

Property Taxes & Comparison to Other States

League Executive Board Meeting
November 2022



Reference: how are property taxes determined?

How are property taxes determined?

- Value is established
- Assessments conducted
- Equalization (comparable & compliant)
 - Rollback applied*
- Budgets established
- Tax rate established
- Credits applied

Factors: valuation trends, levies

Reference: Levy Authority & Use

Levy FY22	Count	Voted (V) or Non-voted (NV), if general levy
Regular General	937*	NV
Liability, property & self insurance costs	667	NV
Employee Benefits	654	
Emergency Levy	434	NV
Debt Service Levy	427	
Support of Local Emergency Mgmt Commision	145	NV
Opr & Maint of City owned Civic Center	157	NV
Support Public Library	91	V
Opr & Maint Publicly Owned Transit	29	NV
Rent, Ins. & Maint. of non-owned Civic Center	28	NV
Capital Projects Levy	23	
Unified Law Enforcement	20	V
Aviation Authority (under sec. 330A.15)	14	NV
Planning a Sanitary Disposal Project	10	NV
Memorial Building	9	V
Instrumental/Vocal Music Groups	6	V
Cultural & Scientific Facilities	3	V
Levee Impr. fund in special charter city	1	NV
Symphony Orchestra	2	V
Maintain Institution received by gift/devise	1	V
Contract for Use of Bridge	0	NV
Joint city-county building lease	0	
County Bridge	0	V
Missi or Missouri River Bridge Const.	0	V
Aid to a Transit Company	0	V
City Emergency Medical District	0	V

Property Tax Assessment Process

<https://iowaleague.org/wp-content/uploads/PropertyTaxAssessment.pdf>

Property Tax Assessment in Iowa

2023 Update



The **property tax assessment process** in Iowa is a complex, state-regulated system, prescribed in law. It does not control the process. In fact, assessments are a completely separate process completed by assessors with the goal of establishing equitable, fair market value. In such assessments, assessors are separate from local revenue needs. Property tax rates are determined after state-determined revenue needs for providing local services.

Assessable value is the portion of the assessed value on which a tax is applied, after equalization, rollbacks, and tax rates are determined, and credits and the results of any appeals are applied. Arriving at a taxable value for a given property takes several steps, and some differs by the local assessor, county auditor, and the laws that govern it.

Property taxes tax "real property" such as land, buildings, structures, and improvements on the land.

These include five classes of property: residential, commercial, industrial, agricultural, and utilities/infrastructure. All are assessed at the state or county level every other year, except agricultural land assessed for utilities/infrastructure. There are a variety of types of property that are residential except or partially exempt from property taxes, so that would include to property tax.



How does the assessment process work? The assessor estimates the assessed value of each property (actual or market value) for most properties. This is 90% of the final taxable value.

How is this determined? Typically, the assessor uses a blend of three approaches to value market, cost, and income. Note: agricultural property follows a separate model based on productivity and earning capacity.

Market Approach → Estimates market value for comparable property

Cost Approach → Estimates cost of labor and materials required to replace property

Income Approach → Estimates a property's ability to produce income and equates that into an estimated value.



Equalization is applied. The law requires that assessments of all taxable properties (or classes) must be equalized together. The State then applies the equalization process every other year to ensure values are comparable among jurisdictions. In fact, this involves a state comparison of assessed amounts to a "sales assessment ratio study." If the study is 1% or more above the market ratio

of 90% of an assessed value. Residential and agricultural property have a "no" or "simple" mechanism in place, which limits the growth in assessment of either class to either 1% or the lesser of the growth in either class whichever is lower. This rule does not apply individually to an individual home or property. Therefore, individual homes may increase or decrease in evaluation by more or less than the 1% level.

Who pays/how much?

Chart A shows revenue of dollars collected from each property classification in Iowa.

Property Tax Revenues by Class FY2023

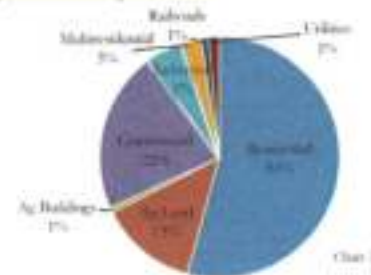


Chart A

So, can the tax bill on a house rise by more than 2%?

Yes. While the statewide rollback limits residential property to a 1% assessment increase, this is for statewide residential property collectively. An individual property can rise more than 1% in an assessed or taxable value.

If a property tax assessment went up by 8%, does that mean my tax bill will, too?

No. The equalization and rollback limitations are applied, as well as any eligible credits/declared, before the final individual tax bills are generated.



Who receives property tax revenues?

Schools, cities, and counties receive the largest property tax revenues, though other entities such as hospitals, universities, ag extension districts, community college districts, and township receive some funds.

Chart B shows the state average percentage of property tax revenue that flows to each type of local jurisdiction. In most cities receive approximately 30% of local property tax revenues.

Share of Property Tax Revenues by Tax Authority FY2023

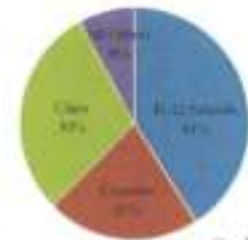


Chart B

Below, on the left, is an example of how homeowner tax bills are calculated. On the right, the city levy is isolated to show the portion of revenues the city receives.

Here's a sample of a homeowner tax bill:

20%	\$20,000 Assessed (market) home/land
20%	State equalization process in this jurisdiction results in no change (assessments)
20%	14.126% rollback applied (FY23) (the math: \$20,000 x 0.707142857 = \$14,142.857)
20%	Final tax change and total

Here's a sample of what a portion of what a portion the city receives:

Property Tax Assessment in Iowa

2022 Update



The **property tax assessment process** in Iowa is a complex state regulated system, prescribed in *Iowa Code*. Cities do not control this process. In fact, assessments are a completely separate process completed by assessors with the goal of establishing equitable, fair market value. As such, assessments are separate from local revenue needs. Property tax rates are determined after cities determine revenue needs for providing local services.

Taxable value is the portion of the assessed value on which a tax is applied, after equalization, rollbacks, and tax rates are determined, and credits and the results of any appeals are applied. Arriving at a taxable value for a given property takes several steps, and joint efforts by the local assessors, county auditors, and the State. Here is more detail:

Property taxes tax "real property" such as land, buildings, structures, and improvements on the land.

These include five classes of property: residential, commercial, industrial, agricultural and utilities/railroad.

All are assessed at the city or county level every other year, except annual state level assessment for utilities/railroad. There are a variety of types of property that are considered exempt or partially exempt from property taxes, or that receive credits to property tax.



How does the assessment process work? The assessor estimates the assessed value of each property (actual or market value) for most properties. This is NOT the final taxable value.

How is this determined? Typically, the assessor uses a blend of three approaches to value: market, cost, and income. Note: agricultural property follows a separate model based on productivity and carrying capacity.

Market Approach → Examines recent sales for comparable property.

Cost Approach → Estimates cost of labor and materials required to replace property.

Income Approach → Estimates a property's ability to produce income and capitalize this into an estimated value



Equalization is applied. The State requires that assessments of all taxable properties per classification be totaled together. The State then applies the equalization process every other year to ensure values are comparable among jurisdictions. In brief, this involves a state comparison of assessor abstracts to a "sales assessment ratio study." If this study is 5% or more above the median ratio of the sales ratio study, the State changes the assessment to reach 100% of actual value. This is applied by property class, and at the jurisdiction level, not the individual property nor statewide basis.

at 90% of its assessed value. Residential and agricultural property have a "tie" or "coupling" mechanism in place, which limits the growth in assessment of either class to either 3% or the lesser of the growth in either class whichever is lower. This is done on a statewide basis, and does not apply individually to an individual home or property. Therefore, individual homes may increase or decrease in revaluation by more or less than the 3% level.



Tax rates are established. Most property is taxed by more than one taxing authority (for example, city, county, K-12 schools, etc.). Therefore the budget process and tax rate calculation will comprise a cumulative tax rate.



Rollback is applied. Every year, the assessment limitation or "rollback" is applied. Each property classification has a rollback that limits property taxes in that classification. Historically, this was implemented for the purpose of guarding against volatile taxes due to inflation, particularly for residential property. Currently, commercial, industrial and railroad property is taxed

- Credits are subtracted.

- An appeals process specified by State law follows new assessment notifications.



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Who pays/how much?

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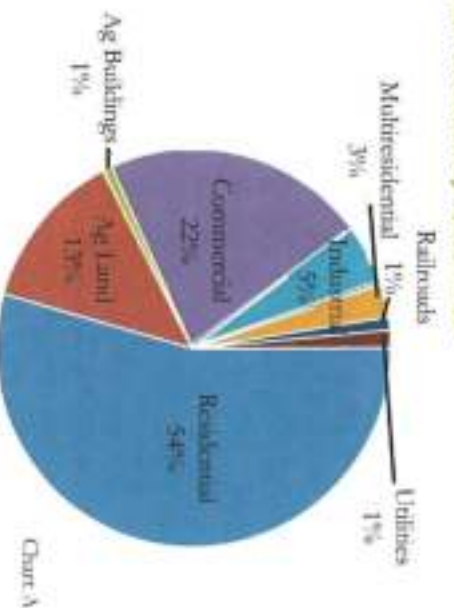


Chart A

So, can the tax bill on a house rise by more than 3%?
 Yes. While the statewide rollback limits residential property to a 3% maximum increase, this is for statewide residential property collectively. An individual property can rise more than 3% in its assessed or taxable value.

If a property tax assessment went up by 8%, does that mean my tax bill will, too?

No. The equalization and rollback limitations are applied, as well as any eligible credits deducted, before the final individual tax bills are generated.

Who receives property tax revenues?

Schools, cities, and counties receive the largest property tax amounts, though other entities such as hospitals, assessors, ag extension districts, community college districts, and townships receive some funds.

Chart B shows the state average percentage of property tax revenue that flows to each type of local jurisdiction. As noted, cities receive approximately 30% of local property tax revenues.

Share of Property Tax Revenues by Tax Authority FY2023

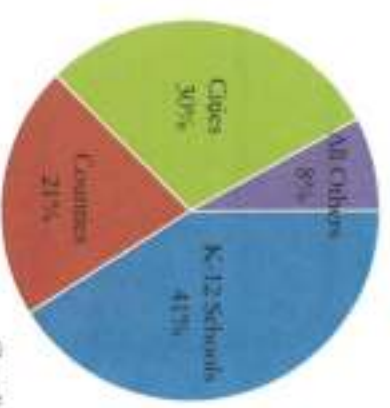


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Here's a sample of a homeowner tax bill:

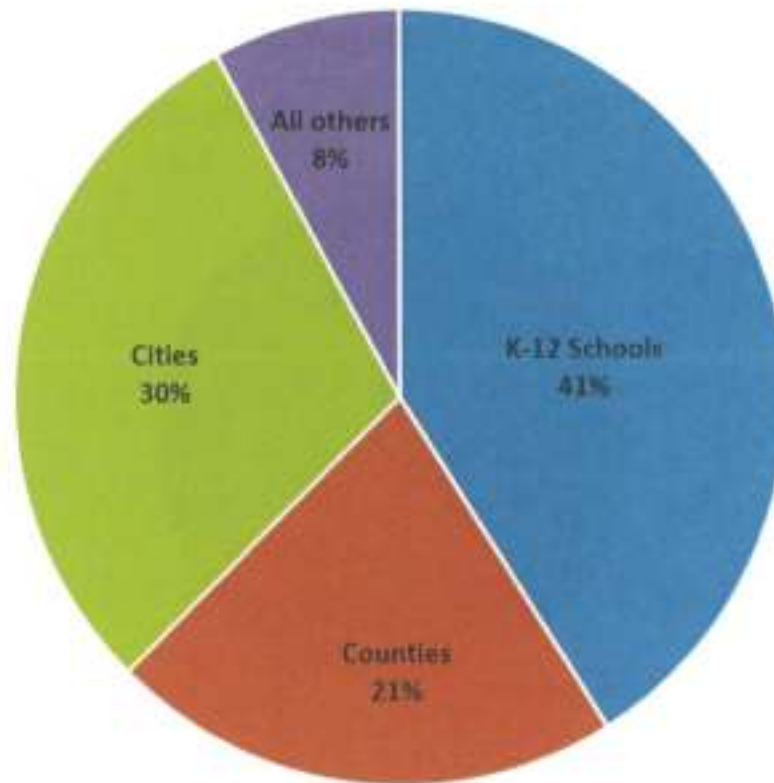
\$200,000 Assessment (residential home/land)	↔
State equalization process in that jurisdiction results in no change (assumption)	↔
54.1302% rollback applied(FY23) (the math: \$200,000*0.541302) = \$108,260 (rate <i>also changes each year</i>)	↔
\$108,260 becomes the taxable value	↔
Assume consolidated tax rate of \$32.18/\$1,000 taxable value	↔
(the math: (\$108,260/1,000)*\$32.18 = \$3,484)	↔
Homestead credit is eligible for this property (assumption) – subtracts \$156 (the math: (\$4,850)/1,000)*\$32.18)	↔
Assume no add'l exemption/credits for sample	↔
Total tax bill (year): the math: \$3,484-\$156=\$3,328	↔
Paid twice per year @ \$1,664 per installment (\$3,328/2)	↔

Here's a sample of what a portion of the city receives:

\$200,000 Assessment (residential home/land)	↔
State equalization process in that jurisdiction results in no change (assumption)	↔
54.1302% rollback applied(FY23) (the math: \$200,000*0.541302) = \$108,260 (rate <i>also changes each year</i>)	↔
\$108,260 becomes the taxable value	↔
Assume city tax rate of \$12.03/\$1,000 taxable value (simple average)	↔
(the math: (\$108,260/1,000)*\$12.03 = \$1,302)	↔
Homestead credit is eligible for this property (assumption) – subtracts \$58 (the math: (\$4,850)/1,000)*\$12.03)	↔
Assume no add'l exemption/credits for sample	↔
Total city tax bill (year): the math: \$1,302-\$58=\$1,244	↔
Paid twice per year @ \$622 per installment (\$1,244/2)	↔

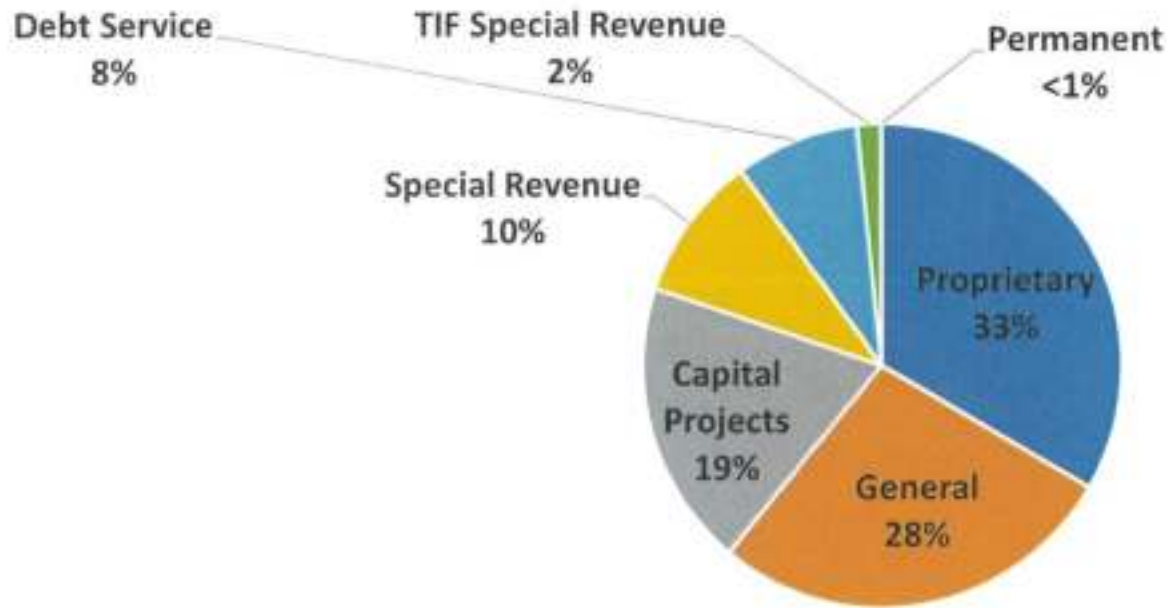
Property Taxes by Authority

Breakdown of Property Tax Collections by Authority, FY23
Iowa League of Cities, 9/2022
Raw Data Source: Iowa DOM, pulled 9/2022



Sources of revenues....

City Revenues by Fund Type, FY21
Iowa League of Cities & Iowa State University CED, Nov 2021
Raw Data: Iowa Dept. Management, pulled 11/1/2021

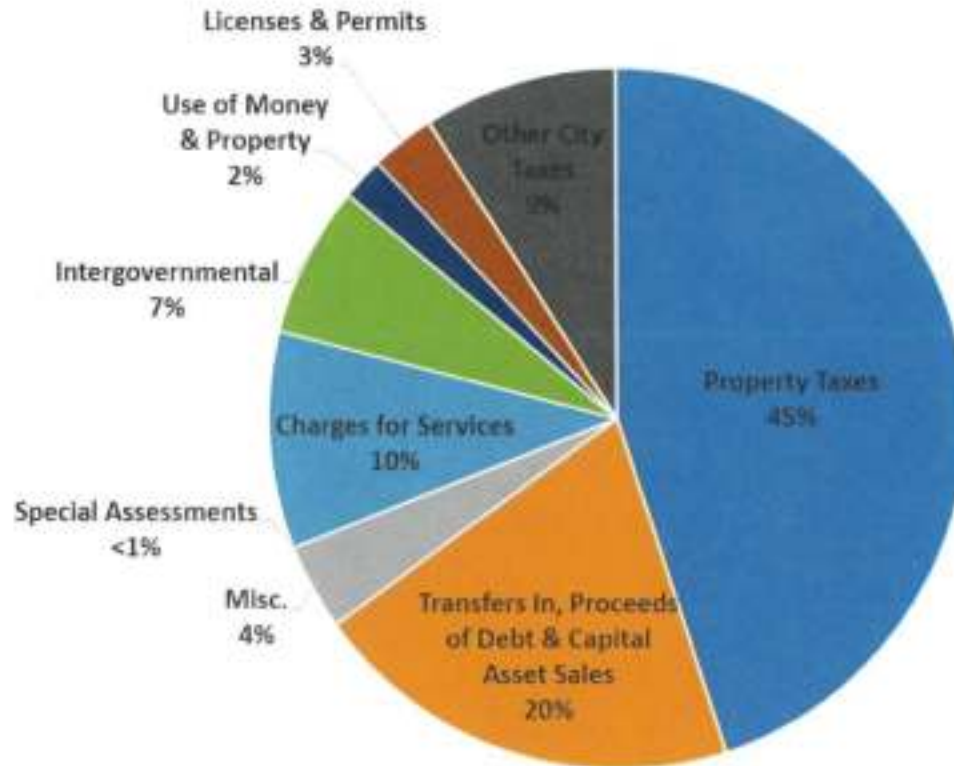


Where do cities derive revenues (general fund)?

*To see this custom to YOUR city, and to see how population impacts the breakdown, see: <https://indicators.extension.iastate.edu/Indicators/Publications/?>

General Fund Revenues by Category (avg. all cities)
Iowa League of Cities, 9/2022

Data source: Iowa Department of Management, 9/2022

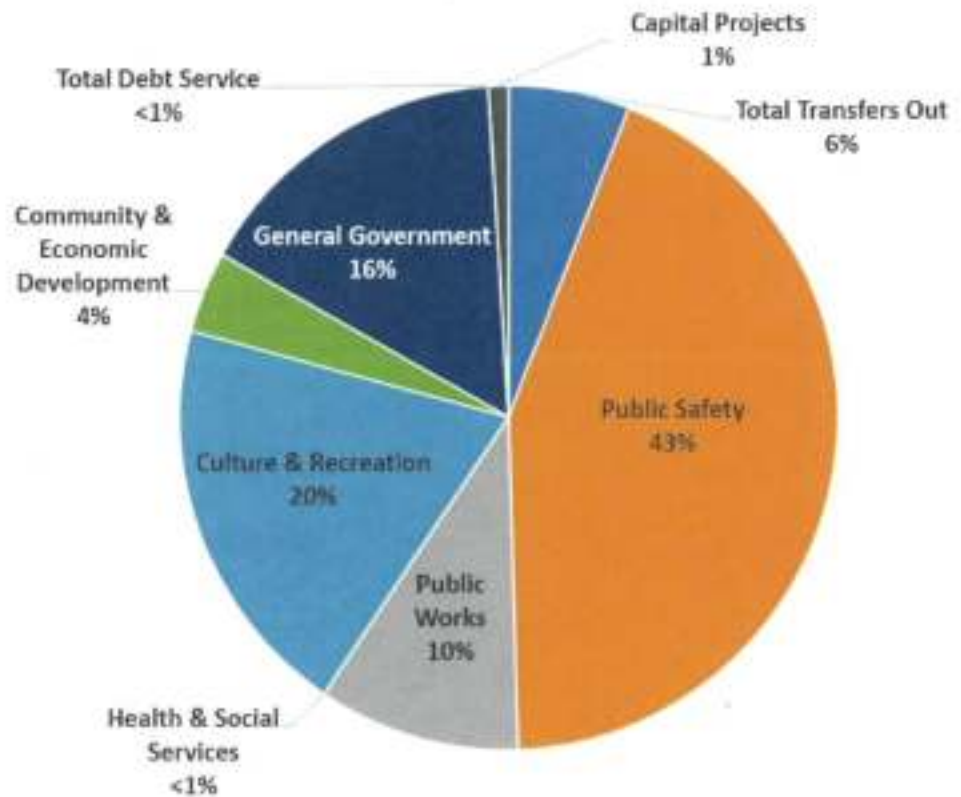


Where do cities spend? (general fund)

*To see this custom to YOUR city, and to see how population impacts the breakdown, see: <https://indicators.extension.iastate.edu/Indicators/Publications/>

General Fund Expenditures by Category, FY23 (avg. all cities)
Iowa League of Cities, 9/2022

Data source: Iowa Department of Management, 9/2022



Rising Local Government Expenses

Cost of goods currently outpacing inflation

Prices of construction materials (steel, wood, concrete, glass, other) in 20-40%+ range nationwide (Federal Reserve Bank of St. Louis and other sources)

Iowa Pavement price index ~30% increase (Iowa DOT)

Cities also cite:

Fuel, chemicals, insurance, contracted services, construction, wages/labor, tech, vehicles & equipment

Difficulty bidding, re-engineering & re-bidding, meeting grant matches

Property Tax Changes in Recent History (10 years)

2013:

- rollback reduction on commercial/industrial/rail property with partial backfill
- allowable growth limit change from 4% to 3% on residential property

2018-19:

- maximum property taxes to levy threshold
- additional public hearing & publication requirements (vote requirements)

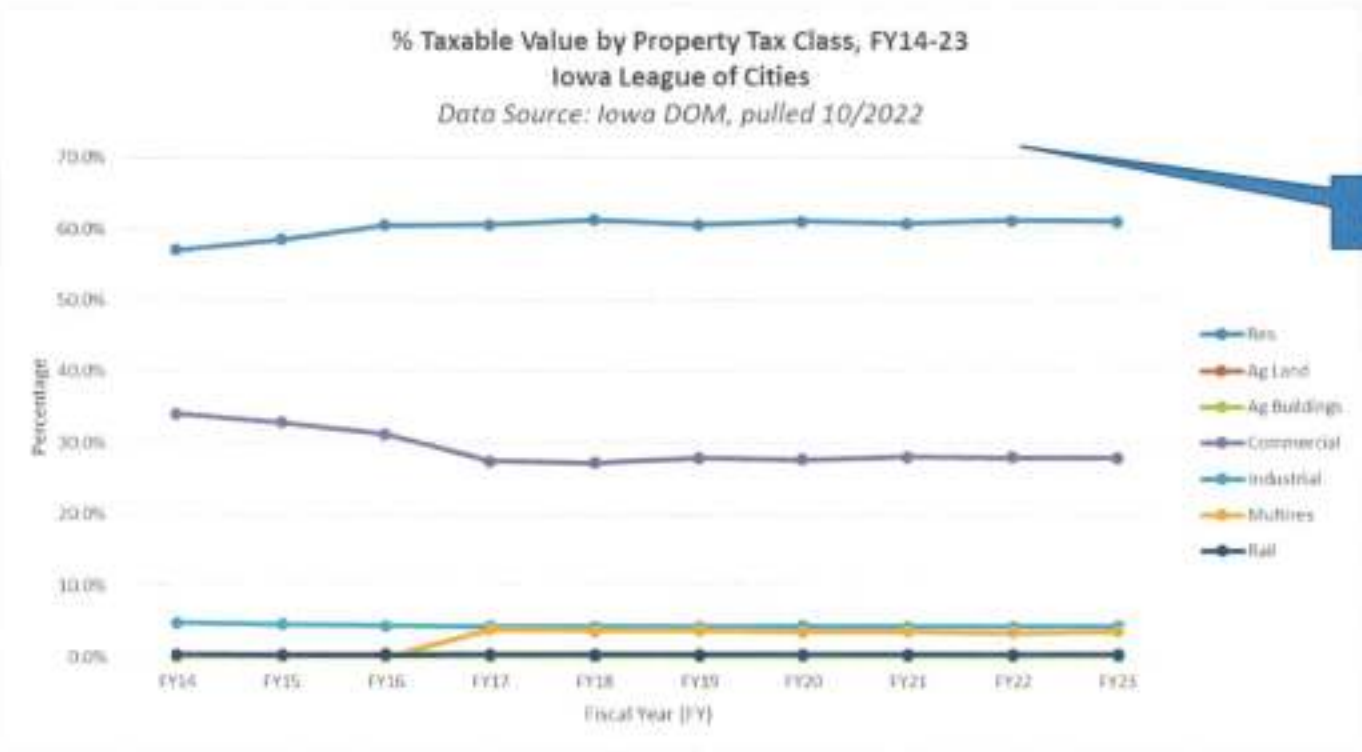
2020-2021:

- phase-out of property tax backfill (from 2013) & new tax credit for certain seniors
- dissolve multi-residential classification for FY2024 (transition to residential)

2022:

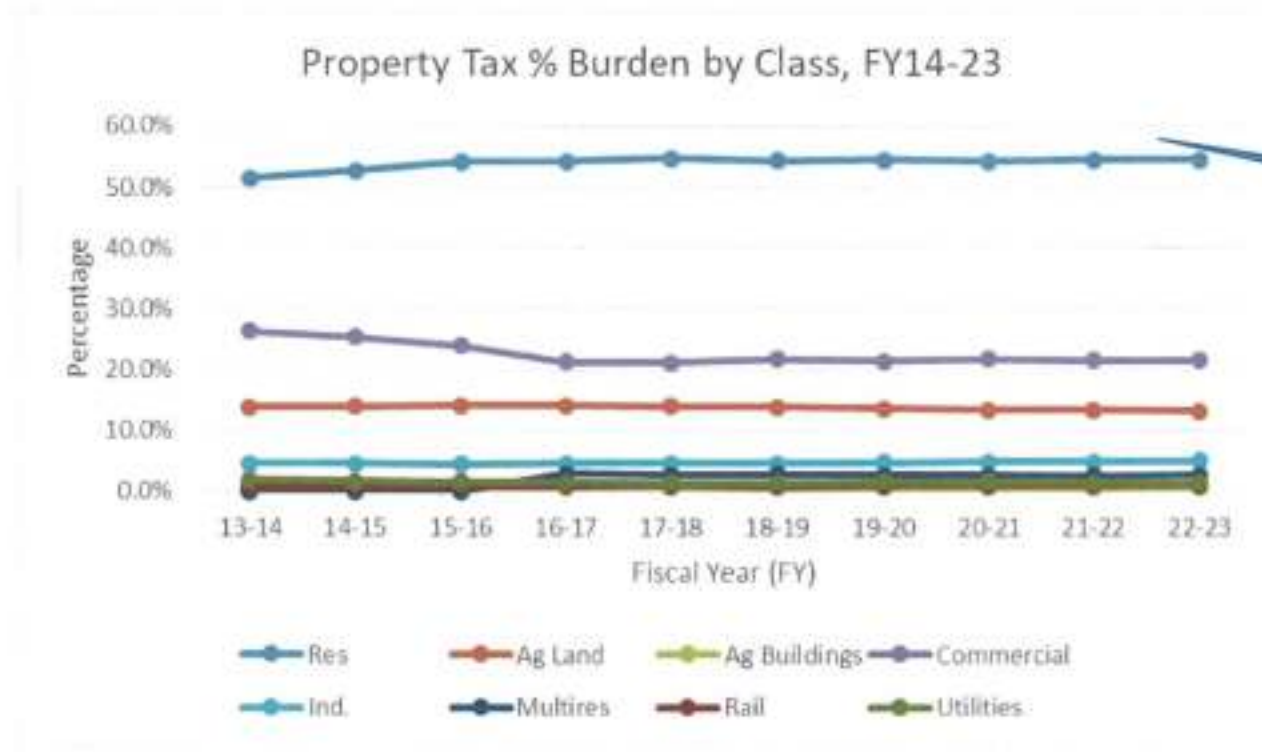
- conversion of 'business property tax credit' to permanent business tax reduction with limited backfill

Property Tax Changes in Recent History (10 years)



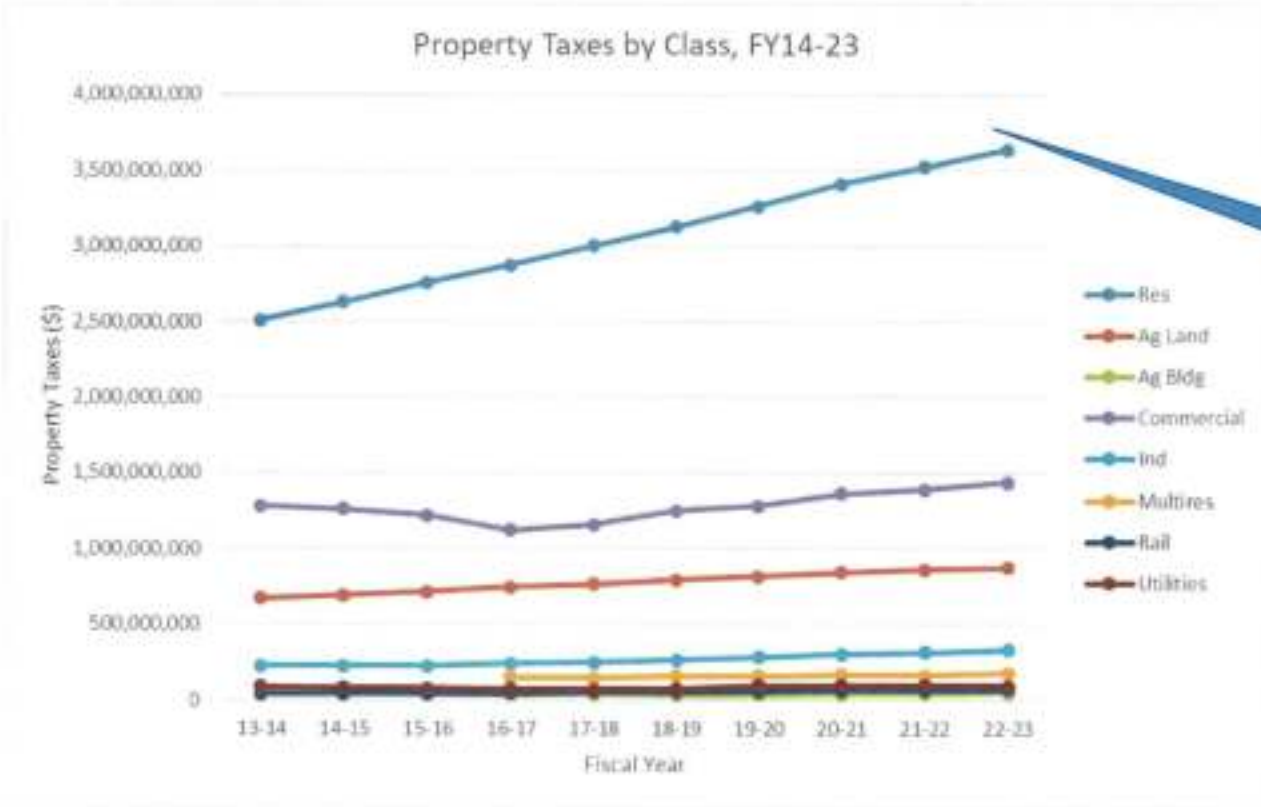
All tax authorities

Property Tax Changes in Recent History (10 years)



All tax authorities

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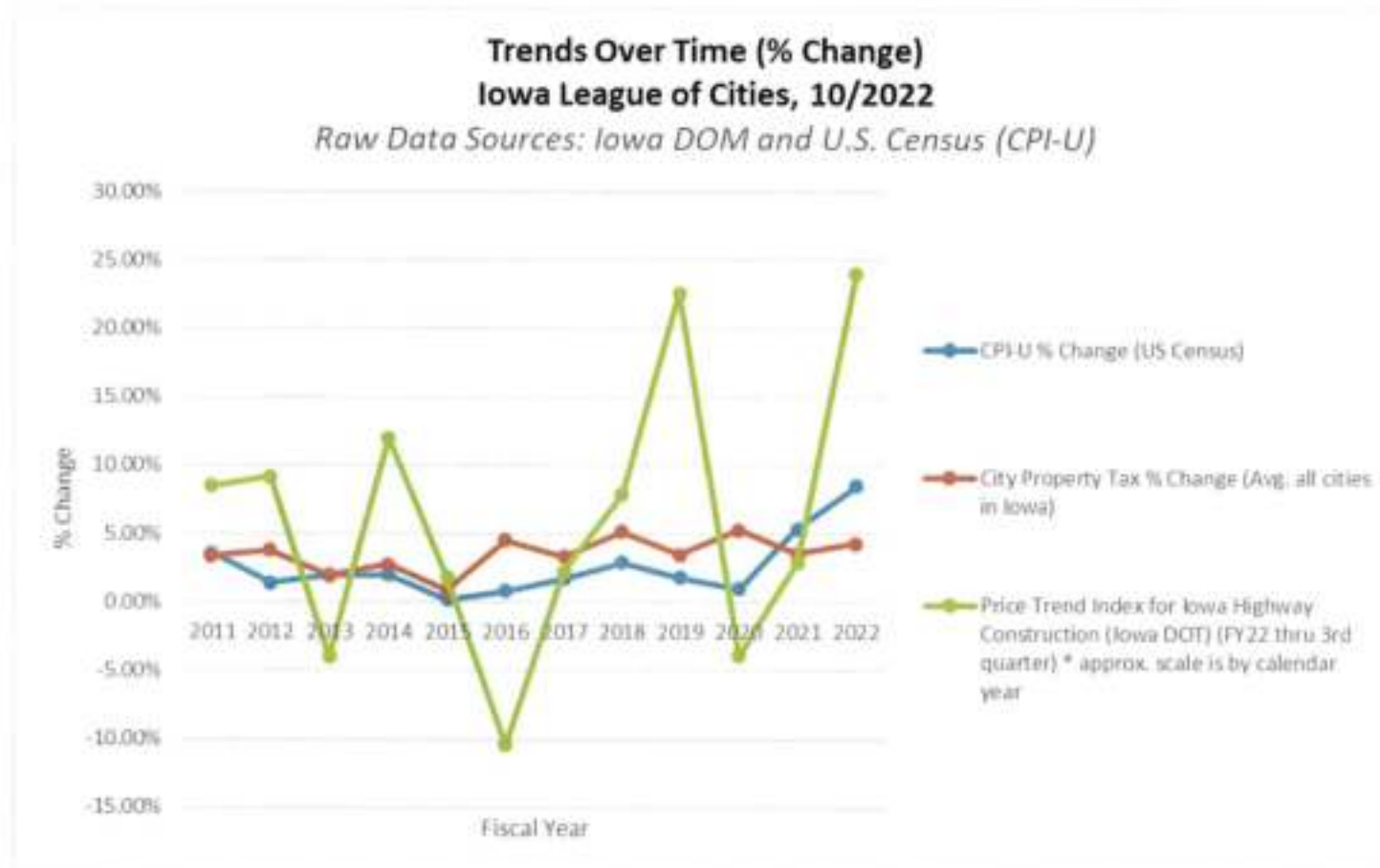


All tax authorities

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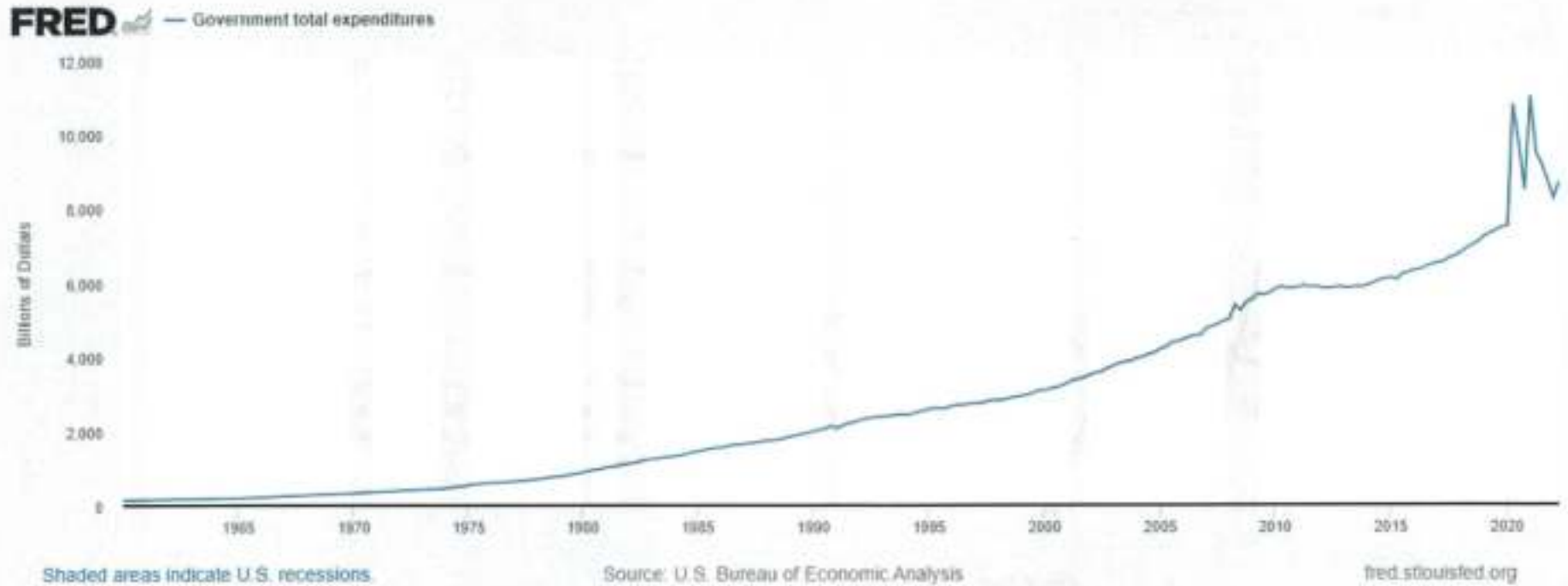


Rising Local Government Expenses



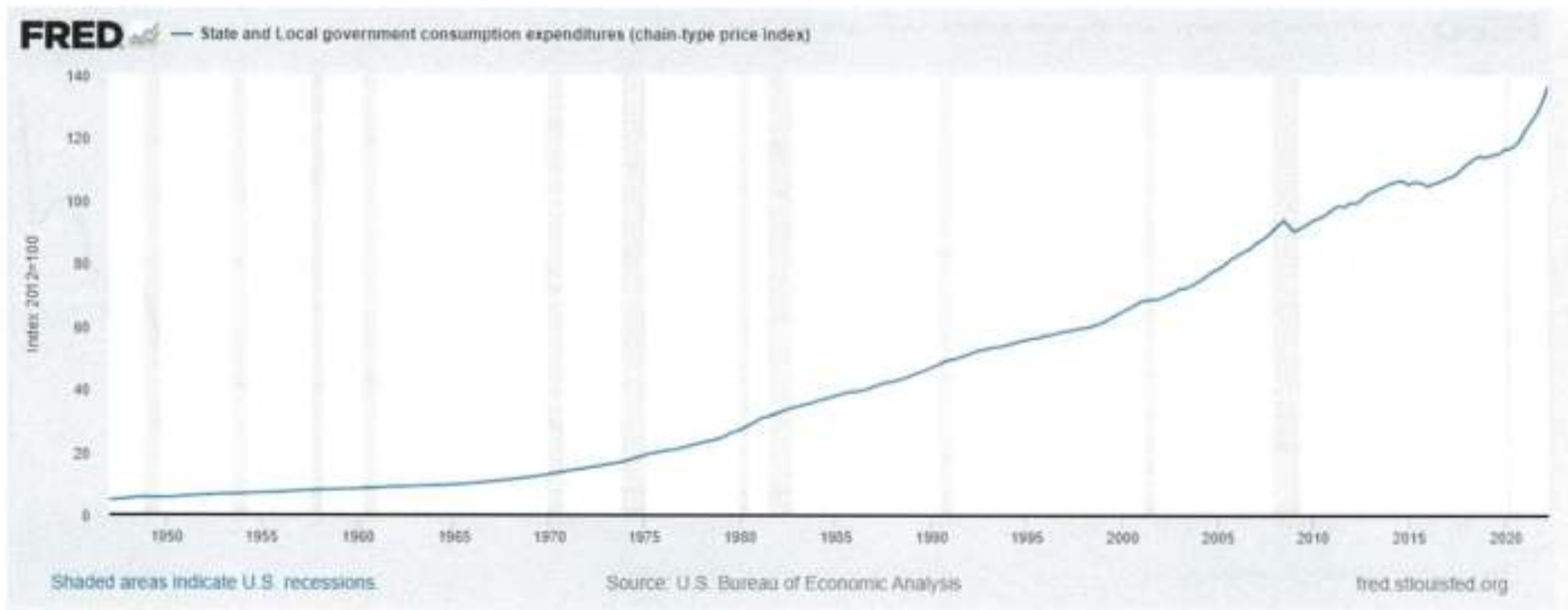
Rising Local Government Expenses

Unprecedented Increases



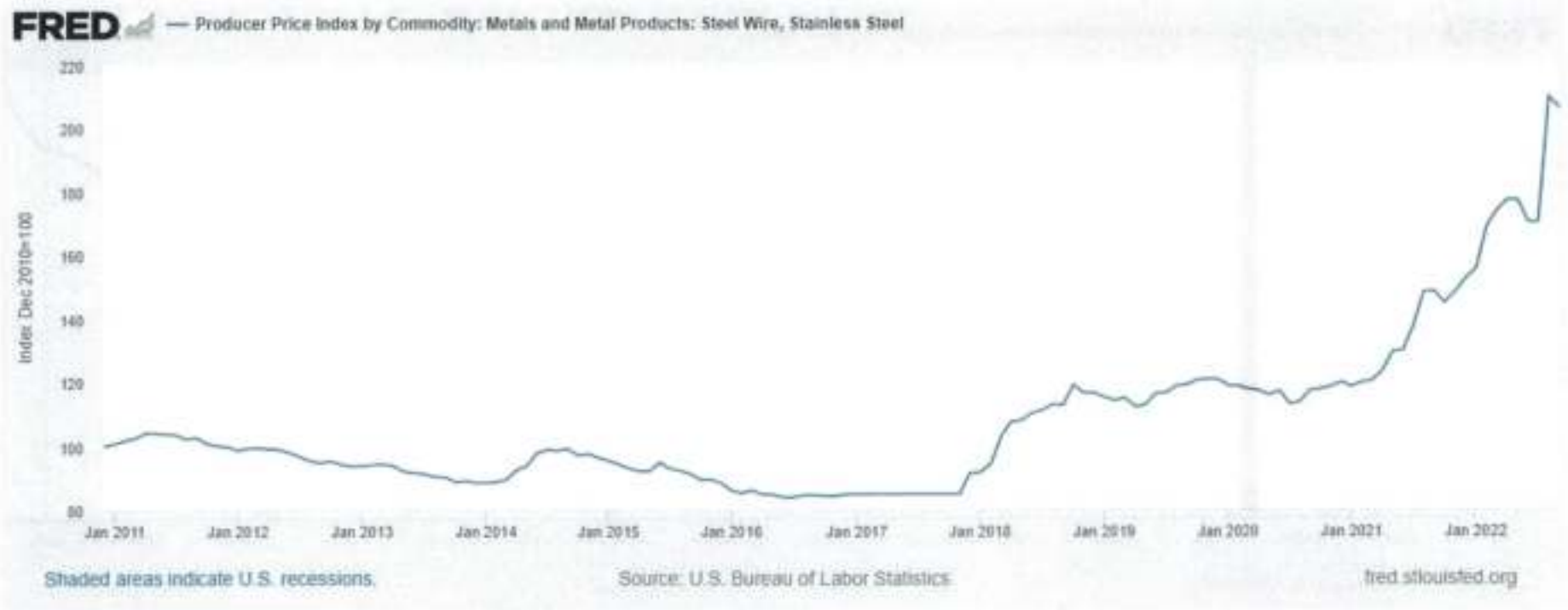
Rising Local Government Expenses

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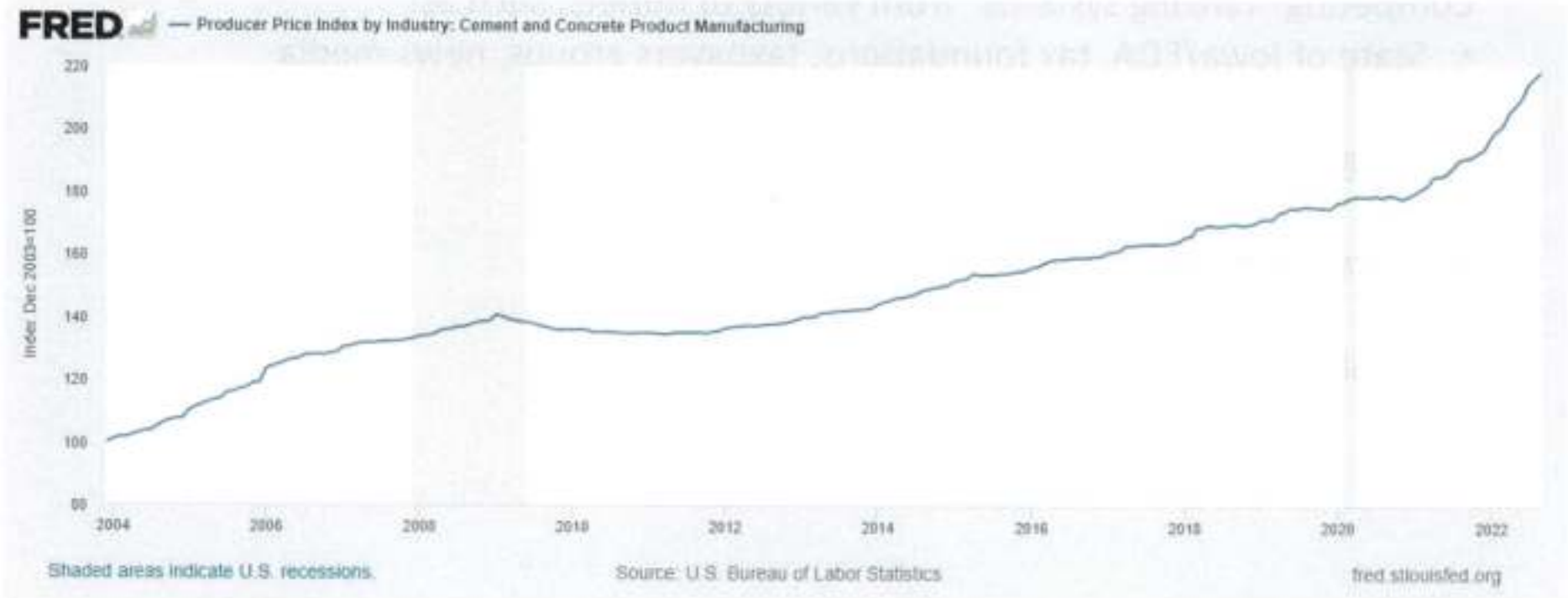
Rising Local Government Expenses

Unprecedented Increases



Rising Local Government Expenses

Unprecedented Increases



The Rankings...

Many “rankings” are missing important context.

Competing “ranking systems” from variety of outlets, such as:

- State of Iowa/EDA, tax foundations, taxpayers groups, news media

Rankings sensitive (small % changes in some cases)

Inconsistent methods over time?

Political bias?

Examining the Rankings

Additional context around rankings:

- Often don't consider nuances that *are* important
- Every state has its own tax structure: equalization, allowable growth limitations, abatements, credits for certain taxpayers, exempt properties, overall authority to tax, shared revenue structures

Examining the Rankings

Additional context around rankings:

- Businesses find value in public investment
- What attracts businesses to Iowa?
- What attracts (or keeps) residents in Iowa?
- Iowa's economic climate compared to other states (NY/NJ example)
- Key factors including: poverty/wealth, age/demographics, revenue structure (shared revenue sources), property tax *trends* etc.

Other indicators:

- Lower ability to “export” taxes in Iowa (tourism)
- Housing market
- Unemployment low in Iowa
- Industries/business dynamics
- Infrastructure in Iowa

Factors that attract business to Iowa...

Workforce: educated/skilled employees

Logistics: proximity to major interstates, waterways, rail/freight

Iowa's corporate income tax structure

No sales or property taxes on M&E

No personal property tax for corporate inventories of goods-in-process, raw materials or salable goods

Sometimes Inconsistent Rankings

Iowa is a top place in the country to operate a business, to affordably live and for quality of life amenities, according to recent national rankings,

The state is second in the nation for the cost of doing business, ninth when it comes to quality of life for its residents, 12th in terms of cost of living, and 15th when it comes to business friendliness.

Low cost of doing business, but less favorable business tax climate...

Educated/talented workforce, but pipeline??

Iowa Could Improve 31 Places on the State Business Tax Climate Index

Index Rank	Pre-2018 Reforms	Current System (2022)	Fully Implemented
Overall	46	38	15
Corporate Taxes	48	38	16
<u>Individual Income Tax</u>	42	38	18
<u>Sales and Excise Taxes</u>	19	15	15
<u>U.I. Taxes</u>	33	39	39
<u>Property Taxes</u>	37	39	34

Source: Tax Foundation, State Business Tax Climate Index, 2022 and projections.

Comparing to other states

State & local tax burden as a share of income

Iowa (#34 state-local tax burden)

State sales tax rate 6%

LOSST: up to 1%

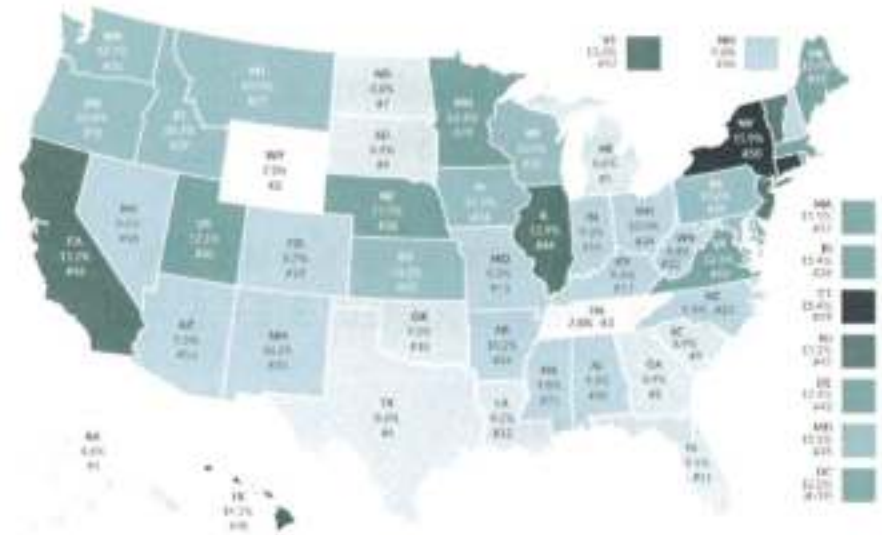
Average state & local sales tax is 6.94%
(conversion to flat income tax)

Iowa (#10 property tax)

State-shared revenues: 10-13%*

(NLC 2015 report, ISU analysis based on 2017 est. Census data)

State-Local Tax Burdens by State, Calendar Year 2022



Note: DC's total state and local tax burden is 11.7%, but the figure is rounded down to 11.7% if included.
*Source: Tax Foundation calculations

Comparing to other states

For example: Kansas model

Kansas

#33 state-local tax burden:

State sales tax rate: 6.5%

LOSST: up to 4%

Average state & local sales tax is 8.7%

(Income tax rate graduated: 3.1 – 5.7%)

#15 property taxes

State-shared revenues: 5-9%*

(NLC 2015 report, ISU analysis based on 2017 est. Census data)

How High Are Property Taxes in Your State?

Property Taxes Paid as a Percentage of Owner-Occupied Housing Value, 2020



Note: The figure in this table includes all property tax levies on owner-occupied housing. It does not include local taxes levied on a wide range of other property types (e.g., for business, rental, and other) or local taxes levied on other types of property (e.g., for business, rental, and other). Local government data are from the figure in parentheses in this table.

Source: U.S. Census Bureau, 2020; American Community Survey, 5-year estimates.

Comparing to other states

For example: Utah model

Utah (#40 state-local tax burden):

State sales tax rate 6.10%

LOSST: up to 2.95%

Average state & local sales tax is 7.91%

(Flat income tax rate at 4.85% - both personal/commercial)

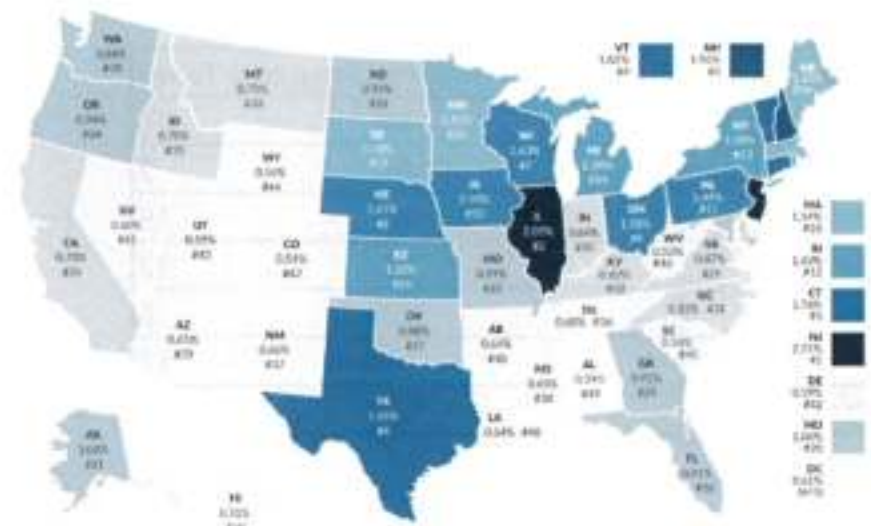
#43 – property taxes

State-shared revenues: 5-6%*

(NLC 2015 report, ISU analysis based on 2017 est. Census data)

How High Are Property Taxes in Your State?

Property Taxes Paid as a Percentage of Owner-Occupied Housing Value, 2020



Note: This figure is not intended to represent the total property tax burden on owner-occupied housing. It only shows the percentage of housing value paid in property taxes. It does not include property taxes paid by businesses, hotels, universities, etc. It also does not reflect other taxes, such as the figure in parentheses, which are based on the 2017 data.

Source: U.S. Census Bureau, "2020 Annual Housing Survey," Tax Foundation calculation.

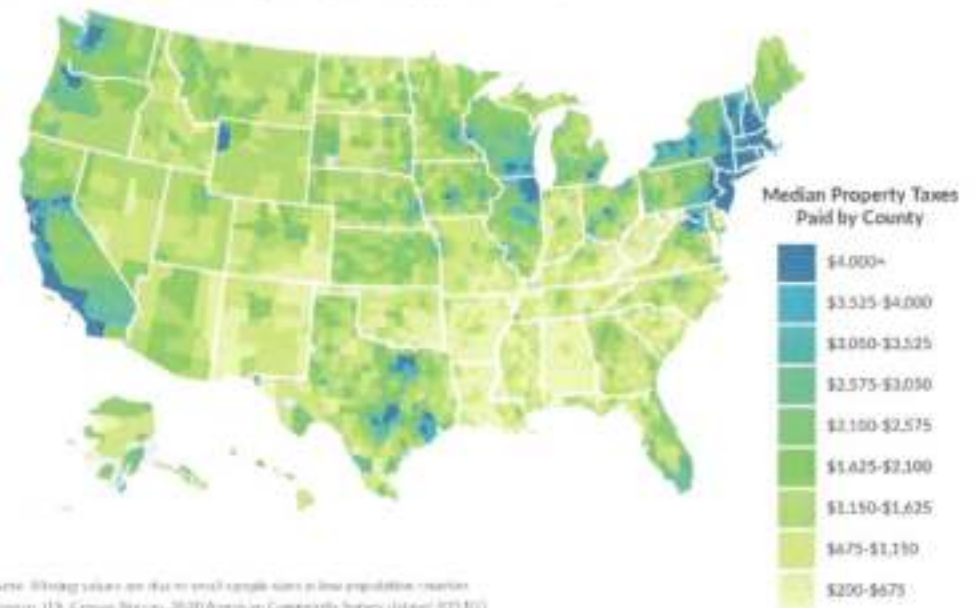
Comparing to other states

For example: states bordering Iowa

State	State-Local Burden	Property Taxes
Iowa	34	10
Illinois	44	2
Minnesota	39	19
Missouri	13	22
Nebraska	38	8
South Dakota	4	17
Wisconsin	32	7

Where Do People Pay the Most in Property Taxes?

Median Property Taxes Paid by County, 2020 (5-year Estimate)



Note: Missing values are due to small sample sizes in low-population counties.
Source: U.S. Census Bureau, 2020 American Community Survey (table B25110)

Comparing to other states: Own-Source Capacity

Municipal Revenue Reliance as a % of General Revenue

Source: National League of Cities (2015 Cities & State Fiscal Structure)

State	Property Tax	Sales Tax	Income Tax	Fees, Charges, & Misc.	Total Own-Source Capacity
Oklahoma	5%	40%	0%	46%	91%
Texas	26%	24%	0%	39%	89%
Utah	19%	25%	0%	42%	86%
South Dakota	17%	33%	0%	36%	86%
Kansas	22%	20%	0%	42%	85%
Colorado	10%	32%	0%	41%	84%
Vermont	37%	4%	0%	41%	83%
Kentucky	13%	6%	25%	37%	82%
Missouri	9%	29%	6%	37%	81%
Washington	18%	25%	0%	38%	80%
California	25%	18%	0%	39%	80%
Minnesota	30%	4%	0%	45%	80%
Idaho	35%	2%	0%	42%	79%
North Carolina	35%	13%	0%	32%	79%
Hawaii	17%	10%	0%	26%	76%
Iowa	30%	7%	0%	40%	76%

U.S. Total	24%	13%	6%	28%	71%
Mean	24%	13%	3%	32%	71%
Standard Deviation					11%

Poverty/Wealth

<https://www.census.gov/library/visualizations/interactive/acs-counties-2016-2020.html>

US Census maps overlay – demonstrate correlations of wealth and higher median property taxes

Compared to other states, typical family size per households seems low at a higher level.

- # children/household
- Aging populations

Shared Revenue Sources

Examples: Road Use Tax Fund, Local Option Sales & Service Tax

How does Iowa compare?

10%-13%* estimated shared revenues in Iowa

Ranking near middle (lower half of states)

Thank you!

Erin Mullenix

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