LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 71** HLS 161ES 188

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: March 4, 2016 11:21 AM **Author:** BARRAS

Dept./Agy.: Economic Development

Subject: Caps EZ sales/investment and removes certain NAICS **Analyst:** Deborah Vivien

TAX CREDITS RE INCREASE GF RV See Note

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 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 eliminates employment services and hotels (NAICS 5613, 721) and caps the sales tax rebate/investment tax credit at $100,000 per net new job. The bill also calculates the job credit on those above median in the state, including affiliates, and increases the job credit from $2,500 to $3,500 for net new employees receiving public assistance during the 6 months prior to employment but lowers the credit to $1,000 for those not meeting those qualifications. The bill reiterates the Quality Jobs Program (QJP) and Competitive Projects Payroll Incentive (CPPI) Program job threshold at 5 new jobs. 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.

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. Estimates of the impact from LED indicate that the program costs could roughly be cut in half upon full implementation due to the provisions of the bill. Some estimates 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 $3.5M)
The bill allows an increase in the job credit to $3,500 (from $2,500) per net new job for those employees receiving public assistance 6 months prior to employment and decreases the job credit to $1,000 for all others. According to LED data, using the average experience of the last three years, the existing job payments meeting the criteria for increased or decreased payment would decrease net program costs by an estimated $3.5 million by the time new projects are phased in (year 5) over a typical claim timeline. This assumes there is no significant transfer of hiring practices toward those eligible for the larger job credit.

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 employment services and hotels (Estimate: Increase SGF $2.3M)
The elimination of employment services and living accommodations from program eligibility will increase SGF by about $2.3M upon full realization. Based on historical averages, annual projects effected are expected to include 1 in employment services and 30 hotel projects.

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 (Continued on Page 2)

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Gregory V. Albrecht
Chief Economist

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CONTINUED EXPLANATION from page one:

REVENUE SUMMARY (Continued from page 1)

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.

Senate | Dual Referral Rules | House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}

☒ 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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