

THE ADVOCATE

In a first, Louisiana sheriff rejects tax break for local business – a move that has business leaders concerned

By Rebekah Allen/The Advocate

FEB 18, 2018



East Baton Rouge Parish, the state Capitol sits only a few miles away from Exxon Mobil. The refinery and chemical plant has enjoyed almost \$700 million in property tax relief because of Louisiana's generous industrial tax exemption program. Photo by John Balance

In December, Caddo Parish Sheriff Steve Prator was asked to give a local business a small tax break. The company had purchased an expensive piece of new machinery and asked that the local government entities waive the additional property tax dollars they owed for the upgrade — something that would have occurred automatically in the past. But Prator, exercising an authority he'd never had before, said no. He reviewed the application and said the company wasn't creating enough jobs to convince him it was worth it to forgo tax dollars he could use to pay his deputies and keep the community safe.

The property taxes owed to his office on the upgrade were almost triflingly small — an estimated \$6,000 in total, spread over eight years. But similar tax breaks, allowed under Louisiana's costly Industrial Tax Exemption Program, have cost Caddo Parish's local

governments \$260 million over the past 10 years, according to the Louisiana Tax Commission. Governments around the state have lost out on more than \$10 billion in exempted taxes over that time.

Prator appears to be the first Louisiana official to reject a company's request for a break under new rules adopted for the program, designed to give local governments a say for the first time.

And now economic development officials and business leaders are on high alert, concerned that this could be the start of the unraveling of what they consider to be one of Louisiana's most competitive and reliable business incentives.

"The program has been one of the state's most effective economic development tools for decades," said Stephen Waguespack, president of Louisiana Association of Business and Industry, the state's largest business lobby and a major supporter of the break. "Right now, it's in a state of chaos, and that lack of certainty has made it very unclear about what the role is for locals and what it means for companies who want to invest here."

Prator said he's grateful to finally have some authority over the tax dollars. For years, he watched as businesses applied for and received tax breaks that affected his department's revenue stream, without anyone ever asking him what he thought about it.

"It's good that you can control your own destiny," he said. "We do survive on taxes. We pay deputies with tax collections."

For 80 years, the Industrial Tax Exemption program almost never said no. Any manufacturing company that made an investment of virtually any size could apply, and the state would waive their corresponding property tax obligation for 10 years. The decision was approved by the state, but the money given away would have gone to local sheriffs, school boards, and city and parish operating budgets. From 2006 to 2016, the exemption diverted \$13.6 billion from local governments across the state.

In 2016, Gov. John Bel Edwards issued a sweeping executive order that shrank the exemption from 10 years to eight, required companies getting the break to create or at least maintain jobs, and, in the biggest philosophical change, gave local authorities the choice to forgo the taxes or keep them.

Over the last year, as small government bodies have learned to navigate their new authority, many have reflexively approved the applications, saying they don't want to make waves. Others, including East Baton Rouge Parish, are still trying to figure out how they will proceed when applications come before them.

The Caddo application was submitted by Inferno Manufacturing, a nearly 100-year-old Shreveport company that produces valves and other specialty pieces used by the oil and

gas industry. In 2016, Inferno purchased a \$480,000 piece of machinery that will produce its line faster and has the capability of creating additional pieces.

Inferno said on its application that it was creating three jobs in connection with the investment, which would boost the company's payroll by \$200,000. But Prater was unmoved.

"It just didn't appear like there was an economic value for the citizens," Prater said in an interview, adding that he didn't feel like the investment of a new piece of machinery amounted to a real expansion.

"You have to weigh it out," he said. "Are the jobs that are created worth what public bodies are giving up in the way of paying for their services? The more business you have, the more demand you have for government services. But when you cut off the lifeline of government, and that's what you're doing, you're causing some homeowner to do without."

The sheriff's department actually receives the smallest portion of the property taxes that Inferno and other Caddo businesses pay. The larger giveaways, if granted, would affect the city, the parish and the school board, all of which will vote in the coming weeks. Those exemptions, taken together, would amount to about \$52,000 in total over eight years, according to an analysis by Together Louisiana, a Baton Rouge-based activist group that has been critical of the breaks.

Allen Organick, the president of Inferno, said he's still hopeful that the other Caddo Parish taxing bodies will grant the exemptions. He said for a small company of 21 people, the break is meaningful. It impacts the company's ability to buy more machinery and expand from its small office space.

But he also said he's worried more broadly about Louisiana's competitive advantage. He noted that manufacturing companies like his aren't tied to a local customer base like a grocery store. Their company could move to Texas, where there's no income tax.

"There was wisdom in the Industrial Tax Exemption Program when it was started so many years ago; it was a way to make it easier for businesses to make it here in Louisiana because we have a lot of disadvantages," he said.

Louisiana Economic Development Secretary Don Pierson said he would have preferred to see Inferno's tax exemption approved.

Even though Inferno only committed to creating three new jobs, he said, those jobs would have a multiplier effect, "creating a number of jobs beyond the fence line."

He also said he's concerned that the rejection could resonate outside of Louisiana, sending a message to businesses hoping to locate in Louisiana that local governments will not approve their tax breaks.

But **Lady Carlson, an organizer with Northern and Central Louisiana Interfaith**, which opposed the tax break, said local discretion is the whole point of the governor's new rules. Her group is the sister organization to **Together Louisiana**.

Carlson said the sheriff made the right call because Inferno's decision to buy new machinery is business as usual and shouldn't be subsidized by taxpayers.

"The Industrial Tax Exemption was never created for people to buy equipment; it was created to encourage manufacturers to locate to the state and create new jobs, or encourage new jobs by expanding operations," Carlson said. "Equipment is the cost of doing business and it should be budgeted into their bottom lines."

What's of greater concern to economic development officials is whether Prator's rejection portends more of the same. In the coming weeks, he'll have to weigh in on a much heftier tax exemption for Calumet Lubricants and Waxes, one of the top employers in the area. Calumet already withdrew its initial application a few months ago because it did not show job creation. Officials with the company said they made an error and would be redoing their application.

That tax exemption would amount to about \$40 million over eight years if approved by all of the Caddo governing agencies, according to a Together Louisiana analysis.

Prator said he'll continue weigh the pros and cons of every application.

"I don't begrudge the companies for trying, and I'm not a big proponent of taxes either," he said. "But fair is fair."