



[HF 2655](#) – Property Tax, Child Care Facility Valuations (LSB6319HV)
Staff Contact: Michael Peters (515.281.6934) michael.peters@legis.iowa.gov
Fiscal Note Version – New

Description

[House File 2655](#) provides for property tax parity with resident property in for-profit commercial child care centers or facilities. The Bill also makes conforming changes to reflect the child care facility assessment limitations.

The Bill requires eligible child care centers to apply to their respective assessors no later than July 1 of the assessment year (AY) for which a center is first requesting the residential assessment limitation rate.

The Bill takes effect upon enactment and applies retroactively to assessment years beginning on or after January 1, 2024, and applies to payments to local governments for fiscal years beginning on or after July 1, 2025.

Background

Under current law, all commercial property, including commercial property used for child care centers and facilities, is subject to the two-tiered assessment limitation whereby valuation up to \$150,000 receives the assessment limitation applicable to residential property. Under the Bill, assessed valuation of all commercial property used for child care centers and facilities, including valuation above \$150,000, is eligible for the assessment limitation applicable to residential property. The Bill takes effect upon enactment and applies retroactively to assessment years beginning on or after January 1, 2024, and fiscal years beginning on or after July 1, 2025 (FY 2026).

Currently, pursuant to Iowa Code section [237A.1](#), “child care center” is defined as a facility providing child care or preschool services for seven or more children, except when the facility is registered as a child development home. “Child care facility” is defined as a child care center, preschool, or registered child development home.

All qualifying child care centers or facilities in Iowa that do not meet the threshold for religious, charitable, or educational owned property tax exemptions are taxed at the commercial property tax classification rate under Iowa Code section [441.21](#). 2022 Iowa Acts, [House File 2552](#) (Department of Revenue Omnibus Act), Division XI, replaced the former Business Property Tax Credit with a two-tiered assessment limitation that applies to all commercial, industrial, and railroad property, including commercially classed child care center and facility properties. This two-tiered assessment limitation allows the portion of a property’s assessed value that does not exceed \$150,000 to be subject to the residential property tax rate. For businesses that have an assessed property value that exceeds \$150,000, valuation above \$150,000 is subject to the 90.0% commercial assessment limitation. House File 2552 took effect in assessment year 2022.

Assumptions

- The Bill will become effective with AY 2024, and its first fiscal impact will occur in FY 2026.
- Based on the total property taxes derived from commercial property in Iowa (from property taxes by class of property) as of FY 2024 and the total taxable value of commercial property (from taxable valuation history by class) as of AY 2022, commercial property in Iowa was subject to an average levy rate of \$37.70036 per \$1,000 of taxable valuation in FY 2024. It is assumed that this average levy rate will remain steady through proceeding years.
- Commercial property in Iowa has been subject to a 90.0% rollback from AY 2014 through AY 2023; also during this time, residential property in Iowa has been subject to a rollback of approximately 46.0%. It is assumed that these rollback percentages will be applicable each year through AY 2027/FY 2029.
- According to the Department of Health and Human Services' Care Centers and Preschools Licensing Standards and Procedures, as of FY 2023, there are 1,500 licensed commercial child care centers and facilities in Iowa, which are businesses that typically care for dozens of children. This number does not include day care providers who provide child care in their own homes and/or who care for five or fewer children. For purposes of this estimate, the number of commercial child care centers in Iowa is assumed to increase by 5.0% annually.
- A search of publicly available information concerning valuation of a sample of commercial child care centers located throughout the State suggests that the average assessed value of commercial child care centers in Iowa was \$675,000 in AY 2021. This value is assumed to have increased by 7.0% in 2022 and by 4.0% in 2023. Average assessed value of commercial child care centers in Iowa is assumed to be \$766,000 in AY 2024. This value is assumed to increase by 2.0% annually moving forward.
- Total assessed valuation of commercial child care centers in Iowa is estimated to be \$1.330 billion as of AY 2024. This equates to approximately 3.0% of all commercial property value in Iowa. It is estimated that, of this amount, \$260.4 million will be taxed at the residential property tax assessment limitation rate under current law in AY 2024/FY 2026. Therefore, the estimated total assessed valuation for AY 2024 that will receive the commercial assessment limitation of 90.0% for commercial child care centers in Iowa under current law is estimated to be \$1.070 billion. This means that under current law, it is estimated that \$1.070 billion in property value of commercial child care centers is subject to the 90.0% assessment limitation. This amount has a taxable valuation of \$962.0 million in AY 2024. Under the Bill, such property will have a taxable valuation of \$491.7 million.
- Assuming a levy rate of \$37.70036 per \$1,000 of taxable valuation, estimated property tax revenues associated with commercial child care centers and facilities will amount to \$40.8 million in FY 2026 under current law. Under the Bill, these revenues will be \$23.1 million.
- By operation of the School Foundation Aid Formula, the estimated impact to the General Fund equates to \$5.40 per \$1,000 of the reduced taxable value. The estimated impact on local jurisdictions equates to \$32.30036 per \$1,000 of this exempted taxable value.

The above information and assumptions are summarized in **Figure 1**.

Figure 1 — Baseline Assumptions for HF 2655

Assessment Year Fiscal Year	AY 2024 FY 2026	AY 2025 FY 2027	AY 2026 FY 2028	AY 2027 FY 2029	AY 2028 FY 2030
Baseline Assumptions					
Number of Centers* (Assumes 5.0% Annual Increase)	1,736	1,823	1,914	2,010	2,111
Estimated Avg Assessed Value of Centers (Assumes 2.0% Annual Increase)					
Value Up to \$150,000	\$150,000.0	\$150,000.0	\$150,000.0	\$150,000.0	\$150,000.0
Value Above \$150,000	615,682.0	627,995.0	640,555.0	653,366.0	666,433.0
Total Assessed Value	\$765,682.0	\$777,995.0	\$790,555.0	\$803,366.0	\$816,433.0
Estimated Aggregate Assessed Value of Centers (in Millions)					
Subject to the Residential Property Assessment Limitation Under Current Law	\$ 260.4	\$ 273.5	\$ 287.1	\$ 301.5	\$ 316.7
Subject to the Commercial Property Assessment Limitation Under Current Law	1,068.8	1,144.8	1,226.0	1,313.3	1,406.8
Total Assessed Value	\$ 1,329.2	\$ 1,418.3	\$ 1,513.1	\$ 1,614.8	\$ 1,723.5
Estimated Average Taxable Value of Centers (in Millions)					
For Assessed Value Up to \$150,000	\$ 69,000.0	\$ 69,000.0	\$ 69,000.0	\$ 69,000.0	\$ 69,000.0
For Assessed Value Above \$150,000	554,113.0	565,196.0	576,500.0	588,030.0	599,790.0
Estimated Average Total Taxable Value	\$623,113.0	\$634,196.0	\$645,500.0	\$657,030.0	\$668,790.0
Assumed Assessment Limitations (Rollback Rates)					
Residential Property	46.0%	46.0%	46.0%	46.0%	46.0%
Commercial Property	90.0%	90.0%	90.0%	90.0%	90.0%
Statewide Average Consolidated Levy Rate (Per \$1,000 of Valuation)	\$37.70036	\$37.70036	\$37.70036	\$37.70036	\$37.70036
Current Law Estimates					
Estimated Aggregate Taxable Value of Centers (in Millions)					
For Assessed Value Up to \$150,000 (i.e., Multiplied by Residential Rollback)	\$ 119.8	\$ 125.8	\$ 132.1	\$ 138.7	\$ 145.7
For Assessed Value Above \$150,000 (i.e., Multiplied by Residential Rollback)	961.9	1,030.4	1,103.4	1,181.9	1,266.2
Aggregate Total Taxable Value	\$ 1,081.7	\$ 1,156.1	\$ 1,235.5	\$ 1,320.6	\$ 1,411.8
Total Property Tax Revenues (in Millions)	40.8	43.6	46.9	49.8	53.2
Proposed HF 2655 Estimates					
Estimated Aggregate Taxable Value of Centers (in Millions)					
For Assessed Value Up to \$150,000 (i.e., Multiplied by Residential Rollback)	\$ 119.8	\$ 125.8	\$ 132.1	\$ 138.7	\$ 145.7
For Assessed Value Above \$150,000 (i.e., Multiplied by Residential Rollback)	491.7	526.6	564.0	604.1	647.2
Aggregate Total Taxable Value	\$ 611.4	\$ 652.4	\$ 696.0	\$ 742.8	\$ 792.8
Total Property Tax Revenues (in Millions)	23.1	24.6	26.2	28.0	29.9
Estimated Impacts					
Change in Aggregate Taxable Value (in Millions)	\$ (470.3)	\$ (503.7)	\$ (539.4)	\$ (577.8)	\$ (619.0)
Change in Aggregate Tax Revenue (in Millions)	\$ (17.7)	\$ (19.0)	\$ (20.3)	\$ (21.8)	\$ (23.3)

* In this table, "Centers" refers to commercial child care centers.

Fiscal Impact

House File 2655 is estimated to reduce local property tax revenues and, by operation of the School Foundation Aid Formula, increase the total General Fund appropriation. Statewide property taxes are estimated to increase by \$17.7 million in FY 2026, \$19.0 million in FY 2027, \$20.3 million in FY 2028, \$21.8 million by FY 2029, and \$23.3 million in FY 2030. However, by operation of the School Foundation Aid Formula, it is assumed that the General Fund will backfill the first \$5.40 of the levy rate applied to the reduced taxable property valuation.

The General Fund appropriation for the School Foundation Aid formula is estimated to increase by the following amounts:

- FY 2026 = \$2.5 million
- FY 2027 = \$2.7 million
- FY 2028 = \$2.9 million
- FY 2029 = \$3.1 million
- FY 2030 = \$3.3 million

Sources

Department of Health and Human Services
Department of Revenue

/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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