GIVING AWAY THE FARM:

a cost-benefit analysis of the industrial tax exemption program in East Baton Rouge Parish, 1998 - 2017

REPORT DESCRIPTION

In this report, we examine the industrial tax exemption program in East Baton Rouge Parish from 1998 to 2017, focusing on its economic outcomes. We evaluate ITEP's track record for:

- business attraction
- business expansion
- job creation
- cost in foregone property tax revenue to local entities and
- tax impact on homeowners and non-ITEP businesses.

If you have questions about this study or would like additional information on the issue, please email contact@togetherbr.org.

WHY THE ISSUE MATTERS NOW

Since 1936, Louisiana has been the only state in the nation to endow a state-level board with the authority to approve corporate exemptions from local property taxes, without the approval, or even knowledge, of the local entities paying the cost of those exemptions. It's called the industrial tax exemption program, or ITEP, and it is the largest program of state subsidies to corporations in the nation.

In the current fiscal year, local governments in sixty of Louisiana's sixty-four parishes are losing $1.9 billion in revenue due to ITEP exemptions. The exemptions affect the budgets of cities, parishes, sheriffs departments, fire districts, libraries, parks — any entity that receives revenue from a local property tax millage. The entities hardest hit by ITEP are Louisiana's public schools. In 2017, Louisiana's school districts are losing $720 million in revenue due to ITEP, fully 20% of total state and local funding for public schools.

Due to an Executive Order signed by Gov. John Bel Edwards in June 2016, local school districts, sheriff departments, parishes and cities, for the first time in 80 years, will have the authority to determine for themselves whether to approve industrial tax exemptions and on what terms. The first ITEP applications subject to the Executive Order are going before local bodies over the next several months.

A well-funded lobbying campaign is underway across the state to attempt to convince local school districts and other public bodies to grant automatic approval to industrial tax exemptions, without any analysis of whether the projects requesting subsidies require a subsidy or bring a public benefit. The campaign already has convinced one parish, West Feliciana, to grant *prior approval* to all future exemption applications, site unseen.

Louisiana Economic Development (LED), the state agency which administers ITEP and which local entities are looking to for information, has declined even to give an assessment of how much the exemptions are costing those entities at the local level.

There is a need for independent analysis of how industrial tax exemptions have performed at the local level, to help local governments, officials and citizens apply the scrutiny that has been lacking at the state level in the past.

This report seeks to help fill the need for independent analysis to help public officials develop procedures for vetting exemptions going forward that fulfill their constitutional obligation to use public resources only for public purposes.

TOGETHER BATON ROUGE

August 2017

Contents

Sources and Methodology

Data analyzed in this report came from:

Louisiana Economic Development "Fastlane" and "Company Report"

This online, searchable database of exemptions administered by Louisiana Economic Development was the primary source for this report for details on industrial tax exemptions approved in EBR Parish from 1998 to 2017, including what exemptions were approved for which companies by year; how much those companies invested and how much they received in tax subsidies; how many of the exemptions approved were for start-ups, expansions, additions and miscellaneous capital additions; the job-creation performance of ITEP-recipient companies over time and any other exemption-specific data contained in this report.

Louisiana Tax Commission table 2503.D.

This source was important for determining how much revenue was lost to local taxing bodies from 1998 to 2017. LED provides the amount of the ITEP tax subsidy in its "Fastlane" reporting. But the figure provided, inexplicably, does not factor depreciation into its calculations of the would-be property valuation for assessment purposes, meaning LED's subsidy estimates are overstated somewhat. To adjust the LED-provided tax subsidy amounts to account for depreciation, we used the composite depreciation multipliers provided by the tax commission.

Louisiana Tax Commission Annual Reports, 2008—2016

We used this source to obtain the millage rates for all local taxing bodies, to calculate how much property tax revenue was lost under ITEP to each local taxing body in EBR Parish and the tax impact of ITEP on homeowners and non-ITEP businesses.

To determine the percent of total lost revenue by local taxing body we multiplied the overall amount of the subsidy to all parish bodies, provided by LED, by the proportion of the parish's overall property tax millage made up by that entity.

Methodology for assessing ITEP's job creation performance

The methodology for evaluating the jobs impact of ITEP was as follows. Companies are required report on every ITEP application they submit the number of employees then working at the location for which an exemption is sought. This creates an ongoing accounting of jobs at multiple time intervals, since most ITEPS have gone to companies that have received dozens of them over the last twenty years. From this source, we created a log of employment numbers for each company over time. When there were variations throughout a given year in the number of people employed, we used the highest number during that year.

By comparing each ITEP-recipient company's employment over time, we were able to evaluate how many net jobs were created or lost at companies receiving ITEP subsidies during the time in which they received the subsidies.

Introduction: incentives vs. gifts

There is a difference between an incentive and a gift.

An incentive motivates or encourages someone to do something they otherwise would not have done. A gift is given freely with no expectation of anything in return.

The Louisiana constitution authorizes incentives for economic development. It does not authorize gifts.

Into which category do Louisiana's industrial tax exemptions fall?

To what extent have the exemptions encouraged manufacturers to make investments they otherwise would not have made, rather than merely subsidizing routine investments companies would have made anyway?

What are ITEP's outcomes for business attraction, business expansion and job creation? What are its costs in foregone revenue to local taxing bodies?

Do the program's outcomes justify its costs?

These are straightforward questions — the kinds of questions that are asked and answered routinely for any government program operating within the normal bounds of public accountability.

One of the most unusual things about the industrial tax exemption program is the extent to which it has *not* operated within those normal bounds.

ITEP is Louisiana's most expensive economic development program, by a wide margin. In 2017 alone, the program cost **$1.9 billion in foregone tax revenue to local taxing bodies,** five times the cost of the *combined* total of the state's other major corporate development incentive programs. On a per capita basis, ITEP is the single largest program of state subsidies to corporations in the nation — roughly twice as large as the second place program.

Yet throughout the entirety of ITEP's 80-year history, Louisiana Economic Development, the state agency that administers ITEP, has never:

- conducted a cost-benefit analysis of the program,
- calculated how much the exemptions are costing local taxing bodies in lost revenue each year,
- evaluated ITEP's track record for business attract, business expansion or job creation,
- assessed the extent to which the investments ITEP subsidizes would have been made anyway without the subsidies.

The purpose of this report is to answer those questions, looking specifically at East Baton Rouge Parish from 1998 to 2017.

ITEP at a crossroads

On June 24th, 2016 Governor John Bel Edwards signed an Executive Order which has the potential to bring about the most significant reforms to ITEP in the program's history. The order, coupled with a supplementary one issued a few months later, makes four basic changes to the ITEP program:

1) It makes job creation a requirement for receiving an exemption,

2) It renders "miscellaneous capital additions" ineligible for exemptions and prohibited,

3) It establishes a cap on exemptions' second terms at 3 years and 80% of the property taxes that would be owed (instead of 5 years and 100%),

4) It devolves decision-making authority over whether exemptions are approved and on what terms to the local taxing bodies that bear the exemptions' costs, specifically school districts, parish governing authorities, sheriffs and municipal governments (if the applicant company is within a city).

We've described these reforms as "potential" rather than established for two reasons. First, the executive order grandfathered in a large number of exemptions under the old rules. Exemptions in their first ITEP term and those for which an "advance notice" was submitted prior to June 24th, 2016 are *not* subject to the executive order. The new batch of exemptions — the ones subject to the local approval requirement established by the Governor's executive order — are only now beginning to be considered.

There's a second, potentially more significant reason the jury is still out on whether change has come to ITEP — the question of what local officials will do with their new authority. Empowering local officials to make decisions about their own taxes, rather than allowing a distant, state-level board to make their decisions for them, *might* lead to different outcomes. Or it might not. It depends on whether those local officials approach their responsibility at all differently from decades of Commerce and Industry Board appointees who have approved ITEP applications at a rate 99.95% over the last twenty years.

Will local officials continue this grim tradition of rubber-stamping costly exemptions, without serious evaluation of whether the exemptions bring about a public benefit worth those costs? Or will our officials act with local interests more firmly in mind, which means establishing clear standards for evaluating ITEP applications that separate the "incentives" from the "gifts"?

That, in a word, is the presiding imperative facing local officials and citizens seeking to put in place responsible policies for ITEP in the future — to create a vetting process for exemptions that distinguishes the incentives from the gifts.

We've written this report to help with that process.

Executive Summary

Background on ITEP

1) Started in 1936, the industrial tax exemption program, or ITEP, is Louisiana's most expensive economic development program and the most expensive on a per capita basis, in the nation. ITEP is the principle driver behind Louisiana's status as the country's most generous provider of government subsidies to corporations.
2) Despite its size, Louisiana Economic Development never has conducted a cost-benefit analysis of ITEP or evaluated the program's outcomes. Between 1997 and 2016, the board of Commerce and Industry considered 16,931 ITEP applications and awarded 16,923 exemptions — an approval rate of 99.95%.
3) The cost the industrial tax exemption program statewide has increased dramatically in recent years, from $953 million in subsidies approved in 2010 to $5.2 billion approved in 2016 — an increase of 544% in just six years.

ITEP's record for business attraction & growth

4) ITEP's role in attracting business or industry to East Baton Rouge Parish has been diminishingly small. Between 1998 and 2017, 814 ITEP exemptions were awarded in East Baton Rouge Parish, benefiting 76 separate companies or divisions of companies. Of those 814 exemptions, a total of nine — 1.1% of the total -- went to businesses that were not already operating in Baton Rouge. 98.9% of ITEP exemptions since 1998 went to existing businesses.
5) ITEP's role in helping existing business expand their operations in EBR also has been small. Only 6% of ITEP exemptions in EBR Parish subsidized expansions or additions that increased manufacturing output. 94% of ITEP exemptions were for miscellaneous capital additions, equipment replacement or other forms of routine capital investment.

ITEP's costs to local taxing bodies

6) The cost of industrial tax exemptions in lost revenue to local taxing bodies is large and growing. In 2017, ITEP cost local taxing bodies $70 million in lost revenue. ITEP's cost in EBR has doubled since 2006, when it was $35 million.
7) Cumulative revenue losses to local taxing bodies from ITEP are extreme. Between 1998 and 2017, East Baton Rouge Parish taxing bodies lost $770 million in tax revenue on ITEP exemptions.
8) To compensate for the lost revenue from ITEP, property taxpayers in EBR pay higher property taxes at a rate of 17.9 mills . ITEP increased property taxes by $221 for the average homeowner in 2017 and $3,222 per homeowner cumulatively since 2000. The average cost increase in property taxes to non-homeowner properties, including non-ITEP businesses and rental properties, is $430 in 2017 and $6,524 cumulatively since 1998.
9) East Baton Rouge Parish's local governmental entities are facing significant one-year revenue losses from ITEP affecting their 2017 budgets as follows:

Current One-year Cost of ITEP to Local Taxing Bodies

Local entity	2017 revenue loss
EBR Parish Schools	**- $28 million**
EBR City-Parish	**- $9 million**
EBR Sheriff	**- $9.4 million**
EBR Libraries	**- $6.6 million**
BREC	**- $8.8 million**
EBR Fire Districts	**- $5.7 million**
EBR TOTAL	**- $69.6 million**

ITEP's record for job creation

10) The 76 companies or divisions of companies that received ITEP exemptions between 1998 and 2017 collectively employed 9,857 full-time workers in 1998 or the first year each received its first ITEP exemption. In 2017 or the most recent year the companies received an ITEP exemption, the same 76 companies collectively employed 7,877 full-time workers. The change in full-time employment among companies receiving ITEP exemptions was a net decline of 1,980 jobs during the period of their exemptions.
11) The feebleness of this return on investment — $770 million in subsidies to companies that cut nearly 2,000 net jobs over a subsidy period — ranks ITEP as an uncommonly ineffective program of economic development.
12) The most expensive public subsidies and greatest jobs declines were both concentrated among a few "ITEP regulars." Seven entities — out of the 76 receiving ITEP — received 88% of ITEP subsidies totaling $879 million in tax subsidies (some of which is approved for future tax years through 2026).

Cost & jobs among ITEP Regulars, 1998 - 2017

	# ITEPs	ITEP Subsidies		Net change in jobs
Exxon Mobil (Refinery)	**88**	**$349 million**	**—>**	**- 1,427 jobs**
Georgia Pacific	**36**	**$203 million**	**—>**	**+ 105 jobs** *($1.9 million per job)*
Exxon Mobil (Chemical)	**63**	**$129 million**	**—>**	**- 501 jobs**
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Formosa Plastics	**32**	**$45 million**	**—>**	**- 340 jobs**
Honeywell Intl.	**54**	**$42 million**	**—>**	**+9 jobs** *($4.6 million per job)*
TOTAL	**235**	**$879 million**	**—>**	**- 2,263 jobs**

13) The zip code in EBR that is home to the largest ITEP subsidies is 70805, where 20 corporations received ITEP exemptions totaling $604 million since 1998. 70805 is also the zip code with the highest poverty rate (33%), 2nd highest unemployment rate (16%) and 2nd lowest median income ($26,133).

Part I:
Background on ITEP

A BRIEF HISTORY OF ITEP

At the election of November 3rd, 1936, Louisiana voters faced 35 proposed constitutional amendments. First item on the ballot:

"a proposed amendment to Section 4 of Article X of the Constitution, granting exemptions from taxation including exemption of cattle, livestock and poultry."

Voters approved by 87% (258,056 to 38,795)

Full provision not just about farm animals. Included the Industrial Tax Exemption Program:

- 100% property tax exemptions for up to 10 years on new industry and additions to existing industry.
- New state-level board, appointed by Governor – Board of Commerce and Industry" – would decide approval.
- Despite state-level approval, exemptions would include local property taxes.

Governor Richard Leche signs an industrial tax exemptions in 1937.

ITEP IS UNUSUAL

1) Unusual approval structure

Separates authority to approve exemptions from the entities that experience their financial impact

Only incentive in the country that allows a <u>state board</u> approve exemptions paid for by <u>local</u> entities *(eg. school districts, parishes, sheriffs, fire districts -- any entity funded by local property tax millage)*

2) Unusual approval rates

Exemptions approved in bulk, without review.

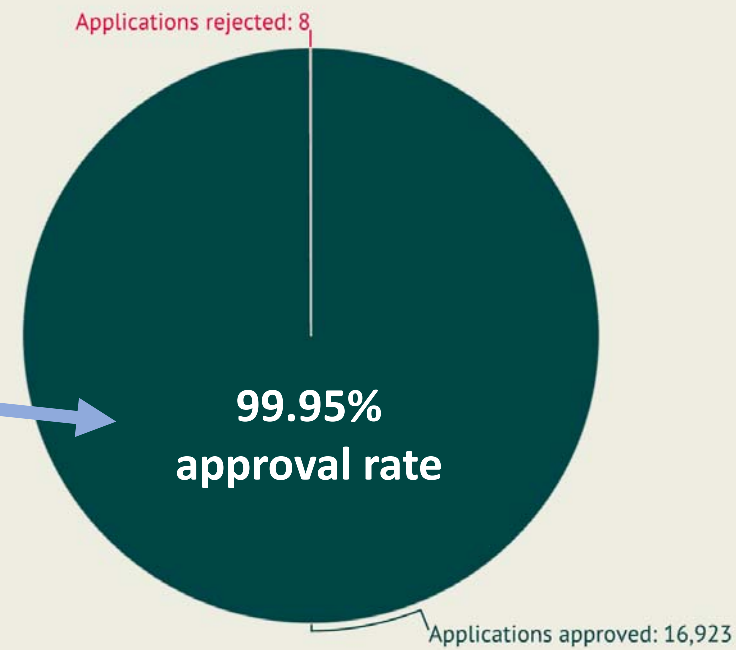
3) "Unusually generous," according to Tax Foundation (conservative, business-friendly group)

Tax Foundation, "Location Matters" (2015)

"Manufacturing firms experience effective tax rates at or under .1 percent due to some of the most generous property tax incentives in the nation."

ITEP approval rate

Approvals vs. rejections, 1998 - 2016



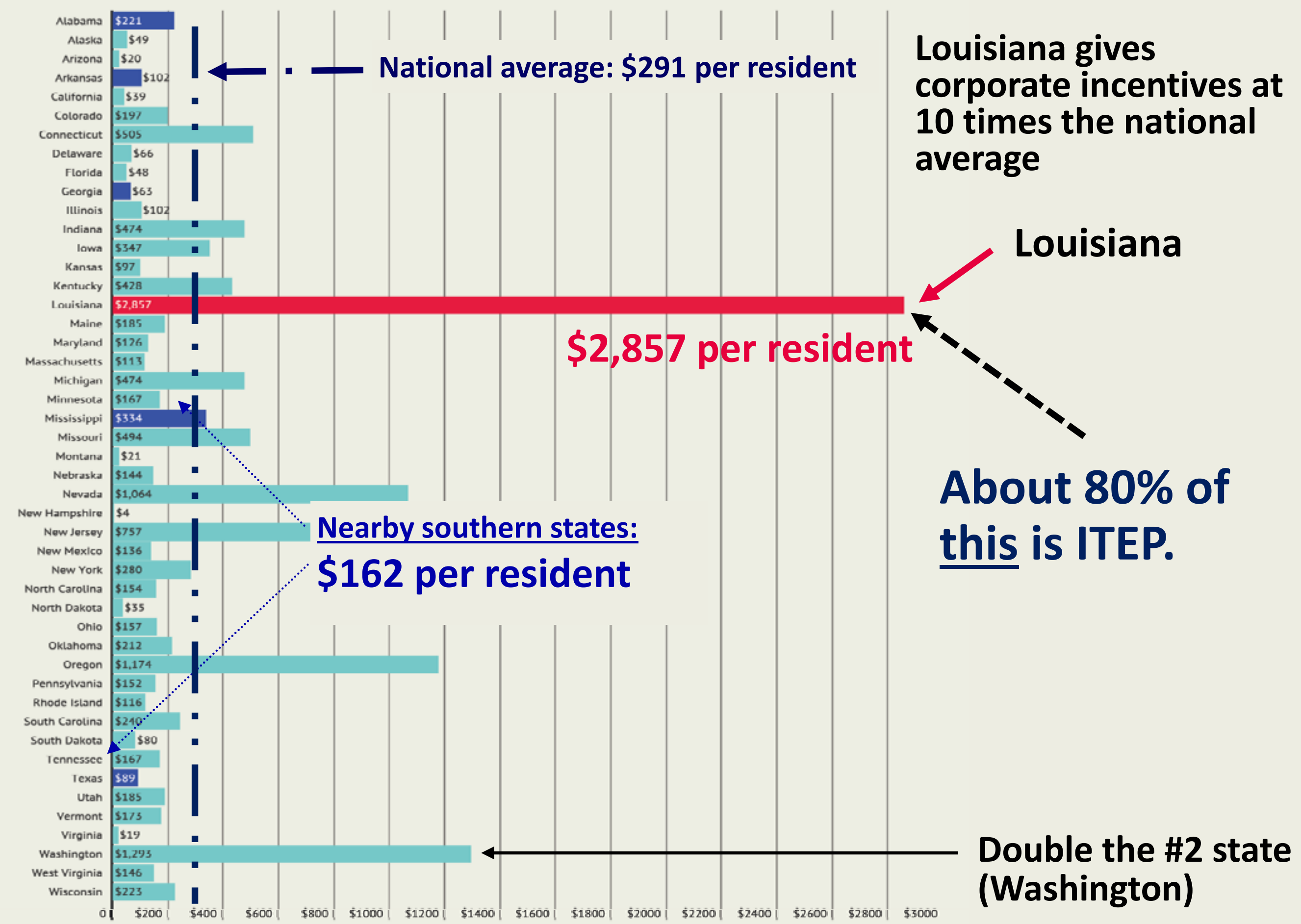
Source: ITEP applications, LED Fastlane, obtained 8/7/2017.

LOUISIANA IS GENEROUS

Louisiana gives more in corporate development subsidies per capita than any other state:

- **10 times the national average**
- **18 times the southern average**
- **32 times as much as Texas**

Corporate development subsidies, by state (per capita)



Source: Subsidy Tracker, “Goods Jobs First”, 2011 - 2015

ITEP IS EXPENSIVE

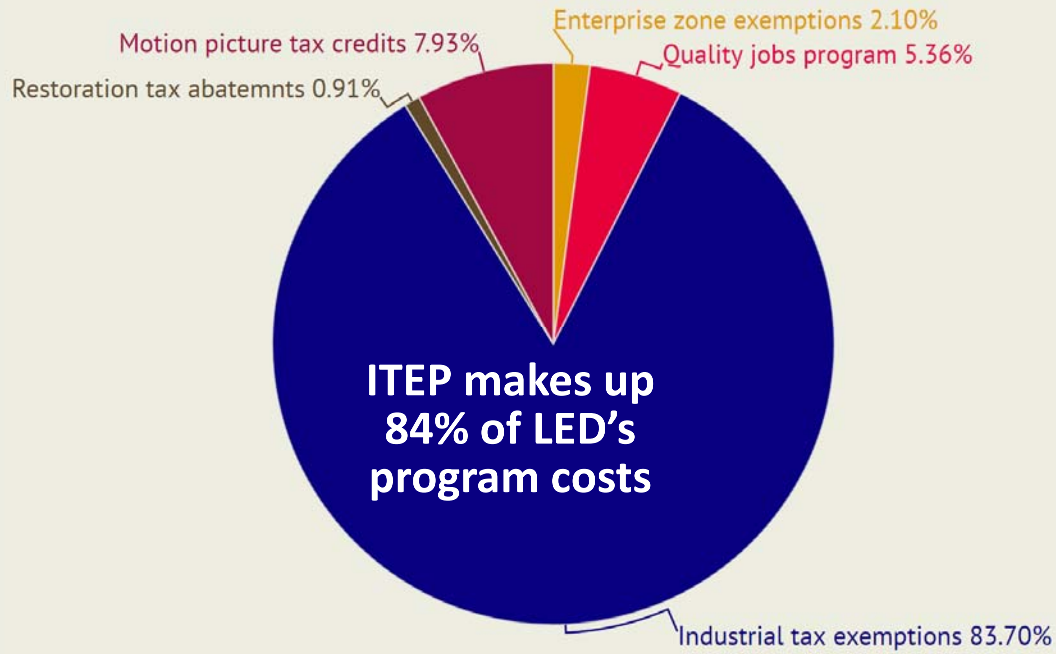
ITEP costs more than 5 times more than all other LED programs combined

ITEP costs about 10 times more per year than film tax credits

LED has never done a cost-benefit or return-on-investment on ITEP

Cost breakdown of Louisiana's corporate incentive programs

FY 2016



Source: LED, "Board of Commerce & Industry Incentive Approvals", 2011-2016.

Part II:

ITEP in East Baton Rouge Parish

QUESTION #1: Does ITEP attract business to the parish?

Between 1998 and 2017:

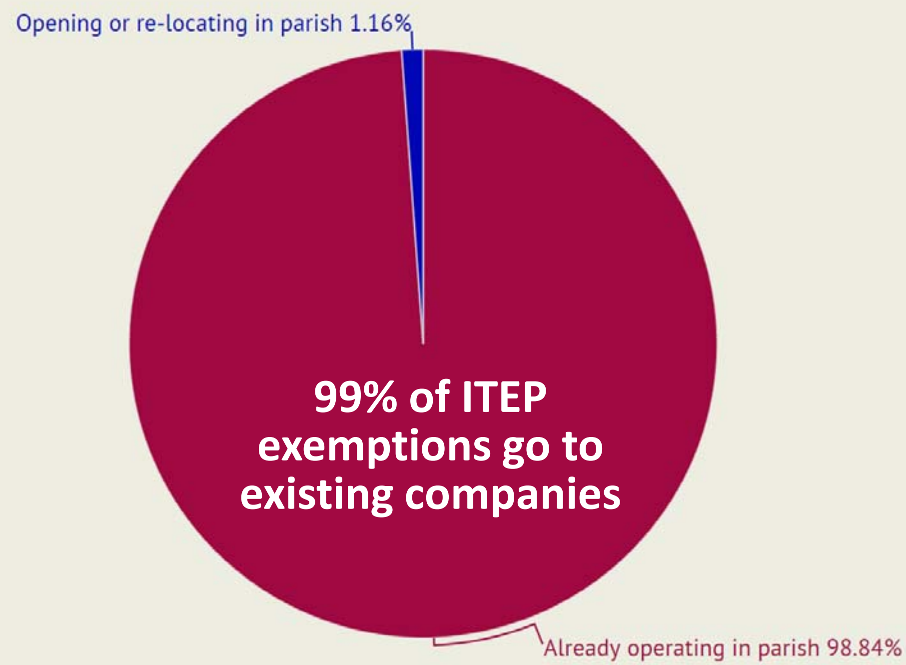
814 ITEP exemptions were approved for 76 different businesses

99% of those exemptions went to companies already operating in EBR Parish

Finding #1:
ITEP has played very little role in attracting business to over last 20 years

ITEP track record for business attraction

East Baton Rouge Parish, 1998 to 2017
Exemptions going to new vs. existing businesses



Source: LED "Company Report." Obtained through public records request.

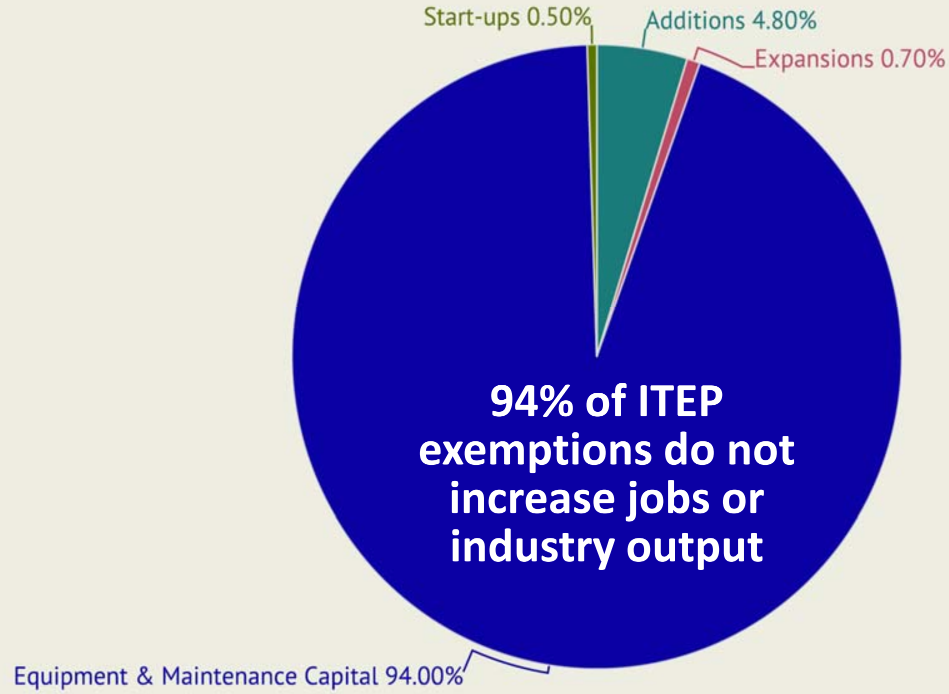
Question #2: Does ITEP help existing businesses expand?

6% of ITEP exemptions in EBR parish have gone to projects that increase production capacity (start-ups, additions that increase total output or jobs or expansions).

Other 94% of ITEP exemptions have subsidized routine equipment expenditure (maintenance capital, replacement machinery, equipment upgrades).

What kind of investment does ITEP subsidize?

Business-growth vs. routine investments, EBR Parish



Source: LED "Company Reports," 1998 to 2016, obtained through public records request.

Question #3: How much does ITEP cost?

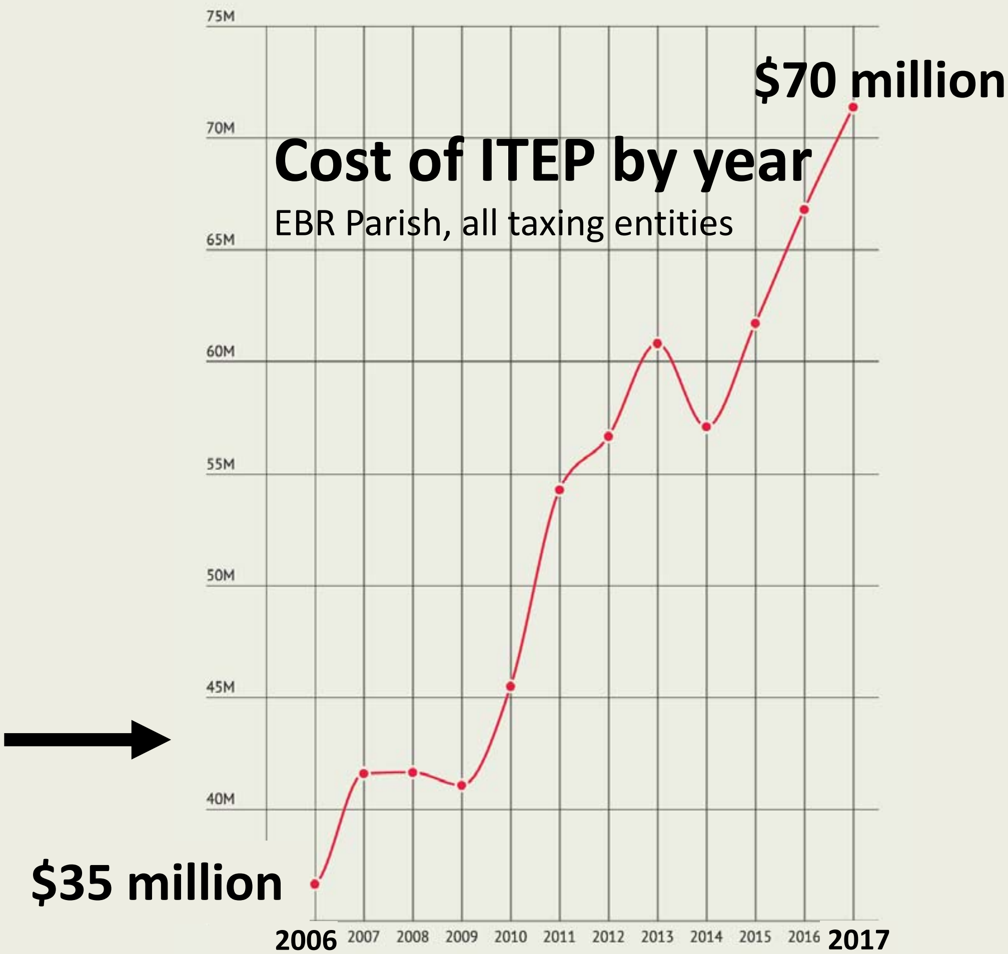
EBR local entities have lost $770 million in revenue to ITEP since 1998.

Cost per year has doubled since 2006, from $35 million to $70 million

Cost to all EBR entities:

Cumulative cost 1998 - 2017	*2017 lost revenue*
- $769 million	- $69.6 million

EBR Parish, cost in lost revenue to local taxing bodies by year, 2006 to 2017



Source: ITEP applications, LED Fastlane, obtained 8/7/2017.

Question #3: How much does ITEP cost? (broken down by local taxing body)

	Cumulative lost revenue 2000 - 2017	*Lost revenue in 2017*	2017 opportunity costs:
EBR School Districts	- $318 million	- $28 million	We could fully fund universal pre-K in EBR Parish. Or give every teacher a salary increase of $9,028.
EBR City-Parish Gov't & Other	- $102 million	- $9 million	We could dedicate funds for drainage improvements OR give EVERY police officer a $14,000 raise. AND fully fund an independent police monitor
EBR Sheriff	- $106 million	- $9.4 million	We could cover ALL of EBR sheriff's budget deficit – AND buy body cameras for every deputy.
EBR Parks & Rec	- $99.7 million	- $8.8 million	We could build & operate 168 Gus Young pools.
EBR Library District	- $74 million	- $6.6 million	We could reduce the library tax for every EBR taxpayer by 2 mills.
EBR Fire Districts	- $65 million	- $5.7 million	We could hire 190 new firefighters.
EBR EMS / Health	- $22 million	- $1.9 million	We could hire 47 new EMS paramedics.
TOTALS:	- $769 million	- $69.6 million	

Source: ITEP applications, LED Fastlane, obtained 8/7/2017

Question #4: What is the tax impact of ITEP on homeowners and non-ITEP businesses?

In 2017, industrial tax exemptions increased property taxes for EBR parish taxpayers by 17.97 mills:

Amount of increase for average EBR homeowner due to ITEP:

$221 in 2017

($3,222 per homeowner since 2000)

Amount of increase for average non-homeowner property:
(non-ITEP businesses, rental properties, etc)

$430 in 2017

($6,524 per non-ITEP business since 2000)

Source: · Property tax data (millage rates by taxing body, # of taxpayers, total tax base per parish): Louisiana Tax Commission's, *Annual Report (*2016).

Question #5: Does ITEP create jobs? THE DISCONNECT

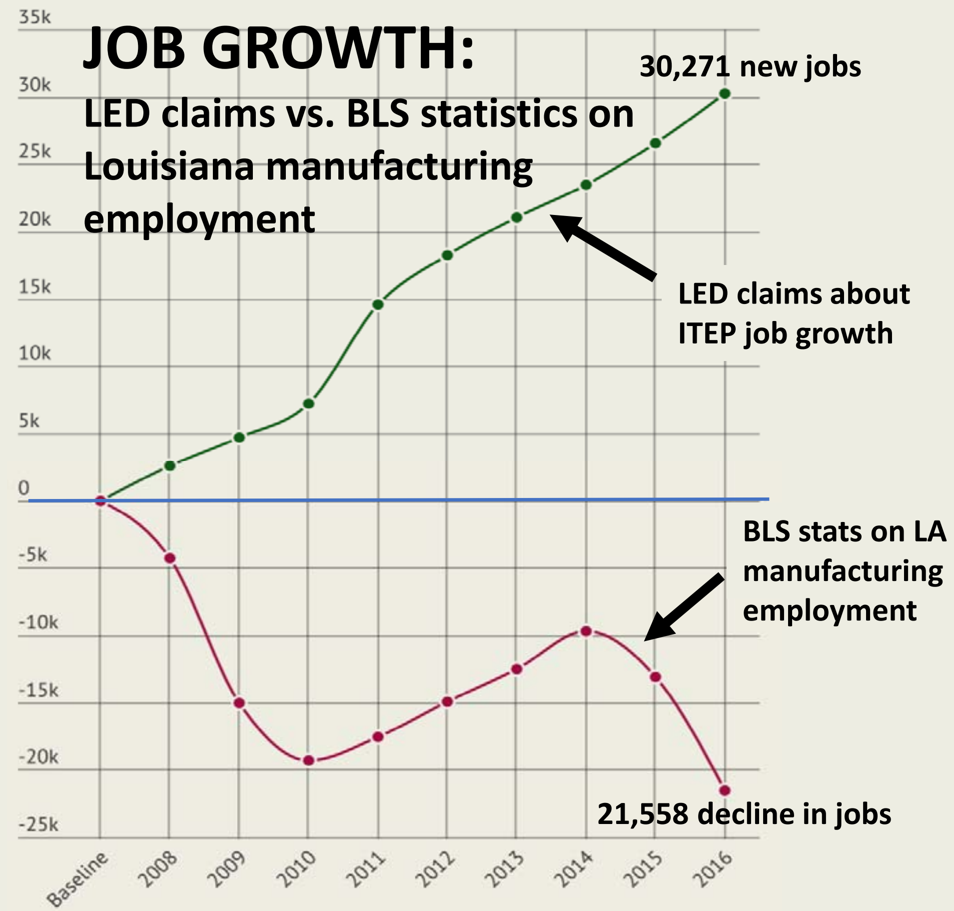
LED reporting on ITEP "job creation" does not actually count job creation

LED counts what ITEP applicants *claim* their job growth will be as "job growth".

Leads to big disconnect between LED claims & reality …

<u>LED claim, 2007 to 2016:</u>
ITEP <u>created 30,271 new manufacturing jobs</u> in Louisiana

<u>Bureau of Labor Statistics, 2007 to 2016:</u>
Manufacturing employment in Louisiana <u>declined by 21,558 jobs</u>



Sources: LED Annual Reports, 2008 to 2016.
Bureau of Labor Statistics, Louisiana manufacturing employment, 2007 to 2016.

Question #5: Does ITEP create jobs?

OUR METHODOLOGY

TBR tracked full-time employment numbers for companies that received ITEP exemptions between 1998 and 2017.

ITEP applicants report "full-time persons employed in plant operations" on each ITEP application.

Most applicants apply nearly every year.

TBR created a log of full-time employment by year for every ITEP company.

Example Georgia-Pacific Application (from 2007)

JOBS, DATES, AND PAYROLL FOR THIS PROJECT **(Complete Items A – F):**

A. Additional full time persons to be employed in operations after this project is completed: 897
B. Full time persons employed in plant operations prior to this project: 1101
C. Construction jobs for this project: 800
D. Date Construction and/or installation started: 03/31/2005
E. Date construction and/or installation was completed: 04/30/2007
F. On-site construction payroll: 90,000,000

Sample from Exxon Mobil Refinery job change log:

Company Name	Amount of exemption *(10-year value, depreciated)*	DATE OF APPLICATION	# of existing jobs at time of application *(provided on ITEP application by company)*	Net change in jobs
Exxon Mobil Corporation (Refinery) Total	**$349,371,684**			-1427
Exxon Mobil Corporation (Refinery)	$442,104	10/28/1997	2724	-
Exxon Mobil Corporation (Refinery)	$1,005,376	10/28/1997	2724	0
Exxon Mobil Corporation (Refinery)	$672,949	11/28/1997	2614	-110
Exxon Mobil Corporation (Refinery)	$3,172,808	1/23/1998	2530	-84
Exxon Mobil Corporation (Refinery)	$3,851,763	7/22/1998	2530	0
Exxon Mobil Corporation (Refinery)	$608,013	3/5/1999	2530	0
Exxon Mobil Corporation (Refinery)	$629,835	3/15/1999	2530	0
Exxon Mobil Corporation (Refinery)	$639,815	3/15/1999	2530	0
Exxon Mobil Corporation (Refinery)	$770,123	3/15/1999	2530	0
Exxon Mobil Corporation (Refinery)	$560,999	3/24/1999	2530	0
Exxon Mobil Corporation (Refinery)	$465,135	3/30/1999	2530	0
Exxon Mobil Corporation (Refinery)	$4,350,048	6/25/1999	2480	-50
Exxon Mobil Corporation (Refinery)	$476,574	6/25/1999	2480	0
Exxon Mobil Corporation (Refinery)	$3,655,076	8/23/1999	2480	0
Exxon Mobil Corporation (Refinery)	$7,694,593	9/22/1999	2480	0
Exxon Mobil Corporation (Refinery)	$25,566,728	11/29/1999	2480	0
Exxon Mobil Corporation (Refinery)	$79,993	3/14/2000	2239	-241
Exxon Mobil Corporation (Refinery)	$974,429	3/27/2000	2239	0

Question #5: Does ITEP create jobs? THE EVIDENCE

TOP 7 ITEP RECIPIENTS	# ITEP exemptions awarded	CUMULATIVE COST		RECORD OF JOB CREATION			OPPORTUNITY COSTS
		Subsidy rank	Total subsidies / cost of exemptions	Jobs Pre	Jobs Post	Net change in jobs	Unrealized job creation from foregone public sector / tax rebate revenue
East Baton Rouge Parish	*1998-2017*	*out of 76 ITEP-recipient entities in EBR*	*for ITEPS approved between 1998 to 2017*	*# jobs at ITEP companies in 1998 / first application*	*# jobs at ITEP companies in 2017 / latest application*	*20-year net change in jobs at ITEP-recipient companies*	*Comparison based on cost per job per year of $87,511 (an average of 3 job creation cost scenarios: direct hiring, tax cuts and fiscal stimulus)*
Exxon Mobil Corporation (Refinery)	88	#1	$349,371,684	2724	1297	-1,427	210
Georgia Pacific Consumer Operations, LLC	36	#2	$203,277,239	861	966	105	122
Exxon Mobil Corp dba Exxon Mobil Corp (Chemical)	63	#3	$128,902,497	1429	928	-501	78
Exxon Mobil Corporation (Polyolefins)	28	#4	$61,788,118	380	242	-138	37
Exxon Mobil Corporation (Plastics)	24	#5	$49,351,446	223	252	29	30
Formosa Plastics Corporation	32	#6	$44,547,545	557	217	-340	27
Honeywell International	54	#7	$41,849,229	178	187	9	25

			Jobs Pre	Jobs Post	Net change
Total for top 7companies:	**235 ITEPs**	**$879 million**	**6352**	**4089**	**-2263**
All ITEP companies	**814 ITEPs**	**$1.1 billion**	**9,857**	**7,877**	**-1980**

Source: ITEP applications, LED Fastlane, obtained 8/7/2017.

Lost revenue and net job change among ITEP regulars

1998 - 2017

	# ITEPs	ITEP Subsidies		Net change in jobs
Exxon Mobil (Refinery)	**88**	**$349 million**	**—>**	**- 1,427 jobs**
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OPPORTUNITY FOR ITEP REFORM

State of Louisiana

EXECUTIVE ORDER NUMBER JBE 2016 – 26

CONDITIONS FOR PARTICIPATION IN THE INDUSTRIAL TAX EXEMPTION PROGRAM

SECTION 6:

All Contracts providing for the Industrial Tax exemption shall also include Exhibit "B" consisting of approvals of the relevant governing Parish Council or Police Jury by resolution, Municipal Council by resolution, School Board by resolution and Sheriff by resolution signifying whether each of those authorities is in favor of the project. The Secretary of Economic Development will provide guidance to the local parties to Exhibit "B" as to the suggested alternatives for their consideration including parameters for job creation, payroll, percentages of exemption, and length of contract.