

Senate Ways and Means Committee

Sonja Caldwell 271-2117

SB 74-FN, relative to economic revitalization zone tax credits.

Hearing Date: January 25, 2017

Members of the Committee Present: Senators Sanborn, Daniels, D'Allesandro and Feltes

Members of the Committee Absent: Senator Giuda

Bill Analysis: This bill requires a taxpayer applying for economic revitalization zone tax credits to provide written certification to the commissioner of resources and economic development that it has expanded the commercial or industrial base in a designated economic revitalization zone and created new jobs in the state. This bill requires the commissioner of resources and economic development to certify each application for an economic revitalization zone tax credit. This bill also increases the limit on total economic revitalization tax zone credits which may be issued by the commissioner of resources and economic development.

This bill is a request of the department of resources and economic development.

Sponsors:

Sen. Bradley

Sen. D'Allesandro

Rep. Lovejoy

Sen. Innis

Rep. Major

Sen. French

Rep. Abrami

Who supports the bill: Christopher Way (DRED), Michael Bergeron (DRED), Bridgett Beckwith (DRED), Tracy Hatch (Greater Nashua Chamber of Commerce), Sen. French, Chris Hodgdon (Comcast), Joelle Martin

Who opposes the bill: No one

Who is neutral on the bill: Carollynn Ward (DRA)

Summary of testimony presented:

Sen. Bradley

- This bill was a request of DRED.
- It clarifies the role of the commissioner in certifying terms of the credit; raises the aggregate limit of tax credits that can be issued from \$825,000 to \$3 million; and increases the amount a taxpayer may utilize in a calendar year from \$40,000 to \$50,000.

Senator Sanborn recessed the hearing as no one from DRED was present.

At 9:25 the hearing came out of recess.

DRED staff: Chris Way, Bridget Beckwith, and Michael Bergeron

Chris Way – Acting Director - Division of Economic Development

- This is an expansion of the ERZ program.
- It is important for communities and businesses.
- The program is at a critical point.
- It gives tax credits for investments in communities.
- The program is a staple of DRED's business recruitment.
- There are 198 different zones in communities across the state.
- The best attribute of the program is that it requires that communities work with DRED and with businesses. A lot of work goes into crafting the zones.
- They don't have a lot of business recruitment tools so the ones they do have, they want to be top notch.
- In 2015 they received \$1.4 million in requests, which amounts to 57 cents on the dollar in terms of what they can give. There was a decrease in the amount of requests they received from \$1.5 million in 2014 to \$1.4 million in 2015. This was attributable to a couple of things. They had a performance audit that suggested they should eliminate part time positions from the equation, which they did. The other reason is that they didn't increase marketing efforts because if they get more requests in, it just takes the share down.
- With this bill, they are also trying to make the application process easier. The current statute is confusing as there is an unnecessary step. The clarifications in this bill were the result of the performance audit.

Sen. Sanborn asked for a map of zones. DRED provided a list of the zones.

This is a statewide program.

Sen. Sanborn declared a potential conflict of interest and stated his intent to participate anyway.

Sen. Sanborn asked how the program works.

DRED staff: If you are a business and you start new project that will create new jobs, you can apply for the tax credit. DRED will work with that business to identify a community that might have a well-established zone. DRED reviews the project to make sure the investment is keeping with the statute. The business has to have a project that improves infrastructure and it has to coincide with the job creation. In the high tech industry – computer equipment would count as infrastructure improvement. They get a set amount of the credit for the jobs created. The second piece of the credit is 4 % of the lesser (the jobs or the investment).

Sen. Sanborn asked where DRED stands on global tax policy vs. specific incentives.

Mr. Way responded that if they are going to play in this game, they need certain tools. They're not applying this to any one industry. In terms of recruitment, DRED needs tools and this credit is one of those very few tools. They want to ensure that what they do have for tools is correct. Part of the sales pitch in NH is that we treat everyone the same – everyone has the same tax rate and everyone can take advantage of this tax credit.

Mr. Bergeron said the companies that are interested in this credit are ones that are competing with other states. This credit also helps with retention. Instead of adding more recruitment tools, they want to make the tools they have better.

Sen. Feltes asked how they determine if the tax credit itself is resulting in full time jobs.

They responded that it's part of the application they get from the company and they also have other verification. Just one full time job has to be created to qualify.

Sen. Feltes asked if DRED does anything to target places that need revitalization.

Mr. Way said this is not a passive program. Regional specialists are out working with communities and trying to strategize with them. DRED helps them do the development and run the plans. It forces communities to get involved with economic development.

Sen. Feltes is concerned about all of the other tax credits we have and the impact on the budget and this bill will increase the amount even more. He asked how they came up with the \$3 million when the requests that came in last year totaled \$1.4 million.

Mr. Way said that the \$1.4 million figure was because DRED wasn't using the tool to its full extent. They think \$3 million would make this credit a good effective tool. Tax credits are marketing based. The more they market it; they will see a corresponding increase in requests.

Sen. Feltes asked if they would be amenable to reducing the \$3 million cap to \$2 million.

Mr. Way said any increase that gives DRED the ability to use the credit more they would be open too but stressed that they are at a critical pint. They can't have the program stay the same and lose effectiveness.

Sen. D'Allesandro asked how concrete a letter of certification is vs. an agreement.

Mr. Way responded that the letter of certification is almost the same; it just didn't make sense the way it was being used. That is a commissioner level approval that the application is correct and that they verified the info.

Sen. D'Allesandro stated that tax credits are accumulating. The amount of tax credits available was over \$122 million the last time he checked. They have been moving north.

Carolynn Ward from the Dept. of Revenue Administration agreed that it's a growing figure.

Sen. Daniels asked how they expect the increase in the credits to affect the operating budget.

Mr. Way said it won't affect DRED's budget.

Sen. Daniels asked if the state gets more back in revenue if tax credits are used.

Mr. Way said they saw \$75 million in investments made last year. If the credit is expanded, he thinks that investment will increase. He said he can't determine the impact on the tax system but we get good return on the investment we spend.

Sen. Sanborn stated that we could go back and see if this tax credit is paying dividends to the state since DRED knows what entities it's being delivered to and you can see the number of employees pre and post project and look at changes in the BPT and BET as well as the unemployment tax.

Ms. Ward said on a macro level, they can do that, but with individual taxpayers, so much flows from federal tax behavior, they can't determine how much is attributable to this tax credit.