

Iowa's Property Tax System

Introduction to Concepts
and Calculations



Understanding Property Taxes

- Calculations, definitions, formulas
- Taxing entities and boundaries
- Limits
- Classes of property
- Credits
- TIF



Economic Principals

- The Property Tax Has Unique Properties
- *Relative* to Income/Sales taxes,
Property taxes are:
 - ***Unavoidable***
 - Regressive
 - Neutral
 - Predictable
- In General, *property taxes impact wealth, income taxes impact wages, and sales taxes impact price.*



Understanding the Concepts

$$L = V \times R$$



Levy:
*Dollars
Collected by
the tax*



Valuation:
*The tax base to
which a rate is
applied*



Rate:
*The amount of
tax that has to
be remitted on
\$1,000 of
valuation*

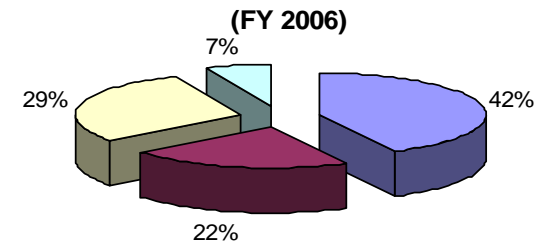


LEVY = Valuation X Rate

Taxing Authorities Levy Property Taxes: Schools, Cities, Counties, Community Colleges, Assessors, Hospitals, others.

- **Schools – \$1.456 billion**
- **Cities – \$1.000 billion**
- **Counties – \$748 million**
- **All Others – \$224 million**

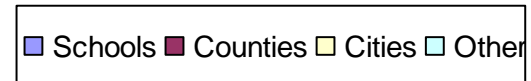
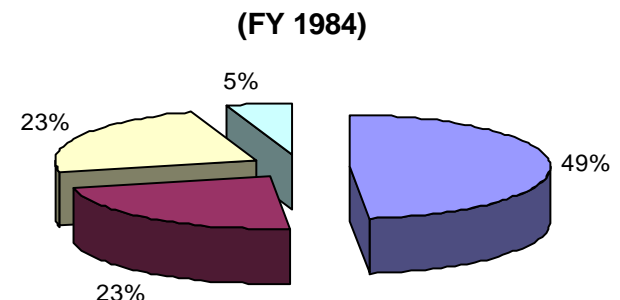
Distribution of Property Taxes by Taxing Authority



Total Levy

- **FY 2006 - \$3.429 billion**
- **FY 1987 - \$1.843 billion**
 - Levy Growth – 86%
 - Inflation Growth – 74%
 - Income Growth – 143%

(1987-2002)



LEVY = Valuation X Rate

Effective Rate Vs. Levy Rate

Levy rate = the rate of tax applied to taxable value.

- **Effective rate** = Levy divided by market value times 1,000.

- Example:

Farmer has 200 acres with a market value of \$400,000. The farmer's consolidated rate (total combined levy rate) is \$20 per \$1,000 of taxable value. The taxable value of the land is \$160,000.

- The farmer pays. . . . $\$20/\$1,000 \times \$160,000 = \$3,200$
 - Levy rate = \$20 per \$1,000 of taxable value.
 - Effective rate = Levy divided by market value
= $\$3,200 / \$400,000 \times 1,000$
= \$8.00 per \$1,000 of market value = 0.8% of wealth.



The Consolidated Tax Rate

(Taxing Authority & Taxing District)

- **Taxing authorities** have individual levy rates that roll up to the total authority levy rate (ie. School total rate = PPEL + Uniform Rate + Additional Rate + Debt Service Rate + Mgt. Rate + Cash Reserve Rate etc.) Each taxing authority applies its rate to all the property in its boundary.
- **Taxing District** = The unique geographic area in which all properties share the same taxing authorities. Everyone in a taxing district shares the same consolidated tax rate.



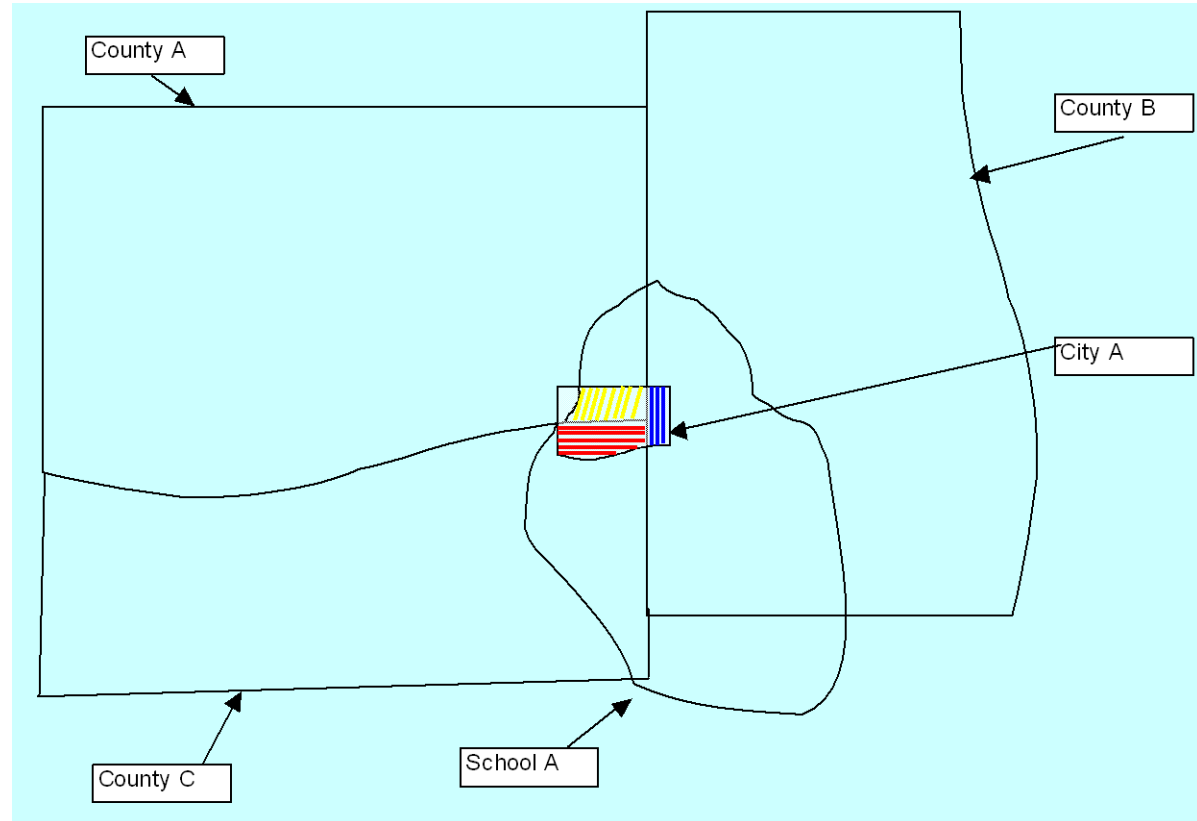
LEVY = Valuation X Rate

What Do Taxing Districts Look Like?

- **County A, School A, City A**
- **County B, School A, City A**
- **County C, School A, City A**

364 School Districts
99 Counties
950 Cities

11,000 Taxing Districts



Rate Limitations

- Some limitations are ***levy limitations*** rather than ***rate limitations*** (ie. School additional levy)
- Rate limitations vary by taxing authority type
 - ***Cities***: \$8.10 general limit
 - ***Counties***:
 - Rural (property in unincorporated areas): \$3.95
 - General (all property): \$3.50
 - ***School Districts***:
 - Uniform Levy: \$5.40 (ceiling & floor – acts like a state wide levy)
 - PPEL: Board Approved: \$0.33 + Voted: \$1.34
 - GO Debt Service: \$4.05



$$\text{LEVY} = \underline{\textit{Valuation}} \times \text{Rate}$$

Valuation Issues

- Assessment Calendar and Equalization Orders
- Classes of Property
- Determining Assessed Values – Ag Productivity Formula
- Assessment Limitations
 - Rollback
 - Credits
- TIF (Tax Increment Financing)

Assessment Calendar and Equalization Orders

- Property is assessed on an assessment year calendar (Jan. – Dec.)
- Taxes are paid on a fiscal year (July 1 - June 30, paid in Sept and March)
- Results in 18-month lag from assessment to first payment (Property first assessed in January 2007 won't be taxed until September 2008 (FY 2009))

Equalization Orders Occur in Odd-Numbered Years

- Department of Revenue and Finance reviews assessment data and determines that various classes of property are assessed accurately.
 - State has a vested interest in making sure valuations are accurate
 - Plus or minus 5%
 - Equalization ordered by class of property within an assessment jurisdiction
 - In some cases (particularly ag property), State re-values where assessor chooses not to re-value.

LEVY = Valuation X Rate

Classes of Property



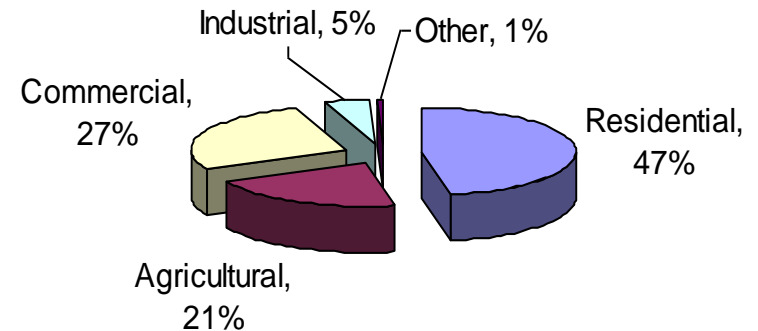
- Residential - \$46.9 billion
- Agricultural - \$20.7 billion
 - Agricultural Land
 - Agricultural Buildings



- Business - \$31.4 billion
 - Commercial - \$26.7 billion
 - Industrial - \$4.8 billion
 - Machinery and Equipment - \$0
 - Utilities - \$6.7 billion
 - Other - \$0.6 billion



Total Taxable Valuation by Class
FY 2006



- **100% Gross Assessment:** \$153.2 billion
- **Net Taxable Value:** \$102.6 billion
 - Fiscal Year 2006
 - Assessment Year 2004



Determining Assessed Values



Residential: *Market Value*



Agricultural: *Productivity Value*, based on price & quantity of crops.



Commercial: *Market Value*



Industrial: *Market Value*

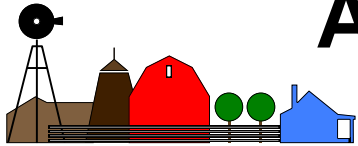
Utilities:

Centrally Assessed, based on stock and debt calculation.

- Gas and Electric - based on generation (ie. Kwh tax).
- Converted into property value equivalent

(Valuation = Taxes Paid/Rate)





Agriculture Productivity Formula

“Capitalizes Income”

- **Determined County by County**
- **Determine Net Income (Revenue Minus Expenses)**
- **Divide by 7% (Capitalization Rate Defined in the Code of Iowa)**
- **Spread out over all the ag property in the county, so that all identical property IN THAT COUNTY has the same value.**

Revenue=

- + Bushels of Corn X Avg. Price of Corn**
- + Bushels of Beans X Avg. Price of Beans**
- + (Repeat for all Crops)**

Expenses= (BEA Expenses, Provided by ISU and others)

Property Taxes, Seed, Fertilizer, Petroleum products, labor, change in inventory



Agriculture Productivity Formula Example

▪ **Example** – Net Income of \$70 per acre equates to a productivity value (assessment value) of:

$$\mathbf{\$70 / 7\% = \$1,000}$$

		Bushels	Price	Base Case
	Revenue	35,000,000	\$ 2.00	\$ 70,000,000
Minus	Expenses			\$ 37,550,000
Equals	Net Income			\$ 2,450,000
Divide By	Capitalization Rate			7%
Equals	Productivity Value			\$ 35,000,000
Divide By	Acres			35,000
Equals	Value Per Acre			\$ 1,000
	Net Income Per Acre			\$ 70.00
	Tax Rate			\$ 25.00
	Taxes Per Acre			\$ 25.00

- Actual calculation is a rolling 5 year average.
 - FY 2001 taxes are based on 1999 assessment.
 - 1999 assessment is an average of crop years 1993 to 1997.
 - Property tax values may change out of cycle with the ag economy.
- That amount is spread over all the agricultural property, including livestock buildings.
- Adding Livestock facilities results in a reduction in assessment for all other agricultural property.
- Exempting livestock buildings from the property tax would result in a direct shift to landowners, and would have no effect on owners of other classes of property (homeowners)



Quirk of the Agriculture Productivity Formula

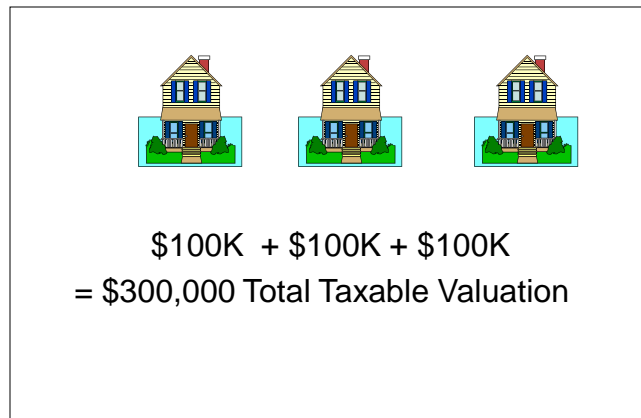
- The Productivity Formula reduces the impact of changes in tax burden for farmers.
- Property taxes are in the expense calculation.
- If property taxes increase by \$1.00 per acre in a county, what happens?

	Base Case	\$1.00 Tax Increase			
Revenue	\$ 70,000,000	\$ 70,000,000			
Expenses	\$ 67,550,000	\$ 67,585,000	<i>(Increased \$35,000)</i>		
Net Income	\$ 2,450,000	\$ 2,415,000			
Capitalization Rate	7%	7%			
Productivity Value	\$ 35,000,000	\$ 34,500,000			
Acres	35,000	35,001			
Value Per Acre	\$ 1,000	\$ 986			
Net Income Per Acre	\$ 70.00	\$ 69.00			
			Change	% Change	
Tax Rate	\$ 25.00	\$26.00	\$1.00	4.0%	
Taxes Per Acre	\$ 25.00	\$ 25.63	\$ 0.63	2.5%	

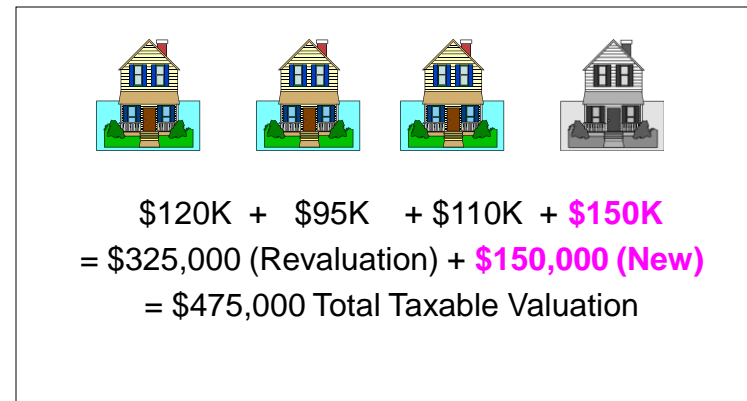


Assessment Limitations: *Rollback*

- Rollback applies to all classes of property (not just residential)
- Rollback Rules
 - Taxable valuation cannot grow more than 4% for any class.
 - 4% growth limitation is a statewide limitation - local differences can be dramatic
 - 4% growth limitation is net of new construction.



Year 1



Year 2



Assessment Limitations: *Rollback Application*

- Review of Rules:
 - 4% growth limitation statewide
 - 4% growth limitation is net of new construction.



\$100K + \$100K + \$100K

Step 1: Year 1 Taxable Values - **Count Them All**

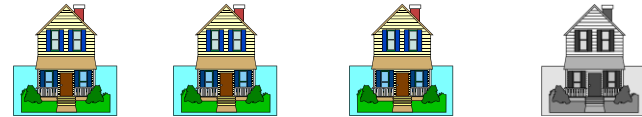
\$100K + \$100K + \$100K = **\$300,000**

Step 2: Year 2 Taxable Values - **Count Only Pre-existing (REVALUATION AMOUNT)**

\$120K + \$95K + \$110K = **\$325,000**

Step 3: Determine Maximum Growth
(Year 1 X 4% growth)

\$300,000 X 4% = **\$12,000 Growth**



\$120K + \$95K + \$110K + **\$150K**

Step 4: Determine Maximum Year 2 Taxable Valuation for **Existing Property**

Year 1 Value + Maximum Growth
\$300,000 + \$12,000 = **\$312,000**

Step 5: Determine Rollback Percentage - Divide the Maximum Growth Amount by the **REVALUATION AMOUNT**

\$312,000 / \$325,000 = 0.96

Step 6: Apply Rollback Percentage to ALL PROPERTY for Year 2

=.096 X \$475,000 = \$456,000 Total Taxable Valuation for Year 2



Assessment Limitations: *Rollback Application*

Apply the Rollback Percentage to ***EACH*** Property in existence in Year 2



Year 1 Taxable Value = **\$100,000** Year 2 Taxable Value = **\$120,000** X .96 = **\$115,200**



Year 1 Taxable Value = **\$100,000** Year 2 Taxable Value = **\$95,000** X .96 = \$ **91,200**



Year 1 Taxable Value = **\$100,000** Year 2 Taxable Value = **\$110,000** X .96 = **\$105,600**



Year 1 Taxable Value = **0** Year 2 Taxable Value = **\$150,000** X .96 = **\$144,000**

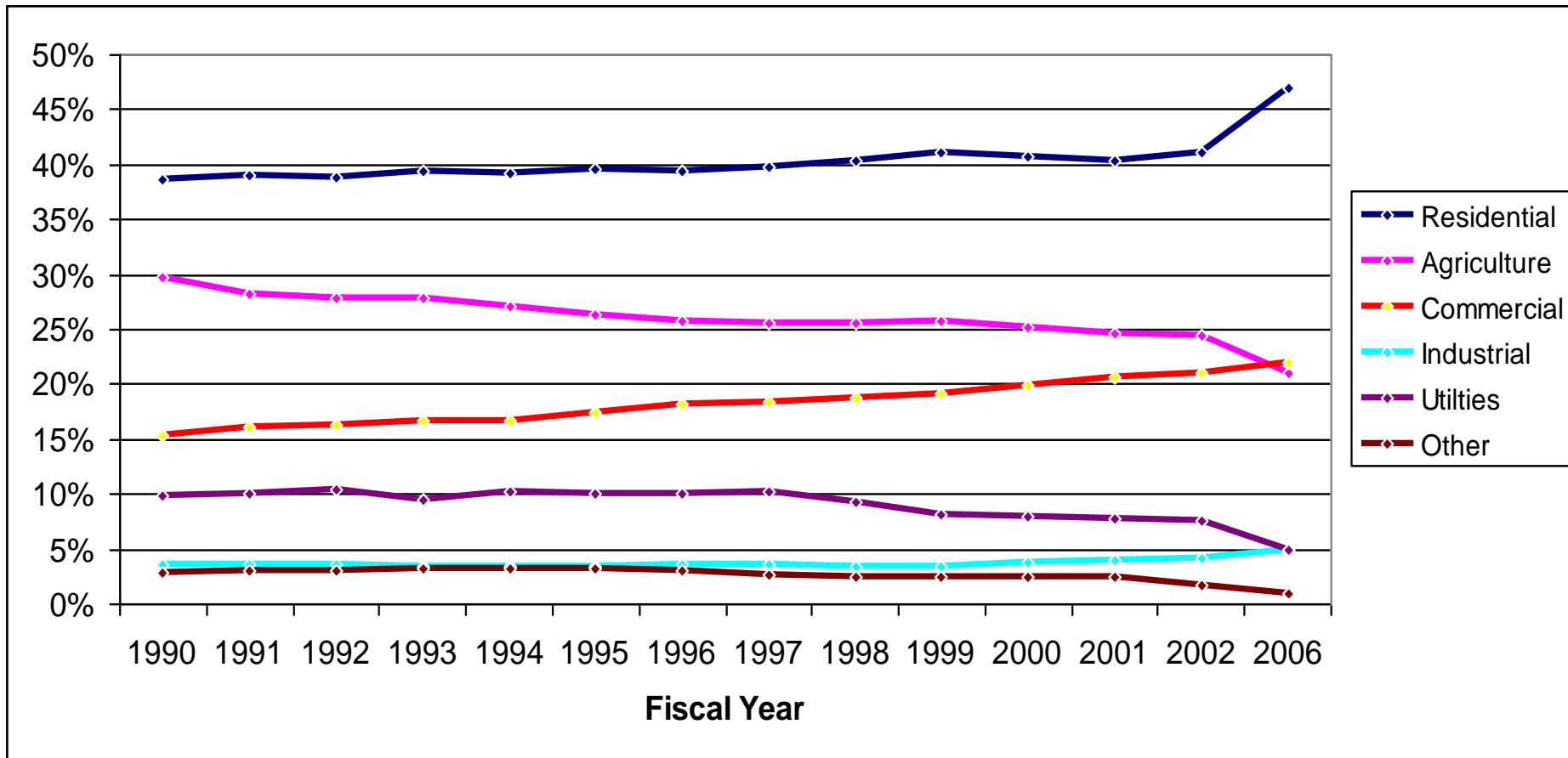


Assessment Limitations: *Rolling back the Rollback*

- Ag-Residential Tie: Neither class grows faster than the other. . . .
 - **Agricultural** taxable values (pre-existing) cannot grow more than **Residential** taxable values (pre-existing)
 - **Residential** taxable values (pre-existing) cannot grow more than **Agricultural** taxable values (pre-existing)
- EXAMPLES:
 - Ex. 1. If **Ag** taxable values grow **8%**, and **Residential** grows **2%**, both classes will have **2% taxable valuation growth**.
 - Ex. 2. If **Residential** taxable values grow **8%**, and **Ag** grows **2%**, both classes will have **2% taxable valuation growth**.
 - Ex. 3. If **Ag** taxable values grow **8%**, and **Residential** grows **12%**, both classes will have **4% taxable valuation growth**. The ag-res tie will have no effect in this situation.



Trends in relative property valuation among classes

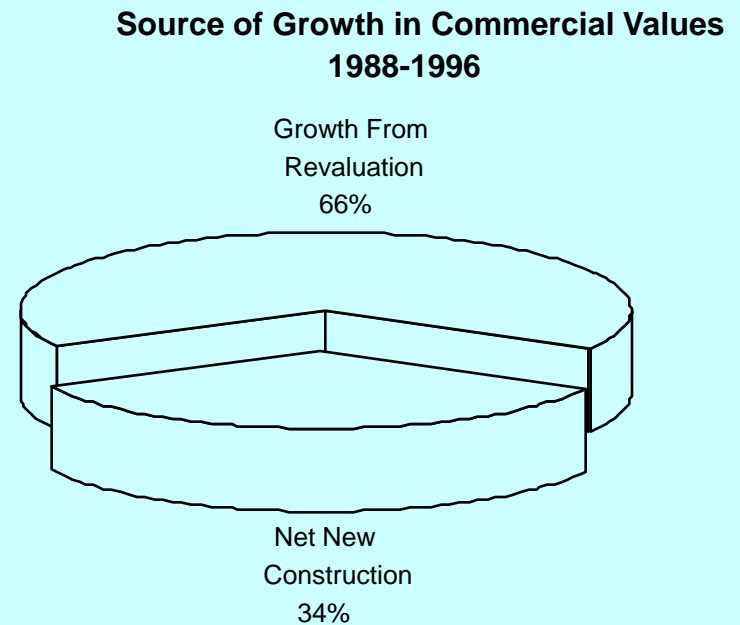
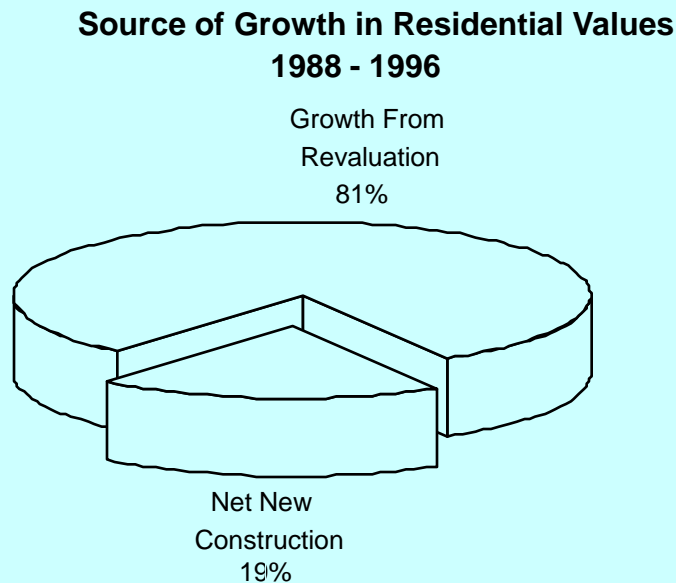


Has the rollback distorted the relative burden?

Is the rollback causing commercial values to pay an increasing share?



Commercial has a greater share of valuation
because there's more of it.

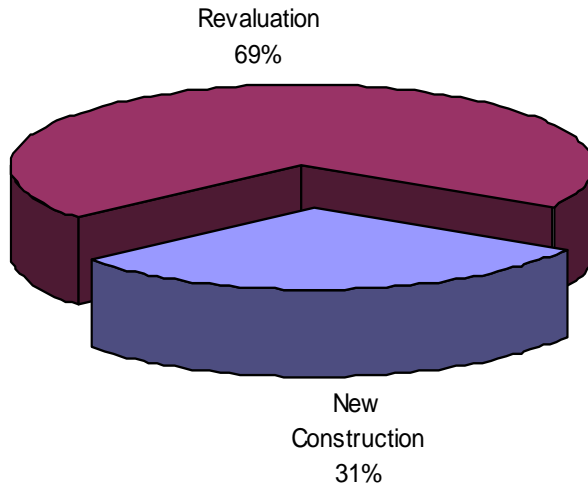


The rollback hasn't **caused** a **shift** to **commercial** owners. . .

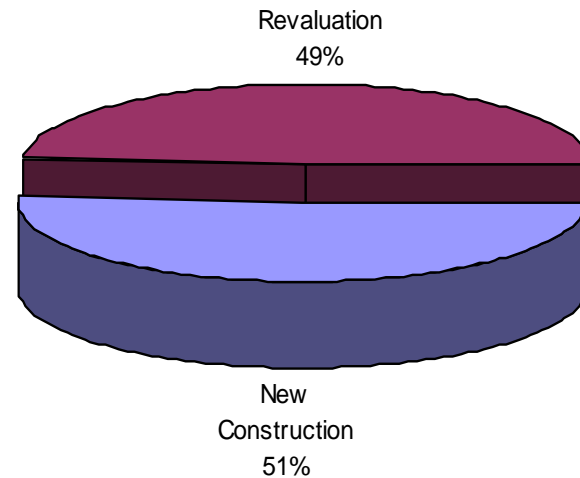
The rollback has **prevented** a **shift** to **residential** owners.



Source of Growth in Residential Values
1996 - 2001



Source of Growth in Commercial Values
1996 - 2001



The rollback hasn't **caused** a **shift** to **commercial** owners. . .
The rollback has **prevented** a **shift** to **residential** owners.



Assessment Limitations: *Rollback Implications*

- Other rollbacks have not decreased *because existing properties have not grown more than 4% annually.*
- Differing Rollback Percentages Do Not Necessitate Unfairness
 - Residential has consistently growing share of valuation, yet population is stable.
 - Consider entire puzzle:
 - Credits. . . Exemptions. . . Declassification (computers, M&E, etc) . . . Depreciation



LEVY = Valuation X Rate - Credits

Property Tax Credits

- Valuation Credits (ie. Homestead credit)
 - Last step before taxes are determined.
 - Homestead Calculation: **[(Assessed Value X Rollback) - \$4,850] X Rate**
 - **Example:** \$100,000 Home with a .56 Rollback and \$30 tax rate (per \$1,000)
 1. $[(\$100,000 \times .56) - \$4,850] \times \$30/\$1,000$
 2. $[\$56,000 - \$4,850] \times .03$
 3. $\$51,150 \times .03 = \$1,534.50$ (Tax Bill)
 - Valuation Credits are Progressive. Homestead Credit = \$4,850 for ALL HOMEOWNERS. Everyone living in the same taxing district gets the same TAX REDUCTION, as long as their house has a taxable value over \$4,850.
 - Valuation Credits are worth the most where tax rates are the highest.
 - $\$45 / \$1,000 \times \$4,850 = \218.25
 - $\$20 / \$1,000 \times \$4,850 = \$ 97.00$



Property Tax Credits

- Rate Credits (ie. Agland Tax Credit)
 - Last step before taxes are determined.

- Agland Tax Credit Calculation: **[(School Tax Rate - \$5.40) X Taxable Value]/\$1,000**

- **Example:** \$160,000 Farm in a district with a tax rate of \$10.40
 1. $[(\$10.40 - \$5.40) \times \$160,000 / \$1,000]$
 2. $\$5.00 \times 160$
 3. \$800
 4. Apply Proration Percentage (If State only reimburses 30% of the total claims, than every taxpayer gets 30% of their claim. $\$800 \times .3 = \240)

- Rate Credits are Proportional (neither progressive nor regressive). Rate credits reduce every taxpayers bill by the same percentage amount.



Tax Increment Financing

- TIF is financing tool cities use to make improvements to an area.
 - The city borrows money to make the improvements.
 - The city repays the loan with the taxes paid by the growth in taxable valuation in the area.
 - Taxpayers in a TIF district pay the same rate as those outside the TIF. But their payments are intercepted before they ever get to the local governments that would otherwise have received the payment.

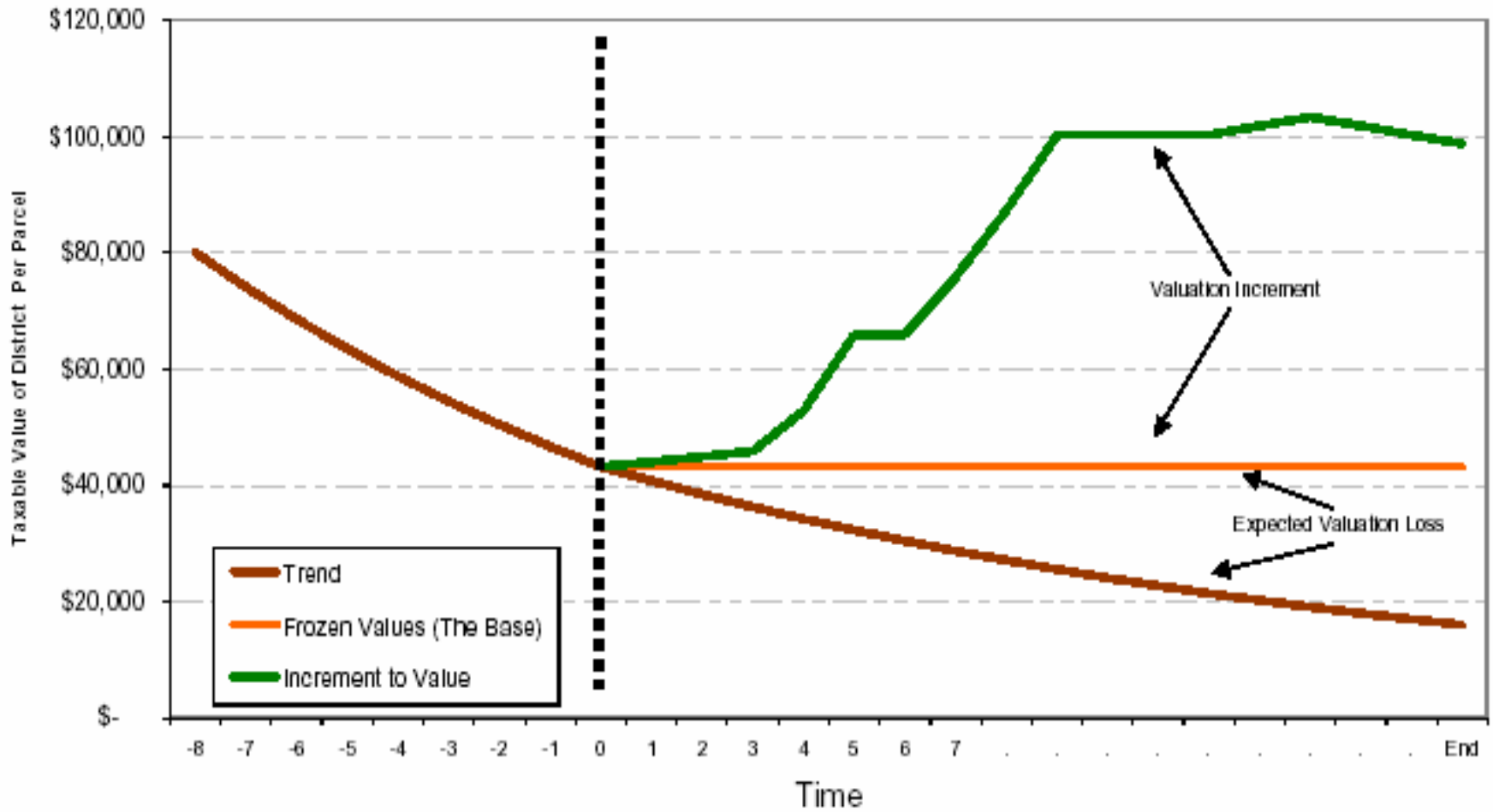


TIF Allowable Purpose

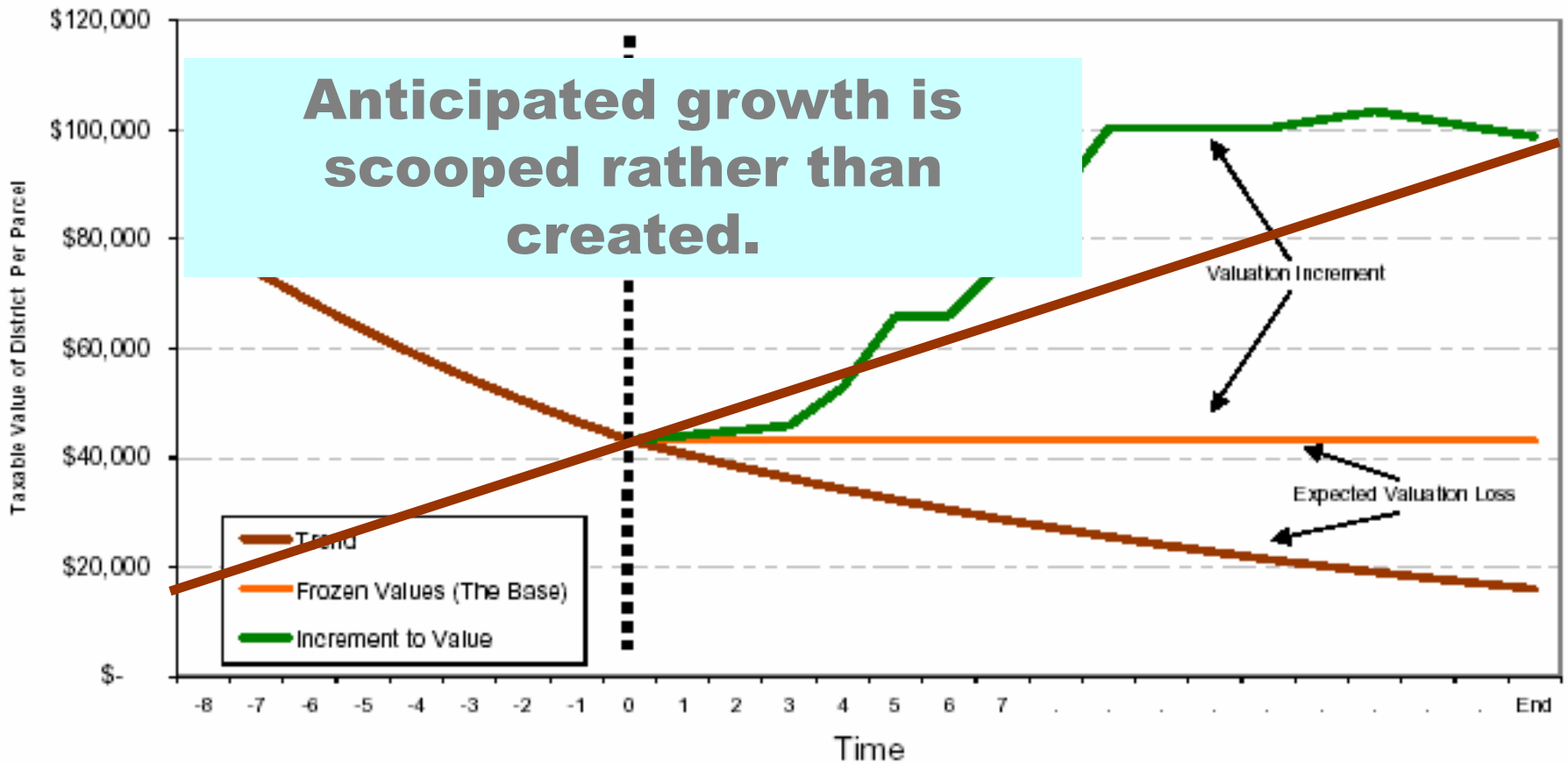
- **Original Focus:** TIF was only allowed to finance improvements to slum and blighted neighborhoods.
- **Economic Development Tool:** TIF was then allowed for economic development. A city needs to install water and sewer lines so a company can locate in the city. The company won't locate without the infrastructure, and the infrastructure is pointless without the company. The city TIF's the company, so the company's future taxes repay the cost of development.
- **“Economic Development” Has Evolved**
 - Malls and other retail
 - Local Services
 - Tax rebatement – circumvents 5-year abatement limit.



Tax Increment Financing: The Concept



Tax Increment Financing: **The Reality**



Why Do Local Governments TIF?

- Competition.
- “Rapid Response” tool.
- Greater Flexibility.
- TIF allows a city to finance economic development by shifting the tax burden.
- Not visible – burden is “seen” in other entities tax rates.

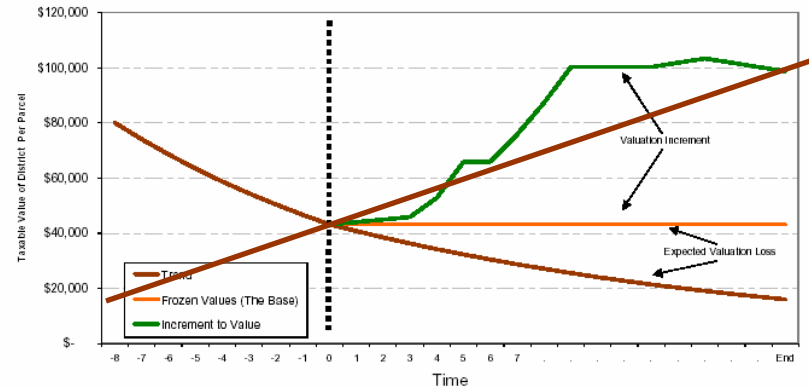


How TIFs Shift Burden

(Burden Shifted to Property Taxpayers)

- Freezes Taxable Valuation: TIF districts freeze the valuation for all taxing authorities in the district
 - Schools, cities, counties, hospitals, etc all require higher tax rates to cover the lost valuation

Tax Increment Financing: The Concept



Local Government Normal Growth

$$\text{Levy} = \text{Rate} \times \text{Valuation}$$

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Local Government Growth With TIF

$$\text{Levy} = \text{Rate} \times \text{Valuation}$$

$$\text{Levy} = \text{Rate} \times \text{Valuation}$$

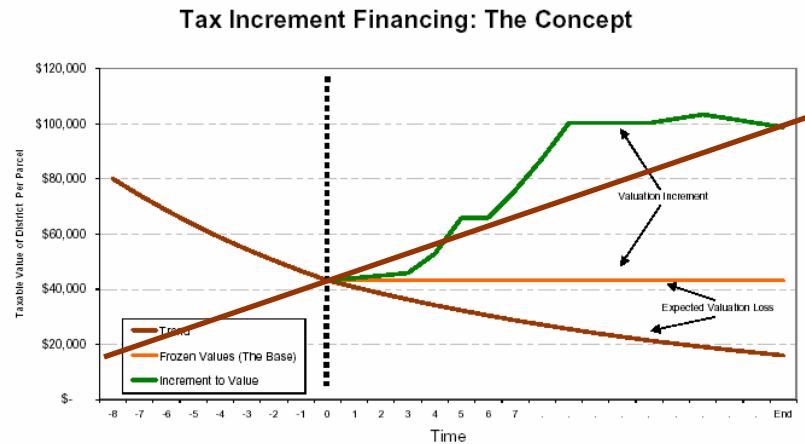
$$\text{Levy} = \text{Rate} \times \text{Valuation}$$



How TIFs Shift Burden

(Burden Shifted to All Iowa Taxpayers)

- School Aid Formula is based on three factors:
 - Taxable Valuation Per Student
 - Cost Per Student
 - Number of Students

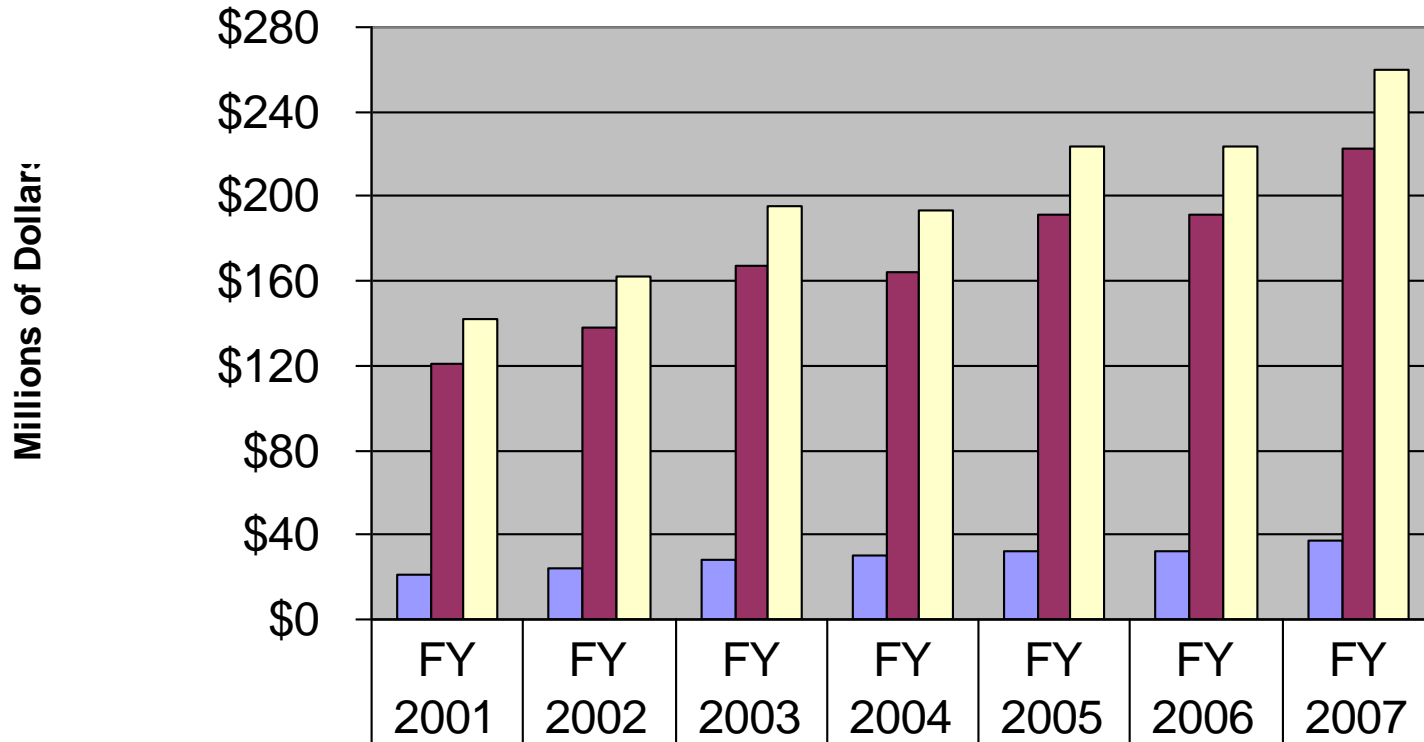


- Uniform Levy = \$5.40 Per \$1,000 of Taxable Valuation (Every property taxpayer in Iowa pays the same rate)
- State Foundation Level is 87.5% - State aid makes up the difference between your uniform levy and 87.5% of your budget.
- As TIF Values **increase**, state aid **increases** because the uniform levy brings in less revenue – When a big mall is in a TIF, the result can be a hit to state general fund revenues of a million dollars.



State Cost and Property Tax Shift

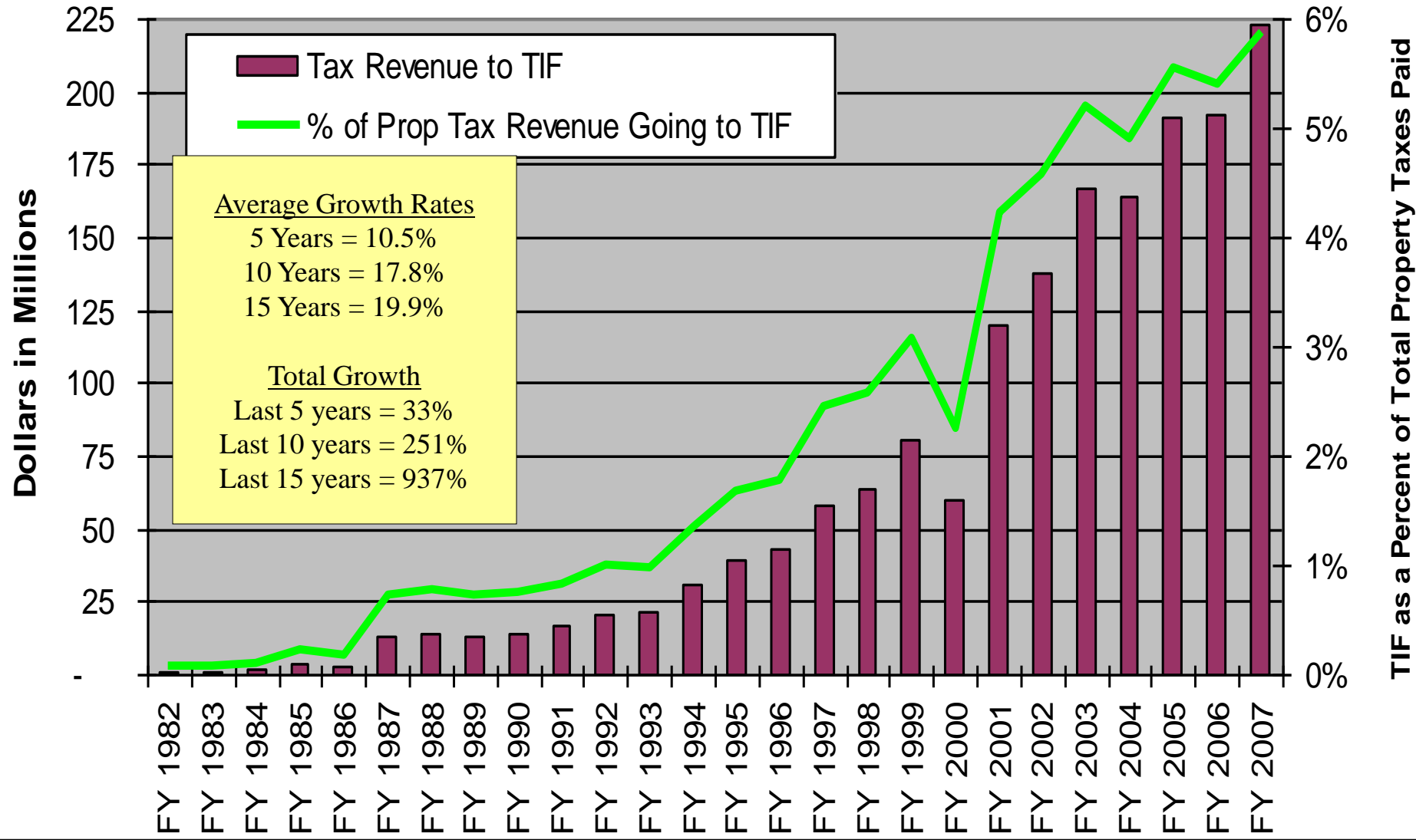
TIF Revenues - Who's Paying the Tab



State Aid Impact	\$22	\$24	\$28	\$30	\$32	\$32	\$37
Property Tax Impact	\$120	\$138	\$167	\$164	\$191	\$192	\$223
Total Impact	\$142	\$162	\$195	\$194	\$224	\$224	\$260



TIF Growth Exceeds Original Purpose



Property Tax Policy Approach

- Incentives need to be examined carefully.
 - Who is paying the tab?
 - Where is the economic development coming from?
 - What is the impact on the taxpayer vs. the State/local government?

- Know when you're dealing with politics vs. true impacts. Weigh whether or not it's worth it to oppose a city's TIF. You might even be able to share in the revenue. Understand the difference between good state economic policy and good local economic policy (given the state's rules).

- Consider why your taxpayers express the views they have, and be sensitive to your district's specific tax make-up.

- All things are relative – understand your neighbors tax rates.

- Income Surtax – When does it makes sense?
 - If your district's tax base is virtually all agland, you will not be able to export much of the burden.
 - If you district's tax base consists of a big utility, you may be able to export the tax burden, and show that even most farmers are better off with a property tax levy.



Property Tax Policy Approach

- When the decision is made to raise (or lower) a property tax levy, fully understand the impact on any given taxpayer – Use IASB tools, remember the productivity formula and rollback. Taxpayers may only be paying 50 cents on the dollar.
- Keep your eye on the goal. If the goal is a new facility that will improve student learning, don't let tax incidence analysis keep you from accomplishing your goal. Be prepared to make a deal your community can support.
- Time Your Property Tax Increase - Taxpayers care mostly about the consolidated levy.
 - Watch other taxing authorities (counties and cities). If another levy expires, that might be a good time to reinstate the cash reserve levy, extend your PPEL etc.
 - Pay attention to your own levy expiration dates. It's easier to continue a levy than it is to pass a new one.



Other Information

IASB web site

<http://www.ia-sb.org/finance/finance.asp>

Fiscal Bureau Topic Presentations

<http://staffweb.legis.state.ia.us/lfb/pptpres/pptpres.htm>

Fiscal Bureau Issue Reviews

<http://staffweb.legis.state.ia.us/lfb/ireview/ireview.htm>

Iowa Factbook

<http://staffweb.legis.state.ia.us/lfb/factbbook/factbook.htm>





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- [Iowa Superintendents Finance and Leadership Consortium](#)
- [School Finance Boot Camp - Nov. 14](#)

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