

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 655** HLS 13RS 458
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 3, 2013 9:15 AM	Author: BURRELL
Dept./Agy.: Economic Development/Revenue	Analyst: Deborah Vivien
Subject: Modify Enterprise Zone Program	

TAX CREDITS OR INCREASE GF RV See Note Page 1 of 1
 Establishes criteria for participation in the enterprise zone program for the receipt of tax credits and rebate payments

Current law provides benefits of a non-refundable income or franchise tax credit of \$2,500 per permanent full or part time job with a 10 year carryforward and either a sales tax rebate on construction materials or a payment of 1.5% of project expenditures (refundable tax credit with no cap treated as a rebate payment). Qualifying projects include retail and may be located in designated enterprise zones (EZ) but must have 35% of employees reside in an EZ (or the same parish as the project for rural) or be receiving public assistance or be unemployable. Qualifying projects' net new jobs must be the lesser of 5 jobs within 2 years or 10% of existing jobs (minimum of 1) within 1 year. Hiring full-time FITAP recipients earns an extra \$2,500 annual credit per job for 2 years.

Proposed law removes part time jobs from eligibility, requires businesses that are located in EZs, Economic Development zones or federal HUBzones, to have the same 35% employment requirements as current law (except rural considerations are removed). Requires projects located outside these zone to have 50% of employees meet the same employment criteria, disallows retail with 100+ affiliated employees as defined by LED except groceries and pharmacies located in EZs. The changes are applicable prospectively.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total						

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The net effect of the bill is expected to increase net SGF collections (via fewer credits and/or rebates). According to LED and LDR, this program has provided about \$380 M in total benefits to firms over the last 5 years. In FY 12, about \$45 M in benefits were approved with about \$67 M claimed (prior year carry-forwards contribute to the difference). The bill could materially reduce the costs generated by the program in the future, though precise estimates are not possible. Important components, such as economic development zones and definitions of retail, grocery and pharmacy may leave considerable discretion to the rule-making process. Prospective application results in program cost savings being smaller in the initial periods and accumulating over time as new participation under this bill's program parameters occurs.

Removal of part-time jobs from eligibility - (\$625,000): In LED's judgment, about 250 jobs per fiscal year were considered part time under current project qualifications, though this number cannot be readily corroborated. Based on that count and should each job receive the benefit of \$2,500 per year, SGF would increase by about \$625,000 (via fewer job credits awarded).

Employment Qualifiers - INCREASE: The bill allows those projects located in EZs, economic development zones, presumably as defined in the EZ Chapter, and federal HUBzones to retain virtually the same eligibility requirements of 35% criteria compliance except allowing employees residing in the same parish to qualify for rural EZs. If a project is located outside the zones, employee criteria must be met by 50% of employees. With the expanded zones, this component is not expected to have a significant impact since the current program essentially covers the entire state and employment qualifiers are relatively easy to reach with public assistance allowances. If any impact is achieved by this component, it can only be to decrease the number of qualifying projects. To the extent that disallowing employees residing in the same parish as the project would disqualify the project, SGF revenue would increase based on project magnitudes and the EZ subsidy package of each project.

Retail - (\$3 M - \$6 M): The bill disqualifies retail businesses with 100 or more employees nationwide, except groceries and pharmacies located in an EZ. Retailers located anywhere in the state with fewer than 100 employees nationwide are still eligible. From project specific data, it appears that most retail as identified by NAICS in the LED database is related to larger retailers. Within the LED database, the retail percentages are small (less than 10% of total estimated credits) and about half of those are not located in Enterprise Zones. However, some are classified as supercenters, wholesale stores, or convenience stores that contain groceries and/or pharmacies among other inventory and services. It is not clear what the final definition of retail, groceries or pharmacies will be. Assuming 5% of all EZ claims will no longer be granted due to the ineligibility of these companies, net state general fund receipts would increase by \$3.4 M (or \$67 M * 5%), based on FY 12 data. If all retail was removed as defined by NAICS 44-45 in the LED data, then an estimated 10% of claims or \$6.7 M (based on FY 12) would eventually also not be paid annually.

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| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | <input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost {S} |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

Gregory V. Albrecht
Gregory V. Albrecht
Chief Economist