ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author:	Cogdill	Analyst:	Roger Lackey	Bill Number:	AB 499
Related Bills:	See Legislative History	Telephone:	845-3627	Amended Date:	01-17-2002
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Enterprise Zones/Agency Designate Additional Zone & Targeted Tax Area In Inter-Regional Partnership

SUMMARY

This bill would require the Technology, Trade, and Commerce Agency (TTCA) to designate a new enterprise zone (EZ) and targeted tax area (TTA) within a county within a specified group of counties.

This analysis will only discuss those provisions of the bill impacting the department.

SUMMARY OF AMENDMENTS

The January 17, 2002, amendments delete references to Stanislaus County and instead provide specific criteria that must be met for an area to be designated as an additional EZ or TTA. The amendments also delete the provisions of the bill related to a sales and use tax exemption.

This is the department's first analysis of this bill.

PURPOSE OF THE BILL

The author's office has indicated the purpose of the bill is to assist economically disadvantaged areas within the counties of Alameda, Contra Costa, Santa Clara, San Joaquin, and Stanislaus.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2003.

POSITION

Pending.

Board Position:			Department Director	Date
____ S	____ NA	____ NP	Gerald H. Goldberg	2/19/02
____ SA	____ O	____ NAR		
____ N	____ OUA	__X__ PENDING		

ANALYSIS

FEDERAL/STATE LAW

Existing federal law provides special tax incentives for empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Qualified zone businesses operating in federal empowerment zones and federal enterprise communities are eligible to receive two tax incentives: (1) tax-exempt private activity bonds to finance certain facilities; and (2) the "brownfields" tax incentive, which allows taxpayers to expense (rather than capitalize) certain environmental remediation expenditures. Qualified empowerment zone businesses are allowed an additional $20,000 depreciation expense deduction.

Under the Government Code, existing state law provides for the designation of EZs and a TTA. Using specified criteria, the TTCA designates these economic development areas from the applications received from the governing bodies. EZs are designated for 15 years (except EZs meeting certain criteria may be extended to 20 years), and TTCA has designated 39 of the authorized 42 EZs. The TTA was designated November 1, 1998, and the designation is binding for 15 years beginning January 1, 1998.

Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within economic development areas. These incentives include a sales or use tax credit, hiring credit, business expense deduction, and special net operating loss treatment. Two additional incentives exist for EZs including a net interest deduction for businesses that make loans to businesses within the economic development areas and a tax credit for employees working in an EZ.

Current law defines the Inter-Regional Partnership (IRP) as an organization of elected officials from the counties of Alameda, Contra Costa, Santa Clara, San Joaquin, and Stanislaus that oversee regional land use and transportation planning for these counties.

THIS BILL

This bill would require TTCA to designate an area within a county in the IRP as an EZ and another area within an IRP county as a TTA, upon the request of the respective county's board of supervisors or appropriate governing body. The EZ designated within the IRP would be included as one of the three available EZs that have yet to be designated by TTCA.

For either the EZ or the TTA, the area within the applying county would be required to meet three of the following criteria:

- At least 18% of the households within the proposed area must have income below the poverty level.
- The unemployment rate within the proposed area is at least 5% greater than the statewide average.
- The population is equal to or less than 500,000.
- The applicant jurisdiction has a unique distress factor affecting long-term economic development.

The percentages and population used to determine eligibility would be based on the 2000 Census tracts.

IMPLEMENTATION CONSIDERATIONS

Of the four criteria listed to be eligible for an EZ or the new TTA, the first two criteria are specific to the proposed area. However, the second two criteria (concerning population, and a unique distress factor) do not specify whether they apply to the proposed area or the county where the proposed area is located. As a result, the lack of certainty may create confusion for both the applying area and TTCA.

Implementing this bill would not significantly impact the department's programs and operations.

TECHNICAL CONSIDERATIONS

The criteria for the new TTA refer to "the proposed enterprise zone area." The criteria should be amended to refer to the proposed TTA. The attached amendments would make the proper reference.

LEGISLATIVE HISTORY

AB 46 (Washington, Stats. 2000, Ch. 587) expanded the number of EZs from 39 to 42.

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that allow similar tax related incentives to those provided in California's economic development areas. The number of economic development areas varies from state to state. For example, California currently has 53 economic development areas, New York has 58, Florida 32, Illinois 93, and Michigan 23.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Revenue losses are projected to be as follows:

Estimated Revenue Impact of AB 499 Taxable Years Assumed After December 31, 2002 (Enactment After June 30, 2002) (In $ Millions)			
Fiscal Years	2002-03	2003-04	2004-05
Targeted Tax Area	Minor*	(0.7)	(1.0)

* Less than $500,000.

Any possible changes in employment, personal income or gross state product that might result from this provision are not taken into account.

Revenue Discussion

There is no additional enterprise zone proposed by this bill. Therefore, there would be no additional fiscal impact. However, the creation of an additional Target Tax Area is expected to have the impact estimated above. This analysis assumes that the impact of the new TTA established by the Inter-Regional Partnership would have the same economic characteristics as the existing Tulare TTA, with a similar growth rate.

Under current law, the existing Targeted Tax Area in Tulare County had a revenue impact of $700,000 in its first full tax year (personal income tax and corporation tax combined in 1999). The PIT impact alone increased from $400,000 in 1999 to $751,000 in 2000. Corporate tax impact is not yet available.

LEGISLATIVE STAFF CONTACT

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 499
As Amended January 17, 2002

AMENDMENT 1

On page 3, line 36, strikeout "enterprise zone" and insert:

targeted tax

AMENDMENT 2

On page 4, line 2, strikeout "enterprise zone" and insert:

targeted tax