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## Issue Brief – Business Development Incentives

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### SUMMARY

***Industrial Assistance Fund (IAF)*** - The Industrial Assistance Fund (IAF) was established in 1991 to encourage quality job creation in the state. The source of funding for the fund is a priority appropriation set aside from surplus funds. This set aside is equal to the amount of earned credits for the year. The IAF provides grants for the creation of jobs paying higher than prevailing wages within the community. Grant disbursements are made on a post-performance basis after jobs have been created and retained. Companies can be eligible under various criteria: corporate, target, rural economic impediment, and economic opportunities. The fund is set up to benefit both rural and urban areas of the state. The set aside for FY 2008 is \$1,513,000 from the General Fund. The Analyst recommends the committee place a recommendation on a priority list for funding and identify the set aside as the source of revenue.

***Aerospace Aviation Tax Increment Financing*** - The Aerospace Aviation Tax Increment Fund was created by the Legislature in 2003 to encourage the development of the Aerospace Ecosystem. Funding is rebated back on a post performance basis. Up to 30 percent of the estimated incremental revenue induced by the project is allowed as a rebate. Eligible projects must be at or around airports and have land available for commercial development. Statute allows a rebate of direct, indirect, and induced incremental revenues.

***Economic Development Zone Tax Increment Financing*** - The Economic Development Zone Tax Increment Fund was created by the Legislature in 2005 to encourage job creation and capital investment. Companies who create jobs or provide significant capital investment in an economic development zone may be eligible for a partial rebate of taxes owed to the state. Rebates are provided on new income tax generated by the job, payroll tax of new employees, corporate tax, and/or sales tax. Jobs created must be substantially above county wage. HB 20 has been introduced in the 2008 General Session to clarify that jobs must be above county average wage rather than above county median wage. This change should create the potential for tracking jobs from a consistent data source. Jobs shifted from other areas of the state are not eligible for rebates. Wage and job estimates are provided by the companies intending to apply for the rebate. The company submissions are reviewed and approved by the Board of Business and Economic Development. Appropriations to the restricted fund are based on the application of the company but are rebated back post performance. The Analyst has concerns over the speed at which commitments have been growing the FY 2008 board commitment request is \$4,400,000 and the FY 2009 request is \$15,480,000. The total outstanding commitments are approximately \$152 million over a multi-year period. Current incentives should bring 3,853 new jobs to the state over the same multi-year period.

***Film Incentives*** - The Motion Picture Incentive Fund was established in 2005 to provide incentives for within the state production of television series, made-for-television movies, and motion pictures. Funding of \$2,500,000 is provided in the FY 2009 base budget. Funding is allocated by a post performance rebate to the qualifying company.

***Enterprise Zones*** - Businesses locating or expanding in a designated recycling zone are eligible to claim income and corporate tax credits. All businesses except construction, retail, and public utilities are eligible under the statute.

**Recycling Zones** - Businesses that collect, process, distribute, or use recycled materials in the manufacturing process can earn tax credits or be provided with assistance if they locate in a recycling zone. Eligible recycling businesses that are located in designated Recycling Market Development Zones qualify for:

- 5% state tax credit on machinery and equipment
- 20% state tax credit (up to \$2,000) on eligible operating expenses
- Technical assistance from state recycling economic development professionals
- Various local incentives

### **OBJECTIVE**

The purpose of this issue brief is to inform the Legislature of the various economic incentives offered by the state and identify actions that need to be taken relative to these incentives.

### **DISCUSSION AND ANALYSIS**

The Industrial Assistance Fund set aside for FY 2008 is \$1,513,000. The Committee may want to place on a priority list the replenishment amount for consideration. The funds are tied to a revenue source and therefore will not need to compete with other committee priorities.

The Business Development Board in the Governor's Office of Economic Development has committed \$19,880,000 in tax rebates for FY 2008 and FY 2009. This cost is expected to increase annually. The committee will have to consider this in the priority process. The funds would be appropriated to the restricted account and then rebated back in the form of tax rebates as the company fulfills state commitments. The anticipated revenues are expected in Corporate Taxes, Income Taxes and Sales Taxes. However, all funding is appropriated from the General Fund. This transfer mechanism is becoming problematic.