LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 41** HLS 201ES 114
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date: June 11, 2020 9:31 AM	**Author:** IVEY
Dept./Agy.: Economic Development	
Subject: Industrial Tax Exemption and Payments In Lieu of Tax	**Analyst:** Greg Albrecht

TAX/AD VALOREM TAX   EG SEE FISC NOTE LF RV See Note

(Constitutional Amendment) Establishes an ad valorem tax exemption for capital investment projects and for certain property subject to a cooperative endeavor agreement requiring the property owner to make payments in lieu of taxes (Item

<u>Present constitution establishes</u> enumerates specific properties that are exempt from ad valorem taxation and provides that no other property shall be exempt. <u>Present constitution establishes</u> the industrial tax exemption program. As currently administered, the program provides for an ad valorem tax exemption to 80% of the assessed value of qualifying manufacturing capital investment for ten years; an initial term of five years with an additional five-year renewal term. Approval is required by the Board of Commerce & Industry (BC&I), local governing bodies, and the governor.

<u>Proposed constitutional amendment</u> authorizes three different exemption options. A <u>standard</u> exemption of 80% for a single eight year term, with BC&I review and local approval. A <u>local</u> exemption of up to 100% for a term of no more than fifteen years, subject to local approval as provided by law. An <u>executive</u> exemption of up to 100% for a term determined by the governor and requiring local approval as provided by law.

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	2020-21	2021-22	2022-23	2023-24	2024-25	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	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Annual Total						

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

There is no anticipated direct material effect on state government revenues as a result of this measure. However, local government ad valorem tax bases would be affected depending on which of the three exemption options is applied by particular governing entities for particular projects, as well as the extent to which payment in lieu of taxation agreements are entered into by local authorities.

<u>Standard, Local, Executive Ad Valorem Tax Exemptions</u>
To the extent the <u>standard</u> exemption is applied, local tax bases would be expanded after the eighth year of its term relative to the current total term of ten years (both the current program and the proposed program provide an 80% exemption).

To the extent the <u>local</u> exemption is applied, local tax bases could be expanded or reduced during its term, relative to the current program of 80% exemption for a total term of ten years, since the option allows for an exemption <u>up to</u> 100% and for a term of <u>no more</u> than fifteen years.

To the extent the <u>executive</u> exemption is applied, local tax bases could be expanded or reduced during its term, relative to the current program of 80% exemption for a total term of ten years, since the option allows for an exemption <u>up to</u> 100% and for a term <u>determined by</u> the governor, and with local approval.

The amendment also removes the definition of "manufacturing establishment" and "addition" from the Constitution. If these exemption options are applied consistent with the current constitutional provision, this removal is not consequential. However, a change to the traditional applicability could materially expand or contract the affected tax base.

In addition, while the bill authorizes three different exemption options, it does not provide guidance as to which one is to be applied in any particular situation. For purposes of this Fiscal Note it is assumed that only one option can be applied to any particular project, and that statutory provisions for the administration of these options will be enacted.

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}	*Evan Brasseaux*
☐ 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}	**Evan Brasseaux** **Staff Director**

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Continued Description of Bill

<u>Standard, Local, Executive Ad Valorem Tax Exemptions</u>
Enactment of any law to administer these three options shall require a two-thirds vote of the legislature.
The definition of "manufacturing establishment" and "addition" are removed from the Constitution.

<u>Payment In Lieu Of Taxation Agreements</u>
<u>Proposed constitutional amendment</u> adds to the ad valorem exemptions non-residential immovable property subject to a cooperative endeavor agreement between the owner and one or more taxing authorities, in which the property owner makes payments in lieu of ad valorem taxes to the extent provided in the agreement. Statutory provisions shall be provided for implementation of this provision.

Enactment of law to implement these provisions, both the three ad valorem exemption options and payment in lieu of taxation agreements, as well as any amendments to those laws, shall require a two-thirds vote of the legislature.

Repeals the Act that originated as SB 272 of the 2020 Regular Session, and the proposed constitutional amendment contained in that Act is not to be included on the ballot on November 3, 2020. SB 272 also provided for payments in lieu of taxation.

To be submitted to the electors at the statewide election to be held on November 3, 2020.

Continued Revenue Explanation

<u>Payment In Lieu Of Taxation Agreements</u>
The amendment provides local governments the ability to grant ad valorem tax exemptions in lieu of other payments, subject to statutory provisions. Although there may be numerous reasons for both local governments and taxpayers to enter cooperative endeavor agreements to achieve community goals, the utilization of this authority may result in lower local ad valorem tax revenue collections, in that, taxpayer payments in lieu of ad valorem tax may be lower than the ad valorem tax itself. Otherwise, taxpayers may not be inclined to enter the cooperative endeavor agreements. However the payments in lieu of ad valorem tax may provide resources for particular local projects that might not be available from other sources. Utilization of such agreements is speculative, and the ultimate local government aggregate revenue impacts can not be projected.

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}	*Evan Brasseaux*
☐ 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}	**Evan Brasseaux** **Staff Director**