LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 3** SLS 161ES 29
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: March 4, 2016 11:40 AM
Author: LAFLEUR
Dept./Agy.: Economic Development
Subject: Caps EZ sales/investment and removes certain NAICS
Analyst: Deborah Vivien

ECONOMIC DEVELOPMENT RE INCREASE GF RV See Note

Provides relative to enterprise zone requirements, incentives, and effectiveness, and establishes a sunset date for the program. (Item #27)(gov sig)

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 and restaurants filing advance notice after July 1, 2015. 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 with certain qualifiers.
Proposed law sunsets the program on July 1, 2017. Though the following program changes will only be effective during FY 17 and the last quarter of FY 16, the bill also eliminates construction, employment services and hotels (NAICS 23, 5613, 721) and caps the sales tax rebate/investment tax credit at $100,000 per net new job. The job credit is calculated on those new jobs above median in the state, including affiliates. The job credit increases from $2,500 to $3,500 for projects located in Enterprise Zones and decreases to $1,000 for those located outside of Enterprise Zones. Until the program expires on 7/1/17, the bill applies to projects filing advance notice on or after 4/1/16.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	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	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	$0	INCREASE	INCREASE	INCREASE	INCREASE	**$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

There is no anticipated direct material effect on governmental expenditures as a result of this measure. It is assumed that, upon program expiration, resources currently utilized for the Enterprise Zone program will be redistributed to fulfill remaining agency objectives.

REVENUE EXPLANATION

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. However, this bill also sunsets the program in FY 18 (July 1, 2017), the implementation of which is uncertain. At a minimum, new entry into the program ceases and program costs gradually decline as existing participation works through the program. Should participants already in the program at the time of this sunset be denied remaining benefits program costs would abruptly drop to about a $50M annual savings. Additionally, some estimates of other aspects of the bill are uncertain due to an inability to determine substitution effects within the Enterprise Zone program and between other similar programs.

Changing the job credit (likely Increase in SGF of $1.5M)
The bill allows an increase in the job credit to $3,500 (from $2,500) per net new job for those projects located in an enterprise zone and decreases the job credit to $1,000 for those located outside an enterprise zone. According to LED data, if the project mix remains in the same locations and are the same size with 40% of projects and about 30% of jobs inside an Enterprise Zone, this provision is expected to save the state about $1.5M by paying fewer job credits in aggregate. However, should this provision drive businesses to locate inside Enterprise Zones, the state may pay more because the job credit benefit is larger. In addition, it is not clear how enterprise zones are set or who has the authority to change them.

Cap on sales/investment benefits (Estimate: Indeterminant but Increase SGF as much as $20.5M)
Limiting the sales rebate and investment tax credits to $100,000 per net new job may increase SGF as much as $20.5M upon full realization. Analysis indicates that roughly half of these projects (and more than 3/4 of the value) may also be eligible to attain the same benefits without a cap under the Quality Jobs Program, rendering this impact to the state fisc indeterminant without more specific program guidelines. However, LED does indicate that the QJP wage requirement may limit this crossover effect.

Elimination of construction, employment services and hotels (Estimate: Increase SGF $3.7M)
The elimination of employment services and living accommodations from program eligibility will increase SGF by about $3.7M upon full realization. Based on historical averages, annual projects effected are expected to include 16 construction projects, 1 in employment services and 30 hotel projects.

(Continued on Page 2)

Senate Dual Referral Rules House

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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CONTINUED EXPLANATION from page one:

REVENUE SUMMARY (Continued from page 1)

Including affiliates in job counts (Indeterminant, likely Increase in SGF)
The Department is unable to quantify the impact of limiting the job credit to those jobs in excess of the statewide workforce for projects, 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 but could serve to decrease the cost of the program.

For estimated impacts, LED used the average experience of the last three years, and calculated had the bill's conditions existed over those years. 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.

Note: The Quality Jobs program and the Competitive Project Payroll Initiative both use the Enterprise Zone statutes for the sales tax rebate and investment tax credit. The expiration of the Enterprise Zone statutes may also effectively eliminate this portion of these programs as well, though this impact is not considered in the fiscal note, since the outcome is uncertain.

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