HCR 11 Task Force – 7/15/16

Report on SCR 6 Task Force (authored / sponsored by Sen Allain)

We have met twice and will continue to meet through January of 2017.

SCR6's Focus is on Local AdValorem Taxes & particularly the Inv Tax component
In an effort to help reform the State's Inventory Tax Credit situation

Since this was started back in the 1st Special Session, we have seen

SB6 – which reduced the refundable portion of State Inv Credits
(& made the remainder of those Credits a Carry-Forward)

SB10- which further reduces State Inv Credits by requiring an Either/Or
Decision by Manufacturers (ie, ITEP-benefits OR Inv-Credits)

Gov's ITEP Policy Decision – which substantially modifies
What exemptions are allowed in the 10-Yr Mfrs PropTax Exemption
& also requires Mfrs to secure the approval of Local Govt's
& no longer exempting Capital Investments that do not create jobs

As Legislators expect, SB6 & SB10 will substantially reduce the amount of State payments/credits related to Inventory Taxes paid by businesses.

But the Gov's new ITEP Policy has no direct effect on State Revenues or Expenses
& I expect that local gov'ts will continue to support ITEP in some amounts,
so that we can remain competitive (& also support incumbent Mfrs)

Culprit = State Tax Credit for Inventory Taxes paid > State Tax Liability

Culprit not = Inventory Taxes
(false claim that Inventory Taxes are detrimental to business development
been here since 30's & businesses are still coming)

As far as the financial aspects of the State's Inventory Tax Credit, I refer you to LLAs
6/1/16 Report on the subject, which includes several positive
(cost reducing) recommendations

What I wanted to particularly highlight is the impact on Local Gov'ts of any actions that the Legislature might choose to promote that would abolish or reduce the collection of Ad valorem taxes on Inventories by Local Gov'ts.

From Local Gov't standpoint, Inventory Taxes:

1) Have been Constitutionally authorized since the 1930s, and as a result have been a substantial portion of the revenue sources for local governments (albeit somewhat unpredictable since commodity prices affect the valuation)
2) Have been Constitutionally authorized since the 1930s, and as a result have been a stable & calculable taxing structure for businesses (they know the rules – both incumbent businesses & those who might locate here)

3) Total about 11% of Property Taxes paid to Local Gov'ts (as high as 40%), which approaches $500M per year for Local Gov'ts

4) Are scrutinized by our Local Assessors (contrary to BR-myth that no one is auditing/examining/reviewing the numbers that are reported by Business)

5) Are part of the return that Local Gov't receives for having to deal with business' multiple negative impacts on our communities (ie, air, water, drainage, noise, traffic, railroad delays, degraded roads, need for add'l fire houses & eqpt)...often our only response to NIMBYs are the jobs and tax dollars that come from those businesses

What I want to make sure to do on behalf of all of our Local Gov'ts is to make sure you understand more clearly some of the impacts on Local Govt's of anything you would might choose to recommend that would reduce or eliminate the collection of taxes on Inventories by Local Gov'ts (esp from my vantage point as a Muni Advisor).

1) Remember, ad valorem taxes on inventories = $500M per year

2) That $500M/Yr in Ad Valorem taxes used extensively to fund Local Gov't capital projects (not only schools & hospitals but also local roads, fire trucks, water & sewer & drainage facilities and capital projects that support other essential services)

3) There is about $10B in outstanding Bonds secured and payable from Property Taxes (about $500M per year as per SBC). Most of those require the millages to be reset each year based on the total Assessment...so, if you remove $500M per year in Property Taxes, then Local Govts will raise their millages by the portion required to provide for debt service on these bonds....result is that everyone's Property Taxes go up to make that up (every homeowner, every business, even those who don't pay Inv Taxes – it actually shifts the tax burden from industries to homeowners & small businesses)

4) And if taxes on Inventories is abolished and some State "fund" is created to "make the Local's whole", then we will be trading a Constitutionally-protected revenue source for a Statutorally-authorized revenue source (which will absolutely increase the interest rates for ALL Local Govt bonds that are payable from Property Taxes - .5%+ = $50M/Yr+Interest)

5) And if the Legislature created this "make whole Fund" then our Local Govts dependency on State Gov't is increased - totally opposed to what many here in BR are trying to accomplish, which is less Local Govt funding by State Gov't so that the State's taxing environment can be reformed & stabilized)

Summarize (& Close) with this – from Local Gov't standpoint, if the State's Inventory Tax Credits are the problem, then deal directly with the Credits.

Attempting to dismantle or replace or improve what has (in great measure) funded Local Gov'ts since the 30's could likely be a disaster for Local Gov'ts and make them even more dependent on State Gov't and further reduce our ability to serve our residents.