

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 694** HLS 12RS 767
 Bill Text Version: **RE-REENGROSSED**
 Opp. Chamb. Action: **w/ SEN COMM AMD**
 Proposed Amd.:
 Sub. Bill For.:

Date: May 22, 2012 3:39 PM	Author: ROBIDEAUX
Dept./Agy.: Economic Development	Analyst: Deborah Vivien
Subject: Local property tax exemption; Companion to HB 674	

TAX/AD VALOREM-EXEMPTION RR1 DECREASE LF RV See Note Page 1 of 1
 Establishes a program to authorize the granting of ad valorem tax exemption contracts by the Board of Commerce and Industry for certain businesses

Current law allows exemption from ad valorem tax for manufacturing facilities as determined by the State Board of Commerce and Industry. Contract terms are typically 10 years (5-year initial and 5-year renewal). Exemptions to ad valorem taxation must have provisions within the state Constitution.

Proposed law (along with constitutional companion HB 674) expands the exemption to various non-manufacturing business activities and industries (no gambling) with more than half their sales out-of-state, and any other business sector as stated in statute for projects of at least \$25 million in capital expenditures with 50 new direct jobs. All local authorities must opt into the program and may opt out of the program, but existing contracts and renewals are not affected. Contract terms are 10 years. The exemption requires the invitation of LED or impacted local authorities, project eligibility determined by LED secretary, and approval of the Board of Commerce and Industry (C&I Bd.). The LED Secretary executes the contract on behalf of the C&I Bd. The state is the sole defendant in any constitutional challenge.

Effective for tax years commencing after voter approval of HB 674 on November 6, 2012 or tax year 2013.

EXPENDITURES	2012-13	2013-14	2014-15	2015-16	2016-17	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	2012-13	2013-14	2014-15	2015-16	2016-17	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	DECREASE	DECREASE	DECREASE	\$0
Annual Total	\$0	\$0				\$0

EXPENDITURE EXPLANATION

It is anticipated that initial LED administrative costs will fall within its current budget. However, as business participation accumulates in the program, a growing number of firms will, at the very least, have contract renewals to process. Meaningful compliance enforcement should eventually require additional resources in LED. Any costs at the local level are assumed to be handled within local budgets as well.

REVENUE EXPLANATION

The bill provides a voluntary local ad valorem tax exemption for non-manufacturing projects with ultimate eligibility determined by LED. According to LED, the first year that contracts might be expected to have a fiscal impact is FY 15, although the effective date of the program might allow for impact in FY14.

LED presented a numerical exercise of expected implementation of the program. Of the targeted eligible base of capital expenditures, 10%-25% was assumed to enter the program each year. A 15% assessment ratio was applied along with low (0.075) and high (0.125) millage scenarios. Resulting local property tax revenue reductions accumulate as projects are qualified into the program: \$500,000 to \$5 million in the first year (FY 15), \$1.5 million to \$15 million in FY16, \$2.5 million to \$25 million in FY 17. Simple extrapolation of the LED exercise results in an estimated \$10 million to \$100 million of annual local revenue loss after 10 years. These estimates may be reduced by the requirement that projects involve at least \$25 million in capital expenditures. LED asserts that expected state and local taxes generated by participating projects will offset the revenue losses associated with the program exemption.

The LED exercise implicitly assumes that each project occurs only as a result of the benefit provided by this bill, even though this bill's benefit will likely be one of a variety of benefits offered the project. This is a strong assumption, and means that the LED return on investment analysis always begins in a positive position from which benefit costs are deducted. Along more technical lines, the standard economic multipliers utilized in this type of analysis overstate true economic impacts by not reflecting business and consumer wage & price responses and substitution effects. Economic impact analysis may be appropriate for project ranking, but it's absolute results are not reliable for budgeting purposes. Also, the targeted business sectors or activities are not objectively defined, allowing substantial analytical discretion for LED. In addition, the analysis is incomplete in that it does not include a governmental balanced budget requirement. The program's benefits reduce resources supporting government purchases in the economy with resultant negative multiplier effects, offsetting the positive effects from the targeted project spending. The program is ultimately a cost to the local fisc incurred to engage in governmental economic development activity.

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}		<input type="checkbox"/> 6.8(F)1 >= \$500,000 Annual Fiscal Cost {S}
<input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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