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A 2 Percent Property Tax Cap – A Necessary Step for Iowa

Had the 24 cities and counties examined in this report followed a 2 percent cap over the last decade, Iowans in those communities alone would have \$160 million more in their wallets to satisfy their desires, including investing in the future, saving for a rainy day, and attaining their American Dream.

OVERVIEW

The Problem: Unchecked Property Tax Growth

- Property taxes in Iowa have surged by over 110% in the past two decades, outpacing population growth and inflation.
- High property taxes burden homeowners, businesses, and renters and constitute an unrealized capital gains tax.
- The primary driver of these increases is unchecked local government spending, which has outgrown the ability of taxpayers to keep up.

Lessons from Other States

- **Colorado's TABOR:** Limits government revenue growth to inflation plus population growth, with excess revenue refunded to taxpayers. Despite its success, TABOR has been weakened over time and should be strengthened, but it has been the gold standard for a spending limit.
- **New York's Property Tax Cap:** Limits annual growth in property tax levies to 2% or the inflation rate, with voter approval needed to exceed the cap. Effective in slowing tax growth while maintaining essential services.
- **Massachusetts' Proposition 2½:** Caps total property tax revenue and limits annual increases to 2.5%, with voter-approved overrides. It has been successful in some ways but presents challenges because of excess spending.
- **Texas' Approach:** Limits local government revenue growth and uses state surpluses to reduce school property taxes. Local governments spend heavily, revealing the need for stricter fiscal discipline.

Recommendations for Iowa

- **Implement a 2 Percent Property Tax Cap:** Limit the annual growth of property tax revenue to 2 percent for all local taxing entities.
- **Voter Override Mechanism:** Allow local governments to exceed the cap only with voter approval, ensuring transparency and accountability.
- **Fiscal Discipline:** Encourage local governments to prioritize spending, reduce waste, and improve efficiency by limiting revenue growth.

- **Long-Term Fiscal Stability:** Prevent unchecked revenue growth and reduce the likelihood of fiscal crises, encouraging prudent financial management.

Addressing Potential Criticisms

- **Maintain Essential Services:** The voter override mechanism provides flexibility to raise additional revenue when necessary, ensuring that vital services are not compromised.
- **Encourage Innovation:** Local governments are incentivized to find efficiencies and innovate in service delivery by capping revenue growth.
- **Support Economic Development:** A stable and predictable tax environment can attract new businesses and residents, broaden the tax base, and reduce pressure on individual taxpayers over time.

Conclusion

- A 2 percent property tax cap is crucial in addressing Iowa's property tax challenges, providing relief to taxpayers, and promoting responsible local government spending.
- Had the 24 cities and counties examined in this report followed a 2 percent cap over the last decade, Iowans in those communities alone would have \$160 million more in their wallets to satisfy their desires, including investing in the future, saving for a rainy day, and attaining their American Dream.
- This cap should be part of a broader strategy, including spending limits, to ensure long-term fiscal health for Iowa's local governments and taxpayers. Now is the time for Iowa to take bold action on property taxes, following the successful models from other states.

FULL REPORT

Introduction: The Growing Revolt Against Property Taxes

Across the United States, property taxes are increasingly scrutinized as homeowners, renters, and businesses grapple with rising tax bills that outpace their ability to pay for them. This mounting frustration echoes the taxpayer revolt that led to the passage of California's [Proposition 13](#) in 1978, an initiative that significantly reshaped the property tax landscape by limiting how much property taxes could increase by and be as a share of the total property value. While this provided temporary improvements, this measure created a [lock-in effect](#) because if people moved, they would be [forced to pay](#) their neighbors' new higher property tax bills, which drove up values that hurt new home buyers. This contributed to a generational wealth problem as younger people had difficulty getting homes while older people reaped greater rewards from higher valuations. Today, similar sentiments are emerging in states nationwide, including Iowa, where taxpayers demand relief from what many see as an unsustainable and inequitable tax burden.

Several states are pursuing property tax reforms through ballot measures and legislative actions. For instance, Michigan voters are considering [AxMiTax](#), a proposal that would eliminate property taxes and require a two-thirds majority to approve new local taxes. Similarly, in North Dakota, voters will decide on the [End the Unfair Property Tax](#) measures, which aim to abolish property taxes, arguing they are unfair and should be replaced with other revenue sources. Other states are exploring more [targeted reforms](#). Kentucky is considering a measure to exempt citizens 65 or older from property taxes, while Virginia, Colorado, and New Mexico are evaluating proposals to expand or fully exempt veterans. Colorado is also contemplating [ballot measures](#) to limit property taxes based on inflation and home values and cap property tax revenue growth at 4 percent. Other states, like [Texas](#) and [Wyoming](#), are considering other reforms to reduce the burden of property taxes.



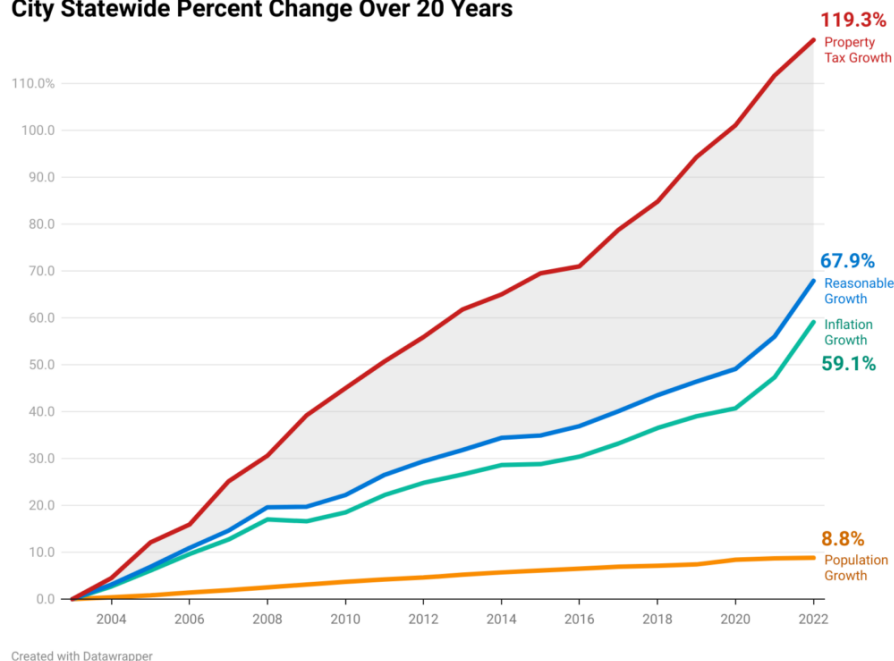
Iowa is at a critical juncture amid a nationwide wave of property tax reform. With property taxes skyrocketing by **over 110%** in the past two decades, action is urgently required. The solution being proposed by Iowans for Tax Relief Foundation, a 2 percent property tax cap, offers immediate relief to taxpayers and promotes more responsible fiscal management at the local government level. This cap is not just a suggestion but a necessary step to curb the unchecked growth in property taxes. A sample of 14 economically diverse cities and 10 counties in Iowa will demonstrate that not only will a 2 percent cap help provide tax relief, but it will not place undue constraints on local governments. Had these cities and counties followed this cap over the last decade, Iowans in those communities alone would have \$160 million more in their wallets to satisfy their desires, including investing in the future, saving for a rainy day, and attaining their American Dream.

The Problem: Unchecked Growth in Property Taxes

Property taxes have long been viewed as one of the most burdensome forms of taxation. Unlike other taxes, property taxes are highly visible, paid in large sums, and often create the perception that property owners are effectively renting their property from the government. This sentiment is powerful when taxpayers see their property taxes rise year after year, often at rates that far exceed their ability to pay for them.

Property taxes have surged over the past two decades in Iowa, increasing by over 110%. This growth has far outstripped both population growth and inflation, placing a heavy burden on taxpayers, particularly those on fixed incomes, such as retirees. The primary driver of this increase is not merely rising property values but unchecked local government spending. As local governments have increasingly relied on property taxes to fund their operations, the disconnect between revenue growth and taxpayers' ability to pay has widened.

City Statewide Percent Change Over 20 Years



The rise in property taxes represents a fundamental failure to adhere to sound economic principles. Government spending should not grow faster than the private sector that funds it, and taxes should not be used to finance ever-increasing government spending. Taxpayers should be able to control the size and scope of government through mechanisms like tax and spending limitations, which directly tie government growth to taxpayers' ability to pay for spending, as nothing is free. This unsustainable growth in property taxes has several adverse effects. High property taxes can price residents out of

their homes, discourage investment in housing and commercial property, and stifle economic growth. Moreover, property taxes function as an unrealized capital gains tax, imposing a recurring financial burden on property owners regardless of their actual income or liquidity, more so than any other tax, as others are paid only once on the same asset.

Lessons from Other States: Successful Models for Property Tax Caps

Although differing in varying degrees, [most states](#) (34) have some form of levy limitation, which indirectly restrains some government spending. These examples offer valuable lessons for Iowa as it considers its property tax reform.

- **Colorado's Taxpayer's Bill of Rights (TABOR):** Passed in 1992, [Colorado's TABOR](#) is perhaps the gold standard of a state-local tax and spending limitation. TABOR limits the growth of government revenue and spending to the rate of inflation plus population growth, with any excess revenue required to be refunded to taxpayers. Despite being weakened over time by subsequent progressive legislation and court rulings, TABOR remains a gold standard for controlling government spending and ensuring that voters directly approve tax increases. Colorado is considering additional measures to limit property tax increases, reflecting ongoing concerns about the adequacy of the weaker TABOR in curbing tax growth. Although this limitation is broader than a property tax cap as it covers more revenue sources for spending, TABOR should be considered as another way to limit local spending and, thus, property taxes.
- **New York's Property Tax Cap:** In 2012, New York implemented a [property tax cap](#) that limits the annual growth of property tax levies by local governments and school districts to the lesser of 2 percent or the inflation rate. The cap, made permanent in 2019, includes a voter override mechanism allowing local governments to exceed the cap with the approval of 60 percent of voters. This measure has been [credited](#) with slowing the growth of property taxes in New York while still allowing local governments to meet their essential needs. New York's experience shows that a well-designed cap can successfully balance fiscal restraint with the need for local services.
- **Massachusetts' Proposition 2½:** Enacted in 1980, Massachusetts' [Proposition 2½](#) is one of the country's most stringent property tax limitation laws. It caps total property tax revenue at 2.5 percent of the fair market value of all taxable property and limits annual increases in property tax levies to 2.5 percent, with exceptions for new construction and voter-approved overrides. Proposition 2½ has successfully kept property taxes in check.
- **Texas' Approach to Property Tax Control:** In 2019, Texas passed legislation ([SB 2](#)) that limits the growth of property tax revenue from new property for most cities and counties to 3.5 percent annually and for school districts to 2.5 percent without voter approval. Unfortunately, the law included [too many loopholes](#) and has not worked effectively since it went into effect, but changes have been made in subsequent sessions to close loopholes for natural disaster localities and small population places so more benefits could happen soon. This law is part of a [broader effort to reduce property taxes](#), particularly the maintenance and operations property taxes that partially fund public schools. Texas has been using its state budget surpluses to gradually buy down these taxes, as the state controls the school finance formulas and has already funded half of the amount to school districts to eliminate them eventually. However, local governments in Texas continue to spend heavily, highlighting the challenges of enforcing such caps without comprehensive fiscal discipline.

These examples demonstrate that property tax caps can help control tax growth but highlight the importance of coupling these caps with broader fiscal reforms. Without limits on government spending



or alternative revenue sources, caps alone may not be sufficient to address the underlying issues driving property tax increases.

Recommendations for Iowa: Implementing a 2 Percent Property Tax Cap

Given the lessons learned from other states, Iowa is well-positioned to implement a 2 percent property tax cap, which is a form of a [levy limit](#), as a reasonable next step in its property tax reform efforts. Such a cap would provide much-needed relief to taxpayers while encouraging more disciplined and efficient spending by local governments.

- **Revenue Growth Limitation:** A 2 percent property tax cap would limit the annual growth of property tax revenue for cities and counties to 2 percent without a vote of the people. This measure would ensure that property tax increases align with economic conditions and taxpayers' ability to pay, preventing local governments from benefiting disproportionately from assessment windfalls.
- **Hard Cap:** The 2 percent cap should be a hard cap, that is, policymakers should avoid any built-in formulas or exempting certain budget areas. A 2 percent cap can become quickly watered down because of various formulas and exemptions.
- **Voter Override Mechanism:** To provide flexibility in extraordinary circumstances, the cap should include a mechanism allowing local governments to seek voter approval for increases above the 2 percent limit at a maximum. This ensures that any significant tax hikes are directly approved by the taxpayers who will bear the burden, fostering greater accountability and transparency in local government spending.
- **Fiscal Discipline:** By limiting revenue growth, the 2 percent cap would encourage local governments to prioritize their spending, potentially reducing waste and improving the overall effectiveness of public services. Rather than relying on automatic tax increases to fund new initiatives, local officials must make tough decisions about allocating scarce taxpayer resources.
- **Long-Term Fiscal Stability:** The cap would contribute to the long-term fiscal stability of Iowa's local governments by preventing unchecked revenue growth and reducing the likelihood of fiscal crises driven by unsustainable spending. By encouraging more prudent financial management, the cap could help local governments build up reserves and avoid the need for emergency tax increases in the future.

Addressing Potential Criticisms and Challenges

As with any significant policy reform, the proposed 2 percent property tax cap will face criticism from various quarters. Some may argue that the cap would force cuts to essential services, particularly in rural areas with smaller tax bases and tight budgets. Others may worry that the cap could exacerbate inequalities between wealthier and poorer communities, as wealthier areas may be better able to absorb the impact of a revenue cap without sacrificing services. However, there is one important facet that could be included alongside the cap to mitigate those fears, and two additional benefits that should be considered.

- **Voter Override Mechanism:** Including a voter override mechanism provides a critical safety valve, allowing local governments to raise additional revenue when genuinely necessary. This ensures that essential services can be maintained without placing an undue burden on taxpayers.
- **Encourage Efficiency and Innovation:** The 2 percent cap would incentivize local governments to find efficiencies within their budgets by capping revenue growth. This could lead to innovations in public



administration, better use of technology, and more collaborative approaches to providing services, all of which can benefit taxpayers without compromising the quality of public services.

- **Support Economic Development:** A well-designed property tax cap can contribute to economic development by creating a more stable and predictable tax environment without picking winners and losers.

Conclusion: Charting a Path Forward for Iowa

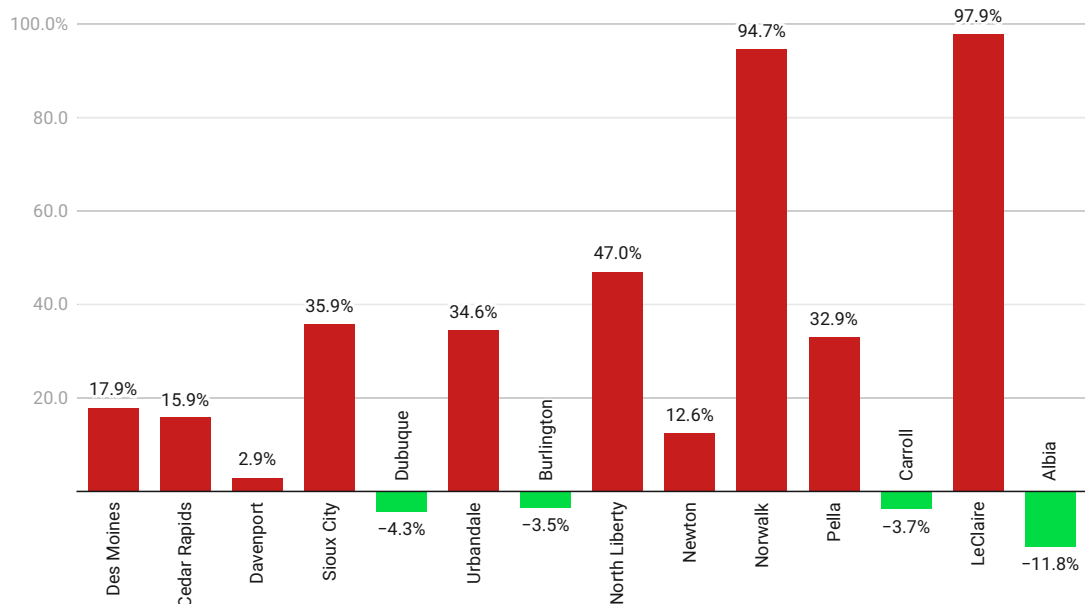
The proposed 2 percent property tax cap represents a significant step forward for Iowa, offering a balanced approach to addressing the state's property tax challenges. An overwhelming majority, close to **70 percent** of Iowans, support the state legislature implementing this cap. By limiting the growth of property tax revenue, the cap would provide much-needed relief to taxpayers while encouraging local governments to adopt more disciplined and efficient spending practices. If implemented, this reform would protect Iowans from the burden of rising property taxes and contribute to the long-term fiscal health of the state's local governments.

City Property Taxes Compared with 2 Percent Property Tax Cap

The chart below presents an overview of property tax growth across various cities in Iowa, comparing each city's property tax burden relative to a 2 percent annual growth threshold from FY 2016 through FY 2025. Notably, most cities have experienced property tax growth well above the 2 percent benchmark for a 19.5 percent cumulative increase for the decade. Pella and LeClaire stood out with 94.7 and 97.9 percentage points, respectively, more than this cap over the decade, meaning property taxes are rising substantially faster than what is reasonable.

City Property Tax Growth Relative to 2% Annual Growth Threshold

(2016-2025)



Source: ITR Local • Created with Datawrapper

Conversely, a few cities, such as Albia (-11.8 percentage points) and Dubuque (-4.3 percentage points), have delivered a lighter burden relative to the 2 percent growth rate, indicating better management of spending and property taxes than the reasonable metric. The chart underscores the diverse economic trajectories within Iowa, with most cities significantly exceeding the conservative 2 percent growth rate

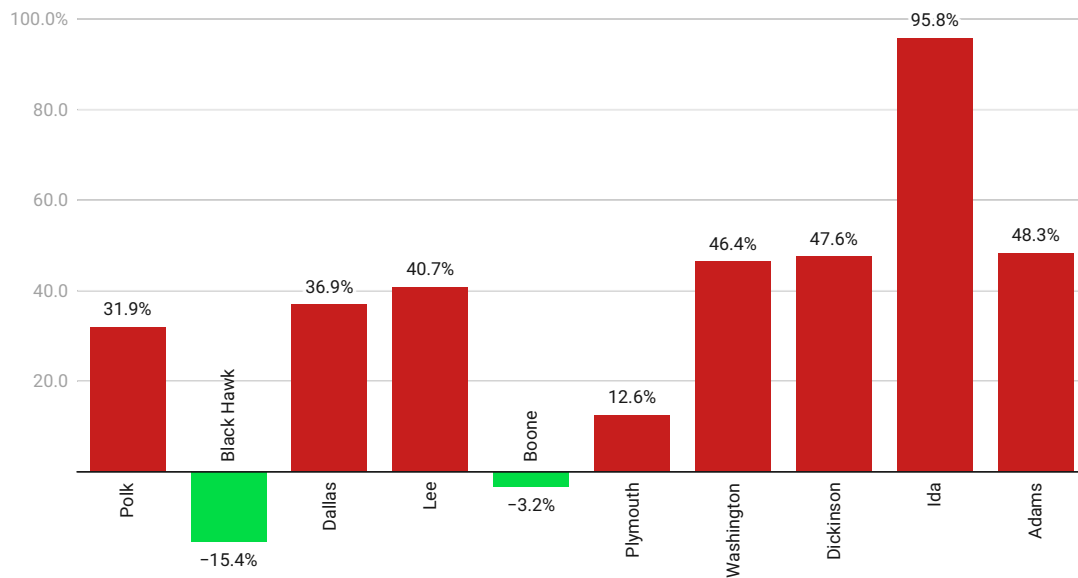
while a minority were able to stay within this benchmark. Collectively, if these 14 cities had matched the 2 percent property tax cap annually, lowans would have paid \$80.3 million *less* in property taxes across these cities. This would mean more money in family budgets and more financial opportunities for businesses.

County Property Taxes Compared with 2 Percent Property Tax Cap

The next chart highlights the disparity in property tax growth across various counties in Iowa compared to a 2% annual growth benchmark over the decade from FY 2016 to FY 2025. Most counties have seen significant growth exceeding the 2% threshold, with Ida County at 95.8 percentage points above the benchmark, followed closely by Adams and Dickinson Counties with 48.3 and 47.6 percentage points, respectively, above it.

County Property Tax Growth Relative to 2% Annual Growth Threshold

(2016-2025)



Source: [ITR Local](#) • Created with [Datawrapper](#)

On the other hand, a few counties, such as Black Hawk (-15.4 percentage points) and Boone (-3.2 percentage points), stayed below the 2 percent growth cap, showing slower increases in property taxes than the cap would allow. Overall, this chart reflects the varying property tax growth across Iowa's counties, with the majority experiencing excessive growth well above the conservative 2 percent benchmark. If these 10 counties had limited their property tax revenue to the cap over the last decade, lowans would have \$79.6 million more in their pockets.


Time for Bold Action on Property Taxes

This cap is only part of Iowa's broader strategy for achieving long-term fiscal stability. In addition to the cap, policymakers should consider other measures such as reforming the property tax statement notices that were first sent out this past spring. These notices are part of a policy referred to as direct notification, but the design was confusing and some of the information led to inaccuracies. As an example, each notice used a generic \$100,000 residential property as a comparison. This caused inaccuracies and confusion. The notice itself must be redesigned so taxpayers can easily understand. Utah and Minnesota both provide examples of quality property tax statements and those could serve as templates for Iowa. Further, the goal of the notice should be for taxpayers to understand how their bill will be impacted.



Finally, while a 2 percent property tax cap and strengthening the property tax statements are positive reforms, it will be essential for local governments to restrain spending. This is why past property tax reforms have failed to provide tax relief. Policymakers may want to consider a local government spending limitation, which applies to all revenue, that is the entire budget. Iowa's General Fund is subject to a 99 percent spending limitation, which means the legislature can only spend 99 percent of estimated revenue. Local governments often protest property tax reform because they argue the demands on growing budgets, but the evidence is clear about the relationship between government spending and taxation. Growing government more and taxing more will only lead to further economic troubles, while reducing taxes will actually create more growth. Property tax relief is not just in the interest of the taxpayer, but it is also necessary for economic growth and for better local government in Iowa.

Now is the time for bold action on property taxes in Iowa. The 2 percent property tax cap offers a clear and achievable path forward that can help restore the balance between essential government services and taxpayers' ability to pay. Had the select cities and counties followed this cap over the last decade, Iowans in those communities would have \$160 million more in their wallets today. Iowa should take this step without delay.

 John Hendrickson and Vance Ginn, Ph.D.

< [Hendrickson Report: The Conservatism of Governor Kim Reynolds vs the Socialism of Governor Tim Walz](#)



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