IOWA LEAGUE of CITIES

PROPERTY TAX SPECIAL REPORT

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City governments big and small, rural and urban, rely on local property taxes to fund the essential services residents and businesses depend upon for everyday life. They help construct and maintain streets, support public safety operations, treat water and wastewater, provide cultural and recreational amenities, and are at the foundation of a community's quality of life.

Iowa's property tax system is complex. As established in the *Code of Iowa*, there are specific limits and authorizations to levy taxes in cities. For example, since the 1970s, property values have been subject to an assessment limitation, or rollback, that suppresses the amount of value that can be taxed. In recent years, sweeping changes to the rollback and other components of the property tax system have reduced revenues in cities and contributed to budget constraints.

The Property Tax Special Report details Iowa's property tax system and how it relates to city governments. This includes a review of how property taxes are computed, the rollback's effect on taxable property values and how the property tax system impacts city budgets.

The Property Tax System

Local governments in Iowa rely on property taxes as the primary source of revenue for their budgets. The property tax system is established in the *Code of Iowa* and regulates the ability of cities to generate revenue through taxes to sufficiently fund needed services. To properly understand the property tax system, it is necessary to know the factors that are used, including how property is classified and taxed, how the rollback and tax credits affect calculations, and how much property is subject to taxation.

Property Classifications and Valuations

Iowa's properties are divided into classifications based on land use. For example, property that is used primarily for farming activities is classified as agricultural while property used for habitation is listed as residential.

Classes of Property
Agricultural
Commercial
Industrial
Railroad
Residential
Utility

The next determination is the value of the land, which is done by the county assessor (or city assessor for the few cities that have one). Residential, commercial and industrial properties are assessed on 100 percent of their market value. To arrive at the value, assessors generally use three approaches – the market approach, which looks at comparable property sales; the cost approach, which estimates how much it would cost to replace the property; or the income approach, which estimates a property's ability to produce income, such as an office building. Agricultural property is assessed at 100 percent of its productivity and net earning capacity. Railroad and utility property are assessed by the state.

Assessors then send valuation reports to the Iowa Department of Revenue, which is required to complete an equalization every two years. Equalization is a process that reviews property assessments and sales assessment ratio studies, which compare property sale prices to assessed values. If assessments in a property class are 5 percent more or less than the sales ratio study, the state increases or decreases assessments to help maintain equitable assessments across property classes. The statewide assessment limitation, or rollback, is then applied to each property class as stipulated by state law to determine taxable values.

Taxing authorities around the state, including city governments, approve their budgets and property tax rates (for cities this must be done by April 30 of each year). County auditors and treasurers then work on applying the consolidated tax rates (which includes all taxing authorities a property owner might owe taxes to, such as the city, county, school district, etc.), factor in any tax credits a property owner has applied for and received, before finally sending out property tax bills in March and September each year. The taxing authorities receive their revenues the following months (April and October).

Assessments Limitations (The Rollback) and Taxable Values

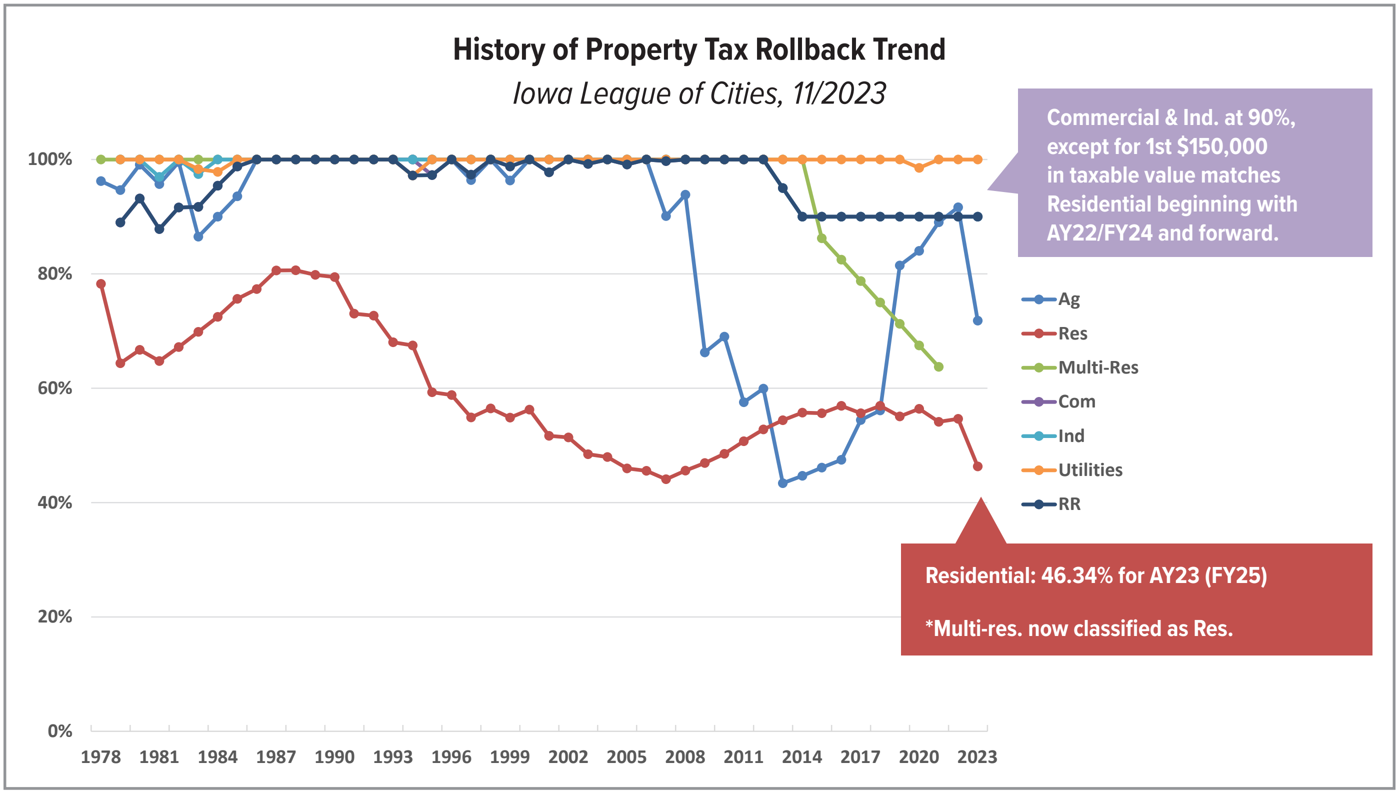
Before calculating property tax revenues, it is necessary to know the taxable value of each property to be taxed. The taxable value is the value upon which the local government property tax rate is applied. The taxable value of a property is significantly different than its assessed value and knowing the difference is fundamental to analyzing a city's property tax revenues.

A key aspect in Iowa's property tax system going back to 1978 is the assessment limitation, or rollback, which is designed in part to restrict the taxable valuation growth of properties. The original law placed a 6 percent cap for all property classifications except railroad and utilities (10 percent) on the growth of values. The cap was moved lower in 1980 to 4 percent for agricultural, commercial, industrial and residential property classifications and 8 percent for railroad and utilities. If a property class grew statewide by more than 4 percent its taxable value was reduced (which is where the term "rollback" came from) to comply with the assessment limitation law.

In addition to the overall taxable value growth limitation, increases in the valuations of residential and agricultural properties were tied together, often called "coupling". This provision of the law limited the valuation increases of either property class to the smaller of the two – if residential property grew by 4 percent and agricultural grew by 2 percent, the increase in taxable valuations for both classes would be 2 percent. The cap for residential and agricultural properties was moved to 3 percent in 2013, further impacting the rollback for those properties. The cap was removed for commercial, industrial and railroad properties as a fixed rollback was also implemented that year. See more below on these changes.

Historically, residential property grew at a much faster rate than agricultural property, resulting in a considerable decline in taxable values. Meanwhile, the other property classes did not grow as much and were usually taxed at their full assessed value until subsequent changes approved by the Iowa Legislature lowered their taxable values. It is important to note that the rollback applies to an entire property classification, and not directly to individual properties.

There have been significant changes to the rollback and overall property tax system since its inception, which are detailed below.



2013 Property Tax Legislation

In 2013, the Iowa Legislature approved an overhaul to the property tax system that had numerous direct impacts on city property tax revenues and budgets. In summary:

New Limitation for Agricultural and Residential Properties

The assessment limitation for agricultural and residential properties was reduced from 4 percent to 3 percent. The coupling provision remains in place as the two property classes continue to be further restricted if one grows by a lower percentage.

Rollback Created for Commercial, Industrial and Railroad Properties

For much of the time since the rollback's inception, commercial and industrial taxable values were not rolled back as their valuation growth did not typically exceed 4 percent. Railroad property followed a similar path, only occasionally exceeding its 8 percent cap and forcing a rollback of its taxable value.

However, changes made during the 2013 legislative session included a new rollback of 90 percent for commercial, industrial and railroad property classifications. The rollback percentage for these properties is fixed at 90 percent regardless of how fast or slow valuations grow.

In addition, the legislature created a standing appropriation to fund a reimbursement claim, often called a backfill, for the property tax revenue reduction resulting from the commercial/industrial rollback. After fully funding the backfill for several years, the legislature adopted a plan in 2021 that will reduce and eventually eliminate the payments by Fiscal Year 2029.

Multi-Residential Property Class

The 2013 overhaul also created a new Multi-Residential Property class, which primarily consisted of properties that had been classified as commercial. Common examples included assisted living facilities, manufactured home communities and residential rental properties with three or more separate living quarters.

The properties were placed on a separate 8-year rollback schedule that dramatically reduced their taxable values. In 2022, legislation eliminated the property class, moving these properties into the residential property class. Cities with a relatively high amount of such property have experienced significant revenue reductions as a result.

Business Property Tax Credit

Finally, the 2013 legislation included the creation of the Business Property Tax Credit (BPTC), which was designed to enable owners of eligible properties to apply for a tax credit. The credit was funded in the state budget and did not have a financial impact to local governments.

However, the Iowa Legislature approved a change in 2022 that converted the BPTC from a tax credit to reduction in taxable value, akin to a rollback. Under the system, the first $150,000 of eligible properties are subject to the residential rollback for taxable value calculations. Any assessed value over $150,000 is subject to the commercial/industrial rollback of 90%. The state provides up to $125 million (the same funding allocation that was in place for the BPTC) as a backfill to local governments to offset revenue reductions. Reductions above $125 million result in a reduced tax base for local governments.

2023 and 2024 Property Tax Legislation

Another broad piece of legislation, House File 718, was approved by the Iowa Legislature in 2023 that made substantial changes to the property tax system. In 2024, a subsequent piece of legislation, Senate File 2442, made some modifications to the prior legislation. Included were provisions that eliminated a number of levies previously available to cities, a formula that reduces a city's general fund levy if its non-TIF taxable property values grow by certain percentages, expansions of homeowner tax credits and changes to the required budget adoption process.

New Combined General Fund Levy

A major component of the 2023 legislation was a new Combined General Fund Levy (CGFL) that all cities must utilize. In doing so, the legislature eliminated a number of individual levies city councils could choose to use or were approved by voters of a city; the eliminated levies included:

- Regular General Fund Levy
- Emergency Levy
- Instrumental/Vocal Music Groups
- Memorial Buildings
- Symphony Orchestra
- Cultural & Scientific Facilities
- County Bridge
- Mississippi or Missouri River Bridge Construction
- Bridge Purchase
- Contract for Use of Bridge
- Aid to a Transit Company
- Rent, Insurance, Maintenance of Civic Center
- Operation & Maintenance of City-owned Civic Center
- Planning a Sanitary Disposal Project
- Levee Improvement Fund in a Special Charter City
- Maintain Institution Received by Gift/Devise
- City Emergency Medical District
- Support Public Library

Beginning with the Fiscal Year (FY) 2025 budget, cities calculate their new combined general fund levy rate (CGFL) by adding together amounts that they levied for their former regular general fund levy in FY 2024 (which was often referred to as "the $8.10 levy)," plus the levy amounts they used in their FY 2024 budgets for the eliminated levies noted above. Other available levies to city governments, including debt service, capital improve reserve, support for emergency management commission, public pension obligations, and tort and self-insurance, were not eliminated and remain unchanged.

The result was the CGFL, which can also be impacted by another important section of the 2023 legislation that may automatically reduce the CGFL in some cities (details in the next section).

Levy Restrictions Based on Property Valuation Growth

A critical, and potentially highly impactful, provision of the 2023 legislation established a system that can automatically reduce a city's CGFL if it exceeds certain annual taxable property valuation growth thresholds for budget Fiscal Years (2025-2028). The system utilizes FY 2024 as the base year. The 2023 legislation used two "tiers," however, these were modified and an additional tier was added in the 2024 legislation for fiscal years 2026 to 2028. These changes are reflected in the updated table below. If a city's annual non-TIF taxable value (minus agricultural) exceeds the thresholds, its CGFL will be reduced as detailed below. For brevity, in this section of the special report, we will simplify the "non-TIF taxable value minus agricultural" threshold to simply the "non-TIF taxable value."

Tier 1	Annual non-TIF Taxable Value Growth = Less than 2.75%	CGFL is not impacted
Tier 2	Annual non-TIF Taxable Value Growth = 2.75%-3.99%	CGFL is reduced by formula, reducing revenue growth by approximately 1% for the next budget year
Tier 3	Annual non-TIF Taxable Value Growth = 4%-5.99%	CGFL is reduced by formula, reducing revenue growth by approximately 2% for the next budget year
Tier 4	Annual non-TIF Taxable Value Growth = 6% or higher	CGFL is reduced by formula, reducing revenue growth by approximately 3% for the next budget year

Importantly, the formula used for these calculations is based on the city's non-TIF taxable valuations, which are provided by the county assessor. The total for each year is used to determine the growth figure on a year-over-year basis (with the FY 2024 values serving as the base year). As such, the first step is identifying the non-TIF taxable values and calculating the annual growth.

For cities that exceed the 2.75%, 4% or 6% thresholds in a given year, their CGFL will be reduced accordingly for the next annual budget and fiscal year. This change will reduce the amount of revenue growth generated by the new CGFL levy for any city that exceeds the growth thresholds. The Iowa Department of Management (IDOM) created a tool that includes the formula as required by the state code and calculates the resulting change, if necessary, to a city's CGFL.

The legislation requires cities to utilize the CGFL limitation formula for FY 2025-2028. It is possible some cities will be allowed to stay above the \$8.10 for their CGFL in a given year, if they were above \$8.10 the prior fiscal year and experienced less than 2.75% non-TIF taxable valuation growth; many others will be forced to adopt a lower CGFL.

In looking at historical data over the four-year period (FY 2020-2023) before this legislation passed, a significant majority of cities would have exceeded the CGFL limitation threshold at least once over that timeframe (88%). Although the studied years for which data is available may have anomalies in terms of market growth, it is reasonable to expect a very high number of cities impacted by these limitations.

Finally, the legislation places a firm cap on the CGFL at \$8.10 beginning FY 2029 for all cities – regardless of taxable valuation growth or decline, past CGFL levels or other budgetary considerations. Those cities that generally experienced non-TIF taxable growth under the 2.75% threshold and whose CGFL was above \$8.10 in fiscal year will drop immediately to the \$8.10 maximum beginning in fiscal year 2029. Those cities whose CGFL levy limits were less than \$8.10 for fiscal year will be allowed to go up to \$8.10 beginning in fiscal year 2029. However, the levies that were combined into the new CGFL remain eliminated. A city can choose a lower CGFL in any year.

Expanded Credits & Exemptions

Another significant element of the 2023 legislation added a new Homestead Exemption for property owners 65 and older as well as an expansion of the Military Property Tax Exemption. The Homestead Exemption is in addition to the existing Homestead Tax Credit. The latter credit is currently funded by a state appropriation. The Homestead Tax Exemption for property owners aged 65 and older, however, is not funded by the state and instead lowers the taxable value on eligible properties. In FY 2025, the additional taxable value exemption equals $3,250. In FY 2026 and beyond, the exemption increases to $6,500.

The Military Property Tax Exemption amount was increased to an exemption from tax on $4,000 of taxable value, beginning with FY 2026. The state previously reimbursed a portion of this exemption to local tax authorities, but the legislation removed funding for the previously partial reimbursement on the original exemption amount, and also did not fund the expansion. This expansion of the exemption and removal of former partial reimbursement lowers the taxable value on eligible properties and reduces local revenues.

The fiscal impact of the expanded exemptions directly correlates to the amount of eligible properties in each city.

The 2024 legislation requires that assessors maintain as confidential certain personal information related to homestead tax exemption filers aged 65 and over.

Property Tax Abatement Agreements and Limitations

New restrictions were put in place for property tax abatement programs by requiring the use of minimum assessment agreement for commercial properties. Such agreements must contain specified information, including a minimum actual value for the completed improvements, and must be certified by the assessor. This applies to revitalization areas created in FY 2025 and after, and for first-year exemption applications in existing revitalization areas filed on or after July 1, 2024.

Reduced Bond Election Dates

Another important piece of the legislation restricted when city governments can put forward a referendum to voters for certain types of general obligation bonds. Under the current law, such referendums can only be held at November elections – previously, cities had the ability to schedule special elections for these types of bond referendums.

Budget Adoption & Filing Process Changes

Finally, the 2023 and 2024 legislation altered the budget adopting and filing process in several important ways. Beginning with FY 2025 budgets, county auditors are required to mail each property owner a paper property tax statement, including information specified in state code and detailing each political subdivision in their respective taxing district. To enable these taxpayer statements, cities must submit specified information to IDOM using provided forms by March 5 at 4pm CT (this was March 15 for FY 2025 only). IDOM then provides required information to the counties, who must mail the statements to taxpayers by March 15 annually (this was March 20 for FY 2025 only). Note that the required information to be included on these forms is defined in the legislation, and changed in the 2024 legislation (SF 2442). A link to a new IDOM website describing the taxpayer statements and information included must also be included. SF 2442 also outlines what happens if a city misses the date to provide the required information to IDOM for the purposes of creating the taxpayer statements to property owners. Generally, if a city misses this deadline, they will be limited to the amount of revenue for the current year (or less).

The previous Maximum Levy to Certify notice and public hearing was eliminated and replaced with a public hearing related to the mailed taxpayer statements. The hearing must be preceded by a notice that is published 10-20 days before the meeting where the hearing is to be held. The 2025 legislation slightly modifies the requirement to also post the notice to its website and all social media accounts it owns. Cities still are required to post a history of public hearing notices related to taxpayer statements, however, SF 2442 struck the requirement to include a copy of the statement in such postings. SF 2442 clarified that this posting must be made on a date no later than the date of publication.

Of note, the state code forbids cities to hold the taxpayer statement hearing as part of any other meeting – the hearing/meeting must be done separately and no other business can be discussed. Beginning with FY 2026, this public hearing is required to be held on or after March 20.

Once that stage is completed, cities can proceed to the traditional steps of approving the annual budget. As the case for decades, cities must hold a public hearing prior to approving the budget, and a hearing notice must be published 10-20 days in advance. After the hearing, councils can approve the annual budget by resolution and file the budget with the county treasurer and IDOM.

2024 legislation (SF 2442) also made modifications around publishing requirements and city responsibilities. A city will not be considered as failing to publish if both a) notice was provided by the annual taxpayer statements mailed to each taxpayer, and b) the city can demonstrate to the county auditor that they submitted and provided sufficient time to the newspaper to publish the notice.

SF 2442 also includes clarification around a special case that impacts a small number of cities each year. If a city levied no property taxes in the current year, and their non-TIF taxable valuation less ag value is over 102.75% of the amount in the previous year, they can levy up to $8.10 for the budget year.

SF 2442 also clarifies the process that will be followed if a city misses budget certification deadlines, as follows:

- Taxes from a city levy may be collected for a fiscal year for which no budget was certified, but that the county shall not distribute any funds collected from the levies to the city until the city certifies its budget and transmits the certified budget to the county auditor.
- Taxes levied by a city whose budget is certified after April 30 shall be limited to the taxes levied for the previous fiscal year and subject to levy rate limits. This amount shall not exceed the amount the city could otherwise collect for that year.
    - IDOM has the discretion to waive this limitation if the failure to certify the budget by April 30 was caused by one of the following: newspaper failure to publish a notice of hearing after the city gave sufficient time to publish, a verifiable public emergency or weather-related event which forced the cancellation of a required public hearing, or an illness or unexpected vacancy of one or more council members causing a lack of quorum necessary to hold a required hearing, or the failure of state software or process causing the council to miss the required date.

Please see the League's annual Budget Special Report for additional details and a model calendar to follow for completing the annual budget.

Tax Credits, Exemptions and Taxable Values

In addition to the rollback percentage for each class of property, cities need to also include any tax credits a property owner has received when computing taxable values. Credits are approved by the state legislature to help reduce the tax obligation on property owners as well as to provide relief, incentive or recognition. The most common residential property tax credit is the Homestead Credit, which was initially created to encourage home ownership. The current credit is equal to the actual tax levy on the first $4,850 of actual value. Other credits and exemptions include those for military veterans, the elderly and the disabled. City officials must also account for any tax rebate or abatement programs that property owners are using.

As previously noted, 2023 legislation expanded various tax credits and exemptions, including some portions that are not funded by the state legislature and instead work in a similar manner as the rollback.

Property Tax Rates

The last piece to the puzzle in figuring a city's property tax revenues is the tax rate (or levy rate). The tax rate is the amount of tax per $1,000 of taxable property valuation that a city may charge property owners. Although cities have a number of different levies available, the levies are limited to what state law allows, including the particular purposes and maximum amounts.

Cities finance many of their services, such as police, fire, parks, recreation and library, out of the general fund. The general fund is primarily supported by property taxes and cities are limited under the state code. As previously noted, legislation adopted in 2023 by the Iowa Legislature greatly altered the property tax levies available to cities and many cities may see a reduction in their Combined General Fund Levy (CGFL) and related revenues.

The city property tax rate is applied to all classes of property within a city except for agricultural, which has a set levy rate of $3.00375 per $1,000 of valuation. Prior to FY 2025, cities' regular general fund levy limit was set of $8.10, a limit that had not changed since its creation in 1975.

Example of Residential Rollback on Property Taxes
FY 2024 Average city tax rate of $13.83 per $1,000 of valuation – FY 2025 rollback percentages

Property	Assessed Value	Rollback	Taxable Value and Tax Calculation	Tax Obligation (city taxes only)
Residential	$100,000	46.3428%	($46,343)/$1,000 X Tax Rate of $13.83	$641

Example of Commercial/Industrial Rollback on Property Taxes
FY 2024 Average city tax rate of $13.83 per $1,000 of valuation – FY 2025 rollback percentages

Property	Assessed Value	Two-Tiered Rollback	Taxable Value and Tax Calculation	Tax Obligation (city taxes only)
Commercial/ Industrial	$500,000	46.3428% 90%	($150,000*46.3428%) * ($13.83/1,000) = $961 ($350,000*90%) * ($13.83/1,000) = $4,356	$961 + $4,356 = $5,317

Impact on City Budgets

The rollback has clearly had an adverse impact on city budgets, particularly those cities with significant residential property bases, as the taxable values of residential properties have substantially declined. A reduced residential tax base combined with a cap on the levy rate puts many cities in a precarious financial position. This can be especially true for cities that do not experience substantial growth in their community and to the city's tax base.

Meanwhile, expenses only continue to rise and cities have seen dramatic increases in retirement, pension and health insurance costs in recent years. In addition, many cities have seen the cost of road work, facility construction and items such as fire trucks far exceed national inflation figures.

The combined factors of tightening revenues with escalating costs to core functions of municipal governments has caused significant concern for many city officials around the state.

The League encourages city officials to carefully review the different components of Iowa's property tax system and analyze how the city budget will be affected. Working with the county or city assessor to examine property valuations will be helpful in identifying any recent valuation trends or projections. The Iowa Department of Management produces a variety of data that can help measure local impacts. And the League houses numerous webpages, special reports and other resources that can aide in the budgeting process.

Resources

Iowa League of Cities | www.iowaleague.org

Iowa Department of Management | dom.iowa.gov

Iowa Department of Revenue | tax.iowa.gov

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