LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 25** SLS 201ES 203
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 14, 2020 6:32 PM	**Author:** HEWITT
Dept./Agy.: Economic Development	
Subject: Enterprise Zone Program	**Analyst:** Greg Albrecht

ECONOMIC DEVELOPMENT OR DECREASE GF RV See Note
Authorizes certain retail businesses to participate in the Enterprise zone incentive program. (Item #18) (7/1/20)

Present law allows five-year contracts to provide one-time tax credits of $1,000 or $3,500 per participating job, and a choice of a sales tax rebate on qualifying expenditures or a refundable credit of 1.5% of qualifying capital expenditures. Both options capped at $100,000 per participating job. Businesses classified as retail trade, restaurants & bars, and accommodations are not eligible for the program. Advance notification filings are allowed up to July 1, 2021.

Proposed law allows businesses classified as retail trade, restaurants & bars, and accommodations into the program with advance notification filings from July 1, 2020 to December 31, 2021. Eligibility to receive benefits terminates after June 30, 2025. The program as a whole is extended to allow advance notification filings up to July 1, 2026.

Effective July 1, 2020.

EXPENDITURES	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**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						

REVENUES	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	($6,500,000)	($18,000,000)	($24,750,000)	($25,750,000)	**($75,000,000)**
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	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**($6,500,000)**	**($18,000,000)**	**($24,750,000)**	**($25,750,000)**	**($75,000,000)**

EXPENDITURE EXPLANATION

Extension of the existing program will require the continuation of current resources devoted to program administration. The expansion of the eligibility of the program to retail trade, restaurants & bars, and accommodations businesses will result in additional applications within the next year and a half. The workload increase could be substantial. Workforce Commission data for the fourth quarter of 2019 indicates nearly 17,945 retail trade business units in the state, and 11,255 accommodation and food service business units. Additional resources may be required to administer the expansion.

REVENUE EXPLANATION

The bill has two basic fiscal effects. The first is related to the extension of the program as a whole, without regard to the expansion of eligibility for its benefits. Program costs have come down by approximately one-half after various changes implemented in recent years, and now appears to range near $25 million per year of credit and rebate realizations. Allowing the program to stop accepting participation as of July 1, 2021 would result in a gradual phase-down of annual revenue costs over a roughly five year period. Extension of the current program would prevent this from occurring. The annual dollar distribution of this phase-down is based on the Dept's assessment of the historical lag time between entry into the program and benefit claims, resulting in cumulative annual revenue losses relative to the baseline that would occur of: 0% or $0 in FY21, 20% or -$5M in FY22, 60% or -$15M in FY23, 90% or -$22.5M in FY24, and 100% or -$25M in FY25.

The second effect is related to the expansion of eligibility for program benefits to retail trade, restaurants & bars, and accommodations. The Dept. of Economic Development estimates that, based on previous participation of the retail trade and accommodations sectors (restaurants & bars have not previously been allowed in the program) as well as subsequent program changes capping the benefits at $100,000 per participating job, the expansion of eligibility and the 1.5 year window available for these firms to apply for participation as they ramp back up from significantly reduced activity resulting from the Covid-19 pandemic event will increase program credit and rebate benefits by a total of $7.5 million. Historically, benefit claims lag entry into the program, and the Dept. estimates a distribution of new benefit claims as 0% in FY21, 20% in FY22 (-$1.5M), 40% in FY23 (-$3M), 30% in FY24 (-$2.250M), and 10% FY25 (-$750,000). The new inclusion of restaurants & bars works to increase the state's credit exposure beyond the estimates here.
The combination of these two effects are contained in the table above as: FY21 $0, FY22 -$6.5M, FY23 -$18Mm, FY24 -$24.750M, FY25 $25.750M.

Uncertainty as to the specific annual magnitude and timing of both effects of the bill should be acknowledged. Program benefit realizations can vary materially from year-to-year depending upon the particular participants moving through the program. In addition, the extent of participation of retail trade, restaurants & bars, and accommodations businesses as they recover operations over the next year and one-half is highly uncertain.

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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