LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On:	**SB 390** SLS 22RS 502
Bill Text Version:	**ORIGINAL**
Opp. Chamb. Action:	
Proposed Amd.:	
Sub. Bill For.:	

Date: April 13, 2022 5:01 PM
Author: WHITE, B
Dept./Agy.: Economic Development
Subject: Creates a payroll rebate program for Oil and Gas Industry
Analyst: Deborah Vivien

ECONOMIC DEVELOPMENT OR DECREASE GF RV See Note
Provides incentive rebates for oil and gas exploration and production. (gov sig)

Proposed law creates a program for oil and gas drillers and support activities (NAICS 213111, 213112) with eligibility determined by LED with all provisions contained in a contract negotiated by LED. Those deemed eligible will receive a payroll rebate for 5 years with a 5 year renewal for up to 10% of wages for new jobs providing basic health benefits and filled by LA residents. The program also offers a one-time investment rebate up to 1.5% for facility expenses with actual percentages for both determined by LED. Half of sales (or sales for resale) must be to out-of-state buyers.
The program has no cost cap and provides no baseline from which to calculate new jobs. If a business fails to maintain annual eligibility requirements, LED may suspend or terminate participation. Clawbacks are not addressed in the bill. The taxpayer may not receive any other LED-administered incentive for any expenditures or jobs for which the taxpayer has received a rebate. No new contracts will be signed on or after 7/1/26.

EXPENDITURES	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	DECREASE	DECREASE	DECREASE	DECREASE	**$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**

EXPENDITURE EXPLANATION
LED reports that the Oil and Gas Industry Employment Incentive Program created by the bill may require additional resources should the program activity exceed current capacity. It is not clear if this program will entice these businesses to move from an existing program, such as Quality Jobs Program, into this program, which could offer a larger payroll rebate. Transfers between programs would be expected to require fewer resources than new applicants.

REVENUE EXPLANATION
This program is similar in structure to other LED programs but offers broad discretion to the Secretary in determining the actual program parameters, which may differ between applicants. Eligibility determination as well as payroll and investment rebate percentages (up to 10% and up to 1.5%, respectively) are set at the discretion of the Secretary. All oil and gas businesses in the state in NAICS 213111 (oil and gas drillers) and 213112 (oil and gas support activities) are captured by the program. Once the contract is signed, it is anticipated that the majority of program recipients will receive benefits for 10 years, similar to the other LED incentives structured in this manner.

It is expected that utilization may depend upon the comparison of the payroll rebate compared to Quality Jobs or Enterprise Zone for those that qualify since these businesses could qualify for all of these programs. Jobs in the oil and gas sector have been declining since 2016 and pre-Covid levels are not expected to return. However, extended high prices can induce more production, which could create additional jobs eligible for this payroll rebate. LWC currently reports 1,200 establishments with these NAICS codes with average wages of $85,000 annually. With total employment around 25,000, adding only 1% or 250 jobs at the average wage would result in $2 M in annual payroll rebates. Any utilization of the 1.5% rebate will be in addition to the payroll estimate. **Depending on actual utilization, state general fund exposure could potentially be significant, possibly tens of millions of dollars, should high oil and gas prices be extended and/or these entities expand into alternative energy before FY 27.** These incentives are open-ended without appropriation and deducted immediately from state tax receipts prior to being reported as state general fund for REC purposes. Ultimately, the funding decision appears to be at the discretion of LED as established in the negotiated contract parameters.

Without a baseline delineation for new employees or a wage requirement, it is not clear how the payroll incentive would be calculated. Though the program sunsets on July 1, 2026, there is no cost cap, either individually or statewide. It is expected that this program will begin paying the annual rebates in FY 24. High energy prices could influence hiring decisions to a greater degree than a 10% payroll rebate, even though the jobs could potentially receive the rebate. However, the rate of the payroll incentive and the high wages paid in these industries could materially impact the state fisc with a relatively small number of jobs. No assumptions are made for the 1.5% rebate on facility expenditures as expansion plans are not known.

Senate Dual Referral Rules
- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

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

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