# LEGISLATIVE FISCAL OFFICE
## Fiscal Note

Fiscal Note On: **SB 257** SLS 13RS 674
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

**Date:** April 29, 2013 8:09 AM
**Author:** CLAITOR
**Dept./Agy.:** Revenue/Economic Development
**Subject:** Changes parameters of Enterprise Zone program
**Analyst:** Deborah Vivien

TAX/SALES OR INCREASE GF RV See Note 

Provides for modifications of enterprise zone contracts with respect to tax credits granted. (7/1/13)

Current law provides benefits of a non-refundable income or franchise tax credit of $2,500 per permanent full or part 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). Qualifying projects include retail and may be located in designated enterprise zones (EZ) but must have 35% of employees reside in EZ or the same parish as the project or receiving public assistance or unemployable. 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. Hiring full-time FITAP recipients earns an extra $2,500 annual credit per job for 2 years.

Proposed law retains current law but removes part time jobs from eligibility, caps the investment credit at $100,000 per eligible job, allows only projects located in EZ or those with 50% of employees residing in an EZ, receiving FITAP or considered unemployable, disallows retail with 100+ employees nationwide, except groceries and pharmacies located in EZs, changes net new jobs requirements to the lesser of 5 jobs within 2 years or 10% of nationwide jobs with no minimum, and sunsets the extra full-time FITAP job credit as of 7/1/13.

| **EXPENDITURES** | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 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** | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 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** | | | | | | |

**EXPENDITURE EXPLANATION**

There is no anticipated direct material effect on governmental expenditures as a result of this measure. However, the Department of Revenue indicates that the limitation on the investment credit of $100,000 per net new job may drive more projects to choose the sales tax rebate, which is more labor intensive to administer. Should a large number of projects choose to receive the sales tax rebate instead of the investment credit, LDR may require additional resources for timely and accurate administration of the rebate.

**REVENUE EXPLANATION**

There are 6 components in this bill that could provide an impact to state revenue. The net effect is expected to increase SGF (via less credits and/or rebates) by an amount that cannot be accurately predicted due to data limitations in the information provided by LED. Presumably, LED must have to maintain detailed data to properly administer and monitor the program. However, the LFO was unable to receive that data in time for use in this fiscal note. Thus, confidence in this assessment remains low as analysis provided by LED cannot be substantiated with actual data. According to LED and LDR, this program has provided about $380 M in total benefits to firms over the last 5 years. In FY 12, about $45M in benefits were approved with about $67M claimed (prior year carry-forwards contribute to the difference). The bill could substantially reduce those state costs.

Removal of part-time jobs from eligibility - LED indicates that about 500 jobs were considered part time under current project qualifications, though this number cannot be corroborated with data presented. Based on that count and should each job receive the benefit of $2,500 per year, SGF would increase by about $1.25M (via fewer job credits awarded).

Cap investment credit at $100,000 per job - Current projects would be limited by about $10M in FY 12, if projects do not opt instead for sales tax rebate (this does not assume any impact from part time jobs being disallowed in the cap calculation). In the past, projects have contended that the administrative requirements of choosing the sales tax rebate outweigh the benefits due to a heavy administrative workload. However, with this cap on the investment credit, projects that may have foregone potentially larger benefits under the sales tax rebate may now determine that the extra documentation is worth the effort. To the extent that projects opt out of the investment credit and into the sales tax rebate, SGF revenue will be impacted. It is possible that sales tax rebates are greater than what the project was receiving as an investment credit, in which case SGF revenue would decrease (via greater rebates). If the sales tax rebate is smaller than the investment credit, SGF revenue will increase (via smaller rebates). There is no definitive impact to SGF due to this change in the law - SGF revenue could increase, decrease or remain the same. LED indicates there will be minimal impact due to the cap. However, other outcomes are possible. LDR indicated that the limit may be considered a minimum under the current language.
(Continued on Page 2)

| Senate | Dual Referral Rules | House |
|---|---|---|
| ☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H} | | ☐ 6.8(F) >= $500,000 Annual Fiscal Cost {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} |

Gregory V. Albrecht
Chief Economist

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**CONTINUED EXPLANATION from page one:**



**Continued from Page 1 (Revenue Explanation)**

Changing hiring requirements - the bill changes hiring requirements for those projects outside of EZs from 35% of employees residing in an EZ or the same parish as the project or receiving public assistance or unemployable to 50% of employees residing in an EZ, receiving FITAP or being deemed unemployable. LED provided certain analysis without backup substantiation. LED estimates that about 15% of projects would be impacted by this requirement with an increase in SGF revenue of $1 M (via fewer job credits awarded).

The remaining changes in the bill include: Disallowance of retail projects above 100+ employees nationwide unless grocery or pharmacy located in an EZ, net new job minimum of 5 jobs in 2 years or 10% of nationwide jobs (as opposed to existing jobs), and a sunset of extra FITAP credit of $2,500 per year for 2 years. In sufficient information has been available to evaluate these changes at this time. However, all 3 are more restrictive than current program parameters and would be expected to decrease participation in the program, thus increasing SGF revenue (via fewer and/or smaller credit and rebate awards).

| Senate | Dual Referral Rules | House |
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