LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 617** HLS 99- 528
Bill Text Version: **ORIGINAL**
Opp Chamb Action:
Sub Bill For:

Proposed Amd:

Date:	April 27, 1999 9:11 AM	**Author:**	MURRAY
Dept/Agy:	Economic Development		
Subject:	Ad Valorem Tax - Ten Year Exemption for Residential Structures	**Analyst:**	Greg Albrecht

TAX/AD VALOREM-EXEMPTION

(Constitutional Amendment) Extends authorization for tax exemption contracts for expansion, restoration, improvement, or development to include all residential structures in the state

Allows the State Board of Commerce & Industry to enter into contracts to exempt from property tax the expansion, restoration, improvement, or development of existing residential structures outside of downtown, historic, or economic development districts. Initial contracts are for 5 years with a 5 year renewal allowed. A contract is terminated if the structure's use is changed from residential to commercial.

Current law allows these exemption contracts for residential structures inside of downtown, historic, or economic development districts.

To be submitted at the 1999 gubernatorial primary election

ESTIMATED FISCAL IMPACT:

EXPENDITURES	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**5 YEAR TOTAL**
State General Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Stat. Deds./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						

REVENUES	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**5 YEAR TOTAL**
State General Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Stat. Deds./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	DECREASE	DECREASE	DECREASE	DECREASE	
Annual Total						

EXPLANATION OF ESTIMATES:

EXPENDITURES:

The Department of Economic Development indicates that it receives numerous inquiries about the existing limited program. It expects to receive substantially more inquiries under the expanded program proposed by this bill. Based on its participation scenario discussed below, it projects needing 3 additional employees (2 program specialists and 1 clerk). See page 2.

REVENUES:

The bill expands the applicability of the Restoration Tax Abatement Program to include improvements to all residential structures in the state. This program is administered by the Department of Economic Development, but each exemption contract requires approval of the affected local government. This bill could result in an accumulation of substantial revenue losses. While it has not been possible to estimate the amount of residential improvements in the areas of the state not already eligible for the tax abatement program, some idea of the possible base of investment can be obtained, even though these estimates can vary widely.

The various analysis discussed below are illustrative of the maximum potential revenue losses from this bill. However, there are factors that will discourage use of the program. The department itself informs current applicants that more than $10,000 of improvement is necessary to insure that the tax relief received exceeds the various fees charged for participation. In addition, local governing authorities will have to approve each contract. Thus, many potential applicants may ultimately not participate or be approved for the program. Still, a very large stock of residential property will be eligible for tax exemption. It is likely that revenue losses will accumulate to substantial amounts over time.

The U.S. Department of Commerce, Census of Construction Industries, reports that the value of construction work on single-family home additions, alterations, or reconstruction in the state during 1992 was $175 million (35% growth from 1987). Using a factor of 8.9% as the amount of 5-year tax relief (developed by the Dept. of Econ. Dev. from the existing program as explained on page 2), this level of improvements implies maximum local property tax revenue losses of over $3 million. These losses would accumulate each year as new investment occurs. If comparable growth occurred from 1992 to 2000, revenue losses could be $5 million per year, accumulating each year as new investment occurs. (see page 2 of additional analysis from this source)

A Department of Economic Development analysis based on the existing tax abatement program and extrapolated to an expanded program as proposed in this bill (described on page 2) came to an estimate of maximum local revenue losses of $8 million, accumulating each year as new investment occurs.

Dual Referral Rules

Senate	House
☐ 13.5.1 >= $500,000 Fiscal Cost	☐ 6.8(F) >= $500,000 Fiscal Cost
☒ 13.5.2 >= $500,000 Tax or Fee Change	☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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Louisiana Legislative Fiscal Office Fiscal Notes

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PURPOSE OF BILL (continued from page one) :

ADDITIONAL REVENUE ANALYSIS BASED ON NATIONAL LEVEL DATA: The U.S. Department of Commerce, Expenditures for Residential Improvements and Repairs reports that 1997 expenditures on residential properties in the United States as a whole ranged from $31 billion to $80 billion. This expenditure range reflected spending ranging from additions and alterations to owner-occupied one-unit properties to all improvements to structures and property, outside structures, and major replacements. Prorated to Louisiana on the basis of census estimates of housing units (1.6% of the national total in Louisiana) provides a range of potential eligible investment in Louisiana of $496 million to $1.3 billion. Using the DED 8.9% 5-year tax relief factor, maximum local property tax revenue losses of $9 million to $23 million could result, accumulating each year as new investment occurs.

EXPENDITURE EXPLANATION (continued from page one) :

These employees would incur expenses of $164,000 in the first half-year of operations and a comparable amount in the next full year as salaries for one-half of the first year are offset by one-time equipment costs. In subsequent years, cost would grow along with merit increases and operating expense inflation.

Expenses would be largely covered by fees associated with the program. The minimum sum of fees is about $400 per application, but the DED participation scenario is based on 321 applications per year. This generates a loss on the program that would have to be made up from fees charged by other programs or by the state general fund.

However, participation in the program would probably start slowly (although inquiries would probably still be very numerous). Thus, actual annual revenue generated and annual expenses incurred are likely to differ substantially from the DED scenario or any of the other scenarios discussed in this fiscal note.

REVENUE EXPLANATION (continued from page one) :

DEPARTMENT OF ECONOMIC DEVELOPMENT ANALYSIS: In order to get an idea of the potential revenue loss from the expansion of this program, the department made assumptions about the existing program and extrapolated them to an expanded program. The existing program has had 14 owner-occupied contracts approved for $3.3 million of improvements (110% of pre-project market value). Taxes exempted totaled $293,000 over 5-year initial contract periods (8.9% of the improvement values). Since the department does not know what the aggregate market value of owner-occupied residential property is within the existing qualifying district areas, it assumed that these 14 contracts represented as much as 1% of the market value of owner-occupied residences in those districts. That assumption generates an estimate of current qualifying district owner-occupied market value of $300 million. This estimate was deducted from the statewide market value of residential homestead improvements reported by the LA Tax Commission in its 28th Biennial Report to give an estimate of $40.963 billion of owner-occupied market value in the rest of the state. Improvements on this stock of property would be eligible for tax exemption under this bill. If 1% of this stock received exemption on improvements that amounted to 110% of the pre-project values, approximately $452 million of project improvements could be exempted from tax. Assuming 8.9% of these improvement values represent exempted tax amounts, 5-year initial contract period revenue losses would total some $40 million and annual revenue losses would be one-fifth of that amount, eventually accumulating by some $8 million per year.

Dual Referral Rules

Senate
- ☐ 13.5.1 >= $500,000 Fiscal Cost
- ☒ 13.5.2 >= $500,000 Tax or Fee Change

House
- ☐ 6.8(F) >= $500,000 Fiscal Cost
- ☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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