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BILL



ANALYSIS

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Senate Bills 350 and 351 (as enrolled)

Sponsor: Senator Bill Schuette (Senate Bill 350)

Senator Joanne G. Emmons (Senate Bill 351)

Senate Committee: Economic Development, International Trade, and Regulatory Affairs

Date Completed: 5-23-95

PUBLIC ACTS 23 and 24 of 1995

RATIONALE

Michigan has done much recently to reduce the costs of doing business in the State and to improve a business climate that many apparently consider to be unfavorable for economic development. Some say, however, that not enough has been done to attract businesses to Michigan and to encourage businesses already here to stay and expand. According to the Michigan Jobs Commission, which commissioned PHH Fantus Consulting to study the economic climate of Michigan and its major competitors (i.e., Wisconsin, Indiana, Ohio, Kentucky, North Carolina, South Carolina, and Alabama), most government-driven costs in competing states are lower than those in Michigan, including workers' compensation costs, unemployment insurance costs, and business taxes. Further, the competing states reportedly have structural cost advantages over Michigan, including lower labor costs, subsidized utility rates from the Federal government, and lower pollution control requirements. Finally, they apparently offer some of the most substantial economic development incentives in the nation. In fact, Michigan reportedly has been one of only six states without some form of job creation tax incentive. According to various sources, competition for the jobs created by economic expansion projects is fierce and only expected to escalate. Reportedly, some of the other states are so aggressive that their programs allow an investing company literally to recoup its entire capital investment costs through breaks in corporate income taxes, and other incentive offerings. The competition, although it has repercussions throughout the State, may be most keenly felt by Michigan's border counties that compete daily with Indiana and Ohio to attract and retain businesses. Not long ago, Michigan lost an ALCOA project and a North Star-BPH Steel project to Ohio because, according to some, this State

could not compete with Ohio's tax incentive program for business. (See BACKGROUND.) If Michigan is to be able to capture a larger market share of the growth of Michigan-based firms as well as compete more favorably for investments from out-of-state business, some believe that the State must have some type of tax incentive program to use as an inducement for the businesses.

CONTENT

Senate Bill 351 created the "Michigan Economic Growth Authority Act" and established the Michigan Economic Growth Authority (MEGA) within the Michigan Jobs Commission to determine which businesses are eligible to receive single business tax (SBT) credits based on the number of new jobs they create. Senate Bill 350 amended the Single Business Tax Act to provide for single business tax credits for businesses authorized by MEGA to receive the credits. Businesses may claim credits based on qualified new jobs and on authorized business activity.

Following is a detailed description of the bills.

Senate Bill 351

Eligibility Criteria

The bill allows an eligible business to apply to MEGA to enter into a written agreement that authorizes an SBT credit. The Authority may enter into an agreement if it determines that the eligible business creates at the facility, within 12 months of the expansion or location, a minimum of 75 qualified new jobs if expanding in this State, 150

qualified new jobs if locating in this State, or 25 qualified new jobs if the facility is located in a neighborhood enterprise zone or in a Federally designated empowerment zone, rural enterprise community, or enterprise community. ("Eligible business" means a business that proposes to create qualified jobs in Michigan after the effective date of the bill in manufacturing, mining, research and development, wholesale and trade, or office operations. An eligible business does not include a retail establishment, professional sports stadium, or that portion of an eligible business used exclusively for retail sales. "Qualified new job" means a full-time job created by an authorized business at a facility that is in excess of the number of full-time jobs the authorized business maintained in this State prior to the expansion or location, as determined by the Authority. "Facility" means a site within this State in which an authorized business creates new jobs. A facility does not include a site that was a vaccine laboratory owned by this State on April 1, 1995.)

After receiving an application, MEGA may enter into an agreement with an eligible business for a tax credit, if MEGA determines that all of the additional following criteria are met:

- The eligible business agrees to maintain at the facility, for each year that a credit is authorized, a minimum of 75 qualified new jobs if expanding in this State, 150 qualified new jobs if locating in this State, or 25 qualified new jobs if located in a neighborhood enterprise zone or in a Federally designated empowerment zone, rural enterprise community, or enterprise community.
- In addition to the requisite minimum number of jobs, the eligible business, if expanding, agrees to maintain a number of full-time jobs equal to or greater than the number it maintained in this State prior to the expansion, as determined by MEGA.
- The average wage paid for all qualified new jobs equals or exceeds 150% of the Federal minimum wage.
- The expansion or location of the eligible business will not occur in this State without the tax credits offered under the Act.
- The local governmental unit in which the eligible business will expand or be located, or a local economic development corporation or similar entity, will make a staff, financial, or economic commitment to the eligible business for the expansion or location.
- The financial statements of the eligible business indicate that it is financially sound and that its plans for the expansion or location are economically sound.
- The eligible business has not begun construction of the facility.
- The expansion or location of the eligible business will benefit the people of this State by increasing opportunities for employment and by strengthening the State's economy.
- The tax credits are an incentive to expand or locate the eligible business in Michigan and address the competitive disadvantages with sites outside this State.
- A cost-benefit analysis reveals that authorizing the eligible company to receive tax credits will result in an overall positive fiscal impact on the State.
- If feasible, as determined by MEGA, in locating the facility, the authorized business reuses or redevelops property that was previously used for an industrial or commercial purpose.
- The expansion or location of the qualified business will not have the effect of transferring employment from one or more local units to the local unit in which the facility is to be located unless the legislative body of each local unit from which employment is to be transferred consents by resolution to the transfer.

Tax Credits/Written Agreement

If MEGA determines that the criteria have been met, it must determine the amount and duration, up to 20 years, of the tax credits to be authorized, and enter into a written agreement. In determining the amount and duration of the credits, MEGA must consider the following factors:

- The number of qualified new jobs to be created.
- The average wage level of the qualified new jobs created relative to the average wage paid by private entities in the county in which the facility is located.
- The total capital investment the eligible business will make.
- The cost differential to the business between expanding or locating in Michigan and a site outside of Michigan.
- The potential effect of the expansion or location on the State's economy.
- The cost of the credit, the staff, financial, or economic assistance provided by the local government unit, or local economic

development corporation or similar entity, and the value of assistance otherwise provided by the State.

A written agreement between an eligible business and the Authority must include, but need not be limited to, all of the following:

- A description of the business expansion or location that is the subject of the agreement.
- The conditions upon which the authorized business designation is made.
- A statement by the eligible business that a violation of the written agreement may result in the revocation of the designation and the loss or reduction of future credits.
- A statement by the eligible business that a misrepresentation in the application may result in the revocation of the designation and the refund of credits received.
- A method for measuring full-time jobs prior to and after an expansion or location of an authorized business in this State.

A written agreement also must include a written certification from the eligible business regarding all of the following:

- The business will follow a competitive bid process for the construction, rehabilitation, development, or renovation of the facility, and this process will be open to all Michigan residents and firms. The business may not discriminate against any contractor on the basis of its affiliation or nonaffiliation with any collective bargaining organization.
- The eligible business will make a good faith effort to employ, if qualified, Michigan residents at the facility.
- The eligible business will make a good faith effort to employ or contract with Michigan residents and firms to construct, rehabilitate, develop, or renovate the facility.

In addition, if MEGA determines that it is necessary to provide infrastructure assistance for the location or expansion of an eligible business within an international tradeport development zone, the written agreement must include a statement that if the authorized business locates or expands within that zone, all or a portion of the tax credit received each year by the business, as determined by MEGA, must be assigned by the business to the international tradeport development authority, for infrastructure improvements within the development zone.

Upon execution of a written agreement, an eligible business is an authorized business eligible for single business tax credits provided by Senate Bill 351. The Authority must issue each year to an authorized business a certificate that states that the taxpayer is an authorized business and specifies the amount of the tax credit for the designated tax year.

The Authority may not execute more than 25 new written agreements each year.

MEGA Membership and Duties

The eight-member Authority consists of the Director of the Michigan Jobs Commission, as chairperson, the State Treasurer, the Directors of the Departments of Management and Budget and Transportation, or their designees, and four other members, appointed by the Governor, who are not employed by the State and who have knowledge, skill, and experience in the academic, business, local government, labor, or financial field.

Members are to be appointed for four-year terms, except that two of the members first appointed by the Governor will serve two-year terms. A vacancy must be filled for the balance of the unexpired term in the same manner as an original appointment. Except as otherwise provided by law, MEGA members may not be compensated for services, but MEGA may reimburse each member for expenses necessarily incurred in the performance of his or her duties.

The powers of MEGA are vested in its members in office. Regardless of the existence of a vacancy, a majority of the members constitutes a quorum necessary for the transaction of business at a meeting or for the exercise of a power or function of MEGA. Action may be taken by MEGA at a meeting upon a vote of the majority of the members present. The Authority must meet at the call of the chairperson or as provided by the Authority. Meetings may be held anywhere within this State.

The Michigan Jobs Commission must provide staff for MEGA and carry out the administrative duties and functions as directed by MEGA. The budgeting, procurement, and related functions as directed by MEGA are under the supervision of the Director of the Michigan Jobs Commission.

The Authority is subject to the Open Meetings Act. A record or portion of a record, material, or other

data received, prepared, used, or retained by MEGA in connection with an application for a tax credit that relates to financial or proprietary information submitted by the applicant that is considered by the applicant and acknowledged by MEGA to be confidential is not subject to the disclosure requirements of the Freedom of Information Act. The chairperson of MEGA must determine whether the Authority acknowledges any such information as confidential. If the chairperson determines that the information is financial or proprietary information and is confidential, he or she must release a written statement, subject to public disclosure, stating all of the following: the name and business location of the person requesting that the information be confidential; that the information was determined by the chairperson to be confidential; and a broad nonspecific overview of the information. The Authority may not disclose financial or proprietary information not subject to disclosure without the applicant's consent. "Financial or proprietary information" means information that has not been publicly disseminated or is unavailable from other sources, the release of which might cause the applicant significant competitive harm. Financial or proprietary information does not include a written agreement between MEGA and the applicant.

The Authority must report to both houses of the Legislature yearly on October 1 on its activities. The report must include, at least, all of the following: the total amount of capital investment attracted under the MEGA Act; the total number of qualified new jobs created under the Act; the name and location of all authorized businesses; and the amount and duration of the tax credit separately for each authorized business.

The Authority has the powers necessary or convenient to carry out and effectuate the purpose of the MEGA Act, including but not limited to, the power to:

- Authorize eligible businesses to receive tax credits to foster job creation in this State.
- Determine which businesses qualify for tax credits and the amount and duration of those credits.
- Enter into written agreements specifying the conditions under which tax credits are authorized and the circumstances under which those tax credits may be reduced or terminated.
- Charge and collect reasonable administrative fees.

- Delegate to the MEGA chairperson, staff, or others the functions and powers it deems necessary and appropriate to administer the program.
- Assist an eligible business to obtain the benefits of a tax credit, incentive, or inducement program provided by the Act or by law.
- Promulgate rules necessary to implement the Act.

Senate Bill 350

The bill amended the Single Business Tax Act to provide for tax credits for businesses authorized by the Michigan Economic Growth Authority to receive the credits. Specifically, the bill provides that for tax years beginning after December 31, 1994, and for a period of up to 20 years as determined by MEGA, a taxpayer that is an authorized business may claim an SBT credit for the amount certified each year by MEGA, up to the amount of its payroll attributable to employees who perform qualified new jobs multiplied by the tax rate. If the SBT credit exceeds the tax liability of the taxpayer for the tax year, the excess must be refunded to the taxpayer. In addition, an affiliated group, a controlled group of corporations as defined by the Internal Revenue Code, or an entity under common control as defined by the Internal Revenue Code may claim only one SBT credit for each tax year for each expansion or location evidenced by a written agreement regardless of whether a combined return or a consolidated return is filed.

The bill further specifies that, for the same tax years plus any carryforward years allowed, an authorized business may claim an SBT credit equal to the tax liability attributable to authorized business activity. If the credit allowed for the tax year and any unused carryforward of the credit exceed the taxpayer's tax liability for the tax year, the excess amount may not be refunded, but may be carried forward to offset tax liability in subsequent tax years for 10 years or until it is exhausted, whichever occurs first. The tax liability attributable to authorized business activity is the tax liability imposed by the Act after the calculation of the small business, charitable contributions, public utility, and unincorporated and Subchapter S credits multiplied by either of the following, as applicable:

- For an authorized business locating a facility in this State, a fraction whose numerator is 1) the ratio of the value of the facility to all of

the taxpayer's property located in this State plus 2) the ratio of the taxpayer's payroll attributable to qualified new jobs to all of the taxpayer's payroll in this State; and whose denominator is two.

- For an authorized business expanding at an existing site, a fraction whose numerator is 1) the ratio of the value of new property added to the site as part of that expansion to all of the taxpayer's property located in this State plus 2) the ratio of the taxpayer's payroll attributable to qualified new jobs to all of the taxpayer's payroll in this State; and whose denominator is two.

The certificate required for either credit must state that the taxpayer is an authorized business; the amount of the credit for the authorized business for the designated tax year; and the taxpayer's Federal employer identification number or the Michigan Treasury number assigned.

The bill prohibits a taxpayer from claiming either of the proposed SBT credits until MEGA has issued a certificate to the taxpayer. The taxpayer must attach the certificate to the tax return on which an SBT credit is claimed. Neither credit may be claimed if the taxpayer's initial certification is issued after December 31, 1996.

MCL 208.37c & 208.37d (S.B. 350)
207.801-207.810 (S.B. 351)

BACKGROUND

Jackson County recently lost a bid for a state-of-the-art auto parts facility planned by the Aluminum Company of America (ALCOA) despite a \$5 million incentive package to locate there. Many of those involved in the negotiation process with ALCOA believe that the project will be locating in Toledo, Ohio, because Ohio gave the company a \$500,000 annual tax advantage that Michigan could not offer since it does not have a tax-incentive program in place. According to a letter from the Jackson Alliance for Business Development (3-9-95) and an article in the Jackson Citizen Patriot (1-12-95), the project would have involved an initial investment of \$30 million, initial employment of 120 individuals, initial payroll of \$4.5 million, the possibility of a "sister" facility on the same site within five years, and about \$291,000 in annual property taxes, after full tax abatement. An additional benefit that Jackson could have realized, according to the letter and the article, would have been international attention and the possibility of attracting support plants to the

area. The ALCOA facility will be using a new high-tech process for molding large automotive assemblies, such as body frames, from steel.

The incentive package that Michigan offered to ALCOA included \$2,835,000 in tax abatements (including full abatement of the State's six mills); \$480,000 in State job training grants; 28 acres of improved industrial property offered by the Blackman Township Local Development Finance Authority, valued at \$845,000, for a price of \$100; a \$750,000 Community Development Block Grant for road, water, and sewer extensions to serve the site; \$50,000 in temporary office space while the plant was under construction; and relocation assistance for employees transferred to Jackson.

According to the Monroe County Industrial Development Corporation, Michigan lost another plant project to Ohio because Michigan's combined property and corporate tax burden greatly exceeded Ohio's tax structure. The North Star-BHP Steel project represented an investment of over \$450 million, and 350 new jobs with an average wage of more than \$13 per hour. According to one source, two more companies have located in Ohio since the North Star project moved there, increasing to about 500 the total number of new jobs at that site.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Michigan's pro-business orientation, highly skilled workers, expanding technological base, research universities, and continuing government initiatives to reduce business costs are not enough to compete with states that offer tax incentives to businesses to locate or expand within their borders. Indeed, many of Michigan's neighboring states have mounted aggressive campaigns to attract businesses, including those located in Michigan.

The bills provide the State with the leverage it needs to attract the most promising commercial and industrial projects. The MEGA approach is a targeted, focused, and performance-based program that will be available when all other State and local economic development resources have been exhausted and there still exists a sizable cost differential with another state. The program offers the State greater protection for its investment in

attracting business and encouraging business expansion than did previous tax incentive programs. Instead of offering businesses tax abatements up front, the tax incentives in the bills will take effect only after a business has located or expanded in Michigan and created and maintained a minimum number of jobs. Further, local participation is required in order to demonstrate local support. The amount of incentives offered for any specific project will be determined by MEGA based on firm evaluation criteria and detailed cost/benefit studies, something few other states conduct for these programs. Based on individual circumstances, the evaluation also might include verification of an incentive offer from another state, a consultant's study of the company's competitiveness, and a detailed analysis of the project's operating costs. Finally, setting a 20-year maximum duration on the program will ensure that it does not assume a life of its own, but rather will be reviewed and evaluated based on its track record for encouraging economic development. In short, the bills give the State a critical negotiating tool to convince businesses to locate and expand in Michigan, yet provide sufficient safeguards to ensure that the businesses uphold their agreement to provide jobs and invest in the State.

Supporting Argument

The bills already have proven their worth. Within days after the enactment of this legislation, three companies announced that they would be expanding in Michigan because of tax credits offered by MEGA. According to the Michigan Jobs Commission, The Borders Group announced that it will move its WaldenBook division to Ann Arbor and expects to create 550 new jobs over three years; Solvay Automotive, a Belgian automotive supplier, announced that it will create 250 new jobs when it builds a new plastic automotive fuel tank plant in Lenawee County; and Haworth, Inc., an office furniture manufacturer, announced that it will build a 342-job facility in Michigan.

Opposing Argument

According to an article in the Detroit News from the Mackinac Center (3-3-95), a 1988 report commissioned by the Michigan Senate Majority Leader, stated that "[t]he arguments against the conventional incentives approach to business development are overwhelming. Practically every major analysis conducted in the past decade has concluded that standard business incentives packages neither substantially encourage investment, nor boost output or create jobs...". The reason, according to the report, "is that the

value of an incentive pales when compared with such locational factors as overall tax levels, a reasonably priced skilled labor force, the relative cost of bureaucratic compliance, efficient transportation facilities and general quality of life. If Michigan is not competitive in these areas, business will go elsewhere despite subsidies or credits."

The Wall Street Journal (3-17-95) states that, "... financial-inducement devices like MEGA ...[are] almost impossible to shut down, sunset clause or not. They ask political appointees to be good investment bankers, which they generally aren't. They make it more difficult to reduce overall tax rates. They reward one business at an implied cost to every other in-state enterprise, new or old. They encourage litigation by companies that are rejected for special treatment. They invite corruption. Voters (taxpayers) have no say... Such 'bribes' are a poor alternative to providing efficient and economic services, a minimalist-minded bureaucracy, and a well-prepared work force to every employer."

As these articles make clear, not only will the bills *not* be a panacea for Michigan's economic development woes, they actually might compound the State's problems.

Those states that aggressively pursue selective tax credit schemes to lure away business are actually reducing their ability to produce an overall, competitive business climate with each arbitrary subsidy or rebate contrivance they create. Michigan can foster superior and sustainable growth, as it is already proving, if it concentrates on improving its overall business climate. One suggestion for improving the general economic climate is to reduce the State's single business tax. The tax credits established by the bills, however, will reduce pressure for a reduction in the SBT rate by those firms that receive the credits, and their costs will make it harder for the State to give up the revenue from a higher SBT rate.

Response: In assessing the effectiveness of previous tax incentive packages to promote economic development, one must beware of borrowing broadly from statistical theory and committing a "Type I" error. In such an error, the hypothesis--in this case, "Tax incentives help promote business development"--is actually true, but the implementation of measures to test the hypothesis is so poor and the results are so negative that the hypothesis is rejected. It may well be that tax incentives are very instrumental in

encouraging job growth and economic development, but that other factors, such as political, instead of economic, decisions concerning the awarding of tax incentives or the absence of legal recourse, such as could be provided by written contracts, against businesses that did not fulfill their agreement to create new jobs led to the failure rate of previous tax incentive plans. The bills address some of these factors by requiring written agreements between the State and the businesses receiving the tax credits; providing for tax credits to be given after a business creates new jobs; and providing for the loss, reduction, and possible reimbursement of tax credits to the State by businesses that do not fulfill their obligations.

Opposing Argument

Programs such as those established by the bills put government in the position of choosing winners and losers from among competing businesses, a process that is best left to the markets and the free enterprise system.

Response: Governments of other states are already picking winners and losers by attracting Michigan companies and jobs to their states, making them the winners and Michigan the loser. About 44 states, including Ohio and Indiana, already have implemented similar programs and Wisconsin currently is considering doing so. Moreover, businesses have no qualms about picking winners and losers among states, local units of government, and even countries, by locating their facilities wherever it is most advantageous for them. Michigan must be able to compete with these challenges by having similar incentive programs to offer.

Opposing Argument

It would be a better use of time and money to seek changes that would improve the overall regulatory and tax climate of the State, which would benefit all Michigan businesses, rather than target relief to a selected few. Programs such as MEGA reward larger businesses and do little to help smaller firms.

Response: The programs do not necessarily benefit only the larger businesses. Many small firms go out of business or face severe economic hardship when a large employer leaves the State and takes jobs with it. When a new business expands or relocates in a community, small businesses in the area share in a substantial amount of the economic prosperity that results.

Opposing Argument

According to the Detroit News (3-15-95), the

Michigan Citizens Research Council, in its analysis several years ago of the effect of targeted property tax abatements, found that those jurisdictions with low general property tax rates fared better economically than those jurisdictions that relied on the abatements to foster economic development. For example, low-tax Grand Rapids is growing at a much faster rate than high-tax Detroit. A firm in a high-tax locale that threatens to move out of State may be responding more to that locale's circumstances than to the statewide business climate; a MEGA tax credit simply will reward the high tax jurisdiction, thus sending the wrong signal to those areas that have kept their taxes under control.

Opposing Argument

MEGA increases the size and cost of Michigan government. Staff of the Michigan Jobs Commission must handle the administrative work involved in promulgating MEGA guidelines and rules, evaluating company applications, publishing an annual report, and performing other program oversight.

Opposing Argument

The MEGA Act sets an unwelcome precedent for discretionary tax policy. While calling for cost-benefit analysis of each application for a credit, this legislation still gives an eight-member board of political appointees broad discretion to determine tax policy for some of Michigan's largest corporations. Although the Act provides that MEGA may not enter into more than 25 written agreements a year, it sets no limit on the amount of tax credits that may be granted. At the very least, the duration of the tax credits should be reduced from 20 years to 10 years, there should be a limit on the dollar amount of the credits given, and composition of the MEGA board should ensure that businesses are adequately represented and the board members make decisions based on sound economic and financial analysis, not on political expediency.

Opposing Argument

According to the Legislative Service Bureau (LSB), Senate Bill 351 could violate the Commerce Clause of the U.S. Constitution. As the LSB notes, "Section 2 of...Senate Bill No. 351 states that the purpose of the legislation is 'to promote economic growth and to encourage private investment, job creation, and job upgrading.' Notwithstanding that statement, the purpose of section 8 of the substitute is to protect businesses that have an in-state presence over those with an out-of-state presence, if all other factors are even, by providing

an easier way for the former businesses to gain both tax credits and an economic advantage over other businesses solely because the latter businesses have no in-state presence. As such, the legislation could be found to violate the Commerce Clause on its face. See Penn Mutual Life Ins Co. v Dep't of Licensing and Regulation, 162 Mich App 123, 130 (1987), in which the Court of Appeals noted that the United States Supreme Court, in cases such as Metropolitan Life Ins Co v Ward, 470 US 869 (1985), has consistently held that 'promoting domestic business within a state by discriminating against foreign [business is not a] legitimate state purpose.'

"Even if, however, the provision in...Senate Bill No. 351 is not found to be invalid on its face, it is likely to be found to be invalid under the balancing test created by the courts. The legislation would place a significant burden on businesses with only an out-of-state presence in competing with businesses with an in-state presence, as the former businesses would be permitted a tax credit and, thus, a competitive advantage by merely creating 75 jobs, while the latter businesses would not get such a credit for creating 75, or even 149, new jobs. The extent of the burden is difficult to gauge as the package of bills of which Senate Bill No. 351 is a part permits the credit to be of up to 20 years duration and of a presently incalculable amount as there is no upper limit placed on the dollar amount of the payroll on which the credit would be partially based.

"In addition, the differential treatment of businesses with an in-state presence and those without such a presence does not appear to advance the purposes outlined in the legislation to a degree that outweighs the burden created by the differential treatment. The provision of 149, perhaps highly paid, new jobs by a business with only an out-of-state presence appears more likely to promote economic growth, encourage private investment, job creation, and job upgrading than the provision of 75, perhaps poorly paid, new jobs by a business with in-state presence. Therefore, it is likely that, even under the balancing test in Commerce Clause cases, the provision in...Senate Bill No. 351, if enacted, would likely be found to violate the Commerce Clause."

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FISCAL IMPACT

It is not possible to estimate the direct impact

these bills will have on State revenue with any degree of confidence because it is not known how many businesses will apply, qualify for, and be granted the tax credits established by these bills. However, to help put the potential fiscal impact of these bills in perspective, if it is assumed that 1) 25 contracts were issued each year, and 2) half of these were to in-state businesses that each created 75 new jobs and half were to out-of-state businesses that each created 150 new jobs, then these bills would reduce SBT revenue by an estimated \$4.7 million during the first full year. By the end of 1996, the last year that contracts could be granted, SBT revenue would be reduced by an estimated \$9.8 million. If it is also assumed that these business expansions, and new jobs, will not occur without these special tax credits, then the State also will gain new income tax revenue from these new workers, which will partially offset the loss in SBT revenue. The net impact of these bills, after considering the revenue impacts on both the SBT and income tax, is an estimated \$3 million loss for the first year and a \$6.3 million reduction in 1996. If the average number of new jobs created by each business were double the minimum requirement needed to qualify for the proposed credits, then the estimated cost to the State would be double the above estimates.

The bills also will have an impact on local governments because portions of SBT and income tax revenues are shared with local governments as part of the revenue sharing program. Based on the above estimates, revenue sharing payments will increase by an estimated \$0.1 million in the first full year, due to the increase in income tax revenue. In subsequent years, however, the net loss in State revenue will result in a net reduction in revenue sharing payments. It is estimated that in the second year, revenue sharing payments will decline by a net \$0.5 million and by 1998, revenue sharing will decline by a net \$3 million, based on the above estimates.

Senate Bill 351 includes authorization for an Authority consisting of eight members to provide policy guidance for MEGA programs. Per diem compensation of the rate of \$50 per day could require an appropriation of \$20,000 annually, depending on how often meetings are convened. Staffing requirements can be provided for through current resources.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.