Issues in Incentive Administration: Louisiana's Quality Jobs Program

Gina V. Brown, Audit Manager

Edward P. Seyler, Economist

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Quality Jobs Program Overview

- A business that creates at least 5 jobs (or 15, for larger firms) paying at least $18/hour can potentially receive a rebate of up to 6% of payrolls.
- The business can also receive <u>either</u> a sales tax rebate for spending connected with a particular expansion <u>or</u> a 1.5% “project facility expense rebate” (i.e., investment tax credit).

Quality Jobs Program Overview (Cont'd)

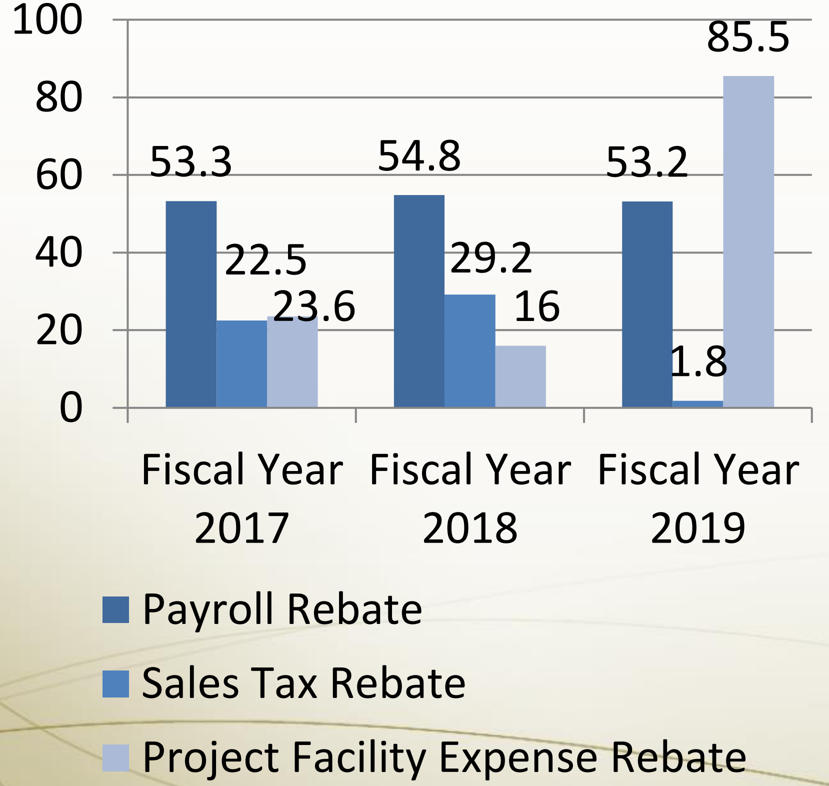
- Contract can last for 5 years, and can be renewed for an additional 5.
- Only open to certain industries, particularly businesses that sell out of state or to the federal government, e.g., manufacturers, corporate headquarters, software companies, distributors, or private prisons.

General Requirements

- Company can begin receiving rebates before fully satisfying the job creation requirement.
- The minimum number of new jobs (5 or 15) must have been created by the end of year 3.
- If the company receives rebates in years 1 and 2 and fails to meet requirements in year 3, company must repay the rebates.

Overall Cost of the Program

Cost of the Program (millions)



Source: LDR, Tax Exemption Budgets.

Significant percentage of program cost goes to capital expenditures.

Year totals:

FY 2017: $99.5 million

FY 2018: $99.9 million

FY 2019: $140.5 million

Audit-Louisiana Quality Jobs (QJ) Program
Tax Incentive Evaluation

- Issued March 12, 2020
- Evaluated three areas:
  - Economic Impact of the QJ Program
  - Administration of the QJ Program
  - Structure of the QJ Program

Administration of the QJ Program
What We Found

- Administration can be critical to the success of an economic development incentive program.
- Gaps in communication between agencies led to $669,000 in incentives being improperly paid to six companies.
- Public reporting on the impact of the QJ program is based on company-provided estimates that overstate the true impact, even though actual data are available.
- Does rehiring a former employee count as a new direct job? Importance of clear definitions.

Administration

Overview of Responsibilities

Company	• Submits application to LED and, if eligible, signs contract. • Submits payroll data to LED, capital expenditure data to LDR. • Creates jobs paying ≥$18/hr, makes capital expenditures. • Upon approval of rebate, receives funds transfer (or credit against outstanding balance) from LDR.
La. Dept. of Economic Development (LED)	• Reviews application, determines company's eligibility, and signs incentive contract with company. • Determines compliance with job-creation requirements and amount of payroll rebate.
La. Dept. of Revenue (LDR)	• Issues payroll rebate for the amount determined by LED. • Reviews capital expenditures and requests supporting data from the company if needed. • After removing ineligible items, issues sales tax or project facility expense rebate.

Administration
Gaps in Communication

- LED determines whether the company met the job creation requirements.
- LDR is responsible for the clawback.
- LED must notify LDR that the requirements were not met.
  - Because notifications were not always made, $669,000 was improperly paid.
- Not sufficient to check a company's eligibility for rebates before issuing the rebate – must follow-up after year 3 in the contract to ensure that the company can keep previously issued rebates.

Administration

Estimated Program Impacts

- Company requests a contract by submitting two documents:
  - Advance Notification: The date the advance is filed is the earliest date that can be used for calculating job creation. Must be filed before the business expansion begins.
  - Application: Company formally requests a contract from LED. Can be filed up to two years after filing the advance notification.

Estimated Program Impacts (Cont'd)

- Advance and application both contain estimates.
- Application tends to be highly optimistic.
  - Project often has already started before filing application.

Comparison of Job Creations at Different Phases
All Completed or Canceled Projects
July 1, 1995 through February 2019

Phase	New Jobs	New Payroll
Estimated, from Application	28,160	$12,834,984,033
Actual, from Annual Certification Report	13,210	$3,980,860,710
Percentage Difference	113.2%	222.4%

Source: Prepared by legislative auditor's staff using information from LED's Fastlane Next Generation system.

Administration

Recommendation to Improve Estimates

- Report actual numbers instead of inflated estimates.

- Consider using advance notification instead of estimates (advance notification tends to be more accurate, despite being earlier in the process).

Administration
New Direct Jobs: Who is New?

- Statute says a new direct job must be held by a person who was "not previously" on the company's payroll.
  - "Not" vs. "never"
- We estimate that $2.1 million of the $338.2 million in payroll rebates paid during calendar years 2010 through 2018 was paid for rehired employees.

Different Interpretations

- LED interprets the statute by having a “baseline” of employees who were employed during the four months prior to the contract effective date.
- Anyone not on the baseline who subsequently is hired is a new direct job.
- Matter for Legislative Consideration: Consider clarifying definition of new direct job in statute.

Administration Conclusion

- Important to ensure follow-up communication between eligibility-determining agency (LED) and payment-disbursing agency (LDR).
- Public reporting of incentives is much more useful if it is based on available reports of actual performance, rather than wishful thinking.
- Important to define terms like “new direct job” precisely.

Questions and Contact Info

- Edward Seyler, (225) 336-8061, eseyler@lla.la.gov
- Gina Brown, (225) 339-3980, gbrown@lla.la.gov
- Thank you for listening