LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6406 | **NOTE PREPARED:** Jan 23, 2014
BILL NUMBER: HB 1020 | **BILL AMENDED:** Jan 16, 2014

SUBJECT: Study of Economic Development Incentives.

FIRST AUTHOR: Rep. Koch | **BILL STATUS:** As Passed House
FIRST SPONSOR: Sen. Hershman

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: (Amended) This bill requires the Commission on State Tax and Financing Policy (CSTFP) to review, analyze, and evaluate state and local tax incentives that are provided to encourage economic development or to alter, reward, or subsidize a particular action or behavior by a tax incentive recipient. It requires the use of a five-year review schedule. The bill also requires the CSTFP to publish a report before November 1 each year on tax incentives reviewed that year. It provides that the requirement to produce the annual report on state and local tax incentives expires December 31, 2023.

The bill also requires the Department of Local Government Finance to conduct an annual audit of 1% of the statement of benefits submitted by taxpayers who receive property tax abatements.

Effective Date: July 1, 2014.

Explanation of State Expenditures: (Revised) *Summary* - The bill requires the CSTFP to complete a comprehensive review of all state and local tax incentives over a five-year period beginning in the 2014 interim. The study ends in 2023 after completing two review cycles. The bill also requires the Legislative Services Agency (LSA) to conduct the evaluation and analysis of each tax incentive scheduled for review by the CSTFP.

It is estimated that to fully implement the tax incentive review program, LSA would need to hire two additional fiscal analysts (one a senior fiscal analyst). LSA also would have to obtain a regional economic model to estimate the indirect economic effects of tax incentives. The annual salary and benefit cost of the two fiscal analysts is expected to total about $185,000. The initial cost of a regional economic model such as IMPLAN (hardware, software, state and local data, training, and support) would total about $15,000, with

yearly data updates potentially costing about $10,000.

If the CSTFP has to hold additional meetings to conduct the tax incentive reviews, there would be additional expenditures on per diem and travel reimbursement for the CSTFP members. Any additional expenditures would have to be within the CSTFP's budget, which is established by the Legislative Council.

Additional Information -The bill requires the five-year tax incentive review to cover exemptions, deductions, credits, preferential rates, and other tax benefits that: (1) reduce the amount of a tax that would otherwise be due to the state; (2) result in a tax refund in excess of any tax due; or (3) reduce the amount of property taxes that would otherwise be due to a political subdivision of the state. The bill also requires the tax incentive review to include programs under which political subdivisions dedicate revenue to provide improvements or to retire bonds issued to pay for improvements in an economic or sports development area, a community revitalization area, an enterprise zone, or a tax increment financing district. The bill also specifies the evaluation and analysis to be done on each tax incentive.

The bill requires LSA to perform the evaluation and analysis of tax incentives for the CSTFP and report its findings on each tax incentive to the CSTFP. The bill also specifies information to be gathered and reported and the types of analysis to be done on each tax incentive. The number of tax incentives that would have to be studied each interim and the breadth of the evaluation and analysis that the bill requires for each tax incentive would result in a significant increase in workload for the LSA.

(Revised) *Department of Local Government Finance (DLGF):* This bill requires the DLGF to annually audit 1% of the statement of benefits submitted by taxpayers who receive a property tax deduction. Currently, the DLGF does not audit taxpayers. Existing staffing and resource levels may be insufficient for full implementation. The additional funds and resources required could be supplied through existing staff and resources currently being used in another program or with new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend on legislative and administrative actions.

To meet the conditions established within the bill, the DLGF would need to conduct about 40 audits a year.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Local Government Finance; General Assembly; Legislative Services Agency.

Local Agencies Affected:

Information Sources: LSA Property Tax Database; Micah Vincent, Commissioner of the Department of Local Government Finance, 317-232-3775.

Fiscal Analyst: Jim Landers, 232-9869; Heath Holloway, 232-9867.