**Iowa Property Tax Reform Act of 2025**

**Now** [**SSB1227**](https://www.legis.iowa.gov/legislation/BillBook?ga=91&ba=ssb1227) **&** [**HSB328**](https://www.legis.iowa.gov/legislation/BillBook?ga=91&ba=hsb328)

*DRAFT Notes & Analysis by ISFIS - Work in Progress 4/24/2025*

**The Latest**

On Wednesday, April 9, new versions of property tax reform were introduced in the House and Senate Ways and Means Committee. Rather than amend the prior bills, new study bills were introduced; SSB 1227 in the Senate, with a subcommittee of Senators Dawson, Peterson, Rowley, Schultz and Winckler, and HSB 328 in the House, with a subcommittee of Representatives Kauffman, Bloomingdale, McBurney, Wilson and Wulf.

Our ISFIS team has prepared the following bill summary by Division to help school leaders dig into this new 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.

**Changes from the Initial Proposals**

* For cities and counties, it keeps the 2% growth rate plus the value of new construction on the total levy, but also allows higher increases that echo (but are not as high as) inflation measured by CPI-U. Also establishes a “budget guarantee” for FY 2027 similar to school districts, whereby cities and counties get the greater of the 2% increased levy or the budget guarantee amount. Also sets higher budget guarantee levels that echo higher CPI-U.
* Eliminates the 5-year period to phase out rollbacks and flips a switch, so rollbacks are no longer in place effective July 1, 2026. (Eliminates the residential rollback, Commercial and Industrial Rollback and in this new version, also the Wind Tower rollback.) Establishes a $50,000 homeowner exemption (double the $25,000 proposed in the original bills).
* School Provisions effective July 1, 2026:
  + Flips the switch on the regular education and special education foundation base percentage.
  + Adds media and education services to combined district cost, funded by the State rather than property taxes.
  + Cuts PPEL and Debt levy rates in half.
  + Management fund provisions are essentially the same as the first bill, with limitations first in place for the year beginning July 1, 2027.

**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, with a 101% budget guarantee. These new bills set up a graduated increase in the 2% limitation based on gradually higher rates of inflation as determined by the Consumer Price Index for Urban consumers (CPI-U).
* Sets the Residential Rollback to 100%. This means that residential values will go from being taxed on 47% of the value to 100%. That valuation growth is partially offset by a change from a $4,850 Homestead tax credit to a $50,000 Homestead exemption. This means that residential valuations will go from being taxed on 47.43% of the assessed value in FY 2025 (and an estimated 45.34% in FY 2026) to 100% of the assessed value. The combined effect of these two policy changes will result in a net increase in school district residential taxable valuations.
* Lowers the school district Uniform Levy from $5.40 to $2.97 per $1,000 beginning July 1, 2026 ($2.43 decrease). The decline in the rate is roughly offset by the increase in residential taxable valuation. Sets the Foundation Percentage to 100% for both regular program and special education beginning July 1, 2026 (earlier versions had a 5-year phase-in), which eliminates the controlled foundation portion of the Additional Levy (about $1.71/thousand). Eliminates PTRP payments from the State. This provision delivers property tax relief in the $550-$600 million range, based on various assumptions and moving parts. Combined, the Uniform and Additional Levy changes provide $4.14 per $1,000 of school property tax reduction. We are looking forward to the DOM and LSA official estimates of the bill to confirm a more exact impact.
* Starting in FY 2028, the ability to levy additional Management Fund property taxes is limited based on large carry-forward balances.
* Reduces Board Approved PPEL, Voter Approved PPEL and Debt Services levies to ½ of their current tax rate limit beginning July 1, 2026.
* SAVE fund capacity will increase 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.
* A number of property taxpayers will face a tax increase. Small commercial taxpayers may also be negatively impacted as the first $150,000 of commercial value today is multiplied by the residential rollback so that existing relief will be eliminated. It all depends on where the consolidated levy rate winds up.
* There is little change in agricultural land valuation, but for removing ag buildings from the productivity formula.

**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: in addition to covering what would otherwise be the additional levy impact, picking up media and education services with state aid rather than property taxes is another $71 million. The State will have to pay this bill plus any additional costs associated with future SSA increases)*
* Districts with a high proportion of residential valuation will realize a larger increase in taxable values than districts with lower proportion of residential valuation. *(Note: the legislation does not lower the PERL rate, which is the only rate-limited levy impacted by a general 2% growth limitation in the bill. Additionally, ISL proration is based on relative property value per pupil, so there will be ripple effects of increased valuation on ISL authority.)*
* Round II does not have a blackout period, which is an improvement. This means there is no delay in voting on a PPEL or Bond issue, but rates will be impacted beginning July 1, 2026.
* 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 2026, will not be available for a long time.
* There will still be differences in the property tax rate of districts as portions of the Additional Levy are not impacted by this bill, such as the Budget Guarantee and Dropout Prevention.

**Bill Summary by Division**

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

* **General County Levy Cap:** Limits the general county services levy of $3.50 per $1,000 of assessed value in years before July 1, 2026. Beginning July 1, 2026, the total levy (taxes collected) is limited to the greater of a 2% growth rate applied to current valuation, plus the value of new construction or a “budget guarantee” of 100.5% growth. Allows higher caps on growth that echo the CPI (if CPI is less than 4%, growth is limited to 2%. If CPI is between 4-6%, growth is limited to 3%. If CPI is between 6-8%, growth is limited to 4%. If CPI is equal to or greater than 8%, growth is limited to 5%.)
* **Rural County Levy Cap:** Limits the rural county services levy to $3.95 per $1,000 of assessed value in years beginning before July 1, 2026. Has the same budget guarantee and growth schedule as the General County Levy Cap.
* **New Valuation Definition:** Establishes a method for incorporating new construction and annexation effects into tax calculations. Defines new valuation as new construction, additions or improvements to existing structures that are not normal and necessary repairs, and net boundary adjustments (annexation, severance, importation, consolidation or discontinuance as defined in 368.1).
* **Implementation:** Effective January 1, 2026, applying to FY 2027 budgets.

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

* **General City Levy Cap:** Retains the limit for the city general fund tax levy of $8.10 per $1,000 of assessed value until July 1, 2026.
* **General Fund Tax Levy Rate Limitation:** Beginning July 1, 2026, the city’s tax levy rate shall not exceed the greater of 2% growth (+ new construction) or budget guarantee of 100.5%. Includes higher rates that echo CPI limits in Division I for counties.
* **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 2027 budgets.

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

* **State Funding Increase:** increases the State's share of school funding by adjusting the per-pupil foundation base from 88.4% to 100% beginning July 1, 2026, 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.*
* **Media and Education Services Property Tax Relief:** includes media and education services in combined district cost, which effectively funds these provisions with state aid instead of property taxes. This results in an estimated $71 million in additional property tax relief.
* **School Foundation Levy Reduction:** reduces the school foundation property tax levy from $5.40 to $2.97 per $1,000 by beginning July 1, 2026.
* **Reorganization Incentives:** for reorganizations on or after July 1, 2026, adjusts uniform levy down to $2.42 in the year preceding reorganization, $2.69 in the first succeeding year, $2.83 in the second succeeding year, and $2.97 in the third succeeding year. New IC 257.4(2)(c) Limits the hold harmless state aid supplement for the reorganization uniform levy reduction to those beginning before July 1, 2026. If reorganization incentives are extended in the future, this date will need to change. The reduction in the rates roughly mirrors current incentives.
* **Equity Adjustments:** limits school finance provisions, including property tax equity adjustments, foundation base supplement funds and property tax relief measures from both the state General Fund and the SAVE fund, to years beginning before July 1, 2026. Returns any ending balance for FY 2024 to the state General Fund and any ending balance for FY 2026 to the SAVE. Sets equity transfer rates from SAVE to PTER or FBSF to zero beginning July 1, 2026.

**Management Fund Subsection**

* **Mandatory Reporting and School Budget Review Committee (SBRC) Review:** requires districts to report to SBRC all FY 2025 unexpended fund balances that exceed an amount equal to the total management fund expenditures for FY 2025, by November 15, 2025. Requires SBRC to evaluate balances and expenditures, consult with school boards and other experts 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 February 1, 2026 for Fiscal Years beginning on and after July 1, 2027. Sets the formula for calculating average expenditures and unspent balance percentages based on the three prior fiscal years (FY 2028 limitation is based on FY 2024 through FY 2026 average expenditures and FY 2026 fund balance).
* **Phased Reduction of Allowable Fund Balances:** Sets a progressive limit on fund balances over multiple years to gradually reduce reserves.
* **Phase-In Schedule for Maximum Management Fund Balances:** (beginning in subsection 31 of the bill)

| Fiscal Year | Maximum Allowable Fund Balance  (% of Prior 3-Year Avg. Expenditures) |
| --- | --- |
| 2028 | 180% |
| 2029 | 175% |
| 2030 | 170% |
| 2031 | 165% |
| 2032+ | 160% |

* **Calculation example**
  + To calculate the maximum levy for FY 2028, take the average expenditures of 2024, 2025, and 2026, multiply by 180%, and subtract 2026 unexpended fund balance as defined in 257.2 (13) (unreserved and undesignated fund balance).
* **Use of Excess Funds:** as a result of this limitation, districts with excessive balances will be required to spend down reserves before levying additional Management Fund taxes.

**Infrastructure Levy Subsection**

* **PPEL Levy Rate Limitations:** limits the maximum PPEL to 83.5 cents, comprised of voter-approved PPEL limited to 67 cents and board-approved PPEL of 16.5 cents. Specifies that the lower rates (half of existing rate limits) apply to a voter-approved PPEL approved prior to the effective date of the paragraph.
* **Board Resolution Related to Obligated Funds:** for school budget years beginning on or after July 1, 2026, allows a school board to pass a resolution by April 30 preceding the budget year to impose a PPEL at a higher rate in order to pay a refunded or refinanced loan agreement that results in a lower amount of interest on the amount of the loan agreement, limited to the rate imposed after the refund/refinance if before July 1, 2025. If refunded or refinanced after July 1, 2025, the rate is limited to 50% of the prior year’s rate.
* **Debt Levy Limitations:** limits the two debt levy thresholds to one-half of current law rates, including $1.35 for the first threshold and $2.025 for the highest threshold. Specifies that amounts approved at an election before the effect date of the Division are subject to the levy rate limitations of the paragraph.
* **Conforming provisions:** directs county auditor to apply calculations and credits based on the lower uniform levy rate. Repeals 298.18A, which is an out-of-date provision for districts to adjust debt levy due to loss of machinery and equipment tax hold harmless.
* **Effective dates:** all school provisions are effective for budget years beginning on or after July 1 ,2026, except the provisions related to the SBRC study of management fund balances, which is effective July 1, 2025.
* **Concern:** school districts with very low residential property value as a share of total value will have significantly reduced tax capacity from these actions which cut levies in half.

**Division IV: Property Classifications, Valuations and Assessment Limitations**

* **City Operation Tax:** specifies that a city’s self-supported improvement district operation fund does not apply to residential properties except for those in a duly designated historic district or multi-residential property. States that the City Operation Tax is not subject to the 2% growth limitation. City Capital Improvement tax has similar stipulations. Also makes changes to city debt service and urban renewal areas to specifically exempt or apply to multi-residential property.
* **Residential Valuation Increases:** Eliminates the residential rollback, effective July 1, 2026. Eliminates the rollback/growth tie to agricultural property. Also applies to multi-residential (mobile home parks, manufactured home communities, land-leased communities, assisted living facilities, and portions of parcels used primarily for human habitation).
* **Commercial and Industrial Valuation Adjustments and Credits:** Eliminates the commercial and industrial rollback, effective July 1, 2026. (Current law sets the C&I rollback at 90%.) Eliminates the rollback for wind energy (Current law taxes wind energy at 30% of net acquisition value after a phase-in period.) Eliminates several general fund appropriations to DOR for property tax credits since the homestead benefit will now be an exemption.
* **Agricultural Property Valuation:** . Removes agricultural structures that are not dwellings from the productivity formula calculation. Eliminates the rollback/tie to residential property beginning July 1, 2026.

**Division V: Disabled Veteran and Homestead Credits and Exemptions**

* **Homestead Credit Phase-Out:** eliminates the general homestead credit, except for disabled veterans, beginning July 1, 2026.
* **Homestead Exemption Expansion:** Continues the homestead exemption for homeowners age 65 or older, regardless of income, at $6,500. Allows a $50,000 homestead exemption for all homeowners.
* **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.
* **Military Service Exemption:** for an individual honorably separated, retired, furloughed to a reserve, place on inactive states or discharged veteran, increases the property tax exemption to $5,000 for the assessment year beginning January 1, 2025, and $7,000 for January 1, 2027 and subsequent years.
* **State Reimbursement Changes:** eliminates state appropriations and the requirement for the State to reimburse local governments for the homestead credit. With the new $50,000 homestead exemption, the value is subtracted from the assessment valuation. There is no appropriation to the State to hold local governments harmless for the exemption.
* **Implementation:** These changes apply to assessment years beginning on or after January 1, 2026.

**Division VII: Hospital and Emergency Medical Services Tax Levies**

* **Levy Limitation:** limits for fiscal years beginning on or after July 1, 2026, the levy for a count hospital that is limited by Iowa Code to a specific levy rate per one thousand dollars of assessment value be calculated to equal 100% of prior year levy, plus any tax associated with new construction. Also similarly limits levies for EMS districts.

**Division VIII: Property Tax Levy Rates**

* **County General Fund Rate:** limits the County General Fund levy rate to $1.50 and 3/16ths of a cent per $1,000 (currently $3.00 and 3/8ths of a cent).
* **Rate-limited property taxes not specifically excluded (e.g., PERL):** starting FY 2027, any property tax rate that is limited by law to a specific rate can only be imposed for FY 2027 if it was previously imposed in the fiscal year beginning July 1, 2025 (which is FY 2026). The only growth allowed on such levies is the higher of an additional 2% of the actual property tax dollars certified or the same budget guarantee limitations above. Beginning July 1, 2027, any governmental entity may lawfully enact a rate-limited levy. The Legislative Interim Committee to study fixed property tax levies is to make a report and the General Assembly might further limit these levies before July 1, 2027.
* **Excluded Levies (addressed otherwise in the law):** this section now specifically excludes school district foundation levy, the country general services and rural services levies, the city general fund levy, the school physical plant and equipment levies (both board and voter-approved), the school district bond tax levy, and county hospital and rural water district levy rates, and emergency medical services optional levies.
* **Property Taxation Rates Study Committee:** requests the Legislative Council establish a legislative study committee during the 2025 legislative interim to examine appropriate rates of property taxation imposed by governmental entities following the enactment of these proposed changes. Specifies membership of the Committee and requires a report due by January 15, 2026.

**Division IX Elderly Property Taxes – Low Income**

* **Elderly Property Tax Credit:** amends existing elderly property tax credit, which applies to individuals 70 or older, to apply to individuals with a household income of less than 350% of the federal poverty level (current law applies to those below 250% of the FPL).
* **Effective date:** This credit is effective for assessment years beginning on or after January 1, 2026.

**Division X Brucellosis and Tuberculosis Eradication Fund – Levy**

* Eliminates this levy effective for years beginning July 1, 2025**.**