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WAYS AND MEANS

HOUSE FILE 657

BY COMMITTEE ON ECONOMIC DEVEOPMENT

WITHDRAWN
4-21-97
(p. 1388)

(SUCCESSOR TO HSB 219)

Passed House, Date ____________ Passed Senate, Date ____________

Vote: Ayes ______ Nays ______ Vote: Ayes ______ Nays ______

Approved ____________________________

A BILL FOR

An Act relating to investments in counties and cities by providing for the establishment of enterprise zones in areas of counties and cities for which tax incentives and assistance are available for eligible businesses locating or located in the enterprise zone.

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

WITHDRAWN

HF 657

TLSB 2714HV 77
mg/sc/14

S.F. ________ H.F. 657

Section 1. NEW SECTION. 15E.181 INTENT.

It is the intent of the general assembly that this division be administered in a manner to promote new economic development in economically distressed areas by encouraging communities to target resources in ways that attract productive private investment.

Sec. 2. NEW SECTION. 15E.182 ENTERPRISE ZONES.

1. A county may create an economic development enterprise zone as authorized in this division, subject to certification by the department of economic development, by designating up to one percent of the county area for that purpose. A county may establish more than one enterprise zone.

2. A city with a population of twenty-five thousand or more may create an economic development enterprise zone as authorized in this division, subject to certification by the department of economic development, by designating one or more contiguous census tracts, as determined in the most recent federal census, for that purpose. In creating an enterprise zone, a city with a population of twenty-five thousand or more may designate as part of the area tracts located in a contiguous city if such tracts meet the criteria and the city agrees to being included. The city may establish more than one enterprise zone. Reference in this division to "city" means a city with a population of twenty-five thousand or more.

3. A county or city may apply to the department for an area to be certified as an enterprise zone at any time prior to July 1, 2000. However, the total amount of land designated as enterprise zones under subsections 1 and 2 shall not exceed in the aggregate one percent of the total county area.

4. An enterprise zone designation shall remain in effect for ten years following the date of certification. Any state or local incentives or assistance that may be conferred must be conferred before the designation expires. However, the benefits of the incentive or assistance may continue beyond

the expiration.

Sec. 3. NEW SECTION. 15E.183 ELIGIBLE BUSINESS.

1. A business which is or will be located in an enterprise zone is eligible to receive incentives and assistance under this division if the business has not closed or substantially reduced its operation in one area of the state and relocated substantially the same operation into the enterprise zone and if the business meets all of the following:

a. Is not a retail or professional service business.

b. Pays at least eighty percent of the cost of a standard medical and dental insurance plan for all full-time employees.

c. Pays an average wage that is at or greater than ninety percent of the lesser of the average county wage or average regional wage, as determined by the department. However, the average wage paid by the business shall not be less than seven dollars and fifty cents per hour.

d. Creates at least ten full-time positions and maintains them for at least ten years.

e. Makes a one-time capital investment of at least five hundred thousand dollars. If the business is occupying a vacant building suitable for industrial use, the fair market value of the building and land shall be counted toward the capital investment requirement. An existing business that has been operating in the enterprise zone for at least five years is exempt from the capital investment requirement of this paragraph.

2. A business is not ineligible under this section when the business expands its operation in an enterprise zone if existing operations of a similar nature in the state are not closed or substantially reduced.

Sec. 4. NEW SECTION. 15E.184 DISTRESS CRITERIA.

1. An enterprise zone may be designated by a county in an area which meets at least two of the following criteria:

a. The area has an average weekly wage that ranks among the bottom twenty-five counties in the state based on the 1995 annual average weekly wage for employees in private business.

b. The area has a family poverty rate that ranks among the top twenty-five counties in the state based on the 1990 census.

c. The area has experienced a percentage population loss that ranks among the top twenty-five counties in the state between 1990 and 1995.

d. The area has a percentage of persons sixty-five years of age or older that ranks among the top twenty-five counties in the state based on the 1990 census.

2. An enterprise zone may be designated by a city which meets at least two of the following criteria:

a. The area has a per capita income of nine thousand six hundred dollars or less based on the 1990 census.

b. The area has a family poverty rate of twelve percent or higher based on the 1990 census.

c. Ten percent or more of the housing units are vacant in the area.

d. The valuations of each class of property in the designated area is seventy-five percent or less of the citywide average for that classification based upon the most recent valuations for property tax purposes.

3. The department of economic development shall certify eligible enterprise zones that meet the requirements of subsection 1 upon request by the county or subsection 2 upon request by the city, as applicable.

Sec. 5. NEW SECTION. 15E.185 ENTERPRISE ZONE COMMISSION.

A county or city for which an eligible enterprise zone is certified shall establish an enterprise zone commission to review applications from qualified businesses located within or requesting to locate within an enterprise zone to receive incentives or assistance as provided in section 15E.186. The commission shall include but not be limited to representatives from the board of supervisors, cities, school districts, community or regional economic development offices, community colleges, and the servicing utility companies. A county and any cities within the county may combine their commissions into one commission.

The commission may adopt more stringent requirements for a business to be eligible for incentives or assistance than provided in section 15E.183. The commission may develop as an additional requirement that preference in hiring be given to individuals who live within the enterprise zone. The commission shall work with the local workforce development center to determine the labor availability in the area.

If the enterprise zone commission determines that a business qualifies for inclusion in an enterprise zone and is eligible to receive incentives or assistance as provided in section 15E.186, the commission shall submit an application for incentives or assistance to the department of economic development. The department may approve, defer, or deny the application. A business that is approved to receive incentives or assistance shall, for the length of its designation as an enterprise zone business, certify annually to the county or city, as applicable, and the department of economic development its compliance with the requirements of section 15E.183.

Sec. 6. NEW SECTION. 15E.186 INCENTIVES -- ASSISTANCE.

For purposes of determining the incentives or assistance provided in this section, "eligible business" means a business which has been approved to receive incentives and assistance by the department of economic development pursuant to application as provided in section 15E.185. The incentives and assistance provided under this division for businesses located in enterprise zones shall be for a period not to exceed ten years and shall include all of the following:

1. In addition to any new jobs credit from withholding allowed pursuant to section 260E.5, an amount equal to one and one-half percent of the gross wages paid to the new employees in the zone. This amount shall be credited from the payment

made by the business pursuant to section 422.16. The amount available to the business under this subsection may be used for additional job training pursuant to chapter 260E or may be used for capital investment in the zone.

2. Sales, services, and use tax refund, as provided in section 15.331A.

3. Investment tax credit, as provided in section 15.333.

4. Research activities credit, as provided in section 15.335.

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

6. Exemption from the state sales, services, and use taxes of the gross receipts from the sale, furnishing, or service of gas, electricity, water, and heat to the business premises in the zone.

7. Exemption from the state corporate tax under chapter 422, division III, if the business's commercial domicile, as defined in section 422.32, is located in the zone. If the business is a subchapter S corporation or partnership where the income is taxed to the shareholders or partners, the exemption applies to the state individual income tax on the business income based upon each shareholder's or partner's pro rata share of the business income.

EXPLANATION

The bill authorizes a county to designate up to 1 percent of its total area as enterprise zones. A city with a population of 25,000 or more may designate more than one or more contiguous census tracts as enterprise zones. However, the total amount of land that may be in these city and county zones cannot exceed in the aggregate 1 percent of the total area of the county. In addition, the department of economic development must approve any such designation. In order for an area to be designated an enterprise zone, at least two of four criteria must be met. In the case of county-designated areas, these are having an average weekly wage that ranks among the bottom 25 counties based upon 1995 statistics; family poverty rate that ranks among the top 25 counties based upon the 1990 census; percentage population loss that ranks among the top 25 counties between 1990 and 1995; and a percentage of persons 65 years old that ranks among the top 25 counties. In the case of city-designated areas these are having per capita income of $9,600 or less, poverty rate of 12 percent or more, and 10 percent of more of housing units are vacant, all according to the 1990 census, and the valuations in the area equal 75 percent or less of the average for the city. A business that is or will be located in the enterprise zone shall receive incentives or assistance if the business meets all of certain eligibility criteria. These criteria include paying at least 80 percent of the cost of standard medical and dental insurance, in a county-designated zone paying at least 90 percent of the lesser of the average county wage or average regional wage with a minimum wage of $7.50 per hour, creation of at least 10 new jobs, and making a capital investment of at least $500,000. Retail or professional service businesses are not eligible nor are businesses that move similar operations from another part of the state to the enterprise zone. The county or city may establish more stringent criteria than these.

The incentives and assistance that shall be provided are a one and one-half percent credit from withholding of income tax from wages of new employees which may be used for training new employees to work in the zone or for capital investment, refund of sales and services taxes for utility services furnished in the zone and for materials used in construction contracts done in the zone, investment tax credit for investments made in the zone, credit for increasing research activities in the state, exemption from all property taxation for property used in the business in the zone if the county or city so decides, exemption from state sales, services, and use taxes on utility services, and possible exemption from the state taxes on business income.

HOUSE FILE 657
FISCAL NOTE

A fiscal note for **House File 657** is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

House File 657 (Enterprise Zone Bill) allows cities over 25,000 persons and certain economically-disadvantaged counties to designate up to 1.0% of the county's land area as an Enterprise Zone. Certain businesses within the Enterprise Zone would be eligible for tax incentives similar to those under the New Jobs and Income Program (NJIP). All applications for Zone designation must be received by June 30, 2000. Zones remain in effect for 10 years. Benefits conferred during that 10-year period remain in effect for 10 years after the benefit is conferred.

BACKGROUND

Twenty-six counties would be eligible to designate up to 1.0% of the county area as an Enterprise Zone. Seventeen cities have a population in excess of 25,000. It is not known how many of these cities have census tracts that qualify.

To be eligible for the incentives, a company within an approved Enterprise Zone must:

1. Not be a retail or professional service business.
2. Not have closed or substantially reduced its operation in another part of the State.
3. Provide and pay at least 80.0% of a standard medical and dental insurance plan.
4. Pay an average wage (including management positions) that is greater than 90.0% of the average county wage or average regional wage, whichever is lower. However, the average wage cannot be less than $7.50 per hour.
5. Create at least 10 full-time positions and maintains them for at least 10 years.
6. Makes a one-time capital investment of $500,000. Vacant industrial property occupied by the business shall count towards the capital investment requirement. The Bill does not require the business to own the property. An exemption from the capital investment requirement is provided for a business that has been operating within the Enterprise Zone for at least five years.

The benefits available to eligible businesses in an approved Enterprise Zone shall be for 10 years and include:

1. A credit from withholding equal to 1.5% of the gross wages paid by the eligible business. This credit is in addition to the 1.5% allowed under the New Jobs Credit from withholding under Section 260E.5, Code of Iowa. The money can be used to provide employee training or may be used for

capital investment within the Zone.

2. A refund of certain Sales and Use Tax paid during the construction of the project.
3. A property tax exemption for up to 10 years for all property of the business located within the Zone and used for the operation of the business, subject to local approval.
4. A Corporate Tax Credit of up to 10.0% of the investment that is directly related to the creation of the new jobs.
5. An exemption from State Sales and Use Tax on gas, electricity, water, and heat used at the business location.
6. Exemption from the State Corporate Tax if the business's commercial domicile is located within the Zone.
7. A Research Activities Corporate Tax Credit equal to 6.5% of qualified research expenditures. This is in addition to the 6.5% credit allowed under Section 422.33(5), Code of Iowa.

ASSUMPTIONS

1. Assume 30 companies would be approved for benefits each year for three years, for a total of 90 companies. Twenty companies per year would benefit each year for another 10 years, for an additional 200 companies.

2. Assume the average company would have the following financial status:

   A. New capital investment = $2,000,000
   B. Annual payroll for 50 employees = $950,000
   C. Property exempt from property taxation = $2,000,000
   D. Local property tax rate of $30.00 per $1,000
   E. Construction costs subject to Sales and Use Tax that would be exempt under the Bill = $1,000,000
   F. Annual electricity, heat, and water expenses subject to Sales and Use Tax that would be exempt under the Bill = $100,000
   G. Annual research activity expenditures = $20,000
   H. Each company has sufficient Iowa tax liability to utilize all tax credits allowed.
   I. All allowable property tax exemptions will be granted at the local level.
   J. Five companies annually would become exempt from corporate income tax because the official company domicile is located or would be re-located within the Zone. The annual Corporate Tax exemption for the five companies would be $200,000.
   K. Although the Bill takes effect beginning in FY 1998, the fiscal impact would not begin to occur until FY 1999, due to delays related to the designation and approval process.

FISCAL IMPACT

The fiscal impact can be categorized as follows:

1. A decrease in sales, use, property, and income taxes due to the direct benefits to eligible companies located in the Enterprise Zones. The reduction in General Fund revenues is projected to be $2.3 million FY 1999, $4.6 million in FY 2000, reaching a maximum of $18.2 million in FY

2008.

The impact on local property tax revenue would be $1.8 million FY 2001, $3.6 million in FY 2002, reaching a maximum of $13.8 million in FY 2010. Approximately 18.0% of the local property tax reduction would be paid by the State through the operation of the School Aid Formula.

The direct costs would only occur to the extent that the benefits are granted to companies that would have produced the new jobs (not just in the Zone but anywhere in the State) without the Enterprise Zone designation. Therefore, if one-half of the projects approved for Enterprise Zone benefits would not have made the investment and created the jobs absent the Zone designation, then the direct fiscal impact on revenues would be reduced by one-half. The actual percentage cannot be estimated.

2. An increase in sales, use, property, income, and other taxes due to capital investment and the creation or retention of jobs that would not exist without the incentives available due to the Zone designation.

3. A decrease in sales, use, property, income, and other taxes due to the loss of capital and jobs at other Iowa companies that have to compete for sales, capital, and labor with the businesses that benefit from the Zone designation.

4. The increased jobs and capital investment would create an increased demand for State and local government service, which would result in increased government costs.

5. The Department of Economic Development would require $80,500 and 1.5 FTE positions per year to implement the program.

SOURCE

Department of Economic Development

(LSB 2714hv, JWR)

FILED APRIL 10, 1997 BY DENNIS PROUTY, FISCAL DIRECTOR

Jenkins, Ch
Larson
Briggess
Warnstadt
Scherrman

HSB 219

ECONOMIC DEVELOPMENT

Succeeded By
SF/HF 657

HOUSE FILE ______
BY (PROPOSED COMMITTEE ON
ECONOMIC DEVELOPMENT BILL
BY CHAIRPERSON LARSON)

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

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c. The area has experienced a population loss that ranks among the top twenty-five counties in the state between 1990 and 1995.

d. The area has a percentage of persons sixty-five years of age or older that ranks among the top twenty-five counties in the state based on the 1990 census.

2. An enterprise zone may be designated by a city which meets at least two of the following criteria:

a. The area has a per capita income of nine thousand four hundred dollars or less based on the 1990 census.

b. The area has a family poverty rate of twelve percent or higher based on the 1990 census.

c. Ten percent or more of the housing units are vacant in the area.

d. The valuations of each class of property in the designated area is seventy-five percent or less of the citywide average for that classification based upon the most recent valuations for property tax purposes.

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3. Investment tax credit, as provided in section 15.333.

4. Research activities credit, as provided in section 15.335.

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

EXPLANATION

The bill authorizes a county to designate up to 1 percent of its total area as enterprise zones. A city with a population of 25,000 or more may designate more than one or more contiguous census tracts as enterprise zones. However, the total amount of land that may be in these city and county zones cannot exceed in the aggregate 1 percent of the total area of the county. In addition, the department of economic development must approve any such designation. In order for an area to be designated an enterprise zone, at least two of four criteria must be met. In the case of county-designated areas, these are having an average weekly wage that ranks among the bottom 25 counties based upon 1995 statistics; family poverty rate that ranks among the top 25 counties based upon the 1990 census; population loss that ranks among the top 25 counties between 1990 and 1995; and a percentage of persons 65 years old that ranks among the top 25 counties. In the case of city-designated areas these are having per capita income of $9,400 or less, poverty rate of 12 percent or more, and 10 percent of more of housing units are vacant, all according to the 1990 census, and the valuations in the area equal 75 percent or less of the average for the city. A business that is or will be located in the enterprise zone shall receive incentives or assistance if the business meets all of certain eligibility criteria. These criteria include paying at least 80 percent of the cost of standard medical and dental insurance, in a county-designated zone paying at least 85 percent of the average wage in the county, creation of at least 10 new jobs, and making a capital investment of at least $500,000. Retail or professional service businesses are not eligible nor are businesses that move similar operations from another part of the state to the enterprise zone.

The incentives and assistance that shall be provided are a new jobs credit for training new employees to work in the zone, refund of sales and services taxes for utility services furnished in the zone and for materials used in construction contracts done in the zone, investment tax credit for investments made in the zone, credit for increasing research activities in the state, and if the county or city so decides, exemption from all property taxation for property used in the business in the zone.