Legislative Fiscal Bureau
Fiscal Note

HF 808 – Ag/DNR Appropriations Bill-Wind Energy Production Tax Credit (LSB 1083 HV)
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Fiscal Note Version – Senate Amendment H-1678, Energy Related Provisions
Requested by Representative Mary Lou Freeman

Description

The energy-related provisions of Senate Amendment H-1678 to HF 808 (Ag/Natural Resources Appropriations Bill) amends Chapter 476B, Code of Iowa. That Chapter, enacted by the 2004 General Assembly, created a Wind Energy Production Tax Credit, but the enacted language resulted in a tax credit of no value. As amended in H-1678, 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, 2005, but before July 1, 2008.
- 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.

Chapter 476B 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 will be extended to facilities constructed through calendar year 2008.
2. A total of 450 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 modified by the Amendment.
3. The average capacity factor of all facilities will be 36.5%. 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 450 megawatts will commence production on or after July 1 of each fiscal year as follows:
   a. FY 2006 = 220MW
   b. FY 2007 = 171MW
   c. FY 2008 = 49MW
   d. Small producers = 10MW
5. The installed cost per nameplate megawatt will equal $1.25 million.

6. Sixty-five 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 93.0% of the installed cost. The assessed property value will be depreciated 5.0% per year.
   c. The average property tax rate is $25.90 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 ten megawatts of small producer projects constructed each of the three years.

Fiscal Impact

The 450 megawatts of constructed capacity will earn approximately $143.9 million in State production tax credits over 14 fiscal years. The finances of State government will see a return in the form of increased sales 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.

Over the 16 years it takes for all production tax credits to be exhausted, the projected 450 megawatts will reduce net State General Fund revenues over the entire period by $19.5 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 2005 and FY 2006.

Local governments will see a decrease in revenue during the 12 years the State receives the consolidated property tax, with a projected cumulative decrease in property tax revenue of $10.1 million over 16 years. The negative impact only relates to the megawatts where construction is assumed to occur with or without the enactment of the availability of the new tax credit. For those megawatts, current law provides for a discounted property tax structure where the resulting tax is distributed to local governments.

It should be noted that the tax credit has a fiscal impact only if:

- Wind energy facilities are constructed in Iowa that would not be constructed without the new tax credit.
- The newly constructed facilities choose to use the incentive package in Chapter 476B instead of current Iowa wind energy incentives.

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 450MW.

450MW 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 2006	220	$ 0	$ 0	$ 1,251,000	$ 8,938,000	$ 0	$ 10,189,000
FY 2007	171	-7,034,000	0	1,008,000	6,951,000	0	925,000
FY 2008	49	-12,505,000	0	340,000	1,986,000	5,545,000	-4,634,000
FY 2009		-14,069,000	-26,000	70,000	0	9,660,000	-4,365,000
FY 2010		-14,069,000	-70,000	70,000	0	10,533,000	-3,536,000
FY 2011		-14,069,000	-109,000	70,000	0	10,116,000	-3,992,000
FY 2012		-14,069,000	-149,000	70,000	0	9,685,000	-4,463,000
FY 2013		-14,069,000	-183,000	70,000	0	9,238,000	-4,944,000
FY 2014		-14,069,000	-212,000	70,000	0	8,776,000	-5,435,000
FY 2015		-14,069,000	-218,000	70,000	0	8,298,000	-5,919,000
FY 2016		-14,069,000	-206,000	70,000	0	7,803,000	-6,402,000
FY 2017		-7,034,000	-194,000	70,000	0	7,292,000	134,000
FY 2018		-1,563,000	-178,000	70,000	0	6,763,000	5,092,000
FY 2019		0	-161,000	70,000	0	6,217,000	6,126,000
FY 2020		0	331,000	70,000	0	3,001,000	3,402,000
FY 2021		0	658,000	70,000	0	653,000	1,381,000
	440	$ -140,688,000	$ -717,000	$ 3,509,000	$ 17,875,000	$ 103,580,000	$ -16,441,000
Small Prod.	10	$ -3,197,000	$ 55,000	$ 80,000	$ 0	$ 0	$ -3,062,000
Total	450	$ -143,885,000	$ -662,000	$ 3,589,000	$ 17,875,000	103,580,000	$ -19,503,000

Sources

Legislative Fiscal Bureau Analysis
Iowa Energy Center
Department of Revenue and Finance
County FY 2005 property tax records by taxing district

May 11, 2005

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.