LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **SB 252** SLS 09RS 599

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date:	June 4, 2009 11:10 AM	**Author:**	WALSWORTH
Dept./Agy.:	Economic Development / Revenue		
Subject:	Retention and Modernization Tax Credits	**Analyst:**	Greg Albrecht

ECONOMIC DEVELOPMENT RE -$10,000,000 GF RV See Note

Establishes the Retention and Modernization Act of 2009. (8/15/09)

The bill provides refundable tax credits of 5% of qualified expenditures for a modernization project. Credits earned shall be allocated in equal portions for over five years. Eligible firms are in the following industries: timber cutting/chipping, oil & gas drilling/extraction, geophysical surveying/mapping, all manufacturing, publishing/software,motion picture/sound recording, engineering/science R&D although the Department of Economic Development (LED) appears to be given authority to designate other industries as eligible or ineligible. Certain businesses are excluded (retail, real estate, auto rental, local waste/sewer/water systems, most nonprofits, gaming, attorneys). Qualified expenditures are at least $5 million of capital expenditures (other than for land, interest, and purchases of existing buildings) that modernize the firms' operations by increasing efficiency or capacity by more than 10% and reflect "best practices". The maximum amount of tax credits awarded by the Department that are allotted in any calendar year is $10 million. The program does not have a termination date.

EXPENDITURES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$80,000	$75,000	$75,000	$75,000	**$305,000**
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**	**$80,000**	**$75,000**	**$75,000**	**$75,000**	**$305,000**

REVENUES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	($5,000,000)	($10,000,000)	($10,000,000)	($10,000,000)	**($35,000,000)**
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**	**($5,000,000)**	**($10,000,000)**	**($10,000,000)**	**($10,000,000)**	**($35,000,000)**

EXPENDITURE EXPLANATION

The Department of Economic Development indicates the need for at least an additional Business Development Officer position to administer the program. Given the potential pool of eligible firms and projects, and the various conditions required to be met in order to qualify, it seems reasonable that additional resources would need to be applied to this new program. The Department reports that personnel costs for this position would be some $72,000 per year plus one-time costs to equip and recurring costs to support.

REVENUE EXPLANATION

The bill requires various conditions be met for tax credits to be granted such as at least $5 million of expenditures on facility and equipment, more than 10% efficiency/capacity improvement, installation of best practices technology, not replacing existing technology with the same or similar technology etc. Strict application of these conditions may work to hold down extensive utilization of this credit. However, the credit is available to a wide spectrum of industries across the economy: timber cutting/chipping, oil & gas drilling/extraction, geophysical surveying/mapping, all manufacturing, publishing/software, motion picture/sound recording, and engineering/science R&D, and LED appears to be given authority to designate other industries as eligible or ineligible. The Department has indicated that the annual level of capital expenditures occurring across this sector is likely to generate awards of the entire program credit cap of $10 million per year. The LSU System Research & Technology Foundation has suggested less qualifying investment and a slower ramp up of credit allotments, such that credit sin FY12 might be $2 million, in FY13 $4 million, ,and in FY14 $6 million, for a $12 million total over the fiscal note horizon.

As an indicator of the pool of possibly eligible projects, industrial tax exemption manufacturing project application data for the last several years was examined. While only about 14% of the projects were for more than $5 million of expenditures, that group amounted to 869 projects out of 6,306, and reflected $42.482 billion of investment expenditures. Even if only a minority of such projects ultimately became eligible for this credit, the data suggests that there is a large amount of investment activity going on in the state (several billion dollars per year) that could participate for this credit program, and the bill encompasses considerably more industries than just those eligible for industrial tax exemption.

Fiscal impacts might be delayed until FY12, since it will take some time to establish a program and review/approve applications, businesses only earn the credits when projects are placed in service, and credits can not be claimed until project completion & tax credit certificates are issued. However, the credits appear to be available to projects already planned or in progress. Thus, substantial allotments of credits could be issued even in the initial periods of the program, and credit realizations as early as FY11 are possible. Credits realized against tax liabilities may be less than the maximum allowed in the first year and possibly even the second year, but the credits are refundable and once a flow of issuance is occurring it seems likely that by the third or fourth years of the program full $10 million revenue impacts could be occurring. Earliest likely maximum exposure numbers are displayed in the table above.

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

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