

# County Property Tax Overview

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At the most basic level, the property tax levy (or dollars generated) is the product of the taxable valuation of real property multiplied by the tax rate. It's much more complicated prior to arriving at that simple math equation. In this publication Chickasaw County Assessor Raymond Armel explains how the assessors determine the assessed value of individual properties and how checks and balances are in place at the state level. He goes on to explain the growth limitation used for the entire class of residential property which rolls back the taxable valuation of each individual property. For commercial and industrial property, the rollback is locked at 90% of assessed value and for agricultural property a combination of the agricultural productivity formula and rollback is used to arrive at the taxable valuation. Of course, credits and exemptions play a part along the way, but when we get to taxable valuations the local taxing authorities can get to work.



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The governing bodies of counties and other local entities like cities, schools, and community colleges are given the taxable valuation and then are charged with setting a tax rate. Consideration is given to what tax rate is necessary to provide the important services their constituents depend on and desire. I feel safe in saying that county supervisors do not run for office to raise taxes on their friends and neighbors, and they are very diligent in finding that fair balance between the tax asking and funding important services. I'll take this opportunity to note that while the county treasurer collects the entirety of a property's tax obligation, just 20-25% on a statewide average remains with the county, and the rest is distributed to the other local jurisdictions based on their tax asking.

Given the nature of county operations, the board of supervisors sets tax rates that will be applied to all taxable property countywide for general county services and other rates that will be applied to just property in the unincorporated areas for primarily rural services. General county services would include most county departments and other functions serving the entire population from services found in the courthouse to public safety, secondary roads, and public health as a few examples. Rural county services are those that are primarily intended to benefit rural residents such as uniformed officers and a much larger portion of the secondary roads fund.

The tax rate for the General Basic Fund levied on all taxable valuation in the county is limited to \$3.50 per \$1,000 of taxable valuation. This can be exceeded in unusual circumstances such as natural disasters or emergencies, reduced or unusually low growth in the property tax base, certain unusual needs, or unusual increases in population (Iowa Code §331.426). There is also a General Supplemental Fund that is limited by use, but not by rate, and can only be used if General Basic is levied at the maximum level. Allowable uses of the supplemental levy include: substance abuse costs; certain juvenile care services; elections and voter registration; salaries and certain benefits for general county services; insurance necessary for county operations; maintenance and operation of the courts; and other miscellaneous expenses allowed in code (Iowa Code §331.424). Other countywide levies outside of the general fund include those for pioneer cemeteries and emergency medical services.

The tax rate for the Rural Basic Fund levied on taxable valuation in the unincorporated area of the county is limited to \$3.95 per \$1,000 of tax valuation. This maximum can be exceeded under the same unusual circumstances as General Basic. There is also a Rural Supplemental Fund, and this can only be used if Rural Basic is levied at the maximum level and can only be used for certain employee benefits for rural services.

The Debt Service Fund is used to satisfy general obligation debt of the county and is applied to all taxable valuation in the county, including valuation in tax increment financing districts. This levy authority is not limited by a tax rate,

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but rather by a provision in the Iowa Constitution limiting county debt to 5% of the county's assessed valuation. Counties currently using debt service are far below this constitutional limit.

The Secondary Roads Fund does not have its own levy authority but receives transfers from both the General Fund and Rural Fund. These transfers are limited an amount equivalent to \$0.16875 per \$1,000 of taxable valuation from the General Fund and \$3.00375 per \$1,000 from the Rural Fund. Much like the Rural Fund itself, this larger transfer limit reflects the higher use of secondary roads by individuals residing in the unincorporated portion of the county. It should also be noted that a county must transfer at least 75% of the allowable maximum to receive its full state road use tax fund allocation.

This is a relatively high-level overview of the county property tax system and its functions and limitations. The different circumstances of Iowa's 99 unique counties lead to outcomes that are just as unique. The statewide growth limitations and uniform rollback of taxable valuations have different impacts on different jurisdictions. By extension, the property tax rate caps affect counties differently depending on taxable valuation and the funding level needed to meet the needs and desires of the residents of the county. Other sources of revenue also play a role in the property tax asking. All these components factor in when county officials are finding the right balance of what they ask of the taxpayers and how they fulfill the obligation of providing important services to the public.



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# Tax Burden Shifts

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As we evaluate what counties are asking of the property taxpayers in order to fund important local services, it's of course essential to look at the costs and how they can be controlled. But it's equally important to look at who pays and how. Counties run a pretty tight operation. Sure, we can pick out a project here or a purchase there that raises eyebrows, but on the whole, county supervisors and other county officials are steadfast stewards of the public dollars with which they've been entrusted.



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The reality is, the cost of providing high quality services at the local level doesn't go down and rarely stays the same. It's not unlike a business or family budget in that regard. Unlike a business that can add a service or product or expand its market, or a family where members might change jobs or pick up a side hustle (such a 2023 thing to say), counties are very limited in how additional revenue can be generated when cuts to expenditures can no longer be made. Supervisors can't really control the revenue their counties receive from local option sales tax, wagering tax, hotel/motel tax, road use tax, or most fees for service. So when costs go up beyond their control, one of the only places they can turn is the property tax. On a statewide average, property taxes account for nearly half of county revenue. Around 50% of the taxable valuation in Iowa is residential property and about 20% is agricultural property. Counties have a diversification problem.

Let's go back to who pays and how. Staying within property taxes, the answer is clearly homeowners and farmers. This, of course, is a statewide total of taxable valuation and not an indication of individual properties with the same *assessed* value. But it brings me to my first point on tax burden shifts. SF 295 passed in 2013 enacted several pieces of property tax relief for various classifications. One component was the reduction of the rollback for commercial and industrial property from 100% to 90%. Initially, the resulting reduction in property tax revenue was backfilled (you knew the word was coming) by the state. A tax burden shift to state dollars, predominately personal income tax and sales/use tax. With the phasing out of the backfill, the tax burden shifts back mostly to residential and agricultural property while commercial and industrial continues to get the rollback. The exact same thing would happen if the state doesn't fund the replacement claims for the business property tax exemption. The rollbacks for railroad and multiresidential property and the exemption for telecommunication property contained in SF 295 were never backfilled and have been shifted largely to residential and ag. Already this legislative session we've seen bills exempting certain property from taxation, and with each exemption comes a property tax burden shift.

Another example that we see due to legislative action or long standing law is when a state cost is passed to the counties. Again, the cost must be incurred, but it's a matter of who pays and how. A recent example is the change from last year requiring counties to pay for 75% of the cost of furnishings and equipment for the courts. This was previously a 50/50 split, and it is in addition to the costs already incurred for the maintenance and operation of the courts related to housing the judicial branch. A similar shift has happened with juvenile detention funding. And, despite the state taking over the funding of mental health services, a common landing spot for those in desperate need of care is the county jail, subsidized by the property taxpayers.

Counties provide a number of state services at the local level. It's a tremendous convenience for the customer, but in most cases, the amount of the fees for service retained by the county does not cover the cost of providing the service. From motor vehicles and driver's licenses in the treasurer's office to marriage licenses and registration for boats, snowmobiles, and ATVs in the recorder's office and others, the state service is subsidized by property tax dollars. ISAC has legislative proposals this year to address this gap between cost and revenue for vehicle titling and

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nonresident driver's license issuance. More local control over fees for services would be helpful in other county departments like environmental health and zoning. The costs are there, who pays for it?


I know this brief look at tax burden shifts is pointed, but it's an important evaluation to undertake as the legislature considers property tax legislation this session. When there's a benefit extended to one property classification, let's find ways to not shift the tax burden to other classifications. When the cost of providing county services increases beyond the capacity to cut expenditures, let's find ways to diversify county revenue so it's not always falling on the property taxpayer. When services provided are the joint responsibility of the state and county, let's find ways to maintain a strong partnership and not disproportionately shift the tax burden to the locals. And, when state services are provided at the local level by the counties, let's find ways to cover the cost of providing that service so it's not subsidized by the property taxpayer. Counties stand ready to work with the legislature to find these solutions.

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