



**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**

Fiscal Note On: **HB 71** HLS 161ES 188  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.: **w/ PROP HSE COMM AMD**  
 Sub. Bill For.:

<b>Date:</b> February 29, 2016 12:15 PM	<b>Author:</b> BARRAS
<b>Dept./Agy.:</b> Economic Development	<b>Analyst:</b> Deborah Vivien
<b>Subject:</b> Caps EZ sales/investment and removes certain NAICS	

TAX CREDITS OR +\$1,300,000 GF RV See Note Page 1 of 1  
 Reduces the amount of certain Enterprise Zone tax credits and removes certain hotels from eligibility (Item #27)

Current law provides benefits of a non-refundable income or franchise tax credit of \$2,500 per permanent full-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 treated as a rebate payment). Qualifying projects exclude all retail (NAICS 44, 45) and eating and drinking establishments (NAICS 722) filing advanced notice after July 1, 2015. Those filing prior to July 1, 2015 may claim benefits on or after July 1, 2016. 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. Half of qualifying employees must reside in an EZ or in an EZ parish and receiving some form of public assistance in the six months prior to employment, unemployable by traditional standards or lacking in basic skills. Proposed law eliminates employment services and hotels (NAICS 5613, 721) and caps the sales tax rebate/investment tax credit at \$100,000 per net new job plus \$1,000 per retained job existing prior to contract date. The retained job must exist for 3 years or the benefit will presumably be recouped. The bill also calculates the job credit based on new jobs in excess of the company median in the state, including affiliates. New and retained jobs may only be counted once and are not constrained to the year in which they were created. The bill applies to projects filing advanced notice on or after 4/1/16.

EXPENDITURES	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</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>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$1,300,000	\$4,600,000	\$12,000,000	\$20,700,000	<b>\$38,600,000</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>\$1,300,000</b>	<b>\$4,600,000</b>	<b>\$12,000,000</b>	<b>\$20,700,000</b>	<b>\$38,600,000</b>

**EXPENDITURE EXPLANATION**

Implementation costs may increase due to a more diligent enforcement requirements in determining whether retained jobs still exist after three years and, if not, inducing a presumed clawback provision. This analysis assumes no clawbacks are necessary, though apparently some determination of compliance three years after the contract date will be required.

**REVENUE EXPLANATION**

The bill contains substantial changes to the Enterprise Zone program. The bill limits the sales rebate or investment tax credit to \$100,000 per net new job plus \$1,000 per retained job, eliminates Employment Services (NAICS 5613) and Living Accommodations (NAICS 721) from eligibility, and makes the job credit applicable only to those new jobs in excess of the company's statewide median number of employees, including affiliates.

Because the bill is effective for those projects filing advance notice on or after 4/1/16, the fiscal impact will not be material until FY 18, and gradually phase-in until the full impact is reached in FY 21 and beyond as payments related to the existing similar projects filter through the 5 years of the program.

The Department of Economic Development is only able to quantify two of the changes. Limiting the sales rebate and investment tax credits to \$100,000 per net new job plus \$1,000 per retained job will save about \$18.5M upon full realization. However, this analysis is based on the assumption that a retained job is the same as an existing job currently reported by the project, which is apparently site specific. It may be possible for a company to claim all affiliated jobs as retained jobs for the purposes of increasing the threshold since there is no specific definition in the bill. Also, the analysis assumes no benefit recovery actions are required due to non-compliance in keeping existing jobs for three years beyond the contract date.

The elimination of employment services and living accommodations from program eligibility will increase SGF by about \$2.2M upon full realization. Based on historical averages, annual projects effected are expected to include 1 in employment services and 30 hotel projects.

In aggregate, the FY 18 activity will increase SGF by \$1.3M reaching the full \$20.7M impact by FY 21, according to the Department and based on historical payout schedules.

The Department is unable to quantify the impact of limiting the job credit to those jobs in excess of the statewide workforce for that project, including affiliates, due to data limitations. To the extent that this threshold precludes the payout of program benefits, SGF savings will be larger and will increase along the same schedule as shown above. The magnitude is unknown.

Program participation and mix of projects is assumed to remain the same as experienced under current law. The actual cost of the Enterprise Zone program in FY 15 was \$46.9M, including job credits and sales tax rebates/investment credits.

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| <u>Senate</u>  | <u>House</u>   |
| <u>Dual Referral Rules</u>   |  |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}                  | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & 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} |

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