FORM for PUBLIC TESTIMONY
BEFORE THE SCR103 REVENUE STUDY COMMISSION

Testimony Form to be used by any interested party testifying on their own behalf or on that of a client with respect to a specific tax expenditure.

Meeting date: Monday, December 10, 2012

Tax expenditure: Enterprise Zones (Item No. 16)

Name of witness: Jan Moller

Agency, persons or organizations on whose behalf the testimony is being submitted:

Louisiana Budget Project

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Please respond to the following questions using up to 4 additional pages. Where appropriate, include within each response the methodology, assumptions and data sources utilized in its confection:

1. Will your testimony before the commission be in support of continuing the tax expenditure or for changing, reducing or eliminating the tax expenditure?

2. Is there evidence of beneficial or detrimental economic or other activity specifically resulting from the tax expenditure?

3. What are the specific interests and parties which would be directly impacted by any change in this tax expenditure?

4. Do you have recommendations relative to any data, model or other form of measurement which would aid in the analysis of the efficacy of the tax expenditure?

******Please use this page as a cover page for your submission.******

Louisiana Budget Project

Written Testimony Regarding Enterprise Zones (Item No. 16)
Submitted to SCR103 Revenue Study Commission
Submitted on Wednesday, December 5, 2012

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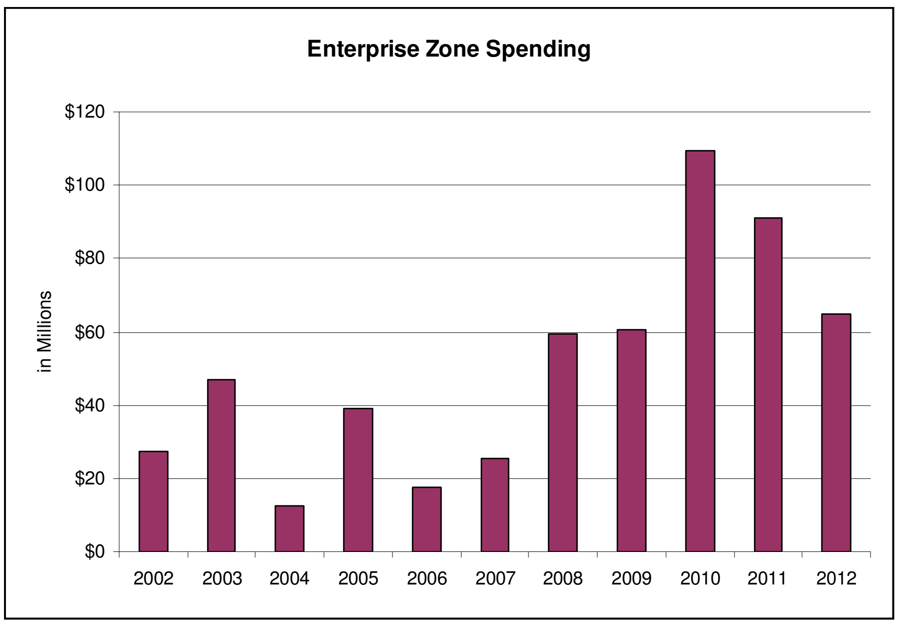
Dear Honorable Legislators,

The Louisiana Budget Project (LBP), a nonpartisan research and advocacy group focused on low- and moderate-income populations, is proud to submit the following testimony about Louisiana's Enterprise Zone (EZ) program for your consideration. LBP analysts have identified five key problems with the current EZ tax exemption that can be fixed through common-sense reforms.

Problem 1: The Cost of Enterprise Zones is Growing Every Year

Current regulations neither limit the number of projects that can apply for the EZ program nor cap the amount of incentives that that the state can approve. This lack of constraints contributes to the ballooning cost of the EZ program. The state spent $527.4 million on EZ credits over the last decade, with 73 percent of that spending occurring within the last five years.



Note: Data in the above table is through June 2012

Problem 2: Enterprise Zones Do Not Produce Quality Jobs

Approximately 37 percent of EZ jobs are in the retail and accommodation/food services industries. The average annual salary for an employee in the retail trade industry is less than $2,000 above the poverty line for a family of four, while the average annual salary for employees in the accommodation and food services industry is *$6,000 below the poverty line* for a family of four (according to data from the Louisiana Workforce Commission and Bureau of Labor Statistics).

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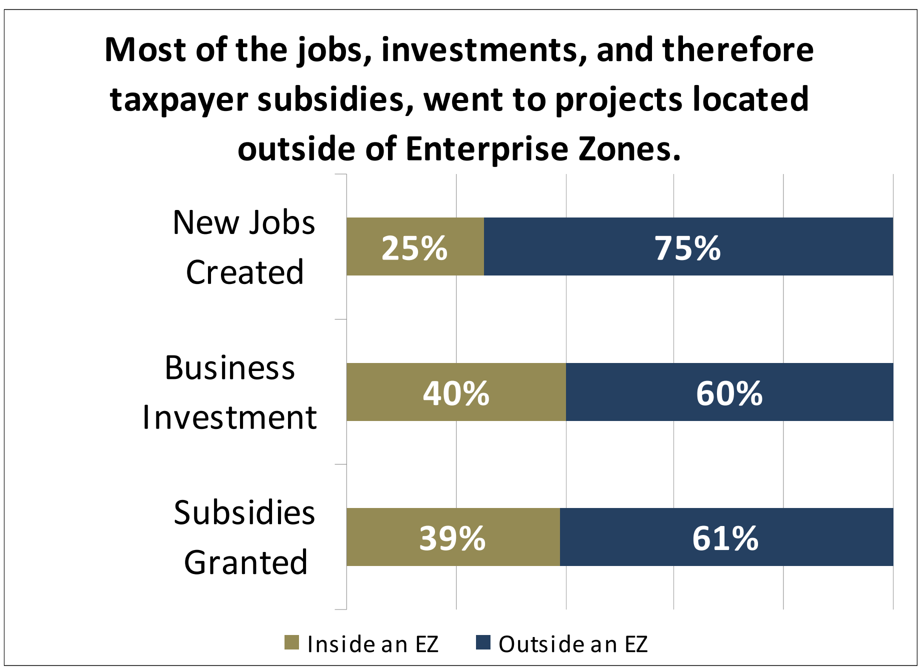
An April 2012 report from the Louisiana Legislative Auditor emphasized that many businesses receiving EZ incentives are in industries where one business closes or reduces its workforce after a new business in the same industry opens (called a substitution effect). According to the auditor's report, this phenomenon means there is often no actual net job increase when EZ credits are awarded in these industries. Four of every five employees hired through Louisiana's EZ program are in one of these industries.

Problem 3: Many Jobs Would Come without the EZ Credit

The EZ program's broad requirements allow large multinational companies to receive taxpayer subsidies for jobs that would likely be created without the credit. For example, Wal-Mart averaged over $14 billion in domestic after-tax profits since 2009. Yet Louisiana taxpayers are giving the company $4.8 million to subsidize 10 stores that qualify under the current EZ guidelines. Given the small amount of EZ credits Wal-Mart receives relative to its overall profit, it is very likely that these jobs would exist in Louisiana regardless of the EZ credit. The state would be better off using this money to support public education, health-care and public safety.

Problem 4: Economically Depressed Communities Do Not Receive Benefits

The chart below summarizes data from the auditor's report, clearly showing that the majority of newly created jobs, business investments, and subsidies went to projects located outside of designated enterprise zones. These trends prompted the auditor's office to warn that the incentive "is not consistent with the program's statutory purpose of stimulating business and industrial growth in enterprise zones."



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Problem 5: Louisiana Lacks Safeguards Offered by Other States

Louisiana's EZ program lacks key safeguards that are included in programs offered by our neighbors in Alabama, Arkansas, Mississippi, and Texas. Neither Alabama nor Mississippi allows businesses that receive EZ credits to operate outside of a designated enterprise zone. Texas has more stringent eligibility guidelines than Louisiana for projects that locate outside of an enterprise zone. None of the neighboring states allow retail businesses to participate in their EZ program, and none of the other states allow businesses to claim part-time workers for job credits. Finally, Texas discloses the names of businesses that participate in their EZ program as well as the amount of revenue they receive.

Recommended Solutions

The Legislature should consider the following common-sense reforms to the EZ program that would close loopholes, narrow the scope of the subsidies and bring Louisiana's EZ program more in line with other states:

- **Capping the amount of tax credits approved each year** to halt the ballooning cost burden on taxpayers. Establishing monetary caps also helps the state more accurately forecast EZ program spending.
- **Requiring businesses to operate inside an enterprise zone** so that economically depressed communities receive benefits from the program. Changing this requirement also would bring the policy in line with its statutory intent.
- **Excluding retail and accommodation/food services businesses** from the EZ program to protect against spending money in industries that produce low-quality jobs and have high substitution effects.
- **Mandating full-time and health insurance requirements** to ensure that every new job pays a fair wage and offers good benefits. These requirements reduce the number of employees that rely on social safety net programs such as food stamps or Medicaid.
- **Increasing transparency** by disclosing how much credits businesses receive, not just the amount that businesses are approved to receive. This change makes Louisiana's law more similar to neighboring states.
- **Giving projects their EZ credits after two years** so that businesses must prove that they hit their investments and new hires benchmarks before they receive any benefits. This policy reduces administrative costs for the state and improves public budgeting.

Prepared by David Gray, LBP Analyst