

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON DISTRICT 3

MEMORANDUM

Date: Thursday, April 17, 2014

To: Representative Bill Stoltze
House Finance Co-Chair

From: Rep. Steve Thompson

RE: House Bill 306

Thank you for the opportunity to respond to certain requests and questions asked on Wednesday, March 12th, 2014 regarding HB 306, "Evaluation of Indirect Expenditures; Tax Credits".

In Response to Representative Costello's questions regarding what other states are doing in relation to indirectEdgmon's and Representative Guttenberg's question/comments on Unincorporated Communities:



THE
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CENTER ON THE STATES

Avoiding Blank Checks

Creating Fiscally Sound
State Tax Incentives

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OVERVIEW

TABLE 1:
TOOLS TO AVOID BLANK CHECKS NOT USED CONSISTENTLY

To understand whether and how states use cost estimates and controls when making economic development investments, we examined a selection of recently passed tax incentive bills. This review illustrates that policy makers have made major investments without a clear sense of their fiscal impact.

E Reliable cost estimates **C** Annual cost controls

Arizona HB 2001 2011	E C	Legislative analysts used data on historic job growth to estimate the fiscal impact of the new Quality Jobs Tax Credit. The cap on the program starts at \$30 million in FY 2013, but grows to \$90 million by FY 2015.
California SBX3-15 2009	E C	The new Film & Television Tax Credit Program was capped at \$100 million per year for five years, and the New Jobs Tax Credit expires once the total amount allocated reaches \$400 million.
Florida S1752 2010	E C	The Entertainment Industry Financial Incentive Program was amended with annual caps totaling \$242 million over five years. The new Manufacturing and Spaceport Investment Incentive Program included yearly caps that totaled \$43 million over two years.
Georgia HB 234 2011		Fiscal analysts said they were "unable to give a precise estimate" on the cost of the new Georgia Tourism Development Act, since the program gives the governor final say over which projects qualify.
Illinois SB 2093 2010		The Department of Revenue said it lacked the information needed to reliably predict the full cost of the new Sales Tax and Revenue (STAR) bond program, which was not capped. Two other programs in the bill (the New Markets Development Credit and the Angel Investment Credit) had annual caps totaling \$30 million.
Louisiana HB 898 2009	E	While the Motion Picture Investor Tax Credit was not capped, the Legislative Fiscal Office estimated that the expansions to the program would cost a total of \$100 million over four years.
Massachusetts H.4829 2008	C	The Life Sciences Tax Incentive Program was a new 10-year program capped at \$25 million a year. As is standard procedure in the state, the program did not receive a formal cost estimate.
Michigan HB 5841 2008		Legislative analysts were unable to predict the price of the new Michigan Film Production Credit, which ended up costing in excess of \$280 million from FY 2009 through FY2011 before being converted to a grant program and scaled back.
Minnesota HF2695 (SF2568) 2010	E	While the new Small Business Investment Tax Credit (estimated to cost \$59 million over five years) was capped, the expanded Credit for Increasing Research Activities (estimated to cost \$31 million over three years) was not.

(continued)

OVERVIEW

TABLE 1:
TOOLS TO AVOID BLANK CHECKS NOT
USED CONSISTENTLY *(continued)*

New Jersey S3043 2008		Legislative analysts were unable to estimate the cost of the new Urban Transit Hub Tax Credit because of the program's design.
New York A9709-C (2010) S2811C (2011)	C	The Excelsior Jobs Program was enacted in 2010 with annual caps totaling \$1.25 billion between 2011 and 2019. In 2011, the program was extended to 2024 and a total of \$1 billion was added to the annual caps over the life of the program.
North Carolina HB 1973 2010	E	While the price of the Film Incentive expansion was not capped, legislative analysts estimated the cost would grow by over \$50 million per year within three years.
Ohio HB 153 2011	C	The new Small Business Investment Tax Credit, capped at \$100 million biennially, did not receive an official fiscal estimate until after the bill was passed. Expansions to the Job Retention Tax Credit and Historical Rehabilitation Tax Credit received fiscal estimates and are capped annually at \$25 and \$60 million, respectively.
Pennsylvania SB 97 2007	E C	The Film Production Tax Credit was a new program with annual caps of \$75 million. It was estimated to cost just \$25 million in the first year.
Texas HB 3676 2009		The extension of Texas' Chapter 313 Economic Development Act did not cap the cost. The bulk of the costs will occur beyond the five years analyzed in the legislature's fiscal note.
Wisconsin Assembly Act 4 2011	E	The state increased by \$25 million the amount available for the state's Economic Development Tax Credits, but did not place an annual cap on awards.

Out of the hundreds of pieces of legislation states have considered to create or expand tax incentives in recent years (2007 to 2011), we focused on 16 that passed with the potential to be among the costliest nationwide. Because we sought to identify those programs with the highest price tags, each of the 16 states in the selection is among the 20 states with the largest budgets in the country (four of the 20 states with the biggest budgets did not pass major incentive legislation during the period studied). Most states, however, rely heavily on tax incentives to pursue economic development goals, and our review of legislation in states with smaller budgets suggests that many have also used cost estimates and controls inconsistently. As a result, our selection of 16 bills helps illustrate the range of current practices—and options for improvement—in all 50 states.

In five states—California, Florida, Illinois, Ohio, and Minnesota—the selected bill contained multiple tax incentive programs. These bills are indicated above as having cost estimates or annual cost controls only when policy makers used these tools for all tax incentives in the legislation. In the case of New York, we chose a program that was enacted in 2010 and then increased in potential cost by 80 percent one year later. Other than New York, we limited our list to no more than one bill per state, working to identify—as best as possible, given varying or unavailable data on projected costs—the one with the most significant potential budgetary impact. For each bill, researchers examined the design of the program, analyzed legislative fiscal notes and other official documents, and interviewed agency officials. Because states are not always consistent in their use of cost estimates and controls, these bills do not necessarily represent the treatment of all tax incentives within the 16 states.



PROMOTING STATE BUDGET ACCOUNTABILITY THROUGH TAX EXPENDITURE REPORTING

By Michael Leachman, Dylan Grundman, and Nicholas Johnson*

May 2011

*Jason Levitis and Jeremy Koulish contributed to the original version of this report in 2009.

Tax Expenditure Report Checklist

To achieve its goals of improving transparency, encouraging accountability, and saving money, a tax expenditure report should have the features listed below.

Accessibility. The report should be:

- ✓ Published regularly.
- ✓ Incorporated into the budget process.
- ✓ Available on the Web.

Scope. The report should include:

- ✓ Tax expenditures related to all taxes.
- ✓ All tax expenditures, including those with lower costs or those benefitting few taxpayers.
- ✓ Explicit and implicit tax expenditures.
- ✓ Tax expenditures enacted by the state that affect local government.

Detail. The report should include:

- ✓ The cost of the tax expenditure, using current data.
- ✓ The cost in future years, to allow comparison with other proposed expenditures.
- ✓ A description of the tax expenditure.
- ✓ The relevant legal citation and year of enactment.
- ✓ Detail on the taxpayers who benefit from the tax expenditure.
- ✓ Separate reporting for the state and local revenue losses, where applicable.

Analysis. The report should:

- ✓ Classify tax expenditures using the same categories as direct spending.
- ✓ State the purpose of each tax expenditure.
- ✓ Evaluate the extent to which that purpose has been accomplished.
- ✓ Analyze the distribution of benefits by income level and size of business.

- Almost every state's report omits some essential information, such as the law that mandates a given tax expenditure or the number of households or businesses that benefit. Some reports even omit the cost of many tax expenditures.
- Two states, **Arkansas** and **New Hampshire**, fail to make their report accessible to the public through means such as posting it on the Internet.

Some state tax expenditure reports are much better than others, but every state could improve its practices in this area. **Oregon**, **Minnesota**, and the **District of Columbia** publish relatively comprehensive and informative reports that could serve as a model for other states. Among the least useful reports are those issued by **Arkansas**, **Colorado**, and **Utah**, because they omit major taxes, fail to provide cost estimates and other key information for many tax expenditures, and/or are not available online.

Seven states produce no regular tax expenditure report, meaning that citizens have no way of knowing on an ongoing basis what the state is spending or what policies it is pursuing through the tax code. These states are: **Alabama, Alaska, Indiana, Nevada, New Mexico, South Dakota, and Wyoming.**

This report lays out best practices for tax expenditure reports — ways to make the reports maximally useful to policymakers and to the public. (For a list of the features a report should contain, see the box on page 2.) It also describes other steps, beyond producing a tax expenditure report, states can take to better manage their tax-side spending. The goal is not to eliminate tax expenditures, which are neither good policy nor bad policy per se. Tax expenditures are one of a policymaker's tools for achieving policy goals; like other tools, they can be put to good use or abused, and like other tools, their use should be transparent and accountable. A well-designed tax expenditure report can help accomplish that, especially when accompanied by other reforms that allow legislatures to regularly review and better manage tax-side spending.

Recent Developments in Tax Expenditure Reporting

In the last two years, **New Jersey** and **Georgia** have passed tax expenditure reporting requirements and produced their first reports. The **District of Columbia's** report has been drastically improved, and several other states have made significant enhancements, including **North Carolina, Rhode Island, and Vermont.**

Missouri, on the other hand, has discontinued its tax expenditure report, now providing only an extremely limited report on economic development tax credits. In **New Mexico**, a bill to create a tax expenditure budget was passed unanimously by both legislative houses in 2011, but vetoed by the governor.

Tax Expenditure Reporting Lagging In Many States

