Legislative Fiscal Bureau
Fiscal Note

SF 449 - Wind Energy Tax Credit (LSB 2813 SV)
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Fiscal Note Version — SF 449 as Amended by S-3302 and S-3303
Requested by: Senator Bryan Sievers

Description

Senate File 449, as amended by S-3302 and S-3303, creates a Wind Energy Production Tax Credit. The tax credit is equal to one cent per kilowatt-hour of electricity produced and sold by a qualified wind energy facility. To qualify for the credit, the facility must:

- Produce electricity from wind
- Be located in Iowa
- Commence production on or after July 1, 2004, but before July 1, 2007.

Tax credits are earned for ten years after initial production. Tax credit certificates may be used for seven years after issue and may be transferred to a different taxpayer one time.

To qualify for the credit, the wind energy facility shall not utilize the wind energy sales tax exemption provided in Section 422.45, Code of Iowa, or the reduced property tax valuation procedure available under Section 427B.26 or 441.21, Code of Iowa.

Assumptions

1. The ten-year federal production tax credit (currently 1.8 cents per kilowatt-hour) will be extended to facilities constructed through calendar year 2007.
2. A total of 900 megawatts (MW) of qualified nameplate wind energy production will be constructed during the three-year window. Of that amount:
    a. 300MW will be constructed with or without the credit.
    b. 600MW will be constructed as the result of the credit.
    c. All 900MW will choose to utilize the credit option and therefore forego the sales tax and property tax benefits contained in current Iowa law.
        i. For the 300 megawatts, the costs and benefits are net of the costs and benefits under current law.
        ii. For the 600 megawatts, the costs and benefits are all assumed to be the result of the tax credit contained in the Bill.
3. The average capacity factor of all facilities will be 30.0%. The capacity factor is determined by the operating time and efficiency of a facility. For a given megawatt facility, a higher capacity factor produces more kilowatt-hours of electricity. Average wind speed, air density, downtime, and other factors contribute to the capacity factor.
4. The 900 megawatts will commence production on or after July 1 of each year as follows:
    a. 2004 = 250MW
    b. 2005 = 300MW
    c. 2006 = 350MW
5. The installed cost per nameplate megawatt will equal $1.0 million in 2004 and decline 2.0% each year.
6. Eighty-three percent of installed costs will be subject to State sales and use tax ($41,500 in tax revenue per MW). The sales tax will be paid in the spring prior to initial production. As all facilities are assumed to pay sales and use tax on the taxable portion of the installation costs, the impact of the continued exemption contained in amendment S-3294 (small producers) is not included.

7. The construction process will generate $1,700 in State income tax per nameplate megawatt (construction worker salaries, construction and electrical contractor profits).
8. Lease payments to landowners and facility employees will generate $330 in State income tax per nameplate megawatt per year.
9. After the fifth year of operation, each nameplate megawatt will generate $200 in State corporate income tax per year.
10. Property Tax:
    a. With spring construction, the turbines will first be assessed for property taxes January 1 following initial energy production. The first property tax payments will be due 21 months later.
    b. The wind energy property will be classified industrial and assessed for 100.0% of the installed cost. The assessed property value will be depreciated 5.0% per year.
    c. The average property tax rate will be $22.30 per thousand of taxable valuation and will increase 2.5% per year.
    d. The property taxes will not be abated or rebated, and the property will not be part of a Tax Increment Financing area. The Bill and amendments do not prohibit local government incentives to attract wind energy facilities.
    e. All facilities will increase taxable property values within the school district and will therefore reduce the State School Aid payment by $5.40 per thousand of taxable value.
    f. As all facilities are assumed to pay full property taxes on the assessed value of the property, the impact of the continued partial exemption contained in amendment S-3294 (small producers) is not included.
11. All facilities will remain in production and continue to pay full property taxes after the expiration of the production tax credit period.

Fiscal Impact

A single 100MW facility will generate 262.8 million kilowatt-hours of electricity and earn $2.63 million in State production tax credits each year (for 10 years). The finances of State government will see a partial return in the form of increased sales, use, and income taxes, as well as reduced School Aid payments. Local governments where the wind facilities are located will have significant increases in taxable property value.

Over the 15 years it takes for all production tax credits to be exhausted, the projected 900 megawatts will produce $236.5 million in State credits and a net reduction in State General Fund revenues of $160.2 million. Local government property tax revenues, utilized to reduce property tax rates and increase services, will increase $165.8 million.

For the General Fund, the fiscal analysis shows that the sales and income tax receipts during the construction period will produce positive net benefits in FY 2004 through FY 2006. The timetable of construction, assessment, and taxes due will delay local government benefits until FY 2007.

Several items should be noted concerning the projected fiscal impacts on State and local government finances.

- If the federal government does not renew the current 1.8-cent federal tax credit, if project financing does not develop, or if all projects choose to instead utilize current Iowa wind energy incentives, SF 449, as amended by S-3302 and S-3303, will have no fiscal impact.
- A capacity factor of 30.0% is utilized as the basis for projecting the total kilowatt-hours produced and tax credits earned by the facilities. Large portions of Iowa are capable of producing capacity factors of 35.0% or more. If the facilities operate at a capacity factor

10.0% higher than projected (33.0%), the total tax credits earned by 900MW would increase $23.7 million over the 15 years.

- The fiscal note is based on construction of 900MW during the three-year window contemplated in the Bill as amended. The total number of megawatts constructed is not limited. If more wind energy facilities were constructed during that time, the cost to the General Fund and the increased property tax base would increase proportionally.

The following table provides an annual projection of the net fiscal impact on the State General Fund and local government property tax revenues of wind energy facilities totaling 900MW.

300MW Current Projects Plus 600MW in Credit-Induced Projects

						State Finances	Local Finances
	Annual Megawatts Constructed	Sales Tax	Corporate & Personal Income Tax	School Aid Appropriation Reduction	Tax Credits Earned	Net General Fund	Increased Property Tax Revenue
FY 2004	250	$ 10,375,000	$ 272,250			$ 10,647,250	
FY 2005	300	12,201,000	321,750			12,522,750	
FY 2006	350	13,949,810	643,500		$ (13,797,000)	796,310	
FY 2007			198,000	$ 1,350,000	(19,053,000)	(17,505,000)	$ 5,575,000
FY 2008			198,000	2,843,100	(23,652,000)	(20,610,900)	12,034,474
FY 2009			225,000	4,444,686	(23,652,000)	(18,982,314)	19,284,124
FY 2010			252,000	4,127,393	(23,652,000)	(19,272,607)	18,355,174
FY 2011			306,000	3,810,100	(23,652,000)	(19,535,900)	17,367,723
FY 2012			306,000	3,492,806	(23,652,000)	(19,853,194)	16,319,428
FY 2013			306,000	3,175,513	(23,652,000)	(20,170,487)	15,207,864
FY 2014			306,000	2,885,220	(23,652,000)	(20,460,780)	14,163,060
FY 2015			306,000	2,634,617	(20,367,000)	(17,426,383)	13,256,213
FY 2016			306,000	2,396,979	(13,140,000)	(10,437,021)	12,362,039
FY 2017			306,000	2,159,341	(4,599,000)	(2,133,659)	11,414,872
FY 2018			306,000	1,921,703	-	2,227,703	10,412,619
	900	$ 36,525,810	$ 4,558,500	$ 35,241,458	$ (236,520,000)	$ (160,194,232)	$ 165,752,591

Sources

Iowawinds presentation
Legislative Fiscal Bureau Analysis
Iowa Energy Center
Department of Revenue and Finance

/s/ Dennis C Prouty

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Legislative Fiscal Bureau to members of the Legislature upon request.