LEGISLATIVE FISCAL OFFICE

Fiscal Note

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

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action: **w/ HSE COMM AMD**

Proposed Amd.:

Sub. Bill For.:

Date: June 19, 2009 1:57 PM	**Author:** WALSWORTH
Dept./Agy.: Economic Development / Revenue	
Subject: Retention and Modernization Tax Credits	**Analyst:** Greg Albrecht

ECONOMIC DEVELOPMENT RE1 -$2,000,000 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. 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. No project placed in service prior to July 1, 2011 is eligible for these tax credits. The annual maximum of credits that can be awarded is $10 million.

EXPENDITURES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$80,000	$75,000	$75,000	**$230,000**
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**	**$0**	**$80,000**	**$75,000**	**$75,000**	**$230,000**

REVENUES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	($2,000,000)	($4,000,000)	($6,000,000)	**($12,000,000)**
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**	**$0**	**($2,000,000)**	**($4,000,000)**	**($6,000,000)**	**($12,000,000)**

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, at least starting with FY12. 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 originally indicated that the annual level of capital expenditures occurring across these sectors is likely to generate awards of the entire program credit cap of $10 million per year. The LSU System Research & Technology Foundation has suggested (prior to the proposed House committee amendment) less qualifying investment and a slower ramp up of credit allotments, such that credits in 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.

First fiscal impacts would be delayed until FY12, since the proposed House committee amendment prohibits credits for projects placed in service prior to July 1, 2011, and businesses only earn the credits when projects are placed in service and tax credit certificates are issued. Projects in progress at that time would be eligible as they are placed in service after July 1, 2011. Credits are refundable and once a flow of credit issuance is occurring it seems likely that the full amount of credits available will be realized against tax liabilities each year. Language clarifying the maximum amount of credits that can be awarded by LED each year results in annual realizations ramping up by $2 million per year until $10 million per year is being realized against state tax liabilities by FY16, and in all subsequent years.

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

H. Gordon Monk

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Legislative Fiscal Officer