

3/24/97 Referred to W & Mem

HOUSE FILE 660
BY COMMITTEE ON ECONOMIC
DEVELOPMENT

(SUCCESSOR TO HSB 157)

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

A BILL FOR

1 An Act providing a waiver of capital investment requirements
2 under the new jobs and income program.

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

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1 Section 1. Section 15.329, subsection 1, paragraph e, Code
2 1997, is amended to read as follows:

3 e. The business will make a capital investment of at least
4 ten million dollars indexed to 1993 dollars based on the gross
5 national product implicit price deflator published by the
6 bureau of economic analysis of the United States department of
7 commerce. If the business is occupying a vacant building
8 suitable for industrial use, the fair market value of the
9 building shall be counted toward the capital investment
10 threshold. A community may request a waiver of this paragraph
11 for all businesses in the community which have been in
12 business for at least five years. The department may grant a
13 waiver and approve the program application.

14 EXPLANATION

15 This bill creates a waiver of the capital investment
16 requirement for an eligible business under the new jobs and
17 income program. A community may request this waiver for all
18 businesses in the community which have been in business for at
19 least five years.

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**HOUSE FILE 660
FISCAL NOTE**

A fiscal note for House File 660 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 660 allows the Department of Economic Development to grant a community's request for a waiver of the capital investment requirements under the New Jobs and Income Program (NJIP) for eligible companies which have been in business for at least five years.

BACKGROUND

A company's capital investment requirement to be eligible for benefits under the NJIP Program is \$10.0 million (adjusted annually for inflation). Section 15.337, Code of Iowa, allows the Department to grant a capital investment waivers down to a minimum of \$3.0 million.

In addition to the capital investment requirement, other major requirements for eligibility under the New Jobs and Income Program include:

1. The business has not closed or substantially reduced its operation in another part of the State.
2. Provide and pay at least 80.0% of a standard medical and dental insurance plan.
3. Pay a median wage for new full-time hourly nonmanagement production jobs of at least \$11.00 (adjusted annually for inflation) or 130.0% of the average wage in the county in which the business is located, which ever is higher.
4. Create at least 50 full-time positions, with waivers possible down to a minimum of 15 jobs.
5. The company cannot be a retail business.

The benefits available to eligible businesses under the New Jobs and Income Program include:

1. A Supplemental New Jobs Credit from Withholding equal 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.
2. A refund of certain Sales and Use Tax paid during the construction of the project.
3. A partial exemption from the ban on foreign ownership of Iowa farmland.
4. A property tax exemption for up to 20 years for the added improvements at the business location, subject to local approval.
5. A Corporate Tax Credit of up to 10.0% of the investment that is directly related to the creation of the new jobs.
6. An exemption from property tax for up to 20 years on all machinery, equipment, and computers directly related to the creation of the new jobs.

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7. Sales and Use Tax exemption for machinery, equipment, and computers.
8. 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 nine companies would benefit from the waiver each year.
2. Assume the average company would have the following financial status:
 - A. New capital investment = \$1,000,000
 - B. Annual Payroll for 50 employees = \$1,200,000
 - C. Property exempt from property taxation = \$1,000,000
 - D. Local property tax rate of \$30.00 per \$1,000
 - E. Initial purchase of machinery, equipment, and computers subject to Sales and Use Tax = \$500,000
 - F. Annual research activity expenditures = \$20,000
 - G. Each company has sufficient Iowa tax liability to utilize all tax credits allowed.
 - H. All allowable property tax exemptions will be granted at the local level.

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 companies made eligible through the proposed waiver process. The reduction in General Fund revenues is projected to be \$420,000 in FY 1998 and \$840,000 in FY 1999, reaching a maximum of \$3.0 million in FY 2004 and subsequent years. The impact on local property tax revenue would be \$270,000 in FY 1998 and \$540,000 in FY 1999, reaching a maximum of \$5.4 million after 20 years. 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 without the waiver. Therefore, if one-half of the projects approved for the waiver would not have made the investment and created the jobs absent the proposed waiver, 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 because of the waiver.
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 waivers.

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.

SOURCE

Department of Economic Development

(LSB 1680hv, JWR)

FILED MARCH 25, 1997

BY DENNIS PROUTY, FISCAL DIRECTOR

Thomson, Ch
Jenkins
Witt

HSB 157

ECONOMIC DEVELOPMENT
Succeeded By
SF/HF 660

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

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
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6 bureau of economic analysis of the United States department of
7 commerce. If the business is occupying a vacant building
8 suitable for industrial use, the fair market value of the
9 building shall be counted toward the capital investment
10 threshold. A community may request a waiver of this paragraph
11 for all businesses in the community which have been in
12 business for more than one year. The department shall develop
13 an appropriate formula of capital investment required per
14 program application which can be authorized under the waiver.
15 The department may grant a waiver for good cause shown, as
16 defined in section 15.337, and approve the program
17 application.

18 EXPLANATION

19 This bill creates a waiver of the capital investment
20 requirement for an eligible business under the new jobs and
21 income program. The department may grant a waiver of this
22 requirement for an existing business for good cause shown, as
23 defined in Code section 15.337. The bill provides that the
24 department shall develop an appropriate formula of capital
25 investment required per program application which can be
26 authorized under the waiver.

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