By giving companies an inducement to modernize, La.'s Industrial Tax Exemption Program essentially pays large corporations to cut jobs

PERVERSE INCENTIVE

A costly break
The tax revenue given up annually to the Industrial Tax Exemption Program from 2006-2016 is concentrated in two parts of the state: southwest Louisiana and the manufacturing corridor along the lower Mississippi River. The breaks are given out by a state board but depletes local governments of tax receipts. Average given up annually by parish:

- None
- $0-$5 million
- $5-$10 million
- $10-$50 million
- $50-$100 million
- $100-$400 million

Source: Louisiana Tax Commission

Behind them, Cameron and Calcasieu parishes account for 54 percent of the breaks awarded through the program between 2006 and 2016.

BY REBEKAH ALLEN
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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.

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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 mediumized 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
A steady decline

Manufacturing jobs in Louisiana and within East Baton Rouge Parish in particular have been on a long slide, thanks to increasing automation and the migration of manufacturing to countries with cheaper labor. Exxon Mobil has seen a similar decline.

![Graphs showing manufacturing jobs in Louisiana and East Baton Rouge Parish](source: The Advocate's analysis of Exxon Mobil's tax exemption applications)

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 these 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 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

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[Image: Exxon Mobil is the single largest beneficiary of the Industrial Tax Exemption Program in East Baton Rouge Parish. It has been shielded from paying almost $700 million in property taxes to the parish over 20 years, while it has trimmed about 1,000 jobs.]
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 Pie- rson 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 practices, 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 the company to establish its production 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 fair 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. As a result, they said they couldn’t comment about the slide of 1,900 direct jobs dating to 1998 that is reflected in their own tax applications.

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 Dabadia, 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,” Dabadia 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 it’s hard to think 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 2,000 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 Stare econom
ing 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.

"We 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 added 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 shift in the workforce itself, from those that we have on our payroll directly to those indirectly working as resident contract workers.

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 tradeoff 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 53.

"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 Sheid, he said.

"Sometimes they are painting, some of them do piping, some are mechanical," Gerald said of the 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 in 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 $50 million company in 1997 to a $3 billion company in 2016, growth he said has benefited the state and 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 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 million.

"There are others, too," said another 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. They 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 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 is 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 happened. 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 that 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 deputey 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 100 trucks to produce before, but now I may need 100 trucks.

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

"I liken manufacturing jobs to the livelihood of the Baton Rouge economy," said Michael DiRocco, 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."

Follow Rebekah Allen on Twitter, @rebekahallen.
BOOM AND BUST

As companies spend billions of dollars in construction, Cameron Parish unable to reap the vast rewards

BY REBEKAH ALLEN
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In a marshy, quiet corner of southwest Louisiana, the residents of Cameron Parish are sitting on a gold mine, but they are unable to reap its full rewards.

Over the past decade, their region has seen an explosion of capital investment from huge corporations erecting sprawling megaplants, thanks to the area’s easy access to deep-water ports and abundant pipelines supplying cheap natural gas.

Two companies alone, Cheniere Energy and Cameron LNG, are collectively investing $27 billion in Cameron Parish into new facilities that process and export liquefied natural gas. Cheniere Energy alone is spending about $20 billion, the equivalent of building the 10 costliest NFL stadiums.

Theoretically, at least, the crush of new construction should be generating hundreds of millions of dollars in property tax revenue each year. Each new facility would be taxable — and generate revenue for a local school system, or a county or state road or bridge, or a school district.

But the truth is, even amid such a remarkable building boom, Cameron Parish’s government is still limping along, short of money for basic needs such as a new school and more sheriff’s deputies.

The disconnect between the lack of resources for basic public services and the unprecedented capital investment in Cameron Parish can be traced to Louisiana’s Industrial Tax Exemption Program, which allows manufacturing facilities to be exempt from paying property taxes on new facilities for 10 years. By year 11, when their owners would be expected to start paying property taxes, the value of the industrial plants and machinery usually has depreciated so dramatically that local governments can hope to receive only a modest bump in collections.

That conundrum, and others around the state, explains why the Industrial Tax Exemption Program has gone unchallenged in recent years. Even in a state that prides itself for a welcoming attitude toward industry — even dirty industries that many other states discourage — experts and some politicians have begun to question whether it makes sense to give away so much for so little.

Nowhere in the state do the consequences of the program play out more spectacularly than they do here, in a place that is simultaneously one of Louisiana’s largest and least populous parishes.

Cameron Parish has no local sales tax. And though local government operations are almost entirely dependent on property taxes, there are few businesses outside of the industrial plants that bring in tax revenue.

From 2011 to 2016, Cameron Parish’s forgone property taxes amounted to $4.2 billion — an average of $700 million a year. Incredibly, that works out to more than $100,000 for every man, woman and child in the parish, each year. The parish exempts about 10 times the amount of property taxes it collects, far and away the highest such ratio in the state.

Right next door, Calcasieu Parish, home to Lake Charles, was No. 2 among Louisiana’s 64 parishes in industrial tax exemptions, with $2.8 billion given away over that same span. Between them, those two parishes accounted for the most forgone property taxes through the Industrial Tax Exemption Program than the other 62 par-
nervous about recent changes to the program implemented last year could seek similar tax arrangements. And the effect of the program is most obvious in Cameron Parish, the diversion of property tax dollars through the program happens across the state, affecting budgets for police protection, pothole filling, pay for public school teachers and other government services.

It’s an especially pressing issue in Louisiana’s industrial core, which, along with Cameron and Calcasieu, includes the string of parishes along the Mississippi River between Baton Rouge and New Orleans.

The revamped program, made through a 2016 executive order signed by Gov. John Bel Edwards, aimed to change the approval process from a fait accompli in which nearly every project was accepted to one where local governmental bodies, like the Cameron Parish Police Jury, could decide whether they can afford a particular exemption.

The tax exemption had other weaknesses in the view of the governor and his appointees at Louisiana Economic Development. Unlike similar programs in other states, Louisiana’s industrial incentive lacked job requirements, was given even for routine capital investments and was awarded to every eligible company for a full 10 years at 100 percent forgiveness, without the consideration of the merits of the project.

“Not every state has a property tax exemption for manufacturers, but Louisiana was the only state to approve those exemptions without formal input from local taxing bodies that provide the tax exemption.” Edwards said by way of explaining the new process. “I thought it was time to change that.”

A tax swap

After 2005’s Hurricane Rita, Cheniere Energy found itself in a tough spot. It was building its regasification facility — where liquefied natural gas is converted back to gas — in Cameron Parish, but the damaged roads and spotty infrastructure of the decimated parish couldn’t support the needs of the growing industrial campus.

The parish didn’t have the tax break to make improvements quickly, and the tax exemption the company enjoyed was only going to further delay progress. So Cheniere and the Police Jury struck a deal to have the company pay $25 million in property taxes over its first 10 years, rather than being totally exempt. The deal would work like a loan, with the company getting a dollar-for-dollar credit over its second decade for those early payments.

Those dollars have generated an extra $361,000 a year for the Police Jury, which was able to use the funds to build road improvements and to rebuild government buildings. The school system received $128,000 a year and was able to issue bonds to rebuild two schools damaged by Rita.

Last year, Cameron LNG officials tried to negotiate a similar deal. But their version was going to give the parish much more money upfront in exchange for a smaller tax burden for the company over the long run.

The proposed deal called for Cameron LNG to pay $21.5 million a year for 20 years, amounting to about $300 million. In its first year, the deal would have costed Cameron Parish’s property tax revenues by almost two-thirds. Even so, the parish assessor projected that the deal ultimately would cost the parish $1.5 billion if otherwise it would have collected.

Local officials called the assessor’s projections of lost revenue too high, saying he didn’t appropriately account for the rapid depreciation of industrial equipment. They also said he failed to consider that tax rate likely would be reduced as more money came in, limiting the company’s future tax liability.

But many residents sided with the assessor. They were worried about giving up so much future tax revenue, money that ultimately could mean dramatically lower bills for themselves, as well as better schools and infrastructure.

Ultimately, the deal was deemed unconstitutional by a district court judge and then an appellate court, both of which found that property taxes, by law, must be tied to market values and cannot be arbitrarily assigned. The deal that parish officials had contested with Cameron LNG did not meet that test.

Margaret Jones, who retired after working for Cameron Parish Schools for 30 years, was a leader of the fight against the ban. She said it was frustrating to watch a huge corporation get a pass on hundreds of millions of dollars she felt the parish badly needed.

“One school board and the rest of the parish are very dependent on property tax income,” Jones said. “It’s not like LNGs are really fantastic neighbors to have, so when you encourage businesses to come to your town, you expect them to pay people and pay their taxes. That’s why you want them here.”

Ironically, perhaps, opponents and advocates of the Cameron LNG deal all wanted the same thing: financial security for a struggling parish. The question was how to achieve it.

Police Jury and School Board officials said there was major value in getting around the 10-year waiting period and building predictability into their budget.

Ryan Bourriaque, the parish’s administrator, also said he believes the ‘adjunct depreciation schedule’ for industrial machinery means assumptions about revenues in the second decade are iffy. Manufacturing and industrial equipment loses most of its taxable value in the first 10 years — usually more than 90 percent of it, according to Jay Delashmit.

Lake Charles who helped negotiate the Cameron LNG deal for the parish.

“When industrial tax exemptions of those facilities finally come on the tax rolls, what percent do you think we get from the original contract? The answer is: hardly nothing. And that’s a fact.”

RYAN BOURRIAQUE,
Cameron Parish administrator

for industry.

Cameron Parish’s administrator and schools superintendent say they have a list of $2 billion in infrastructure needs, including plans to replace a new school that’s still in use despite being damaged by Hurricane Ike.

Because parish officials have had their hands tied by the industrial tax exemption, which is granted by a state board that typically rubber-stamps applications, they have attempted to broker deals that go around the program. These have involved getting companies to agree to pony up some property tax payments during the first decade in exchange for a lower tax burden over the long term. At least one of these deals has been controversial locally, riling up taxpayers and requiring court intervention.

Cameron Parish’s efforts to work around the tax exemption may offer a glimpse into Louisiana’s future, as government and corporate officials...
accordingly, that would allow us the infrastructure improvements that we don’t have now,” Bourriaque said.

Although they’re at odds over whether the deal was good for the parish, Bourriaque and Jones generally see eye to eye on what the parish needs.

On a recent day, Jones sat in her car for 30 minutes at the Calcasieu Ship Channel, waiting for a 60-year-old ferry to arrive to haul her across the narrow waterway, which is only a few hundred yards wide. The north-south strait, which flows to the Gulf, divides the parish. The unreliable ferry is the only way across — other than a two-hour detour north to go around it.

Both Jones and Bourriaque separately complained that either the ferry needs to be replaced or a bridge built to take its place. They also both cited the need for coastal restoration projects, like a sea wall, to protect the low-lying parish from Gulf storms.

Last year, the Chemicere agreement expired, and its impact on tax rolls is already being felt. The Police Jury and the Sheriff’s Office are both short an extra $300,000 a year they had received for 10 years.

Schools Superintendent Charles Atkins says his system is operating at a deficit, quickly burning through a reserve account after voters rejected a property tax renewal a few years ago.

Even the narrow roads that surround some of the new industrial construction are in lousy condition, Jones said. And she said she thinks the companies are to blame — directly and indirectly.

“ar the roads are in bad shape; they’ve put terrible stress on our waterworks, and these are the kinds of things that taxes pay for,” Jones said. “If they don’t want to foot the bill, then what’s the point?”

Absent the deal, Cameron LNG’s operations will take the industrial tax exemption.

“It was unfortunate that the proposed cooperative endeavors or agreement was denied as we strive to contribute to the growth of the economy,” said spokeswoman Anya McInnis in a statement on behalf of the company. “However, we remain committed to being a good corporate partner in Cameron Parish.”

A new workaround?

After the Cameron LNG deal was killed by the courts, it was given a second chance by the Louisiana Legislature.

Dubbed the “PILOT” bill, for “payments in lieu of taxes,” it was sponsored by state Rep. Alan Seabaugh, R-Shreveport, who said it was a direct outgrowth of the implosion of the Cameron LNG deal.

The bill was approved by the House and had the governor’s backing. But it was killed in a Senate committee.

“There was a perception that big national companies were going to compensate to make their decisions,” Jones said. “The oil companies are only going to hire people with degrees and certifications, not to kill the bill. Seabaugh said assessors were motivated by self-interest: A small percentage of property tax valuations go to fund the assessors’ retirement system, and the bill would have allowed some massive projects to be taken off the tax rolls.

Eddington, of the assessors group, called the accusation “asinine,” adding that assessors’ individual retirement payments are based on years of service, not how much is in the fund.

“It’s ridiculous,” he said. “The reason we’re opposed to it is because it wrecks the tax code. Everything is based on the simple premise that everybody is taxed in the same way.”

Seabaugh said he’d come up with another hearing. Fiscal bills can be filed only every other year, so he said the bill will either be filed in a special session next year or the regular session in 2019.

Cameron Parish officials said they’re hoping the law will be changed so they can resume negotiations with Cameron LNG.

Worth it?

Despite the challenges the industrial tax exemption has created, local officials say they are still largely supportive of the program. And although they’re struggling to come up with money, they still trust the state government officials who gave away their tax dollars in the first place.

“I’m sure these economic development professionals are well-versed on those programs and have an understanding of why they’re needed,” Bourriague said.

And they recognize that

they’ve gotten some economic benefits from their new mega-plants — even if they haven’t taken the form of tax bills.

In 2016, Cameron Parish had the lowest annual unemployment rate in the state at 4.4 percent, according to the federal Bureau of Labor Statistics. Its average weekly wage last year was $1,471, good for No. 1 in Louisiana and above the national average.

Although Cameron Parish actually lost 42 manufacturing jobs between 2011 and 2016, according to the Bureau of Labor Statistics, the total number of jobs in the parish quadrupled over the same period. That number, which includes temporary construction jobs, jumped from 2,700 jobs to more than 11,000 — 1.5 jobs for every man, woman and child in the parish.

“We, the Police Jury, have never given away one single dollar. The state did that,” Bourriague said. “But let’s say the industrial tax exemption never existed — can we guarantee these companies would have located here otherwise?”

Jones has a different take.

Around town, there are lots filled with dinghy white campers and mobile homes where temporary construction workers live, transients who will leave once the construction boom is over.

Cameron LNG and the other plants say they’ll create hundreds of permanent jobs, but Jones wondered aloud if the cost to taxpayers is worth the billions in lost property taxes.

Absent the PILOT deal, Cameron LNG can’t get its industrial tax exemptions, which from 2003 to 2017 amounted to $3.1 billion in relief. Cameron LNG said it expects to employ about 275 people; however, 50 of those people will work in Houston. So far, each Louisiana job created by Cameron LNG is costing taxpayers roughly $13.7 million in lost revenue.

In a visit to a couple of the plants, Jones frowned as she counted units of cars with Texas license plates going in and coming out. She wondered what Louisiana is getting out of the bargain.

“I pay my taxes. And for 30 years, my salary was paid for at the school system from property taxes,” she said. “I just feel like everyone should pay what they owe.”

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Local officials unsure how to wield power over exemptions

BY REBEKAH ALLEN
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When a national plastics maker announced plans to grow its operations in Pineville, local economic development leaders and politicians were thrilled. The $15 million expansion of Plastipak would generate 10 new full-time jobs, paying salaries of about $40,000 a year.

But there was a twist: The Rapides Parish government was being asked to forgo about $1.8 million in tax revenue over the next 10 years.

In the past, parish officials had never been required to give deals like this much thought. For the past 80 years, such giveaways were granted — more or less automatically — by the state, to any manufacturer that met the guidelines of Louisiana’s industrial tax exemption program. Pretty much any Louisiana manufacturer making a capital investment of any size qualified.

Over the decades, the break cost local governments tens of billions of dollars in tax revenue.

Now, for the first time ever, local police jury members and school board members, along with the sheriff, would get to decide whether Plastipak would get the tax break that would come out of their budgets. Gov. John Bel Edwards changed the rules last year, with potentially dramatic effects. Plastipak found itself among the first round of companies testing the waters of a revamped program.

After a rollicking debate about whether they’d lose the business, whether they should give up the tax money, and whether they should even be making such decisions, both of the elected boards in Rapides Parish approved the exemptions. But just barely. The sheriff also signed off. Local officials have been mostly the board’s and rejected a measure that would have approved, on a blank sheet, all tax exemptions that came before them.

“The boards in both cases were coming to grips with the fact that they have this new responsibility,” said Jim Clinton, the president of the Central Louisiana Economic Development Alliance, an organization tasked with attracting businesses to the region. “But we have no staff history of how to go about this, no policy history of how to go about this, and yet there’s a timetable that needs to be adhered to and a company waiting that shouldn’t be penalized because we’re all learning how to do this on the fly.”

Before Edwards’ 2016 executive order, the state’s behemoth industrial tax exemption was such a reliable giveaway that Louisiana Economic Development described it as basically a part of the state’s tax code rather than an incentive program. It’s also far from the costliest giveaway in Louisiana, which has been plugged by red ink in part because of the proliferation of such tax breaks.

While the industrial tax exemption cuts local property taxes rather than state taxes, it affects government finances at both levels, because the state wends up paying for many services that would ordinarily be handled by state governments were they not so revenue-starved.

The shake-up in the industrial tax break is something watchdog groups say was sorely needed, but many economic development and industry groups worry it will stifle investment and growth.

So far, only a handful of parishes have gotten an opportunity to exercise their new authority, a task they’ve taken on with varying levels of enthusiasm. Some groups say they’re happy to have some say in whether they give away property taxes that could otherwise pay for police protection, schools, roads, libraries and parks.

Almost every tax-exemption application that has come before the local governing authority — about a dozen projects to date — has been approved so far, leading some critics to ask whether this key reform to the multibillion-dollar property tax giveaway has really changed anything. Only Calumet Specialty products, a petrochemical producer in Shreveport, was unsuccessful in getting its application approved by the local government, in part because the company was unable to illustrate job creation.

But firms indicated they plan to bring their application back for reconsideration after retooling it.

For years, the industrial tax exemption worked like this: Any manufacturer, from a small brewery making craft beer to a billion-dollar oil refinery, could apply to the state for a property tax exemption on the value of any new capital investment. The new project wouldn’t be subject to property tax for 10 years. Identical breaks could also be applied to routine improvements and upgrades.

There was no minimum investment required to receive the giveaway, nor was there any requirement that the new investment would create even a single job — or, for that matter, preserve the ones that already existed. In many cases, the improvements resulted in efficiencies that allowed manufacturers to cut jobs over time.

But perhaps the strongest critique of the program was that locals got no say in whether they wanted to forgo the taxes owed to them.

That changed with last year’s executive order. Under Edwards’ revamp, local taxing bodies — parish councils or police juries, plus sheriffs and school boards — have to submit cooperative endeavor agreements indicating they approve the exemption before the state board can actually award it. The tax exemptions can also be scaled back, depending on what the local government wants to give up.

For instance, the locals can give up 100 percent of property taxes or a smaller percentage of their choosing.

And different taxing entities can opt to award varying levels of exemptions. For example, a sheriff refuses to give the tax break and collect 100 percent of taxes owed to his office, while a school board can take 50 percent and a parish council can award a full exemption. Industry leaders say
this is another complicating factor for the companies.

In what so far has proved to be the most significant change, Edwards cut the life of the tax exemption to eight years instead of 10; he also ordered the exemption to be capped at 80 percent for the last three years. Routine upgrades are no longer allowed to be included, and job creation or retention has to be considered.

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At a minimum, those changes will trim the cost of the program by a quarter.

“I sought to make the program as beneficial as possible to everyone in Louisiana,” Edwards said. “That includes the people who work at manufacturing sites in Louisiana, the people who own manufacturing operations in Louisiana and the people in our communities who benefit from a fair and reasonable tax on the value of that manufacturing property.”

Parishes have responded in a variety of ways. Some said they were apprehensive about their new responsibilities, adding that the result is that parishes are now competing against each other for projects.

Kevin Couhig, president of West Feliciana Parish, said his plan is to make it easy for businesses by offering a promise that any firm that meets the minimum requirements for the tax exemption will be preapproved for the maximum benefit.

“My belief is that the greatest incentive you have is not worth much if there’s uncertainty about whether a prospect will get them,” Couhig said. “What we’ve chosen to say is that if a prospective manufacturing business wants to relocate or expand in West Feliciana, we’ll preapprove you.”

That’s tough to compete with, said East Baton Rouge Parish Councilman Matt Watson.

“The fact that we’re competing with every other surrounding parish here does put us in a situation where we have to be a little more generous,” Watson said. “We may be motivated by the negotiations of an adjacent parish. The main deal here is that West Baton Rouge has the same access to things, to resources, as we do. Exxon Mobil’s lubricants factory is on the other side of the river, so who is to say they won’t just decide to build more things on the West Baton Rouge side?”

In East Baton Rouge Parish, local officials aren’t in complete agreement about which exemptions should be approved. So the local governments plan to create a rubric that spells out minimum investment and job requirements; that way, business owners can reasonably expect to be approved if their project meets those targets. However, the local groups have yet to create that matrix and have been split about which local officials will help craft the guidelines. They have already had to approve one tax exemption — for Tin Roof Brewery — before establishing guidelines.

Rapides Parish leaders have also decided to establish a rubric to guide their future decisions.

But in Ascension Parish, council chairman Bill Dawson said he espouses that idea because he believes it limits flexibility and he doesn’t want to have his hands tied. As of now, the Ascension Parish Council and the school board have opted to take each project on a case-by-case basis.

Dawson also said he’s not entirely convinced that it’s a good thing that local boards wield this new power.

“We have this authority we didn’t have before, and it puts us in competition with our neighboring parishes,” he said. “We’re not excited about that. We think the region and Louisiana should be trying to attract projects.”

Greg Bowser, president of the Louisiana Chemical Association, is also not a fan of the changes, which he said will stifle industrial growth in Louisiana.

“It’s made it more complicated to get a contract,” Bowser said. “There’s no certainty anymore.”

Well, frankly, that’s the point, said Together Louisiana leader Broderick Bagert, whose organization has been trying to draw attention across the state to the shortcomings of the tax exemption.

Bagert and other members of his group have spent the last few months meeting with local elected officials, highlighting the historic waste of the tax exemption program and urging local leaders to exercise their new discretion when deciding on the next one.

Bagert said he’d like to see local governing groups establish minimum criteria, like East Baton Rouge and Rapides parishes have done. Absent some standards, he’s concerned the program will continue on much as it did before, without any real consideration given to the kind of return on investment it is providing.

“These wasteful subsidies could go back to where they belong: to our schools, to our sheriffs, in our pockets and all the places where our communities really need investments,” he said. “Its potential is really big, if and only if local government takes their responsibility as taxpayers as seriously as they ought to.”

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