LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 674** HLS 12RS 704
Bill Text Version: **ENROLLED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 1, 2012 11:40 AM
Author: ROBIDEAUX
Dept./Agy.: Economic Development
Subject: Local property tax exemption; Companion to HB 694
Analyst: Deborah Vivien

TAX/AD VALOREM-EXEMPTION EN DECREASE LF RV See Note

(Constitutional Amendment) Authorizes the granting of ad varlorem tax exemption contracts by the Board of Commerce and Industry for certain businesses

Current law constitutionally allows an exemption from ad valorem taxation for manufacturing establishments as determined by the State Board of Commerce and Industry. Contract terms total 10 years (5-year initial term and a 5-year renewal).

Proposed law expands the exemption to targeted non-manufacturing projects but specifies that the exemption may include buildings, improvements, equipment or other property necessary for operation as determined in statute. The exemption will not be eligible for land or property that is currently taxed, inventories, or consumables and will only apply to amounts in excess of the greater of $10 million assessed value or 10% of fair market value. At least half of all sales from eligible projects must be to end-users outside the state. Contract term is 10 years, as stated in statute. The contract will only be available in parishes that have agreed to participate, according to statute. (companion bill HB 694 provides statutory provisions of program implementation) Effective on 1/1/13, after voter approval in the election on 11/6/12

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 following discussion is based upon the provisions of the statutory companion bill (HB 694). The program provides a local ad valorem tax exemption for non-manufacturing projects as determined by statute. The local authorities may invite projects and allow for the exemption, but LED determines eligibility. 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.

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 >= $500,000 Annual Fiscal Cost {S}

☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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