Enterprise Zone Program
2009 Annual Report

Per RS 51:1786

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LOUISIANA ECONOMIC DEVELOPMENT
OpportunityLouisiana.com

Contents

1 Summary

The Enterprise Zone (EZ) program is a statutory incentive program administered by the Louisiana Department of Economic Development (LED). The EZ statute (RS 51:1786(4)) calls for LED to issue an annual report of program activity and also encourages the department to include in this report an evaluation of the program and suggestions for improvement. As part of an ongoing performance audit of LED, the Louisiana Legislative Auditor recently recommended that LED not only report the performance of the EZ program, but also evaluate the success or lack of success of the program and offer topics for legislative consideration. This document serves to meet the EZ reporting requirements outlined in statute and to expand LED's historical performance reporting to be more evaluative in nature and to include specific recommendations for improvement, in line with the Legislative Auditor's recommendations.

This document provides a brief history of the EZ program and compares Louisiana with other Southern states regarding how the program is administered. It describes program activity over the last year, and also includes activity over the last several years to highlight usage trends. The report describes the types of businesses that have utilized the program and where in the state these businesses are situated. High-level findings are described below.

The EZ program provided in FY2009 $60.6 million[1] in incentives to Louisiana businesses. Along with the motion picture industry development tax credit, the EZ program is one of the two largest tax incentive programs in the state. A wide range of businesses across the state utilize the EZ program, but on average, most of the activity involves larger businesses (e.g., national retail chains, manufacturers, hospitals, hotels, industrial/offshore construction and services, distribution, commodity storage and transportation) in relatively affluent, urban/suburban areas of the state that are not designated Enterprise Zones. Over the past four years, more than 95 percent of the value of incentives made available through the EZ program has been provided to large businesses (more than 500 employees). Despite being one of the state's most active incentive programs, less than one percent of Louisiana employers have historically accessed the program. Furthermore, Louisiana's EZ program appears to have fewer mechanisms in place to encourage net new permanent job growth for the state than similar programs in neighboring states. For example, four nearby Southern states target their programs towards industry sectors that drive new economic growth and net new permanent jobs, and generally avoid providing incentives to certain industries that typically follow local demand and/or suffer from substitution effects (e.g., retail, restaurants and other sectors serving primarily local demand).

This document concludes with several LED recommendations for EZ program improvements that would ensure that the program more consistently follows statutory requirements. The statute provides LED with the prerogative to provide recommendations for potential legislative consideration. LED is not providing such recommendations in this report but is considering options and specific recommendations for the 2010 annual report.

[1] Louisiana Department of Revenue – FY2009 Tax Exemption Budget

2 Overview of the Enterprise Zone program

The EZ program was originally created to stimulate business and industrial growth in certain disadvantaged areas in the state by providing tax incentives for job creation and capital investment.

The statute provides that the Board of Commerce & Industry (C&I) may enter into EZ contracts with businesses that create a minimum of the lesser of five net new permanent jobs to be in place within the first two years of the contract period, or the number of net new jobs equal to a minimum of ten percent of the existing employees, minimum of one, within the first year of the contract period. Incentives for the EZ program include job tax credits (generally, $2,500 per net new job) and either 'sales and use tax rebates' (generally, 4 percent on those construction costs taxed by the State) or 'investment tax credits' (1.5 percent of qualified capital expenditures).

The statute designates LED with the sole responsibility for effectively administering the EZ program. It also indicates that promulgating rules and regulations for the program is a specific duty of LED.

3 History of the Enterprise Zone program

The concept of Enterprise Zones to stimulate economic growth in certain small geographic areas was developed in the late 1970s and was adopted by Louisiana in 1981. There have been two significant amendments to the Louisiana program. The first amendment in 1992 eliminated the requirement that new employees reside in the same zone as the business for which they work. The second amendment in 1999 eliminated the requirement that a business be located within an Enterprise Zone.

Currently, businesses anywhere in the state can qualify for EZ incentives if they add a minimum number of net new jobs and if 35 percent of those new jobs generated meet one of four hiring requirements:

1. Residency
   a) If the business is located in an urban parish, the employee must live in a Louisiana Enterprise Zone.

   OR

   b) If the business is located in a rural parish and not located in an Enterprise Zone, the employee must live in a Louisiana Enterprise Zone.

   OR

   c) If the business is located in a rural parish, and located in an Enterprise Zone, the employee may live anywhere in the parish in which the business is located or in any Louisiana Enterprise Zone.

   OR

   d) If the business is located in an Economic Development Zone (EDZ), the employee may live anywhere in the parish in which the business is located.

2. Receiving some form of public income assistance. May include Women Infants Children Program (WIC), Family Independence Temporary Assistance Program (FITAP), hired through the Louisiana Workforce Commission (LWC), or attended a technical college or community college within the six months prior to being hired.

3. Lacking basic skills. A person below the 9th grade proficiency in reading, writing, or math.

4. Unemployable by Traditional Standards. Having no prior work history or job training, having a criminal record (excluding misdemeanors), having a history of being unable to retain employment after gaining it, or being physically challenged.

4 Enterprise Zone program activity levels

Calendar year 2009 EZ program activity levels are summarized below:

Statewide activity (CY2009)

Total new contracts approved:	286
Projected new permanent direct jobs:	9,379
Projected construction jobs:	17,275
Projected new capital expenditures:	$4.58 billion

The projected number of new permanent jobs listed above should not be construed as net new permanent jobs to the state that resulted due to the availability of the EZ program. This is because many of the EZ projects approved would likely have occurred with or without the EZ incentive. Many EZ projects are associated with projects reacting to or capitalizing on expanding or shifting local Louisiana economic demand. This growing or shifting demand would typically be satisfied by a Louisiana-based business through some sort of expansion or new location, even if no incentives were made available. Additionally, many of the projected new permanent jobs are associated with projects that involve "substitution" effects - if a new establishment opens or expands as another nearby competing establishment closes or reduces employment levels. To estimate the net new permanent direct jobs to the state, the following jobs are subtracted from the 9,379 projected new permanent direct jobs:

- jobs associated with EZ projects that would have occurred without the incentive;
- job losses associated with business closures or downsizing that resulted from increased competition from EZ projects.

When these factors are taken into account, LED estimates that the EZ program applications approved in CY2009 will result in approximately 3,000 net new permanent direct jobs to the state.

EZ approvals were provided to projects in all regions of the state, with the Southeast region and Capital region attracting over 60 percent of the total EZ projects, generally in proportion to the regional population distribution across the state.

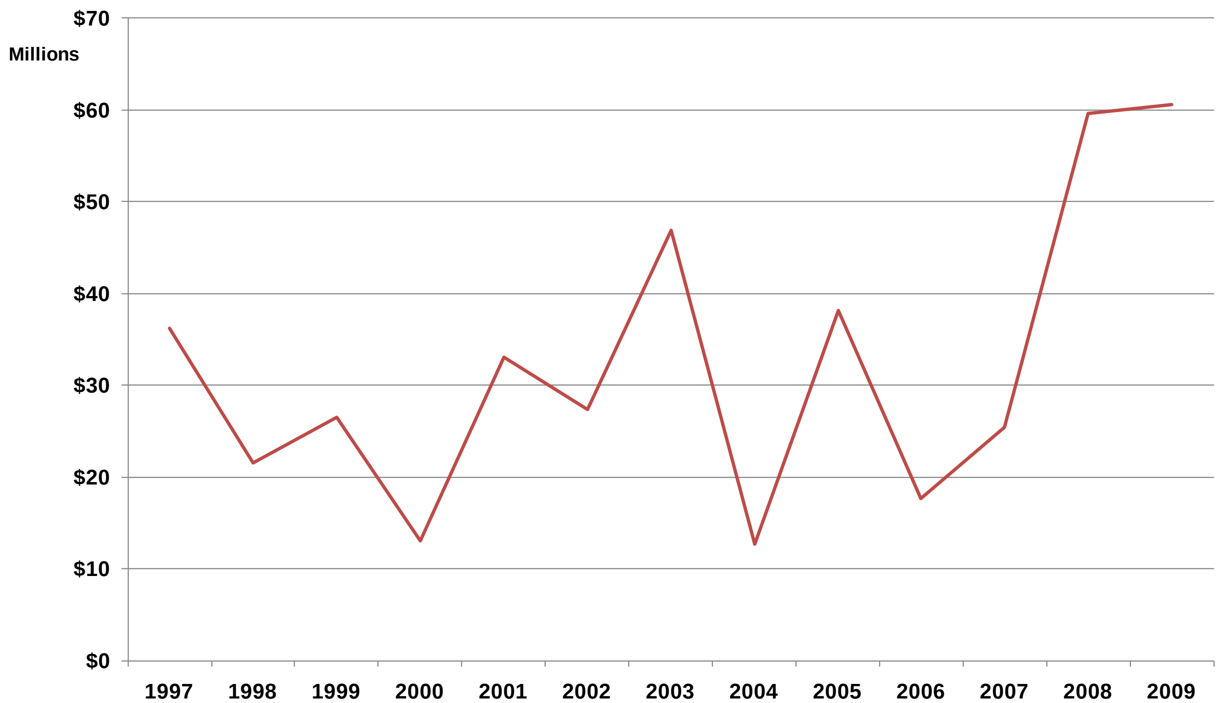
Regional breakdown (number of new contracts in CY2009)

Acadiana:	38 (13 percent)
Bayou:	14 (5 percent)
Capital:	79 (28 percent)
Central:	9 (3 percent)
Northeast:	19 (7 percent)

Northwest:	27 (9 percent)
Southeast:	92 (32 percent)
Southwest:	8 (3 percent)

The overall value of incentives accessed through the EZ program has tended to vary somewhat significantly on a year-to-year basis due to a variety of factors, including business cycles. Additionally, usage over the last decade has been impacted by a number of significant hurricanes that disrupted Louisiana's economy. Over the last 12 years, an average of $33.4 million per year in incentives has been provided to businesses through the EZ program. The past two years have seen a significant increase in the incentive value, going from $25.4 million in FY2007, to $59.6 million in FY2008 and $60.6 million in FY2009.

Estimated EZ Incentives Provided to Businesses



Louisiana Department of Revenue – FY1999 – FY2009 Tax Exemption Budgets

5 Enterprise Zone program comparison between Southern states

The EZ program is administered in different ways depending on the state. Each state tends to use different incentives, different industry sector criteria, and different hiring requirements when administering the EZ program. Included below is a comparison of the EZ program (or similar programs) structure in the states of Louisiana, Texas, Mississippi, Arkansas, and Alabama.

Louisiana:

- Can be located anywhere in the state
- 35 percent of new employees must meet certain hiring requirements
- Must create a minimum of the lesser of five net new permanent jobs, or the number of net new jobs equal to a minimum of ten percent of the existing employees
- Incentive is $2,500 per net new job and 1.5 percent investment tax credit or 4 percent tax credit on construction cost

Alabama:

- Must be located in an Enterprise Zone
- 35 percent of new employees must meet certain hiring requirements
- Must operate within manufacturing, processing, assembling, storing, warehousing, servicing, or distributing industries
- May not have closed or reduced employment elsewhere in the state in order to expand into the Enterprise Zone
- Incentive maximum of $2,500 per employee and 4 percent tax credit on construction material and 1.5 percent tax credit on manufacturing equipment

Arkansas (Advantage Arkansas):

- Can be located anywhere in the state
- Cannot operate within retail industry
- Numbers of jobs that must be created: manufacturing 1; computer firm 1; corporate headquarters 50; distribution center 25; trucking terminal 100; office sector business 100
- Incentive maximum of $2,000 per new net job and 6 percent tax credit on construction material

Mississippi (Growth And Prosperity Program):

- Must be located in a Growth And Prosperity Program county
- Must operate within: manufacturing, processing, assembling, storing, warehousing, servicing, distributing or selling of any products or goods, or enterprises for research and development
- Must create a minimum of 10 new jobs
- Incentive maximum of 7 percent tax credit on construction material and 1.5 percent tax credit on manufacturing equipment

Texas:

- Can be located anywhere in the state
- 35 percent of employees must meet certain hiring requirements
- Cannot operate within retail or restaurant industries
- Must create a minimum one net new job and invest a minimum of $40,000
- Incentive maximum of $2,500 per employee for projects with less than $150 million in investment; $5,000 per employee for projects above $150 million; and $7,500 per employee for projects above $250 million
- Incentive maximum is also limited to $25,000 total for investments less than $0.4 million; $62,500 total for investments less than $1 million; $312,500 for investments less than $5 million

The differences in the percentage tax rebate or credit for construction is mainly attributed to the fact that different states have different sale/use tax rates. Hence, a more accurate comparison is stating that 100 percent of the sales/use tax on construction material is rebated in all states except Texas.

Below is a summary table highlighting the differences and similarities between EZ (or similar) programs across states. As shown, the states utilize different structures for their programs.

Summary of Incentives	**Louisiana** - Job tax credit - Investment tax credit - Sales/Use tax credit	**Alabama** - Job tax credit - Investment tax credit - Sales/Use tax credit	**Arkansas** - Job tax credit - Sales/Use tax credit	**Mississippi** - Investment tax credit - Sales/Use tax credit	**Texas** - Job tax credit
Exclusion of industry sectors with low economic impact*	No	Yes	Yes	Yes	Yes
Business locations must be in economically disadvantaged zones	No	Yes	No	Yes	No
Hiring requirements focused on disadvantaged populations or depressed areas	Yes	No	Yes	No	Yes
$ Per Job Incentive Caps	No	No	No	No	Yes

* Generally retail and other sectors characterized by substitution effects

For example, Mississippi and Alabama require businesses to be located in specific geographic zones. Texas has a total incentive maximum per project based on employment and investment. The primary difference between Louisiana and the four comparison states is that Alabama, Arkansas, Mississippi, and Texas all exclude industries with high substitution effects such as retail and restaurants. The jobs gains associated with these industry sectors typically follow local demand and/or involve substitution effects. Major users of Louisiana's EZ program include national retail chains. Some studies have shown that when national retail chains open in a local economy, there is no net increase in jobs, as some existing small retailers close or downsize as a result of the new competition.

6 Enterprise Zone program activity overview

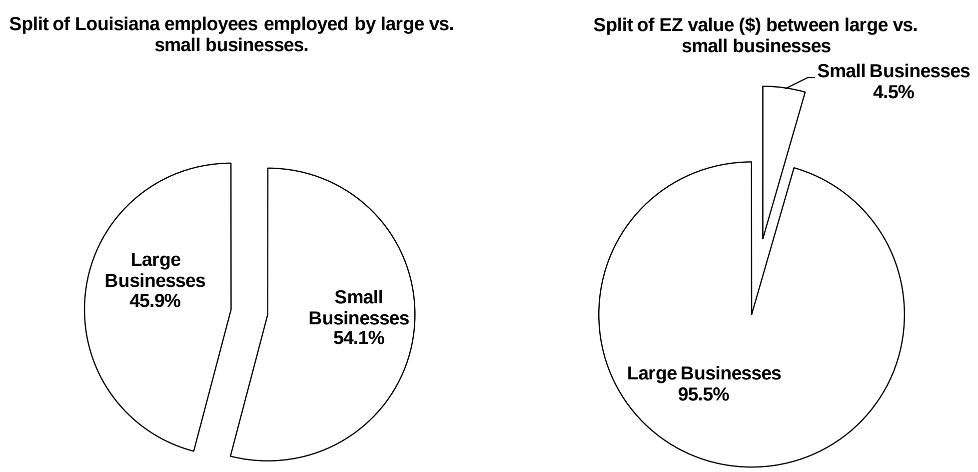
There are approximately 120,000 employers in the state of Louisiana[2]. Of these, less than one percent have applied and been approved for the EZ program in the past four years. Hence, even though the EZ program is one of Louisiana's most active incentive programs with significant incentive value ($60.5 million in FY09) being provided to businesses, the program does not appear to have a wide reach within the business community.

6.1 Size of companies that used the EZ incentive

Based on U.S. Small Business Administration definitions of a small business (typically less than 500 employees depending on industry sector), approximately 15 percent of EZ approvals are with small businesses and 85 percent of EZ approvals are with large businesses. Examples of large businesses include: national retail chains, manufacturers, hospitals, hotels, industrial/offshore construction and services, distribution, commodity storage and transportation.

The median size business approved has more than 5,000 employees and annual revenues greater than $100 million. When taking into account the estimated value of incentives approved, large businesses access more than 95 percent of the incentive value and small businesses access less than five percent of the incentive value. In contrast, large businesses represent just below three percent of businesses and 46 percent of employment in the state, with small businesses representing more than 97 percent of businesses and 54 percent of employment in the state.

Comparing split of employment and value between small (less than 500 employees) and large companies in Louisiana



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[2] Louisiana Work Force Commission, Employment and Wages 2008

6.2 Locations of EZ projects

When the EZ program was created, the statute required that successful applicants be located in geographically defined Enterprise Zones. Enterprise Zones received their designation due to factors such as particularly high unemployment levels, low income levels, number of people below poverty level, and other factors indicating economic disadvantage. However, this requirement was removed as of the 1999 amendment. Under the current program, businesses can be located anywhere in the state as long as they adhere to the four statutory employment requirements.[3]

1. Residency
2. Receiving some form of public income assistance
3. Lacking basic skills
4. Unemployable by traditional standards

Over the last four years, 29 percent of all EZ projects have been located in actual Enterprise Zones. In comparison, Enterprise Zones currently cover more than 60 percent of the geographical area of Louisiana and contain 33 percent of Louisiana's population. Similarly, the median household income level of census tracts of EZ projects for the past four years has equaled over $46,000 compared with the Louisiana median household income of $43,733. EZ projects, on average, tend to locate in more affluent areas of the state.[4]

Over the last four years, 76 percent of all EZ projects have been located in urban/suburban areas. Industry sectors that have tended to locate in urban/suburban areas include retail (81 percent), heath care (91 percent), hospitality (85 percent), and technical services (95 percent). Manufacturing is the industry sector most likely to locate in rural areas with 46 percent of manufacturing projects in rural areas. [5,6]

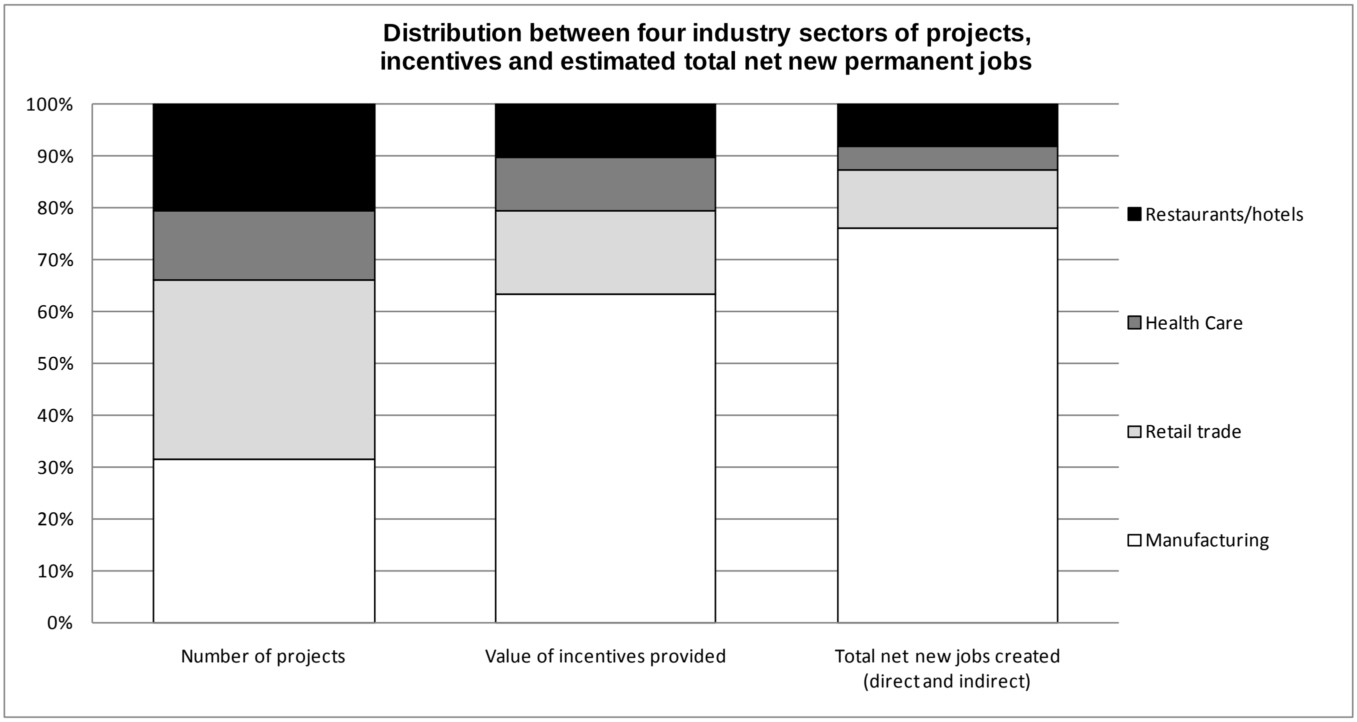
6.3 EZ program usage across industry sectors

An aim of the EZ program is to incentivize businesses to invest capital and to create net new jobs in Louisiana. EZ incentives have for the past four years had an uneven distribution among industry sectors with regards to job creation. The largest portion of EZ incentives (63 percent) have been provided to the manufacturing sector.[7] This industry sector has historically only created 14 percent of the direct new jobs. However, when indirect impacts are included, the manufacturing sector accounted for the majority of total net new jobs (including both direct and indirect jobs) associated with the EZ program. Other industry sectors with significant utilization of EZ incentives (e.g., retail, restaurants/hotels, and health care) often serve local demand and/or involve significant substitution effects. In aggregate, projects in these sectors involve

[3] See section 3 for more detail
[4] See exhibit on Enterprise Zone distribution
[5] 2000 Census Urbanized Area Definition
[6] See exhibit on Urban vs. Rural distribution
[7] See exhibit "Incentive distribution across industry sectors 2005-2009"

more direct jobs than projects in the manufacturing industry. But because the projects typically serve local demand and/or involve substitution effects, the total net new jobs to the state (including both direct and indirect jobs; excluding jobs associated with substitution effects) are relatively modest in comparison to the total net new jobs associated with the manufacturing sector.

The following chart and table compares the distribution of applications, incentives and total net job creation (adjusted for indirect effects and substitution effects) between four industries.



	Number of projects (CY09)	**Value of incentives provided** (FY09)	**Total net new jobs (direct & indirect) created** (CY09)	**Estimated incentive per job (direct & indirect)**
Restaurants/hotels	32	$ 4 million	245	$ 16,313
Health Care	30	$ 4 million	146	$ 27,390
Retail trade	75	$ 7 million	350	$ 20,015
Manufacturing	53	$ 26 million	3,878	$ 6,705

NOTE: The above figures are estimations based on best current available data and assume projected direct jobs are actually created. Total net new jobs are estimated based on indirect job creation in accordance with RIMS II multipliers. Restaurant/hotels, health care and retail new direct jobs are adjusted with a 90 percent substitution effect.

7 Potential improvement opportunities within the Enterprise Zone program

Over a year ago, the C&I board directed LED - working in close coordination with industry stakeholders - to develop an updated set of rules for the EZ program and several other incentive programs. LED is currently in the midst of this process. As LED reviewed the EZ program as part of this potential rules update, it identified a number of improvement opportunities that better align the program with existing statute. In particular, the updates would help ensure that businesses receiving EZ incentives are adding the minimum required number of net new permanent jobs as defined by statute. Included below is a description of each of these potential improvement opportunities as well as a brief description of how the improvements could be implemented through updated rules. If LED is unsuccessful in implementing these improvements through rulemaking, the legislature may want to consider amending the EZ statute to better clarify current qualification requirements.

7.1 Ensuring that large businesses add at least five new permanent jobs

The EZ statute indicates that businesses may be eligible for the program if they create either a) five net new permanent jobs or b) the number of net new jobs equal to a minimum of 10 percent of existing employees. Qualification provision b) was amended into the EZ statute in 1997 (Act 624) as a mechanism for smaller businesses to gain eligibility for the program by adding fewer than five net new permanent jobs (e.g., a business with 10 existing employees or less would only need to add one new job to qualify). However, based on a review of historical EZ contract applications and approvals, it appears that a number of large national corporations have been utilizing qualification provision b) to gain access to EZ benefits even though they have created fewer than five net new permanent jobs.

This is being accomplished under a number of interpretations of the existing EZ rules, namely the following:

- Large national corporations with limited existing Louisiana presence only counting their existing Louisiana employees in determining the entire business' existing employee levels
- Large businesses (with multiple existing Louisiana sites) asserting that any new site established represents a new business with no existing employees, so the new site only needs to add one new job to qualify
- Large businesses with multiple separate legal operating entities only counting employees housed within the "applying" entity in determining the business' existing employee levels, so a new affiliate only needs to add one new job to qualify

Each of these interpretations leads to an unfair playing field between:

- In-state and out-of-state businesses
- Businesses expanding in new locations and businesses expanding at existing locations
- Businesses with simple legal structures and businesses with complex legal structures

Proposed improvement in EZ rules to align with existing statute

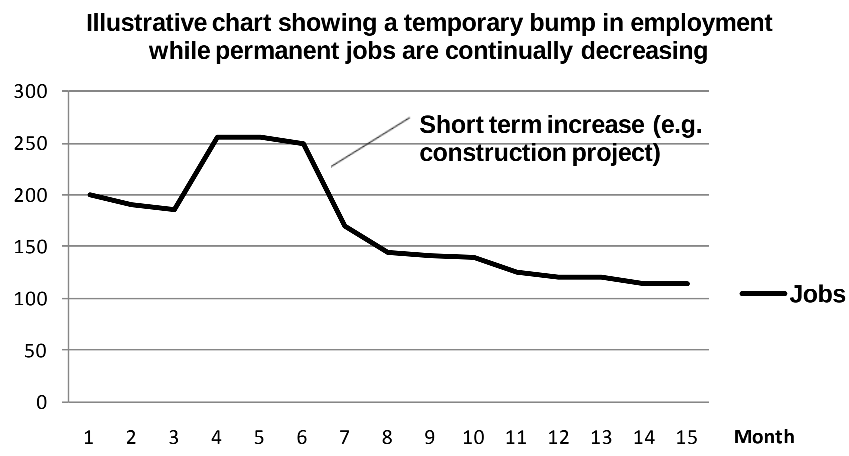
Proposed EZ rules updates would include using a business' nationwide employment level, including affiliates, to set the appropriate new job eligibility threshold for EZ. These updates would create a level playing field for businesses applying for EZ benefits. Businesses with greater than 40 existing employees – regardless of the current location of the existing employees, the location of the EZ project, or the legal structure of the business – would need to add five net new permanent jobs to qualify for the program. Businesses with 1-40 existing employees would need to add new jobs equal to 10 percent of their existing employment levels (one-to-four new jobs depending on business size). This would remove many of the inequities associated with current EZ rules and policies.

7.2 Ensuring that businesses accessing EZ benefits intend to add at least one new permanent job

The EZ statute indicates that new permanent jobs are a basic eligibility requirement for the EZ program. However, based on a review of historical EZ contract applications, approvals, and historical employment patterns, it appears that a number of businesses may be gaining access to EZ benefits through the addition of temporary jobs instead of permanent jobs.

In essence, under the existing methodology, a job can be in place for as little as seven months and count as a new permanent job. Even if the business has no intentions for the job to be permanent, the business under current rules is allowed to count the job as permanent.

An example is shown in the below graph. A business with a planned employment profile as illustrated below can currently qualify for EZ benefits even though the business is planning to reduce its number of permanent jobs. However, for brief periods the business might have a short-term increase in jobs (e.g., due to a construction project). Hence, in the below example, the average for the first eight months is 206.5 jobs (net increase of 6.5 jobs) and the business is consequently eligible for EZ as if five net new permanent jobs were created. However, as also illustrated in the graph, the business' pattern is a net decrease of permanent jobs and the business is eligible solely due to a brief three month job increase. Clearly this is not the statutory intent of the EZ program.



Proposed improvement in EZ rules to align with existing statute

Proposed rule changes would call for a new certification process to provide businesses an opportunity to certify that they intend to create the required minimum number of new permanent jobs (either one, two, three, four, or five depending on business size) as part of their project. The certification would ensure that businesses understand the basic eligibility requirement to add new permanent jobs and that the businesses do indeed intend to add new permanent jobs at the time they are seeking EZ benefits. Under this framework, businesses would not be penalized if, due to unforeseen circumstances, they were unable to retain the new jobs for an extended period of time. As long as the business certified that its intentions were aligned with the statute and that it succeeded in adding the required number of jobs for at least the length of time called for under the current methodology (generally, between 7-12 months), the business would be eligible to receive EZ benefits.

7.3 Establishing an employment baseline that is representative of recent employment levels

The current EZ rules (the statute is silent on the matter) provide businesses with the ability to pick a specific date (a single day) to establish their baseline employment from which eligibility and incentives are determined. Because the baseline is established based on a single day, it creates an opportunity for larger businesses to choose a date when their employment levels are at a temporary and extremely low point. For large businesses that might have daily employment swings of many positions, establishing a baseline based on a single day can result in a business meeting the basic EZ eligibility requirements by just performing their routine hiring function (as opposed to adding new permanent jobs). For example, under current rules, a business with five positions vacated one day can refill those positions the next day and qualify for incentives. An employment baseline that better represents the true historical employment levels of the business would be more appropriate in assessing whether a business actually adds new jobs versus refilling recently vacated positions.

Proposed improvement in EZ rules to align with existing statute

Proposed rule changes would establish an employment baseline as a historical average (e.g., 45-days, 90-days, one-year) of employment levels. An average provides a better view of recent employment levels than a single day selected by the business and provides a more representative baseline from which to assess a business' efforts to add new permanent jobs.

7.4 Ensuring that the shifting of jobs or work between business sites or between business affiliates does not count as adding new jobs

Although the EZ statute indicates that new permanent jobs are a basic eligibility requirement for the program, the statute provides no specific guidance on how to protect against businesses shifting jobs or work from one location to another, or from shifting jobs from one business affiliate to another, and claiming these shifted jobs as new jobs for EZ purposes. For instance, a business with two identical facilities in the state could close one of its operations, move the work and its employees to the second location, and claim job tax credits for the jobs that were moved. The statute does provide enough flexibility to disqualify job shifts from counting as new jobs if the EZ rules are updated appropriately. The current EZ rules already include provisions that prevent businesses from earning job credits by moving employees between locations in a metropolitan area, but the provisions do not appear to apply to the basic EZ eligibility criteria, do not include the entire state, and do not cover the movement of employees from one affiliated entity to another.

> <u>Proposed improvement in EZ rules to align with existing statute</u>
>
> Proposed rule changes would better define what constitutes a net new job for eligibility and job credit purposes. The movement of a job from one business site to the EZ site or from one affiliated entity to the EZ business entity would not count as a net new job, except for specific situations such as when the sites or affiliates were in unrelated business lines or when the job was backfilled at the other site.

7.5 Providing a mechanism to net ***planned*** job reductions at similar sites, headquarters, or shared services operations against job gains at the EZ site

Although the EZ statute indicates that new permanent jobs are a basic eligibility requirement for the program, the statute provides no specific guidance on how to protect against businesses receiving incentives for job creation at one location even as they are executing a downsizing plan at another Louisiana location that results in a net loss of Louisiana jobs. For instance, a business could decide to move its 100-person headquarters out of state while investing in a new Louisiana branch facility that employs only 10 people (net loss of 90 jobs), and receive EZ incentives for building the branch facility and adding 10 new jobs.

The statute does provide enough flexibility to require netting of job gains and losses across multiple business sites in determining net new jobs for EZ eligibility and job tax credit purposes. The current EZ rules already include provisions that can require businesses to net jobs across multiple sites within a single metropolitan area, but the provisions do not cover:

- job reductions at similar sites, but located in different metropolitan areas
- job reductions at headquarters operations located in a different metropolitan area
- job reductions at shared services centers located in different metropolitan areas

Proposed improvement in EZ rules to align with existing statute

LED recognizes that the EZ program has historically been administered in a "site specific" manner (job losses at other sites do not impact the incentives received at the EZ site), except for certain situations where sites within a metropolitan area have been netted against each other. Additionally, LED recognizes that job losses at other sites of the business are often unanticipated and can result from business cycles and uncontrollable shifts in the marketplace.

The proposed rule changes would maintain "site specific" administration of the program, but would call for the netting of job gains/losses for multiple sites across the state under the following very specific situations: a) jobs lost due to closure (and in some instances, downsizing) of similar sites in the same metropolitan area as the EZ site, b) jobs lost due to ***planned*** (at the time of the EZ project) closure or downsizing of similar sites serving the same customer base, c) jobs lost due to ***planned*** (at the time of the EZ project) relocation or downsizing of headquarter operations or shared services operations. For b) and c) above, only job losses anticipated at the time of the EZ project would need to be netted. Unanticipated job losses would not need to be netted. These changes would help ensure that a business receiving EZ incentives actually intends to add new jobs as required by statute, and is not adding jobs at one location while implementing a downsizing plan at another similar or related location that results in a net job loss

7.6 Clarifying that jobs "purchased" through a business acquisition are not counted as new jobs

Although the EZ statute indicates that new permanent jobs are a basic eligibility requirement for the program, the statute provides no specific guidance on how to protect against businesses receiving incentives for jobs associated with routine business sales/purchases (i.e., an owner purchases a business and continues the business operation, including the jobs associated with the business). Businesses in Louisiana are bought and sold routinely, with no new jobs resulting due to the transfer of ownership.

The statute provides enough flexibility to require, for jobs to be counted as new, that the business being purchased be out of operation or at real risk of going out of business and shedding its employee base. Historical EZ administrative practice, though not defined in statute or in the rules, has largely been implemented with this principle in mind. However, because the practice is not clearly articulated in the rules, potential applicants for EZ benefits often become confused or frustrated when applying for EZ incentives associated with a business purchase.

Proposed improvement in EZ rules to align with existing statute

Proposed rule changes would allow “acquired” or “re-instated” jobs following the purchase of a business to be counted as new jobs for eligibility and job tax credit purchases when there has been an arm’s length transfer of ownership between unrelated businesses and either:

- the location has been out of operation for at least three months, or
- LED determines that the jobs would have likely been lost to the state absent the transfer.

These changes would establish improved clarity for business applicants and would work to ensure that jobs associated with routine sales/purchases of going-concern business entities are not treated as new jobs.

8 Conclusion

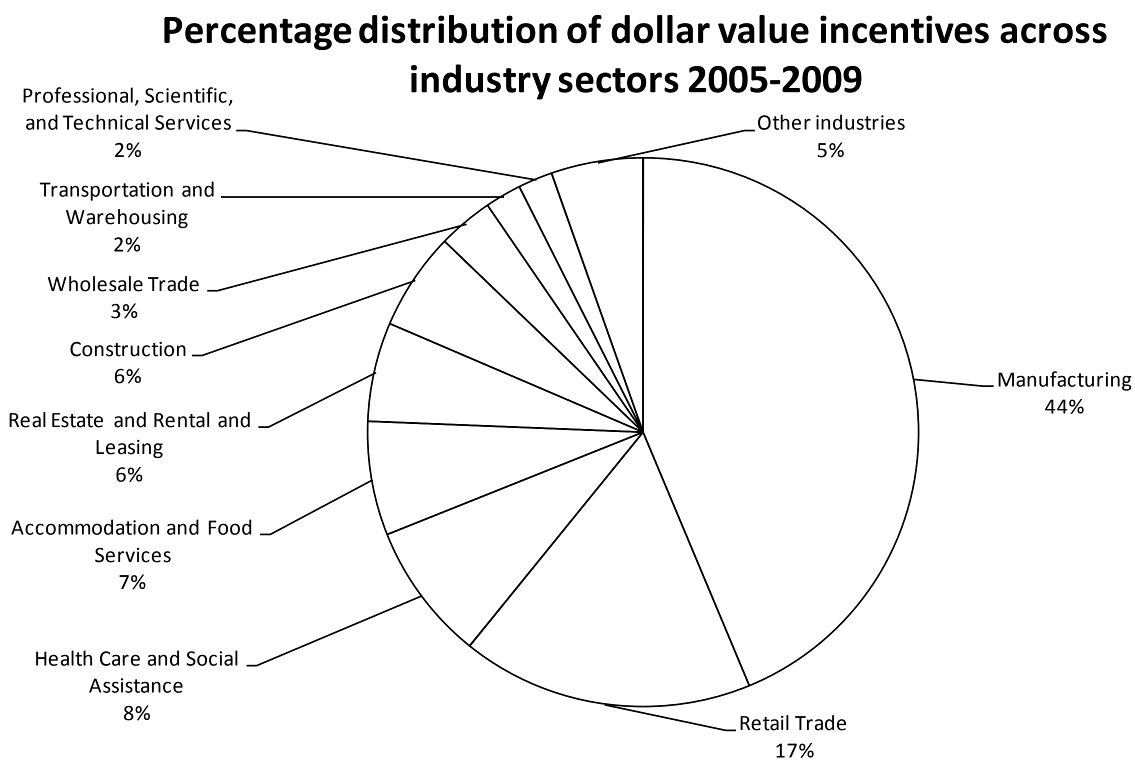
The Louisiana EZ program is one of the state's most active incentive programs and one that has seen a recent increase in activity levels. A wide range of businesses across the state utilize the EZ program, but on average, most of the activity involves larger businesses (e.g., national chains, manufacturers, hospitals, hotels, industrial/offshore construction and services, distribution, commodity storage and transportation) in relatively affluent, urban/suburban areas of the state that are not actual Enterprise Zones.

Louisiana's EZ program as designed in the statute is significantly less focused on generating net new permanent jobs in the state as compared to programs in neighboring states. Alabama, Arkansas, Mississippi, and Texas have all taken steps to exclude the industry sectors that exhibit inherent substitution effects from their EZ program (e.g., retail, restaurants and other sectors serving primarily local demand). LED estimates that between 30-35 percent of the incentives provided through the EZ program (~$18 to 21 million in FY09) are associated with projects that don't appear to result in net new permanent jobs to the state. Many of these incentives are provided to large national retail chains that supplant small, locally owned and operated businesses when moving into a geographical area.

Most of the proposed improvement opportunities described in this report can be addressed through updated EZ rules as described in Section 7. The updates are focused on better aligning the EZ program with the statute that calls for a minimum required number of net new permanent jobs. LED is currently in the midst of the rulemaking process, working with business and economic development stakeholders, as well as C&I board members, to fully develop the improvements. However, some business and economic development stakeholders have suggested to LED that they would prefer that the EZ program continue to operate under current rules, which could prevent the program from effectively aligning with statute. LED will strive to manage the implementation of the EZ program as effectively as possible. However, if LED is unsuccessful in implementing improvements through rulemaking, the legislature may want to consider amending the EZ statute to better clarify current qualification requirements.

In this year's report, LED has not provided specific topics for legislative consideration, but has instead focused on rule updates to improve alignment with existing statute. LED expects to offer topics for legislative consideration in next year's report.

EXHIBITS

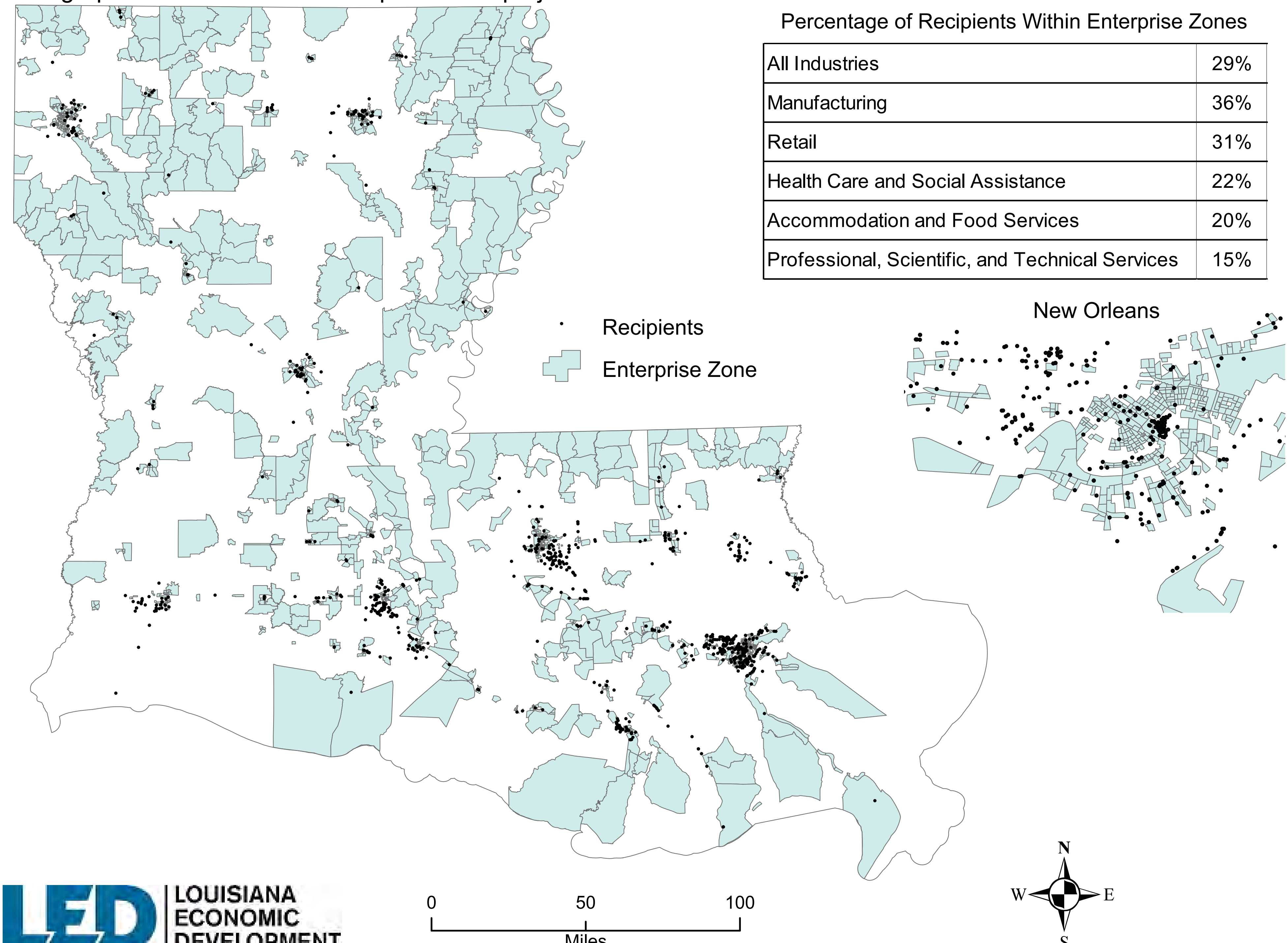

Percentage distribution of dollar value incentives across industry sectors 2005-2009
Professional, Scientific, and Technical Services 2%
Transportation and Warehousing 2%
Wholesale Trade 3%
Construction 6%
Real Estate and Rental and Leasing 6%
Accommodation and Food Services 7%
Health Care and Social Assistance 8%
Retail Trade 17%
Manufacturing 44%
Other industries 5%

71 PERCENT OF ENTERPRISE ZONE PROJECTS ARE OUTSIDE OF ENTERPRISE ZONES

Geographical distribution of Enterprise Zone projects in Louisiana 2004-2009

Percentage of Recipients Within Enterprise Zones

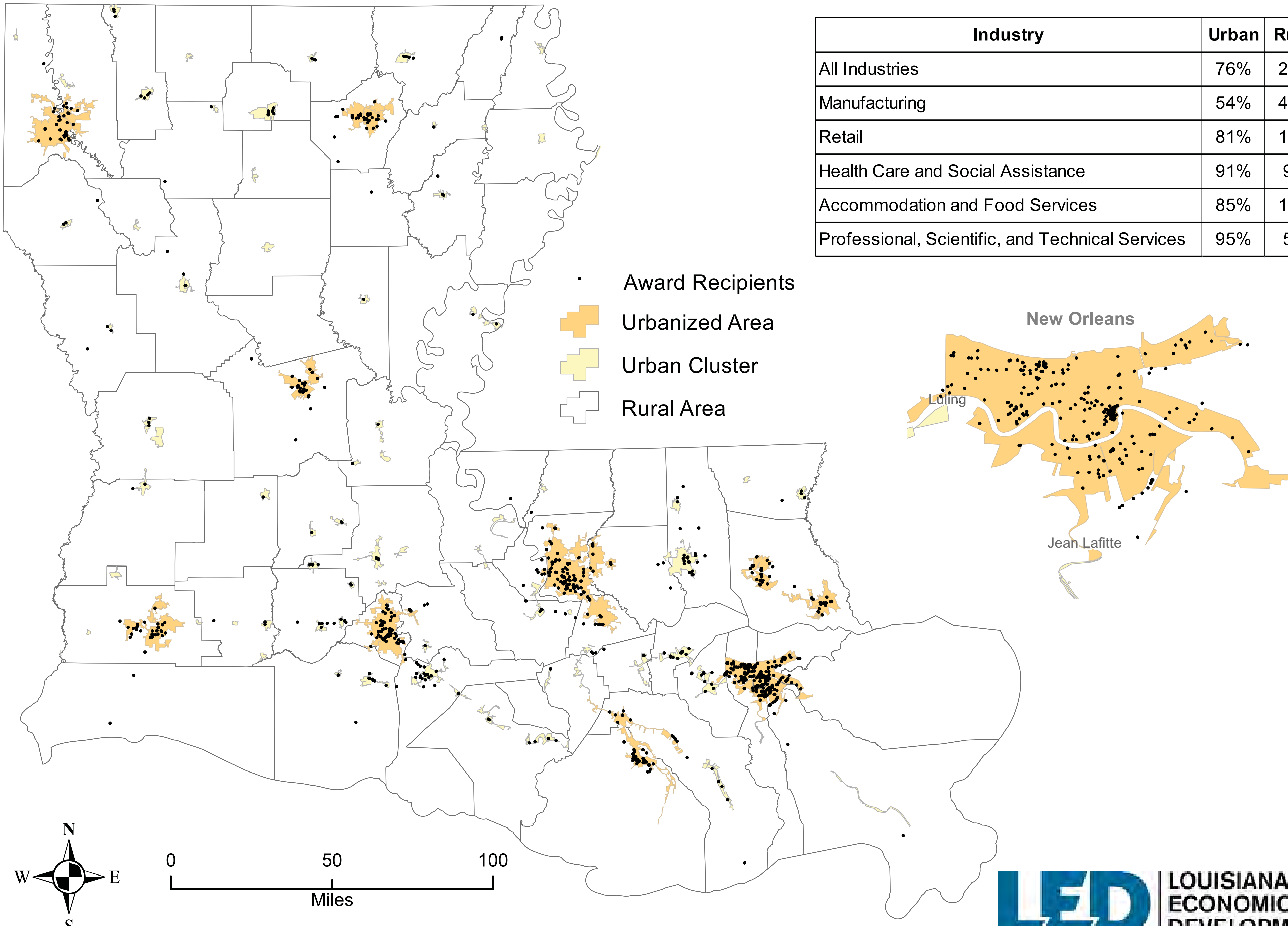
All Industries	29%
Manufacturing	36%
Retail	31%
Health Care and Social Assistance	22%
Accommodation and Food Services	20%
Professional, Scientific, and Technical Services	15%



LOUISIANA ECONOMIC DEVELOPMENT

76 PERCENT OF ENTERPRISE ZONE PROJECTS ARE WITHIN URBAN AREAS

Geographical distribution of Enterprise Zone projects in Louisiana 2004-2009



Industry	Urban	Rural
All Industries	76%	24%
Manufacturing	54%	46%
Retail	81%	19%
Health Care and Social Assistance	91%	9%
Accommodation and Food Services	85%	15%
Professional, Scientific, and Technical Services	95%	5%

LOUISIANA ECONOMIC DEVELOPMENT