



[HF 643](#) – Levee and Drainage Districts, Deductions (LSB1176HV)
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Fiscal Note Version – New

Description

[House File 643](#) relates to how the value of agricultural property is determined for the purpose of property taxation. Specifically, the Bill allows for an additional negative adjustment to taxable value for agricultural acres that are subject to an expense assessment by a drainage or levee district. The change is effective beginning assessment year (AY) 2022 and first applies to taxes due in FY 2024.

Background

Real property in Iowa is generally valued for property tax purposes using the market value of the individual property. The market value is the value that an unrelated willing seller and willing buyer would establish if that particular property was sold on the date of the assessment. Agricultural property is not valued with this general process, however. Agricultural property is valued by determining a net productivity value for all the agricultural property within the county, with that value then spread across all the agricultural property of the county without regard to each property's market value.

The net productivity value of all the agricultural property within a county is determined by calculating 50.0% of the value of all the enumerated crops (corn, soybeans, and some minor crops) produced in the county and from that total, subtracting the expenses associated with growing the crop (fertilizer, pesticides, property tax, etc.). One of the expenses that is subtracted in determining the net productivity of the county's agricultural land is any drainage or levee district assessments paid by agricultural property owners. This process fully incorporates the cost of drainage and levee district assessments into the net productivity value of the county agricultural property.

The change proposed in the Bill will require the assessment process to subtract the drainage and levee district assessments a second time to the extent that the assessment for a particular property exceeds the assessment for an average acre within the county. This will lower the taxed value of agricultural acres subject to drainage and levee district assessments.

Assumptions

- Statewide, 48 Iowa counties had agricultural property that was subject to a drainage or levee district assessment during one or more of the years between and including 2014 through 2019. Assessments for those years averaged \$20.1 million per year statewide. This annual level of assessment is assumed for future years.
- The additional adjustment for drainage and levee district assessments required by the Bill is assumed to be applied to the productivity value of the property prior to application of the rollback for agricultural property. The rollback percentage for FY 2022 will equal 84.0305%, and this percentage is assumed for future years. Applying the 84.0305% rollback yields an adjustment to taxed value due to the additional drainage and levee district expense equal to \$16.9 million.

- The Bill requires the adjustment for drainage and levee district assessments to be the difference between the actual assessment for the property and the average assessment across the entire county. Since the number of acres in the State that actually are assessed for drainage and levee district expenses is not known, the impact of this adjustment cannot be accurately determined. For this estimate, it is assumed that the adjustment will decrease the negative change to taxed value by 5.0% (from \$16.9 million to \$16.1 million).
- The FY 2021 statewide average agricultural property tax rate is \$25.03 per \$1,000 of taxed property value, and that rate is assumed to be constant in future years. That statewide average rate is composed of the \$5.40 basic school levy and \$19.63 in tax rates for local government finance (counties, schools, community colleges, townships, etc.). Reducing the amount of taxed value has the effect of increasing the State General Fund standing appropriation for school finance by \$5.40 per \$1,000 of reduced taxed value.

Fiscal Impact

Subtracting drainage and levee district expense assessments from the property tax value of agricultural land will reduce the property taxes paid on properties subject to the assessments by a projected \$0.4 million per year, beginning with taxes due in FY 2024. This property tax reduction will:

- Increase the State General Fund appropriation for school aid by an estimated \$0.1 million per year.
- Either require local governments to set higher rates than would otherwise be necessary so as to raise the necessary level of revenue, or reduce annual expenditures. The likely result would be a combination of the two options, with the combination equal to \$0.3 million per fiscal year.

The addition of an adjustment to assessed value for property subject to a drainage or levee district assessment will require a significant modification to the software that calculates, displays, and prints property tax statements. The changes may also require changes to the system that calculates local government budgets and associated tax rates.

Sources

Department of Revenue
Legislative Services Agency analysis

/s/ Holly M. Lyons

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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.