



HF 620 – Economic Development Authority Tax Related Changes (LSB 1207HZ)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.iowa.gov)
Fiscal Note Version – New

Description

House File 620 relates to the operation of the Economic Development Authority (Authority).
The Bill:

- Allows the authority to assess, collect, and retain fees from businesses and individuals seeking and receiving financial assistance through the authority. The fee provisions of the Bill are effective on enactment and apply to agreements entered into on or after the effective date of this Bill. The new fee authority includes:
 - A fee for businesses and individuals that receive financial assistance from the Authority under [Iowa Code chapters 15](#) and [15E](#). The fee amount is to be determined by the authority based on the authority's cost of administering the programs.
 - A fee for use of the authority's Immigrant Investor Regional Center.
 - A fee of \$500 due prior to the issuance of tax incentives under the High Quality Jobs and Enterprise Zone programs.
 - A fee equal to 0.5% of the value of tax incentives claimed under any High Quality Jobs or Enterprise Zone agreement where the agreement has an aggregate incentive value of \$100,000 or more.
- Allocates to the City Development Board any fees collected by the board for applications and petitions submitted to the board. The board is to use the fees collected to reimburse the authority for the administrative expenses associated with board operations. Currently, if any fees are collected by the board, they are deposited to the State General Fund. This provision is effective in FY 2014.
- Increases the annual aggregate cap on the total dollar volume of tax credits that may be awarded under several authority tax credit programs from the current annual cap of \$120.0 million to a new cap of \$185.0 million. This provision is effective retroactively to include the FY 2013 cap.
- Permits tax credit awards that are declined by the receiving company within one fiscal year after the award is made to be reawarded to other companies without impacting that year's tax credit cap. This provision is effective retroactively to include FY 2013 awards.
- Alters annual tax credit cap allocations for the Qualifying Business and Community-Based Seed Capital Funds Investment Tax Credit (\$2.0 million per year) and the Innovation Fund Tax Credit (\$8.0 million per year). Current law requires the full amounts be allocated to these two programs. The change will allow a lesser amount to be allocated if the authority determines demand is not sufficient. The provisions are effective retroactively for FY 2013.
- Increases the cap on the annual amount of Endow Iowa Tax Credit ([Iowa Code section 15E.305](#)) awards that may be approved for a calendar year from the present level of \$4.5 million to a level of \$5.0 million. This change is effective retroactive to calendar year 2012. The Bill strikes a reference to an allocation of Gambling Tax receipts to the Endow Iowa Tax Credit.

- Allows the authority and a business eligible for financial assistance under specific State incentive programs to agree to divert withholding tax payments of the business's employees from the State General Fund and instead deposit the withholding tax to a fund controlled by the authority. The amount diverted is equal to 2.5% of the gross wages paid by the business to the employee where the employee holds a job that is covered by a job creation and/or retention agreement with the authority. The withholding tax diversion applies retroactively to Quality Jobs Program and Enterprise Zone agreements entered into on or after July 1, 2012.

Background

The City Development Board is created in [Iowa Code section 368.9](#). The board receives, reviews, and approves or dismisses petitions and applications for city incorporation, discontinuance, or boundary adjustment submitted to the board by a city council, a county board of supervisors, a regional planning authority, or 5.0% of the registered voters of a city or territory involved in the proposal.

The authority provides office space and staff assistance to the board and the authority is required to budget funds to cover expenses of the board. The board receives legal assistance provided by the Attorney General. The board consists of five members appointed by the Governor subject to confirmation by the Senate.

The Endow Iowa Tax Credit is currently financed through a \$3.5 million annual maximum appropriation from the State General Fund, plus an additional amount tied to a percentage of gambling tax receipts equal to approximately \$1.0 million per year. Combining the General Fund appropriation and gambling tax calculation, the current annual level of funding for the credit is \$4.5 million per year. The Endow Iowa Tax Credit is not refundable, but any excess credit may be carried forward and used for up five additional tax years.

Assumptions

1. With the annual aggregate tax credit cap raised from its current level of \$120.0 million to \$185.0 million effective in FY 2013, the authority will approve projects in FY 2013 totaling \$185.0 million and will also award the full annual cap each succeeding fiscal year.
2. Based on a Department of Revenue analysis of the redemption of tax credits under previous awards, each fiscal year's additional \$65.0 million in tax credits will be redeemed over a 13-year period and the redemptions will total \$30.6 million (47.0% of the amount initially awarded and counted against the aggregate cap). Actual tax credit redemptions will not total the full \$65.0 million awarded due to:
 - Awards that are later declined.
 - Companies not meeting the requirements of the agreements, resulting in reduced tax credits earned.
 - Companies with insufficient tax liability to fully utilize the tax credits awarded.
3. The provision that allows the authority to reaward tax credits that are declined before the end of the following fiscal year will result in an additional increase in annual awards of \$25.0 million, beginning in FY 2014. Redemptions of each additional year of annual awards will equal \$11.8 million over a 13-year period (47.0% of the amount awarded). This provision will first allow declined tax credits to be awarded again in FY 2014.
4. The withholding diversion estimate uses the following assumptions:
 - a. The diversion will apply to 814 retained jobs and 1,993 new jobs each year.
 - b. The average salary threshold under the Enterprise Zone program is estimated to be \$28,157 and the average salary threshold for the High Quality Jobs program is \$37,542. Both qualifying averages are assumed to increase 2.83% per year.

- c. The 2.5% diversion applies to the actual wages paid, while the estimate is based on the minimum qualifying wage. This will cause the projection to be somewhat underestimated.
 - d. The projection is based on all jobs being subject to the full 2.5% diversion. Job training and pilot project withholding agreements will be in effect for some of the jobs subject to the new diversion, so the full 2.5% diversion may not be available in all instances. This will cause the projection to be somewhat overestimated.
 - e. Diversion in FY 2013 will apply only to retain jobs.
 - f. Diversions will occur for the length of the contract and the length of contracts is assumed to be 10 years.
5. Fee projection assumptions:
- a. Based on assumptions one through three above, the authority will award \$185.0 million in tax credits for FY 2013 and \$205.0 million for future fiscal years. The fee assumption is based on the same 13-year pattern of award redemption and the assumption that 47.0% of awards are actually redeemed. The estimate includes an assumed \$30,000 each year, beginning in FY 2014, for the \$500 financial assistance fee, the [Iowa Code chapters 15](#) and [15E](#) assistance fee and the Immigrant Investor Regional Center fee.
 - b. The City Development Board operation costs equal approximately \$60,000 per year. The fiscal impact assumes \$36,000 of that amount (60.0%) will be recovered each year through fees charged to local governments and others filing petitions and applications with the board.

Fiscal Impact

[House File 620](#) has General Fund revenue impacts and it also increases fees charged and retained by the authority and the City Development Board.

Due to the length of time between tax credit award and tax credit redemption, and also due to the 10-year length of many financial assistance contracts that may be subject to withholding diversion, the revenue impacts of the bill take 14 fiscal years to reach full effect. The projected impact on net General Fund revenue is presented in **Table 1** and the projected fee revenue impact is presented in **Table 2**.

Table 1
Net General Fund Revenue Impact of Aggregate Tax Credit Cap Changes - in Millions of Dollars

	EDA Aggregate Tax Credit Changes	Endow Iowa Tax Credit Increase	Withholding Tax Diversion to EDA	Total Change in General Fund Revenue
FY 2013	\$ 0.0	\$ -0.3	\$ -0.6	\$ -0.9
FY 2014	-0.8	-0.6	-3.5	-4.9
FY 2015	-2.9	-0.6	-5.2	-8.7
FY 2016	-6.6	-0.5	-7.6	-14.7
FY 2017	-10.8	-0.5	-10.2	-21.5
FY 2018	-14.6	-0.5	-13.0	-28.1
FY 2019	-16.5	-0.5	-15.9	-32.9
FY 2020	-17.7	-0.5	-18.9	-37.1
FY 2021	-38.2	-0.5	-22.1	-60.8
FY 2022	-39.2	-0.5	-25.5	-65.2
FY 2023	-39.9	-0.5	-28.2	-68.6
FY 2024	-40.7	-0.5	-29.0	-70.2
FY 2025	-41.4	-0.5	-29.8	-71.7
FY 2026	-42.1	-0.5	-30.7	-73.3

Table 2
Increased Economic Development Authority Fee Revenue

	0.5% Tax Credit Redemption Fee	Other Financial Assistance Fees	City Development Board Fees	Fee Increase Total
FY 2014	\$ 26,000	\$ 30,000	\$ 36,000	\$ 92,000
FY 2015	52,000	30,000	36,000	118,000
FY 2016	127,000	30,000	36,000	193,000
FY 2017	223,000	30,000	36,000	289,000
FY 2018	322,000	30,000	36,000	388,000
FY 2019	391,000	30,000	36,000	457,000
FY 2020	436,000	30,000	36,000	502,000

Sources

Department of Revenue
Economic Development Authority
Legislative Services Agency analysis

/s/ Holly M. Lyons

April 3, 2013

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.
