Louisiana Legislative Fiscal Office Fiscal Notes

LEGISLATIVE FISCAL OFFICE
Fiscal Note

ACT 126

Fiscal Note On: **HB 635** HLS 15RS 1237

Bill Text Version: **ENROLLED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: June 23, 2015 3:52 PM **Author:** JACKSON

Dept./Agy.: Revenue

Subject: Reduce Certain Rebate Payments By 20% **Analyst:** Greg Albrecht

TAX/TAX REBATES EN +$5,000,000 GF RV See Note

Reduces all tax rebates

The Act reduces certain rebate payments by 20%. The programs affected are Mega-Project Energy Assistance (Mega), Quality Jobs Program (payroll rebate), Headquarters Relocation (HQ), Competitive Projects Payroll (CPP, payroll rebate), and Enterprise Zone (investment rebate). The rebate reductions apply to applications made on or after July 1, 2015. Quality Jobs applications must be filed within 24 months after the advance notification, except for advances filed between July 1, 2011 and July 1, 2012, which may be filed prior to August 1, 2015. These rebate reductions remain in effect for three years, through June 30, 2018.

The Act also permanently excludes from the Enterprise Zone program retail trade and food service & drinking establishments including groceries and pharmacies (regardless of location or employee count), but allows affected firms with advance notifications filed prior to July 1, 2015 to receive program benefits provided the claim for benefits is filed on or after July 1, 2016. This provision supercedes those of HB 466 of this session.

EXPENDITURES	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**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	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**5 -YEAR TOTAL**
State Gen. Fd.	$5,000,000	($900,000)	$12,200,000	$18,400,000	$20,400,000	**$55,100,000**
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	**$5,000,000**	**($900,000)**	**$12,200,000**	**$18,400,000**	**$20,400,000**	**$55,100,000**

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

While the benefits targeted by the act are to be reduced by 20%, there is not likely to be a material effect in FY16, and the effect in subsequent years is likely to be smaller than might be anticipated given the number of rebate programs targeted by the act. Since the act is effective for applications made on or after July 1, 2015, the length of time it takes participating projects to work completely through these types of programs to the point where a rebate payment is being claimed is typically in excess of one or even two years. Thus, for this portion of the act, even for active programs, gains in net state tax receipts in FY16 are unlikely. In addition, a number of these programs have no participation in them, very small participation, or no claims have been made yet to assess the baseline of activity that would be affected in future periods (Mega, HQ, and CPP). Special provisions are provided with regard to certain advance notifications, but appear to apply to projects already in process and not intended to be affected by the act.

Of the targeted programs, Quality Jobs payroll rebates have a baseline of activity that can generate an estimate of the potential effect of the rebate reduction of this act. Quality jobs payroll rebates have averaged some $45 million per year since 2008, implying $9 million per year of program cost savings . Since the act applies as new projects apply after July 1, 2015 an assumed distribution of accumulating impact is applied (0% in yr1, 20% by yr2, 60% by yr3, 90% by yr4, and 100% by yr5) resulting in state net revenue gains of $0 in FY16, $1.8M in FY17, $5.4M in FY18, $8.1M in FY19, and $9M in FY20. Net revenue gains would likely be less in FY20 as the rebate reduction ends after FY18 and new projects in FY19 begin claiming full benefits in FY20.

Enterprise Zone investment rebates have averaged $32 million since 2010, implying $6.4 million per year of program cost savings . Based on new projects applying after July 1, 2015 and the same distribution as utilized above, the resulting state net revenue gains are estimated at $0 in FY16, $1.3M in FY17, $3.8M in FY18, $5.8M in FY19, and $6.4M in FY20. Again, net revenue gains would likely be less in FY20 as the rebate reduction ends after FY18 and new projects in FY19 begin claiming full benefits in FY20. However, participants in the EZ project facility expense rebates may exercise the option to receive rebates of sales taxes paid on construction materials instead, resulting in less revenue gain.

The act also permanently excludes from the Enterprise Zone program retail trade and food service & drinking establishments including groceries and pharmacies, but allows affected firms with advance notifications filed prior to July 1, 2015 to receive program benefits provided the claim for benefits is filed on or after July 1, 2016. This one year delay results in an estimated $5M net revenue gain in FY16, but also causes a catch up in FY17 of -$4M, then distributed net revenue gains of $3M in FY18, $4.5M in FY19, and $5M in FY20.

The sum of all these effects is reflected in the table above. Estimates from FY17 and beyond are particularly uncertain and may be overstated due to the potential interaction of these related programs, and the option for sales tax rebates that were not affected by the act.

Senate	Dual Referral Rules	House
[ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		[ ] 6.8(F)(2) >= $500,000 Rev. Red. to State {H & S}
		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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