

January 20, 2022

Dear Senator Dawson and Representative Hein,

The Property Tax Replacement and Statewide Property Tax Act (codified as Iowa Code chapter 437A) was passed in the 1998 legislative session. The bill replaced the property taxes paid by electric and natural gas utilities on their property with an excise tax associated with the distribution of electricity and natural gas.

Iowa Code section 437A.15(7) requires the Department of Management, in consultation with the Department of Revenue, to initiate and coordinate the establishment of the Replacement Tax Task Force ("Task Force"). It is the intent of the General Assembly that the task force include representatives of the Department of Management, Department of Revenue, electric companies, natural gas companies, municipal utilities, electric cooperatives, counties, cities, school boards, and industrial, commercial, and residential consumers, and other appropriate stakeholders.

The January 2022 members of the task force are as follows:

Kraig Paulsen, Department of Management-co chair

Julie G. Roisen, Department of Revenue-co chair

Bill Peterson- Iowa State Association of Counties

Alan Kemp- Iowa League of Cities

Shawn Snyder- Iowa Association of School Boards

Cheryl Crawmer- MidAmerican Energy

Jim Henter- Iowa Retail Association

Regi Goodale-Rural Electric Cooperatives

Alex Cutchey- Iowa Association of Municipal Utilities

Mike Rubino- John Deere

Justin Gorman-Alliant Energy

The purpose of the Task Force is to study the effect of the Replacement Tax on local taxing districts, consumers, and taxpayers. If the Task Force recommends modifications to the Replacement Tax that will further the purposes of tax neutrality for local taxing authorities, local taxing districts, taxpayers, and consumers, the Department of Management is tasked with transmitting those recommendations to the General Assembly.

The Task Force has met three times in recent months to discuss issues related to solar and wind energy conversion property. The attached draft legislation amending Iowa Code section 427B.26 addresses three main areas of concern regarding the assessment and taxation of wind energy conversion property and would provide direction to local assessors and the Department of Revenue where a lack of clarity exists. The lack of clarity results in different treatment of wind energy conversion property assessment across the state. The three main areas addressed by the draft are as follows:

- 1) Current law does not provide clear direction on how wind energy conversion property should be assessed for property taxation purposes if a local ordinance under Iowa Code section 427B.26 is repealed and 19 assessment years have passed, or if an ordinance is never adopted. The draft language clarifies that wind energy conversion property selling power to an end user in this situation would be subject to the Utility Replacement Tax, local assessment, or central assessment by the Department of Revenue, as applicable. In other words, the draft language treats the special valuation provisions as if they do not exist in the event the ordinance is repealed or an ordinance is never adopted. At least one jurisdiction has recently repealed its ordinance.
- 2) Current law does not address how wind energy conversion property should be valued if it is repowered (i.e., refurbishing, replacement of parts). There is an open question as to whether the wind property should restart on the schedule described in Iowa Code section 427B.26(2) when repowering occurs. The draft language defines repowering and clarifies the act of repowering does not reset the special assessment schedule under Iowa Code section 427B.26(2).
- 3) Current law does not clearly address the valuation of collector and interconnect substations. The language defines collector substations and adds them to the definition of wind energy conversion property to be covered by the special assessment schedule in Iowa Code section 427B.26. Interconnect substations are not included in the definition of wind energy conversion property and therefore not subject to special valuation in this draft.

These changes will provide consistent treatment for property taxpayers owning wind energy conversion property across the state. At the January 14, 2022 meeting to approve the draft legislation, the votes of members were recorded as follows:

Kraig Paulsen, Department of Management-co chair-Voted Aye

Julie G. Roisen, Department of Revenue-co chair-Voted Aye

Bill Peterson- Iowa State Association of Counties (excused from meeting but ISAC representative indicated support)

Alan Kemp- Iowa League of Cities-Voted Aye

Shawn Snyder- Iowa Association of School Boards-Voted Aye

Cheryl Crawmer- MidAmerican Energy-Voted Aye

Jim Henter- Iowa Retail Association (excused from meeting but indicated support)

Regi Goodale-Rural Electric Cooperatives-Voted Aye

Alex Cutchey- Iowa Association of Municipal Utilities-Voted Aye

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Mike Rubino- John Deere-Voted Aye  
Justin Gorman-Alliant Energy-Voted Aye

The Task Force respectfully submits the attached legislation for your consideration. If you have any questions, please contact us.

Sincerely,



Kraig Paulsen  
Task Force Co-Chair



Julie Roisen  
Julie Roisen  
Task Force Co-Chair

Attachment

cc: Bill Peterson  
Alan Kemp  
Shawn Snyder  
Cheryl Crawmer  
Jim Henter  
Regi Goodale  
Alex Cutchey  
Mike Rubino  
Justin Gorman



#### 427B.26. Special valuation of wind energy conversion property

1. a. A city council or county board of supervisors may provide by ordinance for the special valuation of wind energy conversion property as provided in subsection 2. The ordinance may be enacted not less than thirty days after a public hearing on the ordinance is held. Notice of the hearing shall be published in accordance with section 331.305 in the case of a county, or section 362.3 in the case of a city. The ordinance shall only apply to property first assessed on or after the effective date of the ordinance.

b. If in the opinion of the city council or the county board of supervisors continuation of the special valuation provided under this section ceases to be of benefit to the city or county, the city council or the county board of supervisors may repeal the ordinance authorized by this subsection. Property specially valued under this section prior to repeal of the ordinance shall continue to be valued under this section until the end of the nineteenth assessment year following the assessment year in which the property was first assessed. Following the repeal of the ordinance and the end of the nineteenth assessment year following the assessment year in which the property was first assessed, the wind energy conversion property shall be subject to valuation and taxation under chapter 437A, section 441.21, subsection 8, paragraphs "b", "c", and "d", or sections 428.24 through 428.26, 428.28, and 428.29, as applicable.

2. In lieu of the valuation and assessment provisions in chapter 437A, section 441.21, subsection 8, paragraphs "b", "c", and "d", and or sections 428.24 through 428.26, 428.28, and 428.29, as applicable, wind energy conversion property which is first assessed for property taxation on or after January 1, 1994, and on or after the effective date of the ordinance enacted pursuant to subsection 1, shall be valued by the local assessor for property tax purposes as follows:

a. For the first assessment year, at zero percent of the net acquisition cost.

b. For the second through sixth assessment years, at a percent of the net acquisition cost which rate increases by five percentage points each assessment year.

c. For the seventh and succeeding assessment years, at thirty percent of the net acquisition cost.

3. The maintenance, refurbishing, or repowering of wind energy conversion property shall not cause the wind energy conversion property to be placed on a new assessment schedule described in paragraph 2.

34. The taxpayer shall file with the local assessor by February 1 of the assessment year in which the wind energy conversion property is first assessed for property tax purposes, a declaration of intent to have the property assessed at the value determined under this section in lieu of the valuation and assessment provisions in chapter 437A, section 441.21, subsection 8, paragraphs "b", "c", and "d", and or sections 428.24 through 428.26, 428.28, and 428.29, as applicable.

45. For purposes of this section:

a. "Net acquisition cost" means the acquired cost of the property including all foundations and installation cost less any excess cost adjustment. Except in the case of a clerical error, the net acquisition cost shall not be adjusted after the third year the wind energy conversion property is assessed.

b. "Wind energy conversion property" means the entire wind plant including, but not limited to, a wind charger, windmill, wind turbine, tower and electrical equipment, pad mount transformers, power lines, and collector substation.

c. "Collector substation" means an electrical substation designed to collect energy from multiple generation sources.

d. "Repower" means the removal and replacement of components of wind energy conversion property.

