

MAR 9 2006  
WAYS & MEANS CALENDAR

HOUSE FILE 2731  
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 2460)

(SUCCESSOR TO HSB 530)

Passed House, Date 3-29-06

Passed Senate, Date 5-2-06

Vote: Ayes 66 Nays 33

Vote: Ayes 47 Nays 3

Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to a targeted jobs withholding tax credit to be  
2 used for funding improvements in certain urban renewal areas.  
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 2731

1 Section 1. NEW SECTION. 403.19A WITHHOLDING AGREEMENT --  
2 TAX CREDIT.

3 1. For purposes of this section, unless the context  
4 otherwise requires:

5 a. "Business" means any professional services, or  
6 industrial enterprise, including medical treatment facilities,  
7 manufacturing facilities, corporate headquarters, and research  
8 facilities. "Business" does not include a retail operation or  
9 a business which closes or substantially reduces its operation  
10 in one area of this state and relocates substantially the same  
11 operation to another area of this state.

12 b. "Employee" means the individual employed in a targeted  
13 job that is subject to a withholding agreement.

14 c. "Employer" means a business creating targeted jobs in  
15 an urban renewal area of a pilot project city pursuant to a  
16 withholding agreement.

17 d. "Pilot project city" means a city that has applied and  
18 been approved as a pilot project city pursuant to subsection  
19 2.

20 e. "Qualifying investment" means a capital investment in  
21 real property including the purchase price of land and  
22 existing buildings, site preparation, building construction,  
23 and long-term lease costs. "Qualifying investment" also means  
24 a capital investment in depreciable assets.

25 f. "Targeted job" means a job in a business which is or  
26 will be located in an urban renewal area of a pilot project  
27 city that pays a wage at least equal to the countywide average  
28 wage. "Targeted job" includes new jobs from Iowa business  
29 expansions or retentions within the city limits of the pilot  
30 project city and those jobs resulting from established out-  
31 of-state businesses, as defined by the department of economic  
32 development, moving to or expanding in Iowa.

33 g. "Withholding agreement" means the agreement between a  
34 pilot project city and an employer concerning the targeted  
35 jobs withholding credit authorized in subsection 3.

1        2. An eligible city may apply to the department of  
2 economic development to be designated as a pilot project city.  
3 An eligible city is a city that contains three or more census  
4 tracts and is located in a county meeting one of the following  
5 requirements:

- 6        a. A county that borders Nebraska.
- 7        b. A county that borders South Dakota.
- 8        c. A county that borders a state other than Nebraska or  
9 South Dakota.

10       The department of economic development shall approve four  
11 eligible cities as pilot project cities, one pursuant to  
12 paragraph "a", one pursuant to paragraph "b", and two pursuant  
13 to paragraph "c". If more than two cities meeting the  
14 requirements of paragraph "c" apply to be designated as a  
15 pilot project city, the department of management, in  
16 consultation with the department of economic development,  
17 shall determine which two cities hold the most potential to  
18 create new jobs or generate the greatest capital within their  
19 areas. Applications from eligible cities filed on or after  
20 October 1, 2006, shall not be considered.

21       If a pilot project city does not enter into a withholding  
22 agreement within one year of its approval as a pilot project  
23 city, the city shall lose its status as a pilot project city.  
24 Upon such occurrence, the department of economic development  
25 shall take applications from other eligible cities to replace  
26 that city. Another city shall be designated within six  
27 months.

28       3. a. A pilot project city may provide by ordinance for  
29 the deposit into a designated account in the special fund  
30 described in section 403.19, subsection 2, of the targeted  
31 jobs withholding credit described in this section. The  
32 targeted jobs withholding credit shall be based upon the wages  
33 paid to employees pursuant to a withholding agreement.

34       b. An amount equal to three percent of the gross wages  
35 paid by an employer to each employee under a withholding

1 agreement shall be credited from the payment made by the  
2 employer pursuant to section 422.16. If the amount of the  
3 withholding by the employer is less than three percent of the  
4 gross wages paid to the employees covered by the withholding  
5 agreement, the employer shall receive a credit against other  
6 withholding taxes due by the employer or may carry the credit  
7 forward for up to ten years or until depleted, whichever is  
8 the earlier. The employer shall remit the amount of the  
9 credit quarterly, in the same manner as withholding payments  
10 are reported to the department of revenue, to the pilot  
11 project city to be allocated to and when collected paid into a  
12 designated account in the special fund for the urban renewal  
13 area in which the targeted jobs are located. All amounts so  
14 deposited shall be used or pledged by the pilot project city  
15 for an urban renewal project related to the employer pursuant  
16 to the withholding agreement.

17 c. (1) The pilot project city shall enter into a  
18 withholding agreement with each employer concerning the  
19 targeted jobs withholding credit. However, an agreement shall  
20 not be entered into by a pilot project city with a business  
21 currently located in this state unless the business either  
22 creates ten new jobs or makes a qualifying investment of at  
23 least five hundred thousand dollars within the urban renewal  
24 area. The withholding agreement may have a term of up to ten  
25 years. An employer shall not be obligated to enter into a  
26 withholding agreement.

27 (2) The pilot project city shall not enter into a  
28 withholding agreement after June 30, 2010.

29 d. A withholding agreement shall be disclosed to the  
30 public and shall contain but is not limited to all of the  
31 following:

32 (1) A copy of the adopted development agreement plan of  
33 the employer.

34 (2) A list of any other amounts of incentives or  
35 assistance the employer may be receiving from other economic

1 development programs, including grants, loans, forgivable  
2 loans, and tax credits.

3 (3) The approval of local participating authorities.

4 (4) The amount of local incentives or assistance received  
5 for each project of the employer.

6 e. (1) The employer shall certify to the department of  
7 revenue that the targeted jobs withholding credit is in  
8 accordance with the withholding agreement and shall provide  
9 other information the department may require. Notice of any  
10 withholding agreement shall be provided promptly to the  
11 department of revenue following its execution by the pilot  
12 project city and the employer.

13 (2) Following termination of the withholding agreement,  
14 the employer credits shall cease and any money received by the  
15 pilot project city after termination shall be remitted to the  
16 treasurer of state to be deposited into the general fund of  
17 the state. Notice shall be provided promptly to the  
18 department of revenue following termination.

19 f. If the employer ceases to meet the requirements of the  
20 withholding agreement, the agreement shall be terminated and  
21 any withholding tax credits for the benefit of the employer  
22 shall cease. However, in regard to the number of new jobs  
23 that are to be created if the employer has met the number of  
24 new jobs to be created pursuant to the withholding agreement  
25 and subsequently the number of new jobs falls below the  
26 required level, the employer shall not be considered as not  
27 meeting the new job requirement until eighteen months after  
28 the date of the decrease in the number of new jobs employed.

29 g. A pilot project city shall certify to the department of  
30 revenue the amount of the targeted jobs withholding credit an  
31 employer has remitted to the city and shall provide other  
32 information the department may require.

33 h. An employee whose wages are subject to a withholding  
34 agreement shall receive full credit for the amount withheld as  
35 provided in section 422.16.

1 i. An employer may participate in a new jobs credit from  
2 withholding under section 260E.5 or a supplemental new jobs  
3 credit from withholding under section 15E.197 or section  
4 15.331, Code 2005, at the same time as the employer is  
5 participating in the withholding credit under this section.  
6 Notwithstanding any other provision in this section, the new  
7 jobs credit from withholding under section 260E.5 and the  
8 supplemental new jobs credit from withholding under section  
9 15E.197 or section 15.331, Code 2005, shall be collected and  
10 disbursed prior to the withholding credit under this section.

11 j. A pilot project city that enters into a withholding  
12 agreement shall arrange for a match of at least one dollar for  
13 each withholding credit dollar received by the city. The  
14 local match may come from the pilot project city, a private  
15 donor, or the business, or a combination of all three. The  
16 local match may be in cash or in kind to be used for the  
17 business project.

18 k. At the time of submitting its budget to the department  
19 of management, the pilot project city shall submit to the  
20 department of management and the department of economic  
21 development a description of the activities involving the use  
22 of withholding agreements. The description shall include, but  
23 is not limited to, the following:

24 (1) The total number of targeted jobs and a breakdown as  
25 to those that are Iowa business expansions or retentions  
26 within the city limits of the pilot project city and those  
27 that are jobs resulting from established out-of-state  
28 businesses moving to or expanding in Iowa.

29 (2) The number of withholding agreements and the amount of  
30 withholding credits involved.

31 (3) The types of businesses that entered into the  
32 agreements, and the types of businesses that declined the  
33 city's proposal to enter into the agreement.

34 1. The department of economic development in consultation  
35 with the department of revenue shall coordinate the pilot

1 project program with the pilot project cities under this  
2 section. The department of economic development is authorized  
3 to adopt, amend, and repeal rules to implement the pilot  
4 project program under this section. The department of  
5 economic development shall prepare an annual report for the  
6 governor, the general assembly, and the legislative services  
7 agency on the pilot project program. The pilot project  
8 program annual report shall include but not be limited to all  
9 of the following:

- 10 (1) The amount each project received from each state  
11 economic development and tax credit program.
- 12 (2) The number of new jobs resulting from the pilot  
13 program.
- 14 (3) The average wage resulting from the pilot project.
- 15 (4) An evaluation of the investment made by the state of  
16 Iowa, including but not limited to the terms in subparagraphs  
17 (1) through (3).

18 EXPLANATION

19 This bill allows four pilot project cities to assist in  
20 funding projects in their urban renewal areas by means of a  
21 targeted jobs credit from withholding. This credit is  
22 available to businesses that are or will locate in an urban  
23 renewal area. Businesses already located in the state must  
24 either create 10 new jobs or make at least \$500,000 in capital  
25 investment within the urban renewal area. The credit is 3  
26 percent of the amount of gross wages paid to the employees of  
27 the targeted jobs by the business. The credit is paid to the  
28 pilot project city to be used to pay for debts incurred or  
29 assistance provided by the city for urban renewal projects  
30 related to the business in the urban renewal area. Presently,  
31 property tax imposed on the increase in value as a result of  
32 the business's arrival is used to provide such financing. The  
33 withholding credit is available to each targeted job of the  
34 business in the area provided the job's wage is equal to at  
35 least the average county wage. A withholding agreement shall

1 be for a period of up to 10 years but may not be entered into  
2 after June 30, 2010. A pilot project city must arrange for a  
3 match of at least \$1 for each dollar of withholding credit  
4 dollar it receives. The match is to be used for the business  
5 project.

6 The four pilot project cities are cities with three or more  
7 census tracts and include one located in a county that borders  
8 Nebraska, one located in a county that borders South Dakota,  
9 and two located in counties that border states other than  
10 Nebraska or South Dakota. To be eligible to be designated as  
11 a pilot project city, a city must apply by October 1, 2006. A  
12 pilot project city will lose its status if it does not enter  
13 into a withholding tax agreement within a year of being  
14 approved as a pilot project city.

15 If the employer ceases to meet the requirements of the  
16 withholding agreement, the agreement shall be terminated and  
17 any withholding tax credits for the benefit of the employer  
18 shall cease. However, in regard to the number of new jobs  
19 that are to be created if the employer has met the number of  
20 new jobs to be created pursuant to the withholding agreement  
21 and subsequently the number of new jobs falls below the  
22 required level, the employer shall not be considered as not  
23 meeting the new job requirement until eighteen months after  
24 the date of the decrease in the number of new jobs employed.

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HOUSE FILE 2731

H-8420

1 Amend House File 2731 as follows:

2 1. Page 2, by striking lines 1 through 27 and  
3 inserting the following:

4 "2. The department of economic development shall  
5 approve five pilot project cities. Eligible cities  
6 may apply to the department of economic development to  
7 be designated as a pilot project city. A city is an  
8 eligible city if it is located in a county that meets  
9 two of the following distress criteria:

10 a. The county has an average weekly wage that  
11 ranks among the bottom one to fifty counties in the  
12 state based on the 2000 annual average weekly wage for  
13 employees in private business.

14 b. The county has a family poverty rate that ranks  
15 among the top one to fifty counties in the state based  
16 on the 2000 census.

17 c. The county has experienced a percentage  
18 population loss that ranks among the top one to fifty  
19 counties in the state between 1995 and 2000.

20 d. The county has a percentage of persons sixty-  
21 five years of age or older that ranks among the top  
22 one to fifty counties in the state based on the 2000  
23 census.

24 The department of economic development shall  
25 conduct a peer review of tax structures and economic  
26 development incentives and financing assessment study  
27 for the states of Illinois, Iowa, Minnesota, Missouri,  
28 Nebraska, South Dakota, and Wisconsin. The department  
29 may contract with an outside firm or economists at  
30 state board of regents universities to complete the  
31 study. The study shall be used to identify areas  
32 where Iowa is collectively uncompetitive with  
33 neighboring states in terms of taxes and economic  
34 development incentives. If the study identifies Iowa  
35 has a disadvantage, the department shall implement the  
36 pilot project.

37 As part of the selection process, the department of  
38 economic development shall give priority to a city  
39 that demonstrates that it has a disadvantage in tax  
40 structures and economic development programs and  
41 incentives as identified in the tax structures and  
42 economic development incentives and financing  
43 assessment.

44 Applications from eligible cities filed on or after  
45 July 1, 2007, shall not be considered."

46 2. Page 3, line 24, by striking the word "ten"  
47 and inserting the following: "not more than five".

48 3. Page 3, line 35, by inserting after the word  
49 "assistance" the following: "for other projects".

50 4. Page 4, by inserting after line 5 the

H-8420

**H-8420**

Page 2

1 following:

2 "( ) An employer that enters into a withholding  
3 agreement with a pilot project city shall not receive  
4 any state incentives or assistance from other state  
5 economic development programs, including grants,  
6 loans, forgivable loans, and tax credits for purposes  
7 of the project during the term of the agreement,  
8 except for training incentives or assistance as  
9 allowed under paragraph "i".

10 5. Page 5, by inserting after line 33 the  
11 following:

12 " . Upon termination of the withholding  
13 agreement, the pilot project city shall submit a  
14 report to the department of economic development  
15 detailing the economic activity of the city and the  
16 improved cost of doing business in the city. The  
17 report shall also include but not be limited to how  
18 the city, through this program is more competitive  
19 based on sales tax, property tax, income tax, or other  
20 taxes."

By D. OLSON of Boone

**H-8420** FILED MARCH 28, 2006

**HOUSE FILE 2731**

**H-8419**

1 Amend House File 2731 as follows:

2 1. Page 3, line 21, by striking the word  
3 "either".

4 2. Page 3, line 22, by striking the word "or" and  
5 inserting the following: "and".

By JOCHUM of Dubuque

**H-8419** FILED MARCH 28, 2006

**Fiscal Services Division**  
**Legislative Services Agency**  
**Fiscal Note**

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HF 2731 – Pilot Project New Tax Incentive (LSB 5535 HZ)  
Analyst: Jeff Robinson (Phone: [515] 281-4614) ([jeff.robinson@legis.state.ia.us](mailto:jeff.robinson@legis.state.ia.us))  
Fiscal Note Version - New

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**Description**

House File 2731 allows two cities to qualify as pilot projects for a new tax incentive equal to 3.0% of the wages paid employees in created or retained jobs.

Significant features of the proposal include:

- To qualify for the incentive, businesses must create at least 10 jobs or make a qualifying capital investment of at least \$500,000.
- A currently existing job may qualify for the incentive if it is part of a business retention project.
- Qualifying capital investments include real property, long-term lease payments, and equipment purchases.
- The level of pay for the created jobs must equal at least the “countywide average wage.”
- The business must be located in an Urban Renewal Area (Tax Increment Financing District).
- The agreement is limited to a maximum of 10 years.
- New agreements cannot be created after June 30, 2010.
- The tax incentive is equal to 3.0% of the gross wages paid to an employee holding a qualified job. The tax incentive is not related to the amount of State income tax actually withheld from the employees.
- Instead of forwarding all of the income tax withheld from its employees, an employer retains an amount equal to 3.0% of gross wages paid to employees in created jobs.
- If the amount of tax withheld from the employees is less than the 3.0% incentive, the employer may retain withholding from employees not included in the new jobs agreement.
- The business forwards the 3.0% incentive to the pilot project city for deposit into the city’s Special Fund created pursuant to Section 403.19(2), Code of Iowa.
- The revenue received by the city shall be used for a project related to the business.
- The two cities along the western border of Iowa eligible under the qualification set forth in the Bill are Sioux City and Council Bluffs.

**Assumptions**

1. One of the additional cities selected as pilot project city will be Davenport and the other will be one of the other six largest cities along the Illinois border.
2. The tax incentive agreements will cover 570 jobs in FY 2007 and the number will grow to 2,457 by FY 2010, the last year allowed for new agreements.

3. The average gross wage for jobs subject to the agreements will be \$33,400 in FY 2007 and increase at an annual rate of 3.0%.
4. There will be sufficient tax revenue available at each business to meet the 3.0% tax incentive.

**Fiscal Impact**

The amounts listed in the "HF 2731 Tax Incentive" column of the following table presents the estimated direct impact on State General Fund revenue of the new tax incentive created in HF 2731.

<b>Estimated Jobs, Wages, and Tax Incentive</b>			
	<u>Jobs</u>	<u>Average Gross Wage</u>	<u>HF 2731 Tax Incentive</u>
FY 2007	570	\$33,400	\$571,000
FY 2008	1,169	34,402	1,206,000
FY 2009	1,797	35,434	1,910,000
FY 2010	2,457	36,497	2,690,000
FY 2011	2,457	37,592	2,771,000
FY 2012	2,457	38,720	2,854,000

The numbers in the table do not include an adjustment for "indirect" impacts on State or local revenue. Both positive and negative indirect impacts are possible. Positive indirect impacts may include employees expending salary dollars within the State and growth in other businesses created and expanded to meet the needs of the new business. Negative indirect impacts may include the effect of the new business on other Iowa businesses when competing for labor, capital, and sales, as well as the additional demand for schools, roads, police and fire protection, and other government services that necessarily result from higher levels of employment and population.

**Sources**

Department of Economic Development  
Legislative Services Agency Analysis

/s/ Holly M. Lyons

March 28, 2006

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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Soderberg, Ch.  
Jenkins  
Struyk  
Miller  
Olson D.

HSB 530

ECONOMIC GROWTH

HOUSE FILE <sup>Sub</sup> <sup>ed</sup> SF 02731  
BY (PROPOSED COMMITTEE ON  
ECONOMIC GROWTH BILL BY  
CHAIRPERSON HOFFMAN)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

**A BILL FOR**

1 An Act relating to a targeted jobs withholding tax credit to be  
2 used for funding improvements in certain urban renewal areas.  
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. NEW SECTION. 403.19A WITHHOLDING AGREEMENT --  
2 TAX CREDIT.

3 1. For purposes of this section, unless the context  
4 otherwise requires:

5 a. "Business" means any commercial, professional services,  
6 or industrial enterprise, including medical treatment  
7 facilities, manufacturing facilities, corporate headquarters,  
8 and research facilities. "Business" does not include a  
9 business which closes or substantially reduces its operation  
10 in one area of this state and relocates substantially the same  
11 operation to another area of this state.

12 b. "Employee" means the individual employed in a targeted  
13 job that is subject to a withholding agreement.

14 c. "Employer" means a business creating targeted jobs in  
15 an urban renewal area of a pilot project city pursuant to a  
16 withholding agreement.

17 d. "Pilot project city" means the largest city in a county  
18 with a population of at least ninety-five thousand but not  
19 more than one hundred ten thousand residents or the largest  
20 city in a county with a population of at least eighty-one  
21 thousand but not more than eighty-eight thousand five hundred  
22 residents. The population figures are based upon the 2000  
23 certified federal census.

24 e. "Qualifying investment" means a capital investment in  
25 real property including the purchase price of land and  
26 existing buildings, site preparation, building construction,  
27 and long-term lease costs. "Qualifying investment" also means  
28 a capital investment in depreciable assets.

29 f. "Targeted job" means a job in a business which is or  
30 will be located in an urban renewal area of a pilot project  
31 city that pays a wage at least equal to the countywide average  
32 wage. "Targeted job" does not include jobs that formerly  
33 existed in the business in this state unless the business is  
34 considering in good faith to relocate outside this state or  
35 unless the relocation is related to an expansion which will

1 generate significant new job creation.

2 g. "Withholding agreement" means the agreement between a  
3 pilot project city and an employer concerning the targeted  
4 jobs withholding credit authorized in subsection 2.

5 2. a. A pilot project city may provide by ordinance for  
6 the deposit into a designated account in the special fund  
7 described in section 403.19, subsection 2, of the targeted  
8 jobs withholding credit described in this section. The  
9 targeted jobs withholding credit shall be based upon the wages  
10 paid to employees pursuant to a withholding agreement.

11 b. An amount equal to three percent of the gross wages  
12 paid by an employer to each employee under a withholding  
13 agreement shall be credited from the payment made by the  
14 employer pursuant to section 422.16. If the amount of the  
15 withholding by the employer is less than three percent of the  
16 gross wages paid to the employees covered by the withholding  
17 agreement, the employer shall receive a credit against other  
18 withholding taxes due by the employer or may carry the credit  
19 forward for up to ten years or until depleted, whichever is  
20 the earlier. The employer shall remit the amount of the  
21 credit quarterly, in the same manner as withholding payments  
22 are reported to the department of revenue, to the pilot  
23 project city to be allocated to and when collected paid into a  
24 designated account in the special fund for the urban renewal  
25 area in which the targeted jobs are located. All amounts so  
26 deposited shall be used or pledged by the pilot project city  
27 for an urban renewal project related to the employer pursuant  
28 to the withholding agreement.

29 c. (1) The pilot project city shall enter into a  
30 withholding agreement with each employer concerning the  
31 targeted jobs withholding credit. However, an agreement shall  
32 not be entered into by a pilot project city with a business  
33 currently located in this state unless the business either  
34 creates ten new jobs or makes a qualifying investment of at  
35 least five hundred thousand dollars within the urban renewal

1 area. The withholding agreement may have a term of up to ten  
2 years. However, the agreement may provide for the extension  
3 of the agreement for up to an additional ten years or until  
4 the debt for which the designated account in the special fund  
5 was established is paid off or is refinanced, or the project  
6 for which the designated account is established is completed,  
7 whichever is the earlier. An employer shall not be obligated  
8 to enter into a withholding agreement.

9 (2) The pilot project city shall not enter into a  
10 withholding agreement after June 30, 2010, except in the case  
11 of an extension of a previously existing agreement as provided  
12 in subparagraph (1).

13 d. (1) The employer shall certify to the department of  
14 revenue that the targeted jobs withholding credit is in  
15 accordance with the withholding agreement and shall provide  
16 other information the department may require. Notice of any  
17 withholding agreement shall be provided promptly to the  
18 department of revenue following its execution by the pilot  
19 project city and the employer.

20 (2) Following termination of the withholding agreement,  
21 the employer credits shall cease and any money received by the  
22 pilot project city after termination shall be remitted to the  
23 treasurer of state to be deposited into the general fund of  
24 the state. Notice shall be provided promptly to the  
25 department of revenue following termination.

26 e. A pilot project city shall certify to the department of  
27 revenue the amount of the targeted jobs withholding credit an  
28 employer has remitted to the city and shall provide other  
29 information the department may require.

30 f. An employee whose wages are subject to a withholding  
31 agreement shall receive full credit for the amount withheld as  
32 provided in section 422.16.

33 g. An employer may participate in a new jobs credit from  
34 withholding under section 260E.5 or a supplemental new jobs  
35 credit from withholding under section 15E.197 or section

1 15.331, Code 2005, at the same time as the employer is  
2 participating in the withholding credit under this section.  
3 Notwithstanding any other provision in this section, the new  
4 jobs credit from withholding under section 260E.5 and the  
5 supplemental new jobs credit from withholding under section  
6 15E.197 or section 15.331, Code 2005, shall be collected and  
7 disbursed prior to the withholding credit under this section.

8 h. At the time of submitting its budget to the department  
9 of management, the pilot project city shall submit to the  
10 department of management and the department of economic  
11 development a description of the activities involving the use  
12 of withholding agreements. The description shall include, but  
13 is not limited to, the following:

14 (1) The total number of targeted jobs and a breakdown as  
15 to those that are Iowa business expansions or retentions and  
16 those that are jobs resulting from out-of-state businesses  
17 moving to or expanding in Iowa.

18 (2) The number of withholding agreements and the amount of  
19 withholding credits involved.

20 (3) The types of businesses that entered into the  
21 agreements, and the types of businesses that declined the  
22 city's proposal to enter into the agreement.

23 EXPLANATION

24 This bill allows two pilot project cities to assist in  
25 funding projects in their urban renewal areas by means of a  
26 targeted jobs credit from withholding. This credit is  
27 available to businesses that are or will locate in an urban  
28 renewal area. Businesses already located in the area must  
29 either create 10 new jobs or make at least \$500,000 in capital  
30 investment within the area. The credit is 3 percent of the  
31 amount of gross wages paid to the employees of the targeted  
32 jobs by the business. The credit is paid to the pilot project  
33 city to be used to pay for debts incurred or assistance  
34 provided by the city for urban renewal projects related to the  
35 business in the urban renewal area. Presently, property tax

1 imposed on the increase in value as a result of the business's  
2 arrival is used to provide such financing. The withholding  
3 credit is available to each targeted job of the business in  
4 the area provided the job's wage is equal to at least the  
5 average county wage. A withholding agreement shall not be  
6 entered into after June 30, 2010, unless it is an extension of  
7 a previous agreement.

8 The two pilot project cities are the largest city located  
9 in a county with a population of 95,000 to 110,000 and the  
10 largest city located in a county with a population of 81,000  
11 to 88,500.

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HOUSE FILE 2731

AN ACT

RELATING TO A TARGETED JOBS WITHHOLDING TAX CREDIT TO BE USED  
FOR FUNDING IMPROVEMENTS IN CERTAIN URBAN RENEWAL AREAS.

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

Section 1. NEW SECTION. 403.19A WITHHOLDING AGREEMENT --  
TAX CREDIT.

1. For purposes of this section, unless the context  
otherwise requires:

a. "Business" means any professional services, or  
industrial enterprise, including medical treatment facilities,  
manufacturing facilities, corporate headquarters, and research  
facilities. "Business" does not include a retail operation or  
a business which closes or substantially reduces its operation  
in one area of this state and relocates substantially the same  
operation to another area of this state.

b. "Employee" means the individual employed in a targeted  
job that is subject to a withholding agreement.

c. "Employer" means a business creating targeted jobs in  
an urban renewal area of a pilot project city pursuant to a  
withholding agreement.

d. "Pilot project city" means a city that has applied and  
been approved as a pilot project city pursuant to subsection  
2.

e. "Qualifying investment" means a capital investment in  
real property including the purchase price of land and  
existing buildings, site preparation, building construction,  
and long-term lease costs. "Qualifying investment" also means  
a capital investment in depreciable assets.

f. "Targeted job" means a job in a business which is or  
will be located in an urban renewal area of a pilot project  
city that pays a wage at least equal to the countywide average  
wage. "Targeted job" includes new jobs from Iowa business  
expansions or retentions within the city limits of the pilot  
project city and those jobs resulting from established out-  
of-state businesses, as defined by the department of economic  
development, moving to or expanding in Iowa.

g. "Withholding agreement" means the agreement between a  
pilot project city and an employer concerning the targeted  
jobs withholding credit authorized in subsection 3.

2. An eligible city may apply to the department of  
economic development to be designated as a pilot project city.  
An eligible city is a city that contains three or more census  
tracts and is located in a county meeting one of the following  
requirements:

a. A county that borders Nebraska.

b. A county that borders South Dakota.

c. A county that borders a state other than Nebraska or  
South Dakota.

The department of economic development shall approve four  
eligible cities as pilot project cities, one pursuant to  
paragraph "a", one pursuant to paragraph "b", and two pursuant  
to paragraph "c". If more than two cities meeting the  
requirements of paragraph "c" apply to be designated as a  
pilot project city, the department of management, in  
consultation with the department of economic development,  
shall determine which two cities hold the most potential to  
create new jobs or generate the greatest capital within their

areas. Applications from eligible cities filed on or after October 1, 2006, shall not be considered.

If a pilot project city does not enter into a withholding agreement within one year of its approval as a pilot project city, the city shall lose its status as a pilot project city. Upon such occurrence, the department of economic development shall take applications from other eligible cities to replace that city. Another city shall be designated within six months.

3. a. A pilot project city may provide by ordinance for the deposit into a designated account in the special fund described in section 403.19, subsection 2, of the targeted jobs withholding credit described in this section. The targeted jobs withholding credit shall be based upon the wages paid to employees pursuant to a withholding agreement.

b. An amount equal to three percent of the gross wages paid by an employer to each employee under a withholding agreement shall be credited from the payment made by the employer pursuant to section 422.16. If the amount of the withholding by the employer is less than three percent of the gross wages paid to the employees covered by the withholding agreement, the employer shall receive a credit against other withholding taxes due by the employer or may carry the credit forward for up to ten years or until depleted, whichever is the earlier. The employer shall remit the amount of the credit quarterly, in the same manner as withholding payments are reported to the department of revenue, to the pilot project city to be allocated to and when collected paid into a designated account in the special fund for the urban renewal area in which the targeted jobs are located. All amounts so deposited shall be used or pledged by the pilot project city for an urban renewal project related to the employer pursuant to the withholding agreement.

c. (1) The pilot project city shall enter into a withholding agreement with each employer concerning the targeted jobs withholding credit. However, an agreement shall not be entered into by a pilot project city with a business currently located in this state unless the business either creates ten new jobs or makes a qualifying investment of at least five hundred thousand dollars within the urban renewal area. The withholding agreement may have a term of up to ten years. An employer shall not be obligated to enter into a withholding agreement.

(2) The pilot project city shall not enter into a withholding agreement after June 30, 2010.

d. A withholding agreement shall be disclosed to the public and shall contain but is not limited to all of the following:

(1) A copy of the adopted development agreement plan of the employer.

(2) A list of any other amounts of incentives or assistance the employer may be receiving from other economic development programs, including grants, loans, forgivable loans, and tax credits.

(3) The approval of local participating authorities.

(4) The amount of local incentives or assistance received for each project of the employer.

e. (1) The employer shall certify to the department of revenue that the targeted jobs withholding credit is in accordance with the withholding agreement and shall provide other information the department may require. Notice of any withholding agreement shall be provided promptly to the department of revenue following its execution by the pilot project city and the employer.

(2) Following termination of the withholding agreement, the employer credits shall cease and any money received by the pilot project city after termination shall be remitted to the

treasurer of state to be deposited into the general fund of the state. Notice shall be provided promptly to the department of revenue following termination.

f. If the employer ceases to meet the requirements of the withholding agreement, the agreement shall be terminated and any withholding tax credits for the benefit of the employer shall cease. However, in regard to the number of new jobs that are to be created if the employer has met the number of new jobs to be created pursuant to the withholding agreement and subsequently the number of new jobs falls below the required level, the employer shall not be considered as not meeting the new job requirement until eighteen months after the date of the decrease in the number of new jobs employed.

g. A pilot project city shall certify to the department of revenue the amount of the targeted jobs withholding credit an employer has remitted to the city and shall provide other information the department may require.

h. An employee whose wages are subject to a withholding agreement shall receive full credit for the amount withheld as provided in section 422.16.

i. An employer may participate in a new jobs credit from withholding under section 260E.5 or a supplemental new jobs credit from withholding under section 15E.197 or section 15.331, Code 2005, at the same time as the employer is participating in the withholding credit under this section. Notwithstanding any other provision in this section, the new jobs credit from withholding under section 260E.5 and the supplemental new jobs credit from withholding under section 15E.197 or section 15.331, Code 2005, shall be collected and disbursed prior to the withholding credit under this section.

j. A pilot project city that enters into a withholding agreement shall arrange for a match of at least one dollar for each withholding credit dollar received by the city. The local match may come from the pilot project city, a private

donor, or the business, or a combination of all three. The local match may be in cash or in kind to be used for the business project.

k. At the time of submitting its budget to the department of management, the pilot project city shall submit to the department of management and the department of economic development a description of the activities involving the use of withholding agreements. The description shall include, but is not limited to, the following:

(1) The total number of targeted jobs and a breakdown as to those that are Iowa business expansions or retentions within the city limits of the pilot project city and those that are jobs resulting from established out-of-state businesses moving to or expanding in Iowa.

(2) The number of withholding agreements and the amount of withholding credits involved.

(3) The types of businesses that entered into the agreements, and the types of businesses that declined the city's proposal to enter into the agreement.

1. The department of economic development in consultation with the department of revenue shall coordinate the pilot project program with the pilot project cities under this section. The department of economic development is authorized to adopt, amend, and repeal rules to implement the pilot project program under this section. The department of economic development shall prepare an annual report for the governor, the general assembly, and the legislative services agency on the pilot project program. The pilot project program annual report shall include but not be limited to all of the following:

(1) The amount each project received from each state economic development and tax credit program.

(2) The number of new jobs resulting from the pilot program.

(3) The average wage resulting from the pilot project.

(4) An evaluation of the investment made by the state of Iowa, including but not limited to the terms in subparagraphs (1) through (3).

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CHRISTOPHER C. RANTS  
Speaker of the House

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JEFFREY M. LAMBERTI  
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 2731, Eighty-first General Assembly.

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MARGARET THOMSON  
Chief Clerk of the House

Approved \_\_\_\_\_, 2006

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THOMAS J. VILSACK  
Governor