

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 71** HLS 161ES 188
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action: **W/ SEN FLOOR AMD**
 Proposed Amd.:
 Sub. Bill For.:

Date: March 7, 2016 5:07 PM	Author: BARRAS
Dept./Agy.: Economic Development	Analyst: Deborah Vivien
Subject: Caps EZ sales/investment and removes certain NAICS	

TAX CREDITS REF +\$2,000,000 GF RV See Note Page 1 of 2
 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 ends the acceptance of advance notice for the program as of 7/1/17. Effective for advance notice filed or or after 4/1/16, the bill also eliminates employment services and hotels (NAICS 5613, 721) and caps the sales tax rebate/investment tax credit at \$100,000 per net new job. 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 public assistance during the 6 months prior to employment or projects located in enterprise zones but lowers the credit to \$1,000 for those not meeting those qualifications. The bill reiterates the current practice of Quality Jobs Program (QJP) and Competitive Projects Payroll Incentive (CPPI) Program job thresholds at 5 new jobs.

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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$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.	\$0	\$2,000,000	\$9,000,000	\$26,000,000	\$50,000,000	\$87,000,000
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$2,000,000	\$9,000,000	\$26,000,000	\$50,000,000	\$87,000,000

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

This bill eliminates the Enterprise Zone Program for projects with no advance notice filings accepted after 7/1/17. It is expected that SGF will increase beginning in FY 19, with total program cost savings estimated at \$50M by FY 23. In addition, for those projects filing advance notice between 4/1/16 and 7/1/17, 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. Even without the sunset provisions, estimates of the impact from LED indicate that the program costs could roughly be cut in half upon full implementation of the bill. The net effect of these changes is depicted in the table above to the extent estimates from program data can be made.

Termination of advance filings on 7/1/17 (SGF Increase of \$50M by FY 23)

The bill disallows acceptance of advance notices beginning 7/1/17, which will eliminate the program over time since those projects in the pipeline will gradually obtain program benefits at the same time that new projects will no longer be allowed into the program. Beginning in FY 19, the department estimates a cost decrease of \$3M, with \$12M in FY 20, and \$30M in FY 21 increasing to \$50M in projected savings in FY 23, the average cost of the program.

However, for projects filing advance notice between 4/1/16 and 7/1/17, these impacts are expected to occur simultaneously with those from the sunset provisions. Total program elimination is expected to occur in FY 21 as the below impacts ramp up and the projects eliminated by the sunset would have qualified for benefits under current law.

Changing the job credit (likely Increase in SGF of \$2M)

The bill allows an increase in the job credit to \$3,500 (from \$2,500) per net new job for those employees receiving public assistance 6 months prior to employment or those projects located in enterprise zones and decreases the job credit to \$1,000 for all others. According to LED data, using the average experience of the last three years, the existing job payments meeting the criteria for increased or decreased payment would decrease net program costs by an estimated \$2 million by the time new projects are phased in (year 5) over a typical claim timeline. This assumes there is no significant transfer of hiring practices toward those eligible for the larger job credit.

Cap on sales/investment benefits (Estimate: Indeterminant but Increase SGF as much as \$20.5M)

Limiting the sales rebate and investment tax credits to \$100,000 per net new job may increase SGF as much as \$20.5M upon full realization. Analysis indicates that roughly half of these projects (and more than 3/4 of the value) may also be eligible to attain the same (Continued on Page 2)

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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)(1) >= \$100,000 SGF Fiscal Cost {H & 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} | |

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CONTINUED EXPLANATION from page one:

REVENUE EXPLANATION (Continued from page 1)

benefits though LED does indicate that the QJP wage requirement may limit this crossover effect.

Elimination of employment services and hotels (Estimate: Increase SGF \$2M)

The elimination of employment services and living accommodations from program eligibility will increase SGF by about \$2M upon full realization. Based on historical averages, annual projects effected are expected to include 1 in employment services and 30 hotel projects.

Including affiliates in job counts (Indeterminant, likely Increase in 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.

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}

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

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

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

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