

The Changing Face of the Louisiana Industrial Property Tax Exemption Program (ITEP)

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A history of the Industrial Tax Exemption Program

- Created in 1936 and reinforced in the 1973 rewrite of the Louisiana Constitution.
- Significant incentive for siting of large industrial manufacturing projects in Louisiana to **offset** an otherwise **uncompetitive tax system**.
- Important component of the state's historical overall business taxation and economic development policies.



Photo: Michaud Chemical Plant, Historic New Orleans Collection

A history... (Cont'd)

- ITEP exempts manufacturing projects from parish (county) **property taxes** for a **certain amount of time**, after which the ad valorem tax is assessed.
 - *Originally 5 + 5 years; a.k.a, 10 year tax exemption program.*
- Applies equally to all improvements of land, equipment, and machinery applied to the process of manufacturing and all manufacturers seeking to invest in Louisiana.
- It is **not** a subsidy — applicants receive no government funds.
- It is a deferral **ONLY** property taxes.
 - *Companies continue to pay sales, income, and other taxes.*
- It is **not** a “jobs program” despite recent changes.

Why is ITEP important?

- It offsets an otherwise uncompetitive tax system.
- The program generates millions of dollars in sales and property taxes to local governments over time from new jobs and capital expenditures.
- Attracts manufacturing jobs - these have a greater economic impact on communities than other sectors.
- Many manufacturing projects would locate to other states without ITEP.

Creates
Jobs

Attracts
Investment

Encourages
Expansion

Increases
Tax Revenues

Changes to ITEP



The Governor and the Board of Commerce and Industry made significant changes to ITEP:

- Exemption for an initial period of five years at 100 percent with the option to renew for another three years at 80 percent exemption, **so 8 year exemption.**
- Applicants are required to **commit to job creation** baselines (i.e. no additional jobs = no ITEP benefit).
- **Local approval is required** for exemptions.
- Applicants are required to file **advance notifications.**
- Maintenance, replacement capital, and environmental upgrades are **no longer eligible** for exemption.

Louisiana Governor John Bel Edwards

The new requirements of ITEP

- Companies must enter **Cooperative Endeavor Agreement** with the state, and ITEP contracts must be approved by the Board of Commerce and Industry and the Governor.
- Local authorities (Parish Council/Police Jury, School Board, and Sheriff) must approve exemption by resolution.
 - *A municipal entity must also approve the exemption if involved.*
 - *Local entities can also decide the percentage of the exemption.*

The new requirements of ITEP

Three options for local approval:

- **Blanket approval**

- The local government can pass a resolution outlining the approved ITEP percentage for all relevant projects moving forward.

- **Pre-defined matrix**

- The local government can pass a resolution outlining the approved ITEP percentage based on the different metrics of each project (jobs, annual payroll, CAPEX...)

- **ITEP committee**

- The local government can pass a resolution creating an ITEP committee that will:
 - Determine the designee for each local governing entity.
 - Perform an analysis on each project.
 - Provide recommendations on each project to be voted upon by each local entity.

What has happened so far?

- Groups that supported Governor Edwards including environmental activists, unions, and school board members began attacking the ITEP program.
- *Together Louisiana*, an organization composed of Louisiana Interfaith Conference members and numerous environmental activist groups and backed by Chicago-based Industrial Areas Foundation, have waged an intense PR war against the program.



Together Louisiana

What has happened so far?

- *Together Louisiana* (and its chapters in Baton Rouge and Ascension Parish) have attempted to stop approvals of all new ITEP applications at the local level.
- Created many negative media headlines.
- There is confusion in all of the parishes involved in trying to handle the local approvals.
- Each parish has different interpretations of how to handle approvals.
- The state has offered little assistance to the parishes in trying to resolve the situations.

The hidden impacts of the ITEP changes

- The state's ability to attract *generational projects* has been severely reduced, if not eliminated.
 - *Generational projects* generate 300-400 high-paying, permanent jobs and more than 2,500 construction jobs.
- Company capital investment decisions, particularly for small capital for older facilities, have been impacted.
 - Capital will be spent where the return on investment (ROI) is higher — increased taxes reduces ROI.
- Competition for projects has grown.
 - United States vs. the world
 - Louisiana vs. other states
 - Parish vs. Parish

The hidden impacts... (cont'd)

- Large expansions and new manufacturing projects will go elsewhere in the future.
- The elimination of miscellaneous capital expenditures limits opportunities for existing facilities to compete against plants in other states and countries for modernization and incremental growth.
- Now more difficult to maintain the 40-60 year operational life of manufacturing facilities.

The hidden impacts... (cont'd)



- The new program still does not take into consideration **job retention** or the creation of **contract jobs**.
- Contract workers at manufacturing facilities are, in many cases, *permanent* jobs (i.e. embedded contractors).
- Contract labor for maintenance turnarounds, other regular functions, and new construction, are migratory in nature but should be viewed as *full-time jobs*.

The hidden impacts... (cont'd)

- The new situation creates challenges for companies looking to make large investments in major projects in Louisiana.
- Confidentiality on projects and competition under consideration is critical.
- It is important that all parties recognize the actions of those bodies on CEAs remain confidential.

The Sasol example

- Without ITEP or under the restrictions of the new program, Sasol would not have constructed its \$11 billion petrochemical complex underway in Calcasieu Parish.
- With construction underway, the project is estimated to create \$161 million in state taxes and \$135 million in local taxes.
- Once operational, the project is estimated to create \$7.5 million in state tax revenues and \$6.2 million in local tax revenues on an annual basis.
- Its impact on the economy of Southwest Louisiana will continue the next three decades.
- An economic study shows the benefit-cost ratio for the state will exceed 2:1 through 2050.

Where is the program now?

- New applications for ITEP have dried up.
- Several medium to large projects considering Louisiana have gone elsewhere.
- Modernization projects to existing facilities have been put on hold.
- Local officials complain about the new responsibilities bestowed by the program.



Public opinion on ITEP

- A November 2017 survey of 500 Louisiana residents found the following:
 - **69 percent** of all respondents stated that the tax breaks **should continue** to be offered to companies to improve the business climate and create jobs.
 - *A little more than a quarter of all respondents (26 percent) did not want to continue ITEP.*
 - **More than half** of all respondents (57 percent) believe the **local authorities should be allowed** to decide whether or not a company receives a tax exemption.
 - **More than half** of all respondents (56 percent) believe that ITEP should continue to be **used as an incentive** for industrial development and investment.

Closing

- Texas and other states are benefitting from the changes in Louisiana's ITEP program.
 - The Governor of Florida recently used the changes in the ITEP rules as an excuse to visit Louisiana to pursue businesses and attract them out of the state.
- Governor Edwards now realizes there may need to be some changes to his new rules.
- Louisiana Economic Development (LED) is in active discussions with the business community and economic developers about modifications to make the program more desirable.
- Decisions reversing some of the negative aspects of the program may be made within the next few months.
- If positive changes do not occur, a major campaign by industry dealing with the program's problems would begin.