

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 846** HLS 20RS 1337
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 13, 2020 4:27 PM **Author:** WRIGHT
Dept./Agy.: Economic Development **Analyst:** Greg Albrecht
Subject: Competitive Projects Payroll Incentive Program

TAX/TAX REBATES EG DECREASE GF RV See Note Page 1 of 1
 Provides relative to the Competitive Projects Payroll Incentive Program

Present law provides a rebate up to 15% of payroll for eligible firms, as well as a rebate of sales tax on capital expenditures or a rebate of 1.5% of capital expenditures. Firms must be invited to participate by LED. Contracts for rebate are up to ten years, subject to approval of the Joint Budget Committee (JLCB). New contracts can not be approved after June 30, 2022. Proposed law expands eligible industries, removes LED discretion to offer the program, and eliminates JLCB approval. New sectors made eligible are cybersecurity, renewable or recycling, agri-bio, and Covid virus screening, protective gear, medical devices, drugs, or equipment for treatment. Also extends the program by four years to allow new contracts approved on or after July 1, 2026.

Proposed law also creates a new payroll subsidy for Covid-19 impacted businesses operating on March 13, 2020 and classified as retail trade (NAICS codes 44 & 45) and accommodation and food service (72). Six percent of payroll associated with at least 5 hires/rehires between May 15, 2020 and December 31, 2021 is rebated to participating firms for as long as 5 years. Hires/rehires must be paid at least federal minimum wage, with at least \$40,000 of associated annual payroll.

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

REVENUES	2020-21	2021-22	2022-23	2023-24	2024-25	5 -YEAR TOTAL
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

Modifications to the existing Competitive Projects Payroll Program may result in additional administrative costs by LED, and depending upon actual utilization, may require additional funding from application fees and/or state general fund. The new Covid-19 Impacted Business Program is likely to require additional personnel and associated costs. While LED will have to assess the potential resources required, the large number of potentially eligible firms makes it likely that additional resources will have to be provided in order to adequately administer the new program.

REVENUE EXPLANATION

The Competitive Projects Payroll program was first enacted in 2012, and has had no participation since inception. LED reports that only one firm was invited to participate, but ultimately declined. The bill expands eligible industry sectors, removes LED discretion as well as JLCB approval, and extends the availability of the program for an additional four years. These changes work to make it more likely that program utilization could occur. The extent of utilization and the cost of associated rebates is speculative, but the bill can only work to reduce state revenue receipts below what they would otherwise be. State revenue loss exposure could be material.

The new Covid-19 Impacted Business payroll subsidy program could result in substantial state revenue losses. The pool of potentially eligible firms and hires/rehires is large. Workforce Commission data for the third quarter of 2019 indicates some 18,000 retail trade employer units in the state with over 221,000 employees, and over 11,000 accommodation and food service employer units with over 207,000 employees. Through May 2, 2020, approximately 25% of retail trade employees and 55% of accommodation & food service employees statewide had filed for unemployment compensation. Approximately 37,000 retail trade employees and 67,000 accommodation & food service employees were receiving unemployment compensation by that point. These counts are likely to continue rising for some time, but will eventually decline as the coronavirus pandemic recedes. That decline will be reflected in hiring/rehiring of employees that this new program targets for payroll subsidy. The extent of successful participation in this new program is speculative, but given the size of the potentially eligible pool of firms and employees, state revenue losses could be substantial; likely several millions of dollars per year. This is illustrated with simple assumptions: each 10% participation of the current employee pool, paid \$7.25/hour for 35 hours per week for 52 weeks, results in \$8.2 million of state 6% payroll cost exposure. Various realities will influence actual state costs such as the ultimate size of the pool of potential eligible employees (likely to be larger than discussed here), required compensation at the federal minimum wage exclusive of tips, bonuses, and commissions (some may be paid less than \$7.25/hr), the attainment of at least 5 hires/rehires, their length of employment, and \$40,000 of associated annual payroll (relatively low \$8,000/yr average for 5 employees, and roughly 1.5 years to attain), and the actual pace and intensity of hiring/rehiring as the economy reopens and recovers from the pandemic closures.

As a note, the program provides rebates to firms, which are paid from current tax collections without appropriation.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 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}

John D. Carpenter
Legislative Fiscal Officer