LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 177** SLS 15RS 265
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 30, 2015 2:45 PM **Author:** ADLEY
Dept./Agy.: Tax Commission / Local Government
Subject: Creates a Special Fund and Property Tax Exemptions **Analyst:** Greg Albrecht

TAX EXEMPTIONS EG -$597,000,000 LF RV See Note

Constitutional amendment to exempt from ad valorem property taxes inventory held by manufacturers, distributors, and retailers, and natural gas held, used, or consumed in providing natural gas storage services or operating natural gas storage

Current law {Art. VII, §21} provides that "...the following property and no other shall be exempt from ad valorem taxation:", followed by a listing of various types of property which are exempt from property tax.
Proposed law adds as exempt property inventory held by manufacturers, distributors, and retailers, and natural gas used in natural gas storage operations, offshore vessels, as well as establishes a 15% assessment ratio for certain telephone companies. Creates the Tax Credit Reduction Fund to receive the REC estimated reduction in state tax credits associated with the ad valorem taxes affected by the bill. The Fund is to be used first, to support the MFP to the extent local jurisdictions taxing capacity is impaired by the ad valorem changes of the bill; second, for any other purposes. The ad valorem exemptions and new assessment ratio are only effective for tax years where the Legislative Auditor certifies to the La Tax Commission that sufficient funds have been appropriated to local governments to offset the declines in property tax receipts resulting from the bill. Applicable retroactively to tax year 2015, and compensating millage adjustments are not allowed. Any claims for ad valorem tax credits filed with the state during FY16 are not allowed, but one-tenth of clams flied in subsequent fiscal years are allowed. Submitted to the electors at the statewide election on 10/24/15, if Auditor certification occurs.

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	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	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$597,000,000	$567,000,000	$599,000,000	$633,000,000	$669,000,000	**$3,065,000,000**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	($597,000,000)	($630,000,000)	($665,000,000)	($703,000,000)	($743,000,000)	**($3,338,000,000)**
Annual Total	**$0**	**($63,000,000)**	**($66,000,000)**	**($70,000,000)**	**($74,000,000)**	**($273,000,000)**

EXPENDITURE EXPLANATION

The Department of Revenue (LDR) will incur costs for computer system modification and testing, tax form redesign, and tax payer inquiries. These costs are typically small for individual tax law changes (likely to be several thousands of dollars) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided.

REVENUE EXPLANATION

The bill proposes to exempt from local property tax the inventory of manufacturers, distributors, and retailers as well as certain natural gas, and offshore vessels. In addition, the bill sets the assessment ratio for certain telephone companies at 15% (40% lower than the statutory 25% ratio for these firms). These ad valorem tax changes are made effective January 1, 2015. Affected property tax payments will reduce local government revenue during FY16. The Louisiana Tax Commission annual report implies that for 2014 property taxes on all inventory was about $456 million (parishwide millages applied to assessed values). The affected amounts of property tax on natural gas, offshore vessels, and telecommunications companies are all proxied by the state credit amounts granted for the local taxes paid; approximately, $56 million for offshore vessels, $23 million for telecommunications companies, and $5 million for natural gas. Only the inventory amounts have exhibited strong and persistent growth (at least 6.5% per year). Thus, the total amount of local property tax foregone in FY16 is estimated at $597 million. That growth is applied to inventory, with the fixed values for the other properties added to project estimates of local revenue loss through the fiscal note horizon. The bill expressly prohibits offsetting millage adjustments.

The bill also has an effect on state receipts in that the amount of local tax paid on these properties is reimbursed by the state through refundable credits against state income & franchise tax liabilities. Eliminating local property taxes effectively eliminates the credits against state taxes, resulting in greater state net tax receipts. For FY16, the bill attempts to align local revenue losses with state revenue gains via language that denies state credits for any claims during FY16. Upon REC estimation of the credit reductions and JLCB approval, that dollar amount is to be deposited into the Tax Credit Reduction Fund, newly created by this bill. Monies in the Fund are to be used first to support the MFP by offsetting any negative local funding support that results from the loss local property tax revenue. Any remaining balance is available for general use. The Department of Education reports that elimination of inventory from the property tax base would reduce total MFP allocations by some $18 million, as well as reallocate the formula across school districts. The bill actually exempts more than inventory (natural gas, offshore vessels, telephone companies, with inventory about 86% of total). Thus, the MFP reduction is likely to be somewhat larger than $18 milion.

The bill also provides that starting with FY17 one-tenth of the available credits shall be allowed, and state revenue gains are thus only 90% of local revenue losses in FY17 through FY20. Effective for FY16 only upon the certification required of the Legislative Auditor, and approval by the electorate at the October 24, 2015 statewide election.

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}
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		[ ] 6.8(F)(2) >= $500,000 Rev. Red. to State {H & S}
		[x] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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