



[HF 772](#) – Broadband and Housing Incentives (LSB1824HV.1)
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Fiscal Note Version – Final Action

Description

[House File 772](#) relates to broadband infrastructure and tax incentives for housing development.
The Bill:

- Modifies the existing broadband infrastructure grant program (Iowa Code chapter [8B](#)) administered by the Office of the Chief Information Officer (OCIO). The Bill makes changes to definitions and grant application requirements. The Bill also extends the current grant program sunset date five years, from July 1, 2020, to July 1, 2025. The Bill does not provide funding for the grant program.
- Extends an existing property tax exemption for broadband infrastructure installed in certain areas of the State that meets minimum upload and download speeds. The exemption is extended five years to include infrastructure installations first assessed through assessment year (AY) 2026.
- Modifies the existing Workforce Housing Tax Incentives Program (WHTIP). The Bill:
 - Provides for a \$5.0 million increase (from \$20.0 million to \$25.0 million) in the annual maximum aggregate tax credit amount that may be awarded to projects in a fiscal year (applies to FY 2020 and after).
 - Provides for a \$5.0 million increase (from \$5.0 million to \$10.0 million) in the existing small city project suballocation (applies to FY 2020 and after).
 - Changes the project award process from the current first-come, first-served basis to a competitive application process (applies to applications made on or after July 1, 2019).
 - Limits the tax incentives available to an individual housing project to no more than the amount of tax incentives provided in the project agreement (applies to applications made on or after July 1, 2019).
 - Notwithstanding the \$10.0 million small city project suballocation for FY 2020 and directs that up to the entire \$25.0 million FY 2020 WHTIP allocation limit is available for small city projects registered prior to July 1, 2019.
 - Provides for an additional \$10.0 million one-time allocation of WHTIP tax credits for projects in counties that meet specified major disaster criteria.

Background

The broadband infrastructure grant program is authorized in Iowa Code section [8B.11](#). Grants are awarded to communications service providers on a competitive basis. The program received a \$1.3 million appropriation from the Rebuild Iowa Infrastructure Fund (RIIF) for FY 2019. In addition, [HF 759](#) (FY 2020 Administration and Regulation Appropriations Act) appropriates \$5.0 million from the General Fund to the program in FY 2020. While the Bill extends the availability of the program, it does not provide future funding.

The property tax exemption for qualified broadband infrastructure was enacted in [HF 655](#) (2015 Community Development Act). The exemption applies to the installation of infrastructure meeting specified minimum upload and download speeds. To qualify, an infrastructure project had to commence and be completed on or after July 1, 2015, and before July 1, 2020. The Bill

removes the upload and download speed minimums and replaces them with speeds identified by the [Federal Communications Commission](#) pursuant to Section 706 of the federal Telecommunications Act of 1996.

However, [SF 2388](#) (2018 Telecommunications Property Tax Assessment Act) exempts broadband infrastructure from taxation as real property beginning with AY 2022. At that time, property taxation of telecommunications companies will be restricted to the value of land and buildings and, as a result, the value of broadband transmission property will not be subject to property tax. Therefore, the Bill's extension of the property tax exemption for qualified broadband infrastructure will have no fiscal impact because such infrastructure will be exempt under existing law.

Current law provides that the WHTIP provides investment tax credits and sales/use tax refunds for housing businesses that complete qualified housing projects in Iowa. The current process is first-come, first-served. If a project registered with the Iowa Economic Development Authority is completed within a specified time limit, is examined by a certified public accountant, and all other requirements of the WHTIP are satisfied, investment tax credits and/or sales/use tax refunds are authorized. Currently, the tax incentive total issued in a fiscal year under the WHTIP is limited to \$20.0 million, with a suballocation of up to \$5.0 million per fiscal year reserved for projects located in any Iowa county that is not one of the 11 most populated counties.

The WHTIP provides a 20.0% investment tax credit for projects located in Iowa's 88 least-populated counties and a 10.0% investment tax credit for projects located in the 11 most-populated counties. The tax credit percentage for projects qualifying for the one-time \$10.0 million disaster allocation is 20.0%.

The WHTIP has been in place since FY 2015. From FY 2015 through FY 2019, a total of \$100.0 million in WHTIP incentives was allocated to projects, and a backlog of approximately \$54.0 million in registered projects has developed. Under current law, credit awards to completed projects will wait until additional annual allocations become available.

Assumptions — Workforce Housing Tax Incentives Program

- The Bill raises the allocation cap for the WHTIP by \$5.0 million per fiscal year, beginning FY 2020. The remaining changes to the WHTIP have no identifiable impact on the redemption of WHTIP tax credits or refunds. It is assumed that under current law, \$20.0 million in tax incentives will be awarded each fiscal year, and under the Bill, \$25.0 million in tax incentives will be awarded each fiscal year.
- The annual \$5.0 million increase in tax credit awards is assumed to be divided into \$1.2 million in increased sales/use tax refunds and \$3.8 million in increased investment tax credits.
- The WHTIP investment tax credits are transferable but not refundable. It is assumed that 94.0% of the awarded investment tax credits will be redeemed over the course of six fiscal years and the timetable for redemptions will equal:
 - Year 1 (fiscal year of award) = 46.0%
 - Year 2 = 35.0%
 - Year 3 = 6.0%
 - Year 4 = 3.0%
 - Year 5 = 2.0%
 - Year 6 = 2.0%

- Sales/use tax refunds issued under the WHTIP are assumed to be redeemed at a rate of 76.8% of the award amount, with 50.0% of the 76.8% redeemed in the initial fiscal year of the award and 50.0% in the succeeding fiscal year.
- The additional \$10.0 million in WHTIP tax credits for disaster areas is assumed to be redeemed as follows:
 - FY 2021 = \$0.9 million
 - FY 2022 = \$4.0 million
 - FY 2023 = \$3.0 million
 - FY 2024 = \$0.6 million
 - FY 2025 = \$0.3 million
 - FY 2026 = \$0.2 million
 - Expiring unredeemed = \$1.0 million

Fiscal Impact

For the broadband infrastructure provisions of the Bill (Division II):

- The extension of the authorization of the broadband grant program does not have a fiscal impact without additional funds dedicated to the program's purpose.
- The OCIO will continue to administer the grant program and can be assumed to continue to incur administrative expenses if additional State funding is provided to the grant program.
- The extension of the property tax exemption for qualified broadband infrastructure installed prior to January 1, 2027, does not have a fiscal impact on State or local government, as that type of property is already exempt under current law.

The WHTIP provisions of the Bill (Division III) are projected to reduce net General Fund revenue by the following amounts:

- FY 2020 = \$2.2 million
- FY 2021 = \$4.9 million
- FY 2022 = \$8.2 million
- FY 2023 = \$7.2 million
- FY 2024 = \$5.0 million
- FY 2025 and after = \$4.8 million

As nonrefundable tax credits that may be applied against State individual income tax liability, the investment tax credit portion of the allocation limit increase could lower the amount of revenue raised by the local option income surtax for schools by as much as \$100,000 per fiscal year.

Sources

Department of Revenue
Iowa Economic Development Authority
Office of the Chief Information Officer

/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.

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