

# PUBLIC POLICY COMMENTARY



## Shouting Away Manufacturing Analyzing Together Baton Rouge's Unusual and Unfortunate Attack on Industry

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### *A Tale of Two Cities*

In April, ExxonMobil announced plans to build the world's largest ethylene cracker plant, a \$10 billion petrochemical capital investment, in the area near Corpus Christi in Texas. [As reported at the time](#), the project is expected to create 600 permanent fulltime jobs, another 11,000 jobs during its five-year construction, and inject more than \$50 billion into the local economy during the first six years of operations.

The Baton Rouge Area was in the running for this project, and BRAC worked tirelessly to try to land these investments and jobs in our region, before ultimately coming up short. There has been much speculation about why ExxonMobil finally chose the Texas location over one in Louisiana — speculation we will not engage in here. Instead, we will simply point to a factual event that took place leading up to the decision, namely the approval in the prior month by the local Texas school district's board to grant ExxonMobil a property tax break valued at \$1.2 billion over ten years, which came the day after the county government had approved a separate tax abatement package worth \$210 million.

From a [news account](#) of the school board's proceedings:

**"We're the school board and I thought we were supposed to be educating our kids, but it seems like we're in the middle of economic development," Randy Eulenfeld, the board's president, said. "We will take this responsibility and do the best that we can."**

In the end, the vote was unanimous, as reported in [another news account](#), that "the Gregory-Portland Independent School District board of trustees voted 6-0 to approve a Chapter 313 tax abatement for the proposed site in San Patricio County."

We point to this event in Texas merely to juxtapose it with the situation in Louisiana. In June of 2016, Governor John Bel Edwards issued an executive order modifying the rules of Louisiana's Industrial Tax Exemption Program (ITEP), shortening the amounts and duration for the manufacturing project property tax abatements, instituting job requirements, and most significantly, granting approval authority for the projects to the local government entities whose property tax revenues would be impacted by an abatement. While BRAC has welcomed the introduction of greater local input to the program — considering how effectively it works in Texas (more on that later) — the simple fact of the matter is that more than a year after the Executive Order went into effect, and despite the Governor's good intentions and his Economic Development department's helpful guidance, there remains tremendous confusion and uncertainty about its practical implementation at the local level, a level of confusion that itself has had practical consequences for our region's competitiveness for manufacturing projects.

We also point to this event for what it tells us about the respective business climates between a place where a local Texas school board president accepts the serious responsibility of that body's role in the region's economic development, and the current state of affairs in Baton Rouge, where seemingly every week the news contains coverage of one organization's unusually aggressive attack on the program, culminating recently with Dianne Hanley, a member of Together Baton Rouge's executive committee, [even going so far as to say](#), in reference to ITEP, that "We want to make it politically impossible for officials to approve inappropriate exemptions."

We respect Together Baton Rouge's broader mission, and BRAC has partnered with them in the past on other issues, so it was all the more jarring, no matter what side of the tax incentive debate one might fall, to read a comment so overtly political from a faith-based organization, moreover with language admitting that the organization's aim is not only to politicize the issue but in essence also to threaten Baton Rouge officials, to warn them away from exercising the kind of serious responsibility toward economic development that their counterparts in other states demonstrate to help keep their regions economically competitive. Far be it from us to worry about the impact on another organization's usual high-mindedness, but we fear that this unfortunate admission of a political agenda by the non-profit's executive committee member might constitute an example of that famous alternative definition of a "gaffe," in which someone accidentally "tells the truth — some obvious truth she isn't supposed to say."

**"We want to make it politically impossible for officials to approve inappropriate exemptions."**

**– Dianne Hanley, executive committee member of the faith-based group Together Baton Rouge, in reference to ITEP**

More troubling than the admission of a political agenda aimed at local officials, however, is the language at times deployed in service of that agenda, which tends to score high for sarcasm (a tone which, again, seems out of keeping with that organization's typical earnestness) but low for truthfulness. Take, for instance, a more recent letter to the editor by Ms. Hanley that appeared in [The Advocate](#), in which she claims, among other things, that "Texas prohibits school districts from granting abatements." Obviously, given the action in March by the Corpus Christi area school district referenced above, this claim is patently false. But perhaps the source of the error is revealed, again unintentionally, in Ms. Hanley's sarcastic instruction to the reader to "Google 'Texas' 'Chapter 312' to check this out for yourself." If Chapter 312 of the Texas Property Tax Code makes no mention of school district abatements, that's because Chapter 312 deals with tax abatements granted by county governments and other local authorities. School district abatements, known as "value limitation agreements," are covered in Chapter 313 of the Texas Property Tax Code. Sometimes the problem with Google searches is that the results only give you what you are looking for based on what you already think you know, but cannot (as of yet) always account for what you do not actually know. On the other hand, if Ms. Hanley's failure to use a more respectable, old-fashioned approach — that is, simply reading a bit further in the code to see what Chapter 313 says — helps to explain this one falsity, it unfortunately does not explain the many other misguided assertions about the ITEP issue routinely disseminated by her organization.

## **Category Errors**

The introduction to a [report](#) about ITEP released earlier this month by Together Baton Rouge begins with some curious definitions. "There is a difference between an incentive and a gift," it states. "An incentive motivates or encourages someone to do something *they otherwise would not have done*. A gift is given freely with no expectation of anything in return. The Louisiana constitution authorizes incentives for economic development. It does not authorize gifts." *[emphasis added]*

While the definition of "gift" seems straightforward enough, it's Together Baton Rouge's definition of "incentive" that should give people pause, although this is not the first time the group has deployed it while arguing against

the program. Late last year, at a meeting of the State Board of Commerce and Industry, the representative of a Louisiana company explained its application for his manufacturing facility's modernization investment project, without which, he claimed, the company would no longer be able to compete against similar but more technically advanced companies in other states, and therefore would eventually have to shut down and lay off all its workers. In response, Broderick Bagert, the lead community organizer of Together Baton Rouge, argued (unsuccessfully, as it turned out) that unless the company could prove that it would not be able to move forward with the modernization unless it received the tax exemption itself, then the application should be denied. But that, of course, is not the purpose of incentives, nor how they work. By the same logic, parents would have to prove that having a child is something "they otherwise would not have done" to be eligible to receive the child tax credit on their income taxes. Similarly, had the home mortgage interest deduction never existed, it's likely that millions of Americans still would have purchased a home. That these same Americans do, in fact, receive the mortgage interest deduction on their income taxes for doing something they "would have done anyway" (a favorite expression of Together Baton Rouge) does not magically turn this allowable incentive into a "gift" to be prohibited. And yet that is exactly what would happen if Together Baton Rouge's definition of an incentive were established into law and applied to all incentives. Were that the case, then you could say goodbye to your child tax credit, and farewell to your mortgage interest deduction.

**By Together Baton Rouge's logic, parents would have to prove that having a child is something "they otherwise would not have done" to be eligible to receive the child tax credit on their income taxes.**

And who knows, perhaps such an outcome is in keeping with the tax policy of Together Baton Rouge — one can certainly contemplate reasonable economic arguments against those two tax incentives, no matter how unpopular those arguments would be. And yet one can't help imagining the awkwardness the organization would feel to discover how its definition of incentive might impact the earned income tax credit, which rewards work and incentivizes low-income people, especially those with families, to continue working. To defend that tax incentive while also being logically consistent with their own definition, Together Baton Rouge either would have to argue that the people who receive the credit "would otherwise" *not* work without it, or instead be forced to oppose the tax credit, on principle, because its recipients were engaging in an activity (work) that they would have done anyway.

If these scenarios seem somewhat outlandish, it's because they are — or rather, it's because Together Baton Rouge's understanding of the purpose of tax incentives is fundamentally, and, sad to say, outlandishly flawed. Call it a category error. Or call it a double standard, but Together Baton Rouge does not seem to apply its hypothetical distinction between an allowable incentive and a prohibited gift to any of these other incentives — but, selectively and incongruously, only to manufacturing companies that reside, and employ thousands of people, in Baton Rouge.

In reality, the purpose of a tax incentive rarely has anything to do with someone's willingness or ability to engage in an activity based solely on whether he or she receives the incentive. Rather, an incentive originates merely in a determination by society that it values certain activities — child-rearing, homeownership, employment by struggling families — and, while acknowledging that these activities contain certain inherent sacrifices, simply utilizes tax law to make it somewhat easier financially to entice more of the activity, or to encourage people who already engage in it to continue doing so. We know that the state of Louisiana values industrial manufacturing, because the people of the state enshrined the incentive encouraging this activity in the state constitution. To get a sense of the extent of the value the people placed on this activity, it may be useful to quote the entire relevant passage from Article 7, Section 21 of the state constitution:

Notwithstanding any contrary provision of this Section, the State Board of Commerce and Industry or its successor, with the approval of the governor, may enter into contracts for the exemption from ad valorem [property] taxes of a new manufacturing establishment *or an addition to* an existing manufacturing establishment, on such terms and conditions as the board, with the approval of the governor, deems in the best interest of the state.

The exemption shall be for an initial term of no more than five calendar years, and may be renewed for an additional five years. All property exempted shall be listed on the assessment rolls and submitted to the Louisiana Tax Commission or its successor, but no taxes shall be collected thereon during the period of exemption.

The terms “manufacturing establishment” and “addition” as used herein mean a new plant or establishment *or an addition or additions to* any existing plant or establishment which engages in the business of working raw materials into wares suitable for use or which gives new shapes, qualities or combinations to matter which already has gone through some artificial process. [Emphasis added]

We will have more to say later about the importance of the emphasized words above, but we have quoted the entire passage at length mainly as a reminder of the specificity in amount and duration that the people intended for this exemption through a constitutional provision that has gone unchanged for decades. It’s disconcerting, to say the least, despite the good intentions of the Governor’s executive order establishing local approval of the exemption, that Together Baton Rouge, unable to change the constitution through the proper process, appears to be trying to take advantage of the situation to persuade local officials, through a confused mischaracterization of the incentive, into undermining the will of the people as expressed in the constitution.

Of course, something conspicuously absent and unspecified in the constitution is a requirement that a company prove, as Together Baton Rouge would have it, that its manufacturing investments would not have been done without receiving the tax incentive. And that’s no small point — because not only does Together Baton Rouge’s flawed definition of an incentive reside outside the typical norms of tax law, but it also lies at the heart of so much of its flawed statistical analysis of the program.

### ***TBR’s Imaginary Numbers***

Using the actual constitutional definitions above as our guide, we can imagine Company A investing hundreds of millions of dollars to build a new manufacturing establishment in East Baton Rouge, transforming a long vacant plot of land of minimal value that previously generated almost no property tax revenue. Likewise, we can imagine a local Company B investing tens of millions of dollars to make an addition to its existing manufacturing establishment, and in the process not only maintaining its industrial competitiveness but also increasing the property value of the establishment. In the first instance, had Company A decided not to build the new establishment here and the lot had remained vacant, the amount of property tax revenue collected from it by parish government entities would have remained zero. In the second instance, had Company B not invested in the addition to its existing facility and thereby increased the value of its property, the amount of property tax revenue collected from the non-existent addition would, likewise, have remained zero. Neither company, of course, is obliged to make these investments, which result in the creation of new jobs or the retention of existing jobs in the parish. It is only by dint of Together Baton Rouge’s restrictive definition of incentive, and its assumption that these investments are something the companies would have done anyway, that allows them to frame the property tax exemption that result from the investments in terms of “lost revenue” or “costs” to local taxing bodies. Given the contingencies that apply to the real world, such framing seems both unfair and inaccurate.

As it is, Together Baton Rouge’s recent report claims that the “cost” in “revenue losses” to local government entities in East Baton Rouge since 1998 equals \$769 million. Since Together Baton Rouge has not, as they

promised to, released the underlying data for their report, it is impossible to verify the accuracy of this figure. For instance, since any given project receiving an ITEP exemption has historically lasted ten years, does this figure, which covers almost twenty years, factor in how much property tax revenue was generated by the activity after the exemption expired? Likewise, without the underlying data, we are asked to accept on faith the breakdown of the purpose of all ITEP projects since 1998, and their claim that only 6 percent went toward “genuine expansions or additions” while 94 percent went toward what they dismissively characterize as “miscellaneous capital additions, equipment replacement or other forms of routine capital investment” — in other words, the kind that they previously portrayed as investments “the companies would have made anyway.”

But while their numbers certainly raise many questions on their own, it’s Together Baton Rouge’s rhetoric associated with the numbers that make it exceedingly difficult to accept their claims at face value. Take this quote from *The Advocate* [story](#) on the release of their report:

**“Imagine if someone would just propose at a school board meeting, ‘I’d like to allocate \$7 million to help Exxon replace their machinery,’” said Broderick Bagert, the lead organizer for Together Baton Rouge.**

There is so much that is misleading in this statement that it’s difficult to unpack it all at once. First, recall that Mr. Bagert is the same person who last year argued at the Board of Commerce and Industry against an ITEP application for a company that sought to modernize its equipment to stay in business against the competition. Second, even if the equipment in his imaginary hypothetical situation were valued at \$7 million, the corresponding property tax on that \$7 million investment would be substantially smaller. And third, again, this scenario posits that the school board would be allocating anything — which it would not — and completely leaves out the fact that the school board would receive the property tax on the investment after the expiration of the exemption.

Now juxtapose those “imaginary numbers” with facts from recent manufacturing activity in the real world. In 2016, ExxonMobil received ITEP contracts related to about \$361 million in capital project investments in Baton Rouge Area facilities. While Baton Rouge Area facilities saw an increase of 54 employee jobs over the length of the contract, another 2,586 contractors supported this capital project investment at these facilities, representing a payroll of more than \$271 million. But the estimated property tax relief associated with these projects was only \$2 million.

**The idea that approval of ITEP exemptions leads to never-ending property tax losses for parish government entities is simply not supported by the facts.**

Since Together Baton Rouge seems to single out ExxonMobil, not only through their rhetoric but also in reporting on “lost revenue,” it might be informative to learn the facts and dispel the insinuation that the company does not actually contribute tax revenue to East Baton Rouge. According to Assessor Brian Wilson’s report on the Top 25 Taxpayers in East Baton Rouge parish for 2016, ExxonMobil topped the list, paying \$32.7 million, or almost three times the next highest taxpayer. Over the past five years, ExxonMobil has paid property taxes in the amount of \$70.6 million to East Baton Rouge city-parish government, \$89.8 million to parish schools, and \$30.5 million to the sheriff, for a total of almost \$191 million, or about four times the amount of the next highest taxpayer over that period. What’s more, between now and 2021, as certain project exemptions expire, the corresponding property taxes coming on to the tax rolls will increase the amount ExxonMobil pays to the parish by \$11 million. The idea that approval of ITEP exemptions leads to never-ending property tax losses for parish government entities is simply not supported by the facts.

Finally, as pertaining to jobs, while it is impossible to verify claims made in Together Baton Rouge’s report dating back to 1998 — again, without the underlying data associated with each ITEP project — it’s important to note that over the past five years ExxonMobil Baton Rouge has hired 1,071 new employees, that their ongoing investments help to retain jobs for more than 6,500 local employees and contractors, and that an average of 2,000 contractors work in long-term positions in these facilities.

For BRAC, the lowest point in this public debate came within that letter to the editor by Together Baton Rouge's executive committee member Dianne Hanley, when she accused us of having a "conflict of interest" in our efforts to defend the viability of ITEP, because companies like ExxonMobil that receive the exemption are members of our organization. Instead, given that we are a chamber of commerce that functions as the lead economic development organization for the region, it should surprise no one that we share a common interest with companies that employ so many people, and agree on the goal of retaining those jobs in our area. If there's any conflict of interest truly at work here, it is the conflict between the actions of Together Baton Rouge, and the interests of thousands of employees and contract workers who serve the many major manufacturing companies in the parish.

### ***Conclusion, Moving Forward***

Before moving away from analyzing Together Baton Rouge's recent ITEP report, we would be remiss not to shine a light on what are easily the most imaginary numbers appearing in it, namely those associated with the assertion that ITEP has been the cause of increased property taxes for other parish taxpayers. It even includes calculations for precise millage increases to the hundredths decimal place, and an exact dollar "amount of increase" for average taxpayers "due to ITEP," without any citation of when these alleged tax increases took place, nor any proof, even if they had happened, that ITEP was the proximate cause. But for these numbers to be real, one must first accept Together Baton Rouge's initial proposition of "lost revenue" to the parish, and then accept an implied second proposition that every local government entity has increased property tax rates on everyone else to cover the difference. This is quite a stretch, to put it kindly, or a pretty slick trick of sophistry, to put it less charitably. To put it bluntly, it's also a lie.

But by now we hope that an example like this helps illustrate the questionable logic, numerous mischaracterizations, and outright misrepresentations that pervade Together Baton Rouge's arguments, the purpose of which are to "make it politically impossible for officials to approve" ITEP agreements. We also hope officials will weigh for themselves how to respond to political threats based on specious arguments.

For our part, BRAC seeks not "to minimize public scrutiny over exemptions," as Ms. Hanley has accused us, but to see progress made toward a functional, predictable, and timely application review process. Every week that goes by without having that process in place sets prospective manufacturing projects for the parish at a standstill. We have suggested looking to Texas for guidance, not because their local government entities relinquish their own approval authority, but because those "entities, though independent, collaborate," as the head of economic development for the Corpus Christi region [recently explained](#). Partly because of their collaboration over tax abatements, a \$10 billion manufacturing investment is now headed toward that part of Texas, along with 600 permanent fulltime jobs, another 11,000 construction jobs, and more than \$50 billion injected into the local economy.

Why is this such an important issue to get right? It's because manufacturing jobs pay on average 87 percent higher than the average salary for all jobs in the Baton Rouge Area. The impact of manufacturing jobs also causes a larger ripple across the rest of the local economy, with every job in manufacturing creating more than three additional jobs in the community, from construction to restaurants to mechanics. For more than eighty years, our state constitution has rightly reflected the high value that our people have assigned to the importance of manufacturing. Over the same timeframe, the Baton Rouge area's economy has been fueled by manufacturing, and it is the reason why our economy remains strong today.

BRAC believes officials in East Baton Rouge are equally committed to collaborating toward timely decisions on ITEP applications to help our region attract and retain manufacturing companies, along with the many high-paying jobs they generate.

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