

Property tax relief bill offers fair approach

BY REP. TOM SANDS (R-87)

Chair of House Ways and Means Committee



On June 8, the Iowa House approved H.F. 697, the omnibus appropriations bill. The legislation went through a thorough committee process as well as a public hearing before floor debate and final passage. The legislation is a compilation of the 10 budget bills and other tax policy that have been previously vetted and debated in some form by both Chambers. Included in the bill is compromise language agreed to with Senate Democrats, so House Republicans are hopeful it is a positive step in breaking the current budget stalemate that has thus far prevented adjournment of the 2011 state legislative session.

Of particular importance to me as chair of the House tax-writing committee is language included in H.F. 697 that provides a comprehensive strategy to reform our current property tax system. The bill provides a good balance of tax relief for all Iowans along with thoughtful solutions to soften the impact on local governments. As most Iowans are painfully aware, property taxes have risen 65 percent over the past decade, which translates to \$1.75 billion in new tax dollars. This is particularly distressing for a state that has seen little to no population growth over the past 30 years.

A disproportional share of this increase has fallen on employers, so the “relief” part of the plan reduces their tax burden by 25 percent of their property’s assessed value phased in over five years. The bill also provides an immediate 25 percent rollback for new commercial construction and provides like treatment for an existing business that expands or significantly remodels its property. We also provide relief for all classes of taxpayers by increasing the state’s portion of the school aid formula. This piece is essential because, without it, we can all expect to see a statewide estimated property tax increase of \$128 million in 2012 and \$134.8 million in 2013. These numbers don’t include any allowable growth the Legislature might approve for schools.

While some local government officials have expressed concern about the “reform” part of the bill, it offers a fair approach that requires a limited amount of sacrifice at all levels of government. The reform measures include a 2 percent annual limitation on the growth of property assessments statewide. This measure is included so that the 25 percent commercial rollback won’t create a shift to the other classes of property. This statewide limitation does not, however, mean that individual property would necessarily be limited to a 2 percent annual increase. In an order to avoid significant individual taxpayer increases within a particular jurisdiction, the bill also ties local spending to the Midwest Consumer Price Index. In other words, it only allows government spending to increase at a rate that taxpayers can afford

to pay. Interestingly, state spending over the past couple of decades has followed this Midwest CPI closely, while local government spending has far outpaced the Midwest CPI.

To help local governments adjust to a limitation in the growth of spending, the bill provides authority to exceed the limitation if local taxpayers agree by a simple majority vote. The limitation also does not impact new construction as we want our cities and counties to grow and, likewise, it does not impact their bonding authority. I personally support local property taxpayers being able to determine what local amenities and services they want by a vote of those taxpayers. In addition to these measures, the bill also requires the State General Fund to provide up to \$150 million to backfill a portion of the increase that cities and counties would have otherwise seen had the commercial/industrial valuation rollback not been in place.

I believe this plan is a great first step in our reform efforts. Beyond this plan, a thorough review of Tax Increment Financing (TIF) is also needed. TIF has been a great economic development tool for local governments, but at the end of fiscal year 2009, there was \$2.2 billion of outstanding TIF debt statewide. In FY 2001, \$116.1 million in property tax dollars was needed annually to pay down TIF debt, and by FY 2011 \$279 million was needed—a 141 percent increase. The growth of local option sales and income taxes has also contributed significantly to local government tax growth.

As we review these issues, we also need to look at the cost drivers for local governments. Employee health insurance is a growing burden for taxpayers to carry. Government employees, including elected officials, must contribute to their health insurance plans; this provision was included in H.F. 697. State and local governments also pay significantly toward unsustainable employee pension systems that would be better replaced with a defined contribution plan for new government hires.

All of these issues are at the top of my priority list as we continue forward in making our state more efficient, effective and competitive. With H.F. 697, I am excited and hopeful that we can take our first significant step toward property tax relief and, more importantly, long-term reform.

About the author

Rep. Tom Sands, chair of the House Ways and Means Committee, is a banker from Columbus Junction.