# LEGISLATIVE FISCAL OFFICE
## Fiscal Note

Fiscal Note On: **HB 71** HLS 161ES 188
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:
**REVISED**

**Date:** March 1, 2016 4:21 PM
**Author:** BARRAS
**Dept./Agy.:** Economic Development
**Subject:** Caps EZ sales/investment and removes certain NAICS
**Analyst:** Deborah Vivien

TAX CREDITS EG INCREASE GF RV See Note 
Reduces the amount of certain Enterprise Zone tax credits and removes certain hotels from eligibility (Item #27)

Current law provides benefits of a non-refundable income or franchise tax credit of $2,500 per permanent full-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 exclude all retail and restaurants filing advance notice after July 1, 2015. 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. Half of qualifying employees must reside in an EZ or in an EZ parish with certain qualifiers. Proposed law eliminates employment services and hotels (NAICS 5613, 721) and caps the sales tax rebate/investment tax credit at $100,000 per net new job plus $1,000 per retained job existing prior to contract date. The retained job must exist for 3 years or the benefit will presumably be recouped. The bill also calculates the job credit on those above median in the state, including affiliates, and increases the job credit from $2,500 to $3,500 for net new employees receiving certain public assistance, unemployable by traditional standards or lacking basic skills but lowers the credit to $2,000 for those not meeting those qualifications. Public assistance is limited to SNAP, WIC and Medicaid for relevant program qualifications. The bill applies to projects filing advance notice on or after 4/1/16.

| **EXPENDITURES** | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **2020-21** | **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** | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **2020-21** | **5 -YEAR TOTAL** |
|---|---|---|---|---|---|---|
| State Gen. Fd. | | 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** | **$0** | | | | | **$0** |

**EXPENDITURE EXPLANATION**

Implementation costs may increase due to a more diligent enforcement requirements in determining whether retained jobs still exist after three years and, if not, inducing a presumed recovery of payments provision. This analysis assumes no recoveries are necessary, though apparently some determination of compliance three years after the contract date will be required.

**REVENUE EXPLANATION**

This bill has opposing changes that make the net fiscal effect, positive or negative, uncertain. The bill allows an increase in the job credit to $3,500 (from $2,500) per net new job for those employees on SNAP, WIC or Medicaid (previously stated as public assistance), unemployable by traditional standards or lacking basic skills. However, potentially decreasing the cost of the program are several other changes. The bill limits the sales rebate or investment tax credit to $100,000 per net new job plus $1,000 per retained job. It also eliminates Employment Services (NAICS 5613) and Living Accommodations (NAICS 721) from eligibility, and makes the job credit applicable only to those new jobs in excess of the company's statewide median number of employees, including affiliates. The net effect of all the changes is indeterminable due to offsetting impacts and the lack of information concerning aspects of the changes.

Because the bill is effective for those projects filing advance notice on or after 4/1/16, the fiscal impact will not be material until FY 18, and gradually phase-in until the full impact is reached in FY 21 and beyond as payments related to the existing similar projects filter through the 5 years of the program.

**Cap on sales/investment benefits (Estimate: Indeterminant but may Increase SGF)**
Limiting the sales rebate and investment tax credits to $100,000 per net new job plus $1,000 per retained job may save as much as $18.5M upon full realization. However, this analysis is based on the assumption that a retained job is the same as an existing job currently reported by the project, which is apparently site specific. It may be possible for a company to claim all affiliated jobs as retained jobs for the purposes of increasing the threshold since there is no specific definition in the bill. Also, the analysis assumes that receipt of the benefit is not delayed for three years until retained jobs are proven existent but will be recouped at that time for non-compliance. However, bill language is not clear on this procedure. For this note, no benefit recovery actions are required due to non-compliance of this component. Expected impact is a program cost decrease of $18.5M before any indication of whether these projects may also qualify under another program, such as Quality Jobs (though it has a higher payroll standard than EZ), or include a large number of retained jobs that may inflate the benefit cap. A NAICS analysis indicates that roughly half of these projects (and more than 3/4 of the value) may also be eligible to attain the same benefits without a cap under the Quality Jobs Program, rendering this impact to the state fisc indeterminant without more specific program guidelines.

(Continued on Page 2)

Senate | Dual Referral Rules | House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}

☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

**Gregory V. Albrecht**
**Chief Economist**

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**CONTINUED EXPLANATION from page one:**



**REVENUE SUMMARY** (Continued from page 1)

**Elimination of employment services and hotels (Estimate: Increase SGF $2.3M)**
The elimination of employment services and living accommodations from program eligibility will increase SGF by about $2.3M upon full realization. Based on historical averages, annual projects effected are expected to include 1 in employment services and 30 hotel projects.

**Changing the job credit (Indeterminant)**
This component has potentially offsetting impacts as some job credits may increase and some may decrease. Even if employers did not move to hire more employees eligible for the higher job credit, they may have current employees meeting the criteria for the higher credit, and may attempt to claim the higher credit amount on those employees. Impact is uncertain.

**Including affiliates in job counts (Indeterminant but likely to Increase SGF)**
The Department is unable to quantify the impact of limiting the job credit to those jobs in excess of the statewide workforce for projects, including affiliates, due to data limitations. To the extent that this threshold precludes the payout of program benefits, SGF savings will be larger and will increase along the same schedule as shown above. The magnitude is unknown but could serve to decrease the cost of the program.

**Changing public assistance to include only SNAP, WIC and Medicaid (Indeterminant)**
This component will change the entire program eligibility of a category under which a large number of net new jobs now qualify, namely employees on public assistance 6 months prior to employment. The bill limits the type of public assistance allowed for future projects. However, without a reporting requirement for secondary qualifying standards, such as residency or basic skills, it is impossible to determine whether many of these jobs may continue to qualify for program benefits, even if the definition of public assistance is altered.

For estimated impacts, LED used the average experience of the last three years, and calculated had the bill's conditions existed over those years. Program participation and mix of projects is assumed to remain the same as experienced under current law. The actual cost of the Enterprise Zone program in FY 15 was $46.9M, including job credits and sales tax rebates/investment credits.

Senate — Dual Referral Rules — House

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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