IOWA'S PROPERTY TAX SYSTEM AND THE AGRICULTURAL TIE: EFFECT ON LOCAL GOVERNMENT REVENUE GENERATION

*Brad Hopkins**

I. INTRODUCTION

America is in a financial mess. The national debt of the United States has eclipsed $15.8 trillion and many states, including Iowa, are experiencing budget difficulties.[1] If the federal government is serious about the austerity measures that have become such a prominent point of political discussion, it is conceivable that the level of intergovernmental transfers will decline. As a result, the federal government may be less likely to provide financial assistance to states and states may then be less willing to provide monetary help to counties and municipalities.

In the scope of the national discussion regarding budget problems, cities and counties are often forgotten; yet their troubles have the most direct impact on

* J.D., Drake University Law School 2012; M.P.A., Drake University.

1. *The Debt to the Penny and Who Holds It*, TREASURY DIRECT, http://www.treasurydirect.gov/NP/BPDLogin?application=np (last visited Sept. 30, 2012).

the everyday lives of citizens. A city unable to pay for an adequate number of police officers or firefighters is likely to experience increasing problems of public safety. A county facing problems of declining revenue streams will be unable to complete standard road maintenance and repair. In Iowa, the reduction of intergovernmental transfers will profoundly affect not only cities and counties, but also school districts that rely on funds from the state to maintain classroom sizes and educational programs.

There are, of course, a number of normative decisions about what services a local government can and should supply. These determinations will vary upon the level of revenue a governmental entity receives and the political season. Yet, beyond these decisions are considerations about how revenue is generated and from whom it is derived.

Governmental entities generate revenue through a variety of different means. User fees, sales tax, income tax, payroll tax, license fees, and estate taxes are just a few of a long list of examples. Every mechanism of revenue generation inherently involves questions of fairness and equality. Will a tax result in an undue hardship on those with little to no disposable income? Does taxation actually deter economic innovation and profit growth to the detriment of long-term tax revenue generation?

Another type of revenue often relied upon, particularly by local governments, is property taxes.[2] A property tax is most often levied on real property in a jurisdiction.[3] Property taxes make up a very large portion of revenues for school districts, counties, and municipalities in Iowa.[4]

While thankfully the fiscal situation in the state of Iowa is less dire than that of other states, a comprehensive review of the state property tax system is beyond due. Our current system has been in place for over thirty years and is, in many respects, substantially unchanged. This Note will examine the rationale and history behind the establishment of Iowa's property tax rollback system and assessment limitation. After understanding why the system exists and how it operates, this Note will discuss how it has impacted municipal budgets and whether it should be reexamined, taking into account the effects of the economic downturn. Next, this Note reviews previous attempts to reform Iowa's property tax rollback system and how those attempts could have done further harm to municipalities. In Part VII, this Note reviews and compares similar property tax limitation schemes utilized by other states. Finally, this Note concludes by suggesting the current system is arguably unfair to slow-growing communities, re-

2. *See An Introduction to Iowa Property Tax*, IOWA DEP'T OF REVENUE (Mar. 4, 2010), http://www.iowa.gov/tax/educate/78573.html.

3. *Id.*

4. *Id.*

sults in higher property tax rates for all property classes, and comprehensive reform of the state's property tax system is needed.

II. The Basics

In order to evaluate the effect that the rollback has had and will continue to have on Iowa cities, it is first necessary to understand how the property assessment and taxation system functions. In particular, it is important to examine the many working parts that combine to restrict the ability of local governments to raise revenue. While the assessment limitation, which is the primary focus of this Note, may not seem particularly troublesome, when combined with property tax rate and levy limits, they can have profound effects on municipal and county budgets.

To begin with, city or county assessors classify property within their jurisdiction as agricultural, residential, commercial, or industrial.[5] Once classified, the assessor values the property, with the exception of agricultural property, based upon its market value.[6] Market value is the amount that would be paid by a willing buyer from a willing seller in an arms-length transaction.[7] Sales of comparable properties and market conditions are taken into consideration.[8]

Agricultural properties are assessed using a productivity formula.[9] The assessed value of agricultural property is based upon a consideration of "its recent past capacity to generate net farm income."[10] To do this, income is determined through "a formula that uses data on the yield and prices for corn and silage, soybeans, wheat, oats and hay, along with the costs of agricultural production . . . ."[11] The formula is based on the composition of crops actually grown in the county.[12] Farm income is then divided by seven percent to calculate the productivity value.[13]

The convoluted process does not end there. A five-year rolling average of productivity values is used in order to determine the "productivity value for a

5. Beth Pearson & Peter S. Fisher, *Grounds for Confusion: Iowa's Distorted Assessment of Farm Property*, Iowa Fiscal P'ship 4 (July 2008), http://iowafiscal.org/2008docs/080717-agprop2.pdf [hereinafter Pearson & Fisher, *Grounds for Confusion*].

6. *Id.* at 4–5.

7. Iowa Code § 441.21(1)(b)(1) (2011).

8. *Id.*

9. Pearson & Fisher, *Grounds for Confusion*, *supra* note 5.

10. *Id.*

11. *Id.*

12. *Id.*

13. *Id.*

given assessment year."[14] The use of the rolling average combined with the biannual assessment of property in Iowa means that it can take two or three years before changes in crop prices are reflected in assessments.[15] For example, "[v]alues for assessment year 2007 and 2008 are based on data from 2001–2005."[16] This means the higher corn prices of 2007 were not reflected in productivity value until assessment year 2009.[17] Even then, the effect of these higher prices on the productivity formula is diluted, by the use of the rolling average.[18]

Once the assessed value on an individual property is determined, the assessor will total the values of all properties within each classification and report them to the county auditor.[19] The assessor will also send an abstract to the Iowa Department of Revenue that shows the cumulative taxable value of all real property by classification in the jurisdiction.[20] Every two years, property values are equalized to make sure that they are relatively similar from jurisdiction to jurisdiction.[21]

Next, a rollback formula is applied and the taxable value is determined.[22] The rollback refers to the "percentage of a property's assessed value that is subject to taxation."[23] The rollback reduces the assessed value of residential property based upon a relationship with agricultural property.[24] For instance, if a home with an assessed value of $100,000 were subject to a 50% rollback, then its taxable value is $50,000.[25]

The rollback is a product of the state's assessment limitation of 4%.[26] The amount of the rollback is determined in conjunction with the assessment limitation.[27] Consider the following: if statewide assessment growth is 5%, the rollback is calculated and applied so that statewide taxable values only increase by 4% to comply with the Iowa Code.[28]

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14. *Id.*
15. *Id.*
16. *Id.*
17. *Id.*
18. *Id.*
19. *An Introduction to Iowa Property Tax*, *supra* note 2.
20. *Id.*
21. *Id.*
22. *Id.*
23. LEGISLATIVE SERVS. AGENCY, CITY PROPERTY TAX – FY 2009, at 1 (2009), *available at* http://www.legis.state.ia.us/lsadocs/IssReview/2009/IRJWR003.pdf.
24. *Id.*
25. *See id.*
26. IOWA CODE § 441.21(4) (2011).
27. *An Introduction to Iowa Property Tax*, *supra* note 2.
28. *See* IOWA CODE § 441.21(4).

From here, taxing authorities will determine budgets.[29] Once budgets are established, each taxing authority is able to establish a tax rate.[30] It is important to recognize that cities, counties, and school districts might also pass ordinances that put a ceiling on the tax rate in their specific jurisdiction.[31] After the tax rate is determined, any credits or exemptions that the property would be eligible for are applied and a final tax bill is produced.[32]

III. PASSAGE OF THE AGRICULTURAL TIE: THE REMEDY TO BE CURED

In 1979, the Iowa Legislature enacted House File 757 in order to limit the effect of agricultural land inflation on property taxes paid by agricultural property owners.[33] House File 757 was an extension of House File 332 and continued the practice of limiting the increase in assessed values of residential and agricultural property.[34] The law dictated that assessments would be completed in odd numbered years and also provided for the assessment of agricultural property on the basis of productivity.[35]

Now codified at section 441.21(4) of the Iowa Code, the law effectively limits the growth in taxable value of both agricultural and residential property to no more than 4% per year.[36] Beyond the flat 4% limitation, increases in the taxable value of agricultural and residential property are limited by each other.[37] For example, if the taxable value of residential property increases by 6% from 2012

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29. *An Introduction to Iowa Property Tax*, *supra* note 2.
30. *Id.*
31. Nikolai Mikhailov & Jason Kolman, *Types of Property Tax and Assessment Limitations and Tax Relief Programs*, LINCOLN INST. LAND POLICY 3 (2001), http://www.lincolninst.edu/subcenters/property-valuation-and-taxation-library/dl/mikhailov.pdf.
32. *An Introduction to Iowa Property Tax*, *supra* note 2.
33. H.F. 757, 68th Gen. Assemb., 1st Reg. Sess. (Iowa 1979); *see also* STEVEN D. GOLD, A CITIZEN'S GUIDE TO LOCAL GOVERNMENT FINANCE: IOWA AT THE PROPERTY TAX CROSSROADS 34 (1980) [hereinafter GOLD, A CITIZEN'S GUIDE].
34. IOWA LEGISLATIVE SERV. BUREAU, SUMMARY OF LEGISLATION APPROVED BY THE FIRST REGULAR SESSION OF THE SIXTY-SEVENTH IOWA GENERAL ASSEMBLY AND THE SPECIAL SESSION MEETING IN THE YEAR 1977, at 71 (1977) [hereinafter SUMMARY OF LEGISLATION, 1977], *available at* https://www.legis.iowa.gov/DOCS/Shelves/Summaries/Summary%20of%20 Legislation%201977.pdf.; H.F. 757, 68th Gen. Assemb., 1st Reg. Sess. (Iowa 1979); H.F. 332, 67th Gen. Assemb., 1st Reg. Sess. (Iowa 1977); *see also* IOWA LEGISLATIVE SERV. BUREAU, SUMMARY OF LEGISLATION APPROVED BY THE FIRST REGULAR SESSION OF THE SIXTY-EIGHTH IOWA GENERAL ASSEMBLY MEETING IN THE YEAR 1979, at 59 (1979) [hereinafter SUMMARY OF LEGISLATION, 1979], *available at* https://www.legis.iowa.gov/DOCS/Shelves/Summaries/Summary%20of%20 Legislation%201979.pdf.
35. Iowa H.F. 757; SUMMARY OF LEGISLATION, 1979, *supra* note 34, at 59.
36. IOWA CODE § 441.21(4) (2011).
37. *Id.*

to 2013 and the taxable value of agricultural property increases by 3% over the same period, then the taxable amount on residential property will be "rolled back" to 3%. Policymakers refer to this correlation between agricultural and residential property taxable values as the "agricultural tie."[38]

The major impetus for the passage of the assessment growth limitations was the avoidance of a shift in the tax burden to agricultural and, to a lesser extent, residential property owners.[39] This shift was due to occur, in general, because assessors do not simultaneously equate changes in assessed value with changes in the market value of property.[40] For example, the average farmland price more than tripled from 1971 to 1976.[41] Yet, from 1969 to 1976, assessments of farmland only grew 72%.[42] Because growth in assessed values lagged behind growth in market values, prior to the passage of these laws, it was occasionally necessary to enact a large increase to close the gap.[43]

This occurred in 1975 when the assessed value of agricultural property increased 52%.[44] This large increase was noted by then-Governor Robert D. Ray in his Condition of the State Speech before the 66th General Assembly in 1976 when he proposed a temporary cap on property taxes while a task force studied potential permanent changes to Iowa's tax law.[45] The task force was charged with various tasks, including budget limitations and property assessments,[46] in light of another large increase in assessments anticipated for 1978.[47] This eventuality was dealt with by passage of House File 332.[48]

House File 332 capped the growth in assessment limitations on agricultural and residential property at 6% for two years.[49] House File 757 amended the Iowa Code in 1979, extending the assessment limitation and further reducing it to 4%.[50] The agricultural tie remains at 4% to this day.[51]

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38. LEGISLATIVE SERVS. AGENCY, CITY PROPERTY TAX – FY 2009, *supra* note 23, at 1.
39. GOLD, A CITIZEN'S GUIDE, *supra* note 33, at 34.
40. *Id.*
41. *Id.*
42. *Id.*
43. *Id.*
44. *Id.* at 34 tbl.6.
45. ROBERT D. RAY, GOVERNOR OF IOWA, CONDITION OF THE STATE: GOVERNOR'S RECOMMENDATIONS 8 (1976).
46. *Id.*
47. GOLD, A CITIZEN'S GUIDE, *supra* note 33, at 34.
48. H. JOURNAL, 67th Gen. Assemb., 1st Reg. Sess. 777 (Iowa 1977).
49. H.F. 332, 67th Gen. Assemb., 1st Reg. Sess. (Iowa 1977); *see also* SUMMARY OF LEGISLATION, 1977, *supra* note 34, at 71 (1977).
50. H.F. 757, 68th Gen. Assemb., 1st Reg. Sess. (Iowa 1979) *see also* SUMMARY OF LEGISLATION, 1979, *supra* note 34, at 59.
51. IOWA CODE § 441.21(4) (2011).

Without House Files 332 and 757, there would have been a substantial impact on the property taxes paid by agricultural property owners.[52] "[R]ecent trends in farm and home property values would [have] cause[d] sizable shifts in tax shares if left unimpeded. Farm owners would [have] pa[id] much more tax, homeowners would also have [had] substantial boosts in many cases, and businesses would often have [had] drops or small increases."[53]

Iowa's passage of assessment limit legislation was part of a large, national movement to limit the growth of state and local government revenues.[54] States passed various types of legislation with the main goal of reducing the pace of state and local government spending.[55] The cornerstone of this movement was Proposition 13, passed in California in June of 1978.[56] Proposition 13 had the effect of drastically reducing property taxes and the revenue of city governments and has resulted in cuts to local services not subsidized by the state.[57] While the experiences of California and other states that passed assessment limitations vary from that of Iowa, it is clear that assessment limitations should be tailored to the state's particular circumstances and adjusted to changing realities.

IV. Effect of the Rollback on Cities

The rollback has had the effect of limiting the tax base for Iowa's cities and counties. The effect of the rollback has been to significantly reduce the amount of residential property that is subject to taxation.[58] In 2009, the residential property rollback was 46.91%.[59] In contrast, commercial, industrial, and utility properties were taxed at 100% of their assessed value and historically agricultural property has been taxed at 100%, or nearly 100%, of its assessed value.[60]

From assessment years 1999 to 2007 (fiscal years 2001 to 2009), the rollback on residential property declined from 54.85% to 44.08%.[61] This resulted

52. *See* Gold, A Citizen's Guide, *supra* note 33, at 35.

53. *Id.* at 34.

54. Steven D. Gold, The ABC's of Iowa Government Spending: Should it be Limited? 5–6 (1980).

55. *Id.*

56. *Id.* at 5.

57. *Id.* at 7.

58. Beth Pearson & Peter S. Fisher, *City Revenue and Smart Growth*, Iowa Fiscal P'ship, 5 (Nov. 2008), http://www.iowapolicyproject.org/2008docs/081113-cityrevs.pdf [hereinafter Pearson & Fisher, *City Revenue and Smart Growth*].

59. *Iowa Assessment Limitations*, Iowa Dep't of Revenue, http://www.iowa.gov/tax/locgov/rollbackchart.pdf (last visited Sept. 30, 2012).

60. *Id.*

61. *Id.*; *see also* Legislative Servs. Agency, City Property Tax – FY 2009, *supra* note 23, at 1.

in the "shielding [of] an additional 10.8% of residential assessed value from taxation."[62] It has been projected that this decline will continue with the residential rollback falling below 40% by 2018.[63] "Over the past several decades, application of the rollback has meant that steady growth in housing values has caused consistent decline in the share of residential property subject to taxation."[64]

The Iowa Legislative Services Agency (LSA) recently predicted that current high corn and soybean prices would not limit the growth in statewide residential tax value for the next seven years.[65] Even so, without the agricultural tie, the taxable value of residential property in Iowa would be closer to 80%.[66] The difference between the current rollback of roughly 45% and the 80% projection without the tie represents, assuming no reduction in property tax rates, lost revenue by local governments or a shift of the tax burden to other property classes.

This is particularly troubling for areas where growth is slow. Pearson and Fisher point out that "[b]ecause assessors must apply the same ratio to the actual value of each residential parcel, regardless of how rapidly or slowly home prices are increasing in their jurisdiction, the rollback tends to limit government revenues more in slow-growing areas than rapidly growing areas."[67] In Iowa, the effect is to more dramatically limit revenue growth in small towns in rural areas, given the rural to urban population shift the state has undergone.[68]

The findings of the Iowa Policy Project have been echoed in other studies of assessment limitations as well. Clearly, an assessment limitation is most beneficial to properties that have higher rates of appreciation.[69] Numerous studies have indicated, however, that such limits also "undermine the fairness of the property tax" by shifting the tax burden onto slowly appreciating properties.[70]

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62. LEGISLATIVE SERVS. AGENCY, CITY PROPERTY TAX – FY 2009, *supra* note 23, at 1.

63. Jeff Robinson, Fiscal Servs. Division, Legislative Servs. Agency, Presentation to the Property Tax Interim Comm.: Rollbacks—Past and Future (Nov. 7, 2007), http://www.legis.state.ia.us/lsadocs/IntComHand/2008/IHSEC029.pdf.

64. Pearson & Fisher, *City Revenue and Smart Growth*, *supra* note 58, at 6.

65. LEGISLATIVE SERVS. AGENCY, CITY PROPERTY TAX – FY 2009, *supra* note 23, at 1.

66. Robinson, *supra* note 63.

67. Pearson & Fisher, *City Revenue and Smart Growth*, *supra* note 58, at 6.

68. *See* J. Gordon Arbuckle, Jr. & Andrea Rich, *Population Change in the Countryside: What Does It Mean for Rural Iowa?*, IOWA ST. U. EXTENSION (2008), http://www.extension.iastate.edu/ (search "population change in the countryside"; then follow "Population Change in the Countryside" hyperlink) (last visited Sept. 30, 2012) (demonstrating rural to urban population trends in Iowa).

69. Terri A. Sexton, *The Increasing Importance of Assessment Limitations as a Means of Limiting Property Taxes on Homeowners*, GEORGE WASHINGTON U. 19 (Aug. 20, 2007), http://www.gwu.edu/~gwipp/lincoln/Sexton.pdf.

70. *Id.* at 2, 19.

Consider that an appreciating home, without an assessment limitation, would pay a greater amount in property taxes. That greater amount of income to local government through property tax revenue would then mean a home appreciating at a slower rate could pay less without a negative impact on overall municipal revenues. In this scenario, a city could maintain a lower property tax rate for all properties. Thus, the use of assessment limitations will result in reduced fairness amongst property owners.

In addition, while areas experiencing more rapid growth may benefit from an increase in the tax base, this increase is depressed relative to the growth these same areas would have seen without the rollback.[71] The assessment limits, along with the productivity-based formula for valuing agricultural property, combine to ensure "the main direct beneficiaries of the limits are urban homeowners."[72] It can be concluded that urban homeowners, particularly in quickly appreciating areas, will experience, relative to other property owners, the greatest reduction in their respective property tax bills as a result of the assessment limitation and agricultural tie.

While the property tax rollback system and the agricultural tie merely hamper revenue growth in some municipalities, a declining revenue base can cripple slow growing communities. These areas may actually experience a decline in taxable values when the inflationary impacts on governmental costs are taken into consideration.[73]

This is especially troubling given the heightened reliance of Iowa cities on property taxes.[74] On average, Iowa cities derive 40% of their revenue from property taxes, compared with the nationwide average of 32%.[75] In addition, Iowa cities receive 6% less revenue from state aid than the nationwide average.[76]

The assessment limitations and the rollback combined with other statutory limitations on property tax rates have induced cities to adopt other revenue generating techniques.[77] The types of revenue generating taxes and fees selected by municipalities inherently involve considerations of regressive taxation.[78] Cities have adopted or increased hospitality, utility franchise, sin, sales, and gam-

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71. Pearson & Fisher, *City Revenue and Smart Growth*, *supra* note 58, at 7.
72. GOLD, A CITIZEN'S GUIDE, *supra* note 33, at 52.
73. Pearson & Fisher, *City Revenue and Smart Growth*, *supra* note 58, at 7.
74. Christopher Hoene & Michael A. Pagano, *Cities & State Fiscal Structure*, NAT'L LEAGUE OF CITIES, 20 tbl.2 (2008), http://www.nlc.org/find-city-solutions/center-for-research-and-innovation/finance
75. *Id.*
76. *Id.* at 22 tbl.4.
77. Pearson & Fisher, *City Revenue and Smart Growth*, *supra* note 58, at 7.
78. *Id.*

bling taxes.[79] These taxes and fees tend to be highly regressive as they depend very little on the individual's ability to pay for them.[80] Faced with the possibility of declining revenue, these cities must make tough choices—lay off employees, cut important government services, or levy additional fines in the form of taxes partially generated from those least able to afford them.

V. DOES THE TIE STILL FIT?

As mentioned, the impetus for the agricultural tie and the rollback was the increasing value of agricultural property in the 1970s.[81] Yet since passage of House File 757, the assessed value of agricultural property has more than doubled, climbing from approximately $600 per acre in 1979 to $1500 per acre in 2011.[82] In contrast, the market value of agricultural property more than tripled over the same period, increasing from approximately $1500 per acre to over $5000 per acre.[83] The difference is attributable to the use of productivity in determining the assessed value of agricultural property and the relatively slow growth in the components of the productivity formula. Without the agricultural tie and the use of the productivity formula, agricultural property owners would likely pay a higher share of property taxes. The agricultural tie and productivity formula tend to shift the tax burden from agricultural property to residential and commercial property, at least during periods when the market value of agricultural land grows at a rate far exceeding the growth in the productivity formula. Combined with the residential rollback, these tax schemes serve to ensure that commercial and industrial property pay an excessive share of local property taxes. In a time when farmers are receiving substantial government subsidies and seeing historically high-income levels,[84] does it make sense to continue this inequity?

The municipal budget problem, as previously discussed, is partially attributable to the collapse of the housing market and the economic downturn that

79. *Id.* at 8–14.

80. *Id.* at 7.

81. GOLD, A CITIZEN'S GUIDE, *supra* note 33, at 34.

82. *Agricultural Realty: Comparative Per Acre Assessment Standards,* IOWA DEP'T OF REVENUE, http://www.iowa.gov/tax/locgov/agperacre.pdf (last visited Sept. 30, 2012).

83. *Id.*

84. *See 2012 Farm Sector Income Forecast*, USDA ECON. RESEARCH. SERV. (May 26, 2012), http://www.ers.usda.gov/topics/farm-economy/farm-sector-income-Finances/2012-farm-sector-income-forecast.aspx.

began in 2008.[85] The worst, however, may be yet to come. City property tax revenue collection reflects a delayed reaction to real estate market trends.[86] This is because the practices of local assessors tend to lag behind changes in the real estate market.[87] Consequently, "current property tax bills and property tax collections typically reflect values of property from anywhere from eighteen months to several years prior."[88] This allowed property tax revenues to actually increase in 2009 despite the housing downturn.[89]

As assessed values begin to more accurately reflect the market value of homes, residential property tax revenue will decline, unless property tax rates are raised. A recent report of the National League of Cities indicated that property tax revenues declined by 2% in 2010, and were projected to have declined an additional 3.7% in 2011.[90] This decline will likely continue through 2012 and 2013.[91]

The impact on Iowa cities, however, may not be quite as dramatic as that predicted by the National League of Cities report. When compared to other states, especially in terms of budget shortfalls, Iowa is in a strong fiscal position.[92] In addition, the unemployment rate in the state remains well below the national average.[93] But the housing market has not fully recovered. The median

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85. Lawrence H. White, *Housing Finance and the 2008 Financial Crisis*, CATO INST. (Aug. 2009), http://www.downsizinggovernment.org/sites/default/files/hud-housing-finance-2008-financial-crisis.pdf.

86. Christopher W. Hoene & Michael A. Pagano, *City Fiscal Conditions in 2010*, NAT'L LEAGUE OF CITIES 3 (Oct. 2010), http://www.nlc.org/find-city-solutions/center-for-research-and-innovation/finance (click "City Fiscal Conditions" tab; then follow "City Fiscal Conditions (2010)" hyperlink).

87. *Id.*

88. *Id.*

89. *Id.*

90. Christopher W. Hoene & Michael A. Pagano, *City Fiscal Conditions in 2011*, NAT'L LEAGUE OF CITIES 4 (Sept. 2011), http://www.nlc.org/find-city-solutions/center-for-research-and-innovation/finance (click "City Fiscal Conditions" tab; then follow "City Fiscal Conditions (2011)" hyperlink).

91. *Id.*

92. *See* Elizabeth McNichol et al., *States Continue to Feel Recession's Impact*, CTR. ON BUDGET & POLICY PRIORITIES, 9 tbl.3 (May 24, 2012), http://www.cbpp.org/files/2-8-08sfp.pdf. Iowa's projected shortfall for FY2012 was $149 million (2.4% of its general fund budget), while twenty-one states face shortfalls greater than $1 billion. *Id.* Nevada anticipates the greatest shortfall proportionally; although not the largest dollar amount. *Id.* Its $1.2 billion projected shortfall represents 37.4% of its FY2012 budget. *Id.*

93. *See* BUREAU OF LABOR STATISTICS, U.S. DEP'T OF LABOR, USDL-12-0371, REGIONAL AND STATE UNEMPLOYMENT – 2011 ANNUAL AVERAGES 5 tbl.B (2012), *available at* http://www.bls.gov/news.release/pdf/srgune.pdf. Iowa's unemployment rate was 5.9, compared to the national average of 8.9. *Id.*

home value in Iowa is still below pre-recession levels.[94] Cities, counties, and school districts will still have difficulty generating revenue from residential property for years to come. That task will become even more challenging if legislation is enacted that places more responsibility for local tax revenue generation on residential property owners. In recent years, the Iowa General Assembly has attempted to do just that.

VI. Attempts at Reform

The Iowa General Assembly has sought to reduce the excessive property tax burden placed on commercial and industrial properties through legislative action. This section details the recent attempts to reform this inequity.

A. *House File 847*

The Ways and Means Committee of the Iowa House introduced House File 847 in 2005.[95] House File 847 would have added commercial and industrial property, which had previously been limited to annual growth of 4% but were not otherwise restricted,[96] to the rollback formula.[97] House File 847 provided that "for valuations established as of January 1, 2005, and each year thereafter, for residential, agricultural, commercial, and industrial property, the assessed values of these four classes of property shall be limited to the percentage increase of that class of property that is the lowest percentage increase . . . ."[98] Valuation growth in all classes would have then been limited not just by the 4% required by Iowa Code,[99] but also by the property class that experienced the lowest level of growth. As an example, if every other property class experienced 4% growth, but agricultural property only experienced 2% growth, all classes of property would be limited to 2% assessed growth.

The LSA found that including commercial and industrial property in the formula would reduce taxable valuations and, in the absence of a property tax

94. *See* Jason Gold & Anne Kim, *Underwater: Home Values in 2012 Battleground States*, Progressive Policy Inst., 2–3, app. at 7 (Jan. 2012), http://progressivepolicy.org/wp-content/uploads/2012/01/1.2012-Gold_Kim_Underwater-Home-Values-in-2012-Battleground-States.pdf.

95. H.F. 847, 81st Gen. Assemb., 1st Reg. Sess. (Iowa 2005).

96. Iowa Code § 441.21(5) (2011).

97. Iowa H.F. 847.

98. *Id.*

99. Iowa Code § 441.21(4)–(5).

rate increase, would result in a decline in property tax revenues.[100] After ten years, this would result in a reduction of property tax revenue amounting to $267.4 million.[101] The analysis demonstrated that "[o]ver the ten-year example, the proportion of property taxes paid by residential taxpayers would increase by 2.5%, agricultural taxpayers' proportion of taxes would increase by 0.7%, and commercial and industrial taxpayers' combined proportion would decrease by 3.3%."[102]

B. *House File 2771*

After failing to pass House File 847, the Ways and Means Committee introduced House File 2771 in 2006.[103] Like House File 847, House File 2771 would have included commercial and industrial property in the rollback formula.[104] The fiscal note from the LSA for House File 2771 showed a similar effect on revenues as that of House File 847. When compared to existing law, over a ten-year time frame "tax revenues paid by the residential class will increase by 2.2% and the percentage paid by the agricultural class will increase by 0.6%. The percentage of the total property tax revenues paid by the commercial and industrial classes' combined will decrease by 2.8%."[105]

The decline in taxes paid on commercial and industrial property would not be offset by the increases in taxes paid on residential and agricultural property.

It is projected that HF 2771 would decrease taxable values and local revenues beginning in the second year. If no adjustments were made to property tax rates, property tax revenues would decrease by $24.1 million in FY 2009. Over the ten-year period, this reduction would grow to $223.2 million.[106]

If House File 2771 had passed, municipalities would have been forced to increase property tax rates or reduce services. In addition, the aforementioned budget dilemmas brought about by the economic downturn in 2008 would have likely been increasingly difficult to resolve.

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100. HOLLY M. LYONS, FISCAL SERVS. DIV., LEGISLATIVE SERVS. AGENCY, FISCAL NOTE, H.F. 847 (2005), *available at* http://www.legis.iowa.gov/Docs/FiscalNotes/81_3402HVv0_FN.pdf.

101. *Id.* at 3.

102. *Id.*

103. H.F. 2771, 81st Gen. Assemb., 2d Reg. Sess. (Iowa 2006).

104. *Id.*

105. HOLLY M. LYONS, FISCAL SERVS. DIV., LEGISLATIVE SERVS. AGENCY, FISCAL NOTE, H.F. 2771 (2006), *available at* https://www.legis.iowa.gov/ DOCS/FiscalNotes/81_6480H Vv0_FN.pdf.

106. *Id.* at 4.

The clear winners of House File 2771 would have been commercial and industrial property owners, with cities, homeowners, and agricultural property owners coming out on the short end of the stick. The LSA fiscal note concluded:

House File 2771 will increase the property taxes for typical homeowners by approximately 3.8% over the ten-year period compared to current law, and they will pay approximately $83 more than under current law. Typical agricultural taxpayers will also experience a 3.8% property tax increase after ten years and will pay $495 more in property taxes in FY 2017. Typical commercial taxpayers will have their property taxes decrease by $1,833 (8.6%), and industrial taxpayers will have a $7,243 (10.4%) decrease by the end of the ten years.[107]

C. *House File 212*

House File 212 was another attempt to include commercial and industrial property into the property tax rollback scheme.[108] Introduced in 2009, the bill did not move out of subcommittee[109] and did not receive the support of county and local government lobbying groups.[110] It is not surprising that House File 212 did not receive much support or move out of subcommittee given the budget challenges that faced the Iowa General Assembly in 2009.[111]

D. *2011 Budget Proposal*

In January of 2011, Governor Terry Branstad submitted his 2012–13 fiscal year budgets for consideration by the General Assembly.[112] Among the proposals, Branstad recommended reducing the taxable value of commercial property to 60%.[113] For existing structures, the taxable value of the property would be

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107. *Id.*

108. H.F. 212, 83rd Gen. Assemb., 1st Reg. Sess. (Iowa 2009).

109. *Bill History for House File 212*, THE IOWA LEGISLATURE http://coolice.legis.state.ia.us/Cool-ICE /default.asp?Category=BillInfo&Service=DspHistory&var =HOUSEFILE&key=0228C&GA=83 (last visited Sept. 30, 2012).

110. *Lobbyist Declarations Results*, THE IOWA LEGISLATURE, http://coolice.legis.state.ia.us/Cool-ICE/default.asp?Category=Lobbyist&Service=DspReport&ga=83&type=b&hbill=HF212 (last visited Sept. 30, 2012).

111. *See Getting a Grip on Revenues: Deteriorating Iowa Tax Revenues and the 2010 State Budget*, IOWA FISCAL P'SHIP 1–2 (2009), http://www.iowafiscal.org/2009docs/090731-IFP-revenues.pdf.

112. *See* LEGISLATIVE SERVS. AGENCY, SUMMARY OF FY 2012 AND FY 2013 BUDGET AND GOVERNOR'S RECOMMENDATIONS 55 (2011), *available at* https://www.legis.iowa.gov/DOCS/lsaReports/budgetAnalysis/Archives/FY%202012.pdf.

113. *Id.*

reduced by 8% each year over five years.[114] New construction would be taxed at 60% of assessed value beginning in fiscal year 2014.[115] Because the state derives proportionally less revenue from property taxes, local governments would be the most impacted by this proposal. However, the financial effects on local governments would be dependent on the rate of new construction and the appreciation of existing commercial property.[116]

The LSA analyzed the proposal, comparing its effect on cities and counties if commercial property had been taxed at 60% in fiscal year 2011.[117] Under this hypothetical scenario, commercial property owners would have a reduced tax burden of $515.5 million, assuming that local governments made no changes to property tax rates.[118] In total, statewide taxable value would decline $13.4 billion.[119] This decline in taxable value would necessitate additional State School Aid of $72.2 million, resulting in a net revenue loss to local governments of $443.3 million.[120] From the $443.3 million, county revenues would decline $78.8 million, municipal revenues would be reduced $152.2 million, revenues for school districts would be impacted by $114.2 million, and community colleges would lose out on $9.4 million.[121]

Of course the main assumption underlying the LSA analysis, that counties and municipalities would not adjust property tax rates in response to a change in assessed values of commercial property,[122] is mainly for academic illustration and is not likely to be an accurate portrayal of real life events. In reality, counties and cities will increase property tax rates and subsequently residential and agricultural property owners will be stuck with a greater share of the tax burden. In reviewing the Branstad proposal, the Editorial Board of the Des Moines Register noted, "[t]his would be a serious blow to many communities, especially those in rural Iowa that are already struggling to pay for basic services . . . . [I]t would put yet another patch on Iowa's convoluted property-tax regime

114. *Id.*
115. *Id.*
116. *Id.*
117. *Id.* at 56.
118. *Id.*
119. *Id.*
120. *Id.*
121. *Id.*
122. *See generally id.* (analyzing the numbers under an assumption of static tax rates at the local level).

that cries out for comprehensive reform."[123] The session ended without passage of any property tax reform.[124]

E. *2012 Legislative Session*

The 2012 Iowa Legislative session began, like the previous session, with the promise of compromise on important reforms, including commercial property tax reform. Governor Branstad stated in his annual Condition of the State address, "Commercial property taxes in Iowa are the 2nd highest in the nation and I believe there is agreement within this chamber that these taxes must be reduced . . . ."[125] After months of disagreement and a prolonged legislative session, the House and Senate released competing commercial property tax reform proposals.[126]

The Senate proposal, Senate File 2344, limited growth in residential and agricultural property assessments from 4% to 3%.[127] The bill included a provision creating a floor of 50% and a ceiling of 60% for the residential property rollback.[128] The bill did not provide for a statutory rollback of commercial property assessments, but rather provided for a business property tax credit equaling the difference between commercial and residential rollbacks.[129] Commercial, industrial and railroad property were eligible to receive the credit.[130] The bill required an annual $25 million appropriation from the General Fund to the Department of Revenue to fund the property tax credits.[131] So long as General Fund revenues increased by at least 3% annually, the required appropriation would grow by $25 million a year to a maximum appropriation of $125 million.[132] The Senate bill based any reduction in commercial property tax bills on the funding of the business property credits, which would be entirely dependent on state revenue increases. The bill also established a multiresidential property tax classifi-

123. Editorial, *Branstad Vision for Iowa Not Complete*, DES MOINES REG., Jan. 30, 2011, at 1 OP.

124. Dan Winters, *Session Ends: No Property Tax Decision*, WHOTV.COM (May 10, 2012), http://whotv.com/2012/05/10/session-ends-no-property-tax-decision/.

125. Terry E. Branstad, Gov. of Iowa, Condition of the State Address to Iowa General Assembly (Jan. 10, 2012) (transcript available at https://governor.iowa.gov/2012/01/gov-terry-e-branstad-delivers-2012-condition-of-the-state-address-to-the-iowa-general-assembly/).

126. *See* S.F. 2344, 84th Gen. Assemb., 2d Reg. Sess. (Iowa 2012); *see also* H.F. 2475, 84th Gen. Assemb., 2d Reg. Sess. (Iowa 2012).

127. Iowa S.F. 2344.

128. *Id.*

129. *Id.*

130. *Id.*

131. *Id.*

132. *Id.*

cation, including apartments and nursing homes, and provided for a rollback of assessment values.[133] All else being equal, LSA estimated that Senate File 2344 would reduce the aggregate property tax dollars from the amount of $50 million in fiscal year 2014 to a deficit of $418.7 million in fiscal year 2022.[134]

The House proposal, House File 2475, also reduced the year-to-year assessment growth limitation on residential and agricultural property from 4% to 3%.[135] The bill rolled back the assessed value of commercial property by 2% each year over five years.[136] The rollback percentage would remain at 90% after the five years.[137] The bill also provided for reimbursement of lost revenue to local governments from the state General Fund.[138] LSA estimated that, all else being equal, House File 2475 would result in an aggregate property tax revenue decline of $73.2 million beginning in fiscal year 2015 and growing to $485.6 million by fiscal year 2022.[139] Even taking into consideration the General Fund reimbursement, city and county government revenues would be reduced by an aggregate of $142.2 million in fiscal year 2022 alone.[140]

Despite promises of compromise on the issue at the beginning of this legislative session, the General Assembly adjourned without passing commercial property tax reform.[141] Even so, the issue is likely to be brought up again when the next General Assembly convenes in January 2013.

VII. Keeping Up with the Joneses

Iowa's system varies somewhat from other property tax limitation laws around the country.[142] As mentioned previously, there was a nationwide move-

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133. *Id.*

134. Holly M. Lyons, Fiscal Servs. Div., Legislative Servs. Agency, Fiscal Note, S.F. 2344, at 4 tbl.2 (2012), *available at* https://www.legis.iowa.gov/DOCS/FiscalNotes/84_6143 SVv0_FN.pdf.

135. H.F. 2475, 84th Gen. Assemb., 2d Sess. (Iowa 2012).

136. *Id.*

137. *Id.*

138. *Id.*

139. Holly M. Lyons, Fiscal Servs. Div., Legislative Servs. Agency, Fiscal Note, H.F. 2475, at 5 tbl.2 (2012), *available at* https://www.legis.iowa.gov/DOCS/FiscalNotes/84_6140 HVv0_FN.pdf.

140. *See id.* at 5 tbl.4. Cities face an anticipated reduction of $58.4 million, and counties an estimated $83.8 million ($72.2 million in urban areas, $11.6 million in rural areas). *Id.*

141. *See* Rod Boshart, *Legislature Adjourns Without Commercial Property Tax Relief*, Globe Gazette, May 9, 2012, http://globegazette.com/news/iowa/legislature-adjourns-without-commercial-property-tax-reliefarticle_977adace-9a26-11e1-a0e4-0019bb2963f4.html.

142. Mark Haveman & Terri A. Sexton, Property Tax Assessment Limits: Lessons from Thirty Years of Experience 13 (2008), *available at* http://www.taad.org/Property%20Tax %20Assessment%20Limits--Lessons%20from%2030%20Years%20of%20Experience.pdf.

ment toward property tax restrictions that began in the 1970s. As of 2007, twenty states and the District of Columbia had enacted a residential assessment limitation system.[143] This section will review some of the assessment and spending limitation mechanisms used by other states.

While Iowa applies the property tax assessment limit to entire classes of property, other states apply similar limits to individual properties.[144] For example, a property owner in New Mexico, with an individual limit of 3%, cannot have the assessed value of his property increased by more than 3% between assessments.[145]

In contrast, a property owner in Iowa may have the assessed value of his property increased by greater than 4% as long as the aggregate of the class does not exceed a growth rate of 4%.[146] "Because properties of the same class can experience significant differences in appreciation, a limit on class valuations will not prevent large increases in individual assessments."[147] Thus the impact on overall state property tax revenues is maintained, but the effect on individual taxpayers is not.

The assessment limitation is often either a fixed percentage or associated with changes in the Consumer Price Index.[148] States have taken a variety of approaches in setting limitations. California limits state assessment growth at 2%.[149] Minnesota, by contrast, previously set a limit of 15%.[150] Colorado takes a different approach and simply "limits the residential portion of the tax base to 45 percent of the total tax base."[151]

Arizona is a state that has a high assessment limit, but the state has set up a complex program that functionally limits the amount of growth in assessments.[152] In Arizona each property receives two assessment values.[153] The fair market value is used when calculating taxes on fire districts, school districts,

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143. SEXTON, *supra* note 69, at 4.
144. HAVEMAN & SEXTON, *supra* note 142, at 13.
145. N.M. STAT. ANN. § 7-36-21.2(A) (2001 Replacement Pamphlet).
146. *See* HAVEMAN & SEXTON, *supra* note 142, at 13–14.
147. *Id.*
148. *Id.* at 10.
149. CAL. CONST. art. 13A, § 2.
150. MINN. STAT. § 273.11 (2011).
151. COLO. CONST. art. X, § 3(1)(b); *see* HAVEMAN & SEXTON, *supra* note 142, at 10; *see also* Chris Ward, *Property Taxes*, COLO. LEGIS. COUNCIL STAFF (1997), http://www.colorado.gov/ (search "chris ward, property taxes"; then click "Property Taxes" hyperlink) (explaining the effect the Gallagher Amendment to the Colorado Constitution had on property taxes in Colorado).
152. HAVEMAN & SEXTON, *supra* note 142, at 12.
153. *Id.*

bond issues, etc., while the limited property value is utilized to determine taxes owed to municipalities and counties.[154]

Other states have chosen to phase in assessment increases. Maryland uses a three-year assessment cycle.[155] After determining the assessment, it is phased in over a period of the next three years with one-third of the assessed value added every year.[156] In addition, there is a 10% annual assessment limit on state property taxes and local governments are free to establish lower limits for local taxes.[157] Fifteen of the twenty-four counties in Maryland have adopted limits below 10% for local taxes.[158]

The state of Georgia allows an assessment freeze.[159] Counties can select to adopt a policy that exempts property owners from property tax increases during their ownership.[160] The same can be accomplished by simply not completing annual assessments. "Twenty-seven states do not require annual reassessment and thereby impose an implicit assessment limit of zero percent if no inflation adjustments are made to assessed valuations in non-reassessment years."[161]

As discussed earlier, since 1982 Colorado has required that residential property not exceed more than 45% of the statewide property tax base.[162] In essence, this ensures that the aggregate assessed value of residential property does not grow at a rate faster than that of nonresidential property.[163]

States have even taken to applying different assessment limits to specific groups of people.[164] Oftentimes this is meant to protect individuals that would be hardest hit by even a small increase in the assessed value of their property, such as senior citizens or low-income earners.[165] A recent survey found "[a]t least

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154. *Id.*

155. MD. CODE ANN., TAX–PROP. § 8-103(a)(3), (c) (LexisNexis 2007); HAVEMAN & SEXTON, *supra* note 142, at 12.

156. TAX–PROP. § 8-103(a)(3); HAVEMAN & SEXTON, *supra* note 142, at 12.

157. TAX–PROP. § 9-105(e)(2); HAVEMAN & SEXTON, *supra* note 142, at 12–13.

158. HAVEMAN & SEXTON, *supra* note 142, at 13; *see generally County and Municipal Homestead Credit Percentages*, MARYLAND DEP'T OF ASSESSMENTS & TAXATION (Nov. 29, 2011), http://www.dat.state.md.us/sdatweb/homestead_percent.html (providing a list of assessment percentages by political subdivision).

159. GA. CONST. art. VII, § 2, ¶¶ 2–3 ; HAVEMAN & SEXTON, *supra* note 142, at 13.

160. GA. CONST. art. VII, § 2, ¶¶ 2–3 (permitting local taxing authority to exempt property owners from property tax increases if agreed to by a majority upon a referendum vote); HAVEMAN & SEXTON, *supra* note 142, at 13.

161. HAVEMAN & SEXTON, *supra* note 142, at 13.

162. *See* COLO. CONST. art. X, § 3(1)(b); HAVEMAN & SEXTON, *supra* note 142, at 14.

163. HAVEMAN & SEXTON, *supra* note 142, at 14.

164. *Id.*

165. *Id.*; *see, e.g.*, N.M. STAT. ANN. § 7-36-21.3 (2001 Replacement Pamphlet) (setting a maximum annual increase for the elderly and low income households).

[twelve] states have some form of assessment freeze in effect for senior homeowners, and five extend this to disabled taxpayers."[166]

States have also taken different approaches in determining how assessment limitations are applied. Assessment limitations can be applied statewide and uniformly.[167] Other states allow assessment limitations to be adopted by a local option.[168]

While not used in Iowa, it is also common for states imposing assessment limits on individual properties to use an acquisition-value based property tax.[169] This means that the assessed value of a property is reset to market value only when the property is sold.[170] Therefore, similar properties in the same neighborhood, with essentially identical market values, may have very different tax bills simply because one was sold or purchased more recently. While not inherently bad, this system encourages individuals to stay in the same home for long periods of time, but also results in an inequity between similarly situated parties.[171]

Warren Buffet can serve as an example for how this system results in inequities. Buffet bought a home in Omaha in the 1970s that by 2003 had increased in value to $4 million.[172] In the 1990s, Buffet purchased another home in the same neighborhood, which was worth roughly half the value of the first.[173] In 2003, Buffet paid property taxes of $2,264 on the first home and $12,002 on the second.[174]

The manner in which the assessment limitation was initially implemented can also be an important consideration. Iowa, for example, implemented its assessment limitation scheme through legislative action.[175] Thus, any changes to the program would involve amending the Iowa Code and can be accomplished without direct voter approval. In contrast, some states have adopted their assessment limitation programs as a result of an amendment to their state constitu-

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166. HAVEMAN & SEXTON, *supra* note 142, at 14 (citing John Rappa, *Cap on Property Tax Payments for Elderly Homeowners*, CONN. GEN. ASSEMBLY (Dec. 9, 2003), http://www.cga.ct.gov/2003/olrdata/pd/rpt/2003-R-0873.htm).

167. *Id.* at 15.

168. *Id.*; *see, e.g.*, GA. CONST. art. VII, § 2, ¶¶ 2–3.

169. SEXTON, *supra* note 69, at 21.

170. SEXTON, *supra* note 69, at 21; *see, e.g.*, CAL. CONST. art. 13A, § 2.

171. SEXTON, *supra* note 69, at 21.

172. *Id.* (citing Warren E. Buffett, Letter to the Editor, *Warren Buffett's Response to the Journal*, WALL ST. J., Nov. 3, 2003, http://online.wsj.com/article/0,,SB10678193241026540 0,00.html).

173. *Id.*

174. *Id.* at 21–22.

175. *See, e.g.*, H.F. 757, 68th Gen. Assemb., 1st Reg. Sess. (Iowa 1979); H. JOURNAL, 67th Gen. Assemb., 1st Reg. Sess. 771 (Iowa 1977).

tion.[176] Therefore, any changes to the assessment limitation scheme in these states requires voter approval and, given voters general anti-tax sentiment, would likely only lower the assessment limit.

Based upon this brief analysis, it would seem that Iowa's assessment limitation system is, if anything, one of the least restrictive. Iowa avoids the inequality involved in the acquisition-based model by requiring assessments every two years. Also, by applying the assessment limit to property classes, and not individual properties, the impact on revenue generation is somewhat diminished.[177]

Yet, there exists room for improvement. Simply because Iowa is in a better budgetary position than other states[178] and maintains a system that, at least facially, is less likely to depress revenue generation does not mean that there are not ways in which the system can be improved. The state should look for possibilities to increase the fairness of the system, reduce inequity, and foster local control over taxation. This review of other state practices demonstrates that the only limit on how the property tax system can be arranged is the creativity of the policymakers involved in its formation.

VIII. CONCLUSION

Iowa's current system hamstrings local governments and can result in inequities to residential property owners, especially those in slow-growing or declining growth communities. First, the agricultural tie tends to reduce tax revenue for local governments. It also serves to increase overall property tax rates and shift an increased tax burden onto other classes of property, particularly those with already low assessment increases.

Second, the assessment limitations reduce local control over spending. The state government exerts an inordinate amount of control over the process by which local governments collect taxes. By setting limitations on assessments, tax rates, and tax levies, local governments lose much of their discretion regarding tax collections.

These limitations were likely established in order to protect taxpayers from excessive taxation, but the same can be accomplished through the political process itself. The voters can remove local government officials if they deem

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176. HAVEMAN & SEXTON, *supra* note 142, at 15; *see, e.g.*, COLO. CONST. art. X, § 3; CAL. CONST. art. 13A, § 2.

177. HAVEMAN & SEXTON, *supra* note 142, at 13.

178. DANIEL C. VOCK ET AL., THE PEW CTR ON THE STATES, BEYOND CALIFORNIA: STATES IN FISCAL PERIL app. at 64 A-1, 65 A-2 (2009), *available at* http://www.pewstates.org/uploaded Files/PCS_Assets/2009/BeyondCalifornia.pdf.

that their policies have resulted in over taxation. Public choice and democratic governance necessitates that local governments have the ability to design an array of services and amenities that appeal to current and would-be citizens.

The limitations that the state has placed on local government tax generation are contrary to the notion of establishing self-sufficient political subdivisions. It is generally desirable that a city be able to generate a large portion of its revenues through its own taxing authority. Yet, intergovernmental transfers necessitated by assessment limitations, levy limits, and the like, only serve to undermine this goal. Unable to generate sufficient revenue through taxation in their own jurisdictions, cities and counties must then rely on grants, transfers, and appropriations from the state.

A system in which cities can derive the majority of their revenue through taxation in their own jurisdictions can be preferable in several ways. It provides taxpayers a better mechanism for determining whether or not a city is adequately meeting the needs of local residents. Local politicians can then be held accountable for their decisions and are encouraged to utilize tax revenues as efficiently and effectively as possible. In addition, homebuyers will be better able to self-select into local communities that most accurately reflect their preferences.

Of course, a system without intergovernmental transfers and absent taxation limitations also has some disadvantages. Low-income communities may be unable develop sufficient tax revenue to support operations. Cities with higher crime rates and lower home values,[179] would have difficulty generating enough tax revenues to maintain public safety. Without the assistance of transfers from the state and federal government, declines in these geographic areas would accelerate.

Third, the method used to assess agricultural property results in a lower assessed value and thus causes a shift in the tax burden to the remaining classes of property. All else being equal, if agricultural property was assessed in the same manner as residential property, agricultural property would compose a larger portion of the property tax base. If agricultural property was assessed based upon market value, residential property owners would likely experience a decline in their property tax bills, assuming property tax rates were adjusted to account for the inflow of additional tax revenue from agricultural property owners.

The main impetus for assessment limitations was to prevent a shift of the tax burden onto agricultural and residential property owners. It is ironic that the mechanisms put in place to prevent this shift—for example, the agricultural tie, rollback, and assessment limitations—are partially responsible for the need for

179. *See* Keith Ihlanfeldt & Tom Mayock, *Crime and Housing Prices*, *in* HANDBOOK ON THE ECONOMICS OF CRIME (B. Benson et al. eds., forthcoming) (manuscript) *available at* http://www.coss.fsu.edu/dmc/files/CrimeHousingPricesFEB25.pdf.

new reform to reduce the property tax burden of commercial and industrial properties. This reform necessarily requires that residential and agricultural properties pick up the slack, but it is clear that the existing housing market will not be able to do so. In contrast, the market value of farmland has been rising and is not fully captured by the current assessment procedure.[180] From 2010 to 2011, farmland values in Iowa increased 32.5% with further increases expected.[181] Perhaps a restructuring of the agricultural productivity formula to incorporate a greater consideration of farmland market value might prevent a debilitating tax hike on residential property owners and also help make up the local government property tax revenue gap.

It is also clear that Iowa must look at ways to market the state to business and part of that process will involve adjustments and inducements within the tax code. In the 2012 State Business Tax Climate Index, Iowa was ranked in the bottom ten of all states.[182] The study notes the importance of commercial property tax rates on businesses and ultimately ranks Iowa 36th in the nation on the Property Tax Index.[183] If the state wants to attract businesses to Iowa and reduce the so-called 'brain drain' occurring as younger Iowans leave the state upon graduation from college,[184] it must work to attract high paying jobs by leveling the playing field with regard to business taxation.

What the state will or should do in the future is unclear. There is not a preferred model for Iowa to follow, but Iowa legislators should consider several issues when considering any immediate changes to the current system. First, the legislature should provide local communities with greater flexibility in revenue generation, allowing them to reduce the proportion of revenue derived from property taxes. Second, the assessment process should be re-evaluated with respect to agricultural property, especially if the market value of agricultural property continues to rise. Finally, any legislative changes that would dramatically harm county and municipal revenues should be accompanied by appropriations by the legislature to reduce the fiscal and budgetary impact.

In the long-term, the state should consider an overhaul of the property tax system. The assessment limitation program is now over thirty years old and

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180. *See* Michael D. Duffy, *2011 Farmland Value Survey*, AG DECISION MAKER, 2 tbl.1 (Jan. 2012), http://www.extension.iastate.edu/AGDM/wholefarm/pdf/c2-70.pdf.

181. *Id.*

182. MARK ROBYN, TAX FOUND., BACKGROUND PAPER NO. 62, 2012 STATE BUSINESS TAX CLIMATE INDEX 1, 3 tbl.1 (2012), *available at* http://taxfoundation.org/sites/taxfoundation.org/files/docs/2012_tax_foundation_index_bp62.pdf.

183. *Id.*

184. Iowa Civic Analysis Network, *Iowa Brain Drain*, U. IOWA, 1 (Oct. 2006), http://www.uiowa.edu/~ican/Papers%202006/braindrain122806.pdf.

has changed little throughout this period.[185] The state should look at ways in which it can loosen the limitations on state and local governments, allowing them greater autonomy in the development of tax revenue. Concerns that individual jurisdictions would overtax their constituents could be solved through legislation requiring full disclosure and public vote before property tax rates are adjusted.

A discussion regarding taxes and taxation, especially with the recent growth of the Tea Party Movement, has the possibility of evoking strong emotions about the role of government in the lives of ordinary citizens and its relationship with private industry. Any change to Iowa's property tax system must delicately balance these interests, in addition to the aforementioned issues of fairness, equality, and local control. The politicians best equipped to do so, at least as it relates to property taxes, are those closest, logistically and thus politically, to the taxpayers. City council members, school board members, and county board of supervisors, more than legislators of the Iowa General Assembly or the United States Congress, can better understand the needs of local communities. They are best able to determine when property taxation is excessive and contrary to the collective public interest and should be allowed to exercise their own judgment.

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185. *See generally* H.F. 757, 68th Gen. Assemb., 1st Reg. Sess. (Iowa 1979) (codified at IOWA CODE § 441.21 (2011)) (creating the assessment limitation program over thirty years ago).