



HF 2451 – Water, Metered Excise Tax (LSB6040HV)

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Fiscal Note Version – New

Description

House File 2451 exempts the sale of water by utilities from the sales tax and creates an excise tax on metered water that is deposited in the General Fund. These funds are then transferred incrementally to the Wastewater and Drinking Water Treatment Financial Assistance Fund under the purview of the Iowa Finance Authority (IFA). The Wastewater and Drinking Water Treatment Financial Assistance Program is expanded in the bill to include “drinking water,” and includes reporting and evaluation requirements.

One-sixth of the tax will be transferred from the General Fund beginning July 1, 2017 (FY 2018), to the Wastewater and Drinking Water Treatment Financial Assistance Fund (Assistance Fund in fiscal impact table). This will increase by one-sixth each year until the full amount of the tax is transferred in FY 2023 and after.

Background

Currently, the sale of water by utilities to residential and nonresidential customers is subject to the sales tax, as well as any local option sales tax (LOST). Nonresidential sewage utilities are also subject to the sales tax, while residential sewage utilities are not. The state sales tax includes a portion that is directed to the Secure an Advance Vision for Education (SAVE) Program, commonly referred to as the “sixth-cent.”

The Wastewater Treatment Financial Assistance Fund created in Iowa Code section **16.134** is for disadvantaged communities seeking to install or upgrade wastewater treatment facilities due to regulatory activity by the Department of Natural Resources. Grant awards are capped at \$500,000. The Fund received appropriations from the Rebuild Iowa Infrastructure Fund (RIIF) for the period of FY 2006 to FY 2008 for a total of \$11.0 million.

Assumptions

- The annual sales tax attributable to metered water sales in FY 2015 is estimated by the Department of Revenue at \$20.3 million. This number was then increased by Moody’s projections of the Consumer Price Index (CPI) inflation index and population estimates from the REMI forecast.
- Items or services exempt from the state sales tax are also exempt from the LOST. The bill does not provide for a local option sales tax on water.
- The bill does not subject the new water service tax to the SAVE transfer.
- The bill becomes effective July 1, 2017 (FY 2018), and the tax is repealed July 1, 2037.

Fiscal Impact

The estimated flow of funds under current law as proposed by [House File 2451](#) is shown in the following table. General Fund revenue and SAVE dollars will flow into the Assistance Fund. LOST revenues will no longer be collected.

	CURRENT LAW				Proposed HF 2451			
	Est. Sales of Metered Water	5% Sales Tax to General Fund	Sales Tax to SAVE	LOST	Excise Tax @ 6% to General Fund less transfer to Asst Fund	Sales Tax to SAVE	LOST	Assistance Fund
FY 2018	\$ 371.4	\$ 18.6	\$ 3.7	\$ 3.1	\$ 18.6	\$ 0.0	\$ 0.0	\$ 3.7
FY 2019	384.6	19.2	3.8	3.2	15.4	0.0	0.0	7.6
FY 2020	396.7	19.8	4.0	3.3	11.9	0.0	0.0	11.9
FY 2021	408.4	20.4	4.1	3.4	8.2	0.0	0.0	16.4
FY 2022	420.2	21.0	4.2	3.5	4.2	0.0	0.0	21.0
FY 2023	432.2	21.6	4.3	3.6	0.0	0.0	0.0	25.9

The estimated fiscal impact is show below.

Estimated Impact of HF 2451				
In Millions				
	General Fund	SAVE	LOST	Assistance Fund
FY 2018	\$ 0.0	\$ -3.7	\$ -3.1	\$ 3.7
FY 2019	-3.8	-3.8	-3.2	7.6
FY 2020	-7.9	-4.0	-3.3	11.9
FY 2021	-12.3	-4.1	-3.4	16.4
FY 2022	-16.8	-4.2	-3.5	21.0
FY 2023	-21.6	-4.3	-3.6	25.9

Once the full amount of the transfer is reached in FY 2023, revenues will grow approximately 2.9% per year until the program is repealed in FY 2037.

The IFA is permitted to use 1.0% of the amounts appropriated to the Assistance Fund for administrative purposes.

Estimates for the administrative costs for establishing the new excise tax at the Department of Revenue have not been completed yet. Previous estimates have ranged between \$250,000 and \$600,000 for similar legislation. Since there is no provision for a local water service tax, it is likely this amount will be towards the lower estimate.

If a water utility is located within a Flood Mitigation District, the sales tax remitted will be included in that area’s initial increment calculation. By exempting the sale of water services from the sales and use tax, a mitigation district may be impacted by decreasing the taxable increment of sales and services.

Sources

Iowa Department of Revenue
LSA analysis and calculations

/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.
