BILL # SB 1403 **TITLE:** renewable, high-wage industries incentives

SPONSOR: Leff **STATUS:** Senate Engrossed

PREPARED BY: Eric Billings

FISCAL ANALYSIS

Description

This bill would create individual and corporate income tax credits for both new and expanded investment in renewable energy operations. This bill also includes a provision for a lower assessment classification for property taxes on qualified renewable energy investments.

Estimated Impact

This bill has a cap of $70.0 million for the aggregate amount of income tax credits issued annually between tax year 2010 and 2014. These credits are refundable so that the taxpayer can qualify for the credit if it exceeds the entity's tax liability. As a result, the bill may result in a loss of current tax revenue.

The fiscal impact will also depend on the extent to which the renewable energy investment would have occurred in the absence of the bill. If the investment would have occurred in any circumstance, the credit and assessment ratio changes represent a loss to the General Fund. If the legislation were to incentivize new investment that would not have otherwise occurred, some or all of the General Fund loss may represent a foregone collection.

To the extent that the credit and the assessment ratio changes generate new economic activity, the bill may generate some offsetting revenue gain.

The Department of Revenue (DOR) reports that they are unable to estimate the impact of the property tax provisions of this bill since the department does not know how many renewable energy manufacturers are currently classified as class 1 property. DOR did not provide an estimate of the impact of the income tax provisions included in this bill.

The Department of Commerce (ADOC) reports that this bill will require an additional 3.0 FTEs and $270,000 to administer. This cost could be offset by the ability of the department to assess a fee for these services. DOR reports that the administrative provisions relating to their agency would not have a fiscal impact.

Analysis

The bill allows for both an income tax credit and a reduction in the property tax assessment ratio for new or expanded renewable energy operations.

Income Tax Credit
The income tax credit is allowed on new renewable energy capital investments in manufacturing or company headquarters for up to 10% of the taxpayer's total capital investment. The credit is refundable, capped at $70.0 million annually, and recipients must receive their credit in 5 equal portions over 5 consecutive tax years.

The recipient company must create at least 1.5 new full-time positions for each $500,000 in capital investment in a manufacturing facility and 1.0 new full-time position for each $200,000 in capital investment at a headquarters. The amount of the credit is reduced if the above minimum requirements are not met and is instead equal to 10% of $500,000 for every 1.5 new full-time positions at a manufacturing facility or 10% of $200,000 for each new full-time position at a headquarters. The credit is dependent upon the company paying 51% of new full-time employees a rate exceeding 125%

(Continued)

of the median annual wage in the state, or currently $38,662, and paying 80% or more of the premium for all full-time employees' health insurance. The company must also stay in operation within the state for 5 years after receiving post-approval for the credit or face recapture of any credits received. The tax credit is only available for tax years 2010 – 2014.

To provide some perspective, a company that builds a $100 million factory would be eligible for a $10.0 million income tax credit. To the extent the $10.0 million in tax credits exceed the income tax, sales tax, and other revenues to the General Fund resulting from the new investment over a 5 year period, the state will realize a loss.

Property Tax Assessment Ratio
The bill allows for a reduction in the assessment value from a class 1 to a class 6 for all manufacturing and headquarters property relating to new or expanding renewable energy operations in the state. This would mean that the property's assessment ratio would be lowered from 22% to 5% of full cash value. Up to 10% of the aggregate full cash value of ancillary property associated with the manufacturing process or headquarter operation is also applicable to a class 6 assessment ratio.

The lowered property tax assessment ratio may result in lowered property tax revenues to local governments, which would in turn require increased K-12 state aid payments.

To be eligible, the investment must equal at least $25.0 million and 51% of the new full-time employees must earn 125% - 200% of the state's median wage, or currently $38,662 - $61,859, in order for the classification to last 10 tax years and over 200% of the median state income, or $61,859, to receive the reduction for 15 tax years. No new renewable energy properties can receive an assessment ratio reduction under this bill after December 31, 2014.

In 2006, the Corporation Commission instituted a new rule that required APS and TEP to increase the percentage of their total electricity output from renewable resources to 15% of their aggregate output by CY 2025. SRP has also adopted the goal of renewable energy constituting 15% of aggregate production by CY 2025. Currently, SRP produces approximately 5% of their aggregate energy output from renewable sources. Figures for APS and TEP were unavailable at the time this memo was produced. To the extent that these initiatives benefit from the provisions included in this bill, the General Fund may realize a loss in revenues.

Local Government Impact

Incorporated cities and towns share in 15% of state income tax collections collected two years prior through Urban Revenue Sharing. While it is not possible to accurately assess the impact of the income tax credit provisions of this bill, based on the $70.0 million annual cap on the credits, there could be up to $10.5 million in foregone revenue to cities and towns beginning in FY 2013.

Additionally, the reduction in the property tax assessment ratio for qualified renewable energy investment property from the current 22% to 5% may result in lowered property tax revenues to local governments. However, it is also possible that the new renewable energy investment incentivized by the provisions of this bill might increase local property valuation.

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