

**House Study Bill 654 - Introduced**

HOUSE FILE \_\_\_\_\_  
BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL BY  
CHAIRPERSON SANDS)

**A BILL FOR**

1 An Act relating to water quality by modifying the wastewater  
2 treatment financial assistance program, creating a water  
3 service excise tax and a related sales tax exemption, making  
4 appropriations, and including effective date provisions.  
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 16.134, Code 2016, is amended to read as  
2 follows:

3 **16.134 Wastewater and drinking water treatment financial**  
4 **assistance program.**

5 1. The Iowa finance authority shall establish and  
6 administer a wastewater and drinking water treatment financial  
7 assistance program. The purpose of the program shall be to  
8 provide financial assistance to enhance water quality. The  
9 program shall be administered in accordance with rules adopted  
10 by the authority pursuant to chapter 17A. For purposes of  
11 this section, "program" means the wastewater and drinking water  
12 treatment financial assistance program and "committee" means the  
13 water quality financing review committee created in subsection  
14 9.

15 2. A wastewater and drinking water treatment financial  
16 assistance fund is created and shall consist of appropriations  
17 made to the fund and transfers of interest, earnings, and  
18 moneys from other funds as provided by law. Moneys transferred  
19 to the fund pursuant to section 423G.6 are appropriated to the  
20 authority for purposes of the program. Moneys in the fund are  
21 not subject to section 8.33. Notwithstanding section 12C.7,  
22 subsection 2, interest or earnings on moneys in the fund shall  
23 be credited to the fund.

24 3. Financial assistance under the program shall be used to  
25 install or upgrade wastewater treatment facilities and systems  
26 and drinking water treatment facilities and systems, and for  
27 engineering or technical assistance for facility planning and  
28 design.

29 4. The authority committee shall ~~distribute~~ approve  
30 financial assistance ~~in~~ from the fund in accordance with the  
31 following:

32 ~~a. The goal of the program shall be to base awards on the~~  
33 ~~impact of the grant combined with other sources of financing to~~  
34 ~~ensure that sewer rates do not exceed one and one-half percent~~  
35 ~~of a community's median household income.~~

1 ~~b.~~ a. ~~Communities shall be eligible for financial~~  
2 ~~assistance by qualifying as~~ Priority shall be given for  
3 projects in which a disadvantaged community and is seeking  
4 financial assistance for the installation or upgrade of  
5 wastewater treatment facilities ~~due to regulatory activity~~  
6 ~~by the department of natural resources~~ and drinking water  
7 treatment facilities. For purposes of **this section**, the term  
8 "*disadvantaged community*" means the same as defined by the  
9 department.

10 ~~e.~~ b. Priority shall be given to projects in which the  
11 financial assistance is used ~~to obtain~~ with financing under the  
12 water pollution control works and drinking water facilities  
13 financing program pursuant to **section 16.131** or other federal  
14 or state financing.

15 ~~d.~~ c. Priority shall also be given to projects whose  
16 completion will provide significant improvement to water  
17 quality in the relevant watershed.

18 ~~e.~~ d. Priority shall also be given to communities that  
19 employ an alternative wastewater treatment technology pursuant  
20 to **section 455B.199C**.

21 ~~f.~~ e. Priority shall ~~be~~ be given to those communities  
22 where sewer or water rates are the highest as a percentage of  
23 that community's median household income.

24 ~~g.~~ f. Financial assistance in the form of grants shall be  
25 issued on an annual basis.

26 ~~h.~~ g. An applicant shall not receive a grant that exceeds  
27 five hundred thousand dollars.

28 5. The authority in cooperation with the department of  
29 natural resources shall ~~share~~ provide information and resources  
30 to the committee when the committee is determining the  
31 qualifications of a community for financial assistance from the  
32 fund.

33 6. The authority shall enter into agreements with financial  
34 assistance recipients and distribute moneys under the program  
35 pursuant to financial assistance determinations made by the

1 committee. The authority may use an amount of not more than  
2 ~~four~~ one percent of any moneys appropriated for deposit in the  
3 fund for administration purposes.

4 7. By October 1 of each year, the authority shall submit  
5 a report to the governor and the general assembly itemizing  
6 expenditures under the program during the previous fiscal year.

7 8. a. Beginning September 1, 2026, and every ten years  
8 thereafter, a program review committee is established for  
9 purposes of reviewing the wastewater and drinking water  
10 treatment financial assistance program. By December 1 of  
11 the same year, the review committee shall file a report  
12 with the governor and the general assembly that reviews the  
13 effectiveness of the program during the prior ten fiscal years.

14 b. The program review committee shall consist of the  
15 following members:

16 (1) The governor or the governor's designee.

17 (2) The secretary of agriculture or the secretary's  
18 designee.

19 (3) The executive director of the authority or the executive  
20 director's designee.

21 (4) The director of the department of natural resources or  
22 the director's designee.

23 (5) Four members of the general assembly, with two from the  
24 senate and two from the house of representatives and not more  
25 than one member from each chamber being from the same political  
26 party. The two senators shall be designated one member each  
27 by the president of the senate, after consultation with the  
28 majority leader of the senate, and by the minority leader of  
29 the senate. The two representatives shall be designated one  
30 member each by the speaker of the house of representatives,  
31 after consultation with the majority leader of the house of  
32 representatives, and by the minority leader of the house of  
33 representatives.

34 c. Staffing services shall be provided by the authority.

35 9. a. A water quality financing review committee is

1 created consisting of the secretary of agriculture or the  
2 secretary's designee, the executive director of the authority  
3 or the executive director's designee, and the director of the  
4 department of natural resources or the director's designee.

5 b. The committee shall review and approve or deny  
6 applications for financial assistance under the wastewater  
7 and drinking water treatment financial assistance program  
8 established in this section.

9 Sec. 2. Section 423.3, Code 2016, is amended by adding the  
10 following new subsection:

11 NEW SUBSECTION. 103. a. The sales price from the sale or  
12 furnishing by a water utility of a water service in the state  
13 to consumers or users.

14 b. For purposes of this subsection:

15 (1) "*Water service*" means the delivery of water by piped  
16 distribution system.

17 (2) "*Water utility*" means a public utility as defined in  
18 section 476.1 that furnishes water by piped distribution system  
19 to the public for compensation.

20 Sec. 3. NEW SECTION. 423G.1 Short title.

21 This chapter may be cited as the "*Water Service Tax Act*".

22 Sec. 4. NEW SECTION. 423G.2 Definitions.

23 1. All words and phrases used in this chapter and defined in  
24 section 423.1 have the same meaning given them by section 423.1  
25 for purposes of this chapter.

26 2. As used in this chapter, "*water service*" and "*water*  
27 *utility*" mean the same as defined in section 423.3, subsection  
28 103.

29 Sec. 5. NEW SECTION. 423G.3 Water service tax.

30 An excise tax at the rate of six percent is imposed on the  
31 sales price from the sale or furnishing by a water utility of a  
32 water service in the state to consumers or users.

33 Sec. 6. NEW SECTION. 423G.4 Exemptions.

34 The sales price from transactions exempt from state sales  
35 tax under section 423.3, except section 423.3, subsection 103,

1 is also exempt from the tax imposed by this chapter.

2     **Sec. 7. NEW SECTION. 423G.5 Administration by director.**

3     1. The director of revenue shall administer the water  
4 service tax as nearly as possible in conjunction with the  
5 administration of the state sales and use tax law, except that  
6 portion of the law that implements the streamlined sales and  
7 use tax agreement. The director shall provide appropriate  
8 forms, or provide on the regular state tax forms, for reporting  
9 water service tax liability.

10    2. The director may require all persons who are engaged  
11 in the business of deriving any sales price or purchase  
12 price subject to tax under this chapter to register with  
13 the department. The director may also require a tax permit  
14 applicable only to this chapter for any retailer not  
15 collecting, or any user not paying, taxes under chapter 423.

16    3. Section 422.25, subsection 4, sections 422.30, 422.67,  
17 and 422.68, section 422.69, subsection 1, sections 422.70,  
18 422.71, 422.72, 422.74, and 422.75, section 423.14, subsection  
19 1, and sections 423.23, 423.24, 423.25, 423.31 through  
20 423.35, 423.37 through 423.42, and 423.47, consistent with the  
21 provisions of this chapter, shall apply with respect to the tax  
22 authorized under this chapter, in the same manner and with the  
23 same effect as if the excise taxes on the sale or furnishing of  
24 a water service were retail sales taxes within the meaning of  
25 those statutes. Notwithstanding this subsection, the director  
26 shall provide for quarterly filing of returns and for other  
27 than quarterly filing of returns both as prescribed in section  
28 423.31. All taxes collected under this chapter by a retailer  
29 or any user are deemed to be held in trust for the state of  
30 Iowa.

31     **Sec. 8. NEW SECTION. 423G.6 Deposit of revenues.**

32     1. All moneys received and all refunds shall be deposited in  
33 or withdrawn from the general fund of the state.

34     2. Subsequent to the deposit in the general fund of the  
35 state, the department shall transfer the following amounts



1 review committee to review and approve applications for  
2 financial assistance under the program.

3 WATER SERVICE EXCISE TAX. The bill exempts from the state  
4 sales tax the sales price from the sale or furnishing by a  
5 water utility of a water service in the state to consumers or  
6 users. "Water service" and "water utility" are defined in the  
7 bill.

8 By operation of Code section 423.6, an item exempt from the  
9 imposition of the sales tax is also exempt from the use tax  
10 imposed in Code section 423.5.

11 The bill creates an excise tax at the rate of 6 percent  
12 on the sales price from the sale or furnishing by a water  
13 utility of a water service in the state to consumers or users.  
14 Water service tax revenues are deposited in the general fund  
15 of the state, and the bill requires an increasing portion  
16 of the water service tax revenues collected each year to be  
17 transferred to the wastewater and drinking water treatment  
18 financial assistance fund, beginning with one-sixth of the  
19 revenues collected on or after July 1, 2017, but before August  
20 1, 2018, and increasing to one-third, one-half, two-thirds,  
21 and five-sixths over the next four years. All water service  
22 tax revenues collected on or after August 1, 2022, will be  
23 transferred to the wastewater and drinking water treatment  
24 financial assistance fund. Water service tax revenues  
25 transferred to the wastewater and drinking water treatment  
26 financial assistance fund are appropriated to the Iowa finance  
27 authority for purposes of the wastewater and drinking water  
28 treatment financial assistance program.

29 The director of revenue is required to administer the water  
30 service tax as nearly as possible in conjunction with the  
31 administration of the state sales and use tax laws, and, to  
32 that end, the bill incorporates by reference numerous Code  
33 sections that relate to general tax administration and the  
34 sales and use tax laws. The water service tax is repealed July  
35 1, 2037.

H.F. \_\_\_\_\_

1 The bill takes effect July 1, 2017.