Quality Jobs Program
2009 Report

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LOUISIANA ECONOMIC DEVELOPMENT
OpportunityLouisiana.com

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1 Executive Summary

The Quality Jobs (QJ) program is a statutory incentive program administered by the Louisiana Department of Economic Development (LED). LED reported QJ program activity in its 2009 Annual Economic Highlights report. However, as part of a performance audit of LED, the Louisiana Legislative Auditor recommended that LED not only report the performance of the QJ program, but also evaluate the success or lack of success of the program and offer topics for legislative consideration. This document serves to expand LED's historical performance reporting to be more evaluative in nature and to include potential opportunities for improvement, in line with the Legislative Auditor's recommendations.

Overview

The QJ program is designed to induce businesses to locate or expand operations in Louisiana by providing tax incentives for job creation and capital investment. The program has been revised frequently by the Legislature since its creation in 1995; in its current form, QJ offers qualifying employers rebates equal to 5-6 percent of payroll associated with net new jobs as well as a sales/use tax rebate *or* investment tax credit through Enterprise Zone (EZ), another job creation incentive program. LED administers the program, and the Board of Commerce and Industry (C&I) approves applications and enters into contracts with qualifying employers.

Louisiana's QJ program resembles payroll rebate programs targeting high-wage job creation in four other Southern states: Arkansas, Kentucky, Mississippi, and Oklahoma. The payroll rebates offered by Louisiana's QJ program appear competitive in comparison to programs in these other states. Louisiana's program is in line with other states' by setting minimum standards for health care benefits and by restricting eligible businesses to specific target sectors for economic development. Unlike other states' programs, Louisiana's QJ program does not allow the administering agency (i.e., LED) to negotiate incentive levels with qualifying employers, based on the economics of an individual project; employers qualifying for QJ incentives receive a fixed 5 or 6 percent payroll rebate in accordance with statute.

Program activity

In CY2009, C&I approved 32 QJ incentives contracts, which are projected by the applicant companies to eventually create approximately 3,080 new, direct jobs and $702 million in capital expenditures:

- Based on company projections, the State will issue approximately $89.6 million in incentives (payroll rebates and sales/use tax rebates) over the next ten years under these contracts.
- The distribution of these contracts across Louisiana's eight economic regions is roughly in line with the State's population distribution.
- The manufacturing sector accounts for the majority of CY2009 QJ program activity, in terms of number of contracts approved, projected jobs and capital investment generated, and projected incentives claimed.

Since QJ primarily incentivizes wealth-creating industry sectors with low substitution effects, a cost-benefit analysis for CY2009 QJ activity implies a positive return to the State of approximately $2.32 for every $1 provided in incentives (assuming only activity which would not occur in the absence of the incentive is being incentivized).

Analysis of QJ usage trends (Jan 2007 – March 2010) shows that subscription to the program is holding steady or increasing over time. Over the same time period, the manufacturing sector represented not only the majority of contract approvals and projected incentives claimed but also the majority of projected new direct jobs and capital investment. In addition, actual claims for QJ incentives with the Louisiana Department of Revenue have increased significantly over the past five years and reached $43.4 million in FY2009.

Improvement opportunities

In April 2010, C&I approved a set of updates to the QJ program rules, which include clarifications to areas of QJ program administration and which were submitted to the Louisiana Register for public comment. Once promulgated, the new rules will enable LED to more effectively administer previously-unclear areas of the program. If LED is unsuccessful in implementing these improvements through rulemaking, the Legislature may want to consider incorporating additional detail in the statute to fully reflect these administrative improvements:

- Clarify job creation and incentive provisions
    – Define an employee baseline in order to determine new direct job counts, based on a four-month median calculation
    – Count jobs created when a new business owner reopens a closed facility as new direct jobs
    – Specify that only one contract can be held per project site, with one additional contract allowed for expansions
- Clarify health insurance/medical benefits provisions

In addition, LED has identified several other potential improvement opportunities for the QJ program that are not addressed in the pending rules changes and which may warrant legislative consideration. These opportunities could improve the program's return on investment, add clarity on a number of technical matters, and remove complexities from Louisiana's job creation incentive programs.

2 Overview of the Quality Jobs program

Benefits

The QJ program was created to induce businesses to locate or expand operations in Louisiana by providing tax incentives for job creation and capital investment. If the eligibility and job creation requirements laid out in statute are met, a business may receive annual payroll rebates during a five-year window (or ten years total with renewal):

- 5 percent of payroll for net new jobs paying at least $14.50 per hour in wages and health care benefits
- 6 percent of payroll for net new jobs paying at least $19.10 per hour in wages and health care benefits

In addition, the QJ statute permits businesses to receive the 4 percent sales and use tax rebate *or* the 1.5 percent investment tax credit offered under the Enterprise Zone (EZ) program if the QJ project meets EZ hiring criteria. The statute prevents businesses from receiving EZ jobs tax credits and QJ payroll rebates for the same jobs.

Eligibility

In order to qualify for QJ benefits, businesses must create at least five net new direct jobs, subject to the following provisions:

- Minimum gross annual payroll thresholds for new direct jobs
  - $500,000 by the third year of the contract period for employers with more than 50 employees at the start of the contract **OR**
  - $250,000 by the third year of the contract period for employers with 50 or fewer employees at the start of the contract
- Business eligibility
  - Operate in one of the following sectors: Bioscience, Manufacturing, IT, Environmental Technology, Food Technology, Advanced Materials, or Oil & Gas Field Services **OR**
  - Incur at least 50 percent of annual sales out-of-state and/or to in-state customers or buyers if the product or service is resold by the purchaser to an out-of-state customer or buyer, or to the federal government **OR**
  - Located in an area designated by Louisiana Economic Development as a distressed region, defined as either of the following:
    - Parish that is within the lowest 25 percent of parishes based on per capita income
    - Census tract block group that is below the state median per capita income, based upon the latest federal decennial census

Employers participating in the QJ program may also qualify for the sales and use tax rebate or investment tax credit available under the EZ program 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:

- Residency
  - If the business is located in an urban parish, the employee must live in a Louisiana Enterprise Zone **OR**
  - 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**
  - 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**
  - 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

- 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

- Lacking basic skills: a person below the 9th grade proficiency in reading, writing, or math

- 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

Approvals

The Board of Commerce and Industry (C&I), upon LED review of applicant eligibility, enters into QJ contracts with employers with qualifying projects. QJ contracts last five years and may be renewed for an additional five years. Employers receive annual payroll rebates on net new jobs created throughout the duration of the contract, up to ten years total.

The QJ statute designates LED, the Louisiana Department of Revenue (LDR), and the Louisiana Workforce Commission (LWC) with responsibility for implementation of the program:

- LED administers the QJ program, including processing Advance Notifications and applications, determining employer eligibility, presenting applications to C&I, determining the amount of annual payroll rebates and EZ incentives that may be claimed by businesses with QJ contracts, and promulgating rules to facilitate program administration.
- LDR and LWC send letters of approval or letters of no objection before C&I enters into a QJ contract.
- LWC provides employment reports which LED uses to verify the number of net new direct jobs created by businesses with QJ contracts.
- LDR processes company claims for incentives, up to the amount approved by LED.

3 History of the Quality Jobs program

The Quality Jobs program has been revised frequently over the years ever since its enactment in 1995. The summary below includes major changes since 2000 and is not comprehensive (key terms underlined):

Act 46 – 2000

- Redefined new direct jobs as full-time employment at an hourly wage one and half times the minimum wage
- Required employers to offer basic health benefits plan to individuals employed in new direct jobs and to pay 75 percent of the premium for full-time employees and 50 percent of the premium for part-time employees

Act 153 – 2002

- Changed jobs benefits from refundable tax credits to annual payroll rebates
- Required that a contract with an employer be limited to a single physical location and allowed employers to hold contracts for multiple locations, with eligibility for each location determined separately, and defined new direct jobs as ones which represent a net overall increase in employment statewide
- Provided that QJ contracts should be used primarily as an inducement for businesses to locate or expand existing operations in Louisiana
- Revised list of qualifying basic industries to include specific categories of employer (e.g., oil and gas field services, businesses with 75 percent of sales out-of-state)
- Lowered the minimum payroll threshold for new jobs to $500,000 for employers with over 50 employees and to $250,000 for employers with 50 employees or less and added three-year grace period for employers to meet minimum payroll threshold requirements
- Required employers to provide a basic health benefits plan, including basic hospital and physician care, for new employees within 90 days of qualifying for a contract and specified the plan must be the same coverage offered to executive, administrative, and professional employees
- Excluded retail, government, real estate, waste and sewerage, nonprofits, gaming, and attorneys from qualifying for QJ and gave LED discretion to promulgate rules listing other employers, professions, or service industries which do not qualify
- Adjusted the benefit rate to 5 percent of payroll for jobs paying 1¾ times the federal minimum hourly wage and to 6 percent of payroll for jobs which pay 2¼ times the federal minimum hourly wage and meet other criteria
- Redefined new direct job to mean jobs which are filled by persons domiciled in Louisiana who were previously not on the payroll of the employer, a subsidiary, or affiliate and which are not the result of job shifts due to changes to in-state contracts or business acquisitions
- Allowed employers receiving QJ benefits to receive the EZ sales and use tax rebates if EZ hiring requirements are met

- Required employers to increase minimum hourly wage during the initial five years by the greater of the annual compounded percentage increase in the Consumer Price Index or two percent compounded annually, in order to qualify for a contract renewal

Act 47 – 2003

- Clarified that transfers of employees from out of state to Louisiana count as new direct jobs
- Included advanced materials under the list of eligible industries

Act 899 – 2004

- Allowed companies with 50 or fewer employees which belonged to a qualifying industry sector and paid 50 percent of the health insurance premium for full-time employees to receive QJ benefits
- Provided that the payroll rebate would only apply to employees in new direct jobs who accept the employer's basic health benefits plan

Act 326 – 2005

- Amended industry sector from 'Biotechnology and Biomedical' to 'Biotechnology, Biomedical, and Medical Industries serving rural hospitals'

Act 387 – 2007

- Adjusted the benefit rate to 5 percent of payroll for jobs paying $14.50 in hourly wages and health care benefits and to 6 percent of payroll for jobs paying $19.10 in hourly wages and health care benefits
- Adjusted minimum employer contribution to a basic health benefits plan to $1.25 per hour for each new direct job, as determined by LED

4 Comparison of similar programs across the South

Programs to incentivize the creation of well-paying jobs vary greatly across states, with different benefits structures and wage requirements. Included below is a comparison of payroll rebate programs targeted at high-wage job creation across five Southern states. Enterprise Zone programs, which generally focus on inducing development in distressed areas and/or employing distressed populations, have not been included.

Comparison of payroll rebate incentive programs across the South

State	Arkansas	Louisiana	Kentucky	Mississippi	Oklahoma
• **Program**	Create Rebate	Quality Jobs	Business Investment	Advantage Jobs	Quality Jobs
• **Benefits**					
– Max payroll rebate (%)	3.9-5	5-6	4-5	4	5-6*
– Department discretion	Yes	No	Yes	Yes	Yes
• **Wage/salary requirements**					
– Min average salary	No	Yes	Yes	Yes	Yes
– Tied to state/ county average	No	No	No	Yes	Yes
– Tied to minimum wage	No	No	Yes	No	No
– Min standards for health benefits	No	Yes	Yes	Yes	Yes
• **Target industry requirements**	Yes	Yes	Yes	Yes	Yes
• **Fiscal impact** (claims in FY09, $MM)	N/A	43.4**	33.8***	11.0	60.6

* 7-10% for very high-paying jobs (i.e., over $90K/yr)
** Includes capital investment credits (i.e., sales/use tax rebate and investment tax credit) available under QJ program
*** Fiscal impact of several incentive programs, which were consolidated into the Kentucky Business Investment program

Southern benchmarks show that the payroll rebates offered under Louisiana's QJ program are very competitive compared to the benefits offered under similar programs. However, while economic development agencies in other states are allowed the discretion to set incentive levels according to a cost-benefit analysis, the Louisiana statute requires LED to grant fixed payroll rebates regardless of project economics:

- The Kentucky Economic Development Cabinet negotiates Kentucky Business Investment incentives with qualifying companies based on wages, benefits, area of the state, and other factors.

- The Arkansas Economic Development Commission only offers the Create Rebate as a discretionary incentive in highly competitive situations.
- The Mississippi Development Authority (MDA) offers Advantage Jobs rebates which must be the lesser of:
    1. Qualified Mississippi personal income tax withheld;
    2. A cost-benefit analysis prepared by MDA (the net benefit rate and the cumulative estimated net direct state benefit); or
    3. A legal maximum of 4 percent of applicable wages
- The Oklahoma Department of Commerce calculates an incentive benefit rate for each project qualifying for Quality Jobs, based on company's projected wages and economic factors related to the project.

Louisiana's QJ program requires a minimum level of hourly wages and health care benefits per new job (i.e., $14.50 for the 5 percent rebate and $19.10 for the 6 percent rebate) but does not raise the base required wage with increases in inflation or the cost-of-living.[1] Mississippi and Oklahoma index the minimum wage required per job to the state or county average hourly wage, and Kentucky ties its requirements to the federal minimum wage. With the exception of Arkansas, QJ-type programs in all these states, including Louisiana, impose standards on employer-provided health care benefits (e.g., $1.25 per hour valuation in Louisiana, benefits must equal at least 15 percent of required minimum hourly wage in Kentucky, employer pays at least half of premium in Oklahoma).

Similar to other Southern programs, Louisiana's QJ program targets six industry sectors, among others. QJ-type programs in these five states are often aligned with a larger economic development strategy. Wealth-generating sectors (e.g., manufacturing, agribusiness, distribution and intermodal facilities, information technologies and software development, research) as well as firms which locate headquarters in state or generate a majority of sales (at least 50-75 percent) out-of-state are targeted. Sectors which primarily serve local demand (e.g., retail, restaurants/hotels, health care) generally do not qualify for QJ-type benefits.

Louisiana's QJ program provides more in incentives than a number of other similar programs in the South. More incentives were claimed under Louisiana's QJ program in FY2009 than in any of the comparison states, except for Oklahoma and possibly Arkansas. (Arkansas does not make its tax expenditures available online). The Louisiana Department of Revenue reports having issued $43.4 million in payroll rebates and other incentives under the Quality Jobs program in FY2009. Mississippi, with an estimate of $11 million, falls at the low end while Oklahoma provided the highest amount of incentives at $60.6 million in FY2009.

[1] The Louisiana QJ program does require employers seeking a contract renewal after five years to demonstrate that the hourly wage rate has increased by the percentage increase in the Consumer Price Increase or by two percent, compounded annually. However, the QJ program does not link the required minimum hourly wage to growth in area wage rates or another measure of inflation.

5 Quality Jobs program activity in CY2009

5.1 C&I contract approvals in CY2009

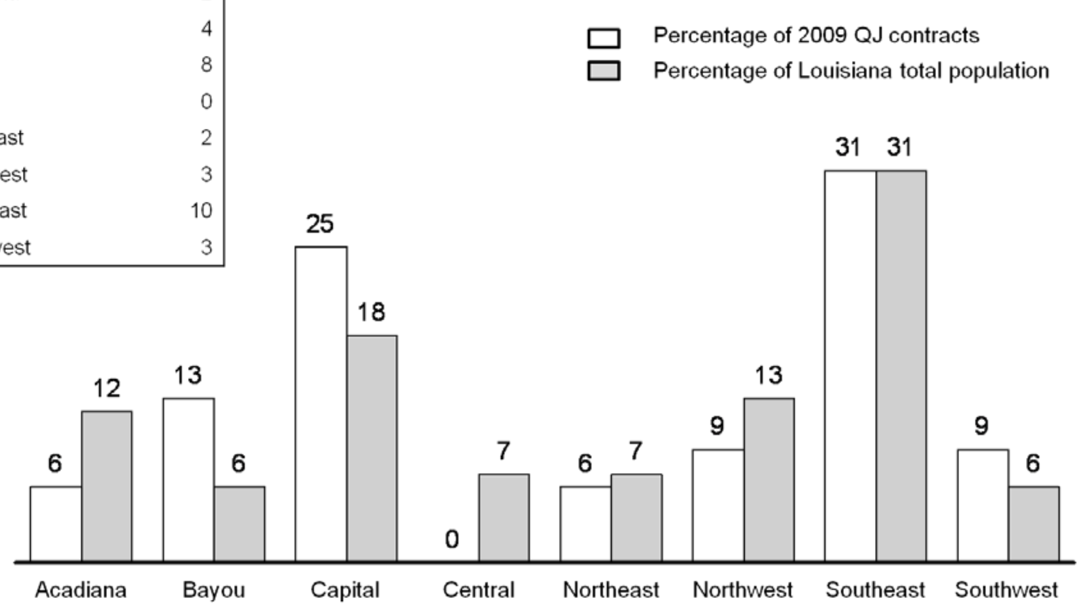
Details of the 32 QJ contracts C&I approved in CY2009, not including contract renewals, are summarized below. All projections for new job creation and incentives granted under the program are estimates based on the representations of the applicant companies. The payroll rebate projections estimate QJ benefits to be realized over a ten-year contract period.

Total new contracts approved:	32
Projected new permanent direct jobs:	3,080
Projected new jobs total (direct + indirect)[2]:	8,674
Projected construction jobs:	1,135
Projected new capital expenditures:	$702.1 million
Projected payroll rebates:	$84.4 million
Projected sales and use tax rebates[3]:	$5.2 million

C&I approved contracts for QJ projects in seven of the eight state economic regions in CY2009, with the Bayou, Capital, and Southeast regions representing nearly 70 percent of contract approvals. The distribution of QJ contracts across the economic regions is loosely in line with the population distribution across the state. (Note: Though no contracts were approved for Central Louisiana in 2009, several projects were approved in 2007 and 2008.)

<u>QJ contracts awarded in 2009 by region</u>

Region	# Contracts
Acadiana	2
Bayou	4
Capital	8
Central	0
Northeast	2
Northwest	3
Southeast	10
Southwest	3



[2] Based on Bureau of Economic Analysis multipliers
[3] Estimates for sales and use tax rebates only are used to project EZ benefits received under the QJ program since companies may only receive the sales and use tax rebate *or* the investment tax credit.

The participating companies[4] were primarily concentrated in the manufacturing sector, with some representation from the professional/technical services, mining, and transportation sectors:

- Beverage and Tobacco Product Manufacturing
- Chemical Manufacturing
- Credit Intermediation and Related Activities
- Fabricated Metal Product Manufacturing
- Food Manufacturing
- Heavy and Civil Engineering Construction
- Machinery Manufacturing
- Merchant Wholesalers Durable Goods
- Motion Picture and Sound Recording Industries
- Oil and Gas Extraction
- Paper Manufacturing
- Petroleum and Coal Products Manufacturing
- Plastics and Rubber Products Manufacturing

5.2 Cost-benefit analysis for CY2009

Overview

In evaluating the fiscal impact of the Quality Jobs program on the State, LED compares the incentives granted (costs) to the new State tax revenues (benefits) generated by business activity incentivized under the program. Costs include all incentives granted under the program: payroll rebates, sales and use tax rebates, and investment tax credits. Benefits[5] include State tax revenues generated from the new capital investment and new permanent jobs and payroll – direct and indirect – which would not have been created in Louisiana in the absence of the incentive. Since QJ generally excludes sectors which primarily serve local demand (e.g., retail, real estate agents, attorneys), payroll created under QJ does not require discounting for the substitution effect (i.e., a new establishment opens or expands as another nearby competing establishment closes or reduces employment levels due to competition from the new establishment).

A project could incur a negative return-on-investment (ROI) to the State if the project would have gone forward in Louisiana even in the absence of the incentive *or* the payroll created by the project is not *net* new payroll to the State (i.e., jobs shifted from one employer or location to another).

Analysis

The analysis considers all 32 C&I approvals from 2009. (Note: not all contract approvals represent executed QJ contracts since companies may cancel after receiving board approval.)

[4] Certain projects qualified for the QJ program based on having a majority of sales out-of-state or locating in a distressed area, not based on the industry sector of the company.
[5] The calculation of benefits to the State does not include corporate income taxes, which are difficult to estimate. However, the value of new corporate income taxes is generally small in relation to the value of other new State tax revenues.

Estimated costs to the State: \$89.6 million = (\$84.4 million + \$5.2 million)

Companies receiving C&I approvals for QJ contracts in 2009 estimated receiving \$84.4 million in payroll rebates and \$5.2 million in sales and use tax rebates over the subsequent ten-year period.

Estimated benefits to the State: \$208.0 million = (\$2,930.0 million + \$41.9 million) x 0.07

Companies receiving C&I approvals for QJ contracts in 2009 estimated creating 3,080 direct permanent jobs with \$1.4 billion in direct payroll over the ten-year period. Since the industries in which these companies operate have high multiplier effects throughout the economy (BEA payroll multipliers ranging from 1.77 to 3.99), the estimated direct and indirect payroll generated by these projects is \$2.9 billion. In addition, these companies estimated that temporary construction payroll would total \$41.9 million.

It is estimated that the State collects seven cents in taxes for every dollar of payroll created (based on the relationship between aggregated State tax collections and payroll). Therefore, multiplying total payroll (direct, indirect, and construction) times 0.07 yields an estimated benefit to the State.

Estimated benefit-cost ratio: 2.32 = (\$208.0 million / \$89.6 million)

For every \$1 the State issued in incentives under the 2009 QJ contracts, the State is estimated to receive back \$2.32 in new tax revenues.

Considerations:

- These calculations assume all new payroll created under the 2009 QJ contracts derives from net new jobs to the state which would not have been created in Louisiana *but for* the QJ incentives.
- Employers may overestimate the impact of their projects at the time of application for QJ. Fewer than 3,080 direct jobs may be created, less than \$89.6 million in incentives (payroll rebate + sales and use tax rebate) may be provided, and less than \$208.0 million in new State taxes may be collected as a result of the 2009 contracts. However, underperformance by companies participating in QJ likely will not greatly affect the benefit-cost ratio since both the estimated benefits and costs to the State would turn out lower than projected.
- The estimated benefit-cost ratio will vary somewhat from year-to-year, depending on the industry sectors of the companies participating in the QJ program and the magnitude of their indirect job multipliers.
- As noted above, this analysis excludes the value of new State corporate income taxes; accordingly, the actual benefit-cost ratio is somewhat higher than the estimate provided above.

6 Usage trends

6.1 Contract approvals over time (Jan 2007 – March 2010)

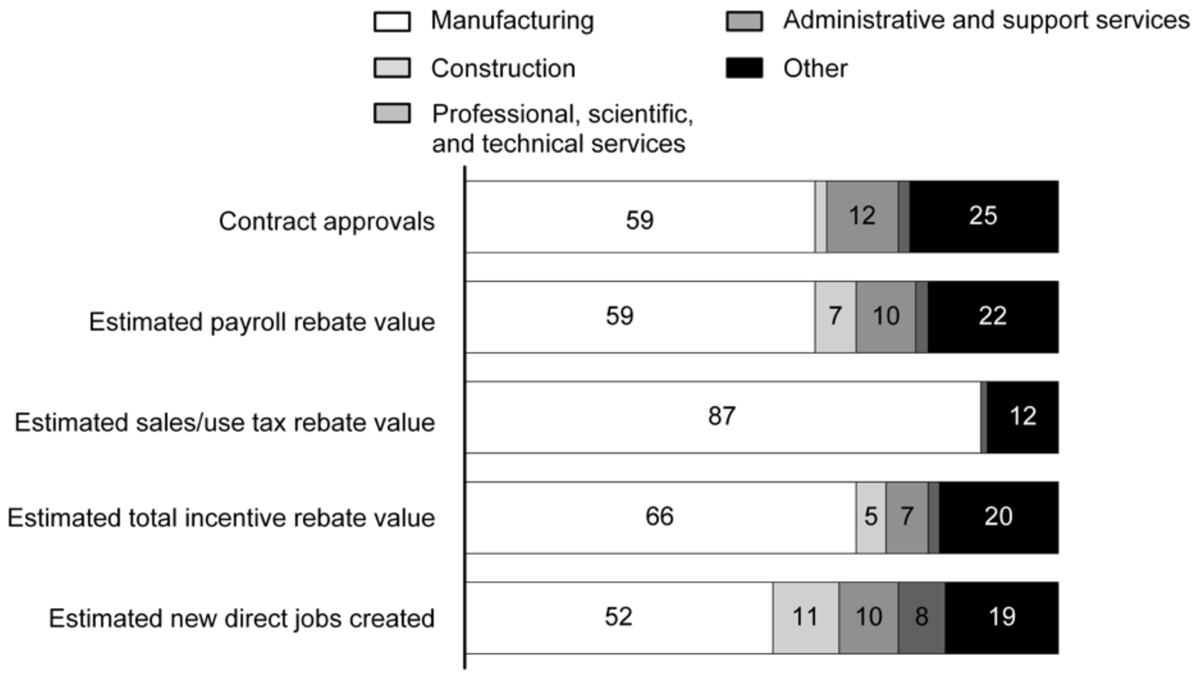
Over the past several years, C&I has approved approximately the same number of QJ applications each year. However, the estimated number of new direct jobs created and estimated amount of incentives granted has fluctuated from year to year, due to the nature and scope of projects represented by those applications.

<u>QJ contracts approved (Jan 2007 – March 2010)</u>

	CY2007	**CY2008**	**CY2009**	**Q1 2010**
Number of applications approved	28	28	32	9
Projected new direct jobs	2,526	1,809	3,080	672
Projected payroll rebates ($MM)	75	37	84	27
Projected sales/use tax rebates ($MM)	39	19	5	5

The manufacturing sector has consistently accounted for the majority of applications approved and estimated QJ incentives granted and, not surprisingly, a majority of estimated new direct jobs created. Since manufacturing projects are highly capital intensive, the manufacturing sector is estimated to account for the large majority of sales and use tax rebates received by companies under QJ contract.

QJ contract distribution across industries[6] (Jan 2007 – March 2010)



6.2 Fiscal impact to the State over time (FY2005 – FY2009)

The overall value of incentives claimed by businesses and processed by LDR (i.e., following approval by LED) through the QJ program has risen steeply over the past several years, despite a drop-off in 2006 due to the significant hurricanes that disrupted Louisiana's economy starting in 2005. The past two years have seen a significant increase in the value of the payroll rebate and sales and use tax rebate, going from $10.9 million in FY2007, to $47.1 million in FY2008 and $43.4 million in FY2009.

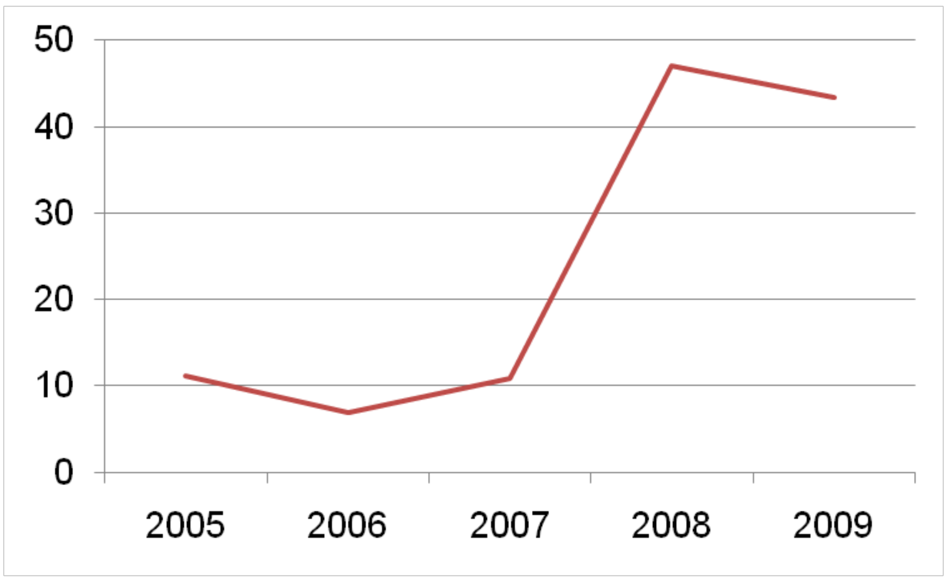
The value of incentives claimed may differ from company estimates provided at the time of application. The overall value of incentives claimed – payroll rebates, sales and use tax rebates, and investment tax credits – may also vary from year to year for a variety of reasons, which may explain the jump in incentive value from FY2007 to FY2008:

- Annual payroll rebates are based on actual payroll levels, not projections provided at the time of application. Sales and use tax rebates and investment tax credits are based on actual project expenditures, not projections provided at the time of application.
- Business activity levels (i.e., job creation and capital investment), and as a result the amount of incentives approved by LED, may fluctuate in response to economic events, including hurricanes.

[6] The other category includes utilities; mining, quarrying, and oil and gas extraction; wholesale trade; transportation and warehousing; information; finance and insurance; and arts, entertainment, and recreation.

- Businesses which have already received LED approval for QJ incentives may delay filing their claims with LDR and elect to file multiple years of claims at once. In the chart below, rebates are reported by the fiscal year in which they are filed and processed rather than by the year during which the activity eligible for rebates occured.
- Changes to the QJ program (e.g., legislative changes made in 2007) may temporarily slow administration of the program.
- Over time, the business community may become increasingly aware of the QJ program, and more businesses may apply.

<u>QJ fiscal impact from LDR Tax Exemption Budget (FY2005 – FY2009, $ millions)</u>



7 Administrative improvement opportunities and proposed solutions through rulemaking

Over a year ago, C&I directed LED - working in close coordination with industry stakeholders - to develop an updated set of rules for the QJ program and several other incentive programs. As LED reviewed the QJ program as part of this rules update, LED identified a number of improvement opportunities to clarify areas of QJ program administration:

- Clarify job creation and incentive provisions
  - Define an employee baseline in order to determine new direct job counts, based on a four-month median calculation
  - Count jobs created when a new business owner reopens a closed facility as new direct jobs
  - Specify that only one contract can be held per project site, with one additional contract allowed for expansions
- Clarify health insurance/medical benefits provisions

These updates were included in rules approved by C&I in April 2010 and were submitted to the Louisiana Register for public comment. Once promulgated, the new rules will enable LED to more effectively administer previously unclear areas of the program. If LED is unsuccessful in implementing these improvements through rulemaking, the Legislature may want to consider incorporating additional detail in the statute to fully reflect these administrative improvements.

7.1 Clarify job creation and incentive provisions

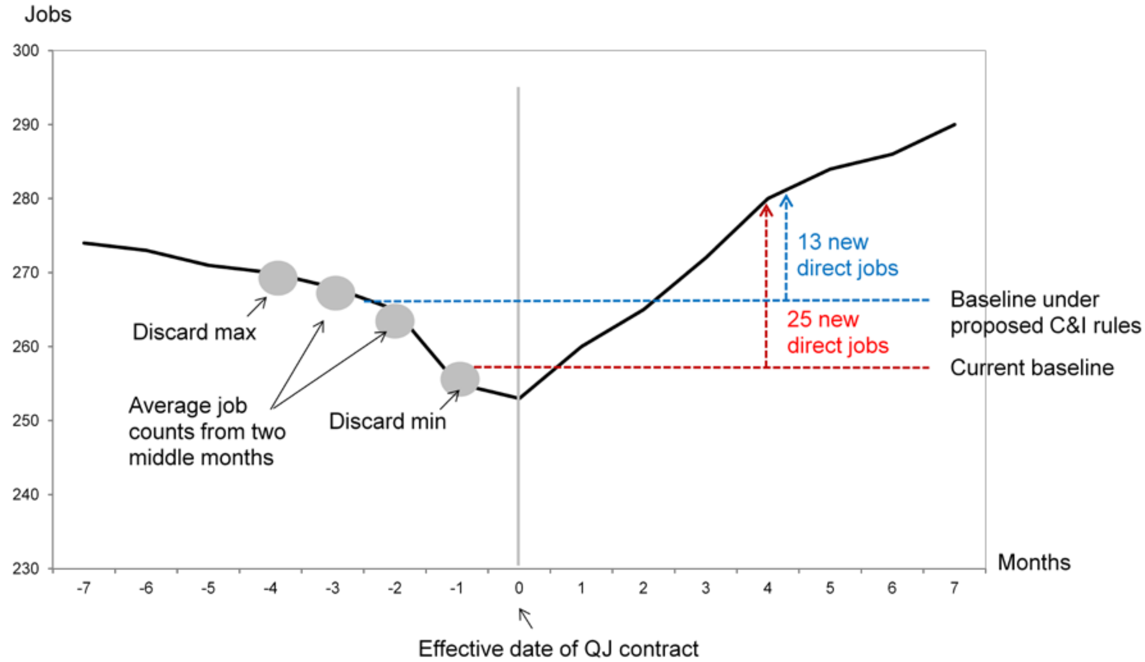
7.1.1 Define an employee baseline in order to determine new direct job counts, based on a four-month median calculation

Current QJ statute defines new direct jobs but does not establish a mechanism for determining the new job count. Without this clarity, QJ benefits may be granted to businesses which are not truly creating new jobs for the state. For example, a business could lay off large numbers of workers and apply for QJ benefits when job counts are down, in anticipation of rehiring those workers.

<u>Solution</u>

C&I introduced a mechanism for determining new direct job counts in the April 2010 rules updates. Since establishing an employment baseline at a single point in time is subject to manipulation, the C&I defined the baseline as a four-month median: the high and low employment levels over the four-month period are discarded, and the two remaining employment levels are averaged. The employment baseline must be exceeded for every year for which an employer receives payroll benefits. In the case of site or business acquisitions by an unrelated third party, the employment baseline is reduced by the number of jobs retained for at least one year.

Four-month median employment baseline calculation



7.1.2 Count jobs created after a business closure as new direct jobs

Provisions in current QJ statute may prevent jobs saved or created after a business closure from receiving benefits. The definition of new direct jobs in QJ statute excludes employees "previously on the payroll of any business whose physical plant and employees are substantially the same as those of the employer in Louisiana" or "retained following the acquisition of all or part of an in-state business."

Solution

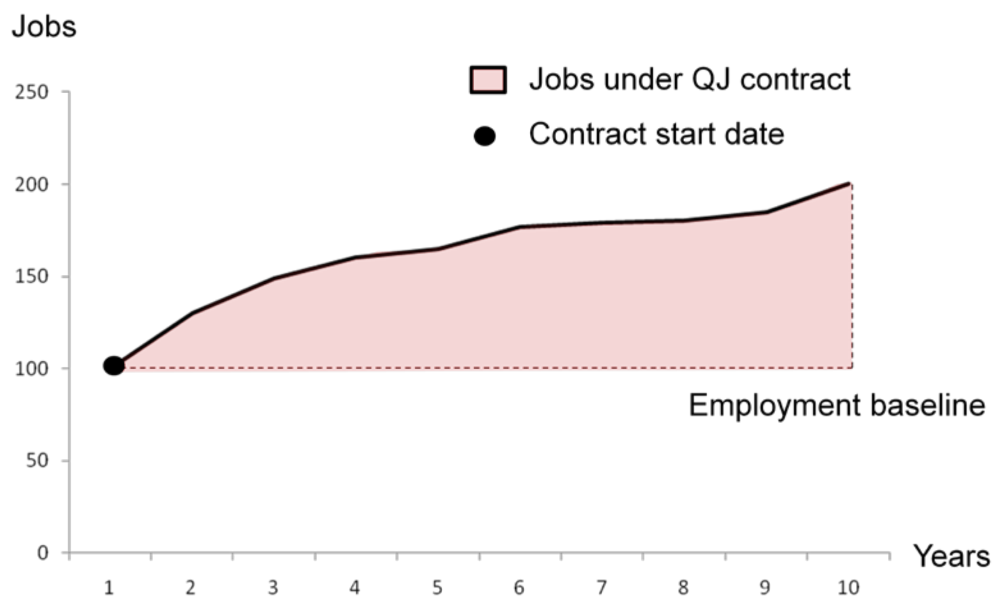
In the April 2010 rules updates, C&I specified that jobs saved or created after business closures can qualify for QJ benefits under certain circumstances. When a business location has been out of operations for at least three months or when the LED Secretary determines that the jobs would have likely been lost absent a transfer of ownership, jobs created after an arm's length transfer of ownership between unrelated companies (not affiliates) may qualify for QJ benefits.

7.1.3 Specify that only one contract can be held per project site, with one additional contract allowed for expansions

Current QJ statute provides for C&I to enter into QJ incentive contracts with employers. An employer may hold a contract for a single business location or multiple contracts for different locations. A QJ incentive contract lasts five years and may be renewed for an additional five years. Under a single contract, employers may receive annual five or six percent payroll rebates on new jobs created and maintained within a ten-year window.

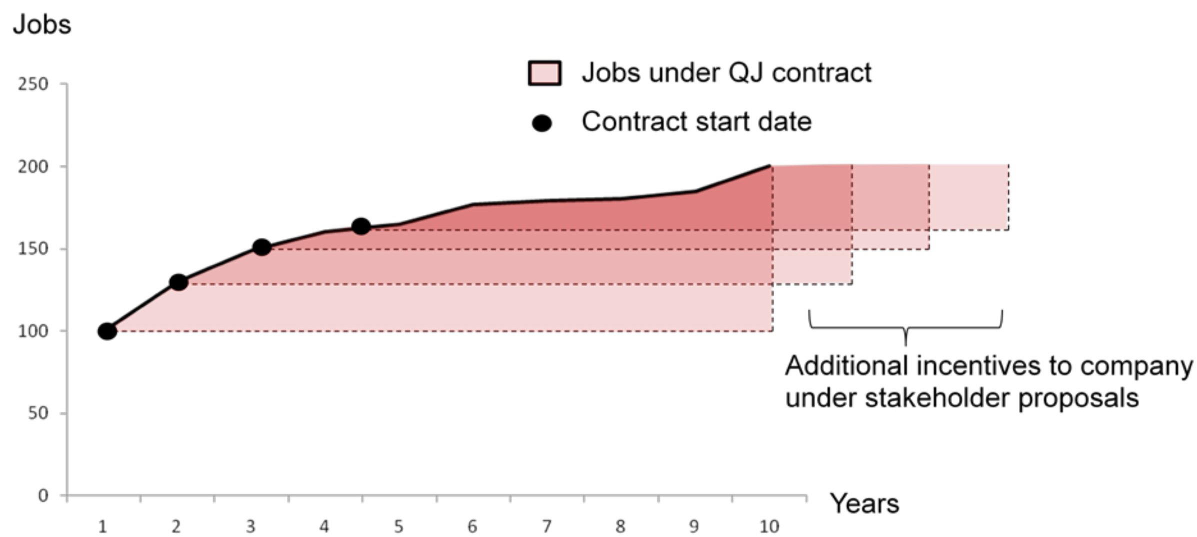
Administration of the QJ program has adhered to the statute by limiting employers to one contract per business location. The payroll rebates issued under the QJ program as currently administered are substantial: the C&I-approved contracts from CY2009 are *estimated* to claim $84.4 million in payroll rebates over the life of the contracts. LDR reported issuing $22M in payroll rebates in FY2009.

New direct jobs under single contract per project location



Some stakeholders in the business community have advocated for employers to hold multiple QJ incentive contracts at the same business location. This change would enable employers to create a full ten years of payroll rebates on jobs created later during the initial ten-year contract window. In the example below, an employer planning to ramp up employment over several years might enter into four successive QJ contracts in order to capture a full ten years of benefits on jobs created after the first year of the initial contract. The result would be increased incentive levels for the project.

New direct jobs under multiple contracts per project location



Solution

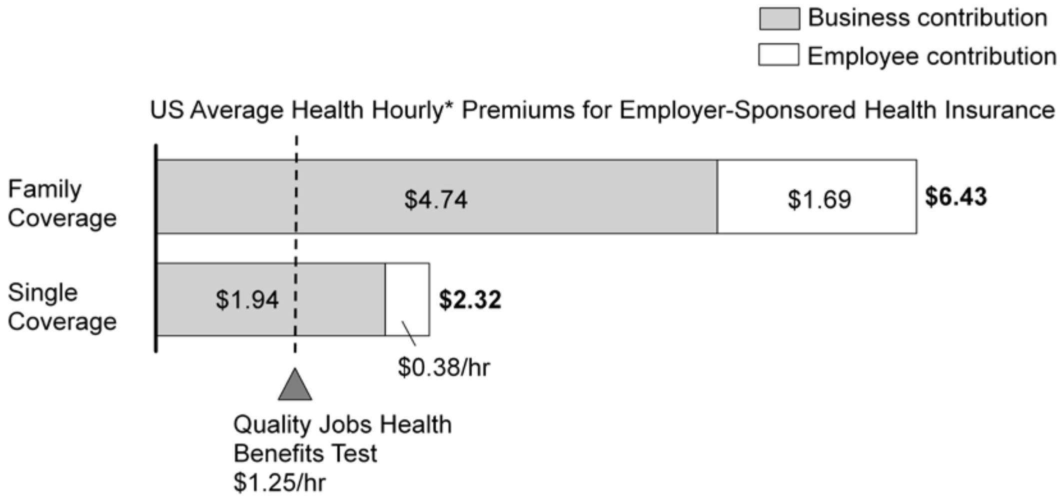
In the April 2010 rules updates, C&I clarified its existing operating practices that limit employers to one QJ contract per project site. In addition, it included rule language that allows an additional contract at the same site for project expansions. Expansions are defined as projects which are distinct from the project associated with the original QJ contract and which increase the number of new direct jobs at the site by at least 25 percent. This update provides LED with new flexibility to provide a full ten years of payroll rebates for distinct, new projects at an existing site already operating under a QJ contract. In addition, it avoids unnecessarily expanding incentive levels for individual projects.

7.2 Clarify health insurance/medical benefits provisions

The current statute requires that employers provide $1.25 per hour in health benefits for new jobs receiving QJ payroll benefits, with no explicit distinction between individual and family coverage. National benchmarks show that an employer contribution of $1.25 per hour is extremely low relative to the national average of $4.74 per hour for family coverage and is also low relative to the national average of $1.94 per hour for individual coverage.

In addition, employers who contributed $1.25 per hour for family coverage would be among a small minority; only three percent of employers nationwide offer family coverage at $1.25 per hour or lower.

Comparison of QJ health benefits standard to national averages for single and family coverage

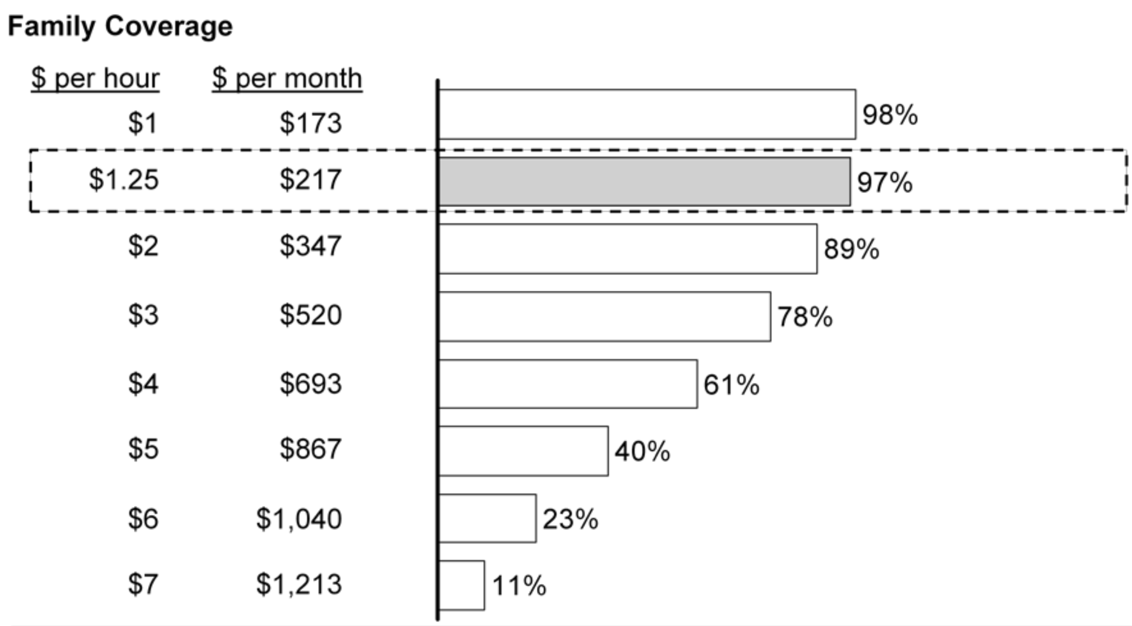


A $1.25 per hour business contribution equates to 64% of US avg. employer contribution for single plans and **26% of US avg. employer contribution for family plans**

* Based on 40 hours per week for 52 weeks of the year
Source: Kaiser Family Foundation and Health Research and Education Trust - Employer Health Benefits 2009 Survey

Distribution of employers by hourly health care contribution

Percentage of businesses contributing *more than* $ amount shown towards premium



Based on responses from 1,850 employers, **97% of US employers contributed more than $1.25 per hour for family coverage**

* Based on 40 hours per week for 52 weeks of the year; based on 1,850 employers across the U.S.
Source: Kaiser Family Foundation and Health Research and Education Trust - Employer Health Benefits 2009 Survey

Solution

In the April 2010 rules updates, C&I clarified the health benefits requirements in order to maintain the standards called upon in statute for 'quality jobs' receiving State incentives.

- **Apply the $1.25 per hour standard against individual coverage only** since the standard is far below the national average for family coverage.
- **Require that employers provide health care benefits to employees within 90 days of the hire date** since extending the waiting period beyond three months would not constitute a basic health benefits plan.
- **Conduct a valuation analysis of employer-provided benefits in accordance with standard operating procedures to be posted on LED's website.** These procedures will include the following:
  - **Exclude vision and dental benefits from inclusion in the $1.25 per hour test** since this would dilute the value of employer-provided benefits for basic hospital care and physician care.
  - **Specify that mini-med and high-deductible plans, unless supported by strong health savings account contributions, do not meet minimum standards for the basic health care plan required in statute** since mini-med plans generally offer limited benefits and high deductible plans impose greater costs on employees.
  - **Specify that all new jobs created must pass the health benefits valuation before the employer can receive QJ benefits** so the State does not incentivize employers who create classes of employees with inferior health benefits.
  - **Allow for a higher valuation of employer contributions under certain situations**:
    - If employer's rates are broken out by employee (often the case for smaller employers), value the single coverage tier at a median age band
    - If employer's single coverage premium is exceptionally low because of its employee mix (i.e., generally healthy, younger people) or its exemplary claims history, value the single coverage tier at typical health, age, and/or claims histories based on industry benchmarks
    - If employer's single coverage premium is exceptionally low because it was able to negotiate better than average premiums from its insurance provider, value the single coverage tier based on industry benchmarks (i.e., industry average premiums)

8 Other potential improvement areas for legislative consideration

In addition to the improvements covered by the 2010 rules update, LED has identified several additional potential improvements to the QJ program that may warrant legislative consideration. These potential improvements could:

- Improve the State's return on investment,
- Add clarity on a number of technical matters, and
- Remove complexities from Louisiana's job creation incentive programs.

8.1 Improving the State's return on investment

There are a number of refinements to the QJ program which could potentially improve the State's return on investment by better ensuring that the creation of 'quality jobs' is incentivized and by strengthening industry and project eligibility requirements.

<u>Ensuring the QJ program incentivizes the creation of 'quality jobs'</u>

- **Index health care benefits requirements to national benefits inflation** since current statute has no provisions to ensure QJ health care benefits standards keep pace with national inflationary trends. The current statute includes a $1.25 per hour health benefits requirement that essentially weakens each year, in relative terms, as premium costs increase with inflation.

<u>Strengthen industry and project eligibility provisions</u>

- **Exclude eligibility for oil and gas field services if LED determines that the project is likely to locate in Louisiana regardless of the QJ incentive**. Many projects in the oil and gas sector are competitive in nature, particularly with locations in Texas, and may not locate in Louisiana but for incentives such as QJ. However, other projects in the sector aggressively seek to locate in Louisiana due to the economic advantages associated with proximity to the Haynesville Shale play or the Gulf of Mexico fields off of Louisiana's coast.

- **Enable LED to negotiate QJ benefit levels based on a cost-benefit analysis** similar to how programs are managed in other states. This would enable LED to more appropriately respond to businesses which are impelled to locate or expand in Louisiana for geographical or market reasons, regardless of incentives that might be available.

8.2 Add clarity on technical matters

LED has identified several potential refinements to the statute which would not substantially affect the nature of the QJ program, but would clarify and update the language and improve LED's ability to effectively administer the program.

Enhance LED evaluations for project eligibility

- ***Explicitly* grant LED the authority to determine what qualifies as new direct jobs, closures, and expansions** in order to evaluate situations not clearly covered by the statute and to ensure QJ incentives are focused on projects that result in net new job creation in the state. LED already has this authority, but an explicit statement in statute could facilitate QJ administration.

- ***Explicitly* grant LED or the Secretary of Economic Development the authority to determine the value of employer-provided health coverage** in accordance with the standard operating procedures that will be posted on LED's website once the C&I rules are promulgated. LED already has this authority, but an explicit statement in statute could facilitate QJ administration.

Update industry eligibility provisions

- **Update and refine the current set of industry sectors, many of which were identified over ten years ago.** The industry sectors identified in the current statute include: biotechnology, biomedical, and medical industries serving rural hospitals; micromanufacturing; software, auto regulation, Internet, and telecommunications technologies; environmental technology; food technologies; and advanced materials. These sectors might warrant a refresh to better align with today's economy. Additionally, within these sectors, provisions could be added to require that over 50 percent of business sales must be out-of-state, better ensuring that wealth-generating industries are incentivized.

Other

- **Set a fee for health benefits evaluations** since the current fee structure (i.e., 0.2 percent of estimated QJ benefits) is not sufficient to fully cover the costs of the QJ health benefits valuation that is performed by an outside consultant with specific health benefits industry expertise. The QJ health benefits valuation is performed relatively infrequently in circumstances where the business' actual monetary contribution towards health benefits falls short of $1.25 per hour, but the business feels that the value of the benefit may be larger than the actual monetary contribution.

8.3 Remove complexities from Louisiana's job creation incentive programs

A potential opportunity for simplifying Louisiana's job creation incentive programs – an idea that has been discussed by Louisiana economic development practitioners for years – might involve combining the Quality Jobs and Enterprise Zone programs under a common statute. Both programs provide incentives to businesses that create new jobs; however, each program has its own nuances, different terminology and definitions for similar concepts (e.g., "net new permanent jobs" in EZ vs. "new direct job" in QJ), and different hiring requirements. Combining the two job creation incentive programs, with tiered incentive levels based on the quality of the project and/or jobs associated with the project, could potentially reduce costs of administration and simplify the application and approval process for businesses interested in creating new jobs in Louisiana. An alternative approach, if the QJ and EZ programs remain separate, might involve fully incorporating into the QJ statute the 4 percent sales and use tax rebate and the 1.5 percent investment tax credit (currently incorporated into QJ by reference to the EZ program) and decoupling those incentives from EZ hiring criteria for purposes of QJ projects.

9 Conclusion

The Louisiana QJ program is one of the State's most active incentive programs and one that has seen a recent increase in activity levels. Since QJ eligibility is generally tailored to businesses in wealth-creating industries, the State's return on investment is generally positive on a project-by-project basis as well as overall.

Most administrative improvement opportunities described in this report are addressed through the updated QJ rules adopted by C&I in April 2010. However, some business and economic development stakeholders have suggested to LED that they would prefer that the QJ program continue to operate under current rules.

LED will strive to manage the implementation of the QJ program as effectively as possible. However, if the administrative improvements described in this report are not successfully implemented through rulemaking, the Legislature may want to consider amending the QJ statute to better clarify provisions in the law.

In addition, the Legislature may want to consider some of the potential improvement opportunities identified in Section 8 of this report which could improve the program's return on investment, add clarity on a number of technical matters, and remove complexities from Louisiana's job creation incentive programs.