



[HF 353](#) – Levee and Drainage Districts (LSB1205HV)
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Fiscal Note Version – New

Description

[House File 353](#) allows agricultural property to benefit from a new property tax exemption if the property is located within a [levee and drainage district](#) that is adjacent to both the Iowa and Mississippi rivers and encompasses at least 35,000 acres in total.

The new exemption is available for agricultural property that is subject to a per-acre levee and drainage district assessment that is in excess of the average agricultural levee and drainage district per-acre assessment for all agricultural property in the county. The exemption is calculated as the difference between the per-acre levee and drainage district assessment for the property and the per-acre average for the county, multiplied by the number of acres of the property, with the result divided by 7.0%. The value of the new property tax exemption is limited to no more than 50.0% of the property's productivity land value.

The special exemption is available for assessment year 2024 and after (taxes paid in FY 2026).

Background

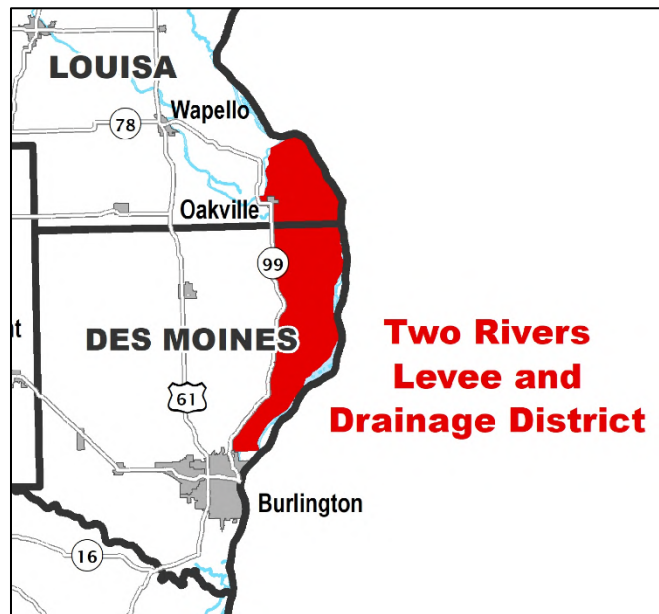
Iowa property taxation law and associated administrative rules result in a total net productivity value per agricultural property acre for each Iowa county. This productivity value, expressed as net income per agricultural acre, is further adjusted by subtracting the per-acre real estate taxes paid on agricultural property within the county. The real estate tax adjustment includes the county total of all levee and/or drainage district assessments that are applied to agricultural property. Net income per acre after the adjustment is then capitalized at a statutory rate of 7.0% as specified in Iowa Code section [441.21\(1\)\(e\)](#). The capitalized per-acre income amount is multiplied by the agricultural acres in the county to determine a total net agricultural productivity value for the county, and that total is then spread by the assessor to individual agricultural acres in the county each assessment year as specified in Iowa Code section [441.21\(1\)\(f\)](#).

This method of determining the value of all agricultural property in a county from aggregate income and expense estimates for the agricultural property in the entire county means that inequities in the valuation of individual properties will develop, as no two properties are subject to the same income and expense situation. In the case of levee and drainage assessments, the assessments are paid only on property within the applicable levee and drainage areas, yet the amount paid is distributed through the averaging process to every agricultural acre within the county. It is possible, however, that assessors, when spreading the aggregate net productivity value of the county to the agricultural properties, do take the additional expense of levee and drainage assessments into account when allocating a county's aggregate value.

The only known levee and drainage district that meets the size and location requirements of the Bill is the Two Rivers Levee and Drainage District (District), located in southeast Iowa. The District is composed of approximately 13,515 acres in Louisa County and 31,446 acres in Des Moines County, for a combined acreage of 44,961 (70.3 square miles).

Since the Two Rivers Levee and Drainage District assessments are already fully incorporated into the productivity calculation for Des Moines and Louisa counties, the proposed new property tax exemption will double-count a significant portion of the levee and drainage district charges assessed to landowners within the District.

The District assessments will first be subtracted from the gross agricultural income of each county through the productivity formula process. With the new exemption, the second adjustment will occur when agricultural land within the District is allowed a special property tax exemption that compensates the District's landowners for the fact that the levee and drainage assessments they pay are shared across all agricultural landowners within the counties.



The following provides a calculation of the estimated property tax reduction under current law, which is the result of the countywide agricultural property value adjustment for levee and drainage district assessments:

- Des Moines County:
 - Assessment year 2019 agricultural acres totaled 203,858.
 - The county productivity calculation included a \$3.31 downward adjustment in the per-acre productivity of agricultural property due to levee and drainage district assessments. Applied to 203,858 agricultural acres, the levee and drainage district adjustment totals \$674,770. This amount capitalized at 7.0% results in a \$9.6 million reduction in the county's aggregate net productivity value.
 - At the AY 2022 agricultural rollback factor of 91.6430%, the reduction in countywide taxable value is \$8.8 million.
 - At the FY 2023 countywide average agricultural consolidated property tax rate of \$24.59 per \$1,000 of taxed value, levee and drainage district assessments will reduce FY 2024 property taxes paid from agricultural property in the county by approximately \$216,000. Through the action of the school aid formula, \$48,000 of the reduction is backfilled by an increase in the State General Fund appropriation to K-12 schools. The remaining \$169,000 represents reduced local government revenue. All amounts will vary each year due to the differences in levee and drainage district assessment amounts and rollback percentages from year to year.
- Louisa County:
 - Assessment year 2019 agricultural acres totaled 217,895.
 - The county productivity calculation included a \$2.35 downward adjustment in the per-acre productivity of agricultural property due to levee and drainage district assessments. Applied to 217,895 agricultural acres, the levee and drainage district adjustment totals \$512,053. This amount capitalized at 7.0% results in a \$7.3 million reduction in the county's aggregate net productivity value.
 - At the AY 2022 agricultural rollback factor of 91.6430%, the reduction in countywide taxable value is \$6.7 million.
 - At the FY 2023 countywide average agricultural consolidated property tax rate of \$24.16 per \$1,000 of taxed value, levee and drainage district assessments will reduce FY 2024 property taxes paid from agricultural property in the county by approximately \$162,000.

Through the action of the school aid formula, \$36,000 of the reduction is backfilled by an increase in the State General Fund appropriation to K-12 schools. The remaining \$126,000 represents reduced local government revenue. All amounts will vary each year due to the differences in levee and drainage district assessment amounts and rollback percentages from year to year.

Combining the two counties, the Two Rivers Levee and Drainage District assessments reduce property taxes on agricultural land in Des Moines and Louisa counties by \$378,000 through the current law net productivity value calculation.

Assumptions

- Two Rivers Levee and Drainage District assessment amounts equaled \$956,000 for FY 2019 and \$1,254,000 for FY 2022. The average annual rate of assessment growth over the three years was 9.5%. For this estimate, annual assessment growth for FY 2024 through FY 2026 is assumed to equal 6.0% each year.
- Based on land parcel information provided by the Department of Revenue, annual assessments are assumed to fall 63.1% in Des Moines County and 36.9% in Louisa County.
- The new exemption is equal to a property's levee and drainage assessment amount that is in excess of the countywide per-acre assessment average. Parcel data for the two counties indicate that the exemption will result in an exemption amount equal to 86.8% of the District assessment in Des Moines County and 92.6% in Louisa County.
- The Bill limits the exemption amount for an individual property to no more than 50.0% of the full assessed value of the property's agricultural land. Based on parcel-level actual levee and drainage district assessment and land value amounts, this limitation is determined to have a de minimis impact, and the limitation is ignored in the impact calculation.
- The rollback percentage for agricultural property varies significantly from year to year and can move in unpredictable directions. The AY 2022 rollback of 91.6430% is used for all future years.
- The FY 2023 average consolidated property tax rate for Des Moines County was \$24.59 per \$1,000 of taxed value, while the average rate for Louisa County was \$24.16. The basic levy for school finance represents \$5.40 of each counties' consolidated property tax rate. The rates are assumed to be constant for future years.
- Through action of the school aid formula, property tax exemptions increase the State General Fund appropriation for school aid by an amount equal to \$5.40 per \$1,000 of exempted value that would otherwise be subject to property tax.
- In addition to the automatic increase in the State school aid payment to local school districts that is caused by new property tax exemptions, exemptions also elevate school district property tax rates that are tied to the State school aid formula when compared to a situation without the new property tax exemption. New exemptions also automatically increase debt levy rates, the income from which is used to repay debt that is outstanding at the time of the implementation of the new property tax exemption. Other local government property tax rates that are not tied to either the school aid formula or existing local government debt may also increase in response to the reduced property tax base that results from a new property tax exemption.

Fiscal Impact

The new property tax exemption created in the Bill will reduce property taxes on agricultural land located within the Two Rivers Levee and Drainage District by an estimated \$491,000 compared to current law for FY 2026. The reduction in property taxes paid will result in an estimated increase in the FY 2026 State General Fund appropriation for school aid of \$109,000 and an estimated reduction in local government property tax revenue of \$382,000, with a portion of the local government revenue reduction replaced through school and debt levies that are automatically increased when the relevant tax base decreases.

The projected fiscal impact will continue beyond FY 2026, changing with increases or decreases in annual Two Rivers Levee and Drainage District assessments.

Sources

Department of Revenue county property tax data
Department of Management property tax rate and value files
Two Rivers Levee and Drainage District
Legislative Services Agency analysis

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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