

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Maze Analyst: Darrine Distefano Bill Number: AB 1843

Related Bills: See Legislative History Telephone: 845-6458 Introduced Date: 01/29/2004

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Agency Designate the City of Needles As a Manufacturing Enhancement Area

SUMMARY

This bill would designate the City of Needles as a Manufacturing Enhancement Area.

PURPOSE OF THE BILL

The purpose of this bill is to assist the economically disadvantaged City of Needles by attracting more businesses and generating more jobs for the citizens in the area.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative beginning on or after January 1, 2005.

POSITION

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.

Under the Government Code, existing state law provides for the designation of Manufacturing Enhancement Areas (MEA). Using specified criteria, the former Technology, Trade, and Commerce Agency (TTCA) designated two MEAs from the applications received from the governing bodies. Each MEA is binding for 15 years beginning January 1, 1998. As of January 1, 2004, the authority to designate an MEA transferred from TTCA to the Department of Housing and Community Development (DHCD).

Under the Revenue and Taxation Code (R&TC), existing state law provides a hiring credit for taxpayers conducting business activities within an MEA. The hiring credit is allowable to businesses located in an MEA for a percentage of wages paid to qualified employees. A qualified employee must be hired after the area is designated an MEA and meet certain other criteria. The business may claim up to 50% of the wages paid to a qualified employee as a credit against tax imposed on MEA income.

For businesses operating inside and outside an MEA, the amount of hiring credit that may be claimed is limited by the amount of tax on income attributable to the MEA.

Board Position:	Department Director	Date
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_____ X PENDING	Gerald H. Goldberg	3/8/04

THIS BILL

This bill would require DHCD to designate an area identified by the City of Needles as an MEA that satisfies the following criteria:

- At least 15% of the households are at or below federal poverty level.
- The city is in an area located in a Border Environment Cooperation Commission region (as defined in the U.S. Code).
- The designated area has declined in population according to the last federal census preceding the application date.
- The median annual household income is less than \$30,000.
- The designated area has a population of less than 10,000, based on the 2000 federal census.
- The area is designated as a rural community by the U.S. Department of Agricultural Rural Development and is located within 10 miles of the border of another state with a lower cost of living index.

This bill specifies that if the City of Needles meets the above criteria, it would be considered a rural city located in a rural area under the Public Resources Code (as defined).

This bill would require DHCD to perform an audit of the MEA program for the City of Needles at the end of the fifth and tenth year of the MEA's operation.

This bill specifies that if the City of Needles is designated an MEA it would not be considered designated as an enterprise zone (EZ) for purposes of the R&TC.

The MEA designation would be binding for a period of 15 years beginning on January 1, 2005.

This bill also states the Legislature's intent to apply the provisions of this bill only to the City of Needles due to its need to develop a strong employment and investment base.

IMPLEMENTATION CONSIDERATIONS

In order for the City of Needles to be designated as an MEA, DHCD must determine that it has met specified criteria. This bill would begin the designation period on January 1, 2005, even if DHCD has not made the designation by that date. A hiring credit is allowed to a qualified taxpayer that hires disadvantaged individuals for employment after the designation date. If the designation were not made by January 1, 2005, the hiring credit would be limited to employees hired after the City of Needles was officially designated as an MEA.

LEGISLATIVE HISTORY

SB 172 (Ducheny, 2003/2004) would have required the former TTCA to designate an enterprise zone (EZ) within the boundaries of an MEA designated prior to January 1, 2004, including any expanded area of an MEA. This bill remained in the Senate Revenue & Taxation Committee.

AB 523 (Vargas, 2001/2002) would have required the former TTCA to designate an EZ within Imperial County (that included the Cities of Brawley and Calexico) that was previously designated as an MEA, upon the request of the county's board of supervisors. This bill was amended September 1, 2002, to add urgency language to the existing Welfare and Institutions Code. The Governor vetoed this bill because it would have increased the pharmacy-dispensing reimbursement to the amount set prior to the 2002 Budget Act.

SB 200 (Ch. 609, Stat. 1997) authorized a new type of economic development area called "Manufacturing Enhancement Area" (MEA) and required the former TTCA to designate up to two MEAs.

PROGRAM BACKGROUND

California has four types of economic development areas that have similar tax incentives:

- EZs,
- Local Agency Military Base Recovery Areas (LAMBRAs),
- Targeted Tax Area (TTA), and
- MEAs

The following table shows the incentives available to each of the economic development areas.

Types of Incentives	EZ	LAMBRA	TTA	MEA
Sales or Use Tax Credit	X	X	X	
Hiring Credit	X	X	X	X
Employee Wage Credit	X			
Business Expense Deduction	X	X	X	
Net Interest Deduction	X			
Net Operating Loss	X	X	X	

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that provide 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 49 economic development areas (that include EZs (39), MEAs (2), LAMBRAs (7), and TTA (1)), New York has 71, Florida 51, Illinois 93, and Michigan 33.

FISCAL IMPACT

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

ECONOMIC IMPACT

Revenue Estimate

It is estimated that this bill would produce negligible revenue losses (less than \$250,000) over the initial fiscal years of actual designation.

Revenue Discussion

The extent of revenue lost from an additional MEA hiring credit for the City of Needles would depend on the number of "qualified" taxpayers that operate or invest in a business located within the designated MEA boundaries and hire "qualified employees" and pay "qualified wages" (up to 150% of the state minimum wage). Further, the revenue impact from this credit is limited by the tax liabilities associated with apportioned MEA zone business income (slightly offset by disallowed wage expense deductions).

To determine the fiscal impact, historical trend data for the existing MEA Cities of Brawley and Calexico was examined. Taxpayers in either of these cities claimed no hiring credits in the first two years following their date of initial designation as a MEA (1997). For the following four years (1999-2002), no more than a combined \$132,000 of credits was claimed in a given year.

Based on the most recent U.S. Census data, the total population in the City of Needles in the year 2000 was under 5,000. The approximate population in the Cities of Brawley and Calexico were 23,000 and 29,000, respectively. Accordingly, it is likely that the revenue impact of the MEA hiring credit for the City of Needles would be much less than that for the other two designated MEA cities over the initial start-up years.

LEGISLATIVE STAFF CONTACT

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