Report Highlights

Louisiana Quality Jobs Program

Tax Incentive Evaluation

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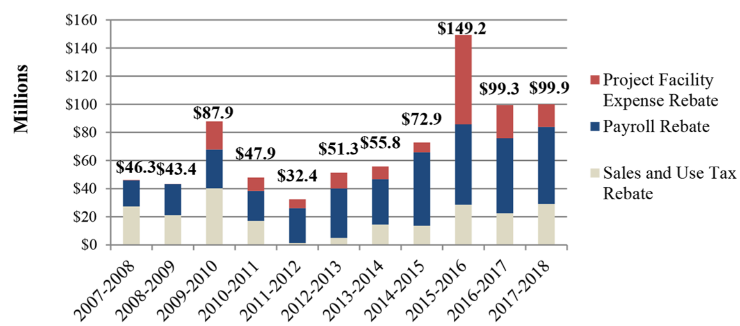
Why We Conducted This Audit

We conducted this audit to evaluate the economic impact, administration, and structure of Louisiana's Quality Jobs (QJ) Program, which incentivizes businesses to locate or expand existing operations in Louisiana. Nearly two thirds of states in the U.S. now regularly evaluate their economic development tax incentive programs. Although Louisiana Economic Development (LED) has evaluated the QJ program, these analyses have not accounted for the fact that some of the businesses receiving the rebate may have expanded or moved here in the absence of the rebate. In addition, since fiscal year 2008, the cost of the QJ program has grown by more than 116.1%, from $46.3 million to $99.9 million in fiscal year 2018.

What We Found

Quality Jobs Program-Amount of Rebates Paid



Source: Prepared by legislative auditor's staff using information from LDR's Tax Exemption Budget.

In examining the economic impact of the program, we found that the 59 Quality Jobs projects that started in calendar years 2011 and 2012 will have generated $10.1 billion in direct, indirect, and induced household income for Louisiana. However, we estimated the majority of that amount would have been generated even if the Quality Jobs program had not been available. As a result, it is possible that the program generates more in household income than it costs the state, but the program is still a net loss for the State Treasury. In the best-case scenario, we estimated that the program generated $1.45 in household income for every dollar it cost the state, but only $0.10 in state tax revenue. In the worst-case scenario, the program only generated $0.10 in household income and $0.01 in state tax revenue for every dollar. Specifically, we found the following:

- **The state could improve the performance of the QJ program by capping the sales and use tax rebate (SUTR) and project facility expense rebate (PFER). Capping SUTR and PFER to 21% of gross payrolls would have resulted in an estimated $84.8 million in net savings to the State Treasury for the 59 QJ projects that started in calendar years 2011 and 2012. This is similar to the caps applied to the Louisiana Enterprise Zone (EZ) rebate in 2016 to help increase the state's return on investment from the EZ program.** The SUTR and PFER rebates were added to the payroll rebate already in place and allow companies to obtain either the SUTR or PFER for their capital expenditures associated with a specific project. Tying these rebates to gross payrolls would cause the rebates to be more directly related to the original intent of Louisiana's QJ program as stated in Louisiana Revised Statute 51:2452(A)(2), which is to provide incentives in amounts directly related to the creation of new direct jobs.

Continued on next page

What We Found (Cont.)

Examples of Rebates Issued for Out-of-State Sales			
Item	**Amount Purchased**	**Rebate received**	**Location of Purchase**
55-ton Rough Terrain Crane	$302,500	$12,100	Houston, TX
Air Cooled Heat Exchangers	$1,874,160	$74,966	Beasley, TX
Concrete	$309,371	$12,375	Dallas, TX
Source: Prepared by legislative auditor's staff using information obtained from invoices submitted by QJ recipients to LDR.			

- **The state could improve the performance of the QJ program by incentivizing QJ recipient companies to direct more of their investment spending on equipment, materials, and construction labor towards Louisiana-based businesses.** For every percentage point increase in purchases from Louisiana businesses, the overall net gain of the QJ program would increase by approximately $538,000. We estimate that only 33.5% of this spending currently goes to Louisiana-based businesses. Incentivizing in-state spending is also similar to the Motion Picture Tax Credit requirement that companies can only receive the credit on Louisiana spending.

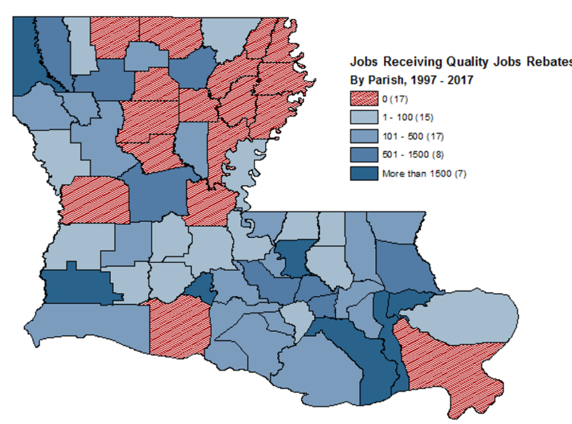
- **LED should ensure the Louisiana Department of Revenue (LDR) is notified when a company did not create the required number of jobs or did not submit documentation showing they had created the required number of jobs to satisfy the job creation requirements of the QJ program.** LED did not always notify LDR when a company did not meet the job creation requirements of the QJ program, as required by state law. We found that from calendar years 2011 through 2018, LDR paid $669,912 in QJ rebates to six companies for creating 155 jobs. However, these companies either did not maintain the required number of new jobs through the third year of their QJ contract or did not submit the documentation showing they had done so.

- **LED should report actual numbers when reporting the outcomes of the QJ program so the legislature and public can accurately assess the actual number of jobs receiving the QJ rebate.** LED only reports estimates of the number of new direct jobs qualifying for rebates through the QJ program. These estimates exceeded the actual job creation numbers by 113.2%. As a result, this may lead the legislature and public to believe the program has a greater impact than it actually does.

- **Requiring LED to demonstrate that a project will have a positive net benefit to the state before it is approved by the Commerce & Industry (C&I) Board may help ensure that companies are approved only if the project benefits the state.** Since 2002, state law no longer requires LED to demonstrate a positive net benefit to the state for each QJ applicant.

- **Amending certain aspects of the Louisiana Quality Jobs Program Act, such as developing variable wage requirements and establishing tiered job requirements and rebate percentages based on the economic conditions of each parish, may help parishes with low wages or high unemployment rates to benefit from the QJ program.** Of the 64 parishes, 17 (26.6%) have not had a company receive a QJ incentive. Sixteen of the 17 parishes have wages that are below the state average, and 15 have unemployment rates that are above the state average.

Quality Jobs Rebates by Parish
Calendar Years 1995 - 2018



Source: Prepared by legislative auditor's staff using 2018 United States Census and LED.