

Fiscal Services Division Legislative Services Agency Fiscal Note

SF 449 – Wind Energy Production Tax Credit Bill (LSB 2813 SV.1)
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Fiscal Note Version — Amendment H-8352 to SF 449
Requested by: Representative Bill Dix

Description

Amendment H-8352 to SF 449 strikes everything after the enacting clause and modifies the Wind Energy Production Tax Credit created in the Bill. 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.
- Have the approval of the Board of Supervisors of the location county.

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.

The Amendment further provides that for 12 years, the consolidated property tax revenues associated with new taxable production property utilizing the wind energy tax credit will be forwarded to the State and deposited to the General Fund.

Assumptions

1. The federal production tax credit (approximately 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 choose to utilize the new tax credit during the three-year window. Of that amount:
 - a. Fifty percent will be constructed with or without the credit and the costs and benefits are net of the costs and benefits under current law.
 - b. Fifty percent will be constructed as the result of the credit and the costs and benefits are all assumed to be the result of the tax credit contained in the amendment.
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 fiscal year as follows:
 - a. FY 2005 = 400MW
 - b. FY 2006 = 300MW
 - c. FY 2007 = 200MW
5. The installed cost per nameplate megawatt will equal \$1.0 million.
6. Sixty percent of installed costs will be subject to State sales and use tax and the purchases will not be exempted or the sales tax abated under any other provision of Iowa law.

7. The construction process will generate \$14,000 in State income tax per nameplate megawatt (construction worker salaries, construction and electrical contractor profits).
8. Lease payments to landowners, facility employees, and owner profits will generate \$320 in State income tax per nameplate megawatt per year starting the year after construction.
9. Property Tax:
 - a. With spring/summer 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 commercial and assessed for 95.0% of the installed cost. The assessed property value will be depreciated 5.0% per year.
 - c. The average property tax rate is \$24.70 per thousand of taxable valuation and the rate will increase 1.5% 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 amendment does not prohibit local government incentives to attract wind energy facilities.
 - e. The increased taxable property values within the school district will reduce the State School Aid payment by \$5.40 per thousand of taxable value after the 12-year period of property tax payments to the State.
 - f. During the 12-year period the State receives the consolidated property tax revenue, the portion of total project property value that was not induced by the new tax incentives will increase State school aid costs for those 12 years.
10. All facilities will remain in production and continue to pay full property taxes after the expiration of the production tax credit period.
11. The small producer incentive (one megawatt or less per owner) credit cost is not included in the prior assumptions. This fiscal note assumes there will be 15 megawatts of small producer projects constructed each of the three years.

Fiscal Impact

A single 100MW facility will earn approximately \$26.3 million in State production tax credits over ten years. The finances of State government will see a return in the form of increased sales, use, and income taxes, as well as property tax revenues deposited to the State General Fund. Local governments where the wind facilities are located will realize increases after the property tax diversion to the State General Fund has expired. Local governments will see a decrease in revenue during the 12 years the State receives the consolidated property tax.

Over the 16 years it takes for all production tax credits to be exhausted, the projected 900 megawatts will produce \$236.5 million in State credits.

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 2005. During the tax credit period, the General Fund impact is negative. Once the credits are exhausted, the projects will produce a net positive impact on the General Fund. The Table below presents a 16-year summary of the General Fund fiscal impact of SF 449 as amended.

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

- If the federal government does not renew the federal tax credit, if project financing does not develop, or if all projects choose to instead utilize current Iowa wind energy incentives, the amendment 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.

- The fiscal note is based on construction of 900MW during the three-year window contemplated in the amendment. 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.

900MW Constructed - 50.0% Credit Induced

Consolidated Property Tax to the State for 12 Years

	Megawatts Constructed	Tax Credits Awarded	School Aid Change	Corporate and Personal Tax	Sales tax to State	Property Tax to State	Net General Fund Impact
FY 2005	400	\$ 0	\$ 0	\$ 1,638,000	\$ 12,000,000	\$ 0	\$ 13,638,000
FY 2006	300	- 10,512,000	0	1,286,000	9,000,000	0	- 226,000
FY 2007	200	- 18,396,000	0	919,000	6,000,000	9,815,000	- 1,662,000
FY 2008		- 23,652,000	- 54,000	129,000	0	16,825,000	- 6,752,000
FY 2009		- 23,652,000	- 142,000	129,000	0	21,106,000	- 2,559,000
FY 2010		- 23,652,000	- 220,000	129,000	0	20,281,000	- 3,462,000
FY 2011		- 23,652,000	- 315,000	129,000	0	19,426,000	- 4,412,000
FY 2012		- 23,652,000	- 398,000	129,000	0	18,542,000	- 5,379,000
FY 2013		- 23,652,000	- 468,000	129,000	0	17,627,000	- 6,364,000
FY 2014		- 23,652,000	- 488,000	129,000	0	16,680,000	- 7,331,000
FY 2015		- 23,652,000	- 474,000	129,000	0	15,700,000	- 8,297,000
FY 2016		- 13,140,000	- 457,000	129,000	0	14,688,000	1,220,000
FY 2017		- 5,256,000	- 419,000	129,000	0	13,641,000	8,095,000
FY 2018		0	- 381,000	129,000	0	12,560,000	12,308,000
FY 2019		0	548,000	129,000	0	6,750,000	7,427,000
FY 2020		0	1,141,000	129,000	0	2,601,000	3,871,000
	<u>900</u>	<u>\$ - 236,520,000</u>	<u>\$ - 2,127,000</u>	<u>\$ 5,520,000</u>	<u>\$ 27,000,000</u>	<u>\$ 206,242,000</u>	<u>\$ 115,000</u>

In addition to the costs and benefits presented in the table, the production tax credit for small producers contained in the amendment will reduce General Fund revenues by \$400,000 in FY 2006 and will grow to \$1.2 million annually in FY 2008 through FY 2016.

Sources

lowawinds presentation
 Legislative Services Agency Analysis
 Iowa Energy Center
 Department of Revenue

Dennis C Prouty

April 5, 2004

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.
