

**LEGISLATIVE FISCAL OFFICE**

**Fiscal Note**



Fiscal Note On: **SB 163** SLS 13RS 458  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.: **w/ PROP SEN COMM AMD**  
 Sub. Bill For.:

<b>Date:</b> May 15, 2013 7:43 PM	<b>Author:</b> MARTINY
<b>Dept./Agy.:</b> Economic Development/Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Fly Louisiana Incentive Program	

TAX/TAXATION OR DECREASE GF RV See Note Page 1 of 1  
 Provides for tax credit against corporate income and franchise taxes based on the increase in visitors resulting from certain activities undertaken by businesses seeking the credit. (8/1/13)  
 Allows LED to contract for 20 years with air carriers to grant these carriers a \$50 per incremental passenger refundable tax credit or quarterly rebate payment against income or corporate franchise tax. Participating airlines must control at least 2000 passenger seats and schedule that level of seats per day for at least 90 days. The affected airport must have scheduled daily direct flights to at least 3 new destination cities more than 350 nautical miles away. Incremental passengers must be 25% above the established passenger baseline within 36 months of the contract with the airline. If the baseline is exceeded by 25%, all passengers above the baseline generate a \$50 credit. The baseline level is adjusted annually to account for normal growth. Adversely impacted airports can receive a portion of the \$50/passenger amount as a direct payment to the airport. Available for one or more contracts executed prior to July 1, 2014, with no contracts allowed after July 1, 2015. If tax credits are certified on a quarterly basis, they may be paid to the carrier as a rebate payment.  
 Effective July 1, 2013.

EXPENDITURES	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

REVENUES	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>						

**EXPENDITURE EXPLANATION**

Tax credits and rebate payments are currently realized as foregone revenue. Thus, those costs are addressed in the revenue discussion below. Administrative costs will exist within LED to monitor performance, adjust passenger baselines, certify incremental passenger counts, and grant the appropriate state payment amounts. For only one or two participants these costs may be relatively small. This is especially the case for the Revenue Dept which will process tax return credits or quarterly rebate payments for what may only be one or two participants.

**REVENUE EXPLANATION**

The bill allows LED to make quarterly certifications of incremental passenger counts that would then generate \$50/passenger rebate payments to participating air carriers by the Revenue Dept (annual certifications generate annual credits). The effective dates of the bill (7/1/2013 - 7/1/2014 for contracts; no contracts after 7/1/2015) and LED testimony suggest that contracts with one or more air carriers could be executed within a few months of enactment of this bill. The program may serve as a financing option to an existing air carrier or a buyer, but fundamentally, the industry responds to the demand for flights, and it is not clear that subsidy payments made to air carriers will create more demand for flights to the state from households and businesses in distant cities. To the extent carriers participate, LED testimony and descriptive material suggest at least 675,000 incremental passengers per year and "more likely 1.5-2.0 million per year" would be involved. These passenger counts would generate state payments of \$33.8 million to \$75 million - \$100 million per year.

LED promotes the program on the basis of two reports that estimate the state tax value of a passenger at \$64 - \$71; more than the \$50/passenger state payment. These reports utilize standard Input/Output (I/O) models of the economy to estimate the economic impact of incremental passengers in terms of gross spending, employment, earnings, and value added. These results are extended with estimates of state tax receipts that are ultimately expressed as the per-passenger values above. Based on the economic estimates contained in the reports, their state tax receipt estimates imply average tax yields of a dollar of earnings of 13%-17%, and of value added of 10%. These are unrealistically high tax yields, which for Louisiana are more typically 7% of earnings and 3.5% of value added. Thus, the per-passenger tax estimates of the reports are substantially overstated. Somewhat more realistic per-passenger tax values would range from \$25 to \$35. Even these lower estimates overstate true per-passenger tax values for two primary reasons; (a) they are based on the I/O models which tend to overstate true values due to their static nature (no business and consumer wage & price responses and substitution effects in the economy are considered) and, (b) no balanced budget constraint is recognized (the upwards of \$100 million of state payments have to be reduced from some other state spending with consequent negative I/O economic and fiscal effects that can be translated into lower per-passenger tax values).

Thus, the program is ultimately a net cost to the state fisc incurred to engage in governmental economic development activity. It is uncertain in which fiscal year foregone revenue is likely to first occur.

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}	<input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost {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}	

**John D. Carpenter**  
**Legislative Fiscal Officer**