LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 571** HLS 13RS 903
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 15, 2013 5:25 PM
Author: ROBIDEAUX
Dept./Agy.: Economic Development/Revenue
Subject: Adjusts the Enterprise Zone and Quality Jobs programs
Analyst: Deborah Vivien

TAX/TAX REBATES RE INCREASE GF RV See Note
Provides relative to rebates and rebate programs

Current law provides benefits of a non-refundable income or franchise tax credit of $2,500 per permanent full or part 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 include retail and may be located in designated enterprise zones (EZ) but must have 35% of employees reside in an EZ (or the same parish as the project for rural) or be receiving public assistance or be unemployable. 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. Current law also allows for rebates of 25% of headquarter relocation costs, a 15% payroll rebate (along with a construction sales tax or 1.5% investment rebate) for certain projects, and a refundable income tax credit for any tuition donations for qualified students.
Proposed law removes part time jobs from eligibility,increases employment requirements from 35% to 50% of employees (Continued on Page 2)

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	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	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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						

EXPENDITURE EXPLANATION
There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION
The net effect of the bill is an expected increase to SGF collections (via fewer credits and/or rebates). According to LED and LDR, this program has provided about $380 M in total benefits to firms over the last 5 years. In FY 12, about $45 M in benefits were approved with about $67 M claimed (prior year carry-forwards contribute to the difference). The bill could materially reduce the costs generated by the program in the future, though precise estimates are not possible. Important components, such as economic development zones and definitions of retail, grocery and pharmacy leave considerable discretion to the rule-making process. Prospective application (even with applicability to renewals) results in program cost savings being smaller in the initial periods and accumulating over time as participation under this bill's program parameters occurs.

Removal of part-time jobs from eligibility (+$625,000): In LED's judgment, about 250 jobs per fiscal year were considered part time under current project qualifications, though this number cannot be readily corroborated. Based on that count and should each job receive the benefit of $2,500 per year, SGF would increase by about $625,000 (via fewer job credits awarded).

Employment Qualifiers - INCREASE: The bill allows those projects located in EZs, to retain virtually the same eligibility requirements of 35% criteria compliance. If a project is located outside the zones, employee criteria must be met by 50% of employees. If any impact is achieved by this component, it can only be to decrease the number of qualifying projects located outside EZs, the impact of which would be based on project magnitudes and the EZ subsidy package of each project.

Retail - (+$3 M to +$6 M): The bill disqualifies retail businesses assigned NAICS 44 or 45 with 100 or more employees nationwide, except groceries and pharmacies located in an EZ, presumably as defined by LED rule. From project specific data, it appears that most retail as identified by NAICS 44 and 45 in the LED database is related to larger retailers. Within the LED database, the retail percentages are small (less than 10% of total estimated credits) and about half of those are located in Enterprise Zones. However, some are classified as supercenters, wholesale stores, or convenience stores that contain groceries and/or pharmacies among other inventory and services. It is not clear what the final definition of retail, groceries or pharmacies will be. Assuming 5% of all EZ claims will no longer be granted due to the ineligibility of these companies, net state general fund receipts would increase by $3.4 M (or $67 M * 5%), based on FY 12 data. If all retail was removed as defined by NAICS 44-45 in the LED data, then an estimated 10% of claims or $6.7 M (based on FY 12) would eventually also not be paid annually. This estimate is dependent upon definitions and activities that could prompt fluctuations in the impact, possibly beyond this estimated range. (Continued on Page 2)

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[ ] 6.8(F) >= $500,000 Annual Fiscal Cost {S}
[x] 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

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On:	**HB 571** HLS 13RS 903
Bill Text Version:	**REENGROSSED**
Opp. Chamb. Action:	
Proposed Amd.:	
Sub. Bill For.:	

Date:	May 15, 2013 5:25 PM	**Author:**	ROBIDEAUX
Dept./Agy.:	Economic Development/Revenue		
Subject:	Adjusts the Enterprise Zone and Quality Jobs programs	**Analyst:**	Deborah Vivien

CONTINUED EXPLANATION from page one:

Bill Summary (Continued)

within criteria as listed in current law and limits those retailers with 100+ employees to groceries and pharmacies located in an EZ. Retailers smaller than 100+ employees are still eligible. The changes are applicable prospectively and apply to renewals as well as new contracts. Proposed law suspends the Competitive Projects Payroll Incentive Rebate, the Headquarters Relocation Rebate, and the school tuition donation tax credit from July 1, 2013 through June 30, 2016. Any claims or donations made between January 1, 2013 and June 30, 2013 or any project with a valid cooperative endeavor agreement in place during that time are not subject to the suspensions. The bill is contingent upon the passage of 11 other instruments.

Revenue Explanation (Continued)

The bill also suspends activity in three programs (Competitive Projects Payroll Incentive Program, Corporate Headquarters Relocation Rebate, and the School Tuition Rebate) that were enacted during the 2012 Regular Session. The fiscal notes on these bills did not provide a point estimate as an anticipated impact in FY 14 and beyond, though all three were expected to reduce SGF upon implementation. Only one of the programs (Competitive Projects Payroll Incentive Program) has been utilized in economic development negotiations. The suspension allows the state to honor any cooperative endeavor agreements entered into by the Secretary of Economic Development as of July 1, 2013.

Competitive Projects Payroll Incentive Program

This program was enacted with Act 507 of 2012 Regular Session and allows an annual payment of up to 15% of new payroll for 5 years, renewable for an additional 5 years, for projects in certain industries but only if invited to apply by the Secretary of Economic Development. No new contracts can be approved after July 1, 2017. This bill would effectively limit the program to one year as it suspends the ability to contract from July 1, 2013 - July 1, 2016. The fiscal note for Act 507 did not provide a specific point estimate to be included in the official forecast, specifying instead a decrease in SGF, which serves as one indicator that future SGF growth will be impaired by the implementation of this program. Similarly, suspending this program will strengthen future SGF growth during the years in which payments are foregone, to the extent that LED would have awarded them. LED indicates that numerous prospects presumably have been made aware of the potential payment under this program. Whether the prospects will refuse to accept any other incentives or to participate in the state's economy due solely to the unavailability of this previously unavailable benefit is unlikely. It appears that these projects would also be eligible for the current Quality Jobs program, which offers a similar payroll subsidy of 5 or 6%, offsetting a portion of the potential savings associated with this bill. To clarify, the bill allows for any CEA that has been entered into by LED to be honored, regardless of whether it has final JLCB approval.

Corporate Headquarters Relocation Rebate Program

This program was enacted by Act 503 of 2012 Regular Session and allows a reimbursement of 25% of business headquarter relocation or expansion costs, paid in five equal installments for businesses invited to apply by the Secretary of Economic Development. Applicants must create a minimum of 25 new jobs filled by state residents with a minimum salary requirement of the lower of $60,000 or 250% of average wages in the parish. The program has not yet been implemented, and there are no pending projects. The fiscal note for Act 503 did not provide a specific point estimate to be included in the official forecast, specifying instead a decrease in SGF, which serves as one indicator that future SGF growth will be impaired by the implementation of this program. Similarly, suspending this program will strengthen future SGF growth during the years in which payments are foregone, to the extent that LED would have awarded them.

Note: LED contends that the payments associated with the two programs above provide a positive impact to the state fisc for every dollar expended through the program. The LED exercise implicitly assumes that each project occurs only as a result of the benefit provided by these payments, even though this bill's benefit will likely be one of a variety of benefits offered to the project. This is a strong assumption and means that the return on investment analysis always begins in a positive position from which reimbursement costs are deducted. Along more technical lines, the standard economic multipliers utilized in these types 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 LED analysis is incomplete in that it does not include a governmental balanced budget requirement. The program's benefit payments reduce other government purchases in the economy with consequent negative multiplier effects, offsetting the positive effects from the targeted project spending. The program is ultimately a cost to the state fisc incurred to engage in governmental economic development activity. Thus, suspension of these programs is a savings to the state in the amount that would have been expended in the absence of the suspension.

School Tuition Donation Rebate

This program was enacted by Act 25 of 2012 Regular Session and allows nearly a full reimbursement for qualifying tuition donations made to a school tuition organization registered with the Department of Education beginning with tax year 2013. According to the Department of Education, to date, there have been no registrations of school tuition organizations through which the donations must flow. Therefore, there are no donations pending in the program. Suspending the program through FY 16 will have no impact on the state fisc in FY 14, though may serve as an indicator that forecast growth in SGF in the suspended years may be stronger. However, the bill does not indicate if donations made during the suspension period will be eligible for the payments once the program is reactivated, which could cause SGF to decrease sharply in FY 17.

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[ ] 6.8(F) >= $500,000 Annual Fiscal Cost {S}
[x] 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