ZONED OUT
Program designed to spur development in impoverished areas instead is draining millions of dollars annually from state budget

By Rebekah Allen
raallen@theadvocate.com

North Baton Rouge doesn't have high-end retail shopping centers or fancy restaurants. There are no movie theaters. The hospital has been shuttered. Instead of traditional grocers, there are convenience stores fueled by alcohol sales.

Community leaders have dubbed it a "food desert" for its dearth of healthy food options, and elected officials have for years cried out for economic development measures that would stir job growth.

The area, which includes neighborhoods like Scotlandville and Glen Oaks, has East Baton Rouge Parish's highest concentration of families below the poverty line and the lowest household incomes. It's among the poorest urban areas in the state.

In short, it's precisely the kind of place that the state's Enterprise Zone program — which gives taxpayer money to businesses willing to relocate or expand in depressed areas — was designed to revive.

But that's not what it's doing. The program, which has cost the state an average of $69 million a year for the past five years, more often than not pays businesses to set up shop in wealthy areas. It gives hundreds of thousands of dollars in tax credits, and sometimes millions, to some of the largest

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companies in the nation, among them Wal-Mart, a company often rapped for offering low-paying jobs with few benefits.

A few statistics: the state has approved nearly $700,000 in tax credits for Wal-Mart to build a new store in Covington and Mandeville, two of Louisiana’s most affluent suburban areas; at Rouge’s Perkins Rowe retail and residential complex, where a one-bedroom apartment can rent for $1,500 a month, shops that got Enterprise Zone tax credits have done Anthropologie, Fresh Market and Urban Outfitters.

Critics — including some of the program’s overseers — say the state is giving away tens of millions of dollars every year without doing much to stimulate investment in low-income areas, as the Enterprise Zone program originally was meant to do.

In large part, that’s because the Legislature has bent out of the rule that businesses needed to actually invest in a designated Enterprise Zone to qualify for tax credits from the program. Once that constraint was gone, the program attracted much broader interest — and, perhaps predictably, most of the projects that got Enterprise Zone money were outside of the neighborhoods that were meant to benefit.

Worse, the program has also gone to subsidize retailers and restaurants, though economic development experts almost unanimously agree that it is foolish — and sometimes even harmful — to spend government money in those sectors.

“It’s mostly broken,” Louisiana Economic Development Secretary Stephen Moore said of the Enterprise Zone program, which is administered by his office. “It’s too far broader and more generous program than any we’ve seen and certainly than the one that was meant to be designed,” he said.

Though its shortcomings have been well-documented, including in a 2010 report by Moore’s own agency, reforming the Enterprise Zone tax break in any meaningful way has proven beyond the state’s grasp.

Poor sections bypassed

In East Baton Rouge Parish, 135 businesses received Enterprise Zone tax credits between 2008 and 2013. But only 21 of them were located in North Baton Rouge, the poorest part of the parish. Excluding downtown, only 35 projects, or about one in four, were north of Florida Boulevard, typically seen as a dividing line separating rich and poor.

The heaviest concentration of Enterprise Zone awards were located in the southeastern part of the parish, where the highest-paying residents live, with the roads are already flush with business and where a move has been able to incorporate as a separate community with its own school district.

“Just as individuals on the south side of town have all of these great amenities, I could tell you that in North Baton Rouge, those people want the same amenities and they don’t want to have to travel 20 minutes or 20 miles or better to enjoy them,” said state Rep. Regina Barrow, D-Baton Rouge.

After reviewing a list of Enterprise Zone award recipients for the past few years, Barrow said it’s “heartbreaking” to see that the program isn’t doing much for low-income areas like the district she represents.

She thinks North Baton Rouge, which is home to Southern University, could sustain businesses like restaurants and shopping centers, and the program should be held to its original purpose.

“For whatever reason, there have been barriers, both seen as well as unseen, that have prevented those businesses from locating here because they say the need is not there,” Barrow said. “That’s very untrue. The need is there. The money is there. Once we build it, the people will come.”

Rewriting the law

When the Enterprise Zone program was created in 1981, the state drew up target areas where the state hoped to incentivize investors. The maps were based on an array of factors, including income levels and the number of residents living below the poverty level. But researchers say the zones got a $2,500 tax credit for each new job they created and a choice of either sales tax rebates for materials or a 1.5 percent investment tax credit.

“The idea was that you put economic activity into an area and it bleeds over to the people who live in the area,” said Greg Albrecht, executive director of the Louisiana Legislative Blog. “That’s working there. You spread that economic activity around.”

The statute originally required businesses to create at least five permanent jobs to qualify. But in 1997, the Legislature allowed businesses that created a 10 percent increase in net jobs to qualify. Meaning a business with 10 employees could create one new job and be eligible.

The door swung open wider still in 1999, when the Legislature eliminated the requirement that tax credit recipients locate in the Enterprise Zone.

Instead, lawmakers said businesses could receive the incentive as long as 35 percent of the newly hired employees were from the zone. These received public assistance, lacked basic skills or were “unemployable by traditional standards” because they lacked training, had a criminal record or were physically challenged.

The change was so broad that it rendered the zones almost meaningless.

“In effect, the whole state became an Enterprise Zone,” Albrecht said.

Former state Sen. Michael Michot, D-Lafayette, who sponsored the 1999 amendment while serving in the state house, said local governments were already re-drawing Enterprise Zones in order to accommodate specific businesses. He said the change was “an attempt to honor the original point of the program.”

“The whole intent of the program was to put people to work from low-income areas and get them off public assistance,” he said. “If you put people to work, what does it matter where the business is?”

The impact of the change has been significant. Despite the fact that 60 percent of the state’s tax credits fall within an Enterprise Zone, less than one-third of the projects approved between 2005 and 2009 were located in one.

Nearly 30 percent of the subsidized jobs were outside of the targeted zones.

While she’s envious of the relative success much of south Louisiana enjoys, Trichel says she doesn’t blame the Enterprise Zone program for not boosting activity in northeast Louisiana. The contrary, she said, the region is beset by challenges, so she needs programs like it to lure companies.

That’s commonly held view at the local level, Moore said, even though the program, because it extends statewide — doesn’t give the Monroe area any particular advantage over any other. He thinks it might make sense for parishes to offer their own version of the program, while the state should get out.

“A lot of local economic development programs and a lot of local officials see that program as somehow helping them locally, even though the neighboring parish has the same program,” Moore said.

Subsidizing retail

The problems with Enterprise Zones aren’t limited to geography. Similar incentives exist in many states, but Louisiana’s management of the Enterprise Zone program is among the most lax. There’s no limit to the incentives, and every business, regardless of the requirements, receives the tax credits.

Neighboring states, including Arkansas, Alabama, Mississippi and Texas, all have programs with stricter eligibility requirements. Alabama, for instance, requires businesses receiving the incentives to be located in a zone.

Louisiana is also the state’s largest among its peers that allows retailers to receive the tax incentive, which has been decreed as one of its most wasteful features.

Economists generally agree that it makes no sense to subsidize industries like retail, restaurants, hotels and health care. They are widely seen as a “zero-sum game” — that is, the amount of economic development doesn’t change because new stores are built; only the amount of businesses that compete with the new store.

Retail grows with the population; it grows with people,” Albrecht said. “It’s not a driver of the economy; it’s a symptom.”

Moore agrees that there is no value to the state in subsidizing retailers, but he thinks the program does have benefits to the manufacturing industry, which creates more meaningful jobs.

Manufacturing businesses received 44 percent of the tax credit in dollar value from 2005 to 2009, making that sector the largest beneficiary of the program. But the retail industry was in second place with 17 percent, and restaurants received another 7 percent.
Because Louisiana allows retailers and restaurants, it means that oftentimes the tax credit recipient is a big-box national chain. Louisiana has paid millions of dollars in tax credits to companies including Wal-Mart, Target, Sam’s Club, Albertson’s, Lowe’s, Family Dollar, McDonald’s, Popeyes and Walgreens, to name a few.

According to LED’s own 2010 review of its program, 85 percent of Enterprise Zone incentives approved went to companies with more than 500 employees. The typical business approved for the program had more than 5,000 employees and annual revenues greater than $100 million. Small businesses got less than 5 percent of the state money allocated to the program.

“We have the only credit in the South that applies to retail business,” said Jan Moller, director of the Louisiana Budget Project, a vocal critic of the program. “We’re subsidizing very low-wage jobs, with very few, if any, benefits, and we don’t even require those businesses to locate in a low-income area.”

Asked for comment, a Wal-Mart official would not specify the extent to which tax breaks play into decisions about new store locations.

“Many factors go into the decision to choose a location for a new Wal-Mart store, but the main consideration is meeting the needs of our customers,” Amanda Henneberg, a Wal-Mart spokeswoman, said in an email. “We build these stores to serve our customers time and money and to give them an opportunity to build a career.”

The program’s top users include Walgreens, Rouses and Raising Cane’s. Over a six-year period, 33 Walgreens locations were approved for tax credits, while Rouses got them for 21 locations and Raising Cane’s for 16.

It’s unclear how much each company received in tax dollars because state law does not require the amounts to be disclosed.

Of course, not all of the money in the program goes to subsidizing retail jobs. Chris Hebert, founder and CEO of Aristotle’s Alexander, a software company specializing in the oil, gas and health care industries, was approved for Enterprise Zone tax credits in 2010.

The Lafayette-based company, which is not located in one of the zones, is planning on hiring between five and eight new employees next year with salaries ranging from $45,000 to $75,000. The firm will receive tax credits worth $2,500 per new employee.

Hebert said the cash is more of a perk than a motivation to hire new people.

“We’re not going to make a hire as a small business until there is a business value,” he said. But the incentive is sufficiently attractive that he is going to make sure the company gets it, Hebert said, meaning at least two of the new employees will either be on public assistance, live in a designated zone or otherwise meet the statute’s definition of “unemployable.”

LED officials say they audit companies annually to ensure employees meet the eligibility requirements.

Hard to undo

Perhaps the biggest puzzle about the Enterprise Zone program is why it’s been so durable, even amid a broad consensus that it’s broken.

Groups like the Louisiana Budget Project and the Public Affairs Research Council characterize the program as a waste of state tax dollars.

The Louisiana legislative auditor ripped it in a 2012 report, and even Louisiana Economic Development, which administers the program, has been surprisingly frank about its failures, issuing a critical report that won the state praise from the nonpartisan Pew Center on the States.

LED Secretary Moret says that “there are big chunks of the Enterprise Zone program that we could eliminate with no negative impact. It would just save dollars to the state.”

But despite near-unanimous agreement that the program is in need of reform, there’s been little momentum for fixing it. In fact, legislators have more frequently passed bills to relax the eligibility requirements of the program and create more Enterprise Zones.

In 2013, the state Legislature finally curbed some of the worst excesses in the program when members voted to stop giving tax credits for the creation of part-time jobs and to kick out big-box retailers, except for grocery stores and pharmacies that actually locate in Enterprise Zones. The Legislative Fiscal Office estimated the change could save the state between $3.6 million and $6.6 million a year.

But Moller and others say the changes don’t go nearly far enough. In Moller’s view, the state should bar retailers from the program, period, and cap the amount of money given away annually. He also believes the government should only subsidize jobs of a certain pay grade.

“If we’re paying someone to create a job, and then that person has to rely on food stamps or Medicaid or public assistance for not being paid enough for their job, then it’s not an effective use of taxpayer money,” he said.

But attempts to change the program usually are met with fierce opposition — with lobbyists who represent the industries benefiting from the tax credits sometimes putting up the biggest fight.

“The folks that are in the business of … encouraging businesses to use (tax incentives) and helping them manage that process obviously have a vested interest in the utilization actually going up, and certainly not going down or staying flat,” Moret said.

Another obstacle to reform, ironically, is Moret’s boss, Gov. Bobby Jindal. While Jindal’s own secretary of Economic Development, Moret, regards the Enterprise Zone program as largely a boondoggle, simply getting rid of it may not be an acceptable fix to Jindal. That’s because Jindal has signed a pledge vowing never to agree to anything that might be construed as a tax increase, and dumping the Enterprise Zone — even if it’s a waste — would have the effect of increasing total tax revenue.

So for a reform to pass muster, any elimination or narrowing of the Enterprise Zone program would have to be coupled with a similarly sized tax cut somewhere else.

“One thing that makes it complicated is it would be very important to the governor to make it revenue-neutral,” Moret said of any reform. Without an accompanying tax cut, he said, “My very strong sense is that the governor’s view is that it would be a tax increase.”

Last year, Jindal proposed some cuts to the Enterprise Zone program in his short-lived bid to overhaul the tax code by eliminating the state’s personal income and corporate taxes in exchange for higher state sales taxes.

He ultimately abandoned the plan, but changes to the program were again offered up with a variety of other tax credit reductions by legislators attempting to revamp the state operating budget.

The governor responded by lining up industry leaders and lobbyists who would be affected by the across-the-board proposed reduction to tax breaks, and denouncing the plan as a tax increase.

Greg LeRoy, executive director of Good Jobs First, a left-leaning organization that tracks government subsidy programs, said Enterprise Zones across the country have fallen into the same rhythm as Louisiana — which is to say that they’ve become more wasteful as legislators remove eligibility requirements.

In 2013, California bucked the trend when its legislature voted to end the Enterprise Zone program, which cost the state nearly $700 million in 2010. California lawmakers were motivated by reports that strip clubs were benefiting.

But generally, LeRoy said it’s notoriously difficult for states to reform or eliminate these programs because of the strength of lobbyists defending the programs.

“If you look at any state’s incentives, it’s basically a historical accumulation of special interests exerting their influence on the state,” LeRoy said. “Tax breaks pile up over time from anyone who has clout. It’s the Wild West. Nobody would write their tax codes like this if they started from scratch.”