



---

[HF 42](#) – Geothermal System Property Tax Exemption (LSB1798HH)  
Analyst: Jeff Robinson (Phone: (515)281-4614) ([jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov))  
Fiscal Note Version – New

---

### **Description**

Current Iowa law provides a property tax exemption for the property value associated with a geothermal heating and cooling system installed on residential property. The exemption is allowed for 10 years. [House File 42](#) extends the exemption to include multiresidential, commercial, industrial, and agricultural property and also removes the 10-year exemption limitation. The change is effective January 1, 2018 (FY 2020).

The Bill makes inapplicable Iowa Code section [25B.7](#) (State funding of property tax credits and exemptions).

### **Background**

Current law provides a property tax exemption for the “value added by... a geothermal heating or cooling system on property classified as residential.” This exemption has been available for systems installed on or after July 1, 2012, so the first assessment year (AY) impacted by the exemption was AY 2013. The current exemption lasts for 10 consecutive assessment years.

To qualify for the existing exemption, residential property owners must file an application with the local assessor. The applicant must provide the date of installation and the completed cost of installation. The credit [application](#) states that the exemption amount “will not be based on actual cost.” The added value associated with the geothermal system is determined solely by the responsible assessor. Per [direction](#) provided by the Department of Revenue:

The value added is the value that would not have been included in the home, if not for the construction or refit installation of the geothermal heating and cooling system. To measure the value added by a geothermal heating and cooling system, the assessor should compute the difference between the assessed value of the residential property if the property were outfitted with a non-geothermal heating and cooling system and the assessed value of the property outfitted with the geothermal system.

For the first available assessment year, exempt residential geothermal property value totaled \$1.6 million. Assessment year 2013 property will no longer be eligible under current law for the exemption beginning AY 2023 (FY 2025). For AY 2016, total exempt residential geothermal property value equaled \$15.8 million.

### **Assumptions**

- Exempt residential geothermal property value increased \$5.3 million from AY 2014 to AY 2015 and \$5.5 million from AY 2015 to AY 2016. Exempt residential geothermal property value growth is assumed to equal \$5.4 million for all years after AY 2016.
- The amount of added geothermal property value associated with installations on commercial, industrial, and multiresidential property and first assessed on or after January 1, 2018, is not known. For this estimate, the amount is assumed to equal the amount of newly exempt residential property (\$5.4 million per year).

- The amount of added geothermal property value associated with installations on agricultural property and first assessed on or after January 1, 2018, is not known. For this estimate, the amount is assumed to equal one-half the amount of newly exempt residential property (\$2.7 million per year).
- An exemption's impact on value subject to property tax depends on the property tax rollback (percent of a property's assessed value that is subject to property tax) applied to the relevant class of property each year. The rollback values for future years are not known. For the purposes of this estimate, the values for each class are assumed to be as follows:
  - For residential property, the AY 2016 rollback was 56.9391% and is assumed to remain at that level in the future.
  - For commercial and industrial property, the AY 2016 rollback is 90.0000% and remains at that level in the future.
  - For multiresidential property, the AY 2016 rollback is 82.5000% and will decline over the years to equal the residential rollback. For estimating simplicity, the multiresidential rollback used is 90.0000%.
  - For agricultural property, the AY 2016 rollback is 47.4996%. With the decline in corn and soybean prices experienced over the past four years, the process for valuing agricultural land and buildings for property tax purposes will result in higher rollback percentages for agricultural property. For this estimate, the agricultural rollback is assumed to be 58.1300% for AY 2018 and will increase to 100.0000% for AY 2021 and after.
- An exemption's impact on property tax revenue depends on the property tax rate applied to each property each year. For AY 2018 and after, the tax rate used for each projection year is equal to the average statewide FY 2001 property tax rate for each class of property. The FY 2017 average rates per thousand dollars of taxed value are:
  - Residential = \$34.81
  - Commercial/Industrial/Multiresidential combined = \$36.65
  - Agricultural = \$25.27
- Property tax exemptions negatively impact the State General Fund through the State school aid formula. By law, all taxed property value in the State is subject to a \$5.40 per thousand dollar basic school levy. Exemptions remove that funding source from school finance, and through further action of the State school aid formula, replace the missing moneys with State General Fund dollars.

### **Fiscal Impact**

Expanding the current Geothermal System Property Tax Exemption by including additional property classes and by removing the 10-assessment-year exemption limit will decrease property taxes owed by owners of property with geothermal systems. The reduced taxes paid will result in an increase in the State General Fund appropriation for school aid and a decrease in local property tax revenue. The projected amounts are presented in the following table.

Geothermal Installation Property Tax Exemption			
	State General Fund Est. Appropriation Increase	Est. Local Government Reduction	Estimated Total Property Tax Reduction
FY 2020	\$ 44,000	\$ -218,000	\$ -262,000
FY 2021	95,000	-461,000	-556,000
FY 2022	137,000	-672,000	-809,000
FY 2023	181,000	-892,000	-1,073,000
FY 2024	223,000	-1,101,000	-1,324,000
FY 2025	269,000	-1,337,000	-1,606,000
FY 2026	322,000	-1,606,000	-1,928,000

Based on the assumptions used, all impacts are expected to continue to increase in the years beyond FY 2026.

**Sources**

Iowa Department of Revenue  
 Department of Management property tax value and rate files  
 Legislative Services Agency analysis

\_\_\_\_\_  
 /s/ Holly M. Lyons

February 27, 2017

---

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.

---