

Fiscal Note

Fiscal Services Division



HF 2440 – Disaster Response, Out-of-State Businesses (LSB5105HV)
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Fiscal Note Version – New

Description

House File 2440 establishes the Facilitating Business Rapid Response to State-Declared Disasters Act. The bill provides an exemption from specified Iowa tax, fee, licensing, registration, and other filing requirements for out-of-state companies and workers. The exemption applies to work done during a defined disaster response period and the work performed must be related to critical infrastructure damaged, impaired, or destroyed as the result of a state disaster or emergency.

A disaster response period is defined as a period of time beginning 10 days prior to the date a disaster is declared by the Governor of Iowa or the President of the United States and ending 60 days after the disaster or emergency declaration ends.

Critical infrastructure is defined as real property, personal property, and equipment associated with the following networks and systems:

- Communications.
- Electric generation, transmission, and distribution.
- Gas distribution.
- Water pipelines.

The bill is effective on enactment.

Background

Iowa Code section [29C.6](#) describes the procedure for a disaster declaration by the Governor. A disaster declaration is limited in duration to 30 days. However, the Governor may extend existing declarations for additional 30-day periods.

A [database](#) of disasters declared by the Iowa Governor is maintained by the Department of Homeland Security and Emergency Management. For calendar year 2010 through 2015 there were 125 weather-related disaster declarations issued by the Governor. Sixteen of those events were also declared disasters through Presidential declaration. The Iowa database does not contain information on the financial severity of these declared disasters.

The Federal Emergency Management Agency (FEMA) maintains a [database](#) covering Presidential disaster declarations. That database contains information on the dollar amount of public infrastructure repair costs approved for federal aid cost-share, as well as the type of project approved for federal disaster aid. While the FEMA database provides information covering the financial severity and type of property damaged for each declared disaster, it is not a perfect dataset for this fiscal estimate. For use in determining the fiscal implications of this bill, the federal database has the following limitations:

- The dataset does not contain information on damage to critical infrastructure owned and maintained by private companies.
- The dataset does not contain information on critical infrastructure owned by public entities where the repair or replacement expense was covered by insurance.

- The dataset contains information that is not related to critical infrastructure.
- The financial information is not limited to the time frame contemplated by the bill (60 days after the end of the Governor's disaster declaration).

Assumptions

- The fiscal estimate is based on the available data for 16 Federal Emergency Management Agency (FEMA) Presidential major disasters declared for Iowa from 2010 through 2015. The FEMA database contains totals for the federal public assistance grants awarded in response to each declared disaster. Only the costs associated with projects categorized as emergency projects and damage to public utilities are used in the estimate. Across the 16 projects, a total of \$227.1 million in repair projects was approved by FEMA for emergency repair and for public utility repair.
- Adjusted for inflation, the \$227.1 million equals \$240.9 million and the average cost for emergency and public utility repair cost is \$15.1 million for President-declared disasters.
- In addition to the federal disasters, from 2010 through 2015 there were a total of 109 weather-related disasters declared by the Iowa Governor that were not also President-declared disasters. Disasters declared by the Iowa Governor are assumed to be less severe in nature. To adjust for severity, an average cost per emergency equal to 10.0% of the Presidential emergencies is used (\$1.5 million).
- Using this average, the assumed damage for the 109 Governor-declared disasters totaled \$164.1 million.
- For all 125 weather-related disasters, the emergency and public utility costs totaled \$405.0 million and averaged \$67.5 million over six years.
- The bill exempts out-of-state companies and workers from specific license, fee, and tax payments. For this fiscal estimate, only the business profits and individual income tax impacts are considered.
- Of the annual \$67.5 million in repair payments, 10.0% is assumed to be business profits and 40.0% is assumed to be paid in employee wages. The average tax rate on business profits is assumed to be 6.0% and the average income tax rate on employee wages is assumed to be 4.5%. Combined, these assumptions yield annual projected General Fund tax revenue of \$1.6 million per year.
- As discussed above in the background section, the FEMA database has limitations for this analysis. To adjust for the combined impact of the following unknowns, the amount of General Fund revenue associated with out-of-state companies and workers is assumed to equal 20.0% of the \$1.6 million in General Fund revenue (\$324,000).
 - The FEMA database does not include the cost of public utility repairs covered by insurance. Business profits and employee wages of out-of-state repair companies paid through insurance will also be exempt from Iowa tax under the provisions of the bill.
 - The FEMA database does not include the cost to repair critical infrastructure owned and maintained by private companies (i.e., utility companies). Business profits and employee wages of out-of-state repair companies will also be exempt from tax under the provisions of the bill.
 - Not all of the costs included as emergency work is repair to critical infrastructure as defined in the bill. Repairs to non-critical infrastructure are not covered by the bill. Approximately 36.1% of the cost used in the estimate is defined as emergency work.
 - The public infrastructure costs used in the estimate likely extend past a period of time equal to 60 days after the end of the declared disaster, so some portion of the 63.9% in public utility repair costs represents longer-term repair work and is not covered by the bill.
 - It is not known what percentage of repair work is performed by out-of-state companies and workers and what percentage is performed by in-state companies and workers. In-state companies and workers repairing critical infrastructure are not provided the income tax exemption under this bill and will remain subject to business and individual income tax.

- Neither the number nor severity of weather-related disasters in future years is predictable. Using the assumptions above, the previous six years generates the following fiscal impacts based only on that year's declared disasters:
 - 2010 – \$967,000
 - 2011 – \$456,000
 - 2012 – \$14,000
 - 2013 – \$205,000
 - 2014 – \$236,000
 - 2015 – \$66,000
- The bill is effective on enactment and applies to disasters declared after that date. Assuming an enactment date of May 1, 2016, 58.3% of calendar year 2016 will remain.
- Calendar year impacts are assumed to be fiscal year impacts through the filing of tax returns in the spring following the end of the calendar year.

Fiscal Impact

The bill exempts out-of-state companies and workers with insufficient other tax nexus from state-imposed fees, licenses, and taxes for work performed during a specified time period associated with an emergency declaration by the Governor or the President. The work performed must be related to defined critical infrastructure. Based on the above stated assumptions, the projected impact on General Fund revenue of the tax exemption is a revenue reduction of \$189,000 in FY 2017 and \$324,000 in FY 2018 and future fiscal years.

Sources

Department of Revenue

Federal Emergency Management Agency (FEMA) data

Department of Homeland Security and Emergency Management data

Legislative Services Agency analysis

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
