



## Legislative Fiscal Bureau

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June 8, 2007

Joint Committee on Finance

Paper #327

### **Beloit Development Opportunity Zone Extension (General Fund Taxes -- Individual and Corporate Income Taxes)**

#### *Bill Agency*

[LFB 2007-09 Budget Summary: Page 169, #20]

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#### **CURRENT LAW**

Development opportunity zones are designated areas in certain municipalities that are the location of a business project. Currently, development opportunity zones are designated in the Cities of Milwaukee and Beloit. The Beloit zone was designated on September 1, 2001, and, will exist for seven years, or until September 1, 2008. The total amount of tax credits that may be claimed by businesses in the zone is \$4.7 million.

#### **GOVERNOR**

Increase the term of designation of the Beloit development opportunity zone from seven to nine years. As a result, the Beloit zone would expire on September 1, 2010, instead of September 1, 2008. In addition, the total amount of tax credits that could be claimed by businesses in the zone would be increased by \$2.0 million from \$4.7 million to \$6.7 million. The designation extension and increased tax credit authority would reduce corporate income and franchise tax revenues by an estimated \$100,000 in 2008-09.

#### **DISCUSSION POINTS**

1. Wisconsin has numerous programs that provide tax credits to businesses for various types of economic activity in designated areas of the state. These programs include: (a) development zones; (b) enterprise development zones; (c) development opportunity zones; (d) technology zones;

(e) agricultural development zone; (f) airport development zones; and (g) enterprise zones. The Department of Commerce is generally responsible for administering these programs. Commerce reviews and approves applications (where necessary), designates zones, allocates and certifies tax credits, and provides technical assistance to municipalities and businesses that participate in the programs. The Department of Revenue administers the tax credits.

2. Since 1994, six development opportunity zones have been created in the state. Under the provisions of 1993 Wisconsin Act 232, an area in the City of Beloit and an area in the City of West Allis were designated as development opportunity zones. The West Allis zone was created to make Quad/Graphics eligible for tax credits for a business expansion in the zone and \$3.0 million in tax credits was authorized for the zone. The Beloit zone was created as an incentive to attract Motorola to locate in Wisconsin and \$10.0 million in tax credits was allocated to the zone. However, Motorola expanded in Illinois and Reynolds Wheels International located in the Beloit zone. As a result, a total of \$2.8 million in tax credits was allocated for Reynolds Wheels. Under the provisions of 1995 Act 2, an area in the City of Eau Claire was designated a development opportunity zone for Hutchinson Technology, Inc. and \$3.0 million in tax credits was reallocated from the Beloit zone. These three zones were created for three years, and businesses in the zones could claim development zones tax credits. Prior to 1997 Wisconsin Act 27 (the 1997-99 biennial budget), businesses could claim any of seven development zone tax credits including a jobs credit, investment credit, location credit, sales tax credit, research credit, day care credit and environmental remediation credit. The jobs and sales tax credits were refundable.

3. The 1999-01 biennial budget designated an area in the City of Kenosha as a development opportunity zone. The zone was established in January, 2000, to exist for seven years. The Kenosha development opportunity zone was intended to be part of a package of state and federal aid to finance expansion of the DaimlerChrysler plant to start a new engine line. However, after the zone was created, DaimlerChrysler made a production decision to expand operations elsewhere. As a result, there was no activity in the zone, which expired in January, 2007.

4. The 2001-03 biennial budget included provisions that required Commerce to designate an area in the City of Milwaukee and an area in the City of Beloit as development opportunity zones. Businesses in the zones that meet eligibility requirements are eligible to claim the consolidated development zones jobs and environmental remediation tax credit and the development zones capital investment credit created under the 2001-03 biennial budget. Businesses in the Milwaukee development opportunity zone can also claim the former development zone investment credit. The maximum amount of tax credits that can be claimed by businesses in each zone is \$4.7 million. The Milwaukee and Beloit development opportunity zones were designated in September, 2001, and, under current law, will exist for seven years.

5. The Milwaukee development opportunity zone provides financial assistance for a renovation of the Boston Store (BOSTCO, LLC) at the Grand Avenue Mall. The entire \$4.7 million in authorized tax credits has been allocated to the project.

6. The Beloit development opportunity zone provides financial assistance to the city's

Gateway Project industrial park. Although the park was officially completed in July, 2003, no tax credits were allocated to businesses in the Beloit zone until February of 2006. A total of \$3,816,000 has been allocated to three businesses in the zone as follows: (a) Staples Contract and Commercial, Inc.-- \$2.0 million jobs tax credits, \$1.2 million capital investment tax credits; (b) Kettle Foods, Inc. -- \$510,000 capital investment tax credits; and (c) Specialty Tools, Inc. -- \$78,370 jobs tax credit, \$27,630 capital investment tax credits. The remaining \$884,000 in tax credits could be allocated to businesses before the zone is scheduled to expire on September 1, 2008.

7. As noted, businesses in the Beloit development opportunity zone can claim the consolidated development zones jobs and environmental remediation tax credit, the development zone capital investment tax credit, and the development zones investment tax credit. Typically, the jobs and capital investment tax credits are claimed by zone businesses.

8. The consolidated development zones tax credit can be claimed under the state individual income tax, corporate income and franchise tax, and insurance premiums tax. (2005 Wisconsin Act 259 established a consolidated development zone tax credit under the state insurance premiums tax.) The credit is based on amounts spent on environmental remediation and the number of full-time jobs created or retained.

*a. Environmental Remediation Component.* A credit can be claimed for 50% of the amount expended for environmental remediation in a development or enterprise development zone. "Environmental remediation" is defined as removal or containment of environmental pollution, and restoration of soil or groundwater that is affected by environmental pollution in a brownfield, if removal, containment, or restoration began after the area that contains the site where the work was done was designated a development opportunity zone.

*b. Full-Time Jobs Component.* A credit of up to \$8,000 can be claimed for: (1) each full-time job created in a development opportunity zone and filled by a member of a targeted group; and (2) retaining a full-time job in an enterprise development zone if Commerce determines that a significant capital investment was made to retain the full-time job. In addition, a credit of up to \$6,000 can be claimed for each full-time job created or retained in a development opportunity zone that is filled by a Wisconsin resident who is not a member of a targeted group. "Full-time job" is defined as a regular, nonseasonal full-time position in which an individual, as a condition of employment, is required to work at least 2,080 hours per year, including leave and paid holidays, and for which the individual receives pay equal to at least 150% of the federal minimum wage and also receives benefits that are not required by federal or state law. Commerce requires that starting pay for new positions must be at least \$9.75 per hour.

9. The development zones capital investment tax credit can be claimed by businesses in the Beloit and Milwaukee development opportunity zones under the state individual income and corporate income and franchise taxes. The development zones capital investment tax credit equals 3% of the following:

*a.* The purchase price of depreciable, tangible personal property. The property must

have been purchased after the claimant was certified as eligible for tax benefits, and the personal property has to have at least 50% of its use in the claimant's business location in the zone. If the property is mobile, the base of operations for at least 50% of its use must be in the zone.

b. The amount expended to acquire, construct, rehabilitate, remodel, or repair real property in the zone. Such expenses are eligible for the credit if the claimant began the physical work of construction, rehabilitation, remodeling or repair, or any demolition or destruction in preparation for the physical work, after the place where the property is located was designated a zone, or if the completed project is placed in service after the claimant is certified for tax benefits.

c. Amounts expended to acquire real property, if the property was not previously owned and the claimant acquired the property after the place where the property was located was designated a zone, or if the completed project was placed in service after the claimant was certified as eligible for tax benefits.

10. Economic development staff in Beloit have indicated that there are currently three businesses that are considering locating operations in the Gateway industrial park. According to the staff, Beloit is competing with communities in Illinois as a location for these business operations. Along with other incentives, the City has offered to allocate a total of \$1,184,000 in jobs and capital investment tax credits to those firms through the development opportunity zone program. The staff believe that the tax credits are crucial factors in attracting the businesses. However, including the proposed allocation of tax credits to the three new businesses in the total credit allocation causes the total tax credit allocation to exceed the zone's limit by \$300,000. In addition, the zone is scheduled to expire in just over a year. Since early 2006, three businesses have located in the Gateway project, and three others have shown interest in locating there. Extending the zone's life and increasing the authorized tax credit allocation would give Beloit more flexibility and increased economic development incentives to attract new businesses to the City. As noted this would decrease corporate income and franchise tax revenues by an estimated \$100,000 in 2008-09.

11. Although economic studies provide conflicting information about the influence of tax incentives on business location and expansion decisions, many recent summary reports (Klinksiek 2004, Norris and Higgins 2004, Austrian and Norton 2002) indicate that incentives can have an effect at some level. Tax levels do make a difference at certain points in the process of identifying sites for investment. As some economists indicate, relatively severe tax regimes could be viewed as "fatal flaws" and cause certain areas to be eliminated from initial consideration (Fisher and Peters, 1998). More commonly, it is believed that taxes matter primarily at the final stages of decision making when only a few possible investment sites remain that share many of the same characteristics, such as labor costs and quality. Moreover, incentives are likely to have a much larger effect on location decisions among different communities within the same region or metropolitan areas, because those areas offer similar access to labor resources and markets. In contrast, different locations across states may not be good substitutes, because of greater differences in labor, resource, and access costs. As a result, a smaller amount of incentives would be necessary to potentially influence location and expansion decisions between states than among different communities within the same metropolitan area.

12. If the tax credit limit and the zone life are not extended, Beloit would still have \$884,000 in tax credits to allocate to businesses until September, 2008. Businesses wishing to locate in the Gateway industrial park could apply to Commerce for additional state aid, such as Wisconsin development fund grants and loans. In addition, staff indicate that the City can offer certain economic development incentives to firms. For example, since the industrial park is also a tax incremental financing (TIF) district, a recent state law change to the definition of eligible project costs allows the city to make cash grants to owners, lessees, and developers of land in the district

**ALTERNATIVES TO BILL**

1. Adopt the Governor's recommendation to increase the term of designation of the Beloit development opportunity zone from seven to nine years, to September 1, 2010, instead of September 1, 2008, and increase the total amount of tax credits that could be claimed by businesses in the zone by \$2 million, from \$4.7 million to \$6.7 million.

<b>ALT 1</b>	<b>Change to Bill Revenue</b>	<b>Change to Base Revenue</b>
GPR	\$0	-\$100,000

2. Delete provision.

<b>ALT 2</b>	<b>Change to Bill Revenue</b>	<b>Change to Base Revenue</b>
GPR	-\$100,000	\$0

Prepared by: Ron Shanovich