Iowa Property Valuation and Tax Trends

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For
The Iowa Taxpayers Association
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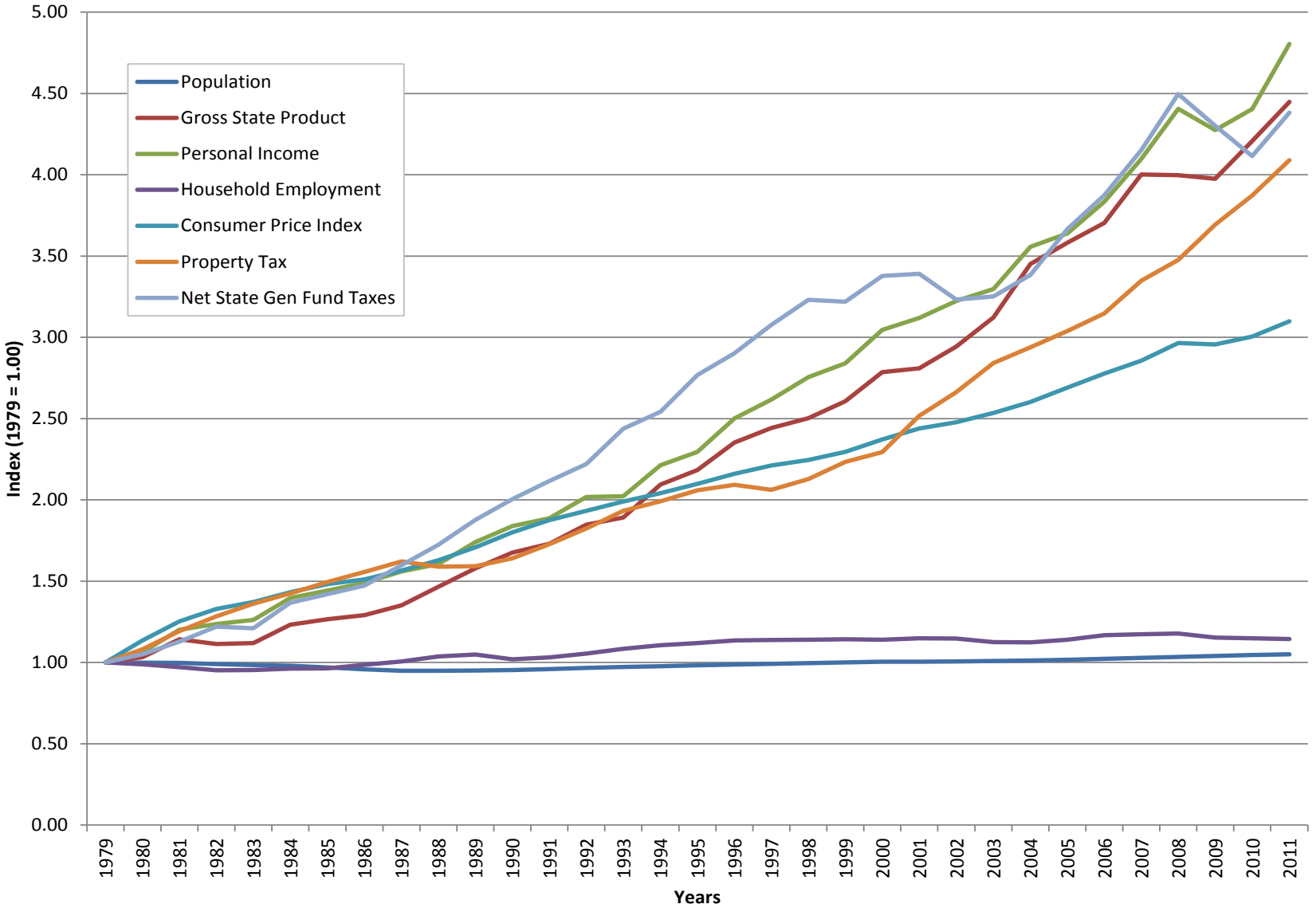
Comparison of State Economic and Tax Indicators



Data Sources: US Census, BLS, BEA, IDOR, IDOM

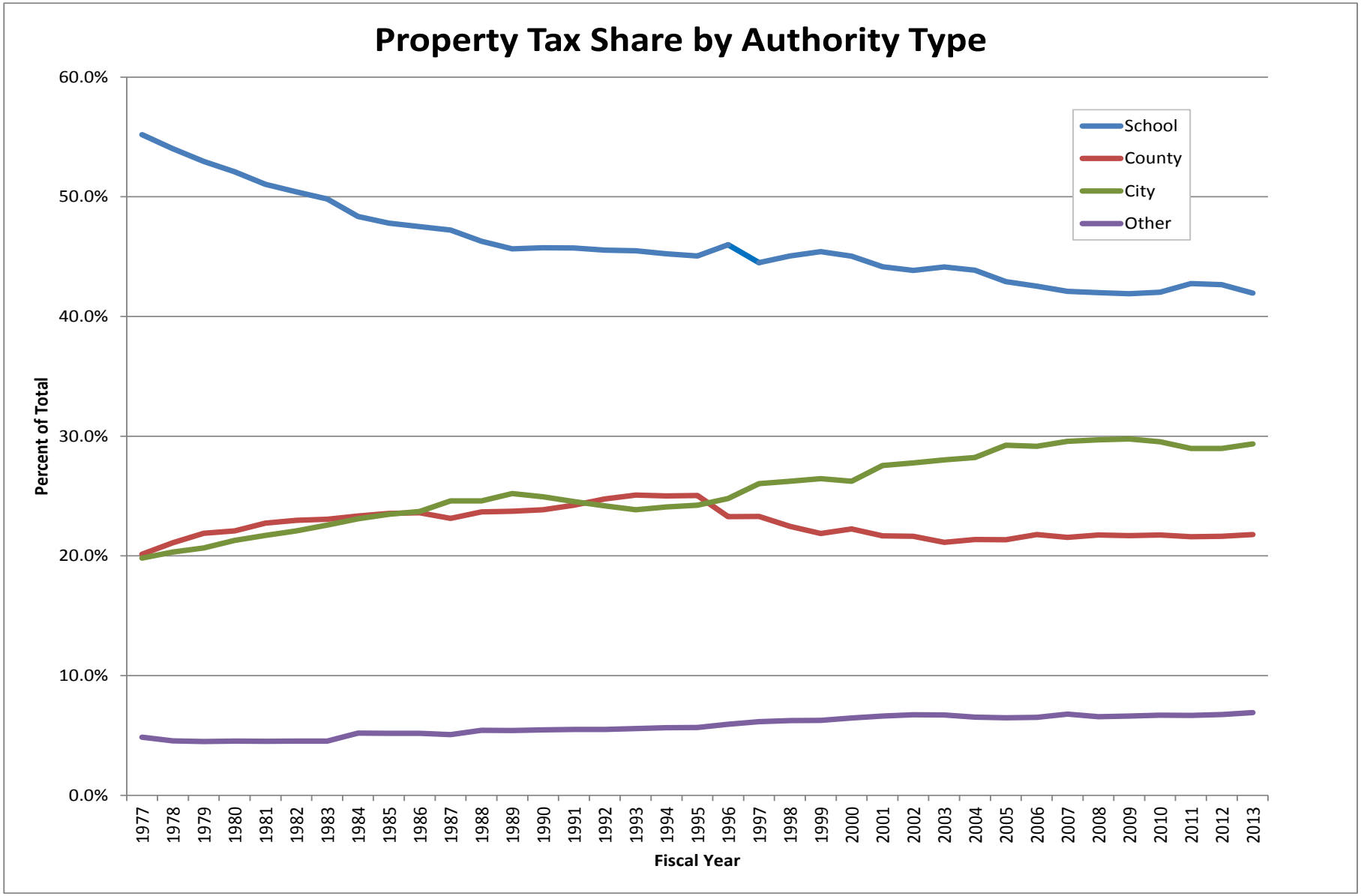
Iowa Economic and Tax Indicators

Period	Population	Household Employment	Consumer Price Index	Property Taxes	Net State General Fund Taxes	State GDP	State Personal Income
1980 - 1985	-2.89%	-2.56%	30.61%	38.29%	35.17%	22.70%	35.63%
1985 - 1990	-1.72%	5.91%	21.43%	9.78%	41.18%	32.26%	27.53%
1990 - 1995	3.11%	9.67%	16.63%	25.50%	38.09%	30.32%	24.83%
1995 - 2000	2.15%	1.91%	13.00%	11.40%	22.01%	27.59%	32.69%
2000 - 2005	1.21%	0.03%	13.40%	32.46%	8.50%	28.60%	19.45%
2005 - 2010	2.89%	0.69%	11.69%	27.42%	12.25%	17.46%	21.03%
1979 - 2011	4.99%	14.41%	209.90%	308.95%	338.25%	344.79%	380.43%

Data Sources: US Census, Bureau of Labor Statistics, Bureau of Economic Analysis, Iowa Dept. of Revenue, Iowa Dept. of Management

Findings – Property Tax Growth

- Prior to FY 2000 property tax levies increased at a rate approximately equal to growth of the CPI. Since FY 2000 property tax levies have increased at a rate substantially above the CPI.
- Population and employment growth provide little explanation of the growth in property tax levies.
- The growth of property tax levies closely follows, but at a somewhat lower rate, the growth of Iowa gross state product, Iowa personal income and Iowa General Fund tax revenues.
- The large increase in the growth of property tax levies after FY 2000 corresponds to a reduction in State aid to local governments. Also, since 2000 there were several years during which allowable growth for K-12 education equaled 2% or less.

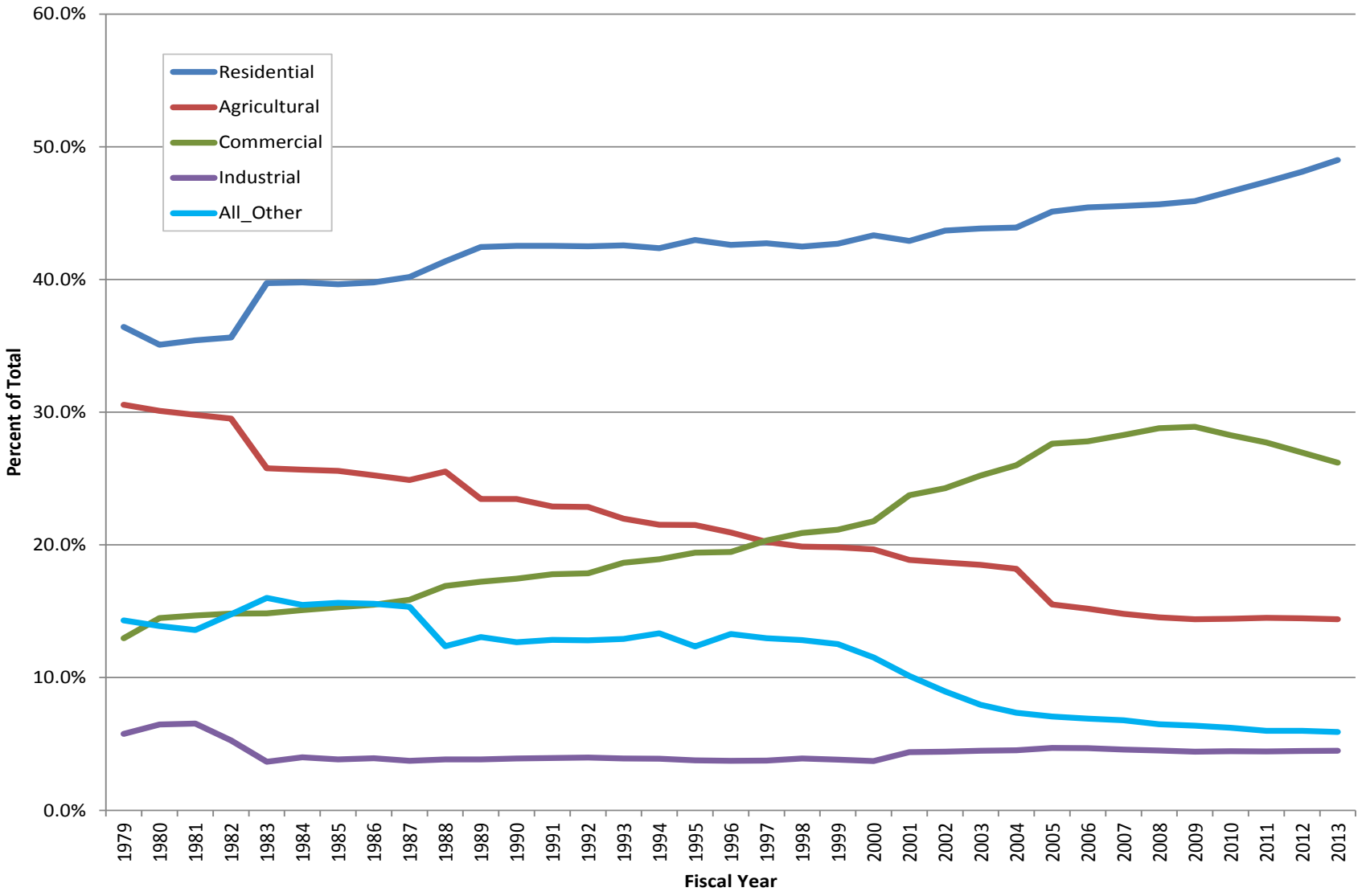


Data Source: Iowa Dept. of Management

Findings – Taxing Authority Property Tax Shares

- The share of property taxes accounted for by school districts dropped from over 55% in FY 1977 to under 42% in FY 2013. Most of the decrease occurred prior to FY 1990 and paralleled a large decrease in K-12 enrollment.
- Cities overtook counties to claim the second largest share of property taxes beginning in FY 1996.
- The rise in share of property taxes claimed by cities somewhat corresponds to a shift of population and economic activity to the State's metro areas.

Local Government Property Tax Share by Class, FY 1979 - FY 2013

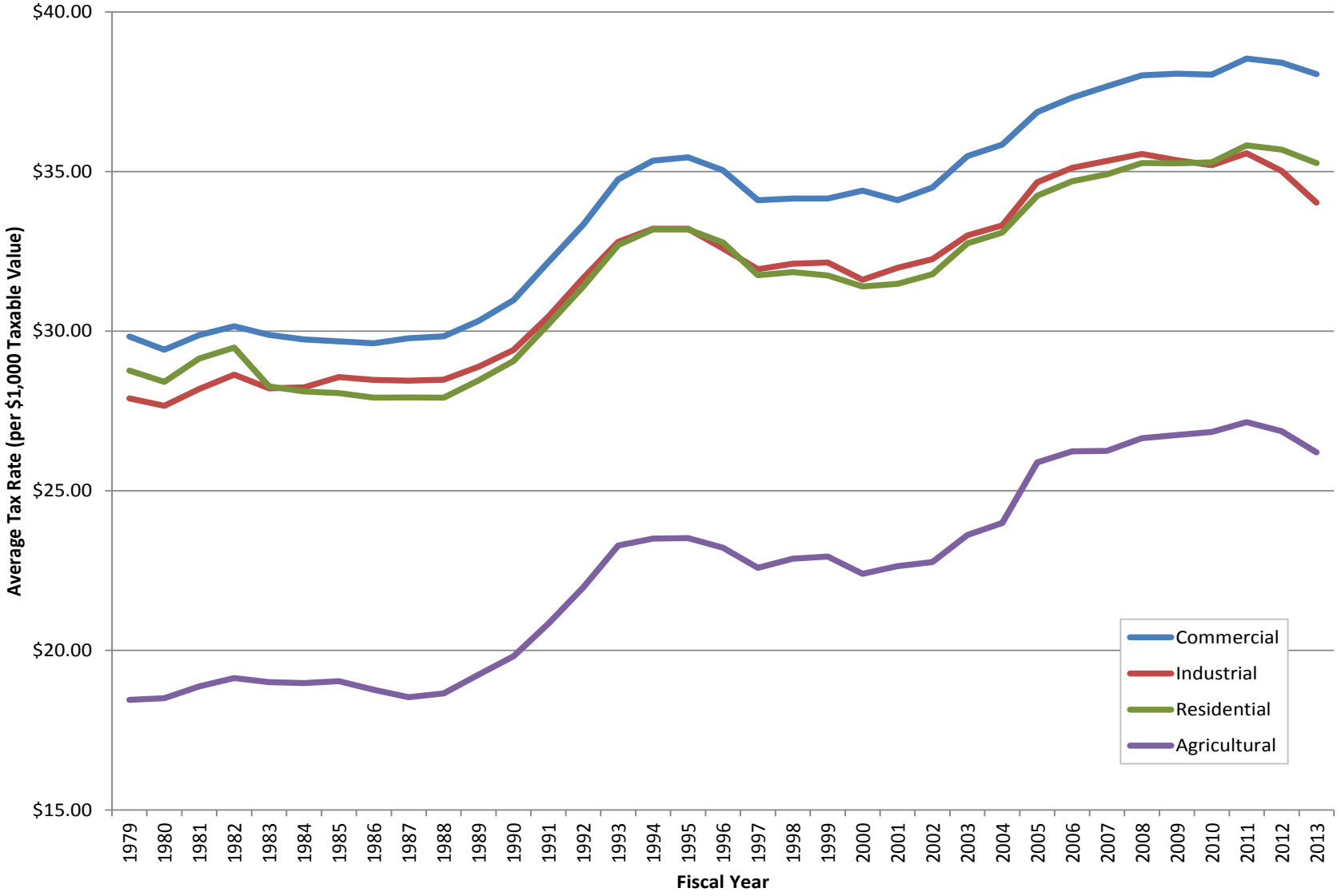


Data Source: Iowa Dept. of Management

Findings – Property Classification Tax Shares

- The share of property taxes levied on residential property increased from 36.4% in FY 1979 to 49.0% in FY 2013
- The share of property taxes levied on commercial property increased from 13.0% in FY 1979 to 26.2% in FY 2013
- The share of property tax levied in industrial property decreased from 5.8% in FY 1979 to 4.5% in FY 2013
- The share of property tax levied on agricultural property decreased from 30.6% in FY 1979 to 14.4% in FY 2013

Average Property Tax Rates by Class



Data Sources: Iowa Dept. of Management, Strategic Economics Group

Findings – Property Tax Rates

- Property tax rates experienced two periods when noticeable increases occurred: FY 1989 – FY 1993 and FY 2002 – FY 2005. These were both periods of considerable fiscal stress for State government, which led to reductions in assistance to local governments.
- Throughout the entire period from FY 1979 – FY 2013 average tax rates for commercial property exceeded the rates for other property classifications. The fact that commercial property is highly concentrated in metro areas is the likely explanation for this condition. Metro areas tend to have higher tax rates than other parts of the State.
- Average property tax rates have decreased slightly over the past two years.

Sources of Property Tax Levy Changes, FY 2002 - FY 2012

	Contributions to Property Tax Changes				
Property Class	Rate Change	New Construction	Revalutaion	Reclassification and Other	Total Change
Commercial	$97,638,527	$382,128,282	$63,965,064	$16,401,074	$560,132,948
Industrial	$11,900,493	$81,062,534	$5,129,618	-$16,936,706	$81,155,939
Residential	$178,404,603	$410,605,869	$295,375,021	$105,931,701	$990,317,194
Agricultural	$99,168,926	$34,479,258	$247,859,170	-$251,426,564	$130,080,790
Total	$387,112,548	$908,275,943	$612,328,874	-$146,030,495	$1,761,686,870

	Percentage Contributions to Property Tax Changes				
Property Class	Rate Change	New Construction	Revalutaion	Reclassification and Other	Total Change
Commercial	17.43%	68.22%	11.42%	2.93%	100.00%
Industrial	14.66%	99.88%	6.32%	-20.87%	100.00%
Residential	18.01%	41.46%	29.83%	10.70%	100.00%
Agricultural	76.24%	26.51%	190.54%	-193.28%	100.00%
Total	21.97%	51.56%	34.76%	-8.29%	100.00%

Data Sources: Iowa Dept. of Revenue, Iowa Dept. of Management, Strategic Economics Group

Note: The reclassification and other values for industrial property may be distorted due to a problems with how wind farm property valuation changes were misclassified for assessment year 2010.

Findings – Sources of Property Tax Levy Changes

- In aggregate for the four classifications of locally assessed property the primary sources of property tax levy changes over the past ten years are:
  - Tax rate changes: 22.0%
  - New construction: 51.6%
  - Revaluation: 34.8%
  - Reclassification and other: -8.3%
- For commercial property new construction accounted for 68.2% of the change in tax levies.
- For industrial property new construction accounted for 99.9% of the change in tax levies
- For residential property new construction accounted for 41.5% of the change in tax levies

Sources of Change in Property Tax Levies by 5-Year Increments

Commercial Property Tax Change

Period	Tax Rate Change	New Construction	Revaluation	Other	Total Change
1990 - 1995	$49,180,919	$76,135,188	$32,378,693	-$28,783,181	$128,911,620
1995 - 2000	-$12,916,250	$142,102,728	$38,517,565	$11,442,193	$179,146,236
2000 - 2005	$56,332,596	$175,985,027	$75,716,918	$12,402,473	$320,437,013
2005 - 2010	$31,747,005	$212,700,887	$33,323,980	$11,921,173	$289,693,045

Commercial Property Tax Change Shares

Period	Tax Rate Change	New Construction	Revaluation	Other	Total Change
1990 - 1995	38.15%	59.06%	25.12%	-22.33%	100.00%
1995 - 2000	-7.21%	79.32%	21.50%	6.39%	100.00%
2000 - 2005	17.58%	54.92%	23.63%	3.87%	100.00%
2005 - 2010	10.96%	73.42%	11.50%	4.12%	100.00%

Industrial Property Tax Change

Period	Tax Rate Change	New Construction	Revaluation	Other	Total Change
1990 - 1995	$9,693,674	$21,373,637	-$443,619	-$15,299,402	$15,324,290
1995 - 2000	-$4,452,718	$42,046,150	$1,835,526	-$11,466,137	$27,962,822
2000 - 2005	$13,080,006	$28,177,514	$1,158,840	$3,985,565	$46,401,926
2005 - 2010	$2,402,143	$54,165,866	$8,550,796	-$31,648,597	$33,470,207

Industrial Property Tax Change Shares

Period	Tax Rate Change	New Construction	Revaluation	Other	Total Change
1990 - 1995	63.26%	139.48%	-2.89%	-99.84%	100.00%
1995 - 2000	-15.92%	150.36%	6.56%	-41.00%	100.00%
2000 - 2005	28.19%	60.72%	2.50%	8.59%	100.00%
2005 - 2010	7.18%	161.83%	25.55%	-94.56%	100.00%

Residential Property Tax Change

Period	Tax Rate Change	New Construction	Revaluation	Other	Total Change
1990 - 1995	$114,533,842	$104,876,346	$156,611,863	-$163,366,105	$212,655,946
1995 - 2000	-$56,293,267	$141,136,799	$143,893,942	-$78,200,257	$150,537,217
2000 - 2005	$121,036,821	$199,697,011	$245,037,175	-$164,015,009	$401,755,997
2005 - 2010	$49,490,447	$214,563,342	$141,647,885	$88,738,802	$494,440,476

Residential Property Tax Change Shares

Period	Tax Rate Change	New Construction	Revaluation	Other	Total Change
1990 - 1995	53.86%	49.32%	73.65%	-76.82%	100.00%
1995 - 2000	-37.39%	93.76%	95.59%	-51.95%	100.00%
2000 - 2005	30.13%	49.71%	60.99%	-40.82%	100.00%
2005 - 2010	10.01%	43.40%	28.65%	17.95%	100.00%

Agricultural Property Tax Change

Period	Tax Rate Change	New	Revaluation	Other	Total Change
1990 - 1995	$80,148,769	$8,096,424	-$7,900,309	-$14,427,187	$65,917,696
1995 - 2000	-$24,401,282	$17,190,291	$17,273,375	-$639,811	$9,422,573
2000 - 2005	$87,197,598	$15,240,096	-$55,344,567	-$24,130,791	$22,962,335
2005 - 2010	$20,393,834	$21,030,770	$177,815,327	-$119,597,608	$99,642,324

Agricultural Property Tax Change Shares

Period	Tax Rate Change	New	Revaluation	Other	Total Change
1990 - 1995	121.59%	12.28%	-11.99%	-21.89%	100.00%
1995 - 2000	-258.97%	182.44%	183.32%	-6.79%	100.00%
2000 - 2005	379.74%	66.37%	-241.02%	-105.09%	100.00%
2005 - 2010	20.47%	21.11%	178.45%	-120.03%	100.00%

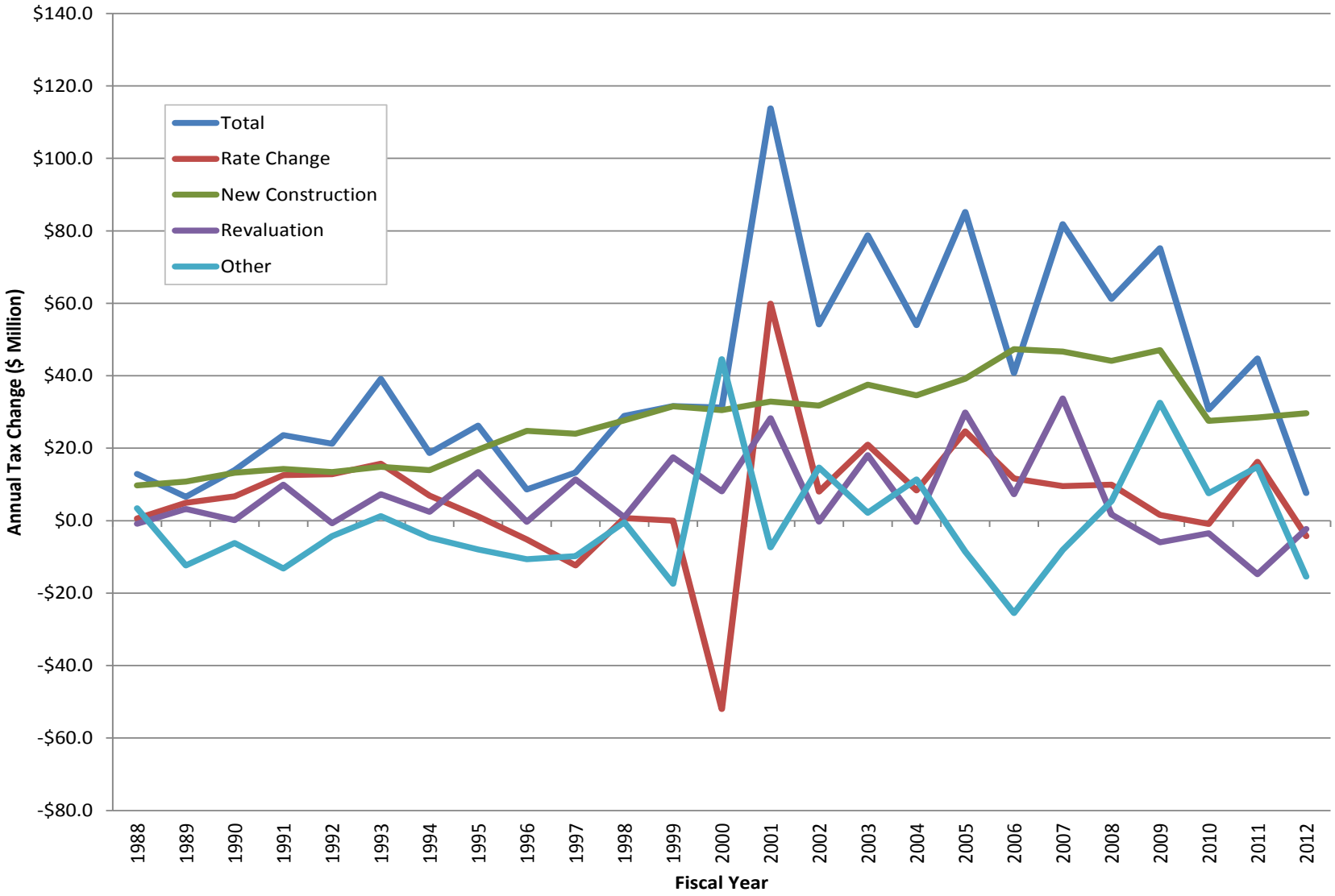
Data Sources: Iowa Dept. of Revenue, Iowa Department of Management, Strategic Economics Group

Note: The reclassification and other values for industrial property may be distorted due to a problems with how wind farm property valuation changes were misclassified for assessment year 2010.

Findings – Property Tax Levy Changes by 5-Year Increments

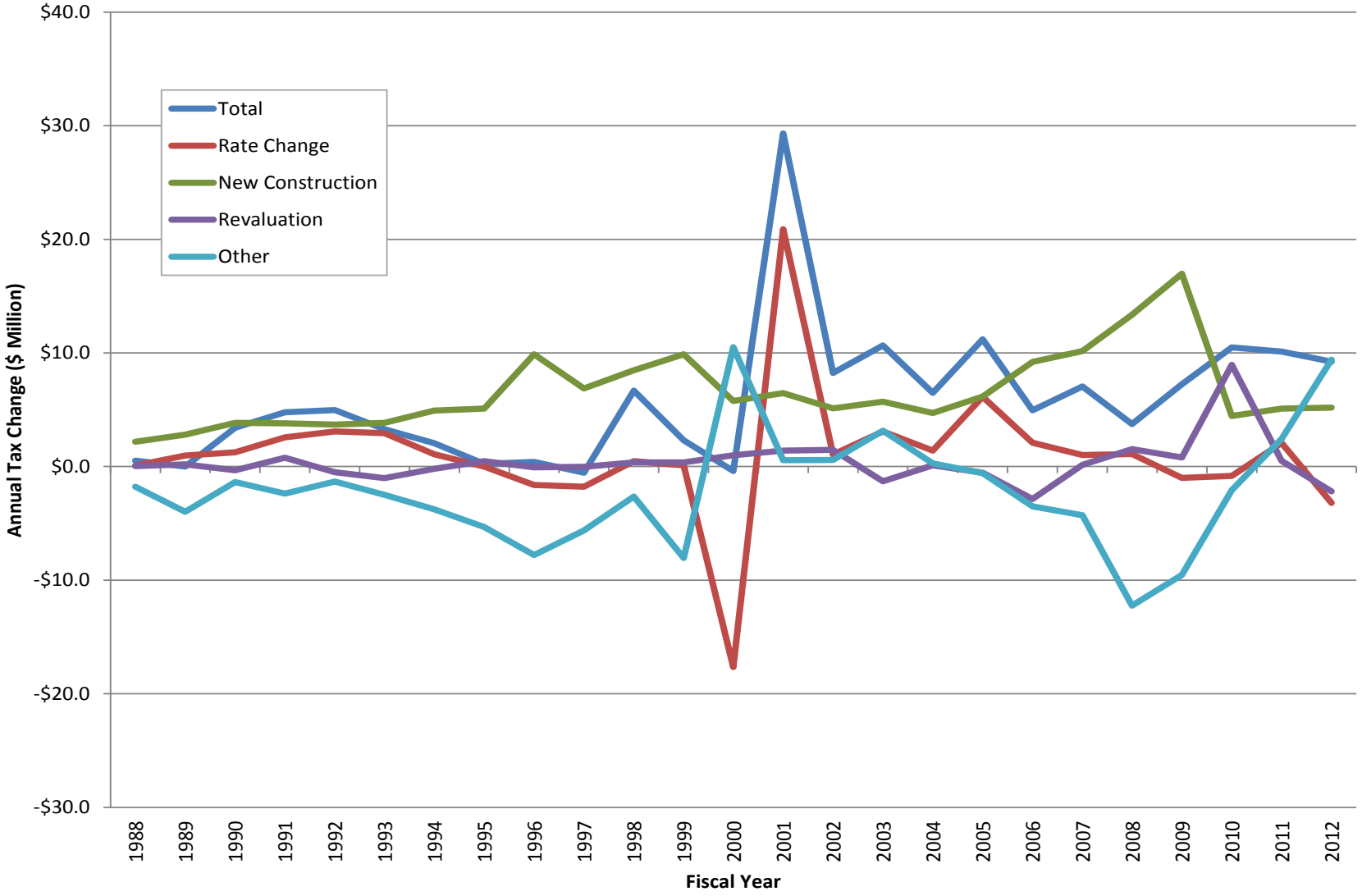
- For commercial and industrial property new construction accounted for the largest share of the growth in tax levies during all four periods.
- For residential property revaluation accounted for the largest share of growth in tax levies for the first three time periods, but during the last time period new construction accounted for the largest share.
- During the 1995 – 2000 time period tax rates on average decreased and held down the growth in property tax levies.
- From 2000 – 2005 property tax rates exhibited relatively strong growth for all property classifications.
- From 2005 – 2010 property tax rates continued to increase, but at a more moderate rate than during the prior five years.

Sources of Change in Commercial Property Taxes, FY 1988 - FY 2012



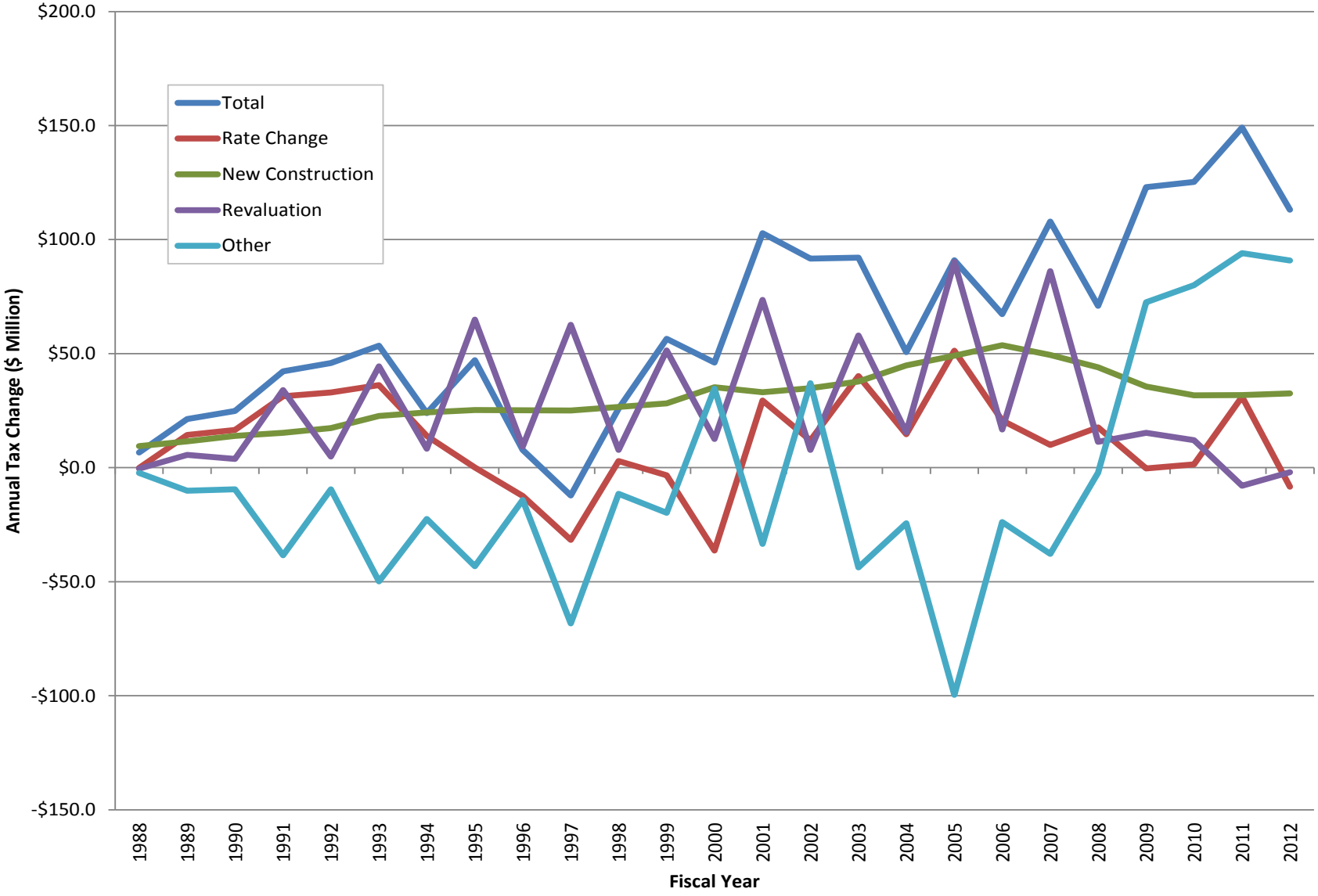
Source: Strategic Economics Group

Sources of Change in Industrial Property Taxes, FY 1988 - FY 2012

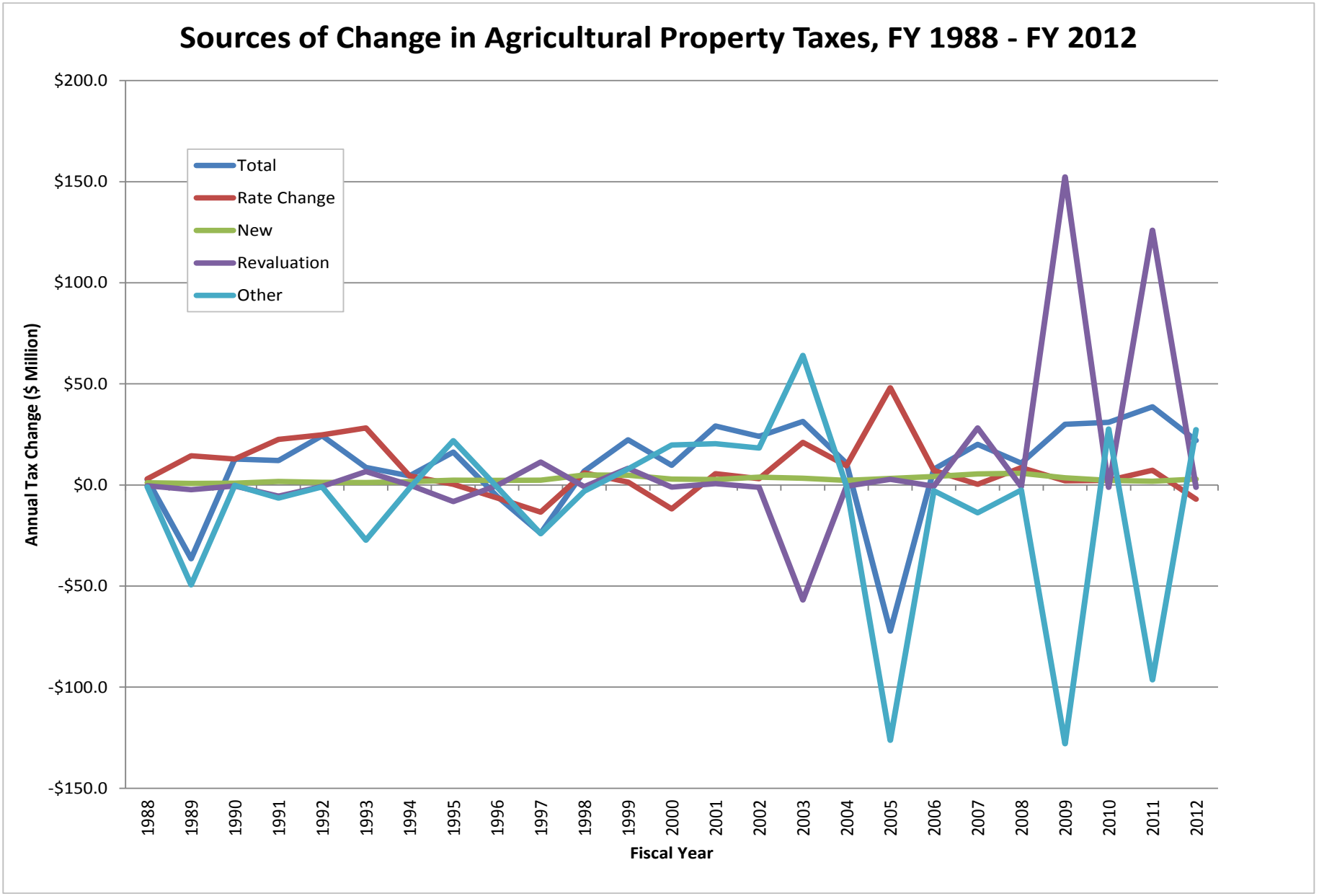


Source: Strategic Economics Group

Sources of Change in Residential Property Taxes, FY 1988 - FY 2012



Source: Strategic Economics Group



Source: Strategic Economics Group

Future Property Tax Growth

- Most of the factors that resulted in increased property tax growth over the past decade are not likely to be repeated over the next 10 years. These factors include:
  - The rapid rise in home values that resulted from the residential real estate bubble.
  - The trend toward increased home sizes and more expensive homes.
  - Large commercial projects, like Jordan Creek Town Center and Allied Insurance, Wells Fargo, Aviva, and Wellmark complexes.
  - Growth in manufacturing employment.
  - Continued rapid growth in agricultural productivity and land values.
- Increased cost of municipal services and pensions, plus increased debt financing of transportation improvements may put upward pressure on property tax rates.
- One major question mark is the continued health of State government tax revenues and by extension payments to local governments. Although the economy is reviving, policy changes may again lead to fiscal stress.

Iowa Property and Replacement Tax Forecast, FY 2014 - FY 2023

($ Million)

Year	Commercial	Industrial	Residential	Agricultural	Other	Military Credit	Subtotal	Utility + Replacement	Total
2013	$1,288.9	$221.3	$2,411.8	$708.8	$38.2	$11.5	$4,657.3	$252.6	$4,910.0
2014	$1,309.7	$227.3	$2,513.4	$721.4	$42.6	$11.3	$4,803.0	$254.9	$5,057.9
2015	$1,336.4	$233.4	$2,620.0	$733.8	$47.3	$11.1	$4,959.9	$257.4	$5,217.2
2016	$1,369.4	$239.4	$2,731.8	$746.2	$52.6	$10.9	$5,128.6	$259.9	$5,388.5
2017	$1,409.0	$245.5	$2,849.3	$758.4	$58.5	$10.7	$5,310.1	$262.4	$5,572.5
2018	$1,455.8	$251.5	$2,972.7	$770.4	$65.0	$10.5	$5,505.0	$265.0	$5,770.0
2019	$1,510.3	$257.6	$3,102.3	$782.3	$72.3	$10.3	$5,714.5	$267.6	$5,982.1
2020	$1,573.3	$263.6	$3,238.4	$794.0	$80.4	$10.1	$5,939.6	$270.2	$6,209.8
2021	$1,645.5	$269.6	$3,381.5	$805.5	$89.4	$9.9	$6,181.6	$272.9	$6,454.4
2022	$1,728.1	$275.6	$3,531.8	$816.7	$99.3	$9.7	$6,441.9	$275.6	$6,717.5
2023	$1,822.3	$281.5	$3,689.9	$827.7	$110.4	$9.5	$6,722.4	$278.3	$7,000.7
2023 - 2013 Change	$533.4	$60.2	$1,278.2	$119.0	$72.3	-$2.0	$2,065.0	$25.6	$2,090.7
% Change	41.38%	27.21%	53.00%	16.79%	189.29%	-17.71%	44.34%	10.15%	42.58%
Avg Chg	$53.3	$6.0	$127.8	$11.9	$7.2	-$0.2	$206.5	$2.6	$209.1
Avg %Chg	3.52%	2.44%	4.34%	1.56%	11.21%	-1.93%	3.74%	0.97%	3.61%

Source: Strategic Economics Group

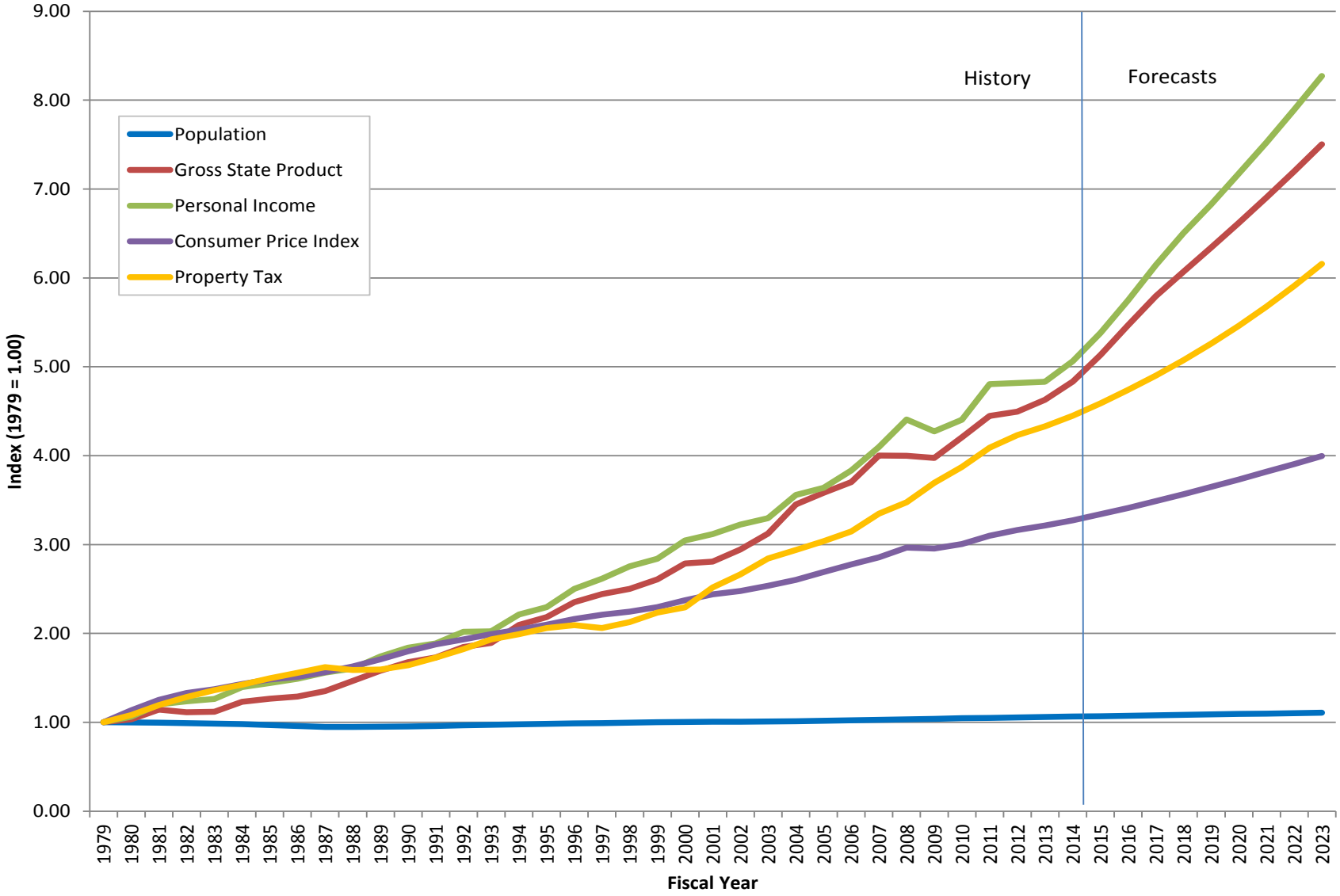
Average Annual Change and Percent Change Comparisons

Property Classification	Forecast		FY 2005 - FY 2010		FY 2010 - FY 2013	
	Amount	Percent	Amount	Percent	Amount	Percent
Commercial	$53,339,000	3.52%	$57,938,609	5.45%	$14,990,185	1.19%
Industrial	$6,021,000	2.44%	$6,694,041	3.82%	$8,446,557	4.14%
Residential	$127,816,000	4.34%	$98,888,095	5.67%	$119,659,458	5.52%
Agricultural	$11,898,000	1.56%	$19,928,465	3.47%	$24,445,657	3.71%
Other (ex utilities)	$7,226,000	11.21%	$1,833,219	8.53%	$3,627,739	11.84%
Military Credit	-$204,000	-1.93%	-$94,097	-0.75%	-$266,266	-2.21%
Utilities w/ Replacement	$2,564,000	0.97%	$4,172,100	1.78%	$1,943,174	0.78%
Total	$209,069,000	3.61%	$189,454,529	4.97%	$173,112,770	3.79%

Note: Total may not equal sum of the components due to rounding.

Source: Strategic Economics Group

Iowa Economic and Tax Trends and Forecasts, FY 1979 - FY 2023



Data Sources: Congressional Budget Office, Strategic Economics Group

Property Tax Levy Forecasts

- Property tax levies may be expected to grow at a rate greater than the CPI but at a slower rate than State GDP and State personal income.
- There is a greater likelihood this forecast is high rather than low. Demographic and economic factors work against new construction at rates comparable to the 2000s decade.
- Although the linkage between agricultural and residential taxable values will keep residential taxable values growing for the next several years, the growth of agricultural land values is not sustainable.
- Although there may be some large commercial (data farms) and industrial (chemical plants) development, much of the value of such investment with be exempt from property tax.
- The high rate of growth forecast for the other property classification reflects anticipated new investment in various types of centrally assessed property and the increased profitability of these types of businesses.

Unresolved Issues

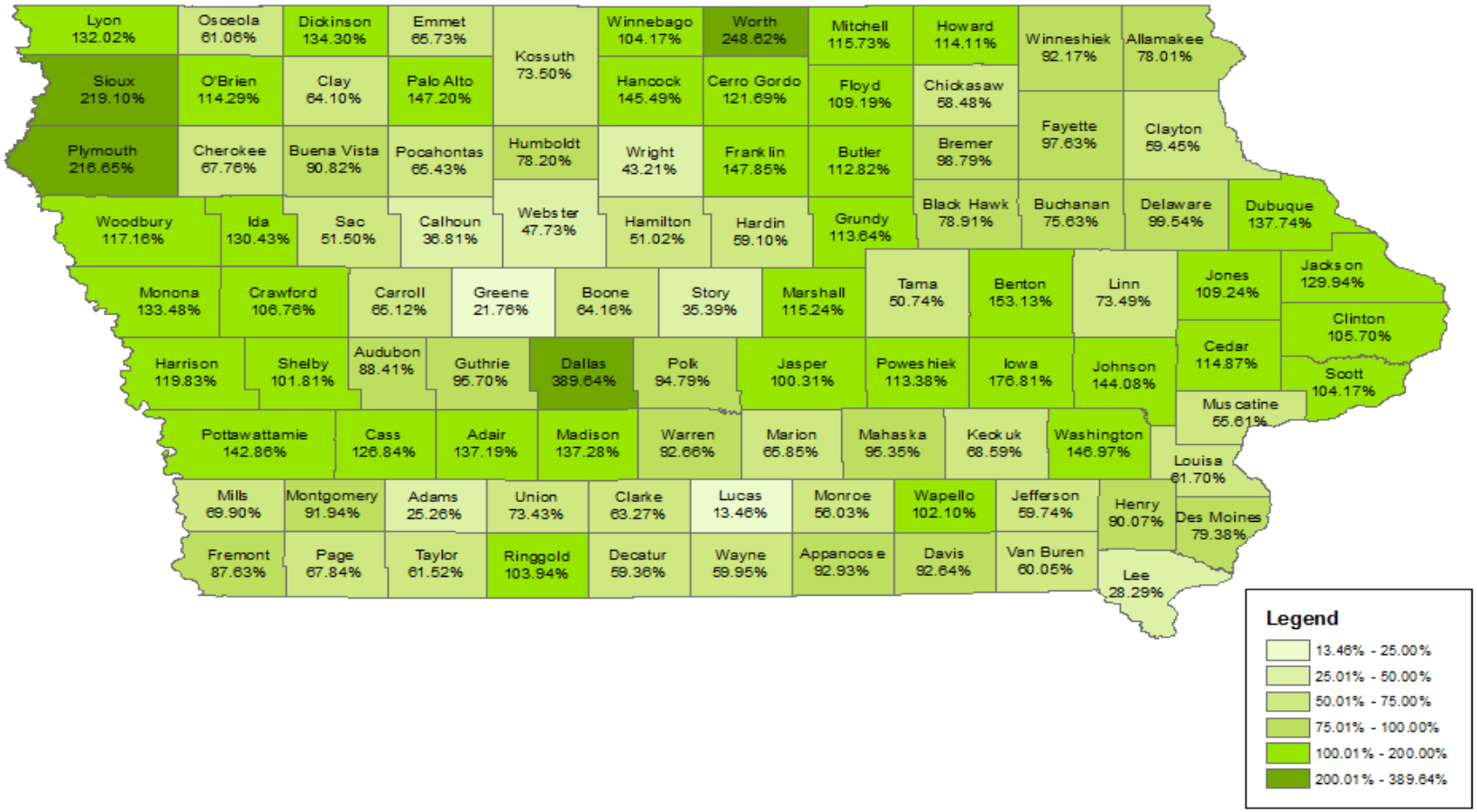
- To what extent has the increased use of tax increment financing (TIF) impacted property tax rate changes and will the growth of TIF in the future be as great as over the past decade?
- To what extent will the granting of tax abatements in future years compared to the past decade?
- How will other sources of local governments revenues (i.e., local option sales taxes, franchise fees, gambling revenues, etc.) impact the dependence on property taxes?

Appendices – County Maps

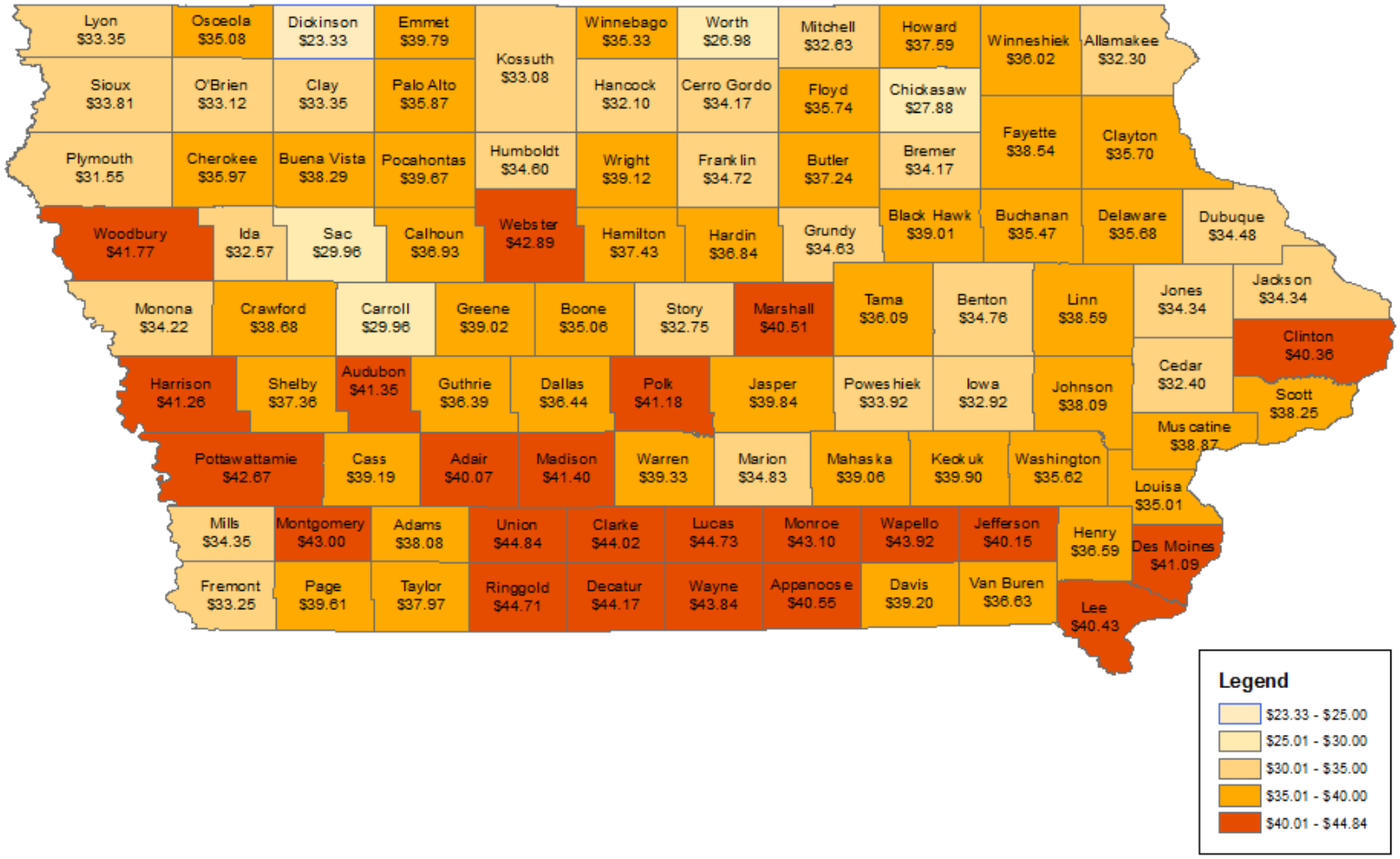
- Percent change in property taxes by classification, FY 2002 – FY 2012
- Average tax rates, FY 2012
- New construction value by classification, CY 2000 – CY 2010

Source: Strategic Economics Group

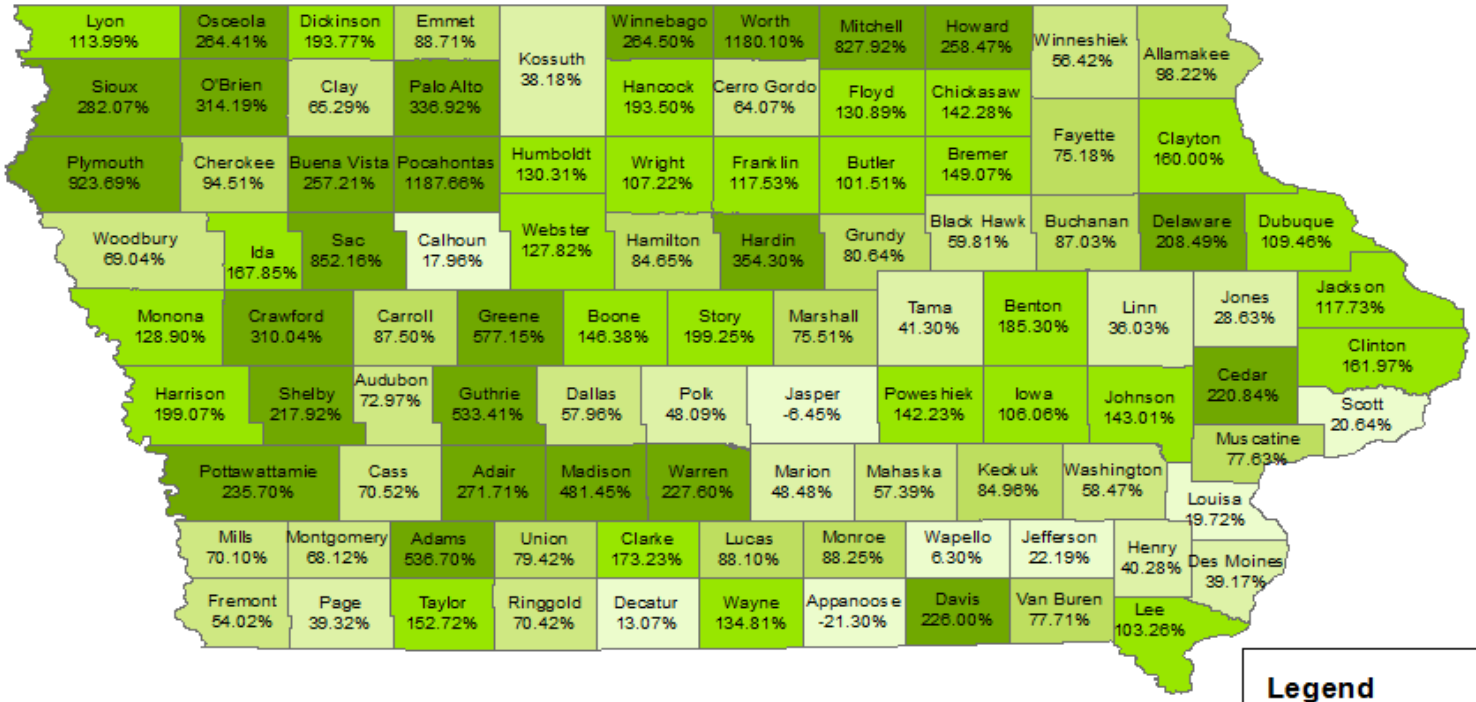
Percent Change in Commercial Property Taxes, FY 2002 - FY 2012



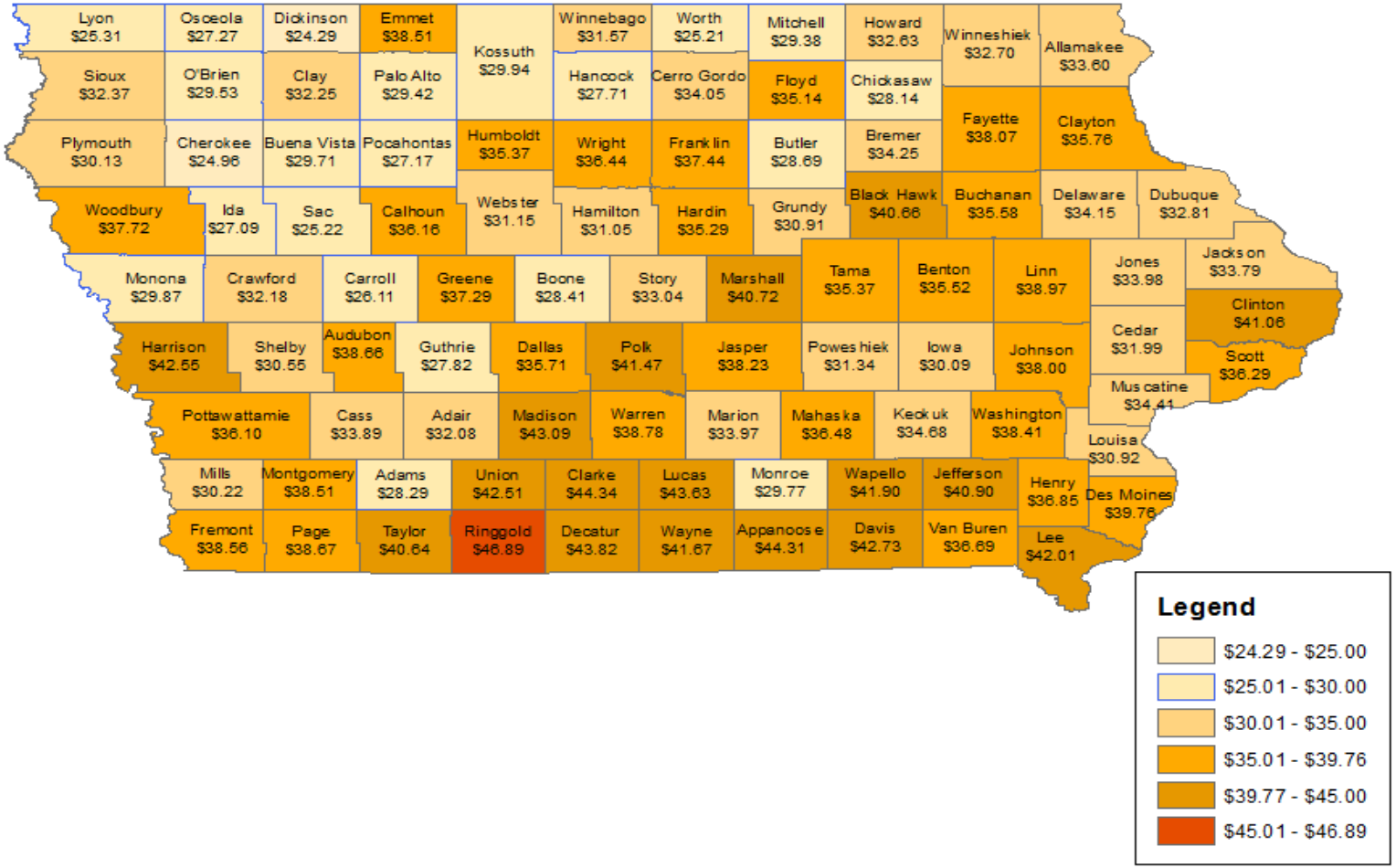
Average Commercial Property Tax Rates, FY 2012



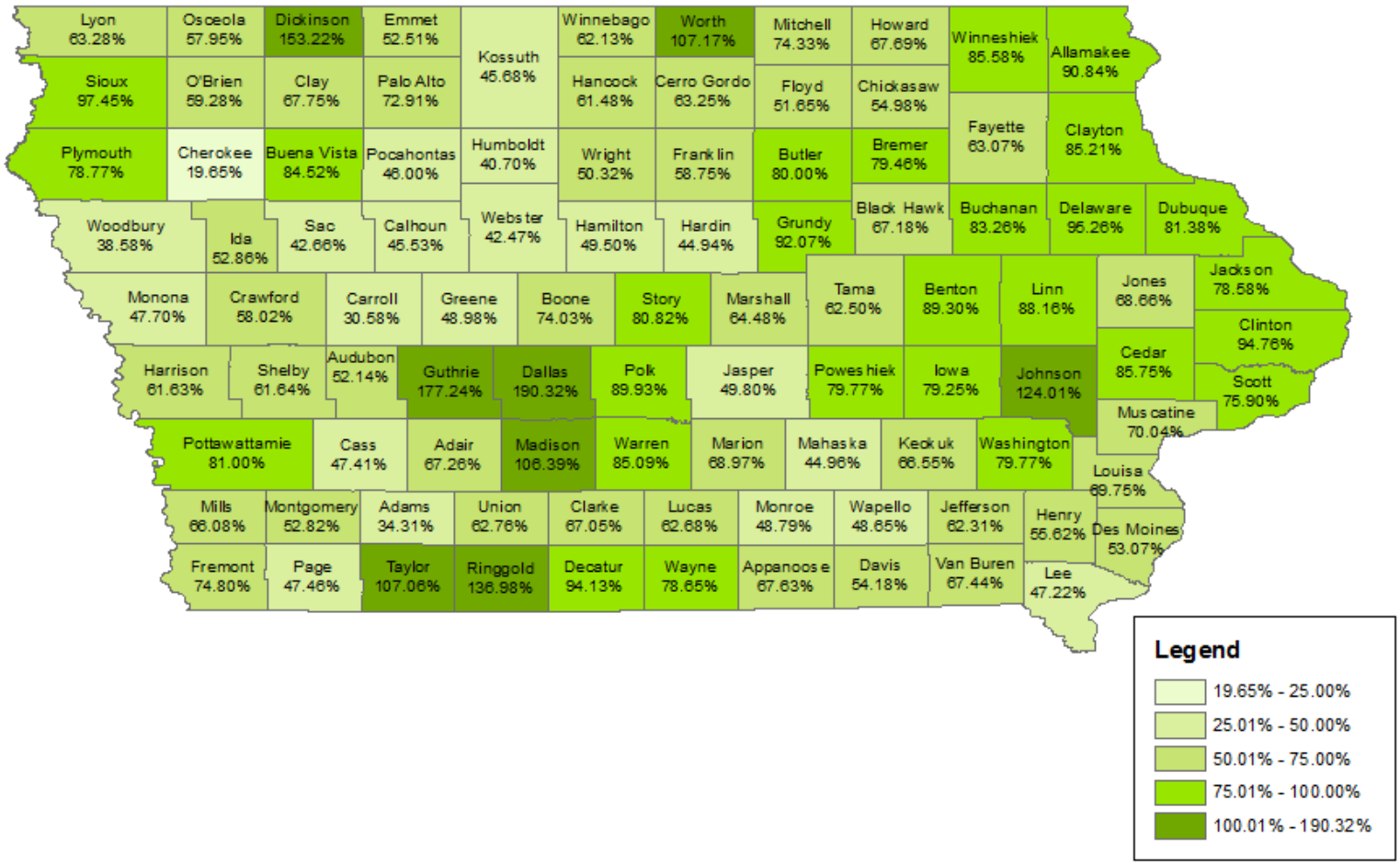
Percent Change in Industrial Property Tax, FY 2002 - FY 2012



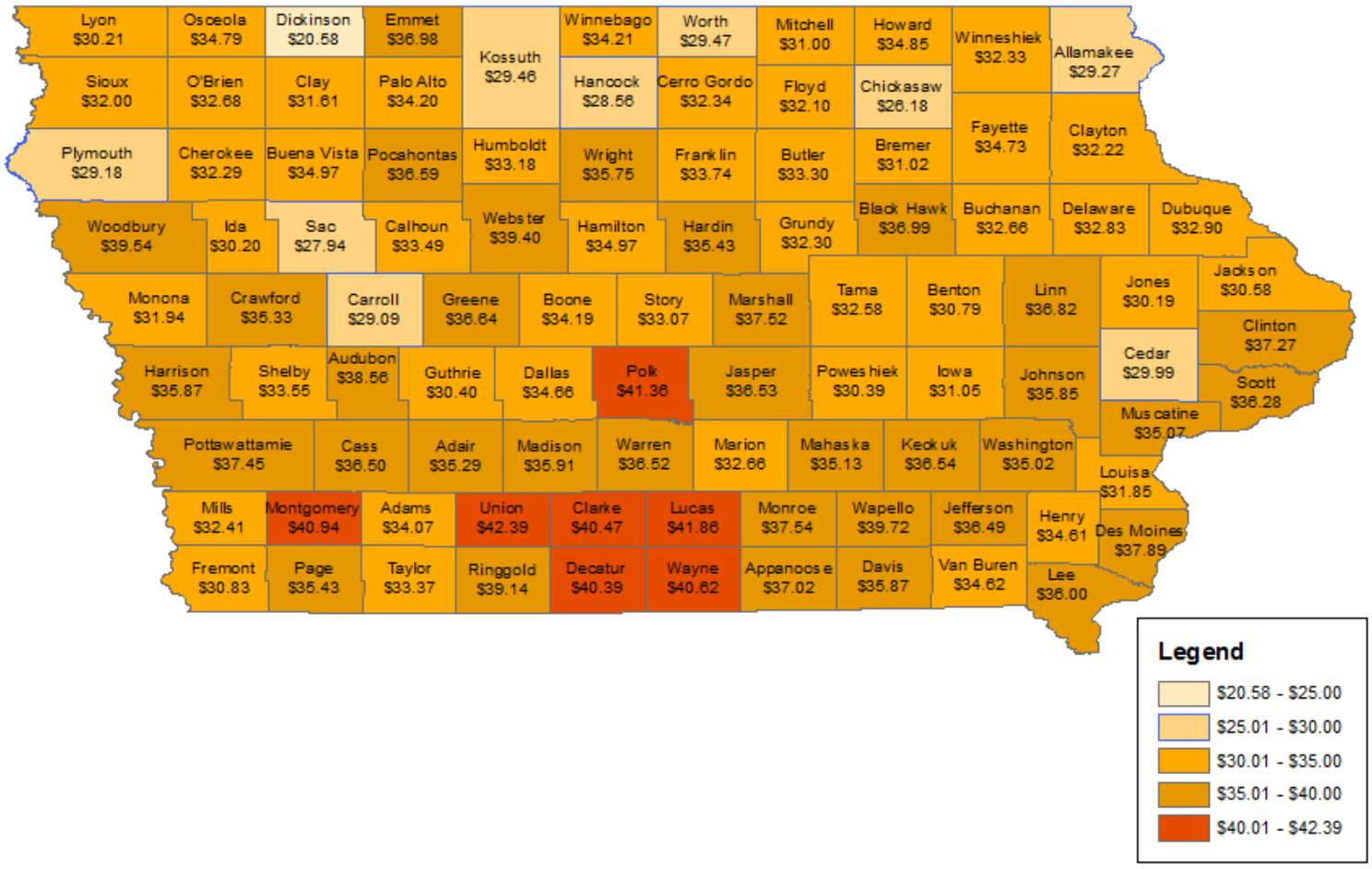
Average Industrial Property Tax Rates, FY 2012



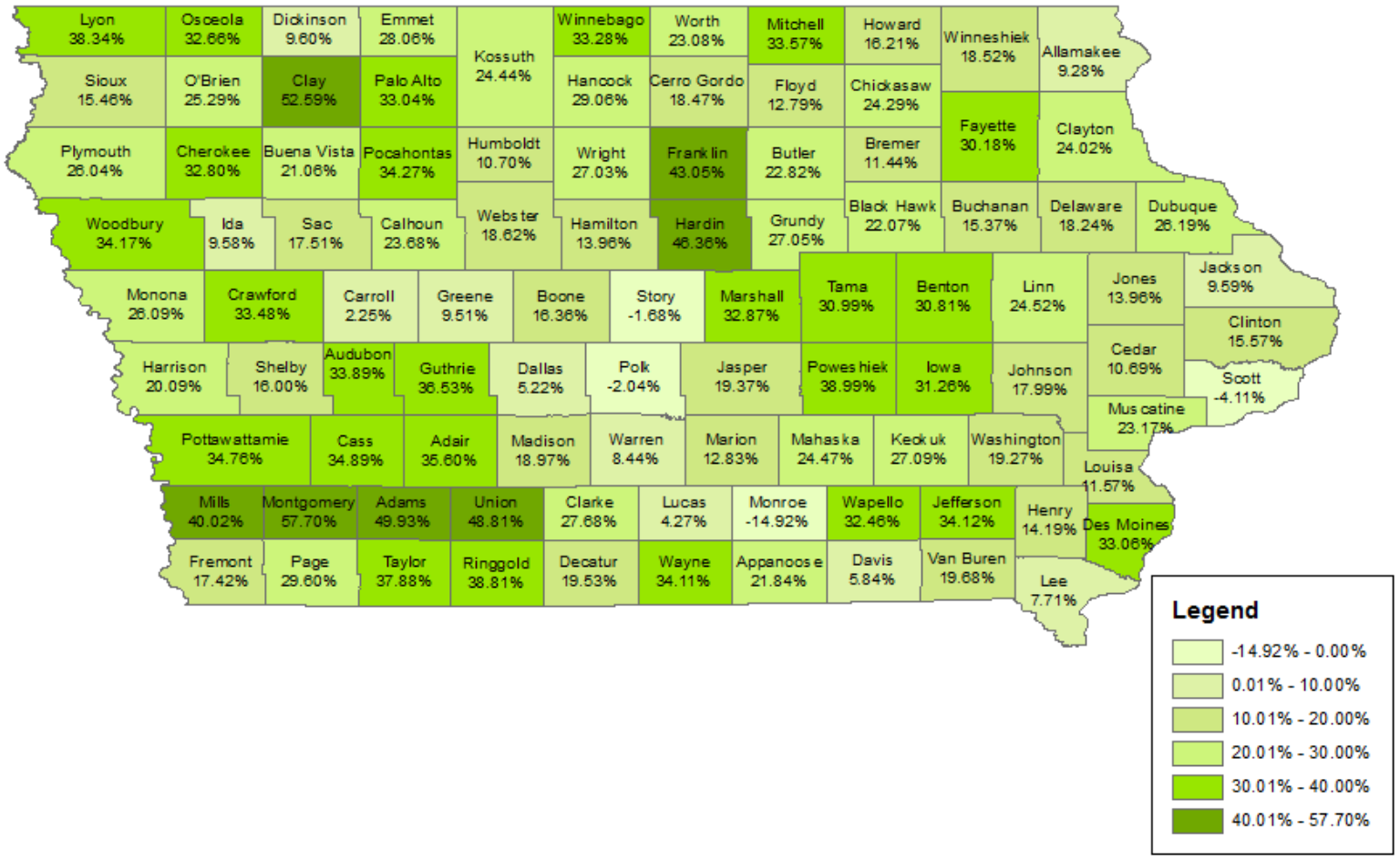
Change in Residential Property Tax, FY 2002 - FY 2012



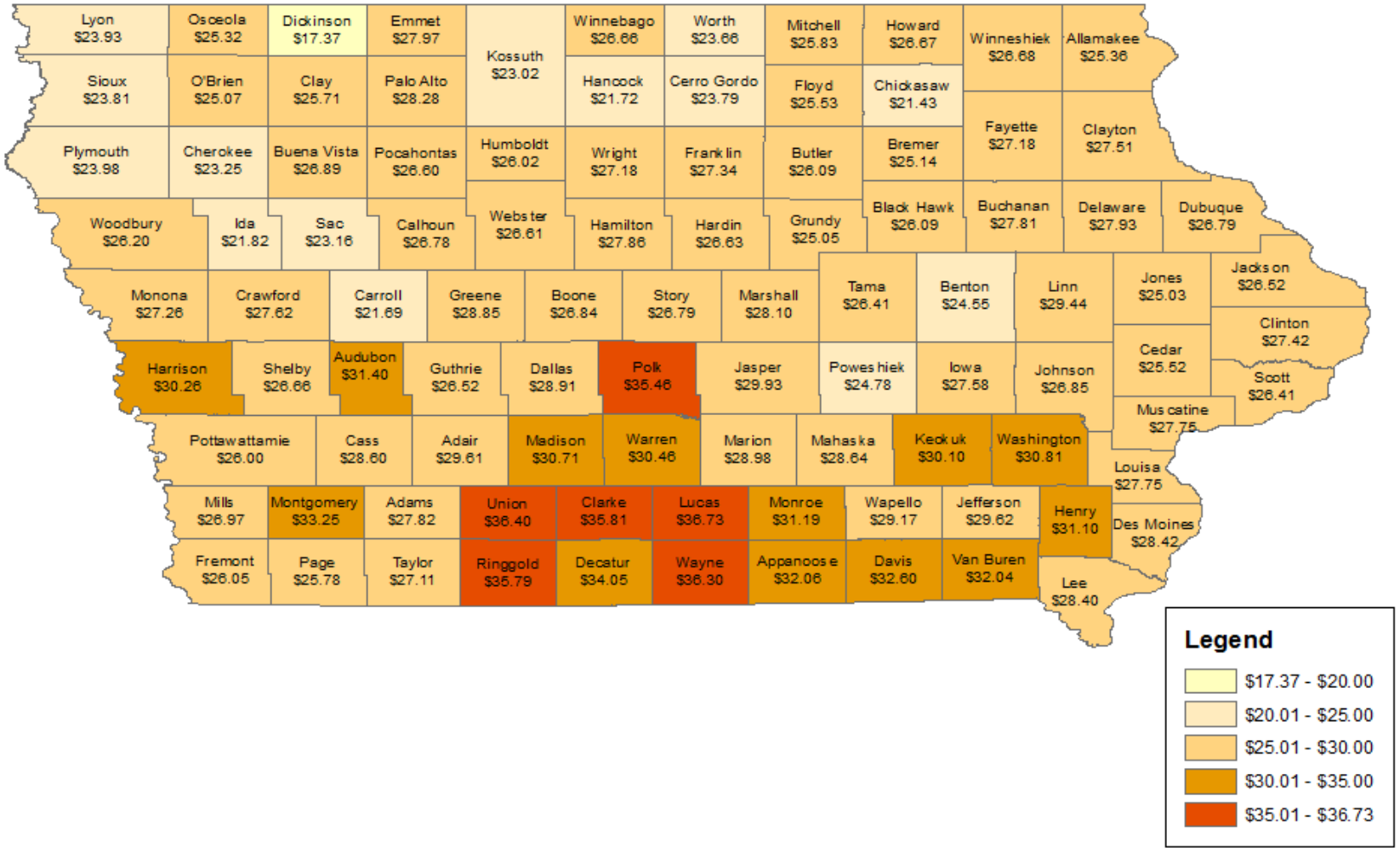
Average Residential Property Tax Rates, FY 2012



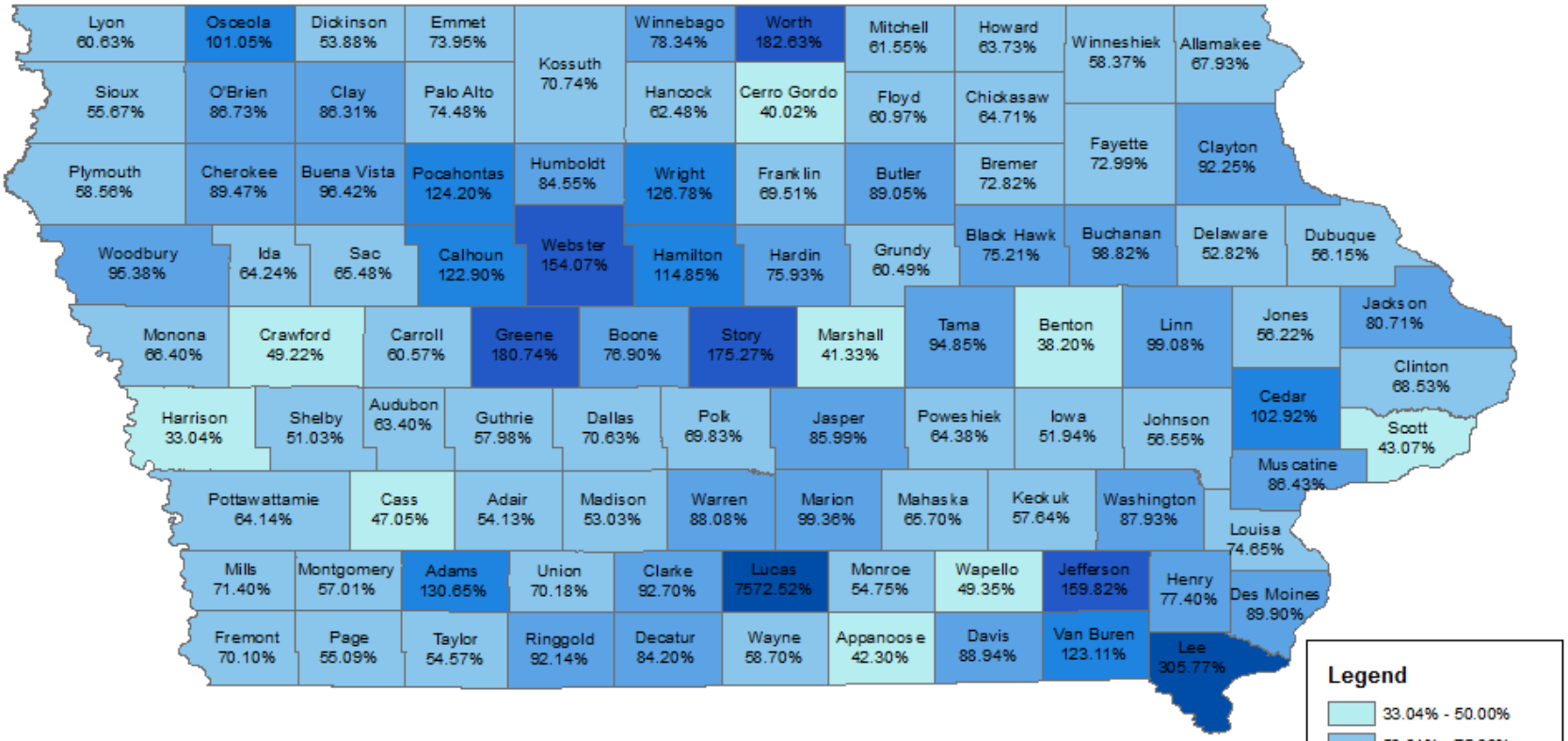
Change in Agricultural Property Tax, FY 2002 - FY 2012



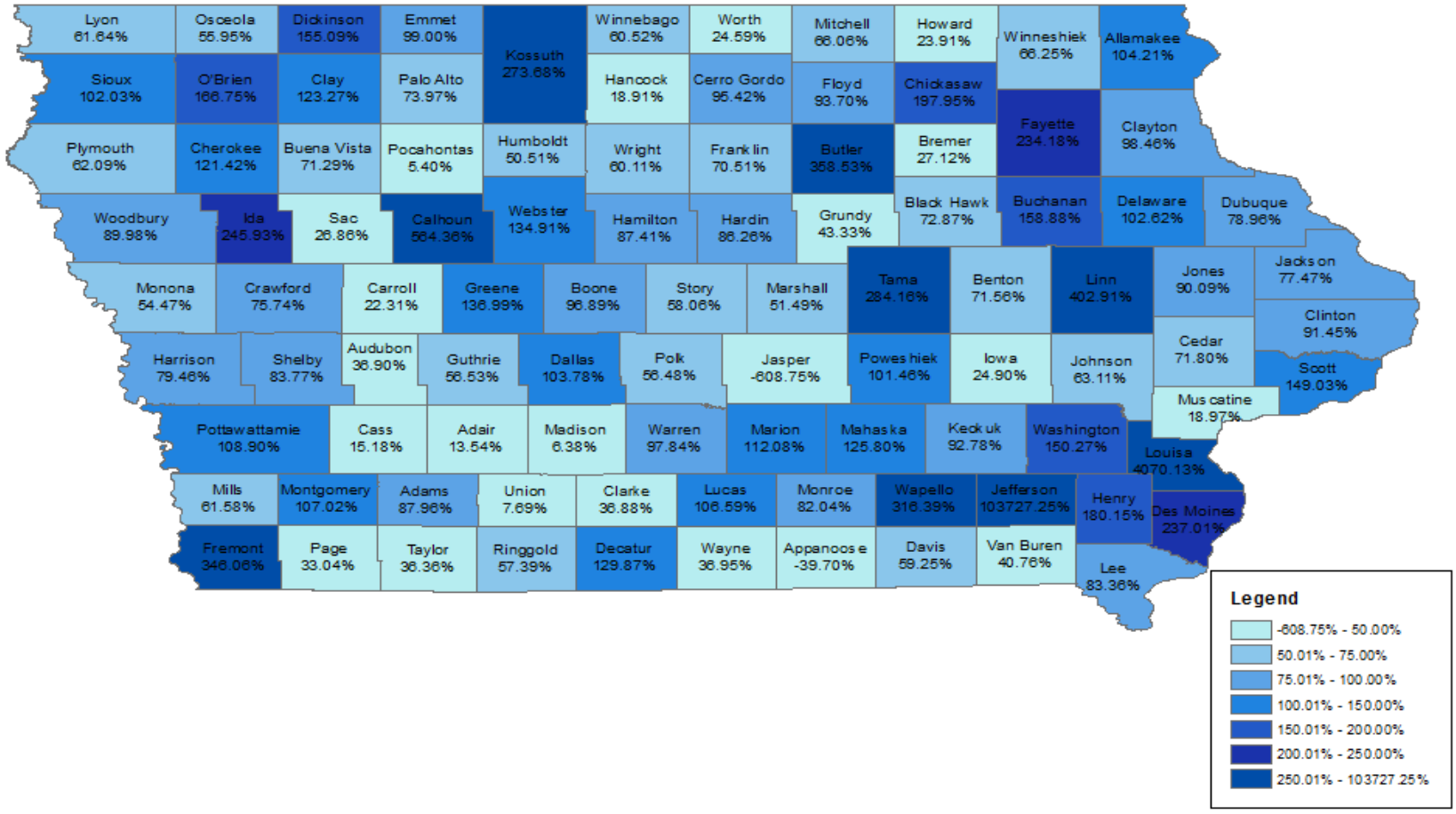
Average Agricultural Property Tax Rate, FY 2012



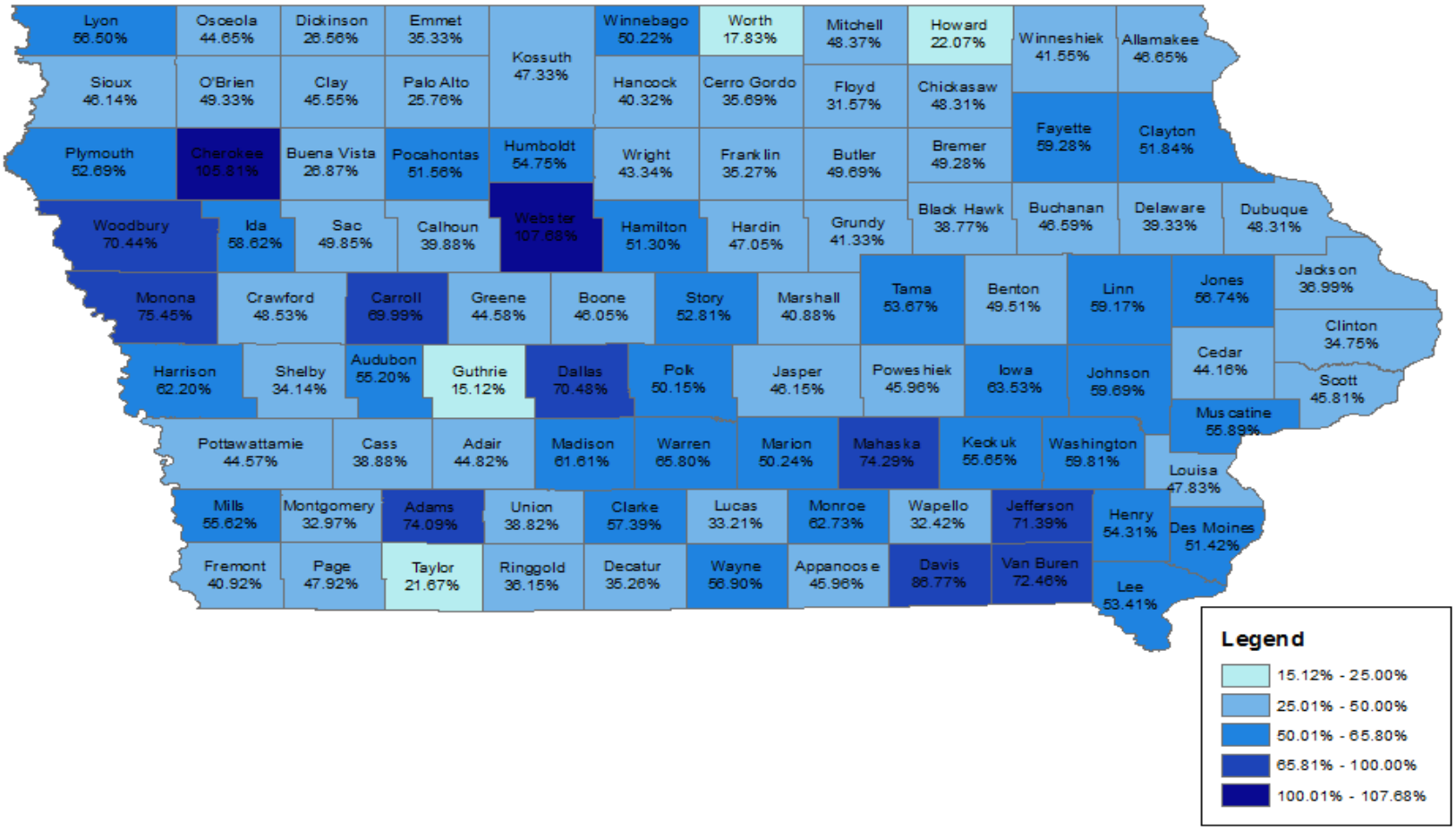
New Construction Share of Commercial Property Valuation Change, 2000 - 2010



New Construction Share of Industrial Property Valuation Change, 2000 - 2010



New Construction Share of Residential Property Valuation Change, 2000 - 2010



Data Sources and Notes

Slide 1: Population (US Census), State GDP and Personal Income (US Bureau of Economic Analysis), Household Employment and Consumer Price Index (US Bureau of Labor Statistics), State General Fund Taxes (Iowa Dept. of Revenue), Property Tax Levies (Iowa Dept. of Management)

Slide 5: Iowa Dept. of Management web site

Slide 7: Iowa Dept. of Management web site

Slide 9: Average tax rates computed by Strategic Economics Group based on data obtained from the Iowa Dept. of Management web site

Slide 11: Sources of property tax increase amounts computed by Strategic Economics Group based on County Assessors' Abstracted reports filed with Iowa Dept. of Revenue and taxable valuation and tax levy reports filed by County Auditors with the Iowa Dept. of Management. There may be a data problem associated with the industrial classification due to how wind farm property was classified in AY 2010. This also would impact Slide 13.

Slide 13: Sources of property tax increase amounts computed by Strategic Economics Group based on County Assessors' Abstracted reports filed with Iowa Dept. of Revenue and taxable valuation and tax levy reports filed by County Auditors with the Iowa Dept. of Management

Slides 15 – 18: Strategic Economics Group based on date from County Assessors' Abstract Reports filed with Iowa Dept. of Revenue

Data Sources and Notes Continued

Slide 20: Strategic Economics Group forecast each component of property tax separately based on historical property tax levy data and other economic factors.

Slide 22: Gross state product and Iowa personal income forecasts derived from Congressional Budget Office (CBO) national GDP and personal income forecasts, consumer price index derived directly from the CBO, Iowa population forecast derived from the US Census.

Slides 25 – 35: Strategic Economics Group based on data obtained from County Assessors' Abstract Reports filed with Iowa Dept. of Revenue.