue would increase agriculture property taxes by 13.6% and local revenues by \$4.05 million (\$2.70 million after school aid reduction that results from the increased taxable value).

Agriculture Capitalization Rate Reduced to 6.0%

Five Counties - Iowa Lakes C.C. Area

Change in Tax Source and Destination

Local Governments Retain Added Revenue

Source				
Property Class	Current Tax	After Cap Rate Change	Increase/Decrease	% Change
Residential	\$35,021,099	\$34,666,868	-\$354,231	-1.0%
Agriculture	34,722,206	39,437,234	4,715,028	13.6%
Commercial/Industrial	23,017,308	22,710,038	-307,270	-1.3%
Total	\$92,760,612	\$96,814,139	\$4,053,527	4.4%

Destination				
Tax Authority	Current Tax Revenue	After Cap Rate Change	Increase/Decrease	% Change
Schools	\$44,135,099	\$45,491,254	\$1,356,155	3.1%
Cities	14,559,225	14,563,699	4,474	0.0%
Counties	25,068,768	27,249,599	2,180,831	8.7%
Community College	2,702,029	2,885,816	183,787	6.8%
Other	6,295,492	6,623,772	328,280	5.2%
Total	\$92,760,613	\$96,814,140	\$4,053,527	4.4%

Reducing the capitalization rate from 7.0% to 6.0%, with local government budgets static would increase agricultural property taxes by 8.9% and local revenues by \$1.36 million, the exact amount of the school aid reduction that results from the increased taxable value.

Agriculture Capitalization Rate Reduced to 6.0%

Five Counties - Iowa Lakes C.C. Area
Change in Tax Source and Destination
Static Local Government Budgets

Source				
Property Class	Current Tax	After Cap Rate Change	Increase/Decrease	% Change
Residential	\$35,021,099	\$34,062,246	-\$958,853	-2.7%
Ag Land & Buildings	34,722,206	37,828,510	3,106,304	8.9%
Industrial/Commercial	23,017,308	22,226,011	-791,297	-3.4%
Total	\$92,760,612	\$94,116,767	\$1,356,155	1.5%

Destination				
Tax Authority	Current Tax Revenue	After Cap Rate Change	Increase/Decrease	% Change
Schools	\$44,135,099	\$45,491,254	\$1,356,155	3.1%
Cities	14,559,225	14,559,225	0	0.0%
Counties	25,068,768	25,068,768	0	0.0%
Community College	2,702,029	2,702,029	0	0.0%
Other	6,295,492	6,295,492	0	0.0%
Total	\$92,760,613	\$94,116,768	\$1,356,155	1.5%

Section 3

City Tax Rates –

Taxable value issues present the biggest problem to local governments with hard levy limits expressed in dollars per thousands. The city level rate of \$8.10 is an often-cited example.

City Tax Rates

- ◆ Iowa has about 940 cities with a total population of 2,265,000. The population-weighted average tax rate is \$13.71.
- ◆ There are 653 Iowa cities (69.3% of cities, 95.2% of city population) with a tax rate above \$8.10. The population-weighted average of this group is \$14.04. Another 121 cities levy exactly \$8.10, while fourteen cities have total city rates above \$20.00 per thousand.
- ◆ Eight years ago (FY 1996), there were 647 Iowa cities (68.7% of cities, 94.8% of city population) with a tax rate above \$8.10. The population-weighted average of this group was \$13.51. Another 99 cities levy exactly \$8.10, while fourteen cities have total city rates above \$20.00 per thousand.

Summary

1. Property tax revenues have increased, but at a rate lower than inflation. The main reason being previous efforts to move government expenses from local governments to the State General Fund.
2. The residential rollback has prevented a significant increase in the percentage of local government funded by residential property.
3. The percentage of local government funded by agriculture property has decreased, but so has the importance of agriculture income to the Iowa economy.
4. The percentage of local government funded by private, non-agriculture for-profit property has increased, but so has that sector's importance to the Iowa economy.
5. Raising the residential rollback in FY 2004 by 3.00% would have increased residential property taxes in the range of 3.6% to 5.3%.
6. Lowering the capitalization rate to 6.0% in FY 2004 would have increased farmland property taxes in the range of 8.9% to 13.6%.
7. In all four simulations, State school aid expenditures are reduced.
8. Just over 95.0% of Iowa's city population currently lives in an area with a city tax rate above \$8.10. On a population-weighted basis, the average rate is \$13.71 per thousand of city taxable valuation. Fourteen cities have FY 2004 tax rates above \$20.00.