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**HF 2352** – Economic Development Program Changes (LSB 5291HV)  
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Fiscal Note Version – New

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**Description**

Division I of **House File 2352** will allow Venture Capital Tax Credits issued to investors in qualified businesses to claim the tax credit in the year it is received. Under current law, the investor must wait three years to redeem the tax credit. Division I applies retroactively to January 1, 2014.

Section 21 of Division III directs that loan and other repayments from the former Iowa Value Fund (repealed in 2011) are to be deposited to an Economic Development Authority fund and used for the purposes of the Strategic Investment Fund. Section 21 is effective retroactive to July 1, 2013.

**Background – Iowa Values Fund**

The Iowa Values Fund was repealed effective June 30, 2012, in section 14 of House File 648 (Infrastructure and Capital Projects Appropriations Act of 2011). **House File 638** (Infrastructure and Capital Projects Act of 2013) amended the 2011 legislation, directing that any unobligated money in the Iowa Values Fund as of July 1, 2013, must be transferred to the Rebuild Iowa Infrastructure Fund (RIIF). In December 2013, \$31.1 million was transferred from the Iowa Values Fund to the RIIF.

Section 20(1) of HF 590 (Economic Development Authority Act of 2011) provides that any money remaining in a fund under control of the Department of Economic Development on the effective date of the Act (July 1, 2011) is to remain available to the Authority. Section 20(3) of HF 590 provides that financial assistance agreements entered into under Iowa Code chapter **15G** (including the Iowa Values Fund) prior to the effective date of the Act are to be administered by the Authority according to the provisions of Iowa Code chapter 15G.

Up until the date of its repeal, the Iowa Values Fund was the main economic incentive fund of the Economic Development Authority. The Fund provided a source of grant and loan economic incentives, using state appropriations and loan repayments as the primary funding sources. Since its repeal, the Fund has been maintained and is active in the State accounting system, with previously agreed to incentive payments being made out of the Fund, and loan repayments, interest, and other income deposited to the Fund.

As of February 21, 2014, \$48.1 million remains in the Iowa Values Fund. The majority of the current balance is encumbered for specific economic development projects and will be disbursed once the projects meet their award requirements. Should an award recipient fail to meet the requirements of the assistance agreement, the encumbered money will become unencumbered.

Since the beginning of FY 2014, through February 21, 2014, \$3.6 million in repayments, royalties, interest, and miscellaneous income has been deposited in the Iowa Values Fund. Over the next four years, repayments and other revenue for the Fund will equal \$7.5 million to

\$10.0 million or more. Section 21 of this Bill will allow the Authority to transfer the income stream of repayments, royalties, interest, and other income that is accruing to the repealed Iowa Values Fund to any Fund established under the provisions of [Iowa Code section 15.106A\(1\)\(o\)](#).

Section 21 of this Bill does not address what happens to any of the current \$48.1 million Iowa Values Fund balance that has become unencumbered since July 1, 2013, or that becomes unencumbered in the future.

**Assumptions**

- The removal of the three-year wait period for Venture Capital Tax Credit redemption applies only to tax credits awarded on or after January 1, 2014.
- Venture Capital Tax Credit awards are subject to a \$2.0 million per year cap. Accelerating the redemption timeframe only impacts the timing of the redemptions.

**Fiscal Impact**

Division I of this Bill, which alters the redemption of qualified business Venture Capital Tax Credits, has a General Fund fiscal impact through a change in the timing of tax credit redemptions. The change makes the tax credits redeemable upon receipt, as opposed to three years after award. The following table provides the net fiscal impact of Division I.

<b>Qualified Business Venture Capital Tax Credits</b>	
<b>Impact of removing the three-year wait period</b>	
In millions of Dollars	
	General Fund Revenue
FY 2015	\$ -0.7
FY 2016	-1.3
FY 2017	-1.5
FY 2018	-0.9
FY 2019	-0.3
FY 2020 - FY 2025	4.7

The Iowa Values Fund is a repealed State fund that continues to operate in the State accounting system. The unencumbered portion of the balance as of July 1, 2013, was transferred to the RIF in December 2013. However, loan repayments and other income continue to be deposited to the Fund and there currently exists no Code authority to expend the revenue when it becomes available. There also is no existing Code authority directing what may happen to any existing encumbered funds should those funds become unencumbered.

Enactment of Section 21 of this Bill will allow the Authority to transfer the revenue stream out of the Iowa Values Fund. Any of the encumbered funds that are currently in the Iowa Values Fund that become unencumbered at a later date will remain in the Iowa Values Fund.

**Sources**

Economic Development Authority  
Department of Revenue

/s/ Holly M. Lyons

March 12, 2014

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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.

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