

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8143

BILL NUMBER: HB 1983

DATE PREPARED: Mar 24, 1999

BILL AMENDED: Mar 23, 1999

SUBJECT: Enterprise Zones; Annexation.

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill makes several provisions regarding Enterprise Zones (EZs):

- *Expansion of EZ Board:* This bill adds six members to the EZ Board.
- *Confidentiality of EZ information:* It provides that the EZ Board, an Urban Enterprise Association (UEA), the State Department of Revenue (DOR), the Indiana Department of Commerce (IDOC), the State Board of Tax Commissioners, county auditors, and township assessors shall, upon request, provide each other with records and information (including records and information that are otherwise confidential) that concern an individual or business that is receiving a tax deduction, exemption, or credit related to an EZ.
- *Employment Expense Credit:* It provides that a pass through entity is a taxpayer for purposes of allowing a pass through entity to take an EZ employment expense credit (with 1999 the "base year" for pass through entities).
- *Loan Interest Credit:* The bill defines pass through entities with respect to the EZ loan interest credit.
- *Annexed territory:* This bill provides that an ordinance adopted by a municipality that annexes certain territory that is contiguous to the municipality takes effect immediately upon the expiration of the specified 60 day remonstrance and appeal period and after the required publication, filing, and recording if:
 - (1) the annexed territory has no population;
 - (2) 90% of the total assessed value of the land for property tax purposes has one owner;
 - (3) and the annexation is required to fulfill an economic development incentive package and to retain an industry through various local incentives, including urban EZ benefits.

Effective Date: (Amended) February 1, 1999 [retroactive]; July 1, 1999; January 1, 2000.

Explanation of State Expenditures: (Revised) *Expansion of EZ Board:* This bill adds six members to the EZ Board (the Board currently consists of 13 members). The six members added to the Board would be state employees or employees of state-financed entities. These members could receive a per diem allowance and would be reimbursed for expenses incurred in the performance of Board-related duties. The IDOC provides administrative support to the Board, and expenditures are paid from the Department's budget. The IDOC was appropriated \$181,125 to oversee the EZ program in FY 1998. The Department should be able to absorb any additional costs associated with adding the new members within its current budget.

Confidentiality of EZ information: The EZ Board, the DOR, the IDOC, and the State Board of Tax Commissioners must, upon request, provide each other as well as county auditors, UEAs, and township assessors, with records and information (including records and information that are otherwise confidential) that concern an individual or business that is receiving a tax deduction, exemption, or credit related to an EZ. Although this provision may increase administrative expenses for the state entities, any additional costs could be absorbed within their current budgets.

Employment Expense Credit: The Department of Revenue will have some minimal administrative expenses associated with revising tax forms and instructions to incorporate the changes made to the EZ employment expense credit. These expenses could be absorbed within the Department's existing budget.

Explanation of State Revenues: (Revised) *Confidentiality of EZ information:* A person who receives confidential records or information and knowingly or intentionally discloses the records or information to an unauthorized person commits a Class A misdemeanor. If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General Fund could increase. The maximum fine for a Class A misdemeanor is \$5,000. Criminal fines are deposited in the Common School Fund. If the case is filed in a circuit, superior, county or municipal court (courts of record), 70% of the \$120 court fee that is assessed and collected when a guilty verdict is entered would be deposited in the state General Fund. If the case is filed in a city or town court, 55% of the fee would be deposited in the state General Fund.

Employment Expense Credit: This credit may be taken against the gross income, adjusted gross income (AGI), insurance premium, or financial institutions tax liability. The credit is granted based on increased employment expenditures within an EZ for zone residents and is equal to the lesser of:

- (a) 10% of the qualified increased employment expenditures; or
- (b) \$1,500 multiplied by the number of qualified employees.

Total EZ employment expense tax credits taken in 1996 equaled approximately \$720,000, however, the credit is currently available only to "C" corporations and sole proprietorships. According to IDOC's 1998 registration forms, these entities employ 37% of zone residents employed in EZs. Based on the review of EZ business registrations, the one-year net increase in zone resident employment as reported on the 1993 and 1994 forms was approximately 530, and the average annual net increase from 1994 to 1998 was approximately 760 residents. The base wages used in determining the credit for pass-through would be only total payroll for employees hired after December 31, 1998. The tax credit is expanded effective January 1, 2000, therefore the first year of where the expand revenue loss would be FY 2001.

Assuming a similar trend in hiring, pass-through entities (which employ approximately 63% of new zone

residents employed in EZs) would now be eligible to receive credits for employment expenses for between 334 and 479 new zone resident employees per year ($530 \times 63\% = 334$; $760 \times 63\% = 479$). According to the review of EZ business registration forms, the average credit taken per zone resident employee in 1994 was \$289. Based on this information, the annual and incremental impact of this proposal on the employment expense credit may range as follows:

Credit per Zone Resident Employee	Number of New Zone Resident Employees	Additional Incremental Impact
\$289	334	\$96,500
\$289	479	\$138,400

Loan Interest Credit: While this bill defines a pass through entity for the purposes of the loan interest credit, it does not permit such an entity to actually take the credit. State revenue would not be affected by this provision.

Explanation of Local Expenditures: (Revised) *Confidentiality of EZ information:* UEAs, county auditors, and township assessors must, upon request, provide each other as well as the EZ Board, the DOR, the IDOC, and the State Board of Tax Commissioners with records and information (including records and information that are otherwise confidential) that concern an individual or business that is receiving a tax deduction, exemption, or credit related to an EZ. Although this provision may increase administrative expenses for local entities, any additional costs could be absorbed within their current budgets.

A person who receives these confidential records or information and knowingly or intentionally discloses the records or information to an unauthorized person commits a Class A misdemeanor. A Class A misdemeanor is punishable by up to one year in jail. The average daily cost to incarcerate a prisoner in a county jail is approximately \$44.

Explanation of Local Revenues: *Confidentiality of EZ information:* A person who receives confidential records or information related to EZs and knowingly or intentionally discloses the records or information to an unauthorized person commits a Class A misdemeanor. If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from the following sources: (1) The county general fund would receive 27% of the \$120 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. (2) A \$3 fee would be assessed, and if collected would be deposited into the county law enforcement continuing education fund. (3) A \$2 jury fee is assessed, and if collected, would be deposited into the county user fee fund to supplement the compensation of jury members.

Annexed territory: This bill provides that an municipal ordinance that annexes certain contiguous territory takes effect immediately upon the expiration of the specified 60 day remonstrance and appeal period and after the required publication, filing, and recording if it meets certain qualifications. Because the qualifications are so restrictive (see Summary of Legislation), it is unlikely to affect any municipality other than the city of Lafayette.

This provision would accelerate Lafayette's annexation of a parcel of land owned by an industrial firm and with no residential population. Under current law, annexations may not occur in the year before a decennial federal census, however, this proposal would exempt this particular annexation (which has already been approved locally). Under this bill, the effective date of the annexation would be February 1, 1999 (retroactive) instead of January 2, 2000. The newly annexed territory would become part of the Lafayette EZ effective January 2000 as is presently scheduled.

As a result of this provision, Lafayette's tax base would be increased one taxable year earlier than would be otherwise permissible. Under current law, city taxes will be assessed on the property (net of any abatements and TIF allocations) beginning with the March 1, 2000 assessment date with the first taxes being paid in CY 2001. This bill would allow assessment by the city beginning on March 1, 1999 with the first payment in CY 2000. The additional assessed value would reduce the city's tax rate paid by all taxpayers in the city beginning in CY 2000 instead of CY 2001.

State Agencies Affected: EZ Board, Department of Commerce, Department of Revenue, State Board of Tax Commissioners.

Local Agencies Affected: UEAs, county auditors, trial courts, local law enforcement agencies; City of Lafayette.

Information Sources: Leslie Richardson, Director, Division of Research, IDOC, (317) 232-8962.