



**Urban Education Network of Iowa**

Serving Public Education in Iowa's Eight Urban Centers

Cedar Rapids Council Bluffs Davenport Des Moines Dubuque Iowa City Sioux City Waterloo



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## *2015 UEN Testimony re Property Tax Inequity*

# **Legislative Interim Inequities Study Committee Dec. 2, 2015**

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# Interim Committee Charge

“Review current provisions of the school finance formula and consider alternatives for achieving a more equitable application across all public school districts in the state. Aspects of the study shall include **transportation funding** with a particular emphasis on small and rural school district transportation funding levels, school district **property taxation levels, at-risk student funding challenges**, and **other school finance formula provisions which may result in funding disparities** between school districts. Based on stakeholder input from the Department of Education, school districts, education-related organizations and associations, and other interested stakeholders, the committee shall submit recommendations, if deemed appropriate, to the General Assembly by January 1, 2016.

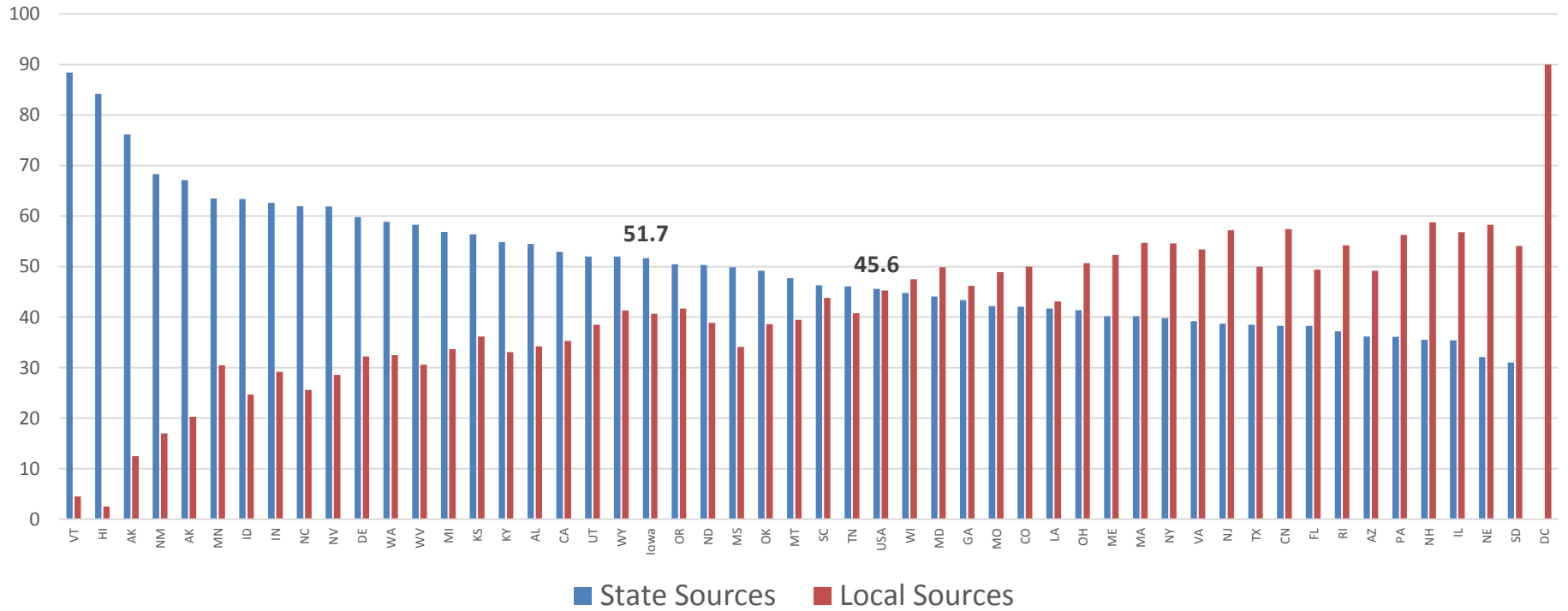
# Property Tax Equity

- History of State Property Tax Equity/Relief Actions
- Current disparity today and compared to no formula
- Considerations for Policy Actions

# Policy Caveats

- Local property owners benefit from great schools in their proximity.
- Generic Property Tax Relief is the most expensive answer to property tax inequity.
- State share of PK-12 funding in Iowa has already passed the threshold of USA averages (Iowa has a primarily state funded system)  
property tax portion of school funding:  
50 % in 1985, 43% in 1990, 39% in 1995, 33% in 2015.  
(17% difference = \$733 million in FY 2015 dollars)

## Percentage Distribution of State and Local School Revenue Sources by State 2013



# History School Property Tax Actions

- Prior            Primarily local funding of schools
- 1971            HF 654 School Finance Formula Act
  - » 20-mill uniform levy
  - » State foundation base on 70% of State Cost per Pupil, increasing 1% annually to 80.0%

State Representative Fred W. Nolting, Member Interim Taxation Committee (Born near Fredericka, IA. Graduated Waterloo East High School, employed as a meat cutter, served in Iowa House 1969-1971 and in Iowa Senate 1975-1979) in his minority report included in the FINAL REPORT OF THE TAXATION STUDY COMMITTEE 1971

<https://www.legis.iowa.gov/docs/publications/IP/255525.pdf>

# Rep. Nolting on the Formula:

“There are several items in the final report which I do not feel are in the best present and continuing interests of the citizens of Iowa. Among them:

1. 20 mill property tax levy by each school district, retained within the district. This levy should be 30 mills to start a meaningful minimum foundation and should be collected and sent to the state for distribution, along with the income tax distribution. (FYI 30 mill = \$8.10 20 mill = \$5.40)
2. The local income tax making up half of the local effort for school costs is unworkable as proposed. (FYI- later repealed)
3. . . . . Since revenues needed are dependent on new taxes, no tax i.e. personal property tax--should be repealed until its full replacement is enacted.”

# History School Property Tax Actions

- 1986 Set state foundation level at 81.5% in FY88 plus 0.5% increase annually until 85%
- 1989 Set state foundation level at 83.5%, then plus 0.25% annually until 85% was reached.
- ????? Frozen at 83% sometime later ?????



# History School Property Tax Actions

- 1996 Increased regular program foundation base from 83% to 87.5%
- 1998 Created SILO for school infrastructure/PTR
- 1999 Governor's veto resulted in special education foundation level increase to 87.5% beginning in 2000. Added \$38 to FY 2000 SCPP for TAG.
- 2002 Increase weighting for LEP students from 0.19 to 0.22 (impacting FY 2014)
- 2005 Limited state contribution to Instructional Support to \$14.4 million (proration based on state share, not per pupil)

# History School Property Tax Actions

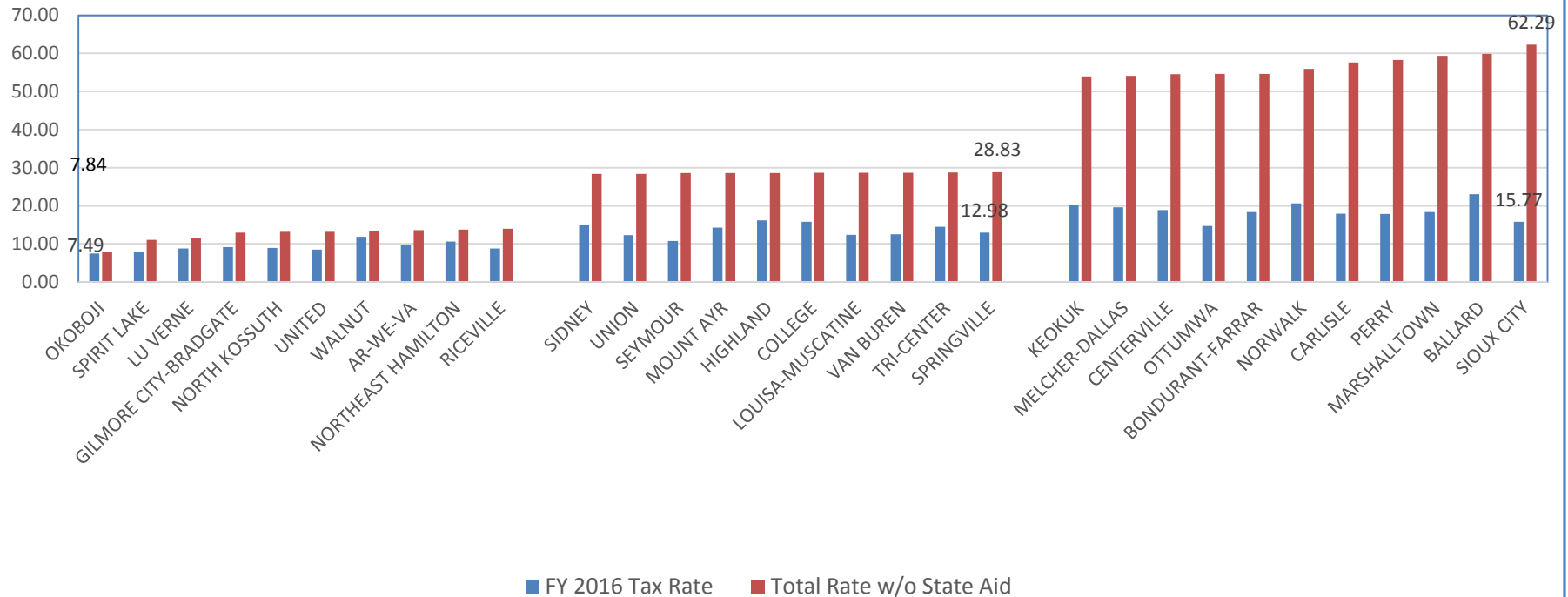
- 2006      Provided Property Tax Relief for highest additional levy districts through the school aid formula. Appropriated \$6 million in FY07, grows to \$24 million in FY10 and beyond. Extended ELL state funding from 3-4 years for .22 weighting.
- 2008      Eliminated SILO and established state penny through 2029 for school infrastructure and PTR. Included dedication of consumer use tax to PTER fund to supplement PTR through the formula. (\$25.4 million in FY11. Dropped to \$6.7 million in FY 2012)

# History School Property Tax Actions

- 2011 Eliminated state appropriation for instructional support (reduced to \$7.5 million appropriated from School Infrastructure Fund in 2010)
- 2013 Required the increase in the per pupil costs resulting from the FY 2014 and FY 2015 AG rates be paid entirely with state aid. Extended ELL state contribution to 5 years beginning in FY 15. Required 2.1% of sales/use tax (state penny) be transferred to the PTER fund beginning in FY 2015.
- 2015 State pays increased cost of SSA with no property tax contribution for FY 2016.

Consider bottom 10, middle 10 and top 10 school tax rates:

School Property Tax Rates FY 2016 Compared to Tax Rates if No State Aid



Put another way, Okoboji/Sioux City Taxpayer disparity between \$7.49 and \$62.29 tax rate per \$1,000 net taxable valuation without the formula lessens to \$7.49 and \$15.27 due to formula contribution.

# Home/Demographic Comparisons

	Okoboji	Sioux City
School Total Tax Rate	\$7.49/\$1,000	\$15.77/\$1,000
Average Home Price	\$194,150	\$75,000
Taxes paid per house (after homestead credit)	\$772.58	\$581.43
Average Home Sold	\$238,500	\$110,250
Taxes paid per house sold (after homestead credit)	\$957.36	\$890.65
Percent of households with children below 18 living at home	14.1%	34.3%

# Considerations

- Combination of local and state commitment
- Hold harmless for any districts who's property taxes might otherwise go up (not necessarily a school priority but might be a political one)
- Consider uniform levy and additional levy combination statewide – what is the correct mix?
- Address ISL proration distribution – consider increased state share as vehicle for long term equity
- Existing vehicle, PTER fund, includes a working mechanism

Questions?