Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	Maze	Analyst:	Darrine Distefano	Bill Number:	AB 2398
Related Bills:	See Prior Analysis	Telephone:	845-6458	Amended Date:	June 28, 2004
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Targeted Tax Areas/Credits/Department of Housing & Community Development Approve Expansion of No More Than 15%

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended ______________________.

_____ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

__X__ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended May 17, 2004.

_____ FURTHER AMENDMENTS NECESSARY.

__X__ DEPARTMENT POSITION CHANGED TO Neutral.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED May 17, 2004 STILL APPLIES.

__X__ OTHER - See comments below.

SUMMARY

This bill would make various changes to the Targeted Tax Area (TTA) provisions.

SUMMARY OF AMENDMENTS

The June 28, 2004, amendments would allow the Department of Housing and Community Development (DHCD) to approve an expansion of the TTA under the following conditions:

- The governing body of each city and county in which the TTA is located approves an ordinance or resolution approving the proposed expansion.
- DHCD determines the increased area meets the necessary criteria to be a TTA (unemployment, income levels, poverty levels, and percentages of people receiving Aid to Families with Dependent Children, based on the 1995-96 Cash Grant Caseload Movement and Expenditures Report).
- The proposed expansion, in combination with any previous expansions, does not exceed 15% of the size of the area on the date of the TTA's original designation.
- The expansion is contiguous to the TTA.
- The expansion meets the following criteria:
  - ❖ Each adjacent jurisdiction's governing bodies approve the expansion by adoption of an ordinance or resolution.
  - ❖ The land within the proposed expansion is zoned for industrial or commercial use.

Board Position:			Legislative Director	Date
_____ S	_____ NA	_____ NP		
_____ SA	_____ O	_____ NAR	Brian Putler	7/6/04
__X__ N	_____ OUA	_____ PENDING		

- ❖ Basic infrastructure, including, but not limited to, gas, water, electrical service, and sewer systems is available to the expanded area.
- DHCD must respond in writing to any application for the proposed expansion within 90 days of the date the application is considered complete.

The June 28th amendment does not resolve the department's implementation consideration from the May 17, 2004, analysis. The implementation concern in addition to the economic impact is repeated below for convenience. The remainder of the department's analysis of the bill as amended May 17th still applies.

POSITION

Neutral.

On June 10, 2004, the Franchise Tax Board voted 2-0 to take a neutral position on this bill, as amended May 17, 2004.

ANALYSIS

IMPLEMENTATION CONSIDERATIONS

Under current law, DHCD reports to the Legislature on the effectiveness of the EZ program. For this report, the Franchise Tax Board (FTB) provides aggregate information on the amount of tax credits claimed in EZs to DHCD and the Legislature. This bill requires Tulare County Economic Development Corporation (EDC) to report to the Legislature the number of taxpayers that claim the tax incentives offered in the TTA. If EDC should request from FTB detailed tax information for specific taxpayers, FTB is restricted under the Revenue & Taxation Code from providing specific taxpayer information. Since DHCD is the agency responsible for administering the TTA program, the author may wish to replace the EDC reporting requirement with a provision similar to the current EZ reporting requirement language that requires DHCD to report to the Legislature on the effectiveness of the program.

However, implementing this bill would not significantly impact the department's programs and operations.

ECONOMIC IMPACT

Revenue Estimate

Estimated Revenue Impact AB 2398 – TTA Expansion As amended June 28, 2004 (In Millions) **Fiscal Year Impact**				
2006- 07	**2007- 08**	**2008- 09**	**2009- 10**	**2010- 11**
Insignificant	Insignificant	Insignificant	Insignificant	Insignificant

Insignificant = Less than $150,000

Revenue Discussion

The expansion of the geographic boundaries up to 15% would produce potential additional revenue losses to the extent the DHCD can ascertain whether a proposed expansion meets the requisite criteria. For this analysis, it is assumed a proportionate relationship exists between size of a TTA and amount of tax incentives allowed. A proportionate loss in revenue assumes the 15% expansion would occur over a five-year period at an expansion rate of 3% per year starting in 2006 (delay based on a strict approval/allocation process). This produces an insignificant revenue impact of under $150,000 annually for the following five years.

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