Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Technology Zones
(General Fund Taxes -- Individual and Corporate Income and Franchise Taxes)

[LFB 2001-03 Budget Summary: Page 33, #13]

CURRENT LAW

Wisconsin has two programs that provide tax credits to businesses as incentives to expand and locate in designated economically distressed areas: development zones and enterprise development zones. The programs are designed to promote economic growth through job creation and investment. Designation criteria target areas with high unemployment, low incomes and decreasing property values. Businesses which locate or expand in the different zones are eligible to claim the development zone jobs and environmental remediation tax credits. As of May 1, 2001, the Department of Commerce had designated 20 development zones and certified 40 enterprise development zones. The Department has authority to designate a total of 22 development zones and 79 enterprise development zones. In addition, the state has designated an area in the City of Kenosha as a development opportunity zone.

GOVERNOR

Require Commerce to designate as technology zones up to seven areas in the state in fiscal year 2001-02, up to seven areas in 2002-03 and up to six areas in 2003-04. Designation of an area as a technology zone would be for 10 years. Commerce could change the boundaries of a technology zone at any time that its designation is in effect. A change in boundaries would not affect the designation of the area as a technology zone or the maximum amount of tax credits that could be claimed in the technology zone. A business that was located in a technology zone and that was certified by Commerce would be eligible to claim a technology zones credit that would be created under the bill. The maximum amount of tax credits that could be claimed in a technology zone would be $5 million.

DISCUSSION POINTS

1. The technology zones tax credit would be provided under the individual and corporate income and franchise taxes and would equal the sum of the following: (a) the amount of real and personal property taxes that the business paid in tax year; (b) the amount of state income and franchise taxes that the business paid during the tax year; and, (c) the amount of state, county and special district sales and use taxes that the business paid during the tax year. Credits that were not entirely used to offset income or franchise taxes in the current year could be carried forward up to 15 years to offset future tax liabilities.

When Commerce certified a business as eligible for tax credits, Commerce would establish a limit on the amount of tax credits the business could claim. Generally, unless certification was revoked and subject to the maximum limit on credits that could be claimed, a business could claim a tax credit for three years. However, if the business experienced growth, as determined by Commerce, it could claim a tax credit for up to five years.

Commerce would be required to enter into an agreement with a business that it certified. The agreement would specify the limit on the amount of tax credits that the business could claim, the extent and type of growth that that business would have to experience to extend eligibility for tax credits, the baseline against which growth would be measured, other conditions that would have to be met to extend eligibility for tax credits, and reporting requirements.

2. The Department of Commerce could certify a business as eligible for technology zone tax credits if the business met the following requirements: (a) the business was located in a technology zone; (b) the business was a new or expanding business; and (c) the business was a high-technology business. In determining whether to certify a business for tax credits Commerce would be required to consider: (a) how many jobs the business was likely to create; (b) the extent and nature of the high technology used by the business; (c) the likelihood that the business would attract related enterprises; (d) the amount of capital investment that the business would be likely to make in Wisconsin; and (e) the economic viability of the business.

3. The Department of Revenue (DOR) would be authorized to administer technology zone tax credit claims, take any action, conduct any proceeding and proceed as authorized under income and franchise tax provisions relating to timely claims, assessments, refunds, appeals, collection, interest and penalties. DOR would be authorized to deny any portion of a technology zone credit that was claimed if allowing the full amount of the credit to be claimed would cause the total amount of credits to be claimed to exceed the maximum credit limit for the zone. DOR would also be required to notify Commerce of all technology zone credit claims.

4. Commerce would be required to verify information related to technology zones tax credit claims that was submitted to DOR by businesses. Commerce would also be required to notify DOR of the following: (a) designation of a technology zone; (b) certification of a business and the limit on the amount of tax credits the business could claim; and (c) extension or revocation of a business' certification. Commerce would be directed to promulgate administrative rules for

administering the technology zones program including rules relating to the following: (a) criteria for designating an area as a technology zone; (b) a business' eligibility for certification for tax credits as well as definitions of "new or expanding business" and "high-technology business"; (c) certifying a business, including use of criteria for consideration specified in the bill; (d) standards for establishing a limit on the amount of tax credits that a business may claim; (e) standards for extending a business' certification, including what measures, in addition to job creation, Commerce would use to determine the growth of a specific business and how Commerce would establish baselines for measuring growth; (f) reporting requirements for certified businesses; (g) the exchange of information between Commerce and DOR; (h) reasons for revoking a business' certification; and (i) standards for changing the boundaries of a technology zone.

5. A National Governors' Association (NGA) report submitted to the Wisconsin Economic Summit in November, 2000, indicates that the U.S. economy is undergoing a transformation, moving from a manufacturing base to an economy driven by technology industries and the application of technology in traditional industries. The report notes that to compete in the new economy, states must have an economic base of firms that constantly innovate and maximize the use of technology in the workplace. High-technology firms are integral to a strong and growing state economy. On average, employees in high-technology industries make significantly more than those in other industries. In 1996, the average pay per employee in high-technology industries was 67% higher than the average pay per employee for all other industries ($44,041 vs $26,363). According to the U.S. Department of Commerce, information technology, a component of the high-technology industry, was responsible for one-third of U.S. economic growth between 1995 and 1998.

6. The technology zones program was proposed to promote the development and expansion of high-technology businesses across the state and is based on an economic development concept of promoting industry cluster formation. Supporters of this philosophy point to Stanford Research Park in the Silicon Valley and the Research Triangle in North Carolina as examples of the potential impact of successful technology zones. State research institutions such as the University of Wisconsin System, Marquette University, the Medical College of Wisconsin, and Milwaukee School of Engineering and private organizations such as the Marshfield Clinic can serve as the basis for the development of industrial clusters of new and mature companies and related resources organized around a particular area of expertise. In turn, these clusters would promote the development and attraction of firms engaged in similar pursuits.

7. The industry cluster strategy for economic development views entities like technology zones as vehicles for helping capture, evolve and sustain regional industry clusters (Gollub, 2000). From this view, the most effective way to stimulate economic growth and creation of quality jobs regionally is to create an environment that facilitates the origination, growth and success of high-technology businesses. Localities often compete for companies by trying to outbid each other on a short-term basis, rather than competing on the basis of building a strategic advantage. Industries want to locate where they can obtain an advantage for the enterprise and there is a tendency industrial activities to concentrate in certain locations where there is a common advantage. Industry clusters are groups of industries that share common technological, skill, finance

and logistical inputs and, because of this, tend to locate near one another and both purposefully and inadvertently share innovative practices and economies of scale. One research study indicated that industry clusters account for approximately 25% of regional employment and multipliers tend to explain the balance of employment.

8. Technology zones would differ from other areas of the state because businesses could derive distinguishing advantages from locating and operating there. According to the industrial cluster concept, an entity such as a technology zone would be a vehicle for organizing and delivering strategic types of input advantage to businesses. Seven categories of advantage have been identified including: (a) accessible technology; (b) labor force skill; (c) available financing; (d) adequate physical infrastructure; (e) communications infrastructure; (f) business climate; and (g) quality of life. The technology zones could be designated in areas that accessed research institutions, had well-developed public and private infrastructure, and offered easy contact with technical school and university graduates. The tax credit would address the business climate criterion and possibly provide an indirect source of financing.

9. A recent report on high-technology business growth identified three general factors that are necessary to generate and sustain high-technology companies and employment: (a) equity investment; (b) human resources; and (c) a supply of technologies and business ideas (Leazer, Royko). According to the report, seed capital needs are more substantial for high-tech business start-ups than for most other companies because product, technology, and infrastructure development are more expensive. A strong early-stage capital infrastructure is critical to the development of a successful regional high-tech entrepreneurial community. According to the NGA report, a technology-based economy requires: (a) a strong intellectual infrastructure; (b) efficient mechanisms through which knowledge is transferred from one person to another or from one company to another; (c) excellent physical infrastructure, including high-quality telecommunications systems and affordable, high-speed internet connections; (d) a highly-skilled technical workforce; and (e) good sources of capital. These reports point to what some view as a flaw in the proposed technology zones program. The zones' primary incentive is the technology zones tax credit, yet taxes are generally not identified as a significant economic factor for start-up or young high-technology businesses. Many start-up and young high-technology companies have significant losses before they bring their product to market. As a result, the incentive value of the technology zones tax credit has been questioned since many firms that would locate in the zones would have little or no tax liabilities to offset.

10. As noted, Wisconsin currently has the development and enterprise development zone programs that provide tax credits as incentives to businesses that expand or locate in the zones. Currently, 20 of the 22 authorized development zones have been designated and include zones located in 14 municipalities, two Native American reservations and nine counties. Of the total $38.155 million in tax credits authorized for the zones, $27.3 million has been allocated to the zones. A total of 40 of the 79 authorized enterprise zones have been created in 41 municipalities across the state. A total of $67.8 million in tax credits has been allocated to businesses in enterprise development zones. There is also a development opportunity zone designated in Kenosha and $7.0 million in tax credits has been allocated to the zone. In total, Wisconsin currently has 68 zones

designated in 75 municipalities, nine counties and two Indian reservations. A total of $102.1 million in tax credits has been allocated to businesses in the zones. Attachments 1 and 2 show the location and credit allocations for the development and enterprise development zone programs. Commerce can still designate two additional development zones and 39 more enterprise development zones. A total of $10.86 million in development zones tax credits and up to $117 million in enterprise development zones tax credits could still be allocated to additional businesses. Finally, the bill would create a development opportunity zone in Milwaukee and provide $4.7 million in tax credits to the businesses in the zone.

11. The proposed technology zones program would require Commerce to designate 20 zones and certify up to $100 million in tax credits between fiscal years 2001-02 and 2003-04. A second criticism of the technology zones program is that it would duplicate the incentives provided through the existing development, enterprise development and development opportunity zones programs. From this view, the effectiveness of using a fourth type of tax incentive zone program as an economic development tool could be questioned. Some research indicates that development zones are only effective if used to target investment into high-unemployment, low-infrastructure use areas of the state (Bartik, 1994). Other research found that when most communities in a metropolitan area were generally able to offer tax and other incentives the effect of the incentives on redirecting economic activity was significantly reduced (Anderson and Wassmer, 2000).

12. The bill does not include a fiscal effect for the technology zones program. Although zones would designated in 2001-02 and 2002-03, the process of Commerce designating the zones, certifying businesses for tax credits and then the business taking actions to claim the credit would delay any significant fiscal effect beyond the current biennium. Therefore, there would be a minimal fiscal effect from providing the technology zone tax credit during the current biennium. However, because unused tax credits could be carried forward up to 15 years, the credit could reduce tax collections by a total of $100 million in future biennia.

13. Under the bill, the technology zones credit could be claimed by sole proprietorships and corporations but partnerships, limited liability by companies and S corporations. The Committee may wish to modify the tax credit provisions to allow these entities to pass on the credit to partners, shareholders or members.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to require Commerce to designate as technology zones up to seven areas in the state in fiscal year 2001-02, up to seven areas in 2002-03 and up to six areas in 2003-04. Provide that designation of an area as a technology zone would be for 10 years and authorize Commerce to change the boundaries of a technology zone at any time that its designation is in effect. Provide that a business that was located in a technology zone and that was certified by Commerce would be eligible to claim a technology zones credit that would equal the sum of the following: (a) the amount of real and personal property taxes that the business paid in tax year; (b) the amount of state income and franchise taxes that the business paid during the

tax year; and (c) the amount of state, county and special district sales and use taxes that the business paid during the tax year. Provide that credits that were not entirely used to offset income or franchise taxes in the current year could be carried forward up to 15 years to offset future tax liabilities. Limit the maximum amount of tax credits that could be claimed in a technology zone to $5 million.

2. Approve the Governor's recommendation and provide that partnerships, limited liability companies and S corporations could pass the technology zones credit on to partners and members.

3. Maintain current law.

Prepared by: Ron Shanovich
Attachments

ATTACHMENT 1

Development Zones

Zone Location	Year of Designation	Total Credits Allocated to Zone	Amount of Credits Allocated to Businesses	Number of Businesses Certified*
Beloit	1989	$619,309	$619,309	7
Iron County	1989	795,117	795,117	22
Manitowoc	1989	2,506,078	2,506,078	22
Milwaukee	1989	5,149,485	5,149,485	87
Racine	1989	2,055,556	2,055,556	23
Stockbridge-Munsee	1989	288,720	288,720	4
Sturgeon Bay	1989	1,791,622	1,791,622	43
Superior	1989	1,205,313	1,205,313	31
Fond du Lac	1991	1,309,515	1,309,515	45
Green Bay	1991	1,339,114	1,339,114	22
Lac du Flambeau	1991	448,833	448,833	6
Richland Center/Town of Richland	1991	736,870	736,870	25
Eau Claire	1995	1,449,470	1,449,470	37
Two Rivers	1995	1,229,494	1,229,494	19
Janesville	1996	702,701	702,701	9
Lincoln, Langlade, Florence and Forest Counties	1996	648,982	648,982	21
Grant and Lafayette Counties	1996	1,366,996	1,366,996	32
Juneau, Adams and Marquette Counties	1996	1,611,907	1,611,907	23
Marinette and Oconto Counties	1998	1,042,000	1,042,000	7
Ashland, Bayfield and Price Counties	1998	1,000,000	445,000	4
Total		$27,297,082	$26,742,082	489

ATTACHMENT 2

Enterprise Development Zone Program

City	Company Name Allocation	Certification Date	Zone Investment	Jobs Created	Jobs Retained	Credit
New Berlin	Quad/Graphics	August 14, 1995	$96,500,000	500	0	$3,000,000
Eau Claire	W.L. Gore	September 19, 1995	70,000,000	450	0	1,756,667
Oconto	Cera-Mite Corp.	November 1, 1995	5,000,000	150	0	900,000
Neilsville	Leeson Electric	November 1, 1995	2,500,000	150	0	900,000
Marinette	Karl Schmidt Unisia	January 12, 1996	2,100,000	350	630	2,100,000
Menomonee Falls	Strong Capital Management, Inc.	February 12, 1996	30,000,000	500	450	3,000,000
Wisconsin Rapids	Advantage Learning Systems, Inc.	February 13, 1996	10,000,000	370	130	2,000,000
Kenosha	Chrysler Corp.	April 1, 1996	364,000,000	414	1,405	3,000,000
Franklin	Harley-Davidson Motor Co.	April 1, 1996	20,000,000	200	0	1,200,000
Milwaukee	Waldorf Corp.	June 28, 1996	8,000,000	25	175	1,200,000
Shawano	Aarrowcast, Inc.	July 4, 1996	13,500,000	312	247	1,068,000
Chippewa Falls	Johnson Matthey, Inc.	August 1, 1996	47,700,000	600	0	2,750,000
Prairie du Chien	Cabela's of Wisconsin	August 29, 1996	16,000,000	650	0	2,000,000
Wauwatosa & Menomonee Falls	Harley-Davidson Motor Co.	September 27, 1996	99,000,000	400	1,310	2,400,000
Ladysmith	Weathershield	October 25, 1996	6,200,000	200	0	1,200,000
Janesville	Accudyne	November 10, 1996	3,500,000	0	250	1,000,000
Dodgeville	Land's End	November 20, 1996	62,000,000	666	0	3,000,000
Bellevue & Manitowoc	Krueger Int'l	January 10, 1997	7,600,000	175	449	1,050,000
Sheboygan	J.L. French Corp.	February 1, 1997	43,000,000	220	720	1,320,000
Elkhorn	Snap-On, Inc.	February 14, 1997	2,700,000	160	0	960,000
Saukville & Milwaukee	Charter Manuf.	March 21, 1997	42,000,000	200	676	1,200,000
Green Bay	Schreiber Foods	April 22, 1997	27,000,000	120	791	540,000
Racine	J.I. Case	May 1, 1997	115,476,500	500	1,739	3,000,000
Chetek	Parker Hannifin	June 1, 1997	2,400,000	100	0	600,000
Pewaukee	Applied Power	June 16, 1997	8,600,000	130	51	650,000
Oconto	KCS International	June 18, 1997	10,000,000	600	417	3,000,000
Platteville	Hypro Inc.	July 31, 1997	5,500,000	150	0	900,000
Wausau	Award Flooring	August 1, 1997	13,400,000	175	0	775,000
Manawa	Kolbe & Kolbe	August 18, 1997	2,100,000	200	0	1,500,000
De Pere	Moore Response	September 1, 1997	81,000,000	471	800	3,000,000
Bonduel	Krueger International	November 17, 1997	4,650,000	300	0	2,250,000
Port Washington	Simplicity	March 31, 1998	10,000,000	60	470	2,180,000
Wausaukee/Gillett	Wausaukee Composites	April 15, 1998	2,700,000	200	132	1,000,000
Oshkosh/Appleton	Hoffmaster	August 1, 1998		138	105	2,000,000
Ripon	Alliant Laundry Systems	August 5, 1998	31,000,000	200	480	3,000,000
Ashwaubenon	IDS Property Casualty	February 15, 1999	20,000,000	357	0	1,785,000
Hudson	Cardinal Health	April 1, 1999	8,500,000	71	0	426,000
Wausau	Marathon Electric	December 2, 1999	8,700,000	106	686	700,000
Brodhead	Stoughton Trailers	January 1, 2000	13,700,000	367	14	2,053,000
Waterford	Runzheimer Intl.	January 1, 2001	8,000,000	170	60	1,400,000
TOTAL			$1,324,026,500	11,107	12,187	$67,763,667