THE ADVOCATE

Louisiana's costliest incentive program allowed manufacturing companies to cut jobs while saving billions in taxes

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In 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. ADVOCATE SYAFF PHOTO BY JOHN BAL

Story Highlights

- Exxon Mobil, has gradually lost some 1,900 jobs in East Baton Rouge Parish, while receiving tax cuts worth almost $700 million over 20 years.

- The industrial tax exemption program has for years had no job requirement, and many companies have self reported job losses as they were allowed to forego millions of dollars in tax payments to local governments

- The tax exemption program for manufacturers is most generous in the state, costing more than $1 billion a year

- Manufacturing jobs are down across nation, state and parishes, as technological upgrades and contracting employees reduces direct employment. Tax exemption subsidizes job loss.

Over the past 20 years, Exxon Mobil has been exempted from paying almost $700 million in property taxes that would have otherwise helped pay for East Baton Rouge Parish schools, police officers, parks, libraries and other parish operations.

The tax breaks were awarded in the name of economic development — a notion that if you give a business a financial incentive to upgrade or expand, or a new firm a reason to relocate, it will create new jobs for locals.

Since 1997, Exxon Mobil, the world’s 10th-largest company by revenue, has sought and received more than 200 tax exemptions for expansions, maintenance overhauls and technology upgrades. They were awarded through Louisiana’s Industrial Tax Exemption Program, which dates to the 1930s and is one of the largest and most generous giveaway programs of its kind in the nation, according to watchdog groups.

The breaks Exxon has received over the past 10 years lowered the company's property tax burden in East Baton Rouge Parish during that time by roughly 54 percent.

But as Exxon was getting subsidized to grow its footprint in and around Baton Rouge, its local employee count was shrinking. Louisiana shielded the massive energy company from more than a half-billion dollars in tax payments even as its local payroll was trimmed by almost 1,900 jobs — a cut of more than 40 percent.

Exxon’s job losses aren’t necessarily unusual. Industry experts attribute the downsizing — and similar job losses elsewhere in the manufacturing sector — to a combination of outsourcing jobs to outside contractors and the implementation of technological upgrades that reduce the need for manual labor.

Operations at most plants have moved from pen and paper to computers. More product is moved mechanically instead of being transported by laborers.

Manufacturing, in short, is evolving with the times. But Louisiana's 80-year-old tax break for industry has been slow to catch up. The rules of the program have hardly changed in decades, and the shortcomings have become increasingly obvious.

The biggest problem: By giving manufacturers a strong financial incentive to modernize, the program often effectively pays Louisiana's largest corporations to cut staffing.

Rather than acknowledging job losses, the state's economic development arm puts a positive spin on the exemption program, sending out annual reports claiming the program is creating thousands of permanent manufacturing jobs. But in reality, the federal Bureau of Labor Statistics reports that Louisiana has lost 36,653 manufacturing jobs from 2001 to 2016 — a slide of more than 21 percent.

East Baton Rouge Parish ranks seventh among Louisiana's 64 parishes in terms of money given away through the industrial tax exemption since 2006. Within the parish, Exxon Mobil is the top recipient. But it's hardly the only local company to benefit from government largess even as it jettisoned jobs.

For instance, Formosa Plastics Corp., a plastic manufacturing company, has lost 340 jobs over 16 years but received tax breaks amounting to about $50 million in that time. BASF Corp. lost 49 jobs while avoiding $6 million in property taxes. Louisiana Fish Fry Products took $621,000 in tax savings and cut 125 jobs from 2007 to 2016. East West Copolymer, a rubber manufacturer, received $5.8 million in breaks as it sloughed off 221 jobs, and that was before it filed for bankruptcy and shut down completely this year, eliminating another 110 jobs. The plant has since been purchased by Exxon.

Over the past 10 years, the chemical company Albemarle has enjoyed $12.8 million in tax exemptions, and $1.7 million of that was approved since 2015, when the firm announced it was moving its corporate headquarters from Baton Rouge to North Carolina.

Almost half of the 77 companies in East Baton Rouge Parish that filed for the tax exemption asked for it only one time — a group that includes The Advocate, which was shielded from $5.7 million in property taxes from 2005 to 2015 — so their filings do not show whether they gained or lost jobs.

But many larger companies have filed for a steady stream of exemptions over the years, and each time they filed, they had to list their job tally. Of those companies, 16 showed job losses and 24 showed gains while receiving the tax exemption, according to an Advocate review of the filings.

The companies reporting gains were typically smaller or midsized companies that received much more modest tax breaks. For example, Orion Instruments, a manufacturer of magnet-based technology, created more than 50 jobs over six years after receiving an exemption that cost the parish less than $500,000.

But although more individual companies reported gains than losses, the total number of jobs lost outpaced the number of jobs created. And nearly all of the breaks went to companies that already were operating in the parish, like Exxon Mobil — rather than to firms seeking to open up shop.

The same pattern can be seen across the state. Often, the companies receiving the largest giveaways are global conglomerates that jettisoned jobs even as Louisiana taxpayers sent them lucrative subsidies.

For example, Williams Olefins, a petrochemical manufacturer with operations in Ascension Parish, lost 57 local jobs while enjoying a property tax reduction of about $136 million. Louisiana Sugar Refining in St. James Parish trimmed 120 jobs while avoiding $21 million in tax payments. In Caddo Parish, General Motors reported a loss of 434 jobs even as the giant automaker was shielded from $180 million in local tax payments.

Even in some cases where jobs were added, the return on the state's investment often was paltry. For example, Georgia-Pacific, another major beneficiary of the program in East Baton Rouge Parish, has avoided $267 million in property taxes over the past 20 years. Today, there are 46 more jobs at Georgia-Pacific than there were two decades ago. It's a net gain, but the return works out to $5.8 million in deferred taxes for each job.

Likewise, Honeywell International, which makes products used by oil and natural gas refineries, received about $49 million in property tax forgiveness while increasing its job tally by nine, for a cost of $5.4 million per job.

Although job creation is not a requirement of Louisiana's tax incentive for manufacturers, it's the underlying rationale: That's why companies that apply for the exemption are asked to list their employee counts. The Advocate calculated employee losses and gains based on what the companies have self-reported to the state for the past 20 years, as far back as the reports are publicly available. The reports also identify the estimated tax benefit awarded to the companies, although Louisiana Economic Development notes the numbers don't account for depreciation, which is calculated individually by each parish assessor.

Experts say it's foolhardy to pay manufacturers to embark on projects that result in long-term job losses — even if it's good for the company.

"It's one of the great mysteries of public policy: Why subsidize capital improvements for the manufacturing industry?" said Michael Hicks, director for the Center for Business and Economic Research at Ball State University in Indiana. "You're spending a lot of money to attract jobs that won't actually come, or you're actually increasing the rate at which firms are likely to buy or substitute machinery for people."

The loss of jobs in manufacturing is hardly unique to Louisiana: Jobs in that sector are down nationwide, thanks to technological improvements and access to cheaper labor overseas. But given those trends, Hicks wonders why Louisiana and other states continue to lavish these businesses with tax breaks.

"Incentivizing a sector that is shrinking in employment doesn't make sense," he said.

Most expensive break

The industrial tax exemption is by far the state's costliest incentive program. But oddly, the break doesn't affect the state's budget directly — perhaps one of the reasons state officials have never seen fit to rein it in. Rather, the money comes out of the hide of local governments, which have never before had a vote on whether they wanted to give up the money owed to them.

From 2006 through 2016, the exemption cost local governments $13.7 billion in lost tax revenue, according to the Louisiana Tax Commission.

That works out to roughly more than $1 billion a year, making the program about three times more costly on an annual basis than all of Louisiana's other corporate tax incentive programs combined. The widely derided film tax credit program, by comparison, cost Louisiana taxpayers about $283 million in 2016.

Although the film program and other incentives have a direct impact on state finances, the effect from the industrial tax exemption is powerful even if it's indirect. After all, almost a quarter of the state's budget goes to finance local schools and governments. And the state spends more than $124 million a year to provide supplemental pay to local law enforcement officers and firefighters. Those measures are necessary partly because local governments just don't have the money.

What's more, most of the state's other incentive programs — such as Quality Jobs or Enterprise Zone, which has been widely derided as a boondoggle — do require the companies getting the breaks to account for new jobs. But the Industrial Tax Exemption Program has never had such a requirement — or any requirements at all, other than that the recipient must make a capital investment of a certain size. Even that requirement has been loosely interpreted, with routine improvements and renovations qualifying for tax relief alongside major new investments.

Until a year ago, the program exempted all local property taxes on such improvements for manufacturers for 10 years, for any project deemed eligible. Though the breaks were nominally reviewed, they were effectively rubber-stamped by the state Board of Commerce and Industry even though the tax exemptions affect local government coffers. The board has approved virtually every application it received for the Industrial Tax Exemption Program, in part because it was never seen as a discretionary award.

But the effects of the giveaway are often serious.

Since 2006, East Baton Rouge Parish's taxing authorities have lost $571 million to the industrial tax exemption. Ascension Parish gave up $958 million. Jefferson Parish gave up $156 million and Orleans Parish gave up $112 million, according to the Louisiana Tax Commission.

But the biggest losers, by far, have been the parishes in southwest Louisiana, a breeding ground in recent years for massive, multibillion-dollar megaplants that process liquid natural gas. Those plants have taken full advantage of Louisiana's generous break: Since 2006, Cameron Parish has lost out on $4.3 billion and Calcasieu Parish has given up $3 billion in property taxes. That's three times the amount forgone by the No. 3 parish, St. Charles, which has lost out on $1 billion.

Experts question the wisdom of so much largesse with so few strings attached.

"What's the point of economic development if not to broaden your tax base and create job opportunities?" said Brian Eddington, general counsel for the Louisiana Assessors' Association and former chief counsel of the Louisiana Tax Commission. "The problem is the (tax) base is not getting broadened and there's really not any requirement that they create local jobs."

The critiques of Louisiana's Industrial Tax Exemption Program date back decades. In 1998, a left-leaning organization called Louisiana Coalition for Tax Justice examined the program and found that more than half of the exemptions were going to Fortune 500 companies, and that only 6 percent of the exemptions went to companies building new plants. Moreover, the group found that 75 percent of tax exemptions went to companies where no new permanent employees were hired.

But nothing much has changed since then. In fact, the problems with the program appear to have gotten worse.

Broderick Bagert, an organizer with Together Louisiana, a faith-based nonprofit, has taken up the fight to reform the tax program. He called the exemption "the least effective and most wasteful government program in the history of the state and certainly the most expensive."

"It has been entirely unscrutinized and has granted a blank check to subsidize private business without even asking those businesses to demonstrate that they need it, let alone that it's worth the investment," Bagert added.

Last year, Gov. John Bel Edwards issued an executive order to scale back the program. For the first time, under the new rules, companies will have to create jobs, though the rules aren't exactly ironclad. The executive order gives "favor" to companies that create new jobs, but companies that simply can demonstrate they're retaining jobs are still eligible.

There are no clawbacks, so the worst fate a company can suffer for cutting jobs is losing its chance to get the tax exemption renewed after five years. And the accounting has been liberalized. Now, for the first time, companies applying for the industrial tax exemption can include indirect jobs and contract workers into their counts, Louisiana

Economic Development Secretary Don Pierson said. That means they can still qualify while cutting direct jobs if the company can show its impact created or preserved jobs elsewhere in the market.

Bagert's group says the governor's changes, although welcome, don't go far enough.

"What we've already started to see is now every application that comes through says it's retaining the entirety of its workforce," Bagert said. "The rules in the executive order are stronger in some places than others, but in this case, there is a loophole the size of the whole state in terms of retention of jobs."

The executive order also seeks to end the practice of awarding tax exemptions for routine improvements, required environmental upgrades and new replacements for machinery. But some skeptics have suggested companies might be able to frame large capital expenditures as expansions and still qualify.

The most significant change in the executive order may be that approval of the tax exemption now requires a resolution of support from local taxing agencies. Also, the order shortens the maximum length of an exemption from 10 years to eight years, and in the final three years, the property tax exemption will be capped at 80 percent rather than 100 percent. Those changes should trim the program's costs by at least 25 percent.

Edwards said it's "essential" for companies receiving the tax exemption to be held accountable for creating jobs. But he also noted the challenges faced by manufacturers and said some facilities will have to choose between modernizing or shutting down.

"Many of our mature, legacy manufacturing plants are in small towns that rely on these employers as economic drivers. Over time, the challenge is to keep those high-paying jobs," he said. "Often, we score a major victory by convincing a manufacturer to keep its production going and its doors open by modernizing those plants and mills. Saving quality jobs that are the lifeblood of a local economy can be more important than creating lower-paid, less-skilled jobs. And it's a far better alternative than losing jobs."

Automation and contractors

Exxon Mobil officials say they have not gone through "significant targeted downsizing efforts" in East Baton Rouge Parish, though they added that the company doesn't have a tally of employment that predates 2010. However, they don't agree that the slide of 1,900 direct jobs dating to 1998 that is shown on their tax applications is a correct reflection of annual historic job counts. They say that the tax applications only captured monthly counts at the point in time of application.

Over the past seven years, Exxon says it has lost just two jobs around Baton Rouge, according to documents it provided The Advocate. But over the same period, Exxon Mobil's tax applications to the state indicate the company lost about 275 jobs. The company says the numbers on those applications might not be entirely accurate because job creation wasn't a requirement for the tax exemptions.

Exxon officials and other industry leaders also say such declines are overstated because they do not account for contract workers. For instance, Exxon had about 3,800 contract employees in 2017, the company reports, up from 2,200 contract employees in 2010.

However, about half of Exxon's contracted workforce is part time, while the company employees are full time, according to company spokeswoman Stephanie Cargile. She also said every contract employer is either headquartered in Louisiana or has a significant presence in the state.

The job losses suggested in Exxon’s reports to the state mirror data on employment trends gathered by the U.S. Bureau of Labor Statistics. For instance, that agency reports that in East Baton Rouge Parish, there were 14,254 manufacturing jobs in 2001. That number dropped by 13 percent to 12,347 jobs by 2016. Most of the loss was in the more narrow category of chemical manufacturing, which would include Exxon Mobil.

Charles Dabadie, a regional manager for Exxon Mobil's chemical division, said the local economy benefits regardless of whether a job is retained by Exxon or a partnering contractor — though it is Exxon, of course, not the contractor, that gets the tax break.

"I'm trying to retain jobs, whether they're Exxon Mobil or they're embedded contractors," Dabadie said. "What I don't want to see is us shrinking."

Loren Scott, a Louisiana economist who is often hired to do studies for Exxon Mobil, noted that overall output in manufacturing has surged over the same time that job totals have purportedly shrunk. He said he doesn't believe automation could account for all of the growth in productivity. He said he thinks the jobs are being undercounted.

"In the 1980s, Exxon had 3,500 employed there, and everyone of them was wearing an Exxon Mobil shirt," Scott said. "Today it's only about 1,300 with Exxon Mobil shirts on, and maybe 2,200 that say Turner Industries or Cajun Contractors or something.

"But you have the same number of people here producing jet fuel and gasoline. It's really a fake decline in manufacturing."

But Hicks, the Ball State economist, disagreed with Scott's assessment.

"The notion that manufacturing automation isn't reducing employment is one of the most absurd things I can imagine an economist saying," Hicks said. "I don't dispute that there is some outsourcing going on, but it's not enough to account for all the gains in productivity."

Keith Cashio, local labor union president for Exxon Mobil's Baton Rouge operations, said he has seen many jobs once held by Exxon employees shift to contractors. But he also said management speaks openly to employees about shedding positions because of technology upgrades.

Today, for instance, Cashio said there are fewer people who do manual rounds checking to make sure equipment is working properly at the various sites of the refinery and chemical plant. He also said more maintenance work is contracted out, and operational jobs at the plant are being consolidated.

"They've consolidated the jobs. Initially, they said they did it because of innovation," Cashio said. "They said we don't need a person here because we've innovated more and automated things, so we don't need a person doing all this stuff."

A supervisor at Formosa offered a similar defense to that given by Exxon, saying the payroll numbers failed to account for the growth in contractors.

"We've installed more productive technologies over this course of time, so there is that," said Omer Wolff, a Formosa director. "You add efficiencies. But there's also been some shifts in the workforce itself, from those that we have on our payroll directly to those indirectly working as resident contract workforce."

Kendall Gerald, a labor union president for Georgia Pacific’s Zachary-Port Hudson plant, said his company also leans heavily on contractors. But he said he doesn't see it as an equal trade-off for local taxpayers, because contract workers are often part time and live out of state, he said.

Seven years ago, he said, there were about 225 hourly maintenance workers at the Port Hudson plant. Today, that number is about 135.

"If they're giving them breaks on property taxes, then they ought to be hiring permanent employees," Gerald said, adding that contracting saves the company money in the form of benefits and retirement compensation.

Gerald questioned what benefit state and local governments realize from subsidizing contract workers from out of state. He noted Georgia-Pacific has contracted with an industrial machinery company called Fabio Perini, based in Italy, which has sent workers to Louisiana to work on machinery. Other contractors are from other states, including two Wisconsin companies, E80 Plus Constructors and CR Meyer; and an Alabama company, WB Shedd, he said.

"Sometimes they are painting, some of them do piping, some are mechanical," Gerald said of the contract workers. "At times, when there's a lot of work going on, you'll see more out-of-state workers than in-state. But on a regular, day-to-day basis, it's about 50 percent out-of-state to 50 percent in-state."

Patty Prats, a spokeswoman for Georgia-Pacific, said out-of-state contractors are brought in only to deal with specialty equipment. She said sometimes the work requires skills or certifications that local maintenance workers might not have.

"We bring people for expertise, but they don't stay on site," Prats said, adding that the mill has an annual payroll of $100 million a year and invests another $100 million in capital expenditures every year. "We bring people in because it's a necessity."

Stephen Toups is the executive vice president of Turner Industries, one of the largest industrial contracting firms in the nation. The company employs about 10,000 people in greater Baton Rouge, mostly at industrial plants like Exxon Mobil, BASF and Shell, Toups said.

Those people are full-time Turner employees and receive benefits, Toups said — adding that they live and pay taxes in the communities they work. He said Turner has grown from a $500 million company in 1997 to a $3 billion company in 2016, growth he said has benefited the capital region. At least half of Turner's growth has been in Louisiana, he said.

How much is too much?

It's not that Louisiana's big tax break for industry allows manufacturers to dodge their liabilities entirely.

Even with all the subsidies, Exxon Mobil, which has been in Baton Rouge for longer than the Industrial Tax Exemption Program has existed, is still the parish's biggest taxpayer. From 2006 to 2016, the petroleum giant paid an average of $29 million per year — for a total of $323 million — in property taxes.

But that misses the point, critics say.

"The better question is: What would Exxon Mobil be paying if not for the tax exemption?" said Eddington.

The answer is that Exxon would have more than doubled its contribution. Over the same time it paid $323 million, the company was exempted about $380.7 million.

Bagert, of Together Louisiana, and others also argue that many of the oil and gas plants benefiting from the tax credits are in Louisiana because they need to be here. The plants enjoy proximity to the Mississippi River and other deepwater ports, access to crude oil and natural gas, and a relatively lax regulatory regime, and they've already got enormous capital investments here.

Greg LeRoy, executive director of Good Jobs First, a left-leaning think tank that scrutinizes tax incentives, said property taxes typically make up less than 1 percent of a company's overall expenses. He argues that makes a property tax incentive a minimal consideration in most investment decisions.

That view isn't limited to those on the left. Scott Drenkard, of the conservative-leaning Tax Foundation, said Louisiana appears to be giving massive tax breaks to companies that are likely to locate in Louisiana anyway.

"Some of these things can only happen at the mouth of the Mississippi," Drenkard said. "I'm really critical of programs that provide incentives for stuff that has to happen. There are a lot of opportunities in Louisiana because of its geographic position, and some of that has been squandered by these attempts to make deals with anybody who asks."

Dabadie acknowledged that Exxon Mobil isn't planning to leave its home of nearly 100 years. But he said when the company is making decisions about where to invest and expand, issues like tax burdens and especially tax predictability can be deciding factors.

"We're always comparing where we can get the best return," Dabadie said.

Hidden multipliers?

Steve Windham is chairman of the state Board of Commerce and Industry, which doles out the incentives, and a former deputy secretary of Louisiana Economic Development. He acknowledges that automation can cost jobs, but he said it also can increase productivity, which creates jobs in other ways.

For example, he said, if a lumber company upgrades its technology, it may lose jobs at the site, but increases in productivity could create new jobs elsewhere.

"You may lose 25 jobs within the facility, but that lumber has to come in, and it has to be cut and transported — nobody looks at that," he said. "It may have taken me 400 truckers to produce before, but now I may need 500 truckers."

That argument of a hidden multiplier is echoed by other defenders of the industrial tax credit.

"I liken manufacturing jobs to the lifeblood of the Baton Rouge economy," said Michael DiResto, vice president of the Baton Rouge Area Chamber. "What we see is that manufacturing jobs have a fourfold effect of a multiplier for jobs."

He noted that the projects associated with the industrial exemption have created many thousands of temporary construction jobs and yielded hundreds of millions of dollars of investment.

Windham said it may not make sense to attach job requirements to the industrial tax exemption. Rather than incentivizing direct jobs, he said the tax breaks promote tax revenue — the idea that increased productivity will mean higher wages and thus more money coming back to state and local government.

However, there's never been a study to determine whether the tax incentive is generating a return on investment for the communities it affects.

Windham is nonetheless convinced the program is essential to Louisiana's prosperity.

"I know the value of the manufacturing industry; it is part of the core industry that makes up this state," he said. "We need our industries, and we value them. To me, that's the bottom line. If we don't support industries, then the world is out there and they can go to the world."

But Bagert said the giveaway of billions of dollars has to be based on more than a hunch.

"There've been no standards of accountability, no measures for appropriate decision-making, no appraisal by the department that even tries to justify or assess the outcomes of the program," he said. "It's the sloppiest public program our state has ever created."

Editor's note: This story was changed Dec. 18 to clarify Exxon Mobil's view that the job counts the company reported to the state on its exemption applications may not be accurate.