Case Study: Tax Increment Financing (TIF) of Wind Farms for Rural Development

Tax Increment Finance (TIF) involving wind farms has emerged into a mechanism that can provide rural counties in Iowa with the ability to use a portion of future wind farm property tax revenues for financing county priorities like road improvements, infrastructure, rebates for rural development projects, rural subdivisions, civic centers, and/or police, fire, and emergency service infrastructure.

How TIF works involving wind turbines in Iowa:
The Iowa General Assembly authorizes cities and counties to establish Urban Renewal Districts for purposes of Tax Increment Financing (TIF) projects**.** County governments in Iowa may use the statute for rural development establish TIF Districts that include wind farms and then use a portion of the incremental property tax revenues for financing priority public projects. TIF District property tax revenue is split. A base property tax collection is frozen by the County Officials for a specified number of years when the TIF District is established. In future years, the frozen portion of TIF revenue is distributed as historically done across local taxing bodies such as schools, the county, and/other taxing bodies. However, the revenue generated above the TIF District frozen amount is called the increment. This increment is based on new valuation growth added in the TIF District, such as valuation from wind farms. TIF allows county to obligate a portion of future incremental tax revenues to finance priority projects and county needs. The other taxing bodies in the county automatically receive the frozen portion of TIF District revenues and may also receive some of the incremental revenues as part of the normal tax distribution if the County does not obligate the full TIF increment to priority projects. In addition, state school aid distribution calculations may tend to backfill some of the TIF property tax loss for schools in states where state school aid is distributed based on school property tax collections per pupil.

An Example:
Wind turbines accounted for 10.54% of U.S. power generation in 2024 (U.S, EIA). Federal electricity production tax credits have encouraged wind farm development. Iowa and some states add additional production tax credits. Local counties, such as Howard County Iowa, have established TIF Districts to capture a portion of incremental property tax revenues generated from 145 wind turbines to fund road and bridge repairs (see *Winneshiek Energy District*). Safer roads and bridges potentially benefit the agriculture supply chain, power generation maintenance, school bus routes, rural residents, and the local economy more broadly. Public debate on TIF issues often center around which proposed projects for TIF financing are high priorities? How much of the TIF increment should be passed through with normal distribution to local units of government? How much of the TIF financing should be used for priorities inside versus outside the TIF District?

County Flexibility Increases:
In Iowa, counties can choose to use either a special valuation or a market valuation for wind turbines. Counties may then decide whether to tax them normally or use TIF, depending on the specific needs and priorities in the County.

Special Project Financing Feasibility:
TIF allows cities and counties to access the incremental property tax revenues for improvement projects without raising property tax rates. When a proposed local project adds property valuation, the County can use part of the incremental revenues in financing the public infrastructure needed to complete the project or for other projects that are County priorities.

Economic Development:
Tax Increment Financing TIF is a mechanism that allows property tax revenue from wind energy development and other development ventures to contribute to local economic development by attracting projects, investment, and creating jobs that otherwise would not have been created.

Additional Resources:
1.Winneshiek Energy District: https://energydistrict.org/2023/01/5225/
2.Center for Rural Affairs Report: https://www.cfra.org/sites/default/files/publications/recap-windswept-fields-of-opportunity-iowa-wind-energy-county-tax-impact-studies-web.pdf

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