**Iowa Property Tax Reform Act of 2025** [**SSB1208**](https://www.legis.iowa.gov/legislation/BillBook?ba=SSB%201208&ga=91) **&** [**HSB313**](https://www.legis.iowa.gov/legislation/BillBook?ba=HSB%20313&ga=91)*DRAFT Notes & Analysis by ISFIS - Work in Progress 3/7/2025*

**Overview**

On Thursday, March 6, 2025, House and Senate Ways and Means Committee Chairs announced the Republican Property Tax Overhaul Plan for the 2025 Session. [The Iowa Capitol Dispatch](https://iowacapitaldispatch.com/2025/03/06/gop-tax-committee-chairs-introduce-property-tax-legislation/) covered the press conference, which explains some of the concepts. [WHO TV news](https://who13.com/news/politics/iowa-politics/iowa-republicans-release-bill-that-looks-to-overhaul-property-tax-system/) also reported on the press conference; “Iowans will get a $400 million property tax cut through basically the state assuming a greater portion of school funding,” said State Senator Dan Dawson (R) District 10, from Council Bluffs. Rep. Kaufmann and Sen. Dawson said the bill was a result of years of conversations with local and city governments. There is no expectation for the bill to move forward quickly as both want the state to see the proposal, and amendments may be added. They both expect the bill to pass this session. They also reported Sen. Dawson and Rep. Kaufmann will not hold subcommittees for at least two weeks, so they can get feedback from cities and counties on the impact.

Our ISFIS team has prepared the following initial bill summary by Division to help school leaders get a look at the proposal. There are some mixed outcomes for cities, counties, schools and taxpayers based on the many overlapping and complicated pieces that impact each other. We will continue to analyze the impacts as the conversation progresses, so stay tuned for more.

**Big Picture Provisions for School Leaders**

* This proposal will impact cities and counties differently than it will impact school districts. Cities and counties are currently property tax rate limited, while school districts are mostly budget limited. These bills place cities and counties under an expenditure limitation similar to schools.
* Sets the Residential Rollback to 100% over the next 5 years. This means that residential values will go from being taxed on 47% of the value to 100% and the Homestead tax credit will increase from $4,850 to $25,000. This means the school district taxable valuations will go up.
* Lowers the school district Uniform Levy from $5.40 to $2.97 per $1,000 by FY 2030 ($2.43 decrease.) The decline in the rate is roughly offset by the increase in the valuation from more residential value being counted. Sets the Foundation Percentage to 100% over the next five years which eliminates the controlled foundation portion of the Additional Levy (about $1.71/thousand). This is the provision in school property taxes that will deliver approximately $375 million in property tax relief.
* Limits the ability to levy additional Management Fund property taxes based on large carry-forward balances.
* SAVE fund capacity may actually improve as this legislation stops the SAVE fund payment for property tax relief.

**Impact on Taxpayers:**

* Shifts the relative property tax burden to residential from commercial, industrial, agriculture, and utilities by eliminating the residential rollback.
* Our team will need more time and information to determine impact on property taxpayers. A number of property taxpayers will face a tax increase, especially in transition years. Small commercial taxpayers may also be negatively impacted as the first $150,000 of commercial value is multiplied by the residential rollback.

**Impact on Schools:**

* Shifts school funds from property taxes to the State. Increases the risks associated with the State’s fiscal capacity to honor future commitments. *(Impact: the additional levy alone is $375 million minimum impact. The State will have to pay that plus any additional costs associated with future SSA increases)*
* Districts with a high proportion of residential valuation will realize the highest increase in taxable values. *(Note: the legislation does not lower some rate limited school levies. Increased valuation will result in a higher levy at the same tax rate for PPEL and debt service. Since ISL proration is based on relative property value per pupil, there will be changes. All of this assumes the legislation doesn’t otherwise restrict those rates).*
* Districts with Management Fund balances in excess of 180% would be prohibited from levying additional Management Fund for FY 2027. The bill would allow a future levy if the district expends funds and falls under the limit. *(Does not establish a rate limit or otherwise change the levy purposes.)*
* Our initial look estimates approximately 160 school districts were over the 180% Management Fund Balance in FY 2024, but data for the base year in the legislation, FY 2025, will not be available for a long time.

**Bill Summary by Division**

**Division I: County Property Taxes and Budgets**

* **General County Levy Cap:** Limits the general county services levy to $3.50 per $1,000 of assessed value until July 1, 2026.
* **Rural County Levy Cap:** Limits the rural county services levy to $3.95 per $1,000 of assessed value until July 1, 2026.
* **Levy Adjustment Formula:** From FY 2026 to FY 2031, levies will be gradually adjusted based on valuation changes and capped at 102% of prior year's revenue.
* **New Valuation Definition:** Establishes a method for incorporating new construction and annexation effects into tax calculations.
* **Implementation:** Effective January 1, 2026, applying to FY 2026 budgets.

**Division II: City Property Taxes and Budgets**

* **General City Levy Cap:** Limits the city general fund tax levy to $8.10 per $1,000 of assessed value until July 1, 2026.
* **Gradual Levy Adjustments:** Implements a new formula for phased-in levy adjustments until July 1, 2031.
* **New Valuation Recognition:** Aligns with county provisions to account for new construction and annexations in city tax assessments.
* **Implementation:** Effective January 1, 2026, applying to FY 2026 budgets.

**Division III: School District Taxes and Budgets**

* **School Foundation Levy Reduction:** Gradually reduces the school foundation property tax levy from $5.40 to $2.97 per $1,000 by FY 2030.
* **State Funding Increase:** Increases the state's share of school funding by adjusting the per-pupil foundation base from 88.4% to 100% by FY 2030 as well as the Special Ed foundation base (see table below).
  + *Doesn’t impact budget guarantee, dropout prevention, etc. just the formula driven component of the Additional Levy.*
  + *Will help some residential concentrated valuation districts benefit in ISL capacity due to reduced proration of the ISL.*
  + *Doesn’t help with the 5% constitutional debt limitation.*
* **Equity Adjustments:** Modifies school finance provisions, including tax equity adjustments and property tax relief measures.
* **Reorganization Incentives:** adjusts uniform levy down from $2.97 to $2.42 (55 cents). New IC 257.4(2)(c) eliminates the hold harmless state aid supplement for the reorganization uniform levy reduction beginning 7.1.30 to align with the Senate bill extending reorganization incentives through 2030.
* **Phase-In Schedule for School Foundation Levy Changes:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | **Fiscal  Year** | **Foundation Property**  **Tax Levy ($ per $1,000)** | **State Foundation**  **Base  (%)** | **Special Education Services  Foundation Base  (%)** | | 2026 | $4.90 | 90.72% | 83.20% | | 2027 | $4.40 | 93.04% | 87.40% | | 2028 | $3.90 | 95.36% | 91.60% | | 2029 | $3.40 | 97.68% | 95.80% | | 2030+ | $2.97 | 100.00% | 100.00% | |

**Division IV: Property Valuation and Assessment Limitations**

* **Residential Valuation Increases:** Phases in a gradual increase in residential assessment percentages, reaching 100% by 2029.
* **Commercial and Industrial Valuation Adjustments:** Moves commercial and industrial property to full valuation, reaching 100% by 2029.
* **Agricultural Property Valuation:** Eliminates assessment limitation percentages and establishes a fixed capitalization rate of 7% for tax assessments based on productivity.
* **Phase-In Schedule for Property Valuation Adjustments:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Assessment  Year** | **Residential Property (%)** | **Commercial &  Industrial (%)** | **Agricultural  (%)** |
| 2025 | 57.94% | 92% | 90% |
| 2026 | 68.49% | 94% | 92% |
| 2027 | 78.97% | 96% | 94% |
| 2028 | 89.49% | 98% | 96% |
| 2029+ | 100.00% | 100% | 100% |

**Division V: School District Management Fund Changes**

* **Fund Balance Limits:** Establishes limits on school district management fund balances.
* **Mandatory Reporting and SBRC Review:** Requires districts to report all FY 2025 unexpended fund balances by Nov. 15, 2025. Requires SBRC to evaluate balances and expenditures, consult with school boards and others to determine the appropriateness of establishing unexpended fund balance limitations for the management fund. The SBRC is required to make recommendations to the General Assembly by Feb. 1, 2026 for Fiscal Years beginning on and after July 1, 2027. Sets the based year for calculating average expenditures and unspent balance percentages as FY 2025. *(note: FY 2026 management fund levies are already set since school districts sent budgets to counties on March 5 for reporting purposes.)*
* **Phased Reduction of Allowable Fund Balances:** Sets a progressive limit on fund balances over multiple years to gradually reduce excessive reserves.
* **Phase-In Schedule for Maximum Management Fund Balances:**

| Fiscal Year | Maximum Allowable Fund Balance  (% of Prior 3-Year Avg. Expenditures) |
| --- | --- |
| 2027 | 180% |
| 2028 | 175% |
| 2029 | 170% |
| 2030 | 165% |
| 2031+ | 160% |

* **Management Levy Restrictions and Oversight:**
* **Review Process:** The School Budget Review Committee (SBRC) will evaluate fund balances annually and determine appropriate actions to enforce compliance.
* **Fund Balance Limits:** Establishes limits on school district management levy fund balances to prevent excessive reserves.
* **Use of Excess Funds:** Districts with excessive balances are required to spend down reserves before levying additional taxes.

**Division VI: Homestead and Other Property Tax Credits**

* **Homestead Credit Phase-Out:** gradually reduces and eventually eliminates the general homestead credit, except for disabled veterans, by 2029.
* **Homestead Exemption Expansion:** Replaces the homestead credit with an increased exemption that does not require the homeowner to be 65 or older.
* **Disabled Veteran Homestead Credit Adjustments:** moves the disabled veteran homestead credit under a new code section and limits future applications to properties of half an acre or less.
* **State Reimbursement Changes:** requires the state to continue reimbursing local governments for the homestead credit but not for the homestead exemption.
* **Implementation:** These changes apply to assessment years beginning on or after January 1, 2026.
* **School District Property Tax Relief Fund:** Phases out by FY 2030.
* **Secure an Advanced Vision for Education (SAVE) Fund Adjustments:**
  + The SAVE fund will no longer be used for property tax relief transfers after FY 2030.
  + The equity transfer percentage, which determined how much of the SAVE fund was transferred to property tax relief, is eliminated.
  + All remaining funds in the SAVE fund at the end of FY 2029 will be redirected to either the general fund or remain in the SAVE fund for infrastructure projects.
  + Future SAVE funds will be fully dedicated to school infrastructure and technology improvements, with no additional transfers to property tax relief programs.

**Division VII: Effective Dates and Applicability**

* **January 1, 2026:** Most property tax changes take effect, impacting FY 2026 budgets.
* **January 1, 2025:** Property assessment changes begin a year earlier to allow for a transition period.
* **Retroactive Adjustments:** Certain tax credits and levies may be applied retroactively.