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FILED MAR 4 1996

SENATE FILE 2434
BY COMMITTEE ON SMALL BUSINESS,
ECONOMIC DEVELOPMENT AND
TOURISM

(SUCCESSOR TO SF 2065)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act authorizing the establishment of enterprise zones,
2 providing for assistance to eligible businesses in economic
3 development zones and the levy of a standby tax, and
4 establishing a penalty.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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S.F. 2434

1 Section 1. NEW SECTION. 15E.181 TITLE OF ACT.

2 This division shall be known and may be cited as the
3 "Economic Development Enterprise Zone Act".

4 Sec. 2. NEW SECTION. 15E.182 PURPOSE.

5 The purpose of the economic development enterprise zone Act
6 is to promote new economic development and create jobs paying
7 family-supporting wages in economically distressed areas by
8 encouraging communities to target resources and planning
9 strategies in ways that attract economically productive
10 private investment.

11 Sec. 3. NEW SECTION. 15E.183 ELIGIBILITY CRITERIA.

12 1. A county may create an economic development enterprise
13 zone by designating up to one percent of the county area for
14 that purpose. A county may establish more than one enterprise
15 zone, however, the total amount of county area designated as
16 enterprise zones shall not exceed one percent of the county
17 area. An enterprise zone shall only be established on
18 commercial or industrial property or property that is planned
19 for future commercial or industrial development.

20 2. An enterprise zone shall only be formed in an area of
21 the county which meets at least one of the following criteria:

22 a. The county has an unemployment rate of at least one
23 hundred fifty percent of the state unemployment rate.

24 b. The county has experienced a population loss of ten
25 percent or greater between the 1980 and 1990 censuses.

26 c. At least twenty percent of the population of the county
27 is economically disadvantaged. For the purposes of this
28 division, "economically disadvantaged" means the same as in
29 section 7B.2, subsection 3.

30 d. At least fifteen percent of the residents in the area
31 designated as an enterprise zone earn less than the average
32 wage in the state.

33 3. The county shall do the following regarding an
34 enterprise zone:

35 a. Certify to the department of revenue and finance that

1 an area designated as an enterprise zone meets at least one of
2 the requirements of subsection 2 and that a business which has
3 entered into an agreement with the county to locate or expand
4 in an enterprise zone is an eligible business under section
5 15E.184.

6 b. Provide annual recertification to the department of
7 revenue and finance that the area remains eligible for
8 designation as an enterprise zone and that each business
9 receiving assistance remains an eligible business.

10 c. Monitor the enterprise zone and each eligible business
11 for compliance with the requirements for establishing an
12 enterprise zone or with the agreement between the business and
13 the county.

14 d. Decertify the enterprise zone when the area no longer
15 meets any of the requirements for an enterprise zone.

16 e. Notify the department of revenue and finance that an
17 eligible business has not complied with the agreement entered
18 into with the county for the purposes of the sanctions imposed
19 in section 15E.185.

20 4. A county may enter into an agreement with a local
21 economic development organization for the organization to
22 perform the duties of the county under subsection 3.

23 Sec. 4. NEW SECTION. 15E.184 ELIGIBLE BUSINESS.

24 Only a business which is or will be located in an
25 enterprise zone and which meets the following requirements
26 shall receive assistance under this division:

27 1. The business has not closed or substantially reduced
28 its operation in one area of the state and relocated
29 substantially the same operation in the enterprise zone. This
30 subsection does not prohibit a business from expanding its
31 operation in the enterprise zone if existing operations of a
32 similar nature in the state are not closed or substantially
33 reduced.

34 2. Provide and pay at least eighty percent of the cost of
35 a standard medical and dental insurance plan for all full-time

1 employees working at the facility in the enterprise zone.

2 3. The business shall agree to pay, within two years of
3 the date the business begins operations in the facility in the
4 enterprise zone, an average wage for new full-time hourly
5 nonmanagement employees of at least the average state hourly
6 wage. For the purposes of this division, "begins operations"
7 means the date upon which the business informs the county and
8 the department of revenue and finance that its facility is
9 ready to begin the operations for which it was designed.

10 4. The business will make a capital investment at a
11 facility in the enterprise zone of at least five hundred
12 thousand dollars. If the business is occupying a vacant
13 building suitable for industrial use, the fair market value of
14 the building shall be counted toward the capital investment
15 threshold.

16 5. The business shall agree to create at least twenty-five
17 full-time positions at the facility in the enterprise zone for
18 a specified period of time which will be negotiated with the
19 county, but which shall be at least five years.

20 Sec. 5. NEW SECTION. 15E.185 AGREEMENT -- NONCOMPLIANCE
21 -- PENALTIES.

22 A business shall enter into an agreement with the county
23 specifying the requirements which must be met to satisfy the
24 criteria of section 15E.184. The agreement shall contain the
25 following provisions:

26 1. If the business has not met more than ninety percent of
27 the job creation requirement in section 15E.184, the business
28 shall pay a percentage of the assistance received under
29 section 15E.190, or if the business does not receive the
30 assistance under section 15E.190, then under section 15E.186
31 as follows:

32 a. If the business has met fifty percent or less of the
33 requirement, the business shall pay the same percentage in
34 assistance as the business failed to create in jobs.

35 b. If the business has met more than fifty percent but not

1 more than seventy-five percent of the requirement, the
2 business shall pay one half of the percentage in assistance as
3 the business failed to create in jobs.

4 c. If the business has met more than seventy-five percent
5 but not more than ninety percent of the requirement, the
6 business shall pay one quarter of the percentage in assistance
7 as the business failed to create in jobs.

8 2. If a business does not meet the wage requirement of
9 section 15E.184, in any one year, it must meet that
10 requirement in the following year or forfeit the assistance
11 for that year.

12 The department of revenue and finance shall adopt rules for
13 repayment of assistance by the business if the business does
14 not meet the requirements of section 15E.184.

15 Sec. 6. NEW SECTION. 15E.186 NEW JOBS CREDIT FROM
16 WITHHOLDING.

17 An eligible business may enter into an agreement with the
18 department of revenue and finance and a community college, for
19 a supplemental new jobs credit from withholding from jobs
20 created in the enterprise zone. The agreement shall be for
21 program services for an additional job training project, as
22 defined in chapter 260E. The agreement shall provide for the
23 following:

24 1. That the project shall be administered in the same
25 manner as a project under chapter 260E and that a supplemental
26 new jobs credit from withholding in an amount equal to one and
27 one-half percent of the gross wages paid by the eligible
28 business pursuant to section 422.16 is authorized to fund the
29 program services for the additional project.

30 2. That the supplemental new jobs credit from withholding
31 shall be collected, accounted for, and may be pledged by the
32 community college in the same manner as described in section
33 260E.5.

34 3. That the auditor of state shall perform an annual audit
35 regarding the manner in which the training funds are being

1 used.

2 To provide funds for the payment of the costs of the
3 additional project, a community college may borrow money,
4 issue and sell certificates, and secure the payment of the
5 certificates in the same manner as described in section
6 260E.6, including, but not limited to, providing the
7 assessment of an annual levy as described in section 260E.6,
8 subsection 4. The program and credit authorized by this
9 section is in addition to, and not in lieu of, the program and
10 credit authorized in chapter 260E.

11 Sec. 7. NEW SECTION. 15E.187 INVESTMENT TAX CREDIT.

12 An eligible business may claim a corporate tax credit up to
13 a maximum of ten percent of the new investment related to the
14 location or expansion of an eligible business in an enterprise
15 zone. Any credit in excess of the tax liability for the tax
16 year may be credited to the tax liability for the following
17 twenty years or until depleted, whichever occurs earlier. If
18 the business is a partnership, subchapter S corporation,
19 limited liability company, or estate or trust electing to have
20 the income taxed directly to the individual, an individual may
21 claim the tax credit allowed. The amount claimed by the
22 individual shall be based upon the pro rata share of the
23 individual's earnings of the partnership, subchapter S
24 corporation, limited liability company, or estate or trust.
25 For purposes of this section, "new investment related to the
26 location or expansion of an eligible business in an enterprise
27 zone" means the cost of machinery and equipment, as defined in
28 section 427A.1, subsection 1, paragraphs "e" and "j",
29 purchased for use in the operation of the eligible business,
30 the purchase price of which has been depreciated in accordance
31 with generally accepted accounting principles, and the cost of
32 improvements made to real property which is used in the
33 operation of the eligible business and which receives the
34 property tax exemption under section 15E.188.

35 Sec. 8. NEW SECTION. 15E.188 PROPERTY TAX EXEMPTION.

1 The county may exempt from taxation all or a portion of the
2 property upon which an eligible business locates or expands in
3 an enterprise zone and which is used in the operation of the
4 eligible business. The exemption may be allowed for a period
5 not to exceed ten years beginning the year the eligible
6 business enters into an agreement with the county to locate or
7 expand operations in an enterprise zone.

8 Sec. 9. NEW SECTION. 15E.189 RESEARCH ACTIVITIES CREDIT.

9 An eligible business may claim a corporate tax credit for
10 increasing research activities in an enterprise zone during
11 the period the eligible business is located in an enterprise
12 zone. The credit equals thirteen percent of the state's
13 apportioned share of the qualifying expenditures for
14 increasing research activities. The state's apportioned share
15 of the qualifying expenditures for increasing research
16 activities is a percent equal to the ratio of qualified
17 research expenditures in this state to total qualified
18 research expenditures. The credit authorized in this section
19 is in lieu of the credit authorized in section 422.33,
20 subsection 5. If the eligible business is a partnership,
21 subchapter S corporation, limited liability company, or estate
22 or trust electing to have the income taxed directly to the
23 individual, an individual may claim the tax credit allowed.
24 The amount claimed by the individual shall be based upon the
25 pro rata share of the individual's earnings of the
26 partnership, subchapter S corporation, limited liability
27 company, or estate or trust. Any credit in excess of the tax
28 liability for the tax year shall be refunded with interest
29 computed under section 422.25. In lieu of claiming a refund,
30 the eligible business may elect to have the overpayment shown
31 on its final return credited to its tax liability for the
32 following tax year.

33 For the purposes of this section, "qualifying expenditures
34 for increasing research activities" means the qualifying
35 expenditures as defined for the federal credit for increasing

1 research activities which would be allowable under section 4
2 of the Internal Revenue Code in effect on January 1, 1996.

3 Sec. 10. NEW SECTION. 15E.190 SALES, SERVICES, AND USE
4 TAX REFUND -- CONTRACTOR OR SUBCONTRACTOR.

5 1. An eligible business under section 15E.184 shall be
6 entitled to a refund of the taxes paid under chapters 422 and
7 423 for gas, electricity, water, or sewer utility services,
8 goods, wares, or merchandise, or on services rendered,
9 furnished, or performed to or for a contractor or
10 subcontractor and used in the fulfillment of a written
11 contract relating to the construction or equipping of a
12 facility within an enterprise zone. Taxes attributable to
13 intangible property and furniture and furnishings shall not be
14 refunded.

15 2. To receive the refund a claim shall be filed by the
16 eligible business with the department of revenue and finance
17 as follows:

18 a. The contractor or subcontractor shall state under oath,
19 on forms provided by the department, the amount of the sales
20 of goods, wares, or merchandise or services rendered,
21 furnished, or performed including water, sewer, gas, and
22 electric utility services for use in the enterprise zone upon
23 which sales or use tax has been paid prior to the date the
24 eligible business begins operations, and shall file the forms
25 with the eligible business before final settlement is made.

26 b. The eligible business shall, not more than six months
27 after the date the eligible business begins operation, make
28 application to the department of revenue and finance for any
29 refund of the amount of the taxes paid pursuant to chapter 422
30 or 423 upon any goods, wares, or merchandise, or services
31 rendered, furnished, or performed, including water, sewer,
32 gas, and electric utility services. The application shall be
33 made in the manner and upon forms to be provided by the
34 department, and the department shall audit the claim and, if
35 approved, issue a warrant to the eligible business in the

1 amount of the sales or use tax which has been paid to the
2 state of Iowa under a contract. A claim filed by the eligible
3 business in accordance with this subsection shall not be
4 denied by reason of a limitation provision set forth in
5 chapter 421, 422, or 423.

6 c. A contractor or subcontractor who willfully makes a
7 false report of tax paid under the provisions of this
8 subsection is guilty of a simple misdemeanor and in addition
9 is liable for the payment of the tax and any applicable
10 penalty and interest.

11

EXPLANATION

12 This bill provides for the establishment of economic
13 development enterprise zones in counties which have an
14 unemployment rate which is one and a half times the state
15 average, which have had a 10 percent population loss between
16 1980 and 1990, which have 15 percent or more of the residents
17 of the area to be designated as an enterprise zone earning
18 less than the state average wage, or which have at least 20
19 percent of the county population classified as economically
20 disadvantaged for purposes of the job training partnership
21 program (chapter 7B). Economically disadvantaged includes
22 receiving welfare payments, food stamps, or being below the
23 federal poverty level.

24 A county can designate up to one percent of the area of the
25 county as one or more enterprise zones. Enterprise zones can
26 only be located in areas zoned industrial or commercial or
27 which are planned for use as future business property.

28 A county establishing an enterprise zone would certify its
29 eligibility to the department of revenue and finance and
30 monitor compliance by businesses receiving enterprise zone
31 benefits and continuing eligibility of the counts for
32 enterprise zones.

33 The bill also provides that businesses must agree to meet
34 certain requirements to be eligible for enterprise zone
35 benefits, including paying at least 80 percent of the cost of

1 medical and dental benefits, pay average wages to full-time
2 nonmanagement employees of at least the average state hourly
3 wage, and create at least 25 new jobs. Businesses which do
4 not meet the agreed to requirements forfeit some of the
5 benefits received by the business.

6 Enterprise zone benefits include a supplemental new jobs
7 credit from income tax withholding of 1.5 percent to be used
8 for job training projects under chapter 260E (industrial new
9 jobs training), an investment tax credit against the business
10 income tax liability equal to 10 percent of the new investment
11 by the business in the enterprize zone, an exemption from
12 property taxes, if agreed to by the county, and a refund of
13 sales, service, and use taxes paid on materials used to
14 construct or equip a facility in the enterprize zone.

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SENATE FILE 2434

S-5422

- 1 Amend Senate File 2434 as follows:
2 1. Page 1, line 22, by inserting after the word
3 "rate" the following: "for the most recent annual
4 period".
5 2. Page 1, line 23, by inserting after the word
6 "rate" the following: "for the most recent annual
7 period".
8 3. Page 1, by striking line 32 and inserting the
9 following: "annual wage in insured employment in the
10 state."

By TOM FLYNN

S-5422 FILED MARCH 19, 1996

SENATE FILE 2434

S-5407

- 1 Amend Senate File 2434 as follows:
2 1. Page 1, by striking lines 20 through 23 and
3 inserting the following:
4 "2. An enterprise zone shall only be formed in a
5 county which has an unemployment rate of at least one
6 hundred fifty percent of the average state
7 unemployment rate for the preceding year and which
8 meets at least one of the following criteria:"
9 2. By relettering as necessary.

By TOM FLYNN
ALLEN BORLAUG

S-5407 FILED MARCH 19, 1996