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FISCAL IMPACT STATEMENT

LS 7916 | **NOTE PREPARED:** Apr 4, 2005
BILL NUMBER: SB 571 | **BILL AMENDED:** Mar 31, 2005

SUBJECT: Multi-jurisdictional Economic Development.

FIRST AUTHOR: Sen. Simpson | **BILL STATUS:** 2nd Reading - 2nd House
FIRST SPONSOR: Rep. Koch

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** Local

Summary of Legislation: (Amended) *Joint Economic Development:* The bill authorizes various economic development entities to enter into written agreements for jointly undertaken economic development projects.

Crane Development Authority: The bill requires the establishment of a Military Base Development Authority concerning a military base that is located in more than two counties if the Military Base Planning Council votes to require the establishment of the Development Authority.

Global Commerce Centers: The bill permits the Economic Development Corporation to designate certain areas as Global Commerce Centers. It allows Income and sales taxes to be captured for the purposes of the Global Commerce Center. It also authorizes counties to allocate 3% of the growth in property tax revenues attributable to a Global commerce center to a Regional Economic Development District.

Military Base Enhancement Areas (Crane Area): The bill designates each Certified Technology Park located within a radius of five miles of the Crane Military Base as a qualified Military Base Enhancement Area. The bill extends the following incentives, which are currently applicable to businesses located on closed military bases, to businesses that are located in a qualified Military Base Enhancement Area and meet certain criteria: (1) The Sales Tax exemption for electricity purchases. (2) The reduced corporate adjusted gross income tax rate. (3) The investment credit. The bill authorizes the expansion of a Certified Technology Park to adjacent territory that is located in another county and requires the Department of Environmental Management to give priority to permit applications concerning certain military bases or installations.

Effective Date: (Amended) Upon passage; July 1, 2005; January 1, 2006.

Explanation of State Expenditures: (Revised) *IEDC:* The Indiana Economic Development Corporation (IEDC) will have to coordinate development activities and serve as development catalyst in Qualified Military Base Enhancement Areas; promote the Areas; and act as a liaison between the Areas and businesses, local governments, and residents of nearby communities.

The bill authorizes the Indiana Economic Development Corporation (IEDC) to designate up to three Global Commerce Centers (GCCs) to expire 15 years after designation. The IEDC would have to adopt rules to establish application procedures and review and approve applications for GCCs. The bill also provides for the IEDC to establish a procedure for monitoring and evaluating GCCs on an annual basis.

The IEDC's current level of resources should be sufficient to implement these responsibilities.

(Revised) *Department of Environmental Management:* The bill includes a noncode section that requires IDEM to give priority to permit applications concerning: (1) current or former U. S. Military bases or other installations; and (2) the destruction, reclamation, recycling, reprocessing, or demilitarization of ordinance and other explosive materials. This requirement is effective from July 1, 2005 and expires July 1, 2008. The number of bases or installations that this provision could apply to is unknown. The military bases and installations (current and former) that are located in Indiana include the Indiana Army Ammunition Plant, Jefferson Proving Ground, Newport Chemical Depot, Crane Naval Warfare Center, Camp Atterbury, Grissom Air Base, and Ft. Benjamin Harrison.

Explanation of State Revenues: (Revised) *Global Commerce Centers:* The bill allows a Regional Economic Development District containing a Global Commerce Center (GCC) to capture incremental income and sales taxes annually generated within the GCC. The bill provides for a $5 M lifetime capture limit for each GCC. However, the bill does not require any review or approval by the Budget Committee or the State Budget Agency before state income and sales tax revenue may be captured in a GCC. (This type of approval process is required under current statute for capture of state taxes within a Professional Sports and Convention Development Area or a Community Revitalization Enhancement District.)

The bill authorizes the IEDC to designate up to three GCCs that would expire after 15 years. GCCs must be located within a Regional Economic Development District designated by the U.S. Department of Commerce. A Regional District would apply to the IEDC in order to obtain designation for a GCC. However, the bill limits GCCs to Regional Districts that do not contain a metropolitan statistical area. Currently, there are 7 Regional Districts in Indiana, however, only one does not contain a metropolitan statistical area. This Regional District is composed of Crawford, Dubois, Orange, Perry, Pike, and Spencer counties. A global commerce center would expire after 15 years.

The bill provides that a global commerce center would be comprised of a regional economic development project (referred to as a "hub") and any number of economic development projects located within the area served by the regional economic development district and undertaken to support the activities of the hub (referred to as "spokes"). The boundaries of the global commerce center are not required to be contiguous.

The bill allows a Regional District containing a GCC to capture incremental income and sales taxes annually generated within the GCC. The bill provides for a $5 M lifetime capture limit for each GCC. Captured income and sales tax revenue would be distributed to a Regional Economic Development Fund that the Regional District must establish. Money in the Fund may be used to:

(1) provide rent subsidies to businesses locating in the Global Commerce Center; and
(2) maintain, improve, and expand economic development projects located in a Global Commerce Center and the surrounding communities.

The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%)

(Revised) *Military Base Enhancement Areas (Crane Area):* The bill extends the current law tax incentives applying to certain businesses operating on closed military bases to certain businesses operating in "Qualified Military Base Enhancement Areas." The Qualified Military Base Enhancement Areas are certified technology parks located within 5 miles of the Crane Naval Warfare Center. The incentives include: (1) a Sales Tax exemption for certain utility service purchases; (2) a reduction in the Corporate Adjusted Gross Income (AGI) Tax rate; and (3) an AGI Tax credit for equity and debt financing. (A more detailed explanation of the incentives is contained below under *Closed Military Base Tax Incentives*.) A certified technology park was designated in Daviess County near Crane in May 2004. These incentives are effective for businesses in technology parks near Crane beginning in tax year 2006. The total amount that could potentially be claimed by businesses under the three tax incentives is indeterminable. However, the fiscal impact could potentially begin in FY 2006 or FY 2007.

The net revenue impact of these tax incentives depends on the extent that collections on taxable activities attributable to new business locations or business expansion within the military base areas is less than or exceeds the tax incentives claimed. It also depends on the extent that collections relating to relocated operations in the military base areas are less than or exceed the taxes that would otherwise have been collected on these operations elsewhere in the state. However, if the business location or expansion would have occurred in the absence of the tax incentives, the net impact would be the total of the incentives.

To receive the tax incentives, the business must either be: (a) a participant in the technology transfer program conducted at Crane; (b) a U. S. Department of Defense contractor; or (c) involved with Crane in a mutually beneficial relationship evidenced by a memorandum of understanding between the business and the U. S. Department of Defense.

Background: <u>Closed Military Base Tax Incentives</u>: Under current statute, the following three tax incentives are authorized for businesses locating new operations to a facility, or expanding existing operations in a facility, in closed military bases.

(1) A Sales Tax exemption for utility services purchased by a business that relocates or expands all or part of its operations to a facility on a closed military base.

(2) A reduction from 8.5% to 5% in the Corporate Adjusted Gross Income (AGI) Tax rate for a corporation that locates all or part of its operations on a closed military base. The rate reduction applies only to income derived by the corporation from sources on the closed military base during the taxable year in which the corporation located on the base, and the next four succeeding taxable years.

(3) A nonrefundable AGI Tax credit for investment in a business that locates all or part of its operations on a closed military base. Creditable investment includes both equity financing and debt financing. Credits are

awarded for the cost of investment and for jobs created due to the investment. The percentage credits allowed vary depending upon the type of investment, the type of business, and the number of jobs created. The taxpayer may carry over any unused credit amount to subsequent taxable years. The taxpayer is not eligible to carry back any unused credit. For pass through entities, the credit may be claimed by shareholders, partners, or members in proportion to their distributive income from the pass through entity.

These incentives currently apply to three installations in Indiana - Grissom AFB in Miami County, Fort Benjamin Harrison in Marion County, and the Indiana Army Ammunition Plant in Clark County.

Certified Technology Parks: Current statute provides for the IEDC (per P.L. 4 -2005) to certify technology parks proposed by local redevelopment commissions to encourage the location of high-technology businesses within these areas. A proposed technology park may be approved by the IEDC if the local redevelopment commission demonstrates significant support or commitment of certain facilities, services, activities, or funding from an institution of higher education or a private, research-based institute.

However, current statute also provides that a certified technology park may be approved if the application for the park demonstrates significant support or commitment of certain facilities, services, activities, or funding from a military research and development or testing facility on an active U. S. military base or other military installation. Presently, 14 certified technology parks have been designated by the IDOC/IEDC: Anderson, Columbus, Daviess County, Evansville, Ft. Wayne, Hammond, Indianapolis, Kokomo, Muncie, Richmond, Scottsburg, Shelbyville, Terre Haute, and West Lafayette. The Daviess County Certified Technology Park, designated in May 2004, is near the Crane Naval Warfare Center.

A technology park is authorized to capture incremental property taxes and incremental revenue from state income taxes, local option income taxes, and Sales Tax generated in the park. However, a park is prohibited from capturing more than $5 M over its life in incremental income and Sales Tax revenue generated in the park.

Explanation of Local Expenditures: (Revised) *Crane Development Authority:* The bill provides for the establishment of the Crane Development Authority to carry out the rehabilitation, development, redevelopment, and reuse of territory comprising the Crane Military Base. The geographic area of the Crane Military Base Development Area proposed by the Authority must be approved by local units affected by the Development Area. In addition, the Development Area may not include areas that are part of an economic development area, a blighted area, or an urban renewal area.

The Authority is comprised of nine members, with two members each appointed by the county executive in Greene County, Lawrence County, and Martin County, and one member each appointed by the county executive in Daviess County, Monroe County, and Orange County. The members serve 3-year terms. To qualify, a member must be 18 years of age and be a resident of the county responsible for his or her appointment. The bill provides that members are not entitled to salaries but are entitled to reimbursement for necessary expenses. The Authority may employ personnel for compensation to assist with administering its accounts and funds, or may appoint a fiscal officer of one of the appointing counties to perform these duties.

In general, the bill provides that the Authority is responsible for the development, rehabilitation, redevelopment, and reuse of real and personal property located on the Crane Military Base. The bill provides the Authority with various powers to develop the property, including the authority to acquire, use, transfer, renovate, demolish, clear, repair, and maintain property on the site; employ personnel, rent and equip offices, and enter into contracts to carry out the responsibilities of the Authority; provide financial assistance for development purposes; accept loans and other financial assistance from the federal government, the state, and local governments, and private sources. The bill also permits the authority to issue bonds to pay for projects in the Development area and enter into leases of property financed with bond proceeds. The bill permits the authority to pay the bonds with incremental property taxes allocated to the Authority, or other revenue obtained by the Authority. The other revenue could include tax revenue pledged by local units to the payment of bonds or revenue from fees and charges imposed by the authority for the use of projects.

<u>Explanation of Local Revenues:</u> *Joint Economic Development Projects:* The bill authorizes various economic development entities to enter into agreements for jointly operated economic development projects. These entities consist of:

(1) local redevelopment departments;
(2) the Indianapolis Metropolitan Development Department;
(3) local port authorities;
(4) local airport authorities;
(5) community revitalization enhancement districts (CREDs);
(6) certified technology parks.

(Note: Under current statute, entities listed in (1) to (4) in Gary, Vigo County, and Allen County are authorized to enter into agreements for jointly operated projects.) An entity that is a party to such an agreement may grant powers to other parties of the agreement; or pledge any of its revenues, including taxes or allocated taxes, to bonds or lease rental obligations of another party to the agreement. Under current statute, property taxes may be levied for purposes of local port authorities; local airport authorities; and CREDs. Current statute allows redevelopment districts, CREDs, and certified technology parks to capture incremental property taxes. In addition, CREDs and technology parks also may capture incremental revenue from state income taxes, local option income taxes, and Sales Tax generated in these areas. However, the bill prohibits any of these entities from granting another entity taxing powers or the power to establish an allocation area under an agreement.

Fourteen certified technology parks have been designated in Anderson, Columbus, Daviess County, Evansville, Ft. Wayne, Hammond, Indianapolis, Kokomo, Muncie, Richmond, Scottsburg, Shelbyville, Terre Haute, and West Lafayette. Currently, there are 8 CREDs. Marion and South Bend each have one CRED, and Bloomington, Ft. Wayne, and Delaware County each have two CREDs.

(Revised) *Local Option Income Taxes:* Regional Economic Development Districts operating Global Commerce Centers (GCCs) would be able to capture incremental revenue from local option income taxes (CAGIT, COIT, and CEDIT). The bill provides for a lifetime income and sales tax capture limit of $5 M for each GCC.

(Revised) *TIF:* Counties could designate territory in a Global Commerce Center (GCC) (both hub and spoke areas) as allocation areas. In the allocation area, taxes paid on the property AV which is over and above the base AV would be captured and allocated to local units to pay the cost of public facilities within the GCC. The bill authorizes bonds to be issued up to *50 years*, payable from any funds available to the unit. In addition, the bill allows the county fiscal body to allocate 3% of the captured revenue to the Regional District operating the GCC.

The Crane Development Authority could designate territory in the Crane Military Base Development Area as allocation areas. In the allocation area, taxes paid on the property AV which is over and above the base AV would be captured and allocated to the Authority. The bill allows the Crane Development Authority to issue bonds for up to 50 years to be paid from revenue available to the authority. The bill allows a local unit to require the Authority to pay PILOTS from its revenues to the local unit.

In both TIF provisions the base AV includes the AV on the assessment date immediately prior to the effective date of the resolution creating the allocation area. The allocation area does not affect total tax revenue to local civil taxing units and school corporations, except for cumulative funds, since AV growth does not generate more tax levy for these entities. The cumulative funds, however, receive less tax levy growth than would otherwise be the case due to allocation areas, since they have set tax rates that would generate more tax levy from AV growth.

If there is an increase in development because of the use of TIF, the new property would, at some point, be placed on the tax rolls. However, if one assumes that the investment would be made independent of TIF, the delay in the property being placed on the tax rolls results in a shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls.

State Agencies Affected: Department of State Revenue, Indiana Economic Development Corporation. Treasurer of State.

Local Agencies Affected: Redevelopment commissions; local port authorities; airport authorities. Daviess, Greene, Lawrence, Martin, Monroe, and Orange counties, and local units in these counties.

Information Sources: U. S. Department of Commerce, Economic Development Administration, http://www.eda.gov/. U. S. Census Bureau, http://www.census.gov/.

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