



“Be sure you put your feet in the right place, then stand firm.”

- Abraham Lincoln

Thursday, July 27, 2017

www.IowaHouseRepublicans.com

Appropriations

(Contact Brad Trow at 1-3471)

Inside this issue:

Other States See Actual FY 17 Revenue Fall Short of Projections

As states begin a new fiscal year this month, the closing of the books on Fiscal Year 2017 is leaving many in the same place that Iowa finds itself: actual tax collections did not meet revenue forecasts on which budgets are built on.

primarily in the area of individual income tax collections. Actual net collections for Fiscal Year 2017 came in \$260 million or 2.3 percent below the latest forecasted levels. Minnesota had lower income tax payments received and higher refund amounts paid out this spring.

One of the states that have experienced similar revenue fluctuations over the past few years is Nebraska. For Fiscal Year 2017, Nebraska’s actual revenue was \$4.308 billion. This was \$34 million lower than the state’s latest revenue projection of \$4.300 billion, made on April 26 of this year. When the state’s nine-member Economic Forecasting Advisory Board met at that time, they were revising a projection which had already been lowered at previous meetings.

“states are seeing significant declines in capital gain taxes due to the anticipation of federal tax reform legislation”

The breakdown of Nebraska’s revenue streams shows a very similar pattern to what Iowa is experiencing. Both states saw actual collections for personal income tax and sales/use tax not meet the projected levels. In Nebraska, sales tax revenue grew by 1.3 percent for the year, just below the projected level of 1.4 percent growth. The Cornhusker State’s bigger concern is personal income tax, which was supposed to grow by 2.9 percent. But actual collections grew by just 0.02 percent for the year. In terms of corporate income tax revenue, Nebraska also had higher actual revenue than what had been projected. But Nebraska was expecting corporate collections to drop by over 15 percent, and the actual decline was just 14 percent.

Net sales tax collections were just above forecasted levels, but this only happened because Minnesota paid out less in sales tax refunds than what they had collected. Like Iowa and Nebraska, Minnesota’s corporate tax collections were higher than projected.

The failure to meet forecasted personal income tax collections is not a phenomenon limited to the upper Midwest. All across the country, states are seeing significant declines in capital gain taxes due to the anticipation of federal tax reform legislation being enacted this year. But more concerning is the fact that all three states experienced a drop in sales tax collections this spring. If this trend continues well into Fiscal Year 2018, states across the country will again be faced with making budget revisions due to faulty forecasts and/or outdated sales tax codes.

To the north, Minnesota also saw actual revenues fail to meet the latest revenue forecast. Total revenues for the state came in \$104 million below the forecasted level set in February. Unlike Iowa and Nebraska, Minnesota’s problem was

Appropriations	1
Agriculture	2
Commerce	2
Economic Growth	3
Education	3
Environmental Protection	4
Human Resources	4
Natural Resources	5
Public Safety	5
State Government	5
Ways and Means	7



Agriculture

(Contact Lew Olson at 1-3096)

ISU Field Day Features Cover Crops, Saturated Buffers, Soil Health and More

On July 11, 2017, the Iowa State University Extension and Outreach issued a press release in which it announced that the Iowa Learning Farms will host a cover crop, saturated buffer, soil health and more field day held between 6-8:30 p.m. on Tuesday, August 1, at Lee Tesdell's farm, rural Slater. The field day is free and open to the public and includes a complimentary meal. Lee Tesdell and his tenants, Mike and

Charles Helland, farm a Century Farm that has been in the Tesdell family since 1884.

On Alleman Creek within the Four Mile Creek Watershed, the farm features a variety of conservation practices including cover crops, terraces, buffer strips, bioreactor and waterway. This year that list is expanding to include prairie strips and a saturated buffer. Tesdell and the Hellands will

share how they work together to address soil conservation and water quality issues to advance land stewardship goals.

For more information about Iowa Learning Farms, visit the website, www.iowalearningfarms.org.

IDALS Reminds Farmers to Apply for Cost-Share for Cover Crops, No-Till/Strip-Till & Nitrification Inhibitor

On Wednesday, July 19, 2017, the Iowa Department of Agriculture and Land Stewardship (IDALS) issued a press release in which Iowa Secretary of Agriculture Bill Northey reminded Iowa farmers that funds are available to help install practices focused on protecting water quality. Practices eligible for this funding are cover crops, no-till or strip till, or using a nitrification inhibitor when applying fertilizer. The cost share rate for first-time users of cover crops is \$25 per acre, no-till or strip till are eligible for \$10 per acre and farmers using a nitrapyrin nitrification inhibitor when applying fall fertilizer can receive \$3 per acre.

Farmers are eligible for cost share on up to 160 acres. First-time users that apply by July 28 will be the first applications funded. First-time users that apply after July 28 will still receive priority consideration, but funds will also be made available to farmers that have used cover crops in the past for cost share assistance at \$15 per acre.

Farmers are also encouraged to visit their local Soil and Water Conservation District office to inquire about additional opportunities for cost share funding through other programs offered at their local SWCDs. The cost share assistance was announced

on May 11. Since then, the Governor has signed into law \$10.575 million to support the Iowa Water Quality Initiative.

In the 4 years this statewide program has been available over 4,800 farmers, with participants in each of Iowa's 99 counties, have put in nutrient reduction practices on more than 455,000 acres. The state provided about \$9.3 million in cost share funding to help farmers try a water quality practice and Iowa farmers provided more than \$9.3 million of their own resources to support these water quality practices.

Commerce

(Contact Britney Lumley at 1-3452)

Health Insurance Stopgap Measure Public Hearings

The Insurance Commissioner announced public hearings for the [Iowa Stopgap Measure](#), the innovative solution to address the ACA's problem in Iowa. Under the Iowa Stopgap Measure, Iowans will be able to purchase a standard health benefits plan that will be guaranteed issue, that will protect consumers from annual and lifetime limits, and that will include all of the Essential Health Benefits of the ACA and any additional benefits required by Iowa law. The Iowa Stopgap Measure will utilize a pass-through of Iowa's share of federal advanced premium tax credits (APTCs) and cost-sharing reductions (CSRs) to provide Iowa consumers with monthly age- and income-based premium credits and to support a reinsurance mechanism for costly medical claims. Consumers will purchase the standard health benefits plan directly from insurance companies participating in the Iowa Stopgap Measure during

the open enrollment period beginning November 1, 2017. The plan was submitted for federal approval, and the IID continues to work with all the appropriate entities to ensure it is approved. Further, the IID will provide a third-party economic analysis at the end of this month.

The Iowa Stopgap Measure is available for public review at <https://iid.iowa.gov/documents/iowa-stopgap-measure> and public comment at <https://comment.iowa.gov>.

Written comments will be accepted through 4:30 p.m. on Monday, August 14, 2017.

Wednesday, July 19, 2017

5:30-6:30 pm
Council Bluffs Public Library, Meeting Room B
400 Willow Ave, Council Bluffs, 51503

Wednesday, August 2, 2017

5:30-6:30 pm
Des Moines Central Public Library, Central Library Meeting Room
1000 Grand Ave, Des Moines, 50309

Thursday, August 10, 2017

5:30-6:30 pm
Cedar Rapids Public Library, Beems A/B Room
450 5th Avenue SW, Cedar Rapids, 52401

Economic Growth

IEDA Tax Incentive Series: Demonstration Fund

While we have been looking into the various tax credit programs offered by the IEDA as a series, I want to go into a smaller subset of financial programs that go to benefit start-up companies and entrepreneurs. The first program is known as the Demonstration Fund. This Fund is designed to provide assistance with companies with market-ready innovative technologies or products that have a clear potential for commercial viability. It assists companies with marketing and business development activities, and also helps businesses with high-growth potential reach a position to attract follow-on private sector funding.

To be [eligible](#), a business must be:

- Iowa-based company with innovative technology solution
- Fewer than 500 employees
- Commitment to commercialize product(s) in advanced manufacturing, biosci-

ence or information technology industries

- Competitive and protectable product, technology or process
- Product ready for market introduction (exception for bioscience and medical device requiring regulatory approval)
- Essential management team in place (business development, financial operations and technology)

The fund awards up to \$100,000, primarily in loans or royalty arrangements with a 1:2 private: public match. The funds can be used for acquiring management and marketing personnel or expertise; purchasing equipment; developing and executing marketing and distribution strategy; creating marketing materials; developing/expanding lead compounds; business model validation and refinement; or market feedback on technology and recommended enhance-

ments. Applications are reviewed on an ongoing basis with funding decisions bi-monthly. To apply, a business must submit a completed application to the IEDA through VentureNet Iowa services, which manages the application review process. Additionally, an applicant must complete a panel review process and presentation to the IEDA [Technology and Commercialization Committee](#).

In other news, the IEDA Board met last week and [approved several different tax incentive awards](#) for various companies throughout Iowa. More information can be accessed here. They are next scheduled to meet on August 18, with Due Diligence business beginning at 9 am and the full Board meeting starting at 10 am.

Education

Contact Jason Chapman at 1-3015)

State Gets Planning Grant For Adult Literacy Programs

The Iowa Department of Education obtained a grant recently from AmeriCorps to develop and implement adult tutoring programs to address Iowa's literacy needs. The grant would fit in with Iowa's Future Ready Initiative, a priority of the Governor which is working to get 70% of Iowa's workforce a postsecondary education of some kind by 2025.

The \$57,000 grant will give the Department the opportunity to apply for a larger project grant to fund the implementation of the plan that is developed. The goal would be to certify tutors and increase the number of volunteers to raise the literacy level of adults across the state of Iowa.

Adult literacy is the ability to proficiently read, write, and speak at a high school level. It is a foundational step toward achieving self-sufficiency and financial stability. The state's changing economy and the jobs being created today require higher skill levels than in the past. Providing services and support to the nearly 146,000 working-age Iowans without a high school degree or equivalent is necessary to close the skills gap so that more Iowans have

quality career opportunities and employers have the skilled workforce they need.

“foundational step toward achieving self-sufficiency and financial stability”

Lack of literacy in adults has a number of negative consequences, including impacts on children (children whose parents have low literacy levels have a 72% change of being at the lowest reading levels themselves), poverty levels (43% of adults with low literacy levels live in poverty), health care costs (\$232 billion a year in health care costs is linked to low adult literacy skills), and incarceration levels (75% of prison inmates did not complete high school or are classified as low literate).

Starting in September, the Department and the Iowa Literacy Council will collaborate to

develop strategies targeting those with the greatest barriers to employment through greater visibility of Iowa's literacy programs, increased volunteerism and additional technical support for programs and volunteers.

Specifically, the grant will foster collaboration with local providers to explore the feasibility of hosting AmeriCorps members to serve as certified tutors and mentors for Iowa adults most in need of basic skill instruction. This would be an important step, as 68% of programs nationwide are struggling with long waiting lists, and less than 10% of adults in need are receiving services.

For additional information or questions about the Department's grant award and proposal, please contact Marcela Hermsillo, education consultant, at marcela.hermsillo@iowa.gov.

Stats in this article on adult literacy can be found here: <https://www.proliteracy.org/Resources/Adult-Literacy-Facts>

Davenport School Funding Lawsuit Dismissed

A little background first: The school funding formula that the state currently uses to fund Iowa's schools was created in the 1970's as is based on per pupil funding. It basically takes the number of students in the district (plus some additional "weighting" for things like special education, English language learners, and other things) and multiplies it by the current Per Pupil Amount (called the State Cost Per Pupil or SCPP) and comes up with the funding for the school district for that year.

When the funding formula was created, districts varied widely in their Per Pupil Amounts. As a result, some district were held harmless and remained at a level above the SCPP. This variance has persisted for those many decades and still exists today, with half of Iowa's districts at the SCPP and the other halfway disbursed somewhere between \$1 and \$175 above the current \$6664 SCPP. 6 districts are at the maximum \$175 above.

Davenport is one of the schools at the SCPP, meaning they are authorized for the \$6664. But their neighboring school district, Pleasant Valley for example, is authorized to spend \$6797, or \$133 above the SCPP.

Fixing the issue isn't simple, given the cost, and either state budget implications or property tax implications.

The Lawsuit: The lawsuit, filed in December 2016, names as defendants the education department along with former Iowa Gov. Terry Branstad, the state of Iowa and the Iowa Legislature. It was filed by Davenport attorney Cathy Cartee. The Plaintiffs are two Davenport district graduates.

The lawsuit argues that the state's funding formula creates inequities in school funding across the state, citing that the plaintiffs are denied equal protection under the law, as state in Iowa's constitution.

On June 29, a district court judge dismissed the lawsuit, partly because plaintiffs asserted the formula "violates a fundamental right" to a public education. The judge stated "Whether the right to education is a fundamental right remains an open question in Iowa... Iowa Courts do not currently recognize the right to education as a fundamental right."

Chase Cartee of the Cartee Law Firm in Davenport, which represented the plaintiffs, said they are considering an appeal.

To read the lawsuit, go here: <https://bloximages.chicago2.vip.townnews.com/qctimes.com/content/tncms/assets/v3/editorial/6/17/6178eefb-cf96-5e9b-91f7-33227dacad7e5/5859b650b41b3.pdf.pdf>

To read the dismissal, go here: <https://www.scribd.com/document/354711518/Funding-Lawsuit-Ruling>

Environmental Protection

(Contact Lew Olson at 1-3096)

DNR Launches New, Locally-Led Water Quality Monitoring Program

On Thursday, July 20, 2017, the Iowa Department of Natural Resources (DNR) published its electronic newsletter "EcoNewsWire" which contained an article announcing that the DNR is launching a new, locally-led volunteer water monitoring program to help Iowans better understand

their local water quality. Photos from the event can be found on the Project AWARE website at www.iowadnr.gov/aware. This web-portal provided more information on this event.

Human Resources

(Contact Carrie Malone at 5-2063)

State Board Approves Psychiatric Hospital in Bettendorf

Background - A year ago in a visit to the Quad-Cities, Gov. Terry Branstad expressed misgivings about the certificate of need process that requires the state's approval before new health facilities can be built.

The Certificate of Need is a regulatory review process that requires application to the Department of Public Health for and receipt of a certificate of need before health care entities can break ground on new health facilities. This process includes hospitals, nursing homes, outpatient surgery centers or anyone purchasing medical equipment valued above \$1.5 million.

In 2015, a company called Strategic Behavioral Health attempted to get a certificate to build a 72 bed psychiatric hospital in Bettendorf. During a time in which there are reports of a lack of mental health services across the state, it would be hard to imagine the Council rejecting this plan. During the CON process, the psychiatric hospital was opposed by both Genesis Health System and UnityPoint Trinity, the two local hospital systems in the area. The council met twice in 2016 to consider the hospital's proposal and there was a tie vote both times, so the project could not move forward.

On Thursday, the Health Facilities Council met in Ankeny to re-consider the proposal for the psychiatric hospital in Bettendorf. They voted 4-1 in favor of the \$15 million, 72 bed hospital. The two major health systems in the Quad Cities area continued to oppose the new hospital. The Council also approved a certificate requested by an ophthalmologist to open an outpatient surgery center in Cedar Rapids. This was his fifth time applying. The Council approved his certificate in a 3-2 vote.

Natural Resources

Emerald Ash Borer Found in Cedar Rapids

The second case of Emerald Ash Borer (EAB) in two years has been found in Cedar Rapids. The city expects cases will begin to spike and ash trees will be lost in the next two years.

The emerald ash borer burrows into ash trees and destroys them. It is considered to be one of the most destructive tree pests ever seen in North America. The insect is now confirmed in 51 of 99 counties. The Department of Natural Resources thinks

the spread of this insect has been facilitated by people moving firewood across state or county lines.

Public Safety

(Contact Amanda Wille at 1-5230)

House GOP Continue Fight Against Opioid Epidemic In Iowa

The opioid epidemic is continuing to ravage the country. According to the Center for Disease Control, 15,000 people died from overdoses involving prescription opioids in 2015. In Iowa, there were 46 deaths related to opioids and that number does not appear to be significantly decreasing. Combating opioid abuse requires many different approaches and in the past several years, House Republicans have advanced multiple laws to prevent addiction and to monitor and prosecute those who over prescribe opioids. With new laws in place and the help of medical providers, Iowa may soon turn the corner and begin to win the war against the over prescription and abuse of opioids.

In 2015, Senate File 2218 made naloxone available to assist a person who is overdosing on opioids. When naloxone is administered, the drug reverses the overdose and blocks the effects of opioids. Countless people across the country have been

saved by naloxone. In Iowa, a person can receive a prescription for naloxone if they are a family member, friend, health care provider, employee of a substance abuse treatment facility or other person who may be in place to render aid to a person experiencing an overdose. First responders may also obtain and administer the drug. Once naloxone is administered the person suffering the overdose should be seen in a hospital immediately. Naloxone cannot be used as a substitute for opioids and a person cannot get high from the drug.

Another way to combat opioid deaths, is to prevent the addiction from starting. The Prescription Monitoring Program (PMP) provides information to prescribers and pharmacists regarding a patients' use of controlled substances. The PMP can prevent a patient from receiving multiple opioid prescriptions from different doctors at the same time. Monitoring a person's opioid use can help reduce addiction and can

assist doctors and pharmacists in providing the best care. This year, House File 523 expanded access to the PMP to include medical examiners, or a medical examiner investigators. Allowing medical examiners access to the program will allow for better tracking of prescribers and users of these drugs.

While PMP information is helpful, it must include data from other states to truly reduce doctor shopping. House File 524 expanded the PMP beyond surrounding states and allows the Board of Medicine to share PMP data with any state. This helps Iowa and other participating states track doctors and patients to ensure opioids aren't being over prescribed.

Opioid deaths in Iowa can be reduced, but it may take time. New laws, better treatment and accurate tracking of opioid prescriptions can help reduce the number of people addicted and deaths.

State Government

(Contact Mackenzie Nading at 1-3626)

IPERS Remains One of the Strongest Public Pension Systems in the Country

With the disastrous position of public pensions in states like New Jersey, Illinois and California, public pension plans in Iowa have recently drawn attention in regards to their stability. On Tuesday, Senate Republicans led a meeting on the Iowa Public Employee Retirement System (IPERS) as well. All 50 states have some sort of public pension plan in place that is governed by the state legislatures and covers a certain subset of state employees. The premise is generally the same for each state: each month a percentage of an employee's paycheck along with varying levels of state contributions, automatically goes to the

state's public pension fund (this percentage is unique to each state and is determined by different methods depending on what the legislature has implemented). The monies in that fund are then invested in both public and private markets with the hope that the return on investment will fall around 7.5%, or higher. The fund grows, and that money is used to pay retirement benefits to all state employees who qualify, and it is expected to remain healthy enough to afford estimated payouts to those members paying into the system but have not yet qualified for retirement.

The concept is simple. A majority of the public workforce is paying for the retirement benefits of employees who have gone before them, with the hope that when their time for retirement comes they will receive the same benefit. This system relies heavily on two factors: the ratio of employee/ employer contribution to benefit payout, and the economy. One can be controlled, usually through laws passed by the state legislature, while the other is a game of risk; but each must work in harmony for the health of a public retirement system to remain intact. But how is the health of such a

(Continued on page 6)

(Continued from page 5)

system calculated? How can a state know whether or not changes need to be made to their public retirement system? Two words: unfunded liability.

An unfunded liability, when talking about retirement systems, is the amount of money, at any given time, by which future payment obligations exceed the present value of funds available to pay for them. It is rare, but not unheard of, for a public pension system to be fully funded, meaning there is no unfunded liability. However, given the nature of how a public pension system is designed, it is normal for an unfunded liability to exist. The total amount of money that makes up the unfunded liability should not be too large - this would indicate that the state will not be able to afford retirement payouts for their future employees; or they will continue to go into serious debt in order to keep the payments going. This type of astronomical unfunded liability is currently facing the California, Illinois, and Connecticut systems. Iowa, sitting with a current unfunded liability right around \$5 billion, is considered to be about [83.7% funded](#). These values are based off the most recent and comprehensive [actuarial report](#) released in December of 2016.

To put IPERS' unfunded liability into perspective, let's turn to the three other state's mentioned above and the health of their pension plans. California, the largest public pension plan in the United States, has an unfunded liability of [\\$279 billion](#) as of May 2017 (this number includes retired state employee health care benefits). Their last projected return on investment was less than 1%. Iowa, by contrast, most recently reported a 2.15% return on investment. Illinois, who was most recently in the news for delaying the passing of their state budget for the third consecutive year, currently has an unfunded liability of [\\$130 billion](#) as of this month (this includes Illinois' 6 public pension systems and retired state employee health care benefits). Hundreds of billions of dollars in retirement and health care benefits are not being accounted for in these two states, making Iowa's \$5 billion look like spare change by comparison. However, California and Illinois are two of America's most populous states, lending some rationale as to why their systems are in such bad shape. But population is not the only reason, poor government policy and prioritization are also key reasons, and this can also be seen when we look at Connecticut.

Connecticut, with a population mimics Iowa's at just over 3 million people, has a

state pension plan with an unfunded liability of [\\$22 billion](#) as of June 2016. However, some experts say that this number is incorrect, and it could actually be as high as \$68 billion. How can this be? Connecticut, like many other states, has a high estimated rate of return for their pension system. "Until 2016, Connecticut assumed an 8 percent rate of return on its pension investments and that assumption causes the pension system to appear more fully funded, even though those returns may never materialize." The most recently calculated 10 year rate of return for Connecticut was just over 5%; this forced the state to lower their rate of return in 2016 from [8%-6.9%](#).

[In March](#) of this year, the IPERS Investment Board made the decision to lower their annual rate of return from 7.5%-7%. This caused public concern and had many expressing that IPERS is not a strong retirement system because of this adjustment. In reality, IPERS didn't lower their annual rate of return solely because of actuarial concerns, they lowered it to maintain the integrity of the system based on reported trends in investments.

"It is rare, but not unheard of, for a public pension system to be fully funded"

Any time a retirement system lowers the assumed rate of return, and increases employee contribution simultaneously, the state is left to make up the difference for what money is no longer being made from investments. Seeing a change of less than 1% is not necessarily a sign that the pension system is in trouble. Instead, it means that the system is taking precautions so the state is not stuck with a multi-billion dollar shortfall in one year because they waited too long to readjust their estimate. When Connecticut drastically reduced their assumed rate of return in one fail swoop, it deferred billions in dollars of payments by the state, estimating they will still be paying off pension debt as late as the 2040s.

When it comes to managing state pension plans, slow, steady, and calculated usually wins the race. IPERS is governed by a state appointed CEO, and two different boards: the Investment Board and the Ben-

efits Advisory Council. Each is comprised of Iowans with experience in public service, pensions, or investor relations. These are the individuals who are making major decisions that impact how IPERS is managed, and they meet often to ensure the best possible integrity of the system. Not all of the burden lies within IPERS boards though as the state legislature also plays a part in governing IPERS.

When it comes to legislation aimed at trying to change or fund parts of a public pension system, it is important to avoid "band-aid" fixes. Some states that have large unfunded liabilities simply try to shuffle money around to make it appear the problem is being resolved. New Jersey is a recent example of this. "[In New Jersey](#), the state is pledging its lottery -- which an outside analysis determined was valued at \$13.5 billion -- as an asset to state pension funds. The action would reduce the pension system's \$49 billion unfunded liability and improve its funded ratio from 45 percent to about 60 percent, [according to](#) State Treasurer Ford Scudder. The roughly \$1 billion in annual lottery proceeds, which currently go to education and human services, among other programs, will now be divvied up among state pension funds. The largest share -- nearly 78 percent -- will go to the teachers' pension fund." Sounds great, right? Take money from the lottery, put it toward pension debt, and the state is off the hook for such a large deficit. Except for the fact that lottery money in the state of New Jersey has historically been committed to other programs, as seen in the quote above. Any time a state pulls money from one source and pools it into another, a ripple effect on state budget decisions are felt. Because the pension system was managed poorly, budget changes are felt elsewhere.

The responsibility of a state to keep a low unfunded liability in their public pension plan is not one to be taken lightly. Irresponsible increases in state employee benefits, drastic changes in assumed rate of returns based on lack of action, and band-aid legislative fixes are all things that can be avoided. These methods of short term relief only bring havoc on state plans as time moves forward, just look at California, Illinois, Connecticut, and New Jersey.

(Continued on page 7)

(Continued from page 6)

As recently as [2015](#), ThinkAdvisor rated IPERS as the 10th best system in the country. The Iowa legislature has historically been committed to taking a deliberate and rational approach when deciding if any changes should be made to IPERS. House Republicans are committed to continuing

the same type of approach. Hard working public employees in Iowa have earned their retirement benefits. IPERS has always had a strong approval rating among its beneficiaries, and that comes from responsible management over the years. Drastic changes made quickly to such a large and properly functioning system overnight might be unwise. As does any major public re-

tirement system, IPERS deserves attention and analysis, but it also should be recognized for sound management and given credit for being one of the strongest public pension plans in the country.

Ways & Means

(Contact Kristi Kielhorn at 2-5290)

Iowa's Renewable Energy Installation Tax Credits

This week's article will cover the renewable energy installation tax credits and provide information on how they work, how much they cost, and what types of people or businesses receive them. These credits are the Geothermal Heat Pump Tax Credit, Geothermal Tax Credit, Solar Energy Tax Credit, and the Wind Energy Tax Credit.

Geothermal Heat Pump Tax Credit and Geothermal Tax Credit

The Geothermal Heat Pump Tax Credit was a credit available against individual income tax equal to 20 percent of the federal residential energy efficient property tax credit allowed for geothermal heat pumps. The Iowa tax credit was available starting with tax year 2012. The federal credit was only available for installations that were completed before January 1 of this year, and since the Iowa credit was directly tied to the federal credit—the Iowa credit has now effectively sunset. The credit was only available against individual income tax, was not transferrable or refundable, but could be carried forward for up to ten years.

In response to the federal geothermal credit sunset, Iowa has the Geothermal Tax Credit. The Iowa Geothermal Tax Credit is only available in years in which the federal geothermal heat pump credit is not available, starting with tax year 2017. There is no sunset on this tax credit. The tax credit is equal to ten percent of the taxpayer's qualified expenditures on equipment that uses the ground or groundwater as a thermal energy source to heat the taxpayer's dwelling, or as a thermal energy sink to cool the dwelling. The equipment must meet the federal energy star program requirements in effect at the time the expenditure is made. The dwelling must be the taxpayer's residence and be located in Iowa. Like its

predecessor, the credit is only available against individual income tax, is not transferrable or refundable, but can be carried forward for up to ten years.

According to the most recent contingent liabilities report, Iowa's Geothermal Heat Pump Tax Credit will cost the state \$376,013 in FY 18 and the Geothermal Tax Credit is on the books for \$1.5 million.

Solar Energy Tax Credit

A Solar Energy System Tax Credit is available for certain types of solar energy systems installed at a residence or business located in Iowa starting with tax year 2012. The credit is only available for years in which the federal credit is available (because it is based on a percentage of the federal credit.)

For installations after January 1, 2016, the Iowa credit is equal to 50 percent of the federal credit. The credit is capped at \$5,000 per separate and distinct installation for residences and \$20,000 for businesses. The federal credit is available for installations before January 1, 2022, and the Iowa tax credit follows that timeline.

**“Solar Energy Tax Credit
will cost the state
\$3,858,377 in FY 18”**

The cap for the program has been increased several times and is currently set at five million per year. Of this amount, one million is reserved for residential installations. Awards are made on a first-come, first-served basis. The credit is applicable to corporate income, individual income,

franchise, and moneys and credits taxes. The credits are not transferable or refundable, but can be carried forward for up to ten years.

According to the most recent contingent liabilities report, Iowa's Solar Energy Tax Credit will cost the state \$3,858,377 in FY 18.

Wind Energy Tax Credit

A Wind Energy Production Tax Credit can be claimed by a qualified facility that produces electricity from wind that is located in Iowa and was in service on or after July 1, 2005, but before July 1, 2012. The credit is equal to \$0.01 per kilowatt-hour of electricity sold or generated for on-site consumption. Credits are available for a ten-year period from the initial in service date of the facility. Facilities must be in service within 18 months of their designation as an eligible facility or the eligibility will be revoked.

The credit is applicable against corporate income, individual income, franchise, insurance premium, consumer's use, and replacement taxes. There is not a sunset per se on the credits—but the facility must have been in service by July 1, 2012 and credits can be awarded for up to ten years after the placed in service date. There is no direct cap on the credits—but the capacity eligible for the credit is limited to 50 megawatts. The credits are transferable but not refundable, and can be carried forward for seven years.

According to the most recent contingent liabilities report, Iowa's Wind Energy Tax Credit will cost the state \$1,658,788 in FY 18.