Fiscal Note

BILL # SB 1041

TITLE: ~~invest Arizona~~ S/E: Arizona quality jobs incentives

SPONSOR: Reagan

STATUS: As Amended by House COM

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Description

Laws 2011, 2nd Special Session, Chapter 1 (HB 2001) created the Arizona Commerce Authority (ACA) and established a number of business tax incentives as described in the fiscal note for HB 2001 issued February 15, 2011.

SB 1041, with the House Commerce Committee strike-everything amendment, adds one more property tax incentive to the ACA legislation by providing that qualifying businesses with property constructed or subject to a major renovation between January 1, 2011 and June 30, 2017 have such property assessed under Class 6, which uses a 5% assessment ratio. Commercial property is otherwise assessed under Class 1, which uses a 20% assessment ratio. The ACA legislation phases down the Class 1 assessment ratio to 18% by FY 2018.

Estimated Impact

The bill is estimated to have a General Fund cost of $1.6 million in FY 2013, which would grow to $3.6 million in FY 2014 and $5.9 million in FY 2015. The bill reduces net assessed valuation (NAV), which increases the state's K-12 education formula costs. Since the bill would only affect new property, there would be no offsetting cost savings under the state's truth-in-taxation (TNT) provisions.

The fiscal impact only addresses new property that would have been constructed in the absence of the bill. The cost estimates are speculative and could change considerably depending on the number of qualifying businesses. The fiscal impact also does not reflect any offsetting revenue effects that could potentially result from increased economic activity spurred by the bill.

Analysis

Based on the most recent county levy limit worksheets, the state is estimated to add $7.5 billion in new "baseline" property in FY 2012 under current law. This figure represents new full cash value from all classes of property, such as residential, commercial and agricultural. Of the total amount of new property in FY 2012, it is estimated that 23%, or $1.7 billion, represents baseline growth in locally assessed business property. This figure is estimated to grow to $1.8 billion in FY 2013. The bill will result in some baseline property value loss as businesses receive a reduced assessment ratio on new property that would have been constructed regardless of the incentive.

The baseline property value loss under SB 1041 is difficult to estimate with available data and must therefore be interpreted cautiously. The fiscal note for HB 2001 assumed that 15% of projected new baseline jobs fulfilling the wage and health insurance requirements under the $3,000 credit would also meet its job creation and capital investment requirements. To qualify for the credit, which can be claimed for 3 years, the new job must be full-time, pay at least the median wage, and include employer-paid health insurance (at least 65% of premium). In addition, the credit cannot be claimed unless the business adds at least 25 net new jobs in an urban area (5 new jobs in rural area) and makes a capital investment of at least $5 million ($1 million in rural area).

The analysis of SB 1041 assumes that the same percentage of baseline property growth (15% of $1.8 billion, or $270 million) would qualify for the Class 6 assessment under the bill. This means that such new property would be assessed at $13.5 million (5% of $270 million) as opposed to $54 million (20% of $270 million) under current law. Under this assumption, SB 1041 would reduce NAV by an estimated $(40.5) million relative to the baseline.

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Under the state's K-12 funding formula, any loss of the local property tax base results in an automatic increase of state funding to schools. For this reason, it is estimated that the $(40.5) million NAV loss under SB 1041 will increase state aid to schools by $1.6 million in FY 2013. There would be no offsetting truth-in-taxation (TNT) cost savings since the initial NAV loss would apply only to new property. By FY 2015, when the fiscal impact of the $3,000 tax credit is fully phased in, it is estimated that the bill would have reduced total NAV by about $(150) million relative to the baseline, which would result in a state aid increase to schools of $5.9 million compared to current law.

If SB 1041 results in new business property values above the baseline forecast, the corresponding increase in local property taxes will reduce the growth in the state share of the K-12 funding formula.

Local Government Impact

The bill would shift the tax burden to property owners not affected by the legislation and/or result in property tax losses for local governments.

4/5/11