

Removing the Mental Health Tax Burden From Iowa Counties

Did counties pass on the property tax savings?



By Sarah Curry, DBA

ITR Foundation Research Director



Table of Contents

Key Points.....1

Introduction2

Background.....2

Analysis and Results.....3

Recommendations and Conclusion5

Appendix..... 6

Notes..... 10



About the Author

SARAH CURRY, DBA is the Research Director of ITR Foundation. With over a decade of public policy experience, she has previously served as the Policy Director at the Nebraska-based Platte Institute and as the Director of Fiscal Policy Studies at the John Locke Foundation in North Carolina. Her work focuses on fiscal issues such as taxes and the state budget, as well as federalism, local government transparency, regulation, and a host of other policy areas.

Sarah earned a Doctor of Business Administration in Finance, with her dissertation focusing on municipal debt. Before entering the policy world, she worked in state government and the private banking sector.

Key Points

- **Iowa counties are no longer tasked with funding mental health services in fiscal year 2023 (FY23).**
- **Forty-eight counties did not pass along the full amount of mental health savings the state provided to taxpayers.**
- **Floyd, Davis, Sac, Washington, Worth, and Hancock Counties made the largest increases to their levy rates when factoring in the elimination of the mental health levy.**
- **Taylor, Wayne, Madison, Hardin, Mills, and Van Buren Counties made the largest cuts to their property tax levy rates when factoring in the elimination of the mental health levy.**

Introduction

In 2021, Iowa Governor Kim Reynolds signed Senate File 619,¹ which among other things realigned Iowa’s mental health funding system from property taxes to the state’s general fund. “For years, Iowa has funded mental health services through a burdensome county property tax levy. Not anymore,” Reynolds said.² “Instead, this bill eliminates that levy and provides for mental health to be funded from the state’s general fund as we do for other services.”

The state left it to local county officials to pass the savings on to taxpayers. This policy brief provides an overview of the removal of the county mental health property tax levy, assesses the results of the policy change, and evaluates how it affected Iowans across the state.

Background

Historically, Iowa has been the only state in the nation to fund mental health programs through local property taxes. While the state established specialized facilities to provide services to those suffering from mental illness, the cost for their care fell entirely on the counties. This arrangement created difficulties for some counties, especially those with declining taxable resources.³

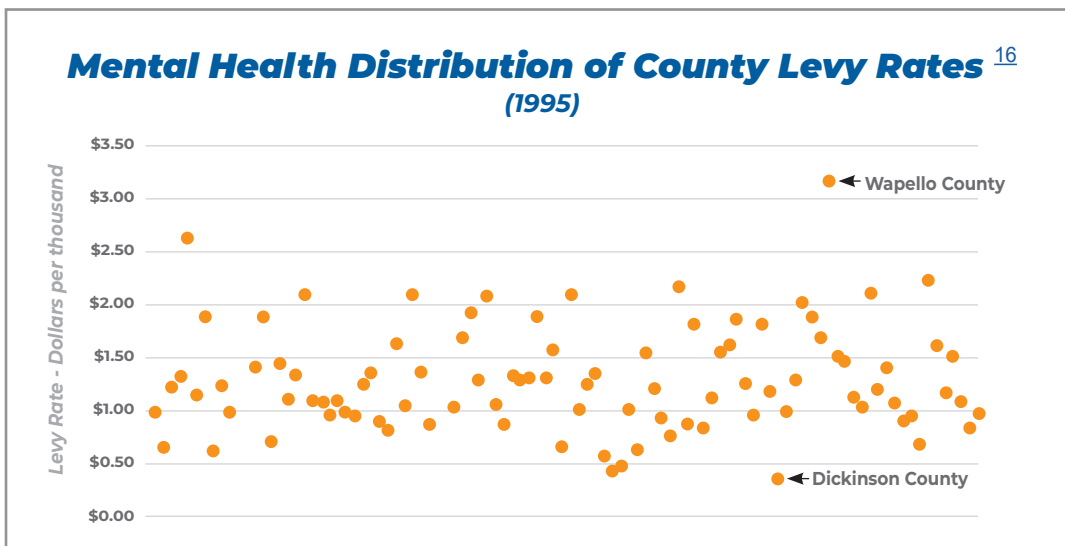
In 1995, legislation changed the way mental health services were funded, creating a state-county partnership and capping the mental health levy at \$214.2 million statewide, with the state picking up 50 percent of the cost as well as any future growth.⁴ In exchange, counties had to reduce their mental health levies by half and cap total collections from that source. The resulting rates ranged from \$0.43 per \$1,000 of assessed valuation in Dickinson County to \$3.15 in Wapello County.⁵

The new funding system worked for a while, but battles ensued over the dollars to fund growth. Legislation changing the funding structure of mental health in Iowa in 2011 was followed by more legislation in 2013.^{6,7} Overall, these reforms focused on four themes:

1. Transforming the management structure for mental health services so that counties created regions to share services and staffing
2. Revising the basis for assigning a county’s financial responsibility for payment
3. Establishing core services available throughout the entire state
4. Providing funding equity, including a shift of the nonfederal share of Medicaid from the

counties to the state⁸

The Medicaid reform, called “the Medicaid county buyout,” required the state to pay the Medicaid costs for mental health services and provided a supplemental appropriation for counties that met certain criteria.

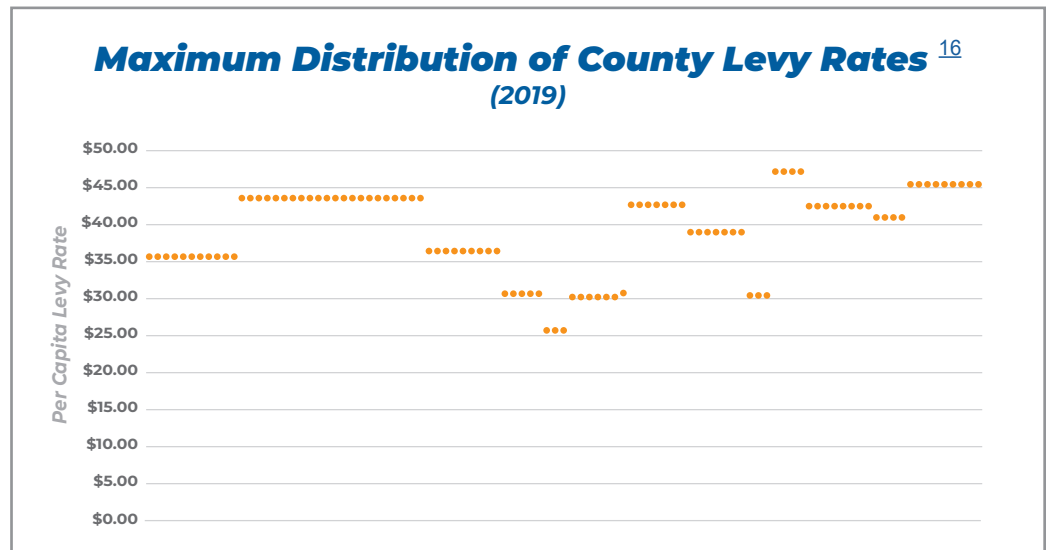


Counties used their remaining levy authority to fund services to residents who were not Medicaid eligible. This new mental health property tax levy began in 2013 with a target of \$47.28 per capita.

By 2017, inequity became evident between the property tax levies of the mental health regions. For example, 46 counties were able to collect the \$47.28 per capita maximum, while 53 counties had levies between \$14.62 (Plymouth County) and \$47.28.⁹ State lawmakers attempted to address these differences with a cap on the amount of money a county could keep in its reserve funds (i.e., its “fund balance”), which exist to smooth fluctuations in costs and coverage numbers. The legislation also equalized the tax levied in each county on a regional basis and set a maximum per capita.¹⁰

Overall, even in the face of rising property valuations, the cap on collections via the mental health levy declined after its implementation in 1995. While the state set a per capita level, the nature of property taxes forced counties to translate it into a “mill rate” per \$1,000 of assessed property valuation. Wapello County’s experience illustrates the per capita reduction, with the \$3.15 levy in 1995 dropping as low as \$0.66 in fiscal year 2019 (FY19).¹¹

While property tax burdens for mental health services had been reduced, by 2021 neither lawmakers nor mental health advocates could ignore the continuing problem funding these services in Iowa. On one hand, funding equity continued to be a problem, while on the other,



property taxpayers never ceased voicing concerns about the growing burden.

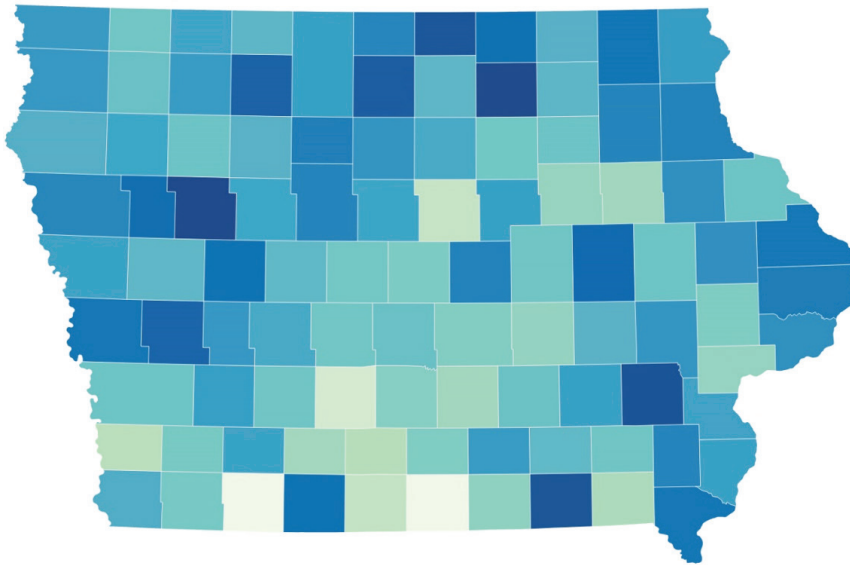
The end of the 2021 legislative session brought the enactment of Senate File 619, a comprehensive tax reform package that removed the county property tax component and shifted mental health funding entirely to the state government. The reform phased out the mental health portion of local property tax levies over two years, with FY23 being the first year counties would be completely relieved of this responsibility.¹²

Analysis and Results

The good intentions with which elected officials enact legislation do not relieve a community of the obligation to follow up on its results and ensure that the reality matched expectations. This section evaluates county property tax rates before and after the mental health levy’s elimination to determine whether Iowans received the property tax savings the legislature envisioned. We acknowledge valuations and assessments of Iowa properties have increased significantly over the last couple of years,¹³ so this analysis focuses on the levy rates as a measure of tax reduction.

County Property Tax Levy Rate Change ^{* 17}

<-Rate Decrease / Rate Increase->



*2022 Total Levy Rates include the mental health levy.
2023 Total Levy Rates do not.

the overall rate. The average urban levy rate in 2023, after the full phase-out of the mental health levy, was still \$6.00, a reduction of just 3.8 percent.¹⁴

For a baseline, FY22 was the last year the law required counties to levy property taxes for mental health services. During that year, mental health levies ranged from \$0.00 in Audubon County to \$0.58 in Wapello County.¹⁵ Property tax levy reductions should have been within that range, if not greater, for FY23, but they

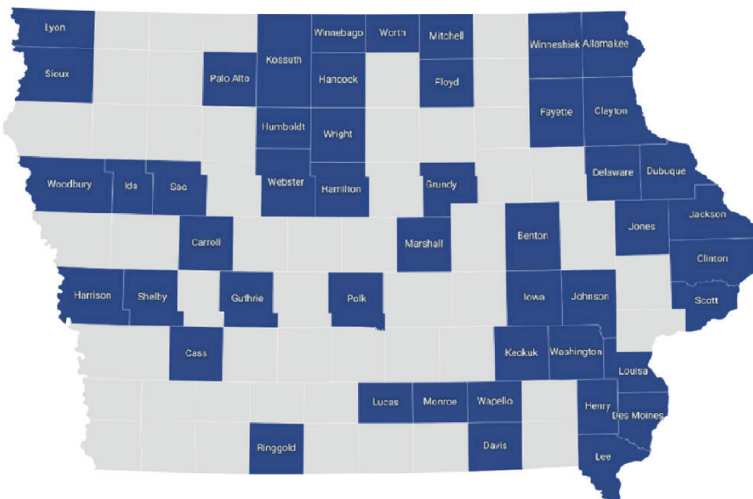
An analysis of statewide data finds that county governments were not able to pass along all the savings the Iowa Legislature prepared for them with the removal of the mental health levy. The average urban levy rate for Iowa counties in 2022 was \$6.23, with the mental health levy averaging \$0.31 per county, or 5.0 percent of

were not.

Because all counties, with one exception, levied some property taxes for mental health services in FY22, all taxpayers should have seen a levy rate decrease in FY23. Unfortunately, while counties made a wide range of tax changes in FY23, not

all Iowans received savings. In total, 48 counties did not pass along the full amount of mental health savings. (A complete list of counties and their changing levy rates can be found in the appendix.)

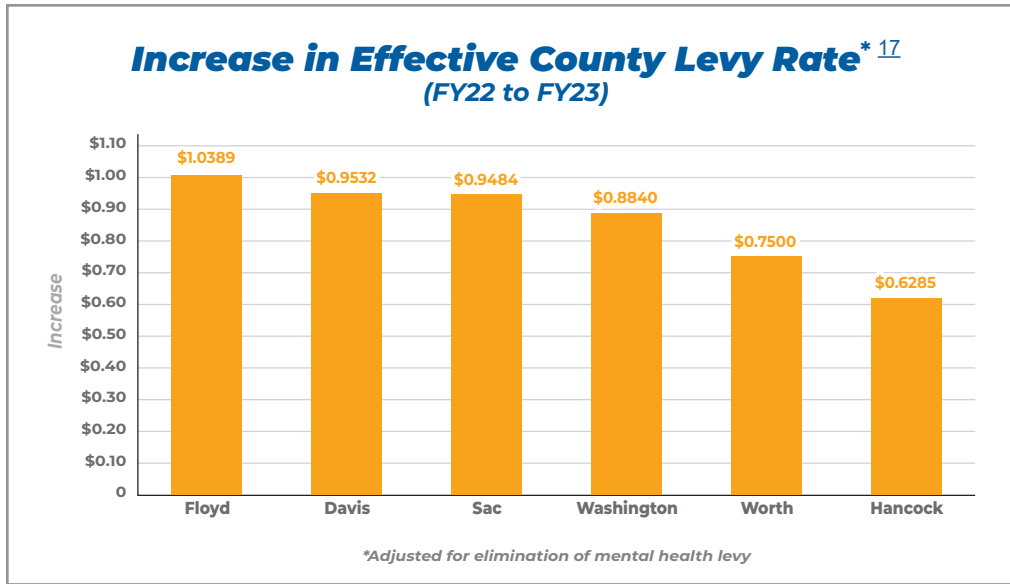
Counties That Withheld Mental Health Savings From Citizens ¹⁷



Among the identified 48 counties, 23 not only refused to cut the levy by the mental health portion of taxpayers' bills, but actually raised their overall rates. Effective property tax rate changes from FY22 to FY23 ranged from a \$1.04 increase per \$1,000 of valuation in Floyd County to a \$1.12 reduction per \$1,000 of valuation in Taylor County. Seven counties

removed the mental health levy while leaving the remainder of their property tax levies the same.

Recommendations and Conclusions

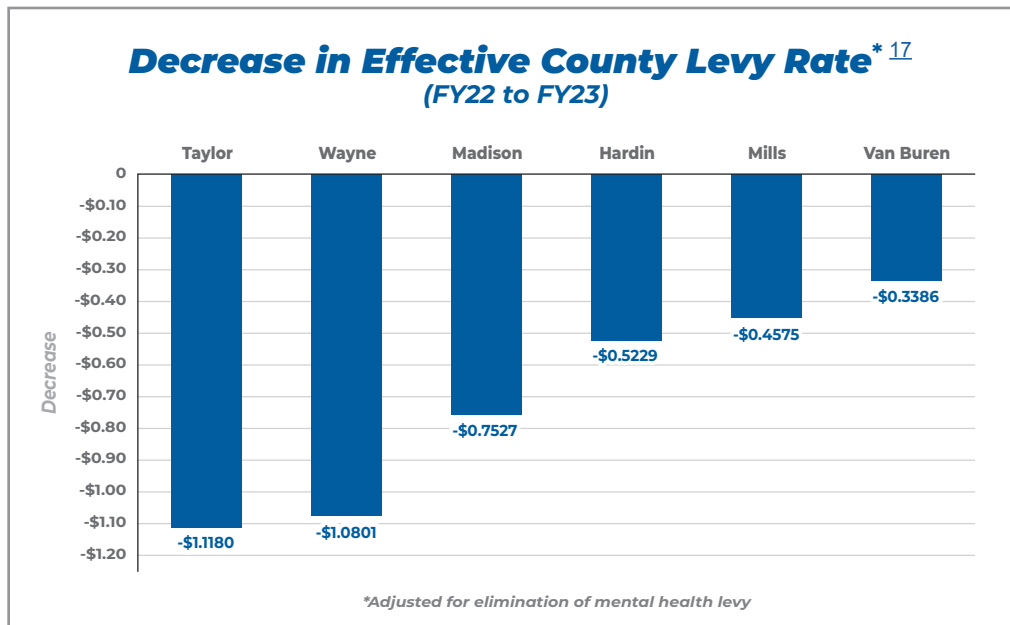


The history of mental health funding in Iowa exposes a convoluted and problematic system. The 2021 Iowa Legislature’s reform had been needed for many years and successfully simplified the funding for mental health services while also providing property tax relief for Iowans.

Floyd, Davis, Sac, Washington, Worth, and Hancock Counties made the largest *increases* to their urban levy rates when factoring in the elimination of the mental health levy. In contrast, Taylor, Wayne, Madison, Hardin, Mills, and Van Buren Counties made the largest *cuts*.

Unfortunately, boards of supervisors in 48 of Iowa’s

counties did not follow through with their part of the deal and provide the property tax relief Iowans deserve and need. They have no excuse for failing to pass along savings to the people paying the bills — especially during times of increasing assessments and valuations.



The latest lesson from the gradually evolving mental health levy is that the Iowa Legislature has only so many levers to reduce the property tax burden on Iowans. The focus will have to shift to local politics, and future reforms at the state level must include restrictions and fail-safes to ensure Iowans receive the intended benefits of reforms.

Appendix

County Property Tax Rate Change Due to Removal of Mental Health Levy ¹⁷ (FY22 to FY23)				
County	Total Urban Property Tax Levy	Mental Health Levy	Total Urban Property Tax Levy	Effective Change w/o MH Levy
Adair	6.3925	0.2525	5.9928	-0.1472
Adams	7.8868	0.1706	7.6766	-0.0396
Allamakee	6.5377	0.3161	6.3643	0.1427
Appanoose	7.3149	0.5149	6.8000	0.0000
Audubon	5.7335	0.0000	5.5883	-0.1452
Benton	5.9731	0.3300	6.2561	0.6130
Black Hawk	6.1739	0.4865	5.6334	-0.0541
Boone	3.6101	0.2969	3.1945	-0.1187
Bremer	4.6883	0.3883	4.3000	0.0000
Buchanan	6.3237	0.3822	5.7321	-0.2094
Buena Vista	6.9571	0.3252	6.5701	-0.0618
Butler	5.6951	0.3206	5.2835	-0.0910
Calhoun	6.3344	0.2344	6.1000	0.0000
Carroll	4.1409	0.2774	4.3017	0.4382
Cass	4.9949	0.2590	4.8095	0.0736
Cedar	5.7504	0.2862	5.2898	-0.1745
Cerro Gordo	5.7838	0.2751	5.4724	-0.0363
Cherokee	4.0321	0.2320	3.7978	-0.0023
Chickasaw	5.4367	0.2822	5.1261	-0.0284
Clarke	8.0453	0.4143	7.3062	-0.3248
Clay	5.5546	0.1571	5.3945	-0.0030
Clayton	5.9531	0.3313	5.9668	0.3450

Clinton	8.0316	0.3945	8.0930	0.4558
Crawford	5.3331	0.3034	5.0178	-0.0119
Dallas	3.4612	0.2870	3.0518	-0.1223
Davis	7.9690	0.4289	8.4932	0.9532
Decatur	11.1668	0.5235	10.3487	-0.2946
Delaware	5.8657	0.2677	5.7800	0.1820
Des Moines	7.0206	0.4648	6.8187	0.2629
Dickinson	2.9148	0.1195	2.6957	-0.0996
Dubuque	5.7401	0.3973	5.3501	0.0073
Emmet	6.2278	0.3078	5.9200	0.0000
Fayette	5.8721	0.3353	5.8699	0.3331
Floyd	6.2073	0.3337	6.9125	1.0389
Franklin	7.2598	0.2209	7.0089	-0.0300
Fremont	7.1661	0.2388	6.8976	-0.0298
Greene	6.4954	0.2242	6.1737	-0.0975
Grundy	4.7049	0.2468	4.5010	0.0429
Guthrie	6.7405	0.2542	6.4890	0.0027
Hamilton	6.9398	0.2659	6.7138	0.0399
Hancock	3.6930	0.1930	4.1285	0.6285
Hardin	7.3543	0.3050	6.5264	-0.5229
Harrison	6.4426	0.2764	6.5611	0.3950
Henry	8.4716	0.4467	8.4770	0.4521
Howard	6.1226	0.2779	5.8404	-0.0043
Humboldt	6.0317	0.2497	6.0791	0.2971
Ida	4.0727	0.2327	4.3000	0.4600
Iowa	6.8202	0.3174	6.5249	0.0220

Jackson	4.8124	0.3438	4.9124	0.4437
Jasper	7.5574	0.3809	7.0875	-0.0890
Jefferson	7.0673	0.4015	6.6644	-0.0014
Johnson	6.1677	0.3486	6.0408	0.2216
Jones	5.7459	0.3707	5.6550	0.2798
Keokuk	5.7486	0.2986	5.5486	0.0986
Kossuth	5.1424	0.2040	4.9406	0.0023
Lee	7.8626	0.4440	7.9805	0.5618
Linn	6.2430	0.3964	5.8466	0.0000
Louisa	6.8448	0.3112	6.6375	0.1039
Lucas	6.5522	0.4678	6.0896	0.0053
Lyon	4.3009	0.2360	4.1422	0.0772
Madison	5.9194	0.3020	4.8648	-0.7527
Mahaska	5.8710	0.3719	5.4914	-0.0076
Marion	6.5332	0.3910	5.9370	-0.2052
Marshall	6.2071	0.3757	6.2314	0.4000
Mills	7.2100	0.2923	6.4601	-0.4575
Mitchell	5.4735	0.2970	5.6544	0.4778
Monona	5.7126	0.2093	5.5033	0.0000
Monroe	7.1295	0.3045	6.9675	0.1425
Montgomery	8.1512	0.3384	7.7143	-0.0985
Muscatine	7.3948	0.4243	6.8615	-0.1090
O'Brien	3.9865	0.2394	3.6235	-0.1235
Osceola	5.0608	0.1175	4.6500	-0.2933
Page	6.8561	0.4121	6.4258	-0.0182
Palo Alto	6.1427	0.1332	6.5185	0.5090

Plymouth	3.7790	0.2790	3.5000	0.0000
Pocahontas	5.3762	0.1610	5.0883	-0.1269
Polk	7.1338	0.3802	6.7710	0.0173
Pottawattamie	7.8497	0.3616	7.4600	-0.0280
Poweshiek	3.9499	0.2723	3.4239	-0.2537
Ringgold	6.5584	0.2493	6.7166	0.4076
Sac	5.4737	0.2468	6.1753	0.9484
Scott	6.0420	0.3791	5.9500	0.2872
Shelby	5.0467	0.2579	5.3842	0.5954
Sioux	3.7798	0.3433	3.6374	0.2008
Story	4.9563	0.3484	4.5021	-0.1058
Tama	6.9710	0.3217	6.5693	-0.0800
Taylor	9.1871	0.3075	7.7616	-1.1180
Union	9.7563	0.4695	9.1582	-0.1286
Van Buren	5.8587	0.3286	5.1915	-0.3386
Wapello	7.0423	0.5838	6.7152	0.2568
Warren	6.6624	0.3931	6.1825	-0.0869
Washington	7.9312	0.3426	8.4726	0.8840
Wayne	8.4612	0.3404	7.0407	-1.0801
Webster	6.0607	0.3339	6.0621	0.3353
Winnebago	7.4887	0.3434	7.4671	0.3219
Winneshiek	6.5564	0.3164	6.6900	0.4500
Woodbury	7.1652	0.4461	7.1486	0.4295
Worth	5.5819	0.2319	6.1000	0.7500
Wright	7.3541	0.2569	7.2373	0.1401

Source: Iowa Dept. of Management, County Property Tax Rates FY2022 - FY2023

Notes

- ¹ The 89th Iowa Legislature, Senate File 619, <https://www.legis.iowa.gov/legislation/BillBook?ga=89&ba=sf619>.
- ² Gruber-Miller, S. and Richardson, I. (June 16, 2021). Gov. Kim Reynolds signs sweeping tax cut package that will restructure Iowa's mental health funding, Des Moines Register, <https://www.desmoinesregister.com/story/news/politics/2021/06/16/gov-kim-reynolds-signs-law-affecting-mental-health-services-funding-income-tax-cuts-property-taxes/7414093002/>.
- ³ Jones, Megan (May 10, 2021). Jones: A Review of Mental Health in Iowa, Iowa Torch, <https://iowatorch.com/2021/05/10/jones-a-review-of-mental-health-in-iowa/>.
- ⁴ Iowa 1995 Legislature, Senate File 69, <https://www.legis.iowa.gov/DOCS/GA/76GA/Legislation/SF/00000/SF00069/Current.html>.
- ⁵ Iowa Legislative Services Agency (February 1, 2019). Adult Mental Health and Disability Services System Funding History. Issue Review, <https://www.legis.iowa.gov/docs/publications/IR/970935.pdf>.
- ⁶ The 84th Iowa Legislature, Senate File 525, <https://www.legis.iowa.gov/legislation/BillBook?ga=84&ba=sf525>.
- ⁷ The 84th Iowa Legislature, Senate File 2315, <https://www.legis.iowa.gov/legislation/BillBook?ga=84&ba=sf2315>.
- ⁸ Iowa Legislative Services Agency (February 1, 2019). Adult Mental Health and Disability Services System Funding History. Issue Review, <https://www.legis.iowa.gov/docs/publications/IR/970935.pdf>.
- ⁹ Iowa Legislative Services Agency (February 1, 2019). Adult Mental Health and Disability Services System Funding History. Issue Review, <https://www.legis.iowa.gov/docs/publications/IR/970935.pdf>.
- ¹⁰ The 87th Iowa Legislature, Senate File 504, <https://www.legis.iowa.gov/legislation/BillBook?ga=87&ba=SF%20504>.
- ¹¹ Jones, Megan (May 10, 2021). Jones: A Review of Mental Health in Iowa, Iowa Torch, <https://iowatorch.com/2021/05/10/jones-a-review-of-mental-health-in-iowa/>.
- ¹² Iowa Legislative Services Agency (June 28, 2021). Fiscal Note – SF 619 – Taxation and Other Provisions, Fiscal Services Division, <https://www.legis.iowa.gov/docs/publications/FN/1222907.pdf>.
- ¹³ Iowa Legislative Services Agency (May 31, 2022). Federal Housing Finance Agency House Price Index – LSA Iowa Economic Trends, <https://www.legis.iowa.gov/docs/publications/IET/615796.pdf>.
- ¹⁴ Author calculations using Iowa Department of Management County Levy Rate Data
- ¹⁵ Iowa Department of Management, County Property Tax Rates-FY2021 (accessed August 26, 2022), <https://dom.iowa.gov/document/county-property-tax-rates-fy2021>.
- ¹⁶ Iowa Legislative Services Agency (February 1, 2019). Adult Mental Health and Disability Services System Funding History. Issue Review, <https://www.legis.iowa.gov/docs/publications/IR/970935.pdf>.
- ¹⁷ Iowa Department of Management, County Property Tax Rates FY2022 and FY2023, https://dom.iowa.gov/county_tax_rates.



7601 Office Plaza Dr Suite 140, West Des Moines, Iowa 50266

ITRFoundation.org