



BILL SUMMARY – UPDATED

HF 2274 School Aid Foundation Level and Commercial Property Tax Limits

Status of Bill: House Calendar
Committee: Ways & Means (Committee Vote 15-10)
Floor Manager: Rep. Sands (Rep. Helland & Rep. Kaufmann)
Ranking Ds: Rep. Isenhart & Rep. Thomas
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BACKGROUND

Commercial property tax makes up approximately 26% of all property tax revenues. The remaining four classes of real property that are taxed under Iowa law are residential at approximately 43%, agricultural at approximately 23%, industrial at approximately 5%, and utilities, including railroads, at approximately 3%. All real commercial property is assessed every two years in odd-numbered years.

Over 20 years ago, residential property values were increasing rapidly. The Legislature enacted an assessment limitation to lessen the increase of residential property taxes. This assessment limitation is typically called the “rollback.” If the statewide values of agricultural and residential land increase by more than 4% due to revaluation the increases are limited to 4% statewide. Rollback is available for industrial and commercial property, but currently commercial property taxpayers pay 100% of the value of their real property.

GENERAL SUMMARY

HF 2274 consists of 4 divisions. Division I increases the state share of the school aid formula regular program foundation level from 87.5% to 100% from FY 2015 to FY 2022. Division II rolls back the assessment on commercial and industrial land by 40% over 8 years. Division III of the bill changes the assessment of telecommunications companies so that telecommunications property is treated like any other commercial property. Division IV limits the maximum amount of property tax dollars that can be expended by a city or county, replacing current levy limitations, and allows increases in this limit based on the Midwest Consumer Price Index (CPI).

Division I – Education Finance

Division I increases the state share of the school aid formula from 87.5% to 100% based on the following schedule:

FY 2014 – 87.5%
FY 2015 – 89.06%
FY 2016 – 90.63%
FY 2017 – 92.19%
FY 2018 – 93.75%
FY 2019 – 95.31%

FY 2020 – 96.88%
FY 2021 – 98.44%
FY 2022 – 100%

This provides no new money for schools, but does provide property tax relief by shifting the school district costs to the state and away from property taxes. The bill does not change the foundation for special education support services, which would remain at 79%. Property taxes would continue to pick up 21% of this expense, despite the relief proposed in the bill. The bill provides that the adjusted additional property tax levy and the statewide maximum adjusted additional property tax levy only apply to budget years before FY 2022. The bill also sunsets the \$24 million appropriation to the property tax equity and relief (PTER) fund for fiscal years after FY 2022 and deposits any remaining money in the taxpayers trust fund for any year that the state foundation base percentage is 100%.

Under the school aid foundation plan, each school district has a budget based on the number of students enrolled, multiplied by the district cost per pupil. Currently, the statewide cost per pupil is \$5,883. A three-part formula is then used to determine the mix of property taxes and state aid. First, each school district assesses a uniform levy of \$5.40 per \$1,000 of property valuation. Then, state aid is provided up to the foundation level of 87.5% of the district costs. The third step has the school district going back to property taxes to make up the remaining 12.5% of the district budget. Because of the disparity in property values, some schools only have to levy an additional \$0.78 per \$1,000 of valuation, while others have to levy an additional \$5.98 per \$1,000 of valuation.

Division II – Property Tax Exemption and Assessment Limitations – Property Tax Replacement

The bill reduces the assessed value of any property that is not located in an urban renewal area, or TIF, by 15% of up to \$400,000 of the actual value of the property for assessments until assessment year (AY) 2017. For AY 2018, the reduction is 10% and for AY 2019 the reduction is 5%. For AY 2020 forward, all commercial and industrial property is simply subject to the 40% roll back.

For example, if a business owner owns a property valued at \$400,000, in AY 2013 the assessment of the property would be reduced by 15% (to \$340,000) and then the rollback (5% as detailed below) would be applied (for an final assessed value of \$323,000, or $\$400,000 * 85% * 95% = \$323,000$). In AY 2017, a \$400,000 would be reduced by 15% (to \$340,000) and then the rollback of 25% would be applied for a final assessed value of $\$400,000 * 85% * 75% = 255,000$. In AY 2018, that same \$400,000 commercial property would only be reduced by 10% before the rollback for a final assessed value under the bill of $\$400,000 * 90% * 70% = \$252,000$.

Sets the rollback on agricultural and residential property at 2% of an increase or decrease.

Creates a property tax rollback for commercial and industrial property of 40% over 8 years. The schedule of the rollback implementation is:

AY 2013 – 95%
AY 2014 – 90%
AY 2015 – 85%
AY 2016 – 80%
AY 2017 – 75%
AY 2018 – 70%
AY 2019 – 65%
AY 2020 – 60%

The bill specifies that the roll back does not apply to property in a TIF area.

The bill creates a commercial and industrial property tax replacement fund to backfill the loss in commercial property taxes. The fund will backfill the difference in each year's commercial and industrial property taxes in a county and the value of that property as of January 1, 2012. The appropriation to the fund is as follows:

FY 2015 – \$100 million
FY 2016 – \$150 million
FY 2017 – \$180 million
FY 2018 – \$210 million
FY 2019 – \$240 million
FY 2020 and each year after – \$240 million

If the appropriations are not sufficient to cover all claims to the property tax replacement fund, the disbursements will be prorated. Any unspent money in the fund reverts to the general fund each year.

If the assessed value of all commercial, industrial, and railway property as of AY 2012 is less than the assessed value of all commercial, industrial, and railroad property for the current assessment year, there is no tax replacement for that taxing district for the current fiscal year.

Division III – Telecommunications Property Tax

The bill changes the assessment of telecommunications companies, starting in AY 2013, so that property used by a company in the transaction of telegraph and telephone business is taxed in the same manner as other commercial property. The amendment exempts central office equipment, transmission equipment, and qualified telephone company property (poles, wires and cable) from taxation and cannot be assessed for taxation under this chapter.

This change in assessment is phased in over 8 years. The Department of Revenue will add part of the value of a company's qualified telephone company property (poles, wires and cables) to the assessed value of the telecommunications company based on the following schedule:

AY 2013 – Poles, wires and cables in excess of \$5 million
AY 2014 – Poles, wires and cables in excess of \$25 million
AY 2015 – Poles, wires and cables in excess of \$50 million
AY 2016 – Poles, wires and cables in excess of \$75 million
AY 2017 – Poles, wires and cables in excess of \$100 million
AY 2018 – Poles, wires and cables in excess of \$125 million
AY 2019 – Poles, wires and cables in excess of \$150 million
AY 2020 – No additional value added for poles, wires, and cables

Division IV – County and City Budget Limitation

Division IV creates a limitation on the maximum amount of property tax dollars that a county or city can expend, replacing the current property tax levy rate limitations. The division requires property tax assessments for counties general and rural county services to not raise property tax dollars in excess of what is allowed under the bill.

The maximum property tax dollars that may be levied for general county services, rural county services, and for a city general fund is the annual growth factor plus any new net valuation taxes added in the county. The bill allows for an “annual growth factor” that is calculated at the average of the Midwest Consumer Price Index, but this factor shall not exceed 4%.

For any year where there is an excess of 25% of the budgeted expenditures in either the general fund or rural services fund for counties or the general fund for cities then the excess must be explicitly reserved or designated for a specific purpose. Counties and cities are encouraged to reduce budgeted, unreserved, or undesignated ending fund balances to approximately 25% of the budgeted expenditures in the general fund and rural services fund for a budget year. The city or county then has the burden to prove that budget balances over 25% are reasonably likely to be appropriated for the explicit purpose or designated specific purpose.

A county or city may certify additions to the maximum amount of property tax dollars allowed for a period of not more than two years if the proposition is approved at a special election by a majority of the voters.

FISCAL IMPACTS

The following charts detail the impacts of Division I of the amendment. The first chart assumes 0% allowable growth through FY 2022, the second chart assumes 2% and the third chart assumes 4% The total general fund impact, when the state pays the full foundation level, will be \$411.6 million at 0% allowable growth and \$586.1 million at 4% allowable growth.

**Assumes a 0.0% Allowable Growth Rate and no Change in Weighted Enrollments
FY 2014 – FY 2022
(Dollars in Millions)**

	Proposed Foundation Level	Allowable Growth Rate	Current Law Adjusted Additional Levy Amount	Proposal Adjusted Additional Levy Amount	State Aid Increase/Property Tax Decrease	State Aid Increase/Property Tax Change Compared to Previous Fiscal Year
FY 2014	87.50%	0.0%	411.6	411.6	-	\$ -
FY 2015	89.06%	0.0%	411.6	360.6	51.0	51.0
FY 2016	90.63%	0.0%	411.6	308.4	103.2	52.1
FY 2017	92.19%	0.0%	411.6	257.4	154.2	51.0
FY 2018	93.75%	0.0%	411.6	205.8	205.8	51.6
FY 2019	95.31%	0.0%	411.6	154.2	257.4	51.6
FY 2020	96.88%	0.0%	411.6	102.6	309.0	51.6
FY 2021	98.44%	0.0%	411.6	51.6	360.0	51.0
FY 2022	100.00%	0.0%	411.6	-	411.6	51.6

**Assumes a 2.0% Allowable Growth Rate and no Change in Weighted Enrollments FY
2014 – FY 2022
(Dollars in Millions)**

	Proposed Foundation Level	Allowable Growth Rate	Current Law Adjusted Additional Levy Amount	Proposal Adjusted Additional Levy Amount	State Aid Increase/Property Tax Decrease	State Aid Increase/Property Tax Change Compared to Previous Fiscal Year
FY 2014	87.50%	2.0%	419.9	419.9	-	\$ -
FY 2015	89.06%	2.0%	428.1	374.8	53.2	53.2
FY 2016	90.63%	2.0%	436.9	327.6	109.2	56.0
FY 2017	92.19%	2.0%	445.6	278.3	167.4	58.2
FY 2018	93.75%	2.0%	454.4	227.2	227.2	59.8
FY 2019	95.31%	2.0%	463.8	174.0	289.8	62.6
FY 2020	96.88%	2.0%	473.1	118.0	355.1	65.3
FY 2021	98.44%	2.0%	482.4	60.4	422.0	67.0
FY 2022	100.00%	2.0%	491.7	-	491.7	69.7

**Assumes a 4.0% Allowable Growth Rate and no Change in Weighted Enrollments FY
2014 – FY 2022
(Dollars in Millions)**

	Proposed Foundation Level	Allowable Growth Rate	Current Law Adjusted Additional Levy Amount	Proposal Adjusted Additional Levy Amount	State Aid Increase/Property Tax Decrease	State Aid Increase/Property Tax Change Compared to Previous Fiscal Year
FY 2014	87.50%	4.0%	428.1	428.1	-	\$ -
FY 2015	89.06%	4.0%	445.1	389.7	55.4	55.4
FY 2016	90.63%	4.0%	463.2	347.4	115.8	60.4
FY 2017	92.19%	4.0%	481.9	300.8	181.1	65.3
FY 2018	93.75%	4.0%	501.1	250.3	250.8	69.7
FY 2019	95.31%	4.0%	520.8	195.4	325.5	74.6
FY 2020	96.88%	4.0%	541.7	135.0	406.7	81.2
FY 2021	98.44%	4.0%	563.6	70.2	493.4	86.7
FY 2022	100.00%	4.0%	586.1	-	586.1	92.8

Chart 1A shows the fiscal impact of the bill on the state. First, Division I increases the state share of the school foundation formula from 87.5% to 100%. When fully implemented, this increase will cost the state \$492 million annually assuming 2% allowable growth. Second, since Division II reduces the assessed value in each school district, the total amount each school district raises off of the Uniform Levy of \$5.40. Since the state will increasingly be liable for the remaining school aid foundation level, when fully implemented that loss in assessed value will cost the state an additional \$224. Finally, the bill includes a backfill for local governments to cover part of the local fiscal impact of the bill, which when fully implemented equals an additional \$240 million. Combined, the total impact on the state general fund will be nearly \$850 million annually.

Line	HF 2274 - As Passed by the House Ways & Means Committee -DRAFT											
1A	General Fund Appropriation Increase - In Millions of Dollars											
House Proposal	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	
School Aid Incr. to 100%	-	-	-	53	109	167	227	290	355	422	492	
School Aid \$5.40	-	-	-	15	32	52	70	96	118	149	178	
Backfill	-	-	-	72	92	100	141	151	170	153	178	
Total State Support	-	-	-	141	232	319	438	536	643	724	848	

Chart 3C and 2C detail the impacts of the bill on local governments and each class of property of the bill. Chart 3C breaks down the impact on the entire bill on each local authority, not accounting for any state share of the bill. In other words, if the state does not fulfill its obligations under the bill, this is

the total cost of the bill on each taxing authority. Similarly, Chart 2C shows the impact on each class of property of the bill if the state does not fulfill its obligations as required by the bill. The total impact of the on all local taxing authorities, if the state does not fulfill its obligations in the bill, would be \$1.2 billion.

3C Property Tax Dollars in Millions by Authority - Includes Dollars that Go to TIF - Difference											
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
City	-	-	-	(31)	(45)	(56)	(80)	(93)	(111)	(116)	(137)
County-Urban	-	-	-	(19)	(31)	(42)	(59)	(72)	(88)	(98)	(117)
County- Rural	-	-	-	(3)	(6)	(8)	(12)	(15)	(18)	(21)	(25)
School	-	-	-	(117)	(205)	(294)	(400)	(501)	(604)	(700)	(818)
Other Local Gov.	-	-	-	(14)	(25)	(36)	(50)	(63)	(77)	(91)	(108)
Total	-	-	-	(184)	(312)	(436)	(600)	(744)	(897)	(1,026)	(1,205)

2C Property Tax Dollars in Millions by Class - Difference												% Reduction
House Proposal	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2022
Residential	-	-	-	(46)	(97)	(140)	(201)	(240)	(308)	(351)	(417)	-10.4%
Agriculture	-	-	-	(17)	(35)	(51)	(71)	(88)	(110)	(127)	(147)	-13.9%
Com/Ind/Rail	-	-	-	(112)	(167)	(229)	(310)	(398)	(461)	(529)	(602)	-29.3%
Utility/Other	-	-	-	(9)	(13)	(16)	(18)	(18)	(19)	(19)	(40)	-15.5%
Total	-	-	-	(184)	(312)	(436)	(600)	(744)	(897)	(1,026)	(1,205)	-16.4%

Chart 3D details the final impact of the bill on each local taxing authority if the bill is fully implemented as intended. This includes if the state fully funds the \$240 million annual backfill and fully funds the school aid formula at 100%. If the bill is fully implemented as intended, local cities will lose an estimated \$73 million, rural county areas will lose \$17 million, and overall local authorities will lose an estimated \$357 million.

3D Property Dollars Tax in Millions by Authority - Difference Adjusted For State Appropriations (Backfill & School Aid)												% Reduction
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2022
City	-	-	-	(7)	(14)	(22)	(30)	(40)	(50)	(61)	(73)	-3.8%
County-Urban	-	-	-	(8)	(16)	(25)	(35)	(46)	(59)	(72)	(86)	-8.7%
County- Rural	-	-	-	(2)	(3)	(5)	(7)	(10)	(12)	(15)	(17)	-2.3%
School	-	-	-	(19)	(28)	(36)	(49)	(59)	(69)	(75)	(86)	-2.8%
Other Local Gov.	-	-	-	(9)	(18)	(29)	(40)	(52)	(66)	(80)	(95)	-16.1%
Total	-	-	-	(44)	(79)	(117)	(162)	(207)	(255)	(302)	(357)	-4.9%