17.0280.01000

FISCAL NOTE
Requested by Legislative Council
01/09/2017

Bill/Resolution No.: HB 1182

1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 Biennium
Counties			
Cities			
School Districts			
Townships			

2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1182 authorizes cities and counties to establish development zones and phases out the renaissance zone program.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of the bill authorizes a county to establish and operate development zones in which a partial or complete exemption from the county portion of property tax may be granted on property located in the zones.

Section 2 of the bill authorizes a city to establish and operate development zones in which a partial or complete exemption from the city portion of property tax may be granted on property located in the zones.

Sections 3 through 9 and 11 place a sunset date of January 1, 2018, on the renaissance zone program. Zones and tax incentives approved before this sunset date will be allowed to continue for five years to allow taxpayers to claim tax benefits earned on qualifying transactions occurring up through the end of the 2017 calendar year. (A number of the tax incentives under the program have a five-year duration.) The program and its tax incentives are repealed for tax years after 2022.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Sections 1 and 2 of HB 1182 authorize the granting of partial property tax exemptions for property in a development zone. To the extent political subdivisions utilize the property tax exemption features, the property tax burden is shifted onto other property owners in the taxing district. The extent to which this will occur is unknown.

The renaissance zone program provides both property and income tax incentives.

Based on the statewide interest in and use of the renaissance zone program since its creation in 1999, there is a reasonable expectation that, without the sunset, significant investment activity would continue under the program. Transactions approved before the sunset date that qualify for the property tax incentives will continue to cause a shifting of property tax burdens to other property owners through the 2017-19 biennium and until the program's repeal at the end of the 2022 tax year. The amount of that shift is unknown and is dependent upon the actions of local governing bodies up to the sunset date.

Similarly, transactions approved before the sunset date that qualify for the income tax incentives will continue to have a negative effect on state general fund revenues through the 2017-19 biennium and until the program's repeal at the end of the 2022 tax year. The income tax incentives will no longer be allowed for new transactions occurring after 2017, which will have a positive effect on state general fund revenues starting in the second year of the biennium.

Based on income tax returns filed for the 2010 through 2015 tax years, the estimated total reduction in state general fund revenues attributable to the income tax incentives under the program has ranged from $1.6 million to $4.9 million per year, with an average of $3.1 million per year. These numbers reflect both new projects approved during the year as well as projects approved in prior years. If enacted, HB 1182 is expected to have a positive fiscal effect. The amount of that effect is uncertain because it is dependent on the amount of new investment activity that would occur after 2017 if the program were continued.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

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