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Fiscal Note

Fiscal Services Division

SF 300 – Wind Production Tax Credits (LSB 1967SV)
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Fiscal Note Version – New

Description

Senate File 300 relates to Iowa's wind energy production tax incentives. The Bill:

- Reduces the total capacity limit on projects approved for the 1.0 cent per kilowatt-hour tax credit under Chapter 476B from 150 megawatts to 100 megawatts.
- Increases the total current capacity limit on projects approved for the 1.5 cents per kilowatt-hour wind energy production tax credit (Iowa Code Chapter 476C) from 330 megawatts to 363 megawatts.
- Extends the date by which facilities qualifying under Iowa Code Chapter 476C must be placed in service by one year, to January 1, 2013.

The Bill is effective July 1, 2011.

Background

The 1.0 cent per kilowatt-hour tax credit under Chapter 476B was created in Senate File 2298 (Appropriations and Miscellaneous Changes Act of 2004) and the 1.5 cents per kilowatt-hour tax credit found in Chapter 476C was created in Senate File 390 (Renewable Energy Tax Credits Act of 2005).

Chapter 476B is available for projects with a capacity of 2 megawatts or more. Projects are no longer required to forgo existing property and sales tax benefits (see Code Sections 427B.26 and 423.3(54)) to receive the 1.0 cent production tax credit. Owners are limited to no more than two qualified projects. The total capacity of all approved projects cannot exceed 150 megawatts. A project must be placed in service before July 1, 2012, to qualify for the income tax credit. Through March 1, 2011, 25.5 megawatts of capacity has been approved for 476B participation.

Chapter 476C is designed for smaller projects. Projects are not required to forgo existing property and sales tax benefits and the production tax credit is equal to 1.5 cents per kilowatt-hour. The total capacity of all approved projects cannot exceed 330 megawatts. Projects must be placed in service by January 1, 2012. The Chapter 476C program has approved projects equal to the current limit and also has a waiting list. The full list exceeds the current 330 megawatt limit by 45 megawatts.

The Utilities Board of the Department of Commerce administers both programs and the Department of Revenue administers the tax credits.

Assumptions

Chapter 476B: Chapter 476B project participation will not reach 100 megawatts prior to the existing deadline. Therefore, reducing the current 150 megawatt program limit to 100 megawatts will not reduce tax credit redemptions and will not result in a reduction in tax credit redemptions compared to current law.

Chapter 476C:

- Sufficient projects are approved and/or on a waiting list to utilize the existing 330 megawatt limit of Chapter 476C projects.
- If the existing limit is increased to 363 megawatts as proposed in SF 300, sufficient demand exists to utilize the higher limit.
- The projects will receive sales/use tax exemptions and reduced property valuation benefits as allowed by Code Sections 427B.26 and 423.3(54).
- The average capacity factor will equal 31.0%.
- The new 33 megawatts will become operational in time to start redeeming State production tax credits on the following schedule: 40.0% in FY 2013, 55.0% in FY 2014, and 5.0% in FY 2015.

Fiscal Impact

476B Limit Decrease: Decreasing the maximum capacity eligible for Chapter 476C credits will not have a fiscal impact to the State General Fund since tax credits associated with the reduced megawatt limit will not be utilized under existing law. They will not be utilized because there is insufficient demand.

476C New Projects Impact: Increasing the maximum capacity eligible for Chapter 476C credits will have a fiscal impact since more tax credits will be issued and redeemed than under current law. The impact to the State General Fund will be partially offset by increased local property tax revenue, and potentially, decreased State School Aid appropriations.

Net State General Fund Revenue Reduction: The following table shows the projected net State General Fund revenue reduction associated with the changes in Chapter 476C. The impact across all fiscal years is estimated to be $13.1 million.

Net State General Fund Revenue Reduction
New Tax Credit Redemptions
(Dollars in Millions)

FY 2012	$ 0.0	FY 2019	$ 1.3
FY 2013	0.0	FY 2020	1.3
FY 2014	0.5	FY 2021	1.3
FY 2015	1.3	FY 2022	1.3
FY 2016	1.3	FY 2023	1.3
FY 2017	1.3	FY 2024	0.8
FY 2018	1.3	FY 2025	0.1

Total Fiscal Impact = $13.1 million

Over the course of 20 years, the new projects (projects that will not exist without passage of the Bill) will pay a total of $2.7 million in property taxes. Of that amount, $0.5 million represents savings to the State General Fund School Aid appropriation and $2.2 million represents additional local property tax revenue. However, the State School Aid savings will be reduced if some of the wind facility value is included in Tax Increment Financing areas.

Sources

Legislative Services Agency Analysis
Iowa Utilities Board
Iowa Department of Revenue

/s/ Holly M. Lyons

March 29, 2011

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to Code **Section 2.56**. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.